Budget Economic and Fiscal Update 2025 Additional Information

The following information forms part of the *Budget Economic and Fiscal Update 2025 (Budget Update)* released by the Treasury on 22 May 2025. This information provides further details on the *Budget Update* and should be read in conjunction with the published document. The additional information includes the following:

- **Detailed economic forecast information** – breakdowns of the economic forecasts.
- **Tax policy changes** – details of material changes to tax revenue since the Budget Update 2024 as a result of policy initiatives.
- **Tax revenue uncertainty** – an illustration of the uncertainty around the tax forecasts.
- **Principles applied when assessing specific fiscal risks** – outline of the principles.
- **New Zealand Superannuation Fund contributions** – an outline of the projected fund contributions (withdrawals)
- **Cyclically adjusted balance and structural balance** – charts and data for the cyclically adjusted balance and structural balance derived from both the operating balance before gains and losses (OBEGAL) and operating balance before gains and losses excluding ACC revenue and expenses (OBEGALx).
- **Accounting policies** – outline of the specific Crown accounting policies.

Detailed Economic Forecast Information

This section includes tables with additional detail on the economic forecasts in the *Budget Update.*

The economic numbers and forecasts in this section were finalised on 7 April 2025.

Table 1	Real gross domestic product
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Table 1 – Real gross domestic product

Production based chain volume series expressed in 2009/10 prices

Seasonally adjusted

	$ million	Quarterly % change	Annual % change	Annual average % change
2021Q4	68,107	4.1	2.6	5.7
2022Q1	68,104	0.0	0.5	4.6
2022Q2	68,848	1.1	0.7	0.7
2022Q3	70,203	2.0	7.3	2.7
2022Q4	70,208	0.0	3.1	2.9
2023Q1	70,156	-0.1	3.0	3.5
2023Q2	70,688	0.8	2.7	4.0
2023Q3	70,717	0.0	0.7	2.4
2023Q4	70,857	0.2	0.9	1.8
2024Q1	71,111	0.4	1.4	1.4
2024Q2	70,346	-1.1	-0.5	0.6
2024Q3	69,604	-1.1	-1.6	0.1
2024Q4	70,056	0.6	-1.1	-0.5
2025Q1	70,302	0.4	-1.1	-1.1
2025Q2	70,798	0.7	0.6	-0.8
2025Q3	71,388	0.8	2.6	0.2
2025Q4	71,987	0.8	2.8	1.2
2026Q1	72,537	0.8	3.2	2.3
2026Q2	73,064	0.7	3.2	2.9
2026Q3	73,583	0.7	3.1	3.1
2026Q4	74,107	0.7	2.9	3.1
2027Q1	74,639	0.7	2.9	3.0
2027Q2	75,179	0.7	2.9	3.0
2027Q3	75,720	0.7	2.9	2.9
2027Q4	76,253	0.7	2.9	2.9
2028Q1	76,773	0.7	2.9	2.9
2028Q2	77,277	0.7	2.8	2.9
2028Q3	77,769	0.6	2.7	2.8
2028Q4	78,250	0.6	2.6	2.7
2029Q1	78,724	0.6	2.5	2.7
2029Q2	79,198	0.6	2.5	2.6

Sources: Stats NZ, the Treasury

Table 2 – Consumers price index and trade weighted exchange rate

	Consumers price index				Exchange rate
	Index	Quarterly % change	QPC s.a.	Annual % change	TWI
2021Q4	1122	1.4	1.6	5.9	74.3
2022Q1	1142	1.8	1.9	6.9	72.5
2022Q2	1161	1.7	1.8	7.3	72.2
2022Q3	1186	2.2	1.8	7.2	70.6
2022Q4	1203	1.4	1.6	7.2	70.8
2023Q1	1218	1.2	1.4	6.7	71.3
2023Q2	1231	1.1	1.2	6.0	70.9
2023Q3	1253	1.8	1.4	5.6	70.6
2023Q4	1259	0.5	0.6	4.7	70.8
2024Q1	1267	0.6	0.8	4.0	71.6
2024Q2	1272	0.4	0.5	3.3	71.4
2024Q3	1280	0.6	0.2	2.2	70.9
2024Q4	1287	0.5	0.7	2.2	69.5
2025Q1	1294	0.6	0.7	2.2	67.8
2025Q2	1300	0.4	0.5	2.2	67.9
2025Q3	1312	0.9	0.5	2.5	68.1
2025Q4	1317	0.4	0.5	2.3	68.2
2026Q1	1322	0.4	0.5	2.1	68.3
2026Q2	1327	0.4	0.5	2.1	68.5
2026Q3	1339	0.9	0.5	2.1	68.6
2026Q4	1343	0.3	0.5	2.0	68.7
2027Q1	1348	0.4	0.5	2.0	68.8
2027Q2	1353	0.4	0.5	2.0	68.9
2027Q3	1365	0.9	0.5	2.0	69.0
2027Q4	1370	0.3	0.5	2.0	69.1
2028Q1	1375	0.4	0.5	2.0	69.2
2028Q2	1380	0.4	0.5	2.0	69.3
2028Q3	1392	0.9	0.5	2.0	69.3
2028Q4	1397	0.3	0.5	2.0	69.4
2029Q1	1402	0.4	0.5	2.0	69.5
2029Q2	1407	0.4	0.5	2.0	69.5

Sources: Stats NZ, Reserve Bank, the Treasury

Table 3 – Expenditure on gross domestic product and gross domestic product (income) in current prices

June Years	2024	2025	2026	2027	2028	2029	2024	2025	2026	2027	2028	2029
	$ million						Annual average % change					
Private consumption	243,143	249,450	258,640	270,692	283,868	297,311	4.2	2.6	3.7	4.7	4.9	4.7
Government consumption	90,670	92,708	94,256	96,700	99,309	101,708	7.5	2.2	1.7	2.6	2.7	2.4
Residential investment	30,796	27,852	29,149	31,983	34,815	37,364	-3.8	-9.6	4.7	9.7	8.9	7.3
Business investment	71,787	71,429	73,702	77,421	81,294	84,964	2.1	-0.5	3.2	5.0	5.0	4.5
Change in stocks	-3,574	-914	800	800	800	800						
Gross national expenditure	432,885	440,980	455,747	476,795	499,286	521,348	3.0	1.9	3.3	4.6	4.7	4.4
Exports	98,948	109,395	119,862	125,053	130,978	137,412	1.5	10.6	9.6	4.3	4.7	4.9
Imports	111,335	114,454	119,944	124,878	130,199	135,438	-4.1	2.8	4.8	4.1	4.3	4.0
Gross domestic product(E)	**420,622**	**435,148**	**456,464**	**477,770**	**500,866**	**524,122**	**4.8**	**3.5**	**4.9**	**4.7**	**4.8**	**4.6**
Compensation of employees	188,314	192,162	199,172	207,745	217,043	226,514	7.3	2.0	3.6	4.3	4.5	4.4
Net operating surplus	113,483	118,658	129,684	137,666	146,009	154,171	-3.6	4.6	9.3	6.2	6.1	5.6
- Business	94,359	99,346	109,430	116,339	123,550	130,522	-6.2	5.3	10.2	6.3	6.2	5.6
- Imputed rent	19,124	19,312	20,254	21,328	22,458	23,649	11.3	1.0	4.9	5.3	5.3	5.3
Consumption of fixed capital	63,909	66,303	67,959	70,081	72,757	75,656	7.8	3.7	2.5	3.1	3.8	4.0
Taxes on production and imports	54,888	56,205	57,653	60,368	63,253	66,091	6.6	2.4	2.6	4.7	4.8	4.5
Less: Subsidies	2,365	2,339	2,351	2,462	2,582	2,703	-13.1	-1.1	0.5	4.7	4.9	4.7
Gross domestic product(I)	**418,229**	**430,989**	**452,117**	**473,398**	**496,480**	**519,730**	**4.2**	**3.1**	**4.9**	**4.7**	**4.9**	**4.7**

Note: annual figures calculated from seasonally adjusted data
Sources: Stats NZ, the Treasury

