



# Budget Economic and Fiscal Update 2023

18 May 2023

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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.

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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 27 April 2023 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 27 April 2023. 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

11 May 2023

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 27 April 2023 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

11 May 2023



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## Executive Summary

After a period of strong growth, the economy is now slowing, as anticipated in the *Half Year Economic and Fiscal Update 2022 (Half Year Update)*. Annual consumer price inflation peaked at 7.3% in June 2022, and the Reserve Bank lifted interest rates to reduce strong domestic demand. Activity is now weakening and will be soft throughout 2023. However, compared to the *Half Year Update*, the Treasury now expects a more moderate slowdown in activity over the next 12 months. Growth slows to 1.0% in the June 2024 year, and averages 2.7% thereafter. Continued strength in tourism, stronger growth in net migration, rebuild activity associated with the North Island weather events (see pages 6 to 7), and less contractionary fiscal policy will help to offset slowing demand in other parts of the economy.

The net result is that, relative to the *Half Year Update*, the unemployment rate is forecast to peak lower, while interest rates are likely to stay higher for longer to manage inflationary pressure. Inflation has already begun moderating, and the Treasury expects further moderation ahead, with inflation falling to 4.5% by the end of 2023 and dropping inside the Reserve Bank's target band of 1-3% inflation by late-2024.

As economic activity slows, labour market conditions will deteriorate, resulting in the unemployment rate rising to 5.3% by late-2024, before falling back to 4.8% by the end of the forecast period. Wage growth will also decline, from a peak of 7.4% in September last year to a more moderate 4.2% by mid-2027. The forecast of growth in nominal gross domestic product (GDP), an important driver of tax revenue, is lower than the *Half Year Update* forecast.

The Operating Balance Excluding Gains and Losses (OBEGAL) is expected to record a deficit of \$7.0 billion in the 2022/23 fiscal year, and a deficit of \$7.6 billion in 2023/24. The fiscal outlook is expected to then improve across the forecast period as momentum in the economy recovers. However, the impact of the soft economic outlook on core Crown tax revenue and the Government's Budget 2023 decisions contribute to a slower forecast recovery in OBEGAL compared to the *Half Year Update*. As a result, the forecast return to an OBEGAL surplus has been pushed out by a year to 2025/26. Net debt is expected to peak as a percentage of GDP in 2023/24 at 22.0% and to fall to 18.4% of GDP by 2026/27.

**Table 1** – Key economic and fiscal indicators

June years	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Real production GDP (annual average % change)	1.1	3.2	1.0	2.1	3.1	2.9
Unemployment rate (June quarter)	3.3	3.7	5.0	5.3	4.9	4.8
CPI inflation (annual % change)	7.3	6.2	3.3	2.6	2.3	2.1
Current account (annual, % of GDP)	(8.0)	(7.8)	(5.9)	(4.6)	(4.1)	(3.8)
Total Crown OBEGAL <sup>1</sup> (\$ billion)	(9.7)	(7.0)	(7.6)	(3.6)	0.6	3.2
% of GDP	(2.7)	(1.8)	(1.8)	(0.8)	0.1	0.7
Net debt <sup>2</sup> (\$ billion)	61.9	71.0	91.2	94.7	95.3	89.2
% of GDP	17.0	18.0	22.0	21.7	20.7	18.4

Notes: 1 Operating balance before gains and losses.

2 A series of net core Crown debt (the previous headline net debt indicator) is on page 156.

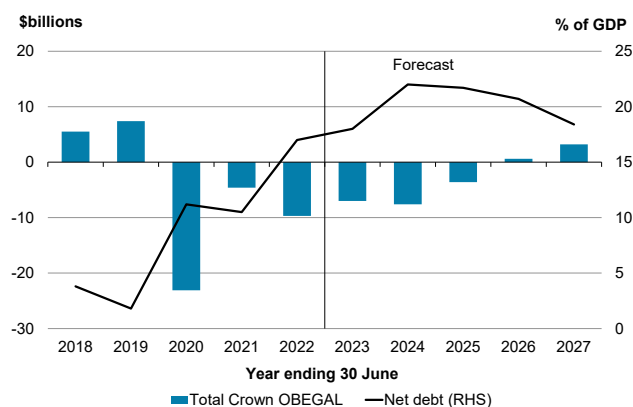
Sources: Stats NZ, the Treasury

Core Crown tax revenue is forecast to continue growing from the 2023/24 year onwards, broadly in line with the economy. However, this growth is slower than expected at the *Half Year Update*.

Core Crown expenses are forecast to increase in each year of the forecast period. This increase in part reflects the impact from the Government's Budget 2023 operating package of \$4.8 billion per annum and funding announced for future Budgets, which have been increased to \$3.5 billion over the subsequent three Budgets. The establishment of the National Resilience Plan contingency, which will assist with the rebuild back from the severe weather events, is expected to lift core Crown expenses by \$0.6 billion. In addition, the indexation of the main benefit types and increased recipient numbers from demographic changes increase benefit payments over the forecast period.

This combination of lower tax revenue and higher expenses leads to larger OBEGAL deficits than forecast in the *Half Year Update*, and a return to surplus that is one year later. A stronger starting position for net debt, reflecting favourable market conditions initially, means an improved position is expected in the current year compared to the *Half Year Update*. This trend reverses from the 2023/24 year.

Net worth is expected to grow over the forecast period by \$22.8 billion, reflecting the forecast total Crown operating balance results. However, as a share of GDP, net worth falls from 48.0% of GDP in 2021/22 to 40.7% of GDP by 2026/27 as the nominal increases in net worth, which is largely driven by the level of the operating balance, do not keep up with nominal GDP growth over the forecast period.

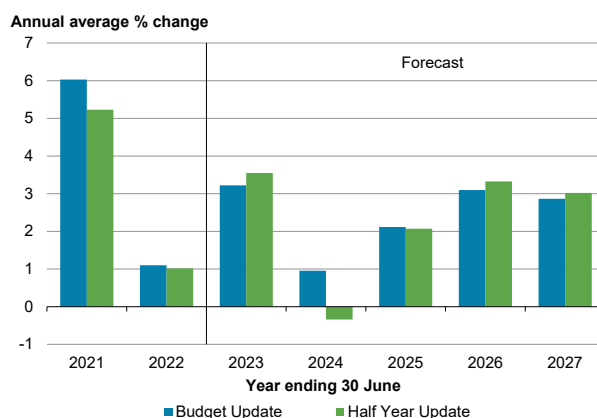
**Figure 1** – OBEGAL and net debt

Sources: The Treasury



The total fiscal impulse implies that, over the forecast period as a whole, fiscal policy settings are expected to be contractionary. This means fiscal policy settings will suppress aggregate demand and inflation pressure over the forecast period as a whole. However, fiscal policy settings are expected to be less contractionary than was forecast in the *Half Year Update*. Fiscal policy settings are expected to be expansionary in the 2023/24 fiscal year, meaning fiscal policy will be supporting aggregate demand and inflation pressure in that year.

**Figure 2 – Real GDP growth**



Sources: Stats NZ, the Treasury

Real government consumption, a measure of goods and services provided by the Government, is expected to decline over the forecast period, partly reflecting the winding down of COVID-19-related spending, and the impact of wage and price inflation eroding the government's spending power. This is a sizable reduction in real government consumption within a short time span.

The current account deficit has reached 8.9% of GDP. The Treasury expects the strong lift in tourism will help narrow the current account deficit over the forecast period. Despite a deterioration in global trading conditions suppressing goods export earnings, other services exports such as education and business services are expected to increase strongly. At the same time, rising global interest rates, and the unwind of international supply constraints, will reduce imported inflation, and further contribute to the current account deficit improving to 3.8% of GDP by the end of the forecast period.

There are several risks to the economic and fiscal outlooks, the most significant of which includes how the economy evolves and how these flow through to revenue and spending pressures.

**Finalisation dates for the *Budget Economic and Fiscal Update* (*Budget Update*)**

Economic forecasts – 29 March 2023

Tax revenue forecasts – 5 April 2023

Fiscal forecasts – 27 April 2023

Risks to fiscal forecasts – 4 May 2023

Text finalised – 10 May 2023

### Impact of the North Island weather events

This box outlines how the impacts from the North Island weather events influence the economic and fiscal forecasts that follow.

The North Island weather events comprise the severe weather that hit Auckland in late January, followed by Cyclone Gabrielle in February and involved large-scale flooding and loss of life. Widespread damage was caused to buildings, businesses and infrastructure across multiple regions with large impacts on the affected communities.

Both the Government's initial response and shift to a recovery and rebuild footing have fiscal implications. Initially, the focus has been on: support to get businesses and communities back up-and-running; immediate repairs to transport infrastructure; temporary accommodation assistance; and wider support to affected communities. As the focus shifts to more permanent repair and rebuild, investment will increase, including funding from the Government's National Resilience Plan.

#### Impacts on the Economic Forecasts

In April 2023 the Treasury released preliminary estimates of output losses, price impacts, and overall damage to physical assets.<sup>1</sup> Damage to physical assets is estimated at between \$9 billion and \$14.5 billion, while \$400 million to \$600 million of output is estimated to have been lost in the first half of 2023, with smaller persistent losses from the loss of capital stock such as orchards.<sup>2</sup> Temporary price spikes associated with reduced availability of some goods is assumed to add 0.4 percentage points to inflation over the March and June 2023 quarters.

In the economic forecasts, this lost production is reflected as lower-than-otherwise levels of exports of around \$1 billion over the forecast period.

Repairing and replacing damaged homes is assumed to involve just under \$2 billion of residential investment, while replacing damaged household items is assumed to represent nearly \$900 million of consumption.

The forecasts assume just under \$7 billion of rebuild-related business investment occurs over the forecast period. Around \$5 billion relates to local and central government infrastructure and the remainder is private sector investment. A further \$1.3 billion of investment is assumed to occur after the forecast period. However, the actual timing of rebuild-related investment is uncertain.

Rebuild activity will support demand and contributes to a stronger growth profile, particularly in the second half of 2023. The Treasury now anticipates small increases in GDP over the second half of 2023 rather than the small declines contained in the *Half Year Update*.

As rebuild demand persists over the remainder of the forecast period, employment levels are supported and unemployment peaks lower than previously forecast. However, it also means that interest rates are not expected to decline to the extent they may have otherwise. This constrains growth in activity and employment later in the forecast period.

<sup>1</sup> See <https://www.treasury.govt.nz/publications/information-release/impacts-north-island-weather-events> for more details.

<sup>2</sup> Figures in the Economic section of this box are at 2023 prices.

### Impacts on the Fiscal Forecasts

The North Island weather events have impacted the fiscal forecasts in a number of ways. Early indications of the fiscal costs to the Government are provided below. These estimates will be refined as more information comes to light.

The Government announced a number of interim support measures including emergency business and primary sector support, funding to help assess and fix roads, silt and solid waste removal, as well as other support measures, totalling around \$0.8 billion in 2022/23. In addition, \$1.1 billion has been recognised in 2022/23 to reflect the Government's obligations to contribute to local authorities' response and recovery costs as a result of a local or national emergency (\$0.4 billion) and costs from the Earthquake Commission insurance claims (\$0.7 billion).

A number of subsequent decisions have been made in Budget 2023 resulting in a further \$0.9 billion of operating expenditure. Of this, \$0.8 billion is forecast for 2023/24, with the most significant decisions relating to the reinstatement of road and rail infrastructure. While capital expenditure decisions totalling \$0.2 billion were announced in Budget 2023.

The Government has also established the National Resilience Plan, totalling \$6 billion over a 10-year period (for more information refer to the Fiscal Outlook chapter page 24). In the first instance, it is assumed further funding for asset repair and replacements from the North Island weather events will be funded from this.

Some asset values have been impacted by the North Island weather events, with the largest impacts expected for the rail and roading networks. This is reflected in a reduction in the value of these assets on the Government's forecast balance sheet.



## Economic Outlook

### ***The economy faces high inflation after a prolonged period of excess demand...***

The economy continues to experience high inflation. Following a period of strong demand and domestic and global supply constraints, the unemployment rate fell to record lows and consumers price index (CPI) inflation rose to 30-year highs. As a result, the Reserve Bank of New Zealand (Reserve Bank) increased the official cash rate (OCR) to dampen demand. As broadly expected at the *Half Year Economic and Fiscal Update 2022 (Half Year Update)*, the economy has shown signs of easing. Gross domestic product (GDP) fell in the December quarter of 2022, and the Treasury anticipates slow activity ahead.

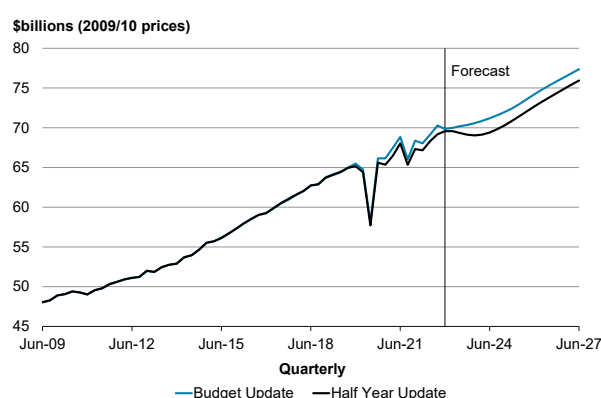
### ***...but the forecasts show slow growth ahead***

The Treasury forecasts economic growth to remain low over 2023 (Figure 1.1), leading to an increase in the unemployment rate into 2024. However, the rebuild following the North Island weather events, a quicker return of tourism, and less-contractionary fiscal policy are going to offer more support to the economy than anticipated at the *Half Year Update*. Consequently, the Treasury anticipates less of an economic slowdown over 2023 than forecast in December. While we no longer

anticipate a technical recession during 2023, growth remains low and labour market conditions will begin to deteriorate. The additional support for growth in the short term will maintain inflationary pressure, requiring interest rates to remain higher for longer. The net result is that nominal GDP is cumulatively \$4.9 billion higher over the forecast period, and that the unemployment rate forecast peaks lower in the short run but stays up for longer than anticipated in the *Half Year Update*.

Economic developments since the Treasury finalised the economic forecasts on 22 March were broadly consistent with the economic forecasts outlined in this chapter. Annual inflation of 6.7% was recorded in the March quarter, close to the 6.8% forecast. Likewise, the unemployment rate of 3.4% recorded in the March quarter was broadly in line with the forecast of 3.5%. Sentiment surveys are consistent with the forecast for low growth over 2023.

**Figure 1.1 – Real GDP**



Sources: Stats NZ, the Treasury

Final Budget decisions taken by Cabinet after the economic forecasts were finalised included slightly higher levels of government expenditure, particularly in the later years of the forecast period. This implies that nominal Government consumption could be approximately \$1 billion higher in the final year of the forecast, adding slightly to the outlook for GDP growth and inflation.

**Table 1.1 – Economic forecasts**

Year ending June	2022	2023	2024	2025	2026	2027
Annual average % change	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	1.1	1.3	-0.4	1.8	3.1	2.9
Public consumption	7.9	-0.5	-1.0	-1.4	0.8	0.5
<b>Total consumption</b>	<b>2.7</b>	<b>0.9</b>	<b>-0.5</b>	<b>1.0</b>	<b>2.5</b>	<b>2.4</b>
Residential investment	-5.4	3.9	-4.4	-0.5	3.1	2.4
Business investment <sup>1</sup>	7.2	1.2	-0.5	2.3	4.1	3.9
<b>Total investment</b>	<b>4.0</b>	<b>1.8</b>	<b>-1.5</b>	<b>1.6</b>	<b>3.9</b>	<b>3.6</b>
Stock change <sup>2</sup>	0.7	-0.1	-0.4	0.0	0.0	0.0
<b>Gross national expenditure</b>	<b>3.9</b>	<b>1.2</b>	<b>-1.1</b>	<b>1.1</b>	<b>2.8</b>	<b>2.7</b>
Exports	-3.4	12.6	8.2	4.8	3.6	3.0
Imports	12.2	2.6	-0.9	1.1	2.8	2.4
<b>GDP (expenditure measure)</b>	<b>0.4</b>	<b>3.4</b>	<b>0.8</b>	<b>2.1</b>	<b>3.1</b>	<b>2.8</b>
<b>GDP (production measure)</b>	<b>1.1</b>	<b>3.2</b>	<b>1.0</b>	<b>2.1</b>	<b>3.1</b>	<b>2.9</b>
Real GDP per capita	0.8	2.5	-0.4	0.8	1.8	1.6
Nominal GDP (expenditure measure)	5.8	8.5	5.3	5.3	5.5	5.1
GDP deflator	5.3	5.0	4.5	3.2	2.4	2.2
Potential GDP	0.3	4.5	2.8	2.7	2.7	2.6
Output gap (% of potential, June quarter) <sup>3</sup>	2.7	0.2	-1.1	-1.2	-0.7	-0.5
Employment	2.8	1.4	-0.1	0.5	1.7	1.6
Unemployment rate <sup>4</sup>	3.3	3.7	5.0	5.3	4.9	4.8
Participation rate <sup>5</sup>	70.9	71.4	71.1	71.0	71.1	71.1
Hourly wages (annual % change) <sup>6</sup>	6.4	6.6	5.7	5.0	4.4	4.2
CPI inflation (annual % change)	7.3	6.2	3.3	2.6	2.3	2.1
Terms of trade (goods) <sup>7</sup>	3.2	-5.9	-3.1	0.7	0.4	0.3
House prices (annual % change) <sup>8</sup>	5.3	-13.4	-4.6	2.7	3.1	2.8
Current account balance (annual)						
\$billions	-29.2	-30.8	-24.7	-20.3	-19.0	-18.3
% of GDP	-8.0	-7.8	-5.9	-4.6	-4.1	-3.8
Net international investment position (% of GDP)	-50.3	-52.8	-56.1	-57.9	-59.0	-59.9
Exchange rate (TWI) <sup>9</sup>	72.2	70.9	70.3	69.9	69.5	69.3
90-day bank bill rate <sup>10</sup>	2.2	5.3	5.0	3.9	3.4	3.0
10-year bond rate <sup>10</sup>	3.7	4.7	4.9	4.9	4.7	4.4

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.

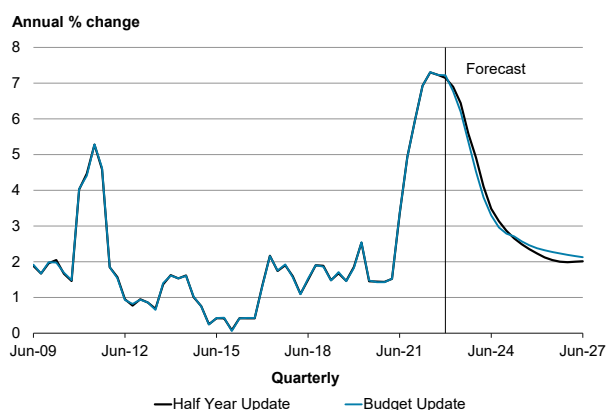
## High interest rates will continue dampening inflationary pressure...

Inflation is expected to continue easing over the forecast period as high interest rates dampen demand. Since the *Half Year Update*, inflation has been similar to forecast (Figure 1.2) and the Reserve Bank's survey of inflation expectations has begun to retreat. Transport prices and construction inflation – key contributors to recent high inflation – have also eased. However, new sources of inflationary pressure create added complexity. The Treasury expects damage from the North Island weather events to result in temporarily higher inflation over 2023 due to lower supply. Weakness in economic demand over 2023 is expected to be less marked than anticipated in the *Half Year Update*, which will translate into tighter monetary policy.

In response to the additional inflationary pressures in 2023, the Treasury expects interest rates to remain higher for longer over the forecast period relative to the *Half-Year Update* (Figure 1.3). The Reserve Bank increased the OCR to 5.25% in April, slightly higher than in these forecasts. The Treasury's forecasts show 90-day interest rates remaining at a level corresponding to an OCR of 5.25% over 2023, before gradually easing over the forecast period. The 90-day interest rate reaches 3% by mid-2027.

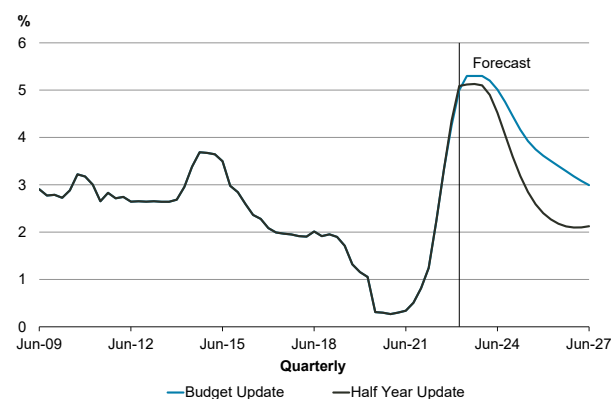
Underlying inflationary pressures are expected to shift as non-tradable inflation remains persistent (Figure 1.4). Following COVID-19, domestic fiscal and monetary policy has broadly supported demand, while international supply constraints and the war in Ukraine led to large and intense price pressures. Since late-2022, global commodity prices, including oil, have eased while domestic housing cost inflation has slowed. However, inflation remains broad-based and the North Island weather events rebuild and repair work will add to inflation pressures.

**Figure 1.2 – CPI inflation**



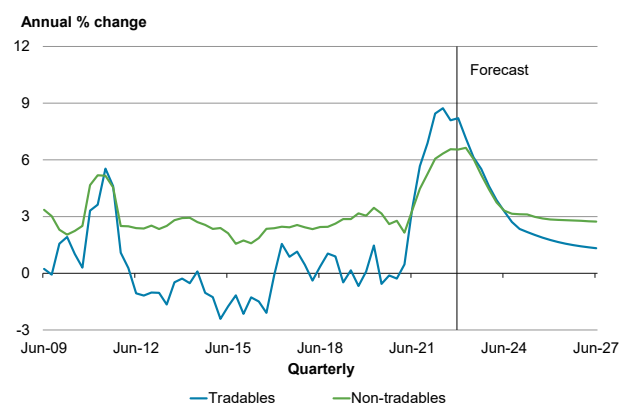
Sources: Stats NZ, the Treasury

**Figure 1.3 – 90-day interest rate**



Sources: Reserve Bank, the Treasury (forecasts)

**Figure 1.4 – Tradable and non-tradable inflation**



Sources: Reserve Bank, the Treasury

Non-tradable inflation is forecast to begin falling in the second half of 2023 and gradually decline towards 3% by mid-2027, while tradable inflation falls quickly below 2% by late-2025.

**...while labour market conditions are expected to ease...**

The labour market is currently very tight, but the Treasury believes it is on the cusp of a transition. The unemployment rate was stable in the March quarter at 3.4%, reflecting expanding employment as population growth picked up. Wage growth remains high, although less so in real terms. However, survey measures of employment intentions and difficulty finding labour have eased. Slow economic growth is expected to reduce labour demand over the next two years and cause the

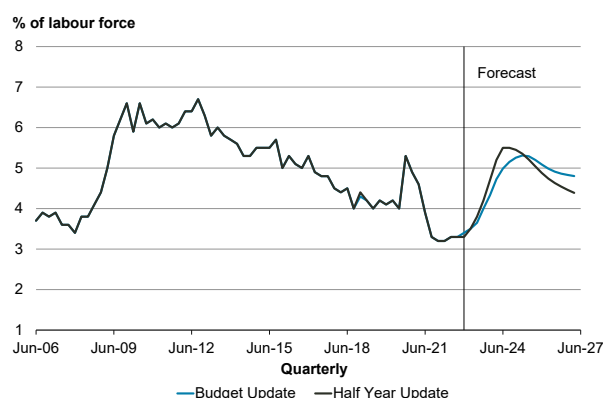
unemployment rate to rise to 5.3% by late-2024 (Figure 1.5). Thereafter, improving economic conditions see the unemployment rate fall to 4.8% by the end of the forecast period. Compared to the *Half Year Update*, additional near-term activity leads to a lower peak in the unemployment rate, but interest rates remaining high for longer leads to less of a decline in unemployment over the second half of the forecast period.

While the unemployment rate increases, the number of people employed remains relatively stable in the near term before rising by around 125,000 by the end of the forecast period.

**...consumer spending is suppressed...**

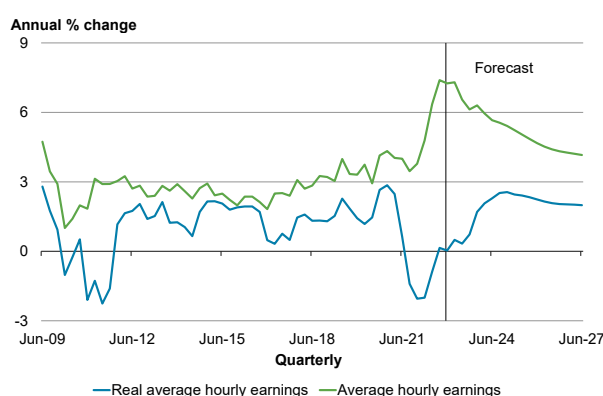
The Treasury expects household income growth to fall from its recent highs as the labour market eases (Figure 1.6). Annual wage growth is expected to fall from 7.3% in early-2023 to a more moderate 4.2% by mid-2027. Nevertheless, wage growth outpaces inflation throughout the forecast, meaning inflation-adjusted hourly earnings are expected to rise. Annual growth in real wages rises from just above zero at the end of 2022 to 2.6% by late-2024. The aggregate impact of growth in

**Figure 1.5 – Unemployment rate**



Sources: Stats NZ, the Treasury

**Figure 1.6 – Earnings growth**



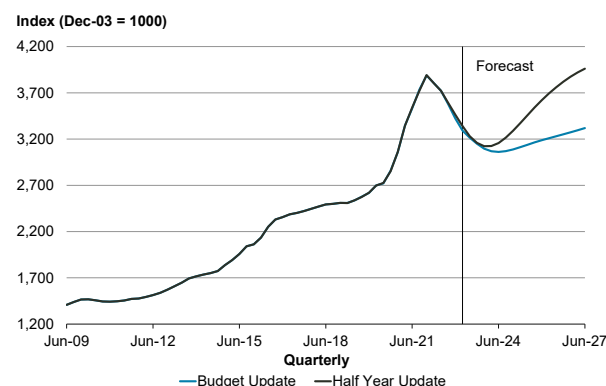
Sources: Stats NZ, the Treasury



employment, wages and hours paid is captured in the national accounts measure of compensation of employees (CoE).<sup>3</sup> Annual growth in CoE has averaged over 9.3% since early-2021 and has contributed to the strength of household demand and income tax revenue (see Fiscal Outlook chapter).

High interest rates and weaker wage growth are expected to lead to a further decline in house prices and other asset prices. Data for the month of March 2023 showed house prices had fallen 16.7% from their November 2021 peak as interest rates rose and real wages declined. The Treasury expects higher-for-longer interest rates to continue driving house prices lower. The Treasury forecasts a further 4.6% decline in house prices to mid-2024 for a total peak-to-trough decline of 21.3% (Figure 1.7).

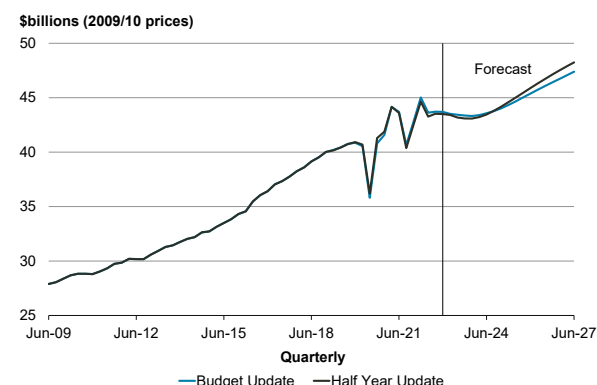
**Figure 1.7 – House prices**



Sources: CoreLogic, the Treasury

The Treasury forecasts relatively flat household consumption over 2023 (Figure 1.8). Falling wealth weakens household balance sheets and has the most significant impact on consumption. Meanwhile, more moderate wage growth and higher mortgage and deposit rates mean more income is diverted away from spending and to mortgage payments and savings. From 2024, the Treasury forecasts consumption growth rising as interest rates fall, relieving pressure on wealth and real wages. Compared to the *Half Year Update*, consumption is weaker over the second half of the forecast period as higher-for-longer interest rates keep balance sheets and budgets tight.

**Figure 1.8 – Real household consumption**



Sources: Stats NZ, the Treasury

<sup>3</sup> COE also includes superannuation contributions and fringe benefits.

### ...underlying weakness in investment remains

The Treasury continues to expect a downturn in residential investment, although not as weak as forecast in *Half Year Update*, reflecting the North Island weather events rebuild. Falling house prices and elevated construction costs have reduced residential construction demand. With building consents continuing to fall, the Treasury forecasts residential investment to fall by a further 3.6% over 2023, before beginning to recover from 2025. While net migration will add to demand for housing, this is expected to have a limited impact on residential construction given the already significant increase in housing supply over the past two years.

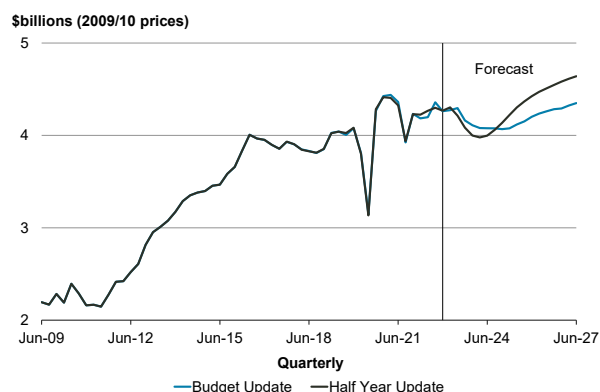
Stats NZ's substantial revisions to business investment data have lifted the starting point relative to the *Half Year Update*. Over the forecast period, business investment is supported by \$7 billion recovery and rebuild activity associated with the North Island weather events across the private and public sectors (see box on page 6). The weather events related investment adds to overall demand and results in interest rates remaining higher than otherwise over the forecast period, muting the recovery of non-weather-related business investment activity.

### ...and low real government consumption growth contributes to easing demand pressure

The total fiscal impulse (see page 59) implies that, over the forecast period as a whole, fiscal policy settings are expected to be contractionary. This means fiscal policy settings will suppress aggregate demand and inflation pressure over the forecast period as a whole. However, fiscal policy settings are expected to be less contractionary than was forecast in the *Half Year Update*. Fiscal policy settings are expected to be expansionary in the 2023/24 fiscal year, meaning fiscal policy will be supporting aggregate demand and inflation pressure in that year.

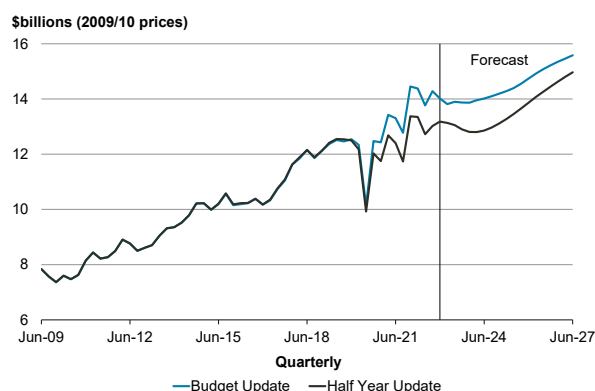
The fiscal forecasts influence, and are reflected in, the Treasury's forecasts of real government consumption.<sup>4</sup> Real government consumption is expected to fall by 5.0% between June 2022 and the start of 2025, with just over half of this decline already having

**Figure 1.9 – Residential Investment**



Sources: Stats NZ, the Treasury

**Figure 1.10 – Business Investment**



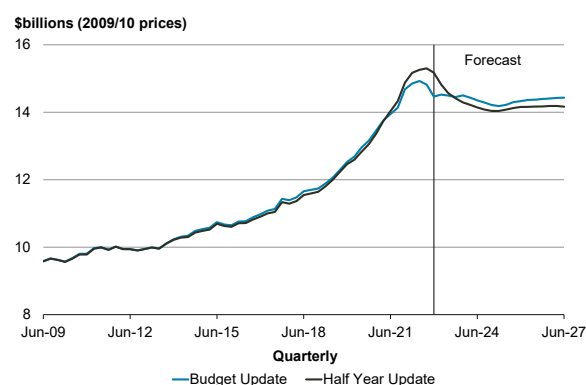
Sources: Stats NZ, the Treasury

<sup>4</sup> The forecasts for government consumption included in the economic outlook chapter excludes transfer payments (ie, benefits) and subsidies. They also include local government expenditure.

occurred. The decline in real government consumption reflects partly the conclusion of COVID-19-related spending, and partly the impact of wage and price inflation eroding the Government's spending power. While this is a milder decline than forecast in the *Half Year Update*, New Zealand has not experienced a decline in real government consumption of this magnitude since the March 1990 to September 1991 period, when government consumption declined 7.8%.

This fall in real government consumption helps unwind excess demand in the economy. It also follows a period of strong growth over the COVID-19 period when, between 2019 and mid-2022, real government consumption increased by 19%. Nevertheless, the relatively flat levels of government services implied is a significant departure from previous trends, particularly given population growth will likely add to demand.

**Figure 1.11 – Real government consumption**



Sources: Stats NZ, the Treasury

### ***Globally, interest rates remain high in response to inflation...***

Turning to the global economy, inflation has moderated as supply conditions have improved and demand has slowed, including in fuel and energy markets. Shipping costs, which added materially to final prices over the past two years or so, have fallen sharply and returned to pre-pandemic levels. However, tight labour market conditions and strong household income growth have meant inflation in consumer services has been more persistent.

Globally, interest rates have increased in response to high inflation and will contribute to slower global growth. Rising interest rates have also contributed to financial stability concerns in some international markets, which are likely to result in lower lending and activity if they persist. Offsetting these headwinds to growth, China's economy has grown strongly following the removal of most of its COVID-19 restrictions.

### ***...contributing to slowing global growth from late-2023...***

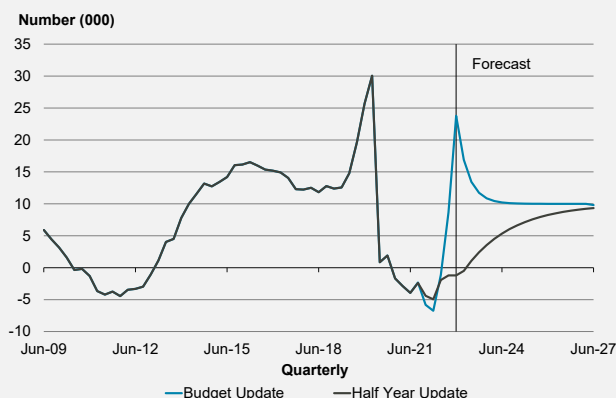
The impact of higher interest rates and tighter lending conditions on global inflation and activity will become more apparent over 2023 and will likely persist over 2024. Annual growth in New Zealand's main trading partners is expected to slow from 2.5% in the year ended 2022 to 2.1% in 2023 and 2024.

## Migration and visitor arrivals

This box outlines the Treasury's assumptions for migration and visitor arrivals. Border arrivals and departures have surged since border restrictions eased in 2022, with border flows in the last 12 months totalling 7.4 million, up from 1.8 million over the entire COVID-19 period.

Net migration in the four months to February 2023 totalled around 37,000, partially reflecting the release of pent-up demand as border restrictions lifted. The Treasury now expects net migration to peak in mid-2023, before falling to and staying at an average of 40,000 per year from 2024 onwards. Compared to the *Half Year Update*, net migration returns much quicker and is around 80,000 cumulatively higher over the forecast period.

**Figure 1.12 – Net migration**



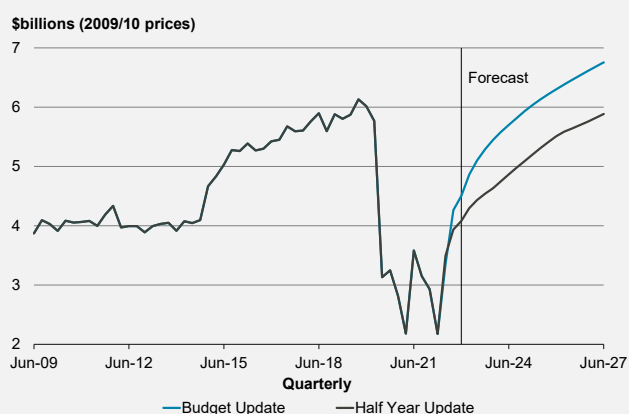
Sources: Stats NZ, the Treasury

Net migration will boost the supply of labour, but it will also boost demand for labour by increasing aggregate demand in the economy. The net impact will vary across industries. Some industries will find that the recent surge in migration helps to ease acute labour shortages that have developed in recent times, particularly export industries that do not rely on domestic demand. However, our expectation is that the demand-boost from migration will slightly outweigh the supply-boost when assessed across the whole economy. Consequently, surging net migration has contributed to the view that unemployment will peak lower than expected at the *Half Year Update*, and that wage growth will be strong.

Real services exports, such as tourism and international education, increased 68% over 2022, reaching two-thirds of 2019 levels. However, this recovery has been uneven, with arrivals from certain countries, such as China and Japan, lagging arrivals from countries such as Australia and the United States. High-spending visitors, such as holiday arrivals, are slower to return, potentially due to limited capacity on some routes, particularly in and out of Asia.

The Treasury forecasts services exports to continue increasing over 2023 following China's recent reopening, pent-up global demand for travel, and a recovery in international flight capacity. This will support a further recovery in New Zealand's services exports,

**Figure 1.13 – Real services exports**



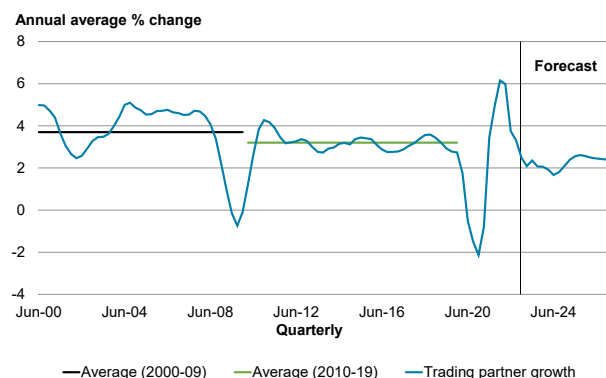
Sources: Stats NZ, the Treasury

leading to nominal services exports reaching \$40.5 billion by the end of the forecast period. This increase in services exports will offset an expected increase in services imports, leading to the services balance achieving surplus in late-2023. This helps drive an improvement in the annual current account deficit.

Central banks in many economies have slowed the pace of increases in interest rates as inflation is moderating. Both headline and core inflation have eased in recent months, particularly in the United States and Europe. However, there are differences across economies, with inflation in China and Japan remaining relatively low. The International Monetary Fund (IMF) forecasts annual global inflation to decline from 8.7% in 2022 to 3.9% in 2025.

In the medium-term, the prospects for global growth have dimmed. The forces that drove the globalisation of supply chains in recent decades and contributed to downward pressures on prices have fragmented, population ageing is slowing labour force growth, and the pace of progress that some economies, such as China and Korea, have made in increasing living standards is declining.<sup>5</sup> In aggregate, growth in New Zealand's main trading partners is expected to be around 2.4% in June 2027, well below the average of previous decades (Figure 1.14).

**Figure 1.14 – Trading partner growth**



Sources: Haver Analytics, the Treasury

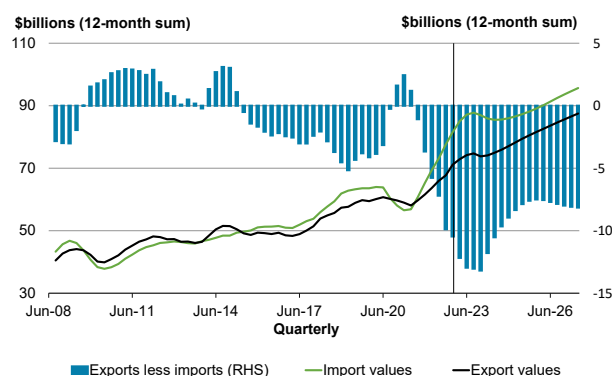
**...while the record-high current account balance deficit is expected to narrow...**

The imbalances between demand and supply that are driving both global and domestic inflation are also being reflected in New Zealand's balance of payments with the rest of the world. The current account deficit, which captures net income flows arising from trade in goods and services, and from investments at home and abroad, rose to a record high 8.9% of GDP in the 12-months ended December 2022 (Figure 1.16). Capital inflows increased to meet this deficit, adding to the stock of net foreign liabilities which reached 50.7% of GDP in December 2022.

<sup>5</sup> See IMF *World Economic Outlook*, April 2023.

A large proportion of the current account deficit is due to the pandemic's negative effects on income earned through tourism, education and business travel (see migration and visitor arrivals box on page 16). Furthermore, the impacts of higher global inflation are evident in higher import prices, and higher global interest rates are adding to the costs of servicing international debt. Higher import prices, combined with sustained growth in domestic demand, have underpinned a large rise in import values (Figure 1.15). Export prices have also increased, but not to the same extent as import prices, while pandemic disruptions and adverse weather have contributed to weaker export volumes. As a result, goods export values have not kept pace with imports and have led to a wider trade deficit.

**Figure 1.15 – Goods exports and imports**

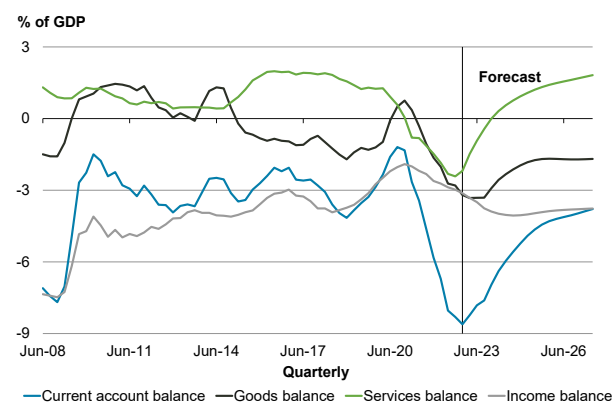


Source: Stats NZ, the Treasury

The forces driving the deterioration in the current account deficit are beginning to reverse, led by the recovery in tourism. In addition, declining global inflation, particularly for commodities including oil and food, is helping to lower import values. Domestically, the anticipated slower pace of demand growth will increasingly constrain the appetite for spending on imported goods and services over the next year or so.

The Treasury expects these forces to continue reversing, resulting in the services account returning to surplus and the goods balance deficit remaining stable over 2023 before improving. As a partial offset, the income deficit increases to 4% of GDP as higher global interest rates and past current account deficits add to the stock of net foreign liabilities and the associated income outflows. Overall, these contribute to the current account deficit improving to 3.8% by the end of the forecast period, close to its long-run average (Figure 1.16).

**Figure 1.16 – Current account balance**

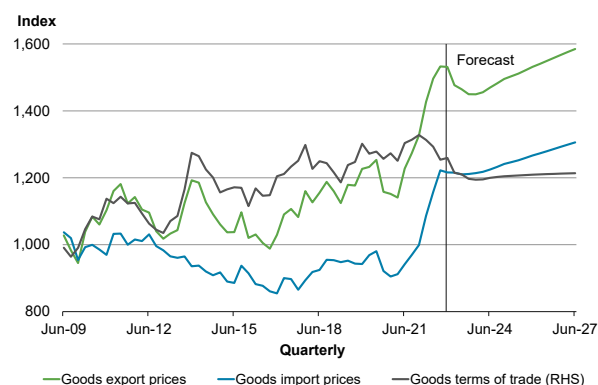


Sources: Stats NZ, the Treasury

### ...and the terms of trade declines

The goods terms of trade, which captures the price of exports relative to the price of imports, has declined around 5% from its peak in late 2021, and is expected to decline by a further 5% in 2023 (Fig 1.17). Easing global demand is expected to result in export prices falling around 5% in 2023, with stronger growth in China reducing the risk of larger falls. Import prices are assumed to stabilise at their current levels over the coming year, reflecting the slowdown in global goods inflation seen in recent months.

**Figure 1.17 – Terms of trade**



Sources: Stats NZ, the Treasury

Over the medium-term, the Treasury expects increasing geopolitical fragmentation and growing barriers to trade will inhibit global trade growth and weigh on the terms of trade. Over the past two decades, increasing globalisation placed downward pressure on the cost of imports and general prices. Global inflation remained low as trade barriers were reduced, the global labour supply increased, and developing economies were integrated into the global economy. The recent rise in geopolitical tensions has led to increasing opposition to globalisation in developed countries, while an increased focus on economic self-reliance in the wake of the pandemic means that trade barriers are expected to increase. As a result, the outlook for the terms of trade is weaker than in recent forecasts.

