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TE TAI ŌHANGA
THE TREASURY

# Budget Economic and Fiscal Update 2022

19 May 2022

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## An introduction to the
## *Budget Economic and Fiscal Update*

As the government's lead economic and financial adviser, the Public Finance Act 1989 requires the Treasury to produce a range of stewardship documents:

- Some as part of an annual cycle: twice-yearly Economic and Fiscal Updates, and monthly and annual Financial Statements of the Government.
- Some are every three or four years: Pre-election Economic and Fiscal Update, Long-term Fiscal Statement, Investment Statement, Wellbeing Report, as well as the Long-term Insights Briefing required by the Public Service Act 2020.

The Budget Economic and Fiscal Update is part of the annual cycle of stewardship documents. This update primarily outlines what the Treasury observes in our current economic climate and what we might see in the future. Our observations of the economy, alongside the Government's fiscal policy decisions are used to inform our view on the Government's financial performance and financial position over the current year and next four years (our forecast period). We also consider the risks we may face that could alter the economic and fiscal outlook over the forecast period.

This gives an indication of what the economy and the Government's fiscal outlook is most likely to do for accountability purposes and inform decision-making.



Internet

The URL for this document on the Treasury's website at May 2022 is
https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2022

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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 28 April 2022 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 28 April 2022. 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 May 2022

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 28 April 2022 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 May 2022

# Executive Summary

| June years | 2021 Actual | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast |
|---|---|---|---|---|---|---|
| Real production GDP (annual average % change) | 5.3 | 1.7 | 4.2 | 0.7 | 1.6 | 2.5 |
| Unemployment rate (June quarter) | 4.0 | 3.1 | 3.3 | 4.4 | 4.8 | 4.7 |
| CPI inflation (annual % change) | 3.3 | 6.7 | 5.2 | 3.6 | 2.7 | 2.2 |
| Current account (annual, % of GDP) | -3.3 | -6.7 | -6.4 | -4.9 | -4.0 | -3.6 |
| **Fiscal measures ($billions)** | | | | | | |
| Core Crown tax revenue | 98.0 | 103.8 | 116.1 | 122.7 | 129.9 | 138.5 |
| Core Crown expenses | 107.9 | 128.4 | 127.1 | 131.1 | 134.1 | 138.2 |
| Total Crown OBEGAL[1] | -4.7 | -19.0 | -6.6 | -2.6 | 2.6 | 7.0 |
| Core Crown residual cash | -13.8 | -31.8 | -29.3 | -9.3 | 7.9 | 17.7 |
| Net debt[2] | 35.9 | 61.2 | 75.0 | 83.6 | 76.4 | 69.5 |
| *as a percentage of GDP* | 10.5 | 16.9 | 18.7 | 19.9 | 17.3 | 15.0 |
| Total borrowings | 162.6 | 200.5 | 230.6 | 245.1 | 243.0 | 248.2 |
| Net worth attributable to the Crown | 151.2 | 123.9 | 122.4 | 125.9 | 135.1 | 149.1 |

Note: 1 Operating balance before gains and losses.

2 A series of net core Crown debt (the previous headline net debt indicator) can be found on pages 38-39 and page 157.

Sources: Stats NZ, the Treasury

- The New Zealand economy has overall been resilient to the transmission of the Delta and Omicron variants across the motu, although some businesses and households have been more impacted than others. High vaccination rates are limiting the health impacts of the virus while the more permissible COVID-19 Protection Framework enables greater economic activity. In addition, fiscal support measures have helped support the economy to date. Consequently, the Omicron outbreak will weaken GDP growth and hours worked in the first half of 2022 as people fulfil their isolation requirements, but the impacts are expected to be relatively small and temporary.

- The labour market remains characterised by a state of tightness whilst tax revenues remain strong. The unemployment rate in the March 2022 quarter remained at a record-low 3.2% and hours worked, which were expected to decline due to Omicron, fell only 0.2%. These conditions, in turn, have supported core Crown tax revenue, which was $2.7 billion above the *2021 Half Year Update* forecast for the nine months to March 2022.

- Inflation has surfaced as the principal economic challenge in New Zealand and abroad. Consumers Price Index (CPI) inflation – which reached a thirty-year high of 6.9% in the March 2022 quarter – is being driven by strong domestic demand pushing up against constrained supply, which in turn has been compounded by the Russian invasion of Ukraine. In response, the Reserve Bank of New Zealand has signalled its intention to tighten monetary policy at pace, which will act as a constraint on economic activity. This has had an immediate impact on house prices that are forecast to fall throughout 2022 and 2023.

- Economic activity across 2022 is expected to be supported by the reopening of the international border, elevated terms of trade, and robust investment. Economic growth, however, slows over time due to rising interest rates, a reduction in government consumption as COVID-19 related expenditure unwinds – evident through the operating balance before gains and losses (OBEGAL) deficit decreasing $12.4 billion between the 2021/22 and 2022/23 years – and a declining terms of trade.

- The labour market is forecast to remain tight in the near term, with the unemployment rate decreasing to 3.0% in 2022. In combination with increased salary expectations, this tightness is expected to catalyse nominal wage growth in 2023. This helps to offset the impact of declining real wages that began in the September 2021 quarter, with positive annual real wage growth re-emerging at the start of 2023 and peaking at the end of 2024. Slowing domestic demand is then expected to ease labour market tightness, resulting in the unemployment rate rising to 4.8% at the end of 2025.

- In addition to the clear humanitarian consequences, the Russian invasion of Ukraine is expected to have ongoing economic implications throughout 2022. These include impacts on oil prices, international commodity prices, global supply chains and the global growth outlook.

- New Zealand's border restrictions have eased earlier than previously expected, resulting in a faster forecast recovery in international visitor spending that helps to narrow the current account deficit. Rising world commodity prices are expected to boost the terms of trade, thereby supporting firm profitability and GDP growth.

- Although the 2021/22 year has been disrupted by COVID-19 restrictions, the economy has been resilient and, as a result, core Crown tax revenue is expected to grow by $5.8 billion. Inflationary conditions are expected to drive growth in nominal GDP over the forecast period, which augments growth in core Crown tax revenue. Overall, core Crown tax revenue is expected to increase by $40.5 billion over the forecast period.

- As most of the COVID-19 fiscal support measures from the 2021/22 year are temporary, they start unwinding in the coming year. This, coupled with the stronger growth in core Crown tax revenue, sees most key fiscal indicators starting to improve over the forecast period.

- The OBEGAL improves considerably in 2022/23 and is forecast to return to surplus in 2024/25, reaching $7.0 billion by the end of the forecast period. While net debt peaks in 2023/24 at $83.6 billion in nominal terms – equal to 19.9% of GDP – it falls to 15.0% of GDP by the end of the forecast period.

- In Budget 2022, the Government has announced $5.9 billion per annum in new operating spending. There have also been investments in relation to multi-year funding decisions for some sectors that have been managed against future Budget operating allowances. As a result, overall investments from the core Budget 2022 operating package have a fiscal impact of $6.5 billion in 2022/23, growing to $7.5 billion by 2025/26. The Government, moreover, has also announced funding to address climate change and cost of living on top of the core Budget 2022 operating package.
- Net worth attributable to the Crown is expected to decline in the current year, largely reflecting the expected operating balance deficit in 2021/22, but then starts to steadily increase from 2023/24 once the operating balance returns to surplus. As a share of GDP, net worth attributable to the Crown falls from 44.1% of GDP in 2020/21 to 32.1% of GDP by 2025/26.
- The Economic Outlook chapter presents alternative upside and downside scenarios for the New Zealand economy. Relative to the central forecast, the upside scenario considers less persistent price pressures and a faster recovery in international visitor numbers. In the downside scenario, we explore more persistent impacts from COVID-19 and the Russian invasion of Ukraine in tandem with a reversal of globalisation.
- 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 *Budget Update***

Economic forecasts – 24 March 2022

Tax revenue forecasts – 16 April 2022

Fiscal forecasts – 28 April 2022

Risks to the fiscal forecasts – 28 April 2022

Text finalised – 13 May 2022

# 1

# Economic Outlook

## Overview

- The New Zealand economy has continued to prove resilient to disruption from COVID-19. The Omicron outbreak will weaken GDP growth in the first half of 2022, but the economic impact is expected to be small and temporary relative to prior variants.

- Elevated Consumers Price Index (CPI) inflation – which reached a 30-year high of 6.9% in the March 2022 quarter – is being driven by strong domestic demand pushing up against constrained supply and has been compounded by global supply disruption and the Russian invasion of Ukraine.

- Rising prices have reduced the real purchasing power of households and pushed consumer confidence to record lows. The Reserve Bank of New Zealand (Reserve Bank) has begun tightening monetary policy in response to high inflation and signalled an intention to continue doing so at pace. This has had an immediate impact on house prices, which are forecast to fall throughout 2022 and 2023.

- Easing border restrictions and robust investment are forecast to support GDP growth in 2022. However, rising interest rates are expected to slow economic growth over time. The reduction of COVID-19 related expenditure contributes to a slowdown in real government consumption, adding further downward pressure to economic growth, which falls to 0.7% in the year ending June 2024.

- Strong labour demand in the near term is forecast to reduce the unemployment rate to 3.0%, with the tight labour market and high inflation driving annual nominal wage growth up to 6.3%. In the medium term, as higher interest rates impact demand and economic growth slows, the unemployment rate is forecast to peak at 4.8% and wage growth is forecast to gradually fall to 4.6%.

- New Zealand’s border restrictions have eased earlier than assumed in the *Half Year Economic and Fiscal Update 2021* (*Half Year Update*), resulting in a faster forecast recovery in international visitor spending that helps to narrow the current account deficit more quickly. World commodity prices have risen, boosting the terms of trade in the near term, which will support firm profitability.

- If inflation pressures prove more persistent, the medium-term implications for economic activity in New Zealand could be significant. Conversely, if global conditions are more favourable and inflation pressures less severe, the outlook for New Zealand’s economy may be substantially better than presented in the central forecast. These possibilities are explored in two alternative forecast scenarios.

## *Table 1.1* – Economic forecasts

| Year ending June<br>Annual average % change | 2021<br>Actual | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast |
|---|---|---|---|---|---|---|
| Private consumption | 7.8 | -1.6 | 3.3 | 1.3 | 2.1 | 2.7 |
| Public consumption | 8.3 | 12.6 | 1.4 | -4.8 | -1.7 | 1.5 |
| **Total consumption** | **7.9** | **1.8** | **2.8** | **-0.3** | **1.2** | **2.4** |
| Residential investment | 16.6 | 0.9 | 12.1 | -6.0 | -3.1 | -0.5 |
| Business investment[1] | 3.8 | 6.6 | 9.9 | -0.9 | 0.1 | 2.2 |
| **Total investment** | **6.9** | **5.1** | **10.4** | **-2.2** | **-0.7** | **1.6** |
| Stock change[2] | 0.4 | 0.5 | -0.5 | 0.0 | 0.0 | 0.0 |
| **Gross national expenditure** | **8.1** | **3.2** | **4.3** | **-0.8** | **0.7** | **2.2** |
| Exports | -11.1 | 2.7 | 8.4 | 6.6 | 4.8 | 4.1 |
| Imports | -4.2 | 15.4 | 5.4 | -0.2 | 1.2 | 2.9 |
| **GDP (expenditure measure)** | **6.1** | **0.4** | **4.2** | **0.8** | **1.6** | **2.5** |
| **GDP (production measure)** | **5.3** | **1.7** | **4.2** | **0.7** | **1.6** | **2.5** |
| Real GDP per capita | 3.9 | 1.2 | 3.3 | -0.3 | 0.5 | 1.3 |
| Nominal GDP (expenditure measure) | 7.5 | 5.8 | 10.8 | 4.9 | 4.8 | 5.1 |
| GDP deflator | 1.3 | 5.3 | 6.3 | 4.0 | 3.2 | 2.6 |
| Potential GDP | 5.2 | 0.3 | 4.2 | 2.5 | 2.6 | 2.6 |
| Output gap (% of potential, June quarter)[3] | 2.2 | 2.7 | 1.5 | -0.3 | -0.8 | -0.7 |
| Employment | 0.7 | 3.4 | 1.0 | 0.1 | 0.5 | 1.4 |
| Unemployment rate[4] | 4.0 | 3.1 | 3.3 | 4.4 | 4.8 | 4.7 |
| Participation rate[5] | 70.5 | 71.0 | 70.8 | 70.7 | 70.7 | 70.7 |
| Hourly wages (annual % change)[6] | 4.0 | 4.6 | 6.0 | 6.1 | 5.4 | 4.6 |
| CPI inflation (annual % change) | 3.3 | 6.7 | 5.2 | 3.6 | 2.7 | 2.2 |
| Terms of trade (goods)[7] | -0.4 | 3.3 | -1.2 | -1.0 | -0.3 | -0.4 |
| House prices (annual % change)[8] | 29.7 | 5.8 | -2.5 | 0.0 | 1.7 | 1.9 |
| Current account balance (annual) | | | | | | |
| $billions | -11.4 | -24.2 | -25.6 | -20.6 | -17.5 | -16.9 |
| % of GDP | -3.3 | -6.7 | -6.4 | -4.9 | -4.0 | -3.6 |
| Net international investment position (% of GDP) | -45.2 | -48.1 | -49.8 | -52.4 | -53.9 | -54.9 |
| Exchange rate (TWI)[9] | 74.7 | 75.0 | 75.0 | 75.0 | 75.0 | 75.0 |
| 90-day bank bill rate[10] | 0.3 | 1.8 | 3.4 | 3.6 | 3.6 | 3.6 |
| 10-year bond rate[10] | 1.7 | 3.2 | 3.5 | 3.8 | 4.1 | 4.1 |

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 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:

- New Zealand is expected to remain at the Red and Orange settings of the COVID-19 Protection Framework (the Framework) across the first half of 2022. The Red setting is assumed to have reduced economic activity by 2-3% across the March 2022 quarter. New Zealand is assumed to be at the Orange setting across the June 2022 quarter, which is expected to reduce economic activity by 0-2%.

- In addition to the direct impact of the Framework, the Omicron outbreak was assumed to reduce hours worked by 2.4% in the March 2022 quarter as a result of sickness and household isolation requirements. This impact was assumed to reduce GDP growth by around 1.5 percentage points in the March quarter, although growth is forecast to remain positive at 0.7%. Impacts from the Omicron outbreak are expected to persist into the beginning of the June 2022 quarter, after which they abate. Data released after the economic forecasts were finalised suggest a smaller impact on GDP in the March quarter. See the box on page 12 for more information.

- New Zealand's international border restrictions are assumed to gradually ease over the first half of 2022, in line with the Reconnecting New Zealanders to the World plan. The removal of self-isolation requirements for visitors is expected to result in a faster recovery in tourist numbers compared to the *Half Year Update*.

- The economic forecasts were finalised on 24 March and assumed a Budget 2022 package of $6 billion per annum and a Budget 2023 allowance of $4 billion per annum. Final Budget decisions, made after the economic forecasts were finalised, were for a broadly similar sized Budget 2022 of $5.9 billion per annum, but slightly larger Budget 2023 allowance of $4.5 billion per annum. See the box on page 12 for more information.

- The Trade Weighted Index (TWI) exchange rate is forecast to remain constant at 75.0 from the June 2022 quarter onwards, a reduction of 4-5% compared to the *Half Year Update*.

- Net migration is assumed to be around -4,400 in the year ended March 2022. As international travel restrictions are lifted throughout the world, annual net migration gradually increases to 40,800 by the June 2026 quarter.

- Oil prices increased to US$95 per barrel in the March 2022 quarter and are assumed to average US$110 in the June quarter, before gradually falling to US$69 in June 2026 as global production increases and demand wanes.

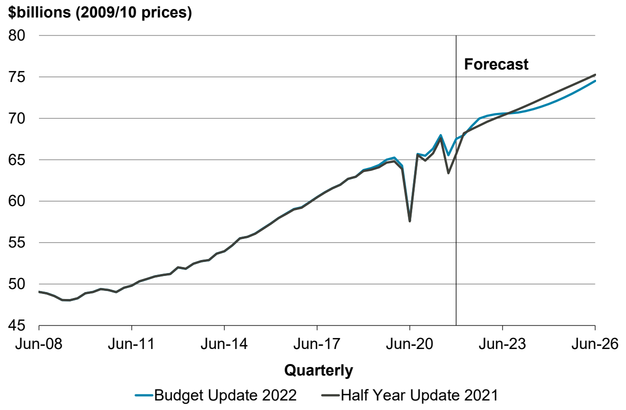
- Economic activity in our major trading partners is forecast to grow by 3.7% in the December 2022 year and 3.2% in 2023, a small downgrade from the *Half Year Update*.

- The Russian invasion of Ukraine is assumed to have ongoing economic implications throughout 2022, including in relation to oil prices, international commodity prices, supply chain disruption, and the global growth outlook.

# Economic Outlook

***The economy continues to be resilient to COVID-19 disruption…***

***Figure 1.1*** – Real production GDP

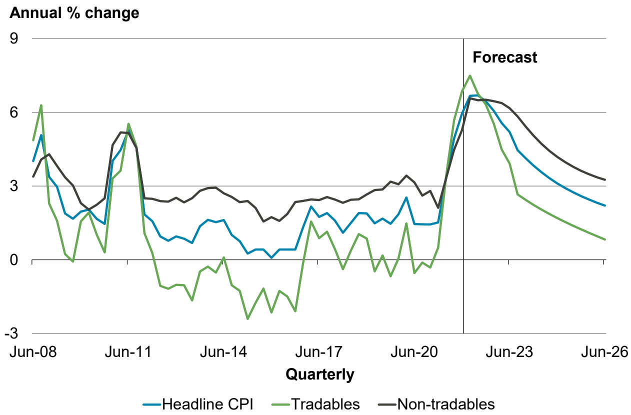



Sources: Stats NZ, the Treasury

The New Zealand economy proved once again to be more resilient than expected to the disruption brought by COVID-19, contracting 3.6% in the September 2021 quarter as a result of the Delta outbreak and subsequently rebounding 3.0% in the December quarter. Compared to the forecast in the *Half Year Update*, this left the level of real GDP $1.8 billion higher at the end of 2021 (Figure 1.1). Early 2022 has brought new challenges, with the Omicron variant resulting in far more COVID-19 infections than previously seen in New Zealand. The outbreak is expected to dampen economic growth during the first half of the year as employee sickness and isolation requirements reduce activity and consumers become more risk averse. A rebound in activity is expected as the Omicron outbreak recedes, with easing border restrictions and robust investment also helping to drive annual average GDP growth up to 4.2% for the June 2023 year.

***…but inflation has emerged as the principal challenge…***

***Figure 1.2*** – Consumers Price Index

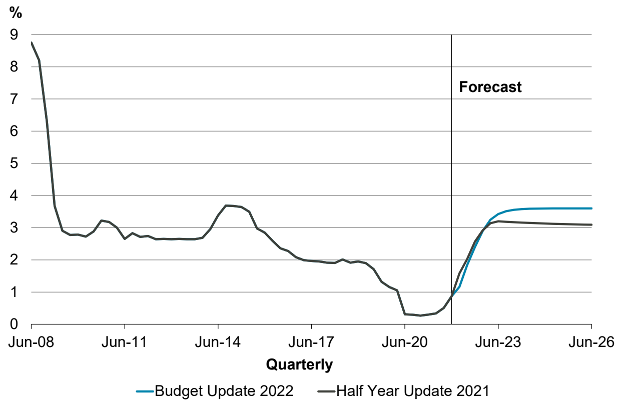



Sources: Stats NZ, the Treasury

This near-term strength is expected to fade as the economy faces a different challenge. Annual CPI inflation reached 6.9% in the March 2022 quarter, the highest since 1990 (Figure 1.2). Strong household demand has been supported by fiscal and monetary policy and a buoyant housing market, while supply has been constrained as businesses navigate restrictions and struggle to obtain both materials and labour. This puts upward pressure on prices, which is compounded by global dynamics as similar supply-demand imbalances push up the cost of imported goods and the rates to ship them. Annual tradables inflation, which measures the prices of goods and services that are exposed to foreign competition, reached 8.5% in the March quarter after remaining near zero for the past decade. While inflation was first thought to be transitory as the world recovered from the pandemic, it now appears widespread and persistent both in New Zealand and abroad. Non-tradables inflation, which measures the prices of domestically traded goods and services, reached a 30-year high in March and is forecast to remain elevated this year. Actual inflation is flowing through to higher inflation expectations, and the Reserve Bank has said it would focus on ensuring these do not become embedded.

***…weakening real incomes and prompting a stronger monetary policy response…***

***Figure 1.3*** – 90-day interest rates




Sources: Haver Analytics, the Treasury

The Reserve Bank has begun tightening monetary policy in response to rising inflation, stating that it is "appropriate to continue to tighten monetary conditions at pace".[1] Ninety-day interest rates are forecast to reach 3.6% by the end of 2023, remaining there for the rest of the forecast period and working to suppress demand and inflation (Figure 1.3). The tightening of credit conditions and associated cooling in the housing market will have negative impacts for indebted households and homeowners, putting downward pressure on consumer spending and dampening economic growth. However, the alternative of persistently high inflation and falling real incomes (as inflation exceeds wage growth) would likely have more severe economic implications. Market pricing implies that 90-day interest rates will reach around 4.5% by August 2023, suggesting a risk that monetary policy will tighten more aggressively than forecast. This would have a significant impact on the real economy, as explored in an alternative forecast scenario on pages 19-20.

***…which dampens economic growth in the medium term…***

In addition to the impact on economic activity from rising interest rates, real government consumption is forecast to decline from the second half of 2022 as expenditure related to COVID-19 unwinds. The overall result is a significant slowdown in real activity after this year, with annual average GDP growth falling to 0.7% in the year ending June 2024. As demand wanes, inflation is forecast to fall back to within the Reserve Bank's 1-3% target band by the beginning of 2025.

***…although higher prices push up nominal GDP***

Compared to the *Half Year Update*, real GDP is cumulatively $7.0 billion lower over the forecast period, mainly owing to substantially weaker household demand. Despite this weaker outlook for the real economy, higher and more persistent inflation results in an additional $25.1 billion in nominal GDP over the forecast period. This drives higher forecasts of tax revenue but a larger increase in forecast expenses results in a weaker fiscal outlook, as outlined in the Fiscal Outlook chapter.

***Since the forecasts were finalised, inflation has remained the key focus***

The economic forecasts were finalised on 24 March to inform Budget decisions as well as the production of the fiscal forecasts. Final Budget decisions, data and events since then have not materially changed the economic outlook but reinforce that inflation remains a key risk. These developments and their implications are discussed in the following box.

[1] Reserve Bank of New Zealand – Te Pūtea Matua, "Monetary tightening brought forward," released 13 April 2022.

## Recent developments

### Budget decisions

Cabinet took Budget 2022 decisions on 11 April and also decided to increase the Budget 2023 operating allowance to $4.5 billion per annum. Budget 2022 operating decisions totalled $5.9 billion per annum and included $250 million per annum of funding from the disestablished COVID-19 Response and Recovery Fund (CRRF). Relative to the $6 billion and $4 billion Budget 2022 and 2023 allowances assumed in the economic forecasts, spending in this and future budgets is forecast to be $650 million per annum higher from the year ended June 2024 onwards. This relatively small difference has limited economic implications, with only modestly higher aggregate demand.

Remaining CRRF funding was also allocated to:

- Cost of Living initiatives ($1.0 billion)
- a tagged health contingency, primarily for vaccines and testing ($1.2 billion).

As the final economic forecasts incorporated the remaining CRRF funding, these decisions influence the timing of government spending rather than the total amount.

A two-month extension to the reduction of fuel excise duties and road user charges was included in the Cost of Living initiatives.

### Monetary conditions

March quarter CPI data, released on 21 April, showed rapid, widespread annual inflation of 6.9%, close to the 6.7% in the economic forecasts. The extension of reductions to fuel excise duty and road user charges is likely to broadly offset this slightly higher starting point in the near term (but will unwind over the September and December quarters). Overall, we believe that the central inflation forecast remains appropriate, with inflation likely to remain elevated before easing as rising interest rates take effect and supply disruptions dissipate.

At its April Monetary Policy Review, the Reserve Bank's Monetary Policy Committee reiterated the outlook for the Official Cash Rate (OCR) included in its February Monetary Policy Statement, when it was projected to reach 3.35% in 2024. This broadly aligns with the 90-day interest rate track in the economic forecasts. The TWI has fallen since the forecasts were finalised and was 4.8% below the June quarter forecast at the time of writing. If sustained, this depreciation in the New Zealand dollar will add to inflationary pressures.

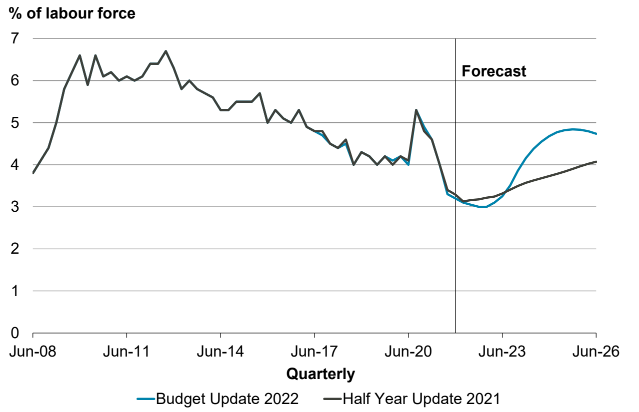
### Labour market

The labour market data release in early May reflected continued labour market tightness, with the unemployment rate remaining at 3.2% in the March 2022 quarter (compared to 3.1% forecast). Average hourly wages grew 4.8%, stronger than forecast, suggesting somewhat more underlying inflation than expected. The impact of the Omicron outbreak on total hours worked was far smaller than expected at just a 0.2% quarterly fall, suggesting GDP growth may be higher in the March quarter than forecast.

***The labour market remains tight, driving up nominal wage growth…***

The unemployment rate fell to 3.2% at the end of 2021 and remained there in the March 2022 quarter. As demand for labour continues to outpace labour supply throughout 2022, the unemployment rate is forecast to fall further to 3.0% at the end of the year (Figure 1.4). This tightness in the labour market is expected to put upward pressure on wages as employers compete for the scarce pool of available workers. Rising inflation will also drive wage growth as workers seek to regain the purchasing power that was lost to higher prices. Annual nominal wage growth rose to 4.8% in the March quarter and is forecast to reach 6.3% in 2023, before gradually falling over the rest of the forecast period as labour market tightness eases. As higher interest rates impact demand and economic growth slows, the unemployment rate is forecast to rise, reaching a peak of 4.8% in 2025.

***Figure 1.4*** – Unemployment rate



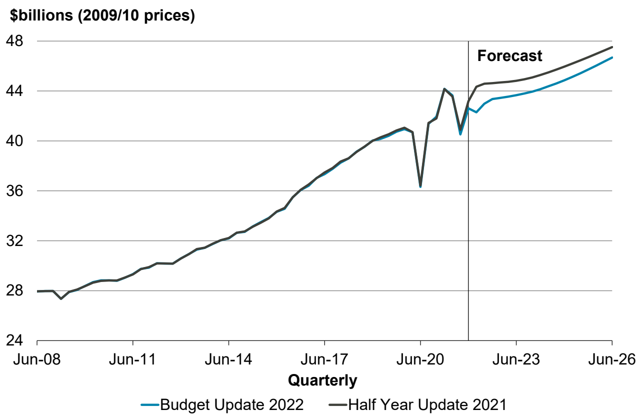

Sources: Stats NZ, the Treasury

***…but real wages fall further in 2022, reducing household spending…***

The March ANZ-Roy Morgan Consumer Confidence index fell to the lowest level in its 18-year history, with respondents wary of buying major household items, pessimistic about the economic outlook and expecting high inflation in the year ahead. This drop in confidence reflects the impact of high inflation, which raises the cost of living for all households, while also reflecting the rise in interest rates to combat inflation. Higher interest rates reduce the disposable income of indebted households and put downward pressure on house prices, impacting the wealth of homeowners. As interest rates continue to rise and inflation remains elevated in the near term, household spending is expected to come under further pressure.

These factors point to a subdued near-term outlook for real private consumption (Figure 1.5). This is the key reason for slowing GDP growth in the middle part of the forecast period. From 2023, as inflation falls back towards the Reserve Bank's target at the same time as nominal wage growth rises, a recovery in real wages restores the lost purchasing power of households. This drives a pick-up in private consumption and GDP growth from 2024, but the levels of both remain below previous expectations at the end of the forecast period. If inflation pressures prove more persistent and monetary policy is tightened more aggressively in response, the slowdown in household spending and subsequent rise in unemployment would likely be more severe. This is a key risk to the economic outlook both in New Zealand and abroad, and is explored in an alternative forecast scenario on pages 19-20.

***Figure 1.5*** – Real private consumption

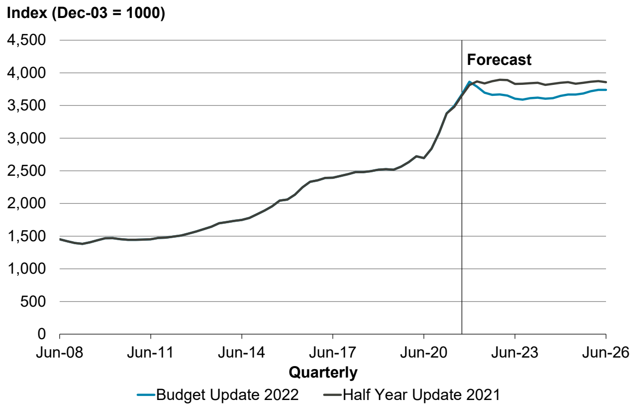



Sources: Stats NZ, the Treasury

### *…and house prices continue easing…*

Stricter loan-to-value ratios and consumer credit laws came into effect at the end of last year and mortgage rates have risen significantly as markets anticipate a sustained tightening in monetary policy. House prices have already begun falling in response, with the REINZ house price index falling 4.7% between November 2021 and March 2022. This cooling in the housing market is expected to continue as rising interest rates and falling real incomes weigh on demand, while significant residential investment boosts the supply of housing. House prices are forecast to decline 5.0% in the year ending December 2022 and a further 1.5% in 2023 (Figure 1.6). Controlling for CPI inflation, real house prices are forecast to fall 17.8% between December 2021 and June 2026, leaving the level around 12% higher than prior to the COVID-19 pandemic.

***Figure 1.6*** – House prices

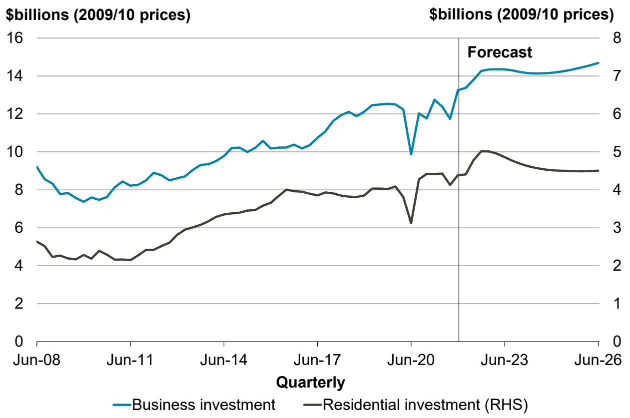



Sources: CoreLogic, the Treasury

### *…weakening the outlook for residential investment*

Residential building consents reached a new record of over 50,000 in the year ended March 2022, indicating a strong forward pipeline of residential investment over the year ahead. The construction industry is facing severe shortages of materials and labour that are delaying projects and pushing up costs, suggesting there may be a significant lag between some new consents and finished builds. Nonetheless, real residential investment is forecast to experience strong annual average growth of 12.1% in the June 2023 year (Figure 1.7). Strength is expected to fade once the current backlog of consents flows through and the cooling housing market weighs on residential investment intentions, with growth becoming negative from 2024. Business investment is also forecast to grow strongly over this year, driven by elevated terms of trade, before plateauing as monetary conditions tighten.

***Figure 1.7*** – Real investment




Sources: Stats NZ, the Treasury

### *The pandemic continues to impact sectors of the economy differently*

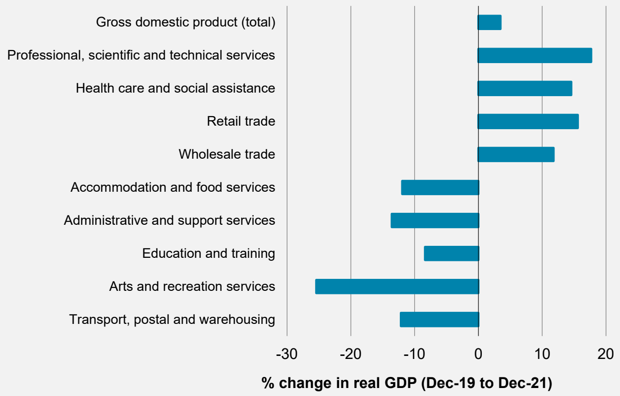
Underlying the growth in overall GDP, which has been generally resilient to the impacts of COVID-19, there has been a high degree of divergence between different sectors of the economy, as discussed in the following box.

## Sectoral impacts of COVID-19

### Headline activity now exceeds pre-pandemic forecasts, but COVID-19 has impacted unevenly

At an aggregate level, the New Zealand economy has performed well since the onset of COVID-19, with nominal GDP now exceeding pre-pandemic forecasts. However, the economic impact of the pandemic has been uneven (Figure 1.8). The health response has seen greater activity in the health care and social assistance industries, up 15% on pre-COVID levels, and virus testing has pushed scientific and technical services industries up 18%. In addition, wholesale and retail trade has seen strong growth through a combination of diverted expenditure (as New Zealanders spent what they normally would on overseas holidays), together with the support to household incomes provided through the various fiscal support schemes and accommodative monetary policy.

***Figure 1.8*** – Selected industry GDP impacts



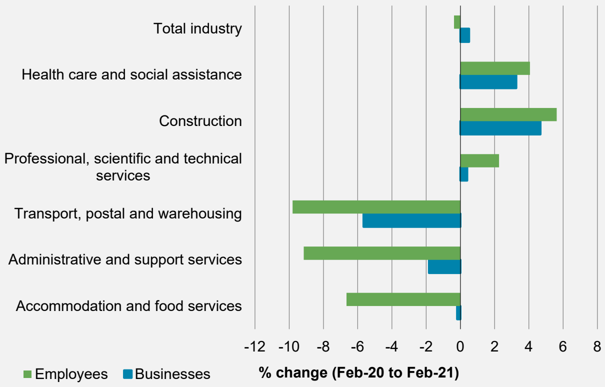

Source: Stats NZ

The border closure has hit hard on both international tourism and study, with accommodation activity down 27% on pre-COVID levels and education and training down 8%. Transport, postal and warehousing was down 12%, largely as a result of reductions in air passenger transport. Arts and recreation services industries continued to be heavily impacted by gathering restrictions in the December 2021 quarter, with activity down 25% on pre-COVID levels.

### Business numbers have held up better than employment…

Although business demographic statistics are only available up to February 2021, they suggest the reduction in employment in adversely impacted industries was not matched by a similar drop in the number of businesses (Figure 1.9). This can be seen in the accommodation and food services industry, where aggregate employment fell 7% while the number of businesses fell by only 0.2%. Operators in this industry have shed staff in the face of reduced demand, but the businesses themselves remain, together with their infrastructure and capital. A similar situation can be seen in the administrative and support services industry, where employment and travel agency services drove a 9% fall in employment but only a 2% fall in the number of businesses.

***Figure 1.9*** – Business and employee levels



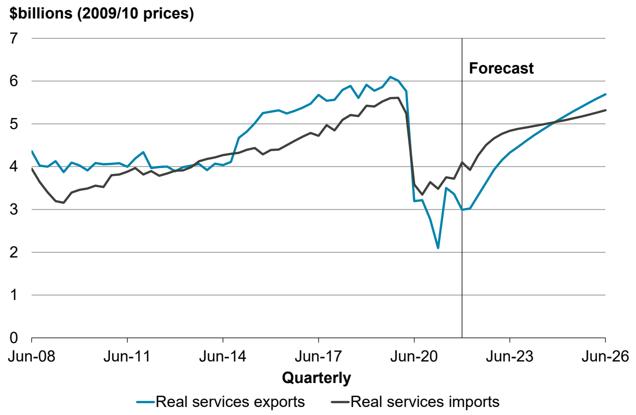

Source: Stats NZ

### …setting the stage for a recovery once tourism returns to our shores

This business continuity provides a solid platform for New Zealand's economy as borders open and international visitors, students and workers return. Balance sheet estimates from Stats NZ show that balances on primary incomes took a significant hit in 2020, but non-financial assets have been steady. Although business balance sheets are weaker, the fact that their physical capital is intact should leave them ready to respond as international travel increases.

***The earlier border reopening speeds the recovery in services exports…***

***Figure 1.10*** – Real services trade



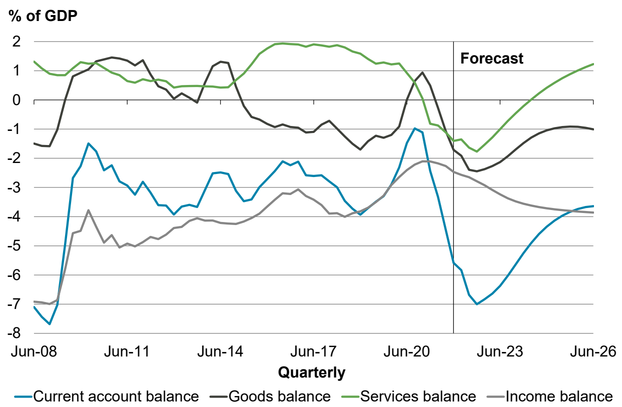

Sources: Stats NZ, the Treasury

The easing of New Zealand's border restrictions has proceeded more quickly than anticipated in the *Half Year Update*, with quarantine-free entry now available to vaccinated travellers from 60 visa waiver countries. The removal of self-isolation requirements is also likely to boost visitor numbers. This drives an earlier and faster recovery in services exports, which are forecast to reach 80% of their pre-pandemic level by the beginning of 2024 and 95% by June 2026 (Figure 1.10).

Underlying this forecast is an assumption that international visitor numbers will recover gradually to around two thirds of their pre-pandemic level by 2024 and remain around 15% below pre-pandemic levels at the end of the forecast period. There will be various headwinds to the recovery in the near term, including limited airline capacity to New Zealand as travel routes gradually rebuild, the ongoing closure of China's border cutting off a major supply of tourists, and residual caution from travellers as COVID-19 continues to cause disruption. There is a high degree of uncertainty around this forecast, and the impact of different recovery paths is explored in the alternative scenarios on pages 19-20.

***…narrowing the current account deficit more quickly…***

***Figure 1.11*** – Current account components




Sources: Stats NZ, the Treasury

The annual current account deficit widened to 5.8% of GDP at the end of 2021, the largest since 2009 (Figure 1.11). The major component weighing on the current account has been the services balance, which collapsed from a $3.8 billion surplus in 2019 to a $5.4 billion deficit in 2021 as the inflow of international visitors largely ceased. The current account deficit is expected to widen further this year as goods import values outpace goods exports and rising interest rates increase New Zealand's overseas debt servicing costs. The current account deficit is forecast to reach 7.0% of GDP in the September 2022 quarter, before narrowing to 3.6% by the end of the forecast period as demand for goods imports eases and the recovery in visitor spending lifts the services balance into surplus.

***…and export prices are at record highs***

World prices for New Zealand's commodity exports rose further in early 2022, boosted by the global supply shock associated with Russia's invasion of Ukraine, which also drove up oil prices. The overall impact on the terms of trade is explored in the following box.

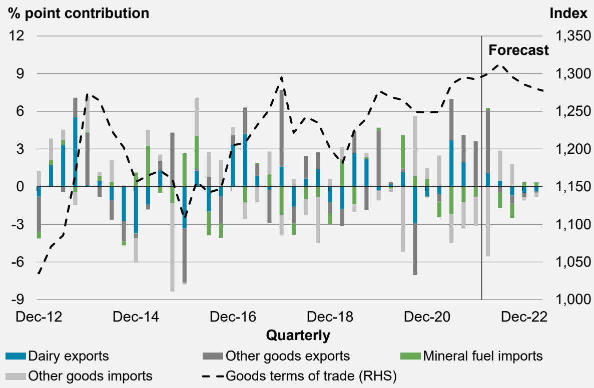
## Commodity price cycles and the terms of trade

### Rising commodity prices have boosted the terms of trade in the past…

Global commodity prices surged in 2021 as a recovery in demand ran up against constrained supply, and have risen even further in the wake of Russia's invasion of Ukraine. There are offsetting impacts on New Zealand's goods terms of trade (the ratio of export prices to import prices) given that prices have risen for the commodities that it exports (primarily dairy) and the commodities that it imports (primarily oil). In the past, episodes of rising global commodity prices have been associated with a large increase in the terms of trade, supporting the New Zealand economy. However, import price pressures are currently much more generalised than in previous cycles, meaning the boost to the terms of trade is likely to be considerably smaller.

By volume, dairy exports were 25% of overall goods exports in 2021 and mineral fuels were 8% of total goods imports (down from 20% in 2000).[2] This means that a change in dairy prices has a much larger influence on the terms of trade compared to an equal shift in oil prices, although oil prices experience larger swings. Figure 1.12 shows the influence of different components on the terms of trade by weighting the quarterly price changes of dairy exports, other goods exports, mineral fuel imports and other goods imports by their share in trade volumes. Weighted by this share, the rise in dairy prices over 2021 increased the goods terms of trade by 5.2 percentage points (ppts), while the rise in mineral fuel prices decreased it by 6.3 ppts.

***Figure 1.12*** – Goods terms of trade




Sources: Stats NZ, the Treasury

### …although import price pressures are currently much stronger than in previous cycles

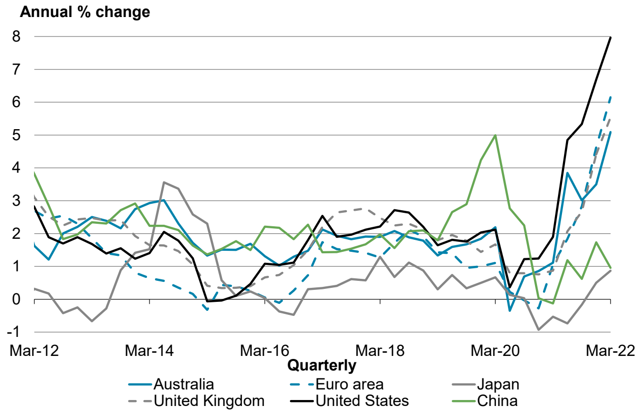
Figure 1.12 shows that prices of goods imports other than mineral fuels have exerted significant downward pressure on the terms of trade in recent quarters. Over 2021, rising global commodity prices boosted New Zealand's goods export prices by 14.0%, but a similar rise in import prices meant the terms of trade increased by only 3.7%. Inflation pressures are widespread in advanced economies and are unlikely to abate significantly in the near term even as central banks begin to raise interest rates. It therefore appears likely that higher goods import prices will offset the rise in New Zealand's goods export prices to some degree, as was the case over 2021. Modest gains in the terms of trade are expected, but they are unlikely to match the 13% rise in 2008 or the 15% rise in 2010, when import prices were more subdued.

