



Budget Economic and Fiscal Update 2020

14 May 2020

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

This *Budget 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 and provides a high-level framework on intergenerational wellbeing.

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 so 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, please go to our website at <https://treasury.govt.nz>

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Statement of Responsibility

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

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of both government decisions and other circumstances as at 23 April 2020 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 23 April 2020. 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

6 May 2020

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 23 April 2020 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

7 May 2020

Executive Summary

	2019	2020	2021	2022	2023	2024
June years	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Real production GDP (annual average % change)	2.8	-4.6	-1.0	8.6	4.6	3.6
Unemployment rate (June quarter)	4.0	8.3	7.6	5.7	5.2	4.8
CPI inflation (annual % change)	1.7	1.3	0.8	1.5	1.8	1.9
Current account (annual, % of GDP)	-3.4	-2.0	-5.7	-4.2	-3.8	-3.6
Fiscal measures (% of GDP)						
Core Crown tax revenue	28.5	28.0	27.2	26.6	27.4	27.3
Core Crown expenses	28.7	38.7	38.6	36.5	33.7	30.2
Total Crown operating balance before gains and losses	2.4	-9.6	-10.1	-8.3	-4.7	-1.3
Core Crown residual cash	-0.2	-10.9	-14.7	-10.7	-7.6	-3.6
Net core Crown debt	19.0	30.2	44.0	49.8	53.6	53.6
Net worth	47.2	36.0	26.0	16.0	11.2	10.3

Sources: Stats NZ, the Treasury

- The COVID-19 pandemic is a 'once in a century' public health shock that is causing major disruption to life and economic activity around the world, drastically altering the economic outlook here and abroad. Many countries, including New Zealand, are expecting their largest economic downturns in living memory. The final impact of COVID-19 and related response measures on the New Zealand economy remains highly uncertain.
- This uncertainty presents significant challenges when forecasting the economic, tax and fiscal outlook. Governments around the world, including the New Zealand Government, are responding with a range of health-related and economic support measures. However, the spread of the virus is yet to be fully contained, and it will be some time before an effective vaccine is readily available.
- New Zealand has made progress to contain the spread of the virus, but there are many factors that can affect the economic outlook from here. These include the extent to which it is brought under control here and abroad; the range and effectiveness of response measures; the resiliency of firms; the length and degree of trade disruption, financial disruption and wealth impacts; and the extent to which there are lasting impacts on demand or supply in particular industries.

- Given the high level of uncertainty, we present a number of alternative economic forecast scenarios. In the main economic forecasts, real production GDP is forecast to fall sharply in the June quarter, resulting in an annual contraction of 4.6% over the June 2020 year, with annual real GDP falling a further 1.0% by June 2021. Economic activity is forecast to recover over the remaining three years of the forecast period, with GDP growth peaking at an annual average of 13.1% in the year to March 2022.
- Government support helps cushion the impact on employment. Nevertheless in the main forecast the unemployment rate approaches 10% by September 2020, easing only gradually to around 8% by mid-2021 in the main forecast.
- The economic impact of COVID-19, coupled with the Government's response, has had a significant impact on the Government's fiscal position. All key indicators are significantly weaker than those forecast in the *Half Year Update* published in December.
- Overall tax revenue is expected to fall in the first two years of the forecast period, primarily owing to the economic slowdown coupled with tax policy changes. The tax revenue forecasts then start to recover as economic activity starts to pick up.
- A sharp rise in core Crown expenses is expected in the current year mainly as a result of the Government's response to COVID-19. The level of core Crown expenses peaks at just under \$120 billion in 2021/22, before starting to fall as some of the Government's temporary response measures are expected to cease and the economy continues to recover.
- In the current year and the next two fiscal years, operating deficits (operating balance before gains and losses) average around \$28 billion, while net core Crown debt is expected to increase on average by around \$35 billion per year. The operating deficits and increases in net core Crown debt start to recover from 2022/23.
- The Government's balance sheet is forecast to absorb most of the fiscal impact of the COVID-19 Government response and economic downturn impacts, with increasing borrowings and reducing net worth. Net core Crown debt is expected to reach 53.6% of GDP by the end of the forecast period.

Finalisation dates for the *Budget Update*

Economic forecasts – 30 March and updated 17 April 2020

Tax revenue forecasts – 3 April and updated 17 April 2020

Fiscal forecasts – 23 April 2020

Risks to the Fiscal Forecasts – 23 April 2020

Text finalised – 6 May 2020

The impacts of the response to COVID-19 on the economic and fiscal outlook

This box explains the approach and assumptions the Treasury has taken to incorporate the impacts of the Government's response to COVID-19 on the economic and fiscal forecasts. The Government has made \$62.1 billion available to support the COVID-19 response and economic recovery, which consists of the \$12.1 billion Economic Recovery Package and \$50 billion COVID-19 Response and Recovery Fund (CRRF).

The Government's fiscal support measures

The \$12.1 billion Economic Response Package was announced in March to reduce wage and tax costs for employers. This was followed by the \$50 billion CRRF established to fund additional support measures that may be required. As of 20 April, \$10.7 billion of the CRRF has been committed to extend the Wage Subsidy Scheme and introduce further tax changes.

Table 1 – Fiscal support measures

Package	Key Measures	Measure size \$ billions	Package size \$ billions
<i>Economic Response Package</i> (17 March)	Initial Wage Subsidy Scheme	5.1	12.1 allocated
	Income Support package	2.8	
	Tax package	2.8	
	Other	1.4	
<i>COVID-19 Response and Recovery Fund</i>	Wage Subsidy Scheme extension	6.9	10.7 allocated
	Loss Carry Back Provisions	1.6	
	Other	2.2	
	Remainder of Fund	39.3	39.3 unallocated
	Total CRRF	50.0	50.0

These measures are summarised in Table 2 below.

Forecasting the fiscal impact of the Economic Response Package and the CRRF

COVID-19 related funding decisions totalling \$62.1 billion have been incorporated in these fiscal forecasts. The impact of these funding decisions on the operating balance before gains and losses (OBEGAL) is shown in Table 2.

Table 2 – COVID-19 decisions included in the fiscal forecasts reducing OBEGAL¹

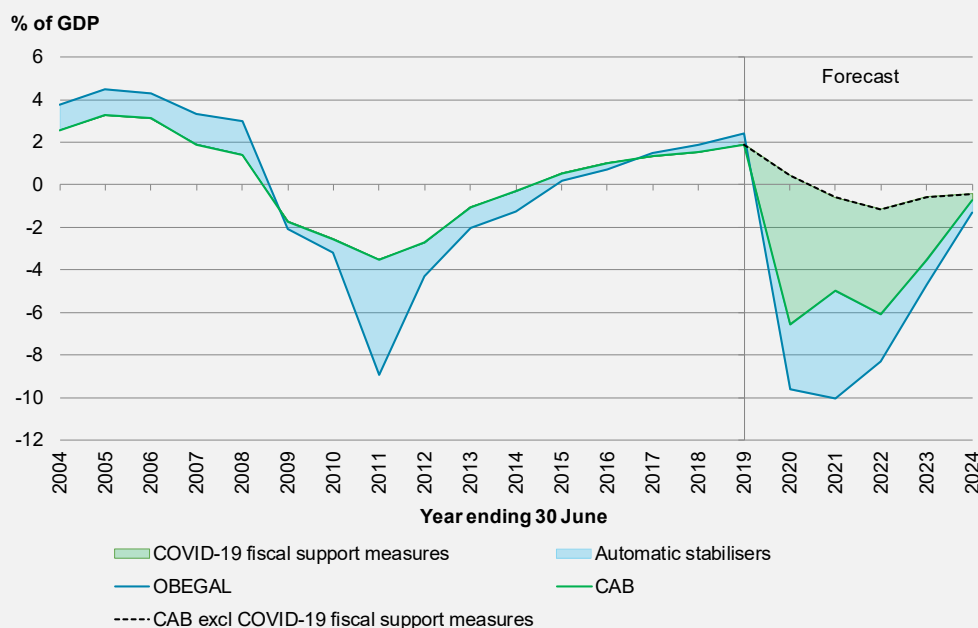
Year ending 30 June \$billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total Change
Reduction in tax revenue (tax policy changes)	1.2	2.0	0.8	-0.2	0.5	4.3
Increase in social assistance expenditure	0.3	0.9	0.6	0.6	0.6	3.0
Increase in other operating expenditure	14.1	0.3	0.1	0.1	0.1	14.7
	15.6	3.2	1.5	0.5	1.2	22.0
Unallocated CRRF	4.9	9.8	14.8	9.8	-	39.3
Total COVID-19 Government Response	20.5	13.0	16.3	10.3	1.2	61.3

¹ The impact on OBEGAL over the forecast period is \$61.3 billion, which is \$0.8 billion lower than the total funding decisions of \$62.1 billion. This is owing to capital decisions not being included in the table above and timing differences between cash and accrual impacts.

Of this amount, \$22.0 billion reflects the forecasting of specific Government decisions taken in response to COVID-19 up to 20 April, with the balance of \$39.3 billion being forecast as a single “unallocated” expense line as part of new spending allowances to cover further decisions that the Government may take.

The \$62.1 billion only includes the fiscal support as a result of the Government’s decisions. In addition to the fiscal support measures outlined above, the COVID-19 shock will have a significant impact on the Government’s fiscal position through a reduction in tax revenues and increased benefit expenses that happen automatically as the economy weakens (so-called automatic stabilisers). The cyclically-adjusted balance (CAB) in Figure 1 shows the automatic stabilisers have a significant impact on the deficit across the forecast period.² The weakening in the underlying structural position relative to HYEPU will also reflect some impacts of COVID-19 not captured in the automatic stabilisers or discretionary policy, such as the decline in structural revenue, indirectly due to the fall in nominal GDP. Nearly all of the forecast deficit can be explained by either the automatic stabilisers (shaded blue) or the effects of the COVID-19 fiscal support measures (shaded green), of which most is assumed to be temporary. After removing the automatic and discretionary components of the fiscal policy response, a small 0.4% of GDP deficit at the end of the forecast period remains.

Figure 1 – OBEGAL and Cyclically Adjusted Balance



Economic impacts

In the economic forecasts, we assume that around \$20 billion in fiscal support will be allocated during the year to June 2020, much of this in the June quarter. Additional fiscal support measures are assumed to be introduced to support the economic recovery. In total, the main and alternative economic forecasts assume around \$35 billion and \$62 billion of fiscal support, respectively, reflecting the uncertainty about the timing and nature of further fiscal support when the economic forecasts were finalised. Nevertheless, the fiscal support measures outlined above are expected to provide a substantial stimulus to the New Zealand economy by supporting firms with employment and managing cash flow during the response phase.

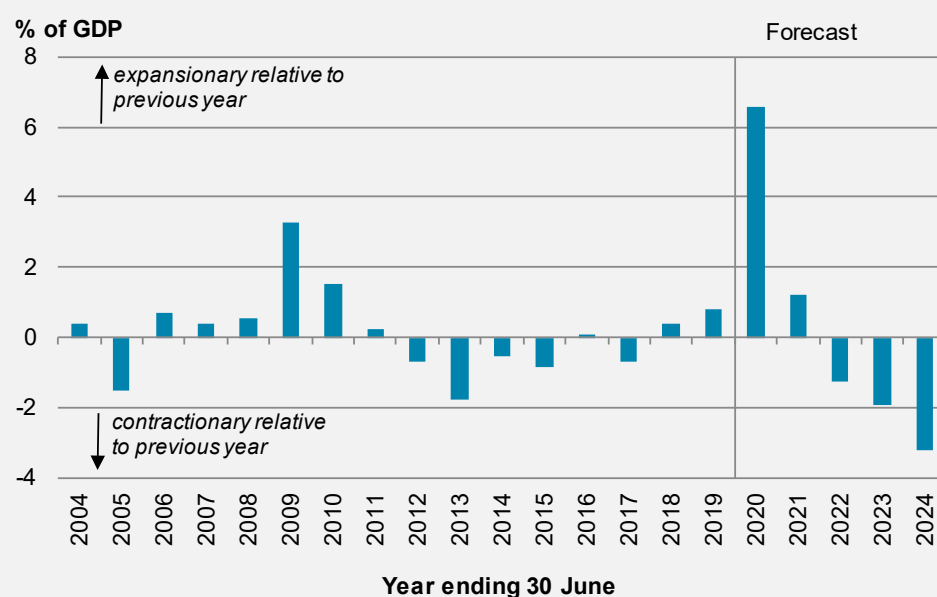
² Across the forecast period, the economy is forecast to operate below its potential level resulting in a CAB higher than OBEGAL. Note, these CAB estimates are highly uncertain due to estimation uncertainty of the output gap and forecast uncertainty relating to future fiscal and economic developments.

We have also made several assumptions around activity levels and the pace of recovery in New Zealand that underpin our main economic forecasts including:

- Alert Level 4 restrictions are in place for a month, followed by a month at Alert Level 3, which is expected to reduce economic activity by as much as 25% in the June quarter of 2020.
- Workers receiving the wage subsidy are classified as being employed since they still receive income from their employers. There will be a divergence between the number of hours worked and the number of hours paid however, as much of the workforce was unable to contribute to economic output during the lock down period.
- Border restrictions are assumed to have eased after 12 months, allowing services exports and non-New Zealander net migration to resume. However, the effects of COVID-19 will continue to be far-reaching and the pace at which service exports such as tourism and international education recovers is uncertain.

The magnitude of the fiscal support can be illustrated by the fiscal impulse, which shows how fiscal policy changes relative to the previous year are stimulating aggregate demand in the economy. The fiscal impulse is particularly large in 2019/20, coinciding with the period of Alert Levels 4 and 3 restrictions.

Figure 2 – Fiscal impulse



A positive fiscal impulse implies that the fiscal deficit is expanding.³ This expansion cannot continue indefinitely, and inevitably the fiscal impulse wanes over the remainder of the forecast period as the deficit stabilises and then declines. However, the effects of the fiscal stimulus in 2020 and 2021 are expected to continue to support the economy throughout the forecast period. The fiscal impulse is a simple indicator that does not measure these full impacts of fiscal policy on GDP. In particular, it does not consider the second-round effects of fiscal policy on employment, private economic activity or household consumption which can benefit GDP in subsequent years.

³ There is considerable uncertainty about estimates of the fiscal impulse in the current environment reflecting unprecedented swings in the output gap and other forecast variables. Further information on the methodology, interpretation and limitations behind the indicators can be found in Treasury Working Papers 02/30 and 10/08.

Economic Outlook

Summary

- The COVID-19 pandemic is causing major disruption to life and economic activity around the world. The pandemic has drastically altered the economic outlook here and abroad. Governments are responding with a range of health-related and economic support measures. The outlook remains exceptionally uncertain, particularly as the spread of the virus is yet to be contained for any length of time, and it will be some time before an effective vaccine is readily available.
- Given the heightened uncertainty that exists along with the continued evolution of policy, this chapter provides several alternative paths the economy may take. The main economic forecasts assume approximately \$35 billion of discretionary COVID-19 fiscal support, alongside significant monetary policy stimulus. An additional economic forecast is also presented in which fiscal support is extended further, in line with the overall magnitude of the COVID-19 Response and Recovery Fund (CRRF).
- Overall, risks are skewed to the downside. Additional scenarios are presented that illustrate the possibility of a slower recovery in New Zealand and abroad, as well as a scenario in which the adverse impacts on the economy from the COVID-19 pandemic are more moderate.
- The economic impact on New Zealand will depend on a number of factors: the extent and pace of the spread of COVID-19 in New Zealand; the extent to which it is brought under control abroad; the range and effectiveness of response measures here and abroad; the resilience of firms; the length and degree of trade disruption, financial disruption and wealth impacts; and any lasting impacts on demand or supply in particular industries.
- New Zealand's four-level COVID-19 alert system has been integral to our public health response. The extent to which economic activity is reduced below normal varies with the alert level. We have assumed that alert level 4 results in activity approximately 40% below normal; level 3, approximately 25% below; level 2, 10-15% below; and alert level 1, 5-10% below.

- The main economic forecasts include the one month at level 4, and assume one month at level 3, followed by the remainder of the year to March 2021 at levels 1 or 2. The decision taken on 20 April to shift to level 3 from late 27 April means the main forecast remains reasonable, but much will depend on the ability of the country to de-escalate further, with downside risk should a return to alert levels 3 or 4 be required during the next year. Should the control of the virus's spread enable either the removal of restrictions or (to a lesser extent) the majority of the ten month period to the end of March 2021 at alert level 1, then there may be some upside to these forecasts. The negotiation of selective border openings could be another upside, enabling earlier tourist flows to and from selected countries.
- Under the main forecast, real GDP contracts by close to one-quarter in the June 2020 quarter, reflecting the time spent in alert levels 3 and 4. Economic activity recovers as restrictions are lifted, so that by the end of 2020 real GDP is around 10% lower than in the *Half Year Economic and Fiscal Update 2019 (Half Year Update)*. Over the 2020 calendar year real GDP is forecast to contract by around 10% relative to 2019, with annual average growth forecast to reach a low of nearly -12% in the year to March 2021.
- By 1 April 2021, all restrictions are assumed to be lifted (including border restrictions). Nevertheless, activity in the June 2021 quarter remains around 7% below that predicted in the *Half Year Update*. This reflects much lower services exports, as overseas tourism will likely take some time to recover, combined with weak domestic demand, given that lower incomes and increased uncertainty weigh on household consumption and business investment.
- Government support helps cushion the impact on employment, even as hours worked fall sharply in the June 2020 quarter. In the main forecast the unemployment rate approaches 10% by September 2020, easing only gradually to around 8% by mid-2021.
- The spread of COVID-19 has dramatically affected global growth prospects. The International Monetary Fund expects the global economy to contract by 3.0% in the year to December 2020, provided the virus is contained by the end of the June 2020 quarter and containment measures are eased over the second half of 2020.
- Global growth is forecast to rise to 5.8% in the year ending December 2021, supported by very substantial economic policy actions to mitigate the adverse impacts on labour, capital and financial markets. There is extreme uncertainty about both the depth and duration of the downturn and the strength of the recovery. The risks to the global outlook are tilted towards weaker outcomes, especially the potential for a longer and broader impact as the pandemic continues to evolve.
- Commodity prices have fallen in the wake of reduced demand and increased uncertainty, although so far the impact on agricultural commodities has been less pronounced. Lower oil prices combined with softer demand are likely to result in weaker inflation pressures in New Zealand and abroad.
- Nominal GDP is impacted by both lower real activity and softer price pressure, with cumulative nominal GDP over the five years to June 2024 forecast to be over \$100 billion lower than in the *Half Year Update*. The forecast which incorporates the full CRRF has cumulative nominal GDP around \$80 billion below the *Half Year Update*. Lower aggregate income in the economy is a major contributor to the deterioration in the fiscal outlook presented in the Fiscal Outlook chapter.

- The slower recovery scenario illustrates the much higher degree of uncertainty associated with forecasts at present. Nominal GDP in this scenario is a cumulative \$90 billion lower than the main forecast. This is around four times the deviation from the main forecast that we typically present. The presentation of confidence bands around the forecasts also helps to illustrate uncertainty. Unlike showing particular alternative paths the economy may take based on specific alternative assumptions, confidence bands illustrate the range of possible/likely outcomes based on statistical methods.

Table 1.1 – Key economic variables

June years	2019	2020	2021	2022	2023	2024
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (Annual average % change)						
Main forecast (Budget Update 2020)	2.8	-4.6	-1.0	8.6	4.6	3.6
Full COVID-19 Response and Recovery Fund	2.8	-4.6	0.6	9.3	3.9	2.7
Slower recovery	2.8	-4.7	-2.3	5.9	4.1	3.8
Moderated impact from COVID-19	2.8	-4.6	0.7	8.5	4.0	3.3
Unemployment rate (June quarter)						
Main forecast (Budget Update 2020)	4.0	8.3	7.6	5.7	5.2	4.8
Full COVID-19 Response and Recovery Fund	4.0	8.3	6.3	4.2	4.3	4.4
Slower recovery	4.0	8.4	9.0	8.4	7.8	6.7
Moderated impact from COVID-19	4.0	8.3	6.0	4.9	4.6	4.4
CPI Inflation (Annual % change)						
Main forecast (Budget Update 2020)	1.7	1.3	0.8	1.5	1.8	1.9
Full COVID-19 Response and Recovery Fund	1.7	1.3	0.8	1.6	1.9	1.9
Slower recovery	1.7	1.2	0.1	0.5	0.9	1.5
Moderated impact from COVID-19	1.7	1.3	1.0	1.5	1.8	2.0
Nominal GDP (\$ billion)						
Main forecast (Budget Update 2020)	303	294	294	328	352	374
Full COVID-19 Response and Recovery Fund	303	294	299	336	359	378
Slower recovery	303	293	282	304	325	347
Moderated impact from COVID-19	303	294	302	335	357	378
Current account (Annual, % of GDP)						
Main forecast (Budget Update 2020)	-3.4	-2.0	-5.7	-4.2	-3.8	-3.6
Full COVID-19 Response and Recovery Fund	-3.4	-2.0	-6.6	-5.5	-4.7	-4.2
Slower recovery	-3.4	-2.2	-8.7	-8.2	-7.2	-6.9
Moderated impact from COVID-19	-3.4	-2.0	-4.8	-4.1	-3.8	-3.6

Sources: Stats NZ, the Treasury

Key economic forecast judgements and assumptions

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

- COVID-19 alert level restrictions are assumed to constrain economic activity by approximately:
 - 40% at level 4
 - 25% at level 3
 - 10% to 15% at level 2
 - 5% to 10% at level 1.
- Level 4 restrictions lasted for approximately one month. It is assumed that alert level 3 is in place for one month. For the remainder of the year to March 2021, level 1 or 2 restrictions are assumed to apply.
- The main economic forecasts assume approximately \$35 billion of discretionary COVID-19 fiscal support, including the \$12.1 billion Economic Response Package announced on 17 March.
- Significant monetary policy support is provided throughout the forecast period. This is delivered through both traditional and alternative mechanisms, including large-scale asset purchases.
- Net migration falls on an annual basis from around 50,000 over the second half of 2019 to 4,000 by March 2021. As international travel restrictions are lifted throughout the world, net migration gradually increases to 35,000 by June 2024, the same endpoint as in the *Half Year Update*.
- Working-age population (15 years of age and over) growth averages 1.3% per year over the five years to June 2024, including the contribution of net migration, down from 1.5% per year in the *Half Year Update*.
- The trade-weighted index (TWI) is assumed to fall to 64 by September 2020 before gradually rising to 70 at the end of the forecast period. The TWI is generally assumed to be 4% to 10% lower than in the *Half Year Update*.
- Oil prices have been volatile, but are assumed to fall to an average of US\$29 per barrel in the June quarter of 2020 before rising to a little under US\$54 by June 2024.
- Following growth of 3.2% in 2019, economic activity in our top 16 trading partners is assumed to contract by 2.2% in the year to December 2020. This marked downgrade from the 3.1% growth expected in the *Half Year Update* reflects the large negative impacts of COVID-19 on the global economy. An assumed 7.1% rebound in trading partner activity over 2021, still leaves activity levels below those assumed in the *Half Year Update*.

Economic Outlook

The world's economies are experiencing a COVID-19-related shock...

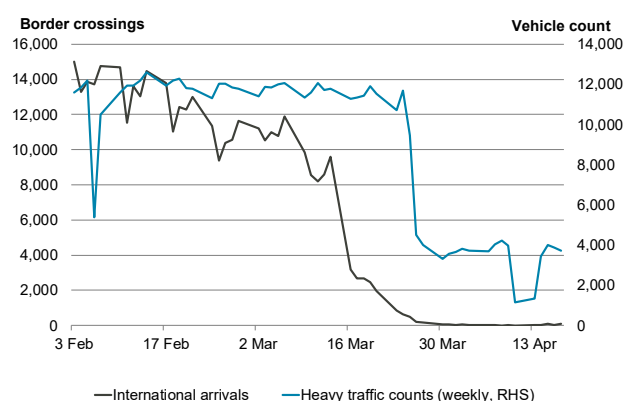
The COVID-19 pandemic is a 'once in a century' public health shock with profound impact on economic and financial systems around the world and in New Zealand. As a consequence, the forecasts in this *Budget Update* show an unprecedented level of change from the *Half Year Update*. The scale of the contraction, both in New Zealand and abroad, is substantially greater than that experienced during the global financial crisis.

In order to contain the virus, the Government has instigated a range of measures, including the use of emergency powers, COVID-19 alert level restrictions, and a variety of support measures. While necessary, public health measures have had, and continue to have, large negative impacts on the economy. This is compounded by containment actions taken internationally and changes to the behaviour of households, firms and investors in the face of large uncertainties. Both the demand and supply sides of the economy are impacted, through trade, confidence, labour and financial market channels.

...involving large contractions in activity

Level 4 restrictions were in place from late March through most of April. During this period, economic activity was severely curtailed. Although initial estimates of GDP will not be known until September, when June quarter data are released, indicators such as traffic movements and the number of people entering the country provide a sense of the disruption that occurred (Figure 1.1).

Figure 1.1 – Heavy traffic movements and border crossings



Sources: NZ Customs Service, NZ Transport Agency

The extent and duration of this shock are highly uncertain

The path the economy takes from here is extremely uncertain. The magnitude and duration of the downturn and the subsequent pace of the recovery depend on many unknown factors, including the course of the virus, how long activity restrictions are in place, how quickly the global economy recovers, how behaviours and production might change, and how successful government policies will be in supporting households and firms. In the context of this uncertainty, government policies continue to evolve.

Given the heightened uncertainty that exists along with the continued evolution of policy, this chapter provides several alternative paths the economy may take. Presented initially are the two outlooks that have largely informed the development of the fiscal forecasts, namely the main (Budget Update 2020) forecast, and the full COVID-19 Response and Recovery Fund (CRRF) forecast. These two forecasts share similar outlooks for the global economy, but the latter forecast includes the full impact of the \$50 billion CRRF, while the former forecast reflects an estimate of the likely fiscal policy response made at the time the forecasts were finalised.

In a later section, alternative scenarios are provided to illustrate the impact if the recovery in activity is more gradual in New Zealand and abroad. A slightly faster recovery is also illustrated. The asymmetric nature of current risks is indicated by the larger deviations to the main forecast shown in the slower recovery scenario. Given that the scenarios represent a small subset of possible outcomes, they are also supplemented by the presentation of confidence intervals around the main forecasts based on statistical simulations. The Forecast uncertainty box on page 25 gives more details.

Table 1.2 and the economic assumptions box provide additional detail on the main forecasts, consistent with the requirements of the Public Finance Act 1989.

Table 1.2 – Economic forecasts

Year ending June	2019	2020	2021	2022	2023	2024
Annual average % change	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.0	-6.4	4.7	5.9	3.8	3.6
Public consumption	3.5	6.0	1.9	1.7	1.5	1.4
Residential investment	2.2	-12.4	-0.4	20.0	8.4	5.9
Business investment ¹	2.5	-12.4	0.9	14.1	5.6	3.7
Exports	2.8	-8.7	-16.1	20.2	9.5	5.7
Imports	1.7	-7.7	-5.9	14.0	6.2	4.4
GDP (expenditure measure)	2.5	-4.8	-0.9	8.7	4.7	3.6
GDP (production measure)	2.8	-4.6	-1.0	8.6	4.6	3.6
Real GDP per capita	1.3	-5.9	-2.0	7.6	3.5	2.3
Employment	1.8	-1.0	-2.4	5.0	2.8	2.2
Unemployment rate ²	4.0	8.3	7.6	5.7	5.2	4.8
CPI inflation (annual % change)	1.7	1.3	0.8	1.5	1.8	1.9
Current account balance (annual, % of GDP)	-3.4	-2.0	-5.7	-4.2	-3.8	-3.6
Exchange rate (TWI) ³	72.7	66.0	67.1	68.1	68.2	70.0
90-day bank bill rate ⁴	1.7	0.5	0.5	0.5	0.5	0.5

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

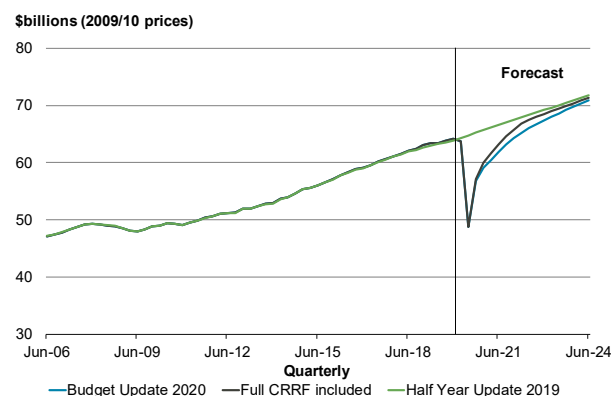
Economic forecasts are presented on a June year basis for consistency with the fiscal forecasts.

- Notes:
- 1 Business investment is the total of all investment types, it includes public investment but excludes residential investment.
 - 2 Percent of the labour force, June quarter, seasonally adjusted.
 - 3 Trade weighted index, average for June quarter.
 - 4 Average for the June quarter.

Large declines in activity are expected in the June quarter

The largest decline in activity is expected to occur in the June 2020 quarter, with the main forecast indicating a decline in real GDP of around one-quarter (Figure 1.2). The fall reflects constraints imposed during approximately one month at alert level 4, an assumed further month at alert level 3, and then a shift to alert levels 1 or 2. This follows a smaller fall in GDP in the March quarter, reflecting that the greatest COVID-19 impacts occurred relatively late in that period.

Figure 1.2 – Real GDP



Sources: Stats NZ, the Treasury

The impact of restrictions varies by industry, reflecting the degree to which working from home is possible, whether worksites are allowed to remain open, and the level of underlying demand. Industries such as construction were particularly hard hit in alert level 4, but should experience a degree of recovery at alert level 3, as worksites reopen with appropriate safety measures. Industries that are closely linked to tourism, such as accommodation and hospitality have also experienced large drops in activity but will not experience much difference between alert levels 3 and 4, and even at alert levels 1 and 2, reflecting constrained domestic travel activity and the lack of international visitors.

There are also likely to be other distributional impacts. Māori and Pacific peoples tend to be disproportionately impacted during economic downturns and industries that will take longer to recover, such as Retail and Accommodation, are more likely to employ young, female, lower skilled and low income workers.

The absence of a return to alert level 3 or 4 should enable partial recovery

The main forecasts assume a shift to level 2 later in the June quarter. Provided that this is maintained, or further de-escalation occurs, the economy should recover some of the ground lost in the second quarter from the September quarter onwards. It is likely that the fall in June quarter GDP will be the largest on record. The increase in the September quarter is also expected to be sizable, even though the level of activity is only likely to partially recover from the record June quarter fall.

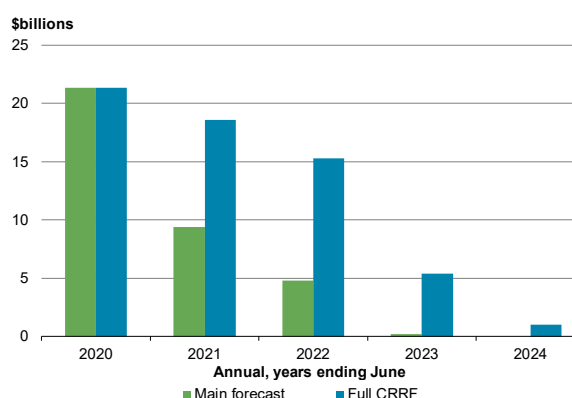
Border restrictions are assumed to remain in place through to the end of the March 2021 quarter, thereby preventing recovery in the international tourism and education sectors. As a result, even with relatively greater domestic tourism, the level of real GDP is forecast to remain approximately 10% below the *Half Year Update* at the end of 2020 in the main forecast. Over the 2020 calendar year real GDP is forecast to contract by around 10% relative to 2019, with annual average growth forecast to reach a low of nearly -12% in the year to March 2021. The negotiation of selective border openings, such as a 'trans-Tasman bubble', is a potential avenue that could enable earlier tourist flows to and from selected countries.

Fiscal policy aims to cushion the blow...

The Government has announced a range of measures to support people and businesses through the period of disruption caused by COVID-19 as well as supporting the eventual recovery. The main forecasts include approximately \$35 billion of fiscal support, including wage subsidies, other forms of business support, and increased expenditure on health and main social assistance benefits. This \$35 billion includes the \$12.1 billion Economic Response Package announced on 17 March, and a further \$23 billion of assumed support from the Government's CRRF fund. This leaves around \$27 billion from the Fund for other initiatives, while maintaining overall expenditure broadly in line with the fiscal forecasts presented in the Fiscal Outlook chapter.

