TE TAI ŌHANGA
THE TREASURY

Half Year Economic and Fiscal Update 2019

11 December 2019

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An introduction to the *Half Year Economic and Fiscal Update*

The Treasury is New Zealand's economics and finance ministry. We advise on the direction of New Zealand's economic policy with the aim of achieving a strong and sustainable economy, and raising New Zealand living standards. This includes reporting on the expenditure of government (fiscal) revenue, and assisting to ensure spending is fit for purpose and can improve outcomes for New Zealanders.

Sharing what we do

As the government's lead economic and financial adviser we forecast the economic outlook for New Zealand and the Government's fiscal outlook. This *Half Year Economic and Fiscal Update (Half Year Update)* is part of a suite of documents we release as required by the Public Finance Act 1989.

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

Making it New Zealander-centric

Our advice is not just based on facts and figures. Improving outcomes means we need to understand which outcomes to improve and what is important to New Zealanders. We use the Treasury's Living Standards Framework to recognise the different aspects of New Zealanders' living standards and wellbeing. Our framework builds on 30 years of New Zealand and international evidence on wellbeing, such as the OECD's wellbeing approach, and provides a high-level framework on intergenerational wellbeing.

We now provide a living standards perspective in many of the Treasury's core documents, including our *Annual Report, He Puna Hao Pātiki: 2018 Investment Statement* and *He Tirohanga Mokopuna: 2016 Statement on the Long-term Fiscal Position*.

Understanding our path

The Treasury is in a unique position to focus on improving the way our economy can raise New Zealand living standards. Along with delivering first-rate economic and financial advice, we are committed to providing it in a way that helps New Zealanders understand how we work to achieve our goals. If you would like to know more about who we are and what we do, or want a simpler overview of the *Half Year Update,* please go to our website at https://treasury.govt.nz/

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Other information

On the Treasury's website is a series of other information that provides users of the *Half Year Economic and Fiscal Update* with further detail. This other information should be read in conjunction with the published document.

Additional *Half Year Update* information includes detailed economic forecast tables, a comparison of the Treasury and Inland Revenue tax forecasts, tax policy changes, additional fiscal indicators fiscal tables presented under the Government Finance Statistics (GFS) framework and accounting policies.

This other information can be accessed at: https://treasury.govt.nz/publications/budgets/forecasts

Statement of Responsibility

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

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of both government decisions and other circumstances as at 25 November 2019 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 25 November 2019. This *Update* does not incorporate any decisions, circumstances or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.

Caralee McLiesh
Secretary to the Treasury

4 December 2019

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 25 November 2019 of which I was aware and that had material economic or fiscal implications.

In accordance with section 26W of the Public Finance Act 1989, I accept responsibility for the integrity of the disclosures contained in the *Update*, responsibility for the consistency and completeness of the *Update* information with the requirements of Part 2 (Fiscal responsibility) of the Public Finance Act 1989 and responsibility for the omission from the *Update* under section 26V of the Public Finance Act 1989 of any decisions, circumstances or statements not incorporated in it.

Hon Grant Robertson
Minister of Finance

4 December 2019

Executive Summary

June years	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Real production GDP (annual average % change)	2.4	2.2	2.8	2.7	2.5	2.4
Nominal expenditure GDP (annual average % change)	3.7	5.1	5.2	5.3	4.9	4.8
Unemployment rate	3.9	4.3	4.2	4.2	4.3	4.3
CPI inflation (annual % change, June quarter)	1.7	1.9	1.9	2.0	2.0	2.0
Current account balance (% of GDP)	-3.4	-3.2	-3.4	-3.6	-3.7	-3.8
Fiscal (% of GDP)						
Core Crown tax revenue	28.4	27.7	28.0	28.0	28.2	28.4
Core Crown expenses	28.6	29.3	29.4	28.8	28.6	28.1
Total Crown operating balance before gains and losses	2.4	(0.3)	0.0	0.5	1.1	1.5
Core Crown residual cash	(0.2)	(1.6)	(2.4)	(1.6)	(0.6)	0.2
Net core Crown debt	19.0	19.6	21.0	21.5	20.9	19.6
Net worth	48.0	45.6	44.4	43.8	44.1	44.9

Sources: Stats NZ, the Treasury

- The New Zealand economy is experiencing a period of slower, but still solid, economic growth, as household spending eases and global uncertainty weighs on business investment. This contributed to the economy growing at a slower rate of 2.4% in the year to June 2019, compared to 3.2% growth recorded in the year to June 2018.

- Recent data suggest growth has continued at this slower pace over the second half of 2019. As a result, the forecast for GDP growth in 2019/20 has been revised down, reflecting the drag from subdued business investment and household consumption as well as lower services exports.

- Growth is forecast to pick up in 2020/21, supported by monetary and fiscal stimulus. The *Budget Policy Statement 2020* includes an additional $12.0 billion of government capital investment, which complements other spending measures announced in the *Budget Update.* Reductions in the Official Cash Rate have largely flowed through to lower mortgage interest rates, and house prices have picked up. Stronger house price growth is expected to support an increase in household consumption growth. Economic growth eases towards the end of the forecast period, as fiscal and monetary support wane and as population growth continues to soften.

- Although growth has slowed, conditions in the labour market remain tight, and this has caused wage and cost pressures to rise. The unemployment rate is projected to be steady at around 4.2%, while wage growth increases to reach 3.7% at the end of the forecast period. Past falls in tradable goods prices have helped keep CPI inflation subdued but inflation is projected to rise gradually to 2.0% in late 2021.

- Global growth has slowed and the outlook has eased. Escalating trade protectionism, and the associated uncertainty, has weakened global trade and dampened investment spending. Despite this, demand for New Zealand's major export commodities has remained firm and prices have increased, although growth in tourism has eased. The lower New Zealand dollar is providing additional support for export incomes.

- Nominal GDP, the main driver of tax revenue, is forecast to increase 5.1% over the year ahead, supported by improved terms of trade. Growth averages 5.0% over the forecast period, slightly lower than expected in the *Budget Update*. Nominal GDP is lower in each forecast year and, in total, is $5.1 billion lower than in the *Budget Update*.

- By 2023/24, core Crown tax revenue is forecast to reach $110.5 billion (28.4% of GDP), $24.0 billion higher than 2018/19.

- Core Crown expenditure increases by $22.2 billion, reaching $109.2 billion in 2023/24 (28.1% of GDP). This increase in expenditure largely reflects previous Budget decisions, and future Budget allowances combined with increases in benefit expenses.

- An operating balance before gains and losses deficit of $0.9 billion is forecast in the current year, before returning to a small surplus in 2020/21 which then grows to reach $5.9 billion (1.5% of GDP) in 2023/24.

- Capital expenditure across the forecast period is $49.9 billion. This includes the Government's new capital investment of $12.0 billion, with $8.1 billion included in the forecast and the remaining $3.9 billion forecast to be spent after 2023/24.

- Taking into consideration both the operating and capital activities of the Government, a total cash shortfall of $20.1 billion is forecast. The cash shortfall is mainly funded from additional borrowings.

- Net core Crown debt is forecast to increase by $18.6 billion. As a percentage of GDP, net core Crown debt increases from 19.0% in 2018/19 to 21.5% of GDP in 2021/22 before falling to 19.6% in 2023/24. Gross debt increases by $18.2 billion over the forecast period to be $102.6 billion in 2023/24 (26.4% of GDP).

- Total borrowings are forecast to increase from $110.2 billion in 2018/19 (36.2% of GDP) to $145.3 billion by the end of 2023/24 (37.3% of GDP). This increase is owing to issuing additional government bonds to help fund the cash shortfall, an increase in Kiwibank borrowings (eg, deposits held) and Crown entity borrowings.

Finalisation dates for the *Half Year Update*

Economic forecasts* – 12 November 2019

Tax revenue forecasts – 14 November 2019

Fiscal forecasts – 25 November 2019

Specific fiscal risks – 25 November 2019

Text finalised – 5 December 2019

*The economic forecasts do not include annual national accounts data released on 21 November. See page 24 for further details.

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Economic Outlook

Overview

- The New Zealand economy is experiencing a period of slower, but still solid, economic growth as household spending eases and global uncertainty weighs on business investment. Nonetheless, the labour market remains tight, and wage and cost pressures have increased. Past falls in tradable goods prices have helped keep CPI inflation subdued but inflation is projected to rise gradually to 2.0% in late 2021.
- Global growth has also slowed and the outlook has eased. Escalating trade protectionism, and the associated uncertainty, has weakened global trade and dampened investment spending. Despite this, demand for New Zealand's major export commodities has remained firm and prices have increased, although growth in tourism has eased. The lower New Zealand dollar is also supporting export incomes.
- Domestically, fiscal and monetary policy support for growth has increased in the period since the *Budget Update*. The $12.0 billion of capital investment announced in the *Budget Policy Statement 2020* supports economic growth, particularly from 2020/21 onwards. Reductions in the Official Cash Rate have largely flowed through to lower mortgage interest rates, and house prices have picked up. Stronger house price growth is expected to support an increase in household consumption growth.
- The outlook is for growth to increase from 2.2% over 2019/20 to 2.8% over 2020/21 and 2.7% over 2021/22. This period of stronger growth is expected to put upward pressure on wages and prices and lead to a gradual reduction in monetary stimulus from 2022 onwards. Growth eases to 2.4% over 2023/24 as fiscal and monetary support wane and as population growth continues to soften. The unemployment rate remains close to 4.2% over the forecasts.
- Nominal GDP, the main driver of tax revenue, is forecast to increase 5.1% over the year ahead, supported by improved terms of trade. Growth averages 5.0% over the forecast period, slightly lower than in the *Budget Update*. Nominal GDP is lower in each forecast year and, in total, is $5.1 billion lower than in the *Budget Update*.
- The global outlook and net immigration remain key sources of uncertainty. Global risks remain tilted towards slower growth and weaker demand for New Zealand's exports. In contrast, the tight labour market suggests net immigration could be stronger than assumed. The Risks and Scenarios chapter explores these risks further.

Table 1.1 – Economic forecasts

Year ending June Annual average % change	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Private consumption	3.3	2.3	2.6	2.9	2.9	2.8
Public consumption	2.1	3.6	2.3	1.3	1.1	1.1
Total consumption	**3.0**	**2.6**	**2.5**	**2.5**	**2.5**	**2.4**
Residential investment	4.0	5.6	5.6	3.4	1.6	1.1
Business investment[1]	0.9	1.5	4.2	3.9	3.0	2.5
Total investment	**1.7**	**2.6**	**4.6**	**3.8**	**2.6**	**2.2**
Stock change[2]	-0.2	0.1	-0.1	0.0	0.0	0.0
Gross national expenditure	**2.4**	**2.8**	**2.8**	**2.9**	**2.5**	**2.4**
Exports	2.5	0.6	3.0	2.5	2.4	2.5
Imports	1.7	1.7	3.2	3.1	2.6	2.4
GDP (expenditure measure)	**2.6**	**2.5**	**2.8**	**2.7**	**2.5**	**2.4**
GDP (production measure)	**2.4**	**2.2**	**2.8**	**2.7**	**2.5**	**2.4**
Real GDP per capita	0.8	0.7	1.4	1.3	1.1	1.1
Nominal GDP (expenditure measure)	3.7	5.1	5.2	5.3	4.9	4.8
GDP deflator	1.0	2.6	2.4	2.5	2.4	2.3
Potential GDP	2.7	2.6	2.6	2.6	2.6	2.6
Output gap (% of potential, June quarter)[3]	0.4	0.1	0.4	0.4	0.3	0.1
Employment	1.7	1.4	2.1	1.9	1.6	1.5
Unemployment rate[4]	3.9	4.3	4.2	4.2	4.3	4.3
Participation rate[5]	70.3	70.6	70.9	71.1	71.2	71.3
Hourly wages (annual % change)[6]	4.4	3.0	3.3	3.6	3.7	3.7
CPI inflation (annual % change)	1.7	1.9	1.9	2.0	2.0	2.0
Terms of trade (goods)[7]	-3.4	1.8	-0.3	0.1	0.2	0.3
House prices (annual % change)[8]	1.3	4.9	6.1	6.2	5.6	4.9
Current account balance (annual)						
$billions	-10.3	-10.2	-11.2	-12.5	-13.5	-14.4
% of GDP	-3.4	-3.2	-3.4	-3.6	-3.7	-3.8
Net international investment position (% of GDP)	-55.3	-55.8	-56.5	-57.2	-58.2	-59.3
Household saving ratio (% of HHDI)[9]	-0.7	1.1	0.9	0.5	0.3	0.4
Exchange rate (TWI)[10]	72.7	70.8	70.8	71.6	72.1	72.6
90-day bank bill rate[11]	1.7	1.0	1.0	1.2	1.3	1.5
10-year bond rate[11]	1.8	1.3	1.5	1.8	2.3	2.6

Sources: Reserve Bank of New Zealand (RBNZ), Stats NZ, QV Limited, the Treasury

Economic forecasts are presented on a June year basis for consistency with the fiscal forecasts. Longer time series for these variables are provided on page 141.

Notes:
1 Business investment is the total of all investment types, it includes public investment but excludes residential investment.
2 Contribution to GDP growth.
3 Percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, June quarter, seasonally adjusted.
5 Percent of the working-age population.
6 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change.
7 Annual percentage change.
8 Quotable Value House Price Index, annual percentage change.
9 Percent of household disposable income (HHDI), March years.
10 Trade weighted index, average for June quarter.
11 Average for the June quarter.

Key economic forecast judgements and assumptions

These forecasts cover the period through to June 2024, and include the following judgements and assumptions:

- Net migration declines from 50,000 persons in the year ended September 2019 to 35,000 in the year ending June 2024. This is higher than in the *Budget Update*, where net migration was assumed to decline from 50,000 over 2017/18 to 25,000 in 2021/22 and to be steady at 25,000 until the end of the forecast period in 2022/23. The higher net migration assumption increases the working-age population by an additional 1.3%.

- Working-age population (15 years of age and over) growth averages 1.6% per year over the five years to June 2024, including the contribution of net migration, up from 1.5% per year in the *Budget Update*.

- The labour force participation rate rises from 70.4% in the September 2019 quarter to 71.2% by the end of the forecast period. The participation rate was 70.4% at the end of the *Budget Update* forecast (June 2023).

- The economy has experienced a period of excess demand. Demand has eased and the forecasts begin from a period of balanced supply and demand – that is, the output gap begins from close to zero.

- Over the five years to June 2024 (*Budget Update* assumptions in brackets):

  – economy-wide multifactor productivity growth averages 0.4% per year (0.5%)

  – economy-wide labour productivity growth averages 0.8% per year (0.9%), and

  – potential output growth averages 2.6% per year (2.7%).

- The neutral nominal 90-day interest rate is 3.0% in June 2024. The difference between the actual rate and the neutral rate determines the degree of support or restraint for economic activity provided by monetary policy. The neutral rate in the *Budget Update* was 3.75%. The actual 90-day interest rate is projected to be 1.1 percentage points lower, on average, than in the *Budget Update*, indicating increased monetary policy support for activity.

- The trade-weighted exchange rate index is steady at 70.8 until the September 2021 quarter and rises to 72.6 in the June 2024 quarter. The *Budget Update* assumed the exchange rate would be around 74.0 across the forecast period.

- Several public sector pay equity claims are settled, resulting in higher wages in those occupations. These settlements are assumed to have positive flow-on effects for private sector wages. This is unchanged from the *Budget Update*.

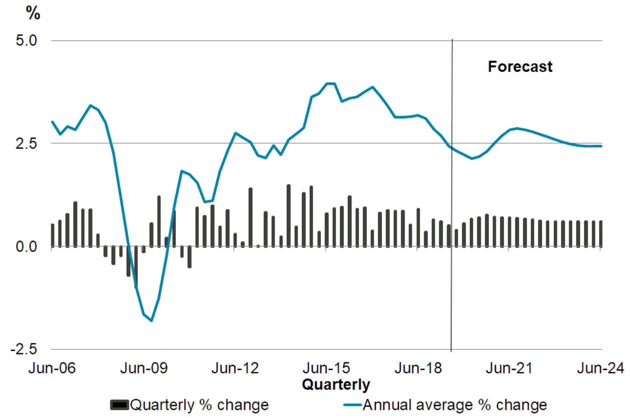
Economic Outlook

Economic growth has slowed …

The New Zealand economy is experiencing a period of slower, but still solid, growth. GDP growth continued to ease over the first half of the year driven by a slower pace of growth in household consumption and business investment. This slower pace of growth is expected to have continued over the second half of the year.

Growth is forecast to slow to 2.2% in 2019/20, which is weaker than forecast in *Budget Update*. This slower growth will lead to less intense capacity pressures and slow the pace of wage and price inflation. Since the *Budget Update*, monetary policy has been loosened and further fiscal policy support has been announced. These measures are expected to promote a pickup in growth to 2.8% in 2020/21 and 2.7% in 2021/22 and to lead to a gradual rise in inflationary pressures (Figure 1.1). To stabilise inflation at 2.0%, monetary policy support for growth is projected to be withdrawn gradually from early 2022 onwards. Slower growth in government consumption and investment spending, and slower population growth, also contributes to easing growth over 2022/23 and 2023/24.

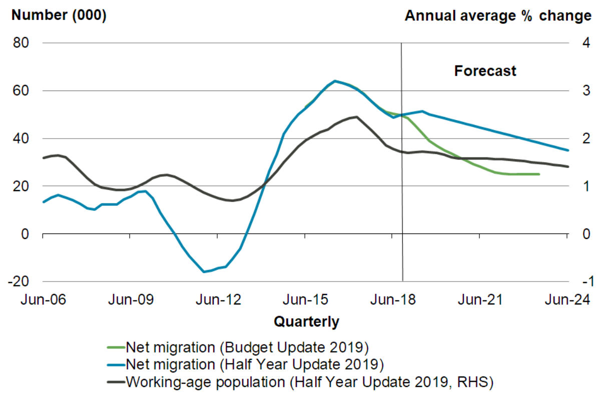
Figure 1.1 – Real GDP growth



Sources: Stats NZ, the Treasury

In these forecasts, net migration inflows are higher over the forecast period than assumed in the *Budget Update*, reflecting the stability of net inflows in recent data, but still trend down – from 50,000 persons in 2018/19 to 35,000 persons in 2023/24. This upward revision increases the rate of expansion in the productive capacity of the economy; growth in the working-age population averages 1.6%, up from 1.5% in the *Budget Update* (Figure 1.2). However, the strength of domestic wage and price pressures in recent quarters corroborates other measures of labour market stretch that suggest the labour market is tighter than previously assumed. This is reflected in a lower rate of labour productivity growth over the forecast period. Overall, the rate at which the economy can grow without putting upward pressure on inflation has been lowered to 2.6% from 2.7% in the *Budget Update*.

Figure 1.2 – Population growth and changes to net migration

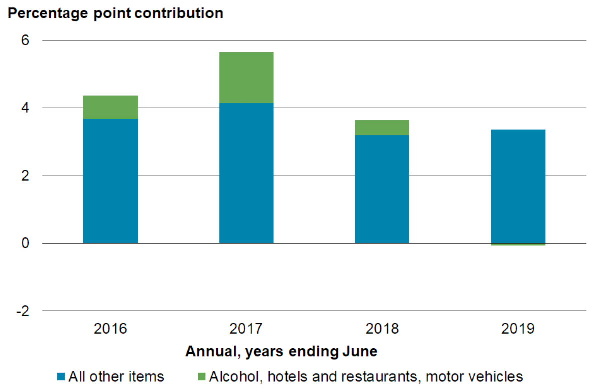


Sources: Stats NZ, the Treasury

…as household spending growth eased…

Household consumption growth slowed markedly over the first half of 2019, growing 0.4% and 0.5% in the March and June quarters respectively. Growth in services consumption was particularly soft, most noticeably in some components of discretionary spending including hotels and restaurants. This continued the trend of slower growth in discretionary spending over the past two years, especially on new motor vehicles (Figure 1.3). Overall, half of the items that make up household consumption spending are growing more slowly than they were a year ago[1]. This trend is consistent with slower growth in house prices, reduced housing turnover, and lower consumer confidence.

Figure 1.3 – Contributions to real household consumption growth



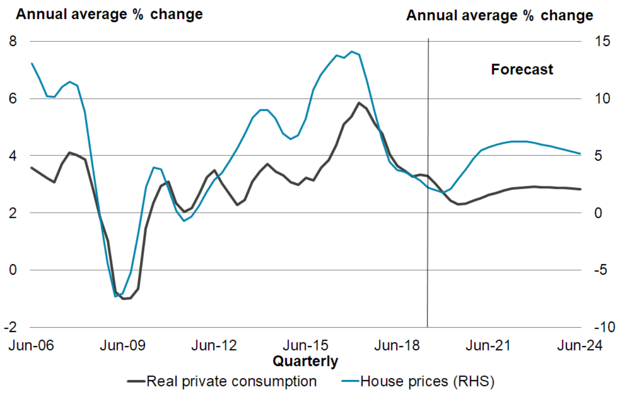
Sources: Stats NZ, the Treasury

…reflecting slower house price growth…

Changes in house prices are an important driver of household consumption, reflecting the large share of housing wealth in total household assets and of borrowing for housing in total household liabilities. House price movements can affect consumption through changes to wealth and to collateral for borrowing. Changes in housing turnover can also affect consumption activity through increased spending on household goods such as furniture and fittings.

Annual house price growth slowed to 1.3% over the past year, driven by price falls in the Auckland market. Demand for existing homes has likely been dampened by several factors including changes to the bright line test, tighter regulations on overseas buyers and lower net immigration. Slower growth in house prices may also be influenced by an increase in supply following a period of underbuilding relative to population growth.

Figure 1.4 – Growth in house prices and real private consumption



Sources: QV, Stats NZ, the Treasury

In recent months, sales of existing homes have increased, mortgage interest rates have fallen and house prices in Auckland have begun to rise. Stronger retail sales growth, a tentative pickup in car registrations and improved consumer confidence indicate the stronger outlook for house prices is flowing through to household spending.

1 Excluding health and education spending, which Stats NZ does not publish in its quarterly GDP estimates.

Nonetheless, household consumption over the second half of 2019 likely remained subdued and growth is forecast to slow to 2.3% in 2019/20 from 3.3% in 2018/19. House prices are forecast to strengthen further, and growth reaches 6.2% in 2021/22, supported by low mortgage interest rates and an ongoing shortfall of housing relative to the population. House price inflation gradually eases over the remainder of the forecast period as interest rates begin to rise and as demand and supply become more balanced (Figure 1.4).

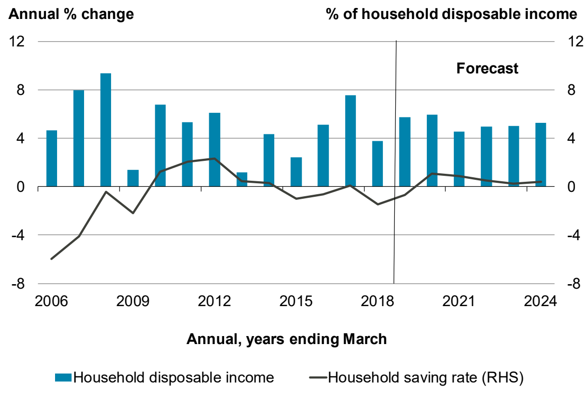
…but household income growth remains strong

The outlook for house prices and stable, solid growth in household incomes underpin a pickup in consumption growth to 2.6% in 2020/21 and 2.9% in 2021/22 and 2022/23, before easing modestly in 2023/24 (Figure 1.4).

Household disposable income growth remains solid. Increases in government transfers over the past year have provided a significant boost to household income and labour market earnings have continued to grow strongly. The Quarterly Employment Survey reported total gross weekly earnings were 5.3% higher in the year ended September 2019 than in the previous year and in line with the average for the past five years. The Treasury's estimate of compensation of employees, which is based on the Household Labour Force Survey's broader measure of employment, also grew 5.3% over the year ended September, although slower employment growth drove the decline from 5.8% in the previous year. Overall, we estimate household disposable incomes grew 5.7% in the year ended March 2019 and that growth will reach 6.0% in the year ended March 2020 (Figure 1.5).[2]

The combination of strong income growth and weaker consumption spending points to an increase in the household savings rate, which might suggest that households have decreased discretionary spending (or increased precautionary saving) in response to uncertainty about future growth in incomes and wealth (Figure 1.5).

Figure 1.5 – Growth in disposable income and the household saving ratio



Sources: Stats NZ, the Treasury

Growth in disposable income is forecast to remain solid over 2020/21 and beyond, as the expected pickup in wage growth offsets slower growth in employment and government transfers. Household consumption rises a little more quickly than disposable income, reflecting stronger house price growth, and household saving trends down.

The saving behaviour of households and the responsiveness of household spending to higher house prices are uncertain. The past easing in house prices is unusual in the context of strong population growth, low unemployment, solid household income growth and low interest rates. These factors may cause house prices to increase more quickly than forecast and consumption may be stronger than forecast.

2 Income measures of GDP are published annually for years ended March. National accounts data for the year ended March 2019 were not available when these forecasts were finalised.

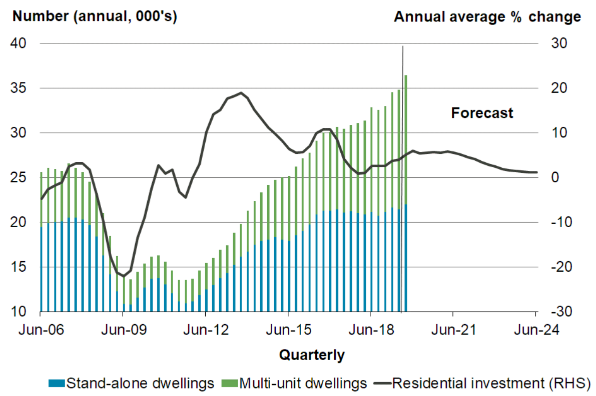
On the other hand, house prices are high relative to incomes, household debt is at a high level and housing supply is increasing, which could result in more restrained house price inflation and consumption outcomes than forecast.

Investment in new dwellings is increasing…

Changes in house prices also affect demand for new housing by altering the returns from building a new house. Residential investment and house prices tend to move together, reflecting the influence of common factors such as interest rates and population growth. On the other hand, changes in factors that affect the supply of housing, such as zoning restrictions, will tend to drive residential investment and house prices in opposite directions.

In Auckland, consents for multi-unit dwellings have increased strongly, consistent with less restrictive conditions on the type of dwelling able to be constructed in some areas (Figure 1.6). Equally, the Treasury's business talks and business survey measures continue to highlight the role of labour shortages in restraining the pace of growth in the construction industry. The compositional shift towards higher-density dwellings, which typically take two to three times longer than houses to complete, also adds to uncertainty around the pace of future growth. Overall, the rise in dwelling consents since the start of the year adds to the pipeline of work ahead.

Figure 1.6 – Dwelling consents by type and growth in residential investment



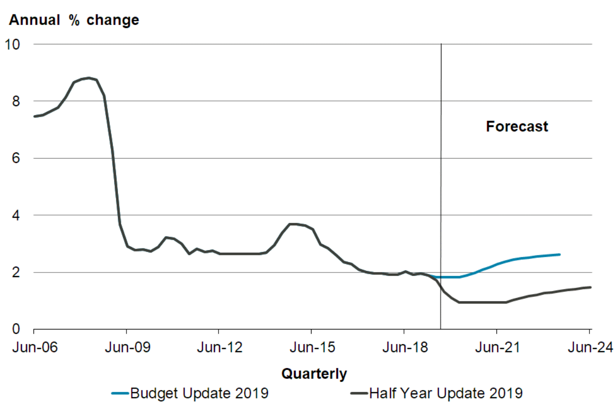
Sources: Stats NZ, the Treasury

This pipeline is expected to support an increase in residential investment activity of 5.6% in the 2019/20 year. Strong population growth, low interest rates and rising house price growth sustains a further 5.6% increase over the following year. Growth eases in subsequent years, to 3.4% in 2021/22 and 1.1% by the end of the forecast in 2023/24 as increases in interest rates and slowing population growth reduce demand (Figure 1.6).

…supported by low interest rates

The 90-day interest rate, which is driven by domestic monetary policy settings, is assumed to average 1.0% until the end of 2021. This is a bit below the current 90-day rate but broadly consistent with expectations of financial market participants. Interest rates begin rising gradually from early 2022, as faster growth drives a build up in inflationary pressures, and reach 1.5% by the end of the forecasts (Figure 1.7).

Figure 1.7 – 90-day interest rates



Sources: RBNZ, the Treasury

Compared with the *Budget Update*, 90-day interest rates are around 1.1 percentage points lower over the forecast period. However, the Treasury has also lowered its assumption of the level of the 90-day interest rate that is consistent with stable inflation (the neutral rate) by 0.75 percentage points to 3.0%, which partially offsets the economic impact of lower interest rates on activity. The lower neutral assumption reflects the influence of global factors including population ageing and slower productivity growth, and the domestic experience of subdued inflation despite interest rates that are low relative to historical experience.

The reset of the government housing investment programme dampens investment over the forecast period but the effects of this change are more than offset by lower interest rates, stronger house price growth and stronger net immigration compared with the *Budget Update*. Overall, residential investment is slightly higher than previously forecast.

Increased government investment…

Business investment, which includes both the private and public sectors, has been subdued over the past year or so following strong growth in 2017/18. Growth in 2017/18 was boosted by the earthquake-related rebuild in Kaikōura, and by imports of aircraft. The wind down of rebuild activity in Kaikōura, and in Canterbury, and Air New Zealand's deferral of aircraft capital expenditure arising from lower expected growth in tourism, have driven much of the slowdown in investment over 2018/19.

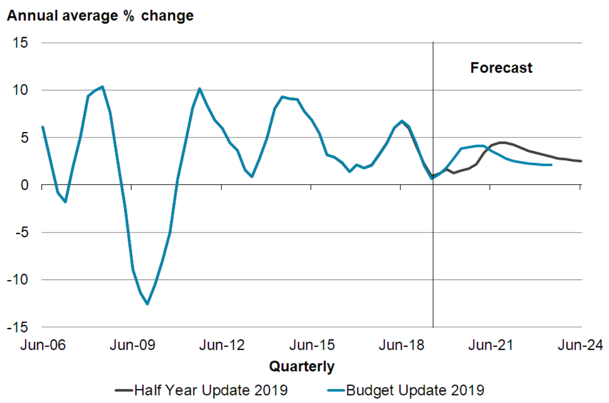
In addition, our discussions with business have highlighted the role of policy uncertainty stemming from international developments and from domestic policy, including climate change policy, in tempering investment plans. Pressure on profitability from rising labour costs, and from the intense competition the internet facilitates, is also weighing on investment plans.

Surveys of business conditions and investment intentions point to further weakness ahead. Recent positive developments in the US-China trade dispute and in Brexit may contribute to improved sentiment, but many issues remain unresolved and the associated uncertainty will continue to weigh on sentiment and hamper investment. Domestically, climate change and digitalisation are ongoing structural issues, while labour costs are forecast to continue to rise.

Business investment is expected to increase at a moderate pace over 2019/20 and to gather momentum in 2020/21 as public investment spending increases (Figure 1.8). Public investment spending continues to rise in 2021/22 and remains at a higher level thereafter, but contributes less to growth than in the previous years. The box on higher public investment provides details.

Private business investment also increases, as businesses look to alleviate constraints in the labour market and as overall economic activity picks up.

Figure 1.8 – Business investment



Sources: Stats NZ, the Treasury

The impact of higher public investment

This box explains the approach the Treasury has taken to incorporate the additional $12 billion of capital investment announced by the Government into the economic forecasts. It also outlines the fiscal impulse indicator, which includes the effects of the increase in capital investment as well as all other government expenditure and tax receipts included in the forecasts.

The increase in capital comprises $8.0 billion of funding to be allocated before Budget 2020, and a $4.0 billion increase to the multi-year capital allowance to be allocated in Budgets 2020 to 2023. The capital is assumed to be spent according to the profile shown in Table 1.2, which is based on past rates of capital spending.

Not all spending occurs within the five year forecast period because of time lags in developing and implementing most capital projects. In total, the Treasury assumes an additional $8.1 billion of capital will be spent over the forecast period, with the remaining $3.9 billion being spent in 2025 and beyond. All capital spending is assumed to be on non-financial assets that add to the nation's capital stock.

Table 1.2 – Additional capital investment

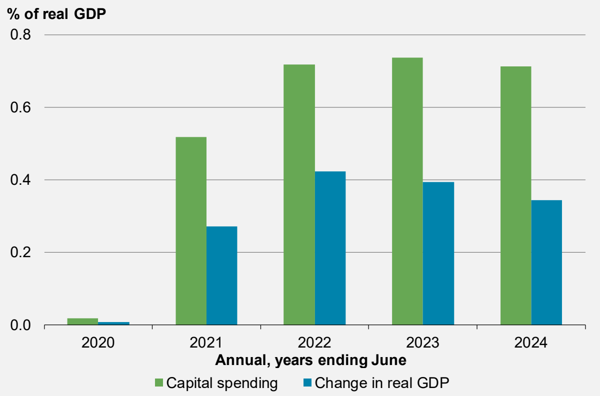
	Forecast period						
$ billions, years ending June	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and beyond***	**Total**
Allocated before Budget 2020	0.1	1.0	1.3	1.3	1.3	3.0	8.0
Allocated in Budgets 2020 to 2023	0.1	0.4	0.8	0.9	0.9	0.9	4.0
Total*	0.2	1.4	2.1	2.2	2.2	3.9	12.0

* Parts may not sum to totals due to rounding.

The increase in capital spending directly contributes to the level of investment in the economy. It is assumed to contribute to a lift in the economy's productive capacity and to support employment and wage growth, as private companies take up public contracts. However, the labour market is tight and some resources will likely need to be reallocated to meet the increase in demand.

In addition, intermediate and capital goods will need to be imported to deliver this investment. This means that not all spending will directly contribute to increased activity. Overall, around half of the new expenditure is met from imports or shifts from private sector activity. This assumption is in line with estimates from international literature and for New Zealand. As a result, the additional investment is forecast to increase real GDP by 1.4% ($3.9 billion) over the forecast period. The remainder of the capital will add to activity in later years.

Figure 1.9 – Capital spending and its impact



Source: The Treasury

Decisions on which specific projects will be funded were not finalised when the forecasts were completed. As such, there is uncertainty around when capital projects will begin, the specific details of the projects and their labour and import intensity. There is also uncertainty about the amount of activity that can be accommodated without displacing other activity, particulary in the construction sector.

The economic impacts in the forecast period could be larger than assumed if the projects commence earlier, or proceed more quickly, or if they use fewer imports. The projects may also displace less private sector capacity than assumed, leading to more activity. Equally, project delays or capacity constraints may result in less activity. Estimates of the economic impacts will be updated as more detailed information becomes available.

Fiscal impulse

The fiscal impulse is one indicator used to assess the first round or direct macroeconomic impacts of discretionary fiscal policy, ie, the net effect of revenue and spending decisions. The Treasury's fiscal impulse indicator is similar to indicators used internationally to assess the fiscal stance. As well as the announced increase in capital investment, it also incorporates all previous revenue and spending decisions.

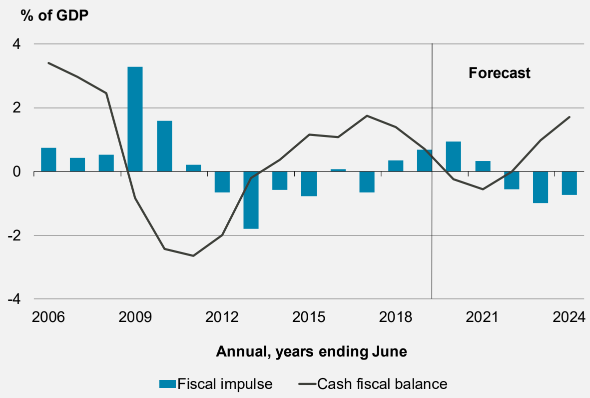
The fiscal impulse shows whether discretionary changes in the fiscal position are adding to, or subtracting from, aggregate demand pressures in the economy relative to the previous fiscal year. Specifically, the fiscal impulse is the change in the government's cash balance adjusted for the cyclical position of the economy and some expenditure items that do not directly affect domestic demand. A decrease in a cash surplus generates a positive impulse, which shows that fiscal policy is adding to demand. Conversely, an increase in a cash surplus generates a negative impulse, showing that fiscal policy is subtracting from demand.

The fiscal impulse does not consider the second-round effects of fiscal policy on employment, private economic activity or household consumption. It also only shows the first-year effect of changes in net spending, not the follow-on effects of net spending in subsequent years. As such, it does not indicate the impact of fiscal policy on GDP, unlike the economic forecasts outlined above. The fiscal impulse should be used as an indicator of fiscal policy stance, and not as a comprehensive indicator of the impact of fiscal policy on the economy.

The fiscal impulse in the *Half Year Update* indicates that fiscal policy, including both the additional capital and previous fiscal policy decisions, is adding to aggregate demand in 2019/20 and 2020/21 and restraining demand over the remainder of the forecast period.

In 2019/20, the positive fiscal impulse is largely driven by increases in operating spending. Increased capital spending is the main driver of the positive impulse in 2020/21. From 2021/22 onwards fiscal policy is restraining growth in demand, owing to a combination of receipts rising as a share of GDP and expenses declining as a share of GDP.

Figure 1.10 – Fiscal impulse and cash balance



Sources: Stats NZ, the Treasury

Compared to the *Budget Update*, the fiscal impulse in 2019/20 and 2020/21 is more positive (0.9% and 0.3% respectively, up from 0.0% and -0.2% previously). The change in the 2019/20 impulse largely reflects operating spending shifting from 2018/19 to 2019/20. The change in the 2020/21 impulse is driven by the additional capital investment.

Further detail on the fiscal impulse is provided in the Additional Information section of the *Half Year Update*, which is available on the Treasury website https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2019

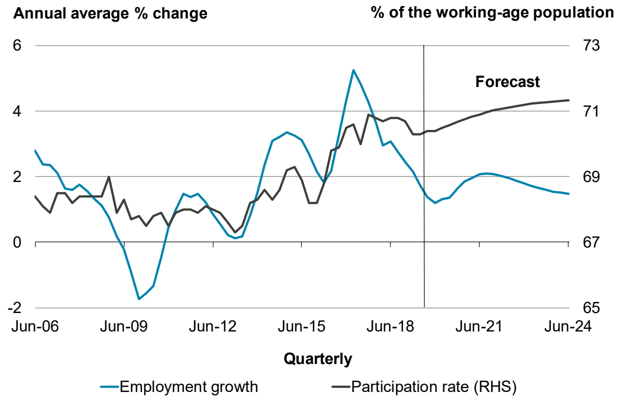
…is complementing higher public consumption spending

The outlook for public consumption is largely unchanged from the *Budget Update*. Government spending on goods and services is expected to pick up over the second half of 2019, as the fiscal plans outlined in Budget 2019 are implemented. Real government spending is forecast to increase 3.6% in 2019/20, down from 4.2% in the *Budget Update*, reflecting recent quarterly outturns. Government consumption spending continues to increase over the forecasts, but the pace of increase in real spending gradually declines to 1.1% in 2023/24.

The labour market remains tight

Slower growth in activity has flowed through to the labour market. Employment growth declined to 1.4% in the year ending September 2019 from 2.8% in the previous year. Slower demand growth has been matched by a decline in labour supply growth. Growth in the working-age population has slowed and the labour force participation rate has eased. The net effect is that the September 2019 quarter unemployment rate of 4.2% is little changed from the beginning of the year.

