TE TAI ŌHANGA
THE TREASURY

Budget Economic and Fiscal Update 2024

30 May 2024

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An introduction to the *Budget Economic and Fiscal Update*

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

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

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

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

Internet

The URL for this document on the Treasury's website at May 2024 is
https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2024

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Statement of Responsibility

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

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of government decisions and other circumstances as at 9 May 2024 that were communicated to me by the Minister of Finance as required by the Public Finance Act 1989, and of other economic and fiscal information available to the Treasury as at 9 May 2024. 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

23 May 2024

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 9 May 2024 of which I was aware and that had material economic or fiscal implications have been communicated to the Secretary to the Treasury, as required by the Public Finance Act 1989.

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

Hon Nicola Willis
Minister of Finance

23 May 2024

Executive Summary

Economic conditions are expected to remain subdued in the near term as the economy continues to rebalance from a period of strong demand, tight supply and historically high inflation. Real GDP is forecast to contract 0.2% in the year to June 2024. Coupled with weaker year to date tax outturns, this translates to soft growth in tax revenue in the near term, while growth in core Crown expenses remain high. The combination of these factors sees OBEGAL deficits remain elevated and net core Crown debt continuing to rise in the near term.

Table 1 – Key economic and fiscal indicators

June years	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Real production GDP (annual average % change)	3.0	(0.2)	1.7	3.2	2.9	2.7
Unemployment rate (June quarter)	3.6	4.9	5.2	4.8	4.5	4.4
CPI inflation (annual % change)	6.0	3.4	2.2	2.0	2.0	2.0
Current account (annual, % of GDP)	(7.5)	(6.0)	(4.7)	(4.2)	(3.7)	(3.4)
Total Crown OBEGAL ($ billion)	(9.4)	(11.1)	(13.4)	(8.5)	(3.1)	1.5
% of GDP	(2.4)	(2.7)	(3.1)	(1.9)	(0.6)	0.3
Net core Crown debt ($ billion)	155.3	178.1	187.3	195.4	207.4	209.9
% of GDP	39.3	43.1	43.5	43.0	43.3	41.8

Sources: Stats NZ, the Treasury

The economy is expected to gradually strengthen from the second half of 2024, with private sector incomes supported by the Budget 2024 tax package, a continuing recovery in tourism earnings and an easing inflation outlook enabling a gradual reduction in interest rates. This sees real GDP growth increasing to 1.7% in the year to June 2025 and averaging 2.9% per annum over the final three years of the forecast.

Compared to the *Half Year Economic and Fiscal Update 2023 (Half Year Update),* the fiscal outlook is weaker than previously expected, with operating balance before gains and losses (OBEGAL) returning to surplus in 2027/28, a year later than previously forecast. A softer economic outlook and a lower forecast for business income tax revenue means our forecast for core Crown tax revenue is lower compared to the *Half Year Update*, across the forecast period. While tax policy changes contribute to the overall reduction in core Crown tax revenue, the Government's tax package does not change the headline fiscal indicators as it has been offset by other decisions taken through Budget 2024. Outside of tax policy changes, the weaker tax revenue forecasts have been partially offset by a reduction in core Crown expenses, largely reflecting lower future Budget operating allowances and reductions in spending on benefit expenses and finance costs influenced by lower forecasts for inflation and interest rates.

The decisions taken through Budget 2024 will on balance reduce the contribution fiscal policy is making to inflation pressure. Tax policy changes will boost aggregate demand, but this is more than offset by lower government spending and lower allowances compared to the *Half Year Update*. On average over the five-year forecast period, the fiscal impulse is contractionary in the *Budget Economic and Fiscal Update (Budget Update)* forecasts, as it was in the *Half Year Update*. This means that fiscal policy is tightening (contributing less to inflation pressures) over time as the fiscal deficit narrows. At the same time fiscal deficits are larger than forecast at the *Half Year Update*, mainly due to unanticipated weakness in revenue and the weaker economic outlook. This implies that while fiscal policy is contractionary, it has been and will continue to make a greater contribution to inflation pressures than previously assessed. Key aspects of Budget 2024 on key fiscal indicators are detailed in the 'Budget 2024 operating package' box on page 29 of the Fiscal Outlook chapter.

The key reason for Treasury's downgraded economic growth forecast is a reassessment of future productivity growth in New Zealand. Recent data outturns and revisions to previously published GDP estimates have seen our estimates of labour productivity and potential output growth revised downwards relative to our *Half Year Update* forecasts. This results in forecast potential GDP being 2% lower by 2026 while labour productivity levels are around 3% lower than in the *Half Year Update*. Further details on our revised productivity assumption can be found in the box on page 16.

Weak near-term demand and record high net migration have seen the unemployment rate increase from a record low 3.2% at the start of 2022 to 4.3% in the March 2024 quarter. Unemployment is forecast to peak at 5.3% at the end of 2024. Soft demand will limit firms' ability to increase prices with annual inflation expected to fall below 3% in the second half of 2024. With inflation pressure abating, interest rates are forecast to begin gradually easing from late 2024 quarter, slightly earlier than forecast at the *Half Year Update*.

As interest rates ease, domestic activity is forecast to gradually pick up over the second half of 2024 and into 2025 with gradually rising house prices supporting residential investment and household spending. The Budget 2024 tax package also supports private sector incomes and therefore demand over this period while the recovery in tourism is expected to continue. Offsetting this, real government consumption is expected to continue to fall until mid-2025.

Growth in New Zealand's major trading partners is expected to slow to 2.1% in the year to June 2025, down from the 2.7% growth this year, as growth slows in the United States. Gradual monetary easing is expected to underpin a pickup to 2.3% in the year to June 2026 and beyond, which is well below the pre-pandemic decade average of 3.2%. Drivers of this slowdown include slower population growth, population ageing, declining productivity growth and the reversal of policies that have promoted cross-border integration of supply chains.

Weak real GDP growth over the year to June 2024, together with falling inflation result in forecast nominal GDP growth (a key driver of tax revenues) approximately halving to 4.4% in the year to June 2024. In the following year nominal GDP growth remains close to that at 4.2% as increasing real growth is offset by further falls in inflation. Higher real GDP growth is then expected to be largely mirrored in nominal terms over the final three years of the forecast period as inflation stabilises.

The fiscal outlook is expected to recover from the 2025/26 year, but at a slower pace compared to the *Half Year Update*. The OBEGAL deficit is expected to grow in the near term, reaching a deficit of $13.4 billion in 2024/25, but then narrows and returns to a surplus of $1.5 billion in 2027/28. The expected improvement in OBEGAL is underpinned by stable growth in tax revenue, while core Crown expenses start to decline as a share of GDP.

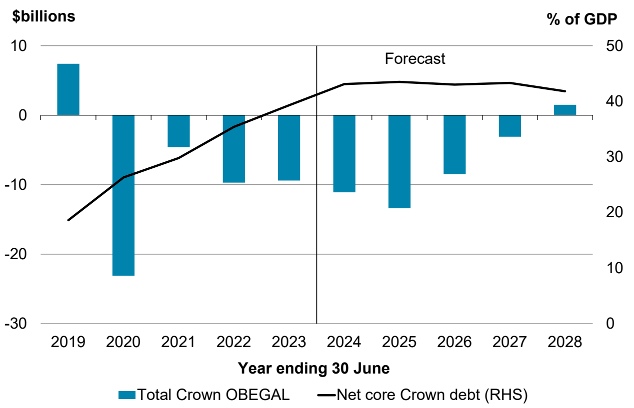
Core Crown tax revenue is forecast to increase by $35.8 billion over the forecast period, from $112.4 billion in the year to June 2023 to $148.2 billion in the year to June 2028. Despite changes to personal income tax thresholds, most of this forecast growth in tax revenue comes from source deductions ($15.4 billion), as employment and wage growth lift household incomes.

Recent tax outturns from corporates and small businesses have come in weaker than previously forecast, subduing growth in these tax types in the near term although it is expected business income taxes will begin recovering from the recent weakness as the business cycle picks up and growth in taxable profits improves. Growth in GST revenue contributes around $7.3 billion of the increase in tax revenue over the forecast period. This reflects the timing of personal income tax threshold changes on consumption.

Growth in core Crown expenses is expected to remain elevated in the near-term, reflecting the impact of past and current Budget decisions, spending on the 2023 North Island weather events and economic conditions of high inflation and interest rates leading to growth in benefit expenses and finance costs. Beyond 2025 core Crown expenses start to decline as a share of GDP, as temporary spending on the North Island weather events falls away and smaller levels of funding (compared to recent Budgets) are set aside for future Budget operating allowances. In addition, the expected decline in inflation and interest rates reduce the growth in finance costs and benefit expenses.

The weaker OBEGAL outlook in the near term also results in net core Crown debt as a percentage of GDP rising and is expected to peak in the year to June 2025 at 43.5% before gradually declining to 41.8% by June 2028 as the outlook improves. The accumulated residual cash deficits total $50.6 billion across the forecast period, which is $18.3 billion higher than previously forecast. The cash shortfall is largely funded by the Government's bond programme, which has increased by $12.0 billion over the forecast period compared to the *Half Year Update.*

Figure 1 – OBEGAL and net core Crown debt



Source: The Treasury

In nominal terms, net worth is expected to remain broadly flat over the forecast period, growing by just $1.9 billion to June 2028, reflecting the forecast total Crown operating balance results. As a share of GDP, net worth declines from 48.4% of GDP in the year to June 2023 to 38.5% of GDP by the year to June 2028 as nominal GDP growth is higher than the nominal increases in net worth over the forecast period.

As with any forecast, the forecasts presented in this *Budget Update* are based on assumptions around how economic conditions will evolve over the forecast horizon. The Economic Outlook chapter presents illustrative "upside" and "downside" scenarios on page 22 where these assumptions are varied and shows the flow-on impacts to core economic aggregates, tax revenues and expenditures. In addition, there are a number of fiscal risks that may eventuate that could impact on the forecasts. The Fiscal Outlook chapter and Specific Fiscal Risks chapter provide further details on these risks.

Finalisation dates for the *Budget Update*

Economic forecasts – 5 April 2024

Tax revenue forecasts – 30 April 2024

Fiscal forecasts – 9 May 2024

Statement of Specific Fiscal Risks – 9 May 2024

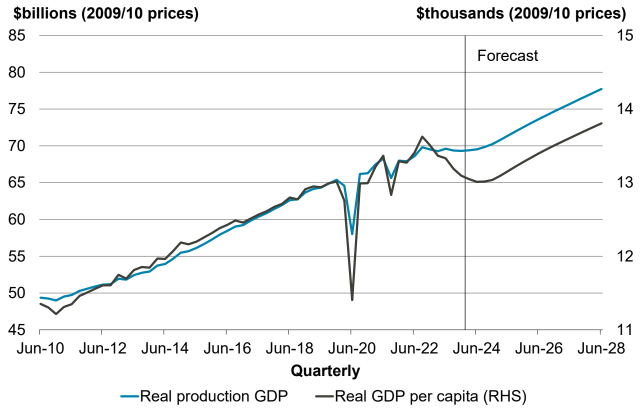
Text finalised – 23 May 2024

1

Economic Outlook

After a strong initial bounce back from the COVID-19 pandemic, economic activity in New Zealand has flattened since late 2022. High interest rates, necessary to reduce inflation, have constrained private demand. Strong population growth has provided an offsetting impetus to the economy. The result has been a slight decline in GDP, and a sharp decline in GDP per capita (Figure 1.1). Economic conditions remain soft but are expected to gradually strengthen from the second half of 2024 with the easing inflation outlook enabling a gradual reduction in interest rates.

Figure 1.1 – Real GDP and GDP per capita

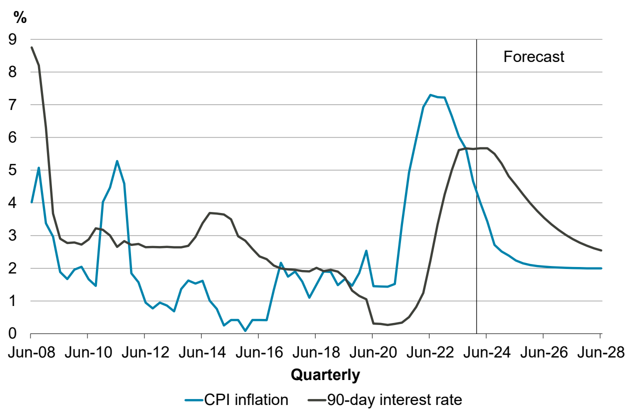


Sources: Stats NZ, the Treasury

Domestic demand has fallen as a mixture of high interest rates, a period of falling or weak real wage growth over 2021 to 2023 and falling house prices, have dampened consumer confidence. Weak demand and rising costs have affected business sentiment, while real government consumption is adjusting from its COVID-19 period highs.

Soft demand and record-high net migration have eased pressures in the labour market with businesses and government more cautious in their hiring decisions. The unemployment rate has increased from a record low 3.2% in 2022 to 4.3% in the March 2024 quarter and is forecast to peak at 5.3% at the end of 2024.

Figure 1.2 – Inflation and interest rates



Sources: Stats NZ, Haver, the Treasury

Annual inflation has fallen from above 7% in 2022 to 4% at the start of 2024 (Figure 1.2). Reduced global supply disruption together with generally restrictive global monetary policy have contributed to falling tradables inflation. Non-tradables inflation has been more persistent but is also falling as interest rate rises have increasingly impacted households and businesses.

Soft demand is limiting firms' ability to increase prices with annual inflation expected to fall below 3% in the September quarter of 2024. With inflation pressure abating, interest rates are forecast to begin easing gradually from late 2024.

As interest rates ease, domestic activity is forecast to gradually pick up over the second half of 2024 and into 2025. The Budget 2024 tax package also supports private sector incomes and therefore demand over this period. Offsetting this, real government consumption is expected to continue to fall until mid-2025. Taking the tax package, savings initiatives and new allowances into account, the net impact of the budget package is on balance slightly disinflationary. The tax changes will boost aggregate demand via household spending, but lower government spending provides an offsetting reduction to overall demand. For more detail on the budget package see 'Budget 2024 operating package' on page 29 of the Fiscal Outlook chapter.

Export growth has been strong over the past year as international tourism recovered. Goods export volumes have been relatively flat and affected by reduced production following the North Island weather events in early 2023 and challenging global demand conditions. Relatively robust export volume growth is expected over the earlier part of the forecast period as international tourism continues to recover and primary production recovers from last year's weather events. The combination of the recovery in export receipts and constrained import demand, as domestic demand remains weak, is expected to result in the current account deficit narrowing as the economy rebalances.

Overall, real GDP is forecast to contract by 0.2% in the year to June 2024, prior to growth increasing to 1.7% in the year to June 2025 and averaging 2.9% over the final three years of the forecast.

Weak real GDP growth over the year to June 2024, together with falling inflation result in forecast nominal GDP growth nearly halving to 4.4%. A similar rate of growth is expected over 2025 when nominal GDP is expected to grow 4.2% with increasing real growth offset by further falls in inflation. Higher real GDP growth is then expected to be largely mirrored in nominal terms over the final three years of the forecast period as inflation stabilises.

Relative to the *Half Year Economic and Fiscal Update 2023 (Half Year Update)*, the *Budget Economic and Fiscal Update 2024 (Budget Update)* forecasts lower levels of economic activity. This reflects downward revisions to earlier GDP data and weaker-than-expected growth at the end of 2023 continuing into 2024.[1]

Recent data have also led us to downgrade estimates of the level of trend or potential GDP, with our estimate for the June 2023 quarter nearly 1% lower than at the *Half Year Update*. The underlying driver of these downgrades has been weak productivity growth and is discussed in 'New Zealand's productivity performance and outlook' on page 16. Weaker trend productivity growth and therefore trend GDP growth is expected to continue into the forecast period and is a key driver of lower GDP in these forecasts. Relative to the *Half Year Update,* trend GDP at the end of the forecast is nearly 2% lower.

1 Revisions predominantly reflect the incorporation of the latest annual GDP data. Annual GDP data is released on a March year basis in November each year. This is reflected in quarterly GDP when September quarter data is released. While revisions are common, large downward revisions have not typically occurred.

Weaker forecasts of real GDP relative to the *Half Year Update* are the main driver of lower nominal GDP forecasts, which also reflect the impact of lower prices as inflation falls slightly faster than previously forecast.

The softer economic outlook contributes to lower forecasts of tax revenue, with cumulative forecast tax revenue across the forecast period just over $28 billion lower relative to the *Half Year Update*. Approximately one-third of this change reflects the weaker economic outlook and approximately one-third reflects tax policy changes, which have been managed against the Budget 2024 operating allowances. The final third relates to recent data showing that business income tax payments have been significantly lower than previously forecast.

There are a large number of ways that actual events could deviate from forecast. Two scenarios are presented that illustrate how the economy may evolve should assumptions and judgements differ from those in the main forecast. Uncertainty surrounding tax revenue forecasts is illustrated on page 54 of the Fiscal Outlook chapter.

Recent developments and implications for the forecasts

The economic forecasts were finalised on 5 April. Since then, additional information has become available that may have implications for the outlook.

- At the time the *Budget Update* economic forecasts were finalised, operating allowances were $3.5 billion per annum for Budget 2024, $3.25 billion per annum for Budget 2025 and $3.0 billion per annum for each of Budgets 2026 and 2027. Final Budget decisions taken by the Government after the economic forecasts were finalised included a Budget 2024 package that averaged $3.2 billion per annum. Operating allowances for future budgets were also reduced to $2.4 billion per annum. In aggregate, this implies that government spending over the forecast period may be lower than forecast by $5.5 billion, with the largest impact in the year to June 2028 when expenditure could be just over $2 billion lower.

- The March 2024 quarter consumers price index (CPI) release in mid-April showed that annual inflation eased to 4.0%. This matched the *Budget Update* forecast. The composition of inflation showed higher-than-forecast domestic (non-tradables) inflation that was offset by lower tradables inflation. Because non-tradables inflation tends to be more persistent, this could imply that CPI inflationary pressures prove more persistent than forecast.

- March quarter labour market data released at the start of May showed further softening in the labour market broadly in line with the *Budget Update* forecast. Employment fell 0.2%, close to the 0.1% fall forecast. This contributed to the unemployment rate increasing to 4.3%, again close to the 4.4% forecast. Hourly wage growth of 0.6% (seasonally adjusted) was below the 1.3% forecast although the impact of this on aggregate incomes was offset by higher than forecast growth in hours worked reflecting both higher hours per person and a larger population than forecast.

Generally, developments have been close to forecast. Domestic price pressures and growth in hours worked may imply some slight upward risk to near-term demand while lower government spending resulting from lower future Budget allowances could see weaker demand later in the forecast period.

Overall, the net impact of these developments on forecast revenue is expected to be relatively minor with lower government consumption likely to be partially offset by slightly stronger private activity.

Table 1.1 – Economic forecasts

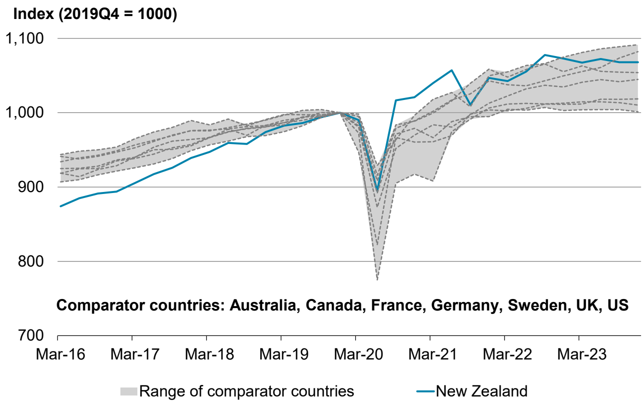
Year ending June Annual average % change	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Private consumption	3.2	-0.8	0.7	2.3	2.3	2.3
Public consumption	0.3	-1.4	-2.2	1.0	1.5	1.6
Total consumption	**2.4**	**-0.9**	**0.0**	**2.0**	**2.1**	**2.1**
Residential investment	-0.1	-7.3	-6.9	6.2	5.2	4.1
Business investment[1]	3.5	-5.1	-1.1	6.1	4.6	3.1
Total investment	**2.6**	**-5.6**	**-2.4**	**6.1**	**4.7**	**3.3**
Stock change[2]	-1.2	0.0	0.6	0.0	0.0	0.0
Gross national expenditure	**1.3**	**-1.9**	**0.1**	**2.9**	**2.7**	**2.4**
Exports	12.2	4.2	5.9	4.0	3.1	2.9
Imports	3.0	-3.7	0.3	3.0	2.5	2.1
GDP (expenditure measure)	**3.2**	**-0.3**	**1.7**	**3.2**	**2.9**	**2.7**
GDP (production measure)	**3.0**	**-0.2**	**1.7**	**3.2**	**2.9**	**2.7**
Real GDP per capita	1.9	-2.8	-0.1	1.8	1.7	1.5
Nominal GDP (expenditure measure)	8.7	4.4	4.2	5.6	5.3	5.0
GDP deflator	5.3	4.7	2.5	2.3	2.3	2.3
Potential GDP	4.1	2.2	2.3	2.4	2.4	2.5
Output gap (% of potential, June quarter)[3]	0.6	-1.6	-1.3	-0.5	-0.2	0.0
Employment	2.5	1.6	0.5	2.0	1.7	1.5
Unemployment rate[4]	3.6	4.9	5.2	4.8	4.5	4.4
Participation rate[5]	72.4	71.6	71.6	71.6	71.6	71.6
Hourly wages (annual % change)[6]	6.9	5.9	3.8	3.1	3.0	2.9
CPI inflation (annual % change)	6.0	3.4	2.2	2.0	2.0	2.0
Terms of trade (goods)[7]	-7.0	-2.0	1.9	0.2	0.2	0.1
House prices (annual % change)[8]	-9.0	2.5	1.6	2.1	3.0	3.7
Current account balance (annual)						
$billions	-29.7	-24.9	-20.3	-18.9	-17.9	-16.9
% of GDP	-7.5	-6.0	-4.7	-4.2	-3.7	-3.4
Net international investment position (% of GDP)	-49.0	-53.5	-56.0	-57.2	-58.1	-58.7
Exchange rate (TWI)[9]	70.9	71.3	70.4	69.6	69.1	68.6
90-day bank bill rate[10]	5.6	5.7	4.5	3.5	2.9	2.5
10-year bond rate[10]	4.3	4.6	4.4	4.2	4.1	4.0
Population growth	1.0	2.6	1.8	1.4	1.2	1.2
Net migration (4-quarter sum, 000s)	113.5	105.7	56.4	43.9	40.9	40.2

Notes:
1 Business investment is non-residential public and private investment.
2 Contribution to GDP growth.
3 Percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, June quarter, seasonally adjusted.
5 Percent of working-age population, June quarter, seasonally adjusted.
6 Quarterly Employment Survey (QES), average ordinary time hourly earnings.
7 System of National Accounts.
8 CoreLogic Quarterly House Price Index.
9 Trade Weighted Index (TWI), average for the June quarter.
10 Average for the June quarter.

Economic activity has slowed despite rapid population growth…

After peaking in the September quarter of 2022, activity in the New Zealand economy slowed due to rising interest rates. Real GDP has declined in four out of the five quarters to December 2023. Given that this happened in the context of strong population growth, real GDP per capita has declined 3.9% from its peak in the September quarter of 2022, broadly similar in size to the reduction that occurred over the global financial crisis period.

Figure 1.3 – International GDP relative to pre-pandemic levels



Sources: Stats NZ, IMF, ABS, Haver, the Treasury

The recent decline in GDP per capita has been associated with sizeable declines in labour productivity, with GDP per hour worked falling by more than 3% since September 2022. The implications of this weakness for future productivity developments are discussed in 'New Zealand's productivity performance and outlook' on page 16.

Annual population growth fell to just 0.2% in the year to June 2022 as net migration fell to an outflow of 19,000 people in the year to March 2022 reflecting constraints on international people flows during COVID-19. As people flows resumed once borders were reopened, there were strong net inflows of migrants. Net migration peaked at 142,000 in the year to December 2023, the main driver of strong 2.2% population growth.

…as monetary policy acted to reduce inflation

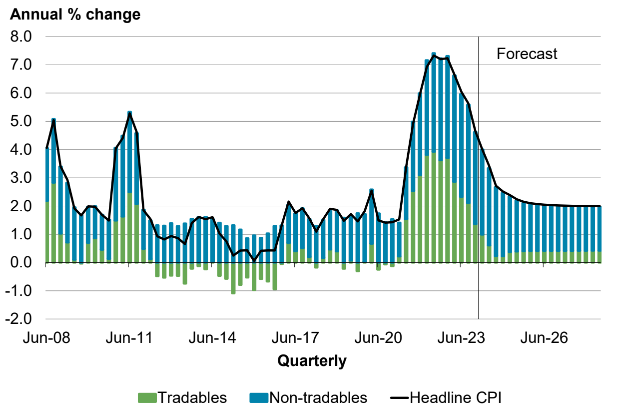
In New Zealand and many other countries, inflation increased to multi-decade highs in 2022. This reflected disrupted supply and more-resilient-than-expected demand as governments and monetary authorities provided fiscal and monetary support during the highly uncertain COVID-19 period. Events such as Russia's invasion of Ukraine caused disruption and price spikes for some commodities. The North Island weather events added to supply disruptions domestically. More recently, global shipping has again been disrupted by tensions in the Middle East and drought affecting the Panama Canal.

Annual inflation peaked above 7% in mid-2022 by which time the Reserve Bank of New Zealand (Reserve Bank) had begun to rapidly tighten monetary policy. The Reserve Bank increased the Official Cash Rate by 525 basis points to 5.5% between October 2021 and May 2023 to lower inflation by reducing demand.

Inflation is falling but is still above target

Inflation has fallen to 4% at the start of 2024, reflecting easing capacity pressures as aggregate demand and supply rebalance. Higher interest rates have curbed demand, global inflation has eased and pandemic-related supply challenges have subsided. Monetary policy remains tight to reduce inflation further and ultimately drive it back to the mid-point of the 1% to 3% target range.

Figure 1.4 – Contributions to inflation[2]



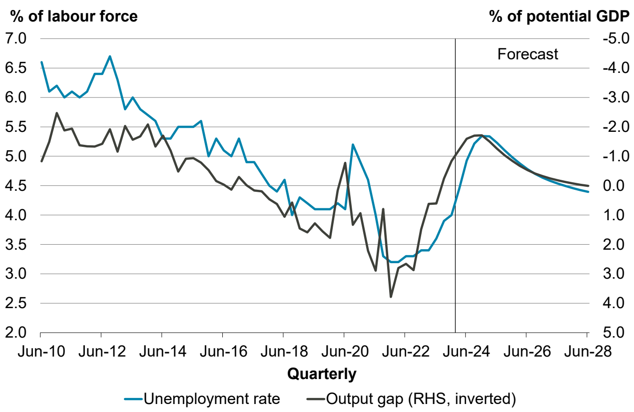
Sources: Stats NZ, the Treasury

The fall in annual inflation has predominantly come through lower tradables (goods and services that are traded internationally) inflation, which has fallen from 8.7% in mid-2022 to 1.6% at the start of 2024 (Figure 1.4). Important contributors have been slower increases in food and petrol prices, together with reductions in international air travel prices. This contrasts with the more modest declines in non-tradables inflation which fell from 6.8% at the start of 2023 to 5.8% at the start of 2024.

Spare capacity has emerged including in the labour market

Weak growth has seen increasing spare capacity in the economy emerge as reflected in an increasingly negative output gap (the extent to which actual output deviates from potential) and rising unemployment (Figure 1.5). The unemployment rate increased from 3.2% at the start of 2022 to 4.3% at the start of 2024.

Figure 1.5 – Unemployment and spare capacity



Sources: Stats NZ, the Treasury

Pressures on household budgets have seen spending decline

Households have faced a variety of pressures in recent years. Rapidly rising prices have put pressure on household budgets with prices measured by the CPI increasing nearly 19% over the past three years. This contrasts to relatively weak price growth over much of the 2010s and generally more moderate inflation experience since the early 1990s. The total increase in the CPI over the past three years was broadly the same as over the prior 11 years (a period that included an increase in the rate of GST from 12.5% to 15%).

2 Approximate contributions of tradables and non-tradable price movements are shown.

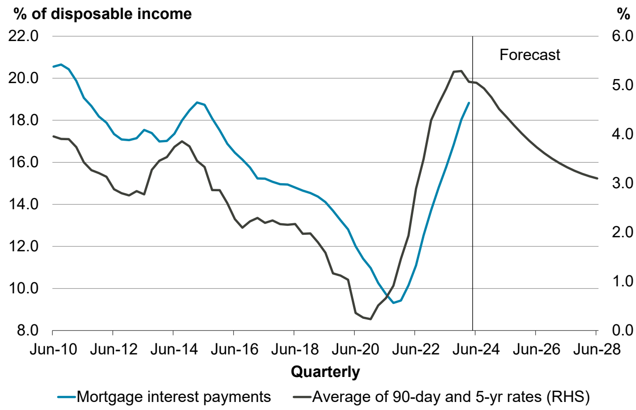
Real wages have returned to levels last seen three years ago after initially falling

Wages initially did not keep up with increasing prices, in part reflecting the unanticipated nature of inflation. This saw real hourly wages decline 2% over 2021 although annual real wage growth has increased more recently to just over 2% as nominal wage growth accelerated and inflation eased. By the end of 2023, this saw the level of real hourly wages broadly similar to three years ago. With inflation returning to within the Reserve Bank's target range, real wage growth is expected to average 1.3% per annum over the forecast period.

A greater share of disposable income is used for mortgage payments

Rising interest rates have been necessary to reduce demand and rebalance the economy. This has affected indebted households, particularly those with mortgages. The Reserve Bank's May 2024 *Financial Stability Report* shows the average mortgage rate increased from a historical low of 2.8% in September 2021 to 6.0% in March 2024. Higher interest rates have resulted in the share of disposable income used for mortgage interest payments doubling between the end of 2021 and the beginning of 2024.

Figure 1.6 – Interest servicing and interest rates



Sources: Reserve Bank of New Zealand, the Treasury

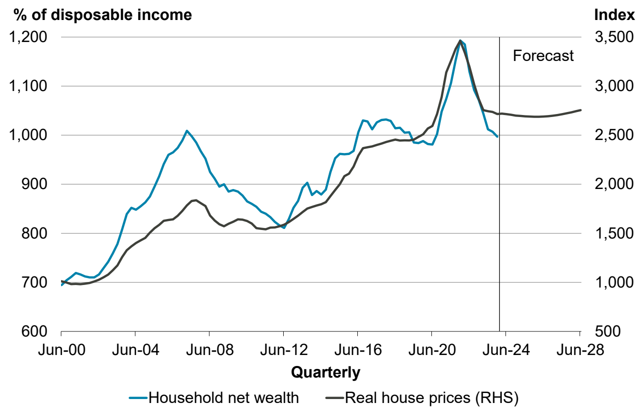
Rising household wealth initially supported consumption…

Record low interest rates over the COVID-19 period contributed to rapid rises in house prices and household net worth. Annual house price inflation peaked above 30% in the second half of 2021, a major contributor to the near 40% increase in nominal household net wealth over the two years to December 2021. This boost to household wealth contributed to elevated levels of consumption over much of 2021 and 2022.

…until house prices fell…

However as rising interest rates slowed the housing market and house prices fell, household net wealth declined by 8% over the 18 months to June 2023 in nominal terms and as a percentage of household disposable income has returned broadly back to pre-COVID-19 levels (Figure 1.7).

Figure 1.7 – Household net wealth and house prices



Sources: Stats NZ, CoreLogic, the Treasury

The surge in household wealth occurred at a time of strong labour demand with limited labour supply available through net migration given COVID-19-related border restrictions. Together with fiscal support to employment from measures such as the Wage Subsidy Scheme, this resulted in record low unemployment and therefore heightened job security, which was initially sufficient to offset the impact on consumption from declining real wages.

…with the sluggish housing market contributing to less residential investment

The wider housing market remains sluggish across a number of metrics, including the number of house sales, the time taken to achieve sales and consenting activity. Residential investment has declined nearly 11% from its peak at the start of 2021.

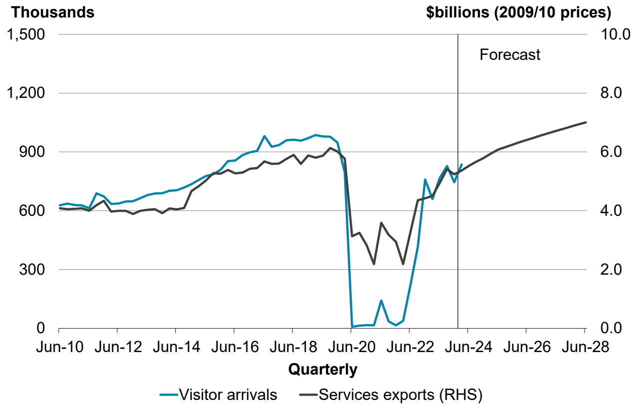
Businesses are reluctant to invest and imports of capital goods have declined

Weak demand is influencing firms' willingness to invest. After temporarily recovering from low levels over late 2023, business confidence has again softened with investment intentions also falling back into negative territory. Weak confidence was also reflected during the Treasury's business talks conducted in March and is apparent in a significant decline in imports of capital goods.

Strong export growth as tourism and primary goods recover from past events

Export volumes grew just under 10% in the year to December 2023, after peaking just above 12% in June 2023 – the largest rise in over 30 years – as tourism rebounded following COVID-19. Real services exports grew by 41% in the past year, after peaking at 57% in June 2023. Real travel services exports (largely tourist spending in New Zealand) recovered to 77% of its pre-COVID level by the end of 2023.

Figure 1.8 – Visitors and services exports



Sources: Stats NZ, the Treasury

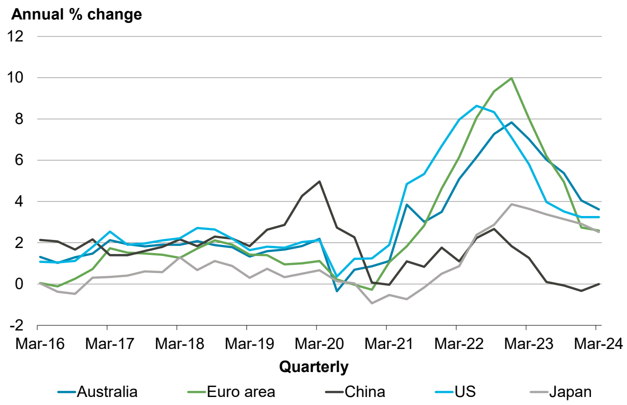
Growth in goods exports has been more modest up 0.6% in the year to December 2023 as growth in dairy and meat volumes was largely offset by declines in other primary products and manufactured goods. These declines reflect both disruption related to last year's North Island weather events as well as weak global demand.

Slowing global growth has contributed to falls in international dairy prices

Slowing global growth contributed to further declines in prices for New Zealand's exported dairy products over the middle of 2023. New Zealand's merchandise terms of trade fell sharply at the end of 2023 reflecting both lower goods export prices and higher import prices. Dairy export prices fell in the December quarter reflecting weakness in global dairy prices earlier in the year.

Global inflation is easing, but pressures remain

Figure 1.9 – Global inflation



Source: Haver

Global inflation is continuing to ease from its peak in 2022 (Figure 1.9). Among advanced economies, much of the decline has been driven by lower goods and energy prices. However, the pace of the decline has slowed as improvements in supply chains from past disruption have largely run their course. Services price inflation has been slower to decline and remains high, partly reflecting tight labour markets. It also partly reflects the historical record of services price cycles lagging shifts in goods and rising more slowly and slowing more gradually. In many economies, services prices are now the major contributor to measures of core inflation, which exclude movements in the most volatile prices such as food and energy. In China inflation is low reflecting weak demand amidst weak confidence and property market concerns.

Most central banks expect inflation to return to target on a sustained basis within the next one to two years. However, in some economies, such as the United States, recent inflation outturns have been higher than expected, leading central banks to indicate that they need more evidence to be confident that reductions in inflation will be sustained. Financial market participants have pushed out their expectations of when central banks will start to reduce policy rates to later this year or into next year, which has led to increases in government bond yields. Beyond the timing of the initial policy rate cut by central banks, the scale and pace of subsequent cuts is also uncertain.

Growth has slowed in advanced economies…

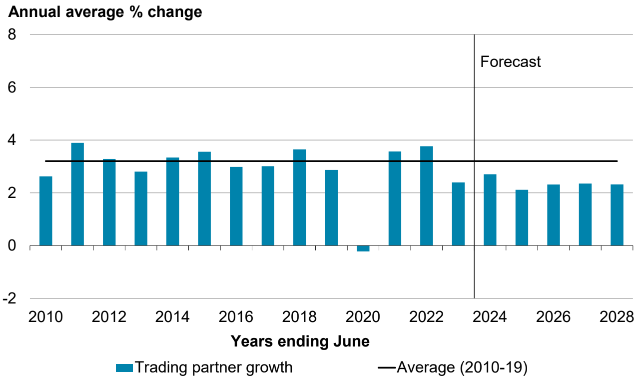
The lagged effect of the sharp tightening in global monetary policy over the past two years has caused world growth to slow and placed downward pressure on inflation. There was little growth in Europe over 2023 but activity is starting to pick up in many economies. In Australia, growth has been below average and GDP has declined on a per capita basis. The United States has been a notable exception with growth in domestic demand remaining robust, even as GDP growth has slowed from its strong pace in the second half of 2023. Nonetheless, growth in the United States is expected to slow this year.

China's economy recovered in 2023 and picked up pace in the first quarter of 2024. Household consumption has been the main driver of growth, especially services consumption as pandemic restrictions ended. The property sector continues to contract, weighing on growth, but the impacts are being partly offset by monetary and fiscal policy support. The Chinese government's target for growth to be around 5% in 2024 will be exceeded if the pace of March quarter growth is sustained over the remainder of the year. Visitor arrivals from China have increased but remain well below pre-pandemic levels, consistent with subdued consumer confidence.

…with weaker trading partner growth presenting a challenging global backdrop

Growth in New Zealand's major trading partners is expected to slow in the year to June 2025 although recent forecasts from the International Monetary Fund and OECD show growth prospects have improved, and risks to the outlook have become more balanced. Upward revisions to growth in the United States account for most of the improvement while China's growth is also expected to be stronger. Forecasts for other trading partners are generally a little weaker overall.

Figure 1.10 – Trading partner growth



Sources: Haver, the Treasury

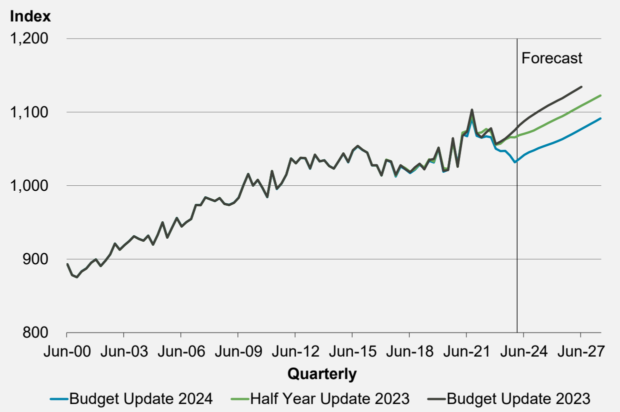
Overall, growth in New Zealand's major trading partners is expected to slow to 2.1% in the year to June 2025 from 2.7% this year as growth slows in the United States. Gradual monetary easing is expected to underpin a pickup to 2.3% in the year to June 2026 and beyond, which is well below the pre-pandemic average (Figure 1.10). Drivers of this slowdown include slower population growth, population ageing, declining productivity growth and the reversal of policies that have promoted cross-border integration of supply chains.

New Zealand's productivity performance and outlook

Productivity is a key driver of the economic growth forecasts included in this *Budget Update*. Economic growth forecasts depend on forecasts of the labour and capital inputs used to generate GDP. They also require forecasting how productivity is improving over time. An improvement in productivity means more output for a given quantity of input.

The productivity forecasts in the *Budget Update* are lower than in the *Half Year Update*. The Treasury has been revising down its productivity forecasts since Budget 2023. Figure 1.11 shows labour productivity (GDP per hour worked) forecasts over recent forecast publications. The *Budget Update forecast* has average labour productivity levels just under 3% lower over the forecast period than in the *Half Year Update*, which broadly reflects productivity outturns at the end of 2023.

Figure 1.11 – Labour productivity



Sources: Stats NZ, the Treasury

The downward revisions in the productivity forecasts are consistent with a trend of slowing productivity growth since before the global financial crisis. Productivity growth has fallen even further over the last decade. Productivity for the whole economy averaged 1.4% per annum between 1993 and 2013 but averaged only 0.2% per annum over the past 10 years. New Zealand is not alone in this trend. There has been a downward trend in productivity growth across the world, including in most of the OECD countries that New Zealand typically compares itself to.

There was a temporary upward spike in New Zealand's productivity during the COVID-19 pandemic, which can be seen in Figure 1.11, and in many other OECD countries. During the pandemic, GDP growth fell less than employment, implying higher labour productivity.

However, since the middle of 2023 successive labour productivity outturns have been lower than expected, and it has become increasingly clear that labour productivity has returned to growth rates that are more consistent with the pre-COVID-19 productivity slowdown. The *Budget Update 2024* forecasts still assume an improvement in productivity growth over the next few years towards our long-run productivity growth assumption of 1% per annum. However, the recovery in productivity growth is slower, and productivity remains at lower levels, than previously forecast.

A Treasury paper published in May 2024 provides evidence to support these downward revisions to the productivity forecasts.[3] A range of factors are likely to play a role in the productivity slowdown in New Zealand and across the world. These include lower productivity benefits from innovation, weak investment relative to employment growth, and a slowdown in international trade and connections.

Based on an analysis of current trends in productivity drivers, the paper concludes that productivity growth is most likely to remain slow over the coming years. Both human and physical capital as well as New Zealand's international connections face further headwinds. In addition, New Zealand has relatively low, albeit increasing, research and development and weak managerial capability, which could limit our ability to take advantage of new technological opportunities. Declining educational achievement could also make frontier technology harder to absorb.

The longer-term outlook for productivity is more uncertain. The 1% long-run productivity growth assumption is based on a 30-year moving average of productivity growth. Given recent productivity trends, the long-run productivity assumption will be reconsidered in the Treasury's next Statement on the Long-term Fiscal Position, to be released in late 2025.

New Zealand's economic outlook remains soft in the near term with further reductions in inflation necessary…

Households continue to face budget pressures with past interest rate increases still flowing through to higher average mortgage rates as well as uncertainties associated with a softening labour market. Weak consumer demand, lower government consumption following the range of savings initiatives and businesses' caution to invest leads to subdued activity in the near term. Low but positive rates of quarterly growth over the first half of 2024 result in a 0.2% decline in real GDP for the year to June 2024 despite strong population growth, with real GDP per capita declining 2.8% in the year.