The economic forecasts assume that both goods export and import prices will rise sharply in the first quarter of 2022, before easing as the impacts of the Russian invasion of Ukraine dissipate. The near-term impact on the goods terms of trade from rising commodity prices is expected to be positive, but over the second half of 2022 as export prices fall by more than import prices, the terms of trade are expected to ease (Figure 1.12). Although higher terms of trade are positive overall for the economy, the distributional impacts of rising prices are significant; higher commodity prices boost profits for the primary sector but add to the cost of living for households through higher food and energy costs. In addition, the recent fall in the exchange rate makes imports more expensive while supporting overseas demand for exports.

2 The falling import share of mineral fuels leaves New Zealand less exposed to global energy price shocks.

***Central banks around the world are facing high inflation…***

***Figure 1.13*** – Consumers price indexes




Source: Haver Analytics

New Zealand's major trading partners entered 2022 with solid growth momentum. Although Omicron has caused disruption, activity has been quick to recover as outbreaks recede. However, as in New Zealand, inflation has emerged as a significant challenge to global growth. In the United States, United Kingdom, Australia and the euro area, consumer price inflation in 2021 reached levels not seen in at least a decade (Figure 1.13). Inflation continued to accelerate in early 2022, particularly in Europe where the invasion of Ukraine has put significant upward pressure on energy prices.

It is widely expected that monetary policy in most advanced economies will be tightened aggressively in response, and share market indexes have fallen since early 2022 as investors anticipate higher interest rates. There is a concern that central banks will not be able to contain rising prices without causing a significant slowdown in economic activity, and the inversion of the United States Treasury yield curve[3] is seen by some as indicative of a coming recession. Inflation is more subdued in Asia, allowing monetary policymakers to focus on supporting growth and employment.

***…and COVID-19 remains a threat to China's economy in particular…***

Although inflation is less of a concern in China, COVID-19 remains a far more significant threat compared to other countries. After successfully eliminating previous outbreaks of the virus, China has recently experienced major surges in some regions. Officials continue to pursue a zero-COVID strategy, imposing strict lockdowns to contain the virus, but the high transmissibility of Omicron makes it less likely that elimination will be achieved. If outbreaks and lockdowns continue, the implications for China's population and economy, global supply chains and global inflation could be severe. The risk of a major slowdown in China's economy has increased in recent months, with outbreaks persisting and officials showing no intention of abandoning the zero-COVID strategy. Even if public health restrictions were eased, however, the health and behavioural impacts of a widespread virus outbreak would cause significant economic disruption in China and globally.

***…with a risk that global economic growth is derailed***

If global supply chain disruption and inflation prove more persistent, either because of extended conflict in Ukraine, COVID-19 outbreaks in China, or both, the medium-term implications for economic activity in New Zealand could be significant. Conversely, if global conditions are more favourable and inflation pressures less severe, the outlook for New Zealand's economy may be substantially better than presented in the central forecast. These alternative forecast scenarios are explored in the following box.

3 The yield on a 2-year Treasury note exceeded the 10-year note in March, reflecting an inverted yield curve.

## Alternative scenarios

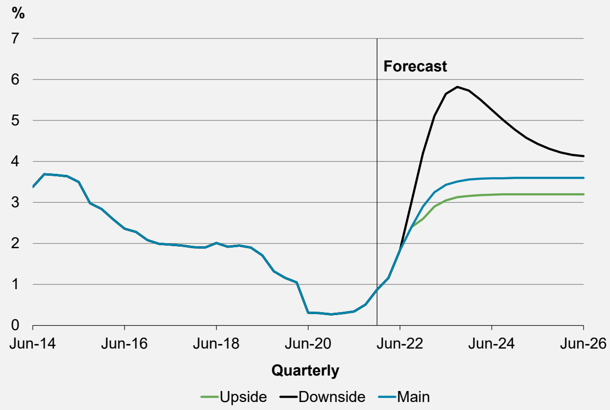
### The persistence of inflation and associated monetary policy response is a key uncertainty…

Given that high inflation and tightening monetary policy are key features of the economic forecasts, these alternative forecast scenarios focus on the impacts of different inflation paths. In the upside scenario, disruption from COVID-19 and the Russian invasion of Ukraine recedes more quickly, resulting in less persistent inflation. Monetary policy is tightened less aggressively in response and the impact on the real economy is smaller. In the downside scenario, more persistent price pressures necessitate a sharper rise in interest rates, weakening GDP growth and pushing up the unemployment rate.

### …with more temporary price pressures meaning a smaller impact on the economy…

The upside scenario assumes that 90-day interest rates rise more slowly and reach a smaller peak of 3.2%, owing to the less inflationary environment (Figure 1.14). This results in less downward pressure on household spending, flowing through to stronger GDP growth (Figure 1.16) and improved labour market outcomes (Figure 1.15). Less persistent disruption from COVID-19 and the Russian invasion of Ukraine is also assumed to increase people's willingness to travel, accelerating the recovery in New Zealand's tourism sector and boosting services exports. This adds further strength to GDP growth, which increases to 4.8% for the June 2023 year and 1.7% for 2024, compared to 4.2% and 0.7% in the central forecast. Stronger demand results in a lower unemployment rate, which peaks at just 3.5% in 2025.

***Figure 1.14*** – 90-day interest rates

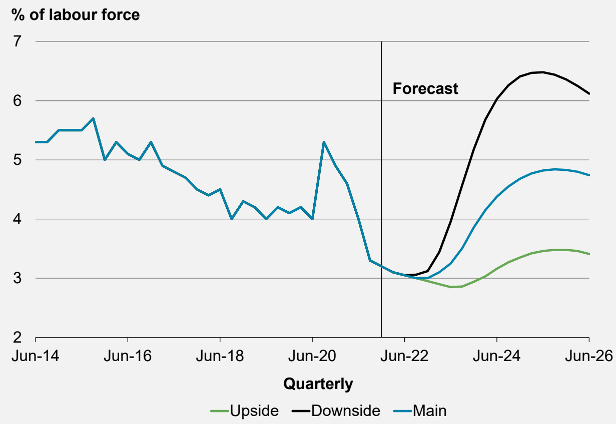



Sources: Haver Analytics, the Treasury

### …while more persistent inflation hits the economy much harder…

In the downside scenario, COVID-19 and the Russian invasion of Ukraine create more persistent inflationary pressures, resulting in more aggressive monetary policy tightening both in New Zealand and its major trading partners. Domestic 90-day interest rates reach a peak of 5.8% (Figure 1.14), placing greater downward pressure on economic growth (Figure 1.16). House prices experience a deeper fall in this scenario, flowing through to weaker household spending. Slower global growth also results in more subdued demand for New Zealand's exports of both goods and services. Annual GDP grows 3.5% in the June 2023 year before contracting 1.0% in 2024, and the unemployment rate rises to a peak of 6.5% (Figure 1.15).

***Figure 1.15*** – Unemployment rate

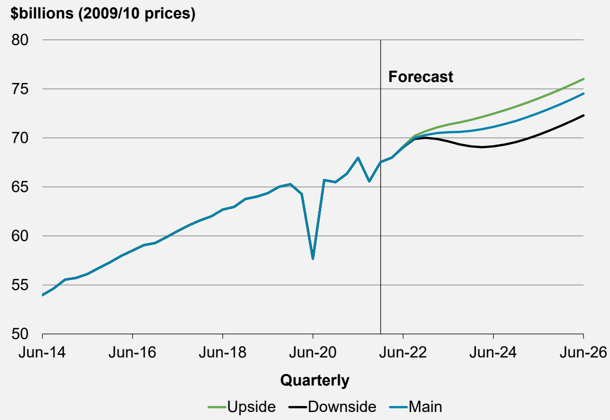



Sources: Stats NZ, the Treasury

…along with a potential reversal of historical trends that have supported economic growth…

Supply issues associated with COVID-19 and the Russian invasion of Ukraine may create a desire for countries to achieve greater economic independence. In the downside scenario, this is assumed to result in a reversal of the trend of increasing globalisation and world trade, which has driven stronger productivity growth and kept inflation low over the past decade. The global financial system is also assumed to become more fractured as a result of sanctions on Russia, causing an increase in risk premiums and higher interest rates. All these factors reduce the productive capacity of New Zealand's economy, resulting in a permanently lower level of GDP in the downside scenario (Figure 1.16).

***Figure 1.16*** – Real production GDP

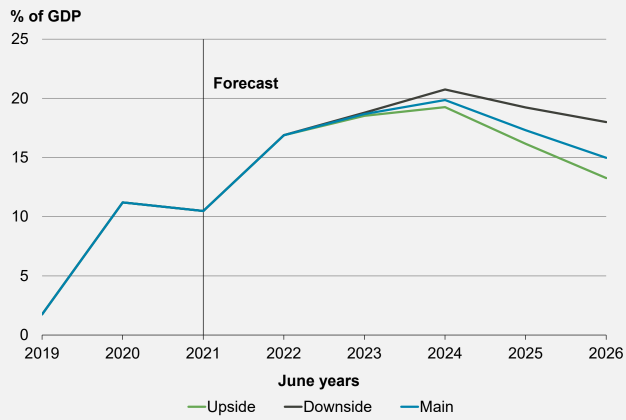



Sources: Stats NZ, the Treasury

…with each scenario resulting in different paths for government debt

Cumulative nominal GDP over the forecast period is $19 billion higher in the upside scenario, resulting in an additional $5 billion in core Crown revenue compared to the central forecast. In the downside scenario, cumulative nominal GDP is $30 billion lower than in the central forecast, reducing core Crown revenue by $8 billion. The higher unemployment rate increases welfare expenses in the downside scenario, increasing core Crown expenses by $4 billion over the forecast period; in the upside scenario, the opposite effect reduces core Crown expenses by $2 billion. Net debt is 18.0% of GDP in the year ending June 2026 in the downside scenario and 13.3% of GDP in the upside scenario, compared to 15.0% in the central forecast (Figure 1.17).

***Figure 1.17*** – Net debt-to-GDP ratio




Source: The Treasury

# 2

# Fiscal Outlook

- The ongoing disruption from COVID-19 during the current year has required the Government to provide additional fiscal support measures. As a result, the fiscal outlook for the current year is expected to weaken compared to 2020/21. An operating balance before gains and losses (OBEGAL) deficit of $19.0 billion is expected this year, while net debt is expected to rise by $25.2 billion.
- Although there have been continued disruptions from COVID-19, the economy in aggregate has remained resilient and core Crown tax revenue is expected to grow by $5.8 billion in the current year. The recent higher-than-usual inflationary conditions are expected to continue, which is a key driver of the growth in core Crown tax revenue over the rest of the forecast period. Core Crown tax revenue grows marginally from 28.6% of GDP in 2020/21 to 29.8% of GDP by 2025/26.
- As the temporary fiscal support measures in response to COVID-19 largely wind up in the 2022/23 year, coupled with growth in core Crown tax revenue, the fiscal outlook is expected to improve over the rest of the forecast period. Core Crown expenses are still expected to grow in nominal terms over the forecast period, however at a much slower pace than in the 2021/22 year. While as a share of GDP, core Crown expenses fall from 35.4% of GDP in 2021/22 to 29.8% of GDP by 2025/26.
- All the key operating indicators (the operating balance, OBEGAL and residual cash) are expected to improve, moving from large deficits in the near-term into surplus positions during the forecast period. OBEGAL is forecast to return back to surplus in the 2024/25 year, before reaching $7.0 billion (or 1.5% of GDP) in 2025/26. Although residual cash improves, an accumulated cash deficit of $44.8 billion is still expected over the forecast period.
- In Budget 2022, the Government has announced $5.9 billion per annum in new operating spending. There have also been investments in relation to multi-year funding decisions for some sectors that have been managed against future Budget operating allowances. As a result, overall investments from the core Budget 2022 operating package has a fiscal impact of $6.5 billion in 2022/23, growing to $7.5 billion by 2025/26. In Budget 2022, the Government has also announced funding to address climate change and cost of living challenges, which are in addition to the Budget 2022 operating package. Capital decisions in Budget 2022 total $4.7 billion, primarily for investment in the health, education and transport sectors.

- The net debt measure (which now includes a wider range of financial instruments) is expected to increase in the near-term. It peaks in the 2023/24 year, both in nominal terms (at $83.6 billion) and as a percentage of GDP (19.9%), before starting to fall and reaching 15.0% of GDP in 2025/26. From 2021/22, net debt increases by $8.3 billion over the rest of the forecast period. Unlike the previous net debt measure, the movement in the new measure is influenced by a wider range of factors than residual cash (refer to the box on pages 38 and 39).

- Total net worth is expected to decline in the current year by $26.5 billion, largely reflecting the expected operating balance deficit in 2021/22. Total net worth starts to steadily increase from 2023/24, once the operating balance returns to surplus. Overall, total net worth is expected to decline over the forecast period by $1.1 billion. As a share of GDP, total net worth falls from 45.8% of GDP in 2020/21 to 33.6% of GDP by 2025/26. Net worth attributable to the Crown follows a similar trend to total net worth.

- Compared to the *Half Year Economic and Fiscal Update 2021* (*Half Year Update*), the fiscal outlook for most key indicators is expected to be weaker. The change is largely driven by the updated economic outlook, which showed stronger wage growth, higher inflation and higher interest rates than previously expected. While this has resulted in an increase in both revenue and expenses, the overall impact has adversely impacted on the fiscal outlook. In addition, decisions to increase the Budget 2023 operating allowance and top up both the COVID-19 Response and Recovery Fund (CRRF) and the Climate Emergency Response Fund (CERF) have had an adverse impact on the fiscal outlook.

***Table 2.1*** – Key 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 | 103.8 | 116.1 | 122.7 | 129.9 | 138.5 |
| Core Crown expenses | 107.9 | 128.4 | 127.1 | 131.1 | 134.1 | 138.2 |
| Total Crown OBEGAL[1] | (4.7) | (19.0) | (6.6) | (2.6) | 2.6 | 7.0 |
| Total Crown operating balance | 16.0 | (27.9) | (1.6) | 3.4 | 9.1 | 13.9 |
| Core Crown residual cash | (13.8) | (31.8) | (29.3) | (9.3) | 7.9 | 17.7 |
| Net debt[2] | 35.9 | 61.2 | 75.0 | 83.6 | 76.4 | 69.5 |
| Total borrowings | 162.6 | 200.5 | 230.6 | 245.1 | 243.0 | 248.2 |
| Net worth | 156.9 | 130.4 | 128.9 | 132.4 | 141.7 | 155.8 |
| **% of GDP** | | | | | | |
| Core Crown tax revenue | 28.6 | 28.6 | 28.9 | 29.1 | 29.4 | 29.8 |
| Core Crown expenses | 31.5 | 35.4 | 31.6 | 31.1 | 30.4 | 29.8 |
| Total Crown OBEGAL[1] | (1.4) | (5.2) | (1.7) | (0.6) | 0.6 | 1.5 |
| Total Crown operating balance | 4.7 | (7.7) | (0.4) | 0.8 | 2.1 | 3.0 |
| Core Crown residual cash | (4.0) | (8.8) | (7.3) | (2.2) | 1.8 | 3.8 |
| Net debt[2] | 10.5 | 16.9 | 18.7 | 19.9 | 17.3 | 15.0 |
| Total borrowings | 47.5 | 55.3 | 57.4 | 58.2 | 55.1 | 53.5 |
| Net worth | 45.8 | 36.0 | 32.1 | 31.5 | 32.1 | 33.6 |

Notes: 1 Operating balance before gains and losses.

2 The net debt indicator includes core Crown advances, Crown entity borrowings and the financial assets and borrowings of the New Zealand Super Fund (NZS Fund). For further information, refer to the box on pages 38 and 39. A series of net core Crown debt (the previous headline net debt indicator) can be found on page 157.

Source: The Treasury

The rest of this chapter is broken into four sections:

- **Fiscal Sustainability** – discusses the trends in the key indicators that illustrate the fiscal sustainability of the Government's fiscal policy settings.
- **Fiscal Resilience** – discusses the trends in the key indicators that illustrate the fiscal resilience of the Government's fiscal position.
- **Crown Funding and Financing** – discusses the funding and financing requirements of the Government over the forecast period.
- **Comparison to the *Half Year Update*** – discusses the drivers of the changes in key indicators from our previous forecast.

### 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 28 April 2022).

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 30 March 2022 and are based on the economic forecasts completed on 24 March 2022. The tax forecasts were subsequently updated on 16 April to reflect final Budget 2022 decisions only. There have been a number of tax policy changes, which are outlined below (refer to Table 2.2) as required under section 26R of the Public Finance Act 1989.
- To calculate income tax revenue across the forecast period, firms' net operating surplus forecasts on a System of National Accounts basis are used to create tax-year forecasts of total income tax for both other persons tax and corporate tax, which are then converted into fiscal years (to 30 June). For the five-year forecast period to 2025/26, the annual operating surplus growth forecasts range from 4.0% to 14.7%.

***Table 2.2*** – Estimated tax effects of material initiatives announced since the *Half Year Update*

| Year ending 30 June<br>$millions | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast | Total<br>change |
|---|---|---|---|---|---|---|
| Temporary reductions in fuel excise duty and road user charges rates | (352) | (235) | - | - | - | **(587)** |
| Excise duty on flavoured tobacco | 3 | 32 | 32 | 32 | 32 | **131** |
| Other changes | (1) | (14) | (15) | (11) | (13) | **(54)** |
| **Total change** | **(350)** | **(217)** | **17** | **21** | **19** | **(510)** |

Source: The Treasury

***Temporary reductions in fuel excise duty and road user charges rates*** – a 25 cents-per-litre reduction in the rate of petroleum fuels excise and excise-equivalent duty for a period of five months, equivalent reductions in road user charges rates, also for five months, and an equivalent reduction in track user charges for a period of three months.

***Excise duty on flavoured tobacco*** **–** with effect from 19 May 2022, excise duty on flavoured tobacco will be based on total weight rather than self-declared kilograms of tobacco content.

- 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 from within the Budget operating allowances, the multi-year capital allowance or the unallocated CERF that are included in the fiscal forecasts.
- The CERF has unallocated funding of $1.5 billion over the forecast period. It is assumed that the unallocated funds will be split between operating (90%) and capital expenditure (10%), broadly based on the allocation of funding in Budget 2022.
- The New Zealand Income Insurance Scheme is assumed to commence part way through the 2024/25 fiscal year. The forecast assumes levy revenue recognised from the scheme will result in an equivalent increase in expense, therefore there is no net impact on the Government's operating balance.
- 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 in 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 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 are set out in Table 2.3. 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 2.3*** – NZS Fund contributions

| **Year ending 30 June<br>$billions** | **2022<br>Forecast** | **2023<br>Forecast** | **2024<br>Forecast** | **2025<br>Forecast** | **2026<br>Forecast** |
|---|---|---|---|---|---|
| Forecast contributions in the *Budget Update*[1] | 2.4 | 2.6 | 2.1 | 1.9 | 1.9 |

Note: 1 Apart from the current year, the Government's contributions are assumed to be derived from the legislative formula.

Source: The Treasury

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 60.

# Fiscal Sustainability

Fiscal sustainability is the ability of a government to maintain public finances at a credible and serviceable position over the long-term. It refers to whether a government can maintain its current level of expenditure and revenue without major adjustments, or whether its policies would lead to excessive accumulation of public debt unless the government takes action to change its policies. There are a number of fiscal indicators that help determine whether the Government's fiscal policy settings are sustainable which are discussed in more detail in this section. As well as discussing standard fiscal indicators, this section also covers the specific fiscal indicators the Government uses to communicate how they will achieve fiscal sustainability.

## Total Revenue

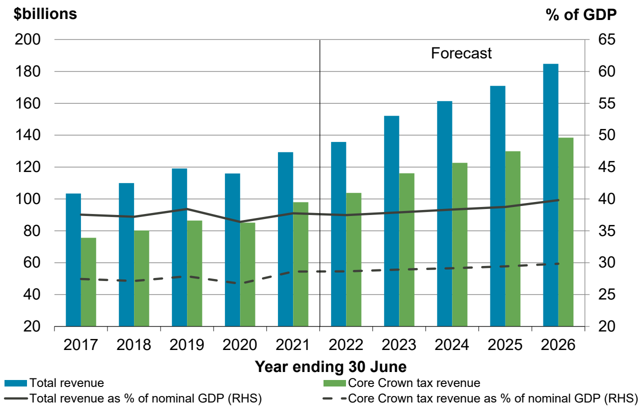
***Total revenue grows steadily over the forecast period in nominal terms…***

Total revenue is expected to increase by $55.4 billion over the forecast period at an average of $11.1 billion each year. As a share of the economy, total revenue increases marginally until 2024/25 and increases more sharply in the 2025/26 year as a result of the assumed first full year of levies from the New Zealand Income Insurance Scheme (NZIIS).

The majority of the growth in total revenue is driven by core Crown tax revenue which is expected to increase by $40.5 billion over the forecast period and is explained further in the next section (Figure 2.1).

In addition to the growth driven by core Crown tax revenue, other sovereign revenue is expected to increase over the forecast period by $8.8 billion, while sales of goods and services, primarily from the activities of State-owned enterprises (SOEs), accounts for $3.6 billion of the growth. However, on a net basis, the SOEs growth in sales is largely offset by an associated growth in their expense.

***Figure 2.1*** – Total revenue and core Crown tax revenue




Source: The Treasury

Other sovereign revenue has increased primarily as a result of the income insurance levies of $4.7 billion associated with the NZIIS (on a net basis, this increase offsets the increase in total expenses mentioned on page 28). This scheme is assumed to commence part way through the 2024/25 year and is intended to support workers for a period after they lose their jobs. Revenue from the Emissions Trading Scheme (ETS) also increases over the forecast period by $2.1 billion, with a total of $3.7 billion in revenue expected by 2025/26. This increase is largely owing to the rise in the market price of New Zealand Units (NZUs) from $43.45 per unit in 2020/21 to $75.90 per unit in this *Budget Economic and Fiscal Update* (*Budget Update*). The market price of NZUs is assumed to stay constant over the forecast period.

### *…largely attributable to growth in core Crown tax revenue…*

Core Crown tax revenue is expected to increase by $5.8 billion in 2021/22 and $12.3 billion in 2022/23 and is then forecast to grow at a more constant rate (averaging $7.5 billion per year) from 2023/24 onwards. By 2025/26, core Crown tax revenue is expected to reach $138.5 billion, an increase of $40.5 billion when compared to 2020/21 (Table 2.4).

The trend in the growth of core Crown tax revenue broadly follows the growth in nominal GDP. The higher-than-usual inflationary conditions are one of the key drivers of the tax revenue outlook.

As a percentage of GDP, core Crown tax revenue is forecast to gradually increase from 28.6% in 2021/22 to 29.8% in 2025/26 at an average of around 0.3 percentage points per year.

### *…which is primarily driven by economic factors*

Over the 2021/22 and 2022/23 years combined, core Crown tax revenue is forecast to increase by a total of $18.1 billion. Key components of the growth relate to forecast growth in the nominal economy, with Consumers Price Index (CPI) inflation accounting for $12.2 billion and real GDP growth accounting for around $6.0 billion. However, growth rates are not the same across all components of the GDP forecast, affecting the various tax types in different ways, as described below.

Continued growth in real GDP (as described in the Economic Outlook chapter) is forecast to contribute another $5.9 billion to core Crown tax revenue over the 2023/24 to 2025/26 fiscal years. However, like the earlier part of the forecast period, forecast CPI inflation remains higher than it has been through the past decade, which adds a further $11.8 billion to core Crown tax revenue over those years.

The uplift in core Crown tax revenue has been driven by the tax types as set out in Table 2.4.

***Table 2.4*** – Movements in core Crown tax revenue by major tax type

| **Year ending 30 June<br>$billions** | **2022<br>Forecast** | **2023<br>Forecast** | **2024<br>Forecast** | **2025<br>Forecast** | **2026<br>Forecast** | **Total<br>Change** |
|---|---|---|---|---|---|---|
| Source deductions | 3.7 | 3.2 | 3.4 | 3.7 | 4.0 | **18.0** |
| Goods and services tax (GST) | 0.7 | 3.1 | 1.4 | 1.6 | 2.3 | **9.1** |
| Corporate tax | 1.6 | 3.9 | - | 1.0 | 1.2 | **7.7** |
| Net other persons tax | 1.2 | 1.0 | 0.7 | 0.5 | 0.6 | **4.0** |
| Resident withholding tax (RWT) on interest | (0.3) | 0.7 | 0.3 | 0.2 | - | **0.9** |
| Customs and excise duties | (0.4) | 0.4 | 0.3 | 0.2 | 0.1 | **0.6** |
| Other taxes | (0.7) | - | 0.5 | - | 0.4 | **0.2** |
| **Total movement in core Crown tax revenue** | **5.8** | **12.3** | **6.6** | **7.2** | **8.6** | **40.5** |
| Plus previous year | 98.0 | 103.8 | 116.1 | 122.7 | 129.9 | |
| **Core Crown tax revenue** | **103.8** | **116.1** | **122.7** | **129.9** | **138.5** | |

Source: The Treasury

Source deductions are forecast to grow on average by around $3.6 billion per annum. This growth is predominantly due to wage growth, fiscal drag (the increase in a person's average tax rate as income increases) and employment growth.

The growth in GST in the current year is lower than in other years largely owing to the impact of COVID-19 restrictions imposed over this period. The rebound in GST revenue growth in 2022/23 is due to higher growth rates for consumption and residential investment. A more even growth track is expected from 2023/24 onwards, with consumption growth forecast to increase at a slightly higher rate than nominal GDP, which explains most of the growth in the GST revenue forecast.

Corporate tax and net other persons tax revenue are expected to increase by $7.7 billion and $4.0 billion respectively. Most of this is in the first two years of the forecast period, influenced by continued strength in 2020/21 tax returns being filed with Inland Revenue. This is reflected in the high growth forecasts for operating surplus for both years. Most of the growth over the later years of the forecast period is explained by forecast growth in firms' net operating surplus, with some minor policy and other changes.

RWT on interest is forecast to be lower in 2021/22 due to low interest rates during the start of the year, increasing in 2022/23 as the forecast interest rates increase. Customs and excise duties are also forecast to decline in 2021/22 due to lower demand. These taxes are expected to stabilise and then increase slightly over the remainder of the forecast period as demand for excisable goods increases, excise rates are indexed annually in line with inflation and interest rates increase.

## Total Expenses

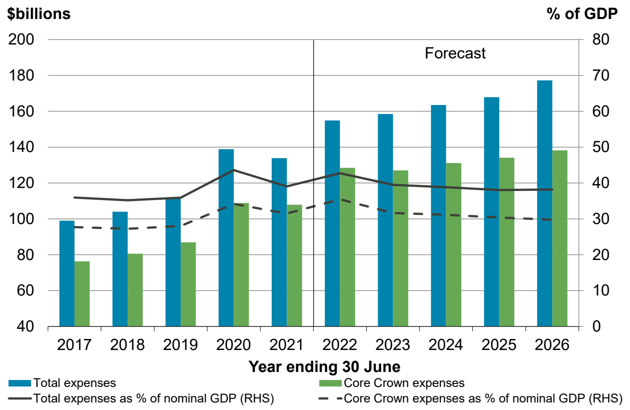
***Total expenses increase significantly in the 2021/22 year owing to temporary expenditure, and then grow more evenly from 2022/23…***

Overall, total expenses are forecast to increase by $43.4 billion by the end of the forecast period, reaching $177.3 billion by 2025/26. As a share of the economy, total expenses rise sharply in the current year, peaking at 42.7% of GDP before falling to 38.2% of GDP by the end of the forecast period.

The majority of the growth in total expenses is driven by core Crown expenses, which are discussed further in the section below.

In addition to the core Crown expenses, insurance expenses are expected to increase over the forecast period by $3.7 billion, largely relating to the ACC scheme. The expected increase in the costs of insurance claims is mainly driven by economic factors (such as wage growth and increased inflation assumptions), the increasing cost of health services and an expected increase in claims volumes.

***Figure 2.2*** – Total expenses and core Crown expenses




Source: The Treasury

The introduction of the NZIIS also increases total expenses from the 2024/25 year and adds $4.7 billion to total expenses by the final year of the forecast.

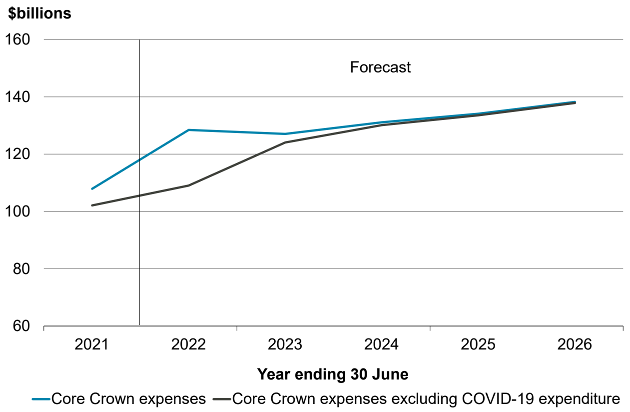
***…with core Crown expenses driving most of this trend…***

Overall core Crown expenses are expected to increase by $30.3 billion over the forecast period. This is largely driven by Budget 2022 decisions, future Budget operating allowances and increases in benefit expenses and finance costs.

***…and although COVID-19 related spending is significant in the current year, as it is temporary, it only has a minimal impact on the growth in core Crown expenses over the forecast period…***

The higher level of core Crown expenses in the current year largely reflects the Government's support measures in response to the COVID-19 pandemic, particularly from decisions in response to the outbreaks of the Delta and Omicron variants since August 2021 (Figure 2.3). The spending in 2021/22 includes $4.9 billion for Wage Subsidy Scheme payments, $4.3 billion in COVID-19 support payments, and $2.1 billion for vaccinations. The majority of these expenses are temporary in nature and therefore do not contribute significantly to the increase in the forecast of core Crown expenses beyond 2021/22.

***Figure 2.3*** – Core Crown expenses excluding material COVID-19 expenditure




Source: The Treasury

Looking through the material COVID-19 related expenditure, core Crown expenses are expected to increase by $35.8 billion by 2025/26.

***…but Budget 2022 decisions and future Budget allowances contribute significantly to the growth in expenses after 2021/22…***

A large portion of the nominal increase in core Crown expenses is driven by the Budget 2022 operating package (refer to the box on pages 30 to 34). In Budget 2022, the Government has announced $5.9 billion per annum in new operating spending. There have also been investments in relation to multi-year funding decisions for some sectors that have been managed against future Budget operating allowances. As a result, overall investments from the core Budget 2022 operating package has a fiscal impact of $6.5 billion in 2022/23, growing to $7.5 billion by 2025/26. As the core Budget 2022 operating package includes revenue initiatives, the impact on core Crown expenses is expected to be $6.7 billion in 2022/23, growing to $8.0 billion by 2025/26. In addition, decisions relating to the allocation of funding from the CERF are expected to increase core Crown expenses by $0.9 billion by 2025/26.

The Government has announced a Budget operating allowance of $4.5 billion for Budget 2023 and $3.0 billion for Budget 2024 and Budget 2025. With the introduction of the multi-year funding approach for some sectors, a portion of future Budget operating allowances has been pre-committed. The funding available (after pre-commitments) for future Budgets is forecast to increase expenses by $8.1 billion by 2025/26.

For forecasting purposes, Budget allowances are assumed to be all operating expenditure. However, these allowances can be used for a combination of revenue and expenditure initiatives when allocated. The fiscal forecasts also assume that any additional costs in relation to Government commitments and future cost pressures, such as those outlined in the Risks to the Fiscal Forecasts (pages 61 to 108), will be met from operating allowances.

***…while benefit costs also increase, reflecting economic conditions and demographic changes…***

Overall, core Crown benefit expenses are forecast to increase by $11.2 billion over the forecast period. The majority of this increase is in relation to New Zealand Superannuation payments, with costs expected to increase by $8.0 billion. New Zealand Superannuation recipient numbers are forecast to increase from 825,000 in 2020/21 to over 965,000 by the end of the forecast period. In addition, New Zealand Superannuation payments grow as a result of an increasing wage growth forecast to which payments are indexed. It is expected that the adjustments for growth in average wages typically accounts for between 40% and 60% of total annual changes in expenditure on New Zealand Superannuation, while the balance is attributable to growth in the number of recipients.

The remaining increase in core Crown benefit expenses is driven by the increase in most other benefit payment types (eg, Jobseeker Support) which are also indexed to wage growth.

***…and interest rate changes increase finance costs***

Core Crown finance costs are expected to increase from $1.9 billion in 2020/21 to $4.6 billion by the end of the forecast period, an increase of $2.7 billion. The increase is largely a result of the higher interest rates which are now expected over the forecast period. For example, the yield rate on 10-year Government bonds was 1.2% in 2020/21 and is expected to rise to 4.1% in 2025/26. In addition, a portion of the increase will be owing to interest on additional borrowings to fund the forecast residual cash deficits (refer to page 47).

More details on the functional classification of total expenses and core Crown expenses can be found in the Core Crown Expense Tables chapter on pages 145 to 149.

## Budget 2022 new operating spending decisions

The purpose of this box is to explain the fiscal impact of Budget 2022 new operating spending decisions and how these decisions have been funded by the Government.

### Modernisation of the public sector funding approach

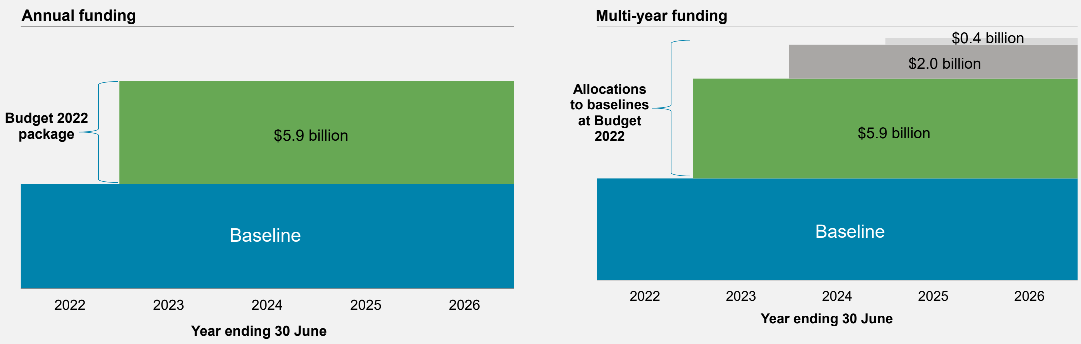
In Budget 2022, the Government has introduced a multi-year funding approach for the health sector (two-year funding) and two clusters covering the Natural Resources and Justice sectors (three-year funding). The move to a multi-year funding approach is seen as a way of better addressing complex multi-generational challenges and facilitating longer-term investment and strategic planning.

In addition to the multi-year funding approach, the Government has also established an enduring multi-year CERF to address the challenges presented by climate change.

*The multi-year funding approach will increase baselines beyond the budget year…*

The multi-year funding approach will mean that baselines for agencies within the health sector and the Natural Resources and Justice clusters will increase beyond the 2022/23 fiscal year rather than remain fixed, which is normally the case with the annual funding decision approach (as illustrated in Figure 2.4). It is broadly expected that the health sector will not need to seek new additional funding until Budget 2024, while clusters will not need to seek new additional funding until Budget 2025.

***Figure 2.4*** – Illustration of the difference between annual funding and multi-year funding




Source: The Treasury

*…and reduce the funding available for future Budgets…*

As the multi-year funding approach leads to baselines which increase beyond the 2022/23 fiscal year, the Government has decided to manage these increases as pre-commitments against future Budget operating allowances. As a result, the funding available to allocate in future Budgets in the fiscal forecasts is less than the allowances signalled by the Government in the Wellbeing Budget 2022 (refer to Table 2.5).

***Table 2.5*** – Future Budget operating allowance after pre-commitments

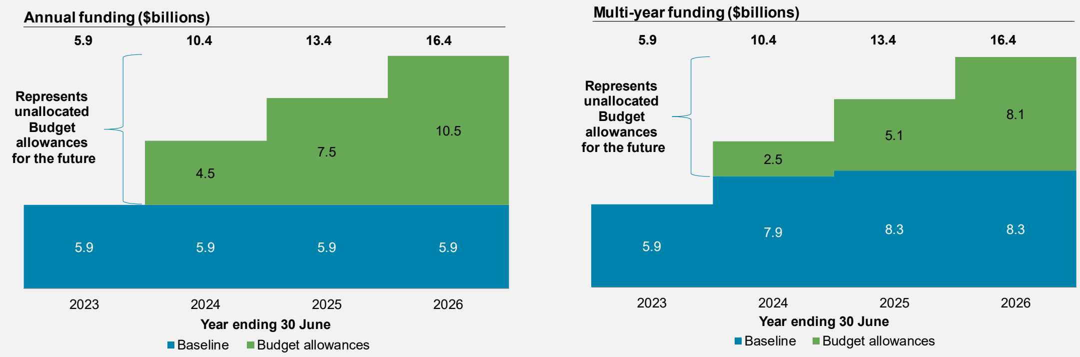
| Year ending 30 June<br>$millions | Budget 2023 | Budget 2024 | Budget 2025 |
|---|---|---|---|
| **Announced Budget operating allowance** | **4,500** | **3,000** | **3,000** |
| Pre-commitments (from multi-year decisions and other items) | 1,993 | 419 | - |
| **Allowance in fiscal forecasts** | **2,507** | **2,581** | **3,000** |

Source: The Treasury

### …however, it does not impact the overall level of core Crown expenses

The multi-year funding does not impact on the overall level of core Crown expenses—it simply changes the timing of when decisions are made to increase baselines. Instead of increasing baselines annually, they will increase less frequently (eg, the health sector in two years' time and the clusters in three years' time). Refer to Figure 2.5.

***Figure 2.5*** – Illustration of the fiscal impact on the multi-year funding approach




Source: The Treasury

## The fiscal impact of Budget 2022 decisions

Combining the core Budget 2022 operating package with other Budget 2022 spending decisions (e.g. climate change spending and the cost of living payment), the Government's Budget 2022 decisions on investments in new operating spending total $9.6 billion in the 2022/23 year and decrease to $8.7 billion by 2025/26. The Government has managed the fiscal impact of its Budget 2022 decisions from a number of different sources; Budget operating allowances, the CERF and the CRRF. In addition, there have also been decisions where the fiscal impact has not been managed against any funding source and therefore directly impacts fiscal indicators. Table 2.6 summarises the fiscal impact of Budget 2022 new operating spending decisions into different types of investments.

***Table 2.6*** – Impact of Budget 2022 decisions

| **Year ending 30 June<br>$millions** | **2022<br>Forecast** | **2023<br>Forecast** | **2024[1]<br>Forecast** | **2025<br>Forecast** | **2026<br>Forecast** | **5-year<br>Total** |
|---|---|---|---|---|---|---|
| Core Budget 2022 operating package | 447 | 6,493 | 8,499 | 8,698 | 7,472 | 31,609 |
| Climate change new operating spending | 47 | 625 | 1,052 | 997 | 894 | 3,615 |
| COVID-19 spending | (40) | 1,338 | 95 | - | - | 1,393 |
| Cost of living support | 350 | 1,046 | 4 | - | - | 1,400 |
| Other spending | (10) | 142 | 128 | 113 | 311 | 684 |
| **Budget 2022 new operating spending** | **794** | **9,644** | **9,778** | **9,808** | **8,677** | **38,701** |

Note: 1 The increase in the core Budget 2022 operating package in the 2023/24 year reflects the impact from the multi-year funding approach for the health sector and the Justice and Natural Resources clusters.

Source: The Treasury

### Core Budget 2022 operating package

In Budget 2022, the Government has announced investments of $5.9 billion per annum in new operating spending. In addition, further investments in new operating spending ($2.0 billion per annum from 2023/24 and $0.4 billion per annum from 2024/25) will be introduced, which will be funded from the Budget 2023 and Budget 2024 operating allowances. The investments which have been funded from the Budget 2023 and Budget 2024 operating allowances reflect the multi-year funding approach mentioned earlier.

Overall, the Budget 2022 operating package totals $31.6 billion across the forecast period. The package includes revenue initiatives that total $1.4 billion and spending initiatives that total $33.0 billion (refer to Table 2.7).

***Table 2.7*** – Impact of Budget 2022 new operating spending package on key indicators

| Year ending 30 June<br>$millions | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast | 5-year<br>Total |
|---|---|---|---|---|---|---|
| Increase in core Crown revenue | 80 | 222 | 213 | 347 | 507 | 1,369 |
| Increase in core Crown expenses | 527 | 6,715 | 8,712 | 9,045 | 7,979 | 32,978 |
| **Reduction in OBEGAL** | **447** | **6,493** | **8,499** | **8,698** | **7,472** | **31,609** |

Source: The Treasury

The above decisions have largely been funded from the Budget operating allowances which the Government signalled in the *2022 Budget Policy Statement*. As mentioned above, the introduction of the multi-year funding approach leads to the pre-commitment of future Budget operating allowances. In addition, a portion of the funding remaining from the closure of the CRRF has been applied to manage the impact of the core Budget 2022 operating package.

***Table 2.8*** – Funding of the core Budget 2022 operating package

| Year ending 30 June<br>$millions | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast | 5-year<br>Total |
|---|---|---|---|---|---|---|
| Core Budget 2022 operating package | 447 | 6,493 | 8,499 | 8,698 | 7,472 | 31,609 |
| ***Funded by:*** | | | | | | |
| - Budget 2022 operating allowance | - | 5,890 | 5,890 | 5,890 | 5,890 | 23,560 |
| - Budget 2023 operating allowance | - | - | 1,982 | 1,982 | 1,982 | 5,946 |
| - Budget 2024 operating allowance | - | - | - | 419 | 419 | 838 |
| - Repurposed funding from CRRF | - | 1,000 | - | - | - | 1,000 |
| **Reduction in OBEGAL** | **447** | **(397)** | **627** | **407** | **(819)** | **265**[1] |

Note: 1 Budget 2022 new operating initiatives for health have been funded by the Budget 2022 and 2023 operating allowances, with an impact of $0.266 billion per annum against each allowance. The fiscal impacts of the initiatives have been forecast from 2022/23 to 2025/26, but as there is no Budget 2023 operating allowance in the 2022/23 year, this results in a corresponding negative impact on OBEGAL and net debt over the forecast period.

Source: The Treasury

### New operating spending decisions to address climate change

Overall, the Government has announced investments of $3.8 billion focused on addressing climate change. This includes investments in Budget 2022 of $2.8 billion recognised as operating expenses and $0.2 billion of capital investments. In addition, announcements prior to Budget 2022 have totalled $0.8 billion. These investments have been managed against the CERF. However, as funding for the CERF is time limited up to the 2025/26 year, any cost beyond the 2025/26 year will have a direct fiscal impact on key fiscal indicators.

## COVID-19 Response and Recovery Fund (CRRF)

In Budget 2020, the Government signalled $62.1 billion of funding to support the COVID-19 response and recovery, which consists of the $12.1 billion initial package to support New Zealanders (17 March 2020 Support Package) and $50.0 billion in the CRRF. Subsequently, the CRRF has been topped up by a further $11.6 billion of funding during the current fiscal year.

