

# Half Year Economic and Fiscal Update 2017

14 December 2017

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

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

### **Sharing what we do**

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

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

### **Making it New Zealander-centric**

Our advice is not just based on facts and figures. Improving outcomes means we need to understand which outcomes to improve, and what is important to New Zealanders. We use the Treasury's Living Standards Framework to recognise the different aspects of New Zealanders' living standards and well-being. Our framework is based on four areas:

- financial and physical capital eg, housing, machinery, buildings, money
- human capital eg, health, skills
- social capital eg, institutions, trust
- and natural capital eg, water, biodiversity.

We took this approach further and last year presented a living standards perspective that stretches over the next 40 years. *He Tirohanga Mokopuna: 2016 Statement on the Long-term Fiscal Position*, shares our take on long-term fiscal issues facing New Zealand. We know that sustainable government finances are a requirement to improving long-term living standards, and vice versa.

### **Understanding our path**

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

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### Other information

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

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

This other information can be accessed at: [www.treasury.govt.nz/budget/forecasts/hyefu2017](http://www.treasury.govt.nz/budget/forecasts/hyefu2017)

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## Statement of Responsibility

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

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of both government decisions and other circumstances as at 27 November 2017 that were communicated to me by the Minister of Finance in accordance with the requirements of the Public Finance Act 1989 and of other economic and fiscal information available to the Treasury as at 27 November 2017. This *Update* does not incorporate any decisions, circumstances or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.



Gabriel Makhlouf  
Secretary to the Treasury

7 December 2017

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured the Secretary to the Treasury has been advised, in accordance with the requirements of the Public Finance Act 1989, of all government decisions and other circumstances as at 27 November 2017 of which I was aware and that had material economic or fiscal implications.

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



Hon Grant Robertson  
Minister of Finance

7 December 2017





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# Executive Summary

## Summary of the Treasury's Economic and Fiscal Forecasts

June years	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
<b>Economic</b>						
Real production GDP (annual average % change)	2.7	2.9	3.6	3.0	2.6	2.1
Real GDP per capita (annual average % change)	0.6	0.9	1.7	1.4	1.4	1.1
Unemployment rate (June quarter)	4.8	4.6	4.4	4.2	4.0	4.1
CPI inflation (annual % change, June quarter)	1.7	2.0	1.9	2.1	2.2	2.2
Current account balance (% of GDP)	(2.9)	(2.1)	(2.3)	(2.7)	(3.3)	(3.9)
<b>Fiscal (% of GDP)</b>						
Core Crown tax revenue	27.7	27.3	27.5	27.7	28.0	28.3
Core Crown expenses	28.0	28.5	28.6	28.2	28.0	27.6
Total Crown operating balance before gains and losses	1.5	0.9	0.9	1.6	2.0	2.5
Core Crown residual cash	0.9	(0.9)	(1.5)	(0.8)	0.1	0.7
Net core Crown debt	21.8	21.7	22.2	21.9	20.8	19.3
Net worth attributable to the Crown	40.5	40.7	40.6	41.4	42.7	44.7

Sources: Statistics New Zealand, the Treasury

The context in which this *Half Year Economic and Fiscal Update 2017 (Half Year Update)* has been prepared means that it differs from the Treasury's more typical economic and fiscal updates. With a change of Government, there is a programme of new policies that have fiscal and economic implications. Following this Executive Summary is an outline of how the Government's policy commitments have been incorporated into the *Half Year Update*.

Nominal GDP over the four years to June 2021 is expected to be \$1.5 billion higher than in the *Pre-election Economic and Fiscal Update 2017 (Pre-election Update)*. GDP growth is forecast to expand at an average rate of 2.9% per year, supported by population growth, low interest rates, increased government spending, a positive international outlook and high terms of trade.

Growth in activity is expected to absorb spare capacity in the economy, support a gradual decline in the unemployment rate and contribute to stronger inflationary pressures than in the *Pre-election Update*. Solid international demand for New Zealand's exports is forecast to contribute to the current account deficit narrowing to 2.1% of GDP in mid-2018, before widening as export growth slows and import growth rises.

Changes to the economic outlook since the *Pre-election Update* primarily reflect recent economic data and the new Government's policies. Growth in the year ending June 2018 is a bit lower than previously forecast, mainly reflecting expectations of slower growth over the second half of 2017. Over 2018/19 the new Government's policies increase government spending but reduce private expenditure, which leaves expected GDP growth unchanged. In 2019/20 and beyond faster growth in household incomes and the Government's KiwiBuild programme contribute to higher GDP growth.

The fiscal outlook is anticipated to keep improving across the forecast period, though at a slower pace than in the *Pre-election Update*. By 2021/22 the operating balance before gains and losses (OBEGAL) is forecast to reach a surplus of \$8.8 billion (2.5% of GDP), while Core Crown expenses rise in nominal terms but fall as a percentage of GDP to 27.6%.

The fiscal forecast includes core Crown capital spending totalling \$41.7 billion to 2021/22. Capital spending is expected to lead to a residual cash deficit over the first three years of the forecast, before returning to a residual cash surplus. The residual cash position has an impact on net core Crown debt, which is expected to increase in nominal terms before tracking down later in the forecast. As a percentage of GDP, net core Crown debt reduces to around 19.3% in 2021/22. The Crown's balance sheet continues to grow. In 2021/22 net worth attributable to the Crown is anticipated to reach \$154.6 billion (44.7% of GDP). Including the impact of Government policy changes and the changes in the economic outlook, core Crown tax revenue is \$6.6 billion higher than in the *Pre-election Update*.

The economic and fiscal outlook is subject to a range of assumptions, risks and uncertainties. For the economic forecasts, uncertainties include how households respond to rising interest rates, given high household debt levels; the extent to which capacity constraints in the construction market prove binding; weakness in labour productivity and domestic demand persisting; and ongoing debate on the merits of trade liberalisation in some parts of the world. Any changes to the economic outlook would be expected to flow through to changes in the fiscal position. In addition, risks to the fiscal forecasts include changes in the value of the Crown's assets or liabilities and the potential impact of the Crown's fiscal obligations that arise from policy choices. More detail and discussion of assumptions, risks and uncertainties are included in each chapter.

#### **Finalisation Dates for the *Update***

Economic forecasts – Thursday 23 November

Tax revenue forecasts – Thursday 23 November

Fiscal forecasts – Monday 27 November

Specific fiscal risks – Monday 27 November

Text finalised – Friday 8 December

### National accounts data

The economic numbers and forecasts in the Economic Outlook chapter pre-date the release of annual national accounts data for the March 2017 year by Statistics New Zealand on 24 November 2017. These annual national accounts incorporated new data and methodological changes which resulted in nominal GDP for the March 2017 year being revised higher by \$4.7 billion (1.8%) relative to the latest quarterly GDP release. The revised data will be fully incorporated into the Economic Outlook chapter of the 2018 *Budget Update* following it being included in the quarterly GDP data, due for release on 21 December. The annual GDP revisions do not affect the outlook for tax revenue as the impact of higher nominal GDP is offset by a lower tax-to-GDP ratio.

To reflect best practice, the revised nominal GDP data have been used in the calculation of the fiscal ratios to GDP throughout the Fiscal Outlook chapter. This approach has been applied previously when revisions have been large, for example in the 2014 *Half Year Update*. The higher denominator has the effect of reducing the fiscal ratios, with an impact on net core Crown debt of 0.4 percentage points of GDP in the year ended June 2017.

### Impact of new Government policies

The Government has announced a number of aspects of its policy programme.<sup>1</sup> This box outlines how these policy commitments have been incorporated into the *Half Year Update*.

Policy commitments have been included in the forecasts if they are reasonably probable<sup>2</sup> to occur and can be quantified for a particular year with reasonable certainty. Commitments that have not met the criteria for inclusion are discussed in more detail in the Specific Fiscal Risks chapter. There is an expectation that costs not explicitly included in the fiscal forecasts can be met within the Budget operating and capital allowances included in the fiscal forecasts. Discussion on the size and timing of Budget allowances is included on page 31.

Some policies (eg, the increase in the minimum wage) have more significant impacts on the wider economy than on particular Government expense items.

#### Fiscal impact of the 100-Day Plan

The forecasts separate the fiscal implications of policies the Government will implement in the first 100 days (referred to as the 100-Day Plan) from other spending commitments yet to be announced in future Budgets, which are expected to be funded by the operating and capital allowances. A summary of the estimated fiscal costs of the 100-Day Plan is outlined in Table 1. Overall, the 100-Day Plan is estimated to cost \$5.0 billion (net of revenue changes).

**Table 1** – Estimated Fiscal Impact of the 100-Day Plan

Year ending 30 June \$million	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	Total Forecast
Families package	(80)	1,157	1,309	1,525	1,616	5,527
Tertiary education package	342	469	535	597	628	2,571
Other operating commitments	28	134	78	37	37	314
Reversing Budget 2017 tax cuts	(486)	(1,904)	(1,904)	(1,993)	(2,077)	(8,364)
<b>Net operating (savings)/expense</b>	<b>(197)</b>	<b>(143)</b>	<b>18</b>	<b>166</b>	<b>204</b>	<b>48</b>
KiwiBuild	100	900	1000	0	0	2,000
NZS Fund contributions	500	1,000	1,500	16	330	3,346
Tertiary education package	(155)	(123)	(86)	(44)	(26)	(434)
Other capital commitments	3	3	0	0	0	6
<b>Net capital spending</b>	<b>448</b>	<b>1,780</b>	<b>2,414</b>	<b>(28)</b>	<b>304</b>	<b>4,918</b>
<b>Net estimated fiscal cost</b>	<b>251</b>	<b>1,636</b>	<b>2,432</b>	<b>138</b>	<b>508</b>	<b>4,965</b>

Source: The Treasury

Costings of significant commitments (ie, Tertiary education package and the Families package) have been made. In the case of KiwiBuild, we have included the commitment to spend \$2 billion on the KiwiBuild programme. Further information on the treatment of KiwiBuild in the economic forecasts is covered below.

<sup>1</sup> For more details see the Speech from the Throne ([http://www.parliament.nz/en/pb/papers-presented/current-papers/document/PAP\\_75111/state-opening-of-parliament-2017-speech-from-the-throne](http://www.parliament.nz/en/pb/papers-presented/current-papers/document/PAP_75111/state-opening-of-parliament-2017-speech-from-the-throne)).

<sup>2</sup> For these purposes 'reasonably probable' is taken to mean that the matter is more likely than not to be approved within the forecast period.

### Economic impact of new Government policies

The economic forecasts incorporate assumptions relating to a number of policies, which are outlined below. These assumptions are subject to some uncertainty and will continue to be reviewed as further policy details and economic details emerge.

#### KiwiBuild

The KiwiBuild programme aims to deliver 100,000 affordable homes over 10 years for first home buyers through a combination of existing Crown programmes, purchasing private developments off plan and construction of additional dwellings.

The Treasury forecasts the real and nominal value of residential investment as an input into the tax and fiscal forecasts. We do not forecast the number of new dwellings, reflecting how we use the economic forecasts for tax revenue forecasting. From a tax forecast perspective, there is little difference between, say, a \$1 million investment that generates two dwellings or three, whereas such differences clearly matter from a housing policy perspective.

Residential investment growth is expected to remain relatively weak in the near term. This reflects that while residential investment activity is at a high level, the construction sector faces constraints across a number of dimensions, as well as subdued demand growth (see page 14). All else unchanged these capacity constraints also act to restrain the rate of growth in supply of new dwellings over the longer term.

The Government will invest an initial \$2 billion as part of the KiwiBuild programme. We assume that the phasing of capital injections and existing capacity constraints in the sector mean there is a lag before *additional* residential investment activity is realised (Table 2). This capital is assumed to be recycled as dwellings are sold and the proceeds are reinvested. The level of nominal residential investment is assumed to be about 10% higher in the June 2022 year than it would otherwise have been and is cumulatively around \$5 billion higher across the forecast period. There is likely to be a degree of substitution from private sector to public sector-led investment in KiwiBuild housing, particularly in earlier years while policies alleviating capacity constraints scale-up. The extent of this substitution is difficult to quantify at this time.

**Table 2** – Capital injections for KiwiBuild and assumed additional residential investment

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	Total Forecast
KiwiBuild capital injection	0.1	0.9	1.0	-	-	2.0
Additional nominal residential investment	0.0	0.0	0.7	2.1	2.6	5.4

Source: The Treasury

In the *Half Year Update*, we assume there will be a range of additional policies designed to alleviate capacity constraints, allowing residential investment to accelerate over the latter part of the forecast period. Policies designed to alleviate these constraints could include: construction work visas to increase labour supply; infrastructure funding; pre-fabricated/modular housing to increase productivity; encouraging competition, potentially through foreign construction firms; and buying off-plan to alleviate finance access issues.

There is a high degree of uncertainty about the impact of policies designed to alleviate capacity constraints, given the limited detail on what form they will take or when they will come into effect. These policies could be more effective than assumed and mean that aggregate residential investment expands faster to meet the demand created by KiwiBuild. Conversely, constraints may have a more prolonged impact and it could take longer until policies take effect. The extent of demand for KiwiBuild housing is a further source of uncertainty to our assumptions on the recycling of proceeds from sale.

### *The Families Package and increased student allowances*

The economic impact of the Families Package and \$50 per week increase in student allowances (part of the Tertiary education package) has been incorporated into these forecasts in the same way as the previous Government's Family Incomes package. That is, the Families Package and increased student allowances collectively boost household incomes via increased government transfers, which subsequently flow through into increased private consumption, imports, and household savings. Specifically for these forecasts, the approximately \$2.5 billion per annum gross increase in household incomes from the Family Income package has been replaced with a \$1.4 billion per annum gross increase in incomes from the combined impact of the Families Package and increased student allowances.<sup>3</sup> Most of the increase in household incomes begins from the 2018/19 fiscal year when the Families Package comes into effect. Allowing for a gradual adjustment in spending behaviour by households, tighter monetary policy and some "leakages" (through higher imports and higher savings) around 60% of the income boost flows through into higher nominal GDP. There is uncertainty around this pass through into GDP, as household behaviour could differ from that assumed.

The changes in welfare settings in the Families Package reduce incentives to work for those who are on low incomes or would face low-work incomes and also qualify for benefits. The Treasury's behavioural microsimulation model estimates these changes to reduce total hours worked by about 0.4%. Allowing time for households to adjust to the new settings, a 0.2% reduction in total hours worked has been incorporated within the forecast period.

### *Raising the minimum wage and other labour market policies*

The Government has announced an increase in the minimum wage from \$15.75 to \$16.50 per hour from 1 April 2018 and intends to raise the minimum wage to \$20.00 per hour by 1 April 2021. These forecasts assume that the increase to \$20.00 occurs via steady increases in the minimum wage in the intervening years (2019 and 2020). Currently, about 9% of employees and 7% of total employee hours worked have mean hourly earnings at or below the minimum wage (on the starting-out rate, for example). A further 19% of hours worked have hourly earnings within 25% of the minimum wage.

To analyse the impact of the increase to \$20.00 in 2021, earnings, employment and hours worked by those employees at the lower end of the income distribution were assumed to grow in line with the aggregate forecasts for these variables to estimate how many people would potentially be affected. By 2021 an estimated 19% of employee hours worked would be below the \$20.00 per hour minimum wage or equivalent starting-out rate. To lift hourly earnings of these hours worked to the minimum wage, and allowing for some spill-over wage pressures to those earners a little above the minimum wage, would require aggregate mean hourly earnings to be about 1.6% higher than would otherwise have been the case in 2021 (this estimate assumes a 'counterfactual' minimum wage of around \$17.60 in April 2021). Assuming an elasticity of labour demand with respect to wages of -0.3, the higher cost of labour is estimated to reduce total hours worked by 0.4%. Using wages as a proxy for productivity, reducing the lowest productivity hours to that extent increases average labour productivity by about 0.2%. These estimates are conditional on a range of assumptions, with particular sensitivity to the elasticity of labour demand assumption, and are a further source of uncertainty for the forecasts. Abolishing the starting-out rate would have additional effects to those outlined above.

<sup>3</sup> Note, the total cost of the Families package and increased student allowances changed marginally following the finalisation of the economic forecasts but these changes are not material enough to impact the economic forecasts.

A range of other policies are likely to impact the labour market and wider economy, including Fair Pay agreements and further pay-equity settlements. These are expected to increase labour costs and may therefore reduce labour demand further. In addition, improving pay and/or conditions is likely to increase labour supply (through higher participation rates, for example). It is difficult to quantify the extent to which these will impact the economy at this time, given uncertainty over how many industries and/or professions may be eligible and therefore these are treated as risks to the economic forecasts until further policy detail is available. There is also a specific fiscal risk related to pay equity claims within State-employed and State-funded sectors.

#### *Immigration policy*

Annual net migration is assumed to fall steadily from its current level of 71,000 to Statistics New Zealand's long-run median assumption of 15,000 in 2022. Under this assumption net migration falls by around 27,000 by the end of 2019. The composition of immigration may change, with fewer students and more work visas, including the proposed KiwiBuild visa. This composition effect may have implications for labour productivity growth if the skill profile of migrants alters materially, although this has not been factored into these forecasts. The Treasury will review the long-term net migration assumption for the Budget 2018 forecasts.

#### *Other Government spending*

Other Government spending priorities are captured within the 100-Day Plan spending profile and future Budget operating and capital allowances. Operating allowances and unallocated contingencies have been incorporated into the public consumption forecast, which is higher than the *Pre-election Update* throughout the forecast period. This also includes fees-free tertiary education. Capital allowances (excluding KiwiBuild and New Zealand Superannuation Fund (NZS Fund) contributions) fall within the investment forecast. NZS Fund contributions do not affect the economic forecasts.

Fees-free tertiary education and cheaper doctors' visits lower CPI inflation by 0.2 percentage points over 2018. Tobacco excise tax increases in the March quarter for each of the next three years and contributes 0.2 percentage points to annual CPI inflation.

#### *Summary of economic impacts*

On balance, the economic impacts outlined above point to slightly stronger demand-side effects than supply-side effects and are forecast to support a longer period of above-trend economic growth and, consequently, slightly higher inflationary pressures and a stronger monetary policy response. The stronger monetary policy response, with short-term interest rates about 25 basis points higher than the *Pre-election Update* by 2021, partly offsets some of the fiscal policy-related demand impacts.

The overall impact of these new Government policies on labour supply and demand is uncertain but is judged as having a small negative impact on overall hours worked of 0.6%, which is partly offset on an output basis by slightly stronger (0.2%) labour productivity, leaving the level of potential output 0.4% lower. This judgement balances uncertainty around the impact with the view that the economy is likely to be operating at quite a strong cyclical position when the policies take effect and therefore some of the labour demand impacts associated with firms facing higher labour costs may be somewhat mitigated.





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## Economic Outlook

### Overview

- The New Zealand economy is expected to expand at an average rate of 2.9% per year over the next five years, slightly above the growth rate the economy can sustain before it leads to higher inflation. Factors supporting growth include low interest rates, population growth, government spending, a positive international outlook and high terms of trade. In the labour market, the unemployment rate is expected to decline to around 4.0% and, with more people in work, wage growth is expected to pick up and to contribute to rising inflation pressure. To ensure inflation remains around 2.0%, interest rates are projected to increase steadily from late 2018.
- Over the year ahead, export volume growth is expected to strengthen and export commodity prices, which have risen over the past year, are expected to remain high and to contribute to a narrowing of the current account deficit to around 2.0% of GDP. Thereafter, the current account deficit is projected to widen as export growth slows and as domestic demand growth feeds through into faster import growth.
- Changes in the outlook since the *Pre-election Update* primarily reflect both recent economic data and the new Government's policies. Growth in the year ending June 2018 is a bit lower than previously forecast, mainly reflecting expectations of slower growth over the second half of 2017, albeit with improving labour market conditions and higher inflation. Over 2018/19, the new Government's policies increase government spending but reduce private expenditure, which leaves expected GDP growth largely unchanged. In 2019/20 and beyond, increased household income growth, partly reflecting larger Government-mandated minimum wage increases, and the Government's KiwiBuild programme contribute to higher GDP growth. The faster pace of GDP growth and increased wage growth leads to greater inflationary pressures and slightly higher interest rates.
- Compared to the *Pre-election Update*, the total cumulative increase in nominal GDP is higher by \$1.5 billion over the four years to June 2021 (the final forecast year in the *Pre-election Update*). Including the impact of Government policy changes and the changes in the economic outlook, core Crown tax revenue is cumulatively \$6.6 billion higher than in the *Pre-election Update*.
- The assumptions and judgements underpinning these forecasts are subject to a range of risks and uncertainties. These are discussed in further detail in the Risks and Scenarios Chapter on page 51.

**Table 1.1** – Economic forecasts

(Annual average % change, June years)	2017	2018	2019	2020	2021	2022
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	4.7	3.0	3.5	3.1	2.6	2.2
Public consumption	3.4	2.8	1.9	1.0	1.0	0.7
<b>Total consumption</b>	<b>4.4</b>	<b>2.9</b>	<b>3.1</b>	<b>2.6</b>	<b>2.2</b>	<b>1.9</b>
Residential investment	6.3	-1.5	3.0	6.2	8.0	4.5
Business investment <sup>1</sup>	3.8	6.7	5.5	6.0	5.1	4.2
<b>Total investment</b>	<b>4.6</b>	<b>4.1</b>	<b>4.9</b>	<b>6.0</b>	<b>5.8</b>	<b>4.3</b>
Stock change <sup>2</sup>	0.1	-0.7	0.2	0.2	0.3	0.3
<b>Gross national expenditure</b>	<b>4.4</b>	<b>2.9</b>	<b>4.1</b>	<b>3.8</b>	<b>3.4</b>	<b>2.7</b>
Exports	0.0	3.4	2.7	2.8	2.1	1.5
Imports	6.0	2.7	3.3	5.0	4.3	3.3
<b>GDP (expenditure measure)</b>	<b>2.7</b>	<b>3.0</b>	<b>3.6</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>
<b>GDP (production measure)</b>	<b>2.7</b>	<b>2.9</b>	<b>3.6</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>
Real GDP per capita	0.6	0.9	1.7	1.4	1.4	1.1
Nominal GDP (expenditure measure)	5.8	5.0	5.3	5.0	4.8	4.2
GDP deflator	3.1	1.9	1.6	2.0	2.1	2.1
Potential GDP	2.8	2.8	2.8	2.8	2.7	2.5
Output gap (% of potential, June quarter) <sup>3</sup>	-0.5	0.0	0.7	0.8	0.7	0.2
Working-age population	2.6	2.3	2.1	1.7	1.4	1.1
Employment	5.2	3.3	1.9	1.5	1.3	0.9
Unemployment rate <sup>4</sup>	4.8	4.6	4.4	4.2	4.0	4.1
Nominal wages <sup>5</sup>	1.6	2.8	3.3	3.2	3.4	3.5
CPI inflation <sup>6</sup>	1.7	2.0	1.9	2.1	2.2	2.2
Terms of trade (goods) <sup>7</sup>	5.1	4.2	-0.9	0.4	0.3	0.1
House prices <sup>8</sup>	5.2	2.1	2.3	2.1	2.0	2.0
Current account balance						
\$billions	-7.8	-5.9	-6.7	-8.4	-10.8	-13.3
% of GDP	-2.9	-2.1	-2.3	-2.7	-3.3	-3.9
Net International Investment Position (% of GDP)	-57.5	-56.9	-56.3	-56.4	-57.1	-58.7
Household saving ratio (% of HHDI) <sup>9</sup>	-1.1	-0.1	0.8	0.6	0.7	0.6
TWI <sup>10</sup>	76.5	73.8	73.8	73.8	73.8	73.8
90-day bank bill rate <sup>10</sup>	2.0	2.0	2.4	3.6	4.1	4.2
10-year bond rate <sup>10</sup>	2.9	3.0	3.4	3.9	4.2	4.3

Economic forecasts are presented on a June year basis, where practicable, for consistency with the fiscal forecasts. Longer time series for these variables are provided on page 144.

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

### Key economic forecast judgements and assumptions

- These forecasts cover the period September quarter 2017 to June quarter 2022.
- International prices for dairy exports fall slightly in the near term but lift gradually thereafter.
- West Texas Intermediate (WTI) oil prices rise from US\$54.4 per barrel in the December 2017 quarter to US\$60.0 in the June 2022 quarter.
- The New Zealand trade-weighted exchange rate remains at 73.8 over the forecast period.
- Net permanent and long-term immigration declines from 71,050 persons in the year ended September 2017 to 15,000 persons in the year ended June 2022, consistent with Statistics New Zealand's long-run migration assumption. The Treasury will review its long-run net migration assumption for the 2018 *Budget Update*.
- Working-age population (15 years of age and over) growth averages 1.8% per year over the forecast period, including the contribution of net migration.
- The labour force participation rate declines from 71.1% in the September quarter 2017 to 69.8% in June 2022.
- Economy-wide multifactor productivity growth averages 0.6% per year over the forecast period.
- Economy-wide labour productivity growth averages 1.1% per year over the forecast period.
- Potential output growth averages 2.7% per year over the forecast period.
- The neutral nominal 90-day interest rate is 4.5% in June 2022.
- The non-accelerating inflation rate of unemployment (NAIRU) is around 4.3% in June 2022.
- For assumptions and judgements relating to the impact of new Government policies on the economic outlook see page 6.

## Recent Developments

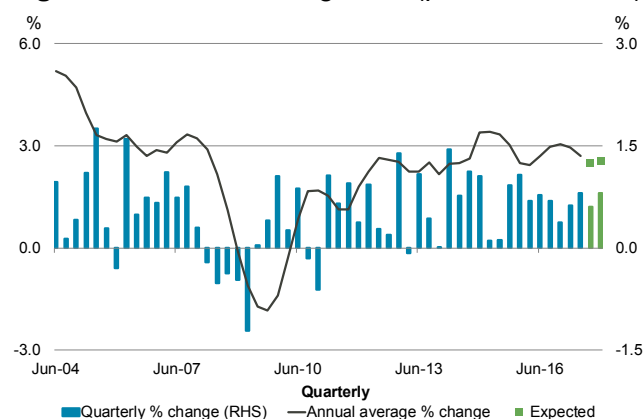
### ***Growth over the second half of 2017 similar to the first half...***

This section discusses recent developments and their impact on the starting point of the economic outlook.

Compared to the *Pre-election Update*, underlying momentum is a little weaker across the second half of 2017. Economic growth appears to have slowed in the 2017 September quarter with wet weather hampering agricultural production, continued weakness in the housing market, and slower growth in private consumption. Quarterly GDP growth is expected to

pick up from 0.6% in the September quarter to 0.8% in the December quarter as agricultural production rebounds and growth in residential construction, consumer spending and business investment picks up (Figure 1.1). Overall, growth over the second half of 2017 is expected to be similar to outturns recorded over the first half of the year.

**Figure 1.1 – Economic growth (production GDP)**



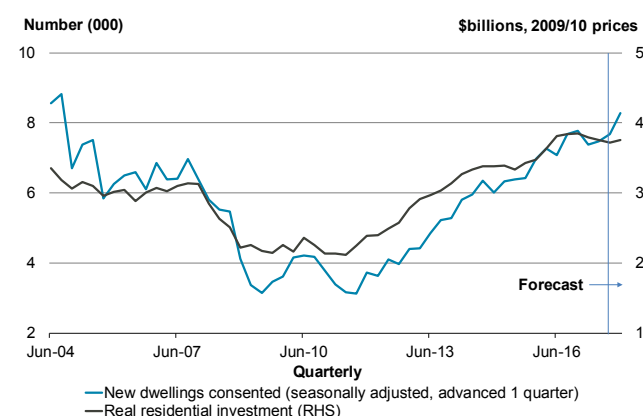
Sources: Statistics New Zealand, the Treasury

### ***...as housing market remains subdued...***

Reflecting high capacity constraints and what is expected to be a temporary dip in demand, forecasts for residential investment activity begin from a weaker starting point than expected in the *Pre-election Update*.

The residential construction sector faces a high degree of capacity constraints: construction firms are reporting that their ability to expand is constrained by difficulty finding skilled labour; measures of capacity utilisation in the sector are near record highs; and pressure on materials is pushing construction costs higher. In addition to these physical constraints the sector has faced tightening financial market conditions. Banks have become more restrictive when lending to developers, in part owing to heightened risks associated with periods of rapid expansion, and growth in lending to investors has slowed following the implementation of higher loan-to-value ratio restrictions.

**Figure 1.2 – Quarterly dwelling consents and residential investment**



Sources: Statistics New Zealand, the Treasury

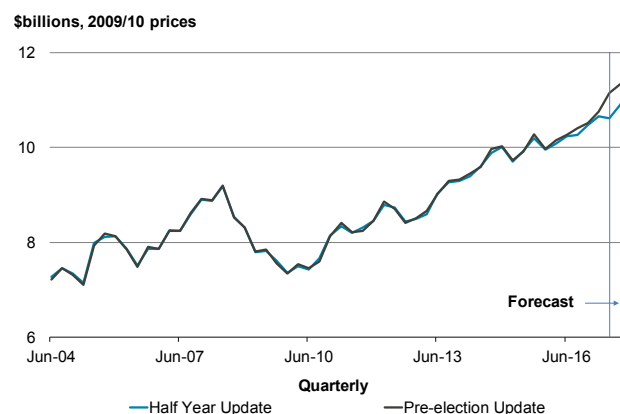
In addition, demand appears to have softened, with house prices and sales contracting in recent months. However, the fundamental drivers of demand have persisted, including strong population growth and low interest rates.

Reflecting these developments, the easing in residential investment activity over the first half of 2017 (from record-high levels in late 2016) is expected to persist into the September quarter, but to begin to recover from the December 2017 quarter, in line with the recent rise in dwelling consents (Figure 1.2) and reflecting solid demand fundamentals.

### **...and uncertainty increases....**

Business investment contracted 0.4% in the June 2017 quarter and was weaker than forecast in the *Pre-election Update*.<sup>4</sup> The lengthy pipeline of infrastructure and non-residential construction projects, including those associated with government projects, is expected to support a partial rebound in business investment over the remainder of 2017 and beyond (Figure 1.3). That said, business confidence has declined in recent months, possibly reflecting uncertainty during the election and government formation period. If this uncertainty persists, business investment could be weaker than forecast.

**Figure 1.3 – Real business investment**



Sources: Statistics New Zealand, the Treasury

A key judgement underpinning these forecasts is that the recent dip in business confidence is short-lived and that domestic activity begins to pick-up at the end of 2017. Scenario One in the Risks and Scenarios Chapter discusses the impact on the outlook should the assumed rebound in confidence not materialise (see page 56).

### **...but the fundamental drivers of growth remain intact...**

Recent indicators suggest growth in household spending eased in the September quarter, possibly reflecting election-related uncertainty and the softening housing market. The latter was evidenced by weak spending on durable goods, such as household furnishings. As uncertainty recedes, an increase in private consumption growth is expected in the December quarter.

Net migration inflows have remained high, adding 71,000 people to the population in the year ending September 2017 and contributing to demand for goods and services. Employment growth has more than accommodated the larger population, with the unemployment rate falling 0.2% points to 4.6% in the September quarter. Wage growth was bolstered by the pay equity settlement in the September quarter, but underlying wage pressures appear subdued relative to history. Looking through some of the volatility in recent labour market statistics suggests conditions are tracking broadly as expected in the *Pre-election Update* (that is, an ongoing but modest strengthening in labour market conditions).

<sup>4</sup> Business investment represents total investment excluding residential investment and therefore includes infrastructure.

Despite annual CPI inflation coming in a little stronger in the 2017 September quarter than expected in the *Pre-election Update*, underlying inflationary pressures remain subdued, with indicators of core inflation, such as the Reserve Bank's Sectoral Factor Model and inflation excluding food and energy, broadly unchanged. Since September, the rise in oil prices and depreciation of the New Zealand dollar have been greater than anticipated. These developments will support stronger tradables inflation in the near term but are unlikely to have a sustained impact on inflation over the medium term. Accordingly, the near term outlook for short-term interest rates is unchanged from the *Pre-election Update*, with the 90-day rate remaining around its current level before rising steadily from late 2018 as the Reserve Bank begins to remove monetary stimulus.

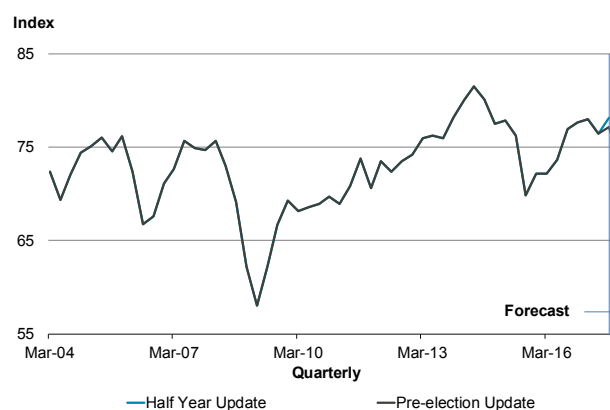
### ***...including a stronger international backdrop***

Recent developments in the international economy have been positive on balance. Growth has strengthened in a number of advanced economies, including the US, euro area and Japan, and labour market conditions have continued to tighten. Growth in Australia picked up in the June quarter, while solid employment growth and buoyant business confidence suggest momentum will persist. If so, this will continue to support the pick-up in net trans-Tasman migrant outflows that has occurred in recent months and a decline in net migration inflows more broadly. In China, economic expansion has been buoyed by policy stimulus, particularly for property construction and infrastructure and consumption growth has remained robust while Chinese authorities continue to address debt risks through tighter financial market regulation. Despite many of New Zealand's key trading partners demonstrating broad-based improvement in activity, alongside tightening labour market conditions, wage growth has remained weak and inflationary pressures subdued. While policy makers expect inflationary pressures to pick-up over the medium term, uncertainties remain around the degree to which low inflation and wage growth may have become embedded.