Table 4 – Nominal gross domestic product components

	Consumption				Investment				Change in stocks	Exports		Imports		Expenditure GDP	
	Private		Public		Residential		Business								
	$M	QPC	$M	QPC	$M	QPC	$M	QPC	$M	$M	QPC	$M	QPC	$M	QPC
2021Q4	51,908	6.6	19,555	6.3	7,509	13.1	15,641	13.3	395	20,497	2.1	24,421	6.1	91,078	5.2
2022Q1	55,296	6.5	19,986	2.2	7,602	1.2	16,193	3.5	178	18,868	-7.9	25,570	4.7	92,870	2.0
2022Q2	55,056	-0.4	20,358	1.9	7,783	2.4	15,678	-3.2	2073	22,365	18.5	27,397	7.1	95,164	2.5
2022Q3	56,523	2.7	20,786	2.1	8,217	5.6	17,070	8.9	-462	25,117	12.3	29,411	7.4	97,751	2.7
2022Q4	57,857	2.4	20,637	-0.7	7,957	-3.2	17,306	1.4	1934	24,205	-3.6	29,952	1.8	99,615	1.9
2023Q1	59,017	2.0	21,160	2.5	7,862	-1.2	17,971	3.8	-63	23,232	-4.0	28,881	-3.6	100,979	1.4
2023Q2	59,937	1.6	21,775	2.9	7,988	1.6	17,991	0.1	-896	24,940	7.4	27,906	-3.4	103,202	2.2
2023Q3	60,014	0.1	22,205	2.0	7,925	-0.8	17,689	-1.7	-294	24,482	-1.8	27,680	-0.8	104,631	1.4
2023Q4	60,588	1.0	22,552	1.6	7,843	-1.0	17,921	1.3	-1880	24,296	-0.8	27,234	-1.6	103,804	-0.8
2024Q1	61,160	0.9	22,647	0.4	7,697	-1.9	18,023	0.6	-540	24,827	2.2	28,155	3.4	106,271	2.4
2024Q2	61,381	0.4	23,266	2.7	7,331	-4.8	18,154	0.7	-860	25,343	2.1	28,266	0.4	105,916	-0.3
2024Q3	61,707	0.5	22,986	-1.2	7,218	-1.5	17,605	-3.0	-840	25,161	-0.7	27,719	-1.9	106,370	0.4
2024Q4	62,186	0.8	23,155	0.7	6,936	-3.9	18,035	2.4	-69	26,819	6.6	28,264	2.0	108,284	1.8
2025Q1	62,551	0.6	23,245	0.4	6,853	-1.2	17,913	-0.7	-155	28,507	6.3	29,217	3.4	109,644	1.3
2025Q2	63,006	0.7	23,322	0.3	6,846	-0.1	17,876	-0.2	150	28,909	1.4	29,253	0.1	110,850	1.1
2025Q3	63,618	1.0	23,401	0.3	6,988	2.1	18,041	0.9	200	29,409	1.7	29,523	0.9	112,133	1.2
2025Q4	64,292	1.1	23,491	0.4	7,210	3.2	18,309	1.5	200	29,829	1.4	29,850	1.1	113,481	1.2
2026Q1	64,995	1.1	23,608	0.5	7,389	2.5	18,554	1.3	200	30,166	1.1	30,132	0.9	114,780	1.1
2026Q2	65,735	1.1	23,756	0.6	7,563	2.4	18,797	1.3	200	30,458	1.0	30,438	1.0	116,071	1.1
2026Q3	66,484	1.1	23,922	0.7	7,731	2.2	19,019	1.2	200	30,765	1.0	30,747	1.0	117,373	1.1
2026Q4	67,261	1.2	24,091	0.7	7,905	2.3	19,234	1.1	200	31,079	1.0	31,051	1.0	118,720	1.1
2027Q1	68,064	1.2	24,260	0.7	8,083	2.3	19,463	1.2	200	31,424	1.1	31,374	1.0	120,121	1.2
2027Q2	68,882	1.2	24,427	0.7	8,264	2.2	19,705	1.2	200	31,785	1.1	31,707	1.1	121,557	1.2
2027Q3	69,711	1.2	24,592	0.7	8,445	2.2	19,953	1.3	200	32,160	1.2	32,045	1.1	123,016	1.2
2027Q4	70,547	1.2	24,754	0.7	8,622	2.1	20,203	1.3	200	32,544	1.2	32,383	1.1	124,486	1.2
2028Q1	71,385	1.2	24,908	0.6	8,792	2.0	20,450	1.2	200	32,937	1.2	32,719	1.0	125,953	1.2
2028Q2	72,224	1.2	25,055	0.6	8,956	1.9	20,689	1.2	200	33,339	1.2	33,052	1.0	127,411	1.2
2028Q3	73,064	1.2	25,202	0.6	9,113	1.8	20,917	1.1	200	33,735	1.2	33,373	1.0	128,858	1.1
2028Q4	73,905	1.2	25,351	0.6	9,266	1.7	21,135	1.0	200	34,137	1.2	33,692	1.0	130,302	1.1
2029Q1	74,748	1.1	25,502	0.6	9,417	1.6	21,347	1.0	200	34,544	1.2	34,011	0.9	131,746	1.1
2029Q2	75,594	1.1	25,654	0.6	9,568	1.6	21,565	1.0	200	34,996	1.3	34,362	1.0	133,215	1.1

Note: All data seasonally adjusted
Sources: Stats NZ, the Treasury

Table 5 – Real gross domestic product components

	Consumption				Investment				Change in stocks	Exports		Imports		Expenditure GDP	
	Private		Public		Residential		Business								
	$M	QPC	$M	QPC	$M	QPC	$M	QPC	$M	$M	QPC	$M	QPC	$M	QPC
2021Q4	43,152	5.3	14,449	4.1	4,242	8.0	14,163	10.8	241	15,861	-0.3	22,815	2.4	69,266	3.9
2022Q1	45,186	4.7	14,697	1.7	4,165	-1.8	14,313	1.1	-30	13,560	-14.5	22,038	-3.4	69,410	0.2
2022Q2	44,326	-1.9	14,591	-0.7	4,135	-0.7	13,605	-4.9	1362	15,669	15.6	22,497	2.1	70,237	1.2
2022Q3	44,639	0.7	14,723	0.9	4,254	2.9	14,492	6.5	-278	17,158	9.5	23,145	2.9	71,930	2.4
2022Q4	44,931	0.7	14,452	-1.8	4,048	-4.8	14,280	-1.5	1023	16,637	-3.0	23,415	1.2	71,858	-0.1
2023Q1	45,230	0.7	14,417	-0.2	3,939	-2.7	14,616	2.4	43	16,497	-0.8	22,998	-1.8	71,730	-0.2
2023Q2	45,504	0.6	14,830	2.9	3,977	1.0	14,587	-0.2	-881	17,959	8.9	22,693	-1.3	72,361	0.9
2023Q3	44,909	-1.3	14,885	0.4	3,918	-1.5	14,175	-2.8	61	17,534	-2.4	22,976	1.2	72,366	0.0
2023Q4	45,178	0.6	14,793	-0.6	3,846	-1.8	14,199	0.2	-1150	17,954	2.4	22,028	-4.1	72,381	0.0
2024Q1	45,364	0.4	14,851	0.4	3,727	-3.1	14,151	-0.3	-387	18,003	0.3	23,281	5.7	72,731	0.5
2024Q2	45,322	-0.1	14,816	-0.2	3,543	-4.9	14,077	-0.5	-302	18,281	1.5	23,099	-0.8	72,117	-0.8
2024Q3	45,196	-0.3	14,500	-2.1	3,483	-1.7	13,692	-2.7	-531	17,957	-1.8	23,103	0.0	71,504	-0.9
2024Q4	45,231	0.1	14,776	1.9	3,346	-3.9	13,851	1.2	-234	18,585	3.5	23,354	1.1	72,099	0.8
2025Q1	45,231	0.0	14,735	-0.3	3,303	-1.3	13,629	-1.6	-175	18,950	2.0	23,186	-0.7	72,326	0.3
2025Q2	45,361	0.3	14,629	-0.7	3,299	-0.1	13,564	-0.5	130	19,051	0.5	23,043	-0.6	72,808	0.7
2025Q3	45,583	0.5	14,604	-0.2	3,365	2.0	13,678	0.8	180	19,272	1.2	23,103	0.3	73,386	0.8
2025Q4	45,833	0.5	14,575	-0.2	3,467	3.0	13,879	1.5	180	19,436	0.8	23,196	0.4	73,975	0.8
2026Q1	46,094	0.6	14,555	-0.1	3,545	2.3	14,062	1.3	180	19,558	0.6	23,277	0.3	74,518	0.7
2026Q2	46,375	0.6	14,553	0.0	3,619	2.1	14,241	1.3	180	19,649	0.5	23,380	0.4	75,038	0.7
2026Q3	46,658	0.6	14,567	0.1	3,688	1.9	14,399	1.1	180	19,745	0.5	23,484	0.4	75,552	0.7
2026Q4	46,955	0.6	14,587	0.1	3,756	1.9	14,547	1.0	180	19,845	0.5	23,598	0.5	76,072	0.7
2027Q1	47,264	0.7	14,607	0.1	3,825	1.8	14,700	1.0	180	19,950	0.5	23,724	0.5	76,602	0.7
2027Q2	47,577	0.7	14,628	0.1	3,892	1.8	14,857	1.1	180	20,063	0.6	23,859	0.6	77,139	0.7
2027Q3	47,893	0.7	14,649	0.1	3,957	1.7	15,014	1.1	180	20,183	0.6	23,999	0.6	77,678	0.7
2027Q4	48,207	0.7	14,667	0.1	4,019	1.6	15,168	1.0	180	20,306	0.6	24,138	0.6	78,209	0.7
2028Q1	48,518	0.6	14,682	0.1	4,075	1.4	15,316	1.0	180	20,431	0.6	24,274	0.6	78,728	0.7
2028Q2	48,825	0.6	14,692	0.1	4,127	1.3	15,455	0.9	180	20,559	0.6	24,407	0.5	79,232	0.6
2028Q3	49,128	0.6	14,703	0.1	4,175	1.2	15,583	0.8	180	20,689	0.6	24,536	0.5	79,722	0.6
2028Q4	49,429	0.6	14,714	0.1	4,220	1.1	15,700	0.8	180	20,820	0.6	24,661	0.5	80,203	0.6
2029Q1	49,728	0.6	14,727	0.1	4,262	1.0	15,812	0.7	180	20,950	0.6	24,783	0.5	80,677	0.6
2029Q2	50,025	0.6	14,740	0.1	4,304	1.0	15,924	0.7	180	21,082	0.6	24,906	0.5	81,149	0.6