3 www.treasury.govt.nz/news-and-events/news/new-treasury-paper-productivity-slowdown

…and further increases in unemployment expected

Small falls in employment are expected over the first half of 2024. In general, the working-age population is expected to grow faster than employment and consequently the unemployment rate is expected to peak at 5.3% by the end of 2024.

Inflation is forecast to continue to reduce and economic growth gradually picks up as interest rates decline…

As inflation continues to fall back closer to target, interest rates are forecast to gradually decline from late 2024 leading to a gradual acceleration in economic growth as consumer spending and interest rate-sensitive investment stop falling and return to growth. Over the second half of 2024, quarterly real GDP growth is expected to average 0.5% which is broadly in line with population growth and ends a sustained period of declining real GDP per capita.

Annual inflation is expected to fall below 3% in the September quarter of 2024 and return to 2% around mid-2026.

…but population growth makes less of a contribution to aggregate growth

The forecasts assume that net migration will slow towards 40,000 per annum. This would reduce the rate of annual average population growth from a peak of 2.6% in the first half of 2024 to 1.2% by the end of the forecast period.

Consumer spending is supported by income tax changes

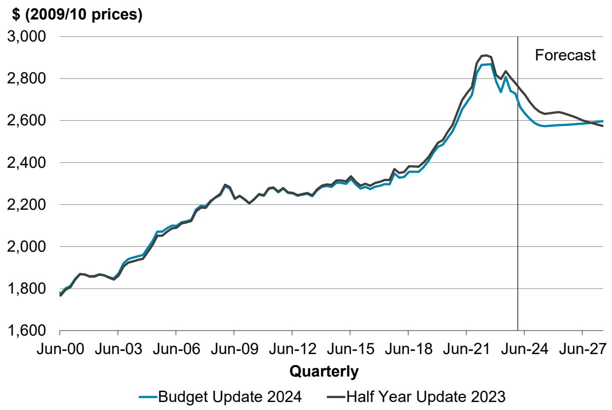
Increasing real wages, together with boosts to after-tax incomes from the Budget tax package, and an initial easing of interest rates later this year, are expected to drive a modest acceleration in private consumption growth to 0.7% in the year to June 2025 and just over 2% per year beyond this. Key aspects of Budget 2024 are detailed in 'Budget 2024 operating package' on page 29 of the Fiscal Outlook chapter.

Government savings contribute to lower government consumption

The Government's savings initiatives contribute to a weaker outlook for real government consumption relative to the *Half Year Update*.

Lower government consumption detracts from demand, but this is offset by higher-than-otherwise private spending generated by the Budget tax package changes.

Figure 1.12 – Real government consumption per capita



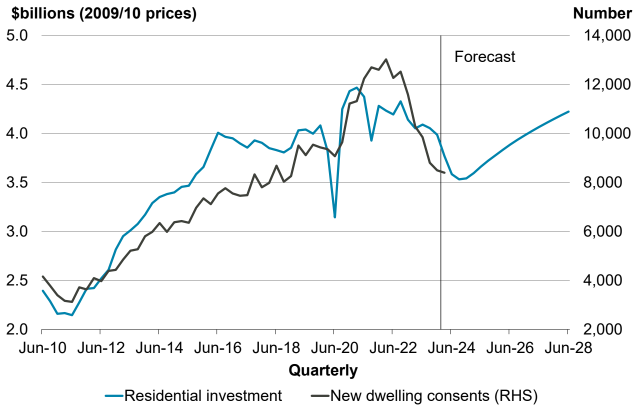
Sources: Stats NZ, the Treasury

Lower inflation and wage growth relative to the *Half Year Update* is expected to mean less-rapid escalation in the cost of providing government services and therefore supports more government services than would have otherwise been possible. However, real government consumption per capita is forecast to fall a further 5.7% by June 2025 for a total forecast decline since the September 2022 peak of 10.3%. This would mean that real government consumption per capita returns to a similar level as in late 2020 (Figure 1.12).

Falling building consents indicate further declines in residential investment…

Falling consents for new dwellings, which were just over one-third lower in the March quarter of 2024 than two years ago, indicate further declines in real residential investment are likely over 2024. Residential investment over the year to December 2024 is forecast to be nearly 11% lower than in 2023 – a material downgrade from the outlook presented in the *Half Year Update*.

Figure 1.13 – Residential investment and consents



Sources: Stats NZ, the Treasury

…with the recovery in housing activity over 2025 linked to the expected decline in interest rates

House price inflation is expected to accelerate modestly over the forecast period, with falling interest rates, the reintroduction of rental property interest deductibility for tax purposes, and changes to the bright-line rules all expected to have a modest upward impact. Rents are forecast to continue rising rapidly over the early years of projection, due to strong population growth and waning building activity, but in later years slowing population growth sees rent growth cool.

Residential investment growth is forecast to resume from late 2024 as interest rates decline, house prices increase and overall economic activity recovers. Slowing population growth and elevated construction costs contribute to a relatively slow pace of recovery with the level of residential investment returning to mid-2023 levels in mid-2027.

Following near-term weakness, investment recovers as interest rates fall supported by infrastructure spending

High input costs and high interest rates have been squeezing profit margins and limiting business investment. Business investment is expected to weaken further in 2024 with real investment over the calendar year expected to be around 6% lower than in 2023. Business investment is expected to pick up from late 2024 as interest rates ease and overall economic activity picks up and is also supported by a modest pick-up in export prices.

Infrastructure spending is expected to support investment activity over the medium term, including that related to the recovery from the North Island weather event last year. Increases to the Multi-Year Capital Allowance provide a funding source for future government investment.

Robust export growth as tourism and primary production recover while weak domestic demand limits imports

Relatively robust export volume growth is expected over the earlier part of the forecast period as international tourism continues to recover. Goods export growth is also supported by the recovery in primary produce production following the North Island weather events last year. The weak outlook for domestic demand sees import growth remain weak initially.

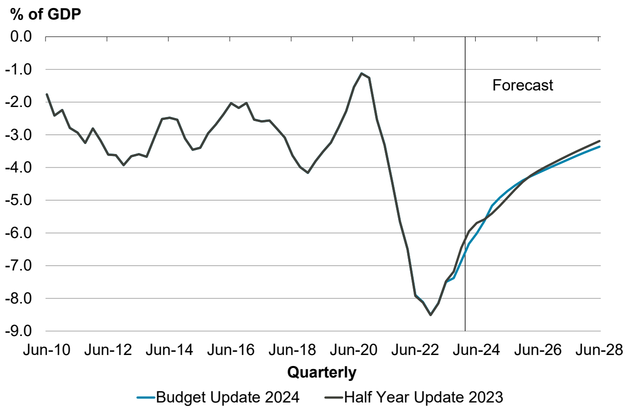
Increasing services exports builds on the recovery in tourism to date. Real travel services exports (largely tourist spending in New Zealand) recovered to 77% of its pre-COVID-19 level by the end of 2023 with further recovery expected over the forecast period.

After earlier falls, recovering Chinese demand has supported dairy prices

The recovery in Chinese consumer spending is providing support for New Zealand's dairy export prices but increased supply has weighed on meat prices. Log export prices have also declined reflecting property sector weakness. Overall, prices for New Zealand's exports are expected to have increased in the March quarter and, together with falls in import prices, are expected to support the terms of trade, which are expected to remain broadly flat across the forecast period.

We continue to expect the current account deficit to narrow throughout the forecast period (Figure 1.14). The largest contribution comes from further growth in services exports reflecting the continued recovery of tourism. As a result, the services balance is expected to return to surplus this year for the first time since the beginning of 2020. The goods deficit is expected to initially narrow more quickly than in the *Half Year Update* reflecting weaker import values owing to soft domestic demand, but this is offset by a slightly larger income deficit in line with recent developments.

Figure 1.14 – Current account



Sources: Stats NZ, the Treasury

After contracting slightly over the year to June, real GDP is forecast to accelerate

After contracting 0.2% over the year to June 2024, real GDP growth is forecast to accelerate to 1.7% in the year to June 2025, 3.2% in 2026 and just below 3% over the final two forecast years. This is slightly above our estimates of potential growth over this period, with supply and demand balanced by the end of the forecast period.

Slower growth in real activity drives weaker nominal growth in 2024 with a faster decline in inflation suppressing growth in 2025…

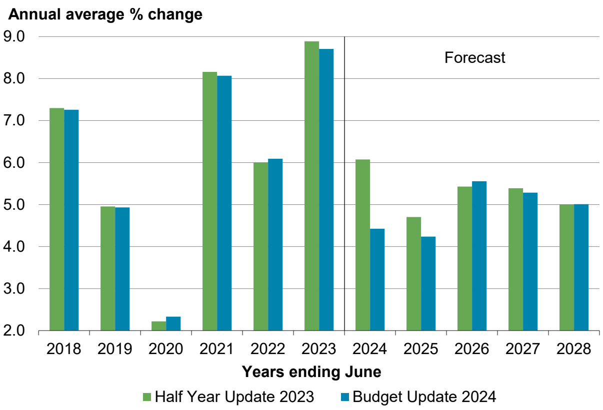
Nominal GDP growth is expected to have nearly halved to 4.4% over the year to June 2024 relative to the previous year. Slower real activity is the dominant driver of this decline with slower price growth also a contributing factor. A similar rate of nominal GDP growth as in 2024 is forecast for the year to June 2025 reflecting that, although economic activity picks up, inflation continues to ease. Over the final three years of the forecast, changes in nominal GDP growth largely reflect changes in real activity with inflation stabilising. Nominal GDP growth over these years is also broadly similar to that forecast in the *Half Year Update*.

By the final year of the forecasts, the level of real GDP is forecast to be just over 2% lower than in the *Half Year Update*. This is predominantly owing to lower labour productivity, which is nearly 3% lower in the year to June 2028, and only partly offset by higher hours worked that result from a larger population and slightly higher labour force participation.

…contributing to weaker forecasts of tax revenue

Weaker forecasts for nominal GDP growth over the 2024 and 2025 June years relative to the *Half Year Update* impact the forecasts of tax revenue discussed in the Fiscal Outlook chapter. Weaker forecast real growth is the main driver of lower nominal GDP growth in 2024 while lower price growth as inflation eases more rapidly than in the *Half Year Update* drives the change in 2025 nominal growth. Cumulative forecast tax revenue is just over $28 billion lower relative to the *Half Year Update*. Approximately one-third of this change reflects the weaker economic outlook ($9.0 billion) and approximately one-third reflects tax policy changes ($9.9 billion). The final third relates to recent data showing that business income tax payments have been significantly lower than previously forecast ($9.6 billion).

Figure 1.15 – Nominal expenditure GDP growth



Sources: Stats NZ, the Treasury

Key economic forecast judgements and assumptions

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

- Annual net migration inflows are assumed to have peaked in the year to December 2023 at 142,000 and ease to 56,000 by June 2025. Net migration continues to ease to around 40,000 per year by the end of the forecast period. Including revisions to earlier data, total population gains from migration over the six years to June 2028 are approximately 47,000 greater than in the *Half Year Update*.
- The New Zealand dollar trade-weighted index is assumed to decline from 71.6 in the March 2024 quarter to 68.6 by June 2028.
- West Texas Intermediate oil prices are assumed to have increased from an average US$77.3 per barrel in the March 2024 quarter to US$80.0 in the June quarter before easing very slightly to US$79.5 by the end of the forecast period.
- The non-accelerating inflation rate of unemployment is assumed to be 4.25% in the long run.
- The neutral 90-day interest rate is assumed to be 2.75%.

Risks and Alternative Scenarios

The forecasts presented in this chapter include a number of assumptions and judgements. As with any kind of forecasting, there is risk that actual events will differ from expectations. Economic activity has slowed, but there is uncertainty about the overall depth of the cycle and speed of recovery. In addition, unexpected events such as economic shocks abroad or climatic events in New Zealand may occur.

Risks include, but are not limited to:

- inflation proving more or less persistent impacting nominal GDP and interest rates
- migration deviating from forecast impacting the size of the population and economy
- household behaviour, including the extent that tax reductions are spent
- productivity developments
- significant climatic events affecting primary production
- unanticipated global developments.

Table 1.2 summarises two scenarios illustrating alternative ways the economy may evolve and the resulting impact on the fiscal outlook.

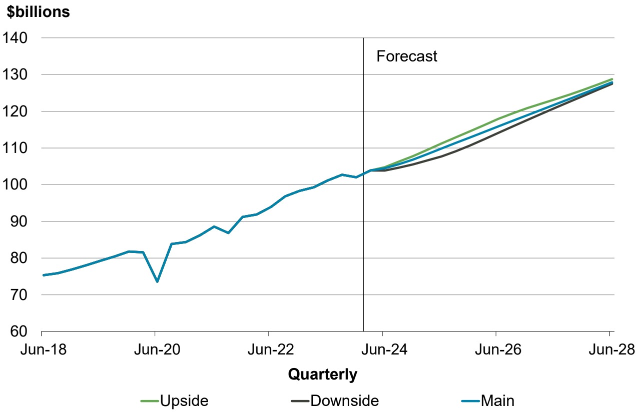
More favourable global developments boost activity in the upside scenario…

More favourable global economic conditions, involving faster trading partner growth but contained inflation, supports demand and prices for New Zealand's exports in the upside scenario. The upside scenario sees stronger growth over the first half of the forecast period with slower increases in unemployment. The unemployment rate peaks at 5.0% compared to 5.3% in the main forecast. Nominal GDP is nearly a cumulative $23 billion higher reflecting more real activity as well as a more positive outlook for export prices as a result of a stronger global economy.

…with a stronger domestic economy generating higher tax revenue and a faster narrowing of OBEGAL deficits

Higher economic activity in the upside scenario generates greater tax revenue relative to the main economic forecast. Core Crown revenue is approximately $10 billion higher across the five forecast years and drives a more rapid improvement in the operating balance before gains and losses (OBEGAL) with lower levels of net debt relative to the main forecast. In this scenario, the OBEGAL returns to a slight surplus in 2027 and net core Crown debt falls below 40% of GDP in 2028.

Figure 1.16 – Nominal GDP



Sources: Stats NZ, the Treasury

Table 1.2 – Alternative scenarios

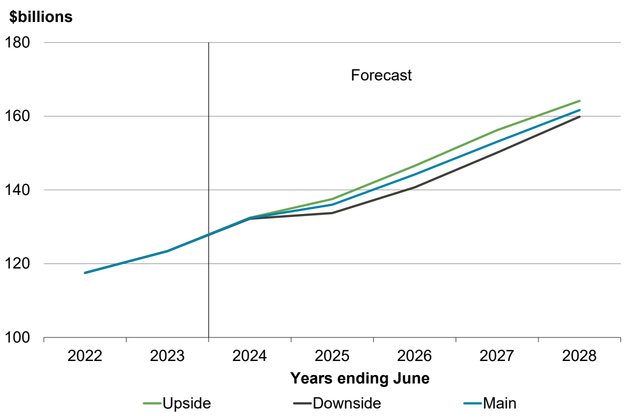
June years	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Real GDP (annual average % change)						
Main forecast	**3.0**	**-0.2**	**1.7**	**3.2**	**2.9**	**2.7**
Upside	3.0	-0.2	2.1	3.4	2.9	2.4
Downside	3.0	-0.3	0.6	3.0	3.8	3.2
Inflation (annual % change)						
Main forecast	**6.0**	**3.4**	**2.2**	**2.0**	**2.0**	**2.0**
Upside	6.0	3.4	2.3	2.1	2.0	2.0
Downside	6.0	3.4	2.0	1.8	1.9	2.0
Unemployment rate (%, June quarter)						
Main forecast	**3.6**	**4.9**	**5.2**	**4.8**	**4.5**	**4.4**
Upside	3.6	4.6	4.8	4.3	4.2	4.2
Downside	3.6	5.0	6.1	5.6	4.8	4.4
Core Crown revenue ($ billions)						
Main forecast	**123.4**	**132.4**	**136.0**	**144.2**	**153.1**	**161.7**
Upside	123.4	132.5	137.5	146.6	156.2	164.1
Downside	123.4	132.2	133.7	140.7	150.1	159.9
Net core Crown debt[1] (% of GDP)						
Main forecast	**39.3**	**43.1**	**43.5**	**43.0**	**43.3**	**41.8**
Upside	39.3	43.1	42.7	41.4	41.1	39.2
Downside	39.3	43.2	44.7	45.3	46.0	44.6
OBEGAL (% of GDP)						
Main forecast	**-2.4**	**-2.7**	**-3.1**	**-1.9**	**-0.6**	**0.3**
Upside	-2.4	-2.7	-2.7	-1.3	0.1	0.9
Downside	-2.4	-2.7	-3.7	-2.8	-1.4	-0.2

Note: 1 Net core Crown debt (excluding New Zealand Superannuation Fund and advances)

Sources: Stats NZ, the Treasury

In the downside scenario, recent economic weakness persists for longer with domestic demand remaining weak. Consumers are more cautious with their spending and businesses with their employment and investment decisions. Unemployment increases more rapidly than in the main forecast to above 6% in 2025. While monetary policy responds to the weaker-than-expected demand, this takes time to have effect and overall activity and nominal GDP are both weaker. Relative to the main forecast nominal GDP is cumulatively just over $22 billion lower.

Figure 1.17 – Core Crown revenue



Source: The Treasury

Weaker economic activity in the downside scenario means the OBEGAL remains in deficit and net debt is higher

The weaker economic outlook in the downside scenario reduces core Crown revenue by nearly $11 billion relative to the main forecast and results in a slower narrowing of the OBEGAL deficit. In this scenario, the OBEGAL remains slightly in deficit in the final forecast year, while net core Crown debt peaks higher at 46% of GDP in 2027.

Uncertainty surrounding tax revenue forecasts is illustrated on page 54 of the Fiscal Outlook chapter.

2

Fiscal Outlook

The Government's fiscal outlook begins to recover after 2024/25…

Over the last few years, the financial results have shown large operating balance before gains and losses (OBEGAL) deficits and a significant lift in net core Crown debt.[4] In the near-term, this trend is expected to continue, but the fiscal outlook is expected to start to recover after 2024/25. The OBEGAL deficit is expected to reach $13.4 billion in 2024/25 and then improve gradually to return to a surplus of $1.5 billion in 2027/28. Similarly, net core Crown debt as a share of GDP peaks in 2024/25 at 43.5% of GDP before declining to 41.8% of GDP in 2027/28.

The weak near-term fiscal outlook is underpinned by soft growth in core Crown tax revenue reflecting the recent deterioration in income tax revenue from businesses and slower economic activity. Coupled with tax policy changes, which mainly commence from the 2024/25 year, sees core Crown tax revenue as a share of GDP dip slightly to 28.5% of GDP in 2024/25. Growth in core Crown expenses remains elevated in the near term reflecting the impact of past and current Budget decisions, the temporary spending on the North Island weather events, asset impairments and the influence of economic conditions on benefit expenses and finance costs. This sees core Crown expenses stay at around 33.5% of GDP in the current and next fiscal year.

The expected recovery in the fiscal outlook after 2024/25 is supported by a slower rate of growth in core Crown expenses largely influenced by smaller future Budget operating allowances announced by the Government. As a share of GDP, core Crown expenses drop more substantially from 2025/26 and fall to 31.1% of GDP by the end of the forecast period. In contrast, the growth in core Crown revenue after 2024/25 picks up as employment and wage growth lift household incomes and the business cycle recovers, leading to improved growth in taxable profits.

The trend in core Crown tax revenue and core Crown expenses drives the increasing OBEGAL deficit in the near-term (forecast to be $13.4 billion in 2024/25) and the recovery thereafter (forecast to improve by an average of $4.9 billion per annum). By 2027/28, OBEGAL is forecast to return to surplus of $1.5 billion.

Unlike OBEGAL, the residual cash deficit is expected to improve by $3.7 billion in the current year, from a deficit of $25.6 billion in 2022/23 to a deficit of $21.9 billion in 2023/24. This difference is largely owing to repayments from the Funding for Lending Programme (FLP). Looking through these repayments and some timing difference in tax

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4 The Government has changed the headline debt indicator from 'net debt' to 'net core Crown debt'. Refer to the box on page 42 for further details.

receipts, residual cash follows a very similar trend to OBEGAL over the forecast period. However, it is forecast to remain in deficit throughout the forecast period, with an expected deficit of $0.9 billion in 2027/28.

The accumulated residual cash deficits total $50.6 billion across the forecast period, with the cash shortfall largely funded through additional borrowings. As a result, net core Crown debt is forecast to increase from $155.3 billion in 2022/23, to reach $209.9 billion by 2027/28. Although net core Crown debt does not reduce in nominal terms over the forecast period, it is expected to decline as a share of GDP after 2024/25. After peaking at 43.5% of GDP, net core Crown debt is expected to drop to 41.8% of GDP by the last year of the forecast period.

In nominal terms, net worth is expected to remain broadly flat over the forecast period, from $191.5 billion in 2022/23 to $193.4 billion in 2027/28 reflecting the forecast operating balance results, while as a share of GDP, net worth falls from 48.4% in 2022/23 to 38.5% of GDP in 2027/28.

…however, at a slower pace than previously forecast…

While the fiscal outlook is expected to recover, it is at a slower pace than expected at the *Half Year Update*. OBEGAL is expected to be weaker across all years compared to the *Half Year Update*, particularly in the 2024/25 year (refer Table 2.1). While OBEGAL is still expected to return to surplus during the forecast period, it is a year later than previously forecast.

Table 2.1 – Change to OBEGAL since the *Half Year Update*

Year ending 30 June $billions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	Total change
OBEGAL – *Half Year Update 2023*	**(9.3)**	**(6.1)**	**(3.5)**	**0.1**	**3.4**	
Tax forecasting changes (Table 2.12)	(3.0)	(4.6)	(4.3)	(3.1)	(3.5)	**(18.5)**
Reduction to Budget operating allowances	-	-	0.9	1.5	2.1	**4.4**
Benefit forecast changes	0.2	0.4	0.7	0.9	1.0	**3.2**
Net finance costs	0.4	1.4	0.5	0.1	(0.3)	**2.1**
Budget 2024 operating package	1.1	(0.7)	0.4	0.3	0.1	**1.2**
Net Emissions Trading Scheme revenue	(0.4)	(0.4)	(0.3)	(0.2)	(0.2)	**(1.5)**
Baseline savings	-	(0.4)	(0.5)	(0.5)	(0.5)	**(1.9)**
Asset impairments	(0.7)	(1.4)	-	-	-	**(2.1)**
Crown entity and SOE results	(0.3)	(0.9)	(1.2)	(1.1)	(0.1)	**(3.5)**
Other	1.0	(0.7)	(1.2)	(1.1)	(0.5)	**(2.5)**
Total change	**(1.8)**	**(7.2)**	**(5.0)**	**(3.2)**	**(1.9)**	**(19.2)**
OBEGAL – *Budget Update 2024*	**(11.1)**	**(13.4)**	**(8.5)**	**(3.1)**	**1.5**	

Source: The Treasury

The change in the outlook for OBEGAL is largely driven by the weaker economic outlook described in the Economic Outlook chapter and the results from recent tax outturns, which show a deterioration in income tax revenue from businesses. Core Crown tax revenue forecasts (excluding the impact of tax policy changes) are now $18.5 billion lower compared to the *Half Year Update*. Around a half of this change reflects the weaker economic outlook and the rest comes from weaker business income tax based on recent tax outturns. While tax policy changes contribute to the overall reduction in core Crown tax revenue, the Governments tax package does not change the headline fiscal indicators as it has been offset by other decisions taken through Budget 2024 (refer to box on pages 29 to 30).

Core Crown expenses are expected to be lower in each year compared to the *Half Year Update* partially offsetting the weaker outlook for core Crown tax revenue. The updated economic conditions now expect to lower forecasts for interest and inflation rates, which have led to a reduction in benefit expenses and net finance costs (in most years). The Government's decision to reduce the level of funding set aside for future budget operating allowances also contributes to a reduction in the forecast for core Crown expenses.

Overall, the Budget 2024 operating package has improved OBEGAL compared to the *Half Year Update.* The average annual impact of the Budget 2024 operating package is $3.2 billion, less than the $3.5 billion operating allowance assumed in the *Half Year Update*.

In the near-term other factors such as asset impairments and weaker Crown entity (CE) and State-owned enterprise (SOE) forecasts also contribute to the weaker OBEGAL outlook.

The weaker outlook for OBEGAL flows through to other headline fiscal indicators. As a result, the accumulated residual cash deficit is $18.3 billion higher compared to the *Half Year Update*, which also drives an increase in the level of net core Crown debt. By the end of the forecast period, net core Crown debt is expected to be 41.8% of GDP, which is just over 4 percentage points higher than forecast at the *Half Year Update*.

The key fiscal indicators for the *Budget Update* are outlined in Table 2.2. A summary of the changes since the *Half Year Update* is outlined on pages 48 to 52.

Key judgements and assumptions that underpin the fiscal forecasts are outlined on pages 109 to 110.

This chapter is broken into the following sections:

- Fiscal Performance
- Fiscal Resilience
- Crown Funding and Financing
- Comparison to the *Half Year Update*
- Risks to the Fiscal Forecasts.

Table 2.2 – Key fiscal indicators

Year ending 30 June $billions	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Core Crown revenue						
Budget Update	123.4	132.4	136.0	144.2	153.1	161.7
Half Year Update		135.7	143.5	152.0	160.3	168.6
Core Crown tax revenue						
Budget Update	112.4	119.0	122.9	131.4	140.2	148.2
Half Year Update		122.0	129.7	138.1	146.2	154.0
Core Crown expenses						
Budget Update	127.6	138.3	143.9	147.7	151.1	156.4
Half Year Update		140.3	144.7	151.1	155.9	161.2
OBEGAL						
Budget Update	(9.4)	(11.1)	(13.4)	(8.5)	(3.1)	1.5
Half Year Update		(9.3)	(6.1)	(3.5)	0.1	3.4
Operating balance						
Budget Update	5.3	(3.0)	(7.1)	(1.9)	4.0	9.1
Half Year Update		(6.9)	(0.2)	2.9	7.0	10.7
Core Crown residual cash						
Budget Update	(25.6)	(21.9)	(8.9)	(7.8)	(11.0)	(0.9)
Half Year Update		(25.8)	(3.1)	(1.9)	(5.0)	3.6
Net core Crown debt						
Budget Update	155.3	178.1	187.3	195.4	207.4	209.9
Half Year Update		182.8	186.1	188.5	194.7	192.8
Net worth						
Budget Update	191.5	189.2	182.0	180.1	184.2	193.4
Half Year Update		185.5	185.1	188.0	195.0	205.8
% of GDP						
Core Crown revenue						
Budget Update	31.2	32.0	31.6	31.7	32.0	32.2
Half Year Update		32.3	32.6	32.8	32.8	32.9
Core Crown tax revenue						
Budget Update	28.4	28.8	28.5	28.9	29.3	29.5
Half Year Update		29.1	29.5	29.8	29.9	30.0
Core Crown expenses						
Budget Update	32.3	33.5	33.4	32.5	31.6	31.1
Half Year Update		33.4	32.9	32.6	31.9	31.4
OBEGAL						
Budget Update	(2.4)	(2.7)	(3.1)	(1.9)	(0.6)	0.3
Half Year Update		(2.2)	(1.4)	(0.7)	0.0	0.7
Operating balance						
Budget Update	1.3	(0.7)	(1.7)	(0.4)	0.8	1.8
Half Year Update		(1.6)	(0.0)	0.6	1.4	2.1
Core Crown residual cash						
Budget Update	(6.5)	(5.3)	(2.1)	(1.7)	(2.3)	(0.2)
Half Year Update		(6.2)	(0.7)	(0.4)	(1.0)	0.7
Net core Crown debt						
Budget Update	39.3	43.1	43.5	43.0	43.3	41.8
Half Year Update		43.5	42.3	40.7	39.9	37.6
Net worth						
Budget Update	48.4	45.8	42.3	39.6	38.5	38.5
Half Year Update		44.2	42.1	40.6	39.9	40.1

Source: The Treasury

Budget 2024 operating package

The Government's annual Budget is the main process for allocating funding to cover the costs of new initiatives and maintaining the Government's existing services. The purpose of this box is to explain how the Budget 2024 decisions have been incorporated into the fiscal forecasts.

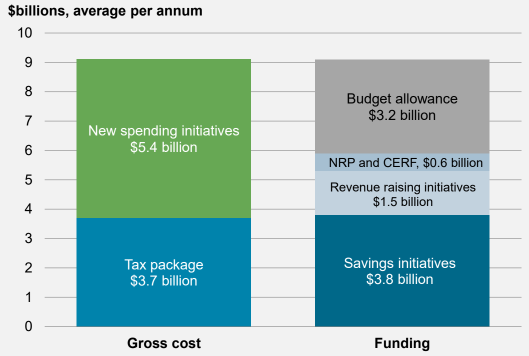
Budget 2024 operating package averages $3.2 billion per annum…

The Government has announced a Budget 2024 operating package of $3.2 billion average per annum (including pre-commitments and decisions taken at the Mini Budget). The Budget 2024 operating package comprises spending on new initiatives, increased costs for maintaining the Government's existing services, tax policy changes, other revenue raising items, and expenditure savings.

…which includes a significant level of savings, to offset decisions with fiscal costs…

The gross cost of the package, which includes both tax reductions and new spending initiatives, is on average $9.1 billion per annum. The gross cost has been partially offset by savings and revenue raising initiatives, which average $5.9 billion per annum (refer to Table 2.3).

Figure 2.1 – Funding of the Budget 2024 operating package



Source: The Treasury

The savings initiatives include a combination of reductions in agency baselines, expiring tagged contingencies and the closing of the National Resilience Plan (NRP) and the Climate Emergency Response Fund (CERF). The closure of the NRP provided an average of $0.4 billion per annum of operating funding over the forecast period, while the CERF provided an average of $0.2 billion of operating funding per annum (Figure 2.1).

Table 2.3 – Impact of Budget 2024 operating package on key fiscal indicators

Year ending 30 June $millions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	5-year Total	4-year Average
Budget 2024 package, Mini Budget and pre-commitments							
Gross cost of Budget 2024	337	8,313	9,647	9,402	8,817	36,516	9,129
Savings and revenue raising initiatives	(1,415)	(4,075)	(6,502)	(6,250)	(5,454)	(23,696)	(5,924)
Net Budget 2024 package	**(1,078)**	**4,238**	**3,145**	**3,152**	**3,363**	**12,820**	**3,205**
Impact of total new spending on key fiscal indicators							
Tax revenue policy changes[1]	-	(2,101)	(2,035)	(2,663)	(2,548)	(9,347)	(2,337)
Change in other revenue	3	280	577	652	633	2,145	536
Change in core Crown revenue	**3**	**(1,821)**	**(1,458)**	**(2,011)**	**(1,915)**	**(7,202)**	**(1,801)**
Core Crown expense changes	(1,039)	2,576	2,044	1,426	1,733	6,740	1,685
Change in other expenses	(36)	(159)	(357)	(285)	(285)	(1,122)	(281)
Net Budget 2024 package	**(1,078)**	**4,238**	**3,145**	**3,152**	**3,363**	**12,820**	**3,205**
Budget 2024 allowance	-	3,500	3,500	3,500	3,500	14,000	3,500
Increase in OBEGAL	**1,078**	**(738)**	**355**	**348**	**137**	**1,180**	**295**

Source: The Treasury

1 Tax revenue policy changes reflects all new tax policy changes taken as part of Budget 2024, including pre-commitments against the Budget 2024 allowance.

While the Budget 2024 package of $3.2 billion average per annum has come in below the Government's signalled Budget 2024 allowance, the phasing of the decisions means that the impacts on the key fiscal indicators vary in each year. In the current year, Budget 2024 decisions are expected to reduce OBEGAL deficits by $1.1 billion reflecting expenditure savings and reprioritisation. In 2024/25, Budget 2024 decisions has an adverse impact on OBEGAL by $0.7 billion.

This in part reflects some front-loaded cost pressure funding and spending decisions on roading response and recovery associated with the North Island weather events. As the North Island weather events spending is one-off in nature, there is only a minimal impact beyond the 2024/25 year. By 2027/28, the net cost of the Budget 2024 operating package is expected to be $3.4 billion, slightly lower than the Budget 2024 signalled allowance.

Overall, the Budget 2024 package results in a reduction in tax revenue…

A number of tax policy changes form part of the Budget 2024 operating package, which overall result in a reduction in tax revenue. The most significant of these has been changes to income tax thresholds, the independent earner tax credit and restoring interest deductibility on residential rentals. The removal of tax deductibility for commercial building depreciation announced at the Mini Budget has provided a partial offset. Table 2.4 outlines the impact of the tax policy changes on specific tax types, and individual policies are outlined on page 49.

Table 2.4 – Composition of tax policy changes by tax types

Year ending 30 June $millions	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**5-year Total**
Source deductions	-	(1,691)	(1,888)	(1,901)	(1,939)	(7,419)
Corporate tax	-	(14)	704	271	256	1,217
Net other persons tax	-	(466)	(1,077)	(1,225)	(1,065)	(3,833)
Other tax types	-	70	226	192	200	688
Total tax policy changes	**-**	**(2,101)**	**(2,035)**	**(2,663)**	**(2,548)**	**(9,347)**

Source: The Treasury

…and an increase to core Crown expenses…

The net increase in core Crown expenses is spread across a number of areas as outlined in Table 2.5. The core Crown expense tables on pages 145 to 149 outline the total impact of core Crown expenditure on each of these areas after these increases. The amounts in Table 2.5 classified as 'unallocated contingencies' represent centrally held contingencies that have yet to be allocated to a particular departmental baseline.

Table 2.5 – Composition of the net increase in core Crown expenditure by functional classification from Budget 2024 decisions[1]

Year ending 30 June $millions	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**5-year Total**
Health	72	2,204	2,137	2,142	2,148	8,703
Law and order	28	535	559	532	529	2,183
Education (including tertiary)	(133)	174	281	113	93	528
Social security and welfare	(4)	260	193	(30)	(162)	257
Core government services	90	(39)	(66)	(75)	(76)	(166)
Housing and community development	(275)	(11)	(99)	(92)	(70)	(547)
Transport and communications	(417)	262	(185)	(256)	(69)	(665)
Economic and industrial services	(235)	(330)	(377)	(355)	(312)	(1,609)
Unallocated contingencies	(149)	(380)	(269)	(438)	(236)	(1,472)
All other functional classifications	(16)	(99)	(130)	(115)	(112)	(472)
Net increase in core Crown expenses	**(1,039)**	**2,576**	**2,044**	**1,426**	**1,733**	**6,740**

Source: The Treasury

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

Fiscal Performance

Fiscal performance looks at the revenue earned, and expenses incurred by the Government over the forecast period. The Government's fiscal performance helps to assess the ability of the Government to sustain public finances at a credible and serviceable position over the long term. It shows whether the Government can maintain its current level of expenditure and revenue without major adjustments, or whether its policies would lead to excessive accumulation of public debt unless the Government takes action to change its policies. There are a number of fiscal indicators that help determine the fiscal performance of the Government, which are discussed in more detail in this section.

Total Revenue

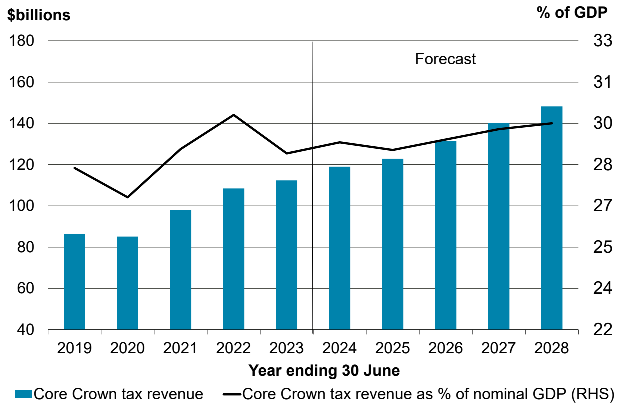
Across the five-year forecast horizon, total Crown revenue is expected to increase by around $43.4 billion, from $153.0 billion in 2022/23 to $196.4 billion in 2027/28. However, it remains broadly consistent as a share of the economy, at around 39% of GDP.

Approximately three-quarters of the Crown's revenue comes from tax revenue, of which around 70% relates to direct taxes earned from individuals (eg, source deductions such as PAYE) and businesses (eg, corporate tax), with the remainder coming from indirect taxes (eg, GST). Sales of goods and services is the second-largest component of total Crown revenue, making up around 14%, and largely comprises revenue earned from the activities of entities within the SOE reporting segment (eg, selling electricity and air travel). Other sovereign revenue (eg, fines and levies) contributes around 6% of total Crown revenue, which consists mainly of Accident Compensation Corporation (ACC) levies and New Zealand Emissions Trading Scheme (NZETS) revenue.

Core Crown tax revenue is forecast to grow over the forecast period…

Core Crown tax revenue is forecast to increase by $35.8 billion from $112.4 billion in 2022/23 to $148.2 billion in 2027/28 (Figure 2.2). In nominal terms, the growth in core Crown tax revenue is more subdued in the near-term as income tax revenue from corporates and small businesses has deteriorated and tax policy changes take effect.

Figure 2.2 – Core Crown tax revenue



Source: The Treasury

The growth in core Crown tax revenue picks up from 2025/26. It is expected business income taxes will begin recovering as the business cycle picks up and growth in taxable profits improves. Despite increases to personal income tax thresholds (refer to the tax policy box on page 49) a large portion of the growth in tax revenue is forecast to come from source deductions, as wage growth lifts household incomes. GST also contributes to the growth in tax revenue partly reflecting the impact of personal income tax threshold changes on consumption.

As a percentage of GDP, tax revenue is expected to increase in the current year before dipping slightly to 28.5% in 2024/25 and then increasing steadily over the remainder of the forecast period to reach 29.5% in 2027/28.

While core Crown tax revenue continues to grow year on year over the forecast period, this growth is lower than previously expected. This is due to a combination of slower economic activity, the deterioration in recent tax outturns relative to the *Half Year Update* forecast and tax policy changes – refer to page 48 for more details on the downward revisions to core Crown tax revenue since the *Half Year Update.*

…with most tax types contributing to this growth.

The growth in core Crown tax revenue across the forecast period is largely driven by source deductions, business income tax revenue and GST (Table 2.6).

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

Year ending 30 June $billions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	Total Change
Movement in core Crown tax revenue owing to:						
Source deductions	4.9	1.3	3.0	3.1	3.1	15.4
Corporate tax	(1.9)	1.6	2.5	2.9	2.0	7.1
Goods and services tax (GST)	1.4	1.0	1.5	1.8	1.6	7.3
Net other persons tax	(0.6)	0.7	0.9	0.9	0.8	2.7
Motor vehicle fees (MVF) and road user charges (RUC)	0.3	0.4	0.3	0.3	0.4	1.7
Other taxes	2.5	(1.1)	0.3	(0.2)	0.1	1.6
Total movement in core Crown tax revenue	**6.6**	**3.9**	**8.5**	**8.8**	**8.0**	**35.8**
Plus, previous year	112.4	119.0	122.9	131.4	140.2	
Core Crown tax revenue	**119.0**	**122.9**	**131.4**	**140.2**	**148.2**	
as a % of GDP	28.8	28.5	28.9	29.3	29.5	

Source: The Treasury

Source deductions, which are mainly PAYE on wages and salaries, are forecast to grow by $15.4 billion over the forecast period. The growth in source deductions is weakest in the 2024/25 year, reflecting the impact from changes to personal income tax thresholds. Overall, the growth is predominantly due to wage growth of $10.7 billion and fiscal drag of $3.8 billion (increase in a person’s average tax rate as nominal income increases).

Corporate tax and other persons tax revenues are forecast to grow by $7.1 billion and $2.7 billion respectively. The recent deterioration of business income initially results in a decline in corporate tax and other persons tax revenue. However, taxable profits are forecast to recover from the 2024/25 financial year onwards. Corporate tax and other persons taxes can be quite cyclical, and the macroeconomic forecast suggests slightly weaker near-term activity but a stronger recovery from financial year 2025/26 onwards that results in stronger revenue growth. Tax policy changes have marginally lifted the impact on the growth in corporate tax while it has weakened growth in other persons tax revenue.

GST is expected to increase by $7.3 billion over the forecast period mostly driven by growth in nominal private consumption. Growth in GST revenue is forecast to be relatively stable over the forecast period as private consumption holds up and residential investment recovers from 2025/26 onwards. The growth in consumption is somewhat supported by the personal income tax threshold changes that start in the 2024/25 year.

Transport-related taxes are forecast to increase by $1.7 billion over the forecast period reflecting increased usage of road transport and policy changes (eg, road user charge changes).

Total Expenses

Total expenses are expected to increase across the forecast period…

Total expenses are forecast to increase from $161.8 billion in 2022/23 to $194.5 billion by the end of the forecast period. However, as a share of the economy, total expenses decline from 40.9% of GDP in 2022/23 to 38.7% of GDP by 2027/28.

Most of the nominal growth in total expenses is driven by core Crown expenses, which contribute around $28.8 billion to the increase over the forecast (discussed further below). Core Crown expenses are forecast to initially increase as a percentage of GDP from 32.3% in 2022/23 to around 33.5% in the near-term but start to decline from 2025/26 and fall to 31.1% by 2027/28.

In addition to core Crown expenses, ACC's insurance expenses are expected to increase by $3.3 billion from 2022/23 to 2027/28. The expected increase in the costs of insurance claims is mainly driven by economic factors such as wage growth impacting compensation and health provider costs and higher expected claims volumes due to population growth as well as increasing costs of health services.

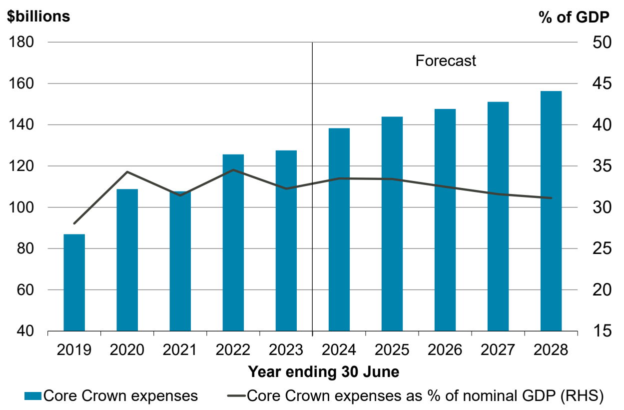
SOE expenses are forecast to increase by $3.7 billion over the forecast period, although this is more than offset by higher revenue on sales of goods and services.

…with core Crown expenses driving most of this trend.

Core Crown expenses are expected to increase in nominal terms across the forecast period, but as a percentage of GDP, are forecast to decline more substantially from 2025/26.

The initial lift in the core Crown expenses-to-GDP ratio (Figure 2.3) represents a nominal increase of $10.8 billion in the current year. The GDP ratio remains fairly static in 2024/25 before more substantial declines thereafter. After 2024/25, the nominal increase is much more subdued with average growth of $4.2 billion per year.