The main forecast and alternative full CRRF forecast shown in Figure 1.2 differ in the extent of fiscal support that is assumed. The levels of fiscal support assumed are shown in Figure 1.3, with the full utilisation of the CRRF taking total fiscal support to around \$62 billion. The timing and magnitudes, however, reflect modelling assumptions, as actual decisions on the full use of the fund are yet to be taken.

Figure 1.3 – COVID-19 related fiscal support



Source: The Treasury

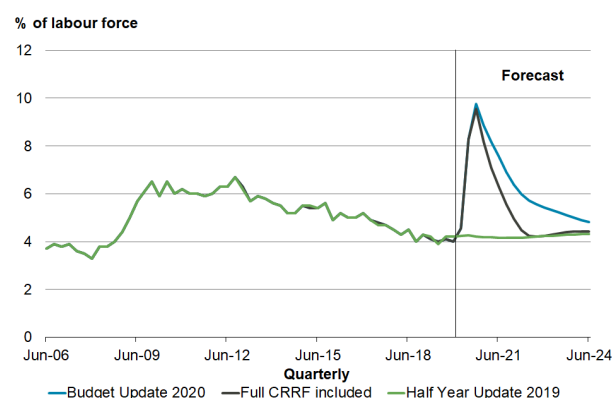
The additional fiscal support contributes to a faster recovery in economic activity relative to the main forecast, particularly over the years to June 2021 and 2022.

...including limiting the extent to which unemployment rises

Initially the impact of measures such as wage subsidies reduces the extent to which firms are likely to need to shed labour rather than spurring additional activity. This reflects that initially the restrictions associated with alert levels 3 and 4 are key constraints on activity. Hours worked are likely to fall sharply in the June 2020 quarter and to a greater degree than employment and paid hours. This reflects the support of wage subsidies on employment and wage payments. Nevertheless, the unemployment rate is forecast to peak at a little under 10% in both the main forecasts and the full CRRF forecast in the September quarter (Figure 1.4). While fiscal support helps prevent a higher peak, unemployment is still expected to increase from the June quarter, as the level of activity remains below that required to support higher employment levels.

While decisions have not been made on the specific uses of the CRRF, we assume that a key focus remains on supporting employment and this results in a more-rapid fall in the unemployment rate in the full CRRF forecast relative to the main forecast.

Figure 1.4 – Unemployment



Sources: Stats NZ, the Treasury

Medium-term recovery will depend on a number of factors including international developments

The main forecasts incorporate further recovery beyond next year. This is predicated on the assumption that COVID-19 no longer poses a significant threat globally (eg, an effective vaccine is available), thereby supporting renewed global growth, which combined with the removal of border restrictions supports renewed international tourism flows. However, the recovery in tourism will not happen instantly and the pace of recovery is a key uncertainty. The main forecasts are for total services exports to still be around 20% below the level in the *Half Year Update* by June 2023, narrowing to 10% by June 2024. At the end of 2019, exports of travel services (largely tourism) represented a little over half of total real services exports. Free movement of people across borders is also assumed to result in an increase in the contribution of net migration to population growth, with net migration assumed to increase from 4,000 in the year to March 2021, to 35,000 by the end of the forecast period.

Decline in global economic activity not seen in peacetime since the 1930s...

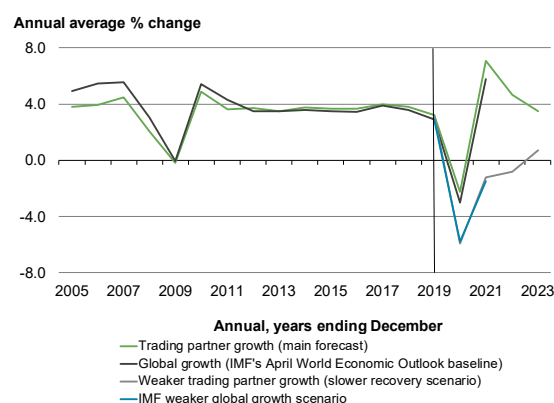
The spread of COVID-19 has dramatically affected the growth prospects of the global economy. The rapid spread of the virus and the necessary containment measures, including lockdowns and social distancing, have adversely affected a broad range of activities. Global labour markets have deteriorated markedly, and the heightened uncertainty has negatively impacted investment plans and their financing. The severity of the containment measures has begun to ease in a number of countries but the possibility remains that some measures, including social distancing, remain in place for a prolonged period.

The International Monetary Fund (IMF) expects global economic activity will decline on a scale not seen since the Great Depression of the 1930s. Global growth is forecast to fall to -3.0% in 2020, assuming that the pandemic and required containment peak in the second quarter for most countries in the world, and recede in the second half of this year. Global growth rebounds to 5.8% in 2021, supported by the substantial economic policy actions governments and central banks have taken to underpin resilience in labour, capital and financial markets. While crucial for a strong recovery, there is considerable uncertainty about what the economic landscape will look like when countries emerge from their containment measures.

...with partial recovery dependent on COVID-19 containment measures subsiding

The outlook for New Zealand's major trading partners is similar to that for the global economy. In China, activity fell very substantially in the March 2020 quarter when virus containment measures were at their peak. Containment measures have eased over recent weeks and indicators of activity suggest the economy will expand in the June 2020 quarter and a further recovery in activity is expected over the second half of the year.

Figure 1.5 – Global growth



Sources: IMF, Haver, the Treasury

The disruption in China, combined with measures to contain the pandemic, is expected to result in very substantial contractions in other economies in the region over the first half of 2020. The recovery of production and consumption in China and the likely easing in containment measures will help stabilise economic conditions across Asia and underpin a recovery over the second half of the year. Nevertheless, the prospects for tourism, which is very important to a number of economies in the region, has weakened considerably and is likely to continue to have a considerable dampening effect on activity. Weaker global demand more generally will also restrain the pace of recovery in China and across the Asia-Pacific region.

In Australia, output is likely to contract significantly over 2020 and the unemployment rate is likely to rise sharply. The Australian Government's wage subsidy programme will help limit the rise in unemployment to some extent. Provided that public health restrictions are eased in coming weeks, a recovery is expected to begin in the September 2020 quarter and to strengthen from there.

In the United States, state-led public health measures have seen the economy shed millions of jobs and a substantial contraction in economic activity is expected in the first half of 2020. The economy is expected to recover over the second half of the year, as the virus fades. As the recovery strengthens, the economy is likely to experience a period of above-trend growth in 2021 and 2022, supported by federal government spending.

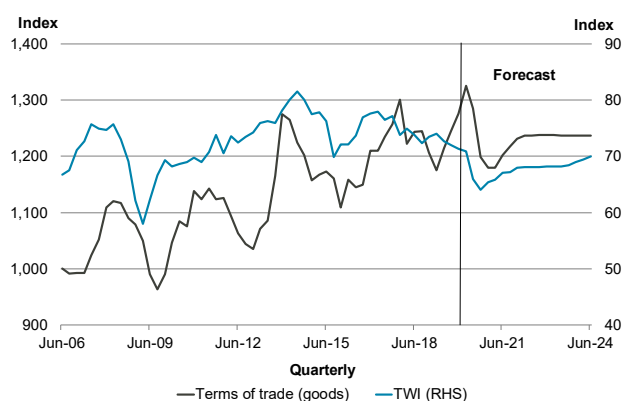
Global commodity prices down sharply...

Global commodity prices have fallen sharply since the start of the year, most notably for oil. Metals prices are also sharply lower. Agricultural prices, while also lower, have been more resilient. The recent sharp decline in oil prices is expected to be deflationary for most economies in the short-run, including New Zealand. For major energy producers and exporters, including the United States and Australia, lower oil prices will reduce planned investment in additional capacity. Prices for Australia's most significant bulk commodity exports have been relatively resilient.

...however, while down, agricultural prices have been more resilient

Prices for New Zealand's major export commodities have fallen, reflecting weaker international demand. Forestry prices have been especially weak, compounding the effects of an over-supply prior to the pandemic. Dairy auction prices have fallen 11% and meat prices 12% since the end of last year. Further falls in dairy and meat prices are expected in coming months, but prices should recover as the pandemic fades. Forestry exports are also expected to recover over the medium term.

Figure 1.6 – Terms of trade and TWI



Sources: Stats NZ, RBNZ, the Treasury

The lower New Zealand dollar is providing some offset for commodity exporters. Global movements in currencies have reflected strong demand for US dollars, and the US dollar has appreciated against most currencies. Particularly large moves have been observed in the exchange rates of commodity exporters. During March, the New Zealand dollar had fallen by up to 16% against the US dollar relative to its end of 2019 level, but has subsequently recovered to end April only 9% lower.

Lower oil prices also provide a partial offset for the economy as a whole, although COVID-19 restrictions mean that demand for oil products is constrained and therefore typical demand responses to lower prices are not possible. Prices for oil are likely to rise over the medium term. However, the weak outlook for global inflation is likely to limit the pace of a broader recovery in import prices. Overall, the goods terms of trade are expected to continue to support national income over the medium term.

Global risks are skewed to the downside

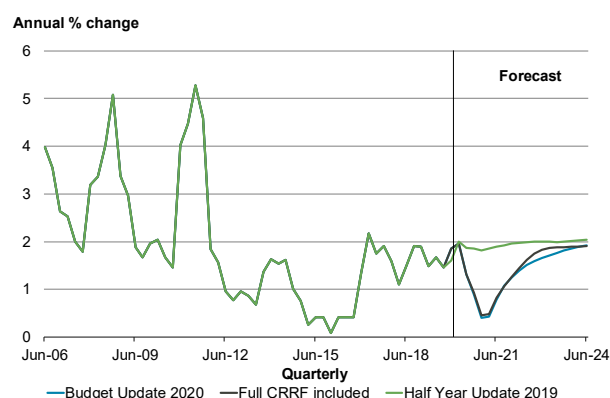
The IMF notes that risks to its outlook are skewed to the downside. The risks of a weaker outlook have a number of sources including a longer period of restrictions on activity to contain the pandemic, lingering uncertainty about viral contagion, persistent scarring effects on activity from reduced investment, and long-lasting shifts in consumer spending behaviour. These developments may create lasting changes in supply chains and weakness in aggregate demand. The IMF presents a downside scenario that incorporates more-widespread and long-lived COVID-19 containment measures. In this scenario, GDP growth in 2020 and 2021 is reduced by around three percentage points. The Treasury's weaker world scenario illustrates the implications for New Zealand's recovery.

Recovery in New Zealand is also likely to require ongoing policy support...

In addition to the continued fiscal support outlined above, monetary policy will likely need to remain supportive for some time. The Reserve Bank's Monetary Policy Committee announced in March that it intends to keep the Official Cash Rate at 0.25% for at least 12 months and to implement a Large Scale Asset Purchase programme (LSAP) of New Zealand Government Bonds and Local Government Funding Agency (LGFA) debt. We assume that over the forecast period as a whole such measures are expanded to provide additional monetary policy support. This plays an important role in the recovery of investment and provides support to the housing market and therefore consumption. It also helps keep the exchange rate lower, although the extent to which this is maintained will also be dependent on the relative stance of policy abroad.

This support is likely to be necessary for annual inflation to recover back towards 2% over the medium term. In the near term, the inflation outlook is particularly uncertain as prices for different goods and services are buffeted by a mix of falls in demand, or in some instances driven higher by temporary shortages. On balance, weaker demand is likely to mean inflation falls considerably.

Figure 1.7 – CPI inflation



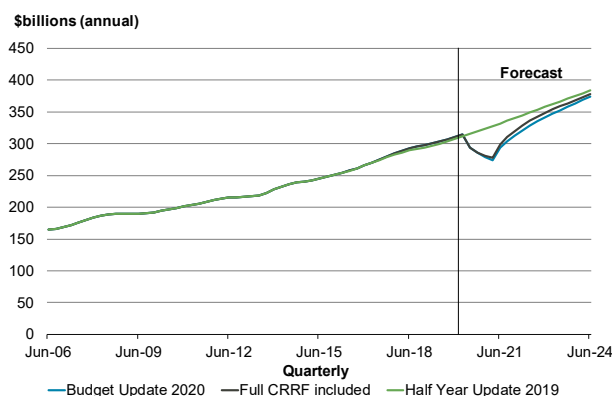
Sources: Stats NZ, the Treasury

...however, nominal GDP is unlikely to return to levels predicted in the *Half Year Update*

By June 2024, real GDP is forecast to be around 1% below that forecast in the *Half Year Update*. A sustained period of weaker price growth, combined with the weaker outlook for real activity, results in forecast nominal GDP being around 2% lower than forecast in the *Half Year Update* at the end of the forecast period. This is despite revisions to historical data which saw nominal GDP start about 1% above forecast.

Overall, nominal GDP is forecast to be a cumulative \$103 billion lower than forecast in the *Half Year Update* over the five years to June 2024. Again, this is despite revisions to earlier data, with annual GDP at the end of last year around \$3 billion higher than in the *Half Year Update*. Under the full CRRF forecast, the difference is around \$80 billion. These large changes in overall income in the economy have a significant impact on tax revenue and the government's fiscal position, as outlined in the Fiscal Outlook chapter.

Figure 1.8 – Nominal GDP



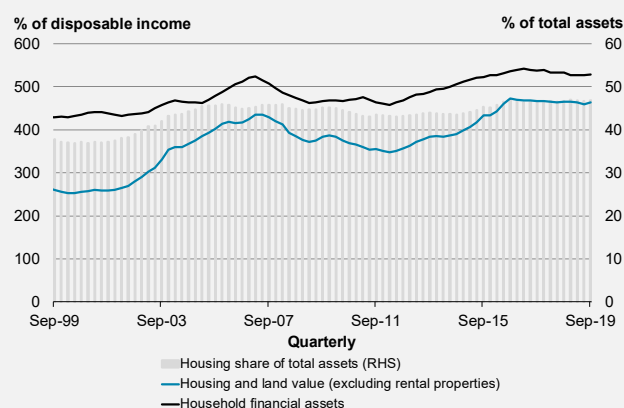
Sources: Stats NZ, the Treasury

The impact of COVID-19 on household balance sheets

Household wealth is an important influence on the macro economy, particularly via its impact on consumer spending. Any downturn or shock to the economy, such as that experienced during the COVID-19 pandemic, will have a significant impact on household balance sheets as asset prices fall. Household debt is at historic highs and there is a risk that indebted households will struggle to meet their payment obligations as incomes fall, even in an environment of low interest rates. Consumer behaviour will also be affected, leading to a reduction in discretionary spending and an increase in precautionary saving.

The share of housing in household assets has increased significantly in the past two decades, and is now close to 50% (Figure 1.9). The value of housing and land (excluding rental properties) as a percentage of household disposable income was 464% in the September 2019 quarter, down slightly from the September 2016 high of 473%. Financial assets, which include equity in rental properties, remain the largest component of household assets at 525% of disposable income in the December 2019 quarter.

Figure 1.9 – Household assets

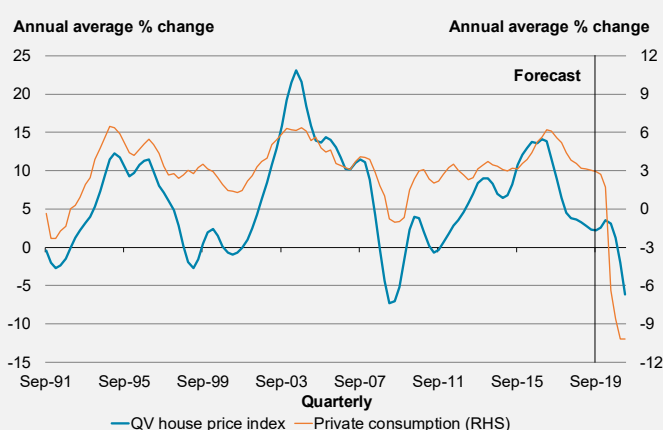


Source: RBNZ

Given that equity in rental properties is counted as a financial asset, household exposure to the property market is more significant than Figure 1.9 suggests. Both housing and financial assets will be impacted by the COVID-19 pandemic, with financial markets already experiencing major shocks. House prices are also expected to decline substantially, owing to reduced demand for housing driven by unemployment and uncertainty.

Growth in private consumption in New Zealand follows house price growth quite closely (Figure 1.10). Although this relationship is partly driven by a shared correlation with other variables, there is a direct effect through the wealth channel for homeowners. When the value of people's housing assets increases, they feel wealthier, and are more inclined to spend as a result. Controlling for the effect of wages, unemployment and interest rates, a 10% increase in house prices is associated with a 1% to 2% lift in private consumption.

Figure 1.10 – House prices and consumption



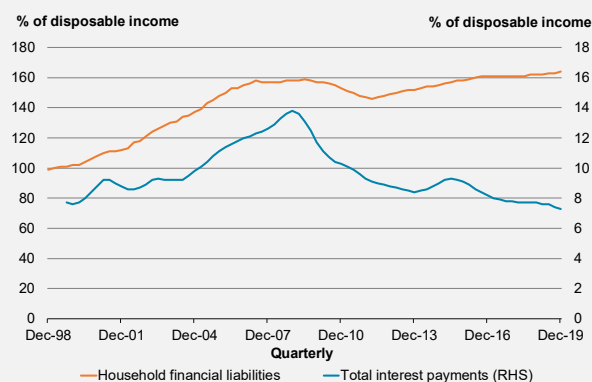
Sources: Stats NZ, QV Limited, the Treasury

Despite high levels of debt, debt servicing as a percentage of disposable income has reached its lowest level on record (Figure 1.11), reflecting the current low interest rate environment. The RBNZ's Monetary Policy Committee cut the OCR to 0.25% on 16 March 2020 and indicated it would remain there for at least the following 12 months, alleviating pressure on

floating and short-term fixed rates. Longer-term fixed rates are subject to international credit availability and funding costs, and may therefore face some upward pressure, particularly as international credit availability falls.

While debt levels, in aggregate, remain manageable, pressure on some households' disposable income is expected to increase as unemployment rises in the short term. While most households will be able to weather the storm, those with high levels of debt may struggle to meet their payment obligations.

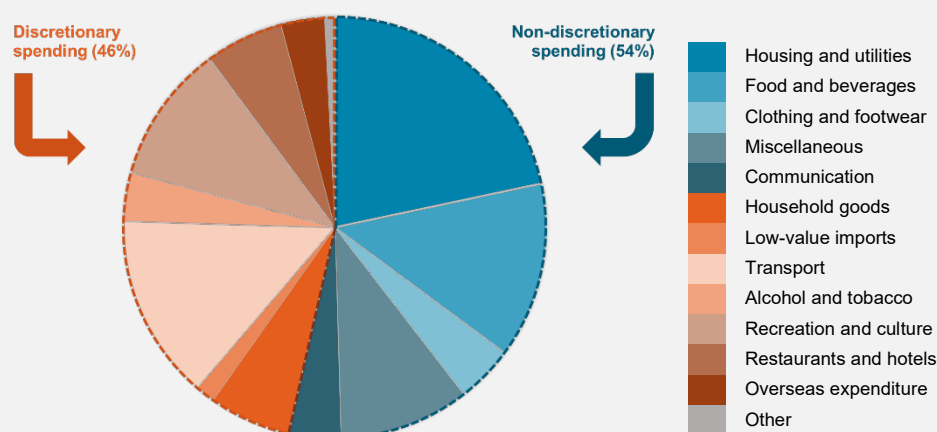
Figure 1.11 – Household debt and debt servicing



Source: RBNZ

As unemployment rises and household wealth is hit by falling asset values, consumer confidence will likely fall and people may reduce their spending. Discretionary spending normally makes up around 46% of private consumption, and is likely to fall during times of economic disruption (Figure 1.12). Spending on recreation and culture (11% of private consumption) and restaurants and hotels (6%) is likely to be particularly depressed in the near term.

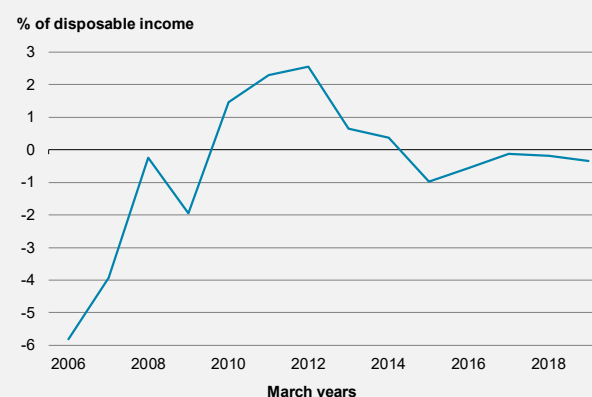
Figure 1.12 – Share of discretionary spending in private consumption



Source: Stats NZ

We might also expect a growing trend towards risk aversion, with households reducing spending in order to increase their saving. Household saving trended upward following the global financial crisis, reaching 2.6% of disposable income in 2012 (Figure 1.13). Whether reduced spending translates into increased saving will depend on the impact of the pandemic on incomes and employment. Saving has been negative in recent years, so households will likely aim to increase their saving to protect themselves against future shocks.

Figure 1.13 – Household saving



Source: Stats NZ

Reduced incomes, falling asset values and a move towards precautionary saving will depress household spending and slow the economic recovery in the near term. Our main forecast shows private consumption returning to pre-COVID 19 levels during the second half of 2021, though there is a risk that the recovery will be more protracted.

Alternative Scenarios

This section presents two additional scenarios to highlight some of the ways in which the economy could evolve differently from the forecasts presented earlier. The Treasury has also previously released scenarios that consider the impact if the time spent at the various alert levels differs⁴.

Slower recovery

This alternative scenario assumes the economic shock from COVID-19 is more persistent than in the main forecast, including a more gradual recovery in tourism. The scenario assumes the full CRRF fund is used to support the economy in the initial response phase and then during the recovery phase. Trading partner growth is materially weaker, contracting by nearly 6% over 2020, with further small contractions occurring over 2021 and 2022 (see earlier Figure 1.5).

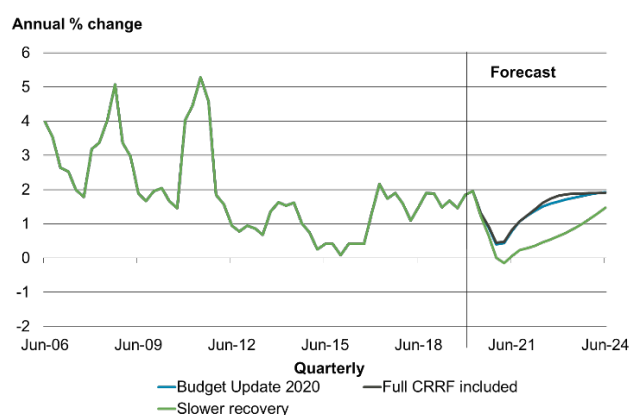
The weaker economic environment results in slower business investment. This, combined with shifts in demand domestically and from abroad, results in the effective redundancy of some earlier investment. We may expect a rise in business failures and higher unemployment. Together, these factors contribute to slower productivity growth than in the main forecasts and a slower economic recovery overall.

There is uncertainty about extent to which the current COVID-19-related shock is temporary or has longer lasting growth impacts. In this scenario, the impact on growth is more persistent, with potential output around 4% lower than in the main forecast by June 2024.

Both weaker supply and demand create competing forces on prices in the economy. However, overall the impact of weaker demand dominates. This results in persistently lower inflation when combined with lower rates of imported inflation, given the softness in the global economy (Figure 1.14). The depreciation in the New Zealand dollar provides only a partial offset.

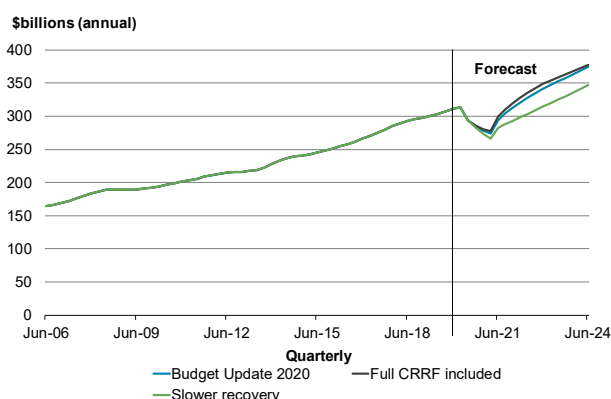
With weaker economic activity, unemployment is persistently higher than in the main forecasts, ending the forecast period close to 7%.

Figure 1.14 – Inflation



Sources: Stats NZ, the Treasury

Figure 1.15 – Nominal GDP



Sources: Stats NZ, the Treasury

⁴ <https://treasury.govt.nz/publications/tr/treasury-report-t2020-973-economic-scenarios-13-april-2020>

Over the forecast period, nominal GDP is cumulatively more than \$90 billion lower compared to the main forecast. This results in lower tax revenue. Core Crown tax revenue is over \$19 billion lower than in the main forecast, in total across the five years of the forecast period. While all taxes would likely be lower, the largest impact comes from lower corporate taxes which are cumulatively \$8 billion lower. This reflects that operating surplus does not recover to its pre-COVID-19 level until 2024. Increased welfare expenses, mainly due to much higher recipient numbers, add over \$3 billion to expenses.

Moderated impact from COVID-19

This second scenario assumes more effective control over the spread of COVID-19 domestically and abroad, with only a limited number of contained second phase infection episodes. As in the case of the main forecast, the scenario assumes around \$35 billion in COVID-19-related fiscal support.

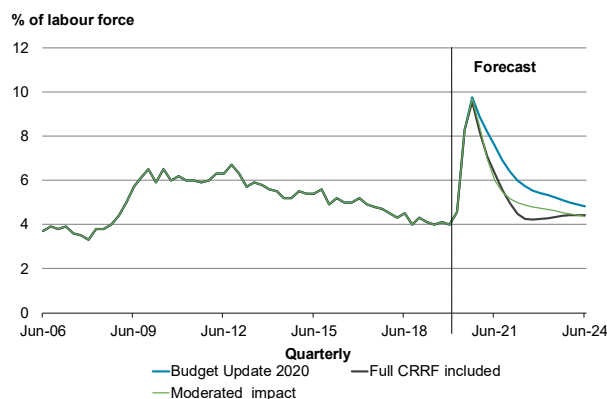
Tourism starts to recover from late 2020, compared with the second half of 2021 assumed in the main forecast. The earlier recovery in tourism encourages business activity and improves sentiment, prompting an earlier recovery in business investment.

As foreign economic growth starts to recover sooner, demand for New Zealand's exports of goods also recovers at a faster pace, starting from the second half of 2020.

The moderated impact from COVID-19 sees unemployment falling back to around 5% by late 2021. Stronger demand generates slightly more inflation, which reaches 2.0% by the end of the forecast period.

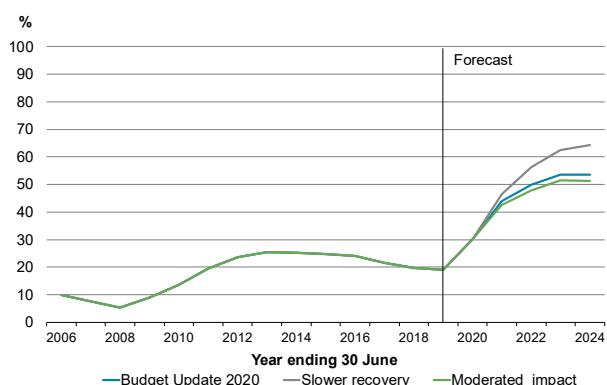
Cumulatively, nominal GDP is forecast to be around \$23 billion higher than in the main Budget forecasts, resulting in core Crown tax revenue that is cumulatively \$6 billion higher. Nearly half of this (\$2.5 billion) additional tax revenue reflects source deductions, as a result of higher labour income. Higher tax revenues and lower welfare expenses (around \$1 billion lower) contribute to a lower peak in net core Crown debt than in the main forecast and the slower recovery scenario (Figure 1.17).

Figure 1.16 – Unemployment rate



Sources: Stats NZ, the Treasury

Figure 1.17 – Net core Crown debt to GDP⁵



Sources: Stats NZ, the Treasury

⁵ As noted earlier in the chapter, the Budget 2020 economic forecasts were finalised before the fiscal forecasts were produced. The Budget 2020 economic forecasts included around \$35 billion of COVID-19-related fiscal support, leaving around \$27 billion of the CRRF available. The Budget fiscal forecasts presented in the Fiscal Outlook chapter, include the full \$50 billion CRRF. The paths for net debt shown in Figure 1.17 all include the same underlying expenditure paths as in the fiscal forecasts.

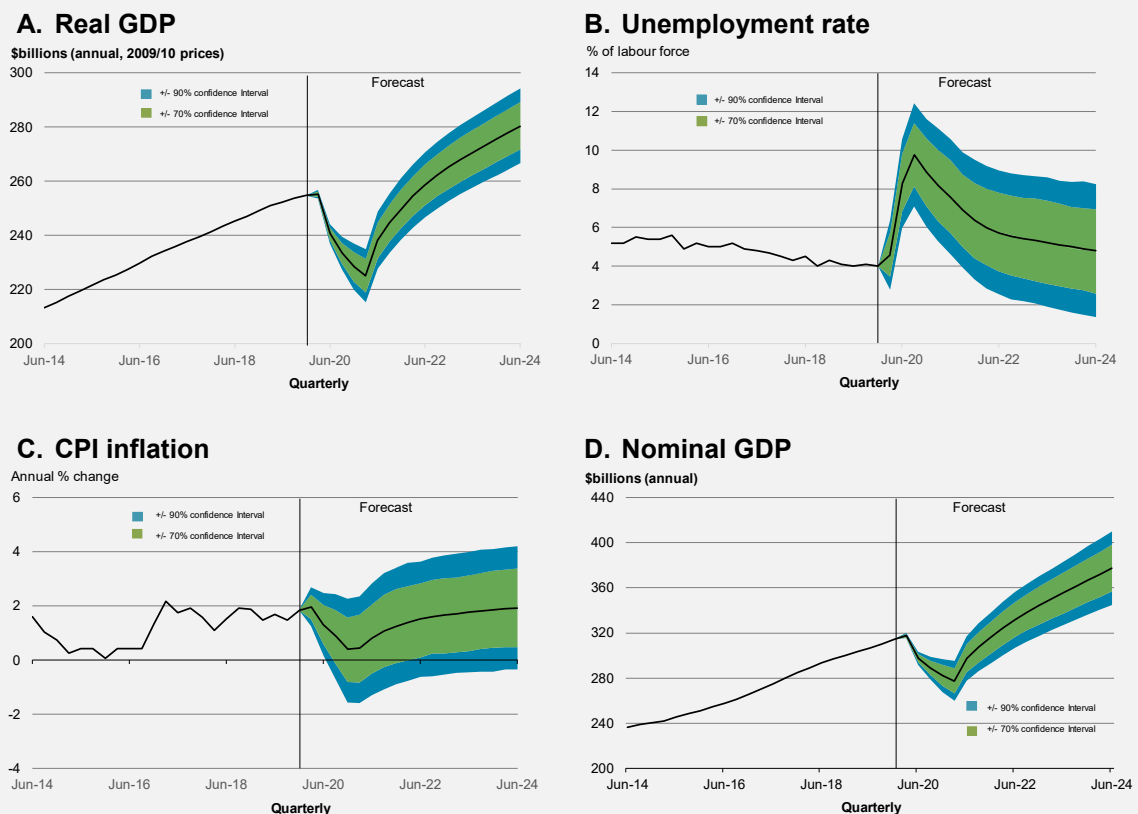
Forecast uncertainty

In normal times economic forecasting involves a degree of error. The relationship between economic variables is inexact and uncertain at best, and can change over time. On top of this the economy will inevitably be hit by shocks that are not, or cannot be, foreseen at the time the forecasts are made. These errors are often compounded during periods of economic turmoil and heightened uncertainty, because of the expanded range of possible future outcomes. The economic forecasts in this chapter are the Treasury's best estimate of what could happen, while acknowledging that there is a range of possible future outcomes.

The Treasury has used fan charts based on historical forecast errors in previous economic and fiscal updates to communicate forecast uncertainty around nominal GDP and core Crown tax revenue. Fan charts are commonly used by other forecasting and policy-making institutions, including the Australian Treasury, the UK's Office for Budget Responsibility and various central banks including the Bank of England and Norges Bank, to convey forecast uncertainty.