Figure 1.11 – Employment growth and the labour force participation rate

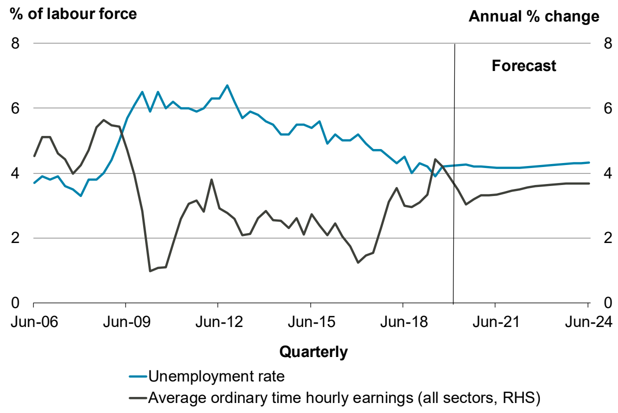


Sources: Stats NZ, the Treasury

Employment growth is expected to remain at 1.4% over 2019/20 and, as the economy gathers momentum, to increase to 2.1% in 2020/21 and to gradually taper off thereafter (Figure 1.11).

On the supply side, the labour force participation rate is projected to increase as the participation rates for females and older age groups continue their upward trends. Net migration inflows continue to add to labour supply, but at a slower pace than over the past three years or so, and growth in the working-age population slows from 1.7% over 2018/19 to 1.4% in 2023/24. The net result is that supply and demand growth remains evenly matched and the unemployment rate is steady at between 4.2% and 4.3% over the forecast horizon (Figure 1.12).

Figure 1.12 *– Unemployment and wage growth*



Sources: Stats NZ, the Treasury

Survey measures of labour market conditions and the Treasury's business contacts continue to report difficulty in finding labour across all skill levels. This tightness, combined with mandatory minimum wage increases and higher public sector collective wage agreements, has driven annual wage growth of over 4.0% in recent quarters. However, this measure of wage growth is volatile, and quarterly growth slowed from over 1.0% in the three prior quarters to 0.7% in the September quarter, which is more consistent with underlying pressures in other wage measures.

Wage growth is expected to continue at around September's quarterly pace over the year ahead, resulting in annual growth of 3.0%. Thereafter, wage growth picks up gradually and reaches 3.7% by the end of the forecasts (Figure 1.12). Government policy continues to support wage growth through an additional 13% increase in the minimum wage, spread over the next two years, and through a number of pay equity and other collective settlements.

Growth in compensation of employees (COE) has eased over the past year, driven by slower growth in employment. The forecast is for COE growth to slow to 4.4% over 2019/20 as wage growth eases. Stronger employment and wage growth underpin a rise in compensation of employees to 5.1% over 2021/22 and beyond.

Trading partner growth has slowed…

Global growth continues to be influenced the US-China trade dispute, which has deepened in the period since the *Budget Update* with both countries raising tariff rates and actively considering further tariff and other trade protection measures. The disruption to trade and cross-border supply chains is slowing growth and creating uncertainty. As a result, trading partner growth has slowed further and is expected to remain around its current pace over the next year. To date, the impacts on growth have been largely confined to export-oriented sectors while tight labour markets, especially in advanced economies, have underpinned household income growth and the domestically focused services sectors. However, there are some signs that weakness is spreading to the services sector, and employment growth has slowed.

Central banks have lowered their policy interest rates in response to slower growth, persistent downside risks and ongoing challenges in their efforts to raise inflation. In addition, fiscal policy has become more stimulatory in a number of countries.

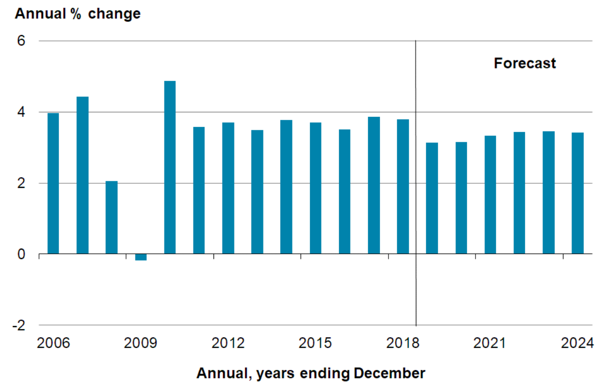
Recently, trade tensions have eased as the US and China negotiate a partial trade deal, although the risk of a further escalation remains and a comprehensive trade agreement appears to be some way off. Moreover, the bilateral trade measures introduced by the US and China since the start of 2018 will continue to exert a significant drag on growth in global activity and trade over the next two years, particularly given the additional uncertainty they generate.

In China, the trade-related tensions have added to the existing domestic factors driving slower growth, including earlier measures to curb credit growth. Growth in many other Asian economies has also weakened. Fiscal policy measures to counter slower growth in China included measures to increase household disposable income and boost consumption, which has supported demand for New Zealand export commodities, even as the economy has slowed overall. Disruptions to meat supply have further supported export prices and contributed to New Zealand's terms of trade remaining resilient to the global slowdown.

Growth in Australia remains sluggish as subdued growth in household consumption, a downturn in the housing market, and drought weigh on growth. The labour market has held up and the unemployment rate has remained steady at around 5.2%. Fiscal and monetary policy support for growth has increased over the past six months or so, and growth is expected to gradually return to average over the next two years.

Major trading partner growth is expected to be around 3.1% in the years ending December 2019 and 2020 before increasing a little in 2021 and thereafter as the effects of this year's policy easing become more apparent (Figure 1.13). However, the outlook is contingent on a resolution of the sources of global uncertainty that are weighing on investment. The outlook for 2020 and 2021 is a little below the *Budget Update* because of the escalation of the US-China trade dispute and the continued deterioration in business sentiment, including increasing signs of a spill-over into services activity.

Figure 1.13 – Trading partner growth



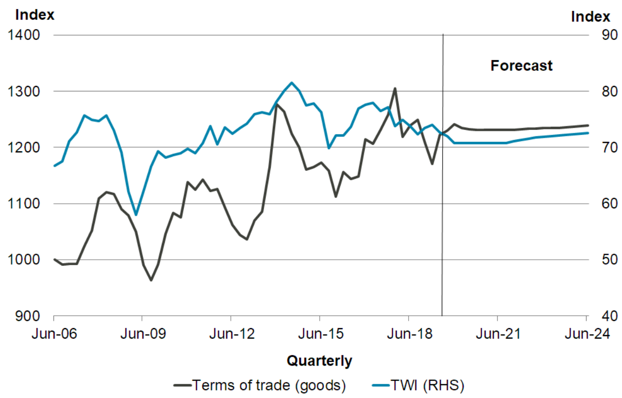
Sources: Haver Analytics, the Treasury

The outlook for trading partner growth remains tilted towards further weakness. Outcomes could be weaker still if barriers to trade and investment continue to rise. Substantial uncertainty remains about the nature and timing of the UK's withdrawal from the EU, as well as the future UK-EU trading relationships and those between the UK and other countries.

…but demand for goods exports has held up…

Prices for New Zealand's commodity exports are close to previous highs, with both meat and dairy prices benefiting from constrained global supply. Prices for some goods, most notably forestry, eased over the past year, although forestry prices have increased from their trough in July. The terms of trade are projected to remain around current levels over the forecast period (Figure 1.14).

Figure 1.14 – Terms of trade (goods) and the exchange rate



Sources: RBNZ, the Treasury

The lower New Zealand dollar, which has fallen 4.0% on a TWI basis since March 2019, is also supporting export incomes. The TWI is assumed to be 70.8 in the December quarter 2019 and to increase gradually from late 2021 onwards as domestic interest rates rise.

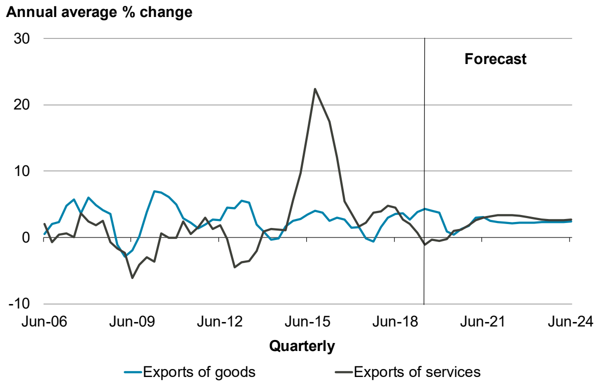
…although tourism inflows have slowed

Slower global growth appears to be affecting services exports, and volumes fell 1.1% in 2018/19 (Figure 1.15). Growth in visitor arrivals has eased over the past year, driven by a decline in visitors from China, following a period of strong growth. New Zealand is not alone in experiencing fewer Chinese visitors. Industry sources report a decline of around 10% in the number of Chinese travelling to all overseas destinations for leisure.

Goods export volumes rose 4.3% over 2018/19, driven by growth in dairy volumes. Some of this growth appears to have been driven by a rundown in inventories and recent data point to slower dairy volume growth over the year ahead.

Growth in goods and services exports is forecast to slow to 0.6% in 2019/20. The lower exchange rate and a gradual recovery in trading partner growth underpin a pickup in goods and services exports growth of 3.0% in 2020/21. Thereafter, exports grow at their trend rate of 2.5% per year.

Figure 1.15 – Goods and services export volume growth



Sources: Stats NZ, the Treasury

Imports growth slowed to 1.7% in 2018/19 from 8.0% in the previous year, partly reflecting easing domestic demand growth. Imports growth is expected to remain moderate in 2019/20, consistent with the lower exchange rate and subdued domestic demand. As domestic conditions strengthen, driven by business investment, import volumes increase and net exports continue to drag on growth.

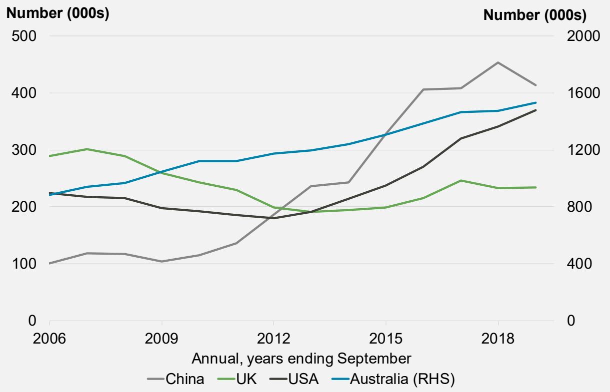
Trends in tourism

Tourism revenues account for approximately three quarters of New Zealand's services exports and just over 20% of total export revenues, making it our largest single export earner.

Strong growth in visitor arrivals has eased

Strong growth in international visitor arrivals since 2014 has contributed to increasing services exports. Steady growth in the number of visitors from Australia (our largest market by number of visitors) has provided the largest contribution to the increase (Figure 1.16).

Figure 1.16 – Visitor arrivals (12-month totals)



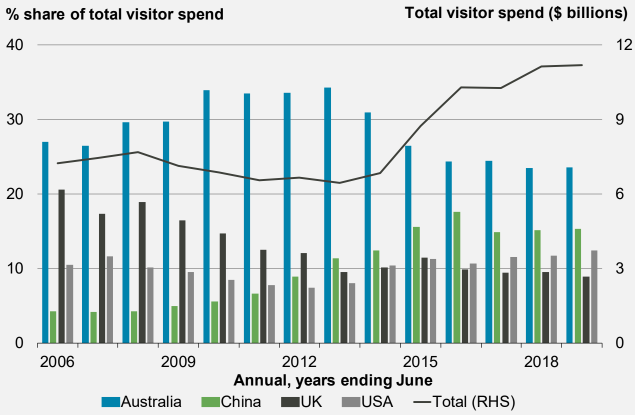
Source: Stats NZ

China has become an increasingly important market. The number of visitors from China increased from 240,000 in the year ended September 2014 to 450,000 in the year ended September 2018 (an 86% increase), although they fell 9.0% in the year ended September 2019. This decline may reflect a number of factors including changing preferences, slower income growth in China and domestic capacity constraints.

Chinese visitors spend more

Spending by visitors from China now accounts for around 15% of tourism revenue, having overtaken both the UK and the US to be our second largest market by spend (Figure 1.17).

Figure 1.17 – International visitor spend shares



Source: Stats NZ

Chinese visitors tend to stay only slightly longer than their Australian counterparts do, however they spend considerably more; with an average spend per Chinese visitor of $4,300 in the year ended June 2019 compared with $2,000 for Australian visitors.

The average spend per day for Chinese visitors is similar to that of visitors from the US, and is only slightly below that of visitors from Japan. In an environment where there is increasing pressure on our tourism environment and infrastructure, these high value-added markets will be increasingly important for the future prospects of the New Zealand tourism sector.

The current account deficit is contained

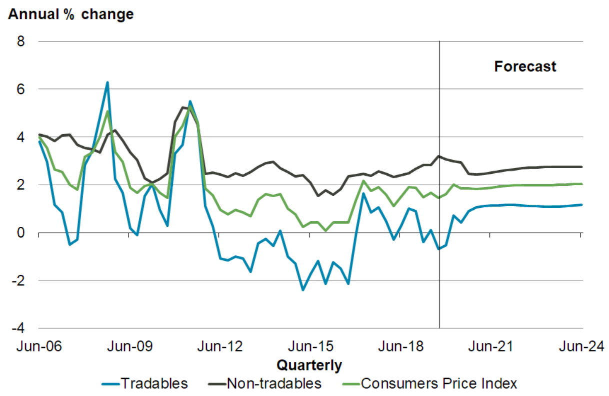
In the current account, goods imports rise in line with the expansion in public investment, and the goods deficit rises gradually over the forecast period. The lower New Zealand dollar supports inbound tourism spending and, combined with improving trading partner growth, contributes to a trend increase in the services surplus, which keeps the balance on goods and services broadly stable over the forecast period. In contrast, the income deficit is expected to deteriorate a little as global interest rates eventually rise, and the net stock of international liabilities rises, in part owing to increased government debt.

Overall, the current account deficit is forecast to widen to around 3.8% of GDP in 2023/24 from 3.4% in the year ending June 2019. The net international liability position increases from 55.3% of GDP as at 30 June 2019 to 59.3% of GDP as at 30 June 2024.

Headline inflation is expected to rise…

Annual growth in the Consumers Price Index (CPI) remained subdued at 1.5% in the September quarter 2019. Declines in tradable goods prices, including new cars and petrol prices, have helped keep inflation muted in recent quarters, despite upward pressure from the depreciation of the New Zealand dollar.

Figure 1.18 – Inflation and its components



Sources: Stats NZ, the Treasury

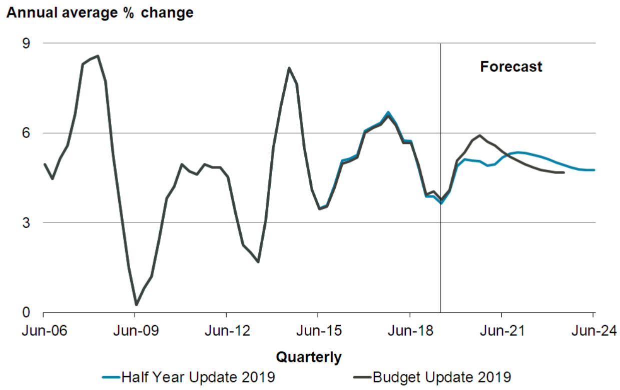
In contrast, annual non-tradables inflation increased to 3.2% in the September quarter, driven by housing costs, including rents, purchases of new housing and local authority rates. Some of September's quarterly increase appears to be driven by larger than usual increases in some prices, such as road user charges and domestic airfares. These price increases provide a temporary boost to non-tradables inflation until the September quarter 2020, when they drop out of the annual calculation and non-tradables inflation slows to 2.5% (Figure 1.18).

Inflation is forecast to rise to 2.0% in the March 2020 quarter, as past falls in petrol prices drop out of the annual calculation and as the lower exchange rate adds to price pressure. Subsequently, capacity pressures stabilise and the temporary boost to non-tradables prices subsides, and inflation eases a little. Stronger economic growth in 2020/21 leads to renewed capacity pressures and inflation expectations gradually rise, following the path of gradually higher past inflation. Headline inflation returns to 2.0% in late 2021 and is stable thereafter. Non-tradables inflation gradually rises from 2.5% in the September 2020 quarter to 2.8% in early 2023 and beyond. Tradables inflation is projected to be stable at 1.1% per year, which is below its average over the 2000s, as weak global inflation pressures continue.

…and support nominal GDP growth of around 5.0% per year

Nominal GDP growth is forecast to increase to 5.1% over 2019/20, up from 3.7% over 2018/19, driven by the recovery in the terms of trade from their fall over the second half of 2018. Stronger real activity and higher domestic inflation sustain nominal GDP growth of 5.2% over 2020/21 and 5.3% over 2021/22. Slower real GDP growth over the following two years flows through to lower nominal GDP growth of 4.8% over 2023/24.

Figure 1.19 – Nominal GDP growth



Sources: Stats NZ, the Treasury

The level of nominal GDP is expected to be $5.1 billion lower over the four years to 2022/23 compared with the *Budget Update*, with decreases in household spending and compensation of employees partially offset by increases in business profits.

2

Fiscal Outlook

Overview

- The stronger than expected year-end results for 30 June 2019 have resulted in a stronger starting point for this fiscal forecast. However, some of this strength was one-off or timing in nature, so is not expected to continue into the future.
- Since the *Budget Update*, a number of factors have contributed to a weaker fiscal outlook, including a slower but still solid economic outlook, a stronger wage outlook, lower interest rates and the Government's new capital investment.
- The operating balance before gains and losses (OBEGAL) is forecast to be lower than the *Budget Update* across all years and net core Crown debt is higher by $9.2 billion by 2022/23.
- Most fiscal indicators are forecast to be weaker, primarily owing to the growth in core Crown expenses outpacing core Crown tax revenue as *Budget 2019* spending decisions come into effect, economic activity slows and increased capital spending.
- By 2023/24, core Crown tax revenue is forecast to reach $110.5 billion (28.4% of GDP), $24.0 billion higher than 2018/19. This increase in tax revenue reflects the slower but solid economic activity as discussed earlier in the Economic Outlook chapter.
- Core Crown expenditure increases by $22.2 billion, reaching $109.2 billion in 2023/24 (28.1% of GDP). This increase in expenditure largely reflects previous Budget decisions, and future Budget allowances combined with increases in benefit expenses.
- An OBEGAL deficit of $0.9 billion is forecast in the current year, before returning to a small surplus in 2020/21 which then grows to reach $5.9 billion (1.5% of GDP) in 2023/24.
- Capital expenditure across the forecast period is $49.9 billion. This includes the Government's new capital investment of $12 billion, with $8.1 billion included in the forecast and the remaining $3.9 billion forecast to be spent after 2023/24.
- Taking into consideration both the operating and capital activities of the Government, a total cash shortfall of $20.1 billion is forecast. The cash shortfall is mainly funded from additional borrowings.

- Net core Crown debt is forecast to increase by $18.6 billion. As a percentage of GDP, net core Crown debt increases from 19.0% in 2018/19 to 21.5% of GDP in 2021/22 before falling to 19.6% in 2023/24. Gross debt increases by $18.2 billion over the forecast period to be $102.6 billion in 2023/24 (26.4% of GDP).

- Total borrowings are forecast to increase from $110.2 billion in 2018/19 (36.2% of GDP) to $145.3 billion by the end of 2023/24 (37.3% of GDP). This increase is a result of issuing additional government bonds to help fund the cash shortfall, an increase in Kiwibank borrowings (eg, deposits held) and an increase in Crown entity borrowings.

- The Crown's balance sheet continues to grow, with net worth reaching $174.9 billion (44.9% of GDP) in 2023/24. This growth is largely the result of operating surpluses across the forecast period.
- Comparisons against the *Budget Update* can be found on page 43.
- The Forecast Financial Statements and Core Crown Expense tables can be found on pages 96 to 133, and provide more detailed information on the fiscal forecasts.

These forecasts are sensitive to a number of judgements and assumptions and should be read in conjunction with the Risks and Scenarios and the Specific Fiscal Risks chapters.

Table 2.1 – Fiscal indicators

Year ending 30 June	2019[5] Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
$billions						
Core Crown tax revenue	86.5	88.7	94.3	99.2	104.8	110.5
Core Crown expenses	87.0	93.8	98.8	102.0	106.3	109.2
Total Crown OBEGAL[1]	7.3	(0.9)	0.1	1.8	4.1	5.9
Total Crown operating balance	0.3	0.4	3.6	5.8	8.5	10.9
Core Crown residual cash	(0.7)	(5.2)	(8.0)	(5.6)	(2.2)	0.9
Net core Crown debt[2]	57.7	62.5	70.6	76.1	77.7	76.3
Gross debt[3]	84.4	89.6	91.4	99.6	98.8	102.6
Total borrowings	110.2	122.2	126.9	137.6	138.8	145.3
Net worth	146.2	145.8	149.4	155.3	163.8	174.9
% of GDP[4]						
Core Crown tax revenue	28.4	27.7	28.0	28.0	28.2	28.4
Core Crown expenses	28.6	29.3	29.4	28.8	28.6	28.1
Total Crown OBEGAL[1]	2.4	(0.3)	0.0	0.5	1.1	1.5
Total Crown operating balance	0.1	0.1	1.1	1.6	2.3	2.8
Core Crown residual cash	(0.2)	(1.6)	(2.4)	(1.6)	(0.6)	0.2
Net core Crown debt[2]	19.0	19.6	21.0	21.5	20.9	19.6
Gross debt[3]	27.7	28.0	27.2	28.1	26.6	26.4
Total borrowings	36.2	38.2	37.7	38.9	37.3	37.3
Net worth	48.0	45.6	44.4	43.8	44.1	44.9

Notes:
1 Operating balance before gains and losses.
2 Net core Crown debt, excluding the New Zealand Superannuation Fund (NZS Fund) and advances.
3 Excludes Reserve Bank settlement cash and bank bills.
4 Percentage of GDP: The nominal GDP for the March 2019 year being revised higher by $4.2 billion has had the effect of decreasing net core Crown debt by 0.2 percentage points of GDP in the year ended June 2019.
5 '2019 Actual' numbers have been restated to reflect updated accounting standards. For more details refer to the forecast financial statements note 17 on page 122.

Source: The Treasury

Table 2.2 sets out how the forecast Government revenue, and operating and capital expenditure impacts the key fiscal indicators.

Table 2.2 – Fiscal indicators and the financial forecasts

Financial Results	Actual 30 June 2019 $millions	Forecast 30 June 2020 $millions	30 June 2021 $millions	30 June 2022 $millions	30 June 2023 $millions	30 June 2024 $millions
Core Crown taxation revenue...	86,468	88,692	94,278	99,216	104,824	110,499
...combined with other core Crown revenue...	7,006	7,105	7,314	7,310	7,911	7,160
...funds core Crown expenses...	(87,041)	(93,776)	(98,765)	(102,012)	(106,261)	(109,233)
...and with SOE and CE results...	914	(2,964)	(2,770)	(2,762)	(2,413)	(2,502)
...this results in an operating balance before gains and losses **(OBEGAL)**...	7,347	(943)	57	1,752	4,061	5,924
...with gains/losses leading to **operating surplus/(deficit)...**	293	422	3,561	5,755	8,496	10,876
...with income in SOEs, CEs[1] and the NZS Fund retained...	(1,443)	2,857	2,838	2,855	2,516	2,617
...and some items do not impact cash...	(161)	1,042	(2,744)	(5,311)	(7,134)	(9,591)
...This leads to an operating residual cash surplus/(deficit)...	**6,036**	**3,378**	**3,712**	**5,051**	**7,939**	**9,826**
...used to make contributions to the NZS Fund...	(1,000)	(1,460)	(2,120)	(2,420)	(2,726)	(2,769)
...and to use for capital expenditure...	(3,002)	(3,474)	(3,303)	(2,816)	(1,846)	(1,820)
...and to make advances (eg, to students)	(2,744)	(3,596)	(3,216)	(2,193)	(2,003)	(1,041)
Adjusting for forecast adjustments (top-down/new spending)...	-	(2)	(3,046)	(3,172)	(3,595)	(3,285)
...results in a **residual cash surplus/(deficit)**	**(710)**	**(5,154)**	**(7,973)**	**(5,550)**	**(2,231)**	**911**
Opening net core Crown debt...	59,480	57,736	62,526	70,639	76,071	77,681
...when combined with the residual cash (surplus)/deficit...	710	5,154	7,973	5,550	2,231	(911)
...and other fair value movements in financial assets and financial liabilities...	(2,454)	(364)	140	(118)	(621)	(435)
...results in a closing **net core Crown debt...**	**57,736**	**62,526**	**70,639**	**76,071**	**77,681**	**76,335**
...which as a % of GDP is	**19.0%**	**19.6%**	**21.0%**	**21.5%**	**20.9%**	**19.6%**

Note: 1 State-owned Enterprises (SOEs) and Crown Entities (CEs).

Source: The Treasury

Key judgements and assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available at the time they were prepared. Actual events are likely to differ from these assumptions and judgements, while uncertainty around the forecast assumptions and judgements increases over the forecast period.

The forecasts incorporate government decisions and other circumstances known to the Government and advised to the Treasury (up to 25 November 2019). The criteria for inclusion in these forecasts, along with the key risks, can be found in the Risks and Scenarios and the Specific Fiscal Risks chapters.

In addition to the key assumptions underpinning the economic forecasts (refer to page 7), the following key judgements and assumptions supporting the fiscal forecasts were made:

- Tax forecasts are based on the economic forecast completed on 14 November 2019. In April 2019, the administration of income tax (mainly corporate and individuals tax) moved to Inland Revenue Department's new system, START (Simplified Tax and Revenue Technology). Other tax types (eg, GST) transitioned to START in previous years, but income tax is the most complex to estimate for reporting purposes. START has improved the way tax revenue is recognised as estimates are based on the most recently-available data for each individual and corporate taxpayer. The previous process relied on the forecast of provisional tax revenue. This change in process brought forward the recognition of some tax revenue into 2018/19.
- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) can be met within the Budget operating and multi-year capital allowance included in the fiscal forecasts.
- Departments will continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment will be higher at the start of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years.
- Major capital programmes (eg, School Growth Package, Health Capital Package, Rail Packages, Housing Infrastructure Fund, P-8A Poseidon Aircraft and Prison capacity) will proceed as planned.
- The Government has announced $12 billion of capital investment. This is made up of $8.0 billion of projects to be announced before Budget 2020 and a $4.0 billion increase in the multi-year capital allowance. Our assumption is that $8.1 billion of this is expected within the current forecast period, with $3.9 billion falling outside the forecast period.
- Forecast returns on the large investment portfolios managed by the Accident Compensation Corporation (ACC) and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- Significant valuations (eg, student loan portfolio, ACC claims liability and the Government Superannuation Fund (GSF) retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.

Key judgements and assumptions (continued)

- No revaluations of property, plant and equipment are projected beyond the current year. Only revaluations that have already been completed are included in these forecasts.
- Contributions to the NZS Fund over the forecast period and the estimated contribution to the NZS Fund, if contributions were based on the legislated contribution formula, are set out in Table 2.3. Over the forecast years, all Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund itself. For more information, refer to the Treasury website for the NZS Fund model.

Table 2.3 – NZS Fund contributions

Year ending 30 June $billions	**2020 Forecast**	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**
Estimated contributions as prescribed by formula[1]	2.4	2.5	2.6	2.7	2.7
Forecast contributions in *Half Year Update*	1.5	2.1	2.4	2.7	2.8

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

Source: The Treasury

- Between 2019/20 and 2021/22 the Government's own planned capital contributions are applied. Between 2019/20 and 2022/23, small amounts of the capital contributions are transferred to a new fund administered by the Guardians of New Zealand Superannuation, which will invest via the New Zealand Venture Investment Fund Limited (NZVIF).

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 48.

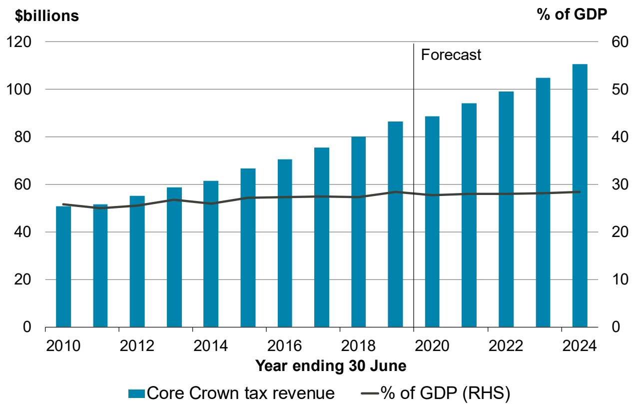
Core Crown Tax Revenue

Tax revenue is forecast to grow over the forecast period...

Core Crown tax revenue (Figure 2.1) is forecast to increase in each year of the forecast period in nominal terms, while remaining relatively stable as a percentage of GDP. By 2023/24, core Crown tax revenue is expected to reach $110.5 billion, $24.0 billion higher than in 2018/19.

Table 2.4 shows the breakdown of the increase across the major tax types.

Figure 2.1 – Core Crown tax revenue



Source: The Treasury

Table 2.4 – Increase in core Crown tax revenue over the forecast period, by major tax type

Year ending 30 June $billions[1]	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total Change
Source deductions	2.1	2.1	2.4	2.5	2.7	11.8
Goods and services tax (GST)	1.0	1.3	1.5	1.3	1.4	6.5
Corporate tax	(0.8)	1.0	0.9	0.9	0.8	2.8
Net other persons tax	(0.1)	1.0	0.1	0.3	0.4	1.7
Resident withholding tax (RWT) on interest	(0.2)	(0.2)	-	0.3	0.2	0.1
Other taxes	0.2	0.4	-	0.3	0.2	1.1
Total increase in core Crown tax revenue	**2.2**	**5.6**	**4.9**	**5.6**	**5.7**	**24.0**
Plus previous year	86.5	88.7	94.3	99.2	104.8	
Core Crown tax revenue	**88.7**	**94.3**	**99.2**	**104.8**	**110.5**	

Note: 1 Inland Revenue has also prepared a set of tax forecasts. This comparison is included in the Additional Information on the Treasury website at: https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2019.

Source: The Treasury

Source deductions, which are mainly PAYE on wages and salaries, are forecast to grow by $11.8 billion over the forecast period. Growth in PAYE comes from a combination of employment, wages and salaries, and average hours worked. In this forecast, just over half of the source deduction revenue growth is forecast to come from growth in wage and salary rates, mainly owing to tighter labour market conditions and a range of labour market policies including fair pay agreements, pay equity settlements, and the minimum wage policy. The rest of the increase comes from expected employment growth, which contributes $2.2 billion and fiscal drag which contributes a further $2.1 billion. Fiscal drag is the additional income tax generated as an individual's average tax rate increases as their income increases.

GST is forecast to increase by a total of $6.5 billion over the forecast period, with growth from household consumption and residential investment expected to contribute about $6.4 and $1.3 billion, respectively. This is partly offset by a $1.2 billion decrease in GST owing to other macroeconomic factors (mainly net tourist expenditure).

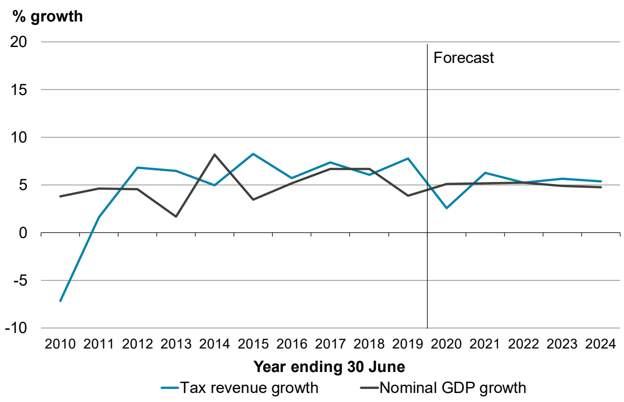
Corporate tax and net other persons tax are forecast to grow by $2.8 billion and $1.7 billion respectively over the forecast period. These increases are mainly owing to forecast growth in operating surplus and entrepreneurial income, which is supported by the increased capital investment.

…broadly in line with expected economic growth

Figure 2.2 shows that core Crown tax revenue is forecast to grow more slowly than nominal GDP in 2019/20. This is mainly owing to the one-off increase to income tax revenue in 2018/19, caused by a change in Inland Revenue's calculation method (part of the Business Transformation programme at Inland Revenue) and is not forecast to repeat in 2019/20.

Tax revenue is then forecast to grow at a rate similar to or slightly higher than GDP.

Figure 2.2 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

Core Crown Expenses

Core Crown expenses are expected to grow relative to the size of the economy…

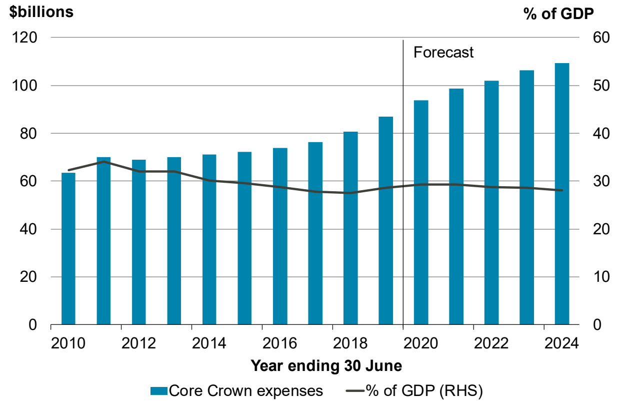
Core Crown expenses are expected to grow across the forecast period by $22.2 billion to reach $109.2 billion in 2023/24 (Figure 2.3).

Core Crown expenses as a percentage of GDP, reach 29.4% in 2020/21 before declining to 28.1% in 2023/24.

…but in the near-term grow faster than the economy …

In the current year, core Crown expenses are expected to increase by $6.8 billion compared to last year, which is slightly faster than the expected growth in the economy. Spending in areas such as health and education is forecast to be higher by $1.1 billion and $1.0 billion, respectively, compared to 2018/19. These increases are mainly owing to the decisions from the 2019 Budget package announcements, which overall increased spending by $3.8 billion per annum. In addition, spending on social security and welfare is forecast to increase by $2.5 billion, primarily owing due to stronger wage growth and an increase in recipient numbers (mainly New Zealand Superannuation), as discussed below.

Figure 2.3 – Core Crown expenses



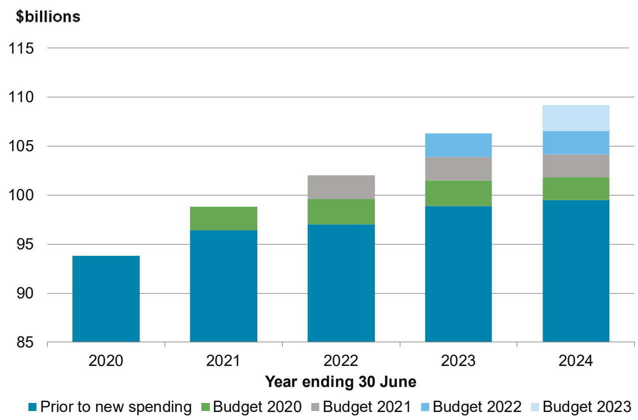
Source: The Treasury

…then growth falls owing to lower new spending allowances for future Budgets…

The Government has announced an operating allowance of $3.0 billion for Budget 2020 (around $2.3 billion to $2.5 billion remains after pre-commitments). Operating allowances for Budget 2021 and Budget 2022 are $2.4 billion with the Budget 2023 allowance being $2.6 billion. Overall, new spending from future Budgets is forecast to increase expenses by $9.7 billion by 2023/24 (Figure 2.4).

For forecasting purposes, Budget allowances are assumed to be all operating expenditure. However, these allowances can be used for a combination of revenue and expenditure initiatives when allocated. The fiscal forecasts also assume that any additional costs in relation to Government commitments and future costs pressures will be met from operating allowances.

Figure 2.4 – Core Crown expenses with allowance break-down



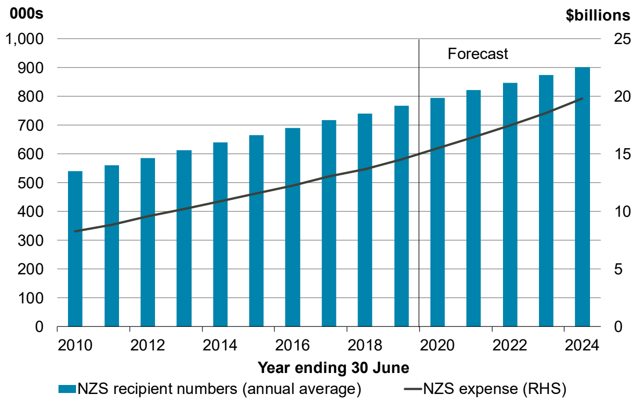
Source: The Treasury

…while benefit costs continue to grow owing to increasing recipient numbers and wage growth…

Social assistance spending is forecast to grow by $8.5 billion across the forecast period, with New Zealand Superannuation accounting for $5.2 billion of this increase. In addition, Jobseeker Support, Emergency Benefits and Accommodation Assistance are contributing to this growth.

The expected wages growth level has the largest impact on New Zealand Superannuation owing to the large volume of people receiving the payment (Figure 2.5). Recipient numbers are forecast to increase from an average of around 767,000 in 2018/19 to over 901,000 by the end of the forecast period (an increase of 17.5%). By the end of the forecast period, New Zealand Superannuation equals around half of core Crown social assistance spending and 18.1% of core Crown expenditure.

Figure 2.5 – Growth of New Zealand Superannuation recipients and expenses



Source: The Treasury

…however, finance costs decline owing to lower interest rates

Core Crown finance costs are forecast to decline by around $0.9 billion by the end of the forecast period, primarily owing to a reduction in interest on borrowings. For example, at June 2019 the effective interest rate on Government bonds was 3.8% and by 2023/24 it is forecast to decrease to 2.1%. The reduction is primarily from Government bonds being issued at a lower rate than those maturing over the same period. Even though borrowings are expected to increase resulting in additional finance costs, the lower effective interest rate more than offsets this increase.

Budget allowances

The fiscal forecast include amounts the Government has signalled in the *Budget Policy Statement 2020* (BPS) for new spending, revenue and investment initiatives. These are known as "Budget allowances".

The fiscal forecasts assume that any additional costs in relation to Government commitments and future cost pressures (such as those mentioned in the Specific Fiscal Risks chapter) will be met from these Budget allowances. The Government can decide to manage costs outside of the Budget allowances (eg, the costs of settling pay equity claims). In this situation, these costs would directly impact on the Government's key fiscal indicators.

Table 2.5 – Budget allowances signalled in the 2020 Budget Policy Statement

Year ended 30 June **$billions**	**2020** **Forecast**	**2021** **Forecast**	**2022** **Forecast**	**2023** **Forecast**
Operating allowance	3.0	2.4	2.4	2.6
Multi-year capital allowance	←		8.4	→

There are some pre-commitments against the Budget 2020 operating allowance (eg, Provincial Growth Fund (PGF), leaving an average of $2.5 billion of spending yet to be allocated.

The Budget allowances represent one of the key drivers of both economic and expenditure growth expected over the forecast period. Therefore, any future changes in Budget allowance settings could have a material impact on these forecasts.

The Government may change Budget allowances for a range of reasons. Some examples include increased revenue that provides additional fiscal headroom, to stimulate the economy, if there are high value investments identified through the Budget process and responding to unforeseen events (eg, costs from the Kaikōura earthquake).