Note: All data seasonally adjusted. Dollar amounts are in 2009/10 prices.
Sources: Stats NZ, the Treasury

Table 6 – Labour market indicators

Annual average percentage change **Year ended June**	**2024** Actual	**2025** Forecast	**2026** Forecast	**2027** Forecast	**2028** Forecast	**2029** Forecast
Real GDP (production measure)	0.6	-0.8	2.9	3.0	2.9	2.6
Working age population	2.9	1.3	1.3	1.3	1.3	1.3
Labour force	2.5	0.3	1.5	1.8	1.6	1.5
Employment - total	1.7	-0.6	1.5	2.1	2.0	1.7
Total hours worked (HLFS)	1.2	-1.4	1.8	2.2	2.1	1.7
Labour productivity (hours worked basis)	-0.5	0.6	1.1	0.7	0.8	0.9
CPI (annual percentage change)	3.3	2.2	2.1	2.0	2.0	2.0
Average ordinary time hourly wages	6.0	4.1	3.0	2.6	2.7	2.7
Average ordinary time weekly earnings	5.9	3.8	2.1	2.3	2.6	2.7
Real wages	1.5	1.9	0.8	0.6	0.7	0.7
Compensation of employees	7.3	2.0	3.6	4.3	4.5	4.4
Unit labour costs (hours worked basis)	6.5	3.5	1.9	1.9	1.9	1.8
Real unit labour costs	2.0	1.3	-0.3	-0.1	-0.1	-0.2

Number (000's) **As at June quarter**	**2024** Actual	**2025** Forecast	**2026** Forecast	**2027** Forecast	**2028** Forecast	**2029** Forecast
Total population	5,335	5,386	5,450	5,515	5,581	5,647
Natural increase	18	19	25	26	26	26
Net migration	70	33	38	40	40	40
Annual change	88	52	63	65	66	66
Working age population	4,300	4,353	4,410	4,469	4,528	4,587
Annual change	93	53	57	59	59	59
Not in the labour force (s.a.)	1,219	1,259	1,263	1,267	1,275	1,288
Annual change	58	40	3	4	9	12
Labour force (s.a.)	3,079	3,093	3,147	3,202	3,253	3,300
Annual change	35	14	54	55	51	47
Total employment (s.a.)	2,936	2,926	2,988	3,050	3,108	3,156
Annual change	3	-10	62	62	58	49
Unemployment (s.a.)	143	167	159	152	145	143
Annual change	33	24	-8	-7	-7	-2
Participation rate (%, s.a.)	71.6	71.1	71.4	71.7	71.8	71.9
Unemployment rate (%, s.a.)	4.6	5.4	5.0	4.8	4.5	4.3

Sources: Stats NZ, the Treasury
s.a. - seasonally adjusted

Tax Policy Changes

This section details the material changes to forecast tax revenue since the *Budget Update 2024* as a result of tax policy changes. Table 7 shows a breakdown of the changes, and the supplementary text describes each initiative.

Table 7 – Estimated effects of tax policy changes announced since the *Budget Update 2024*

Year ending 30 June $millions	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**Total**
Investment Boost	(208)	(1,830)	(1,611)	(1,714)	(1,278)	**(6,641)**
Digital services tax removal	-	-	(194)	(139)	(146)	**(479)**
Compliance activities	-	106	212	212	212	**742**
Other	(1)	-	(2)	(2)	(2)	**(7)**
Total tax policy changes	**(209)**	**(1,724)**	**(1,595)**	**(1,643)**	**(1,214)**	**(6,385)**
Heated tobacco products	(11)	(44)	(74)	(82)	(82)	**(293)**
Total tax policy changes since the *2024 Budget Update*	**(220)**	**(1,768)**	**(1,669)**	**(1,725)**	**(1,296)**	**(6,678)**

Source*:* The Treasury

Investment Boost – partial expensing regime

Investment Boost implements a partial expensing regime whereby businesses are provided with an immediate tax deduction for new assets equal to 20% of the purchase price of the asset.

Digital services tax removal

Reversal of revenue reflecting the discharge of the Digital Services Tax Bill.

Compliance activities – continuation of funding and increased investment

The increase in tax revenue will result from permanently continuing the time-limited funding that Inland Revenue received at Budget 2022. This funding will ensure that current tax revenue is maintained. This includes the impact of increased investment in Inland Revenue's tax compliance and debt management activities, expanding on the Budget 2024 compliance investment.

Heated tobacco products

The excise rate applied to products for use with tobacco heating systems (commonly known as heated tobacco products) reduced by 50% on 1 July 2024.

Other items

A number of measures enacted via the Taxation (Annual Rates for 2024-25, Emergency Response, and Remedial Measures) Act 2025 on 29 March 2025.

Tax Revenue Uncertainty

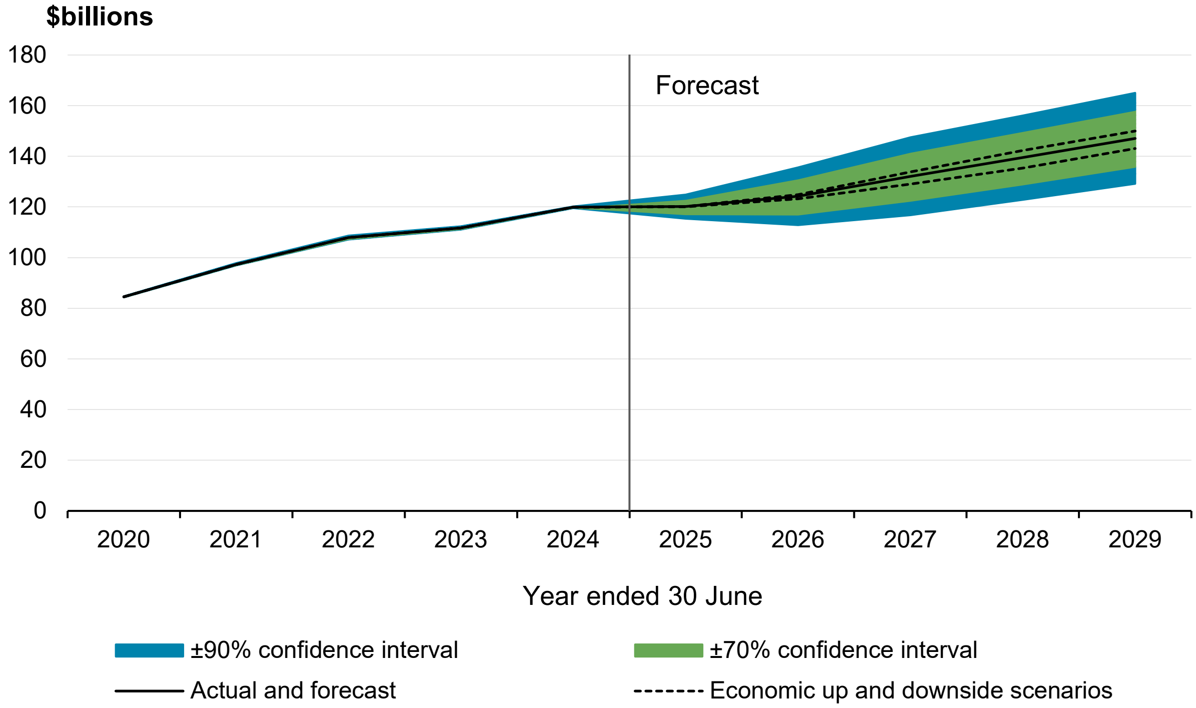
The use of fan charts helps to illustrate general uncertainties around the forecasts and the dispersion of outcomes that may ultimately occur. Using past deviations from historical forecasts, the Treasury can approximate confidence intervals for the range of possible outcomes within a specified probability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

Figure 1 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% chance that tax revenue could be up to $11 billion higher or lower than the central forecast in 2028/29.