In this box we extend that fan chart analysis to other economic variables using the Treasury's forecasting model Matai. Given the atypical nature of the COVID-19 shock where, somewhat unusually, some of the greatest uncertainty is around near term outcomes, the presented fan charts likely understate the degree of variation possible in the near term. A lot of this near-term uncertainty stems from the unknown nature of COVID-19 and policy responses put in place to contain its spread and to support households and businesses.

Figure 1.18 – Uncertainty bands for selected forecast variables



Sources: Stats NZ, the Treasury

However, it is still useful to illustrate the wide range of outcomes that may occur over the medium term, once policy responses become clearer and the current period of unusual uncertainty has passed. Combining such analysis with scenarios, such as those in this chapter and released in April, highlights the wide range of potential paths the economy may take. Taken in isolation, ranges on fan charts, or a particular scenario, likely understate the current extent of uncertainty.

The fan charts are based on 5,000 forecast simulations, where each simulation involves adding random sequences of shocks drawn from Matai's shock distributions to the shocks used to produce the central forecast. This results in a new set of forecasts, which when combined with the other simulations, forms a distribution. These convey the amount of uncertainty that should be expected according to Matai's interpretation of the historical data. We plot fan charts for real GDP, unemployment, annual CPI inflation and nominal GDP in Figure 1.18.

The fan charts widen with time reflecting the compounding effects of uncertainty. The combined area of the fan chart represents where actual outcomes are expected to occur 90% of the time, while the green area represents where actual outcomes are expected to occur 70% of the time. Accordingly, at the end of the forecast period:

- real GDP outturns are expected to be within \$13.8 billion of the main forecast 90% of the time, and \$8.7 billion of the main forecast 70% of the time
- the unemployment rate is expected to be within 3.4 percentage points of the main forecast 90% of the time and within 2.2 percentage points 70% of the time
- CPI inflation is expected to be within 2.2 percentage points of the main forecast 90% of the time and 1.4 percentage points 70% of the time, and
- nominal GDP is expected to be within \$32.6 billion of the main forecast 90% of the time, and \$20.7 billion 70% of the time.

Fiscal Outlook

Overview

- The economic impact of COVID-19, coupled with the Government's response, has had a significant impact on the Government's fiscal position. All key indicators are significantly weaker than those forecast in the *Half Year Update* published in December.
- In the current year and the next two fiscal years, operating deficits (operating balance before gains and losses) average around \$28 billion, while net core Crown debt is expected to increase on average by around \$32 billion per year. The operating deficits and increases in net core Crown debt start to fall from 2022/23.
- Tax revenue is expected to fall in the first two years of the forecast period, primarily owing to the economic slowdown coupled with tax policy changes. The tax revenue forecasts then start to recover as economic activity starts to pick up. Overall tax revenue is \$49.2 billion lower than the *Half Year Update* over the forecast period.
- In total across the forecast period, nominal GDP is \$103 billion lower than in the *Half Year Update*. This lower GDP forecast accounts for around \$34 billion of the \$49.2 billion reduction in forecast core Crown tax revenue across the forecast period.
- A sharp rise in core Crown expenses is expected in the current year mainly as a result of the Government's response to COVID-19. The level of core Crown expenses peaks at just under \$120 billion in 2021/22, before starting to fall as some of the Government's temporary response measures are expected to cease and the economy continues to recover.
- The Government has already announced an immediate \$12.1 billion economic response package. In addition, \$50.0 billion in funding has been set aside to manage the Government's response to and recovery from COVID-19. Some of that funding has already been announced, for example increases to the Wage Subsidy Scheme. Around \$39.3 billion of the funding remains unallocated at the time the fiscal forecasts were completed.
- In addition to the Government's fiscal policy response of \$62.1 billion, the Reserve Bank is also employing monetary policy measures such as the Large Scale Asset Purchases (LSAP) programme aimed at reducing borrowing costs and injecting more money into the economy.

- The Government's balance sheet is forecast to absorb most of the fiscal impact of the COVID-19 Government response and economic downturn impacts, with increasing borrowings and reducing net worth. Net core Crown debt is expected to reach 53.6% of GDP by the end of the forecast period.
- There is added uncertainty in these forecasts in relation to the size of the economic impact, and the pace of recovery. The Economic Outlook chapter discusses these uncertainties and provides some scenarios to illustrate the range of potential outcomes.

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

Table 2.1 – Fiscal indicators

Year ending 30 June	2019 ⁴ Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
\$billions						
Core Crown tax revenue	86.5	82.3	80.1	87.3	96.5	102.1
Core Crown expenses	87.0	114.0	113.5	119.8	118.6	113.0
Total Crown OBEGAL ¹	7.4	(28.3)	(29.6)	(27.2)	(16.5)	(4.9)
Total Crown operating balance	0.3	(37.1)	(29.3)	(24.2)	(13.0)	(1.0)
Core Crown residual cash	(0.7)	(32.0)	(43.3)	(35.2)	(26.9)	(13.5)
Net core Crown debt ²	57.7	88.9	129.5	163.6	188.7	200.8
Gross debt ³	84.4	99.8	138.1	179.2	203.6	218.8
Total borrowings	110.2	164.8	238.2	280.3	300.1	317.3
Net worth	143.1	106.0	76.5	52.4	39.4	38.5
% of GDP						
Core Crown tax revenue	28.5	28.0	27.2	26.6	27.4	27.3
Core Crown expenses	28.7	38.7	38.6	36.5	33.7	30.2
Total Crown OBEGAL ¹	2.4	(9.6)	(10.1)	(8.3)	(4.7)	(1.3)
Total Crown operating balance	0.1	(12.6)	(10.0)	(7.4)	(3.7)	(0.3)
Core Crown residual cash	(0.2)	(10.9)	(14.7)	(10.7)	(7.6)	(3.6)
Net core Crown debt ²	19.0	30.2	44.0	49.8	53.6	53.6
Gross debt ³	27.8	33.9	47.0	54.6	57.8	58.5
Total borrowings	36.3	56.0	81.0	85.4	85.2	84.8
Net worth	47.2	36.0	26.0	16.0	11.2	10.3

- 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 '2019 Actual' numbers have been restated to reflect updated accounting standards. For more details refer to the forecast financial statements note 17 on page 120.

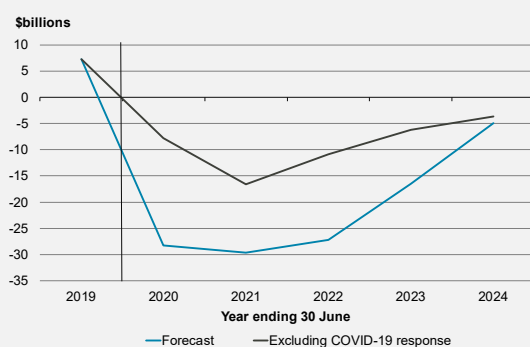
Source: The Treasury

COVID-19 response and recovery

COVID-19 related funding decisions totalling \$62.1 billion have been incorporated in these fiscal forecasts. The impact of these funding decisions on the operating balance before gains and losses (OBEGAL) is shown here. The \$62.1 billion does not include the direct impact from reduction in economic activity on such things as tax revenue and benefit expenses forecasts.

The graph below shows the key fiscal indicator OBEGAL with and without the Government's COVID-19 response and recovery, this graph includes the economic downturn impacts of COVID-19. This highlights the short-term impact on OBEGAL of the Government's response, as the deficits narrow across the forecast period.

Figure 2.1 – OBEGAL comparison



Source: The Treasury

Table 2.2 – COVID-19 decisions included in the fiscal forecasts reducing OBEGAL¹

Year ending 30 June \$billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total change
Reduction in tax revenue (tax policy changes)	1.2	2.0	0.8	(0.2)	0.5	4.3
Increase in social assistance expenditure	0.3	0.9	0.6	0.6	0.6	3.0
Increase in other operating expenditure	14.1	0.3	0.1	0.1	0.1	14.7
	15.6	3.2	1.5	0.5	1.2	22.0
Unallocated COVID-19 CRRF	4.9	9.8	14.8	9.8	-	39.3
Total COVID-19 Government response	20.5	13.0	16.3	10.3	1.2	61.3

¹ The impact on OBEGAL over the forecast period is \$61.3 billion, which is \$0.8 billion lower than the total funding decisions of \$62.1 billion. This is owing to capital expenditure not forming part of OBEGAL and timing differences between cash and accrual impacts.

Of this amount, \$22.0 billion reflects the forecasting of specific Government decisions taken in response to COVID-19 up to 20 April, with the balance of \$39.3 billion being forecast as a single “unallocated” expense line as part of new spending allowances to cover further decisions that the Government may take.

The \$4.3 billion forecast reduction in core Crown tax revenue mainly reflects:

- a one-year temporary increase in the low value asset write-off threshold
- the permanent reinstatement of depreciation deductions for industrial and commercial buildings from 2020/21, and
- a loss carry-back mechanism to enable a firm to offset a loss in a particular tax year against a profit in a previous year, and receive a refund of the tax paid in the previous profitable year.

The forecast increase of \$3.0 billion in social assistance and \$14.7 billion in operating expenditure mainly reflects the:

- permanent increase in the main benefits by \$25 per week from 1 April 2020 and the temporary doubling of the rate of the Winter Energy Payment in 2020
- establishment of the Wage Subsidy Scheme – a subsidy paid to employers as a lump sum covering 12 weeks per employee (\$12.1 billion)
- increase in health funding (\$0.7 billion)
- announcement of the aviation package (\$0.5 billion), and
- establishment of the Business Finance Guarantee Scheme (\$0.5 billion).

COVID-19 Response and Recovery Fund

The Government has set aside funding in the COVID-19 Response and Recovery Fund (CRRF) of \$50 billion to help it manage its decisions in respect of COVID-19. This is a notional envelope for budget management purposes, rather than an actual sum of money ring-fenced in an account. The notional amount of \$50 billion is in addition to the \$12.1 billion of Government decisions announced in the Economic Response Package on 17 March 2020. Since its establishment and as at 20 April 2020, \$10.7 billion of fiscal costs have been managed against the CRRF.

Table 2.3 – COVID-19 funding

Year ending 30 June	\$billions
Decisions announced on 17 March	12.1
Notional CRRF	
Other decisions taken up to 20 April	10.7
Unallocated COVID-19 response and recovery funding	<u>39.3</u>
Total CRRF	<u>50.0</u>
Total response funding	<u>62.1</u>

The unallocated portion of the notional CRRF of \$39.3 billion has been forecast to be fully allocated by the end of the forecast period. The Treasury has based the phasing on high level assumptions, owing to limited information and the level of uncertainty. As the assumptions are highly sensitive to a number of factors, there is a risk that actual costs will differ from the phasing included in the fiscal forecasts.

One of the factors that will determine the actual phasing of costs is how further decisions will be allocated under each of the three waves identified in the Government's economic plan for response to and recovery from COVID-19. The three waves identified by the Government are:

- Wave 1: Fighting the Virus and Cushioning the blow
- Wave 2: Kickstarting the Recovery
- Wave 3: Resetting and Rebuilding

The Government has made a number of announcements since the fiscal forecasts were finalised (eg, the Small Business Cashflow (Loan) Scheme). Although these individual decisions will not be captured in the fiscal forecasts, they are unlikely to have a significant impact on the fiscal outlook as the fiscal costs have been managed against the CRRF, which has been included in the fiscal forecasts.

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 20 April 2020). The criteria for inclusion in these forecasts, along with the key risks, can be found in the Risks to the Fiscal Forecasts chapter.

In addition to the key assumptions underpinning the economic forecasts (refer to page 12), the following key judgements and assumptions supporting the fiscal forecasts were made:

- The forecasts include Government decisions taken up to 20 April in response to COVID-19 amounting to \$22.0 billion. The forecast amount used for each decision has generally been taken from high level costings calculated at the time of the decision was made. The forecasts also include an unallocated portion of the notional COVID-19 Response and Recovery Fund (CRRF) of \$39.3 billion which is assumed to be fully allocated by the end of the forecast period. Both the estimate of costs in respect of decisions taken and the phasing of the unallocated funding are highly sensitive to a number of factors, so there is a risk that the actual costs for the COVID-19 response and recovery funding will differ from those included in the fiscal forecasts.
- Tax forecasts are based on the economic forecast completed on 30 March 2020 and then updated on 17 April 2020.
- 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 and the unallocated CRRF 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, Rail Packages, Public Housing, P-8A Poseidon Aircraft and Prison Capacity) will proceed as planned.
- 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 2.4. 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 2.4 – 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	1.5	0.4	1.6	2.2	2.4
Forecast contributions in <i>Budget Update</i>	1.5	2.1	2.4	2.0	2.3

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

Source: The Treasury

- The impact of COVID-19 on GDP means that the contributions prescribed by the legislative formula have decreased in 2020/21 and 2021/22. However, the impact of this on the NZS Fund is small, because between the years 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 52.

Comparison to the *Half Year Update*

All fiscal indicators are significantly weaker primarily owing to COVID-19

The main impacts since the *Half Year Update* relate to the economic downturn and the Government's response to and recovery from COVID-19. This has led to weaker nominal GDP, higher unemployment and policy decisions to support New Zealanders. This has resulted in a reduction in tax revenue, additional expenditure relating to social assistance as beneficiary numbers increase and the Government's response to COVID-19 totalling \$62.1 billion. All of these factors mean all key indicators are weaker than previously expected.

Table 2.5 – Key fiscal indicators compared to the *Half Year Update*

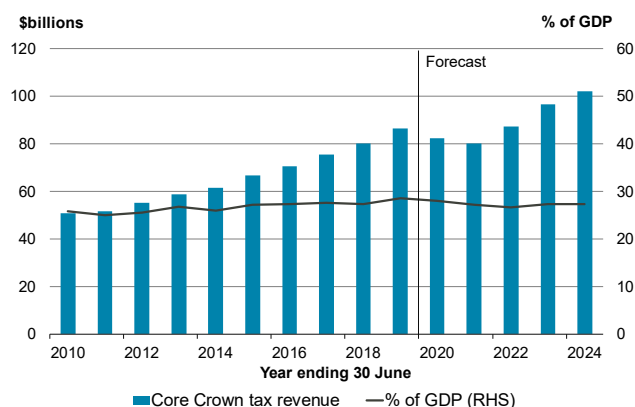
Year ending 30 June \$billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Core Crown tax revenue					
<i>Budget Update</i>	82.3	80.1	87.3	96.5	102.1
<i>Half Year Update</i>	88.7	94.3	99.2	104.8	110.5
Change	(6.4)	(14.2)	(11.9)	(8.3)	(8.4)
Core Crown expenses					
<i>Budget Update</i>	114.0	113.5	119.8	118.6	113.0
<i>Half Year Update</i>	93.8	98.8	102.0	106.3	109.2
Change	(20.2)	(14.7)	(17.8)	(12.3)	(3.8)
OBEGAL					
<i>Budget Update</i>	(28.3)	(29.6)	(27.2)	(16.5)	(4.9)
<i>Half Year Update</i>	(0.9)	0.1	1.8	4.1	5.9
Change	(27.4)	(29.7)	(29.0)	(20.6)	(10.8)
Core Crown residual cash					
<i>Budget Update</i>	(32.0)	(43.3)	(35.2)	(26.9)	(13.5)
<i>Half Year Update</i>	(5.2)	(8.0)	(5.6)	(2.2)	0.9
Change	(26.8)	(35.3)	(29.6)	(24.7)	(14.4)
Net core Crown debt					
<i>Budget Update</i>	88.9	129.5	163.6	188.7	200.8
<i>Half Year Update</i>	62.5	70.6	76.1	77.7	76.3
Change	(26.4)	(58.9)	(87.5)	(111.0)	(124.5)
Total borrowings					
<i>Budget Update</i>	164.8	238.2	280.3	300.1	317.3
<i>Half Year Update</i>	122.2	126.9	137.6	138.8	145.3
Change	(42.6)	(111.3)	(142.7)	(161.3)	(172.0)
Net worth					
<i>Budget Update</i>	106.0	76.5	52.4	39.4	38.5
<i>Half Year Update</i>	145.8	149.4	155.3	163.8	174.9
Change	(39.8)	(72.9)	(102.9)	(124.4)	(136.4)

Core Crown Tax Revenue

Tax revenue is forecast to decrease over the next two years primarily as a result of the economic and policy impacts of COVID-19, with a recovery in the latter part of the forecast period...

Core Crown tax revenue (Figure 2.2) is forecast to decrease by \$4.2 billion and \$2.2 billion in 2019/20 and 2020/21 respectively, before recovering in 2021/22 and then increase over the remainder of the forecast period. As a percentage of GDP, core Crown tax revenue will decrease from 28.5% in 2018/19 to 26.6% in 2021/22; after that it will increase and remain stable at just over 27% for the remainder of the forecast period.

Figure 2.2 – Core Crown tax revenue



Source: The Treasury

By 2023/24, core Crown tax revenue is expected to reach \$102.1 billion, \$15.6 billion higher than in 2018/19, although this is \$8.4 billion lower than forecast in the *Half Year Update* (and \$49.2 billion lower over the forecast period). Table 2.6 shows the breakdown of the movements across the major tax types.

Table 2.6 – Change in core Crown tax revenue over the forecast period, by major tax type

Year ending 30 June \$billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total Change
Source deductions	1.8	0.2	1.6	2.0	2.4	8.0
Goods and services tax (GST)	(1.9)	-	2.8	1.9	1.9	4.7
Corporate tax	(3.6)	(1.8)	2.6	3.3	0.9	1.4
Net other persons tax	(0.2)	(0.2)	(0.1)	1.6	0.1	1.2
Resident withholding tax (RWT) on interest	(0.2)	(0.5)	-	0.1	-	(0.6)
Other taxes	(0.1)	0.1	0.3	0.3	0.3	0.9
Total (decrease)/increase in core Crown tax revenue	(4.2)	(2.2)	7.2	9.2	5.6	15.6
Plus previous year	86.5	82.3	80.1	87.3	96.5	
Core Crown tax revenue	82.3	80.1	87.3	96.5	102.1	

Source: The Treasury

Source deductions, which are mainly PAYE on wages and salaries, are forecast to grow in 2019/20 and 2020/21. While we are expecting there to be fewer people employed in the labour force, this is offset by wage growth and fiscal drag.⁶

⁶ The additional personal income tax generated as an individual's average tax rate increases as their income increases.

Over the remainder of the forecast period, source deductions tax revenue is forecast to grow by a total of \$6.0 billion, almost entirely owing to a recovery in employment and wage growth. The rest of the increase is expected to come from fiscal drag, which contributes \$1.4 billion over the forecast period.

GST revenue is forecast to decrease over 2019/20 and 2020/21 mostly owing to lower private consumption, residential investment and significantly lower overseas tourist spending.

GST revenue forecasts recover and increase from 2021/22 onwards as a result of expected increases in private consumption and residential investment.

Corporate tax revenue is forecast to fall over 2019/20 and 2020/21, mainly because:

- the April 2019 change in the method that Inland Revenue uses to calculate income tax revenue caused a one-off boost to revenue in the 2018/19 year
- policy measures in response to COVID-19, such as the loss carry-back mechanism and the permanent reinstatement of depreciation deductions for commercial properties, are expected to reduce corporate tax revenue (see Table 2.7 for details), and
- there will be a decrease in taxable income, much of which is a result of the economic slowdown caused by COVID-19.

In the final three years of the forecast period, corporate tax revenue is forecast to grow, almost entirely owing to a recovery in taxable income, following the expected economic shock.

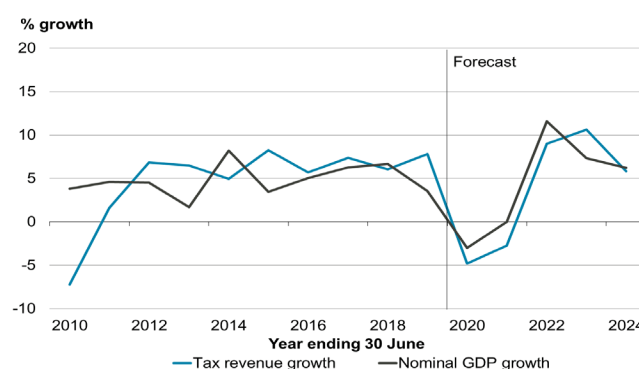
The taxable income for taxpayers in the ‘other person’ category is expected to fall in the next few years although the fall is tempered by the additional revenue expected from the implementation of ring-fencing of residential property losses (previously announced in Budget 2018).

While we expect taxable income for this group to recover by the end of the forecast period, the recovery of tax revenue is slowed by the re-introduction of depreciation deductions for commercial properties. We also expect there to be a lag in the recovery of provisional tax revenue.

...largely reflecting the economic forecasts

Figure 2.3 shows that core Crown tax revenue is forecast to shrink at a faster rate 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 and is not forecast to repeat in 2019/20. In addition, policy decisions will be contributing to the differences in the trend of nominal GDP and tax revenue.

Figure 2.3 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

Uncertainty of the tax forecasts

The outlook for global economic growth and international demand for New Zealand goods and services is uncertain. The range of outcomes is likely to have a significant impact on tax revenue numbers. Tax revenue uncertainty is further exacerbated by timing constraints (tax revenue impacts usually lag economic impacts), and the exact impact of some of the Government's COVID-19 tax policy changes (eg, wage subsidies and loss carry-back) is difficult to forecast.

The uncertainty associated with tax revenue forecasts is illustrated in Table 2.7 below. This table shows the variance in core Crown tax revenue forecasts under various modelling scenarios.

Table 2.7 – Core Crown Tax revenue uncertainty

Year ending 30 June \$billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total impact on tax revenue	% change
Budget 2020 forecast	82.3	80.1	87.3	96.5	102.1		
Scenario 1 - full COVID-19 CRRF	0.6	1.5	2.1	2.5	1.5	8.2	1.8
Slower recovery	-	(1.5)	(4.6)	(6.4)	(6.9)	(19.4)	(4.3)
Moderate impact from COVID-19	-	1.3	2.0	1.5	1.5	6.3	1.4

The differences above are explained by the various macroeconomic assumptions that underpin each of the scenarios; as reported on pages 23 to 24 of the Economic Outlook chapter. These in turn have an impact on the factors that influence the tax forecasts, such as private consumption, residential investment, operating profits and compensation of employees.

Tax policy changes

This section details the material changes to forecast tax revenue since the *Half Year Update* as a result of revenue and spending initiatives. All the policy changes, except the purchase price allocation policy, relate to the Government's COVID-19 response. Table 2.8 shows a breakdown of the changes and the supplementary text describes each initiative.

Table 2.8 – Estimated tax effects of initiatives announced since the *Half Year Update*

Year ending 30 June \$billions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total Change
Building depreciation	-	-	(1.0)	(0.5)	(0.5)	(2.0)
Loss carry-back	(1.2)	(1.9)	1.0	0.3	0.2	(1.6)
Threshold for expensing capital purchases	-	(0.1)	(0.8)	0.3	(0.1)	(0.7)
Purchase price allocation	-	-	-	0.1	0.1	0.2
Tax on increased welfare benefits	-	0.1	0.1	0.1	0.1	0.4
Total Change	(1.2)	(1.9)	(0.7)	0.3	(0.2)	(3.7)

Source: The Treasury

Building depreciation

Effective from the 2020/21 income year, owners of commercial and industrial properties will be able to claim tax deductions for depreciation of their buildings.

Loss carry-back

Businesses expecting to make a loss in either the 2019/20 year or the 2020/21 year are able to estimate the loss and use it to offset profits in the past year.

Threshold for expensing capital purchases

The threshold for expensing capital purchases has been raised to \$5,000 for the 2020/21 income year, and to \$1,000 for income years 2021/22 and later.

Purchase price allocation

Legislation is proposed requiring a vendor and a purchaser of a bundle of assets to allocate the global purchase price consistently across the assets.

Tax on increased welfare benefits

Consequential PAYE effects of the \$25 per week increase to main benefits from 1 April 2020.

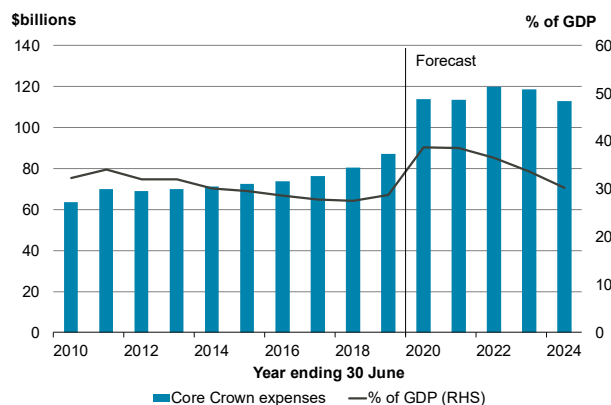
Core Crown Expenses

Core Crown expenses are expected to increase significantly in the near term primarily owing to COVID-19...

Core Crown expenses are expected to increase by \$26.9 billion in 2019/20, an increase of 31% compared to expenses in 2018/19.

Around \$14.4 billion of the increase in core Crown expenses in 2019/20 is owing to the Government's decisions to respond to COVID-19 (eg, wage subsidies). In addition, the forecast for core Crown expenses includes \$4.9 billion phased from the CRRF that is yet to be allocated. The remaining increase in core Crown expenses will be owing to the decisions from Budget 2019 of around \$3.4 billion and increases in benefit expenses owing to increases in recipient numbers and the adjustment to payments from the indexation to wage growth.

Figure 2.4 – Core Crown expenses



Source: The Treasury

The impact of the Government's response to and recovery from COVID-19 will mean core Crown expense will remain at similar levels up to 2022/23. The forecast profile of COVID-19 related expenditure is outlined on page 29. It is expected that most of the Government's policy measures in relation to COVID-19 will be temporary, and therefore there will only be a small structural impact to core Crown expenses by the end of the forecast period.

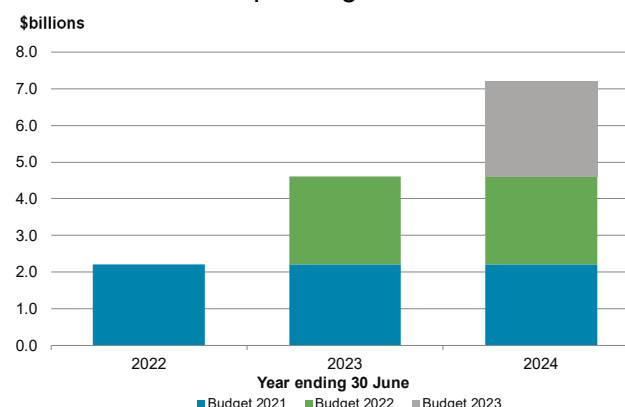
...looking through the temporary impacts of COVID-19, growth in core Crown expenses is broadly similar to the Half Year Update...

Overall, core Crown expenses are forecast to increase by \$26.0 billion by the end of the forecast period, this compares to growth of \$22.2 billion in the *Half Year Update*. Core Crown expenses as a percentage of GDP are expected to peak at 38.7% in 2019/20 before declining to 30.2% by 2023/24.

...with Budget 2020 decisions and allowances for future Budget decisions being a key driver of the growth...

A portion of the nominal increase in expenses is attributable to decisions from Budget 2019 and Budget 2020. Budget 2020 decisions are expected to increase core Crown expenses by an average of \$3.2 billion per annum from 2021 onwards, while Budget 2019 is expected to contribute \$3.8 billion each year on average to this increase.

Figure 2.5 – Future Budget allowances available for new spending decisions



Source: The Treasury

Operating allowances for Budget 2021 and Budget 2022 have been set at \$2.4 billion with the Budget 2023 allowance being \$2.6 billion. Overall, new spending from future Budgets is forecast to increase core Crown expenses by \$7.2 billion per annum by 2023/24 (Figure 2.5).

For forecasting purposes, Budget allowances are assumed to be all operating expenditure. However, these allowances can be used for a combination of revenue and operating or capital 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. Refer to the box on page 40 for more details on how Budget allowances work.

2020 Budget new operating spending

This box explains how the new operating package allocated in Budget 2020 is incorporated in the fiscal forecasts. Details on individual initiatives can be found in the Summary of Initiatives in the Budget 2020 document. The Budget 2020 operating package totals \$13.1 billion across the forecast period, an annual average increase of \$3.2 billion per annum from 2021 onwards.

Table 2.9 – Composition of the increase in spending

Year ending 30 June \$millions	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	5-year Total
Health	138	1,365	1,344	1,344	1,345	5,536
Social security and welfare	-	84	91	86	91	352
Education (including tertiary)	(14)	213	240	251	270	960
Law and order	53	197	109	113	110	582
Primary services	1	259	51	50	50	411
Core government services	53	112	57	119	79	420
Economic and industrial services	6	318	181	182	186	873
Defence	-	163	191	211	219	784
Heritage, culture and recreation	15	84	29	27	24	179
Housing and community development	3	74	103	129	157	466
Environmental protection	-	25	29	25	43	122
Transport and communications	4	81	52	218	10	365
Other	15	11	9	4	4	43
Unallocated contingencies	64	307	500	588	594	2,053
	338	3,293	2,986	3,347	3,182	13,146

Source: The Treasury

Expense forecast assumptions and how Budget allowances work

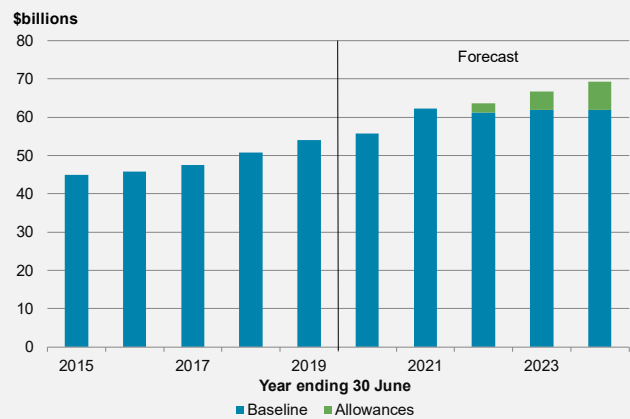
One of the key principles of the Government’s Fiscal Management Approach (FMA) is the concept of fixed nominal baselines. Fixed nominal baselines means the amount available to spend does not automatically adjust for changes in price or demand. There are some exceptions to this rule; the most notable are the majority of benefit expenses that are indexed to wage growth and demographic changes, transport expenses that are based on transport related revenue earned, and finance costs which are based on the levels of debt and interest rates.

Instead of building in changes to prices (such as wage growth) and demand, the Government sets aside future funding in the form of budget allowances that can be applied (through Government decisions) to different areas of spending in the future. These allowances are not allocated to sectors for the purpose of forecasting, which results in sectorial analysis of expenditure remaining flat over the forecast.

Since the introduction of the FMA, a large part of the Budget allowances set has been used to meet cost increases from existing policies at each Budget. It is likely this trend will continue.

It is possible that around 50% of future Budget allowances could be used to meet future cost increases. It is important to note that it is difficult to accurately estimate how much of the Budget allowances included in the forecasts will be needed to meet future cost pressures because inputs for providing services or goods are sensitive to different factors and the Government does have some discretion around changing policy settings to manage future pressures.

Figure 2.6 – Core Crown expenditure¹ and budget allowances



Source: The Treasury

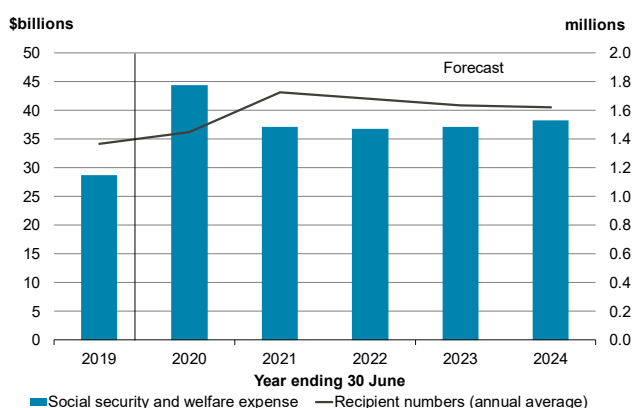
Note: 1 Excluding finance and welfare spending.

...while benefit costs continue to grow, mainly owing to increasing recipient numbers...

Social assistance spending is forecast to grow by \$9.6 billion across the forecast period, mainly owing to growth in recipient numbers, the impact of indexation of most benefits to wage growth and the increase of \$25 per week in main benefits from 1 April 2020.

The New Zealand Superannuation benefit is expected to grow by \$4.4 billion. New Zealand Superannuation 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 16.8% of core Crown expenditure.

Figure 2.7 – Social security welfare expense and recipient numbers of main benefits and NZS



Source: The Treasury

The increase of \$25 per week in main benefits from 1 April 2020 is expected to increase social assistance spending by \$2.4 billion.