Over recent years, Budget spending has been higher than the allowances (operating and capital) signalled in the Government's BPS.

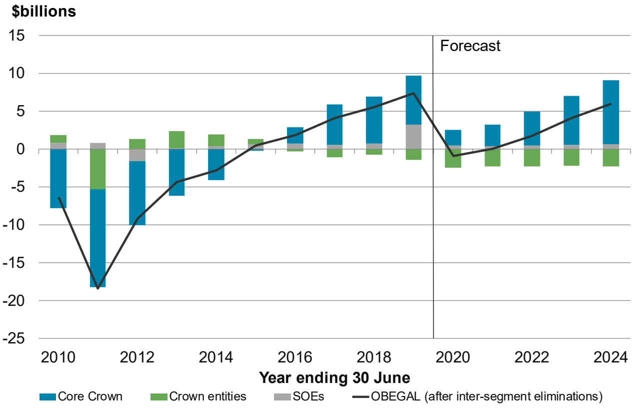
Over the last five Budgets, on average the difference between signalled operating allowances and actual operating spending has been around $500 million per annum. If this trend was to continue in Budget 2020, this would result in a reduction in OBEGAL and an increase in net core Crown debt, compared to what has been forecast, if nothing else changed (ie, revenue remained the same). Many of the increases have been offset by tax coming in higher than forecast and underspends on spending side.

Operating Balance before Gains and Losses and the Operating Balance

An OBEGAL deficit is forecast in the current year before surpluses return…

An operating balance before gains and losses (OBEGAL) deficit is forecast in 2019/20 before returning to a modest surplus in 2021/22 and growing to reach a surplus of $5.9 billion in 2023/24 (Figure 2.6).

Figure 2.6 – Components of OBEGAL by segment



Source: The Treasury

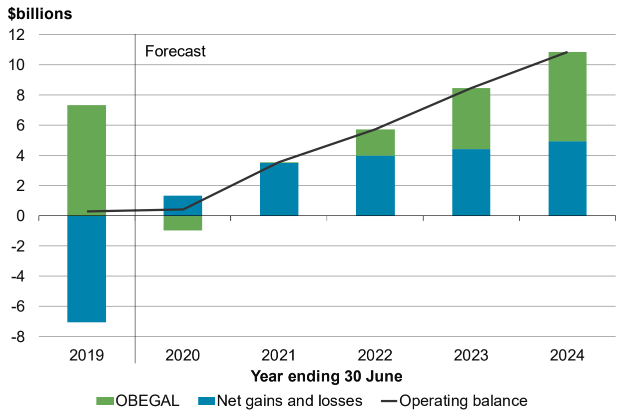
The forecast OBEGAL deficit in the current year reflects the growth in core Crown expenses outpacing growth in core Crown tax revenue. This trend is expected to start reversing from 2020/21 as smaller increases are assumed for new spending allowances, while core Crown tax revenue is expected to grow broadly in line with the economy.

State-owned enterprises' surpluses are expected to remain static over the forecast period. However, the Crown entities sector is forecast to run deficits of around $2.2 billion to $2.5 billion across the forecast period. These deficits are mainly driven by ACC and District Health Boards (DHBs), which are both expecting growth in demand and rising costs.

…while investment returns contribute to the growth in the operating balance

The total Crown operating balance, which includes gains and losses on assets and liabilities, is forecast to be in surplus across all years of the forecast period and expected to reach $10.9 billion in 2023/24 (Figure 2.7).

Figure 2.7 – Components of operating balance



Source: The Treasury

Gains and losses on non-financial liabilities are included in the first year of the forecast but are not forecast beyond this. In the current year, the Crown is expected to record large losses on its ACC outstanding claims liability of $2.3 billion. This is primarily driven by a reduction in discount rates used to value all future injury costs of existing claims in today's dollars. For more details refer to the box on page 42.

Offsetting these losses are gains expected on the Crown's two large investment portfolios, ACC and the NZS Fund. The gains forecast for 2019/20 is based on year-to-date gains up to the base month used for the forecast and beyond this point the expected long-term benchmark rates of return, which is also for the other years covered in the forecast (2021 to 2024). Gains on financial instruments are expected to increase over the forecast period owing to the growth in the investment portfolios of ACC and the NZS Fund.

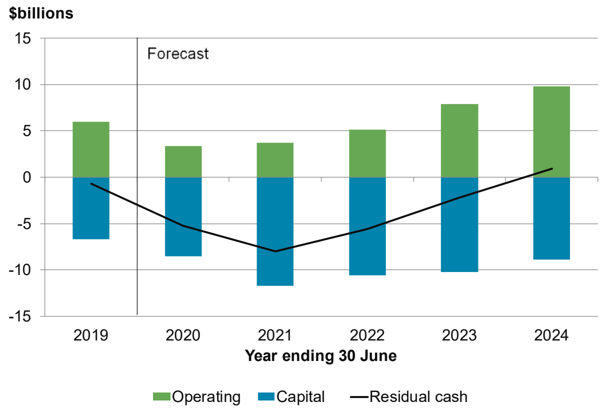
Residual Cash and Net Core Crown Debt[3]

Operating cash flows improve over time…

Over the entire forecast period, a cash deficit of $20.1 billion is expected. This cash shortfall is funded largely through additional borrowing (Figure 2.8).

After initially declining, net operating cash flows are expected to rise over the forecast period. Net operating cash flows are forecast to be in surplus across the forecast period. Over the forecast period, the Government is expected to generate cash flows of $29.9 billion from core Crown operating activities.

Figure 2.8 – Core Crown residual cash



Source: The Treasury

…with cash from the Emissions Trading Scheme contributing to the improvement…

$2.8 billion is forecast owing to an expectation that more Emission Trading Scheme (ETS) participants will take up the Fixed-Price Option (FPO), where they can pay the Government $25 for each unit they are liable to surrender to meet their ETS obligations. These forecasts assume the use of FPO based on the uptake in 2018/19, owing to the market price at the time being above $25. If the market price of each unit is higher than the fixed price of $25 (as seen in 2018/19), it is likely emitters would use the FPO. For more information, see the box on page 36.

…however, core Crown capital spending exceeds cash from operations until the final year

Capital spending is forecast to exceed operating cash flows, resulting in residual cash deficits for the first four years. Capital spending includes $8.1 billion of the Government's new capital investment across the forecast period. As tax receipts continue to exceed operating expenditure and capital spending decreases later in the forecast, a residual cash surplus of $0.9 billion is forecast in 2023/24.

The Government is forecast to invest a net total of $49.9 billion on capital over the forecast period. Net capital spending includes $13.2 billion on building and acquiring physical assets, $11.0 billion on providing capital to Crown entities (eg, to the New Zealand Transport Agency for state highways ($3.7 billion) and to DHBs to build or develop hospitals ($2.5 billion)) and $11.5 billion in contributions to the NZS Fund.

The Government is forecast to spend $5.0 billion from the Government's new capital investment over the forecast period on various projects, with $3.9 billion falling outside the forecast period. The various projects to be funded will be announced before Budget 2020, with an increase of $3.1 billion in the future capital allowance (with $0.9 billion falling

3 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.

outside the forecast period), totalling $8.1 billion over the forecast period. The remaining investment is expected to occur after 2023/24. For a breakdown of this spending refer to the box on pages 13 to 14.

Table 2.6 shows core Crown capital spending that has an impact on net core Crown debt. It excludes capital spending undertaken directly by Crown entities and SOEs funded from their own resources (including third-party financing).

Table 2.6 – Net capital expenditure activity[4]

Year ending 30 June $billions	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	5-year Total
Defence	0.7	1.1	1.3	1.1	0.4	0.5	**4.4**
Education	0.9	0.8	1.0	1.0	0.8	0.7	**4.3**
Corrections	0.4	0.4	0.1	0.1	0.1	0.1	**0.8**
Social Development	0.1	0.1	0.1	0.1	0.1	0.1	**0.5**
Police	0.1	0.1	0.1	0.1	0.1	0.1	**0.5**
Inland Revenue	0.1	0.1	0.2	-	-	-	**0.3**
Health	0.2	0.1	-	-	-	-	**0.1**
Other	0.5	0.7	0.5	0.4	0.4	0.3	**2.3**
Net purchase of physical assets	**3.0**	**3.4**	**3.3**	**2.8**	**1.9**	**1.8**	**13.2**
Housing infrastructure fund	-	0.2	0.3	0.2	0.1	0.1	**0.9**
PGF loans	-	0.2	0.5	-	-	-	**0.7**
NZTA	-	-	(0.1)	(0.1)	(0.1)	(0.1)	**(0.4)**
Student loans	-	-	-	-	-	-	**-**
Other	0.1	-	-	-	-	-	**-**
Net advances	**0.1**	**0.4**	**0.7**	**0.1**	**-**	**-**	**1.2**
NZTA	1.1	1.1	0.4	0.6	0.8	0.8	**3.7**
District Health Boards	0.2	0.6	0.6	0.7	0.5	0.1	**2.5**
City Rail Link	0.1	0.3	0.5	0.5	0.4	0.1	**1.8**
KiwiRail	0.3	0.6	0.6	-	-	-	**1.2**
Crown Infrastructure Partners	0.3	0.2	0.2	0.1	-	-	**0.5**
Southern Response	0.2	0.1	0.1	-	-	-	**0.2**
Ōtākaro	0.1	0.1	0.1	-	-	-	**0.2**
Other	0.3	0.2	0.1	0.2	0.3	0.1	**0.9**
Net investments	**2.6**	**3.2**	**2.6**	**2.1**	**2.0**	**1.1**	**11.0**
Future new capital spending[1]	-	0.8	3.6	3.6	3.9	3.5	**15.4**
Top-down capital adjustment	-	(0.8)	(0.6)	(0.4)	(0.3)	(0.3)	**(2.4)**
Contribution to NZS Fund	1.0	1.5	2.1	2.4	2.7	2.8	**11.5**
Net capital spending	**6.7**	**8.5**	**11.7**	**10.6**	**10.2**	**8.9**	**49.9**

1 The Government's new capital investment of $12 billion, of which $8.1 billion is included in these fiscal forecasts with $3.9 billion falling outside of the current fiscal forecast period, is included in the $15.4 billion of future new capital spending.

Source: The Treasury

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

How the Emissions Trading Scheme is reflected in the fiscal forecasts

Background

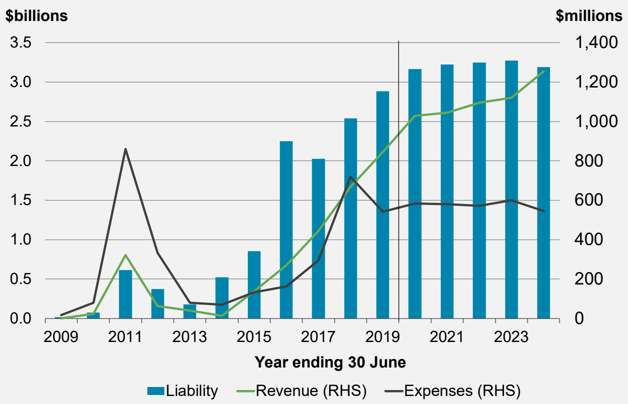
The Emissions Trading Scheme (ETS) was introduced in January 2008, with the objective of incentivising businesses who emit greenhouse gases to reduce their emissions. Under the scheme the Government has created a maximum number of tradable units, which can be allocated to, or surrendered by, emitters.

The accounting for the ETS

The Government incurs an expense and creates a corresponding liability when it allocates units to industries and businesses for free. It also recognises revenue when units are surrendered by businesses to meet their obligations. The revenue and expenses from the scheme are measured monthly at the prevailing market price at the point in time when the Government has a right to an asset or an obligation. The units that are in circulation at any given point represents a liability to the Government. These units are measured at the current market price, so if there is an increase in the price the liability goes up, while a decrease in price reduces the liability. The valuation changes from price movements are reported as gains and losses through the Statement of Financial Performance.

Figure 2.9 shows how the fiscal performance of ETS has evolved since its introduction. Initially expenses from the Scheme exceeded revenue due to significant allocations of units to foresters.

Figure 2.9 – Emissions Trading Scheme



Source: The Treasury

Businesses can meet their obligation under the ETS by purchasing units from the market and surrendering them to the Government, which reduces the Government's liability as there are fewer units in circulation. Businesses also have an option of meeting their obligation by buying units from the Government using the $25 under Fixed-Price Option (FPO), which increases the Government's cash position but does not reduce the liability.

Fiscal impacts from the FPO and buying from the market

During the 2018/19 fiscal year, the market price was close to $25; as a result, nearly half of businesses met their emissions obligation through the FPO. Over the forecast period the market price is expected to be close to $25; therefore it is assumed businesses will continue to use the FPO. The revenue recognised by the Government is not affected by how emitters meet their obligations; however, the options do have different impacts on some of the fiscal indicators.

	Residual cash	Net debt	ETS liability
FPO	Increases	Decreases	No impact
Buying from the market	No impact	No impact	Decreases

The assumption around the use of the FPO has increased the cash available to the Government by around $500 million to $600 million per annum. As a result, this has meant a reduction in the amount the Government needs to borrow, reducing the net core Crown debt track by around 0.6% of GDP by 2023/24. Although the FPO option has a positive impact on net core Crown debt, it does not reduce the Government's obligation under the ETS which will need to be settled in the future.

Net core Crown debt peaks as a share of GDP in 2021/22…

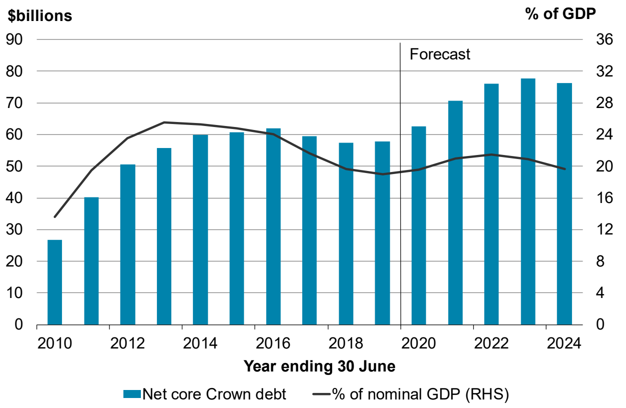
Net core Crown debt was lower than forecast in 2018/19 by $2.6 billion; this led to a stronger opening net core Crown debt position.

In nominal terms, net core Crown debt continues to grow, peaking at $77.7 billion in 2022/23. It then declines in the final year of the forecast as residual cash returns to surplus. Net core Crown debt is forecast to be $76.3 billion in 2023/24, an increase of $18.6 billion from the position at the end of the 2018/19 fiscal year.

Net core Crown debt as a percentage of GDP is expected to increase for the first three years of the forecast period before declining to 19.6% in 2023/24 (Figure 2.10).

The forecast nominal increase in net core Crown debt in the first four years of the forecast period results from the issuance of debt and the use of existing financial assets of the Crown.

Figure 2.10 – Net core Crown debt



Source: The Treasury

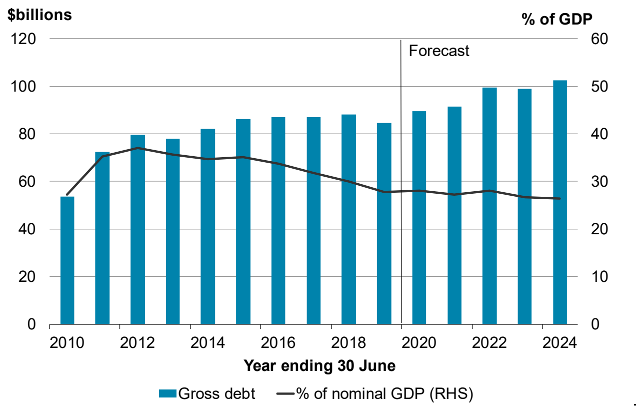
…while gross debt continues to decline as a percentage of GDP

Gross debt as a percentage of GDP remains on a generally declining trend, decreasing from 27.7% in 2018/19 to 26.4% by 2023/24 (Figure 2.11).

In nominal terms, gross debt is expected to increase over the forecast period. This is in order to fund the overall forecast residual cash deficits, and forecast bond maturities.

The core Crown borrowing programme is a key influence in the trend in gross debt. On an annual basis gross debt will vary depending on the timing of bond maturities and proceeds from bonds issued.

Figure 2.11 – Gross debt



Source: The Treasury

By the end of 2023/24, New Zealand Government Bonds (NZGBs) on issue are forecast to decline to 22.7% of GDP, from 23.6% at the end of 2018/19. This is consistent with the Government's stated intention to maintain levels of NZGBs on issue at not less than 20% of GDP over time.

The core Crown borrowing programme covers the cash shortfall and maturities over the forecast period

The core Crown borrowing programme includes forecast proceeds from both Government Bonds and short-term borrowing (eg, Treasury Bills). Overall, the programme will provide net funds of $18.9 billion to help meet residual cash deficits and partially prefund the upcoming bond maturity in 2024/25.

In total, the bond programme is expected to raise funds of $45.7 billion. Bond maturities and repurchases will result in repayments of $25.5 billion of existing debt. In addition, short-term borrowing is expected to be $1.3 billion lower at the end of the forecast period, relative to the end of 2018/19 (Table 2.7).

Table 2.7 – Net issuance of Government Bonds and short-term borrowing[5]

Year ending 30 June $billions	**2020 Forecast**	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**5-year Total**
Face value of Government Bonds issued (market)	10.0	10.0	8.0	8.0	6.0	42.0
Debt programme cash flows						
Cash proceeds from issue of market bonds	11.3	10.8	8.5	8.8	6.3	45.7
Repayment of market bonds	(6.7)	(9.9)	-	(8.9)	-	(25.5)
Net issue/(repayment) of short-term borrowing	(0.4)	1.2	-	-	(2.1)	(1.3)
Net debt programme cash flows	**4.2**	**2.1**	**8.5**	**(0.1)**	**4.2**	**18.9**

Source: The Treasury

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

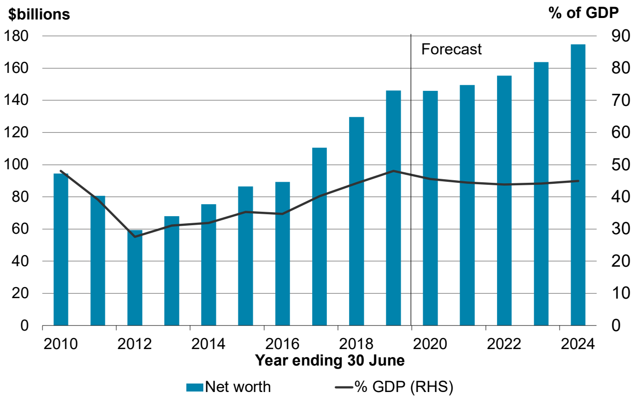
Total Crown Balance Sheet

Operating balance surpluses drive the growth in the Crown's net worth…

As a percentage of GDP, net worth stays relatively stable at around 44% across the last four year of the forecast period.

However, net worth is expected to decline in the current year. This is largely owing to valuation losses on the Government's long-term liabilities arising from a decrease in discount rates since 30 June 2019. Net worth then grows from 2020/21 onwards, reaching $174.9 billion by 2023/24, as a result of operating balance surpluses.

Figure 2.12 – Net worth



Source: The Treasury

The growth in net worth over the forecast period is reflected by an increase in total assets of $79.8 billion, partly offset by an increase in total liabilities of $51.1 billion.

The Risks and Scenarios chapter includes a section on balance sheet risks and should be read in conjunction with the fiscal forecasts.

Table 2.8 – Breakdown of total Crown balance sheet

Year ending 30 June **$billions**	**2019** **Actual**	**2020** **Forecast**	**2021** **Forecast**	**2022** **Forecast**	**2023** **Forecast**	**2024** **Forecast**
Financial assets	164.1	175.4	178.7	191.0	199.2	215.5
Property, plant and equipment	177.6	182.6	184.2	186.9	187.7	188.5
Other assets	22.6	24.0	27.5	32.1	35.9	40.1
Total assets	**364.3**	**382.0**	**390.4**	**410.0**	**422.8**	**444.1**
Borrowings	110.2	122.2	126.9	137.6	138.8	145.3
Insurance liabilities	58.2	62.2	64.3	66.4	68.8	71.3
Other liabilities	49.7	51.8	49.8	50.7	51.4	52.6
Total liabilities	**218.1**	**236.2**	**241.0**	**254.7**	**259.0**	**269.2**
Total net worth	146.2	145.8	149.4	155.3	163.8	174.9
Net worth attributable to the Crown	**139.8**	**139.6**	**143.4**	**149.4**	**158.1**	**169.2**

Source: The Treasury

…with investment returns and Kiwibank mortgages increasing financial assets…

Financial assets are forecast to grow by $51.4 billion over the forecast period to $215.5 billion (around 48.5% of total assets) in 2023/24 (Table 2.8) as a result of:

- the financial asset portfolio managed by the NZS Fund and ACC. This growth in financial assets is driven by the expected investment returns that accumulate over the forecast period. In addition, the contributions of around $11.5 billion from the Crown to the NZS Fund are expected to be invested in financial assets, and
- advances which are expected to increase by $11.7 billion by 2023/24, primarily owing to growth in Kiwibank (Kiwi Group Holdings Limited) lending of $11.1 billion and is supported by the increase in Kiwibank customer deposits discussed on page 41.

…and capital decisions increasing physical assets…

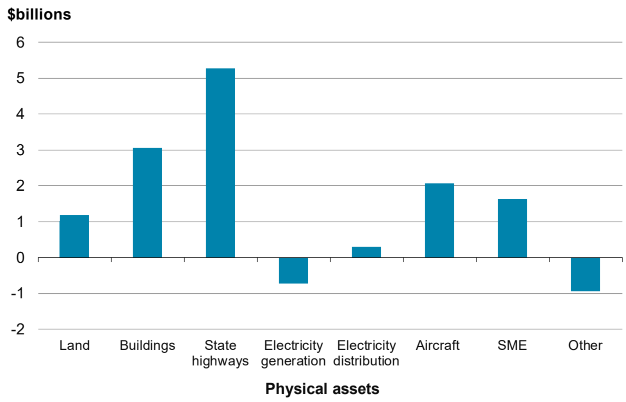
Overall, property, plant and equipment (PPE) is expected to increase by $10.9 billion to $188.5 billion (around 42.4% of total assets) by 2023/24. Large increases are forecast across the PPE asset classes of buildings, state highways, specialised military equipment (SME) and aircraft.

Previous Budget decisions include the additional investment in DHBs' and schools' infrastructure, the purchase of P-8A Poseidon maritime patrol aircraft, and investment in the rail freight network.

Kāinga Ora – Homes and Communities is expected to make a significant investment in public housing across the forecast period, which is a key factor in the increase in the buildings PPE asset class (Figure 2.13). This investment is expected to be largely funded from third-party borrowings.

Over the forecast period, the value of state highways is expected to grow by $5.3 billion, primarily reflecting roading projects to be funded from the National Land Transport Fund.

Figure 2.13 – Increase in PPE by asset class



Source: The Treasury

…with $15.4 billion set aside for future capital decisions…

The $15.4 billion includes the Government's new capital investment and the Multi Year Capital Allowance. The Government's capital investment is $8.1 billion of this total (with $3.9 billion forecast to occur after 2023/24. For more detail refer to the box on pages 13 to 14.

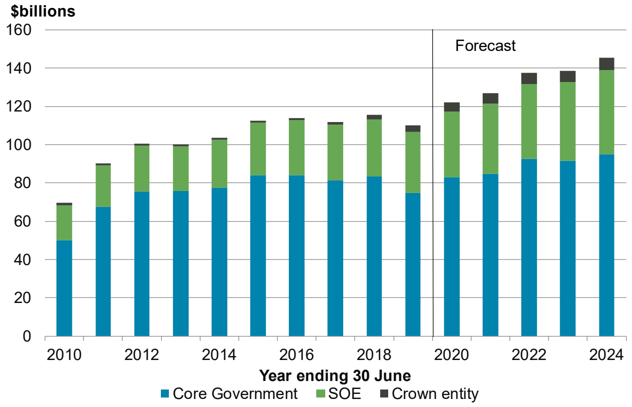
…while borrowings and insurance liabilities are also expected to increase

Total liabilities are forecast to increase by $51.1 billion over the forecast period to $269.2 billion in 2023/24. The increase in total liabilities is largely owing to borrowings being higher by $35.1 billion and insurance liabilities being higher by $13.1 billion.

The increase in borrowings is driven by three main factors:

- gross debt increasing by $18.2 billion to help meet the expected cash shortfall (refer to pages 37 to 38)
- Kiwibank borrowings (eg, deposits held) increasing by $10.8 billion to fund lending growth through growth in deposits from customers, as discussed on page 40, and
- borrowings by Crown entities increasing by $2.8 billion to fund capital projects by NZTA and Kāinga Ora – Homes and Communities. This increase includes the obligation of Public Private Partnerships undertaken by NZTA.

Figure 2.14 – Borrowings by segments



Source: The Treasury

The increase in insurance liabilities of $13.1 billion over the forecast period is largely owing to an increase of $14.4 billion in ACC insurance liabilities. The most recent ACC liability valuation updated for discount rates at 31 October 2019, has resulted in an increase to the liability of around $2.3 billion in the current year, primarily owing to a decrease in discount rates. The remaining change in the ACC liability reflects the increase in the cost of existing and new claims. The EQC insurance liabilities are forecast to decline from $1.1 billion in 2018/19 to $0.3 billion in 2023/24 as existing claims are forecast to be largely settled by the end of the forecast period.

How the current lower interest rate environment affect ACC's impact on the Government's fiscal forecasts

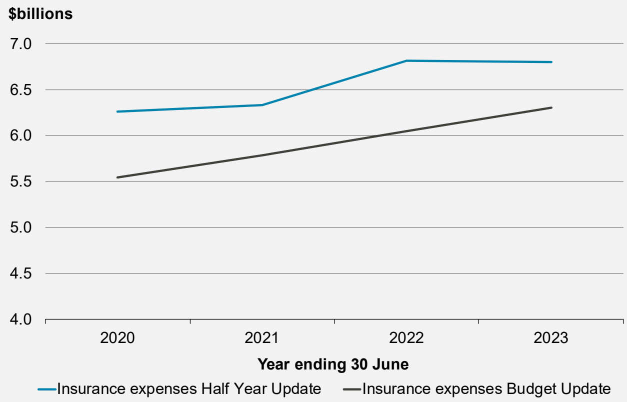
One of the most significant liabilities the Crown has is the ACC insurance outstanding claims liability (OCL). Many of the assets and liabilities on the Crown's balance sheet, including the OCL, are measured at fair value. While measurement at fair value is most relevant for decision making purposes, it can be volatile, as a consequence of fluctuations in the value due to changes in the underlying assumptions used to calculate fair value. For example, the OCL is an actuarial estimate of the future cost of all existing ACC claims, which is discounted to present day dollars.

Since the *Budget Update*, market interest rates globally and in New Zealand have decreased, meaning the latest risk-free discount rates used to value the OCL have also decreased. The lower discount rate means the value of the OCL at 31 October has increased by around $2.4 billion (since the previous valuation at 30 June), contributing to actuarial losses in the 2019/20 financial year (decreasing the operating balance forecast for 2019/20).

Insurance expenses over the forecast period

Forecast insurance expenses include both forecasted payments to be made in the applicable year and an estimate of the lifetime cost of new claims in that year, discounted to present value using the risk-free discount rates prevailing at the point the forecasts are prepared. Consequently, changes in discount rates can have a significant impact on insurance expenses in each of the forecast years. For example, in the *Budget Update,* the discount rate used for each forecast year was the risk-free discount rate at 28 February 2019, which was higher than the 31 October rate used now. This lower discount rate is the main driver of the increase in forecast insurance expenses in the *Half Year Update* (and OBEGAL has decreased) relative to the *Budget Update,* due mainly to the lower interest. Figure 2.15 shows the difference in insurance expenses between the *Budget Update* and the *Half Year Update*.

Figure 2.15 – Total Crown insurance expenses[1] compared to *Budget Update*



1 Total Crown insurance expenses includes insurance expenses from entities other than ACC.

Source: The Treasury

Further changes to interest rates

The OCL is regularly revalued to reflect changes in discount and inflation rates (monthly) and actual and assumed claims experience (twice a year actuarial valuations). Should interest rates decrease further, the value of the OCL in 2019/20 will increase again, resulting in further actuarial losses in the current financial year (reducing the operating balance). For example, based on the OCL valuation at 30 June 2019, a 1% decrease in the discount rate would result in the OCL increasing by around $12.0 billion (and reducing the operating balance by the same amount). However, a 1% increase in the discount rate would result in the OCL decreasing by around $8.6 billion (increasing the operating balance).

If a higher discount rate is used in the *Budget Update 2020*, relative to the one used in the *Half Year Update*, insurance expenses across the forecast period would decrease (and vice versa if a lower discount rate was used), all other things being equal.

Comparison to the *Budget Update*

Table 2.9 summarises the changes in the key fiscal indicators since the *Budget Update.*

Table 2.9 – Key fiscal indicators compared to the *Budget Update*

Year ending 30 June $billions	2019[6] Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Core Crown tax revenue					
Half Year Update	-	88.7	94.3	99.2	104.8
Budget Update	84.7	89.2	95.1	100.2	105.6
Actual	86.5	-	-	-	-
Change	**1.8**	**(0.5)**	**(0.8)**	**(1.0)**	**(0.8)**
Core Crown expenses					
Half Year Update	-	93.8	98.8	102.0	106.3
Budget Update	87.3	93.3	98.9	101.7	105.7
Actual	87.0	-	-	-	-
Change	**(0.3)**	**0.5**	**(0.1)**	**0.3**	**0.6**
OBEGAL[7]					
Half Year Update	-	(0.9)	0.1	1.8	4.1
Budget Update	3.5	1.3	2.1	4.7	6.1
Actual	7.3	-	-	-	-
Change	3.8	(2.2)	(2.0)	(2.9)	(2.0)
Core Crown residual cash					
Half Year Update	-	(5.2)	(8.0)	(5.6)	(2.2)
Budget Update	(2.8)	(4.2)	(4.3)	(0.6)	1.2
Actual	(0.7)	-	-	-	-
Change	**2.1**	**(1.0)**	**(3.7)**	**(5.0)**	**(3.4)**
Net core Crown debt					
Half Year Update	-	62.5	70.6	76.1	77.7
Budget Update	60.3	64.7	69.2	69.9	68.5
Actual	57.7	-	-	-	-
Change	**(2.6)**	**(2.2)**	**1.4**	**6.2**	**9.2**
Total borrowings					
Half Year Update	-	122.2	126.9	137.6	138.8
Budget Update	112.1	118.1	121.2	131.3	130.6
Actual	110.2	**-**	**-**	**-**	**-**
Change	**(1.9)**	**4.1**	**5.7**	**6.3**	**8.2**
Net worth					
Half Year Update	-	145.8	149.4	155.3	163.8
Budget Update	136.2	140.7	146.7	155.7	166.6
Actual	146.2	-	-	-	-
Change	**10.0**	**5.1**	**2.7**	**(0.4)**	**(2.8)**

Source: The Treasury

6 2019 actual and Budget Update numbers have been restated to reflect updated accounting standards. For more details refer to the forecast financial statements note 17 on page 122.

7 The OBEGAL balance excludes minority interests – the portion attributable to the investors in mixed ownership companies (Air New Zealand, Genesis, Mercury and Meridian).

Overall core Crown tax revenue is expected to be lower than the Budget Update...

Core Crown tax revenue is forecast to be $3.1 billion lower than in the *Budget Update* over the forecast period. Forecasts for revenue from resident withholding tax (RWT) and good and services tax (GST) have decreased, with these decreases partially offset by increases in the forecasts for source deductions, corporate tax and net other persons tax. Table 2.10 summarises the movements by tax type since the *Budget Update*.

Table 2.10 – Change in core Crown tax revenue since the *Budget Update*

Year ending 30 June $billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	Total Change
Movement in core Crown tax owing to:					
Source deductions	0.2	0.1	0.3	0.4	**1.0**
Other persons tax	(0.1)	0.3	0.2	0.2	**0.6**
Corporate tax	(0.1)	-	0.2	0.2	**0.3**
Goods and services tax (GST)	(0.5)	(0.7)	(0.6)	(0.6)	**(2.4)**
Resident withholding tax (RWT) on interest	(0.2)	(0.6)	(1.0)	(1.1)	**(2.9)**
Other taxes	0.2	0.1	(0.1)	0.1	**0.3**
Total movement in core Crown tax revenue	**(0.5)**	**(0.8)**	**(1.0)**	**(0.8)**	**(3.1)**
Plus: *Budget Update* tax base	89.2	95.1	100.2	105.6	
Core Crown tax revenue at *Half Year Update*	**88.7**	**94.3**	**99.2**	**104.8**	
As a % of GDP	**27.7%**	**28.0%**	**28.0%**	**28.2%**	

Source: The Treasury

The RWT forecast is $2.9 billion lower owing to lower forecast interest rates, while GST revenue forecasts are $2.4 billion lower, driven by a weaker outlook for household consumption and overseas visitor spending.

Source deductions are forecast to be $1.0 billion higher, owing to a higher starting point as a result of stronger tax revenue up to 30 June 2019, stronger wage growth, and associated fiscal drag, offset slightly by weaker employment.

Corporate tax revenue forecasts are $0.3 billion higher in total mostly driven by a higher starting point. This is partly offset by a lower growth forecast for operating surplus and a higher forecast for the Research and Development tax credits.

Net other persons' tax revenue forecasts are $0.6 billion higher mostly owing to a stronger outlook for growth in entrepreneurial income.

…while higher social assistance and other expenses adversely impact OBEGAL…

OBEGAL growth has slowed across the forecast period since the *Budget Update*. The major movements in OBEGAL since the *Budget Update* are outlined in Table 2.11. Cumulatively, OBEGAL is $9.1 billion lower across the forecast period.

Table 2.11 – Changes in OBEGAL since the *Budget Update*

Year ending 30 June $billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	Total Change
OBEGAL – *Budget Update*	**1.3**	**2.1**	**4.7**	**6.1**	
Changes in forecasts:					
Economic factors					
Core Crown Tax revenue forecast change	(0.5)	(0.8)	(1.0)	(0.8)	(3.1)
Social assistance forecasting changes	(0.3)	(0.5)	(0.6)	(0.8)	(2.2)
Other factors					
Forecast and phasing changes	(0.1)	0.2	(0.1)	0.1	0.1
Net core Crown finance costs	(0.2)	-	-	(0.1)	(0.3)
Canterbury on-sold property compensation	(0.3)	-	-	-	(0.3)
KiwiRail results	(0.1)	(0.2)	(0.2)	(0.2)	(0.7)
ACC results	(0.7)	(0.3)	(0.4)	0.1	(1.3)
DHB results	0.1	(0.3)	(0.5)	(0.7)	(1.4)
Other changes	(0.1)	(0.1)	(0.1)	0.4	0.1
Total changes since the Budget Update	**(2.2)**	**(2.0)**	**(2.9)**	**(2.0)**	**(9.1)**
OBEGAL – 2019 *Half Year Update*	**(0.9)**	**0.1**	**1.8**	**4.1**	

Social assistance expenses have increased by $2.2 billion in total since the *Budget Update*. The increase is mainly owing to New Zealand Superannuation payments, Jobseeker Support, Emergency Benefits and the Supported Living Payment. This increase reflects higher recipient numbers and higher wage growth that contributed $1.8 billion and $0.4 billion respectively to the overall increase.

Higher wage growth compared to the *Budget Update* has also resulted in an increase in most benefit types. The upward revision to the expected wage level has the largest impact on New Zealand Superannuation owing to the large volume of people receiving the payment.

Actual recipient numbers for the Jobseeker Support, Emergency Benefit are tracking above what was expected at the *Budget Update*. In addition, the softening in economic conditions in the near-term have resulted in an expected lift in Jobseeker Support recipients some flow-on impacts to Support Living Payment. Overall, the increase in recipient numbers from these benefits has increased expenses by around $1.0 billion over the forecast period.

The decision to compensate homeowners for the repair costs of eligible on-sold Canterbury properties has contributed to OBEGAL being $0.3 billion lower when compared to the *Budget Update*. On-sold properties are properties that have been sold since the earthquakes, with damages that cost more than the EQC cap and where homeowners cannot recover the over-cap amount from their private insurer.

Crown entity forecasts have been revised with DHBs and ACC forecasts weakening. The DHBs' financial performance continues to deteriorate. At the same time, ACC is expecting higher insurance claims costs than previously forecast. The ACC liability and insurance costs are particularly sensitive to interest rates (used to value all outstanding claims in today's dollars). As discount rates have continued to fall since the *Budget Update*, the lifetime cost of forecast claims is now higher in present value terms than the same claims forecast at the *Budget Update* (refer to the ACC box on page 42). Both of these Crown entity changes result in OBEGAL being $2.7 billion lower across the forecast period when compared to the Budget forecast.

Updated forecasts for KiwiRail also show a weaker outlook than previously forecast by $0.7 billion. This is owing to higher depreciation expenses as a result of a change in the valuation approach of the rail freight network from a commercial basis to a public benefit basis adopted in the 30 June 2019 year.

Net core Crown debt is higher, mainly reflecting additional capital investment...

Net core Crown debt is higher across the forecast period compared to the *Budget Update*, with the exception of the 2019/20 year, which is lower. Table 2.12 shows the significant changes.

Table 2.12 – Changes in net core Crown debt since the *Budget Update*

Year ending 30 June **$billions**	**2020** **Forecast**	**2021** **Forecast**	**2022** **Forecast**	**2023** **Forecast**
Net core Crown debt – *Budget Update*	**64.7**	**69.2**	**69.9**	**68.5**
Changes in forecasts:				
Opening balance	(2.6)	(2.6)	(2.6)	(2.6)
Economic factors				
Core Crown tax receipts forecast change	0.8	1.8	2.8	3.5
Social assistance forecasting changes	0.3	0.8	1.4	2.2
Other factors				
Change in capital investment	0.5	3.1	5.1	7.1
Net finance costs	0.1	0.1	0.2	0.5
Phasing changes	(0.8)	(0.1)	0.6	0.4
Canterbury on-sold property compensation	0.2	0.2	0.3	0.3
Gains and losses	(0.3)	(0.2)	(0.1)	-
ETS fixed price option	(0.5)	(1.0)	(1.6)	(2.2)
Other changes	0.1	(0.7)	0.1	-
Total changes since the Budget Update	**(2.2)**	**1.4**	**6.2**	**9.2**
Net core Crown debt – 2019 *Half Year Update*	**62.5**	**70.6**	**76.1**	**77.7**

The results from 30 June 2019 have meant that there is a stronger starting position for net core Crown debt of $2.6 billion. This is the largest contributor to the improvement in the 2019/20 year. This has been partially offset by a higher core Crown residual cash deficit of $13.0 billion compared to the *Budget Update*, contributing to an overall increase in net core Crown debt by 2022/23.

Core Crown tax receipts, have decreased by $3.5 billion across the forecast since the *Budget Update*, in line with the lower forecast tax revenue.

Social assistance forecasting changes largely mirror the OBEGAL movement, with the $2.2 billion increase in payments primarily driven by higher forecast growth in recipient numbers and an increase in the indexation of benefits.

Capital spending (including the Government's new capital investment) has increased net core Crown debt by $7.1 billion. For more detail on the Government's new capital investment refer to pages 13 to 14.