Figure 1 also shows tax revenue expectations for the economic upside and downside scenarios discussed in the Economic Outlook chapter. While a probability on these alternative scenarios occurring has not been estimated, it is informative to note that both scenarios sit within the ±30% confidence interval in 2028/29.

Figure 1 – Total tax revenue fan chart



Source: The Treasury

Principles Applied when Assessing Specific Fiscal Risks

The Treasury applies 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 (GAAP), 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 expense 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 changes to the scheme's policy settings from Court decisions is disclosed as a specific fiscal risk.
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.

Risk type	Principles	Examples of how the principle has been applied
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 there are 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.
Risks to the fiscal forecasts from changes in accounting policy	As explained on page 112 of the *Budget Update*, 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 required policy change has been completed, it will be included in the forecasts. Prior to that point, it is unlikely that the materiality and probability requirements will be met. However, when 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 mean 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.
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.

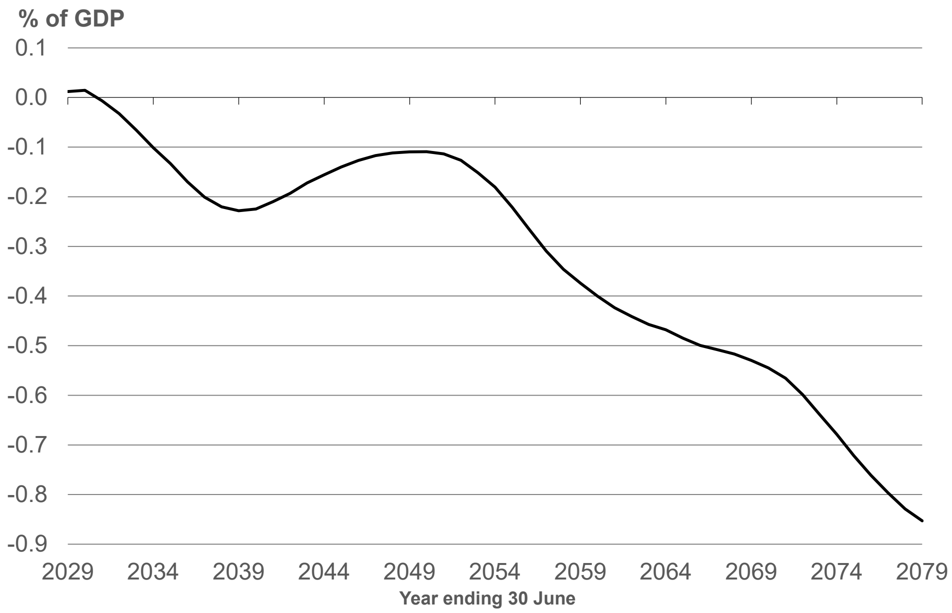
Risk type	Principles	Examples of how the principle has been applied
Risks associated with contingent liabilities and contingent assets	Contingent liabilities and contingent assets are disclosed separately to specific fiscal risks in the *Budget Update* Specific Fiscal Risks chapter. This typically covers 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.

New Zealand Superannuation Fund Contributions

At economic and fiscal updates, the Treasury projects the Government's capital contribution to (or withdrawal from) the New Zealand Superannuation Fund (NZSF), as required by section 43 of the New Zealand Superannuation and Retirement Income Act 2001. The model used to calculate these contributions/withdrawals is published on the Treasury's website, eg, New Zealand Superannuation Fund Contribution Rate Model - Budget 2025.

Figure 2 illustrates the capital contributions/withdrawals to and from the NZSF. By 2030/31, the Government is projected to be withdrawing from the NZSF on a consistent and increasing basis, rather than contributing to it.

Figure 2 – Capital contributions/withdrawals to/from the NZSF as a percentage of GDP



For any year, the defined formula in section 43 calculates a percentage of nominal GDP (called the contribution rate) that would be enough, if provided in each of the ensuing 40 years, to cover the entire cost of aggregate net (of tax) NZS expenses over that period. Funding over this period comes from a mix of taxpayer funds and initially contributions to the NZSF and later withdrawals from it. Essentially the NZSF is a tax-smoothing mechanism to ensure that taxpayers in each of these 40 years contribute the same percentage of GDP to funding NZS. However, if the contribution rate were retained for the entire 40 years, the NZSF's assets would be used up at the end of this period. As the NZSF was intended to assist taxpayers to meet growing NZS costs, caused by an ageing population, for well beyond the next 40 years, the contribution rate is recalculated in every forecast and projected year.

In any given year, the contribution to or withdrawal from the NZSF is calculated as:

contribution rate x nominal GDP – aggregate net NZS

If the result is positive, that is the contribution. If negative, that is the withdrawal.

Superannuation expenditure as a proportion of nominal GDP

Table 8 reports aggregate gross and net expenditure on NZS, both in dollar terms and as a percentage of GDP. Since NZS is a taxable transfer, some of the expenditure on it will return to the Government as part of income tax payments.

Table 8 – Superannuation expenditure – gross and net of tax

Years ending June	Gross expenditure on NZS ($billion)	Net expenditure on NZS ($billion)	Gross expenditure on NZS (Percentage of GDP)	Net expenditure on NZS (Percentage of GDP)
2000	5.1	4.2	4.4	3.7
2010	8.3	7.0	4.2	3.5
2020	15.5	13.1	4.9	4.1
2024	21.6	18.0	5.1	4.3
2025	23.2	19.3	5.3	4.4
2029	29.0	24.0	5.5	4.6
2050	71.7	59.4	6.5	5.4
2070	159.6	132.3	7.8	6.4

Cyclically Adjusted Balance and Structural Balance

The *Budget Update* contains information on the trends in the cyclically adjusted balance (CAB) and structural balance derived from OBEGALx. The box in the *Other Fiscal Information* section of the Fiscal Outlook chapter explains how these indicators are calculated. For ease of reference, we provide here the charts and data for these indicators derived from both OBEGAL and OBEGALx.

Table 9 – OBEGAL, CAB (OBEGAL-derived) and structural balance (OBEGAL-derived) (% of nominal potential GDP)

	OBEGAL	Cyclically adjusted balance	Structural balance	One-off adjustments
2011	-8.76	-8.05	-3.72	-4.33
2012	-4.23	-3.67	-2.80	-0.87
2013	-1.98	-1.34	-1.22	-0.12
2014	-1.16	-0.53	-0.39	-0.14
2015	0.17	0.52	0.50	0.02
2016	0.71	0.84	1.06	-0.23
2017	1.48	1.43	1.43	0.00
2018	1.88	1.60	1.60	0.00
2019	2.42	1.84	1.84	0.00
2020	-7.31	-7.62	-3.49	-4.13
2021	-1.35	-2.16	-0.45	-1.71
2022	-2.71	-4.06	0.42	-4.47
2023	-2.40	-3.38	-2.41	-0.96
2024	-3.07	-3.20	-2.91	-0.29
2025	-3.31	-2.26	-1.86	-0.40
2026	-3.36	-2.66	-2.59	-0.08
2027	-2.44	-2.03	-1.95	-0.08
2028	-1.32	-1.17	-1.11	-0.06
2029	-0.57	-0.54	-0.47	-0.07

Figure 3 – OBEGAL, CAB (OBEGAL-derived) and structural balance (OBEGAL-derived) (% of nominal potential GDP)