Solid foreign demand is supporting export prices and the terms of trade, which rose further in the September quarter. While a small fall in dairy prices and rising oil-related import prices are expected to drive a small decline in the terms of trade in the December quarter, the terms of trade are expected to remain near historically-high levels over the forecast horizon. The unusually wet spring in 2017 and subsequent dry spell demonstrate the risks to agricultural production from weather conditions.

Services exports were boosted by the World Masters Games and Lions rugby tour in the June and September 2017 quarters. While a pull-back is anticipated in the December quarter, services exports are expected to remain robust, reflecting ongoing strength in New Zealand tourism. Solid income growth abroad, reflecting a strengthening global economy and the recent depreciation of the New Zealand dollar (if sustained) will provide a supportive backdrop for tourism and exports in general.

**Figure 1.4 – Trade-weighted index**



Sources: Reserve Bank, the Treasury

The trade-weighted index (TWI) is around 6.0% lower than assumed in the *Pre-election Update*. If sustained, this will support New Zealand exporter incomes for goods sold in foreign currency-denominated prices. The tourism sector and services exports will also benefit as the lower dollar makes New Zealand more attractive to international visitors, while supporting a substitution towards domestic tourism by New Zealanders. Overall, a sustained depreciation will support a rebalancing in the economy towards the tradables sector but risks remain. These forecasts assume the recent depreciation in the TWI is sustained over the forecast horizon.

### ***Growth in nominal GDP to support tax revenues***

The nominal economy, measured as the combination of real activity and prices, increased 5.8% in the year to June 2017 to \$268 billion.<sup>5</sup> Consistent with the solid uplift in nominal GDP, core Crown tax revenues grew 7.6% to \$75 billion in the year ending June 2017, driven by growth in corporate tax (owing to strong company profits), GST (reflecting solid consumption and residential investment) and wage and salary income tax (reflecting improving labour market conditions). The positive economic outlook is forecast to continue to support increasing tax revenues (see Fiscal Outlook Chapter).

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<sup>5</sup> Based on quarterly nominal GDP data available prior to the release of Annual National Accounts data on 24 November 2017.



## Economic Outlook

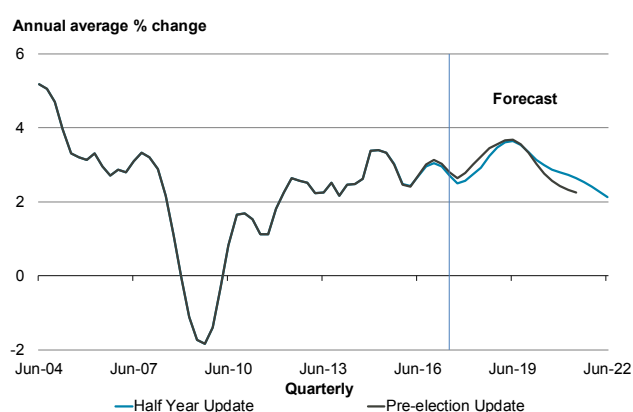
This section discusses the economic outlook for the period ending June 2022. The outlook is conditioned on a number of judgements and assumptions, which are outlined on page 13. Additional assumptions and judgements have been made regarding the impact of the new Government's policies on the economic outlook (see page 6). Should these assumptions and judgements prove incorrect, the economic and fiscal outlook would deviate from that presented here. The Risks and Scenarios Chapter on page 51 discusses some of the key risks facing the economy and uses scenarios to assess the implications if some key assumptions and judgements are altered.

### ***Growth expected to average 2.9%...***

The New Zealand economy is expected to expand at an average rate of 2.9% per year over the next five years (Figure 1.5). Factors supporting growth include low interest rates, population growth, government spending, a positive international outlook and high terms of trade.

Compared to the *Pre-election Update*, the new Government's policies have altered the drivers of growth and contribute to stronger growth over the latter part of the forecast horizon.

**Figure 1.5 – Economic growth (production GDP)**



Sources: Statistics New Zealand, the Treasury

Government spending makes a stronger contribution to GDP growth over 2018/19, which offsets downward revisions to private consumption growth, reflecting the net impact of the Families Package replacing the Family Incomes Package. Growth in private consumption is a little stronger over the latter part of the forecast horizon owing to stronger household income growth, as both wages and employment are expected to be higher. From a weaker starting point, residential investment activity increases more than previously forecast, reflecting the impact of KiwiBuild. Stronger GDP growth over the latter part of the forecast horizon puts additional pressure on resources, leading to higher inflationary pressures and interest rates. Further information is provided on page 7.

### ***...supported by a range of forces...***

Low interest rates and net migration inflows are expected to support domestic activity for some time. Growth in government spending, residential investment and business investment drive a pick up in GDP growth to a peak of 3.6% in the year ending June 2019. Thereafter, growth eases to 2.1% by June 2022 as interest rates rise, population growth eases and growth in government spending slows. Growth in GDP per capita peaks in the year ending June 2019 at 1.7% and eases to 1.1% in June 2022.



Growth in the working-age population will continue to be driven by high, albeit declining, net migration inflows (Figure 1.6). Relative to history, solid growth in the working-age population, together with a strengthening labour market, is expected to support household income growth and consumption.

Annual net migration inflows are assumed to ease over the forecast horizon, gradually declining from a peak of over 72,000 in June 2017 to 15,000 by 2022.

In part, the gradual decline in net migration represents an assumption that the recent pick up in net trans-Tasman outflows (associated with a strengthening Australian labour market) will continue. The long-run net migration assumption is unchanged from the *Pre-election Update* but will be reviewed prior to the 2018 *Budget Update*.

### ...including government spending

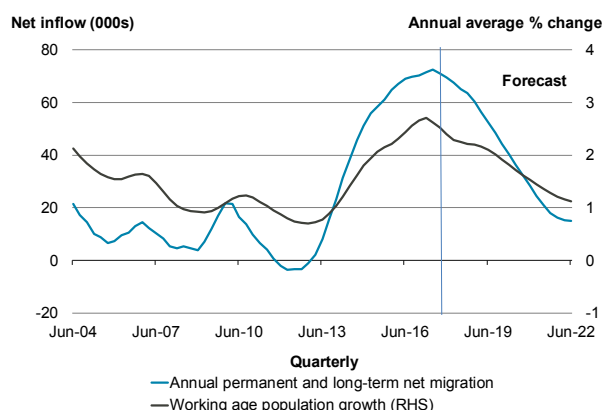
Following a period of strong growth and a decline in the household saving rate, a slower pace of private consumption growth is expected over the next year or so (Figure 1.7). Thereafter, the Government's Families Package and other commitments in the 100-Day Plan provide additional impetus to household income growth and private consumption.

Nonetheless, slower population growth and increasing interest rates will drive an easing trend in consumption growth over the latter part of the forecast period.

The household saving rate is assumed to increase and to remain positive, although with interest rates projected to rise and to reduce disposable income, the saving behaviour of households is a source of uncertainty.

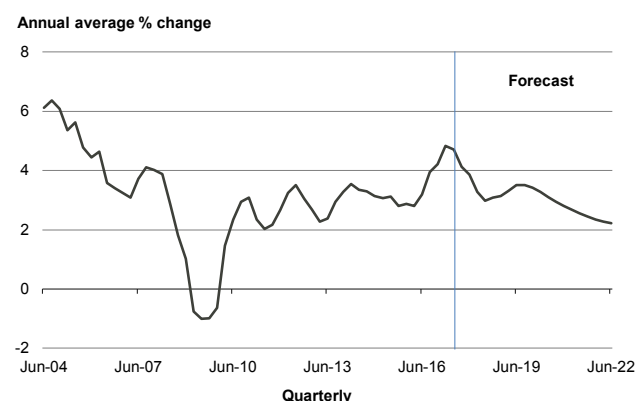
Reflecting constraints in the housing market, residential investment activity is expected to increase only gradually over 2018. Growth in real residential investment is expected to gather pace over 2019 and activity is expected to rise to a higher level than forecast in the *Pre-election Update*, primarily reflecting the impact of KiwiBuild and associated policies to lift capacity in the construction sector (see page 7 for details).

**Figure 1.6 – Net migration**



Sources: Statistics New Zealand, the Treasury

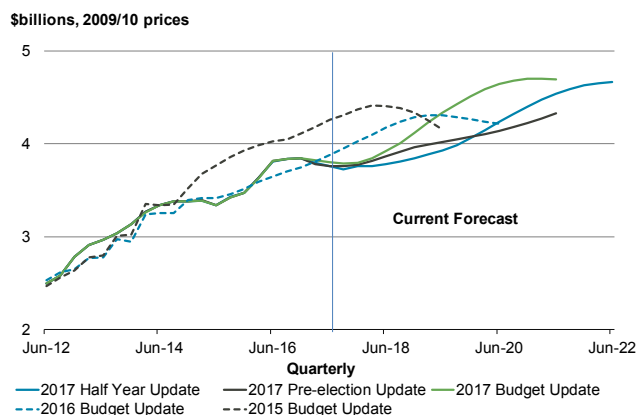
**Figure 1.7 – Real private consumption growth**



Sources: Statistics New Zealand, the Treasury

Past forecasts have tended to overestimate the degree to which residential construction activity is able to respond to high demand (Figure 1.8). The *Pre-election Update* included a downgrade to expected residential investment activity, reflecting a change in view towards more binding capacity constraints in the sector. In the 2017 *Half Year Update*, the outlook is revised higher over the latter part of the forecast horizon. This reflects an assumption that capacity pressures will be partially alleviated by policies associated with KiwiBuild. Should capacity pressures prove to be stronger than assumed, the outlook for residential investment would be weaker than presented here.

**Figure 1.8 – Residential investment**



Sources: Statistics New Zealand, the Treasury

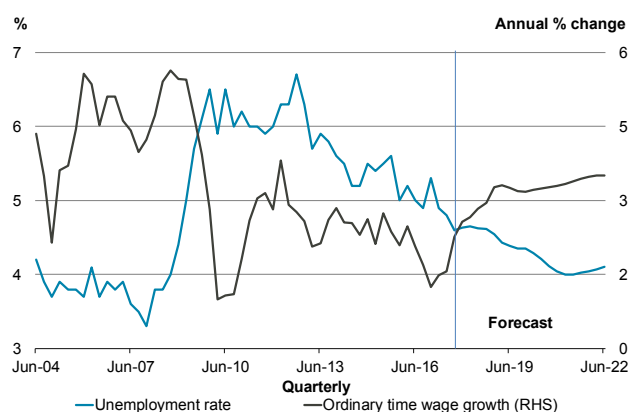
Consistent with the Government's operating allowance profile and a more stimulatory fiscal impulse (see summary fiscal indicators on page 38), public consumption makes a stronger contribution to the acceleration in GDP growth in 2018/19 than forecast in the *Pre-election Update*.

Increased government capital spending is also expected to contribute to stronger activity. This, alongside a strong tourism sector, low interest rates, generally solid domestic demand and sustained improvement in export prices, supports a solid uplift in business investment. However, a sustained drop in business confidence would likely result in weaker business investment than forecast (this is included as part of Scenario One on page 56).

### ***The labour market strengthens...***

The pace of expansion in economic activity is expected to support ongoing strengthening in the labour market and a gradual decline in the unemployment rate to around 4.0% (Figure 1.9). Tightening labour market conditions and building inflationary pressures support a pick up in wage growth, which receives additional impetus from the Government's policy to increase the minimum hourly wage to \$20 by 2021.

**Figure 1.9 – Unemployment rate and wages**



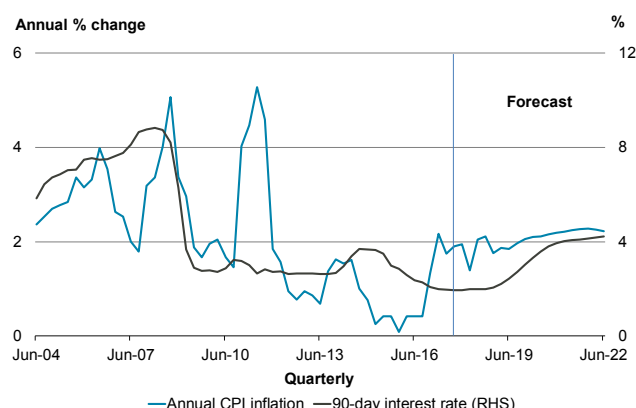
Sources: Statistics New Zealand, the Treasury

One of the assumptions underpinning the outlook is that labour productivity growth recovers to average 1.1% over the forecast period. Weaker growth in labour productivity would lower the rate at which economic activity is able to expand (for a given working-age population and labour force) without driving up inflationary pressures and interest rates. That is, it would lower potential growth. If labour productivity were to evolve at a more subdued pace than assumed, real economic activity would likely be slower and/or inflationary pressures stronger. The impact of slower productivity growth is investigated as part of Scenario One in the Risks and Scenarios Chapter on page 56.

### ...and inflationary pressures rise

Sustained growth in economic activity is expected to put pressure on resources, such as materials and labour, leading to higher input costs, which flow through to rising consumer prices. Annual CPI inflation is forecast to pick up to a little above 2.0% from mid-2019 (Figure 1.10). A stronger growth profile in the latter part of the forecasts than in the *Pre-election Update* contributes to stronger inflationary pressures. Interest rates are assumed to rise from late 2018, which is similar timing as in the *Pre-election Update*. However, to dampen stronger inflationary pressures, the 90-day interest rate is 25 basis points higher than in the *Pre-election Update* over 2020/21.

**Figure 1.10** – Inflation and the 90-day interest rate



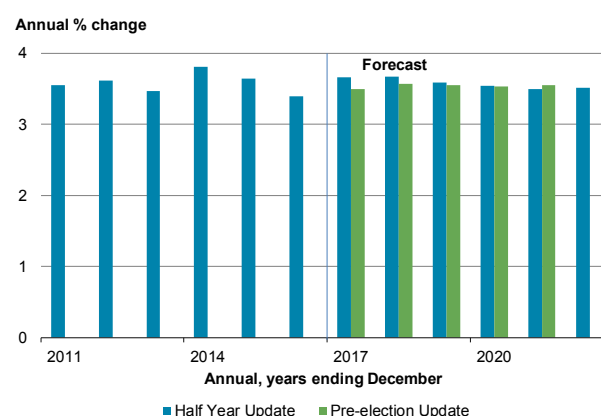
Sources: Statistics New Zealand, Reserve Bank, the Treasury

### Stronger international outlook...

The outlook for New Zealand's trading partners is a little more positive than at the *Pre-election Update* (Figure 1.11). The IMF, OECD and private sector forecasters have lifted their expectations for global growth in 2017 and 2018.

In the US, euro area, Japan and Australia, above-trend economic growth is expected to lift household incomes and reduce the rate of unemployment. Inflation pressures are expected to build and to allow the gradual withdrawal of monetary stimulus. In China, economic activity is expected to slow modestly over the forecast horizon as authorities continue to pursue sustainable growth through a consumption- and services-led economy.

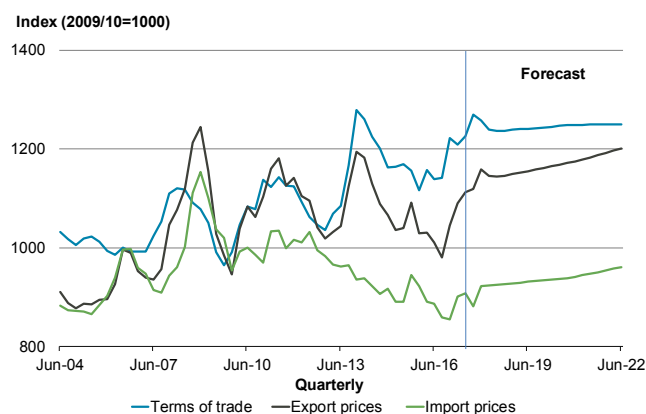
**Figure 1.11** – Trading partner growth



Sources: Haver Analytics, the Treasury

**...supports exports and the terms of trade...**

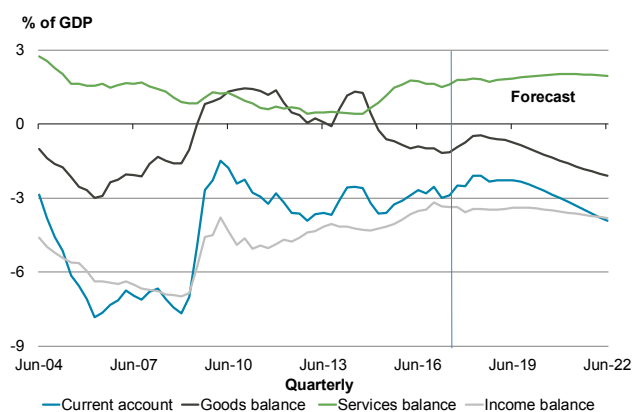
Solid demand from New Zealand's trading partners is expected to support export prices and maintain the terms of trade around historically-high levels (Figure 1.12). The ongoing transition towards consumption-led growth in China is expected to underpin demand for New Zealand dairy, meat and food and beverages. Oil prices can have significant impacts on New Zealand's goods imports bill, directly through the price of fuel imports and shipping costs and indirectly through higher input costs for the production of imported goods. Oil prices are assumed to pick up very gradually over the forecast horizon, and remain low relative to recent pre-shale oil history.

**Figure 1.12 – Goods terms of trade**

Sources: Statistics New Zealand, the Treasury

High export prices are expected to support a pick-up in goods export volumes. Growth in dairy export volumes is forecast to quicken in 2019 as milk production continues to recover over the remainder of the 2017/18 season and into the 2018/19 season. As always, unusually wet winter and spring conditions, or drought in the warmer months present risks to agricultural production. Strong activity in the domestic economy is expected to drive growth in goods import volumes and a widening of the goods deficit from early 2018. A strong tourism sector is expected to support growth in services exports and a gradual lift in the services surplus.

From a deficit of around 2.0% of GDP in mid-2018, the current account deficit is forecast to gradually widen to around 4.0% of GDP. Growth in imports is forecast to outstrip export growth leading to a wider goods deficit, while rising global interest rates contribute to a growing income deficit (Figure 1.13). From 57.0% of GDP at the end of 2017, New Zealand's net international liability position improves slightly in the next two years, before increasing modestly to just under 59.0% of GDP by June 2022.

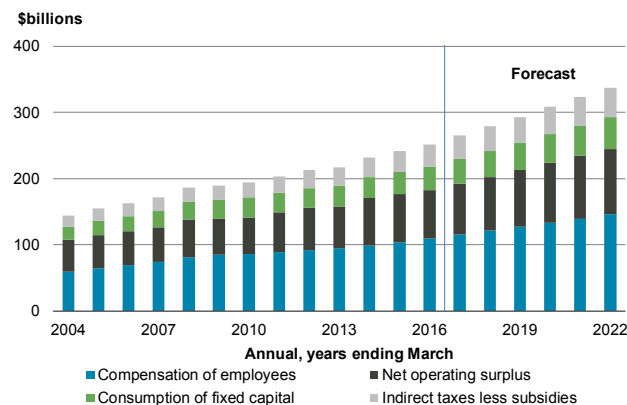
**Figure 1.13 – Current account balance**

Sources: Statistics New Zealand, the Treasury

### ...and nominal GDP

Continued growth in economic activity, rising inflation and a terms of trade near historically-high levels are expected to support an expansion in the nominal economy (Figure 1.14). Solid employment and wage growth is forecast to drive growth in compensation of employees and consumption, supporting PAYE and GST revenues respectively. Strong domestic demand coupled with a positive international outlook will support business profits and corporate tax.

**Figure 1.14 – Nominal GDP<sup>6</sup>**



Sources: Statistics New Zealand, the Treasury

In the four years to June 2021 (which was the final forecast year of the *Pre-election Update*), nominal GDP is cumulatively \$1.5 billion higher than forecast in the *Pre-election Update*. Including the impact of Government policy changes and the changes in the economic outlook, core Crown tax revenue is cumulatively \$6.6 billion higher than in the *Pre-election Update*. After accounting for changes in government policy, such as the removal of personal income tax threshold adjustments, this supports a small macroeconomic-driven lift in tax revenues of around \$0.7 billion.

<sup>6</sup> Based on quarterly nominal GDP data available prior to the release of Annual National Accounts data on 24 November 2017.



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## Fiscal Outlook

### Overview

- Overall, the fiscal outlook is expected to improve across the forecast period.
- The operating balance before gains and losses (OBEGAL) is expected to continue growing across the forecast, reaching a surplus of \$8.8 billion (2.5% of GDP) in 2021/22.
- The fiscal forecasts include the operating and capital allowances outlined in the *2018 Budget Policy Statement* (BPS), and the estimated costs of the Government's 100-Day Plan (refer to page 6).
- Core Crown expenses as a percentage of GDP are expected to initially increase in the first two years of the forecast, reaching 28.6% before declining to 27.6% of GDP in 2021/22. In nominal terms, core Crown expenses continue to increase, reflecting the growing costs of New Zealand Superannuation and new spending in future budgets, as well as some expenditure transferred from 2016/17.
- In addition to operating expenditure, core Crown capital spending totalling \$41.7 billion is included in the forecast to 2021/22. Of this, \$2.0 billion has been committed to the KiwiBuild programme and \$7.7 billion to recommencing contributions to the NZS Fund.
- Capital spending is expected to exceed operating cash flows over the first three years of the forecasts. As a result residual cash deficits are forecast for these years, before returning to a residual cash surplus.
- Funding these residual cash deficits over the next three years, net core Crown debt is forecast to increase in nominal terms before tracking down later in the forecast. As a percentage of GDP, net core Crown debt reduces to around 19.3% by 2021/22.
- The Crown's balance sheet continues to grow with net worth attributable to the Crown reaching \$154.6 billion (44.7% of GDP) in 2021/22.
- While the fiscal outlook is expected to improve, it is at a slower pace than the *Pre-election Update*. Comparisons against the *Pre-election Update* can be found on page 45.

- The Forecast Financial Statements and Core Crown Expense Tables can be found on pages 97 to 136, and provide more detailed information on the fiscal forecasts.
- These forecasts are sensitive to a number of judgements and assumptions and should be read in conjunction with the Risk and Scenarios and Specific Fiscal Risks chapters.

**Table 2.1** – Fiscal indicators

Year ending 30 June	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
<b>\$billions</b>						
Core Crown tax revenue	75.6	78.2	82.8	87.8	93.0	97.8
Core Crown expenses	76.3	81.7	86.3	89.2	92.7	95.3
Total Crown OBEGAL <sup>1</sup>	4.1	2.5	2.8	5.0	6.5	8.8
Core Crown residual cash	2.6	(2.6)	(4.7)	(2.6)	0.3	2.3
Net core Crown debt <sup>2</sup>	59.5	62.1	66.8	69.4	69.0	66.8
Net worth attributable to the Crown	110.5	116.6	122.5	131.1	141.5	154.6
<b>% of GDP</b>						
Core Crown tax revenue	27.7	27.3	27.5	27.7	28.0	28.3
Core Crown expenses	28.0	28.5	28.6	28.2	28.0	27.6
Total Crown OBEGAL <sup>1</sup>	1.5	0.9	0.9	1.6	2.0	2.5
Core Crown residual cash	0.9	(0.9)	(1.5)	(0.8)	0.1	0.7
Net core Crown debt <sup>2</sup>	21.8	21.7	22.2	21.9	20.8	19.3
Net worth attributable to the Crown	40.5	40.7	40.6	41.4	42.7	44.7

Notes: 1 Operating balance before gains and losses.

2 Net core Crown debt, excluding the NZS Fund and advances.

Source: The Treasury

The Fiscal Outlook chapter discusses the following areas:

Key assumptions, core Crown tax revenue, core Crown expenses, the operating balance, core Crown capital spending, residual cash and net core Crown debt, the total Crown balance sheet and a comparison to the *Pre-election Update*.



### Key judgements and assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available at the time they were prepared. Actual events are likely to differ from these assumptions and judgements, while uncertainty around the forecast assumptions and judgements increases over the forecast period. The criteria for inclusion in these forecasts, along with the key risks, can be found in the Risks and Scenarios and Specific Fiscal Risks chapters.

The forecasts incorporate government decisions and other circumstances known to the Government and advised to the Treasury (up to 27 November 2017).

In addition to the key assumptions underpinning the economic forecasts (refer page 13), the following key judgements and assumptions supporting the fiscal forecasts were made:

- Tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts.
- There is an expectation that the cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) can be met within the Budget operating and capital allowances included in the fiscal forecasts. How other Government commitments have been forecast is outlined in the box on pages 6 to 9. Any further updates to the 100-Day Plan costings will be charged against the *Budget 2018* allowances.
- Departments will continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment will be higher at the front end of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years.
- Major capital programmes (eg, KiwiBuild, City Rail Link, Housing Infrastructure Fund, Kaikōura rebuild and Crown Infrastructure Partners) will proceed as planned.
- Forecast returns on the large investment portfolios managed by the Accident Compensation Corporation (ACC) and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- Significant valuations (eg, student loan portfolio, ACC claims liability and the Government Superannuation Fund (GSF) retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.
- No revaluations of property, plant and equipment are projected beyond the current year. Only valuations that have already been completed are included in these forecasts.
- KiwiRail freight assets continue to be valued on a commercial basis (refer Specific Fiscal Risks chapter for risks to the valuation methodology).

**Key judgements and assumptions (continued)**

- The KiwiBuild programme has been included in the fiscal forecasts as a commitment to spend \$2.0 billion. For further details refer to page 7.
- Contributions to the NZS Fund are forecast to resume in the current financial year. Table 2.2 sets out the estimated contribution to the NZS Fund if contributions were to start in the current financial year, based on the legislated contribution formula. Over the forecast years all Fund variables, apart from the capital contributions, are based on those provided by the NZS Fund itself. For more information refer to the Treasury website for the NZS Fund model.

**Table 2.2** – NZS Fund contributions

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Estimated contribution <sup>1</sup>	2.3	2.5	2.5	2.6	2.6
Forecast contribution	0.5	1.0	1.5	2.2	2.5

Note 1. Calculations of annual contributions if they were to resume in 2017/18, using the NZS Fund model.

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 49.

## Core Crown Tax Revenue

**Core Crown tax revenue is expected to increase over the forecast period...**

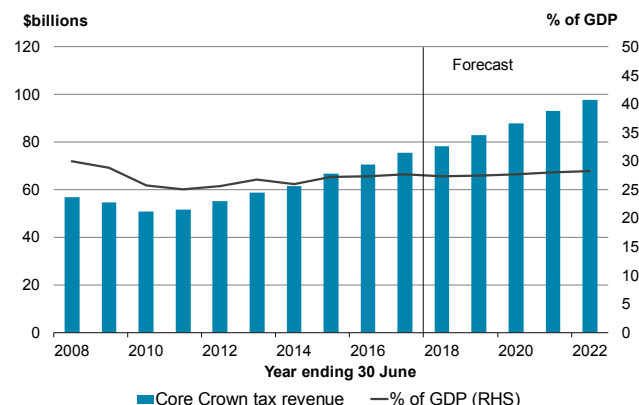
Core Crown tax revenue (Figure 2.1) is forecast to rise in each year of the forecast period in nominal terms, while remaining relatively stable as a percentage of GDP. By 2021/22, core Crown tax revenue is expected to reach \$97.8 billion, \$22.2 billion higher than in 2016/17.

Table 2.3 shows that, of the major tax types, source deductions account for just over 40% of the increase (\$8.9 billion), mainly reflecting expected growth in forecasts of wage rates and employment. In addition, owing to the progressive tax scale, pay as you earn (PAYE) tax growth is boosted by rising average tax rates as wages increase (also known as fiscal drag).

Goods and Services Tax (GST) is forecast to increase by \$5.4 billion over the forecast period, mainly owing to expected growth in nominal domestic consumption, with forecast residential investment also expected to contribute.

Corporate tax is forecast to increase by \$3.6 billion over the forecast period, mainly owing to an expected rise in companies' taxable profits.

**Figure 2.1 – Core Crown tax revenue**



Source: The Treasury

**Table 2.3 – Increase in core Crown tax revenue over the forecast period, by major tax type**

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	Total Change
Source deductions	1.4	1.8	1.8	1.9	2.0	8.9
GST	0.8	1.2	1.2	1.2	1.0	5.4
Corporate tax	0.1	0.9	1.0	0.9	0.7	3.6
Resident Withholding Tax (on interest)	-	0.2	0.5	0.6	0.5	1.8
Other taxes	0.3	0.5	0.5	0.6	0.6	2.5
<b>Total increase core Crown tax revenue</b>	<b>2.6</b>	<b>4.6</b>	<b>5.0</b>	<b>5.2</b>	<b>4.8</b>	<b>22.2</b>
Plus previous year	75.6	78.2	82.8	87.8	93.0	
<b>Core Crown tax revenue</b>	<b>78.2</b>	<b>82.8</b>	<b>87.8</b>	<b>93.0</b>	<b>97.8</b>	

Source: The Treasury

### ***...in line with a growing economy***

The average nominal GDP growth over the forecast period is expected to be 4.9%, while the average growth in core Crown tax revenue is expected to be slightly higher at 5.3% over the same period. As a share of the economy, core Crown tax revenue is forecast to increase to 28.3% of GDP in 2021/22.

Figure 2.2 shows that tax revenue growth is expected to drop below GDP growth in the current year of the forecast, mainly owing to some unusually large one-off effects in the 2016/17 results, which increased corporate tax revenue significantly. These are not forecast to be repeated in 2017/18, resulting in the initial decrease in tax revenue growth. Tax revenue is then forecast to grow at a higher rate than GDP.

Owing to the relatively strong forecast growth in wages, fiscal drag is expected to make a significant contribution to PAYE growth, adding nearly 0.5% of GDP to forecast tax revenue by 2021/22.

Increasing forecast deposit rates over the forecast period means that the Resident Withholding Tax on interest is forecast to grow at a faster rate than nominal GDP.

Previously announced policy measures (eg, base erosion and profit shifting measures for multinational corporations operating in New Zealand and successive 10% increases to tobacco excise rates) are expected to add 0.3% to the tax-to-GDP percentage over the forecast period.

Slightly offsetting these factors, some components of GDP that contribute to growth in taxes (total employees' compensation and domestic consumption) are forecast to grow at a slower rate than nominal GDP, thereby reducing the tax-to-GDP ratio.

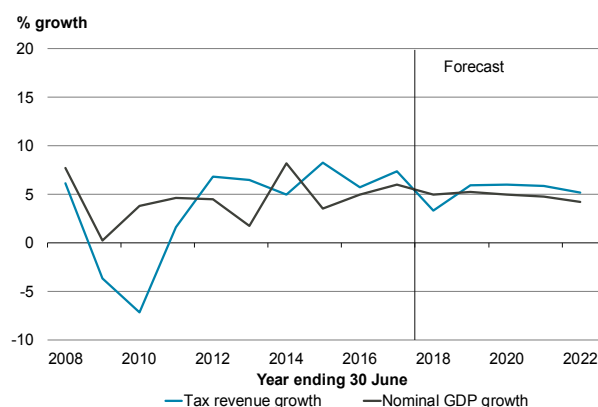
### ***Comparison with Inland Revenue forecasts***

Inland Revenue has also prepared a set of tax forecasts, which, like the Treasury's tax forecasts, were based on the Treasury's macroeconomic forecasts. The Treasury's forecasts of core Crown tax revenue are, on average, 0.3% lower than Inland Revenue's forecasts. Most of the forecast differences arise from judgements around the relative strength of tax revenue in the current year, as the differences between the two forecasts are, in aggregate, similar across all years of the forecast period.

This comparison is included in the Additional Information on the Treasury website at:

<http://www.treasury.govt.nz/budget/forecasts/hyefu2017>

**Figure 2.2 – Core Crown tax revenue and nominal GDP growth**



Source: The Treasury

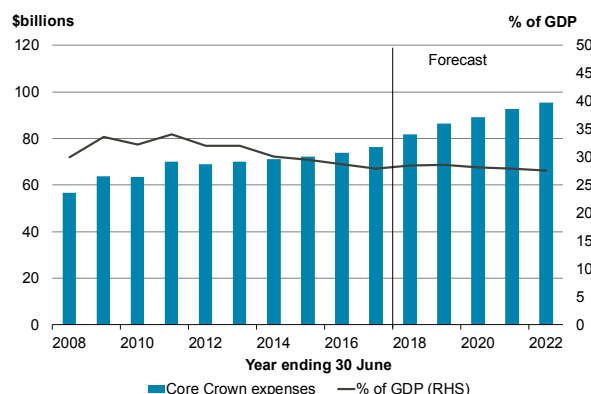
## Core Crown Expenses

***Core Crown expenses are expected to remain relatively stable compared to the size of the economy, despite nominal growth...***

Core Crown expenses are expected to grow at a slightly slower rate than the nominal economy. While slightly higher in the near term, core Crown expenses as a percentage of GDP decline from 28.0% in 2016/17 to 27.6% at the end of the forecast period (Figure 2.3).

Nominally, core Crown expenses are expected to increase by \$19.0 billion from \$76.3 billion in 2016/17 to \$95.3 billion in 2021/22, an increase of around \$4 billion each year.