ETS receipts have increased by $2.2 billion across the forecast owing to an expectation that more ETS participants will take up the Fixed-Price Option, where they can pay the Government $25 for each unit they are liable to surrender to meet their ETS obligations (refer to the box on page 36).

In addition, net finance costs have increased resulting in a $0.5 billion impact on net core Crown debt and in line with the increase in borrowings.

...and net worth is higher until 2020/21

Net worth is now forecast to stand at $163.8 billion (44.1% of GDP) in 2022/23 compared to $166.6 billion (44.8% of GDP) at the *Budget Update.* This $2.8 billion reduction is largely driven by the adverse changes in the operating balance.

Key Economic Assumptions Used in the Forecast Financial Statements

The forecast financial statements are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates. For example:

- a nominal GDP forecast is needed to forecast tax revenue
- a forecast of CPI inflation is needed because social assistance benefits are generally indexed to inflation, and
- forecasts of interest rates are needed to forecast finance costs, interest income and discount rates.

A summary of the key economic forecasts that are particularly relevant to the forecast financial statements is provided in Table 2.13 below.

Table 2.13 – Summary of key economic forecasts used in the forecast financial statements

Year ending 30 June	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Real GDP[1] (annual average % change)	2.4	2.2	2.8	2.7	2.5	2.4
Nominal GDP[2] ($millions)	304,357	319,804	336,400	354,114	371,532	389,192
CPI (annual average % change)	1.7	1.7	1.9	2.0	2.0	2.0
Govt 10-year bonds (annual average %)	2.3	1.3	1.5	1.7	2.1	2.5
5-year bonds (annual average %)	1.8	1.0	1.2	1.4	1.8	2.2
90-day bill rate (annual average %)	1.9	1.1	1.0	1.1	1.3	1.4
Unemployment rate (annual average %)	4.1	4.2	4.2	4.2	4.2	4.3
Employment (annual average % change)	1.7	1.4	2.1	1.9	1.6	1.5

Notes: 1 Production measure.
2 Expenditure measure.

Sources: The Treasury, Stats NZ

3

Risks and Scenarios

Overview

- The risks to the international outlook are skewed to the downside, but less than what was the case at the *Budget Update*. Some risks identified at the *Budget Update* have now materialised while others remain key risks to the outlook. Risks to the international outlook include: continued trade tensions; political uncertainty; a more pronounced slowdown in the Chinese economy; and major adjustments in international financial markets. Should these risks materialise, global and domestic growth will be weaker than expected in the main forecasts.
- The risks to the domestic outlook are more balanced and include: uncertainty around the impact of business confidence on investment; the extent to which capacity pressures are binding; and uncertainty regarding the outlook of house prices, net migration and productivity growth.
- Scenario One explores the effects of weaker world demand owing to further disruption to global trade and increased financial market volatility. Under this scenario, slower trading partner growth lowers demand for New Zealand exports and contributes to weaker business sentiment, lowering investment and employment activity. Lower exports and weaker business activity reduce GDP growth and tax revenues, lowering fiscal surpluses and pushing up net debt.
- Scenario Two illustrates a stronger domestic economy driven by higher net migration that lifts demand, leading to business sentiment recovering sooner than expected. Higher business investment activity stimulates the economy to raise growth above the central forecasts. Increased demand in a capacity-constrained economy also produces higher inflationary pressures, raising nominal GDP and tax revenues to generate larger fiscal surpluses and lower net debt.
- The Crown is exposed to risks from its balance sheet, in addition to risks that impact its operating balance. In particular, the Crown's financial position is exposed to risk through changes in the value of the Crown's assets or liabilities, and through the potential impact of the Crown's fiscal obligations that arise from policy choices.

Risks to the Economic Outlook

This section outlines the risks around some of our judgements that could have a significant impact on the economy if they were to materialise. Risks to the economic outlook have flow-on implications for the Government's fiscal position as tax revenue and public spending vary with the state of the economy.

The Specific Fiscal Risks chapter details potential government decisions, contingent liabilities and contractual obligations that may also have a material impact on the economic or the fiscal outlook.

Further trade tensions could weaken trading partner growth…

Trade tensions between the US and China have eased recently with the prospect of a 'Phase One' trade agreement, but a formal agreement is yet to be reached. Expectations of an agreement between the two nations improved market sentiments in late 2019 but uncertainty around trade since 2018 has already weighed on global activity, particularly in the manufacturing sectors in Southeast Asia and Europe.

Trade tensions are not exclusive to the US and China. Tariffs on European exports to the US in place since October 2019 may reduce European economic activity.

...with a more pronounced downturn in Chinese growth of particular concern…

Chinese growth has slowed over the past year, partly driven by increased regulation to reduce unregulated financial activities, as well as trade tensions with the US. Chinese authorities introduced tax cuts in March and cut bank capital requirements in September 2019 to support their economy. However, further trade tensions or less effective Chinese stimulus packages may hinder growth prospects, reducing Chinese demand for New Zealand exports. The fallout of a slowing Chinese economy would flow through to weaker growth for our other trading partners, reducing demand for our exports further. Spill-overs are likely for Southeast Asian economies given their role in global value chains that often include China, which are increasingly important export destinations for New Zealand.

…and trade tensions could raise financial market volatility

A deterioration in market sentiment associated with the uncertainties listed above could lead to lower demand for risky assets, wider spreads over less risky currencies and rapidly tightening credit conditions.

Another risk is the limited ability of monetary policy to stimulate economies in the event of an economic slowdown in the absence of additional measures such as quantitative easing or fiscal policy, given that current interest rates are below their pre-Global Financial Crisis levels.

Political uncertainties remain…

The terms of the UK withdrawal from the European Union (commonly known as 'Brexit') are uncertain. The UK is scheduled to leave the European Union (EU) on 31 January 2020. With weak growth in the UK already, leaving the EU without a withdrawal agreement could lead to further deterioration in UK growth. Delays in reaching an agreement lengthens the time required for the UK to recover from prolonged uncertainty.

Political developments elsewhere also make the economic outlook uncertain. Ongoing protests in Hong Kong; upcoming government elections in the UK and US; and Middle Eastern instability may create further uncertainty.

…but the world economy may recover sooner than expected

Despite the balance of risks being tilted to the downside, there is also a risk that global demand could accelerate faster than anticipated. Continued accommodative monetary policy around the world could keep borrowing costs at record lows to support growth. The effect of monetary and fiscal policy stimulus in China could also be greater than expected to help growth accelerate, improving Chinese incomes and demand for New Zealand's exports. Lower than forecast oil prices may support global growth, as oil is a major input for many industries.

Trade tensions may ease if the US and China reach a trade agreement and begin phasing out trade tariffs. The UK could leave the EU with a robust trade deal in place, allowing firms in the UK and the EU to continue trading with certainty and without additional tariffs.

Commodity price movements and the exchange rate are uncertain…

New Zealand is particularly susceptible to changes in global agricultural commodity prices. The risks discussed above may affect commodity prices in either direction. Meat and protein prices could rise more than expected if the outbreak of African swine fever in China is not contained, or fall if Chinese pig stocks recover sooner than expected.

Increased trade tensions could raise demand for New Zealand exports if our products are not subject to increased tariffs in markets such as China. Rising costs of other countries' goods exports mean our products become more competitive on the global market, supporting long-term growth.

The outlook for the exchange rate is dependent on movements in central bank policy rates and other risks to the global economy discussed above. Scenario One explores this risk, combined with further trade disruptions, in more detail.

…while oil prices are subject to political developments and technological change…

Oil prices spiked over 10% before falling back to previous levels following a drone strike on a Saudi Arabian oil field in September 2019. A more sustained reduction in supply could raise oil prices for longer, leading to higher costs for firms and prices for consumers.

In the long term, there is downside risk to our oil price assumption if the breakeven costs for shale oil producers in the US fall owing to technological advancements, increasing supply. How non-OPEC members would respond to price changes is uncertain.

…and the effect of low business confidence on growth is difficult to estimate…

Businesses report global uncertainty, squeezed profit margins and uncertainty around domestic government policy as reasons for the ongoing pessimism seen in business confidence surveys. Environmental regulation changes and uncertainty around future infrastructure projects were items of particular concern raised by businesses at our business talks earlier this year.

A key risk to the economic outlook is the length of time weak business sentiment persists. A quicker recovery in business sentiment would increase growth from stronger hiring and investment intentions. Scenario Two explores this risk in more detail.

…along with capacity pressures in the economy…

The extent to which the capacity pressures indicated in various measures are binding on the economy is unclear. If capacity constraints are more binding than expected, increased government capital spending in a more constrained environment would result in higher inflationary pressures.

More binding labour market capacity pressures and future pay settlements that have not yet materialised would also push wage inflation higher than forecast.

…while the risks to house price growth are balanced

Higher than forecast net migration and weaker than expected residential investment would drive up house prices faster than anticipated. On the other hand, stronger than expected housing supply growth and weaker than forecast net migration would lower house price growth. Stronger house price growth raises consumption and housing supply to increase economic growth, while weaker house price growth reduces it.

Weather conditions affect agricultural output and electricity generation…

Agricultural production may be resilient this season as pastures recovered well over the winter across most of the country. However, a drier summer than expected would hamper agricultural production.

Current hydro lake levels are above average for this time of year. Should electricity production become constrained by drier weather, rising costs could negatively impact households and firms, reducing economic growth.

…and net migration will depend on developments domestically and internationally

Tighter than forecast labour market conditions may encourage employers to increase the number of migrant workers. This widens the uncertainty around the outlook for net migration.

Emigration of New Zealanders to Australia tends to reduce when Australia's labour market deteriorates relative to ours. The prospect of faster than forecast wage growth in New Zealand may lead to fewer departures than assumed in the main forecast.

Some policies are yet to be agreed

The details of the Reserve Bank of New Zealand's (RBNZ) proposal to increase capital requirements for locally incorporated banks will not be known until 5 December 2019, after the forecasts are finalised.

Alternative Scenarios

The following scenarios show how the economy might evolve if some of the key judgements in the main forecasts were altered. This section aims to show how changes in certain assumptions have flow-on impacts to the economy as a whole. The scenarios illustrate two of the many ways that the economy may deviate from the main forecasts.

Scenario One explores the effects of further disruptions to global trade and increased financial market volatility, reducing global and domestic growth. Slowing trading partner growth reduces demand for our exports and lowers the terms of trade. Less demand and increased uncertainty push domestic activity levels down. Weaker business sentiment reduces GDP growth and tax revenues, lowering fiscal surpluses and raising net debt.

Scenario Two illustrates a stronger domestic economy driven by an increase in net migration that raises consumption and business activity. Rising business sentiment increases investment and reduces unemployment. A larger workforce lifts overall income levels to boost aggregate consumption in the economy. Higher population growth in a capacity-constrained economy increases inflationary pressure, which raises nominal GDP and tax revenues to generate larger fiscal surpluses and lower net debt.

Table 3.1 – Summary of economic and fiscal variables for the main forecasts and scenarios

June years	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Real GDP[1]					
Main forecast	**2.2**	**2.8**	**2.7**	**2.5**	**2.4**
Scenario One: Increased trade disruptions	2.1	2.4	2.5	2.5	2.7
Scenario Two: Increased migration raises business sentiment	2.3	3.2	2.9	2.5	2.5
Nominal GDP[1]					
Main forecast	**5.1**	**5.2**	**5.3**	**4.9**	**4.8**
Scenario One: Increased trade disruptions	4.6	4.7	5.0	5.0	5.2
Scenario Two: Increased migration raises business sentiment	5.2	5.7	5.7	5.2	5.1
Operating balance before gains and losses (% of GDP)					
Main forecast	**-0.3**	**0.0**	**0.5**	**1.1**	**1.5**
Scenario One: Increased trade disruptions	-0.3	-0.2	0.2	0.7	1.2
Scenario Two: Increased migration raises business sentiment	-0.2	0.2	0.8	1.5	2.1
Net core Crown debt (% of GDP)					
Main forecast	**19.6**	**21.0**	**21.5**	**20.9**	**19.6**
Scenario One: Increased trade disruptions	19.6	21.4	22.3	22.0	20.9
Scenario Two: Increased migration raises business sentiment	19.5	20.6	20.7	19.7	17.7

1 Annual average % change.

Source: The Treasury

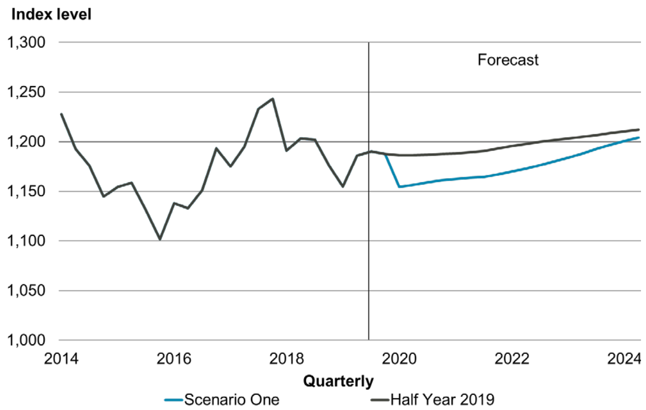
Scenario One – Increased Trade Disruptions

This scenario explores the effects of further escalations in trade tensions reducing demand for our exports. Worsening market sentiment in a slowing world economy lowers demand for our exports and softens domestic economic activity. Slower growth from reduced demand and increased unemployment weakens the fiscal position.

Trade tensions reduce world economic activity…

World trading activity falls from further escalations in international trade disputes and increasing uncertainty, dampening investment and hiring activity. Slowing world consumption reduces demand for New Zealand exports and lowers our commodity prices.

Figure 3.1 – Lower terms of trade

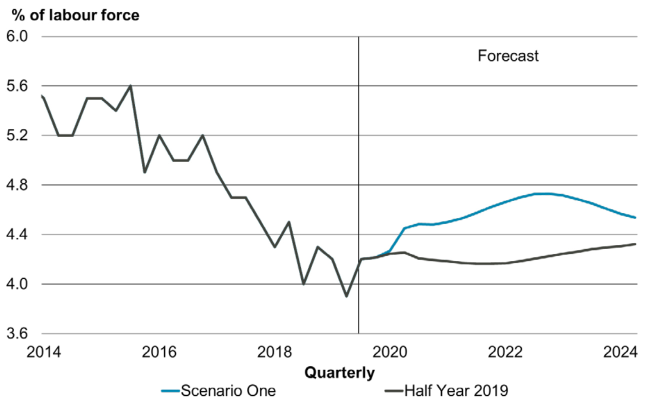


Sources: Stats NZ, the Treasury

…reducing demand for exports

A weaker total terms of trade (Figure 3.1) lowers profitability in our export sectors, pushing some firms into financial hardship. Domestic credit supply falls as the number of defaults and bad debts rises, reducing consumption and investment. Slower domestic economic activity sees the unemployment rate rise to 4.7% by 2022 (Figure 3.2).

Figure 3.2 – Higher unemployment



Sources: Stats NZ, the Treasury

The exchange rate falls…

The New Zealand dollar depreciates against our trading partners' currencies, improving our competitiveness on the global market, but this does not fully offset lower global commodity prices. A weaker dollar also raises consumer prices and business input costs. However, weaker domestic activity curbs inflationary pressures. Annual headline inflation remains below 2.0% over the forecast period, but the RBNZ eases monetary policy to reduce the impact of slowing global growth.

…and cumulative GDP is $14 billion lower relative to the main forecast

Slower global and domestic growth lowers tax revenue and weakens the Government's fiscal position. Core Crown tax revenue is cumulatively $4.4 billion lower than the main forecast over the five years to June 2024. Resident withholding tax falls by $1.3 billion owing to lower interest rates. This scenario assumes that the Government's operating and capital allowances are unchanged from those in the main forecast. Under these assumptions, OBEGAL is weaker in each year, reaching $4.7 billion (1.2% of GDP) in 2024 (Table 3.1), $1.2 billion lower than in the main forecast.

Scenario Two – Increased Migration Raises Business Sentiment

This scenario explores the impacts of higher than forecast net migration, resulting in business sentiment improving sooner than expected. Increased migration raises demand, encouraging businesses to invest in capital or increase employment. Rising employment and consumption boost economic activity and improve the fiscal position.

Increased population growth raises demand…

Net migration is cumulatively 55,000 higher across the forecast period compared with the central forecast. Increased labour supply raises demand for goods and services.

…leading to a faster recovery in business sentiment…

Businesses feel more confident from stronger demand for their products, incentivising them to take advantage of low interest rates and higher labour supply to expand. Annual average real GDP growth increases to 3.2% in 2021 (Figure 3.3).

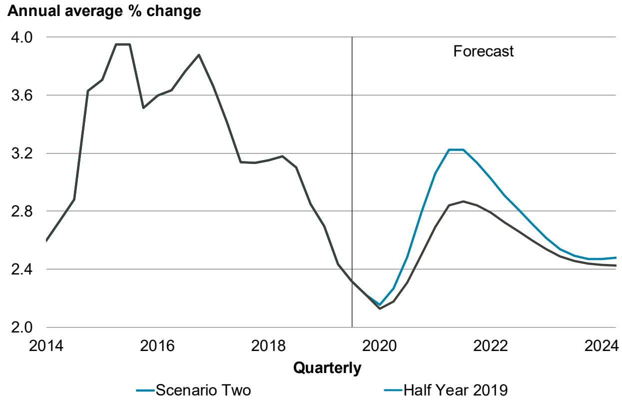
...that boosts employment and consumption

Rising employment increases total income, and rising house prices from increased population growth boost consumption (Figure 3.4). The unemployment rate falls to 3.7% in 2022 from 4.2% in the central forecast.

Output and inflationary pressures rise…

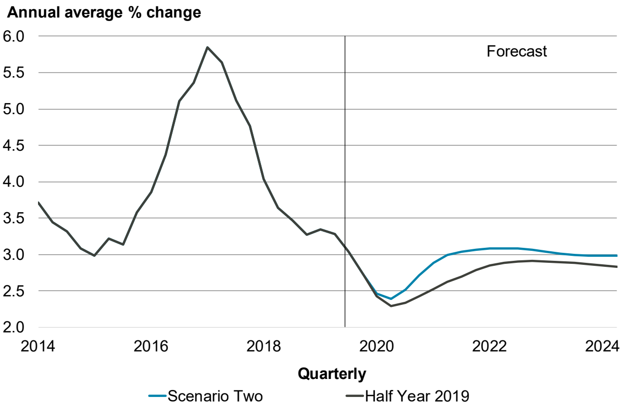
Increased demand overstretches the economy, raising output and inflationary pressures. Annual headline inflation remains above 2.0% from 2021, supported by sustained low interest rates.

Figure 3.3 – Higher GDP growth



Sources: Stats NZ, the Treasury

Figure 3.4 – Stronger consumption growth



Sources: Stats NZ, the Treasury

...to increase cumulative GDP by $17 billion relative to the main forecasts

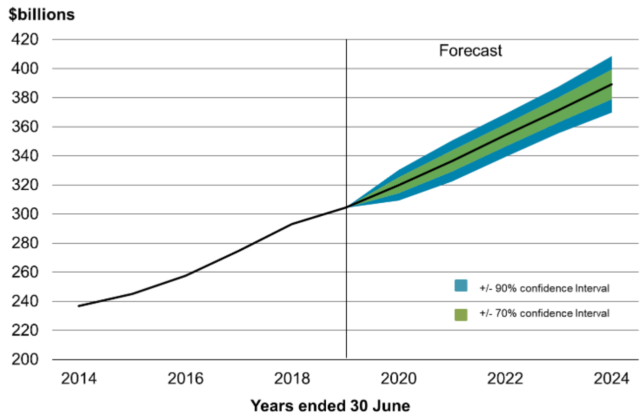
Stronger economic growth feeds into higher tax revenue and strengthens the Government's fiscal position. Core Crown tax revenue is cumulatively $6.0 billion higher relative to the main forecasts over the five years to June 2024, with $0.7 billion coming from increased wages and consumption. This scenario assumes that the Government's operating and capital allowances are unchanged from those in the main forecast**.** Under these assumptions, OBEGAL is stronger in each year, reaching $8.4 billion (2.1% of GDP) in 2024 (Table 3.1), $2.5 billion above that in the main forecast. Net core crown debt falls to 17.7% of GDP in 2024.

General Uncertainties in the Economic and Fiscal Outlook

This chapter has thus far focused on key assumptions and judgements that may eventuate differently and alter our main forecasts. However, there are myriad other ways the economy could evolve. Fan charts are a way to illustrate the general uncertainties in our forecasts and the sensitivities of these forecasts to changes in the economy.[8]

Figure 3.5 shows a fan chart of nominal GDP. The width of the fan increases further into the forecast period, meaning the further away from the present, the more uncertainty there is around the main forecast. The combined blue and green areas of the fan show where nominal GDP is expected to be 90% of the time. At the end of the forecast period, this is within +/- $19.5 billion per year of the main forecast. The green area of the fan shows where nominal GDP is expected to be 70% of the time. At the end of the forecast period, this is within +/- $10.3 billion per year of the main forecast. In the two scenarios considered in this chapter, nominal GDP forecasts remain within the green area fan (70th percentile).

Figure 3.5 – Nominal GDP fan chart

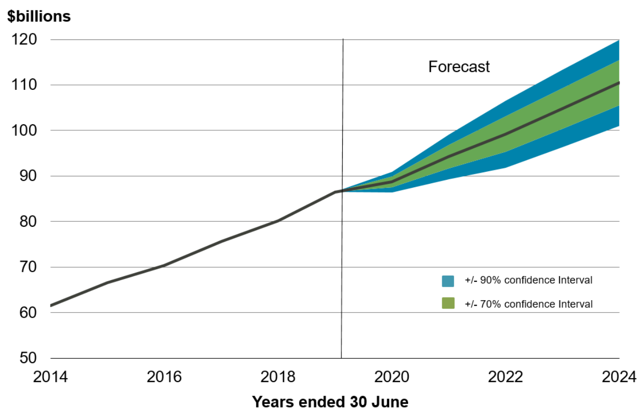


Sources: Stats NZ, the Treasury

The amount of core Crown tax revenue the Government receives in a given year is closely linked to the performance of the economy. For example, increased private consumption raises revenue from the goods and services tax (GST), while higher unemployment could mean less revenue from taxes on wages and salaries.

Figure 3.6 shows the uncertainty surrounding the main core Crown tax revenue forecast. At the end of the forecast period, the shaded blue area captures a range of approximately +/- $9.4 billion, within which actual tax outturns are expected to fall 90% of the time. The green area of the fan shows where core Crown tax revenue is expected to be 70% of the time. At the end of the forecast period this is within +/- $4.9 billion per year of the main forecast.

Figure 3.6 – Core Crown tax revenue fan chart



Source: The Treasury

8 For further details, see https://treasury.govt.nz/publications/research-and-commentary/rangitaki-blog/mei-special-topic-illustrating-forecast-uncertainty

Fiscal Sensitivities

Table 3.2 sets out some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point higher than forecast in each year up to June 2024, tax revenue would be around $5.7 billion higher than forecast in the June 2024 year. The sensitivities are broadly symmetric: if nominal GDP growth is one percentage point lower than expected each year, tax revenue would be around $5.5 billion lower than forecast in the June 2024 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 the forecast would also impact the fiscal position owing to the effect on the portfolios of various government reporting entities, such as the New Zealand Superannuation Fund (NZS Fund), Accident Compensation Corporation (ACC) and the Treasury. For example, at 30 June 2019, a 1.0% increase in New Zealand interest rates would have reduced the total Crown operating balance by around $476 million, while a 1.0% decrease would have increased the total Crown operating balance by $701 million. The majority of the Government's borrowings and a large number of financial assets are managed by the Treasury. To illustrate the interest rate sensitivities on the Treasury's portfolio, Table 3.2 provides the estimated impact of lower interest rates on those assets and liabilities. A one percentage point fall in the interest rate would result in a $53 million reduction in the interest income on funds managed by the Treasury in the June 2024 year. This would be more than offset by $388 million lower interest expenses in the June 2024 year. As above, the sensitivities are broadly symmetric.

Table 3.2 – Fiscal sensitivity analysis

Years ended 30 June **$millions**	**2020 Forecast**	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**
Impact on tax revenue of a one percentage point increase in growth of					
Nominal GDP	900	1,920	3,045	4,310	5,710
Wages and salaries	395	845	1,355	1,925	2,570
Taxable business profits	205	450	725	1,025	1,350
Impact of 1% lower interest rates on					
Interest income[1]	-66	-73	-45	-66	-53
Interest expenses[1]	-43	-162	-256	-331	-388
Net impact on operating balance	-23	89	211	265	335

Note: 1 Funds managed by the Treasury.

Source: The Treasury

The forecast financial position is based on a number of judgements and assumptions about the future. To inform these judgements and assumptions we rely on market information. Some additional assumptions include those around foreign exchange rates, share prices, the carbon price and property prices. Where the actual outcome differs from our assumptions, the Crown's actual financial position is likely to differ from the forecasts. For example, foreign-currency-denominated financial assets and liabilities are converted into New Zealand dollars at the reporting date, the Government's listed share investments are reported on market prices and property owned by the Crown is valued using market information. Changes in these variables can also have flow-on effects for the Crown's operating balance. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

Balance Sheet Risks

The Crown's balance sheet is exposed to a number of risks beyond those associated with OBEGAL. These risks affect the Crown's financial position through changes in the value of its assets or liabilities, along with the potential impact on the Crown's explicit (through policy settings) and implicit (a strong expectation the Crown would respond to an event) obligations.

Main source of balance sheet risk

A large source of balance sheet risk is owing to movements in market variables, which change the value of the Crown's assets and liabilities. As noted earlier, these changes may also impact the Crown's operating balance. Three areas of the balance sheet are particularly susceptible to market risk:

- Financial assets held by Crown financial institutions (CFIs) are sensitive to financial-market volatility, such as movements in interest rates, exchange rates and equity prices. The CFIs set long-term investment strategies based on underlying policy objectives. These strategies aim to look through short-term volatility and take exposures that would offset the impact of insurance or retirement liabilities.

- Insurance and retirement liabilities are prone to volatility through their actuarial valuations, including changes to expectations of future interest rates and inflation rates.

- Physical assets such as land, buildings, state highways and military equipment are susceptible to valuation movements through changes in property market conditions, interest rates and changes in the costs of construction.

Other sources of balance sheet risk

- **Business risk**: A number of commercial entities owned by the Crown have their financial performance and valuations impacted by the commercial environment they operate in.

- **Funding risk**: The New Zealand Government remains amongst the highest-rated sovereigns globally, with the top AAA foreign-currency rating from Moody's and AA foreign-currency ratings from Standard & Poor's and Fitch. In the case of an increase in global risk aversion in the future, New Zealand may face increased funding pressure. All else being equal, a deterioration in the ratings outlook could raise debt-servicing costs and lessen the funding capability for the Crown.

- **Liquidity risk**: The Crown incurs liquidity risk with respect to its ability to raise cash to meet its obligations. This risk is managed by each agency to meet their specific liquidity risk requirements and by the Treasury's debt management function to manage the Crown's liquidity requirements.

- **Contingent liabilities**: The Crown faces contingent liabilities, for example, relating to natural disasters and financial system stress. The Specific Fiscal Risks chapter discusses contingent assets and liabilities in greater detail.

Managing risk

While the Crown's exposure to risks is sometimes unavoidable, the Crown's general approach is to identify, measure and treat these risks where practicable. However, some risks cannot be reduced. Maintaining debt at prudent levels and holding a healthy level of net worth helps manage residual risks and increases the Crown's resilience to shocks. A strong balance sheet helps by absorbing the impact from risks so that the wider economy does not need to adjust immediately, at a greater economic cost. A strong balance sheet also provides the Government with fiscal space and choices about how it can respond to shocks.

4

Specific Fiscal Risks

Overview

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

- the nature of fiscal risks to the economic and fiscal outlook
- how risks set out in the chapter are managed
- criteria for inclusion and exclusion of fiscal risks in this chapter
- the statement of specific fiscal risks, and
- contingent liabilities and assets.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts, 25 November 2019. Although the process for disclosure of specific fiscal risks involves a number of entities, including government departments, the Treasury and the Minister of Finance, there remains a possibility that not every significant risk is identified.

Nature of Risks to the Economic and Fiscal Outlook

Risks can be positive or negative, and can affect revenue and spending or assets and liabilities. The table below reflects a wide range of potential risks that may exist to the economic and fiscal forecasts.

Risk types 1 to 3 in the table are in the scope of this chapter, whereas risk types 4 and 5 are covered in the Risks and Scenarios chapter. Further detail on the criteria for disclosing a specific fiscal risk is set out on page 63.

Nature of risk	Description
1. Policy changes	Potential decisions likely to be taken by the Government related to both new policy and existing policy settings (eg, changes to eligibility criteria for a benefit).
2. Cost pressures associated with existing policies and risk of cost variances	Changes in demand or pricing that impact the cost of delivering services under existing policy settings (eg, an increase in the number of students enrolling in schools). This category includes variances to costs of policies included in the fiscal forecasts.
3. Contingent liabilities and assets	Potential costs or income to the Crown that depend on whether particular events occur.
4. Deviation from key assumptions and judgements	Any deviations from the key assumptions and judgements used for the economic and fiscal forecasts that have flow-on impacts for the fiscal forecasts.
5. Other uncertain events	Significant events relating to changes in the external environment (eg, natural disasters, international events).

How Risks Outlined in This Chapter are Managed

A key principle guiding the disclosure of risks is transparency. This means that material risks are disclosed in this chapter regardless of whether they can be managed through existing funding sources (eg, through prioritisation of funding already available to departments) or the Budget operating and capital allowances (the future new spending built into the fiscal forecasts). This ensures a prudent approach to the disclosure of risks, to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

The Government has a number of options to manage the risks disclosed in this chapter. Therefore, the risks disclosed in this chapter may not arise in a way that affects the fiscal forecasts presented in this *Economic and Fiscal Update*.

1 Reprioritisation

Core Crown expenses for the year ended 30 June 2019 were $87.0 billion, while capital spending for the same period totalled $6.7 billion. This base of expenditure creates significant scope for reprioritisation. Agencies are expected to fund pressures and new activities from within the funding already allocated to them. This could include repurposing low-value expenditure or generating efficiency savings.

2 Budget allowances

The following allowances for new expenditure have been signalled in the Government's *Budget Policy Statement* (BPS) and included in the Treasury's fiscal forecasts (Fiscal Outlook chapter).

$billions	Budget 2020	Budget 2021	Budget 2022	Budget 2023
Operating allowances (per year)	3.0	2.4	2.4	2.6
Multi-year capital envelope (remaining)	←	8.4		→

These allowances are included in the fiscal forecasts to reflect future new spending by the Government and better link the forecasts to the Government's fiscal strategy. The effect of including the allowances in the forecasts is that new spending decisions in future Budgets should not impact the Government's fiscal targets.

The allowances are the main mechanism for the Government to allocate new expenditure for each Budget. The allowances have been set at a level that allows the Government to achieve its broader fiscal and policy objectives and in accordance with the expectation that any new policy initiatives and cost pressures can be managed within these parameters. A self-imposed limit on expenditure also helps to ensure any new spending is targeted to areas of high priority.

3 Policy choices

For a number of risks, the Government has choices around future funding, including how much is funded and the timing of when that funding is provided.

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

Specific criteria based on section 26U of the Public Finance Act 1989 determine what is included in the fiscal forecasts as opposed to what is disclosed as a specific fiscal risk.

Fiscal forecasts	Specific fiscal risks
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but it is reasonably probable[9] that the matter will be approved or the situation will occur.	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[10] (but not probable) that the matter will be approved or the situation will occur, or • it is reasonably probable or possible that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.

9 For these purposes, 'reasonably probable' is taken to mean that the matter is **more likely than not** to be approved within the forecast period (ie, there is a greater than 50% chance of the matter occurring or being approved).

10 For these purposes, 'reasonably possible' is taken to mean that the matter **might** be approved within the forecast period (ie, there is a 20% to 50% chance of the matter occurring or being approved).

General Risks Not Included in This Chapter

A range of general risks to the fiscal forecasts exist but are not separately disclosed as specific fiscal risks, including:

- risks from changes to economic assumptions. The most significant economic risks have been identified in the Risks and Scenarios chapter
- business risks and volatility in the returns from, and valuation of, the Government's investments relating to the broader economic and commercial environment, and
- the costs of future individual natural disasters and other major events (including biosecurity incursions, and individual events resulting from climate change), as their occurrence, nature and timing cannot be predicted. If such an event does occur, a number of choices arise about how to respond, and when to recognise potential liabilities. Specific risks are disclosed at that point based on the range of possible responses.

Exclusions to Disclosure

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

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

Section 26V requires the Minister of Finance, if possible, to avoid withholding the matter, either by making a decision on it before the forecasts are finalised or by disclosing it without quantifying the risk.

Contingent Liabilities and Assets

The final part of the chapter contains a current list of contingent liabilities and contingent assets. Contingent liabilities are costs the Crown will have to face if a particular event occurs, or are current 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 for which the value of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

Summary Table

The matters listed below are disclosed as specific fiscal risks because they meet the criteria for disclosure. Full descriptions are set out in the next section.

The table below is categorised based on the nature of the risk: policy changes, cost pressures and cross-portfolio risks. Within these categories, the risks have been ordered by portfolio and include the title of the risk, its status and whether it has an impact on revenue, expenses or capital expenditure. The status of the risk describes whether the risk reflects a new matter or is changed or unchanged since the *Budget Update 2019*.

Statement of Specific Fiscal Risks as at 25 November 2019

Policy changes by portfolio	Status[11]	Type of risk
ACC		
Impacts of Changes to Accident Compensation Policy Settings	Changed	Expenses
Work-related Gradual Process Disease and Infection	Changed	Expenses
Biosecurity		
Mycoplasma Bovis Biosecurity Response	Changed	Expenses and Revenue
Broadcasting, Communications and Digital Media		
Delivery of the Government's Public Media Objectives	Unchanged	Expenses
Defence		
Defence Funding Requirements to Deliver New Zealand's Defence Strategy	Unchanged	Expenses and Capital
Disposal of New Zealand Defence Force Assets	Unchanged	Revenue and Expenses
Education		
Early Learning Action Plan	Changed	Expenses
Education Workforce Strategy	New	Expenses
Extension of the Fees-free Tertiary Education Policy	Unchanged	Expenses
Reform of Vocational Education (RoVE)	Unchanged	Revenue, Expenses and Capital
Response to the Tomorrow's Schools Review	Unchanged	Expenses
Foreign Affairs		
Official Development Assistance	Changed	Expenses
Health		
Primary Care Services	Unchanged	Expenses
Housing		
Progressive Home Ownership	New	Expenses

[11] *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the *Budget Update 2019*.

Changed – risks where the nature and/or scale of the risk has changed substantively since the *Budget Update 2019*.

Policy changes by portfolio	Status[11]	Type of risk
Māori Development		
Government Response to WAI262[12]	Unchanged	Expenses
Police		
Next Generation Critical Communications Programme	Unchanged	Expenses and Capital
Research, Science and Innovation		
Research and Development Spending Target	Unchanged	Expenses
Revenue		
Loss Continuity	New	Revenue
Potential Tax Policy Changes	Unchanged	Revenue
Purchase Price Allocation	New	Revenue
Taxation of Digital Services	Unchanged	Revenue
Social Development		
Changes to the Welfare System	Unchanged	Expenses
Transport		
Support for KiwiRail	Unchanged	Capital
Upper North Island Supply Chain Strategy – Working Group Recommendations	New	Expenses and Capital
Wellington Transport Investment Programme	Unchanged	Expenses and Capital
Urban Development		
Infrastructure Funding and Financing to Improve Housing Affordability	New	Expenses, Capital and Revenue

Cost pressures by portfolio	Status[11]	Type of risk
ACC		
ACC Levies	Unchanged	Expenses and Revenue
Legal Claims and Proceedings	Unchanged	Expenses
Non-Earners' Account	Unchanged	Expenses
Arts Culture and Heritage		
New Zealand Screen Production Grant – Domestic	New	Expenses
Climate Change		
Emissions Trading Scheme – Fixed Price Option	Changed	Revenue and Expenses

[12] This risk was previously published under the Treaty Negotiations Portfolio.

Cost pressures by portfolio	Status[11]	Type of risk
Customs		
Joint Border Management System Further Development	Unchanged	Expenses and Capital
Economic Development		
New Zealand Screen Production Grant – International	Changed	Expenses
Education		
Education Operating Cost Pressures	Unchanged	Expenses
Learning Support	Changed	Expenses
School Transport Services	New	Expenses
Energy and Resources		
Decommissioning of the Tui Oil Field	New	Expenses
Finance		
Earthquake Commission	Unchanged	Expenses
Goodwill on Acquisition	Unchanged	Expenses
Foreign Affairs		
Antarctica New Zealand – Redevelopment of Scott Base	Changed	Expenses and Capital
Greater Christchurch Regeneration		
Christchurch Central Recovery Plan – Anchor Projects	Unchanged	Expenses and Capital
Southern Response Earthquake Services Support	Unchanged	Expenses and Capital
Health		
DHB Sustainability	Unchanged	Expenses
Health Capital Pressure	Unchanged	Capital
Health Operating Pressure	Unchanged	Expenses
Housing		
Divestment and Development of Kāinga Ora – Homes and Communities' Housing	Changed	Expenses
Emergency Housing Special Needs Grants	Unchanged	Expenses
Increases to Market Rent	Unchanged	Expenses
KiwiBuild – Fiscal and Delivery Risks	Changed	Revenue, Expenses and Capital
Tāmaki Regeneration Project	Unchanged	Expenses
Internal Affairs		
Archives New Zealand Storage Capacity	Unchanged	Expenses and Capital
Police		
Firearms Reform Programme	New	Expenses
Regional Economic Development		
Provincial Growth Fund	Unchanged	Expenses and Capital
Research, Science and Innovation		
Research and Development Tax Incentive	Unchanged	Revenue

Cost pressures by portfolio	Status[11]	Type of risk
Revenue		
Cash Held in Tax Pools	Unchanged	Revenue
Student Loans – Valuation	Unchanged	Expenses
Transformation and Technology Renewal	Unchanged	Expenses
Social Development		
Quarterly Employment Survey Redevelopment	New	Expenses
Statistics		
2023 Census Costs	Changed	Expenses and Capital
Transport		
Auckland City Rail Link	Unchanged	Expenses and Capital
Treaty of Waitangi Negotiations		
Relativity Clause	Unchanged	Expenses
Treaty Settlement Forecasts	Unchanged	Expenses
Veterans		
Treatment of Veterans' Disability Entitlements[13]	New	Expenses

Cross-portfolio specific fiscal risks	Status[11]	Type of risk
Addressing the Gender Pay Gap in the State Sector	Unchanged	Expenses
Changes to Institutional Form of Government Agencies	Unchanged	Expenses
Increasing the Minimum Wage	Unchanged	Expenses
Non-Government Providers of Crown-Funded Services	Unchanged	Expenses
Other Capital Cost Pressures	Unchanged	Capital
Other Operating Cost Pressures	Unchanged	Expenses
Outcomes from Other Government Inquiries and Reviews	Unchanged	Expenses
Pay Equity Claims Following the Care and Support Worker Settlement	Changed	Expenses
Policy Responses to the 15 March Terror Attacks	Unchanged	Expenses
Possible Responses to the 2020 Referendums on Cannabis Law Reform and End of Life Choice	Changed	Expenses
Services Funded by Third Parties	Unchanged	Expenses
State Sector Employment Agreements	Changed	Expenses
Unexpected Maintenance for Crown-owned Buildings	Unchanged	Capital

13 This risk was previously published as a cross-portfolio risk, however the risk primarily affects the Veterans portfolio so it has been shifted to reflect that focus.