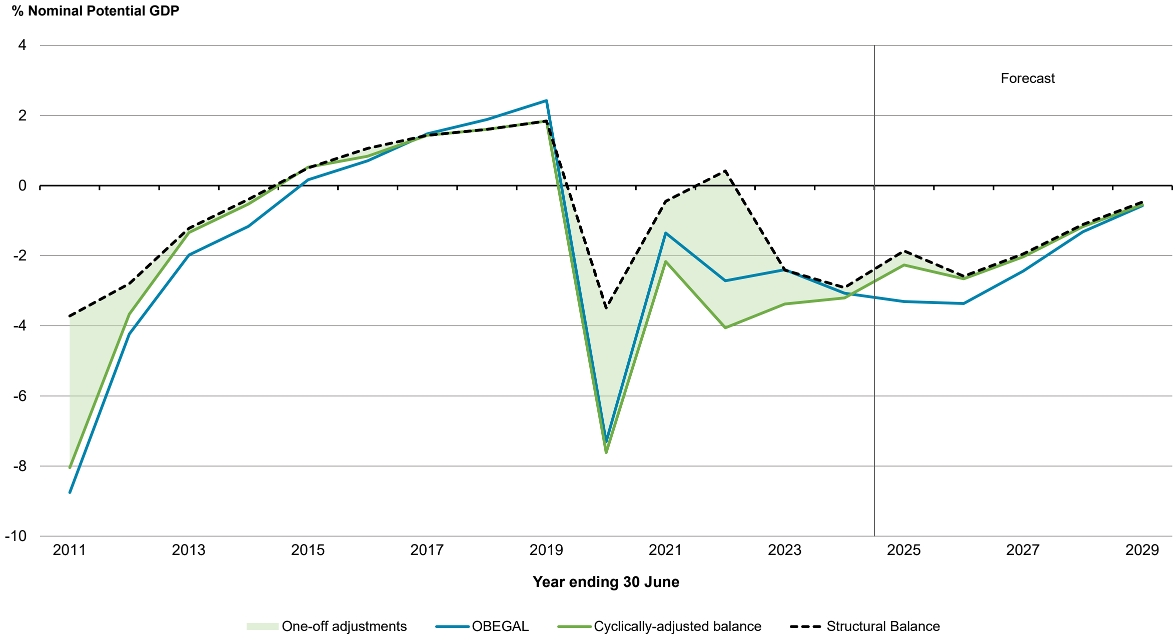
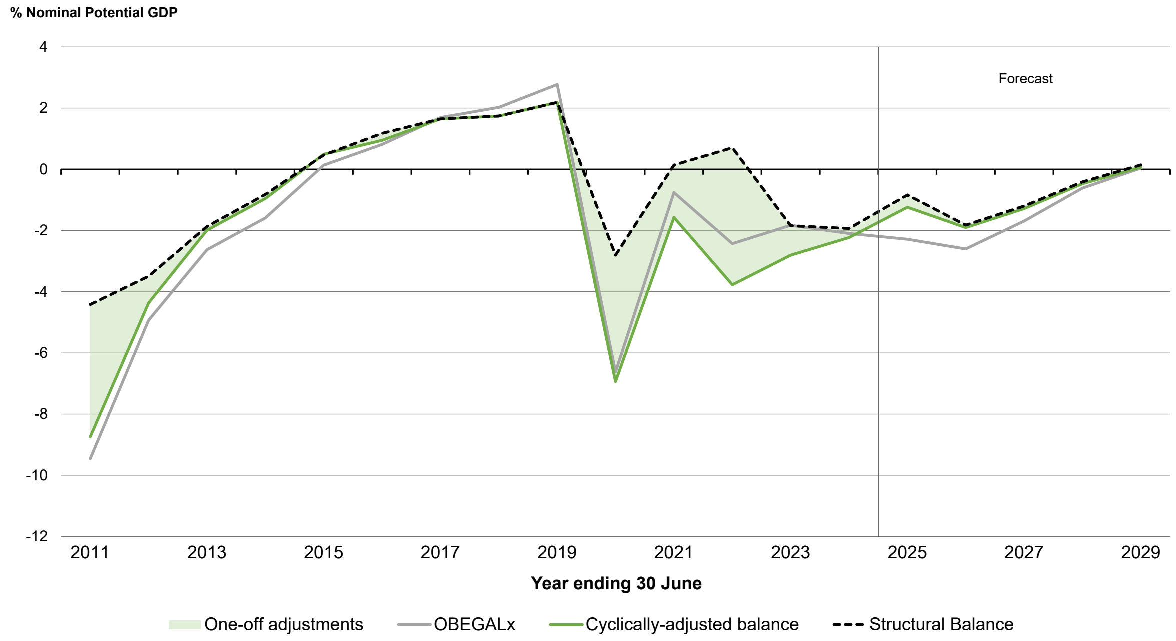


Table 10 – OBEGALx, CAB (OBEGALx-derived) and structural balance (OBEGALx-derived) (% of nominal potential GDP)

	OBEGALx	Cyclically adjusted balance	Structural balance	One-off adjustments
2011	-9.45	-8.74	-4.42	-4.33
2012	-4.93	-4.37	-3.50	-0.87
2013	-2.63	-1.99	-1.87	-0.12
2014	-1.59	-0.96	-0.82	-0.14
2015	0.13	0.49	0.47	0.02
2016	0.82	0.95	1.17	-0.23
2017	1.69	1.65	1.65	0.00
2018	2.02	1.74	1.74	0.00
2019	2.77	2.19	2.19	0.00
2020	-6.62	-6.94	-2.81	-4.13
2021	-0.76	-1.57	0.14	-1.71
2022	-2.43	-3.77	0.70	-4.47
2023	-1.83	-2.81	-1.84	-0.96
2024	-2.09	-2.23	-1.93	-0.29
2025	-2.28	-1.24	-0.84	-0.40
2026	-2.60	-1.90	-1.82	-0.08
2027	-1.69	-1.28	-1.20	-0.08
2028	-0.62	-0.47	-0.41	-0.06
2029	0.04	0.07	0.14	-0.07

Figure 4 – OBEGALx, CAB (OBEGALx-derived) and structural balance (OBEGALx-derived)



Accounting Policies

The forecast financial statements contained in the published *Budget Update 2025* are based on the following accounting policies:

Statement of Compliance

These forecast financial statements have been prepared in accordance with the Public Finance Act 1989 and with New Zealand generally accepted accounting practice (NZ GAAP) as defined in the Financial Reporting Act 2013.

These forecast financial statements have been prepared in accordance with Public Sector PBE Accounting Standards (PBE Standards) Tier 1. These standards are based on International Public Sector Accounting Standards (IPSAS). These forecast financial statements comply with PBE FRS-42 *Prospective Financial Statements* and NZ GAAP as it relates to prospective financial statements.

For the purposes of these forecast financial statements, the Government reporting entity has been designated as a public benefit entity (PBE). Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

The use of public resources by the Government is primarily governed by the Public Finance Act 1989, the Public Service Act 2020, the Crown Entities Act 2004 and the State-Owned Enterprises Act 1986.

Reporting and Forecast Periods

The reporting period for these forecast financial statements is for the years ended 30 June 2025 to 30 June 2029.

The “2025 Previous Budget” figures are the original forecasts to 30 June 2025 as presented in the *Budget Update 2024* and the “2024 Actual” figures are the audited results reported in the *Financial Statements of the Government of New Zealand for the year ended 30 June 2024.*

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

Basis of Preparation

These forecast financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

These financial statements have been prepared on an accrual basis unless otherwise specified (eg, the statement of cash flows). Under an accrual basis, 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.

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

Comparatives

When presentation or classification of items in the financial statements are amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

Accounting standards issued and not yet effective and not early adopted

Standards and amendments to standards issued but not yet effective that have not been early adopted and that are relevant to these forecast financial statements are as follows:

Insurance Contracts

The public sector modified version of PBE IFRS 17 *Insurance Contracts* was issued in June 2023. This standard supersedes PBE IFRS 4 *Insurance Contracts*. It is effective for reporting periods beginning on or after 1 January 2026, with early adoption permitted.

PBE IFRS 17 is based on IFRS 17 *Insurance Contracts* (issued by the International Accounting Standards Board) to standardise insurance accounting globally. However, several modifications have been made to PBE IFRS 17 for application by public sector entities, for example, additional guidance has been added for identifying insurance contracts in the public sector and determining contract boundaries. Concessions have also been given in respect of sub-grouping insurance contracts.

The new standard primarily affects the Accident Compensation Corporation (ACC) and the Natural Hazards Commission (NHC) in the 2026/27 financial year. The specific accounting treatment is still being developed but, on adoption, may result in a material reduction to the risk margin used in measurement of insurance liabilities with a corresponding increase to net worth. As at 30 June 2024, the risk margin for the outstanding claims liability for ACC was $6,797 million and for the NHC was $140 million.