In Budget 2022, the Government has decided to close the CRRF. At the time of this decision, the Government had allocated $58.4 billion of funding, leaving $3.2 billion of unused funding. Of the unused funding, $1.2 billion has been set aside in a tagged contingency for any immediate public health needs that cannot wait until next Budget. The rest of the unused funding has been repurposed with $1.0 billion used to offset the core Budget 2022 operating package and $1.0 billion used for the package to support the rising cost of living.

***Table 2.9*** – Funding allocated from the CRRF since the *Half Year Update*

| | | $billions |
|---|---|---|
| Funding remaining at the *Half Year Update* | | 4.3 |
| ***Changes since the Half Year Update*** | | |
| • Budget 2022 – operating decisions | (0.2) | |
| • Other decisions | (5.5) | |
| • Top-up of funding[1] | 4.6 | |
| **Total change since the *Half Year Update*** | | **(1.1)** |
| **Funding repurposed at Budget 2022** | | **3.2** |

Note: 1 The Government agreed to a top-up of $5.0 billion to the CRRF in February 2022. However, $0.4 billion of this was subsequently repurposed to fund the cost of living support provided from reducing fuel excise duty and road user charges.

Source: The Treasury

In Budget 2022, $0.2 billion of investments (mainly the apprenticeships boost) have been managed against the CRRF. The Government has also decided to establish a tagged contingency of $1.2 billion (mentioned above) from the unused funding after the closure of the CRRF. Combined, these decisions total $1.4 billion over the forecast period.

In addition to the decisions in Budget 2022, there were a number of other decisions since the *Half Year Update.*

### Fiscal impact of Budget 2022 decisions on core Crown expenditure

The increase in core Crown expenses for all Budget 2022 new operating spending decisions (core Budget 2022 operating package, climate change spending, COVID-19 spending, cost of living support and other spending) is spread across a number of areas, as outlined in Table 2.10. The Core Crown Expense Tables on pages 145 to 149 outline the total core Crown expenditure in each of these areas after these increases.

***Table 2.10*** – Composition of the increase in core Crown expenditure from 2022 Budget decisions[1,2]

| Year ending 30 June<br>$millions | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast | 5-year<br>Total |
|---|---|---|---|---|---|---|
| Health | 70 | 2,160 | 3,662 | 3,512 | 3,506 | 12,910 |
| Social security and welfare | 149 | 1,808 | 874 | 839 | 840 | 4,510 |
| Education (including tertiary) | (64) | 766 | 1,116 | 1,090 | 1,334 | 4,242 |
| Law and order | 22 | 378 | 568 | 566 | 537 | 2,071 |
| Primary services | - | 123 | 74 | 93 | 93 | 383 |
| Core government services | (84) | 211 | 230 | 203 | 176 | 736 |
| Economic and industrial services | (9) | 148 | 101 | 66 | 50 | 356 |
| Defence | 98 | 151 | 189 | 184 | 184 | 806 |
| Heritage, culture and recreation | (20) | 240 | 256 | 201 | 202 | 879 |
| Housing and community development | 107 | 346 | 452 | 571 | 222 | 1,698 |
| Environmental protection | - | 623 | 1,084 | 817 | 653 | 3,177 |
| Transport and communications | 662 | 637 | 123 | 322 | 9 | 1,753 |
| Tagged contingencies | (57) | 2,275 | 1,262 | 1,691 | 1,378 | 6,549 |
| | 874 | 9,866 | 9,991 | 10,155 | 9,184 | 40,070 |

Notes: 1 The breakdown by functional classification above is based on a framework developed by the OECD so may be different to the classification by portfolio in the Budget documents.

2 The increases to expenditure are shown net of any savings initiatives. Any negative balances represent a net saving (reduction to expenditure) in a particular year.

Source: The Treasury

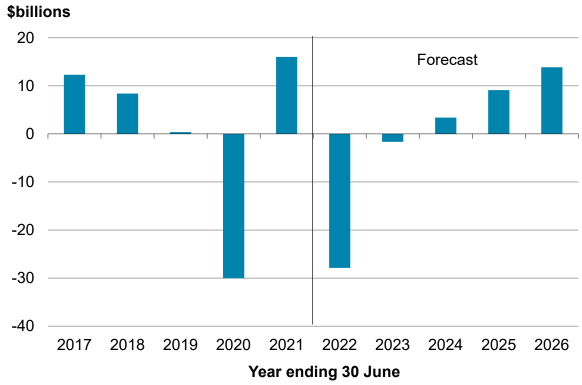
The amounts in Table 2.10 classified as tagged contingencies represent centrally held contingencies, where decisions have been made to set aside funding for specific purposes but are yet to be allocated to a particular departmental baseline. The exception to this is the cost pressure tagged contingencies for health, which have been allocated for forecast purposes.

## Operating Balance

***A large operating balance deficit is expected in the current year…***

In the current year, total expenses exceed total revenue earned by the Government. This is largely owing to the significant COVID-19 fiscal support measures provided in 2021/22. In addition, significant valuation losses are expected on some of the Government's assets and liabilities.

***Figure 2.6*** – Total operating balance




Source: The Treasury

The net losses on non-financial instruments in 2021/22 amount to $7.4 billion, largely owing to two items.

Firstly, a loss of $3.5 billion is expected from the revaluation of the ACC outstanding claims liability (which reflects the lifetime costs of current claims in present value), driven mainly by revisions to inflation forecasts, which has been partially offset by an increase in discount rates used to estimate the present value of the liability. The impact of inflation increases on the ACC liability is larger than any increase in the current interest rates (increasing interest rates would have a favourable impact on the ACC liability reported in present-day values).

Secondly, a loss of $4.8 billion is expected on the revaluation of the ETS provision, reflecting the increase in the market price of NZUs used to value the provision.

A net loss on financial instruments of $1.4 billion is forecast in 2021/22, primarily reflecting losses on the large investment fund portfolios of ACC and NZS Fund owing to recent market conditions.

As a result of the above, the operating balance is forecast to reach a deficit of $27.9 billion in the current year.

***…however, this position quickly improves over the remainder of the forecast period***

The difference between total expenses and total revenue narrows from 2022/23 as the majority of the COVID-19 fiscal support measures wind up. In addition, financial markets are expected to recover, leading to forecast gains on investments of $4.9 billion in 2022/23. As a result, the operating balance deficit is forecast to reduce significantly in the 2022/23 year to a deficit of $1.6 billion, before returning to a surplus of $3.4 billion in the following year. In 2024/25, total revenue starts to exceed total expenses and forecast gains on investments continue to rise reaching $6.8 billion by 2025/26. The operating balance surplus is forecast to reach $13.9 billion by 2025/26.

## The Government's Headline Fiscal Indicators

### *The Government has announced new fiscal rules*

The Government focuses on specific headline fiscal indicators to measure and communicate its objectives and to ensure its fiscal policy decisions are sustainable. In Budget 2022, the Government has announced fiscal rules for OBEGAL and net debt. The rules are that, once an OBEGAL surplus is achieved, the Government intends to keep OBEGAL surpluses in the range of 0% to 2% of GDP on average over time, and the introduction of a debt ceiling of 30% of GDP for net debt.

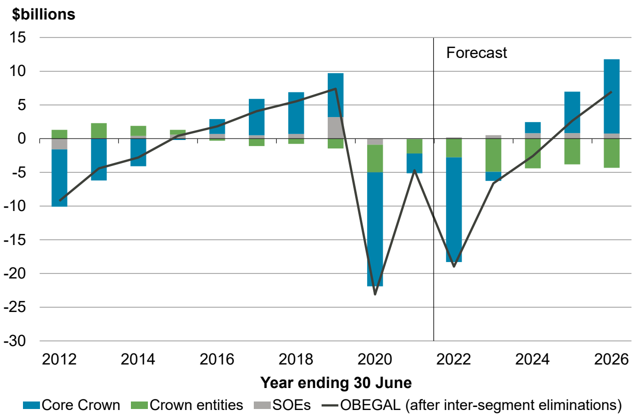
The Treasury have recommended using OBEGAL and net debt as headline fiscal indicators for the Government's fiscal strategy, even though they are not indicators prescribed under Generally Accepted Accounting Practice. Both indicators provide a greater insight into the activities the Government has more influence over. Therefore, they play an important role in the accountability of how the Government is managing finances and informing decisions to ensure the Government achieves its fiscal objectives.

### *The operating balance before gains and losses is forecast to return to surplus in 2024/25…*

Similar to the operating balance, a large OBEGAL deficit of $19.0 billion is expected in the current year, primarily owing to the sharp lift in core Crown expenses driven by the Government's fiscal support measures in response to the COVID-19 pandemic.

As most of the COVID-19 measures are temporary, and with continued economic growth expected, the OBEGAL deficit is expected to narrow considerably in 2022/23. OBEGAL returns to surplus one year later than the operating balance, in 2024/25. By the end of the forecast period, an OBEGAL surplus of $7.0 billion (or 1.5% of GDP) is forecast.

***Figure 2.7*** – Components of OBEGAL by segment



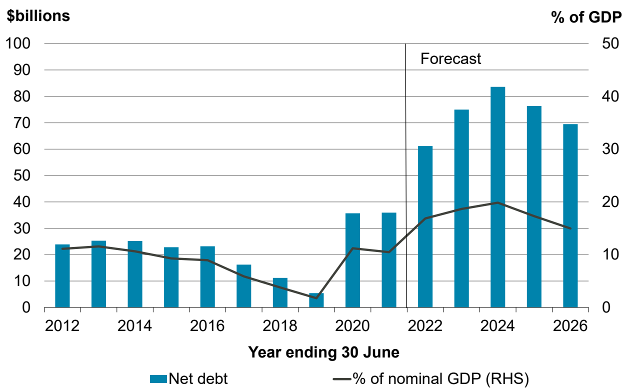

Source: The Treasury

### *…while net debt peaks in 2023/24 before falling, staying below the debt ceiling*

The key debt indicator used in the communication of the Government's fiscal strategy has been modified. The coverage of the net debt indicator has been widened and now includes core Crown advances, Crown entity borrowings and the financial assets and borrowings of the NZS Fund. The box on pages 38 and 39 provides more information about the changes made to the debt indicator and shows how the indicator compares to its predecessor, net core Crown debt.

Net debt is forecast to increase, peaking at 19.9% of GDP ($83.6 billion) in 2023/24, before reducing over the remaining forecast period as residual cash returns to surplus. By 2025/26, net debt is expected to fall to 15.0% of GDP or $69.5 billion (Figure 2.8).

***Figure 2.8*** – Net debt




Source: The Treasury

Across the forecast period, net debt increases by $33.6 billion, which is predominantly owing to the accumulated residual cash deficits over the period (excluding net increases in advances and contributions to the NZS Fund).[4] In addition to residual cash, the net debt measure is also impacted by changes in the level of Crown entity borrowings and the financial assets and borrowings of the NZS Fund. Table 2.11 shows the impact of these changes on the net debt level over the forecast period.

Crown entity borrowings have increased by an average of $2.2 billion per annum across the forecast period from $11.8 billion in 2020/21 to $22.6 billion in 2025/26. This is mainly driven by forecast increases in Kāinga Ora's third-party borrowings.

The financial assets of the NZS Fund are expected to increase from $62.3 billion in 2020/21 to $89.0 billion in 2025/26, an average growth of $5.3 billion per annum. This is primarily owing to growth in the NZS Fund's investment portfolio in line with long-term benchmark rate of return assumptions.

***Table 2.11*** – Changes in net debt

| **Year ending 30 June**<br>**$billions** | **2021**<br>**Actual** | **2022**<br>**Forecast** | **2023**<br>**Forecast** | **2024**<br>**Forecast** | **2025**<br>**Forecast** | **2026**<br>**Forecast** | **Total**<br>**change** |
|---|---|---|---|---|---|---|---|
| **Opening net debt** | | 35.9 | 61.2 | 75.0 | 83.6 | 76.4 | |
| Core Crown residual cash (surplus)/deficit | | 31.8 | 29.3 | 9.3 | (7.9) | (17.7) | **44.8** |
| Less net increase in advances | | (8.9) | (12.8) | 2.4 | 5.4 | 15.3 | **1.3** |
| Less contributions to the NZS Fund | | (2.4) | (2.6) | (2.1) | (1.9) | (1.9) | **(10.9)** |
| Net increase/(decrease) in Crown entity borrowings | | 2.3 | 2.4 | 2.6 | 1.5 | 2.0 | **10.8** |
| Net (increase)/decrease in NZS Fund financial assets and borrowings | | 1.4 | (3.8) | (4.0) | (4.5) | (4.9) | **(15.9)** |
| Other fair value movements in financial assets and financial liabilities | | 1.1 | 1.4 | 0.5 | 0.1 | 0.3 | **3.4** |
| **Total movement** | | **25.2** | **13.8** | **8.6** | **(7.2)** | **(6.9)** | **33.6** |
| Closing net debt | 35.9 | 61.2 | 75.0 | 83.6 | 76.4 | 69.5 | |
| As a % of GDP | 10.5 | 16.9 | 18.7 | 19.9 | 17.3 | 15.0 | |

Source: The Treasury

There are other indicators such as the cyclically-adjusted balance and structural balance that are also useful when analysing the fiscal sustainability of the Government's fiscal policy settings. These are discussed further in the box on pages 57 to 59, alongside the total fiscal impulse, which illustrates the effect of fiscal policy on aggregate demand from one year to the next.

4 Since core Crown advances and the NZS Fund are now included in the key net debt indicator, the additional cash required to fund increases in advances and Government contributions to the NZS Fund no longer impact on net debt (as both the asset and liability are included in the measure, so the impact of any change is neutral). The residual cash surplus or deficit excluding these items will continue to impact net debt.

### Changes to the Government's key fiscal indicators

This box discusses the outcomes of the Treasury's fiscal indicator review, explains the changes that have been made to the Government's key fiscal indicators and shows how these compare to the fiscal indicators used previously.

#### Background to the review

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 late 2020, the Treasury has been reviewing and advising the Minister of Finance on the appropriateness of the current suite of fiscal indicators. The review has been driven by the recognition that the indicators' usefulness has been affected by changes in the macroeconomic environment and the Government's balance sheet. These changes include the use of alternative monetary policy by the Reserve Bank of New Zealand (Reserve Bank), increasing levels of Crown entity borrowing, the current interest rate environment and the overall growth of financial assets on the Government's balance sheet.

#### Outcomes of the review

As outlined in *He Puna Hao Pātiki: 2022 Investment Statement*, the Treasury identified that benefit could be gained from widening the coverage of assets and liabilities included within the net debt indicator as well as by using this indicator in conjunction with a debt servicing costs measure when judging prudent debt levels. In terms of the Government's main operating indicator, the Treasury considers that the OBEGAL indicator remains fit for purpose.

The Government has accepted the Treasury's recommendation to broaden the net debt indicator used in the communication of its fiscal strategy. Previously, net core Crown debt was used, however, the coverage for the headline net debt indicator has been broadened to include core Crown advances, Crown entity borrowings and the financial assets and borrowings of the NZS Fund (Table 2.12).

These changes bring New Zealand's net debt indicator closer to international norms, allowing for better comparison of fiscal sustainability against other countries. However, whilst these changes go some way towards addressing international measurement differences, due to a variety of factors (including the treatment of local government and central banks), the measure will still not be fully comparable to how other countries measure their net debt position.

***Table 2.12*** – Reconciliation between net debt and net core Crown debt

| **Year ending 30 June<br>$billions** | **2021<br>Actual** | **2022<br>Forecast** | **2023<br>Forecast** | **2024<br>Forecast** | **2025<br>Forecast** | **2026<br>Forecast** |
|---|---|---|---|---|---|---|
| Net core Crown debt | 102.1 | 133.6 | 163.7 | 173.3 | 165.4 | 147.9 |
| *Include:* | | | | | | |
| Core Crown advances | (18.7) | (26.3) | (38.5) | (36.0) | (30.4) | (15.0) |
| Net NZS Fund financial assets and borrowings | (59.3) | (60.3) | (66.7) | (72.8) | (79.2) | (86.0) |
| Crown entity borrowings | 11.8 | 14.2 | 16.5 | 19.1 | 20.6 | 22.6 |
| **Net debt** | **35.9** | **61.2** | **75.0** | **83.6** | **76.4** | **69.5** |
| **% of GDP** | | | | | | |
| Net core Crown debt | 29.8 | 36.9 | 40.8 | 41.2 | 37.5 | 31.9 |
| **Net debt** | **10.5** | **16.9** | **18.7** | **19.9** | **17.3** | **15.0** |

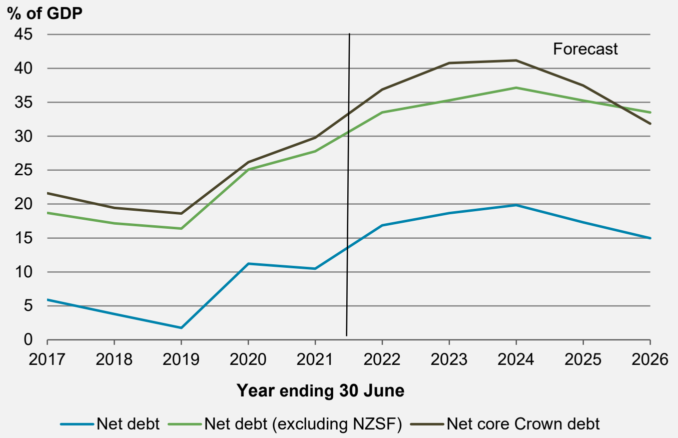
Source: The Treasury

### Net debt and comparison to net core Crown debt

Overall, the new headline net debt indicator is around 20 percentage points of GDP lower than net core Crown debt across the forecast period (Figure 2.9). Historically there is also a significant gap between the indicators, averaging 16.5 percentage points of GDP between 2016/17 and 2020/21.

The difference is largely attributable to the inclusion of the financial assets of the NZS Fund, which averages 18.1% of GDP between 2021/22 and 2025/26.

***Figure 2.9*** – Net debt tracks




Source: The Treasury

Net debt is expected to peak in 2023/24 at 19.9% of GDP, which is around 21 percentage points lower than the peak of net core Crown debt (41.2% of GDP). By the end of the forecast period, net debt is expected to fall to 15.0% of GDP, while net core Crown debt falls to 31.9% of GDP.

When excluding the NZS Fund from the new measure, the net debt level is still lower than net core Crown debt (albeit much closer). This is owing to the inclusion of core Crown advances (mainly student loans and Funding for Lending Programme (FLP) advances), which reduce the level of net debt and more than offset the impact of Crown entity borrowings included within the measure. This trend reverses by the end of the forecast period as Crown entity borrowings are forecast to reach $22.6 billion while core Crown advances fall to $15 billion (as FLP advances are expected to be fully repaid).

Net core Crown debt will continue to be published in the historical fiscal time series (on page 157) for a transitionary period to aid transparency and comparability with the new headline net debt measure.

### Debt servicing costs

At present, the Government's debt servicing costs are historically low, despite higher levels of public debt. The lower interest rate environment in recent years has made debt more affordable, which is an important consideration when judging prudent debt levels. The Treasury's primary debt servicing indicator is core Crown finance costs, which largely reflect the interest expenses on core Crown borrowings. Similar to other indicators like net debt, there are options about which indicator best measures debt servicing costs (eg, real versus nominal). The box on page 51 explores alternative measures of debt servicing costs.

### Suite of fiscal indicators

The Treasury will continue to publish a suite of fiscal indicators within the *Economic and Fiscal Update* documents and the Financial Statements of the Government. A full suite of indicators is important as no single indicator can reflect all aspects of the Government's fiscal performance and position. The key fiscal indicators published within the suite have different purposes and can be broadly categorised as indicators which measure either fiscal sustainability, fiscal resilience or Crown funding requirements (refer to page 23 for further details of these).

# Fiscal Resilience

Fiscal resilience is the ability of the Government's public finances to absorb a shock and to adapt settings for welfare, health, pension and other policies to maintain and improve wellbeing following a shock. It refers both to the Government's capacity to withstand or survive a shock such as a war, pandemic, global credit crunch or natural disaster, and also whether it can thrive in the aftermath. There are a number of fiscal indicators that help determine whether the Government's fiscal position is resilient, and which are discussed in more detail in this section.

## Net Worth

***The Government's net worth position is strong…***

The Government's strong balance sheet position prior to the COVID-19 pandemic provided options on how New Zealand could manage its response. The Government was able to increase borrowings to support New Zealanders. Even after absorbing the fiscal shock from COVID-19, the Government's net worth position remains strong, compared to other countries at $156.9 billion in 2020/21.

***…however, a decline in net worth is expected in the near-term, which then improves later in the forecast period, largely owing to operating balance surpluses from 2023/24 onwards***

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

Net worth declines over the forecast period by $1.1 billion, mainly reflecting the forecast operating balance results excluding minority interests (net deficits of $3.1 billion in total are expected over the forecast period). As a share of GDP net worth falls from 45.8% of GDP in 2020/21 to 33.6% of GDP by 2025/26.

In the current year, net worth is expected to decline by $26.5 billion from its position in 2020/21, largely as a result of additional COVID-19 expenditure (which is the primary driver of a forecast operating balance deficit of $27.9 billion). The operating balance deficit then reduces significantly in the 2022/23 year, before returning to a surplus across the remaining forecast years. As a result of these surpluses, taxpayers' funds return to a positive balance in the 2024/25 year and then grows to $16.1 billion in the last year of the forecast. Refer to Table 2.13 for a breakdown of net worth.

Property, plant and equipment (PPE) revaluations generally occur at 30 June each year and are not forecast beyond the current year. Overall, the PPE revaluation reserve balance of $134.1 billion results in a net worth position that is positive.

***Table 2.13*** – Breakdown of net worth

| Year ending 30 June<br>$billions | 2021<br>Actual | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast |
|---|---|---|---|---|---|---|
| Taxpayers' funds | 19.6 | (8.7) | (10.3) | (6.9) | 2.2 | 16.1 |
| Property, plant and equipment revaluation reserve | 134.0 | 134.1 | 134.1 | 134.1 | 134.1 | 134.1 |
| Other reserves | (2.4) | (1.5) | (1.4) | (1.3) | (1.2) | (1.1) |
| **Total net worth attributable to the Crown** | **151.2** | **123.9** | **122.4** | **125.9** | **135.1** | **149.1** |
| Net worth attributable to minority interest | 5.7 | 6.5 | 6.5 | 6.5 | 6.6 | 6.7 |
| **Total net worth** | **156.9** | **130.4** | **128.9** | **132.4** | **141.7** | **155.8** |
| As a % of GDP | 45.8 | 36.0 | 32.1 | 31.5 | 32.1 | 33.6 |

Source: The Treasury

## Total Crown Balance Sheet

### *Assets and liabilities are forecast to increase over the forecast period at similar rates…*

Total assets are forecast to increase by $98.5 billion over the forecast period, reaching $536.8 billion in 2025/26. This amounts to average growth of around $19.7 billion per annum, largely driven by growth in financial assets and PPE.

Total liabilities are forecast to increase by $99.6 billion, reaching $381.0 billion in the last year of the forecast. The growth is primarily attributable to an increase in borrowings and insurance liabilities.

***Table 2.14*** – Composition of the total Crown balance sheet

| Year ending 30 June<br>$billions | 2021<br>Actual | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast |
|---|---|---|---|---|---|---|
| Financial assets | 201.2 | 211.4 | 228.1 | 240.7 | 243.9 | 258.4 |
| Property, plant and equipment | 213.2 | 221.6 | 230.8 | 238.0 | 241.9 | 246.6 |
| Other assets | 23.9 | 24.4 | 26.4 | 27.5 | 29.3 | 31.8 |
| **Total assets** | **438.3** | **457.4** | **485.3** | **506.2** | **515.1** | **536.8** |
| | | | | | | |
| Borrowings | 162.6 | 200.5 | 230.6 | 245.1 | 243.0 | 248.2 |
| Insurance liabilities | 60.3 | 65.4 | 69.0 | 72.7 | 76.5 | 80.3 |
| Other liabilities | 58.5 | 61.1 | 56.8 | 56.0 | 53.9 | 52.5 |
| **Total liabilities** | **281.4** | **327.0** | **356.4** | **373.8** | **373.4** | **381.0** |
| **Total net worth** | **156.9** | **130.4** | **128.9** | **132.4** | **141.7** | **155.8** |

Source: The Treasury

### *…growth in financial assets drives a significant portion of the increase in assets…*

Financial assets are forecast to increase by $57.2 billion by 2025/26. The following key financial assets contribute to the growth.

The investment portfolios of the NZS Fund and ACC contribute about $28.6 billion to the overall growth in financial assets. Around a third of this increase is owing to growth in investments from the Crown’s contribution to the NZS Fund. The remaining growth comes from investment returns expected from the NZS Fund and ACC investment portfolios over the forecast period, based on long-term benchmark rates of return. The actual returns on these investment portfolios can vary significantly depending on market conditions.

The FLP provides low-interest loans to eligible counterparties. Although the advances for FLP impact significantly on individual years of the forecast period, it has a minimal impact on financial assets by the end of the forecast period overall. The FLP is forecast to continue increasing in the first two years of the forecast period by $18.1 billion, peaking at $20.6 billion in 2022/23, and is assumed to be fully repaid by the end of the forecast period.

Kiwi Group Holdings (Kiwibank) loans and advances are forecast to increase by $13.9 billion, primarily as a result of expected growth in mortgage lending (which also results in a corresponding impact on borrowings as discussed on page 43).

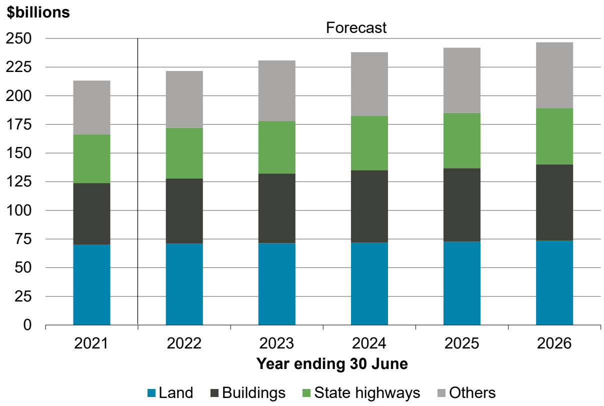
A large portion of the remaining forecast increase in financial assets relates to the movements in marketable securities, owing to the management of financing requirements and the Reserve Bank's managing down of its portfolio of bonds purchased under its Large-Scale Asset Purchase (LSAP) programme.

***…as does the growth in property, plant and equipment…***

Property, plant and equipment (PPE) assets are expected to reach $246.6 billion by 2025/26, an increase of $33.4 billion from 2020/21. This rise is largely due to asset additions of $67.8 billion, which are partly offset by depreciation expenses over the forecast period that total $34.2 billion.

The largest growth in PPE is attributable to building assets, which increase by $13.3 billion over the forecast period, mainly driven by growth in assets held by the education, health and housing sector. The state highway network assets are also forecast to increase by $6.4 billion by 2025/26.

***Figure 2.10*** – Total PPE by asset type




Source: The Treasury

The growth in PPE reflects new investments announced by the Government in Budget 2022, including significant investments received by the education and health sectors. For additional information on Budget 2022 capital investment decisions and net capital spending by the core Crown, refer to Table 2.16.

***…while funding set aside for future capital investments contributes to the remainder of the increase in assets***

In addition to the above, the forecast for new capital spending is expected to increase assets by $8.4 billion. This includes spending the Government has set aside for new investments through the multi-year capital allowances (MYCA) for Budgets 2023 to 2025. The Government has $5.1 billion of funding remaining in the MYCA, with $3.3 billion of this falling within the forecast period. Funding has also been set aside in the CERF for capital investments of $0.2 billion. Funding agreed in the current and previous Budgets for specific projects but that has not yet been appropriated into an entity's baseline (as further work is required prior to this occurring – ie, unallocated capital contingencies), adds $4.9 billion to the expected growth in assets.

***Total borrowings are expected to increase, largely to fund Government activity…***

Total borrowings are forecast to increase by $85.7 billion over the forecast period. Total borrowings represent the borrowings undertaken by the core Crown, Crown entities and SOEs.

Government bonds are expected to increase by $70.8 billion by the end of the forecast period. Government bond issuances are largely reflective of the borrowing required to meet any additional cash requirements to fund operating and capital expenditure of the Government after revenue (such as tax revenue); the level of Government bonds is also impacted by managing down the Reserve Bank's LSAP portfolio (refer to page 49).

Other borrowings are forecast to increase by $28.6 billion, primarily due to an increase in Kiwi Group Holdings borrowings (eg, deposits and debt securities) which is largely offset by increases in Kiwi Group Holdings advances (as discussed on page 42) and Kāinga Ora borrowings which are expected to increase to help fund the maintenance of existing housing stock, as well as the purchase of new housing stock.

These increases are offset by reductions in settlement cash held by the Reserve Bank of $7.3 billion, largely owing to the expected reduction in its LSAP bond portfolio. In the year after the forecast period (2026/27), the Reserve Bank will be closer to pre-COVID-19 settlement cash levels.

***…while economic factors increase the Government's insurance liabilities***

Insurance liabilities are forecast to increase by $20.0 billion to $80.3 billion by 2025/26. The ACC insurance liability is the largest and is forecast to grow by $20.7 billion over the forecast period. The ACC insurance liability is an estimate of the present-day value of the amount ACC would need to pay out to meet future compensation and rehabilitation costs of injuries that have already occurred or are expected to occur over the forecast period. In the current year, the ACC insurance liability is expected to increase by $5.4 billion and then over the remaining forecast period, increases by an average of $3.8 billion per year.

The increases are largely due to economic factors, growth in claims volumes and increases in the price of rehabilitation costs.

Changes in inflation and interest rates per the economic forecast are key factors in the revaluation of the liability projected at 30 June 2022, which results in the current year net losses on the ACC insurance liability of $3.5 billion (refer to page 35).

The increase in the insurance expenditure each year throughout the forecast period, which is discussed on page 27, also increases the insurance liability (ie, price and volume changes).

## Balance Sheet Risks

***The Crown's balance sheet is sensitive to market movements and judgements...***

Many of the assets and liabilities on the Crown's balance sheet are measured at fair value in order to show current estimates of what the Crown owns and owes. While the measurement at fair value is intended to reflect the current value of these items, it can be volatile, resulting in fluctuations in the value of the assets and liabilities, which reflect changes in the market and underlying assumptions.

Valuations are also subject to a number of judgements and estimates and are based on underlying assumptions made at the time the valuations were prepared. In general, as time goes on, better information becomes available and initial estimates are updated to reflect current information.

***...while risks around operating flows could also impact the balance sheet, other risks remain***

The forecast for net worth over the forecast period will be influenced by the operating balance. The forecast operating balance track will be sensitive to a number of factors. In particular, economic and future policy decisions, refer to the Risks to the Fiscal Forecasts chapter on pages 61 to 108 for more details. The current inflationary environment has had numerous impacts on the fiscal forecasts and pose risks to the fiscal outlook, which are discussed further in the box on pages 45 and 46.

### Impact of inflation on the fiscal forecast

*Inflation is forecast to be high in the near-term…*

As outlined in the economic forecasts, inflation is expected to peak in the first half of the 2022 calendar year. Inflation is being driven by strong domestic demand pushing up against constrained supply and has been compounded by global supply disruption and the Russian invasion of Ukraine.

Inflation influences a number of economic indicators (eg, nominal GDP, interest rates) that are critical in the preparation of the fiscal forecasts of the Government.

The higher inflation rate has impacted on both the forecast of revenue and expenses of the Government. However, revenue will be more immediately sensitive to inflation changes than expenses, which means the impact on OBEGAL is not symmetrical.

*…which has an immediate impact on the forecast for tax revenue…*

Core Crown tax revenue is forecast to increase from $98.0 billion in 2020/21 to $138.5 billion by 2025/26. Most types of tax revenue are directly or indirectly influenced by inflation. In a high inflationary environment, we expect the following impacts on the critical economic indicators that underpin our tax revenue forecasts:

- Nominal wage growth would be higher and as a result, the amount of source deductions collected by the Government would increase.
- Nominal consumption growth would be stronger, which consequently results in an increase in GST revenue.
- Generally, during periods of high inflation, interest rates will follow suit. Higher interest rates result in higher returns for depositors, which in turn increase the level of taxable interest income and consequently, RWT on interest as well.

*…while the impact on core Crown expenses is less immediate…*

Unlike core Crown tax revenue, only a portion of core Crown expenses (namely benefit expenses and finance costs) are immediately sensitive to inflation changes:

- Most main benefits payments are indexed to wage growth, so although they are not directly impacted by inflation, to the extent that higher inflation increases wage growth, benefit payments would be expected to increase.
- As mentioned above, high inflation results in higher interest rates, resulting in an increase in finance costs.

Under the Government's fiscal management approach, most expenses are fixed in nominal terms and therefore they are not automatically adjusted for expected changes in price or demand. Instead of building in changes to prices and demand, the Government sets aside future funding in the form of budget allowances, which can be applied to meet these cost pressures in the future.

The Government has signalled a Budget operating allowance of $4.5 billion for Budget 2023 and $3.0 billion each for Budget 2024 and Budget 2025. As well as meeting the impact from cost pressures in the future, Budget allowances are also expected to manage the fiscal impact from the new policy decisions by the Government.

*…as these will emerge as cost pressures in the future…*

It is difficult to accurately estimate how much of the Budget allowances included in the forecasts will be needed to meet future cost pressures from higher inflation because the inputs used in providing goods and services are sensitive to different factors.

In recent times, when inflation has averaged around 2%, the funding of cost pressures at Budgets was on average around $2.2 billion per annum. With higher-than-normal inflation forecast in the near-term, we expect that the funding of cost pressures may be significantly higher over the next few Budgets. Based on a high-level analysis, we estimate that departments' baseline expenses would need to increase by $3.5 billion in the 2023/24 year to maintain the existing level of services.

*…which could crowd out future budget allowances*

The Budget 2023 operating allowance has already pre-committed $2.0 billion of funding, covering both cost pressures and new initiatives from the multi-year funding approach for the health sector and the Justice and Natural Resources clusters. This means the Government will have $2.5 billion available to fund all other cost pressures and new initiatives at Budget 2023. With the possibility of higher-than-normal cost pressures expected in the 2023/24 year, it may be challenging to meet these costs from the funding remaining in the Budget 2023 operating allowance.

The Government does have choices if a situation arises where additional funding may be required to manage the fiscal impact of Budget 2023 decisions. These choices include:

- reprioritising existing services to fund new Budget decisions,
- introducing policy decisions to change revenue settings (eg, increasing tax revenue) or finding savings in the delivery of existing services, or
- increasing the amount of the Budget operating allowance.

As Budget allowances are a net concept, the first two options mentioned above would not impact on the signalled level of Budget operating allowance. However, this is not the case if the Government decides to increase the Budget 2023 operating allowances. This would result in a higher announced operating allowance and would impact on our forecast fiscal outlook. Table 2.15 illustrates the impact on our main forecast for OBEGAL and net debt if the Budget 2023 operating allowance was increased by $0.5 billion per annum (alternative scenario 1), as well as if the Budget 2023 to Budget 2025 allowances were all increased by $0.5 billion per annum (alternative scenario 2).

***Table 2.15*** – OBEGAL and net debt (alternative scenarios)

| Year ending 30 June<br>$billion | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast |
|---|---|---|---|---|---|
| **OBEGAL** | | | | | |
| Main forecast | (19.0) | (6.6) | (2.6) | 2.6 | 7.0 |
| Alternative scenario 1 | (19.0) | (6.6) | (2.1) | 2.1 | 6.5 |
| Alternative scenario 2 | (19.0) | (6.6) | (2.1) | 1.6 | 5.5 |
| **Net debt** | | | | | |
| Main forecast | 61.2 | 75.0 | 83.6 | 76.4 | 69.5 |
| Alternative scenario 1 | 61.2 | 75.0 | 84.1 | 77.4 | 71.0 |
| Alternative scenario 2 | 61.2 | 75.0 | 84.1 | 77.9 | 72.5 |

Source: The Treasury

# Crown Funding and Financing

This section looks at the funding required by the Crown to deliver on its fiscal policy decisions and how this will be funded. Core Crown cash flow information provides useful insights into the funding requirements of the Crown.

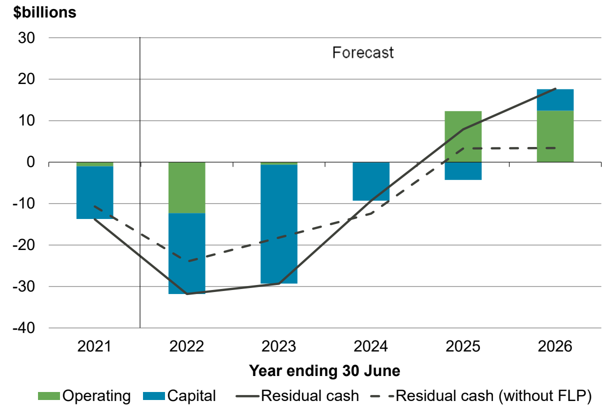
## Residual Cash

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

Core Crown residual cash deficits peak in the current year, then reduce over the next two years. A return to surplus of $7.9 billion is expected in the 2024/25 year, the same year as OBEGAL returns to surplus. Across the forecast period, the residual cash deficits total $44.8 billion.

In particular years, residual cash will be influenced by the Reserve Bank's FLP. For the purposes of looking at Crown funding requirements it is best to look through the impact of the FLP on residual cash as it is funded from settlement cash rather than by the Crown.

***Figure 2.11*** – Core Crown residual cash




Source: The Treasury

Once the impact of the FLP is looked through, residual cash follows a similar trend to OBEGAL.

***…overall, the cash inflow from operations is sufficient to meet operating payments…***

In the near-term, cash received from operating activities is not sufficient to cover operating payments, however there is a net operating cash inflow from 2024/25. This is broadly influenced by the same contributors to the trends in core Crown tax revenue and core Crown expenses. A large operating cash deficit is expected in the current year, reflecting the Government's support measures in response to the COVID-19 pandemic. As most of these measures are temporary, they have a minimal impact over the rest of the forecast period. Over the forecast period as a whole, net operating cash inflows total $11.8 billion.

***…but not enough to cover capital investments…***

Net capital spending is forecast to be $56.6 billion over the forecast period, with net investments of $24.2 billion, net purchases of PPE forecast to be $19.1 billion and net repayments of advances of $1.3 billion.

Table 2.16 shows a breakdown of net capital expenditure that has an impact on core Crown residual cash and net 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 near-term, which is reflected in the residual cash deficits forecast in those years.

As signalled in the *Budget Policy Statement 2022*, the MYCA was increased by $4.0 billion, which left $9.8 billion of the MYCA unallocated at the time. The Budget 2022 capital package includes capital investments totalling $4.7 billion that have been managed against the MYCA, leaving $5.1 billion of the MYCA unallocated at the *Budget Update*.

In Budget 2022 capital decisions include significant investment in infrastructure for the health sector ($1.3 billion), the education sector ($0.8 billion) and rail ($0.3 billion), and an additional $1.7 billion for projects where the funding has been set aside in centrally held tagged contingences (included within the future new capital spending line in the Table 2.16). In addition to the Budget 2022 capital package, other decisions totalling $2.3 billion have been managed against the MYCA since the 2021 *Budget Update*. This includes $1.9 billion for the New Zealand Upgrade Programme and $0.3 billion to KiwiRail for the Inter-island Resilient Connection (iReX) project.

***Table 2.16*** – Net capital expenditure activity[1]

| Year ending 30 June<br>$billions | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast | 5-year<br>Total |
|---|---|---|---|---|---|---|
| Education | 1.4 | 1.8 | 1.4 | 1.0 | 0.9 | **6.5** |
| Defence | 1.4 | 1.7 | 1.4 | 0.8 | 0.6 | **5.9** |
| Corrections | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | **0.9** |
| Health | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | **0.9** |
| 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 | 0.3 | 0.8 | 0.5 | - | 0.1 | **1.7** |
| Net purchase of physical assets | **4.1** | **5.4** | **4.3** | **2.8** | **2.5** | **19.1** |
| NZTA | 0.7 | 0.9 | 0.9 | (0.1) | (0.1) | **2.3** |
| Housing Infrastructure Fund | 0.1 | 0.4 | 0.1 | - | - | **0.6** |
| Small Business Cashflow Loan Scheme | 0.9 | 0.2 | (0.3) | (0.6) | (0.4) | **(0.2)** |
| Air NZ loans | (0.4) | - | - | - | - | **(0.4)** |
| Student Loans | (0.2) | - | (0.1) | (0.1) | (0.2) | **(0.6)** |
| Funding for Lending programme | 7.8 | 11.1 | (3.1) | (4.6) | (14.3) | **(3.1)** |
| Other | - | 0.2 | 0.1 | - | (0.2) | **0.1** |
| Net advances | **8.9** | **12.8** | **(2.4)** | **(5.4)** | **(15.2)** | **(1.3)** |
| Health Sector | 0.7 | 3.9 | 1.6 | 0.9 | 1.6 | **8.7** |
| NZTA | 1.2 | 1.2 | 1.1 | 1.2 | 1.0 | **5.7** |
| KiwiRail | 0.5 | 0.9 | 1.0 | 0.7 | 0.4 | **3.5** |
| Housing Acceleration Fund | 0.2 | 0.3 | 0.3 | 0.3 | 0.6 | **1.7** |
| City Rail Link | 0.5 | 0.5 | 0.2 | 0.1 | - | **1.3** |
| Air New Zealand capital raise | 0.6 | - | - | - | - | **0.6** |
| Crown Infrastructure Partners | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | **0.5** |
| New Zealand Venture Capital Fund | 0.1 | 0.1 | 0.1 | 0.1 | - | **0.4** |
| New Zealand Green Investment Fund | 0.2 | 0.1 | - | - | - | **0.3** |
| Crown Regional Holdings Limited | 0.2 | 0.1 | - | - | - | **0.3** |
| Otakaro | 0.1 | 0.1 | - | - | - | **0.2** |
| Other | 0.5 | 0.4 | 0.3 | - | (0.2) | **1.0** |
| Net investments | **4.9** | **7.7** | **4.7** | **3.4** | **3.5** | **24.2** |
| Future new capital spending | 1.0 | 1.3 | 1.7 | 2.1 | 2.3 | **8.4** |
| Top-down capital adjustment | (1.8) | (1.1) | (1.2) | (0.5) | (0.2) | **(4.8)** |
| Contribution to NZS Fund | 2.4 | 2.6 | 2.1 | 1.9 | 1.9 | **10.9** |
| **Net capital spending** | **19.5** | **28.7** | **9.2** | **4.3** | **(5.2)** | **56.5** |

Note: 1 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.

Source: The Treasury

### *…which will primarily be met by the Government's bond programme…*

The core Crown borrowing programme includes the issuance of both New Zealand Government bonds and short-term borrowings (eg, Treasury Bills). In total, the bond programme is expected to raise funds of $110.7 billion over the forecast period. Bond maturities and repurchases will result in repayments of $80.3 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 2.17). Overall, the core Crown borrowing programme will provide net funds of $24.4 billion to cover core Crown residual cash deficits and to ensure cash is available for upcoming bond maturities in the 2026/27 fiscal year.