Figure 2.3 – Core Crown expenses



Source: The Treasury

A significant lift in core Crown expenses is expected in the near term…

Core Crown expenses grow from $127.6 billion in 2022/23 to $143.9 billion by 2024/25 (Table 2.7). The significant growth in core Crown expenses expected in the near term comprises several factors, including policy decisions from Budget 2023 and Budget 2024, the response to the North Island weather events and economic factors that have lifted the costs of benefit expenses and finance costs.

At Budget 2023, the previous Government announced policy decisions that in 2023/24 were expected to increase core Crown expenses by $5.6 billion then reducing to $5.0 billion by 2024/25.

Table 2.7 – Increase in core Crown expenses from 2022/23 to 2024/25

Year ending 30 June **$billions**	**2024** **Forecast**	**2025** **Forecast**
Core Crown expenses – 2022/23	**127.6**	**127.6**
Movement in core Crown expenses		
Budget 2023 decisions	5.6	5.0
Benefit expenses	2.7	5.3
Finance costs	2.4	2.7
Significant North Island weather event spending	0.7	0.6
Budget 2024 decisions	(1.0)	2.6
Other	0.3	0.1
Total increase	**10.7**	**16.3**
Core Crown expenses	**138.3**	**143.9**

Source: The Treasury

Benefit expenses are forecast to increase by $5.3 billion over the next two years (excluding policy changes). The increase is largely driven by New Zealand Superannuation (NZS) payments, with costs expected to increase by $3.7 billion, mainly as a result of wage growth and CPI changes (to which payments are indexed) and an increase in the number of recipients.

Core Crown finance costs are expected to increase by $2.7 billion over the same period, to $9.2 billion in 2024/25. The increase is owing to a combination of higher interest rates (the yield rate on 10-year government bonds was 4.2% in 2022/23 and is now expected to peak at 4.8% in 2023/24) and increased levels of borrowing.

The Government's decisions taken as part of Budget 2024 have partially offset the expected increase in core Crown expenditure in the current year by $1.1 billion but increases core Crown expenses by $2.3 billion by 2024/25. This is because several of the savings decisions in the Budget 2024 package are expected in the current year, while new spending initiatives largely commence from 2024/25. Some of the most significant savings initiatives in 2023/24 are one-off in nature such as the repeal of the Three Waters programme ($0.3 billion) and transport sector savings ($0.4 billion). For further details of Budget 2024 decisions and the impacts on key fiscal indicators, refer to the box on pages 29 to 30.

…with more moderate growth expected from 2024/25 onwards…

Beyond 2024/25, the nominal growth in core Crown expenses is expected to be significantly slower. Over this period core Crown expenses increase by $12.5 billion, an average increase of $4.2 billion per annum. The lower rate of growth is driven by lower levels of funding set aside for future Budget operating allowances, the ending of temporary funding relating to the North Island weather events and slower growth in benefit expenses and finance costs reflecting economic conditions.

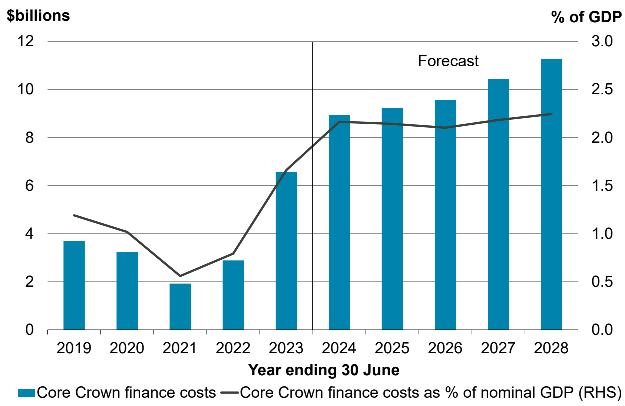
In the 2024/25 year, the Budget 2024 operating package is expected to increase core Crown expenses by $2.6 billion. However, by the end of the forecast period the increase is lower, at $1.7 billion, resulting in a decline in core Crown expenses relative to the 2024/25 year. This is largely owing to the phasing of new spending initiatives.

…partly driven by economic conditions influencing benefits and finance costs…

After 2024/25, core Crown benefit expenses are forecast to increase by around $1.9 billion per year. This is predominantly driven by NZS payments, with costs expected to increase by $1.6 billion per year over this period. The increased forecast expense largely reflects forecasts for inflation and wage growth as well as an increase in the number of super-annuitants (from 899,000 in 2023/24 to just over 1,021,000 by the end of the forecast period). Most other main benefit payment types are also forecast to increase from 2024/25 owing to indexation to inflation.

Core Crown finance costs are expected to increase by around $0.7 billion per year after 2024/25 but to remain broadly flat as a share of GDP at around 2.2% (Figure 2.4). Although interest rates are expected to decline over that period, the increase in finance costs beyond 2024/25 largely reflects the higher level of borrowings required to help fund the accumulated residual cash deficit (refer to page 46).

Figure 2.4 – Core Crown finance costs

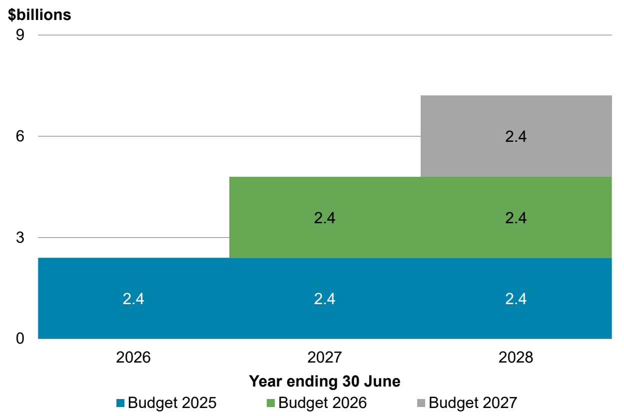


Source: The Treasury

…and funding set aside in future Budget allowances.

The Government has announced Budget operating allowances of $2.4 billion per annum for Budget 2025 through to Budget 2027. These allowances for new spending in future Budgets account for $7.1 billion of the growth in expenditure from the 2024/25 year through to the end of the forecast (Figure 2.5).

Figure 2.5 – Operating allowances



Source: The Treasury

The smaller allowances compared to recent years will require hard choices by the Government on the allocation of funding to maintain existing services and new policy initiatives. As signalled in the *Fiscal Strategy Report,* the Government plans to continue to reprioritise existing funding to its best use, which will help to provide some further headroom to fund the Government's future priorities. A large portion of the Budget 2025 and Budget 2026 operating allowances has already been pre-committed to meet health sector cost pressures (Table 2.8). The funding available (after pre-commitments) for future Budgets is forecast to increase expenses by $4.3 billion by 2027/28. Refer to the box on page 37 for further information on the likely pressures on future Budget operating allowances.

For forecasting purposes, Budget allowances are assumed to be all operating expenditure. However, these allowances can be used for a combination of revenue and expenditure initiatives when allocated, which has been the case for decisions made as part of Budget 2024 (refer to the box on pages 29 to 30). The fiscal forecasts also assume that any additional costs in relation to Government commitments and future cost pressures, such as those outlined in the Specific Fiscal Risks chapter (pages 59 to 105) will be met from operating allowances.

More details on the functional classification of core Crown expenses can be found in the core Crown expense tables on pages 145 to 149.

Pressures on future Budget operating allowances

Budget allowances show how much funding the Government has available to allocate in the future to maintain existing services and fund new investments. The fiscal forecasts presented in the *Budget Update 2024* include the Budget operating allowances announced by the Government in the *Fiscal Strategy Report.* The operating allowances for Budget 2025 through to Budget 2027 are set at $2.4 billion per budget, which is substantially lower than announced Budget packages in recent years.

The Government has options available to manage the fiscal impact of its decisions…

For forecast purposes, budget allowances are considered as a net concept. This means that the gross cost of decisions can exceed the signalled allowances if they are offset by reductions in expenditure or by raising revenue. For example, the gross cost of the Budget 2024 package was an average of $9.1 billion per annum. However, this was offset by average savings and revenue raising items of $5.9 billion per annum.

The Treasury's fiscal forecasts assume that the Government can meet any additional costs in relation to future Government commitments and future cost pressures from Budget allowances. After pre-commitments and assumed other non-discretionary spending (given current policy settings), the Government has $0.9 billion average per annum available to fund all new initiatives and other cost pressures at Budget 2025 (Table 2.8). It is difficult to estimate how much of the Budget 2025 operating allowance will be needed to meet future cost pressures. However, in recent times a large portion of the funding allocated at Budgets has been used to meet cost pressures faced by existing services.

Table 2.8 – Future budget operating allowances

Year ending 30 June $millions (average per annum)	Budget 2025	Budget 2026	Budget 2027
Signalled budget operating allowance	**2,400**	**2,400**	**2,400**
Pre-commitments through Budget 2024	1,370	1,370	-
Non-discretionary spending	148	-	-
Remaining unallocated future operating allowances	**882**	**1,030**	**2,400**

Source: The Treasury

…but future cost pressures are likely to crowd out funding available for new initiatives…

Although inflation is forecast to decline, based on high-level analysis, it is estimated that departments' baseline expenses could need to increase by around $2.5 billion in the 2025/26 year to maintain the existing level of services. This analysis does not take into consideration additional demand pressures on services (eg, demographic changes), spending on new policies, or the crystallisation of specific fiscal risks or contingent liabilities. Some of the Budget 2025 and Budget 2026 allowances have been pre-committed to cover a significant part of this such as health sector cost pressures. However, this limits the flexibility to trade-off across sectors in future Budgets.

…unless the Government continues to identify significant levels of savings, which will likely involve difficult choices and trade-offs.

The high-level analysis indicates that the future budget allowances are unlikely to be sufficient to cover future cost pressures on existing services. This means any shortfall and spending on new initiatives will need to be offset by expenditure savings, reprioritisation or revenue raising policy changes for each of the next three Budgets for the Government to manage within the signalled budget allowances. This will involve difficult choices and trade-offs for the Government which are likely to become harder over time.

If the Government is unable to achieve the level of savings or revenue raising policy changes required, there would either be less funding available for new initiatives or cost pressures or, all else being equal, there will be direct impact to the fiscal indicators, which could impact on the Government meeting its short-term fiscal objectives.

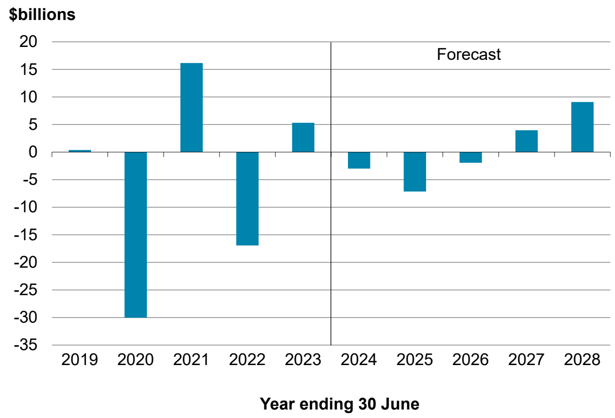
Operating Balance

The operating balance is expected to be in deficit in the near-term…

In the current year, total expenses exceed total revenue earned by around $10.6 billion. While this is partly offset by expected valuation gains (of $8.1 billion) on some of the Government's assets and liabilities, the operating balance is forecast to be a deficit of $3.0 billion. This compares with a surplus of $5.3 billion in 2022/23 (Figure 2.6), which was somewhat supported by significant valuation gains. The expected 2023/24 valuation gains of $8.1 billion comprise:

- $9.4 billion net gains on financial instruments reflecting the expected returns on the large investment fund portfolios of ACC and the NZS Fund, which have performed strongly so far in the current year.
- $1.3 billion net losses on non-financial instruments predominantly reflecting the forecast revaluation loss of the NZ ETS liability ($2.3 billion) slightly offset by the actuarial gain on the ACC outstanding claims liability ($1.1 billion).

Figure 2.6 – Operating balance



Source: The Treasury

The forecast loss on the NZ ETS liability reflects the increase in market price of New Zealand Units (NZUs) since 30 June 2023 (from $41.75 to $58.35 at 31 March 2024), which has resulted in an increase in the value of the liability. The forecast gain on the ACC outstanding claims liability reflects an increase in the effective single discount rate – from 4.79% as at 30 June 2023 to 4.95% at 29 February 2024 – partly offset by increased inflation assumptions.

The gap between forecast revenue and expenditure widens to $13.0 billion in 2024/25, as growth in tax revenue is slightly weaker, reflecting slower economic activity and a deterioration in business profits. In addition, net valuation gains are forecast to be lower next year, as the forecast on investment portfolios is assumed to return to long-term benchmark rates of return. Combined, this results in the operating deficit widening to $7.1 billion in 2024/25.

…before returning to surplus in 2026/27.

The operating deficits begin to improve from 2025/26, reflecting an increasing revenue growth rate across the forecast period compared to a slightly declining forecast expenditure growth rate. The operating balances return to surplus in 2026/27 at $4.0 billion as the expected valuation gains are expected to offset the revenue and expenditure gap.[5] The operating balance at the end of the forecast period is expected to be $9.1 billion.

[5] Beyond the current year, the investment portfolios managed by the ACC and NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios. As a result, gains are forecast to increase in each year of the forecast period.

Government Fiscal Indicators

The Government focuses on specific headline fiscal indicators to measure and communicate its objectives, and to ensure its fiscal policy decisions are sustainable. OBEGAL and net core Crown debt (refer to the box on page 42), are the headline fiscal indicators used by the Government in setting its fiscal objectives.

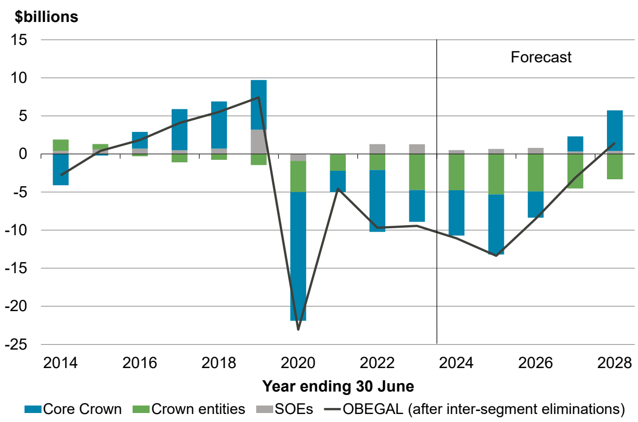
While OBEGAL and net core Crown debt are not indicators prescribed under generally accepted accounting practice (GAAP), both indicators provide greater insight into the activities the Government has more influence over. Therefore, they play an important role in the accountability of how the Government is managing finances and informing decisions to ensure the Government achieves its fiscal objectives.

OBEGAL deficits grow in the near-term but return to a surplus in 2027/28…

In the current year, the OBEGAL deficit is expected to remain elevated at $11.1 billion, about $1.6 billion more than the deficit recorded in 2022/23. The OBEGAL deficit continues to grow, reaching $13.4 billion by 2024/25. Thereafter, OBEGAL deficits narrow and improve by an average of $4.9 billion per annum with OBEGAL expected to return to surplus by 2027/28 at $1.5 billion.

As shown in Figure 2.7, much of the recovery in OBEGAL over the forecast period is driven by expected results of the core Crown. The core Crown segment is expected to be in a surplus OBEGAL position in 2026/27. However, this is offset by the Crown entity results (which forecast deficits throughout the entire forecast period) until 2027/28. The SOE segment is expected to contribute small OBEGAL surpluses throughout the forecast period (with surpluses ranging from $0.3 billion to $0.8 billion across the forecast period).

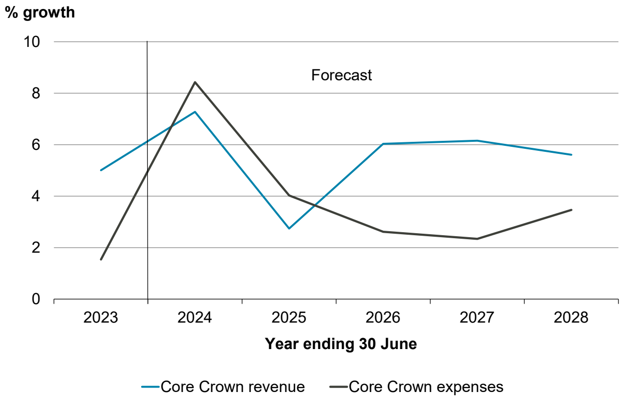
Figure 2.7 – Components of OBEGAL by segment



Source: The Treasury

The core Crown segment results in the near-term are underpinned by modest growth in core Crown tax revenue, which, as a result, is expected to dip to 28.5% of GDP in 2024/25 (Figure 2.8). A mix of tax policy changes and economic activity are behind the revenue trends in the near-term. In contrast, growth in core Crown expenses is expected to remain elevated.

Figure 2.8 – Growth in core Crown revenue and core Crown expenses



Source: The Treasury

Beyond 2024/25, an improvement in the fiscal outlook is expected, underpinned by stable growth in tax revenue, while core Crown expenses start to decline as a percentage of GDP.

Crown entities are expected to contribute to an OBEGAL deficit across the forecast period, averaging $4.6 billion per year. These results have been largely driven by ACC and the New Zealand Transport Agency which are forecasting an average OBEGAL deficit of $3.4 billion and $1.2 billion per year respectively.

The expected ACC contribution to OBEGAL deficits largely reflects that ACC levies are not expected to fully cover costs (eg, insurance expenses). The full funding model for ACC also expects investment returns to contribute to claims costs over time, with this revenue captured in gains and losses rather than within the OBEGAL measure. Although ACC is expected to have an adverse impact on OBEGAL over the forecast period, the nature of these deficits has limited implications for the fiscal sustainability of ACC or the Government's finances. The Treasury intends to perform a review of fiscal operating indicators that will consider these arguments with a focus on how financial flows of entities that are intended to be self-funded affect the Government's fiscal strategy.

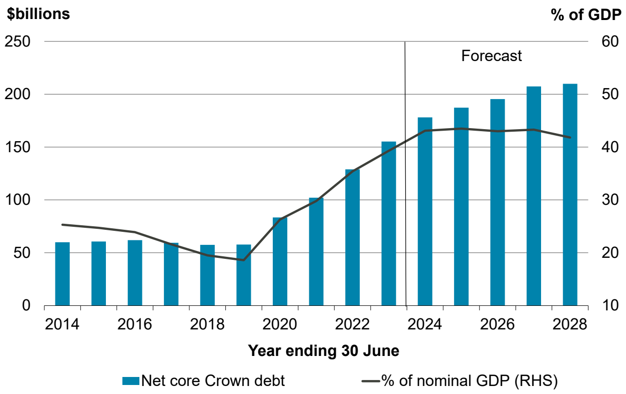
The deficits forecast by the New Zealand Transport Agency reflect the implications from the draft GPS on land transport, as there is a revenue shortfall in the National Land Transport Fund that is largely being funded from capital grants and Crown loans.

…while net core Crown debt grows throughout the forecast period.

In nominal terms, net core Crown debt increases through the forecast period (Figure 2.9). However, as a percentage of GDP, net core Crown debt is forecast to peak at 43.5% of GDP in 2024/25, before declining to 41.8% of GDP by the end of the forecast period.

From 2022/23 to 2027/28, net core Crown debt is forecast to increase by around $54.6 billion. A significant lift (an increase of $22.8 billion) in net core Crown debt is expected in the current year and then more modest increases across the remaining forecast period. The increase in net core Crown debt predominantly reflects the additional funding required to meet the residual cash deficit (a cash deficit of $21.9 billion for 2023/24, and an average deficit of $7.2 billion per annum thereafter).

Figure 2.9 – Net core Crown debt



Source: The Treasury

Refer to page 46 for discussion on the residual cash forecast.

Other indicators, such as the cyclically adjusted balance and structural balance, are also useful when analysing the fiscal sustainability of the Government's fiscal policy settings. These are discussed further in the box on pages 57 to 58 alongside the total fiscal impulse, which illustrates the effect of fiscal policy on aggregate demand.

Debt indicators

Changes to the Government's headline debt indicator

As announced in the *Budget Policy Statement 2024*, the Government has changed the headline debt indicator from 'net debt' introduced in Budget 2022 to 'net core Crown debt', the measure used prior to 2022.

The key reasons for the switch were concerns with the inclusion of NZS Fund assets in the indicator, which results in a large degree of volatility. In addition, the Government's' view is that net core Crown debt provides greater clarity over how the current size of debt and the Government's debt objectives, fit into a historical context.

The net core Crown debt measure has a narrower focus in regard to entity and instrument coverage. The movement in net core Crown debt between fiscal years will typically reflect the residual cash balance, which represents the level of money the Government needs to borrow or alternatively has available to repay debt in any given year.

The Treasury will continue to report net debt in our *Economic and Fiscal Updates*, as it is still a useful metric to assessing the fiscal sustainability of the Government's finances.

A suite of debt indicators

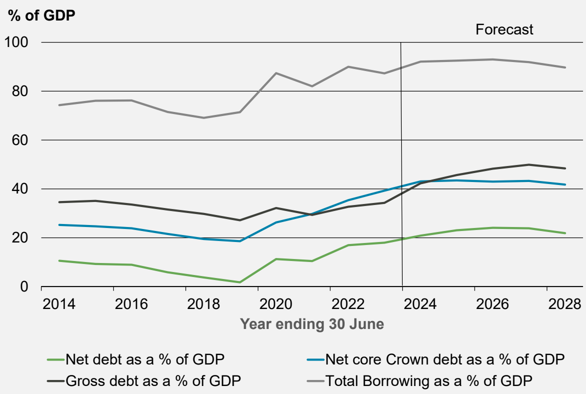
The Treasury includes a suite of debt indicators in the fiscal forecasts. Each is an important metric, and serving a different purpose. For example:

- the net core Crown debt indicator shows how much debt would remain after offsetting liquid financial assets it provides an insight for assessing the Government's ability to sustain current fiscal policy settings in the long-run
- the net debt indicator, while not fully comparable, can allow for easier comparison to certain countries and international measurements (such as the IMF and OECD debt measurement metrics)
- the gross debt indicator provides a measure of debt issued by the Crown primarily in order to finance activities beyond what is funded from cash flows generated from the Crown's operating activities, and
- total borrowing shows the borrowing by the whole of Government, so provides a wider perspective of the fiscal sustainability of the Government's overall operations.

While there are a number of debt indicators, they all broadly follow the same trend historically and over the fiscal forecast period, as illustrated in Figure 2.10. The rise in debt levels between 2019/20 and 2022/23 in part reflect the COVID-19 and North Island weather event response.

As a share of GDP, all the debt indicators show an expected sharp rise in the current year compared to 2022/23, peaking on average in 2026/27, and then begin to decline in the last year of the forecast period. By the end of the forecast period, debt levels are expected to remain higher than pre-COVID-19 levels.

Figure 2.10 – Debt indicators as a % of GDP



Source: The Treasury

Fiscal Resilience

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

Net Worth

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

In nominal terms, net worth is expected to remain broadly flat over the forecast period from $191.5 billion in 2022/23 to $193.4 billion in 2027/28, reflecting the forecast operating balance results, while, as a share of GDP, net worth falls from 48.4% in 2022/23 to 38.5% of GDP in 2027/28. The nominal change reflects the accumulated forecast operating balance results (excluding minority interests), with net surpluses of $1.0 billion expected over the forecast period. As a share of GDP, net worth declines as the operating balance results are less than the growth in nominal GDP over the forecast period.

A breakdown of net worth is provided in Table 2.9.

Table 2.9 – Breakdown of net worth

Year ending 30 June $billions	**2023 Actual**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**
Taxpayers' funds	8.4	5.5	(1.7)	(3.7)	0.2	9.2
PPE revaluation reserve	174.6	174.4	174.4	174.4	174.4	174.4
Other reserves	0.5	0.9	0.9	1.0	1.1	1.2
Total net worth attributable to the Crown	**183.5**	**180.8**	**173.6**	**171.7**	**175.7**	**184.8**
Net worth attributable to minority interest	8.0	8.4	8.4	8.4	8.5	8.6
Total net worth	**191.5**	**189.2**	**182.0**	**180.1**	**184.2**	**193.4**
As a % of GDP	48.4	45.8	42.3	39.6	38.5	38.5

Source: The Treasury

Total Crown Balance Sheet

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

Total assets are forecast to increase by $107.2 billion over the forecast period reaching $643.9 billion in 2027/28. Total liabilities are forecast to increase by $105.3 billion rising to $450.5 billion in the last year of the forecast (Table 2.10).

Table 2.10 – Composition of the total Crown balance sheet

Year ending 30 June $billions	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
PPE	267.4	279.1	288.9	295.4	300.9	302.9
Financial assets	240.7	262.2	262.5	275.9	288.3	303.8
Other assets	28.6	28.2	29.0	31.3	34.7	37.2
Total assets	**536.7**	**569.5**	**580.4**	**602.6**	**623.9**	**643.9**
Borrowings	226.8	260.0	278.9	299.9	316.1	323.6
Insurance liabilities	57.5	59.7	62.8	65.9	69.2	72.5
Other liabilities	60.9	60.6	56.7	56.7	54.4	54.4
Total liabilities	**345.2**	**380.3**	**398.4**	**422.5**	**439.7**	**450.5**
Total net worth	**191.5**	**189.2**	**182.0**	**180.1**	**184.2**	**193.4**

Source: The Treasury

…with financial assets driving most of the increase in assets…

Financial assets are forecast to increase by $63.1 billion by 2027/28. The following areas contribute to most of this growth:

- The investment portfolios of the NZS Fund and ACC contribute $39.5 billion to the overall growth in financial assets, which includes growth from expected investment returns and additional investments funded from the Crown's contribution to the NZS Fund ($5.2 billion).
- Kiwi Group loans and advances are forecast to increase by $17.0 billion, primarily as a result of expected growth in mortgage lending (which also results in a corresponding impact on borrowings, as discussed on page 45).
- Reserve Bank of New Zealand (Reserve Bank) FLP advances are forecast to decline, with the outstanding balance at 2022/23 of $18.1 billion expected to be fully repaid by 2025/26.
- A large portion of the remaining forecast increase in financial assets relates to the movements in marketable securities owing to the management of financing requirements and the Reserve Bank's managing down of its portfolio of bonds purchased under its Large Scale Asset Purchase (LSAP) programme.

…along with growth in property, plant and equipment…

PPE assets are expected to increase by $35.5 billion by 2027/28. This rise is largely due to additions of $79.7 billion, which are partly offset by depreciation expenses over the forecast period that total $40.9 billion.

The largest growth in PPE is attributable to buildings, which are forecast to increase by $14.3 billion over the forecast period mainly driven by growth in assets held by the education, health and housing sectors. The state highways asset category is also forecast to increase by $10.6 billion by 2027/28.

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

In addition to the above, the forecast for new capital spending is expected to increase assets by $10.6 billion by 2027/28. This comprises funding set aside to allocate in future Budgets and funding agreed in previous Budgets, for specific projects, that has not yet been appropriated into an entity's baseline because further work is required prior to this occurring (ie, unallocated capital contingencies).

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

Total borrowings are forecast to increase by $96.9 billion from $226.8 billion in 2022/23 to reach $323.6 billion by 2027/28. Government bonds are expected to increase by $96.0 billion by the end of the forecast period. Government bond issuances are largely reflective of the borrowing required to meet any additional cash requirements to fund operating and capital expenditure of the Government that cannot be covered by revenue (such as tax revenue). The level of government bonds is also impacted by managing down the Reserve Bank's LSAP programme, which results in a switch in liabilities from settlement deposits to government bonds.

Kiwi Group borrowings (eg, deposits and debt securities) are forecast to increase by $12.6 billion, which is more than offset by increases in Kiwi Group advances (as discussed on page 44). These increases are offset by forecast reductions in settlement cash held by the Reserve Bank of $25.4 billion across the forecast period, largely owing to the expected managing down of the LSAP bond programme.

…while the Government's insurance liabilities also increase.

Insurance liabilities are forecast to increase by $15.0 billion to reach $72.5 billion by 2027/28. The ACC insurance liability makes up the vast majority of this balance and is forecast to grow by $16.3 billion over the forecast period. The ACC insurance liability is an estimate of the present-day value of the amount ACC would need to pay out to meet future compensation and rehabilitation costs of injuries that have already occurred or that are expected to occur over the forecast period. The ACC insurance liability is expected to grow by an average of $3.3 billion per year over the forecast period with the increases largely reflecting growth in claims volumes, increases in rehabilitation costs and economic factors.

The increases in the ACC insurance liability are slightly offset by a decrease in the Earthquake Commission (EQC) liability of $1.1 billion over the forecast period reflecting the settlement of claims (including the North Island weather events).

Crown Funding and Financing

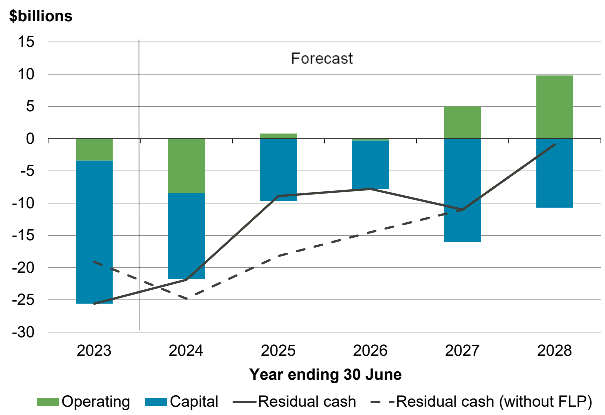
This section looks at the funding required by the Crown to deliver on its fiscal policy decisions and how these will be funded. Core Crown cash flow information provides useful insights into the funding requirements of the Crown.

Residual Cash

Residual cash deficits are expected to improve over the forecast period…

Core Crown residual cash is expected to improve but remain in deficit for the forecast period (Figure 2.11). Net core Crown capital cash flows are the main driver of the deficit position (with an accumulated cash deficit of $57.3 billion across the forecast period). This is partially offset by an operating accumulated cash surplus of $6.8 billion. As a result, the total accumulated cash deficit across the forecast period is $50.6 billion with the cash shortfall largely being funded through additional borrowings and using financial assets.

Figure 2.11 – Core Crown residual cash



Source: The Treasury

Residual cash is broadly influenced by the same contributors to OBEGAL, and like OBEGAL, the core Crown residual cash deficit remains elevated in the current year reflecting the 2023/24 net operating cash deficit and significant capital investments. However, unlike OBEGAL (where the current year forecast deficit is more than the deficit in 2022/23), the residual cash deficit is expected to improve by $3.8 billion in the current year. This is partly due to some significant impairment expenses impacting OBEGAL in the near term that do not flow through into the residual cash indicator (as they are non-cash expenses) and lower net capital spending.

The cash deficit is expected to recover considerably in the 2024/25 year (by around $13.0 billion), primarily owing to the repayments from the FLP and additional tax receipts forecast to be collected in this year (reflecting the timing of the Matariki holiday in the 2024 calendar year).

…with most of the total cash deficit is attributable to the Government's forecast capital investment…

Core Crown residual cash includes net capital spending of $34.8 billion on investments (including the NZS Fund contribution of $5.2 billion) as well as $18.7 billion investments in physical assets. The remaining net capital spending comprises the forecast for future new capital spending, including funding remaining in the Multi-Year Capital Allowance (MYCA) and in tagged contingencies.

As part of Budget 2024, the Government has announced net capital investments totalling $2.4 billion (including Mini Budget decisions and pre-commitments). The total capital package comprises $6.7 billion of spending on new initiatives and cost pressures partially offset by $4.3 billion of savings and the return of the NRP. After Budget 2024 decisions, the remaining MYCA stands at $7.5 billion.

A breakdown of net capital expenditure that has an impact on core Crown residual cash can be found on page 142 within the forecast financial statements.

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

The government borrowing programme includes the issuance of both government bonds (NZGB) and short-term borrowings (Treasury Bills and Euro-Commercial Paper). Overall, the programme will provide net funds of $66.5 billion (Table 2.11) to help cover the residual cash deficits and maintain the liquidity buffer. The forecast increases to NZGBs, largely to meet the Crown's funding requirements, is the main driver of the increases in gross debt and finance costs over the forecast period.

Consistent with the profile of core Crown residual cash, net government bond issuance is predominantly weighted towards the early part of the forecast period.

Table 2.11 – Net issuance of market government bonds and short-term borrowing[1]

Year ending 30 June $billions	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**Total**
Face value of market government bonds issued	38.0	38.0	36.0	32.0	20.0	**164.0**
Debt programme cash flows						
Cash proceeds from issue of market government bonds	34.8	35.8	34.1	30.2	18.9	**153.8**
Repayment of market government bonds	(18.2)	(19.2)	(19.1)	(23.0)	(16.0)	**(95.5)**
Net issue/(repayment) of short-term borrowings	13.6	(5.4)	-	-	-	**8.2**
Net debt programme cash flows	**30.2**	**11.2**	**15.0**	**7.2**	**2.9**	**66.5**

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

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

Source: The Treasury

The forecast net debt programme cash flows are higher than the accumulated residual cash deficits over the forecast period. Most of the variance between the accumulated residual cash deficit over the forecast period ($50.6 billion) and the forecast increase to the government borrowing programme (net funds of $66.5 billion) reflects the impact of the FLP. This is because the FLP (Figure 2.11) repayments will reduce the settlement cash liability, rather than being available to the Crown to fund its activities. Looking through the impacts of FLP, the accumulated residual cash deficit would be much closer to the cash generated from the Government's borrowing programme.

…most of the accumulated residual cash deficit flows through to the debt indicators.

The residual cash deficit flows through to the net core Crown debt indicator (page 41) and, as it is predominantly funded by borrowings, will also flow through to the gross debt indicator. Overall, gross debt is expected to increase from $135.8 billion in 2022/23 to $243.4 billion by 2027/28. In addition to the change in the bond programme, the managing down from the Reserves Bank's LSAP contributes most of the remaining increase in gross debt.

Comparison to the *Half Year Update*

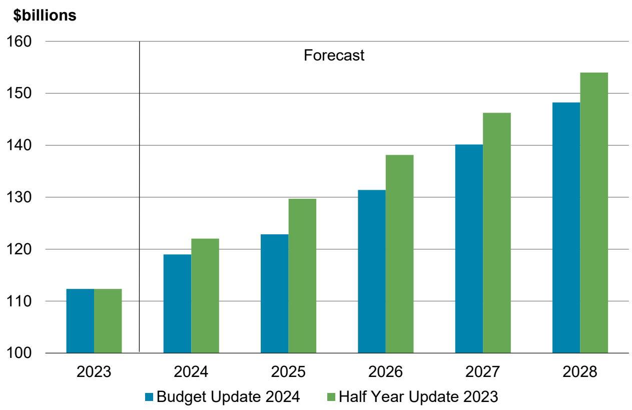
The fiscal outlook is weaker compared to the* Half Year Update*…

The fiscal outlook for most of the Government's headline indicators are expected to be weaker compared to the *Half Year Update*. The key factors influencing the weaker outlook is a deterioration in recent tax outturns and slower economic activity, which have reduced the forecast for tax revenue. However, this has been partly offset by the Budget 2024 package coming in lower than the signalled allowance and the decision to reduce the size of funding set aside for future Budget operating allowances.

...with economic conditions, year-to-date outturns and tax policy changes reducing the forecast for tax revenue…

Weaker macroeconomic conditions, weaker business income tax revenue and tax policy changes mean that core Crown tax revenue has been revised down since the *Half Year Update*, by $28.3 billion in total over the forecast period (Table 2.12).

Figure 2.12 – Core Crown tax revenue compared to the *Half Year Update*



Source: The Treasury

Revised historical estimates of GDP, lowered assumptions for productivity growth over the forecast period, and combined with a slightly lower inflation forecast, the Treasury now expect lower nominal GDP in each year of the forecast period. This downgrade in nominal GDP flows on to reduce the forecasts for tax revenue in each year of the forecast period compared to the *Half Year Update* and accounts for around a third of the downward revision.

The year-to-date outturns for both corporate tax and other persons tax have been running below forecast reflecting weaker business profits. This deterioration in the current year is expected to flow through to the rest of the forecast period and also accounts for around a third of the downward revision in tax revenue.

The remaining reduction in tax revenue forecasts (about $2.5 billion per annum from 2024/25) is owing to tax policy changes announced since the completion of the forecast included in the *Half Year Update* (through the Mini Budget and the Budget 2024 package). The estimated tax revenue impact of the tax initiatives since the *Half Year Update* is detailed in the box on page 49. The largest policy change was the personal income tax package, which, for the tax revenue forecasts, was spread across source deductions and other persons tax (a reduction compared to the *Half Year Update* in total of $7.4 billion and $2.2 billion respectively). Although tax policy changes have reduced tax revenue forecasts, they only have a minimal impact on the Government's headline indicators as the fiscal impacts were managed against the Budget 2024 operating allowance.

Table 2.12 – Movements in core Crown tax revenue by major tax type

Year ending 30 June $billions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	Total Change
Core Crown tax revenue – *Half Year Update 2023*	**122.0**	**129.7**	**138.1**	**146.2**	**154.0**	
Forecasting changes by tax type						
Corporate tax	(2.8)	(2.3)	(1.4)	(0.6)	(0.1)	**(7.2)**
Source deductions	0.1	(0.7)	(1.4)	(2.2)	(2.6)	**(6.8)**
Net other persons tax	(1.0)	(0.8)	(1.0)	(0.2)	(0.5)	**(3.5)**
Goods and service tax (GST)	0.1	(0.6)	(0.7)	(0.7)	(0.8)	**(2.7)**
Resident withholding tax (RWT) on interest	0.3	0.1	0.2	0.2	0.2	**1.0**
All other taxes	0.3	(0.3)	-	0.4	0.3	**0.7**
Total forecasting changes	(3.0)	(4.6)	(4.3)	(3.1)	(3.5)	**(18.5)**
Total tax policy changes	-	(2.2)	(2.4)	(2.9)	(2.3)	**(9.8)**
Total change	**(3.0)**	**(6.8)**	**(6.7)**	**(6.0)**	**(5.8)**	(28.3)
Core Crown tax revenue – *Budget Update 2024*	**119.0**	**122.9**	**131.4**	**140.2**	**148.2**	

Source: The Treasury

Tax policy changes

This section details the material changes to forecast tax revenue since the *Half Year Update* as a result of tax policy changes. Table 2.13 shows a breakdown of the changes and outlines the policies that form part of the Budget 2024 operating package. More details on the tax policy changes that form part of the Budget 2024 operating package are provided in the *Summary of Initiatives*.

Table 2.13 – Estimated tax effects of material initiatives announced since the *Half Year Update*

Year ending 30 June $millions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	Total
Changes to the personal income tax scale and Independent Earner Tax Credit	-	(1,871)	(2,648)	(2,619)	(2,502)	**(9,640)**
Interest deductions for residential rentals	-	(360)	(785)	(855)	(915)	**(2,915)**
Bright-line test reverts to 2 years	(22)	(45)	(45)	(45)	(45)	**(202)**
Commercial building depreciation	-	57	1,120	567	567	**2,311**
Inland Revenue compliance funding	-	73	147	147	147	**514**
Online casino gambling duty	-	45	47	49	52	**193**
Crypto Asset Reporting Framework	-	-	-	-	50	**50**
Total tax policy changes as part of Budget 2024 package[6]	**(22)**	**(2,101)**	**(2,164)**	**(2,756)**	**(2,646)**	**(9,689)**
Revised fuel excise duty and Road User Charges rates increases	-	(180)	(480)	(425)	72	**(1,013)**
Motor vehicle registration fee increases	-	74	222	294	291	**881**
Other changes	-	(4)	(13)	(15)	(8)	**(40)**
Total tax policy changes since the *Half Year Update*	**(22)**	**(2,211)**	**(2,435)**	**(2,902)**	**(2,291)**	**(9,861)**

Sources: Inland Revenue, Ministry of Transport, the Treasury

6 The total tax policy changes exclude any precommitments and therefore will not reconcile to Table 2.3 or Table 2.4 on pages 29 and 30. Table 2.13 only considers changes in tax revenue, therefore will not align to the Government's tax package which also captures expenditure measures.

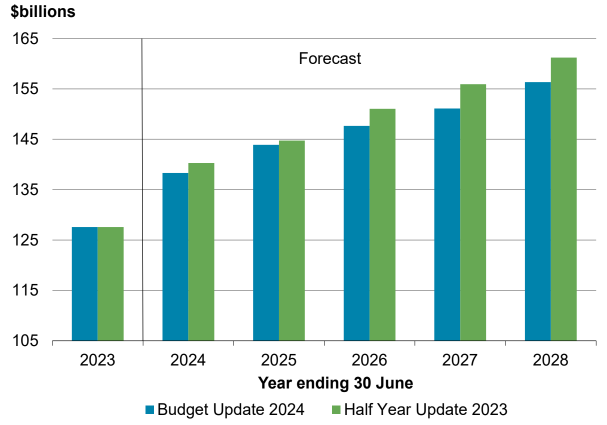
…however, economic conditions have reduced some core Crown expenses…

Core Crown expenses are on average $3.2 billion per annum lower than forecast at the *Half Year Update* (Figure 2.13) owing to a combination of economic factors and policy changes.

Excluding policy changes, core Crown benefit expenses are expected to be lower by $0.2 billion in the current year, rising to $1.0 billion lower by 2027/28 owing to a lower forecast for wage growth and CPI to which most main benefits are indexed.

In addition, finance costs have also been revised down since the *Half Year Update* reflecting the impact of a lower interest rate and inflation forecast (Table 2.14).

Figure 2.13 – Core Crown expenses compared to the *Half Year Update*



Source: The Treasury

Table 2.14 – Movements in core Crown expenses since the *Half Year Update*

Year ending 30 June $billions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	Total change
Core Crown expenses – *Half Year Update 2023*	**140.3**	**144.7**	**151.1**	**155.9**	**161.2**	
Budget 2024 operating package	(1.0)	(0.9)	(1.5)	(2.1)	(1.8)	**(7.3)**
Reduction to Budget operating allowances	-	-	(0.9)	(1.5)	(2.1)	**(4.5)**
Benefit forecast changes	(0.2)	(0.4)	(0.7)	(0.9)	(1.0)	**(3.2)**
Core Crown finance costs	0.1	(0.5)	(0.8)	(0.7)	(0.7)	**(2.6)**
Asset impairments	0.7	1.4	-	-	-	**2.1**
Emissions Trading Scheme expenses	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	**(1.3)**
Baseline savings	-	0.4	0.5	0.5	0.5	**1.9**
Other	(1.4)	(0.6)	0.3	0.2	0.5	**(1.0)**
Total change	**(2.0)**	**(0.8)**	**(3.4)**	**(4.8)**	**(4.9)**	**(15.9)**
Core Crown expenses – *Budget Update 2024*	**138.3**	**143.9**	**147.7**	**151.1**	**156.4**	

…as has the Budget 2024 package and reduction in future Budget allowances.

