THE TREASURY
Kaitohutohu Kaupapa Rawa

Pre-election Economic *and* Fiscal Update 2014

19 August 2014

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Contents

Treasury Forecast Update Process

The Public Finance Act 1989 requires a *Pre-election Economic and Fiscal Update* (*Pre-election Update*) to be published between 20 and 30 working days prior to an election.

With the announcement of an election date of 20 September 2014, the Treasury has prepared a set of forecasts taking into account the most recent economic and fiscal developments since its May 2014 *Budget Economic and Fiscal Update* (*Budget Update*). As in 2005, the last time there was a September General Election, the process has been slightly truncated given the proximity to the preparation of the *Budget Update* forecasts.

A complete set of macroeconomic forecasts has been produced taking into account the economic developments since the *Budget Update*. In line with established practice, Inland Revenue (IRD) has prepared an independent set of tax forecasts based, in the short term, on more detailed analysis of taxpayer information, and, in the longer term, on the same underlying macroeconomic trends that underpin the Treasury's tax forecasts.

The fiscal forecasts have been prepared using the same accounting policies used for the audited *Financial Statements of the Government of New Zealand*. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with Financial Reporting Standard 42: *Prospective Financial Standards*.

The preparation of the *Pre-election Update* fiscal forecasts has involved:

- reassessing tax revenue (in conjunction with IRD) and benefit expense forecasts in light of the revisions to the macroeconomic forecasts
- updating the operating results and expense forecasts using the 2013/14 pre-audited financial information of departments and other significant reporting entities
- considering the impact of additional financial information that has occurred since the finalisation of the Budget Update fiscal forecasts of 29 April 2014
- incorporating the fiscal impact of significant Cabinet decisions made since the Budget Update, up to and including 4 August 2014. The forecasts, for example, incorporate the decision to reduce ACC motor vehicle levies in the 2015/16 fiscal year, and
- the forecasts also taking into account the Budget 2014 decision to raise the operating allowance for Budget 2015 to $1.5 billion (compared with $1.0 billion previously) and to increase the operating allowance by 2% in each Budget after that.

Where government policies, including those under active consideration, are known at the date of finalisation and would have a material effect on the fiscal forecasts, but which are not certain enough (in terms of their likely timing or measurement) to incorporate into the fiscal forecasts, they are disclosed in the Specific Fiscal Risks chapter.

Projections are also included in the document and represent potential future paths of variables. They are usually based on historical averages of the levels or growth rates of the relevant variables, and depend on both the forecast base from which they arise and the assumptions used to generate them. They differ from forecasts, which have a higher level of precision.

Finalisation Dates for the Update

Economic data	16 July 2014
Economic forecasts	18 July 2014
Tax revenue forecasts	25 July 2014
Fiscal forecasts	5 August 2014
Specific fiscal risks	5 August 2014
Projections	6 August 2014
Text finalised	13 August 2014

Since the macroeconomic forecasts were finalised on 18 July, there have been a number of data releases. They do not change the Treasury's overall view of the economy. The Risks and Scenarios chapter describes some of the key risks to the Treasury's central economic forecasts, and sets out two alternative scenarios for how the economy and fiscal position might develop.

Other Information

On the Treasury's website is a series of other information that provides users of the *Pre-election Update* with further detail. This other information should be read in conjunction with the published document.

Additional *Pre-election Update* information includes:

- detailed economic forecast information – tables providing breakdowns of the economic forecasts
- Treasury and IRD tax forecasts – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts
- additional fiscal indicators – estimates of the cyclically-adjusted balance and fiscal impulse, and
- accounting policies – outline of the specific Crown accounting policies. The published forecast financial statements only provide a summary.

This other information can be accessed at: www.treasury.govt.nz/budget/forecasts/prefu2014

NZ Budget App

Smartphone and tablet users can also access the *Pre-election Update* through the NZ Budget App. The App is available on the Apple Store for iOS devices and the Google Play store for Android devices.

Statement of Responsibility

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in supplying the Minister of Finance with this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications both of Government decisions and other circumstances as at 5 August 2014 that were communicated to me by the Minister of Finance in accordance with the requirements of the Public Finance Act 1989 and of other economic and fiscal information available to the Treasury as at 5 August 2014. 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*.

Gabriel Makhlouf
Secretary to the Treasury

13 August 2014

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured the Secretary to the Treasury has been advised, in accordance with the requirements of the Public Finance Act 1989, of all Government decisions and other circumstances as at 5 August 2014 of which I was aware and that had material economic or fiscal implications.

I accept responsibility for the integrity of the disclosures contained in the *Update* and responsibility for the consistency and completeness of the *Update* information with the requirements of Part 2 (Fiscal responsibility) of the Public Finance Act 1989.

Hon Bill English
Minister of Finance

13 August 2014

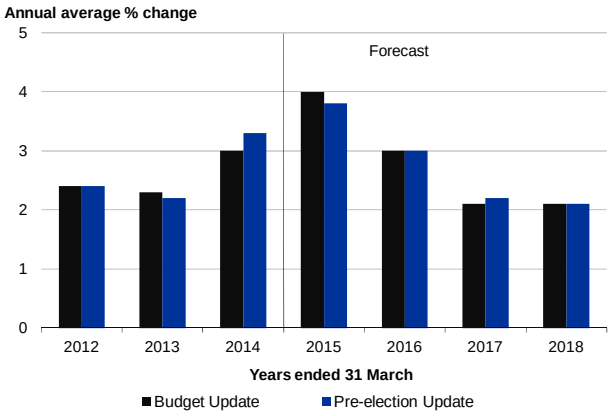
Executive Summary

- The New Zealand economy is expanding at a robust pace, although growth momentum has eased from earlier in the year. Looking forward, real production gross domestic product (GDP) is forecast to grow by 2.8% on average over the four years to March 2018, essentially unchanged from the *Budget Update.* The near-term outlook remains for growth faster than potential driven by residential investment, positive migration inflows and still-high terms of trade.

- Real GDP growth for the year ending March 2014 was faster than expected in the *Budget Update* – 3.3% compared with 3.0% forecast – while growth for the year ending March 2015 is forecast to be lower at 3.8% (compared with 4.0% in the *Budget Update*). Growth is expected to slow later in the forecast period as the factors currently supporting growth decline and monetary conditions tighten (Figure 1).

- Rising construction activity is expected to be a key driver of growth, with earthquake rebuilding supplemented by a rebound in residential construction in Auckland in response to pent-up demand. Business investment is also forecast to pick up as productive capacity is more heavily utilised.

Figure 1 – Real GDP growth



Sources: Statistics New Zealand, the Treasury

- Net migration inflows continue to rise, adding to both demand and the productive capacity of the economy. The net inflow is expected to reach 42,500 this year and overall to add an additional 3,500 to the population compared with the *Budget Update,* with risks skewed to the upside.

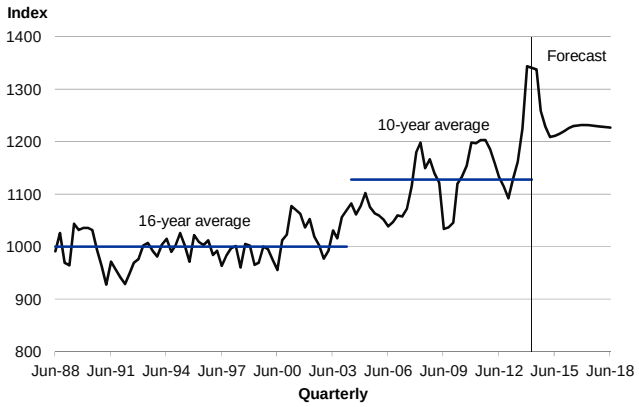
- Household income growth is underpinning consumption and residential investment activity. Over the forecast period household disposable incomes are forecast to increase 4.0% on average per year, after an estimated 7.1% increase in the year to March 2014. Employment and wage growth is expected to be the main driver of this growth, with labour income growing by 4.6% on average over the next four years.

- Recent falls in commodity prices (mainly dairy and forestry) have occurred earlier than envisaged in the *Budget Update*. As a result, the forecast decline in the goods terms of trade is occurring sooner than previously expected and consequently will provide less support to growth. The terms of trade are forecast to stabilise during 2015, recovering some of the decline currently being seen. Over the forecast period the terms of trade are expected to remain above the average experienced over the past decade

(Figure 2). A more substantial and sustained short-term decline in export prices is an area of downside risk for the forecasts.

- The global backdrop to these forecasts is steady, but uneven, economic growth. Trading partner growth is likely to be similar to that recorded in the mid-2000s with moderate inflation. Risks overall remain skewed to the downside, with heightened geopolitical tensions adding to economic uncertainties.

Figure 2 – Goods terms of trade (SNA basis)



Sources: Statistics New Zealand, the Treasury

- The exchange rate has remained elevated for some time, but is assumed to depreciate as the global outlook improves, foreign interest rates rise and the terms of trade fall from their recent peaks.

- The current account deficit is forecast to increase from around 2.6% of GDP in mid-2014 to 4.8% in the year to March 2015 owing to lower export volumes in the near-term and a decline in the terms of trade. The deficit is forecast to stabilise at 6.4% of GDP from late 2016.

- Fiscal policy is expected to exert a dampening influence on economic activity over the forecast horizon as slow growth in spending, combined with rising tax revenue, see the fiscal balance improve. The average fiscal impulse over the forecast period is unchanged from the *Budget Update* at -0.4% of GDP, but the timing and magnitude have changed with the impact of weaker tax receipts and changes in the expected timing of some forecast expenditure.

- Despite higher than forecast growth, annual Consumers Price Index (CPI) inflation in June 2014 was 1.6%, below the *Budget Update* forecast of 1.8%. With real GDP growth exceeding our estimate of potential growth, upward pressure on resources is forecast to continue to increase and lead to higher inflation. We forecast annual CPI inflation to peak at 2.5% in late 2016 before declining to around 2% by the end of the forecast period.

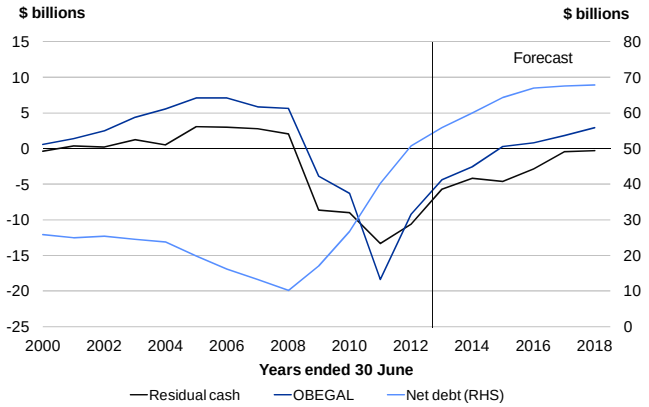
- Reflecting increased inflation pressures, we expect further increases in the Reserve Bank's Official Cash Rate (OCR) over the forecast period. Ninety-day interest rates are forecast to rise to 5.3% by late 2017.

- Nominal GDP increased 7.0% in the year to March 2014, 0.3 percentage points higher than expected in the *Budget Update*. In contrast, forecast growth for the year to March 2015 is 0.5 percentage points lower at 5.2% taking the level of nominal GDP below that forecast in the *Budget Update.* This mainly reflects the earlier decline in the terms of trade. The lower level of nominal GDP is expected to continue over the remainder of the forecast period. See the box Real and Nominal GDP on page 7 for an explanation of the different measures.

- The operating balance before gains and losses (OBEGAL) is forecast to move from an estimated $2.6 billion deficit in the year ending June 2014 to a surplus of $0.3 billion this fiscal year, and increasing thereafter to $3.0 billion in the year ending June 2018 (Figure 3). The OBEGAL surplus is $0.5 billion lower in the year ending 2018 than forecast in the *Budget Update*.

- Core Crown tax revenue for the year to June 2014 has been revised downward from that expected in the *Budget Update*. While still expected to increase across the forecast period, core Crown tax revenue is forecast to be below the *Budget Update* forecasts each year as a result of lower forecast nominal GDP. Forecast core Crown expenses remain largely unchanged from the *Budget Update*, declining to 30.0% of GDP by the end of the forecast period.

Figure 3 – OBEGAL, core Crown residual cash and net core Crown debt



Source: The Treasury

- Net core Crown debt is forecast to peak at 26.8% of GDP in the year ending June 2015 – slightly higher than 26.4% in the *Budget Update*. Thereafter, net debt is expected to reduce more slowly than in the *Budget Update,* reflecting a lower forecast path for core Crown residual cash (which is now expected to return to surplus in the year ending June 2019). In dollar terms, net debt is forecast to peak at $67.9 billion in June 2018, $2.4 billion higher and a year later than forecast in the *Budget Update*.

- In addition to the risks noted above, there are other upside and downside risks to the judgements underpinning the forecasts. These include the size and pace of the Canterbury rebuild, the path and pass-through of the exchange rate and the saving behaviour of households. The potential impacts of some of these judgements evolving differently from the main forecast are highlighted in the Risks and Scenarios chapter. One scenario assumes that growth in the United States (US) is stronger, along with stronger domestic price pressures. Another scenario explores the impact of weaker short-term domestic demand combined with a larger decline in the terms of trade.

- As well as the fiscal impact of changes in economic activity, the Government is exposed to other fiscal risks that could impact both the operating balance and the balance sheet. For example, the Crown's financial position is susceptible to market movements in variables such as interest rates, exchange rates and equity prices. The final fiscal cost of the Christchurch earthquakes is also still uncertain. There are also a number of contingent liabilities and fiscal risks outlined in the Specific Fiscal Risks chapter.

Table 1 – Summary of the Treasury's main economic and fiscal forecasts

	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Economic (March years, %)						
Economic growth[1]						
Pre-election Update	2.2	3.3	3.8	3.0	2.2	2.1
Budget Update	2.3	3.0	4.0	3.0	2.1	2.1
Unemployment rate[2]						
Pre-election Update	6.2	6.0	5.6	5.2	4.8	4.5
Budget Update	6.2	5.9	5.4	5.1	4.8	4.4
CPI inflation[3]						
Pre-election Update	0.9	1.5	1.7	2.4	2.3	2.1
Budget Update	0.9	1.5	1.8	2.5	2.3	2.0
Current account balance[4]						
Pre-election Update	-3.9	-2.8	-4.8	-6.2	-6.4	-6.4
Budget Update	-3.9	-3.1	-4.4	-5.9	-6.2	-6.3

	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Fiscal (June years, % of GDP)						
Total Crown OBEGAL[5]						
Pre-election Update	-2.1	-1.1	0.1	0.3	0.7	1.1
Budget Update	-2.1	-1.1	0.2	0.5	0.9	1.3
Net debt[6]						
Pre-election Update	26.2	25.9	26.8	26.7	25.8	25.0
Budget Update	26.2	25.8	26.4	25.9	24.9	23.8

Notes:
1 Real production GDP, annual average percentage change
2 Percent of labour force, March quarter, seasonally adjusted
3 CPI, annual percentage change, March quarter
4 % of GDP
5 Total Crown operating balance before gains and losses (OBEGAL)
6 Net core Crown debt excluding the New Zealand Superannuation Fund and advances

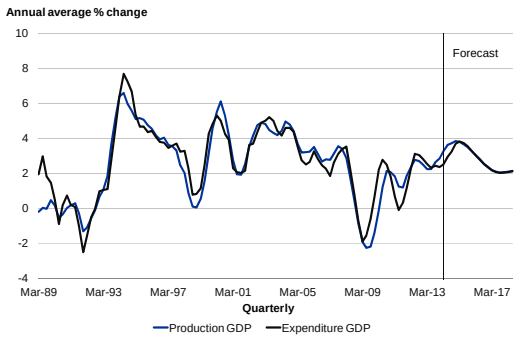
Sources: Statistics New Zealand, the Treasury

Real and Nominal GDP

Gross domestic product (GDP) is a measure of the added value of goods and services produced in an economy in a quarter or a year. Changes in the level of GDP between time periods are a measure of economic growth. Quarterly GDP figures for New Zealand are produced on both a production and an expenditure basis. ***Production GDP*** measures the contribution of an industry as the value of output in that industry less the value of intermediate inputs sourced from local industries or abroad. ***Expenditure GDP*** measures the value of final demand in the economy as a whole (ie, consumption, investment, exports and any increase in stocks) minus imports. Income GDP is measured only on an annual basis in New Zealand.

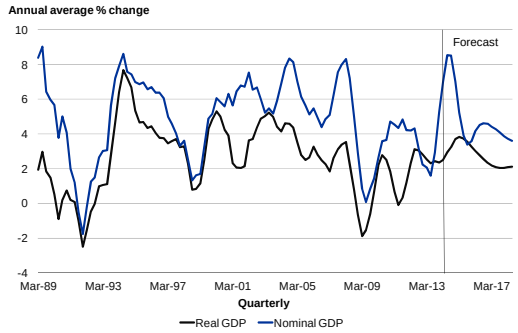
The two quarterly measures of GDP correspond closely over time as they are different ways of measuring the same thing (Figure 4). However, they may diverge in the short term because of differences in data and estimation techniques. In New Zealand, production GDP is the preferred measure of growth in GDP. The Treasury forecasts expenditure GDP, but assumes that growth in production and expenditure GDP will be similar in the medium term.

Figure 4 – Production and expenditure GDP growth



Sources: Statistics New Zealand, the Treasury

Figure 5 – Real and nominal GDP growth



Sources: Statistics New Zealand, the Treasury

In addition to the distinction between production and expenditure GDP, GDP can be measured in real and nominal terms. ***Real GDP*** is a measure of the value added in the economy adjusted for price changes and is sometimes referred to as a volume or constant price measure of GDP. The level of value added is expressed in the prices of a base period, currently the 1995/96 March year. ***Nominal GDP*** is a measure of the value added in the economy including price changes and is expressed in current dollars. Quarterly real GDP is calculated on both a production and an expenditure basis, but quarterly nominal GDP is calculated only on an expenditure basis.

Price indices or deflators account for the difference between nominal and real GDP and are calculated for each of the components of expenditure GDP, eg, consumption, investment, exports and imports. The aggregate GDP price deflator reflects movements in all those components and is a wider measure of price changes in the economy than the CPI. The ratio of the exports price deflator to the imports price deflator is referred to as the terms of trade and is part of the overall GDP price deflator and therefore affects nominal GDP. The terms of trade measure the volume of imports that can be purchased for a given volume of exports. The Treasury forecasts both real and nominal expenditure GDP (Figure 5). Nominal GDP is the measure of value added that is used to forecast tax revenue as taxes are paid on current dollar values.

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Economic Outlook

Overview

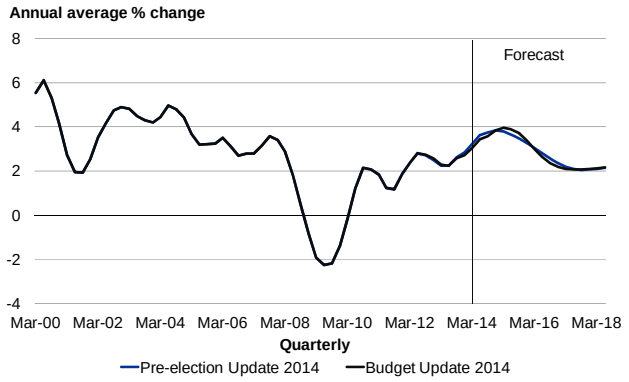
- The outlook for the New Zealand economy has not changed significantly in the relatively short time since the *Budget Update*. Growth in real GDP in the year to March 2014 was slightly faster than expected in the *Budget Update*, but the outlook for the year ahead is slightly weaker. Thereafter, the outlook for growth in real GDP is largely unchanged.
- Growth in nominal GDP was also marginally higher in the past year than expected in the *Budget Update*, largely because of higher terms of trade, but is now forecast to be weaker over most of the forecast period as the terms of trade are expected to fall sooner and domestic prices have increased by less than previously expected. For an explanation of real and nominal GDP, see the box Real and Nominal GDP on page 7.
- Economic growth amongst our main trading partners in the first quarter of 2014 was close to forecast at the aggregate level and the outlook remains similar to previously. Risks remain in the outlook for the world economy, especially geopolitical risks, and they are discussed further in the Risks and Scenarios chapter.
- Dairy export prices are forecast to fall earlier than in the *Budget Update*, but to stabilise at around the same level later in 2014. If sustained, the latest auction prices would point to the risk of a larger fall in dairy prices and the terms of trade. A scenario based partly on lower terms of trade is discussed in the Risks and Scenarios chapter.
- The main factors supporting growth in the New Zealand economy over the forecast period are the same as in the *Budget Update*, in particular the surge in residential construction in Christchurch and Auckland, faster population growth as a result of higher net migration inflows, and historically high terms of trade despite a near-term adjustment.
- The factors that are expected to moderate growth in the economy include rising interest rates, the continuing high value of the New Zealand dollar and fiscal restraint.
- The capacity of the New Zealand economy to grow is marginally increased by faster population growth, but pressure on resources is expected to increase as the pace of expansion exceeds the economy's potential rate of growth, and this pressure will manifest itself in higher inflation.

Recent Developments and Near-term Outlook

Outlook for economic growth similar to Budget Update...

Real production GDP grew 3.3% in the year to March 2014 from the previous year, slightly faster than the 3.0% forecast in the *Budget Update* (Figure 1.1). Growth in the March quarter was marginally higher than forecast at 1.0%, but most of the difference in annual average growth was accounted for by upward revisions to earlier quarters' previously published growth rates. The outlook for annual average growth in real GDP in the year ahead is 3.8% (slightly lower than the 4.0% in the *Budget Update*), easing to 3.0% in March 2016 and 2.1% in March 2018.

Figure 1.1 – Real GDP growth



Sources: Statistics New Zealand, the Treasury

...but private consumption was lower than expected in the March quarter...

Although outturns at an aggregate level for the March quarter were only slightly higher than forecast, there were some significant differences within the components of economic activity. The level of real private consumption was unchanged from the previous quarter, which was well below the *Budget Update* forecast of 0.8% growth, with the demand for services down by 0.4% in the quarter. The reasons for the weakness are not yet clear but a strong recovery is expected in the June quarter, based on indicators released to date.

Growth in private consumption in current dollar terms was weaker than forecast by a slightly larger margin as consumption prices rose only 0.1% in the March quarter, compared to the *Budget Update* forecast of a 0.3% increase. Consumer price inflation was lower than expected in the June quarter for non-tradable goods and services, indicating a continuation of weak price pressures in the economy. The annual inflation rate in June 2014 was 1.6%, less than the *Budget Update* forecast of 1.8%, with non-tradables inflation of 2.7% compared with a forecast of 3.4%.

...offset by higher net exports in both real and nominal terms

Strong growth in exports offset the weak growth in private consumption in the March quarter in both real and nominal terms. Goods export volumes increased 3.9% in the March quarter against an expectation of a slight fall from the December quarter; services exports also increased more than expected, offsetting the weak private consumption outturn.

At the same time, goods import volumes increased by less than forecast, partially offset by higher than expected services imports. As a result, net exports made a larger contribution to GDP than expected. The terms of trade (the ratio of export prices to import prices) were close to forecast so net exports were also higher than forecast in nominal terms.

However, the near-term outlook is for slightly weaker growth...

Although real private consumption is expected to rebound strongly in June from its flat result in the March quarter, it is not expected to recover fully in nominal terms. Consumer price inflation of 0.3% in the June quarter was weaker than forecast in the *Budget Update*,

pointing to weak price growth in the GDP measure of consumption. The level of nominal consumption is expected to remain lower than previously forecast in coming quarters despite ongoing growth in the consumption of goods and services in real terms.

Recent developments in the external sector of the economy reinforce the outlook for slightly weaker than earlier forecast GDP growth in the year ahead. The value of merchandise exports fell in the June quarter with both volumes and prices lower, and import volumes appear to have increased, supporting the forecast negative contribution from net goods exports to real GDP; similarly, although visitor arrivals were up slightly in the June quarter from March, resident departures increased by more, pointing to weak net services exports.

...as weaker terms of trade compound the impact of lower domestic prices

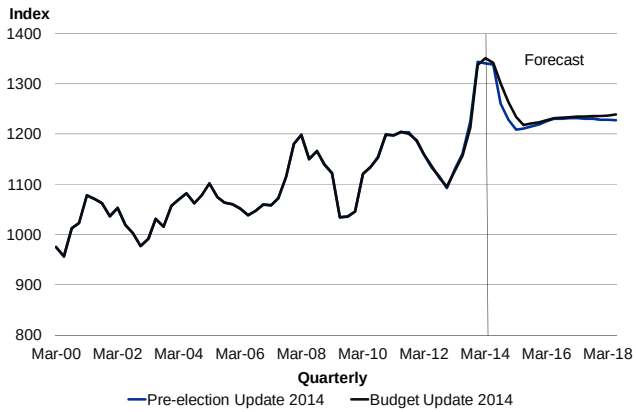
Dairy prices have declined sooner than expected in the *Budget Update* and these forecasts bring forward the fall in prices. The decline may be partly seasonal as supply increases in New Zealand and demand dips in China, but increasing global supply and high stock levels in China may also be contributing to the weaker prices. The forecast assumes that prices stabilise at around the same level as in the *Budget Update* by the end of 2014 as the seasonal factors reverse.

Dairy auction prices have fallen further since finalisation of the forecasts in mid-July, dropping 8.4% in US dollars in early August. Dairy auction prices tend to be volatile and the recent falls may overstate the weakness in demand. However, if the latest prices were sustained, they would pose a downside risk to the main forecast. The impact of a larger fall in the terms of trade is explored in the Risks and Scenarios chapter.

Forestry prices have also declined as demand from China has fallen with slower growth in housing construction. These export price declines have been only partly offset by higher meat prices as sheep meat prices were lifted by additional demand from China and meat supply remains constrained in the US. At the same time, oil prices have increased as geopolitical risks have intensified in the Middle East and Ukraine.

The terms of trade are expected to decline sooner than forecast in the *Budget Update*, although to a similar level (Figure 1.2). There is normally a lag of one to two quarters from auction prices to export prices and the terms of trade, and on this basis the declines in market prices since the March quarter are expected to result in a larger fall in the goods terms of trade in the year to December 2014 of 9%, compared with a fall of 5% over the same period in the *Budget Update*.

Figure 1.2 – Goods terms of trade (SNA)



Sources: Statistics New Zealand, the Treasury

Despite lower commodity export prices, the value of the New Zealand (NZ) dollar averaged 80.2 on the Trade Weighted Index (TWI) in the June quarter, 1.5% higher than the *Budget Update* assumption. It is assumed to decline only slowly from that level over the next couple of years and to remain higher than previously forecast, keeping tradables inflation lower than otherwise but constraining services and manufactured exports to some degree.

Rapid increase in household income points to strong growth in real consumption...

Other data released since the *Budget Update* was finalised also point to continuing robust growth in the economy in real terms. Firms' demand for labour grew strongly in the year to June, with total weekly paid hours up 3.6% and the number of people employed up 3.7% (Figure 1.3). The increase in labour input was spread across most industries.

The supply of labour also increased rapidly over the past year, partly as a result of gains from external migration. The net inflow of migrants in the year to June 2014 was 38,300, an increase of 30,400 from the year before. The increase was largely a result of a fall in the number of departures of New Zealand citizens to Australia (16,500), but increased arrivals of non-New Zealand citizens (9,300) and of returning New Zealand citizens (3,300) also contributed. Net external migration added around 0.9 percentage points to total population growth in the past year.

Figure 1.3 – Employment and labour force growth

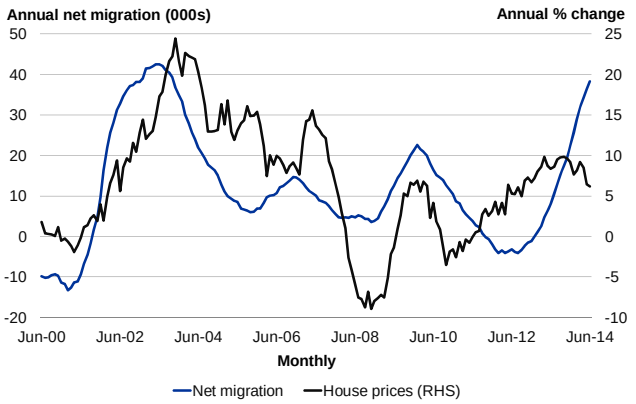
Source: Statistics New Zealand

In addition, the proportion of the working-age population participating in the labour market increased from 68.1% a year ago to 68.9% in the June quarter, resulting in a total increase in the labour force of 2.8% (Figure 1.3). With the faster growth in the number of people employed, the unemployment rate fell from 6.4% a year ago to 5.6% in June 2014. Average hourly wages increased 2.5% from a year before and, given the large increase in total weekly paid hours, total weekly gross earnings rose 6.3% from a year before. With low inflation recently, this result underpins the outlook for ongoing real consumption growth in the near term.

...but housing demand has eased

Despite rapid population growth as a result of elevated net inward migration, the demand for existing housing has eased since late 2013. House sales declined 14% from a year ago in the June quarter 2014 and the annual rate of increase in house prices slowed from just less than 10% in late 2013 to 6.2% in June (Figure 1.4). Loan-to-value ratio (LVR) restrictions introduced by the Reserve Bank in October 2013, and rising interest rates since earlier this year, may have cooled housing demand.

Figure 1.4 – Migration and house prices



Sources: Statistics New Zealand, REINZ

Table 1.1 – Economic forecasts[1]

(Annual average % change, March years)	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Private consumption	3.4	4.1	3.6	2.6	1.7
Public consumption	1.9	0.1	0.9	1.8	1.6
Total consumption	**3.0**	**3.3**	**3.1**	**2.4**	**1.6**
Residential investment	16.9	20.7	9.8	1.3	-0.3
Market investment	8.8	11.1	4.8	3.6	2.6
Non-market investment	-2.7	4.0	6.1	2.4	2.4
Total investment	**10.6**	**14.7**	**6.4**	**3.2**	**2.2**
Stock change[2]	0.3	0.2	-0.3	0.1	0.0
Gross national expenditure	**4.7**	**6.1**	**3.6**	**2.7**	**1.7**
Exports	0.3	-0.4	2.8	2.7	2.8
Imports	7.9	7.0	4.5	4.0	1.7
GDP (expenditure measure)	**2.5**	**3.8**	**3.0**	**2.2**	**2.1**
GDP (production measure)	**3.3**	**3.8**	**3.0**	**2.2**	**2.1**
Real GDP per capita	2.2	2.2	1.7	1.2	1.2
Nominal GDP (expenditure measure)	7.0	5.2	4.2	4.4	3.7
GDP deflator	4.3	1.4	1.1	2.2	1.6
Output gap (% deviation, March quarter)[3]	0.3	1.2	1.1	0.4	0.1
Employment	2.5	3.0	1.7	1.4	1.2
Unemployment rate[4]	6.0	5.6	5.2	4.8	4.5
Participation rate[5]	69.3	69.3	69.2	69.1	69.0
Nominal wages[6]	2.5	3.0	3.0	3.4	3.4
CPI inflation[7]	1.5	1.7	2.4	2.3	2.1
Terms of trade[8]	13.5	-0.7	-3.3	1.1	-0.1
House prices[9]	7.2	4.4	4.1	2.5	2.4
Current account balance					
$billions	-6.3	-11.5	-15.3	-16.5	-17.3
% of GDP	-2.8	-4.8	-6.2	-6.4	-6.4
Net international investment position					
% of GDP	-65.3	-66.9	-70.4	-73.8	-77.6
TWI[10]	78.7	80.0	79.1	77.8	74.3
90-day bank bill rate[10]	3.0	4.3	4.9	5.0	5.3
10-year bond rate[10]	4.6	4.7	4.9	5.1	5.2

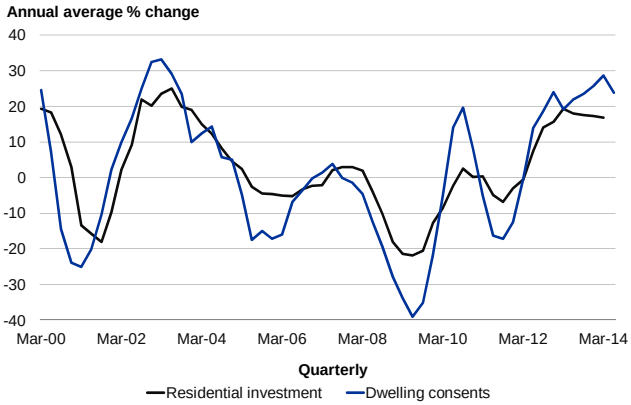
Notes:
1 Forecasts finalised 18 July 2014.
2 Contribution to GDP growth.
3 Estimated as the percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, March quarter, seasonally adjusted.
5 Percent of the working-age population, March quarter, seasonally adjusted.
6 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change.
7 Annual percentage change.
8 System of National Accounts (SNA) and merchandise basis, annual average percentage change.
9 Quotable Value New Zealand (QVNZ) House Price Index, annual percentage change.
10 Average for the March quarter.

Longer time series for these variables are provided on page 130.

Positive outlook for residential investment...

Despite the slightly weaker demand for existing houses, residential investment is expected to continue to increase rapidly in the year ahead as the rebuilding of Christchurch gathers further pace and house-building in Auckland increases in response to the shortage of supply. Residential building consents, particularly for Canterbury and Auckland, point to ongoing growth in residential construction (Figure 1.5). Dwelling consents in Canterbury were 44% higher in the year to June 2014 than in the previous year.

Figure 1.5 – Dwelling consents and residential investment



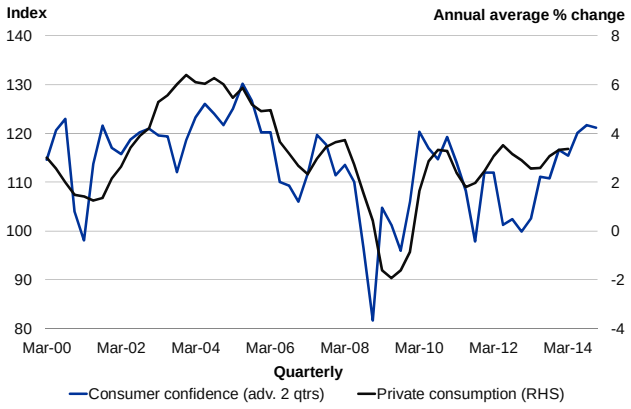
Source: Statistics New Zealand

...and business and consumer confidence remain elevated

The outlook for business investment is also positive. Business confidence and activity indicators have eased from elevated levels recently; investment intentions remain above historical averages, supply factors are increasing as the major constraint on the expansion of output, and capacity utilisation rates are high. In the next year or so, investment will be supported by the high value of the NZ dollar and relatively low interest rates, making imported capital goods cheaper and investment more profitable.

Consumer confidence remains elevated, despite some easing in the June quarter, pointing to ongoing private consumption growth (Figure 1.6). Higher interest rates and a slowdown in the housing market may have made consumers more cautious, but the outlook for private consumption in real terms remains positive, thanks to rapid population growth from net migration inflows and increasing incomes from expanding employment. However, with relatively low inflation outturns expected to continue in the near term – even as inflation pressures build – the outlook for nominal consumption growth is weaker than in the *Budget Update*, as highlighted earlier.

Figure 1.6 – Consumer confidence and private consumption



Sources: Statistics New Zealand, Westpac-McDermott Miller

Overall, the outlook for nominal GDP growth in the near term is weaker than in the *Budget Update* because of the sooner-than-expected fall in the terms of trade, the higher NZ dollar and lower domestic inflation. Nominal GDP increased 7.0% in the year to March 2014 from the previous year, 0.3 percentage points higher than expected in the *Budget Update*. However, it is forecast to grow by 5.2% in the year to March 2015, 0.5 percentage points less than in the *Budget Update*. The level of nominal GDP in the June 2015 year is forecast to be $900 million (0.4%) lower than in the *Budget Update*.

Recent Developments and Outlook for Main Trading Partners

In aggregate, New Zealand's main trading partners' economies grew much as expected in the first quarter of 2014, although there were some offsetting variances from forecast. The outlook for the forecast period has not changed significantly since the *Budget Update*.

China's annual growth picked up in the June quarter with some fiscal stimulus and monetary easing, but authorities face a trade-off between boosting growth in the short term and rebalancing the economy and reducing credit risk over the medium term. The Australian economy recorded above-trend growth in the first quarter as export volumes increased sooner than expected; however, domestic demand remains weak and growth is expected to be sub-trend for some time, albeit supported by continuing low interest rates.

The US economy contracted in the March quarter as a result of the harsh winter and a rundown in inventories, and is expected to record lower growth for the year as a whole. The euro area also recorded low growth in the first quarter and is expected to remain weak for some time as the area experiences a protracted recovery from its debt crisis.

The United Kingdom (UK) and Japanese economies both performed better than expected in the March quarter. The recovery in the UK is expected to continue for the rest of the year, supported by rapid employment growth. In Japan, private consumption was brought forward to avoid the 1 April sales tax increase and is expected to be lower in the rest of the year.

Forecasts for most other Asian economies were revised down on the weaker outlook for the major advanced economies (especially the US) and some specific factors such as the political unrest in Thailand. Downgrades for these economies account for most of the reduction in trading partner growth in 2014 (in addition to the weaker US result), but the outlook for subsequent years is unchanged at the aggregate level from the *Budget Update*.

Table 1.2 – Trading partner growth (calendar years)

	2014 weights	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Australia	*25%*	2.4	3.0	2.8	2.9	3.0	3.0
China	*22%*	7.7	7.4	7.3	7.1	7.0	7.0
United States	*10%*	1.9	2.0	2.8	2.9	3.0	3.0
Japan	*8%*	1.5	1.5	1.1	1.3	1.2	1.2
Euro area	*7%*	-0.4	1.0	1.2	1.3	1.4	1.4
United Kingdom	*4%*	1.7	3.0	2.5	2.1	2.0	2.0
Canada	*1%*	2.0	2.2	2.4	2.5	2.5	2.5
Other Asia*	*23%*	4.0	4.1	4.6	4.8	4.8	4.8
Trading Partner Growth (TPG)	***100%***	**3.5**	**3.8**	**4.0**	**4.0**	**4.1**	**4.1**
TPG - Consensus (July 2014)		3.5	3.8	4.0	4.1	4.1	4.0
TPG - IMF WEO (April 2014)		3.4	3.9	4.0	4.0	4.0	4.0
TPG - The Treasury (2014 Budget Update)		3.5	3.9	4.0	4.0	4.1	4.1

* South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Philippines, India

Sources: IMF, Consensus Forecasts, the Treasury

Inflation is increasing in the US and UK. The Federal Reserve plans to conclude its asset purchases in October and is expected to raise its policy rate in the first half of 2015; the Bank of England may raise its policy rate earlier. Inflation is generally low elsewhere, especially in Europe where the European Central Bank loosened monetary conditions further in June.

The extended period of low interest rates has brought reduced volatility in financial markets, leading investors to seek higher yields, including in New Zealand. The tightening of monetary policy in the US may lead to deleveraging and a reversal of some of these capital flows. These risks are discussed further in the Risks and Scenarios chapter.

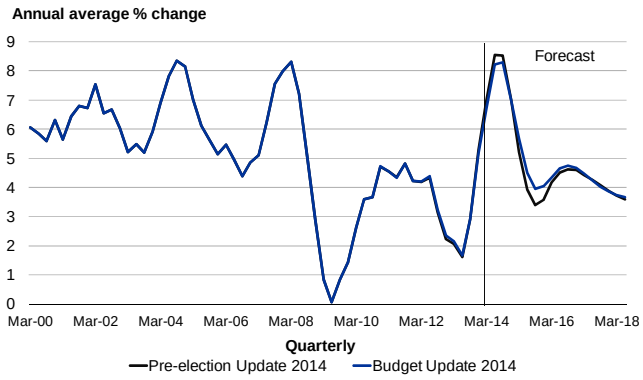
Medium-term Outlook

Fundamental drivers of outlook unchanged

The medium-term growth outlook is largely unchanged from the *Budget Update*. The drivers of growth are expected to be a surge in residential construction in Auckland and Christchurch, higher net migration and historically high terms of trade despite some near-term adjustment. These factors are expected to be reinforced by continuing strong labour income growth, leading to increasing private consumption.

The initial above-trend growth will place further pressure on labour and capital resources, leading to increased inflationary pressures and higher interest rates. Growth will also be moderated by a continuing high value of the NZ dollar and fiscal restraint. The current account deficit is forecast to increase from its current low level as import values grow faster than exports.

Figure 1.7 – Nominal GDP



Sources: Statistics New Zealand, the Treasury

While growth in real GDP in the March 2015 year is forecast to be slightly lower than in the *Budget Update*, the outlook is very similar over the rest of the forecast period. In terms of nominal GDP, growth is expected to be slightly lower in the March 2015 year and similar thereafter (Figure 1.7). The level of nominal GDP is forecast to be approximately 0.5% lower than in the *Budget Update* over the forecast period as a whole.

Terms of trade to stabilise above historical average...

Although the goods terms of trade are expected to fall 10% in the year to March 2015, they are forecast to stabilise at around that level and to be 9% higher over the forecast period than their average over the past decade. They are expected to be chiefly supported by continuing robust demand from China for dairy and meat products. Demand for forestry products will pick up again with an increase in construction activity in China and residential construction in the US and Australia. Demand for New Zealand's other primary commodities, and for manufactured products, is expected to be sustained by the gradual recovery in the world economy.

...but NZ dollar to decline, making some exports more competitive

The value of the NZ dollar is assumed to remain close to its record level on the TWI in the near term, supported by relatively high commodity prices and positive interest rate differentials. It is expected to begin to decline as the economic recovery becomes more established in the US and the Federal Reserve starts to increase its policy rate, gradually reducing the interest rate differential. The impact of an earlier and more rapid decline in the NZ dollar as a result of a faster recovery in the US economy is discussed in the Risks and Scenarios chapter.

The fall in the NZ dollar is expected to boost tourism earnings and manufactured exports as NZ dollar-priced goods and services become more competitive. The TWI is assumed to decline from an average of 81.2 in the current quarter to 73.3 in the June quarter of 2018, a fall of 9.7% over four years.

Residential investment a major driver of growth in the economy...

The rebuilding of residential housing in Christchurch is forecast to be a major driver of growth in real GDP at the start of the forecast period and then to help sustain the level of activity. Annual growth in residential investment is forecast to peak in the December quarter 2014, but the level of activity is forecast to continue to increase throughout the rest of the forecast period.

The assumptions concerning the rebuilding of Christchurch are unchanged from the *Budget Update*. The total amount of rebuild-related investment is estimated to be $40 billion (in 2011 prices), with around half of this total assumed to take place by mid-2018. Most of this investment will be funded by insurance payments and government investment. Residential investment is expected to provide the greatest contribution over the forecast period, followed by investment in infrastructure and social assets, and commercial assets.

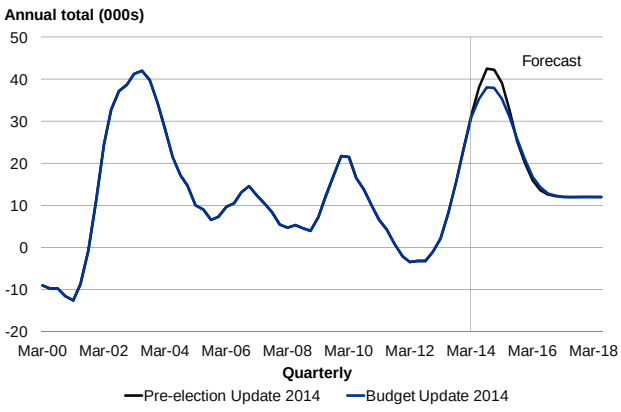
...along with business investment

Businesses are also expected to continue to expand their investment as aggregate demand in the economy increases. As noted above, business confidence and investment intentions are at high levels, although they have eased from earlier in the year. Reduced spare capacity in the economy, continuing high terms of trade and a tighter labour market are expected to lead firms to invest more. Annual average growth in business investment is forecast to remain high until mid-2015, and then to decline to be similar to GDP growth by the end of the forecast period.

Higher net migration boosts population growth...

The net external migration inflow has been running ahead of the *Budget Update* forecast as departures declined. The forecast peak annual gain in September 2014 has been increased from 38,100 in the *Budget Update* to 42,500 in these forecasts (Figure 1.8); the turn-around in net migration inflows in 2015 is now assumed to be slightly sharper than previously as departures start to increase again with a pick-up in the Australian economy and arrivals begin to fall as the demand for labour eases. The small change in the profile of migration results in an additional 3,500 people in the total population compared with the *Budget Update*. Higher net migration inflows would pose an upside risk to the outlook.

Figure 1.8 – Net external migration

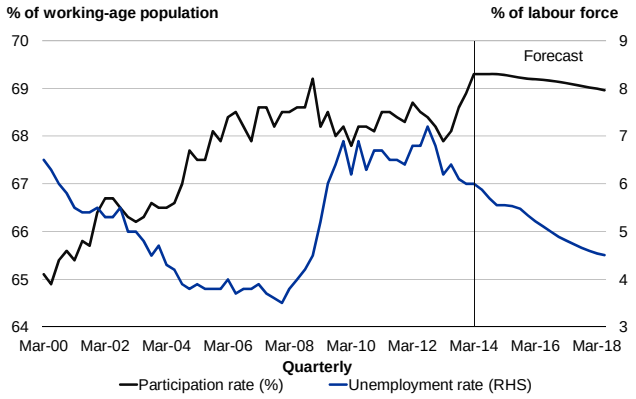


Sources: Statistics New Zealand, the Treasury

...and increased demand for workers results in a fall in unemployment...

The demand for labour is expected to continue to grow with the expansion in the economy. Employment growth is forecast to remain strong over the remainder of 2014, but to ease as the pace of growth in output slows. Growth in the working-age population will be boosted by higher net migration and the proportion of the working-age population participating in the labour market is forecast to decline only slightly from its March quarter peak. As a result, the unemployment rate is forecast to fall to 4.5% in the first half of 2018 (Figure 1.9).

Figure 1.9 – Participation and unemployment



Sources: Statistics New Zealand, the Treasury

...but muted wage growth

Wage growth has been relatively subdued recently with an increase in average hourly earnings of 2.5% in the year to June 2014, as public sector wage growth of 1.3% offset private sector wage growth of 3.1%. Wage growth is expected to accelerate gradually as a result of increased growth in labour supply from net migration, initially low inflation and continuing public sector wage restraint. Growth in hourly wages is forecast to increase to 3.0% by March quarter 2015 and to 3.4% by the end of the forecast period, the same as in the *Budget Update*. Moderate employment growth, combined with rising wage growth, will increase total compensation of employees by more than 1% per quarter throughout most of the forecast period.

Household income growth will support private consumption...

Steady growth in household incomes is forecast to support ongoing growth in private consumption over the forecast period. Private consumption growth is slightly higher over the period than in the *Budget Update* in real terms, but from a marginally lower base in the March 2014 year; at the end of the forecast period the level of real private consumption is expected to be practically the same as in the *Budget Update*. However, the level of nominal private consumption is expected to be lower throughout the period chiefly because of the lower starting point as a result of recent weak inflation outturns.

...but the Government will continue to exercise spending restraint

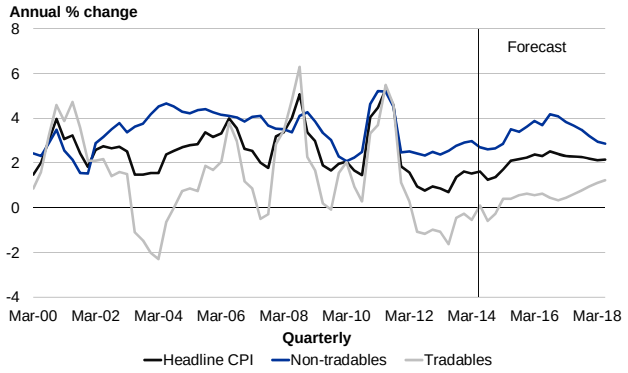
It is assumed that the current fiscal strategy of limiting the growth in public consumption and non-market investment is maintained. Growth in public consumption is forecast to be low in the March 2015 year at 0.1%, but to increase slightly thereafter with the larger increment in the annual operating allowance announced in Budget 2014, but remains below the rate of growth in the economy as a whole. As is outlined in the Fiscal Outlook chapter, the operating allowance has been added to expenditure as a working assumption, but in practice would be available for a mixture of expenditure and revenue initiatives.

Nevertheless, inflationary pressures will increase...

The economy's growth rate is forecast initially to outstrip its ability to expand without placing additional pressure on prices. It is estimated that actual output was slightly higher than potential output in the March 2014 quarter and that it will exceed the economy's sustainable or non-inflationary level by 1.3% in the second half of 2015. The economy's potential growth rate is estimated to be marginally higher than in the *Budget Update* because of the faster population growth from net migration inflows. The annual average potential growth rate is estimated to increase from 2.2% in the March quarter 2014 to a peak of 2.8% before declining to around 2.5% in the long run.