### Key economic forecast judgements and assumptions

In addition to the judgments and assumptions included in the text, these forecasts include:

- The New Zealand TWI is assumed to steadily decline 2.4% from 71.0 in the March 2023 quarter to 69.3 by the end of the forecast period.
- Annual net migration is assumed to be around 25,000 in the year ended December 2022 and to rise to peak at 66,000 in the year ended September 2023 before easing to 40,000 from the March 2025 quarter.
- Oil prices are assumed to ease across the forecast period from US\$76.5 in the March 2023 quarter to US\$75 in 2027.
- The non-accelerating inflation rate of unemployment is assumed to be 4.25% in the long-run, unchanged from the *Half Year Update*.





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## Fiscal Outlook

Overall, the Government's fiscal outlook is expected to improve over the forecast period. The operating balance before gains and losses (OBEGAL) is expected to return to a surplus of \$0.6 billion in 2025/26, before reaching \$3.2 billion (or 0.7% of GDP) by 2026/27. Net debt peaks as a percentage of GDP in 2023/24, falling to 18.4% of GDP by 2026/27, while, in nominal terms, net debt starts to reduce by the end of the forecast period.

However, in the near-term the recovery in OBEGAL is somewhat static with deficits expected to remain stable at 1.8% of GDP. Although a number of significant temporary fiscal measures have now ended, the Government's response to support households through a high inflationary environment and costs arising from the North Island weather events lead to OBEGAL deficits remaining elevated. From the 2024/25 year a more gradual improvement is expected, underpinned by a decline in the level of growth in core Crown expenditure, while growth in tax revenue remains stable.

Core Crown tax revenue is expected to remain stable at around 30.0% of GDP across the forecast period, broadly reflective of expected growth in nominal GDP. In contrast core Crown expenses decline from 34.6% of GDP in 2021/22 to 31.5% of GDP by 2026/27, as temporary costs cease and smaller operating allowances are signalled by the Government for future Budgets.

Although core Crown expenses decline as a share of GDP, they are still forecast to increase in nominal terms by \$27.2 billion over the forecast period. This increase in part reflects past and current year Budget decisions, funding set aside for future policy decisions, demographic changes increasing the cost of New Zealand Superannuation (NZS) and higher debt servicing costs. In Budget 2023, the Government has announced a Budget operating package of \$4.8 billion per annum and a Budget capital package totalling \$10.7 billion.

As with OBEGAL, core Crown residual cash deficits remain elevated in the near term and return to a small surplus in 2025/26. Significant net capital spending expected in the near term is the main contributor to the forecast of large residual cash deficits. Residual cash deficits total \$49.4 billion over the forecast period.

Net debt is expected to peak as a percentage of GDP at 22.0% in 2023/24, before falling to 18.4% of GDP in 2026/27. In nominal terms, net debt continues to rise until 2025/26, peaking at \$95.3 billion. Across the forecast period, net debt increases by \$27.3 billion, largely reflecting the funding required to meet the cash shortfall expected over the forecast period.

Net worth is expected to grow over the forecast period by \$22.8 billion, reflecting the forecast total Crown operating balance results, which are expected to be in surplus for most years of the forecast period. As a share of GDP, net worth falls from 48.0% of GDP in 2021/22 to 40.7% of GDP by 2026/27.

Since the *Half Year Economic and Fiscal Update 2022 (Half Year Update)*, the economic outlook is now expected to be weaker. Furthermore, the Government's decisions in Budget 2023 (including funding set aside for future policy decisions) have resulted in a higher expenditure track. As a result, compared to the *Half Year Update* the fiscal outlook for most key indicators is expected to be weaker, with the return to OBEGAL surplus pushed out by a year into 2025/26 and net debt around 4 percentage points of GDP higher by the 2026/27 year.

**Table 2.1** – Key fiscal indicators

Year ending 30 June	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
<b>\$billions</b>						
Core Crown revenue	117.5	126.7	134.5	141.5	151.8	159.4
Core Crown tax revenue	108.5	115.3	123.2	130.2	140.2	147.5
Core Crown expenses	125.6	128.2	137.0	141.3	147.6	152.8
Total Crown OBEGAL <sup>1</sup>	(9.7)	(7.0)	(7.6)	(3.6)	0.6	3.2
Total Crown operating balance	(16.9)	4.2	(1.4)	2.5	6.8	9.9
Core Crown residual cash	(27.0)	(22.4)	(26.9)	(0.3)	0.1	0.1
Net debt <sup>2</sup>	61.9	71.0	91.2	94.7	95.3	89.2
Net worth	174.3	179.0	177.9	180.4	187.2	197.1
<b>% of GDP</b>						
Core Crown revenue	32.4	32.2	32.4	32.4	32.9	32.9
Core Crown tax revenue	29.9	29.3	29.7	29.8	30.4	30.4
Core Crown expenses	34.6	32.5	33.0	32.3	32.0	31.5
Total Crown OBEGAL <sup>1</sup>	(2.7)	(1.8)	(1.8)	(0.8)	0.1	0.7
Total Crown operating balance	(4.7)	1.1	(0.3)	0.6	1.5	2.0
Core Crown residual cash	(7.4)	(5.7)	(6.5)	(0.1)	0.0	0.0
Net debt <sup>2</sup>	17.0	18.0	22.0	21.7	20.7	18.4
Net worth	48.0	45.4	42.9	41.3	40.6	40.7

Notes: 1 Operating balance before gains and losses.

2 The net debt indicator includes core Crown advances, Crown entity borrowings (excluding Kiwi Group) and the financial assets and borrowings of the New Zealand Superannuation Fund (NZS Fund). A time series of net core Crown debt (the previous headline net debt indicator) can be found on page 156.

Source: The Treasury

The rest of this chapter is broken into five sections:

- **Government Fiscal Policy Decisions** – discusses the Government’s fiscal policy decisions at Budget 2023 and how these costs differ to what was previously forecast.
- **Fiscal Performance** – discusses the trends in the key indicators that illustrate the fiscal performance and therefore 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 matters known to the Government and advised to the Treasury (up to 27 April 2023). The criteria for inclusion in these forecasts, along with the key risks, can be found in the Risks to the Economic and Fiscal Forecasts chapter. In addition to the key assumptions underpinning the economic forecasts (refer to page 60), the following key judgements and assumptions supporting the fiscal forecasts were made:

- 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 2026/27, the annual operating surplus growth forecasts range from (1.04)% to 7.92%.
- Tax forecasts are based on the economic forecasts completed on 29 March 2023. There have been a number of tax policy changes, which are outlined in Table 2.16 on page 54 as required under section 26R of the Public Finance Act 1989.
- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) are assumed to be met from within the Budget operating allowances, the Multi-Year Capital Allowance (MYCA) and the Climate Emergency Response Fund (CERF), which are included in the fiscal forecasts.
- The unallocated portion of the CERF is \$1.5 billion, which we assume will be allocated evenly over the last three years of the forecast period. It is assumed that the unallocated funds will be split between operating (90%) and capital (10%), broadly based on the allocation of funding in Budget 2022 and Budget 2023. Further information can be found on pages 35 to 36.

- The National Resilience Plan (NRP) is set at \$6.0 billion. It is assumed to be split evenly between operating and capital expenditure, with the operating portion forecast over five years and the capital portion over 10 years starting from 2023/24. \$3.6 billion of the NRP has been included within the forecast period, with the remaining portion expected to be spent beyond 2026/27.
- The fiscal forecasts include costs related to the Government's response to the North Island weather events decided up to 27 April 2023. Any future costs are assumed to be managed against the NRP contingency or Budget allowances.
- 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 is 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 expenses into these years.
- Forecast returns on the investment portfolios managed by the Accident Compensation Corporation (ACC) and the 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, the ACC claims liability and the 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 shown in Table 2.2. Over the forecast years, all NZS Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund. For more information, refer to the Treasury website for the NZS Fund model.

**Table 2.2** – NZS Fund contributions

Year ending 30 June \$billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Forecast contributions in the <i>Budget Update</i> <sup>1</sup>	2.6	1.6	1.5	1.6	1.4

Note: 1 The Government's contributions are assumed to be derived from the legislative formula.

Source: The Treasury

# Government Fiscal Policy Decisions

Fiscal policy decisions by the Government have a significant impact on the trends of key fiscal indicators and are one of the main drivers of changes in key fiscal indicators between forecast updates. This section discusses the fiscal policy decisions announced at Budget 2023 and how these costs differ to what was previously forecast.

## Budget 2023 New Policy Decisions with Fiscal Implications

### *Budget 2023 decisions contribute to the nominal increase in core Crown expenses from the 2023/24 year...*

The Government's annual Budget is the main process for allocating funding to cover the costs of new initiatives and maintaining the Government's existing services. The Government has announced a core Budget 2023 operating package of \$4.8 billion per annum. In addition, \$1.0 billion of operating funding allocated from the Climate Emergency Response Fund (CERF).

The Budget 2023 core operating package comprises of spending on new initiatives, increases in the costs for maintaining the Government's existing services, revenue raising items, and expenditure savings. The impact on some key fiscal indicators from the Budget 2023 core operating package are outlined in Table 2.3.

The introduction of the multi-year funding approach in Budget 2022 for the health sector and the agencies within the Justice and Natural Resources clusters, resulted in \$2.0 billion per annum of decisions announced in Budget 2022 that were pre-commitment against the Budget 2023 operating allowance. Therefore, these decisions form part of the Budget 2023 operating package.

**Table 2.3** – Impact of Budget 2023 new operating spending package on key indicators

Year ending 30 June \$millions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	Budget 2023 operating average <sup>1</sup>
Increase in core Crown revenue	-	12	60	812	417	325
Increase in core Crown expenses	(874)	5,564	4,998	5,475	5,289	5,113
<b>Reduction in OBEGAL</b>	<b>(874)</b>	<b>5,552</b>	<b>4,938</b>	<b>4,663</b>	<b>4,872</b>	<b>4,788</b>

Note: 1 The Budget 2023 operating average represents the 5-year total averaged over four years.

Source: The Treasury

The impact of the Budget 2023 operating package in the current year is expected to reduce core Crown expenses, primarily reflecting expenditure savings and reprioritisation identified through Budget 2023. The impact of new operating spending decisions is largest in 2023/24, mainly reflecting spending decisions on the Government's response to the North Island weather events. As this spending is one-off in nature there is only a minimal impact beyond the 2023/24 year.

By 2026/27, the Budget 2023 operating package is expected to increase core Crown expenses by \$5.3 billion. However, as there is a reduction to core Crown expenses in the current fiscal year that are largely one-off in nature, an overall increase of \$6.2 billion is expected when comparing the increase in core Crown expenses to the 2022/23 year.

**...while Budget 2023 also allocated a significant portion of the multi-year capital allowance...**

In Budget 2023, the Government has announced capital investments totalling \$10.7 billion. Of the total capital package, \$10.1 billion is forecast to be spent within the forecast period, primarily over the next two years. A small portion of capital investments is expected to fall after the forecast period.

The capital investments in Budget 2023 flow through to different parts of the Government's balance sheet depending on the nature of the investment. However, the majority will be spent on physical assets. Table 2.4 provides a breakdown of the Budget 2023 capital package across different sectors.

**Table 2.4** – Budget 2023 capital decisions (by sectors) and impact on the fiscal forecasts

Year ending 30 June \$millions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	5-year Total	Post 2027	Budget 2023 Total
Housing sector	-	3,387	3,221	199	-	6,807	-	6,807
Education	9	625	223	200	233	1,290	52	1,342
Transport sector	66	102	119	58	59	404	75	479
Tagged contingencies	(20)	167	335	271	230	983	420	1,403
Other	41	302	151	81	55	630	39	669
Total	96	4,583	4,049	809	577	10,114	586	10,700

Source: The Treasury

**...both of which were more than expected, resulting in higher spending compared to the Half Year Update**

In the 2023 *Budget Policy Statement* (BPS), the Government signalled a Budget operating allowance of \$4.5 billion for Budget 2023 and a MYCA of \$12.0 billion.

However, with the Budget 2023 operating package being higher than the Government's signalled Budget 2023 operating allowance, there is an adverse impact on OBEGAL of \$0.3 billion per annum on average from the 2023/24 year onwards, when compared to the *Half Year Update*. In addition, the profile of the final Budget 2023 operating package differs to the phasing assumed in the *Half Year Update*, which means the impact on OBEGAL in each year varies over the forecast period (Table 2.5).

At the *Half Year Update*, it was assumed that \$8.3 billion of the amount remaining in the MYCA would be spent over the forecast period. Of the \$10.7 billion capital investment announced in Budget 2023, \$10.1 billion is expected to be spent over the forecast period which is \$1.8 billion more when compared to the *Half Year Update*. The profile of the final Budget 2023 capital package is heavily weighted towards the front end of the forecast period, which has resulted in capital spending being significantly higher than previously forecast in the 2023/24 and 2024/25 years. However, this trend reverses beyond 2024/25.

**Table 2.5** – Comparison of Budget 2023 packages to signalled allowances

Year ending 30 June \$millions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	5-year Total
<b>Operating impact</b>						
Budget 2023 operating allowance at the <i>Half Year Update</i>	-	4,500	4,500	4,500	4,500	<b>18,000</b>
Budget 2023 operating package	(874)	5,552	4,938	4,663	4,872	<b>19,151</b>
<b>Total operating impact<sup>1</sup></b>	<b>874</b>	<b>(1,052)</b>	<b>(438)</b>	<b>(163)</b>	<b>(372)</b>	<b>(1,151)</b>
<b>Capital impact</b>						
Phasing of the MYCA at the <i>Half Year Update</i>	-	983	1,966	2,527	2,808	<b>8,284</b>
Budget 2023 capital package	96	4,583	4,049	809	577	<b>10,114</b>
<b>Total capital impact<sup>2</sup></b>	<b>(96)</b>	<b>(3,600)</b>	<b>(2,083)</b>	<b>1,718</b>	<b>2,231</b>	<b>(1,830)</b>

Notes: 1 A negative amount reflects a reduction in OBEGAL.  
2 A negative amount reflects an increase in capital expenditure.

Source: The Treasury

## Fiscal Performance

Fiscal performance looks at the revenue earned and expenses incurred by the Government over the financial year. The Government's fiscal performance helps to assess the ability of the Government to sustain public finances at a credible and serviceable position over the long term. It shows whether the 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 the fiscal performance of the Government, which are discussed in more detail in this section.

### Total Revenue

Total Crown revenue is expected to grow from \$155.6 billion in 2022/23 to \$193.8 billion by 2026/27, representing a nominal increase of \$38.2 billion over the forecast period. Approximately three-quarters of the Crown's revenue comes from tax revenue, or \$114.6 billion in the current year. Of the tax revenue, around 70% relates to direct taxes earned from individuals (eg, source deductions such as PAYE) and businesses (eg, corporate tax), with the remainder coming from indirect taxes (eg, GST).

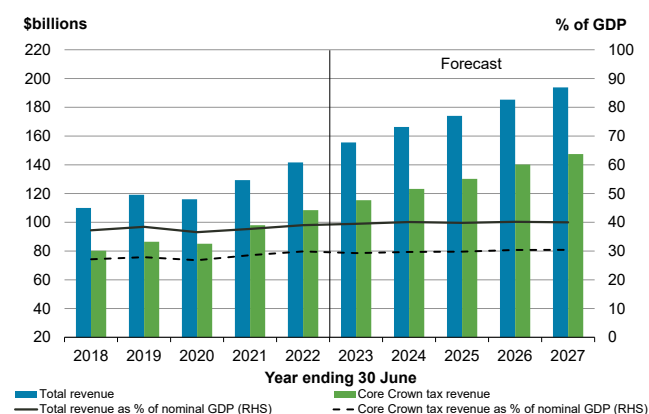
Sales of goods and services is the second-largest component of total Crown revenue, making up around 14% (\$22.6 billion in 2022/23), and largely comprises the revenue earned from the activities of entities within the State-owned enterprise (SOE) reporting segment, such as selling electricity and air travel. Other sovereign revenue (eg, fines and levies) contributes around 6% of total Crown revenue (\$9.1 billion in 2022/23), which consists mainly of ACC levies and New Zealand Emissions Trading Scheme (NZ ETS) revenue.

#### ***Total revenue grows over the forecast period in nominal terms...***

Total revenue is expected to increase by \$52.2 billion between 2021/22 and 2026/27. An increase of \$13.9 billion is expected in the current year, followed by an average increase of \$9.6 billion per year thereafter.

As a share of the economy, total revenue increases in the near-term, which is somewhat reflective of growth in sales of goods and services following the recovery from COVID-19 for some sectors, growth in interest revenue from higher interest rates and the trends in tax revenue, before levelling off at around 40% of GDP across the remaining forecast period.

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



Source: The Treasury

The trends in total revenue in nominal terms and as a share of GDP are largely influenced by tax revenue. Core Crown tax revenue makes up most of total revenue growth and is discussed further in the next section (Figure 2.1).



In addition, sales of goods and services, primarily from the activities of SOEs, are expected to increase over the forecast period by \$8.0 billion, which is largely matched by an associated growth in their expenses.

Interest revenue grows by \$3.1 billion across the forecast period owing to the impact of higher interest rates applied on interest-bearing assets while other sovereign revenue – primarily from ACC levies – accounts for \$1.7 billion of the growth in total Crown revenue.

***...largely attributable to growth in core Crown tax revenue...***

Core Crown tax revenue is forecast to grow steadily, with stronger growth in the latter part of the forecast period. By 2026/27, core Crown tax revenue is expected to reach \$147.5 billion, \$39.0 billion higher than in 2021/22, representing average growth of \$7.8 billion per year.

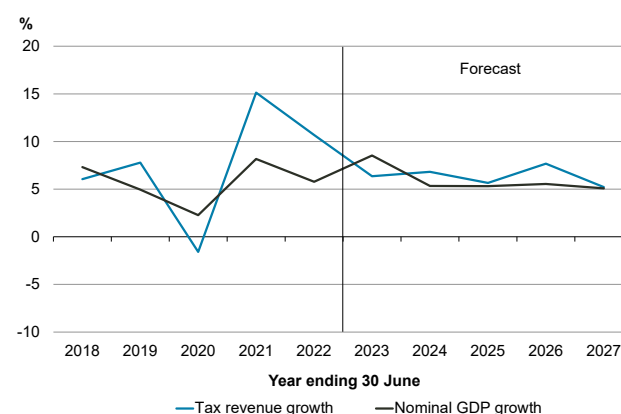
As a percentage of GDP, core Crown tax revenue is forecast to gradually increase from 29.3% in 2022/23 to 30.4% in 2026/27. This is mainly owing to the components of GDP that impact tax revenue growing at different rates than nominal GDP together with changes in tax policy.

***...which is primarily driven by economic factors along with tax policy changes***

The economy is expected to experience soft growth over the remainder of 2023 and into 2024 as high interest rates suppress growth in house prices, wealth, consumption and investment.

Core Crown tax revenue is forecast to grow at a lower rate than nominal GDP in the current year (Figure 2.2). With recent tax outturns up to 31 March 2023 coming in below expectations, there is a risk of additional softening in the growth of core Crown tax revenue in the current year.

**Figure 2.2** – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

The softer growth in the economy in the current year has impacted a number of tax types, in particular the growth rates of net other persons tax (-2.7%) and corporate tax (3.1%), as the forecast for taxable profits is now expected to be weaker than the previous year. The extension of the fuel excise and road user charges rates reductions have also lowered tax revenue growth in 2022/23 year by around \$1.1 billion.

From 2023/24 onwards, growth in core Crown tax revenue fluctuates broadly in line with economic conditions. Tax policy changes introduced through Budget 2023 (mainly the trustee tax rate increase) also contribute to higher tax revenue growth from 2024/25, particularly in 2025/26, adding around \$0.8 billion to tax revenue.

The uplift in core Crown tax revenue has been driven by the tax types as set out in Table 2.6.

**Table 2.6** – Movements in core Crown tax revenue by major tax type

Year ending 30 June \$billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	Total Change
Source deductions	4.6	3.4	3.6	4.0	4.1	19.7
Goods and services tax (GST)	2.0	1.5	1.7	1.8	1.6	8.6
Corporate tax	0.7	0.9	0.5	2.6	1.4	6.1
Net other persons tax	(0.3)	0.4	0.8	1.4	0.1	2.4
Resident withholding tax (RWT) on interest	0.9	0.1	-	-	(0.1)	0.9
Customs and excise duties	(0.5)	0.9	-	0.1	0.1	0.6
Motor vehicle fees and road user charges	(0.5)	0.6	0.1	0.1	0.1	0.4
Other taxes	(0.1)	0.1	0.3	-	-	0.3
<b>Total movement in core Crown tax revenue</b>	<b>6.8</b>	<b>7.9</b>	<b>7.0</b>	<b>10.0</b>	<b>7.3</b>	<b>39.0</b>
Plus previous year	108.5	115.3	123.2	130.2	140.2	
<b>Core Crown tax revenue</b>	<b>115.3</b>	<b>123.2</b>	<b>130.2</b>	<b>140.2</b>	<b>147.5</b>	

Source: The Treasury

Source deductions (mainly PAYE on wages and salaries) are forecast to grow at an average of \$3.9 billion per year, predominantly due to wage growth and fiscal drag. In 2023/24 and 2024/25, growth is expected to be lower at an average of \$3.5 billion owing to a weaker employment outlook, which partially offsets the impacts from wage growth and fiscal drag. Fiscal drag is expected to contribute on average \$1.0 billion per year to the overall increase in source deductions.

GST is expected to increase by \$2.0 billion in the current year, mostly driven by higher private consumption owing to high inflation. Growth in GST revenue is then forecast to be lower, at an average of \$1.7 billion per year. This is mostly owing to the growth forecast for private consumption and residential investment weakening in the 2023/24 and 2024/25 years.

Corporate and net other persons taxes are forecast to increase by a net \$0.4 billion in the current year. The exceptionally strong results experienced in 2021/22 have not continued in the current year, resulting in lower growth expected in 2022/23. In addition, the impact of policy changes (eg, the 39% tax rate on income over \$180,000, capital expensing and the cessation of some of the COVID-19 tax-relief measures) has been partially offset by weak forecasts for taxable profits in the current year (ie, taxable income is expected to decline). From 2023/24 onwards the forecast for firms' net operating surplus is forecast to grow on average by 6.5%, contributing \$1.6 billion per annum to corporate tax revenue growth and \$0.6 billion per annum to the net other persons tax forecast. In addition, tax policy changes (the trustee tax rate increase) add to forecast net other persons tax revenue from 2025/26.

Increasing interest rates have driven the growth in RWT on interest, which is expected to grow by \$0.9 billion in the current year. Conversely, the reductions in fuel excise duty and road user charges rates in the 2022/23 year have had a negative impact on tax revenue growth. These reductions are forecast to end on 30 June 2023, resulting in higher excise duties and road user charges from 2023/24 onwards.

## Total Expenses

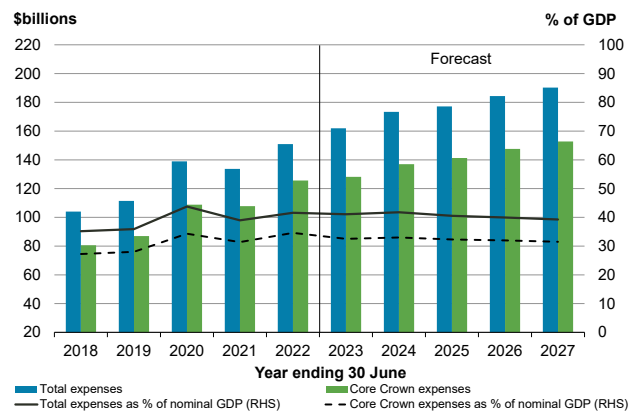
### ***Total expenses are expected to increase across the forecast period...***

Total expenses were \$151.0 billion in 2021/22 and are forecast to increase by \$39.3 billion by the end of the forecast period, reaching \$190.3 billion by 2026/27. As a share of the economy, total expenses decline gradually across the forecast period, from 41.6% of GDP in 2021/22 to 39.2% of GDP by 2026/27 (Figure 2.3).

Most of the nominal growth in total expenses is driven by core Crown expenses, which contribute around \$27.2 billion to the increase over the forecast (discussed further below).

In addition to core Crown expenses, insurance expenses are expected to increase over the forecast period by \$4.5 billion, largely relating to ACC. The expected increase in the costs of insurance claims is mainly driven by economic factors (such as wage growth and inflation assumptions), the increasing cost of health services and higher expected claims volumes.

**Figure 2.3 – Total expenses and core Crown expenses**



Source: The Treasury

In addition, higher expenses in the SOE segment, particularly impacting the current year, largely offset the higher revenue on sales of goods and services discussed on page 29.

### ***...with core Crown expenses driving most of this trend...***

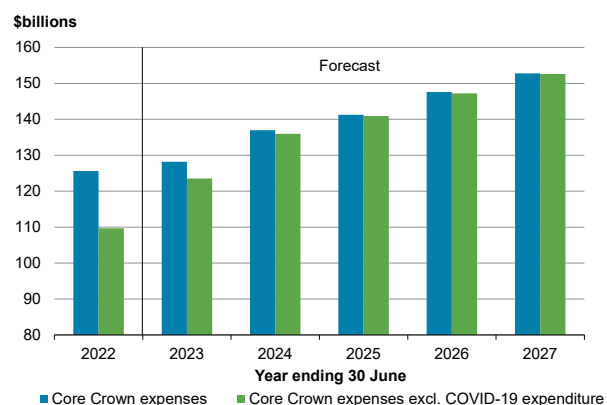
Core Crown expenses are expected to increase by an average of \$5.4 billion per year. As a percentage of GDP, core Crown expenses decline from 34.6% of GDP in 2021/22 to 31.5% of GDP by 2026/27, reflecting the conclusion of temporary spending (mainly COVID-19-related expenditure) and smaller levels of funding are set aside for future Budget operating allowances.

### ***...core Crown expenses remain elevated in the current year...***

Despite a significant reduction in COVID-19-related expenditure in the current year, core Crown expenses are still expected to remain elevated at \$128.2 billion (or 32.5% of GDP).

Looking through the significant COVID-19-related expenditure, core Crown expenses are expected to increase by \$13.9 billion between 2021/22 and the current year (Figure 2.4). This increase is owing to a combination of policy decisions and economic factors that have resulted in higher finance costs and benefit expenses.

**Figure 2.4 – Core Crown expenses excluding COVID-19 expenditure**



Source: The Treasury

The decisions for new operating spending through the core Budget 2022 package account for \$6.7 billion of additional expenditure in 2022/23. In addition, core Crown operating costs arising from the recent North Island weather events are expected to be around \$1.3 billion in the current year. This includes \$0.8 billion relating to the initial response, \$0.4 billion for the Government's obligation to meet costs after a local or national emergency and \$0.1 billion announced in Budget 2023 (for further details on the fiscal impacts of the North Island weather events, refer to the box on pages 6 to 7). In addition, the Government's cost-of-living payment adds a further \$0.7 billion to core Crown expenditure.

Core Crown finance costs are expected to more than double during the current year, from \$2.9 billion in 2021/22 to \$6.3 billion in 2022/23. The increase is largely a result of higher interest rates. For example, the yield rate on 10-year government bonds was 2.6% in 2021/22 and is now expected to increase to 4.3% in 2022/23. Higher inflation forecasts also increase the finance costs associated with inflation-indexed bonds.

Benefit expenses (excluding COVID-19 support measures) are forecast to increase by \$2.9 billion in the current year. The increase is largely driven by NZS payments, with costs expected to increase by \$1.8 billion in 2022/23, largely as a result of high wage growth to which payments are indexed, and an increase in recipients. There are also increases to most other benefit payment types (eg, Supported Living Payment and Jobseeker Support) in the current year, as they are also indexed to wage growth.

***...beyond the current year, the trend in core Crown expense growth is largely driven by Budget 2023 decisions and future new operating spending...***

Beyond 2022/23, temporary spending on COVID-19 expenditure no longer has a significant impact on the trend for core Crown expenses. In addition, other temporary spending relating to cost-of-living support and the response to the North Island weather events is forecast to end in the near-term. Core Crown expenses are expected to grow by \$8.8 billion in 2023/24, before returning to more moderate growth over the rest of the forecast period, averaging \$5.3 billion per year.

Core Crown expenses are expected to grow from \$128.2 billion in 2022/23 to \$152.8 billion by 2026/27, an increase of \$24.6 billion (Table 2.7).

**Table 2.7** – Increase in core Crown expenses from 2022/23

Year ending 30 June \$billions	
<b>Core Crown expenses - 2022/23</b>	<b>128.2</b>
Future Budget operating allowances	10.5
Budget 2023 package decisions	6.2
Core Crown benefits	10.6
Core Crown finance costs	2.3
NRP (operating component)	0.6
Significant COVID-19 expenditure	(4.5)
Other	(1.1)
<b>Total increase</b>	<b>24.6</b>
<b>Core Crown expenses - 2026/27</b>	<b>152.8</b>

Source: The Treasury

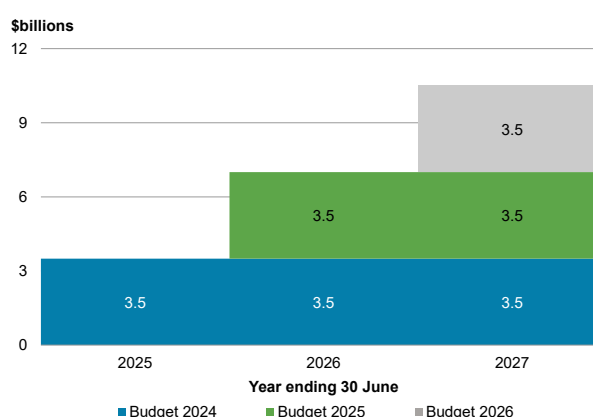
A large portion of the nominal increase in core Crown expenses in the 2023/24 year reflects decisions announced at Budget 2023. The core Budget 2023 package decisions are expected to increase expenses by \$6.2 billion from 2023/24 to 2026/27 (refer Table 2.7).

In addition, the establishment of the NRP, which is aimed at future investments in the resilience of New Zealand's critical infrastructure and the response to North Island weather events is expected to increase core Crown expenses from the 2023/24 year by

\$0.6 billion. In the first instance, it is expected that the NRP will be used to fund expenditure on asset repair and replacements from the recent North Island weather events. Overall, the Government has ring-fenced a total of \$6.0 billion of the MYCA for the NRP. It is expected that the NRP will be applied to spending that will result in the recognition of assets on the Government's balance sheet but also assets that are will not be reflected on the Government's balance sheet. As a result, the NRP has been split between operating and capital spending in the future.

Beyond the 2023/24 year the Government's signalled Budget operating allowances of \$3.5 billion for Budgets 2024 to Budget 2026 are expected to increase core Crown expenses by a further \$10.5 billion (Figure 2.5).

**Figure 2.5 – Operating allowances**



Source: The Treasury

The introduction of the multi-year funding approach in Budget 2022 will mean that the forecast will show a smaller amount than the Budget operating allowances signalled by the Government. The multi-year funding approach changes the timing of when funding is charged against allowances, rather than increasing overall expenses. This means that baselines for agencies within the Natural Resources and Justice clusters will increase beyond the 2023/24 fiscal year rather than remain fixed, which is normally the case with the annual funding approach.

The forecast reflects multi-year funding decisions for Natural Resources and Justice clusters that were announced in Budget 2022. In addition, the Government has also committed to a multi-year funding approach for the health sector. Although the Government is yet to make final decisions on the health sector's multi-year funding path for future Budgets, it is assumed in these forecasts that the health cost pressure funding will be allocated to the health sector, and this will be managed against future operating allowances. This is on the basis it is more likely than not funding will be provided, and the costs can be measured with reasonable certainty. As a result, the funding available to allocate in Budgets 2024 to Budget 2026 in the forecasts will be smaller than the allowances signalled by the Government (Table 2.8).

**Table 2.8 – Future Budget operating allowances after pre-commitments**

Year ending 30 June \$millions	Budget 2024	Budget 2025	Budget 2026
<b>Announced Budget operating allowance</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
Pre-commitments – multi-year decisions for clusters	419	-	-
Pre-commitments – health sector cost pressures	1,430	1,370	1,370
Pre-commitments – other	12	-	-
<b>Budget operating allowance in fiscal forecasts</b>	<b>1,639</b>	<b>2,130</b>	<b>2,130</b>

Source: The Treasury

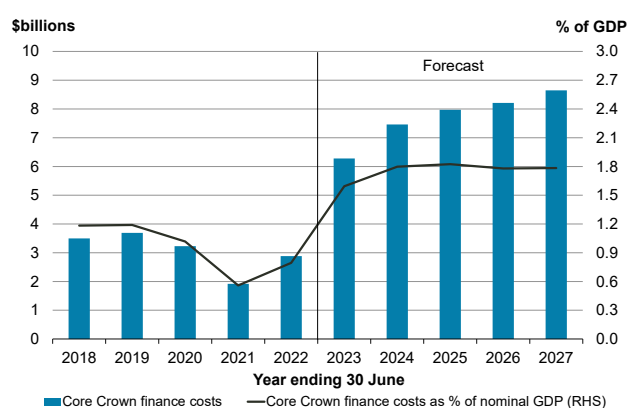
### ...along with economic factors and demographic changes influencing benefits...

Beyond 2022/23, core Crown benefit expenses are forecast to increase by \$10.6 billion. This is mainly owing to increasing NZS payments, with costs expected to increase by \$6.9 billion over that period. These payments grow owing to wage growth forecasts to which payments are indexed, which adds \$4.3 billion to expenses. In addition, NZS recipient numbers are forecast to increase from 870,000 in 2023/24 to just over 987,000 by the end of the forecast period, which adds around \$2.6 billion to the costs by 2026/27. Most other benefit payment types are also forecast to increase beyond 2023/24, as they are also indexed to wage growth. For example, Jobseeker Support is expected to grow by \$1.1 billion over the same period.

### ...and higher finance costs driven by interest rates and increasing debt levels

Beyond 2022/23, core Crown finance costs are expected to increase by \$2.4 billion (Figure 2.6). By 2026/27, core Crown finance costs are expected to reach \$8.6 billion and become the fourth-highest area of core Crown spending by functional classification (after social security and welfare, health and education). The increase reflects a combination of higher forecast interest rates and additional borrowings required to help fund the accumulated residual cash deficit (refer to page 46).

**Figure 2.6 – Core Crown finance costs**

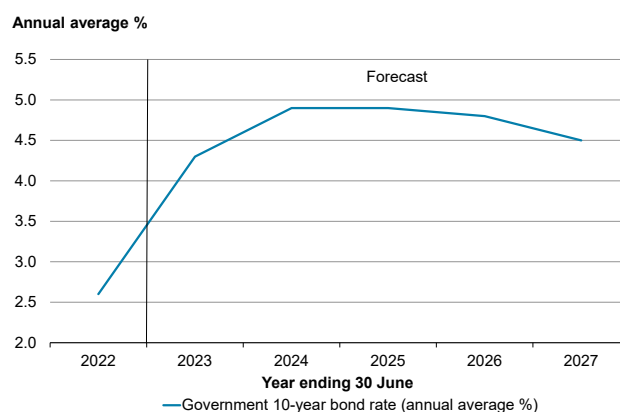


Source: The Treasury

As a percentage of GDP, finance costs are expected to remain stable at 1.8% of GDP from 2023/24.

Finance costs increase as the interest rates on interest-bearing lending go up. The impact is both immediate and delayed depending on the forms of borrowing (eg, short-term Treasury bills versus new issuances of government bonds). The yield rate on 10-year government bonds is expected to peak at 4.9% in 2023/24, before reducing slightly to 4.5% by 2026/27 (Figure 2.7).

**Figure 2.7 – Government 10-year bond rate (annual average %)**



Source: The Treasury

Despite the expected decline in interest rates by the end of the forecast period, this will only have a minimal impact on the trend in finance costs because this rate will only be applied to new borrowings in that year.

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



## Climate Emergency Response Fund

In the BPS for Budget 2022, the Government established the Climate Emergency Response Fund (CERF) to allocate funding for initiatives that support its climate change objectives. The CERF is a multi-year fund, that will be enduring to support New Zealand's transition to a low-emissions and climate-resilient economy. The CERF is intended to provide a dedicated funding source for investment on climate-related initiatives distinct from the core Budget allowances. The Government's intention has been to size the CERF proportionally to the cash proceeds received from the NZ ETS.

*Since the establishment of the CERF, the forecasts for NZ ETS proceeds have been continually revised...*

The CERF was set up with initial funding of \$4.5 billion, equal to the forecast NZ ETS cash proceeds from the 2022/23 to 2025/26 years at the *Half Year Update* for 2021. NZ ETS cash proceeds represent the sale of New Zealand Units (NZUs) sold at auction. This is distinctly different to the revenue that is recognised from the NZ ETS, which represents when NZUs are expected to be surrendered by businesses to meet their emissions obligations.

The NZ ETS cash proceeds will be sensitive to market conditions that influence the price of NZUs, with a key driver being supply and demand. The changes in prices do not automatically result in changes in the size of the CERF, so the Government has discretion around how to respond to these forecast changes.

Since the initial funding, the Government has topped up the CERF by a net total of \$2.1 billion.

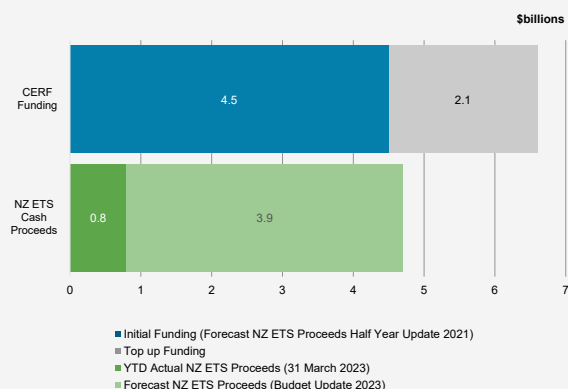
This reflects a top up of \$2.9 billion of funding to the CERF through Budget 2022 (\$0.8 billion) and the BPS for Budget 2023 (\$2.1 billion). Additionally, through the *Budget Update*, the Government has decided to reduce the funding available by \$0.8 billion.

Therefore, at the time of the *Budget Update* the Government has made available \$6.6 billion of funding in the CERF, however, the NZ ETS proceeds are only expected to generate cash of \$4.7 billion.

The shortfall between the CERF funding and NZ ETS cash proceeds at the *Budget Update* is \$1.9 billion.

The forecast assumes the shortfall in funding the CERF will be met from borrowings.

**Figure 2.8** – Funding available in CERF compared to NZ ETS cash proceeds<sup>1</sup>



Note 1 – The NZ ETS cash proceeds are based on the core Crown.

Source: The Treasury

### ...while Budget decisions have reduced the funding available in the CERF

To date the CERF has allocated \$5.7 billion for climate change-related investments since being established.<sup>6</sup> This includes \$0.9 billion of commitments prior to Budget 2022, a \$2.9 billion package at Budget 2022 and a \$1.9 billion package in Budget 2023. In addition, \$0.6 billion allocated at Budget 2022 has been returned into the CERF.

These decisions combined with the decisions on the size of the CERF, leaves \$1.5 billion available to be allocated in the future to climate change-related initiatives (Figure 2.9).

The remaining funding available (\$1.5 billion) is allocated evenly over the last three years of the forecast period and it is assumed that the unallocated funds will be split between operating (90%) and capital (10%), broadly based on the allocation of funding in Budget 2022.

**Figure 2.9** – Change in CERF since establishment



Source: The Treasury

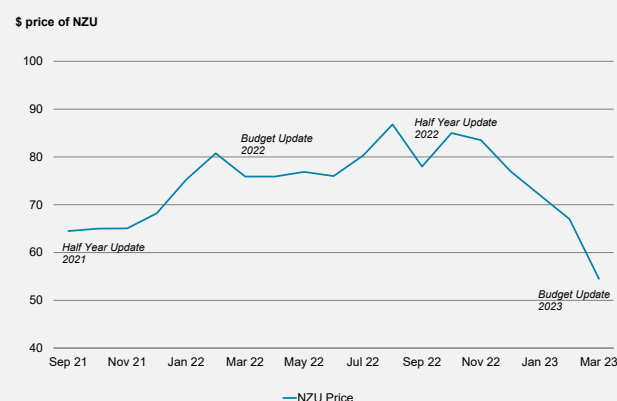
### ...but sensitivities in NZ ETS cash proceeds could alter the funding available in the future

Typically, changes in the balance of the CERF have been decided ahead of each Economic and Fiscal Update and take into consideration changes in the forecast cash proceeds from the NZ ETS. Some of the NZ ETS proceeds included in the forecasts are certain as they represent cash received from auctions in the current fiscal year (ie, up until 31 March 2023). The remaining proceeds over the forecast period are based on an estimated volume of NZUs expected to be sold at a constant price of \$54.50. This means that the current forecast for NZ ETS proceeds will be sensitive to price and volume changes at future forecast updates.

Figure 2.10 shows that unit prices have fluctuated significantly since the establishment of the CERF, with a 16% drop in price between *Half Year Update 2021* and *Budget Update 2023*.

Changes to the forecast of price or volume of NZUs sold may result in an increase or decrease in cash proceeds from the NZ ETS. For example, a \$10 decrease or increase in the price of NZUs would result in a \$0.6 billion change in the NZ ETS cash proceeds from the 2023/24 year onwards.

**Figure 2.10** – Trend in NZU spot price



Source: Jarden

As changes in price do not automatically result in changes in the size of the CERF, the Government has choices on how to respond to price changes, which include resizing the CERF, reprioritisation of existing funding or looking through any price changes (ie, leaving the balance unchanged).

If the Government decided to leave the CERF balance unchanged, this would have an impact on net debt, which could be positive or negative depending on the direction of the price change. The *Pre-election Economic and Fiscal Update* will include the next update on forecast cash proceeds available from the NZ ETS.

<sup>6</sup> For further details about the initiatives funded from the CERF, refer to the Wellbeing Budget 2023 document.



## Operating Balance

### ***The operating balance is expected to return to surplus in the current year...***

In the current year, total expenses exceed total revenue earned by around \$6.4 billion, but this has been more than offset by expected valuation gains on some of the Government's assets and liabilities, largely reflecting market conditions and economic factors. As a result, the operating balance is forecast to be a surplus of \$4.2 billion in the current year, from a deficit of \$16.9 billion reported in 2021/22 (Figure 2.11).

The net gains on financial instruments are forecast to be \$5.9 billion in 2022/23, while net gains on non-financial instruments contribute \$5.3 billion. The net gains on financial instruments of \$5.9 billion forecast for 2022/23 primarily reflect gains on the large investment fund portfolios of ACC and the NZS Fund, owing to the strength in market conditions so far through the year.

The net gains on non-financial instruments are driven largely by two items. Firstly, a forecast gain of \$3.4 billion is expected on the revaluation of the NZ ETS liability, reflecting the decrease in the market price of NZUs used to value the liability, from \$76.00 at 30 June 2022 to \$54.50 per NZU for the fiscal forecasts (based on the price at 31 March 2023).

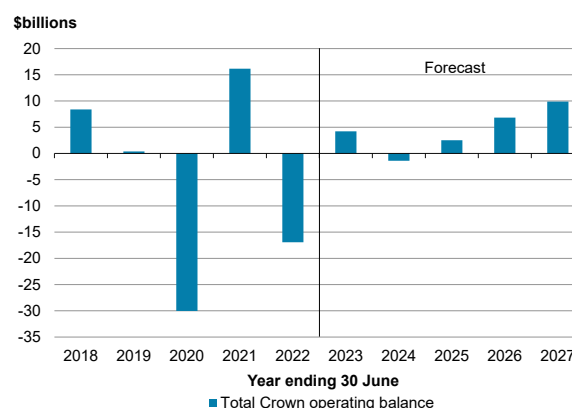
Secondly, a gain of \$1.7 billion is expected from the revaluation of the ACC outstanding claims liability (which reflects the lifetime costs of current claims in present value). This is driven mainly by an increase to the discount rates used to estimate the present value of the liability, partially offset by revisions to inflation forecasts. The increase in discount rates is owing to higher interest rates (which have a favourable impact on the ACC liability reported in present-day values).