Policy Change Risks by Portfolio

The following section outlines risks relating to potential decisions likely to be taken by the Government relating to both new and existing policy settings.

ACC

Impacts of Changes to Accident Compensation Policy Settings (Changed)

The Government has signalled it will review a number of Accident Compensation scheme policy settings. Some of the policy issues identified would require either legislative or regulatory change. These changes could result in a potential aggregated impact greater than $100 million per year, which has increased since the *Budget Update 2019*.

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 $1.5 billion to $2.0 billion would need to be reported if such an amendment were to be enacted.

Biosecurity

Mycoplasma Bovis Biosecurity Response (Changed)

The Government and the farming sector have agreed to attempt to eradicate the cattle disease *Mycoplasma bovis*. Funding has been allocated by the Government, and included in the forecasts, for response activities in 2019/20. The need for funding over the rest of the forecast period will be considered depending on progress in eradicating the cattle disease. The timing of farming sector contributions may differ from what is in the fiscal forecasts.

Broadcasting, Communications and Digital Media

Delivery of the Government's Public Media Objectives (Unchanged)

The Government has committed to, and is currently considering options for, strengthening New Zealand public media. The media sector, including both public and privately owned organisations, is coming under increasing pressure as platforms for consumption are changing. Significant additional investment will likely be required to deliver on the Government's public media objectives.

Defence

Defence Funding Requirements to Deliver New Zealand's Defence Strategy (Unchanged)

The Government is reviewing the Defence capability procurement programme within the context of the existing indicative funding for the Defence White Paper. It is expected that changes to New Zealand Defence Force operating and capital funding will be made over the forecast period in line with any updated capability plan; however, the precise quantum and timing of these changes will depend on a range of business cases and Budget initiatives that will be subject to future decisions.

Disposal of New Zealand Defence Force Assets (Unchanged)

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

Education

Early Learning Action Plan (Changed)

The Ministerial Advisory Group has, with the support of the Ministry of Education, drafted a new 10-year Strategic Plan for Early Learning (the draft Plan) for the Minister of Education. The Government has also indicated it will reinstate higher hourly funding rates for early childhood education services with 100% qualified teachers. The draft Plan was publicly consulted on between November 2018 and March 2019, and will be submitted to Cabinet for consideration later in 2019. To the extent that costs cannot be managed within baselines, further funding may be required.

Education Workforce Strategy (New)

The Ministry of Education is co-designing with the sector an Education Workforce Strategy (the Strategy) which will also indicate the future direction for Rangai Māori education. Once the Strategy has been completed, the Ministry will finalise a detailed plan to implement the Strategy. This plan is targeted for submission to Cabinet in March 2020. Initial indicative estimates suggest unconstrained implementation options may cost more than $100 million over the forecast period.

Extension of the Fees-free Tertiary Education Policy (Unchanged)

The Government has a stated intention to extend its first year fees-free tertiary education and training policy to the first three years of tertiary education fees-free in future parliamentary terms. The behavioural changes from extending the policy, and therefore the impact on future costs, are unquantifiable at this stage.

Reform of Vocational Education (RoVE) (Unchanged)

While funding has been set aside in a contingency to manage some of the costs of the Reform of Vocational Education (RoVE), and this is included in the forecasts, there is a risk that further funding will be required to manage the full costs of implementing the reform. In addition, the nature and timing of the proposed reform will influence the scale of funding needed to ensure the viability of at-risk Institutes of Technology Polytechnics. Furthermore, following establishment of New Zealand Institute of Skills and Technology (NZIST), it is likely that NZIST will be consolidated on a line-by-line basis for government reporting purposes which would impact a number of key fiscal indicators.

Response to the Tomorrow's Schools Review (Unchanged)

The Government has released its approach to the Tomorrow's Schools Independent Taskforce's final report. The approach for the reform of the governance, management, and administration of the schooling system will involve a reset from a highly devolved, largely disconnected, and autonomous set of institutions, to a much more deliberately networked and supported system that is more responsive to the needs of learners and their families. Implementing these changes will involve material costs that are yet to be determined.

Foreign Affairs

Official Development Assistance (Changed)

Each year, New Zealand's Official Development Assistance (ODA) expenditure is measured as a proportion of Gross National Income (GNI). Currently ODA is 0.28% of GNI. A decision to increase ODA expenditure beyond the 0.28% of GNI would require additional funding. Additionally, the Cook Islands will graduate to developed status on 1 January 2020. This means that any funding provided to the Cook Islands will not count as ODA, which will reduce New Zealand's total ODA expenditure as a percentage of GNI.

Health

Primary Care Services (Unchanged)

The Government has signalled the intention to further increase funding for Primary Care services. The associated implementation details and funding arrangements are yet to be finalised.

Housing

Progressive Home Ownership (New)

The Government has announced it is developing a progressive home ownership scheme. Design of the scheme is still underway and, depending on decisions made, there could be an impact on the fiscal forecasts.

Māori Development

Government Response to WAI262 (Unchanged)

The Waitangi Tribunal's report on the WAI262 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.

Police

Next Generation Critical Communications Programme (Unchanged)

The Next Generation Critical Communications programme seeks to replace New Zealand's emergency services' (New Zealand Police, Fire and Emergency New Zealand, St John New Zealand and Wellington Free Ambulance) critical communications networks with a modern digital communications capability. Funding of $15 million was provided in Budget 2019 to initiate the programme, establish governance arrangements and prepare for procurement. To the extent that the programme cannot be managed within baselines, additional funding will be required.

Research, Science and Innovation

Research and Development Spending Target (Unchanged)

The Government has announced a target to increase economy-wide Research and Development (R&D) expenditure to 2% of GDP over 10 years. To reach this target, economy-wide R&D expenditure would need to increase by approximately $3.8 billion (from $3.9 billion in 2018 to around $7.7 billion by 2028). To achieve this the majority of growth will need to come from the private sector with the balance to come from public investment. Depending on private expenditure increases, this would require average annual increases of approximately $150 million in public research and development spending each year over the 10 years.

Revenue

Loss Continuity (New)

The Government has announced it intends to consult on options to relax the current loss continuity tax rules in order to encourage the growth of start-up companies. The consultation process will result in a discussion document which will more widely canvass the various options, with any resulting changes being included in a future tax bill. Any resulting relaxation of the rules could result in a negative impact on revenue.

Potential Tax Policy Changes (Unchanged)

The tax policy work programme can be viewed on the tax policy website www.taxpolicy.ird.govt.nz. The fiscal implications of many of these policy topics are unquantified at this stage. The Government has initiated a work programme to consider the recommendations from the Welfare Expert Advisory Group and is currently considering a number of Tax Working Group recommendations for inclusion in the tax policy work programme.

Purchase Price Allocation (New)

At present when a business is sold, the law allows the buyer and seller to adopt different values for the various assets that make up the business (eg, capital assets, goodwill, client lists) for tax purposes. This allows both parties to reduce their tax liability. The Government is consulting on rules to ensure the parties use the same valuations for tax purposes. If progressed, this measure would result in a revenue gain over and above current tax forecasts.

Taxation of Digital Services (Unchanged)

A discussion document on options for taxing the digital economy has been released. The Government's preference is to continue working with the Organisation for Economic Co-operation and Development (OECD) to find a multilaterally agreed solution, but a digital services tax is one credible option if the OECD does not make sufficient progress on a multilateral solution in 2019. The amount of increased revenue would depend on the design of the tax.

Social Development

Changes to the Welfare System (Unchanged)

The Government has committed to overhaul the welfare system. Part of this work involved the establishment of the Welfare Expert Advisory Group (WEAG), which was tasked with advising on improvements to the welfare system to achieve the Government's vision of delivering adequate income and standard of living, supporting participation, and promoting dignity of clients. The WEAG’s report was publicly released on 3 May 2019. The Government responded to a number of the recommendations through initiatives in Budget 2019. Consideration of other recommendations is ongoing.

Transport

Support for KiwiRail (Unchanged)

Budget 2019 provided KiwiRail with a funding package for two years to maintain the rail network and initiate major procurement projects around new rolling stock and InterIslander ferries. Further Crown funding is likely to be sought to progress these projects beyond 2020/21 as part of the implementation of the Future of Rail programme.

Upper North Island Supply Chain Strategy (UNISCS) – Working Group Recommendations (New)

The final report of the UNISCS Working Group has been delivered. The Working Group’s preferred scenario is a full move of the Ports of Auckland to Northport. Officials are currently undertaking further work to support future decisions on the Working Group’s recommendations. Government investment would likely be required to support any shift in port trade.

Wellington Transport Investment Programme (Unchanged)

Business cases for individual projects that make up the Let's Get Wellington Moving programme are underway. The programme includes rapid transit, public transport, and walking and cycling improvements to reduce congestion in the Wellington City area, and is expected to cost $6.4 billion over 20 years, with costs shared between local government and the National Land Transport Fund (NLTF) (at a cost of $3.8 billion to the NLTF). The New Zealand Transport Agency board is yet to agree funding for the individual projects. There is a risk to the forecasts to the extent that any further Crown funding is required.

Urban Development

Infrastructure Funding and Financing to Improve Housing Affordability (New)

The Infrastructure Funding and Financing Bill 2019 (the Bill) is expected to be introduced into the House of Representatives by the end of 2019. The purpose of the Bill is to enable a multi-year levy to be imposed on beneficiaries of infrastructure projects by Order in Council as part of the Infrastructure Levy Model. Under the Model the levy will be collected by a Special Purpose Vehicle to service finance raised to cover the costs of the infrastructure. The fiscal forecasts make no provision for use of the Model. The impact of the Model will depend on whether the Bill is passed into law, the final design of the Model, and the nature and extent of projects funded by the Model.

Cost Pressure and Cost Variance Risks by Portfolio

The following section outlines risks of cost pressures and variance risks of items included in the fiscal forecasts (where applicable). The majority of agencies are likely to face cost pressures in the future owing to changes in demand or costs of inputs used in the delivery of existing services or products. The key drivers of future cost pressures are likely to come from population changes, wage increases (both pay negotiations and progression through pay scales) and price inflation of inputs. Cross-portfolio risks for other operating and capital cost pressures are outlined on page 83.

ACC

ACC Levies (Unchanged)

Indicative future levy rates for the Work, Earners' and Motor Vehicle accounts have been included in the forecasts. However, final levy decisions are made by the Government and may differ from the forecast levy path. In addition, revenue from the levies set for these accounts may be more or less than that required to cover the cost of claims. If factors such as claims experience, ACC performance, and economic assumptions (particularly discount rates and unemployment rates) differ from the forecasts, ACC's levy revenue, claims costs, and liability may also differ from the forecasts. Any variance will have a corresponding impact on the operating balance.

Legal Claims and Proceedings (Unchanged)

A recent High Court decision regarding the interpretation of section 32(1)(c) of the Accident Compensation Act 2001 found that an injury is only an ordinary consequence of treatment when it is more likely than not to occur. As a result of this decision, fewer claims for compensation will be excluded as an ordinary consequence of treatment. At this stage, the impact of the decision has not been quantified and is not reflected in the fiscal forecasts.

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 future claims. If factors such as claims experience, ACC performance, and economic assumptions (particularly discount rates) differ from the forecasts, that variance will have a corresponding fiscal impact.

Arts, Culture and Heritage

New Zealand Screen Production Grant – Domestic (New)

The New Zealand Screen Production Grant – Domestic is an uncapped, on-demand grant that incentivises local production work. While there is uncertainty over the demand for the grant, current levels of activity are greater than the funding level of approximately $12 million to $15 million per year. If current settings around eligibility for the grant remain unchanged, available funding will need to be increased from 2019/20 onwards.

Climate Change

Emissions Trading Scheme – Fixed Price Option (Changed)

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the Crown, both of which are uncertain, partly owing to the market price of New Zealand Units (NZUs). For the latest fiscal forecast, both revenue and expenses have been valued at the 30 September 2019 market price of $24.85. Under the Fixed Price Option (FPO), emitters have an option to meet their obligations by purchasing units directly from the Crown at a fixed price of $25. If the market price of NZUs exceeds the fixed price of $25, it is likely that emitters would use the FPO. As a result, the Crown would recognise a loss from selling units at below market price and receive cash that would reduce net core Crown debt. The forecasts assume approximately half of ETS surrender obligations will be met using the FPO. The overall fiscal impact of these risks is uncertain and depends on future market prices, unit volumes, and the extent to which participants elect to use the FPO.

Customs

Joint Border Management System Further Development (Unchanged)

Customs and the Ministry for Primary Industries will implement Tranche 2 of the Joint Border Management Systems (JBMS) through a series of smaller projects. These projects will either enhance or replace elements of the current systems, with the aim of realising the full benefits to the Crown and industry of the JBMS programme. Additional funding for these projects may be required.

Economic Development

New Zealand Screen Production Grant – International (Changed)

The New Zealand Screen Production Grant is an uncapped, on-demand grant that incentivises international studios to locate production work in New Zealand by offering them a rebate on their qualifying expenditure. There is currently a high level of international interest in New Zealand as a place to do screen business. The fiscal forecasts include an estimate of expenditure based on known productions. However, there remains a risk that demand for the Screen Production Grant will exceed what is included in the fiscal forecasts, if more large-budget productions choose to locate in New Zealand.

Education

Education Operating Cost Pressures (Unchanged)

The education sector faces significant cost pressures from increasing demand in early childhood education (ECE) and schooling, largely as a result of population growth. Demographic change has an impact on expenditure on ECE subsidies, especially for the 20 hours fully subsidised entitlement for three- to five-year-olds; the per-pupil component of schools' operational funding; and schools' full-time teaching equivalent entitlement, which is based on staff-to-student ratios.

Learning Support (Changed)

The Government has released the Disability and Learning Support Action Plan (the Plan). The Plan includes a number of new Learning Support initiatives that build on the $336 million operating and $95 million capital funding allocated through Budget 2019 to establish Learning Support Coordinators and fund Learning Support cost pressures and system improvements. To the extent that these pressures cannot be managed within existing baselines, additional funding is likely to be required.

School Transport Services (New)

The budget for School Transport Services for 2019/20 is $200 million. The cost of Daily Bus Services makes up over half of this allocation, and the Ministry of Education will be going to market for the tender of provision of these services which could impact the contract total. In addition, the combination of a demand increase of 14% in Specialised School Transport Assistance and indexation increases will likely lead to further cost increases. To the extent that these pressures cannot be managed within existing baselines, additional funding is likely to be required.

Energy and Resources

Decommissioning of the Tui Oil Field (New)

The Tui oil field operator, Tamarind, entered voluntary administration on 11 November 2019. It is likely that if Tamarind is liquidated, there will be no funds available to meet its obligations to fully decommission the oil field. The Crown may be required to meet the full costs of decommissioning the Tui field, which are estimated at US$100 million or more. A portion of decommissioning costs could materialise as early as 2020, with the remaining costs of decommissioning the field expected to materialise over the next two to five years.

Finance

Earthquake Commission (Unchanged)

The Earthquake Commission's (EQC's) independent actuary undertakes half-yearly valuations of the total earthquake liability to the Crown. This includes settled and yet to settle claims (including those in litigation), an estimation of future claims not yet received, insurer finalisation and any associated reinsurance recoveries. Based on these valuations, a profile of the claims yet to settle is included in the fiscal forecasts. There remain risks that EQC's remaining settlement expenditure relating to the Canterbury and Kaikōura earthquakes will differ from (be higher or lower than) forecast. This is because EQC's remaining settlement expenditure relating to the Canterbury earthquakes does not incorporate any liability recognition or provision for costs relating to the over-cap portion of any building claims, whether they are on-sold remedial building claims or otherwise. EQC only recognises expected future costs where it is liable for such costs under the Earthquake Commission Act 1993. The risks include litigation, and the resolution of liability with insurers and reinsurers, in addition to the level of future remedial claims. It is not possible at this stage to fully quantify the potential financial impact or the timing of these risks owing to the uncertainty associated with them, and variation could be material.

Goodwill on Acquisition (Unchanged)

As at 30 June 2019, the Government had goodwill on acquisition of a number of sub-entities totalling $743 million. Under New Zealand accounting standards (PBE IPSAS 26), 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. The fiscal forecasts currently make no allowance for such impairment losses.

Foreign Affairs

Antarctica New Zealand – Redevelopment of Scott Base (Changed)

The infrastructure at Scott Base is approaching the end of its functional life. The indicative cost of redeveloping the Base ranges from $200 million to $290 million over an approximately eight year period. Budget 2019 provided $19.7 million to Antarctica New Zealand to undertake further design and market testing to confirm costs ahead seeking full redevelopment costs. In June 2019, Cabinet agreed in principle to the redevelopment of Scott Base and to a specific design option, subject to approval of the final costs, to be sought in a future Budget.

Greater Christchurch Regeneration

Christchurch Central Recovery Plan – Anchor Projects (Unchanged)

The Crown has funded, and continues to provide funding for, the construction of Anchor Projects as part of the Christchurch Central Recovery Plan. The funding for the construction of Anchor Projects varies across projects, depending on scope, ownership decisions, and implementation and project costs, and may to some extent eventually be recovered. Some projects have been completed and some of the completed projects transferred to the Christchurch City Council, while others are under construction or progressing through the decision-making process. Construction costs for projects have, and will continue to, become clearer during the procurement and construction phases, but costs to the Crown may still vary from current estimates. The quantum and timing of Crown contributions may differ from the fiscal forecasts.

Southern Response Earthquake Services Support (Unchanged)

The ultimate cost to the Crown of settling earthquake claims remains subject to 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.

Health

DHB Sustainability (Unchanged)

The fiscal forecasts incorporate expected deficits from District Health Boards (DHBs) over the forecast period. There is a significant risk that DHBs' deficits may be higher than what has been included in the fiscal forecasts, which would adversely impact the Government's operating balance. The Government has provided some funding to support DHB deficits. However, if the deficits that are included in the fiscal forecasts were to eventuate, additional funding support may be required to ensure the sustainability of the sector. The Ministry of Health is working on a new performance management programme that seeks to reduce deficits.

Health Capital Pressure (Unchanged)

DHBs have submitted updated capital intentions, which identify the indicative need for Crown funding over the next four years. Budget 2019 funded two years of capital investment. However, the pressures remain significant over the forecast period. These pressures are largely driven by asset condition issues and demographic change (population growth and an ageing population), placing pressure on infrastructure capacity. There is also a need to address information technology capability in the sector.

Health Operating Pressure (Unchanged)

The health sector is likely to face significant operating pressures within its existing baselines in order to maintain the delivery of existing health services. The main pressure drivers include demographic changes (both growth and an ageing population), wage costs (both pay negotiations and progression through pay scales) and price inflation of inputs.

Housing

Divestment and Development of Kāinga Ora – Homes and Communities' Housing (Changed)

The forecasts include business-as-usual divestments, acquisitions and redevelopment of housing property as part of Kāinga Ora's asset management strategy. Proceeds from property divestments will be used to help fund investment in redeveloping and growing Kāinga Ora's stock. A softening in the property market would reduce Kāinga Ora's revenue from divestments and increase Kāinga Ora's debt and/or Crown funding requirements. Kāinga Ora's also faces general commercial risks associated with developing and implementing large and evolving programmes, which pose fiscal risk and delivery risk. If development activity utilising Kāinga Ora's holdings is accelerated, the likelihood of this risk being realised will increase substantially.

Emergency Housing Special Needs Grants (Unchanged)

Emergency Housing Special Needs Grants help individuals and families with the cost of staying in short-term accommodation if they are unable to access a transitional or a public housing place. If demand increases and/or the number of transitional or public housing places does not increase as forecast, this would increase demand for the grants, with associated fiscal costs.

Increases to Market Rent (Unchanged)

Over $1 billion of payments per annum for housing assistance, such as income-related rent subsidies and accommodation payments for transitional housing, are linked to market-based rent levels. Should market rents increase above what is assumed for the forecasts, further funding may be required to maintain current levels of support.

KiwiBuild – Fiscal and Delivery Risks (Changed)

Changes in the housing market and economy may have an impact on the costs of delivering homes and associated revenue recycling. If house prices fall, Crown underwrites may be called, thereby increasing debt, and the value of the portfolio may fall, impacting the operating balance. To achieve programme goals, there may be a need to change policy settings or provide support to developers and/or homebuyers. The Crown also faces general commercial risks associated with development and with implementing a large and evolving programme, which pose fiscal and delivery risks.

Tāmaki Regeneration Project (Unchanged)

The Tāmaki Regeneration Project plans to build 7,500 new houses in Tāmaki in place of about 2,500 houses that were there before the redevelopment began. Development involves writing off existing public housing assets. If land sale proceeds are less than the value of the write-offs in the year that they occur, there will be a negative impact on the operating balance.

Internal Affairs

Archives New Zealand Storage Capacity (Unchanged)

The current property portfolio for the storage of New Zealand's documentary heritage is facing capacity and condition issues. Budget 2019 provided funding to complete the design work and shift activities associated with the proposed upgrade and expansion of the physical infrastructure through the Preserving the Nation's Memory project. Further funding may be sought at Budget 2020 to complete this project.

Police

Firearms Reform Programme (New)

The Arms Legislation Bill was recently introduced to the House. The Bill provides for the establishment of a firearms registry and for other changes including amendments to the licensing regime, increased regulatory oversight, and the development of new offences and penalties. To the extent that the implementation of the changes cannot be managed within baselines, additional funding will be required.

Regional Economic Development

Provincial Growth Fund (Unchanged)

The Government has committed to a Provincial Growth Fund of $3.0 billion over a three-year period. The capital and operating split and timing of this funding, as set out in the fiscal forecasts, is likely to change, and final capital and operating expense amounts in any year may vary from those forecast.

Research, Science and Innovation

Research and Development Tax Incentive (Unchanged)

The Government has implemented a Research and Development (R&D) Tax Incentive. This incentive allows eligible firms to deduct a percentage of their expenditure on R&D against their tax liability to the Crown. There is a risk that costs may differ from forecasts owing to limited data being available for forecasting purposes and because international experience shows that costs of R&D tax credits can be significantly higher than expected.

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.

Student Loans – Valuation (Unchanged)

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 Consumers Price Index (CPI). As new lending occurs, an initial write-down to fair value is made, and an expense is incurred, reflecting the cost the Crown incurs in making an interest-free loan and the risk that borrowers may not repay their loans. However, the assumptions made at the time of lending rely on volatile factors that are subject to change.

Transformation and Technology Renewal (Unchanged)

The Business Transformation programme agreed by the previous Government in 2015 is reflected in forecasts. There are risks that the remaining implementation costs, revenue gains and operating costs savings may differ from forecasts. In addition, changes in government policies could materially affect the programme's costs and benefits.

Social Development

Quarterly Employment Survey Redevelopment (New)

Stats NZ is redeveloping the Quarterly Employment Survey, which will change the way average wages are calculated from the current approach. There are several ways in which the new survey will differ, and the exact impact of this is uncertain. Current estimates indicate redevelopment would be likely to increase costs to the Crown by roughly $135 million per percentage point increase, per annum, from 2021/22 at the earliest.

Statistics

2023 Census Costs (Changed)

The next Census is due to take place in 2023. Stats NZ has indicated that the funding required to deliver the Census will be sought through Budget 2020. This initiative will be supported by a detailed business case in late 2019, followed by an implementation business case for the preferred option in early 2020.

Transport

Auckland City Rail Link (Unchanged)

The Government has committed to fund 50% of the costs associated with the City Rail Link project, which is estimated to cost $4.4 billion. Based on this estimate, the Government's contribution to the project will be around $2.2 billion. There is a risk that the timing, scope and amount of the government contribution to the project could be different from what is included in the forecasts.

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

Treaty Settlement Forecasts (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.

Veterans

Treatment of Veterans’ Disability Entitlements (New)

At present, Veterans’ Disability entitlement payments are recognised in the forecasts as they fall due, without recognising a liability for future payments. The External Reporting Board recently introduced a new public sector accounting standard on employee benefits. Owing to the nature of Veterans’ Disability entitlement payments, the government will now be obligated to record an upfront liability for payments to veterans deemed to be in relation to their service rendered. The New Zealand Defence Force is engaging an actuary to undertake a valuation to quantify the liability for the year ended 30 June 2020. This change will bring forward the time at which these expenses are recognised.

Cross-portfolio Specific Fiscal Risks

Addressing the Gender Pay Gap in the State Sector (Unchanged)

The Government has made a commitment to addressing the gender pay gap in the core public service. Fulfilling this commitment will involve costs to the Crown.

Changes to Institutional Form of Government Agencies (Unchanged)

The Government has announced a number of policy commitments that involve changes to the machinery of government. These commitments are likely to involve changes to the composition and structure of existing government departments. Where the additional resourcing and other costs of these changes cannot be met through baseline expenditure, further Crown funding may be required.

Increasing the Minimum Wage (Unchanged)

Government policy decisions to increase the minimum wage to $20 by April 2021 will mean increased costs to State sector employers to the extent their employees receive a direct increase in wages. Where costs cannot be absorbed within baselines without compromising service delivery, funding may be sought.

Non-government Providers Receiving Funding from the Crown (Unchanged)

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

Other Capital Cost Pressures (Unchanged)

Agencies are likely to face capital expenditure pressures related to replacing ageing infrastructure, information and communications technology (ICT) capability that is no longer fit for purpose, and other capital requirements driven by demand pressures. These pressures are risks to the fiscal forecasts to the extent they cannot be managed through agencies' existing balance sheets, new capital spending set aside in forecasts from the multi-year capital allowance or other funding mechanisms (eg, Crown Infrastructure Partners). The Government's stated intention is that all pressures are managed through these mechanisms.

Other Operating Cost Pressures (Unchanged)

As in previous years, agencies are likely to face operating expenditure pressures in the future owing to changes in demand and price of the services they provide. The majority of spending by agencies is not automatically adjusted for increases driven by demand or price pressures. These pressures are risks to the fiscal forecasts to the extent they cannot be managed through reprioritisation or new spending set aside in the forecasts. The Government's stated intention is that all pressures are managed through these mechanisms.

Outcomes from Other Government Inquiries and Reviews (Unchanged)

A number of inquiries and reviews (not specifically mentioned elsewhere in this chapter) are underway or have recently released findings across government. At this point it is uncertain what the fiscal impact from the outcomes of these reviews may be.

Pay Equity Claims Following the Care and Support Worker Settlement (Changed)

A number of claims have been raised, mainly from workers in the social sectors (including health, education and welfare), in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value). The forecasts include an estimate of the expected cost to settle current and future claims; however, there is a risk that the costs may differ depending on the number of further claims that are raised, and the outcomes reached from applying the pay equity principles to each particular claim.

Policy Responses to the 15 March Terror Attacks (Unchanged)

The Government has made a number of immediate responses to the 15 March terror attacks. Further responses may be needed including policy and legislative amendments. In addition, there are likely to be further costs associated with responding to the Royal Commission of Inquiry into the Attack on Christchurch Mosques on 15 March 2019, which are unable to be quantified at this point.

Possible Responses to the 2020 Referendums on Cannabis Law Reform and End of Life Choice (Changed)[14]

The Government has committed to holding referendums on legalising the use of cannabis and on end of life choice at the 2020 general election. The cost of conducting the referendums has been provided in the forecasts. However, there could be associated impacts on the Government's operating balance should current legal frameworks change as an outcome of the referendums.

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 effect 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 service. 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.

State Sector Employment Agreements (Changed)

All collective agreements in the State sector are due to be renegotiated over the forecast period. As well as direct fiscal implications for the employers of workforces covered by any changes to remuneration, the renegotiation of agreements can have flow-on effects to remuneration in other employers across the sector.

Unexpected Maintenance for Crown-owned Buildings (Unchanged)

There is a possibility that the Crown will incur costs when unexpected maintenance is required for the buildings it owns. Examples include earthquake strengthening for some of the buildings that do not meet modern building standards and maintenance for buildings with weather-tightness issues. The likelihood, timing and fiscal impact of any repairs are uncertain.

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[14] This risk previously related to only the referendum on cannabis law reform.

Risks Removed Since the *Budget Update*

Portfolio	Title	Reason for expiry
Customs	Tobacco Excise Proposed Change	The tobacco excise will increase by 10% on 1 January 2020. This has been included in tax revenue forecasts.
Education	School and Early Childhood Education Funding Review	Decisions about the future direction of the previous Government's Review of Education Funding Systems were taken by Cabinet in May 2018. This included expanding previous work on replacing deciles to look more broadly at how wider system settings should address equity. There is no longer an imminent material risk that decile funding will be replaced in 2020.
Greater Christchurch Regeneration	Canterbury Earthquake Recovery Residential Red Zone (RRZ)	The Crown has signed the Global Settlement Agreement with the Christchurch City Council. The expenses involved including those related to the RRZ are included in the fiscal forecasts.
Health	Dunedin Hospital	This risk has been expired as funding for this project is now in the fiscal forecasts.
Police	Firearms Buyback Scheme	The firearms amnesty and buy-back ends on 20 December 2019. While there remains a risk that the volume and type of firearms and parts surrendered may differ from expectations, the risk to forecasts is unlikely to be significant.
Transport	Rail Network Valuation Approach	The rail network valuation method changed in 2018/19, reflecting the Government's wider public benefit objectives of the rail network.

Contingent Liabilities and Contingent Assets

Contingent liabilities are possible costs that have arisen from past events where the amount of the liability, or whether it will eventuate, will not be confirmed until a particular event occurs, or are present liabilities that are unable to be measured with sufficient reliability to be recorded in the fiscal forecasts.

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

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

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact in excess of $20 million and are not expected to be remote.[15]

The contingencies have been stated as at 31 October 2019, being the latest set of published contingencies.

[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]	31 October 2019 ($millions)
Uncalled capital		
Asian Development Bank	Unchanged	3,331
International Monetary Fund – promissory notes	Unchanged	2,176
International Bank for Reconstruction and Development	Unchanged	1,726
International Monetary Fund – arrangements to borrow	Unchanged	683
Asian Infrastructure Investment Bank	Unchanged	575
Other uncalled capital	Unchanged	20
		8,511
Guarantees and indemnities		
New Zealand Export Credit Office guarantees	Unchanged	115
Other guarantees and indemnities	Unchanged	77
		192
Legal proceedings and disputes		
New Zealand Transport Agency - Contractual disputes	Unchanged	385
Legal tax proceedings	Unchanged	134
Other legal proceedings and disputes	Unchanged	186
		705
Other quantifiable contingent liabilities		
Unclaimed monies	Unchanged	176
Air New Zealand Partnership	Unchanged	231
Ministry for Primary Industries - *Bonamia ostreae*	Unchanged	138
Other quantifiable contingent liabilities	Unchanged	45
		590
Total quantifiable contingent liabilities		**9,998**

Contingent assets

	Status	31 October 2019 ($millions)
Legal proceedings and disputes		
Other contingent assets	Unchanged	69
Total quantifiable contingent assets		**69**

16 Status of contingent liabilities or assets when compared with the Financial Statements of the Government published on 8 October 2019.

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities

Indemnities	**Status**
Air New Zealand	Unchanged
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Southern Response Earthquake Services Limited (SRES)	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal claims and proceedings	
Accident Compensation Corporation (ACC) litigation	Unchanged
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged
Kiwifruit vine PSA-V	Unchanged
New Zealand Transport Agency – contractual disputes	Unchanged
Treaty of Waitangi claims	Unchanged
Other unquantifiable contingent liabilities	
Canterbury insurance disputes	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Holidays Act 2003 and other relevant legislation	Unchanged
Remediation of per- and poly- fluoroalkyl substances contamination	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged
Wakatu	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 the organisations listed below, contributes capital by subscribing to shares in certain institutions. The capital (when called) is typically used to raise additional funding for loans to member countries, or, in the case of the quota contributions, to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both 'paid-in' capital and 'callable capital or promissory notes'.

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

Uncalled capital	**31 October 2019 $millions**	**30 June 2019 $millions**
Asian Development Bank	3,331	3,216
International Monetary Fund – promissory notes	2,176	2,145
International Bank for Reconstruction and Development	1,726	1,654
International Monetary Fund – arrangements to borrow	683	660
Asian Infrastructure Investment Bank	575	551

Guarantees and indemnities

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt, or performance of an obligation of another party, should that party default. Guarantees generally relate to the payment of money but may require the performance of services.

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

New Zealand Export Credit Office guarantees

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

$115 million at 31 October 2019 ($109 million at 30 June 2019)

Legal proceedings and disputes

New Zealand Transport Agency – contractual disputes

Legal proceedings and disputes represent the amounts claimed by plaintiffs relating to roading and other contract disputes. In February 2019, the Transport Agency received a claim for $352 million from the Wellington Gateway Partnership in relation to the Transmission Gully public-private partnership. The claim relates to the delays in the commencement of work. The amount represents this claim and other contractual disputes.

$385 million at 31 October 2019 ($385 million at 30 June 2019)

Legal tax proceedings

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

$134 million at 31 October 2019 ($134 million at 30 June 2019)

Other quantifiable contingent liabilities

Unclaimed monies

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

$176 million at 31 October 2019 ($174 million at 30 June 2019)

Air New Zealand Partnership

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

$231 million at 31 October 2019 ($155 million at 30 June 2019)

Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry has been notified compensation will be sought for *Bonamia Ostreae, Mycoplasma Bovis* and post entry quarantine. These claims can be quantified but do not meet the tests for recognising a provision.

Unquantifiable contingent liabilities

This part of the statement provides details of the contingent liabilities of the Crown, which are not quantified, excluding those that are considered remote, reported by indemnities, legal disputes, and other contingent liabilities.

The indemnities and claims that are disclosed individually cannot be quantified, they have the potential to exceed $20 million in costs and are not considered to be remote.

Indemnities

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

Party indemnified	Instrument of indemnification	Actions indemnified
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 Energy'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 as the Minister of Finance determines.
Genesis Energy	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to the beds of lakes and rivers subject to operating easements.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 50 of the District Courts Act 2016 and section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 - National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Southern Response Earthquake Services Limited (SRES)	Deed of Indemnity	SRES continues to work through and settle the claims of AMI residential policyholders which arose from the Canterbury earthquake series. However, it has not proven possible to settle some claims through the normal internal process or with external assistance such as mediation. In light of certain litigation that has arisen, the Minister of Finance provided SRES with a Deed of Indemnity for that litigation on 25 September 2018.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.

Party indemnified	Instrument of indemnification	Actions indemnified
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited: • for all amounts paid by Westpac New Zealand under letters of credit issued on behalf of the Crown, and • against certain costs, damages and losses to third parties resulting from: - unauthorised, forged or fraudulent payment instructions - unauthorised or incorrect direct debit instructions, or - cheques mistakenly drawn in favour of a third party rather than drawn in favour of the Crown.

Legal claims and proceedings

There are numerous legal actions that have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the case, or if the Crown were to lose it would be unlikely to have greater than a $20 million impact. Based on these factors, not all legal actions are individually disclosed. The claims that are disclosed individually, while they cannot be quantified, have the potential to exceed $20 million in costs.

Accident Compensation Corporation (ACC) litigation

Litigation involving ACC arises almost exclusively from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities, which could arise, as these disputes are issue based and ACC's active management of litigation means that it will be either settling or defending, depending on the merits of the issue in dispute. ACC's board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC and therefore are not material for the Crown.

Cover is not available in the Treatment Injury Account for injuries arising as an 'ordinary consequence' of treatment. The term 'ordinary consequence' is undefined in legislation and previously had no established legal or clinical meaning. In a case decided on 2 November 2018, the High Court found that 'ordinary consequence' means a consequence that has more than a 50% chance of occurring (ie, more likely than not). Therefore, any injury from treatment that has a 50% or less chance of occurring is not 'ordinary', and is covered. While ACC did not rely on any precise percentage in determining whether a consequence was 'ordinary', in broad terms if all relevant factors put the likelihood of injury at 10% or more, claims would commonly be declined on the grounds of ‘ordinary consequence’. ACC has appealed the High Court’s decision, which is expected to be heard by the Court of Appeal in February 2020. ACC considers the High Court's decision is inconsistent with Parliament’s intention when the treatment injury provisions were enacted. Only when the Court of Appeal has ruled on this matter will it be possible to make a meaningful assessment of the financial impact of the outcome.

Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person’s property, or restrictions on the movement of a person’s goods. The Ministry has been notified compensation will be sought for incursions including fruit fly, pea weevil, *Bonamia ostreae*, myrtle rust, Mycoplasma bovis and the Post Entry Quarantine (PEQ) response. Due to the complexity and uncertainty of the amount of these claims, the amounts are unquantified. To the extent that an obligation can be quantified, provision has been made in these accounts of $138 million as at 30 June 2019.

Kiwifruit vine disease Psa-V

Approximately 210 growers have filed a claim against the Ministry for Primary Industries alleging it is liable for damages they suffered from the kiwifruit vine disease, Psa-V. The plaintiffs have not quantified their losses, but have publicly claimed it is in the vicinity of $450 million, citing total industry losses of $885 million. The Ministry defended the claim. On 27 June 2018 the High Court found that the Ministry owed a duty of care to Strathboss and claimants. An appeal was heard in the Court of Appeal in the weeks of 11 and 18 March 2019 and the Court’s decision was reserved.

The Ministry is still unable to quantify Strathboss’ claim because the extent of any loss will be dealt with at a second trial in the High Court. That trial will not occur, and the claim will not be quantified, unless all appeals are exhausted and the Crown remains liable.

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 a State-owned enterprise (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.

Canterbury insurance disputes

Southern Response Earthquake Services Limited (SRES) from time to time receives notification of legal claims and disputes in relation to claim settlements as a commercial outcome of conducting its business.

A representative action proceeding was filed against SRES on 29 May 2018. The financial statements make no allowance for the outcome of these proceedings, as the range of possible outcomes cannot be reliably quantified at this time. As these claims are being defended, and because there are a wide range of potential outcomes, any estimate of a possible obligation resulting from these proceedings would be unreliable.

Wakatu

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in Proprietors of *Wakatu v Attorney-General (CIV-2010-485-181)*, in which it is claimed that the Crown breached trust, fiduciary and other equitable obligations relating to land transactions in the top of the South Island in the 1840s. The plaintiff seeks the return of land he says the Crown holds on trust for the successors of the original owners and compensation, or other relief, for alleged breach of trust, fiduciary and other equitable obligations. In February 2017, the Supreme Court held that the Crown owed a fiduciary duty in relation to the land transactions concerned, but remitted matters of breach, defences and remedy to the High Court for a further hearing or hearings. The matter is large and complex and could take up to a further 10 years to resolve.

Other unquantifiable contingent liabilities

Criminal Proceeds (Recovery) Act 2009

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required.

Environmental liabilities

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

In accordance with PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets, any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

Holidays Act compliance

A number of entities have commenced or completed a review of calculations in recent years to ensure compliance with the Holidays Act 2003. Where possible, a provision has been made in these financial statements for obligations arising from those reviews that have been made in the current year or previous years. To the extent that an obligation cannot reasonably be quantified, there is an unquantified contingency. Further work continues to be undertaken by entities to calculate the potential liability. For some entities, there are complexities and this issue is taking longer to resolve (eg, District Health Boards and schools).