**Figure 2.3 – Core Crown expenses**



Source: The Treasury

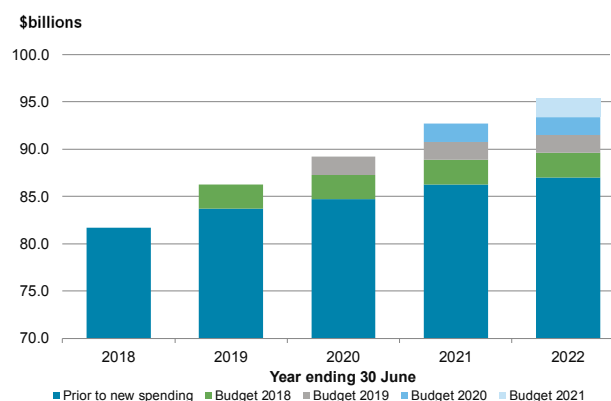
***...primarily owing to operating allowances provided for future decision-making...***

The operating allowances are set by the Government in the BPS and outline the expected level of future expenditure, although no formal decision regarding the allocation of spending has yet been taken.

For forecasting purposes these allowances are assumed to be all operating expenditure and are net of identified savings. However, they can be used for a combination of revenue and expense initiatives when allocated.

These forecasts assume that any additional costs in relation to Government commitments and future cost pressures (whether they be from increased demand for government services, inflation or additional services) will be met from operating allowances.

**Figure 2.4 – Core Crown expenses with allowance break down**



Source: The Treasury

Future operating allowances are currently set at \$2.6 billion for *Budget 2018*, reducing to \$1.875 billion for each subsequent Budget (Figure 2.4).<sup>7</sup> The fiscal forecasts include estimated costs of the 100-Day Plan (refer page 6 for further discussion). Any additional costs of the policy commitments made by the Government are assumed to be met from these budget

<sup>7</sup> New operating spending will be allocated to department baselines when budget decisions are made. As a result, the different functional expense areas (eg, health spending), with the exception of social security and welfare and finance costs, remain flat across the forecast period (refer page 131). Therefore, comparisons across the forecast period will not necessarily reflect the expected spend at a functional level.

allowances. For further details refer to ‘impact of new Government policies’ box on page 6 to 9.

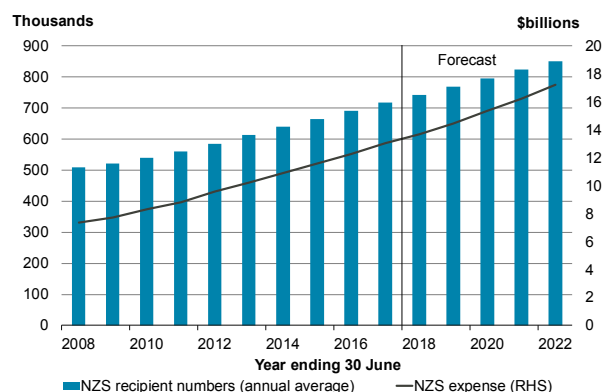
The Specific Fiscal Risks chapter outlines the options the Government has to manage those commitments with these allowances (refer page 63).

**...and an increase in the cost of New Zealand superannuation contributes to expenditure growth...**

New Zealand superannuation (NZS) is forecast to increase as recipient numbers increase.

NZS payments account for \$4.2 billion of the increase in core Crown expenses over the forecast period. This increase reflects the growth in the number of NZS recipients and the increase in payment rates and other factors. By the end of the forecast period, NZS is around 54% of the total social assistance spending and 18% of core Crown expenditure (compared to 52% and 17% respectively in 2016/17).

**Figure 2.5 – Growth of NZS recipients and expenses**



Source: The Treasury

Recipient numbers are forecast to increase from almost 717,000 in 2016/17, to over 851,000 by the end of the forecast horizon (an increase of 18.7%). The remaining increase is largely owing to indexation of entitlements to wage growth (Figure 2.5).

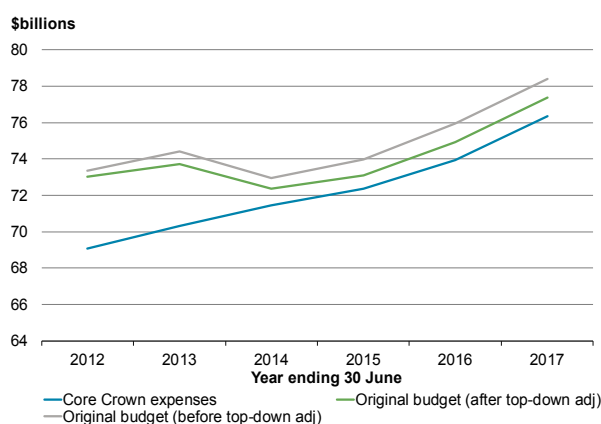
**...while judgements are made regarding the level of spending.**

The fiscal forecasts are a culmination of individual forecasts provided by departments and other government entities (a ‘bottom-up’ forecast).

Parliament provides the authority for departments to incur expenses (referred to as appropriations). History suggests that the actual level of spending is usually below these upper limits and that there is a bias towards over-forecasting expenditure (Figure 2.6).

Actual expenditure is often lower than these limits owing to a number of reasons; such as expenditure being delayed or programmes not implemented. The Treasury therefore estimates the extent to which expenditure is ‘over forecast’ and reduces the expenditure forecast accordingly. This adjustment is referred to as a ‘top-down’ adjustment.

**Figure 2.6 – Variance in core Crown expenses to original budget<sup>1</sup>**



Note 1: Original budget refers to the relevant *Budget Update* first full forecast year (ie, Original budget for 2017 is *Budget 2016*).

Source: The Treasury

To make this judgement the Treasury analyses large departments' forecasts, including the past history of spending against forecasts and appropriations. Without the top-down adjustment the variance to forecast would be much larger.

Table 2.4 shows forecast core Crown expenses in the *Half Year Update* before and after the top-down adjustment is applied.

**Table 2.4** – Core Crown expenses (before and after top-down adjustment).

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Core Crown expenditure (before top-down adjustment)	83.1	87.1	89.8	93.3	95.9
Top-down adjustment	(1.4)	(0.8)	(0.6)	(0.6)	(0.6)
<b>Core Crown expenditure</b>	<b>81.7</b>	<b>86.3</b>	<b>89.2</b>	<b>92.7</b>	<b>95.3</b>

Source: The Treasury

The top-down adjustment will be higher at the front end of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring spending not incurred and moved to the following year.

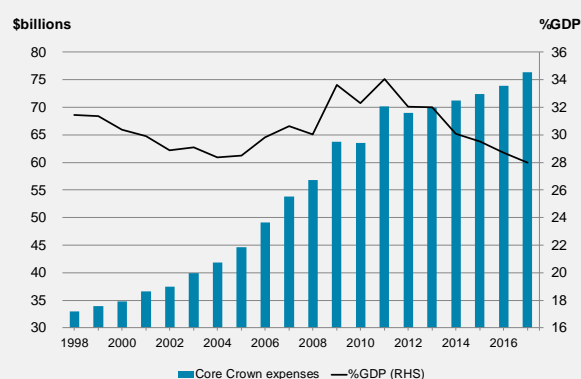
## Core Crown expenses over time

### Nominal core Crown expenses

Over the last 19 years, core Crown expenses have almost doubled in nominal terms from \$33.0 billion in 1997/98 to \$76.3 billion in 2016/17. As a share of the economy, core Crown expenses increased from 31.5% in 1998 to peak at 34.1% in 2010/11 following the Canterbury earthquakes, and then decreased to 28.0% of GDP in 2016/17 (Figure 2.7).

Core Crown expenses are forecast to continue to increase in nominal terms to \$95.3 billion by 2021/22 or 27.6% of GDP. In the longer term, the Treasury's *He Tirohanga Mokopuna 2016 Statement on the Long-Term Fiscal Position* sets out projections of core Crown expenses including the key areas of spending such as health, education and welfare at 15-year intervals out to 2060. These projections represent scenarios that illustrate different possibilities rather than being predictions. They show that projected long-term pressures are primarily owing to increased costs for NZS and health expenses. The ageing population is the main driver of NZS increases, while this coupled with growing demand for services pushes up public health spending.

**Figure 2.7 – Core Crown expenses (nominal)**



Source: The Treasury

### Real core Crown expenses (using 2016/17 dollars)

In real terms (ie, stripping out the impact of inflation) core Crown expenses have increased by \$27.9 billion or 57.6% since 1998. Expenditure on social security and welfare increased by 37.8% in real terms, while health expenses increased by over 100%. Education and other expense classes increased by 75.2% and 68.3% respectively, while finance costs have decreased by 10.0% over this time, owing in part to lower interest rates (Table 2.5).

**Table 2.5 – Change in core Crown expenses in real terms (using 2016/17 dollars)**

Year ending 30 June \$million	1998	2017	\$ Change	% Change
Social Security and Welfare	18,349	25,294	6,945	37.8
Health	7,871	16,223	8,352	106.1
Education	7,579	13,281	5,702	75.2
Other	10,702	18,007	7,305	68.3
Finance costs	3,925	3,534	(391)	(10.0)
<b>Total core Crown expenses</b>	<b>48,426</b>	<b>76,339</b>	<b>27,913</b>	<b>57.6</b>

Source: The Treasury



## Core Crown expenses over time (continued)

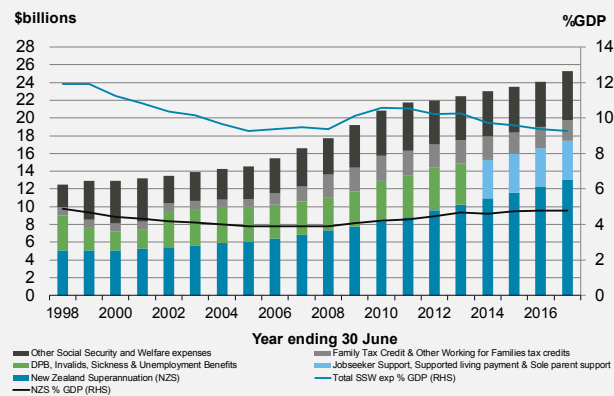
### Core Crown expenses by functional classification (nominal)

Of the total core Crown expenses, social security and welfare, health and education represent the largest types of spending. Figures 2.8, 2.9 and 2.10 below show the expenditure trends over the last 20 years for these key areas of government expenditure, including the significant components of each.

In 2013/14 changes to the benefit system and existing benefit categories took place. Three new categories of benefits replaced a number of other categories.

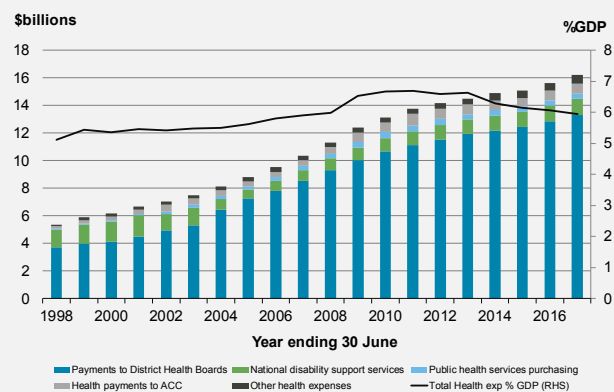
Education expenses comprise spending on early childhood education, primary and secondary schools and tertiary education, including the cost of student allowances and student loans. In 2005/06 there was a change in the student loan scheme resulting in an additional \$1.4 billion of tertiary expenses in that year.

**Figure 2.8 – Social Security and Welfare**



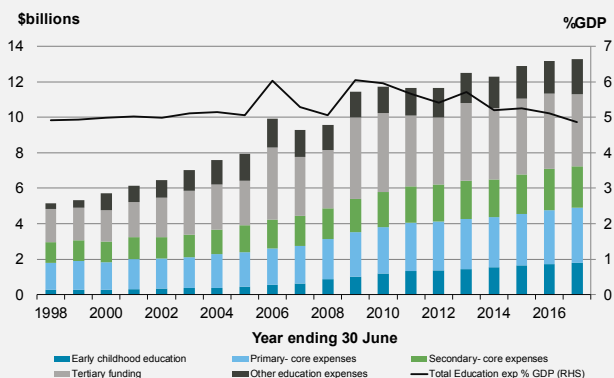
Source: The Treasury

**Figure 2.9 – Health**



Source: The Treasury

**Figure 2.10 – Education**



Source: The Treasury

### Core Crown expenses over time (continued)

#### Long-term projections

As discussed earlier the Treasury's *He Tirohanga Mokopuna 2016 Statement on the Long-Term Fiscal Position* sets out projections of core Crown expenses.

Table 2.6 compares actual and forecast results in this Half Year Economic and Fiscal Update to the projections in the 2016 Long-Term Fiscal Position. These projections are based on historical spending patterns and use the Budget 2016 forecasts as a base. They do not include a Government response even though previous governments have made such responses. The purpose of the projections below is to provide potential outcomes to enable governments to make well-informed choices.

**Table 2.6** – Projections for 'Historical Spending Patterns' scenario (% of GDP)

Year ending 30 June % of GDP	1998 Actual	2017 Actual	2022 Forecast	2045 Projection	2060 Projection
New Zealand Superannuation	4.9	4.8	5.0	7.2	7.9
Health	5.1	5.9	5.0	8.3	9.7
Education	4.9	4.9	4.4	5.5	5.7
Total core Crown expenses	31.5	28.0	27.6	39.1	47.1

Source: The Treasury (*He Tirohanga Mokopuna 2016 Statement on the Long-Term Fiscal Position*)

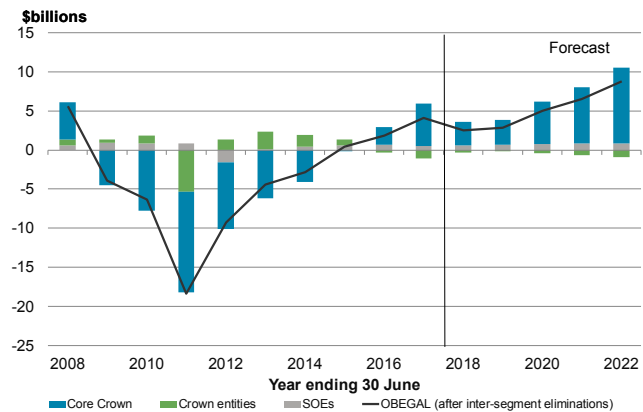
## Operating Balance

***OBEGAL is expected to decrease initially, followed by steady growth over the next four years...***

The forecast decrease in OBEGAL in the current year largely reflects the higher than expected outturn for 2016/17 and the increase in spending from *Budget 2017* decisions. This decline is followed by steady growth in the remaining years of the forecast, as revenue grows at a faster pace than expenditure, reaching a surplus of \$8.8 billion in 2021/22 (Figure 2.11).

Crown entities (CEs) are expected to record relatively small deficits over the forecast period, while State-owned Enterprises' (SOEs') contribution to OBEGAL remains fairly stable, with operating surpluses forecast to average \$0.7 billion throughout the forecast period. See page 99 to 102 for a list of CEs and SOEs.

**Figure 2.11 – Components of OBEGAL by segment**



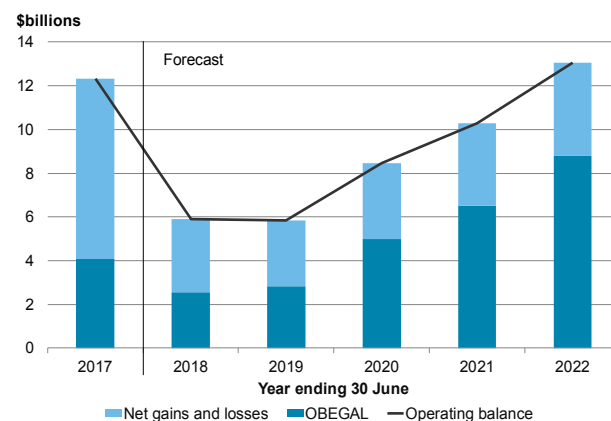
Source: The Treasury

***...while investment returns contribute to the growth in the operating balance and net worth.***

The total Crown operating balance, inclusive of gains and losses, is forecast to be in surplus across all years of the forecast period.

The 2016/17 gains made on the Crown's large investment portfolios, largely ACC and the NZS Fund, reflected strong performance in the global equity markets. The forecast then assumes investment income returns to a long-term rate of return, resulting in more subdued growth going forward. The operating balance follows the OBEGAL trend growing to \$13.0 billion in 2021/22 (Figure 2.12).

**Figure 2.12 – Components of operating balance**



Source: The Treasury

While expected financial gains on investments are positive, partially offsetting these was an actuarial loss on the ACC outstanding claims liability of \$0.5 billion in 2017/18 (compared to actuarial gains of \$0.4 billion in 2016/17). However, as future actuarial gains or losses are not forecast, they do not impact the operating balance beyond 2017/18.

The level of operating balance plays a significant part in increasing the Government's financial assets and contributing to growth in the Crown's net worth.

### Summary fiscal indicators

The Treasury calculates two summary fiscal indicators, the cyclically-adjusted balance (CAB) and the fiscal impulse, to help assess the Government's fiscal position. Further detail on these indicators can be found in the Additional Information on the Treasury website:

[www.treasury.govt.nz/budget/forecasts/hyefu2017](http://www.treasury.govt.nz/budget/forecasts/hyefu2017).

**Table 2.7** – Structural fiscal balance indicators

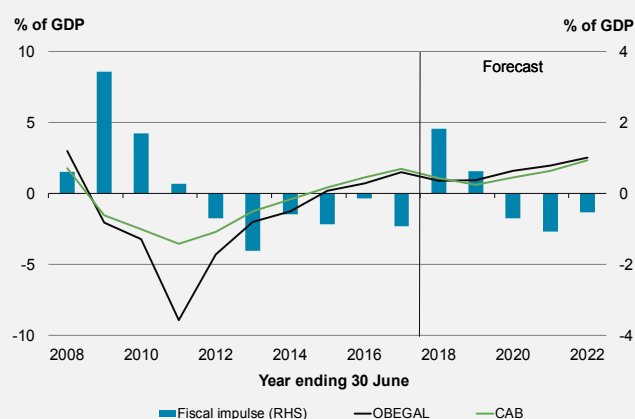
Year ending 30 June % of GDP	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
OBEGAL	1.5	0.9	0.9	1.6	2.0	2.5
Cyclically-adjusted balance	1.7	1.1	0.6	1.1	1.6	2.3
Fiscal impulse <sup>8</sup>	(0.9)	1.8	0.6	(0.7)	(1.1)	(0.5)

Source: The Treasury

### Cyclically-adjusted balance

The CAB is an estimate of OBEGAL adjusted for the cyclical position of the economy. Cyclical factors (eg, higher tax revenue in an upturn or higher unemployment expenses in a downturn) are removed to assess the Government's underlying fiscal position. The CAB is in surplus across the entire forecast period, indicating the forecast surpluses are structural, ie, they are not owing to cyclical economic conditions. The profile of the CAB broadly reflects the profile of OBEGAL across the forecast period (Figure 2.13). Cyclically-adjusted surpluses are, on average, 0.4% of GDP lower across the forecast period compared with the *Pre-election Update* as a result of higher operating expenses and lower cyclically-adjusted revenue as a per-cent of GDP.

**Figure 2.13** – Operating balance indicators



Source: The Treasury

### Fiscal impulse

Unlike the CAB, which is an operating measure, the fiscal impulse is based on both operating and capital cash flows. The fiscal impulse is an estimate of discretionary changes (ie, excluding cyclical factors) in the fiscal position that have an impact on aggregate demand pressures in the economy. The fiscal impulse indicates that fiscal policy is forecast to have a stimulatory impact on aggregate demand in 2017/18 and 2018/19. This reflects strong growth in capital and operating expenditure, infrastructure investment, the Families Package and other expenditure on public services. Fiscal policy is estimated to have a contractionary impact on aggregate demand for the remainder of the forecast period. This is driven by a combination of declining operating and capital expenditure as a per cent of GDP and rising tax receipts as a per cent of GDP.

<sup>8</sup> The fiscal impulse measure shown is the core Crown fiscal impulse plus CEs, excluding Earthquake Commission (EQC) and Southern Response payments. A positive number indicates stimulatory fiscal policy.

## Core Crown Capital Spending

The Government is forecast to spend \$41.7 billion on net capital spending over the next five years. Net capital spending is expected to increase significantly in 2017/18 and persist at that level across the forecast. The estimated increase in the forecast capital spend increases the risk that spending may be pushed into future periods as capacity constraints are tested.

**Table 2.8** – Net capital expenditure activity 2017/18 to 2021/22

Year ending 30 June \$billions	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	5-year Total
Education	0.7	1.0	0.9	0.7	0.7	0.7	4.0
Defence	0.4	0.7	0.8	0.5	0.3	0.5	2.8
KiwiBuild	-	0.1	0.9	1.0	-	-	2.0
Corrections	0.1	0.2	0.2	0.1	0.1	0.1	0.7
Inland Revenue	0.1	0.2	0.1	0.1	0.1	0.1	0.6
Other	0.8	1.5	0.7	0.5	0.6	0.6	3.9
<b>Net purchase of physical assets</b>	<b>2.1</b>	<b>3.7</b>	<b>3.6</b>	<b>2.9</b>	<b>1.8</b>	<b>2.0</b>	<b>14.0</b>
Housing Infrastructure Fund	-	0.1	0.2	0.1	0.2	0.1	0.7
Student loans	0.1	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)
Other	(0.2)	0.1	-	-	(0.1)	(0.1)	(0.1)
<b>Net advances</b>	<b>(0.1)</b>	<b>0.2</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>0.2</b>
New Zealand Transport Agency (NZTA)	1.0	1.4	1.3	1.4	1.1	1.5	6.7
City Rail Link	-	0.3	0.2	0.3	0.4	0.3	1.5
Crown Infrastructure Partners	-	-	0.1	0.2	0.3	-	0.6
Southern Response	0.2	0.3	0.2	0.1	-	-	0.6
District Health Boards	-	0.3	0.1	0.1	-	-	0.5
KiwiRail	0.2	0.2	0.2	-	-	-	0.4
Other	0.3	0.5	0.6	0.3	-	-	1.4
<b>Net investments</b>	<b>1.7</b>	<b>3.0</b>	<b>2.7</b>	<b>2.4</b>	<b>1.8</b>	<b>1.8</b>	<b>11.7</b>
Future new capital spending	-	0.3	2.0	2.5	2.7	2.7	10.2
Top-down capital adjustment	-	(1.1)	(0.5)	(0.3)	(0.1)	(0.1)	(2.1)
Contribution to NZS Fund	-	0.5	1.0	1.5	2.2	2.5	7.7
<b>Net capital spending</b>	<b>3.7</b>	<b>6.6</b>	<b>8.9</b>	<b>9.0</b>	<b>8.4</b>	<b>8.8</b>	<b>41.7</b>

Source: The Treasury

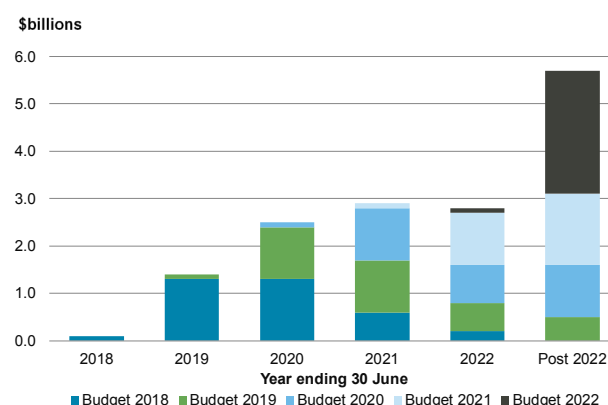
Table 2.8 outlines core Crown capital spending that has a net core Crown debt impact. It excludes capital spending undertaken directly by CEs and SOEs funded from their own resources. The Government has committed to spending \$2.0 billion on the KiwiBuild programme (refer to page 7 for further information). This has been forecast to occur in the first three years of the forecast. Other significant areas of capital spending include Crown Infrastructure Partners, schools and the roading network (through NZTA).

Some capital commitments relating to the City Rail Link and Housing Infrastructure Fund are expected to fall outside of the forecast horizon.

Capital allowances represent new capital spending expected to be allocated over the forecast period. The capital allowance for each Budget is spread over five fiscal years, reflecting the expected profile of spending. This profile is illustrated in Figure 2.14.

As with operating allowances, capital allowances are set by the Government and outline the expected level of future expenditure, although no formal decision regarding the allocation of spending has yet been taken. Future capital allowances are currently set in the *2018 Budget Policy Statement* at \$3.4 billion for both *Budget 2018* and *Budget 2019*, reducing to \$3.1 billion in *Budget 2020*, and \$2.7 billion in *Budget 2021* onwards.

**Figure 2.14** – New capital spending (capital allowances)



Source: The Treasury

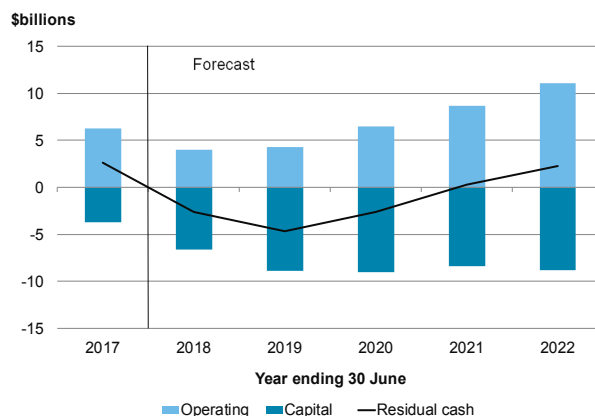
In addition to the above capital spending, a number of capital projects have been undertaken through Public Private Partnerships (PPPs) (eg, Transmission Gully). Unlike capital spending, where cash payments are made as the asset is being constructed, cash flows in relation to PPPs do not typically commence until the completion of the project. Instead, borrowings are accumulated across the period reflecting the progress towards completion. Payments are then spread over a number of subsequent years as the assets become operational.

## Residual Cash and Net Core Crown Debt<sup>9</sup>

***Operating cash flows are expected to improve across the forecast period...***

Net operating cash flows are expected to rise over the forecast period. However, these are forecast to be exceeded in the first three years of the forecast by the expected capital spending as discussed earlier on page 39. This results in a residual cash deficit forecast for the first three years. However, as capital spending steadies, and forecast tax receipts continue to grow at a faster pace than operating expenditure, a residual cash surplus occurs in the final two years of the forecast, peaking at \$2.3 billion in 2021/22 (Figure 2.15).

**Figure 2.15 – Core Crown residual cash**



Source: The Treasury

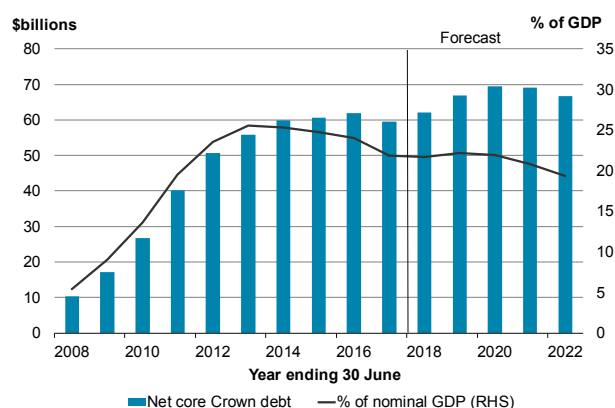
The growth in operating cash flows strengthens each year of the forecast period and largely mirrors the trend shown in OBEGAL. The strength in operating cash flows largely represents growth in tax receipts exceeding the growth in operating payments.

***...while net core Crown debt falls as a percentage of GDP***

Net core Crown debt as a percentage of GDP is expected to decline across the forecast period from 21.8% in 2016/17 to 19.3% at the end of the forecast period (Figure 2.16).

However, as a result of the expected residual cash results, net core Crown debt is expected to increase in the short term and peak in nominal terms at \$69.4 billion in 2019/20 before reducing to \$66.8 billion in 2021/22.

**Figure 2.16 – Net core Crown debt**



Source: The Treasury

This forecast nominal increase in net core Crown debt in the short-term is expected to be funded by reducing financial assets of the Crown, rather than increasing nominal gross debt.

This forecast nominal increase in net core Crown debt occurs as cash flows from operating activities are not expected to be sufficient to meet capital spending.

<sup>9</sup> Net core Crown debt and residual cash indicators are measured on a core Crown basis. Residual cash includes both operating and capital activity. This differs from OBEGAL, which is measured at a total Crown level and includes operating activity only.

### ***The bond programme remains stable...***

While nominal net core Crown debt increases in the short term, the bond programme is forecast to remain stable over the forecast period. The issuance profile reduces the year-to-year volatility of bond programmes and ensures consistency of supply over this time.

The bond programme is expected to raise funds of \$35.2 billion over the forecast period, while \$35.5 billion of existing debt will be repaid, providing net repayments of \$0.3 billion (Table 2.9).<sup>10</sup>

**Table 2.9** – Net issuance of government bonds

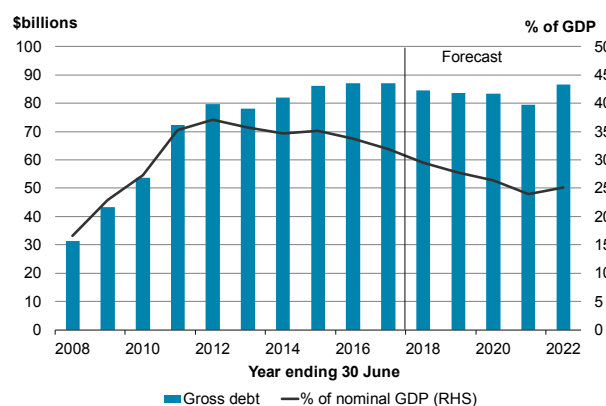
Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	5-year Total
Face value of government bonds issued (market)	7.0	7.0	7.0	7.0	7.0	35.0
<b>Cash proceeds from government bond issue</b>						
Cash proceeds from issue of market bonds	7.0	7.0	7.0	7.1	7.1	35.2
Repayment of market bonds	(9.2)	(7.9)	(7.3)	(11.1)	-	(35.5)
Net proceeds from market bonds	(2.2)	(0.9)	(0.3)	(4.0)	7.1	(0.3)
<b>Net cash proceeds from bond issuance</b>	<b>(2.2)</b>	<b>(0.9)</b>	<b>(0.3)</b>	<b>(4.0)</b>	<b>7.1</b>	<b>(0.3)</b>

Source: The Treasury

### ***...although gross debt declines as a percentage of GDP***

In line with the Crown bond programme, gross debt as a percentage of GDP is expected to decline across the first four years of the forecast period. By 2020/21 gross debt is expected to decrease to 23.9% of GDP, from 31.9% at the end of 2016/17. In the final year of the forecast, gross debt climbs again to 25.1% of GDP, as steady bond issuance continues during a year with no forecast bond maturity.

**Figure 2.17** – Gross debt



Source: The Treasury

In nominal terms gross debt declines to \$79.4 billion in 2020/21 before peaking in 2021/22 at \$86.7 billion, \$0.4 billion lower than current levels (Figure 2.17), largely as a result of the net repayment discussed above.

As previously signalled in the *Budget Update 2017*, the Government intends to maintain the amount of bonds issued at not less than 20% of GDP over time. The BPS contains further information on this objective.

<sup>10</sup> More information on the bond programme can be found at <https://www.nzdm.govt.nz/analyst-centre/media-statements>



## Analysis of Government debt

### How does the Crown borrow?

The Treasury actively manages the Crown's material funding and liquidity risks, ensuring the Crown has enough net cash to meet its obligations. The Crown issues debt securities that raise the funds necessary to cover any cash flow shortfall between Crown expenditure and debt repayments and Crown revenue.

The Crown issues New Zealand Government Bonds (NZGBs) and treasury bills in the wholesale market. These are issued via regular competitive tenders or in the case of new bonds, via syndication.<sup>11</sup> At 27 November 2017, there were \$76.6 billion of bonds on issue that were available to be bought and sold in the secondary market. The Crown also had around \$4 billion of treasury bills on issue. Currently, there are nine NZGBs, with maturities that span from December 2017 to September 2040. In addition to NZGBs and treasury bills issued in the wholesale market, the Crown makes bonds available to retail investors. These retail bonds are known as Kiwibonds.

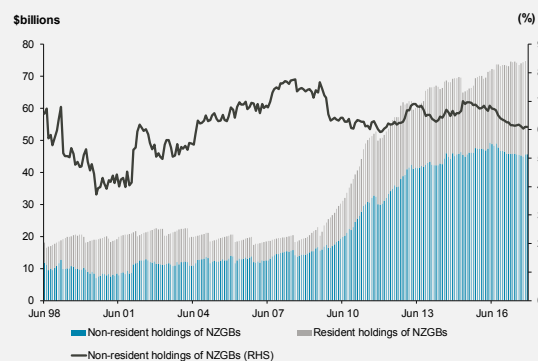
### Who buys NZGBs?

NZGBs are currently only issued in New Zealand dollars, and are bought by a wide range of domestic and offshore investors. Domestically, NZGBs are typically purchased by banks, fund managers and KiwiSaver providers. Non-resident purchasers are diverse by type and geographic location. They may be central banks, fund managers, hedge funds or pension funds that include NZGBs in a global or region-specific portfolio of assets. Offshore investors may be located anywhere in the world and are currently largely located in Asia, Europe, the Americas, Middle East or Australia. Figure 2.18 shows the resident and non-resident holdings of NZGBs.