### ***...but returns into deficit in 2023/24, before moving back into surplus.***

In 2023/24, total expenses are still expected to exceed total revenue earned by around \$7.1 billion. However, this is only partially offset by the expected valuation gains on the Government's assets and liabilities (forecast at \$6.0 billion in 2023/24 compared to \$11.2 billion in 2022/23). The decline in forecast gains from the previous year is driven by non-financial instruments as the revaluation of the long-term liabilities (eg, the NZ ETS liability and the ACC outstanding claims liability) are not forecast beyond the current year.

Beyond 2023/24, the gap between total revenue and total expenses continues to close and coupled with valuation gains, the operating balance returns back to a surplus of \$2.5 billion. From 2025/26 onwards, total revenue exceeds total expenses, driven by declining growth in expenditure, and revenue growth is expected to remain stable (as explained on pages 28 to 34), while valuation gains stay broadly flat. As a result, the operating balance is expected to reach a surplus of \$9.9 billion by 2026/27.

**Figure 2.11 – Total operating balance**



Source: The Treasury

## The Government's Headline Fiscal Indicators

The Government focuses on specific headline fiscal indicators to measure and communicate its objectives and to ensure its fiscal policy decisions are sustainable. Ahead of Budget 2022, the Government announced that its fiscal strategy will be focused on two fiscal rules – namely, 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.

While OBEGAL and net debt are not indicators prescribed under generally accepted accounting practice (GAAP), both indicators provide 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.

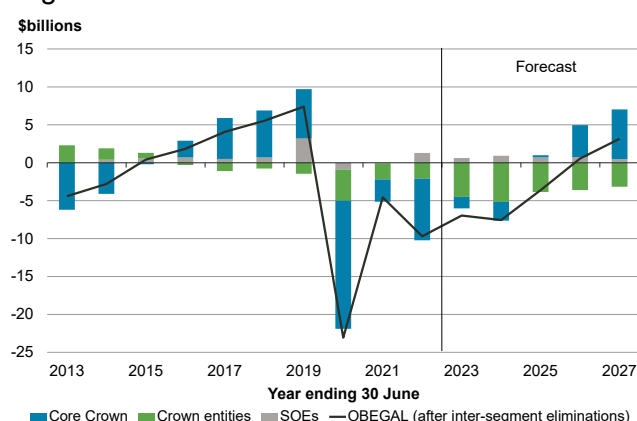
### ***OBEGAL is forecast to recover at a slower pace, delaying the return to surplus into 2025/26...***

OBEGAL deficits are expected to remain elevated in the near term, as total expenses exceed total revenues. However, beyond 2023/24, the OBEGAL deficit is expected to reduce, returning to a surplus of \$0.6 billion in 2025/26. By the end of the forecast period, OBEGAL is forecast to reach a surplus of \$3.2 billion (0.7% of GDP).

As shown in Figure 2.12, much of the recovery in OBEGAL over the forecast period is driven by expected results of the core Crown segment.

In the current year the OBEGAL deficit is expected to slightly narrow and is \$2.7 billion less than the deficit reported in 2021/22. The reduction of temporary COVID-19-related expenditure (compared to 2021/22) means growth in core Crown expenditure is lower in this year. However, these costs have partially been replaced by cost-of-living support measures and the response to the North Island weather events.

**Figure 2.12** – Components of OBEGAL by segment



Source: The Treasury

In 2023/24, the OBEGAL deficit is expected to slightly increase to \$7.6 billion as core Crown expense growth exceeds core Crown revenue growth. The expenditure growth in this year is largely owing to the fiscal impact of the Budget 2023 new operating spending decisions (including the operating component of the NRP) and rephasing of expenditure (as explained on page 55).

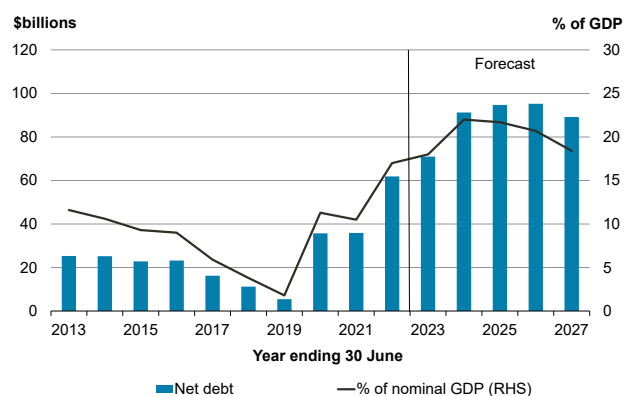
Beyond 2023/24, core Crown revenue growth is expected to outpace the growth in core Crown expenses, resulting in the OBEGAL deficit reducing in 2024/25 and then returning to a surplus the following year. The trends in core Crown revenue and core Crown expenses are explained further on pages 29 to 34.

Overall, Crown entity results are expected to adversely contribute to OBEGAL across all years of the forecast period, averaging \$4.1 billion each year. ACC results are the main driver of this trend, with an average of \$3.3 billion adverse impact on OBEGAL per year. This is owing to higher Consumer Price Index (CPI) inflation forecasts and updated information around claims costs, which together increase insurance expenses.

**...while net debt peaks in 2023/24 (as a percentage of GDP) and stays below the debt ceiling across the forecast period.**

As a percentage of GDP, net debt is forecast to peak at 22.0% of GDP in 2023/24, before reducing to 18.4% of GDP by the end of the forecast period (Figure 2.13). In nominal terms, net debt does not start reducing until 2026/27, reflecting residual cash returning to surpluses.

**Figure 2.13 – Net debt**



Source: The Treasury

Across the forecast period, net debt increases by \$27.3 billion, predominantly owing to the accumulated residual cash deficits over the period (excluding net increases in advances and contributions to the NZS Fund).<sup>7</sup>

In addition to residual cash, the net debt measure is also impacted by changes in the level of Crown entity borrowings (excluding Kiwi Group) and the financial assets and borrowings of the NZS Fund (Table 2.9). Crown entity borrowings (excluding Kiwi Group) are expected to increase by \$14.1 billion over the forecast period, mainly driven by forecast increases in the borrowings of Kāinga Ora (partly funded through the Budget 2023 capital package). The net financial assets of the NZS Fund are expected to increase to \$85.8 billion in 2026/27 – an increase of \$30.6 billion from 2021/22, with close to 70% of this reflecting gains from the NZS Fund's investment portfolio in line with the long-term benchmark rate of return assumptions.

**Table 2.9 – Changes in net debt**

Year ending 30 June \$billions	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	Total change
<b>Opening net debt</b>		61.9	71.0	91.2	94.7	95.3	
Core Crown residual cash (surplus)/deficit		22.4	26.9	0.3	(0.1)	(0.1)	<b>49.4</b>
Less net (increase)/decrease in advances		(8.6)	(5.7)	3.8	3.0	(0.4)	<b>(7.9)</b>
Less contributions to the NZS Fund		(2.6)	(1.6)	(1.5)	(1.6)	(1.4)	<b>(8.7)</b>
Net increase/(decrease) in Crown entity borrowings		2.9	4.7	4.4	2.4	(0.3)	<b>14.1</b>
Net (increase)/decrease in NZS Fund financial assets and borrowings		(4.8)	(3.9)	(4.0)	(4.4)	(4.8)	<b>(21.9)</b>
Issues of circulating currency		(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	<b>(0.6)</b>
Other fair value movements in financial assets and financial liabilities		-	(0.1)	0.6	1.4	1.0	<b>2.9</b>
<b>Total movement</b>		<b>9.1</b>	<b>20.2</b>	<b>3.5</b>	<b>0.6</b>	<b>(6.1)</b>	<b>27.3</b>
Closing net debt	61.9	71.0	91.2	94.7	95.3	89.2	
As a % of GDP	<b>17.0</b>	<b>18.0</b>	<b>22.0</b>	<b>21.7</b>	<b>20.7</b>	<b>18.4</b>	

Source: The Treasury

<sup>7</sup> Since core Crown advances and the NZS Fund are included in the key net debt indicator, the additional cash required to fund increases in advances and Government contributions to the NZS Fund do not impact 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 does impact net debt.

There are other indicators such as the cyclically adjusted balance and structural balance, which are also useful when analysing the fiscal sustainability of the Government's fiscal policy settings. These are discussed further in the box on pages 58 to 59, alongside the total fiscal impulse, which illustrates the effect of fiscal policy on aggregate demand.

### Return to operating balance before gains and losses surplus

#### *Falling growth in expenditure supports a return to an OBEGAL surplus...*

The forecast return to an OBEGAL surplus in the 2025/26 year is underpinned by an expected decline in the annual growth in total expenses and stable growth in total revenue over the forecast period.

While some of the decline in the growth of expenditure is due to the end of some COVID-19 support measures and the one-off nature of some costs from the North Island weather events, a large part of the decline will be achieved through the smaller (than recent) operating allowances signalled for

future Budgets. The larger than usual Budget operating packages for Budget 2023 and Budget 2022 in part reflects the impact of the higher-than-normal inflation rate on the cost of the Government delivering existing services. With inflation forecast to start falling and returning to normal historical levels, it is expected less funding will be required in the future for the Government to maintain existing services.

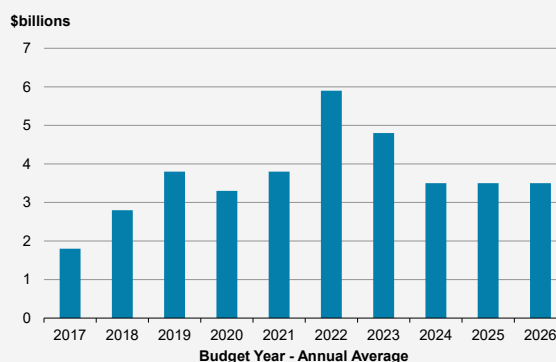
In addition, with inflation and interest rates both expected to fall over the forecast period, this will mean the growth in benefit expenditure and finance costs are also expected to decline over the forecast period.

#### *...however, there are risks to achieving a return to an OBEGAL surplus in 2025/26...*

Following the onset of the COVID-19 pandemic, a return to an OBEGAL surplus was first forecast to happen in the 2023/24 year at the *Half Year Update 2021*. Since then, the return to an OBEGAL surplus is now forecast to be two years later, illustrating the volatility in this fiscal measure. OBEGAL represents the residual balance between two large amounts being total revenue and total expenses, that are both expected to be approximately \$185 billion by the 2025/26 year. Therefore, a shift of only 0.3% in either of these two amounts could move the forecast surplus of \$0.6 billion in 2025/26 into a deficit in future forecast updates. There are a several risks that could alter the outlook for OBEGAL in future forecast updates. The most significant of these include:

- economic conditions may deviate to the current economic outlook, in particular the forecast for tax revenue will be sensitive to changes in nominal GDP and benefit expenses will move with changes in wage growth forecast
- changes in the timing of the recognition of revenue and expenditure

**Figure 2.14** – Budget operating packages and future allowances



Source: The Treasury

- cost pressures, the expansion of existing policies and new policies cannot be managed within the current settings for Budget allowances
- unforeseen adverse events (eg, natural disasters) that may require fiscal support by the Government.

More specifics around the above-mentioned risks are discussed further in the Risks to the Economic and Fiscal Forecasts chapter.

...particularly in staying within the current expenditure track

Although some of the risks to OBEGAL may be outside the control of the Government, a key lever available to the Government in achieving a return to surplus is ensuring new spending is managed within signalled Budget allowances. The Budget operating allowances show how much funding the Government has available in the future to maintain existing services expand existing services and for new investments. The operating allowance for Budget 2024 through to Budget 2026 is set at \$3.5 billion per Budget. Based on a high-level analysis, when adjusted for expenditure that is already indexed (eg, main benefit types) or spending that is time-limited in nature, or spending not sensitive to inflation, Treasury estimates that department baseline expenses could need to increase by \$2.8 billion in the future to maintain the level of existing services for the impact of inflation and wage growth forecast in the future. This suggests that the current settings for the Budget 2024 operating allowances should be sufficient to cover cost pressures to existing services but would leave limited headroom for other investments. This analysis focuses on the expected price changes in Government services. However, there could also be additional demand (eg, population changes) that could add extra pressure to future Budget allowances.

To help provide headroom for new investments without increasing the signalled Budget operating allowances, the Government can reprioritise existing services and identify savings. As signalled in the Wellbeing Budget 2023, Ministers will be required to identify opportunities for the reprioritisation of resources and improvement of efficiencies within baselines before seeking new Budget funding.

In most Budgets, Governments have been able to reprioritise expenditure, introduce revenue raising initiatives and identify savings. As an example, \$4.7 billion over the forecast period was identified in Budget 2023 to help fund new initiatives (\$3.4 billion of savings and reprioritisation and \$1.3 billion of revenue raising initiatives). However, in general these have not been sufficient to ensure all new initiatives can be managed within signalled allowances, so there has been a tendency for Governments to increase the Budget operating allowance relative to what was signalled in the *Budget Policy Statement*. Over the last five years, the operating Budget packages have been, on average, \$0.6 billion per annum higher than the allowances signalled in the Government's *Budget Policy Statement*.

## 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, which are discussed in more detail in this section.

### Net Worth

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 is forecast to increase by \$22.8 billion over the forecast period, from \$174.3 billion to \$197.1 billion by 2026/27. The increase mainly reflects the forecast operating balance results (excluding minority interests), with net surpluses of \$22.1 billion expected over the forecast period. As a share of GDP, net worth is expected to fall across the forecast period, from 48.0% of GDP in 2021/22 to 40.7% of GDP by 2026/27 as the operating balance results are less than the growth in nominal GDP over the forecast period.

In the current year, net worth is expected to grow by \$4.6 billion from 2021/22, as the operating balance is expected to be a surplus of \$4.2 billion in this year (as explained on page 37). The operating balance is then expected to drop to a deficit of \$1.4 billion in 2023/24 and therefore net worth also declines by \$1.1 billion in that year. The operating balance is then expected to return to surplus for the remaining forecast years. As a result of these surpluses, taxpayers' funds grow across the forecast from \$5.5 billion in 2023/24 to \$24.7 billion in the last year of the forecast. Refer to Table 2.10 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 is the largest contributor to the overall net worth balance.

**Table 2.10** – Breakdown of net worth

Year ending 30 June \$billions	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Taxpayers' funds	2.7	6.9	5.5	8.1	14.9	24.7
PPE revaluation reserve	164.4	164.2	164.2	164.2	164.3	164.3
Other reserves	(0.1)	-	-	(0.2)	(0.2)	(0.1)
<b>Total net worth attributable to the Crown</b>	<b>167.0</b>	<b>171.1</b>	<b>169.7</b>	<b>172.1</b>	<b>179.0</b>	<b>188.9</b>
Net worth attributable to minority interest	7.3	7.9	8.2	8.3	8.2	8.2
<b>Total net worth</b>	<b>174.3</b>	<b>179.0</b>	<b>177.9</b>	<b>180.4</b>	<b>187.2</b>	<b>197.1</b>
As a % of GDP	<b>48.0</b>	<b>45.4</b>	<b>42.9</b>	<b>41.3</b>	<b>40.6</b>	<b>40.7</b>

Source: The Treasury



## Total Crown Balance Sheet

***Assets and liabilities are both forecast to increase over the forecast period, although assets increase at a higher rate...***

Total assets are forecast to increase by \$103.2 billion over the forecast period, reaching \$605.1 billion in 2026/27. This amounts to average growth of around \$20.6 billion per year, largely driven by growth in financial assets and PPE.

Total liabilities are forecast to increase by \$80.4 billion, reaching \$408.0 billion in the last year of the forecast. The growth is primarily attributable to an increase in borrowings and insurance liabilities.

**Table 2.11** – Composition of the total Crown balance sheet

Year ending 30 June \$billions	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Financial assets	225.4	233.3	240.0	250.2	263.3	281.8
PPE	249.2	259.3	270.8	280.2	286.0	287.7
Other assets	27.2	26.6	28.2	30.6	33.2	35.5
<b>Total assets</b>	<b>501.8</b>	<b>519.2</b>	<b>539.0</b>	<b>561.0</b>	<b>582.5</b>	<b>605.0</b>
Borrowings	204.0	222.5	243.4	262.0	273.3	282.4
Insurance liabilities	55.3	56.9	60.0	63.2	66.4	69.9
Other liabilities	68.2	60.8	57.7	55.4	55.6	55.6
<b>Total liabilities</b>	<b>327.5</b>	<b>340.2</b>	<b>361.1</b>	<b>380.6</b>	<b>395.3</b>	<b>407.9</b>
<b>Total net worth</b>	<b>174.3</b>	<b>179.0</b>	<b>177.9</b>	<b>180.4</b>	<b>187.2</b>	<b>197.1</b>

Source: The Treasury

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

Financial assets are forecast to increase by \$56.4 billion by 2026/27. The following areas contribute to most of this growth:

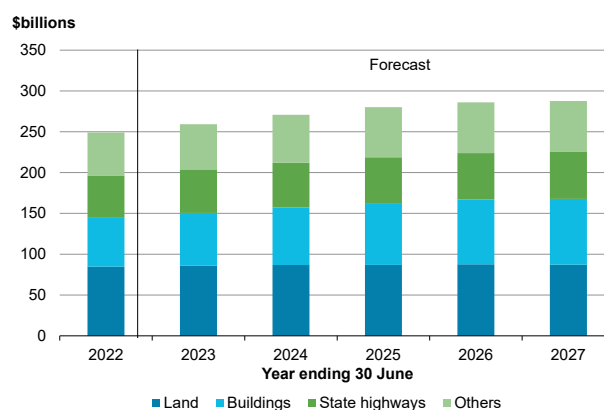
- The investment portfolios of the NZS Fund and ACC contribute \$29.3 billion to the overall growth in financial assets, which includes growth in investments from the Crown's contribution to the NZS Fund (\$8.7 billion). The remaining growth comes from investment returns expected from the NZS Fund and 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.
- Kiwi Group loans and advances are forecast to increase by \$15.0 billion, primarily as a result of expected growth in mortgage lending (which also results in a corresponding impact on borrowings as discussed on page 44).
- The Reserve Banks's Funding for Lending Programme (FLP) is forecast to continue increasing in the current year by \$6.4 billion, peaking at \$17.6 billion in 2022/23, and is assumed to be fully repaid by 2025/26. The advances for FLP have an overall impact of reducing financial assets by \$11.3 billion by the end of the forecast period, owing to the repayment of the loans.

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

PPE assets are expected to increase by \$38.5 billion over the forecast period, reaching \$287.7 billion by 2026/27. This rise is largely due to asset additions of \$77.1 billion, which are partly offset by depreciation expenses over the forecast period that total \$35.8 billion.

The largest growth in PPE is attributable to buildings, which are forecast to increase by \$20.9 billion over the forecast period, mainly driven by growth in assets held by the education, health and housing sectors. The state highways asset is also forecast to increase by \$5.6 billion by 2026/27 (Figure 2.15).

The growth in PPE will also be attributable to new investments announced by the Government in Budget 2023. For further details on the Budget 2023 capital decisions, refer to page 26.

**Figure 2.15 – Total PPE by asset type**

Source: The Treasury

**...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 \$9.0 billion by 2026/27 from funding set aside to allocate in future Budgets and funding agreed in previous Budgets for specific projects that has not yet been appropriated into an entity's baseline as further work is required prior to this occurring (ie, unallocated capital contingencies).

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

Total borrowings are forecast to increase by \$78.4 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 \$89.7 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 Large Scale Asset Purchase (LSAP) programme (refer to page 49).

Kiwi Group borrowings (eg, deposits and debt securities) are forecast to increase by \$16.6 billion, which is largely offset by increases in Kiwi Group advances (as discussed on page 43).

These increases are offset by forecast reductions in settlement cash held by the Reserve Bank of \$24.6 billion across the forecast period, largely owing to the expected managing down of the LSAP bond programme. By the end of the forecast period, settlement cash falls to \$18.9 billion from \$43.5 billion in 2021/22, closer to pre-COVID-19 pandemic levels.



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

Insurance liabilities are forecast to increase by \$14.6 billion to \$69.9 billion by 2026/27. The ACC insurance liability makes up the vast majority of this balance and is forecast to grow by \$15.1 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 grow by \$1.1 billion and then increase by an average of \$3.5 billion per year over the remaining forecast period.

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 2023, which results in the current year net gains on the ACC insurance liability of \$1.7 billion (refer to page 37).

The forecast increase in insurance expenditure across the forecast period (as discussed on page 31) also increases the insurance liability. In the current year, the impact of higher insurance expenses has partially offset the actuarial gains mentioned above.

## Crown Funding and Financing

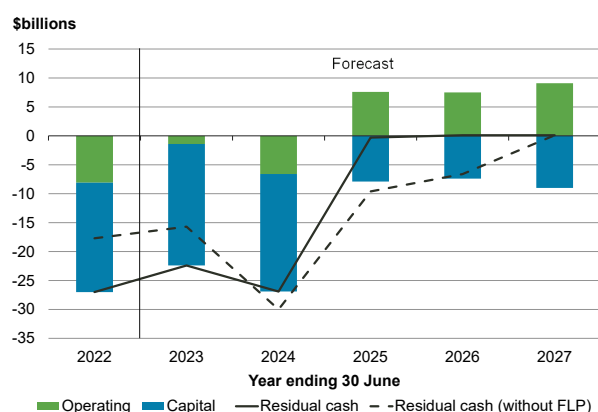
This section looks at the funding required by the Crown to deliver on its fiscal policy decisions, and how these will be funded. Core Crown cash flow information provides useful insights into the funding requirements of the Crown.

### Residual Cash

#### ***A large accumulated residual cash shortfall is expected over the forecast period...***

Across the forecast period, the residual cash deficits total \$49.4 billion. The majority of the residual cash shortfall is accumulated in the near term as core Crown residual cash deficits are expected to remain relatively high, peaking at a deficit of \$26.9 billion in 2023/24. There is a significant improvement in the following year, and residual cash remains close to balance over the rest of the forecast period (Figure 2.16).

**Figure 2.16 – Core Crown residual cash**



Source: The Treasury

Residual cash returns to surplus in 2025/26, the same year as OBEGAL.

#### ***...however, the cash funding shortfall is somewhat masked by the FLP...***

The profile of residual cash is significantly influenced by the Reserve Bank's FLP. For example, the forecast repayments from the FLP in the 2023/24 year reduce the residual cash deficit by \$3.1 billion; looking through this inflow, the residual cash deficit in 2023/24 is expected to be \$30.0 billion. For the purposes of looking at Crown funding requirements, it is best to look through the forecast impact of the FLP on residual cash, as the repayment will reduce the settlement cash liability rather than being available to the Crown to fund its activities.

Once the impact of the FLP is looked through, the residual cash deficit over the forecast period totals \$61.8 billion.

#### ***...with most of this accumulating in the near-term...***

In the near term, cash deficits (excluding the FLP) total \$45.8 billion. Over the next two years, cash received from operating activities is not expected to cover operating payments, with the gap widening in the 2024/25 year. This largely reflects the timing of the Matariki holiday in 2024 falling on Friday 28 June, which results in around \$5.0 billion of tax receipts, which would generally be collected prior to 30 June 2024, being pushed out into the next fiscal year.

Net capital spending (excluding the FLP) is forecast to be \$14.3 billion in the current year and \$23.4 billion in the next year. The spending is spread across a number of agencies and will also partly reflect the impact from Budget 2023 decisions (eg, funding provided to Kāinga Ora).

In 2024/25, the cash deficit start to narrow partly reflecting the timing impact of the Matariki holiday and a drop in net capital spending.

**...and attributable to the Government's expected capital investment...**

Net capital spending is forecast to be \$65.6 billion over the forecast period or \$78.0 billion if the impacts from FLP are excluded. The net capital spending includes \$16.6 billion relating to financial assets for the purpose of measuring net debt (advances and NZS Fund contributions) as well as \$45.3 billion in non-financial assets.

The remaining net capital spending is owing to the forecast for future new capital spending, including funding remaining in the MYCA, NRP and in tagged contingencies. For further details on the decisions taken through Budget 2023, refer to pages 25 to 27.

Table 2.12 shows a breakdown of net capital expenditure that has an impact on core Crown residual cash. It excludes capital spending undertaken directly by SOEs and Crown entities funded from their own resources (including third-party financing).

**Table 2.12 – Net capital expenditure activity**

Year ending 30 June \$billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	5-year Total
Education	1.7	2.0	1.4	1.3	1.2	7.6
Defence	1.6	1.4	1.1	0.6	0.7	5.4
Corrections	0.3	0.4	0.3	0.2	0.3	1.5
Police	0.2	0.1	0.1	0.1	0.1	0.6
Social Development	0.2	0.1	0.1	0.1	0.1	0.6
Internal Affairs	0.1	0.2	0.1	0.1	0.1	0.6
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
Foreign Affairs	-	0.1	0.1	0.1	-	0.3
Other	0.5	0.5	0.2	0.2	0.2	1.6
<b>Net purchase of physical assets</b>	<b>4.8</b>	<b>5.0</b>	<b>3.6</b>	<b>2.9</b>	<b>2.9</b>	<b>19.2</b>
Kāinga Ora	1.6	7.8	5.7	4.2	1.6	20.9
New Zealand Transport Agency (NZTA)	0.7	1.4	0.1	(0.3)	(0.6)	1.3
Housing Infrastructure Fund	0.3	0.1	0.1	-	-	0.5
Small Business Cashflow Loan Scheme	(0.3)	(0.4)	(0.3)	(0.2)	(0.1)	(1.3)
Student Loans	(0.4)	(0.3)	(0.2)	(0.2)	(0.3)	(1.4)
Funding for Lending Programme	6.7	(3.1)	(9.3)	(6.7)	-	(12.4)
Other	-	0.2	0.1	0.2	(0.2)	0.3
<b>Net advances</b>	<b>8.6</b>	<b>5.7</b>	<b>(3.8)</b>	<b>(3.0)</b>	<b>0.4</b>	<b>7.9</b>
Health Sector	0.6	2.9	2.2	1.8	1.1	8.6
NZTA	1.4	1.3	1.1	1.1	0.9	5.8
KiwiRail	0.8	1.1	0.8	0.5	0.1	3.3
Housing Acceleration Fund	0.4	0.6	0.4	0.7	0.2	2.3
Kiwi Group Capital	2.1	-	-	-	-	2.1
City Rail Link	0.5	0.4	0.6	-	-	1.5
NZ Antarctic Institute	0.1	0.2	0.1	-	0.1	0.5
Crown Regional Holdings Limited	0.3	0.1	-	-	-	0.4
Crown Infrastructure Partners	-	-	0.1	0.1	0.1	0.3
New Zealand Green Investment Fund	0.2	0.1	-	-	-	0.3
Other	0.5	0.5	-	(0.1)	0.1	1.0
<b>Net investments</b>	<b>6.9</b>	<b>7.2</b>	<b>5.3</b>	<b>4.1</b>	<b>2.6</b>	<b>26.1</b>
Future new capital spending	-	3.0	1.9	2.2	2.0	9.1
Top-down capital adjustment	(1.9)	(2.2)	(0.6)	(0.4)	(0.3)	(5.4)
Contribution to NZS Fund	2.6	1.6	1.5	1.6	1.4	8.7
<b>Net capital spending</b>	<b>21.0</b>	<b>20.3</b>	<b>7.9</b>	<b>7.4</b>	<b>9.0</b>	<b>65.6</b>

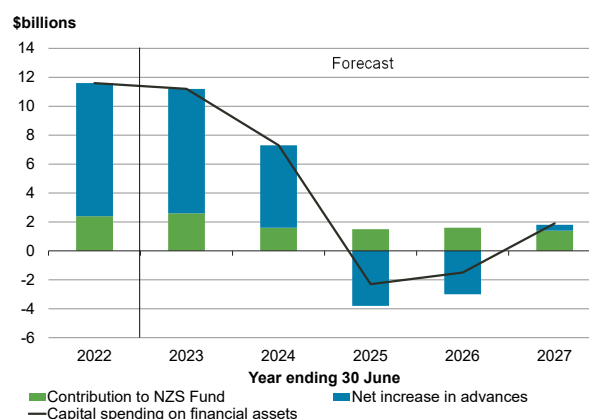
Source: The Treasury

**...which consists of cash flows for financial assets, that are neutral to net debt...**

The core Crown capital spending on items that result in a financial asset does not impact on the net debt level, as the borrowings to fund the spending are offset by the financial asset, which is also included in the net debt measure. However, any lending to Crown entities (eg, Kāinga Ora) will impact on net debt as it results in a change in Crown entity borrowings that is captured in the calculation of the net debt measure.

This includes the Government's contributions to the NZS Fund, which are forecast to total \$8.7 billion by 2026/27. In addition, issuances and repayments of advances are also neutral to the net debt measure. Over the forecast period, there is an overall net issuance of advances of \$7.9 billion, but the trend significantly varies year on year within the forecast (Figure 2.17). The key activity influencing this trend is the FLP and Kāinga Ora lending.

**Figure 2.17 – Core Crown spending on financial assets**



Source: The Treasury

In the current year, there are expected to be net increases in advances of \$8.6 billion as the Reserve Bank continues to issue FLP loans (contributing \$6.7 billion to the increase). However, these loans are expected to be fully repaid by 2025/26, meaning that, between 2023/24 and 2025/26, a cash inflow of around \$19.1 billion is expected. These receipts are partially offset by issuances of advances to Kāinga Ora (refer to Table 2.12).

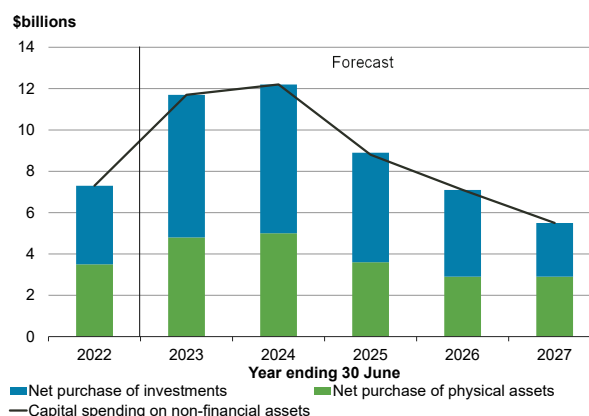
**...and cash flows for non-financial assets and centrally held funding, which flow through to net debt**

The core Crown capital spending on items that result in non-financial assets flows through to increase the net debt level, as the borrowing to fund the spending is not offset by the asset it is used to purchase (Figure 2.18). This includes both net purchases of physical assets and investments.

Net purchase of investments total \$26.1 billion over the forecast period. The spending is forecast to be greater in the near term, with \$6.9 billion for the current year and \$7.2 billion for next year. Over the remaining forecast period, the average spend is lower, at around \$4.0 billion per year.

As shown in Table 2.12, this is largely owing to the transport sector, which includes investments into NZTA, KiwiRail and City Rail Link which is expected to total \$10.6 billion over the forecast period.

**Figure 2.18 – Core Crown spending on non-financial assets**



Source: The Treasury

In addition, investments in the health sector, which includes investments into Te Whatu Ora – Health New Zealand, total a further \$8.6 billion. While part of this will be to invest in assets, a portion will be used to settle past health sector liabilities.

Net purchases of physical assets total \$19.1 billion across the forecast period, spread across a number of departments.

***The cash shortfall will primarily be met by the Government's bond programme...***

The core Crown borrowing programme includes the issuance of both government bonds and short-term borrowings (eg, Treasury bills and European Commercial Paper). Overall, the programme will provide net funds of \$43.6 billion to help cover core Crown residual cash deficits. This includes providing financing for Kāinga Ora, which is now met by loans from New Zealand Debt Management (NZDM) rather than Kāinga Ora borrowing in private markets.

In total, the bond programme is expected to raise funds of \$142.3 billion over the forecast period. Bond maturities and repurchases will result in repayments of \$102.9 billion of existing debt. In addition, short-term borrowing is expected to be \$4.2 billion higher at the end of the forecast period, relative to the end of 2021/22 (Table 2.13).

**Table 2.13** – Net issuance of market government bonds and short-term borrowing<sup>1</sup>

Year ending 30 June \$billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	5-year Total
Face value of government bonds issued	28.0	34.0	32.0	30.0	24.0	148.0
<b>Debt programme cash flows</b>						
Cash proceeds from issue of government bonds	27.0	32.5	31.0	28.7	23.1	142.3
Repayment of government bonds	(21.9)	(18.5)	(19.3)	(20.9)	(22.3)	(102.9)
Net issue/(repayment) of short-term borrowings	(0.3)	4.5	-	-	-	4.2
<b>Net debt programme cash flows</b>	<b>4.8</b>	<b>18.5</b>	<b>11.7</b>	<b>7.8</b>	<b>0.8</b>	<b>43.6</b>

Note: 1 This table only reflects the transactions forecast by NZDM. It is not consolidated with other entities within the Crown.

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 continuing to reduce the level of financial assets held by the Crown which have accumulated over time.

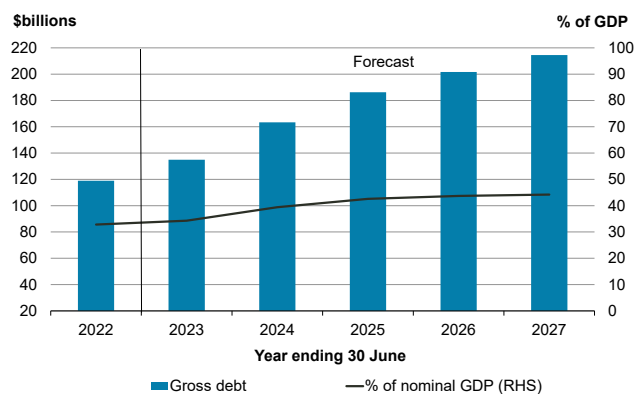
## Gross Debt

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

Gross debt is forecast to increase, reaching \$214.5 billion in the 2026/27 year – an overall increase of \$95.6 billion from 2021/22 (Figure 2.19).

The majority of the increase occurs in the first half of the forecast period, as the average annual increase up to 2024/25 is around \$22.4 billion. This drops over the last two years of the forecast to an annual average increase of \$14.1 billion.

**Figure 2.19 – Gross debt**



Source: The Treasury

A large part of the increase in gross debt is owing to changes in the Government's bond programme (mentioned above).

The issuance of government bonds is expected to increase gross debt by \$142.3 billion over the forecast period. Although repayments of government bonds of \$102.9 billion are expected over the forecast period, this includes repayments relating to managing down of the Reserve Bank's LSAP (including both bonds maturing and the selling back of bonds to NZDM).

As these repayments to the Reserve Bank are within the Crown, they do not flow through to reduce the balance of gross debt. However, the increase in government bonds is partially offset by reductions in settlement cash held by the Reserve Bank, which does not form part of gross debt. By removing the expected repayments from within the Crown, gross debt is only expected to reduce by around \$52.0 billion over the forecast period.

In addition, there have been increases to the Government's bond programme of around \$20.9 billion to reflect Kāinga Ora borrowings now funded through the Crown rather than through private markets. This includes the investments announced in Budget 2023.

The increase to the government bond programme, combined with forecast interest rates, has had a significant impact on the Government's expected finance costs over the forecast period (as discussed on page 34).

## 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 across the forecast period, although the recovery is now expected to be at a slower pace compared to the *Half Year Update*. The change is largely owing to changes in future Budget allowance settings, the impact of the Budget 2023 spending decisions and economic factors (eg, weaker growth in nominal GDP is now expected across the forecast period). The fiscal impacts of these items also lead to additional funding requirements resulting in higher levels of debt and debt servicing costs. Table 2.14 provides a summary of the change in key fiscal indicators.

**Table 2.14** – Key fiscal indicators compared to the *Half Year Update*<sup>1</sup>

Year ending 30 June \$billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
<b>Core Crown tax revenue</b>					
<i>Budget Update</i>	115.3	123.2	130.2	140.2	147.5
<i>Half Year Update</i>	118.1	124.9	132.0	141.2	149.1
<b>Change</b>	<b>(2.8)</b>	<b>(1.7)</b>	<b>(1.8)</b>	<b>(1.0)</b>	<b>(1.6)</b>
<b>Core Crown expenses</b>					
<i>Budget Update</i>	128.2	137.0	141.3	147.6	152.8
<i>Half Year Update</i>	129.3	134.5	140.1	144.9	149.8
<b>Change</b>	<b>1.1</b>	<b>(2.5)</b>	<b>(1.2)</b>	<b>(2.7)</b>	<b>(3.0)</b>
<b>OBEGAL</b>					
<i>Budget Update</i>	(7.0)	(7.6)	(3.6)	0.6	3.2
<i>Half Year Update</i>	(3.6)	(0.5)	1.7	6.2	9.3
<b>Change</b>	<b>(3.4)</b>	<b>(7.1)</b>	<b>(5.3)</b>	<b>(5.6)</b>	<b>(6.1)</b>
<b>Core Crown residual cash</b>					
<i>Budget Update</i>	(22.4)	(26.9)	(0.3)	0.1	0.1
<i>Half Year Update</i>	(25.4)	(17.6)	7.4	4.6	6.4
<b>Change</b>	<b>3.0</b>	<b>(9.3)</b>	<b>(7.7)</b>	<b>(4.5)</b>	<b>(6.3)</b>
<b>Net debt</b>					
<i>Budget Update</i>	71.0	91.2	94.7	95.3	89.2
<i>Half Year Update</i>	78.7	88.2	83.1	78.7	68.2
<b>Change</b>	<b>7.7</b>	<b>(3.0)</b>	<b>(11.6)</b>	<b>(16.6)</b>	<b>(21.0)</b>
<b>Net worth</b>					
<i>Budget Update</i>	179.0	177.9	180.4	187.2	197.1
<i>Half Year Update</i>	173.5	179.0	186.5	198.9	215.0
<b>Change</b>	<b>5.5</b>	<b>(1.1)</b>	<b>(6.1)</b>	<b>(11.7)</b>	<b>(17.9)</b>

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

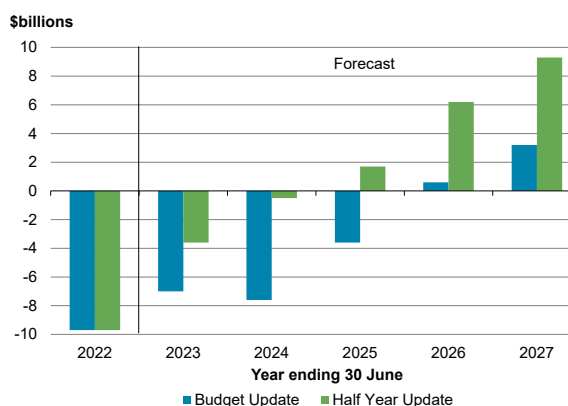
Source: The Treasury

***OBEGAL is expected to recover across the forecast period but at a slower pace than previously forecast...***

The OBEGAL deficits are expected to remain large in the near term before recovering from 2024/25 onwards (Figure 2.20).

In the current fiscal year, the OBEGAL deficit is expected to be \$7.0 billion – almost double the deficit forecast at the *Half Year Update*. OBEGAL is now expected to return to a surplus of \$0.6 billion in 2025/26, which is a year later than previously forecast. By the end of the forecast period, OBEGAL is expected to reach a surplus of \$3.2 billion, \$6.1 billion lower than forecast at the *Half Year Update*.

**Figure 2.20** – OBEGAL compared to the *Half Year Update*



Source: The Treasury

The weaker forecasts for OBEGAL are largely owing to the combination of weaker core Crown tax revenue, higher core Crown expenses and weaker results from SOEs and Crown entities, particularly ACC. In total, over the forecast period, core Crown tax revenue is forecast to be \$8.9 billion lower compared to the *Half Year Update* and core Crown expenses are forecast to be higher by \$8.3 billion.

***...partly owing to core Crown tax revenue, which is lower in all years...***

The forecast for core Crown tax revenue has decreased since the *Half Year Update* by an average of \$1.8 billion per year influenced by a combination of below forecast tax revenue outturns to date, a weaker economic outlook and tax policy changes.

By tax type, the changes are mainly explained by decreases in corporate tax, net other persons tax and GST, partially offset by higher RWT on interest. The movement in core Crown tax revenue since the *Half Year Update* is summarised in Table 2.15.

**Table 2.15** – Change in core Crown tax revenue since the *Half Year Update*, by tax type

Year ending 30 June \$billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	Total change
<b>Core Crown tax revenue – <i>Half Year Update</i></b>	<b>118.1</b>	<b>124.9</b>	<b>132.0</b>	<b>141.2</b>	<b>149.1</b>	
Corporate tax	(0.8)	(0.8)	(0.8)	(0.3)	(0.4)	(3.1)
GST	(0.8)	(0.2)	(0.4)	(0.7)	(1.0)	(3.1)
Net other persons tax	(0.5)	(0.6)	(0.5)	(0.4)	(0.5)	(2.5)
Source deductions	(0.3)	0.1	0.1	-	0.1	-
RWT on interest	0.2	0.1	0.1	0.1	0.1	0.6
All other taxes	(0.1)	(0.3)	(0.3)	(0.5)	(0.3)	(1.5)
<b>Total forecasting changes</b>	<b>(2.3)</b>	<b>(1.7)</b>	<b>(1.8)</b>	<b>(1.8)</b>	<b>(2.0)</b>	<b>(9.6)</b>
Tax policy change effects <sup>1</sup> (refer to page 54)	(0.5)	-	-	0.8	0.4	0.7
<b>Total changes</b>	<b>(2.8)</b>	<b>(1.7)</b>	<b>(1.8)</b>	<b>(1.0)</b>	<b>(1.6)</b>	<b>(8.9)</b>
<b>Core Crown tax revenue – <i>Budget Update</i></b>	<b>115.3</b>	<b>123.2</b>	<b>130.2</b>	<b>140.2</b>	<b>147.5</b>	

Note: 1 Due to rounding, the total does not agree to the tax policy change box.

Source: The Treasury



Tax revenue outturns since the *Half Year Update* have come in below forecast, which creates a lower starting point for the tax revenue forecasts. This, combined with a weaker economic outlook, are the key drivers of the trend across the forecast compared to the *Half Year Update*.

Tax policy decisions taken since the *Half Year Update*, have also impacted the tax forecasts. The extension to the fuel excise and road and track user charges rates reductions have added to the weaker forecast for the current year, while decisions in Budget 2023 have added to tax revenue in the latter half of the forecast period.

- The expected reduction in corporate and net other persons tax reflects weaker-than-expected tax outturns to date, combined with a weaker outlook for taxable profits across the forecast period, when compared to the *Half Year Update*. The weaker economic conditions are partially offset from 2025/26 by additional tax revenue collected from the increase to the tax rate for trustees.
- GST outturns have been below forecast in recent months largely owing to weaker private consumption, which has resulted in a reduction in GST revenue forecast for the current fiscal year. Beyond the current year, a weaker outlook for private consumption also drives a downward revision in GST revenue forecast, by around \$0.6 billion per year. The forecast for residential investment is also weaker than previously expected from 2024/25 onwards, further weakening the overall GST revenue forecast.
- RWT on interest has increased since the *Half Year Update* owing to an upward revision to the interest rate forecast and stronger outturns to date.
- Most indirect taxes (such as customs and excise duties) are lower than previously forecast, which is in line with weaker forecasts for private consumption across the forecast period. In addition, the extension of the fuel excise and road and track user charges rates reductions through to 30 June 2023 has lowered the forecast for tax revenue in the current year by around \$0.5 billion.

### Tax policy changes

This section details the material changes to forecast tax revenue since the *Half Year Update* as a result of tax revenue initiatives. Table 2.16 shows a breakdown of the changes and the supplementary text describes each initiative.

**Table 2.16** – Estimated tax effects of material initiatives announced since the *Half Year Update*

Year ending 30 June \$millions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	Total change
Trustee tax rate increase to 39%	-	-	13	765	345	<b>1,123</b>
Extension of fuel excise duty and road and track user charges rates reduction	(528)	-	-	-	-	<b>(528)</b>
Global Anti-Base Erosion Tax Rules for New Zealand	-	-	-	-	25	<b>25</b>
Other changes	(1)	(6)	(7)	(7)	(8)	<b>(29)</b>
<b>Total change</b>	<b>(529)</b>	<b>(6)</b>	<b>6</b>	<b>758</b>	<b>362</b>	<b>591</b>

Source: The Treasury

**Trustee tax rate increased to 39%** – With effect from the 2025 income tax year, the trustee tax rate will increase from 33% to 39%. This is expected to increase tax revenue by around \$345 million a year. Most of the first year's effect (2025 income tax year) is expected to be recognised upon receipt of terminal tax returns in the 2025/26 fiscal year, resulting in a higher amount of revenue being forecast to be recognised in this year.