Growth in Jobseeker Support and Emergency Benefit and Accommodation Assistance benefits is expected to contribute \$1.1 billion and \$0.7 billion respectively to the \$9.6 billion growth in social assistance costs.

The economic conditions over the forecast period are a significant factor in the expected growth in Jobseeker Support and Emergency Benefit recipients with some flow-on impacts to Accommodation Assistance, and the growth in benefit expenses. The number of Jobseeker Support and Emergency Benefit recipients is expected to initially increase by 158,000 (more than doubles) by 2020/21 compared with 2018/19. However, by 2023/24 there are expected to be around 41,000 (an increase of 30%) more recipients compared with 2018/19. The number of Accommodation Assistance recipients is expected to increase initially by 136,000 by 2020/21 compared with 2018/19. However, by 2023/24 this reduces to 67,000 (an increase of 23%) compared with 2018/19.

...and finance costs increase owing to additional borrowings

Core Crown finance costs are forecast to grow by around \$0.8 billion by the end of the forecast period, primarily owing to interest on additional borrowings to fund the forecast residual cash deficits (refer to page 44). This is offset by a lower effective interest rate of borrowings owing both to lower Government bond interest rates and to settlement cash liabilities having a lower interest rate than the repurchased Government bonds they have effectively replaced through the Large Scale Asset Purchases programme (LSAP).

Operating Balance before Gains and Losses and the Operating Balance

OBEGAL deficits are forecast across the period although some recovery is expected by 2023/24 ...

OBEGAL is forecast to be a \$28.3 billion deficit in 2019/20 and remain at a similar level for the two following years before reducing to a \$16.5 billion deficit in 2022/23 and a \$4.9 billion deficit in the final year of the forecast (Figure 2.8).

In line with the expected economic impacts of COVID-19 and the Government's response, OBEGAL deficits are expected to be highest over the next three years, before starting to recover in 2022/23.

State-owned enterprises' (SOEs') surpluses reduce from 2018/19. This reflects the expected decline in third-party revenue due to COVID-19 for a number of SOEs, and in particular the aviation and tourism sector revenue.

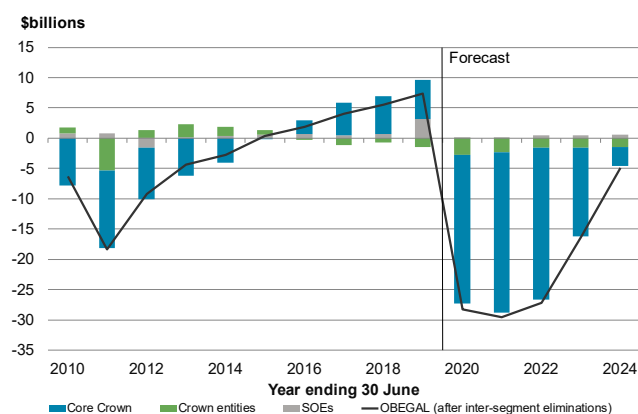
The Crown entities sector is forecast to run deficits of around \$2.8 billion in the current year and then reducing to \$1.5 billion by the end of the forecast period. These deficits are mainly driven by ACC and District Health Boards (DHBs), which are both expecting growth in demand leading to rising costs.

...leading to operating balance deficits

Net losses of \$8.8 billion are expected in 2019/20, largely reflecting losses in the Government's large investment funds (ACC and NZS Fund) along with the impact of the LSAP. The LSAP is discussed in more detail on page 43.

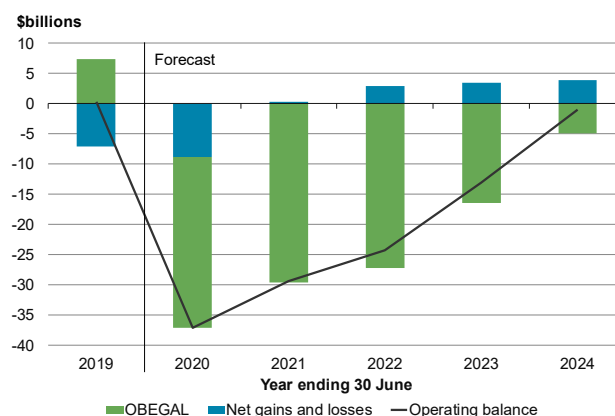
The total Crown operating balance, which includes gains and losses on assets and liabilities, is forecast to be in deficit across all years of the forecast period (Figure 2.9). An operating balance deficit of \$37.1 billion is expected in the current year, staying at this level in the following years before reducing to a deficit of \$1.0 billion in 2023/24. This trend reflects the OBEGAL trend which flows directly through, with gains and losses having a small impact.

Figure 2.8 – Components of OBEGAL by segment



Source: The Treasury

Figure 2.9 – Components of operating balance



Source: The Treasury

Settlement account deposits and large scale asset purchases

Most transactions involve transferring money from one person's bank account to another. If the people involved in a transaction hold their accounts at different banks, it means that one bank owes money to another bank, on behalf of its customer. As well as such transactions, commercial banks also transact with the Reserve Bank (eg, the purchase of notes and coins), and with government.

In order to make these day-to-day payments (that is, to 'settle' them), banks hold settlement accounts at the Reserve Bank. For this reason, the Reserve Bank is sometimes called 'the banks' bank'. The government also holds a settlement bank account at the Reserve Bank.

These settlement accounts are usually considered part of the supply of money. They are administered through the Exchange Settlement Account System (ESAS). This centralised system means that cash can be transferred from one bank to another and with the government with ease. The Reserve Bank manages settlement accounts to meet the economic objectives specified in the Reserve Bank of New Zealand Act 1989 to achieve and maintain stability in the general level of prices over the medium term, and to support maximum sustainable employment.

The Reserve Bank's Large Scale Asset Purchase (LSAP) programme provides for the purchase of \$33 billion high-quality assets, mainly government bonds, on the secondary market that are paid for with an increase in its settlement account liability, at the sellers' bank. In the whole-of-government forecast financial statements, the government bonds that the Reserve Bank purchases are eliminated on consolidation, as is the impact of any indemnities between the Crown and the Reserve Bank for losses that may be incurred because of these transactions. The forecast statement of financial position reflects the net effect of the LSAP programme through decreases in the liability for government bonds outstanding and increases in the liability for settlement deposits with the Reserve Bank.

In addition, the forecasts provide for the Reserve Bank using the settlement accounts to manage short-term interest rate pressures, through the use of foreign exchange swaps with a corresponding increase in foreign currency assets, and through lending to the private sector (eg, the Term Auction Facility, Term Lending Facility, Corporate Open Market Facility and Bond Market Liquidity Facility).

Table 2.10 – Monetised liabilities on the balance sheet

Year ending 30 June \$billions	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Currency in circulation	6.8	7.2	7.4	7.6	7.8	8.0
Settlement deposits with Reserve Bank	6.9	35.8	66.8	66.2	60.0	59.3
Total	13.7	43.0	74.2	73.8	67.8	67.3

The government bonds purchased off the secondary market are expected to cost more than they are currently valued on the government's balance sheet, resulting in a loss. Losses of \$1.6 billion in 2019/20 and \$2.2 billion in 2020/21 have been included in these forecasts. However, there is also a benefit from the lower forecast interest costs on the funding of these repurchases, as the 0.25% OCR interest rate on the settlement account is lower than the coupon rate on the repurchased government bonds.

The Crown has agreed to indemnify the Reserve Bank for LSAP-related losses that may occur from interest rate movements, and for credit risks associated with purchases of local government bonds.

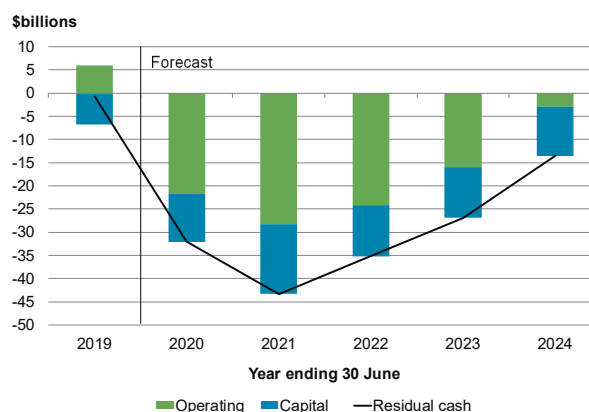
Residual Cash and Net Core Crown Debt⁷

Significant cash shortfalls are now expected, reflecting the forecast deficits...

Over the entire forecast period, a cash shortfall of \$150.9 billion is expected (Figure 2.10). This cash shortfall is funded largely through additional borrowing.

A net operating cash deficit of \$21.8 billion is expected in 2019/20. The level of operating cash deficit grows in 2020/21 to reach \$28.3 billion before reducing over the forecast period. The trend in these deficits broadly follows a similar trend to the OBEGAL forecast with larger deficits in the near term.

Figure 2.10 – Core Crown residual cash



Source: The Treasury

...while capital spending adds to the operating deficits...

The Government is forecast to invest a net total of \$57.8 billion in capital over the forecast period. Net capital spending includes:

- \$14.3 billion on building and acquiring physical assets
- \$7.4 billion on advances mainly due to the Reserve Bank's Term Lending Facility of up to \$6.0 billion to support the Government's Business Finance Guarantee Scheme to help promote lending to viable businesses and ensure liquidity to the banking system, and
- \$18.3 billion on providing capital to Crown entities (eg, to the New Zealand Transport Agency for state highways (\$6.8 billion), to DHBs to build or develop hospitals (\$3.9 billion) and to KiwiRail to invest in the rail network (\$3.2 billion)).

In addition, the forecast capital spending includes \$10.3 billion in contributions to the NZS Fund and future new capital spending of \$10.3 billion including \$7.8 billion in contingencies where funding has been set aside for a specific initiative, but additional report backs are required before funding is confirmed. Future new capital spending represents funding set aside to be allocated in the future.

Table 2.11 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).

⁷ 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.

Table 2.11 – Net capital expenditure activity⁸

Year ending 30 June \$billions	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	5-year Total
Education	0.9	0.8	1.2	1.2	0.9	0.7	4.8
Defence	0.7	1.0	0.7	1.4	0.6	0.4	4.1
Corrections	0.4	0.2	0.3	0.1	0.2	0.2	1.0
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
Justice	0.1	-	0.1	0.1	0.1	0.1	0.4
MBIE	0.1	0.1	0.1	0.1	0.1	-	0.4
Health	0.2	0.2	-	-	-	-	0.2
Other	0.3	0.6	0.5	0.4	0.2	0.3	2.0
Net purchase of physical assets	3.0	3.2	3.3	3.5	2.3	1.9	14.2
RBNZ Term Lending Facility	-	2.0	4.0	-	-	-	6.0
Housing infrastructure fund	-	0.2	0.2	0.3	0.1	0.1	0.9
Student loans	-	0.1	0.2	0.2	0.2	-	0.7
NZTA	-	(0.1)	(0.1)	-	(0.1)	(0.1)	(0.4)
Air NZ loans	-	0.3	0.6	(0.9)	-	-	-
Other	0.1	-	0.2	(0.1)	-	-	0.1
Net advances	0.1	2.5	5.1	(0.5)	0.2	-	7.3
NZTA	1.1	1.1	0.8	1.2	1.8	1.9	6.8
District Health Boards	0.2	0.7	0.6	0.8	1.0	0.8	3.9
KiwiRail	0.3	0.6	1.0	0.9	0.5	0.2	3.2
City Rail Link	0.1	0.3	0.3	0.7	0.4	0.1	1.8
Provincial Growth Fund Limited	-	0.6	-	-	-	-	0.6
Crown Infrastructure Partners	0.3	0.2	0.1	0.1	0.1	0.1	0.6
Ōtākaro	0.1	0.1	0.1	-	-	-	0.2
Tamaki	0.1	-	-	-	-	0.2	0.2
Other	0.5	0.3	0.3	0.2	0.2	-	1.0
Net investments	2.6	3.9	3.2	3.9	4.0	3.3	18.3
Future new capital spending	-	0.2	2.0	2.1	2.7	3.3	10.3
Top-down capital adjustment	-	(1.0)	(0.7)	(0.4)	(0.3)	(0.2)	(2.6)
Contribution to NZS Fund	1.0	1.5	2.1	2.4	2.0	2.3	10.3
Net capital spending	6.7	10.3	15.0	11.0	10.9	10.6	57.8

Source: The Treasury

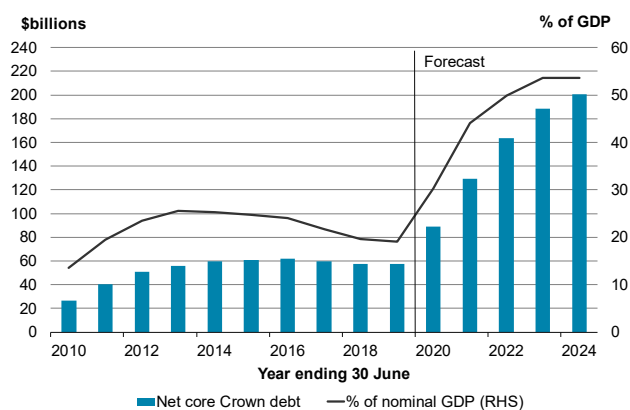
⁸ In addition to the above capital spending, a number of capital projects have been undertaken through Public Private Partnerships (PPPs). Unlike capital spending, where cash payments are made as the asset is being constructed, cash flows in relation to PPPs do not typically commence until the completion of the project.

...and consequently, net core Crown debt is expected to increase over the forecast period

In nominal terms, net core Crown debt is expected to grow significantly over the forecast period reaching \$200.8 billion in 2023/24. This is an increase of \$143.1 billion from the position at the end of the 2018/19 fiscal year. The increase is mainly driven by the need to fund the residual cash deficits of around \$150.9 billion expected over the next five years (refer to table 2.12 to see how fiscal indicators are impacted).

As a percentage of GDP, net core Crown debt is expected to increase rapidly in the first two years of the forecast period, from 19.0% in 2018/19 to 44.0% in 2020/21 (Figure 2.11). It then gradually rises, before stabilising at 53.6% in 2022/23. Net core Crown debt excludes the NZS Fund assets; if these were included, net debt would be 36.9% of GDP.

Figure 2.11 – Net core Crown debt



Source: The Treasury

Table 2.12 sets out how all forecast Government revenue, and operating and capital expenditure impacts the key fiscal indicators.

Table 2.12 – Fiscal indicators and the financial forecasts

Financial Results	Actual	Forecast				
	30 June 2019 \$billions	30 June 2020 \$billions	30 June 2021 \$billions	30 June 2022 \$billions	30 June 2023 \$billions	30 June 2024 \$billions
Core Crown taxation revenue...	86.5	82.3	80.1	87.3	96.5	102.1
...combined with other core Crown revenue...	7.0	7.1	6.9	7.4	7.5	7.8
...funds core Crown expenses...	(87.0)	(114.0)	(113.5)	(119.8)	(118.6)	(113.0)
...and with SOE and CE results...	0.8	(3.7)	(3.1)	(2.1)	(1.9)	(1.8)
...this results in an operating balance before gains and losses (OBEGAL)...	7.3	(28.3)	(29.6)	(27.2)	(16.5)	(4.9)
...with gains/losses leading to operating surplus/(deficit) ...	0.3	(37.1)	(29.3)	(24.2)	(13.0)	(1.0)
...with income in SOEs, CEs ¹ and the NZS Fund retained...	(1.3)	3.6	3.2	2.2	2.0	1.9
...and some items do not impact cash	(0.3)	40.0	27.4	25.0	11.5	1.1
...This leads to an operating residual cash surplus/(deficit)...	6.0	(21.8)	(28.3)	(24.2)	(16.0)	(2.9)
...used to make contributions to the NZS Fund...	(1.0)	(1.5)	(2.1)	(2.4)	(2.0)	(2.3)
...and to use for capital expenditure...	(3.0)	(3.2)	(3.3)	(3.5)	(2.3)	(1.9)
...and to make advances (eg, to students)	(2.7)	(6.4)	(8.3)	(3.4)	(4.2)	(3.3)
Adjusting for forecast adjustments (top-down/new spending)...	-	0.8	(1.3)	(1.8)	(2.4)	(3.0)
...results in a borrowing requirement (cash (deficit)/surplus)	(0.7)	(32.1)	(43.3)	(35.3)	(26.9)	(13.4)
Opening net core Crown debt...	59.5	57.7	88.9	129.5	163.6	188.7
...when combined with the residual cash (surplus)/deficit...	0.7	32.1	43.3	35.3	26.9	13.4
...and other fair value movements in financial assets and financial liabilities...	(2.5)	(0.9)	(2.7)	(1.2)	(1.8)	(1.3)
...results in a closing net core Crown debt ...	57.7	88.9	129.5	163.6	188.7	200.8
...which as a % of GDP is	19.0%	30.2%	44.0%	49.8%	53.6%	53.6%

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

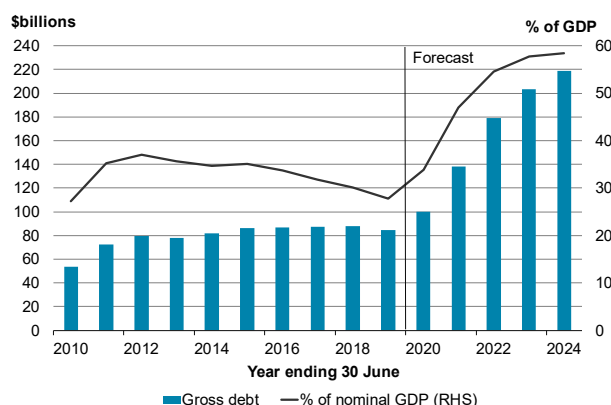
Source: The Treasury

Gross debt rises rapidly over the forecast period...

Gross debt is expected to rise in each year of the forecast period, increasing by a total of \$134.3 billion over the forecast period (Figure 2.12). The increases to gross debt are highest in the early parts of the forecast period, as a result of the immediate fiscal response to COVID-19.

Forecast gross debt as a percentage of GDP rises significantly, before stabilising at just under 60% by the end of the forecast period.

Figure 2.12 – Gross debt



Source: The Treasury

...owing to the core Crown borrowing programme underpinning the fiscal response to COVID-19

The core Crown borrowing programme includes the issuance of both New Zealand Government Bonds (NZGB) and short-term borrowings (eg, Treasury Bills). Consistent with the profile of core Crown residual cash, NZGB issuance is predominantly weighted towards the early part of the forecast period.

Heightened uncertainty remains on the timing, and to a lesser extent the size, of cash requirements, alongside variability in economic activity. To mitigate this uncertainty, the expected increase in borrowings is higher than the forecast change in cash requirements. This leaves a sizeable cash buffer, which allows the Government to be better placed to manage funding and liquidity risks.

In total, the bond programme is expected to raise funds of \$204.3 billion over the forecast period. Bond maturities and repurchases will result in repayments of \$47.7 billion of existing debt. In addition, short-term borrowing is expected to be \$7.0 billion higher at the end of the forecast period, relative to the end of 2018/19 (Table 2.13). Overall, the core Crown borrowing programme will provide net funds of \$163.6 billion to help meet residual cash deficits and to ensure cash is available for bond maturities in 2025.

Table 2.13 – Net issuance of Government bonds and short-term borrowing⁹

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)	25.0	60.0	40.0	35.0	30.0	190.0
Debt programme cash flows						
Cash proceeds from issue of market bonds	27.8	65.6	42.3	36.8	31.8	204.3
Repayment of market bonds	(5.4)	(11.1)	-	(15.8)	(15.4)	(47.7)
Net issue/(repayment) of short-term borrowing	6.5	0.5	-	-	-	7.0
Net debt programme cash flows	28.9	55.0	42.3	21.0	16.4	163.6

Source: The Treasury

⁹ 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 deficits drive the decline in the Crown's net worth...

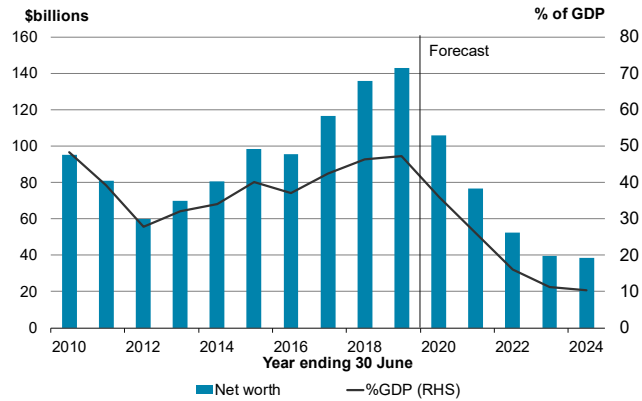
Net worth is the difference between the Crown's total assets (what the government owns) and liabilities (what the government owes). This difference primarily consists of the accumulation of operating surpluses and deficits (referred to as taxpayers' funds) and revaluation uplifts in the physical assets.

In nominal terms, net worth declines by \$104.5 billion over the forecasts, a decrease of 73% from the net worth as at 2018/19. As a percentage of GDP, net worth decreases to be 10.3% in

2023/24. The impact of the operating balance deficit, which is largely owing to the COVID-19 economic impact and Government response to date, flows through to the Crown's balance sheet. For a breakdown of net worth refer to Table 2.14.

This shows that taxpayers' funds (which is primarily the accumulation of previous operating balance surpluses and deficits) is now forecast to be in a negative position across the forecast period; the last time this occurred was for the year ended 30 June 1999. A positive taxpayers' funds provides a buffer against adverse events. These forecasts reflect the use of that buffer in response to COVID-19. Taxpayers' funds will need to be rebuilt in the future to cope with future shocks.

Figure 2.13 – Net worth



Source: The Treasury

Table 2.14 – Breakdown of net worth

Year ending 30 June \$billions	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Taxpayers' funds	36.4	(0.5)	(29.7)	(53.8)	(66.7)	(67.7)
Property, plant and equipment revaluation reserve	106.5	106.9	106.9	106.8	106.7	106.6
Other reserves	0.2	(0.4)	(0.7)	(0.6)	(0.6)	(0.4)
Total net worth	143.1	106.0	76.5	52.4	39.4	38.5
Net worth attributable to the Crown	136.7	100.1	71.0	47.0	34.2	33.4

Source: The Treasury

The forecasts show a relatively static Property, plant and equipment reserve. The impacts of the economic decline due to COVID-19 on assets valuations will not become clear until year end (30 June) valuations are completed for key non-financial assets (ie, land, buildings).

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

The balance sheet shrinks as liabilities increase faster than asset growth ...

While liabilities increase by \$217.9 billion, assets increase by only \$113.4 billion. Total Crown assets grow to reach \$478.0 billion in 2023/24. Total Crown liabilities increase to reach \$439.5 billion in 2023/24 largely owing to a significant increase in borrowing.

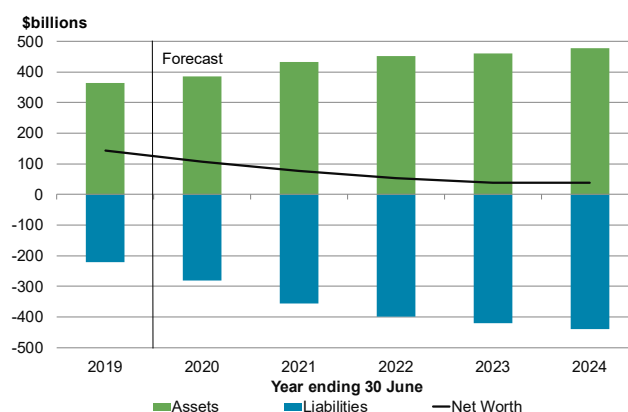
...with total borrowing expected to increase by \$207.0 billion or 188%

Total liabilities including provisions are forecast to increase by \$217.9 billion over the forecast period to \$439.5 billion in 2023/24. The increase in total liabilities is largely owing to borrowings increases of \$207.1 billion, 188% higher than the level at 2018/19.

The increase in borrowing is driven by two main factors:

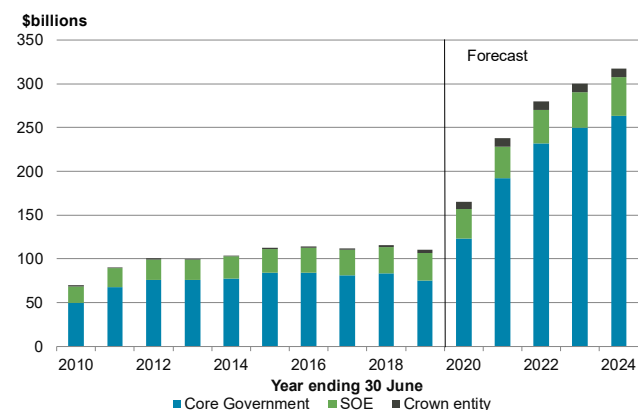
- Government bonds and short term borrowings have increased by \$132.5 billion.
- Kiwibank borrowing (eg, deposits held) increasing by \$10.8 billion to fund lending growth through growth in deposits from customers, as discussed on page 51.

Figure 2.14 – Total Crown net worth



Source: The Treasury

Figure 2.15 – Borrowings by segments



Source: The Treasury

The Balance Sheet provides capacity for the government to meet financial, social and commercial objectives

The Government's balance sheet can be usefully categorised¹⁰ by function or purpose as illustrated below.

Social	Assets and liabilities held to provide public services. These include, for instance, roads, schools, and the national parks. For the purposes of this Statement, social assets also include tax receivables and student loans managed by the Inland Revenue Department (IRD), and Crown-owned companies that do not have purely commercial objectives such as Crown Research Institutes.
Financial	Assets and liabilities that finance or prefund government expenditure and obligations for future expenditure. This category consists of the Crown Financial Institutions (CFIs), the Reserve Bank of New Zealand, and government borrowing via the Treasury's New Zealand Debt Management.
Commercial	Assets and liabilities of entities with commercial objectives. The companies are largely independent entities operating in competitive environments. This category comprises commercial priority companies and listed companies.

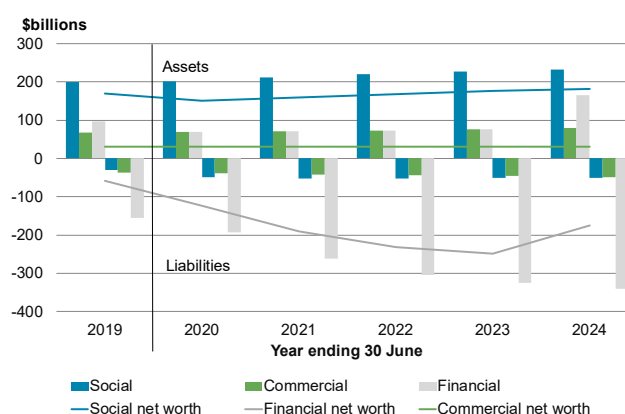
The balance sheet decreases significantly owing to the impacts of COVID-19...

The largest asset growth over the forecast period is in the social assets portfolio (on average 51% of the total Crown balance sheet). Social assets (eg, schools, defence force, public housing and infrastructure) are expected to increase by \$32.7 billion to be \$233.1 billion in 2023/24. This increase largely reflects the capital spending discussed earlier (refer to page 45), with one of the most significant investments expected to be in public housing.

The commercial asset portfolio (representing on average 17% of the Crown balance sheet) is expected to increase by \$11.6 billion over the forecast period to be \$79.0 billion in 2023/24. Overall, it remains relatively static as assets increase in line with liabilities (the largest of which relates to Kiwibank loan assets growth, which is offset by growth in the KiwiBank loan liabilities).

The financial segment's net worth is forecast to decrease sharply by \$127.4 billion over the forecast period to be \$185.0 billion in 2023/24, owing to the increased borrowings required to service the operating deficits and capital expenditure (as discussed above) and investment returns decreasing in the short-term returns (largely reflecting losses in the Government's large investment funds (ACC and NZS Fund)).

Figure 2.16 – Breakdown by functional classification of the balance sheet



Source: The Treasury

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

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 2.15 below.

Table 2.15 – 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)	2.8	(4.6)	(1.0)	8.6	4.6	3.6
Nominal GDP ² (\$billions)	303.3	294.2	294.2	328.3	352.3	374.3
CPI (annual average % change)	1.7	1.6	0.6	1.3	1.7	1.9
Govt 10-year bonds (annual average %)	2.3	1.3	0.5	0.9	1.7	2.2
5-year bonds (annual average %)	1.8	1.0	0.2	0.6	1.4	1.9
90-day bill rate (annual average %)	1.9	1.0	0.5	0.5	0.5	0.5
Unemployment rate (annual average %)	4.1	5.2	8.6	6.2	5.4	5.0
Employment (annual average % change)	1.8	(1.0)	(2.4)	5.0	2.8	2.2

Notes: 1 Production measure
2 Expenditure measure

Source: The Treasury, Stats NZ

Risks to the Fiscal Forecasts

Overview

The Treasury's fiscal forecasts are based on a number of assumptions and key judgements using the best information available and our best professional judgement. As with any kind of forecast, there is a risk that actual events will differ from expectations. This chapter outlines the key risks to the fiscal forecasts.

Risks to the fiscal forecasts can be either positive or negative and can affect revenue and spending or assets and liabilities. The key risks to the fiscal forecasts can be broadly classified into the following categories:

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 (eg, changes in nominal GDP used to forecast tax revenue) that have flow-on impacts for the fiscal forecasts.
5. Other uncertain events	Significant events relating to changes in the external environment (eg, climate-induced events, natural disasters, pandemics, and international events).

This chapter provides a discussion of the following risks to the fiscal forecasts:

- COVID-19 (all risk types) – there is a significant risk that the fiscal forecasts will be impacted from the continued effects of COVID-19, particularly on the economy and from the Government’s response. This section outlines the key risks to the fiscal forecasts resulting from COVID-19.
- Fiscal Sensitivities (risk type 4) – the fiscal forecasts are sensitive to particular economic indicators (eg, nominal GDP). This section outlines how changes in these economic indicators impact key fiscal indicators.
- Balance Sheet Risks (risk types 3 and 4) – the Government’s balance sheet is exposed to a number of risks. This section outlines the risks that assets and liabilities will not be able to provide public services, finance or prefund future government expenditure and obligations, or achieve commercial objectives.
- Specific Fiscal Risks (risk types 1 and 2) – the fiscal forecasts will be impacted from future policy decisions and changes in demand for government services. This section covers all government decisions and other circumstances known to the Government that may have a material effect on the fiscal outlook, but are not certain enough in timing or quantum to include in the fiscal forecasts.
- Contingent Liabilities and Assets (risk type 3) – the fiscal forecasts will be impacted if any of the Government’s current contingent liabilities or assets crystallise. This section outlines the Government’s contingent liabilities and assets as at 31 March 2020.

In previous Economic and Fiscal Updates, information on Fiscal Sensitivities and Balance Sheet Risks has been disclosed separately in a Risks and Scenarios chapter. However, we believe it is more useful in the current environment to include this information in this chapter with the other discussions of risks to the fiscal forecasts.

COVID-19

The COVID-19 pandemic is a ‘once in a century’ public health shock, which has already had a significant fiscal impact on the Government’s finances. The true fiscal impact of COVID-19 is still highly uncertain. This uncertainty presents significant risks to a number of assumptions used in preparing the fiscal forecasts. The key risks to the fiscal forecasts are:

Impact on the economy – the economic disruption from COVID-19 is still in its early stages, so there is a high degree of uncertainty about its impact on jobs and incomes. Forecasts for tax revenue and benefit expenses are particularly sensitive to economic conditions. To illustrate this uncertainty, the Economic Outlook chapter includes scenarios that model the fiscal impact of how the economy might evolve if some of the key judgements around COVID-19 in the main forecasts were to be altered.

The Government’s current response – the Government has already implemented a number of policies to respond to COVID-19. The initial response has focused on the health response, increasing resources for the vulnerable and supporting businesses’ access to finance. Policies announced as at 20 April 2020 have been included in the fiscal forecasts based on the best information available; however, given the degree of uncertainty there is a risk that actual costs for these policies may differ, for example in estimating future calls on the Business Finance Guarantee.

The Government’s future response and recovery – COVID-19 has impacted a number of sectors in the economy. The Government has a three-phase plan to respond to, and recover from, COVID-19. The phases are: *fighting the virus and cushioning the blow*, *positioning for recovery* and *resetting and revitalising the economy*. The fiscal forecasts do not include any individual Government decisions made after 20 April 2020; however, they do include funding set aside to manage the fiscal costs of the response to, and recovery from, COVID-19.