Per the February 2022 Monetary Policy Statement, the Reserve Bank indicated it would start to manage down its LSAP bond portfolio, beginning in the 2022/23 year. This will be done by selling $5.0 billion in New Zealand Government bonds to New Zealand Debt Management (NZDM) each fiscal year (in addition to maturities) and by not reinvesting the proceeds from bond maturities. This leads to higher gross issuance and Government bond repurchases to a total of $20.0 billion across the forecast period.

***Table 2.17*** – Net issuance of market Government bonds and short-term borrowing[1,2]

| **Year ending 30 June<br>$billions** | **2022<br>Forecast** | **2023<br>Forecast** | **2024<br>Forecast** | **2025<br>Forecast** | **2026<br>Forecast** | **5-year<br>Total** |
|---|---|---|---|---|---|---|
| Face value of Government bonds issued | 20.0 | 25.0 | 25.0 | 25.0 | 15.0 | **110.0** |
| **Debt programme cash flows** | | | | | | |
| Cash proceeds from issue of Government bonds | 19.8 | 25.7 | 25.3 | 24.8 | 15.1 | **110.7** |
| Repayment of Government bonds | (0.8) | (22.7) | (19.1) | (19.6) | (18.1) | **(80.3)** |
| Net issue/(repayment) of short-term borrowings | (5.4) | (0.6) | - | - | - | **(6.0)** |
| **Net debt programme cash flows** | **13.6** | **2.4** | **6.2** | **5.2** | **(3.0)** | **24.4** |

Notes: 1 The table above does not take into consideration any issues which are repayments of Government bonds (or other debt) by other entities within the Crown. It only reflects the transactions forecast by NZDM.

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

Source: The Treasury

### *…and the use of accumulated financial assets*

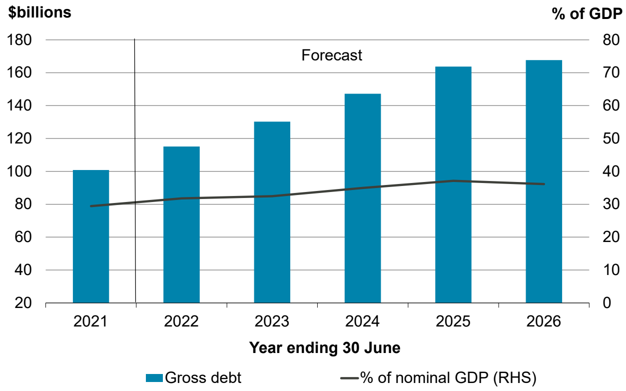
In addition, a portion of the financing needed to fund the residual cash shortfall will be obtained by reducing the current level of financial assets held by the Crown. Some of the build-up in financial assets comes from the bond issuances in the 2020/21 year.

## Gross Debt

***Gross debt increases as a result of the bond programme and the managing down of the LSAP programme portfolio***

Gross debt is forecast to increase over the forecast, reaching $167.6 billion in the 2025/26 year, an overall increase of $66.8 billion. The average annual increase is around $15.7 billion until the last year of the forecast, which only increases by $3.9 billion. A large part of the increase in gross debt is owing to changes in the Government's bond programme (mentioned above).

***Figure 2.12*** – Gross debt




Source: The Treasury

The issuance of Government bonds is expected to increase gross debt by $110.7 billion over the forecast period. Although repayments of Government bonds of $80.3 billion are expected over the forecast period, a portion of these repayments will relate to managing down the Reserve Bank's LSAP portfolio. This includes both bonds maturing and the selling back of bonds to NZDM.

As the expected repayments to the Reserve Bank are within the Crown, they do not flow through to reduce the balance of gross debt over the forecast period. By removing the expected repayments from within the Crown, gross debt is only expected to reduce by around $40.0 billion over the forecast period.

Although gross debt is expected to increase over the forecast period, the current low interest rate environment has meant the cost of borrowing has been lower than in the past. The box on page 51 outlines different measures that provide insight into the cost of borrowings.

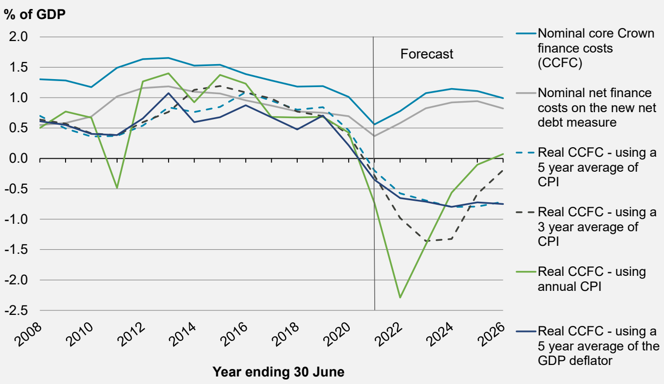
### Debt servicing indicators

At present, the New Zealand Government's debt servicing costs are historically low, particularly when considered in real terms. This may reflect long-term global structural changes that have led to a decline in the neutral interest rate as well as more transitory developments in inflation. Given these trends, it is worthwhile to consider indicators of debt servicing costs alongside traditional measures of the stock of debt.

Debt servicing costs can be considered on a real or nominal basis and can relate to gross or net debt measures. The Treasury's primary debt servicing indicator is core Crown finance costs. This measures nominal interest expenses on core Crown borrowings (a gross measure of core Crown debt). Some alternatives are shown in Figure 2.13.

The servicing costs on all of the assets and liabilities captured in the new net debt indicator are slightly lower than core Crown finance costs. This is because the interest revenues on the additional assets included in the new net debt measure outweigh the interest expenses on the additional liabilities. However, the two measures follow broadly similar trends and have moved closer to each other over time.

***Figure 2.13*** – Alternative debt servicing measures




Source: The Treasury

Real debt servicing costs adjust debt payments for inflation. This can provide a better illustration of the economic costs of debt servicing. Judgement is needed as to the best way to adjust nominal debt servicing costs for inflation. The trend in the GDP deflator may provide the best metric in the context of the New Zealand Government, as it accounts for changes in the terms of trade and most closely corresponds to tax revenue growth. However, CPI has a higher profile in the public discourse on inflation and is not subject to the statistical revisions that the GDP deflator is subject to. Measures using annual inflation can show the real debt servicing costs that eventuated each year, although measures using averages of inflation over a longer period can better capture trends.[5] The recent volatility in inflation has made the choice of inflation measure used in real measures more significant, as shown in Figure 2.13.

The Treasury will continue to publish core Crown finance costs (in nominal terms) in its *Economic and Fiscal Updates* and in the historical fiscal indicators covering 1972 onwards.[6] From this, real debt servicing metrics can be calculated using an appropriate inflation-adjustment methodology for the specific context.

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5 Furman and Summers (2020) use five-year average of inflation to calculate real debt servicing costs in their paper 'A Reconsideration of Fiscal Policy in the Era of Low Interest Rates'.

6 These can be found on the Treasury website: https://www.treasury.govt.nz/publications/information-release/data-fiscal-time-series-historical-fiscal-indicators

# Comparison to the *Half Year Update*

This section explains the drivers for the changes in key fiscal indicators compared to the Treasury's previous forecast update.

The fiscal outlook shows a recovery over the forecast period, although at a slower pace when compared to the *Half Year Update.* The change is largely owing to economic factors (stronger wage growth, higher inflation and higher interest rates than previously forecast), which increase expenses more than tax revenues. Decisions to increase spending have also contributed to the change in the fiscal outlook. Table 2.18 provides a summary of the change in key fiscal indicators.

***Table 2.18*** – Key fiscal indicators compared to the *Half Year Update*[1]

| Year ending 30 June<br>$billions | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast | 2025<br>Forecast | 2026<br>Forecast |
|---|---|---|---|---|---|
| **Core Crown tax revenue** | | | | | |
| *Budget Update* | 103.8 | 116.1 | 122.7 | 129.9 | 138.5 |
| *Half Year Update* | 102.6 | 113.8 | 120.1 | 127.3 | 134.5 |
| **Change** | **1.2** | **2.3** | **2.6** | **2.6** | **4.0** |
| **Core Crown expenses** | | | | | |
| *Budget Update* | 128.4 | 127.1 | 131.1 | 134.1 | 138.2 |
| *Half Year Update* | 128.0 | 120.2 | 124.8 | 128.5 | 133.6 |
| **Change** | **(0.4)** | **(6.9)** | **(6.3)** | **(5.6)** | **(4.6)** |
| **OBEGAL** | | | | | |
| *Budget Update* | (19.0) | (6.6) | (2.6) | 2.6 | 7.0 |
| *Half Year Update* | (20.8) | (0.8) | 2.1 | 5.9 | 8.2 |
| **Change** | **1.8** | **(5.8)** | **(4.7)** | **(3.3)** | **(1.2)** |
| **Core Crown residual cash** | | | | | |
| *Budget Update* | (31.8) | (29.3) | (9.3) | 7.9 | 17.7 |
| *Half Year Update* | (34.1) | (21.7) | (8.0) | 14.5 | 12.5 |
| **Change** | **2.3** | **(7.6)** | **(1.3)** | **(6.6)** | **5.2** |
| **Net debt** | | | | | |
| *Budget Update* | 61.2 | 75.0 | 83.6 | 76.4 | 69.5 |
| *Half Year Update* | 61.4 | 69.1 | 76.2 | 65.9 | 57.1 |
| **Change** | **0.2** | **(5.9)** | **(7.4)** | **(10.5)** | **(12.4)** |
| **Net worth attributable to the Crown** | | | | | |
| *Budget Update* | 123.9 | 122.4 | 125.9 | 135.1 | 149.1 |
| *Half Year Update* | 127.3 | 131.4 | 139.3 | 151.5 | 166.4 |
| **Change** | **(3.4)** | **(9.0)** | **(13.4)** | **(16.4)** | **(17.3)** |

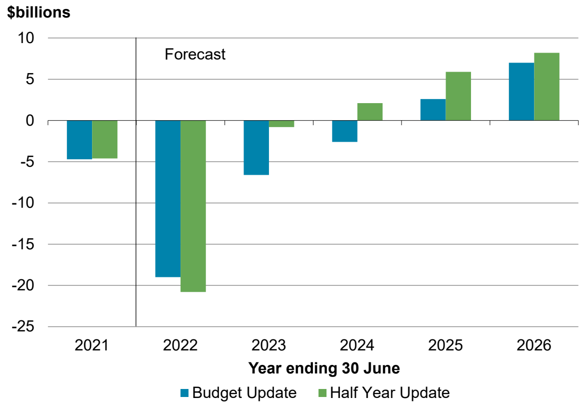
Note: 1 Favourable variances against the previous forecast have a positive sign and unfavourable variances against the previous forecast have a negative sign.

Source: The Treasury

### *Overall, economic factors have had the most significant impact on the fiscal forecasts since the* Half Year Update; *revenue grows but at a slower pace than expenditure*

The OBEGAL deficit is expected to be smaller in the current year by $1.8 billion compared to the *Half Year Update*, however, this trend reverses from 2022/23. The OBEGAL deficit is $5.8 billion more than the *Half Year Update* in the second year of the forecast. This difference narrows in the later years of the forecast period, with a surplus expected to be $1.2 billion smaller in the 2025/26 year compared to the *Half Year Update*.

***Figure 2.14*** – OBEGAL compared to the *Half Year Update*




Source: The Treasury

In total, over the forecast period core Crown tax revenue is forecast to be $12.7 billion higher compared to the *Half Year Update*. The changes in tax revenue are largely explained by the variances for source deductions, net other persons tax and corporate tax. The movement in core Crown tax revenue since the *Half Year Update* is summarised in Table 2.19.

***Table 2.19*** – Change in core Crown tax revenue since the *Half Year Update*, by major tax type

| **Year ending 30 June $billions** | **2022 Forecast** | **2023 Forecast** | **2024 Forecast** | **2025 Forecast** | **2026 Forecast** | **Total change** |
|---|---|---|---|---|---|---|
| **Core Crown tax revenue – *Half Year Update*** | 102.6 | 113.8 | 120.1 | 127.3 | 134.5 | |
| Source deductions | 0.6 | 0.7 | 1.0 | 1.3 | 1.9 | **5.5** |
| Net other persons tax | 0.9 | 1.2 | 1.0 | 1.0 | 1.0 | **5.1** |
| Corporate tax | 0.9 | 1.2 | 0.8 | 0.7 | 0.8 | **4.4** |
| GST | (0.5) | (0.1) | (0.2) | (0.3) | 0.5 | **(0.6)** |
| Customs and excise duties | (0.4) | (0.3) | (0.2) | (0.2) | (0.2) | **(1.3)** |
| All other taxes | 0.1 | (0.2) | 0.2 | 0.1 | - | **0.2** |
| **Total forecasting changes** | **1.6** | **2.5** | **2.6** | **2.6** | **4.0** | **13.3** |
| Tax policy change effects (refer box on pages 23-24) | (0.4) | (0.2) | - | - | - | **(0.6)** |
| **Total changes** | **1.2** | **2.3** | **2.6** | **2.6** | **4.0** | **12.7** |
| **Core Crown tax revenue – *Budget Update*** | **103.8** | **116.1** | **122.7** | **129.9** | **138.5** | |

Source: The Treasury

The underlying drivers of change include adjustments to the 2021/22 year based on year-to-date tax revenue outturns and a combination of changes to the forecast for various economic variables:

- Source deductions drivers include changes to the forecast for compensation of employees, which is partly owing to higher inflation that results in a higher wage component and higher fiscal drag.
- Net other persons and corporate tax drivers include stronger-than-expected tax outturns to date and an improved outlook for taxable profits across the forecast period.

- GST outturns have been below forecast in recent months, mainly owing to weaker-than-forecast private consumption. This has reduced GST revenue in the current fiscal year, while changes in the forecasts for consumption, residential investment and net tourism drive the overall change across the forecast period.
- Customs and excise duties are similarly impacted by below-forecast outturns in the 2021/22 year, which carry through the rest of the forecast period.

Overall, core Crown expenses are expected to be higher than the *Half Year Update* by $23.8 billion, largely owing to economic conditions (inflation, wage increases and interest rates) impacting on benefit expenses and finance costs.

***Table 2.20*** – Core Crown expenditure changes compared to the *Half Year Update*

| **Year ending 30 June<br>$billions** | **2022<br>Forecast** | **2023<br>Forecast** | **2024<br>Forecast** | **2025<br>Forecast** | **2026<br>Forecast** | **Total<br>change** |
|---|---|---|---|---|---|---|
| Core Crown benefit expenses | 0.2 | 0.3 | 1.3 | 1.9 | 2.3 | **6.0** |
| Core Crown finance costs | 0.1 | 1.4 | 1.4 | 1.3 | 1.0 | **5.2** |
| CERF | - | 0.1 | 1.0 | 0.9 | 0.8 | **2.8** |
| CRRF | 1.3 | 1.3 | 0.1 | - | - | **2.7** |
| Budget allowances | - | - | 0.5 | 0.5 | 0.5 | **1.5** |
| Other | (1.2) | 3.8 | 2.0 | 1.0 | - | **5.7** |
| Total | **0.4** | **6.9** | **6.3** | **5.6** | **4.6** | **23.8** |

Source: The Treasury

Benefit expenses have increased compared to the *Half Year Update* by $6.0 billion over the forecast period. Benefit expenses are relatively consistent with the previous forecast in the near term. However, benefit expenses increase by $1.3 billion from the 2023/24 year compared to the *Half Year Update,* reaching $2.3 billion in 2025/26. This is largely because of stronger wage growth forecasts (as most benefits are indexed against forecast wage growth) as well as an increase in the number of people expected to claim benefit expenses.

Core Crown finance costs have increased relatively consistently across the forecast period compared to the *Half Year Update*, averaging $1.0 billion each year, to a total of $5.2 billion. This is largely due to interest rate increases across the forecast period.

### *Other expenditure has also increased compared to the* Half Year Update

Other spending decisions have also contributed to the weaker fiscal outlook.

Since the *Half Year Update*, the CRRF has been topped up by $4.6 billion. Decisions have been made against the CRRF, with the majority impacting operating expenditure in the near term.

The future Budget operating allowance for Budget 2023 has been increased when compared to the *Half Year Update*, resulting in an increase in forecast new operating spending totalling $1.5 billion ($0.5 billion per annum from 2023/24) across the forecast period.

The CERF has also been topped up by $0.8 billion and is forecast to be fully spent by 2025/26.

The other core Crown expense changes largely reflect timing of Budget 2022 decisions and rephasing of expenses.

In addition to changes in core Crown expenses, ACC insurance expenses are forecast to increase by $5.4 billion over the forecast period compared to the *Half Year Update*. Inflation is a large driver of these increased costs alongside other factors, including growing claim numbers (claims during the last two years of COVID-19 had decreased and are now returning to a more normal 'pre-COVID-19' level) and other cost pressures, including wage growth and pay settlements in the sectors providing care and accident rehabilitation.

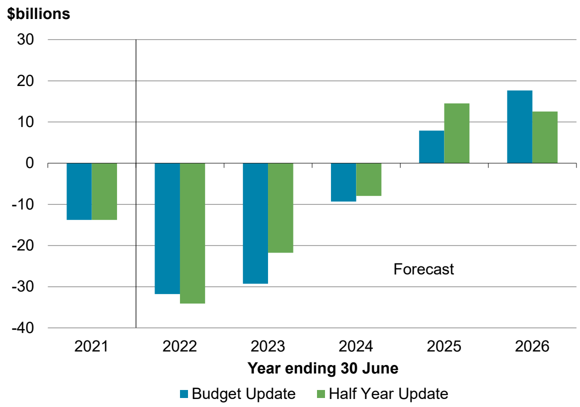
***The core Crown residual cash position has weakened over most of the forecast period, but shows an improvement by 2025/26…***

In total, the core Crown residual cash position is expected to be weaker by $8.0 billion over the forecast period compared to the *Half Year Update.*

Tax receipts are forecast to be $10.1 billion higher compared to the *Half Year Update* and while the trend is usually expected to move in line with revenue, there can be differences in the timing of cash receipts that cause it to vary.

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

***Figure 2.15*** – Core Crown residual cash compared to the *Half Year Update*




Source: The Treasury

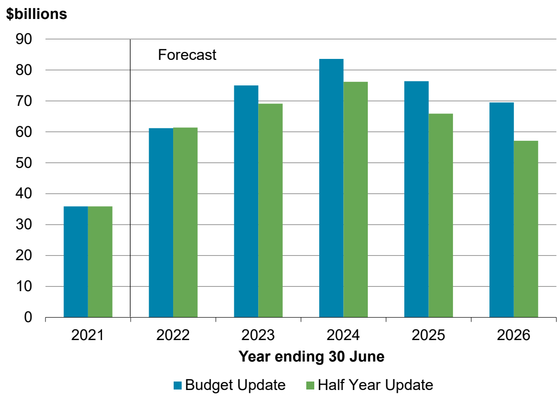
***…most of which flows through to net debt…***

Compared to the *Half Year Update*, the net debt level is broadly in line in the current fiscal year but is subsequently higher in all forecast years from 2022/23. Net debt is higher than the *Half Year Update* by $12.4 billion by 2025/26.

Around $6.6 billion of the increase relates to the higher residual cash deficits across the forecast period (excluding net increases in advances and contributions to the NZS Fund).

The remaining change compared to the *Half Year Update* is attributable to a number of drivers, including decreases in the NZS Fund's net financial assets, increases in Crown entity borrowings, circulating currency and other financial instrument valuation changes.

***Figure 2.16*** – Net debt compared to the *Half Year Update*




Source: The Treasury

By the end of the forecast period, the NZS Fund net financial assets are lower by $2.5 billion (owing largely to the year-to-date investment losses) whilst Crown entity borrowings are higher by $0.4 billion. For more information on this new net debt indicator along with a reconciliation to net core Crown debt, refer to the "Changes to the Government's key fiscal indicators" box on pages 38 and 39.

***…and these changes lead to a lower net worth than forecast at the* Half Year Update**

The total Crown operating balance flows through to impact net worth. When compared to the *Half Year Update*, the operating balance in total is lower by $17.6 billion over the forecast period.

Although core Crown revenue has increased compared to the *Half Year Update*, core Crown expenses have increased more, which results in cumulative OBEGAL deficits since the *Half Year Update* of $13.1 billion over the forecast period. The remaining balance largely relates to net gains and losses of financial and non-financial instruments, driven by the revaluations of significant assets and liabilities (ETS losses are higher by $1.8 billion than was previously forecast at the *Half Year Update* and investment returns are lower by $3.2 billion).

### Cyclically-adjusted balance, structural balance and total fiscal impulse[7]

#### Cyclically-adjusted balance and structural balance

The cyclically-adjusted balance (CAB) and structural balance illustrate how New Zealand's public finances are expected to recover from the COVID-19 pandemic as one-off COVID-19-related spending gradually tapers off and the underlying fiscal position improves.

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 further adjusting the CAB for significant one-off expenditure items.[8]

Because much of the COVID-19-related fiscal support provided by the Government has been temporary, fluctuations in the structural balance have been less pronounced than fluctuations in OBEGAL and the CAB. As one-off spending tapers off, however, the structural balance, CAB and OBEGAL are forecast to broadly converge and all return to surplus in 2024/25, with this being a year later than forecast at the *Half Year Update* for the structural balance and OBEGAL.

Looking across the years most impacted by the COVID-19 shock, the greater divergence between the structural balance and OBEGAL (relative to the CAB) indicates that discretionary fiscal policy has played a far greater role in supporting economic activity than automatic stabilisers. By the end of the forecast period however, the effect of automatic stabilisers is more pronounced than that of one-off spending and the marginally weaker position of OBEGAL relative to the CAB indicates that the forecast OBEGAL surpluses do not result from the impact of the economic cycle on automatic stabilisers but from the underlying structural position.

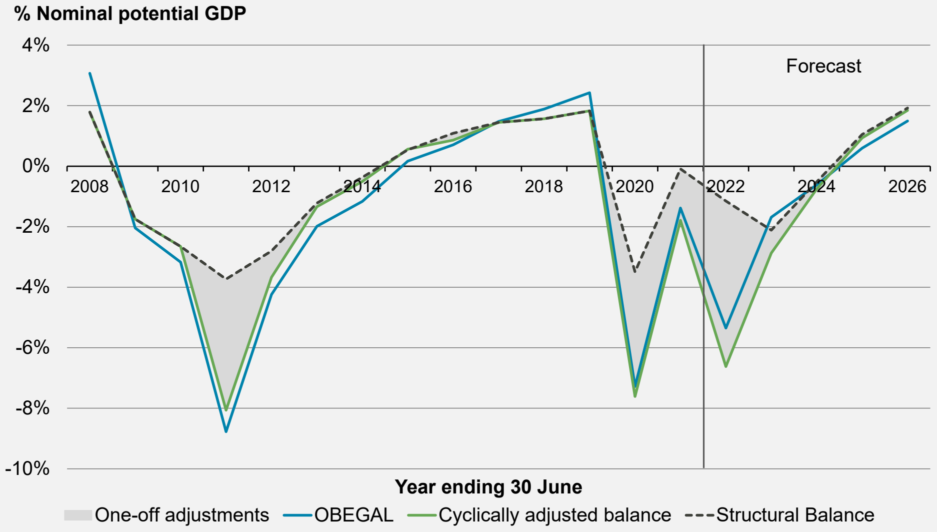
The closeness of the CAB and OBEGAL in 2019/20 and 2020/21 reflects that the economy has been operating near to its potential level on an annual basis, despite significant quarterly fluctuations in economic activity due to COVID-19 restrictions. The weaker position of the CAB relative to OBEGAL over the first half of the forecast period reflects a positive forecast output gap, indicating that the economy is expected to be operating above potential. By the end of the forecast period, OBEGAL is marginally weaker than the CAB as the output gap is forecast to become slightly negative.

Relative to the *Half Year Update*, OBEGAL is weaker than previously forecast through to 2025/26, whereas the CAB and structural balance rebound more strongly. This reflects the change in the annual output gap forecast from positive to negative in 2024/25.

7 Refer to this analytical paper for more detail on the methodology behind calculating the CAB, the structural balance and the total fiscal impulse: https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse

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

***Figure 2.17*** – OBEGAL, CAB, and structural balance[9]




Source: The Treasury

## Total fiscal impulse

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.

Relative to 2020/21, the fiscal deficit is forecast to increase in 2021/22. Largely, this is a consequence of the Government's response this fiscal year to the Delta and Omicron COVID-19 outbreaks as well some spending being rolled forward from previous years owing to COVID-19-related delays. Accordingly, the fiscal impulse in 2021/22 is positive (expansionary) relative to 2020/21, meaning the Government is contributing more to aggregate demand than it did in 2020/21.

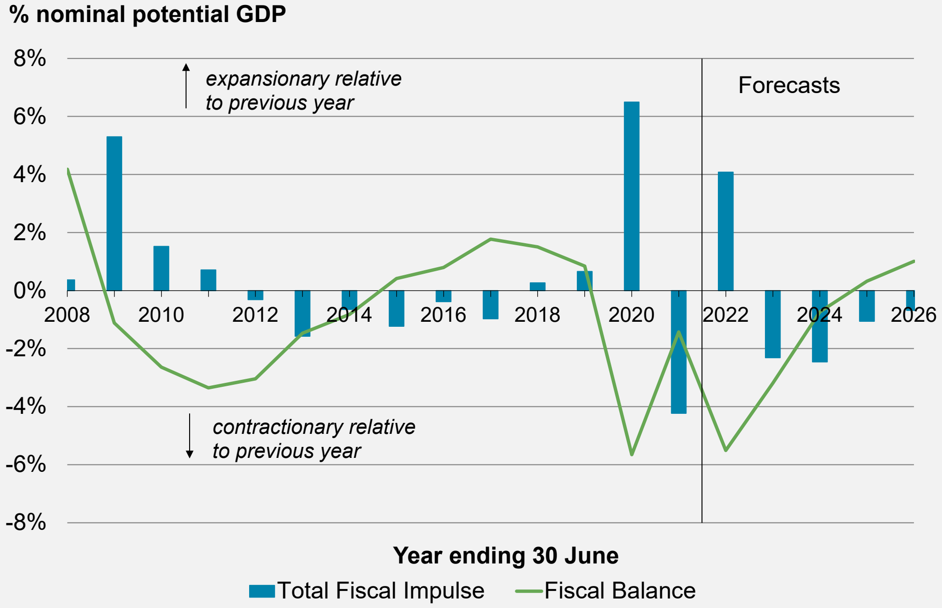
Although the fiscal balance is not forecast to return to surplus until 2024/25, the fiscal impulse is forecast to turn negative (contractionary) in 2022/23 and remain so throughout the remainder of the forecast period. This indicates that, as temporary COVID-19-related fiscal support is withdrawn year-on-year and the fiscal balance heads into surplus, the Government is forecast to contribute less to aggregate demand each year than in the preceding year.

Relative to the *Half Year Update*, the forecast fiscal balance shows a smaller deficit in 2021/22 and a larger deficit in 2022/23. This means that the fiscal impulse in 2022/23 is less contractionary than previously forecast, just as the fiscal impulse for 2021/22 is less expansionary.

9 Figure 2.17 corrects an error in the structural balance that was reported in the *Half Year Update*. Figure 2.12 in the *Half Year Update* did not incorporate a downward accounting revision to the one-off adjustment for appropriated COVID-19 operating expenditure for the 2019/20 year, which resulted in an overstatement of the difference between the cyclically adjusted balance and the structural balance for this year only.

From 2023/24, the fiscal balance is slightly weaker in each year throughout the forecast period when compared to the *Half Year Update*, although still returns to surplus in the same year as previously forecast. Despite this, the fiscal impulse for each year is slightly more contractionary than forecast at the *Half Year Update* as the Government's year-on-year contribution to aggregate demand decreases more relative to each preceding year, indicating that, overall, fiscal policy is dampening inflation pressures.[10]

***Figure 2.18*** – Total fiscal impulse and fiscal balance




Source: The Treasury

10 Note that we have adjusted for the Matariki holiday falling on 28 June 2024, when taxes are due, by shifting $5.0 billion in tax receipts from the 2025 tax year to the 2024 tax year 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
- 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 2.21.

***Table 2.21*** – 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) | 5.3 | 1.7 | 4.2 | 0.7 | 1.6 | 2.5 |
| Nominal GDP[2] ($billions) | 342.6 | 362.4 | 401.5 | 421.0 | 441.3 | 464.0 |
| CPI (annual average % change) | 1.9 | 6.1 | 5.8 | 4.0 | 3.0 | 2.4 |
| Govt 10-year bonds (annual average %) | 1.2 | 2.5 | 3.4 | 3.7 | 4.0 | 4.1 |
| 5-year bonds (annual average %) | 0.5 | 2.3 | 3.3 | 3.7 | 3.9 | 4.0 |
| 90-day bill rate (annual average %) | 0.3 | 1.1 | 3.0 | 3.6 | 3.6 | 3.6 |
| Unemployment rate (annual average %) | 4.7 | 3.2 | 3.1 | 4.0 | 4.7 | 4.8 |
| Employment (annual average % change) | 0.7 | 3.4 | 1.0 | 0.1 | 0.5 | 1.4 |
| Average weekly earnings[3] (annual % change) | 8.9 | 3.7 | 6.0 | 6.0 | 5.3 | 4.6 |

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, natural disasters, pandemics, and international events). |
| 2. Deviation from key macroeconomic 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

COVID-19 continues to have a significant fiscal impact on the Government's finances. While case growth and the associated disruption have likely peaked for the current Omicron wave, there remains enough uncertainty to pose a risk to the forecasts presented in the *Budget Economic and Fiscal Update 2022*. The statement of specific fiscal risks in this chapter identifies several 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 is dependent on many unknown factors, including the recovery of key trading partners and the emergence of future variants. Forecasts for tax revenue, benefit expenses, and finance costs are particularly sensitive to economic conditions. The Economic Outlook chapter, from page 7 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 changed.

- *The Government's response to the current outbreak* – the Government has implemented policies to respond to COVID-19, mostly funded through the COVID-19 Response and Recovery Fund (CRRF). Policies announced and communicated by 28 April 2022 have been included in the fiscal forecasts based on the best information available. There is a risk that the actual costs and/or timing of these policies differ from the judgements and assumptions used to prepare the fiscal forecasts. There is a further risk that additional fiscal support is needed to respond to the current outbreak.

- *The Government's role in responding to future outbreaks* – the CRRF has been disestablished, with $3.2 billion remaining after all known funding requests have been met. $2 billion has been reprioritised, and the remaining $1.2 billion set aside to establish a ring-fenced COVID-19 contingency. The Government has signalled a desire to improve the economy's resilience to COVID-19 and move away from broad-based and sector-specific fiscal support for future outbreaks. However, the global trajectory of the pandemic is ultimately uncertain. This means there is also uncertainty associated with the level of fiscal response that could be required to manage a future outbreak.

- *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 such as land and buildings, share investments and Accident Compensation Corporation (ACC) outstanding claims liability. The impact of COVID-19 is likely to cause some ongoing volatility in the market that will affect the future value of assets and liabilities on the Government's balance sheet. In addition, the effects of 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** (taking action to reduce emissions)

  Mitigation action includes reducing domestic emissions and supporting overseas emissions reductions to meet New Zealand's domestic and international commitments to prevent significant levels of global warming.

- **Adaptation** (adjusting to the actual and expected effects of climate change)

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

***Several mitigation measures are included in the fiscal forecasts…***

The New Zealand Emissions Trading Scheme (NZ ETS) is the Government's key tool to price emissions within New Zealand and therefore drive emissions reductions. The fiscal forecasts include the:

- forecast cash proceeds from primary New Zealand Unit (NZU) auctions
- revenue 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 $76 as at 31 March 2022 was used to determine the size of the forecast NZU provision.

The forecasts also include $1.5 billion allocated to the Climate Emergency Response Fund (CERF) over the forecast period. This reflects the public commitment the Government has made to support climate-related actions with ETS proceeds. Over the longer term, mitigation costs to achieve international and domestic targets are likely to be significantly higher than the amount that has currently been allocated to the CERF, 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 under the Paris Agreement 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, and likely offshore, abatement to mitigate emissions over 2021 to 2030.

The Climate Change Response Act 2002 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 New Zealand's 2050 emissions reduction targets. The Government has published its first Emissions Reduction Plan (ERP) in May 2022. The ERP contains plans to put into action the five principles on which New Zealand's strategy for reducing emissions is based: playing our part and cutting pollution in line with what the science demands, upholding the role of te Tiriti o Waitangi and applying a tikanga Māori lens, a just transition to a zero-carbon economy that is fair and equitable, using nature-based solutions to tackle the climate emergency development, and delivering the outcome of a productive, sustainable and inclusive economy. Where the actions in the plan are sufficiently developed that they can be quantified for particular years with reasonable certainty they have been included in the forecasts. However, some actions are likely to require further development and funding to meet the objectives of the plan.

Achieving both domestic and international emissions targets will incur 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. This is included in the forecasts, but actual costs may vary from this provision.

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

In April 2022, the Government released the draft National Adaptation Plan for public consultation. This highlighted actions in response to risks identified in the 2020 National Climate Change Risk Assessment. The draft actions are a mix of existing work and proposed new work to address risks across several domains, including natural ecosystems, housing, infrastructure, as well as risks to government from economic costs associated with lost productivity and disaster relief expenditure.

The National Adaptation Plan will be finalised and 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 $7.1 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 $6.8 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 | 1,050 | 2,305 | 3,710 | 5,290 | 7,100 |
| Wages and salaries | 465 | 1,005 | 1,635 | 2,365 | 3,200 |
| Taxable business profits | 220 | 550 | 915 | 1,320 | 1,760 |
| **Impact of 1% lower interest rates on** | | | | | |
| Interest income | -126 | -177 | -212 | -183 | -275 |
| Interest expenses | -295 | -734 | -985 | -1,103 | -1,171 |
| Net impact on operating balance | 169 | 557 | 773 | 920 | 896 |

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, that, 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** | Social assets and liabilities are held to support the delivery of public services such as schools, roads, hospitals and national parks. Social assets are mainly managed by government departments and Crown entities. 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. |
| **Financial** | Financial assets and liabilities are held to support a balance sheet management purpose. Assets are predominantly held to prefund government expenditure or obligations for future expenditure. Liabilities include borrowing by the government to fund investment or operating deficits, including government debt issued by New Zealand Debt Management (NZDM). |
| **Commercial** | Assets and liabilities of entities that carry out commercial activities and are expected to act as successful businesses. The entities are largely independent entities operating in competitive environments. |

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 consulting the public on a draft National Adaptation Plan in response to climate change risks that the Climate Change Commission has identified.

[11] *See He Puna Hao Pātiki: 2022 Investment Statement:* https://www.treasury.govt.nz/publications/investment-statement/he-puna-hao-patiki-2022-investment-statement

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 *Budget Update* forecasts incorporate valuations up to 28 February 2022.

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 the arrival of 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 and lending to the finance sector by the Reserve Bank have significantly increased interest-rate risk to the Government.

Financial assets held by the ACC, the New Zealand Superannuation Fund and the GSF 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.

The Crown also faces financial obligations relating to natural disasters. For example, the Crown guarantees that it will fund any shortfall in the Earthquake Commission’s assets. The Crown may also decide to meet a share of local government infrastructure rebuild costs after natural disasters.

The Crown may also be exposed to balance sheet risks when there are significant financial market stresses. What risks the Crown is exposed to will depend on actions it chooses to take in response to such situations.

***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 the business inputs needed 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 has underscored the importance of responsible fiscal management, including maintaining Crown debt at prudent levels.

COVID-19 and the Government’s response has not just increased net debt, but has also increased the scale and complexity of the balance sheet. The Government’s response has created new assets (eg, loans to support businesses) that will need to be effectively managed. Interest rate risk faced by the Crown is also higher due to the monetary policy response to COVID-19.

With the economic recovery from COVID-19 underway, the current risk management challenge is increasingly focused on how to deliver the Government’s objectives particularly around infrastructure, climate and health while also rebuilding capacity for the balance sheet to absorb shocks in the future.

The Government has set new fiscal rules in Budget 2022. These rules focus on returning to an operating balance before gains and losses (OBEGAL) surplus and maintaining a surplus thereafter as the primary rule, along with a ceiling on net debt. This would avoid the operating position contributing to net debt to GDP and maintain the Crown's net worth in the long-term. The debt ceiling is higher than previous debt targets and would allow the Government to use the available fiscal space to borrow for long-term investments that enhance living standards and increase the Crown's net worth through productive assets. It also ensures adequate capacity for the Crown's balance sheet to absorb shocks in the future through building in significant fiscal buffers.

*He Puna Hao Pātiki*: 2022 Investment Statement discusses the overall health of the balance sheet and new challenges that have emerged since the start of the pandemic.

# Multi-Year Funding Approaches

Historically, new operating funding has typically been allocated on an annual basis through the annual Budget cycle. In order to support the Government's wellbeing approach, the Budget 2022 process pilots multi-year approaches to allocating new operating expenditure in the health, justice and natural resources sectors. Underlying the introduction of multi-year funding is the intention to take a longer-term view to better address complex intergenerational and cross-cutting policy challenges, encourage collaboration in sectors with overlapping interests, and foster prioritisation and efficiency within the State sector.

To facilitate multi-year funding approaches, a significant quantum of funding has been pre-committed against the Budget 2023 and Budget 2024 operating allowances in order to manage the fiscal impacts of the decisions. This reflects the Government's intention for the funding to represent multiple Budgets' worth of investment. However, the significance of this pre-committed funding leaves smaller Budget operating allowances for allocation in the future, which will require careful choices and trade-offs in order to manage spending within the remaining allowances. If the multi-year approach to allocating funding continues in the future and a similar treatment is applied to the fiscal management of these decisions, there will be a risk of fiscal impacts on key indicators.

Although a multi-year approach has been taken to the health, natural resources and justice sectors, there is a risk that these sectors will require additional funding in Budget 2023 and/or Budget 2024. An exemptions process has been established to enable the relevant agencies to manage in times of crisis. However, there is a risk that further unavoidable, critical cost pressures may arise with limited discretion over the allocation of new funding.

All capital expenditure incurred through Budget 2022, including through the multi-year approaches, is managed against the Multi-Year Capital Allowance.

***Multi-Year Approach to Health***

Budget 2022 includes a two-year transitional health package to support the health system reform. It is intended to cover two Budgets' worth of new expenditure. The fiscal impacts of Vote Health cost pressure funding are fully managed against allowances, with the one-off uplift from the 2023/24 financial year pre-committed against the Budget 2023 operating allowance. The allowance impact of Budget 2022 health new initiatives is split evenly across Budgets 2022 and 2023, averaging $0.3 billion per annum.

Further detail on specific fiscal risks identified in relation to the multi-year approach to the health system reform can be found on page 82.

***Table 3.3*** – Operating Allowance Impact of Budget 2022 Health Expenditure

| Operating Average Per Annum | | 2022/23 ($m) | 2023/24 ($m) | 2024/25 ($m) | 2025/26 & Outyears ($m) | Total ($m) |
|---|---|---|---|---|---|---|
| Budget 2022 | Cost Pressures | 1,796 | 1,796 | 1,796 | 1,796 | 7,186 |
| | New Initiatives | 266 | 266 | 266 | 266 | 1,064 |
| Budget 2023 | Cost Pressures | - | 1,297 | 1,297 | 1,297 | 3,892 |
| | New Initiatives* | - | 266 | 266 | 266 | 798 |
| **Total** | | **2,062** | **3,625** | **3,625** | **3,625** | **12,939** |

* The total Budget 2023 spending on new initiatives reflects the amount managed against allowances, not the total new net expenditure agreed in the Budget 2022 process.

** This table does not appear to sum due to rounding.

Source: The Treasury

### *Multi-Year Approach to the Justice and Natural Resources Clusters*

Budget 2022 includes $3.8 billion of operating funding which has been agreed for the Justice and Natural Resources Clusters within the 2021/22-2025/26 forecast period. As this funding is intended to cover three Budgets' worth of new expenditure, it has been managed across three Budgets' operating allowances with the expectation that additional funding will not be sought for these agencies until Budget 2025, except in certain specified circumstances.

To manage the fiscal impacts of this approach, the total funding within the forecast period has been evenly averaged over the number of financial years available within the current forecast period, with funding expected to continue at the 2024/25 level.

***Table 3.4*** – Allowance Impact of Budget 2022 Cluster Expenditure

| Operating Average Per Annum | 2022/23 ($m) | 2023/24 ($m) | 2024/25 ($m) | 2025/26 & Outyears ($m) | Total ($m) |
|---|---|---|---|---|---|
| Budget 2022 | 419 | 419 | 419 | 419 | 1,675 |
| Budget 2023 | - | 419 | 419 | 419 | 1,257 |
| Budget 2024 | - | - | 419 | 419 | 838 |
| **Total** | **419** | **838** | **1,257** | **1,257** | **3,770** |

* This table does not appear to sum due to rounding.

Source: The Treasury

As the evened average does not perfectly reflect the exact profile of the Cluster initiatives agreed through the Budget 2022 process, the front-loading of the initiatives relative to the allowance management means that the impact on OBEGAL will be negative initially, before becoming positive from the 2024/25 financial year onwards as spending into outyears is managed within allowances.

# Specific Fiscal Risks

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

- how specific fiscal risks are managed
- criteria for inclusion and exclusion of specific fiscal risks
- a statement of specific fiscal risks of the Government
- narrative summaries of all specific fiscal risks, and
- a table of risks that have been removed from the statement of specific fiscal risks since the *Half Year Economic and Fiscal Update 2021* (*Half Year Update*).

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts, 28 April 2022. 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 (future spending accounted for in the fiscal forecasts) or policy choices. This ensures a prudent approach to the disclosure of risks to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

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

The *Budget Update* must incorporate, to the fullest extent possible, 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.

| Fiscal forecasts | Specific fiscal risks |
|---|---|
| Matters are incorporated into the fiscal forecasts when:<br>• the matter can be quantified for particular years with reasonable certainty, and<br>• a decision has been taken, or<br>• 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:<br>• 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<br>• 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. |

## 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
- 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.

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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).