**Fuel excise duty and road user charges rates reduction** – The temporary 25-cents-per-litre reductions in the rates of petroleum fuels excise and excise-equivalent duty, and the equivalent reductions in road user charges and track user charges that have been in place since March 2022, have been extended to June 2023.

**Global Anti-Base Erosion Tax Rules for New Zealand** – A tax on large multi-national enterprises operating in New Zealand where their income, in either New Zealand or other countries where they operate, bears an effective tax rate of less than 15%.

### ...so too is other sovereign revenue...

Revenue generated from the NZ ETS is expected to be lower across the forecast period, by an average of \$1.4 billion per annum when compared to the *Half Year Update*. The change is mainly owing to the reduction in the market price of NZUs from \$85.00 per unit used at the *Half Year Update* to \$54.50 per unit at the *Budget Update* (based on the 31 March 2023 price). The change in ETS revenues is partially offset by lower ETS expenses (discussed below).

### ...while a higher core Crown expense track also contributes to the weaker fiscal outlook...

Overall, core Crown expenses are expected to be higher than the *Half Year Update* by a total of \$8.3 billion over the forecast period. This is driven by a combination of factors, including the fiscal impact of Budget decisions, the impact of the North Island weather events and the updated economic outlook.

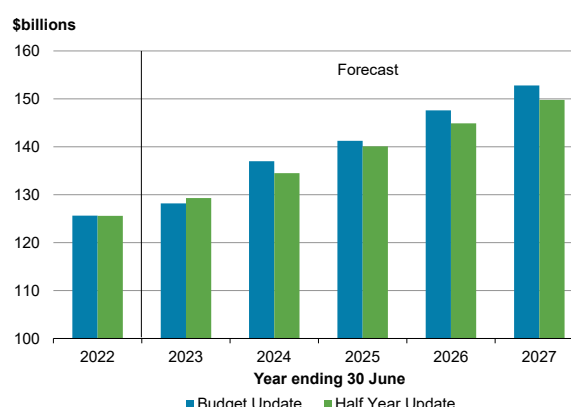
Core Crown expenses are expected to be \$1.1 billion lower in the current year compared to the *Half Year Update*. However, from 2023/24, core Crown expenses are then expected to be higher than previously expected by an average of \$2.4 billion per annum.

**...although core Crown expenses are expected to be lower in the current year...**

The lower core Crown expense forecast for the current year is predominantly owing to rephasing of expenditure, which has been removed from the current year and in some cases rephased into future years. This includes savings initiatives identified through Budget 2023, reforecasting by departments and the rephasing of tagged contingencies.

Some of the reduction in core Crown expenses has been offset by the additional costs from the North Island weather events (approximately \$1.2 billion expected in 2022/23) that have been managed outside of the Budget 2023 operating package and higher core Crown finance costs reflecting higher interest rates.

**Figure 2.21 – Core Crown expenses compared to the *Half Year Update***



Source: The Treasury

**...they are higher from 2023/24 onwards compared to the *Half Year Update*...**

Over the remaining forecast period, core Crown expenses are higher than forecast at the *Half Year Update* (Table 2.17). The rephasing of expenditure mentioned above has contributed to this trend (particularly in the 2023/24 year). However, the majority of the increase has been driven by the fiscal impact of Government spending decisions.

**Table 2.17 – Change in core Crown expenses since the *Half Year Update***

Year ending 30 June \$billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	Total change
<b>Core Crown expenses - <i>Half Year Update</i></b>	<b>129.3</b>	<b>134.5</b>	<b>140.1</b>	<b>144.9</b>	<b>149.8</b>	
Budget operating allowances	-	-	0.5	1.0	1.5	3.0
Operating component of the NRP	-	0.6	0.6	0.6	0.6	2.4
Budget 2023 package decisions	(0.9)	1.1	0.5	1.0	0.8	2.5
Core Crown finance costs	0.6	0.4	0.2	0.4	0.6	2.2
North Island weather event support	1.2	-	-	-	-	1.2
CERF decisions	0.2	(0.6)	-	(0.2)	(0.4)	(1.0)
NZ ETS expenses	(0.7)	(0.6)	(0.6)	(0.7)	(0.7)	(3.3)
Other	(1.5)	1.6	-	0.6	0.6	1.3
<b>Total changes</b>	<b>(1.1)</b>	<b>2.5</b>	<b>1.2</b>	<b>2.7</b>	<b>3.0</b>	<b>8.3</b>
<b>Core Crown expenses - <i>Budget Update</i></b>	<b>128.2</b>	<b>137.0</b>	<b>141.3</b>	<b>147.6</b>	<b>152.8</b>	

Source: The Treasury

The final Budget 2023 operating package was higher than signalled in the 2023 BPS and included in the *Half Year Update*, while Budget operating allowances for Budget 2024 to Budget 2026 have been increased by \$0.5 billion, to \$3.5 billion. This change increases the forecast for expenditure by \$0.5 billion in 2024/25, increasing to \$1.5 billion of additional expenditure by 2026/27. The establishment of the NRP has also added \$0.6 billion per annum of expenditure from 2023/24 onwards.

Core Crown finance costs, from 2023/24 are on average \$0.4 billion per annum higher than previously forecast. This increase is largely owing to the higher levels of debt that have been forecast compared to the *Half Year Update*.

Partially offsetting the items above, the decision to reduce the unallocated level of the CERF to \$1.5 billion has an overall impact (after taking into account the Budget 2023 CERF package) of reducing forecast operating expenditure by \$1.0 billion over the forecast period. For further details of the CERF and the decisions managed against the CERF through Budget 2023, refer to the box on pages 35 to 36.

As mentioned, the fall in the price of NZUs since the *Half Year Update* this has resulted in a reduction in NZ ETS expenses – which are incurred when the Government allocates NZUs to market participants for free.

**...in addition, the results of the Crown entities have weakened...**

From 2023/24 onwards, the outlook for ACC's results is weaker by an average of \$0.5 billion per annum. Higher forecasts for inflation and employment growth compared to the *Half Year Update* have contributed to higher forecasts for insurance expenses across the forecast period. In addition, EQC results are expected to be \$0.8 billion weaker in the current year and then weaker on average by just under \$0.2 billion per annum, largely reflecting the impacts from the North Island weather events.

**...with the core Crown results leading to a weaker core Crown residual cash position over the forecast period...**

In total, the core Crown residual cash deficits are expected to be \$24.8 billion higher over the forecast period compared to the *Half Year Update*. While the current year residual cash deficit is \$3.0 billion lower than at the *Half Year Update*, from 2023/24 onwards residual cash deficits are on average \$7.0 billion higher per year.

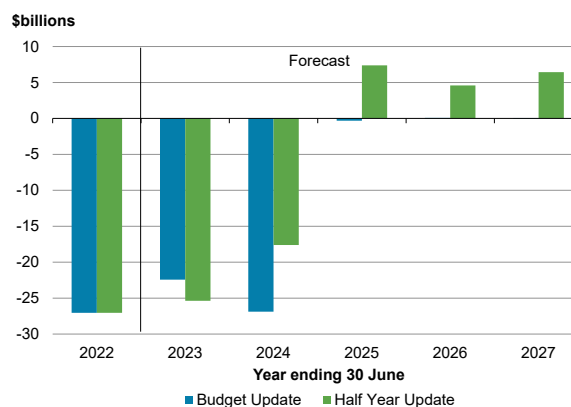
Core Crown tax receipts are forecast to be \$6.1 billion lower compared to the *Half Year Update*, and while the trend is usually expected to move in line with revenue, there can be differences in the timing of cash receipts that cause it to vary. Cash receipts from the auctioning of NZUs are also expected to be lower over the forecast period by \$2.7 billion since the *Half Year Update*, largely reflecting the fall in the price of NZUs.

The trend in operating cash outflows broadly reflects the increases in core Crown expenses previously discussed.

In addition to the operating cash flow movements, changes to capital spending have made a significant contribution to the change in core Crown residual cash since the *Half Year Update*.

Net capital cash outflows are forecast to be \$5.1 billion lower than the *Half Year Update* in the 2022/23 year and then an average of \$2.4 billion per year higher for the remaining forecast period.

**Figure 2.22 – Core Crown residual cash compared to the *Half Year Update***



Source: The Treasury

The expected improvement in the current year is largely owing to rephasing of capital investments, including capital tagged contingencies. This has shifted forecast spending out of the current year and into the remaining forecast period (mainly into 2023/24).

The weakening in residual cash from 2022/23 onwards is largely a result of Budget 2023 decisions and the downward revision to the forecast for tax receipts. In addition to the decisions that impact operating expenses, capital decisions have also influenced residual cash (discussed on page 26).

**...most of which flows through to a higher net debt level...**

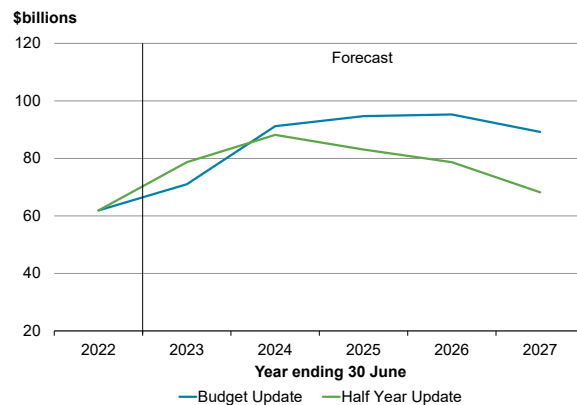
In the current year, net debt is expected to be \$7.7 billion lower than forecast at the *Half Year Update* (Figure 2.23). This is driven by a combination of the improvement in core Crown residual cash in the current year (largely phasing) as well as higher net financial assets of the NZS Fund (reflecting current market conditions).

Beyond the current year, net debt is expected to be higher than previously forecast in all years and by the end of the forecast period, net debt is expected to be \$21.0 billion (or 4.3 percentage points of GDP) higher than expected at the *Half Year Update*.

Around \$18.5 billion of the increase relates to the additional funding required to meet the accumulating 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 changes in the NZS Fund's net financial assets, changes to Crown entity borrowings, and other financial instrument valuation changes.

**Figure 2.23 – 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 higher by \$3.9 billion (largely owing to the year-to-date investment gains) while Crown entity borrowings are \$6.7 billion lower by the end of the forecast period.

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

By the end of the forecast period, net worth is expected to be \$17.9 billion lower than at the *Half Year Update*, driven by the weaker forecast for the total Crown operating balance which flows through to impact net worth. When compared to the *Half Year Update*, the operating balance in total is lower by \$18.7 billion over the forecast period.

The operating balance results reflect the higher cumulative OBEGAL deficits compared to the *Half Year Update* (\$27.5 billion) discussed above, partially offset by higher forecast gains on the revaluation of the ETS liability and higher forecast investment returns over the forecast period.

## Cyclically-adjusted balance, structural balance and total fiscal impulse<sup>8</sup>

### Cyclically-adjusted balance and structural balance

The cyclically-adjusted balance (CAB), the structural balance and OBEGAL together can be used to better understand the Government's fiscal position.

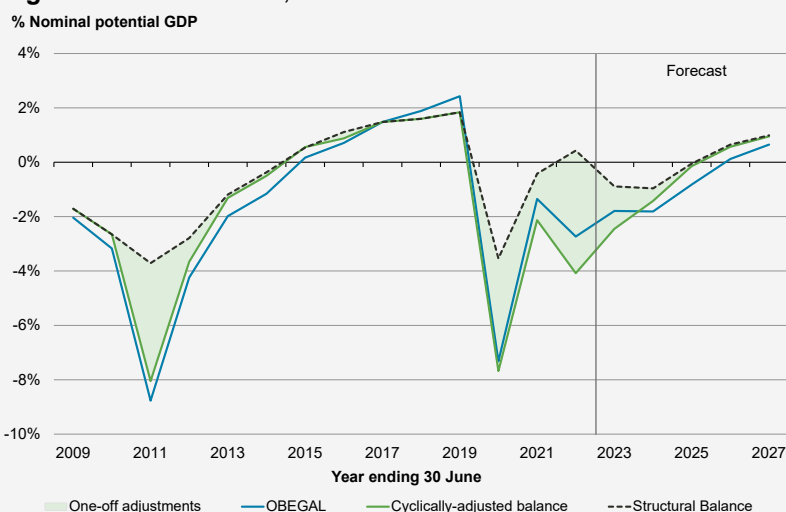
The CAB shows what OBEGAL would be in the absence of fluctuations in expenses and tax revenue that happen automatically with time through the economic cycle (known as automatic stabilisers). The structural balance helps show the underlying fiscal position by adjusting the CAB for significant one-off expenditure items, such as those associated with the North Island weather events.<sup>9</sup>

The structural balance and CAB are forecast to broadly converge by the end of the forecast period as one-off spending associated with the COVID-19 pandemic and the North Island weather events come to an end. These two measures, along with OBEGAL, are all forecast to return to surplus in 2025/26.

The lower position of the CAB relative to OBEGAL in 2022/23 reflects a positive forecast output gap, indicating that the economy is expected to be operating above its potential (so automatic stabilisers are improving OBEGAL relative to the CAB). A negative output gap is forecast for 2023/24 and the remainder of the forecast period, resulting in a higher CAB relative to OBEGAL for the remainder of the forecast period. The forecast negative output gap indicates that the economy is expected to operate below potential for several years. The upward trajectory of the CAB indicates an improvement in the Government's underlying fiscal position over the forecast period, with a return to surplus for the CAB expected in 2025/26.

Relative to the *Half Year Update*, the CAB and structural balance are forecast to be in deficit for an additional two years. In part, this is a consequence of the rephasing of expenses from the current year into future years, which particularly impacts 2023/24. This change is also a consequence of lower revenue forecasts throughout the forecast period, relative to the *Half Year Update*, and higher expenses.

**Figure 2.24 – OBEGAL, CAB and structural balance**



Source: The Treasury

<sup>8</sup> Refer to this guide 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>.

<sup>9</sup> In addition, these one-off adjustments include, for example, payments relating to the COVID-19 Wage Subsidy Scheme, COVID-19 vaccine purchases, and payments relating to the Christchurch and Kaikōura earthquakes. One-off measures to support New Zealanders with their day-to-day living costs, such as the Cost-of-Living Payment, have not been excluded from the structural balance as these do not meet the required materiality threshold (see note above, pages 5 to 6).

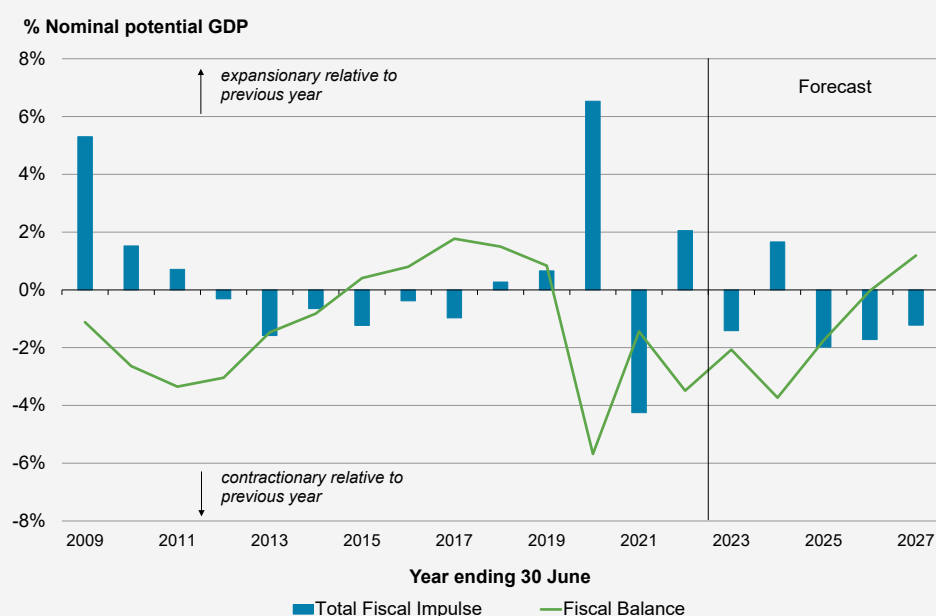
## Total fiscal impulse

The total fiscal impulse is a measure of the change in the Government's fiscal support for aggregate demand from one year relative 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.<sup>10</sup> The fiscal balance is a cash measure of core Crown and Crown entity flows, 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 compared to the previous year. 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 and the capacity of the economy to absorb new investment.

On aggregate, the fiscal impulse is expected to be contractionary over the forecast period as the fiscal balance improves. However, in 2023/24, the fiscal balance is forecast to decrease relative to 2022/23. As a result, the fiscal impulse is expected to be expansionary in 2023/24 (1.7% of nominal potential GDP), whereas a contractionary fiscal impulse (of 0.8% of nominal potential GDP) was forecast for 2023/24 at the *Half Year Update*. A stronger fiscal balance forecast for 2022/23, relative to the *Half Year Update*, also exacerbates the difference between the two years, leading to a more positive impulse than would otherwise be the case. The fiscal balance is forecast to improve from 2024/25 and through the remainder of the forecast period, with a positive fiscal balance expected in 2026/27 (two years later than forecast at the *Half Year Update*). As a result, the fiscal impulse is forecast to be negative (contractionary) from 2024/25 and through the remainder of the forecast period.

**Figure 2.25** – Total fiscal impulse and fiscal balance<sup>11</sup>



Source: The Treasury

<sup>10</sup> The total fiscal impulse is not cyclically adjusted.

<sup>11</sup> Note that we have adjusted for the Matariki holiday falling on 28 June 2024, when taxes are due, by shifting \$4.95 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 2.18.

**Table 2.18** – Summary of key economic forecasts used in the Forecast Financial Statements

Year ending 30 June	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Real GDP <sup>1</sup> (annual average % change)	1.1	3.2	1.0	2.1	3.1	2.9
Nominal GDP <sup>2</sup> (\$billions)	363.0	394.0	415.0	437.1	461.3	484.8
CPI (annual average % change)	6.3	6.8	4.2	2.8	2.4	2.2
Govt 10-year bonds (annual average %)	2.6	4.3	4.9	4.9	4.8	4.5
5-year bonds (annual average %)	2.4	4.4	4.9	4.8	4.5	4.2
90-day bill rate (annual average %)	1.2	4.5	5.2	4.3	3.6	3.1
Unemployment rate (annual average %)	3.3	3.5	4.5	5.3	5.0	4.8
Employment (annual average % change)	2.8	1.4	(0.1)	0.5	1.7	1.6
Average weekly earnings <sup>3</sup> (annual % change)	5.5	7.0	5.1	4.7	4.3	4.0

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

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



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## Risks to the Economic and Fiscal Forecasts

### Overview

The economic and fiscal forecasts presented in the previous two chapters include assumptions and judgements. As with any kind of forecasting, there is risk that actual events will differ from expectations. This chapter outlines the key risks to the economic and fiscal forecasts.

***The economy is a key influence on fiscal outcomes...***

Forecasts of nominal GDP growth are a key driver of forecast tax revenue. Wage growth forecasts are used to index most main benefit types and forecasts for interest rates are used to estimate interest revenue, finance costs and the valuation of some long-term assets and liabilities. Economic assumptions are also necessary for valuing some assets and liabilities on the Government balance sheet and to forecast the fiscal position.

***...while fiscal policy can also influence the wider economy***

Fiscal impacts on the economy can be direct – for example, through increased provision of health services in public hospitals – or indirect, through changes to household incomes such as increases to benefit rates, that are then spent by households. Revenue policies, such as tax policy, can affect household and firm incomes and influence private sector behaviour.

***Broader macroeconomic conditions are also subject to uncertainty and volatility...***

As noted in the Economic Outlook chapter, while the economy has shown signs of easing activity and inflation into early 2023, the inflation picture remains complex. The North Island weather events and the return of international visitors and migrants are examples of new sources of additional economic activity and ongoing price pressure.

High inflation is typically also more volatile, further adding to uncertainty, and the current tightening in monetary policy around the world is a key risk to global growth. The speed that supply and demand imbalances unwind as monetary policy tightens flows through to uncertainty in the domestic economy.

COVID-19-related disruption has eased in most countries, but there remain risks associated with new strains of the virus as well as the impacts of China ending its zero-COVID approach.

***...with two alternative scenarios illustrating possible outcomes if some of these risks eventuate***

An 'upside' scenario considers the implications should demand in the New Zealand economy hold up more than expected, through a combination of a quicker return of international tourism and a more sustained level of net inward migration. This scenario involves stronger real activity and prices. These both drive a stronger outlook for OBEGAL, although the timing of the return to surplus is the same as in the main forecast.

A 'downside' scenario illustrates the impact of a weaker global economy, driven in part by rising interest rates contributing to a global credit crunch. This results in reduced demand and lower prices for New Zealand goods exports, which feeds through to weaker real activity and lower prices. The OBEGAL returns to surplus one year later under that scenario.

***Future fiscal policy decisions will impact the Government's fiscal outlook...***

The *Budget Update* fiscal forecasts are based on Government decisions up to 27 April 2023. As always, other policies under development or consideration will be decided upon in the future. A list of current potential future policy decisions that are likely to have a fiscal impact of more than \$100 million over the forecast period and where it is reasonably possible, they will be approved, is included in the Specific Fiscal Risks section of this chapter.

***...as well as changes in the cost of providing existing services and delivery of core infrastructure...***

The Specific Fiscal Risks section also discusses the material cost pressures the Government may face in the future. In most cases, the forecasts assume that the services provided by departments can be met from the funding received from the Government. However, just as households face changes in the cost of living and firms face changes in input costs, including labour, the cost of providing government services and delivering core infrastructure and ICT projects may also change, potentially requiring additional funding beyond that in the fiscal forecasts.

***... past commitments could crystallise costing the Government...***

The Government enters into commitments that may have fiscal costs if certain events occur in the future. These events may include economic developments, the financial sustainability of entities, and legal decisions. These kinds of commitments do not meet the criteria for inclusion in the fiscal forecasts owing in part to the uncertainty around the triggering of the future event. The Contingent Liabilities and Contingent Assets section of this chapter outlines these kinds of commitments.

***... while some time-limited initiatives are due to end***

There are a range of current Government initiatives that were initially funded through the COVID-19 Response and Recovery Fund (CRRF) for a fixed period of time. Examples include the extension of the Healthy School Lunches Programme (Ka Ora, Ka Ako) as well as the extension of the Government's transport support package which saw the 25 cents per litre petrol excise duty cut and half-price public transport fares schemes extended to the end of June 2023. Extending these initiatives would require additional funding.

### ***Climate change continues to pose a significant challenge...***

The economic and fiscal forecasts include several existing mitigation measures (taking action to reduce emissions) and adaptation measures (adjusting to the effects of climate change) to support the Government's climate change response. Over the longer term, the actual cost of achieving domestic and international emissions reduction targets and addressing risks from climate change will likely exceed current provisions. Given the uncertainty around these costs, and their likely timing, these are reported in the Specific Fiscal Risks section.

### ***...and there remains uncertainty regarding the impact of the North Island weather events***

The North Island weather events box (pages 6 to 7) outlines how North Island weather events-related factors have been incorporated into the forecasts. The full economic and fiscal impacts of the events are still emerging and will, for example, be influenced by choices (including made by households, businesses, Iwi and government – both local and central) as to whether to replace particular assets and whether to 'build back better'.

There is similar uncertainty regarding the magnitude of costs to be incurred on the recovery, when these costs will be realised and to what extent the Government will bear them. These uncertainties are reported in the Specific Fiscal Risks section.

### ***The Government has several tools to mitigate and manage risks***

The Government sets aside funding in the Budget operating allowance, multi-year capital allowance including the National Resilience Plan contingency and the Climate Emergency Response Fund (CERF) to help meet the fiscal impact of future policy decisions (both new and extending current settings). These funding envelopes are included in the fiscal forecasts and are therefore reflected in the Government's key fiscal indicators.

Budget 2022 piloted a multi-year funding approach for the health, justice and natural resources sectors, with the objective that funding certainty would encourage longer-term planning and collaboration within sectors as well as foster prioritisation and efficiency of spending. This approach has seen a significant quantum of funding pre-committed against the Budget 2024 operating allowances. As a consequence, this will require careful choices and trade-offs around government spending in order to manage spending within the remaining allowances.

The Government's fiscal strategy of requiring OBEGAL to return to a surplus, aiming to maintain a surplus thereafter and keeping net debt below 30% will support the fiscal resilience of the Government to absorb future shocks. Governments have been able to respond to past adverse events by increasing debt levels to absorb shocks rather than significantly changing fiscal policy settings. The fiscal forecasts presented in the *Budget Update 2023* expect net debt to peak at 22.0% of GDP before falling to 18.4% by June 2027. Additional information on returning to an OBEGAL surplus can be found in the box on pages 40 to 41 of the Fiscal Outlook chapter

## Fiscal Sensitivities

Table 3.1 provides rules of thumb for the sensitivity of tax revenue to economic growth, as well as how government income and expenses are affected by interest rates. For example, if nominal GDP was to grow by 1 percentage point more than forecast in each year of the forecasts, tax revenue would likely be around \$7.6 billion higher than forecast in the final year of the forecast.

**Table 3.1** – Fiscal sensitivity analysis

Years ending 30 June (\$millions)	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
<b>Impact on tax revenue of a one percentage point increase<sup>1</sup> in growth of</b>					
Nominal GDP	1,135	2,480	3,970	5,735	7,600
Wages and salaries	510	1,135	1,840	2,640	3,550
Taxable business profits	270	625	1,005	1,480	1,975
<b>Impact of 1% lower<sup>1</sup> interest rates on</b>					
Interest income <sup>2</sup>	-155	-413	-392	-445	-496
Interest expenses <sup>2</sup>	-257	-885	-1,161	-1,402	-1,566
Net impact on operating balance	102	472	769	957	1,070

Notes: 1 These sensitivities are broadly symmetrical.

2 Interest sensitivities relate to consolidated external exposures of both the Treasury (Debt Management) and the Reserve Bank of New Zealand.

Source: The Treasury

Furthermore, the forecast financial position is based on judgements and assumptions about the future. These judgements and assumptions are informed by 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 at market prices and property owned by the Government is valued using market information where possible. The Government's actual financial position is likely to differ from forecast if actual outcomes differ from that assumed. In addition, changes in these variables can also have flow-on effects for the Government's operating balance. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

## Economic Risks and Alternative Scenarios

One way of illustrating the inherent uncertainty regarding the assumptions and judgements made in the economic forecasts is to consider alternative scenarios where specific judgements are modified. The economic and fiscal consequences of two different scenarios are considered in this section.

The scenarios assume that the Budget operating and capital allowances remain the same as in the main forecasts. If inflation pressures prove stronger than expected, these allowances will not stretch as far in terms of the provision of government services. Conversely, in an environment of lower inflation it may be that more government services are possible.

**Table 3.2** – Alternative scenarios

June years	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
<b>Real GDP (annual average % change)</b>						
<b>Main forecast (<i>Budget Update 2023</i>)</b>	<b>1.1</b>	<b>3.2</b>	<b>1.0</b>	<b>2.1</b>	<b>3.1</b>	<b>2.9</b>
Upside	1.1	3.5	1.9	1.8	2.6	2.7
Downside	1.1	3.0	-0.6	2.3	3.9	3.6
<b>Inflation (annual % change)</b>						
<b>Main forecast (<i>Budget Update 2023</i>)</b>	<b>7.3</b>	<b>6.2</b>	<b>3.3</b>	<b>2.6</b>	<b>2.3</b>	<b>2.1</b>
Upside	7.3	6.3	3.6	2.7	2.3	2.1
Downside	7.3	6.1	3.1	2.4	2.2	2.2
<b>Unemployment rate (June quarter)</b>						
<b>Main forecast (<i>Budget Update 2023</i>)</b>	<b>3.3</b>	<b>3.7</b>	<b>5.0</b>	<b>5.3</b>	<b>4.9</b>	<b>4.8</b>
Upside	3.3	3.6	4.3	4.9	4.9	4.8
Downside	3.3	4.0	6.3	6.2	5.3	4.8
<b>90-day interest rate (June quarter)</b>						
<b>Main forecast (<i>Budget Update 2023</i>)</b>	<b>2.2</b>	<b>5.3</b>	<b>5.0</b>	<b>3.9</b>	<b>3.4</b>	<b>3.0</b>
Upside	2.2	5.3	5.5	4.4	3.6	3.1
Downside	2.2	5.3	3.5	2.8	2.7	2.8
<b>Net debt (% of GDP)</b>						
<b>Main forecast (<i>Budget Update 2023</i>)</b>	<b>17.0</b>	<b>18.0</b>	<b>22.0</b>	<b>21.7</b>	<b>20.7</b>	<b>18.4</b>
Upside	17.0	17.8	21.0	20.2	18.9	16.4
Downside	17.0	18.2	23.5	24.0	23.4	21.2
<b>OBEGAL (% of GDP)</b>						
<b>Main forecast (<i>Budget Update 2023</i>)</b>	<b>-2.7</b>	<b>-1.8</b>	<b>-1.8</b>	<b>-0.8</b>	<b>0.1</b>	<b>0.7</b>
Upside	-2.7	-1.7	-1.3	-0.3	0.6	1.1
Downside	-2.7	-1.9	-2.6	-1.8	-0.7	0.3

Sources: Stats NZ, Haver Analytics, the Treasury

### ***Stronger tourism and higher net inward migration support domestic demand...***

In the upside scenario, international tourism recovers more quickly (and to a higher level) than in the main forecast, providing support to aggregate demand while at the same time putting upward pressure on prices. Net inward migration is also assumed to hold up at current elevated levels for longer before converging towards the same long-run assumption.

While stronger net inward migration increases labour supply, it also boosts residential construction and household spending, pushing up demand and adding to inflation pressures.

Elevated inflationary pressures result in higher interest rates throughout the forecast horizon (Figure 3.1). Because inflation increases the cost of delivering Government services, but the budget for nominal government expenditure is fixed, this scenario involves a sharper reduction in the volume of government services delivered than in the main forecast.

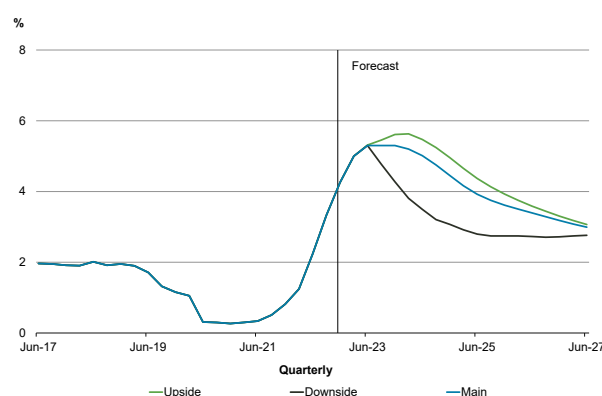
The near-term boost to aggregate economic activity (Figure 3.2) is eventually constrained by higher interest rates, which see GDP growth flatten relative to the main forecast over the second half of the forecast. The additional activity sees a boost in employment, with the unemployment rate peaking lower compared with the main forecast (Figure 3.3).

### ***...while a weaker world and credit crunch results in a recession...***

In the downside scenario, global growth is lower as a result of a combination of the tighter monetary policy needed to get inflation under control as well as a global credit crunch that develops as fall-out from financial stresses in the banking sector.

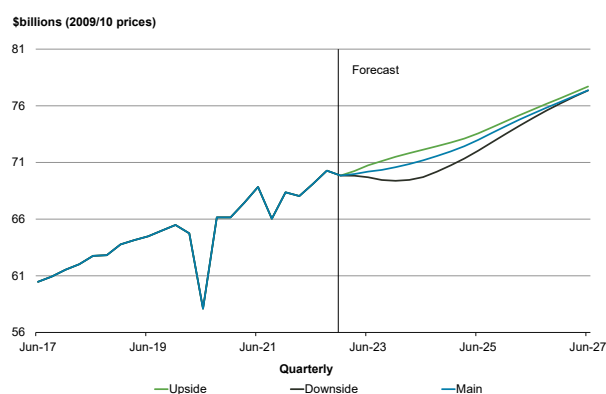
Lower global growth results in reduced demand for New Zealand's goods exports and weaker in-bound tourism, with global commodity prices around 6% lower than in the main forecast and exports of services down by a similar proportion. As the global financial environment tilts towards risk aversion, the New Zealand dollar will depreciate.

**Figure 3.1 – 90-day interest rates**



Sources: Haver Analytics, the Treasury

**Figure 3.2 – Real production GDP**

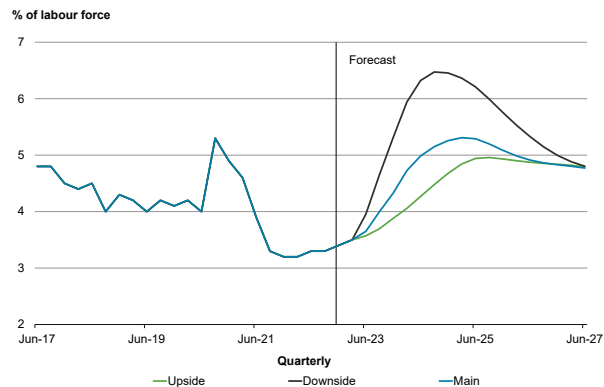


Sources: Stats NZ, the Treasury

In addition to the aggregate demand shock from the global slowdown, the credit crunch results in higher funding costs for New Zealand banks, which sees the wedge between 90-day rates and retail mortgage rates widen. Higher mortgage margins, scarcer credit and a generally lower-confidence environment sees further downward pressure on house prices, which acts as an additional drag on household spending.

The resulting weakness in demand sees the economy experience a further four quarters of negative GDP growth, with annual average GDP falling 0.6% over the year to June 2024 (Figure 3.2). This contraction in economic activity sees unemployment rise to a peak of 6.5% (Figure 3.3), on par with the level seen during the Global Financial Crisis in 2008/09. As a result of this weakness, inflation pressures fall sharply, requiring less-aggressive monetary policy (Figure 3.1).

**Figure 3.3 – Unemployment rate**

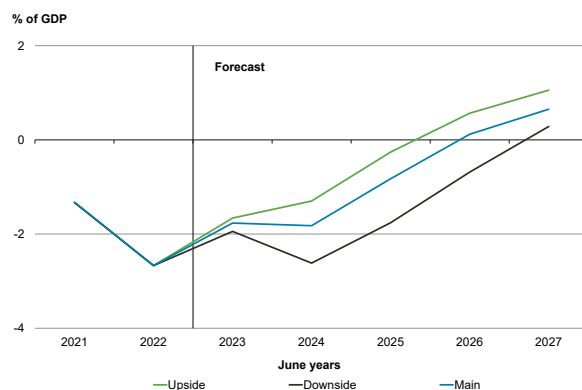


Sources: Stats NZ, the Treasury

### **...impacting core Crown revenues and government debt**

The upside scenario sees \$23.9 billion more cumulative nominal GDP across the forecast period, providing an additional \$7.1 billion in core Crown revenue relative to the main forecast. This sees OBEGAL returning to surplus by 2026 – the same as in the main forecast – (Figure 3.4) and net debt reaching 16.4% of GDP in the year ending June 2027, rather than the 18.4% in the main forecast.

**Figure 3.4 – OBEGAL**



Sources: Stats NZ, the Treasury

The downside scenario results in \$33.5 billion less cumulative nominal GDP over the forecast horizon, with \$9.9 billion less in core Crown revenues. This sees OBEGAL return to surplus a year later than in the main forecast and net debt reaching 21.2% of GDP in the year ending June 2027.



## Balance Sheet Risks

The size and diversity of the Government’s balance sheet supports the social and financial resilience of Aotearoa New Zealand. It allows for shocks to be absorbed on behalf of New Zealanders and provides funding and financing opportunities to adapt to emerging risks and trends. Risks to the balance sheet can be summarised as shocks or trends that create significant changes in asset and liability valuations, or a sustained shift in future cost or revenue profiles.

The Department of the Prime Minister and Cabinet records nationally significant risks on its website.<sup>12</sup> In the current environment, high inflation, rising interest rates, and supply chain challenges can lead to volatility in the Government’s assets, liabilities and future track of expenses and revenues. Trends related to climate change, the changing nature of globalisation, rapid technology change and national security require effective development and prioritisation of policies to ensure New Zealanders’ wellbeing is resilient. For assessing these risks, the Government’s balance sheet can be usefully categorised by function or purpose as illustrated in Table 3.3.

**Table 3.3** – Balance sheet functional classifications<sup>13</sup>

<b>Social</b>	Social assets and liabilities are held to support the delivery of public services such as schools, roads, hospitals and national parks. Social assets are managed by government departments and Crown entities.
<b>Financial</b>	Financial assets and liabilities are predominantly held to prefund government expenditure or obligations for future expenditure. Liabilities include borrowing to fund investment or operating deficits, including government debt issued by the Treasury Debt Management (DM).
<b>Commercial</b>	Assets and liabilities of entities that carry out commercial activities and are expected to operate as successful businesses. The entities are largely independent and operate in competitive environments.

### **Sources of (social) balance sheet risk to public services**

New Zealanders rely on effective asset management and risk-financing strategies to maintain the value and effectiveness of physical assets such as land, buildings, state highways and military equipment. These assets are susceptible to external natural hazards and the impact of climate change.

The Government issued its National Adaptation Plan in response to climate change risks. Alongside the Emissions Reduction Plan and resource management reform, the Climate Change Commission | He Pou Arangi and the Infrastructure Commission | Te Waihanga have key independent roles in identifying and proposing treatment of risks to New Zealand’s critical infrastructure. More recently, the Treasury brought together the available information on future economic and fiscal implications of climate change for New Zealand.<sup>14</sup>

<sup>12</sup> <https://www.dPMC.govt.nz/our-programmes/national-security/national-risk-approach/new-zealands-nationally-significant-risks>

<sup>13</sup> See He Puna Hao Pātiki: <https://www.treasury.govt.nz/publications/investment-statement/he-puna-hao-patiki-2022-investment-statement>

<sup>14</sup> Climate Economic and Fiscal Assessment 2023 | Ngā Kōrero Āhuarangi Me Te Ōhanga <https://www.treasury.govt.nz/publications/climate-economic-fiscal-assessment/nga-korero-ahuarangi-me-te-ohanga-2023>



The replacement costs of physical assets are susceptible to valuation movements through changes in property market conditions and the costs of construction. Alongside a tight insurance market, a high inflation and interest rate environment creates potential volatility for the Government balance sheet.

There is a reliance on well-run central and local government risk-financing strategies to consider the economic value of insurance. Lower coverage could increase pressure for Government contributions. However, short-term resilience can come at a cost, and risk-financing decisions should weigh up the counterfactual of paying higher premiums each year.

Social assets also include long-dated liabilities and concessionary lending made available to achieve public policy purposes.<sup>15</sup> Interest rate and inflation volatility can drive changes in future claims costs and the discounting of future payments to present value. Any lending also brings counterparty risk, with expected credit losses monitored closely.

### ***Sources of (financial) balance sheet risk to Government expenditure and obligations***

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

The deployment of the Government's fiscal capacity in response to COVID-19 has increased the leverage in the balance sheet. Monetary policy activities, including the Large Scale Asset Purchases (LSAP) programme and lending to the finance sector by the Reserve Bank, have increased interest rate risk. The Government is now unwinding the LSAP programme, with approximately 25% of the bonds matured or purchased as at 30 April 2023.

The Government incurs liquidity risk with respect to its ability to raise cash to meet its obligations. To manage liquidity risk, New Zealand Debt Management maintains a \$15 billion liquidity buffer (a portfolio of cash and liquid, high-quality financial assets) through time. This ensures the Government can respond to unexpected fiscal shocks or disruptions in funding markets.

New Zealand issued its first green bond in 2022. Green bonds are nominal bonds with additional monitoring and reporting requirements. Alongside the enduring letter of responsible investment expectations to the Government's largest asset managers,<sup>16</sup> the reporting requirements represent a commitment to minimise environmental, social and governance risk in the Government's balance sheet.

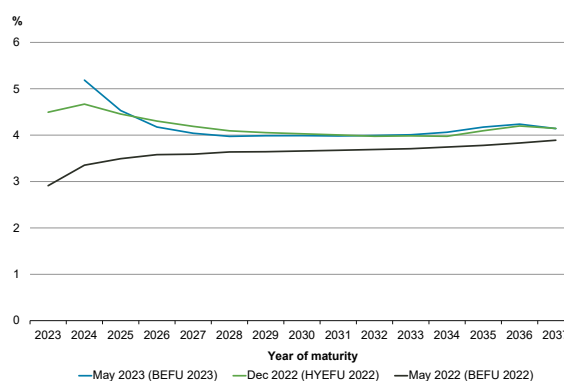
<sup>15</sup> For example, student loans, lending to small business, and Progressive Home Ownership loans.

<sup>16</sup> <https://www.treasury.govt.nz/publications/expectations/enduring-letter-expectations-crown-financial-institutions-relation-responsible-investment>

Financial assets held by ACC, the New Zealand Superannuation Fund and the Government Superannuation Fund are sensitive to financial market volatility such as movements in interest rates (Figure 3.5), exchange rates and equity prices. These funds represent balance sheet strategies that actively accept risk, trading off short-term volatility to achieve the financial and policy objectives of each fund over time. The expected investment growth and associated risk appetite of the funds are calibrated and monitored to meet future social insurance and retirement liabilities.

- Interest rates can move materially between each *Economic and Fiscal Update*. While near-term NZGB market interest rates are higher than *Half Year Update*, interest rates for longer-term NZGBs are slightly lower.
- The change in interest rates only impacts interest costs for new NZGB issuance.
- To help manage interest rate risk, NZGBs are issued at fixed rates for a range of terms, up to 30 years. Therefore, the interest rate on each NZGB issue remains unchanged until it matures.
- The liquidity buffer is also subject interest rate risk. Any change in market interest rates will see an opposite impact on the financial asset portfolio to the debt portfolio.

**Figure 3.5 – New Zealand Government Bond (NZGB) market interest rates**



Source: The Treasury

The Government also takes on liquidity risk to enable policy objectives. The Natural Hazards Insurance Act and the proposed Deposit Takers Bill are examples of policies that allocate low-probability and high-impact risks to levy payers. Where risk events materialise, the Government is well placed to provide patient capital, which helps to stabilise levies that are set to repay financing over time.

### **Sources of (commercial) balance sheet risk to meet commercial objectives**

Crown entities with commercial objectives are exposed to changes in customer demand, inflation of business inputs, changes to the competitive landscape brought about by new technologies and externally generated shocks and trends. Current environmental risks such as global supply line challenges, an inflationary environment and localised challenges generated by extreme weather can create margin pressure for Crown entities, like other businesses.

## 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 which are not certain enough in timing or quantum to include in the fiscal forecasts. This section covers:

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

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts: 27 April 2023. 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). This ensures a prudent approach to the disclosure of risks, to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

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

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

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

Fiscal forecasts	Specific fiscal risks
<p>Matters are incorporated into the fiscal forecasts when:</p> <ul style="list-style-type: none"><li>the matter can be quantified for particular years with reasonable certainty, and</li><li>a decision has been taken, or</li><li>a decision has not yet been taken but it is reasonably probable<sup>17</sup> that the matter will be approved or the situation will occur</li></ul>	<p>Matters are disclosed as specific fiscal risks if the likely impact is \$100 million or more over the forecast period and either:</p> <ul style="list-style-type: none"><li>a decision has not yet been taken but it is reasonably possible<sup>18</sup> (but not probable) that the matter will be approved or the situation will occur, or</li><li>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.</li></ul>

<sup>17</sup> 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).

<sup>18</sup> For these purposes, ‘reasonably possible’ is taken to mean that the matter might be approved within the forecast period (ie, there is a 20% to 50% chance of the matter occurring or being approved).