As actual output is expected to exceed the economy's level of potential output, non-tradables inflation is forecast to rise to around 4% in the second half of 2016. Tradables inflation will increase gradually over the forecast period as the value of the NZ dollar falls, but continue to offset the higher non-tradables inflation. Annual inflation is forecast to peak in the third quarter of 2016 at 2.5%, but to decline towards the mid-point of the Reserve Bank's target band by the end of the forecast period (Figure 1.10).

Figure 1.10 – CPI inflation



Sources: Statistics New Zealand, the Treasury

...leading to interest rate increases

The Reserve Bank is expected to continue to raise the OCR as inflationary pressures strengthen. Ninety-day interest rates are assumed in these forecasts to rise from 3.4% in the June quarter 2014 to 4.8% by the fourth quarter of 2015 and to 5.3% by late 2017. Higher interest rates will moderate growth in private consumption and investment apart from the Christchurch rebuild, so that the economy grows more slowly and inflationary pressures are reduced. Longer-term interest rates are expected to increase in line with international rates as global monetary conditions are normalised.

Value of imports will increase faster than exports...

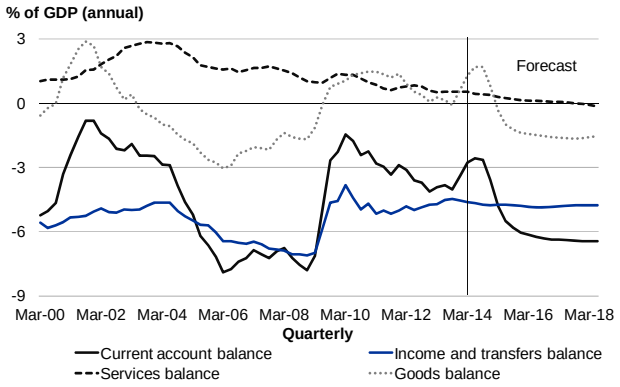
With rapid growth in private consumption and both residential and business investment in the March 2015 year, real gross national expenditure (GNE) is forecast to increase 6.1%, up from 4.7% growth in the March 2014 year. The robust expansion in domestic demand is expected to lead to continuing rapid growth in import volumes of 7.0% in the March 2015 year, down only slightly from 7.9% growth in the previous year. As growth in GNE slows over the forecast period, import volume growth will ease, but import values will increase more rapidly later in the forecast period as the value of the NZ dollar falls.

Export volumes are forecast to grow by around 2.5% to 3.0% per year from 2016 onwards as production expands in response to increased international demand. Export values are forecast to decline initially with lower export volumes and the expected fall in commodity prices, although an assumed fall in the value of the NZ dollar later in the period will bring an increase in total export values.

...and the current account deficit will widen but stabilise by the end of the forecasts

Lower export volumes in the near term, combined with a fall in the terms of trade, are expected to lead to an increase in the annual current account deficit from around 2.6% of GDP in mid-2014 to 4.8% of GDP in March 2015. The annual figures have been enhanced recently by the high terms of trade, but the annual goods balance is forecast to become negative as the terms of trade fall. The current account deficit is forecast to stabilise at 6.4% of GDP in the final couple of years of the forecast period.

Figure 1.11 – Current Account



Sources: Statistics New Zealand, the Treasury

Economic Forecast Assumptions

- Net permanent and long-term migration inflows rose to 38,300 in the year ended June 2014, although only data up to May 2014 (36,400) were available when the *Pre-election Update* was finalised. Net migrant inflows are forecast to rise to 42,500 in the September 2014 year before returning to the long-run assumption of 12,000 per year in March 2017.
- The annual average potential growth rate is estimated to increase from 2.2% in the March quarter 2014 to a peak of 2.8% before declining to around 2.5% in the long run.
- The non-accelerating inflation rate of unemployment (NAIRU) is estimated to be around 4.5% by 2018.
- Average hours worked per week are estimated to decline from their current level of 33.7 to 33.1.
- Economy-wide labour productivity growth is estimated to average 1.1% per year between the years ending March 2014 and March 2018.
- Investment associated with the rebuild following the Canterbury earthquakes is assumed to be around $40 billion in 2011 prices (rounded to the nearest $5 billion), spread across residential property ($18 billion), commercial property ($9 billion) and infrastructure and social assets ($11 billion). Around half of the total is forecast to be undertaken within the forecast period to June 2018.
- West Texas Intermediate (WTI) oil prices are assumed to fall from US$103.30 per barrel in the June 2014 quarter to around US$89 in the March 2018 quarter, in line with oil futures prices.
- Ninety-day interest rates are assumed to increase from 3.4% in the June 2014 quarter to 5.3% in the June 2018 quarter and 10-year interest rates to rise from 4.4% in the June 2014 quarter to 5.2% in the June 2018 quarter.
- The TWI is assumed to fall slightly from an average of 81.2 in the current quarter to just below 80.0 in mid-2016, when it will begin to decline to 73.3 in the June 2018 quarter.
- Tobacco excise tax increases add 0.2 percentage points to annual inflation in each of the March 2015 and 2016 quarters.
- Reduced Accident Compensation Corporation (ACC) levy rates will reduce contributions by households and employers by about $400 million in the 2014/15 levy year and around $480 million in the 2015/16 levy year. The reduction in ACC vehicle levies is estimated to reduce CPI inflation by 0.25 percentage points in the September 2015 quarter.

2

Fiscal Outlook

Overview

Table 2.1 – Fiscal indicators

Year ended 30 June	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
$billions						
Total Crown OBEGAL[1]	(4.4)	(2.6)	0.3	0.8	1.9	3.0
Core Crown residual cash	(5.7)	(4.2)	(4.6)	(2.9)	(0.4)	(0.3)
Net core Crown debt[2]	55.8	59.9	64.3	67.0	67.5	67.9
Net worth attributable to the Crown	68.1	74.4	77.4	81.0	85.9	92.0
% of GDP						
Total Crown OBEGAL[1]	(2.1)	(1.1)	0.1	0.3	0.7	1.1
Core Crown residual cash	(2.7)	(1.8)	(1.9)	(1.1)	(0.2)	(0.1)
Net core Crown debt[2]	26.2	25.9	26.8	26.7	25.8	25.0
Net worth attributable to the Crown	32.0	32.2	32.2	32.3	32.8	33.9

Notes: 1 Operating balance before gains and losses.

2 Net core Crown debt excluding the NZ Superannuation Fund and advances.

Source: The Treasury

- The Treasury forecasts an OBEGAL surplus of $297 million in the 2014/15 fiscal year. Beyond 2014/15, annual surpluses are expected to increase by between $500 million and $1.1 billion each year of the forecast and, by 2017/18, the OBEGAL surplus is expected to reach $3.0 billion.
- Core Crown tax revenue continues to grow across the forecast period and is expected to reach $77.1 billion by 2017/18.
- Beyond 2013/14, core Crown expenses are expected to rise by $10.2 billion by the end of the forecast period. This rise is largely owing to operating allowances[1] (which contribute $6.0 billion) and increases in social assistance spending of $3.7 billion. This forecast growth in core Crown expenses is slower than growth in the nominal economy so by the end of the forecast period core Crown expenses are expected to fall to 30.0% of GDP.

1 Operating allowances are assumed to flow through as expenses. However, allowances can be used for a combination of both revenue and expense initiatives when allocated.

- In nominal terms, net core Crown debt is forecast to increase, reaching $67.9 billion in 2017/18 while the residual cash position remains in deficit across the forecast period. As a share of GDP, net core Crown debt is expected to decline, falling to 25.0% by June 2018 (Table 2.2).
- The Crown's balance sheet strengthens across the forecast period with net worth attributable to the Crown reaching $92.0 billion by 2017/18 (compared to $74.4 billion in 2013/14).
- Compared to the *Budget Update*, core Crown tax revenue forecasts have been revised downwards owing to the changes in macroeconomic conditions. Weaker tax forecasts, both revenue and receipts, result in surpluses that are expected to be smaller than the *Budget Update* in each of the four years across the forecast period and a larger cash shortfall. As a result, debt repayments now commence a year later (the first year outside the forecast period) once residual cash surpluses are achieved.
- In preparing these fiscal forecasts, key assumptions have been made on the performance of the economy as well as new operating allowances. As with all assumptions, there is inherent uncertainty and a change in any one assumption could negatively or positively impact forecasts for the Crown's fiscal indicators. The Risks and Scenarios and the Specific Fiscal Risks chapters outline the key risks to the Crown achieving these forecasts.

Table 2.2 – Reconciliation between OBEGAL and net core Crown debt

Year ended 30 June $billions	**2013 Actual**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
Core Crown revenue	64.1	67.3	72.2	76.5	80.3	84.2
Core Crown expenses	(70.3)	(71.3)	(72.8)	(75.9)	(78.6)	(81.5)
Net surpluses/(deficits) of SOEs and CEs	1.8	1.4	0.9	0.2	0.2	0.3
Total Crown OBEGAL	**(4.4)**	**(2.6)**	**0.3**	**0.8**	**1.9**	**3.0**
Net retained surpluses of SOEs, CEs and NZS Fund	(1.2)	(0.9)	(0.8)	(0.2)	(0.1)	(0.3)
Non-cash items and working capital movements	1.1	0.5	1.7	1.7	2.5	1.2
Net core Crown cash flow from operations	**(4.5)**	**(3.0)**	**1.2**	**2.3**	**4.3**	**3.9**
Net purchase of physical assets	(1.2)	(1.9)	(2.5)	(2.4)	(2.2)	(1.8)
Advances and capital injections	(1.7)	(1.6)	(3.8)	(2.4)	(1.8)	(1.6)
Forecast for future new capital spending	-	-	(0.1)	(0.4)	(0.7)	(0.8)
Proceeds from government share offers	1.7	2.3	0.6	-	-	-
Core Crown residual cash balance	**(5.7)**	**(4.2)**	**(4.6)**	**(2.9)**	**(0.4)**	**(0.3)**
Opening net core Crown debt	50.7	55.8	59.9	64.3	67.0	67.5
Core Crown residual cash deficit/(surplus)	5.7	4.2	4.6	2.9	0.4	0.3
Valuation changes in financial instruments	(0.6)	(0.1)	(0.2)	(0.2)	0.1	0.1
Closing net core Crown debt	**55.8**	**59.9**	**64.3**	**67.0**	**67.5**	**67.9**
As a percentage of GDP	**26.2%**	**25.9%**	**26.8%**	**26.7%**	**25.8%**	**25.0%**

Source: The Treasury

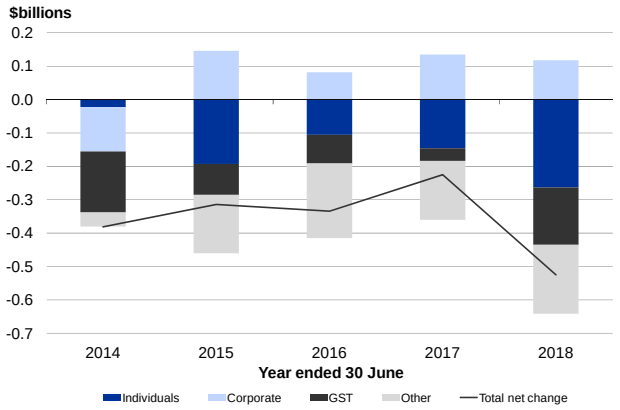
- This chapter also includes medium-term projections to 2027/28. These projections represent a potential future path based on historical averages. The weaker OBEGAL outlook compared to the *Budget Update* would mean there would be a delay by one year to the re-commencement of the Crown's NZS Fund contributions (to 2020/21).

Core Crown Tax Revenue

***Core Crown tax revenue is weaker than at the* Budget Update...**

Overall, tax revenue is forecast to be $2.1 billion less than the *Budget Update* across the forecast period with tax revenue between $0.3 billion and $0.5 billion lower each year.

Figure 2.1 – Movement in core Crown tax revenue since the *Budget Update*



Source: The Treasury

Most of the lower tax revenue is owing to changes in macroeconomic conditions that have been reflected in the economic forecasts. In particular, reductions in forecasts of nominal private consumption resulting in decreases in the goods and services tax (GST) forecasts across each year of the forecast, and a lower deposit rate track resulting in reduced forecasts of residents' withholding tax (RWT) (included in Other taxes in Figure 2.1). Partially offsetting these influences, a higher forecast for corporate profits is expected to deliver higher-than-previously anticipated corporate tax revenue. As the reductions in overall tax forecasts mirror macroeconomic conditions, the tax-to-GDP profile is very similar to the *Budget Update*. Refer Table 2.3 for a summary of the key drivers of the changes in tax forecasts from the *Budget Update*.

The 2013/14 forecast, which is based on preliminary, unaudited results for the 2013/14 year, is $0.4 billion lower than the *Budget Update.* This change comprises $0.2 billion for GST, $0.1 billion for corporate tax and $0.1 billion for other taxes (Figure 2.1). Refer to the box on page 28 for further discussion of the 2013/14 forecast tax revenue result.

Table 2.3 – Change in core Crown tax revenue forecasts since the *Budget Update*

Year ended 30 June **$billions**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**2018** **Forecast**
Core Crown tax revenue - 2014 *Budget Update*	**61.9**	**66.4**	**70.6**	**74.1**	**77.6**
As a percentage of GDP	**26.8%**	**27.6%**	**28.0%**	**28.2%**	**28.5%**
Changes in forecasts by principal factor					
Employees' compensation	-	-	-	(0.1)	(0.1)
Entrepeneurial income	-	(0.1)	-	-	-
Corporate profits	0.1	0.1	-	-	0.1
Private consumption	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
Residential investment	-	-	-	-	(0.1)
Other macroeconomic factors	-	-	(0.1)	(0.1)	-
Interest rates	-	(0.1)	(0.1)	(0.1)	(0.1)
Other factors	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Total changes since the Budget Update	**(0.4)**	**(0.3)**	**(0.4)**	**(0.5)**	**(0.5)**
Core Crown tax revenue - 2014 *Pre-election Update*	**61.5**	**66.1**	**70.2**	**73.6**	**77.1**
As a percentage of GDP	**26.6%**	**27.5%**	**28.0%**	**28.1%**	**28.4%**
Changes in forecasts by major tax type					
Source deductions	-	-	(0.1)	(0.1)	(0.2)
Net other persons tax	-	(0.1)	-	(0.1)	(0.1)
Corporate tax	(0.1)	0.1	0.1	0.1	0.1
Resident withholding taxes	-	(0.1)	(0.1)	(0.1)	(0.1)
GST	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
Customs and excise duties	-	-	-	(0.1)	(0.1)
Other taxes	(0.1)	(0.1)	(0.2)	(0.1)	0.1
Total changes since the Budget Update	**(0.4)**	**(0.3)**	**(0.4)**	**(0.5)**	**(0.5)**

...but continues to grow by 5.6% per year on average over the forecast period

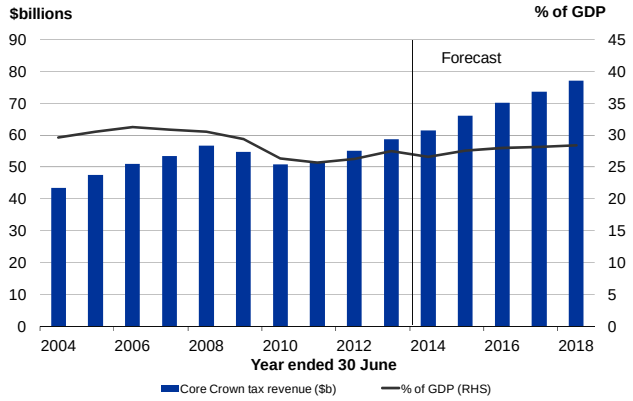
Core Crown tax revenue is forecast to rise in each year of the forecast period. While tax is weaker than previously forecast, growth of 5.6% per year across the forecast period is still expected and, by 2017/18, core Crown tax revenue is expected to reach $77.1 billion.

Forecast tax revenue increases relative to nominal GDP, reaching 28.4% by the end of the forecast period compared to 27.5% in 2012/13 (Figure 2.2) mainly owing to the progressive nature of the personal tax scale.

Most of the growth in nominal tax revenue forecasts can be attributed to growth in the nominal economy, with nominal GDP forecast to grow at 5.0% per year on average over the forecast period. Tax revenue growth increases in 2014/15 before slowing over the remainder of the forecast period as the growth in nominal GDP slows (Figure 2.3).

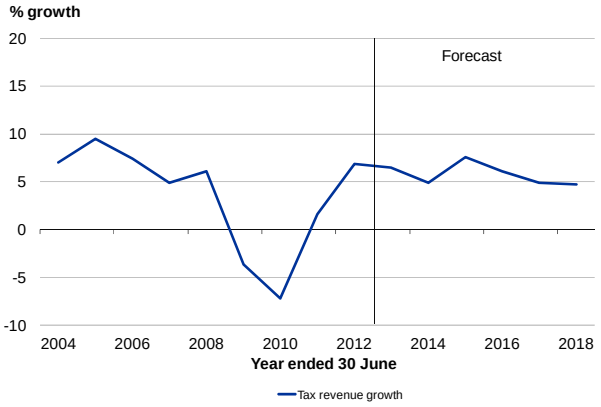
All tax types are expected to increase across the forecast period as shown in Table 2.4.

Figure 2.2 – Core Crown tax revenue



Source: The Treasury

Figure 2.3 – Core Crown tax revenue growth



Source: The Treasury

Table 2.4 – Movement in core Crown tax revenue over the forecast period by tax type

Year ended 30 June $billions	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	Total
Movement in core Crown tax owing to:						
Source deductions	1.4	1.4	1.4	1.5	1.6	**7.3**
Other persons tax	0.1	0.3	0.2	0.2	0.1	**0.9**
Corporate tax	0.3	0.8	0.4	0.4	0.3	**2.2**
Resident withholding tax (RWT)	(0.1)	0.3	0.6	0.4	0.4	**1.6**
Goods and services tax (GST)	0.9	1.6	1.1	0.8	0.9	**5.3**
Other taxes	0.2	0.2	0.4	0.1	0.2	**1.1**
Total movement in core Crown tax	**2.8**	**4.6**	**4.1**	**3.4**	**3.5**	**18.4**
Plus: previous year's tax base	58.7	61.5	66.1	70.2	73.6	**58.7**
Core Crown tax revenue	**61.5**	**66.1**	**70.2**	**73.6**	**77.1**	**77.1**
As a % of GDP	**26.6%**	**27.5%**	**28.0%**	**28.1%**	**28.4%**	

Note: These numbers may not add due to rounding.

Source: The Treasury

Growth in employees' compensation and the progressive nature of the personal tax scale (fiscal drag) see source deductions increase by $7.3 billion over the forecast period while growth in corporate profits sees corporate tax increasing by $2.2 billion over the forecast period. Private consumption is expected to grow, contributing to a forecast $5.3 billion increase in GST.

Forecast increases in deposit interest rates and growth in the interest-bearing deposit base are expected to result in growth in tax on interest earned on residents' savings (RWT) of about $1.6 billion across the forecast period.

The Risks and Scenarios chapter provides further discussion of the risks around tax revenue.

IRD has also prepared a set of tax forecasts based on the Treasury's macroeconomic forecasts (Table 2.5).[2]

Table 2.5 – The Treasury and IRD core Crown tax revenue forecasts

Year ended 30 June $billions	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Source deductions					
Treasury	23.8	25.2	26.6	28.1	29.7
Inland Revenue	23.8	25.3	26.7	28.2	29.7
Difference	-	(0.1)	(0.1)	(0.1)	-
Net other persons tax					
Treasury	3.6	3.9	4.1	4.3	4.4
Inland Revenue	3.6	3.8	4.0	4.2	4.3
Difference	-	0.1	0.1	0.1	0.1
Corporate taxes					
Treasury	10.2	11.0	11.4	11.8	12.1
Inland Revenue	10.2	10.9	11.3	11.6	11.8
Difference	-	0.1	0.1	0.2	0.3
Goods and services tax					
Treasury	16.1	17.7	18.8	19.5	20.4
Inland Revenue	16.1	17.8	18.8	19.7	20.4
Difference	-	(0.1)	-	(0.2)	-
Other taxes					
Treasury	7.8	8.3	9.3	9.9	10.5
Inland Revenue	7.8	8.5	9.6	10.2	11.0
Difference	-	(0.2)	(0.3)	(0.3)	(0.5)
Total tax					
Treasury	61.5	66.1	70.2	73.6	77.1
Inland Revenue	61.5	66.3	70.4	73.9	77.2
Difference	-	(0.2)	(0.2)	(0.3)	(0.1)
Total tax (% of GDP)					
Treasury	26.6	27.5	28.0	28.1	28.4
Inland Revenue	26.6	27.6	28.1	28.2	28.5
Difference	-	(0.1)	(0.1)	(0.1)	(0.1)

Source: The Treasury, IRD

[2] For more details of the Treasury and IRD's forecasts, see the *Additional Information* document on the Treasury website www.treasury.govt.nz

Unaudited 2013/14 Tax Revenue Outturn

The Financial Statements of Government for the full 2013/14 year have not yet been completed. They are due for release in October 2014.

Preliminary, unaudited data indicate that core Crown tax revenue for the year was approximately $381 million (0.6%) below the *Budget Update* forecast.

Table 2.6 – Comparison of 2013/14 forecasts of core Crown tax revenue by tax type

Year ended 30 June	*Budget Update* $m	*Pre-election Update* $m	Variance $m	Variance %
GST	16,285	16,104	(181)	(1.1)
Corporate tax	9,877	9,743	(134)	(1.4)
Source deductions	23,818	23,779	(39)	(0.2)
Customs and excise duties	3,967	3,931	(36)	(0.9)
Other individuals tax	4,117	4,133	16	0.4
Other taxes	3,833	3,826	(7)	(0.2)
Total tax	**61,897**	**61,516**	**(381)**	**(0.6)**

Source: The Treasury

The largest variances from forecast occurred in GST and corporate tax.

The main economic driver of GST is private domestic consumption. The latest Statistics NZ GDP data indicated that nominal private consumption grew by 0.1% in the March 2014 quarter, whereas the *Budget Update* had forecast an increase of 1.1%. We estimate that this shortfall versus forecast in domestic consumption through the first half of the 2014 calendar year has decreased GST by about $150 million relative to the *Budget Update* forecast. The remaining $30 million is mainly the result of earthquake-related refunds being higher than was previously assumed.

The lower-than-forecast private consumption in the March quarter has led to a reduction in the level of the private consumption forecast across the forecast period, with a corresponding reduction in the level of the GST forecasts.

The reasons for the corporate tax shortfall are not as clear-cut as for GST. This is because returns for corporate income tax are filed annually and the 2014 returns are not due until next year, whereas the vast majority of GST returns are filed every one or two months. However, based on the currently-available data, it appears that June quarter terminal tax assessments, ie, end-of-year square-ups for the 2013 tax year, were slightly below expectations. Since terminal tax is effectively 'backward-looking', this is not expected to have implications for future years. The corporate tax forecasts have been increased by around $100 million each year from 2015 onwards, owing to a slight increase in the forecast of the underlying macroeconomic driver.

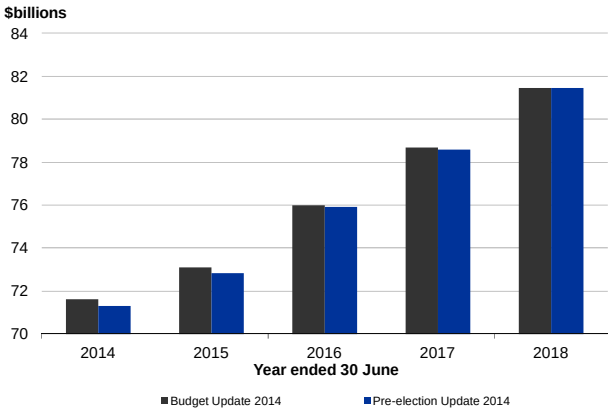
Core Crown Expenses

***Core Crown expenses have decreased marginally since the* Budget Update...**

Core Crown expense forecasts are slightly lower than forecast at the *Budget Update* across all years with the exception of 2015/16. Expenses by the end of the 2017/18 year are expected to be a cumulative $0.8 billion lower than previously expected (Figure 2.4).

These lower expenses include $0.2 billion of tax impairments that were forecast in 2013/14 at *Budget Update* that have not eventuated, as well as around $0.4 billion related to phasing changes resulting in expenses now falling outside the current forecast period.

Figure 2.4 – Changes in core Crown expenses since the *Budget Update*

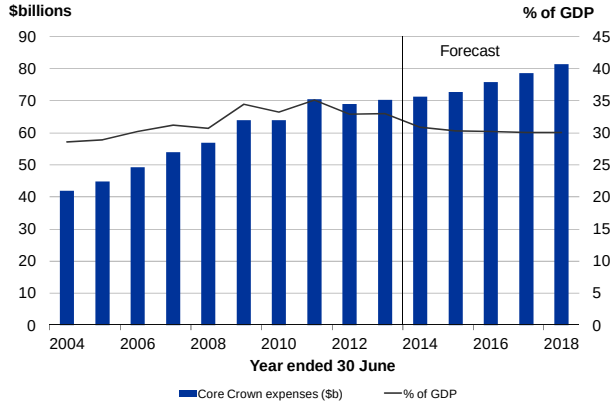


Source: The Treasury

...but continue to grow across the forecast period...

Core Crown expenses are expected to increase in nominal terms by around $11.1 billion by 2017/18 compared with 2012/13, with $10.2 billion of this beyond 2013/14 (Figure 2.5). However, as core Crown expenses are forecast to grow at a slower rate than growth in the nominal economy, they are expected to ease from 33.0% of GDP in 2012/13 to 30.0% of GDP by the end of the forecast period.

Figure 2.5 – Core Crown expenses



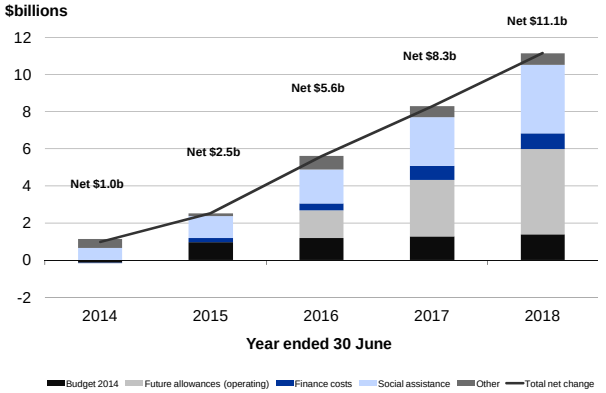
Source: The Treasury

Nominal growth in core Crown expenses is largely attributable to 2013/14 and future operating allowances, coupled with increasing social assistance spending as shown in Figure 2.6.

In these forecasts, finance costs also increase over the forecast period to reflect increasing gross debt and rising interest rates.

Other increases in expenses include core Crown expenses for the Canterbury rebuild (refer to pages 34 to 35 for details of the profile and phasing of earthquake expenses).

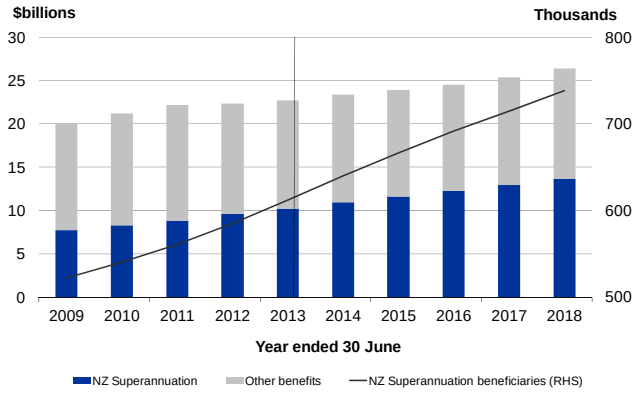
Figure 2.6 – Increase in core Crown expenses (compared to 2012/13)



Source: The Treasury

Social assistance spending is expected to increase by $3.7 billion between 2012/13 and 2017/18. Of this, New Zealand Superannuation payments (around half of social assistance costs), grow by $3.4 billion as payments are linked to wage growth and recipient numbers increase (Figure 2.7). Other benefit expenses, largely income-related rent, are also expected to increase marginally over the forecast.

Figure 2.7 – Components of social assistance spending



Source: The Treasury

Election Promises vs Government Policy

In the lead up to an election, political parties, including the current Government, make announcements regarding their policies and intentions. It does not automatically follow, however, that all announcements are included in these fiscal forecasts.

The criteria for inclusion in the fiscal forecasts is outlined in the Specific Fiscal Risks chapter with a decision by Cabinet being the key criteria for distinguishing government policy from the policies of individual political parties, and therefore inclusion in the forecasts.

Operating Balance

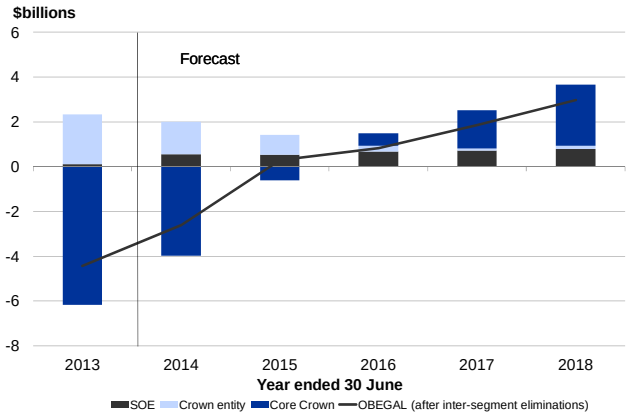
The Crown is forecast to return to surplus this financial year…

The OBEGAL is expected to return to surplus in the current 2014/15 year with a surplus of $297 million forecast. Beyond 2014/15, surpluses are expected to increase by between $0.5 billion and $1.1 billion per year.

Figure 2.8 shows the composition of OBEGAL from the different segments of the total Crown.

The core Crown segment moves from a forecast OBEGAL deficit of $4.0 billion in 2013/14 to a forecast $2.7 billion surplus in 2017/18, largely reflecting growth in tax revenue.

Figure 2.8 – Components of OBEGAL by segment



Source: The Treasury

The State-owned Enterprise (SOE) and Crown entity (CE) segments together positively impact the OBEGAL balance by $2.0 billion in 2013/14, easing back to $0.9 billion in the final year of the forecast period largely reflecting ACC levy rate reductions announced in Budget 2013.

These forecast surpluses are expected to assist in strengthening the Crown's balance sheet and contribute to the Crown's ability to repay debt in the future.

***...although OBEGAL is lower compared to the* Budget Update**

These forecasts indicate the annual OBEGAL surpluses are forecast to be smaller in all years relative to the *Budget Update.* The surplus in 2017/18 is forecast, for example, to be $3.0 billion, half a billion lower than previously forecast (Table 2.7).

Table 2.7 – Changes in OBEGAL since the *Budget Update*

Year ended 30 June $billions	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
OBEGAL – 2014 *Budget Update*	**(2.4)**	**0.4**	**1.3**	**2.4**	**3.5**
Changes in forecasts:					
Tax revenue	(0.4)	(0.3)	(0.4)	(0.5)	(0.5)
IRD tax impairments	0.2	-	-	-	-
Treaty settlement expenses	0.1	0.2	0.1	0.1	0.1
EQC forecasts	(0.1)	0.1	-	-	-
ACC forecasts	-	-	-	0.1	0.1
Social assistance expenses	-	-	-	-	(0.1)
Other changes	-	(0.1)	(0.2)	(0.2)	(0.1)
Total changes since the *Budget Update*	(0.2)	(0.1)	(0.5)	(0.5)	(0.5)
OBEGAL – 2014 *Pre-election Update*	**(2.6)**	**0.3**	**0.8**	**1.9**	**3.0**

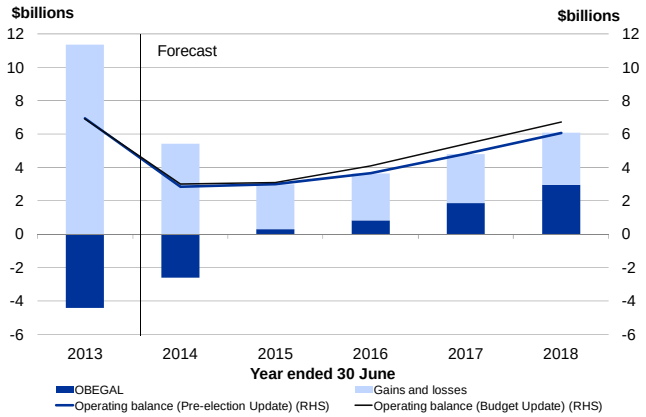
Source: The Treasury

Material changes to OBEGAL forecasts since the *Budget Update* include:

- Tax revenue is weaker across the forecast period than the *Budget Update* as discussed earlier (refer page 25).
- IRD's tax impairments were forecast to be higher than eventuated in 2013/14.
- The Office of Treaty Settlements (OTS) has updated its Treaty settlement expenditure forecasts for the timing of forthcoming Deeds of Settlement. The timing for Deeds is determined by milestones earlier in the settlement process such as claimant groups achieving a mandate for negotiations and agreements being reached on redress packages with the Crown. As settlements get closer to being finalised, the OTS has a greater amount of certainty about when they will occur and impact on Crown expenses.
- Earthquake Commission (EQC) forecasts in the first two years have changed following an updated valuation of EQC's insurance liabilities at 30 June 2014.
- ACC's results in the later years of the forecast largely reflect increases in investment income from investments outweighing changes in insurance costs.
- Social assistance expenses are slightly higher than previous forecasts and are expected to be higher by $0.1 billion in the final 2017/18 year.

...with increases in OBEGAL lifting the operating balance

Figure 2.9 – Components of operating balance



Source: The Treasury

The total Crown operating balance, inclusive of gains and losses, is forecast to be in surplus across all years of the forecast period. Figure 2.9 shows the growth in the operating balance and its components. The 2013/14 year's forecast surplus of $2.8 billion includes $5.2 billion of gains made by Crown financial institutions (CFIs), largely ACC and NZS Fund. While the 2013/14 year reflects the current strong market growth, lower long-term rates of returns are assumed in future years, resulting in lower growth in these years. These gains result in increased financial assets which lead to increases in the Crown's share of net worth (refer page 38 for discussion).

In addition, updated long-term liability valuations for ACC and the Government Superannuation Fund (GSF) at 30 June 2014 have led to $1.1 billion of actuarial gains in the 2013/14 year (compared to $3.6 billion in 2012/13).

When compared to the *Budget Update*, the operating surplus is forecast to be lower in all years. In 2017/18 the operating balance is forecast to be a $6.1 billion surplus, $0.6 billion lower than previously forecast.

Cyclically-adjusted Balance and Fiscal Impulse

In addition to OBEGAL and the operating balance (both of which are total Crown indicators), the cyclically-adjusted balance and the fiscal impulse are useful indicators in assessing the relationship between fiscal policy and the economy. These indicators are summarised in Table 2.8.

Table 2.8 – Cyclically-adjusted balance and fiscal impulse indicators

Year ended 30 June % of GDP	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
OBEGAL	(2.1)	(1.1)	0.1	0.3	0.7	1.1
Cyclically-adjusted balance (CAB)	(1.5)	(1.0)	(0.2)	(0.1)	0.6	1.1
Fiscal impulse	(1.6)	0.0	(0.2)	(0.4)	(1.0)	(0.1)

Source: The Treasury

Cyclically-adjusted Balance (CAB)[3]

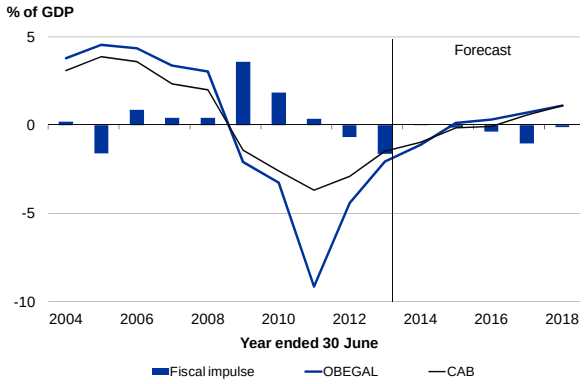
CAB is an estimate of the fiscal balance (OBEGAL) adjusted for fluctuations of actual GDP around trend GDP. Adjustments are also made for significant one-off expenses in order to provide a picture of the underlying fiscal position and the effects of policy decisions.

Figure 2.10 shows CAB tracking close to OBEGAL in recent years, indicating that the operating deficits between 2009 and 2013 have been largely structural. OBEGAL is expected to reach a surplus of 0.1% of GDP in the year ending June 2015. However, because the economy is assumed to be operating a little above capacity over much of the forecast period, the CAB is expected to reach surplus two years later in the year ending June 2017.

Fiscal impulse

The fiscal impulse is a summary measure of how changes in the fiscal position impacts aggregate demand. The fiscal impulse is calculated on a cyclically-adjusted basis and excludes net interest payments. To better capture the role of capital spending, this indicator uses the change in a cash-based version of the fiscal balance (CAB supplemented by capital expenditure). Figure 2.10 shows fiscal policy is expected to withdraw from aggregate demand over the forecast period.

Figure 2.10 – Operating balance indicators and fiscal impulse



Source: The Treasury

3 For more details of both CAB and fiscal impulse, see the *Additional Information* document on the Treasury website www.treasury.govt.nz

Cost to the Crown of the Canterbury Rebuild

As reported previously, the Canterbury earthquakes were unprecedented events. Early estimates of costs were very challenging. Over time, as agreements are reached and decisions are made, the costs of the rebuild become clearer and are re-estimated and published.

Estimates of the cost to the Crown of the Canterbury rebuild have increased significantly since 2011. At the time the *2011 Budget Update* was prepared, only months after the February earthquake, the initial estimate of total costs was $8.8 billion (including $3.1 billion of claims costs to EQC). All expenses were assumed to be operating, in the absence of information regarding the Crown's contribution to capital expenditure. In these early estimates the Treasury emphasised the high levels of uncertainty.

Three and a half years after the *2011 Budget Update*, these forecasts estimate operating costs have increased to $12.6 billion (including $7.4 billion in relation to EQC) reflecting updated estimates and agreements reached. In addition, capital expenditure of asset rebuilds, such as the new Canterbury hospitals, is estimated to be $3.2 billion. The Treasury is a long way from determining the final costs to the Crown arising out of the Canterbury rebuild because uncertainty remains around the likely final costs to the Crown of a number of items (eg, Christchurch central city anchor projects) have not yet been determined.

The Treasury uses the same approach for forecasting the costs of the Canterbury rebuild that are used in the Financial Statements of the Government, which are subject to audit by the Auditor-General.

Costs associated with water infrastructure are recognised up-front while the costs of road repairs are recognised in the year of repair. This is consistent with the way the Crown treats repairs to local roadways across New Zealand, where there is a spreading of costs to reflect that the first call for funding these future expenses will be from dedicated ring-fenced revenue sources.

Operating expenditure will have an impact on the Crown's OBEGAL while capital expenditure does not. Instead capital expenditure results in growth in the Crown's balance sheet.

The current forecasts reflect the Treasury's best professional judgement of the known costs under current government policy. They do not include future decisions the Government may or may not take regarding the rebuild.

Table 2.9 outlines the latest estimates of the net impact of the earthquakes included in these forecasts and future years. As the rebuild progresses the composition of expenditure shifts more towards capital spending as Crown assets are replaced.

Latest estimates for the total cost to the Crown are $15.8 billion and are expected to extend beyond the forecast period. This compares to an estimate of $15.4 billion to 2018 in the *Budget Update*. These latest estimates include updates from entities with significant earthquake costs (primarily CERA, EQC and Southern Response). A full update of all entities with earthquake-related expenses will be undertaken in the next *Half Year Update*. Refer to page ii which discusses the Treasury's process for this forecast update.

Table 2.9 – Net earthquake expenses (operating and capital)

Year ended 30 June $millions	2011-13 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	Outside forecast period	Total *Pre-election Update*	*Total Budget Update*
Local infrastructure	1,364	81	170	113	50	50	-	1,828	*1,828*
Crown assets[1]	40	114	586	520	456	280	50	2,046	*1,996*
Land zoning	912	114	(12)	70	5	-	-	1,089	*1,034*
Christchurch central city rebuild[2]	115	412	570	169	124	(13)	(260)	1,117	*1,030*
Welfare support	269	19	9	4	3	2	-	306	*306*
Southern Response support package	458	124	(50)	(31)	(10)	1	-	492	*415*
Other costs	508	130	170	136	44	35	-	1,023	*997*
Core Crown Canterbury earthquake recovery costs	**3,666**	**994**	**1,443**	**981**	**672**	**355**	**(210)**	**7,901**	***7,606***
EQC (net of reinsurance proceeds)	8,026	(257)	(245)	(79)	(2)	(39)	-	7,404	*7,291*
Other SOE and CEs	(217)	25	247	283	127	41	-	506	*506*
Total Crown	**11,475**	**762**	**1,445**	**1,185**	**797**	**357**	**(210)**	**15,811**	***15,403***
Operating and capital expenses									
Operating expenditure (OBEGAL)	11,253	403	316	374	231	82	(47)	12,612	*12,132*
Capital expenditure	222	359	1,129	811	566	275	(163)	3,199	*3,271*
Total Crown	**11,475**	**762**	**1,445**	**1,185**	**797**	**357**	**(210)**	**15,811**	***15,403***
Total cash payments[3]	**6,595**	**1,367**	**4,872**	**1,730**	**587**	**382**	**(5)**	**15,528**	***15,006***

Notes: 1 Crown assets includes capital expenditure on Canterbury hospitals, schools, Tertiary Education Institutions (TEIs), housing and the Justice and Emergency Services Precinct.

2 Central city rebuild costs include land acquisition and are net of expected recoveries.

3 Some expenses are non-cash (eg, asset write-offs and impairments) and therefore do not have a cash element to them.

Source: The Treasury

Forecasts have been updated to take account of the latest information available. Overall, updated forecasts have led to rephasing of both operating and capital net costs with some costs now falling outside the forecast period. Updated valuations of both EQC and Southern Response Earthquake Services Limited's earthquake liabilities at 30 June 2014 have resulted in an increase of $0.2 billion in operating costs being recognised in these forecasts. Additional operating costs in relation to anchor projects (including write-downs and impairments of property) also add $0.1 billion, while re-estimations of insurance recoveries, demolition costs and red zone property management costs result in $0.1 billion of additional net operating costs.

The full cost of EQC's earthquake claims liability is captured in the table above. It outlines the costs of the Canterbury rebuild to the total Crown (which includes all Crown entities, such as EQC, State-owned Enterprises and core Crown departments).

Under the Earthquake Commission Act, if the assets of the EQC are not sufficient to meet its liabilities, the Crown is responsible for funding the deficiency by way of a grant or advance. EQC continues to expect its National Disaster Fund (NDF) will be depleted during the current fiscal year. Whether these claims are funded by the NDF, or directly by the Crown, however, will have no bearing on the overall costs to the total Crown because that funding will represent a transfer within the total Crown reporting group.

The Specific Fiscal Risks chapter discusses the fiscal risks associated with the Canterbury earthquake forecast net expenses. Key risks include the timing of expenditure and escalating costs as well as the independent review of infrastructure costs shared by the Christchurch City Council and the Crown (due to be completed by 1 December 2014).

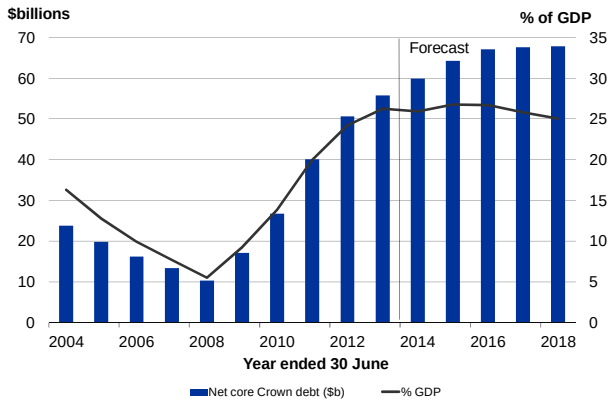
Net Core Crown Debt

Net core Crown debt peaks as a share of GDP in 2014/15...

Net core Crown debt as a share of GDP is expected to peak in 2014/15 at 26.8% (Figure 2.11). By 2017/18 net core Crown debt is expected to have fallen to 25.0% of GDP.

While operating cash flows are expected to return to surplus in 2014/15, net capital spending is expected to exceed operating cash flows resulting in core Crown residual cash[4] deficits across the forecast period. Cash deficits are funded by increases in net core Crown debt[4] (either through additional borrowing or a reduction in financial assets).

Figure 2.11 – Net core Crown debt



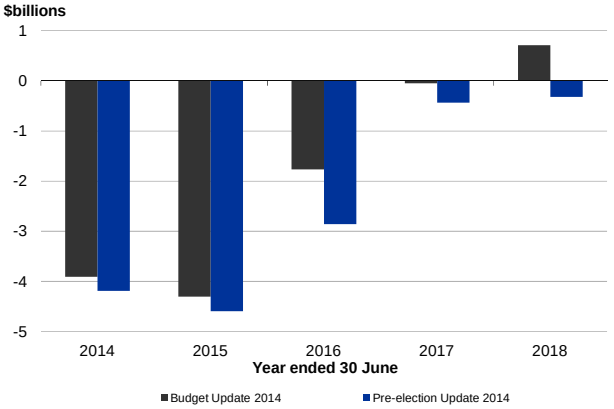
Source: The Treasury

Over the forecast period, the Crown is expected to generate cash flows from core Crown operations of $8.6 billion and will receive the last of the proceeds from the Meridian share offer ($0.6 billion)[5]. The core Crown is forecast to spend $24.0 billion on capital items such as purchasing of physical assets (eg, school buildings), advances (eg, student loans) and future new capital spending. Overall, this results in a cash shortfall across the forecast of $12.4 billion. As a result of this cash shortfall, net core Crown debt is expected to increase in nominal terms and to peak on an annual basis in 2017/18 at $67.9 billion (one year later than previously forecast), and then fall after residual cash surpluses are achieved.

...but is higher than the* Budget Update*...

Core Crown residual cash is expected to remain in deficit across the forecast period and is higher than the *Budget Update* largely owing to lower tax receipts than previously forecast (Figure 2.12). As a result, net core Crown debt (in both nominal terms and as a share of GDP) is forecast to be higher in each of the forecast years when compared to the *Budget Update.*

Figure 2.12 – Core Crown residual cash



Source: The Treasury

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

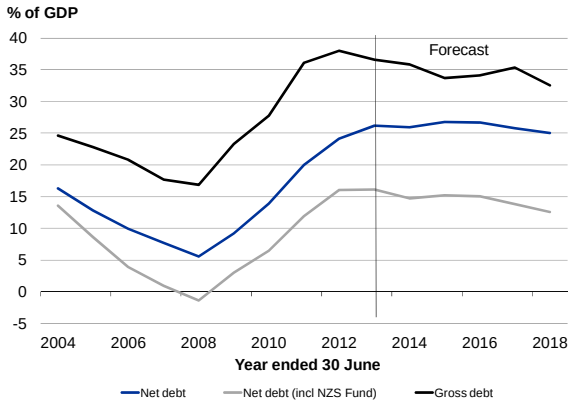
5 Although the Government's Share Offer programme has now been completed, owing to the use of instalment receipts for the Meridian Energy share offer some proceeds (approximately $0.6 billion) are expected to be received in the 2014/15 year. Refer to page 40 of the 2014 *Budget Update* for further detailed information regarding the final proceeds of the programme.

...with the bond maturities funding residual cash deficits

There has been no change in the bond programme to 2017/18 from the *Budget Update.* The bond programme is expected to raise funds of $36.6 billion over the forecast period, while $25.4 billion of existing debt will be repaid, providing net cash proceeds of $11.2 billion (Table 2.10). While there is a greater cash shortfall over the forecast period ($12.4 billion compared to $9.4 billion forecast at the *Budget Update*), this additional shortfall is expected to be managed through reductions in financial assets.

The movement in gross debt generally reflects the timing of the bond programme and maturities. As a percentage of GDP it is forecast to decrease from 36.6% in 2012/13 to 32.5% in 2017/18 (Figure 2.13) consistent with the decrease in net debt as a share of national income.