Remediation of Per- and Poly- Fluoroalkyl Substances Contamination

Local and central government entities are investigating per- and poly-fluoroalkyl substances (PFAS) contamination at sites around New Zealand. PFAS have been used in a wide range of industrial and consumer applications, and some PFAS are recognised persistent organic pollutants. PFAS contamination has been found as a result of discharges from landfills, wastewater treatment plants, electroplating and textile industries, and from the historical use of specialised firefighting foam at airports, New Zealand Defence Force bases, fuel storage facilities and other sites. Various government agencies have been undertaking a programme to review, investigate and develop a comprehensive approach to manage the impact of PFAS at sites around New Zealand. Once a response is agreed, it is possible the Crown may incur costs for the response to PFAS contamination; however, these costs cannot be estimated without the agreed response being finalised, so an unquantified contingent liability has been disclosed.

Treaty of Waitangi Negotiations – See page 82

Description of Contingent Assets

There are no material quantifiable or unquantifiable contingent assets at 31 October 2019.

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 25 November 2019.

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 48).

Statement of Accounting Policies

Significant Accounting Policies

The Forecast Financial Statements have been prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *Public Benefit Entity Financial Reporting Standard 42: Prospective Financial Statements*.

All forecasts use the accrual basis of accounting. Forecasts have been prepared for the consolidated Financial Statements of the Government reporting entity, which includes all entities controlled by the Government (as defined by applicable financial reporting standards).

The Forecast Financial Statements reflect the accounting standards in place in the year that they are prepared. Adoption of new accounting standards in future financial years are consequently not reflected in these Forecast Financial Statements. Where accounting standards are to be adopted within the fiscal forecasts period, this has been signalled in the note disclosures where impacts may be significant.

The specific accounting policies are included within the 2019 *Half Year Economic and Fiscal Update Additional Information* document which can be found on the Treasury's website at https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2019

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 96. Key forecast assumptions are set out on pages 26 to 27.

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2020 to 30 June 2024.

The "2020 Previous Budget" figures are the original forecasts to 30 June 2020 as presented in the 2019 *Budget Update* and the "2019 Actual" figures are the audited results reported in the Financial Statements of the Government (FSG) for the year ended 30 June 2019 except where balances have been restated to reflect the adoption of the following accounting standards from 1 July 2019:

- PBE IPSAS 35: *Consolidated Financial Statements*, and
- PBE IPSAS 39: *Employee Benefits* (updated).

A reconciliation between the key indicators published in the 2019 *Budget Update* and the FSG for the year ended 30 June 2019 and the comparative numbers published in this document as a result of these changes is included in note 17.

Government Reporting Entity as at 25 November 2019

These forecast financial statements are for the Government Reporting entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting). The following tables list the Entities within each institutional Component. (Subsidiaries are consolidated by their parents and not listed separately).

Core Crown Segment

Departments

Crown Law Office
Department of Conservation
Department of Corrections
Department of Internal Affairs
Department of the Prime Minister and Cabinet
Education Review Office
Government Communications Security Bureau
Inland Revenue Department
Land Information New Zealand
Ministry for Culture and Heritage
Ministry for Pacific Peoples
Ministry for Primary Industries
Ministry for the Environment
Ministry for Women
Ministry of Business, Innovation, and Employment
Ministry of Defence
Ministry of Education
Ministry of Foreign Affairs and Trade
Ministry of Health
Ministry of Housing and Urban Development
Ministry of Justice - (Includes Te Arawhiti – Office for Māori Crown Relations as departmental agency)
Ministry of Māori Development
Ministry of Social Development
Ministry of Transport
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
Oranga Tamariki, Ministry for Children
Parliamentary Counsel Office
Parliamentary Service
Serious Fraud Office
State Services Commission – (Includes Social Investment Agency as a departmental agency)
Statistics New Zealand
Te Kāhui Whakamana Rua Tekau mā Iwa – Pike River Recovery Agency
The Treasury

Offices of Parliament

Controller and Auditor-General
Office of the Ombudsman
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises Segment

State-owned enterprises

Airways Corporation of New Zealand Limited

Animal Control Products Limited

AsureQuality Limited

Electricity Corporation of New Zealand Limited

KiwiRail Holdings Limited

Kordia Group Limited

Landcorp Farming Limited

Meteorological Service of New Zealand Limited

New Zealand Post Limited

New Zealand Railways Corporation

Quotable Value Limited

Solid Energy New Zealand Limited (in liquidation)

Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited

Mercury NZ Limited

Meridian Energy Limited

Other

Air New Zealand Limited

Kiwi Group Holdings Limited (including Kiwibank)

Crown Entities Segment

Crown entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children's Commissioner
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora - Homes and Communities
Law Commission
Maritime New Zealand
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 Infrastructure Commission/ Te Waihanga
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand 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 (2,419)
Social Workers Registration Board
Sport and Recreation New Zealand
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
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown entities Segment (continued)

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngai Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (21)

Te Ariki Trust

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

Crown Asset Management Limited

Crown Infrastructure Partners Limited (previously Crown Fibre Holdings Limited)

Education Payroll Limited

Ōtākaro Limited

Predator Free 2050 Limited

Provincial Growth Fund Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

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

Te Urewera

Others

Teaching Council of Aotearoa New Zealand

Regenerate Christchurch

Christ Church Cathedral Reinstatement Trust

Other entities not fully consolidated into the forecast financial statements of the Government with only the Crown's interest in them being included

Crown entities

Tertiary Education Institutions (27)

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

City Rail Link Limited

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Revenue								
Taxation revenue	1	85,723	88,541	87,994	93,543	98,433	104,032	109,640
Other sovereign revenue	1	6,028	6,027	6,116	6,386	6,929	7,258	8,016
Total Revenue Levied through the Crown's Sovereign Power		**91,751**	**94,568**	**94,110**	**99,929**	**105,362**	**111,290**	**117,656**
Sales of goods and services		19,796	19,041	19,629	19,777	20,013	20,832	20,249
Interest revenue	2	2,646	2,748	2,419	2,397	2,497	2,664	2,838
Other revenue		4,949	4,397	4,826	5,148	5,174	5,310	5,469
Total revenue earned through the Crown's operations		**27,391**	**26,186**	**26,874**	**27,322**	**27,684**	**28,806**	**28,556**
Total revenue (excluding gains)		**119,142**	**120,754**	**120,984**	**127,251**	**133,046**	**140,096**	**146,212**
Expenses								
Transfer payments and subsidies	3	28,190	29,794	30,108	31,729	33,276	34,786	36,298
Personnel expenses		25,933	25,756	26,299	26,566	26,835	27,393	27,625
Depreciation		4,554	5,217	5,416	5,468	5,545	5,587	5,656
Other operating expenses	4	42,715	49,012	50,132	50,780	49,387	49,324	48,736
Finance costs	2	4,253	4,091	3,793	3,609	3,563	3,711	3,622
Insurance expenses	5	5,813	5,547	6,264	6,329	6,814	6,803	7,525
Forecast new operating spending	6	-	1,266	744	3,240	6,126	8,550	10,901
Top-down expense adjustment	6	-	(1,400)	(1,200)	(925)	(675)	(575)	(575)
Total expenses (excluding losses)		**111,458**	**119,283**	**121,556**	**126,796**	**130,871**	**135,579**	**139,788**
Minority interest share of operating balance before gains/(losses)		(337)	(375)	(371)	(398)	(423)	(456)	(500)
Operating balance before gains/(losses) (excluding minority interests)		**7,347**	**1,096**	**(943)**	**57**	**1,752**	**4,061**	**5,924**
Net gains/(losses) on financial instruments	2	4,396	3,290	3,880	3,424	3,895	4,308	4,814
Net gains/(losses) on non-financial instruments	7	(11,575)	(71)	(2,659)	(60)	(58)	(58)	(58)
Less minority interest share of net gains/(losses)		(115)	3	38	5	(3)	(6)	(12)
Total gains/(losses) (excluding minority interests)		**(7,294)**	**3,222**	**1,259**	**3,369**	**3,834**	**4,244**	**4,744**
Net surplus/(deficit) from associates and joint ventures		240	220	106	135	169	191	208
Operating balance (excluding minority interests)		**293**	**4,538**	**422**	**3,561**	**5,755**	**8,496**	**10,876**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

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

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Total Crown expenses							
By functional classification[2]							
Social security and welfare	34,006	36,183	37,386	38,894	40,684	42,133	44,355
Health	18,660	18,975	20,605	20,827	21,105	21,408	21,485
Education	15,280	15,868	16,213	16,826	17,042	17,242	17,438
Core government services	4,755	5,589	5,385	4,812	4,469	4,148	4,130
Law and order	5,050	5,369	5,456	5,469	5,471	5,510	5,509
Transport and communications	8,429	11,263	12,090	12,587	12,558	12,557	12,717
Economic and industrial services	10,433	10,184	8,418	9,288	8,469	8,369	8,489
Defence	2,390	2,532	2,607	2,575	2,553	2,519	2,599
Heritage, culture and recreation	2,503	2,772	2,776	2,730	2,795	2,793	2,807
Primary services	2,395	2,500	2,523	2,330	2,129	2,083	2,143
Housing and community development	2,020	2,339	2,857	2,962	2,914	3,447	2,546
Environmental protection	1,108	1,279	1,364	1,261	1,259	1,285	1,228
GSF pension expenses	80	132	91	90	86	81	76
Other	96	341	448	221	323	318	318
Finance costs	4,253	4,091	3,793	3,609	3,563	3,711	3,622
Forecast new operating spending	-	1,266	744	3,240	6,126	8,550	10,901
Top-down expense adjustment	-	(1,400)	(1,200)	(925)	(675)	(575)	(575)
Total Crown expenses excluding losses	**111,458**	**119,283**	**121,556**	**126,796**	**130,871**	**135,579**	**139,788**

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.

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Core Crown expenses							
By functional classification[2]							
Social security and welfare	28,844	30,915	31,296	33,031	34,437	35,867	37,369
Health	18,268	19,198	19,366	19,243	19,338	19,365	19,366
Education	14,293	14,919	15,298	15,890	16,098	16,299	16,484
Core government services	5,189	5,610	5,570	5,217	5,026	4,743	4,702
Law and order	4,625	4,890	5,048	5,015	4,993	5,038	5,026
Transport and communications	2,889	3,103	3,537	3,856	3,634	3,445	3,445
Economic and industrial services	3,006	4,328	3,170	3,919	3,101	3,057	3,144
Defence	2,395	2,541	2,616	2,584	2,561	2,528	2,608
Heritage, culture and recreation	918	996	1,042	939	926	908	908
Primary services	960	1,036	1,110	877	708	728	720
Housing and community development	727	897	1,048	1,344	1,312	1,778	811
Environmental protection	1,119	1,281	1,372	1,268	1,266	1,293	1,235
GSF pension expenses	66	118	77	77	73	67	62
Other	96	341	448	221	323	318	318
Finance costs	3,646	3,364	3,234	2,969	2,765	2,852	2,709
Forecast new operating spending	-	1,266	744	3,240	6,126	8,550	10,901
Top-down expense adjustment	-	(1,400)	(1,200)	(925)	(675)	(575)	(575)
Total core Crown expenses excluding losses	**87,041**	**93,403**	**93,776**	**98,765**	**102,012**	**106,261**	**109,233**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

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

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Operating Balance (including minority interest)	**745**	**4,910**	**755**	**3,954**	**6,181**	**8,958**	**11,388**
Other comprehensive revenue and expense							
Revaluation of physical assets	12,481	-	(278)	-	-	-	-
Revaluation of defined benefit retirement plan schemes	(2,615)	139	(611)	191	195	193	187
Transfers to/(from) reserves	(202)	20	274	22	27	(43)	58
(Gains)/losses transferred to the statement of financial performance	(2)	(4)	(24)	(6)	(2)	-	(1)
Foreign currency translation differences on foreign operations	(31)	-	15	-	-	-	-
Other movements	46	117	29	14	6	11	(10)
Total other comprehensive revenue and expense	**9,677**	**272**	**(595)**	**221**	**226**	**161**	**234**
Total comprehensive revenue and expense	**10,422**	**5,182**	**160**	**4,175**	**6,407**	**9,119**	**11,622**
Attributable to:							
- minority interest	943	365	322	393	422	449	523
- the Crown	9,479	4,817	(162)	3,782	5,985	8,670	11,099
Total comprehensive revenue and expense	**10,422**	**5,182**	**160**	**4,175**	**6,407**	**9,119**	**11,622**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Opening net worth	136,296	136,166	146,172	145,786	149,420	155,264	163,817
Impacts of adoption of NZ PBE IPSAS 35	(73)	(223)	-	-	-	-	-
Adjusted opening net worth	136,223	135,943	146,172	145,786	149,420	155,264	163,817
Operating balance (including minority interest)	745	4,910	755	3,954	6,181	8,958	11,388
Net revaluations of physical assets	12,481	-	(278)	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	(2,615)	139	(611)	191	195	193	187
Transfers to/(from) reserves	(202)	20	274	22	27	(43)	58
(Gains)/losses transferred to the Statement of Financial Performance	(2)	(4)	(24)	(6)	(2)	-	(1)
Foreign currency translation differences on foreign operations	(31)	-	15	-	-	-	-
Other movements	46	117	29	14	6	11	(10)
Comprehensive income	**10,422**	**5,182**	**160**	**4,175**	**6,407**	**9,119**	**11,622**
Transactions with minority interest	(473)	(508)	(546)	(541)	(563)	(566)	(560)
Closing net worth	**146,172**	**140,617**	**145,786**	**149,420**	**155,264**	**163,817**	**174,879**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	83,018	87,567	87,541	92,197	97,448	102,879	108,387
Other sovereign receipts	5,187	4,827	5,435	5,622	6,324	6,582	7,329
Sales of goods and services	19,764	19,074	19,470	19,756	19,936	20,813	20,247
Interest receipts	2,528	2,444	2,060	2,129	2,218	2,379	2,532
Other operating receipts	4,562	4,450	5,881	6,236	6,193	6,465	6,553
Total cash provided from operations	**115,059**	**118,362**	**120,387**	**125,940**	**132,119**	**139,118**	**145,048**
Cash was disbursed to							
Transfer payments and subsidies	27,982	30,056	30,364	31,906	33,417	34,931	36,362
Personnel and operating payments	72,078	76,094	79,354	79,464	79,375	79,408	79,226
Interest payments	4,025	3,844	3,757	3,711	3,609	3,924	3,594
Forecast new operating spending	-	1,266	744	3,240	6,126	8,550	10,901
Top-down expense adjustment	-	(1,400)	(1,200)	(925)	(675)	(575)	(575)
Total cash disbursed to operations	**104,085**	**109,860**	**113,019**	**117,396**	**121,852**	**126,238**	**129,508**
Net cash flows from operations	**10,974**	**8,502**	**7,368**	**8,544**	**10,267**	**12,880**	**15,540**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(8,464)	(10,034)	(9,815)	(9,355)	(8,132)	(6,705)	(6,592)
Net (purchase)/sale of shares and other securities	3,804	(1,757)	(4,678)	3,052	(6,395)	(1,123)	(9,267)
Net (purchase)/sale of intangible assets	(791)	(951)	(975)	(820)	(632)	(604)	(588)
Net (issue)/repayment of advances	(1,902)	(1,995)	(2,076)	(2,463)	(2,171)	(2,710)	(2,892)
Net acquisition of investments in associates	136	(502)	(521)	(790)	(706)	(535)	(220)
Forecast new capital spending	-	(466)	(802)	(3,646)	(3,572)	(3,895)	(3,535)
Top-down capital adjustment	-	950	800	600	400	300	250
Net cash flows from investing activities	**(7,217)**	**(14,755)**	**(18,067)**	**(13,422)**	**(21,208)**	**(15,272)**	**(22,844)**
Net cash flows from operating and investing activities	**3,757**	**(6,253)**	**(10,699)**	**(4,878)**	**(10,941)**	**(2,392)**	**(7,304)**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	437	198	339	215	221	228	234
Net issue/(repayment) of government bonds[2]	(3,536)	3,760	6,612	868	8,508	(173)	6,294
Net issue/(repayment) of foreign-currency borrowings	1,487	24	(3,435)	(53)	(8)	(1)	-
Net issue/(repayment) of other New Zealand dollar borrowings	(530)	1,814	6,315	3,836	2,653	2,361	1,273
Dividends paid to minority interests[3]	(505)	(524)	(544)	(547)	(565)	(563)	(559)
Net cash flows from financing activities	**(2,647)**	**5,272**	**9,287**	**4,319**	**10,809**	**1,852**	**7,242**
Net movement in cash	**1,110**	**(981)**	**(1,412)**	**(559)**	**(132)**	**(540)**	**(62)**
Opening cash balance	18,894	21,768	20,248	19,869	19,572	19,392	18,869
Foreign-exchange gains/(losses) on opening cash	244	5	1,033	262	(48)	17	16
Closing cash balance	**20,248**	**20,792**	**19,869**	**19,572**	**19,392**	**18,869**	**18,823**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. Further information on the proceeds and repayments of government bonds is available in note 16.
3. Excludes transactions with ACC and NZS Fund.

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

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**10,974**	**8,502**	**7,368**	**8,544**	**10,267**	**12,880**	**15,540**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on financial instruments	4,396	3,290	3,880	3,424	3,895	4,308	4,814
Net gains/(losses) on non-financial instruments	(11,575)	(71)	(2,659)	(60)	(58)	(58)	(58)
Minority interest share of net gains/(losses)	(115)	3	38	5	(3)	(6)	(12)
Total gains/(losses)	**(7,294)**	**3,222**	**1,259**	**3,369**	**3,834**	**4,244**	**4,744**
Other Non-cash Items in Operating Balance							
Depreciation	(4,554)	(5,217)	(5,416)	(5,468)	(5,545)	(5,587)	(5,656)
Amortisation	(934)	(789)	(782)	(792)	(819)	(824)	(825)
Cost of concessionary lending	(763)	(1,072)	(670)	(691)	(567)	(551)	(556)
Impairment of financial assets (excluding receivables)	(41)	(21)	(5)	(4)	(5)	(5)	(6)
Reversal of Rail network impairment	2,576	-	-	-	-	-	-
Defined benefit retirement plan net expenditure	571	582	(136)	741	763	766	753
Decrease/(increase) in insurance liabilities	(1,768)	(733)	(1,573)	(2,035)	(2,155)	(2,337)	(2,561)
Other	(218)	(775)	(301)	(271)	(766)	(798)	(509)
Total other non-cash Items	**(5,131)**	**(8,025)**	**(8,883)**	**(8,520)**	**(9,094)**	**(9,336)**	**(9,360)**
Movements in Working Capital							
Increase/(decrease) in receivables	4,188	758	1,130	1,471	884	1,491	1,572
Increase/(decrease) in accrued interest	37	218	263	297	285	459	240
Increase/(decrease) in inventories	175	334	412	(182)	721	(349)	(5)
Increase/(decrease) in prepayments	36	12	48	(4)	12	-	(2)
Decrease/(increase) in deferred revenue	(97)	(40)	(1)	(26)	(20)	(45)	(37)
Decrease/(increase) in payables/provisions	(2,595)	(443)	(1,174)	(1,388)	(1,134)	(848)	(1,816)
Total movements in working capital	**1,744**	**839**	**678**	**168**	**748**	**708**	**(48)**
Operating balance (excluding minority interests)	**293**	**4,538**	**422**	**3,561**	**5,755**	**8,496**	**10,876**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

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

Forecast Statement of Financial Position

as at 30 June

	Note	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Assets								
Cash and cash equivalents	8	20,248	20,792	19,869	19,572	19,392	18,869	18,823
Receivables	8	23,304	21,317	25,216	26,682	27,507	28,947	30,548
Marketable securities, deposits and derivatives in gain	8	43,616	38,621	44,635	40,701	46,121	46,502	54,528
Share investments	8	39,552	41,623	45,117	48,129	51,525	55,337	59,631
Advances	8	33,690	34,107	36,298	38,545	40,686	42,920	45,375
Investments in controlled enterprises	8	3,688	3,777	4,311	5,054	5,812	6,575	7,408
Inventory		1,516	1,751	1,931	1,748	2,470	2,121	2,116
Other assets		2,828	2,863	3,004	2,945	2,991	3,089	3,131
Property, plant and equipment	10	177,625	169,151	182,644	184,234	186,857	187,745	188,508
Equity accounted investments[2]		14,279	14,502	14,806	15,422	16,115	16,593	16,745
Intangible assets and goodwill		3,911	4,375	4,156	4,340	4,315	4,270	4,206
Forecast for new capital spending	6	-	924	802	4,448	8,020	11,915	15,450
Top-down capital adjustment		-	(2,200)	(800)	(1,400)	(1,800)	(2,100)	(2,350)
Total assets		**364,257**	**351,603**	**381,989**	**390,420**	**410,011**	**422,783**	**444,119**
Liabilities								
Issued currency		6,813	6,807	7,151	7,366	7,587	7,814	8,049
Payables	12	16,742	12,847	18,855	17,220	18,241	19,820	21,543
Deferred revenue		2,523	2,428	2,521	2,546	2,566	2,613	2,648
Borrowings		110,248	118,005	122,161	126,917	137,643	138,760	145,324
Insurance liabilities	5	58,216	50,610	62,229	64,265	66,420	68,756	71,318
Retirement plan liabilities	13	13,179	10,832	13,315	12,574	11,811	11,045	10,292
Provisions	14	10,364	9,457	9,971	10,112	10,479	10,158	10,066
Total liabilities		**218,085**	**210,986**	**236,203**	**241,000**	**254,747**	**258,966**	**269,240**
Total assets less total liabilities		**146,172**	**140,617**	**145,786**	**149,420**	**155,264**	**163,817**	**174,879**
Net Worth								
Taxpayers' funds		36,015	40,830	36,678	40,377	46,242	54,844	65,831
Property, plant and equipment revaluation reserve		106,495	94,603	106,125	106,024	105,925	105,827	105,727
Defined Benefit Plan revaluation reserve		(2,615)	(733)	(3,226)	(3,035)	(2,840)	(2,647)	(2,460)
Other reserves		(113)	83	43	36	60	33	58
Total net worth attributable to the Crown		**139,782**	**134,783**	**139,620**	**143,402**	**149,387**	**158,057**	**169,156**
Net worth attributable to minority interest		6,390	5,834	6,166	6,018	5,877	5,760	5,723
Total net worth	15	**146,172**	**140,617**	**145,786**	**149,420**	**155,264**	**163,817**	**174,879**

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. Equity accounted investments include tertiary education institutions and City Rail Link Limited.

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

Forecast Statement of Borrowings

as at 30 June

	2019 Actual[1] $m	2020 Previous Budget[1] $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Borrowings							
Government bonds	56,874	62,378	62,714	63,434	71,563	70,830	76,552
Treasury bills	3,455	2,964	3,041	4,188	4,188	4,185	2,091
Government retail stock	169	177	171	171	171	171	171
Settlement deposits with Reserve Bank	6,891	6,713	7,630	7,630	7,630	7,630	7,630
Derivatives in loss	3,939	2,344	5,607	4,914	4,537	4,222	3,943
Finance lease liabilities	1,328	2,539	1,102	1,003	924	747	960
Other borrowings	37,592	40,890	41,896	45,577	48,630	50,975	53,977
Total borrowings	**110,248**	**118,005**	**122,161**	**126,917**	**137,643**	**138,760**	**145,324**
Sovereign-guaranteed debt	74,717	80,009	83,141	84,829	92,701	91,626	94,952
Non sovereign-guaranteed debt	35,531	37,996	39,020	42,088	44,942	47,134	50,372
Total borrowings	**110,248**	**118,005**	**122,161**	**126,917**	**137,643**	**138,760**	**145,324**
Net Debt:							
Core Crown borrowings[2]	91,833	95,199	98,465	100,342	108,571	107,870	111,699
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(903)	(2,595)	(1,967)	(2,029)	(2,088)	(2,111)	(2,134)
Gross sovereign-issued debt[3]	**90,930**	**92,604**	**96,498**	**98,313**	**106,483**	**105,759**	**109,565**
Less core Crown financial assets[4]	90,715	89,350	96,269	95,477	104,110	108,081	119,972
Net core Crown debt (incl. NZS Fund)[5]	**215**	**3,254**	**229**	**2,836**	**2,373**	**(2,322)**	**(10,407)**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[6]	43,676	47,928	47,936	53,007	58,954	65,407	72,396
Net core Crown debt (excl. NZS Fund)	**43,891**	**51,182**	**48,165**	**55,843**	**61,327**	**63,085**	**61,989**
Add back core Crown advances	13,845	13,513	14,361	14,796	14,744	14,596	14,346
Net core Crown debt (excl. NZS Fund and advances)[7]	**57,736**	**64,695**	**62,526**	**70,639**	**76,071**	**77,681**	**76,335**
Gross Debt:							
Gross sovereign-issued debt[3]	90,930	92,604	96,498	98,313	106,483	105,759	109,565
Less Reserve Bank settlement cash and Reserve Bank bills	(8,081)	(7,359)	(8,523)	(8,523)	(8,523)	(8,523)	(8,523)
Add back changes to government borrowing owing to settlement cash[8]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills[4]	**84,449**	**86,845**	**89,575**	**91,390**	**99,560**	**98,836**	**102,642**

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. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
2. Core Crown borrowings in this instance include unsettled purchases of securities (classified as accounts payable in the Statement of Financial Position).
3. 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.
4. Core Crown financial assets exclude receivables.
5. 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.
6. 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.
7. Net core Crown debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
8. The Reserve Bank has used $1.6 billion of settlement cash to purchase reserves that were to have been funded by the government borrowing programme. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

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

Statement of Actual Commitments

	As at 31 Oct 2019 $m	As at 30 June 2019[1] $m
Capital Commitments		
State highways	4,436	4,436
Specialist military equipment	1,795	1,786
Land and buildings	5,180	4,618
Other property, plant and equipment	1,996	1,985
Other capital commitments	1,632	826
Tertiary education institutions	595	595
Total capital commitments	**15,634**	**14,246**
Operating Commitments		
Non-cancellable accommodation leases	4,664	4,779
Other non-cancellable leases	3,426	3,204
Tertiary education institutions	936	936
Total operating commitments	**9,026**	**8,919**
Total commitments	**24,660**	**23,165**
Total Commitments by Segment		
Core Crown	11,196	9,699
Crown entities	9,168	9,173
State-owned Enterprises	4,476	4,472
Inter-segment eliminations	(180)	(179)
Total commitments	**24,660**	**23,165**

1. The 30 June 2019 commitments were restated to reflect the adoption of the new accounting standard PBE IPSAS 35: *Consolidated Financial Statements*. The impact of this is to increase total commitments by $39 million. Refer note 17 for further details of this new standard.

Statement of Actual Contingent Liabilities and Assets

	As at 31 Oct 2019 $m	As at 30 June 2019 $m
Quantifiable Contingent Liabilities		
Uncalled capital	8,511	8,245
Guarantees and indemnities	192	190
Legal proceedings and disputes	705	734
Other contingent liabilities	590	488
Total quantifiable contingent liabilities	**9,998**	**9,657**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	9,444	9,175
Crown entities	392	392
State-owned Enterprises	263	191
Inter-segment eliminations	(101)	(101)
Total quantifiable contingent liabilities	**9,998**	**9,657**
Quantifiable Contingent Assets by Segment		
Core Crown	67	70
Crown entities	-	-
State-owned Enterprises	2	2
Total quantifiable contingent assets	**69**	**72**

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

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	32,879	34,731	34,960	37,079	39,446	41,963	44,635
Other persons	7,663	7,149	7,182	7,846	8,233	8,675	9,145
Refunds	(2,429)	(1,937)	(2,132)	(1,784)	(2,046)	(2,147)	(2,251)
Fringe benefit tax	585	585	592	618	650	684	720
Total individuals	**38,698**	**40,528**	**40,602**	**43,759**	**46,283**	**49,175**	**52,249**
Corporate Tax							
Gross companies tax	14,892	14,074	14,093	15,085	15,933	16,797	17,528
Refunds	(343)	(218)	(266)	(286)	(324)	(349)	(372)
Non-resident withholding tax	650	648	569	566	602	646	684
Total corporate tax	**15,199**	**14,504**	**14,396**	**15,365**	**16,211**	**17,094**	**17,840**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,659	1,675	1,500	1,291	1,270	1,560	1,807
Resident w/holding tax on dividend income	838	796	843	898	953	1,000	1,043
Total other direct income tax	**2,497**	**2,471**	**2,343**	**2,189**	**2,223**	**2,560**	**2,850**
Total direct income tax	**56,394**	**57,503**	**57,341**	**61,313**	**64,717**	**68,829**	**72,939**
Goods and Services Tax							
Gross goods and services tax	35,860	37,696	37,345	39,365	41,389	43,282	45,262
Refunds	(13,998)	(14,334)	(14,411)	(15,138)	(15,737)	(16,259)	(16,871)
Total goods and services tax	**21,862**	**23,362**	**22,934**	**24,227**	**25,652**	**27,023**	**28,391**
Other Indirect Taxation							
Road user charges	1,673	1,799	1,774	1,887	1,960	2,030	2,099
Petroleum fuels excise – domestic production	1,201	1,332	1,227	1,315	1,317	1,326	1,334
Alcohol excise – domestic production	722	748	747	782	806	832	858
Tobacco excise – domestic production	483	430	477	475	461	460	458
Petroleum fuels excise – imports[1]	781	751	868	928	930	935	941
Alcohol excise – imports[1]	364	352	368	368	379	391	404
Tobacco excise – imports[1]	1,497	1,539	1,510	1,513	1,468	1,464	1,460
Other customs duty	172	177	177	177	177	177	177
Gaming duties	247	230	234	233	232	236	239
Motor vehicle fees	227	228	233	224	228	232	236
Approved issuer levy and cheque duty	74	65	78	75	80	71	78
Energy resources levies	26	25	26	26	26	26	26
Total other indirect taxation	**7,467**	**7,676**	**7,719**	**8,003**	**8,064**	**8,180**	**8,310**
Total indirect taxation	**29,329**	**31,038**	**30,653**	**32,230**	**33,716**	**35,203**	**36,701**
Total taxation revenue	**85,723**	**88,541**	**87,994**	**93,543**	**98,433**	**104,032**	**109,640**
Other Sovereign Revenue (accrual)							
ACC levies	3,014	2,938	3,040	3,239	3,717	4,010	4,611
Fire and Emergency levies	579	588	588	604	616	628	641
EQC levies	387	440	439	489	494	498	504
Child support and working for families penalties	225	225	217	211	206	201	203
Court fines	124	104	115	115	115	115	115
Other miscellaneous items	1,699	1,732	1,717	1,728	1,781	1,806	1,942
Total other sovereign revenue	**6,028**	**6,027**	**6,116**	**6,386**	**6,929**	**7,258**	**8,016**
Total sovereign revenue	**91,751**	**94,568**	**94,110**	**99,929**	**105,362**	**111,290**	**117,656**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	32,728	34,537	34,758	36,865	39,218	41,721	44,377
Other persons	7,073	7,092	7,285	7,687	8,184	8,653	9,126
Refunds	(2,572)	(2,308)	(2,333)	(2,284)	(2,413)	(2,550)	(2,681)
Fringe benefit tax	578	585	592	618	650	684	720
Total individuals	**37,807**	**39,906**	**40,302**	**42,886**	**45,639**	**48,508**	**51,542**
Corporate Tax							
Gross companies tax	14,020	14,440	15,028	15,961	16,995	17,933	18,694
Refunds	(879)	(623)	(1,041)	(1,296)	(1,440)	(1,674)	(1,785)
Non-resident withholding tax	653	648	569	566	602	646	684
Total corporate tax	**13,794**	**14,465**	**14,556**	**15,231**	**16,157**	**16,905**	**17,593**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,629	1,675	1,500	1,291	1,270	1,560	1,807
Resident w/holding tax on dividend income	802	796	843	898	953	1,000	1,043
Total other direct income tax	**2,431**	**2,471**	**2,343**	**2,189**	**2,223**	**2,560**	**2,850**
Total direct income tax	**54,032**	**56,842**	**57,201**	**60,306**	**64,019**	**67,973**	**71,985**
Goods and Services Tax							
Gross goods and services tax	35,125	37,212	36,884	38,895	40,940	42,826	44,804
Refunds	(13,538)	(14,174)	(14,251)	(14,978)	(15,577)	(16,099)	(16,711)
Total goods and services tax	**21,587**	**23,038**	**22,633**	**23,917**	**25,363**	**26,727**	**28,093**
Other Indirect Taxation							
Road user charges	1,665	1,799	1,774	1,887	1,960	2,030	2,099
Petroleum fuels excise – domestic production	1,180	1,332	1,227	1,315	1,317	1,326	1,334
Alcohol excise – domestic production	721	748	747	782	806	832	858
Tobacco excise – domestic production	484	430	477	475	461	460	458
Customs duty	2,827	2,830	2,912	2,957	2,956	2,966	2,981
Gaming duties	240	230	234	233	232	236	239
Motor vehicle fees	220	228	233	224	228	232	236
Approved issuer levy and cheque duty	36	65	77	75	80	71	78
Energy resources levies	26	25	26	26	26	26	26
Total other indirect taxation	**7,399**	**7,687**	**7,707**	**7,974**	**8,066**	**8,179**	**8,309**
Total indirect taxation	**28,986**	**30,725**	**30,340**	**31,891**	**33,429**	**34,906**	**36,402**
Total taxation receipts	**83,018**	**87,567**	**87,541**	**92,197**	**97,448**	**102,879**	**108,387**
Other Sovereign Receipts (cash)							
ACC levies	2,782	2,823	2,909	3,050	3,706	3,939	4,598
Fire and Emergency levies	577	585	585	600	613	626	638
EQC levies	395	417	423	488	493	497	503
Child support and working for families penalties	194	217	212	206	201	197	198
Court fines	131	118	114	114	114	114	114
Other miscellaneous items	1,108	667	1,192	1,164	1,197	1,209	1,278
Total other sovereign receipts	**5,187**	**4,827**	**5,435**	**5,622**	**6,324**	**6,582**	**7,329**
Total sovereign receipts	**88,205**	**92,394**	**92,976**	**97,819**	**103,772**	**109,461**	**115,716**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest revenue	**2,646**	**2,748**	**2,419**	**2,397**	**2,497**	**2,664**	**2,838**
Interest Expenses							
Interest on financial liabilities	4,010	3,884	3,571	3,444	3,403	3,542	3,428
Interest unwind on provisions	243	207	222	165	160	169	194
Total interest expenses	**4,253**	**4,091**	**3,793**	**3,609**	**3,563**	**3,711**	**3,622**
Net interest revenue/(expense)	**(1,607)**	**(1,343)**	**(1,374)**	**(1,212)**	**(1,066)**	**(1,047)**	**(784)**
Dividend revenue	1,070	1,040	1,127	1,198	1,302	1,408	1,528
Gains and losses on financial instruments	4,396	3,290	3,880	3,424	3,895	4,308	4,814
Total investment revenue/(expenditure)	**3,859**	**2,987**	**3,633**	**3,410**	**4,131**	**4,669**	**5,558**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	14,562	15,488	15,520	16,496	17,504	18,581	19,798
Family tax credit	2,131	2,195	2,102	2,074	2,081	2,173	2,164
Jobseeker support and emergency benefit	1,854	1,976	2,090	2,221	2,252	2,275	2,328
Supported living payment	1,556	1,589	1,607	1,668	1,728	1,785	1,845
Accommodation assistance	1,640	1,810	1,841	1,938	1,980	2,012	2,049
Sole parent support	1,115	1,175	1,185	1,271	1,316	1,353	1,396
Income related rent subsidy	45	84	84	136	189	195	194
KiwiSaver subsidies	951	915	945	947	990	1,025	1,059
Other working for families tax credits	635	536	621	618	619	628	624
Official development assistance	708	740	784	727	819	858	860
Student allowances	583	585	580	593	606	622	639
Winter energy payment	441	458	464	480	489	497	505
Best start	48	231	231	373	451	474	477
Disability assistance	386	391	395	396	396	397	400
Hardship assistance	300	346	381	420	458	484	503
Orphan's/unsupported child's benefit	225	247	248	266	286	305	324
Other social assistance benefits	1,010	1,028	1,030	1,105	1,112	1,122	1,133
Total transfer payments and subsidies	**28,190**	**29,794**	**30,108**	**31,729**	**33,276**	**34,786**	**36,298**
NOTE 4: Other Operating Expenses							
Grants and subsidies	5,682	7,545	7,344	7,234	6,478	6,657	6,736
Reversal of Rail network impairment	(2,576)	-	-	-	-	-	-
Repairs and maintenance	2,265	1,584	2,180	2,193	2,164	2,213	2,243
Rental and leasing costs	1,431	1,429	1,484	1,481	1,479	1,487	1,490
Amortisation and impairment of intangible assets	934	789	782	792	819	824	825
Impairment of financial assets	920	798	793	784	785	785	786
Cost of concessionary lending	763	1,072	670	691	567	551	556
Lottery prize payments	645	726	682	711	748	754	763
Inventory expenses	1,582	1,824	1,789	2,113	2,114	2,648	1,689
Other operating expenses	31,069	33,245	34,408	34,781	34,233	33,405	33,648
Total other operating expenses	**42,715**	**49,012**	**50,132**	**50,780**	**49,387**	**49,324**	**48,736**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	5,362	5,478	6,299	6,102	6,573	6,554	7,274
EQC	476	95	(1)	220	227	235	237
Southern Response	(40)	(42)	(48)	(6)	-	-	-
Other (incl. inter-segment eliminations)	15	16	14	13	14	14	14
Total insurance expenses	**5,813**	**5,547**	**6,264**	**6,329**	**6,814**	**6,803**	**7,525**
Insurance liability by entity							
ACC	56,611	50,083	61,332	63,656	65,972	68,424	70,996
EQC	1,342	481	758	523	404	288	277
Southern Response	216	-	93	41	-	-	-
Other (incl. inter-segment eliminations)	47	46	46	45	44	44	45
Total insurance liabilities	**58,216**	**50,610**	**62,229**	**64,265**	**66,420**	**68,756**	**71,318**

ACC liability

Calculation information

Taylor Fry has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2019. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The estimate also includes a risk margin to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), Average Weekly Earnings (AWE) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 31 October 2019. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 2.23% and allows for a long-term discount rate of 4.30% from 2082.

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 below (less cross-holdings of NZ Government stock) are included as assets in the Statement of Financial Position.

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Gross ACC Liability							
Opening gross liability	43,314	48,441	56,611	61,332	63,656	65,972	68,424
Net change	13,297	1,642	4,721	2,324	2,316	2,452	2,572
Closing gross liability	**56,611**	**50,083**	**61,332**	**63,656**	**65,972**	**68,424**	**70,996**
Less Net Assets Available to ACC							
Opening net asset value	41,958	43,998	46,598	48,471	49,394	50,316	51,655
Net change	4,640	650	1,873	923	922	1,339	1,362
Closing net asset value	**46,598**	**44,648**	**48,471**	**49,394**	**50,316**	**51,655**	**53,017**
Net ACC Reserves (Net Liability)							
Opening reserves position	(1,356)	(4,443)	(10,013)	(12,861)	(14,262)	(15,656)	(16,769)
Net change	(8,657)	(992)	(2,848)	(1,401)	(1,394)	(1,113)	(1,210)
Closing reserves position (net liability)/net asset	**(10,013)**	**(5,435)**	**(12,861)**	**(14,262)**	**(15,656)**	**(16,769)**	**(17,979)**

Notes to the Forecast Financial Statements

	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 6: Forecast New Spending and Top-down Expense Adjustment					
Forecast New Operating Spending					
Unallocated contingencies	744	867	1,155	1,191	1,155
Forecast new spending for Budget 2020	-	2,373	2,573	2,559	2,346
Forecast new spending for Budget 2021	-	-	2,398	2,400	2,400
Forecast new spending for Budget 2022	-	-	-	2,400	2,400
Forecast new spending for Budget 2023	-	-	-	-	2,600
Total forecast new operating spending	**744**	**3,240**	**6,126**	**8,550**	**10,901**
Operating top-down adjustment	**(1,200)**	**(925)**	**(675)**	**(575)**	**(575)**

Unallocated contingencies represent expenses included in Budget 2019 and previous Budgets that have yet to be allocated to departments. Forecast new spending indicates the expected spending increases from future Budgets.