Judgements and Estimations

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

These forecasts include budget adjustments for:

- forecast new operating and capital spending, including contingencies and allowances for future new decisions
- top-down adjustments that counter the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Forecast new capital spending is an amount provided in the Budgets to represent the impact on the financial position and cash flows of capital initiatives expected to be introduced over the forecast period. Forecast new operating spending is an amount included in the Budgets to provide for the operating balance impact of operating initiatives over the forecast period.

The top-down adjustment is an adjustment to expenditure (both operating and capital) Budgets 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 state-owned enterprises or Crown entity forecasts. The estimates and associated assumptions for Budget adjustments are based on historical experience, government intentions and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

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

Reporting Entity

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

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

The description "Consolidated Financial Statements of the Government reporting entity" and the description "Financial Statements of the Government" have the same meaning and can be used interchangeably.

Basis of Combination

These financial statements combine the following entities into the Government reporting entity:

Core Crown entities

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

Other entities

- State-owned enterprises
- Crown entities (excluding universities and wānanga)
- Air New Zealand Limited
- Elevate NZ Venture Fund
- Organisations listed in Schedule 4 and 4A (*Non-listed companies in which the Crown is majority or sole shareholder*) of the Public Finance Act 1989
- Organisations listed in Schedule 5 (*Mixed ownership model companies*) of the Public Finance Act 1989
- Legal entities listed in Schedule 6 (*Legal entities created by Treaty of Waitangi settlement Acts*) of the Public Finance Act 1989

Government departments are defined by the Public Finance Act 1989 and include departments (as defined in the Public Service Act 2020), departmental agencies, interdepartmental executive boards, interdepartmental ventures, the New Zealand Defence Force, the New Zealand Police, the Parliamentary Counsel Office, the Office of the Clerk of the House of Representatives and the Parliamentary Service.

The Crown has a full residual interest in all the above entities with the exception of Air New Zealand Limited, Tāmaki Redevelopment Company Limited and City Rail Link Limited (listed in Schedule 4A of the Public Finance Act 1989) and the entities listed in Schedule 5 of the Public Finance Act 1989 (*Mixed ownership model companies*).

Corresponding assets, liabilities, revenue and expenses are added together line by line, except for any controlling interests the New Zealand Superannuation Fund has invested in, which are reported on a fair value basis and shown as a single line item *Investments in controlled enterprises* in the statement of financial position. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of controlled entities to bring the accounting policies into line with those used by the Government reporting entity.

Universities and wānanga are equity-accounted, which means these entities' net assets, including asset revaluation movements, surpluses and deficits, are recognised in the Financial Statements of the Government. Universities and wānanga are Crown entities, and the Government has a number of legislative powers with respect to them in the interests of public accountability and has some significant reserve controls in the event of an institution facing financial risk. However, the Government does not determine the operating and financing policies of universities and wānanga, if they are not at financial risk, but rather is committed to safeguarding their academic freedom and autonomy. By doing so, the Government obtains the benefits of an effective tertiary education sector. Their relationship to the Crown is managed by a plan agreed between them and the Tertiary Education Commission.

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

As a consequence of the agreements with Auckland Council, City Rail Link Limited is currently reported as a joint venture in these financial statements and is, therefore, equity accounted up to the date that the allocation of its assets is agreed.

Significant Accounting Policies

The accounting policies set out below are applied consistently to all periods in the forecast financial statements in the *Budget Update* 2025.

Revenue

Taxation revenue levied through the Crown's sovereign power

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

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

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Income tax	The earning of assessable income during the taxation period by the taxpayer
Goods and services tax (GST)	When the purchase or sale of taxable goods and services occurs during the taxation period
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Other indirect taxes	When the debt to the Crown arises
ACC levies	The levy revenue is earned evenly over the levy period
Other levies	When the obligation to pay the levy is incurred

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

Revenue earned through operations

Revenue from operations includes revenue that has been earned by the Crown in exchange for the provision of outputs (products or services) to third parties.

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

Interest revenue

Interest revenue on financial assets classified at amortised cost or fair value through other comprehensive revenue and expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest revenue each period. This means interest is allocated at a constant rate over the expected life of the financial instrument based on the estimated cash flows.

Interest revenue on financial assets classified at fair value through the operating balance is recognised as it accrues.

For concessionary loans that are classified at fair value through the operating balance, the interest unwind reflects the increase in value of the loans as the period to repayment reduces. The interest unwind is calculated using the market discount rate at the beginning of the year.

Dividend revenue

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

Rental revenue

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

Donated or subsidised assets

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

If control of the donated assets is conditional on the satisfaction of performance obligations, the revenue is deferred and recognised when the conditions are satisfied.

Gains

Gains may be reported in the statement of financial performance when assets are revalued or liabilities are devalued in certain circumstances as described in the accounting policies for those assets and liabilities. These gains are excluded from total revenue and are presented separately in the statement of financial performance.

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements and subsidies

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

Grants and subsidies

Where grants and subsidies are at the Government's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the Government.

Interest expense

Interest expense on financial liabilities classified as amortised cost is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period. This means interest is allocated at a constant rate over the expected life of the financial instrument based on the estimated cash flows.

Losses

Losses may be reported in the statement of financial performance when assets are devalued or liabilities are revalued in certain circumstances as described in the accounting policies for those assets and liabilities. These losses are excluded from total expenses and are presented separately in the statement of financial performance.

Foreign currency

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

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

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

Sovereign receivables and taxes repayable

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

Receivables arising from sovereign revenue will be initially recognised at fair value. These receivables are subsequently adjusted for penalties and interest as they are charged and tested for impairment. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.

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

Financial instruments – forecasting policies

For forecast purposes sales and purchases of bonds and other liquid instruments are assumed to be issued at par value, with no discounts or premiums forecasted. Generally, financial assets and financial liabilities held at the forecast reference date are assumed to be held until they mature.

Forecasts of instruments that have non-market elements (eg, low or no interest rates with long maturities such as student loans or social benefit receivables) include the write-down to fair value when the loan or receivable is forecast to be issued and, where applicable, the revenue from the effective interest unwind.

Interest income and interest expense are recognised using the effective interest rate method (which, in most instances will equal the coupon rate for future instruments).

Forecasts use the exchange rates, interest rate curves and electricity pricing curves prevailing at the forecast reference date. As a consequence, no additional realised or unrealised foreign exchange gains or losses are forecast.

Gains and losses reflect long run rate of return assumptions appropriate to the forecast portfolio mix after adjusting for interest income and interest expense (recognised separately using the effective interest rate method).

Derivatives

Only the value of derivatives as at the forecast reference date are forecast to be realised. No additional realised or unrealised derivative gains or losses are recognised over the forecast period. Forward margins on forward foreign exchange contracts existing at the start of the forecast period are amortised over the period of the contract on a straight-line basis.

Forecasts for derivatives only include those that exist at the forecast reference date and then only to their maturity. That is, by the end of the forecast period, only those derivatives existing at the forecast reference date with a maturity beyond the end of the period should be recognised in the financial statements.

Except in limited circumstances, future derivative activity is not included in forecasts. This is because fair value forecasts of future derivatives are assumed to be zero due to forecast exchange rates being fixed at the rate at the forecast reference date, as are interest rate curves and other assumptions (eg, electricity pricing curves) affecting the value of derivatives.

Financial instruments – accounting policies

Financial instruments are initially recognised at fair value and subsequently classified into one of two measurement categories:

- At fair value through the operating balance (FVTOB) or comprehensive revenue and expense (FVCRE).
- At amortised cost.

This classification is made by reference to the purpose and nature of the financial instrument or group of financial instruments.

Non-derivative financial assets

General principles

Financial assets are subsequently measured at amortised cost if they are held for the purpose of collecting contractual cash flows and those cash flows are solely related to payments of principal and interest. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Subsequent measurement at FVCRE is for financial assets that are held for the purpose of both collecting contractual cash flows and selling assets, and those cash flows are solely related to payments of principal and interest.

Investments in equity instruments may also be designated at FVCRE where they are not held for trading. Movements in fair value are recognised in the statement of comprehensive revenue and expense and dividends in the statement of financial performance.