Compared to the *Half Year Update* the Budget 2024 operating package has resulted in core Crown expenses being lower by an average of $1.8 billion per annum. This reflects that the Budget 2024 package includes changes to revenue settings (assumed as expenses at the *Half Year Update*).

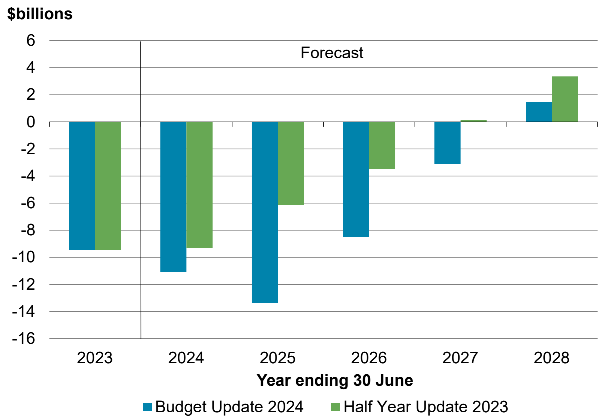
The Budget operating allowances for Budgets 2025 through to 2027 have also been reduced to $2.4 billion per annum, decreasing expenditure by $0.9 billion in 2025/26 rising to $2.1 billion by 2027/28, compared to the *Half Year Update*.

The impact of these decisions was partially offset by the fiscal sustainability savings being used to offset the Budget 2024 package, which were previously assumed to reduce expenses by around $0.5 billion per annum at the *Half Year Update*.

OBEGAL is weaker in each year of forecast period and the return to surplus has been pushed out by a year...

OBEGAL is expected to be weaker across all years of the forecast period, particularly in 2024/25, and is forecast to return to surplus in 2027/28, a year later than previously forecast (Figure 2.14).

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



Source: The Treasury

The change in the outlook for OBEGAL is largely driven by the changes in core Crown tax revenue and core Crown expenses mentioned previously.

In addition, net NZ ETS revenue is on average $0.3 billion per year lower than previously forecast. Overall, NZ ETS revenue is expected to be lower by $0.6 billion per year on average but this has been partially offset by lower NZ ETS expenses. The change is mainly owing to the lower market price of NZUs from $70.00 per unit used at the *Half Year Update* to $58.35 per unit used at the *Budget Update*.

Outside of the core Crown, the Crown entity segment results were weaker than previously forecast largely driven by New Zealand Transport Agency and ACC' forecast results although this has been partially offset by the forecasts of Kāinga Ora, which show an improved forecast compared to the *Half Year Update*.

…and residual cash deficits are higher than at the **Half Year Update***…*

Core Crown residual cash deficits are cumulatively $18.3 billion higher than the *Half Year Update*. The current year residual cash deficit is $4.0 billion smaller than previously forecast, largely reflecting reduced near-term capital spending. From 2024/25 onwards residual cash deficits are on average $5.6 billion higher per year.

The operating receipts and payments change largely mirrors the OBEGAL movements discussed above, with slightly different cash profiles. Net capital cash outflows are forecast to be $3.0 billion lower than the *Half Year Update* in the current year and then an average of $2.0 billion per year higher for the remaining forecast period. This partly reflects the front-loading of Budget 2024 capital decisions, and, the $7.0 billion top-up of the MYCA (of which $5.2 billion is expected to be spent within the forecast period) and is partially offset by a reduction in the borrowings of Kāinga Ora through the Crown.

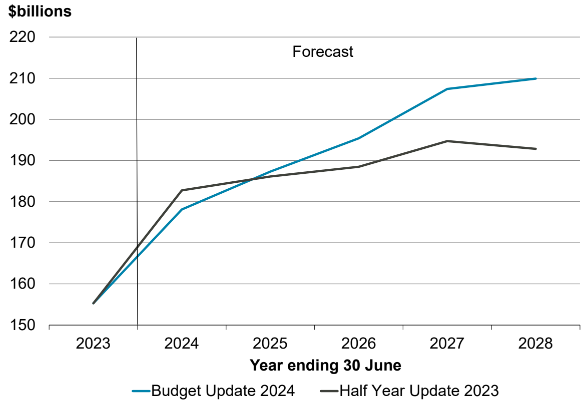
In addition, rephasing of capital investments has moved spending out of the current year and into the remaining forecast period (mainly 2024/25), which is a significant driver of the difference between core Crown residual cash and the OBEGAL profiles in these years.

…resulting in a higher net core Crown debt track across the forecast period.

As a percentage of GDP, net core Crown debt is expected peak a year later than previously forecast at 43.5% in 2024/25 (compared to 43.5% in 2023/24 in the *Half Year Update*) and reduce to 41.8% of GDP by the end of the period (previously forecast to be 37.6% of GDP in 2027/28).

In the current year, net core Crown debt is expected to be around $4.7 billion lower than previously forecast, with the decrease reflecting a smaller cash deficit. However, from 2024/25, this trend reverses, and the net core Crown debt track is expected to be higher than forecast at the *Half Year Update* (Figure 2.15).

Figure 2.15 – Net core Crown debt compared to the *Half Year Update*



Source: The Treasury

By 2027/28, net core Crown debt is expected to be higher than the previous forecast by $17.1 billion, largely reflecting the higher accumulated residual cash deficit (Figure 2.15). The cash shortfall is largely funded by the Government's bond programme, which has increased by $12.0 billion over the forecast period compared to the *Half Year Update.*

Risks to the Fiscal Forecasts

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

The Government is on track to achieve its fiscal objectives…

The fiscal outlook shows that the Government is on track to achieve its short-term fiscal objectives, with OBEGAL expected to return to surplus in 2027/28 and both net core Crown debt and core Crown expenses on a downward trajectory. The fiscal forecasts were finalised on 9 May 2024 based on the accounting policies, judgements and assumptions outlined on pages 108 to 110. The judgements and assumptions applied are based on the best information available at the time of preparing the fiscal forecasts. There are a number of events that pose a risk to the fiscal forecasts that could have implications for the Government in achieving its short-term objectives.

…however, changes in the economy could impact the fiscal outlook…

The fiscal forecasts are prepared based on underlying economic forecasts. These are critical in determining significant revenue and expense estimates. The most relevant economic indicators to the fiscal forecasts are outlined on page 110. Any variation in the forecasts of these underlying economic indicators could impact the fiscal forecasts. The forecasts for tax revenue, benefit expenses and finance costs are particularly sensitive to changes in certain economic indicators.

There are a few ways to illustrate the uncertainty regarding the assumptions and judgements made in the economic forecasts and how they could impact the fiscal forecasts. While each of these approaches provides useful insights into the uncertainty around the fiscal forecasts, each approach has limitations particularly around the completeness of the analysis.

The Economic Outlook chapter includes scenarios that outline the impact on the Government's key fiscal indicators if the economy was to evolve differently. The scenarios consider if there were more favourable global economic conditions (upside) and if the recent economic weakness were to persist (downside). For both scenarios, it is assumed Government expenditure, apart from benefit expenses and finance costs, stays the same as the central fiscal forecast, which is unlikely to be case.

Even small changes in the economic outlook can have a significant impact on the fiscal outlook. Sensitivity analysis illustrates how certain changes in key economic indicators could flow through to fiscal indicators. Table 2.15 provides a rule of thumb for the sensitivity of tax revenue to economic growth as well as how government interest income and finance costs are affected by interest rates. For example, if nominal GDP was to grow by 1 percentage point more than forecast in each year of the forecasts, tax revenue would likely be around $7.7 billion higher than forecast in the final year of the forecast. The sensitivities are broadly symmetric and indicative and can be influenced by the composition of growth.

Table 2.15 – Fiscal sensitivity analysis

Years ending 30 June $millions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Impact on tax revenue of a one percentage point increase[1] in growth of					
Nominal GDP	1,225	2,545	4,080	5,825	7,740
Wages and salaries	575	1,210	1,925	2,730	3,615
Taxable business profits	245	545	910	1,360	1,860
Impact of 1% lower[1] interest rates on					
Interest income[2]	(189)	(488)	(500)	(578)	(599)
Interest expenses[2]	(314)	(1,055)	(1,322)	(1,600)	(1,804)
Net impact on operating balance	125	567	822	1,022	1,205

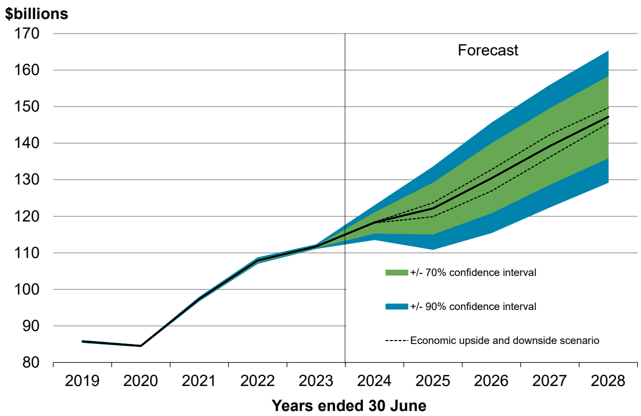
1 These sensitivities are broadly symmetrical.

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

Source: The Treasury

The use of fan charts helps to illustrate general uncertainties around the forecasts and the dispersion of outcomes that may ultimately occur.[7] Using past deviations from historical forecasts, the Treasury is able to approximate confidence intervals for the range of possible outcomes within a specified probability range.[8] Under constant fiscal policy settings on expenditure, the main source of uncertainty in the fiscal outlook arises from inherent uncertainty from tax revenue.

Figure 2.16 – Total tax revenue fan chart



Source: The Treasury

Figure 2.16 approximates the general uncertainty surrounding the total tax revenue forecast. The width of the fan increases further into the forecast period, meaning the distant future is more uncertain than the near future. The fan chart captures uncertainty due to unexpected economic developments, unexpected revenue relative to the economy, and unanticipated policy changes.

The combined green and blue areas show where tax revenue is expected to be 90% of the time. At the end of the forecast period this is within +/-$18 billion per year of the central forecast. The green area reflects that there is a 70 percent chance that tax revenue could be up to $11 billion higher or lower than the central forecast in 2027/28.

7 The Treasury has previously produced uncertainty fan charts, most recently in the *Half Year Update* 2019. During the COVID-19 period, the Treasury paused publication of the fan charts due to the unprecedented nature of the event giving rise to a significant level of uncertainty.

8 The fan charts incorporate uncertainty from future policy changes (ie, no adjustment has been made to the forecast errors used to construct the fan chart to account for policy changes made after each forecast round). The Treasury intends to publish further detail on the technical methodology later this year.

Figure 2.16 also shows tax revenue expectations for the economic upside and downside scenarios discussed in the Economic Outlook chapter. Although we have not tried to put a probability on these alternative scenarios occurring, it is informative to note that the resulting tax revenue outcomes sit within the 40th and 60th percentile bands in 2027/28.

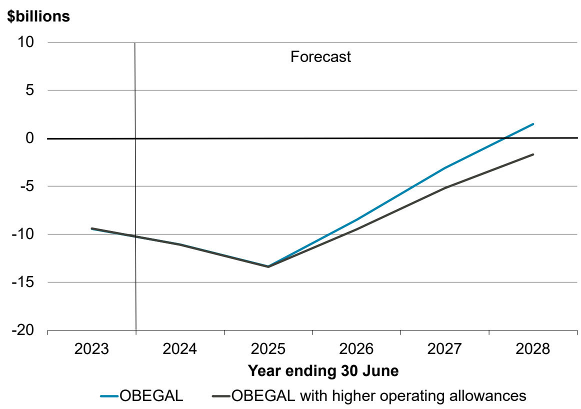
...and so too could future Government decisions…

The fiscal forecasts assume that most departmental expenditure stay fixed beyond the 2024/25 year. In reality we expect expenditure to grow, particularly to cover the impact of inflation and wage growth on inputs used to deliver the services provided by the Government. In addition, the Government is likely to make decisions in the future to progress its policy objectives.

The Government has announced Budget operating allowances in the *Fiscal Strategy Report* for the next three Budgets. The fiscal forecasts assume that these allowances will be sufficient to cover the costs of maintaining existing services and introducing new services.

The Specific Fiscal Risks chapter outlines specific matters that could arise in the future that could have fiscal impacts that would need to be managed against Budget allowances. This includes matters where a decision has been taken but cannot be quantified yet and where a decision has not been made but is reasonably possible and any other circumstances. The chapter also includes significant contingent liabilities the Government may face in the future if certain events were to occur.

Figure 2.17 – Impact of higher operating allowances on OBEGAL



Source: The Treasury

There is a risk that the allowances set aside for future Budgets may not be enough to cover all costs. The box on page 37 provides some analysis on future pressures on Budget allowances, while the Specific Fiscal Risks chapter outlines the key risks that may eventuate. In addition, while the Budget 2024 package was slightly lower than signalled by the Government, in recent years the general tendency is for government to spend more than the funding set aside in Budget allowances and manage some costs outside of Budget allowances. Figure 2.17 illustrates the sensitivity of the OBEGAL track if the Budget operating allowances for the next three Budgets were $1.0 billion per annum higher for each Budget.

...while valuation changes influenced by markets could also impact on the Government's fiscal objectives…

Some elements of the fiscal forecasts require judgements that are informed by market conditions such as foreign exchange rates, interest rates, share prices, carbon price and property prices. There is a high degree of uncertainty around how markets may perform in the future, which makes it challenging for forecast purposes. Therefore, it is possible the Government's actual financial position will differ from forecasts.

Market information is generally used for the valuation of assets and liabilities on the Government's balance sheet, in particular financial instruments, and long-term liabilities. In most cases the fiscal forecasts use a base month and assume no price changes into the future. Most of the direct fiscal impacts from changes in market prices are reflected as valuation gains and losses and, therefore minimising any impact on the Government's headline fiscal indicators. However, there are indirect impacts from valuations that could have an impact in the future. For example, an increase or decrease in the valuation of property, plant and equipment leads to changes in depreciation expenses going forward, while changes in discount rates used to value long-term liabilities could result in a larger or smaller interest unwind recognised in the future.

The *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2023* (https://www.treasury.govt.nz/publications/year-end/financial-statements-2023) provides useful insights on the sensitivity to the value of a number of assets and liabilities to changes in market price assumptions.

…as could adverse events.

The costs of future individual natural disasters, individual events resulting in climate change, and other major events (eg, biosecurity incursions, pandemics, financial markets crisis and geopolitical events) could significantly impact on the fiscal results in the future. In general, these events would most likely impact on the economy and therefore flow through to the forecast for tax revenue and the Government may decide to introduce financial measures to support to New Zealanders through such events.

New Zealand will continue to experience natural disasters and, with some of these, the frequency and/or severity is likely to increase with climate change – for example, increased coastal flooding because of sea-level rise and extreme weather events.

Cyclically-adjusted balance, structural balance and total fiscal impulse[9]

Cyclically-adjusted balance and structural balance

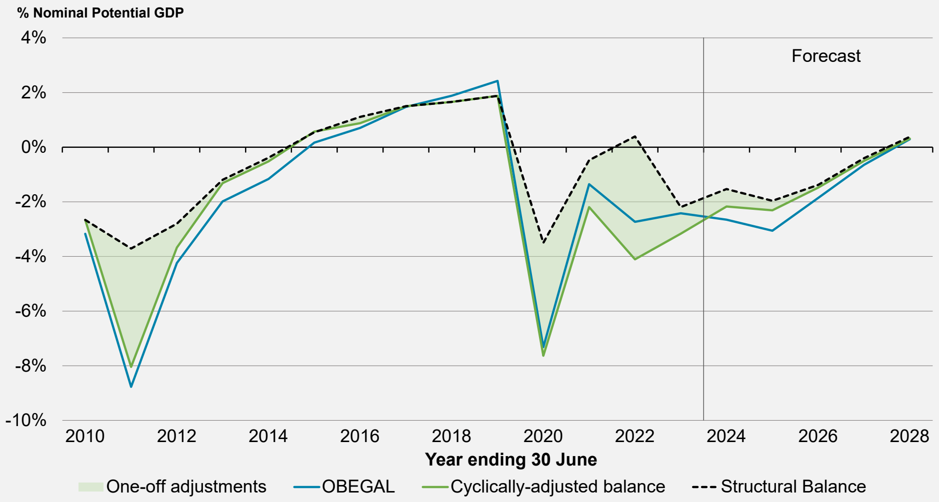
The cyclically-adjusted balance (CAB) and the structural balance are additional indicators that can be used to understand the Government's fiscal position. Both indicators are derived from, and designed to identify the underlying trends in, OBEGAL:

- The CAB shows what OBEGAL would be in the absence of fluctuations in expenses and tax revenue that happen automatically over the economic cycle (known as automatic stabilisers).
- The structural balance helps to show the underlying fiscal position by adjusting the CAB for significant one-off expenditure items, such as those associated with the North Island weather events.[10]

Figure 2.18 shows the updated forecasts for all three indicators – OBEGAL, the CAB and the structural balance. All three of these measures of the operating balance are currently in deficit, which illustrates the structural nature of the current OBEGAL deficits (ie, that the deficits are not attributable to slowing economic activity or one-off spending increases). Both the cyclically adjusted and structural deficits are forecast to remain elevated throughout 2024/25 and 2025/26, before gradually improving over the remainder of the forecast period in line with the forecast for OBEGAL.

The CAB and structural balance are not forecast to return to surplus until 2027/28, a year later than expected at the *Half Year Update*. The weaker outlook is largely due to forecasts of tax revenue being revised downwards. This in turn reflects recent weak tax outturns, personal income tax policy changes, and lower nominal GDP growth across the forecast period owing mainly to weaker productivity growth. These downward revisions to revenue more than offset the forecast reductions in expenditure, which are driven by savings in Budget 2024 and lower future operating allowances.

Figure 2.18 – OBEGAL, CAB and structural balance



Source: The Treasury

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

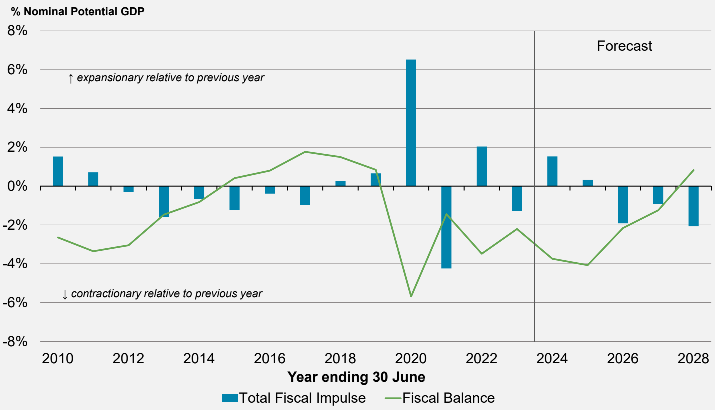
10 Aside from the North Island weather events, these one-off adjustments primarily relate to ongoing COVID-19 operating expenditure. Of the COVID-19 operating expenditure, around half of the expenditure over the forecast period relates to the Housing Acceleration Fund. The Housing Acceleration Fund has been excluded from the structural balance since it was announced in 2021.

Total fiscal impulse

The total fiscal impulse (TFI) is a measure of the *change* in the Government's fiscal contribution to aggregate demand from one year relative to the next. It is based on a comprehensive measure of fiscal outlays and revenues, including their structural, discretionary and automatic components, including finance costs, but adjusted for some items that do not directly affect aggregate demand.[11] The TFI is based on a *cash* measure of core Crown and Crown entity spending and revenue flows and therefore differs from OBEGAL, the CAB and the structural balance, which are *accrual* based.

The value of the TFI in any given year does not estimate fiscal policy's overall contribution to the business cycle (ie, whether fiscal policy is expansionary or contractionary in an absolute sense). Instead, the TFI measures whether fiscal policy is easing or tightening compared to the previous year. The TFI also does not provide a full picture of the economic impact of fiscal policy, which will also depend on the composition of government revenue and expenses, as well as the ability for the economy to absorb new spending.

Figure 2.19 – Total fiscal impulse and fiscal balance[12]



Source: The Treasury

The aggregate contraction over the forecast period as measured by the TFI is very similar to what was forecast at the *Half Year Update*. However, the profile has changed, as the TFI in 2024/25 has increased to become broadly neutral, and the TFI in every other year is expected to be less stimulatory than forecast at the *Half Year Update*.

The TFI is still forecast to be positive in 2023/24, partly reflecting spending relating to the North Island weather events, but lower forecast expenditure means the TFI is now less positive than forecast in the *Half Year Update*. The downward revisions to the TFI from 2025/26 onwards reflect the impact of lower forecast operating allowances.

The broadly neutral value for the TFI in 2024/25 indicates that fiscal policy's impact on aggregate demand, and hence inflation, is similar to the previous year. The change in the 2024/25 forecast relative to the *Half Year Update* is driven by two main factors. The first factor is the downward revisions to tax revenue, which is primarily due to a softer economic outlook that negatively impacts tax revenue growth (the personal income tax policy changes are offset by reductions in expenditure, while the recent weakness in corporate tax outturns has only a minimal impact on the 2024/25 fiscal impulse). The second factor is lower expenditure in 2023/24 – because the TFI is a measure of the relative change in the fiscal stance year on year, this revision adds to the impulse forecast for 2024/25.

[11] The total fiscal impulse is not cyclically adjusted, as discussed in this guide: https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse

[12] Note that we have adjusted for the Matariki holiday falling on 28 June 2024, when taxes are due, by shifting $4.95 billion in tax receipts from the 2025 fiscal year to the 2024 fiscal year to better reflect the economic impact.

3

Specific Fiscal Risks

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.

The *Economic Outlook* and *Fiscal Outlook* chapters highlight broad risks to the forecasts such as changes to economic assumptions, forecasting risks relating to revenue or variations in the returns from, and valuation of, the Government's investments. This chapter outlines the specific risks that could affect the fiscal forecasts. These are reflected in the statement of specific fiscal risks and the statement of contingent liabilities and contingent assets.

Several changes have been made to this chapter to support a better understanding of specific fiscal risks, including:

- the principles applied by the Treasury in assessing whether a government decision or other circumstance meets the definition of a specific fiscal risk
- classifying each specific fiscal risk into one of nine risk categories, aligned to the underlying risk driver
- clearer explanations for the expiry of specific fiscal risks since the *Half Year Update 2023*.

The statement of specific fiscal risks seeks to provide transparency of risks that could affect the fiscal forecasts

The statement of specific fiscal risks sets out all government decisions and other circumstances known to the Treasury whose fiscal implications may have a material effect on the fiscal and economic outlook but are not certain enough on the outcome, timing or quantum to include into the forecasts.

This section of the chapter covers:

- the requirements and criteria for specific fiscal risks and how these interact with the fiscal forecasts
- the key judgements applied by the Treasury in assessing whether a risk is a specific fiscal risk
- a statement of specific fiscal risks of the Government
- narrative summaries of all specific fiscal risks
- a table of risks that have been removed from the statement of specific fiscal risks since the *Half Year Update 2023*.

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 (such as through prioritisation of funding already available to departments). This ensures a prudent approach to the disclosure of risks, to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts on 9 May 2024. Although the process for preparing the statement of specific fiscal risks involves several entities, including government departments, the Treasury and the Minister of Finance, it is still possible that not every significant risk is identified in the statement of specific fiscal risks.

The Public Finance Act 1989 sets out the requirements for specific fiscal risks…

The fiscal forecasts in this *Budget Update* incorporate – to the fullest extent possible – the fiscal implications of all government decisions and other circumstances if the criteria set out in the table below are satisfied.

Fiscal forecasts	Specific fiscal risks[13]
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but is reasonably probable[14] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is $100 million or more over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[15] (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 for, or assigned to, particular years with reasonable certainty.

As outlined in the table, if the fiscal implications of government decisions and other circumstances cannot be quantified for particular years with reasonable certainty, or the outcome is still unclear, those government decisions and other circumstances are disclosed in the statement of specific fiscal risks included in this chapter, as required by sections 26Q(3)(b) and 26U of the Public Finance Act 1989.

13 These are the rules used to determine what is and is not a fiscal risk for the purposes of section 26Q(3)(b)(ii) of the Public Finance Act 1989.

14 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).

15 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).

Section 26V of the Public Finance Act 1989 provides that the requirements to disclose government decisions or other circumstances in an economic and fiscal update (including in forecast financial statements and the statement of specific fiscal risks) do not apply where the Minister of Finance determines that to incorporate the decision or circumstance is likely to:

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

In addition, the Minister must also determine that there is no reasonable or prudent way the Government can avoid this prejudice, compromise, or material loss through incorporation in this *Budget Update*.

No specific fiscal risks have been withheld under section 26V.

…and judgement needs to be applied in assessing whether a risk is a specific fiscal risk

Regardless of the criteria outlined above, judgement is still required to determine whether a government decision or other circumstance meets the definition of a specific fiscal risk. The Treasury has applied the following principles in assessing whether a decision or other circumstance meets the definition of a specific fiscal risk:

Risk type	Principles	Examples of how the principle has been applied
Risks associated with assumptions used in the forecast for revenue and expenses and valuation of assets and liabilities (eg, discount rates, cash flow assumptions, economic conditions)	The forecasts for some revenue and expense items and the valuation of some assets and liabilities included in the fiscal forecasts can be subject to significant assumptions. These assumptions may change in the future and impact on the fiscal position. However, revenue, expenses, assets and liabilities are measured or valued at a point in time using the best available information and accepted forecasting and valuation techniques and assumptions, which means they are quantified in the fiscal forecasts for particular years with reasonable certainty. Significant assumptions are disclosed in the fiscal forecasts as required by generally accepted accounting practice, and the Financial Statements of the Government provide further disclosures around the sensitivity of changes in key assumptions to the measurement and valuation of revenue, expenses, assets and liabilities. Where there is a government decision or other circumstance that creates uncertainty for the measurement or valuation of revenue, expenses, assets or liabilities (such as a review of policy settings or impending Court decisions that may impact assumptions used), these may be disclosed as a specific fiscal risk.	Specific fiscal risks are not included for most revenue or expenses items or for assets or liabilities that are subject to valuation techniques that require significant assumptions, for example: • tax revenue • student loans • revalued property, plant and equipment. While the valuation of the ACC claims liability in general is not included as a specific fiscal risk, risks to the liability arising from Court of Appeal actions and a signalled review of the scheme's policy settings are disclosed as specific fiscal risks. Note that the following risks have been expired from the application of this principle: • Research and Development Tax Incentive • Small Business Cashflow Scheme • Student Loans – Valuation.

Risk type	Principles	Examples of how the principle has been applied
Risks associated with a future event outside of the Government's control	Judgement is applied as to whether the future event is reasonably possible within the forecast period. Reasonably possible is assessed as being in the range of 20% to 50% likely. Judgement is informed by factors such as how often similar events have happened in the past. If it is not reasonably possible that the event will happen within the forecast period, it is not a specific fiscal risk.	A specific fiscal risk has been included for the increased risk of adverse weather events as it is reasonably possible that such an event will occur within the forecast period. Recent history shows that such events occur at least once every four years. Specific fiscal risks have not been included for other major national disasters (eg, earthquakes, volcanic eruptions, tsunamis) or events such as future biosecurity incursions or pandemics. While similar events have happened recently (the Christchurch and Kaikōura earthquakes, Mycoplasma bovis, COVID-19) and required a significant fiscal response from the Government, experience suggests that these events occur individually with such variable frequency, intensity and impact as to place them outside the bounds for specific fiscal risks (ie, less than 20% likely in the forecast period). Such fiscal shocks are considered a general fiscal risk rather than a specific fiscal risk.
Risks associated with policy work and reviews	Policy work is ongoing across the public sector, much of which, if agreed to and implemented, will result in material fiscal impacts. In addition, there are several reviews under way of policy settings, sectors and individual organisations in the public sector. In general, ongoing policy work or reviews are not disclosed as specific fiscal risks as it is not reasonably possible that there will be fiscal implications until the Government takes decisions on the policy or responds to review findings. However, where policy work or reviews have been publicly announced by the Government or are being consulted on, this increases the likelihood the policy will be progressed or expectations of a fiscal response to reviews, which may result in a specific fiscal risk. Additionally for reviews, judgement is required based on the terms of reference and objectives of each review.	A specific fiscal risk for the Going for Housing Growth policy has been included, even though the policy is still being developed. This is because the Government has committed to the programme and indicated publicly it will include incentivising councils for increased production of housing, which may have material fiscal impacts. A specific fiscal risk has been included for the Independent Review of the Ministry of Education's School Property Function as the scope of the review includes the efficacy of school property funding arrangements with the Crown, including how the Ministry of Education is funded for delivering the property development pipeline. A specific fiscal risk has not been included for the Science System Advisory Group. While the Group's topics of focus include funding, this relates to how funding is prioritised across the system and the effectiveness of funding mechanisms rather than the overall quantum of government funding.

Risk type	Principles	Examples of how the principle has been applied
Risks to the fiscal forecasts from changes in accounting policy	As explained on page 108 the forecast financial statements are prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government. Changes to accounting policies can arise from new accounting standards issued by standard setters, new interpretations of existing standards or evolving application of policies (particularly where there are unique or novel transactions or balances). Future changes to accounting policies may have significant implications for the fiscal forecasts. Generally, a specific fiscal risk is not included for future accounting policy changes. Until applied these are subject to changes and amendments. Where a detailed impact assessment of a policy change has been completed, it is reasonably possible that the change will occur in the forecast period and material fiscal impacts are reasonably possible, a specific fiscal risk may be disclosed.	The Information and Communications Technology Operating and Capital Pressures risk explains that changes in the accounting treatment for costs relating to software as a service arrangements means expenditure that was previously expected to be capital may be operating. This is reflected as a specific fiscal risk as a detailed impact assessment of the accounting interpretation that led to the change in treatment has been completed and further material fiscal impacts are reasonably possible. The new accounting standard PBE IFRS 17 Insurance Contracts is expected to come into effect for the 2026/27 financial year at the earliest. A detailed impact assessment on the consolidated forecasts has not been completed. The transition requirements require any changes on initial adoption to impact net assets only, although until a detailed impact assessment is complete it is possible other changes could impact operating flows in forecast years following adoption. Therefore, a specific fiscal risk is not included for this future accounting policy change.
Risks aggregated into a cross-portfolio risk	Generally, cross-portfolio risks are a single risk that can affect more than one portfolio. In some instances, several risks at an individual portfolio level can be aggregated into a cross-portfolio risk. A high bar is applied as to whether individual risks are aggregated into a cross-portfolio risk. The underlying nature and driver of the risks must be the same, and there must be no loss of information from aggregating risks. If there is doubt, risks are individually disclosed as specific fiscal risks by portfolio.	A cross-portfolio risk is included for pay equity claims as the driver of the risk (the requirements of the Equal Pay Act 1972) is the same across portfolios and there is no loss of information from aggregating these risks.
Risks associated with contingent liabilities and contingent assets	Contingent liabilities and contingent assets are disclosed separately to specific fiscal risks in this chapter. This typically covers risks associated with guarantees and indemnities, uncalled capital, and legal disputes and claims. There is a link between specific fiscal risk disclosures and the contingent liabilities and contingent assets disclosure. However, in general, contingent liabilities and contingent assets are not also disclosed as specific fiscal risks.	Guarantees, indemnities and uncalled capital are not disclosed as specific fiscal risks as they are separately disclosed in the statement of contingent liabilities and contingent assets. Individual legal disputes and claims disclosed as contingent liabilities or contingent assets are not disclosed as specific fiscal risks unless the claim could change the scope of policies included in the fiscal forecasts. For example, an individual claim against ACC would not be included as a specific fiscal risk. However, a claim that could significantly change the scope of the scheme overall could be.

Risks have been categorised by risk type in the statement of specific fiscal risks

The risks in the statement of specific fiscal risks have been broadly classified into one of nine risk categories aligned to the underlying risk driver. The purpose of this categorisation is to provide an understanding of different types of fiscal risks and the potential aggregate impact of these on the fiscal forecasts. Some risks may include aspects that include multiple risk drivers – in this case, the risk is categorised based on the most significant driver. A description of each risk type is provided under the relevant category from page 68 onwards.

The status of the risks relative to the previous *Half Year Update* is also provided. New risks are those identified or disclosed for the first time in this *Budget Update*, while changed risks are those where there is a significant change in the nature or substance of the risk. Unchanged risks are those where there is no change to the nature or substance of the risk. This includes risks that have updated narratives because of wording changes for clarity or that have been amended to reflect present circumstances. These changes do not reflect a change in the underlying risk.

Statement of Specific Fiscal Risks

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	Cook Strait Resilience	Transport	68
	Commitments Under the Coalition Agreements	Cross-portfolio	69
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	The Government's Approach to the Smokefree Aotearoa 2025 Goal	Cross-portfolio	69
	Youth Justice Cost Pressures	Cross-portfolio	69
Changed risks	Transport Project Funding	Transport	70
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Unchanged risks	Achieving New Zealand's International and Domestic Climate Change Targets	Climate Change	71
	Carbon Neutral Government Programme	Cross-portfolio	71
Time-limited funding			
New risk	Police Cost Pressure Funding	Police	72
Unchanged risks	Ka Ora, Ka Ako | Healthy School Lunches Programme	Education	72
	Time-limited International Climate Financing Funding: Unfunded 2026 to 2030 Commitment Period	Foreign Affairs	72
	Te Pae Tawhiti Programme – Horizon One Year 3 and Horizon Two	Social Development and Employment	73
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	Rail Network Investment Programme	Transport	73
	New Zealand Screen Production Rebate	Cross-portfolio	73
Achieving future savings			
New risks	Kāinga Ora – Homes and Communities Operating Expenditure Forecast Reductions and Future Operating Model	Housing	74
	Delivering Baseline Savings	Cross-portfolio	74
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Status	Title	Portfolio	Page reference
Capital cost escalation			
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	Scott Base Redevelopment Project	Foreign Affairs	75
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Changed risks	Impacts of Changes to Accident Compensation Policy Settings	ACC	77
	Work Programme Supporting Māori-medium Education and Growing Kaupapa Māori Education – Potential Impact of Wai 1718	Education	78
Unchanged risks	Disability Support Services – High and Complex Framework	Disability Issues	78
	Royal Commission Independent Redress System Claims for Survivors of Abuse in Care	Public Service	78
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Status	Title	Portfolio	Page reference
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	Services Funded by Third Parties	Cross-Portfolio	84
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Commitment or Announced Intent that may have Fiscal Implications

The following section outlines risks where the Government has publicly committed to taking a future decision, or announced an intent to do so, and this may have fiscal implications (eg, require funding that has not yet been allocated or increase revenue if progressed). The Government generally still has choice about whether to progress with a decision but the Government commitment or announced intent means it is reasonably possible it will be approved.

New Risks

Housing

Going for Housing Growth – Financially Incentivising Local Government to Increase Housing Supply (Revenue and Expenses)

The Government has agreed to progress work on the Going for Housing Growth package. This includes creating incentives for councils to facilitate more housing. The quantum of financial incentives has not been determined, as advice on this is yet to be developed.

Tertiary Education and Skills

Transition and Ongoing Viability of the Vocational Education System (Expenses)

The Government has agreed to disestablish Te Pūkenga | New Zealand Institute of Skills and Technology and restore regional decision making for institutes of technology and polytechnics (ITPs). Ongoing funding may be required to support the viability of re-established ITPs. Upcoming decisions will determine the design of the new system, and the configuration of the new system will likely influence any quantum of additional funding (beyond what has been provided) to support ITPs' financial viability.

Transport

Cook Strait Resilience (Expenses and Capital)

In December 2023, the Government decided it would not provide further Crown funding for the Inter-Island Resilient Connection (iReX) project involving the purchase of new interisland ferries and the development of new terminals. KiwiRail subsequently decided to cancel the project. The Government, through a Ministerial Advisory Group, is considering alternative solutions for the Interislander ferry fleet and portside infrastructure. At this stage, any future fiscal implications for the Government from proposed alternative solutions are unknown.

Cross-portfolio

Commitments Under the Coalition Agreements (Expenses and Capital)

The Coalition agreements between National and ACT and National and New Zealand First outline commitments that may have fiscal impacts. Most of these commitments have been funded by the Government and reflected in the fiscal forecasts. There are some commitments that are yet to be progressed and funded by the Government, such as the commitment to fund 13 new cancer drugs and future funding for the Social Investment Fund.

Establishment of a New Medical School (Expenses and Capital)

As part of the Government's 100-day plan, the Ministry of Health (the Ministry) and the University of Waikato have signed a memorandum of understanding as a first phase towards establishing a new medical school. The Ministry is commissioning an independent cost-benefit analysis and business case for the proposal to be completed in 2024/25. If progressed, the establishment of a new medical school has operating and capital fiscal impacts to the Crown.

The Government's Approach to the Smokefree Aotearoa 2025 Goal (Revenue)

The Government has signalled continued commitment to the Smokefree Aotearoa 2025 goal that by 2025 fewer than 5% of New Zealanders will be smokers. The New Zealand Health Survey indicates that 6.8% of New Zealanders were daily smokers in 2022/23. The introduction of further policies to reduce smoking would reduce tobacco excise revenue across the forecast period. Through Coalition agreements, the Government has also committed to taxing smoked tobacco only and reforming the regulation of vaping, smokeless tobacco and oral nicotine products. Increasing the range of nicotine products available and changing the excise treatment of non-smoked tobacco products would have implications for tobacco excise revenue. This risk also reflects the level of uncertainty involved in forecasting such changes.

Youth Justice Cost Pressures (Expenses)

Changes to youth justice policy settings may result in an increase in young people designated as youth offenders through the youth justice system and contribute to increases in costs associated with the Youth Court and a need for investment in youth justice residences. It is too early in the development of updated policy settings to determine what these costs may be.

Changed Risks

Transport

Transport Project Funding (Revenue, Expenses and Capital)

The Government has signalled transport investments additional to what has already been supported through the Draft Government Policy Statement (GPS) on land transport 2024. These investments are largely unfunded, and some of these may fall outside the scope of the National Land Transport Fund (NLTF) or are only expected to be partially funded by the NLTF. If the Government chooses to progress these investments, Crown funding, increases to land transport revenue or new revenue sources may be required. Additional investment priorities include the following:

- Auckland Transport Alignment Project (ATAP): The GPS 2021 was developed with the expectation that the ATAP, along with the previous Government's other priorities, could be funded from the NLTF to the value of $16.3 billion over 10 years. The ATAP is being developed to present the short-term and long-term strategic priorities for Auckland across an integrated network. Key decisions are expected to be finalised prior to 1 July 2024 when the GPS 2024 takes effect.

- Auckland – Waitematā Harbour Crossing: An indicative business case for the Waitematā Harbour Crossing is currently under way and could be followed by a detailed business case and potentially by early works. There is no confirmed funding source for this project.

- Roads of National Significance and Better Public Transport: The draft GPS 2024 sets out a series of strategically important projects for New Zealand's transport system. Funding has only been committed in principle for the first three years that the GPS covers (2024/25-2026/27). Additional investment will likely be required to complete these projects.

- North Island weather events: A significant amount of transport infrastructure was damaged following the North Island weather events in 2023. Business cases for rebuild projects are still being worked through, but do not have a confirmed funding source at this time. This may increase the risk for additional Crown funding beyond that already provided or what can be reasonably delivered within the NLTF.

Cross-portfolio

Adaptation Policy Changes (Expenses and Capital)

In August 2022, the previous Government published New Zealand's first national adaptation plan (NAP) to respond to climate change-related risks as required by the Climate Change Response (Zero Carbon) Amendment Act 2019. Since the NAP was published, the current Government has publicly signalled its intent to develop a climate adaptation framework. As this work proceeds, the resulting policy decisions could result in new actions, additional or separate to the NAP, that impact on the fiscal forecasts. Note that, at the *Half Year Update*, this risk was titled National Adaptation Plan.

Unchanged Risks

Climate Change

Achieving New Zealand's International and Domestic Climate Change Targets (Expenses and Capital)

The Climate Change Response (Zero Carbon) Amendment Act 2019 requires the Government to set and achieve domestic greenhouse gas emissions targets and budgets (with the first three emissions budgets covering 2022 to 2035). The Government is set to release its second emissions reduction plan in December 2024, which will outline policies and strategies to achieve these emissions budgets. Some of these policies will be funded through existing baselines. If policies require funding from the Government, decisions will be needed about whether this can be funded through existing baselines or if additional funding will be required.

New Zealand also has international obligations to reduce emissions under the Paris Agreement: our first Nationally Determined Contribution (NDC1), which covers 2021 to 2030. NDCs are countries' self-determined plans detailing what they will do to reduce their emissions in support of the international goal of limiting global warming to 1.5°C. Sizeable offshore abatement will be needed to meet NDC1 on top of domestic commitments. Scenarios showing the possible fiscal impact of this offshore abatement have been set out in the Climate Economic and Fiscal Assessment 2023. While the Government has choices about how it achieves NDC1, it is likely that fulfilling these commitments will involve significant costs to the Government, starting within the current fiscal forecast period.

Cross-portfolio

Carbon Neutral Government Programme (Expenses and Capital)

As part of its contribution to achieving New Zealand's climate change targets, the previous Government established the Carbon Neutral Government Programme (CNGP), supported by the existing State Sector Decarbonisation Fund. Work is under way on the development of pricing and investment options whereby CNGP organisations would pay for their emissions. Two key fiscal risks exist: the funding need for emissions reductions may exceed the extent and criteria for the State Sector Decarbonisation Fund and agency budgets and the cost of offsetting remaining emissions may exceed what CNGP participating agencies can afford.

Time-limited Funding

The following section outlines risks associated with programmes that have time-limited funding that decreases or ceases at some point in the forecast period and may potentially be extended. Time-limited funding often relates to pilot programmes or to programmes under review.

New Risk

Police

Police Cost Pressure Funding (Expenses)

New Zealand Police received $120 million in Budget 2024 to fund critical cost pressures in 2024/25. The funding is temporary in nature at this point as New Zealand Police is expected to implement measures and identify opportunities across its operating model and roles and functions to manage costs and improve its financial sustainability. There is a risk New Zealand Police will require further funding beyond 2024/25 if sufficient savings cannot be realised in the future.

This time-limited funding ceases after 2024/25.

Unchanged Risks

Education

Ka Ora, Ka Ako | Healthy School Lunches Programme (Expenses and Capital)

The Ka Ora, Ka Ako | Healthy School Lunches Programme is funded until the end of the 2026 school year. If the Government confirms a continuation or expansion of the programme thereafter, additional ongoing funding beyond that currently provided for will be required.

This time-limited funding ceases during 2026/27.

Foreign Affairs

Time-limited International Climate Financing Funding: Unfunded 2026 to 2030 Commitment Period (Expenses)

New Zealand's international climate finance commitment is $1.3 billion over the four-year period from 2022 to 2025. While the timing and quantum of New Zealand's next international climate finance commitment for the period 2026 to 2030 are unknown, continuing the 2022 to 2025 commitment may require more than provided for in the fiscal forecasts.