The COVID-19 Response and Recovery Fund – the Government has established the COVID-19 Response and Recovery Fund (CRRF) as a Budget management tool for managing the fiscal impacts of COVID-19. These forecasts assume that the CRRF will be fully allocated by the end of the forecast period. At the date the fiscal forecasts were completed, \$39.3 billion was still available in this budget envelope. To include this budget envelope in the forecasts, the Treasury has had to make judgements about the nature (eg, operating or capital) and timing of the costs. There is a risk that actual costs will differ from those judgements and assumptions used to prepare the fiscal forecasts. There is also a risk that the fiscal costs of the Government’s response and recovery may be more or less than what has been reflected in the fiscal forecasts.

Impact on the valuation of the balance sheet – a number of assets and liabilities on the Crown balance sheet are valued using market information (eg, share investments and ACC outstanding claim liability). The impact of COVID-19 is likely to cause some ongoing volatility in the market that will affect the future value of assets and liabilities on the Government’s balance sheet.

Contingent liabilities – the effects from COVID-19 may result in costs from some of the Government’s existing contingent liabilities converting into expenses during the forecast period. In particular, there is a risk that there may be calls on some uncalled capital facilities and some Crown guarantees and indemnities may be triggered.

Fiscal Sensitivities

Table 3.1 sets out some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point higher than forecast in each year up to June 2024, tax revenue would be around \$5.3 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 \$5.1 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.

Table 3.1 – 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	905	1,745	2,755	4,040	5,345
Wages and salaries	400	820	1,285	1,800	2,395
Taxable business profits	205	385	640	985	1,315
Impact of 1% lower interest rates on					
Interest income ¹	-39	-245	-325	-334	-304
Interest expenses ¹	-53	-598	-1,136	-1,483	-1,710
Net impact on operating balance	14	353	811	1,149	1,406

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 Government's balance sheet is absorbing a significant shock because of COVID-19, deploying the resilience built up over several economic cycles of responsible fiscal management. In addition, the COVID-19 response has seen some further risks added to the Government's balance sheet, for instance in relation to guarantees provided to businesses. To explain this, and the impact of future risks, it is useful to apply the function or purpose approach to Balance Sheet risks set out in the Fiscal Outlook chapter:

- Social – assets and liabilities held to provide public services.
- Financial – assets and liabilities that finance or prefund government expenditure and obligations for future expenditure.
- Commercial – assets and liabilities of entities with commercial objectives.

Balance Sheet risks are risks that assets and liabilities will not be able to provide public services, finance or prefund future government expenditure and obligations, or achieve commercial objectives. The resilience of the balance sheet refers to its ability to absorb and adapt to shocks and stresses that might otherwise hinder these objectives being achieved.

Sources of (Social) balance sheet risk to public services

- Physical assets such as land, buildings, state highways and military equipment are susceptible to external natural hazards, and the quality of asset management in delivering services. The government generally relies on asset management, including built in redundancies (eg, in network capacities), and its ability to re-allocate or repurpose assets (eg, in responding to a crisis) rather than risk transfer instruments such as insurance in managing these risks.
- The replacement costs of physical assets are also susceptible to valuation movements through changes in property market conditions, changes in demand and changes in the costs of construction. Valuations are updated as part of the financial reporting cycle, rather than the budgeting cycle. These forecasts therefore do not reflect any impact from COVID-19 in physical asset valuations.
- Social insurance and retirement liabilities (eg, Accident Compensation, Veterans' Disability and the Government Superannuation Fund) are prone to volatility through their actuarial valuations, including changes to expectations of future interest rates and inflation rates. These forecasts reflect a significant crystallisation of this risk as a consequence of the recent reduction of interest rates to unprecedented low levels.
- The Crown faces contingent liabilities, for example, indemnities of activities in the public interest, environmental claims and legal proceedings. The government indemnities associated with the Business Finance Guarantee Scheme to support viable businesses represent a significant increase in balance sheet risk. Contingent liabilities are more fully discussed in pages 84 to 94 at the end of this chapter.

Sources of (Financial) balance sheet risk to finance or prefund future government expenditure and obligations

- The New Zealand Government remains among the highest-rated sovereigns globally, with the top Aaa foreign-currency rating from Moody's (reaffirmed on 3 April 2020) and AA foreign-currency ratings from Standard & Poor's and Fitch. Moody's has reported: "While the global coronavirus outbreak presents unprecedented challenges to New Zealand's economy, the Government has promptly deployed its fiscal capacity to buffer the impact of the shock. Institutional effectiveness mitigates vulnerabilities related to reliance on external financing and elevated household debt."
- The deployment of the Government's fiscal capacity has meant that the balance sheet is now more highly leveraged than previously. Monetary policy activities including a Large Scale Asset Purchase (LSAP) program, foreign exchange swaps to manage short-term interest rate pressures, and lending to the finance sector by the Reserve Bank have expanded the consolidated balance sheet, increasing interest rate, foreign exchange and credit risk.
- Financial assets held by ACC and the New Zealand Superannuation Fund are sensitive to financial market volatility, such as movements in interest rates, exchange rates and equity prices. This has been especially apparent from movements in recent weeks that are reflected in these forecasts. Crown financial institutions set long-term investment strategies based on underlying policy objectives. These strategies aim to look through short-term volatility and take exposures that would offset the impact of long-term social insurance or retirement liabilities.
- Liquidity risk: the Crown incurs liquidity risk with respect to its ability to raise cash to meet its obligations. Each agency manages its own specific liquidity risk while the Treasury manages the Crown's liquidity requirements. The LSAP programme instituted by the Reserve Bank provides additional assurance that this risk is managed in the current environment.

Sources of (Commercial) balance sheet risk to meet commercial objectives

- A number of commercial entities owned by the Crown have their financial performance and valuations impacted by the commercial environment in which they operate. These forecasts include support packages for Air New Zealand and Airways Corporation where COVID-19 has significantly impacted their commercial environment.

Managing risk into the future

The Crown's exposure to balance sheet risks is unavoidable if it is to pursue its objectives. The general approach that has been taken to identify, measure and treat these risks where practicable, to maintain debt at prudent levels and to hold a healthy level of net worth has enabled the Government to effectively absorb much of the shock of COVID-19.

The build-up and subsequent deployment of that fiscal resilience in response to COVID-19 has underscored the importance of the fiscal responsibility principles in the Public Finance Act 1989.

The forthcoming risk management challenge is to move from absorption to adaptation, as the Government moves from fighting the virus and cushioning the blow, toward kickstarting the economy, resetting the Crown's balance sheet objectives and rebuilding its capacity to absorb shocks in the future.

Specific Fiscal Risks

This statement of specific fiscal risks is required by the Public Finance Act 1989. In addition to the discussion of other types of risks to the economic and fiscal forecasts outlined in this chapter, it sets out (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 are not certain enough in timing or quantum to include in the fiscal forecasts. This section covers:

- how specific fiscal risks are managed
- criteria for inclusion and exclusion of specific fiscal risks, and
- the statement of specific fiscal risks.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts, 23 April 2020. 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.

How Specific Fiscal Risks are Managed

A key principle guiding the disclosure of risks is transparency. This means that material risks are disclosed in this section regardless of whether they can be managed through existing funding sources (eg, through prioritisation of funding already available to departments) 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 risks. The risks disclosed in this section therefore 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 confirmed for Budget 2020 and are included in the Treasury's fiscal forecasts (Fiscal Outlook chapter). These may be reviewed at a later date when the fiscal impact of COVID-19 is clearer.

\$billions	Budget 2021	Budget 2022	Budget 2023
Operating allowances (per year)	2.4	2.4	2.6
Multi-year capital envelope (total)		4.8	

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.

4 COVID-19 Response and Recovery Fund (CRRF)

For risks that materialise in full or in part owing to the impacts of COVID-19, drawing down on the remaining CRRF balance is an additional option for the Government.

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
<p>Matters are incorporated into the fiscal forecasts when:</p> <ul style="list-style-type: none"> 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 probable¹¹ that the matter will be approved or the situation will occur. 	<p>Matters are disclosed as specific fiscal risks if the likely impact is more than \$100 million over five years and either:</p> <ul style="list-style-type: none"> a decision has not yet been taken but it is reasonably possible¹² (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.

¹¹ 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).

¹² For these purposes, 'reasonably possible' is taken to mean that the matter **might** be approved within the forecast period (ie, there is a 20% to 50% chance of the matter occurring or being approved).

General Risks Not Included as Specific Fiscal Risks

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, including as a result of COVID-19, and the most significant of these have been recognised elsewhere in this chapter and Economic and Fiscal Update
- business risks and volatility in the returns from, and valuation of, the Government's investments relating to the broader economic and commercial environment, and
- the costs of future individual natural disasters, individual events resulting from climate change, and other major events (including biosecurity incursions), as their occurrence, nature and timing cannot be predicted. New Zealand will continue to experience natural disasters and for some of these the frequency and/or severity is likely to increase with climate change, for example increased coastal flooding because of sea level rise and extreme weather events. Once such an event does occur, 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.

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 and/or capital expenditure. The status of the risk describes whether the risk reflects a new matter or is changed or unchanged since the *Half Year Economic and Fiscal Update 2019*.

Statement of Specific Fiscal Risks as at 23 April 2020

Policy changes by portfolio	Status ¹³	Type of risk
ACC		
Impacts of Changes to Accident Compensation Policy Settings	Unchanged	Expenses
Work-related Gradual Process Disease and Infection	Unchanged	Expenses
Biosecurity		
<i>Mycoplasma Bovis</i> Biosecurity Response	Changed	Expenses and Revenue
Broadcasting, Communications and Digital Media		
Delivery of the Government's Public Media Outcomes	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 2019-2029	Unchanged	Expenses
Education Workforce Strategy	Unchanged	Expenses
Extension of the Fees-free Tertiary Education Policy	Unchanged	Expenses
Reform of Vocational Education (RoVE)	Changed	Expenses and Capital
Response to the Tomorrow's Schools Review	Changed	Expenses
Finance		
Deposit Insurance Scheme	New	Revenue and Expenses

¹³ *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the *Half Year Update*.

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

Policy changes by portfolio	Status ¹³	Type of risk
Foreign Affairs		
APEC 2021	New	Expenses
Official Development Assistance	Changed	Expenses
Health		
Health and Disability System Review	New	Expenses
Primary Care Services	Changed	Expenses
Housing		
Progressive Home Ownership	Changed	Expenses
Māori Development		
Government Response to WAI262 ¹⁴	Unchanged	Expenses
Research, Science and Innovation		
Research and Development Spending Target	Changed	Expenses
Revenue		
Loss Continuity	Unchanged	Revenue
Potential Tax Policy Changes	Changed	Revenue
Taxation of Digital Services	Unchanged	Revenue
Social Development		
Changes to the Welfare System	Changed	Expenses
Transport		
Auckland City Rail Link Ownership Issues	New	Expenses
Light Rail in Auckland	New	Expenses and Capital
Support for KiwiRail	Changed	Capital
Upper North Island Supply Chain Strategy – Working Group Recommendations	Unchanged	Expenses and Capital
Wellington Transport Investment Programme	Changed	Expenses and Capital
Urban Development		
Infrastructure Funding and Financing to Improve Housing Affordability	Unchanged	Expenses, Capital and Revenue

¹⁴ This risk was previously published under the Treaty of Waitangi Negotiations Portfolio.

Cost pressures by portfolio	Status ¹⁵	Type of risk
ACC		
ACC Levies	Unchanged	Expenses and Revenue
Legal Claims and Proceedings	Unchanged	Expenses
Non-Earners' Account	Unchanged	Expenses
Climate Change		
Emissions Trading Scheme – Fixed Price Option	Unchanged	Revenue and Expenses
Economic Development		
New Zealand Screen Production Grant – International	Changed	Expenses
Education		
Education Operating Cost Pressures	Changed	Expenses
Learning Support	Changed	Expenses
School Transport Services	Unchanged	Expenses
Finance		
Earthquake Commission	Unchanged	Expenses
Goodwill on Acquisition	Changed	Expenses
Foreign Affairs		
Antarctica New Zealand – Redevelopment of Scott Base	Unchanged	Expenses and Capital
Greater Christchurch Regeneration		
Christchurch Central Recovery Plan – Anchor Projects	Changed	Expenses and Capital
Southern Response Earthquake Services Support	Unchanged	Expenses and Capital
Health		
DHB Sustainability	Changed	Expenses
Health Capital Pressure	Changed	Capital
Health Operating Pressure	Changed	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	Changed	Expenses
KiwiBuild – Fiscal and Delivery Risks	Unchanged	Revenue, Expenses and Capital
Tāmaki Regeneration Project	Changed	Expenses
Internal Affairs		
Archives New Zealand Storage Capacity	Changed	Expenses and Capital

¹⁵ *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the *Half Year Update*.

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

Cost pressures by portfolio	Status ¹⁵	Type of risk
Police		
Firearms Reform Programme	Unchanged	Expenses
Regional Economic Development		
Provincial Growth Fund	Unchanged	Expenses and Capital
Revenue		
Cash Held in Tax Pools	Changed	Revenue
Research and Development Tax Incentive ¹⁶	Unchanged	Expenses
Student Loans – Valuation	Unchanged	Expenses
Transformation and Technology Renewal	Unchanged	Expenses
Social Development		
Quarterly Employment Survey Redevelopment	Unchanged	Expenses
Transport		
Auckland City Rail Link	Unchanged	Expenses and Capital
Treaty of Waitangi Negotiations		
Relativity Clause	Unchanged	Expenses
Treaty Settlement Forecasts	Unchanged	Expenses

Cross-portfolio specific fiscal risks	Status	Type of risk
Addressing the Gender Pay Gap in the State Sector	Unchanged	Expenses
Budget 2020 Priority Packages	New	Expenses and Capital
Changes to Institutional Form of Government Agencies	Unchanged	Expenses
Increasing the Minimum Wage	Unchanged	Expenses
New Zealand Upgrade Programme	New	Expenses and Capital
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	Unchanged	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	Unchanged	Expenses
Services Funded by Third Parties	Changed	Expenses
State Sector Employment Agreements	Unchanged	Expenses
Unexpected Maintenance for Crown-owned Buildings	Unchanged	Capital

¹⁶ This risk was previously published under the Research, Science and Innovation Portfolio.

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. Cross-portfolio policy change risks are outlined on page 80.

ACC

Impacts of Changes to Accident Compensation Policy Settings (Unchanged)

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.

Work-related Gradual Process Disease and Infection (Unchanged)

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 2020/21. The need for additional 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 Outcomes (Unchanged)

The media sector, including both public and privately owned organisations, is coming under increasing pressure owing to international competition, declining revenue shares and changes to the way people access content. The Government has committed to strengthening New Zealand's public media and has commissioned a detailed business case on the viability of a preferred approach. Significant additional investment may be required to deliver on the Government's public media outcomes.

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 (Unchanged)

Following public consultation between November 2018 and March 2019 and subsequent Cabinet approval, the Government released *He Taonga te Tamaiti – Every Child a Taonga: Early Learning Action Plan 2019-2029* in December 2019. The estimated cost of the Early Learning Action Plan (ELAP) in the forecast period is approximately \$1.6 billion. This estimated cost relates to actions that are indicated in the ELAP as likely to begin within the forecast period, such as improving adult-to-child ratios. To the extent that costs cannot be managed within baselines, further funding may be required.

Education Workforce Strategy (Unchanged)

The Ministry of Education is working in partnership with the Education Workforce Strategy Governance Group to develop a comprehensive Education Workforce Strategy (EWS) for the full education workforce. The aim is for Cabinet to consider the draft EWS in June this year. Post-Cabinet consultation and engagement will follow. An implementation plan will be finalised in early to mid-2021. Initial estimates are that unconstrained implementation, delivering on the full intent of the EWS, will cost more than \$100 million.

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) (Changed)

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 fiscal forecasts, further funding will be required to manage the full costs of implementing the reform. In addition, the nature and timing of the reform will influence the scale of funding needed to ensure the viability of at-risk subsidiaries of the New Zealand Institute of Skills and Technology (former Institutes of Technology and Polytechnics).

Response to the Tomorrow's Schools Review (Changed)

The Government's response to the Tomorrow's Schools Review has been publicly released. Continued policy development and relevant service and implementation design have begun. Accordingly, future decisions are required on almost all changes, including decisions on changes in investment. The Government has indicated it will consider these changes and new investments over the next three to four Budgets. This is a policy choice of the Government and the costs will be material but unquantifiable at this point for specific financial years.

Finance***Deposit Insurance Scheme (New)***

The Government has announced that by 2023 it plans to introduce a deposit insurance scheme, of \$50,000 per depositor per institution, and is consulting on the details. The scheme would have an impact on both expenses and revenue over the forecast period, but is not yet reflected in the fiscal forecasts.

Foreign Affairs***APEC 2021 (New)***

The impact of COVID-19 on the cost of New Zealand's hosting of APEC 2021 has yet to be assessed but could pose a fiscal risk to the Crown.

Official Development Assistance (Changed)

Each year, New Zealand's Official Development Assistance (ODA) expenditure is measured as a proportion of Gross National Income (GNI). In Budget 2020, Cabinet agreed to increase ODA by \$55.589 million in 2020/21, lifting it to 0.31% of GNI from 0.28% of GNI. If Government wants to maintain the ratio at or around 0.31% beyond June 2021, a different level of funding may be required, depending on the scale of the economic impact of COVID-19.

Health***Health and Disability System Review (New)***

The review of the New Zealand Health and Disability System will identify opportunities to improve the performance, structure, and sustainability of the system with a goal of achieving equity of outcomes, and contributing to wellness for all, particularly Māori and Pacific peoples. Until the Government has considered the recommendations and decided which to implement, the costs of implementation will not be known.

Primary Care Services (Changed)

The Government has signalled the intention to further increase funding for Primary Care services beyond the increase provided in Budget 2020 and in response to COVID-19. The associated implementation details and funding arrangements for any further funding are yet to be finalised.

Housing

Progressive Home Ownership (Changed)

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. The risk of the Crown incurring greater fiscal costs than originally intended is increased by less favourable economic circumstances.

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. In April 2019, the Government initiated a whole-of-government approach to addressing issues raised in the WAI262 claim and the Tribunal's subsequent report.

Research, Science and Innovation

Research and Development Spending Target (Changed)

The Government has a target to increase economy-wide research and development (R&D) expenditure to 2% of GDP over 10 years. While the effect of COVID-19 is likely to decrease GDP, it is also likely to decrease private sector R&D expenditure. It is too soon to assess whether the combined effect of these two factors will further increase the cost to the Crown of achieving the 2% of GDP target.

Revenue

Loss Continuity (Unchanged)

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 (Changed)

The Government has initiated a work programme to progress certain tax measures. These can be viewed on the tax policy website www.taxpolicy.ird.govt.nz. Given the effect of the COVID-19 pandemic on the economy, the focus of the work programme will be on supporting businesses and New Zealanders through this crisis and facilitating the recovery. The fiscal implications of these potential policy changes are unquantified at this stage.

Taxation of Digital Services (Unchanged)

The Government is currently considering options for reform of the international tax framework, in light of the challenges posed by digitalisation and globalisation. The Government's preference is to continue working with the Organisation for Economic Co-operation and Development (OECD) to find a multilaterally agreed solution to these challenges, but the Government will seriously consider a digital service tax if the OECD does not make sufficient progress on a multilateral solution. The revenue impact of any change will depend on the design of the preferred option.

Social Development***Changes to the Welfare System (Changed)***

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 the dignity of clients. The Government has already responded to a number of recommendations, including its recent decision to increase main benefits by \$25 a week, and consideration of other recommendations is ongoing.

Transport***Auckland City Rail Link Ownership Issues (New)***

The Government has committed to fund 50% of the costs associated with the City Rail Link project, along with Auckland Council, which has also committed to fund 50% of the project. Both the Crown and Auckland Council have treated the investment for the City Rail Link project as capital expenditure. Depending on the final ownership structure of the City Rail Link, the Crown may need to write off some value from the Crown's books. Any write-off is likely to be in the range of +/- 20% of the Crown's investment (ie, there may be a write-up of value), but this depends upon a number of factors including allocation of assets and valuation basis once allocation has been determined. The timeframe for decisions around future ownership has yet to be finalised. The current work plan is for such a decision to be made in late 2020, although the agreement between Sponsors and City Rail Link Limited allows for such a decision to be made as late as 2022. This is a newly published risk, rather than a new risk, as this risk was previously withheld under section 26V of the Public Finance Act.

Light Rail in Auckland (New)

Cabinet will consider the Government's preferred delivery partner for the City Centre to Mangere light rail project. The Government has signalled in the Auckland Transport Alignment Project that \$1.8 billion from the National Land Transport Fund (NLTF) will be available to leverage and finance rapid transit projects in Auckland. Depending on the preferred delivery partner and the final project agreement, additional Crown funding may be required to support the City Centre to Mangere project. This is a newly published risk, rather than a new risk, as this risk was previously withheld under section 26V of the Public Finance Act.

Support for KiwiRail (Changed)

Budget 2020 provides an indicative funding allocation of \$246.3 million for below rail (network investment), \$396.3 million to replace ageing rolling stock, and \$400 million to support replacement of the ageing interisland ferry fleet and associated landside infrastructure. However, further Crown funding is likely to be sought to progress these projects as part of the implementation of the Future of Rail programme. In addition, KiwiRail's ability to access NLTF funding is dependent on the Land Transport (Rail) Legislation Bill being passed and coming into force. If the Bill is not passed, further Crown funding would likely be needed to support the establishment of a reliable and resilient rail network.

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

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 (Changed)

The Government Policy Statement (GPS) 2021 has been developed in a way that ensures that Let's Get Wellington Moving (LGWM), along with the Government's other priorities, can be funded from the NLTF to the expected level. However, the ability to deliver LGWM in full relies on local government providing its own share. Local government's commitment to funding their share of LGWM is yet to be fully confirmed as their Long-term Plan process is ongoing. If the local government share is at risk of not being met, there could be requests for greater funding from central government, putting further pressure on the NLTF.

Urban Development

Infrastructure Funding and Financing to Improve Housing Affordability (Unchanged)

The Infrastructure Funding and Financing Bill is currently being considered by a select committee. 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 the passing of the Bill 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 80.

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 High Court decision regarding the interpretation of section 32(1)(c) of the Accident Compensation Act 2001 found that an injury is 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) turn out differently from what has been forecast, any such variance will have a corresponding fiscal impact.

Climate Change

Emissions Trading Scheme – Fixed Price Option (Unchanged)

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), future decisions about the settings of the scheme to be taken by Cabinet, unit volumes and the extent to which participants elect to use the Fixed Price Option FPO. For the latest fiscal forecasts, both revenue and expenses have been valued at the 31 January 2020 market price of \$27.55. Under the (FPO), participants and eligible persons have an option to meet their obligations by purchasing units directly from the Crown at a fixed price. Should the market price of NZUs exceed the fixed price at the time

the surrender obligation becomes due, it is likely that participants and eligible persons would use the FPO. As a result, the Crown would recognise an expense from selling units at below market price and receive cash that would reduce net core Crown debt. The Government also released a consultation document in December 2019 on proposed changes to the settings of the ETS (eg, increasing the FPO to \$35 for 2020 emissions). The fiscal forecasts include the fiscal impact of these proposed changes; however, final decisions are yet to be taken so there is a risk that these decisions may differ from what has been assumed in the fiscal forecasts.

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. Although potential delays to productions as a result of COVID-19 may offset some of this risk in the near term, there remains a high level of international interest in New Zealand as a place to do screen business over the forecast period. The fiscal forecasts include an estimate of expenditure based on known productions. There nevertheless remains a risk that demand for the Screen Production Grant will exceed what is included in the fiscal forecasts if more large-budget productions choose to locate in New Zealand (in addition to the two existing large-scale productions of *Avatar* sequels and *The Lord of the Rings* television series).

Education

Education Operating Cost Pressures (Changed)

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. In addition, the Ministry of Education faces compounding departmental operating expenditure pressures due to increasing demand for and price of education services, and other cost pressures experienced by its work programmes. These pressures, which include difficult to control inflationary pressures, represent risks to the extent that they cannot be managed through reprioritisation or new spending set aside in the forecasts. The Government's stated intention is that all pressures are managed through these mechanisms.

Learning Support (Changed)

A range of existing learning support services provided and/or funded by the Ministry of Education face volume and price pressures. Changing learning support funding is a policy choice for the government. However, to the extent that these pressures cannot be met within existing baselines, further funding may be required.

School Transport Services (Unchanged)

The cost of Daily Bus Services makes up approximately half of the total budget for School Transport Services. 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.

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 (Changed)

As at 30 June 2019, the Government had goodwill on acquisition of a number of sub-entities totalling \$743 million. Since then, the goodwill on acquisition relating to Air New Zealand has been impaired, as a consequence of COVID-19. Under New Zealand accounting standards (PBE IPSAS 26), the remaining 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 further such impairment losses.

Foreign Affairs

Antarctica New Zealand – Redevelopment of Scott Base (Unchanged)

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 of 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 (Changed)

The Crown has funded, and continues to provide funding for, the construction of Anchor Projects as part of the Christchurch Central Recovery Plan. 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.

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 (Changed)

In recent years, the District Health Board (DHB) sector has been running operating deficits. As a result, a number of DHBs have required additional equity injections from the Government in order to remain solvent. This trend is expected to continue, with the fiscal forecasts reflecting deficits from DHBs of on average \$0.9 billion per year over the forecast period. The fiscal forecasts assume that future expenditure growth will be met from future Budget allowances.

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 and net core Crown debt. In particular, the DHB sector is likely to face significant cost pressures in the future to maintain the delivery of existing services. These cost pressures may increase as a result of the COVID-19 response. DHB expenditure growth is likely to be driven by demographic changes, price inflation of inputs, and wage costs (both pay negotiation and progression through pay scales). The Government does have choices for meeting future cost pressures if they eventuate. However, given current policy settings, constraining or reducing expenditure over the forecast period while maintaining existing services would be very difficult. DHBs will be likely to require additional revenue to manage growing deficits.

Health Capital Pressure (Changed)

These capital pressures mainly relate to DHBs, but also to the Ministry of Health and other parts of the health system. DHBs have submitted updated capital intentions, identifying the indicative need for Crown funding over the next four years. Budget 2020 has provided \$750 million for DHBs and Budget 2019 provided \$1.7 billion, with a further \$300 million being provided through the New Zealand Upgrade Programme. 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. Information technology capability in the Ministry of Health and other parts of the sector also needs to be addressed because of ageing legacy systems and an inability to leverage new technology. The magnitude of the risk will depend in part on whether the capital expenditure can be incurred as forecast in the fiscal forecasts.

Health Operating Pressure (Changed)

The health sector is likely to face significant operating pressures within its existing baselines 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 scale), price inflation of inputs and increased operating costs from investment in IT.

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

Kāinga Ora's financial forecasts include business-as-usual divestments, acquisitions and the redevelopment of land and housing as part of its asset management strategy. Revenue from land and property divestments is used to help finance new public housing stock. The COVID-19 crisis is expected to soften the property market, reducing Kāinga Ora's revenue from divestments, thereby increasing its borrowing and/or Crown funding requirements. Kāinga Ora also faces commercial and financial risks inherent in large-scale build and urban development programmes, the magnitude of which has increased as a result of the adverse impact of COVID-19 on Kāinga Ora's pipeline, international supply chains and the financial viability of its build partners.

Emergency Housing Special Needs 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 (Changed)

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. This risk is less likely to eventuate in the immediate future owing to the effects of COVID-19.

KiwiBuild – Fiscal and Delivery Risks (Unchanged)

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 (Changed)

The Tāmaki Regeneration Project involves the replacement of 2,500 old public houses with between 7,500 and 10,500 new public, affordable and market houses (around one-third of which will be public houses). Development involves writing off existing public housing assets. If land sale proceeds are less than the value of write-offs in a given year, there will be a negative impact on the operating balance. The likelihood of this occurring has increased, given the expected impact of COVID-19 on land prices.

Internal Affairs***Archives New Zealand Storage Capacity (Changed)***

There are capacity and condition issues with the current property portfolio for the storage of New Zealand's documentary heritage. Budget 2019 provided funding to complete the design work and initial shift activities associated with the proposed upgrade and expansion of the physical infrastructure. Budget 2020 provides funding for the development and subsequent lease of the new Wellington Archives New Zealand facility and the land purchase and design for a new Regional Shared Repository (RSR). Further funding will be sought in Budget 2022 for the construction of the new RSR to respond to forecast storage growth up to 2030.

Police***Firearms Reform Programme (Unchanged)***

The Arms Legislation Bill is currently awaiting its committee of the whole House stage. 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, are likely to change, and final capital and operating expense amounts in any year may vary from those forecast.

Revenue

Cash Held in Tax Pools (Changed)

Funds held in tax pools are recognised as a Crown asset. There is a risk that funds held in these pools may be withdrawn by that taxpayer, resulting in a reduction in the Crown's available cash reserves. The risk is larger in an economic downturn as taxpayers become more likely to withdraw deposits.

Research and Development Tax Incentive (Unchanged)

The Government has implemented a Research and Development (R&D) Tax Incentive, which allows eligible firms to deduct a percentage of their expenditure on R&D against their tax liability to the Crown. Under certain circumstances, eligible firms may receive a cash payment in place of a tax credit. There is a risk that costs may differ from forecasts owing to the limited availability of data for forecasting purposes on future R&D expenditure, including how firms' R&D expenditure will respond to the subsidy. Additionally, international experience shows that costs of R&D tax credits can be significantly higher than expected if firms recategorise other types of expenditure as R&D in order to claim the credit. Costs may also differ from forecasts as the investment environment can change quickly.

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 the fiscal forecasts. There are risks that the remaining implementation costs, revenue gains and operating costs savings may differ from forecasts. In addition, changes in government policies could materially affect the programme's costs and benefits.

Social Development

Quarterly Employment Survey Redevelopment (Unchanged)

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.

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 fiscal 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 that settlements are finalised through negotiations, there is a risk that the timing and amount of the settlements could be different from the profile included in the fiscal forecasts.

Cross-portfolio 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.

Budget 2020 Priority Packages (New)

In the Budget Policy Statement 2020, the Government signalled its intention to focus on five wellbeing priority areas in Budget 2020. As a result of COVID-19, however, packages to address these priority areas have not been included in Budget 2020, which now focuses on funding existing cost pressures and responding to COVID-19. It remains the Government's intention to progress parts of these priority packages, but the timing for doing this is yet to be determined.

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.

New Zealand Upgrade Programme (New)

The New Zealand Upgrade Programme was announced in December 2019. The programme provides funding for significant capital investments. Operating expenses still need to be provided for some projects and there remains a risk regarding the timing of the capital projects that have been reflected in the fiscal forecasts.

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 as a result of 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 (Unchanged)

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 (Unchanged)

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 for 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 (Changed)

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 – increased by COVID-19 – that 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 (Unchanged)

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.

Risks Removed Since the *Half Year Update*

Portfolio	Title	Reason for expiry
Arts, Culture and Heritage	New Zealand Screen Production Grant – Domestic	The materiality of this risk has fallen below the publication threshold as a result of funding provided through Budget 2020.
Customs	Joint Border Management System Further Development	This risk has been superseded by evolving information systems strategies in both Customs and the Ministry for Primary Industries.
Energy and Resources	Decommissioning of the Tui Oil Field	In February 2020, Cabinet agreed to set aside funding to address the obligation and expense of decommissioning the oil field, and this has been reflected in the fiscal forecasts.
Police	Next Generation Critical Communications Programme	This risk is no longer material as a result of funding provided through Budget 2020.
Revenue	Purchase Price Allocation	This is no longer classed as a risk as Ministers have agreed to progress this policy and this revenue has been reflected in the fiscal forecasts.
Statistics	2023 Census Costs	This risk is no longer material as a result of funding provided through Budget 2020.
Veterans	Treatment of Veterans' Disability Entitlements	This risk has now been recognised as a liability and has been included in the fiscal forecasts.

Contingent Liabilities and Contingent Assets

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

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

In general, if a guarantee or indemnity qualifies as a financial guarantee contract, or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth. When a contingent liability crystallises, and is settled, there is an increase in net core Crown debt. In the case of some contingencies (eg, uncalled capital) the negative impact would be restricted to net core Crown debt because the cost would be offset by the acquisition of an asset.

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact of more than \$20 million and are not expected to be remote.¹⁷

The contingencies have been stated as at 31 March 2020, being the latest set of published contingencies.

¹⁷ 'Remote' is defined as being an item with less than a 10% chance of occurring.

Quantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities

	Status ¹⁸	31 March 2020 (\$millions)
Uncalled capital		
Asian Development Bank	Unchanged	3,525
International Monetary Fund – promissory notes	Unchanged	2,304
International Bank for Reconstruction and Development	Unchanged	1,840
International Monetary Fund – arrangements to borrow	Unchanged	733
Asian Infrastructure Investment Bank	Unchanged	613
Other uncalled capital	Unchanged	21
		9,036
Guarantees and indemnities		
New Zealand Export Credit Office guarantees	Unchanged	121
Other guarantees and indemnities	Unchanged	122
		243
Legal proceedings and disputes		
Legal tax proceedings	Unchanged	141
Other legal proceedings and disputes	Unchanged	263
		404
Other quantifiable contingent liabilities		
Unclaimed monies	Unchanged	184
Air New Zealand Partnership	Unchanged	186
Ministry for Primary Industries - <i>Bonamia ostreae</i>	Unchanged	138
Other quantifiable contingent liabilities	Unchanged	172
		680
Total quantifiable contingent liabilities		10,363

Contingent assets

		31 March 2020 (\$millions)
Legal proceedings and disputes		
Other contingent assets	Unchanged	71
Total quantifiable contingent assets		71

¹⁸ Status of contingent liabilities or assets when compared to the *Half Year Update* published on 11 December 2019.

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities

Indemnities	Status
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Reserve Bank	New
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
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

The following contingent liabilities have been removed as they are considered to be remote:

Air New Zealand
Kiwifruit vine PSA-V

In addition, 'New Zealand Transport Agency – contractual disputes' are less than \$100 million as at 31 March 2020 and have been aggregated into the 'other quantifiable' total legal proceedings and disputes.

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 March 2020 \$millions	30 June 2019 \$millions
Asian Development Bank	3,525	3,216
International Monetary Fund – promissory notes	2,304	2,145
International Bank for Reconstruction and Development	1,840	1,654
International Monetary Fund – arrangements to borrow	733	660
Asian Infrastructure Investment Bank	613	551

Guarantees and indemnities

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

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

Business Finance Guarantee Scheme

The Crown has established a Business Finance Guarantee Scheme with a number of banks to support New Zealand businesses facing hardship as a consequence of COVID-19. Under this scheme, the Crown has indemnified approved banks against any shortfall that arises in relation to a supported loan in default by an amount equal to 80% of the shortfall. As these indemnities are financial guarantee contracts the fair value of the contract, and the expense arising has been quantified and incorporated in to the forecasts.

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.

\$121 million at 31 March 2020 (\$109 million at 30 June 2019)

*Legal proceedings and disputes***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.

\$141 million at 31 March 2020 (\$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.

\$184 million at 31 March 2020 (\$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.

\$186 million at 31 March 2020 (\$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 (PEQ). These claims can be quantified but do not meet the tests for recognising a provision.

\$138 million at 31 March 2020 (\$138 million at 30 June 2019)

Unquantifiable contingent liabilities

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

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

Indemnities

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

Party indemnified	Instrument of indemnification	Actions indemnified
Contact Energy Limited	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, 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.
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.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 – National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide was approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Reserve Bank	A letter of indemnity provided by the Crown to the Reserve Bank to cover losses arising from the large-scale asset purchases of New Zealand domestic government bonds	<p>With effect from Sunday 22 March 2020, the Crown agreed to indemnify the Reserve Bank in respect of all losses which the Reserve Bank incurs in respect of Indemnified Bonds.</p> <p>The Crown may terminate its obligations under this letter of indemnity at any time after 30 September 2021 by giving one day's notice to the Reserve Bank. Otherwise, obligations under this letter of indemnity may be terminated by agreement between the Crown and the Reserve Bank if they both believe the Large Scale Asset Purchases (LSAP) programme is no longer needed as a monetary policy tool.</p> <p>Termination of this indemnity will not release the Crown from any liability in respect of losses occurring after 30 September 2021 in respect of the Indemnified Bonds.</p> <p>Indemnified Bonds means all New Zealand domestic government bonds purchased by the Reserve Bank under the LSAP programme prior to 30 September 2021 and any New Zealand domestic government bonds purchased as a reinvestment of those bonds up to the cap.</p> <p>Cap means \$30 billion or such amount agreed between the Minister and the Reserve Bank from time to time.</p>

Party indemnified	Instrument of indemnification	Actions indemnified
Southern Response Earthquake Services Limited (SRES)	Deed of Indemnity	SRES continues to work through and settle the claims of AMI residential policyholders that arose from the Canterbury earthquake series. However, 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.
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master	<p>The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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 was expected to be heard by the Court of Appeal in April 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 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 of \$138 million has been made in these accounts as at 31 March 2020.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge with the Waitangi Tribunal certain claims relating to land or actions counter to the principles of the Treaty. 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.

Other unquantifiable contingent liabilities

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. These claims are being defended because there is a wide range of potential outcomes, and any estimate of a possible obligation resulting from this proceeding would be unreliable.

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, and 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 claims – settlement relativity payments – see page 79

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.

Description of Contingent Assets

There are no material quantifiable or unquantifiable contingent assets at 31 March 2020.

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. Both the Economic and Fiscal Outlook chapters include risks to the forecasts while the Risks to the Fiscal Forecast chapter discusses 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 20 April 2020.

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

Statement of Accounting Policies

Significant Accounting Policies

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

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

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

The specific accounting policies are included on the Treasury's website at <https://treasury.govt.nz/information-and-services/state-sector-leadership/guidance/financial-reporting-policies-and-guidance/accounting-policies>

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Risks to the Fiscal Forecasts chapter on pages 53 to 94. Key forecast assumptions are set out on pages 31 to 32.

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 23 April 2020

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

Offices of Parliament

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

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises Segment**State-owned enterprises**

Airways Corporation of New Zealand Limited

Animal Control Products Limited

AsureQuality Limited

Electricity Corporation of New Zealand Limited

KiwiRail Holdings Limited

Kordia Group Limited

Landcorp Farming Limited

Meteorological Service of New Zealand Limited

New Zealand Post Limited

New Zealand Railways Corporation

Quotable Value Limited

Transpower New Zealand Limited

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

Genesis Energy Limited

Mercury NZ Limited

Meridian Energy Limited

Other

Air New Zealand Limited

Kiwi Group Holdings Limited (including Kiwibank)

Crown Entities Segment

Crown entities

Accident Compensation Corporation	Museum of New Zealand Te Papa Tongarewa Board
Accreditation Council	New Zealand Antarctic Institute
Arts Council of New Zealand Toi Aotearoa	New Zealand Artificial Limb Service
Broadcasting Commission	New Zealand Blood Service
Broadcasting Standards Authority	New Zealand Film Commission
Callaghan Innovation	New Zealand Infrastructure Commission/Te Waihanga
Children's Commissioner	New Zealand Lotteries Commission
Civil Aviation Authority of New Zealand	New Zealand Productivity Commission
Climate Change Commission	New Zealand Qualifications Authority
Commerce Commission	New Zealand Symphony Orchestra
Crown Irrigation Investments Limited	New Zealand Tourism Board
Crown Research Institutes (7)	New Zealand Trade and Enterprise
District Health Boards (20)	New Zealand Transport Agency
Drug Free Sport New Zealand	New Zealand Venture Investment Fund Limited
Earthquake Commission	New Zealand Walking Access Commission
Education New Zealand	Office of Film and Literature Classification
Electoral Commission	Pharmaceutical Management Agency
Electricity Authority	Privacy Commissioner
Energy Efficiency and Conservation Authority	Public Trust
Environmental Protection Authority	Radio New Zealand Limited
External Reporting Board	Real Estate Agents Authority
Financial Markets Authority	Retirement Commissioner
Fire and Emergency New Zealand	School Boards of Trustees (2,421)
Government Superannuation Fund Authority	Social Workers Registration Board
Guardians of New Zealand Superannuation	Sport and Recreation New Zealand
Health and Disability Commissioner	Takeovers Panel
Health Promotion Agency	Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Health Quality and Safety Commission	Te Taura Whiri i te Reo Māori (Māori Language Commission)
Health Research Council of New Zealand	Television New Zealand Limited
Heritage New Zealand Pouhere Taonga	Tertiary Education Commission
Human Rights Commission	Transport Accident Investigation Commission
Independent Police Conduct Authority	WorkSafe New Zealand
Kāinga Ora - Homes and Communities	
Law Commission	
Maritime New Zealand	

Crown entities Segment (continued)**Organisations listed in schedule 4 of the Public Finance Act 1989**

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (21)

Te Ariki Trust

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

Te Urewera

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

Crown Asset Management Limited

Crown Infrastructure Partners Limited

Education Payroll Limited

Ōtākaro Limited

New Zealand Green Investment Finance 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

Others

Regenerate Christchurch

Christ Church Cathedral Reinstatement Trust

New Zealand Institute of Skills and Technology

Venture Capital Fund

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

Tertiary Education Institutions (11)

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

		2019	2020	2020	2021	2022	2023	2024
	Note	Actual ¹ \$m	Previous Budget ¹ \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
Revenue								
Taxation revenue	1	85,723	88,541	81,588	79,331	86,489	95,699	101,262
Other sovereign revenue	1	6,028	6,027	6,126	6,012	6,860	7,288	7,700
Total Revenue Levied through the Crown's Sovereign Power		91,751	94,568	87,714	85,343	93,349	102,987	108,962
Sales of goods and services		19,796	19,041	19,196	17,137	19,869	20,084	20,533
Interest revenue	2	2,646	2,748	2,440	2,513	2,772	2,958	3,178
Other revenue		4,949	4,397	5,053	5,074	5,294	5,389	5,510
Total revenue earned through the Crown's operations		27,391	26,186	26,689	24,724	27,935	28,431	29,221
Total revenue (excluding gains)		119,142	120,754	114,403	110,067	121,284	131,418	138,183
Expenses								
Transfer payments and subsidies	3	28,103	29,707	30,831	35,712	35,424	35,783	36,896
Personnel expenses		25,933	25,711	27,314	28,563	29,247	29,743	29,963
Depreciation		4,554	5,217	5,465	5,714	5,783	5,852	5,931
Other operating expenses	4	42,693	49,012	64,478	50,154	49,859	49,025	49,151
Finance costs	2	4,340	4,223	3,896	3,615	4,069	4,887	5,422
Insurance expenses	5	5,812	5,547	6,418	5,811	6,142	6,631	6,982
Forecast new operating spending	6	-	1,266	5,357	10,991	18,266	16,168	8,972
Top-down expense adjustment	6	-	(1,400)	(1,075)	(975)	(750)	(650)	(650)
Total expenses (excluding losses)		111,435	119,283	142,684	139,585	148,040	147,439	142,667
Minority interest share of operating balance before gains/(losses)		(337)	(375)	(12)	(81)	(443)	(433)	(451)
Operating balance before gains/(losses) (excluding minority interests)		7,370	1,096	(28,293)	(29,599)	(27,199)	(16,454)	(4,935)
Net gains/(losses) on financial instruments	2	4,396	3,290	(7,718)	340	2,936	3,349	3,804
Net gains/(losses) on non-financial instruments	7	(11,575)	(71)	(1,297)	(139)	(152)	(98)	(98)
Less minority interest share of net gains/(losses)		(115)	3	50	5	(3)	(5)	(11)
Total gains/(losses) (excluding minority interests)		(7,294)	3,222	(8,965)	206	2,781	3,246	3,695
Net surplus/(deficit) from associates and joint ventures		253	273	143	67	186	199	204
Operating balance (excluding minority interests)		329	4,591	(37,115)	(29,326)	(24,232)	(13,009)	(1,036)

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	2020	2020	2021	2022	2023	2024
	Actual ¹	Previous Budget ¹	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total Crown expenses							
By functional classification²							
Social security and welfare	33,919	36,096	50,390	42,531	42,297	43,144	44,654
Health	18,660	18,975	20,080	20,791	20,841	20,853	20,820
Education	15,280	15,868	16,686	17,761	17,903	17,912	18,045
Core government services	4,732	5,589	6,543	5,265	4,934	4,883	4,833
Law and order	5,050	5,369	5,467	5,683	5,560	5,596	5,583
Transport and communications	8,429	11,263	12,644	10,792	12,451	12,312	12,580
Economic and industrial services	10,433	10,184	10,418	9,932	9,925	9,817	9,926
Defence	2,390	2,532	2,540	2,760	2,749	2,735	2,822
Heritage, culture and recreation	2,503	2,772	2,872	2,844	2,846	2,838	2,851
Primary services	2,395	2,500	2,685	2,751	2,053	2,023	1,952
Housing and community development	2,020	2,339	2,580	2,879	3,166	3,217	3,158
Environmental protection	1,108	1,279	1,385	1,324	1,295	1,281	1,273
GSF pension expenses	80	87	96	96	91	88	83
Other	96	341	120	545	344	335	343
Finance costs	4,340	4,223	3,896	3,615	4,069	4,887	5,422
Forecast new operating spending	-	1,266	5,357	10,991	18,266	16,168	8,972
Top-down expense adjustment	-	(1,400)	(1,075)	(975)	(750)	(650)	(650)
Total Crown expenses excluding losses	111,435	119,283	142,684	139,585	148,040	147,439	142,667

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	2020	2020	2021	2022	2023	2024
	Actual ¹	Previous Budget ¹	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Core Crown expenses							
By functional classification²							
Social security and welfare	28,757	30,828	44,373	37,170	36,752	37,150	38,314
Health	18,268	19,198	20,104	20,919	21,125	21,259	21,378
Education	14,293	14,919	15,516	16,301	16,436	16,441	16,553
Core government services	5,166	5,610	6,685	5,317	5,074	5,086	5,002
Law and order	4,625	4,890	5,069	5,238	5,085	5,126	5,109
Transport and communications	2,889	3,103	3,723	4,035	3,719	3,511	3,375
Economic and industrial services	3,006	4,328	3,450	3,379	3,308	3,259	3,223
Defence	2,395	2,541	2,546	2,765	2,755	2,740	2,827
Heritage, culture and recreation	918	996	1,054	1,058	980	958	960
Primary services	960	1,036	1,148	1,242	793	809	766
Housing and community development	727	897	1,080	1,252	1,260	1,084	996
Environmental protection	1,119	1,281	1,493	1,332	1,303	1,289	1,281
GSF pension expenses	66	73	76	76	70	66	61
Other	96	341	120	545	344	335	343
Finance costs	3,733	3,496	3,279	2,884	3,247	4,007	4,515
Forecast new operating spending	-	1,266	5,357	10,991	18,266	16,168	8,972
Top-down expense adjustment	-	(1,400)	(1,075)	(975)	(750)	(650)	(650)
Total core Crown expenses excluding losses	87,018	93,403	113,998	113,529	119,767	118,638	113,025

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)	781	4,963	(37,153)	(29,250)	(23,786)	(12,571)	(574)
Other comprehensive revenue and expense							
Revaluation of physical assets	12,474	(22)	600	-	-	-	-
Revaluation of defined benefit retirement plan schemes	(2,615)	-	(257)	181	182	181	176
Net revaluations of veterans' disability entitlements	(995)	(995)	-	-	-	-	-
Transfers to/(from) reserves	(202)	30	332	45	25	(44)	56
(Gains)/losses transferred to the statement of financial performance	(3)	(4)	(33)	(6)	(2)	-	(1)
Foreign currency translation differences on foreign operations	(30)	-	(10)	24	-	-	-
Other movements	6	12	(20)	17	32	34	(1)
Total other comprehensive revenue and expense	8,635	(979)	612	261	237	171	230
Total comprehensive revenue and expense	9,416	3,984	(36,541)	(28,989)	(23,549)	(12,400)	(344)
Attributable to:							
- minority interest	943	359	43	85	444	427	476
- the Crown	8,473	3,625	(36,584)	(29,074)	(23,993)	(12,827)	(820)
Total comprehensive revenue and expense	9,416	3,984	(36,541)	(28,989)	(23,549)	(12,400)	(344)

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	143,067	106,018	76,490	52,381	39,417
Impacts of adoption of NZ PBE IPSAS 35/ Inclusion of veterans' disability entitlements	(2,172)	(2,234)	-	-	-	-	-
Adjusted opening net worth	134,124	133,932	143,067	106,018	76,490	52,381	39,417
Operating balance (including minority interest)	781	4,963	(37,153)	(29,250)	(23,786)	(12,571)	(574)
Net revaluations of physical assets	12,474	(22)	600	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	(2,615)	-	(257)	181	182	181	176
Net revaluations of veterans' disability entitlements	(995)	(995)	-	-	-	-	-
Transfers to/(from) reserves	(202)	30	332	45	25	(44)	56
(Gains)/losses transferred to the Statement of Financial Performance	(3)	(4)	(33)	(6)	(2)	-	(1)
Foreign currency translation differences on foreign operations	(30)	-	(10)	24	-	-	-
Other movements	6	12	(20)	17	32	34	(1)
Comprehensive income	9,416	3,984	(36,541)	(28,989)	(23,549)	(12,400)	(344)
Transactions with minority interest	(473)	(508)	(508)	(539)	(560)	(564)	(557)
Closing net worth	143,067	137,408	106,018	76,490	52,381	39,417	38,516

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	2020	2020	2021	2022	2023	2024
	Actual ¹	Previous Budget ¹	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	83,017	87,567	80,903	76,576	86,951	94,058	100,381
Other sovereign receipts	5,187	4,827	5,380	5,288	6,210	6,465	6,663
Sales of goods and services	19,764	19,075	19,083	17,165	19,874	20,111	20,534
Interest receipts	2,528	2,444	2,162	2,190	2,438	2,623	2,825
Other operating receipts	4,563	4,450	5,252	5,101	5,136	5,199	5,294
Total cash provided from operations	115,059	118,363	112,780	106,320	120,609	128,456	135,697
Cash was disbursed to							
Transfer payments and subsidies	27,982	30,056	30,981	35,966	35,685	36,030	37,040
Personnel and operating payments	72,079	76,094	91,538	80,272	80,277	81,009	81,095
Interest payments	4,025	3,844	3,700	4,519	5,491	6,543	6,553
Forecast new operating spending	-	1,266	5,357	10,991	18,266	16,168	8,972
Top-down expense adjustment	-	(1,400)	(1,075)	(975)	(750)	(650)	(650)
Total cash disbursed to operations	104,086	109,860	130,501	130,773	138,969	139,100	133,010
Net cash flows from operations	10,973	8,503	(17,721)	(24,453)	(18,360)	(10,644)	2,687
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(8,464)	(10,034)	(11,211)	(10,929)	(9,945)	(9,021)	(8,663)
Net (purchase)/sale of shares and other securities	3,804	(1,757)	(17,314)	(52,664)	(10,295)	8,688	(5,982)
Net (purchase)/sale of intangible assets	(791)	(951)	(924)	(912)	(677)	(645)	(611)
Net (issue)/repayment of advances	(1,902)	(1,995)	(3,850)	(6,383)	(2,291)	(2,728)	(2,871)
Net acquisition of investments in associates	136	(502)	(551)	(622)	(821)	(572)	(227)
Forecast new capital spending	-	(466)	(212)	(1,990)	(2,145)	(2,654)	(3,288)
Top-down capital adjustment	-	950	1,050	650	350	250	250
Net cash flows from investing activities	(7,217)	(14,755)	(33,012)	(72,850)	(25,824)	(6,682)	(21,392)
Net cash flows from operating and investing activities	3,756	(6,252)	(50,733)	(97,303)	(44,184)	(17,326)	(18,705)
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	34,366	54,546	42,278	21,003	16,457
Net issue/(repayment) of foreign-currency borrowings	1,487	24	(3,025)	(106)	1	-	-
Net issue/(repayment) of other New Zealand dollar borrowings	(530)	1,814	29,884	43,354	854	(4,132)	2,391
Dividends paid to minority interests ³	(504)	(524)	(550)	(549)	(570)	(573)	(573)
Net cash flows from financing activities	(2,646)	5,272	61,014	97,460	42,784	16,526	18,509
Net movement in cash	1,110	(980)	10,281	157	(1,400)	(800)	(196)
Opening cash balance	18,894	21,768	20,248	31,496	31,651	30,249	29,448
Foreign-exchange gains/(losses) on opening cash	244	5	967	(2)	(2)	(1)	(2)
Closing cash balance	20,248	20,793	31,496	31,651	30,249	29,448	29,250

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	10,973	8,503	(17,721)	(24,453)	(18,360)	(10,644)	2,687
<i>Items included in the operating balance but not in net cash flows from operations</i>							
Gains/(losses)							
Net gains/(losses) on financial instruments	4,396	3,290	(7,718)	340	2,936	3,349	3,804
Net gains/(losses) on non-financial instruments	(11,575)	(71)	(1,297)	(139)	(152)	(98)	(98)
Minority interest share of net gains/(losses)	(115)	3	50	5	(3)	(5)	(11)
Total gains/(losses)	(7,294)	3,222	(8,965)	206	2,781	3,246	3,695
Other Non-cash Items in Operating Balance							
Depreciation	(4,554)	(5,217)	(5,465)	(5,714)	(5,783)	(5,852)	(5,931)
Amortisation	(934)	(789)	(1,071)	(822)	(859)	(874)	(873)
Cost of concessionary lending	(763)	(1,072)	(610)	(636)	(625)	(610)	(577)
Impairment of financial assets (excluding receivables)	(41)	(21)	(4)	(4)	(5)	(5)	(5)
Reversal of Rail network impairment	2,576	-	-	-	-	-	-
Decrease/(increase) in insurance liabilities	(1,768)	(733)	(1,568)	(1,420)	(1,787)	(1,954)	(2,104)
Other	(205)	(722)	84	(20)	(762)	(774)	(463)
Total other non-cash Items	(5,689)	(8,554)	(8,634)	(8,616)	(9,821)	(10,069)	(9,953)
Movements in Working Capital							
Increase/(decrease) in receivables	4,188	758	524	3,012	(618)	1,154	708
Increase/(decrease) in accrued interest	37	218	14	1,202	1,694	1,923	1,408
Increase/(decrease) in inventories	175	334	65	33	(15)	119	93
Increase/(decrease) in prepayments	36	12	152	(83)	14	2	-
Decrease/(increase) in deferred revenue	(97)	(40)	(260)	45	(18)	(17)	(37)
Defined benefit retirement plan net expenditure	571	582	207	708	726	730	726
Decrease/(increase) in payables/provisions	(2,571)	(444)	(2,497)	(1,380)	(615)	547	(363)
Total movements in working capital	2,339	1,420	(1,795)	3,537	1,168	4,458	2,535
Operating balance (excluding minority interests)	329	4,591	(37,115)	(29,326)	(24,232)	(13,009)	(1,036)

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

		2019	2020	2020	2021	2022	2023	2024
	Note	Actual ¹	Previous Budget ¹	Forecast	Forecast	Forecast	Forecast	Forecast
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								
Cash and cash equivalents	8	20,248	20,793	31,496	31,651	30,249	29,448	29,250
Receivables	8	23,327	21,317	25,918	28,787	28,142	29,193	29,883
Marketable securities, deposits and derivatives in gain	8	43,616	38,621	48,974	74,510	83,576	78,963	83,656
Share investments	8	39,552	41,623	31,112	33,581	36,409	39,482	42,904
Advances	8	33,690	34,107	37,459	43,752	46,124	48,622	51,343
Investments in controlled enterprises	8	3,688	3,777	4,759	5,693	6,631	7,667	8,797
Inventory		1,517	1,751	1,584	1,616	1,601	1,720	1,814
Other assets		2,828	2,863	3,193	3,399	3,406	3,447	3,512
Property, plant and equipment	10	177,625	169,151	185,382	190,846	194,259	196,687	198,932
Equity accounted investments ²		14,650	14,931	13,694	14,205	15,095	15,744	16,051
Intangible assets and goodwill		3,911	4,375	3,922	4,197	4,211	4,227	4,168
Forecast for new capital spending	6	-	924	212	2,202	4,347	7,001	10,289
Top-down capital adjustment		-	(2,200)	(1,050)	(1,700)	(2,050)	(2,300)	(2,550)
Total assets		364,652	352,033	386,655	432,739	452,000	459,901	478,049
Liabilities								
Issued currency		6,813	6,807	7,151	7,366	7,587	7,814	8,049
Payables	12	16,742	12,847	17,203	18,397	18,847	19,391	20,133
Deferred revenue		2,523	2,428	2,778	2,735	2,751	2,768	2,808
Borrowings		110,248	118,005	164,799	238,164	280,262	300,125	317,263
Insurance liabilities	5	58,216	50,610	60,533	61,952	63,739	65,693	67,797
Retirement plan liabilities	13	13,179	10,971	12,972	12,264	11,538	10,808	10,082
Provisions	14	13,864	12,957	15,201	15,371	14,895	13,885	13,401
Total liabilities		221,585	214,625	280,637	356,249	399,619	420,484	439,533
Total assets less total liabilities		143,067	137,408	106,018	76,490	52,381	39,417	38,516
Net Worth								
Taxpayers' funds		36,409	41,259	(519)	(29,724)	(53,819)	(66,729)	(67,676)
Property, plant and equipment revaluation reserve		106,495	94,603	106,941	106,857	106,753	106,682	106,608
Defined benefit plan revaluation reserve		(2,615)	(872)	(2,872)	(2,691)	(2,509)	(2,328)	(2,152)
Veterans' disability entitlements reserve		(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)
Other reserves		(112)	84	43	77	101	74	99
Total net worth attributable to the Crown		136,677	131,574	100,093	71,019	47,026	34,199	33,379
Net worth attributable to minority interest		6,390	5,834	5,925	5,471	5,355	5,218	5,137
Total net worth	15	143,067	137,408	106,018	76,490	52,381	39,417	38,516

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	64,322	102,215	143,152	167,390	182,406
Treasury bills	3,455	2,964	9,969	10,461	10,461	10,454	10,449
Government retail stock	169	177	164	164	164	164	164
Settlement deposits with Reserve Bank	6,891	6,713	35,759	66,839	66,155	59,973	59,272
Derivatives in loss	3,939	2,344	9,705	8,013	7,597	7,226	6,883
Finance lease liabilities	1,328	2,539	1,446	1,237	1,081	976	1,192
Other borrowings	37,592	40,890	43,434	49,235	51,652	53,942	56,897
Total borrowings	110,248	118,005	164,799	238,164	280,262	300,125	317,263
Sovereign-guaranteed debt	74,946	80,129	122,785	192,064	232,285	250,243	264,485
Non sovereign-guaranteed debt	35,302	37,876	42,014	46,100	47,977	49,882	52,778
Total borrowings	110,248	118,005	164,799	238,164	280,262	300,125	317,263
Net Debt:							
Core Crown borrowings ²	91,833	95,199	138,751	208,243	248,690	266,880	281,448
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(903)	(2,595)	(4,522)	(4,570)	(4,610)	(4,632)	(4,651)
Gross sovereign-issued debt³	90,930	92,604	134,229	203,673	244,080	262,248	276,797
Less core Crown financial assets ⁴	90,715	89,351	100,994	136,091	146,853	145,070	152,967
Net core Crown debt (incl. NZS Fund)⁵	215	3,253	33,235	67,582	97,227	117,178	123,830
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets ⁶	43,676	46,011	41,337	46,725	51,900	57,030	62,560
Net core Crown debt (excl. NZS Fund)	43,891	49,264	74,572	114,307	149,127	174,208	186,390
Add back core Crown advances	13,845	15,431	16,363	21,182	20,472	20,510	20,390
Less Reserve Bank lending facility	-	-	(2,000)	(6,000)	(6,000)	(6,000)	(6,000)
Net core Crown debt (excl. NZS Fund and advances)⁷	57,736	64,695	88,935	129,489	163,599	188,718	200,780
Gross Debt:							
Gross sovereign-issued debt ³	90,930	92,604	134,229	203,673	244,080	262,248	276,797
Less Reserve Bank settlement cash and Reserve Bank bills	(8,081)	(7,359)	(36,058)	(67,137)	(66,454)	(60,271)	(59,570)
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 bills⁴	84,449	86,845	99,771	138,136	179,226	203,577	218,827
Monetary Liabilities							
Issued currency	6,813	6,807	7,151	7,366	7,587	7,814	8,049
Settlement deposits with Reserve Bank	6,891	6,713	35,759	66,839	66,155	59,973	59,272
Total Monetary Liabilities	13,704	13,520	42,910	74,205	73,742	67,787	67,321

Monetary liabilities facilitate payments to be effected in New Zealand dollars, thereby ensuring the smooth functioning of the economy.