## Exclusions to Disclosure

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

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

Section 26V requires the Minister of Finance to determine that:

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

# Statement of Specific Fiscal Risks

| New Risks | | |
|---|---|---|
| **Portfolio** | **Risk Title** | **Type of Risk** |
| ACC | Court Decision – Expansion of Treatment Injury | Cost Pressure or Variance – Expenses |
| Disability Issues | Transforming and Sustaining Disability Support Services for New Zealanders | Cost Pressure or Variance – Expenses |
| Education | Improving Engagement, Attendance and Inclusion | Policy Change – Expenses |
| | Inclusive Access to Education | Policy Change – Expenses and Capital |
| Health | Combined Pharmaceutical Budget | Cost Pressure or Variance – Expenses |
| Public Service | Royal Commission Independent Redress System Claims for Survivors of Abuse in Care | Policy Change – Expenses |
| Social Development and Employment | Replacement and Transformation of MSD's Systems | Cost Pressure or Variance – Expenses and Capital |
| Transport | COVID-19 Impacts on National Land Transport Fund (NLTF) Revenue | Cost Pressure or Variance – Revenue and Expenses |

| Changed Risks | | |
|---|---|---|
| **Portfolio** | **Risk Title** | **Type of Risk** |
| COVID-19 Response, Health | COVID-19 Response – Ongoing Costs of Current Response | Cost Pressure or Variance – Expenses |
| Economic and Regional Development | New Zealand Screen Production Grant – International | Cost Pressure or Variance – Expenses |
| Education | Learning Support | Cost Pressure or Variance – Expenses and Capital |
| Health | Health and Disability System Reform | Policy Change – Expenses |
| | Health Capital Pressure | Cost Pressure or Variance – Capital |
| | Reducing Planned Care Waiting Lists | Policy Change – Expenses |
| Housing | Divestment and Development of Kāinga Ora – Homes and Communities' Housing | Cost Pressure or Variance – Expenses |
| | KiwiBuild and Large-scale Urban Development Projects | Cost Pressure or Variance – Expenses and Capital |
| Local Government | Three Waters ICT Investment | Policy Change – Expenses and Capital |
| Social Development and Employment | New Zealand Income Insurance Scheme | Policy Change – Revenue and Expenses |
| Transport | City Centre to Māngere Rapid Transit Project | Cost Pressure or Variance – Expenses and Capital |
| | Future of Rail Commitments | Cost Pressure or Variance – Expenses and Capital |

| Updated Risks | | |
|---|---|---|
| **Portfolio** | **Risk Title** | **Type of Risk** |
| ACC | ACC Levies | Cost Pressure or Variance – Revenue and Expenses |
| | Impacts of Changes to Accident Compensation Policy Settings | Policy Change – Expenses |
| | Work-related Gradual Process Disease or Infection | Policy Change – Expenses |
| Biosecurity | Mycoplasma Bovis Biosecurity Response | Policy Change – Revenue and Expenses |
| Children | Enabling Community and Iwi to Help Children | Cost Pressure or Variance – Expenses |
| Climate Change | Emissions Trading Scheme – Abatement Obligations Arising from Price Ceilings Being Exceeded | Cost Pressure or Variance – Expenses |
| | Emissions Trading Scheme – Variations in Revenue and Expenses | Cost Pressure or Variance – Revenue and Expenses |
| 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 – Capital |
| Finance | Alternative Monetary Policy Tools | Cost Pressure or Variance – Expenses |
| | Depositor Compensation Scheme | Policy Change – Revenue and Expenses |
| Finance, Earthquake Commission | Earthquake Commission | Cost Pressure or Variance – Expenses |
| Foreign Affairs | Aid to Support Our Pacific Neighbours: Support for Pacific Fiscal Crises | Policy Change – Expenses |
| Tourism | Proposed Changes to the International Visitor Levy | Policy Change – Revenue |
| Transport | Auckland City Rail Link | Cost Pressure or Variance – Expenses and Capital |
| | Auckland City Rail Link Ownership Issues | Policy Change – Expenses |
| | New Zealand Upgrade Programme | Cost Pressure or Variance – Expenses and Capital |
| Treaty of Waitangi Negotiations | Relativity Clause | Cost Pressure or Variance – Expenses |
| Cross-portfolio | Further COVID-19 Business Support | Policy Change – Expenses |
| | Information and Communications Technology Operating and Capital Pressures | Cost Pressure or Variance– Expenses and Capital |
| | National Adaptation Plan | Policy Change – Expenses |
| | Pay Equity Claims | Cost Pressure or Variance – Expenses |

| Unchanged Risks | | |
|---|---|---|
| **Portfolio** | **Risk Title** | **Type of Risk** |
| ACC | Non-Earners' Account | Cost Pressure or Variance – Expenses |
| Conservation | Department of Conservation's Compliance with the Water Services Act 2021 | Cost Pressure or Variance – Expenses and Capital |
| Defence | Defence Funding Requirements to Deliver New Zealand's Defence Strategy | Policy Change – Expenses and Capital |
| | Disposal of New Zealand Defence Force Assets | Policy Change – Revenue and Expenses |
| Education | Early Learning Action Plan | Policy Change – Expenses |
| | Work Programme to Grow Māori Medium and Kaupapa Māori Education | Policy Change – Expenses and Capital |
| Finance, Earthquake Commission | Southern Response Earthquake Services Support | Cost Pressure or Variance – Expenses and Capital |
| Foreign Affairs | Time-limited International Climate Financing Funding: Unfunded 2026-29 Commitment Period | Policy Change – Expenses |
| Housing | Emergency Housing Special Needs Grant | Cost Pressure or Variance – Expenses |
| | Housing Acceleration Fund | Cost Pressure or Variance – Expenses and Capital |
| | Increases to Market Rent | Cost Pressure or Variance – Expenses |
| Internal Affairs | National Archival and Library Services Storage Capacity | Policy Change – Expenses and Capital |
| Oceans and Fisheries | Aquaculture Settlements | Cost Pressure or Variance – Expenses |
| Revenue | Cash Held in Tax Pools | Cost Pressure or Variance – Revenue |
| | International Tax | Policy Change – Revenue |
| | Potential Tax Policy Changes | Policy Change – Revenue |
| | Research and Development Tax Incentive | Cost Pressure or Variance – Revenue |
| | Small Business Cashflow Scheme | Cost Pressure or Variance – Expenses and Capital |
| | Student Loans – Valuation | Cost Pressure or Variance – Expenses |
| Social Development and Employment | Changes to the Welfare System | Policy Change – Expenses |
| Transport | Increases in the Fuel Excise Duty and/or Road User Charges | Policy Change – Revenue |
| | Wellington Transport Investment Programme | Policy Change – Expenses and Capital |
| Treaty of Waitangi Negotiations | Treaty Settlement Forecasts | Cost Pressure or Variance – Expenses |

| Unchanged Risks | | |
|---|---|---|
| **Portfolio** | **Risk Title** | **Type of Risk** |
| Veterans | Veterans' Support Entitlements Liability | Cost Pressure or Variance – Expenses |
| Cross-portfolio | Achieving New Zealand's International and Domestic Climate Change Targets | Policy Change – Expenses and Capital |
| | Adverse Weather Events | Cost Pressure or Variance – Expenses and Capital |
| | Carbon Neutral Government Programme | Policy Change – Expenses and Capital |
| | Non-government Providers Receiving Funding from the Crown | Cost Pressure or Variance – Expenses |
| | Other Capital Cost Pressures | Cost Pressure or Variance – Capital |
| | Other Operating Cost Pressures | Cost Pressure or Variance – Expenses |
| | 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 *Half Year Update*. The expectation is that these risks will be managed through existing funding sources and/or the Budget operating and capital allowances.

## ACC

***Court Decision – Expansion of Treatment Injury (Cost Pressure or Variance – Expenses)***

A recent High Court decision potentially expands the existing boundary of treatment injury and therefore costs of the scheme. These costs would be borne by the Non-Earners' Account and would necessitate additional Government funding.

## Disability Issues

***Transforming and Sustaining Disability Support Services for New Zealanders (Cost Pressure or Variance – Expenses)***

Disability Support Services are likely to face significant operating pressures over the forecast period driven by several factors including the rollout of the Enabling Good Lives approach to Disability Support Services, providers' equity and sustainability concerns, increased utilisation of existing allocations and changes in client behaviour and expectations. Although funding is provided for the Ministry for Disabled People through Budget 2022, further funding may be needed.

## Education

***Improving Engagement, Attendance and Inclusion (Policy Change – Expenses)***

The Education and Workforce Select Committee's inquiry into school attendance reported in March 2022 a rise in chronic absenteeism in schools and recommended that the Government prioritise the development and implementation of a school attendance strategy. Although funding aimed at improving attendance is provided through Budget 2022, further funding may be needed to fully implement the Select Committee's recommendations.

***Inclusive Access to Education (Policy Change – Expenses and Capital)***

IHC New Zealand has a claim against the Crown in the Human Rights Review Tribunal of discrimination in education funding and services. Separately, the Office of the Ombudsman is investigating a complaint by Deaf Aotearoa and Deaf Children New Zealand about access to education in New Zealand Sign Language. If successful, further Crown investment may be required.

## Health

***Combined Pharmaceutical Budget (Cost Pressure or Variance – Expenses)***

Budget 2022 includes additional funding for pharmaceutical purchasing to enable PHARMAC to fund new medicines or widen access to already funded medicines. This additional funding is provided for the 2022/23 and 2023/24 fiscal years only. Further funding may be required in subsequent years to maintain access to the same selection of funded medicines.

## Public Service

***Royal Commission Independent Redress System Claims for Survivors of Abuse in Care (Policy Change – Expenses)***

The Abuse in Care Royal Commission of Inquiry has recommended the establishment of a new independent, holistic redress system for survivors of abuse in care, to replace the existing historical claims processes. The Government has agreed that work to develop a redress system is required. There is too much uncertainty to estimate the fiscal impact from a new redress system to include in the fiscal forecasts at this point.

## Social Development and Employment

***Replacement and Transformation of MSD's Systems (Cost Pressure or Variance – Expenses and Capital)***

The Ministry of Social Development (MSD) has identified technology investments that it has analysed as being critical and that require software and hardware upgrades, or replacement. Costs associated with these critical systems are maintained from within existing baselines and MSD may require further funding to manage its critical systems.

## Transport

***COVID-19 Impacts on National Land Transport Fund (NLTF) Revenue (Cost Pressure or Variance – Revenue and Expenses)***

The August 2021 COVID-19 outbreak and ongoing COVID-19 restrictions/current settings have had a significant impact on revenue and expenditure levels on the NLTF. There is a risk more funding is required to support Waka Kotahi's delivery of the 2021 to 2024 National Land Transport Programme as a result of this reduced revenue and higher costs (linked to supply chain constraints and inflation).

# Changed Risks by Portfolio

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

## COVID-19 Response, Health

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

Funding has been allocated for the Government's public health response to COVID-19 to December 2022. If the scale of COVID-19 outbreaks increases, or a new variant emerges, there is a risk that additional funding will be required for the public health response. This could include the costs of testing and providing care for COVID-19 cases in the community, as well as for the purchase and distribution of additional therapeutics and vaccines.

## Economic and Regional Development

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

The New Zealand Screen Production Grant (NZSPG) 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. Funding for the NZSPG has been allocated in Budget 2022, but there remains a risk that demand for the NZSPG will exceed what is included in the fiscal forecasts if more large-budget productions choose to locate in New Zealand.

In December 2021 the Government announced a Review of Government Investment in the Screen Sector, with the NZSPG - International in the scope of the review. The Review may propose changes to the NZSPG that could impact on spend over the forecast period. Potential decisions in response to the review are expected to be taken by April 2023.

## Education

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

The Government's Learning Support Action Plan 2019-2025 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 are at risk of disengaging from education. In addition, high demand is putting pressure on the size and capability of the learning support workforce. Although funding is provided through Budget 2022, there is a risk that further funding will be required if this pressure continues to grow.

## Health

### *Health and Disability System Reform (Policy Change – Expenses)*

Health New Zealand and the Māori Health Authority will be established on 1 July 2022. In Budget 2022 the Government has made a significant two-year investment in these new entities and in health services for New Zealanders, before moving toward a three-year funding cycle from Budget 2024 to support the first New Zealand Health Plan. While the costs of the two-year Budget 2022 investment are included in the fiscal forecasts, throughout the forecast period there will be a need for further funding to support reform. In addition, Budget 2022 health funding decisions were made based on several assumptions about the combined deficits of district health boards and scope for efficiencies in the early years of the reformed system. If these assumptions turn out to be incorrect, additional funding may be required.

### *Health Capital Pressure (Cost Pressure or Variance – Capital)*

Notwithstanding the funding provided in Budget 2022, there remains significant capital pressures on the health system. These pressures are largely driven by asset condition issues and demographic change (population growth and an ageing population), placing pressure on infrastructure capacity.

### *Reducing Planned Care Waiting Lists (Policy Change – Expenses)*

During the COVID-19 pandemic, it has been challenging to deliver intended planned care volumes. This risk identifies that there may be a future cost to clear the backlog resulting from the COVID-19 pandemic.

## 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. There is a risk that the actual costs may differ from the forecasts.

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

The implementation of KiwiBuild and a number of Kāinga Ora large-scale housing redevelopment projects pose fiscal, commercial, financial and delivery risks. This is due to the scale of the projects, their evolving nature, the impact of COVID-19, and their potential to be adversely impacted by upcoming market headwinds. This risk combines the "KiwiBuild – Fiscal and Delivery Risks" and "Large-scale Housing and Urban Development Projects" risks published in the *Half Year Update.*

## Local Government

***Three Waters ICT Investment (Policy Change – Expenses and Capital)***

As part of the Three Waters Reform Programme, the new water service entities will require investment in new ICT to ensure they are fully functional on day one of operation. The fiscal forecasts reflect a best estimate of the likely net costs to the Crown for this investment. However, there is a risk that actual costs and the split between capital and operating costs may differ from the assumptions included for the fiscal forecasts.

## Social Development and Employment

***New Zealand Income Insurance Scheme (Policy Change – Revenue and Expenses)***

The forecasts assume that the Government will implement an income insurance scheme from the 2024/25 fiscal year. The forecast amounts use the same assumptions as in the discussion document, updated for changes in wages since 2019 on which those estimates were based. The timing and implementation of the scheme, design revisions following consultation, judgements as to the likely take-up and duration of scheme claims, the likely average income of claimants and behavioural responses are all subject to uncertainty and could have a positive or negative effect on the forecasts. Second-order effects on labour participation, productivity, wage growth and the impact on other social benefits have mixed international evidence and are also too uncertain to forecast at this stage.

## Transport

***City Centre to Māngere Rapid Transit Project (Cost Pressure or Variance – Expenses and Capital)***

The Government has received advice on the cost of the preferred rapid transit solution for the City Centre to Māngere corridor based on the indicative business case (IBC), although this cost remains highly uncertain. Budget 2022 provides the funding needed to carry out detailed planning. The planning phase will provide a refined view of this implementation cost, which is expected to increase as the IBC did not provide clear estimates of the urban development and enabling infrastructure costs associated with the transport solution. The level of capital or operational funding contributed by the Auckland local government remains uncertain, and other funding tools, including value capture will continue to be considered. Final investment decisions and agreements to funding and financing are not expected to be made until 2024.

***Future of Rail Commitments (Cost Pressure or Variance – Expenses and Capital)***

The final tranche of Crown funding investment is required to implement the approved Rail Plan and Rail Network Investment Programme. This investment funds maintenance and renewal of the rail network.

# Updated Risks by Portfolio

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

## ACC

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

ACC levies were set by Government in December 2021 until 2024/25 for the Work, Earners' and Motor Vehicle accounts included in the forecasts. Revenue from the levies set for these accounts may be more or less than that required to cover the cost of claims. If factors such as claims experience, ACC performance, and economic assumptions (particularly discount rates and unemployment rates) differ from the forecasts, ACC's levy revenue, claims costs, and liability may also differ from the forecasts. Any variance will have a corresponding impact on the operating balance.

***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. From time to time, Court decisions expand the application of the scheme, which can also have significant fiscal impacts.

***Work-related Gradual Process, Disease or Infection (Policy Change – Expenses)***

Under current legislation, the Government incurs an obligation for Work-related Gradual Process, Disease or 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 to the end of 2022/23. The timing of farming sector contributions may differ from what is in the fiscal forecasts. The need for Crown funding to be appropriated for 2023/24 and subsequent years will be considered depending on progress in eradicating the disease.

## Children

### *Enabling Community and Iwi to Help Children (Cost Pressure or Variance – Expenses)*

The Government is committed to ensuring that Oranga Tamariki continues its progress to honour Te Tiriti o Waitangi, and partners with iwi, hapū and Māori organisations to find appropriate solutions for children in need in line with the Future Direction Plan for Oranga Tamariki.

Any changes to the way Oranga Tamariki partners with Māori will have operational and fiscal implications in excess of what is in the fiscal forecasts. The risk may be mitigated once a partnership strategy is developed as some current funding may be re-prioritised to meet this need.

## Climate Change

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

New Zealand’s Emissions Trading Scheme (ETS) has a trigger price ceiling, called the “Cost Containment Reserve”, 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.

### *Emissions Trading Scheme – Variations in Revenue and Expenses (Cost Pressure or Variance – Revenue and Expenses)*

The 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 NZUs and the responses of participants (such as 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 31 March 2022.

## 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. There was significant growth in the demand for tertiary education and training (particularly for apprenticeships) in 2021. There is funding pressure related to apprentices over 2022 and 2023 but ongoing funding pressure from provider-based enrolments over 2022 to 2024 is less certain.

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

The Ka Ora, Ka Ako Healthy School Lunches Programme is funded until the end of the 2023 school year for the 25% of children and young people in years 1 to 13 nationwide in schools with the highest concentrations of socioeconomic disadvantage. If the Government confirms an extension or expansion of the programme, additional ongoing funding beyond that currently provided for will be required.

***Reform of Vocational Education (Policy Change – 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 for vocational education and training.

## Finance

***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 (including the recently announced gradual reduction from the 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)***

The Government has agreed to implement a depositor compensation scheme (DCS) with a target timeframe of the 2023/24 fiscal year. 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 to be applied to them (due to proposed changes to accounting standards) expenses relating to the scheme have not been included in the fiscal forecasts and are thus being disclosed as a specific fiscal risk.

## 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. EQC recognises expected future costs only where it is liable for such costs under the Earthquake Commission Act 1993. The risks include litigation and the level of future remedial claims. It is not possible at this stage to fully quantify the potential financial impact or the timing of these risks owing to the uncertainty associated with them, and variance from what is in the fiscal forecasts could be material.

## Foreign Affairs

***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 (including $75 million allocated in Budget 2022) 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.

## 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 that could increase the levy, impacting revenue. Prior to COVID-19 the levy was forecast to collect around $75 million per annum. However, future levels of international tourism are uncertain. It is intended that revenue remain hypothecated, so the impact of any change should be fiscally neutral overall. There is a risk that the expected increase in revenue does not occur.

## Transport

***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 at Alert Levels 3 and 4), including supply chain disruption (delays and extra costs with shipping), obstacles in obtaining and retaining skilled overseas workers, and higher-than-expected construction cost inflation.

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

The Government has committed to fund 50% of the costs associated with the City Rail Link project, along with Auckland Council, which has also committed to fund 50% of the project. Both the Government and Auckland Council have treated the investment for the City Rail Link project as capital expenditure. Depending on the final ownership structure of the City Rail Link, the Government may need to write off some the value currently capitalised in the fiscal forecasts. Any write-off is likely to be in the range of ±20% of the Crown's investment (ie, there may be a write-up of value), but this depends on several factors including allocation of assets and valuation basis once allocation has been determined. The timeframe for decisions on future ownership has yet to be finalised.

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

After a reset of the $6.8 billion New Zealand Upgrade Programme in May 2021, a further $1.9 billion of Crown funding was set aside in a tagged capital contingency to support completion of the Programme now valued at $8.7 billion.

With the current inflationary conditions and impacts of COVID-19 there is an ongoing risk further funding may be required to deliver the Programme.

## 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 the Ngāi Tahu and Waikato-Tainui 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.

## Cross-portfolio

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

The Government has signalled a desire to move away from broad-based and sector-specific COVID-19 economic supports. If the Government were to provide additional support, 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 underspends on already approved support.

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

A number of agencies are planning significant digital transformation programmes to replace ageing information and communications technology (ICT) assets and capability that are no longer fit for purpose. The costs of implementing such programmes are expected to escalate over the coming years due to rising labour and materials costs, and supply chain impacts. It is likely that the resourcing required to deliver the level of transformation being planned will exceed what is available in agencies' baselines and balance sheets.

***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), a draft of which was released for public consultation on 27 April 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 debt.

***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 have since been raised under the Equal Pay Amendment Act 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, the outcomes reached from applying the pay equity principles to each particular claim, and any subsequent funding decisions.

# Unchanged Risks by Portfolio

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

## ACC

***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.

## 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.

## Defence

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

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

***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 negative impact on the Government's overall financial position.

## Education

### *Early Learning Action Plan (Policy Change – Expenses)*

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

### *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.

## Finance, Earthquake Commission

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

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

## Foreign Affairs

### *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.

## Housing

### *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 the Government's 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.

## 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.

## 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.

## 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.

***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.

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

The research and development (R&D) tax incentive allows eligible firms to receive a tax credit based on a percentage of their expenditure on R&D. Under certain circumstances, eligible firms may receive a cash payment in place of a tax credit. There is a risk that costs may differ from forecasts owing to the limited availability of data for forecasting purposes on future R&D expenditure, including how firms' R&D expenditure will respond to the subsidy.

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

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

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

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

## Social Development and Employment

### *Changes to the Welfare System (Policy Change – Expenses)*

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

## 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.

### *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.

## Treaty of Waitangi Negotiations

***Treaty Settlement Forecasts (Cost Pressure or Variance – Expenses)***

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

## Veterans

***Veterans' 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 understated or overstated 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.

***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.

***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 emissions 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.

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

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

***Other Capital Cost Pressures (Cost Pressure or Variance – Capital)***

Agencies are likely to face capital expenditure pressures related to replacing ageing infrastructure and other capital requirements driven by demand pressures. These 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 – Expenses)***

As in previous years, agencies are likely to face operating expenditure pressures in the future as a result of changes in the demand for, and price of, the services they provide or because some of their funding is time limited. The majority of spending by agencies is not automatically adjusted for increases driven by demand or price pressures. These pressures, 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.

***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 *Half Year Update*

The following table outlines risks that were published in the *Half Year Update* but are no longer disclosed as specific fiscal risks, because 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 |
|---|---|---|
| Broadcasting and Media | Delivery of the Government's Public Media Outcomes | This risk is no longer material as funding is provided through Budget 2022. |
| COVID-19 Response | COVID-19 Vaccine Strategy | This risk has been subsumed into the wider risk "*COVID-19 Response – Ongoing Costs of Current Response*". |
| | Managed Isolation and Quarantine | This risk no longer meets the materiality threshold for publication. |
| Economic and Regional Development | Regional Strategic Partnership Fund | This risk is no longer material as funding is provided through Budget 2022. |
| Education | Education Operating Cost Pressures | This risk has been subsumed into the cross-portfolio risk "*Other Operating Cost Pressures*". |
| | ICT Capabilities to Support Future Education | This risk has been subsumed into the cross-portfolio risk "*Information and Communications Technology Operating and Capital Pressures*". |
| | Replacing Deciles with the Equity Index | This risk is no longer material as funding is provided through Budget 2022. |
| Finance | Air New Zealand's Proposed Capital Raise | This risk is no longer material as funding is included in the fiscal forecasts. |
| Health | Enhanced Immunisation Programmes in 2022 | This risk is no longer material as funding is included in the fiscal forecasts. |
| | Health System Sustainability | This risk has been subsumed into the wider risk *"Health and Disability System Reform"*. |
| | Mental Health Support for Children | This risk is no longer material as funding is provided through Budget 2022. |
| Justice | Legal Aid Demand Pressures | This risk is no longer material as funding is provided through Budget 2022. |
| Māori Development | Waitangi Tribunal Recommendations and Claims | This risk no longer meets the materiality threshold for publication. |
| Revenue | Transformation and Technology Renewal | This risk is no longer material as the Transformation Programme has substantively been implemented. |
| Social Development and Employment | Increasing Special Needs Grant Limits for Emergency Dental Treatment | This risk is no longer material as funding is provided through Budget 2022. |
| Speaker of the House of Representatives | Future Parliamentary Accommodation | This risk is no longer material as funding is provided through Budget 2022. |
| Transport | Maintaining International Air Connectivity (MIAC) Scheme | This risk no longer meets the materiality threshold for publication. |
| Cross-portfolio | Outcomes from Other Government Inquiries and Reviews | This is no longer a risk as the government inquiries and reviews are now complete and outcomes are known. |

# 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 debt. In the case of some contingencies (eg, uncalled capital) the negative impact would be restricted to net 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 March 2022, being the latest set of published financial statements of 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 March 2022 ($millions) | 30 June 2021 ($millions) |
|---|---|---|---|
| **Uncalled capital** | | | |
| Asian Development Bank | Unchanged | 3,069 | 3,157 |
| International Monetary Fund – promissory notes | Unchanged | 1,787 | 1,862 |
| International Bank for Reconstruction and Development | Unchanged | 1,700 | 1,637 |
| International Monetary Fund – arrangements to borrow | Unchanged | 1,332 | 1,366 |
| Asian Infrastructure Investment Bank | Unchanged | 530 | 527 |
| Other uncalled capital | Unchanged | 18 | 19 |
| | | **8,436** | **8,568** |
| **Guarantees and indemnities** | | | |
| New Zealand Export Credit Office guarantees | Unchanged | 239 | 181 |
| Other guarantees and indemnities | Unchanged | 166 | 167 |
| | | **405** | **348** |
| **Legal proceedings and disputes** | | | |
| Inland Revenue – legal tax proceedings | Unchanged | 165 | 160 |
| Waka Kotahi NZ Transport Agency | Unchanged | 96 | 84 |
| Other legal proceedings and disputes | Unchanged | 64 | 69 |
| | | **325** | **313** |
| **Other quantifiable contingent liabilities** | | | |
| Unclaimed monies | Unchanged | 217 | 186 |
| Waitangi Tribunal – binding recommendations | Changed | 200 | - |
| Air New Zealand partnership agreement | Unchanged | 193 | 100 |
| Ministry for Primary Industries – Biosecurity Act compensation | Unchanged | 127 | 127 |
| Other quantifiable contingent liabilities | Unchanged | 160 | 154 |
| | | **897** | **567** |
| **Total quantifiable contingent liabilities** | | **10,063** | **9,796** |

15 Status of contingent liabilities or assets when compared with the *Half Year Economic and Fiscal Update* published on 15 December 2021 (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated).

## Quantifiable contingent assets

| | | 31 March 2022 ($millions) | 30 June 2021 ($millions) |
|---|---|---|---|
| Other contingent assets | Unchanged | 48 | 58 |
| **Total quantifiable contingent assets** | | **48** | **58** |

## Unquantifiable contingent liabilities

| **Indemnities** | **Status** |
|---|---|
| Contact Energy Limited | Unchanged |
| Earthquake Commission | Unchanged |
| Genesis Energy | Unchanged |
| Justices of the Peace, Community Magistrates and Disputes Tribunal Referees | Unchanged |
| Maui Partners | Unchanged |
| New Zealand Aluminium Smelter and Rio Tinto Aluminium (formerly Comalco) | Unchanged |
| New Zealand Local Authorities | Unchanged |
| New Zealand Railways Corporation | Unchanged |
| Reserve Bank | Unchanged |
| Southern Response Earthquake Services Limited | Unchanged |
| Synfuels–Waitara Outfall indemnity | Unchanged |
| Westpac New Zealand Limited | Unchanged |
| **Legal proceedings and disputes** | |
| Accident Compensation Corporation (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** | |
| 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 |

## Description of Quantifiable Contingent Liabilities

### *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 on page 99, 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 99.

### *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 Office guarantees*

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

### *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.

*Waka Kotahi NZ Transport Agency*

Claims relating to a variety of roading and other contract disputes including contractual claims arising from property acquisitions and disposals.

Waka Kotahi is also currently working with the parties to the Transmission Gully Public Private Partnership (PPP) on responding to the contractual claims due to COVID-19 related disruption in 2021/22 and the subsequent impact on the construction programme and road opening. A similar process is underway in relation to the Puhoi to Warkworth PPP.

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 disputes between the parties.

***Other quantifiable contingent liabilities***

*Unclaimed monies*

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

*Waitangi Tribunal - binding recommendations*

In 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. A stay of the Tribunal's interim recommendations was granted in December 2021 and is now pending the outcome of judicial review in mid-2022.

*Air New Zealand partnership agreement*

The Air New Zealand Group has a partnership agreement with Pratt and 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.

*Ministry for Primary Industries – Biosecurity Act 1993 compensation*

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry of Primary Industries has been notified that compensation will be sought following biosecurity responses for incursions including bonamia ostraea, as well as claims for losses incurred following the destruction of bud-stock, known as the Post Entry Quarantine response.

## 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 net debt.

| Party indemnified | Instrument of indemnification | Actions indemnified |
|---|---|---|
| Contact Energy Limited | The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei. | 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 (by means of grant or advance) any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister determines.<br>As the contingency has no end date, it is not possible to quantify the value of commitments that may arise from past or future 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 bed of lakes and rivers subject to operating easements. |
| Justices of the Peace, Community Magistrates and Disputes Tribunal Referees | Section 50 of the District Courts Act 2016, section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988 | Damages or costs awarded against them as a result of exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified. |
| Maui Partners | Confidentiality agreements with Maui Partners in relation to the provision of gas reserves information | Any losses arising from a breach of the deed. |

| 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 | The Crown has 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.<br>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.<br>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.<br>Indemnified Bonds means all New Zealand domestic nominal government bonds, inflation-indexed government bonds and Local Government Funding Agency (LGFA) 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. |

| Party indemnified | Instrument of indemnification | Actions indemnified |
|---|---|---|
| | | Indemnified bonds are limited to a cap of 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 of 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 settle the claims of AMI residual policy holders for Canterbury earthquake damage which occurred before 5 April 2012. The Minister of Finance has provided SRES with a Deed of Indemnity to ensure that SRES can access sufficient resources to operate and discharge its contractual obligations. |
| Synfuels-Waitara Outfall indemnity | 1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI) | The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited. |
| Westpac New Zealand Limited | Letter of Indemnity relating to the agreement for supply of transactional banking services to the Crown | 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 cost, damages and losses to third parties resulting from:<br>• unauthorised, forged or fraudulent payment instructions<br>• unauthorised or incorrect direct debit instructions, or<br>• payments mistakenly made in favour of a third party rather than made 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, but the amount remains unquantified. This is because the Ministry of Primary Industries is unable to reliably estimate the period of time that 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), University, 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 they say the Crown holds on trust for the successors of the original owners and compensation, or other relief, for alleged breach of trust, fiduciary and other equitable obligations. In February 2017, the Supreme Court held that the Crown owed a fiduciary duty in relation to the land transactions concerned, but remitted matters of breach, defences and remedy to the High Court for a further hearing or hearings. The matter is large and complex and could take many years to resolve.

***Other unquantifiable contingent liabilities***

*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, 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 as at 31 March 2022.

# 4

# Forecast Financial Statements

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

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

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 28 April 2022, 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 21 to 60).

# 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 61 to 108. Key forecast assumptions are set out on pages 23 to 24.

## Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 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 (restated where necessary).

## Restatement of Comparative Figures

The 2021 Actual comparative figures were restated to reflect the change in accounting policy related to interpretation of the International Financial Reporting Interpretations Committee (IFRIC) agenda decision, which provides authoritative guidance on accounting for configuration or customisation costs in relation to Software as a Service (SaaS) arrangements. The 2020 Actual balances have also been restated in the time series of fiscal indicators.

The impact on the reported net worth at 1 July 2021 was a decrease of $298 million as a result of this change in accounting policy.

# Government Reporting Entity as at 28 April 2022

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
(hosts Ministry for Ethnic Communities as a departmental agency)

Department of the Prime Minister and Cabinet
(hosts 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
(hosts Cancer Control Agency, Health New Zealand and Māori Health Authority as departmental agencies)

Ministry of Housing and Urban Development

Ministry of Justice
(hosts Te Arawhiti – Office for Māori Crown Relations as a departmental agency)
(services Elimination of Family Violence and Sexual Violence as an interdepartmental executive board)

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
(hosts Social Wellbeing Agency as a departmental agency)

Serious Fraud Office

Statistics New Zealand

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

The Treasury

**Offices of Parliament**

Controller and Auditor-General

Office of the Ombudsman

Parliamentary Commissioner for the Environment

**Others**

New Zealand Superannuation Fund

Reserve Bank of New Zealand

### State-owned Enterprises Segment

**State-owned Enterprises**

Airways Corporation of New Zealand Limited

Animal Control Products Limited

AsureQuality Limited

Electricity Corporation of New Zealand Limited

KiwiRail Holdings Limited

Kordia Group Limited

Landcorp Farming Limited

Meteorological Service of New Zealand Limited

New Zealand Post Limited

New Zealand Railways Corporation

Quotable Value Limited

Transpower New Zealand Limited

**Mixed ownership model companies (Public Finance Act Schedule 5)**

Genesis Energy Limited

Mercury NZ Limited

Meridian Energy Limited

**Other**

Air New Zealand Limited

Kiwi Group Holdings Limited (including Kiwibank)

## Crown Entities Segment

**Crown Entities**

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children’s Commissioner
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora - Homes and Communities
Law Commission
Maritime New Zealand
Mental Health and Wellbeing Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Growth Capital Partners Limited
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 (2,430)
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)

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

Te Urewera

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

Crown Asset Management Limited

Crown Infrastructure Partners Limited

Crown Regional Holdings 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

**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 | 103,165 | 115,509 | 121,982 | 129,203 | 137,678 |
| Other sovereign revenue | 1 | 7,038 | 6,895 | 8,706 | 9,297 | 10,180 | 11,771 | 15,886 |
| **Total Revenue Levied through the Crown's Sovereign Power** | | **104,400** | **99,569** | **111,871** | **124,806** | **132,162** | **140,974** | **153,564** |
| Sales of goods and services | | 18,500 | 17,676 | 16,819 | 19,441 | 20,849 | 21,544 | 22,121 |
| Interest revenue | 2 | 1,943 | 2,020 | 2,215 | 2,829 | 3,161 | 3,199 | 3,686 |
| Other revenue | | 4,492 | 4,604 | 4,891 | 5,078 | 5,192 | 5,257 | 5,376 |
| **Total revenue earned through the Crown's operations** | | **24,935** | **24,300** | **23,925** | **27,348** | **29,202** | **30,000** | **31,183** |
| **Total revenue (excluding gains)** | | **129,335** | **123,869** | **135,796** | **152,154** | **161,364** | **170,974** | **184,747** |
| **Expenses** | | | | | | | | |
| Transfer payments and subsidies | 3 | 35,427 | 36,955 | 44,750 | 39,444 | 41,377 | 43,949 | 46,361 |
| Personnel expenses | | 29,817 | 29,981 | 31,325 | 32,998 | 33,513 | 33,585 | 33,688 |
| Depreciation | | 5,566 | 5,756 | 6,286 | 6,613 | 6,975 | 7,133 | 7,210 |
| Other operating expenses | 4 | 53,939 | 58,973 | 66,000 | 61,968 | 60,338 | 58,154 | 61,275 |
| Finance costs | 2 | 2,272 | 2,351 | 3,355 | 5,233 | 6,098 | 6,371 | 6,411 |
| Insurance expenses | 5 | 6,838 | 6,538 | 6,729 | 9,368 | 9,705 | 10,125 | 10,553 |
| Forecast new operating spending | 6 | - | 4,221 | 592 | 4,904 | 6,677 | 9,630 | 12,681 |
| Top-down operating expense adjustment | 6 | - | (2,775) | (4,150) | (2,000) | (1,175) | (1,075) | (925) |
| **Total expenses (excluding losses)** | | **133,859** | **142,000** | **154,887** | **158,528** | **163,508** | **167,872** | **177,254** |
| **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 | (1,383) | 4,894 | 5,928 | 6,389 | 6,791 |
| Net gains/(losses) on non-financial instruments | 7 | 6,869 | (135) | (7,357) | (49) | (99) | (99) | (92) |
| **Total gains/(losses) (including minority interests)** | | **21,023** | **2,843** | **(8,741)** | **4,845** | **5,829** | **6,290** | **6,699** |
| Net surplus/(deficit) from associates and joint ventures | | (360) | (98) | 158 | 149 | 160 | 175 | 194 |
| Less minority interests share of operating balance | | (117) | (262) | (206) | (252) | (449) | (458) | (511) |
| **Operating balance (excluding minority interests)** | | **16,022** | **(15,648)** | **(27,880)** | **(1,632)** | **3,396** | **9,109** | **13,875** |
| Minority interest share of operating balance | | 117 | 262 | 206 | 252 | 449 | 458 | 511 |
| **Operating balance (including minority interests)** | | **16,139** | **(15,386)** | **(27,674)** | **(1,380)** | **3,845** | **9,567** | **14,386** |

*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)** | **16,139** | **(15,386)** | **(27,674)** | **(1,380)** | **3,845** | **9,567** | **14,386** |
| **Other comprehensive revenue and expense** | | | | | | | |
| Revaluation of physical assets | 22,539 | - | 216 | - | - | - | - |
| Revaluation of defined benefit retirement plan schemes | 2,325 | 216 | 711 | 162 | 125 | 118 | 118 |
| Net revaluations of veterans' disability entitlements | 436 | - | - | - | - | - | - |
| Transfers to/(from) reserves | (143) | - | 224 | (12) | (1) | 3 | (12) |
| (Gains)/losses transferred to the statement of financial performance | 181 | - | (74) | (10) | 1 | 5 | 2 |
| Foreign currency translation differences on foreign operations | 8 | 4 | (5) | - | - | - | - |
| Other movements | 15 | (14) | (455) | 44 | (14) | (20) | (26) |
| **Total other comprehensive revenue and expense** | **25,361** | **206** | **617** | **184** | **111** | **106** | **82** |
| **Total comprehensive revenue and expense** | **41,500** | **(15,180)** | **(27,057)** | **(1,196)** | **3,956** | **9,673** | **14,468** |
| **Attributable to:** | | | | | | | |
| - minority interest | 488 | 259 | 261 | 256 | 450 | 454 | 504 |
| - the Crown | 41,012 | (15,439) | (27,318) | (1,452) | 3,506 | 9,219 | 13,964 |
| **Total comprehensive revenue and expense** | **41,500** | **(15,180)** | **(27,057)** | **(1,196)** | **3,956** | **9,673** | **14,468** |

# 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** | 115,782 | 117,263 | 156,895 | 130,368 | 128,854 | 132,430 | 141,710 |
| Operating balance (including minority interest) | 16,139 | (15,386) | (27,674) | (1,380) | 3,845 | 9,567 | 14,386 |
| Net revaluations of physical assets | 22,539 | - | 216 | - | - | - | - |
| Net revaluations of defined benefit retirement plan schemes | 2,325 | 216 | 711 | 162 | 125 | 118 | 118 |
| Net revaluations of veterans' disability entitlements | 436 | - | - | - | - | - | - |
| Transfers to/(from) reserves | (143) | - | 224 | (12) | (1) | 3 | (12) |
| (Gains)/losses transferred to the Statement of Financial Performance | 181 | - | (74) | (10) | 1 | 5 | 2 |
| Foreign currency translation differences on foreign operations | 8 | 4 | (5) | - | - | - | - |
| Other movements | 15 | (14) | (455) | 44 | (14) | (20) | (26) |
| **Comprehensive income** | **41,500** | **(15,180)** | **(27,057)** | **(1,196)** | **3,956** | **9,673** | **14,468** |
| Increase in minority interest from equity issues | - | 477 | 901 | - | - | - | - |
| Transactions with minority interest | (387) | (373) | (371) | (318) | (380) | (393) | (398) |
| **Closing net worth** | **156,895** | **102,187** | **130,368** | **128,854** | **132,430** | **141,710** | **155,780** |

*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 | 101,430 | 113,567 | 115,971 | 132,825 | 136,107 |
| Other sovereign receipts | 6,424 | 6,008 | 7,704 | 7,275 | 7,802 | 9,271 | 13,189 |
| Sales of goods and services | 17,732 | 17,995 | 17,108 | 19,353 | 20,964 | 21,425 | 21,759 |
| Interest receipts | 1,670 | 1,737 | 1,768 | 2,199 | 2,449 | 2,575 | 3,130 |
| Other operating receipts | 4,814 | 4,257 | 4,649 | 4,867 | 5,190 | 5,312 | 5,391 |
| **Total cash provided from operations** | **126,022** | **122,579** | **132,659** | **147,261** | **152,376** | **171,408** | **179,576** |
| **Cash was disbursed to** | | | | | | | |
| Transfer payments and subsidies | 35,515 | 37,271 | 44,987 | 39,777 | 41,670 | 45,307 | 46,894 |
| Personnel and operating payments | 84,256 | 91,242 | 99,805 | 99,046 | 95,388 | 94,671 | 98,170 |
| Interest payments | 3,147 | 2,962 | 3,297 | 4,558 | 5,232 | 5,704 | 5,817 |
| Forecast new operating spending | - | 4,221 | 592 | 4,904 | 6,677 | 9,630 | 12,681 |
| Top-down operating expense adjustment | - | (2,775) | (4,150) | (2,000) | (1,175) | (1,075) | (925) |
| **Total cash disbursed to operations** | **122,918** | **132,921** | **144,531** | **146,285** | **147,792** | **154,237** | **162,637** |
| **Net cash flows from operations** | **3,104** | **(10,342)** | **(11,872)** | **976** | **4,584** | **17,171** | **16,939** |
| **Cash Flows from Investing Activities** | | | | | | | |
| **Cash was provided from/(disbursed to)** | | | | | | | |
| Net (purchase)/sale of physical assets | (9,393) | (16,039) | (13,170) | (16,388) | (14,659) | (11,033) | (12,236) |
| Net (purchase)/sale of shares and other securities | 4,189 | (4,749) | 4,767 | 13,498 | 5,176 | (10,326) | (13,335) |
| Net (purchase)/sale of intangible assets | (898) | (951) | (996) | (1,383) | (1,230) | (698) | (625) |
| Net (issue)/repayment of advances | (5,663) | (16,195) | (11,254) | (14,154) | (338) | 1,737 | 11,555 |
| Net acquisition of investments in associates | (392) | (674) | (611) | (584) | (227) | (91) | 4 |
| Forecast new capital spending | - | (2,033) | (963) | (1,311) | (1,736) | (2,130) | (2,260) |
| Top-down capital adjustment | - | 2,425 | 1,750 | 1,060 | 1,210 | 460 | 210 |
| **Net cash flows from investing activities** | **(12,157)** | **(38,216)** | **(20,477)** | **(19,262)** | **(11,804)** | **(22,081)** | **(16,687)** |
| **Net cash flows from operating and investing activities** | **(9,053)** | **(48,558)** | **(32,349)** | **(18,286)** | **(7,220)** | **(4,910)** | **252** |
| | | | | | | | - |
| **Cash Flows from Financing Activities** | | | | | | | |
| **Cash was provided from/(disbursed to)** | | | | | | | |
| Net Issue/(repayment) of circulating currency | 234 | 84 | 903 | - | 92 | 93 | 93 |
| Net issue/(repayment) of government bonds[1] | 1,158 | 464 | 18,993 | 15,360 | 16,579 | 16,379 | 3,746 |
| Net issue/(repayment) of foreign-currency borrowings | 348 | (210) | (2,550) | (1,159) | 333 | 985 | (217) |
| Net issue/(repayment) of other New Zealand dollar borrowings | 5,847 | 45,958 | 12,803 | 4,722 | (8,802) | (11,177) | (2,771) |
| Issue of equity | - | - | 806 | - | - | - | - |
| Dividends paid to minority interests[2] | (373) | (267) | (253) | (269) | (384) | (411) | (423) |
| **Net cash flows from financing activities** | **7,214** | **46,029** | **30,702** | **18,654** | **7,818** | **5,869** | **428** |
| **Net movement in cash** | **(1,839)** | **(2,529)** | **(1,647)** | **368** | **598** | **959** | **680** |
| Opening cash balance | 21,927 | 14,947 | 18,755 | 17,317 | 17,713 | 18,308 | 19,270 |
| Foreign-exchange gains/(losses) on opening cash | (1,333) | 4 | 209 | 28 | (3) | 3 | (1) |
| **Closing cash balance** | **18,755** | **12,422** | **17,317** | **17,713** | **18,308** | **19,270** | **19,949** |