Figure 2.13 – Gross debt vs net debt



Source: The Treasury

Table 2.10 – Net increase in government bonds

Year ended 30 June $billions	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	5-year Total
Face value of government bonds issued (market)	8.0	8.0	7.0	7.0	7.0	37.0
Cash proceeds from government bond issue						
Cash proceeds from issue of market bonds	7.7	8.1	7.0	6.9	6.9	36.6
Repayment of market bonds	(2.2)	(8.7)	(1.8)	-	(11.3)	(24.0)
Net proceeds from market bonds	5.5	(0.6)	5.2	6.9	(4.4)	12.6
Repayment of non-market bonds	-	(1.4)	-	-	-	(1.4)
Net repayment of non-market bonds	-	(1.4)	-	-	-	(1.4)
Net cash proceeds from bond issuance	**5.5**	**(2.0)**	**5.2**	**6.9**	**(4.4)**	**11.2**

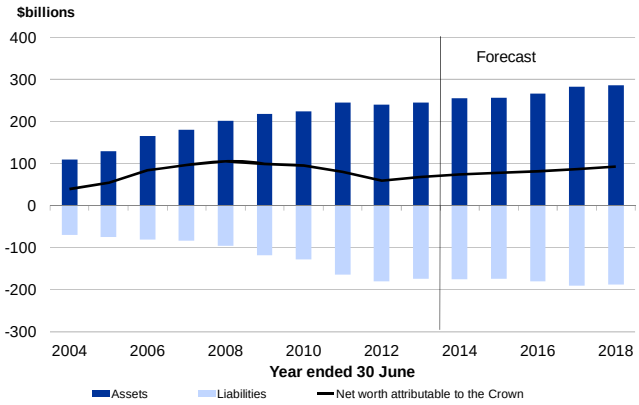
Source: The Treasury

Total Crown Balance Sheet

Operating balance surpluses strengthen the balance sheet...

Net worth attributable to the Crown is forecast to grow steadily in nominal terms across the forecast period largely owing to forecast operating balance surpluses. Beyond June 2014, net worth attributable to the Crown is expected to grow by $17.6 billion to stand at $92.0 billion or 33.9% of GDP by 2017/18 (Figure 2.14).

Figure 2.14 – Size of the Crown's balance sheet



Source: The Treasury

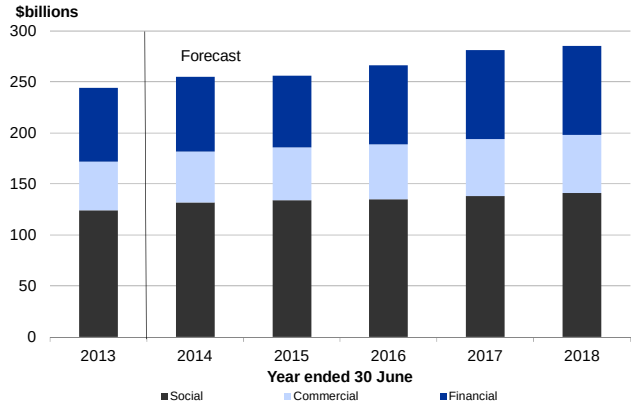
...with assets increasing by $41 billion over the forecast period...

Total assets are forecast to grow by $41.1 billion over the forecast period with the largest asset growth in the financial assets portfolio (Figure 2.15). This growth reflects investments by CFIs, with much of this growth recognised as gains in the Crown's operating balance.

The commercial asset portfolio is expected to increase by $9.6 billion over the forecast period, with growth in Kiwibank's mortgage book comprising $7.2 billion of this increase. (This growth is also reflected in the Crown's liabilities as Kiwibank deposits grow in line with these mortgages.)

Social assets (eg, schools, hospitals and social housing) are expected to increase by $16.8 billion by the end of the forecast period, primarily as a result of new capital investments via the Future Investment Fund.[6]

Figure 2.15 – Total Crown assets



Source: The Treasury

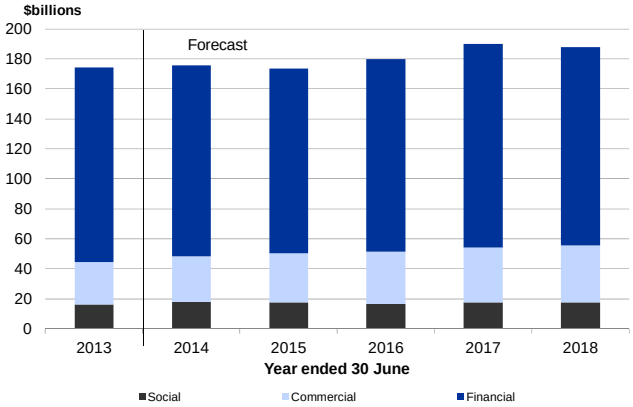
At the *Budget Update*, $1.7 billion remained in the fund to be allocated to future capital spending ($3.0 billion had already been allocated). Subsequent to Budget 2014, $0.1 billion has been allocated to regional roading packages. This is a pre-commitment against Budget 2015, leaving $1.6 billion yet to be allocated across Budget 2015 and Budget 2016.

6 Proceeds from the Government Share Offer programme were set aside to fund future new capital spending through this Fund. Refer to the 2014 *Budget Update* page 41 for further information on the Future Investment Fund.

...and liabilities begin to fall in 2017/18

The Crown's liabilities are expected to increase by $13.5 billion (Figure 2.16) over much of the forecast period, largely driven by increased borrowing ($16.4 billion over the forecast period) before beginning to fall in 2017/18. Borrowings are forecast to peak at $119.9 billion in 2016/17 before decreasing slightly to stand at $116.4 billion by 2017/18.

Figure 2.16 – Total Crown liabilities



Source: The Treasury

The Crown's balance sheet remains sensitive to market movements...

Many of the assets and liabilities on the Crown's balance sheet are measured at "fair value" in order to disclose current estimates of what the Crown owns and owes. While the measurement at fair value is seen as the most appropriate value of these items, it can be volatile, resulting in fluctuations in the value of the assets and liabilities reflecting changes in the market and underlying assumptions.

Financial assets have increased significantly in recent years. CFIs (eg, NZS Fund and ACC) hold investments to make financial returns, and those asset values are dependent on market prices, interest rates and exchange rates, which can all be volatile. For example, a 10% change in the NZ dollar exchange rate or share prices can impact the Crown's operating balance by $1 billion to $2 billion.

In addition, the Crown has a number of significant long-term liabilities (eg, ACC claims and GSF retirement liability) that are actuarially valued based on estimated future cash flows 50 years into the future. As part of the actuarial valuation, inflation rates are used to help estimate future cash flows, while discount rates are used to obtain the value of those future cash flows in today's dollars (their present value). Even small changes in these assumptions can have significant impacts on the valuation because the cash flows are so large and over such long periods.

...and judgements and estimates will also impact on the balance sheet...

Outside of market factors, valuations are subject to a number of judgements and estimates. In general, as time goes on, better information becomes available and initial estimates are updated to reflect current information. Some examples of this include ACC rehabilitation costs, earthquake-related insurance liabilities and student wage growth.

...while other risks still remain

In addition to those items on the balance sheet there are a number of liabilities (and assets) that may arise in the future but are not yet included in our forecasts, either because they are contingent on an uncertain future event occurring (eg, outcome of litigation) or the liability cannot be measured reliably. If these liabilities crystallise, there will be associated costs with a negative impact (or positive in the case of contingent assets) on the operating balance or net debt. Refer to page 75 for a list of the contingent liabilities that the Crown was exposed to at 31 May 2014. The Risks and Scenarios chapter also includes further discussion on risks to the Crown's balance sheet.

Fiscal Forecast Assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available on 5 August 2014, when the forecasts were finalised. Actual events may differ from these assumptions and judgements. Furthermore, uncertainty around the forecast assumptions and judgements increases over the forecast period. The impact of the Canterbury earthquakes adds further uncertainty to the economic and fiscal forecasts.

The fiscal forecasts 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 in order to forecast tax revenue.
- A forecast of CPI inflation is needed because social assistance benefits are generally indexed to inflation.
- 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 fiscal forecasts is provided in Table 2.11 (on a June-year-end basis to align with the Government's balance date).

Table 2.11 – Summary of key economic forecasts used in fiscal forecasts

Year ended 30 June	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Real GDP[1] (ann avg % chg)	2.2	3.6	3.6	2.8	2.1	2.1
Nominal GDP[2] ($m)	212,955	231,149	240,199	251,041	261,741	271,173
CPI (ann avg % chg)	0.8	1.5	1.6	2.3	2.4	2.2
Govt 10-year bonds (ann avg, %)	3.6	4.5	4.6	4.8	5.0	5.2
5-year bonds (ann avg, %)	2.9	4.1	4.4	4.8	5.0	5.2
90-day bill rate (ann avg, %)	2.6	2.9	4.1	4.8	5.0	5.3
Unemployment rate (ann avg, %)	6.7	6.0	5.6	5.3	4.9	4.6
Employment (ann avg % chg)	0.4	3.3	2.5	1.5	1.4	1.1

Notes: 1 Production measure.
2 Expenditure measure.

Source: The Treasury

In addition, a number of other key assumptions are critical in the preparation of the fiscal forecasts.

<table>
<tr><td>Government decisions</td><td>The forecasts incorporate government decisions and other circumstances known to the Government and advised to the Treasury up to 5 August 2014.</td></tr>
<tr><td>Tax revenue</td><td>Tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts as calculated and agreed between IRD and the Treasury.</td></tr>
<tr><td>Earthquake costs</td><td>Expenditure (accrual measure) is forecast based on estimates of when key decisions will be taken. The timing of cash payments is based on estimates of when actual spending will take place. Refer to page 35 for further discussion.</td></tr>
<tr><td>Operating allowance</td><td>Operating allowances are net $1.5 billion from Budget 2015, growing at a rate of 2.0% per year for subsequent Budgets. For further details, see note 8 of the Forecast Financial Statements.</td></tr>
<tr><td>Provision for new capital spending</td><td>Capital allowances are $0.8 billion in Budget 2015 and $0.9 billion in Budget 2016. The Treasury's forecasts then assume capital allowances grow at a rate of 2.0% per year for subsequent Budgets. For further details, see note 8 of the Forecast Financial Statements.</td></tr>
<tr><td>Finance cost on new bond issuances</td><td>Based on the 5-year rate from the main economic forecasts and adjusted for differing maturities.</td></tr>
<tr><td>Top-down adjustment</td><td>A top-down adjustment is made to compensate for departments that tend to forecast upper spending limits (appropriations) rather than best estimates.

Top-down adjustments to operating and capital expenses are as follows:
<table>
<tr><th>Year ended 30 June
$billions</th><th>2015
Forecast</th><th>2016
Forecast</th><th>2017
Forecast</th><th>2018
Forecast</th></tr>
<tr><td>Operating</td><td>0.9</td><td>0.5</td><td>0.4</td><td>0.4</td></tr>
<tr><td>Capital</td><td>0.4</td><td>0.1</td><td>0.1</td><td>0.1</td></tr>
</table>
The adjustment will be higher at the front end of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years.</td></tr>
<tr><td>Property, plant and equipment</td><td>For the purposes of the forecast financial statements, no revaluations of property, plant and equipment are projected beyond the current year. Valuations that have occurred up to 30 June 2014 are included in these forecasts.</td></tr>
<tr><td>Student loans</td><td>The carrying value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the carrying value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate for new borrowers. Any change in these assumptions would affect the present fiscal forecasts.</td></tr>
</table>

<table>
<tr><td>Investment rate of returns</td><td>The forecasts incorporate the unaudited actual results to 30 June 2014. Beyond this time, gains on financial instruments are based on long-term benchmark rates of return for each portfolio.</td></tr>
<tr><td>GSF and ACC liabilities</td><td>The GSF and ACC liabilities included in these forecasts have been valued as at 30 June 2014 respectively. Both liabilities are valued by projecting future cash payments, and discounting them to the present. These valuations rely on historical data to predict future trends and use economic assumptions such as inflation and discount rates. Any changes in actual payments or economic assumptions would affect the present fiscal forecast. For example, if the discount rate decreases, the value of the liabilities would increase.

GSF's assets are offset against the gross liability and have been updated to reflect market values. The value of assets over the forecast period reflects long-run rate of return assumptions appropriate to the forecast portfolio mix.</td></tr>
<tr><td>NZS Fund contributions</td><td>No contribution is assumed in the forecast period in line with the Government's stated intentions to commence contributions once net core Crown debt has reached 20% of GDP as set out in the Fiscal Strategy Report (FSR).
<table>
<tr><th>Year ended 30 June
$billions</th><th>2015
Forecast</th><th>2016
Forecast</th><th>2017
Forecast</th><th>2018
Forecast</th></tr>
<tr><td>Required contribution[1]</td><td>2.3</td><td>2.3</td><td>2.2</td><td>2.1</td></tr>
<tr><td>Actual contribution</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>
1. Calculations of annual contributions if they were to resume in 2013/14.

The underlying assumptions in calculating the required contribution in each year are the previous year's NZS Fund balance and projected series, over the ensuing 40 years of nominal GDP, net (after-tax) New Zealand superannuation expenses, and the government 5-year bond rate. The latter is used in calculating the Fund's expected long-run after-tax annual return. Over the forecast years, all Fund variables, apart from the capital contributions, are provided by the NZS Fund itself.

Refer to the Treasury's website for the NZS Fund model.</td></tr>
</table>

Medium-term Projections

The previous sections of this chapter have concentrated on the five-year forecast horizon, up to and including 2017/18. The focus now switches to the decade beyond the last forecast year, extending to 2027/28, referred to as the medium-term projections. The different names reflect different levels of precision.

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

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

Projected nominal GDP growth slows...

The two economic variables that most significantly influence the fiscal projections are nominal GDP and the CPI inflation measure. A table in the annex to this section shows the paths of the other main economic projections.

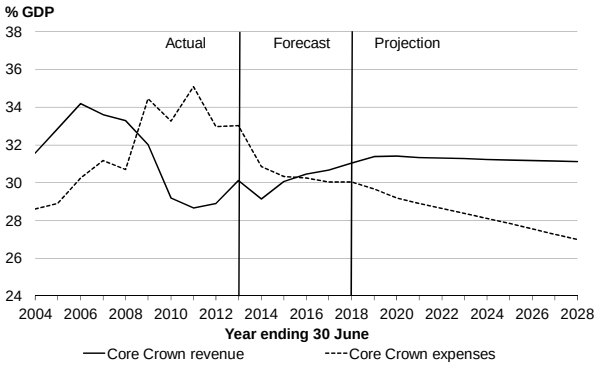
Annual growth of nominal GDP gradually slows over the projections, from a peak of 4.5% in the year ending June 2021 to 4.2% by the year ending June 2028. This is mainly owing to the labour force contribution, where an ageing population slowly reduces overall participation rates.

While projected nominal GDP growth rates are virtually identical to those produced for the 2014 *Fiscal Strategy Report* (FSR), they arise from an end-of-forecast GDP base which is $1.4 billion (0.5%) lower. This wedge is maintained over the projection decade. Because tax revenue is brought to a stable ratio of nominal GDP in projections, based both on history and current tax parameters, this results in reduced tax, in dollar terms, relative to the 2014 FSR.

Figure 2.17 illustrates the paths of core Crown revenue and expenses, as percentages of nominal GDP, in recent history and the *Pre-election Update* forecasts and projections.

Lower tax revenue is the main reason why the fiscal projections are not quite as strong as those of the 2014 FSR. As depicted in Figure 2.18 the total Crown operating balance before gains/(losses) tracks slightly below the previous projection.

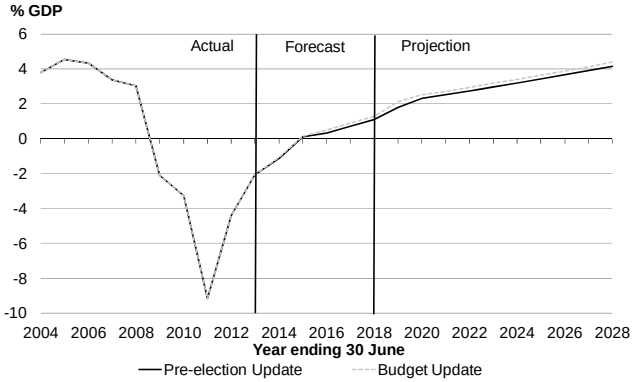
Figure 2.17 – Core Crown revenue and expenses



Source: The Treasury

The *Pre-election Update* projection of expenses, in dollar terms, is only slightly higher than the previous projection. The majority of the small difference is owing to higher interest costs, which arise from debt not reducing as quickly.

Figure 2.18 – Total Crown operating balance before gains/(losses) or OBEGAL



Source: The Treasury

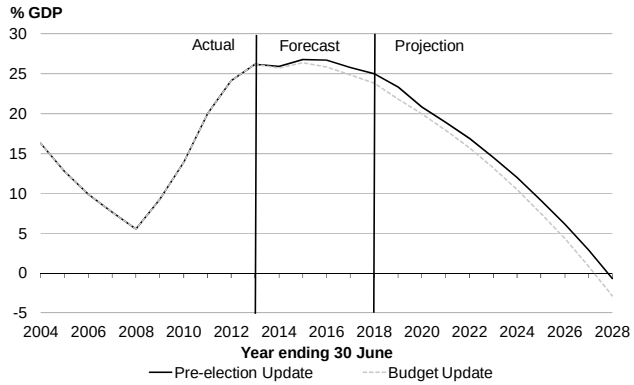
...with OBEGAL surpluses projected to continue...

The projection of OBEGAL continues the rising profile exhibited in the forecast years. Surpluses increase, not just in dollar terms but also as percentages of GDP, principally because revenue growth outstrips that of expenses. Allowances for new operating spending grow more slowly than nominal GDP. By contrast, most revenue types, and in particular tax revenue, grow in line with nominal GDP. The track also receives a boost in the initial years of projections as some tax types lift to their long-run stable ratios of nominal GDP.

...resulting in net core Crown debt reaching 20% of GDP in 2020/21

Weaker revenue projections also result in a projection of net core Crown debt to GDP that is marginally higher than in the 2014 FSR, as shown in Figure 2.19. The narrowing of the gap between the two net debt tracks in 2019/20, before moving apart again, reflects the assumed resumption of capital contributions to the NZS Fund shifting out one further year.

Figure 2.19 – Net core Crown debt (excluding NZS Fund and advances) assuming no policy intervention



Source: The Treasury

The current policy relating to resumption of capital contributions to the NZS Fund is that these will restart once net core Crown debt is no higher than 20% of GDP. This was projected to occur in 2019/20 in the 2014 FSR. However, the reduction in both forecast and projected tax revenue means that net core Crown debt is projected to fall below 20% of GDP one year later. As a result, capital contributions are now projected to also resume one year further out, in 2020/21.

Further long term projections are available in the Treasury's latest *Statement on New Zealand's Long-Term Fiscal Position*, which was published in July 2013. It outlines how, in common with many advanced economies, New Zealand faces an ageing population structure which will bring with it both challenges and opportunities.

Assumptions for Medium-term Fiscal Projections

The assumptions for the medium-term economic and fiscal projections are outlined in this section. The full assumptions can be found in the 2014 FSR, at http://www.treasury.govt.nz/budget/2014/fsr

Table 2.12 – Summary of economic and demographic assumptions*

June Year[7]	2014	2015	2016	2017	2018	2019	2020	2021	2022	…..	2028
	Forecasts					Projections					
Labour force	2.6	2.1	1.2	0.9	0.8	1.1	1.0	1.0	0.9		0.7
Unemployment rate**	6.0	5.6	5.3	4.9	4.6	4.5	4.5	4.5	4.5		4.5
Employment	3.3	2.5	1.5	1.4	1.1	1.2	1.0	1.0	0.9		0.7
Labour productivity growth***	0.5	1.3	1.6	1.0	1.1	1.4	1.5	1.5	1.5		1.5
Real GDP	3.6	3.6	2.8	2.1	2.1	2.3	2.4	2.5	2.4		2.2
Nominal GDP	8.5	3.9	4.5	4.3	3.6	4.3	4.4	4.5	4.5		4.2
Average hours paid per week****	32.8	32.6	32.5	32.4	32.4	32.3	32.2	32.2	32.2		32.2
Average hours worked per week*****	33.4	33.4	33.3	33.2	33.1	33.0	33.0	33.0	33.0		33.0
CPI (annual % change)	1.6	2.1	2.3	2.3	2.1	2.0	2.0	2.0	2.0		2.0
Government 5-year bonds (average % rate)	4.1	4.4	4.8	5.0	5.2	5.3	5.5	5.5	5.5		5.5
Nominal average hourly wage	2.6	2.8	3.1	3.3	3.4	3.4	3.5	3.5	3.5		3.5

* Annual average % change unless otherwise stated.

** Level of unemployment (average for year ending June).

*** Hours worked measure.

**** Average over public and private sector.

***** Total hours worked ÷ total number employed.

Sources: The Treasury, Statistics New Zealand

No economic variables have had their medium-term, stable assumptions changed since the 2014 FSR. As average hours worked per week is assumed to grow at the rate of average hours paid per week, it has stabilised at a slightly higher level, but in the same projected year. This does not affect projected GDP as it depends on the unchanged growth rate, not the level, of average hours worked per week.

Economic projections display the potential paths that some key economic indicators take beyond their forecast bases, while simultaneously providing inputs to projecting many

7 Note that the economic forecasts in the *Pre-election Update* are based on a March year.

fiscal variables. For example, the modelling of many future benefit expenses uses inflation to annually index payment rates. Nominal GDP acts as the denominator in fiscal indicators to make them more comparable over periods of a decade or more.

The stable projection assumption for annual growth in CPI is 2%, which is the midpoint of the 1% to 3% target in the Reserve Bank's Policy Targets Agreement. With annual growth in CPI at 2.1% by the end of the forecasts, the stable assumption is attained in the first projected year and maintained in all later ones.

Nominal GDP is projected using a growth rate produced by combining those of real GDP and CPI. Projected real GDP growth is itself derived from the growth rates of several economic variables, particularly that of the labour force and annual labour productivity growth.

Table 2.13 – Summary of fiscal projections, as percentages of nominal GDP

Year ended 30 June	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**...**	**2028**
	Forecast					**Projections**					
Core Crown revenue	29.1	30.1	30.5	30.7	31.0	31.4	31.4	31.3	31.3	...	31.2
Core Crown expenses	30.8	30.3	30.2	30.0	30.0	29.7	29.2	28.9	28.6	...	27.0
Total Crown revenue	38.8	39.6	39.7	39.8	40.2	40.5	40.6	40.5	40.5	...	40.3
Total Crown expenses	39.8	39.3	39.2	39.0	38.9	38.6	38.1	37.8	37.5	...	36.0
Total Crown OBEGAL[1]	-1.1	0.1	0.3	0.7	1.1	1.8	2.3	2.5	2.7	...	4.2
Total Crown operating balance	1.2	1.2	1.4	1.8	2.2	3.0	3.3	3.5	3.8	...	5.5
Core Crown GSID[2]	38.3	36.1	36.4	37.5	34.6	32.6	29.8	27.4	24.9	...	10.0
Core Crown net debt[3]	25.9	26.8	26.7	25.8	25.0	23.3	20.8	19.0	16.9	...	-0.7
Total Crown net worth	34.5	34.5	34.5	34.9	36.0	37.5	39.2	41.1	43.2	...	59.5
Net worth attributable to the Crown[4]	32.2	32.2	32.3	32.8	33.9	35.2	36.9	38.6	40.6	...	55.9

Notes: 1 Operating balance before gains/(losses).

2 Gross sovereign-issued debt.

3 Excludes financial assets of the NZS Fund and core Crown advances.

4 Excludes assets and liabilities belonging to minority interests.

Source: The Treasury

Summary of medium-term fiscal assumptions

Tax revenue	Linked to growth in nominal GDP. Source deductions (mainly PAYE tax on salary and wages) are grown using employment growth and nominal average hourly wage growth, multiplied by a fiscal drag elasticity of 1.35, at the beginning of the projection period. Beyond 2019/20 source deductions remain at a long-term stable value of 11.2% of GDP. The four other major tax categories – Corporate tax, GST, hypothecated Transport taxes and Other taxes – are gradually returned, from their end-of-forecast values, to long-term constant ratios to GDP. This transitional adjustment is to ensure that tax revenue projections are based on ratios to GDP that are neither higher nor lower than would be expected when the economy is performing at its potential. All tax categories change at a rate of 0.2% of GDP per year, with final ratios-to-GDP of 4.1% for Corporate tax, 7.6% for GST, 1.3% for hypothecated Transport taxes and 4.5% for Other taxes. The long-term ratios are based on historical data, taking into account tax rate and policy changes that could affect these. Once the long-term ratios are reached the tax types remain at them in later projected years.
New Zealand Superannuation (NZS)	Demographically adjusted and linked to net wage growth, via the "wage floor". The latter refers to the net (after-tax) weekly NZS rate for a couple being constrained in legislation to lie between 65% and 72.5% of net average weekly earnings. As tax on average weekly earnings increases owing to fiscal drag, the net average weekly earnings do not grow as quickly as the gross earnings in the years where fiscal drag is applied in modelling source deductions.
Other benefits	Demographically adjusted and linked to inflation.
Health and education	Held constant at the end-of-forecast values, because their growth is assumed to come from a share of the projected Operating Allowance annual increment.
Other expenditure	Held constant at the end-of-forecast values, because their growth is assumed to come from a share of the projected Operating Allowance annual increment.
Finance costs	A function of debt levels and interest rates.
Operating allowance	$1.592 billion in 2018/19, based on 2% growth from a $1.5 billion value in Budget 2015. Operating Allowances continue to grow at 2% per year from this value in later projected years.
Capital allowance	$0.955 billion in 2018/19, based on 2% growth from a $0.9 billion value in Budget 2016. Capital Allowances continue to grow at 2% per year from this value in later projected years.
NZS Fund	Contributions to the Fund suspended until 2019/20. Contributions begin again in 2020/21, at a level consistent with the New Zealand Superannuation and Retirement Income Act 2001.

Source: The Treasury

3

Risks and Scenarios

Overview

- This chapter outlines the main economic and fiscal risks associated with the central forecast. Risks to the economic outlook are evenly balanced over the forecast period as a whole, while being tilted to the downside in the near-term. In addition to risks associated with the economy, the Crown is also exposed to expenditure and balance sheet risks. In particular, volatility in market prices can have a significant impact on the Crown's fiscal position.
- Internationally, the risks with potentially the largest impact on the New Zealand economy relate to the level of demand for New Zealand's commodity exports, particularly from China, as well as the timing and magnitude of interest rate increases in the US and the sensitivity of energy prices to geopolitical developments.
- Domestically, the risks with potentially the largest impact on the New Zealand economy relate to the pace of the Canterbury rebuild and its interaction with the wider economy, the sensitivity of households to higher debt servicing costs, along with net migration's impact on domestic demand.
- Two scenarios are presented that represent two possible ways in which the New Zealand economy could deviate from the central forecast. Scenario one is based on weaker short-term domestic demand combined with a larger decline in the terms of trade, which lowers nominal GDP over the forecast period. Scenario two is based on stronger growth in the US, which leads to exchange rate depreciation and a more competitive export sector, increasing nominal GDP over the forecast period.
- The first part of this chapter outlines the key risks to the economic outlook. The second part of the chapter presents the two alternative scenarios for the economy. The remainder of the chapter focuses on general fiscal risks that can impact the Crown's fiscal position.

Economic Risks

Uncertain global outlook...

Global developments can impact New Zealand through migration, trade, confidence and financial channels. Risks posed to the outlook for key trading partners, and global financial settings in general, are all factors that can lead to rapid changes in the economic outlook for New Zealand.

…as risks to New Zealand's key trading partners remain...

Risks to the growth outlook for China remain, even with June quarter growth strengthening after a weaker March quarter. The property investment and construction boom that stimulated Chinese growth following the global financial crisis was fuelled by rapid credit growth. Concerns around the high level of local government debt, the quality of lending in the shadow banking sector and exposure of financial institutions to housing market vulnerabilities persist. China's growth could slow more quickly than in the central forecasts if financial market disruption resulted in significantly tighter credit conditions; however, their impact is likely to be limited by room for further policy adjustment, sustained urbanisation and solid income growth.

Commodity prices have fallen recently, led by declines in export dairy and forestry prices. While the weaker outturn in the GlobalDiaryTrade auction held in early August poses a downside risk if sustained, commodity prices tend to be volatile and the latest prices may overstate the weakness in demand. There have also been some positive offsets: sheep meat prices have strengthened as demand from China has increased, while meat supply remains constrained in the US. The extent to which these trends continue is uncertain. A continuation of recent dairy auction price falls would pose a downside risk to the main forecast, which the first scenario explores in combination with further weakness in household consumption in New Zealand.

...and the US economy starts to gain momentum...

Recent strong growth in investment, consumption and construction, combined with the lowest market volatility since 2007, give the US economy significant potential to outperform current forecasts. Recent speeches by Federal Reserve Chair Janet Yellen indicate that if future data releases are stronger than expected, normalisation of monetary policy would happen earlier. However, a stronger US economy could further exacerbate the risks to emerging economies if expectations of a faster withdrawal of monetary stimulus were to develop. The impact of an earlier tightening in US monetary policy on the New Zealand economy is explored in more detail as part of the second scenario.

...while geopolitical developments could contribute to price volatility...

Recent geopolitical developments in Ukraine and the Middle East have been watched closely by markets for any possible impacts on energy supplies, with much of the focus on oil. While long-term implications of the recent geopolitical developments remain uncertain, further deterioration that impacts energy supplies may further increase prices. Similarly, improvements that enhance the stability of energy supplies could reduce energy prices. The impact on New Zealand of Russia's recent ban on food imports from selected countries (not including New Zealand) is uncertain at this stage.

Domestic outlook is also uncertain...

Key areas of uncertainty remain, including the speed of the Canterbury rebuild and its wider economic implications, the reaction of households to higher debt servicing costs, and the scale of the current migration cycle and its impact on domestic demand.

...with the timing and extent of the Canterbury rebuild an area of uncertainty…

There is still uncertainty around the overall timing and magnitude of the Canterbury rebuild. Key determinants continue to be the pace of the settlement of remaining insurance claims and the evolution of resource pressures in the construction sector. While the resolution of insurance claims has continued to progress, there are risks that the greater complexity of remaining claims could slow the rate of settlement. The availability and mobility of skilled labour will also impact on the pace of reconstruction if specific skill shortages act as bottlenecks in the construction industry. If the rebuild were to progress more slowly, residential and non-residential investment and employment growth could all be weaker than reflected in the central forecast.

The Canterbury region will account for a greater share of GDP than in previous construction booms and regional resource pressures will act to crowd out activity in other parts of the economy. The extent to which prices and wages rise to facilitate the transfer of resources remains heavily influenced by competing demand pressures elsewhere, especially in Auckland.

...as is the sensitivity of households to increasing interest rates…

Household debt levels have increased recently after falling since the global financial crisis. Households are relatively exposed to interest rate increases as the majority of mortgage rate debt will quickly reflect increases in the OCR. Households are, however, increasingly shifting to fixed rate mortgages which have not increased as much as floating rates so far. If households exercise more restraint, debt levels would be lower than otherwise but consumption growth would be weaker, which scenario one explores in more detail. On the other hand, if households are less sensitive to interest rate increases, consumption growth would be higher than otherwise, and in the absence of stronger income growth this would lead to higher debt than otherwise.

...while the housing market weakens in spite of strong net migration

House price growth and house sales have slowed as loan-to-value restrictions have impacted mortgage lending. Mortgage rates have also begun to rise, with the expectation of future increases as the tightening cycle continues. This weakness in the housing market has been in contrast to the near-record net migration gains, which historically have increased the demand for housing, contributing to both house price inflation and construction activity. While higher net migration flows would pose an upside risk, there could also be a delayed response to the recent increases in net migration, leading to stronger demand for housing and possibly higher private consumption growth. The second scenario incorporates a larger effect from the central forecast's net migration gain.

Other risks around key judgements

Economic relationships are complex and judgements need to be made about key economic variables such as the exchange rate. If, for any reason, key factors such as those outlined above play out differently than assumed in the central forecast and impact on the inflation outlook, then the Reserve Bank's setting of monetary policy would be responsive to those different conditions. Interest rates could rise by more or less and the pace of tightening could be faster or slower depending on the direction of change.

Alternative Scenarios

The following scenarios show how the economy might evolve if some of the key judgements in the central forecast are altered (Table 3.1). The scenarios represent two of a number of ways that the economy could deviate from the central forecast. Scenario one represents the economic impacts of weaker short-term domestic demand combined with a larger decline in the terms of trade. Scenario two represents the economic impacts of stronger growth in the US.

Table 3.1 – Summary of key economic variables for central forecast and scenarios

March years	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Real GDP (annual average % change)					
Central forecast	**3.3**	**3.8**	**3.0**	**2.2**	**2.1**
Scenario one	3.3	3.4	2.9	2.2	2.2
Scenario two	3.3	4.0	3.1	2.2	1.9
Unemployment rate[1]					
Central forecast	**6.0**	**5.6**	**5.2**	**4.8**	**4.5**
Scenario one	6.0	5.6	5.4	4.9	4.6
Scenario two	6.0	5.5	4.9	4.5	4.4
Nominal GDP (annual average % change)					
Central forecast	**7.0**	**5.2**	**4.2**	**4.4**	**3.7**
Scenario one	7.0	3.8	3.0	5.0	3.7
Scenario two	7.0	5.7	5.0	4.7	3.8
Current account balance (% of GDP)					
Central forecast	**-2.8**	**-4.8**	**-6.2**	**-6.4**	**-6.4**
Scenario one	-2.8	-5.1	-6.5	-6.1	-6.1
Scenario two	-2.8	-4.8	-5.9	-5.9	-6.0
90-day bank bill rate[2]					
Central forecast	**3.0**	**4.3**	**4.9**	**5.0**	**5.3**
Scenario one	3.0	3.7	3.8	4.1	4.8
Scenario two	3.0	4.6	5.2	5.3	5.5

Notes: 1 March quarter, seasonally adjusted
2 March quarter average

Sources: Reserve Bank, Statistics New Zealand, the Treasury

Scenario one – Softer household demand with weaker export prices

Softer than expected household demand...

In the first scenario, households are more responsive to increasing interest rates than in the central forecasts, and the weakness in private consumption seen in the March quarter of 2014 continues throughout the year, as shown in Figure 3.1. Households that are exposed to elevated debt levels reduce consumption by more than expected in the central forecast to offset increased debt-servicing costs, which reduces private consumption over the remainder of 2014.

...and lower dairy prices lead to a weaker housing market...

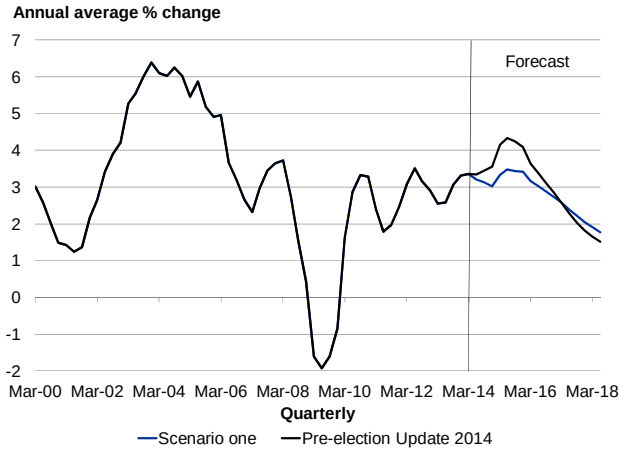
In this scenario, export dairy prices continue to fall, weighing on commodity exports. The merchandise terms of trade consequently decline, while the exchange rate depreciates sharply to help buffer the shock from lower dairy prices. The lower terms of trade flow through to slower income growth, which further lowers private consumption once the initial spike owing to increasing interest rates has subsided.

The near-term weakness in consumption will dampen housing demand and lead to weaker house price growth. This leads to lower residential investment (Figure 3.2) compared to the central forecast, which is another factor which lowers nominal GDP growth as households and firms react to the income shock.

...and lower interest rates...

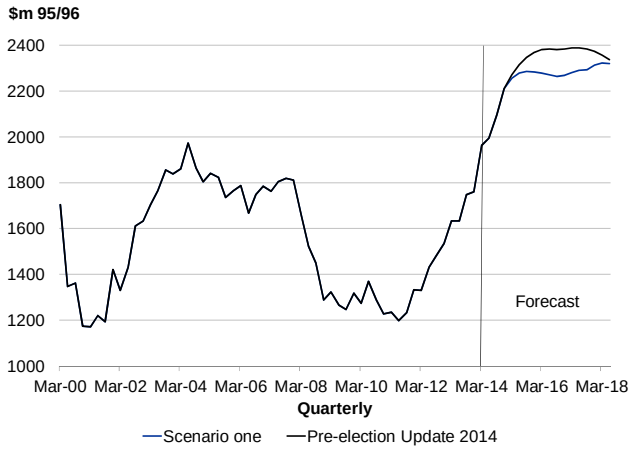
Weaker domestic demand helps contain inflation expectations, which results in a slower monetary tightening cycle. Under this scenario, the Reserve Bank does not raise the OCR again until the end of 2015, which keeps the 90-day rate lower than in the central forecast (Figure 3.3).

Figure 3.1 – Real consumption



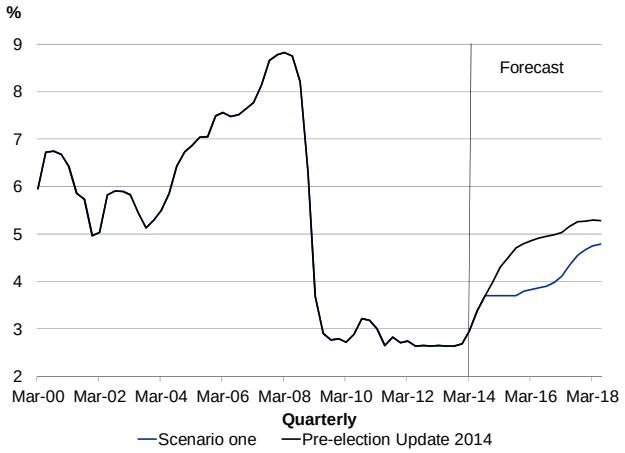
Source: The Treasury

Figure 3.2 – Residential investment



Source: The Treasury

Figure 3.3 – 90-day interest rate



Source: The Treasury

However, as the exchange rate depreciates and New Zealand's goods and services become more competitive, net exports begin to contribute positively to growth and import volumes shrink. Together with the stabilisation of the terms of trade, strong growth near the end of the forecast period requires more aggressive monetary policy tightening. This causes interest rates to increase faster near the end of the forecast period, although to a lower peak than in the central forecast.

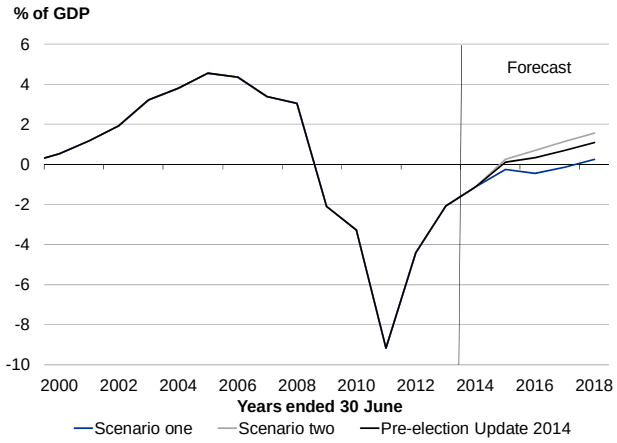
…as well as lower tax revenue and operating balance

Weaker domestic activity, combined with the lower terms of trade, reduces nominal GDP by a cumulative $20 billion relative to the central forecasts over the forecast period.

Core Crown tax revenue is a cumulative $7.0 billion lower over the forecast period in this scenario, owing to the weaker nominal GDP. The weaker labour market and lower labour incomes reduce source deductions revenue by $1.4 billion over the forecast period. The economy's weaker nominal activity means that business profitability is reduced, resulting in corporate taxes being a cumulative $1.9 billion lower. Resident withholding tax is $1.3 billion lower over the forecast period with interest rates increasing by less than in the central forecast. Weaker nominal consumption and residential investment reduce GST revenue by a cumulative $1.3 billion over the forecast period.

Core Crown expenses are higher than in the central forecast, driven by an increase in debt servicing costs. The softer labour market also results in an increase in the number of recipients of unemployment-related benefits compared to the central forecasts. In this scenario, the return to surplus in OBEGAL is delayed until June 2018 (Figure 3.4). As a consequence, net core Crown debt peaks at 28.4% of GDP in the June 2016 year, compared to 26.8% in the June 2015 year in the central forecast (Figure 3.8). By the end of the forecast period, net core Crown debt is 28.2% of GDP in this scenario compared to 25.0% of GDP in the central forecast.

Figure 3.4 – Operating balance (before gains and losses)



Source: The Treasury

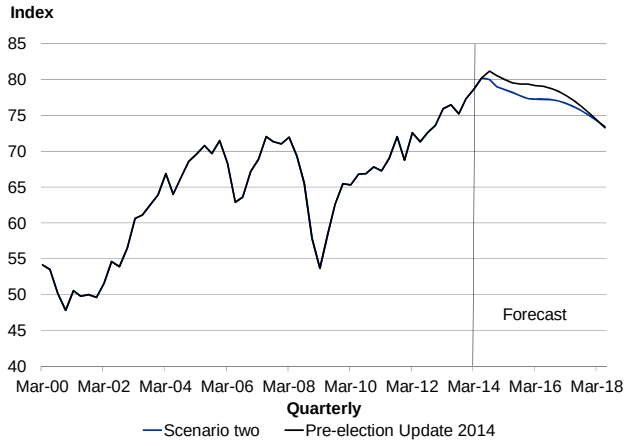
Since the economic forecasts were finalised in mid-July, dairy prices at the early August GlobalDairyTrade auction were weaker than the central forecast had anticipated. It is important to note that scenario one reflects a combination of other factors in addition to lower dairy prices. Therefore, while the probability of this scenario has increased as a consequence of weaker dairy prices, it remains more likely that the overall economy will evolve in a manner that is more similar to the central forecast.

Scenario two – Stronger US growth with more domestic momentum

The US economy grows faster and, combined with stronger domestic inflation...

In the second scenario both the US economy and domestic price pressures are stronger than expected. As the US economy strengthens, the Federal Reserve reacts by beginning the tightening cycle earlier than currently expected. As interest rates begin to rise in the US, lowering the difference in rates between New Zealand and the US, the exchange rate depreciates (Figure 3.5). In this scenario the TWI falls from 79.0 in the December quarter of 2014 to 77.4 in the December quarter of 2015, while over the forecast period the TWI is on average 1.5% lower than assumed in the central forecast.

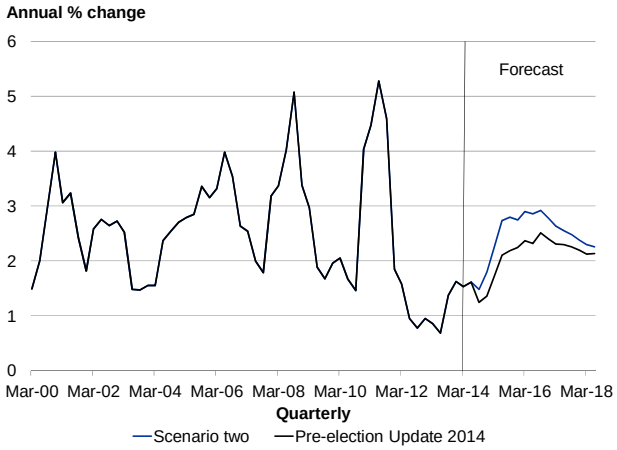
Figure 3.5 – Exchange rate (TWI)



Source: The Treasury

While net migration remains the same in this scenario, the pressure from the recent gains in net migration increase domestic demand more than in the central forecast. The increase in domestic demand, combined with exchange rate depreciation, leads to increased inflationary pressures. The Reserve Bank responds by tightening monetary policy more aggressively to contain inflation expectations over the medium term, which brings inflation back towards 2% by the end of the forecast period. Inflation remains higher over the forecast period in this scenario, averaging 2.5% per year compared to 2.1% per year in the central forecast (Figure 3.6).

Figure 3.6 – Consumers price index



Source: The Treasury

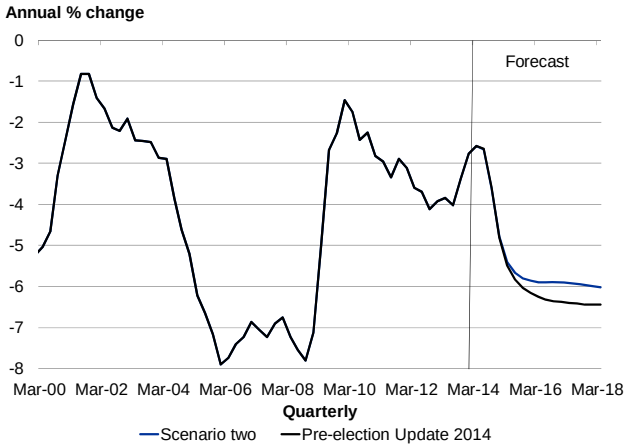
...leads to exchange rate depreciation and lower current account deficits

As the exchange rate falls, the price of imported goods increases, which makes exporters and import-competing domestic businesses becoming more competitive, boosting manufacturing and service exports and the production of import substitutes. Through this channel the lower exchange rate helps to rebalance the economy, lowering the annual current account deficit in June quarter 2018 from 6.4% of GDP in the central forecast to 6.0% of GDP (Figure 3.7). Furthermore, net exports of goods and services contribute an additional 0.2% to GDP growth in the year to March 2016 compared to the central forecast.

Nominal GDP growth and tax revenue higher

Stronger US growth and the lower exchange rate, combined with greater price pressures, increase nominal GDP by a cumulative $13 billion above the central forecasts over the forecast period. Core Crown tax revenue is a cumulative $3.9 billion higher over the forecast period. Higher nominal consumption and residential investment boost GST revenue by $0.5 billion over the forecast period. The stronger labour market and increased competition for workers push up wages and salaries, boosting source deductions revenue by a cumulative $1.3 billion. The stronger economic activity allows firms to increase their margins, boosting profitability and increasing corporate tax by $1.2 billion. Higher short-term interest rates, needed to control rising inflation, boost tax on interest by $0.4 billion.

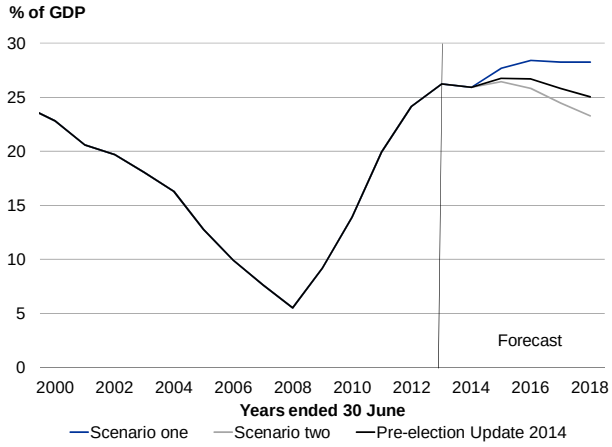
Figure 3.7 – Current account



Source: The Treasury

Core Crown expenses are slightly lower than in the central forecast owing to a fall in debt servicing costs. The stronger labour market also results in a decrease in the number of recipients of unemployment-related benefits compared to the central forecasts. In this scenario, OBEGAL records a larger surplus of 0.3% of GDP ($0.6 billion) in the June 2015 year (Figure 3.4). Net core Crown debt declines to 23.3% of GDP in the June 2018 year compared to 25.0% of GDP in the central forecast (Figure 3.8).

Figure 3.8 – Net core Crown debt



Source: The Treasury

General Fiscal Risks

The remainder of this chapter focuses on the links between the risks to the performance of the economy and the Crown's fiscal position. For more on fiscal risks, see the Specific Fiscal Risks chapter on page 61.

Fiscal Sensitivities

Table 3.2 provides some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point faster than forecast in each year up to June 2018, tax revenue would be around $3.2 billion higher than forecast in the June 2018 year as a result. The sensitivities are broadly symmetric and if nominal GDP growth is one percentage point slower each year than expected, tax revenue would be around $3.1 billion lower than forecast in the June 2018 year. The figures are indicative and can be influenced by the composition of growth as different types of activity have different effective tax rates.

A different interest rate path from that forecast would also impact on the fiscal position. A one percentage point lower interest rate would result in interest income on funds managed by the Treasury's New Zealand Debt Management Office (NZDMO) being $145 million lower in the June 2018 year. This would be more than offset by interest expenses being $338 million lower in the June 2018 year.

Table 3.2 – Fiscal sensitivity analysis

Years ended 30 June ($millions)	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
1% higher nominal GDP growth per annum on				
Tax revenue	675	1,435	2,270	3,190
Tax Revenue impact of a 1% increase in growth of				
Wages and salaries	285	605	965	1380
Taxable business profits	130	300	480	675
Impact of 1% lower interest rates on				
Interest income[1]	(73)	(77)	(136)	(145)
Interest expenses[1]	(22)	(187)	(275)	(338)
Overall operating balance[1]	(51)	111	139	194

Note: 1 Funds managed by the Treasury's NZDMO only.