This time-limited funding ceases during 2025/26.

Social Development and Employment

Te Pae Tawhiti Programme – Horizon One Year 3 and Horizon Two (Expenses and Capital)

The forecasts include $183 million in funding for the first two years of the Ministry of Social Development's (the Ministry) Te Pae Tawhiti transformation programme. The programme is expected to be delivered over nine years through three horizons of three years each and will transform how the Ministry operates. Given that the programme is now under way, to either achieve expected outcomes or close the programme would require additional commitment of funding. Additionally, the programme may have consequential impacts on the ongoing cost of the Ministry's services.

This time-limited funding ceases after 2024/25.

Tertiary Education and Skills

Tertiary Tuition and Training Funding Baseline Pressure (Expenses)

Demand for tertiary education and training is currently expected to exceed the volume able to be funded by current baselines after 2025. The Ministry of Education's current forecasts of potential demand in 2026 and subsequent years exceeds the volume able to be funded. In addition, in June 2023, the previous Government announced a time-limited increase to tuition and training subsidies for 2024 and 2025. This will add to the drop-off in baseline funding after 2025. Forecast inflation continuing to be above 2% until 2025/26 adds additional pressure and expectations of annual cost-adjustment increases to tuition and training subsidies.

This time-limited funding ceases during 2025/26.

Transport

Rail Network Investment Programme (Revenue, Expenses and Capital)

The approved Rail Network Investment Programme (RNIP) 2021 is a 10-year programme of planned network maintenance, management, renewal and improvement works on the national rail network. The RNIP is funded to 2025/26 and partially funded beyond this point. Completing all works will require further funding (from the Crown and the National Land Transport Fund). Inflationary pressures are also likely to exceed the level assumed when the programme was developed.

This time-limited funding ceases after 2025/26.

Cross-portfolio

New Zealand Screen Production Rebate (Expenses)

The New Zealand Screen Production Rebate is an uncapped, on-demand grant that incentivises production work (from both domestic and international studios) in New Zealand by offering a rebate on qualifying expenditure. Funding was provided for 2024/25 and 2025/26 at Budget 2024. However, further funding across the forecast period will likely be needed to meet expected costs in 2026/27 and outyears. Due to the uncapped and on-demand nature of the rebates, there remains a risk that funding in addition to the current expected costs will be required in the future.

This time-limited funding ceases after 2025/26.

Achieving Future Savings

The following section outlines risks related to achieving future savings. As savings in the fiscal forecasts require future actions to deliver, there is a risk that actual savings will differ from the forecasts. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

New Risks

Housing

Kāinga Ora – Homes and Communities Operating Expenditure Forecast Reductions and Future Operating Model (Expenses)

The fiscal forecasts reflect operating expenditure reductions identified by Kāinga Ora – Homes and Communities. There is a risk that the expenditure reductions such as those associated with anticipated reductions in personnel and maintenance expenditure as part of Kāinga Ora's transformation programme do not eventuate. The Government's response to the independent review into Kāinga Ora may also have an impact on the operating model of Kāinga Ora, which could further affect the forecast reductions.

Cross-portfolio

Delivering Baseline Savings (Expenses)

Budget 2024 provides significant savings across the wider public sector, including permanent reductions to departmental baselines. Delivering these baseline savings requires significant organisational change across the public sector, as well as changes to programmes that may take longer than anticipated to implement and/or may not eventuate. There is a risk that the fiscal impact of the baseline savings will be different from what has been reflected in the fiscal forecasts.

Forecast Savings from Housing Policy Changes (Expenses)

The fiscal forecasts include $502 million in expected savings over the forecast period from two housing policy changes (tightening the gateway for emergency housing and including boarders' contributions when calculating entitlement for housing subsidies). There is a risk that the impact of these changes could differ from these forecasts, largely reflecting uncertainty around behavioural responses.

Capital Cost Escalation

The following section outlines risks where there are indications that a capital project or programme may exceed the funding allocated. There may be choices for the Government to manage the cost escalation and scope of the project or programme.

Unchanged Risks

Conservation

Chateau Tongariro Hotel (Expenses and Capital)

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

Foreign Affairs

Scott Base Redevelopment Project (Expenses and Capital)

The Scott Base Redevelopment Project is replacing New Zealand's existing facilities in Antarctica. There are a number of risks associated with a construction project of this scale and complexity given current market capacity and supply chain constraints and the high costs of transportation of the facility to Antarctica. The Government has indicated that these costs should be met within the project's approved budget. However, there are other risks that may arise due to the inherently risky operating environment associated with the project. Because of the uncertainty of these risks, the costs of all risks have not been provided for in the project's contingency.

Housing

Large-scale Housing and Urban Development Projects (Expenses and Capital)

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

Transport

New Zealand Upgrade Programme (Expenses and Capital)

With the current inflationary conditions and a significant level of planning still required for many projects within the programme, there is a risk that the New Zealand Transport Agency and KiwiRail may signal further funding is required to deliver the New Zealand Upgrade Programme.

On 13 May 2024, after the finalisation of the fiscal forecasts (and the date for disclosure of specific fiscal risks), the Government announced that the New Zealand Upgrade Programme would end, with roading projects folded into the Roads of Regional and National Significance programmes.

Cross-portfolio

Other Capital Cost Pressures (Capital)

Agencies are likely to face capital expenditure pressures related to replacing ageing infrastructure and other capital requirements driven by demand pressures. These pressures are risks to the fiscal forecasts to the extent that they cannot be managed through agencies' existing balance sheets and baselines, through new capital spending set aside in forecasts from the multi-year capital allowance or through other funding mechanisms (eg, Crown Infrastructure Partners).

Potential Fiscal Implications of Reviews or Litigation

The following section outlines risks where there are reviews of policy settings (both those initiated by the Government or external to the Government) or litigation that may require a fiscal response from the Government. This includes independent reviews, Royal Commissions or Court decisions.

New Risks

Education

Independent Review of the Ministry of Education's School Property Function (Expenses and Capital)

In February 2024, the Government announced an independent review to advise on the efficiency and effectiveness of the property planning and delivery function of the Ministry of Education, including whether the capital spend has been well managed to date and to inform a future approach to property funding, planning and delivery. The final report and recommendations from the review are expected to be delivered to the Government by the end of June 2024. The outcome of this review and the Government's response to this may have implications for the level of spending on the school property function.

Transport

Metropolitan Rail Networks (Expenses and Capital)

There are cost pressures associated with the maintenance, renewal and upgrade of the Auckland and Wellington metropolitan rail networks. The Ministry of Transport is undertaking a review of the Metropolitan Rail Operating Model, which, among other things, will advise on the appropriate distribution of costs between Auckland Transport, Greater Wellington Regional Council, the National Land Transport Fund (administered by the New Zealand Transport Agency), KiwiRail and the Crown.

Changed Risks

ACC

Impacts of Changes to Accident Compensation Policy Settings (Expenses)

Accident Compensation scheme boundaries and entitlements are subject to evolution through regulatory and legislative changes. From time to time, Court decisions can also expand the application of the scheme, which can also have significant fiscal impacts. In particular, ACC is party to proceedings currently in the Court of Appeal, which may result in an expansion of the current understanding about the bounds of the scheme. The costs of this expansion would likely be borne mainly by the Non-Earners' Account (and the non-earners' portion of the Treatment Injury Account), which could necessitate additional Crown funding. The extent of the additional funding could put pressure on ACC's funding policy (which provides an underlying assumption for these forecasts) and/or the goal to reach a funding ratio target of 100% (assets to liabilities) over a 10-year funding horizon.

Education

Work Programme Supporting Māori-medium Education and Growing Kaupapa Māori Education – Potential Impact of Wai 1718 (Expenses and Capital)

In December 2022, the Waitangi Tribunal granted Te Rūnanga Nui o ngā Kura Kaupapa Māori an urgent Tribunal hearing (Wai 1718 claim) to consider its claim into Crown policies, acts and omissions in relation to kura kaupapa Māori and the prejudicial impact of the Government's Tomorrow's Schools reform. The outcomes of this claim may lead to proposals for additional funding to support Māori-medium and kaupapa Māori education. Note that, at *Half Year Update*, this risk was titled Work Programme Supporting Māori-medium Education and Growing Kaupapa Māori Education.

Unchanged Risks

Disability Issues

Disability Support Services – High and Complex Framework (Expenses and Capital)

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

Public Service

Royal Commission Independent Redress System Claims for Survivors of Abuse in Care (Expenses)

The Royal Commission of Inquiry into Abuse in Care has recommended the establishment of a new independent, holistic redress system for survivors of abuse in care to replace the existing historical claims processes. The previous Government agreed that work to develop a redress system is required. There is too much uncertainty to estimate the fiscal impact from a new redress system to include in the fiscal forecasts at this point. There may be additional fiscal impacts resulting from the final recommendations of the Royal Commission (now due in June 2024). It is too early to anticipate what these may be.

Treaty of Waitangi Negotiations

Treaty Settlement Forecasts (Expenses)

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

Cross-portfolio

Pay Equity Claims (Expenses)

A number of claims have been raised and some settled under the 2020 pay equity amendments 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 both in the public and funded sectors. However, there is a risk that the costs may differ depending on the number of further claims that are raised, the outcomes reached from applying the pay equity principles to each particular claim and any funding decisions.

Safeguarding New Zealand's Defence and Security Interests (Expenses and Capital)

The Government is continuing to undertake a Defence Policy Review, and an updated Defence Capability Plan will provide investment options to Government. The outcome of this and other security policy work may have implications for the level of spending across defence and security portfolios. The quantum and timing of spending will be dependent on the approval of future business cases and Budget decisions.

Rising Demand and Changing Expectations on Services

The following section outlines risks where there is rising demand for a service or good, or increased expectations on the level of service, that may increase costs beyond the funding allocated. This may be driven by changes in policy or through external factors such as technological advances or behavioural change.

New Risks

Housing

Transitional Housing – Exiting Motels (Expenses)

Funding for transitional housing motel places decreases across the forecast period. Although there is a strong focus to exit motels for transitional housing, this may pose challenges in certain areas where there is a lack of housing supply and alternative accommodation solutions, resulting in a residual cost pressure.

Tertiary Education and Skills

Financial Challenges Across Universities (Capital)

There are heightened financial pressures facing New Zealand's university sector. While there is not a present risk in the financial viability of any university, there are risks for several universities that could materialise within the forecast period. If universities are unable to adequately manage these risks, they may seek support from Government to ensure their financial stability and viability in the future. Note that this risk replaces the Review of Higher Education Funding System risk.

Cross-portfolio

Government Targets (Expenses and Capital)

The Government has set nine targets to focus the public sector on improved results in areas that include health, education, law and order, work, housing and the environment. The Government has set an expectation that agencies will develop a delivery plan that sets out actions to meet these targets. Depending on the extent to which funding is required to meet the targets and whether existing resources are reprioritised to meet those costs, there could be a fiscal cost above current baselines.

Changed Risks

Health

Health Capital Pressure and Investment Planning (Expenses and Capital)

The health infrastructure portfolio faces a number of risks. Of the existing programmes of work in the health infrastructure portfolio, the following represent the largest risks:

- New Dunedin Hospital: There remain significant financial pressures on the New Dunedin Hospital Project. This has been driven by construction sector inflation, scope changes, and the relative isolated location of the project coupled with a small contractor base with sufficient experience and capacity from which to draw.
- Regional Hospital Redevelopment Programme (RHRP): The key risks in the RHRP are Whangārei and Nelson Hospitals (with others to be considered as part of the Infrastructure Investment Plan). These developments are in the early design phase.
- Remediation of existing assets: Some existing health sector infrastructure is in poor condition. At times Health New Zealand has to undertake expensive remedial works on existing assets.
- Health infrastructure investment pipeline: Health infrastructure has a significant pipeline of investment to support future service delivery need. A growing demand for health services has created a significant demand for future investment to address ageing infrastructure and support increased capacity. Health New Zealand has developed a draft Infrastructure Investment Plan, which outlines investment needs and priorities over the next 10 years. The draft Infrastructure Investment Plan is currently being considered. Decisions on the level of investment will inform demands for future funding.

Transport

Support for the National Land Transport Fund (Revenue, Expenses and Capital)

The Government has recently issued the Draft Government Policy Statement (GPS) on land transport for public consultation, which closed on 2 April 2024. The Draft GPS sets out the priorities for land transport investments over the next 10 years. Over the first three-year period of the Draft GPS, the revenue expected to be received by the National Land Transport Fund (NLTF) is not expected to be sufficient to cover the spending priorities. As a result, the Government has made in-principle decisions to fund this shortfall from capital grants and loans. The fiscal forecasts include the fiscal implications from the Draft GPS. However, the GPS is not expected to be finalised until June 2024, and therefore there is a risk that the final decisions may differ to what has been assumed in the fiscal forecasts.

In addition, there is a risk of future fuel excise duty and/or road user charges increases or additional government funding in order to manage the potential pressure to deliver existing transport investments, the risk of greater volume of emergency work from weather events and the need to meet loan repayment obligations.

Unchanged Risks

ACC

ACC Levies (Revenue and Expenses)

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

Children

Enabling Communities and Iwi to Help Children (Expenses)

Changes to the way Oranga Tamariki partners with Māori and other community organisations will have operational and fiscal implications beyond what is in the fiscal forecasts. Further funding may be required for initiatives aimed at building capacity and local solutions with iwi and other community groups.

Corrections

Increasing Prison Population (Expenses and Capital)

There has been a significant increase in the prison population since April 2023. Recent and planned justice policy changes, including changes to sentencing legislation, are likely to further increase the prison population. While funding has been provided in Budget 2024 to address the immediate impact, there remains a risk that further funding is needed if the increase in prison numbers is higher than allowed for in the fiscal forecasts, creating an additional cost pressure relating to reconditioning retired capacity within the existing prison network, maintaining safe staffing ratios, prisoner upkeep and potential capital costs to enable additional capacity.

Disability Issues

Transforming and Sustaining Disability Support Services for New Zealanders (Expenses)

Disability support services are likely to face significant operating pressures over the forecast period, driven by several factors, including:

- the growing numbers of people being supported
- changes in the behaviour and expectations of disabled people, including increased utilisation of existing allocations
- providers' equity and sustainability concerns
- worker concerns about remuneration and terms of employment.

The Government has announced an independent review into the disability support system.

Education

Learning Support (Expenses and Capital)

The Ministry of Education faces several pressures relating to learning support that may not be able to be met within existing baselines, including workforce and inflationary pressures. Additionally, a number of reviews have led to proposals for additional and expanded learning support, which may require additional funding. This includes but is not limited to:

- implementation and further roll-out of learning support coordinators
- work addressing workforce pressures and vacancies within the existing learning support workforce
- work to meet the different needs of all students.

Tertiary Education and Skills

Wānanga Funding and the Crown's Te Tiriti Obligations to Wānanga (Expenses)

The Ministry of Education (through its work programme Te Hono Wānanga) is responding to concerns raised by wānanga around its education funding policies in the context of the Crown's Treaty of Waitangi obligations. Te Hono Wānanga may lead to changes to the funding of wānanga and potentially other providers of mātauranga Māori across the tertiary system.

Transport

Transport Local Government Share (Expenses)

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

Cross-portfolio

Non-government Providers Receiving Funding from the Government (Expenses)

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.

Future Demand is Uncertain

The following section outlines risks where revenue or expenditure may be driven by demand for a service or good, and there is limited ability for the Government to control the demand. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

Changed Risk

Tourism

Proposed Changes to the International Visitor Levy (Revenue and Expenses)

The Government has agreed to a consultation process on the rate of the International Visitor Levy, which will take place from May until the beginning of June. Forecast revenue reflects the expected mid-point of the proposed range of outcomes. Given both the uncertainty over the revised rate and underlying link to variable visitor numbers, there is a risk that final revenue could be less or greater than forecast. Subsequent decisions on expenditure within the tourism and conservation sectors following the consultation may also affect the fiscal impact.

Unchanged Risks

Tertiary Education and Skills

Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiārangi (Expenses)

On 19 December 2022, the Education and Training Act was amended to establish a wānanga enabling framework. This grants wānanga the ability to become independent statutory entities. If they were to do so, this could have financial implications as the wānanga would no longer be an asset on the Government's balance sheet.

Cross-portfolio

Services Funded by Third Parties (Expenses)

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

Forecast Dependent on a Status Quo that is Uncertain

The following section outlines risks where the forecast is based on the status quo but an uncertain future decision or event could materially affect the forecast approach. The change in the status quo may be a decision the Government controls or an external event outside of the control of the Government.

New Risks

Regional Development

Regional Infrastructure Fund (Expenses and Capital)

The Government has agreed to establish a Regional Infrastructure Fund (RIF) of $1.2 billion over a three-year period. Funding has been allocated as $100 million operating and $300 million capital for each of the three years. The Government has several capital funding mechanisms available to provide funding in accordance with this allocation such as loans and equity investment. However, these mechanisms may have consequential operating impacts that are currently not reflected in the forecasts. In addition, there is a risk the current operating and capital split may need to change in the future to achieve the objectives of the RIF.

Transport

Project iReX Wind-down Costs (Expenses)

With the cancellation of the iReX project (refer to the Cook Strait Resilience risk), there are costs associated with the wind-down of Project iReX. The amounts forecast for the wind-down may not be sufficient to cover these costs.

Unchanged Risks

Climate Change

Emissions Trading Scheme – Abatement Obligations Arising from Price Ceiling Being Exceeded (Expenses)

New Zealand's Emissions Trading Scheme has a soft ceiling, called the cost containment reserve (CCR), which releases additional New Zealand Units (units) at auction if a certain price threshold is reached. Under the Climate Change Response Act 2002, if the release of those units causes an emissions budget to be exceeded, the responsible Minister must obtain equivalent emissions reductions to back the excess. This obligation also applies to units allocated through industrial allocation. If this were to occur, there is a fiscal risk associated with the cost of obtaining the emissions reductions required. The overall fiscal impact of this risk is uncertain and depends on the cost of obtaining those reductions, which could be achieved through domestic or offshore mitigation.

Finance

Infrastructure Funding and Financing (Revenue, Expenses and Capital)

The Infrastructure Funding and Financing (IFF) Act 2020 introduced a new funding and financing model to support investment on infrastructure. The model enables a special purpose vehicle (SPV) to source funding for projects that will be subsequently repaid over time through a targeted IFF levy. In the situation where a government reporting entity (eg, Crown Infrastructure Partners) wholly owns the SPV, there will be fiscal implications for the Crown. This is due to the timing difference between when expenses and debt are incurred compared to the revenue that can be recognised by the Crown. Any future arrangements entered into under the IFF Act over the forecast period will have an adverse impact on OBEGAL and net core Crown debt.

Oceans and Fisheries

Aquaculture Settlements (Expenses)

Fisheries New Zealand delivers the Government's aquaculture settlement obligations under the Māori Commercial Aquaculture Claims Settlement Act 2004. The settlement of quantified obligations is funded within current appropriations and included in fiscal forecasts. However, due to uncertainties related to unquantified future settlements and from aquaculture industry growth, there may be additional liabilities over the forecast period that are not included in fiscal forecasts.

Revenue

International Tax (Revenue)

In light of delays and uncertainty around the final design of the Organisation for Economic Co-operation and Development (OECD) approach to taxing digital services, the previous Government introduced legislation to impose a digital services tax (DST). The current Government is still to decide whether or how to progress the DST. The forecasts currently assume a 1 January 2025 implementation and include revenue of $320 million over the forecast period in relation to the DST with an additional $98 million per annum expected beyond the forecast period. The OECD solution might be agreed and adopted (or otherwise make satisfactory progress towards implementation) instead of the proposed DST, which would generate different revenue than a DST.

Potential Tax and Social Policy Changes (Revenue and Expenses)

The Public Finance Act 1989 requires the Government to set a Revenue Strategy, which has been released as part of Budget 2024. The Revenue Strategy helps to inform the development of priorities for the Government's Tax and Social Policy Work Programme. The work programme will have projects that could have negative and positive fiscal impacts. Therefore, general tax policy settings and their collective fiscal implications are subject to change.

Transport

Auckland City Rail Link Ownership Issues (Expenses and Capital)

The Government committed to fund 50% of the costs associated with the build of the City Rail Link project. Auckland Council 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 an asset on the balance sheet. With the assets expected to be transferred to Auckland Transport and KiwiRail in late 2025, the assets developed from the project will be split and there is a risk the value of the assets received by the Crown may differ to what is assumed in the forecasts, which could have a positive or adverse impact on the operating balance.

Treaty of Waitangi Negotiations

Relativity Clause (Expenses)

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

Cross-portfolio

Adverse Weather Events (Expenses and Capital)

There is an increasing risk that, in responding to the increased frequency of adverse weather events, the Government will incur additional costs across a range of portfolios. These include but are not limited to the National Emergency Management Agency and the New Zealand Transport Agency (essential infrastructure recovery), Earthquake Commission (Natural Disaster Fund guarantee), Housing (temporary accommodation) and Social Development and Employment (emergency benefits, rural support payments and grants). The likelihood, timing and fiscal impact are uncertain.

Public Sector Employment Agreements (Expenses)

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

Forecast Risk

The following section outlines risks where revenue, expenditure, assets or liabilities are inherently uncertain in the fiscal forecasts. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

Unchanged Risks

ACC

Non-Earners' Account (Expenses)

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

Climate Change

Emissions Trading Scheme – Variations Arising from Unit Auctions Failing to Clear (Revenue)

New Zealand's Emissions Trading Scheme (ETS) involves auctioning a certain volume of New Zealand Units (units) each calendar year. One unit represents one metric tonne of carbon dioxide equivalent. The fiscal forecasts assume that the auctions will fully clear. However, ETS auctions contain two reserve prices that can prevent units from being sold:

- Auction price floor: Units will not sell if the clearing price does not meet an auction price floor, which is set by the Government and published in advance.
- Confidential reserve price: Units may also not sell if the confidential reserve price is significantly lower than prevailing prices in the secondary market (where ETS participants on-sell units to one another).

If auctions are cancelled or only partially clear (due to insufficient bids), some units will remain unsold. These unsold units are rolled over to remaining auctions in the same calendar year. If fewer units are sold in a given fiscal year than assumed in the forecasts, this results in lower cash proceeds, higher net core Crown debt and a lower ETS liability.

Emissions Trading Scheme – Variations in Revenue and Expenses (Revenue and Expenses)

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the Crown, both of which are uncertain. The uncertainty is largely owing to the future market price of New Zealand Units and the responses of participants. As a result of these factors, actual revenue and expenses may vary from the fiscal forecasts, which for both revenue and expenses assume a carbon price value based on the prevailing market price. In addition, any government decisions to update the ETS price and unit supply settings could affect ETS cash proceeds from auctions.

Finance

Alternative Monetary Policy Tools (Expenses)

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

Earthquake Commission (Expenses)

The Earthquake Commission (EQC) engages independent professional actuaries to undertake half-yearly valuations of the total EQC liability to the Government. This includes estimates for yet-to-settle claims (including those in litigation), claims not yet received for events that have occurred and the possibility that some previously resolved claims may reopen. An estimate is also made for the associated claims-handling expenses that may be incurred in resolving claims. These estimates and their expected settlement profiles are included in the fiscal forecasts.

There is the possibility the EQC's remaining expenditure for the Canterbury earthquakes will be higher or lower than forecast. Risks include litigation and the level of future reopened 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 the variance from what is in the fiscal forecasts could be material.

Cross-portfolio

Information and Communications Technology Operating and Capital Pressures (Expenses and Capital)

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

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

Maintenance for Government-owned Buildings (Expenses and Capital)

There is a possibility that the Government will incur costs when maintenance is required for the buildings it owns beyond costs already included within baseline funding. 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.

Other Operating Cost Pressures (Expenses)

As in previous years, agencies are likely to face operating expenditure pressures in the future as a result of changes in the demand for and price of the services they provide or because some of their funding is time-limited. The majority of spending by agencies is not automatically adjusted for increases driven by demand or price pressures. These pressures, which are most significant in the education and health sectors, are risks to the fiscal forecasts to the extent that they cannot be managed through reprioritisation or new spending set aside in the forecasts. The Government's stated intention is that all pressures will be managed through these mechanisms.

Risks Removed Since the *Half Year Update*

The following table outlines risks that were published in the *Half Year Update* but are no longer disclosed as specific fiscal risks because they are provided for in the forecasts, are adequately captured by existing risks or no longer meet the materiality threshold for publication. The large number of risks being removed is primarily because this *Budget Update* is the first to reflect the Government's policies and decisions after the 2023 General Election.

Portfolio name	Risk title	Reason for expiry
ACC	Court of Appeal Actions	This risk is expired as it is now included within the Impacts of Changes to Accident Compensation Policy Settings risk.
	Work-related Gradual Process, Disease or Infection	This risk is expired because the probability of changes to legislation that would affect the fiscal treatment of such claims is now assessed as being remote.
Children	Establishment of two Youth Justice High-needs Youth Units	This risk is expired as the Government has not committed to this policy. A new Youth Justice Cost Pressures risk succeeds this risk to reflect the potential impact of changes to youth justice policy by the Government.
Defence	Disposal of New Zealand Defence Force Assets	This risk is expired as it no longer meets the probability or materiality threshold.
Education	Early Learning Action Plan	This risk is expired as no further commitment to provide funding for the plan has been made at this stage.
	Supporting Quality Teaching, Learning, and Curriculum	This risk is expired as funding has been provided for professional learning and development in Budget 2024.
Energy and Resources	New Zealand Battery Project	This risk is expired due to the Government's decision not to progress with the project.
Environment	Resource Management Reform Implementation (RMRI)	This risk is expired due to the Government's decision to repeal the Natural and Built Environment Act 2023 and Spatial Planning Act 2023.
Finance	Depositor Compensation Scheme	Recent decisions mean there is greater certainty around the fiscal impact of the scheme in the fiscal forecasts, meaning disclosure of the specific fiscal risk is no longer required.
	Natural Disaster Fund	This risk no longer meets the materiality threshold as the majority of claims relating to the Nelson/Marlborough floods and North Island weather events have now been processed.
	On-sold Canterbury Properties Programme	This risk no longer meets the materiality threshold as the programme is nearing completion.

Portfolio name	Risk title	Reason for expiry
Health	Combined Pharmaceutical Budget	This risk is expired due to the Government's decision to provide ongoing funding in Budget 2024.
	COVID-19 Response – Ongoing Costs of Current Response	This risk is expired as costs for the ongoing COVID-19 response have been provided for through Budget 2024.
	Health Capital Envelope – Adjustment for COVID-19 Related Inventories	This risk is expired as the funding shortfall has been remedied.
	Reducing Planned Care Waiting Lists	This risk has been succeeded by the cross-portfolio Government Targets risk, which includes shorter wait times for elective treatment.
Housing	Amortisation of Upfront Payments	This risk is expired due to the Government's decision to provide funding to cover this expense as part of Budget 2024.
	Cost Escalation in the Divestment and Development of Housing by Providers	This risk is expired as it no longer meets the materiality threshold.
Justice	Legal Aid Demand Pressures	This risk no longer meets the materiality threshold as underspends in 2023/24 have been used to address some of the future demand pressures.
Local Government	Affordable Water Reform Programme	This risk is expired due to the Government's decision to repeal the reforms.
	Affordable Water Reform Programme – ICT Requirements	This risk is expired due to the Government's decision to repeal the reforms.
Research, Science and Innovation	Science City	This risk is expired due to the Government's decision not to progress with the initiative.
Revenue	Cash Held in Tax Pools	This risk does not meet the probability threshold.
	Research and Development Tax Incentive	Due to a change in the way the Treasury has applied the rules used to determine what is a specific fiscal risk, this risk is not a specific fiscal risk. For further information, refer to page 61.
	Small Business Cashflow Scheme	Due to a change in the way the Treasury has applied the rules used to determine what is a specific fiscal risk, this risk is not a specific fiscal risk. For further information, refer to page 61.
	Student Loans – Valuation	Due to a change in the way the Treasury has applied the rules used to determine what is a specific fiscal risk, this risk is not a specific fiscal risk. For further information, refer to page 61.
	Trustee tax rate increase	There is now sufficient certainty on the revenue included in fiscal forecasts and this risk is no longer material.

Portfolio name	Risk title	Reason for expiry
Social Development and Employment	Changes to the Welfare System	This risk is expired as the changes related to proposals by the previous Government that are not being continued.
Tertiary Education and Skills	Additional Government Investment in Te Pūkenga | New Zealand Institute of Skills and Technology	This risk is expired due to the Government's decision to disestablish Te Pūkenga. This has been succeeded by the new Transition and Ongoing Viability of the Vocational Education System risk.
	Review of Higher Education Funding System	This risk is expired as the review being undertaken by the University Advisory Group is focused on improving effectiveness of funding rather than committing more funding. This has been succeeded by the new Financial Challenges across Universities risk.
Transport	Inter-Island Resilient Connection Project	This risk is expired due to KiwiRail's decision not to progress with the project after the Government decided not to provide additional Crown funding. This risk has been succeeded by the new Cook Strait Resilience risk and Project iReX Wind-down Costs risk.
Cross-portfolio	Apprenticeship Boost	This risk is expired due to the Government's decision to provide ongoing funding for the scheme in Budget 2024.
	Baseline Savings	This risk was associated with the previous Government's baseline savings programme. The Government has subsequently agreed to baseline savings through Budget 2024 so this risk is expired. The new Fiscal Sustainability Programme replaces this risk.
	New Zealand House Lease Agreements	This risk no longer meets the materiality threshold as revised lease arrangements have been agreed with the landlord.
	New Zealand Income Insurance Scheme Implementation and Employer Levies	This risk is expired as the Government has decided not to progress with the scheme.
	North Island Weather Events – Response and Recovery	This risk is expired as the risk associated with buying out residential properties is not material with the cost-sharing arrangements with councils agreed. The risk associated with the cost of road repair is now included within the Transport Project Funding risk.
	Smokefree Aotearoa 2025	This risk is expired due to the Government's decision not to progress with the Smokefree Aotearoa 2025 Action Plan. The Government's Approach to the Smokefree Aotearoa 2025 Goal risk succeeds this risk as the Smokefree Aotearoa 2025 goal remains a fiscal risk.

Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact in excess of $20 million and are not expected to be remote.[16]

The contingencies have been stated as at 31 March 2024, being the latest set of published financial statements of Government.

[16] ‘Remote’ is defined as being an item with less than a 10% chance of occurring.

Statement of Contingent Liabilities and Contingent Assets

Quantifiable contingent liabilities

	Status[17]	March 2024 ($millions)	30 June 2023 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,421	3,391
International Bank for Reconstruction and Development	Unchanged	2,112	2,009
International Monetary Fund – promissory notes	Unchanged	2,004	1,955
International Monetary Fund – arrangements to borrow	Unchanged	1,502	1,485
Asian Infrastructure Investment Bank	Unchanged	618	607
Other uncalled capital		22	21
		9,679	**9,468**
Guarantees and indemnities			
New Zealand Export Credit Office guarantees	Unchanged	166	175
Other guarantees and indemnities		116	106
		282	**281**
Legal proceedings and disputes			
Waka Kotahi – contractual disputes	Unchanged	315	317
Rau Paenga – Parakiore Recreation and Sport Centre – contractual dispute	Changed	439	197
Other legal proceedings and disputes		168	176
		922	**690**
Other quantifiable contingent liabilities			
Unclaimed monies	Unchanged	504	398
Waitangi Tribunal – binding recommendations	Unchanged	220	220
Air New Zealand partnership agreement	Unchanged	116	215
Clean Car Standard credits	Unchanged	210	84
Other quantifiable contingent liabilities		96	173
		1,146	**1,006**
Total quantifiable contingent liabilities		**12,029**	**11,445**

17 Status of contingent liabilities or assets when compared with the *Half Year Economic Update* published on 20 December 2023, (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated).

Quantifiable contingent assets

	31 March 2024 ($millions)	30 June 2023 ($millions)
Other contingent assets	150	137
Total quantifiable contingent assets	**150**	**137**

Unquantifiable contingent liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Earthquake Commission	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Rio Tinto Aluminium Limited (formerly Comalco)	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Reserve Bank	Unchanged
Southern Response Earthquake Services Limited	Unchanged
Synfuels–Waitara Outfall indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal proceedings and disputes	
Accident Compensation Corporation (ACC) litigations	Changed
Department of Corrections – contractual disputes	Unchanged
Kāinga Ora – Commerce Act litigation	Unchanged
Ministry of Health – New Zealand College of Midwives class action	Changed
Ministry of Transport – Public Works Act claims	Changed
Stafford litigation	Unchanged
Treaty of Waitangi claims	Unchanged
Waka Kotahi New Zealand Transport Agency – contractual disputes	Unchanged
Whaikaha – Ministry of Disabled People – employment obligations	Changed
Other unquantifiable contingent liabilities	
Aquaculture settlements	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Ministry for Primary Industries – Biosecurity Act compensation	Unchanged
Pay equity claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

Description of Quantifiable Contingent Liabilities

Uncalled capital

As part of the Crown’s commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of the organisations listed on page 95, 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 listed on page 95.

Guarantees and indemnities

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

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

New Zealand Export Credit Office guarantees

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

Legal proceedings and disputes

Waka Kotahi – contractual disputes

Waka Kotahi has received a claim for Pūhoi to Warkworth comprising current and estimated future elements, totalling $258 million. The claim is moving to binding arbitration, with a decision required within 24 months of the service commencement date (June 2025). Waka Kotahi has paid $92 million that would offset the amount of any successful claim. In the event the arbitration determined that no money was payable then the $92 million would be returned to Waka Kotahi. Waka Kotahi has not been presented with any evidence to indicate that a claim of that size would be supported by an independent reviewer. The remaining contingent liability would be $166 million.

There are a number of other roading claims (non-PPP), totalling approximately $149 million, that have also been received by Waka Kotahi that are being validated.

Rau Paenga – Parakiore Recreation and Sport Centre – contractual dispute

Claims with a disputed value of $439 million have been lodged by the main works contractor for Metro Sport Facility Parakiore Recreation and Sports Centre. Rau Paenga disputed these claims. In February 2024, an agreement was executed with the main contractor which included, amongst other matters, resolution of these claims. Subsequent to 31 March this is no longer a contingent liability.

Other quantifiable contingent liabilities

Unclaimed monies

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

Waitangi Tribunal - binding recommendations

In September 2021, the Waitangi Tribunal issued interim recommendations under section 8A of the Treaty of Waitangi Act 1975 in relation to the transfer of 7,676 hectares of the Mangatū Crown forest licensed land to a trust comprising Te Aitanga a Māhaki, Ngā Uri o Tamanui and Te Whānau a Kai. Should the recommendation become final compensation will be payable to the recipients under Schedule 1 to the Crown Forest Assets Act 1989. A stay of the Tribunal's interim recommendations was granted in December 2021 to allow for judicial review proceedings. The February 2023 High Court decision on this matter has been appealed to the Court of Appeal by claimants; a hearing has been set down for July 2024.

Air New Zealand partnership agreement

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

Clean Car Standard credits

The Clean Car Standard (CCS) scheme became effective from 1 January 2023. Cars that are imported with a carbon dioxide (CO_2) level above the CCS standard pay a charge, while cars that are imported with a CO_2 level below the CCS standard receive a credit. This credit can be either used by importers to offset a current charge, kept to offset future charges, or sold to another importer. Once issued, credits last for three years and do not involve the Crown making any payments. As at 31 March 2024 there were charges of $34 million and credits of $244 million, resulting in a surplus credit position of $210 million that could be used by importers to offset their future charges.

The credits issued are considered a liability to the Crown as they can be used to offset future charges, however as there is significant uncertainty on how the credits may be used, this liability is classified as a contingent liability. As the CCS scheme matures and more information is gathered on import trends under this scheme, this liability may be able to be measured in the future.

Description of Unquantifiable Contingent Liabilities

This part of the statement provides details of the contingent liabilities of the government which are not quantified, excluding those that are considered remote, reported by the following categories: *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

Indemnities are legally binding promises where the indemnifier 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.

A number of these indemnities are provided to organisations within the Crown's control to protect them against specified losses. If these indemnities were to crystallise, the Crown would compensate the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and net debt. The total Operating Balance and Net Worth would, however, not be impacted by the indemnity itself, but rather by the specified losses incurred by the indemnified organisations.

Party indemnified	Instrument of indemnification	Actions indemnified
Contact Energy Limited	The Crown and Contact Energy Limited signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei.	The documents contain two reciprocal indemnities between the Crown and Contact Energy Limited to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund (by means of grant or advance) any deficiency in EQC's assets held in the Natural Disaster Fund to cover its financial liabilities on such terms and conditions that the Minister determines. As the contingency has no end date, it is not possible to quantify the value of commitments that may arise from past or future hazard events which are covered by the Earthquake Commission Act 1993.
Genesis Energy	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to the bed of lakes and rivers subject to operating easements. Current indemnity follows from original indemnity granted by the Crown to ECNZ in 1993, and to Meridian, Mercury Energy and Contact in 2004.

Party indemnified	Instrument of indemnification	Actions indemnified
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 Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 – National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, local authorities will be reimbursed, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	All loan and swap obligations of the NZ Railways Corporation. This includes such loans or swaps entered by NZRC on or prior to 31 December 2012 and vested in KiwiRail Holdings Limited pursuant to the KiwiRail Holdings Limited Vesting Order 2012.
Reserve Bank	A letter of indemnity provided by the Crown to the Reserve Bank to cover losses arising from the large-scale asset purchases of New Zealand domestic government bonds	The Crown agreed to indemnify the Reserve Bank in respect of losses which the Reserve Bank incurs in respect of Indemnified Bonds under the Large-Scale Asset Purchase Programme. The Crown may terminate its obligations under this letter of indemnity at any time after 31 August 2022 (Termination Date) by giving one day's notice to the Reserve Bank. Otherwise, obligations under this letter of indemnity may be terminated by agreement between the Crown and the Reserve Bank if they both believe the Programme is no longer needed as a monetary policy tool. Termination of this indemnity will not release the Crown from any liability in respect of Losses occurring after the termination date in respect of the Indemnified Bonds.

Party indemnified	Instrument of indemnification	Actions indemnified
		Indemnified Bonds means all New Zealand domestic government bonds and Local Government Funding Agency bonds purchased by the Reserve Bank under the Programme prior to the Termination Date and any New Zealand domestic government bonds purchased as a reinvestment of those bonds up to the Cap. As at August 2020, cap means 60% of the face value of all New Zealand government nominal bonds on issue on the date of purchase; 30% of the face value of all New Zealand government inflation-indexed bonds on issue on the date of purchase; and 30% of the face value of all LGFA bonds on issue on the date of purchase of any LGFA bonds, or such amount agreed between the Minister and the Reserve Bank from time to time. Losses means interest risk losses and LGFA credit risk losses.
Southern Response Earthquake Services Limited (SRES)	Deed of indemnity	SRES continues to settle the claims of AMI residual policy holders for Canterbury earthquake damage which occurred before 5 April 2012. The Minister of Finance has provided SRES with a Deed of Indemnity to ensure that SRES can access sufficient resources to operate and discharge its contractual obligations.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.

Party indemnified	Instrument of indemnification	Actions indemnified
Westpac New Zealand Limited	Letter of Indemnity relating to the agreement for supply of transactional banking services to the Crown	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited (WNZL) and Westpac Banking Corporation (WBC) was entered into on 28 June 2023. The Crown has indemnified WNZL against certain costs, damages, and losses resulting from third party claims against WNZL or WBC regarding: • unauthorised, forged, or fraudulent payment instructions • unauthorised or incorrect direct debit instructions, or • letters of credit issued by WNZL in favour of a third party as part of providing transactional banking services to the Crown.

Legal proceedings and disputes

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) litigations

Litigation involving ACC arises mainly from challenges to operational decisions made by ACC through the statutory review and appeal process, but also occasionally includes general civil proceedings such as judicial review applications. The majority of appeals are able to be managed on a case-by-case basis, depending on the merits of the issue in dispute, and without wider Scheme management impact.

Two court decisions recently received will have cost implications but ACC's response and policy settings on these still need to be determined. There is now one proceeding of note that ACC is still a party to. Only when this matter has been fully resolved will it be possible to make a meaningful assessment of the financial impact of the outcome. The range of potential outcomes is wide and could have a material effect of the financial statements of ACC.

Department of Corrections – contractual disputes

In August 2022, the Department of Corrections (Corrections) received claims from the main contractor on the Waikeria Prison Development PPP for compensation for time and productivity losses incurred between October 2020 and August 2022 due to the COVID-19 pandemic. The claims also included amounts from its construction sub-contractor. The components of the claim that were formally lodged were the subject of an independent determination by an Independent Reviewer and the reviewer has largely dismissed relief sought by the contractor. The contractor has advised Corrections that they expect to receive a revised claim from its sub-contractor later this year.

While Corrections, the contractor and the construction sub-contractor entered into a Project Support Agreement (PSA) in April 2023 to settle certain matters between the parties, the PSA largely excluded the contractor's claim in relation to COVID-19. At this stage, it is not possible to reliably estimate the claim.

Kāinga Ora – Commerce Act litigation

Winton Land Ltd and its subsidiary Sunfield Developments Ltd ('Winton') have filed a claim in the High Court alleging that Kāinga Ora has breached section 36 of the Commerce Act 1986 in relation to its urban development functions, causing loss and damage to Winton. Winton seeks damages, including at least $139 million in relation to its proposed Sunfield development and further unquantified damages in relation to Ferncliffe Farm and other activity. Kāinga Ora denies the claim and is defending the claim. The parties are still undertaking discovery, with a hearing set to commence 1 September 2025.

Ministry of Health – New Zealand College of Midwives class action

In August 2022, the College of Midwives filed class action proceedings against the Ministry of Health on behalf of self-employed midwives' contractual issues. The College has not yet quantified its claim but has advised it is a representative claim on behalf of approximately 1,450 Lead Maternity Care Midwives. The matter is set down for a 6-week hearing in the Wellington High Court commencing August 2024.

Ministry of Transport – Public Works Act claims

As at 31 March 2024, there were six claims before the courts or awaiting judgment where City Rail Link Limited is either directly or indirectly involved as a party. These cases relate to compensation payable under sections 60 and 62 of the Public Works Act 1981 in relation to land acquired for the City Rail Link. City Rail Link Limited continues to assess the compensation payable to those landowners to resolve outstanding claims. However, it is not possible to reliably estimate the obligations of City Rail Link Limited or accurately predict whether any compensation offer will be acceptable to the landowner, each property owner being entitled to have compensation determined by the Land Valuation Tribunal.

Stafford litigation

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in Stafford v Attorney-General *(CIV-2010-485-181),* in which it is claimed that the Crown breached trust, fiduciary and other equitable obligations relating to land transactions in the top of the South Island in the 1840s. The plaintiff seeks the return of land they say the Crown holds on trust for the successors of the original owners and compensation, or other relief, for alleged breach of trust, fiduciary, and other equitable obligations. This extends to land currently owned by a number of Crown entities and an SOE.