The forecast for new operating spending for Budget 2020 is $3.0 billion. Some of this allowance has been pre-committed as at the forecast finalisation date of 25 November 2019, with only the unallocated portion of the allowance included in this note.

	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	Post-2024 Forecast $m	Total Forecast $m
Forecast New Capital Spending (annual)							
Unallocated contingencies	679	2,662	1,728	1,632	1,710	4,299	12,710
Forecast new spending for Budgets 2020 - 2023	123	984	1,844	2,263	1,825	1,338	8,377
Total forecast new capital spending	**802**	**3,646**	**3,572**	**3,895**	**3,535**	**5,637**	**21,087**
Forecast new capital spending (cumulative)	**802**	**4,448**	**8,020**	**11,915**	**15,450**		
Capital top-down adjustment (cumulative)	**(800)**	**(1,400)**	**(1,800)**	**(2,100)**	**(2,350)**		

Unallocated contingencies represent capital spending from Budget 2019 and previous Budgets that has yet to be allocated to departments. Forecast new spending indicates the expected capital spending increases from future Budgets.

Unallocated contingencies includes the capital investment package of $8.0 billion. As new projects are announced funding will be allocated to these projects from this amount.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	(11,367)	-	(2,292)	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(225)	-	(214)	-	-	-	-
Other	17	(71)	(153)	(60)	(58)	(58)	(58)
Net gains/(losses) on non-financial instruments	**(11,575)**	**(71)**	**(2,659)**	**(60)**	**(58)**	**(58)**	**(58)**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	20,248	20,792	19,869	19,572	19,392	18,869	18,823
Tax receivables	13,741	12,109	14,653	15,422	15,792	16,304	16,918
Trade and other receivables	9,563	9,208	10,563	11,260	11,715	12,643	13,630
Student loans (refer note 9)	10,731	9,884	10,915	10,793	10,645	10,474	10,260
Kiwibank mortgages	20,411	21,099	22,351	24,335	26,496	28,850	31,514
Long-term deposits	4,355	3,419	3,061	2,932	2,933	2,942	2,905
IMF financial assets	2,327	2,334	2,486	2,486	2,486	2,486	2,486
Other advances	2,548	3,124	3,032	3,417	3,545	3,596	3,601
Share investments	39,552	41,623	45,117	48,129	51,525	55,337	59,631
Investments in controlled enterprises	3,688	3,777	4,311	5,054	5,812	6,575	7,408
Derivatives in gain	4,585	3,062	3,455	2,295	2,178	2,043	1,844
Other marketable securities	32,349	29,806	35,633	32,988	38,524	39,031	47,293
Total financial assets (including receivables)	**164,098**	**160,237**	**175,446**	**178,683**	**191,043**	**199,150**	**216,313**
Financial Assets by Entity							
The Treasury	20,874	15,729	20,175	13,816	16,682	13,940	19,141
Reserve Bank of New Zealand	20,315	19,370	21,680	21,761	21,901	22,039	22,137
NZS Fund	45,101	50,593	50,148	55,301	61,273	67,941	75,098
Other core Crown	30,119	27,230	32,155	33,117	33,134	32,986	33,679
Intra-segment eliminations	(9,144)	(8,054)	(9,393)	(9,115)	(8,834)	(8,004)	(8,369)
Total core Crown segment	**107,265**	**104,868**	**114,765**	**114,880**	**124,156**	**128,902**	**141,686**
ACC portfolio	48,868	45,169	50,317	51,016	51,934	53,294	54,651
EQC portfolio	778	244	648	611	685	760	942
Other Crown entities	10,912	9,862	9,860	9,679	9,567	9,532	9,885
Intra-segment eliminations	(2,954)	(2,361)	(2,423)	(1,997)	(1,640)	(1,439)	(1,368)
Total Crown entities segment	**57,604**	**52,914**	**58,402**	**59,309**	**60,546**	**62,147**	**64,110**
Total state-owned enterprises segment	**27,624**	**28,102**	**29,363**	**31,637**	**33,943**	**36,215**	**39,298**
Inter-segment eliminations	(28,395)	(25,647)	(27,084)	(27,143)	(27,602)	(28,114)	(28,781)
Total financial assets (including receivables)	**164,098**	**160,237**	**175,446**	**178,683**	**191,043**	**199,150**	**216,313**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 9: Student Loans							
Nominal value (including accrued interest)	16,034	15,834	16,034	16,089	16,128	16,129	16,178
Opening book value	**9,929**	**10,085**	**10,731**	**10,915**	**10,793**	**10,645**	**10,474**
Net new lending (including fees)	1,361	1,391	1,409	1,422	1,450	1,474	1,502
New lending - establishment fee	-	-	-	-	-	-	-
Less initial write-down to fair value	(563)	(576)	(496)	(495)	(510)	(526)	(544)
Repayments made during the year	(1,371)	(1,465)	(1,402)	(1,417)	(1,443)	(1,475)	(1,537)
Interest unwind	394	415	350	334	323	325	335
Unwind of administration costs	36	34	36	34	32	31	30
Experience/actuarial adjustments:							
- Projected repayments	211	-	-	-	-	-	-
- Change in discount rates	734	-	287	-	-	-	-
Closing book value	**10,731**	**9,884**	**10,915**	**10,793**	**10,645**	**10,474**	**10,260**
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	55,005	52,974	55,229	54,943	55,038	55,070	55,187
Buildings	40,732	40,960	42,625	41,973	43,028	43,432	43,797
State highways	37,222	35,190	39,039	40,158	40,992	41,747	42,501
Electricity generation assets	17,239	15,410	17,096	17,262	16,981	16,683	16,519
Electricity distribution network (cost)	4,173	4,065	4,079	4,131	4,251	4,343	4,474
Aircraft (excluding military)	4,993	5,550	5,217	5,499	5,874	6,348	7,069
Specialist military equipment	3,353	4,171	3,895	4,684	5,253	5,153	4,992
Specified cultural and heritage assets	3,150	3,167	3,167	3,175	3,182	3,191	3,199
Rail network[2]	6,407	2,131	6,520	6,549	6,532	6,427	6,320
Other plant and equipment (cost)	5,351	5,533	5,777	5,860	5,726	5,351	4,450
Total property, plant and equipment	**177,625**	**169,151**	**182,644**	**184,234**	**186,857**	**187,745**	**188,508**
Land breakdown by usage							
Housing	18,819	18,759	19,439	19,619	19,790	19,951	19,921
State highway corridor land	13,745	12,256	13,506	12,937	12,628	12,578	12,528
Conservation land	6,630	6,242	6,628	6,630	6,631	6,633	6,635
Rail network	3,516	3,482	3,505	3,503	3,500	3,498	3,496
Schools	5,772	5,896	5,811	5,897	6,000	6,121	6,224
Commercial (SOEs) excluding Rail	1,205	1,316	1,233	1,268	1,304	1,338	1,372
Other	5,318	5,023	5,107	5,089	5,185	4,951	5,011
Total land	**55,005**	**52,974**	**55,229**	**54,943**	**55,038**	**55,070**	**55,187**

1. Using a revaluation methodology unless otherwise stated.
2. The rail freight network was valued on a commercial basis for the previous budget and is now valued on a public benefit basis.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 10: Property, Plant and Equipment (continued)							
Schedule of Movements							
Cost or Valuation							
Opening balance	175,019	185,438	192,808	203,188	210,112	218,188	224,581
Additions[1]	9,462	11,130	11,257	8,043	8,949	7,321	6,955
Disposals	(1,157)	(848)	(810)	(1,179)	(813)	(861)	(336)
Net revaluations	9,623	(29)	29	-	-	-	-
Other[2]	(139)	64	(96)	60	(60)	(67)	(60)
Total cost or valuation	**192,808**	**195,755**	**203,188**	**210,112**	**218,188**	**224,581**	**231,140**
Accumulated Depreciation and Impairment							
Opening balance	16,356	21,507	15,183	20,544	25,878	31,331	36,836
Eliminated on disposal	(791)	(116)	(22)	(126)	(53)	(62)	154
Eliminated on revaluation	(2,452)	-	-	-	-	-	-
Impairment losses charged to operating balance	(2,516)	-	-	-	-	-	-
Depreciation expense	4,554	5,217	5,416	5,468	5,545	5,587	5,656
Other[2]	32	(4)	(33)	(8)	(39)	(20)	(14)
Total accumulated depreciation and impairment	**15,183**	**26,604**	**20,544**	**25,878**	**31,331**	**36,836**	**42,632**
Total property, plant and equipment	**177,625**	**169,151**	**182,644**	**184,234**	**186,857**	**187,745**	**188,508**

1. Additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).
2. Other mainly includes transfers to/from other asset categories.

NOTE 11: NZ Superannuation Fund

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Revenue	982	971	980	1,051	1,175	1,313	1,463
Less current tax expense	504	877	426	969	1,082	1,210	1,349
Less other expenses	130	231	184	194	213	225	240
Add gains/(losses)	1,955	2,929	2,513	3,199	3,568	3,977	4,422
Operating balance	**2,303**	**2,792**	**2,883**	**3,087**	**3,448**	**3,855**	**4,296**
Opening net worth	39,053	41,811	42,316	46,658	51,865	57,733	64,314
Impacts of adoption of NZ PBE IPSAS 35	(51)	(164)	-	-	-	-	-
Adjusted opening net worth	**39,002**	**41,647**	**42,316**	**46,658**	**51,865**	**57,733**	**64,314**
Gross contribution from the Crown	1,000	1,460	1,460	2,120	2,420	2,726	2,769
Operating balance	2,303	2,792	2,883	3,087	3,448	3,855	4,296
Other movements in reserves	11	(1)	(1)	-	-	-	-
Closing net worth	**42,316**	**45,898**	**46,658**	**51,865**	**57,733**	**64,314**	**71,379**
Comprising:							
Financial assets	44,307	49,405	50,148	55,301	61,273	67,941	75,098
Financial liabilities	(1,993)	(3,486)	(3,484)	(3,426)	(3,527)	(3,617)	(3,707)
Net other assets	2	(21)	(6)	(10)	(13)	(10)	(12)
Closing net worth	**42,316**	**45,898**	**46,658**	**51,865**	**57,733**	**64,314**	**71,379**

Under the new accounting standard, PBE IPSAS 35 (effective from 1 July 2019), any controlling interests the New Zealand Superannuation Fund has invested in are reported on a fair value basis and shown as a single line item Investments in controlled enterprises in the statement of financial position (rather than on the previous line-by-line basis). Consequently, there have been material reclassifications between the NZ Superannuation Fund's different asset and liability classes, but with a smaller net impact on the overall value of the Fund. Refer to Note 17 for further details.

NOTE 12: Payables

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Accounts payable	10,449	7,582	12,528	10,861	11,844	13,389	15,080
Taxes repayable	6,293	5,265	6,327	6,359	6,397	6,431	6,463
Total payables	**16,742**	**12,847**	**18,855**	**17,220**	**18,241**	**19,820**	**21,543**

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	13,161	10,829	13,297	12,557	11,793	11,028	10,274
Other funds	18	3	18	17	18	17	18
Total retirement plan liabilities	**13,179**	**10,832**	**13,315**	**12,574**	**11,811**	**11,045**	**10,292**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 2019. 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 September 2019, based on membership data as at 30 June 2019 with adjustments for cash flows to 30 September 2019. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date.

For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 September 2019.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 1.62% p.a. for the 18 years to 30 June 2037, then gradually increasing each year to reach 2.0% p.a. in the year ended 30 June 2082 and remaining at 2.0% p.a. for all years after that. In addition an annual salary growth rate, before any promotional effects, of 2.5% p.a. (2.5% p.a. at 30 June 2019).

The 2019/20 projected increase in the net GSF liability is $136 million, reflecting an increase in the GSF liability of $260 million and an increase in the GSF net assets of $124 million.

The overall increase in the GSF liability of $260 million includes an actuarial loss (which increases the liability) between 1 July 2019 and 30 September 2019, of $893 million, largely owing to movements in the discount rates and partly offset by changes in the CPI rates. The difference of $633 million is owing to the current service cost and interest unwind (increases the liability) which is more than offset by benefits paid to members (reducing the liability).

The increase in the value of the net assets of GSF of $124 million includes a revaluation gain of $282 million reflecting the updated market value of assets at 30 September 2019. The balance of $158 million is the total of the expected investment returns and contributions received/receivable, offset by the benefits paid/payable to members.

The changes in the projected net GSF liability from 2019/20 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
GSF Liability							
Opening GSF liability	15,558	15,810	17,692	17,952	17,236	16,496	15,754
Net projected change	2,134	(590)	260	(716)	(740)	(742)	(731)
Closing GSF liability	**17,692**	**15,220**	**17,952**	**17,236**	**16,496**	**15,754**	**15,023**
Less Net Assets Available to GSF							
Opening net asset value	4,570	4,399	4,531	4,655	4,679	4,703	4,726
Investment valuation changes	161	214	338	227	229	230	231
Contribution and other income less benefit payments	(200)	(222)	(214)	(203)	(205)	(207)	(208)
Closing net asset value	**4,531**	**4,391**	**4,655**	**4,679**	**4,703**	**4,726**	**4,749**
Net GSF Liability							
Opening unfunded liability	10,988	11,411	13,161	13,297	12,557	11,793	11,028
Net projected change	2,173	(582)	136	(740)	(764)	(765)	(754)
Closing unfunded liability	**13,161**	**10,829**	**13,297**	**12,557**	**11,793**	**11,028**	**10,274**

The amended accounting standard PBE IPSAS 39: *Employee Benefits* is effective for these forecasts across all years. The value of the net GSF liability has not changed with this change in accounting standard but there have been changes to the presentation of the annual movements in the net liability in the Statement of Financial Performance. Refer to note 17 for further details of the impact of this change on the comparative numbers published in these forecast financial statements.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	4,582	3,623	4,056	4,072	4,233	4,390	4,412
Provision for ETS credits	2,884	2,182	3,167	3,225	3,250	3,276	3,193
Provision for National Provident Fund guarantee	879	725	829	768	707	649	595
Other provisions	2,019	2,927	1,919	2,047	2,289	1,843	1,866
Total provisions	**10,364**	**9,457**	**9,971**	**10,112**	**10,479**	**10,158**	**10,066**

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.

The allocation of NZUs creates a provision if allocated for free; the provision is reduced, and revenue recognised, as NZUs are surrendered to the Crown by emitters.

The prices for NZUs used to calculate the ETS provision are assumed to remain constant over the forecast period and are based on market prices during the last week of September 2019.

The ETS impact on the fiscal forecast is as follows:

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
Provision Utilised	425	1,055	515	522	547	574	628
Additional Provision	(543)	(566)	(584)	(580)	(572)	(600)	(545)
Gains/(losses)	(225)	-	(214)	-	-	-	-
Operating balance	**(343)**	**489**	**(283)**	**(58)**	**(25)**	**(26)**	**83**

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 15: Changes in Net Worth							
Taxpayers' funds	36,015	40,830	36,678	40,377	46,242	54,844	65,831
Property, plant and equipment revaluation reserve	106,495	94,603	106,125	106,024	105,925	105,827	105,727
Defined benefit plan revaluation reserve[1]	(2,615)	(733)	(3,226)	(3,035)	(2,840)	(2,647)	(2,460)
Investment revaluation reserve	-	86	-	-	-	-	-
Intangible asset reserve	(7)	1	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(204)	51	(47)	(54)	(30)	(57)	(32)
Fair value hedge reserve	168	-	159	159	159	159	159
Foreign currency translation reserve	(70)	(55)	(62)	(62)	(62)	(62)	(62)
Net worth attributable to minority interests	6,390	5,834	6,166	6,018	5,877	5,760	5,723
Total net worth	**146,172**	**140,617**	**145,786**	**149,420**	**155,264**	**163,817**	**174,879**
Taxpayers' funds							
Opening taxpayers' funds	35,440	36,077	36,015	36,678	40,377	46,242	54,844
Impacts of adoption of NZ PBE IPSAS 35[1]	112	29	-	-	-	-	-
Adjusted opening taxpayers' funds	35,552	36,106	36,015	36,678	40,377	46,242	54,844
Operating balance excluding minority interests	293	4,538	422	3,561	5,755	8,496	10,876
Transfers from/(to) other reserves	130	71	148	126	108	108	108
Other movements	40	115	93	12	2	(2)	3
Closing taxpayers' funds	**36,015**	**40,830**	**36,678**	**40,377**	**46,242**	**54,844**	**65,831**
Property, Plant and Equipment Revaluation Reserve							
Opening property, plant and equipment revaluation reserve	94,750	94,686	106,495	106,125	106,024	105,925	105,827
Impacts of adoption of NZ PBE IPSAS 35[1]	(15)	(27)	-	-	-	-	-
Adjusted opening property, plant and equipment revaluation reserve	94,735	94,659	106,495	106,125	106,024	105,925	105,827
Net revaluations	12,481	-	(278)	-	-	-	-
Transfers from/(to) other reserves	(132)	(56)	(167)	(101)	(99)	(98)	(100)
Net revaluations attributable to minority interests	(589)	-	75	-	-	-	-
Closing property, plant and equipment revaluation reserve	**106,495**	**94,603**	**106,125**	**106,024**	**105,925**	**105,827**	**105,727**

1. The adoption of two new accounting standards from 1 July 2019 has resulted in changes to net worth and some of the reserve balances. In addition, a new 'defined benefit plan revaluation reserve' is being presented as part of net worth. Refer to note 17 for details of these changes.

Notes to the Forecast Financial Statements

	2019 Actual $m	2020 Previous Budget $m	2020 Forecast $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m
NOTE 16: Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	83,716	89,427	88,649	93,872	99,254	104,851	110,562
Other sovereign receipts	1,359	941	1,457	1,416	1,443	1,448	1,517
Interest receipts	712	600	474	393	328	332	318
Sale of goods and services and other receipts	3,200	3,390	3,517	3,823	3,604	4,036	3,028
Transfer payments and subsidies	(28,910)	(31,065)	(31,359)	(32,970)	(34,536)	(36,052)	(37,484)
Personnel and operating costs	(50,591)	(55,367)	(56,730)	(57,541)	(56,890)	(55,760)	(55,185)
Interest payments	(3,450)	(3,137)	(3,086)	(2,966)	(2,701)	(2,941)	(2,604)
Forecast for future new operating spending	-	(1,266)	(744)	(3,240)	(6,126)	(8,550)	(10,901)
Top-down expense adjustment	-	1,400	1,200	925	675	575	575
Net core Crown operating cash flows	**6,036**	**4,923**	**3,378**	**3,712**	**5,051**	**7,939**	**9,826**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(3,002)	(3,703)	(3,474)	(3,303)	(2,816)	(1,846)	(1,820)
Net increase in advances	(86)	(799)	(365)	(665)	(101)	(36)	53
Net purchase of investments	(2,658)	(3,636)	(3,231)	(2,551)	(2,092)	(1,967)	(1,094)
Contribution to NZS Fund	(1,000)	(1,460)	(1,460)	(2,120)	(2,420)	(2,726)	(2,769)
Forecast for future new capital spending	-	(466)	(802)	(3,646)	(3,572)	(3,895)	(3,535)
Top-down capital adjustment	-	950	800	600	400	300	250
Net core Crown capital cash flows	**(6,746)**	**(9,114)**	**(8,532)**	**(11,685)**	**(10,601)**	**(10,170)**	**(8,915)**
Residual cash (deficit)/surplus	**(710)**	**(4,191)**	**(5,154)**	**(7,973)**	**(5,550)**	**(2,231)**	**911**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	8,372	10,387	11,306	10,775	8,508	8,772	6,294
Repayment of government bonds	(11,908)	(6,627)	(6,694)	(9,907)	-	(8,945)	-
Net issue/(repayment) of short-term borrowing[1]	(730)	(345)	(420)	1,150	-	-	(2,100)
Total market debt cash flows	(4,266)	3,415	4,192	2,018	8,508	(173)	4,194
Non-market:							
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	-	-	-	-	-	-	-
Total non-market debt cash flows	-	-	-	-	-	-	-
Total debt programme cash flows	**(4,266)**	**3,415**	**4,192**	**2,018**	**8,508**	**(173)**	**4,194**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	(2,239)	(24)	3,750	15	(33)	(34)	(35)
Net (repayment)/issue of foreign currency borrowing	1,547	6	(3,511)	(55)	(10)	(2)	(1)
Total other borrowing cash flows	**(692)**	**(18)**	**239**	**(40)**	**(43)**	**(36)**	**(36)**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	5,163	591	(158)	5,784	(3,133)	2,216	(5,301)
Issues of circulating currency	437	198	339	215	221	228	234
Decrease/(increase) in cash	68	5	542	(4)	(3)	(4)	(2)
Total investing cash flows	**5,668**	**794**	**723**	**5,995**	**(2,915)**	**2,440**	**(5,069)**
Residual cash deficit/(surplus) funding/(investing)	**710**	**4,191**	**5,154**	**7,973**	**5,550**	**2,231**	**(911)**

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

Notes to the Forecast Financial Statements

NOTE 17: Impact of Adoption of New Accounting Standards

PBE IPSAS 35: *Consolidated Financial Statements*
From 1 July 2019, the New Zealand Superannuation Fund is consolidated as an investment entity rather than on the previous line-by-line basis in accordance with PBE IPSAS 35: *Consolidated Financial Statements*. Consequently, any controlling interests the New Zealand Superannuation Fund has invested in are reported on a fair value basis and shown as a single line item '*Investments in controlled enterprises*' in the statement of financial position, rather than consolidated on the previous line-by-line basis.

In addition to reclassification impact, the measurement of a single investment on a fair value basis may differ from the sum of individual assets and liabilities of that same controlled interest.

PBE IPSAS 39: *Employee Benefits*
The Crown adopted PBE IPSAS 39: *Employee Benefits* from 1 July 2019 (updating the existing standard PBE IPSAS 25: *Employee Benefits*). The new standard impacts the way the Government Superannuation Fund (GSF) defined benefit pension scheme is presented in the financial statements, with actuarial gains/losses now being presented in the Statement of Comprehensive Revenue and Expenses (and accumulated in a new revaluation reserve) rather than presented as a gain or loss in the Statement of Financial Performance. The new standard also means the investment return on the scheme's assets above the risk-free rate of return is now classified as actuarial gains and losses (affecting OBEGAL).

The new standard does not affect the way the GSF defined benefit liability is calculated overall, and therefore it does not affect the Crown's total Net Worth. From 1 July 2018, cumulative GSF actuarial gains and losses will accumulate in the new revaluation reserve 'Defined Benefit Plan revaluation reserve', rather than in Taxpayers' Funds.

In addition to the GSF presentation changes, improved clarity in PBE IPSAS 39 over the scope of employee benefits may mean earlier recognition of expenses related to some responsibilities of the Crown, such as veterans' benefits. Work on quantifying any impact in the financial statements is underway. A specific fiscal risk has been included in the Specific Fiscal Risks chapter regarding this potential impact.

A reconciliation between the key indicators published in the 2019 *Budget Update* and the Financial Statements of Government (FSG) for the year ended 30 June 2019 and the revised comparative numbers published in this document as a result of these two accounting standard changes is included below.

	2020 Previous Budget (per *Budget Update*) $m	**IPSAS 35 Impact $m**	**IPSAS 39 Impact $m**	**2020 Previous Budget (restated) $m**	**Change $m**
Statement of Financial Performance					
Core Crown revenue	96,427	(76)	-	96,351	(76)
Core Crown expenses	93,262	2	139	93,403	141
OBEGAL	1,313	(78)	(139)	1,096	(217)
Operating Balance	4,680	(3)	(139)	4,538	(142)
Statement of Financial Position					
Taxpayers' Funds	39,966	131	733	40,830	864
Defined Benefit Plan revaluation reserve	-	-	(733)	(733)	(733)
Net worth	140,748	(131)	-	140,617	(131)

	2019 Actual (per FSG) $m	**IPSAS 35 Impact $m**	**IPSAS 39 Impact $m**	**2019 Actual (restated) $m**	**Change $m**
Statement of Financial Performance					
Core Crown revenue	93,625	(151)	-	93,474	(151)
Core Crown expenses	87,022	(125)	144	87,041	19
OBEGAL	7,508	(17)	(144)	7,347	(161)
Operating Balance	(2,274)	(48)	2,615	293	2,567
Statement of Financial Position					
Taxpayers' Funds	33,278	122	2,615	36,015	2,737
Defined Benefit Plan revaluation reserve	-	-	(2,615)	(2,615)	(2,615)
Net worth	146,313	(141)	-	146,172	(141)

Statement of Segments

	Core Crown 2019 Actual $m	Crown entities 2019 Actual $m	State-owned Enterprises 2019 Actual $m	Inter-segment eliminations 2019 Actual $m	Total Crown 2019 Actual $m
Statement of Financial Performance for the year ended 30 June 2019					
Revenue					
Taxation revenue	86,468	-	-	(745)	85,723
Other sovereign revenue	1,977	5,588	-	(1,537)	6,028
Revenue from core Crown funding	-	30,602	216	(30,818)	-
Sales of goods and services	1,583	2,224	16,533	(544)	19,796
Interest revenue	1,060	1,016	1,014	(444)	2,646
Other revenue	2,386	3,845	873	(2,155)	4,949
Total revenue (excluding gains)	**93,474**	**43,275**	**18,636**	**(36,243)**	**119,142**
Expenses					
Social assistance and official development assistance	29,119	-	-	(929)	28,190
Personnel expenses	7,794	15,085	3,096	(42)	25,933
Other operating expenses	46,481	23,720	10,940	(33,872)	47,269
Interest expenses	3,646	117	1,045	(555)	4,253
Insurance expenses	1	5,807	5	-	5,813
Total expenses (excluding losses)	**87,041**	**44,729**	**15,086**	**(35,398)**	**111,458**
Minority interest share of operating balance before gains/(losses)	-	-	(355)	18	(337)
Operating balance before gains/(losses)	**6,433**	**(1,454)**	**3,195**	**(827)**	**7,347**
Total gains/(losses)	3,140	(7,892)	139	(2,681)	(7,294)
Net surplus/(deficit) from associates and joint ventures	195	152	29	(136)	240
Operating balance	**9,768**	**(9,194)**	**3,363**	**(3,644)**	**293**
Expenses by functional classification					
Social security and welfare	*28,844*	*6,679*	*-*	*(1,517)*	*34,006*
Health	*18,268*	*16,579*	*-*	*(16,187)*	*18,660*
Education	*14,293*	*11,428*	*-*	*(10,441)*	*15,280*
Transport and communications	*2,889*	*3,210*	*5,401*	*(3,071)*	*8,429*
Other	*19,101*	*6,716*	*8,640*	*(3,627)*	*30,830*
Finance costs	*3,646*	*117*	*1,045*	*(555)*	*4,253*
Total expenses (excluding losses)	***87,041***	***44,729***	***15,086***	***(35,398)***	***111,458***
Statement of Financial Position as at 30 June 2019					
Assets					
Cash and cash equivalents	16,963	2,541	1,189	(445)	20,248
Receivables	16,965	6,548	2,189	(2,398)	23,304
Other financial assets	73,337	48,515	24,246	(25,552)	120,546
Property, plant and equipment	43,684	93,731	40,210	-	177,625
Equity accounted investments	46,602	13,311	290	(45,924)	14,279
Intangible assets and goodwill	1,681	692	1,557	(19)	3,911
Inventory and other assets	2,165	1,103	1,125	(49)	4,344
Total assets	**201,397**	**166,441**	**70,806**	**(74,387)**	**364,257**
Liabilities					
Borrowings	91,510	6,931	32,563	(20,756)	110,248
Other liabilities	38,142	69,507	9,315	(9,127)	107,837
Total liabilities	**129,652**	**76,438**	**41,878**	**(29,883)**	**218,085**
Total assets less total liabilities	**71,745**	**90,003**	**28,928**	**(44,504)**	**146,172**
Net worth					
Taxpayers' funds	47,850	30,272	7,715	(49,822)	36,015
Reserves	23,895	59,731	14,481	5,660	103,767
Net worth attributable to minority interest	-	-	6,732	(342)	6,390
Total net worth	**71,745**	**90,003**	**28,928**	**(44,504)**	**146,172**

Forecast Statement of Segments

	Core Crown 2020 Forecast $m	Crown entities 2020 Forecast $m	State-owned Enterprises 2020 Forecast $m	Inter-segment eliminations 2020 Forecast $m	Total Crown 2020 Forecast $m
Statement of Financial Performance for the year ended 30 June 2020					
Revenue					
Taxation revenue	88,692	-	-	(698)	87,994
Other sovereign revenue	1,983	5,684	-	(1,551)	6,116
Revenue from core Crown funding	-	32,983	353	(33,336)	-
Sales of goods and services	1,782	2,315	16,186	(654)	19,629
Interest revenue	947	924	996	(448)	2,419
Other revenue	2,393	3,740	939	(2,246)	4,826
Total revenue (excluding gains)	**95,797**	**45,646**	**18,474**	**(38,933)**	**120,984**
Expenses					
Social assistance and official development assistance	31,118	-	-	(1,010)	30,108
Personnel expenses	8,181	15,094	3,061	(37)	26,299
Other operating expenses	51,697	26,689	13,532	(36,370)	55,548
Interest expenses	3,234	96	1,004	(541)	3,793
Insurance expenses	2	6,255	6	1	6,264
Forecast for future new spending	744	-	-	-	744
Top-down adjustment	(1,200)	-	-	-	(1,200)
Total expenses (excluding losses)	**93,776**	**48,134**	**17,603**	**(37,957)**	**121,556**
Minority interest share of operating balance before gains/(losses)	-	-	(389)	18	(371)
Operating balance before gains/(losses)	**2,021**	**(2,488)**	**482**	**(958)**	**(943)**
Total gains/(losses)	3,045	(1,113)	2	(675)	1,259
Net surplus/(deficit) from associates and joint ventures	14	93	1	(2)	106
Operating balance	**5,080**	**(3,508)**	**485**	**(1,635)**	**422**
Expenses by functional classification					
Social security and welfare	*31,296*	*7,754*	-	*(1,664)*	*37,386*
Health	*19,366*	*16,898*	-	*(15,659)*	*20,605*
Education	*15,298*	*12,325*	-	*(11,410)*	*16,213*
Transport and communications	*3,537*	*3,790*	*8,453*	*(3,690)*	*12,090*
Other	*21,501*	*7,271*	*8,146*	*(4,993)*	*31,925*
Finance costs	*3,234*	*96*	*1,004*	*(541)*	*3,793*
Forecast for future new spending	*744*	-	-	-	*744*
Top-down adjustment	*(1,200)*	-	-	-	*(1,200)*
Total expenses (excluding losses)	***93,776***	***48,134***	***17,603***	***(37,957)***	***121,556***
Statement of Financial Position as at 30 June 2020					
Assets					
Cash and cash equivalents	17,128	2,110	962	(331)	19,869
Receivables	18,501	6,477	2,139	(1,901)	25,216
Other financial assets	79,136	49,815	26,262	(24,852)	130,361
Property, plant and equipment	44,515	97,875	40,254	-	182,644
Equity accounted investments	50,334	13,484	370	(49,382)	14,806
Intangible assets and goodwill	1,948	643	1,585	(20)	4,156
Inventory and other assets	2,610	1,243	1,128	(46)	4,935
Forecast for new capital spending	802	-	-	-	802
Capital top-down adjustment	(800)	-	-	-	(800)
Total assets	**214,174**	**171,647**	**72,700**	**(76,532)**	**381,989**
Liabilities					
Borrowings	98,464	8,435	34,693	(19,431)	122,161
Other liabilities	39,406	73,832	9,166	(8,362)	114,042
Total liabilities	**137,870**	**82,267**	**43,859**	**(27,793)**	**236,203**
Total assets less total liabilities	**76,304**	**89,380**	**28,841**	**(48,739)**	**145,786**
Net worth					
Taxpayers' funds	53,014	29,804	7,891	(54,031)	36,678
Reserves	23,290	59,576	14,465	5,611	102,942
Net worth attributable to minority interest	-	-	6,485	(319)	6,166
Total net worth	**76,304**	**89,380**	**28,841**	**(48,739)**	**145,786**

Forecast Statement of Segments (continued)

	Core Crown 2021 Forecast $m	Crown entities 2021 Forecast $m	State-owned Enterprises 2021 Forecast $m	Inter-segment eliminations 2021 Forecast $m	Total Crown 2021 Forecast $m
Statement of Financial Performance for the year ended 30 June 2021					
Revenue					
Taxation revenue	94,278	-	-	(735)	93,543
Other sovereign revenue	1,988	5,954	-	(1,556)	6,386
Revenue from core Crown funding	-	33,950	168	(34,118)	-
Sales of goods and services	2,078	2,319	15,982	(602)	19,777
Interest revenue	869	903	1,076	(451)	2,397
Other revenue	2,379	4,080	991	(2,302)	5,148
Total revenue (excluding gains)	**101,592**	**47,206**	**18,217**	**(39,764)**	**127,251**
Expenses					
Social assistance and official development assistance	32,795	-	-	(1,066)	31,729
Personnel expenses	8,269	15,220	3,116	(39)	26,566
Other operating expenses	52,415	27,722	13,335	(37,224)	56,248
Interest expenses	2,969	220	957	(537)	3,609
Insurance expenses	2	6,321	7	(1)	6,329
Forecast for future new spending	3,240	-	-	-	3,240
Top-down adjustment	(925)	-	-	-	(925)
Total expenses (excluding losses)	**98,765**	**49,483**	**17,415**	**(38,867)**	**126,796**
Minority interest share of operating balance before gains/(losses)	-	-	(418)	20	(398)
Operating balance before gains/(losses)	**2,827**	**(2,277)**	**384**	**(877)**	**57**
Total gains/(losses)	3,286	152	48	(117)	3,369
Net surplus/(deficit) from associates and joint ventures	14	123	1	(3)	135
Operating balance	**6,127**	**(2,002)**	**433**	**(997)**	**3,561**
Expenses by functional classification					
Social security and welfare	*33,031*	*7,558*	-	*(1,695)*	*38,894*
Health	*19,243*	*17,201*	-	*(15,617)*	*20,827*
Education	*15,890*	*12,891*	-	*(11,955)*	*16,826*
Transport and communications	*3,856*	*4,216*	*8,656*	*(4,141)*	*12,587*
Other	*21,461*	*7,397*	*7,802*	*(4,922)*	*31,738*
Finance costs	*2,969*	*220*	*957*	*(537)*	*3,609*
Forecast for future new spending	*3,240*	-	-	-	*3,240*
Top-down adjustment	*(925)*	-	-	-	*(925)*
Total expenses (excluding losses)	***98,765***	***49,483***	***17,415***	***(38,867)***	***126,796***
Statement of Financial Position as at 30 June 2021					
Assets					
Cash and cash equivalents	16,439	2,433	1,027	(327)	19,572
Receivables	19,406	6,899	2,161	(1,784)	26,682
Other financial assets	79,035	49,977	28,449	(25,032)	132,429
Property, plant and equipment	45,954	97,704	40,576	-	184,234
Equity accounted investments	52,861	13,566	389	(51,394)	15,422
Intangible assets and goodwill	2,083	650	1,627	(20)	4,340
Inventory and other assets	2,383	1,208	1,148	(46)	4,693
Forecast for new capital spending	4,448	-	-	-	4,448
Capital top-down adjustment	(1,400)	-	-	-	(1,400)
Total assets	**221,209**	**172,437**	**75,377**	**(78,603)**	**390,420**
Liabilities					
Borrowings	100,341	8,862	37,290	(19,576)	126,917
Other liabilities	38,248	74,692	9,264	(8,121)	114,083
Total liabilities	**138,589**	**83,554**	**46,554**	**(27,697)**	**241,000**
Total assets less total liabilities	**82,620**	**88,883**	**28,823**	**(50,906)**	**149,420**
Net worth					
Taxpayers' funds	59,141	29,421	8,024	(56,209)	40,377
Reserves	23,479	59,462	14,470	5,614	103,025
Net worth attributable to minority interest	-	-	6,329	(311)	6,018
Total net worth	**82,620**	**88,883**	**28,823**	**(50,906)**	**149,420**

Forecast Statement of Segments (continued)

	Core Crown 2022 Forecast $m	Crown entities 2022 Forecast $m	State-owned Enterprises 2022 Forecast $m	Inter-segment eliminations 2022 Forecast $m	Total Crown 2022 Forecast $m
Statement of Financial Performance for the year ended 30 June 2022					
Revenue					
Taxation revenue	99,216	-	-	(783)	98,433
Other sovereign revenue	2,035	6,451	-	(1,557)	6,929
Revenue from core Crown funding	-	33,701	149	(33,850)	-
Sales of goods and services	1,974	2,386	16,256	(603)	20,013
Interest revenue	836	908	1,206	(453)	2,497
Other revenue	2,465	4,066	1,000	(2,357)	5,174
Total revenue (excluding gains)	**106,526**	**47,512**	**18,611**	**(39,603)**	**133,046**
Expenses					
Social assistance and official development assistance	34,394	-	-	(1,118)	33,276
Personnel expenses	8,137	15,512	3,224	(38)	26,835
Other operating expenses	51,263	27,217	13,451	(36,999)	54,932
Interest expenses	2,765	305	1,044	(551)	3,563
Insurance expenses	2	6,805	7	-	6,814
Forecast for future new spending	6,126	-	-	-	6,126
Top-down adjustment	(675)	-	-	-	(675)
Total expenses (excluding losses)	**102,012**	**49,839**	**17,726**	**(38,706)**	**130,871**
Minority interest share of operating balance before gains/(losses)	-	-	(444)	21	(423)
Operating balance before gains/(losses)	**4,514**	**(2,327)**	**441**	**(876)**	**1,752**
Total gains/(losses)	3,776	164	41	(147)	3,834
Net surplus/(deficit) from associates and joint ventures	16	154	3	(4)	169
Operating balance	**8,306**	**(2,009)**	**485**	**(1,027)**	**5,755**
Expenses by functional classification					
Social security and welfare	*34,437*	*8,014*	-	*(1,767)*	*40,684*
Health	*19,338*	*17,438*	-	*(15,671)*	*21,105*
Education	*16,098*	*12,971*	-	*(12,027)*	*17,042*
Transport and communications	*3,634*	*3,923*	*8,896*	*(3,895)*	*12,558*
Other	*20,289*	*7,188*	*7,786*	*(4,795)*	*30,468*
Finance costs	*2,765*	*305*	*1,044*	*(551)*	*3,563*
Forecast for future new spending	*6,126*	-	-	-	*6,126*
Top-down adjustment	*(675)*	-	-	-	*(675)*
Total expenses (excluding losses)	***102,012***	***49,839***	***17,726***	***(38,706)***	***130,871***
Statement of Financial Position as at 30 June 2022					
Assets					
Cash and cash equivalents	16,182	2,458	1,080	(328)	19,392
Receivables	20,047	7,048	2,211	(1,799)	27,507
Other financial assets	87,927	51,040	30,652	(25,475)	144,144
Property, plant and equipment	46,873	99,697	40,287	-	186,857
Equity accounted investments	55,034	13,727	411	(53,057)	16,115
Intangible assets and goodwill	2,032	657	1,645	(19)	4,315
Inventory and other assets	3,102	1,220	1,186	(47)	5,461
Forecast for new capital spending	8,020	-	-	-	8,020
Capital top-down adjustment	(1,800)	-	-	-	(1,800)
Total assets	**237,417**	**175,847**	**77,472**	**(80,725)**	**410,011**
Liabilities					
Borrowings	108,570	9,300	39,625	(19,852)	137,643
Other liabilities	37,726	78,012	9,363	(7,997)	117,104
Total liabilities	**146,296**	**87,312**	**48,988**	**(27,849)**	**254,747**
Total assets less total liabilities	**91,121**	**88,535**	**28,484**	**(52,876)**	**155,264**
Net worth					
Taxpayers' funds	67,447	29,180	7,805	(58,190)	46,242
Reserves	23,674	59,355	14,499	5,617	103,145
Net worth attributable to minority interest	-	-	6,180	(303)	5,877
Total net worth	**91,121**	**88,535**	**28,484**	**(52,876)**	**155,264**