### How does the NZGB market look over history?

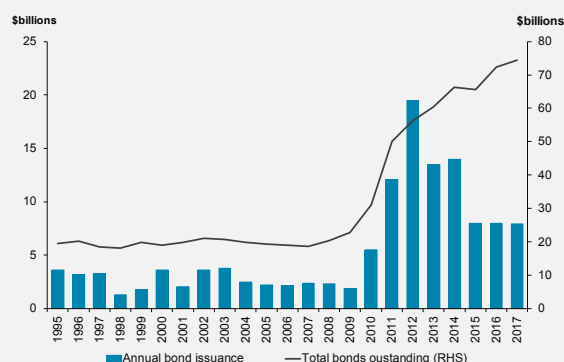
Over time, the amount of NZGBs issued each year and the total outstanding has varied (Figure 2.19). In the period prior to the Global Financial Crisis (GFC), bond issuance had fallen to around \$2.0 billion per year and total NZGBs on issue were below \$20.0 billion. Following the GFC (before 2007-2008) and the Canterbury earthquakes (2010) funding requirements increased. Annual bond issuance programmes grew to almost ten-fold at the peak annual funding requirement. More recently, issuance programmes have been steadier, averaging \$8.0 billion per year.

**Figure 2.18 – Holdings of NZGBs: Resident and Non-resident**



Source: The Treasury

**Figure 2.19 – New Zealand Government Bonds Over Time**



Source: The Treasury

<sup>11</sup> Syndications involve appointing a group of intermediaries (typically banks) to a panel to issue a new bond. The purpose is to achieve a relatively large volume of issuance, to a diverse range of investors, at cost-effective pricing.

## Total Crown Balance Sheet

### ***Growing operating balance surpluses result in a stronger balance sheet...***

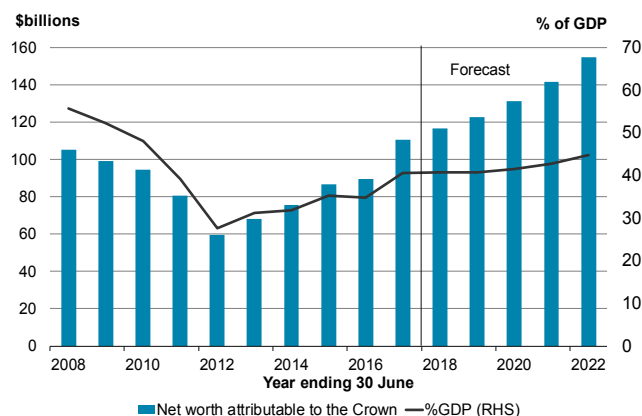
Net worth attributable to the Crown is forecast to grow in nominal terms across the forecast period, largely owing to expected operating balance surpluses, to stand at \$154.6 billion by 2021/22. As a percentage of GDP, it remains stable in the first half of the forecast before increasing to 44.7% by 2021/22 (Figure 2.20) as growing operating surpluses outpace GDP growth.

### ***...with assets increasing by \$48.5 billion over the forecast period...***

Total assets are forecast to grow by \$48.5 billion over the forecast period to \$364.8 billion in 2021/22, made up of additional investments in assets, both physical and financial (Figure 2.21).

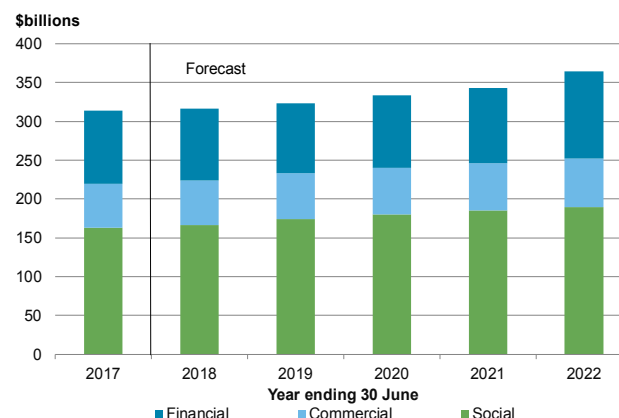
The largest asset growth over the forecast period is in the social assets portfolio (around 53% of the total Crown balance sheet). Social assets (eg, schools, hospitals and social housing) are expected to increase by \$23.4 billion over the forecast period to be \$189.8 billion in 2021/22. This increase largely reflects the capital spending discussed earlier.

**Figure 2.20 – Net worth attributable to the Crown**



Source: The Treasury

**Figure 2.21 – Total Crown assets**



Source: The Treasury

### ***...while liabilities are expected to grow at a slower rate...***

The Crown's liabilities across the forecast period reach \$204.5 billion by 2021/22, an increase of \$10.7 billion. Primarily driving this is the increase in the Crown's insurance liabilities (mostly held by ACC, EQC and Southern Response). Insurance liabilities are expected to increase across the forecast by \$6.3 billion, largely owing to ACC claims liability (reflecting a growth in both volume and cost of claims).

### ***...the Crown's balance sheet remains sensitive to market movements.***

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

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

## Comparison to the *Pre-election Update 2017*

The *Pre-election Update* was published on 23 August 2017. Since then, there have been a number of developments that have impacted the fiscal outlook, in particular the 2017 General Election resulting in the formation of a new Government and the finalisation of the fiscal 2016/17 results. Overall, the forecasts for the next four years continue to improve, however, at a slower pace than was forecast in the *Pre-election Update* forecasts. Table 2.10 below summarises the changes in the key fiscal indicators.

**Table 2.10** – Key fiscal indicators compared to the Pre-election Update

Year ending 30 June \$billions	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Core Crown tax revenue</b>					
<i>Half Year Update</i>		78.2	82.8	87.8	93.0
<i>Pre-election Update</i>	75.6	78.3	81.3	85.8	89.8
Actual	75.6	-	-	-	-
<b>Change</b>	-	(0.1)	1.5	2.0	3.2
<b>Core Crown expenses</b>					
<i>Half Year Update</i>		81.7	86.3	89.2	92.7
<i>Pre-election Update</i>	76.8	81.0	83.7	86.1	89.5
Actual	76.3	-	-	-	-
<b>Change</b>	(0.5)	0.7	2.6	3.1	3.2
<b>OBEAL<sup>12</sup></b>					
<i>Half Year Update</i>		2.5	2.8	5.0	6.5
<i>Pre-election Update</i>	3.7	2.9	3.5	5.7	6.4
Actual	4.1	-	-	-	-
<b>Change</b>	0.4	(0.4)	(0.7)	(0.7)	0.1
<b>Core Crown residual cash</b>					
<i>Half Year Update</i>		(2.6)	(4.7)	(2.6)	0.3
<i>Pre-election Update</i>	1.5	(1.4)	(1.4)	1.7	1.1
Actual	2.6	-	-	-	-
<b>Change</b>	1.1	(1.2)	(3.3)	(4.3)	(0.8)
<b>Net core Crown debt</b>					
<i>Half Year Update</i>		62.1	66.8	69.4	69.0
<i>Pre-election Update</i>	60.6	62.2	63.7	62.0	60.8
Actual	59.5	-	-	-	-
<b>Change</b>	(1.1)	(0.1)	3.1	7.4	8.2
<b>Net worth attributable to the Crown</b>					
<i>Half Year Update</i>		116.6	122.5	131.1	141.5
<i>Pre-election Update</i>	108.9	114.5	121.2	130.4	140.6
Actual	110.5	-	-	-	-
<b>Change</b>	1.6	2.1	1.3	0.7	0.9

Source: The Treasury

<sup>12</sup> The OBEAL balance excludes minority interests – the portion attributable to the investors in mixed ownership companies (Air New Zealand, Genesis, Mercury and Meridian).

### **Core Crown tax revenue is expected to be higher than the Pre-election Update...**

Core Crown tax revenue is forecast to be \$6.6 billion higher than in the *Pre-election Update* over the four-year period up to 2020/21 (Table 2.11). Of this change \$6.3 billion of this change has come from repealing the *Budget 2017* tax cuts and reinstating the Independent Earners' Tax Credit (IETC). Apart from this policy change, most of the change in tax revenue forecasts has come from:

- source deduction revenue forecasts increased by \$0.9 billion in total (excluding policy changes) across the forecast period, mainly owing to a higher track for forecast wage rates, plus the associated increase in forecast fiscal drag, and
- GST forecasts have been increased by a total of \$0.6 billion, mainly owing to increased forecasts of net tourist spending in New Zealand and residential investment, particularly towards the latter part of the forecast period.

This is somewhat offset by corporate tax being nearly \$1.0 billion lower than in the *Pre-election Update*, mainly owing to a lower outlook for company profits across the forecast period.

Within the nominal GDP forecast that underlies the tax forecast, relative to the *Pre-election Update*, there has been a switch out of profits (net operating surplus) and into labour incomes (compensation of employees) caused at least in part by proposed increases in the minimum wage over the next three years (see *Impact of new Government policies* on pages 6 to 9). Overall, the tax gained on the components of GDP for which forecasts increased, was greater than the tax lost on the components of GDP for which forecasts were decreased.

**Table 2.11** – Reconciliation of the change in core Crown tax revenue

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	Total Change
<b>Movement in core Crown tax owing to:</b>					
Source deductions	0.5	1.8	2.0	2.4	<b>6.7</b>
GST	(0.1)	(0.1)	0.2	0.6	<b>0.6</b>
Other persons tax	0.1	0.2	0.1	0.2	<b>0.6</b>
RWT (on interest)	(0.1)	-	-	0.2	<b>0.1</b>
Corporate tax	(0.4)	(0.3)	(0.2)	(0.1)	<b>(1.0)</b>
Other taxes	(0.1)	(0.1)	(0.1)	(0.1)	<b>(0.4)</b>
<b>Total movement in core Crown tax revenue</b>	<b>(0.1)</b>	<b>1.5</b>	<b>2.0</b>	<b>3.2</b>	<b>6.6</b>
Plus: <i>Pre-election Update</i> tax base	78.3	81.3	85.8	89.8	
<b>Core Crown tax revenue</b>	<b>78.2</b>	<b>82.8</b>	<b>87.8</b>	<b>93.0</b>	
<b>As a % of GDP</b>	<b>27.3%</b>	<b>27.5%</b>	<b>27.7%</b>	<b>28.0%</b>	
<b>Core Crown tax movements consist of:</b>					
Policy initiatives	0.5	1.9	1.9	2.0	<b>6.3</b>
Forecast changes	(0.6)	(0.4)	0.1	1.2	<b>0.3</b>

Source: The Treasury

**...while OBEGAL growth slows with recent developments before climbing...**

The major movements in OBEGAL since the *Pre-election Update* are outlined in Table 2.12 below. Cumulatively, OBEGAL is \$1.7 billion lower than the *Pre-election Update* across the forecast period.

**Table 2.12** – Changes in OBEGAL since the Pre-election Update

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>OBEGAL – <i>Pre-election Update</i></b>	<b>2.9</b>	<b>3.5</b>	<b>5.7</b>	<b>6.4</b>
<i>Changes in forecasts:</i>				
100-Day Plan net operating costs	0.2	0.1	-	(0.2)
Change in operating allowances	-	(0.9)	(1.1)	(1.1)
Tax forecast changes	(0.6)	(0.4)	0.1	1.2
Benefit forecast changes	-	(0.1)	(0.2)	(0.2)
Expenditure transferred from 2016/17	(0.4)	-	(0.1)	-
ACC results	0.1	0.3	0.2	0.1
Other changes	0.3	0.3	0.4	0.3
<i>Total changes since the Pre-election Update</i>	<b>(0.4)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>0.1</b>
<b>OBEGAL – 2017 Half Year Update</b>	<b>2.5</b>	<b>2.8</b>	<b>5.0</b>	<b>6.5</b>

Source: The Treasury

The Government's 100-Day Plan has been included in these forecasts. More detail around the 100-Day Plan can be found on pages 6 to 9.

In addition, operating allowances have been set at \$2.6 billion for *Budget 2018* and \$1.875 billion for *Budgets 2019-2021*, which is higher than those forecast in the *Pre-election Update*.

Tax revenue and benefit expenses have been updated to reflect changes to the latest economic forecasts (refer to tax revenue on page 46). Benefit expenses have been impacted as a result of the indexation of payments to wage growth and inflation, and increases in recipient numbers.

There has also been some expenditure that was not spent in the previous financial year that is now expected to occur in the current forecast period.

Accident Compensation Corporation's (ACC's) OBEGAL result is expected to improve, primarily owing to decreases in insurance expenditure, as growth in claim volumes is expected to be lower than the *Pre-election Update*.

**...and net core Crown debt is higher across the forecast period compared to the Pre-election Update.**

Core Crown residual cash is \$9.6 billion lower than the *Pre-election Update* increasing net core Crown debt, which is expected to be around \$8.2 billion higher than the *Pre-election Update* across the forecast period (Table 2.13).

**Table 2.13** – Changes in net core Crown debt since the Pre-election Update

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Net core Crown debt – Pre-election Update</b>	<b>62.2</b>	<b>63.7</b>	<b>62.0</b>	<b>60.8</b>
<i>Changes in forecasts (cumulative):</i>				
100-Day Plan net operating and capital expenditure	0.3	1.9	4.3	4.5
Change in operating allowances	-	0.9	2.0	3.1
Change in capital allowances	-	0.5	0.9	1.3
Tax forecast changes	0.9	1.5	1.6	0.5
Benefit forecast changes	-	0.1	0.3	0.5
Opening balance improvement	(1.1)	(1.1)	(1.1)	(1.1)
Other changes	(0.2)	(0.7)	(0.6)	(0.6)
<i>Total changes since the Pre-election Update</i>	<b>(0.1)</b>	<b>3.1</b>	<b>7.4</b>	<b>8.2</b>
<b>Net core Crown debt – Half Year Update</b>	<b>62.1</b>	<b>66.8</b>	<b>69.4</b>	<b>69.0</b>

Source: The Treasury

In addition to the operating impacts of the 100-Day Plan, restarting contributions to the NZS Fund earlier (an additional \$3.0 billion) and the commitment to the KiwiBuild programme (of \$2.0 billion) have increased net core Crown debt. More details on the 100-Day Plan can be found on pages 6 to 9.

Allowances for new capital spending have also increased to \$3.4 billion for *Budgets 2018* and *2019*, \$3.1 billion for *Budget 2020* and \$2.7 billion for *Budget 2021*. This adds an additional \$1.3 billion over the forecast period from allowances set in the *Pre-election Update*.

Net core Crown debt also had a stronger starting position for the 2017/18 financial year, with net debt being \$1.1 billion lower at 30 June 2017 than previously forecast at the *Pre-election Update*.

## Key Economic Assumptions Used in the Fiscal Forecasts

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

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

A summary of the key economic forecasts that are particularly relevant to the fiscal forecasts is provided in Table 2.14 below.

**Table 2.14** – Summary of key economic forecasts used in fiscal forecasts

Year ending 30 June	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Real GDP <sup>1</sup> (annual average, % change)	2.7	2.9	3.6	3.0	2.6	2.1
Nominal GDP <sup>2</sup> (\$millions)	272,766	286,391	301,430	316,488	331,627	345,650
CPI (annual average, % change)	1.4	1.8	1.9	2.1	2.2	2.3
Govt 10-year bonds (annual average, %)	2.9	2.9	3.2	3.7	4.1	4.3
5-year bonds (annual average, %)	2.3	2.6	3.0	3.6	4.1	4.3
90-day bill rate (annual average, %)	2.1	2.0	2.2	3.2	4.0	4.2
Unemployment rate (annual average, %)	5.0	4.6	4.5	4.3	4.0	4.1
Employment (annual average <sup>1</sup> % change)	5.2	3.3	1.9	1.5	1.3	0.9

Notes: 1 Production measure.

2 Expenditure measure. Nominal GDP has been adjusted to incorporate changes to the national accounts data released 24 November 2017. For further information refer to page 5.

Source: The Treasury





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## Risks and Scenarios

### Overview

- In this chapter we discuss the risks and uncertainties surrounding the forecasts and how they may cause economic and fiscal outcomes to differ from those presented in the previous chapters. Risks can be positive or negative and can have an impact on the Government's fiscal position, including tax revenue, expenditure and debt. While this chapter focuses on risks and uncertainty to the economic and fiscal outlook, it does not cover specific fiscal risks such as cost pressures, contingent liabilities, or potential changes to government policy, which are discussed in Chapter 4.
- The outlook for the domestic economy may differ from what we have forecast in a number of ways. Weaker economic confidence could mean that consumption or business investment is softer than expected. The impact of falling unemployment and government policy changes could result in higher than expected growth in wages. Growth in real residential investment may be weaker than forecast if capacity constraints are more binding than we have assumed.
- Changes in the international economy also have potential to impact the economic outlook. Stronger than forecast growth in our trading partners could increase demand for exports and result in higher terms of trade. Higher wage growth or lower unemployment in New Zealand has the potential to keep net migration higher for longer than we have assumed. Geopolitical tensions and ongoing debate in some countries on the merits of trade liberalisation also remain as risks to the global economy.
- Two alternative scenarios are presented to show how the economic and fiscal outlook might evolve under a different set of assumptions and judgements. Scenario One shows the impact of the economy failing to pick up as quickly as we have forecast. Scenario Two shows how a stronger global economy might flow through to stronger growth and higher inflation in New Zealand.
- The Crown's balance sheet is exposed to a number of risks beyond those associated with the operating balance. The Crown's financial position is exposed to risk through changes in the value of the Crown's assets or liabilities and through the potential impact of the Crown's fiscal obligations that arise from policy choices.

## Risks to the Economic and Fiscal Outlook

The main forecasts are based on a set of assumptions (such as the evolution of the exchange rate, the terms of trade and population growth) and judgements about how developments in one part of the economy impact the rest of the economy.<sup>13</sup> Should these assumptions and judgements prove incorrect, the economic and fiscal outlook would deviate from that presented in Chapters 1 and 2. This chapter discusses some of the key risks facing the economy and uses scenarios to assess the implications if assumptions and judgements are altered. Supplementing this, the Statement of specific fiscal risks (Chapter 4) provides details of the risk of potential government decisions, contingent liabilities and contractual obligations that may also have a material impact on the economic or fiscal outlook.

There are a number of key risks to the economic outlook that could have a significant impact on the Government's fiscal position should they materialise. In particular, recent weakness in a number of economic indicators, including retail sales, business confidence, and labour productivity are expected to unwind driving the forecast lift in growth through to 2019. If these assumptions prove incorrect, growth is likely to remain around current levels, leading to a weaker fiscal position than forecast. On balance, domestic risks are skewed towards weaker growth, although wage pressures provide some offset to this. In contrast, the global economy has continued to improve more quickly than anticipated. If this trend continues, domestic growth could be boosted by stronger exports or higher terms of trade. For the most part, uncertainty surrounding the impacts of new policy are dealt with in 'Impact of new Government policies' on page 6.

### ***The level and composition of net migration could impact the economic outlook***

Recent net migration outturns have been broadly in line with our forecasts at the *Pre-election Update*. Our main forecasts continue to assume a downward trend over the forecast period. Migration inflows may not ease as expected if the relative attractiveness of living, working and studying in New Zealand is stronger than expected. In particular, changes in the Australian labour market are seen as a key driver of net migration cycles. The composition of migration also has implications for the economy. For example, a larger inflow of construction workers may help to alleviate capacity constraints in the sector. See 'Impact of new Government policies' on page 6 for details of current policy assumptions.

There is considerable uncertainty surrounding our long-term assumption for migration. Our current assumption is drawn from Statistics New Zealand's long-term population projections. A higher long-term assumption would imply a different long-term level of output and tax revenue, given more people would be working and consuming in New Zealand. We will continue to monitor data outturns and review our long-term assumption ahead of Budget 2018.

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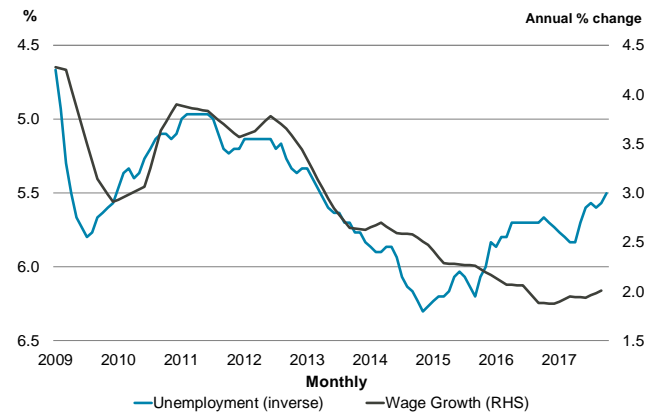
<sup>13</sup> See *Key economic forecast judgements and assumptions* on page 13 for those underpinning the main forecasts.

### ***Wage growth is uncertain, domestically and globally***

The link between the unemployment rate and wage growth appears to have weakened in a number of advanced economies (for example Australia, Figure 3.1). It is unclear whether this relationship will reassert itself in the future.

Domestically, policy changes contribute to faster wage growth in the forecasts (see ‘Impact of new Government policies’ on page 6 for details). The impacts, and take-up, of some policies, such as further pay equity settlements, could result in stronger wage growth than in the main forecasts. However, these impacts remain too uncertain to include in the forecasts at this stage; we will continue to monitor how these policies are flowing through to the wider economy and update our assumptions as necessary.

**Figure 3.1 – Unemployment and wage growth in Australia**



Sources: Haver Analytics, the Treasury

Our main forecasts incorporate a pick-up in labour productivity growth, which has remained weak for a number of years. If labour productivity were to evolve at a more subdued pace, real economic activity per person would likely be slower, inflationary pressures stronger and wage growth weaker.

### ***Exporters face uncertainty from the global economy...***

Given the small and open nature of the New Zealand economy, changes in the global economy are of particular relevance for exporters. The global outlook has continued to improve in recent months but a number of risks remain. Stronger demand from Chinese consumers, a faster recovery in Europe and Japan, or stronger than expected fiscal stimulus in the United States, would all boost global growth, presenting an upside risk to New Zealand's export volumes and prices. Stronger growth in the near term may cause a faster withdrawal of monetary stimulus by central banks globally, creating a more cyclical profile for global growth. This is explored in more detail in Scenario Two. On the other hand, high levels of debt remain a risk for a number of economies. In particular, high debt levels in China and Australia could present a risk to consumption as interest rates begin to rise or if financial market regulations begin to tighten.

There are also a number of non-economic factors that could impact conditions for exporters. Geopolitical tensions continue to persist. Debate around the merits of trade liberalisation remains a risk, although the pursuit of new free trade deals has the potential to broaden export markets. Natural shocks, including earthquakes, drought or other severe weather conditions, could produce a shock to commodity prices, the domestic economy and the Government's fiscal position. In the medium term weather-related risks may increase in prevalence as the impacts of climate change become more pronounced.

***...and the exchange rate***

The exchange rate has fallen by around 6% since the *Pre-election Update*. Our forecasts assume the exchange rate remains around this level. However, there is a wide band of uncertainty around this. For example, faster than anticipated monetary tightening or a shift in market sentiment could lead to an increase of the exchange rate. A higher exchange rate would lower tradable inflation, and reduce exporters' incomes resulting in lower nominal gross domestic product (GDP) and less tax revenue.

***Persistently weak confidence may soften domestic demand***

In recent months consumer and business confidence has softened. Our main forecasts assume this weakness is likely owing to election uncertainty and that these measures will rebound in the near-term without materially impacting investment or consumption decisions. If confidence does not pick up, it is likely that business investment and private consumption will remain subdued for some time. This is explored in more detail in Scenario One.

***Capacity constraints could limit growth in the construction sector***

House prices have risen sharply in recent years as strong population growth has outpaced residential investment. Credit constraints, the availability of skilled labour, local planning regulations and land shortages have all constrained residential investment growth, limiting the supply of new houses. Our forecasts currently have a pick-up in residential construction in 2018/19 and stronger growth for the remainder of the forecast period owing, in part, to the KiwiBuild policy. This assumption will depend on how binding these constraints turn out to be. In particular, shortages of skilled labour or tighter credit constraints would likely restrict residential investment growth. For details of the Treasury assumptions on the impact of KiwiBuild on the construction sector, refer to 'Impact of new Government policies' on page 6.

## Alternative Scenarios

The following scenarios show how the economy might evolve if some of the assumptions in the main forecast are altered. They illustrate two of the many ways that the economy may deviate from the main forecasts. Scenario One illustrates the impact of recent weakness in a number of economic variables persisting through the forecast period. Specifically, labour productivity fails to pick-up as forecast and business and consumer confidence remain soft, dampening investment and private consumption growth. Weaker demand leads to lower inflationary pressure and softer nominal GDP growth, resulting in less tax revenue and higher net debt. Scenario Two illustrates the economic and fiscal impacts of higher terms of trade and stronger trading-partner growth. In this scenario, trading-partner growth picks up faster than anticipated, driving stronger export prices, which hold the terms of trade higher throughout the forecast horizon. Higher nominal GDP and tax revenues generate a stronger fiscal position.

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

June years	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
<b>Real GDP (aapc<sup>1</sup>)</b>					
<b>Main forecast</b>	<b>2.9</b>	<b>3.6</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>
Scenario One: Softer but stable growth	2.5	2.5	2.9	2.7	1.9
Scenario Two: Stronger global growth	2.9	4.0	3.4	2.5	1.8
<b>Nominal GDP (aapc)</b>					
<b>Main forecast</b>	<b>5.0</b>	<b>5.3</b>	<b>5.0</b>	<b>4.8</b>	<b>4.2</b>
Scenario One: Softer but stable growth	4.6	3.9	4.7	4.8	3.9
Scenario Two: Stronger global growth	5.1	6.0	5.9	4.7	3.8
<b>Operating balance before gains and losses</b>					
<b>Main forecast (% of GDP)<sup>2</sup></b>	<b>0.9</b>	<b>0.9</b>	<b>1.6</b>	<b>2.0</b>	<b>2.5</b>
<b>(\$billions)</b>	<b>2.5</b>	<b>2.8</b>	<b>5.0</b>	<b>6.5</b>	<b>8.8</b>
Scenario One: Softer but stable growth (% of GDP)	0.7	0.4	0.8	1.2	1.7
(\$billions)	2.1	1.2	2.6	3.8	5.6
Scenario Two: Stronger global growth (% of GDP)	0.9	1.1	2.0	2.5	3.0
(\$billions)	2.5	3.3	6.5	8.5	10.6
<b>Net core Crown debt (% of GDP)</b>					
<b>Main forecast</b>	<b>21.7</b>	<b>22.2</b>	<b>21.9</b>	<b>20.8</b>	<b>19.3</b>
Scenario One: Softer but stable growth	21.9	23.3	23.8	23.4	22.8
Scenario Two: Stronger global growth	21.7	21.8	20.9	19.3	17.4

Notes: 1 Annual average % change.

2 For consistency with the fiscal chapter, GDP as used here is the scaled nominal GDP.

Source: The Treasury

## Scenario One – Softer but Stable Growth

The first scenario looks at the impacts of recent weakness in some economic variables continuing into the forecast period. In particular, labour productivity, business investment and household consumption fail to pick-up as quickly as we have assumed in the main forecasts. This causes growth to remain around current levels, creating a softer but stable profile for growth. GDP growth generally remains above 2.0% in this scenario implying no severe shocks to the economy (Figure 3.2). The scenario highlights that even small changes in the domestic economy can flow through to a materially weaker fiscal position.

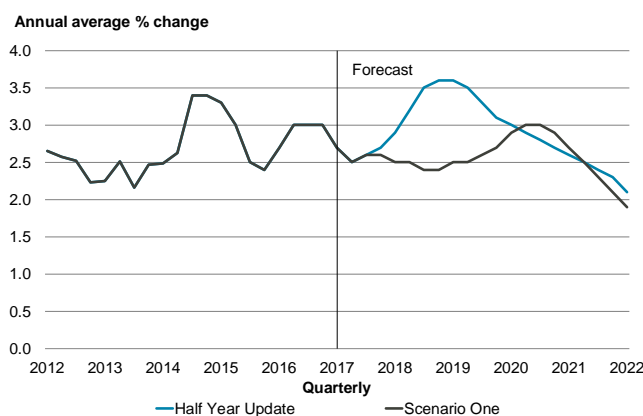
In recent years, growth in labour productivity has remained low. This scenario sees this trend continue for longer than assumed in the main forecasts, resulting in a lower level of potential output. In the medium term this means that household incomes will be reduced, limiting any pick-up in domestic demand.

This scenario assumes recent falls in consumer and business confidence persist for some time. Businesses are therefore less willing to invest in new technology and commit to expansions beyond current operations. This constrains the forecast pick-up in business investment, which is 5.7% lower by the end of the forecast period. Similarly, consumers remain uncertain of the economic outlook so hold off on discretionary consumption. In the medium term, weaker productivity growth and lower household income mean that households are forced to restrict consumption even further. Together, this means private consumption is 1.9% lower than otherwise, by June 2022.

Weaker domestic demand flows through to lower non-tradable inflation, causing headline inflation to begin falling in 2018 and remain below 2.0% until 2021. Consequently, the Reserve Bank takes a more cautious view of monetary policy settings and raises interest rates more gradually than in our main forecasts. By the end of the forecast period interest rates are 50 basis points lower than they otherwise would have been.

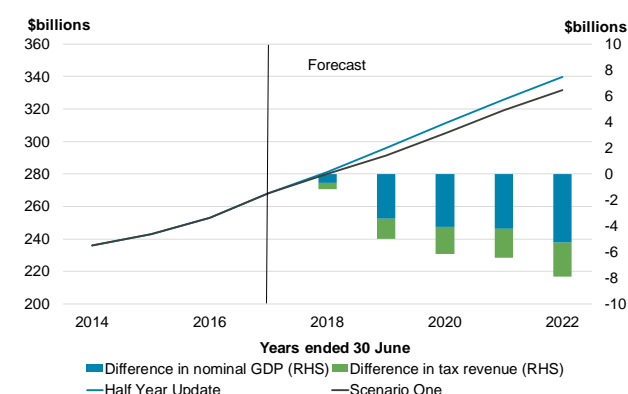
Overall, the slower pick-up in domestic demand and labour productivity mean that real GDP is weaker, with growth now peaking at 2.9% in 2020. Weaker activity, combined with softer inflation, lowers nominal GDP by a cumulative \$26.6 billion over the forecast period to June 2022 (Figure 3.3). Lower wage growth, softer consumption and lower business profits, flow through to weaker tax revenue. Core Crown tax revenue is \$8.9 billion lower than in

**Figure 3.2 – Real GDP growth**



Sources: Statistics New Zealand, the Treasury

**Figure 3.3 – Nominal GDP and tax revenue**



Sources: Statistics New Zealand, the Treasury

the main forecast by June 2022, with source deductions and Goods and Services Tax (GST) \$2.6 billion and \$1.8 billion lower respectively.

In this scenario we assume that the Government's operating and capital allowances are unchanged from those in the main forecast (see Chapter 2 for details). Under these assumptions, operating balance before gains and losses (OBEGAL) surpluses are smaller in each year, reaching \$5.6 billion (1.7% of GDP) in 2022 (Table 3.1, see page 55). This is \$3.2 billion below that in the main forecast. The Government's debt position is also weakened, with the level of net core Crown debt \$10.4 billion higher by June 2022, at 22.8% of GDP (Figure 3.5).

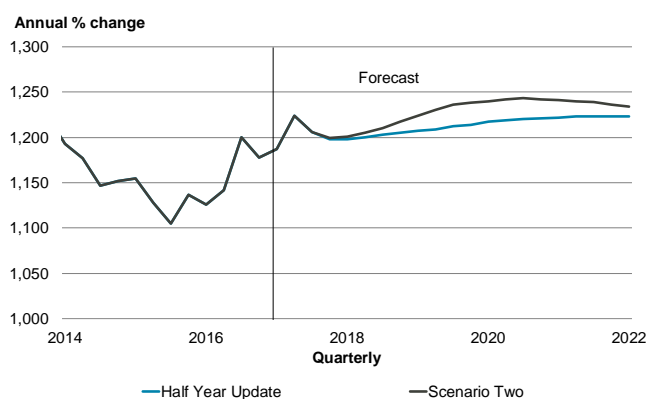
## Scenario Two – Stronger and More Cyclical World Growth

This scenario illustrates the impact of higher terms of trade and trading-partner growth on the economic and fiscal outlook. In this scenario growth of our trading-partners is assumed to pick up faster in the near term. This creates a more cyclical profile for global growth, which feeds into more of a cycle in exports, export prices and domestic growth.

Global growth is assumed to pick-up faster in 2018, peaking in late 2019. Growth is assumed to be broad based and causes central banks to withdraw stimulus faster than otherwise. This reduces the pace of future economic growth, producing a more cyclical profile for global growth.

Stronger global growth increases demand for New Zealand exports, bidding up the price. The price of imports also increases, though not as quickly. This means the terms of trade is 2.0% higher than the main forecasts at its peak in 2019 (Figure 3.4).

**Figure 3.4 – Terms of trade**



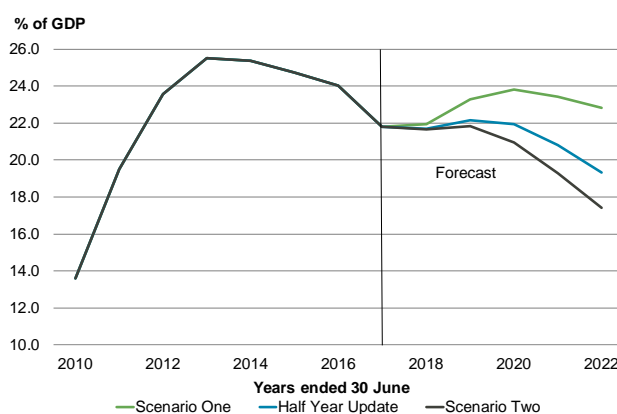
Sources: Statistics New Zealand, the Treasury

Domestic businesses respond to the increased demand by bringing forward investment. Higher global growth therefore flows through to increased inflationary pressure and higher interest rates, which end up around 70 basis points higher by the end of the forecast period.