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)** | **(11,872)** | **976** | **4,584** | **17,171** | **16,939** |
| *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 | (1,383) | 4,894 | 5,928 | 6,389 | 6,791 |
| Net gains/(losses) on non-financial instruments | 6,869 | (135) | (7,357) | (49) | (99) | (99) | (92) |
| Net surplus/(deficit) from associates and joint ventures | (360) | (98) | 158 | 149 | 160 | 175 | 194 |
| Minority interest share of operating balance | (117) | (262) | (206) | (252) | (449) | (458) | (511) |
| **Total gains/(losses) and other interests** | **20,546** | **2,483** | **(8,789)** | **4,742** | **5,540** | **6,007** | **6,382** |
| **Other Non-cash Items in Operating Balance** | | | | | | | |
| Depreciation | (5,566) | (5,756) | (6,286) | (6,613) | (6,975) | (7,133) | (7,210) |
| Amortisation | (1,335) | (831) | (948) | (964) | (957) | (908) | (898) |
| Cost of concessionary lending | (1,039) | (746) | (1,327) | (1,097) | (866) | (732) | (695) |
| Impairment of financial assets (excluding receivables) | (1) | (100) | (104) | (89) | (61) | 38 | 42 |
| Decrease/(increase) in insurance liabilities | (1,868) | (1,445) | (1,594) | (3,642) | (3,658) | (3,785) | (3,880) |
| Other | 149 | - | - | - | - | - | - |
| **Total other non-cash Items** | **(9,660)** | **(8,878)** | **(10,259)** | **(12,405)** | **(12,517)** | **(12,520)** | **(12,641)** |
| **Working Capital and Other Movements** | | | | | | | |
| Increase/(decrease) in receivables | 1,481 | (550) | 523 | 2,017 | 5,523 | (3,924) | 1,425 |
| Increase/(decrease) in accrued interest | 1,126 | 983 | 260 | (114) | (269) | (164) | (167) |
| Increase/(decrease) in inventories | 421 | 424 | 422 | 292 | (132) | 183 | 244 |
| Increase/(decrease) in prepayments | 63 | 12 | 357 | (27) | (22) | (79) | 12 |
| Decrease/(increase) in deferred revenue | 40 | (339) | (136) | (122) | (215) | (145) | (51) |
| Decrease/(increase) in payables/provisions | (1,832) | (192) | 512 | 2,248 | 217 | 1,908 | 1,057 |
| Defined benefit retirement plan net expenditure | 733 | 751 | 1,102 | 761 | 687 | 672 | 675 |
| **Total working capital and other movements** | **2,032** | **1,089** | **3,040** | **5,055** | **5,789** | **(1,549)** | **3,195** |
| **Operating balance (excluding minority interests)** | **16,022** | **(15,648)** | **(27,880)** | **(1,632)** | **3,396** | **9,109** | **13,875** |

*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 | 17,317 | 17,713 | 18,308 | 19,270 | 19,949 |
| Receivables | 8 | 26,829 | 24,660 | 27,083 | 28,906 | 34,443 | 30,519 | 31,944 |
| Marketable securities, deposits and derivatives in gain | 8 | 56,783 | 57,208 | 53,940 | 51,202 | 53,153 | 56,408 | 75,491 |
| Share investments | 8 | 48,539 | 46,248 | 50,853 | 53,423 | 56,174 | 59,198 | 62,430 |
| Advances | 8 | 45,612 | 63,739 | 57,348 | 70,883 | 70,901 | 68,891 | 57,026 |
| Investments in controlled enterprises | 8 | 4,718 | 5,126 | 4,849 | 5,991 | 7,751 | 9,594 | 11,547 |
| Inventory | | 2,194 | 2,499 | 2,616 | 2,908 | 2,776 | 2,959 | 3,203 |
| Other assets | | 3,928 | 3,447 | 3,894 | 4,027 | 3,847 | 3,596 | 3,699 |
| Property, plant and equipment | 10 | 213,216 | 201,003 | 221,570 | 230,776 | 238,008 | 241,935 | 246,630 |
| Equity accounted investments[1] | | 14,421 | 14,695 | 15,142 | 15,816 | 16,174 | 16,395 | 16,568 |
| Intangible assets and goodwill | | 3,303 | 4,384 | 3,577 | 4,209 | 4,688 | 4,638 | 4,572 |
| Forecast for new capital spending | 6 | - | 2,033 | 963 | 2,274 | 4,010 | 6,140 | 8,400 |
| Top-down capital adjustment | | - | (3,225) | (1,750) | (2,810) | (4,020) | (4,480) | (4,690) |
| **Total assets** | | **438,298** | **434,239** | **457,402** | **485,318** | **506,213** | **515,063** | **536,769** |
| **Liabilities** | | | | | | | | |
| Issued currency | | 8,256 | 8,503 | 9,159 | 9,159 | 9,250 | 9,343 | 9,436 |
| Payables | 12 | 17,577 | 15,402 | 15,625 | 15,057 | 15,074 | 14,295 | 14,396 |
| Deferred revenue | | 2,549 | 2,670 | 2,685 | 2,807 | 3,022 | 3,167 | 3,218 |
| Borrowings | 15 | 162,560 | 215,234 | 200,518 | 230,618 | 245,070 | 243,016 | 248,222 |
| Insurance liabilities | 5 | 60,336 | 59,973 | 65,384 | 69,026 | 72,683 | 76,468 | 80,348 |
| Retirement plan liabilities | 13 | 11,038 | 11,859 | 9,663 | 9,061 | 8,537 | 8,012 | 7,471 |
| Provisions | 14 | 19,087 | 18,411 | 24,000 | 20,736 | 20,147 | 19,052 | 17,898 |
| **Total liabilities** | | **281,403** | **332,052** | **327,034** | **356,464** | **373,783** | **373,353** | **380,989** |
| **Total assets less total liabilities** | | **156,895** | **102,187** | **130,368** | **128,854** | **132,430** | **141,710** | **155,780** |
| **Net Worth** | | | | | | | | |
| Taxpayers' funds | | 19,559 | (11,061) | (8,674) | (10,254) | (6,865) | 2,226 | 16,074 |
| Property, plant and equipment revaluation reserve | | 134,003 | 112,003 | 134,125 | 134,146 | 134,146 | 134,146 | 134,146 |
| Defined benefit plan revaluation reserve | | (1,560) | (3,035) | (849) | (687) | (562) | (444) | (326) |
| Veterans' disability entitlements reserve | | (659) | (1,095) | (659) | (659) | (659) | (659) | (659) |
| Other reserves | | (172) | (261) | (90) | (145) | (153) | (143) | (145) |
| **Total net worth attributable to the Crown** | | **151,171** | **96,551** | **123,853** | **122,401** | **125,907** | **135,126** | **149,090** |
| Net worth attributable to minority interest | | 5,724 | 5,636 | 6,515 | 6,453 | 6,523 | 6,584 | 6,690 |
| **Total net worth** | 16 | **156,895** | **102,187** | **130,368** | **128,854** | **132,430** | **141,710** | **155,780** |

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

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

# Statement of Actual Commitments

## as at 31 March

| | As at 31 March 2022 $m | As at 30 June 2021 $m |
|---|---|---|
| **Capital Commitments** | | |
| State highways | 2,751 | 2,745 |
| Specialist military equipment | 2,123 | 2,598 |
| Land and buildings | 6,587 | 6,044 |
| Other property, plant and equipment | 4,836 | 4,431 |
| Other capital commitments | 788 | 1,031 |
| Universities and Wānanga | 875 | 875 |
| **Total capital commitments** | **17,960** | **17,724** |
| **Operating Commitments** | | |
| Non-cancellable accommodation leases | 5,163 | 5,342 |
| Other non-cancellable leases | 3,578 | 3,866 |
| Universities and Wānanga | 1,137 | 1,137 |
| **Total operating commitments** | **9,878** | **10,345** |
| **Total commitments** | **27,838** | **28,069** |
| **Total Commitments by Segment** | | |
| Core Crown | 14,787 | 14,090 |
| Crown entities | 9,398 | 9,063 |
| State-owned Enterprises | 6,965 | 6,896 |
| Inter-segment eliminations | (3,312) | (1,980) |
| **Total commitments** | **27,838** | **28,069** |

# Statement of Actual Contingent Liabilities and Assets

## as at 31 March

| | As at 31 March 2022 $m | As at 30 June 2021 $m |
|---|---|---|
| **Quantifiable Contingent Liabilities** | | |
| Uncalled capital | 8,436 | 8,568 |
| Guarantees and indemnities | 405 | 348 |
| Legal proceedings and disputes | 325 | 313 |
| Other contingent liabilities | 897 | 567 |
| **Total quantifiable contingent liabilities** | **10,063** | **9,796** |
| **Total Quantifiable Contingent Liabilities by Segment** | | |
| Core Crown | 9,668 | 9,538 |
| Crown entities | 165 | 157 |
| State-owned Enterprises | 287 | 196 |
| Inter-segment eliminations | (57) | (95) |
| **Total quantifiable contingent liabilities** | **10,063** | **9,796** |
| **Quantifiable Contingent Assets by Segment** | | |
| Core Crown | 27 | 37 |
| Crown entities | 21 | 21 |
| State-owned Enterprises | - | - |
| **Total quantifiable contingent assets** | **48** | **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 | 41,813 | 45,022 | 48,432 | 52,174 | 56,208 |
| Other persons | 8,773 | 7,076 | 10,045 | 11,265 | 12,052 | 12,622 | 13,334 |
| Refunds | (1,716) | (2,015) | (1,766) | (2,001) | (2,084) | (2,160) | (2,257) |
| Fringe benefit tax | 608 | 648 | 641 | 657 | 684 | 714 | 745 |
| **Total individuals** | **45,829** | **45,158** | **50,733** | **54,943** | **59,084** | **63,350** | **68,030** |
| **Corporate Tax** | | | | | | | |
| Gross companies tax | 15,640 | 13,009 | 17,391 | 21,062 | 21,049 | 22,018 | 23,092 |
| Refunds | (344) | (389) | (649) | (410) | (501) | (512) | (523) |
| Non-resident withholding tax | 472 | 472 | 508 | 571 | 626 | 650 | 670 |
| **Total corporate tax** | **15,768** | **13,092** | **17,250** | **21,223** | **21,174** | **22,156** | **23,239** |
| **Other Direct Income Tax** | | | | | | | |
| Resident w/holding tax on interest income | 1,000 | 1,016 | 717 | 1,354 | 1,707 | 1,863 | 1,947 |
| Resident w/holding tax on dividend income | 1,519 | 713 | 969 | 980 | 1,025 | 1,066 | 1,112 |
| **Total other direct income tax** | **2,519** | **1,729** | **1,686** | **2,334** | **2,732** | **2,929** | **3,059** |
| **Total direct income tax** | **64,116** | **59,979** | **69,669** | **78,500** | **82,990** | **88,435** | **94,328** |
| **Goods and Services Tax** | | | | | | | |
| Gross goods and services tax | 39,814 | 40,118 | 42,946 | 47,286 | 49,090 | 51,217 | 54,339 |
| Refunds | (14,252) | (15,070) | (16,655) | (17,904) | (18,287) | (18,857) | (19,613) |
| **Total goods and services tax** | **25,562** | **25,048** | **26,291** | **29,382** | **30,803** | **32,360** | **34,726** |
| **Other Indirect Taxation** | | | | | | | |
| Road and track user charges | 1,930 | 1,953 | 1,853 | 1,874 | 2,121 | 2,179 | 2,258 |
| Petroleum fuels excise – domestic production | 1,084 | 1,212 | 811 | - | - | - | - |
| Alcohol excise – domestic production | 780 | 829 | 805 | 896 | 965 | 1,022 | 1,073 |
| Petroleum fuels excise – imports[1] | 1,061 | 1,016 | 931 | 1,890 | 2,055 | 2,097 | 2,133 |
| Alcohol excise – imports[1] | 469 | 446 | 483 | 504 | 543 | 575 | 604 |
| Tobacco excise – imports[1] | 1,637 | 1,463 | 1,619 | 1,705 | 1,741 | 1,757 | 1,759 |
| Other customs duty | 169 | 161 | 195 | 203 | 200 | 202 | 210 |
| Gaming duties | 237 | 235 | 174 | 233 | 239 | 246 | 254 |
| Motor vehicle fees | 231 | 222 | 238 | 234 | 238 | 243 | 246 |
| Approved issuer levy and cheque duty | 63 | 80 | 70 | 65 | 65 | 65 | 65 |
| Energy resources levies | 23 | 30 | 26 | 23 | 22 | 22 | 22 |
| **Total other indirect taxation** | **7,684** | **7,647** | **7,205** | **7,627** | **8,189** | **8,408** | **8,624** |
| **Total indirect taxation** | **33,246** | **32,695** | **33,496** | **37,009** | **38,992** | **40,768** | **43,350** |
| **Total taxation revenue** | **97,362** | **92,674** | **103,165** | **115,509** | **121,982** | **129,203** | **137,678** |
| **Other Sovereign Revenue (accrual)** | | | | | | | |
| ACC levies | 3,270 | 3,278 | 3,326 | 3,598 | 3,866 | 4,163 | **4,546** |
| Income insurance levies | - | - | - | - | - | 1,100 | 4,700 |
| Emissions Trading revenue | 1,634 | 1,467 | 3,149 | 3,190 | 3,577 | 3,616 | 3,710 |
| Fire and Emergency levies | 607 | 600 | 626 | 637 | 651 | 664 | 677 |
| EQC levies | 520 | 527 | 528 | 597 | 796 | 804 | 812 |
| Clean vehicle discount | - | - | 21 | 132 | 189 | 204 | 222 |
| Child support and working for families penalties | 383 | 203 | 239 | 217 | 63 | 52 | 52 |
| Court fines | 138 | 115 | 115 | 115 | 115 | 115 | 115 |
| Other miscellaneous items | 486 | 705 | 702 | 811 | 923 | 1,053 | 1,052 |
| **Total other sovereign revenue** | **7,038** | **6,895** | **8,706** | **9,297** | **10,180** | **11,771** | **15,886** |
| **Total sovereign revenue** | **104,400** | **99,569** | **111,871** | **124,806** | **132,162** | **140,974** | **153,564** |

1. Customs excise-equivalent duty.

# Notes to the Forecast Financial Statements

| | 2021<br>Actual<br>$m | 2022<br>Previous<br>Budget<br>$m | 2022<br>Forecast<br>$m | 2023<br>Forecast<br>$m | 2024<br>Forecast<br>$m | 2025<br>Forecast<br>$m | 2026<br>Forecast<br>$m |
|---|---|---|---|---|---|---|---|
| **NOTE 1 (continued): Sovereign Receipts (Cash)** | | | | | | | |
| **Taxation Receipts (cash)** | | | | | | | |
| **Individuals** | | | | | | | |
| Source deductions | 37,307 | 39,229 | 41,932 | 44,782 | 48,177 | 51,898 | 55,908 |
| Other persons | 8,302 | 7,588 | 9,345 | 11,280 | 12,021 | 13,115 | 13,372 |
| Refunds | (2,307) | (2,448) | (2,347) | (2,467) | (2,569) | (2,699) | (2,800) |
| Fringe benefit tax | 575 | 648 | 641 | 657 | 684 | 714 | 745 |
| **Total individuals** | **43,877** | **45,017** | **49,571** | **54,252** | **58,313** | **63,028** | **67,225** |
| **Corporate Tax** | | | | | | | |
| Gross companies tax | 16,973 | 14,685 | 18,148 | 21,273 | 21,379 | 23,320 | 23,864 |
| Refunds | (1,116) | (1,456) | (1,447) | (1,187) | (1,403) | (1,414) | (1,501) |
| Non-resident withholding tax | 456 | 472 | 508 | 571 | 626 | 650 | 670 |
| **Total corporate tax** | **16,313** | **13,701** | **17,209** | **20,657** | **20,602** | **22,556** | **23,033** |
| **Other Direct Income Tax** | | | | | | | |
| Resident w/holding tax on interest income | 1,060 | 1,016 | 717 | 1,354 | 1,707 | 1,863 | 1,947 |
| Resident w/holding tax on dividend income | 1,491 | 713 | 969 | 980 | 1,025 | 1,066 | 1,112 |
| **Total other direct income tax** | **2,551** | **1,729** | **1,686** | **2,334** | **2,732** | **2,929** | **3,059** |
| **Total direct income tax** | **62,741** | **60,447** | **68,466** | **77,243** | **81,647** | **88,513** | **93,317** |
| **Goods and Services Tax** | | | | | | | |
| Gross goods and services tax | 38,576 | 39,419 | 42,213 | 46,568 | 44,284 | 54,608 | 53,625 |
| Refunds | (13,604) | (14,910) | (16,495) | (17,744) | (18,127) | (18,697) | (19,453) |
| **Total goods and services tax** | **24,972** | **24,509** | **25,718** | **28,824** | **26,157** | **35,911** | **34,172** |
| **Other Indirect Taxation** | | | | | | | |
| Road and track user charges | 1,913 | 1,953 | 1,853 | 1,874 | 2,121 | 2,179 | 2,258 |
| Petroleum fuels excise – domestic production | 1,087 | 1,212 | 811 | - | - | - | - |
| Alcohol excise – domestic production | 768 | 829 | 805 | 896 | 965 | 1,022 | 1,073 |
| Customs duty | 3,304 | 3,065 | 3,274 | 4,175 | 4,517 | 4,624 | 4,700 |
| Gaming duties | 241 | 235 | 174 | 233 | 239 | 246 | 254 |
| Motor vehicle fees | 272 | 222 | 238 | 234 | 238 | 243 | 246 |
| Approved issuer levy and cheque duty | 61 | 80 | 65 | 65 | 65 | 65 | 65 |
| Energy resources levies | 23 | 30 | 26 | 23 | 22 | 22 | 22 |
| **Total other indirect taxation** | **7,669** | **7,626** | **7,246** | **7,500** | **8,167** | **8,401** | **8,618** |
| **Total indirect taxation** | **32,641** | **32,135** | **32,964** | **36,324** | **34,324** | **44,312** | **42,790** |
| **Total taxation receipts** | **95,382** | **92,582** | **101,430** | **113,567** | **115,971** | **132,825** | **136,107** |
| **Other Sovereign Receipts (cash)** | | | | | | | |
| ACC levies | 3,098 | 3,197 | 3,471 | 3,476 | 3,780 | 4,073 | 4,463 |
| Income insurance levies | - | - | - | - | - | 1,100 | 4,700 |
| Emissions Trading receipts | 1,322 | 707 | 2,075 | 1,388 | 1,337 | 1,256 | 1,140 |
| Fire and Emergency levies | 607 | 602 | 623 | 634 | 648 | 661 | 675 |
| EQC levies | 525 | 526 | 527 | 546 | 790 | 798 | 810 |
| Clean vehicle discount | - | - | 21 | 132 | 189 | 204 | 222 |
| Child support and working for families penalties | 203 | 191 | 199 | 199 | 46 | 37 | 37 |
| Court fines | 142 | 102 | 93 | 93 | 93 | 93 | 93 |
| Other miscellaneous items | 527 | 683 | 695 | 807 | 919 | 1,049 | 1,049 |
| **Total other sovereign receipts** | **6,424** | **6,008** | **7,704** | **7,275** | **7,802** | **9,271** | **13,189** |
| **Total sovereign receipts** | **101,806** | **98,590** | **109,134** | **120,842** | **123,773** | **142,096** | **149,296** |

# 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** | **2,215** | **2,829** | **3,161** | **3,199** | **3,686** |
| **Interest Expenses** | | | | | | | |
| Interest on financial liabilities | 2,188 | 2,232 | 3,239 | 4,970 | 5,778 | 6,053 | 6,107 |
| Interest unwind on provisions | 84 | 119 | 116 | 263 | 320 | 318 | 304 |
| **Total interest expenses** | **2,272** | **2,351** | **3,355** | **5,233** | **6,098** | **6,371** | **6,411** |
| **Net interest revenue/(expense)** | **(329)** | **(331)** | **(1,140)** | **(2,404)** | **(2,937)** | **(3,172)** | **(2,725)** |
| Dividend revenue | 903 | 1,101 | 1,020 | 1,176 | 1,278 | 1,387 | 1,507 |
| Net gains/(losses) on large scale asset purchases | (3,976) | (791) | (1) | - | - | - | - |
| Net gains/(losses) on financial instruments | 18,130 | 3,769 | (1,383) | 4,894 | 5,928 | 6,389 | 6,791 |
| **Total investment revenue/(expenditure)** | **14,728** | **3,748** | **(1,504)** | **3,666** | **4,269** | **4,604** | **5,573** |
| **NOTE 3: Transfer Payments and Subsidies** | | | | | | | |
| New Zealand superannuation | 16,569 | 17,691 | 17,775 | 19,529 | 21,414 | 22,963 | 24,524 |
| Wage subsidy scheme | 1,197 | 500 | 4,870 | - | - | - | - |
| COVID-19 resurgence and support payment | 200 | - | 4,257 | - | - | - | - |
| Family tax credit | 2,103 | 2,064 | 2,108 | 2,375 | 2,485 | 2,500 | 2,685 |
| Jobseeker support and emergency benefit | 3,224 | 3,857 | 3,346 | 3,428 | 3,645 | 4,042 | 4,311 |
| Accommodation assistance | 2,302 | 2,498 | 2,353 | 2,331 | 2,331 | 2,420 | 2,481 |
| Supported living payment | 1,826 | 2,061 | 2,045 | 2,219 | 2,344 | 2,474 | 2,599 |
| Sole parent support | 1,455 | 1,720 | 1,700 | 1,819 | 1,902 | 2,034 | 2,135 |
| KiwiSaver subsidies | 916 | 974 | 978 | 1,030 | 1,082 | 1,135 | 1,183 |
| Official development assistance | 804 | 820 | 841 | 1,058 | 1,111 | 1,111 | 961 |
| Other working for families tax credits | 585 | 647 | 557 | 562 | 553 | 538 | 534 |
| Student allowances | 590 | 656 | 614 | 682 | 701 | 755 | 803 |
| Winter energy payment | 812 | 530 | 514 | 518 | 529 | 546 | 560 |
| Disability assistance | 409 | 417 | 411 | 418 | 430 | 438 | 445 |
| Hardship assistance | 479 | 591 | 507 | 608 | 685 | 764 | 833 |
| Orphan's/unsupported child's benefit | 293 | 332 | 315 | 356 | 382 | 400 | 414 |
| Best start tax credit | 271 | 405 | 339 | 375 | 390 | 394 | 415 |
| Cost of living payment | - | - | - | 800 | - | - | - |
| Income related rent subsidy | 106 | 80 | 132 | 133 | 134 | 132 | 135 |
| Other social assistance benefits | 1,286 | 1,112 | 1,088 | 1,203 | 1,259 | 1,303 | 1,343 |
| **Total transfer payments and subsidies** | **35,427** | **36,955** | **44,750** | **39,444** | **41,377** | **43,949** | **46,361** |
| **NOTE 4: Other Operating Expenses** | | | | | | | |
| Grants and subsidies | 9,594 | 10,675 | 11,276 | 10,286 | 10,172 | 9,313 | 9,355 |
| Repairs and maintenance | 2,368 | 2,082 | 2,310 | 2,617 | 2,697 | 2,811 | 2,839 |
| Rental and leasing costs | 1,516 | 1,551 | 1,554 | 1,629 | 1,625 | 1,627 | 1,631 |
| Amortisation and impairment of non-financial assets | 1,335 | 831 | 948 | 964 | 957 | 908 | 898 |
| Impairment of financial assets | 928 | 1,114 | 1,186 | 1,117 | 1,074 | 971 | 970 |
| Cost of concessionary lending | 1,039 | 746 | 1,327 | 1,097 | 866 | 732 | 695 |
| Lottery prize payments | 814 | 737 | 810 | 841 | 886 | 912 | 918 |
| Inventory expenses and clinical supplies | 2,096 | 2,177 | 2,308 | 2,730 | 2,791 | 2,766 | 2,824 |
| Income insurance | - | - | - | - | - | 1,100 | 4,700 |
| Other operating expenses | 34,249 | 39,060 | 44,281 | 40,687 | 39,270 | 37,014 | 36,445 |
| **Total other operating expenses** | **53,939** | **58,973** | **66,000** | **61,968** | **60,338** | **58,154** | **61,275** |

# 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 | 6,277 | 9,010 | 9,265 | 9,677 | 10,073 |
| EQC | 167 | 223 | 388 | 322 | 390 | 393 | 424 |
| Southern Response | 108 | (18) | 35 | (20) | (7) | (2) | (1) |
| Other (incl. inter-segment eliminations) | 24 | 20 | 29 | 56 | 57 | 57 | 57 |
| **Total insurance expenses** | **6,838** | **6,538** | **6,729** | **9,368** | **9,705** | **10,125** | **10,553** |
| ***Insurance liability by entity*** | | | | | | | |
| ACC | 59,133 | 59,328 | 64,527 | 68,353 | 72,081 | 75,926 | 79,832 |
| EQC | 803 | 542 | 704 | 576 | 528 | 473 | 450 |
| Southern Response | 353 | 53 | 89 | 33 | 10 | 5 | 2 |
| Other (incl. inter-segment eliminations) | 47 | 50 | 64 | 64 | 64 | 64 | 64 |
| **Total insurance liabilities** | **60,336** | **59,973** | **65,384** | **69,026** | **72,683** | **76,468** | **80,348** |

**ACC liability**

**Calculation information**

ACC, with support from Taylor Fry, prepared an actuarial estimate of the ACC outstanding claims liability as at 31 December 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) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 28 February 2022. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 3.21% and allows for a long-term discount rate of 4.30% from 2070.

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 | 64,527 | 68,353 | 72,081 | 75,926 |
| Net change | (5,813) | 1,720 | 5,394 | 3,826 | 3,728 | 3,845 | 3,906 |
| Closing gross liability | **59,133** | **59,328** | **64,527** | **68,353** | **72,081** | **75,926** | **79,832** |
| **Less Net Assets Available to ACC** | | | | | | | |
| Opening net asset value | 48,987 | 50,831 | 53,143 | 52,053 | 52,759 | 53,731 | 54,726 |
| Net change | 4,156 | 260 | (1,090) | 706 | 972 | 995 | 1,073 |
| Closing net asset value | **53,143** | **51,091** | **52,053** | **52,759** | **53,731** | **54,726** | **55,799** |
| **Net ACC Reserves (Net Liability)** | | | | | | | |
| Opening reserves position | (15,959) | (6,777) | (5,990) | (12,474) | (15,594) | (18,350) | (21,200) |
| Net change | 9,969 | (1,460) | (6,484) | (3,120) | (2,756) | (2,850) | (2,833) |
| Closing reserves position (net liability)/net asset | **(5,990)** | **(8,237)** | **(12,474)** | **(15,594)** | **(18,350)** | **(21,200)** | **(24,033)** |

# 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 | 592 | 4,904 | 3,714 | 4,086 | 4,137 |
| Climate Emergency Response Fund | - | - | 456 | 456 | 456 |
| Forecast new spending for Budget 2023 | - | - | 2,507 | 2,507 | 2,507 |
| Forecast new spending for Budget 2024 | - | - | - | 2,581 | 2,581 |
| Forecast new spending for Budget 2025 | - | - | - | - | 3,000 |
| **Total forecast new operating spending** | **592** | **4,904** | **6,677** | **9,630** | **12,681** |

Unallocated operating contingencies represent operating expenses agreed by the Government, or likely to be agreed in the future, that have yet to be allocated to departments. Forecast new spending for Budget 2023, 2024 and 2025 indicates the expected spending increases from future Budgets. Some of these allowances have been pre-committed as at the forecast finalisation date of 28 April 2022, with only the unallocated portion of the allowances included within this note.

As signalled in the *2022 Budget Policy Statement* the Government has used future Budget operating allowances to fund multi-year decisions in the health sector and the agencies within the Justice and Natural Resources clusters. This means the overall amounts available to be allocated in future Budgets have been reduced as multi-year investment decisions have been managed against future Budget allowances. Although this results in a reduction in funding available in future Budgets, the expectation is that the health sector will not need to seek new funding in Budget 2024, while the clusters will not need to until Budget 2025.

The forecast for new operating spending for Budget 2023 is $4.5 billion. In Budget 2022 multi-year funding decisions have been made, which effectively reduces the funding available for future new spending for Budget 2023 to $2.5 billion.

The forecast for new operating spending for Budget 2024 is $3.0 billion. In Budget 2022 multi-year funding decisions have been made, which effectively reduces the funding available for future new spending for Budget 2024 to $2.6 billion.

| | 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 | 963 | 1,311 | 1,090 | 889 | 679 | 490 | 5,422 |
| Climate Emergency Response Fund | - | - | 51 | 51 | 51 | - | 153 |
| Forecast new spending for Budgets 2023 - 2025 | - | - | 595 | 1,190 | 1,530 | 1,785 | 5,100 |
| **Total forecast new capital spending** | **963** | **1,311** | **1,736** | **2,130** | **2,260** | **2,275** | **10,675** |
| **Forecast new capital spending (cumulative)** | **963** | **2,274** | **4,010** | **6,140** | **8,400** | | |

The Government has signalled a capital allowance of $9.8 billion for Budget 2022 through to Budget 2025. As at 28 April 2022, $5.1 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 | (4,150) | (2,000) | (1,175) | (1,075) | (925) |
| Top-down capital adjustment (cumulative) | (1,750) | (2,810) | (4,020) | (4,480) | (4,690) |

# Notes to the Forecast Financial Statements

| | 2021 | 2022 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| | | Previous | | | | | |
| | Actual | Budget | Forecast | Forecast | Forecast | Forecast | Forecast |
| | $m | $m | $m | $m | $m | $m | $m |
| **NOTE 7: Net Gains and Losses on Non-Financial Instruments** | | | | | | | |
| Actuarial gains/(losses) on ACC outstanding claims | 8,222 | - | (3,454) | - | - | - | - |
| Gains/(losses) on the Emissions Trading Scheme | (1,489) | - | (4,785) | - | - | - | - |
| Other[1] | 136 | (135) | 882 | (49) | (99) | (99) | (92) |
| **Net gains/(losses) on non-financial instruments** | **6,869** | **(135)** | **(7,357)** | **(49)** | **(99)** | **(99)** | **(92)** |

1 The other balance in 2021/22 largely relates to realised gains on the disposal of Tilt Renewables and Meridian Energy Australia.

| | 2021 Actual $m | 2022 Previous Budget $m | 2022 Forecast $m | 2023 Forecast $m | 2024 Forecast $m | 2025 Forecast $m | 2026 Forecast $m |
|---|---|---|---|---|---|---|---|
| **NOTE 8: Financial Assets (including receivables)** | | | | | | | |
| Cash and cash equivalents | 18,755 | 12,422 | 17,317 | 17,713 | 18,308 | 19,270 | 19,949 |
| Tax receivables | 15,642 | 13,942 | 16,202 | 17,321 | 22,473 | 17,994 | 18,735 |
| Trade and other receivables | 11,187 | 10,718 | 10,881 | 11,585 | 11,970 | 12,525 | 13,209 |
| Student loans (refer note 9) | 10,841 | 10,615 | 9,923 | 9,679 | 9,393 | 9,060 | 8,636 |
| Kiwi Group Holdings loans and advances | 25,155 | 26,800 | 27,897 | 30,354 | 33,211 | 36,085 | 39,027 |
| Long-term deposits | 5,108 | 3,997 | 4,890 | 4,711 | 4,657 | 4,666 | 4,684 |
| IMF financial assets | 2,479 | 2,420 | 5,237 | 5,237 | 5,237 | 5,237 | 5,237 |
| FLP advances | 2,558 | 18,620 | 9,867 | 20,622 | 18,056 | 13,953 | - |
| Other advances | 7,058 | 7,704 | 9,661 | 10,228 | 10,241 | 9,793 | 9,363 |
| Share investments | 48,539 | 46,248 | 50,853 | 53,423 | 56,174 | 59,198 | 62,430 |
| Investments in controlled enterprises | 4,718 | 5,126 | 4,849 | 5,991 | 7,751 | 9,594 | 11,547 |
| Derivatives in gain | 4,509 | 5,811 | 4,330 | 2,830 | 2,358 | 2,152 | 2,034 |
| Other marketable securities | 44,687 | 44,980 | 39,483 | 38,424 | 40,901 | 44,353 | 63,536 |
| **Total financial assets (including receivables)** | **201,236** | **209,403** | **211,390** | **228,118** | **240,730** | **243,880** | **258,387** |
| **Financial Assets by Segment** | | | | | | | |
| The Treasury | 54,903 | 47,233 | 46,717 | 31,714 | 24,971 | 32,943 | 31,833 |
| Reserve Bank of New Zealand | 44,935 | 94,474 | 57,024 | 59,677 | 50,549 | 39,536 | 39,391 |
| NZS Fund | 62,312 | 64,862 | 63,590 | 69,651 | 75,780 | 82,183 | 89,009 |
| Other core Crown | 35,095 | 27,855 | 35,018 | 36,370 | 40,522 | 34,444 | 15,926 |
| Intra-segment eliminations | (68,586) | (99,029) | (63,846) | (43,167) | (28,783) | (28,613) | (6,671) |
| **Total core Crown segment** | **128,659** | **135,395** | **138,503** | **154,245** | **163,039** | **160,493** | **169,488** |
| ACC | 54,271 | 51,340 | 53,516 | 53,097 | 54,089 | 55,104 | 56,195 |
| EQC | 602 | 452 | 479 | 531 | 800 | 1,079 | 1,373 |
| Other Crown entities | 16,788 | 13,834 | 14,468 | 14,487 | 14,624 | 14,632 | 14,993 |
| Intra-segment eliminations | (4,132) | (2,991) | (4,377) | (4,179) | (4,116) | (3,469) | (3,606) |
| **Total Crown entities segment** | **67,529** | **62,635** | **64,086** | **63,936** | **65,397** | **67,346** | **68,955** |
| **Total State-owned Enterprises segment** | **32,872** | **35,827** | **36,984** | **39,223** | **42,220** | **45,711** | **49,475** |
| Inter-segment eliminations | (27,824) | (24,454) | (28,183) | (29,286) | (29,926) | (29,670) | (29,531) |
| **Total financial assets (including receivables)** | **201,236** | **209,403** | **211,390** | **228,118** | **240,730** | **243,880** | **258,387** |
| **NOTE 9: Student Loans** | | | | | | | |
| Nominal value (including accrued interest) | 16,260 | 16,491 | 16,233 | 16,369 | 16,410 | 16,440 | 16,420 |
| **Opening book value** | 10,395 | 10,833 | 10,841 | 9,923 | 9,679 | 9,393 | 9,060 |
| Net new lending (including fees) | 1,430 | 1,576 | 1,393 | 1,648 | 1,637 | 1,692 | 1,706 |
| Less initial write-down to fair value | (469) | (515) | (527) | (662) | (658) | (679) | (691) |
| Repayments made during the year | (1,495) | (1,508) | (1,605) | (1,665) | (1,748) | (1,817) | (1,893) |
| Interest unwind | 235 | 194 | 261 | 398 | 447 | 436 | 419 |
| Unwind of administration costs | 38 | 35 | 38 | 37 | 36 | 35 | 35 |
| Experience/actuarial adjustments: | | | | | | | |
| - Expected repayment adjustments | 487 | - | 178 | - | - | - | - |
| - Discount rate adjustments | 220 | - | (656) | - | - | - | - |
| **Closing book value** | **10,841** | **10,615** | **9,923** | **9,679** | **9,393** | **9,060** | **8,636** |

# 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 | 70,973 | 71,458 | 71,884 | 72,665 | 73,425 |
| Buildings | 53,507 | 53,466 | 56,931 | 60,665 | 63,272 | 64,235 | 66,790 |
| State highways | 42,666 | 43,348 | 44,167 | 45,856 | 47,145 | 48,220 | 49,043 |
| Electricity generation assets | 17,979 | 16,583 | 18,258 | 18,582 | 18,731 | 18,759 | 18,783 |
| Electricity distribution network (cost) | 4,318 | 4,485 | 4,218 | 4,392 | 4,569 | 4,815 | 5,071 |
| Aircraft (excluding military) | 3,611 | 4,005 | 3,553 | 3,793 | 4,237 | 4,439 | 4,731 |
| Specialist military equipment | 3,649 | 4,194 | 4,292 | 5,183 | 6,076 | 6,401 | 6,166 |
| Specified cultural and heritage assets | 3,156 | 3,103 | 3,170 | 3,194 | 3,208 | 3,219 | 3,238 |
| Rail network | 7,407 | 6,755 | 7,887 | 8,319 | 8,836 | 8,993 | 9,154 |
| Other plant and equipment (cost) | 6,631 | 6,879 | 8,121 | 9,334 | 10,050 | 10,189 | 10,229 |
| **Total property, plant and equipment** | **213,216** | **201,003** | **221,570** | **230,776** | **238,008** | **241,935** | **246,630** |
| ***Land breakdown by usage*** | | | | | | | |
| Housing | 25,826 | 20,065 | 26,193 | 26,910 | 27,625 | 28,342 | 29,038 |
| State highway corridor land | 18,469 | 14,323 | 18,429 | 18,000 | 17,556 | 17,516 | 17,476 |
| Conservation estate | 7,159 | 6,726 | 7,143 | 7,150 | 7,152 | 7,153 | 7,155 |
| Rail network | 3,802 | 3,875 | 3,876 | 3,928 | 3,967 | 3,965 | 3,963 |
| Schools | 7,106 | 6,165 | 7,235 | 7,320 | 7,405 | 7,490 | 7,575 |
| Commercial (SOEs) excluding Rail | 1,167 | 1,196 | 1,259 | 1,272 | 1,288 | 1,301 | 1,315 |
| Other | 6,763 | 5,835 | 6,838 | 6,878 | 6,891 | 6,898 | 6,903 |
| **Total land** | **70,292** | **58,185** | **70,973** | **71,458** | **71,884** | **72,665** | **73,425** |
| ***Schedule of Movements*** | | | | | | | |
| **Cost or Valuation** | | | | | | | |
| Opening balance | 205,689 | 215,933 | 231,234 | 245,166 | 260,522 | 274,241 | 284,778 |
| Additions[2] | 10,762 | 16,094 | 14,047 | 16,537 | 14,436 | 10,939 | 11,799 |
| Disposals | (1,101) | (1,062) | (495) | (1,102) | (615) | (316) | (262) |
| Net revaluations | 16,131 | - | 11 | - | - | - | - |
| Other | (247) | (82) | 369 | (79) | (102) | (86) | (154) |
| **Total cost or valuation** | **231,234** | **230,883** | **245,166** | **260,522** | **274,241** | **284,778** | **296,161** |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| Opening balance | 19,187 | 24,376 | 18,018 | 23,596 | 29,746 | 36,233 | 42,843 |
| Eliminated on disposal | (636) | (252) | (675) | (471) | (492) | (519) | (518) |
| Eliminated on revaluation | (5,979) | - | - | - | - | - | - |
| Impairment losses charged to operating balance | (58) | - | - | - | - | - | - |
| Depreciation expense | 5,566 | 5,756 | 6,286 | 6,613 | 6,975 | 7,133 | 7,210 |
| Other | (62) | - | (33) | 8 | 4 | (4) | (4) |
| **Total accumulated depreciation and impairment** | **18,018** | **29,880** | **23,596** | **29,746** | **36,233** | **42,843** | **49,531** |
| **Total property, plant and equipment** | **213,216** | **201,003** | **221,570** | **230,776** | **238,008** | **241,935** | **246,630** |

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 | 828 | 949 | 1,048 | 1,153 | 1,267 |
| Less current tax expense | 2,156 | 993 | 322 | 1,117 | 1,243 | 1,382 | 1,530 |
| Less other expenses | 125 | 217 | 163 | 230 | 259 | 286 | 317 |
| Add gains/(losses) | 12,786 | 3,514 | 127 | 3,969 | 4,425 | 4,927 | 5,464 |
| **Operating balance** | **11,247** | **3,168** | **470** | **3,571** | **3,971** | **4,412** | **4,884** |
| Opening net worth | 43,997 | 53,480 | 57,365 | 60,255 | 66,384 | 72,463 | 78,812 |
| Gross contribution from the Crown | 2,120 | 2,420 | 2,420 | 2,558 | 2,108 | 1,937 | 1,883 |
| Operating balance | 11,247 | 3,168 | 470 | 3,571 | 3,971 | 4,412 | 4,884 |
| Other movements in reserves | 1 | - | - | - | - | - | - |
| **Closing net worth** | **57,365** | **59,068** | **60,255** | **66,384** | **72,463** | **78,812** | **85,579** |
| ***Comprising:*** | | | | | | | |
| Financial assets | 62,312 | 64,862 | 63,590 | 69,651 | 75,780 | 82,183 | 89,009 |
| Financial liabilities | (4,949) | (5,784) | (3,328) | (3,238) | (3,279) | (3,323) | (3,371) |
| Net other assets | 2 | (10) | (7) | (29) | (38) | (48) | (59) |
| **Closing net worth** | **57,365** | **59,068** | **60,255** | **66,384** | **72,463** | **78,812** | **85,579** |
| **NOTE 12: Payables** | | | | | | | |
| Accounts payable | 12,179 | 10,235 | 10,198 | 9,649 | 9,684 | 8,922 | 9,045 |
| Taxes repayable | 5,398 | 5,167 | 5,427 | 5,408 | 5,390 | 5,373 | 5,351 |
| **Total payables** | **17,577** | **15,402** | **15,625** | **15,057** | **15,074** | **14,295** | **14,396** |

# 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 | 9,663 | 9,061 | 8,537 | 8,012 | 7,471 |
| Other funds | - | 13 | - | - | - | - | - |
| **Total retirement plan liabilities** | **11,038** | **11,859** | **9,663** | **9,061** | **8,537** | **8,012** | **7,471** |

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 31 January 2022. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 31 January 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 31 January 2022.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 2.56% p.a. for the year ended 30 June 2022 decreasing to 2.01% p.a. in 2027, and remaining at that level until 2062 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 2021).

The 2021/22 projected decrease in the net GSF liability is $1,375 million, reflecting a decrease in the GSF liability of $1,162 million and an increase in the GSF net assets of $213 million.