## General Risks not Included as Specific Fiscal Risks

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

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

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

## Exclusions to Disclosure

The Minister of Finance may determine, under section 26V of the Public Finance Act 1989, that a matter should not be included in the fiscal forecasts, or a specific fiscal risk should 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
- 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:
  - i. in the case of a circumstance, making a decision before the day the fiscal forecasts are finalised, or
  - ii. 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
Conservation	Chateau Tongariro Hotel	Cost Pressure or Variance – Expenses and Capital
Disability Issues	Disability Support Services – High and Complex Framework	Cost Pressure or Variance – Expenses and Capital
Energy and Resources	New Zealand Battery Project	Policy Change – Expenses and Capital
Finance	Financial Resources for the Reserve Bank of New Zealand	Cost Pressure or Variance – Expenses
	Natural Disaster Fund	Cost Pressure or Variance – Expenses
Revenue	Trustee Tax Rate Increase	Policy Change – Revenue
Transport	Inter-Island Resilient Connection Project	Cost Pressure or Variance – Expenses and Capital
	National Land Transport Fund	Cost Pressure or Variance – Expenses, Capital and Revenue
	Transport Local Government Share	Cost Pressure or Variance – Expenses
Cross-portfolio	Safeguarding Aotearoa New Zealand's Defence and Security Interests	Policy Change – Expenses and Capital
	North Island weather events – Response and Recovery	Cost Pressure or Variance – Expenses and Capital
	Resilience Measures for Locations Affected by the North Island weather events	Policy Change – Expenses and Capital

Changed Risks		
Portfolio	Risk Title	Type of Risk
Health	COVID-19 Response – Ongoing Costs of Current Response	Cost Pressure or Variance – Expenses
Revenue	Potential Tax and Social Policy Changes	Policy Change – Revenue and Expenses
Cross-portfolio	New Zealand Screen Production Grant	Cost Pressure or Variance – Expenses

Updated Risks		
Portfolio	Risk Title	Type of Risk
Children	Enabling Community and Iwi to Help Children	Cost Pressure or Variance – Expenses
Climate Change	Emissions Trading Scheme – Variations in Revenue and Expenses	Cost Pressure or Variance – Revenue or Expenses
Disability Issues	Transforming and Sustaining Disability Support Services for New Zealanders	Cost Pressure or Variance – Expenses
Education	Ka Ora, Ka Ako   Healthy School Lunch Programme	Policy Change – Expenses
	Learning Support	Cost Pressure or Variance – Expenses and Capital
	Wānanga Funding and the Crown's Te Tiriti Obligations to Wānanga	Policy Change – Expenses
	Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga Awanuiarangi	Policy Change – Expenses
	Work Programme to Grow Māori-Medium and Kaupapa Māori Education	Policy Change – Expenses and Capital
Finance	Alternative Monetary Policy Tools	Cost Pressure or Variance – Expenses
	Depositor Compensation Scheme	Policy Change – Expenses
Housing	Large-scale Housing and Urban Development Projects	Cost Pressure or Variance – Expenses and Capital
Local Government	Affordable Water Reform Programme	Policy Change – Expenses and Capital
Social Development and Employment	Changes to the Welfare System	Policy Change – Expenses
Transport	Auckland Light Rail Project	Policy Change – Expenses and Capital
	Fuel Excise Duty and Road User Charges Demand Exceeding Forecasts	Policy Change – Revenue
	New Zealand Upgrade Programme	Cost Pressure or Variance – Expenses and Capital
	Wellington Transport Investment Programme	Policy Change – Expenses and Capital
Cross-portfolio	Carbon Neutral Government Programme	Policy Change – Expenses and Capital
	Emergency Housing Special Needs Grant	Cost Pressure or Variance – Expenses
	New Zealand Income Insurance Scheme Implementation and Employer Levies	Policy Change – Revenue and Expenses

Unchanged Risks		
Portfolio	Risk Title	Type of Risk
ACC	ACC Levies	Cost Pressure or Variance – Revenue and Expenses
	Court Decision – Expansion of Treatment Injury	Cost Pressure or Variance – Expenses
	Impacts of Changes to Accident Compensation Policy Settings	Policy Change – Expenses
	Non-Earners' Account	Cost Pressure or Variance – Expenses
	Work-related Gradual Process, Disease or Infection	Policy Change – Expenses
Climate Change	Achieving Aotearoa New Zealand's International and Domestic Climate Change Targets	Policy Change – Expenses and Capital
	Emissions Trading Scheme – Abatement Obligations Arising From Price Ceilings Being Exceeded	Cost Pressure or Variance – Expenses
Defence	Disposal of New Zealand Defence Force Assets	Policy Change – Revenue and Expenses
Education	Change in Demand for Tertiary Education and Training	Cost Pressure or Variance – Expenses
	Early Learning Action Plan	Policy Change – Expenses
	Reform of Vocational Education	Policy Change – Capital
Finance	Earthquake Commission	Cost Pressure or Variance – Expenses
Foreign Affairs	Time-limited International Climate Financing Funding: Unfunded 2026-29 Commitment Period	Policy Change – Expenses
Health	Combined Pharmaceutical Budget	Cost Pressure or Variance – 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
Oceans and Fisheries	Aquaculture Settlements	Cost Pressure or Variance – Expenses
Public Service	Royal Commission Independent Redress System Claims for Survivors of Abuse in Care	Policy Change – Expenses



Unchanged Risks		
Portfolio	Risk Title	Type of Risk
Revenue	Cash Held in Tax Pools	Cost Pressure or Variance – Revenue
	International Tax	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 and Capital
Tourism	Proposed Changes to the International Visitor Levy	Policy Change – Revenue
Transport	Auckland City Rail Link Ownership Issues	Policy Change – Expenses
	COVID-19 Impacts on National Land Transport Fund (NLTF) Revenue	Cost Pressure or Variance – Revenue and Expenses
	Future of Rail Commitments	Cost Pressure or Variance – Expenses and Capital
	Increases in the Fuel Excise Duty and/or Road User Charges	Policy Change – Revenue
Treaty of Waitangi Negotiations	Relativity Clause	Cost Pressure or Variance – Expenses
	Treaty Settlement Forecasts	Cost Pressure or Variance – Expenses
Cross-portfolio	Adverse Weather Events	Cost Pressure or Variance – Expenses and Capital
	Information and Communications Technology Operating and Capital Pressures	Cost Pressure or Variance – Expenses and Capital
	Maintenance for Government-owned Buildings	Cost Pressure or Variance – Capital
	National Adaptation Plan	Policy Change – Expenses
	Non-government Providers Receiving Funding from the Government	Cost Pressure or Variance – Expenses
	Other Capital Cost Pressures	Cost Pressure or Variance – Capital
	Other Operating Cost Pressures	Cost Pressure or Variance – Expenses
	Pay Equity Claims	Cost Pressure or Variance – Expenses
	Public Sector Employment Agreements	Cost Pressure or Variance – Expenses
	Services Funded by Third Parties	Cost Pressure or Variance – Expenses

## 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.

### Conservation

#### ***Chateau Tongariro Hotel (Cost Pressure or Variance – Expenses and Capital)***

The lease for the Chateau Tongariro Hotel was terminated on 9 March 2023. Following termination, responsibility for the building and all improvements on the land was moved to the Government. Options are being investigated for the future of the Chateau and surrounding facilities, but at this stage, there is uncertainty around any future fiscal implications to the Government.

### Disability Issues

#### ***Disability Support Services – High and Complex Framework (Cost Pressure or Variance – Expenses and Capital)***

The Ombudsman has raised concerns with the operation of the High and Complex Framework which provides services for people with intellectual disabilities who need secure or supervised care. The Government is considering its response, which could involve additional investment to increase the capacity of the system.

### Energy and Resources

#### ***New Zealand Battery Project (Policy Change – Expenses and Capital)***

The Government is currently considering options to address the ‘dry year problem’ through the New Zealand Battery Project. The ‘dry year problem’ is when hydro lake levels run low, requiring fossil fuel generation to produce enough electricity to maintain supply security. There is a risk that work to test the feasibility of the options identified will exceed the funding available across the forecast period.

### Finance

#### ***Financial Resources for the Reserve Bank of New Zealand (Cost Pressure or Variance – Expenses)***

The Government is considering providing additional financial resources to the Reserve Bank of New Zealand (Reserve Bank) to allow the Reserve Bank to take on more risk and meet its objectives. Any subsequent gains or losses the Reserve Bank makes would flow through to the Government’s fiscal indicators.

### ***Natural Disaster Fund (Cost Pressure or Variance – Expenses)***

The recent natural disaster events place significant pressure on the Natural Disaster Fund (NDF). The financial cost from the recent Nelson/Marlborough and North Island weather events remains uncertain and could result in a depletion of the NDF.

## **Revenue**

### ***Trustee Tax Rate Increase (Policy Change – Revenue)***

The fiscal forecasts include the impact from the increase of the trustee tax rate to 39%. There is a risk that the impact from the increase to the tax rate included in the fiscal forecasts may differ to the actual revenue recognised, largely reflecting uncertainty around behavioural responses and timing of the revenue recognition point.

## **Transport**

### ***Inter-Island Resilient Connection Project (Cost Pressure or Variance – Expenses and Capital)***

The Government has provided initial funding for the Inter-Island Resilient Connection (iReX) project, which relates to the purchase of new interisland ferries and the development of new terminals to improve resilience for the connection between the North and South Islands. While costs have not yet been finalised, estimates for the landside costs have increased significantly since initial funding.

### ***National Land Transport Fund (Cost Pressure or Variance – Expenses, Capital and Revenue)***

There is insufficient funding within the National Land Transport Fund (NLTF) to carry out expected activities in line with the National Land Transport Programme. There is a risk additional Crown funding may be required to top up the NLTF to address these pressures until the gap between revenue and expenditure can be resolved in a sustainable way.

### ***Transport Local Government Share (Cost Pressure or Variance – Expenses)***

Local government has been signalling that it is unable to afford its share of continuing programmes and investments. Without this share of funding, there is a risk that planned activities may not be able to be carried out to expected levels of service.

## **Cross-portfolio**

### ***Safeguarding Aotearoa New Zealand's Defence and Security Interests (Policy Change – Expenses and Capital)***

The Defence Policy Review will undertake a comprehensive review of defence settings to ensure New Zealand can respond to the global security environment. Responding to this may have implications for the level of spending across defence and security portfolios. The quantum and timing of spending will be subject to the outcome of the Defence Policy Review and other security policy work, such as the development of a national security strategy, and subsequently will be dependent on the approval of future business cases and Budget decisions.

***North Island Weather Events – Response and Recovery (Cost Pressure or Variance – Expenses and Capital)***

Extreme weather events in early 2023 caused significant damage and disruption across the North Island, placing additional pressure on government services (such as transitional housing) in affected regions. While current estimates of the cost and phasing of the Government's response and recovery have been incorporated in the fiscal forecasts (see pages 6 to 7) there is considerable uncertainty around those estimates, and there is a risk that actual cost and phasing differ from those forecast.

***Resilience Measures for Locations Affected by the North Island Weather Events (Policy Change – Expenses and Capital)***

The Government has publicly signalled that it is undertaking risk assessments for severely affected locations and may consider a range of responses, including building further flood protection, increasing resilience of buildings or supporting relocation. If Crown contributions towards property resilience or relocation were to be progressed, this would constitute a new policy response to flooding and/or landslide events and may require additional funding to deliver.

## 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 do not meet this definition of change are listed in the Updated Risks by Portfolio section of this statement.

### Health

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

Any funding for the Government's public health response to COVID-19 in the 2023/24 year is yet to be decided. There is a risk additional costs may need to be incurred by the Government depending on any future decisions made by the Government.

### Revenue

#### ***Potential Tax and Social Policy Changes (Policy Change – Revenue and Expenses)***

The Government's tax and social 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 of the work programme as well as general tax policy settings and their collective fiscal implications are subject to change.

### Cross-portfolio

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

The New Zealand Screen Production Grant (NZSPG) is an uncapped, on-demand grant that incentivises production work in Aotearoa New Zealand by offering a rebate on qualifying expenditure. There is a risk that funding in addition to what is currently included in the fiscal forecasts may be required in the future.

The Government is currently undertaking a review of Government investment in the screen sector, with the NZSPG being a focal point. Decisions to change the NZSPG in response to the review could impact on spend from 2025/26.

## 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 costings or narrative of a risk since the *Half Year Update*, no matter how small, is reflected in this section. Among other reasons, risks may be classified as updated risks as a result of the progression of legislation or the provision of more complete information.

### Children

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

Changes to the way Oranga Tamariki partners with Māori will likely have operational and fiscal implications beyond what is in the fiscal forecasts. Further funding may be required for initiatives aimed at building capacity and local solutions with iwi and other strategic community groups. The risk may be mitigated as Oranga Tamariki's partnership strategy is further developed as some existing funding may be able to be reprioritised.

### Climate Change

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

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the government, both of which are uncertain. The uncertainty is partly owing to the future market price of New Zealand Units (NZUs) and the responses of participants. 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 2023. Any government decisions which update ETS price and unit supply settings could also affect forecasts of ETS cash proceeds from auctions. In particular, units may be withheld from ETS auctions due to the confidential reserve price, decreasing cash proceeds.

### 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, largely driven by inflation, demand increase, and the rollout of the Enabling Good Lives (EGL) approach to disability support services. Further funding may be needed to ensure that Whaikaha can maintain service levels for a growing cohort of recipients, while rolling out EGL.

## Education

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

The Ka Ora, Ka Ako | Healthy School Lunches Programme is funded until the end of the 2024 school year. If the Government confirms an extension or expansion of the programme, additional ongoing funding beyond that currently provided for will be required.

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

The Ministry of Education faces pressures relating to learning support that cannot be met within existing baselines, including workforce and inflationary pressures. Additionally, a number of reviews have led to proposals for additional and expanded learning support, which may require additional funding.

### ***Wānanga Funding and the Crown's Te Tiriti Obligations to Wānanga (Policy Change – Expenses)***

The Ministry of Education (through its work programme Te Hono Wānanga) is responding to concerns raised by wānanga around its funding policies, particularly in relation to the Crown's Te Tiriti obligations. In addition, a review of funding for te reo Māori and mātauranga Māori provision within the tertiary sector is under way. Both the review and Te Hono Wānanga work programme may lead to changes to the funding of wānanga and other providers of mātauranga Māori across the tertiary system.

### ***Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga Awanuiarangi (Policy Change – Expenses)***

If passed, the Education and Training Amendment Bill (No 3) would lead to significant changes to the legislative status of wānanga and the Government's relationship with wānanga. This would grant wānanga the ability to become independent statutory entities. If they do so, this could have financial implications as the wānanga would no longer be an asset on the Government's balance sheet.

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

The Ministry of Education is developing a work programme to support Māori-medium education (MME) and grow kaupapa Māori education, with a target of 30% of Māori learners participating in MME by 2040 (up from 10% in 2020). There is a risk that additional funding may be required for this programme as the amount set aside may not cover costs.

## Finance

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

There is a risk that the fiscal impacts of the Large Scale Asset Purchases (LSAP) programme and the Funding for Lending Programme may differ from what is assumed in the fiscal forecasts. This includes the LSAP indemnity provided for interest rate changes. The indemnity transfers the interest rate risk under the programme from the Reserve Bank to the Treasury, meaning that there will be no net impact on the Government's balance sheet but there may be changes to the Treasury's expenses in the future. Any additional use of Alternative Monetary Policy tools in response to future shocks could impact key fiscal indicators.

### ***Depositor Compensation Scheme (Policy Change – Expenses)***

The Government has agreed to implement a depositor compensation scheme (DCS) with a target timeframe of 2024/25. There is significant uncertainty around the revenue estimates included in the fiscal forecasts. Because of the uncertainty of the losses that might arise under the scheme and uncertainty around the accounting treatment of them, expenses relating to the scheme have not been included in the fiscal forecasts. They may need to be included in future fiscal forecasts once the accounting treatment and full scope of deposit takers and depositors eligible for the DCS are confirmed.

## **Housing**

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

Kāinga Ora is carrying out several large-scale infrastructure redevelopment projects, including the Tāmaki regeneration programme. There is ongoing risk around cost overruns and changes to operating and capital costs given the scale and complexity of the projects. Risks also remain around the sale proceeds of land sold for affordable and market housing not meeting expectations, which could necessitate expense write-offs.

## **Local Government**

### ***Affordable Water Reform Programme (Policy Change – Expenses and Capital)***

In April 2023, the Government announced changes to planned water services reform, including an increase in the number of water entities planned to be established (from four to 10) and a change in the expected date the water service entities will be operational. The fiscal forecasts include some costs of these reforms, however required legislative amendments and further decisions on funding mechanisms are yet to be taken. As such, there is a risk that actual costs will exceed those forecast. At present the new water service entities are not considered to be controlled by the Government for consolidated financial reporting purposes. Therefore, the forecast financial statements do not include any corresponding assets, liabilities, revenue and expenses of the new water service entities. This treatment will need to be continually assessed as future decisions are taken.

The new water services entities will require investment in new ICT to ensure they are functional on day one of operation. The fiscal forecasts reflect the approved funding for the costs of ICT investment, which are intended to be recovered from the new water services entities once established. As the Government is still to take final decisions on how these costs, and any other establishment costs, should be recovered over time from the new water services entities, no recovery of costs have been included in the forecasts. There is also a risk that additional funding may be required for the ICT system and the actual split between operating and capital expenditure may differ to what has been assumed in the fiscal forecasts. This risk was previously titled *Three Waters Reform Programme*.



## Social Development and Employment

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

The Government has agreed to a multi-year policy work programme looking at changes to the welfare system, including the review of Working for Families. Any changes agreed to in future will likely have legislative, operational, ICT and fiscal implications. The Government will be provided with detailed information on the scale of change, implications and associated costs as part of future decisions.

## Transport

### ***Auckland Light Rail Project (Policy Change – Expenses and Capital)***

The detailed planning phase for the Auckland Light Rail project is currently under way, with funding approved in Budget 2022. The detailed planning phase will provide a refined view of the implementation cost, including estimates of enabling urban infrastructure costs associated with the transport solution. The level of capital and operational funding contributed by Auckland Council is yet to be negotiated, and other beneficiary-pays funding tools are also being considered. Final investment decisions and agreements to funding and financing are not expected to be made until 2024. Note that this risk was previously titled *City Centre to Māngere Rapid Transit Project*.

### ***Fuel Excise Duty and Road User Charges Demand Exceeding Forecasts (Policy Change – Revenue)***

The Government has implemented a temporary reduction to Fuel Excise Duty (FED) and Road User Charges (RUC) from 21 April 2022 to 30 June 2023. The marginal resulting loss in revenue into the National Land Transport Fund from these reductions has been topped up directly by funding from the Crown. If demand for petrol and RUC is more than forecast, the impact on the loss in revenue would be higher than the current funding provided, therefore additional Crown funding may be required. Note that this risk was previously titled *Fuel Excise Duty and Road User Charges Discount Ending*.

### ***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 funding was allocated and set aside in a tagged contingency to support completion of the Programme. A further \$252 million was provided in December 2022 to manage cost pressures. With the current inflationary conditions, and with many projects at an early stage in their lifecycle, there is an ongoing risk further funding may be required to deliver the Programme.

### ***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.

As the NLTF is currently under significant pressure, it is likely that the Government will be asked to contribute funding to LGWM. The ability to deliver LGWM in full also relies on local government providing its own share.

## **Cross-portfolio**

### ***Carbon Neutral Government Programme (Policy Change – Expenses and Capital)***

As part of its contribution to achieving New Zealand's climate change targets, the Government has established the Carbon Neutral Government Programme (CNGP), supported by the existing State Sector Decarbonisation Fund. Two key fiscal risks exist. The funding need for emissions reductions may exceed the extent and criteria for the State Sector Decarbonisation Fund and agency budgets, and the cost of offsetting remaining emissions may exceed what CNGP participating agencies can afford.

### ***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 (likely with the impacts of North Island weather events) and/or the number of transitional or public housing places does not increase as forecast, this will increase demand for the grants, with associated fiscal costs.

### ***New Zealand Income Insurance Scheme Implementation and Employer Levies (Policy Change – Revenue and Expenses)***

The Government has decided to not progress with the New Zealand Income Insurance Scheme in this term. If the scheme does progress at a later time there will be fiscal implications, in particular to revenue from levies collected from the scheme and expenses for payments out to claimants. There could also be second round effects to benefit expenses. In addition, there is a risk to the Government if the scheme is implemented and public sector agencies are unable to cover the cost of employer levies from existing funding.

## 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

#### ***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.

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

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

#### ***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.

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

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

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

Under current legislation, the Government incurs an obligation for work-related gradual process disease and infection claims when the claim is made, and an expense is recognised at this point. The liability for commercial accident and sickness insurance contracts would usually be recognised when exposure to conditions that will give rise to a claim occurs. An amendment to legislation would be required to recognise claims at the same time as for commercial contracts. An initial adjustment to the liability and an expense of about \$1 billion to \$1.5 billion would need to be reported if such an amendment were to be enacted.

## Climate Change

### ***Achieving Aotearoa 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 emissions budgets (first budget covering 2022 to 2025). The Government released its first emissions reduction plan in May 2022 which outlines a suite of complementary policies to achieve New Zealand's domestic targets. Some of these policies are currently funded under existing baselines, however many may require additional funding in the future.

New Zealand also has international commitments under the Paris Agreement to limit global average temperature increases. Sizeable domestic and offshore abatement will be needed to meet the first Nationally Determined Contribution (2021 to 2030) commitments on top of domestic commitments. The Government has choices around how it achieves this, however, regardless of what these choices are, it is likely that fulfilling these commitments will involve significant costs to the government, starting within the current fiscal forecast period.

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

Aotearoa New Zealand's Emissions Trading Scheme has a soft ceiling, called the Cost Containment Reserve (CCR), which releases additional New Zealand Units (NZUs) at auction if a certain price threshold is reached. Despite the CCR being exhausted for both the 2021 and 2022 calendar years, the CCR volumes are not included in the fiscal forecasts, as it is assumed it will not typically be triggered. Under the Climate Change Response Act 2002, if the release of those units causes an emissions budget to be exceeded, the Minister of Climate Change must obtain equivalent emissions reductions to 'back' the excess. This obligation also applies to NZUs allocated through industrial allocation.

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.

## Defence

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

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

## Education

### ***Change in Demand for Tertiary Education and Training (Cost Pressure or Variance - Expenses)***

Demand for tertiary education and training is expected to exceed the volume able to be funded by current funding baselines. Although there is ongoing uncertainty about the impact of COVID-19 on unemployment, changes in the net migration of Aotearoa New Zealand residents, transitions of school leavers, and the scale of the changes in increased enrolments in tertiary education and training that may result, the Ministry of Education's forecasts for provider-based tertiary education and estimates for work-based training show that expected volume is expected to significantly exceed the volume able to be funded from 2024.

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

Following public consultation between November 2018 and March 2019, the Government released He taonga te tamaiti | Every Child a Taonga: Early Learning Action Plan 2019-2029 (ELAP). The estimated cost of the 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. The estimated costings of this risk have changed since the Budget Update.

### ***Reform of Vocational Education (Policy Change – Capital)***

The Government's Reform of Vocational Education has reshaped the vocational education and training sector, particularly with the establishment of Te Pūkenga | New Zealand Institute of Skills and Technology (Te Pūkenga). Te Pūkenga is expected to seek significant additional Crown funding to complete its transformation into an integrated national network of tertiary education and training delivery.

## Finance

### ***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 Government. 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

### ***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 from 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 may require more than what is provided for in the fiscal forecasts.

## Health

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

Budget 2022 included 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, consistent with the two-year funding arrangement for health agreed at Budget 2022. Further funding is required in subsequent years to maintain access to the same selection of funded medicines.

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

Notwithstanding the funding provided in Budget 2022, there remain significant capital pressures on the health system. These pressures are largely driven by construction sector inflation and insufficient planning ahead of investment decisions for many legacy investments.

### ***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 fiscal forecasts include business-as-usual divestments, acquisitions and the redevelopment of land and housing as part of Kāinga Ora's asset-management strategy. The government also faces commercial and financial risks inherent in large-scale building and urban development programmes – the magnitude of which has increased as a result of the adverse impact of inflationary cost pressures on Kāinga Ora's pipeline, international supply chains and the financial viability of its build partners.

## Oceans and Fisheries

### ***Aquaculture Settlements (Cost Pressure or Variance – Expenses)***

Fisheries New Zealand delivers the Government'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 may be insufficient to fund all expected settlements.

## 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.

## Revenue

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

Funds held in tax pools are recognised as a government asset. There is a risk that funds held in these pools may be withdrawn by the depositor, resulting in a reduction in the government'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 2022/2023, following the agreement by 136 countries and territories in October 2021 to key design features of the solution. 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 Pillar One Amount A solution a chance to be successfully implemented. A multilateral convention is currently being worked on for Pillar One Amount A with potential to be ready for signing in mid-2023. 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.

### ***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 government 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 and Capital)***

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. As new lending occurs, an initial write-down to fair value is made, and an expense is incurred, reflecting the cost the government 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.

## **Tourism**

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

The Government is reviewing the International Visitor Conservation and Tourism Levy and there are a range of options under consideration which could increase the levy, impacting revenue. Prior to COVID-19 the levy was forecast to collect around \$75 million per annum.

However, future levels of international tourism are uncertain. It is intended that revenue remain hypothecated, so the impact of any change should be fiscally neutral overall. There is a risk that the expected increase in revenue does not occur.

## **Transport**

### ***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  $\pm 20\%$  of the Government'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.



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

NLTF revenue is less than – and expenditure required to deliver on agreed levels of service is more than – what was forecast when the 2021-24 National Land Transport Programme was developed. This is due to impacts from COVID-19 (ie, reduced public transport patronage) and general economic slowdown being experienced in Aotearoa New Zealand. In addition there has been significant price escalation and delays. There is a risk that additional funding is required to fully implement the 2021-24 National Land Transport Programme.

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

The approved Rail Plan and Rail Network Investment Programme (RNIP) is a 10-year programme of works announced in 2021. As the RNIP is currently funded to the 2025/26 financial year, further funding beyond the forecast period will be required to deliver on the 10-year commitment.

### ***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 (NLTF) and enable repayment of a \$2 billion loan, which is being provided to support delivery of the 2021-24 National Land Transport Programme. If FED and/or RUC were to be increased, it is likely that any increases would take effect no sooner than 1 July 2024.

## **Treaty of Waitangi Negotiations**

### ***Relativity Clause (Cost Pressure or Variance – Expenses)***

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

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

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

## Cross-portfolio

### ***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 Government will incur additional costs across a range of portfolios including, but not limited to, Emergency Management and Waka Kotahi (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.

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

A number of agencies are in the planning or delivery stages of significant digital transformation programmes to replace ageing information and communications technology (ICT) assets and capabilities 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.

In addition, recent changes in the accounting treatment for costs relating to Software as a Service (SaaS) arrangements mean these may now be recognised as operating expenditure. Therefore, there may be a risk that the actual operating and capital expenditure of SaaS arrangements may differ to the split assumed in the fiscal forecasts and capital to operating swaps may be required to reflect this.

### ***Maintenance for Government-owned Buildings (Cost Pressure or Variance – Capital)***

There is a possibility that the government will incur costs when 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.

### ***National Adaptation Plan (Policy Change – Expenses)***

The first National Climate Change Risk Assessment was released in August 2020, as required by the Climate Change Response (Zero Carbon) Amendment Act 2019. 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. In August 2022, the Government published New Zealand's first national adaptation plan (NAP) to respond to these risks. The NAP is an all-of-government plan for New Zealand's adaptation to the effects of climate change, including over 100 actions to be rolled out over the next six years. Implementation of new actions in the NAP is likely to impact on the Government's operating balance and net debt.

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

The Government is facing ongoing pressure from non-government providers of government 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.

### ***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). 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.

### ***Public Sector Employment Agreements (Cost Pressure or Variance – Expenses)***

All collective agreements in the public 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. The Fair Pay Agreements Act 2022 may also have effects on remuneration for public sector employees.

### ***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 government.

## 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
Agriculture	He Waka Eke Noa Revenue Uncertainty	This risk no longer meets the materiality threshold for publication.
Arts, Culture and Heritage	New Zealand Screen Production Grant – Domestic	This risk has been subsumed into the new cross-portfolio risk <i>New Zealand Screen Production Grant</i> .
Biosecurity	Mycoplasma Bovis Biosecurity Response	This risk no longer meets the materiality threshold for publication.
Broadcasting and Media	Capital Receipts from Aotearoa New Zealand Public Media	This risk no longer exists as the Government has agreed to cease work on the new public media entity.
Conservation	Ruapehu Alpine Lifts voluntary administration	This risk no longer meets the materiality threshold for publication.
Defence	Defence Funding Requirements to Deliver Aotearoa New Zealand's Defence Strategy	This risk has been subsumed into the cross-portfolio risk <i>Funding Requirements to Safeguard Aotearoa New Zealand's Defence and Security Interests</i> cross-portfolio risk.
Economic and Regional Development	New Zealand Screen Production Grant – International	This risk has been subsumed into the new cross-portfolio risk <i>New Zealand Screen Production Grant</i> .
Education	Improving Engagement, Attendance and Inclusion	This risk is no longer material as further funding was provided as a pre-commitment for Budget 2023.
Finance	Southern Response Earthquake Services Response	This risk no longer meets the materiality threshold for publication.
Foreign Affairs	Aid to Support Our Pacific Neighbours: Support for Pacific Fiscal Crises	This risk is no longer material as it is expected further support to Pacific countries can be met from within existing baselines.
Health	Health and Disability System Reform	This risk no longer meets the probability threshold for publication.
Housing	Housing Acceleration Fund	This risk no longer meets the materiality threshold for publication.
Internal Affairs	National Archival and Library Services Storage Capacity	This risk no longer meets the materiality threshold for publication.
Social Development and Employment	Replacement and Transformation of the Ministry of Social Development's Systems	This risk no longer meets the materiality threshold for publication.
Transport	Auckland City Rail Link	This risk no longer meets the probability threshold for publication.

## 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 government 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 resulted from legal action being taken against the government, 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 government.

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 government 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.<sup>19</sup>

The contingencies have been stated as at 31 March 2023, being the latest set of published financial statements of Government.

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<sup>19</sup> '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 <sup>20</sup>	31 March 2023 (\$millions)	30 June 2022 (\$millions)
<b>Uncalled capital</b>			
Asian Development Bank	Unchanged	3,320	3,309
International Bank for Reconstruction and Development	Unchanged	1,944	1,905
International Monetary Fund – promissory notes	Unchanged	1,803	1,927
International Monetary Fund – arrangements to borrow	Unchanged	1,451	1,444
Asian Infrastructure Investment Bank	Unchanged	587	594
Other uncalled capital		20	19
		<b>9,125</b>	<b>9,198</b>
<b>Guarantees and indemnities</b>			
New Zealand Export Credit Office guarantees	Unchanged	208	266
Other guarantees and indemnities		116	121
		<b>324</b>	<b>387</b>
<b>Legal proceedings and disputes</b>			
Waka Kotahi New Zealand Transport Agency – contractual disputes	Unchanged	431	383
Ōtākaro - Parakiore Recreation and Sport Centre – contractual dispute	Unchanged	197	-
Other legal proceedings and disputes		104	170
		<b>732</b>	<b>553</b>
<b>Other quantifiable contingent liabilities</b>			
Waitangi Tribunal – binding recommendations	Unchanged	220	220
Unclaimed monies	Unchanged	192	229
Air New Zealand partnership agreement	Unchanged	153	154
Ministry for Primary Industries – Biosecurity Act compensation	Unchanged	100	115
Other quantifiable contingent liabilities		20	60
		<b>685</b>	<b>778</b>
<b>Total quantifiable contingent liabilities</b>		<b>10,866</b>	<b>10,916</b>

<sup>20</sup> Status of contingent liabilities or assets when compared with the *Half Year Economic and Fiscal Update* published on 14 December 2022, (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated).

## Quantifiable contingent assets

	31 March 2023 (\$millions)	30 June 2022 (\$millions)
Other contingent assets	118	63
<b>Total quantifiable contingent assets</b>	<b>118</b>	<b>63</b>

## Unquantifiable contingent liabilities

<b>Indemnities</b>	<b>Status</b>
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 Limited (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
<b>Legal proceedings and disputes</b>	
Accident Compensation Corporation (ACC) litigations	Unchanged
Department of Corrections – contractual disputes	Unchanged
Ministry of Health – New Zealand College of Midwives class action	Unchanged
Proprietors of Wakatū	Unchanged
Treaty of Waitangi claims	Unchanged
Waka Kotahi New Zealand Transport Agency – contractual disputes	Unchanged
Whaikaha – Ministry of Disabled People – employment obligations	Unchanged
<b>Other unquantifiable contingent liabilities</b>	
Aquaculture settlements	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Holidays Act compliance	Unchanged
Ministry for Primary Industries – Biosecurity Act compensation	Unchanged
Pay equity claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged



## Description of Quantifiable Contingent Liabilities

### ***Uncalled capital***

As part of the government'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 98, 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 government's uncalled capital subscriptions over \$100 million are listed on page 98.

### ***Guarantees and indemnities***

Guarantees are legally binding promises made by the government 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 government 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 government and are intended to extend the capacity of facilities in the private sector.

### ***Legal proceedings and disputes***

#### ***Waka Kotahi New Zealand Transport Agency – contractual disputes***

Waka Kotahi is a party to two Public Private Partnerships (PPPs): Transmission Gully, north of Wellington and Puhoi to Warkworth north of Auckland. They have both had previous disputes and settlements. The most recent settlements have been in relation to the COVID-19 related lockdowns of 2020. Those settlements also included agreed terms for future risk allocation related to COVID-19, while maintaining the remainder of general terms related to performance and risk allocation.

In relation to progress and delays on the works since the 2020 settlements, Waka Kotahi has received a claim for Puhoi to Warkworth comprising current and estimated future elements, totalling approximately \$320 million that are being validated using internal and external resources. Waka Kotahi has not been presented with any evidence to indicate that a claim of that size will be supported by the independent reviewer.

There are a number of other roading claims (non-PPP), totalling approximately \$111 million, that have also been received by Waka Kotahi that are being validated.



### *Ōtākaro – Parakiore Recreation and Sport Centre – contractual dispute*

Six claims with a disputed value of \$197 million have been lodged by the main works contractor for the Parakiore Recreation and Sports Centre. Ōtākaro is disputing these claims and arbitration with the contractor regarding these claims is underway and expected to continue through fiscal year 2024.

### ***Other quantifiable contingent liabilities***

#### *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 to allow for judicial review proceedings. The February 2023 High Court decision on this matter has been appealed to the Court of Appeal by claimants; no hearing date has been set for the appeal.

#### *Unclaimed monies*

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

#### *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 for 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 government 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 government's control. If these indemnities were to crystallise, the core 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 Energy Limited 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 government 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.  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	<p>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.</p> <p>The Crown may terminate its obligations under this letter of indemnity 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.</p> <p>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.</p> <p>Indemnified Bonds means all New Zealand domestic 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 and any New Zealand domestic government bonds purchased as a reinvestment of those bonds up to the cap.</p>

Party indemnified	Instrument of indemnification	Actions indemnified
		<p>As at August 2020, cap means 60% of the face value of all New Zealand government nominal bonds on issue on the date of purchase; 30% of the face value of all New Zealand government inflation-indexed bonds on issue on the date of purchase; and 30% of the face value 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.</p> <p>Losses means interest risk losses and LGFA credit risk losses.</p>
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	<p>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:</p> <ul style="list-style-type: none"> <li>• unauthorised, forged, or fraudulent payment instructions</li> <li>• unauthorised or incorrect direct debit instructions, or</li> <li>• payments mistakenly made in favour of a third party rather than made in favour of the Crown.</li> </ul>

## ***Legal proceedings and disputes***

There are numerous legal actions that have been brought against the government. However, in the majority of these actions it is considered a remote possibility that the government would lose the case, or if the government 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.

### ***Department of Corrections – contractual disputes***

In August 2022, the Department of Corrections received claims from the main contractor on the Waikeria Prison Development PPP for compensation for time and productivity losses incurred between October 2020 and August 2022 due to the COVID-19 pandemic.

In accordance with the Projects Agreement, the jointly appointed Independent Reviewer is assessing these claims and has rejected the majority of the claims based on the evidence provided by the consortium. For the remaining claims that are still under review, the Department of Corrections has itself assessed the nature of the claims and has provided for contractual matters to the extent a liability is considered probable.

At this stage it is not possible to reliably estimate the impact on the Government's operations, or its financial position for future periods in relation to this matter.

### ***Ministry of Health – New Zealand College of Midwives class action***

In August 2022, the New Zealand College of Midwives filed class action proceedings against the Ministry of Health on behalf of self-employed midwives' contractual issues. At this stage it is too early to quantify any possible liability.

### ***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 goes to trial in the High Court in August 2023. The matter is large and complex and could take many years to resolve.

*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.

*Waka Kotahi New Zealand Transport Agency – contractual disputes*

In addition to the quantifiable legal disputes (refer page 100) Waka Kotahi has also received various documents and presentations from the Transmission Gully builder in relation to several issues, including COVID-19, however no contractual claims have been presented by the contractor. Waka Kotahi has not been presented with any evidence to indicate when a valid and material claim may be presented to Waka Kotahi or to indicate that a material claim net of relief already provided would be valid. Accordingly, any potential contingent liability cannot be quantified at present.

*Whaikaha – Ministry of Disabled People – employment obligations*

The government has an unquantifiable contingent liability related to Disability Support Services and employment obligations. The Crown is appealing aspects of an Employment Court decision that would create employment obligations for Whaikaha towards a large number of people who provide 24/7 care to a disabled family member. If the decision were to stand and care for a disabled family member is constituted as “work” this could mean that the carer of a family member who requires 24/7 supervision could be entitled to remuneration. This would also create further obligations to Whaikaha in terms of liability under health and safety legislation.

A Court of Appeal hearing concluded on 14 March 2023. We do not have an expected date for the release of this decision. At this stage it is not possible to reliably estimate any potential liability.

***Other unquantifiable contingent liabilities****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 government’s potential obligations.

### *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 government may have a responsibility to remedy adverse effects on the environment arising from government activities. Entities managing significant government properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with NZ GAAP, 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 recently completed a review of calculations in recent years to ensure compliance with the Holidays Act 2003. Where reliable estimates can be made, 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 key assumptions that need to be agreed and resolved before a provision can be reliably estimated.

### *Ministry for Primary Industries – Biosecurity Act compensation*

In addition to the quantifiable liabilities under section 162A of the Biosecurity Act 1993 (refer page 101), there are also unquantifiable contingent liabilities. In particular 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 due to the Ministry being unable to reliably estimate the period of time that losses will be incurred as a result of its actions under the Biosecurity Act 1993.

*Pay equity claims* – see page 95

*Treaty of Waitangi claims* – settlement relativity payments – see page 93

## **Contingent Assets**

There are no material quantifiable or unquantifiable contingent assets as at 31 March 2023.





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## Forecast Financial Statements

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

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends. There are risks to the fiscal forecasts which are discussed further in the Risks to the Economic and 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 27 April 2023, 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 Economic and Fiscal Forecasts chapter on pages 61 to 107. Key forecast assumptions are set out on pages 23 to 24 and page 60.

## Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2023 to 30 June 2027. The "Previous Budget" figures are the original forecasts to 30 June 2023 as presented in the 2022 *Budget Update* and the "2022 Actual" figures are the audited actual results reported in the Financial Statements of Government (FSG) for the year ended 30 June 2022 (restated where necessary).

# Government Reporting Entity as at 27 April 2023

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	Ministry of Housing and Urban Development
Department of Conservation	Ministry of Justice
Department of Corrections	(hosts Te Arawhiti – Office for Māori Crown Relations as a departmental agency)
Department of Internal Affairs	(services Executive Board for the Elimination of Family Violence and Sexual Violence as an interdepartmental executive board)
(services Digital Executive Board as an interdepartmental executive board)	Ministry of Māori Development – Te Puni Kōkiri
(hosts Ministry for Ethnic Communities as a departmental agency)	Ministry of Social Development
Department of the Prime Minister and Cabinet	(hosts Ministry for Disabled People as a departmental agency)
(hosts National Emergency Management Agency as a departmental agency)	Ministry of Transport
Education Review Office	New Zealand Customs Service
Government Communications Security Bureau	(services Border Executive Board as an interdepartmental executive board)
Inland Revenue Department	New Zealand Defence Force
Land Information New Zealand	New Zealand Police
Ministry for Culture and Heritage	New Zealand Security Intelligence Service
Ministry for Pacific Peoples	Office of the Clerk of the House of Representatives
Ministry for Primary Industries	Oranga Tamariki – Ministry for Children
Ministry for the Environment	Parliamentary Counsel Office
(services Strategic Planning Reform Board and Climate Change Chief Executives Board as interdepartmental executive boards)	Parliamentary Service
Ministry for Women	Public Service Commission
Ministry of Business, Innovation, and Employment	(hosts Social Wellbeing Agency as a departmental agency)
Ministry of Defence	Serious Fraud Office
Ministry of Education	Statistics New Zealand
Ministry of Foreign Affairs and Trade	The Treasury
Ministry of Health	
(hosts Cancer Control Agency, as a departmental agency)	

### 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

## Crown Entities Segment

### Crown Entities

Accident Compensation Corporation	New Zealand Antarctic Institute
Accreditation Council	New Zealand Artificial Limb Service
Arts Council of New Zealand Toi Aotearoa	New Zealand Blood and Organ Service
Auckland Light Rail Limited	New Zealand Film Commission
Broadcasting Commission	New Zealand Growth Capital Partners Limited
Broadcasting Standards Authority	New Zealand Infrastructure Commission/ Te Waihangā
Callaghan Innovation	New Zealand Lotteries Commission
Children's Commissioner	New Zealand Productivity Commission
Civil Aviation Authority of New Zealand	New Zealand Qualifications Authority
Climate Change Commission	New Zealand Symphony Orchestra
Commerce Commission	New Zealand Tourism Board
Criminal Cases Review Commission	New Zealand Trade and Enterprise
Crown Irrigation Investments Limited	New Zealand Transport Agency
Crown Research Institutes (7)	New Zealand Walking Access Commission
Drug Free Sport New Zealand	Office of Film and Literature Classification
Earthquake Commission	Pharmaceutical Management Agency
Education New Zealand	Privacy Commissioner
Electoral Commission	Public Trust
Electricity Authority	Radio New Zealand Limited
Energy Efficiency and Conservation Authority	Real Estate Agents Authority
Environmental Protection Authority	Retirement Commissioner
External Reporting Board	School Boards of Trustees (2,428)
Financial Markets Authority	Social Workers Registration Board
Fire and Emergency New Zealand	Sport and Recreation New Zealand
Government Superannuation Fund Authority	Takeovers Panel
Guardians of New Zealand Superannuation	Taumata Arowai – the Water Services Regulator
Health and Disability Commissioner	Te Pūkenga – New Zealand Institute of Skills and Technology
Health New Zealand	Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Health Quality and Safety Commission	Te Taura Whiri i te Reo Māori (Māori Language Commission)
Health Research Council of New Zealand	Television New Zealand Limited
Heritage New Zealand Pouhere Taonga	Tertiary Education Commission
Human Rights Commission	Transport Accident Investigation Commission
Independent Police Conduct Authority	WorkSafe New Zealand
Kāinga Ora – Homes and Communities	
Law Commission	
Maritime New Zealand	
Māori Health Authority	
Mental Health and Wellbeing Commission	
Museum of New Zealand Te Papa Tongarewa Board	

**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 (20)

**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

Kiwi Group Capital Limited<sup>21</sup>

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**

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

<sup>21</sup> On 30 November 2022, Kiwi Group Capital purchased Kiwi Group Holdings from New Zealand Post Limited, Accident Compensation Corporation and New Zealand superannuation fund. While the purchase has no impact on the main Financial Statements of the Government there will be a change for segmental reporting. The operating results of Kiwi Group Holdings Limited up to 30 November 2022 are included in the SOE segment, while the operation results subsequent to this, and the financial position of Kiwi Group Holdings Limited is included in the Crown Entity segment.