Overall, nominal GDP is \$16.5 billion higher over the forecast period. The pass-through to tax revenue is not as significant as we would normally expect, because the higher GDP is concentrated in business profits and residents withholding tax (RWT) rather than private consumption or wages. Core Crown tax revenue is \$5.5 billion higher (Table 3.1), with higher company tax (\$1.9 billion) and RWT (\$1.7 billion).

As in Scenario One, we assume that the Government's operating and capital allowances are unchanged from those in the main forecast. Under these assumptions, OBEGAL surpluses are larger, increasing to \$10.6 billion (3.0% of GDP) in 2022 and net debt is lower across the forecast period (Figure 3.5).

**Figure 3.5 – Net debt as a percentage of GDP**



Source: The Treasury

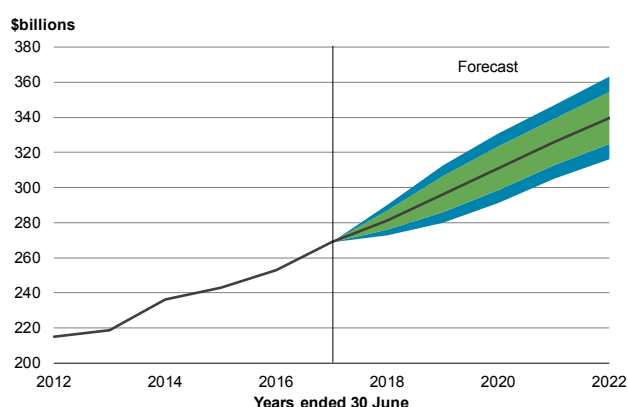


## General Uncertainties in the Economic and Fiscal Outlooks

While the chapter thus far has focused on key assumptions and judgements that may eventuate differently and alter our main forecasts, there are almost limitless ways the economy could evolve. It can therefore be useful to assess the general uncertainties in our forecasts and the sensitivity of these forecasts to changes in the economy.

The wide range of economic outcomes can be illustrated using fan charts that show the uncertainty in our forecasts. Figure 3.6 shows a fan chart of nominal GDP.<sup>14</sup> The width of the fan increases further into the forecast period, meaning the further away from the present the more uncertainty there is around the main forecast. The area within the outermost (blue) edges of the fan shows where nominal GDP is expected to be 90% of the time. At the end of the forecast period, this is within  $\pm 7\%$  (\$23.5 billion per annum) of the main forecast. The boundaries of the green fan show where nominal GDP is expected to be 70% of the time. At the end of the forecast period, this is within  $\pm 4.4\%$  (\$14.8 billion per annum) of the main forecast. In the two scenarios considered in this chapter, nominal GDP forecasts remain within the green fan (70th percentile).

**Figure 3.6 – Nominal GDP fan chart**

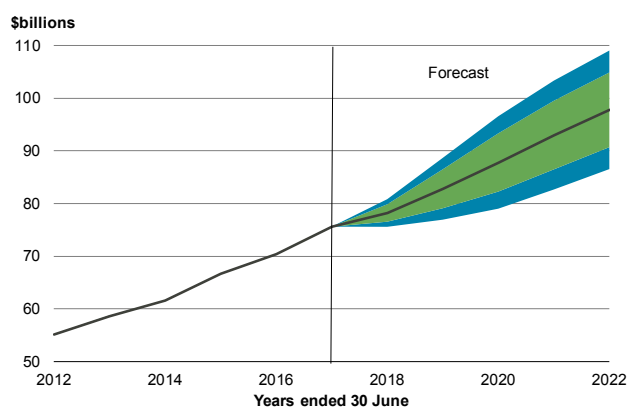


Sources: Statistics New Zealand, the Treasury

The amount of tax revenue the Government receives in a given year is closely linked to the performance of the economy. For example, lower private consumption will mean less revenue from GST, while higher unemployment will mean less revenue from taxes on wages and salaries.

Figure 3.7 shows the uncertainty surrounding the main tax revenue forecast.<sup>15</sup> At the end of the forecast period, the outermost (blue) area captures a range of approximately  $\pm \$11.3$  billion, within which actual tax outturns are expected to fall 90% of the time.<sup>16</sup>

**Figure 3.7 – Tax revenue fan chart**



Source: The Treasury

<sup>14</sup> For further details, see <http://www.treasury.govt.nz/publications/research-policy/staff-insights/mei-forecasting-uncertainty>

<sup>15</sup> Parkyn, O. (2010), *Estimating New Zealand's Structural Budget Balance*, New Zealand Treasury Working Paper 10/08, available at <http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/>

<sup>16</sup> For circumstances that can result in tax revenues significantly beyond the outermost shaded area, see Fookes, C. (2011), *Modelling Shocks to New Zealand's Fiscal Position*, New Zealand Treasury Working Paper 11/02, available at <http://www.treasury.govt.nz/publications/research-policy/wp/2011/11-02/>

The fiscal position is also impacted by changes in government expenses, which may also be impacted by economic developments. For example, the demand for working-age benefits is closely linked to labour market conditions. Changes in net migration flows may also impact on the demand for central government services, particularly health, education and publicly funded infrastructure. Over the longer term, current policies imply population growth and population ageing will place increasing pressure on public expenditure, particularly in the areas of health and superannuation.<sup>17</sup>

## Fiscal Sensitivities

While significant economic shocks will naturally flow through to changes in the fiscal position, even small changes to the economic outlook can have a fiscal impact. Table 3.2 sets out some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point higher than forecast in each year up to June 2022, tax revenue would be around \$5.1 billion higher than forecast in the June 2022 year as a result. The sensitivities are broadly symmetric and if nominal GDP growth is one percentage point lower than expected each year, tax revenue would be around \$4.9 billion lower than forecast in the June 2022 year. The figures are indicative and can be influenced by the composition of growth as different types of activity can have different effective tax rates.

A different interest rate path from the forecast would also impact the fiscal position owing to the effect on the portfolios of various government reporting entities, such as the NZS Fund, ACC and the Treasury. For example, at 30 June 2017, a 1.0% increase in New Zealand interest rates would have reduced the total Crown operating balance by \$946 million while a 1.0% decrease would have increased the total Crown operating balance by \$1,122 million. The majority of the Government's borrowings and a large number of financial assets are managed by the Treasury. To illustrate the interest rate sensitivities on the Treasury's portfolio, Table 3.2 provides the estimated impact of lower interest rates on those assets and liabilities.

**Table 3.2** – Fiscal sensitivity analysis

Years ended 30 June (\$millions)	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
<b>Impact on tax revenue of a 1 percentage point increase in growth of</b>					
Nominal GDP	790	1,680	2,690	3,815	5,055
Wages and salaries	340	725	1,155	1,635	2,175
Taxable business profits	170	390	630	895	1,185
<b>Impact of 1% lower interest rates on</b>					
Interest income <sup>1</sup>	-60	-52	-30	-20	-9
Interest expenses <sup>1</sup>	-41	-135	-210	-284	-354
Net impact on operating balance	-19	83	180	264	345

Note: 1 Funds managed by the Treasury.

Source: The Treasury

<sup>17</sup> For more detail on the longer-term challenges and opportunities facing New Zealand, see *He Tirohanga Mokopuna: 2016 Statement on New Zealand's Long-term Fiscal Position*, available at <http://www.treasury.govt.nz/government/longterm/fiscalposition/2016/he-tirohanga-mokopuna>

The forecast financial position is based on a number of judgements and assumptions about the future. To inform these judgements and assumptions we rely on market information. Some additional assumptions include those around foreign exchange rates, share prices, the carbon price and property prices. Where the actual outcome differs from our assumptions, the Crown's actual financial position and operating balance is likely to differ from the forecasts. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

## Balance Sheet Risks

To achieve the Government's fiscal strategy it is important to have a strong balance sheet. In particular the balance sheet can provide resilience to shocks and provide choices for how the Government responds to these shocks. The Crown's balance sheet is exposed to a number of risks beyond those associated with the operating balance. Understanding and managing those risks supports the delivery of public services, strengthens resilience to shocks, minimises costs, and improves the achievement of economic and social outcomes. The Crown's financial position is exposed to risk through changes in the value of its assets or liabilities, and also through the potential impact of the Crown's explicit and implicit obligations (including a strong expectation that the Crown would respond to an shock) as a result of policy settings.

### ***Main sources of balance sheet risk***

A large source of balance sheet risk can be attributed to changes in the value of the Crown's assets and liabilities owing to movements in market variables such as interest rates, exchange rates and equity prices. Three areas of the balance sheet are particularly susceptible to market risk:

- financial assets held by the Crown financial institutions (CFIs) are sensitive to financial-market volatility. CFIs tend to diversify their portfolios across a range of financial assets to manage exposures to specific types of market risks
- insurance and retirement liabilities and provisions are prone to volatility through their actuarial valuations, and
- physical assets such as land, buildings, state highways and military equipment are susceptible to valuation movements through changes in property market conditions, interest rates and changes in the costs of construction.

***Other sources of balance sheet risk<sup>18</sup>***

- **Business risk:** A number of commercial entities owned by the Crown have their financial performance and valuations impacted by the commercial environment they operate in.
- **Funding risk:** The New Zealand Government remains amongst the highest-rated sovereigns globally, with the top Aaa foreign-currency rating from Moody's and AA foreign-currency ratings from Standard & Poor's and Fitch. Ratings outlooks are stable from all three agencies.
- In the case of an increase in global risk aversion, New Zealand could face increased funding pressure in the future. All else being equal, deterioration in the ratings outlook could raise debt-servicing costs and lessen the funding capability for the Crown.
- **Liquidity risk:** The Crown incurs liquidity risk with respect to its ability to raise cash to meet its obligations. This risk is managed by each government reporting entity to meet their specific liquidity risk requirements and by the Treasury to manage the Crown's liquidity requirements.
- **Contingent liabilities:** The Crown faces contingent liabilities, for example relating to natural disasters and financial system stress. The Specific Fiscal Risks chapter discusses contingent assets and liabilities in greater detail.

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<sup>18</sup> For further information see the 2014 Investment Statement: Managing the Crown's Balance Sheet at <http://www.treasury.govt.nz/government/investmentstatements/2014>. The next four-yearly Investment Statement will be released in March 2018.

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## Specific Fiscal Risks

### Overview

The statement of specific fiscal risks is required by the Public Finance Act 1989. In addition to the discussion of risks to the economic and fiscal forecasts presented in Chapter 3, it sets out (to the fullest extent possible) all government decisions and other circumstances known to the Government that may have a material effect on the fiscal outlook, but are not certain enough in timing or amount to include in the fiscal forecasts. This chapter covers:

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

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

### Nature of Risks to the Economic and Fiscal Outlook

Risks can be positive or negative and can affect revenue and spending or assets and liabilities. The table below reflects a wide range of potential risks that may exist to the economic and fiscal forecasts. However, not all of these are covered in this chapter as they are discussed in the Risks and Scenarios chapter.

Nature of Risk	Description
1 Policy changes	Potential decisions likely to be taken by the Government related to both new policy and existing policy settings (for example, changes to eligibility criteria for a benefit). This category includes variances to costs of policies in fiscal forecasts. It does not include the economic impact of new Government policies as these are covered in the Risks and Scenarios chapter and in the 'Economic impact of new Government policies' box in the Economic Outlook chapter.
2 Cost pressures associated with existing policies	Changes in demand or pricing that impact the cost of delivering services under existing policy settings (for example, an increase in the number of students enrolling in schools).
3 Contingent liabilities and assets	Potential costs or income to the Crown dependent on the occurrence of particular events.
4 Deviation from key assumptions and judgements	Any deviations from the key assumptions and judgements used in preparing economic and fiscal forecasts, which have flow-on impacts for the fiscal forecasts.  This is covered in the 'Risks and Scenarios' chapter.
5 Other uncertain events	Significant events relating to changes in the external environment (natural disasters, international events).  This is covered in the 'Risks and Scenarios' chapter.

Risks 1-3 above are in the scope of this chapter whereas risks 4 and 5 are covered in the Risks and Scenarios chapter. Further detail on the criteria for disclosing a specific fiscal risk is set out in the sections below.

## How Risks Outlined in this Chapter are Managed

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

The Government has a number of options to manage the risks disclosed in this chapter.

### 1. Re-prioritisation

Core Crown expenses for the year ended 30 June 2017 were \$76.339 billion, while capital spending for the same period totalled \$3.734 billion. In the first instance, agencies are expected to fund pressures and new activities by reprioritising within the funding already allocated to them. This could include repurposing low-value expenditure or generating efficiency savings.

## 2. Budget Allowances

The following allowances for new expenditure have been included in the Treasury's fiscal forecasts (Chapter 2) and reflected in the Government's *Budget Policy Statement*.

\$billions	Budget 2018	Budget 2019	Budget 2020	Budget 2021
Operating allowances (per year) <i>Half Year Update</i>	2.600	1.875	1.875	1.875
Capital allowances (total) <i>Half Year Update</i>	3.400	3.400	3.100	2.700

These allowances are included in the fiscal forecasts to cap future new spending by the Government and better link the forecasts to the Government's fiscal strategy. This means that new spending decisions in future Budgets should not impact the Government's fiscal targets.

The allowances are the main mechanism for the Government to allocate new expenditure at each Budget. They do this through providing a self-imposed cap on expenditure that helps to ensure any new spending is targeted to areas of high value. They have been set at a level that allows the Government to achieve its broader fiscal objectives and under the expectation that any new policy initiatives and cost pressures can be managed within these parameters.

## 3. Policy choices

For a number of risks the Government has choices around future funding, including how much is funded and the timing of funding. Therefore, risks disclosed in this chapter may not eventuate or may not eventuate to the full extent.

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

Specific criteria are used to determine what is included in the fiscal forecasts compared to what is disclosed as a specific fiscal risk.

Fiscal Forecasts	Specific Fiscal Risks
<p>Matters are incorporated into the fiscal forecasts provided they meet the following criteria:</p> <ul style="list-style-type: none"> <li>the matter can be quantified for particular years with reasonable certainty, and</li> <li>a decision has been taken, or a decision has not yet been taken but it is reasonably probable<sup>19</sup> the matter will be approved, or it is reasonably probable the situation will occur.</li> </ul>	<p>Matters are disclosed as specific fiscal risks if the likely impact is more than \$100 million over five years, and either:</p> <ul style="list-style-type: none"> <li>a decision has not yet been taken but it is reasonably possible<sup>20</sup> (but not probable) that the matter will be approved or the situation will occur, and</li> <li>it is reasonably probable that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.</li> </ul>

<sup>19</sup> For these purposes "reasonably probable" is taken to mean that the matter is **more likely than not** to be approved within the forecast period (by considering, for example, whether there is a better than 50% chance of the matter occurring or being approved).

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

Specific fiscal risks are submitted by individual departments based on the criteria above. If there are significant uncertainties around the timing and quantum of the risk (which is typically the case) agencies are asked to make a judgement on how the materiality criterion is applied. These judgements are tested by the Treasury in the preparation of this chapter to ensure consistency.

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

A number of policy commitments made by the Government have been included in this chapter as 'new' risks. This reflects that decisions have yet to be taken by Cabinet for these commitments to be included in fiscal forecasts based on the criteria above. There is an expectation that these commitments can be managed against the Budget operating and capital allowances included in the fiscal forecasts. Further information on these allowances and the Government's fiscal strategy can be found in the *Budget Policy Statement*.

Commitments associated with the Government's 100-Day Plan (such as the Families Package and fees-free tertiary education for the first year) have been incorporated into the fiscal forecasts. These commitments are a specific fiscal risk only to the extent that there could be variances to what is included in the fiscal forecasts.

## General Risks Not Included in this Chapter

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

- Risks from changes to economic assumptions; the most significant economic risks have been identified in Chapter 3.
- Business risks and volatility in the returns from, and valuation of, the Crown's investments relating to the broader economic and commercial environment.
- The costs of future individual natural disasters, biosecurity incursions and other major events, as they usually occur infrequently and their occurrence, nature and timing cannot be predicted. Once a disaster does occur, a number of choices arise about how to respond and when potential liabilities are recognised. Specific risks are disclosed at this point based on the range of possible responses.

## Exclusions to Disclosure

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

- prejudice the substantial economic interests of New Zealand
- prejudice the security or defence of New Zealand or international relations of the Government



- compromise the Crown in a material way in negotiation, litigation or commercial activity, or, and
- result in a material loss of value to the Crown.

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

## Contingency Liabilities and Assets

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

## Summary Table

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

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

### Statement of specific fiscal risks as at 27 November 2017

Policy Changes by Portfolio	Status <sup>21</sup>	Type of risk
<b>Accident Compensation Corporation (ACC)</b>		
Impacts of Changes to Accident Compensation Policy Settings	New	Expenses
Work-related Gradual Process Disease and Infection	Unchanged	Expenses
<b>Broadcasting, Communications and Digital Media</b>		
Increased Funding for New Zealand Programming and Journalism	New	Expenses
<b>Conservation</b>		
Funding for Department of Conservation	New	Expenses and Capital
<b>Climate Change</b>		
Green Investment Fund	New	Capital

<sup>21</sup> *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the previous *Pre-election Update*.

*Changed* – risks where the nature and/or scale of the risk has changed substantively since the previous *Pre-election Update*.

Policy Changes by Portfolio	Status <sup>21</sup>	Type of risk
<b>Customs</b>		
Joint Border Management System Further Development	New	Expenses and Capital
<b>Defence</b>		
Disposal of New Zealand Defence Force (NZDF) Assets	Unchanged	Expenses
Defence Force – Operating and Capital Costs	Changed	Expenses and Capital
<b>Economic Development</b>		
36th America's Cup	New	Expenses
<b>Education</b>		
Extension of the Fees-free Tertiary Education Policy	New	Expenses and Capital
School and Early Childhood Education (ECE) Funding Review	Unchanged	Expenses
Possible School of Rural Medicine	Changed	Expenses and Capital
<b>Foreign Affairs</b>		
Hosting the Asia Pacific Economic Cooperation (APEC) 2021 Forum	New	Expenses
Official Development Assistance	New	Expenses
<b>Greater Christchurch Regeneration</b>		
Christchurch Capital Acceleration Facility	New	Capital
<b>Housing and Urban Development</b>		
Crown Infrastructure Partners	Unchanged	Capital
KiwiBuild	New	Expenses and Capital
Healthy Homes Legislation	New	Expenses
Public Housing	New	Expenses
Housing Infrastructure Fund	Unchanged	Expenses and Capital
<b>Immigration</b>		
Increasing the Refugee Quota	New	Expenses
<b>Internal Affairs</b>		
North Island Property Review	Unchanged	Expenses
<b>Justice</b>		
Justice Commitments	New	Expenses
<b>Land Information</b>		
Upgrading Landonline	New	Expenses and Capital
<b>Police</b>		
Increase in the Number of Police Numbers	New	Expenses
<b>Regional Economic Development</b>		
Provincial Growth Fund	New	Expenses and Capital

Policy Changes by Portfolio	Status <sup>21</sup>	Type of risk
<b>Revenue</b>		
Potential Tax Policy Changes	Changed	Revenue
Transformation and Technology Renewal	Changed	Revenue
<b>Social Development</b>		
Changes to the Welfare System	New	Expenses
<b>Transport</b>		
Auckland and Wellington Rail Priorities	New	Capital
National Land Transport Fund	New	Capital
Auckland Transport Alignment Project	Changed	Capital
Auckland City Rail Link	Unchanged	Capital
<b>Treaty Negotiations</b>		
Government Response to Wai 262	Unchanged	Expenses

Cost Pressures by Portfolio	Status <sup>22</sup>	Type of risk
<b>ACC</b>		
ACC Levies	Unchanged	Expenses
Non-earners' Account	Unchanged	Expenses
<b>Children</b>		
Investing in Children Transformation	Changed	Expenses
Clothing Allowances	New	Expenses
<b>Corrections</b>		
Additional Capacity to Address Prison Population	Changed	Expenses and Capital
<b>Economic Development</b>		
New Zealand Screen Production Grant	Unchanged	Expenses
<b>Education</b>		
Learning Support	New	Expenses
<b>Finance</b>		
EQC	Unchanged	Expenses
Goodwill on Acquisition	Unchanged	Expenses
<b>Greater Christchurch Regeneration</b>		
Residential Red Zone	Unchanged	Expenses
Southern Response Earthquake Services Support	Unchanged	Expenses and Capital
<b>Health</b>		
Primary Care Services	New	Expenses

<sup>22</sup> *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the previous *Pre-election Update*.

*Changed* – risks where the nature and/or scale of the risk has changed substantively since the previous *Pre-election Economic and Fiscal Update*.

<b>Cost Pressures by Portfolio</b>	<b>Status<sup>22</sup></b>	<b>Type of risk</b>
<b>Housing and Urban Development</b>		
Divestment and Development of Housing	Unchanged	Expenses
Tāmaki Regeneration Project	Unchanged	Expenses
Transitional Housing	New	Expenses and Capital
<b>Internal Affairs</b>		
Fire Services Levy	Unchanged	Revenue
<b>Revenue</b>		
Student Loans – Valuation	Unchanged	Expenses
Cash Held in Tax Pools	Unchanged	Revenue
<b>Transport</b>		
Southern Transport Corridor Reinstatement	Unchanged	Expenses and Capital
Support for KiwiRail	Unchanged	Capital
Rail Network Valuation Approach	Unchanged	Expenses
<b>Treaty Negotiations</b>		
Relativity Clause	Unchanged	Expenses
Treaty Settlement Forecasts	Unchanged	Expenses

<b>Cross-portfolio Specific Fiscal Risks</b>	<b>Status</b>	<b>Type of risk</b>
Addressing the Gender Pay Gap in the State Sector	New	Expenses
Changes to Institutional Form of Government Agencies	New	Expenses
Other Capital Cost Pressures	Changed	Capital
Changes in an Accounting Standard for Financial Instruments	Unchanged	Expenses
Increasing the Minimum Wage	New	Expenses
Other Operating Cost Pressures	Changed	Expenses
Pay Equity Claims Following the Care and Support Worker Settlement	Changed	Expenses
Services Funded by Third Parties	Unchanged	Expenses
State Sector Employment Agreements	Changed	Expenses
Unexpected Maintenance for Crown-owned buildings	Unchanged	Capital
Variance in Costs of 100-Day Plan Commitments	New	Expenses and Capital

## Policy Change Risks by Portfolio

### ACC

#### ***Impacts of Changes to Accident Compensation Policy Settings (New)***

The Government has signalled it will review a number of accident compensation scheme policy settings. Previous work indicates that a number of review areas entail options that could have material cost implications. Each such area could generate options with fiscal impacts in excess of \$10 million to cash claims per year or to the Outstanding Claims Liability. The combined effect of the policies identified could potentially exceed \$100 million per year. However, all of the policy issues identified entail optionality and would require either legislative or regulatory change to generate fiscal impacts and are therefore highly uncertain.

#### ***Work-related Gradual Process Disease and Infection (Unchanged)***

Under current legislation, the Government incurs an obligation for Work-related Gradual Process Disease and Infection claims when the claim is made, and an expense is recognised at this point. The liability for commercial accident and sickness insurance contracts would usually be recognised when exposure to conditions that will give rise to a claim occurs. An amendment to legislation would be required to recognise claims at the same time as for commercial contracts. An initial adjustment to the liability and an expense of about \$1.0 billion to \$1.5 billion would need to be reported if such an amendment were to be enacted.

### Broadcasting, Communications and Digital Media

#### ***Increased Funding for New Zealand Programming and Journalism (New)***

The Government has committed to transform Radio New Zealand into a multi-platform provider dedicated to quality New Zealand programming and journalism, including a free-to-air non-commercial television service and the establishment of a new Public Media Funding Commission to recommend directly to Parliament funding for public broadcasting on a three yearly rolling cycle. The total costs associated with this are still being finalised. The Government has indicated \$38 million in 2018/19 to kick start this new public broadcasting system, to be apportioned between Radio New Zealand and New Zealand On Air. Funding beyond 2018/19 will be subject to recommendations by the Public Media Funding Commission, once established.

### Conservation

#### ***Funding for Department of Conservation (New)***

The Government has committed to significantly increase the Department of Conservation's funding. The exact quantum of such an increase is yet to be determined. Any significant increases in funding may have an impact on the operating balance and net core Crown debt.

## Climate Change

### ***Green Investment Fund (New)***

The Government has committed to create a Government-backed Green Investment Fund of \$100 million, with the aim of stimulating up to \$1 billion of new investment in low carbon industries by 2020.

## Customs

### ***Joint Border Management System Further Development (New)***

The Government had supported the replacement of Customs' border management systems (CusMod) with funding approved in Budget 2010 for Tranche 1 of the Joint Border Management Systems (JBMS). Tranche 1 provides enhanced border management capability but is still reliant on the ageing CusMod and Ministry for Primary Industries' Quantum systems. A series of initiatives to enhance or replace specific elements of the current CusMod and Quantum systems is planned to realise the full benefits to the Crown and industry of the JBMS programme and to mitigate the risks associated with reliance on the CusMod and Quantum systems. Funding for these projects may be required.

## Defence

### ***Disposal of New Zealand Defence Force (NZDF) Assets (Unchanged)***

The Government is considering the potential to dispose of a number of New Zealand Defence Force (NZDF) assets. Depending on market conditions, the timing of disposal and sale price received could have either a positive or a negative impact on the Government's overall financial position. NZDF regularly completes an analysis of inventory that is surplus to requirements and is over the existing provision for obsolescence. The existing provision is regularly reviewed to ensure that all items comprising the provision are still relevant.

### ***Defence Force – Operating and Capital Costs (Changed)***

In 2016, the previous Government reconsidered NZDF capability and funding requirements through the *Defence White Paper 2016*. It is expected that changes to NZDF operating and capital funding will be made over the forecast period to achieve the *Defence White Paper* settings. However, the precise quantum and timing of these changes will be dependent on a range of business cases that will be considered by Cabinet in the future. In particular, decisions on significant asset purchases may be sought earlier than planned. The Government has indicated it will re-examine the Defence procurement programme within the context of the existing indicative funding for the *Defence White Paper*. This may also result in changes to the quantum and timing of these costs.

## Economic Development

### ***36th America's Cup (New)***

Following its successful challenge for the 35th America's Cup, Emirates Team New Zealand has indicated that the 36th America's Cup may take place in Auckland, New Zealand. While the Government has signalled that any government investment would need to demonstrate benefits to New Zealand, there is a possibility that the Government will need to invest directly or indirectly in leverage programmes, infrastructure or other facilities to ensure New Zealand delivers a successful 36th America's Cup.

## Education

### ***Extension of the Fees-free Tertiary Education Policy (New)***

The Government has committed to expand fees-free tertiary education to two years from 2021 and three years from 2024. The Government has indicated that the timeline for the third year may be brought forward depending on economic conditions. The behavioural assumptions, and therefore the impact on future costs are unquantifiable at this early stage but there is an expected general increase in demand for tertiary education beyond the forecast period.

### ***School and Early Childhood Education (ECE) Funding Review (Unchanged)***

The previous Government made decisions on the Review of Education Funding Systems across the schooling and Early Childhood Education (ECE) sectors, agreeing that for State and State integrated schools and ECE services and ngā kōhanga reo the decile system would be replaced by a predictive risk index to allocate funding, to help overcome educational disadvantage. Decisions are yet to be taken on whether to proceed with these decisions, and if so the system-wide level of funding required to mitigate disadvantage and any other components of the funding model that may also have expenditure implications.

### ***Possible School of Rural Medicine (Changed)***

In August 2017, the previous Government agreed in principle to the establishment of a School of Rural Medicine, in part as a response to two proposals, one from the University of Waikato and Waikato District Health Board (DHB), and a joint proposal from the universities of Auckland and Otago. The previous Government also noted that funding would be required for the establishment of the school, and its operating costs, and this would be sought through Budget 2018. The previous Government requested the Tertiary Education Commission (TEC) to develop a competitive tender process and report back in late 2017. Tertiary Education Commission's advice is currently before ministers, seeking decisions on next steps. The proposal represents a fiscal risk, as no funding has been set aside if the Government decides to progress it.

## Foreign Affairs

### ***Hosting the Asia Pacific Economic Cooperation (APEC) 2021 Forum (New)***

The New Zealand Government has committed to hosting the Asia Pacific Economic Cooperation (APEC) Forum in 2021. This will involve hosting meetings and events throughout the year, culminating in Leaders' Week in Auckland in November. The cost of hosting APEC, including meeting associated security responsibilities, represents a fiscal risk, as no funding has been specifically set aside; funding will be determined by Cabinet on the basis of a number of business cases. Funding will depend on the assessment of threat and risk levels in the lead up to APEC 2021.

### ***Official Development Assistance (New)***

Over the last 20 years, governments have regularly increased the amount of funding for Official Development Assistance (ODA). The current Government has signalled its intent to increase ODA. Historically, funding decisions have been made in the Budget preceding the end of the funding triennium. The current triennium finishes on 30 June 2018. While the intent has been signalled, any increase is subject to a funding decision by the



Government. If the Government chooses to increase funding to maintain the current ODA/GNI (gross national income) ratio of 0.27%, this is provisionally estimated to cost \$569 million over the next four years, and could be higher if the Government decides to increase the ratio.

## Greater Christchurch Regeneration

### ***Christchurch Capital Acceleration Facility (New)***

The Government has committed to establish a \$300 million capital acceleration facility to develop the red zone, contribute towards a new stadium and deal with gaps in the horizontal infrastructure programme, in partnership with the Christchurch City Council as part of the Global Settlement. Depending on how the facility is funded, there may be an impact on the Crown's fiscal position.

## Housing and Urban Development

### ***Crown Infrastructure Partners (Unchanged)***

In July 2017, the previous Government agreed to task Crown Fibre Holdings (now known as Crown Infrastructure Partners) with negotiating and, where viable, funding Crown investment to enable housing infrastructure development in a manner that accelerates growth. There is a high level of uncertainty in the areas noted below, which may affect the final fiscal impacts:

- the amount invested by the Crown
- the timing and amount of investments
- whether or not an economic return will be earned on all investments, and
- the amount and timing of repayments to the Crown.

### ***KiwiBuild (New)***

The forecasts include the Government's commitment to KiwiBuild. Funding is needed to support capital purchases of housing and land, holding costs, subsidies, rates, insurance and a potential rent-to-own programme being established. This includes the monitoring function and machinery of government for KiwiBuild. This programme is also likely to increase the take-up of the Homestart grant. There is a risk that costs may be different to what has been included in the forecasts and there is an additional impact on fiscal indicators.

### ***Healthy Homes Legislation (New)***

As part of its 100-Day Plan, the Government has passed the Healthy Homes Guarantee Bill, requiring all rentals to be warm and dry. When this legislation comes into force it will require improvements in insulation, ventilation and heating in 30,000 Housing New Zealand properties, which is estimated to cost a minimum of \$90 million over the forecast period. In addition, the Bill will enable all private property owners to access grants of up to \$2,000 per dwelling to pay for up to 50% of the cost of insulation upgrades and double glazing that meet or exceed the current building code, or of the cost to install a clean, fixed form of heating. Further work would be required to determine the scope of the policy, however, there are inherent risks to the current financial forecast and costings around this commitment.



### ***Public Housing (New)***

The Government has made a number of commitments to reduce homelessness and improve access to public housing. Policy settings are yet to be developed for increasing and improving support services and increased supply for those in housing need. This is likely to have a significant fiscal impact.

### ***Housing Infrastructure Fund (Unchanged)***

In June 2016, Cabinet agreed to establish a \$1 billion Housing Infrastructure Fund to which high-growth councils could apply to help finance roading and water infrastructure needed to unlock residential development. The previous Government has approved in principle funding of \$889 million for five councils. The successful councils are now preparing detailed business cases. Negotiations on the detailed funding arrangements are continuing and final agreements are expected in late 2017. Actual expenditure may vary from what has been included in the fiscal forecasts owing to:

- changes in the agreed spending levels for each project
- the timing and size of drawdowns and of repayments of capital (both annual and final) varying from what is included in the financial forecasts
- the value of interest foregone
- the resultant reduction in the fair value of loans made, and
- a different split between capital expenditure and operating expenses.

## **Immigration**

### ***Increasing the Refugee Quota (New)***

Increasing the refugee quota to 1,500 over three years will require increased refugee settlement services and have flow-on costs to health, education and welfare. Additional work needs to be completed to properly assess the cost of this change.

## **Internal Affairs**

### ***North Island Property Review (Unchanged)***

There are several issues with the current property portfolio regarding their capacity and condition, which are not covered as part of Wellington accommodation project tranche 2. There is insufficient storage capacity in the Wellington region for the Archives New Zealand holdings. Current storage capability will be reached in the next two to three years. Some of the existing storage capacity is also not fit for purpose.

A review has been undertaken to identify investment options to resolve these issues. A business case has been prepared to assess the options for the Department of Internal Affairs to continue to meet its statutory and business requirements. Crown funding for reinvestment was sought as part of Budget 2017. Some funding was approved as part of Budget 2017 to progress the option analysis and design; however, the risk still remains from 2019/20.