The expected decrease in the GSF liability of $1,162 million includes an actuarial gain (which decreases the liability) between 1 July 2021 and 30 June 2022, of $351 million, owing to movements in the demographic assumptions ($227 million) and discount rates ($538 million) which are partly offset by changes in the CPI rates ($413 million). The difference of $811 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 $213 million includes a revaluation gain of $360 million reflecting the updated market value of assets at 31 January 2022. The balance of $147 million is owing to the total of the expected investment returns and expected contributions received/receivable being higher than expected, which is more than offset by lower 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 | 15,078 | 14,472 | 13,941 | 13,407 |
| Net projected change | (1,998) | (831) | (1,162) | (606) | (531) | (534) | (551) |
| Closing GSF liability | **16,240** | **16,497** | **15,078** | **14,472** | **13,941** | **13,407** | **12,856** |
| **Less Net Assets Available to GSF** | | | | | | | |
| Opening net asset value | 4,268 | 4,617 | 5,202 | 5,415 | 5,411 | 5,404 | 5,395 |
| Investment valuation changes | 1,146 | 226 | 379 | 263 | 264 | 263 | 263 |
| Contribution and other income less benefit payments | (212) | (192) | (166) | (267) | (271) | (272) | (273) |
| Closing net asset value | **5,202** | **4,651** | **5,415** | **5,411** | **5,404** | **5,395** | **5,385** |
| **Net GSF Liability** | | | | | | | |
| Opening unfunded liability | 13,970 | 12,711 | 11,038 | 9,663 | 9,061 | 8,537 | 8,012 |
| Net projected change | (2,932) | (865) | (1,375) | (602) | (524) | (525) | (541) |
| Closing unfunded liability | **11,038** | **11,846** | **9,663** | **9,061** | **8,537** | **8,012** | **7,471** |

# 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 | 6,392 | 4,503 | 4,555 | 4,585 | 4,691 |
| Provision for NZ ETS credits | 5,824 | 5,339 | 11,036 | 10,694 | 9,846 | 8,845 | 7,679 |
| Provision for National Provident Fund guarantee | 762 | 709 | 690 | 627 | 568 | 512 | 456 |
| Veterans' disability entitlements | 3,036 | 3,452 | 2,944 | 2,862 | 2,789 | 2,723 | 2,663 |
| Other provisions | 3,102 | 2,515 | 2,938 | 2,050 | 2,389 | 2,387 | 2,409 |
| **Total provisions** | **19,087** | **18,411** | **24,000** | **20,736** | **20,147** | **19,052** | **17,898** |

**Provision for NZ ETS credits**

The New Zealand Emissions Trading Scheme (NZ ETS) was established to assist New Zealand in meeting its domestic and international climate change targets. The scheme puts a price on greenhouse gas (GHG) emissions to create a financial incentive for businesses to reduce their emissions, and landowners to plant forests to absorb carbon. The NZ ETS creates tradable New Zealand Units (NZUs) which the Government can allocate for free to certain business to recognise the impact that the additional costs imposed by the NZ ETS could have on their international competitiveness. The Government also allocates NZUs to participants for GHG emissions removals. The allocation of NZUs creates a provision if allocated for free; the provision is reduced, and revenue recognised, as NZUs are surrendered to the Crown by emitters. 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 31 March 2022 ($75.90).

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 | 11,036 | 10,694 | 9,846 | 8,845 |
| Additional provision | 938 | 844 | 1,649 | 1,586 | 1,527 | 1,480 | 1,487 |
| Provision utilised | (529) | (1,467) | (3,149) | (3,190) | (3,577) | (3,616) | (3,710) |
| Auctioned units | 336 | 707 | 2,075 | 1,388 | 1,337 | 1,256 | 1,140 |
| (Gains)/losses | 1,489 | - | 4,785 | - | - | - | - |
| Other movements | (214) | - | (148) | (126) | (135) | (121) | (83) |
| **Closing provision for NZ ETS credits** | **5,824** | **5,339** | **11,036** | **10,694** | **9,846** | **8,845** | **7,679** |

**NOTE 15: Borrowings**

| | 2021 Actual $m | 2022 Previous Budget $m | 2022 Forecast $m | 2023 Forecast $m | 2024 Forecast $m | 2025 Forecast $m | 2026 Forecast $m |
|---|---|---|---|---|---|---|---|
| **Borrowings** | | | | | | | |
| Government bonds | 70,653 | 69,350 | 88,386 | 104,281 | 121,164 | 137,699 | 141,456 |
| Treasury bills | 7,593 | 4,797 | 3,383 | 2,976 | 2,973 | 2,974 | 2,974 |
| Government retail stock | 182 | 214 | 161 | 161 | 161 | 161 | 161 |
| Settlement deposits with Reserve Bank | 29,466 | 79,152 | 47,197 | 58,297 | 50,743 | 27,093 | 22,206 |
| Derivatives in loss | 5,056 | 2,982 | 5,964 | 4,387 | 4,055 | 3,788 | 3,574 |
| Finance lease liabilities | 1,307 | 1,309 | 1,266 | 1,176 | 1,257 | 1,138 | 974 |
| Other borrowings | 48,303 | 57,430 | 54,161 | 59,340 | 64,717 | 70,163 | 76,877 |
| **Total borrowings** | **162,560** | **215,234** | **200,518** | **230,618** | **245,070** | **243,016** | **248,222** |
| ***By guarantee*** | | | | | | | |
| Sovereign-guaranteed debt | 117,641 | 162,365 | 149,520 | 175,758 | 185,031 | 177,713 | 177,142 |
| Non sovereign-guaranteed debt | 44,919 | 52,869 | 50,998 | 54,860 | 60,039 | 65,303 | 71,080 |
| **Total borrowings** | **162,560** | **215,234** | **200,518** | **230,618** | **245,070** | **243,016** | **248,222** |

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.

# 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 16: Changes in Net Worth** | | | | | | | |
| Taxpayers' funds | 19,559 | (11,061) | (8,674) | (10,254) | (6,865) | 2,226 | 16,074 |
| Property, plant and equipment revaluation reserve | 134,003 | 112,003 | 134,125 | 134,146 | 134,146 | 134,146 | 134,146 |
| Defined benefit plan revaluation reserve | (1,560) | (3,035) | (849) | (687) | (562) | (444) | (326) |
| 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) | (179) | (250) | (272) | (270) | (274) |
| Fair value hedge reserve | 195 | 236 | 162 | 178 | 192 | 200 | 202 |
| Foreign currency translation reserve | (63) | (57) | (66) | (66) | (66) | (66) | (66) |
| Net worth attributable to minority interests | 5,724 | 5,636 | 6,515 | 6,453 | 6,523 | 6,584 | 6,690 |
| **Total net worth** | **156,895** | **102,187** | **130,368** | **128,854** | **132,430** | **141,710** | **155,780** |
| **Taxpayers' funds** | | | | | | | |
| Opening taxpayers' funds | 2,993 | 4,600 | 19,559 | (8,674) | (10,254) | (6,865) | 2,226 |
| Operating balance excluding minority interests | 16,022 | (15,648) | (27,880) | (1,632) | 3,396 | 9,109 | 13,875 |
| Transfers from/(to) other reserves | 536 | - | 94 | - | - | - | - |
| Other movements | 8 | (13) | (447) | 52 | (7) | (18) | (27) |
| **Closing taxpayers' funds** | **19,559** | **(11,061)** | **(8,674)** | **(10,254)** | **(6,865)** | **2,226** | **16,074** |
| **Property, Plant and Equipment Revaluation** | | | | | | | |
| Opening property, plant and equipment revaluation reserve | 112,334 | 112,003 | 134,003 | 134,125 | 134,146 | 134,146 | 134,146 |
| Net revaluations | 22,539 | - | 216 | - | - | - | - |
| Transfers from/(to) other reserves | (439) | - | (94) | 21 | - | - | - |
| Net revaluations attributable to minority interests | (431) | - | - | - | - | - | - |
| **Closing property, plant and equipment revaluation reserve** | **134,003** | **112,003** | **134,125** | **134,146** | **134,146** | **134,146** | **134,146** |
| **Net Worth Attributable to Minority Interests** | | | | | | | |
| Opening minority interest | 5,623 | 5,273 | 5,724 | 6,515 | 6,453 | 6,523 | 6,584 |
| Operating balance attributable to minority interests | 117 | 262 | 206 | 252 | 449 | 458 | 511 |
| Transactions with minority interest | (387) | (373) | (371) | (318) | (380) | (393) | (398) |
| Increase in minority interest from equity issues | - | 477 | 901 | - | - | - | - |
| Other | 371 | (3) | 55 | 4 | 1 | (4) | (7) |
| **Closing minority interest** | **5,724** | **5,636** | **6,515** | **6,453** | **6,523** | **6,584** | **6,690** |

# 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 | 60,104 | 27,210 | 13,570 | (41,379) | 59,505 |
| Interest expenses | 1,918 | 218 | 592 | (456) | 2,272 |
| Insurance expenses | - | 6,831 | 6 | 1 | 6,838 |
| **Total expenses (excluding losses)** | **107,901** | **52,188** | **16,750** | **(42,980)** | **133,859** |
| Total gains/(losses) and other items | 7,500 | 11,927 | 139 | 980 | 20,546 |
| **Operating balance** | **4,567** | **9,790** | **254** | **1,411** | **16,022** |
| ***Expenses by functional classification*** | | | | | |
| *Social security and welfare* | *36,788* | *7,968* | *-* | *(1,835)* | *42,921* |
| *Health* | *22,806* | *18,856* | *-* | *(19,042)* | *22,620* |
| *Education* | *16,039* | *12,841* | *-* | *(11,496)* | *17,384* |
| *Transport and communications* | *5,656* | *4,259* | *5,836* | *(5,416)* | *10,335* |
| *Other* | *24,694* | *8,046* | *10,322* | *(4,735)* | *38,327* |
| *Finance costs* | *1,918* | *218* | *592* | *(456)* | *2,272* |
| ***Total expenses (excluding losses)*** | ***107,901*** | ***52,188*** | ***16,750*** | ***(42,980)*** | ***133,859*** |
| **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 | 1,339 | 833 | 1,364 | (233) | 3,303 |
| Inventory and other assets | 3,261 | 1,595 | 1,490 | (224) | 6,122 |
| **Total assets** | **239,057** | **202,474** | **77,650** | **(80,883)** | **438,298** |
| **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** | **60,240** | **116,144** | **29,515** | **(49,004)** | **156,895** |
| **Net worth** | | | | | |
| Taxpayers' funds | 29,066 | 38,227 | 7,494 | (55,228) | 19,559 |
| 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** | **60,240** | **116,144** | **29,515** | **(49,004)** | **156,895** |

# 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 | 103,796 | - | - | (631) | 103,165 |
| Other sovereign revenue | 4,302 | 6,451 | - | (2,047) | 8,706 |
| Revenue from core Crown funding | - | 39,518 | 933 | (40,451) | - |
| Sales of goods and services | 1,669 | 2,669 | 13,192 | (711) | 16,819 |
| Interest revenue | 858 | 794 | 905 | (342) | 2,215 |
| Other revenue | 2,285 | 4,065 | 823 | (2,282) | 4,891 |
| **Total revenue (excluding gains)** | **112,910** | **53,497** | **15,853** | **(46,464)** | **135,796** |
| **Expenses** | | | | | |
| Social assistance and official development assistance | 45,976 | - | - | (1,226) | 44,750 |
| Personnel expenses | 10,088 | 18,519 | 2,757 | (39) | 31,325 |
| Other operating expenses | 73,113 | 30,733 | 12,374 | (43,934) | 72,286 |
| Interest expenses | 2,822 | 298 | 630 | (395) | 3,355 |
| Insurance expenses | 3 | 6,718 | 8 | - | 6,729 |
| Forecast for future new spending | 592 | - | - | - | 592 |
| Top-down operating expense adjustment | (4,150) | - | - | - | (4,150) |
| **Total expenses (excluding losses)** | **128,444** | **56,268** | **15,769** | **(45,594)** | **154,887** |
| Total gains/(losses) and other items | (5,033) | (4,645) | 509 | 380 | (8,789) |
| **Operating balance** | **(20,567)** | **(7,416)** | **593** | **(490)** | **(27,880)** |
| ***Expenses by functional classification*** | | | | | |
| *Social security and welfare* | *43,419* | *7,892* | *-* | *(1,898)* | *49,413* |
| *Health* | *29,999* | *20,833* | *-* | *(21,341)* | *29,491* |
| *Education* | *18,304* | *13,494* | *-* | *(12,796)* | *19,002* |
| *Transport and communications* | *5,149* | *4,955* | *6,199* | *(5,062)* | *11,241* |
| *Other* | *32,309* | *8,796* | *8,940* | *(4,102)* | *45,943* |
| *Finance costs* | *2,822* | *298* | *630* | *(395)* | *3,355* |
| *Forecast for future new spending* | *592* | *-* | *-* | *-* | *592* |
| *Top-down operating expense adjustment* | *(4,150)* | *-* | *-* | *-* | *(4,150)* |
| ***Total expenses (excluding losses)*** | ***128,444*** | ***56,268*** | ***15,769*** | ***(45,594)*** | ***154,887*** |
| **Statement of Financial Position as at 30 June 2022** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 11,105 | 4,246 | 3,201 | (1,235) | 17,317 |
| Receivables | 20,951 | 6,722 | 1,858 | (2,448) | 27,083 |
| Other financial assets | 106,447 | 53,118 | 31,925 | (24,500) | 166,990 |
| Property, plant and equipment | 54,102 | 124,693 | 42,775 | - | 221,570 |
| Equity accounted investments | 59,003 | 13,061 | 328 | (57,250) | 15,142 |
| Intangible assets and goodwill | 1,557 | 889 | 1,440 | (309) | 3,577 |
| Inventory and other assets | 3,605 | 1,903 | 1,156 | (154) | 6,510 |
| Forecast for new capital spending | 963 | - | - | - | 963 |
| Top-down capital adjustment | (1,750) | - | - | - | (1,750) |
| **Total assets** | **255,983** | **204,632** | **82,683** | **(85,896)** | **457,402** |
| **Liabilities** | | | | | |
| Borrowings | 166,075 | 14,157 | 41,729 | (21,443) | 200,518 |
| Other liabilities | 49,719 | 78,565 | 8,931 | (10,699) | 126,516 |
| **Total liabilities** | **215,794** | **92,722** | **50,660** | **(32,142)** | **327,034** |
| **Total assets less total liabilities** | **40,189** | **111,910** | **32,023** | **(53,754)** | **130,368** |
| **Net worth** | | | | | |
| Taxpayers' funds | 8,305 | 34,087 | 9,131 | (60,197) | (8,674) |
| Reserves | 31,884 | 77,823 | 16,042 | 6,778 | 132,527 |
| Net worth attributable to minority interest | - | - | 6,850 | (335) | 6,515 |
| **Total net worth** | **40,189** | **111,910** | **32,023** | **(53,754)** | **130,368** |

# Forecast Statement of Segments (continued)

| | Core Crown<br>2023<br>Forecast<br>$m | Crown entities<br>2023<br>Forecast<br>$m | State-owned Enterprises<br>2023<br>Forecast<br>$m | Inter-segment eliminations<br>2023<br>Forecast<br>$m | Total Crown<br>2023<br>Forecast<br>$m |
|---|---|---|---|---|---|
| **Statement of Financial Performance for the year ended 30 June 2023** | | | | | |
| **Revenue** | | | | | |
| Taxation revenue | 116,098 | - | - | (589) | 115,509 |
| Other sovereign revenue | 4,539 | 6,939 | - | (2,181) | 9,297 |
| Revenue from core Crown funding | - | 42,091 | 668 | (42,759) | - |
| Sales of goods and services | 1,683 | 3,074 | 15,734 | (1,050) | 19,441 |
| Interest revenue | 1,134 | 809 | 1,256 | (370) | 2,829 |
| Other revenue | 2,247 | 4,299 | 880 | (2,348) | 5,078 |
| **Total revenue (excluding gains)** | **125,701** | **57,212** | **18,538** | **(49,297)** | **152,154** |
| **Expenses** | | | | | |
| Social assistance and official development assistance | 40,775 | - | - | (1,331) | 39,444 |
| Personnel expenses | 9,940 | 20,267 | 2,830 | (39) | 32,998 |
| Other operating expenses | 69,118 | 32,013 | 13,947 | (46,497) | 68,581 |
| Interest expenses | 4,311 | 491 | 958 | (527) | 5,233 |
| Insurance expenses | 3 | 9,357 | 8 | - | 9,368 |
| Forecast for future new spending | 4,904 | - | - | - | 4,904 |
| Top-down operating expense adjustment | (2,000) | - | - | - | (2,000) |
| **Total expenses (excluding losses)** | **127,051** | **62,128** | **17,743** | **(48,394)** | **158,528** |
| Total gains/(losses) and other items | 4,186 | 955 | (240) | (159) | 4,742 |
| **Operating balance** | **2,836** | **(3,961)** | **555** | **(1,062)** | **(1,632)** |
| ***Expenses by functional classification*** | | | | | |
| *Social security and welfare* | *41,552* | *10,701* | *-* | *(2,027)* | *50,226* |
| *Health* | *26,579* | *22,733* | *-* | *(23,819)* | *25,493* |
| *Education* | *18,587* | *13,772* | *-* | *(12,841)* | *19,518* |
| *Transport and communications* | *4,754* | *5,288* | *7,377* | *(4,851)* | *12,568* |
| *Other* | *28,364* | *9,143* | *9,408* | *(4,329)* | *42,586* |
| *Finance costs* | *4,311* | *491* | *958* | *(527)* | *5,233* |
| *Forecast for future new spending* | *4,904* | *-* | *-* | *-* | *4,904* |
| *Top-down operating expense adjustment* | *(2,000)* | *-* | *-* | *-* | *(2,000)* |
| ***Total expenses (excluding losses)*** | ***127,051*** | ***62,128*** | ***17,743*** | ***(48,394)*** | ***158,528*** |
| **Statement of Financial Position as at 30 June 2023** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 11,540 | 4,505 | 2,883 | (1,215) | 17,713 |
| Receivables | 22,087 | 6,997 | 2,097 | (2,275) | 28,906 |
| Other financial assets | 120,618 | 52,434 | 34,243 | (25,796) | 181,499 |
| Property, plant and equipment | 56,377 | 130,105 | 44,294 | - | 230,776 |
| Equity accounted investments | 66,933 | 13,198 | 333 | (64,648) | 15,816 |
| Intangible assets and goodwill | 2,070 | 903 | 1,623 | (387) | 4,209 |
| Inventory and other assets | 3,843 | 2,103 | 1,141 | (152) | 6,935 |
| Forecast for new capital spending | 2,274 | - | - | - | 2,274 |
| Top-down capital adjustment | (2,810) | - | - | - | (2,810) |
| **Total assets** | **282,932** | **210,245** | **86,614** | **(94,473)** | **485,318** |
| **Liabilities** | | | | | |
| Borrowings | 192,255 | 16,511 | 44,548 | (22,696) | 230,618 |
| Other liabilities | 47,489 | 79,514 | 9,103 | (10,260) | 125,846 |
| **Total liabilities** | **239,744** | **96,025** | **53,651** | **(32,956)** | **356,464** |
| **Total assets less total liabilities** | **43,188** | **114,220** | **32,963** | **(61,517)** | **128,854** |
| **Net worth** | | | | | |
| Taxpayers' funds | 11,141 | 36,400 | 10,165 | (67,960) | (10,254) |
| Reserves | 32,047 | 77,820 | 16,016 | 6,772 | 132,655 |
| Net worth attributable to minority interest | - | - | 6,782 | (329) | 6,453 |
| **Total net worth** | **43,188** | **114,220** | **32,963** | **(61,517)** | **128,854** |

# 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 | 122,656 | - | - | (674) | 121,982 |
| Other sovereign revenue | 4,949 | 7,550 | - | (2,319) | 10,180 |
| Revenue from core Crown funding | - | 43,077 | 657 | (43,734) | - |
| Sales of goods and services | 1,682 | 3,229 | 16,861 | (923) | 20,849 |
| Interest revenue | 1,163 | 836 | 1,541 | (379) | 3,161 |
| Other revenue | 2,308 | 4,572 | 987 | (2,675) | 5,192 |
| **Total revenue (excluding gains)** | **132,758** | **59,264** | **20,046** | **(50,704)** | **161,364** |
| **Expenses** | | | | | |
| Social assistance and official development assistance | 42,910 | - | - | (1,533) | 41,377 |
| Personnel expenses | 9,693 | 20,978 | 2,882 | (40) | 33,513 |
| Other operating expenses | 68,199 | 32,315 | 14,692 | (47,893) | 67,313 |
| Interest expenses | 4,821 | 675 | 1,184 | (582) | 6,098 |
| Insurance expenses | 2 | 9,694 | 9 | - | 9,705 |
| Forecast for future new spending | 6,677 | - | - | - | 6,677 |
| Top-down operating expense adjustment | (1,175) | - | - | - | (1,175) |
| **Total expenses (excluding losses)** | **131,127** | **63,662** | **18,767** | **(50,048)** | **163,508** |
| Total gains/(losses) and other items | 4,985 | 1,205 | (437) | (213) | 5,540 |
| **Operating balance** | **6,616** | **(3,193)** | **842** | **(869)** | **3,396** |
| ***Expenses by functional classification*** | | | | | |
| *Social security and welfare* | *43,139* | *10,985* | *-* | *(2,262)* | *51,862* |
| *Health* | *26,907* | *23,962* | *-* | *(25,126)* | *25,743* |
| *Education* | *18,397* | *13,738* | *-* | *(12,763)* | *19,372* |
| *Transport and communications* | *4,907* | *5,107* | *8,204* | *(5,186)* | *13,032* |
| *Other* | *27,454* | *9,195* | *9,379* | *(4,129)* | *41,899* |
| *Finance costs* | *4,821* | *675* | *1,184* | *(582)* | *6,098* |
| *Forecast for future new spending* | *6,677* | *-* | *-* | *-* | *6,677* |
| *Top-down operating expense adjustment* | *(1,175)* | *-* | *-* | *-* | *(1,175)* |
| ***Total expenses (excluding losses)*** | ***131,127*** | ***63,662*** | ***18,767*** | ***(50,048)*** | ***163,508*** |
| **Statement of Financial Position as at 30 June 2024** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 11,481 | 4,950 | 3,043 | (1,166) | 18,308 |
| Receivables | 27,519 | 7,080 | 2,036 | (2,192) | 34,443 |
| Other financial assets | 124,039 | 53,367 | 37,141 | (26,568) | 187,979 |
| Property, plant and equipment | 57,809 | 134,209 | 45,990 | - | 238,008 |
| Equity accounted investments | 71,601 | 13,315 | 354 | (69,096) | 16,174 |
| Intangible assets and goodwill | 2,514 | 918 | 1,738 | (482) | 4,688 |
| Inventory and other assets | 3,511 | 2,152 | 1,112 | (152) | 6,623 |
| Forecast for new capital spending | 4,010 | - | - | - | 4,010 |
| Top-down capital adjustment | (4,020) | - | - | - | (4,020) |
| **Total assets** | **298,464** | **215,991** | **91,414** | **(99,656)** | **506,213** |
| **Liabilities** | | | | | |
| Borrowings | 201,684 | 19,072 | 47,708 | (23,394) | 245,070 |
| Other liabilities | 46,851 | 82,561 | 9,284 | (9,983) | 128,713 |
| **Total liabilities** | **248,535** | **101,633** | **56,992** | **(33,377)** | **373,783** |
| **Total assets less total liabilities** | **49,929** | **114,358** | **34,422** | **(66,279)** | **132,430** |
| **Net worth** | | | | | |
| Taxpayers' funds | 17,757 | 36,537 | 11,558 | (72,717) | (6,865) |
| Reserves | 32,172 | 77,821 | 16,011 | 6,768 | 132,772 |
| Net worth attributable to minority interest | - | - | 6,853 | (330) | 6,523 |
| **Total net worth** | **49,929** | **114,358** | **34,422** | **(66,279)** | **132,430** |

# 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 | 129,907 | - | - | (704) | 129,203 |
| Other sovereign revenue | 5,135 | 9,028 | - | (2,392) | 11,771 |
| Revenue from core Crown funding | - | 42,025 | 611 | (42,636) | - |
| Sales of goods and services | 1,729 | 3,352 | 17,365 | (902) | 21,544 |
| Interest revenue | 1,004 | 816 | 1,759 | (380) | 3,199 |
| Other revenue | 2,472 | 4,694 | 781 | (2,690) | 5,257 |
| **Total revenue (excluding gains)** | **140,247** | **59,915** | **20,516** | **(49,704)** | **170,974** |
| **Expenses** | | | | | |
| Social assistance and official development assistance | 45,669 | - | - | (1,720) | 43,949 |
| Personnel expenses | 9,673 | 21,000 | 2,952 | (40) | 33,585 |
| Other operating expenses | 65,302 | 31,868 | 14,923 | (46,806) | 65,287 |
| Interest expenses | 4,891 | 742 | 1,334 | (596) | 6,371 |
| Insurance expenses | 3 | 10,113 | 9 | - | 10,125 |
| Forecast for future new spending | 9,630 | - | - | - | 9,630 |
| Top-down operating expense adjustment | (1,075) | - | - | - | (1,075) |
| **Total expenses (excluding losses)** | **134,093** | **63,723** | **19,218** | **(49,162)** | **167,872** |
| Total gains/(losses) and other items | 5,429 | 1,275 | (469) | (228) | 6,007 |
| **Operating balance** | **11,583** | **(2,533)** | **829** | **(770)** | **9,109** |
| ***Expenses by functional classification*** | | | | | |
| *Social security and welfare* | *45,812* | *12,559* | *-* | *(2,425)* | *55,946* |
| *Health* | *26,719* | *23,757* | *-* | *(24,927)* | *25,549* |
| *Education* | *18,079* | *13,517* | *-* | *(12,471)* | *19,125* |
| *Transport and communications* | *4,205* | *3,972* | *8,511* | *(4,638)* | *12,050* |
| *Other* | *25,832* | *9,176* | *9,373* | *(4,105)* | *40,276* |
| *Finance costs* | *4,891* | *742* | *1,334* | *(596)* | *6,371* |
| *Forecast for future new spending* | *9,630* | *-* | *-* | *-* | *9,630* |
| *Top-down operating expense adjustment* | *(1,075)* | *-* | *-* | *-* | *(1,075)* |
| ***Total expenses (excluding losses)*** | ***134,093*** | ***63,723*** | ***19,218*** | ***(49,162)*** | ***167,872*** |
| **Statement of Financial Position as at 30 June 2025** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 11,351 | 5,691 | 3,389 | (1,161) | 19,270 |
| Receivables | 23,359 | 7,316 | 2,044 | (2,200) | 30,519 |
| Other financial assets | 125,783 | 54,339 | 40,278 | (26,309) | 194,091 |
| Property, plant and equipment | 57,744 | 137,450 | 46,741 | - | 241,935 |
| Equity accounted investments | 75,318 | 13,459 | 348 | (72,730) | 16,395 |
| Intangible assets and goodwill | 2,477 | 901 | 1,810 | (550) | 4,638 |
| Inventory and other assets | 3,128 | 2,437 | 1,140 | (150) | 6,555 |
| Forecast for new capital spending | 6,140 | - | - | - | 6,140 |
| Top-down capital adjustment | (4,480) | - | - | - | (4,480) |
| **Total assets** | **300,820** | **221,593** | **95,750** | **(103,100)** | **515,063** |
| **Liabilities** | | | | | |
| Borrowings | 194,580 | 20,582 | 50,950 | (23,096) | 243,016 |
| Other liabilities | 44,610 | 86,296 | 9,410 | (9,979) | 130,337 |
| **Total liabilities** | **239,190** | **106,878** | **60,360** | **(33,075)** | **373,353** |
| **Total assets less total liabilities** | **61,630** | **114,715** | **35,390** | **(70,025)** | **141,710** |
| **Net worth** | | | | | |
| Taxpayers' funds | 29,341 | 36,894 | 12,457 | (76,466) | 2,226 |
| Reserves | 32,289 | 77,821 | 16,023 | 6,767 | 132,900 |
| Net worth attributable to minority interest | - | - | 6,910 | (326) | 6,584 |
| **Total net worth** | **61,630** | **114,715** | **35,390** | **(70,025)** | **141,710** |

# 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 | 138,476 | - | - | (798) | 137,678 |
| Other sovereign revenue | 5,263 | 13,120 | - | (2,497) | 15,886 |
| Revenue from core Crown funding | - | 41,880 | 616 | (42,496) | - |
| Sales of goods and services | 1,739 | 3,454 | 17,807 | (879) | 22,121 |
| Interest revenue | 1,163 | 822 | 2,086 | (385) | 3,686 |
| Other revenue | 2,595 | 4,326 | 495 | (2,040) | 5,376 |
| **Total revenue (excluding gains)** | **149,236** | **63,602** | **21,004** | **(49,095)** | **184,747** |
| **Expenses** | | | | | |
| Social assistance and official development assistance | 47,728 | - | - | (1,367) | 46,361 |
| Personnel expenses | 9,647 | 21,088 | 2,994 | (41) | 33,688 |
| Other operating expenses | 64,489 | 35,476 | 15,118 | (46,598) | 68,485 |
| Interest expenses | 4,601 | 827 | 1,578 | (595) | 6,411 |
| Insurance expenses | 3 | 10,541 | 9 | - | 10,553 |
| Forecast for future new spending | 12,681 | - | - | - | 12,681 |
| Top-down operating expense adjustment | (925) | - | - | - | (925) |
| **Total expenses (excluding losses)** | **138,224** | **67,932** | **19,699** | **(48,601)** | **177,254** |
| Total gains/(losses) and other items | 5,826 | 1,305 | (527) | (222) | 6,382 |
| **Operating balance** | **16,838** | **(3,025)** | **778** | **(716)** | **13,875** |
| ***Expenses by functional classification*** | | | | | |
| *Social security and welfare* | *47,910* | *16,617* | *-* | *(2,554)* | *61,973* |
| *Health* | *26,734* | *23,735* | *-* | *(24,939)* | *25,530* |
| *Education* | *18,116* | *13,518* | *-* | *(12,465)* | *19,169* |
| *Transport and communications* | *3,919* | *4,009* | *8,710* | *(4,426)* | *12,212* |
| *Other* | *25,188* | *9,226* | *9,411* | *(3,622)* | *40,203* |
| *Finance costs* | *4,601* | *827* | *1,578* | *(595)* | *6,411* |
| *Forecast for future new spending* | *12,681* | *-* | *-* | *-* | *12,681* |
| *Top-down operating expense adjustment* | *(925)* | *-* | *-* | *-* | *(925)* |
| ***Total expenses (excluding losses)*** | ***138,224*** | ***67,932*** | ***19,699*** | ***(48,601)*** | ***177,254*** |
| **Statement of Financial Position as at 30 June 2026** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 11,170 | 6,170 | 3,765 | (1,156) | 19,949 |
| Receivables | 24,424 | 7,685 | 2,047 | (2,212) | 31,944 |
| Other financial assets | 133,894 | 55,100 | 43,663 | (26,163) | 206,494 |
| Property, plant and equipment | 57,436 | 141,626 | 47,568 | - | 246,630 |
| Equity accounted investments | 78,973 | 13,607 | 373 | (76,385) | 16,568 |
| Intangible assets and goodwill | 2,441 | 852 | 1,847 | (568) | 4,572 |
| Inventory and other assets | 3,084 | 2,796 | 1,173 | (151) | 6,902 |
| Forecast for new capital spending | 8,400 | - | - | - | 8,400 |
| Top-down capital adjustment | (4,690) | - | - | - | (4,690) |
| **Total assets** | **315,132** | **227,836** | **100,436** | **(106,635)** | **536,769** |
| **Liabilities** | | | | | |
| Borrowings | 193,587 | 22,622 | 54,925 | (22,912) | 248,222 |
| Other liabilities | 42,960 | 90,303 | 9,507 | (10,003) | 132,767 |
| **Total liabilities** | **236,547** | **112,925** | **64,432** | **(32,915)** | **380,989** |
| **Total assets less total liabilities** | **78,585** | **114,911** | **36,004** | **(73,720)** | **155,780** |
| **Net worth** | | | | | |
| Taxpayers' funds | 46,178 | 37,090 | 12,969 | (80,163) | 16,074 |
| Reserves | 32,407 | 77,821 | 16,021 | 6,767 | 133,016 |
| Net worth attributable to minority interest | - | - | 7,014 | (324) | 6,690 |
| **Total net worth** | **78,585** | **114,911** | **36,004** | **(73,720)** | **155,780** |

# Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 115 to 137) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

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

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

OBEGAL represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown Entities but does not include certain gains or losses from Government reporting entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

**Expenses by Functional Classification**

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

**Core Crown Residual Cash**

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

**Debt Indicators**

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

Gross debt 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 debt provides information about the sustainability of the Government's accounts. It represents core Crown borrowings and Crown entity borrowings less core Crown financial assets (including advances). Net debt includes the financial assets and borrowings of the NZS Fund.

**Reconciliation Between the Financial Statements, the Operating Balance before Gains and Losses and Core Crown Residual Cash**

This statement shows how key lines in the financial statements flow through to the key operating indicators used to measure performance.

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

## for the years ending 30 June

| | 2021<br>Actual<br>$m | 2022<br>Previous<br>Budget<br>$m | 2022<br>Forecast<br>$m | 2023<br>Forecast<br>$m | 2024<br>Forecast<br>$m | 2025<br>Forecast<br>$m | 2026<br>Forecast<br>$m |
|---|---|---|---|---|---|---|---|
| **Operating Balance** | | | | | | | |
| Total revenue | 129,335 | 123,869 | 135,796 | 152,154 | 161,364 | 170,974 | 184,747 |
| Total expenses | 133,859 | 142,000 | 154,887 | 158,528 | 163,508 | 167,872 | 177,254 |
| Total gains/(losses) | 21,023 | 2,843 | (8,741) | 4,845 | 5,829 | 6,290 | 6,699 |
| Net surplus from associates and joint ventures | (360) | (98) | 158 | 149 | 160 | 175 | 194 |
| Less Minority interests share of operating balance | (117) | (262) | (206) | (252) | (449) | (458) | (511) |
| **Operating balance** | **16,022** | **(15,648)** | **(27,880)** | **(1,632)** | **3,396** | **9,109** | **13,875** |
| **Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses** | | | | | | | |
| **Operating balance** | **16,022** | **(15,648)** | **(27,880)** | **(1,632)** | **3,396** | **9,109** | **13,875** |
| 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 | (1,383) | 4,894 | 5,928 | 6,389 | 6,791 |
| Net gains/(losses) on non-financial instruments | 6,869 | (135) | (7,357) | (49) | (99) | (99) | (92) |
| Minority interests share of total gains/(losses) | 56 | 16 | (319) | 8 | (6) | (1) | 2 |
| Net surplus from associates and joint ventures | (360) | (98) | 158 | 149 | 160 | 175 | 194 |
| **OBEGAL** | **(4,697)** | **(18,409)** | **(18,978)** | **(6,634)** | **(2,587)** | **2,645** | **6,980** |

# 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 | 42,921 | 45,005 | 49,413 | 50,226 | 51,862 | 55,946 | 61,973 |
| Health | 22,620 | 24,609 | 29,491 | 25,493 | 25,743 | 25,549 | 25,530 |
| Education | 17,384 | 19,166 | 19,002 | 19,518 | 19,372 | 19,125 | 19,169 |
| Core government services | 5,613 | 5,641 | 5,803 | 6,180 | 6,064 | 5,372 | 5,310 |
| Law and order | 5,558 | 5,848 | 6,148 | 6,403 | 6,375 | 6,380 | 6,295 |
| Transport and communications | 10,335 | 11,960 | 11,241 | 12,568 | 13,032 | 12,050 | 12,212 |
| Economic and industrial services | 13,473 | 11,010 | 17,086 | 12,598 | 12,410 | 11,929 | 11,706 |
| Defence | 2,648 | 2,735 | 2,784 | 2,906 | 3,059 | 3,081 | 3,085 |
| Heritage, culture and recreation | 3,023 | 3,179 | 3,514 | 3,414 | 3,318 | 3,307 | 3,377 |
| Primary services | 2,398 | 2,439 | 2,631 | 2,493 | 2,389 | 2,305 | 2,278 |
| Housing and community development | 3,351 | 4,389 | 4,722 | 5,318 | 5,044 | 4,959 | 5,118 |
| Environmental protection | 1,895 | 1,905 | 2,783 | 3,033 | 2,840 | 2,549 | 2,640 |
| GSF pension expenses | 114 | 103 | 97 | 78 | 75 | 71 | 69 |
| Other | 254 | 214 | 375 | 163 | 325 | 323 | 325 |
| Finance costs | 2,272 | 2,351 | 3,355 | 5,233 | 6,098 | 6,371 | 6,411 |
| Forecast new operating spending | - | 4,221 | 592 | 4,904 | 6,677 | 9,630 | 12,681 |
| Top-down operating expense adjustment | - | (2,775) | (4,150) | (2,000) | (1,175) | (1,075) | (925) |
| **Total Crown expenses excluding losses** | **133,859** | **142,000** | **154,887** | **158,528** | **163,508** | **167,872** | **177,254** |

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 | 36,788 | 38,917 | 43,419 | 41,552 | 43,139 | 45,812 | 47,910 |
| Health | 22,806 | 25,048 | 29,999 | 26,579 | 26,907 | 26,719 | 26,734 |
| Education | 16,039 | 17,869 | 18,304 | 18,587 | 18,397 | 18,079 | 18,116 |
| Core government services | 5,765 | 5,639 | 5,754 | 6,110 | 6,116 | 5,510 | 5,404 |
| Law and order | 5,227 | 5,361 | 5,691 | 5,966 | 5,966 | 5,884 | 5,821 |
| Transport and communications | 5,656 | 4,371 | 5,149 | 4,754 | 4,907 | 4,205 | 3,919 |
| Economic and industrial services | 4,525 | 4,403 | 9,252 | 4,254 | 3,900 | 3,319 | 3,112 |
| Defence | 2,664 | 2,752 | 2,802 | 2,924 | 3,077 | 3,099 | 3,103 |
| Heritage, culture and recreation | 1,420 | 1,392 | 1,729 | 1,533 | 1,342 | 1,291 | 1,340 |
| Primary services | 1,015 | 1,063 | 1,154 | 1,159 | 1,053 | 1,082 | 1,058 |
| Housing and community development | 1,813 | 2,565 | 2,684 | 3,076 | 2,679 | 2,563 | 2,173 |
| Environmental protection | 1,912 | 1,918 | 2,786 | 3,118 | 2,939 | 2,707 | 2,801 |
| GSF pension expenses | 99 | 71 | 82 | 61 | 57 | 54 | 51 |
| Other | 254 | 214 | 375 | 163 | 325 | 323 | 325 |
| Finance costs | 1,918 | 1,688 | 2,822 | 4,311 | 4,821 | 4,891 | 4,601 |
| Forecast new operating spending | - | 4,221 | 592 | 4,904 | 6,677 | 9,630 | 12,681 |
| Top-down operating expense adjustment | - | (2,775) | (4,150) | (2,000) | (1,175) | (1,075) | (925) |
| **Total core Crown expenses excluding losses** | **107,901** | **114,717** | **128,444** | **127,051** | **131,127** | **134,093** | **138,224** |

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 | 104,242 | 115,061 | 117,868 | 134,884 | 138,393 |
| Other sovereign receipts | 2,287 | 1,612 | 3,119 | 2,656 | 2,622 | 2,679 | 2,584 |
| Interest receipts | 249 | 217 | 356 | 553 | 542 | 448 | 670 |
| Sale of goods and services and other receipts | 2,980 | 2,834 | 3,122 | 3,172 | 3,108 | 3,208 | 3,225 |
| Transfer payments and subsidies | (36,574) | (38,492) | (46,213) | (41,108) | (43,203) | (47,027) | (48,261) |
| Personnel and operating costs | (63,894) | (70,364) | (77,733) | (74,403) | (71,629) | (69,220) | (68,489) |
| Interest payments | (2,642) | (2,082) | (2,740) | (3,587) | (3,883) | (4,166) | (3,931) |
| Forecast for future new operating spending | - | (4,221) | (592) | (4,904) | (6,677) | (9,630) | (12,681) |
| Top-down operating expense adjustment | - | 2,775 | 4,150 | 2,000 | 1,175 | 1,075 | 925 |
| **Net core Crown operating cash flows** | **(1,043)** | **(11,735)** | **(12,289)** | **(560)** | **(77)** | **12,251** | **12,435** |
| **Core Crown Capital Cash Flows** | | | | | | | |
| Net purchase of physical assets | (3,137) | (4,612) | (4,149) | (5,355) | (4,338) | (2,827) | (2,461) |
| Net increase in advances | (3,868) | (14,175) | (8,947) | (12,820) | 2,420 | 5,433 | 15,259 |
| Net purchase of investments | (3,599) | (6,682) | (4,762) | (7,736) | (4,679) | (3,348) | (3,641) |
| Contribution to NZS Fund | (2,120) | (2,420) | (2,420) | (2,558) | (2,108) | (1,937) | (1,883) |
| Forecast for future new capital spending | - | (2,033) | (963) | (1,311) | (1,736) | (2,130) | (2,260) |
| Top-down capital adjustment | - | 2,425 | 1,750 | 1,060 | 1,210 | 460 | 210 |
| **Net core Crown capital cash flows** | **(12,724)** | **(27,497)** | **(19,491)** | **(28,720)** | **(9,231)** | **(4,349)** | **5,224** |
| **Residual cash (deficit)/surplus** | **(13,767)** | **(39,232)** | **(31,780)** | **(29,280)** | **(9,308)** | **7,902** | **17,659** |
| ***The residual cash (deficit)/surplus is funded or invested as follows:*** | | | | | | | |
| **Debt Programme Cash Flows** | | | | | | | |
| Market: | | | | | | | |
| Issue of government bonds | 48,497 | 31,046 | 19,817 | 25,721 | 25,250 | 24,766 | 15,059 |
| Repayment of government bonds | (11,059) | - | (824) | (22,746) | (19,100) | (19,575) | (18,128) |
| Net issue/(repayment) of short-term borrowing[1] | (4,148) | (2,800) | (5,445) | (591) | - | - | - |
| Total market debt cash flows | 33,290 | 28,246 | 13,548 | 2,384 | 6,150 | 5,191 | (3,069) |
| Non-market: | | | | | | | |
| Issue of government bonds | - | - | - | - | - | - | - |
| Repayment of government bonds | - | - | - | - | - | - | - |
| Net issue/(repayment) of short-term borrowing | - | (460) | (412) | (400) | - | - | - |
| Total non-market debt cash flows | - | (460) | (412) | (400) | - | - | - |
| **Total debt programme cash flows** | **33,290** | **27,786** | **13,136** | **1,984** | **6,150** | **5,191** | **(3,069)** |
| **Other Borrowing Cash Flows** | | | | | | | |
| Net (repayment)/issue of other New Zealand dollar borrowing | (30,089) | 13,095 | 12,593 | 12,652 | (4,065) | (5,418) | (2,554) |
| Net (repayment)/issue of foreign currency borrowing | 608 | (229) | (1,381) | (917) | 332 | 985 | (218) |
| **Total other borrowing cash flows** | **(29,481)** | **12,866** | **11,212** | **11,735** | **(3,733)** | **(4,433)** | **(2,772)** |
| **Investing Cash Flows** | | | | | | | |
| Net sale/(purchase) of marketable securities and deposits | 6,042 | (1,581) | 8,452 | 15,899 | 6,815 | (8,777) | (11,867) |
| Net issues/(repayments) of circulating currency | 234 | 84 | 903 | - | 92 | 93 | 93 |
| Decrease/(increase) in cash | 3,682 | 77 | (1,923) | (338) | (16) | 24 | (44) |
| **Total investing cash flows** | **9,958** | **(1,420)** | **7,432** | **15,561** | **6,891** | **(8,660)** | **(11,818)** |
| **Residual cash deficit/(surplus) funding/(investing)** | **13,767** | **39,232** | **31,780** | **29,280** | **9,308** | **(7,902)** | **(17,659)** |

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:** | | | | | | | |
| Core Crown borrowings[1] | 132,543 | 177,603 | 166,075 | 192,255 | 201,684 | 194,580 | 193,587 |
| Crown entity borrowings[2] | 11,836 | 15,185 | 14,157 | 16,511 | 19,072 | 20,582 | 22,622 |
| Net unsettled purchases/(sales) of securities[3] | (35) | (530) | (1,517) | (1,636) | (1,646) | (1,657) | (1,668) |
| Less core Crown financial assets (per net debt definition)[4] | (108,423) | (117,335) | (117,552) | (132,158) | (135,520) | (137,134) | (145,064) |
| **Net debt (incl. NZS Fund)** | **35,921** | **74,923** | **61,163** | **74,972** | **83,590** | **76,371** | **69,477** |
| ***Additional net debt analysis*** | | | | | | | |
| Net debt (incl. NZS Fund) | 35,921 | 74,923 | 61,163 | 74,972 | 83,590 | 76,371 | 69,477 |
| Less NZS Fund borrowings | (2,218) | (3,110) | (2,740) | (2,740) | (2,740) | (2,740) | (2,740) |
| Less NZS Fund net unsettled purchases/(sales) of securities | 929 | 532 | 1,518 | 1,637 | 1,647 | 1,658 | 1,669 |
| Less NZS Fund finanical assets | 60,556 | 61,895 | 61,522 | 67,780 | 73,899 | 80,288 | 87,095 |
| **Net debt (excl. NZS Fund)** | **95,188** | **134,240** | **121,463** | **141,649** | **156,396** | **155,577** | **155,501** |
| **Gross Debt:** | | | | | | | |
| Core Crown borrowings | 132,543 | 177,603 | 166,075 | 192,255 | 201,684 | 194,580 | 193,587 |
| Unsettled purchases of securities | 1,600 | 691 | 394 | 81 | 85 | 90 | 96 |
| Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings | (2,887) | (3,799) | (3,133) | (2,820) | (2,824) | (2,829) | (2,835) |
| Less Reserve Bank settlement cash and Reserve Bank bills | (30,421) | (80,152) | (48,197) | (59,297) | (51,743) | (28,093) | (23,205) |
| **Gross Debt[5]** | **100,835** | **94,343** | **115,139** | **130,219** | **147,202** | **163,748** | **167,643** |

**Notes on borrowings**

1. Core Crown borrowings represent the total debt obligations of the consolidated core Crown segment. This includes any government stock held by ACC and EQC and includes settlement deposits with the Reserve Bank.
2. Crown entity borrowings represents the total debt obligations of the consolidated Crown entities. This includes debt issued by Crown entities, such as Kāinga Ora.
3. Unsettled sales and purchases of securities are classified in the Statement of Financial Position as recievables and accounts payable, respectively.
4. Core Crown financial assets per the net debt definition includes any asset that is cash, deposits, share investments, advances, other marketable securities, investments in controlled enterprises and derivatives in gain.
5. The Gross Debt balances for 2021 Actual and Previous Budget have been restated by $1.6 billion. Previously, an adjustment to settlement cash of $1.6 billion was made in the calculation of Gross Debt which related to the Reserve Bank using this amount of settlement cash purchase reserves that were to have been funded by the government borrowing. This adjustment is no longer considered relevant so has been removed and comparatives have been restated.