Forecast Statement of Segments (continued)

	Core Crown 2023 Forecast $m	Crown entities 2023 Forecast $m	State-owned Enterprises 2023 Forecast $m	Inter-segment eliminations 2023 Forecast $m	Total Crown 2023 Forecast $m
Statement of Financial Performance for the year ended 30 June 2023					
Revenue					
Taxation revenue	104,824	-	-	(792)	104,032
Other sovereign revenue	2,051	6,762	-	(1,555)	7,258
Revenue from core Crown funding	-	33,521	113	(33,634)	-
Sales of goods and services	2,469	2,395	16,579	(611)	20,832
Interest revenue	891	923	1,309	(459)	2,664
Other revenue	2,500	4,066	1,042	(2,298)	5,310
Total revenue (excluding gains)	**112,735**	**47,667**	**19,043**	**(39,349)**	**140,096**
Expenses					
Social assistance and official development assistance	35,904	-	-	(1,118)	34,786
Personnel expenses	8,166	15,953	3,313	(39)	27,393
Other operating expenses	51,362	26,743	13,650	(36,844)	54,911
Interest expenses	2,852	364	1,063	(568)	3,711
Insurance expenses	2	6,793	7	1	6,803
Forecast for future new spending	8,550	-	-	-	8,550
Top-down adjustment	(575)	-	-	-	(575)
Total expenses (excluding losses)	**106,261**	**49,853**	**18,033**	**(38,568)**	**135,579**
Minority interest share of operating balance before gains/(losses)	-	-	(479)	23	(456)
Operating balance before gains/(losses)	**6,474**	**(2,186)**	**531**	**(758)**	**4,061**
Total gains/(losses)	4,185	211	20	(172)	4,244
Net surplus/(deficit) from associates and joint ventures	18	172	8	(7)	191
Operating balance	**10,677**	**(1,803)**	**559**	**(937)**	**8,496**
Expenses by functional classification					
Social security and welfare	*35,867*	*8,052*	-	*(1,786)*	*42,133*
Health	*19,365*	*17,726*	-	*(15,683)*	*21,408*
Education	*16,299*	*13,049*	-	*(12,106)*	*17,242*
Transport and communications	*3,445*	*3,650*	*9,200*	*(3,738)*	*12,557*
Other	*20,458*	*7,012*	*7,770*	*(4,687)*	*30,553*
Finance costs	*2,852*	*364*	*1,063*	*(568)*	*3,711*
Forecast for future new spending	*8,550*	-	-	-	*8,550*
Top-down adjustment	*(575)*	-	-	-	*(575)*
Total expenses (excluding losses)	***106,261***	***49,853***	***18,033***	***(38,568)***	***135,579***
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	15,995	2,399	803	(328)	18,869
Receivables	20,825	7,645	2,281	(1,804)	28,947
Other financial assets	92,082	52,103	33,131	(25,982)	151,334
Property, plant and equipment	46,758	101,081	39,906	-	187,745
Equity accounted investments	56,948	13,903	303	(54,561)	16,593
Intangible assets and goodwill	1,976	649	1,665	(20)	4,270
Inventory and other assets	2,794	1,243	1,220	(47)	5,210
Forecast for new capital spending	11,915	-	-	-	11,915
Capital top-down adjustment	(2,100)	-	-	-	(2,100)
Total assets	**247,193**	**179,023**	**79,309**	**(82,742)**	**422,783**
Liabilities					
Borrowings	107,867	9,289	41,766	(20,162)	138,760
Other liabilities	37,334	81,469	9,306	(7,903)	120,206
Total liabilities	**145,201**	**90,758**	**51,072**	**(28,065)**	**258,966**
Total assets less total liabilities	**101,992**	**88,265**	**28,237**	**(54,677)**	**163,817**
Net worth					
Taxpayers' funds	78,124	29,017	7,690	(59,987)	54,844
Reserves	23,868	59,248	14,491	5,606	103,213
Net worth attributable to minority interest	-	-	6,056	(296)	5,760
Total net worth	**101,992**	**88,265**	**28,237**	**(54,677)**	**163,817**

Forecast Statement of Segments (continued)

	Core Crown 2024 Forecast $m	Crown entities 2024 Forecast $m	State-owned Enterprises 2024 Forecast $m	Inter-segment eliminations 2024 Forecast $m	Total Crown 2024 Forecast $m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	110,499	-	-	(859)	109,640
Other sovereign revenue	2,189	7,382	-	(1,555)	8,016
Revenue from core Crown funding	-	33,631	115	(33,746)	-
Sales of goods and services	1,515	2,385	16,959	(610)	20,249
Interest revenue	937	947	1,425	(471)	2,838
Other revenue	2,519	4,082	1,082	(2,214)	5,469
Total revenue (excluding gains)	**117,659**	**48,427**	**19,581**	**(39,455)**	**146,212**
Expenses					
Social assistance and official development assistance	37,418	-	-	(1,120)	36,298
Personnel expenses	8,205	16,050	3,410	(40)	27,625
Other operating expenses	50,573	26,846	13,884	(36,911)	54,392
Interest expenses	2,709	307	1,122	(516)	3,622
Insurance expenses	2	7,515	8	-	7,525
Forecast for future new spending	10,901	-	-	-	10,901
Top-down adjustment	(575)	-	-	-	(575)
Total expenses (excluding losses)	**109,233**	**50,718**	**18,424**	**(38,587)**	**139,788**
Minority interest share of operating balance before gains/(losses)	-	-	(525)	25	(500)
Operating balance before gains/(losses)	**8,426**	**(2,291)**	**632**	**(843)**	**5,924**
Total gains/(losses)	4,651	209	19	(135)	4,744
Net surplus/(deficit) from associates and joint ventures	17	184	15	(8)	208
Operating balance	**13,094**	**(1,898)**	**666**	**(986)**	**10,876**
Expenses by functional classification					
Social security and welfare	*37,369*	*8,774*	-	*(1,788)*	*44,355*
Health	*19,366*	*17,802*	-	*(15,683)*	*21,485*
Education	*16,484*	*13,122*	-	*(12,168)*	*17,438*
Transport and communications	*3,445*	*3,636*	*9,415*	*(3,779)*	*12,717*
Other	*19,534*	*7,077*	*7,887*	*(4,653)*	*29,845*
Finance costs	*2,709*	*307*	*1,122*	*(516)*	*3,622*
Forecast for future new spending	*10,901*	-	-	-	*10,901*
Top-down adjustment	*(575)*	-	-	-	*(575)*
Total expenses (excluding losses)	***109,233***	***50,718***	***18,424***	***(38,587)***	***139,788***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	15,753	2,475	926	(331)	18,823
Receivables	21,718	8,215	2,418	(1,803)	30,548
Other financial assets	104,215	53,420	35,954	(26,647)	166,942
Property, plant and equipment	46,458	102,155	39,895	-	188,508
Equity accounted investments	58,043	14,088	178	(55,564)	16,745
Intangible assets and goodwill	1,903	650	1,673	(20)	4,206
Inventory and other assets	2,776	1,270	1,249	(48)	5,247
Forecast for new capital spending	15,450	-	-	-	15,450
Capital top-down adjustment	(2,350)	-	-	-	(2,350)
Total assets	**263,966**	**182,273**	**82,293**	**(84,413)**	**444,119**
Liabilities					
Borrowings	111,698	9,552	44,657	(20,583)	145,324
Other liabilities	36,996	85,328	9,420	(7,828)	123,916
Total liabilities	**148,694**	**94,880**	**54,077**	**(28,411)**	**269,240**
Total assets less total liabilities	**115,272**	**87,393**	**28,216**	**(56,002)**	**174,879**
Net worth					
Taxpayers' funds	91,218	28,251	7,692	(61,330)	65,831
Reserves	24,054	59,142	14,516	5,613	103,325
Net worth attributable to minority interest	-	-	6,008	(285)	5,723
Total net worth	**115,272**	**87,393**	**28,216**	**(56,002)**	**174,879**

6

Core Crown Expense Tables

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Social security and welfare	23,523	24,081	25,294	25,999	28,844	31,296	33,031	34,437	35,867	37,369
Health	15,058	15,626	16,223	17,159	18,268	19,366	19,243	19,338	19,365	19,366
Education	12,879	13,158	13,281	13,629	14,293	15,298	15,890	16,098	16,299	16,484
Core government services[1]	4,134	4,102	3,957	4,670	5,189	5,570	5,217	5,026	4,743	4,702
Law and order	3,515	3,648	3,882	4,184	4,625	5,048	5,015	4,993	5,038	5,026
Transport and communications	2,291	2,178	2,176	2,559	2,889	3,537	3,856	3,634	3,445	3,445
Economic and industrial services	2,228	2,107	2,544	2,732	3,006	3,170	3,919	3,101	3,057	3,144
Defence	1,961	2,026	2,146	2,251	2,395	2,616	2,584	2,561	2,528	2,608
Heritage, culture and recreation	778	787	850	850	918	1,042	939	926	908	908
Primary services	667	749	644	807	960	1,110	877	708	728	720
Housing and community development	320	558	539	552	727	1,048	1,344	1,312	1,778	811
Environmental protection	723	587	871	1,238	1,119	1,372	1,268	1,266	1,293	1,235
GSF pension expenses[1]	358	271	217	150	66	77	77	73	67	62
Other	145	461	181	299	96	448	221	323	318	318
Finance costs[1]	3,783	3,590	3,534	3,497	3,646	3,234	2,969	2,765	2,852	2,709
Forecast new operating spending	..	..	..	..	..	744	3,240	6,126	8,550	10,901
Top-down expense adjustment	..	..	..	..	..	(1,200)	(925)	(675)	(575)	(575)
Core Crown expenses	**72,363**	**73,929**	**76,339**	**80,576**	**87,041**	**93,776**	**98,765**	**102,012**	**106,261**	**109,233**

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

1. 'The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

Table 6.1 – Social security and welfare expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Welfare benefits (see below)	21,680	22,441	23,339	24,005	26,649	28,631	30,326	31,781	33,202	34,658
Social rehabilitation and compensation	142	151	220	241	249	260	279	279	279	279
Departmental expenses	1,319	1,339	1,417	1,593	1,784	2,131	2,161	2,095	2,088	2,126
Other non-departmental expenses[1]	382	150	318	160	162	274	265	282	298	306
Social security and welfare expenses	**23,523**	**24,081**	**25,294**	**25,999**	**28,844**	**31,296**	**33,031**	**34,437**	**35,867**	**37,369**

1. From 2016 some non-departmental expenses spending has been reclassified to community services in housing and community development expenses.

Source: The Treasury

Table 6.2 – Welfare benefit expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
New Zealand Superannuation	11,591	12,267	13,043	13,699	14,562	15,520	16,496	17,504	18,581	19,798
Jobseeker Support and Emergency Benefit	1,684	1,671	1,697	1,697	1,854	2,090	2,221	2,252	2,275	2,328
Supported living payment	1,515	1,523	1,533	1,541	1,556	1,607	1,668	1,728	1,785	1,845
Sole parent support	1,186	1,153	1,159	1,117	1,115	1,185	1,271	1,316	1,353	1,396
Family Tax Credit	1,854	1,793	1,723	1,639	2,131	2,102	2,074	2,081	2,173	2,164
Other working for families tax credits	549	559	596	556	635	621	618	619	628	624
Accommodation Assistance	1,129	1,164	1,127	1,204	1,640	1,841	1,938	1,980	2,012	2,049
Income-Related Rents	703	755	815	890	974	1,093	1,200	1,308	1,316	1,316
Disability Assistance	377	377	377	379	386	395	396	396	397	400
Winter energy	..	..	..	..	441	464	480	489	497	505
Best start	..	..	..	..	48	231	373	451	474	477
Orphan's/Unsupported Child's Benefit[1]	132	143	152	165	225	248	266	286	305	324
Hardship Assistance[1]	277	290	353	355	300	381	420	458	484	503
Paid Parental Leave	180	217	274	288	329	417	480	500	515	530
Childcare Assistance	183	182	199	196	183	177	179	182	186	189
Veterans Support Entitlement	115	107	98	93	90	84	80	77	73	69
Veteran's Pension	178	186	175	163	153	145	135	125	117	110
Other benefits[1]	27	54	18	23	27	30	31	29	31	31
Benefit expenses	**21,187**	**21,680**	**22,441**	**23,339**	**24,005**	**26,649**	**28,631**	**30,326**	**31,781**	**33,202**

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
New Zealand Superannuation	665	691	717	741	767	795	822	848	874	901
Jobseeker Support and Emergency Benefit	133	130	131	129	139	152	156	154	150	148
Supported living payment	98	98	97	96	95	96	96	97	97	97
Sole parent support	72	67	64	60	59	60	62	62	62	61
Accommodation Supplement	292	292	290	285	295	310	317	319	318	319

1. Actual numbers have been reclassified so may differ from previous published Economic and Fiscal Update numbers.

Source: Ministry of Social Development

Table 6.3 – Health expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental outputs	190	188	192	200	210	230	210	211	213	213
Health services purchasing (see below)	13,937	14,361	14,855	15,449	16,311	17,690	17,615	17,692	17,691	17,691
Other non-departmental outputs	312	356	365	816	937	562	546	550	543	543
Health payments to ACC	587	694	697	682	782	823	836	848	881	881
Other expenses	32	27	114	12	28	61	36	37	37	38
Health expenses	**15,058**	**15,626**	**16,223**	**17,159**	**18,268**	**19,366**	**19,243**	**19,338**	**19,365**	**19,366**

Source: The Treasury

Table 6.4 – Health services purchasing

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Payments to District Health Boards	12,414	12,822	13,281	13,829	14,563	15,751	15,672	15,712	15,713	15,713
National disability support services	1,126	1,167	1,188	1,256	1,358	1,495	1,514	1,550	1,550	1,550
Public health services purchasing	397	372	386	364	390	444	429	430	428	428
Health services purchasing	**13,937**	**14,361**	**14,855**	**15,449**	**16,311**	**17,690**	**17,615**	**17,692**	**17,691**	**17,691**

Source: The Treasury

Table 6.5 – Education expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Early childhood education	1,644	1,735	1,805	1,844	1,896	2,068	2,143	2,247	2,343	2,436
Primary and secondary schools (see below)	5,773	6,044	6,116	6,334	6,612	7,114	7,664	7,738	7,815	7,885
Tertiary funding (see below)	4,272	4,235	4,051	4,112	4,112	4,536	4,598	4,632	4,658	4,691
Departmental expenses	1,129	1,112	1,190	1,281	1,416	1,501	1,436	1,444	1,446	1,442
Other education expenses	61	32	119	58	257	79	49	37	37	30
Education expenses	**12,879**	**13,158**	**13,281**	**13,629**	**14,293**	**15,298**	**15,890**	**16,098**	**16,299**	**16,484**

Source: The Treasury

Number of places provided[1]	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Early childhood education	195,818	205,094	211,480	217,136	223,220	232,644	243,619	254,540	265,216	275,559

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)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Primary	2,920	3,033	3,091	3,216	3,346	3,571	3,843	3,868	3,884	3,914
Secondary	2,229	2,329	2,336	2,407	2,501	2,692	2,919	2,963	3,021	3,067
School transport	186	185	186	195	206	216	200	200	200	200
Special needs support	336	396	410	429	447	526	590	599	606	609
Professional development	98	96	88	82	104	99	94	89	89	89
Schooling improvement	4	5	5	5	8	10	18	19	15	6
Primary and secondary education expenses	**5,773**	**6,044**	**6,116**	**6,334**	**6,612**	**7,114**	**7,664**	**7,738**	**7,815**	**7,885**

Source: The Treasury

Number of places provided[1]	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Primary	488,649	499,876	509,634	518,333	525,083	527,105	525,387	522,451	519,433	520,248
Secondary	275,172	274,073	275,841	274,975	277,092	282,705	290,624	297,097	304,400	309,757

1. These are snapshots as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude special schools, health camps, hospital schools and home schooling. They are the number of full-time equivalent students enrolled in New Zealand schools, including State, State-integrated, Private-Fully Registered, Private-Provisionally Registered and other Vote Education.
Note that historical figures have been revised for consistency with the current projection methodology, so may differ from figures published in previous Economic and Fiscal Updates.

Source: Ministry of Education

Table 6.7 – Tertiary funding

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Tuition	2,406	2,463	2,466	2,552	2,571	2,829	2,891	2,925	2,932	2,933
Other tertiary funding	484	487	520	561	606	631	619	591	578	575
Student allowances	511	486	465	511	583	580	593	606	622	639
Student loans	871	799	600	488	352	496	495	510	526	544
Tertiary education expenses	**4,272**	**4,235**	**4,051**	**4,112**	**4,112**	**4,536**	**4,598**	**4,632**	**4,658**	**4,691**

Source: The Treasury

Number of places provided[1]	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Actual delivered and estimated funded places	233,132	231,413	223,645	220,717	223,900	222,700	226,200	226,200	226,200	226,200

1. Tertiary places are the number of equivalent full time students (EFTS) in: student achievement component; adult and community education; and youth guarantee 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: Tertiary Education Commission

Table 6.8 – Core government services expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Official development assistance	513	534	520	643	708	784	727	819	858	860
Indemnity and guarantee expenses	38	30	22	18	16	15	16	17	17	17
Departmental expenses[1]	1,740	1,845	1,835	2,119	2,199	2,386	2,362	2,182	2,051	2,041
Non-departmental expenses	481	379	511	683	961	661	839	748	742	737
Tax receivable write-down and impairments	873	680	493	616	829	680	680	680	680	680
Science expenses	121	118	91	94	103	116	115	116	119	117
Other expenses[2]	368	516	485	497	373	928	478	464	276	250
Core government service expenses	**4,134**	**4,102**	**3,957**	**4,670**	**5,189**	**5,570**	**5,217**	**5,026**	**4,743**	**4,702**

1. Departmental expenses includes costs relating to the Inland Revenue Business Transformation project.
2. 'The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

Table 6.9 – Law and order expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Police	1,456	1,498	1,539	1,629	1,760	1,947	2,016	1,991	1,993	1,985
Ministry of Justice	451	468	479	502	542	598	584	582	584	583
Department of Corrections	1,024	1,068	1,145	1,301	1,417	1,573	1,534	1,515	1,558	1,557
NZ Customs Service	161	153	171	174	187	205	208	214	218	218
Other departments	100	83	121	132	111	185	161	173	166	165
Departmental expenses	**3,192**	**3,270**	**3,455**	**3,738**	**4,017**	**4,508**	**4,503**	**4,475**	**4,519**	**4,508**
Non-departmental outputs	320	359	397	445	457	527	500	505	506	506
Other expenses	3	19	30	1	151	13	12	13	13	12
Law and order expenses	**3,515**	**3,648**	**3,882**	**4,184**	**4,625**	**5,048**	**5,015**	**4,993**	**5,038**	**5,026**

Source: The Treasury

Table 6.10 – Transport and communication expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
New Zealand Transport Agency	1,992	1,982	1,888	2,280	2,601	3,012	3,562	3,444	3,265	3,265
Departmental outputs	43	45	52	55	60	77	66	64	63	63
Other non-departmental expenses	114	106	168	177	158	135	96	86	78	78
Rail funding	93	3	3	3	3	3	3	3	3	3
Other expenses	49	42	65	44	67	310	129	37	36	36
Transport and communication expenses	**2,291**	**2,178**	**2,176**	**2,559**	**2,889**	**3,537**	**3,856**	**3,634**	**3,445**	**3,445**

Source: The Treasury

Table 6.11 – Economic and industrial services expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental outputs	391	389	465	447	499	535	533	495	494	495
Employment initiatives	75	3	3	4	10	9	4	4	4	4
Non-departmental outputs[1,3]	742	798	1,085	1,155	1,328	1,279	2,281	1,456	1,378	1,428
KiwiSaver (includes HomeStart grant)[2]	888	763	743	897	951	945	947	990	1,025	1,059
Other expenses	132	154	248	229	218	402	154	156	156	158
Economic and industrial services expenses	**2,228**	**2,107**	**2,544**	**2,732**	**3,006**	**3,170**	**3,919**	**3,101**	**3,057**	**3,144**

1. From 2017 onwards, spending on new investment and research fund initiatives is included in non-departmental outputs, this has been reclassified from core government services.
2. From 2018 onwards, spending includes KiwiSaver HomeStart grant initiative.
3. From 2019 onwards, non-departmental outputs includes Provincial Growth Fund expenses.

Source: The Treasury

Table 6.12 – Defence expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
NZDF core expenses	1,879	1,986	2,084	2,172	2,286	2,450	2,457	2,439	2,407	2,490
Other expenses	82	40	62	79	109	166	127	122	121	118
Defence expenses	**1,961**	**2,026**	**2,146**	**2,251**	**2,395**	**2,616**	**2,584**	**2,561**	**2,528**	**2,608**

Source: The Treasury

Table 6.13 – Heritage, culture and recreation expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental outputs	280	274	282	302	305	355	325	317	296	296
Non-departmental outputs	468	477	512	503	538	575	581	579	583	583
Other expenses	30	36	56	45	75	112	33	30	29	29
Heritage, culture and recreation expenses	**778**	**787**	**850**	**850**	**918**	**1,042**	**939**	**926**	**908**	**908**

Source: The Treasury

Table 6.14 – Primary services expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Departmental expenses[2]	384	424	458	549	677	713	587	572	567	566
Non-departmental outputs	114	100	92	188	110	121	115	83	65	64
Biological research[1]	91	95	..	..	..	..	..	..	..	..
Other expenses[2,3]	78	130	94	70	173	276	175	53	96	90
Primary services expenses	**667**	**749**	**644**	**807**	**960**	**1,110**	**877**	**708**	**728**	**720**

1. From 2017 onwards, biological research has been reclassified from primary services to non-departmental expenses within core government services.
2. 2019 and 2020 include costs associated with Mycoplasma bovis.
3. From 2019 onwards this includes funding for forestry grants and partnership programmes.

Source: The Treasury

Table 6.15 – Housing and community development expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Housing subsidies	5	5	5	5	4	4	4	4	4	4
Community Services[1]	..	189	189	179	183	230	243	245	246	246
Departmental outputs	113	171	187	150	195	211	178	177	177	165
Other non-departmental expenses[2]	117	114	127	193	283	496	889	843	1,307	353
Warm up New Zealand	37	22	..	..	..	..	..	..	..	..
Other expenses	48	57	31	25	62	107	30	43	44	43
Housing and community development expenses	**320**	**558**	**539**	**552**	**727**	**1,048**	**1,344**	**1,312**	**1,778**	**811**

1. From 2016 onwards, community services have been reclassified from non-departmental expenses in social security and welfare expenses and employment initiatives in economic expenses.
2. From 2019 onwards, KiwiBuild and transitional housing costs are included in non-departmental expenses.

Source: The Treasury

Table 6.16 – Environmental protection expenses

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Emissions Trading Scheme	133	163	295	720	543	584	580	572	600	545
Departmental outputs	360	383	404	412	460	578	559	564	562	562
Non-departmental outputs	41	1	64	72	82	116	43	43	46	46
Other expenses	189	40	108	34	34	94	86	87	85	82
Environmental protection expenses	**723**	**587**	**871**	**1,238**	**1,119**	**1,372**	**1,268**	**1,266**	**1,293**	**1,235**

Source: The Treasury

Table 6.17 – Finance costs

($millions)	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Interest on financial liabilities	3,745	3,553	3,505	3,453	3,398	3,019	2,814	2,623	2,708	2,554
Interest unwind on provisions[1]	38	37	29	43	248	215	155	142	144	155
Finance costs expenses	**3,783**	**3,590**	**3,534**	**3,496**	**3,646**	**3,234**	**2,969**	**2,765**	**2,852**	**2,709**

1. 'The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

An accounting basis where revenue is recognised when earned and expenses when the obligations they relate to are incurred. This contrasts to cash accounting, where income is recognised when the cash is received and expenses when cash to settle an obligation is paid out.

Appropriations

Appropriations are legal authorities granted by Parliament to the Crown or an Office of Parliament to use public resources. Most appropriations are set out in Appropriation Acts.

Baselines

The level of funding approved for any given area of spending (eg, Vote Education).

Commercial portfolio

Consists of assets and liabilities held by companies with commercial objectives, predominantly State-owned Enterprises.

Consumers Price Index (CPI)

Statistics New Zealand's official index to measure the rate of change in prices of goods and services purchased by households. Core or underlying inflation measures exclude or give little weight to extreme or irregular price movements.

Contingent assets

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

Contingent liabilities

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

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 99 to 102).

Core Crown expenses

The day-to-day spending (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not build or purchase physical assets by the core Crown. This is an accrual measure of expenses and includes non-cash items such as depreciation on physical assets.

Core Crown revenue

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

Corporate tax

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

Current account (Balance of Payments)

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

Cyclically-adjusted balance (CAB) or structural balance

An estimate of the fiscal balance (operating balance before gains and losses) adjusted for fluctuations of actual GDP around trend GDP. The 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 composition.

Domestic bond programme

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

Excise duties

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

Financial assets

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

Financial liabilities

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

Financial portfolio

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

Fiscal drag

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

Fiscal impulse

For a given year, the fiscal impulse estimates how much discretionary changes in the fiscal position add to, or subtract from, aggregate demand in the economy (expressed as a percent of GDP). The Treasury's fiscal impulse measure is equal to the change in the cash fiscal balance between the current and previous year (after making adjustments for the economic cycle and some other items that do not contribute to domestic demand).

To isolate discretionary changes, the fiscal impulse is calculated on a cyclically-adjusted basis and excludes net interest payments. To isolate expenditure that has a direct impact on aggregate demand pressures, capital expenditure on defence, KiwiSaver subsidies, Deposit Guarantee Scheme payments and purchases and sales of investments are excluded.

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 (Multi-year capital envelope)

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

Forecast new operating spending (Operating allowance)

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

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, 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 concepts used to prepare and present financial statements. GAAP is an independent set of rules and frameworks that govern the recognition, measurement and disclosure of financial elements, such as assets, liabilities, revenues and expenses.

Government Finance Statistics (GFS)

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

Gross debt

GSID (refer below) excluding settlement cash and bank bills.

Gross domestic product (GDP)

A measure of the value-added of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured on either an expenditure or production basis and in either real or nominal terms. (See following definitions.)

Gross domestic product (expenditure)

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

Gross domestic product (nominal)

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

Gross domestic product (production)

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

Gross domestic product (real)

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

Gross national expenditure (GNE)

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

Gross sovereign-issued debt (GSID)

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

Insurance liabilities

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

Inter-segment eliminations

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

Labour force participation rate

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

Labour productivity

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

Line-by-line consolidation

A term used to refer to the general approach to the presentation of the Financial Statements of the Government. It means that the individual line items for revenues, expenses, assets and liabilities in the Financial Statements of the Government include all departments, Offices of Parliament, the Reserve Bank, 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 interest refers to shareholders of Government reporting entities outside the Crown. Current examples include those who hold shares in the mixed ownership companies.

Monetary conditions

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

Monetary policy

The policies that the Reserve Bank uses to regulate the supply of money in New Zealand. 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 and to support maximum sustainable employment.

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.

Multi-factor productivity

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

National saving

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

Net core Crown cash flow from operations

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

Net core Crown debt

Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country. It represents 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)

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

Net worth

Total assets less total liabilities of all Government reporting entities. 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 excluding minority interest share. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

Output gap

The difference between actual and potential GDP. (See Potential output.)

Outputs

Outputs are the goods and services commissioned by Ministers from public, non-governmental and private sector producers. Outputs may include the supply of policy advice, enforcement of regulations (such as speed limits in transport), provision of a range of services (in health, education, etc), negotiation and management of contracts and administration of benefits.

Potential output

The level of output an economy can sustain without an acceleration of inflation.

Productivity

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

Projections

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

Residual cash

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

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

Settlement cash

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

Social portfolio

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

Specific fiscal risks

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

System of National Accounts (SNA)

A set of macroeconomic accounts for government reporting, developed by the international community, to facilitate international comparisons of national economic statistics. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Tax revenue

The accrual, rather than the cash (“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 Indices. The Treasury forecasts the terms of trade on an SNA basis, using implicit export and import price indices derived from quarterly national accounts data.

Top-down adjustment

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

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 99 to 102.

Tradable/non-tradable output

The tradable sector is the part of the economy particularly exposed to foreign competition either through exports or import substitution. It includes agriculture, forestry and fishing, mining, and manufacturing industries. Non-tradable output includes the construction industry, rental, hiring and real estate services, public administration and safety, and health care and social assistance. Other industries may be classified as either tradable or non-tradable depending on whether their direct or indirect outputs are exposed to foreign competition.

Trade-weighted index (TWI)

A measure of movements in the NZ dollar against the currencies of our major trading partners. Since December 2014, the TWI has been based on 17 currencies, weighted according to each country’s direct bilateral trade in goods and services with New Zealand. Together these countries account for more than 80% of New Zealand’s foreign trade.

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 2018/19 or 2019 will mean the end of the financial year.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual[3]	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	50,744	51,557	55,081	58,651	61,563	66,636	70,445	75,644	80,244	86,468	88,692	94,278	99,216	104,824	110,499
Core Crown revenue	55,757	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	95,797	101,592	106,526	112,735	117,659
Core Crown expenses	63,554	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576	87,041	93,776	98,765	102,012	106,261	109,233
Surpluses															
Total Crown OBEGAL	(6,315)	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,347	(943)	57	1,752	4,061	5,924
Total Crown operating balance	(4,509)	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	12,317	8,396	293	422	3,561	5,755	8,496	10,876
Cash position															
Core Crown residual cash	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(5,154)	(7,973)	(5,550)	(2,231)	911
Debt															
Gross debt[1]	53,591	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	89,575	91,390	99,560	98,836	102,642
Gross debt incl RB settlement cash and bank bills	58,891	77,290	84,168	84,286	88,468	93,156	93,283	92,620	95,437	90,930	96,498	98,313	106,483	105,759	109,565
Net core Crown debt (incl NZS Fund)[2]	12,549	23,969	33,475	34,428	34,174	30,862	32,102	23,619	19,460	14,060	14,590	17,632	17,117	12,274	3,939
Net core Crown debt[2]	26,738	40,128	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	62,526	70,639	76,071	77,681	76,335
Total borrowings	69,733	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	122,161	126,917	137,643	138,760	145,324
Net worth															
Total Crown net worth	94,988	80,887	59,780	70,011	80,697	98,236	95,521	116,472	135,637	146,172	145,786	149,420	155,264	163,817	174,879
Total net worth attributable to the Crown	94,586	80,579	59,348	68,071	75,486	86,454	89,366	110,532	129,644	139,782	139,620	143,402	149,387	158,057	169,156
Nominal expenditure GDP (revised actuals)	196,761	205,852	215,183	218,827	236,732	244,997	257,602	274,738	293,075	304,357	319,804	336,400	354,114	371,532	389,192
% GDP															
Revenue and expenses															
Core Crown tax revenue	25.8	25.0	25.6	26.8	26.0	27.2	27.3	27.5	27.4	28.4	27.7	28.0	28.0	28.2	28.4
Core Crown revenue	28.3	27.8	28.1	29.2	28.3	29.5	29.5	29.8	29.6	30.7	30.0	30.2	30.1	30.3	30.2
Core Crown expenses	32.3	34.1	32.0	32.0	30.1	29.5	28.7	27.8	27.5	28.6	29.3	29.4	28.8	28.6	28.1
Surpluses															
Total Crown OBEGAL	(3.2)	(8.9)	(4.3)	(2.0)	(1.2)	0.2	0.7	1.5	1.9	2.4	(0.3)	0.0	0.5	1.1	1.5
Total Crown operating balance	(2.3)	(6.5)	(6.9)	3.2	1.2	2.4	(2.1)	4.5	2.9	0.1	0.1	1.1	1.6	2.3	2.8
Cash position															
Core Crown residual cash	(4.6)	(6.5)	(4.9)	(2.6)	(1.7)	(0.7)	(0.5)	0.9	0.5	(0.2)	(1.6)	(2.4)	(1.6)	(0.6)	0.2
Debt															
Gross debt[1]	27.2	35.2	37.0	35.6	34.6	35.2	33.7	31.7	30.0	27.7	28.0	27.2	28.1	26.6	26.4
Gross debt incl RB settlement cash and bank bills	29.9	37.5	39.1	38.5	37.4	38.0	36.2	33.7	32.6	29.9	30.2	29.2	30.1	28.5	28.2
Net core Crown debt (incl NZS Fund)[2]	6.4	11.6	15.6	15.7	14.4	12.6	12.5	8.6	6.6	4.6	4.6	5.2	4.8	3.3	1.0
Net core Crown debt[2]	13.6	19.5	23.5	25.5	25.3	24.7	24.0	21.6	19.6	19.0	19.6	21.0	21.5	20.9	19.6
Total borrowings	35.4	43.8	46.7	45.7	43.7	46.0	44.2	40.7	39.5	36.2	38.2	37.7	38.9	37.3	37.3
Net worth															
Total Crown net worth	48.3	39.3	27.8	32.0	34.1	40.1	37.1	42.4	46.3	48.0	45.6	44.4	43.8	44.1	44.9
Total net worth attributable to the Crown	48.1	39.1	27.6	31.1	31.9	35.3	34.7	40.2	44.2	45.9	43.7	42.6	42.2	42.5	43.5

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

Economic Indicators

June Years	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.3	2.0	3.5	2.4	3.4	3.2	4.4	5.6	3.6	3.3	2.3	2.6	2.9	2.9	2.8
Public consumption	-0.4	2.5	0.8	0.0	3.0	3.3	1.5	2.6	2.9	2.1	3.6	2.3	1.3	1.1	1.1
TOTAL CONSUMPTION	1.6	2.2	2.8	1.8	3.3	3.2	3.7	4.9	3.5	3.0	2.6	2.5	2.5	2.5	2.4
Residential investment	-2.5	-3.1	10.2	18.2	13.1	6.3	9.9	4.2	2.6	4.0	5.6	5.6	3.4	1.6	1.1
Business investment	-8.0	8.2	6.0	0.8	9.3	6.9	2.4	2.1	6.7	0.9	1.5	4.2	3.9	3.0	2.5
TOTAL INVESTMENT	-6.8	5.6	6.8	4.6	10.3	6.7	4.2	2.6	5.6	1.7	2.6	4.6	3.8	2.6	2.2
Stock change (contribution to growth)	0.9	-0.1	0.1	-0.3	0.4	0.0	-0.3	0.3	-0.1	-0.2	0.1	-0.1	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	0.7	2.7	4.0	2.2	4.7	3.8	3.4	4.7	4.0	2.4	2.8	2.8	2.9	2.5	2.4
Exports	4.8	2.2	2.1	3.0	0.3	6.3	5.7	0.6	3.9	2.5	0.6	3.0	2.5	2.4	2.5
Imports	-1.0	11.4	4.4	2.6	9.0	6.6	1.2	6.2	8.0	1.7	1.7	3.2	3.1	2.6	2.4
EXPENDITURE ON GDP	2.7	0.2	3.3	2.3	2.3	3.8	4.5	3.1	3.0	2.6	2.5	2.8	2.7	2.5	2.4
GDP (production measure)	1.0	1.1	2.8	2.1	2.7	3.9	3.6	3.4	3.2	2.4	2.2	2.8	2.7	2.5	2.4
- annual % change	2.8	0.9	2.6	2.3	2.9	3.9	4.0	3.1	3.2	2.1	2.3	2.9	2.6	2.4	2.4
Real GDP per capita	-0.2	0.1	2.1	1.5	1.7	2.3	1.7	1.4	1.4	0.8	0.7	1.4	1.3	1.1	1.1
Nominal GDP (expenditure basis)	3.8	4.6	4.5	1.7	8.2	3.5	5.1	6.3	5.7	3.7	5.1	5.2	5.3	4.9	4.8
GDP deflator	1.1	4.4	1.2	-0.6	5.8	-0.3	0.6	3.1	2.7	1.0	2.6	2.4	2.5	2.4	2.3
Output gap (% deviation, June year average)	-1.2	-1.9	-1.3	-1.6	-1.6	-0.6	0.0	0.4	0.8	0.5	0.1	0.3	0.4	0.3	0.2
Employment	-1.3	1.5	0.9	0.2	3.1	3.1	2.2	4.8	3.1	1.7	1.4	2.1	1.9	1.6	1.5
Unemployment (% June quarter s.a.)	6.5	6.0	6.3	5.9	5.2	5.4	5.0	4.7	4.5	3.9	4.3	4.2	4.2	4.3	4.3
Wages (average ordinary-time hourly, ann % change)	1.1	3.0	2.9	2.1	2.5	2.7	2.1	1.5	3.0	4.4	3.0	3.3	3.6	3.7	3.7
CPI inflation (ann % change)	1.7	5.3	1.0	0.7	1.6	0.4	0.4	1.7	1.5	1.7	1.9	1.9	2.0	2.0	2.0
Merchandise terms of trade (SNA basis)	-3.0	9.7	-1.7	-3.8	16.4	-4.7	-2.7	5.0	4.6	-3.4	1.8	-0.3	0.1	0.2	0.3
House prices (ann % change)	3.4	-0.2	4.0	8.9	6.3	11.8	15.0	6.5	3.6	1.3	4.9	6.1	6.2	5.6	4.9
Current account balance - $billion	-3.5	-6.0	-7.7	-7.9	-5.9	-8.3	-5.4	-7.0	-9.6	-10.3	-10.2	-11.2	-12.5	-13.5	-14.4
Current account balance - % of GDP	-1.8	-2.9	-3.6	-3.6	-2.5	-3.4	-2.1	-2.6	-3.3	-3.4	-3.2	-3.4	-3.6	-3.7	-3.8
TWI (June quarter)	68.6	70.8	72.4	76.3	81.5	76.2	73.6	76.5	73.8	72.7	70.8	70.8	71.6	72.1	72.6
90-day bank bill rate (June quarter)	2.9	2.7	2.6	2.6	3.4	3.5	2.4	2.0	2.0	1.7	1.0	1.0	1.2	1.3	1.5
10-year bond rate (June quarter)	5.7	5.3	3.7	3.5	4.4	3.6	2.7	2.9	2.8	1.8	1.3	1.5	1.8	2.3	2.6

Data for 2020 and subsequently are forecasts. Data for 2019 and prior years are those that were available when the forecasts were finalised.