Source: The Treasury

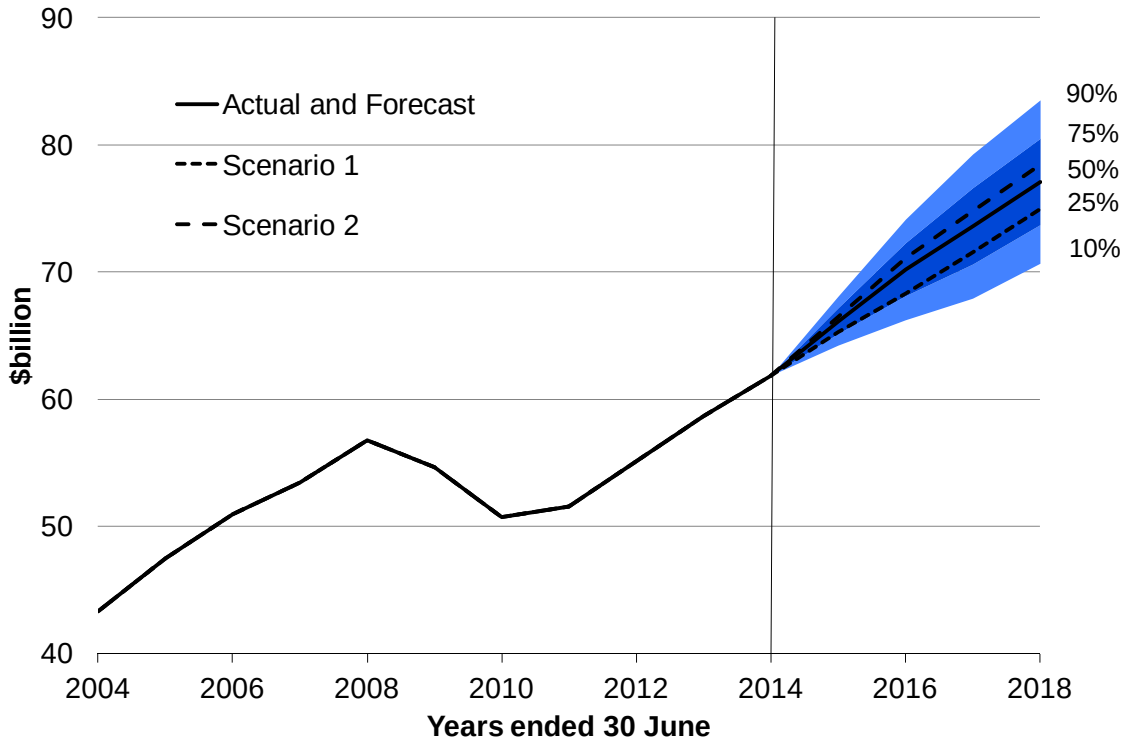
Revenue Risks

One of the major sources of risk to the fiscal position arises from the inherent uncertainty about future tax revenue. The amount of tax revenue that the Government receives in a given year is closely linked to the performance of the economy.

Figure 3.9 plots the central tax revenue forecast, along with confidence intervals around these forecasts based on the Treasury's historical tax forecast errors and the assumption of an even balance of risks around the central forecast.[8] The outermost shaded area captures the range ± $6.4 billion in the June 2018 year, within which actual tax outturns should be expected to fall 80% of the time.

The tax revenue forecasts from the two scenarios are also shown in Figure 3.9. The 2008/09 global financial crisis showed that exogenous shocks can have severe impacts on government revenue. Should any of the uncertainties outlined in the Economic Risks section eventuate, government revenue would be different from forecast, with scenarios one and two being examples of possible outcomes.

Figure 3.9 – Core Crown tax revenue uncertainty



Source: The Treasury

8 A full summary of the methodology and critical assumptions is included in Treasury Working Paper 10/08.

Expenditure Risks

One-off and unexpected expenditure shocks can have a large impact on the Crown's operating balance in the year that they occur. Persistent over-forecasting of expenditure can also have substantial ongoing effects on the fiscal position, along with the uncertainty inherent in forecasting the cost of new policy initiatives.

There is also considerable uncertainty regarding the effect of the performance of the economy on Crown expenditures. This uncertainty relates largely to the operation of the so-called automatic stabilisers. For example, if the economy performs better (worse) than expected in a given year, official expenditures on social programmes may be lower (higher) than planned.

Balance Sheet Risks

In addition to risks around revenue and expenditure, which appear in the balance sheet through their impact on the operating balance, the Crown's financial position is also exposed to asset and liability risks. The largest source of balance sheet risk is volatility in asset and liability values owing to movements in market variables such as interest rates, exchange rates and equity prices.

For additional detail, refer to the 2014 *Investment Statement* which provides information on the shape and health of the Crown's portfolio of assets and liabilities at the end of the previous financial year.[9] It outlines how the balance sheet has changed in recent years and includes forecasts of its anticipated composition and size through to 30 June 2018.

Funding Risks

The New Zealand Crown remains in the top-20 rated sovereigns globally, with the top Aaa foreign-currency rating from Moody's and AA foreign-currency ratings from Standard & Poor's and Fitch. Ratings outlooks are stable for Standard & Poor's and Moody's, and the rating outlook from Fitch is positive.

In the case of an increase in global risk aversion and in the absence of a marked improvement in the external position, New Zealand may be more likely to face a degree of funding pressure in the future. All else being equal, any improvement in the ratings outlook could serve to lower debt-servicing costs for the Crown.

The Crown is also susceptible to "liquidity risk" with respect to its ability to raise cash to meet its obligations. This risk is relatively small, however, given ongoing management of the core Crown's liquidity position by the Treasury's NZDMO.

9 http://www.treasury.govt.nz/government/investmentstatements/2014

4

Specific Fiscal Risks

The Statement of Specific Fiscal Risks is required by the Public Finance Act 1989 to set out, to the fullest extent possible, all government decisions and other circumstances known to the Government at the date of the finalisation of the fiscal forecasts that may have a material effect on the fiscal and economic outlook, but are not certain enough in timing or amount to include in the fiscal forecasts. Although the process for disclosure of specific fiscal risks involves a number of parties, including government departments, the Treasury and the Minister of Finance, there remains a possibility that not every significant risk is identified. Disclosure of known risks is also subject to specific requirements and materiality thresholds, which are described after the Statement of Specific Fiscal Risks.

Overview

Specific fiscal risks can be positive or negative and can affect revenue or spending or the balance sheet. The links between external events and spending are indirect because new policies that change spending and revenue usually require a decision by the Government and approval from Parliament. The approach taken in this chapter is to disclose those potential policy decisions and key areas of uncertainty that may have a material effect on the fiscal outlook.

Established practice is that the Government sets aside allowances of new funding for future Budgets to manage uncertainty and cost pressures. These allowances are included in the fiscal forecasts. Current fiscal management policy is for future policy decisions affecting expenses or capital expenditure to be met through reprioritisation or from within existing provisions included in the fiscal forecasts. Future policy decisions are risks to the fiscal forecasts only to the extent that they cannot be managed from within:

- existing baselines or Budget allowances for operating expenditure, or
- the existing Crown balance sheet for capital expenditure, including the Future Investment Fund (FIF)/capital allowance.

Notwithstanding this, known material policy risks are identified as specific fiscal risks, even though the Government has more control in managing such risks through reprioritisation, the existing Crown balance sheet and the Budget allowances. This is done to ensure a prudent approach to the disclosure of risks, improve transparency and not pre-judge future decisions by governments.

The specific fiscal risks are categorised into:

- **Potential policy decisions affecting revenue**: For example, changes to tax policy or ACC levies could reduce or increase government income.
- **Potential policy decisions affecting expenses (expected to be funded from reprioritisation or Budget allowances)**: Costs of policy proposals could increase or decrease expenses depending on decisions taken, and they are risks to the fiscal forecasts only to the extent that they cannot be managed within existing baselines or Budget allowances.
- **Potential capital decisions (expected to be funded from the Crown balance sheet, including the FIF/capital allowance)**: Capital investment decisions are risks to the fiscal forecasts only to the extent that they cannot be managed within the existing Crown balance sheet, including the FIF/capital allowance.
- **Matters dependent on external factors**: The Crown's liability for costs is sometimes dependent on external factors such as the outcome of negotiations or international obligations.

A range of generic risks to the fiscal forecasts are not recognised as specific fiscal risks:

- Risks from changes to economic assumptions; the most significant economic risks have been identified in Chapter 3.
- Business risks and volatility in the returns from the Crown's investments relating to the broader economic and commercial environment.
- General cost pressures, such as those associated with demographic changes (eg, an ageing population).
- Potential risks from changes in demand for government services or transfer payments owing to underlying structural factors (such as changes in demand for Jobseeker Support).
- The costs of future individual natural disasters, and other major events, as they usually occur infrequently and their occurrence, nature and timing cannot be predicted. Once a disaster does occur, a number of choices arise about how to respond and when potential liabilities are recognised (eg, through setting aside an allocation of funding). Specific risks are disclosed at this point based on the range of possible responses.

The final part of the chapter contains a current list of contingent liabilities and contingent assets. Contingent liabilities are costs that the Crown will have to face if a particular event occurs or are present liabilities that are unable to be measured. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims on uncalled capital. The largest quantified contingent liabilities are to international financial organisations and mostly relate to uncalled capital and promissory notes. Contingent assets are possible assets that have arisen from past events but the value of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

Statement of Specific Fiscal Risks

Summary Table

The matters listed below are disclosed as specific fiscal risks because they meet the rules for disclosure outlined after this Statement. Full descriptions of the risks listed below are set out in the next section. Where quantification is possible, this is included in the description of the risk.

Specific fiscal risks as at 5 August 2014	Status[10]
Potential policy decisions affecting revenue	
ACC – Funding Policy Review	Changed
Revenue – Income-sharing Tax Credits	Unchanged
Services Funded by Third Parties	Unchanged
Potential policy decisions affecting expenses (expected to be funded from reprioritisation or Budget allowances)	
ACC – Work-related Gradual Process Disease and Infection	Changed
Budget Operating Initiatives	Unchanged
Canterbury Earthquake Recovery – Christchurch Central Recovery Plan – Anchor Projects	Changed
Christchurch City/Crown Cost Sharing – Horizontal Infrastructure	Unchanged
Communications – Ultra-Fast Broadband Initiative	Changed
Defence Force – Operating and Capital Costs	Changed
Finance – Concessionary Loans	Unchanged
Government Response to Wai 262	Unchanged
Housing/Social Development – Housing Assistance	Changed
Internal Affairs – All-of-Government Common Capabilities Sustainable Funding	New
Revenue – KiwiSaver One-off Enrolment	Unchanged
Revenue – Transformation and Technology Renewal	Unchanged
Social Development – Welfare Reform Costs	Unchanged
Social Development – Welfare Reform Forecast Benefit Savings	Unchanged
State Sector Employment Agreements	Unchanged
Vulnerable Children White Paper	Unchanged
Potential capital decisions (expected to be funded from the Crown balance sheet, including the FIF/capital allowance)	
Arts, Culture & Heritage – Review of Military History Museum Arrangements	New
Agency Capital Intentions	Unchanged
Earthquake Strengthening for Crown-owned Buildings	Unchanged
Finance – Crown Overseas Properties	Unchanged
Parliamentary Service – Parliamentary Accommodation	New
Primary Industries – Investment in Water Infrastructure	Unchanged
Transport – Auckland Transport Projects	Unchanged
Transport – Regional State Highways	New
Transport – Support for KiwiRail	Unchanged
Transport – Cycleways	New

10 *Unchanged* – risks that have not substantively changed since the previous *Economic and Fiscal Update*.
Changed – risks that have changed substantively from the previous *Economic and Fiscal Update*.
New – risks that have not been disclosed in the previous *Economic and Fiscal Update*.

Specific fiscal risks as at 5 August 2014	Status[10]
Matters dependent on external factors	
ACC – Levies	Unchanged
ACC – Non-earners' Account	Unchanged
Canterbury Earthquake Recovery – Residential Red Zone	Unchanged
Caregiver Employment Conditions	Unchanged
Communications – Impairment in Value of Broadband Investment	Unchanged
Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets	Unchanged
Energy – Crown Revenue from Petroleum Royalties	Unchanged
Finance – EQC	Unchanged
Finance – Goodwill on Acquisition	Unchanged
Finance – Solid Energy	Unchanged
Finance – Southern Response Earthquake Services Support	Unchanged
Housing – Divestment of Housing	Unchanged
Revenue – Cash Held in Tax Pools	Unchanged
Revenue – Student Loans	Changed
Treaty Negotiations – Treaty Settlement Forecasts	Unchanged
Treaty Negotiations – Relativity Clause	Unchanged

Potential Policy Decisions Affecting Revenue

ACC – Funding Policy Review (Changed)

The Government has been reviewing ACC's funding policy and intends that there be further levy reductions across all accounts but decisions have not yet been taken on the nature and timing of those reductions. Such reductions would reduce Crown revenue and Crown assets, with a flow-on impact to the operating balance and net worth.

Revenue – Income-sharing Tax Credits (Unchanged)

The Government has introduced legislation to establish an income-sharing tax credit. If passed as introduced, the legislation will allow couples with children under the age of 18 to pool their earnings for income tax purposes if they meet certain criteria. If implemented, the changes could reduce tax revenue by around $500 million a year once the scheme is fully operational. The Finance and Expenditure Committee has recommended that the significant fiscal cost of the package be addressed before the Bill proceeds further.

Services Funded by Third Parties (Unchanged)

A wide range of government services are funded through third party fees and charges. Demand for these services can vary with a direct impact on revenue received. There is a risk the Government may need to provide additional funding if revenue collected is lower than the total costs of providing the services. There is also a risk that changes will be required to the way government services are delivered, which could result in costs to the Crown.

Potential Policy Decisions Affecting Expenses (Expected to be Funded from Reprioritisation or Budget Allowances)

ACC – Work-related Gradual Process Disease and Infection (Changed)

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 would need to be reported if such an amendment were to be enacted.

Budget Operating Initiatives (Unchanged)

Future Budgets may well include new operating initiatives other than those identified in other specific fiscal risks. Such new operating initiatives are risks to the fiscal forecasts only to the extent they cannot be managed through reprioritisation or from within the existing provision in the fiscal forecasts for forecast new operating spending. The Government's stated intention is that all new operating initiatives will be managed through these mechanisms.

Canterbury Earthquake Recovery – Christchurch Central Recovery Plan – Anchor Projects (Changed)

The Crown is partially funding the construction of Anchor Projects as part of the Christchurch Central Recovery Plan as set out in the cost-sharing agreement with the Christchurch City Council. The extent of funding will vary from project to project, dependent on final project costs, and will to some extent eventually be recovered. Business cases are progressing through the decision-making process and construction costs will become increasingly clear during the business case process and the subsequent procurement phase. The Crown's contribution may differ from that included in the fiscal forecasts.

Christchurch City/Crown Cost Sharing – Horizontal Infrastructure (Unchanged)

The Crown is partially funding the recovery of local infrastructure in Canterbury as set out in the cost-sharing agreement with the Christchurch City Council. The agreement includes a review clause. The review is to be completed by 1 December 2014. Any additional costs or savings to the Crown that may arise from the review will have a corresponding fiscal impact.

Communications – Ultra-Fast Broadband Initiative (Changed)

The Government's expectation is that the current funding envelope for the roll out of Ultra-Fast Broadband (UFB) will not be breached and that the objective of rolling out UFB to 75% of New Zealanders by the end of 2019 will be met. Until the Commerce Commission issues a final decision, the largest partner in the roll out, Chorus, will face some degree of uncertainty which could give rise to a fiscal risk in achieving these targets.

Defence Force – Operating and Capital Costs (Changed)

In 2013, the Government reconsidered New Zealand Defence Force (NZDF) funding, output requirements and capability intentions, through the Defence Mid-Point Rebalancing Review. The review has resulted in a baseline increase for NZDF in Budget 2014. There is a likelihood that further operating and capital decisions may be required to achieve Defence White Paper (2010) policy and enable NZDF to manage additional cost pressures over the forecast period.

Finance – Concessionary Loans (Unchanged)

The Crown has provided loans to local government and iwi-based organisations on a concessionary basis to achieve public policy purposes. To reflect the concession, these loans have been written down and have a current carrying value of $382 million. There is, however, a risk that the adjustments made may be insufficient to cover the credit risk involved in these non-commercial loans.

Government Response to Wai 262 (Unchanged)

The Waitangi Tribunal's report on the Wai 262 claim focuses on the protection of Māori culture and identity, with a particular focus on mātauranga Māori and associated taonga. The Tribunal's recommendations are directed towards a number of government agencies individually, as groups and across sectors. The Government has yet to respond to the Tribunal's report and recommendations.

Housing/Social Development – Housing Assistance (Changed)

The Government has changed the policy settings for social housing and is considering a number of aspects of housing assistance. The changes and the matters the Government is considering include growing third party providers of social housing, increasing the effectiveness of financial assistance, and Housing New Zealand Corporation focusing on providing social housing to those with the greatest housing need. Increasing the scale or speed of change may require reprioritisation or additional funding.

Internal Affairs – All-of-Government Common Capabilities Sustainable Funding (New)

A central component of the Department of Internal Affairs' responsibilities as functional lead for All-of-Government ICT and the ICT Strategy and Action Plan is the development and delivery of All-of-Government common capabilities. The Government has agreed that departments and some Crown entities should migrate to common ICT capabilities, including RealMe. Many of these common capabilities have been developed and are being used and some are still in development. To the extent that these costs cannot be met within agencies' baselines, they may require new funding.

Revenue – KiwiSaver One-Off Enrolment (Unchanged)

The Government has announced its intention to consult on the design of a one-off KiwiSaver auto-enrolment exercise to increase the number of KiwiSaver members. The Government will proceed with a one-off KiwiSaver enrolment exercise only when it is confident that such a step poses no significant risks to returning to, and maintaining, an operating surplus and debt repayment is on track. An auto-enrolment exercise is likely to entail a one-off cost for kick-start payments to new members and ongoing additional costs for the Member Tax Credit. Depending on the timing, design features and take-up rate, these costs could be in the order of $100 million to $290 million over the first four years after auto-enrolment takes place, and are expected to be funded out of the operating allowance.

Revenue – Transformation and Technology Renewal (Unchanged)

The Government is exploring options that will change the way IRD manages its processes and data. Any changes could impact tax revenue collections and may have material costs to implement. IRD has commenced the development of a detailed business case(s) for Stage 1: Enabling secure digital services. The business case(s) will inform the Government's decision-making for the first stage of transformation and may require significant reprioritisation or new funding.

Social Development – Welfare Reform Costs (Unchanged)

The Welfare Reform package of changes to the benefit system was introduced from July 2013, following amendments to the Social Security Act 1964. The current phase is to review programmes with a view to reducing future benefit dependency and long-term liability. Additional funding was appropriated at Budget 2014. The extent of any further costs associated with the ongoing implementation of the Investment Approach is uncertain.

Social Development – Welfare Reform Forecast Benefit Savings (Unchanged)

A conservative estimate of the likely benefits from Welfare Reform has been included in the fiscal forecasts. The actual impact may differ owing to behavioural factors and the complexity in implementing the reforms, with a corresponding impact on benefit expenditure.

State Sector Employment Agreements (Unchanged)

A number of large collective agreements are due to be negotiated in the short-to-medium term. As well as direct fiscal implications from any changes to remuneration, the renegotiation of these agreements can have flow-on effects to remuneration in other sectors. The Government has signalled an expectation of restraint given its current fiscal stance and that agreements will be managed within the current fiscal forecasts.

Vulnerable Children White Paper (Unchanged)

The Government has begun to implement proposals to better identify and provide assistance to vulnerable children. While funding for 2014/15 has been included in the fiscal forecasts, future costs of the proposal are still being developed. To the extent that these cannot be funded from reprioritisation, additional funding from the operating allowance may be required.

Potential Capital Decisions (Expected to be Funded from the Crown Balance Sheet, Including the FIF/capital allowance)

Arts, Culture and Heritage – Review of Military History Museum Arrangements (New)

In June 2014, the Government agreed to review the current arrangements around the recording, collecting and exhibiting of New Zealand's military history with a focus on the national level. At this stage it is unclear what the outcome of this business case will be, but this could result in further provision of military history exhibitions. This could require substantial Crown investment.

Agency Capital Intentions (Unchanged)

Future Budgets may well include new capital initiatives other than those identified in other specific fiscal risks. Such initiatives are likely to be primarily from the 16 capital-intensive agencies or sectors that are required to identify their capital spending intentions over the next 10 years based on current policy settings and certain demographic and inflation assumptions. The Government expects that these intentions will be managed back through a range of measures such as prioritisation, changes to asset utilisation, alternative methods of service delivery and changes to policy settings. New capital initiatives and agency capital intentions are risks to the fiscal forecasts only to the extent they cannot be managed through existing balance sheets, including the FIF, and the provision in the fiscal forecasts for forecast new capital spending.

Earthquake Strengthening for Crown-owned Buildings (Unchanged)

There is a possibility that the Crown will incur costs for earthquake strengthening some of its buildings that do not meet modern building standards. The Government is currently undertaking a stocktake of Crown-owned earthquake-prone buildings. The likelihood, timing and fiscal impact of any earthquake strengthening are uncertain.

Finance – Crown Overseas Properties (Unchanged)

The Government holds New Zealand House in London on a long-term lease from the Crown Estate (UK). Depending on the outcome of ongoing discussions with the Crown Estate an upgrade to the building may be required. A rough-order cost estimate for this upgrade is $100 million over the forecast period.

Parliamentary Service – Parliamentary Accommodation (New)

With the expiry of the lease on Bowen House in December 2018, the Parliamentary Service is identifying and assessing options for future office accommodation which may require capital expenditure with estimates ranging from $40 million to $130 million.

Primary Industries – Investment in Water Infrastructure (Unchanged)

In addition to $80 million provided in Budget 2013 and $40 million provided in Budget 2014, the Government will consider providing up to $280 million in future Budgets to Crown Irrigation Investments Limited as schemes reach the "investment-ready" stage.

Transport – Auckland Transport Projects (Unchanged)

The Government has signalled its intention to accelerate transport projects in the Auckland Council's Auckland Plan, including Auckland Manukau Eastern Transport Initiatives, the East-West Link and support for the City Rail Link and a second Waitemata Harbour Crossing. Decisions on further Crown financial assistance for Auckland Manukau Eastern Transport Initiatives and the East-West Link will be made as part of future Budgets.

Transport – Regional State Highways (New)

A regional state highway acceleration package of $212 million was announced by the Government in June 2014. $115 million of this is subject to the outcome of further investigations. Further funding decisions will be considered as part of Budget 2015.

Transport – Support for KiwiRail (Unchanged)

The Government in Budgets 2010 to 2014 supported KiwiRail Holdings Limited (KiwiRail) with around $1 billion invested in its plan to become a commercially viable network. Further funding is being sought by KiwiRail in support of this objective. A major review of the business has commenced and will be assessed to inform Budget 2015 and any further investment.

Transport – Cycleways (New)

At the date these specific fiscal risks were finalised (5 August), a proposal relating to cycleways was under active consideration by the Government. If such a proposal is approved and is not to be funded entirely from within existing baselines, it may impact on the FIF or the Budget allowances.

Matters Dependent on External Factors

ACC – Levies (Unchanged)

Revenue from the levies set for the Work, Earners' and Motor Vehicle accounts may be more or less than is required to cover the cost of 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 impact on the operating balance.

ACC – Non-earners' Account (Unchanged)

The amount of funding provided by the Crown (and included in the fiscal forecasts) for the Non-earners' Account may be more or less than is required to cover the cost of 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.

Canterbury Earthquake Recovery – Residential Red Zone (Unchanged)

Some recoveries from EQC and private insurers remain outstanding and there is a risk that final recoveries may be greater or less than forecast. In addition, potential costs associated with the future use of residential red zone are uncertain. The future value of the land may change depending on any future alternative uses for it. The fiscal impact of this is not yet certain.

Caregiver Employment Conditions (Unchanged)

Several cases and funding claims in the disability support and aged care sectors relating to interpretation of the Minimum Wage Act 1983, the Equal Pay Act 1972 and the Government's policy of paying certain family members through its Funded Care Policy may involve significant costs to the Crown. Changes to the existing policy could require additional funding. Successful litigation may have implications for agencies that target assistance based on family circumstances and/or employ workers under similar contracts.

Communications – Impairment in Value of Broadband Investment (Unchanged)

The Government has set aside $1.345 billion to progressively capitalise Crown Fibre Holdings so that it can invest with private partners in a new network delivering "ultra-fast" broadband services. Given the contracts entered into, the extent of the recovery of this investment is somewhat dependent on the number of connections made to the network. The fiscal forecasts include a provision for impairing this investment, but the final amount of the impairment may vary from this provision.

Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets (Unchanged)

The Government is considering the potential to dispose of a number of NZDF assets, including the Seasprite helicopters and Unimog trucks. Depending on market conditions, the timing of disposal and sale price received could have an impact on the Government's overall financial position. NZDF is also completing analysis of inventory that is surplus to requirements and is over and above the existing provision for obsolescence. The existing provision is also being reviewed to ensure that all items comprising the provision are still relevant.

Energy – Crown Revenue from Petroleum Royalties (Unchanged)

Crown revenue from petroleum royalties is very dependent upon extraction rates, the US dollar value per barrel and the US dollar/NZ dollar exchange rate. Movements up or down in any of these variables could result in a significant decrease or increase in Crown revenue. The overall impact for the Crown could be positive or negative.

Finance – EQC (Unchanged)

EQC is forecasting a cash deficiency in the National Disaster Fund (NDF) arising in the 2014/15 financial year. Under Section 16 of the Earthquake Commission Act 1993 the Crown shall provide funding to meet a deficiency in the NDF. Such funding will impact on net debt but not the operating balance or OBEGAL. The financial position of EQC and the amount of any Crown funding carry a high level of uncertainty owing to the nature of EQC's claims liability. An actuarial estimate of the net claims liability and its rate of settlement is included in the forecasts; however, the estimates are sensitive to underlying assumptions such as damage estimates, legal challenges, reinsurance recoveries and the forecast profile of settlements. The Crown's financial position may be adversely impacted if these assumptions are modified over time. Because the net claims liability is large, small percentage changes in the liability can have a material impact on costs and forecasts.

Finance – Goodwill on Acquisition (Unchanged)

As at 30 June 2013, the Government had goodwill on acquisition of a number of sub-entities totalling $655 million. Under New Zealand accounting standards (NZIAS 36), such goodwill items are required to be assessed annually for impairment. If there is any indication that the goodwill may be impaired, the recoverable amount of the cash generating units to which the goodwill is allocated is required to be estimated. If the recoverable amount is less than the carrying amount of those units, the units and the goodwill allocated to them are regarded as impaired and the Government is required to recognise impairment losses in the operating statement. Such assessments will be conducted at the end of the financial year, and the fiscal forecasts currently make no allowance for such impairment losses.

Finance – Solid Energy (Unchanged)

Since Solid Energy's financial restructure in October 2013 the company's export prices have deteriorated significantly driven mainly by a decrease in US dollar coal price. The company continues to develop and implement a business strategy to adapt to these challenging market conditions and continue operating. Any changes to the restructure arrangements or further deterioration in market conditions or the company's financial position may adversely impact the Crown.

Finance – Southern Response Earthquake Services Support (Unchanged)

The ultimate cost to the Crown of settling earthquake claims remains subject to significant uncertainty. Forecasts assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision. There is a risk that the actual cost could vary from this estimate which is sensitive to its underlying assumptions such as damage estimates, legal challenges, reinsurance recoveries and the forecast profile of claims settlement. The Crown's financial position may be adversely impacted as these assumptions are modified over time. Because the net claims liability is large, small percentage changes in the liability can have a material impact on costs and forecasts.

Housing – Divestment of Housing (Unchanged)

The forecasts reflect related divestments and redevelopments of some housing property. Property sales are subject to market conditions and therefore there is an inherent level of uncertainty about the return to the Crown associated with forecast divestments and to the proposed funding of the related developments.

Revenue – Cash Held in Tax Pools (Unchanged)

Funds held in tax pools are recognised as a Crown asset. There is a risk that funds held in these pools, over and above a taxpayer's provisional tax liability, may be withdrawn by that taxpayer, resulting in a reduction in the Crown's available cash reserves.

Revenue – Student Loans (Changed)

The value of student loans is sensitive to assumptions such as the borrower's future income, and general economic factors such as interest rates, unemployment levels, salary inflation and the CPI. As new lending occurs, an initial write-down to fair value will be made, and an expense will be incurred, reflecting the cost the Crown incurs in making an interest free loan. The forecasts for this initial write-down assume that loans issued after 1 January 2015 with similar repayment characteristics to student loans would attract an effective interest rate of 6.73%. The effective interest rate actually applied for these loans will be updated early in 2015.

Treaty Negotiations – Treaty Settlement Forecasts (Unchanged)

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

Treaty Negotiations – Relativity Clause (Unchanged)

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds $1 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 and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from that included in the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Risks Removed Since the 2014 *Budget Update*

There have been no risks removed since the 2014 *Budget Update*.

Criteria and Rules for Inclusion in the Fiscal Forecasts or Disclosure as Specific Fiscal Risks

The Public Finance Act 1989 requires that the Statement of Specific Fiscal Risks sets out all government decisions, contingent liabilities or contractual obligations known to the Government and subject to specific requirements that may have a material effect on the economic or fiscal outlook.[11]

The criteria and rules set out below are used to determine if government decisions or other circumstances should be incorporated into the fiscal forecasts, disclosed as specific fiscal risks or, in some circumstances, excluded from disclosure.

Criteria for Including Matters in the Fiscal Forecasts

Matters are incorporated into the fiscal forecasts provided they meet the following criteria:

- The matter can be quantified for particular years with reasonable certainty.
- A decision has been taken, or a decision has not yet been taken but it is reasonably probable[12] the matter will be approved, or it is reasonably probable the situation will occur.

Additionally, any other matters may be incorporated into the forecasts if the Secretary to the Treasury considers, using best professional judgement, that the matters may have a material effect on the fiscal and economic outlook and are certain enough to include in the fiscal forecasts.

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[11] The Statement of Specific Fiscal Risks is a requirement set out in sections 26Q and 26U of the Public Finance Act 1989.

[12] For these purposes "reasonably probable" is taken to mean that the matter is **more likely than not** to be approved within the forecast period (by considering, for example, whether there is a better than 50% chance of the matter occurring or being approved).

Rules for the Disclosure of Specific Fiscal Risks

Matters are disclosed as specific fiscal risks if:

- the likely impact is more than $100 million over five years, and either
- a decision has not yet been taken but it is reasonably possible[13] (but not probable) that the matter will be approved or the situation will occur, or
- it is reasonably probable that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.

Additionally, any other matters may be disclosed as specific fiscal risks if the Secretary to the Treasury considers, using best professional judgement, that the matters may have a material effect (more than $100 million over five years) on the fiscal and economic outlook but are not certain enough to include in the fiscal forecasts.

Exclusions from Disclosure

Matters are excluded from disclosure as specific fiscal risks if they fail to meet the materiality criterion (ie, are less than $100 million over five years), or if they are unlikely[14] to be approved or occur within the forecasting period.

Additionally, the Minister of Finance may determine, under Section 26V of the Public Finance Act 1989, that a matter be included in the fiscal forecasts or a specific fiscal risk not be disclosed, if such disclosure would be 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 Crown in a material way in negotiation, litigation or commercial activity, or
- result in a material loss of value to the Crown.

If possible, the Minister of Finance should avoid withholding the matter, either by making a decision on it before the forecasts are finalised, or by disclosing it without quantifying the risk.

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[13] For these purposes "reasonably possible" is taken to mean that the matter **might** be approved within the forecast period (by considering, for example, whether there is a 20% to 50% chance of the matter occurring or being approved).

[14] For these purposes "unlikely" is taken to mean that the matter **will probably not** be approved within the forecast period (by considering, for example, whether there is a less than 20% chance of the matter occurring or being approved).

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 present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liabilities).

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

In general, if a contingent liability were realised, or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth and increase debt. In the case of contingencies for uncalled capital, the negative impact would be restricted to core Crown net debt because the cost would be offset by the acquisition of capital.

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed all unquantifiable contingent liabilities and unquantifiable contingent assets that are not expected to be remote.[15]

Contingent liabilities have been stated as at 31 May 2014, being the latest set of reported contingent liabilities.

[15] “Remote” is defined as being an item with less than a 10% chance of occurring.

Quantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities	Status[16]	($millions)
Guarantees and indemnities		
Other guarantees and indemnities	Unchanged	190
		190
Uncalled capital		
Asian Development Bank	Unchanged	2,808
International Monetary Fund – promissory notes	Unchanged	1,043
International Bank for Reconstruction and Development	Unchanged	966
International Monetary Fund – arrangements to borrow	Unchanged	988
Other uncalled capital	Unchanged	21
		5,826
Legal proceedings and disputes		
Tax disputes	Unchanged	592
Other legal proceedings and disputes	Unchanged	50
		642
Other quantifiable contingent liabilities		
Unclaimed monies	Unchanged	112
Transpower New Zealand Limited	Unchanged	150
Other quantifiable contingent liabilities	Unchanged	203
		465
Total quantifiable contingent liabilities		**7,123**
Contingent assets		
Tax disputes	Unchanged	118
Other quantifiable contingent assets	Unchanged	53
Total quantifiable contingent assets		**171**

16 Status of contingent liabilities or assets when compared to the *Budget Economic and Fiscal Update* published on 15 May 2014.

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities	
Indemnities:	**Status**
Air New Zealand	Unchanged
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy Limited	Unchanged
Housing New Zealand Corporation	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Contracts	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal claims and proceedings:	
Accident Compensation Corporation (ACC) litigations	Unchanged
Air New Zealand litigation	Unchanged
Television New Zealand	Unchanged
Treaty of Waitangi claims	Unchanged
Ministry of Education litigation	Unchanged
Other unquantifiable contingent liabilities:	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

Description of Contingent Liabilities

Quantifiable contingent liabilities over $100 million

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of these organisations, contributes capital by subscribing to shares in certain institutions.

The capital (when called) is typically used to raise additional funding for loans to member countries or, in the case of the quota contributions, to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both "paid in" capital and "callable capital or promissory notes".

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

Uncalled capital	**31 May 2014**	**30 June 2013**
	$millions	**$millions**
Asian Development Bank	2,808	2,992
International Monetary Fund – promissory notes	1,043	1,163
International Bank for Reconstruction and Development	966	1,056
International Monetary Fund – arrangements to borrow	988	1,052

Legal proceedings and disputes

Tax in dispute

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

$592 million at 31 May 2014 ($641 million at 30 June 2013)

Other quantifiable contingent liabilities

Unclaimed monies

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

$112 million at 31 May 2014 ($101 million at 30 June 2013)

Transpower New Zealand Limited

Transpower has a contingent liability relating to excess capital expenditure on the North Island Grid Upgrade Project (NIGU). The NIGU spend exceeds the amount initially approved in 2006. If the excess expenditure is not approved by the Commerce Commission it cannot be recovered from customers. NIGU is operational and a submission for the excess expenditure has been made.

$150 million at 31 May 2014 ($156 million at 30 June 2013)

Unquantifiable contingent liabilities

This part of the Statement provides details of those contingent liabilities of the Crown that are not quantified, excluding those that are considered remote, reported by the following categories:

a Indemnities

b Legal disputes

c Other contingent liabilities.

a Indemnities

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

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

Party indemnified	**Instrument of indemnification**	**Actions indemnified**
Air New Zealand	Deed of indemnity issued 24 September 2001.	Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US$1 billion in respect of any one claim.
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 contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993.	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines. See risk page 70.
Genesis Energy Limited	Deed between Genesis Power Limited and the Crown.	The agreement sees the Crown compensate Genesis in the event that Genesis has less gas than it requires for the long-term supply of gas to cover Huntly power station's minimum needs.
	Genesis acquisition of Tekapo A & B power stations.	Indemnity against any damage to bed of lakes and rivers subject to operating easements.

Party indemnified	Instrument of indemnification	Actions indemnified
Housing New Zealand Corporation (HNZC)	The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL).	The Crown indemnified HNZL against: • any breach of the warranty provided, and • any third party claims that are a result of acts or omissions prior to 1 November 1992. The Crown also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 197 of the Summary Proceedings Act 1957. Section 58 of the Disputes Tribunal Act 1988.	Damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Contracts	Contracts in respect of which the Crown purchases gas from Maui Mining companies and sells gas downstream to Contact Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited.	The contracts provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.
Maui Partners	Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information.	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill.	The indemnity relates to 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 9 of the Civil Defence Emergency Management Act 2002. 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 is approved and issued by the Director of Civil Defence Emergency Management.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Railways Corporation	The Minister of Finance signed the indemnity on 1 September 2004.	The directors of New Zealand Railways Corporation are indemnified against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities.
	Section 10 of the Finance Act 1990.	The Act guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Persons exercising investigating powers	Section 63 of the Corporations (Investigation and Management) Act 1989.	Indemnifies the Financial Markets Authority (formerly Securities Commission), the Registrar of Companies, every statutory manager of a corporation, every member of an advisory committee appointed under the Act and persons appointed pursuant to sections 17 to 19 of the Act (to exercise powers of inspection and investigation). The indemnity applies to the exercise, or omission to exercise, of any powers under the Act, unless the exercise of the power or the omission is shown to be in bad faith.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI).	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004.	The Crown has indemnified Westpac: • in relation to letters of credit issued on behalf of the Crown, and • for costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and IRD processing arrangements.

Party indemnified	Instrument of indemnification	Actions indemnified
	Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010.	The Crown has indemnified Westpac New Zealand Limited against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation).

b Legal claims and proceedings

Numerous legal actions have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the case, or if the Crown were to lose it would be unlikely to have greater impact 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

There are a number of actions involving ACC in existence, arising from the statutory review and appeal process, and in the main coming from challenges to operational decisions made by ACC. Given the nature of these proceedings and uncertainty as to their outcomes, attempting to quantify the financial effect would be unrealistic, so no estimate has been made.

Air New Zealand litigation

Air New Zealand is currently named in two class actions in the US. One makes allegations against more than 30 airlines, of anti-competitive conduct in relation to pricing in the air cargo business. A second alleges that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes. Both class actions are being defended. The allegations made in relation to the air cargo business are also the subject of proceedings by the Australian Competition and Consumer Commission. A defended hearing in the Federal Court concluded in May 2013 and a decision is awaited. In the event that the Court determines that Air New Zealand had breached Australian laws, the company would have potential liability for pecuniary penalties.

Television New Zealand Limited (TVNZ)

In the normal course of business various legal claims have been made against TVNZ. Given the stage of proceedings and uncertainty as to the outcomes of the claims, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

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 Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

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

Ministry of Education litigation

Post Primary Teachers Association and several teachers have lodged a claim in the High Court alleging breach of statutory duty, and compensation, in respect of the Novopay system failures. The Ministry is defending this claim.

c Other unquantifiable contingent liabilities

Criminal Proceeds (Recovery) Act 2009

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required. The timing and amount of any possible payments required are not able to be estimated.

Environmental liabilities

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

Any contaminated sites for which costs can be reliably measured have been included in the Statement of Financial Position as provisions.

Treaty of Waitangi claims – Settlement Relativity Payments – see page 72.

Description of Contingent Assets

Quantifiable contingent assets over $100 million

Tax disputes – non-assessed

A contingent asset is recognised when IRD has advised, or was about to advise, a taxpayer of a proposed adjustment to their tax assessment. The taxpayer has the right to dispute this adjustment and a disputes resolution process can be entered into. The contingent asset is based on the likely outcome of the disputes process based on experience and similar prior cases.

$118 million at 31 May 2014 ($169 million at 30 June 2013)

5

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. The Risks and Scenarios and Specific Fiscal Risks chapters discuss the risks to the fiscal forecast in more detail.

The forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 5 August 2014.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook chapter (pages 23 to 47).

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 *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 specific accounting policies are included within the 2014 *Pre-election Economic and Fiscal Update Additional Information* document which can be found on the Treasury's website at www.treasury.govt.nz/budget/forecasts/prefu2014

Changes in Accounting Policies

All policies have been applied on a consistent basis during the forecast period. There have been no changes in accounting policies during the period.

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 Specific Fiscal Risks chapter on pages 61 to 82.

Key forecast assumptions are set out on pages 40 to 42.

Government Reporting Entity as at 5 August 2014

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):

Core Crown segment

Departments

Canterbury Earthquake Recovery Authority
Crown Law Office
Department of Conservation
Department of Corrections
Department of Internal Affairs
Department of the Prime Minister and Cabinet
Education Review Office
Government Communications Security Bureau
Inland Revenue Department
Land Information New Zealand
Ministry for Culture and Heritage
Ministry for Primary Industries
Ministry for the Environment
Ministry of Business, Innovation and Employment
Ministry of Defence
Ministry of Education
Ministry of Foreign Affairs and Trade
Ministry of Health
Ministry of Justice
Ministry of Māori Development
Ministry of Pacific Island Affairs
Ministry of Social Development
Ministry of Transport
Ministry of Women's Affairs
New Zealand Customs Service
New Zealand Defence Force
New Zealand Police
New Zealand Security Intelligence Service
Office of the Clerk of the House of Representatives
Parliamentary Counsel Office
Parliamentary Service
Serious Fraud Office
State Services Commission
Statistics New Zealand
The Treasury

Offices of Parliament

Controller and Auditor-General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises segment

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
Learning Media Limited (in liquidation)
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act schedule 5 companies)

Genesis Energy Limited
Meridian Energy Limited
Mighty River Power Limited

Others

Air New Zealand Limited

Crown entities segment

Accident Compensation Corporation
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Careers New Zealand
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,408)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (29)
Testing Laboratory Registration Council
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown entities segment continued

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust
Asia New Zealand Foundation
Fish and Game Councils (12)
Game Animal Council
Leadership Development Centre Trust
Māori Trustee
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Reserves Boards (21)
Sentencing Council
Te Ariki Trust

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act 1989 schedule 4A companies)

Crown Asset Management Limited
Crown Fibre Holdings Limited
Fairway Resolution Limited
Health Benefits Limited
Research and Education Advanced Network New Zealand Limited
Southern Response Earthquake Services Limited
Tāmaki Redevelopment Company Limited
The Network for Learning Limited

Legal entities created by Treaty of Waitangi settlements Acts (Public Finance Act 1989 schedule 6)

Te Urewera

Subsidiaries of SOEs, Crown entities and other government entities are consolidated by their parents and not listed separately in this table.

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Revenue								
Taxation revenue	1	58,134	61,773	61,001	65,538	69,492	72,882	76,324
Other sovereign revenue	1	5,172	5,296	5,441	5,166	4,984	4,748	4,890
Total revenue levied through the Crown's sovereign power		**63,306**	**67,069**	**66,442**	**70,704**	**74,476**	**77,630**	**81,214**
Sales of goods and services		16,713	17,080	16,568	16,847	17,291	17,790	18,482
Interest revenue and dividends	2	2,939	3,588	3,174	3,717	4,090	4,815	5,257
Other revenue		3,697	3,867	3,388	3,783	3,875	4,022	4,084
Total revenue earned through the Crown's operations		**23,349**	**24,535**	**23,130**	**24,347**	**25,256**	**26,627**	**27,823**
Total revenue (excluding gains)		**86,655**	**91,604**	**89,572**	**95,051**	**99,732**	**104,257**	**109,037**
Expenses								
Transfer payments and subsidies	3	22,708	23,485	23,360	23,889	24,516	25,348	26,406
Personnel expenses	4	19,935	20,172	20,468	20,812	21,131	21,338	21,586
Depreciation and amortisation	5	4,812	4,640	4,728	4,945	4,971	5,113	5,178
Other operating expenses	5	36,163	37,608	35,611	37,171	37,352	37,114	37,450
Interest expenses	6	4,358	4,516	4,387	4,707	5,111	5,642	5,765
Insurance expenses	7	3,031	3,215	3,466	3,567	4,099	4,443	4,713
Forecast new operating spending	8	-	461	-	191	1,834	3,340	4,864
Top-down expense adjustment	8	-	(600)	-	(875)	(485)	(360)	(360)
Total expenses (excluding losses)		**91,007**	**93,497**	**92,020**	**94,407**	**98,529**	**101,978**	**105,602**
Minority interest share of operating balance before gains/losses[1]		(62)	(140)	(147)	(347)	(385)	(428)	(471)
Operating balance before gains/(losses)		**(4,414)**	**(2,033)**	**(2,595)**	**297**	**818**	**1,851**	**2,964**
Net gains/(losses) on financial instruments	9	7,270	1,748	4,822	2,528	2,674	2,759	2,914
Net gains/(losses) on non-financial instruments	10	3,674	443	328	(97)	(109)	(73)	(74)
Total gains/(losses)		**10,944**	**2,191**	**5,150**	**2,431**	**2,565**	**2,686**	**2,840**
Net surplus from associates and joint ventures		395	200	271	255	255	256	256
Operating balance	11	**6,925**	**358**	**2,826**	**2,983**	**3,638**	**4,793**	**6,060**

1. Minority interests include those who recently purchased shares in the Government Share Offer Programme as well as the pre-existing minority interests.

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

Forecast Analysis of Expenses by Functional Classification

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Total Crown expenses							
By functional classification							
Social security and welfare	26,268	27,510	27,303	28,216	29,065	30,098	31,348
GSF pension expenses	286	283	295	373	417	423	423
Health	13,856	14,433	14,404	14,741	14,668	14,616	14,598
Education	13,366	13,180	13,070	13,569	13,747	13,806	13,881
Core government services	3,960	4,201	4,091	4,445	4,548	4,451	4,459
Law and order	3,670	3,804	3,735	3,832	3,794	3,770	3,772
Defence	1,766	1,893	1,775	1,881	1,975	1,945	1,927
Transport and communications	9,052	9,036	9,160	9,409	9,486	9,691	10,002
Economic and industrial services	8,375	8,098	7,566	7,763	7,903	8,131	8,585
Primary services	1,579	1,892	1,721	1,782	1,745	1,723	1,565
Heritage, culture and recreation	2,351	2,532	2,363	2,348	2,431	2,470	2,523
Housing and community development	989	1,057	1,088	1,146	1,183	1,170	1,187
Environmental protection	528	473	536	529	532	511	514
Other	603	728	526	350	575	551	549
Finance costs	4,358	4,516	4,387	4,707	5,111	5,642	5,765
Forecast new operating spending	-	461	-	191	1,834	3,340	4,864
Top-down expense adjustment	-	(600)	-	(875)	(485)	(360)	(360)
Total Crown expenses excluding losses	**91,007**	**93,497**	**92,020**	**94,407**	**98,529**	**101,978**	**105,602**

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.