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 Mar 2020 \$m	As at 30 June 2019 ¹ \$m
Capital Commitments		
State highways	5,579	4,436
Specialist military equipment	1,724	1,786
Land and buildings	5,448	4,618
Other property, plant and equipment	3,874	1,985
Other capital commitments	1,663	826
Tertiary education institutions	595	595
Total capital commitments	18,883	14,246
Operating Commitments		
Non-cancellable accommodation leases	4,409	4,779
Other non-cancellable leases	3,508	3,204
Tertiary education institutions	936	936
Total operating commitments	8,853	8,919
Total commitments	27,736	23,165
Total Commitments by Segment		
Core Crown	11,926	9,699
Crown entities	10,489	9,173
State-owned Enterprises	6,400	4,472
Inter-segment eliminations	(1,079)	(179)
Total commitments	27,736	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 Mar 2020 \$m	As at 30 June 2019 \$m
Quantifiable Contingent Liabilities		
Uncalled capital	9,036	8,245
Guarantees and indemnities	243	190
Legal proceedings and disputes	404	734
Other contingent liabilities	680	488
Total quantifiable contingent liabilities	10,363	9,657
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	10,047	9,175
Crown entities	72	392
State-owned Enterprises	345	191
Inter-segment eliminations	(101)	(101)
Total quantifiable contingent liabilities	10,363	9,657
Quantifiable Contingent Assets by Segment		
Core Crown	71	70
Crown entities	-	-
State-owned Enterprises	-	2
Total quantifiable contingent assets	71	72

More information on contingent liabilities (quantified and unquantified) is outlined in the Risks to the Fiscal Forecast 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	34,611	34,838	36,438	38,413	40,893
Other persons	7,663	7,149	6,974	6,694	6,753	8,467	8,701
Refunds	(2,429)	(1,937)	(1,967)	(1,859)	(2,063)	(2,193)	(2,319)
Fringe benefit tax	585	585	591	555	595	632	670
Total individuals	38,698	40,528	40,209	40,228	41,723	45,319	47,945
Corporate Tax							
Gross companies tax	14,892	14,074	11,275	9,588	12,160	15,419	16,151
Refunds	(343)	(218)	(262)	(283)	(317)	(332)	(338)
Non-resident withholding tax	650	648	580	431	495	555	595
Total corporate tax	15,199	14,504	11,593	9,736	12,338	15,642	16,408
Other Direct Income Tax							
Resident w/holding tax on interest income	1,659	1,675	1,530	1,016	1,011	1,078	1,149
Resident w/holding tax on dividend income	838	796	715	596	627	713	768
Total other direct income tax	2,497	2,471	2,245	1,612	1,638	1,791	1,917
Total direct income tax	56,394	57,503	54,047	51,576	55,699	62,752	66,270
Goods and Services Tax							
Gross goods and services tax	35,860	37,696	32,777	32,964	37,922	40,936	43,386
Refunds	(13,998)	(14,334)	(12,769)	(12,925)	(15,161)	(16,203)	(16,778)
Total goods and services tax	21,862	23,362	20,008	20,039	22,761	24,733	26,608
Other Indirect Taxation							
Road user charges	1,673	1,799	1,624	1,663	1,879	2,008	2,111
Petroleum fuels excise – domestic production	1,201	1,332	1,118	1,185	1,275	1,301	1,326
Alcohol excise – domestic production	722	748	727	761	771	790	812
Tobacco excise – domestic production	483	430	501	200	2	2	2
Petroleum fuels excise – imports ¹	781	751	791	837	901	919	936
Alcohol excise – imports ¹	364	352	358	358	363	372	382
Tobacco excise – imports ¹	1,497	1,539	1,688	1,980	2,092	2,068	2,054
Other customs duty	172	177	177	177	177	177	177
Gaming duties	247	230	208	221	231	235	238
Motor vehicle fees	227	228	235	227	231	235	239
Approved issuer levy and cheque duty	74	65	80	81	81	81	81
Energy resources levies	26	25	26	26	26	26	26
Total other indirect taxation	7,467	7,676	7,533	7,716	8,029	8,214	8,384
Total indirect taxation	29,329	31,038	27,541	27,755	30,790	32,947	34,992
Total taxation revenue	85,723	88,541	81,588	79,331	86,489	95,699	101,262
Other Sovereign Revenue (accrual)							
ACC levies	3,014	2,938	2,911	2,925	3,441	3,793	4,045
Fire and Emergency levies	579	588	591	604	616	628	641
EQC levies	387	440	445	500	505	510	516
Child support and working for families penalties	225	225	229	249	229	218	216
Court fines	124	104	115	115	115	115	115
Emissions Trading revenue	846	1,055	1,138	1,152	1,210	1,237	1,377
Other miscellaneous items	853	677	697	467	744	787	790
Total other sovereign revenue	6,028	6,027	6,126	6,012	6,860	7,288	7,700
Total sovereign revenue	91,751	94,568	87,714	85,343	93,349	102,987	108,962

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2019	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	32,728	34,537	34,413	34,638	36,229	38,193	40,658
Other persons	7,073	7,092	6,437	5,813	6,888	7,911	8,488
Refunds	(2,572)	(2,308)	(2,338)	(2,313)	(2,012)	(2,249)	(2,403)
Fringe benefit tax	578	585	591	555	595	632	670
Total individuals	37,807	39,906	39,103	38,693	41,700	44,487	47,413
Corporate Tax							
Gross companies tax	14,020	14,440	13,675	10,653	14,197	16,208	17,452
Refunds	(880)	(623)	(1,853)	(2,180)	(1,499)	(1,592)	(1,649)
Non-resident withholding tax	653	648	580	431	495	555	595
Total corporate tax	13,793	14,465	12,402	8,904	13,193	15,171	16,398
Other Direct Income Tax							
Resident w/holding tax on interest income	1,629	1,675	1,530	1,016	1,011	1,078	1,149
Resident w/holding tax on dividend income	802	796	715	596	627	713	768
Total other direct income tax	2,431	2,471	2,245	1,612	1,638	1,791	1,917
Total direct income tax	54,031	56,842	53,750	49,209	56,531	61,449	65,728
Goods and Services Tax							
Gross goods and services tax	35,125	37,212	32,209	32,474	37,406	40,439	42,888
Refunds	(13,538)	(14,174)	(12,609)	(12,765)	(15,001)	(16,043)	(16,618)
Total goods and services tax	21,587	23,038	19,600	19,709	22,405	24,396	26,270
Other Indirect Taxation							
Road user charges	1,665	1,799	1,624	1,663	1,879	2,008	2,111
Petroleum fuels excise – domestic production	1,180	1,332	1,118	1,185	1,275	1,301	1,326
Alcohol excise – domestic production	721	748	727	761	771	790	812
Tobacco excise – domestic production	484	430	501	200	2	2	2
Customs duty	2,827	2,830	3,029	3,299	3,519	3,535	3,548
Gaming duties	240	230	213	216	231	235	238
Motor vehicle fees	220	228	235	227	231	235	239
Approved issuer levy and cheque duty	36	65	80	81	81	81	81
Energy resources levies	26	25	26	26	26	26	26
Total other indirect taxation	7,399	7,687	7,553	7,658	8,015	8,213	8,383
Total indirect taxation	28,986	30,725	27,153	27,367	30,420	32,609	34,653
Total taxation receipts	83,017	87,567	80,903	76,576	86,951	94,058	100,381
Other Sovereign Receipts (cash)							
ACC levies	2,782	2,823	2,803	2,914	3,549	3,797	4,021
Fire and Emergency levies	577	585	587	601	613	626	638
EQC levies	395	417	427	499	504	510	515
Child support and working for families penalties	194	217	218	241	222	211	209
Court fines	131	118	114	114	114	114	114
Other miscellaneous items	1,108	667	1,231	919	1,208	1,207	1,166
Total other sovereign receipts	5,187	4,827	5,380	5,288	6,210	6,465	6,663
Total sovereign receipts	88,204	92,394	86,283	81,864	93,161	100,523	107,044

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	2,440	2,513	2,772	2,958	3,178
Interest Expenses							
Interest on financial liabilities	4,010	3,884	3,671	3,424	3,886	4,703	5,232
Interest unwind on provisions	330	339	225	191	183	184	190
Total interest expenses	4,340	4,223	3,896	3,615	4,069	4,887	5,422
Net interest revenue/(expense)	(1,694)	(1,475)	(1,456)	(1,102)	(1,297)	(1,929)	(2,244)
Dividend revenue	1,070	1,040	1,034	1,095	1,171	1,260	1,370
Gains and losses on financial instruments	4,396	3,290	(7,718)	340	2,936	3,349	3,804
Total investment revenue/(expenditure)	3,772	2,855	(8,140)	333	2,810	2,680	2,930
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	14,562	15,488	15,516	16,346	16,941	17,859	18,983
Family tax credit	2,131	2,195	2,144	2,139	2,042	2,043	2,125
Jobseeker support and emergency benefit	1,854	1,976	2,373	4,521	3,731	3,175	2,951
Supported living payment	1,556	1,589	1,645	1,807	1,850	1,937	2,031
Accommodation assistance	1,640	1,810	1,936	2,607	2,518	2,410	2,367
Sole parent support	1,115	1,175	1,235	1,577	1,679	1,689	1,677
Income related rent subsidy	45	84	95	157	202	150	149
KiwiSaver subsidies	951	915	944	935	970	1,002	1,036
Other working for families tax credits	635	536	624	653	653	653	662
Official development assistance	708	740	784	777	819	858	860
Student allowances	583	585	580	641	682	658	642
Winter energy payment	441	458	682	880	543	532	529
Best start	48	231	188	336	447	454	471
Disability assistance	386	391	397	419	414	411	414
Hardship assistance	300	346	400	623	609	601	609
Orphan's/unsupported child's benefit	225	247	248	268	285	304	323
Other social assistance benefits	923	941	1,040	1,026	1,039	1,047	1,067
Total transfer payments and subsidies	28,103	29,707	30,831	35,712	35,424	35,783	36,896
NOTE 4: Other Operating Expenses							
Grants and subsidies	5,682	7,545	7,153	7,000	6,563	6,766	6,799
Reversal of Rail network impairment	(2,576)	-	-	-	-	-	-
Repairs and maintenance	2,265	1,584	2,236	2,108	2,078	2,408	2,450
Rental and leasing costs	1,431	1,429	1,501	1,513	1,510	1,519	1,525
Amortisation and impairment of intangible assets	934	789	1,071	822	859	874	873
Impairment of financial assets	920	798	1,083	987	987	988	989
Cost of concessionary lending	763	1,072	610	636	625	610	577
Lottery prize payments	645	726	734	711	748	754	763
Inventory expenses	1,582	1,824	1,886	1,884	1,989	1,867	1,860
Other operating expenses	31,047	33,245	48,204	34,493	34,500	33,239	33,315
Total other operating expenses	42,693	49,012	64,478	50,154	49,859	49,025	49,151

Notes to the Forecast Financial Statements

	2019	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m

NOTE 5: Insurance

Insurance expense by entity

ACC	5,362	5,478	6,217	5,612	5,882	6,350	6,681
EQC	476	95	213	201	253	269	286
Southern Response	(40)	(42)	(26)	(17)	(8)	(3)	(1)
Other (incl. inter-segment eliminations)	14	16	14	15	15	15	16
Total insurance expenses	5,812	5,547	6,418	5,811	6,142	6,631	6,982

Insurance liability by entity

ACC	56,611	50,083	59,540	61,391	63,315	65,342	67,469
EQC	1,342	481	841	470	362	301	283
Southern Response	216	-	109	49	19	7	3
Other (incl. inter-segment eliminations)	47	46	43	42	43	43	42
Total insurance liabilities	58,216	50,610	60,533	61,952	63,739	65,693	67,797

ACC liability

Calculation information

ACC in conjunction with Taylor Fry prepared the estimate of the outstanding claims liability as at 31 December 2019. Taylor Fry prepare an annual independent actuarial estimate of the ACC outstanding claims liability as at 30 June. 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 March 2020. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 2.34% and allows for a long-term discount rate of 4.30% from 2070.

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

Presentation approach

ACC has 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	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Gross ACC Liability							
Opening gross liability	43,314	48,441	56,611	59,540	61,391	63,315	65,342
Net change	13,297	1,642	2,929	1,851	1,924	2,027	2,127
Closing gross liability	56,611	50,083	59,540	61,391	63,315	65,342	67,469
Less Net Assets Available to ACC							
Opening net asset value	41,958	43,998	46,598	45,426	46,162	47,363	48,695
Net change	4,640	650	(1,172)	736	1,201	1,332	1,565
Closing net asset value	46,598	44,648	45,426	46,162	47,363	48,695	50,260
Net ACC Reserves (Net Liability)							
Opening reserves position	(1,356)	(4,443)	(10,013)	(14,114)	(15,229)	(15,952)	(16,647)
Net change	(8,657)	(992)	(4,101)	(1,115)	(723)	(695)	(562)
Closing reserves position (net liability)/net asset	(10,013)	(5,435)	(14,114)	(15,229)	(15,952)	(16,647)	(17,209)

Notes to the Forecast Financial Statements

	2020	2021	2022	2023	2024
	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m

NOTE 6: Forecast New Spending and Top-down Expense Adjustment

Forecast New Operating Spending

Unallocated contingencies	435	1,148	1,291	1,730	1,791
COVID-19 response and recovery funding	4,922	9,843	14,765	9,843	-
Forecast new spending for Budget 2021	-	-	2,210	2,195	2,181
Forecast new spending for Budget 2022	-	-	-	2,400	2,400
Forecast new spending for Budget 2023	-	-	-	-	2,600
Total forecast new operating spending	5,357	10,991	18,266	16,168	8,972

Operating top-down adjustment	(1,075)	(975)	(750)	(650)	(650)
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Unallocated contingencies represent expenses included in Budget 2020 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 2021 is \$2.4 billion. Some of this allowance has been pre-committed as at the forecast finalisation date of 23 April 2020, 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	212	1,990	1,693	1,749	2,125	1,362	9,131
Forecast new spending for Budgets 2021 - 2023	-	-	452	905	1,163	2,649	5,169
Total forecast new capital spending	212	1,990	2,145	2,654	3,288	4,011	14,300
Forecast new capital spending (cumulative)	212	2,202	4,347	7,001	10,289		
Capital top-down adjustment (cumulative)	(1,050)	(1,700)	(2,050)	(2,300)	(2,550)		

Unallocated contingencies represent capital spending from Budget 2020 and previous Budgets that has yet to be allocated to departments. Forecast new spending indicates the expected capital spending increases from future Budgets.

Notes to the Forecast Financial Statements

	2019	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m

NOTE 7: Net Gains and Losses on Non-Financial Instruments

Actuarial gains/(losses) on ACC outstanding claims	(11,367)	-	(600)	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(225)	-	(563)	-	-	-	-
Other	17	(71)	(134)	(139)	(152)	(98)	(98)
Net gains/(losses) on non-financial instruments	(11,575)	(71)	(1,297)	(139)	(152)	(98)	(98)

NOTE 8: Financial Assets (including receivables)

Cash and cash equivalents	20,248	20,793	31,496	31,651	30,249	29,448	29,250
Tax receivables	13,741	12,109	14,347	16,648	15,468	16,028	16,077
Trade and other receivables	9,586	9,208	11,571	12,139	12,674	13,165	13,806
Student loans (refer note 9)	10,731	9,884	10,819	10,782	10,789	10,783	10,687
Kiwibank mortgages	20,411	21,099	22,351	24,335	26,496	28,850	31,514
Long-term deposits	4,355	3,419	3,861	3,693	3,740	3,688	3,605
IMF financial assets	2,327	2,334	2,383	2,383	2,383	2,383	2,383
Other advances	2,548	3,124	4,289	8,635	8,839	8,989	9,142
Share investments	39,552	41,623	31,112	33,581	36,409	39,482	42,904
Investments in controlled enterprises	3,688	3,777	4,759	5,693	6,631	7,667	8,797
Derivatives in gain	4,585	3,062	4,951	3,650	3,596	3,565	3,487
Other marketable securities	32,349	29,806	37,779	64,784	73,857	69,327	74,181
Total financial assets (including receivables)	164,121	160,238	179,718	217,974	231,131	233,375	245,833

Financial Assets by Entity

The Treasury	20,874	15,729	23,606	38,086	40,051	32,999	35,710
Reserve Bank of New Zealand	20,315	19,370	50,622	81,862	81,263	75,126	74,460
NZS Fund	44,307	49,405	44,779	50,416	55,641	60,745	66,536
Other core Crown	31,384	28,846	31,387	34,509	33,437	33,490	33,686
Intra-segment eliminations	(9,615)	(8,481)	(29,943)	(46,659)	(42,210)	(35,091)	(34,841)
Total core Crown segment	107,265	104,869	120,451	158,214	168,182	167,269	175,551
ACC portfolio	48,868	45,169	48,378	47,973	49,171	50,522	52,081
EQC portfolio	778	244	466	300	345	426	538
Other Crown entities	10,912	9,862	11,527	10,573	10,502	10,390	10,464
Intra-segment eliminations	(2,954)	(2,361)	(2,308)	(1,676)	(1,411)	(1,175)	(1,128)
Total Crown entities segment	57,604	52,914	58,063	57,170	58,607	60,163	61,955
Total state-owned enterprises segment	27,624	28,102	28,887	30,809	32,081	34,264	37,249
Inter-segment eliminations	(28,372)	(25,647)	(27,683)	(28,219)	(27,739)	(28,321)	(28,922)
Total financial assets (including receivables)	164,121	160,238	179,718	217,974	231,131	233,375	245,833

Notes to the Forecast Financial Statements

	2019	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m

NOTE 9: Student Loans

Nominal value (including accrued interest)	16,034	15,834	16,034	16,073	16,316	16,550	16,734
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Opening book value

	9,929	10,085	10,731	10,819	10,782	10,789	10,783
Net new lending (including fees)	1,361	1,391	1,453	1,574	1,584	1,551	1,509
New lending - establishment fee	-	-	-	-	-	-	-
Less initial write-down to fair value	(563)	(576)	(525)	(564)	(574)	(570)	(562)
Repayments made during the year	(1,371)	(1,465)	(1,375)	(1,347)	(1,371)	(1,379)	(1,444)
Interest unwind	394	415	349	353	354	360	370
Unwind of administration costs	36	34	36	34	32	31	30
Experience/actuarial adjustments:							
- Expected repayment adjustments	211	-	11	-	-	-	-
- Discount rate adjustments	734	-	139	(87)	(18)	1	1

Closing book value

	10,731	9,884	10,819	10,782	10,789	10,783	10,687
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NOTE 10: Property, Plant and Equipment

Net Carrying Value¹

By class of asset

Land	55,005	52,974	55,414	55,412	54,936	54,757	54,805
Buildings	40,732	40,960	45,511	48,325	48,920	48,997	48,890
State highways	37,222	35,190	38,707	40,072	41,881	43,605	45,470
Electricity generation assets	17,239	15,410	17,166	17,366	17,074	16,765	16,591
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	5,332	5,543	5,975	6,671	7,443
Specialist military equipment	3,353	4,171	3,723	4,005	4,882	4,958	4,865
Specified cultural and heritage assets	3,150	3,167	3,170	3,180	3,186	3,192	3,199
Rail network ²	6,407	2,131	6,564	6,869	7,216	7,442	7,512
Other plant and equipment (cost)	5,351	5,533	5,716	5,943	5,938	5,957	5,683
Total property, plant and equipment	177,625	169,151	185,382	190,846	194,259	196,687	198,932

Land breakdown by usage

Housing	18,819	18,759	19,052	19,104	19,056	18,991	18,900
State highway corridor land	13,745	12,256	13,727	13,344	12,676	12,636	12,586
Conservation land	6,630	6,242	6,623	6,626	6,628	6,630	6,631
Rail network	3,516	3,482	3,507	3,503	3,500	3,498	3,496
Schools	5,772	5,896	5,775	5,847	5,957	6,078	6,181
Commercial (SOEs) excluding Rail	1,205	1,316	1,254	1,287	1,321	1,352	1,383
Other	5,318	5,023	5,476	5,701	5,798	5,572	5,628
Total land	55,005	52,974	55,414	55,412	54,936	54,757	54,805

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	206,270	217,297	226,310	234,424
Additions ¹	9,462	11,130	14,056	11,649	10,091	8,840	8,475
Disposals	(1,157)	(848)	(503)	(613)	(1,035)	(643)	(623)
Net revaluations	9,623	(29)	(6)	-	-	-	-
Other ²	(139)	64	(85)	(9)	(43)	(83)	(112)
Total cost or valuation	192,808	195,755	206,270	217,297	226,310	234,424	242,164
Accumulated Depreciation and Impairment							
Opening balance	16,356	21,507	15,183	20,888	26,451	32,051	37,737
Eliminated on disposal	(791)	(116)	291	(140)	(145)	(157)	(425)
Eliminated on revaluation	(2,452)	-	(1)	-	-	-	-
Impairment losses charged to operating balance	(2,516)	-	-	-	-	-	-
Depreciation expense	4,554	5,217	5,465	5,714	5,783	5,852	5,931
Other ²	32	(4)	(50)	(11)	(38)	(9)	(11)
Total accumulated depreciation and impairment	15,183	26,604	20,888	26,451	32,051	37,737	43,232
Total property, plant and equipment	177,625	169,151	185,382	190,846	194,259	196,687	198,932

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

Revenue	982	971	866	798	899	1,011	1,127
Less current tax expense	504	877	(621)	753	849	952	1,062
Less other expenses	130	231	168	195	214	226	240
Add gains/(losses)	1,955	2,929	(5,106)	2,543	2,862	3,194	3,553
Operating balance	2,303	2,792	(3,787)	2,393	2,698	3,027	3,378
Opening net worth	39,053	41,811	42,316	39,988	44,501	49,619	54,676
Impacts of adoption of NZ PBE IPSAS 35	(51)	(164)	-	-	-	-	-
Adjusted opening net worth	39,002	41,647	42,316	39,988	44,501	49,619	54,676
Gross contribution from the Crown	1,000	1,460	1,460	2,120	2,420	2,030	2,332
Operating balance	2,303	2,792	(3,787)	2,393	2,698	3,027	3,378
Other movements in reserves	11	(1)	(1)	-	-	-	(1)
Closing net worth	42,316	45,898	39,988	44,501	49,619	54,676	60,385
Comprising:							
Financial assets	44,307	49,405	44,779	50,416	55,641	60,745	66,536
Financial liabilities	(1,993)	(3,486)	(4,790)	(5,906)	(6,011)	(6,061)	(6,142)
Net other assets	2	(21)	(1)	(9)	(11)	(8)	(9)
Closing net worth	42,316	45,898	39,988	44,501	49,619	54,676	60,385

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

Accounts payable	10,449	7,582	11,562	12,017	12,423	12,949	13,688
Taxes repayable	6,293	5,265	5,641	6,380	6,424	6,442	6,445
Total payables	16,742	12,847	17,203	18,397	18,847	19,391	20,133

Notes to the Forecast Financial Statements

	2019	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m

NOTE 13: Retirement Plan Liabilities

Government Superannuation Fund	13,161	10,968	12,954	12,246	11,521	10,790	10,064
Other funds	18	3	18	18	17	18	18
Total retirement plan liabilities	13,179	10,971	12,972	12,264	11,538	10,808	10,082

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 31 January 2020. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 31 January 2020, based on membership data as at 30 June 2019 with adjustments for cash flows to 31 January 2020. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date.

For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 31 January 2020.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 1.70% p.a. for the 19 years to 30 June 2038, then gradually increasing each year to reach 2.0% p.a. in the year ended 30 June 2077 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 decrease in the net GSF liability is \$207 million, reflecting a decrease in the GSF liability of \$97 million and an increase in the GSF net assets of \$110 million.

The overall decrease in the GSF liability of \$97 million includes an actuarial loss (which increases the liability) between 1 July 2019 and 31 January 2020, of \$524 million, largely owing to movements in the discount rates and partly offset by changes in the CPI rates. The difference of \$621 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 \$110 million includes a revaluation gain of \$267 million reflecting the updated market value of assets at 31 January 2020. The balance of \$157 million is owing to the total of the expected investment returns and expected investment gains/losses and contributions received/receivable, offset by expenses and 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	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
GSF Liability							
Opening GSF liability	15,558	15,810	17,692	17,595	16,911	16,209	15,500
Net projected change	2,134	(590)	(97)	(684)	(702)	(709)	(704)
Closing GSF liability	17,692	15,220	17,595	16,911	16,209	15,500	14,796
Less Net Assets Available to GSF							
Opening net asset value	4,570	4,399	4,531	4,641	4,665	4,688	4,710
Investment valuation changes	161	214	323	227	228	230	230
Contribution and other income less benefit payments	(200)	(222)	(213)	(203)	(205)	(208)	(208)
Closing net asset value	4,531	4,391	4,641	4,665	4,688	4,710	4,732
Net GSF Liability							
Opening unfunded liability	10,988	11,411	13,161	12,954	12,246	11,521	10,790
Net projected change	2,173	(582)	(207)	(708)	(725)	(731)	(726)
Closing unfunded liability	13,161	10,968	12,954	12,246	11,521	10,790	10,064

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	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
NOTE 14: Provisions							
Provision for employee entitlements	4,582	3,623	4,693	4,888	4,869	4,843	4,861
Provision for ETS credits	2,884	2,182	3,526	3,502	3,420	3,261	2,905
Provision for National Provident Fund guarantee	879	725	824	763	702	644	590
Veterans Disability Entitlements	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Other provisions	2,019	2,927	2,658	2,718	2,404	1,637	1,545
Total provisions	13,864	12,957	15,201	15,371	14,895	13,885	13,401

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 January 2020.

The movement in the ETS provision is as follows:

	2019	2020	2020	2021	2022	2023	2024
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening provision	2,541	2,671	2,884	3,526	3,502	3,420	3,261
Additional provision	543	566	649	641	635	629	615
Provision utilised	(425)	(1,055)	(570)	(665)	(717)	(788)	(971)
(Gains)/losses	225	-	563	-	-	-	-
Closing provision for ETS credits	2,884	2,182	3,526	3,502	3,420	3,261	2,905

NOTE 15: Changes in Net Worth

Taxpayers' funds	36,409	41,259	(519)	(29,724)	(53,819)	(66,729)	(67,676)
Property, plant and equipment revaluation reserve	106,495	94,603	106,941	106,857	106,753	106,682	106,608
Defined benefit plan revaluation reserve ¹	(2,615)	(872)	(2,872)	(2,691)	(2,509)	(2,328)	(2,152)
Veterans' disability entitlements reserve	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)
Investment revaluation reserve	-	86	-	-	-	-	-
Intangible asset reserve	(7)	1	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(204)	52	(41)	(31)	(7)	(34)	(9)
Fair value hedge reserve	168	-	176	176	176	176	176
Foreign currency translation reserve	(69)	(55)	(85)	(61)	(61)	(61)	(61)
Net worth attributable to minority interests	6,390	5,834	5,925	5,471	5,355	5,218	5,137
Total net worth	143,067	137,408	106,018	76,490	52,381	39,417	38,516

Taxpayers' funds

Opening taxpayers' funds	35,440	36,077	36,409	(519)	(29,724)	(53,819)	(66,729)
Impacts of adoption of NZ PBE IPSAS 35 ¹	483	29	-	-	-	-	-
Adjusted opening taxpayers' funds	35,923	36,106	36,409	(519)	(29,724)	(53,819)	(66,729)
Operating balance excluding minority interests	329	4,591	(37,115)	(29,326)	(24,232)	(13,009)	(1,036)
Transfers from/(to) other reserves	130	71	130	98	111	80	80
Other movements	27	491	57	23	26	19	9
Closing taxpayers' funds	36,409	41,259	(519)	(29,724)	(53,819)	(66,729)	(67,676)

Property, Plant and Equipment Revaluation Reserve

Opening property, plant and equipment revaluation reserve	94,750	94,686	106,495	106,941	106,857	106,753	106,682
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	106,941	106,857	106,753	106,682
Net revaluations	12,482	-	600	-	-	-	-
Transfers from/(to) other reserves	(132)	(56)	(150)	(84)	(104)	(71)	(74)
Net revaluations attributable to minority interests	(590)	-	(4)	-	-	-	-
Closing property, plant and equipment revaluation reserve	106,495	94,603	106,941	106,857	106,753	106,682	106,608

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	82,001	77,202	88,557	95,799	102,282
Other sovereign receipts	1,359	941	1,540	1,410	1,480	1,467	1,425
Interest receipts	712	600	456	653	794	774	836
Sale of goods and services and other receipts	3,200	3,390	3,465	3,354	3,299	3,216	3,191
Transfer payments and subsidies	(28,910)	(31,065)	(31,946)	(37,001)	(36,791)	(37,199)	(38,210)
Personnel and operating costs	(50,591)	(55,367)	(69,958)	(60,143)	(59,349)	(58,878)	(58,469)
Interest payments	(3,450)	(3,137)	(3,038)	(3,776)	(4,652)	(5,630)	(5,597)
Forecast for future new operating spending	-	(1,266)	(5,357)	(10,991)	(18,266)	(16,168)	(8,972)
Top-down expense adjustment	-	1,400	1,075	975	750	650	650
Net core Crown operating cash flows	6,036	4,923	(21,762)	(28,317)	(24,178)	(15,969)	(2,864)
Core Crown Capital Cash Flows							
Net purchase of physical assets	(3,002)	(3,703)	(3,226)	(3,261)	(3,450)	(2,310)	(1,945)
Net increase in advances	(86)	(799)	(2,530)	(5,057)	517	(189)	(13)
Net purchase of investments	(2,658)	(3,636)	(3,891)	(3,218)	(3,869)	(3,983)	(3,294)
Contribution to NZS Fund	(1,000)	(1,460)	(1,460)	(2,120)	(2,420)	(2,030)	(2,332)
Forecast for future new capital spending	-	(466)	(212)	(1,990)	(2,145)	(2,654)	(3,288)
Top-down capital adjustment	-	950	1,050	650	350	250	250
Net core Crown capital cash flows	(6,746)	(9,114)	(10,269)	(14,996)	(11,017)	(10,916)	(10,622)
Residual cash (deficit)/surplus	(710)	(4,191)	(32,031)	(43,313)	(35,195)	(26,885)	(13,486)
<i>The residual cash (deficit)/surplus is funded or invested as follows:</i>							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	8,372	10,387	27,752	65,605	42,278	36,768	31,847
Repayment of government bonds	(11,908)	(6,627)	(5,380)	(11,059)	-	(15,765)	(15,390)
Net issue/(repayment) of short-term borrowing ¹	(730)	(345)	6,540	490	-	-	-
Total market debt cash flows	(4,266)	3,415	28,912	55,036	42,278	21,003	16,457
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	28,912	55,036	42,278	21,003	16,457
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	(2,239)	(24)	18,829	38,558	(998)	(6,480)	(927)
Net (repayment)/issue of foreign currency borrowing	1,547	6	(3,101)	(109)	(1)	-	(1)
Total other borrowing cash flows	(692)	(18)	15,728	38,449	(999)	(6,480)	(928)
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	5,163	591	(7,691)	(50,143)	(6,399)	11,988	(2,333)
Issues of circulating currency	437	198	339	215	221	228	234
Decrease/(increase) in cash	68	5	(5,257)	(244)	94	146	56
Total investing cash flows	5,668	794	(12,609)	(50,172)	(6,084)	12,362	(2,043)
Residual cash deficit/(surplus) funding/(investing)	710	4,191	32,031	43,313	35,195	26,885	13,486

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 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 '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 has two impacts on the forecast financial statements. It:

- requires a liability to be reported for the obligation to pay Veteran Disability entitlements, and
- changes aspects of the presentation of the defined benefit scheme - previously mainly the Government Superannuation Fund (GSF)

Veterans Disability Entitlements

The Veterans Support Act 2014 provides for a number of entitlements for eligible veterans (and their spouses, partners, and dependants) who suffer service-related injuries or illnesses. Previously these obligations had been classified as social benefits, and were recognised as payments became due. PBE IPSAS 39: *Employee Benefits* clarifies that as these obligations arise due to illness or injury from qualifying operational service, a liability should be recognised from that date (reflecting the lifetime entitlement amounts, discounted to today's dollars). The accounting policy for Veterans Disability entitlements is therefore changing in these forecasts to be the same as for other employee defined benefits with the new liability recognised from 1 July 2018.

Presentation impacts

PBE IPSAS 39 also impacts the way all defined benefits, including 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 (meaning this amount previously included in OBEGAL is now included in reserves).

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.