## 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 |
|---|---|---|---|---|---|---|---|
| **Movement in net debt** | | | | | | | |
| **Opening net debt** | **35,710** | **50,593** | **35,921** | **61,163** | **74,972** | **83,590** | **76,371** |
| Core Crown residual cash (surplus)/deficit | 13,767 | 39,232 | 31,780 | 29,280 | 9,308 | (7,902) | (17,659) |
| Less net increase in advances | (3,868) | (14,175) | (8,947) | (12,820) | 2,420 | 5,433 | 15,259 |
| Less contributions to the NZS Fund | (2,120) | (2,420) | (2,420) | (2,558) | (2,108) | (1,937) | (1,883) |
| Net increase/(decrease) in Crown Entity borrowings | 725 | 2,374 | 2,321 | 2,354 | 2,561 | 1,510 | 2,040 |
| Other fair value movements in financial assets and financial liabilities (including NZSF) | (8,293) | (681) | 2,508 | (2,447) | (3,563) | (4,323) | (4,651) |
| **Closing net debt** | **35,921** | **74,923** | **61,163** | **74,972** | **83,590** | **76,371** | **69,477** |

# Reconciliation Between the Financial Statements, the Operating Balance before Gains and Losses and Core Crown Residual Cash

| 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 | 103,796 | 116,098 | 122,656 | 129,907 | 138,476 |
| ...combined with other core Crown revenue... | 6,985 | 9,114 | 9,603 | 10,102 | 10,340 | 10,760 |
| ...funds core Crown expenses... | (107,901) | (128,444) | (127,051) | (131,127) | (134,093) | (138,224) |
| ...and with SOE and CE[1] results... | (1,764) | (3,444) | (5,284) | (4,218) | (3,509) | (4,032) |
| ...this results in an operating balance before gains and losses **(OBEGAL)**... | (4,697) | (18,978) | (6,634) | (2,587) | 2,645 | 6,980 |
| ...with gains/losses leading to **operating surplus/(deficit)...** | 16,022 | (27,880) | (1,632) | 3,396 | 9,109 | 13,875 |
| ...with income in SOEs, CEs[1] and the NZS Fund retained... | (22,702) | 6,843 | 897 | (751) | (1,938) | (1,921) |
| ...and some items do not impact cash | 5,637 | 8,748 | 175 | (2,722) | 5,080 | 481 |
| This leads to an operating residual cash surplus/(deficit)... | **(1,043)** | **(12,289)** | **(560)** | **(77)** | **12,251** | **12,435** |
| ...used to make contributions to the NZS Fund... | (2,120) | (2,420) | (2,558) | (2,108) | (1,937) | (1,883) |
| ...and to use for capital expenditure... | (3,137) | (4,149) | (5,355) | (4,338) | (2,827) | (2,461) |
| ...and to make advances (eg, to students) | (3,868) | (8,947) | (12,820) | 2,420 | 5,433 | 15,259 |
| ...and to purchase investments | (3,599) | (4,762) | (7,736) | (4,679) | (3,348) | (3,641) |
| Adjusting for forecast adjustments (top-down/new spending)... | - | 787 | (251) | (526) | (1,670) | (2,050) |
| ...results in a **borrowing requirement (cash (deficit)/surplus)** | **(13,767)** | **(31,780)** | **(29,280)** | **(9,308)** | **7,902** | **17,659** |

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[1] Actual | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|
| Social security and welfare | 25,294 | 25,999 | 28,740 | 44,028 | 36,788 | 43,419 | 41,552 | 43,139 | 45,812 | 47,910 |
| Health | 16,223 | 17,159 | 18,268 | 19,891 | 22,806 | 29,999 | 26,579 | 26,907 | 26,719 | 26,734 |
| Education | 13,281 | 13,629 | 14,293 | 16,322 | 16,039 | 18,304 | 18,587 | 18,397 | 18,079 | 18,116 |
| Core government services[1] | 3,957 | 4,670 | 5,166 | 6,083 | 5,765 | 5,754 | 6,110 | 6,116 | 5,510 | 5,404 |
| Law and order | 3,882 | 4,184 | 4,625 | 4,911 | 5,227 | 5,691 | 5,966 | 5,966 | 5,884 | 5,821 |
| Transport and communications | 2,176 | 2,559 | 2,889 | 3,179 | 5,656 | 5,149 | 4,754 | 4,907 | 4,205 | 3,919 |
| Economic and industrial services | 2,544 | 2,732 | 3,006 | 3,988 | 4,525 | 9,252 | 4,254 | 3,900 | 3,319 | 3,112 |
| Defence | 2,146 | 2,251 | 2,395 | 2,499 | 2,664 | 2,802 | 2,924 | 3,077 | 3,099 | 3,103 |
| Heritage, culture and recreation | 850 | 850 | 918 | 1,106 | 1,420 | 1,729 | 1,533 | 1,342 | 1,291 | 1,340 |
| Primary services | 644 | 807 | 960 | 961 | 1,015 | 1,154 | 1,159 | 1,053 | 1,082 | 1,058 |
| Housing and community development | 539 | 552 | 727 | 1,015 | 1,813 | 2,684 | 3,076 | 2,679 | 2,563 | 2,173 |
| Environmental protection | 871 | 1,238 | 1,119 | 1,485 | 1,912 | 2,786 | 3,118 | 2,939 | 2,707 | 2,801 |
| GSF pension expenses[1] | 217 | 150 | 66 | 73 | 99 | 82 | 61 | 57 | 54 | 51 |
| Other | 181 | 299 | 96 | 63 | 254 | 375 | 163 | 325 | 323 | 325 |
| Finance costs[1] | 3,534 | 3,497 | 3,691 | 3,228 | 1,918 | 2,822 | 4,311 | 4,821 | 4,891 | 4,601 |
| Forecast new operating spending | .. | .. | .. | .. | .. | 592 | 4,904 | 6,677 | 9,630 | 12,681 |
| Top-down operating expense adjustment | .. | .. | .. | .. | .. | ( 4,150) | ( 2,000) | ( 1,175) | ( 1,075) | (925) |
| **Core Crown expenses** | **76,339** | **80,576** | **86,959** | **108,832** | **107,901** | **128,444** | **127,051** | **131,127** | **134,093** | **138,224** |

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' and '2021 Actual' has been restated for the impact of new accounting standards and interpretations. 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 | 33,679 | 39,761 | 37,857 | 39,819 | 42,476 | 44,596 |
| Departmental expenses | 1,417 | 1,593 | 1,784 | 2,062 | 2,453 | 2,834 | 2,684 | 2,389 | 2,399 | 2,392 |
| Social rehabilitation and compensation | 220 | 241 | 249 | 260 | 333 | 358 | 386 | 412 | 424 | 441 |
| Flexi-wage subsidy | .. | .. | .. | .. | 8 | 127 | 142 | .. | .. | .. |
| COVID-19 Income Relief Assistance | .. | .. | .. | 15 | 182 | .. | .. | .. | .. | .. |
| Other non-departmental expenses[1] | 318 | 160 | 18 | 383 | 133 | 339 | 483 | 519 | 513 | 481 |
| **Social security and welfare expenses** | **25,294** | **25,999** | **28,740** | **44,028** | **36,788** | **43,419** | **41,552** | **43,139** | **45,812** | **47,910** |

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 | 17,775 | 19,529 | 21,414 | 22,963 | 24,524 |
| Jobseeker Support and Emergency Benefit | 1,697 | 1,697 | 1,854 | 2,285 | 3,224 | 3,346 | 3,428 | 3,645 | 4,042 | 4,311 |
| Supported living payment | 1,533 | 1,541 | 1,556 | 1,650 | 1,826 | 2,045 | 2,219 | 2,344 | 2,474 | 2,599 |
| Sole parent support | 1,159 | 1,117 | 1,115 | 1,231 | 1,455 | 1,700 | 1,819 | 1,902 | 2,034 | 2,135 |
| Family Tax Credit | 1,723 | 1,639 | 2,131 | 2,189 | 2,103 | 2,108 | 2,375 | 2,485 | 2,500 | 2,685 |
| Other working for families tax credits | 596 | 556 | 635 | 641 | 585 | 557 | 562 | 553 | 538 | 534 |
| Accommodation Assistance | 1,127 | 1,204 | 1,640 | 1,923 | 2,302 | 2,353 | 2,331 | 2,331 | 2,420 | 2,481 |
| Income-Related Rents | 815 | 890 | 974 | 1,071 | 1,202 | 1,311 | 1,465 | 1,666 | 1,852 | 1,502 |
| Disability Assistance | 377 | 379 | 386 | 395 | 409 | 411 | 418 | 430 | 438 | 445 |
| Cost of living payment | .. | .. | .. | .. | .. | .. | 800 | .. | .. | .. |
| COVID-19 leave support | .. | .. | .. | .. | 8 | 661 | 50 | .. | .. | .. |
| Winter energy | .. | .. | 441 | 669 | 812 | 514 | 518 | 529 | 546 | 560 |
| Best start | .. | .. | 48 | 184 | 271 | 339 | 375 | 390 | 394 | 415 |
| Orphan's/Unsupported Child's Benefit | 152 | 165 | 225 | 248 | 293 | 315 | 356 | 382 | 400 | 414 |
| Hardship Assistance | 353 | 355 | 300 | 418 | 479 | 507 | 608 | 685 | 764 | 833 |
| Paid Parental Leave | 274 | 288 | 369 | 422 | 503 | 615 | 645 | 679 | 721 | 765 |
| Childcare Assistance | 199 | 196 | 183 | 144 | 145 | 136 | 160 | 179 | 192 | 197 |
| Veteran's Support Entitlement[1] | 98 | 93 | 90 | 66 | .. | .. | .. | .. | .. | .. |
| Veteran's Pension | 175 | 163 | 153 | 145 | 139 | 134 | 131 | 129 | 125 | 120 |
| Wage Subsidy Scheme | | | .. | 12,095 | 1,197 | 4,870 | .. | .. | .. | .. |
| Other benefits[2] | 18 | 23 | 27 | 11 | 157 | 64 | 68 | 76 | 73 | 76 |
| **Benefit expenses** | **23,339** | **24,005** | **26,689** | **41,308** | **33,679** | **39,761** | **37,857** | **39,819** | **42,476** | **44,596** |

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 | 849 | 876 | 904 | 934 | 965 |
| Jobseeker Support and Emergency Benefit | 131 | 129 | 139 | 162 | 211 | 194 | 178 | 180 | 190 | 194 |
| Supported living payment | 97 | 96 | 95 | 96 | 97 | 97 | 99 | 100 | 100 | 101 |
| Sole parent support | 64 | 60 | 59 | 61 | 66 | 70 | 70 | 70 | 71 | 71 |
| Accommodation Supplement | 290 | 285 | 295 | 318 | 364 | 354 | 345 | 352 | 365 | 371 |

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 | 289 | 497 | 227 | 235 | 228 | 226 |
| Purchasing of health services[1,2] | 13,667 | 14,193 | 14,953 | 16,577 | 17,882 | 18,892 | 21,407 | 22,840 | 22,637 | 22,617 |
| National disability support services[3] | 1,188 | 1,256 | 1,358 | 1,599 | 1,659 | 1,859 | 2,008 | 2,006 | 2,006 | 2,006 |
| Other non-departmental outputs[4] | 439 | 869 | 1,014 | 767 | 797 | 948 | 675 | 783 | 784 | 782 |
| Health payments to ACC[4] | 632 | 617 | 705 | 679 | 846 | 896 | 963 | 1,037 | 1,057 | 1,096 |
| National health response to COVID-19[5] | .. | .. | .. | .. | 1,292 | 6,801 | 1,287 | .. | .. | .. |
| Other expenses[4] | 105 | 24 | 28 | 33 | 41 | 106 | 12 | 6 | 7 | 7 |
| **Health expenses** | **16,223** | **17,159** | **18,268** | **19,891** | **22,806** | **29,999** | **26,579** | **26,907** | **26,719** | **26,734** |

1. Reforms to the NZ health system take place from 1 July 2022 with the regional DHB systems replaced by a national health system governed by Heath New Zealand in partnership with the Māori Health Authority. Payments to DHBs to deliver a variety of health and hospital services are replaced by payments to Health New Zealand and the Māori Health Authority to deliver health services at a national, regional and local levels.
2. Purchasing of health services includes expenses previously disclosed as payments to DHBs and public health service purchasing, but excludes disability support services which are disclosed separately.
3. National disability support services were previously funded through Vote Health and are now funded through Vote Social Development.
4. Some actuals amounts have been reclassified to different lines within this table to align with changes in the forecast period so may differ from previously published *Economic and Fiscal Updates.*
5. This line includes spending in relation to vaccines, managed isolation and quarantine as well as the overall COVID-19 response.

Source: The Treasury

## ***Table 5.4*** – 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 | 2,321 | 2,411 | 2,509 | 2,584 | 2,603 |
| Primary and secondary schools (see below) | 6,116 | 6,334 | 6,823 | 7,108 | 8,230 | 8,532 | 8,495 | 8,437 | 8,234 | 8,217 |
| Tertiary funding (see below) | 4,051 | 4,112 | 4,112 | 5,621 | 3,288 | 4,939 | 5,328 | 5,302 | 5,299 | 5,350 |
| Departmental expenses | 1,190 | 1,281 | 1,416 | 1,534 | 1,656 | 1,988 | 2,022 | 1,966 | 1,906 | 1,900 |
| COVID-19 apprentice support | .. | .. | .. | .. | 156 | 280 | 212 | 93 | .. | .. |
| Training incentive allowance | .. | .. | .. | .. | .. | 12 | 21 | 21 | 11 | 1 |
| Other education expenses | 119 | 58 | 46 | 52 | 577 | 232 | 98 | 69 | 45 | 45 |
| **Education expenses** | **13,281** | **13,629** | **14,293** | **16,322** | **16,039** | **18,304** | **18,587** | **18,397** | **18,079** | **18,116** |

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 |
|---|---|---|---|---|---|---|---|---|---|---|
| Early childhood education | 211,492 | 217,241 | 221,137 | 221,971 | 226,281 | 231,690 | 233,080 | 235,708 | 238,327 | 239,794 |

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.

Source: The Ministry of Education

## *Table 5.5* – 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 | 4,141 | 4,072 | 4,087 | 4,035 | 4,010 |
| Secondary | 2,336 | 2,407 | 2,606 | 2,683 | 3,043 | 3,170 | 3,146 | 3,193 | 3,190 | 3,190 |
| School transport | 186 | 195 | 206 | 208 | 216 | 221 | 221 | 221 | 221 | 221 |
| Special needs support | 410 | 429 | 447 | 515 | 641 | 649 | 646 | 655 | 654 | 658 |
| Professional development | 88 | 82 | 104 | 91 | 104 | 121 | 123 | 125 | 124 | 124 |
| Schooling improvement | 5 | 5 | 8 | 7 | 25 | 26 | 29 | 27 | 10 | 14 |
| School lunch programme | .. | .. | .. | 4 | 94 | 204 | 258 | 129 | .. | .. |
| **Primary and secondary education expenses** | **6,116** | **6,334** | **6,823** | **7,108** | **8,230** | **8,532** | **8,495** | **8,437** | **8,234** | **8,217** |

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 5.6* – 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 | 3,203 | 3,267 | 3,222 | 3,138 | 3,133 |
| Other tertiary funding | 520 | 561 | 606 | 637 | 698 | 773 | 717 | 721 | 727 | 723 |
| Student allowances | 465 | 511 | 583 | 567 | 590 | 614 | 682 | 701 | 755 | 803 |
| Student loans | 600 | 488 | 352 | 506 | (19) | 349 | 662 | 658 | 679 | 691 |
| **Tertiary education expenses** | **4,051** | **4,112** | **4,112** | **5,621** | **3,288** | **4,939** | **5,328** | **5,302** | **5,299** | **5,350** |

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 Actual' 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 | 232,339 | 242,200 | 235,100 | 227,000 | 225,900 | 225,900 |

1. Tertiary places are the number of equivalent full time (EFT) students in: student achievement component; adult and community education; and youth guarantee programmes. Place numbers are based on calendar years rather than fiscal years. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. The forecast number of places provided is based on the number of places that can be funded under the current funding and not a forecast based on demand.

Source: Tertiary Education Commission

## *Table 5.7* – 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| Departmental expenses[1] | 1,835 | 2,119 | 2,199 | 2,249 | 2,281 | 2,707 | 2,730 | 2,496 | 2,432 | 2,398 |
| Official development assistance | 520 | 643 | 708 | 736 | 804 | 841 | 1,058 | 1,111 | 1,111 | 961 |
| Tax receivable write-down and impairments | 493 | 616 | 829 | 1,356 | 882 | 841 | 841 | 841 | 841 | 841 |
| Science expenses | 91 | 94 | 103 | 113 | 121 | 115 | 119 | 119 | 117 | 117 |
| Crown Research Institutes: COVID-19 | .. | .. | .. | 45 | 45 | .. | .. | .. | .. | .. |
| Shovel ready project funding | .. | .. | .. | .. | 137 | .. | .. | .. | .. | .. |
| Indemnity and guarantee expenses | 22 | 18 | 16 | 14 | 6 | 2 | 3 | 4 | 5 | 5 |
| Non-departmental expenses | 511 | 683 | 961 | 785 | 905 | 618 | 1,099 | 879 | 859 | 925 |
| Other expenses[2] | 485 | 497 | 350 | 785 | 584 | 630 | 260 | 666 | 145 | 157 |
| **Core government service expenses** | **3,957** | **4,670** | **5,166** | **6,083** | **5,765** | **5,754** | **6,110** | **6,116** | **5,510** | **5,404** |

1. Departmental expenses includes costs relating to the Inland Revenue Business Transformation project.
2. From 2020 other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

## *Table 5.8* – 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 | 2,081 | 2,225 | 2,295 | 2,224 | 2,118 | 2,092 |
| Department of Corrections | 1,145 | 1,301 | 1,417 | 1,527 | 1,657 | 1,685 | 1,788 | 1,833 | 1,855 | 1,862 |
| Ministry of Justice | 479 | 502 | 542 | 591 | 645 | 719 | 707 | 724 | 714 | 708 |
| NZ Customs Service | 171 | 174 | 187 | 201 | 186 | 222 | 215 | 199 | 199 | 199 |
| Other departments | 121 | 132 | 111 | 163 | 178 | 171 | 273 | 262 | 263 | 261 |
| **Departmental expenses** | **3,455** | **3,738** | **4,017** | **4,479** | **4,747** | **5,022** | **5,278** | **5,242** | **5,149** | **5,122** |
| Non-departmental outputs | 397 | 445 | 457 | 419 | 477 | 669 | 687 | 722 | 733 | 699 |
| Other expenses | 30 | 1 | 151 | 13 | 3 | .. | 1 | 2 | 2 | .. |
| **Law and order expenses** | **3,882** | **4,184** | **4,625** | **4,911** | **5,227** | **5,691** | **5,966** | **5,966** | **5,884** | **5,821** |

Source: The Treasury

## ***Table 5.9*** – 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| Departmental outputs | 52 | 55 | 60 | 70 | 73 | 113 | 190 | 210 | 92 | 90 |
| Waka Kotahi NZ Transport Agency | 1,888 | 2,280 | 2,601 | 2,719 | 3,122 | 2,722 | 2,995 | 3,655 | 3,574 | 3,663 |
| Rail funding | 3 | 3 | 3 | 3 | 13 | 387 | 535 | 542 | 325 | 22 |
| Funding to support the aviation and transport Industries | .. | .. | .. | 78 | 570 | 649 | 304 | .. | .. | .. |
| Funding to support Waka Kotahi due to impact of COVID-19 | .. | .. | .. | .. | 322 | 169 | 3 | .. | .. | .. |
| Shovel ready project funding to Crown Infrastructure Partners | .. | .. | .. | .. | 1,035 | 239 | 15 | 15 | 15 | .. |
| Transport temporary relief package | .. | .. | .. | .. | .. | 332 | 322 | .. | .. | .. |
| Other non-departmental expenses | 168 | 177 | 158 | 145 | 169 | 343 | 242 | 204 | 155 | 100 |
| Other expenses[1] | 65 | 44 | 67 | 164 | 352 | 195 | 148 | 281 | 44 | 44 |
| **Transport and communication expenses** | **2,176** | **2,559** | **2,889** | **3,179** | **5,656** | **5,149** | **4,754** | **4,907** | **4,205** | **3,919** |

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 5.10*** – 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 | 677 | 584 | 632 | 579 | 569 | 560 |
| 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 | 1,937 | 1,755 | 1,825 | 1,475 | 1,229 |
| KiwiSaver (includes HomeStart grant)[2] | 743 | 897 | 951 | 893 | 916 | 978 | 1,030 | 1,082 | 1,135 | 1,183 |
| Initial fair value write-down on the Small Business Cashflow Scheme loans | .. | .. | .. | 686 | 143 | 779 | 279 | 149 | .. | .. |
| COVID-19 Resurgence Support Payments | .. | .. | .. | .. | 200 | 4,257 | .. | .. | .. | .. |
| Shovel ready project funding to support energy projects | .. | .. | .. | .. | 24 | 56 | 60 | .. | .. | .. |
| Shovel ready project funding to support the regional projects | .. | .. | .. | | 159 | 200 | 150 | 99 | .. | .. |
| Worker redeployment package | .. | .. | .. | 19 | 50 | 6 | .. | .. | .. | .. |
| Other expenses[4] | 248 | 229 | 218 | 210 | 376 | 451 | 344 | 162 | 136 | 136 |
| **Economic and industrial services expenses** | **2,544** | **2,732** | **3,006** | **3,988** | **4,525** | **9,252** | **4,254** | **3,900** | **3,319** | **3,112** |

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 5.11*** – Defence expenses

| ($millions) | 2017 Actual | 2018 Actual | 2019 Actual | 2020 Actual | 2021 Actual | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|
| New Zealand Defence Force core expenses | 2,084 | 2,172 | 2,286 | 2,418 | 2,531 | 2,699 | 2,758 | 2,885 | 2,931 | 2,934 |
| Other expenses | 62 | 79 | 109 | 81 | 133 | 103 | 166 | 192 | 168 | 169 |
| **Defence expenses** | **2,146** | **2,251** | **2,395** | **2,499** | **2,664** | **2,802** | **2,924** | **3,077** | **3,099** | **3,103** |

Source: The Treasury

## ***Table 5.12*** – 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 | 484 | 451 | 417 | 436 | 471 |
| Non-departmental outputs | 512 | 503 | 538 | 627 | 884 | 895 | 803 | 861 | 803 | 818 |
| Screen Production Grants | 25 | 17 | 42 | 31 | 48 | 75 | 73 | .. | .. | .. |
| COVID-19 cultural sector response | .. | .. | .. | | 6 | 135 | 112 | .. | .. | .. |
| Other expenses[1] | 32 | 28 | 32 | 123 | 103 | 140 | 94 | 64 | 52 | 51 |
| **Heritage, culture and recreation expenses** | **850** | **850** | **918** | **1,106** | **1,420** | **1,729** | **1,533** | **1,342** | **1,291** | **1,340** |

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

Source: The Treasury

## ***Table 5.13*** – 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 | 863 | 862 | 771 | 774 | 764 |
| Non-departmental outputs | 92 | 188 | 110 | 89 | 178 | 118 | 118 | 144 | 209 | 197 |
| Other expenses[1,2] | 94 | 70 | 173 | 145 | 146 | 173 | 179 | 138 | 99 | 97 |
| **Primary services expenses** | **644** | **807** | **960** | **961** | **1,015** | **1,154** | **1,159** | **1,053** | **1,082** | **1,058** |

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 5.14*** – 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| Departmental outputs | 187 | 150 | 195 | 220 | 237 | 261 | 273 | 236 | 236 | 221 |
| Housing subsidies | 5 | 5 | 4 | 4 | 3 | 4 | 4 | 4 | 4 | 4 |
| Community services | 189 | 179 | 183 | 235 | 349 | 481 | 450 | 378 | 363 | 351 |
| Housing Acceleration Fund | .. | .. | .. | .. | .. | 221 | 469 | 507 | 493 | 357 |
| Water Infrastructure | .. | .. | .. | .. | 267 | 241 | 20 | .. | .. | .. |
| Shovel ready project funding to support housing projects | .. | .. | .. | .. | 46 | 59 | 91 | 81 | .. | .. |
| Other non-departmental expenses[1] | 127 | 193 | 283 | 523 | 874 | 1,262 | 1,594 | 1,247 | 1,250 | 1,155 |
| Other expenses | 31 | 25 | 62 | 33 | 37 | 155 | 175 | 226 | 217 | 85 |
| **Housing and community development expenses** | **539** | **552** | **727** | **1,015** | **1,813** | **2,684** | **3,076** | **2,679** | **2,563** | **2,173** |

1. From 2019 onwards, KiwiBuild and transitional housing costs are included in non-departmental expenses.

Source: The Treasury

## ***Table 5.15*** – 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 | 1,649 | 1,586 | 1,527 | 1,480 | 1,487 |
| Departmental outputs | 404 | 412 | 460 | 542 | 620 | 711 | 844 | 825 | 726 | 702 |
| Non-departmental outputs | 64 | 72 | 82 | 257 | 318 | 214 | 491 | 442 | 397 | 523 |
| Clean car discount | .. | .. | .. | .. | .. | 162 | 162 | 131 | 90 | 75 |
| Other expenses | 108 | 34 | 34 | 36 | 99 | 50 | 35 | 14 | 14 | 14 |
| **Environmental protection expenses** | **871** | **1,238** | **1,119** | **1,485** | **1,912** | **2,786** | **3,118** | **2,939** | **2,707** | **2,801** |

Source: The Treasury

## ***Table 5.16*** – 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 | 2,716 | 4,059 | 4,513 | 4,586 | 4,311 |
| Interest unwind on provisions | 29 | 43 | 293 | 257 | 72 | 106 | 252 | 308 | 305 | 290 |
| **Finance costs expenses** | **3,534** | **3,497** | **3,691** | **3,228** | **1,918** | **2,822** | **4,311** | **4,821** | **4,891** | **4,601** |

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 111 to 114).

***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***

Represents debt issued by the sovereign (the core Crown) and includes any government stock held by the NZS Fund, ACC and EQC. Gross debt excludes Reserve Bank settlement cash and Reserve 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.

***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.

***Multi-year funding***

Multi-year funding approaches to allocating funding mean that some of the allowance impact of Budget decisions is pre-committed against future Budgets' operating allowances. This reduces these future Budgets' available operating allowances to reflect that some funding decisions have already been made.

***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***

Represents debt issued by the sovereign (the core Crown) and includes any government stock held by the NZS Fund, ACC and EQC less core Crown financial assets (excluding advances and financial assets held by the NZS Fund).

### *Net debt*

Net debt provides information about the sustainability of the Government's accounts. Net debt represents core Crown and Crown entity borrowings less core Crown financial assets (including advances). It includes the financial assets and borrowings of the NZS Fund.

### *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 111 to 114.

***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 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Forecast | Forecast | Forecast | Forecast | 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 | 103,796 | 116,098 | 122,656 | 129,907 | 138,476 |
| Core Crown revenue | 60,428 | 63,805 | 67,093 | 72,213 | 76,121 | 81,782 | 86,778 | 93,474 | 91,923 | 104,968 | 112,910 | 125,701 | 132,758 | 140,247 | 149,236 |
| Core Crown expenses | 68,939 | 69,962 | 71,174 | 72,363 | 73,929 | 76,339 | 80,576 | 86,959 | 108,832 | 107,901 | 128,444 | 127,051 | 131,127 | 134,093 | 138,224 |
| **Surpluses** | | | | | | | | | | | | | | | |
| Total Crown OBEGAL | (9,240) | (4,414) | (2,802) | 414 | 1,831 | 4,069 | 5,534 | 7,429 | (23,057) | (4,697) | (18,978) | (6,634) | (2,587) | 2,645 | 6,980 |
| Total Crown operating balance | (14,897) | 6,925 | 2,939 | 5,771 | (5,369) | 12,317 | 8,396 | 389 | (30,040) | 16,022 | (27,880) | (1,632) | 3,396 | 9,109 | 13,875 |
| **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) | (31,780) | (29,280) | (9,308) | 7,902 | 17,659 |
| **Debt** | | | | | | | | | | | | | | | |
| Gross debt[1] | 79,635 | 77,984 | 81,956 | 86,125 | 86,928 | 87,141 | 88,053 | 84,449 | 102,257 | 100,835 | 115,139 | 130,219 | 147,202 | 163,748 | 167,643 |
| Net debt | 23,893 | 25,298 | 25,208 | 22,825 | 23,193 | 16,249 | 11,219 | 5,432 | 35,710 | 35,921 | 61,163 | 74,972 | 83,590 | 76,371 | 69,477 |
| Net debt (excl. NZS Fund) | 42,503 | 47,960 | 51,333 | 52,131 | 53,229 | 51,548 | 50,763 | 50,822 | 79,930 | 95,188 | 121,463 | 141,649 | 156,396 | 155,577 | 155,501 |
| 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 | 133,618 | 163,683 | 173,279 | 165,403 | 147,875 |
| Total borrowings | 100,534 | 100,087 | 103,419 | 112,580 | 113,956 | 111,806 | 115,652 | 110,248 | 152,717 | 162,560 | 200,518 | 230,618 | 245,070 | 243,016 | 248,222 |
| **Net worth** | | | | | | | | | | | | | | | |
| Total Crown net worth | 59,780 | 70,011 | 80,697 | 92,236 | 95,521 | 116,472 | 135,637 | 143,339 | 115,782 | 156,895 | 130,368 | 128,854 | 132,430 | 141,710 | 155,780 |
| Total net worth attributable to the Crown | 59,348 | 68,071 | 75,486 | 86,454 | 89,366 | 110,532 | 129,644 | 136,949 | 110,159 | 151,171 | 123,853 | 122,401 | 125,907 | 135,126 | 149,090 |
| **Nominal expenditure GDP (revised actuals)** | 214,929 | 218,821 | 236,903 | 245,583 | 258,718 | 275,517 | 295,602 | 310,148 | 318,604 | 342,553 | 362,367 | 401,466 | 420,977 | 441,309 | 464,032 |
| % GDP | | | | | | | | | | | | | | | |
| **Revenue and expenses** | | | | | | | | | | | | | | | |
| Core Crown tax revenue | 25.6 | 26.8 | 26.0 | 27.1 | 27.2 | 27.5 | 27.1 | 27.9 | 26.7 | 28.6 | 28.6 | 28.9 | 29.1 | 29.4 | 29.8 |
| Core Crown revenue | 28.1 | 29.2 | 28.3 | 29.4 | 29.4 | 29.7 | 29.4 | 30.1 | 28.9 | 30.6 | 31.2 | 31.3 | 31.5 | 31.8 | 32.2 |
| Core Crown expenses | 32.1 | 32.0 | 30.0 | 29.5 | 28.6 | 27.7 | 27.3 | 28.0 | 34.2 | 31.5 | 35.4 | 31.6 | 31.1 | 30.4 | 29.8 |
| **Surpluses** | | | | | | | | | | | | | | | |
| Total Crown OBEGAL | (4.3) | (2.0) | (1.2) | 0.2 | 0.7 | 1.5 | 1.9 | 2.4 | (7.2) | (1.4) | (5.2) | (1.7) | (0.6) | 0.6 | 1.5 |
| Total Crown operating balance | (6.9) | 3.2 | 1.2 | 2.3 | (2.1) | 4.5 | 2.8 | 0.1 | (9.4) | 4.7 | (7.7) | (0.4) | 0.8 | 2.1 | 3.0 |
| **Cash position** | | | | | | | | | | | | | | | |
| Core Crown residual cash | (5.0) | (2.6) | (1.7) | (0.7) | (0.5) | 0.9 | 0.5 | (0.2) | (7.4) | (4.0) | (8.8) | (7.3) | (2.2) | 1.8 | 3.8 |
| **Debt** | | | | | | | | | | | | | | | |
| Gross debt[1] | 37.1 | 35.6 | 34.6 | 35.1 | 33.6 | 31.6 | 29.8 | 27.2 | 32.1 | 29.4 | 31.8 | 32.4 | 35.0 | 37.1 | 36.1 |
| Net debt | 11.1 | 11.6 | 10.6 | 9.3 | 9.0 | 5.9 | 3.8 | 1.8 | 11.2 | 10.5 | 16.9 | 18.7 | 19.9 | 17.3 | 15.0 |
| Net debt (excl. NZS Fund) | 19.8 | 21.9 | 21.7 | 21.2 | 20.6 | 18.7 | 17.2 | 16.4 | 25.1 | 27.8 | 33.5 | 35.3 | 37.2 | 35.3 | 33.5 |
| Net core Crown debt[2] | 23.6 | 25.5 | 25.3 | 24.7 | 23.9 | 21.6 | 19.5 | 18.6 | 26.2 | 29.8 | 36.9 | 40.8 | 41.2 | 37.5 | 31.9 |
| Total borrowings | 46.8 | 45.7 | 43.7 | 45.8 | 44.0 | 40.6 | 39.1 | 35.5 | 47.9 | 47.5 | 55.3 | 57.4 | 58.2 | 55.1 | 53.5 |
| **Net worth** | | | | | | | | | | | | | | | |
| Total Crown net worth | 27.8 | 32.0 | 34.1 | 37.6 | 36.9 | 42.3 | 45.9 | 46.2 | 36.3 | 45.8 | 36.0 | 32.1 | 31.5 | 32.1 | 33.6 |
| Total net worth attributable to the Crown | 27.6 | 31.1 | 31.9 | 35.2 | 34.5 | 40.1 | 43.9 | 44.2 | 34.6 | 44.1 | 34.2 | 30.5 | 29.9 | 30.6 | 32.1 |

1. Excludes Reserve Bank settlement cash and bank bills.
2. Excludes advances.
3. The '2019 Actual', '2020 Actual' and '2021 Actual' comparators have been restated for the impact of new accounting standards and interpretations. At this point in time, the earlier years in this time series have not yet been restated.

# Economic Indicators

| June Years | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Annual average % change | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Forecast | Forecast | Forecast | Forecast | Forecast |
| Private consumption | 3.4 | 2.5 | 3.6 | 3.6 | 4.7 | 6.3 | 4.7 | 4.1 | -0.9 | 7.8 | -1.6 | 3.3 | 1.3 | 2.1 | 2.7 |
| Public consumption | 0.8 | -0.1 | 2.8 | 2.9 | 1.3 | 2.6 | 4.0 | 3.3 | 6.5 | 8.3 | 12.6 | 1.4 | -4.8 | -1.7 | 1.5 |
| **TOTAL CONSUMPTION** | 2.7 | 1.9 | 3.4 | 3.4 | 3.9 | 5.4 | 4.5 | 3.9 | 0.8 | 7.9 | 1.8 | 2.8 | -0.3 | 1.2 | 2.4 |
| Residential investment | 9.9 | 18.2 | 13.2 | 6.3 | 10.1 | 3.9 | -1.0 | 1.4 | -4.4 | 16.6 | 0.9 | 12.1 | -6.0 | -3.1 | -0.5 |
| Business investment | 6.2 | 1.3 | 8.9 | 7.0 | 1.4 | 1.1 | 12.2 | 4.7 | -3.7 | 3.8 | 6.6 | 9.9 | -0.9 | 0.1 | 2.2 |
| **TOTAL INVESTMENT** | 7.0 | 5.0 | 10.0 | 6.8 | 3.6 | 1.8 | 8.6 | 3.9 | -3.9 | 6.9 | 5.1 | 10.4 | -2.2 | -0.7 | 1.6 |
| Stock change (contribution to growth) | 0.2 | -0.3 | 0.5 | 0.0 | -0.3 | 0.4 | 0.2 | -0.5 | -0.2 | 0.4 | 0.5 | -0.5 | 0.0 | 0.0 | 0.0 |
| **GROSS NATIONAL EXPENDITURE** | 4.0 | 2.3 | 4.7 | 4.0 | 3.4 | 5.0 | 5.8 | 3.3 | -0.5 | 8.1 | 3.2 | 4.3 | -0.8 | 0.7 | 2.2 |
| Exports | 2.1 | 3.0 | 0.3 | 6.4 | 6.2 | 1.1 | 3.9 | 3.4 | -5.1 | -11.1 | 2.7 | 8.4 | 6.6 | 4.8 | 4.1 |
| Imports | 4.4 | 2.6 | 9.0 | 6.9 | 1.5 | 6.7 | 8.4 | 2.3 | -5.9 | -4.2 | 15.4 | 5.4 | -0.2 | 1.2 | 2.9 |
| **EXPENDITURE ON GDP** | 3.3 | 2.4 | 2.3 | 3.9 | 4.6 | 3.4 | 4.6 | 3.6 | -0.4 | 6.1 | 0.4 | 4.2 | 0.8 | 1.6 | 2.5 |
| **GDP (production measure)** | 2.7 | 2.3 | 2.8 | 4.1 | 3.8 | 3.6 | 3.6 | 3.1 | -1.1 | 5.3 | 1.7 | 4.2 | 0.7 | 1.6 | 2.5 |
| - annual % change | 2.6 | 2.7 | 2.9 | 4.0 | 4.3 | 3.4 | 3.6 | 2.7 | -10.4 | 17.9 | 1.6 | 2.2 | 0.8 | 2.0 | 2.7 |
| Real GDP per capita | 2.0 | 1.6 | 1.5 | 2.1 | 1.6 | 1.3 | 1.7 | 1.4 | -3.0 | 3.9 | 1.2 | 3.3 | -0.3 | 0.5 | 1.3 |
| Nominal GDP (expenditure basis) | 4.5 | 1.8 | 8.3 | 3.7 | 5.3 | 6.5 | 7.3 | 4.9 | 2.7 | 7.5 | 5.8 | 10.8 | 4.9 | 4.8 | 5.1 |
| GDP deflator | 1.2 | -0.6 | 5.8 | -0.2 | 0.7 | 2.9 | 2.6 | 1.2 | 3.1 | 1.3 | 5.3 | 6.3 | 4.0 | 3.2 | 2.6 |
| Output gap (% deviation, June year average) | -1.4 | -1.6 | -1.7 | -0.9 | -0.3 | 0.1 | 0.8 | 1.3 | 0.6 | 0.7 | 2.1 | 2.1 | 0.3 | -0.7 | -0.8 |
| Employment | 0.9 | 0.1 | 3.4 | 3.6 | 2.6 | 5.3 | 3.6 | 2.0 | 1.6 | 0.7 | 3.4 | 1.0 | 0.1 | 0.5 | 1.4 |
| Unemployment (% June quarter s.a.) | 6.4 | 6.0 | 5.3 | 5.5 | 5.1 | 4.8 | 4.5 | 4.0 | 4.0 | 4.0 | 3.1 | 3.3 | 4.4 | 4.8 | 4.7 |
| 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 | 4.6 | 6.0 | 6.1 | 5.4 | 4.6 |
| CPI inflation (ann % change) | 1.0 | 0.7 | 1.6 | 0.4 | 0.4 | 1.7 | 1.5 | 1.7 | 1.5 | 3.3 | 6.7 | 5.2 | 3.6 | 2.7 | 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 | -0.4 | 3.3 | -1.2 | -1.0 | -0.3 | -0.4 |
| House prices (ann % change) | 4.0 | 8.9 | 6.3 | 11.8 | 15.0 | 6.5 | 3.6 | 1.5 | 7.1 | 29.7 | 5.8 | -2.5 | 0.0 | 1.7 | 1.9 |
| Current account balance - $billion | -7.7 | -7.9 | -5.9 | -8.4 | -5.4 | -7.2 | -10.2 | -10.8 | -4.7 | -11.4 | -24.2 | -25.6 | -20.6 | -17.5 | -16.9 |
| 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 | -6.7 | -6.4 | -4.9 | -4.0 | -3.6 |
| TWI (June quarter) | 72.4 | 76.3 | 81.5 | 76.2 | 73.6 | 76.5 | 73.8 | 72.7 | 69.7 | 74.7 | 75.0 | 75.0 | 75.0 | 75.0 | 75.0 |
| 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 | 1.8 | 3.4 | 3.6 | 3.6 | 3.6 |
| 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 | 3.2 | 3.5 | 3.8 | 4.1 | 4.1 |