## Forecast Statement of Financial Performance

for the years ending 30 June

		2022	2023	2023	2024	2025	2026	2027
	Note	Actual \$m	Previous Budget \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>Revenue</b>								
Taxation revenue	1	107,873	115,509	114,626	122,647	129,633	139,454	146,853
Other sovereign revenue	1	8,894	9,297	9,086	9,743	10,215	10,336	10,607
<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>116,767</b>	<b>124,806</b>	<b>123,712</b>	<b>132,390</b>	<b>139,848</b>	<b>149,790</b>	<b>157,460</b>
Sales of goods and services		17,442	19,441	22,596	24,099	24,494	25,113	25,406
Interest revenue	2	2,292	2,829	4,110	4,548	4,444	5,061	5,441
Other revenue		5,126	5,078	5,138	5,297	5,233	5,357	5,523
<b>Total revenue earned through the Crown's operations</b>		<b>24,860</b>	<b>27,348</b>	<b>31,844</b>	<b>33,944</b>	<b>34,171</b>	<b>35,531</b>	<b>36,370</b>
<b>Total revenue (excluding gains)</b>		<b>141,627</b>	<b>152,154</b>	<b>155,556</b>	<b>166,334</b>	<b>174,019</b>	<b>185,321</b>	<b>193,830</b>
<b>Expenses</b>								
Transfer payments and subsidies	3	44,087	39,444	38,926	42,546	45,108	46,851	48,873
Personnel expenses		32,648	32,998	35,308	35,362	35,457	35,709	35,871
Depreciation		6,152	6,613	6,571	7,011	7,269	7,432	7,544
Other operating expenses	4	58,273	61,968	68,665	67,160	63,712	64,740	65,054
Finance costs	2	3,349	5,233	7,236	8,505	9,277	9,946	10,473
Insurance expenses	5	6,447	9,368	8,918	9,697	10,054	10,383	10,908
Forecast new operating spending	6	-	4,904	-	5,731	7,169	10,085	12,242
Top-down operating expense adjustment	6	-	(2,000)	(3,700)	(2,600)	(900)	(800)	(700)
<b>Total expenses (excluding losses)</b>		<b>150,956</b>	<b>158,528</b>	<b>161,924</b>	<b>173,412</b>	<b>177,146</b>	<b>184,346</b>	<b>190,265</b>
<b>Gains/(losses)</b>								
Net gains/(losses) on financial instruments	2	(9,687)	4,894	5,888	6,040	5,928	6,046	6,471
Net gains/(losses) on non-financial instruments	7	2,965	(49)	5,301	-	-	-	-
<b>Total gains/(losses) (including minority interests)</b>		<b>(6,722)</b>	<b>4,845</b>	<b>11,189</b>	<b>6,040</b>	<b>5,928</b>	<b>6,046</b>	<b>6,471</b>
Net surplus/(deficit) from associates and joint ventures		(126)	149	42	80	172	196	234
Less minority interests' share of operating balance		(755)	(252)	(644)	(448)	(449)	(383)	(379)
<b>Operating balance (excluding minority interests)</b>		<b>(16,932)</b>	<b>(1,632)</b>	<b>4,219</b>	<b>(1,406)</b>	<b>2,524</b>	<b>6,834</b>	<b>9,891</b>
Minority interests' share of operating balance		755	252	644	448	449	383	379
<b>Operating balance (including minority interests)</b>		<b>(16,177)</b>	<b>(1,380)</b>	<b>4,863</b>	<b>(958)</b>	<b>2,973</b>	<b>7,217</b>	<b>10,270</b>

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

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget \$m	\$m	\$m	\$m	\$m	\$m
<b>Operating Balance (including minority interests)</b>	<b>(16,177)</b>	<b>(1,380)</b>	<b>4,863</b>	<b>(958)</b>	<b>2,973</b>	<b>7,217</b>	<b>10,270</b>
<b>Other comprehensive revenue and expense</b>							
Revaluation of physical assets	30,920	-	243	-	-	-	-
Revaluation of defined benefit retirement plan schemes	1,615	162	141	28	54	71	74
Net revaluations of veterans' disability entitlements	93	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	697	(61)	(135)	(92)	(67)	(73)	(90)
Transfers into/(out of) reserves	(23)	49	17	-	-	-	-
(Gains)/losses transferred to the statement of financial performance	(12)	(10)	(64)	-	-	-	-
Foreign currency translation differences on foreign operations	39	-	(1)	-	-	-	-
Other movements	(385)	44	(15)	39	26	(14)	2
<b>Total other comprehensive revenue and expense</b>	<b>32,944</b>	<b>184</b>	<b>186</b>	<b>(25)</b>	<b>13</b>	<b>(16)</b>	<b>(14)</b>
<b>Total comprehensive revenue and expense</b>	<b>16,767</b>	<b>(1,196)</b>	<b>5,049</b>	<b>(983)</b>	<b>2,986</b>	<b>7,201</b>	<b>10,256</b>
<b>Attributable to:</b>							
- minority interests	999	256	1,037	456	450	379	369
- the Crown	15,768	(1,452)	4,012	(1,439)	2,536	6,822	9,887
<b>Total comprehensive revenue and expense</b>	<b>16,767</b>	<b>(1,196)</b>	<b>5,049</b>	<b>(983)</b>	<b>2,986</b>	<b>7,201</b>	<b>10,256</b>

## Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget \$m	\$m	\$m	\$m	\$m	\$m
<b>Opening net worth</b>	<b>156,992</b>	<b>130,368</b>	<b>174,319</b>	<b>178,956</b>	<b>177,855</b>	<b>180,415</b>	<b>187,178</b>
Operating balance (including minority interests)	(16,177)	(1,380)	4,863	(958)	2,973	7,217	10,270
Net revaluations of physical assets	30,920	-	243	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	1,615	162	141	28	54	71	74
Net revaluations of veterans' disability entitlements	93	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	697	(61)	(135)	(92)	(67)	(73)	(90)
Transfers into/(out of) reserves	(23)	49	17	-	-	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(12)	(10)	(64)	-	-	-	-
Foreign currency translation differences on foreign operations	39	-	(1)	-	-	-	-
Other movements	(385)	44	(15)	39	26	(14)	2
<b>Comprehensive income</b>	<b>16,767</b>	<b>(1,196)</b>	<b>5,049</b>	<b>(983)</b>	<b>2,986</b>	<b>7,201</b>	<b>10,256</b>
Increase in minority interest from equity issues	949	-	72	370	60	36	135
Transactions with minority interests	(389)	(318)	(484)	(488)	(486)	(474)	(484)
<b>Closing net worth</b>	<b>174,319</b>	<b>128,854</b>	<b>178,956</b>	<b>177,855</b>	<b>180,415</b>	<b>187,178</b>	<b>197,085</b>

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



## Forecast Statement of Cash Flows

for the years ending 30 June

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cash Flows from Operations</b>							
<b>Cash was provided from</b>							
Taxation receipts	102,712	113,567	113,414	115,665	134,187	138,136	145,347
Other sovereign receipts	7,803	7,275	7,945	7,811	8,343	8,725	8,996
Sales of goods and services	17,834	19,353	22,403	23,579	24,337	24,855	25,074
Interest receipts	1,961	2,199	3,207	3,697	3,732	4,429	4,852
Other operating receipts	4,802	4,867	5,362	5,268	5,550	5,491	5,591
<b>Total cash provided from operations</b>	<b>135,112</b>	<b>147,261</b>	<b>152,331</b>	<b>156,020</b>	<b>176,149</b>	<b>181,636</b>	<b>189,860</b>
<b>Cash was disbursed to</b>							
Transfer payments and subsidies	44,273	39,777	39,212	42,772	46,560	47,448	49,468
Personnel and operating payments	92,965	99,046	105,585	106,207	102,603	103,714	104,918
Interest payments	3,251	4,558	6,087	7,090	7,754	8,337	8,879
Forecast new operating spending	-	4,904	-	5,731	7,169	10,085	12,242
Top-down operating expense adjustment	-	(2,000)	(3,700)	(2,600)	(900)	(800)	(700)
<b>Total cash disbursed to operations</b>	<b>140,489</b>	<b>146,285</b>	<b>147,184</b>	<b>159,200</b>	<b>163,186</b>	<b>168,784</b>	<b>174,807</b>
<b>Net cash flows from operations</b>	<b>(5,377)</b>	<b>976</b>	<b>5,147</b>	<b>(3,180)</b>	<b>12,963</b>	<b>12,852</b>	<b>15,053</b>
<b>Cash Flows from Investing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
Net (purchase)/sale of physical assets	(10,572)	(16,388)	(17,199)	(20,426)	(17,934)	(13,497)	(9,527)
Net (purchase)/sale of shares and other securities	(4,986)	13,498	(1,434)	3,754	(16,744)	(9,623)	(8,056)
Net (purchase)/sale of intangible assets	(710)	(1,383)	(1,126)	(1,018)	(903)	(901)	(938)
Net (issue)/repayment of advances	(12,958)	(14,154)	(8,674)	(210)	5,569	2,761	(3,722)
Net acquisition of investments in associates	(448)	(584)	(275)	(438)	(629)	(24)	34
Forecast new capital spending	-	(1,311)	-	(2,964)	(1,876)	(2,207)	(1,980)
Top-down capital adjustment	-	1,060	1,850	2,200	550	400	300
<b>Net cash flows from investing activities</b>	<b>(29,674)</b>	<b>(19,262)</b>	<b>(26,858)</b>	<b>(19,102)</b>	<b>(31,967)</b>	<b>(23,091)</b>	<b>(23,889)</b>
<b>Net cash flows from operating and investing activities</b>	<b>(35,051)</b>	<b>(18,286)</b>	<b>(21,711)</b>	<b>(22,282)</b>	<b>(19,004)</b>	<b>(10,239)</b>	<b>(8,836)</b>
<b>Cash Flows from Financing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
Net Issue/(repayment) of circulating currency	805	-	196	93	93	94	95
Net issue/(repayment) of government bonds <sup>1</sup>	18,373	15,360	16,590	23,791	22,423	14,484	12,251
Net issue/(repayment) of foreign-currency borrowings	2,259	(1,159)	(4,107)	(121)	1,052	(62)	264
Net issue/(repayment) of other New Zealand dollar borrowings	11,879	4,722	10,764	(1,353)	(4,936)	(3,905)	(3,635)
Issue of equity	898	-	-	296	-	-	99
Dividends paid to minority interests <sup>2</sup>	(304)	(269)	(387)	(421)	(444)	(456)	(470)
<b>Net cash flows from financing activities</b>	<b>33,910</b>	<b>18,654</b>	<b>23,056</b>	<b>22,285</b>	<b>18,188</b>	<b>10,155</b>	<b>8,604</b>
<b>Net movement in cash</b>	<b>(1,141)</b>	<b>368</b>	<b>1,345</b>	<b>3</b>	<b>(816)</b>	<b>(84)</b>	<b>(232)</b>
Opening cash balance	18,755	17,317	17,835	19,084	19,054	18,222	18,137
Foreign-exchange gains/(losses) on opening cash	221	28	(96)	(33)	(16)	(1)	2
<b>Closing cash balance</b>	<b>17,835</b>	<b>17,713</b>	<b>19,084</b>	<b>19,054</b>	<b>18,222</b>	<b>18,137</b>	<b>17,907</b>

1. Further information on the issue 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

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
<b>Net Cash Flows from Operations</b>	<b>(5,377)</b>	<b>976</b>	<b>5,147</b>	<b>(3,180)</b>	<b>12,963</b>	<b>12,852</b>	<b>15,053</b>
<i>Items included in the operating balance but not in net cash flows from operations</i>							
<b>Gains/(losses) and Other Interests</b>							
Net gains/(losses) on financial instruments	(9,687)	4,894	5,888	6,040	5,928	6,046	6,471
Net gains/(losses) on non-financial instruments	2,965	(49)	5,301	-	-	-	-
Net surplus/(deficit) from associates and joint ventures	(126)	149	42	80	172	196	234
<b>Total gains/(losses) and other interests</b>	<b>(6,848)</b>	<b>4,994</b>	<b>11,231</b>	<b>6,120</b>	<b>6,100</b>	<b>6,242</b>	<b>6,705</b>
<b>Other Non-cash Items in Operating Balance</b>							
Depreciation	(6,152)	(6,613)	(6,571)	(7,011)	(7,269)	(7,432)	(7,544)
Amortisation and net impairment of non-financial assets	224	(964)	(1,345)	(995)	(977)	(979)	(944)
Cost of concessionary lending	(858)	(1,097)	(851)	(760)	(797)	(815)	(784)
Impairment of financial assets (excluding receivables)	(38)	(89)	(52)	4	(25)	(18)	(16)
Change in accumulating insurance expenses	(1,696)	(3,642)	(3,298)	(3,115)	(3,185)	(3,268)	(3,466)
Change in NZ ETS liability	-	-	960	1,574	1,352	989	717
Change in accumulating pension expenses	790	761	878	613	651	686	711
Other non-cash items	45	-	-	-	-	-	-
<b>Total other non-cash items in operating balance</b>	<b>(7,685)</b>	<b>(11,644)</b>	<b>(10,279)</b>	<b>(9,690)</b>	<b>(10,250)</b>	<b>(10,837)</b>	<b>(11,326)</b>
<b>Working Capital and Other Movements</b>							
Increase/(decrease) in receivables	5,027	2,017	1,430	7,135	(4,968)	1,122	1,501
Increase/(decrease) in accrued interest	197	(114)	(361)	(665)	(941)	(1,099)	(1,133)
Increase/(decrease) in inventories	874	292	200	98	213	222	150
Increase/(decrease) in prepayments	303	(27)	144	259	108	72	76
Decrease/(increase) in deferred revenue	(819)	(122)	(52)	56	(133)	(61)	(87)
Decrease/(increase) in payables/provisions	(1,849)	2,248	(2,597)	(1,091)	(119)	(1,296)	(669)
<b>Total working capital and other movements</b>	<b>3,733</b>	<b>4,294</b>	<b>(1,236)</b>	<b>5,792</b>	<b>(5,840)</b>	<b>(1,040)</b>	<b>(162)</b>
<b>Operating balance (including minority)</b>	<b>(16,177)</b>	<b>(1,380)</b>	<b>4,863</b>	<b>(958)</b>	<b>2,973</b>	<b>7,217</b>	<b>10,270</b>

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

## Forecast Statement of Financial Position

as at 30 June

		2022	2023	2023	2024	2025	2026	2027
			Previous					
Note		Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>								
Cash and cash equivalents	8	17,835	17,713	19,084	19,054	18,222	18,137	17,907
Receivables	8	35,135	28,906	33,383	40,005	35,053	36,187	37,687
Marketable securities, deposits and derivatives in gain	8	65,456	51,202	63,866	59,350	76,785	87,209	96,021
Share investments	8	46,261	53,423	44,710	48,576	51,873	55,437	59,183
Advances	8	54,659	70,883	65,247	65,238	59,265	55,984	59,344
Investments in controlled enterprises	8	6,096	5,991	7,024	7,732	9,013	10,329	11,703
Inventory		3,068	2,908	3,268	3,366	3,579	3,801	3,951
Other assets		4,208	4,027	4,324	4,439	4,338	4,482	4,619
Property, plant and equipment	10	249,182	230,776	259,280	270,751	280,158	286,043	287,690
Equity accounted investments <sup>1</sup>		16,247	15,816	16,678	17,157	17,914	18,093	18,258
Intangible assets and goodwill		3,697	4,209	4,178	4,423	4,545	4,710	4,947
Forecast for new capital spending	6	-	2,274	-	2,964	4,840	7,046	9,026
Top-down capital adjustment		-	(2,810)	(1,850)	(4,050)	(4,600)	(5,000)	(5,300)
<b>Total assets</b>		<b>501,844</b>	<b>485,318</b>	<b>519,192</b>	<b>539,005</b>	<b>560,985</b>	<b>582,458</b>	<b>605,036</b>
<b>Liabilities</b>								
Issued currency		9,061	9,159	9,256	9,349	9,442	9,537	9,632
Payables	12	21,420	15,057	17,147	17,051	16,865	17,300	18,030
Deferred revenue		3,368	2,807	3,420	3,364	3,497	3,558	3,645
Borrowings	16	203,965	230,618	222,465	243,395	262,000	273,341	282,362
New Zealand Emissions Trading Scheme	15	11,308	10,694	8,360	7,680	7,144	6,871	6,770
Insurance liabilities	5	55,301	69,026	56,850	59,965	63,150	66,418	69,883
Retirement plan liabilities	13	8,769	9,061	8,254	7,948	7,549	7,092	6,611
Provisions	14	14,333	10,042	14,484	12,398	10,923	11,163	11,018
<b>Total liabilities</b>		<b>327,525</b>	<b>356,464</b>	<b>340,236</b>	<b>361,150</b>	<b>380,570</b>	<b>395,280</b>	<b>407,951</b>
<b>Total assets less total liabilities</b>		<b>174,319</b>	<b>128,854</b>	<b>178,956</b>	<b>177,855</b>	<b>180,415</b>	<b>187,178</b>	<b>197,085</b>
<b>Net Worth</b>								
Taxpayers' funds		2,681	(10,254)	6,932	5,540	8,056	14,867	24,728
Property, plant and equipment revaluation reserve		164,385	134,146	164,188	164,210	164,231	164,253	164,275
Defined benefit plan revaluation reserve		55	(687)	196	224	278	349	423
Veterans' disability entitlements reserve		(566)	(659)	(566)	(566)	(566)	(566)	(566)
Other reserves		481	(145)	298	201	146	64	(6)
<b>Total net worth attributable to the Crown</b>		<b>167,036</b>	<b>122,401</b>	<b>171,048</b>	<b>169,609</b>	<b>172,145</b>	<b>178,967</b>	<b>188,854</b>
Net worth attributable to minority interests		7,283	6,453	7,908	8,246	8,270	8,211	8,231
<b>Total net worth</b>	17	<b>174,319</b>	<b>128,854</b>	<b>178,956</b>	<b>177,855</b>	<b>180,415</b>	<b>187,178</b>	<b>197,085</b>

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 2023 \$m	As at 30 June 2022 \$m
<b>Capital Commitments</b>		
State highways	1,929	2,380
Specialist military equipment	1,531	2,169
Land and buildings	8,569	7,249
Other property, plant and equipment	5,346	5,192
Other capital commitments	724	1,045
Universities and Wānanga	763	763
<b>Total capital commitments</b>	<b>18,862</b>	<b>18,798</b>
<b>Operating Commitments</b>		
Non-cancellable accommodation leases	5,626	5,645
Other non-cancellable leases	3,218	3,184
Universities and Wānanga	1,279	1,279
<b>Total operating commitments</b>	<b>10,123</b>	<b>10,108</b>
<b>Total commitments</b>	<b>28,985</b>	<b>28,906</b>
<b>Total Commitments by Segment</b>		
Core Crown	10,842	11,979
Crown entities	11,147	10,107
State-owned Enterprises	7,319	7,131
Inter-segment eliminations	(323)	(311)
<b>Total commitments</b>	<b>28,985</b>	<b>28,906</b>

## Statement of Actual Contingent Liabilities and Assets

as at 31 March

	As at 31 March 2023 \$m	As at 30 June 2022 \$m
<b>Quantifiable Contingent Liabilities</b>		
Uncalled capital	9,125	9,198
Guarantees and indemnities	324	387
Legal proceedings and disputes	732	553
Other contingent liabilities	685	778
<b>Total quantifiable contingent liabilities</b>	<b>10,866</b>	<b>10,916</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>		
Core Crown	10,084	10,366
Crown entities	637	392
State-owned Enterprises	180	206
Inter-segment eliminations	(35)	(48)
<b>Total quantifiable contingent liabilities</b>	<b>10,866</b>	<b>10,916</b>
<b>Quantifiable Contingent Assets by Segment</b>		
Core Crown	49	26
Crown entities	28	37
State-owned Enterprises	41	-
<b>Total quantifiable contingent assets</b>	<b>118</b>	<b>63</b>

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

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

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 1: Sovereign Revenue (Accrual)</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
Source deductions	42,448	45,022	47,055	50,464	54,044	58,021	62,104
Other persons	11,120	11,265	10,980	11,380	12,386	13,917	14,079
Refunds	(1,739)	(2,001)	(1,853)	(1,884)	(2,080)	(2,202)	(2,306)
Fringe benefit tax	684	657	732	739	766	799	832
<b>Total individuals</b>	<b>52,513</b>	<b>54,943</b>	<b>56,914</b>	<b>60,699</b>	<b>65,116</b>	<b>70,535</b>	<b>74,709</b>
<b>Corporate Tax</b>							
Gross companies tax	20,010	21,062	20,536	21,450	21,963	24,467	25,984
Refunds	(630)	(410)	(731)	(633)	(631)	(710)	(766)
Non-resident withholding tax	516	571	576	636	647	647	653
<b>Total corporate tax</b>	<b>19,896</b>	<b>21,223</b>	<b>20,381</b>	<b>21,453</b>	<b>21,979</b>	<b>24,404</b>	<b>25,871</b>
<b>Other Direct Income Tax</b>							
Resident w/holding tax on interest income	842	1,354	1,659	1,839	1,849	1,759	1,672
Resident w/holding tax on dividend income	1,108	980	1,110	1,180	1,278	1,356	1,423
<b>Total other direct income tax</b>	<b>1,950</b>	<b>2,334</b>	<b>2,769</b>	<b>3,019</b>	<b>3,127</b>	<b>3,115</b>	<b>3,095</b>
<b>Total direct income tax</b>	<b>74,359</b>	<b>78,500</b>	<b>80,064</b>	<b>85,171</b>	<b>90,222</b>	<b>98,054</b>	<b>103,675</b>
<b>Goods and Services Tax</b>							
Gross goods and services tax	43,044	47,286	47,473	48,743	51,456	54,353	57,158
Refunds	(16,920)	(17,904)	(19,343)	(19,181)	(20,170)	(21,223)	(22,406)
<b>Total goods and services tax</b>	<b>26,124</b>	<b>29,382</b>	<b>28,130</b>	<b>29,562</b>	<b>31,286</b>	<b>33,130</b>	<b>34,752</b>
<b>Other Indirect Taxation</b>							
Road and track user charges	1,840	1,874	1,359	1,940	2,077	2,155	2,243
Alcohol excise – domestic production	737	896	789	874	925	969	1,011
Petroleum fuels excise	1,749	1,890	1,274	2,043	2,029	2,031	2,045
Alcohol excise – imports <sup>1</sup>	504	504	505	535	567	594	620
Tobacco excise – imports <sup>1</sup>	1,866	1,705	1,722	1,748	1,736	1,710	1,679
Other customs duty	178	203	181	177	182	191	200
Gaming duties	189	233	253	251	259	267	274
Motor vehicle fees	234	234	235	233	237	241	245
Approved issuer levy and cheque duty	67	65	91	91	91	90	87
Energy resources levies	26	23	23	22	22	22	22
<b>Total other indirect taxation</b>	<b>7,390</b>	<b>7,627</b>	<b>6,432</b>	<b>7,914</b>	<b>8,125</b>	<b>8,270</b>	<b>8,426</b>
<b>Total indirect taxation</b>	<b>33,514</b>	<b>37,009</b>	<b>34,562</b>	<b>37,476</b>	<b>39,411</b>	<b>41,400</b>	<b>43,178</b>
<b>Total taxation revenue</b>	<b>107,873</b>	<b>115,509</b>	<b>114,626</b>	<b>122,647</b>	<b>129,633</b>	<b>139,454</b>	<b>146,853</b>
<b>Other Sovereign Revenue (accrual)</b>							
ACC levies	3,461	3,598	3,819	4,019	4,319	4,701	5,138
Emissions trading revenue	3,006	3,190	2,538	2,707	2,547	2,208	2,006
Fire and Emergency levies	638	637	660	672	773	789	804
EQC levies	528	597	603	819	870	898	912
Clean vehicle discount	25	132	186	253	286	300	294
Child support and working for families penalties	287	217	244	119	113	113	113
Court fines	100	115	115	115	115	115	115
Other miscellaneous items	849	811	921	1,039	1,192	1,212	1,225
<b>Total other sovereign revenue</b>	<b>8,894</b>	<b>9,297</b>	<b>9,086</b>	<b>9,743</b>	<b>10,215</b>	<b>10,336</b>	<b>10,607</b>
<b>Total sovereign revenue</b>	<b>116,767</b>	<b>124,806</b>	<b>123,712</b>	<b>132,390</b>	<b>139,848</b>	<b>149,790</b>	<b>157,460</b>

1. Customs excise-equivalent duty.

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m
<b>NOTE 1 (continued): Sovereign Receipts (Cash)</b>							
<b>Taxation Receipts (cash)</b>							
<b>Individuals</b>							
Source deductions	42,436	44,782	46,794	50,185	53,745	57,701	61,760
Other persons	9,723	11,280	11,404	11,346	12,900	14,263	14,498
Refunds	(2,423)	(2,467)	(2,345)	(2,396)	(2,593)	(2,777)	(2,931)
Fringe benefit tax	674	657	732	739	766	799	832
<b>Total individuals</b>	<b>50,410</b>	<b>54,252</b>	<b>56,585</b>	<b>59,874</b>	<b>64,818</b>	<b>69,986</b>	<b>74,159</b>
<b>Corporate Tax</b>							
Gross companies tax	18,343	21,273	21,006	20,538	23,864	24,999	26,435
Refunds	(1,317)	(1,187)	(1,603)	(1,155)	(1,275)	(1,485)	(1,652)
Non-resident withholding tax	529	571	576	636	647	647	653
<b>Total corporate tax</b>	<b>17,555</b>	<b>20,657</b>	<b>19,979</b>	<b>20,019</b>	<b>23,236</b>	<b>24,161</b>	<b>25,436</b>
<b>Other Direct Income Tax</b>							
Resident w/holding tax on interest income	813	1,354	1,659	1,839	1,849	1,759	1,672
Resident w/holding tax on dividend income	1,098	980	1,100	1,180	1,278	1,356	1,423
<b>Total other direct income tax</b>	<b>1,911</b>	<b>2,334</b>	<b>2,759</b>	<b>3,019</b>	<b>3,127</b>	<b>3,115</b>	<b>3,095</b>
<b>Total direct income tax</b>	<b>69,876</b>	<b>77,243</b>	<b>79,323</b>	<b>82,912</b>	<b>91,181</b>	<b>97,262</b>	<b>102,690</b>
<b>Goods and Services Tax</b>							
Gross goods and services tax	41,973	46,568	46,622	43,859	54,791	53,568	56,379
Refunds	(16,473)	(17,744)	(19,083)	(18,921)	(19,910)	(20,963)	(22,146)
<b>Total goods and services tax</b>	<b>25,500</b>	<b>28,824</b>	<b>27,539</b>	<b>24,938</b>	<b>34,881</b>	<b>32,605</b>	<b>34,233</b>
<b>Other Indirect Taxation</b>							
Road and track user charges	1,853	1,874	1,359	1,940	2,077	2,155	2,243
Alcohol excise – domestic production	740	896	789	874	925	969	1,011
Customs duty	4,250	4,175	3,802	4,404	4,514	4,525	4,542
Gaming duties	193	233	253	251	259	267	274
Motor vehicle fees	213	234	235	233	237	241	245
Approved issuer levy and cheque duty	61	65	91	91	91	90	87
Energy resources levies	26	23	23	22	22	22	22
<b>Total other indirect taxation</b>	<b>7,336</b>	<b>7,500</b>	<b>6,552</b>	<b>7,815</b>	<b>8,125</b>	<b>8,269</b>	<b>8,424</b>
<b>Total indirect taxation</b>	<b>32,836</b>	<b>36,324</b>	<b>34,091</b>	<b>32,753</b>	<b>43,006</b>	<b>40,874</b>	<b>42,657</b>
<b>Total taxation receipts</b>	<b>102,712</b>	<b>113,567</b>	<b>113,414</b>	<b>115,665</b>	<b>134,187</b>	<b>138,136</b>	<b>145,347</b>
<b>Other Sovereign Receipts (cash)</b>							
ACC levies	3,363	3,476	3,696	3,901	4,219	4,607	5,031
Emissions trading receipts	2,096	1,388	1,439	894	816	716	616
Fire and Emergency levies	634	634	656	668	752	785	725
EQC levies	530	546	684	846	881	905	919
Clean vehicle discount	25	132	186	253	286	300	294
Child support and working for families penalties	212	199	258	96	89	89	89
Court fines	110	93	115	115	111	115	115
Other miscellaneous items	833	807	911	1,038	1,189	1,208	1,207
<b>Total other sovereign receipts</b>	<b>7,803</b>	<b>7,275</b>	<b>7,945</b>	<b>7,811</b>	<b>8,343</b>	<b>8,725</b>	<b>8,996</b>
<b>Total sovereign receipts</b>	<b>110,515</b>	<b>120,842</b>	<b>121,359</b>	<b>123,476</b>	<b>142,530</b>	<b>146,861</b>	<b>154,343</b>

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 2: Investment Revenue/(Expenditure)</b>							
<b>Interest Revenue</b>	<b>2,292</b>	<b>2,829</b>	<b>4,110</b>	<b>4,548</b>	<b>4,444</b>	<b>5,061</b>	<b>5,441</b>
<b>Interest Expenses</b>							
Interest on financial liabilities	3,251	4,970	6,819	7,977	8,807	9,514	10,063
Interest unwind on provisions	98	263	417	528	470	432	410
<b>Total interest expenses</b>	<b>3,349</b>	<b>5,233</b>	<b>7,236</b>	<b>8,505</b>	<b>9,277</b>	<b>9,946</b>	<b>10,473</b>
<b>Net interest revenue/(expense)</b>	<b>(1,057)</b>	<b>(2,404)</b>	<b>(3,126)</b>	<b>(3,957)</b>	<b>(4,833)</b>	<b>(4,885)</b>	<b>(5,032)</b>
Dividend revenue	1,248	1,176	1,139	1,296	1,382	1,453	1,545
Net gains/(losses) on financial instruments	(9,687)	4,894	5,888	6,040	5,928	6,046	6,471
<b>Total investment revenue/(expenditure)</b>	<b>(9,496)</b>	<b>3,666</b>	<b>3,901</b>	<b>3,379</b>	<b>2,477</b>	<b>2,614</b>	<b>2,984</b>

### NOTE 3: Transfer Payments and Subsidies

New Zealand superannuation	17,764	19,529	19,523	21,629	23,212	24,699	26,406
Wage subsidy scheme	4,689	-	-	-	-	-	-
Family tax credit	2,017	2,375	2,165	2,284	2,349	2,334	2,406
Jobseeker support and emergency benefit	3,330	3,428	3,480	4,136	4,477	4,532	4,609
Accommodation assistance	2,386	2,331	2,350	2,449	2,533	2,553	2,570
Supported living payment	2,047	2,219	2,310	2,520	2,656	2,767	2,871
Sole parent support	1,704	1,819	1,912	2,085	2,238	2,311	2,323
KiwiSaver subsidies	964	1,030	1,039	1,094	1,152	1,200	1,246
Official development assistance	827	1,058	905	1,281	1,111	961	861
Other working for families tax credits	519	562	469	489	449	433	427
Student allowances	556	682	521	595	717	755	778
Winter energy payment	513	518	519	538	553	562	570
Disability assistance	412	418	429	440	440	446	452
Hardship assistance	497	608	679	756	853	901	934
Orphan's/unsupported child's benefit	313	356	347	368	378	383	386
Best start tax credit	308	375	324	339	347	347	354
COVID-19 resurgence and support payment	4,019	-	-	-	-	-	-
Cost of living payment	-	800	656	-	-	-	-
Income related rent subsidy	145	133	134	137	139	141	143
Other social assistance benefits	1,077	1,203	1,164	1,406	1,504	1,526	1,537
<b>Total transfer payments and subsidies</b>	<b>44,087</b>	<b>39,444</b>	<b>38,926</b>	<b>42,546</b>	<b>45,108</b>	<b>46,851</b>	<b>48,873</b>

### NOTE 4: Other Operating Expenses

Grants and subsidies	10,118	10,286	12,294	11,811	10,022	9,952	9,698
Repairs and maintenance	2,513	2,617	3,052	3,065	2,931	3,118	2,896
Rental and leasing costs	1,441	1,629	1,760	1,754	1,760	1,784	1,728
Amortisation and impairment of non-financial assets <sup>1</sup>	(224)	964	1,345	995	977	979	944
Impairment of financial assets	1,047	1,117	1,279	1,115	1,141	1,140	1,139
Cost of concessionary lending	858	1,097	851	760	797	815	784
Lottery prize payments	803	841	790	866	891	905	919
Inventory expenses and clinical supplies	2,240	2,730	2,756	2,581	2,232	2,150	2,419
Other operating expenses	39,477	40,687	44,538	44,213	42,961	43,897	44,527
<b>Total other operating expenses</b>	<b>58,273</b>	<b>61,968</b>	<b>68,665</b>	<b>67,160</b>	<b>63,712</b>	<b>64,740</b>	<b>65,054</b>

1. The 2021/22 year includes the reversal of past impairments.

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m

### NOTE 5: Insurance

#### Insurance expense by entity

ACC	5,833	9,010	7,750	9,110	9,402	9,697	10,190
EQC	496	322	1,090	528	586	615	646
Southern Response	92	(20)	6	(16)	(9)	(4)	(2)
Other (incl. inter-segment eliminations)	26	56	72	75	75	75	74
<b>Total insurance expenses</b>	<b>6,447</b>	<b>9,368</b>	<b>8,918</b>	<b>9,697</b>	<b>10,054</b>	<b>10,383</b>	<b>10,908</b>

#### Insurance liability by entity

ACC	54,115	68,353	55,251	58,814	62,300	65,726	69,230
EQC	863	576	1,436	1,032	761	619	589
Southern Response	284	33	106	63	32	16	7
Other (incl. inter-segment eliminations)	39	64	57	56	57	57	57
<b>Total insurance liabilities</b>	<b>55,301</b>	<b>69,026</b>	<b>56,850</b>	<b>59,965</b>	<b>63,150</b>	<b>66,418</b>	<b>69,883</b>

### ACC liability

#### Calculation information

ACC, with support from Taylor Fry, prepared an actuarial estimate of the ACC outstanding claims liability as at 31 December 2022. 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 2023. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 4.71% and allows for a long-term discount rate of 4.30% beyond 40 years.

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.

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m

#### Gross ACC Liability

Opening gross liability	50,272	64,527	54,115	55,251	58,814	62,300	65,726
Net change	3,843	3,826	1,136	3,563	3,486	3,426	3,504
<b>Closing gross liability</b>	<b>54,115</b>	<b>68,353</b>	<b>55,251</b>	<b>58,814</b>	<b>62,300</b>	<b>65,726</b>	<b>69,230</b>

#### Less Net Assets Available to ACC

Opening net asset value	44,282	52,053	48,076	49,683	51,253	52,825	54,478
Net change	3,794	706	1,607	1,570	1,572	1,653	1,774
<b>Closing net asset value</b>	<b>48,076</b>	<b>52,759</b>	<b>49,683</b>	<b>51,253</b>	<b>52,825</b>	<b>54,478</b>	<b>56,252</b>

#### Net ACC Reserves (Net Liability)

Opening reserves position	(5,990)	(12,474)	(6,039)	(5,568)	(7,561)	(9,475)	(11,248)
Net change	(49)	(3,120)	471	(1,993)	(1,914)	(1,773)	(1,730)
<b>Closing reserves position (net liability)/net asset</b>	<b>(6,039)</b>	<b>(15,594)</b>	<b>(5,568)</b>	<b>(7,561)</b>	<b>(9,475)</b>	<b>(11,248)</b>	<b>(12,978)</b>



## Notes to the Forecast Financial Statements

### NOTE 6: Forecast New Spending and Top-down Adjustments

#### Forecast New Operating Spending

	2023 Forecast \$m	2024 Forecast \$m	2025 Forecast \$m	2026 Forecast \$m	2027 Forecast \$m
Unallocated operating contingencies	-	5,131	4,480	5,266	5,293
Climate Emergency Response Fund	-	-	450	450	450
National Resilience Plan	-	600	600	600	600
Budget operating allowance for Budget 2024	-	-	1,639	1,639	1,639
Budget operating allowance for Budget 2025	-	-	-	2,130	2,130
Budget operating allowance for Budget 2026	-	-	-	-	2,130
<b>Total forecast new operating spending</b>	<b>-</b>	<b>5,731</b>	<b>7,169</b>	<b>10,085</b>	<b>12,242</b>

	2023 Forecast \$m	2024 Forecast \$m	2025 Forecast \$m	2026 Forecast \$m	2027 Forecast \$m	Post-2027 \$m	Total \$m
<b>Forecast New Capital Spending (annual)</b>							
Unallocated capital contingencies	-	2,664	1,167	1,138	707	642	6,318
Climate Emergency Response Fund	-	-	50	50	50	-	150
National Resilience Plan	-	300	300	300	300	1,800	3,000
Multi-Year Capital Allowance	-	-	359	718	923	1,077	3,077
<b>Total forecast new capital spending</b>	<b>-</b>	<b>2,964</b>	<b>1,876</b>	<b>2,206</b>	<b>1,980</b>	<b>3,519</b>	<b>12,545</b>
<b>Forecast new capital spending (cumulative)</b>	<b>-</b>	<b>2,964</b>	<b>4,840</b>	<b>7,046</b>	<b>9,026</b>		

Unallocated operating and capital contingencies represents funding agreed by the Government, or likely to be agreed in the future, that have yet to be allocated to departments.

The Climate Emergency Response Fund (CERF) reflects expected spending to be incurred in the future for climate change related initiatives. Following decisions at Budget 2023, \$1.5 billion remains available to allocate from the CERF in the future. It is assumed that funding allocated in the future will be evenly spread from the 2024/25 year, split between operating (90%) and capital (10%).

The National Resilience Plan (NRP) reflects expected spending to be incurred in the future on investments in the resilience of New Zealand's critical infrastructure, including the response to the North Island weather events. Overall, the Government has set aside \$6.0 billion in the NRP and it is assumed this will be spent equally on operating and capital investments.

Budget operating allowances for Budget 2024, 2025 and 2026 indicate the expected spending increases from future Budgets. Some of the operating allowances have been assumed to be pre-committed as at the forecast finalisation date of 27 April 2023, with only the unallocated portion of the allowances included within this note. Further details on pre-commitments against future Budget operating allowances can be found within the Fiscal Outlook chapter.

Following decisions at Budget 2023, the Government has \$3.1 billion available in the Multi-Year Capital Allowance (MYCA) for future capital investments for Budget 2024 through to Budget 2026. It is assumed that future capital investments will be spread evenly across these Budgets.

	2023 Forecast \$m	2024 Forecast \$m	2025 Forecast \$m	2026 Forecast \$m	2027 Forecast \$m
<b>Top-down Adjustments</b>					
Top-down operating expense adjustment	(3,700)	(2,600)	(900)	(800)	(700)
Top-down capital adjustment (cumulative)	(1,850)	(4,050)	(4,600)	(5,000)	(5,300)

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 7: Net Gains and Losses on Non-Financial Instruments</b>							
Actuarial gains/(losses) on ACC outstanding claims	6,730	-	1,749	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(4,917)	-	3,427	-	-	-	-
Other <sup>1</sup>	1,152	(49)	125	-	-	-	-
<b>Net gains/(losses) on non-financial instruments</b>	<b>2,965</b>	<b>(49)</b>	<b>5,301</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

<b>NOTE 8: Financial Assets (including receivables)</b>							
Cash and cash equivalents	17,835	17,713	19,084	19,054	18,222	18,137	17,907
Tax receivables	20,076	17,321	20,681	26,998	21,807	22,487	23,380
Trade and other receivables	15,059	11,585	12,702	13,007	13,246	13,700	14,307
Student loans (refer to note 9)	9,209	9,679	9,267	8,948	8,566	8,106	7,558
Kiwi Group loans and advances	27,786	30,354	30,002	32,702	35,702	39,103	42,802
Long-term deposits	8,444	4,711	6,882	6,226	6,129	6,245	6,538
IMF financial assets	5,324	5,237	5,286	5,286	5,286	5,286	5,286
FLP advances	11,277	20,622	17,636	15,080	6,426	-	-
Other advances	6,387	10,228	8,342	8,508	8,571	8,775	8,984
Share investments	46,261	53,423	44,710	48,576	51,873	55,437	59,183
Investments in controlled enterprises	6,096	5,991	7,024	7,732	9,013	10,329	11,703
Derivatives in gain	6,643	2,830	7,304	5,285	4,798	4,526	4,327
Other marketable securities	45,045	38,424	44,394	42,553	60,572	71,152	79,870
<b>Total financial assets (including receivables)</b>	<b>225,442</b>	<b>228,118</b>	<b>233,314</b>	<b>239,955</b>	<b>250,211</b>	<b>263,283</b>	<b>281,845</b>
<b>Financial Assets by Segment</b>							
The Treasury	54,178	31,714	42,460	37,188	43,080	46,392	46,809
Reserve Bank of New Zealand	60,590	59,677	65,075	58,389	51,455	44,765	37,975
NZS Fund	65,411	69,651	65,818	70,925	76,434	82,387	88,578
Other core Crown	42,845	36,370	42,753	47,228	40,048	40,049	40,356
Intra-segment eliminations	(73,598)	(43,167)	(57,538)	(43,198)	(28,475)	(19,622)	(6,741)
<b>Total core Crown segment</b>	<b>149,426</b>	<b>154,245</b>	<b>158,568</b>	<b>170,532</b>	<b>182,542</b>	<b>193,971</b>	<b>206,977</b>
ACC	50,041	53,097	51,001	51,176	52,755	54,417	56,198
EQC	541	531	514	301	214	256	393
Kiwi Group loans and advances <sup>1</sup>	-	-	30,002	32,702	35,702	39,103	42,802
Other Crown entities	17,547	14,487	19,126	19,671	19,345	20,149	21,581
Intra-segment eliminations	(4,318)	(4,179)	(3,752)	(3,134)	(2,986)	(3,073)	(3,020)
<b>Total Crown entities segment</b>	<b>63,811</b>	<b>63,936</b>	<b>96,891</b>	<b>100,716</b>	<b>105,030</b>	<b>110,852</b>	<b>117,954</b>
<b>Total State-owned Enterprises segment<sup>1</sup></b>	<b>38,443</b>	<b>39,223</b>	<b>6,910</b>	<b>6,619</b>	<b>6,423</b>	<b>6,558</b>	<b>6,783</b>
Inter-segment eliminations	(26,238)	(29,286)	(29,055)	(37,912)	(43,784)	(48,098)	(49,869)
<b>Total financial assets (including receivables)</b>	<b>225,442</b>	<b>228,118</b>	<b>233,314</b>	<b>239,955</b>	<b>250,211</b>	<b>263,283</b>	<b>281,845</b>

1. The 2022 Actuals and 2023 Previous Budget figures represent Kiwi Group Holdings (KGH) loans and advances, which were reported within the State-owned Enterprise segment. In November 2022, the assets of KGH were transferred to a newly incorporated Schedule 4A company, called Kiwi Group Capital (Kiwi Group), which is reported in the Crown Entity segment.