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Core Crown expenses							
By functional classification							
Social security and welfare	22,741	23,595	23,250	23,966	24,415	25,201	26,220
GSF pension expenses	278	274	277	359	404	409	409
Health	14,498	14,950	14,911	15,065	15,132	15,191	15,274
Education	12,504	12,389	12,300	12,825	12,946	13,008	13,081
Core government services	4,294	4,637	4,406	4,849	4,909	4,799	4,792
Law and order	3,456	3,561	3,499	3,568	3,529	3,502	3,502
Defence	1,804	1,933	1,824	1,929	2,023	1,993	1,976
Transport and communications	2,255	2,162	2,235	2,220	2,161	2,224	2,293
Economic and industrial services	1,978	2,152	2,068	2,215	2,241	2,246	2,299
Primary services	659	818	675	700	638	605	603
Heritage, culture and recreation	804	854	841	770	778	753	744
Housing and community development	283	335	355	331	284	228	220
Environmental protection	530	496	535	528	530	510	513
Other	603	728	526	350	575	551	549
Finance costs	3,619	3,622	3,589	3,835	4,000	4,383	4,473
Forecast new operating spending	-	461	-	191	1,834	3,340	4,864
Top-down expense adjustment	-	(600)	-	(875)	(485)	(360)	(360)
Total core Crown expenses excluding losses	**70,306**	**72,367**	**71,291**	**72,826**	**75,914**	**78,583**	**81,452**

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

Forecast Statement of Comprehensive Income

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Operating balance (including minority interest)	**7,019**	**498**	**3,006**	**3,355**	**4,043**	**5,239**	**6,549**
Other comprehensive income							
Revaluation of physical assets	1,367	-	4,172	-	-	-	-
Net change in hedging instruments entered into for cash flow hedges	280	(21)	(104)	(2)	5	8	2
Foreign currency translation differences for foreign operations	-	39	(35)	4	-	-	-
Valuation gains/(losses) on investments available for sale taken to reserves	36	8	4	9	11	12	12
Other movements	7	(38)	9	(28)	23	33	38
Total other comprehensive income	**1,690**	**(12)**	**4,046**	**(17)**	**39**	**53**	**52**
Total comprehensive income	**8,709**	**486**	**7,052**	**3,338**	**4,082**	**5,292**	**6,601**
Attributable to:							
- minority interest	153	140	180	372	405	446	489
- the Crown	8,556	346	6,872	2,966	3,677	4,846	6,112
Total comprehensive income	**8,709**	**486**	**7,052**	**3,338**	**4,082**	**5,292**	**6,601**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Opening net worth	59,780	63,270	70,011	79,773	82,829	86,548	91,449
Operating balance	7,019	498	3,006	3,355	4,043	5,239	6,549
Net revaluations	1,367	-	4,172	-	-	-	-
Transfers to/(from) reserves	260	(59)	(116)	13	26	41	41
(Gains)/losses transferred to the Statement of Financial Performance	(10)	-	(3)	4	2	-	(1)
Other movements	73	47	(7)	(34)	11	12	12
Comprehensive income attributable to the Crown	**8,709**	**486**	**7,052**	**3,338**	**4,082**	**5,292**	**6,601**
Gain/(loss) on Government share offers	167	175	(542)	-	-	-	-
Increase in minority interest from Government share offers	1,371	1,325	3,300	-	-	-	-
Transactions with minority interest	(16)	(74)	(48)	(282)	(363)	(391)	(396)
Closing net worth	**70,011**	**65,182**	**79,773**	**82,829**	**86,548**	**91,449**	**97,654**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Cash flows from operations							
Cash was provided from							
Taxation receipts	56,413	60,695	59,871	64,613	68,430	71,868	75,231
Other sovereign receipts	4,806	4,747	4,999	4,637	4,224	4,343	4,439
Sales of goods and services	16,651	17,175	16,030	16,906	17,418	17,906	18,628
Interest and dividend receipts	2,694	3,175	2,989	2,923	3,170	3,696	4,093
Other operating receipts	5,933	5,443	5,741	5,038	3,739	4,077	3,766
Total cash provided from operations	**86,497**	**91,235**	**89,630**	**94,117**	**96,981**	**101,890**	**106,157**
Cash was disbursed to							
Transfer payments and subsidies	22,780	23,877	23,607	24,014	24,527	25,311	26,380
Personnel and operating payments	58,450	62,622	59,370	64,130	59,866	59,779	61,492
Interest payments	4,369	4,629	4,322	4,878	4,962	5,402	5,558
Forecast new operating spending	-	461	-	191	1,834	3,340	4,864
Top-down expense adjustment	-	(600)	-	(875)	(485)	(360)	(360)
Total cash disbursed to operations	**85,599**	**90,989**	**87,299**	**92,338**	**90,704**	**93,472**	**97,934**
Net cash flows from operations	**898**	**246**	**2,331**	**1,779**	**6,277**	**8,418**	**8,223**
Cash flows from investing activities							
Cash was provided from/(disbursed to)							
Net purchase of physical assets	(5,169)	(7,234)	(5,629)	(8,331)	(7,162)	(6,414)	(5,611)
Net purchase of shares and other securities	6,342	(5,221)	(5,064)	4,075	(3,212)	(6,751)	4,130
Net purchase of intangible assets	(581)	(516)	(675)	(576)	(505)	(424)	(403)
Net repayment/(issues) of advances	(1,405)	(2,029)	(1,532)	(1,749)	(1,608)	(1,497)	(1,434)
Net acquisition of investments in associates	280	65	142	(46)	(42)	45	46
Government share offer programme[1]	1,547	1,500	2,216	598	-	-	-
Forecast new capital spending	-	(503)	-	(146)	(413)	(653)	(836)
Top-down capital adjustment	-	50	-	370	75	50	50
Net cash flows from investing activities	**1,014**	**(13,888)**	**(10,542)**	**(5,805)**	**(12,867)**	**(15,644)**	**(4,058)**
Net cash flows from operating and investing activities	**1,912**	**(13,642)**	**(8,211)**	**(4,026)**	**(6,590)**	**(7,226)**	**4,165**
Cash flows from financing activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	234	141	274	152	157	161	166
Net issue/(repayment) of government stock[2]	5,476	10,245	5,520	(526)	5,151	6,865	(4,461)
Net issue/(repayment) of foreign-currency borrowings	(2,926)	(519)	1,450	(1,709)	(1,359)	(356)	(571)
Net issue/(repayment) of other New Zealand dollar borrowings	(634)	2,647	(811)	4,634	2,928	1,599	1,946
Dividends paid to minority interests[3]	(20)	(120)	(246)	(365)	(401)	(416)	(435)
Net cash flows from financing activities	**2,130**	**12,394**	**6,187**	**2,186**	**6,476**	**7,853**	**(3,355)**
Net movement in cash	**4,042**	**(1,248)**	**(2,024)**	**(1,840)**	**(114)**	**627**	**810**
Opening cash balance	10,686	16,492	14,924	12,303	10,463	10,349	10,977
Foreign-exchange gains/(losses) on opening cash	196	-	(597)	-	-	1	(1)
Closing cash balance	**14,924**	**15,244**	**12,303**	**10,463**	**10,349**	**10,977**	**11,786**

1. Represents proceeds from the Government Share Offer net of purchases by ACC and NZSF.

2. Further information on the proceeds and repayments of government stock ("domestic bonds") is available in note 22.

3. Minority interests include those who recently purchased shares in the Government Share Offer Programme as well as the pre-existing minority interests.

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

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Reconciliation between the net cash flows from operations and the operating balance							
Net cash flows from operations	**898**	**246**	**2,331**	**1,779**	**6,277**	**8,418**	**8,223**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on financial instruments	7,270	1,748	4,822	2,528	2,674	2,759	2,914
Net gains/(losses) on non-financial instruments	3,674	443	328	(97)	(109)	(73)	(74)
Total gains/(losses)	**10,944**	**2,191**	**5,150**	**2,431**	**2,565**	**2,686**	**2,840**
Other non-cash items in operating balance							
Depreciation and amortisation	(4,812)	(4,640)	(4,728)	(4,945)	(4,971)	(5,113)	(5,178)
Write-down on initial recognition of financial assets	(684)	(723)	(778)	(829)	(834)	(853)	(862)
Impairment on financial assets (excl. receivables)	(497)	23	(45)	(128)	(131)	(134)	(137)
Decrease/(increase) in defined benefit retirement plan liabilities	385	461	445	389	357	363	374
Decrease/(increase) in insurance liabilities	1,106	2,517	1,040	3,883	(653)	(1,312)	(1,579)
Other	331	201	125	(92)	(129)	(172)	(211)
Total other non-cash Items	**(4,171)**	**(2,161)**	**(3,941)**	**(1,722)**	**(6,361)**	**(7,221)**	**(7,593)**
Movements in working capital							
Increase/(decrease) in receivables	(1,302)	(1,119)	(1,251)	(576)	192	517	882
Increase/(decrease) in accrued interest	257	526	119	964	771	879	957
Increase/(decrease) in inventories	(94)	73	(8)	2	37	7	(50)
Increase/(decrease) in prepayments	32	(29)	35	(60)	2	6	(2)
Decrease/(increase) in deferred revenue	(2)	26	(242)	16	17	26	(28)
Decrease/(increase) in payables/provisions	363	605	633	149	138	(525)	831
Total movements in working capital	**(746)**	**82**	**(714)**	**495**	**1,157**	**910**	**2,590**
Operating balance	**6,925**	**358**	**2,826**	**2,983**	**3,638**	**4,793**	**6,060**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Assets								
Cash and cash equivalents	12	14,924	15,244	12,303	10,463	10,349	10,977	11,786
Receivables	12	19,883	18,070	17,774	17,017	17,062	17,622	17,951
Marketable securities, deposits and derivatives in gain	12	44,000	44,713	47,933	44,117	47,311	54,793	51,665
Share investments	12	17,359	18,176	20,652	22,182	23,571	25,122	26,786
Advances	12	22,613	25,312	24,772	26,558	28,229	30,049	31,810
Inventory		1,140	1,321	1,132	1,134	1,170	1,177	1,128
Other assets		2,295	2,061	2,608	2,594	2,611	2,586	2,559
Property, plant and equipment	14	109,833	112,627	115,402	119,386	122,585	124,913	126,663
Equity accounted investments[1]		9,593	9,642	9,804	10,124	10,413	10,570	10,767
Intangible assets and goodwill	15	2,776	2,837	2,930	2,974	3,010	2,940	2,910
Forecast for new capital spending	8	-	505	-	146	559	1,212	2,048
Top-down capital adjustment	8	-	(330)	-	(370)	(445)	(495)	(545)
Total assets		**244,416**	**250,178**	**255,310**	**256,325**	**266,425**	**281,466**	**285,528**
Liabilities								
Issued currency		4,691	4,897	4,964	5,116	5,273	5,435	5,601
Payables	17	11,160	12,360	11,624	11,982	11,780	12,601	12,535
Deferred revenue		1,714	1,553	1,956	1,940	1,923	1,897	1,925
Borrowings		100,087	112,201	103,124	105,127	111,521	119,870	116,445
Insurance liabilities	18	37,712	35,902	36,190	32,308	32,960	34,273	35,851
Retirement plan liabilities	19	11,903	11,766	10,882	10,493	10,136	9,773	9,399
Provisions	20	7,138	6,317	6,797	6,530	6,284	6,168	6,118
Total liabilities		**174,405**	**184,996**	**175,537**	**173,496**	**179,877**	**190,017**	**187,874**
Total assets less total liabilities		**70,011**	**65,182**	**79,773**	**82,829**	**86,548**	**91,449**	**97,654**
Net worth								
Taxpayers' funds		10,862	6,230	13,268	16,409	20,320	25,320	31,584
Property, plant and equipment revaluation reserve		57,068	55,831	61,105	60,966	60,716	60,542	60,376
Other reserves		141	(64)	28	(8)	8	28	42
Total net worth attributable to the Crown		**68,071**	**61,997**	**74,401**	**77,367**	**81,044**	**85,890**	**92,002**
Net worth attributable to minority interest		1,940	3,185	5,372	5,462	5,504	5,559	5,652
Total net worth	21	**70,011**	**65,182**	**79,773**	**82,829**	**86,548**	**91,449**	**97,654**

1. Tertiary education institutions constitute most equity accounted investments.

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

Forecast Statement of Borrowings

as at 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Borrowings							
Government bonds	57,377	68,469	60,281	58,955	63,652	70,012	65,095
Treasury bills	4,084	3,541	2,959	4,011	3,685	3,682	3,679
Government retail stock	199	204	183	183	183	183	183
Settlement deposits with Reserve Bank	7,575	7,183	6,849	6,849	6,849	6,849	6,849
Derivatives in loss	3,188	1,854	2,228	1,860	1,742	1,707	1,521
Finance lease liabilities	1,454	1,475	1,503	1,908	2,037	2,043	2,081
Other borrowings	26,210	29,475	29,121	31,361	33,373	35,394	37,037
Total borrowings	**100,087**	**112,201**	**103,124**	**105,127**	**111,521**	**119,870**	**116,445**
Total sovereign-guaranteed debt	75,684	84,580	77,245	76,864	81,128	87,429	82,360
Total non-sovereign-guaranteed debt	24,403	27,621	25,879	28,263	30,393	32,441	34,085
Total borrowings	**100,087**	**112,201**	**103,124**	**105,127**	**111,521**	**119,870**	**116,445**
Net debt:							
Core Crown borrowings[1]	84,873	94,504	89,076	87,385	92,219	99,180	94,807
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(587)	(1,027)	(611)	(738)	(871)	(909)	(911)
Gross sovereign-issued debt[2]	**84,286**	**93,477**	**88,465**	**86,647**	**91,348**	**98,271**	**93,896**
Less core Crown financial assets[3]	62,984	65,786	68,263	65,152	69,170	78,094	75,902
Net core Crown debt	**21,302**	**27,691**	**20,202**	**21,495**	**22,178**	**20,177**	**17,994**
Core Crown advances	13,126	14,375	13,752	15,077	15,586	15,886	16,077
Net core Crown debt (incl. NZS Fund)[4]	**34,428**	**42,066**	**33,954**	**36,572**	**37,764**	**36,063**	**34,071**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	21,407	22,699	25,987	27,703	29,277	31,472	33,794
Net core Crown debt (excl. NZS Fund and advances)[6]	**55,835**	**64,765**	**59,941**	**64,275**	**67,041**	**67,535**	**67,865**
Gross debt:							
Gross sovereign-issued debt[2]	84,286	93,477	88,465	86,647	91,348	98,271	93,896
Less Reserve Bank settlement cash and bank bills	(7,902)	(7,391)	(7,245)	(7,245)	(7,245)	(7,245)	(7,245)
Add back changes to DMO borrowing owing to settlement cash[7]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and bank bills[4]	**77,984**	**87,686**	**82,820**	**81,002**	**85,703**	**92,626**	**88,251**

Notes on borrowings

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

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

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

Statement of Actual Commitments

as at 31 May 2014

	As at 31 May 2014 $m	As at 30 June 2013 $m
Capital commitments		
Specialist military equipment	800	549
Land and buildings	942	717
Other property, plant and equipment	5,110	5,478
Other capital commitments	860	790
Tertiary education institutions	169	169
Total capital commitments	**7,881**	**7,703**
Operating commitments		
Non-cancellable accommodation leases	2,724	2,792
Other non-cancellable leases	2,507	2,735
Tertiary education institutions	466	466
Total operating commitments	**5,697**	**5,993**
Total commitments	**13,578**	**13,696**
Total commitments by segment		
Core Crown	4,199	4,226
Crown entities	5,351	5,296
State-owned enterprises	5,178	5,078
Inter-segment eliminations	(1,150)	(904)
Total commitments	**13,578**	**13,696**

Statement of Actual Contingent Liabilities and Assets

as at 31 May 2014

	As at 31 May 2014 $m	As at 30 June 2013 $m
Quantifiable contingent liabilities		
Guarantees and indemnities	190	225
Uncalled capital	5,826	6,286
Legal proceedings and disputes	642	707
Other contingent liabilities	465	432
Total quantifiable contingent liabilities	**7,123**	**7,650**
Total quantifiable contingent liabilities by segment		
Core Crown	6,758	7,350
Crown entities	51	35
State-owned enterprises	314	265
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**7,123**	**7,650**
Quantifiable contingent assets by segment		
Core Crown	164	245
Crown entities	7	4
State-owned enterprises	-	21
Total quantifiable contingent assets	**171**	**270**

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

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

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation revenue (accrual)							
Individuals							
Source deductions	22,330	23,709	23,772	25,177	26,564	28,055	29,647
Other persons	5,210	5,083	5,177	5,316	5,566	5,789	5,981
Refunds	(1,644)	(1,488)	(1,532)	(1,416)	(1,445)	(1,500)	(1,566)
Fringe benefit tax	480	477	489	507	528	551	575
Total individuals	**26,376**	**27,781**	**27,906**	**29,584**	**31,213**	**32,895**	**34,637**
Corporate tax							
Gross companies tax	8,747	9,240	9,073	9,699	9,999	10,286	10,551
Refunds	(151)	(197)	(219)	(213)	(225)	(232)	(240)
Non-resident withholding tax	420	447	428	485	533	558	577
Foreign-source dividend w/holding payments	2	-	8	2	2	2	2
Total corporate tax	**9,018**	**9,490**	**9,290**	**9,973**	**10,309**	**10,614**	**10,890**
Other direct income tax							
Resident w/holding tax on interest income	1,631	1,671	1,634	1,909	2,527	2,912	3,270
Resident w/holding tax on dividend income	516	607	446	472	487	505	516
Total other direct income tax	**2,147**	**2,278**	**2,080**	**2,381**	**3,014**	**3,417**	**3,786**
Total direct income tax	**37,541**	**39,549**	**39,276**	**41,938**	**44,536**	**46,926**	**49,313**
Goods and services tax							
Gross goods and services tax	25,125	27,220	27,266	29,008	30,429	31,954	34,148
Refunds	(9,920)	(10,695)	(11,162)	(11,314)	(11,679)	(12,428)	(13,717)
Total goods and services tax	**15,205**	**16,525**	**16,104**	**17,694**	**18,750**	**19,526**	**20,431**
Other indirect taxation							
Road user charges	1,066	1,164	1,205	1,244	1,326	1,406	1,479
Petroleum fuels excise – domestic production	855	931	855	948	1,083	1,191	1,207
Alcohol excise – domestic production	663	678	656	677	703	734	766
Tobacco excise – domestic production	281	277	269	284	295	293	294
Petroleum fuels excise – imports[1]	674	659	746	766	725	654	671
Alcohol excise – imports[1]	250	267	246	255	265	276	288
Tobacco excise – imports[1]	954	1,043	1,029	1,108	1,186	1,235	1,232
Other customs duty	178	172	130	119	110	122	118
Gaming duties	214	223	211	209	210	210	211
Motor vehicle fees	174	187	187	195	202	208	213
Approved issuer levy and cheque duty	45	62	52	65	65	65	65
Energy resources levies	34	36	35	36	36	36	36
Total other indirect taxation	**5,388**	**5,699**	**5,621**	**5,906**	**6,206**	**6,430**	**6,580**
Total indirect taxation	**20,593**	**22,224**	**21,725**	**23,600**	**24,956**	**25,956**	**27,011**
Total taxation revenue	**58,134**	**61,773**	**61,001**	**65,538**	**69,492**	**72,882**	**76,324**
Other sovereign revenue (accrual)							
ACC levies	3,437	3,465	3,591	3,172	2,934	2,893	2,969
Fire Service levies	331	338	338	348	350	353	358
EQC levies	242	269	275	282	285	288	291
Child support	590	729	545	683	688	487	543
Court fines	168	173	173	173	173	173	173
Other miscellaneous items	404	322	519	508	554	554	556
Total other sovereign revenue	**5,172**	**5,296**	**5,441**	**5,166**	**4,984**	**4,748**	**4,890**
Total sovereign revenue	**63,306**	**67,069**	**66,442**	**70,704**	**74,476**	**77,630**	**81,214**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation receipts (cash)							
Individuals							
Source deductions	22,188	23,584	23,627	25,027	26,408	27,899	29,483
Other persons	5,194	5,549	5,466	5,808	6,046	6,318	6,516
Refunds	(2,251)	(2,222)	(2,276)	(2,194)	(2,240)	(2,333)	(2,437)
Fringe benefit tax	465	476	482	505	526	549	573
Total individuals	**25,596**	**27,387**	**27,299**	**29,146**	**30,740**	**32,433**	**34,135**
Corporate tax							
Gross companies tax	8,665	9,495	9,369	10,054	10,322	10,681	10,928
Refunds	(597)	(766)	(563)	(664)	(721)	(753)	(780)
Non-resident withholding tax	451	446	405	484	532	557	576
Foreign-source dividend w/holding payments	1	-	-	2	2	2	2
Total corporate tax	**8,520**	**9,175**	**9,211**	**9,876**	**10,135**	**10,487**	**10,726**
Other direct income tax							
Resident w/holding tax on interest income	1,635	1,670	1,629	1,907	2,525	2,910	3,268
Resident w/holding tax on dividend income	516	607	449	472	487	505	516
Total other direct income tax	**2,151**	**2,277**	**2,078**	**2,379**	**3,012**	**3,415**	**3,784**
Total direct income tax	**36,267**	**38,839**	**38,588**	**41,401**	**43,887**	**46,335**	**48,645**
Goods and services tax							
Gross goods and services tax	24,539	26,352	26,613	28,145	29,616	31,131	33,273
Refunds	(9,783)	(10,195)	(10,948)	(10,839)	(11,279)	(12,028)	(13,267)
Total goods and services tax	**14,756**	**16,157**	**15,665**	**17,306**	**18,337**	**19,103**	**20,006**
Other indirect taxation							
Road user charges	1,064	1,164	1,187	1,244	1,326	1,406	1,479
Petroleum fuels excise – domestic production	865	931	861	936	1,087	1,215	1,247
Alcohol excise – domestic production	666	678	651	680	706	744	775
Tobacco excise – domestic production	287	277	268	287	298	303	303
Customs duty	2,035	2,141	2,179	2,254	2,276	2,243	2,251
Gaming duties	216	223	208	209	210	210	211
Motor vehicle fees	179	187	178	195	202	208	213
Approved issuer levy and cheque duty	44	62	51	65	65	65	65
Energy resources levies	34	36	35	36	36	36	36
Total other indirect taxation	**5,390**	**5,699**	**5,618**	**5,906**	**6,206**	**6,430**	**6,580**
Total indirect taxation	**20,146**	**21,856**	**21,283**	**23,212**	**24,543**	**25,533**	**26,586**
Total taxation receipts	**56,413**	**60,695**	**59,871**	**64,613**	**68,430**	**71,868**	**75,231**
Other sovereign receipts (cash)							
ACC levies	3,524	3,438	3,580	3,171	2,735	2,844	2,919
Fire Service levies	331	338	338	348	350	353	358
EQC levies	274	267	278	282	285	287	290
Child support	230	237	219	247	261	268	281
Court fines	159	148	148	137	137	137	137
Other miscellaneous items	288	319	436	452	456	454	454
Total other sovereign receipts	**4,806**	**4,747**	**4,999**	**4,637**	**4,224**	**4,343**	**4,439**
Total sovereign receipts	**61,219**	**65,442**	**64,870**	**69,250**	**72,654**	**76,211**	**79,670**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 2: Interest revenue and dividends							
By type							
Interest revenue	2,382	3,006	2,503	3,149	3,474	4,160	4,566
Dividends	557	582	671	568	616	655	691
Total interest revenue and dividends	**2,939**	**3,588**	**3,174**	**3,717**	**4,090**	**4,815**	**5,257**
By source							
Core Crown	2,104	2,639	2,286	2,462	2,683	3,192	3,508
Crown entities	1,270	1,242	1,176	1,370	1,414	1,478	1,556
State-owned enterprises	856	878	897	1,048	1,267	1,481	1,613
Inter-segment eliminations	(1,291)	(1,171)	(1,185)	(1,163)	(1,274)	(1,336)	(1,420)
Total interest revenue and dividends	**2,939**	**3,588**	**3,174**	**3,717**	**4,090**	**4,815**	**5,257**
NOTE 3: Transfer payments and subsidies							
New Zealand Superannuation	10,235	10,894	10,913	11,610	12,254	12,906	13,644
Jobseeker Support and Emergency Benefit	-	1,773	1,691	1,689	1,612	1,597	1,638
Supported Living Payment	-	1,392	1,422	1,510	1,529	1,555	1,589
Sole Parent Support	-	1,288	1,222	1,217	1,220	1,226	1,235
Domestic Purposes Benefit	1,738	67	63	-	-	-	-
Invalid's Benefit	1,330	53	52	-	-	-	-
Sickness Benefit	782	32	29	-	-	-	-
Unemployment Benefit	812	29	29	-	-	-	-
Family tax credit	2,018	2,038	1,965	1,915	1,890	1,907	2,036
Other working for families tax credits	575	539	567	534	535	533	528
Accommodation Assistance	1,177	1,191	1,146	1,134	1,130	1,133	1,151
Income related rents	611	662	660	718	775	825	879
Disability assistance	384	380	379	373	374	375	378
Student allowances	596	574	539	531	534	540	546
Other social assistance benefits	1,290	1,316	1,346	1,298	1,315	1,333	1,310
Total social assistance grants	**21,548**	**22,228**	**22,023**	**22,529**	**23,168**	**23,930**	**24,934**
Subsidies							
KiwiSaver subsidies	723	748	804	827	806	845	886
Other transfer payments							
Official development assistance	437	509	533	533	542	573	586
Total transfer payments and subsidies	**22,708**	**23,485**	**23,360**	**23,889**	**24,516**	**25,348**	**26,406**

From 15 July 2013 the benefit categories Domestic Purposes Benefit, Invalid's Benefit, Unemployment and Emergency Benefit and Sickness Benefit, as well as Widow's Benefit, were replaced by new benefit categories. These categories are Jobseeker Support and Emergency Benefit, Supported Living Payment and Sole Parent Support.

NOTE 4: Personnel expenses							
By source							
Core Crown	6,037	6,066	6,227	6,341	6,431	6,437	6,454
Crown entities	10,966	11,198	11,302	11,603	11,815	11,957	12,104
State-owned enterprises	2,949	2,919	2,946	2,878	2,896	2,955	3,039
Inter-segment eliminations	(17)	(11)	(7)	(10)	(11)	(11)	(11)
Total personnel expenses	**19,935**	**20,172**	**20,468**	**20,812**	**21,131**	**21,338**	**21,586**
NOTE 5: Depreciation, amortisation and other operating expenses							
Other operating expenses by source							
Core Crown	36,565	37,811	36,721	37,827	38,089	37,842	38,006
Crown entities	17,065	17,458	17,299	17,757	17,921	17,812	17,680
State-owned enterprises	9,689	9,743	8,967	9,417	9,660	9,961	10,421
Inter-segment eliminations	(27,156)	(27,404)	(27,376)	(27,830)	(28,318)	(28,501)	(28,657)
Total other operating expenses	**36,163**	**37,608**	**35,611**	**37,171**	**37,352**	**37,114**	**37,450**
Depreciation and amortisation by source							
Core Crown	1,378	1,522	1,398	1,617	1,531	1,592	1,605
Crown entities	1,583	1,642	1,656	1,710	1,792	1,821	1,822
State-owned enterprises	1,851	1,476	1,674	1,618	1,648	1,700	1,751
Total depreciation and amortisation	**4,812**	**4,640**	**4,728**	**4,945**	**4,971**	**5,113**	**5,178**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 6: Interest expenses							
By type							
Interest on financial liabilities	4,312	4,465	4,344	4,664	5,077	5,600	5,726
Interest unwind on provisions	46	51	43	43	34	42	39
Total interest expenses	**4,358**	**4,516**	**4,387**	**4,707**	**5,111**	**5,642**	**5,765**
By source							
Core Crown	3,620	3,622	3,589	3,836	4,000	4,383	4,473
Crown entities	235	239	224	237	236	245	250
State-owned enterprises	1,248	1,279	1,167	1,346	1,533	1,708	1,793
Inter-segment eliminations	(745)	(624)	(593)	(712)	(658)	(694)	(751)
Total interest expenses	**4,358**	**4,516**	**4,387**	**4,707**	**5,111**	**5,642**	**5,765**

NOTE 7: Insurance expenses							
By entity							
ACC	3,133	3,315	3,481	3,639	3,995	4,234	4,483
EQC	(103)	(19)	(112)	(16)	142	218	224
Southern Response	(22)	(95)	86	(67)	(50)	(21)	(5)
Other (incl. inter-segment eliminations)	23	14	11	11	12	12	11
Total insurance expenses	**3,031**	**3,215**	**3,466**	**3,567**	**4,099**	**4,443**	**4,713**

NOTE 8: Forecast new spending and top-down expense adjustment

	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Forecast new operating spending					
Unallocated contingencies	-	191	334	310	273
Forecast new spending for Budget 2015	-	-	1,500	1,500	1,500
Forecast new spending for Budget 2016	-	-	-	1,530	1,530
Forecast new spending for Budget 2017	-	-	-	-	1,561
Total forecast new operating spending	**-**	**191**	**1,834**	**3,340**	**4,864**
Operating top-down adjustment	**-**	**(875)**	**(485)**	**(360)**	**(360)**

Unallocated contingencies represent expenses included in Budget 2014 and previous Budgets that has yet to be allocated. Forecast new spending indicates the expected spending increases from future Budgets.

	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	Post-2018 Forecast $m	Total Forecast $m
Forecast new capital spending (annual)							
Unallocated contingencies	-	143	13	3	1	-	160
Forecast new spending for Budget 2015	-	3	300	250	185	-	738
Forecast new spending for Budget 2016	-	-	100	300	250	250	900
Forecast new spending for Budget 2017	-	-	-	100	300	518	918
Forecast new spending for Budget 2018	-	-	-	-	100	836	936
Total forecast new capital spending	**-**	**146**	**413**	**653**	**836**	**1,604**	**3,652**
Forecast new capital spending (cumulative)	**-**	**146**	**559**	**1,212**	**2,048**		
Capital top-down adjustment (cumulative)	**-**	**(370)**	**(445)**	**(495)**	**(545)**		

Unallocated contingencies represent capital spending from Budget 2014 and previous Budgets that has yet to be allocated. Forecast new spending indicates the expected capital spending increases from future Budgets, which will be mostly funded from the Future Investment Fund.

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 9: Gains and losses on financial instruments							
By source							
Core Crown	5,081	1,663	4,076	2,450	2,552	2,610	2,715
Crown entities	1,192	252	698	247	293	345	404
State-owned enterprises	354	11	191	51	58	39	39
Inter-segment eliminations	643	(178)	(143)	(220)	(229)	(235)	(244)
Net gains/(losses) on financial instruments	**7,270**	**1,748**	**4,822**	**2,528**	**2,674**	**2,759**	**2,914**
NOTE 10: Gains and losses on non-financial instruments							
By type							
Actuarial gains/(losses) on GSF liability	1,251	-	577	-	-	-	-
Actuarial gains/(losses) on ACC outstanding claims	2,369	498	482	-	-	-	-
Foreign-exchange gains/(losses) on Kyoto and ETS	103	-	(324)	-	-	-	-
Other	(17)	(55)	(374)	(72)	(89)	(55)	(56)
Minority interest share of net gains/losses	(32)	-	(33)	(25)	(20)	(18)	(18)
Net gains/(losses) on non-financial instruments	**3,674**	**443**	**328**	**(97)**	**(109)**	**(73)**	**(74)**
By source							
Core Crown	1,298	(2)	131	(3)	(36)	(1)	(1)
Crown entities	2,309	446	434	(69)	(53)	(54)	(55)
State-owned enterprises	68	(1)	(209)	(45)	(40)	(28)	(28)
Inter-segment eliminations	(1)	-	(28)	20	20	10	10
Net gains/(losses) on non-financial instruments	**3,674**	**443**	**328**	**(97)**	**(109)**	**(73)**	**(74)**
NOTE 11: Operating balance							
By source							
Core Crown	371	(2,249)	342	1,912	3,152	4,394	5,512
Crown entities	5,877	2,646	2,747	1,228	664	552	670
State-owned enterprises	614	732	516	550	693	743	804
Inter-segment eliminations	63	(771)	(779)	(707)	(871)	(896)	(926)
Total operating balance	**6,925**	**358**	**2,826**	**2,983**	**3,638**	**4,793**	**6,060**
NOTE 12: Financial assets							
Cash and cash equivalents	14,924	15,244	12,303	10,463	10,349	10,977	11,786
Tax receivables	8,184	7,831	8,222	8,701	9,205	9,606	9,992
Trade and other receivables	11,699	10,239	9,552	8,316	7,857	8,016	7,959
Student loans (refer note 13)	8,288	8,989	8,716	9,021	9,335	9,615	9,851
Kiwibank mortgages	13,202	14,544	14,549	15,843	17,223	18,802	20,405
Long-term deposits	3,588	2,089	3,062	2,193	2,093	2,121	2,297
IMF financial assets	2,291	2,404	2,142	2,349	2,366	2,391	2,415
Other advances	1,123	1,779	1,507	1,694	1,671	1,632	1,554
Share investments	17,359	18,176	20,652	22,182	23,571	25,122	26,786
Derivatives in gain	3,775	3,906	4,212	4,008	3,767	3,711	3,671
Other marketable securities	34,346	36,314	38,517	35,567	39,085	46,570	43,282
Total financial assets	**118,779**	**121,515**	**123,434**	**120,337**	**126,522**	**138,563**	**139,998**
Financial assets by entity							
NZDMO	17,799	20,153	17,957	13,515	15,777	22,097	17,342
Reserve Bank of New Zealand	19,342	18,228	18,849	19,025	19,495	20,082	19,664
NZS Fund	23,419	23,891	26,987	29,035	30,330	32,523	34,897
Other core Crown	22,339	20,464	22,419	21,774	22,138	22,666	23,651
Intra-segment eliminations	(7,788)	(6,691)	(6,165)	(6,126)	(6,186)	(6,798)	(6,757)
Total core Crown segment	**75,111**	**76,045**	**80,047**	**77,223**	**81,554**	**90,570**	**88,797**
ACC portfolio	28,243	32,161	30,897	32,605	34,252	36,073	38,008
EQC portfolio	5,401	2,597	3,606	105	47	44	45
Other Crown entities	9,075	9,735	8,065	7,577	6,895	7,023	7,338
Intra-segment eliminations	(1,422)	(3,625)	(1,065)	(1,418)	(1,562)	(1,835)	(2,024)
Total Crown entities segment	**41,297**	**40,868**	**41,503**	**38,869**	**39,632**	**41,305**	**43,367**
Total state-owned enterprises segment	**20,058**	**22,141**	**21,298**	**23,085**	**24,741**	**26,592**	**28,468**
Inter-segment eliminations	(17,687)	(17,539)	(19,414)	(18,840)	(19,405)	(19,904)	(20,634)
Total financial assets	**118,779**	**121,515**	**123,434**	**120,337**	**126,522**	**138,563**	**139,998**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 13: Student loans							
Nominal value (including accrued interest)	13,562	14,144	14,234	14,842	15,444	16,017	16,559
Opening book value	8,291	8,528	8,288	8,716	9,021	9,335	9,615
Amount borrowed in current year	1,481	1,632	1,512	1,586	1,645	1,701	1,732
Less initial write-down to fair value	(536)	(537)	(630)	(659)	(661)	(684)	(696)
Repayments made during the year	(1,054)	(1,135)	(1,032)	(1,131)	(1,200)	(1,286)	(1,363)
Interest unwind	590	600	579	598	618	638	652
(Impairment)/reversal of impairment	(484)	(110)	(12)	(100)	(100)	(100)	(100)
Other movements	-	11	11	11	12	11	11
Closing book value	**8,288**	**8,989**	**8,716**	**9,021**	**9,335**	**9,615**	**9,851**
NOTE 14: Property, plant and equipment							
By class of asset							
Net carrying value							
Land (valuation)	34,453	34,759	37,032	37,268	37,279	37,417	37,474
Buildings (valuation)	25,784	25,312	26,962	28,397	29,299	29,914	30,353
State highways (valuation)	17,930	18,918	19,300	20,423	21,777	23,056	24,314
Electricity generation assets (valuation)	13,555	14,104	13,403	13,167	12,977	12,874	12,663
Electricity distribution network (cost)	3,865	4,273	4,002	4,137	4,259	4,374	4,478
Specialist military equipment (valuation)	3,094	3,330	2,890	3,151	3,324	3,409	3,374
Specified cultural and heritage assets (valuation)	2,617	2,502	2,812	2,814	2,839	2,861	2,871
Aircraft (excluding military) (valuation)	2,296	2,498	2,281	2,911	3,416	3,625	3,749
Rail network (valuation)	1,035	1,012	1,094	1,332	1,361	1,407	1,440
Other plant and equipment (cost)	5,204	5,919	5,626	5,786	6,054	5,976	5,947
Total property, plant and equipment	**109,833**	**112,627**	**115,402**	**119,386**	**122,585**	**124,913**	**126,663**
By source							
Core Crown	29,507	30,565	30,470	32,077	33,120	33,816	34,159
Crown entities	51,823	52,207	56,238	58,050	59,911	61,446	62,953
State-owned enterprises	28,503	29,855	28,694	29,259	29,554	29,651	29,551
Inter-segment eliminations	-	-	-	-	-	-	-
Total property, plant and equipment	**109,833**	**112,627**	**115,402**	**119,386**	**122,585**	**124,913**	**126,663**
Land breakdown by usage							
Housing	9,580	8,750	11,382	11,210	10,949	10,743	10,530
State highway corridor land	8,003	8,653	8,853	9,003	9,153	9,303	9,453
Conservation land	5,364	5,460	5,418	5,385	5,407	5,417	5,417
Rail network	3,256	3,418	3,252	3,232	3,212	3,202	3,192
Schools	2,887	2,724	2,880	2,875	2,870	2,865	2,860
Commercial (SOEs) excluding Rail	1,374	1,520	1,382	1,382	1,400	1,515	1,560
Other	3,989	4,234	3,865	4,181	4,288	4,372	4,462
Total land	**34,453**	**34,759**	**37,032**	**37,268**	**37,279**	**37,417**	**37,474**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 14 (continued): Property, plant and equipment							
Schedule of movements							
Cost or valuation							
Opening balance	121,717	126,589	122,796	130,531	138,661	146,092	152,521
Additions (refer below for further breakdown)	5,779	7,830	6,020	9,032	8,502	7,275	6,936
Disposals	(1,471)	(598)	(969)	(865)	(1,061)	(858)	(763)
Net revaluations	(2,047)	-	2,973	-	-	-	-
Other[1]	(1,182)	(56)	(289)	(37)	(10)	12	(24)
Total cost or valuation	**122,796**	**133,765**	**130,531**	**138,661**	**146,092**	**152,521**	**158,670**
Accumulated depreciation and impairment							
Opening balance	13,133	17,255	12,963	15,129	19,275	23,507	27,608
Eliminated on disposal	(659)	(42)	(292)	(52)	(52)	(286)	(50)
Eliminated on revaluation	(3,587)	-	(1,373)	-	-	-	-
Impairment losses charged to operating balance	473	-	(202)	-	-	-	-
Depreciation expense	3,697	4,011	4,051	4,203	4,287	4,391	4,486
Other[1]	(94)	(86)	(18)	(5)	(3)	(4)	(37)
Total accumulated depreciation and impairment	**12,963**	**21,138**	**15,129**	**19,275**	**23,507**	**27,608**	**32,007**
Total property, plant and equipment	**109,833**	**112,627**	**115,402**	**119,386**	**122,585**	**124,913**	**126,663**

1. Other mainly includes transfers to/from other asset categories.

Additions – by functional classification							
Transport	2,041	2,579	2,253	3,411	3,285	2,651	2,747
Economic	1,521	1,338	1,139	615	686	802	755
Education	472	862	757	895	959	880	720
Health	578	636	572	803	783	576	800
Defence	201	548	413	654	598	541	439
Other	966	1,867	886	2,654	2,191	1,825	1,475
Total additions to property, plant and equipment[2]	**5,779**	**7,830**	**6,020**	**9,032**	**8,502**	**7,275**	**6,936**

2. These additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Forecast Statement of Financial Position).

NOTE 15: Intangible assets and goodwill							
By type							
Net Kyoto position	53	3	27	33	33	33	33
Goodwill	655	744	650	650	650	650	650
Other intangible assets	2,068	2,090	2,253	2,291	2,327	2,257	2,227
Total intangible assets and goodwill	**2,776**	**2,837**	**2,930**	**2,974**	**3,010**	**2,940**	**2,910**
By source							
Core Crown	1,041	1,175	1,182	1,228	1,242	1,243	1,252
Crown entities	573	534	538	581	597	530	493
State-owned enterprises	1,162	1,128	1,209	1,165	1,171	1,166	1,166
Inter-segment eliminations	-	-	1	-	-	1	(1)
Total intangible assets and goodwill	**2,776**	**2,837**	**2,930**	**2,974**	**3,010**	**2,940**	**2,910**

Net Kyoto position

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases from 2008 to 2012 (the first commitment period of the Kyoto Protocol, or CP1) are reduced to gross 1990 emission levels, or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests.

To assist New Zealand in meeting its Kyoto Protocol commitments, an Emissions Trading Scheme (ETS) was established (refer note 20). These two initiatives should be looked at together when understanding New Zealand's international climate change obligations.

The latest Net Position estimate can be found on the Ministry for the Environment's website:
www.mfe.govt.nz/issues/climate/greenhouse-gas-emissions/net-position

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 16: NZS Fund							
Revenue	595	777	768	701	769	846	928
Less current tax expense	983	478	1,095	601	652	705	761
Less other expenses	165	148	168	164	184	208	234
Add gains/(losses)	4,374	1,358	3,768	1,980	2,130	2,288	2,458
Operating balance	**3,821**	**1,509**	**3,273**	**1,915**	**2,062**	**2,221**	**2,391**
Opening net worth	18,703	21,752	22,549	25,819	27,755	29,846	32,102
Operating balance	3,821	1,509	3,273	1,916	2,063	2,221	2,391
Other movements in reserves	25	22	(3)	20	28	35	45
Closing net worth	**22,549**	**23,283**	**25,819**	**27,755**	**29,846**	**32,102**	**34,538**
Comprising:							
Financial assets	23,419	23,891	26,987	29,035	30,330	32,523	34,897
Financial liabilities	(2,055)	(1,714)	(2,322)	(2,482)	(1,790)	(1,845)	(1,906)
Net other assets	1,185	1,106	1,154	1,202	1,306	1,424	1,547
Closing net worth	**22,549**	**23,283**	**25,819**	**27,755**	**29,846**	**32,102**	**34,538**
NOTE 17: Payables							
By type							
Accounts payable	7,616	8,403	8,026	7,770	6,978	7,240	6,691
Taxes repayable	3,544	3,957	3,598	4,212	4,802	5,361	5,844
Total payables	**11,160**	**12,360**	**11,624**	**11,982**	**11,780**	**12,601**	**12,535**
By source							
Core Crown	7,873	6,860	7,739	8,576	8,577	9,384	9,161
Crown entities	4,996	5,929	5,298	4,882	4,591	4,493	4,549
State-owned enterprises	4,877	5,663	4,898	4,911	4,999	5,091	5,178
Inter-segment eliminations	(6,586)	(6,092)	(6,311)	(6,387)	(6,387)	(6,367)	(6,353)
Total payables	**11,160**	**12,360**	**11,624**	**11,982**	**11,780**	**12,601**	**12,535**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 18: Insurance liabilities							
By entity							
ACC	29,446	31,423	29,948	31,138	32,474	33,998	35,603
EQC	6,869	3,743	4,743	384	189	178	178
Southern Response	1,744	698	1,437	722	232	29	-
Other (incl. inter-segment eliminations)	(347)	38	62	64	65	68	70
Total insurance liabilities	**37,712**	**35,902**	**36,190**	**32,308**	**32,960**	**34,273**	**35,851**

ACC liability

Calculation information

PwC NZ has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2014. 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 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 and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 June 2014. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 5.01% and allows for a long-term discount rate of 5.5% from 2035.

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

Presentation approach

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

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Gross ACC liability							
Opening gross liability	30,648	30,767	29,446	29,948	31,138	32,474	33,998
Net change	(1,202)	656	502	1,190	1,336	1,524	1,605
Closing gross liability	**29,446**	**31,423**	**29,948**	**31,138**	**32,474**	**33,998**	**35,603**
Less net assets available to ACC							
Opening net asset value	23,466	27,486	27,193	29,840	31,759	33,429	35,208
Net change	3,727	2,503	2,647	1,919	1,670	1,779	1,920
Closing net asset value	**27,193**	**29,989**	**29,840**	**31,759**	**33,429**	**35,208**	**37,128**
Net ACC reserves (net liability)							
Opening reserves position	(7,182)	(3,281)	(2,253)	(108)	621	955	1,210
Net change	4,929	1,847	2,145	729	334	255	315
Closing reserves position (net liability)/net asset	**(2,253)**	**(1,434)**	**(108)**	**621**	**955**	**1,210**	**1,525**

Notes to the Forecast Financial Statements

NOTE 18 (continued): Insurance liabilities

EQC liability

Calculation information
Melville Jessup Weaver prepared an independent actuarial estimate of the EQC outstanding claims liability at 30 June 2014 by estimating the projected ultimate claims costs then deducting the payments made in relation to those claims on or before that date. Each component of the claims liability was split into separate groups depending upon the Canterbury earthquake event grouping or other "business as usual" claims. These event groups were further split into sub-claim valuation groups being land claims, building claims or contents claims. The assumptions underpinning the 30 June 2014 valuation form the basis of the five-year forecast of the outstanding claims liability.

Critical assumptions used in projecting the ultimate costs include apportionment of costs across earthquake events, the profile of claims settlement, claims inflation rate per annum, risk margins and claims handling costs.

There is a high level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. Some of the key uncertainties are: cost apportionment across events; the potential for construction cost to exceed expectations; land damage estimates; reinsurance recoveries and profile of claims settlement.

The actual claims outcome may differ from the one currently forecast.

Presentation approach
EQC reinsurance recoveries are included in receivables in the Statement of Financial Position.

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
EQC liability							
Opening gross liability	8,877	7,114	6,869	4,743	384	189	178
Net change	(2,008)	(3,371)	(2,126)	(4,359)	(195)	(11)	-
Closing gross liability	**6,869**	**3,743**	**4,743**	**384**	**189**	**178**	**178**
Less reinsurance receivable							
Opening reinsurance receivable	4,066	2,616	2,623	1,226	50	3	-
Net change	(1,443)	(1,238)	(1,397)	(1,176)	(47)	(3)	-
Closing reinsurance receivable	**2,623**	**1,378**	**1,226**	**50**	**3**	**-**	**-**
Net EQC liability							
Opening net position	(4,811)	(4,498)	(4,246)	(3,517)	(334)	(186)	(178)
Net change	565	2,133	729	3,183	148	8	-
Closing net position (net liability)	**(4,246)**	**(2,365)**	**(3,517)**	**(334)**	**(186)**	**(178)**	**(178)**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 19: Retirement plan liabilities							
Government Superannuation Fund	11,908	11,767	10,886	10,494	10,137	9,773	9,399
Other funds	(5)	(1)	(4)	(1)	(1)	-	-
Total retirement plan liabilities	**11,903**	**11,766**	**10,882**	**10,493**	**10,136**	**9,773**	**9,399**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 June 2014. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 30 June 2014, based on membership data as at 30 June 2014. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date.

For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 June 2014.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 2.1% p.a for the years to 30 June 2023, increasing yearly to reach 2.5% p.a. in 2033 where it remains for all years after that.
In addition an annual salary growth rate, before any promotional effects, of 3% p.a. (unchanged from 30 June 2013).

The 2013/14 projected decrease in the net GSF liability is $1,022 million, reflecting a decrease in the GSF liability of $730 million and an increase in the GSF net assets of $292 million.

The decrease in the GSF liability of $730 million includes an actuarial gain between 1 July 2013 and 30 June 2014, of $366 million, owing to movements in the discount rates ($57 million) and changes in CPI ($377 million). The remaining $364 million reduction is owing to lower than expected benefits paid to members (reduces the liability), offset by current service cost and interest unwind (increases the liability)

The increase in the value of the net assets of GSF of $292 million includes a gain of $212 million reflecting the updated market value of assets at 30 June 2014. The balance of $79 million is the total of the expected investment returns and contributions received, offset by the benefits paid to members.

The changes in the projected net GSF liability from 2013/14 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
GSF liability							
Opening GSF liability	16,557	15,504	15,290	14,560	14,243	13,957	13,662
Net projected change	(1,267)	(395)	(730)	(317)	(286)	(295)	(306)
Closing GSF liability	**15,290**	**15,109**	**14,560**	**14,243**	**13,957**	**13,662**	**13,356**
Less net assets available to GSF							
Opening net asset value	3,018	3,276	3,382	3,674	3,749	3,820	3,889
Investment valuation changes	493	177	395	216	220	224	228
Contribution and other income less pension payments	(129)	(111)	(103)	(141)	(149)	(155)	(160)
Closing net asset value	**3,382**	**3,342**	**3,674**	**3,749**	**3,820**	**3,889**	**3,957**
Net GSF liability							
Opening unfunded liability	13,539	12,228	11,908	10,886	10,494	10,137	9,773
Net projected change	(1,631)	(461)	(1,022)	(392)	(357)	(364)	(374)
Closing unfunded liability	**11,908**	**11,767**	**10,886**	**10,494**	**10,137**	**9,773**	**9,399**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 20: Provisions							
Provision for employee entitlements	3,374	3,233	3,301	3,293	3,300	3,315	3,322
Provision for ETS credits	179	-	510	525	498	474	448
Provision for National Provident Fund guarantee	977	987	885	850	809	762	719
Provision for Canterbury Red Zone support package	222	-	-	-	-	-	-
Provision for infrastructure costs	769	837	394	204	-	-	-
Provision for weathertight services financial assistance package	123	62	94	75	45	15	-
Other provisions	1,494	1,198	1,613	1,583	1,632	1,602	1629
Total provisions	**7,138**	**6,317**	**6,797**	**6,530**	**6,284**	**6,168**	**6,118**
By source							
Core Crown	4,492	3,905	4,154	3,892	3,441	3,157	3,094
Crown entities	1,979	1,907	1,988	2,014	2,029	2,034	2,008
State-owned enterprises	1,151	963	1,114	1,120	1,141	1,137	1,171
Inter-segment eliminations	(484)	(458)	(459)	(496)	(327)	(160)	(155)
Total provisions	**7,138**	**6,317**	**6,797**	**6,530**	**6,284**	**6,168**	**6,118**

Provision for ETS credits

The Emissions Trading Scheme (ETS) was established to assist New Zealand in meeting its international climate change obligations and to reduce New Zealand's net emissions of greenhouse gases to below business-as-usual levels. The ETS creates a limited number of tradable New Zealand Units (NZUs) which the Government can allocate. Emitters can also surrender Kyoto compliant units to meet their obligations.