In February 2017, the Supreme Court held that the Crown owed a fiduciary duty in relation to the land transactions concerned, but remitted matters of breach, defences, and remedy to the High Court for a further hearing or hearings. The matter is large and complex and could take many years to resolve. The High Court heard the claim between August and October 2023 and a judgment is expected between May and October 2024.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Government with respect to land that has been transferred by the Government to a State-owned enterprise (SOE), University, Wānanga or Te Pūkenga New Zealand Institute of Skills and Technology or is subject to the Crown Forest Assets Act 1989.

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

Waka Kotahi New Zealand Transport Agency – contractual disputes

In addition to the quantifiable legal disputes (refer page 97) on 25 September 2023, New Zealand Transport Agency Waka Kotahi (NZTA) received a claim for cost and delay from the Transmission Gully PPP builder, relating to COVID-19 and a number of other matters. The claim does not immediately establish the dollar value claimed by the builder, however based on discussions to date this could be a material figure. NZTA's position remains that, based on discussions and documentation received from the builder prior to its claim in the High Court, no liability exists for NZTA.

Whaikaha – Ministry of Disabled People – employment obligations

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

The Court of Appeal decision was received in April, and it was found that Whaikaha would not be required to take on employment responsibilities for family carers. However further advice is needed to confirm the precise implication of the decision. Whaikaha consider it likely the respondents in the case will seek an appeal and, on that basis, it is prudent to continue to disclose a contingent liability for this matter.

There are 21 matters currently before the Employment Relations Authority that will now proceed. The matters vary but most are seeking backpay of wages and compensation for anxiety and stress.

Other unquantifiable contingent liabilities

Aquaculture settlements

Under the Māori Commercial Aquaculture Claims Settlement Act 2004 the Crown is obligated to provide regional Iwi with 20% of future aquaculture growth. This settlement is ongoing and includes prospective settlement. As aquaculture in New Zealand grows, settlement obligations arise. Iwi may choose to accept settlement as either cash, marine rights, or a combination following the negotiation process. The amount and timing of settlements are therefore uncertain, as they are dependent on sector growth, as well as the preferred nature of settlement, this results in challenges with regards to reliably estimating the Crown's potential obligations.

Criminal Proceeds (Recovery) Act 2009

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

Environmental liabilities

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

In accordance with NZ GAAP, any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

Ministry for Primary Industries – Biosecurity Act compensation

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property, or restrictions on the movement of a person's goods. The Ministry for Primary Industries has been notified that compensation will be sought for incursions including Mycoplasma bovis outbreak, but the amount remains unquantified. This is due to the Ministry of Primary Industries is unable to reliably estimate the period of time that losses will be incurred as a result of its actions under the Biosecurity Act 1993.

Pay equity claims – see page 79

Treaty of Waitangi claims – settlement relativity payments – see page 87

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Forecast Financial Statements

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

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

These forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. The forecast financial statements reflect all government decisions and circumstances communicated up to 9 May 2024, where these can be reliably measured.

The key assumptions that underpin the preparation of the Forecast Financial Statements are outlined on pages 108 to 110.

Statement of Accounting Policies, Judgements and Assumptions

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*.

The Forecasts Financial Statements use the accrual basis of accounting unless otherwise specified (for example, the Statement of Cash Flows). 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. For example, the public sector modified version of PBE IFRS 17 Insurance Contracts was issued in 2023 (to supersede PBE IFRS 4 Insurance Contracts) and is effective for reporting periods beginning on or after 1 January 2026. A detailed assessment of this standard has not been performed and therefore, the impact of the standard on the Forecast Financial Statements has not yet been determined.

Where accounting standards are to be adopted within the fiscal forecasts period, this has been signalled in the note disclosures where impacts may be significant. The specific accounting policies are included on the Treasury's website at https://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance/reporting-financial/accounting-policies.

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Fiscal Outlook chapter on pages 53 to 56.

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 following key judgements and assumptions supporting the fiscal forecasts were made:

- To calculate income tax revenue across the forecast period, firms' net operating surplus forecasts on a System of National Accounts basis are used to create tax-year forecasts of total income tax for both net other persons tax and corporate tax, which are then converted into fiscal years (to 30 June). For the five-year forecast period to 2027/28, the annual operating surplus growth forecasts range from 0.6% to 8.0%.

- Tax forecasts are based on the economic forecasts completed on 5 April 2024.

- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) are assumed to be met from within the Budget operating allowances and the Multi-Year Capital Allowance (MYCA), which are included in the fiscal forecasts.

- Departments continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment is higher at the start of the forecast period, as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have in transferring expenses into these years.

- Forecast returns on the investment portfolios managed by the Accident Compensation Corporation (ACC) and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.

- No revaluations of property, plant and equipment are projected beyond the current year. Only revaluations that have already been completed are included in these forecasts.

- Significant valuations (eg, the student loans portfolio, the ACC claims liability and the Government Superannuation Fund retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.

- Contributions to the NZS Fund over the forecast period, which are assumed to be derived from the legislative formula, are in Note 11: NZ Superannuation Fund. Over the forecast years, all NZS Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund. For more information, refer to the Treasury website for the NZS Fund model.

Key Economic Assumptions used in the Forecast Financial Statements

In addition to the outlined key judgements and assumptions, the Forecast Financial Statements are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates.

For example:

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

Below is a summary of the key economic forecasts that are particularly relevant to the forecast financial statements.

Table 4.1 – Key economic assumptions for fiscal forecasts

Year ending 30 June	**2023 Actual**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**
Real GDP[1] (ann avg % chg)	3.0	(0.2)	1.7	3.2	2.9	2.7
Nominal GDP[2] ($b)	395.6	413.1	430.6	454.5	478.5	502.5
CPI (ann avg % chg)	6.8	4.4	2.5	2.1	2.0	2.0
Govt 10-year bonds (ann avg, %)	4.2	4.8	4.4	4.3	4.2	4.1
5-year bonds (ann avg, %)	4.1	4.7	4.3	4.0	3.8	3.7
90-day bill rate (ann avg, %)	4.5	5.7	5.0	3.9	3.1	2.7
Unemployment rate (ann avg, %)	3.4	4.3	5.3	4.9	4.6	4.4
Employment (ann avg % chg)	2.5	1.6	0.5	2.0	1.7	1.5
Average weekly earnings[3] (ann % chg)	6.7	5.5	3.5	3.1	3.0	2.9

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

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

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2024 to 30 June 2028. The "Previous Budget" figures are the original forecasts to 30 June 2024 as presented in the 2023 *Budget Update* and the "2023 Actual" figures are the audited actual results for the year ended 30 June 2023 reported in the *Financial Statements of the Government for the year ended 30 June 2023*.

Government Reporting Entity as at 9 May 2024

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

Core Crown Segment

Departments

Crown Law Office

Department of Conservation

Department of Corrections

Department of Internal Affairs
(services Digital Executive Board as an interdepartmental executive board)
(hosts Ministry for Ethnic Communities as a departmental agency)

Department of the Prime Minister and Cabinet
(hosts National Emergency Management Agency as a departmental agency)

Education Review Office
(hosts Aroturuki Tamariki – Independent Children's Monitor as a departmental agency)

Government Communications Security Bureau

Inland Revenue Department

Land Information New Zealand

Ministry for Culture and Heritage

Ministry for Pacific Peoples

Ministry for Primary Industries

Ministry for Regulation

Ministry for the Environment
(services Spatial Planning Board and Climate Change Chief Executives Board as interdepartmental executive boards)

Ministry for Women

Ministry of Business, Innovation, and Employment

Ministry of Defence

Ministry of Education

Ministry of Foreign Affairs and Trade

Ministry of Health
(hosts Cancer Control Agency, as a departmental agency)

Ministry of Housing and Urban Development

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

Ministry of Māori Development – Te Puni Kōkiri

Ministry of Social Development
(hosts Ministry for Disabled People as a departmental agency)

Ministry of Transport

New Zealand Customs Service
(services Border Executive Board as an interdepartmental executive board)

New Zealand Defence Force

New Zealand Police

New Zealand Security Intelligence Service

Office of the Clerk of the House of Representatives

Oranga Tamariki – Ministry for Children

Parliamentary Counsel Office

Parliamentary Service

Public Service Commission
(hosts Social Wellbeing Agency as a departmental agency)

Serious Fraud Office

Statistics New Zealand

The Treasury

Others

New Zealand Superannuation Fund

Reserve Bank of New Zealand

Offices of Parliament

Controller and Auditor-General

Office of the Ombudsman

Parliamentary Commissioner for the Environment

State-owned Enterprises Segment

State-owned Enterprises

Airways Corporation of New Zealand Limited

Animal Control Products Limited

AsureQuality Limited

Electricity Corporation of New Zealand Limited

KiwiRail Holdings Limited

Kordia Group Limited

Landcorp Farming Limited

Meteorological Service of New Zealand Limited

New Zealand Post Limited

New Zealand Railways Corporation

Quotable Value Limited

Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited

Mercury NZ Limited

Meridian Energy Limited

Other

Air New Zealand Limited

Crown Entities Segment

Crown Entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Auckland Light Rail Limited
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children and Young People's Commission
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health New Zealand
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora – Homes and Communities
Law Commission
Maritime New Zealand
Mental Health and Wellbeing Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood and Organ Service
New Zealand Film Commission
New Zealand Growth Capital Partners Limited
New Zealand Infrastructure Commission/Te Waihanga
New Zealand Lotteries Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,426)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Taumata Arowai – the Water Services Regulator
Te Pūkenga – New Zealand Institute of Skills and Technology
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown Entities Segment (continued)

Organisations listed in Schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (20)

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

Crown Infrastructure Partners Limited

Crown Regional Holdings Limited

Education Payroll Limited

Kiwi Group Capital Limited

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Predator Free 2050 Limited

Rau Paenga Limited (formerly Ōtākaro Limited)

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

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

Te Urewera

Others

Elevate NZ Venture Fund

Māori Health Authority

Other entities not fully consolidated into the Forecast Financial Statements of the Government with only the Crown's interest in them being included.

Crown entities

Tertiary Education Institutions (11)

(8 Universities and 3 Wānanga)

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

City Rail Link Limited

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Revenue								
Taxation revenue	1	111,712	122,647	118,334	122,154	130,419	139,214	147,228
Other sovereign revenue	1	8,407	9,743	10,293	10,667	10,923	11,305	11,827
Total Revenue Levied through the Crown's Sovereign Power		**120,119**	**132,390**	**128,627**	**132,821**	**141,342**	**150,519**	**159,055**
Sales of goods and services		21,954	24,099	24,347	24,420	25,233	25,327	25,961
Interest revenue	2	5,012	4,548	6,697	5,846	5,524	5,662	6,019
Other revenue		5,926	5,297	5,379	4,956	5,209	5,272	5,381
Total revenue earned through the Crown's operations		**32,892**	**33,944**	**36,423**	**35,222**	**35,966**	**36,261**	**37,361**
Total revenue (excluding gains)		**153,011**	**166,334**	**165,050**	**168,043**	**177,308**	**186,780**	**196,416**
Expenses								
Transfer payments and subsidies	3	38,803	42,546	41,926	44,716	46,392	47,981	50,113
Personnel expenses		36,052	35,362	37,991	37,895	38,571	39,160	39,911
Depreciation		6,601	7,011	7,468	7,882	8,263	8,541	8,701
Other operating expenses	4	64,134	67,160	70,922	69,143	65,989	65,267	63,396
Finance costs	2	7,448	8,505	10,206	10,166	10,701	11,594	12,426
Insurance expenses	5	8,784	9,697	9,838	10,215	10,454	11,010	11,652
Forecast new operating spending	6	-	5,731	-	3,796	5,464	6,264	8,627
Top-down operating expense adjustment	6	-	(2,600)	(2,700)	(2,800)	(450)	(350)	(350)
Total expenses (excluding losses)		**161,822**	**173,412**	**175,651**	**181,013**	**185,384**	**189,467**	**194,476**
Gains/(losses)								
Net gains/(losses) on financial instruments	2	7,711	6,040	9,352	6,305	6,544	7,068	7,586
Net gains/(losses) on non-financial instruments	7	6,947	-	(1,286)	-	-	-	-
Total gains/(losses) (including minority interests)		**14,658**	**6,040**	**8,066**	**6,305**	**6,544**	**7,068**	**7,586**
Net surplus/(deficit) from associates and joint ventures		29	80	97	48	156	148	188
Less minority interests' share of operating balance		(555)	(448)	(550)	(530)	(549)	(562)	(618)
Operating balance (excluding minority interests)		**5,321**	**(1,406)**	**(2,988)**	**(7,147)**	**(1,925)**	**3,967**	**9,096**
Minority interests' share of operating balance		555	448	550	530	549	562	618
Operating balance (including minority interests)		**5,876**	**(958)**	**(2,438)**	**(6,617)**	**(1,376)**	**4,529**	**9,714**

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

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Operating Balance (including minority interests)	**5,876**	**(958)**	**(2,438)**	**(6,617)**	**(1,376)**	**4,529**	**9,714**
Other comprehensive revenue and expense							
Revaluation of physical assets	10,870	-	(72)	-	-	-	-
Revaluation of defined benefit retirement plan schemes	354	28	378	20	53	60	49
Net revaluations of veterans' disability entitlements	173	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	417	(92)	(94)	(28)	23	(31)	(8)
Transfers into/(out of) reserves	(22)	-	113	-	-	-	-
(Gains)/losses transferred to the statement of financial performance	(230)	-	19	-	-	-	-
Foreign currency translation differences on foreign operations	(3)	-	-	-	-	-	-
Other movements	76	39	61	(114)	(51)	(47)	(44)
Total other comprehensive revenue and expense	**11,635**	**(25)**	**405**	**(122)**	**25**	**(18)**	**(3)**
Total comprehensive revenue and expense	**17,511**	**(983)**	**(2,033)**	**(6,739)**	**(1,351)**	**4,511**	**9,711**
Attributable to:							
- minority interests	1,033	456	619	527	553	549	614
- the Crown	16,478	(1,439)	(2,652)	(7,266)	(1,904)	3,962	9,097
Total comprehensive revenue and expense	**17,511**	**(983)**	**(2,033)**	**(6,739)**	**(1,351)**	**4,511**	**9,711**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Opening net worth	174,319	178,956	191,472	189,233	181,956	180,128	184,163
Operating balance (including minority interests)	5,876	(958)	(2,438)	(6,617)	(1,376)	4,529	9,714
Net revaluations of physical assets	10,870	-	(72)	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	354	28	378	20	53	60	49
Net revaluations of veterans' disability entitlements	173	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	417	(92)	(94)	(28)	23	(31)	(8)
Transfers into/(out of) reserves	(22)	-	113	-	-	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(230)	-	19	-	-	-	-
Foreign currency translation differences on foreign operations	(3)	-	-	-	-	-	-
Other movements	76	39	61	(114)	(51)	(47)	(44)
Comprehensive income	**17,511**	**(983)**	**(2,033)**	**(6,739)**	**(1,351)**	**4,511**	**9,711**
Increase in minority interest from equity issues	66	370	390	34	86	90	94
Transactions with minority interests	(424)	(488)	(596)	(572)	(563)	(566)	(594)
Closing net worth	**191,472**	**177,855**	**189,233**	**181,956**	**180,128**	**184,163**	**193,374**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	110,787	115,665	113,175	125,598	129,073	137,634	145,563
Other sovereign receipts	7,631	7,811	7,792	8,552	9,144	9,507	10,048
Sales of goods and services	22,284	23,579	23,966	24,174	24,848	25,082	25,675
Interest receipts	3,611	3,697	4,779	5,167	4,883	4,994	5,362
Other operating receipts	4,922	5,268	5,598	4,997	5,341	5,443	5,611
Total cash provided from operations	**149,235**	**156,020**	**155,310**	**168,488**	**173,289**	**182,660**	**192,259**
Cash was disbursed to							
Transfer payments and subsidies	39,170	42,772	41,834	45,781	46,568	48,123	50,028
Personnel and operating payments	99,414	106,207	112,671	111,287	108,215	109,151	107,511
Interest payments	6,126	7,090	8,254	8,630	9,112	9,972	10,371
Forecast new operating spending	-	5,731	-	3,796	5,464	6,264	8,627
Top-down operating expense adjustment	-	(2,600)	(2,700)	(2,800)	(450)	(350)	(350)
Total cash disbursed to operations	**144,710**	**159,200**	**160,059**	**166,694**	**168,909**	**173,160**	**176,187**
Net cash flows from operations	**4,525**	**(3,180)**	**(4,749)**	**1,794**	**4,380**	**9,500**	**16,072**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(14,271)	(20,426)	(19,405)	(18,156)	(15,442)	(14,532)	(11,102)
Net (purchase)/sale of shares and other securities	(4,906)	3,754	(12,097)	(7,434)	(7,411)	(3,798)	(4,301)
Net (purchase)/sale of intangible assets	(868)	(1,018)	(865)	(903)	(773)	(704)	(692)
Net (issue)/repayment of advances	(8,215)	(210)	569	5,102	2,876	(3,432)	(3,643)
Net acquisition of investments in associates	(202)	(438)	(391)	(467)	(291)	(151)	(118)
Forecast new capital spending	-	(2,964)	-	(2,094)	(2,517)	(3,396)	(2,619)
Top-down capital adjustment	-	2,200	1,000	1,550	650	350	250
Net cash flows from investing activities	**(28,462)**	**(19,102)**	**(31,189)**	**(22,402)**	**(22,908)**	**(25,663)**	**(22,225)**
Net cash flows from operating and investing activities	**(23,937)**	**(22,282)**	**(35,938)**	**(20,608)**	**(18,528)**	**(16,163)**	**(6,153)**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	(59)	93	129	91	92	93	94
Net issue/(repayment) of government bonds[1]	15,744	23,791	26,396	27,369	21,627	18,608	3,005
Net issue/(repayment) of foreign-currency borrowings	(113)	(121)	(2,312)	1,221	468	338	117
Net issue/(repayment) of other New Zealand dollar borrowings	9,298	(1,353)	14,171	(9,241)	(1,598)	(3,044)	3,790
Net issuances of equity	-	296	296	-	-	-	-
Dividends paid to minority interests[2]	(372)	(421)	(512)	(502)	(502)	(508)	(534)
Net cash flows from financing activities	**24,498**	**22,285**	**38,168**	**18,938**	**20,087**	**15,487**	**6,472**
Net movement in cash	**561**	**3**	**2,230**	**(1,670)**	**1,559**	**(676)**	**319**
Opening cash balance	17,835	19,084	18,791	21,040	19,370	20,929	20,253
Foreign-exchange gains/(losses) on opening cash	395	(33)	19	-	-	-	-
Closing cash balance	**18,791**	**19,054**	**21,040**	**19,370**	**20,929**	**20,253**	**20,572**

1. Further information on the issue and repayments of government bonds is available in the core Crown residual cash summary included in the attached Fiscal Indicator Analysis section.
2. Excludes transactions with ACC and NZS Fund.

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

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**4,525**	**(3,180)**	**(4,749)**	**1,794**	**4,380**	**9,500**	**16,072**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses) and Other Interests							
Net gains/(losses) on financial instruments	7,711	6,040	9,352	6,305	6,544	7,068	7,586
Net gains/(losses) on non-financial instruments	6,947	-	(1,286)	-	-	-	-
Net surplus/(deficit) from associates and joint ventures	29	80	97	48	156	148	188
Total gains/(losses) and other interests	**14,687**	**6,120**	**8,163**	**6,353**	**6,700**	**7,216**	**7,774**
Other Non-cash Items in Operating Balance							
Depreciation	(6,601)	(7,011)	(7,468)	(7,882)	(8,263)	(8,541)	(8,701)
Amortisation and net impairment of non-financial assets	(734)	(995)	(915)	(1,790)	(947)	(931)	(934)
Cost of concessionary lending	(738)	(760)	(633)	(756)	(773)	(716)	(746)
Impairment of financial assets (excluding receivables)	(97)	4	(99)	67	24	(3)	(14)
Change in accumulating insurance expenses	(3,525)	(3,115)	(3,295)	(3,095)	(3,122)	(3,274)	(3,372)
Change in NZ ETS liability	395	1,574	1,588	1,507	1,120	876	676
Change in accumulating pension expenses	61	613	(52)	(46)	(45)	(43)	(42)
Total other non-cash items in operating balance	**(11,239)**	**(9,690)**	**(10,874)**	**(11,995)**	**(12,006)**	**(12,632)**	**(13,133)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	1,155	7,135	3,394	(4,624)	859	1,048	1,113
Increase/(decrease) in accrued interest	183	(665)	(62)	(925)	(1,071)	(1,112)	(1,569)
Increase/(decrease) in inventories	(27)	98	71	504	72	(75)	(111)
Increase/(decrease) in prepayments	113	259	371	225	(8)	23	(11)
Decrease/(increase) in deferred revenue	(244)	56	210	(7)	94	(72)	(61)
Decrease/(increase) in payables/provisions	(3,277)	(1,091)	1,038	2,058	(396)	633	(360)
Total working capital and other movements	**(2,097)**	**5,792**	**5,022**	**(2,769)**	**(450)**	**445**	**(999)**
Operating balance (including minority interests)	**5,876**	**(958)**	**(2,438)**	**(6,617)**	**(1,376)**	**4,529**	**9,714**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Assets								
Cash and cash equivalents	8	18,791	19,054	21,040	19,370	20,929	20,253	20,572
Receivables	8	33,548	40,005	36,577	31,865	32,748	33,824	34,937
Marketable securities, deposits and derivatives in gain	8	66,490	59,350	76,986	85,292	96,055	100,521	106,904
Share investments	8	48,046	48,576	51,150	54,166	56,687	59,164	61,598
Advances	8	66,489	65,238	68,034	62,496	58,709	62,150	65,802
Investments in controlled enterprises	8	7,317	7,732	8,430	9,315	10,805	12,341	13,959
Inventory		3,041	3,366	3,112	3,616	3,688	3,613	3,502
Other assets		4,612	4,439	4,763	4,699	4,638	4,749	4,750
Property, plant and equipment	10	267,390	270,751	279,108	288,872	295,408	300,881	302,883
Equity accounted investments[1]		17,034	17,157	17,473	17,109	17,529	17,778	18,039
Intangible assets and goodwill		3,908	4,423	3,819	3,982	4,055	4,117	4,147
Forecast for new capital spending	6	-	2,964	-	2,094	4,611	8,007	10,626
Top-down capital adjustment		-	(4,050)	(1,000)	(2,550)	(3,200)	(3,550)	(3,800)
Total assets		**536,666**	**539,005**	**569,492**	**580,326**	**602,662**	**623,848**	**643,919**
Liabilities								
Issued currency		9,002	9,349	9,131	9,222	9,314	9,408	9,502
Payables	12	18,726	17,051	19,114	18,513	19,702	18,471	18,877
Deferred revenue		3,610	3,364	3,400	3,407	3,313	3,385	3,446
Borrowings	16	226,755	243,395	260,000	278,882	299,916	316,075	323,617
New Zealand Emissions Trading Scheme	15	6,125	7,680	7,322	6,600	6,168	5,877	5,680
Insurance liabilities	5	57,511	59,965	59,660	62,755	65,877	69,151	72,523
Retirement plan liabilities	13	8,039	7,948	7,412	7,082	6,654	6,195	5,746
Provisions	14	15,426	12,398	14,220	11,909	11,590	11,123	11,154
Total liabilities		**345,194**	**361,150**	**380,259**	**398,370**	**422,534**	**439,685**	**450,545**
Total assets less total liabilities		**191,472**	**177,855**	**189,233**	**181,956**	**180,128**	**184,163**	**193,374**
Net Worth								
Taxpayers' funds		8,380	5,540	5,495	(1,726)	(3,717)	196	9,246
Property, plant and equipment revaluation reserve		174,575	164,210	174,432	174,430	174,434	174,438	174,441
Defined benefit plan revaluation reserve		409	224	787	807	860	920	969
Veterans' disability entitlements reserve		(392)	(566)	(392)	(392)	(392)	(392)	(392)
Other reserves		542	201	540	477	507	492	487
Total net worth attributable to the Crown		**183,514**	**169,609**	**180,862**	**173,596**	**171,692**	**175,654**	**184,751**
Net worth attributable to minority interests		7,958	8,246	8,371	8,360	8,436	8,509	8,623
Total net worth	17	**191,472**	**177,855**	**189,233**	**181,956**	**180,128**	**184,163**	**193,374**

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

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

Statement of Actual Commitments

as at 30 June

	As at 31 March 2024 $m	As at 30 June 2023 $m
Capital Commitments		
State highways	2,481	2,437
Specialist military equipment	523	1,129
Land and buildings	8,556	9,343
Other property, plant and equipment	5,511	5,429
Other capital commitments	1,196	1,222
Universities and Wānanga	635	635
Total capital commitments	**18,902**	**20,195**
Operating Commitments		
Non-cancellable accommodation leases	5,563	6,010
Other non-cancellable leases	4,380	4,308
Universities and Wānanga	1,293	1,288
Total operating commitments	**11,236**	**11,606**
Total commitments	**30,138**	**31,801**
Total Commitments by Segment		
Core Crown	10,930	11,970
Crown entities	11,876	12,651
State-owned Enterprises	7,709	7,576
Inter-segment eliminations	(378)	(396)
Total commitments	**30,138**	**31,801**

Statement of Actual Contingent Liabilities and Assets

as at 30 June

	As at 31 March 2024 $m	As at 30 June 2023 $m
Quantifiable Contingent Liabilities		
Uncalled capital	9,679	9,468
Guarantees and indemnities	282	281
Legal proceedings and disputes	922	690
Other contingent liabilities	1,146	1,006
Total quantifiable contingent liabilities	**12,029**	**11,445**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	12,053	11,662
Crown entities	777	529
State-owned Enterprises	149	239
Inter-segment eliminations	(950)	(985)
Total quantifiable contingent liabilities	**12,029**	**11,445**
Quantifiable Contingent Assets by Segment		
Core Crown	36	62
Crown entities	34	34
State-owned Enterprises	80	41
Total quantifiable contingent assets	**150**	**137**

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

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

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	47,386	50,464	52,248	53,546	56,502	59,594	62,757
Other persons	9,904	11,380	9,620	10,541	11,751	12,876	13,805
Refunds	(2,182)	(1,884)	(2,502)	(2,766)	(3,044)	(3,243)	(3,439)
Fringe benefit tax	769	739	812	837	865	893	920
Total individuals	**55,877**	**60,699**	**60,178**	**62,158**	**66,074**	**70,120**	**74,043**
Corporate Tax							
Gross companies tax	18,327	21,450	16,126	17,623	19,895	22,885	24,876
Refunds	(970)	(633)	(742)	(718)	(671)	(751)	(811)
Non-resident withholding tax	621	636	696	695	681	678	692
Total corporate tax	**17,978**	**21,453**	**16,080**	**17,600**	**19,905**	**22,812**	**24,757**
Other Direct Income Tax							
Resident w/holding tax on interest income	2,092	1,839	3,473	3,198	3,015	2,530	2,217
Resident w/holding tax on dividend income	1,127	1,180	1,789	1,000	1,285	1,312	1,443
Total other direct income tax	**3,219**	**3,019**	**5,262**	**4,198**	**4,300**	**3,842**	**3,660**
Total direct income tax	**77,074**	**85,171**	**81,520**	**83,956**	**90,279**	**96,774**	**102,460**
Goods and Services Tax							
Gross goods and services tax	47,185	48,743	47,404	49,407	52,429	55,654	58,609
Refunds	(19,055)	(19,181)	(17,890)	(18,939)	(20,475)	(21,886)	(23,164)
Total goods and services tax	**28,130**	**29,562**	**29,514**	**30,468**	**31,954**	**33,768**	**35,445**
Other Indirect Taxation							
Road and track user charges	1,414	1,940	1,793	2,100	2,232	2,493	2,874
Alcohol excise – domestic production	785	874	818	867	906	943	981
Petroleum fuels excise	1,326	2,043	1,873	1,889	1,899	2,058	2,287
Alcohol excise – imports[1]	505	535	501	532	555	578	601
Tobacco excise – imports[1]	1,666	1,748	1,519	1,506	1,488	1,448	1,418
Other customs duty	187	177	153	94	93	111	121
Gaming duties	255	251	252	306	317	327	338
Motor vehicle fees	236	233	232	302	447	517	511
Approved issuer levy and cheque duty	111	91	137	112	98	82	72
Digital services tax	-	-	-	-	129	93	98
Energy resources levies	23	22	22	22	22	22	22
Total other indirect taxation	**6,508**	**7,914**	**7,300**	**7,730**	**8,186**	**8,672**	**9,323**
Total indirect taxation	**34,638**	**37,476**	**36,814**	**38,198**	**40,140**	**42,440**	**44,768**
Total taxation revenue	**111,712**	**122,647**	**118,334**	**122,154**	**130,419**	**139,214**	**147,228**
Other Sovereign Revenue (accrual)							
ACC levies	3,855	4,019	4,178	4,437	4,852	5,319	5,783
Emissions trading revenue	1,582	2,707	2,841	2,730	2,375	2,210	2,172
Fire and Emergency levies	673	672	711	826	858	887	917
EQC levies	612	819	849	904	926	940	954
Clean vehicle discount	170	253	258	151	151	151	151
Child support and working for families penalties	371	119	243	174	170	170	171
Court fines	120	115	115	118	119	120	120
Other miscellaneous items	1,024	1,039	1,098	1,327	1,472	1,508	1,559
Total other sovereign revenue	**8,407**	**9,743**	**10,293**	**10,667**	**10,923**	**11,305**	**11,827**
Total sovereign revenue	**120,119**	**132,390**	**128,627**	**132,821**	**141,342**	**150,519**	**159,055**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	46,929	50,185	51,975	53,374	56,193	59,269	62,413
Other persons	10,685	11,346	9,766	11,285	11,635	12,960	13,852
Refunds	(2,703)	(2,396)	(3,022)	(3,251)	(3,614)	(3,758)	(4,006)
Fringe benefit tax	747	739	812	837	865	893	919
Total individuals	**55,658**	**59,874**	**59,531**	**62,245**	**65,079**	**69,364**	**73,178**
Corporate Tax							
Gross companies tax	19,733	20,538	17,842	18,325	21,227	23,742	25,831
Refunds	(1,728)	(1,155)	(1,886)	(1,563)	(1,728)	(1,841)	(1,961)
Non-resident withholding tax	601	636	696	695	681	678	692
Total corporate tax	**18,606**	**20,019**	**16,652**	**17,457**	**20,180**	**22,579**	**24,562**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,917	1,839	3,473	3,198	3,015	2,530	2,217
Resident w/holding tax on dividend income	1,165	1,180	1,769	1,000	1,285	1,312	1,443
Total other direct income tax	**3,082**	**3,019**	**5,242**	**4,198**	**4,300**	**3,842**	**3,660**
Total direct income tax	**77,346**	**82,912**	**81,425**	**83,900**	**89,559**	**95,785**	**101,400**
Goods and Services Tax							
Gross goods and services tax	45,251	43,859	42,232	52,648	51,587	54,821	57,770
Refunds	(18,334)	(18,921)	(17,730)	(18,679)	(20,215)	(21,626)	(22,904)
Total goods and services tax	**26,917**	**24,938**	**24,502**	**33,969**	**31,372**	**33,195**	**34,866**
Other Indirect Taxation							
Road and track user charges	1,418	1,940	1,793	2,100	2,232	2,493	2,874
Alcohol excise – domestic production	779	874	818	867	906	943	981
Customs duty	3,761	4,404	3,995	4,020	4,034	4,179	4,404
Gaming duties	255	251	252	306	317	327	338
Motor vehicle fees	185	233	232	302	447	517	511
Approved issuer levy and cheque duty	103	91	136	112	98	82	72
Digital services tax	-	-	-	-	86	91	95
Energy resources levies	23	22	22	22	22	22	22
Total other indirect taxation	**6,524**	**7,815**	**7,248**	**7,729**	**8,142**	**8,654**	**9,297**
Total indirect taxation	**33,441**	**32,753**	**31,750**	**41,698**	**39,514**	**41,849**	**44,163**
Total taxation receipts	**110,787**	**115,665**	**113,175**	**125,598**	**129,073**	**137,634**	**145,563**
Other Sovereign Receipts (cash)							
ACC levies	3,763	3,901	4,065	4,330	4,772	5,236	5,708
Emissions trading receipts	832	894	439	785	688	585	479
Fire and Emergency levies	669	668	698	772	851	801	911
EQC levies	697	846	874	911	934	948	961
Clean vehicle discount	170	253	258	151	151	151	151
Child support and working for families penalties	381	96	247	153	153	153	153
Court fines	115	115	115	118	119	120	120
Other miscellaneous items	1,004	1,038	1,096	1,332	1,476	1,513	1,565
Total other sovereign receipts	**7,631**	**7,811**	**7,792**	**8,552**	**9,144**	**9,507**	**10,048**
Total sovereign receipts	**118,418**	**123,476**	**120,967**	**134,150**	**138,217**	**147,141**	**155,611**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest Revenue	**5,012**	**4,548**	**6,697**	**5,846**	**5,524**	**5,662**	**6,019**
Interest Expenses							
Interest on financial liabilities	7,022	7,977	9,578	9,634	10,253	11,173	12,009
Interest unwind on provisions	426	528	628	532	448	421	417
Total interest expenses	**7,448**	**8,505**	**10,206**	**10,166**	**10,701**	**11,594**	**12,426**
Net interest revenue/(expense)	**(2,436)**	**(3,957)**	**(3,509)**	**(4,320)**	**(5,177)**	**(5,932)**	**(6,407)**
Dividend revenue	1,343	1,296	1,458	1,356	1,425	1,485	1,558
Net gains/(losses) on financial instruments	7,711	6,040	9,352	6,305	6,544	7,068	7,586
Total investment revenue/(expenditure)	**6,618**	**3,379**	**7,301**	**3,341**	**2,792**	**2,621**	**2,737**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	19,517	21,629	21,567	23,194	24,701	26,225	27,883
Family tax credit	2,151	2,284	2,281	2,316	2,276	2,285	2,420
Jobseeker support and emergency benefit	3,473	4,136	4,048	4,435	4,453	4,435	4,481
Accommodation assistance	2,349	2,449	2,427	2,495	2,490	2,450	2,467
Supported living payment	2,311	2,520	2,528	2,661	2,750	2,819	2,884
Sole parent support	1,917	2,085	2,094	2,245	2,249	2,233	2,241
KiwiSaver subsidies	997	1,094	1,061	1,104	1,149	1,196	1,246
International Development Cooperation	971	1,281	1,214	1,103	953	853	853
Other working for families tax credits	476	489	461	594	595	580	582
Student allowances	525	595	529	579	610	612	616
Winter energy payment	519	538	535	555	565	573	582
Disability assistance	430	440	467	496	511	523	537
Hardship assistance	673	756	671	751	787	806	847
Orphan's/unsupported child's benefit	350	368	383	405	417	426	434
Best start tax credit	321	339	340	339	333	333	349
Income related rent subsidy	122	137	121	133	134	134	141
Other social assistance benefits	1,101	1,406	1,199	1,311	1,419	1,498	1,550
Total transfer payments and subsidies	**38,803**	**42,546**	**41,926**	**44,716**	**46,392**	**47,981**	**50,113**
NOTE 4: Other Operating Expenses							
Grants and subsidies	11,023	11,811	12,800	11,940	10,812	10,395	9,750
Repairs and maintenance	2,983	3,065	3,702	3,092	3,136	3,088	3,022
Rental and leasing costs	1,724	1,754	1,717	1,691	1,721	1,703	1,697
Amortisation and impairment of non-financial assets	734	995	915	1,790	947	931	934
Impairment of financial assets	1,750	1,115	2,194	1,777	1,095	1,124	1,138
Cost of concessionary lending	738	760	633	756	773	716	746
Lottery prize payments	810	866	789	789	792	799	806
Inventory expenses and clinical supplies	3,219	2,581	2,998	3,169	2,935	2,990	3,105
Other operating expenses	41,153	44,213	45,174	44,139	43,778	43,521	42,198
Total other operating expenses	**64,134**	**67,160**	**70,922**	**69,143**	**65,989**	**65,267**	**63,396**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	7,619	9,110	9,227	9,680	9,807	10,311	10,897
EQC	1,134	528	502	454	552	599	649
Other (incl. inter-segment eliminations)	31	59	109	81	95	100	106
Total insurance expenses	**8,784**	**9,697**	**9,838**	**10,215**	**10,454**	**11,010**	**11,652**
Insurance liability by entity							
ACC	55,664	58,814	58,240	61,776	65,075	68,446	71,958
EQC	1,617	1,032	1,245	860	707	624	494
Other (incl. inter-segment eliminations)	230	119	175	119	95	81	71
Total insurance liabilities	**57,511**	**59,965**	**59,660**	**62,755**	**65,877**	**69,151**	**72,523**

ACC liability

Calculation information

ACC prepared an actuarial estimate of the ACC outstanding claims liability as at 31 December 2023. 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 29 February 2024. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 4.95% and allows for a long-term discount rate of 4.30% beyond 40 years.

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

Presentation approach

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

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Gross ACC Liability							
Opening gross liability	54,115	55,251	55,664	58,240	61,776	65,075	68,446
Net change	1,549	3,563	2,576	3,536	3,299	3,371	3,512
Closing gross liability	**55,664**	**58,814**	**58,240**	**61,776**	**65,075**	**68,446**	**71,958**
Less Net Assets Available to ACC							
Opening net asset value	48,076	49,683	50,536	52,643	54,040	55,436	56,983
Net change	2,460	1,570	2,107	1,397	1,396	1,547	1,769
Closing net asset value	**50,536**	**51,253**	**52,643**	**54,040**	**55,436**	**56,983**	**58,752**
Net ACC Reserves (Net Liability)							
Opening reserves position	(6,039)	(5,568)	(5,128)	(5,597)	(7,736)	(9,639)	(11,463)
Net change	911	(1,993)	(469)	(2,139)	(1,903)	(1,824)	(1,743)
Closing reserves position (net liability)/net asset	**(5,128)**	**(7,561)**	**(5,597)**	**(7,736)**	**(9,639)**	**(11,463)**	**(13,206)**

Notes to the Forecast Financial Statements

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	-	3,796	4,484	4,393	4,371
Budget operating allowance for Budget 2025	-	-	980	841	826
Budget operating allowance for Budget 2026	-	-	-	1,030	1,030
Budget operating allowance for Budget 2027	-	-	-	-	2,400
Total forecast new operating spending	**-**	**3,796**	**5,464**	**6,264**	**8,627**

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	Post-2028 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	-	2,094	1,642	1,646	369	100	5,851
Multi-Year Capital Allowance	-	-	875	1,750	2,250	2,625	7,500
Total forecast new capital spending	**-**	**2,094**	**2,517**	**3,396**	**2,619**	**2,725**	**13,351**
Forecast new capital spending (cumulative)	**-**	**2,094**	**4,611**	**8,007**	**10,626**		

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

Budget operating allowances for Budgets 2025, 2026 and 2027 indicate the expected spending increases from future Budgets. Some of the operating allowances have been assumed to be pre-committed as at the forecast finalisation date of 9 May 2024, with only the unallocated portion of the allowances included within this note. Further details on pre-commitments against future Budget operating allowances can be found within the Fiscal Outlook chapter.

The Government has $7.5 billion available in the Multi-Year Capital Allowance (MYCA) for future capital investments for Budget 2025 through to Budget 2027. It is assumed that future capital investments will be spread evenly across these Budgets.