All other financial assets not meeting the criteria above are measured at fair value through the operating balance. Financial assets may also be designated at FVTOB if doing so eliminates or significantly reduces an accounting mismatch. Gains and losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Specific application

Financial assets classifications and basis of valuation, both when initially recognised and subsequently, are as follows:

Major financial asset type	Measurement classification and basis of valuation
Cash and cash equivalents	Amortised cost. Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months. They are reported initially and subsequently at amount invested.
Trade and other receivables	Amortised cost. Initially and subsequently reported at their face value, less an allowance for expected losses.
Long-term deposits	Generally amortised cost. They are generally reported at amount invested.
Marketable securities	Generally FVTOB. Based on quoted market price or using a valuation model if there is no active market. The valuation models used generally calculate the expected cash flows under the terms of each specific contract and then discount these values back to present value.
IMF financial assets	Amortised cost. Initially measured at cost net of attributable transaction costs and any fair value adjustments. Subsequently measured at amortised cost, applying the effective interest rate method, less an allowance for expected losses.
Share investments and investments in controlled enterprises	Generally FVTOB. Based on quoted markets prices for listed share investments. The fair value of unlisted investments and investments in controlled enterprises is determined from the initial cost of the investment and adjusted for performance of the business and changes in equity market conditions since purchase or using a valuation model as set out in the notes to the financial statements.
Kiwi Group Capital loans and advances	Amortised cost. At initial recognition, fair value is based on a discounted cash flow model, and subsequently, these loans are measured at amortised cost, applying the effective interest rate method, less an allowance for expected losses.
Student loans and Small Business Cashflow (Loan) Scheme (SBCS)	FVTOB. Student loans are concessionary loans and classified at FVTOB because loan repayments are contingent on the borrowers earning income. SBCS loans are also concessionary and classified at FVTOB because repayments are not required for the first two years, but voluntary payments can still be made over this period. Fair value, both initially and subsequently, is determined by projecting forward estimated repayments from borrowers under the scheme and discounting them back at risk-adjusted discount rates at the measurement date.
Funding for Lending Programme (FLP) advances	Advances by the Reserve Bank under the initial allocation (Tranche 1) of the FLP are classified as amortised cost and reported initially and subsequently at their face value, less an allowance for expected losses. For advances under the additional allocation of the FLP (Tranche 2) where fees charged on advances are not solely related to payments of principal and interest, those advances are initially and subsequently reported at FVTOB.
Other advances	Generally measured at fair value through the operating balance with a small portion recognised under amortised cost.

Regular way purchases and sales of all financial assets are recognised on their trade date rather than the settlement date.

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

Fair value measurement

Fair value is the amount that would be received when an asset is sold or paid on satisfactory settlement of a liability between knowledgeable, willing parties in an arm's length transaction. Generally, transaction price is used as the best estimate for the initial recognition of financial instruments, plus or minus directly attributable transaction costs, unless fair value is evidenced by comparison with other observable current marker transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Where such evidence exists, any profit or loss is accounted for on initial recognition.

Subsequent fair value measurements will be based using the following methods and hierarchy:

1. Quoted market price – financial instruments with quoted prices for identical instruments in active markets (level 1).
2. Valuation technique using observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable (level 2).
3. Valuation technique with significant non-observable inputs – financial instruments valued using models where one or more significant inputs are not observable (level 3).

Allowances for expected losses

An expected credit loss model is used to recognise and calculate impairment losses for financial assets subsequently measured at amortised cost and debt instruments subsequently measured at FVCRE. Financial assets are to be assessed at each reporting date for any significant increase in credit risk since initial recognition.

The simplified approach to providing for expected credit losses as prescribed by PBE IPSAS 41 *Financial Instruments* is applied to trade and other receivables. The simplified approach involves making a provision at an amount equal to lifetime expected credit losses. The allowance for doubtful debts on trade and other receivables that are individually significant are determined on an individual basis. Those deemed not to be individually significant are assessed on a portfolio basis based on the number of days overdue and taking into account the historical loss experience and incorporating any external and future information.

The general model prescribed under PBE IPSAS 41 is adopted for individual financial assets or groups of financial assets held at amortised cost, other than trade and other receivables. This model is applicable to those entities with investing and lending activities. The expected credit loss must be prepared and calculated in accordance with PBE IPSAS 41.

Financial assets classified at FVTOB are not assessed for impairment as their fair value reflects the credit quality of the instruments and changes in fair value are recognised in the statement of financial performance.

Non-derivative financial liabilities

General principles

Generally, non-derivative financial liabilities are subsequently measured at amortised cost. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as a gain or loss when the liability is derecognised.

Financial liabilities may also be designated at FVTOB if doing so eliminates or significantly reduces an accounting mismatch. Where a financial liability is held at fair value, the movement in fair value that is attributable to change in the entity's own credit quality is recognised in the statement of comprehensive revenue and expense.

Specific application

Financial liabilities are categorised using the same measurement categories above and are as follows:

Major financial liability type	Measurement classification and valuation method
Accounts payable	Amortised cost. Initially and subsequently at carrying value as being a reasonable approximation to amortised cost as they are typically short term in nature.
Government stock	Amortised cost. Carrying value based initially on observable market prices and subsequently using the effective interest rate method.
Treasury bills	Amortised cost. Initial and subsequent valuation at carrying value which approximates to amount payable on maturity.
European commercial paper	Amortised cost. Initial and subsequent valuation at carrying value which approximates to amount payable on maturity.
Government retail stock	Amortised cost. Based initially on observable market price and subsequently using the effective interest rate method.
Kiwi Group Capital customer deposits	Amortised cost. Measured initially at fair value and subsequently using the effective interest rate method.
Settlement deposits with Reserve Bank	Amortised cost. These represent money deposited with the Reserve Bank by commercial banks.
Other borrowings	Generally amortised cost. Measured initially at fair value and subsequently using the effective interest rate method. Some other borrowings are designated at FVTOB to significantly reduce an accounting mismatch.
Issued currency	Not designated, recognised at face value.

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

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under PBE IPSAS 41 *Financial Instruments*
- the amount initially recognised less, where appropriate, cumulative amortisation of the initial fair value recognised in accordance with PBE IPSAS 9 *Revenue from Exchange Transactions*.

If the guarantee is issued on a commercial basis, the initial fair value is likely to equal the guarantee fee received. If no fee is received, the contract represents the granting of a concessionary guarantee and the fair value is determined using an appropriate valuation technique that provides a reliable measure of fair value.

Where financial guarantees are provided for no fee, an expense is recognised equal to the fair value of the guarantee contract or, where no reliable measure of fair value can be determined, equal to the amount of expected credit loss under PBE IPSAS 41 on initial recognition.

Derivative financial instruments

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

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

Hedging

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

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

In accordance with transition arrangement for hedge accounting under PBE IPSAS 41 the hedge accounting requirements of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* continue to be applied.

(a) Cash flow hedge

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all or part of a recognised asset or liability or a highly probable forecast transaction.

Where a derivative qualifies as a hedge of variability in asset or liability cash flows, the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive revenue and expense and the ineffective portion is recognised in the statement of financial performance.

Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (eg, where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive revenue and expense is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive revenue and expense transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (eg, when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

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

(b) Fair value hedge

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

Inventories

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

Inventories include unissued currency, housing inventory (land and dwellings held for sale and properties under development), pharmaceuticals, surgical and medical supplies, military supplies and harvested agricultural produce (eg, logs, wool). It also includes consumables held for engineering and maintenance purposes. The cost of harvested agricultural produce is measured at fair value, less estimated costs to sell at the point of harvest.

Property, plant and equipment – forecasting policy

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

Property, plant and equipment (PPE) – accounting policies

Measurement on initial recognition

Items of PPE are initially recorded at cost. Cost may include transfers from net worth of any gains or losses on qualifying cash flow hedges of foreign currency purchases of PPE.

Where an asset is acquired for nil or nominal consideration, the asset is initially recognised at fair value, where fair value can be reliably determined, and is recognised as revenue in the statement of financial performance.

Capitalisation of borrowing costs

Generally, Government borrowings are not directly attributable to individual assets. Therefore, borrowing costs incurred during the period, including any that could be allocated as a cost of completing and preparing assets for their intended use, are expensed rather than capitalised. The major exception to this general rule relates to the initial recognition of service concession assets resulting from public private partnership arrangements where the cost or the value of the future compensation to be provided for the assets will usually include the private sector partner's borrowing costs during construction.

Subsequent measurement

Subsequent to initial recognition, classes of PPE are accounted for as set out in the following table.

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

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value and, for buildings, less depreciation and impairment accumulated since the assets were last revalued. Land associated with the rail network and state highways is valued using an estimate based on adjacent use as an approximation to fair value. Valuations undertaken in accordance with standards issued by the Property Institute of New Zealand are used where applicable. Otherwise, valuations conducted in accordance with the Rating Valuations Act 1998 may be used if they have been confirmed as appropriate by an independent valuer. When optimised depreciated replacement cost is used to determine fair value of specialised buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: building structure, building services and fit-out.