The allocation of NZUs creates a provision if allocated for free; the provision is reduced, and revenue recognised, as NZUs and Kyoto compliant units are surrendered to the Crown by emitters. The Kyoto compliant units collected through the ETS are recognised as revenue and as part of the net Kyoto Protocol position.

The prices for NZUs and Kyoto compliant units used to calculate the ETS provision are assumed to remain constant over the forecast period and are based on market prices during June 2014.

The ETS impact on the fiscal forecast is as follows:

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Revenue	40	5	23	56	99	97	100
Expenses	(55)	(4)	(48)	(69)	(72)	(73)	(74)
Kyoto compliant units surrender expense	(24)	-	(12)	(2)	-	-	-
Gains/(losses)	235	-	(291)	-	-	-	-
Operating balance	**196**	**1**	**(328)**	**(15)**	**27**	**24**	**26**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 21: Net worth							
Taxpayers' funds	10,862	6,230	13,268	16,409	20,320	25,320	31,584
Property, plant and equipment revaluation reserve	57,068	55,831	61,105	60,966	60,716	60,542	60,376
Investment revaluation reserve	107	84	111	120	131	143	155
Cash flow hedge reserve	58	(142)	(46)	(48)	(43)	(35)	(33)
Foreign currency translation reserve	(49)	(6)	(84)	(80)	(80)	(80)	(80)
Share based payment reserve	25	-	47	-	-	-	-
Net worth attributable to minority interests	1,940	3,185	5,372	5,462	5,504	5,559	5,652
Total net worth	**70,011**	**65,182**	**79,773**	**82,829**	**86,548**	**91,449**	**97,654**
Taxpayers' funds							
Opening taxpayers' funds	3,520	5,601	10,862	13,268	16,409	20,320	25,320
Operating balance excluding minority interest	6,925	358	2,826	2,983	3,638	4,793	6,060
Government share offers in SOEs	167	175	(542)	-	-	-	-
Transfers from/(to) other reserves	250	96	122	158	273	207	204
Closing taxpayers' funds	**10,862**	**6,230**	**13,268**	**16,409**	**20,320**	**25,320**	**31,584**
Property, plant and equipment revaluation reserve							
Opening revaluation reserve	56,001	55,965	57,068	61,105	60,966	60,716	60,542
Net revaluations	1,335	-	4,172	-	-	-	-
Transfers from/(to) other reserves	(268)	(134)	(135)	(139)	(250)	(174)	(166)
Closing property, plant and equipment revaluation reserve	**57,068**	**55,831**	**61,105**	**60,966**	**60,716**	**60,542**	**60,376**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 22: Core Crown residual cash							
Core Crown cash flows from operations							
Tax receipts	57,808	62,056	61,321	65,972	69,698	73,265	76,730
Other sovereign receipts	651	644	732	766	783	791	803
Interest, profits and dividends	1,553	1,660	1,548	1,663	1,776	2,145	2,343
Sale of goods and services and other receipts	2,385	2,641	2,445	2,447	2,115	2,441	2,121
Transfer payments and subsidies	(22,780)	(23,877)	(23,607)	(24,014)	(24,527)	(25,310)	(26,380)
Personnel and operating costs	(40,412)	(42,800)	(41,861)	(42,476)	(42,433)	(41,986)	(43,045)
Finance costs	(3,729)	(3,680)	(3,590)	(3,888)	(3,772)	(4,088)	(4,136)
Forecast for future new operating spending	-	(461)	-	(191)	(1,834)	(3,340)	(4,864)
Top-down expense adjustment	-	600	-	875	485	360	360
Net core Crown operating cash flows	**(4,524)**	**(3,217)**	**(3,012)**	**1,154**	**2,291**	**4,278**	**3,932**
Core Crown capital cash flows							
Net purchase of physical assets	(1,231)	(2,560)	(1,906)	(2,893)	(2,497)	(2,237)	(1,851)
Net increase in advances	(342)	(990)	(715)	(1,568)	(627)	(424)	(303)
Net purchase of investments	(1,308)	(1,166)	(873)	(2,141)	(1,685)	(1,450)	(1,314)
Government share offer programme	1,663	1,500	2,315	628	-	-	-
Forecast for future new capital spending	-	(503)	-	(146)	(413)	(653)	(836)
Top-down capital adjustment	-	50	-	370	75	50	50
Net core Crown capital cash flows	**(1,218)**	**(3,669)**	**(1,179)**	**(5,750)**	**(5,147)**	**(4,714)**	**(4,254)**
Residual cash (deficit)/surplus	**(5,742)**	**(6,886)**	**(4,191)**	**(4,596)**	**(2,856)**	**(436)**	**(322)**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt programme cash flows							
Market:							
Issue of government bonds	15,458	10,245	7,716	8,135	6,964	6,865	6,851
Repayment of government bonds	(9,982)	-	(2,196)	(8,661)	(1,812)	-	(11,312)
Net issue/(repayment) of short-term borrowing[1]	(5,404)	90	(935)	1,180	(200)	-	-
Total market debt cash flows	72	10,335	4,585	654	4,952	6,865	(4,461)
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	(499)	(757)	-	(1,433)	-	-	-
Net issue/(repayment) of short-term borrowing	100	(219)	-	(500)	(80)	-	-
Total non-market debt cash flows	(399)	(976)	-	(1,933)	(80)	-	-
Total debt programme cash flows	**(327)**	**9,359**	**4,585**	**(1,279)**	**4,872**	**6,865**	**(4,461)**
Other borrowing cash flows							
Net (repayment)/issue of other New Zealand dollar borrowing	4,494	724	(660)	1,373	720	43	708
Net (repayment)/issue of foreign currency borrowing	(3,047)	(512)	1,083	(1,174)	(573)	(14)	(569)
Total other borrowing cash flows	**1,447**	**212**	**423**	**199**	**147**	**29**	**139**
Investing cash flows							
Net sale/(purchase) of marketable securities and deposits	5,699	(2,826)	(2,045)	4,622	(2,342)	(6,671)	4,436
Issues of circulating currency	234	141	274	152	157	161	166
Decrease/(increase) in cash	(1,311)	-	954	902	22	52	42
Total investing cash flows	**4,622**	**(2,685)**	**(817)**	**5,676**	**(2,163)**	**(6,458)**	**4,644**
Residual cash deficit/(surplus) funding or investing	**5,742**	**6,886**	**4,191**	**4,596**	**2,856**	**436**	**322**

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

Forecast Statement of Segments

	Core Crown 2013 Actual $m	Crown entities 2013 Actual $m	State-Owned Enterprises 2013 Actual $m	Inter-segment eliminations 2013 Actual $m	Total Crown 2013 Actual $m
Statement of Financial Performance for the year ended 30 June 2013					
Revenue					
Taxation revenue	58,651	-	-	(517)	58,134
Other sovereign revenue	1,133	5,295	-	(1,256)	5,172
Revenue from core Crown funding	-	24,096	268	(24,364)	-
Sales of goods and services	1,461	1,856	14,002	(606)	16,713
Interest revenue and dividends	2,104	1,270	856	(1,291)	2,939
Other revenue	800	2,547	810	(460)	3,697
Total revenue (excluding gains)	**64,149**	**35,064**	**15,936**	**(28,494)**	**86,655**
Expenses					
Social assistance and official development assistance	22,709	-	-	(1)	22,708
Personnel expenses	6,037	10,966	2,949	(17)	19,935
Other operating expenses	37,943	18,648	11,540	(27,156)	40,975
Interest expenses	3,620	235	1,248	(745)	4,358
Insurance expenses	1	3,011	15	4	3,031
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	**70,310**	**32,860**	**15,752**	**(27,915)**	**91,007**
Minority interest share of operating balance before gains/losses	-	10	(75)	3	(62)
Operating balance before gains/(losses)	**(6,161)**	**2,214**	**109**	**(576)**	**(4,414)**
Total gains/(losses)	6,379	3,501	422	642	10,944
Net surplus/(deficit) from associates and joint ventures	153	162	83	(3)	395
Operating balance	**371**	**5,877**	**614**	**63**	**6,925**
Expenses by functional classification					
Social security and welfare	*22,741*	*4,151*	-	*(624)*	*26,268*
Health	*14,498*	*12,236*	-	*(12,878)*	*13,856*
Education	*12,504*	*9,594*	*19*	*(8,751)*	*13,366*
Transport and communications	*2,255*	*2,250*	*6,891*	*(2,344)*	*9,052*
Other	*14,692*	*4,394*	*7,594*	*(2,573)*	*24,107*
Finance costs	*3,620*	*235*	*1,248*	*(745)*	*4,358*
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total Crown expenses (excluding losses)	***70,310***	***32,860***	***15,752***	***(27,915)***	***91,007***
Statement of Financial Position as at 30 June 2013					
Assets					
Cash and cash equivalents	11,047	2,933	1,594	(650)	14,924
Receivables	11,924	8,369	2,037	(2,447)	19,883
Other financial assets	52,140	29,995	16,427	(14,590)	83,972
Property, plant and equipment	29,507	51,823	28,503	-	109,833
Equity accounted investments	32,611	8,151	187	(31,356)	9,593
Intangible assets and goodwill	1,041	573	1,162	-	2,776
Inventory and other assets	1,605	560	1,301	(31)	3,435
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
Total assets	**139,875**	**102,404**	**51,211**	**(49,074)**	**244,416**
Liabilities					
Borrowings	84,870	5,251	24,839	(14,873)	100,087
Other liabilities	29,392	45,261	7,226	(7,561)	74,318
Total liabilities	**114,262**	**50,512**	**32,065**	**(22,434)**	**174,405**
Total assets less total liabilities	**25,613**	**51,892**	**19,146**	**(26,640)**	**70,011**
Net worth					
Taxpayers' funds	8,274	24,213	8,382	(30,007)	10,862
Reserves	15,840	27,638	10,192	3,539	57,209
Net worth attributable to minority interest	1,499	41	572	(172)	1,940
Total net worth	**25,613**	**51,892**	**19,146**	**(26,640)**	**70,011**

Forecast Statement of Segments (continued)

	Core Crown 2014 Forecast $m	Crown entities 2014 Forecast $m	State-Owned Enterprises 2014 Forecast $m	Inter-segment eliminations 2014 Forecast $m	Total Crown 2014 Forecast $m
Statement of Financial Performance for the year ended 30 June 2014					
Revenue					
Taxation revenue	61,516	-	-	(515)	61,001
Other sovereign revenue	1,166	5,379	-	(1,104)	5,441
Revenue from core Crown funding	-	24,812	207	(25,019)	-
Sales of goods and services	1,533	1,904	13,604	(473)	16,568
Interest revenue and dividends	2,286	1,176	897	(1,185)	3,174
Other revenue	828	2,107	778	(325)	3,388
Total revenue (excluding gains)	**67,329**	**35,378**	**15,486**	**(28,621)**	**89,572**
Expenses					
Social assistance and official development assistance	23,360	-	-	-	23,360
Personnel expenses	6,227	11,302	2,946	(7)	20,468
Other operating expenses	38,119	18,955	10,641	(27,376)	40,339
Interest expenses	3,589	224	1,167	(593)	4,387
Insurance expenses	(4)	3,459	8	3	3,466
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	**71,291**	**33,940**	**14,762**	**(27,973)**	**92,020**
Minority interest share of operating balance before gains/losses	-	16	(163)	-	(147)
Operating balance before gains/(losses)	**(3,962)**	**1,454**	**561**	**(648)**	**(2,595)**
Total gains/(losses)	4,207	1,132	(50)	(139)	5,150
Net surplus/(deficit) from associates and joint ventures	97	161	5	8	271
Operating balance	**342**	**2,747**	**516**	**(779)**	**2,826**
Expenses by functional classification					
Social security and welfare	*23,250*	*4,591*	*-*	*(538)*	*27,303*
Health	*14,911*	*12,693*	*-*	*(13,200)*	*14,404*
Education	*12,300*	*9,592*	*9*	*(8,831)*	*13,070*
Transport and communications	*2,235*	*2,371*	*6,862*	*(2,308)*	*9,160*
Other	*15,006*	*4,469*	*6,724*	*(2,503)*	*23,696*
Finance costs	*3,589*	*224*	*1,167*	*(593)*	*4,387*
Forecast for future new spending and top-down adjustment	*-*	*-*	*-*	*-*	*-*
Total Crown expenses (excluding	***71,291***	***33,940***	***14,762***	***(27,973)***	***92,020***
Statement of Financial Position as at 30 June 2014					
Assets					
Cash and cash equivalents	8,226	3,228	1,506	(657)	12,303
Receivables	11,785	6,364	1,706	(2,081)	17,774
Other financial assets	60,036	31,911	18,086	(16,676)	93,357
Property, plant and equipment	30,470	56,238	28,694	-	115,402
Equity accounted investments	32,528	8,479	200	(31,403)	9,804
Intangible assets and goodwill	1,182	538	1,209	1	2,930
Inventory and other assets	1,950	598	1,230	(38)	3,740
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
Total assets	**146,177**	**107,356**	**52,631**	**(50,854)**	**255,310**
Liabilities					
Borrowings	89,072	5,134	26,218	(17,300)	103,124
Other liabilities	28,333	43,650	7,218	(6,788)	72,413
Total liabilities	**117,405**	**48,784**	**33,436**	**(24,088)**	**175,537**
Total assets less total liabilities	**28,772**	**58,572**	**19,195**	**(26,766)**	**79,773**
Net worth					
Taxpayers' funds	12,075	27,687	3,467	(29,961)	13,268
Reserves	16,697	30,819	10,134	3,483	61,133
Net worth attributable to minority interest	-	66	5,594	(288)	5,372
Total net worth	**28,772**	**58,572**	**19,195**	**(26,766)**	**79,773**

Forecast Statement of Segments (continued)

	Core Crown 2015 Forecast $m	Crown entities 2015 Forecast $m	State-Owned Enterprises 2015 Forecast $m	Inter-segment eliminations 2015 Forecast $m	Total Crown 2015 Forecast $m
Statement of Financial Performance for the year ended 30 June 2015					
Revenue					
Taxation revenue	66,157	-	-	(619)	65,538
Other sovereign revenue	1,293	4,911	-	(1,038)	5,166
Revenue from core Crown funding	-	25,016	123	(25,139)	-
Sales of goods and services	1,439	1,969	14,011	(572)	16,847
Interest revenue and dividends	2,462	1,370	1,048	(1,163)	3,717
Other revenue	862	2,465	986	(530)	3,783
Total revenue (excluding gains)	**72,213**	**35,731**	**16,168**	**(29,061)**	**95,051**
Expenses					
Social assistance and official development assistance	23,889	-	-	-	23,889
Personnel expenses	6,341	11,603	2,878	(10)	20,812
Other operating expenses	39,444	19,467	11,035	(27,830)	42,116
Interest expenses	3,836	237	1,346	(712)	4,707
Insurance expenses	1	3,558	8	-	3,567
Forecast for future new spending and top-down adjustment	(684)	-	-	-	(684)
Total expenses (excluding losses)	**72,827**	**34,865**	**15,267**	**(28,552)**	**94,407**
Minority interest share of operating balance before gains/losses	-	17	(364)	-	(347)
Operating balance before gains/(losses)	**(614)**	**883**	**537**	**(509)**	**297**
Total gains/(losses)	2,447	178	6	(200)	2,431
Net surplus/(deficit) from associates and joint ventures	79	167	7	2	255
Operating balance	**1,912**	**1,228**	**550**	**(707)**	**2,983**
Expenses by functional classification					
Social security and welfare	*23,966*	*4,777*	*-*	*(527)*	*28,216*
Health	*15,065*	*12,781*	*-*	*(13,105)*	*14,741*
Education	*12,825*	*9,903*	*9*	*(9,168)*	*13,569*
Transport and communications	*2,220*	*2,443*	*7,060*	*(2,314)*	*9,409*
Other	*15,599*	*4,724*	*6,852*	*(2,726)*	*24,449*
Finance costs	*3,836*	*237*	*1,346*	*(712)*	*4,707*
Forecast for future new spending and top-down adjustment	*(684)*	*-*	*-*	*-*	*(684)*
Total Crown expenses (excluding losses)	***72,827***	***34,865***	***15,267***	***(28,552)***	***94,407***
Statement of Financial Position as at 30 June 2015					
Assets					
Cash and cash equivalents	7,541	2,068	1,448	(594)	10,463
Receivables	12,069	5,405	1,794	(2,251)	17,017
Other financial assets	57,613	31,396	19,843	(15,995)	92,857
Property, plant and equipment	32,077	58,050	29,259	-	119,386
Equity accounted investments	34,646	8,771	232	(33,525)	10,124
Intangible assets and goodwill	1,228	581	1,165	-	2,974
Inventory and other assets	1,732	644	1,387	(35)	3,728
Forecast for new capital spending and top-down adjustment	(224)	-	-	-	(224)
Total assets	**146,682**	**106,915**	**55,128**	**(52,400)**	**256,325**
Liabilities					
Borrowings	87,382	5,899	28,503	(16,657)	105,127
Other liabilities	28,607	39,377	7,286	(6,901)	68,369
Total liabilities	**115,989**	**45,276**	**35,789**	**(23,558)**	**173,496**
Total assets less total liabilities	**30,693**	**61,639**	**19,339**	**(28,842)**	**82,829**
Net worth					
Taxpayers' funds	14,024	30,887	3,536	(32,038)	16,409
Reserves	16,669	30,671	10,134	3,484	60,958
Net worth attributable to minority interest	-	81	5,669	(288)	5,462
Total net worth	**30,693**	**61,639**	**19,339**	**(28,842)**	**82,829**

Forecast Statement of Segments (continued)

	Core Crown 2016 Forecast $m	Crown entities 2016 Forecast $m	State-Owned Enterprises 2016 Forecast $m	Inter-segment eliminations 2016 Forecast $m	Total Crown 2016 Forecast $m
Statement of Financial Performance for the year ended 30 June 2016					
Revenue					
Taxation revenue	70,174	-	-	(682)	69,492
Other sovereign revenue	1,344	4,798	-	(1,158)	4,984
Revenue from core Crown funding	-	25,256	111	(25,367)	-
Sales of goods and services	1,406	2,036	14,404	(555)	17,291
Interest revenue and dividends	2,683	1,414	1,267	(1,274)	4,090
Other revenue	867	2,594	1,030	(616)	3,875
Total revenue (excluding gains)	**76,474**	**36,098**	**16,812**	**(29,652)**	**99,732**
Expenses					
Social assistance and official development assistance	24,516	-	-	-	24,516
Personnel expenses	6,431	11,815	2,896	(11)	21,131
Other operating expenses	39,620	19,713	11,308	(28,318)	42,323
Interest expenses	4,000	236	1,533	(658)	5,111
Insurance expenses	(2)	4,090	8	3	4,099
Forecast for future new spending and top-down adjustment	1,349	-	-	-	1,349
Total expenses (excluding losses)	**75,914**	**35,854**	**15,745**	**(28,984)**	**98,529**
Minority interest share of operating balance before gains/losses	-	14	(399)	-	(385)
Operating balance before gains/(losses)	**560**	**258**	**668**	**(668)**	**818**
Total gains/(losses)	2,516	240	18	(209)	2,565
Net surplus/(deficit) from associates and joint ventures	76	166	7	6	255
Operating balance	**3,152**	**664**	**693**	**(871)**	**3,638**
Expenses by functional classification					
Social security and welfare	*24,415*	*5,189*	-	*(539)*	*29,065*
Health	*15,132*	*12,798*	-	*(13,262)*	*14,668*
Education	*12,946*	*10,072*	*9*	*(9,280)*	*13,747*
Transport and communications	*2,161*	*2,520*	*7,201*	*(2,396)*	*9,486*
Other	*15,911*	*5,039*	*7,002*	*(2,849)*	*25,103*
Finance costs	*4,000*	*236*	*1,533*	*(658)*	*5,111*
Forecast for future new spending and top-down adjustment	*1,349*	-	-	-	*1,349*
Total Crown expenses (excluding losses)	***75,914***	***35,854***	***15,745***	***(28,984)***	***98,529***
Statement of Financial Position as at 30 June 2016					
Assets					
Cash and cash equivalents	7,474	2,011	1,400	(536)	10,349
Receivables	12,384	4,842	1,945	(2,109)	17,062
Other financial assets	61,696	32,779	21,396	(16,760)	99,111
Property, plant and equipment	33,120	59,911	29,554	-	122,585
Equity accounted investments	36,145	8,964	219	(34,915)	10,413
Intangible assets and goodwill	1,242	597	1,171	-	3,010
Inventory and other assets	1,797	608	1,411	(35)	3,781
Forecast for new capital spending and top-down adjustment	114	-	-	-	114
Total assets	**153,972**	**109,712**	**57,096**	**(54,355)**	**266,425**
Liabilities					
Borrowings	92,216	6,350	30,328	(17,373)	111,521
Other liabilities	27,892	39,753	7,442	(6,731)	68,356
Total liabilities	**120,108**	**46,103**	**37,770**	**(24,104)**	**179,877**
Total assets less total liabilities	**33,864**	**63,609**	**19,326**	**(30,251)**	**86,548**
Net worth					
Taxpayers' funds	17,165	33,106	3,497	(33,448)	20,320
Reserves	16,699	30,403	10,137	3,485	60,724
Net worth attributable to minority interest	-	100	5,692	(288)	5,504
Total net worth	**33,864**	**63,609**	**19,326**	**(30,251)**	**86,548**

Forecast Statement of Segments (continued)

	Core Crown 2017 Forecast $m	Crown entities 2017 Forecast $m	State-Owned Enterprises 2017 Forecast $m	Inter-segment eliminations 2017 Forecast $m	Total Crown 2017 Forecast $m
Statement of Financial Performance for the year ended 30 June 2017					
Revenue					
Taxation revenue	73,616	-	-	(734)	72,882
Other sovereign revenue	1,143	4,868	-	(1,263)	4,748
Revenue from core Crown funding	-	25,342	110	(25,452)	-
Sales of goods and services	1,403	2,117	14,830	(560)	17,790
Interest revenue and dividends	3,192	1,478	1,481	(1,336)	4,815
Other revenue	933	2,550	1,070	(531)	4,022
Total revenue (excluding gains)	**80,287**	**36,355**	**17,491**	**(29,876)**	**104,257**
Expenses					
Social assistance and official development assistance	25,348	-	-	-	25,348
Personnel expenses	6,437	11,957	2,955	(11)	21,338
Other operating expenses	39,434	19,633	11,661	(28,501)	42,227
Interest expenses	4,383	245	1,708	(694)	5,642
Insurance expenses	1	4,433	8	1	4,443
Forecast for future new spending and top-down adjustment	2,980	-	-	-	2,980
Total expenses (excluding losses)	**78,583**	**36,268**	**16,332**	**(29,205)**	**101,978**
Minority interest share of operating balance before gains/losses	-	6	(434)	-	(428)
Operating balance before gains/(losses)	**1,704**	**93**	**725**	**(671)**	**1,851**
Total gains/(losses)	2,609	291	11	(225)	2,686
Net surplus/(deficit) from associates and joint ventures	81	168	7	-	256
Operating balance	**4,394**	**552**	**743**	**(896)**	**4,793**
Expenses by functional classification					
Social security and welfare	*25,201*	*5,448*	-	*(551)*	*30,098*
Health	*15,191*	*12,774*	-	*(13,349)*	*14,616*
Education	*13,008*	*10,082*	*9*	*(9,293)*	*13,806*
Transport and communications	*2,224*	*2,525*	*7,430*	*(2,488)*	*9,691*
Other	*15,596*	*5,194*	*7,185*	*(2,830)*	*25,145*
Finance costs	*4,383*	*245*	*1,708*	*(694)*	*5,642*
Forecast for future new spending and top-down adjustment	*2,980*	-	-	-	*2,980*
Total Crown expenses (excluding losses)	***78,583***	***36,268***	***16,332***	***(29,205)***	***101,978***
Statement of Financial Position as at 30 June 2017					
Assets					
Cash and cash equivalents	7,961	1,957	1,520	(461)	10,977
Receivables	12,476	4,739	2,028	(1,621)	17,622
Other financial assets	70,133	34,609	23,044	(17,822)	109,964
Property, plant and equipment	33,816	61,446	29,651	-	124,913
Equity accounted investments	37,494	9,134	198	(36,256)	10,570
Intangible assets and goodwill	1,243	530	1,166	1	2,940
Inventory and other assets	1,771	613	1,414	(35)	3,763
Forecast for new capital spending and top-down adjustment	717	-	-	-	717
Total assets	**165,611**	**113,028**	**59,021**	**(56,194)**	**281,466**
Liabilities					
Borrowings	99,179	6,637	32,085	(18,031)	119,870
Other liabilities	28,147	40,973	7,571	(6,544)	70,147
Total liabilities	**127,326**	**47,610**	**39,656**	**(24,575)**	**190,017**
Total assets less total liabilities	**38,285**	**65,418**	**19,365**	**(31,619)**	**91,449**
Net worth					
Taxpayers' funds	21,548	35,099	3,490	(34,817)	25,320
Reserves	16,737	30,205	10,142	3,486	60,570
Net worth attributable to minority interest	-	114	5,733	(288)	5,559
Total net worth	**38,285**	**65,418**	**19,365**	**(31,619)**	**91,449**

Forecast Statement of Segments (continued)

	Core Crown 2018 Forecast $m	Crown entities 2018 Forecast $m	State-Owned Enterprises 2018 Forecast $m	Inter-segment eliminations 2018 Forecast $m	Total Crown 2018 Forecast $m
Statement of Financial Performance for the year ended 30 June 2018					
Revenue					
Taxation revenue	77,111	-	-	(787)	76,324
Other sovereign revenue	1,201	5,049	-	(1,360)	4,890
Revenue from core Crown funding	-	25,500	110	(25,610)	-
Sales of goods and services	1,430	2,197	15,425	(570)	18,482
Interest revenue and dividends	3,508	1,556	1,613	(1,420)	5,257
Other revenue	918	2,412	1,118	(364)	4,084
Total revenue (excluding gains)	**84,168**	**36,714**	**18,266**	**(30,111)**	**109,037**
Expenses					
Social assistance and official development assistance	26,406	-	-	-	26,406
Personnel expenses	6,454	12,104	3,039	(11)	21,586
Other operating expenses	39,611	19,502	12,172	(28,657)	42,628
Interest expenses	4,473	250	1,793	(751)	5,765
Insurance expenses	4	4,703	9	(3)	4,713
Forecast for future new spending and top-down adjustment	4,504	-	-	-	4,504
Total expenses (excluding losses)	**81,452**	**36,559**	**17,013**	**(29,422)**	**105,602**
Minority interest share of operating balance before gains/losses	-	(3)	(468)	-	(471)
Operating balance before gains/(losses)	**2,716**	**152**	**785**	**(689)**	**2,964**
Total gains/(losses)	2,714	349	11	(234)	2,840
Net surplus/(deficit) from associates and joint ventures	82	169	8	(3)	256
Operating balance	**5,512**	**670**	**804**	**(926)**	**6,060**
Expenses by functional classification					
Social security and welfare	*26,220*	*5,691*	-	*(563)*	*31,348*
Health	*15,274*	*12,825*	-	*(13,501)*	*14,598*
Education	*13,081*	*10,103*	*9*	*(9,312)*	*13,881*
Transport and communications	*2,293*	*2,551*	*7,746*	*(2,588)*	*10,002*
Other	*15,607*	*5,139*	*7,465*	*(2,707)*	*25,504*
Finance costs	*4,473*	*250*	*1,793*	*(751)*	*5,765*
Forecast for future new spending and top-down adjustment	*4,504*	-	-	-	*4,504*
Total Crown expenses (excluding losses)	***81,452***	***36,559***	***17,013***	***(29,422)***	***105,602***
Statement of Financial Position as at 30 June 2018					
Assets					
Cash and cash equivalents	8,500	1,936	1,811	(461)	11,786
Receivables	12,894	4,724	1,944	(1,611)	17,951
Other financial assets	67,403	36,707	24,713	(18,562)	110,261
Property, plant and equipment	34,159	62,953	29,551	-	126,663
Equity accounted investments	38,813	9,303	216	(37,565)	10,767
Intangible assets and goodwill	1,252	493	1,166	(1)	2,910
Inventory and other assets	1,730	614	1,378	(35)	3,687
Forecast for new capital spending and top-down adjustment	1,503	-	-	-	1,503
Total assets	**166,254**	**116,730**	**60,779**	**(58,235)**	**285,528**
Liabilities					
Borrowings	94,805	6,826	33,573	(18,759)	116,445
Other liabilities	27,617	42,582	7,755	(6,525)	71,429
Total liabilities	**122,422**	**49,408**	**41,328**	**(25,284)**	**187,874**
Total assets less total liabilities	**43,832**	**67,322**	**19,451**	**(32,951)**	**97,654**
Net worth					
Taxpayers' funds	27,048	37,162	3,522	(36,148)	31,584
Reserves	16,784	30,008	10,141	3,485	60,418
Net worth attributable to minority interest	-	152	5,788	(288)	5,652
Total net worth	**43,832**	**67,322**	**19,451**	**(32,951)**	**97,654**

6

Core Crown Expense Tables

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Social security and welfare	19,382	21,185	22,005	22,028	22,741	23,250	23,966	24,415	25,201	26,220
GSF pension expenses	655	328	305	192	278	277	359	404	409	409
Health	12,368	13,128	13,753	14,160	14,498	14,911	15,065	15,132	15,191	15,274
Education	11,455	11,724	11,650	11,654	12,504	12,300	12,825	12,946	13,008	13,081
Core government services	5,293	2,974	5,563	5,428	4,294	4,406	4,849	4,909	4,799	4,792
Law and order	3,089	3,191	3,382	3,403	3,456	3,499	3,568	3,529	3,502	3,502
Defence	1,757	1,814	1,809	1,736	1,804	1,824	1,929	2,023	1,993	1,976
Transport and communications	2,663	2,345	2,281	2,232	2,255	2,235	2,220	2,161	2,224	2,293
Economic and industrial services	2,960	2,806	2,542	2,073	1,978	2,068	2,215	2,241	2,246	2,299
Primary services	534	507	706	648	659	675	700	638	605	603
Heritage, culture and recreation	586	630	741	863	804	841	770	778	753	744
Housing and community development	297	339	943	(46)	283	355	331	284	228	220
Environmental protection	416	651	1,225	769	530	535	528	530	510	513
Other	118	80	479	425	603	526	350	575	551	549
Finance costs	2,429	2,311	3,066	3,511	3,619	3,589	3,835	4,000	4,383	4,473
Forecast for future new spending	..	..	..	..	..	..	191	1,834	3,340	4,864
Top-down expense adjustment	..	..	..	..	..	..	(875)	(485)	(360)	(360)
Core Crown expenses	**64,002**	**64,013**	**70,450**	**69,076**	**70,306**	**71,291**	**72,826**	**75,914**	**78,583**	**81,452**

Source: The Treasury

Table 6.1 – Social security and welfare expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Welfare benefits (see below)	17,366	18,961	19,781	20,375	20,789	21,187	21,748	22,412	23,188	24,183
Social rehabilitation and compensation	336	331	119	81	107	173	142	151	157	163
Departmental expenses	1,092	1,130	1,127	1,122	1,168	1,204	1,313	1,266	1,263	1,262
Child support impairment	205	371	281	72	282	255	321	161	171	193
Other non-departmental expenses[1]	383	392	697	378	395	431	442	425	422	419
Social security and welfare expenses	**19,382**	**21,185**	**22,005**	**22,028**	**22,741**	**23,250**	**23,966**	**24,415**	**25,201**	**26,220**

1. Other non-departmental expenses and other expenses include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.2 – Welfare benefit expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
New Zealand Superannuation	7,744	8,290	8,830	9,584	10,235	10,913	11,610	12,254	12,906	13,644
Jobseeker Support (and Emergency) Benefit[1]	..	..	..	..	..	1,691	1,689	1,612	1,597	1,638
Supported living payment[1]	..	..	..	..	..	1,422	1,510	1,529	1,555	1,589
Sole parent support[1]	..	..	..	..	..	1,222	1,217	1,220	1,226	1,235
Domestic Purposes Benefit[1]	1,530	1,693	1,757	1,811	1,738	63	..	..	..	..
Invalid's Benefit[1]	1,260	1,303	1,306	1,325	1,330	52	..	..	..	..
Sickness Benefit[1]	613	710	743	775	782	29	..	..	..	..
Unemployment Benefit[1]	586	930	943	883	812	29	..	..	..	..
Family Tax Credit	2,053	2,159	2,130	2,071	2,018	1,965	1,915	1,890	1,907	2,036
Other working for families tax credits	620	629	616	599	575	567	534	535	533	528
Accommodation Assistance	989	1,154	1,197	1,195	1,177	1,146	1,134	1,130	1,133	1,151
Income-Related Rents	512	522	553	580	611	660	718	775	825	879
Disability Assistance	390	411	409	401	384	379	373	374	375	378
Benefits paid in Australia	50	45	40	37	22	19	15	12	34	..
Paid Parental Leave	143	154	154	158	165	165	178	223	244	254
Childcare Assistance	159	178	188	188	186	186	183	184	186	188
War Disablement Pensions	125	137	135	128	123	119	119	120	115	110
Veteran's Pension	176	179	178	177	171	165	156	152	147	143
Other benefits	416	467	602	463	460	395	397	405	405	410
Benefit expenses	**17,366**	**18,961**	**19,781**	**20,375**	**20,789**	**21,187**	**21,748**	**22,415**	**23,188**	**24,183**

Source: The Treasury

(Thousands)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
New Zealand Superannuation	522	540	561	585	612	640	667	691	715	738
Jobseeker Support (and Emergency) Benefit[1]	..	..	..	..	..	138	130	122	118	119
Supported living payment[1]	..	..	..	..	..	96	97	97	97	97
Sole parent support[1]	..	..	..	..	..	78	74	73	72	71
Domestic Purposes Benefit[1]	101	110	114	114	109	..	..	..	..	..
Invalid's Benefit[1]	86	88	88	87	87	..	..	..	..	..
Sickness Benefit[1]	50	58	60	60	60	..	..	..	..	..
Unemployment Benefit[1]	48	78	80	73	67	..	..	..	..	..
Accommodation Supplement	267	312	320	311	305	297	292	287	286	288

1. From July 2013, changes to the benefit system and existing benefit categories took place. Three new categories of benefit; Supported living payment, Sole parent support and Jobseeker support; have replaced the following existing categories: Domestic Purposes Benefit, Invalid's Benefit, Unemployment Benefit, Sickness Benefit and Widow's Benefit. Due to the changes, there is no historical data for the new benefit categories and no forecast data for the previous categories beyond July 2013.

Source: Ministry of Social Development

Table 6.3 – Health expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental outputs	206	211	199	186	171	183	183	188	189	189
Health services purchasing (see below)	11,354	12,077	12,530	13,018	13,348	13,648	14,024	13,999	13,971	13,930
Other non-departmental outputs	98	106	120	119	234	322	217	201	214	266
Health payments to ACC	667	691	849	744	715	694	598	700	773	847
Other expenses	43	43	55	93	30	64	43	44	44	42
Health expenses	**12,368**	**13,128**	**13,753**	**14,160**	**14,498**	**14,911**	**15,065**	**15,132**	**15,191**	**15,274**

Source: The Treasury

Table 6.4 – Health services purchasing

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Payments to District Health Boards	10,038	10,670	11,133	11,542	11,946	12,165	12,476	12,490	12,491	12,464
National disability support services	889	930	971	1,029	1,028	1,087	1,118	1,112	1,109	1,101
Public health services purchasing	427	477	426	447	374	396	430	397	371	365
Health services purchasing	**11,354**	**12,077**	**12,530**	**13,018**	**13,348**	**13,648**	**14,024**	**13,999**	**13,971**	**13,930**

Source: The Treasury

Table 6.5 – Education expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Early childhood education	1,030	1,184	1,340	1,355	1,436	1,545	1,604	1,650	1,680	1,716
Primary and secondary schools (see below)	4,936	5,157	5,354	5,443	5,590	5,551	5,824	5,924	5,923	5,933
Tertiary funding (see below)	4,564	4,465	3,991	3,795	4,370	4,026	4,244	4,254	4,293	4,311
Departmental expenses	888	898	923	988	1,039	1,105	1,073	1,044	1,048	1,053
Other education expenses	37	20	42	73	69	73	80	74	64	68
Education expenses	**11,455**	**11,724**	**11,650**	**11,654**	**12,504**	**12,300**	**12,825**	**12,946**	**13,008**	**13,081**

Source: The Treasury

Places	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Early childhood education[1]	142,135	152,877	159,997	166,434	174,782	182,481	187,212	192,038	195,243	199,319

1. Full-time equivalent based on 1,000 funded child hours per calendar year. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers.

Source: Ministry of Education

Table 6.6 – Primary and secondary schools

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Primary	2,484	2,622	2,731	2,771	2,845	2,813	2,961	3,028	3,033	3,041
Secondary	1,898	1,972	2,051	2,085	2,148	2,146	2,236	2,262	2,254	2,252
School transport	152	160	163	172	175	177	183	189	195	202
Special needs support	290	297	310	323	332	322	335	338	339	339
Professional development	101	95	90	85	84	87	103	101	96	93
Schooling improvement	11	11	9	7	6	6	6	6	6	6
Primary and secondary education expenses	**4,936**	**5,157**	**5,354**	**5,443**	**5,590**	**5,551**	**5,824**	**5,924**	**5,923**	**5,933**

Source: The Treasury

Places	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Primary[1]	474,630	473,431	474,149	474,821	477,716	480,634	487,107	492,031	494,939	497,422
Secondary[1]	280,062	281,095	281,999	279,554	278,136	277,895	275,815	273,295	272,900	271,133

1. These are snapshots based as at 1 July for primary year levels (years 1 to 8, with no year one student adjustment included) and 1 March for secondary year levels (years 9 to 13). These numbers include special school rolls but exclude health camps, hospital schools and home schooling.

Source: Ministry of Education

Table 6.7 – Tertiary funding

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Tuition	2,287	2,398	2,354	2,306	2,322	2,383	2,469	2,467	2,471	2,471
Other tertiary funding	522	489	429	430	432	462	485	492	498	498
Student allowances	444	570	620	644	596	539	531	534	540	546
Student loans	1,311	1,008	588	415	1,020	642	759	761	784	796
Tertiary education expenses	**4,564**	**4,465**	**3,991**	**3,795**	**4,370**	**4,026**	**4,244**	**4,254**	**4,293**	**4,311**

Source: The Treasury

Places	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Actual delivered and estimated funded places[1]	246,041	250,440	240,529	245,784	240,472	242,517	239,714	240,171	238,778	238,426

1. Tertiary places are the number of equivalent full time (EFT) students in: student achievement component; adult and community education; and youth guarar programmes. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. Place numbers are based on calendar years rather than fiscal years.

Source: Ministry of Education

Table 6.8 – Core government service expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Official development assistance	458	435	495	510	437	533	533	542	573	586
Indemnity and guarantee expenses	992	7	319	59	27	31	25	28	32	32
Departmental expenses	1,668	1,324	1,492	1,518	1,576	1,636	1,728	1,677	1,636	1,650
Non-departmental expenses[1]	117	236	471	524	330	613	629	645	875	876
Tax receivable write-down and impairments	1,654	590	1,010	1,003	925	1,053	1,185	1,386	1,169	1,239
Science expenses	179	191	174	116	115	118	124	124	114	115
Other expenses[1]	225	191	1,602	1,698	884	422	625	507	400	294
Core government service expenses	**5,293**	**2,974**	**5,563**	**5,428**	**4,294**	**4,406**	**4,849**	**4,909**	**4,799**	**4,792**

1. Non-departmental expenses and other expenses include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.9 – Law and order expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Police	1,326	1,349	1,393	1,394	1,408	1,416	1,441	1,398	1,391	1,390
Ministry of Justice	379	372	397	440	466	471	477	460	455	455
Department of Corrections	829	903	956	988	972	998	1,008	1,037	1,021	1,021
NZ Customs Service[1]	12	13	120	126	140	150	153	150	150	150
Other departments	80	102	237	103	98	86	96	96	95	96
Department expenses	**2,626**	**2,739**	**3,103**	**3,051**	**3,084**	**3,121**	**3,175**	**3,141**	**3,112**	**3,112**
Non-departmental outputs	380	399	261	315	317	326	314	309	306	306
Other expenses	83	53	18	37	55	52	79	79	84	84
Law and order expenses	**3,089**	**3,191**	**3,382**	**3,403**	**3,456**	**3,499**	**3,568**	**3,529**	**3,502**	**3,502**

1. Prior to 2010/11 the majority of NZ Customs Service expenses were classified as core government services.

Source: The Treasury

Table 6.10 – Defence expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
NZDF core expenses	1,697	1,747	1,736	1,678	1,747	1,781	1,878	1,972	1,943	1,926
Other expenses	60	67	73	58	57	43	51	51	50	50
Defence expenses	**1,757**	**1,814**	**1,809**	**1,736**	**1,804**	**1,824**	**1,929**	**2,023**	**1,993**	**1,976**

Source: The Treasury

Table 6.11 – Transport and communication expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
New Zealand Transport Agency	1,562	1,778	1,696	1,744	1,819	1,880	1,916	1,996	2,061	2,130
Departmental outputs	83	63	65	60	40	45	45	45	45	45
Other non-departmental expenses	170	58	105	62	213	226	133	93	91	91
Asset impairments	320	..	..	..	..	..	..	..	..	..
Rail funding	507	418	386	305	153	56	93	3	3	3
Other expenses	21	28	29	61	30	28	33	24	24	24
Transport and communication expenses	**2,663**	**2,345**	**2,281**	**2,232**	**2,255**	**2,235**	**2,220**	**2,161**	**2,224**	**2,293**

Source: The Treasury

Table 6.12 – Economic and industrial services expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental outputs	389	382	420	346	350	372	375	347	340	339
Employment initiatives[1]	185	220	214	206	192	141	77	77	77	78
Non-departmental outputs	809	894	689	614	618	671	797	843	851	843
Reserve electricity generation	20	23	9	5	..	..	..	..	..	..
KiwiSaver (includes housing deposit subsidy)	1,281	1,024	1,045	698	740	828	857	842	882	936
Research and development tax credits	154	..	..	..	..	..	..	..	..	..
Other expenses	122	263	165	204	78	56	109	132	96	103
Economic and industrial services expenses	**2,960**	**2,806**	**2,542**	**2,073**	**1,978**	**2,068**	**2,215**	**2,241**	**2,246**	**2,299**

1. From 2015 some of the employment initiatives spending has been classified as other non-departmental expenses in social security and welfare.

Source: The Treasury

Table 6.13 – Primary service expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental expenses	364	352	354	348	347	365	375	376	368	365
Non-departmental outputs	82	123	142	134	137	134	104	30	43	62
Biological research[1]	..	..	167	102	105	92	94	92	89	84
Other expenses	88	32	43	64	70	84	127	140	105	92
Primary service expenses	**534**	**507**	**706**	**648**	**659**	**675**	**700**	**638**	**605**	**603**

1. Biological research was previously classified as an economic and industrial services expense.

Source: The Treasury

Table 6.14 – Heritage, culture and recreation expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental outputs	120	115	133	172	270	286	275	260	255	254
Non-departmental outputs	422	405	455	444	442	471	462	449	448	448
Other expenses	44	110	153	247	92	84	33	69	50	42
Heritage, culture and recreation expenses	**586**	**630**	**741**	**863**	**804**	**841**	**770**	**778**	**753**	**744**

Source: The Treasury

Table 6.15 – Housing and community development expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Financial assistance package[1]	..	..	567	(407)	(60)	..	..	..	..	..
Housing subsidies	29	30	31	22	5	5	6	6	6	6
Departmental outputs	148	140	136	98	89	100	112	111	105	101
Other non-departmental expenses	112	122	105	113	117	146	130	100	95	92
Warm up New Zealand	..	33	67	84	76	49	33	28	..	..
Other expenses	8	14	37	44	56	55	50	39	22	21
Housing and community development expenses	**297**	**339**	**943**	**(46)**	**283**	**355**	**331**	**284**	**228**	**220**

1. Financial assistance package for 2012 and 2013 actual includes the impact of a revised estimate of the weathertight homes financial assistance package provision.

Source: The Treasury

Table 6.16 – Environmental protection expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Emissions Trading Scheme	17	80	838	334	55	48	69	72	73	74
Departmental outputs	306	300	301	342	335	362	356	348	344	347
Non-departmental outputs	47	231	26	46	88	48	41	51	35	34
Other expenses	46	40	60	47	52	77	62	59	58	58
Environmental protection expenses	**416**	**651**	**1,225**	**769**	**530**	**535**	**528**	**530**	**510**	**513**

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). All amounts within baselines are included in the forecasts.

Commercial portfolio

Consists of assets and liabilities held by companies with commercial objectives.

Consumers Price Index (CPI)

Statistics New Zealand's official index to measure the rate of change in prices of goods and services purchased by households.

Contingent assets

Income that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise loans with specific events that trigger repayment and IRD pending assessments (where there is a proposed adjustment to a tax assessment).

Contingent liabilities

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 85 to 87).

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 physical assets for the core Crown. This is an accrual measure of expenses and includes items such as depreciation on physical assets.

Core Crown revenue

Consists primarily of tax revenue collected by the Government but also includes investment income, sales of goods and services and other revenue of the core Crown.

Corporate tax

The sum of net company tax, non-resident withholding tax (NRWT) and foreign-source dividend withholding payments (FDWP).

Current account (Balance of Payments)

The current account records the value of New Zealand's transactions with the rest of the world in goods, services, income and transfers. The current-account balance is the sum of all current-account credits less all current-account debits. When the sum of debits is greater than the sum of credits there is a current-account deficit. The current-account balance is commonly expressed as a percentage of nominal GDP.

Cyclically-adjusted balance (CAB) or structural balance

An estimate of the fiscal balance (operating balance before gains and losses) adjusted for fluctuations of actual GDP around trend GDP. CAB provides a picture of the underlying fiscal position and the effects of policy decisions.

Demographic changes

Changes to the structure of the population such as the age, gender or ethnic make up.

Domestic bond programme

The amount and timing of government bonds expected to be issued or redeemed.

Excise duties

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

Financial assets

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies) or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

Financial liabilities

Any liability that is a contractual obligation to pay cash (government stock, accounts payable) or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

Financial portfolio

Consists of the assets and liabilities held by the Crown to finance or pre-fund government expenditure.

Fiscal drag

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

Fiscal impulse

A summary measure of how changes in the fiscal position affect aggregate demand. To isolate discretionary changes, fiscal impulse is calculated on a cyclically-adjusted basis and excludes net interest payments. To better capture the role of capital spending, the indicator is derived from cash flow information.

Fiscal intentions (short-term)

Indications of the Government's intentions for operating expenses, operating revenues and the impact of its intentions on the operating balance, debt and net worth over (at least) the next three years. These intentions are required under the Public Finance Act 1989 (PFA).

Fiscal objectives (long-term)

The Government's long-term goals for operating expenses, operating revenue, the operating balance, debt and net worth, as required by the PFA. The objectives must be consistent with the defined principles of responsible fiscal management as outlined in the PFA and must cover a period of (at least) 10 years.

Forecast new capital spending (Capital allowance)

An amount provided in the forecasts to represent the balance sheet impact of capital initiatives expected to be introduced over the forecast period.

Forecast new operating spending (Operating allowance)

An amount included in the forecasts to provide for the operating balance (revenue and expenditure) impact of policy initiatives, changes to demographics and other forecasting changes expected to occur over the forecast period.

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance.

GDP deflator

An index of changes in the general price level in the economy. It is calculated as the ratio of nominal GDP to real GDP.

Generally accepted accounting practice (GAAP)

GAAP refers to the rules and assumptions used to prepare and present financial statements. GAAP is an independent and objective set of rules that govern the recognition and measurement of financial elements, such as assets, liabilities, revenues and expenses.

Government Finance Statistics (GFS)

A statistical framework for government reporting developed by IMF to aid comparability of results between countries. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Gross sovereign-issued debt [GSID]

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

Gross debt

GSID excluding settlement cash and bank bills.

Gross domestic product (GDP)

A measure of the value-added of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured as the actual dollar value of goods and services at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

Gross domestic product (expenditure)

The sum of total expenditure on final goods and services in the economy. Gross domestic product measured on a production basis and on an expenditure basis should be the same over time, but there may be some divergence in the short term.

Gross national expenditure (GNE)

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

Insurance liabilities

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

Inter-segment eliminations

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

Labour force participation rate

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

Labour productivity

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

Line-by-line consolidation

A term used to refer to the general approach to the presentation of the Crown financial statements. It means that the individual line items for revenues, expenses, assets and liabilities in the financial statements of Government include all departments, Offices of Parliament, RBNZ, SOEs, Crown entities and other entities controlled by the Government.

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

Minority interest

Minority interests include those who recently purchased shares in the Government Share Offer Programme as well as the pre-existing minority interests in Air New Zealand Limited and the minority interests held in the Crown Fibre Holdings Group and Solid Energy.