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(2,700)	(2,800)	(450)	(350)	(350)
Top-down capital adjustment (cumulative)	(1,000)	(2,550)	(3,200)	(3,550)	(3,800)

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	1,315	-	1,146	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	5,620	-	(2,346)	-	-	-	-
Other	12	-	(86)	-	-	-	-
Net gains/(losses) on non-financial instruments	**6,947**	**-**	**(1,286)**	**-**	**-**	**-**	**-**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	18,791	19,054	21,040	19,370	20,929	20,253	20,572
Tax receivables	20,299	26,998	23,503	18,347	18,789	19,430	20,192
Trade and other receivables	13,249	13,007	13,074	13,518	13,959	14,394	14,745
Student loans (refer to note 9)	9,373	8,948	9,695	9,562	9,316	8,986	8,610
Kiwi Group loans and advances	29,785	32,702	31,974	35,781	39,358	42,929	46,792
Long-term deposits	9,231	6,226	8,333	8,044	8,299	8,471	9,512
IMF financial assets	5,588	5,286	5,521	5,521	5,521	5,521	5,521
FLP advances	18,088	15,080	16,516	7,330	-	-	-
Other advances	9,243	8,508	9,849	9,823	10,035	10,235	10,400
Share investments	48,046	48,576	51,150	54,166	56,687	59,164	61,598
Investments in controlled enterprises	7,317	7,732	8,430	9,315	10,805	12,341	13,959
Derivatives in gain	6,935	5,285	6,490	5,825	5,360	4,955	4,685
Other marketable securities	44,736	42,553	56,642	65,902	76,875	81,574	87,186
Total financial assets (including receivables)	**240,681**	**239,955**	**262,217**	**262,504**	**275,933**	**288,253**	**303,772**
Financial Assets by Segment							
The Treasury	41,634	37,188	50,227	46,669	47,415	45,724	49,314
Reserve Bank of New Zealand	67,088	58,389	65,725	58,717	52,262	45,713	45,727
NZS Fund	68,234	70,925	78,133	81,776	88,401	93,289	99,552
Other core Crown	43,509	47,228	44,571	36,354	36,279	36,391	36,985
Intra-segment eliminations	(59,196)	(43,198)	(46,991)	(31,425)	(22,774)	(10,553)	(10,680)
Total core Crown segment	**161,269**	**170,532**	**191,665**	**192,091**	**201,583**	**210,564**	**220,898**
ACC	51,773	51,176	53,896	55,203	56,613	58,157	59,919
EQC	709	301	606	584	723	903	1,003
Kiwi Group loans and advances	29,785	32,702	31,974	35,781	39,358	42,929	46,792
Other Crown entities	22,365	19,671	22,198	22,276	23,346	24,672	26,046
Intra-segment eliminations	(4,863)	(3,134)	(4,913)	(5,148)	(5,489)	(5,705)	(5,710)
Total Crown entities segment	**99,769**	**100,716**	**103,761**	**108,696**	**114,551**	**120,956**	**128,050**
Total State-owned Enterprises segment	**8,187**	**6,619**	**6,504**	**6,238**	**6,365**	**6,450**	**6,954**
Inter-segment eliminations	(28,544)	(37,912)	(39,713)	(44,521)	(46,566)	(49,717)	(52,130)
Total financial assets (including receivables)	**240,681**	**239,955**	**262,217**	**262,504**	**275,933**	**288,253**	**303,772**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	15,942	15,754	15,819	15,916	16,035	16,136	16,241
Opening book value	9,209	9,267	9,373	9,695	9,562	9,316	8,986
Net new lending (including fees)	1,271	1,505	1,335	1,626	1,725	1,777	1,835
Less initial write-down to fair value	(551)	(640)	(539)	(633)	(676)	(706)	(739)
Repayments made during the year	(1,634)	(1,805)	(1,632)	(1,729)	(1,823)	(1,911)	(1,982)
Interest unwind	577	595	632	575	500	482	482
Unwind of administration costs	30	26	28	28	28	28	28
Experience/actuarial adjustments:							
- Expected repayment adjustments	277	-	377	-	-	-	-
- Discount rate adjustments	194	-	121	-	-	-	-
Closing book value	**9,373**	**8,948**	**9,695**	**9,562**	**9,316**	**8,986**	**8,610**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	79,708	86,731	81,042	81,149	81,112	81,732	82,483
Buildings	68,194	70,493	74,495	79,475	81,184	81,956	82,497
State highways	59,502	54,971	60,963	63,262	65,853	69,416	70,069
Electricity generation assets	20,052	20,063	19,918	19,876	20,235	20,102	19,957
Electricity distribution network (cost)	4,459	4,394	4,427	4,688	5,153	5,682	6,323
Aircraft (excluding military)	4,562	4,795	5,035	5,781	6,372	6,644	6,612
Specialist military equipment	4,964	5,789	5,880	6,260	6,277	6,010	5,710
Specified cultural and heritage assets	3,401	3,211	3,164	3,168	3,177	3,194	3,211
Rail network	14,580	11,209	15,361	15,746	16,280	16,351	16,380
Other plant and equipment (cost)	7,968	9,095	8,823	9,467	9,765	9,794	9,641
Total property, plant and equipment	**267,390**	**270,751**	**279,108**	**288,872**	**295,408**	**300,881**	**302,883**
Land breakdown by usage							
Housing	28,921	34,237	29,752	29,912	30,562	31,308	31,997
State highway corridor land	23,134	23,020	23,136	22,805	22,441	22,208	22,068
Conservation estate	8,342	7,817	8,322	8,328	8,337	8,339	8,341
Rail network	4,261	4,492	4,341	4,388	4,409	4,423	4,432
Schools	6,279	7,673	6,318	6,369	6,420	6,471	6,521
Commercial (SOEs) excluding Rail	1,578	1,677	1,692	1,735	1,749	1,765	1,783
Other	7,193	7,815	7,481	7,612	7,194	7,218	7,341
Total land	**79,708**	**86,731**	**81,042**	**81,149**	**81,112**	**81,732**	**82,483**
Schedule of Movements							
Cost or Valuation							
Opening balance	268,071	283,812	287,777	307,062	324,493	339,089	352,889
Additions[2]	14,881	18,805	19,403	18,073	16,093	14,782	11,339
Disposals	(1,474)	(791)	(233)	(627)	(1,507)	(971)	(837)
Net revaluations	5,335	-	69	-	-	-	-
Other	964	(13)	46	(15)	10	(11)	(1)
Total cost or valuation	**287,777**	**301,813**	**307,062**	**324,493**	**339,089**	**352,889**	**363,390**
Accumulated Depreciation and Impairment							
Opening balance	18,889	24,532	20,387	27,954	35,621	43,681	52,008
Eliminated on disposal	(1,007)	(479)	(210)	(209)	(202)	(215)	(201)
Eliminated on revaluation	(5,540)	-	(73)	-	-	-	-
Impairment losses charged to operating balance	220	-	382	-	-	-	-
Depreciation expense	6,601	7,011	7,468	7,882	8,263	8,541	8,701
Other	1,224	(2)	-	(6)	(1)	1	(1)
Total accumulated depreciation and impairment	**20,387**	**31,062**	**27,954**	**35,621**	**43,681**	**52,008**	**60,507**
Total property, plant and equipment	**267,390**	**270,751**	**279,108**	**288,872**	**295,408**	**300,881**	**302,883**

1. Using a revaluation methodology unless otherwise stated.
2. Additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	1,320	1,218	1,541	1,571	1,639	1,697	1,766
Less current tax expense	127	1,153	1,483	1,337	1,438	1,547	1,664
Less other expenses	1,054	263	180	299	324	345	368
Add gains/(losses)	5,766	3,900	6,562	4,371	4,752	5,173	5,617
Operating balance	**5,905**	**3,702**	**6,440**	**4,306**	**4,629**	**4,978**	**5,351**
Opening net worth	56,210	62,388	64,673	72,727	77,912	83,446	89,347
Gross contribution from the Crown	2,558	1,614	1,614	879	905	923	839
Operating balance	5,905	3,702	6,440	4,306	4,629	4,978	5,351
Closing net worth	**64,673**	**67,704**	**72,727**	**77,912**	**83,446**	**89,347**	**95,537**
Comprising:							
Financial assets	68,234	70,925	78,133	81,776	88,401	93,289	99,552
Financial liabilities	(3,501)	(3,146)	(5,354)	(3,774)	(4,915)	(3,897)	(3,963)
Net other assets	(60)	(75)	(52)	(90)	(40)	(45)	(52)
Closing net worth	**64,673**	**67,704**	**72,727**	**77,912**	**83,446**	**89,347**	**95,537**
NOTE 12: Payables							
Accounts payable	12,520	11,043	12,979	12,400	13,594	12,381	12,759
Taxes repayable	6,206	6,008	6,135	6,113	6,108	6,090	6,118
Total payables	**18,726**	**17,051**	**19,114**	**18,513**	**19,702**	**18,471**	**18,877**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	8,038	7,946	7,406	7,076	6,648	6,189	5,740
Other funds	1	2	6	6	6	6	6
Total retirement plan liabilities	**8,039**	**7,948**	**7,412**	**7,082**	**6,654**	**6,195**	**5,746**

Government Superannuation Fund

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 31 January 2024. 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 2024, based on membership data as at 30 June 2023. 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 discount rates derived from the market yield curve for New Zealand Government bonds as at 31 January 2024.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 2.64% for the year ended 30 June 2024 decreasing to 1.85% after 5 years and remaining there for 13 years, and then increasing to 2.0% after 38 years. In addition, an annual salary growth rate, before any promotional effects, of 2.5% (2.5% at 30 June 2023).

The net GSF liability is expected to reduce by $632 million over the twelve month period to 30 June 2024. This is mainly due to contributions made by the Crown, as well as gains arising on the liability due to decreases in the discount rate assumptions and gains on assets due to postive investment experience.

The expected decrease in the GSF liability of $538 million includes an actuarial gain (which decreases the liability) as at 30 June 2024, of $247 million, owing to changes in the CPI rates ($176 million)and the movements in the discount rates ($71 million). The remaining movement of $290 million is owing to the current service cost and interest unwind (increasing the liability) which is more than offset by benefits paid to members (reducing the liability).

The changes in the forecast net GSF liability from 2023/24 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
GSF Liability							
Opening GSF liability	13,723	13,199	13,183	12,645	12,244	11,741	11,204
Net projected change	(540)	(358)	(538)	(401)	(503)	(537)	(529)
Closing GSF liability	**13,183**	**12,841**	**12,645**	**12,244**	**11,741**	**11,204**	**10,675**
Less Net Assets Available to GSF							
Opening net asset value	4,958	4,947	5,145	5,239	5,168	5,093	5,015
Investment valuation changes	459	252	401	266	262	259	254
Contribution and other income less benefit payments	(272)	(304)	(307)	(337)	(337)	(337)	(334)
Closing net asset value	**5,145**	**4,895**	**5,239**	**5,168**	**5,093**	**5,015**	**4,935**
Net GSF Liability							
Opening unfunded liability	8,765	8,252	8,038	7,406	7,076	6,648	6,189
Net projected change	(727)	(306)	(632)	(330)	(428)	(459)	(449)
Closing unfunded liability	**8,038**	**7,946**	**7,406**	**7,076**	**6,648**	**6,189**	**5,740**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	9,129	6,351	7,832	5,906	5,929	5,590	5,709
Veterans' disability entitlements	2,651	2,758	2,651	2,658	2,643	2,625	2,603
Provision for National Provident Fund guarantee	638	582	613	572	527	485	444
Other provisions	3,008	2,707	3,124	2,773	2,491	2,423	2,398
Total provisions	**15,426**	**12,398**	**14,220**	**11,909**	**11,590**	**11,123**	**11,154**
NOTE 15: New Zealand Emissions Trading Scheme							
Opening liability	11,308	8,360	6,125	7,322	6,600	6,168	5,877
Units sold	832	894	439	785	688	585	479
Allocated units	1,103	1,201	1,259	1,273	1,334	1,418	1,505
Units surrendered	(1,583)	(2,707)	(2,841)	(2,730)	(2,375)	(2,210)	(2,172)
(Gains)/ losses due to revaluation in NZ Units	(5,620)	-	2,346	-	-	-	-
Other movements	85	(68)	(6)	(50)	(79)	(84)	(9)
Closing liability	**6,125**	**7,680**	**7,322**	**6,600**	**6,168**	**5,877**	**5,680**

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

The prices for NZUs used to calculate the NZ ETS liability are assumed to remain constant over the forecast period and are based on the market price at 31 March 2024 of $58.35.

NOTE 16: Borrowings

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Borrowings							
Government bonds	105,162	128,657	127,316	155,201	177,612	197,055	201,122
Kiwi Group customer deposits	24,972	27,213	26,642	29,805	32,293	34,921	37,592
Settlement deposits with Reserve Bank	49,915	39,300	44,000	37,500	31,000	24,500	24,500
Derivatives in loss	7,311	4,880	6,240	5,357	4,978	4,570	4,345
Treasury bills	2,891	2,960	5,631	5,801	5,805	5,801	5,700
European Commercial Paper	2,236	6,058	12,385	6,960	6,961	6,960	6,960
Finance lease liabilities	1,220	1,070	1,035	942	1,155	1,051	1,014
Government retail stock	157	143	162	162	161	161	162
Other borrowings	32,891	33,114	36,589	37,154	39,951	41,056	42,222
Total borrowings	**226,755**	**243,395**	**260,000**	**278,882**	**299,916**	**316,075**	**323,617**
By guarantee							
Sovereign-guaranteed debt	175,791	189,547	205,729	220,945	236,614	249,512	253,558
Non sovereign-guaranteed debt	50,964	53,848	54,271	57,937	63,302	66,563	70,059
Total borrowings	**226,755**	**243,395**	**260,000**	**278,882**	**299,916**	**316,075**	**323,617**

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities are not explicitly guaranteed by the Crown.

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 17: Changes in Net Worth							
Taxpayers' funds	8,380	5,540	5,495	(1,726)	(3,717)	196	9,246
Property, plant and equipment revaluation reserve	174,575	164,210	174,432	174,430	174,434	174,438	174,441
Defined benefit plan revaluation reserve	409	224	787	807	860	920	969
Veterans' disability entitlements reserve	(392)	(566)	(392)	(392)	(392)	(392)	(392)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	404	17	288	271	292	274	269
Fair value hedge reserve	186	229	300	254	263	266	266
Foreign currency translation reserve	(41)	(38)	(41)	(41)	(41)	(41)	(41)
Net worth attributable to minority interests	7,958	8,246	8,371	8,360	8,436	8,509	8,623
Total net worth	**191,472**	**177,855**	**189,233**	**181,956**	**180,128**	**184,163**	**193,374**
Taxpayers' funds							
Opening taxpayers' funds	2,480	6,932	8,380	5,495	(1,726)	(3,717)	196
Operating balance excluding minority interests	5,321	(1,406)	(2,988)	(7,147)	(1,925)	3,967	9,096
Transfers from/(to) other reserves	308	-	22	-	-	-	-
Other movements	271	14	81	(74)	(66)	(54)	(46)
Closing taxpayers' funds	**8,380**	**5,540**	**5,495**	**(1,726)**	**(3,717)**	**196**	**9,246**
Property, Plant and Equipment Revaluation							
Opening property, plant and equipment revaluation reserve	164,385	164,188	174,575	174,432	174,430	174,434	174,438
Net revaluations	10,870	-	(72)	-	-	-	-
Transfers from/(to) other reserves	(308)	22	(22)	(2)	4	4	3
Net revaluations attributable to minority interests	(372)	-	(49)	-	-	-	-
Closing property, plant and equipment revaluation reserve	**174,575**	**164,210**	**174,432**	**174,430**	**174,434**	**174,438**	**174,441**
Net Worth Attributable to Minority Interests							
Opening minority interest	7,283	7,908	7,958	8,371	8,360	8,436	8,509
Operating balance attributable to minority interests	555	448	550	530	549	562	618
Transactions with minority interest	(424)	(488)	(596)	(572)	(563)	(566)	(594)
Increase in minority interest from equity issues	66	370	390	34	86	90	94
Other (includes net revaluations)	478	8	69	(3)	4	(13)	(4)
Closing minority interest	**7,958**	**8,246**	**8,371**	**8,360**	**8,436**	**8,509**	**8,623**

Statement of Segments

	Core Crown 2023 Actual $m	Crown entities[1] 2023 Actual $m	State-owned Enterprises[1] 2023 Actual $m	Inter-segment eliminations 2023 Actual $m	Total Crown 2023 Actual $m
Statement of Financial Performance for the year ended 30 June 2023					
Revenue					
Taxation revenue	112,358	-	-	(646)	111,712
Other sovereign revenue	3,292	7,321	-	(2,206)	8,407
Revenue from core Crown funding	-	45,402	770	(46,172)	-
Sales of goods and services	1,631	3,507	17,509	(693)	21,954
Interest revenue	2,862	2,097	675	(622)	5,012
Other revenue	3,255	5,338	823	(3,490)	5,926
Total revenue (excluding gains)	**123,398**	**63,665**	**19,777**	**(53,829)**	**153,011**
Expenses					
Social assistance and official development assistance	40,003	-	-	(1,200)	38,803
Personnel expenses	10,449	22,326	3,330	(53)	36,052
Other operating expenses	70,550	36,430	13,822	(50,067)	70,735
Interest expenses	6,569	872	682	(675)	7,448
Insurance expenses	3	8,773	8	-	8,784
Total expenses (excluding losses)	**127,574**	**68,401**	**17,842**	**(51,995)**	**161,822**
Total gains/(losses) and other items	12,469	3,080	(659)	(758)	14,132
Operating balance	**8,293**	**(1,656)**	**1,276**	**(2,592)**	**5,321**
Expenses by functional classification					
Social security and welfare	*41,514*	*9,329*	*-*	*(1,998)*	*48,845*
Health	*28,489*	*27,766*	*-*	*(26,431)*	*29,824*
Education	*18,403*	*14,166*	*-*	*(12,960)*	*19,609*
Transport and communications	*5,472*	*6,105*	*8,599*	*(5,748)*	*14,428*
Other	*27,127*	*10,163*	*8,561*	*(4,183)*	*41,668*
Finance costs	*6,569*	*872*	*682*	*(675)*	*7,448*
Total expenses (excluding losses)	***127,574***	***68,401***	***17,842***	***(51,995)***	***161,822***
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	10,973	7,332	1,380	(894)	18,791
Receivables	25,674	7,712	2,738	(2,576)	33,548
Other financial assets	124,622	84,725	4,069	(25,074)	188,342
Property, plant and equipment	63,034	151,042	53,314	-	267,390
Equity accounted investments	64,817	14,680	414	(62,877)	17,034
Intangible assets and goodwill	1,583	981	1,593	(249)	3,908
Inventory and other assets	3,991	2,450	1,390	(178)	7,653
Total assets	**294,694**	**268,922**	**64,898**	**(91,848)**	**536,666**
Liabilities					
Borrowings	191,029	48,110	11,671	(24,055)	226,755
Other liabilities	44,324	73,097	11,424	(10,406)	118,439
Total liabilities	**235,353**	**121,207**	**23,095**	**(34,461)**	**345,194**
Total assets less total liabilities	**59,341**	**147,715**	**41,803**	**(57,387)**	**191,472**
Net worth					
Taxpayers' funds	17,678	44,244	10,052	(63,594)	8,380
Reserves	41,663	103,225	23,729	6,517	175,134
Net worth attributable to minority interests	-	246	8,022	(310)	7,958
Total net worth	**59,341**	**147,715**	**41,803**	**(57,387)**	**191,472**

1. Kiwi Group Capital is reported in the Crown Entities segment from November 2022.
Kiwi Group Holdings Limited was reported in the State-owned Enterprises segment prior to November 2022.

Statement of Segments (continued)

	Core Crown 2024 Forecast $m	Crown entities 2024 Forecast $m	State-owned Enterprises 2024 Forecast $m	Inter-segment eliminations 2024 Forecast $m	Total Crown 2024 Forecast $m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	118,995	-	-	(661)	118,334
Other sovereign revenue	4,581	8,079	-	(2,367)	10,293
Revenue from core Crown funding	-	48,529	813	(49,342)	-
Sales of goods and services	1,873	2,885	20,457	(868)	24,347
Interest revenue	4,306	3,275	182	(1,066)	6,697
Other revenue	2,620	4,966	1,060	(3,267)	5,379
Total revenue (excluding gains)	**132,375**	**67,734**	**22,512**	**(57,571)**	**165,050**
Expenses					
Social assistance and official development assistance	43,265	-	-	(1,339)	41,926
Personnel expenses	11,503	23,150	3,397	(59)	37,991
Other operating expenses	77,315	37,715	17,558	(54,198)	78,390
Interest expenses	8,939	1,809	550	(1,092)	10,206
Forecast for future new spending	3	9,823	12	-	9,838
Forecast for future new spending	-	-	-	-	-
Top-down operating expense adjustment	(2,700)	-	-	-	(2,700)
Total expenses (excluding losses)	**138,325**	**72,497**	**21,517**	**(56,688)**	**175,651**
Total gains/(losses) and other items	5,263	2,815	(442)	(23)	7,613
Operating balance	**(687)**	**(1,948)**	**553**	**(906)**	**(2,988)**
Expenses by functional classification					
Social security and welfare	*44,602*	*11,042*	-	*(2,242)*	*53,402*
Health	*30,176*	*26,502*	-	*(28,121)*	*28,557*
Education	*20,159*	*15,408*	-	*(14,196)*	*21,371*
Transport and communications	*5,971*	*6,973*	*9,757*	*(5,791)*	*16,910*
Other	*31,178*	*10,763*	*11,210*	*(5,246)*	*47,905*
Finance costs	*8,939*	*1,809*	*550*	*(1,092)*	*10,206*
Forecast for future new spending	-	-	-	-	-
Top-down operating expense adjustment	*(2,700)*	-	-	-	*(2,700)*
Total expenses (excluding losses)	***138,325***	***72,497***	***21,517***	***(56,688)***	***175,651***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	14,503	6,316	1,314	(1,093)	21,040
Receivables	28,670	7,793	2,669	(2,555)	36,577
Other financial assets	148,492	89,652	2,521	(36,065)	204,600
Property, plant and equipment	65,187	158,761	55,160	-	279,108
Equity accounted investments	69,312	14,744	466	(67,049)	17,473
Intangible assets and goodwill	1,789	691	1,612	(273)	3,819
Inventory and other assets	4,233	2,405	1,415	(178)	7,875
Forecast for new capital spending	-	-	-	-	-
Top-down capital adjustment	(1,000)	-	-	-	(1,000)
Total assets	**331,186**	**280,362**	**65,157**	**(107,213)**	**569,492**
Liabilities					
Borrowings	227,118	56,907	11,068	(35,093)	260,000
Other liabilities	45,225	73,828	11,494	(10,288)	120,259
Total liabilities	**272,343**	**130,735**	**22,562**	**(45,381)**	**380,259**
Total assets less total liabilities	**58,843**	**149,627**	**42,595**	**(61,832)**	**189,233**
Net worth					
Taxpayers' funds	17,014	45,909	10,641	(68,069)	5,495
Reserves	41,829	103,176	23,820	6,542	175,367
Net worth attributable to minority interests	-	542	8,134	(305)	8,371
Total net worth	**58,843**	**149,627**	**42,595**	**(61,832)**	**189,233**

Forecast Statement of Segments (continued)

	Core Crown 2025 Forecast $m	Crown entities 2025 Forecast $m	State-owned Enterprises 2025 Forecast $m	Inter-segment eliminations 2025 Forecast $m	Total Crown 2025 Forecast $m
Statement of Financial Performance for the year ended 30 June 2025					
Revenue					
Taxation revenue	122,851	-	-	(697)	122,154
Other sovereign revenue	4,524	8,672	-	(2,529)	10,667
Revenue from core Crown funding	-	48,121	581	(48,702)	-
Sales of goods and services	1,928	2,863	20,523	(894)	24,420
Interest revenue	4,129	2,882	123	(1,288)	5,846
Other revenue	2,572	5,052	842	(3,510)	4,956
Total revenue (excluding gains)	**136,004**	**67,590**	**22,069**	**(57,620)**	**168,043**
Expenses					
Social assistance and official development assistance	46,419	-	-	(1,703)	44,716
Personnel expenses	11,197	23,361	3,398	(61)	37,895
Other operating expenses	76,056	37,679	16,981	(53,691)	77,025
Interest expenses	9,224	1,662	604	(1,324)	10,166
Insurance expenses	3	10,199	13	-	10,215
Forecast for future new spending	3,796	-	-	-	3,796
Top-down operating expense adjustment	(2,800)	-	-	-	(2,800)
Total expenses (excluding losses)	**143,895**	**72,901**	**20,996**	**(56,779)**	**181,013**
Total gains/(losses) and other items	4,758	1,400	(249)	(86)	5,823
Operating balance	**(3,133)**	**(3,911)**	**824**	**(927)**	**(7,147)**
Expenses by functional classification					
Social security and welfare	*47,509*	*11,581*	*-*	*(2,699)*	*56,391*
Health	*30,587*	*27,184*	*-*	*(28,351)*	*29,420*
Education	*20,538*	*15,818*	*-*	*(14,601)*	*21,755*
Transport and communications	*6,019*	*6,024*	*9,296*	*(5,268)*	*16,071*
Other	*29,022*	*10,632*	*11,096*	*(4,536)*	*46,214*
Finance costs	*9,224*	*1,662*	*604*	*(1,324)*	*10,166*
Forecast for future new spending	*3,796*	*-*	*-*	*-*	*3,796*
Top-down operating expense adjustment	*(2,800)*	*-*	*-*	*-*	*(2,800)*
Total expenses (excluding losses)	***143,895***	***72,901***	***20,996***	***(56,779)***	***181,013***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	13,104	6,037	1,324	(1,095)	19,370
Receivables	23,398	8,185	2,688	(2,406)	31,865
Other financial assets	155,589	94,474	2,226	(41,020)	211,269
Property, plant and equipment	66,783	164,976	57,113	-	288,872
Equity accounted investments	76,422	14,775	542	(74,630)	17,109
Intangible assets and goodwill	1,910	711	1,659	(298)	3,982
Inventory and other assets	4,291	2,788	1,414	(178)	8,315
Forecast for new capital spending	2,094	-	-	-	2,094
Top-down capital adjustment	(2,550)	-	-	-	(2,550)
Total assets	**341,041**	**291,946**	**66,966**	**(119,627)**	**580,326**
Liabilities					
Borrowings	242,744	64,198	11,958	(40,018)	278,882
Other liabilities	42,567	75,252	11,546	(9,877)	119,488
Total liabilities	**285,311**	**139,450**	**23,504**	**(49,895)**	**398,370**
Total assets less total liabilities	**55,730**	**152,496**	**43,462**	**(69,732)**	**181,956**
Net worth					
Taxpayers' funds	13,881	48,823	11,515	(75,945)	(1,726)
Reserves	41,849	103,131	23,828	6,514	175,322
Net worth attributable to minority interests	-	542	8,119	(301)	8,360
Total net worth	**55,730**	**152,496**	**43,462**	**(69,732)**	**181,956**

Forecast Statement of Segments (continued)

	Core Crown 2026 Forecast $m	Crown entities 2026 Forecast $m	State-owned Enterprises 2026 Forecast $m	Inter-segment eliminations 2026 Forecast $m	Total Crown 2026 Forecast $m
Statement of Financial Performance for the year ended 30 June 2026					
Revenue					
Taxation revenue	131,403	-	-	(984)	130,419
Other sovereign revenue	4,325	9,322	-	(2,724)	10,923
Revenue from core Crown funding	-	48,445	523	(48,968)	-
Sales of goods and services	2,041	3,047	21,064	(919)	25,233
Interest revenue	3,777	3,032	118	(1,403)	5,524
Other revenue	2,662	5,360	675	(3,488)	5,209
Total revenue (excluding gains)	**144,208**	**69,206**	**22,380**	**(58,486)**	**177,308**
Expenses					
Social assistance and official development assistance	48,192	-	-	(1,800)	46,392
Personnel expenses	11,154	24,027	3,451	(61)	38,571
Other operating expenses	73,738	37,815	16,965	(54,266)	74,252
Interest expenses	9,556	1,844	718	(1,417)	10,701
Insurance expenses	4	10,437	13	-	10,454
Forecast for future new spending	5,464	-	-	-	5,464
Top-down operating expense adjustment	(450)	-	-	-	(450)
Total expenses (excluding losses)	**147,658**	**74,123**	**21,147**	**(57,544)**	**185,384**
Total gains/(losses) and other items	5,112	1,343	(279)	(25)	6,151
Operating balance	**1,662**	**(3,574)**	**954**	**(967)**	**(1,925)**
Expenses by functional classification					
Social security and welfare	*49,160*	*11,783*	*-*	*(2,851)*	*58,092*
Health	*31,893*	*28,321*	*-*	*(29,803)*	*30,411*
Education	*20,609*	*15,926*	*-*	*(14,582)*	*21,953*
Transport and communications	*4,352*	*5,615*	*9,300*	*(4,511)*	*14,756*
Other	*27,074*	*10,634*	*11,129*	*(4,380)*	*44,457*
Finance costs	*9,556*	*1,844*	*718*	*(1,417)*	*10,701*
Forecast for future new spending	*5,464*	*-*	*-*	*-*	*5,464*
Top-down operating expense adjustment	*(450)*	*-*	*-*	*-*	*(450)*
Total expenses (excluding losses)	***147,658***	***74,123***	***21,147***	***(57,544)***	***185,384***
Statement of Financial Position as at 30 June 2026					
Assets					
Cash and cash equivalents	14,191	6,532	1,301	(1,095)	20,929
Receivables	24,012	8,528	2,707	(2,499)	32,748
Other financial assets	163,380	99,491	2,357	(42,972)	222,256
Property, plant and equipment	67,593	168,434	59,381	-	295,408
Equity accounted investments	82,453	14,873	641	(80,438)	17,529
Intangible assets and goodwill	1,921	705	1,770	(341)	4,055
Inventory and other assets	4,233	2,852	1,418	(177)	8,326
Forecast for new capital spending	4,611	-	-	-	4,611
Top-down capital adjustment	(3,200)	-	-	-	(3,200)
Total assets	**359,194**	**301,415**	**69,575**	**(127,522)**	**602,662**
Liabilities					
Borrowings	258,967	69,505	13,427	(41,983)	299,916
Other liabilities	42,782	78,027	11,518	(9,709)	122,618
Total liabilities	**301,749**	**147,532**	**24,945**	**(51,692)**	**422,534**
Total assets less total liabilities	**57,445**	**153,883**	**44,630**	**(75,830)**	**180,128**
Net worth					
Taxpayers' funds	15,544	50,199	12,596	(82,056)	(3,717)
Reserves	41,901	103,142	23,840	6,526	175,409
Net worth attributable to minority interests	-	542	8,194	(300)	8,436
Total net worth	**57,445**	**153,883**	**44,630**	**(75,830)**	**180,128**

Forecast Statement of Segments (continued)

	Core Crown 2027 Forecast $m	Crown entities 2027 Forecast $m	State-owned Enterprises 2027 Forecast $m	Inter-segment eliminations 2027 Forecast $m	Total Crown 2027 Forecast $m
Statement of Financial Performance for the year ended 30 June 2027					
Revenue					
Taxation revenue	140,156	-	-	(942)	139,214
Other sovereign revenue	4,206	10,025	-	(2,926)	11,305
Revenue from core Crown funding	-	49,432	480	(49,912)	-
Sales of goods and services	2,027	3,207	21,039	(946)	25,327
Interest revenue	3,937	3,101	123	(1,499)	5,662
Other revenue	2,759	5,424	290	(3,201)	5,272
Total revenue (excluding gains)	**153,085**	**71,189**	**21,932**	**(59,426)**	**186,780**
Expenses					
Social assistance and official development assistance	49,841	-	-	(1,860)	47,981
Personnel expenses	11,128	24,615	3,479	(62)	39,160
Other operating expenses	73,785	38,222	16,901	(55,100)	73,808
Interest expenses	10,445	1,891	770	(1,512)	11,594
Insurance expenses	3	10,993	14	-	11,010
Forecast for future new spending	6,264	-	-	-	6,264
Top-down operating expense adjustment	(350)	-	-	-	(350)
Total expenses (excluding losses)	**151,116**	**75,721**	**21,164**	**(58,534)**	**189,467**
Total gains/(losses) and other items	5,523	1,406	(253)	(22)	6,654
Operating balance	**7,492**	**(3,126)**	**515**	**(914)**	**3,967**
Expenses by functional classification					
Social security and welfare	*50,765*	*12,349*	*-*	*(2,963)*	*60,151*
Health	*33,362*	*29,668*	*-*	*(31,299)*	*31,731*
Education	*20,625*	*15,843*	*-*	*(14,491)*	*21,977*
Transport and communications	*3,675*	*5,222*	*9,358*	*(3,839)*	*14,416*
Other	*26,330*	*10,748*	*11,036*	*(4,430)*	*43,684*
Finance costs	*10,445*	*1,891*	*770*	*(1,512)*	*11,594*
Forecast for future new spending	*6,264*	*-*	*-*	*-*	*6,264*
Top-down operating expense adjustment	*(350)*	*-*	*-*	*-*	*(350)*
Total expenses (excluding losses)	***151,116***	***75,721***	***21,164***	***(58,534)***	***189,467***
Statement of Financial Position as at 30 June 2027					
Assets					
Cash and cash equivalents	13,127	6,903	1,316	(1,093)	20,253
Receivables	24,573	9,095	2,713	(2,557)	33,824
Other financial assets	172,864	104,958	2,421	(46,067)	234,176
Property, plant and equipment	67,304	173,325	60,252	-	300,881
Equity accounted investments	88,951	14,944	713	(86,830)	17,778
Intangible assets and goodwill	1,890	757	1,833	(363)	4,117
Inventory and other assets	4,207	2,910	1,423	(178)	8,362
Forecast for new capital spending	8,007	-	-	-	8,007
Top-down capital adjustment	(3,550)	-	-	-	(3,550)
Total assets	**377,373**	**312,892**	**70,671**	**(137,088)**	**623,848**
Liabilities					
Borrowings	271,996	74,669	14,494	(45,084)	316,075
Other liabilities	40,380	81,391	11,413	(9,574)	123,610
Total liabilities	**312,376**	**156,060**	**25,907**	**(54,658)**	**439,685**
Total assets less total liabilities	**64,997**	**156,832**	**44,764**	**(82,430)**	**184,163**
Net worth					
Taxpayers' funds	23,036	53,145	12,666	(88,651)	196
Reserves	41,961	103,145	23,833	6,519	175,458
Net worth attributable to minority interests	-	542	8,265	(298)	8,509
Total net worth	**64,997**	**156,832**	**44,764**	**(82,430)**	**184,163**

Forecast Statement of Segments (continued)

	Core Crown 2028 Forecast $m	Crown entities 2028 Forecast $m	State-owned Enterprises 2028 Forecast $m	Inter-segment eliminations 2028 Forecast $m	Total Crown 2028 Forecast $m
Statement of Financial Performance for the year ended 30 June 2028					
Revenue					
Taxation revenue	148,237	-	-	(1,009)	147,228
Other sovereign revenue	4,212	10,724	-	(3,109)	11,827
Revenue from core Crown funding	-	49,391	465	(49,856)	-
Sales of goods and services	2,091	3,362	21,476	(968)	25,961
Interest revenue	4,239	3,243	144	(1,607)	6,019
Other revenue	2,892	5,465	329	(3,305)	5,381
Total revenue (excluding gains)	**161,671**	**72,185**	**22,414**	**(59,854)**	**196,416**
Expenses					
Social assistance and official development assistance	51,976	-	-	(1,863)	50,113
Personnel expenses	11,147	25,317	3,511	(64)	39,911
Other operating expenses	73,673	36,571	17,218	(55,365)	72,097
Interest expenses	11,278	1,990	781	(1,623)	12,426
Insurance expenses	3	11,634	15	-	11,652
Forecast for future new spending	8,627	-	-	-	8,627
Top-down operating expense adjustment	(350)	-	-	-	(350)
Total expenses (excluding losses)	**156,354**	**75,512**	**21,525**	**(58,915)**	**194,476**
Total gains/(losses) and other items	5,957	1,521	(293)	(29)	7,156
Operating balance	**11,274**	**(1,806)**	**596**	**(968)**	**9,096**
Expenses by functional classification					
Social security and welfare	*52,899*	*13,016*	*-*	*(3,025)*	*62,890*
Health	*33,505*	*29,768*	*-*	*(31,466)*	*31,807*
Education	*20,551*	*15,736*	*-*	*(14,359)*	*21,928*
Transport and communications	*4,007*	*4,741*	*9,456*	*(4,204)*	*14,000*
Other	*25,837*	*10,261*	*11,288*	*(4,238)*	*43,148*
Finance costs	*11,278*	*1,990*	*781*	*(1,623)*	*12,426*
Forecast for future new spending	*8,627*	*-*	*-*	*-*	*8,627*
Top-down operating expense adjustment	*(350)*	*-*	*-*	*-*	*(350)*
Total expenses (excluding losses)	***156,354***	***75,512***	***21,525***	***(58,915)***	***194,476***
Statement of Financial Position as at 30 June 2028					
Assets					
Cash and cash equivalents	13,172	7,153	1,340	(1,093)	20,572
Receivables	25,215	9,477	2,754	(2,509)	34,937
Other financial assets	182,511	111,420	2,860	(48,528)	248,263
Property, plant and equipment	66,729	175,397	60,757	-	302,883
Equity accounted investments	92,364	15,029	783	(90,137)	18,039
Intangible assets and goodwill	1,836	801	1,832	(322)	4,147
Inventory and other assets	4,052	2,949	1,428	(177)	8,252
Forecast for new capital spending	10,626	-	-	-	10,626
Top-down capital adjustment	(3,800)	-	-	-	(3,800)
Total assets	**392,705**	**322,226**	**71,754**	**(142,766)**	**643,919**
Liabilities					
Borrowings	276,534	79,178	15,447	(47,542)	323,617
Other liabilities	39,851	84,919	11,440	(9,282)	126,928
Total liabilities	**316,385**	**164,097**	**26,887**	**(56,824)**	**450,545**
Total assets less total liabilities	**76,320**	**158,129**	**44,867**	**(85,942)**	**193,374**
Net worth					
Taxpayers' funds	34,309	54,438	12,656	(92,157)	9,246
Reserves	42,011	103,149	23,833	6,512	175,505
Net worth attributable to minority interests	-	542	8,378	(297)	8,623
Total net worth	**76,320**	**158,129**	**44,867**	**(85,942)**	**193,374**

Fiscal Indicator Analysis

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

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

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

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

Expenses by Functional Classification

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

Core Crown Residual Cash

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

Debt Indicators

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

Gross debt represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Net core Crown debt represents gross sovereign-issued 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.

The Government's headline debt indicator is net core Crown debt.

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

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

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

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Operating Balance							
Total revenue	153,011	166,334	165,050	168,043	177,308	186,780	196,416
Total expenses	161,822	173,412	175,651	181,013	185,384	189,467	194,476
Total gains/(losses)	14,658	6,040	8,066	6,305	6,544	7,068	7,586
Net surplus from associates and joint ventures	29	80	97	48	156	148	188
Less Minority interests' share of operating balance	(555)	(448)	(550)	(530)	(549)	(562)	(618)
Operating balance	**5,321**	**(1,406)**	**(2,988)**	**(7,147)**	**(1,925)**	**3,967**	**9,096**
Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses							
Operating balance	**5,321**	**(1,406)**	**(2,988)**	**(7,147)**	**(1,925)**	**3,967**	**9,096**
Less items excluded from OBEGAL:							
Net gains/(losses) on financial instruments	7,711	6,040	9,352	6,305	6,544	7,068	7,586
Net gains/(losses) on non-financial instruments	6,947	-	(1,286)	-	-	-	-
Minority interests share of total gains/(losses)	80	36	(77)	(128)	(123)	(145)	(149)
Net surplus from associates and joint ventures	29	80	97	48	156	148	188
OBEGAL	**(9,446)**	**(7,562)**	**(11,074)**	**(13,372)**	**(8,502)**	**(3,104)**	**1,471**

Expenses by Functional Classification

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	48,845	53,250	53,402	56,391	58,092	60,151	62,890
Health	29,824	28,161	28,557	29,420	30,411	31,731	31,807
Education	19,609	20,715	21,371	21,755	21,953	21,977	21,928
Core government services	6,663	6,411	7,748	6,759	6,243	5,683	5,454
Law and order	6,666	6,822	7,192	7,275	7,156	7,069	7,157
Transport and communications	14,428	14,684	16,910	16,071	14,756	14,416	14,000
Economic and industrial services	12,384	14,358	15,237	14,443	14,360	14,205	14,369
Defence	2,838	3,152	3,138	3,169	3,208	3,202	3,203
Heritage, culture and recreation	3,417	3,402	3,435	3,351	3,357	3,312	3,280
Primary services	2,740	2,590	2,986	2,580	2,488	2,408	2,295
Housing and community development	4,396	5,153	5,152	5,002	4,887	5,030	4,505
Environmental protection	2,353	2,766	2,792	2,818	2,539	2,557	2,668
GSF pension expenses	78	75	90	80	79	78	77
Other	133	237	135	737	140	140	140
Finance costs	7,448	8,505	10,206	10,166	10,701	11,594	12,426
Forecast new operating spending	-	5,731	-	3,796	5,464	6,264	8,627
Top-down operating expense adjustment	-	(2,600)	(2,700)	(2,800)	(450)	(350)	(350)
Total Crown expenses excluding losses	**161,822**	**173,412**	**175,651**	**181,013**	**185,384**	**189,467**	**194,476**

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.