Class of PPE	Accounting policy
Specialist military equipment	Specialist military equipment is recorded on an optimised depreciated replacement cost basis, less depreciation accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on an optimised depreciated replacement cost basis representing the cost of replacing the network asset in its current condition. The valuation reflects the estimated present cost of constructing the existing asset by the most appropriate method of construction, reduced by allowances for the age and condition of the asset (depreciation).
Rail network	The rail network is recorded on an optimised depreciated replacement cost basis representing the cost of replacing the network asset in its current condition. The valuation reflects the estimated present cost of constructing the existing asset by the most appropriate method of construction, reduced by allowances for the age and condition of the asset (depreciation).
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value, less depreciation accumulated since the assets were last revalued.
Electricity distribution network	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation assets	Electricity generation assets are recorded at fair value, less depreciation accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise infrastructure within national parks and conservation estates as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value, less subsequent impairment losses. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced and where no market exists to provide a valuation. For example, Crown research institutes own various collections, library resources and databases that are an integral part of the research work they undertake. These collections are highly specialised and there is no reliable basis for establishing a valuation. They have therefore not been valued for financial reporting purposes.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.

Revaluation

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

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

When an item of PPE is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of PPE, less any estimated residual value, over its remaining useful life. Typically, the estimated useful lives of different classes of PPE are as follows:

Class of PPE	Estimated useful lives
Buildings	25 to 150 years
Specialist military equipment (SME)	5 to 55 years
State highways:	
Formation	Permanent
Pavement structure (sub-base)	Permanent
Pavement structure (base course)	75 to 150 years
Pavement surface	11 to 14 years
Bridges	90 to 100 years
Rail network:	
Track and ballast	40 to 50 years
Tunnels and bridges	75 to 150 years
Overhead traction and signalling	15 to 80 years
Aircraft (excluding SME)	10 to 25 years
Electricity distribution network	2 to 80 years
Electricity generation assets	5 to 100 years
Other plant and equipment	3 to 30 years

Specified heritage and cultural assets are depreciated over 5 to 100 years except for Te Papa, National Library and National Archive collections that have indefinite life and are generally not of a depreciable nature.

Impairment

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. The main reason for holding some assets (eg, electricity generation assets) is to generate cash. For these assets, the recoverable amount is the higher of the amount that could be recovered by sale (after deducting the costs of sale) or the amount that will be generated by using the asset through its useful life. Some assets do not generate cash (eg, state highways), and for those assets, depreciated replacement cost is used. Losses resulting from impairment are reported in the statement of financial performance unless the asset is carried at a revalued amount, in which case, any impairment loss is treated as a revaluation decrease.

Disposal

Realised gains and losses arising from disposal of PPE are generally recognised in the statement of financial performance when the significant risks and rewards of ownership of the asset have transferred to the acquirer. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to taxpayer funds.

Public private partnerships

A public private partnership (also known as a service concession arrangement) is an arrangement between the Government and a private sector partner in which the private sector partner uses specified assets to supply a public service on behalf of the Government for a specified period of time and is compensated for its services over the period of the arrangement. The costs of the specified assets are financed by the private sector partner, except where existing assets of the Government (generally land) are allocated to the arrangement. Payments made by the Government to a private sector partner over the period of a service concession arrangement cover the costs of the provision of services, interest expenses and repayment of the liability incurred to acquire the specified assets.

The assets in a public private partnership are recognised as assets of the Government. As the assets are progressively constructed, the Government progressively recognises work in progress at cost, and a financial liability of the same value is also recognised. When the assets are fully constructed, the total asset cost and the matching financial liability reflect the value of the future compensation to be provided to the private sector partner for the assets.

Subsequent to initial recognition:

- the assets are accounted for in accordance with the accounting policy applicable to the classes of property, plant and equipment that the specified assets comprise
- the financial liabilities are measured at amortised cost.

Equity accounted investments

NZ GAAP provides guidance on the combination bases for entities that make up the Government reporting entity and is used by public benefit entities to determine whether they control another entity for financial reporting purposes.

Applying this guidance, because the Government cannot determine the operating and financing policies of universities and wānanga but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

Biological assets

Biological assets (eg, trees and sheep) managed for harvesting into agricultural produce (eg, logs and wool) or for transforming into additional biological assets are measured at fair value, less estimated costs to sell, with any realised and unrealised gains or losses reported in the statement of financial performance. Where fair value cannot be reliably determined, the asset is recorded at cost, less accumulated depreciation and accumulated impairment losses. For commercial forests, fair value takes into account age, quality of timber and the forest management plan.

Biological assets managed for harvesting into agricultural produce or being transformed into additional biological assets are reported as other assets. Other biological assets are recorded as other property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible assets

Intangible assets are initially recorded at cost.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Research is “original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding”. Expenditure incurred on the research phase of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when incurred.

Where an intangible asset with a market value is internally generated for nil or nominal consideration, it is initially reported at cost, which by definition is nil/nominal.

Intangible assets with indefinite useful lives are not amortised and are tested at least annually for impairment.

Intangible assets with finite lives are subsequently recorded at cost, less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three to five years.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance when the significant risks and rewards of ownership have transferred to the acquirer.

Intangible assets with finite lives are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset’s recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are separately classified where their carrying amount will be recovered through a sale transaction rather than continuing use, that is, where such assets are available for immediate sale and where sale is highly probable. Non-current assets held for sale, or disposal groups, are recorded at the lower of their carrying amount and fair value, less costs to sell.

Investment property

Investment property is property held primarily to earn rentals or for capital appreciation or both. It does not include property held primarily for strategic purposes or to provide a social service (eg, affordable housing) even though such property may earn rentals or appreciate in value – such property is reported as property, plant and equipment.

Investment properties are measured at fair value. Gains or losses arising from fair value changes are included in the statement of financial performance. Valuations are undertaken in accordance with standards issued by the Property Institute of New Zealand.

Employee benefits

Retirement and other similar long-term benefit liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans and similar long-term benefits such as entitlements for eligible veterans who suffer service-related injuries or illnesses are recorded at the latest actuarial value of the Crown liability. The service cost and returns on defined benefit plan assets at the risk-free rate of return are recognised in the statement of financial performance in the period in which they occur. Actuarial gains and losses, including investment returns in excess of the risk-free rate of return on defined benefit plan assets, are recognised in the statement of comprehensive revenue and expenses in the period in which they occur and accumulated over time in the relevant defined benefit retirement plan or long-term benefit revaluation reserve.

Other employee entitlements

Employee entitlements to salaries and wages, annual leave, long-service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Termination benefits

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Insurance contracts

The future costs of outstanding insurance claims liabilities are valued based on the latest actuarial information. The liability includes estimated payments associated with claims reported and accepted, claims incurred but not reported, claims that may be reopened and the costs of managing these claims. Movements of the claims liabilities are reflected in the statement of financial performance. Financial assets backing these liabilities are designated at fair value through the operating balance.

Reinsurance

Premiums paid to reinsurers are recognised as reinsurance expense in the statement of financial performance. Premiums are measured from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the statement of financial position.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims and outstanding claims are recognised as revenue in the statement of financial performance.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured as the present value of the expected future receipts.

Leases

Where the Crown is the lessee, finance leases transfer substantially all the risks and rewards incidental to the ownership of an asset to the Crown. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised, and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Other liabilities and provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows.

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is more than remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Commitments are classified as follows:

- Capital commitments – aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date.
- Lease commitments – non-cancellable operating leases with a lease term exceeding one year.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported at the value of those penalty or exit costs (ie, the minimum future payments).

Interest commitments on debts, commitments for funding and commitments relating to employment contracts are not separately reported as commitments.

Segment analysis

The Government reporting entity is not required to provide segment reporting as it is a public benefit entity. Nevertheless, information is presented for material institutional components and major economic activities within or undertaken by the Government reporting entity. The three major institutional components of the Crown are as follows:

- Core Crown: This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the Budget sector and provides information that is useful for fiscal analysis purposes. Investments in Crown entities and State-owned enterprises are reported at historical cost with no impairment. This ensures losses in those entities are reflected in the appropriate segment.
- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, Government policy).
- State-owned enterprises: This group includes entities governed by the State-Owned Enterprises Act 1986 and (for the purposes of these statements) also includes Air New Zealand, Mercury NZ Limited, Meridian Energy and Genesis Energy. This group represents entities that undertake commercial activity.

Functional analysis is also provided of a number of financial statements items. This functional analysis is drawn from the Classification of the Functions of Government as developed by the Organisation for Economic Co-operation and Development (OECD).