	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	50	(139)	4,591	(89)
Statement of Financial Position					
Taxpayers' Funds	39,966	421	872	41,259	1,293
Defined Benefit Plan revaluation reserve	-	-	(872)	(872)	(872)
Veterans' disability entitlements reserve	-	-	(3,500)	(3,500)	(3,500)
Net worth	140,748	299	(3,639)	137,408	(3,340)
	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	(148)	144	87,018	(4)
OBEGAL	7,508	6	(144)	7,370	(138)
Operating Balance	(2,274)	(12)	2,615	329	2,603
Statement of Financial Position					
Taxpayers' Funds	33,278	516	2,615	36,409	3,131
Defined Benefit Plan revaluation reserve	-	-	(2,615)	(2,615)	(2,615)
Defined Benefit Plan revaluation reserve	-	-	(3,500)	(3,500)	(3,500)
Net worth	146,313	254	(3,500)	143,067	(3,246)

Statement of Segments

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2019	2019	2019	2019	2019
	Actual \$m	Actual \$m	Actual \$m	Actual \$m	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	29,032	-	-	(929)	28,103
Personnel expenses	7,794	15,085	3,096	(42)	25,933
Other operating expenses	46,460	23,720	10,940	(33,873)	47,247
Interest expenses	3,731	117	1,045	(553)	4,340
Insurance expenses	1	5,807	5	(1)	5,812
Total expenses (excluding losses)	87,018	44,729	15,086	(35,398)	111,435
Minority interest share of operating balance before gains/(losses)	-	-	(355)	18	(337)
Operating balance before gains/(losses)	6,456	(1,454)	3,195	(827)	7,370
Total gains/(losses)	3,140	(7,892)	139	(2,681)	(7,294)
Net surplus/(deficit) from associates and joint ventures	51	152	29	21	253
Operating balance	9,647	(9,194)	3,363	(3,487)	329
Expenses by functional classification					
Social security and welfare	28,757	6,679	-	(1,517)	33,919
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	19,080	6,716	8,640	(3,629)	30,807
Finance costs	3,731	117	1,045	(553)	4,340
Total expenses (excluding losses)	87,018	44,729	15,086	(35,398)	111,435
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	(2,375)	23,327
Other financial assets	73,708	48,515	24,246	(25,923)	120,546
Property, plant and equipment	43,684	93,731	40,210	-	177,625
Equity accounted investments	46,602	13,311	290	(45,553)	14,650
Intangible assets and goodwill	1,681	692	1,557	(19)	3,911
Inventory and other assets	2,165	1,103	1,125	(48)	4,345
Total assets	201,768	166,441	70,806	(74,363)	364,652
Liabilities					
Borrowings	91,510	6,931	32,563	(20,756)	110,248
Other liabilities	41,642	69,507	9,315	(9,127)	111,337
Total liabilities	133,152	76,438	41,878	(29,883)	221,585
Total assets less total liabilities	68,616	90,003	28,928	(44,480)	143,067
Net worth					
Taxpayers' funds	48,221	30,272	7,715	(49,799)	36,409
Reserves	20,395	59,731	14,481	5,661	100,268
Net worth attributable to minority interest	-	-	6,732	(342)	6,390
Total net worth	68,616	90,003	28,928	(44,480)	143,067

Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2020	2020	2020	2020	2020
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
Statement of Financial Performance for the year ended 30 June 2020					
Revenue					
Taxation revenue	82,330	-	-	(742)	81,588
Other sovereign revenue	2,148	5,535	-	(1,557)	6,126
Revenue from core Crown funding	-	33,070	383	(33,453)	-
Sales of goods and services	1,617	2,399	15,851	(671)	19,196
Interest revenue	969	920	996	(445)	2,440
Other revenue	2,410	3,995	992	(2,344)	5,053
Total revenue (excluding gains)	89,474	45,919	18,222	(39,212)	114,403
Expenses					
Social assistance and official development assistance	31,827	-	-	(996)	30,831
Personnel expenses	8,469	15,702	3,182	(39)	27,314
Other operating expenses	66,143	26,427	13,986	(36,613)	69,943
Interest expenses	3,275	173	980	(532)	3,896
Insurance expenses	2	6,409	6	1	6,418
Forecast for future new spending	5,357	-	-	-	5,357
Top-down adjustment	(1,075)	-	-	-	(1,075)
Total expenses (excluding losses)	113,998	48,711	18,154	(38,179)	142,684
Minority interest share of operating balance before gains/(losses)	-	-	(17)	5	(12)
Operating balance before gains/(losses)	(24,524)	(2,792)	51	(1,028)	(28,293)
Total gains/(losses)	(6,498)	(2,217)	(6)	(244)	(8,965)
Net surplus/(deficit) from associates and joint ventures	18	126	8	(9)	143
Operating balance	(31,004)	(4,883)	53	(1,281)	(37,115)
Expenses by functional classification					
Social security and welfare	44,373	7,667	-	(1,650)	50,390
Health	20,104	17,165	-	(17,189)	20,080
Education	15,516	12,565	-	(11,395)	16,686
Transport and communications	3,723	3,628	8,694	(3,401)	12,644
Other	22,725	7,513	8,480	(4,012)	34,706
Finance costs	3,275	173	980	(532)	3,896
Forecast for future new spending	5,357	-	-	-	5,357
Top-down adjustment	(1,075)	-	-	-	(1,075)
Total expenses (excluding losses)	113,998	48,711	18,154	(38,179)	142,684
Statement of Financial Position as at 30 June 2020					
Assets					
Cash and cash equivalents	28,138	3,199	625	(466)	31,496
Receivables	19,461	6,099	2,228	(1,870)	25,918
Other financial assets	72,852	48,765	26,034	(25,347)	122,304
Property, plant and equipment	44,819	100,187	40,376	-	185,382
Equity accounted investments	50,483	12,210	531	(49,530)	13,694
Intangible assets and goodwill	1,654	711	1,577	(20)	3,922
Inventory and other assets	2,481	1,210	1,163	(77)	4,777
Forecast for new capital spending	212	-	-	-	212
Capital top-down adjustment	(1,050)	-	-	-	(1,050)
Total assets	219,050	172,381	72,534	(77,310)	386,655
Liabilities					
Borrowings	138,749	11,500	35,017	(20,467)	164,799
Other liabilities	43,241	71,865	9,185	(8,453)	115,838
Total liabilities	181,990	83,365	44,202	(28,920)	280,637
Total assets less total liabilities	37,060	89,016	28,332	(48,390)	106,018
Net worth					
Taxpayers' funds	17,310	28,752	7,508	(54,089)	(519)
Reserves	19,750	60,264	14,586	6,012	100,612
Net worth attributable to minority interest	-	-	6,238	(313)	5,925
Total net worth	37,060	89,016	28,332	(48,390)	106,018

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	80,079	-	-	(748)	79,331
Other sovereign revenue	2,119	5,724	-	(1,831)	6,012
Revenue from core Crown funding	-	35,402	257	(35,659)	-
Sales of goods and services	1,446	2,720	13,581	(610)	17,137
Interest revenue	1,047	789	1,077	(400)	2,513
Other revenue	2,332	4,101	1,011	(2,370)	5,074
Total revenue (excluding gains)	87,023	48,736	15,926	(41,618)	110,067
Expenses					
Social assistance and official development assistance	36,761	-	-	(1,049)	35,712
Personnel expenses	8,438	17,530	2,636	(41)	28,563
Other operating expenses	55,428	27,447	12,155	(39,162)	55,868
Interest expenses	2,884	259	932	(460)	3,615
Insurance expenses	2	5,803	7	(1)	5,811
Forecast for future new spending	10,991	-	-	-	10,991
Top-down adjustment	(975)	-	-	-	(975)
Total expenses (excluding losses)	113,529	51,039	15,730	(40,713)	139,585
Minority interest share of operating balance before gains/(losses)	-	-	(88)	7	(81)
Operating balance before gains/(losses)	(26,506)	(2,303)	108	(898)	(29,599)
Total gains/(losses)	273	15	1	(83)	206
Net surplus/(deficit) from associates and joint ventures	14	57	-	(4)	67
Operating balance	(26,219)	(2,231)	109	(985)	(29,326)
Expenses by functional classification					
<i>Social security and welfare</i>	37,170	7,050	-	(1,689)	42,531
<i>Health</i>	20,919	18,330	-	(18,458)	20,791
<i>Education</i>	16,301	13,680	-	(12,220)	17,761
<i>Transport and communications</i>	4,035	4,085	6,750	(4,078)	10,792
<i>Other</i>	22,204	7,635	8,048	(3,808)	34,079
<i>Finance costs</i>	2,884	259	932	(460)	3,615
Forecast for future new spending	10,991	-	-	-	10,991
Top-down adjustment	(975)	-	-	-	(975)
Total expenses (excluding losses)	113,529	51,039	15,730	(40,713)	139,585
Statement of Financial Position as at 30 June 2021					
Assets					
Cash and cash equivalents	28,896	2,732	352	(329)	31,651
Receivables	22,128	6,214	2,233	(1,788)	28,787
Other financial assets	107,190	48,224	28,224	(26,102)	157,536
Property, plant and equipment	45,566	104,333	40,949	(2)	190,846
Equity accounted investments	54,276	12,282	610	(52,963)	14,205
Intangible assets and goodwill	1,873	713	1,631	(20)	4,197
Inventory and other assets	2,423	1,496	1,207	(111)	5,015
Forecast for new capital spending	2,202	-	-	-	2,202
Capital top-down adjustment	(1,700)	-	-	-	(1,700)
Total assets	262,854	175,994	75,206	(81,315)	432,739
Liabilities					
Borrowings	208,240	13,091	37,893	(21,060)	238,164
Other liabilities	43,592	73,613	9,128	(8,248)	118,085
Total liabilities	251,832	86,704	47,021	(29,308)	356,249
Total assets less total liabilities	11,022	89,290	28,185	(52,007)	76,490
Net worth					
Taxpayers' funds	(8,919)	29,121	7,817	(57,743)	(29,724)
Reserves	19,941	60,169	14,605	6,028	100,743
Net worth attributable to minority interest	-	-	5,763	(292)	5,471
Total net worth	11,022	89,290	28,185	(52,007)	76,490

Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2022	2022	2022	2022	2022
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
Statement of Financial Performance for the year ended 30 June 2022					
Revenue					
Taxation revenue	87,265	-	-	(776)	86,489
Other sovereign revenue	2,233	6,580	-	(1,953)	6,860
Revenue from core Crown funding	-	35,163	147	(35,310)	-
Sales of goods and services	1,586	2,796	16,064	(577)	19,869
Interest revenue	1,170	804	1,200	(402)	2,772
Other revenue	2,361	4,310	1,069	(2,446)	5,294
Total revenue (excluding gains)	94,615	49,653	18,480	(41,464)	121,284
Expenses					
Social assistance and official development assistance	36,544	-	-	(1,120)	35,424
Personnel expenses	8,256	17,837	3,195	(41)	29,247
Other operating expenses	54,202	26,964	13,369	(38,893)	55,642
Interest expenses	3,247	278	1,006	(462)	4,069
Insurance expenses	2	6,133	7	-	6,142
Forecast for future new spending	18,266	-	-	-	18,266
Top-down adjustment	(750)	-	-	-	(750)
Total expenses (excluding losses)	119,767	51,212	17,577	(40,516)	148,040
Minority interest share of operating balance before gains/(losses)	-	-	(465)	22	(443)
Operating balance before gains/(losses)	(25,152)	(1,559)	438	(926)	(27,199)
Total gains/(losses)	2,842	62	(23)	(100)	2,781
Net surplus/(deficit) from associates and joint ventures	12	174	4	(4)	186
Operating balance	(22,298)	(1,323)	419	(1,030)	(24,232)
Expenses by functional classification					
Social security and welfare	36,752	7,322	-	(1,777)	42,297
Health	21,125	18,423	-	(18,707)	20,841
Education	16,436	13,712	-	(12,245)	17,903
Transport and communications	3,719	3,933	8,747	(3,948)	12,451
Other	20,972	7,544	7,824	(3,377)	32,963
Finance costs	3,247	278	1,006	(462)	4,069
Forecast for future new spending	18,266	-	-	-	18,266
Top-down adjustment	(750)	-	-	-	(750)
Total expenses (excluding losses)	119,767	51,212	17,577	(40,516)	148,040
Statement of Financial Position as at 30 June 2022					
Assets					
Cash and cash equivalents	28,673	2,675	(770)	(329)	30,249
Receivables	21,332	6,255	2,301	(1,746)	28,142
Other financial assets	118,177	49,677	30,550	(25,664)	172,740
Property, plant and equipment	47,049	106,129	41,083	(2)	194,259
Equity accounted investments	58,184	12,491	633	(56,213)	15,095
Intangible assets and goodwill	1,852	721	1,658	(20)	4,211
Inventory and other assets	2,484	1,455	1,211	(143)	5,007
Forecast for new capital spending	4,347	-	-	-	4,347
Capital top-down adjustment	(2,050)	-	-	-	(2,050)
Total assets	280,048	179,403	76,666	(84,117)	452,000
Liabilities					
Borrowings	248,687	13,162	38,984	(20,571)	280,262
Other liabilities	42,454	75,879	9,114	(8,090)	119,357
Total liabilities	291,141	89,041	48,098	(28,661)	399,619
Total assets less total liabilities	(11,093)	90,362	28,568	(55,456)	52,381
Net worth					
Taxpayers' funds	(31,230)	30,305	8,300	(61,194)	(53,819)
Reserves	20,137	60,057	14,629	6,022	100,845
Net worth attributable to minority interest	-	-	5,639	(284)	5,355
Total net worth	(11,093)	90,362	28,568	(55,456)	52,381

Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2023	2023	2023	2023	2023
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
Statement of Financial Performance for the year ended 30 June 2023					
Revenue					
Taxation revenue	96,518	-	-	(819)	95,699
Other sovereign revenue	2,291	7,082	-	(2,085)	7,288
Revenue from core Crown funding	-	34,704	111	(34,815)	-
Sales of goods and services	1,516	2,810	16,378	(620)	20,084
Interest revenue	1,256	812	1,298	(408)	2,958
Other revenue	2,434	4,454	1,007	(2,506)	5,389
Total revenue (excluding gains)	104,015	49,862	18,794	(41,253)	131,418
Expenses					
Social assistance and official development assistance	36,963	-	-	(1,180)	35,783
Personnel expenses	8,332	18,180	3,272	(41)	29,743
Other operating expenses	53,821	26,334	13,565	(38,843)	54,877
Interest expenses	4,007	324	1,023	(467)	4,887
Insurance expenses	(3)	6,622	7	5	6,631
Forecast for future new spending	16,168	-	-	-	16,168
Top-down adjustment	(650)	-	-	-	(650)
Total expenses (excluding losses)	118,638	51,460	17,867	(40,526)	147,439
Minority interest share of operating balance before gains/(losses)	-	-	(455)	22	(433)
Operating balance before gains/(losses)	(14,623)	(1,598)	472	(705)	(16,454)
Total gains/(losses)	3,154	181	19	(108)	3,246
Net surplus/(deficit) from associates and joint ventures	13	182	3	1	199
Operating balance	(11,456)	(1,235)	494	(812)	(13,009)
Expenses by functional classification					
Social security and welfare	37,150	7,853	-	(1,859)	43,144
Health	21,259	18,450	-	(18,856)	20,853
Education	16,441	13,693	-	(12,222)	17,912
Transport and communications	3,511	3,518	9,041	(3,758)	12,312
Other	20,752	7,622	7,803	(3,364)	32,813
Finance costs	4,007	324	1,023	(467)	4,887
Forecast for future new spending	16,168	-	-	-	16,168
Top-down adjustment	(650)	-	-	-	(650)
Total expenses (excluding losses)	118,638	51,460	17,867	(40,526)	147,439
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	28,367	2,575	(1,166)	(328)	29,448
Receivables	22,206	6,344	2,378	(1,735)	29,193
Other financial assets	116,696	51,244	33,052	(26,258)	174,734
Property, plant and equipment	47,328	108,182	41,178	(1)	196,687
Equity accounted investments	62,157	12,709	652	(59,774)	15,744
Intangible assets and goodwill	1,847	716	1,684	(20)	4,227
Inventory and other assets	2,643	1,458	1,242	(176)	5,167
Forecast for new capital spending	7,001	-	-	-	7,001
Capital top-down adjustment	(2,300)	-	-	-	(2,300)
Total assets	285,945	183,228	79,020	(88,292)	459,901
Liabilities					
Borrowings	266,878	13,063	41,234	(21,050)	300,125
Other liabilities	41,435	77,870	9,041	(7,987)	120,359
Total liabilities	308,313	90,933	50,275	(29,037)	420,484
Total assets less total liabilities	(22,368)	92,295	28,745	(59,255)	39,417
Net worth					
Taxpayers' funds	(42,698)	32,320	8,629	(64,980)	(66,729)
Reserves	20,330	59,975	14,622	6,001	100,928
Net worth attributable to minority interest	-	-	5,494	(276)	5,218
Total net worth	(22,368)	92,295	28,745	(59,255)	39,417

Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2024	2024	2024	2024	2024
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	102,130	-	-	(868)	101,262
Other sovereign revenue	2,432	7,496	-	(2,228)	7,700
Revenue from core Crown funding	-	34,771	112	(34,883)	-
Sales of goods and services	1,507	2,823	16,769	(566)	20,533
Interest revenue	1,347	853	1,409	(431)	3,178
Other revenue	2,504	4,464	1,039	(2,497)	5,510
Total revenue (excluding gains)	109,920	50,407	19,329	(41,473)	138,183
Expenses					
Social assistance and official development assistance	38,076	-	-	(1,180)	36,896
Personnel expenses	8,340	18,288	3,378	(43)	29,963
Other operating expenses	53,770	26,343	13,858	(38,889)	55,082
Interest expenses	4,515	324	1,077	(494)	5,422
Insurance expenses	2	6,973	8	(1)	6,982
Forecast for future new spending	8,972	-	-	-	8,972
Top-down adjustment	(650)	-	-	-	(650)
Total expenses (excluding losses)	113,025	51,928	18,321	(40,607)	142,667
Minority interest share of operating balance before gains/(losses)	-	-	(473)	22	(451)
Operating balance before gains/(losses)	(3,105)	(1,521)	535	(844)	(4,935)
Total gains/(losses)	3,574	229	19	(127)	3,695
Net surplus/(deficit) from associates and joint ventures	12	183	10	(1)	204
Operating balance	481	(1,109)	564	(972)	(1,036)
Expenses by functional classification					
Social security and welfare	38,314	8,218	-	(1,878)	44,654
Health	21,378	18,448	-	(19,006)	20,820
Education	16,553	13,754	-	(12,262)	18,045
Transport and communications	3,375	3,544	9,323	(3,662)	12,580
Other	20,568	7,640	7,921	(3,305)	32,824
Finance costs	4,515	324	1,077	(494)	5,422
Forecast for future new spending	8,972	-	-	-	8,972
Top-down adjustment	(650)	-	-	-	(650)
Total expenses (excluding losses)	113,025	51,928	18,321	(40,607)	142,667
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	28,112	2,628	(1,163)	(327)	29,250
Receivables	22,585	6,490	2,537	(1,729)	29,883
Other financial assets	124,854	52,837	35,875	(26,866)	186,700
Property, plant and equipment	47,214	110,361	41,359	(2)	198,932
Equity accounted investments	65,424	12,892	685	(62,950)	16,051
Intangible assets and goodwill	1,792	699	1,697	(20)	4,168
Inventory and other assets	2,784	1,482	1,268	(208)	5,326
Forecast for new capital spending	10,289	-	-	-	10,289
Capital top-down adjustment	(2,550)	-	-	-	(2,550)
Total assets	300,504	187,389	82,258	(92,102)	478,049
Liabilities					
Borrowings	281,447	12,999	44,406	(21,589)	317,263
Other liabilities	40,768	80,228	9,178	(7,904)	122,270
Total liabilities	322,215	93,227	53,584	(29,493)	439,533
Total assets less total liabilities	(21,711)	94,162	28,674	(62,609)	38,516
Net worth					
Taxpayers' funds	(42,228)	34,264	8,631	(68,343)	(67,676)
Reserves	20,517	59,898	14,644	5,996	101,055
Net worth attributable to minority interest	-	-	5,399	(262)	5,137
Total net worth	(21,711)	94,162	28,674	(62,609)	38,516

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	28,757	44,373	37,170	36,752	37,150	38,314
Health	15,058	15,626	16,223	17,159	18,268	20,104	20,919	21,125	21,259	21,378
Education	12,879	13,158	13,281	13,629	14,293	15,516	16,301	16,436	16,441	16,553
Core government services ¹	4,134	4,102	3,957	4,670	5,166	6,685	5,317	5,074	5,086	5,002
Law and order	3,515	3,648	3,882	4,184	4,625	5,069	5,238	5,085	5,126	5,109
Transport and communications	2,291	2,178	2,176	2,559	2,889	3,723	4,035	3,719	3,511	3,375
Economic and industrial services	2,228	2,107	2,544	2,732	3,006	3,450	3,379	3,308	3,259	3,223
Defence	1,961	2,026	2,146	2,251	2,395	2,546	2,765	2,755	2,740	2,827
Heritage, culture and recreation	778	787	850	850	918	1,054	1,058	980	958	960
Primary services	667	749	644	807	960	1,148	1,242	793	809	766
Housing and community development	320	558	539	552	727	1,080	1,252	1,260	1,084	996
Environmental protection	723	587	871	1,238	1,119	1,493	1,332	1,303	1,289	1,281
GSF pension expenses ¹	358	271	217	150	66	76	76	70	66	61
Other	145	461	181	299	96	120	545	344	335	343
Finance costs ¹	3,783	3,590	3,534	3,497	3,733	3,279	2,884	3,247	4,007	4,515
Forecast new operating spending	..	..	..	..	..	5,357	10,991	18,266	16,168	8,972
Top-down expense adjustment	..	..	..	..	..	( 1,075)	(975)	(750)	(650)	(650)
Core Crown expenses	72,363	73,929	76,339	80,576	87,018	113,998	113,529	119,767	118,638	113,025

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	26,689	32,858	34,202	33,878	34,257	35,347
Social rehabilitation and compensation	142	151	220	241	249	260	333	358	385	414
Departmental expenses	1,319	1,339	1,417	1,593	1,784	2,133	2,280	2,175	2,172	2,209
Other non-departmental expenses ^{1,2}	382	150	318	160	35	9,122	355	341	336	344
Social security and welfare expenses	23,523	24,081	25,294	25,999	28,757	44,373	37,170	36,752	37,150	38,314

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

2. The 2020 forecast of non-departmental expenses includes costs in relation to the Government's response to COVID-19.

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	15,516	16,346	16,941	17,859	18,983
Jobseeker Support and Emergency Benefit	1,684	1,671	1,697	1,697	1,854	2,373	4,521	3,731	3,175	2,951
Supported living payment	1,515	1,523	1,533	1,541	1,556	1,645	1,807	1,850	1,937	2,031
Sole parent support	1,186	1,153	1,159	1,117	1,115	1,235	1,577	1,679	1,689	1,677
Family Tax Credit	1,854	1,793	1,723	1,639	2,131	2,144	2,139	2,042	2,043	2,125
Other working for families tax credits	549	559	596	556	635	624	653	653	653	662
Accommodation Assistance	1,129	1,164	1,127	1,204	1,640	1,936	2,607	2,518	2,410	2,367
Income-Related Rents	703	755	815	890	974	1,092	1,206	1,322	1,332	1,333
Disability Assistance	377	377	377	379	386	397	419	414	411	414
Winter energy	..	..	..	..	441	682	880	543	532	529
Best start	..	..	..	..	48	188	336	447	454	471
Orphan's/Unsupported Child's Benefit ¹	132	143	152	165	225	248	268	285	304	323
Hardship Assistance ²	277	290	353	355	300	400	623	609	601	609
Paid Parental Leave	180	217	274	288	369	425	455	490	505	520
Childcare Assistance	183	182	199	196	183	151	167	168	170	172
Veterans Support Entitlement	115	107	98	93	90	67	0	0	0	0
Veteran's Pension	178	186	175	163	153	145	134	123	114	107
Other benefits ^{1,2}	27	54	18	23	27	3,590	64	63	68	73
Benefit expenses	21,680	22,441	23,339	24,005	26,689	32,858	34,202	33,878	34,257	35,347

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	821	847	874	901
Jobseeker Support and Emergency Benefit	133	130	131	129	139	166	297	246	202	180
Supported living payment	98	98	97	96	95	96	97	99	101	103
Sole parent support	72	67	64	60	59	61	70	74	73	70
Accommodation Supplement	292	292	290	285	295	322	431	404	376	362

1. Actual numbers have been reclassified so may differ from previous published Economic and Fiscal Update numbers.
 2. The 2020 forecast of other benefits includes the accounting change to the recognition of Veterans Disability Entitlements.

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	266	249	237	238	237
Health services purchasing (see below)	13,937	14,361	14,855	15,449	16,311	18,396	18,982	19,106	19,103	19,103
Other non-departmental outputs	312	356	365	816	937	590	579	597	606	624
Health payments to ACC	587	694	697	682	782	820	1,054	1,148	1,273	1,375
Other expenses	32	27	114	12	28	32	55	37	39	39
Health expenses	15,058	15,626	16,223	17,159	18,268	20,104	20,919	21,125	21,259	21,378

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	15,752	16,806	16,930	16,931	16,932
National disability support services	1,126	1,167	1,188	1,256	1,358	1,599	1,707	1,738	1,738	1,738
Public health services purchasing ¹	397	372	386	364	390	1,045	469	438	434	433
Health services purchasing	13,937	14,361	14,855	15,449	16,311	18,396	18,982	19,106	19,103	19,103

1. The 2020 forecast of public health services purchasing includes costs in relation to the Government's response to COVID-19.

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	2,071	2,159	2,244	2,329	2,423
Primary and secondary schools (see below)	5,773	6,044	6,116	6,334	6,823	7,342	7,807	7,862	7,821	7,861
Tertiary funding (see below)	4,272	4,235	4,051	4,112	4,112	4,468	4,761	4,813	4,777	4,753
Departmental expenses	1,129	1,112	1,190	1,281	1,416	1,510	1,495	1,473	1,478	1,483
Other education expenses	61	32	119	58	46	125	79	44	36	33
Education expenses	12,879	13,158	13,281	13,629	14,293	15,516	16,301	16,436	16,441	16,553

Source: The Treasury

Number of places provided ¹	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Early childhood education	195,818	205,094	211,480	217,136	221,813	227,952	234,174	241,652	250,995	260,783

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: The 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	3,452	3,709	3,924	3,940	3,894	3,885
Secondary	2,229	2,329	2,336	2,407	2,606	2,791	2,948	2,984	3,004	3,054
School transport	186	185	186	195	206	221	221	215	200	200
Special needs support	336	396	410	429	447	518	594	608	614	622
Professional development	98	96	88	82	104	94	101	96	94	94
Schooling improvement	4	5	5	5	8	9	19	19	15	6
Primary and secondary education expenses	5,773	6,044	6,116	6,334	6,823	7,342	7,807	7,862	7,821	7,861

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	490,488	501,786	511,588	520,496	527,429	529,953	527,585	522,937	517,698	510,530
Secondary	277,480	276,473	278,428	277,734	279,904	285,474	292,809	297,496	303,055	307,280

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: The 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	2,777	2,908	2,963	2,971	2,973
Other tertiary funding	484	487	520	561	606	597	648	594	578	576
Student allowances	511	486	465	511	583	580	641	682	658	642
Student loans	871	799	600	488	352	514	564	574	570	562
Tertiary education expenses	4,272	4,235	4,051	4,112	4,112	4,468	4,761	4,813	4,777	4,753

Source: The Treasury

Number of places provided ¹	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Actual delivered and estimated funded places	233,132	231,413	223,645	220,717	217,767	221,900	225,000	225,300	225,100	225,100

1. Tertiary places are the number of equivalent full time students (EFTS) in: student achievement component; adult and community education; and youth guarantee programmes.
Place numbers are based on calendar years rather than fiscal years.
Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers.
Tertiary places include 2020 Budget adjustments that the Tertiary Education Commission is aware of but does not include any changes due to COVID-19.

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	777	819	858	860
Indemnity and guarantee expenses	38	30	22	18	16	14	16	17	17	17
Departmental expenses ¹	1,740	1,845	1,835	2,119	2,199	2,341	2,470	2,261	2,192	2,141
Non-departmental expenses	481	379	511	683	961	814	554	700	729	730
Tax receivable write-down and impairments	873	680	493	616	829	970	880	880	880	880
Science expenses	121	118	91	94	103	115	115	116	119	117
Other expenses ^{2,3}	368	516	485	497	350	1,647	505	281	291	257
Core government service expenses	4,134	4,102	3,957	4,670	5,166	6,685	5,317	5,074	5,086	5,002

1. Departmental expenses includes costs relating to the Inland Revenue Business Transformation project.

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

3. The 2020 forecast of other expenses includes costs in relation to the Government's response to COVID-19.

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	1,937	2,053	2,009	2,009	1,999
Ministry of Justice	451	468	479	502	542	611	619	604	603	602
Department of Corrections	1,024	1,068	1,145	1,301	1,417	1,574	1,630	1,561	1,601	1,600
NZ Customs Service	161	153	171	174	187	204	196	197	200	198
Other departments	100	83	121	132	111	157	187	186	184	184
Departmental expenses	3,192	3,270	3,455	3,738	4,017	4,483	4,685	4,557	4,597	4,583
Non-departmental outputs	320	359	397	445	457	574	541	515	516	513
Other expenses	3	19	30	1	151	12	12	13	13	13
Law and order expenses	3,515	3,648	3,882	4,184	4,625	5,069	5,238	5,085	5,126	5,109

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	2,756	3,172	3,455	3,097	3,169
Departmental outputs	43	45	52	55	60	82	82	68	66	66
Other non-departmental expenses ¹	114	106	168	177	158	565	478	143	157	93
Rail funding	93	3	3	3	3	3	20	15	153	12
Other expenses	49	42	65	44	67	317	283	38	38	35
Transport and communication expenses	2,291	2,178	2,176	2,559	2,889	3,723	4,035	3,719	3,511	3,375

1. The 2020 and 2021 forecast of other non-departmental expenses includes costs in relation to the Government's response to COVID-19.

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	545	533	498	499	501
Employment initiatives	75	3	3	4	10	6	4	4	4	4
Non-departmental outputs ^{1,3}	742	798	1,085	1,155	1,328	1,535	1,597	1,665	1,574	1,523
KiwiSaver (includes HomeStart grant) ²	888	763	743	897	951	944	935	970	1,002	1,036
Other expenses ⁴	132	154	248	229	218	420	310	171	180	159
Economic and industrial services expenses	2,228	2,107	2,544	2,732	3,006	3,450	3,379	3,308	3,259	3,223

1. From 2017 onwards, spending on new investment and research fund initiatives is included in non-departmental outputs, this has been reclassified from core government services.

2. From 2018 onwards, spending includes KiwiSaver HomeStart grant initiative.

3. From 2019 onwards, non-departmental outputs includes Provincial Growth Fund expenses.

4. The 2020 and 2021 forecast of other expenses includes costs in relation to the Government's response to COVID-19.

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	2,472	2,607	2,611	2,588	2,677
Other expenses	82	40	62	79	109	74	158	144	152	150
Defence expenses	1,961	2,026	2,146	2,251	2,395	2,546	2,765	2,755	2,740	2,827

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	343	373	356	332	332
Non-departmental outputs	468	477	512	503	538	588	589	587	590	591
Other expenses	30	36	56	45	75	123	96	37	36	37
Heritage, culture and recreation expenses	778	787	850	850	918	1,054	1,058	980	958	960

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	812	865	611	603	602
Non-departmental outputs	114	100	92	188	110	149	126	88	69	68
Biological research ¹	91	95	..	..	..	..	..	..	..	..
Other expenses ^{2,3}	78	130	94	70	173	187	251	94	137	96
Primary services expenses	667	749	644	807	960	1,148	1,242	793	809	766

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	241	285	306	324	339
Departmental outputs	113	171	187	150	195	238	231	225	219	198
Other non-departmental expenses ²	117	114	127	193	283	528	685	685	507	425
Warm up New Zealand	37	22	..	..	..	..	..	..	..	..
Other expenses	48	57	31	25	62	69	47	40	30	30
Housing and community development expenses	320	558	539	552	727	1,080	1,252	1,260	1,084	996

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	649	641	635	629	615
Departmental outputs	360	383	404	412	460	539	567	566	565	566
Non-departmental outputs	41	1	64	72	82	269	105	84	80	86
Other expenses	189	40	108	34	34	36	19	18	15	14
Environmental protection expenses	723	587	871	1,238	1,119	1,493	1,332	1,303	1,289	1,281

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	3,059	2,704	3,075	3,836	4,338
Interest unwind on provisions ¹	38	37	29	43	335	220	180	172	171	177
Finance costs expenses	3,783	3,590	3,534	3,496	3,733	3,279	2,884	3,247	4,007	4,515

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 97 to 100).

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, asset revaluation reserves) or indirectly through the Statement of Financial Performance.

GDP deflator

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

Generally accepted accounting practice (GAAP)

GAAP refers to the rules and 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 97 to 100.

Tradable/non-tradable output

The tradable sector is the part of the economy particularly exposed to international markets 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 international markets.

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 2018/1 or 2019 will mean the end of the financial year.

Time Series of Fiscal Indicators

Fiscal Indicators

June years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual ^a	Forecast	Forecast	Forecast	Forecast	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	82,330	80,079	87,265	96,518	102,130
Core Crown revenue	55,757	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	89,474	87,023	94,615	104,015	109,920
Core Crown expenses	63,554	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576	87,018	113,998	113,529	119,767	118,638	113,025
Surpluses															
Total Crown OBEGAL	(6,315)	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,370	(28,293)	(29,599)	(27,199)	(16,454)	(4,935)
Total Crown operating balance	(4,509)	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	12,317	8,396	329	(37,115)	(29,326)	(24,232)	(13,009)	(1,036)
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)	(32,031)	(43,313)	(35,195)	(26,885)	(13,486)
Debt															
Gross debt ¹	53,591	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	99,771	138,136	179,226	203,577	218,827
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	134,229	203,673	244,080	262,248	276,797
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	47,598	82,764	111,699	131,688	138,220
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	88,935	129,489	163,599	188,718	200,780
Total borrowings	69,733	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	164,799	238,164	280,262	300,125	317,263
Net worth															
Total Crown net worth	94,988	80,887	59,780	70,011	80,697	98,236	95,521	116,472	135,637	143,067	106,018	76,490	52,381	39,417	38,516
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	136,677	100,093	71,019	47,026	34,199	33,379
Nominal expenditure GDP (revised actuals)	196,763	205,847	215,187	218,823	236,716	245,000	257,742	274,596	292,878	303,310	294,207	294,185	328,322	352,324	374,288
% 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	28.5	28.0	27.2	26.6	27.4	27.3
Core Crown revenue	28.3	27.8	28.1	29.2	28.3	29.5	29.5	29.8	29.6	30.8	30.4	29.6	28.8	29.5	29.4
Core Crown expenses	32.3	34.1	32.0	32.0	30.1	29.5	28.7	27.8	27.5	28.7	38.7	38.6	36.5	33.7	30.2
Surpluses															
Total Crown OBEGAL	(3.2)	(8.9)	(4.3)	(2.0)	(1.2)	0.2	0.7	1.5	1.9	2.4	(9.6)	(10.1)	(8.3)	(4.7)	(1.3)
Total Crown operating balance	(2.3)	(6.5)	(6.9)	3.2	1.2	2.4	(2.1)	4.5	2.9	0.1	(12.6)	(10.0)	(7.4)	(3.7)	(0.3)
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)	(10.9)	(14.7)	(10.7)	(7.6)	(3.6)
Debt															
Gross debt ¹	27.2	35.2	37.0	35.6	34.6	35.2	33.7	31.7	30.1	27.8	33.9	47.0	54.6	57.8	58.5
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	30.0	45.6	69.2	74.3	74.4	74.0
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	16.2	28.1	34.0	37.4	36.9
Net core Crown debt ²	13.6	19.5	23.5	25.5	25.3	24.7	24.0	21.7	19.6	19.0	30.2	44.0	49.8	53.6	53.6
Total borrowings	35.4	43.8	46.7	45.7	43.7	46.0	44.2	40.7	39.5	36.3	56.0	81.0	85.4	85.2	84.8
Net worth															
Total Crown net worth	48.3	39.3	27.8	32.0	34.1	40.1	37.1	42.4	46.3	47.2	36.0	26.0	16.0	11.2	10.3
Total net worth attributable to the Crown	48.1	39.1	27.6	31.1	31.9	35.3	34.7	40.3	44.3	45.1	34.0	24.1	14.3	9.7	8.9
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.															