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	41,514	44,623	44,602	47,509	49,160	50,765	52,899
Health	28,489	28,653	30,176	30,587	31,893	33,362	33,505
Education	18,403	19,383	20,159	20,538	20,609	20,625	20,551
Core government services	6,806	6,548	8,198	6,908	6,338	5,732	5,627
Law and order	6,165	6,337	6,687	6,656	6,552	6,489	6,476
Transport and communications	5,472	5,206	5,971	6,019	4,352	3,675	4,007
Economic and industrial services	3,690	3,955	4,294	3,529	3,417	3,402	3,287
Defence	2,886	3,178	3,184	3,215	3,254	3,248	3,249
Heritage, culture and recreation	1,537	1,433	1,602	1,429	1,417	1,366	1,342
Primary services	1,156	1,142	1,345	1,118	1,035	954	859
Housing and community development	2,312	2,879	2,834	2,531	2,294	2,350	2,088
Environmental protection	2,381	2,768	2,839	2,849	2,579	2,602	2,724
GSF pension expenses	61	56	60	50	48	47	45
Other	133	237	135	737	140	140	140
Finance costs	6,569	7,462	8,939	9,224	9,556	10,445	11,278
Forecast new operating spending	-	5,731	-	3,796	5,464	6,264	8,627
Top-down operating expense adjustment	-	(2,600)	(2,700)	(2,800)	(450)	(350)	(350)
Total core Crown expenses excluding losses	**127,574**	**136,991**	**138,325**	**143,895**	**147,658**	**151,116**	**156,354**

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

Core Crown Residual Cash

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	111,292	117,184	113,952	128,929	131,331	140,137	148,305
Other sovereign receipts	2,492	2,445	2,144	2,532	2,573	2,499	2,435
Interest receipts	982	1,505	1,625	2,943	2,634	2,708	2,995
Sale of goods and services and other receipts	3,954	3,398	3,610	3,546	3,657	3,696	3,830
Transfer payments and subsidies	(40,417)	(44,212)	(43,172)	(47,485)	(48,370)	(49,983)	(51,892)
Personnel and operating costs	(76,434)	(77,791)	(82,474)	(81,127)	(79,298)	(79,537)	(78,670)
Interest payments	(5,305)	(5,957)	(6,834)	(7,552)	(7,821)	(8,630)	(8,976)
Forecast for future new operating spending	-	(5,731)	-	(3,796)	(5,464)	(6,264)	(8,627)
Top-down operating expense adjustment	-	2,600	2,700	2,800	450	350	350
Net core Crown operating cash flows	**(3,436)**	**(6,559)**	**(8,449)**	**790**	**(308)**	**4,976**	**9,750**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(4,435)	(4,986)	(5,203)	(4,388)	(3,624)	(2,873)	(2,595)
Net decrease/(increase) in advances	(9,159)	(5,710)	(3,032)	4,416	5,181	(2,287)	(1,323)
Net purchase of investments	(6,060)	(7,242)	(4,566)	(8,328)	(6,324)	(6,822)	(3,567)
Contribution to NZS Fund	(2,558)	(1,614)	(1,614)	(879)	(905)	(923)	(839)
Forecast for future new capital spending	-	(2,964)	-	(2,094)	(2,517)	(3,396)	(2,619)
Top-down capital adjustment	-	2,200	1,000	1,550	650	350	250
Net core Crown capital cash flows	**(22,212)**	**(20,316)**	**(13,415)**	**(9,723)**	**(7,539)**	**(15,951)**	**(10,693)**
Residual cash (deficit)/surplus	**(25,648)**	**(26,875)**	**(21,864)**	**(8,933)**	**(7,847)**	**(10,975)**	**(943)**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	26,076	32,495	34,801	35,838	34,060	30,216	18,897
Repayment of government bonds	(21,879)	(18,481)	(18,213)	(19,192)	(19,067)	(23,032)	(16,031)
Net issue/(repayment) of short-term borrowing[1]	(66)	4,540	13,622	(5,400)	-	-	-
Total market debt cash flows	4,131	18,554	30,210	11,246	14,993	7,184	2,866
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	(300)	(345)	(300)	(100)	-	-	-
Total non-market debt cash flows	(300)	(345)	(300)	(100)	-	-	-
Total debt programme cash flows	**3,831**	**18,209**	**29,910**	**11,146**	**14,993**	**7,184**	**2,866**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	19,918	7,391	18,597	(2,022)	272	4,904	67
Net (repayment)/issue of foreign currency borrowing	(1,034)	(4,405)	(12,834)	6,238	(237)	(66)	(16)
Total other borrowing cash flows	**18,884**	**2,986**	**5,763**	**4,216**	**35**	**4,838**	**51**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	2,775	5,619	(11,674)	(6,434)	(7,267)	(1,210)	(2,100)
Net issues/(repayments) of circulating currency	(60)	93	129	91	92	93	94
Decrease/(increase) in cash	218	(32)	(2,264)	(86)	(6)	70	32
Total investing cash flows	**2,933**	**5,680**	**(13,809)**	**(6,429)**	**(7,181)**	**(1,047)**	**(1,974)**
Residual cash deficit/(surplus) funding/(investing)	**25,648**	**26,875**	**21,864**	**8,933**	**7,847**	**10,975**	**943**

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

Core Crown Residual Cash – Breakdown of Net Capital Expenditure Activity

for the years ending 30 June

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	5-year Total $m
Education	2,097	2,031	1,643	1,295	1,207	**8,273**
Defence	1,395	782	692	446	408	**3,723**
Corrections	287	248	205	198	195	**1,133**
Justice	197	187	204	217	143	**948**
Social Development	141	109	82	97	75	**504**
Police	160	175	152	99	99	**685**
Internal Affairs	114	122	54	54	54	**398**
Other	812	734	592	467	414	**3,019**
Net purchase of physical assets	**5,203**	**4,388**	**3,624**	**2,873**	**2,595**	**18,683**
Kāinga Ora	4,763	4,279	901	2,033	1,951	**13,927**
Waka Kotahi NZ Transport Agency	1,435	808	788	453	(547)	**2,937**
Small Business Cashflow Loan Scheme	(417)	(325)	(115)	(59)	(4)	**(919)**
Student Loans	(304)	(110)	(105)	(142)	(154)	**(815)**
Funding for Lending Programme	(2,856)	(9,254)	(6,711)	-	-	**(18,821)**
Other	411	186	61	2	77	**736**
Net advances	**3,032**	**(4,416)**	**(5,181)**	**2,287**	**1,323**	**(2,955)**
Health Sector	1,390	3,322	1,321	1,119	787	**7,939**
Waka Kotahi NZ Transport Agency	1,423	2,505	3,026	4,576	1,897	**13,427**
KiwiRail	645	696	763	230	124	**2,458**
Housing Acceleration Fund	171	544	288	369	414	**1,786**
City Rail Link	295	347	185	74	75	**976**
Other	642	914	741	454	270	**3,021**
Net investments	**4,566**	**8,328**	**6,324**	**6,822**	**3,567**	**29,607**
Future new capital spending	-	2,094	2,517	3,396	2,619	**10,626**
Top-down capital adjustment	(1,000)	(1,550)	(650)	(350)	(250)	**(3,800)**
Contribution to NZS Fund	1,614	879	905	923	839	**5,160**
Net capital spending	**13,415**	**9,723**	**7,539**	**15,951**	**10,693**	**57,321**

Debt Indicators

as at 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Net core Crown Debt:							
Core Crown borrowings[1]	191,029	209,411	227,118	242,744	258,967	271,996	276,534
Core Crown unsettled purchases of securities[2]	962	454	1,015	611	1,707	642	658
Less NZS Fund borrowings[3]	(3,093)	(2,522)	(3,679)	(3,276)	(4,439)	(3,389)	(3,403)
Borrowings included in net core Crown debt	**188,898**	**207,343**	**224,454**	**240,079**	**256,235**	**269,249**	**273,789**
Core Crown financial assets[4]	(135,595)	(139,025)	(162,995)	(168,693)	(177,571)	(185,991)	(195,683)
Core Crown unsettled sales of securities[2]	(2,565)	(1,489)	(2,463)	(2,375)	(2,399)	(2,427)	(2,455)
Less NZS Fund financial assets	67,994	70,710	77,889	81,907	88,974	94,225	100,737
Less core Crown advances	36,541	41,265	41,209	36,332	30,154	32,319	33,479
Financial assets included in net core Crown debt	**(33,625)**	**(28,539)**	**(46,360)**	**(52,829)**	**(60,842)**	**(61,874)**	**(63,922)**
Net core Crown debt	**155,273**	**178,804**	**178,094**	**187,250**	**195,393**	**207,375**	**209,867**
Net debt:							
Net core Crown debt (as above)	155,273	178,804	178,094	187,250	195,393	207,375	209,867
Crown entity borrowings[5]	48,110	55,844	56,907	64,198	69,505	74,669	79,178
Remove Kiwi Group borrowings[6]	(30,574)	(33,959)	(33,286)	(37,188)	(40,565)	(44,402)	(48,253)
Add core Crown advances	(36,541)	(41,265)	(41,209)	(36,332)	(30,154)	(32,319)	(33,479)
Net debt (excl. NZS Fund)	**136,268**	**159,424**	**160,506**	**177,928**	**194,179**	**205,323**	**207,313**
NZS Fund borrowings[3]	3,093	2,522	3,679	3,276	4,439	3,389	3,403
NZS Fund financial assets	(67,994)	(70,710)	(77,889)	(81,907)	(88,974)	(94,225)	(100,737)
Net debt	**71,367**	**91,236**	**86,296**	**99,297**	**109,644**	**114,487**	**109,979**
Gross Debt:							
Core Crown borrowings	191,029	209,411	227,118	242,744	258,967	271,996	276,534
Core Crown unsettled purchases of securities[2]	962	454	1,015	611	1,707	642	658
Less NZS Fund borrowings[3]	(3,093)	(2,522)	(3,679)	(3,276)	(4,439)	(3,389)	(3,403)
Less Reserve Bank settlement cash[7] and Reserve Bank bills	(53,109)	(44,000)	(49,871)	(43,371)	(36,871)	(30,371)	(30,371)
Gross Debt	**135,789**	**163,343**	**174,583**	**196,708**	**219,364**	**238,878**	**243,418**

Notes on borrowings

1. Core Crown borrowings represent the total debt obligations of the consolidated core Crown segment. This includes any government stock held by ACC and EQC and includes settlement deposits with the Reserve Bank.
2. Unsettled sales and purchases of securities are classified in the Statement of Financial Position as receivables and accounts payable, respectively.
3. The NZS Fund borrowings adjustment also reflects any government stock held by NZS Fund.
4. Core Crown financial assets includes any asset that is cash, deposits, share investments, advances, other marketable securities or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).
5. Crown entity borrowings represents the total debt obligations of the consolidated Crown entities. This includes debt issued by Crown entities, such as Kāinga Ora.
6. Kiwi Group borrowings includes Kiwi Group customer deposits as disclosed in Note 16: Borrowings and other 3rd party derivative balances.
7. Includes Reserve Bank's New Zealand dollar transactional banking services for other Central Banks and the International Monetary Fund.

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

Financial Results	2023 Actual $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Core Crown taxation revenue...	112,358	118,995	122,851	131,403	140,156	148,237
...combined with other core Crown revenue...	11,040	13,380	13,153	12,805	12,929	13,434
...funds core Crown expenses...	(127,574)	(138,325)	(143,895)	(147,658)	(151,116)	(156,354)
...and with SOE and CE[1] results...	(5,270)	(5,124)	(5,481)	(5,052)	(5,073)	(3,846)
...this results in an operating balance before gains and losses **(OBEGAL)**...	(9,446)	(11,074)	(13,372)	(8,502)	(3,104)	1,471
...with gains/losses leading to an **operating surplus/(deficit)...**	5,321	(2,988)	(7,147)	(1,925)	3,967	9,096
...with income in SOEs, CEs[1] and the NZS Fund retained...	(2,933)	(4,139)	(292)	(1,042)	(1,453)	(3,173)
...and some items do not impact cash	(5,824)	(1,322)	8,229	2,659	2,462	3,827
This leads to an operating residual cash surplus/(deficit)...	**(3,436)**	**(8,449)**	**790**	**(308)**	**4,976**	**9,750**
...used to make contributions to the NZS Fund...	(2,558)	(1,614)	(879)	(905)	(923)	(839)
...and to use for capital expenditure...	(4,435)	(5,203)	(4,388)	(3,624)	(2,873)	(2,595)
...and to make advances	(9,159)	(3,032)	4,416	5,181	(2,287)	(1,323)
...and to purchase investments	(6,060)	(4,566)	(8,328)	(6,324)	(6,822)	(3,567)
Adjusting for forecast adjustments (top-down/new spending)...	-	1,000	(544)	(1,867)	(3,046)	(2,369)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(25,648)**	**(21,864)**	**(8,933)**	**(7,847)**	**(10,975)**	**(943)**
Opening net core Crown debt...	128,873	155,273	178,094	187,250	195,393	207,375
...when combined with the residual cash (surplus)/deficit...	25,648	21,864	8,933	7,847	10,975	943
...and other fair value movements in financial assets and financial liabilities...	752	957	223	296	1,007	1,549
...results in a closing **net core Crown debt...**	**155,273**	**178,094**	**187,250**	**195,393**	**207,375**	**209,867**
...which as a % of GDP is	**39.3%**	**43.1%**	**43.5%**	**43.0%**	**43.3%**	**41.8%**

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

5

Core Crown Expense Tables

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Social security and welfare	28,740	44,028	36,759	42,860	41,514	44,602	47,509	49,160	50,765	52,899
Health	18,268	19,891	22,784	27,781	28,489	30,176	30,587	31,893	33,362	33,505
Education	14,293	16,322	16,039	18,023	18,403	20,159	20,538	20,609	20,625	20,551
Core government services	5,166	6,083	5,754	5,720	6,806	8,198	6,908	6,338	5,732	5,627
Law and order	4,625	4,911	5,202	5,444	6,165	6,687	6,656	6,552	6,489	6,476
Transport and communications	2,889	3,179	5,656	4,657	5,472	5,971	6,019	4,352	3,675	4,007
Economic and industrial services	3,006	3,988	4,481	8,078	3,690	4,294	3,529	3,417	3,402	3,287
Defence	2,395	2,499	2,664	2,832	2,886	3,184	3,215	3,254	3,248	3,249
Heritage, culture and recreation	918	1,106	1,420	1,468	1,537	1,602	1,429	1,417	1,366	1,342
Primary services	960	961	1,015	949	1,156	1,345	1,118	1,035	954	859
Housing and community development	727	1,015	1,813	2,033	2,312	2,834	2,531	2,294	2,350	2,088
Environmental protection	1,119	1,485	1,906	2,549	2,381	2,839	2,849	2,579	2,602	2,724
GSF pension expenses	66	73	99	94	61	60	50	48	47	45
Other	96	63	254	269	133	135	737	140	140	140
Finance costs	3,691	3,228	1,918	2,884	6,569	8,939	9,224	9,556	10,445	11,278
Forecast new operating spending	..	..	..	..	..	..	3,796	5,464	6,264	8,627
Top-down operating expense adjustment	..	..	..	..	..	(2,700)	(2,800)	(450)	(350)	(350)
Core Crown expenses	**86,959**	**108,832**	**107,764**	**125,641**	**127,574**	**138,325**	**143,895**	**147,658**	**151,116**	**156,354**

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.

Source: The Treasury

Table 5.1 – Social security and welfare expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Welfare benefits (see below)[1]	26,689	41,308	33,671	39,187	37,576	40,248	43,306	45,190	46,889	48,967
Departmental expenses	1,784	2,062	2,424	2,747	2,782	3,084	2,891	2,715	2,609	2,636
Social rehabilitation and compensation	249	260	333	358	386	415	447	481	517	553
Flexi-wage subsidy	..	..	8	59	52	25	27	..	..	..
COVID-19 Income Relief Assistance	..	15	182	..	..	..	..	..	..	..
Other non-departmental expenses[1,2]	18	383	141	509	718	830	838	774	750	743
Social security and welfare expenses	**28,740**	**44,028**	**36,759**	**42,860**	**41,514**	**44,602**	**47,509**	**49,160**	**50,765**	**52,899**

1. The '2023 Actual' has been restated to include expenses previously classified as other benefits within the welfare benefit expenses table below.
2. The '2020 Actual' other non-departmental expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.2 – Welfare benefit expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
New Zealand Superannuation	14,562	15,521	16,569	17,764	19,517	21,567	23,194	24,701	26,225	27,883
Jobseeker Support and Emergency Benefit	1,854	2,285	3,224	3,330	3,473	4,048	4,435	4,453	4,435	4,481
Supported Living Payment	1,556	1,650	1,826	2,047	2,311	2,528	2,661	2,750	2,819	2,884
Sole Parent Support	1,115	1,231	1,455	1,704	1,917	2,094	2,245	2,249	2,233	2,241
Family Tax Credit	2,131	2,189	2,103	2,017	2,151	2,281	2,316	2,276	2,285	2,420
Other Working for Families tax credits	635	641	585	519	476	461	594	595	580	582
Accommodation Assistance[1]	1,640	1,923	2,302	2,386	2,349	2,427	2,495	2,490	2,450	2,467
Income-Related Rents	974	1,071	1,202	1,323	1,322	1,459	1,619	1,819	1,920	1,943
Disability Assistance	386	395	409	412	431	467	496	511	523	537
Winter Energy Payment	441	669	812	513	519	535	555	565	573	582
Best start	48	184	271	308	321	340	339	333	333	349
Orphan's/Unsupported Child's Benefit	225	248	293	313	350	383	405	417	426	434
Hardship Assistance	300	418	479	497	673	671	751	787	806	847
Paid Parental Leave	369	422	503	603	608	650	685	730	765	800
Childcare Assistance	183	144	145	132	139	168	196	204	214	223
FamilyBoost tax credit	..	..	..	..	..	..	174	171	167	165
Veteran's Support Entitlement[2]	90	66	..	..	..	..	..	..	..	..
Veteran's Pension	153	145	139	134	132	132	129	124	118	113
Wage Subsidy Scheme	..	12,095	1,197	4,689	..	1	..	..	..	..
Cost of living payment	..	..	..	..	600	..	..	..	..	..
Covid leave support	..	..	..	471	273	20	..	..	..	..
Other benefits[3,4]	27	11	157	25	14	16	17	15	17	16
Benefit expenses	**26,689**	**41,308**	**33,671**	**39,187**	**37,576**	**40,248**	**43,306**	**45,190**	**46,889**	**48,967**

1. Includes emergency housing assistance.
2. Expenditure on Veteran's support entitlements are no longer recognised from '2021 Actual' owing to a change in accounting treatment.
3. The '2021 Actual' for other benefits include costs in relation to the Government's response to COVID-19.
4. The '2023 Actual' has been restated to reclassify expenses from other benefits to other non-departmental expenses within the social security and welfare expenses table above.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
New Zealand Superannuation	767	795	825	848	870	899	927	958	989	1,021
Jobseeker Support and Emergency Benefit	139	162	211	193	177	193	204	200	195	192
Supported living payment	95	96	97	98	103	105	107	108	108	108
Sole parent support	59	61	66	70	73	76	78	76	74	73
Accommodation Supplement	295	318	364	353	347	358	370	370	365	365

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

Source: Ministry of Social Development

Table 5.3 – Health expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	210	236	298	386	222	269	232	214	214	210
Purchasing of health services[1]	13,968	15,537	16,837	17,727	21,363	23,784	24,477	25,771	27,098	27,107
National disability support services	1,358	1,599	1,659	1,870	2,062	2,361	2,594	2,508	2,518	2,538
National Pharmaceuticals Purchasing[2]	985	1,040	1,045	1,085	1,186	1,806	1,582	1,604	1,618	1,619
Other non-departmental outputs	1,014	767	623	770	583	620	624	629	642	661
Health payments to ACC	705	679	1,038	896	952	1,010	1,071	1,162	1,265	1,362
National health response to COVID-19[3]	..	..	1,261	4,965	2,112	316	..	..	..	..
Other expenses	28	33	23	82	9	10	7	5	7	8
Health expenses	**18,268**	**19,891**	**22,784**	**27,781**	**28,489**	**30,176**	**30,587**	**31,893**	**33,362**	**33,505**

1. Reforms to the NZ health system took place from 1 July 2022 with the regional DHB systems replaced by a national health system.
2. Previously included in purchasing of health services.
3. This line includes spending in relation to vaccines, managed isolation and quarantine as well as the overall COVID-19 response.

Source: The Treasury

Table 5.4 – Education expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Early childhood education	1,896	2,007	2,132	2,247	2,355	2,617	2,811	2,879	2,906	2,963
Primary and secondary schools (see below)	6,823	7,108	8,230	8,478	8,616	9,715	10,040	10,225	10,128	9,943
Tertiary funding (see below)	4,112	5,621	3,519	4,804	4,663	4,934	5,151	5,026	5,008	5,094
Departmental expenses	1,416	1,534	1,656	1,962	2,188	2,526	2,322	2,293	2,398	2,391
COVID-19 apprentice support	..	..	156	255	141	112	32	26	26	26
Other education expenses[1]	46	52	346	277	440	255	182	160	159	134
Education expenses	**14,293**	**16,322**	**16,039**	**18,023**	**18,403**	**20,159**	**20,538**	**20,609**	**20,625**	**20,551**

1. Includes training incentive allowance.

Source: The Treasury

Number of places provided[1]	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Early childhood education	221,137	221,971	225,192	220,859	219,800	220,489	222,763	224,912	228,215	230,382

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

Source: The Ministry of Education

Table 5.5 – Primary and secondary schools

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Primary	3,452	3,600	4,107	4,122	4,116	4,617	4,921	5,007	5,007	4,949
Secondary	2,606	2,683	3,043	3,135	3,174	3,667	3,626	3,740	3,766	3,765
School transport	206	208	216	210	235	255	256	256	256	256
Special needs support	447	515	641	658	673	740	784	803	820	810
Professional development	104	91	104	129	128	118	147	153	129	129
Schooling improvement	8	7	25	20	23	34	31	34	34	34
School lunch programme	..	4	94	204	267	284	275	232	116	..
Primary and secondary education expenses	**6,823**	**7,108**	**8,230**	**8,478**	**8,616**	**9,715**	**10,040**	**10,225**	**10,128**	**9,943**

Source: The Treasury

Number of places provided[1]	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Primary	527,429	530,379	529,859	520,060	523,982	525,026	522,399	517,481	513,797	507,763
Secondary	279,904	286,511	294,216	297,309	303,706	311,545	316,696	319,511	319,756	317,617

1. These are snapshots as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude home schooling. They are the number of full-time equivalent students enrolled in New Zealand schools, including State, State-integrated, Private-Fully Registered, Private-Provisionally Registered and other.

Source: The Ministry of Education

Table 5.6 – Tertiary funding

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Tuition[1]	2,571	3,911	2,019	3,205	3,135	3,166	3,219	3,097	3,047	3,099
Other tertiary funding	606	637	698	755	729	700	720	643	643	640
Student allowances	583	567	590	556	525	529	579	610	612	616
Student loans	352	506	212	288	274	539	633	676	706	739
Tertiary education expenses	**4,112**	**5,621**	**3,519**	**4,804**	**4,663**	**4,934**	**5,151**	**5,026**	**5,008**	**5,094**

1. The '2020 Actual' includes increased funding to provide revenue certainty to tertiary education organisations for the June to December 2020 period due to the impact of COVID-19. There is a corresponding reduction in the '2021 Actual' with the timing of funding returning to normal from 2022.

Source: The Treasury

Number of places provided[1]	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Actual delivered and estimated funded places	217,767	214,172	234,350	219,862	213,457	273,300	271,100	260,600	260,300	259,400

1. Tertiary places are the number of equivalent full time (EFT) students in: student achievement component; adult and community education; and youth guarantee programmes. Place numbers are based on calendar years rather than fiscal years. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. The forecast number of places provided is based on the number of places that can be funded under the current funding and not a forecast based on demand. From 2023, places include Industry Training Funding.

Source: Tertiary Education Commission

Table 5.7 – Core government services expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental expenses	2,199	2,249	2,271	2,477	2,736	2,874	2,790	2,566	2,466	2,476
International Development Cooperation	708	736	804	827	971	1,214	1,103	953	853	853
Tax receivable write-down and impairments	829	1,356	882	662	1,453	1,900	1,676	948	948	948
Non-departmental expenses[1]	961	785	905	928	703	505	578	1,053	752	675
North Island weather events	..	..	..	..		707	146	248	161	132
Science expenses	103	113	121	114	128	120	120	123	127	124
Indemnity and guarantee expenses	16	14	6	3	24	37	31	25	24	23
Crown Research Institutes: COVID-19	..	45	45	..	..	..	..	..	..	..
Shovel ready project funding	..	..	137	..	3	25	..	..	..	..
Other expenses[1,2]	350	785	583	709	788	816	464	422	401	396
Core government service expenses	**5,166**	**6,083**	**5,754**	**5,720**	**6,806**	**8,198**	**6,908**	**6,338**	**5,732**	**5,627**

1. The '2023 Actual' has been restated to update sub-classifications.
2. The '2020 Actual' other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.8 – Law and order expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Police	1,760	1,997	2,079	2,206	2,476	2,658	2,528	2,392	2,360	2,353
Department of Corrections	1,417	1,527	1,641	1,645	1,798	1,980	2,085	2,140	2,128	2,123
Ministry of Justice	542	591	642	704	748	833	813	804	804	803
NZ Customs Service[1]	187	201	182	200	190	206	254	253	252	252
Other departments[1]	111	163	178	152	231	240	253	240	240	240
Departmental expenses	**4,017**	**4,479**	**4,722**	**4,907**	**5,443**	**5,917**	**5,933**	**5,829**	**5,784**	**5,771**
Non-departmental outputs	457	419	477	537	712	721	678	681	663	663
Other expenses	151	13	3	..	10	49	45	42	42	42
Law and order expenses	**4,625**	**4,911**	**5,202**	**5,444**	**6,165**	**6,687**	**6,656**	**6,552**	**6,489**	**6,476**

1. The '2023 Actual' has been restated to update sub-classifications.

Source: The Treasury

Table 5.9 – Transport and communication expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	60	70	73	82	124	137	108	105	82	82
Waka Kotahi NZ Transport Agency	2,601	2,719	3,122	2,782	2,212	3,240	3,465	3,543	3,341	3,698
Rail funding	3	3	13	310	567	1,012	748	464	10	..
Funding to support the aviation and transport industries	..	78	570	554	197	89	89	..	..	..
North Island weather events	..	..	..	..	250	481	322	..	..	..
Funding to support Waka Kotahi NZ Transport Agency due to impact of COVID-19	..	..	322	128	18	65	1	..	..	..
Shovel ready project funding to Crown Infrastructure Partners	..	..	1,035	..	..	326	..	..	..	..
Transport temporary relief package[1]	..	..	..	411	1,613	..	..	..	..	..
Other non-departmental expenses	158	145	169	200	395	343	206	154	155	139
Other expenses[2]	67	164	352	190	96	278	1,080	86	87	88
Transport and communication expenses	**2,889**	**3,179**	**5,656**	**4,657**	**5,472**	**5,971**	**6,019**	**4,352**	**3,675**	**4,007**

1. Largely reflects operating funding to Waka Kotahi NZ Transport Agency to account for the shortfall in revenue as a result of temporary reductions in fuel excise duty and road user charges.
2. The '2020 Actual' to '2022 Actual' for other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.10 – Economic and industrial services expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	499	561	633	626	695	808	649	641	622	621
Non-departmental outputs[1,2]	1,338	1,619	1,980	1,701	1,573	1,909	1,448	1,442	1,405	1,286
KiwiSaver (includes HomeStart grant)	951	893	916	964	997	1,061	1,104	1,149	1,196	1,246
Initial fair value write-down on the Small Business Cashflow Scheme loans	..	686	143	230	54	2	..	..	..	..
COVID-19 Resurgence Support payments	..	..	200	4,019	..	..	..	..	..	..
Shovel ready project to support energy projects	..	..	24	14	13	43	..	..	..	..
Shovel ready project funding to support regional projects	..	..	159	174	67	..	..	..	..	..
Worker redeployment package	..	19	50	6	1	..	..	..	..	..
Other expenses[3]	218	210	376	344	290	471	328	185	179	134
Economic and industrial services expenses	**3,006**	**3,988**	**4,481**	**8,078**	**3,690**	**4,294**	**3,529**	**3,417**	**3,402**	**3,287**

1. Non-departmental outputs include Provincial Growth Fund expenses.
2. Non-departmental outputs include employment initiatives previously presented separately.
3. The '2020 Actual' to '2022 Actual' other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.11 – Defence expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
New Zealand Defence Force expenses	2,286	2,418	2,531	2,672	2,754	3,037	3,079	3,093	3,096	3,096
Other expenses	109	81	133	160	132	147	136	161	152	153
Defence expenses	**2,395**	**2,499**	**2,664**	**2,832**	**2,886**	**3,184**	**3,215**	**3,254**	**3,248**	**3,249**

Source: The Treasury

Table 5.12 – Heritage, culture and recreation expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	305	326	379	374	449	503	481	529	529	505
Non-departmental outputs	538	627	884	809	837	878	818	840	789	789
Screen Production Grants	42	31	48	69	66	86	75	..	..	..
COVID-19 cultural sector response	..	..	6	73	70	36	1	..	..	..
Other expenses[1]	33	122	103	143	115	99	54	48	48	48
Heritage, culture and recreation expenses	**918**	**1,106**	**1,420**	**1,468**	**1,537**	**1,602**	**1,429**	**1,417**	**1,366**	**1,342**

1. The '2020 Actual' to '2022 Actual' other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.13 – Primary services expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental expenses	677	727	691	724	788	870	842	815	769	770
Non-departmental outputs	110	89	178	106	149	153	116	109	90	76
Other expenses[1]	173	145	146	119	219	322	160	111	95	13
Primary services expenses	**960**	**961**	**1,015**	**949**	**1,156**	**1,345**	**1,118**	**1,035**	**954**	**859**

1. From '2023 Actual' onwards other expenses include aquaculture settlements, expenses associated with sustainable food and fibre futures and the North Island weather events.

Source: The Treasury

Table 5.14 – Housing and community development expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	195	220	237	255	259	305	280	275	230	231
Community services	183	235	349	438	477	462	429	401	400	398
Housing Acceleration Fund	..	..	..	22	30	111	331	267	342	186
Transitional housing[1]	87	163	253	324	318	379	219	252	296	283
Water infrastructure	..	..	267	239	301	309	102	83	79	..
Shovel ready project funding to support housing projects	..	..	46	35	39	65	34	3	..	..
Warm up New Zealand	16	47	99	62	34	16	83	83	83	83
Other non-departmental expenses	180	313	522	601	681	1,044	952	576	839	828
Other expenses[2]	66	37	40	57	173	143	101	354	81	79
Housing and community development expenses	**727**	**1,015**	**1,813**	**2,033**	**2,312**	**2,834**	**2,531**	**2,294**	**2,350**	**2,088**

1. Previously included in other non-departmental expenses.
2. Includes housing subsidies previously presented separately.

Source: The Treasury

Table 5.15 – Environmental protection expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
NZ Emissions Trading Scheme[1]	543	650	947	1,498	1,215	1,302	1,273	1,334	1,418	1,505
Departmental outputs	460	542	614	690	776	891	799	737	729	724
Non-departmental outputs	82	257	318	170	165	393	585	440	391	480
Clean car discount	..	..	..	128	203	111	..	..	..	..
Accelerating energy efficiency and fuel switching	..	..	..	..	2	81	146	49	49	..
Other expenses[1]	34	36	27	63	20	61	46	19	15	15
Environmental protection expenses	**1,119**	**1,485**	**1,906**	**2,549**	**2,381**	**2,839**	**2,849**	**2,579**	**2,602**	**2,724**

1. '2021 Actual' to '2023 Actual' were restated to update sub-classifications.

Source: The Treasury

Table 5.16 – Finance costs

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Interest on financial liabilities	3,398	2,971	1,846	2,796	6,154	8,324	8,706	9,123	10,040	10,879
Interest unwind on provisions	293	257	72	88	415	615	518	433	405	399
Finance costs expenses	**3,691**	**3,228**	**1,918**	**2,884**	**6,569**	**8,939**	**9,224**	**9,556**	**10,445**	**11,278**

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

An accounting basis where revenues are recognised when rights to assets are earned or levied rather than when cash is received, and expenses are recognised when obligations are incurred rather than when they are settled.

Appropriations

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

Baselines

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

Consumers Price Index (CPI)

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

Contingent assets

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

Contingent liabilities

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

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank.
For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 111 to 114).

Core Crown expenses

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

Core Crown revenue

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

Corporate tax

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

Current account (balance of payments)

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

Cyclically-adjusted balance (CAB) and structural balance

The Treasury's CAB is an estimate of the operating balance before gains and losses (OBEGAL) adjusted for fluctuations of actual GDP around potential GDP. The CAB aims to provide a picture of the underlying fiscal position by excluding the impacts of the economic cycle.

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

Demographic changes

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

Domestic bond programme

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

Excise duties

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

Financial assets

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

Financial liabilities

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

Fiscal drag

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

Forecast new capital spending

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

Forecast new operating spending

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

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF.

GDP deflator

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

Generally accepted accounting practice (GAAP)

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

Gross domestic product (GDP)

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

Gross domestic product (expenditure)

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

Gross domestic product (nominal)

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

Gross domestic product (production)

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

Gross domestic product (real)

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

Gross national expenditure (GNE)

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

Gross sovereign-issued debt (GSID)

Represents debt issued by the sovereign (the core Crown) and includes any government stock held by the 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 Cost Index (LCI)

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

Labour force participation rate

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

Labour productivity

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

Loan-to-value ratio restrictions

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

Marketable securities

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

Minority interest

Minority interest refers to shareholders of Government reporting entities outside the Crown. Current examples include those who hold shares in the mixed ownership companies.

Monetary conditions

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

Monetary policy

The Reserve Bank uses monetary policy to regulate monetary conditions in New Zealand. The Reserve Bank primarily uses the Official Cash Rate (OCR) to implement monetary policy decisions. However, additional monetary policy responses can be used as well, such as the Large Scale Asset Purchase (LSAP) programme and the Funding for Lending (FLP) programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range.

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

Multi-factor productivity

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

National saving

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

Net core Crown cash flow from operations

The cash impact of core Crown operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of SOEs, Crown entities and 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 GSID 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 debt

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

Net international investment position (NIIP)

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

Net worth attributable to the Crown

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

New Zealand Activity Index (NZAC)

The NZAC summarises several monthly indicators of economic activity, including consumer spending, unemployment, job vacancies, traffic volumes, electricity grid demand, business outlook, and manufacturing activity. It is intended to be interpreted as a broad measure of economic activity.

Operating balance

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

Operating balance before gains and losses (OBEGAL)

Represents total Crown revenue less total Crown expenses excluding minority interest share. OBEGAL can provide a useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

Output gap

The difference between actual and potential GDP (see potential output).

Outputs

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

Potential output

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

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

Specific fiscal risks

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

System of National Accounts (SNA)

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

Tax revenue

The accrual, rather than the cash measure of taxation. It is a measure of tax over a given period in time, regardless of whether or not it has actually been paid.

Terms of trade

The terms of trade measure the volume of imports that can be funded by a fixed volume of exports and are calculated as the ratio of the total export price index to the total import price index. New Zealand’s headline terms of trade series is derived from export and import price indices from Stats NZ’s quarterly overseas trade indices. The Treasury forecasts the terms of trade on an SNA basis, using implicit export and import price indices derived from quarterly national accounts data.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts. In addition to department forecasts, unallocated funding (contingencies) also attract a top-down adjustment where it is considered unlikely that all of the contingencies indicatively phased to a particular year is expected to be allocated and spent in that year.

Total borrowings

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

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs and other entities controlled by the Government Reporting Entity as listed on pages 111 to 114.

Total fiscal impulse

The total fiscal impulse is a measure of the change in the Government's contribution to aggregate demand relative to the previous year. The Treasury's total fiscal impulse measure is calculated as the change in the fiscal balance as a percentage of nominal potential GDP. The fiscal balance is residual cash adjusted for some expenditure items that do not directly affect domestic demand.

Tradable/non-tradable output

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

Trade Weighted Index (TWI)

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

Underutilisation rate

The underutilisation rate is a broad measure of untapped labour market capacity. In addition to the unemployed, it includes part-time workers who want and are able to work longer hours (the under-employed), people who want a job and are available to work but not currently looking for a job, and people who are currently unavailable but looking for a job and will be able to start working within the next month.

Votes

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

Year ended

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2023/24 or 2024 will mean the year ended 30 June.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983	108,458	112,358	118,995	122,851	131,403	140,156	148,237
Core Crown revenue	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968	117,515	123,398	132,375	136,004	144,208	153,085	161,671
Total Crown revenue	88,536	93,805	97,416	103,422	109,973	119,142	116,003	129,335	141,627	153,011	165,050	168,043	177,308	186,780	196,416
Core Crown expenses	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764	125,641	127,574	138,325	143,895	147,658	151,116	156,354
Total Crown expenses	91,179	93,064	95,137	99,007	104,014	111,376	138,916	133,722	150,956	161,822	175,651	181,013	185,384	189,467	194,476
Operating balance (excluding minority interests)	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,932)	5,321	(2,988)	(7,147)	(1,925)	3,967	9,096
Fiscal strategy indicators															
OBEGAL (excluding minority interests)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(9,446)	(11,074)	(13,372)	(8,502)	(3,104)	1,471
Core Crown residual cash	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(25,648)	(21,864)	(8,933)	(7,847)	(10,975)	(943)
Net debt	25,208	22,825	23,193	16,249	11,219	5,432	35,710	35,921	61,850	71,367	86,296	99,297	109,644	114,487	109,979
Net debt (excl. NZS Fund)	51,333	52,131	53,229	51,548	50,763	50,822	79,930	95,188	117,115	136,268	160,506	177,928	194,179	205,323	207,313
Gross debt[1]	81,956	86,125	86,928	87,141	88,053	84,449	102,257	100,835	118,950	135,789	174,583	196,708	219,364	238,878	243,418
Net core Crown debt[2]	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080	128,873	155,273	178,094	187,250	195,393	207,375	209,867
Statement of financial position															
Total assets	256,824	279,214	292,679	313,609	339,932	364,652	393,400	438,596	501,844	536,666	569,492	580,326	602,662	623,848	643,919
Total liabilities	176,127	186,978	197,158	197,137	204,295	221,313	277,457	281,403	327,525	345,194	380,259	398,370	422,534	439,685	450,545
Net worth	80,697	92,236	95,521	116,472	135,637	143,339	115,943	157,193	174,319	191,472	189,233	181,956	180,128	184,163	193,374
Net worth attributable to the Crown	75,486	86,454	89,366	110,532	129,644	136,949	110,320	151,469	167,036	183,514	180,862	173,596	171,692	175,654	184,751
Nominal expenditure GDP (revised)	236,936	245,650	258,740	275,568	295,569	310,149	317,382	342,989	363,882	395,563	413,062	430,568	454,487	478,501	502,479
% GDP															
Revenue and expenses															
Core Crown tax revenue	26.0%	27.1%	27.2%	27.5%	27.1%	27.9%	26.8%	28.6%	29.8%	28.4%	28.8%	28.5%	28.9%	29.3%	29.5%
Core Crown revenue	28.3%	29.4%	29.4%	29.7%	29.4%	30.1%	29.0%	30.6%	32.3%	31.2%	32.0%	31.6%	31.7%	32.0%	32.2%
Total Crown revenue	37.4%	38.2%	37.7%	37.5%	37.2%	38.4%	36.5%	37.7%	38.9%	38.7%	40.0%	39.0%	39.0%	39.0%	39.1%
Core Crown expenses	30.0%	29.5%	28.6%	27.7%	27.3%	28.0%	34.3%	31.4%	34.5%	32.3%	33.5%	33.4%	32.5%	31.6%	31.1%
Total Crown expenses	38.5%	37.9%	36.8%	35.9%	35.2%	35.9%	43.8%	39.0%	41.5%	40.9%	42.5%	42.0%	40.8%	39.6%	38.7%
Operating balance (excluding minority interests)	1.2%	2.3%	(2.1%)	4.5%	2.8%	0.1%	(9.5%)	4.7%	(4.7%)	1.3%	(0.7%)	(1.7%)	(0.4%)	0.8%	1.8%
Fiscal strategy indicators															
OBEGAL (excluding minority interests)	(1.2%)	0.2%	0.7%	1.5%	1.9%	2.4%	(7.3%)	(1.3%)	(2.7%)	(2.4%)	(2.7%)	(3.1%)	(1.9%)	(0.6%)	0.3%
Core Crown residual cash	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.5%)	(4.0%)	(7.4%)	(6.5%)	(5.3%)	(2.1%)	(1.7%)	(2.3%)	(0.2%)
Net debt	10.6%	9.3%	9.0%	5.9%	3.8%	1.8%	11.3%	10.5%	17.0%	18.0%	20.9%	23.1%	24.1%	23.9%	21.9%
Net debt (excl. NZS Fund)	21.7%	21.2%	20.6%	18.7%	17.2%	16.4%	25.2%	27.8%	32.2%	34.4%	38.9%	41.3%	42.7%	42.9%	41.3%
Gross debt[1]	34.6%	35.1%	33.6%	31.6%	29.8%	27.2%	32.2%	29.4%	32.7%	34.3%	42.3%	45.7%	48.3%	49.9%	48.4%
Net core Crown debt[2]	25.3%	24.7%	23.9%	21.6%	19.5%	18.6%	26.3%	29.8%	35.4%	39.3%	43.1%	43.5%	43.0%	43.3%	41.8%
Statement of financial position															
Total assets	108.4%	113.7%	113.1%	113.8%	115.0%	117.6%	124.0%	127.9%	137.9%	135.7%	137.9%	134.8%	132.6%	130.4%	128.1%
Total liabilities	74.3%	76.1%	76.2%	71.5%	69.1%	71.4%	87.4%	82.0%	90.0%	87.3%	92.1%	92.5%	93.0%	91.9%	89.7%
Net worth	34.1%	37.5%	36.9%	42.3%	45.9%	46.2%	36.5%	45.8%	47.9%	48.4%	45.8%	42.3%	39.6%	38.5%	38.5%
Net worth attributable to the Crown	31.9%	35.2%	34.5%	40.1%	43.9%	44.2%	34.8%	44.2%	45.9%	46.4%	43.8%	40.3%	37.8%	36.7%	36.8%

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

Economic Indicators

June Years	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.6	3.6	4.7	6.3	4.7	4.1	-1.2	8.0	1.1	3.2	-0.8	0.7	2.3	2.3	2.3
Public consumption	2.8	3.1	1.1	2.6	4.1	3.1	6.6	7.0	7.8	0.3	-1.4	-2.2	1.0	1.5	1.6
TOTAL CONSUMPTION	3.4	3.5	3.8	5.4	4.6	3.9	0.6	7.8	2.7	2.4	-0.9	0.0	2.0	2.1	2.1
Residential investment	13.2	6.3	10.1	3.9	-1.0	1.4	-4.4	16.5	-5.1	-0.1	-7.3	-6.9	6.2	5.2	4.1
Business investment	9.1	7.0	0.9	1.5	11.9	4.6	-2.9	8.2	6.8	3.5	-5.1	-1.1	6.1	4.6	3.1
TOTAL INVESTMENT	10.1	6.8	3.2	2.1	8.3	3.8	-3.3	10.2	3.8	2.6	-5.6	-2.4	6.1	4.7	3.3
Stock change (contribution to growth)	0.5	0.0	-0.3	0.4	0.2	-0.6	-0.2	0.1	0.8	-1.2	0.0	0.6	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	4.8	4.0	3.3	5.1	5.7	3.3	-0.6	8.4	4.0	1.3	-1.9	0.1	2.9	2.7	2.4
Exports	0.3	6.4	6.3	0.9	4.0	3.3	-5.3	-10.9	-3.2	12.2	4.2	5.9	4.0	3.1	2.9
Imports	9.0	6.9	2.1	6.1	8.6	2.8	-5.7	-4.2	12.1	3.0	-3.7	0.3	3.0	2.5	2.1
EXPENDITURE ON GDP	2.3	3.9	4.3	3.6	4.5	3.4	-0.6	6.6	0.5	3.2	-0.3	1.7	3.2	2.9	2.7
GDP (production measure)	2.9	4.0	3.8	3.5	3.5	3.3	-0.8	6.1	0.7	3.0	-0.2	1.7	3.2	2.9	2.7
- annual % change	2.9	4.0	4.2	3.3	3.7	2.7	-9.8	17.7	0.4	1.5	-0.1	2.7	3.2	2.8	2.6
Real GDP per capita	1.6	2.1	1.6	1.3	1.5	1.5	-2.7	4.8	0.5	1.9	-2.8	-0.1	1.8	1.7	1.5
Nominal GDP (expenditure basis)	8.3	3.7	5.3	6.5	7.3	4.9	2.3	8.1	6.1	8.7	4.4	4.2	5.6	5.3	5.0
GDP deflator	5.8	-0.2	0.9	2.8	2.6	1.5	2.9	1.4	5.5	5.3	4.7	2.5	2.3	2.3	2.3
Output gap (% deviation, June year average)	-1.7	-0.9	-0.4	0.0	0.6	1.2	0.7	1.8	2.5	1.4	-1.0	-1.5	-0.8	-0.3	-0.1
Employment	3.4	3.6	2.7	5.3	3.6	2.0	1.6	0.6	2.7	2.5	1.6	0.5	2.0	1.7	1.5
Unemployment (% June quarter s.a.)	5.3	5.5	5.1	4.9	4.6	4.1	4.1	4.0	3.3	3.6	4.9	5.2	4.8	4.5	4.4
Wages (average ordinary-time hourly, ann % change)	2.3	2.5	2.4	2.5	2.8	4.0	2.9	4.0	6.3	6.9	5.9	3.8	3.1	3.0	2.9
CPI inflation (ann % change)	1.6	0.4	0.4	1.7	1.5	1.7	1.5	3.3	7.3	6.0	3.4	2.2	2.0	2.0	2.0
Merchandise terms of trade (SNA basis)	16.4	-4.8	-2.0	4.3	4.7	-2.8	4.4	-0.2	2.8	-7.0	-2.0	1.9	0.2	0.2	0.1
House prices (ann % change)	6.3	11.8	15.0	6.5	3.6	1.5	7.1	29.6	5.3	-9.0	2.5	1.6	2.1	3.0	3.7
Current account balance - $billion	-5.9	-8.3	-5.3	-7.1	-10.7	-10.9	-4.9	-11.3	-28.7	-29.7	-24.9	-20.3	-18.9	-17.9	-16.9
Current account balance - % of GDP	-2.5	-3.4	-2.0	-2.6	-3.6	-3.5	-1.5	-3.3	-7.9	-7.5	-6.0	-4.7	-4.2	-3.7	-3.4
TWI (June quarter)	81.5	76.2	73.6	76.5	73.8	72.7	69.7	74.7	72.2	70.9	71.3	70.4	69.6	69.1	68.6
90-day bank bill rate (June quarter)	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.3	2.2	5.6	5.7	4.5	3.5	2.9	2.5
10-year bond rate (June quarter)	4.4	3.6	2.7	2.9	2.8	1.8	0.8	1.7	3.7	4.3	4.6	4.4	4.2	4.1	4.0