## Justice

### ***Justice Commitments (New)***

The Government has committed to increasing access to justice and reducing and preventing family violence. This includes a commitment to increase Community Law Centre funding, establish a Criminal Cases Review Commission and increase funding to family violence networks. The potential cost and timing of these initiatives is still to be finalised and will be subject to final Cabinet decisions.

## Land Information

### ***Upgrading Landonline (New)***

Land Information New Zealand (LINZ) is currently in discussions with vendors about upgrading Landonline to replace the outdated technology platform and to meet the changing business and technology needs of users and government. In April 2016, LINZ received permission from Cabinet to proceed with procurement on an 'as a service' model, limiting the amount of capital investment required. Recent work done in conjunction with the vendor indicates that an 'as a service' model is currently not viable and LINZ will have to purchase the product, with the understanding that it will sell the product back to the vendor in a few years. Funding options are currently being explored.

## Police

### ***Increase in the Number of Police Numbers (New)***

The Labour and New Zealand First coalition agreement notes that the Government will strive toward adding 1,800 new Police officers over three years. To the extent that this is not able to be funded within baselines, new funding will be required. Although an increase in resource for crime enforcement is likely to have flow-on costs (to the Ministry of Justice and Department of Corrections), the impact will depend on the extent to which this is able to be balanced by a focus on community prevention, greater use of alternative resolutions, and a reduction in remand prisoners.

## Regional Economic Development

### ***Provincial Growth Fund (New)***

The Government is developing a Provincial Growth Fund (PGF) of \$1 billion per annum. The Fund will support the Government's overall goal of productive, sustainable and inclusive growth. It is envisioned, at this stage, that the PGF will comprise three tiers of investment:

- 1 Small scale investments (building on the Regional Growth initiative)
- 2 Mid-large scale sector-based investments (such as the 1 Billion Trees Programme), and
- 3 Large infrastructure investments.

The scope of such a Fund has yet to be determined, including which regions and what types of projects are eligible.

## Revenue

### ***Potential Tax Policy Changes (Changed)***

The Government has yet to finalise its tax policy work programme. It has stated an intent to make some changes to current tax settings, including: the reinstatement of research and development tax credits, ring-fencing of losses from residential investment property and a fuel tax in Auckland. In addition, the outcomes of the Tax Working Group are yet to be determined. The fiscal impacts of these potential changes are unquantified at this stage.

### ***Transformation and Technology Renewal (Changed)***

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

## Social Development

### ***Changes to the Welfare System (New)***

The Government has announced a commitment to ensure access to entitlements, remove selected sanctions in the welfare system, review tax and transfer settings and consider long-term changes that need to occur to provide for sustainable incomes. The behaviour change associated with such changes, including the removal of section 70A of the Social Security Act 1964 (which reduces the amount of benefit payments owed to sole parents who do not disclose the identity of the other parents of their children) is unknown. Such changes could have an impact on the operating balance.

## Transport

### ***Auckland and Wellington Rail Priorities (New)***

The Government has identified as transport priorities a number of metro rail projects in Auckland and Wellington. Although the Government has indicated that rail investment will ultimately be funded through the National Land Transport Fund, achieving this will require further exploration that may not be completed in time for some or all of the following projects:

- the Third Main Line in Auckland
- electrification of the Papakura to Pukekohe line
- establishment of a commuter train service between Auckland, Hamilton and Tauranga
- the Wairarapa line upgrade, and
- double-tracking the Trentham to Upper Hutt line.

***National Land Transport Fund (New)***

The Government has committed to reprioritise National Land Transport Fund (NLTF) spending to increase investment in public transport, rail and active modes, like walking or cycling. The Government has also indicated support for specific projects that might receive funding through the NLTF if prioritised and approved by the New Zealand Transport Agency (NZTA) Board to be included in the National Land Transport Programme (NLTP). The NLTP will be released by August 2018. Crown funding may need to be provided for projects if they do not receive NLTF funding and the scope, timing and costs of some of these projects are still being finalised.

***Auckland Transport Alignment Plan (Changed)***

The Government and Auckland Council released the final report for the Auckland Transport Alignment Plan (ATAP) in August 2016. The funding gap identified through the mid-2017 revised ATAP was \$5.9 billion for the first ten years. Early assessments of the funding gap, when taking into account the Auckland transport priorities of the new Government, is now between \$5 billion and \$6.5 billion. The Government and Auckland Council are currently considering how to refresh ATAP in order to align the priorities of the new Government with the existing priorities of Auckland Council. This work will also include consideration of options to address the funding gap.

***Auckland City Rail Link (Unchanged)***

The Government has committed to fund 50% of the costs associated with the City Rail Link project, which is estimated to cost \$3.4 billion. Based on this estimate, the Government's contribution to this project will be around \$1.7 billion, of which the first \$436 million has been appropriated. There is a risk that the timing and amount of the Government contribution towards the project could be different from what is included in the forecasts.

**Treaty Negotiations*****Government Response to Wai 262 (Unchanged)***

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

## Cost Pressures by Portfolio

### ACC

#### ***ACC Levies (Unchanged)***

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

#### ***Non-earners' Account (Unchanged)***

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

### Children

#### ***Investing in Children Transformation (Changed)***

The Ministry for Vulnerable Children, Oranga Tamariki (Oranga Tamariki) was established on 1 April 2017, with a new operating model to be implemented over the next few years and an expanded focus and target group, and new obligations from associated legislation. Changes to the Oranga Tamariki Act 1989 coming into effect no later than 1 July 2019 will extend the scope of the Youth Justice system to include most 17-year-olds, which is expected to increase the operating cost of the Service and require additional residential bed capacity. This Act will also extend the scope of the Ministry to provide more support for young people aged 18-25. To the extent that the costs associated with the new Ministry cannot be funded from a tagged contingency or from reprioritisation, additional funding is likely to be required.

#### ***Clothing Allowances (New)***

The Social Security (Clothing Allowances for Orphans and Unsupported Children) Amendment Act 2015, which was introduced as a Member's Bill, comes into force on 1 July 2018. The fiscal implications of this Act have yet to be fully assessed and incorporated in the fiscal forecasts, in part because they are dependent on the settings of the Clothing Allowance within Oranga Tamariki, which is included in the scope of future reviews on financial assistance for carers stemming from the Expert Advisory Panel review.

## Corrections

### ***Additional Capacity to Address Prison Population (Changed)***

The fiscal forecasts include provision for the investment agreed by the previous Government to create additional prison capacity to accommodate prison population growth over the next 10 years. The Department of Corrections is likely to seek additional funding relating to the direct costs of accommodating increases in the number of prisoners. There is also a risk that growth in the prison population is different from what is included in the forecasts and additional funding is required. The Government is committed to reducing the prison population over time and is currently considering options to do this.

## Economic Development

### ***New Zealand Screen Production Grant (Unchanged)***

The New Zealand Screen Production Grant is a demand-driven, uncapped programme. New Zealand is attracting a much larger number of international productions. Based on the current rising trend, there is a risk that demand for the Screen Production Grant will exceed what is included in the fiscal forecasts.

## Education

### ***Learning Support (New)***

There are a number of cost pressures building in the supply of learning support services. These include the Ongoing Resourcing Scheme; English for Speakers of Other Languages (ESOL); Early Intervention and Sensory Learning. To the extent that these pressures cannot be managed within agency baselines, additional funding is likely to be required.

## Finance

### ***EQC (Unchanged)***

EQC's independent actuary undertakes half-yearly valuations of the total earthquake liability to the Crown. This includes settled and yet-to-settle claims and reinsurance recoveries. Based on these valuations, a profile of the claims yet to settle is included in the fiscal forecasts. There still remains some risk that EQC's remaining settlement expenditure relating to the Canterbury and Kaikōura earthquakes will be different (higher or lower) than forecast.

### ***Goodwill on Acquisition (Unchanged)***

As at 30 June 2017, the Crown had goodwill on acquisition of a number of sub-entities totalling \$744 million. Under New Zealand accounting standards (PBE IPSAS 26), such goodwill items are required to be assessed annually for impairment. If there is any indication that the goodwill may be impaired, the recoverable amount of the cash

generating units to which the goodwill is allocated, is required to be estimated. If the recoverable amount is less than the carrying amount of those units, the units and the goodwill allocated to them are regarded as impaired and the Government is required to recognise impairment losses in the operating statement. Such assessments will be conducted at the end of the financial year. The fiscal forecasts currently make no allowance for such impairment losses.

## Greater Christchurch Regeneration

### ***Residential Red Zone (Unchanged)***

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

### ***Southern Response Earthquake Services Support (Unchanged)***

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

## Health

### ***Primary Care Services (New)***

The Government has committed to increase funding for Primary Care services to reduce general practitioner (GP) fees, provide additional funding for GP practices, fund extra places to train GPs, and provide annual free health checks for seniors as part of the SuperGold card. The implementation details and funding arrangements for these commitments are yet to be finalised.



## Housing and Urban Development

### ***Divestment and Development of Housing (Unchanged)***

The forecasts include business-as-usual divestments and redevelopments of housing property as part of Housing New Zealand Corporation's (HNZC's) asset management strategy. Proceeds from property divestments will be used to help fund investment in redeveloping and growing HNZC's stock. Market conditions impact on the proceeds of sale and the cost of acquisitions and development. Given these uncertainties, there is a risk that there will be variations from the fiscal forecasts. The Government's intention is to stop the major State housing sell-off programme.

### ***Tāmaki Regeneration Project (Unchanged)***

There are 7,500 new houses planned to be built in Tāmaki in place of about 2,500 existing houses. Development involves writing off existing public housing assets. If land sale proceeds are less than the value of the write offs in the year that they occur, there will be a negative impact on the operating balance.

### ***Transitional Housing (New)***

The average cost of providing transitional housing support services is significantly higher than funding appropriated in Budget 2017, as the original costs were estimates only. Better understanding of the type and nature of support services required, combined with increased intensity in levels of support services and higher levels of complex cases than originally anticipated, are contributing to the increase in the average costs of support services. Additional capital is required to meet the existing supply target of 2,155 places, which might require adjusting upwards.

## Internal Affairs

### ***Fire Services Levy (Unchanged)***

The Fire Services were unified into Fire and Emergency New Zealand on 1 July 2017. The increase in levies required to meet the increase in expenditure on Fire Services, and to contribute to repaying a loan from the Crown, has been approved for the year 2017/18 only. Any future levy changes beyond 2017/18 are still uncertain and not yet included in the fiscal forecasts.

## Revenue

### ***Student Loans – Valuation (Unchanged)***

The value of student loans is sensitive to assumptions, such as the borrower's future income and general economic factors, such as interest rates, unemployment levels, salary inflation and the consumer price index (CPI). As new lending occurs, an initial write down to fair value will be made, and an expense will be incurred, reflecting the cost the Crown incurs in making an interest-free loan and the risk that borrowers may not repay their loans. However, the assumptions made at the time of lending are volatile and are subject to change.



### ***Cash Held in Tax Pools (Unchanged)***

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

## **Transport**

### ***Southern Transport Corridor Reinstatement (Unchanged)***

There is a risk that the costs of reinstating the earthquake-damaged South Island Transport Corridor (Picton-Christchurch) will cost more than the \$552 million of capital expenditure and \$163 million of operating expenditure currently included in the fiscal forecasts. In addition, a portion of the costs of the reinstatement currently classified as capital expenditure in the fiscal forecasts may be reclassified as operating expenditure, adversely impacting the operating balance (currently estimated by NZTA to be \$90 million in 2017/18). The classification between capital and operating expenditure has no impact on net core Crown debt. KiwiRail has identified a reinstatement shortfall or cashflow required in uninsured costs across 2017/18 and 2018/19. The final uninsured costs for reinstating the Main North Line will be understood when the insurance claim is completed – expected within 2018/19.

### ***Support for KiwiRail (Unchanged)***

The Government in Budgets 2010 to 2017 supported KiwiRail Holdings Limited (KiwiRail) with an investment of around \$2 billion in the New Zealand freight rail system. Further Crown investment into KiwiRail is likely to be required from 2019/20. A review of KiwiRail's structure and funding arrangements will be undertaken in 2017/18, to inform future funding decisions.

### ***Rail Network Valuation Approach (Unchanged)***

KiwiRail operates both freight and passenger transport services. The valuation approach for the assets used for these different activities is outlined in Budget 2017 Additional Information – accounting policies. The freight business of KiwiRail is predominantly commercially focused and therefore for financial reporting purposes assets relating to the freight business are fair valued on a net realisable value basis.

For the freight infrastructure to continue to be valued on this basis, KiwiRail needs to meet certain criteria set out in the Accounting Standards Framework. Consistent with prior years, there is a likelihood of continued Crown support and a risk that KiwiRail no longer meets the criteria for valuing freight infrastructure on a net realisable value basis and may need to change to a depreciated replacement cost basis. The impact of this change would increase the value of assets by up to \$4.3 billion.

## Treaty Negotiations

### ***Relativity Clause (Unchanged)***

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds \$1.0 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of Ngāi Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from that included in the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

### ***Treaty Settlement Forecasts (Unchanged)***

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

## Cross-portfolio Specific Fiscal Risks

### ***Addressing the Gender Pay Gap in the State Sector (New)***

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

### ***Changes to Institutional Form of Government Agencies (New)***

The Government has announced a number of policy commitments that involve changes to the machinery of government such as the establishment of an independent Climate Commission and changing Housing New Zealand Corporation into a public service entity. These commitments are likely to involve a number of changes to the composition and structure of existing government departments. Where the additional resourcing (and other costs of these changes) cannot be met through baseline expenditure, further Crown funding may be required.

### ***Other Capital Cost Pressures (Changed)***

As in previous years, agencies are likely to face capital expenditure pressures in the future related to replacing ageing infrastructure nearing its end of life (for example, school property and redevelopment of Scott Base), information and communications technology (ICT) capability that is no longer fit-for-purpose and other capital requirements driven by demand pressures. These pressures are risks to the fiscal forecasts only to the extent they cannot be managed through agencies' existing balance sheets, new capital spending set aside in forecasts or other funding mechanisms (eg, Crown Infrastructure Partners). The Government's stated intention is that all pressures are managed through these mechanisms.

### ***Changes in the Accounting Standard for Financial Instruments (Unchanged)***

The External Reporting Board has recently issued changes to accounting standards Public Benefit Entities International Financial Reporting Standard (PBE IFRS 9) Financial Instruments and it is likely that the Crown will adopt the amended accounting standard in the 2018/19 financial year. The resulting changes include new valuation methodology for some financial assets, a new impairment model for financial assets, and revised hedge accounting requirements. The impact of these new requirements has not yet been assessed, except for some initial impact analysis on the student loan asset (an estimated one-off increase of around \$600 million).

### ***Increasing the Minimum Wage (New)***

Government policy decisions to increase the minimum wage to \$20 per hour by April 2021 will mean increased costs to State sector employers. Funding may be sought where costs cannot be absorbed within baselines without resulting in unacceptable impacts on service delivery.

### ***Other Operating Cost Pressures (Changed)***

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

### ***Pay Equity Claims following the Care and Support Worker Settlement (Changed)***

There are several funding claims, mainly from workers in the social sectors (including health, education and welfare) relating to the interpretation, and application, of the Equal Pay Act 1972. A pay equity claim for Care and Support workers in the aged care, disability support and home and community services sector has already been resolved, including an extension of the same pay rates and conditions to equivalent workforces funded by the Ministry of Social Development and Oranga Tamariki.

There are a number of outstanding claims and the possibility of further claims being raised. Current claims include:

- social workers employed by Oranga Tamariki
- education support workers employed by the Ministry of Education
- school support workers employed by school boards of trustees, and
- mental health support workers employed by non-government organisations (funded by the Government).

The resolution of such claims within State-employed and State-funded sectors may involve significant costs to the Crown.

***Services Funded by Third Parties (Unchanged)***

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

***State Sector Employment Agreements (Changed)***

A number of large collective agreements are due to be renegotiated over the forecast period. These include (but are not limited to) nurses and senior doctors, as well as primary and secondary school teachers. As well as direct fiscal implications for the employers of workforces covered by any changes to remuneration, the renegotiation of these agreements can have flow-on effects to remuneration in other sectors. The Government has committed to paying core public sector staff a Living Wage.

***Unexpected Maintenance for Crown-owned Buildings (Unchanged)***

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

***Variance in Costs of 100-Day Plan Commitments (New)***

The forecasts include funding for the Government's 100-Day Plan commitments, including First Year Fees-free Tertiary Education and the Families' Package. Where costs are different to what has been reflected in the forecasts, the resulting fiscal impacts will need to be managed.

## Risks Removed Since the *Pre-election Update*

The following risks have been removed or their title has changed since the *Pre-election Update*.

Portfolio	Title	Reason for Expiry
Building and Urban Development	Social Housing Reform	This risk related to the previous Government's reform programme. It now has been replaced by the 'Public Housing' risk.
Education	Possible University of Waikato Medical School	The title of risk has changed to 'Possible School of Rural Medicine'.
Finance	Crown Overseas Properties	A Cabinet decision has been taken – this risk has materialised.
Greater Christchurch Regeneration	Christchurch Central Recovery Plan – Anchor Projects	This risk is no longer material and is now covered by the 'Christchurch Capital Acceleration Facility' risk.
Māori Development	Proposed Māori Land Service	The Government will not progress the Te Ture Whenua Māori Bill.
Parliamentary Service	Parliamentary Office Accommodation	Expired as a result of the Labour-New Zealand First coalition agreement.
Primary Industries and Food Safety	Investment in Water Infrastructure	The Government is committed to winding down its funding for irrigation while meeting its current commitments.
Revenue	Tax and Transfer Settings	This risk related to priorities set out in the previous Government's fiscal strategy.

## Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed all unquantifiable contingent liabilities and unquantifiable contingent assets that are not expected to be remote.<sup>23</sup>

The contingencies have been stated as at 31 October 2017, being the latest set of published contingencies.

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<sup>23</sup> 'Remote' is defined as being an item with less than a 10% chance of occurring.

## Quantifiable Contingent Liabilities and Contingent Assets

### Contingent liabilities

	Status <sup>24</sup>	31 October 2017 (\$millions)
<b>Uncalled capital</b>		
Asian Development Bank	Unchanged	3,173
International Monetary Fund – promissory notes	Unchanged	2,284
International Bank for Reconstruction and Development	Unchanged	1,615
International Monetary Fund – arrangements to borrow	Unchanged	599
Asian Infrastructure Investment Bank	Unchanged	538
Other uncalled capital	Unchanged	20
		<b>8,229</b>
<b>Guarantees and indemnities</b>		
New Zealand Export Credit Office guarantees	Unchanged	124
Other guarantees and indemnities	Unchanged	96
		<b>220</b>
<b>Legal proceedings and disputes</b>		
Legal tax proceedings	Unchanged	136
Other legal proceedings and disputes	Unchanged	189
		<b>325</b>
<b>Other quantifiable contingent liabilities</b>		
Unclaimed monies	Unchanged	150
Christchurch Engine Centre Partnership Agreement	Unchanged	121
Other quantifiable contingent liabilities	Unchanged	63
		<b>334</b>
<b>Total quantifiable contingent liabilities</b>		<b>9,108</b>

### Contingent assets

	Status <sup>24</sup>	31 October 2017 (\$millions)
<b>Legal proceedings and disputes</b>		
Other contingent assets	Unchanged	103
<b>Total quantifiable contingent assets</b>		<b>103</b>

<sup>24</sup> Status of contingent liabilities or assets when compared to the Financial Statements of the Government published on 5 October 2017.

## Unquantifiable Contingent Liabilities and Contingent Assets

### Contingent liabilities

<b>Indemnities</b>	<b>Status</b>
Air New Zealand	Unchanged
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy	Unchanged
Housing New Zealand Corporation	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
<b>Legal claims and proceedings</b>	
Accident Compensation Corporation (ACC) litigation	Unchanged
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged
Treaty of Waitangi claims	Unchanged
<b>Other unquantifiable contingent liabilities</b>	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged
Holidays Act 2003 and other relevant legislation	Unchanged

The following contingent liability was removed:

Ministry for Culture and Heritage – The Body Laid Bare Exhibition as this indemnity has now expired.



## Description of Contingent Liabilities

### **Quantifiable contingent liabilities over \$100 million**

#### *Uncalled capital*

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

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

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

<b>Uncalled capital</b>	<b>31 October 2017 \$millions</b>	<b>30 June 2017 \$millions</b>
Asian Development Bank	3,173	2,941
International Monetary Fund – promissory notes	2,284	2,123
International Bank for Reconstruction and Development	1,615	1,512
International Monetary Fund – arrangements to borrow	599	540
Asian Infrastructure Investment Bank	538	504

In addition to the uncalled capital detailed above, the Crown has agreed to provide an uncalled capital facility of \$230 million to Southern Response Earthquake Service Limited (SRES) to support the Christchurch earthquake recovery process. Of this amount, \$113 million has been called, leaving \$117 million as a contingent liability. This capital support will increase net core Crown debt when called.

#### *Guarantees and indemnities*

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt or performance of an obligation of another party, should that party default.

Guarantees generally relate to the payment of money but may require the performance of obligations.

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

#### **New Zealand Export Credit Office guarantees**

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

\$124 million at 31 October 2017 (\$136 million at 30 June 2017)

*Legal proceedings and disputes***Legal tax proceedings**

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

\$136 million at 31 October 2017 (\$145 million at 30 June 2017)

*Other quantifiable contingent liabilities***Unclaimed monies**

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

\$150 million at 31 October 2017 (\$147 million at 30 June 2017)

**Christchurch Engine Centre Partnership Agreement**

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

\$121 million at 31 October 2017 (\$121 million at 30 June 2017)

***Unquantifiable contingent liabilities***

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

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

*Indemnities*

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

Party indemnified	Instrument of indemnification	Actions indemnified
Air New Zealand	Deed of indemnity issued 24 September 2001.	Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US\$1 billion in respect of any one claim.
Contact Energy Limited	The Crown and Contact Energy signed a number of documents to settle in full Contact Energy's outstanding land rights and geothermal asset rights at Wairakei	The documents contained two reciprocal indemnities between the Crown and Contact Energy to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines.
Genesis Energy	Deed between Genesis and the Crown	The agreement sees the Crown compensate Genesis in the event that Genesis has less gas than it requires for the long-term supply of gas to cover Huntly Power station's minimum needs.
	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to the beds of lakes and rivers subject to operating easements.
Housing New Zealand Limited (HNZL)	The Crown has provided a warranty in respect of title to the assets transferred to HNZL	<p>The Crown indemnified HNZL against:</p> <ul style="list-style-type: none"> <li>any breach of the warranty provided, and</li> <li>any third-party claims that are a result of acts or omissions prior to 1 November 1992.</li> </ul> <p>The Crown also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided they are taking steps to rectify any non-compliance.</p>
Justices of the Peace, Community Magistrates and Disputes Tribunal Referee	<p>Section 50 of the District Court Act 2016 and Section 4F of the Justices of the Peace Act 1957</p> <p>Section 58 of the Disputes Tribunal Act 1988</p>	Damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	The Minister of Finance signed the indemnity on 1 September 2004	The directors of New Zealand Railways Corporation against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities.
	Section 10 of the Finance Act 1989	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Persons exercising investigating powers	Section 63 of the Corporations (Investigation and Management) Act 1989	Indemnifies the Financial Markets Authority (formerly Securities Commission), the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line that was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.

Party indemnified	Instrument of indemnification	Actions indemnified
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master	<p>The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited dated 24 September 2015. The Crown has indemnified Westpac New Zealand Limited:</p> <ul style="list-style-type: none"> <li>• for all amounts paid by Westpac New Zealand under letters of credit issued on behalf of the Crown, and</li> <li>• against certain cost, damages and losses to third parties resulting from: <ul style="list-style-type: none"> <li>- unauthorised, forged or fraudulent payment instructions</li> <li>- unauthorised or incorrect direct debit instructions, or</li> <li>- cheques mistakenly drawn in favour of a third party rather than drawn in favour of the Crown.</li> </ul> </li> </ul>

### *Legal claims and proceedings*

There are numerous legal actions that have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the cases. Based on these factors, not all legal actions are individually disclosed.

### Accident Compensation Corporation (ACC) litigation

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

### Ministry for Primary Industries – Biosecurity Act 1993 compensation

Under section 162A of the Biosecurity Act 1993 compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry has been notified compensation will be sought for incursions including fruit fly, pea weevil, bonamia ostreae, mycoplasma bovis and myrtle rust. Owing to the complexity and uncertainty of the amount of these claims the amounts are unquantified.

### Kiwifruit vine PSA-V

Approximately 210 growers, represented by the first plaintiff, Strathboss Kiwifruit Limited, filed a claim against the Ministry for Primary Industries alleging it was legally liable for damages it has suffered from a biosecurity incursion of the kiwifruit vine disease, Psa-V, in New Zealand. The total losses have not been quantified. As Strathboss Kiwifruit Limited is required to prove the Ministry owes a duty of care to the growers before losses will be assessed, the Ministry is unable to quantify the first plaintiff's claim.

## Treaty of Waitangi claims

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

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

### *Other unquantifiable contingent liabilities*

## Criminal Proceeds (Recovery) Act 2009

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

## Environmental liabilities

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

In accordance with PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets, any contaminated sites for which costs can be reliably measured have been included as provisions in the statement of financial position.

## Treaty of Waitangi claims – Settlement Relativity Payments – see page 84

## Holidays Act 2003 and other relevant legislation

A number of entities have commenced a review of payroll calculations over the past six years to ensure compliance with the Holidays Act 2003 and other relevant legislation. Where possible, provision has been made in these financial statements for obligations arising from that review. To the extent that an obligation cannot reasonably be quantified at 31 October 2017, a contingent liability exists.

## Description of Contingent Assets

### **Quantifiable contingent assets over \$100 million**

There are no quantifiable contingent assets over \$100 million at 31 October 2017.

### **Unquantifiable contingent assets**

There are no unquantifiable contingent assets over \$100 million at 31 October 2017.

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## Forecast Financial Statements

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

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends. The Risks and Scenarios and Specific Fiscal Risks chapters discuss the risks to the fiscal forecast in more detail.

The forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 27 November 2017.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook chapter (pages 25 to 49).

## Statement of Accounting Policies

### Significant Accounting Policies

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

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

The specific accounting policies are included within the 2017 *Half Year Economic and Fiscal Update Additional Information* document which can be found on the Treasury's website at [www.treasury.govt.nz/budget/forecasts/hyefu2017](http://www.treasury.govt.nz/budget/forecasts/hyefu2017)

### Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Specific Fiscal Risks chapter on pages 63 to 96.

Key forecast assumptions are set out on pages 27 to 28.

### Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2018 to 30 June 2022. The "2017 Actual" figures reported in the statements are the audited results reported in the Financial Statements of the Government for the year ended 30 June 2017. The "2018 Previous Budget" figures are the original forecasts to 30 June 2018 as presented in the 2017 Budget.



## Government Reporting Entity as at 27 November 2017

These Forecast Financial Statements are for the government reporting entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting):

### Core Crown Segment

#### Departments

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

#### Offices of Parliament

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

#### Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

**State-owned Enterprises Segment****State-owned Enterprises**

Airways Corporation of New Zealand Limited  
 Animal Control Products Limited  
 AsureQuality Limited  
 Electricity Corporation of New Zealand Limited  
 KiwiRail Holdings Limited  
 Kordia Group Limited  
 Landcorp Farming Limited

Meteorological Service of New Zealand Limited  
 New Zealand Post Limited  
 New Zealand Railways Corporation  
 Quotable Value Limited  
 Solid Energy New Zealand Limited  
 Transpower New Zealand Limited

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

Genesis Energy Limited  
 Mercury NZ Limited  
 Meridian Energy Limited

**Other**

Air New Zealand Limited  
 Kiwi Group Holdings Limited (Including Kiwibank)

## Crown Entities Segment

### Crown entities

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

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

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Leadership Development Centre Trust

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (20)

Te Arika Trust

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

Crown Asset Management Limited

Crown Infrastructure Partners Limited (previously Crown Fibre Holdings)

Education Payroll Limited

Health Benefits Limited (ceased operating)

Ōtākaro Limited

Predator Free 2050 Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

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

Te Urewera

**Others**

Education Council of Aotearoa New Zealand

Regenerate Christchurch

**Other entities****Crown entities**

Tertiary Education Institutions (27)\*

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

City Rail Link Limited\*

\*These entities are not fully consolidated into the forecast financial statements of the government with only the Crown's interest in them being included.

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

## Forecast Statement of Financial Performance

for the years ending 30 June

		2017	2018	2018	2019	2020	2021	2022
	Note	Actual \$m	Previous Budget \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>Revenue</b>								
Taxation revenue	1	74,973	76,872	77,468	82,055	87,022	92,129	96,980
Other sovereign revenue	1	5,081	5,057	5,151	5,503	5,953	6,199	6,482
<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>80,054</b>	<b>81,929</b>	<b>82,619</b>	<b>87,558</b>	<b>92,975</b>	<b>98,328</b>	<b>103,462</b>
Sales of goods and services		16,871	16,994	17,825	18,416	19,171	19,617	20,093
Interest revenue	2	2,727	2,807	2,767	2,751	2,810	2,891	2,923
Other revenue		4,575	4,617	4,973	5,164	5,321	5,421	5,587
<b>Total revenue earned through the Crown's operations</b>		<b>24,173</b>	<b>24,418</b>	<b>25,565</b>	<b>26,331</b>	<b>27,302</b>	<b>27,929</b>	<b>28,603</b>
<b>Total revenue (excluding gains)</b>		<b>104,227</b>	<b>106,347</b>	<b>108,184</b>	<b>113,889</b>	<b>120,277</b>	<b>126,257</b>	<b>132,065</b>
<b>Expenses</b>								
Transfer payments and subsidies	3	25,264	26,462	26,396	28,901	29,988	31,173	32,498
Personnel expenses		22,599	23,003	23,604	23,628	23,782	24,128	24,188
Depreciation		4,361	4,563	4,568	4,714	4,844	4,862	4,874
Other operating expenses	4	38,008	41,000	43,109	42,525	42,718	43,330	43,483
Finance costs	2	4,162	4,224	4,143	4,058	4,077	4,111	3,915
Insurance expenses	5	5,418	4,546	4,591	4,837	5,491	5,899	6,299
Forecast new operating spending	6	-	293	179	2,721	4,496	6,339	8,084
Top-down expense adjustment	6	-	(1,000)	(1,365)	(750)	(575)	(575)	(575)
<b>Total expenses (excluding losses)</b>		<b>99,812</b>	<b>103,091</b>	<b>105,225</b>	<b>110,634</b>	<b>114,821</b>	<b>119,267</b>	<b>122,766</b>
Minority interest share of operating balance before gains/(losses)		(346)	(398)	(418)	(427)	(477)	(486)	(506)
<b>Operating balance before gains/(losses) (excluding minority interests)</b>		<b>4,069</b>	<b>2,858</b>	<b>2,541</b>	<b>2,828</b>	<b>4,979</b>	<b>6,504</b>	<b>8,793</b>
Net gains/(losses) on financial instruments	2	6,330	2,538	3,938	2,877	3,220	3,540	3,983
Net gains/(losses) on non-financial instruments		1,321	(88)	(734)	(98)	(27)	(44)	(30)
Less minority interest share of net gains/losses		27	(26)	(43)	(17)	(4)	(4)	(6)
<b>Total gains/(losses) (excluding minority interests)</b>		<b>7,678</b>	<b>2,424</b>	<b>3,161</b>	<b>2,762</b>	<b>3,189</b>	<b>3,492</b>	<b>3,947</b>
Net surplus/(deficit) from associates and joint ventures		570	214	214	249	283	301	309
<b>Operating balance (excluding minority interests)</b>		<b>12,317</b>	<b>5,496</b>	<b>5,916</b>	<b>5,839</b>	<b>8,451</b>	<b>10,297</b>	<b>13,049</b>

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

## Forecast Analysis of Expenses by Functional Classification

for the years ending 30 June

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Total Crown expenses</b>							
<b>By functional classification</b>							
Social security and welfare	30,599	31,577	31,646	34,217	35,771	37,296	38,977
Health	15,645	16,389	16,614	16,592	16,639	16,566	16,667
Education	14,112	14,741	15,206	15,479	15,648	15,932	15,995
Core government services	3,762	4,572	5,392	4,494	4,440	4,189	4,149
Law and order	4,161	4,435	4,510	4,536	4,584	4,607	4,657
Transport and communications	9,360	9,637	9,715	10,010	10,232	11,139	11,060
Economic and industrial services	8,452	7,949	8,405	8,701	9,123	9,139	9,240
Defence	2,145	2,286	2,309	2,354	2,364	2,374	2,380
Heritage, culture and recreation	2,433	2,391	2,387	2,432	2,454	2,489	2,561
Primary services	1,886	1,986	2,086	2,026	2,028	2,015	2,004
Housing and community development	1,820	1,954	2,133	2,129	1,985	2,037	2,021
Environmental protection	863	1,012	1,290	989	1,021	1,043	1,042
GSF pension expenses	231	239	163	162	192	224	247
Other	181	406	412	484	342	342	342
Finance costs	4,162	4,224	4,143	4,058	4,077	4,111	3,915
Forecast new operating spending	-	293	179	2,721	4,496	6,339	8,084
Top-down expense adjustment	-	(1,000)	(1,365)	(750)	(575)	(575)	(575)
<b>Total Crown expenses excluding losses</b>	<b>99,812</b>	<b>103,091</b>	<b>105,225</b>	<b>110,634</b>	<b>114,821</b>	<b>119,267</b>	<b>122,766</b>

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and SOEs.