<b>NOTE 9: Student Loans</b>							
Nominal value (including accrued interest)	16,137	16,369	15,885	15,754	15,698	15,660	15,606
<b>Opening book value</b>	<b>10,841</b>	<b>9,923</b>	<b>9,209</b>	<b>9,267</b>	<b>8,948</b>	<b>8,566</b>	<b>8,106</b>
Net new lending (including fees)	1,295	1,648	1,275	1,505	1,644	1,707	1,748
Less initial write-down to fair value	(489)	(662)	(552)	(640)	(695)	(727)	(753)
Repayments made during the year	(1,605)	(1,665)	(1,706)	(1,805)	(1,878)	(1,936)	(2,007)
Interest unwind	280	398	579	595	521	469	435
Unwind of administration costs	38	37	29	26	26	27	29
Experience/actuarial adjustments:							
- Expected repayment adjustments	519	-	220	-	-	-	-
- Discount rate adjustments	(1,670)	-	213	-	-	-	-
<b>Closing book value</b>	<b>9,209</b>	<b>9,679</b>	<b>9,267</b>	<b>8,948</b>	<b>8,566</b>	<b>8,106</b>	<b>7,558</b>

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous					
	\$m	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 10: Property, Plant and Equipment</b>							
<b>Net Carrying Value<sup>1</sup></b>							
<b>By class of asset</b>							
Land	84,744	71,458	86,136	86,731	86,915	87,711	87,076
Buildings	59,781	60,665	64,379	70,493	75,651	79,230	80,638
State highways	51,915	45,856	53,391	54,971	56,208	56,924	57,532
Electricity generation assets	19,027	18,582	20,064	20,063	20,465	20,208	19,906
Electricity distribution network (cost)	4,353	4,392	4,206	4,394	4,689	5,038	5,508
Aircraft (excluding military)	4,220	3,793	4,412	4,795	5,447	5,804	6,109
Specialist military equipment	4,293	5,183	5,007	5,789	6,328	6,016	5,864
Specified cultural and heritage assets	3,254	3,194	3,199	3,211	3,215	3,224	3,241
Rail network	10,583	8,319	10,427	11,209	11,557	11,673	11,634
Other plant and equipment (cost)	7,012	9,334	8,059	9,095	9,683	10,215	10,182
<b>Total property, plant and equipment</b>	<b>249,182</b>	<b>230,776</b>	<b>259,280</b>	<b>270,751</b>	<b>280,158</b>	<b>286,043</b>	<b>287,690</b>
<b>Land breakdown by usage</b>							
Housing	32,802	26,910	33,481	34,237	35,077	35,976	35,333
State highway corridor land	23,486	18,000	23,467	23,020	22,628	22,394	22,253
Conservation estate	7,826	7,150	7,815	7,817	7,818	7,820	7,822
Rail network	4,309	3,928	4,408	4,492	4,539	4,560	4,574
Schools	7,478	7,320	7,598	7,673	7,748	7,823	7,903
Commercial (SOEs) excluding Rail	1,582	1,272	1,632	1,677	1,689	1,709	1,728
Other	7,261	6,878	7,735	7,815	7,416	7,429	7,463
<b>Total land</b>	<b>84,744</b>	<b>71,458</b>	<b>86,136</b>	<b>86,731</b>	<b>86,915</b>	<b>87,711</b>	<b>87,076</b>
<b>Schedule of Movements</b>							
<b>Cost or Valuation</b>							
Opening balance	231,234	245,166	268,071	283,812	301,813	318,011	330,814
Additions <sup>2</sup>	12,880	16,537	16,373	18,805	17,451	13,464	10,988
Disposals	(2,011)	(1,102)	(382)	(791)	(1,145)	(587)	(2,282)
Net revaluations	26,271	-	(157)	-	-	-	-
Other	(303)	(79)	(93)	(13)	(108)	(74)	(70)
<b>Total cost or valuation</b>	<b>268,071</b>	<b>260,522</b>	<b>283,812</b>	<b>301,813</b>	<b>318,011</b>	<b>330,814</b>	<b>339,450</b>
<b>Accumulated Depreciation and Impairment</b>							
Opening balance	18,018	23,596	18,889	24,532	31,062	37,853	44,771
Eliminated on disposal	(949)	(471)	(730)	(479)	(479)	(516)	(556)
Eliminated on revaluation	(3,377)	-	(449)	-	-	-	-
Impairment losses charged to operating balance	(851)	-	312	-	-	-	-
Depreciation expense	6,152	6,613	6,571	7,011	7,269	7,432	7,544
Other	(104)	8	(61)	(2)	1	2	1
<b>Total accumulated depreciation and impairment</b>	<b>18,889</b>	<b>29,746</b>	<b>24,532</b>	<b>31,062</b>	<b>37,853</b>	<b>44,771</b>	<b>51,760</b>
<b>Total property, plant and equipment</b>	<b>249,182</b>	<b>230,776</b>	<b>259,280</b>	<b>270,751</b>	<b>280,158</b>	<b>286,043</b>	<b>287,690</b>

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

	2022	2023 Previous	2023	2024	2025	2026	2027
	Actual \$m	Budget \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>NOTE 11: NZ Superannuation Fund</b>							
Revenue	1,077	949	1,225	1,218	1,305	1,376	1,467
Less current tax expense	35	1,117	101	1,153	1,253	1,356	1,473
Less other expenses	(517)	230	1,028	263	284	304	325
Add gains/(losses)	(5,133)	3,969	3,524	3,900	4,255	4,636	5,056
<b>Operating balance</b>	<b>(3,574)</b>	<b>3,571</b>	<b>3,620</b>	<b>3,702</b>	<b>4,023</b>	<b>4,352</b>	<b>4,725</b>
Opening net worth	57,365	60,255	56,210	62,388	67,704	73,220	79,126
Gross contribution from the Crown	2,420	2,558	2,558	1,614	1,493	1,554	1,414
Operating balance	(3,574)	3,571	3,620	3,702	4,023	4,352	4,725
Other movements in reserves	(1)	-	-	-	-	-	-
<b>Closing net worth</b>	<b>56,210</b>	<b>66,384</b>	<b>62,388</b>	<b>67,704</b>	<b>73,220</b>	<b>79,126</b>	<b>85,265</b>
<b>Comprising:</b>							
Financial assets	65,411	69,651	65,818	70,925	76,434	82,387	88,578
Financial liabilities	(9,102)	(3,238)	(3,316)	(3,146)	(3,190)	(3,233)	(3,282)
Net other assets	(99)	(29)	(114)	(75)	(24)	(28)	(31)
<b>Closing net worth</b>	<b>56,210</b>	<b>66,384</b>	<b>62,388</b>	<b>67,704</b>	<b>73,220</b>	<b>79,126</b>	<b>85,265</b>
<b>NOTE 12: Payables</b>							
Accounts payable	15,933	9,649	11,341	11,043	10,609	10,815	11,308
Taxes repayable	5,487	5,408	5,806	6,008	6,256	6,485	6,722
<b>Total payables</b>	<b>21,420</b>	<b>15,057</b>	<b>17,147</b>	<b>17,051</b>	<b>16,865</b>	<b>17,300</b>	<b>18,030</b>

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 13: Retirement Plan Liabilities</b>							
Government Superannuation Fund	8,765	9,061	8,252	7,946	7,548	7,090	6,609
Other funds	4	-	2	2	1	2	2
<b>Total retirement plan liabilities</b>	<b>8,769</b>	<b>9,061</b>	<b>8,254</b>	<b>7,948</b>	<b>7,549</b>	<b>7,092</b>	<b>6,611</b>

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 31 January 2023. 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 2023, based on membership data as at 30 June 2022. 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 2023.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 3.92% for the year ended 30 June 2023 decreasing to 1.89% after 3 years, increasing slightly to 1.99% after 5 years and remaining at that level for 26 years, and then gradually increasing to 2.0% after 31 years. In addition, an annual salary growth rate, before any promotional effects, of 2.5% (2.5% at 30 June 2022).

The 2022/23 projected decrease in the net GSF liability is \$513 million, reflecting a decrease in the GSF liability of \$524 million slightly offset by a decrease in the GSF net assets of \$11 million.

The expected decrease in the GSF liability of \$524 million includes an actuarial gain (which decreases the liability) as at 30 June 2023, of \$46 million, owing to movements in the discount rates (\$359 million) which are partly offset by changes in the CPI rates (\$313 million). The remaining movement of \$478 million is owing to the current service cost and interest unwind (increasing the liability) which is more than offset by benefits paid to members (reducing the liability).

The changes in the projected net GSF liability from 2022/23 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>GSF Liability</b>							
Opening GSF liability	16,240	15,078	13,723	13,199	12,841	12,384	11,863
Net projected change	(2,517)	(606)	(524)	(358)	(457)	(521)	(546)
Closing GSF liability	<b>13,723</b>	<b>14,472</b>	<b>13,199</b>	<b>12,841</b>	<b>12,384</b>	<b>11,863</b>	<b>11,318</b>
<b>Less Net Assets Available to GSF</b>							
Opening net asset value	5,202	5,415	4,958	4,947	4,895	4,836	4,773
Investment valuation changes	(67)	263	256	252	249	246	243
Contribution and other income less benefit payments	(177)	(267)	(267)	(304)	(308)	(308)	(307)
Closing net asset value	<b>4,958</b>	<b>5,411</b>	<b>4,947</b>	<b>4,895</b>	<b>4,836</b>	<b>4,773</b>	<b>4,709</b>
<b>Net GSF Liability</b>							
Opening unfunded liability	11,038	9,663	8,765	8,252	7,946	7,548	7,090
Net projected change	(2,273)	(602)	(513)	(306)	(398)	(458)	(481)
Closing unfunded liability	<b>8,765</b>	<b>9,061</b>	<b>8,252</b>	<b>7,946</b>	<b>7,548</b>	<b>7,090</b>	<b>6,609</b>

## Notes to the Forecast Financial Statements

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 14: Provisions</b>							
Provision for employee entitlements	7,543	4,503	8,063	6,351	5,681	5,710	5,696
Veterans' disability entitlements	2,843	2,862	2,798	2,758	2,718	2,678	2,638
Provision for National Provident Fund guarantee	660	627	624	582	543	506	468
Other provisions	3,287	2,050	2,999	2,707	1,981	2,269	2,216
<b>Total provisions</b>	<b>14,333</b>	<b>10,042</b>	<b>14,484</b>	<b>12,398</b>	<b>10,923</b>	<b>11,163</b>	<b>11,018</b>

### NOTE 15: New Zealand Emissions Trading Scheme

Opening liability	5,824	11,036	11,308	8,360	7,680	7,144	6,871
Units sold	2,096	1,388	1,439	894	816	716	616
Allocated units	1,489	1,586	1,656	1,201	1,219	1,276	1,346
Units surrendered	(3,006)	(3,190)	(2,538)	(2,707)	(2,547)	(2,208)	(2,006)
(Gains)/ losses due to revaluation in NZ Units	4,917	-	(3,427)	-	-	-	-
Other movements	(12)	(126)	(78)	(68)	(24)	(57)	(57)
<b>Closing liability</b>	<b>11,308</b>	<b>10,694</b>	<b>8,360</b>	<b>7,680</b>	<b>7,144</b>	<b>6,871</b>	<b>6,770</b>

The New Zealand Emissions Trading Scheme (NZ ETS) encourages emissions abatement by putting a price on emissions and rewarding carbon removal activities such as forestry. Tradeable units (NZUs) are allocated into the market through Government auctions, with cash proceeds reported from the sale of NZUs at auction. NZUs are also allocated free-of-charge to foresters for forestry removals and to certain industrial activities that are both emission-intensive and trade-exposed (industrial allocation). NZUs that are allocated free-of-charge (ie, industrial allocation and forestry removals) are expensed and a liability is recognised. NZ ETS participants must meet their emissions obligations by surrendering NZUs to the Government. Revenue from the NZ ETS and a corresponding decrease in the liability is not recognised until a participant in the scheme generates emissions or the liability to the Crown is incurred. The NZ ETS liability represents the NZUs outstanding that can be used to settle these emission obligations in the future.

Although the market price for NZUs does fluctuate, for the purposes of NZ ETS liability calculations the market price as at 31 March 2023 is held constant over the forecast period. As at 31 March 2023 the market price was \$54.50.

### NOTE 16: Borrowings

<b>Borrowings</b>							
Government bonds	89,489	104,281	104,150	128,657	151,638	166,591	179,238
Treasury bills	3,487	2,976	2,913	2,960	2,964	2,965	2,963
Government retail stock	152	161	143	143	143	143	143
Settlement deposits with Reserve Bank	43,521	58,297	46,100	39,300	32,500	25,700	18,900
Derivatives in loss	10,275	4,387	6,833	4,880	4,396	4,129	3,693
Finance lease liabilities	1,177	1,176	1,196	1,070	987	1,201	1,104
Kiwi Group	27,174	30,130	29,174	32,549	35,984	39,801	43,749
Other borrowings	28,690	29,210	31,956	33,836	33,388	32,811	32,572
<b>Total borrowings</b>	<b>203,965</b>	<b>230,618</b>	<b>222,465</b>	<b>243,395</b>	<b>262,000</b>	<b>273,341</b>	<b>282,362</b>
<b>By guarantee</b>							
Sovereign-guaranteed debt	153,263	175,758	171,015	189,547	205,387	211,694	216,863
Non sovereign-guaranteed debt	50,702	54,860	51,450	53,848	56,613	61,647	65,499
<b>Total borrowings</b>	<b>203,965</b>	<b>230,618</b>	<b>222,465</b>	<b>243,395</b>	<b>262,000</b>	<b>273,341</b>	<b>282,362</b>

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

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 17: Changes in Net Worth</b>							
Taxpayers' funds	2,681	(10,254)	6,932	5,540	8,056	14,867	24,728
Property, plant and equipment revaluation reserve	164,385	134,146	164,188	164,210	164,231	164,253	164,275
Defined benefit plan revaluation reserve	55	(687)	196	224	278	349	423
Veterans' disability entitlements reserve	(566)	(659)	(566)	(566)	(566)	(566)	(566)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	344	(250)	145	17	(66)	(169)	(259)
Fair value hedge reserve	181	178	198	229	257	278	298
Foreign currency translation reserve	(37)	(66)	(38)	(38)	(38)	(38)	(38)
Net worth attributable to minority interests	7,283	6,453	7,908	8,246	8,270	8,211	8,231
<b>Total net worth</b>	<b>174,319</b>	<b>128,854</b>	<b>178,956</b>	<b>177,855</b>	<b>180,415</b>	<b>187,178</b>	<b>197,085</b>
<b>Taxpayers' funds</b>							
Opening taxpayers' funds	19,656	(8,674)	2,681	6,932	5,540	8,056	14,867
Operating balance excluding minority interests	(16,932)	(1,632)	4,219	(1,406)	2,524	6,834	9,891
Transfers from/(to) other reserves	385	-	46	-	-	-	-
Other movements	(428)	52	(14)	14	(8)	(23)	(30)
<b>Closing taxpayers' funds</b>	<b>2,681</b>	<b>(10,254)</b>	<b>6,932</b>	<b>5,540</b>	<b>8,056</b>	<b>14,867</b>	<b>24,728</b>
<b>Property, Plant and Equipment Revaluation</b>							
Opening property, plant and equipment revaluation reserve	134,003	134,125	164,385	164,188	164,210	164,231	164,253
Net revaluations	30,920	-	243	-	-	-	-
Transfers from/(to) other reserves	(385)	21	(46)	22	21	22	22
Net revaluations attributable to minority interests	(153)	-	(394)	-	-	-	-
<b>Closing property, plant and equipment revaluation reserve</b>	<b>164,385</b>	<b>134,146</b>	<b>164,188</b>	<b>164,210</b>	<b>164,231</b>	<b>164,253</b>	<b>164,275</b>
<b>Net Worth Attributable to Minority Interests</b>							
Opening minority interest	5,724	6,515	7,283	7,908	8,246	8,270	8,211
Operating balance attributable to minority interests	755	252	644	448	449	383	379
Transactions with minority interest	(389)	(318)	(484)	(488)	(486)	(474)	(484)
Increase in minority interest from equity issues	949	-	72	370	60	36	135
Other (includes net revaluations)	244	4	393	8	1	(4)	(10)
<b>Closing minority interest</b>	<b>7,283</b>	<b>6,453</b>	<b>7,908</b>	<b>8,246</b>	<b>8,270</b>	<b>8,211</b>	<b>8,231</b>

## Statement of Segments

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2022 Actual \$m	2022 Actual \$m	2022 Actual \$m	2022 Actual \$m	2022 Actual \$m
<b>Statement of Financial Performance</b> <b>for the year ended 30 June 2022</b>					
<b>Revenue</b>					
Taxation revenue	108,458	-	-	(585)	107,873
Other sovereign revenue	4,327	6,574	-	(2,007)	8,894
Revenue from core Crown funding	-	40,049	933	(40,982)	-
Sales of goods and services	1,386	2,741	14,068	(753)	17,442
Interest revenue	858	827	957	(350)	2,292
Other revenue	2,486	4,250	767	(2,377)	5,126
<b>Total revenue (excluding gains)</b>	<b>117,515</b>	<b>54,441</b>	<b>16,725</b>	<b>(47,054)</b>	<b>141,627</b>
<b>Expenses</b>					
Social assistance and official development assistance	45,266	-	-	(1,179)	44,087
Personnel expenses	9,945	19,897	2,861	(55)	32,648
Other operating expenses	67,545	29,903	11,531	(44,554)	64,425
Interest expenses	2,884	301	660	(496)	3,349
Insurance expenses	1	6,440	7	(1)	6,447
<b>Total expenses (excluding losses)</b>	<b>125,641</b>	<b>56,541</b>	<b>15,059</b>	<b>(46,285)</b>	<b>150,956</b>
Total gains/(losses) and other items	(11,406)	1,377	82	2,344	(7,603)
<b>Operating balance</b>	<b>(19,532)</b>	<b>(723)</b>	<b>1,748</b>	<b>1,575</b>	<b>(16,932)</b>
<b>Expenses by functional classification</b>					
Social security and welfare	42,860	7,388	-	(1,945)	48,303
Health	27,781	22,005	-	(22,128)	27,658
Education	18,023	13,805	-	(12,917)	18,911
Transport and communications	4,657	4,503	4,873	(4,505)	9,528
Other	29,436	8,539	9,526	(4,294)	43,207
Finance costs	2,884	301	660	(496)	3,349
<b>Total expenses (excluding losses)</b>	<b>125,641</b>	<b>56,541</b>	<b>15,059</b>	<b>(46,285)</b>	<b>150,956</b>
<b>Statement of Financial Position</b> <b>as at 30 June 2022</b>					
<b>Assets</b>					
Cash and cash equivalents	11,407	5,187	2,789	(1,548)	17,835
Receivables	28,289	7,833	2,386	(3,373)	35,135
Other financial assets	109,730	50,791	33,268	(21,317)	172,472
Property, plant and equipment	56,519	145,186	47,476	1	249,182
Equity accounted investments	57,801	14,239	470	(56,263)	16,247
Intangible assets and goodwill	1,465	728	1,772	(268)	3,697
Inventory and other assets	4,109	1,967	1,414	(214)	7,276
<b>Total assets</b>	<b>269,320</b>	<b>225,931</b>	<b>89,575</b>	<b>(82,982)</b>	<b>501,844</b>
<b>Liabilities</b>					
Borrowings	168,986	14,345	41,098	(20,464)	203,965
Other liabilities	55,050	70,218	10,480	(12,188)	123,560
<b>Total liabilities</b>	<b>224,036</b>	<b>84,563</b>	<b>51,578</b>	<b>(32,652)</b>	<b>327,525</b>
<b>Total assets less total liabilities</b>	<b>45,284</b>	<b>141,368</b>	<b>37,997</b>	<b>(50,330)</b>	<b>174,319</b>
<b>Net worth</b>					
Taxpayers' funds	9,319	39,896	10,189	(56,723)	2,681
Reserves	35,965	101,472	20,178	6,740	164,355
Net worth attributable to minority interests	-	-	7,630	(347)	7,283
<b>Total net worth</b>	<b>45,284</b>	<b>141,368</b>	<b>37,997</b>	<b>(50,330)</b>	<b>174,319</b>



## Forecast Statement of Segments (continued)

	Core Crown	Crown entities <sup>1</sup>	State-owned Enterprises <sup>1</sup>	Inter-segment eliminations	Total Crown
	2023	2023	2023	2023	2023
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2023</b>					
<b>Revenue</b>					
Taxation revenue	115,349	-	-	(723)	114,626
Other sovereign revenue	4,109	7,210	-	(2,233)	9,086
Revenue from core Crown funding	-	47,557	813	(48,370)	-
Sales of goods and services	1,714	3,389	18,147	(654)	22,596
Interest revenue	2,235	1,877	628	(630)	4,110
Other revenue	3,271	4,593	737	(3,463)	5,138
<b>Total revenue (excluding gains)</b>	<b>126,678</b>	<b>64,626</b>	<b>20,325</b>	<b>(56,073)</b>	<b>155,556</b>
<b>Expenses</b>					
Social assistance and official development assistance	40,112	-	-	(1,186)	38,926
Personnel expenses	10,533	21,563	3,261	(49)	35,308
Other operating expenses	74,968	37,715	15,153	(52,600)	75,236
Interest expenses	6,278	942	663	(647)	7,236
Insurance expenses	4	8,905	9	-	8,918
Forecast for future new spending	-	-	-	-	-
Top-down operating expense adjustment	(3,700)	-	-	-	(3,700)
<b>Total expenses (excluding losses)</b>	<b>128,195</b>	<b>69,125</b>	<b>19,086</b>	<b>(54,482)</b>	<b>161,924</b>
Total gains/(losses) and other items	8,389	2,696	(278)	(220)	10,587
<b>Operating balance</b>	<b>6,872</b>	<b>(1,803)</b>	<b>961</b>	<b>(1,811)</b>	<b>4,219</b>
<b>Expenses by functional classification</b>					
Social security and welfare	41,808	9,438	-	(1,982)	49,264
Health	29,527	27,450	-	(27,588)	29,389
Education	18,850	14,469	-	(13,306)	20,013
Transport and communications	6,196	6,288	9,008	(6,221)	15,271
Other	29,236	10,538	9,415	(4,738)	44,451
Finance costs	6,278	942	663	(647)	7,236
Forecast for future new spending	-	-	-	-	-
Top-down operating expense adjustment	(3,700)	-	-	-	(3,700)
<b>Total expenses (excluding losses)</b>	<b>128,195</b>	<b>69,125</b>	<b>19,086</b>	<b>(54,482)</b>	<b>161,924</b>
<b>Statement of Financial Position as at 30 June 2023</b>					
<b>Assets</b>					
Cash and cash equivalents	14,156	5,468	839	(1,379)	19,084
Receivables	25,613	7,811	2,312	(2,353)	33,383
Other financial assets	118,799	83,612	3,759	(25,323)	180,847
Property, plant and equipment	58,381	151,561	49,338	-	259,280
Equity accounted investments	65,307	14,285	376	(63,290)	16,678
Intangible assets and goodwill	1,764	935	1,788	(309)	4,178
Inventory and other assets	3,618	2,770	1,331	(127)	7,592
Forecast for new capital spending	-	-	-	-	-
Top-down capital adjustment	(1,850)	-	-	-	(1,850)
<b>Total assets</b>	<b>285,788</b>	<b>266,442</b>	<b>59,743</b>	<b>(92,781)</b>	<b>519,192</b>
<b>Liabilities</b>					
Borrowings	187,819	48,268	11,523	(25,145)	222,465
Other liabilities	45,666	72,278	10,889	(11,062)	117,771
<b>Total liabilities</b>	<b>233,485</b>	<b>120,546</b>	<b>22,412</b>	<b>(36,207)</b>	<b>340,236</b>
<b>Total assets less total liabilities</b>	<b>52,303</b>	<b>145,896</b>	<b>37,331</b>	<b>(56,574)</b>	<b>178,956</b>
<b>Net worth</b>					
Taxpayers' funds	16,207	44,249	9,748	(63,272)	6,932
Reserves	36,096	101,401	19,579	7,040	164,116
Net worth attributable to minority interests	-	246	8,004	(342)	7,908
<b>Total net worth</b>	<b>52,303</b>	<b>145,896</b>	<b>37,331</b>	<b>(56,574)</b>	<b>178,956</b>

1. Kiwi Group Capital is reported in the Crown Entities segment from November 2022.

Kiwi Group Holdings Limited was reported in the State-owned Enterprises segment prior to November 2022.

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2024	2024	2024	2024	2024
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2024</b>					
<b>Revenue</b>					
Taxation revenue	123,212	-	-	(565)	122,647
Other sovereign revenue	4,313	7,765	-	(2,335)	9,743
Revenue from core Crown funding	-	46,157	972	(47,129)	-
Sales of goods and services	1,746	3,829	19,222	(698)	24,099
Interest revenue	2,726	2,691	120	(989)	4,548
Other revenue	2,529	5,096	498	(2,826)	5,297
<b>Total revenue (excluding gains)</b>	<b>134,526</b>	<b>65,538</b>	<b>20,812</b>	<b>(54,542)</b>	<b>166,334</b>
<b>Expenses</b>					
Social assistance and official development assistance	43,985	-	-	(1,439)	42,546
Personnel expenses	10,739	21,589	3,085	(51)	35,362
Other operating expenses	71,669	37,837	15,786	(51,121)	74,171
Interest expenses	7,462	1,599	511	(1,067)	8,505
Insurance expenses	5	9,683	9	-	9,697
Forecast for future new spending	5,731	-	-	-	5,731
Top-down operating expense adjustment	(2,600)	-	-	-	(2,600)
<b>Total expenses (excluding losses)</b>	<b>136,991</b>	<b>70,708</b>	<b>19,391</b>	<b>(53,678)</b>	<b>173,412</b>
Total gains/(losses) and other items	4,790	1,480	(479)	(119)	5,672
<b>Operating balance</b>	<b>2,325</b>	<b>(3,690)</b>	<b>942</b>	<b>(983)</b>	<b>(1,406)</b>
<b>Expenses by functional classification</b>					
<i>Social security and welfare</i>	44,623	10,946	-	(2,319)	53,250
<i>Health</i>	28,653	26,359	-	(26,851)	28,161
<i>Education</i>	19,383	14,785	-	(13,453)	20,715
<i>Transport and communications</i>	5,206	6,631	8,296	(5,449)	14,684
<i>Other</i>	28,533	10,388	10,584	(4,539)	44,966
<i>Finance costs</i>	7,462	1,599	511	(1,067)	8,505
<i>Forecast for future new spending</i>	5,731	-	-	-	5,731
<i>Top-down operating expense adjustment</i>	(2,600)	-	-	-	(2,600)
<b>Total expenses (excluding losses)</b>	<b>136,991</b>	<b>70,708</b>	<b>19,391</b>	<b>(53,678)</b>	<b>173,412</b>
<b>Statement of Financial Position as at 30 June 2024</b>					
<b>Assets</b>					
Cash and cash equivalents	13,712	5,619	870	(1,147)	19,054
Receivables	31,507	8,215	2,673	(2,390)	40,005
Other financial assets	125,313	86,882	3,076	(34,375)	180,896
Property, plant and equipment	60,776	158,351	51,624	-	270,751
Equity accounted investments	72,476	14,338	416	(70,073)	17,157
Intangible assets and goodwill	1,972	942	1,817	(308)	4,423
Inventory and other assets	3,543	3,043	1,347	(128)	7,805
Forecast for new capital spending	2,964	-	-	-	2,964
Top-down capital adjustment	(4,050)	-	-	-	(4,050)
<b>Total assets</b>	<b>308,213</b>	<b>277,390</b>	<b>61,823</b>	<b>(108,421)</b>	<b>539,005</b>
<b>Liabilities</b>					
Borrowings	209,411	55,844	12,018	(33,878)	243,395
Other liabilities	44,144	73,298	11,021	(10,708)	117,755
<b>Total liabilities</b>	<b>253,555</b>	<b>129,142</b>	<b>23,039</b>	<b>(44,586)</b>	<b>361,150</b>
<b>Total assets less total liabilities</b>	<b>54,658</b>	<b>148,248</b>	<b>38,784</b>	<b>(63,835)</b>	<b>177,855</b>
<b>Net worth</b>					
Taxpayers' funds	18,533	46,330	11,193	(70,516)	5,540
Reserves	36,125	101,376	19,552	7,016	164,069
Net worth attributable to minority interests	-	542	8,039	(335)	8,246
<b>Total net worth</b>	<b>54,658</b>	<b>148,248</b>	<b>38,784</b>	<b>(63,835)</b>	<b>177,855</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2025	2025	2025	2025	2025
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2025</b>					
<b>Revenue</b>					
Taxation revenue	130,185	-	-	(552)	129,633
Other sovereign revenue	4,335	8,361	-	(2,481)	10,215
Revenue from core Crown funding	-	44,496	1,070	(45,566)	-
Sales of goods and services	1,759	5,421	19,464	(2,150)	24,494
Interest revenue	2,667	2,894	107	(1,224)	4,444
Other revenue	2,588	5,359	138	(2,852)	5,233
<b>Total revenue (excluding gains)</b>	<b>141,534</b>	<b>66,531</b>	<b>20,779</b>	<b>(54,825)</b>	<b>174,019</b>
<b>Expenses</b>					
Social assistance and official development assistance	46,811	-	-	(1,703)	45,108
Personnel expenses	10,708	21,654	3,147	(52)	35,457
Other operating expenses	69,495	36,623	15,871	(51,008)	70,981
Interest expenses	7,971	2,063	535	(1,292)	9,277
Insurance expenses	5	10,039	10	-	10,054
Forecast for future new spending	7,169	-	-	-	7,169
Top-down operating expense adjustment	(900)	-	-	-	(900)
<b>Total expenses (excluding losses)</b>	<b>141,259</b>	<b>70,379</b>	<b>19,563</b>	<b>(54,055)</b>	<b>177,146</b>
Total gains/(losses) and other items	4,782	1,490	(512)	(109)	5,651
<b>Operating balance</b>	<b>5,057</b>	<b>(2,358)</b>	<b>704</b>	<b>(879)</b>	<b>2,524</b>
<b>Expenses by functional classification</b>					
Social security and welfare	47,236	11,301	-	(2,630)	55,907
Health	29,387	27,193	-	(27,748)	28,832
Education	19,432	14,723	-	(13,243)	20,912
Transport and communications	4,554	4,839	8,541	(4,739)	13,195
Other	26,410	10,260	10,487	(4,403)	42,754
Finance costs	7,971	2,063	535	(1,292)	9,277
Forecast for future new spending	7,169	-	-	-	7,169
Top-down operating expense adjustment	(900)	-	-	-	(900)
<b>Total expenses (excluding losses)</b>	<b>141,259</b>	<b>70,379</b>	<b>19,563</b>	<b>(54,055)</b>	<b>177,146</b>
<b>Statement of Financial Position as at 30 June 2025</b>					
<b>Assets</b>					
Cash and cash equivalents	13,211	5,342	817	(1,148)	18,222
Receivables	26,506	8,327	2,629	(2,409)	35,053
Other financial assets	142,825	91,361	2,977	(40,227)	196,936
Property, plant and equipment	61,715	164,424	54,019	-	280,158
Equity accounted investments	77,751	14,462	477	(74,776)	17,914
Intangible assets and goodwill	2,111	923	1,824	(313)	4,545
Inventory and other assets	3,275	3,394	1,375	(127)	7,917
Forecast for new capital spending	4,840	-	-	-	4,840
Top-down capital adjustment	(4,600)	-	-	-	(4,600)
<b>Total assets</b>	<b>327,634</b>	<b>288,233</b>	<b>64,118</b>	<b>(119,000)</b>	<b>560,985</b>
<b>Liabilities</b>					
Borrowings	225,531	63,032	13,102	(39,665)	262,000
Other liabilities	42,335	75,373	11,328	(10,466)	118,570
<b>Total liabilities</b>	<b>267,866</b>	<b>138,405</b>	<b>24,430</b>	<b>(50,131)</b>	<b>380,570</b>
<b>Total assets less total liabilities</b>	<b>59,768</b>	<b>149,828</b>	<b>39,688</b>	<b>(68,869)</b>	<b>180,415</b>
<b>Net worth</b>					
Taxpayers' funds	23,589	47,902	12,094	(75,529)	8,056
Reserves	36,179	101,384	19,538	6,988	164,089
Net worth attributable to minority interests	-	542	8,056	(328)	8,270
<b>Total net worth</b>	<b>59,768</b>	<b>149,828</b>	<b>39,688</b>	<b>(68,869)</b>	<b>180,415</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2026	2026	2026	2026	2026
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2026</b>					
<b>Revenue</b>					
Taxation revenue	140,175	-	-	(721)	139,454
Other sovereign revenue	4,046	8,956	-	(2,666)	10,336
Revenue from core Crown funding	-	44,412	693	(45,105)	-
Sales of goods and services	1,831	6,928	19,895	(3,541)	25,113
Interest revenue	3,091	3,194	111	(1,335)	5,061
Other revenue	2,674	5,423	529	(3,269)	5,357
<b>Total revenue (excluding gains)</b>	<b>151,817</b>	<b>68,913</b>	<b>21,228</b>	<b>(56,637)</b>	<b>185,321</b>
<b>Expenses</b>					
Social assistance and official development assistance	48,653	-	-	(1,802)	46,851
Personnel expenses	10,749	21,806	3,207	(53)	35,709
Other operating expenses	70,716	37,865	16,188	(52,597)	72,172
Interest expenses	8,210	2,482	631	(1,377)	9,946
Insurance expenses	5	10,368	10	-	10,383
Forecast for future new spending	10,085	-	-	-	10,085
Top-down operating expense adjustment	(800)	-	-	-	(800)
<b>Total expenses (excluding losses)</b>	<b>147,618</b>	<b>72,521</b>	<b>20,036</b>	<b>(55,829)</b>	<b>184,346</b>
Total gains/(losses) and other items	4,929	1,494	(464)	(100)	5,859
<b>Operating balance</b>	<b>9,128</b>	<b>(2,114)</b>	<b>728</b>	<b>(908)</b>	<b>6,834</b>
<b>Expenses by functional classification</b>					
<i>Social security and welfare</i>	49,044	11,662	-	(2,774)	57,932
<i>Health</i>	30,827	28,589	-	(29,235)	30,181
<i>Education</i>	19,235	14,631	-	(13,046)	20,820
<i>Transport and communications</i>	4,589	4,655	8,992	(4,800)	13,436
<i>Other</i>	26,428	10,502	10,413	(4,597)	42,746
<i>Finance costs</i>	8,210	2,482	631	(1,377)	9,946
<i>Forecast for future new spending</i>	10,085	-	-	-	10,085
<i>Top-down operating expense adjustment</i>	(800)	-	-	-	(800)
<b>Total expenses (excluding losses)</b>	<b>147,618</b>	<b>72,521</b>	<b>20,036</b>	<b>(55,829)</b>	<b>184,346</b>
<b>Statement of Financial Position as at 30 June 2026</b>					
<b>Assets</b>					
Cash and cash equivalents	12,735	5,618	932	(1,148)	18,137
Receivables	27,386	8,622	2,587	(2,408)	36,187
Other financial assets	153,850	96,612	3,039	(44,542)	208,959
Property, plant and equipment	61,925	168,888	55,230	-	286,043
Equity accounted investments	81,975	14,590	528	(79,000)	18,093
Intangible assets and goodwill	2,198	952	1,895	(335)	4,710
Inventory and other assets	3,284	3,724	1,402	(127)	8,283
Forecast for new capital spending	7,046	-	-	-	7,046
Top-down capital adjustment	(5,000)	-	-	-	(5,000)
<b>Total assets</b>	<b>345,399</b>	<b>299,006</b>	<b>65,613</b>	<b>(127,560)</b>	<b>582,458</b>
<b>Liabilities</b>					
Borrowings	234,198	68,911	14,124	(43,892)	273,341
Other liabilities	42,235	78,649	11,336	(10,281)	121,939
<b>Total liabilities</b>	<b>276,433</b>	<b>147,560</b>	<b>25,460</b>	<b>(54,173)</b>	<b>395,280</b>
<b>Total assets less total liabilities</b>	<b>68,966</b>	<b>151,446</b>	<b>40,153</b>	<b>(73,387)</b>	<b>187,178</b>
<b>Net worth</b>					
Taxpayers' funds	32,717	49,518	12,660	(80,028)	14,867
Reserves	36,249	101,386	19,506	6,959	164,100
Net worth attributable to minority interests	-	542	7,987	(318)	8,211
<b>Total net worth</b>	<b>68,966</b>	<b>151,446</b>	<b>40,153</b>	<b>(73,387)</b>	<b>187,178</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2027	2027	2027	2027	2027
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2027</b>					
<b>Revenue</b>					
Taxation revenue	147,490	-	-	(637)	146,853
Other sovereign revenue	3,897	9,582	-	(2,872)	10,607
Revenue from core Crown funding	-	43,982	642	(44,624)	-
Sales of goods and services	1,862	8,596	19,877	(4,929)	25,406
Interest revenue	3,320	3,451	119	(1,449)	5,441
Other revenue	2,791	5,617	176	(3,061)	5,523
<b>Total revenue (excluding gains)</b>	<b>159,360</b>	<b>71,228</b>	<b>20,814</b>	<b>(57,572)</b>	<b>193,830</b>
<b>Expenses</b>					
Social assistance and official development assistance	50,702	-	-	(1,829)	48,873
Personnel expenses	10,731	21,961	3,232	(53)	35,871
Other operating expenses	71,177	38,899	15,996	(53,474)	72,598
Interest expenses	8,648	2,633	677	(1,485)	10,473
Insurance expenses	5	10,893	10	-	10,908
Forecast for future new spending	12,242	-	-	-	12,242
Top-down operating expense adjustment	(700)	-	-	-	(700)
<b>Total expenses (excluding losses)</b>	<b>152,805</b>	<b>74,386</b>	<b>19,915</b>	<b>(56,841)</b>	<b>190,265</b>
Total gains/(losses) and other items	5,337	1,540	(456)	(95)	6,326
<b>Operating balance</b>	<b>11,892</b>	<b>(1,618)</b>	<b>443</b>	<b>(826)</b>	<b>9,891</b>
<b>Expenses by functional classification</b>					
Social security and welfare	51,163	12,223	-	(2,835)	60,551
Health	32,278	30,018	-	(30,715)	31,581
Education	19,301	14,589	-	(12,989)	20,901
Transport and communications	4,278	4,469	9,055	(4,494)	13,308
Other	25,595	10,454	10,183	(4,323)	41,909
Finance costs	8,648	2,633	677	(1,485)	10,473
Forecast for future new spending	12,242	-	-	-	12,242
Top-down operating expense adjustment	(700)	-	-	-	(700)
<b>Total expenses (excluding losses)</b>	<b>152,805</b>	<b>74,386</b>	<b>19,915</b>	<b>(56,841)</b>	<b>190,265</b>
<b>Statement of Financial Position as at 30 June 2027</b>					
<b>Assets</b>					
Cash and cash equivalents	12,179	5,793	1,081	(1,146)	17,907
Receivables	28,523	9,194	2,488	(2,518)	37,687
Other financial assets	166,275	102,967	3,214	(46,205)	226,251
Property, plant and equipment	61,966	169,930	55,794	-	287,690
Equity accounted investments	84,611	14,737	546	(81,636)	18,258
Intangible assets and goodwill	2,285	1,059	1,923	(320)	4,947
Inventory and other assets	3,558	3,709	1,430	(127)	8,570
Forecast for new capital spending	9,026	-	-	-	9,026
Top-down capital adjustment	(5,300)	-	-	-	(5,300)
<b>Total assets</b>	<b>363,123</b>	<b>307,389</b>	<b>66,476</b>	<b>(131,952)</b>	<b>605,036</b>
<b>Liabilities</b>					
Borrowings	240,260	72,441	15,163	(45,502)	282,362
Other liabilities	41,934	82,495	11,403	(10,243)	125,589
<b>Total liabilities</b>	<b>282,194</b>	<b>154,936</b>	<b>26,566</b>	<b>(55,745)</b>	<b>407,951</b>
<b>Total assets less total liabilities</b>	<b>80,929</b>	<b>152,453</b>	<b>39,910</b>	<b>(76,207)</b>	<b>197,085</b>
<b>Net worth</b>					
Taxpayers' funds	44,609	50,426	12,514	(82,821)	24,728
Reserves	36,320	101,387	19,498	6,921	164,126
Net worth attributable to minority interests	-	640	7,898	(307)	8,231
<b>Total net worth</b>	<b>80,929</b>	<b>152,453</b>	<b>39,910</b>	<b>(76,207)</b>	<b>197,085</b>

## Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 109 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 (excluding Kiwi Group) 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

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m
<b>Operating Balance</b>							
Total revenue	141,627	152,154	155,556	166,334	174,019	185,321	193,830
Total expenses	150,956	158,528	161,924	173,412	177,146	184,346	190,265
Total gains/(losses)	(6,722)	4,845	11,189	6,040	5,928	6,046	6,471
Net surplus from associates and joint ventures	(126)	149	42	80	172	196	234
Less Minority interests' share of operating balance	(755)	(252)	(644)	(448)	(449)	(383)	(379)
<b>Operating balance</b>	<b>(16,932)</b>	<b>(1,632)</b>	<b>4,219</b>	<b>(1,406)</b>	<b>2,524</b>	<b>6,834</b>	<b>9,891</b>
<b>Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses</b>							
<b>Operating balance</b>	<b>(16,932)</b>	<b>(1,632)</b>	<b>4,219</b>	<b>(1,406)</b>	<b>2,524</b>	<b>6,834</b>	<b>9,891</b>
Less items excluded from OBEGAL:							
Net gains/(losses) on financial instruments	(9,687)	4,894	5,888	6,040	5,928	6,046	6,471
Net gains/(losses) on non-financial instruments	2,965	(49)	5,301	-	-	-	-
Minority interests share of total gains/(losses)	(393)	8	(53)	36	33	35	29
Net surplus from associates and joint ventures	(126)	149	42	80	172	196	234
<b>OBEGAL</b>	<b>(9,691)</b>	<b>(6,634)</b>	<b>(6,959)</b>	<b>(7,562)</b>	<b>(3,609)</b>	<b>557</b>	<b>3,157</b>

## Expenses by Functional Classification

for the years ending 30 June

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Total Crown expenses</b>							
<b>By functional classification<sup>1</sup></b>							
Social security and welfare	48,303	50,226	49,264	53,250	55,907	57,932	60,551
Health	27,658	25,493	29,389	28,161	28,832	30,181	31,581
Education	18,911	19,518	20,013	20,715	20,912	20,820	20,901
Core government services	5,426	6,180	6,537	6,411	5,538	5,775	5,355
Law and order	5,921	6,403	6,780	6,822	6,778	6,758	6,707
Transport and communications	9,528	12,568	15,271	14,684	13,195	13,436	13,308
Economic and industrial services	16,673	12,598	13,230	14,358	13,758	13,607	13,288
Defence	2,803	2,906	2,956	3,152	3,197	3,213	3,211
Heritage, culture and recreation	3,260	3,414	3,474	3,402	3,373	3,409	3,391
Primary services	2,302	2,493	3,084	2,590	2,492	2,435	2,387
Housing and community development	3,935	5,318	5,014	5,153	4,594	4,664	4,695
Environmental protection	2,535	3,033	3,182	2,766	2,626	2,488	2,480
GSF pension expenses	110	78	77	75	73	71	69
Other	242	163	117	237	325	326	326
Finance costs	3,349	5,233	7,236	8,505	9,277	9,946	10,473
Forecast new operating spending	-	4,904	-	5,731	7,169	10,085	12,242
Top-down operating expense adjustment	-	(2,000)	(3,700)	(2,600)	(900)	(800)	(700)
<b>Total Crown expenses excluding losses</b>	<b>150,956</b>	<b>158,528</b>	<b>161,924</b>	<b>173,412</b>	<b>177,146</b>	<b>184,346</b>	<b>190,265</b>

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.

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Core Crown expenses</b>							
<b>By functional classification<sup>1</sup></b>							
Social security and welfare	42,860	41,552	41,808	44,623	47,236	49,044	51,163
Health	27,781	26,579	29,527	28,653	29,387	30,827	32,278
Education	18,023	18,587	18,850	19,383	19,432	19,235	19,301
Core government services	5,720	6,110	6,626	6,548	5,796	6,040	5,579
Law and order	5,444	5,966	6,252	6,337	6,189	6,201	6,181
Transport and communications	4,657	4,754	6,196	5,206	4,554	4,589	4,278
Economic and industrial services	8,078	4,254	3,962	3,955	3,406	3,396	3,359
Defence	2,832	2,924	2,984	3,178	3,223	3,239	3,233
Heritage, culture and recreation	1,468	1,533	1,678	1,433	1,345	1,370	1,332
Primary services	949	1,159	1,463	1,142	1,136	1,084	1,032
Housing and community development	2,033	3,076	2,913	2,879	2,301	2,224	2,015
Environmental protection	2,549	3,118	3,182	2,768	2,635	2,496	2,488
GSF pension expenses	94	61	59	56	54	52	50
Other	269	163	117	237	325	326	326
Finance costs	2,884	4,311	6,278	7,462	7,971	8,210	8,648
Forecast new operating spending	-	4,904	-	5,731	7,169	10,085	12,242
Top-down operating expense adjustment	-	(2,000)	(3,700)	(2,600)	(900)	(800)	(700)
<b>Total core Crown expenses excluding losses</b>	<b>125,641</b>	<b>127,051</b>	<b>128,195</b>	<b>136,991</b>	<b>141,259</b>	<b>147,618</b>	<b>152,805</b>

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 the future.