Monetary conditions

Aggregate monetary conditions measure the degree to which short-term interest rates and the exchange rate either support or restrict economic growth.

Monetary policy

The policies the Reserve Bank uses to regulate the supply of money in New Zealand. The Reserve Bank implements its monetary policy decisions by adjusting its Official Cash Rate (OCR) in an effort to maintain stability in the rate of CPI inflation within a defined target range.

Tightening monetary policy means raising the OCR in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

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

Net core Crown debt

Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country. It represents gross debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

Net international investment position (NIIP)

Measures the net value of New Zealand's international assets and liabilities at a point in time.

Net worth

Total assets less total liabilities. The change in net worth in any given forecast year is largely driven by the operating balance and property, plant and equipment revaluations.

Net worth attributable to the Crown

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

Operating balance

Represents OBEGAL (refer below) plus gains and less losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long-term liabilities.

Operating balance before gains and losses (OBEGAL)

Represents total Crown revenue less total Crown expenses. 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. Potential GDP is the level of output an economy can sustain without acceleration of inflation.

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.

Productivity

The amount of output (eg, GDP) per unit of input.

Projections

Projections relate to the period beyond the five-year forecast period and are based on long-run economic and fiscal assumptions. For example, the projections assume no economic cycle and constant long-run interest, inflation and unemployment rates.

Residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Residual cash is alternatively termed "Cash available/(shortfall to be funded)".

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments
(eg, purchase of assets, loans to others).

Settlement cash

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

Social portfolio

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

Specific fiscal risks

All government decisions or other circumstances known to the Government which may have a material impact on the fiscal and economic outlook, but are not certain enough in timing or amount to include in the fiscal forecasts.

System of National Accounts (SNA)

SNA is a comprehensive, consistent and flexible set of macroeconomic accounts that meets the needs of government and private sector analysts, policy-makers and decision-takers.

Tax revenue

The accrual, rather than the cash ("tax receipts") measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

Terms of trade

The terms of trade measure the volume of imports that can be funded by a fixed volume of exports, and are calculated as the ratio of the total export price index to the total import price index. New Zealand's headline terms of trade series is derived from export and import price indices from Statistics New Zealand's quarterly Overseas Trade Index release. The Treasury forecasts the terms of trade on an SNA-basis, using implicit export and import price indices derived from quarterly national accounts data. The terms of trade are calculated for goods, services, and goods and services together.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts.

Total borrowings

Represents the Government's total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 85 to 87.

Tradable/non-tradable output

The tradable sector of the economy is that part which is subject to international competition, in either export markets or via imports. Industries which are directly exposed to international competition are agriculture, forestry and fishing, mining, and manufacturing; other industries are classified as non-tradable. An alternative definition of the tradable sector includes industries whose inputs are subject to international competition; this definition extends to a wider range of industries.

Trade-weighted index (TWI)

A measure of movements in the New Zealand dollar against the currencies of our major trading partners. The currencies comprise the US dollar, the Australian dollar, the Japanese yen, the euro and the UK pound.

Votes

When Parliament considers legislation relating to appropriations, the appropriations are grouped within "Votes". Generally, a Vote groups similar or related appropriations together (eg, Vote Health includes all health-related appropriations administered by the Ministry of Health).

Year ended

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2013/14 or 2014 will mean the end of the financial year.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June Years	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
$ millions																
Revenue and Expenses																
Core Crown revenue	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550	60,565	64,149	67,329	72,213	76,474	80,287	84,168
Core Crown expenses	39,897	41,882	44,895	49,320	54,003	56,997	64,002	64,013	70,450	69,076	70,306	71,291	72,826	75,914	78,583	81,452
Surpluses																
Total Crown OBEGAL	4,366	5,573	7,075	7,091	5,860	5,637	(3,893)	(6,315)	(18,396)	(9,240)	(4,414)	(2,595)	297	818	1,851	2,964
Total Crown operating balance	1,621	7,309	5,931	9,542	8,023	2,384	(10,505)	(4,509)	(13,360)	(14,897)	6,925	2,826	2,983	3,638	4,793	6,060
Cash Position																
Core Crown residual cash	1,217	520	3,104	2,985	2,877	2,057	(8,639)	(9,000)	(13,343)	(10,644)	(5,742)	(4,191)	(4,596)	(2,856)	(436)	(322)
Debt																
Gross debt[1]	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420	79,635	77,984	82,820	81,002	85,703	92,626	88,251
Gross debt incl RB settlement cash and bank bills	36,617	36,017	35,478	35,867	36,805	37,745	50,973	58,891	77,290	84,168	84,286	88,465	86,647	91,348	98,271	93,896
Net core Crown debt (incl NZS Fund)[2]	22,647	19,902	13,324	6,302	1,620	(2,676)	5,633	12,549	23,969	33,475	34,428	33,954	36,572	37,764	36,063	34,071
Net core Crown debt[2]	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128	50,671	55,835	59,941	64,275	67,041	67,535	67,865
Net Worth																
Total Crown net worth	28,012	39,595	54,240	83,971	96,827	105,514	99,515	94,988	80,887	59,780	70,011	79,773	82,829	86,548	91,449	97,654
Total net worth attributable to the Crown	27,918	39,456	54,025	83,678	96,531	105,132	99,068	94,586	80,579	59,348	68,071	74,401	77,367	81,044	85,890	92,002
Nominal GDP	135,761	146,397	155,362	163,081	173,229	185,715	185,844	192,524	200,888	209,585	212,955	231,149	240,199	251,041	261,741	271,173
% GDP																
Revenue and Expenses																
Core Crown revenue	32.0	31.6	32.9	34.2	33.6	33.3	32.0	29.2	28.6	28.9	30.1	29.1	30.1	30.5	30.7	31.0
Core Crown expenses	29.4	28.6	28.9	30.2	31.2	30.7	34.4	33.2	35.1	33.0	33.0	30.8	30.3	30.2	30.0	30.0
Surpluses																
Total Crown OBEGAL	3.2	3.8	4.6	4.3	3.4	3.0	(2.1)	(3.3)	(9.2)	(4.4)	(2.1)	(1.1)	0.1	0.3	0.7	1.1
Total Crown operating balance	1.2	5.0	3.8	5.9	4.6	1.3	(5.7)	(2.3)	(6.7)	(7.1)	3.3	1.2	1.2	1.4	1.8	2.2
Cash Position																
Core Crown residual cash	0.9	0.4	2.0	1.8	1.7	1.1	(4.6)	(4.7)	(6.6)	(5.1)	(2.7)	(1.8)	(1.9)	(1.1)	(0.2)	(0.1)
Debt																
Gross debt[1]	27.0	24.6	22.8	20.8	17.7	16.9	23.3	27.8	36.0	38.0	36.6	35.8	33.7	34.1	35.4	32.5
Gross debt incl RB settlement cash and bank bills	27.0	24.6	22.8	22.0	21.2	20.3	27.4	30.6	38.5	40.2	39.6	38.3	36.1	36.4	37.5	34.6
Net core Crown debt (incl NZS Fund)[2]	16.7	13.6	8.6	3.9	0.9	(1.4)	3.0	6.5	11.9	16.0	16.2	14.7	15.2	15.0	13.8	12.6
Net core Crown debt[2]	18.1	16.3	12.8	9.9	7.7	5.5	9.2	13.9	20.0	24.2	26.2	25.9	26.8	26.7	25.8	25.0
Net Worth																
Total Crown net worth	20.6	27.0	34.9	51.5	55.9	56.8	53.5	49.3	40.3	28.5	32.9	34.5	34.5	34.5	34.9	36.0
Total net worth attributable to the Crown	20.6	27.0	34.8	51.3	55.7	56.6	53.3	49.1	40.1	28.3	32.0	32.2	32.2	32.3	32.8	33.9

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

Economic Indicators

March Years	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
Private consumption	5.3	6.1	5.5	5.0	2.3	3.7	-1.6	1.6	2.4	3.1	2.6	3.4	4.1	3.6	2.6	1.7
Public consumption	0.7	5.1	4.4	4.3	3.6	4.8	4.5	0.0	2.0	0.2	-1.0	1.9	0.1	0.9	1.8	1.6
TOTAL CONSUMPTION	4.2	5.9	5.2	4.8	2.6	4.0	-0.3	1.2	2.3	2.4	1.8	3.0	3.3	3.1	2.4	1.6
Residential investment	23.6	14.7	2.3	-5.0	-2.1	1.8	-21.3	-8.6	0.3	-0.5	19.4	16.9	20.7	9.8	1.3	-0.3
Non-market investment	10.8	14.9	11.9	8.1	-1.9	-8.0	22.3	-0.3	-0.8	-24.6	-9.9	-2.7	4.0	6.1	2.4	2.4
Market investment	3.8	12.9	11.8	10.9	-2.2	11.2	-4.5	-11.8	5.7	11.2	4.9	8.8	11.1	4.8	3.6	2.6
TOTAL INVESTMENT	8.6	13.5	8.4	6.6	-2.7	7.4	-7.8	-9.5	1.8	4.4	7.3	10.6	14.7	6.4	3.2	2.2
Stock change (contribution to growth)	-0.1	0.2	0.3	-0.5	-1.1	1.2	-0.5	-1.1	1.0	0.5	-0.5	0.3	0.2	-0.3	0.1	0.0
GROSS NATIONAL EXPENDITURE	4.9	7.7	6.2	4.8	0.3	5.7	-2.3	-2.1	3.0	3.4	2.1	4.7	6.1	3.6	2.7	1.7
Exports	7.4	2.0	3.9	-0.3	3.8	3.7	-2.7	4.0	2.9	2.8	2.6	0.3	-0.4	2.8	2.7	2.8
Imports	7.1	13.3	13.2	4.8	-1.6	10.8	-3.9	-8.9	11.4	6.6	1.2	7.9	7.0	4.5	4.0	1.7
EXPENDITURE ON GDP	5.0	4.2	3.5	3.3	1.8	3.5	-1.9	2.2	0.7	2.3	2.5	2.5	3.8	3.0	2.2	2.1
GDP (production measure)	4.8	4.4	3.7	3.5	2.8	2.9	-1.9	-0.1	1.8	2.4	2.2	3.3	3.8	3.0	2.2	2.1
- annual % change	4.5	5.4	2.4	3.5	3.4	1.3	-3.0	2.1	1.2	3.2	2.1	3.8	3.6	2.6	2.0	2.2
Real GDP per capita	3.0	2.5	2.3	2.3	1.5	1.8	-2.8	-1.3	0.7	1.6	1.6	2.2	2.2	1.7	1.2	1.2
Nominal GDP (expenditure basis)	5.2	6.9	7.0	5.5	5.1	8.3	0.8	2.6	4.5	4.2	2.1	7.0	5.2	4.2	4.4	3.7
GDP deflator	0.2	2.6	3.4	2.1	3.2	4.6	2.8	0.4	3.9	1.8	-0.4	4.3	1.4	1.1	2.2	1.6
Output gap (% deviation, March year average)	0.4	1.0	1.3	1.7	1.9	2.8	-0.6	-2.1	-1.9	-1.5	-1.3	-0.3	0.8	1.2	0.6	0.1
Employment	2.8	3.0	3.6	2.8	2.2	1.7	0.5	-1.3	1.2	1.4	0.3	2.5	3.0	1.7	1.4	1.2
Unemployment (% March quarter s.a.)	5.0	4.3	3.9	4.0	3.9	3.8	5.2	6.2	6.7	6.8	6.2	6.0	5.6	5.2	4.8	4.5
Wages (average ordinary-time hourly, ann % change)	2.3	3.5	3.6	5.3	4.6	4.7	5.4	1.0	2.6	3.8	2.1	2.5	3.0	3.0	3.4	3.4
CPI inflation (ann % change)	2.5	1.5	2.8	3.3	2.5	3.4	3.0	2.0	4.5	1.6	0.9	1.5	1.7	2.4	2.3	2.1
Merchandise terms of trade (SNA basis)	-5.5	4.5	3.6	-1.7	-1.1	8.7	0.3	-7.5	10.6	1.4	-5.9	13.5	-0.7	-3.3	1.1	-0.1
House prices (ann % change)	14.7	23.4	13.5	12.2	11.7	2.8	-9.2	6.4	-1.5	3.6	7.6	7.2	4.4	4.1	2.5	2.4
Current account balance - $billion	-2.6	-4.1	-8.0	-12.8	-11.6	-12.4	-13.2	-2.8	-5.6	-6.4	-8.3	-6.3	-11.5	-15.3	-16.5	-17.3
Current account balance - % of GDP	-1.9	-2.9	-5.2	-7.9	-6.9	-6.8	-7.1	-1.5	-2.8	-3.1	-3.9	-2.8	-4.8	-6.2	-6.4	-6.4
TWI (March quarter)	60.6	66.9	69.6	68.3	68.8	71.9	53.7	65.3	67.2	72.5	75.9	78.7	80.0	79.1	77.8	74.3
90-day bank bill rate (March quarter)	5.8	5.5	6.9	7.6	7.8	8.8	3.7	2.7	3.0	2.7	2.7	3.0	4.3	4.9	5.0	5.3
10-year bond rate (March quarter)	6.0	5.9	6.0	5.7	5.9	6.4	4.6	5.9	5.6	4.0	3.7	4.6	4.7	4.9	5.1	5.2

Data for 2015 and subsequently are forecasts. Data for 2014 and prior years are those that were available when the forecasts were finalised.

Pre-election Economic and Fiscal Update 2014 Additional Information

The following information forms part of the *Pre-election Economic and Fiscal Update 2014 (Pre-election Update)* released by the Treasury on 19 August 2014. This information provides further details on the *Pre-election Update* and should be read in conjunction with the published document. The additional information includes:

- **Detailed economic forecast information** – breakdowns of the economic forecasts.
- **Treasury and Inland Revenue tax forecasts** – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- **Additional fiscal indicators** – estimates of the cyclically-adjusted balance and fiscal impulse.
- **Accounting policies** – outline of the specific Crown accounting policies.

Detailed Economic Forecast Information

This section includes a series of tables to provide additional detail on the economic forecasts presented in the *Pre-election Update.*

Table 1 – Real Gross Domestic Product (production measure)

Chain-volume series expressed in 1995/96 prices
Seasonally Adjusted

	$ million	Quarterly % change	Annual % change	Annual Average % change
2011Q1	35,431	0.9	1.2	1.8
2011Q2	35,711	0.8	0.9	1.2
2011Q3	36,041	0.9	2.2	1.2
2011Q4	36,267	0.6	3.3	1.9
2012Q1	36,552	0.8	3.2	2.4
2012Q2	36,621	0.2	2.5	2.8
2012Q3	36,723	0.3	1.9	2.7
2012Q4	37,146	1.2	2.4	2.5
2013Q1	37,332	0.5	2.1	2.2
2013Q2	37,547	0.6	2.5	2.2
2013Q3	37,977	1.1	3.4	2.6
2013Q4	38,365	1.0	3.3	2.8
2014Q1	38,745	1.0	3.8	3.3
2014Q2	39,055	0.8	4.0	3.6
2014Q3	39,446	1.0	3.9	3.7
2014Q4	39,801	0.9	3.7	3.9
2015Q1	40,134	0.8	3.6	3.8
2015Q2	40,381	0.6	3.4	3.6
2015Q3	40,709	0.8	3.2	3.5
2015Q4	40,967	0.6	2.9	3.3
2016Q1	41,194	0.6	2.6	3.0
2016Q2	41,387	0.5	2.5	2.8
2016Q3	41,616	0.6	2.2	2.6
2016Q4	41,817	0.5	2.1	2.4
2017Q1	42,026	0.5	2.0	2.2
2017Q2	42,244	0.5	2.1	2.1
2017Q3	42,473	0.5	2.1	2.1
2017Q4	42,698	0.5	2.1	2.1
2018Q1	42,934	0.6	2.2	2.1
2018Q2	43,187	0.6	2.2	2.1

Source: Statistics New Zealand, The Treasury

Table 2 – Consumers Price Index and Exchange Rates

	Consumers Price Index			Exchange rates	
	Index	Quarterly % change	Annual % change	TWI	USD
2011Q1	1146	0.8	4.5	67.2	0.76
2011Q2	1157	1.0	5.3	69.1	0.80
2011Q3	1162	0.4	4.6	72.0	0.83
2011Q4	1158	-0.3	1.8	68.7	0.78
2012Q1	1164	0.5	1.6	72.5	0.82
2012Q2	1168	0.3	1.0	71.3	0.79
2012Q3	1171	0.3	0.8	72.7	0.81
2012Q4	1169	-0.2	0.9	73.6	0.82
2013Q1	1174	0.4	0.9	75.9	0.83
2013Q2	1176	0.2	0.7	76.5	0.82
2013Q3	1187	0.9	1.4	75.3	0.80
2013Q4	1188	0.1	1.6	77.3	0.83
2014Q1	1192	0.3	1.5	78.7	0.84
2014Q2	1195	0.3	1.6	80.2	0.86
2014Q3	1202	0.6	1.2	81.2	0.88
2014Q4	1204	0.2	1.4	80.5	0.87
2015Q1	1212	0.7	1.7	80.0	0.86
2015Q2	1220	0.6	2.1	79.5	0.85
2015Q3	1228	0.6	2.2	79.4	0.85
2015Q4	1231	0.3	2.2	79.4	0.85
2016Q1	1241	0.8	2.4	79.1	0.85
2016Q2	1248	0.6	2.3	79.0	0.85
2016Q3	1259	0.8	2.5	78.8	0.85
2016Q4	1261	0.2	2.4	78.3	0.84
2017Q1	1270	0.7	2.3	77.8	0.84
2017Q2	1277	0.6	2.3	77.0	0.83
2017Q3	1287	0.8	2.3	76.2	0.82
2017Q4	1288	0.1	2.2	75.2	0.81
2018Q1	1297	0.7	2.1	74.3	0.80
2018Q2	1304	0.6	2.1	73.3	0.79

Source: RBNZ, Statistics New Zealand, The Treasury

Table 3 – Expenditure on Gross Domestic Product and Gross Domestic Product (income) in current prices

March Year	2013 Actual			2014 Estimated			2015 Forecast			2016 Forecast			2017 Forecast			2018 Forecast
	$million	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million
Consumption:																
- Private	126,236	3.4	0.6	131,301	4.1	1.0	138,178	3.6	1.8	145,837	2.6	2.0	152,632	1.7	2.0	158,209
- Public	41,013	1.9	1.3	42,321	0.1	2.2	43,274	0.9	2.4	44,747	1.8	2.3	46,597	1.6	2.0	48,295
Gross Fixed Capital Formation:																
- Residential	10,975	16.9	4.6	13,423	20.7	5.4	17,073	9.8	4.4	19,564	1.3	4.0	20,608	-0.3	4.1	21,380
*- Market **	28,277	8.8	-0.9	30,473	11.1	2.0	34,553	4.8	2.0	36,967	3.6	2.6	39,294	2.6	2.6	41,374
*- Non-market ***	2,727	-2.7	3.0	2,730	4.0	0.8	2,866	6.1	1.8	3,095	2.4	2.4	3,247	2.4	2.4	3,406
- Total all sectors	41,942	10.6	0.5	46,617	14.7	1.1	54,033	6.4	3.0	59,226	3.2	2.8	62,870	2.2	2.6	65,880
Change in Stocks	847			2,229			1,480			1,096			1,343			1,229
Gross National Expenditure	210,045	4.7	1.1	222,409	6.1	0.5	236,968	3.6	2.2	250,910	2.7	2.2	263,447	1.7	2.1	273,617
Exports	62,761	0.3	6.6	67,197	-0.4	-5.0	63,502	2.8	-1.8	64,137	2.7	2.6	67,592	2.8	5.9	73,555
Imports	61,101	7.9	-4.4	63,045	7.0	-5.7	63,661	4.5	1.3	67,407	4.0	2.2	71,616	1.7	7.2	78,089
Expenditure on GDP	211,656	2.5	4.3	226,438	3.8	1.4	238,267	3.0	1.1	248,210	2.2	2.2	259,200	2.1	1.6	268,860
Statistical Discrepancy	-17			-15			-14			-13			-12			-11
Gross Domestic Product	211,639			226,423			238,252			248,197			259,188			268,849
Compensation of employees	95,756			101,093			106,240			110,998			115,835			120,962
Operating Surplus, net:																
- Agriculture	5,942			8,012			7,264			7,385			7,930			8,292
- Other	54,488			59,007			63,163			64,854			67,302			68,481
- Total all sectors	60,430			67,019			70,426			72,239			75,233			76,773
Consumption of fixed capital	29,150			30,608			32,138			33,745			35,432			37,204
Indirect Taxes	27,031			28,431			30,176			31,943			33,415			34,638
Less subsidies	728			728			728			728			728			728
Gross Domestic Product	211,639			226,423			238,252			248,197			259,188			268,849

* Includes Local Government and Non-profit Organisations
** Central Government (includes Crown Entities but not SOEs)

Source: Statistics New Zealand, The Treasury

Table 4 – Labour Market Indicators

Annual Average Percentage Change

March Year	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Real GDP (production basis)	2.2	3.3	3.8	3.0	2.2	2.1
Working Age Population	0.8	1.2	1.6	1.4	1.1	1.0
Labour Force	0.5	1.8	2.5	1.3	1.0	0.8
Employment	0.3	2.5	3.0	1.7	1.4	1.2
Labour Productivity*	1.5	0.8	0.9	1.7	1.1	1.1
CPI (annual percentage change)	0.9	1.5	1.7	2.4	2.3	2.1
Average Ordinary Time Hourly Wages	2.6	2.5	2.6	3.1	3.2	3.4
Average Weekly Earnings	2.9	2.8	2.0	2.8	2.9	3.2
Real Wages	1.7	1.2	1.1	0.9	0.8	1.1
Compensation of Employees	4.0	5.6	5.1	4.5	4.4	4.4
Unit Labour Costs (Hours worked basis)	1.0	1.7	1.7	1.4	2.1	2.3
Real Unit Labour Costs	0.1	0.4	0.2	-0.8	-0.3	0.1

* Hours worked basis

Number (000's)

As at March Quarter	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Total Population	4,464	4,525	4,589	4,638	4,681	4,723
Natural Increase	31	30	25	33	31	30
Net Migration	2	31	39	16	12	12
Annual Change	33	61	64	49	43	42
Working Age Population	3,511	3,560	3,620	3,665	3,703	3,740
Annual Change	29	49	60	45	38	37
Not in the labour force (s.a.)	1,127	1,094	1,112	1,129	1,144	1,160
Annual Change	35	-33	18	17	15	16
Labour Force (s.a.)	2,384	2,466	2,508	2,536	2,559	2,580
Annual Change	-6	82	42	28	23	21
Total Employment (s.a.)	2,235	2,318	2,369	2,404	2,436	2,463
Annual Change	8	83	51	35	32	27
Unemployment (s.a.)	149	147	139	132	123	117
Annual Change	-15	-2	-8	-7	-9	-6
Participation Rate (%sa)	67.9	69.3	69.3	69.2	69.1	69.0
Unemployment Rate (%sa)	6.2	6.0	5.6	5.2	4.8	4.5

Source: Statistics New Zealand, The Treasury

Table 5 – Exports – SNA basis

Breakdown of Exports

March	Dairy Products			Meat and Meat Products			Non-Commodity*		
Years	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million
2010	32.5	-32.0	9,044	-1.9	-7.5	5,285	-5.3	-7.4	13,269
2011	-0.7	29.6	11,666	-2.6	6.4	5,485	6.7	2.4	14,489
2012	9.0	0.4	12,774	-5.2	10.4	5,749	3.5	2.1	15,321
2013	18.4	-16.5	12,589	10.0	-8.9	5,745	-2.2	-4.8	14,267
2014	-6.8	32.8	15,735	3.5	-0.6	5,921	1.1	-0.3	14,402
2015	6.2	-14.4	14,164	-5.5	-0.6	5,558	2.0	-1.1	14,517
2016	5.0	-11.1	13,263	5.0	-4.4	5,580	0.5	4.5	15,250
2017	3.4	1.6	13,934	1.3	2.0	5,768	2.4	4.6	16,331
2018	3.2	5.7	15,200	1.2	6.1	6,193	2.7	8.4	18,189

March	Total Goods**			Services			Total Exports		
Years	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million
2010	6.8	-15.4	40,053	-3.6	-0.8	15,760	4.0	-11.7	55,814
2011	3.3	10.2	45,567	1.6	-0.4	15,950	2.9	7.2	61,517
2012	2.7	3.2	48,294	2.8	1.6	16,670	2.8	2.8	64,963
2013	5.3	-8.0	46,777	-4.9	0.9	15,984	2.6	-5.8	62,761
2014	0.0	8.4	50,817	1.3	1.2	16,379	0.3	6.6	67,197
2015	0.7	-7.0	47,530	-2.9	0.5	15,969	-0.4	-5.0	63,502
2016	2.8	-2.3	47,766	2.6	-0.1	16,366	2.8	-1.8	64,137
2017	2.5	3.1	50,452	3.4	1.2	17,136	2.7	2.6	67,592
2018	2.5	7.0	55,376	3.6	2.3	18,175	2.8	5.9	73,555

* Consists of 'Metal Products and Machinery Equipment', 'Chemicals, Rubber and Other Non-Metallic Goods' and 'Textile, Apparel and Leather'
** Note that Statistics NZ withholds data for some components of exports for confidentiality reasons. As a result we have not published the "Wood and Wood Products' and 'Other Goods' components of exports.

Source: Statistics New Zealand, The Treasury

Table 6 – Imports – SNA basis

Breakdown of Imports

March	Capital Goods (Value for Duty)			Mineral Fuel* (VFD)			Intermediate Goods** (VFD)			Consumption Goods (VFD)		
Years	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million
2010	-26.3	0.2	6,205	1.6	-27.4	6,059	-10.7	-9.8	14,809	-5.1	-1.3	10,843
2011	26.6	-5.3	7,430	-1.7	16.4	6,945	13.4	0.6	16,925	7.5	-4.7	11,116
2012	14.8	-6.5	7,975	5.8	19.5	8,795	6.4	0.4	18,066	5.7	-2.1	11,502
2013	7.4	-6.3	8,036	-3.0	0.5	8,537	0.8	-2.4	17,780	4.1	-1.4	11,800
2014	20.2	-6.5	9,028	0.5	-5.5	8,139	7.4	-3.2	18,498	6.0	-2.9	12,146
2015	7.5	-4.7	9,243	4.0	-7.2	7,844	5.0	-3.6	18,730	6.9	-3.9	12,478
2016	5.5	-0.2	9,729	8.9	-7.1	7,939	3.5	3.2	20,005	6.1	2.2	13,539
2017	4.4	0.1	10,173	4.6	-3.7	8,005	4.4	3.8	21,694	5.4	3.1	14,712
2018	1.2	4.0	10,704	2.0	4.9	8,560	2.3	8.2	24,013	3.1	7.6	16,326

March	Total Goods (VFD)			Services			Total		
Years	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million
2010	-10.5	-8.5	38,053	-4.2	-6.0	13,246	-8.9	-7.9	51,299
2011	12.4	-0.4	42,623	8.5	-1.0	14,236	11.4	-0.6	56,858
2012	6.9	1.8	46,390	5.7	-0.2	15,034	6.6	1.3	61,424
2013	1.8	-2.2	46,196	-0.8	-0.1	14,905	1.2	-1.7	61,101
2014	8.3	-4.4	47,877	6.4	-4.3	15,169	7.9	-4.4	63,045
2015	7.9	-6.4	48,358	3.0	-2.1	15,303	7.0	-5.7	63,661
2016	5.2	1.0	51,358	2.0	2.8	16,049	4.5	1.3	67,407
2017	4.4	1.9	54,649	2.5	3.1	16,968	4.0	2.2	71,616
2018	1.9	7.2	59,667	1.2	7.3	18,422	1.7	7.2	78,089

* Consists of 'Fuels and Lubricants' and 'Petrol and Aviation Gas'
** Consists of 'Intermediate Goods' excluding 'Fuels and Lubricants' and 'Passenger Cars'

Source: Statistics New Zealand, The Treasury

Table 7 – Balance of Payments – Current Account

$NZ Million **Year ended March**	**2013** Actual	**2014** Actual	**2015** Forecast	**2016** Forecast	**2017** Forecast	**2018** Forecast
Exports Goods	46,777	50,817	47,530	47,766	50,452	55,376
annual % change	*-3.1*	*8.6*	*-6.5*	*0.5*	*5.6*	*9.8*
Imports Goods	46,196	47,877	48,358	51,358	54,649	59,667
annual % change	*-0.4*	*3.6*	*1.0*	*6.2*	*6.4*	*9.2*
Balance on Goods	581	2,940	-828	-3,592	-4,197	-4,292
% of nominal GDP	*0.3*	*1.3*	*-0.3*	*-1.4*	*-1.6*	*-1.6*
Exports Services	15,984	16,379	15,969	16,366	17,136	18,175
annual % change	*-4.1*	*2.5*	*-2.5*	*2.5*	*4.7*	*6.1*
Imports Services	14,905	15,169	15,303	16,049	16,968	18,422
annual % change	*-0.9*	*1.8*	*0.9*	*4.9*	*5.7*	*8.6*
Balance on services	1,079	1,210	666	318	169	-247
% of nominal GDP	*0.5*	*0.5*	*0.3*	*0.1*	*0.1*	*-0.1*
Balance on goods & services	1,660	4,150	-163	-3,274	-4,028	-4,538
% of nominal GDP	*0.8*	*1.8*	*-0.1*	*-1.3*	*-1.6*	*-1.7*
Int'l investment income and transfers balance	-9,975	-10,450	-11,288	-12,003	-12,504	-12,798
% of nominal GDP	*-4.7*	*-4.6*	*-4.7*	*-4.8*	*-4.8*	*-4.8*
Current account balance	**-8,317**	**-6,270**	**-11,451**	**-15,277**	**-16,532**	**-17,336**
% of nominal GDP	***-3.9***	***-2.8***	***-4.8***	***-6.2***	***-6.4***	***-6.4***

Source: Statistics New Zealand, The Treasury

Treasury and Inland Revenue Tax Forecasts

In line with established practice, Inland Revenue has also prepared a set of tax forecasts, which, like the Treasury's tax forecasts, were based on the Treasury's macroeconomic forecasts. The two sets of forecasts differ from each other because of the different modelling approaches used by the two agencies and the various assumptions and judgements made by the forecasting teams in producing their forecasts.

In this *Pre-election Update*, the two sets of tax forecasts are quite close to each other by historical standards, with the largest difference in any one year being $324 million (just over 0.1% of GDP). Over the whole forecast period, the Treasury's forecasts are lower than Inland Revenue's. Although there are some offsetting differences across the major tax types, the main point of difference occurs in the forecasts of resident withholding tax on interest.

The following two tables detail the respective forecasts by the Treasury and the IRD for tax revenue and receipts across each of the various sources:

Table 8 Treasury and IRD forecasts of tax revenue (accrual)

Table 9 Treasury and IRD forecasts of tax receipts (cash)

Table 8 – Treasury and IRD forecasts of tax revenue (accrual)

$ million	2012/13 Actual	2013/14 Forecast Treasury	2013/14 Forecast IRD	2013/14 Difference	2014/15 Forecast Treasury	2014/15 Forecast IRD	2014/15 Difference	2015/16 Forecast Treasury	2015/16 Forecast IRD	2015/16 Difference	2016/17 Forecast Treasury	2016/17 Forecast IRD	2016/17 Difference	2017/18 Forecast Treasury	2017/18 Forecast IRD	2017/18 Difference
Direct tax																
Individuals																
Source deductions	22,768	24,227	24,227	..	25,637	25,738	(101)	27,031	27,128	(97)	28,528	28,643	(115)	30,126	30,215	(89)
Other persons tax	5,210	5,177	5,177	..	5,316	5,276	40	5,566	5,569	(3)	5,789	5,761	28	5,981	5,873	108
Refunds	(1,644)	(1,532)	(1,532)	..	(1,416)	(1,491)	75	(1,445)	(1,552)	107	(1,500)	(1,591)	91	(1,566)	(1,552)	(14)
Fringe benefit tax	480	489	489	..	507	505	2	528	520	8	551	540	11	575	558	17
Subtotal: Individuals	**26,814**	**28,361**	**28,361**	**..**	**30,044**	**30,028**	**16**	**31,680**	**31,665**	**15**	**33,368**	**33,353**	**15**	**35,116**	**35,094**	**22**
Company tax (net)	**10,026**	**10,140**	**10,140**	**..**	**10,620**	**10,562**	**58**	**11,015**	**10,902**	**113**	**11,395**	**11,231**	**164**	**11,757**	**11,421**	**336**
Withholding taxes on:																
Resident interest income	1,631	1,634	1,634	..	1,909	2,018	(109)	2,527	2,768	(241)	2,912	3,130	(218)	3,270	3,563	(293)
Non-resident income	420	428	428	..	485	469	16	533	511	22	558	531	27	577	545	32
Foreign-source dividends	2	8	8	..	2	1	1	2	1	1	2	1	1	2	1	1
Resident dividend income	516	446	446	..	472	494	(22)	487	508	(21)	505	523	(18)	516	528	(12)
Subtotal: Withholding tax	**2,569**	**2,516**	**2,516**	**..**	**2,868**	**2,982**	**(114)**	**3,549**	**3,788**	**(239)**	**3,977**	**4,185**	**(208)**	**4,365**	**4,637**	**(272)**
Total direct tax	**39,409**	**41,017**	**41,017**	**..**	**43,532**	**43,572**	**(40)**	**46,244**	**46,355**	**(111)**	**48,740**	**48,769**	**(29)**	**51,238**	**51,152**	**86**
Indirect tax																
GST (net)	**21,356**	**22,410**	**22,410**	**..**	**24,095**	**24,176**	**(81)**	**25,437**	**25,510**	**(73)**	**26,413**	**26,605**	**(192)**	**27,510**	**27,502**	**8**
Excise duties on:																
Alcoholic drinks	663	656	656	..	679	700	(21)	705	730	(25)	736	770	(34)	768	800	(32)
Tobacco products	281	269	269	..	285	295	(10)	296	310	(14)	301	320	(19)	301	325	(24)
Petroleum fuels	855	855	855	..	942	940	2	1,085	1,000	85	1,203	1,020	183	1,227	1,041	186
Subtotal: excise duties	**1,799**	**1,780**	**1,780**	**..**	**1,906**	**1,935**	**(29)**	**2,086**	**2,040**	**46**	**2,240**	**2,110**	**130**	**2,296**	**2,166**	**130**
Other indirect tax																
Customs duty	2,056	2,151	2,151	..	2,251	2,233	18	2,281	2,346	(65)	2,265	2,455	(190)	2,280	2,533	(253)
Road user charges	1,066	1,205	1,205	..	1,244	1,290	(46)	1,326	1,390	(64)	1,406	1,449	(43)	1,479	1,505	(26)
Gaming duties	267	267	267	..	267	267	..	271	270	1	274	274	..	278	277	1
Motor vehicle fees	174	187	187	..	195	195	..	202	200	2	208	205	3	213	210	3
Exhaustible resource levy	34	35	35	..	36	35	1	36	35	1	36	33	3	36	32	4
Approved issuer levy, cheque duty & other	87	82	82	..	95	101	(6)	95	101	(6)	95	101	(6)	95	101	(6)
Subtotal: Other indirect tax	**3,684**	**3,927**	**3,927**	**..**	**4,088**	**4,121**	**(33)**	**4,211**	**4,342**	**(131)**	**4,284**	**4,517**	**(233)**	**4,381**	**4,658**	**(277)**
Total indirect tax	**26,839**	**28,117**	**28,117**	**..**	**30,089**	**30,232**	**(143)**	**31,734**	**31,892**	**(158)**	**32,937**	**33,232**	**(295)**	**34,187**	**34,326**	**(139)**
Total tax	**66,248**	**69,134**	**69,134**	**..**	**73,621**	**73,804**	**(183)**	**77,978**	**78,247**	**(269)**	**81,677**	**82,001**	**(324)**	**85,425**	**85,478**	**(53)**
Total tax (% of GDP)	31.1%	29.9%	29.9%	0.0%	30.6%	30.7%	-0.1%	31.1%	31.2%	-0.1%	31.2%	31.3%	-0.1%	31.5%	31.5%	0.0%
less Core Crown tax eliminations																
Core Crown income tax	984	833	833		585	585		631	631		681	681		735	735	
GST on Crown expenses and departmental outputs	6,151	6,306	6,306		6,401	6,401		6,687	6,687		6,887	6,887		7,079	7,079	
Crown ESCT	421	448	448		449	449		456	456		463	463		468	468	
Crown AIL	41	30	30		30	30		30	30		30	30		30	30	
Core Crown taxation	**58,651**	**61,517**	**61,517**	**..**	**66,156**	**66,339**	**(183)**	**70,174**	**70,443**	**(269)**	**73,616**	**73,940**	**(324)**	**77,113**	**77,166**	**(53)**
Core Crown tax (% of GDP)	27.5%	26.6%	26.6%	0.0%	27.5%	27.6%	-0.1%	28.0%	28.1%	-0.1%	28.1%	28.2%	-0.1%	28.4%	28.5%	-0.1%
less Total Crown tax eliminations																
Income tax from SOEs and CEs	446	453	453		549	549		610	610		660	660		711	711	
Other Crown GST	..	..	..		..	..		..	..		..	..		..	..	
ESCT from SOEs and CEs	17	7	7		11	11		11	11		10	10		11	11	
Lottery duty	53	56	56		58	58		61	61		64	64		67	67	
Total Crown taxation	**58,135**	**61,001**	**61,001**	**..**	**65,538**	**65,721**	**(183)**	**69,492**	**69,761**	**(269)**	**72,882**	**73,206**	**(324)**	**76,324**	**76,377**	**(53)**
Total Crown tax (% of GDP)	27.3%	26.4%	26.4%	0.0%	27.3%	27.4%	-0.1%	27.7%	27.8%	-0.1%	27.8%	28.0%	-0.2%	28.1%	28.2%	-0.1%
Nominal GDP	212,955	231,149	231,149		240,199	240,199		251,041	251,041		261,741	261,741		271,173	271,173	

Table 9 – Treasury and IRD forecasts of tax receipts (cash)

$ million	2012/13 Actual	2013/14 Forecast Treasury	2013/14 Forecast IRD	2013/14 Difference	2014/15 Forecast Treasury	2014/15 Forecast IRD	2014/15 Difference	2015/16 Forecast Treasury	2015/16 Forecast IRD	2015/16 Difference	2016/17 Forecast Treasury	2016/17 Forecast IRD	2016/17 Difference	2017/18 Forecast Treasury	2017/18 Forecast IRD	2017/18 Difference
Direct tax																
Individuals																
Source deductions	22,618	24,081	24,081	..	25,485	25,584	(99)	26,873	26,968	(95)	28,370	28,485	(115)	29,960	30,049	(89)
Other persons tax	5,194	5,466	5,466	..	5,808	5,820	(12)	6,046	6,079	(33)	6,318	6,276	42	6,516	6,352	164
Refunds	(2,251)	(2,276)	(2,276)	..	(2,194)	(2,342)	148	(2,240)	(2,388)	148	(2,333)	(2,420)	87	(2,437)	(2,381)	(56)
Fringe benefit tax	465	482	482	..	505	500	5	526	516	10	549	538	11	573	556	17
Subtotal: Individuals	**26,026**	**27,753**	**27,753**	**..**	**29,604**	**29,562**	**42**	**31,205**	**31,175**	**30**	**32,904**	**32,879**	**25**	**34,612**	**34,576**	**36**
Company tax (net)	**9,319**	**10,188**	**10,188**	**..**	**10,461**	**10,391**	**70**	**10,816**	**10,692**	**124**	**11,240**	**11,048**	**192**	**11,547**	**11,191**	**356**
Withholding taxes on:																
Resident interest income	1,635	1,629	1,629	..	1,907	2,016	(109)	2,525	2,766	(241)	2,910	3,128	(218)	3,268	3,561	(293)
Non-resident income	451	405	405	..	484	468	16	532	510	22	557	530	27	576	544	32
Foreign-source dividends	1	..	..	..	2	1	1	2	1	1	2	1	1	2	1	1
Resident dividend income	516	449	449	..	472	494	(22)	487	508	(21)	505	523	(18)	516	528	(12)
Subtotal: Withholding tax	**2,603**	**2,483**	**2,483**	**..**	**2,865**	**2,979**	**(114)**	**3,546**	**3,785**	**(239)**	**3,974**	**4,182**	**(208)**	**4,362**	**4,634**	**(272)**
Total direct tax	**37,948**	**40,424**	**40,424**	**..**	**42,930**	**42,932**	**(2)**	**45,567**	**45,652**	**(85)**	**48,118**	**48,109**	**9**	**50,521**	**50,401**	**120**
Indirect tax																
GST (net)	**20,978**	**21,986**	**21,986**	**..**	**23,727**	**23,799**	**(72)**	**25,054**	**25,114**	**(60)**	**26,029**	**26,209**	**(180)**	**27,111**	**27,091**	**20**
Excise duties on:																
Alcoholic drinks	666	651	651	..	679	700	(21)	705	730	(25)	736	770	(34)	768	800	(32)
Tobacco products	287	268	268	..	285	295	(10)	296	310	(14)	301	320	(19)	301	325	(24)
Petroleum fuels	865	861	861	..	942	940	2	1,085	1,000	85	1,203	1,020	183	1,227	1,041	186
Subtotal: Excise duties	**1,818**	**1,780**	**1,780**	**..**	**1,906**	**1,935**	**(29)**	**2,086**	**2,040**	**46**	**2,240**	**2,110**	**130**	**2,296**	**2,166**	**130**
Other indirect tax																
Customs duty	2,035	2,179	2,179	..	2,251	2,233	18	2,281	2,346	(65)	2,265	2,455	(190)	2,280	2,533	(253)
Road user charges	1,064	1,187	1,187	..	1,244	1,290	(46)	1,326	1,390	(64)	1,406	1,449	(43)	1,479	1,505	(26)
Gaming duties	268	264	264	..	267	267	..	271	270	1	274	274	..	278	277	1
Motor vehicle fees	179	178	178	..	195	195	..	202	200	2	208	205	3	213	210	3
Exhaustible resource levy	34	35	35	..	36	35	1	36	35	1	36	33	3	36	32	4
Approved issuer levy, cheque duty & other	87	81	81	..	95	101	(6)	95	101	(6)	95	101	(6)	95	101	(6)
Subtotal: Other indirect tax	**3,667**	**3,924**	**3,924**	**..**	**4,088**	**4,121**	**(33)**	**4,211**	**4,342**	**(131)**	**4,284**	**4,517**	**(233)**	**4,381**	**4,658**	**(277)**
Total indirect tax	**26,463**	**27,690**	**27,690**	**..**	**29,721**	**29,855**	**(134)**	**31,351**	**31,496**	**(145)**	**32,553**	**32,836**	**(283)**	**33,788**	**33,915**	**(127)**
Total tax	**64,411**	**68,114**	**68,114**	**..**	**72,651**	**72,787**	**(136)**	**76,918**	**77,148**	**(230)**	**80,671**	**80,945**	**(274)**	**84,309**	**84,316**	**(7)**
Total tax (% of GDP)	30.2%	29.5%	29.5%	0.0%	30.2%	30.3%	-0.1%	30.6%	30.7%	-0.1%	30.8%	30.9%	-0.1%	31.1%	31.1%	0.0%
less Core Crown tax eliminations																
Core Crown income tax	877	887	887		575	575		622	622		671	671		724	724	
GST on Crown expenses and departmental outputs	6,145	6,317	6,317		6,443	6,443		6,735	6,735		6,938	6,938		7,106	7,106	
Crown ESCT	415	447	447		448	448		455	455		461	461		467	467	
Crown AIL	42	30	30		30	30		30	30		30	30		30	30	
Core Crown taxation	**56,932**	**60,433**	**60,433**	**..**	**65,155**	**65,291**	**(136)**	**69,076**	**69,306**	**(230)**	**72,571**	**72,845**	**(274)**	**75,982**	**75,989**	**(7)**
Core Crown tax (% of GDP)	26.7%	26.1%	26.1%	0.0%	27.1%	27.2%	-0.1%	27.5%	27.6%	-0.1%	27.7%	27.8%	-0.1%	28.0%	28.0%	0.0%
less Total Crown tax eliminations																
Income tax from SOEs and CEs	374	495	495		496	496		593	593		641	641		675	675	
Other Crown GST	77	4	4		(22)	(22)		(18)	(18)		(12)	(12)		(1)	(1)	
ESCT from SOEs and CEs	15	7	7		10	10		10	10		10	10		10	10	
Lottery duty	53	56	56		58	58		61	61		64	64		67	67	
Total Crown taxation	**56,413**	**59,871**	**59,871**	**..**	**64,613**	**64,749**	**(136)**	**68,430**	**68,660**	**(230)**	**71,868**	**72,142**	**(274)**	**75,231**	**75,238**	**(7)**
Total Crown tax (% of GDP)	26.5%	25.9%	25.9%	0.0%	26.9%	27.0%	-0.1%	27.3%	27.4%	-0.1%	27.5%	27.6%	-0.1%	27.7%	27.7%	0.0%

Additional Fiscal Indicators

There are different approaches to assessing the relationship between the economy and the fiscal performance, and the relationship between fiscal policy and the economy. One approach to assessing these relationships uses summary fiscal indicators. A discussion of the Treasury's perspective on these indicators, their use and limitations, and the relationship between them, can be found in the 2010 *Budget Update* Additional Information.[1]

The Treasury calculates two summary fiscal indicators: the cyclically-adjusted balance (CAB) and the fiscal impulse indicator.

- The cyclically-adjusted balance adjusts the operating balance before gains and losses (OBEGAL) for the cyclical position of the economy. The CAB is subject to uncertainty because it uses estimated variables and is sensitive to new information, particularly regarding the output gap.
- The fiscal impulse indicator uses the change in a cash-based version of the fiscal balance (a cyclically-adjusted balance supplemented by capital expenditure).

Further information on the methodology behind the indicators can be found in Treasury Working Papers 02/30 and 10/08.[2]

Central estimate

This section discusses the Treasury's central estimates of the cyclically-adjusted balance and fiscal impulse. Detailed tables of data can be found at the end of the Additional Fiscal Indicators section.

The significant "one-off" impact on expenses of the Canterbury earthquake is removed from estimates of the cyclically-adjusted balance. This is to give a better indication of the underlying fiscal performance. Similarly for one measure of the fiscal impulse, some earthquake expenditures that are more of a financial nature are removed as the demand effects arising from such flows (eg, EQC payments to households) will show up in other parts of the economy.

Cyclically-adjusted balance

Figure 1 shows the operating balance (before gains and losses) and the cyclically-adjusted balance. They are similar to those estimated in the 2014 *Budget Update*, although are marginally lower across much of the forecast period, as both total revenue and expenses have reduced, but the fall in revenue is relatively larger. The headline OBEGAL is forecast to be a surplus of 0.1% of GDP in the year ended June 2015 (*Budget Update:* 0.2% of GDP). The cyclically-adjusted balance, excluding earthquake expenses, is estimated to be a deficit of 0.2% of GDP for the year ended June 2015 (consistent with

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1 Available at http://www.treasury.govt.nz/budget/forecasts/befu2010/befu10-pt6of6.pdf

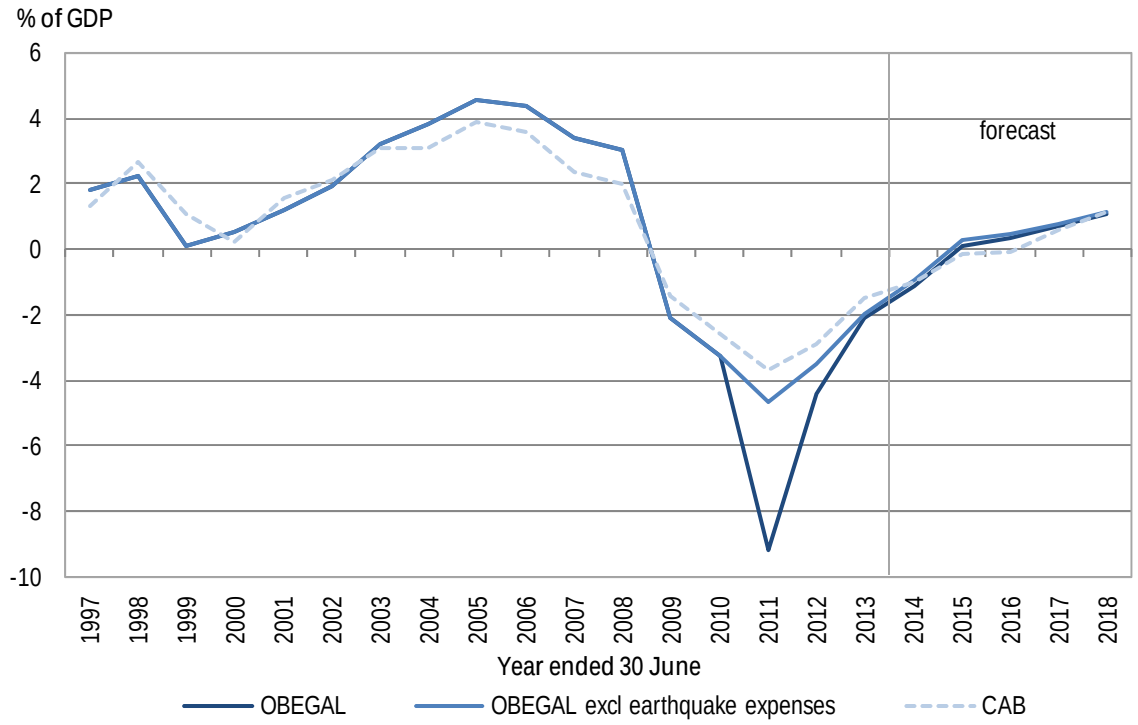
2 Renee Philip and John Janssen (2002) "Indicators of Fiscal Impulse for New Zealand" New Zealand Treasury Working Paper 02/30, December 2002 http://www.treasury.govt.nz/publications/research-policy/wp/2002/02-30/

Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance" New Zealand Treasury Working Paper 10/08, December 2010 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/

the *Budget Update*). The difference between the headline and cyclically-adjusted balance comprises the impact of the automatic stabilisers and the earthquake adjustment.