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Core Crown expenses</b>							
<b>By functional classification<sup>1</sup></b>							
Social security and welfare	25,294	26,247	26,191	28,729	29,792	30,913	32,181
Health	16,223	17,096	17,184	17,250	17,257	17,213	17,334
Education	13,281	13,985	14,397	14,641	14,807	15,092	15,151
Core government services	3,957	4,843	5,477	4,727	4,657	4,438	4,416
Law and order	3,882	4,119	4,146	4,170	4,208	4,244	4,265
Transport and communications	2,176	2,329	2,486	2,350	2,280	2,813	2,423
Economic and industrial services	2,544	3,001	2,941	2,817	2,804	2,789	2,730
Defence	2,146	2,294	2,318	2,363	2,373	2,383	2,389
Heritage, culture and recreation	850	885	879	880	840	811	824
Primary services	644	730	792	706	678	648	648
Housing and community development	539	530	662	622	548	515	511
Environmental protection	871	1,015	1,291	989	1,022	1,043	1,043
GSF pension expenses	217	220	150	149	179	211	234
Other	181	406	412	484	342	342	342
Finance costs	3,534	3,493	3,513	3,460	3,452	3,508	3,304
Forecast new operating spending	-	293	179	2,721	4,496	6,339	8,084
Top-down expense adjustment	-	(1,000)	(1,365)	(750)	(575)	(575)	(575)
<b>Total core Crown expenses excluding losses</b>	<b>76,339</b>	<b>80,486</b>	<b>81,653</b>	<b>86,308</b>	<b>89,160</b>	<b>92,727</b>	<b>95,304</b>

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

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

## Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>Operating Balance (including minority interest)</b>	<b>12,636</b>	<b>5,920</b>	<b>6,377</b>	<b>6,283</b>	<b>8,932</b>	<b>10,787</b>	<b>13,561</b>
<b>Other comprehensive revenue and expense</b>							
Revaluation of physical assets	8,923	-	31	-	-	-	-
Transfers to/(from) reserves	47	28	(5)	122	97	93	145
(Gains)/losses transferred to the statement of financial performance	62	(1)	(4)	4	6	4	7
Other movements	39	4	81	(19)	(10)	9	(12)
<b>Total other comprehensive revenue and expense</b>	<b>9,071</b>	<b>31</b>	<b>103</b>	<b>107</b>	<b>93</b>	<b>106</b>	<b>140</b>
<b>Total comprehensive revenue and expense</b>	<b>21,707</b>	<b>5,951</b>	<b>6,480</b>	<b>6,390</b>	<b>9,025</b>	<b>10,893</b>	<b>13,701</b>
<b>Attributable to:</b>							
- minority interest	541	429	444	446	482	490	512
- the Crown	21,166	5,522	6,036	5,944	8,543	10,403	13,189
<b>Total comprehensive revenue and expense</b>	<b>21,707</b>	<b>5,951</b>	<b>6,480</b>	<b>6,390</b>	<b>9,025</b>	<b>10,893</b>	<b>13,701</b>

## Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>Opening net worth</b>	<b>95,521</b>	<b>105,923</b>	<b>116,472</b>	<b>122,448</b>	<b>128,327</b>	<b>136,804</b>	<b>147,113</b>
Operating balance (including minority interest)	12,636	5,920	6,377	6,283	8,932	10,787	13,561
Net revaluations	8,923	-	31	-	-	-	-
Transfers to/(from) reserves	47	28	(5)	122	97	93	145
(Gains)/losses transferred to the Statement of Financial Performance	62	(1)	(4)	4	6	4	7
Other movements	39	4	81	(19)	(10)	9	(12)
<b>Comprehensive income</b>	<b>21,707</b>	<b>5,951</b>	<b>6,480</b>	<b>6,390</b>	<b>9,025</b>	<b>10,893</b>	<b>13,701</b>
Transactions with minority interest	(756)	(432)	(504)	(511)	(548)	(584)	(560)
<b>Closing net worth</b>	<b>116,472</b>	<b>111,442</b>	<b>122,448</b>	<b>128,327</b>	<b>136,804</b>	<b>147,113</b>	<b>160,254</b>

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

## Forecast Statement of Cash Flows

for the years ending 30 June

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m
<b>Cash Flows from Operations</b>							
<b>Cash was provided from</b>							
Taxation receipts	73,099	75,563	75,956	80,892	85,858	90,944	95,722
Other sovereign receipts	4,515	4,484	4,503	4,587	5,122	5,257	5,526
Sales of goods and services	16,948	17,473	18,011	18,572	19,285	19,756	20,229
Interest receipts	2,431	2,395	2,311	2,302	2,393	2,500	2,572
Other operating receipts	4,882	4,062	5,057	4,974	5,137	5,255	5,438
<b>Total cash provided from operations</b>	<b>101,875</b>	<b>103,977</b>	<b>105,838</b>	<b>111,327</b>	<b>117,795</b>	<b>123,712</b>	<b>129,487</b>
<b>Cash was disbursed to</b>							
Transfer payments and subsidies	25,293	26,512	26,294	28,870	29,993	31,193	32,494
Personnel and operating payments	62,836	66,838	69,206	68,106	68,431	68,508	69,527
Interest payments	4,179	4,813	4,176	3,952	3,933	3,957	3,592
Forecast new operating spending	-	293	179	2,721	4,496	6,339	8,084
Top-down expense adjustment	-	(1,000)	(1,365)	(750)	(575)	(575)	(575)
<b>Total cash disbursed to operations</b>	<b>92,308</b>	<b>97,456</b>	<b>98,490</b>	<b>102,899</b>	<b>106,278</b>	<b>109,422</b>	<b>113,122</b>
<b>Net cash flows from operations</b>	<b>9,567</b>	<b>6,521</b>	<b>7,348</b>	<b>8,428</b>	<b>11,517</b>	<b>14,290</b>	<b>16,365</b>
<b>Cash Flows from Investing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
Net (purchase)/sale of physical assets	(6,209)	(8,429)	(8,664)	(9,026)	(7,531)	(6,080)	(6,165)
Net (purchase)/sale of shares and other securities	889	5,389	(906)	2,850	(230)	(35)	(13,212)
Net (purchase)/sale of intangible assets	(748)	(814)	(977)	(614)	(536)	(478)	(461)
Net (issue)/repayment of advances	(989)	(1,196)	(867)	(740)	(699)	(824)	(770)
Net acquisition of investments in associates	(148)	(15)	(291)	(237)	(223)	(155)	(288)
Forecast new capital spending	-	(446)	(304)	(1,965)	(2,465)	(2,745)	(2,720)
Top-down capital adjustment	-	840	1,100	450	250	100	50
<b>Net cash flows from investing activities</b>	<b>(7,205)</b>	<b>(4,671)</b>	<b>(10,909)</b>	<b>(9,282)</b>	<b>(11,434)</b>	<b>(10,217)</b>	<b>(23,566)</b>
<b>Net cash flows from operating and investing activities</b>	<b>2,362</b>	<b>1,850</b>	<b>(3,561)</b>	<b>(854)</b>	<b>83</b>	<b>4,073</b>	<b>(7,201)</b>
<b>Cash Flows from Financing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
Issues of circulating currency	265	170	105	183	188	194	199
Net issue/(repayment) of government bonds <sup>2</sup>	1,328	(4,729)	(2,174)	(893)	(313)	(3,950)	7,084
Net issue/(repayment) of foreign-currency borrowings	2,048	(940)	(5,486)	334	10	2	2
Net issue/(repayment) of other New Zealand dollar borrowings	(1,810)	2,627	8,017	1,453	1,028	846	712
Dividends paid to minority interests <sup>1</sup>	(656)	(492)	(531)	(522)	(559)	(566)	(569)
<b>Net cash flows from financing activities</b>	<b>1,175</b>	<b>(3,364)</b>	<b>(69)</b>	<b>555</b>	<b>354</b>	<b>(3,474)</b>	<b>7,428</b>
<b>Net movement in cash</b>	<b>3,537</b>	<b>(1,514)</b>	<b>(3,630)</b>	<b>(299)</b>	<b>437</b>	<b>599</b>	<b>227</b>
<b>Opening cash balance</b>	<b>15,617</b>	<b>17,495</b>	<b>18,732</b>	<b>15,512</b>	<b>15,214</b>	<b>15,654</b>	<b>16,255</b>
Foreign-exchange gains/(losses) on opening cash	(422)	3	410	1	3	2	1
<b>Closing cash balance</b>	<b>18,732</b>	<b>15,984</b>	<b>15,512</b>	<b>15,214</b>	<b>15,654</b>	<b>16,255</b>	<b>16,483</b>

1. Excludes transactions with ACC and NZS Fund.

2. Further information on the proceeds and repayments of government bonds is available in note 16.

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



## Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
<b>Net Cash Flows from Operations</b>	<b>9,567</b>	<b>6,521</b>	<b>7,348</b>	<b>8,428</b>	<b>11,517</b>	<b>14,290</b>	<b>16,365</b>
<i>Items included in the operating balance but not in net cash flows from operations</i>							
<b>Gains/(losses)</b>							
Net gains/(losses) on financial instruments	6,330	2,538	3,938	2,877	3,220	3,540	3,983
Net gains/(losses) on non-financial instruments	1,321	(88)	(734)	(98)	(27)	(44)	(30)
Minority interest share of net gains/(losses)	27	(26)	(43)	(17)	(4)	(4)	(6)
<b>Total gains/(losses)</b>	<b>7,678</b>	<b>2,424</b>	<b>3,161</b>	<b>2,762</b>	<b>3,189</b>	<b>3,492</b>	<b>3,947</b>
<b>Other Non-cash Items in Operating Balance</b>							
Depreciation	(4,073)	(4,563)	(4,568)	(4,714)	(4,844)	(4,862)	(4,874)
Amortisation	(1,102)	(743)	(717)	(750)	(750)	(752)	(758)
Cost of concessionary lending	(753)	(801)	(1,141)	(864)	(905)	(941)	(934)
Impairment on financial assets (excluding receivables)	50	(126)	(114)	(115)	(115)	(117)	(118)
Decrease/(increase) in defined benefit retirement plan liabilities	472	548	589	563	538	510	488
Decrease/(increase) in insurance liabilities	(1,047)	145	(124)	(822)	(1,598)	(1,937)	(1,987)
Other	258	(184)	(203)	(175)	(197)	(182)	(198)
<b>Total other non-cash Items</b>	<b>(6,195)</b>	<b>(5,724)</b>	<b>(6,278)</b>	<b>(6,877)</b>	<b>(7,871)</b>	<b>(8,281)</b>	<b>(8,381)</b>
<b>Movements in Working Capital</b>							
Increase/(decrease) in receivables	1,170	496	1,511	943	668	752	746
Increase/(decrease) in accrued interest	312	1,028	459	293	248	210	7
Increase/(decrease) in inventories	57	(11)	(109)	(50)	(13)	(16)	(6)
Increase/(decrease) in prepayments	151	(7)	(60)	2	(11)	(2)	(1)
Decrease/(increase) in deferred revenue	(46)	(20)	106	(66)	(16)	(44)	(27)
Decrease/(increase) in payables/provisions	(377)	789	(222)	404	740	(104)	399
<b>Total movements in working capital</b>	<b>1,267</b>	<b>2,275</b>	<b>1,685</b>	<b>1,526</b>	<b>1,616</b>	<b>796</b>	<b>1,118</b>
<b>Operating balance (excluding minority interests)</b>	<b>12,317</b>	<b>5,496</b>	<b>5,916</b>	<b>5,839</b>	<b>8,451</b>	<b>10,297</b>	<b>13,049</b>

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

## Forecast Statement of Financial Position

as at 30 June

		2017	2018	2018	2019	2020	2021	2022
			Previous					
	Note	Actual \$m	Budget \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>Assets</b>								
Cash and cash equivalents	8	18,732	15,984	15,512	15,214	15,654	16,255	16,483
Receivables	8	18,529	17,452	18,900	19,876	20,588	21,988	22,220
Marketable securities, deposits and derivatives in gain	8	50,506	45,514	47,214	43,562	43,467	41,791	53,612
Share investments	8	30,700	30,140	34,512	36,492	38,749	42,838	47,138
Advances	8	28,583	29,805	29,411	30,428	31,280	32,015	32,735
Inventory		1,167	970	1,057	1,007	994	978	973
Other assets		3,079	2,352	2,619	2,661	2,661	2,679	2,698
Property, plant and equipment	10	144,550	142,577	149,323	154,300	157,627	158,638	160,278
Equity accounted investments <sup>1</sup>		14,210	14,618	14,678	15,161	15,617	16,171	16,694
Intangible assets and goodwill		3,553	3,713	3,887	3,916	3,896	3,812	3,716
Forecast for new capital spending	6	-	616	304	2,269	4,734	7,479	10,199
Top-down capital adjustment	6	-	(965)	(1,100)	(1,550)	(1,800)	(1,900)	(1,950)
<b>Total assets</b>		<b>313,609</b>	<b>302,776</b>	<b>316,317</b>	<b>323,336</b>	<b>333,467</b>	<b>342,744</b>	<b>364,796</b>
<b>Liabilities</b>								
Issued currency		5,980	5,932	6,085	6,267	6,455	6,649	6,849
Payables	12	14,794	12,479	12,306	12,387	12,323	13,136	12,852
Deferred revenue		2,224	2,086	2,118	2,184	2,200	2,244	2,270
Borrowings		111,806	111,500	110,904	111,832	112,722	109,605	117,503
Insurance liabilities	5	42,786	41,219	43,364	44,186	45,784	47,721	49,708
Retirement plan liabilities	13	11,006	9,917	10,388	9,825	9,287	8,777	8,289
Provisions	14	8,541	8,201	8,704	8,328	7,892	7,499	7,071
<b>Total liabilities</b>		<b>197,137</b>	<b>191,334</b>	<b>193,869</b>	<b>195,009</b>	<b>196,663</b>	<b>195,631</b>	<b>204,542</b>
<b>Total assets less total liabilities</b>		<b>116,472</b>	<b>111,442</b>	<b>122,448</b>	<b>128,327</b>	<b>136,804</b>	<b>147,113</b>	<b>160,254</b>
<b>Net Worth</b>								
Taxpayers' funds		26,456	29,141	32,784	38,802	47,676	58,225	71,507
Property, plant and equipment revaluation reserve		84,164	76,526	83,864	83,781	83,443	83,291	83,192
Other reserves		(88)	(101)	(80)	(71)	(64)	(58)	(52)
<b>Total net worth attributable to the Crown</b>		<b>110,532</b>	<b>105,566</b>	<b>116,568</b>	<b>122,512</b>	<b>131,055</b>	<b>141,458</b>	<b>154,647</b>
Net worth attributable to minority interest		5,940	5,876	5,880	5,815	5,749	5,655	5,607
<b>Total net worth</b>	15	<b>116,472</b>	<b>111,442</b>	<b>122,448</b>	<b>128,327</b>	<b>136,804</b>	<b>147,113</b>	<b>160,254</b>

1. Equity accounted investments include tertiary education institutions and City Rail Link.

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

## Forecast Statement of Borrowings

as at 30 June

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Borrowings</b>							
Government bonds	64,349	59,591	61,054	59,975	59,368	55,099	62,065
Treasury bills	4,071	4,096	4,094	4,018	3,942	3,864	3,859
Government retail stock	190	205	185	185	185	185	185
Settlement deposits with Reserve Bank	6,471	7,183	7,517	7,517	7,517	7,517	7,517
Derivatives in loss	3,113	2,800	3,080	2,537	2,338	2,161	2,105
Finance lease liabilities	1,412	2,559	2,425	2,566	2,457	2,197	1,899
Other borrowings	32,200	35,066	32,549	35,034	36,915	38,582	39,873
<b>Total borrowings</b>	<b>111,806</b>	<b>111,500</b>	<b>110,904</b>	<b>111,832</b>	<b>112,722</b>	<b>109,605</b>	<b>117,503</b>
Sovereign-guaranteed debt	81,395	78,805	78,622	77,234	76,656	72,408	79,523
Non sovereign-guaranteed debt	30,411	32,695	32,282	34,598	36,066	37,197	37,980
<b>Total borrowings</b>	<b>111,806</b>	<b>111,500</b>	<b>110,904</b>	<b>111,832</b>	<b>112,722</b>	<b>109,605</b>	<b>117,503</b>
<b>Net Debt:</b>							
Core Crown borrowings <sup>1</sup>	94,107	92,565	92,455	91,499	91,258	87,336	94,643
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(1,487)	(1,908)	(1,112)	(1,126)	(1,135)	(1,136)	(1,140)
<b>Gross sovereign-issued debt<sup>2</sup></b>	<b>92,620</b>	<b>90,657</b>	<b>91,343</b>	<b>90,373</b>	<b>90,123</b>	<b>86,200</b>	<b>93,503</b>
Less core Crown financial assets <sup>3</sup>	81,015	74,344	78,808	76,186	77,395	78,796	93,800
<b>Net core Crown debt (incl. NZS Fund)<sup>4</sup></b>	<b>11,605</b>	<b>16,313</b>	<b>12,535</b>	<b>14,187</b>	<b>12,728</b>	<b>7,404</b>	<b>(297)</b>
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets <sup>5</sup>	35,861	35,486	37,830	41,022	45,337	50,593	56,530
<b>Net core Crown debt (excl. NZS Fund)</b>	<b>47,466</b>	<b>51,799</b>	<b>50,365</b>	<b>55,209</b>	<b>58,065</b>	<b>57,997</b>	<b>56,233</b>
Add back core Crown advances	12,014	12,312	11,749	11,618	11,339	11,033	10,530
<b>Net core Crown debt (excl. NZS Fund and advances)<sup>6</sup></b>	<b>59,480</b>	<b>64,111</b>	<b>62,114</b>	<b>66,827</b>	<b>69,404</b>	<b>69,030</b>	<b>66,763</b>
<b>Gross Debt:</b>							
Gross sovereign-issued debt <sup>2</sup>	92,620	90,657	91,343	90,373	90,123	86,200	93,503
Less Reserve Bank settlement cash and Reserve Bank bills	(7,079)	(8,179)	(8,419)	(8,419)	(8,419)	(8,419)	(8,419)
Add back changes to NZDMO borrowing owing to settlement cash <sup>7</sup>	1,600	1,600	1,600	1,600	1,600	1,600	1,600
<b>Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills<sup>4</sup></b>	<b>87,141</b>	<b>84,078</b>	<b>84,524</b>	<b>83,554</b>	<b>83,304</b>	<b>79,381</b>	<b>86,684</b>

### Notes on borrowings

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

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

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

## Statement of Actual Commitments

	As at 31 Oct 2017 \$m	As at 30 June 2017 \$m
<b>Capital Commitments</b>		
State highways	6,963	6,130
Specialist military equipment	451	366
Land and buildings	3,141	2,735
Other property, plant and equipment	2,127	2,108
Other capital commitments	237	227
Tertiary education institutions	673	673
<b>Total capital commitments</b>	<b>13,592</b>	<b>12,239</b>
<b>Operating Commitments</b>		
Non-cancellable accommodation leases	3,287	3,398
Other non-cancellable leases	2,467	2,468
Tertiary education institutions	499	499
<b>Total operating commitments</b>	<b>6,253</b>	<b>6,365</b>
<b>Total commitments</b>	<b>19,845</b>	<b>18,604</b>
<b>Total Commitments by Segment</b>		
Core Crown	7,270	5,945
Crown entities	8,881	9,032
State-owned Enterprises	4,494	4,492
Inter-segment eliminations	(800)	(865)
<b>Total commitments</b>	<b>19,845</b>	<b>18,604</b>

## Statement of Actual Contingent Liabilities and Assets

	As at 31 Oct 2017 \$m	As at 30 June 2017 \$m
<b>Quantifiable Contingent Liabilities</b>		
Uncalled capital	8,229	7,638
Guarantees and indemnities	220	690
Legal proceedings and disputes	325	333
Other contingent liabilities	334	327
<b>Total quantifiable contingent liabilities</b>	<b>9,108</b>	<b>8,988</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>		
Core Crown	8,934	8,769
Crown entities	20	16
State-owned Enterprises	154	203
Inter-segment eliminations	-	-
<b>Total quantifiable contingent liabilities</b>	<b>9,108</b>	<b>8,988</b>
<b>Quantifiable Contingent Assets by Segment</b>		
Core Crown	57	58
Crown entities	6	4
State-owned Enterprises	40	40
<b>Total quantifiable contingent assets</b>	<b>103</b>	<b>102</b>

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

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

## Notes to the Forecast Financial Statements

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>NOTE 1: Sovereign Revenue (Accrual)</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
Source deductions	28,641	29,498	30,085	31,904	33,745	35,677	37,687
Other persons	6,382	6,497	6,581	6,869	7,085	7,403	7,787
Refunds	(1,638)	(1,686)	(1,744)	(1,746)	(1,729)	(1,721)	(1,743)
Fringe benefit tax	525	554	554	571	598	625	653
<b>Total individuals</b>	<b>33,910</b>	<b>34,863</b>	<b>35,476</b>	<b>37,598</b>	<b>39,699</b>	<b>41,984</b>	<b>44,384</b>
<b>Corporate Tax</b>							
Gross companies tax	12,228	12,110	12,301	13,159	14,020	14,734	15,462
Refunds	(188)	(206)	(199)	(211)	(224)	(236)	(230)
Non-resident withholding tax	599	589	581	633	734	818	858
Foreign-source dividend w/holding payments	(10)	-	-	-	-	-	-
<b>Total corporate tax</b>	<b>12,629</b>	<b>12,493</b>	<b>12,683</b>	<b>13,581</b>	<b>14,530</b>	<b>15,316</b>	<b>16,090</b>
<b>Other Direct Income Tax</b>							
Resident w/holding tax on interest income	1,472	1,519	1,512	1,725	2,183	2,768	3,257
Resident w/holding tax on dividend income	743	685	740	785	832	873	907
<b>Total other direct income tax</b>	<b>2,215</b>	<b>2,204</b>	<b>2,252</b>	<b>2,510</b>	<b>3,015</b>	<b>3,641</b>	<b>4,164</b>
<b>Total direct income tax</b>	<b>48,754</b>	<b>49,560</b>	<b>50,411</b>	<b>53,689</b>	<b>57,244</b>	<b>60,941</b>	<b>64,638</b>
<b>Goods and Services Tax</b>							
Gross goods and services tax	31,259	32,354	32,879	34,384	36,244	38,138	39,847
Refunds	(11,751)	(11,774)	(12,586)	(12,932)	(13,545)	(14,208)	(14,874)
<b>Total goods and services tax</b>	<b>19,508</b>	<b>20,580</b>	<b>20,293</b>	<b>21,452</b>	<b>22,699</b>	<b>23,930</b>	<b>24,973</b>
<b>Other Indirect Taxation</b>							
Road user charges	1,469	1,437	1,497	1,514	1,545	1,586	1,621
Petroleum fuels excise – domestic production	1,137	1,215	1,205	1,256	1,264	1,282	1,304
Alcohol excise – domestic production	684	712	693	733	757	781	806
Tobacco excise – domestic production	352	366	327	353	368	382	382
Petroleum fuels excise – imports <sup>1</sup>	771	685	745	710	714	724	737
Alcohol excise – imports <sup>1</sup>	301	291	326	314	325	335	345
Tobacco excise – imports <sup>1</sup>	1,325	1,349	1,308	1,374	1,432	1,487	1,488
Other customs duty	152	148	152	152	152	152	152
Gaming duties	229	231	225	229	231	234	236
Motor vehicle fees	223	235	221	206	209	212	214
Approved issuer levy and cheque duty	44	33	35	43	52	53	54
Energy resources levies	24	30	30	30	30	30	30
<b>Total other indirect taxation</b>	<b>6,711</b>	<b>6,732</b>	<b>6,764</b>	<b>6,914</b>	<b>7,079</b>	<b>7,258</b>	<b>7,369</b>
<b>Total indirect taxation</b>	<b>26,219</b>	<b>27,312</b>	<b>27,057</b>	<b>28,366</b>	<b>29,778</b>	<b>31,188</b>	<b>32,342</b>
<b>Total taxation revenue</b>	<b>74,973</b>	<b>76,872</b>	<b>77,468</b>	<b>82,055</b>	<b>87,022</b>	<b>92,129</b>	<b>96,980</b>
<b>Other Sovereign Revenue (accrual)</b>							
ACC levies	2,882	2,689	2,718	2,905	3,291	3,476	3,711
Fire Service levies	392	518	547	500	511	512	516
EQC levies	283	329	315	388	394	398	402
Child support and working for families penalties	262	261	246	247	249	251	256
Court fines	105	96	96	96	96	96	96
Other miscellaneous items	1,157	1,164	1,229	1,367	1,412	1,466	1,501
<b>Total other sovereign revenue</b>	<b>5,081</b>	<b>5,057</b>	<b>5,151</b>	<b>5,503</b>	<b>5,953</b>	<b>6,199</b>	<b>6,482</b>
<b>Total sovereign revenue</b>	<b>80,054</b>	<b>81,929</b>	<b>82,619</b>	<b>87,558</b>	<b>92,975</b>	<b>98,328</b>	<b>103,462</b>

1. Customs excise-equivalent duty.

## Notes to the Forecast Financial Statements

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>NOTE 1 (continued): Sovereign Receipts (Cash)</b>							
<b>Taxation Receipts (cash)</b>							
<b>Individuals</b>							
Source deductions	28,443	29,485	29,921	31,736	33,566	35,487	37,486
Other persons	6,683	6,868	6,832	7,230	7,424	7,719	8,118
Refunds	(2,540)	(2,526)	(2,564)	(2,609)	(2,596)	(2,595)	(2,610)
Fringe benefit tax	526	554	554	571	598	625	653
<b>Total individuals</b>	<b>33,112</b>	<b>34,381</b>	<b>34,743</b>	<b>36,928</b>	<b>38,992</b>	<b>41,236</b>	<b>43,647</b>
<b>Corporate Tax</b>							
Gross companies tax	12,139	11,989	12,239	13,410	14,332	15,090	15,758
Refunds	(586)	(676)	(607)	(630)	(671)	(712)	(732)
Non-resident withholding tax	583	589	580	633	734	818	858
Foreign-source dividend w/holding payments	3	-	-	-	-	-	-
<b>Total corporate tax</b>	<b>12,139</b>	<b>11,902</b>	<b>12,212</b>	<b>13,413</b>	<b>14,395</b>	<b>15,196</b>	<b>15,884</b>
<b>Other Direct Income Tax</b>							
Resident w/holding tax on interest income	1,446	1,519	1,512	1,725	2,183	2,768	3,257
Resident w/holding tax on dividend income	729	685	740	785	832	873	907
<b>Total other direct income tax</b>	<b>2,175</b>	<b>2,204</b>	<b>2,252</b>	<b>2,510</b>	<b>3,015</b>	<b>3,641</b>	<b>4,164</b>
<b>Total direct income tax</b>	<b>47,426</b>	<b>48,487</b>	<b>49,207</b>	<b>52,851</b>	<b>56,402</b>	<b>60,073</b>	<b>63,695</b>
<b>Goods and Services Tax</b>							
Gross goods and services tax	30,611	31,974	32,390	33,899	35,767	37,667	39,373
Refunds	(11,584)	(11,614)	(12,426)	(12,772)	(13,385)	(14,048)	(14,714)
<b>Total goods and services tax</b>	<b>19,027</b>	<b>20,360</b>	<b>19,964</b>	<b>21,127</b>	<b>22,382</b>	<b>23,619</b>	<b>24,659</b>
<b>Other Indirect Taxation</b>							
Road user charges	1,469	1,437	1,497	1,514	1,545	1,586	1,621
Petroleum fuels excise – domestic production	1,135	1,215	1,205	1,256	1,264	1,282	1,304
Alcohol excise – domestic production	678	712	693	733	757	781	806
Tobacco excise – domestic production	330	366	327	353	368	382	382
Customs duty	2,525	2,457	2,552	2,550	2,618	2,692	2,721
Gaming duties	228	231	225	229	231	234	236
Motor vehicle fees	217	235	221	206	209	212	214
Approved issuer levy and cheque duty	40	33	35	43	52	53	54
Energy resources levies	24	30	30	30	30	30	30
<b>Total other indirect taxation</b>	<b>6,646</b>	<b>6,716</b>	<b>6,785</b>	<b>6,914</b>	<b>7,074</b>	<b>7,252</b>	<b>7,368</b>
<b>Total indirect taxation</b>	<b>25,673</b>	<b>27,076</b>	<b>26,749</b>	<b>28,041</b>	<b>29,456</b>	<b>30,871</b>	<b>32,027</b>
<b>Total taxation receipts</b>	<b>73,099</b>	<b>75,563</b>	<b>75,956</b>	<b>80,892</b>	<b>85,858</b>	<b>90,944</b>	<b>95,722</b>
<b>Other Sovereign Receipts (cash)</b>							
ACC levies	2,820	2,679	2,729	2,754	3,277	3,405	3,662
Fire Service levies	388	486	509	459	500	498	498
EQC levies	285	355	296	387	394	398	402
Child support and working for families penalties	204	212	209	210	212	213	217
Court fines	125	119	119	119	118	118	118
Other miscellaneous items	693	633	641	658	621	625	629
<b>Total other sovereign receipts</b>	<b>4,515</b>	<b>4,484</b>	<b>4,503</b>	<b>4,587</b>	<b>5,122</b>	<b>5,257</b>	<b>5,526</b>
<b>Total sovereign receipts</b>	<b>77,614</b>	<b>80,047</b>	<b>80,459</b>	<b>85,479</b>	<b>90,980</b>	<b>96,201</b>	<b>101,248</b>

## Notes to the Forecast Financial Statements

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>NOTE 2: Investment Revenue / (Expenditure)</b>							
Interest revenue	2,727	2,807	2,767	2,751	2,810	2,891	2,923
<b>Interest Expenses</b>							
Interest on financial liabilities	4,130	4,185	4,129	4,024	4,041	4,076	3,881
Interest unwind on provisions	32	39	14	34	36	35	34
<b>Total interest expenses</b>	<b>4,162</b>	<b>4,224</b>	<b>4,143</b>	<b>4,058</b>	<b>4,077</b>	<b>4,111</b>	<b>3,915</b>
<b>Net interest revenue/(expense)</b>	<b>(1,435)</b>	<b>(1,417)</b>	<b>(1,376)</b>	<b>(1,307)</b>	<b>(1,267)</b>	<b>(1,220)</b>	<b>(992)</b>
Dividend revenue	871	917	1,004	1,125	1,220	1,297	1,411
Gains and losses on financial instruments	6,330	2,538	3,938	2,877	3,220	3,540	3,983
<b>Total investment revenue/(expenditure)</b>	<b>5,766</b>	<b>2,038</b>	<b>3,566</b>	<b>2,695</b>	<b>3,173</b>	<b>3,617</b>	<b>4,402</b>
<b>NOTE 3: Transfer Payments and Subsidies</b>							
New Zealand superannuation	13,043	13,671	13,670	14,436	15,354	16,222	17,223
Family tax credit	1,723	1,823	1,716	2,628	2,552	2,523	2,534
Jobseeker support and emergency benefit	1,697	1,663	1,680	1,663	1,595	1,564	1,580
Supported living payment	1,533	1,531	1,542	1,559	1,575	1,585	1,599
Accommodation assistance	1,127	1,218	1,208	1,493	1,487	1,484	1,499
Sole parent support	1,159	1,117	1,095	1,081	1,101	1,113	1,139
Income related rents	815	900	903	990	1,049	1,107	1,166
KiwiSaver subsidies	743	810	814	847	895	940	980
Other working for families tax credits	596	603	585	582	577	572	572
Official development assistance	520	644	647	583	586	586	586
Student allowances	465	505	513	592	583	606	626
Winter energy payment	-	-	-	443	448	455	465
Best start	-	-	-	80	231	373	451
Disability assistance	377	379	378	380	382	383	386
Other social assistance benefits	1,466	1,598	1,645	1,544	1,573	1,660	1,692
<b>Total transfer payments and subsidies</b>	<b>25,264</b>	<b>26,462</b>	<b>26,396</b>	<b>28,901</b>	<b>29,988</b>	<b>31,173</b>	<b>32,498</b>
<b>NOTE 4: Other Operating Expenses</b>							
Grants and subsidies	4,906	5,611	5,704	5,766	5,682	5,845	5,873
Rental and leasing costs	1,289	1,272	1,350	1,357	1,367	1,381	1,386
Amortisation and impairment of intangible assets	814	743	717	750	750	752	758
Impairment of financial assets	607	1,047	1,020	1,014	1,015	1,017	1,018
Cost of concessionary lending	753	801	1,141	864	905	941	934
Lottery prize payments	652	541	601	630	659	688	719
Inventory expenses	278	371	423	441	338	339	332
Other operating expenses	28,709	30,614	32,153	31,703	32,002	32,367	32,463
<b>Total other operating expenses</b>	<b>38,008</b>	<b>41,000</b>	<b>43,109</b>	<b>42,525</b>	<b>42,718</b>	<b>43,330</b>	<b>43,483</b>

## Notes to the Forecast Financial Statements

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
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### NOTE 5: Insurance

#### Insurance expense by entity

ACC	4,587	4,613	4,727	4,778	5,296	5,692	6,091
EQC	332	(28)	(115)	77	199	200	200
Southern Response	325	(49)	(63)	(25)	(12)	-	-
Other (incl. inter-segment eliminations)	174	10	42	7	8	7	8
<b>Total insurance expenses</b>	<b>5,418</b>	<b>4,546</b>	<b>4,591</b>	<b>4,837</b>	<b>5,491</b>	<b>5,899</b>	<b>6,299</b>

#### Insurance liability by entity

ACC	40,288	40,707	42,281	43,802	45,503	47,441	49,428
EQC	1,853	295	708	267	246	245	245
Southern Response	668	166	290	82	-	-	-
Other (incl. inter-segment eliminations)	(23)	51	85	35	35	35	35
<b>Total insurance liabilities</b>	<b>42,786</b>	<b>41,219</b>	<b>43,364</b>	<b>44,186</b>	<b>45,784</b>	<b>47,721</b>	<b>49,708</b>

### ACC liability

#### Calculation information

PwC NZ has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2017. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), average weekly earnings and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 September 2017. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 3.89% and allows for a long-term discount rate of 4.75% from 2054.