## Core Crown Residual Cash

for the years ending 30 June

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous					
	\$m	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Core Crown Residual Cash</b>							
<b>Core Crown Cash Flows from Operations</b>							
Tax receipts	105,487	115,061	113,733	117,184	135,933	140,162	147,372
Other sovereign receipts	3,364	2,656	2,958	2,445	2,548	2,487	2,383
Interest receipts	393	553	886	1,505	1,645	2,130	2,370
Sale of goods and services and other receipts	2,883	3,172	4,065	3,398	3,410	3,508	3,579
Transfer payments and subsidies	(45,440)	(41,108)	(40,397)	(44,212)	(48,263)	(49,251)	(51,297)
Personnel and operating costs	(71,980)	(74,403)	(81,255)	(77,791)	(74,937)	(75,483)	(76,435)
Interest payments	(2,841)	(3,587)	(5,083)	(5,957)	(6,503)	(6,793)	(7,319)
Forecast for future new operating spending	-	(4,904)	-	(5,731)	(7,169)	(10,085)	(12,242)
Top-down operating expense adjustment	-	2,000	3,700	2,600	900	800	700
<b>Net core Crown operating cash flows</b>	<b>(8,134)</b>	<b>(560)</b>	<b>(1,393)</b>	<b>(6,559)</b>	<b>7,564</b>	<b>7,475</b>	<b>9,111</b>
<b>Core Crown Capital Cash Flows</b>							
Net purchase of physical assets	(3,474)	(5,355)	(4,832)	(4,986)	(3,567)	(2,851)	(2,889)
Net increase in advances	(9,192)	(12,820)	(8,601)	(5,710)	3,788	3,029	(442)
Net purchase of investments	(3,823)	(7,736)	(6,892)	(7,242)	(5,281)	(4,211)	(2,621)
Contribution to NZS Fund	(2,420)	(2,558)	(2,558)	(1,614)	(1,493)	(1,554)	(1,414)
Forecast for future new capital spending	-	(1,311)	-	(2,964)	(1,876)	(2,207)	(1,980)
Top-down capital adjustment	-	1,060	1,850	2,200	550	400	300
<b>Net core Crown capital cash flows</b>	<b>(18,909)</b>	<b>(28,720)</b>	<b>(21,033)</b>	<b>(20,316)</b>	<b>(7,879)</b>	<b>(7,394)</b>	<b>(9,046)</b>
<b>Residual cash (deficit)/surplus</b>	<b>(27,043)</b>	<b>(29,280)</b>	<b>(22,426)</b>	<b>(26,875)</b>	<b>(315)</b>	<b>81</b>	<b>65</b>
<i>The residual cash (deficit)/surplus is funded or invested as follows:</i>							
<b>Debt Programme Cash Flows</b>							
Market:							
Issue of government bonds	19,275	25,721	26,967	32,495	30,962	28,688	23,147
Repayment of government bonds	-	(22,746)	(21,891)	(18,481)	(19,321)	(20,863)	(22,287)
Net issue/(repayment) of short-term borrowing <sup>1</sup>	(4,158)	(591)	(327)	4,540	-	-	-
<b>Total market debt cash flows</b>	<b>15,117</b>	<b>2,384</b>	<b>4,749</b>	<b>18,554</b>	<b>11,641</b>	<b>7,825</b>	<b>860</b>
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	(412)	(400)	(400)	(345)	-	-	-
<b>Total non-market debt cash flows</b>	<b>(412)</b>	<b>(400)</b>	<b>(400)</b>	<b>(345)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total debt programme cash flows</b>	<b>14,705</b>	<b>1,984</b>	<b>4,349</b>	<b>18,209</b>	<b>11,641</b>	<b>7,825</b>	<b>860</b>
<b>Other Borrowing Cash Flows</b>							
Net (repayment)/issue of other New Zealand dollar borrowing	12,400	12,652	20,925	7,391	2,982	58	4,599
Net (repayment)/issue of foreign currency borrowing	1,589	(917)	(4,225)	(4,405)	1,003	(219)	(11)
<b>Total other borrowing cash flows</b>	<b>13,989</b>	<b>11,735</b>	<b>16,700</b>	<b>2,986</b>	<b>3,985</b>	<b>(161)</b>	<b>4,588</b>
<b>Investing Cash Flows</b>							
Net sale/(purchase) of marketable securities and deposits	(28)	15,899	4,269	5,619	(15,387)	(7,838)	(5,610)
Net issues/(repayments) of circulating currency	805	-	196	93	93	94	95
Decrease/(increase) in cash	(2,428)	(338)	(3,088)	(32)	(17)	(1)	2
<b>Total investing cash flows</b>	<b>(1,651)</b>	<b>15,561</b>	<b>1,377</b>	<b>5,680</b>	<b>(15,311)</b>	<b>(7,745)</b>	<b>(5,513)</b>
<b>Residual cash deficit/(surplus) funding/(investing)</b>	<b>27,043</b>	<b>29,280</b>	<b>22,426</b>	<b>26,875</b>	<b>315</b>	<b>(81)</b>	<b>(65)</b>

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

## Debt Indicators

as at 30 June

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net Debt:</b>							
Core Crown borrowings <sup>1</sup>	168,986	192,255	187,819	209,411	225,531	234,198	240,260
Crown entity borrowings <sup>2</sup>	14,345	16,511	48,268	55,844	63,032	68,911	72,441
Less Kiwi Group borrowings <sup>3</sup>	-	-	(29,296)	(32,682)	(36,129)	(39,938)	(43,767)
Add back inter-entity eliminations <sup>3</sup>	-	-	(1,751)	(1,277)	(637)	(263)	(238)
Net unsettled purchases/(sales) of securities <sup>4</sup>	(343)	(1,636)	(1,128)	(1,035)	(1,044)	(1,051)	(1,061)
Less core Crown financial assets (per net debt definition) <sup>5</sup>	(121,138)	(132,158)	(132,955)	(139,025)	(156,036)	(166,585)	(178,454)
<b>Net debt (incl. NZS Fund)</b>	<b>61,850</b>	<b>74,972</b>	<b>70,957</b>	<b>91,236</b>	<b>94,717</b>	<b>95,272</b>	<b>89,181</b>
<b>Additional net debt analysis</b>							
Net debt (incl. NZS Fund)	61,850	74,972	70,957	91,236	94,717	95,272	89,181
Less NZS Fund borrowings	(5,040)	(2,740)	(2,418)	(2,417)	(2,442)	(2,491)	(2,491)
Less NZS Fund net unsettled purchases/(sales) of securities	235	1,637	1,469	1,376	1,385	1,392	1,402
Less NZS Fund financial assets	60,070	67,780	63,600	69,229	74,753	80,754	86,930
<b>Net debt (excl. NZS Fund)</b>	<b>117,115</b>	<b>141,649</b>	<b>133,608</b>	<b>159,424</b>	<b>168,413</b>	<b>174,927</b>	<b>175,022</b>
<b>Gross Debt:</b>							
Core Crown borrowings	168,986	192,255	187,819	209,411	225,531	234,198	240,260
Unsettled purchases of securities	5,042	81	884	454	461	465	471
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(9,990)	(2,820)	(2,953)	(2,522)	(2,554)	(2,607)	(2,613)
Less Reserve Bank settlement cash and Reserve Bank bills	(45,088)	(59,297)	(50,800)	(44,000)	(37,200)	(30,400)	(23,600)
<b>Gross Debt</b>	<b>118,950</b>	<b>130,219</b>	<b>134,950</b>	<b>163,343</b>	<b>186,238</b>	<b>201,656</b>	<b>214,518</b>

### 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 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. The 2022 Actuals and 2023 Previous Budget figures represent Kiwi Group Holdings (KGH) borrowings, which was reported within the State-owned Enterprise segment until November 2022. In November 2022, the assets and liabilities of KGH were transferred to a newly incorporated Schedule 4A company, called Kiwi Group Capital (Kiwi Group), which is reported in the Crown entity segment. This amount includes derivative balances.
4. Unsettled sales and purchases of securities are classified in the Statement of Financial Position as receivables and accounts payable, respectively.
5. Core Crown financial assets per the net debt definition includes any asset that is cash, deposits, share investments, advances, other marketable securities or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

for the years ending 30 June

	2022	2023	2023	2024	2025	2026	2027
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Movement in net debt</b>							
<b>Opening net debt</b>	<b>35,921</b>	<b>61,163</b>	<b>61,850</b>	<b>70,957</b>	<b>91,236</b>	<b>94,717</b>	<b>95,272</b>
Core Crown residual cash (surplus)/deficit	27,043	29,280	22,426	26,875	315	(81)	(65)
Less net (increase)/decrease in advances	(9,192)	(12,820)	(8,601)	(5,710)	3,788	3,029	(442)
Less contributions to the NZS Fund	(2,420)	(2,558)	(2,558)	(1,614)	(1,493)	(1,554)	(1,414)
Net increase/(decrease) in Crown entity borrowings	2,509	2,354	2,876	4,664	4,381	2,444	(274)
Issues of circulating currency	(805)	-	(196)	(93)	(93)	(94)	(95)
Other fair value movements in financial assets and financial liabilities (including NZSF)	8,794	(2,447)	(4,840)	(3,843)	(3,417)	(3,189)	(3,801)
<b>Closing net debt</b>	<b>61,850</b>	<b>74,972</b>	<b>70,957</b>	<b>91,236</b>	<b>94,717</b>	<b>95,272</b>	<b>89,181</b>

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

	2022	2023	2024	2025	2026	2027
	Actual \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>Financial Results</b>						
Core Crown taxation revenue...	108,458	115,349	123,212	130,185	140,175	147,490
...combined with other core Crown revenue...	9,057	11,329	11,314	11,349	11,642	11,870
...funds core Crown expenses...	(125,641)	(128,195)	(136,991)	(141,259)	(147,618)	(152,805)
...and with SOE and CE <sup>1</sup> results...	(1,565)	(5,442)	(5,097)	(3,884)	(3,642)	(3,398)
...this results in an operating balance before gains and losses ( <b>OBEGAL</b> )...	(9,691)	(6,959)	(7,562)	(3,609)	557	3,157
...with gains/losses leading to an <b>operating surplus/(deficit)</b> ...	(16,932)	4,219	(1,406)	2,524	6,834	9,891
...with income in SOEs, CEs <sup>1</sup> and the NZS Fund retained...	974	(967)	29	(1,490)	(2,058)	(2,724)
...and some items do not impact cash	7,824	(4,645)	(5,182)	6,530	2,699	1,944
<b>This leads to an operating residual cash surplus/(deficit)...</b>	<b>(8,134)</b>	<b>(1,393)</b>	<b>(6,559)</b>	<b>7,564</b>	<b>7,475</b>	<b>9,111</b>
...used to make contributions to the NZS Fund...	(2,420)	(2,558)	(1,614)	(1,493)	(1,554)	(1,414)
...and to use for capital expenditure...	(3,474)	(4,832)	(4,986)	(3,567)	(2,851)	(2,889)
...and to make advance	(9,192)	(8,601)	(5,710)	3,788	3,029	(442)
...and to purchase investments	(3,823)	(6,892)	(7,242)	(5,281)	(4,211)	(2,621)
Adjusting for forecast adjustments (top-down/new spending)...	-	1,850	(764)	(1,326)	(1,807)	(1,680)
<b>...results in a <b>borrowing requirement (cash deficit)/surplus</b></b>	<b>(27,043)</b>	<b>(22,426)</b>	<b>(26,875)</b>	<b>(315)</b>	<b>81</b>	<b>65</b>

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



## Core Crown Expense Tables

(\$millions)	2018 Actual	2019 <sup>1</sup> Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Social security and welfare	25,999	28,740	44,028	36,759	42,860	41,808	44,623	47,236	49,044	51,163
Health	17,159	18,268	19,891	22,784	27,781	29,527	28,653	29,387	30,827	32,278
Education	13,629	14,293	16,322	16,039	18,023	18,850	19,383	19,432	19,235	19,301
Core government services <sup>1</sup>	4,670	5,166	6,083	5,754	5,720	6,626	6,548	5,796	6,040	5,579
Law and order	4,184	4,625	4,911	5,202	5,444	6,252	6,337	6,189	6,201	6,181
Transport and communications	2,559	2,889	3,179	5,656	4,657	6,196	5,206	4,554	4,589	4,278
Economic and industrial services	2,732	3,006	3,988	4,481	8,078	3,962	3,955	3,406	3,396	3,359
Defence	2,251	2,395	2,499	2,664	2,832	2,984	3,178	3,223	3,239	3,233
Heritage, culture and recreation	850	918	1,106	1,420	1,468	1,678	1,433	1,345	1,370	1,332
Primary services	807	960	961	1,015	949	1,463	1,142	1,136	1,084	1,032
Housing and community development	552	727	1,015	1,813	2,033	2,913	2,879	2,301	2,224	2,015
Environmental protection	1,238	1,119	1,485	1,906	2,549	3,182	2,768	2,635	2,496	2,488
GSF pension expenses <sup>1</sup>	150	66	73	99	94	59	56	54	52	50
Other	299	96	63	254	269	117	237	325	326	326
Finance costs <sup>1</sup>	3,497	3,691	3,228	1,918	2,884	6,278	7,462	7,971	8,210	8,648
Forecast new operating spending	..	..	..	..	..	..	5,731	7,169	10,085	12,242
Top-down operating expense adjustment	..	..	..	..	..	( 3,700)	( 2,600)	( 900)	( 800)	(700)
<b>Core Crown expenses</b>	<b>80,576</b>	<b>86,959</b>	<b>108,832</b>	<b>107,764</b>	<b>125,641</b>	<b>128,195</b>	<b>136,991</b>	<b>141,259</b>	<b>147,618</b>	<b>152,805</b>

The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

1. The '2019 Actual' has been restated for the impact of new accounting standards and interpretations. The '2018 Actual' has not been restated.

Source: The Treasury

**Table 5.1 – Social security and welfare expenses**

(\$millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Welfare benefits (see below)	24,005	26,689	41,308	33,671	39,187	37,832	40,748	43,480	45,433	47,545
Departmental expenses	1,593	1,784	2,062	2,424	2,747	2,888	2,866	2,758	2,643	2,610
Social rehabilitation and compensation	241	249	260	333	358	386	415	443	477	506
Flexi-wage subsidy	..	..	..	8	59	94	25	..	..	..
COVID-19 Income Relief Assistance	..	..	15	182	..	..	..	..	..	..
Other non-departmental expenses <sup>1</sup>	160	18	383	141	509	608	569	555	491	502
<b>Social security and welfare expenses</b>	<b>25,999</b>	<b>28,740</b>	<b>44,028</b>	<b>36,759</b>	<b>42,860</b>	<b>41,808</b>	<b>44,623</b>	<b>47,236</b>	<b>49,044</b>	<b>51,163</b>

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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
New Zealand Superannuation	13,699	14,562	15,521	16,569	17,764	19,523	21,629	23,212	24,699	26,406
Jobseeker Support and Emergency Benefit	1,697	1,854	2,285	3,224	3,330	3,480	4,136	4,477	4,532	4,609
Supported living payment	1,541	1,556	1,650	1,826	2,047	2,310	2,520	2,656	2,767	2,871
Sole parent support	1,117	1,115	1,231	1,455	1,704	1,912	2,085	2,238	2,311	2,323
Family Tax Credit	1,639	2,131	2,189	2,103	2,017	2,165	2,284	2,349	2,334	2,406
Other working for families tax credits	556	635	641	585	519	469	489	449	433	427
Accommodation Assistance	1,204	1,640	1,923	2,302	2,386	2,350	2,449	2,533	2,553	2,570
Income-Related Rents	890	974	1,071	1,202	1,323	1,320	1,577	1,842	1,944	1,972
Disability Assistance	379	386	395	409	412	429	440	440	446	452
Cost of living payment	..	..	..	..	..	656	..	..	..	..
Covid leave support	..	..	..	..	471	329	20	..	..	..
Winter energy	..	441	669	812	513	519	538	553	562	570
Best start	..	48	184	271	308	324	339	347	347	354
Orphan's/Unsupported Child's Benefit	165	225	248	293	313	347	368	378	383	386
Hardship Assistance	355	300	418	479	497	679	756	853	901	934
Paid Parental Leave	288	369	422	503	603	630	677	710	760	805
Childcare Assistance	196	183	144	145	132	144	187	193	199	203
Veteran's Support Entitlement <sup>1</sup>	93	90	66	..	..	..	..	..	..	..
Veteran's Pension	163	153	145	139	134	132	132	129	124	121
Wage Subsidy Scheme	..	..	12,095	1,197	4,689	..	..	..	..	..
Other benefits <sup>2</sup>	23	27	11	157	25	114	122	121	138	136
<b>Benefit expenses</b>	<b>24,005</b>	<b>26,689</b>	<b>41,308</b>	<b>33,671</b>	<b>39,187</b>	<b>37,832</b>	<b>40,748</b>	<b>43,480</b>	<b>45,433</b>	<b>47,545</b>

1. Expenditure on Veteran's support entitlements are no longer recognised from 2021 owing to a change in accounting treatment.

2. The '2021 Actual' for other benefits expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Beneficiary numbers <sup>1</sup> (Thousands)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
New Zealand Superannuation	741	767	795	825	848	870	898	926	956	987
Jobseeker Support and Emergency Benefit	129	139	162	211	193	178	195	202	196	191
Supported living payment	96	95	96	97	98	103	104	105	105	105
Sole parent support	60	59	61	66	70	73	75	76	76	73
Accommodation Supplement	285	295	318	364	353	349	367	379	377	376

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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	200	210	236	298	386	244	235	217	214	214
Purchasing of health services <sup>1,2,6</sup>	14,193	14,953	16,577	17,882	18,812	22,795	24,131	25,211	26,552	27,900
National disability support services <sup>3</sup>	1,256	1,358	1,599	1,659	1,870	2,077	2,245	2,245	2,245	2,249
Other non-departmental outputs <sup>4</sup>	869	1,014	767	623	770	608	722	614	624	640
Health payments to ACC <sup>4</sup>	617	705	679	1,038	896	960	1,019	1,093	1,188	1,267
National health response to COVID-19 <sup>5</sup>	..	..	..	1,261	4,965	2,834	295	..	..	..
Other expenses <sup>4</sup>	24	28	33	23	82	9	6	7	4	8
<b>Health expenses</b>	<b>17,159</b>	<b>18,268</b>	<b>19,891</b>	<b>22,784</b>	<b>27,781</b>	<b>29,527</b>	<b>28,653</b>	<b>29,387</b>	<b>30,827</b>	<b>32,278</b>

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 Health New Zealand in partnership with the Māori Health Authority.

2. Payments are 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 national, regional and local levels.

3. 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.

4. National disability support services were previously funded through Vote Health and are now funded through Vote Social Development.

5. 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*.

6. This line includes spending in relation to vaccines, managed isolation and quarantine as well as the overall COVID-19 response.

7. This line includes health multi-year funding.

Source: The Treasury

**Table 5.4 – Education expenses**

(\$millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Early childhood education	1,844	1,896	2,007	2,132	2,247	2,387	2,675	3,013	3,056	3,092
Primary and secondary schools (see below)	6,334	6,823	7,108	8,230	8,478	8,888	8,923	8,679	8,508	8,458
Tertiary funding (see below)	4,112	4,112	5,621	3,288	4,486	4,973	5,265	5,433	5,448	5,460
Departmental expenses	1,281	1,416	1,534	1,656	1,962	2,202	2,237	2,116	2,093	2,163
COVID-19 apprentice support	..	..	..	156	255	177	113	56	..	..
Training incentive allowance	..	..	..	..	9	16	21	21	21	21
Other education expenses	58	46	52	577	586	207	149	114	109	107
<b>Education expenses</b>	<b>13,629</b>	<b>14,293</b>	<b>16,322</b>	<b>16,039</b>	<b>18,023</b>	<b>18,850</b>	<b>19,383</b>	<b>19,432</b>	<b>19,235</b>	<b>19,301</b>

Source: The Treasury

Number of places provided <sup>1</sup>	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Early childhood education	217,241	221,137	221,945	223,919	220,937	222,708	224,780	228,483	231,475	234,103

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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Primary	3,216	3,452	3,600	4,107	4,122	4,250	4,234	4,148	4,125	4,110
Secondary	2,407	2,606	2,663	3,043	3,135	3,275	3,285	3,265	3,268	3,212
School transport	195	206	208	216	210	244	248	248	248	248
Special needs support	429	447	515	641	658	688	696	711	723	745
Professional development	82	104	91	104	129	130	140	132	124	124
Schooling improvement	5	8	7	25	20	29	36	16	20	19
School lunch programme	..	..	4	94	204	272	284	159	..	..
<b>Primary and secondary education expenses</b>	<b>6,334</b>	<b>6,823</b>	<b>7,108</b>	<b>8,230</b>	<b>8,478</b>	<b>8,888</b>	<b>8,923</b>	<b>8,679</b>	<b>8,508</b>	<b>8,458</b>

Source: The Treasury

Number of places provided <sup>1</sup>	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Primary	520,496	527,429	530,379	529,859	520,060	517,005	509,963	503,793	498,326	498,517
Secondary	277,734	279,904	286,511	294,216	297,309	305,226	311,239	312,859	312,389	310,200

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.  
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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Tuition <sup>1</sup>	2,552	2,571	3,911	2,019	3,205	3,203	3,274	3,304	3,255	3,218
Other tertiary funding	561	606	637	698	755	737	756	717	711	711
Student allowances	511	583	567	590	556	521	595	717	755	778
Student loans <sup>2</sup>	488	352	506	(19)	(30)	512	640	695	727	753
<b>Tertiary education expenses</b>	<b>4,112</b>	<b>4,112</b>	<b>5,621</b>	<b>3,288</b>	<b>4,486</b>	<b>4,973</b>	<b>5,265</b>	<b>5,433</b>	<b>5,448</b>	<b>5,460</b>

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.  
2. The '2022 and 2021 Actuals' includes impairment reversals of student loans.

Source: The Treasury

Number of places provided <sup>1</sup>	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Actual delivered and estimated funded places	220,717	217,767	214,172	234,350	219,731	268,000	264,100	260,800	250,500	250,500

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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental expenses	2,119	2,199	2,249	2,271	2,477	2,951	2,751	2,575	2,505	2,449
Official development assistance	643	708	736	804	827	905	1,281	1,111	961	861
Tax receivable write-down and impairments	616	629	1,356	882	662	985	931	931	934	932
Science expenses	94	103	113	121	114	129	117	112	112	112
Crown Research Institutes: COVID-19	..	..	45	45	..	..	..	..	..	..
Shovel ready project funding	..	..	..	137	..	28	..	..	..	..
Indemnity and guarantee expenses <sup>1</sup>	18	16	14	6	3	400	4	5	5	5
Non-departmental expenses	683	961	785	905	928	463	1,143	978	1,388	1,059
Other expenses <sup>2</sup>	497	350	785	583	709	765	321	84	135	161
<b>Core government service expenses</b>	<b>4,670</b>	<b>5,166</b>	<b>6,083</b>	<b>5,754</b>	<b>5,720</b>	<b>6,626</b>	<b>6,548</b>	<b>5,796</b>	<b>6,040</b>	<b>5,579</b>

1. The '2023 Forecast' includes expenses of \$397 million related to the Crown's obligation for the North Island weather events under the Civil Defence Emergency Management Act 2002.  
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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Police	1,629	1,760	1,997	2,079	2,206	2,528	2,460	2,304	2,336	2,315
Department of Corrections	1,301	1,417	1,527	1,641	1,645	1,793	1,872	1,876	1,905	1,905
Ministry of Justice	502	542	591	642	704	767	821	802	806	806
NZ Customs Service	174	187	201	182	200	223	226	241	226	225
Other departments	132	111	163	178	152	223	239	237	235	235
<b>Departmental expenses</b>	<b>3,738</b>	<b>4,017</b>	<b>4,479</b>	<b>4,722</b>	<b>4,907</b>	<b>5,534</b>	<b>5,618</b>	<b>5,460</b>	<b>5,508</b>	<b>5,486</b>
Non-departmental outputs	445	457	419	477	537	712	708	718	683	685
Other expenses	1	151	13	3	..	6	11	11	10	10
<b>Law and order expenses</b>	<b>4,184</b>	<b>4,625</b>	<b>4,911</b>	<b>5,202</b>	<b>5,444</b>	<b>6,252</b>	<b>6,337</b>	<b>6,189</b>	<b>6,201</b>	<b>6,181</b>

Source: The Treasury

**Table 5.9** – Transport and communication expenses

(\$millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	55	60	70	73	82	155	153	136	137	102
Waka Kotahi NZ Transport Agency	2,280	2,601	2,719	3,122	2,782	1,957	3,315	3,630	3,817	3,874
Rail funding	3	3	3	13	310	626	653	436	350	13
Funding to support the aviation and transport industries	..	..	78	570	554	331	98	..	..	..
Funding to support Waka Kotahi due to impact of COVID-19	..	..	..	322	128	83	1	..	..	..
Shovel ready project funding to Crown Infrastructure Partners	..	..	..	1,035	..	310	15	15	..	..
Transport temporary relief package <sup>1</sup>	..	..	..	..	411	1,619	..	..	..	..
North Island weather events	..	..	..	..	..	250	275	..	..	..
Other non-departmental expenses	177	158	145	169	200	559	271	202	150	151
Other expenses <sup>2</sup>	44	67	164	352	190	306	425	135	135	138
<b>Transport and communication expenses</b>	<b>2,559</b>	<b>2,889</b>	<b>3,179</b>	<b>5,656</b>	<b>4,657</b>	<b>6,196</b>	<b>5,206</b>	<b>4,554</b>	<b>4,589</b>	<b>4,278</b>

1. Largely reflects operating funding to Waka Kotahi NZ Transport Agency to account for the shortfall in revenue as a result of temporary reductions in fuel excise duty and road user charges.  
2. 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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	447	499	561	633	626	741	722	688	676	658
Employment initiatives	4	10	5	4	4	4	4	4	4	4
Non-departmental outputs <sup>2</sup>	1,155	1,328	1,614	1,976	1,697	1,434	1,642	1,343	1,291	1,246
KiwiSaver (includes HomeStart grant) <sup>1</sup>	897	951	893	916	964	1,039	1,094	1,152	1,200	1,246
Initial fair value write-down on the Small Business Cashflow Scheme	..	..	..	..	..	..	..	..	..	..
Loans	..	..	686	143	230	71	28	..	..	..
COVID-19 Resurgence Support Payments	..	..	..	200	4,019	..	..	..	..	..
Shovel ready funding to support energy projects	..	..	..	24	14	89	5	..	..	..
Shovel ready project funding to support regional projects	..	..	..	159	174	67	..	..	..	..
Worker redeployment package	..	..	19	50	6	1	..	..	..	..
Other expenses <sup>3</sup>	229	218	210	376	344	516	460	219	225	205
<b>Economic and industrial services expenses</b>	<b>2,732</b>	<b>3,006</b>	<b>3,988</b>	<b>4,481</b>	<b>8,078</b>	<b>3,962</b>	<b>3,955</b>	<b>3,406</b>	<b>3,396</b>	<b>3,359</b>

1. From 2018 onwards, spending includes KiwiSaver HomeStart grant initiative.  
2. From 2019 onwards, non-departmental outputs includes Provincial Growth Fund expenses.  
3. From 2020 onwards, other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

**Table 5.11** – Defence expenses

(\$millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
New Zealand Defence Force expenses	2,172	2,286	2,418	2,531	2,672	2,812	3,000	3,045	3,050	3,052
Other expenses	79	109	81	133	160	172	178	178	189	181
<b>Defence expenses</b>	<b>2,251</b>	<b>2,395</b>	<b>2,499</b>	<b>2,664</b>	<b>2,832</b>	<b>2,984</b>	<b>3,178</b>	<b>3,223</b>	<b>3,239</b>	<b>3,233</b>

Source: The Treasury

**Table 5.12** – Heritage, culture and recreation expenses

(\$millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	302	305	326	379	374	468	438	455	496	488
Non-departmental outputs	503	538	627	884	809	850	868	834	821	791
Screen Production Grants	17	42	31	48	69	99	..	..	..	..
COVID-19 cultural sector response	..	..	..	6	73	88	32	..	..	..
Other expenses <sup>1</sup>	28	33	122	103	143	173	95	56	53	53
<b>Heritage, culture and recreation expenses</b>	<b>850</b>	<b>918</b>	<b>1,106</b>	<b>1,420</b>	<b>1,468</b>	<b>1,678</b>	<b>1,433</b>	<b>1,345</b>	<b>1,370</b>	<b>1,332</b>

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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental expenses <sup>1</sup>	549	677	727	691	724	864	837	788	777	764
Non-departmental outputs	188	110	89	178	106	177	143	202	186	170
Other expenses <sup>1,2,3</sup>	70	173	145	146	119	422	162	146	121	98
<b>Primary services expenses</b>	<b>807</b>	<b>960</b>	<b>961</b>	<b>1,015</b>	<b>949</b>	<b>1,463</b>	<b>1,142</b>	<b>1,136</b>	<b>1,084</b>	<b>1,032</b>

1. From '2019 Actual' other expenses and departmental expenses includes costs associated with Mycoplasma bovis.  
2. From 2019 onwards other expenses includes funding for forestry grants and partnership programmes.  
3. The '2023 Forecast' includes aquaculture settlements, expenses associated with sustainable food and fibre futures and the North Island weather events.

Source: The Treasury



**Table 5.14** – Housing and community development expenses

(\$millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	150	195	220	237	255	279	312	262	235	234
Housing subsidies	5	4	4	3	4	4	4	4	4	4
Community Services	179	183	235	349	438	516	430	409	378	376
Housing Acceleration Fund	..	..	..	..	22	70	238	349	380	172
Water Infrastructure	..	..	..	267	239	590	415	45	21	10
Shovel ready project funding to support housing projects	..	..	..	46	35	56	140	..	..	..
Other non-departmental expenses <sup>1</sup>	193	283	523	874	987	1,214	1,213	1,209	1,167	1,195
Other expenses	25	62	33	37	53	184	127	23	39	24
<b>Housing and community development expenses</b>	<b>552</b>	<b>727</b>	<b>1,015</b>	<b>1,813</b>	<b>2,033</b>	<b>2,913</b>	<b>2,879</b>	<b>2,301</b>	<b>2,224</b>	<b>2,015</b>

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)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
NZ Emissions Trading Scheme	720	543	650	875	1,498	1,656	1,201	1,219	1,276	1,346
Departmental outputs	412	460	542	614	690	825	904	745	718	712
Non-departmental outputs	72	82	257	318	170	286	305	273	119	77
Clean car discount	..	..	..	..	128	203	193	171	152	146
Accelerating energy efficiency and fuel switching <sup>1</sup>	..	..	..	..	..	80	149	199	214	191
Other expenses	34	34	36	99	63	132	16	28	17	16
<b>Environmental protection expenses</b>	<b>1,238</b>	<b>1,119</b>	<b>1,485</b>	<b>1,906</b>	<b>2,549</b>	<b>3,182</b>	<b>2,768</b>	<b>2,635</b>	<b>2,496</b>	<b>2,488</b>

1. This relates to appropriations with MBIE to decarbonise industrial and commercial processes.

Source: The Treasury

**Table 5.16** – Finance costs

(\$millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Interest on financial liabilities	3,454	3,398	2,971	1,846	2,796	5,863	6,949	7,515	7,796	8,256
Interest unwind on provisions	43	293	257	72	88	415	513	456	414	392
<b>Finance costs expenses</b>	<b>3,497</b>	<b>3,691</b>	<b>3,228</b>	<b>1,918</b>	<b>2,884</b>	<b>6,278</b>	<b>7,462</b>	<b>7,971</b>	<b>8,210</b>	<b>8,648</b>

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).

### ***Consumers Price Index (CPI)***

Stats NZ'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 NZ Super 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 the operating balance before gains and losses (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.

The Treasury's structural balance removes from the CAB significant expenditure or revenue associated with one-off events. In doing this, the structural balance aims to provide a better picture of fiscal sustainability than the CAB.

### ***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).

### ***Fiscal drag***

The additional personal income tax generated as an individual's average tax rate increases as their income increases.

### ***Forecast new capital spending***

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***

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.

**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 to the following definitions).

**Gross domestic product (expenditure)**

The sum of total expenditure on final goods and services in the economy, including exports but minus imports. Expenditure GDP is calculated in both real and nominal terms.

**Gross domestic product (nominal)**

The value-added of goods and services produced in the economy expressed in current prices.

**Gross domestic product (production)**

The value-added of goods and services produced in New Zealand, after deducting the cost of goods and services used in the production process. Production GDP is calculated only in real terms.

**Gross domestic product (real)**

The value-added of goods and services produced in the economy expressed in the prices of a base period. The current base period is 2009/10.

**Gross national expenditure (GNE)**

A measure of total expenditure on final goods and services by New Zealand residents.

**Gross sovereign-issued debt (GSID)**

Represents debt issued by the sovereign (the core Crown) and includes any government stock held by the NZ Super Fund, ACC and EQC.

**Insurance liabilities**

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

**Inter-segment eliminations**

The amounts of transactions between different segments (core Crown, Crown entities and SOEs) that are eliminated to determine total Crown results.

**Labour Cost Index (LCI)**

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

**Labour force participation rate**

The percentage of the working-age population in work or actively looking for and available for work.

**Labour productivity**

Output per unit of labour input (where labour inputs might be measured as hours worked or the number of people employed).

**Loan-to-value ratio restrictions**

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

**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 Reserve Bank uses monetary policy to regulate the supply of money in New Zealand. In the past, the Reserve Bank has primarily used the Official Cash Rate (OCR) to implement monetary policy decisions. Recently, increased focus has been given to alternative monetary policy responses, such as the Large Scale Asset Purchase (LSAP) programme and the Funding for Lending (FLP) programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range and to support maximum sustainable employment.

Tightening monetary policy means raising interest rates (such as via the OCR) in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

### ***Multi-factor productivity***

Multi-factor productivity (MFP) relates a change in output to several types of inputs, typically capital and labour. MFP is often measured residually, as the change in output that cannot be accounted for by the change in combined inputs.

### ***National saving***

National disposable income less private and public consumption spending. Income excludes gains and losses on capital. Gross saving includes depreciation.

### ***Net core Crown cash flow from operations***

The cash impact of core Crown operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of SOEs, Crown entities and NZ Super Fund net revenue) less non-cash items (eg, depreciation).

### ***Net debt***

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

In 2022, net debt replaced net core Crown debt as the Government's primary debt indicator.

### ***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.

**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 NZ Super 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.

**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.

### ***Total fiscal impulse***

The total fiscal impulse shows whether the stance of fiscal policy is expansionary or contractionary relative to the previous year. The Treasury's total fiscal impulse measure is calculated as the change in the fiscal balance as a percentage of nominal potential GDP. The fiscal balance is residual cash adjusted for some expenditure items that do not directly affect domestic demand.

### ***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. The TWI is 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
\$millions															
<b>Revenue and expenses</b>															
Core Crown tax revenue	58,651	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983	108,458	115,349	123,212	130,185	140,175	147,490
Core Crown revenue	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968	117,515	126,678	134,526	141,534	151,817	159,360
Total Crown revenue	85,678	88,536	93,805	97,416	103,422	109,973	119,142	116,003	129,335	141,627	155,556	166,334	174,019	185,321	193,830
Core Crown expenses	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764	125,641	128,195	136,991	141,259	147,618	152,805
Total Crown expenses	90,030	91,179	93,064	95,137	99,007	104,014	111,376	138,916	133,722	150,956	161,924	173,412	177,146	184,346	190,265
Operating balance (excluding minority interests)	6,925	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,932)	4,219	(1,406)	2,524	6,834	9,891
<b>Fiscal strategy indicators</b>															
OBEGAL (excluding minority interests)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(6,959)	(7,562)	(3,609)	557	3,157
Core Crown residual cash	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(22,426)	(26,875)	(315)	81	65
Net debt	25,298	25,208	22,825	23,193	16,249	11,219	5,432	35,710	35,921	61,850	70,957	91,236	94,717	95,272	89,181
Net debt (excl. NZS Fund)	47,960	51,333	52,131	53,229	51,548	50,763	50,822	79,930	95,188	117,115	133,608	159,424	168,413	174,927	175,022
Gross debt <sup>1</sup>	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257	100,835	118,950	134,950	163,343	186,238	201,656	214,518
Net core Crown debt <sup>2</sup>	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080	128,873	151,744	178,804	179,558	180,425	181,051
<b>Statement of financial position</b>															
Total assets	244,416	256,824	279,214	292,679	313,609	339,932	364,652	393,400	438,596	501,844	519,192	539,005	560,985	582,458	605,036
Total liabilities	174,405	176,127	186,978	197,158	197,137	204,295	221,313	277,457	281,403	327,525	340,236	361,150	380,570	395,280	407,951
Net worth	70,011	80,697	92,236	95,521	116,472	135,637	143,339	115,782	157,193	174,319	178,956	177,855	180,415	187,178	197,085
Net worth attributable to the Crown	68,071	75,486	86,454	89,366	110,532	129,644	136,949	110,320	151,469	167,036	171,048	169,609	172,145	178,967	188,854
<b>Nominal expenditure GDP (revised)</b>	<b>218,821</b>	<b>236,907</b>	<b>245,551</b>	<b>258,752</b>	<b>275,436</b>	<b>295,576</b>	<b>310,227</b>	<b>317,277</b>	<b>343,210</b>	<b>363,019</b>	<b>394,004</b>	<b>415,022</b>	<b>437,092</b>	<b>461,334</b>	<b>484,805</b>
<b>% GDP</b>															
<b>Revenue and expenses</b>															
Core Crown tax revenue	26.8%	26.0%	27.1%	27.2%	27.5%	27.1%	27.9%	26.8%	28.5%	29.9%	29.3%	29.7%	29.8%	30.4%	30.4%
Core Crown revenue	29.2%	28.3%	29.4%	29.4%	29.7%	29.4%	30.1%	29.0%	30.6%	32.4%	32.2%	32.4%	32.4%	32.9%	32.9%
Total Crown revenue	39.2%	37.4%	38.2%	37.6%	37.5%	37.2%	38.4%	36.6%	37.7%	39.0%	39.5%	40.1%	39.8%	40.2%	40.0%
Core Crown expenses	32.0%	30.0%	29.5%	28.6%	27.7%	27.3%	28.0%	34.3%	31.4%	34.6%	32.5%	33.0%	32.3%	32.0%	31.5%
Total Crown expenses	41.1%	38.5%	37.9%	36.8%	35.9%	35.2%	35.9%	43.8%	39.0%	41.6%	41.1%	41.8%	40.5%	40.0%	39.2%
Operating balance (excluding minority interests)	3.2%	1.2%	2.4%	(2.1%)	4.5%	2.8%	0.1%	(9.5%)	4.7%	(4.7%)	1.1%	(0.3%)	0.6%	1.5%	2.0%
<b>Fiscal strategy indicators</b>															
OBEGAL (excluding minority interests)	(2.0%)	(1.2%)	0.2%	0.7%	1.5%	1.9%	2.4%	(7.3%)	(1.3%)	(2.7%)	(1.8%)	(1.8%)	(0.8%)	0.1%	0.7%
Core Crown residual cash	(2.6%)	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.5%)	(4.0%)	(7.4%)	(5.7%)	(6.5%)	(0.1%)	0.0%	0.0%
Net debt	11.6%	10.6%	9.3%	9.0%	5.9%	3.8%	1.8%	11.3%	10.5%	17.0%	18.0%	22.0%	21.7%	20.7%	18.4%
Net debt (excl. NZS Fund)	21.9%	21.7%	21.2%	20.6%	18.7%	17.2%	16.4%	25.2%	27.7%	32.3%	33.9%	38.4%	38.5%	37.9%	36.1%
Gross debt <sup>1</sup>	35.6%	34.6%	35.1%	33.6%	31.6%	29.8%	27.2%	32.2%	29.4%	32.8%	34.3%	39.4%	42.6%	43.7%	44.2%
Net core Crown debt <sup>2</sup>	25.5%	25.3%	24.7%	23.9%	21.6%	19.5%	18.6%	26.3%	29.7%	35.5%	38.5%	43.1%	41.1%	39.1%	37.3%
<b>Statement of financial position</b>															
Total assets	111.7%	108.4%	113.7%	113.1%	113.9%	115.0%	117.5%	124.0%	127.8%	138.2%	131.8%	129.9%	128.3%	126.3%	124.8%
Total liabilities	79.7%	74.3%	76.1%	76.2%	71.6%	69.1%	71.3%	87.4%	82.0%	90.2%	86.4%	87.0%	87.1%	85.7%	84.1%
Net worth	32.0%	34.1%	36.6%	36.9%	42.3%	45.9%	46.2%	36.5%	45.8%	48.0%	45.4%	42.9%	41.3%	40.6%	40.7%
Net worth attributable to the Crown	31.1%	31.9%	35.2%	34.5%	40.1%	43.9%	44.1%	34.8%	44.1%	46.0%	43.4%	40.9%	39.4%	38.8%	39.0%

1. Excludes Reserve Bank settlement cash and bank bills.

2. Excludes advances.



## Economic Indicators

June Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.5	3.6	3.6	4.7	6.3	4.7	4.2	-1.4	7.8	1.1	1.3	-0.4	1.8	3.1	2.9
Public consumption	-0.1	3.0	3.3	1.2	2.9	4.3	3.1	6.5	7.7	7.9	-0.5	-1.0	-1.4	0.8	0.5
<b>TOTAL CONSUMPTION</b>	1.9	3.5	3.5	3.9	5.5	4.6	3.9	0.4	7.7	2.7	0.9	-0.5	1.0	2.5	2.4
Residential investment	18.2	13.2	6.3	10.1	3.9	-1.0	1.4	-4.4	16.3	-5.4	3.9	-4.4	-0.5	3.1	2.4
Business investment	1.2	9.0	6.9	1.3	1.2	12.2	4.7	-2.9	8.8	7.2	1.2	-0.5	2.3	4.1	3.9
<b>TOTAL INVESTMENT</b>	4.9	10.0	6.8	3.5	1.9	8.6	3.9	-3.2	10.6	4.0	1.8	-1.5	1.6	3.9	3.6
Stock change (contribution to growth)	-0.3	0.5	0.0	-0.3	0.4	0.2	-0.6	-0.3	0.2	0.7	-0.1	-0.4	0.0	0.0	0.0
<b>GROSS NATIONAL EXPENDITURE</b>	2.3	4.8	4.0	3.3	5.0	5.8	3.3	-0.7	8.6	3.9	1.2	-1.1	1.1	2.8	2.7
Exports	3.0	0.3	6.4	6.3	0.9	4.0	3.3	-5.3	-10.7	-3.4	12.6	8.2	4.8	3.6	3.0
Imports	2.6	9.0	6.9	2.1	6.1	8.6	2.8	-5.8	-4.2	12.2	2.6	-0.9	1.1	2.8	2.4
<b>EXPENDITURE ON GDP</b>	2.4	2.3	3.9	4.4	3.6	4.6	3.4	-0.7	6.8	0.4	3.4	0.8	2.1	3.1	2.8
<b>GDP (production measure)</b>	2.3	2.8	4.1	3.8	3.5	3.6	3.2	-0.7	6.0	1.1	3.2	1.0	2.1	3.1	2.9
- annual % change	2.6	2.8	4.1	4.1	3.4	3.8	2.7	-9.9	18.5	0.4	1.6	1.4	2.5	3.2	2.7
Real GDP per capita	1.6	1.6	2.1	1.6	1.3	1.7	1.5	-2.7	4.7	0.8	2.5	-0.4	0.8	1.8	1.6
Nominal GDP (expenditure basis)	1.8	8.3	3.6	5.4	6.4	7.3	5.0	2.3	8.2	5.8	8.5	5.3	5.3	5.5	5.1
GDP deflator	-0.6	5.8	-0.3	0.9	2.8	2.6	1.5	3.0	1.3	5.3	5.0	4.5	3.2	2.4	2.2
Output gap (% deviation, June year average)	-1.7	-1.7	-0.9	-0.4	0.0	0.7	1.3	0.7	1.6	2.4	1.1	-0.7	-1.3	-0.9	-0.6
Employment	0.1	3.4	3.6	2.6	5.3	3.6	2.0	1.6	0.6	2.8	1.4	-0.1	0.5	1.7	1.6
Unemployment (% June quarter s.a.)	6.0	5.3	5.5	5.1	4.8	4.5	4.0	4.0	3.9	3.3	3.7	5.0	5.3	4.9	4.8
Wages (average ordinary-time hourly, ann % change)	2.8	2.3	2.5	2.4	2.5	2.8	4.0	2.9	4.0	6.4	6.6	5.7	5.0	4.4	4.2
CPI inflation (ann % change)	0.7	1.6	0.4	0.4	1.7	1.5	1.7	1.5	3.3	7.3	6.2	3.3	2.6	2.3	2.1
Merchandise terms of trade (SNA basis)	-3.8	16.4	-4.8	-2.0	4.3	4.8	-2.8	4.4	-0.3	3.2	-5.9	-3.1	0.7	0.4	0.3
House prices (ann % change)	8.9	6.3	11.8	15.0	6.5	3.6	1.5	7.1	29.7	5.3	-13.4	-4.6	2.7	3.1	2.8
Current account balance - \$billion	-7.9	-5.9	-8.4	-5.3	-7.1	-10.6	-11.0	-5.1	-11.8	-29.2	-30.8	-24.7	-20.3	-19.0	-18.3
Current account balance - % of GDP	-3.6	-2.5	-3.4	-2.1	-2.6	-3.6	-3.5	-1.6	-3.4	-8.0	-7.8	-5.9	-4.6	-4.1	-3.8
TWI (June quarter)	76.3	81.5	76.2	73.6	76.5	73.8	72.7	69.7	74.7	72.2	70.9	70.3	69.9	69.5	69.3
90-day bank bill rate (June quarter)	2.6	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.3	2.2	5.3	5.0	3.9	3.4	3.0
10-year bond rate (June quarter)	3.5	4.4	3.6	2.7	2.9	2.8	1.8	0.8	1.7	3.7	4.7	4.9	4.9	4.7	4.4