Cyclically-adjusted revenue and expenses are forecast to be broadly balanced in 2014/15 and 2015/16. The cyclically-adjusted balance is lower than the headline OBEGAL in these years owing to the forecast assumption that the economy will be operating above capacity (ie, a positive output gap). The cyclically-adjusted balance increases in the latter half of the forecast period to reach a surplus of 1.1% of GDP in 2017/18.

Figure 1 – Cyclically-adjusted balance



Source: The Treasury

Fiscal impulse

The fiscal impulse indicator is shown in Figure 2. As has been noted in previous *Economic and Fiscal Updates*, capital expenditure on defence, KiwiSaver subsidies and Deposit Guarantee Scheme payments are excluded from the measure of fiscal impulse since these are expected to have a limited direct impact on aggregate demand. Purchases and sales of investments are also excluded from the measure. As a result, any sale proceeds from the Government's share offer programme do not impact on the fiscal impulse indicator.

The fiscal impulse is shown for both the core Crown and combined core Crown and Crown entity segments. The core Crown indicator mostly reflects changes in receipts and expenditure impacted by Budget decisions, whereas the core Crown plus Crown entity indicator provides a better indication of the total impact of central government activities (ie, excluding State-Owned Enterprises). A measure of the fiscal impulse that excludes Canterbury-related financial transactions is also shown, which adjusts for EQC and Southern Response payments and receipts. EQC and Southern Response payments and receipts account for much of the difference between the core Crown fiscal impulse and the indicator for the core Crown plus Crown entities.

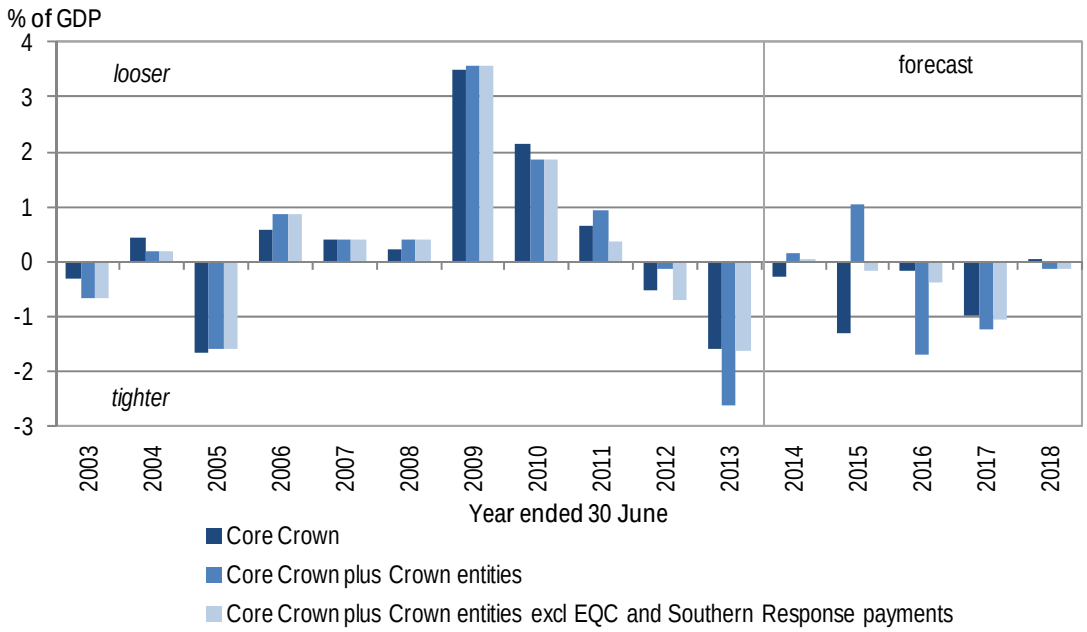
It is worth noting that summary indicators such as fiscal impulse do not take account of the composition of fiscal policy changes or how a change in fiscal policy will be transmitted through the economy. Treasury research using time series statistical analysis indicates that spending and taxes have different effects on New Zealand GDP.[3] Therefore the fiscal impulse indicator is only a very imprecise guide to the impact of fiscal policy on the economy.

The fiscal impulse shows that fiscal policy is expected to have a contractionary impact on demand in almost every year of the forecast horizon. Fiscal policy is expected to withdraw 0.4% of GDP from aggregate demand on average in each year over the four years to June 2018, consistent with the *Budget Update.*

The impact of weaker tax receipts and changes in the expected timing of some forecast expenditure has changed the expected fiscal impulse in particular years of the forecast. The estimated fiscal impulse for the 2014 June year is slightly higher than forecast in the *Budget Update* and is now estimated to be neutral (*Pre-election Update*: 0.0% of GDP; Budget Update: -0.3% of GDP). The forecast fiscal impulse for the 2015 June year is now forecast to be slightly contractionary (*Pre-election Update*: -0.2% of GDP; *Budget Update*: 0.1% of GDP).

It is also worth noting the difference in 2015 between the unadjusted and Canterbury-adjusted fiscal impulses. The fiscal impulse is affected by large payments and receipts by EQC and Southern Response. The significant one-off positive impulse in the unadjusted measure is due to the timing of reinsurance inflows. As these reinsurance flows do not reflect the impact of discretionary fiscal policy on the domestic economy, the adjusted measure gives a better estimate of the impact of fiscal policy in these years.

Figure 2 – Estimates of the fiscal impulse



Source: The Treasury

3 Parkyn and Vehbi (2013) "The Effects of Fiscal Policy in New Zealand: Evidence from a VAR Model with Debt Constraints" New Zealand Treasury Working Paper 13/02. The degree to which the fiscal impulse indicator matches the time series estimates depends on the exact form of the latter. In neither of the time series specifications does the summary indicator match the time series estimate across the entire sample period.

Sensitivity analysis

There is much uncertainty about the summary indicator estimates. There are two broad sources of that uncertainty which can lead to revisions in the indicator estimates:

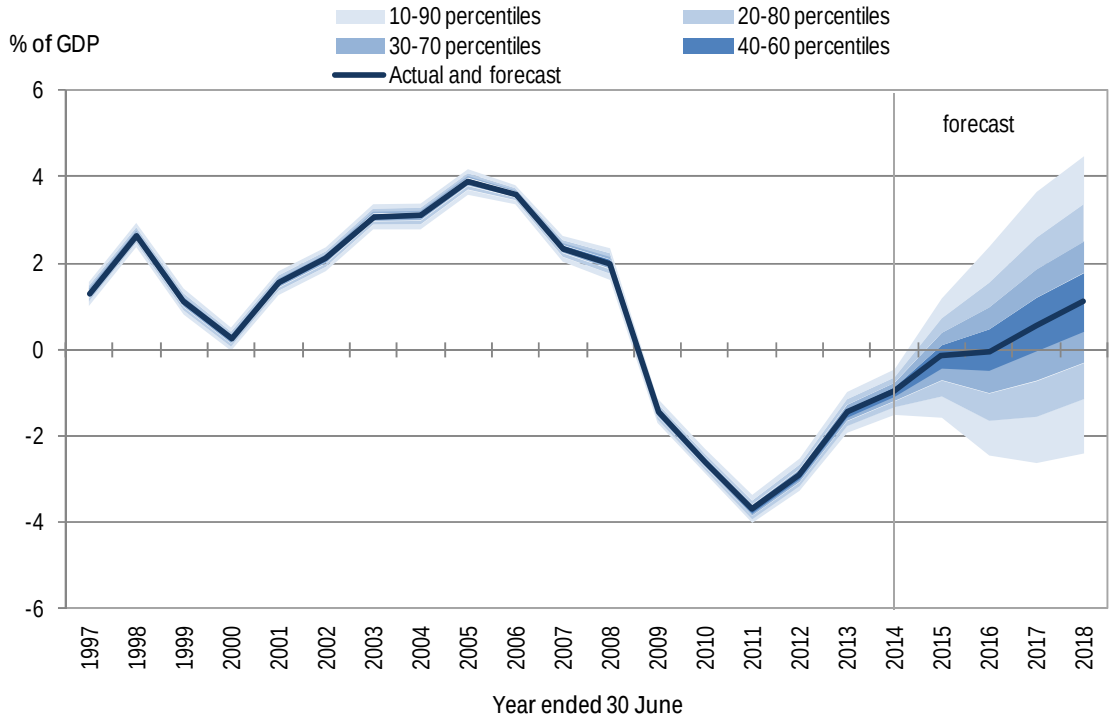
- estimation uncertainty of the key model parameters (ie, the output gap and the average sensitivity of tax revenues to changes in the output gap), and
- forecast uncertainty relating to future fiscal and economic developments.

Sensitivity analysis is performed by calculating the indicators using alternative output gaps (from the RBNZ, IMF and OECD) and values for the elasticity of tax revenues with respect to the output gap which are half and twice the magnitude of the baseline estimate. The range of alternative estimates is plotted in Figures 4 to 6 (with data reported in Tables 14 and 15). Differences in the output gap estimates are mainly the result of differences in estimation technique, although it also reflects different institutions' judgements about the forecast outlook and the availability of data at the time of forecast finalisation. Accordingly, it provides an indication of uncertainty due to model specification but it does not capture total forecast uncertainty.

An alternative means of illustrating uncertainty is to show a probability distribution around the central forecast. A probability distribution requires making some assumptions about future forecast errors based on historical forecast errors of observable economic and fiscal variables and historical revisions to the Treasury's output gap estimates. In Figure 3, a fan chart of the cyclically-adjusted balance indicator is shown. The probability intervals calculated are conditional on current policy and reflect historical revisions to the Treasury's official output gap estimate, rather than the full uncertainty implied by different estimation techniques. Details of the methodology and parameter values for the confidence intervals are reported in Treasury Working Paper 10/08.[4] This analysis shows that central estimate of the cyclically-adjusted balance is expected to reach a surplus over the forecast period but there is considerable forecast uncertainty around this central estimate.

[4] Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/

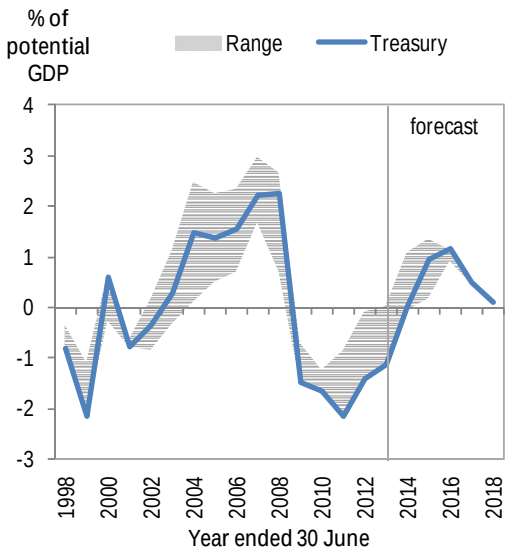
Figure 3 – Fan chart for cyclically-adjusted balance



Source: The Treasury

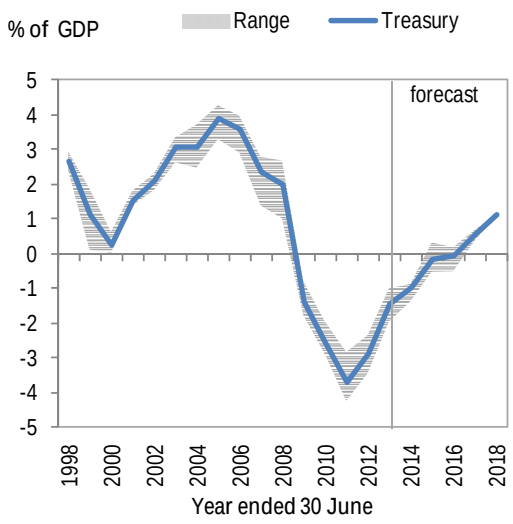
Note: the bands represent sequential deciles such that the difference between the 10th and 90th percentiles represents an 80% confidence interval.

Figure 4 – Output gap range



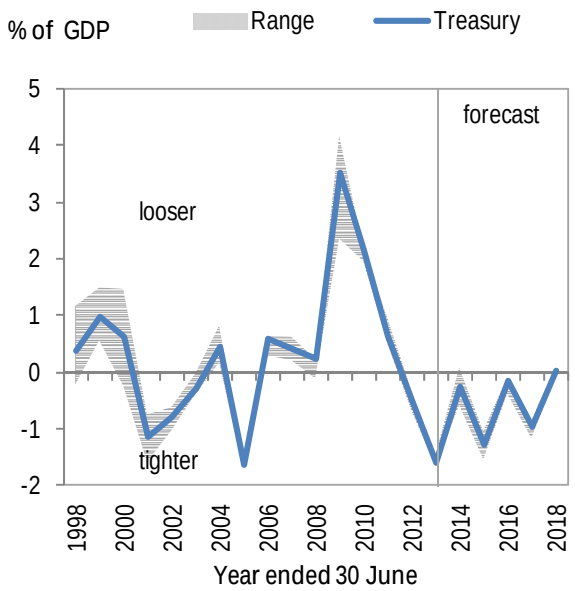
Source: The Treasury

Figure 5 – Cyclically-adjusted balance range



Source: The Treasury

Figure 6 – Core Crown fiscal impulse range



Source: The Treasury

Terms-of-trade adjustment

The Treasury produces regular estimates of the terms-of-trade effect on the budget balance following the methodology outlined in Treasury Working Paper 10/08.[5]

Estimating the terms-of-trade effect means calculating the approximate amount of tax revenue that is due to deviations in the terms of trade from some specified structural, or long-run, level. The central forecast has the terms of trade remaining at a relatively elevated level throughout the forecast horizon. A terms-of-trade adjustment to the fiscal balance is made to understand what the underlying fiscal position may be under different assumptions (ie, scenarios) about the long-run level of the terms of trade. The purpose is to produce information that helps to make judgements about the fiscal position from a medium-term perspective, without compromising the forecasts' role of presenting the most likely near-term outcome.

Figure 7 shows New Zealand's terms of trade and historical average levels (50-, 30- and 20-year averages) and a time-varying trend using a statistical filter.[6] The historical average and trend estimates are used as estimates of the structural level of the terms of trade. Using the statistical filter runs the risk of interpreting long cycles as structural shifts in real time, whereas using an historical average suffers from the opposite risk.

A terms-of-trade adjustment, for each alternative assumption, is reported in Table 16. The adjusted cyclically-adjusted balance estimate is plotted in Figure 8. Using the 30-year average, this analysis suggests that a terms-of-trade adjustment would subtract 2.3% of GDP from structural tax revenues for the year ended June 2015. This implies a structural budget deficit of 2.4% of GDP with the terms-of-trade adjustment. Alternatively, a terms-of-trade adjustment using a statistical filter, which smoothes out fluctuations around a time-varying trend, would subtract 0.1% of GDP from the structural budget balance in the 2015 June year.

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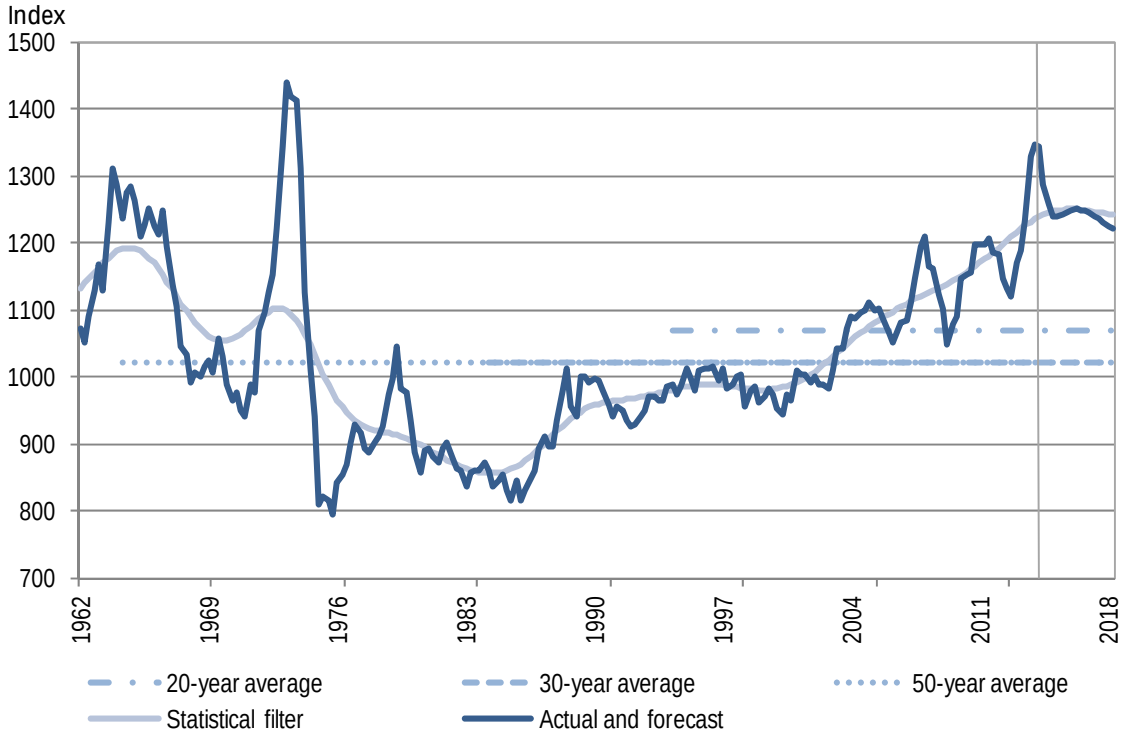
5 Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/.

6 A Hodrick-Prescott filter is used on quarterly data with a smoothing parameter of 1600.

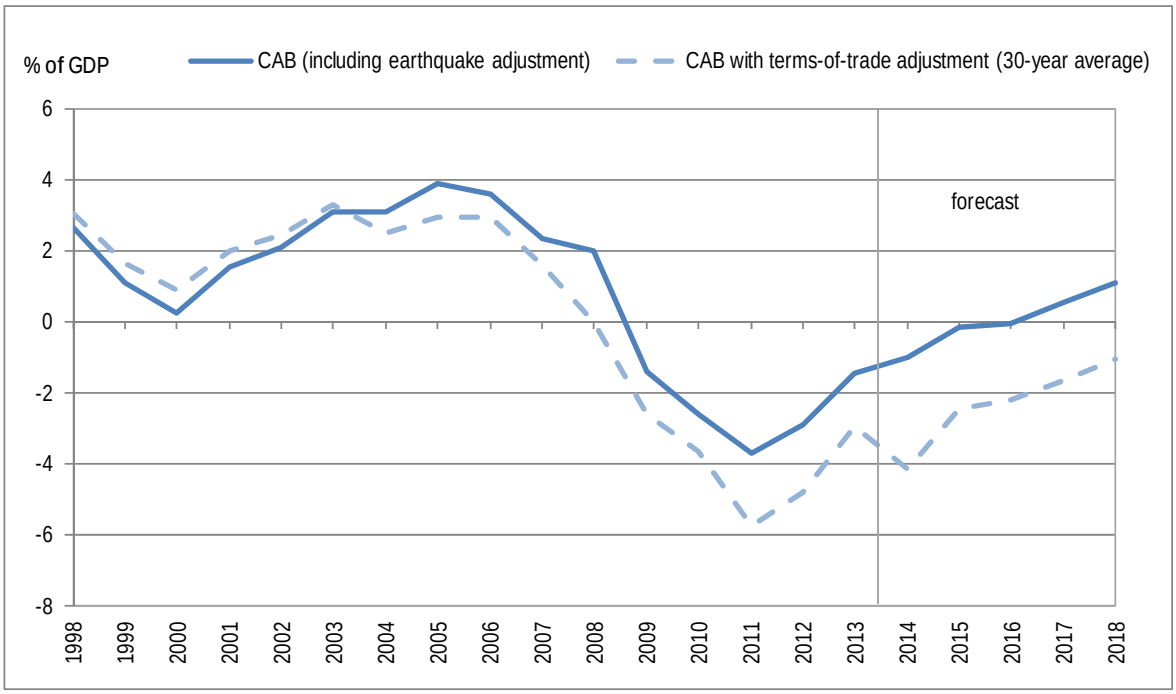
Figure 7 – Terms of trade with historical average and time-varying trend



Sources: Statistics New Zealand, The Treasury

Note: Due to data availability, this uses the goods and services terms of trade spliced with the goods terms of trade for the period prior to 1987.

Figure 8 – Cyclically-adjusted balance with terms-of-trade adjustment



Source: The Treasury

Data tables for summary fiscal indicators

Table 10 – Central estimates of output gap, cyclically-adjusted balance and fiscal impulse (% of GDP)

June year	Output gap	OBEGAL	OBEGAL excl earthquake expenses	CAB	Fiscal impulse (core Crown)	Fiscal impulse (core Crown plus Crown entity)	Fiscal impulse (core Crown plus CE) excluding EQC & Southern Response payouts
1997	1.0	1.8		1.3	2.3		
1998	-0.8	2.3		2.6	0.4		
1999	-2.1	0.1		1.1	1.0		
2000	0.6	0.5		0.2	0.6		
2001	-0.8	1.2		1.5	-1.2		
2002	-0.4	1.9		2.1	-0.8		
2003	0.3	3.2		3.1	-0.3	-0.7	-0.7
2004	1.5	3.8		3.1	0.5	0.2	0.2
2005	1.4	4.6		3.9	-1.6	-1.6	-1.6
2006	1.6	4.3		3.6	0.6	0.9	0.9
2007	2.2	3.4		2.3	0.4	0.4	0.4
2008	2.3	3.0		2.0	0.2	0.4	0.4
2009	-1.5	-2.1		-1.4	3.5	3.6	3.6
2010	-1.7	-3.3		-2.6	2.1	1.9	1.9
2011	-2.2	-9.2	-4.6	-3.7	0.6	0.9	0.4
2012	-1.4	-4.4	-3.5	-2.9	-0.5	-0.1	-0.7
2013	-1.1	-2.1	-1.9	-1.5	-1.6	-2.6	-1.6
2014	0.1	-1.1	-1.0	-1.0	-0.3	0.2	0.0
2015	0.9	0.1	0.3	-0.2	-1.3	1.0	-0.2
2016	1.2	0.3	0.5	-0.1	-0.1	-1.7	-0.4
2017	0.5	0.7	0.8	0.6	-1.0	-1.2	-1.0
2018	0.1	1.1	1.2	1.1	0.0	-0.1	-0.1

Source: The Treasury

Table 11 – Sources for alternative output gaps

Institution	Source	Publication date
The Treasury	*Pre-election Economic and Fiscal Update*	August 2014
RBNZ	*Monetary Policy Statement*	June 2014
IMF	*World Economic Outlook*	April 2014
OECD	*Economic Outlook*	June 2014

Table 12 – Elasticity values used in sensitivity analysis

Elasticities	Base case	Low	High
Individual income tax	0.9	0.5	1.8
Company tax	1.4	0.7	2.8
GST	1.0	0.5	2.0
Excise duties	1.0	0.5	2.0
Other indirect tax	1.0	0.5	2.0
Interest, profits and dividends	0.0	0.0	0.0
Other receipts	1.0	0.5	2.0

Source: The Treasury

Table 13 – Output gap estimates used in sensitivity analysis (% of potential GDP)

June year	The Treasury	RBNZ	IMF	OECD
1997	1.0	1.6	1.5	0.5
1998	-0.8	-0.7	-0.3	-0.7
1999	-2.1	-2.1	-1.1	-1.1
2000	0.6	0.7	-0.3	-0.2
2001	-0.8	-0.6	-0.6	-0.7
2002	-0.4	0.2	-0.8	-0.6
2003	0.3	1.1	-0.3	0.7
2004	1.5	2.5	0.1	1.8
2005	1.4	2.3	0.5	2.1
2006	1.6	2.4	0.7	1.6
2007	2.2	3.0	1.7	1.7
2008	2.3	2.7	1.5	0.7
2009	-1.5	-1.2	-0.7	-1.1
2010	-1.7	-1.2	-1.4	-1.3
2011	-2.2	-1.2	-0.8	-1.4
2012	-1.4	-0.1	-0.5	-1.2
2013	-1.1	0.0	-0.3	-0.5
2014	0.1	1.1	0.0	0.2
2015	0.9	1.4	0.2	1.0
2016	1.2	0.9		
2017	0.5	0.6		
2018	0.1			

Sources: The Treasury, RBNZ, IMF, OECD

Table 14 – Cyclically-adjusted balance with alternative output gap and elasticity values (% of GDP)

June year	OBEGAL	Baseline CAB	CAB using alternative output gaps			CAB using alternative elasticities	
			RBNZ	IMF	OECD	Low	High
1997	1.8	1.3	1.0	1.1	1.5	1.5	0.9
1998	2.3	2.6	2.6	2.4	2.6	2.5	3.0
1999	0.1	1.1	0.1	0.6	0.6	0.7	1.9
2000	0.5	0.2	0.2	0.6	0.6	0.4	0.0
2001	1.2	1.5	1.5	1.5	1.5	1.4	1.8
2002	1.9	2.1	1.8	2.3	2.2	2.0	2.2
2003	3.2	3.1	2.6	3.4	2.8	3.1	3.0
2004	3.8	3.1	2.6	3.7	2.9	3.4	2.5
2005	4.6	3.9	3.5	4.3	3.5	4.2	3.3
2006	4.3	3.6	3.2	4.0	3.6	3.9	2.9
2007	3.4	2.3	2.0	2.6	2.6	2.8	1.4
2008	3.0	2.0	1.8	2.3	2.7	2.5	1.0
2009	-2.1	-1.4	-1.6	-1.8	-1.6	-1.7	-0.8
2010	-3.3	-2.6	-2.8	-2.7	-2.7	-2.9	-2.0
2011	-9.2	-3.7	-4.1	-4.3	-4.0	-4.1	-2.8
2012	-4.4	-2.9	-3.5	-3.3	-3.0	-3.2	-2.4
2013	-2.1	-1.5	-2.0	-1.8	-1.7	-1.7	-1.0
2014	-1.1	-1.0	-1.4	-0.9	-1.0	-1.0	-1.0
2015	0.1	-0.2	-0.2	0.3	0.0	0.0	-0.5
2016	0.3	-0.1	0.2			0.2	-0.5
2017	0.7	0.6	0.7			0.7	0.4
2018	1.1	1.1				1.1	1.1

Source: The Treasury

Table 15 – Core Crown fiscal impulse with alternative output gap and elasticity values (% of GDP)

June year	Fiscal impulse	Fiscal impulse using alternative output gaps			Fiscal impulse using alternative elasticities	
		RBNZ	IMF	OECD	Low	High
1997	2.3	2.1	2.0	2.3	2.2	2.4
1998	0.4	1.2	0.4	0.7	0.7	-0.2
1999	1.0	1.5	1.2	1.3	1.2	0.6
2000	0.6	-0.2	-0.2	-0.2	0.2	1.5
2001	-1.2	-1.1	-0.7	-0.8	-0.9	-1.6
2002	-0.8	-0.6	-1.0	-0.9	-0.8	-0.7
2003	-0.3	-0.2	-0.3	0.0	-0.4	-0.1
2004	0.5	0.5	0.2	0.4	0.3	0.8
2005	-1.6	-1.7	-1.5	-1.5	-1.6	-1.7
2006	0.6	0.5	0.6	0.3	0.5	0.6
2007	0.4	0.4	0.5	0.2	0.3	0.6
2008	0.2	0.1	0.2	-0.1	0.2	0.2
2009	3.5	3.5	4.0	4.2	4.1	2.4
2010	2.1	2.2	2.0	2.1	2.2	2.1
2011	0.6	0.8	1.0	0.8	0.7	0.5
2012	-0.5	-0.4	-0.6	-0.7	-0.6	-0.3
2013	-1.6	-1.6	-1.6	-1.5	-1.6	-1.5
2014	-0.3	-0.3	-0.6	-0.4	-0.4	0.1
2015	-1.3	-1.5	-1.5	-1.3	-1.4	-1.0
2016	-0.1	-0.4			-0.2	-0.1
2017	-1.0	-0.9			-0.9	-1.2
2018	0.0				0.1	-0.1

Source: The Treasury

Table 16 – Terms-of-trade adjustment to the cyclically-adjusted balance (% of GDP)

June year	Baseline CAB	Terms-of-trade adjustment (impact on CAB)				CAB with terms-of-trade adjustment			
		50-year average	30-year average	20-year average	Statistical filter	50-year average	30-year average	20-year average	Statistical filter
1997	1.3	0.2	0.2	0.7	-0.1	1.5	1.5	2.0	1.1
1998	2.6	0.4	0.4	0.9	0.0	3.0	3.0	3.5	2.6
1999	1.1	0.5	0.5	1.0	0.1	1.6	1.6	2.1	1.2
2000	0.2	0.7	0.7	1.2	0.2	0.9	0.9	1.4	0.5
2001	1.5	0.4	0.5	1.1	0.0	2.0	2.0	2.6	1.6
2002	2.1	0.3	0.3	0.9	0.1	2.4	2.4	3.0	2.2
2003	3.1	0.2	0.2	0.8	0.3	3.3	3.3	3.9	3.3
2004	3.1	-0.6	-0.6	0.0	-0.3	2.5	2.5	3.1	2.8
2005	3.9	-1.0	-0.9	-0.4	-0.3	2.9	3.0	3.5	3.6
2006	3.6	-0.7	-0.7	-0.1	0.2	2.9	2.9	3.5	3.8
2007	2.3	-0.8	-0.8	-0.2	0.2	1.6	1.6	2.2	2.6
2008	2.0	-2.0	-2.0	-1.3	-0.7	0.0	0.0	0.7	1.3
2009	-1.4	-1.2	-1.2	-0.5	0.3	-2.6	-2.6	-1.9	-1.1
2010	-2.6	-1.1	-1.1	-0.5	0.3	-3.7	-3.7	-3.1	-2.3
2011	-3.7	-2.1	-2.0	-1.4	-0.2	-5.8	-5.7	-5.1	-3.9
2012	-2.9	-1.9	-1.9	-1.3	0.1	-4.8	-4.8	-4.2	-2.8
2013	-1.5	-1.5	-1.5	-0.9	0.6	-3.0	-3.0	-2.4	-0.9
2014	-1.0	-3.2	-3.2	-2.5	-0.7	-4.2	-4.2	-3.5	-1.7
2015	-0.2	-2.3	-2.3	-1.7	-0.1	-2.5	-2.4	-1.9	-0.2
2016	-0.1	-2.2	-2.2	-1.6	0.0	-2.2	-2.2	-1.7	0.0
2017	0.6	-2.2	-2.2	-1.6	0.0	-1.6	-1.6	-1.1	0.6
2018	1.1	-2.2	-2.2	-1.6	0.1	-1.1	-1.0	-0.5	1.3

Source: The Treasury

Accounting Policies

The forecast financial statements contained in the published *Pre-election Economic and Fiscal Update 2014* are based on the following accounting policies:

Statement of compliance

These forecast financial statements have been prepared in accordance with the Public Finance Act 1989 and with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as defined in the Financial Reporting Act 2013.

Forecasts for the 2013/14 year have been prepared in accordance with NZ equivalents to International Financial Reporting Standards as appropriate for public benefit entities (NZ IFRS (PBE)). Forecasts for the 2014/15 year and beyond have been prepared in accordance with Public Sector PBE Accounting Standards (PBE IPSAS).

For the purposes of these forecast financial statements, the government reporting entity has been designated as a public benefit entity (PBE). Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. The forecast financial statements comply with FRS-42 (PBE): *Prospective Financial Statements* and NZ GAAP as it relates to prospective financial statements.

Reporting entity

The Government reporting entity as defined in section 2(1) of the Public Finance Act 1989 means:

- the Sovereign in right of New Zealand, and
- the legislative, executive, and judicial branches of the Government of New Zealand.

The description “consolidated financial statements for the Government reporting entity” and the description “financial statements for the Government of New Zealand” have the same meaning and can be used interchangeably.

Basis of preparation

These forecast financial statements have been prepared on the basis of historic cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the statement of cash flows).

The forecast financial statements are presented in New Zealand dollars rounded to the nearest million, unless separately identified.

Judgements and estimations

The preparation of these forecast financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation

assumptions and the risk free discount rate used to calculate present values. A further area of uncertainty relates to the estimation of the claims and provisions arising from the Canterbury earthquakes.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Where these judgements significantly affect the amounts recognised in the forecast financial statements they are described below.

Early adoption of standards and interpretations

The New Zealand Accounting Standards Board has issued a new suite of accounting standards (called Public Sector PBE Accounting Standards) that will apply to the Financial Statements of Government for the financial year beginning 1 July 2014.

While these forecasts incorporate changes as a consequence of the new suite of standards for the 2014/15 year and beyond, the impact is not significant. This is due to a strong degree of convergence between the current NZ IFRS and the Public Sector PBE Accounting Standards.

The Government has adopted all NZ IFRSs and interpretations applicable to public benefit entities issued to date for the 2013/14 year, with the exception of NZ IFRS 9: *Financial Instruments*, approved in 2010. NZ IFRS 9 becomes effective for annual reporting periods commencing on or after 1 January 2015.

As the Government will be adopting PBE IPSAS 29: *Financial Instruments: Recognition and Disclosure* on 1 July 2014, the Crown has not early adopted NZ IFRS 9 in 2013/14, to reduce the risk of unnecessary accounting changes.

Reporting and forecast period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2014 to 30 June 2018.

The “2013 Actual” figures reported in the statements are the audited results reported in the Financial Statements of Government for the year ended 30 June 2013. The “2014 Previous Budget” figures are the original forecasts to 30 June 2014 as presented in the 2013 Budget. The “2014 Forecast” figures include an update of the operating results and expense forecasts using the 2013/14 pre-audited financial information of departments and other significant reporting entities.

Where necessary, the financial information for state-owned enterprises and Crown entities that have a balance date other than 30 June has been adjusted for any transactions or events that have occurred since their most recent balance date and that are significant for the Government’s financial statements. Such entities are primarily in the education sector.

Basis of combination

These forecast financial statements combine the following entities using the acquisition method of combination:

Core entities

- Ministers of the Crown
- Government departments
- Offices of Parliament
- the Reserve Bank of New Zealand
- New Zealand Superannuation Fund

Other entities

- State-owned Enterprises
- Crown entities (excluding tertiary education institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 and 4A of the Public Finance Act 1989
- Organisations listed in Schedule 5 of the Public Finance Act 1989
- Legal entities listed in Schedule 6 of the Public Finance Act 1989

Corresponding assets, liabilities, income and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Government reporting entity.

Tertiary education institutions are equity-accounted for the reasons explained in the notes to the Government's financial statements for the period ended 30 June 2013. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

The basis of combination for a joint venture depends on the form of the joint venture.

Accounting policies

The accounting policies set out below have been applied consistently to all periods in the *Pre-election Update*.

Income

Taxation revenue levied through the Crown's sovereign power

The Government provides many services and benefits that do not give rise to revenue. Further, payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, since there is no relationship between paying tax and receiving Crown services and transfers. Such revenue is received through the exercise of the sovereign power of the Crown in Parliament.

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event is defined as follows:

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Provisional tax	When assessed income is earned during the taxation period
Terminal tax	Assessment filed date
Goods and services tax (GST)	When the purchase or sale of taxable goods and services occurs during the taxation period
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
Exhaustible resources levy	When the resource is extracted
Other indirect taxes	When the debt to the Crown arises
Levies (eg, ACC levies)	When the obligation to pay the levy is incurred

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. Inland Revenue has implemented systems and controls (eg, performing audits of taxpayer records) in order to detect and correct situations where taxpayers are not complying with the various acts it administers.

Revenue earned through operations

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Dividend income

Dividend income from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

Rental income

Rental income is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Donated or subsidised assets

Where an asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income in the statement of financial performance.

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

Welfare benefits and entitlements, including New Zealand Superannuation, are recognised in the period when an application for a benefit has been received and the eligibility criteria have been met.

Grants and subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Foreign currency

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance, except when recognised in the statement of comprehensive income when hedge accounting is applied.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into New Zealand dollars at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses follow the fair value gains or losses to either the statement of financial performance or the statement of comprehensive income.

Foreign exchange gains and losses arising from translating monetary items that form part of the net investment in a foreign operation are reported in a translation reserve in net worth and recognised in the statement of comprehensive income.

Sovereign receivables and taxes repayable

Receivables from taxes, levies and fines (and any penalties associated with these activities) as well as social benefit receivables which do not arise out of a contract are collectively referred to as sovereign receivables.

Sovereign receivables are initially assessed at nominal amount or face value; that is, the receivable reflects the amount of tax owed, levy, fine charged, or social benefit debt payable. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.

Taxes repayable represent refunds due to taxpayers and are recognised at their nominal value. They are subsequently adjusted for interest once account and refund reviews are complete.

Financial Instruments – forecasting policies

For forecasting purposes, financial instruments held at the forecast preparation date are assumed to be held until they mature. Additional gains and losses on financial assets measured at fair value are based on long-run rate of return assumptions appropriate to the forecast portfolio mix, after adjusting for interest revenue and dividend revenue which are reported separately. Gains and losses on financial liabilities measured at fair value are assumed to unwind over the period to maturity, as they are assumed to be redeemed at par value.

Forecast sales and purchases of financial instruments are assumed to be issued at par value, with no premiums or discounts forecast. The exceptions are interest-free assets with long maturities, such as student loans and some sovereign receivables, where a write-down to fair value is recognised when the loan or receivable is issued.

Derivatives held for trading are measured at fair value, which is nil when initially entered into. That is, fair value changes are only recognised after the derivative is created and as a result of changes in underlying variables such as exchange rates. Hence, forecasts for derivatives expected to be entered into over the forecast period are assumed to have a nil balance. Forward margins on forward-exchange contracts existing at the forecast preparation date are amortised over the period of the contract on a straight line basis.

Gains and losses are not forecast for financial assets measured at amortised cost.

Financial instruments – accounting policies

Financial assets

Financial assets are designated into the following categories: loans and receivables at amortised cost, financial assets available-for-sale, financial assets held-for-trading and financial assets designated as fair value through profit and loss. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

The maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

Major financial asset type	Designation
Trade and other receivables	All designated as loans and receivables at amortised cost
Student loans	All designated as loans and receivables at amortised cost
Kiwibank mortgages	Generally designated as loans and receivables at amortised cost
Other advances	Generally designated as loans and receivables at amortised cost
IMF financial assets	All designated as loans and receivables at amortised cost
Share investments	Generally designated as fair value through profit and loss
Marketable securities	Generally designated as fair value through profit and loss
Long-term deposits	Generally designated as loans and receivables at amortised cost

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest income policy). Loans and receivables issued with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance.

A financial asset is designated at fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis, such as with the New Zealand Superannuation Fund. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income with some exceptions. Those exceptions are for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in the statement of financial performance. For non-monetary available-for-sale financial assets (eg, some unlisted equity instruments) the fair value movements recognised in the statement of comprehensive income include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive income, is recognised in the statement of financial performance.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Fair values of quoted investments are based on market prices. Regular way purchases and sales of all financial assets are accounted for at trade date. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques, as set out in the notes to the financial statements. At each balance date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

Financial liabilities

Financial liabilities are designated into the following categories: amortised cost, financial liabilities held-for-trading and financial liabilities designated as fair value through profit and loss. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Major financial liability type	**Designation**
Accounts payable	All designated at amortised cost
Government stock	Generally designated at amortised cost
Treasury bills	Generally designated at amortised cost
Government retail stock	All designated at amortised cost
Settlement deposits with Reserve Bank	All designated at amortised cost
Issued currency	Not designated: Recognised at face value

Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. A financial liability is designated at fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

Currency issued for circulation, including demonetised currency after 1 July 2004, is recognised at face value. Currency issued represents a liability in favour of the holder.

Derivative Financial Instruments

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively. Recognition of the movements in the value of derivatives depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged (see Hedging section below).

Derivatives that are not designated for hedge accounting are classified as held-for-trading financial instruments with fair value gains or losses recognised in the statement of financial performance. Such derivatives may be entered into for risk management purposes, although not formally designated for hedge accounting, or for tactical trading.

Hedging

Individual entities consolidated within the Government reporting entity apply hedge accounting after considering the costs and benefits of adopting hedge accounting, including:

- whether an economic hedge exists and the effectiveness of that hedge
- whether the hedge accounting qualifications could be met, and
- the extent to which it would improve the relevance of reported results.

Transactions between entities within the Government reporting entity do not qualify for hedge accounting in the financial statements of the Government (although they may qualify for hedge accounting in the separate financial statements of the individual entities). Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, the effects of the hedge relationship are automatically reflected in the statement of financial performance so hedge accounting is not necessary.

(a) Cash flow hedge

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive income and the ineffective portion is recognised in the statement of financial performance. Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (eg, where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive income is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive income transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (eg, when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in net worth at that time remains in net worth and is recognised when the forecast transaction is ultimately recognised in the statement of financial performance. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the statement of comprehensive income is transferred to the statement of financial performance.

(b) Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability. The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged.

Inventories

Inventories are recorded at the lower of cost (calculated using weighted average method) and net realisable value. Inventories held for distribution for public benefit purposes are recorded at cost adjusted where applicable for any loss of service potential. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the current replacement cost at the date of acquisition.

Inventories include unissued currency and harvested agricultural produce (eg, logs, wool). The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

Property, plant and equipment – forecasting policy

Forecasts of the value of PPE (including state highways and rail infrastructure) use the valuations recorded in the *Financial Statements of the Government* for the prior year and any additional valuations that have occurred up to the forecast preparation date. As a consequence, no further realised or unrealised gains or losses are forecast for the entire forecast period.

Property, plant and equipment – accounting policies

Items of property, plant and equipment (PPE) are initially recorded at cost. Cost may include transfers from net worth of any gains or losses on qualifying cash flow hedges of foreign currency purchases of PPE. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, as income in the statement of financial performance.

Revaluations are carried out for a number of classes of PPE to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset, with changes reported by class of asset. Subsequent to initial recognition, classes of PPE are accounted for as set out below.

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Land associated with the rail network and state highways is valued using and opportunity cost based on adjacent use, as an approximation to fair value. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where available. Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, may be used if they have been confirmed as appropriate by an independent valuer. When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.
Specialist military equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.
Rail network	Rail infrastructure used for freight services (freight only and dual use lines required for freight operations) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued. Rail infrastructure not required for freight operations and used for metro services is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation	Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less subsequent impairment losses and, for non-land assets, less subsequent accumulated depreciation. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

Classes of PPE that are revalued are revalued at least every five years or whenever the carrying amount differs materially to fair value.

Items of PPE are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value. Where an item of PPE is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of PPE by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of PPE is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

Unrealised gains and losses arising from changes in the value of PPE are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the statement of financial performance for the asset class, the gain is credited to the statement of financial performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class any loss is debited to the reserve. Otherwise, losses are reported in the statement of financial performance.

Realised gains and losses arising from disposal of PPE are recognised in the statement of financial performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to taxpayer funds.

Generally, Government borrowings are not directly attributable to individual assets. Therefore, any borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised.

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. The main reason for holding some assets (for example, electricity generation assets) is to generate cash. For these assets the recoverable amount is the higher of the amount that could be recovered by sale (after deducting the costs of sale) or the amount that will be generated by using the asset through its useful life. Some assets do not generate cash (for example, state highways) and for those assets, depreciated replacement cost is used. Losses resulting from impairment are reported in the statement of financial performance, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of PPE, less any estimated residual value, over its remaining useful life.

Typically, the estimated useful lives of different classes of PPE are as follows:

Class of PPE	Estimated useful lives
Buildings	25 to 60 years
Specialist military equipment (SME)	5 to 55 years
State highways:	
Pavement (surfacing)	7 years
Pavement (other)	50 years
Bridges	70 to 105 years
Rail Network:	
Track and ballast	25 to 40 years
Tunnels and bridges	60 to 100 years
Overhead traction and signalling	10 to 40 years
Aircraft (excluding SME)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 100 years
Other plant and equipment	3 to 30 years

Specified heritage and cultural assets are generally not depreciated.

Equity accounted investments

Generally accepted accounting practice (GAAP) determines the combination bases for entities that make up the Government reporting entity and is used by public benefit entities to determine whether they control another entity.

However, generally accepted accounting practice is not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, for example, where legislation provides public sector entities with statutory autonomy and independence, in particular with Tertiary Education Institutions. Treasury's view is that because the Government cannot determine their operating and financing policies, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

Biological assets

Biological assets (eg, trees and sheep) managed for harvesting into agricultural produce (eg, logs and wool) or for transforming into additional biological assets are measured at fair value less estimated costs to sell, with any realised and unrealised gains or losses reported in the statement of financial performance. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and accumulated impairment losses. For commercial forests, fair value takes into account age, quality of timber and the forest management plan.

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible assets

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Research is "original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding". Expenditure incurred on the research phase of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when incurred.

The Government's holdings of assigned amount units arising from the Kyoto protocol are reported at fair value. Other intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three to five years.

Intangible assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance in the period in which the transaction occurs.

Intangible assets with finite lives are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are separately classified where their carrying amount will be recovered through a sale transaction rather than continuing use; that is, where such assets are available for immediate sale and where sale is highly probable. Non-current assets held for sale, or disposal groups, are recorded at the lower of their carrying amount and fair value less costs to sell.

Investment property

Investment property is property held primarily to earn rentals or for capital appreciation or both. It does not include property held primarily for strategic purposes or to provide a social service (eg, affordable housing) even though such property may earn rentals or appreciate in value – such property is reported as PPE.

Investment properties are measured at fair value. Gains or losses arising from fair value changes are included in the statement of financial performance. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute.

Employee benefits

Pension liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. All movements in the liability, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

Other employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Termination benefits

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Insurance contracts

The future cost of outstanding insurance claims liabilities are valued based on the latest actuarial information. The estimate includes estimated payments associated with claims reported and accepted, claims incurred but not reported, claims that may be re-opened, and the costs of managing these claims. Movements of the claims liabilities are reflected in the statement of financial performance. Financial assets backing these liabilities are designated at fair value through profit and loss.

Reinsurance

Premiums paid to reinsurers are recognised as reinsurance expense in the statement of financial performance. Premiums are measured from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the statement of financial position.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims and outstanding claims, are recognised as income in the statement of financial performance.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured as the present value of the expected future receipts.

Deferred acquisition costs

Accident compensation and earthquake commission levies are imposed through regulation and do not attract acquisition costs. Costs incurred in obtaining other insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under the Group's general insurance contracts cover a period of up to 12 months, therefore, deferred acquisition costs are amortised within one year.

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Other liabilities and provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows.

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Commitments are classified as:

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and
- lease commitments: non-cancellable operating leases with a lease term exceeding one year.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported at the value of those penalty or exit costs (ie, the minimum future payments).

Interest commitments on debts, commitments for funding, and commitments relating to employment contracts are not included in the statement of commitments.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

Comparatives referred to as Previous Budget were forecasts published in the *2013 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment analysis

The Government reporting entity is not required to provide segment reporting as it is a public benefit entity. Nevertheless, information is presented for material institutional components and major economic activities within or undertaken by the Government reporting entity. The three major institutional components of the Crown are:

- Core Crown: This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.
- State-owned enterprises: This group includes entities governed by the State-Owned Enterprises Act 1986, and (for the purposes of these statements) also includes Air New Zealand, Mighty River Power, Meridian and Genesis, represents entities that undertake commercial activity.
- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

Functional analysis is also provided of a number of financial statements items. This functional analysis is drawn from the *Classification of the Functions of Government* as developed by the Organisation for Economic Co-operation and Development (OECD)