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

#### Presentation approach

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

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>Gross ACC Liability</b>							
Opening gross liability	39,106	39,379	40,288	42,281	43,802	45,503	47,441
Net change	1,182	1,328	1,993	1,521	1,701	1,938	1,987
Closing gross liability	<b>40,288</b>	<b>40,707</b>	<b>42,281</b>	<b>43,802</b>	<b>45,503</b>	<b>47,441</b>	<b>49,428</b>
<b>Less Net Assets Available to ACC</b>							
Opening net asset value	37,241	38,312	39,030	40,327	41,598	42,993	44,423
Net change	1,789	836	1,297	1,271	1,395	1,430	1,307
Closing net asset value	<b>39,030</b>	<b>39,148</b>	<b>40,327</b>	<b>41,598</b>	<b>42,993</b>	<b>44,423</b>	<b>45,730</b>
<b>Net ACC Reserves (Net Liability)</b>							
Opening reserves position	(1,865)	(1,067)	(1,258)	(1,954)	(2,204)	(2,510)	(3,018)
Net change	607	(492)	(696)	(250)	(306)	(508)	(680)
Closing reserves position (net liability)/net asset	<b>(1,258)</b>	<b>(1,559)</b>	<b>(1,954)</b>	<b>(2,204)</b>	<b>(2,510)</b>	<b>(3,018)</b>	<b>(3,698)</b>



## Notes to the Forecast Financial Statements

### NOTE 5: Insurance (continued)

#### EQC liability

##### Calculation information

Melville Jessup Weaver prepared an independent actuarial estimate of the EQC outstanding claims liability at 30 June 2017 by estimating the projected ultimate claims costs then deducting the payments made in relation to those claims on or before that date. Each component of the claims liability was split into separate groups depending upon the Canterbury earthquake event grouping, Kaikōura earthquake or other "business as usual" claims. These event groups were further split into sub-claim valuation groups being land claims, building claims or contents claims. The assumptions underpinning the 30 June 2017 valuation form the basis of the five-year forecast of the outstanding claims liability.

There is a high level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. Some of the key uncertainties are: the potential outcome of complex land litigation and the financial impact of confirming final liabilities with insurance and reinsurers.

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

##### Presentation approach

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

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>EQC Liability</b>							
Opening gross liability	2,485	1,644	1,853	708	267	246	245
Net change	(632)	(1,349)	(1,145)	(441)	(21)	(1)	-
Closing gross liability	<b>1,853</b>	<b>295</b>	<b>708</b>	<b>267</b>	<b>246</b>	<b>245</b>	<b>245</b>
<b>Less Reinsurance Receivable</b>							
Opening reinsurance receivable	515	185	193	63	1	-	-
Net change	(322)	(175)	(130)	(62)	(1)	-	-
Closing reinsurance receivable	<b>193</b>	<b>10</b>	<b>63</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net EQC Liability</b>							
Opening net position	(1,970)	(1,459)	(1,660)	(645)	(266)	(246)	(245)
Net change	310	1,174	1,015	379	20	1	-
Closing net position (net liability)	<b>(1,660)</b>	<b>(285)</b>	<b>(645)</b>	<b>(266)</b>	<b>(246)</b>	<b>(245)</b>	<b>(245)</b>

## Notes to the Forecast Financial Statements

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

	2018	2019	2020	2021	2022
	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>Forecast New Operating Spending</b>					
Unallocated contingencies	179	250	216	260	248
Forecast new spending for Budget 2018	-	2,471	2,405	2,329	2,211
Forecast new spending for Budget 2019	-	-	1,875	1,875	1,875
Forecast new spending for Budget 2020	-	-	-	1,875	1,875
Forecast new spending for Budget 2021	-	-	-	-	1,875
<b>Total forecast new operating spending</b>	<b>179</b>	<b>2,721</b>	<b>4,496</b>	<b>6,339</b>	<b>8,084</b>
<b>Operating top-down adjustment</b>	<b>(1,365)</b>	<b>(750)</b>	<b>(575)</b>	<b>(575)</b>	<b>(575)</b>

Unallocated contingencies represent expenses included in Budget 2017 and previous Budgets that have yet to be allocated to departments. Forecast new spending indicates the expected spending increases from future Budgets.

The forecast for new operating spending for Budget 2018 is \$2.6 billion. Some of this allowance has been pre-committed as at the forecast finalisation date of 27 November 2017, with only the unallocated portion of the allowance included in this note.

	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m	Post-2022 Forecast \$m	Total Forecast \$m
<b>Forecast New Capital Spending (annual)</b>							
Unallocated contingencies	204	765	465	245	20	-	1,699
Forecast new spending for Budget 2018	100	1,100	800	500	200	-	2,700
Forecast new spending for Budget 2019	-	100	1,100	800	500	200	2,700
Forecast new spending for Budget 2020	-	-	100	1,100	800	700	2,700
Forecast new spending for Budget 2021	-	-	-	100	1,100	1,500	2,700
Forecast new spending for Budget 2022	-	-	-	-	100	2,600	2,700
<b>Total forecast new capital spending</b>	<b>304</b>	<b>1,965</b>	<b>2,465</b>	<b>2,745</b>	<b>2,720</b>	<b>5,000</b>	<b>15,199</b>
<b>Forecast new capital spending (cumulative)</b>	<b>304</b>	<b>2,269</b>	<b>4,734</b>	<b>7,479</b>	<b>10,199</b>		
<b>Capital top-down adjustment (cumulative)</b>	<b>(1,100)</b>	<b>(1,550)</b>	<b>(1,800)</b>	<b>(1,900)</b>	<b>(1,950)</b>		

Unallocated contingencies represent capital spending from Budget 2017 and previous Budgets that has yet to be allocated to departments. Forecast new spending indicates the expected capital spending increases from future Budgets.

The forecast for new capital spending for Budget 2018 is \$3.4 billion. Some of the allowance has been pre-committed as at the forecast finalisation date of 27 November 2017, with only the unallocated portion of the allowance included in this note.

## Notes to the Forecast Financial Statements

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m

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

#### By type

Actuarial gains/(losses) on ACC outstanding claims	387	-	(454)	-	-	-	-
Actuarial gains/(losses) on GSF liability	964	-	29	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	73	-	(209)	-	-	-	-
Other	(103)	(88)	(100)	(98)	(27)	(44)	(30)
<b>Net gains/(losses) on non-financial instruments</b>	<b>1,321</b>	<b>(88)</b>	<b>(734)</b>	<b>(98)</b>	<b>(27)</b>	<b>(44)</b>	<b>(30)</b>

### NOTE 8: Financial Assets (including receivables)

Cash and cash equivalents	18,732	15,984	15,512	15,214	15,654	16,255	16,483
Tax receivables	10,313	10,098	11,045	11,470	11,900	12,348	12,838
Trade and other receivables	8,216	7,354	7,855	8,406	8,688	9,640	9,382
Student loans (refer note 9)	9,197	9,210	9,030	8,746	8,344	7,900	7,386
Kiwibank mortgages	17,795	18,902	18,902	20,002	21,102	22,202	23,302
Long-term deposits	4,730	3,257	4,241	4,258	4,246	4,182	4,125
IMF financial assets	1,837	1,806	1,880	1,880	1,880	1,880	1,880
Other advances	1,591	1,693	1,479	1,680	1,834	1,913	2,047
Share investments	30,700	30,140	34,512	36,492	38,749	42,838	47,138
Derivatives in gain	4,381	4,313	3,294	2,805	2,680	2,379	2,407
Other marketable securities	39,558	36,138	37,799	34,619	34,661	33,350	45,200
<b>Total financial assets (including receivables)</b>	<b>147,050</b>	<b>138,895</b>	<b>145,549</b>	<b>145,572</b>	<b>149,738</b>	<b>154,887</b>	<b>172,188</b>

#### Financial Assets by Entity

NZDMO	22,554	14,701	15,813	10,165	7,036	3,217	13,180
Reserve Bank of New Zealand	18,985	19,755	19,525	19,880	20,102	20,310	20,541
NZS Fund	37,345	36,557	38,847	42,060	46,412	52,312	57,731
Other core Crown	25,600	24,451	27,449	27,197	27,807	28,024	28,385
Intra-segment eliminations	(9,643)	(8,096)	(8,861)	(8,614)	(8,913)	(8,878)	(9,800)
<b>Total core Crown segment</b>	<b>94,841</b>	<b>87,368</b>	<b>92,773</b>	<b>90,688</b>	<b>92,444</b>	<b>94,985</b>	<b>110,037</b>
ACC portfolio	39,514	40,072	41,116	42,228	43,616	45,054	46,366
EQC portfolio	1,089	-	257	169	278	414	556
Other Crown entities	10,597	9,366	9,996	9,421	9,362	9,314	9,091
Intra-segment eliminations	(3,025)	(2,561)	(2,522)	(2,079)	(1,942)	(1,828)	(1,758)
<b>Total Crown entities segment</b>	<b>48,175</b>	<b>46,877</b>	<b>48,847</b>	<b>49,739</b>	<b>51,314</b>	<b>52,954</b>	<b>54,255</b>
<b>Total state-owned enterprises segment</b>	<b>24,876</b>	<b>25,964</b>	<b>25,644</b>	<b>27,021</b>	<b>28,372</b>	<b>29,811</b>	<b>31,104</b>
Inter-segment eliminations	(20,842)	(21,314)	(21,715)	(21,876)	(22,392)	(22,863)	(23,208)
<b>Total financial assets (including receivables)</b>	<b>147,050</b>	<b>138,895</b>	<b>145,549</b>	<b>145,572</b>	<b>149,738</b>	<b>154,887</b>	<b>172,188</b>

## Notes to the Forecast Financial Statements

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 9: Student Loans</b>							
Nominal value (including accrued interest)	15,735	15,963	15,798	16,005	16,186	16,390	16,507
Opening book value	8,982	9,178	9,197	9,030	8,746	8,344	7,900
Net new lending (excluding fees)	1,475	1,533	1,342	1,393	1,456	1,539	1,610
New lending - establishment fee	10	10	10	10	10	10	10
Less initial write-down to fair value	(662)	(676)	(667)	(731)	(816)	(836)	(860)
Repayments made during the year	(1,272)	(1,336)	(1,346)	(1,447)	(1,538)	(1,633)	(1,734)
Interest unwind	602	601	594	591	586	576	560
Impairment	62	(100)	(100)	(100)	(100)	(100)	(100)
Other movements	-	-	-	-	-	-	-
<b>Closing book value</b>	<b>9,197</b>	<b>9,210</b>	<b>9,030</b>	<b>8,746</b>	<b>8,344</b>	<b>7,900</b>	<b>7,386</b>
<b>NOTE 10: Property, Plant and Equipment</b>							
<b>Net Carrying Value<sup>1</sup></b>							
<b>By class of asset</b>							
Land	49,640	45,330	49,974	50,458	50,831	50,504	50,750
Buildings	34,655	33,771	36,184	37,769	38,565	38,660	39,013
State highways	23,829	26,056	25,912	27,808	29,616	30,774	32,255
Electricity generation assets	15,866	15,232	15,625	15,387	15,132	14,898	14,724
Electricity distribution network (cost)	4,080	4,226	3,986	3,936	3,822	3,699	3,577
Aircraft (excluding military)	4,112	5,092	4,539	4,964	5,105	5,127	5,194
Specialist military equipment	3,119	3,357	3,296	3,685	3,731	3,515	3,343
Specified cultural and heritage assets	3,097	3,033	3,109	3,110	3,121	3,137	3,155
Rail network	939	1,136	1,128	1,293	1,423	1,598	1,780
Other plant and equipment (cost)	5,213	5,344	5,570	5,890	6,281	6,726	6,487
<b>Total property, plant and equipment</b>	<b>144,550</b>	<b>142,577</b>	<b>149,323</b>	<b>154,300</b>	<b>157,627</b>	<b>158,638</b>	<b>160,278</b>
<b>Land breakdown by usage</b>							
Housing	17,845	15,751	17,960	18,077	18,165	18,243	18,311
State highway corridor land	10,892	9,782	10,868	10,842	10,792	10,742	10,692
Conservation land	5,718	5,700	5,724	5,734	5,745	5,755	5,766
Rail network	3,520	3,311	3,487	3,472	3,457	3,454	3,452
Schools	5,683	4,833	5,713	5,756	5,799	5,848	5,892
Commercial (SOEs) excluding Rail	1,237	1,259	1,208	1,273	1,280	1,312	1,379
Other	4,745	4,694	5,014	5,304	5,593	5,150	5,258
<b>Total land</b>	<b>49,640</b>	<b>45,330</b>	<b>49,974</b>	<b>50,458</b>	<b>50,831</b>	<b>50,504</b>	<b>50,750</b>

1. Using a revaluation methodology unless otherwise stated.

## Notes to the Forecast Financial Statements

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m

### NOTE 10: Property, Plant and Equipment (continued)

#### Schedule of Movements

##### Cost or Valuation

Opening balance	149,806	156,678	160,631	168,998	178,573	186,637	192,337
Additions <sup>2</sup>	7,781	9,573	10,105	10,390	8,981	7,073	6,955
Disposals	(1,533)	(594)	(1,628)	(700)	(879)	(1,325)	(589)
Net revaluations	5,260	-	14	-	-	-	-
Other <sup>1</sup>	(683)	(178)	(124)	(115)	(38)	(48)	1
<b>Total cost or valuation</b>	<b>160,631</b>	<b>165,479</b>	<b>168,998</b>	<b>178,573</b>	<b>186,637</b>	<b>192,337</b>	<b>198,704</b>

##### Accumulated Depreciation and Impairment

Opening balance	15,307	18,506	16,081	19,675	24,273	29,010	33,699
Eliminated on disposal	(859)	(128)	(939)	(112)	(104)	(152)	(144)
Eliminated on revaluation	(2,504)	(46)	(4)	-	-	-	-
Impairment losses charged to operating balance	325	-	-	-	-	-	-
Depreciation expense	4,073	4,563	4,568	4,714	4,844	4,862	4,874
Other <sup>1</sup>	(261)	7	(31)	(4)	(3)	(21)	(3)
<b>Total accumulated depreciation and impairment</b>	<b>16,081</b>	<b>22,902</b>	<b>19,675</b>	<b>24,273</b>	<b>29,010</b>	<b>33,699</b>	<b>38,426</b>

##### Total property, plant and equipment

<b>144,550</b>	<b>142,577</b>	<b>149,323</b>	<b>154,300</b>	<b>157,627</b>	<b>158,638</b>	<b>160,278</b>
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1. Other mainly includes transfers to/from other asset categories.
2. These additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).

### NOTE 11: NZ Superannuation Fund

Revenue	833	858	929	1,044	1,152	1,253	1,407
Less current tax expense	1,139	708	707	807	890	968	1,089
Less other expenses	227	184	225	187	199	214	227
Add gains/(losses)	5,512	2,280	3,088	2,515	2,764	2,996	3,356
<b>Operating balance</b>	<b>4,979</b>	<b>2,246</b>	<b>3,085</b>	<b>2,565</b>	<b>2,827</b>	<b>3,067</b>	<b>3,447</b>

Opening net worth	29,527	33,090	34,506	38,141	41,730	46,086	51,387
Gross contribution from the Crown	-	-	500	1,000	1,500	2,200	2,500
Operating balance	4,979	2,246	3,085	2,565	2,827	3,067	3,447
Other movements in reserves	-	29	50	24	29	34	39
<b>Closing net worth</b>	<b>34,506</b>	<b>35,365</b>	<b>38,141</b>	<b>41,730</b>	<b>46,086</b>	<b>51,387</b>	<b>57,373</b>

#### Comprising:

Financial assets	37,345	36,557	38,847	42,060	46,412	52,312	57,731
Financial liabilities	(4,656)	(2,970)	(2,525)	(2,256)	(2,315)	(2,980)	(2,484)
Net other assets	1,817	1,778	1,819	1,926	1,989	2,055	2,126
<b>Closing net worth</b>	<b>34,506</b>	<b>35,365</b>	<b>38,141</b>	<b>41,730</b>	<b>46,086</b>	<b>51,387</b>	<b>57,373</b>

### NOTE 12: Payables

Accounts payable	10,517	7,905	7,996	8,066	7,976	8,767	8,464
Taxes repayable	4,277	4,574	4,310	4,321	4,347	4,369	4,388
<b>Total payables</b>	<b>14,794</b>	<b>12,479</b>	<b>12,306</b>	<b>12,387</b>	<b>12,323</b>	<b>13,136</b>	<b>12,852</b>

## Notes to the Forecast Financial Statements

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>NOTE 13: Retirement Plan Liabilities</b>							
Government Superannuation Fund	11,004	9,916	10,386	9,823	9,284	8,775	8,287
Other funds	2	1	2	2	3	2	2
<b>Total retirement plan liabilities</b>	<b>11,006</b>	<b>9,917</b>	<b>10,388</b>	<b>9,825</b>	<b>9,287</b>	<b>8,777</b>	<b>8,289</b>

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 2017. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 30 September 2017, based on membership data as at 30 June 2017 with adjustments for cash flows to 30 September 2017. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date.

For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 September 2017.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 1.67% for the 20 years to 30 June 2037, then increasing gradually each year to 2.0% in the year ended 30 June 2048 and remaining at 2.0% p.a. for all years after that. In addition an annual salary growth rate, before any promotional effects, of 2.5% (2.5% at 30 June 2017).

The 2017/18 projected decrease in the net GSF liability is \$618 million, reflecting a decrease in the GSF liability of \$484 million and an increase in the GSF net assets of \$134 million.

The decrease in the GSF liability of \$484 million includes an actuarial loss between 1 July 2017 and 30 September 2017, of \$68 million, owing to movements in the discount rates. The remaining \$416 million reduction is owing to the current service cost and interest unwind (increases the liability) offset by benefits to members (reducing the liability) which were slightly lower than expected.

The increase in the value of the net assets of GSF of \$134 million includes a gain of \$97 million reflecting the updated market value of assets at 30 September 2017. The balance of \$37 million is the total of the expected investment returns and contributions received, offset by the benefits paid to members.

The changes in the projected net GSF liability from 2017/18 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>GSF Liability</b>							
Opening GSF liability	16,406	14,562	15,272	14,788	14,232	13,698	13,189
Net projected change	(1,134)	(526)	(484)	(556)	(534)	(509)	(490)
Closing GSF liability	<b>15,272</b>	<b>14,036</b>	<b>14,788</b>	<b>14,232</b>	<b>13,698</b>	<b>13,189</b>	<b>12,699</b>
<b>Less Net Assets Available to GSF</b>							
Opening net asset value	3,965	4,098	4,268	4,402	4,409	4,414	4,414
Investment valuation changes	483	200	306	215	215	215	215
Contribution and other income less pension payments	(180)	(178)	(172)	(208)	(210)	(215)	(217)
Closing net asset value	<b>4,268</b>	<b>4,120</b>	<b>4,402</b>	<b>4,409</b>	<b>4,414</b>	<b>4,414</b>	<b>4,412</b>
<b>Net GSF Liability</b>							
Opening unfunded liability	12,441	10,464	11,004	10,386	9,823	9,284	8,775
Net projected change	(1,437)	(548)	(618)	(563)	(539)	(509)	(488)
Closing unfunded liability	<b>11,004</b>	<b>9,916</b>	<b>10,386</b>	<b>9,823</b>	<b>9,284</b>	<b>8,775</b>	<b>8,287</b>

## Notes to the Forecast Financial Statements

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m

### NOTE 14: Provisions

Provision for employee entitlements	3,582	3,551	3,527	3,512	3,505	3,597	3,579
Provision for ETS credits	2,028	2,023	2,366	2,129	1,833	1,488	1,113
Provision for National Provident Fund guarantee	856	816	806	751	700	650	601
Other provisions	2,075	1,811	2,005	1,936	1,854	1,764	1,778
<b>Total provisions</b>	<b>8,541</b>	<b>8,201</b>	<b>8,704</b>	<b>8,328</b>	<b>7,892</b>	<b>7,499</b>	<b>7,071</b>

### Provision for ETS credits

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

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

The prices for NZUs used to calculate the ETS provision are assumed to remain constant over the forecast period and are based on market prices during the last week of October 2017.

The ETS impact on the fiscal forecast is as follows:

	2017	2018	2018	2019	2020	2021	2022
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	444	529	578	706	787	838	868
Expenses	(295)	(470)	(707)	(469)	(491)	(493)	(493)
Gains/(losses)	73	-	(209)	-	-	-	-
<b>Operating balance</b>	<b>222</b>	<b>59</b>	<b>(338)</b>	<b>237</b>	<b>296</b>	<b>345</b>	<b>375</b>

### NOTE 15: Changes in Net Worth

Taxpayers' funds	26,456	29,141	32,784	38,802	47,676	58,225	71,507
Property, plant and equipment revaluation reserve	84,164	76,526	83,864	83,781	83,443	83,291	83,192
Investment revaluation reserve	85	97	94	98	103	109	114
Intangible asset reserve	2	8	2	2	2	2	2
Cash flow hedge reserve	(106)	(129)	(125)	(120)	(118)	(118)	(117)
Foreign currency translation reserve	(69)	(77)	(51)	(51)	(51)	(51)	(51)
Net worth attributable to minority interests	5,940	5,876	5,880	5,815	5,749	5,655	5,607
<b>Total net worth</b>	<b>116,472</b>	<b>111,442</b>	<b>122,448</b>	<b>128,327</b>	<b>136,804</b>	<b>147,113</b>	<b>160,254</b>

### Taxpayers' funds

Opening taxpayers' funds	13,932	23,527	26,456	32,784	38,802	47,676	58,225
Operating balance excluding minority interest	12,317	5,496	5,916	5,839	8,451	10,297	13,049
Transfers from/(to) other reserves	207	119	331	199	434	244	244
Other movements	-	(1)	81	(20)	(11)	8	(11)
<b>Closing taxpayers' funds</b>	<b>26,456</b>	<b>29,141</b>	<b>32,784</b>	<b>38,802</b>	<b>47,676</b>	<b>58,225</b>	<b>71,507</b>

### Property, Plant and Equipment Revaluation Reserve

Opening revaluation reserve	75,626	76,627	84,164	83,864	83,781	83,443	83,291
Net revaluations	8,745	-	31	-	-	-	-
Transfers from/(to) other reserves	(207)	(101)	(331)	(83)	(338)	(152)	(99)
<b>Closing property, plant and equipment revaluation reserve</b>	<b>84,164</b>	<b>76,526</b>	<b>83,864</b>	<b>83,781</b>	<b>83,443</b>	<b>83,291</b>	<b>83,192</b>

## Notes to the Forecast Financial Statements

	2017 Actual \$m	2018 Previous Budget \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m
<b>NOTE 16: Core Crown Residual Cash</b>							
<b>Core Crown Cash Flows from Operations</b>							
Tax receipts	74,729	77,133	77,419	82,571	87,475	92,759	97,618
Other sovereign receipts	955	892	892	907	872	877	887
Interest, profits and dividends	1,770	1,382	1,447	1,376	1,424	1,479	1,502
Sale of goods and services and other receipts	2,258	2,555	2,411	2,228	2,241	2,216	2,232
Transfer payments and subsidies	(25,293)	(26,512)	(26,294)	(28,870)	(29,993)	(31,193)	(32,494)
Personnel and operating costs	(44,581)	(48,424)	(49,563)	(48,641)	(48,350)	(48,268)	(48,121)
Interest payments	(3,530)	(3,507)	(3,498)	(3,343)	(3,274)	(3,361)	(3,012)
Forecast for future new operating spending	-	(293)	(179)	(2,721)	(4,496)	(6,339)	(8,084)
Top-down expense adjustment	-	1,000	1,365	750	575	575	575
<b>Net core Crown operating cash flows</b>	<b>6,308</b>	<b>4,226</b>	<b>4,000</b>	<b>4,257</b>	<b>6,474</b>	<b>8,745</b>	<b>11,103</b>
<b>Core Crown Capital Cash Flows</b>							
Net purchase of physical assets	(2,153)	(3,196)	(3,748)	(3,591)	(2,917)	(1,677)	(1,855)
Net increase in advances	111	(325)	(205)	(93)	(31)	(33)	118
Net purchase of investments	(1,692)	(2,888)	(2,990)	(2,715)	(2,363)	(1,845)	(1,849)
Contribution to NZS Fund	-	-	(500)	(1,000)	(1,500)	(2,200)	(2,500)
Forecast for future new capital spending	-	(446)	(304)	(1,965)	(2,465)	(2,745)	(2,720)
Top-down capital adjustment	-	840	1,100	450	250	100	50
<b>Net core Crown capital cash flows</b>	<b>(3,734)</b>	<b>(6,015)</b>	<b>(6,647)</b>	<b>(8,914)</b>	<b>(9,026)</b>	<b>(8,400)</b>	<b>(8,756)</b>
<b>Residual cash (deficit)/surplus</b>	<b>2,574</b>	<b>(1,789)</b>	<b>(2,647)</b>	<b>(4,657)</b>	<b>(2,552)</b>	<b>345</b>	<b>2,347</b>
<i>The residual cash (deficit)/surplus is funded or invested as follows:</i>							
<b>Debt Programme Cash Flows</b>							
Market:							
Issue of government bonds	7,847	6,874	6,992	6,993	6,977	7,109	7,084
Repayment of government bonds	(6,080)	(11,602)	(9,166)	(7,886)	(7,290)	(11,059)	-
Net issue/(repayment) of short-term borrowing <sup>1</sup>	160	200	-	-	-	-	-
<b>Total market debt cash flows</b>	<b>1,927</b>	<b>(4,528)</b>	<b>(2,174)</b>	<b>(893)</b>	<b>(313)</b>	<b>(3,950)</b>	<b>7,084</b>
Non-market:							
Repayment of government bonds	(830)	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	-	-	(100)	-	-	-	-
<b>Total non-market debt cash flows</b>	<b>(830)</b>	<b>-</b>	<b>(100)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total debt programme cash flows</b>	<b>1,097</b>	<b>(4,528)</b>	<b>(2,274)</b>	<b>(893)</b>	<b>(313)</b>	<b>(3,950)</b>	<b>7,084</b>
<b>Other Borrowing Cash Flows</b>							
Net (repayment)/issue of other New Zealand dollar borrowing	(2,352)	1,034	6,801	(342)	(18)	(25)	(27)
Net (repayment)/issue of foreign currency borrowing	2,425	(971)	(5,568)	329	6	-	-
<b>Total other borrowing cash flows</b>	<b>73</b>	<b>63</b>	<b>1,233</b>	<b>(13)</b>	<b>(12)</b>	<b>(25)</b>	<b>(27)</b>
<b>Investing Cash Flows</b>							
Net sale/(purchase) of marketable securities and deposits	(195)	6,087	1,606	5,381	2,688	3,436	(9,603)
Issues of circulating currency	265	170	105	183	188	194	199
Decrease/(increase) in cash	(3,814)	(3)	1,977	(1)	1	-	-
<b>Total investing cash flows</b>	<b>(3,744)</b>	<b>6,254</b>	<b>3,688</b>	<b>5,563</b>	<b>2,877</b>	<b>3,630</b>	<b>(9,404)</b>
<b>Residual cash deficit/(surplus) funding/(investing)</b>	<b>(2,574)</b>	<b>1,789</b>	<b>2,647</b>	<b>4,657</b>	<b>2,552</b>	<b>(345)</b>	<b>(2,347)</b>

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



## Notes to the Forecast Financial Statements

### NOTE 17: Net earthquake expenses (operating and capital)

These net earthquake costs are the latest estimates of the net impact on the Crown of the Canterbury earthquakes. These estimates reflect the known costs under current policy settings. They do not include future decisions the Government may take regarding the rebuild.

The forecasts assume that any additional costs to the Crown will be met within budget allowances.

As time elapses the ability to directly attribute costs to the original events in 2010 and 2011 becomes more difficult. To ensure unrelated expenditure is not included, estimated costs associated with the Canterbury earthquakes are limited to the reassessment of insurance claims by EQC and Southern Response, and the construction of large capital projects (eg, anchor projects being managed by Ōtākaro Limited).

Amounts recognised in the statement of financial performance (operating expenses) as well as capital expenditure in respect of the Canterbury earthquakes are:

	To date	2018	2019	2020	2021	2022	Total Half Year Update	Total Pre-election Update
	Actual \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	\$m	\$m
EQC insurance claims	7,026	(223)	(108)	(41)	-	-	6,654	7,119
Southern Response support package	1,420	(47)	(16)	(7)	-	-	1,350	1,441
Christchurch central city rebuild	1,030	251	238	247	42	31	1,839	1,939
Crown assets	1,223	484	268	189	130	104	2,398	2,423
Other earthquake costs	4,361	350	101	61	19	17	4,909	5,196
<b>Total Crown net earthquake costs</b>	<b>15,060</b>	<b>815</b>	<b>484</b>	<b>448</b>	<b>191</b>	<b>152</b>	<b>17,150</b>	<b>18,118</b>
<b>Operating and capital expenses</b>								
Operating expenses	12,431	63	(90)	22	76	47	12,549	13,254
Capital expenditure	2,629	752	574	427	115	105	4,600	4,864
<b>Total Crown net earthquake costs</b>	<b>15,060</b>	<b>815</b>	<b>484</b>	<b>448</b>	<b>191</b>	<b>152</b>	<b>17,150</b>	<b>18,118</b>

The negative "costs" in relation to EQC and Southern Response insurance claims represents a re-estimation of their respective outstanding claims liability, resulting in a reduction in the overall costs of the Canterbury earthquakes.

## Forecast Statement of Segments

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2017	2017	2017	2017	2017
	Actual	Actual	Actual	Actual	Actual
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2017</b>					
<b>Revenue</b>					
Taxation revenue	75,644	-	-	(671)	74,973
Other sovereign revenue	1,458	4,919	-	(1,296)	5,081
Revenue from core Crown funding	-	27,252	106	(27,358)	-
Sales of goods and services	1,607	2,194	13,675	(605)	16,871
Interest revenue	1,119	998	918	(308)	2,727
Other revenue	1,954	2,980	772	(1,131)	4,575
<b>Total revenue (excluding gains)</b>	<b>81,782</b>	<b>38,343</b>	<b>15,471</b>	<b>(31,369)</b>	<b>104,227</b>
<b>Expenses</b>					
Social assistance and official development assistance	25,264	-	-	-	25,264
Personnel expenses	6,890	12,878	2,869	(38)	22,599
Other operating expenses	40,643	21,180	10,706	(30,160)	42,369
Interest expenses	3,534	158	1,060	(590)	4,162
Insurance expenses	8	5,248	8	154	5,418
Forecast for future new spending and top-down adjustment	-	-	-	-	-
<b>Total expenses (excluding losses)</b>	<b>76,339</b>	<b>39,464</b>	<b>14,643</b>	<b>(30,634)</b>	<b>99,812</b>
Minority interest share of operating balance before gains/(losses)	-	10	(347)	(9)	(346)
<b>Operating balance before gains/(losses)</b>	<b>5,443</b>	<b>(1,111)</b>	<b>481</b>	<b>(744)</b>	<b>4,069</b>
Total gains/(losses)	6,314	1,291	93	(20)	7,678
Net surplus/(deficit) from associates and joint ventures	307	239	31	(7)	570
<b>Operating balance</b>	<b>12,064</b>	<b>419</b>	<b>605</b>	<b>(771)</b>	<b>12,317</b>
<b>Expenses by functional classification</b>					
Social security and welfare	25,294	5,852	-	(547)	30,599
Health	16,223	13,955	-	(14,533)	15,645
Education	13,281	10,432	-	(9,601)	14,112
Transport and communications	2,176	2,625	6,962	(2,403)	9,360
Other	15,831	6,442	6,621	(2,960)	25,934
Finance costs	3,534	158	1,060	(590)	4,162
Forecast for future new spending and top-down adjustment	-	-	-	-	-
<b>Total expenses (excluding losses)</b>	<b>76,339</b>	<b>39,464</b>	<b>14,643</b>	<b>(30,634)</b>	<b>99,812</b>
<b>Statement of Financial Position as at 30 June 2017</b>					
<b>Assets</b>					
Cash and cash equivalents	15,757	2,447	991	(463)	18,732
Receivables	13,860	5,409	1,892	(2,632)	18,529
Other financial assets	65,224	40,319	21,993	(17,747)	109,789
Property, plant and equipment	39,221	72,599	32,730	-	144,550
Equity accounted investments	43,001	12,143	219	(41,153)	14,210
Intangible assets and goodwill	1,478	572	1,523	(20)	3,553
Inventory and other assets	1,835	1,298	1,207	(94)	4,246
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
<b>Total assets</b>	<b>180,376</b>	<b>134,787</b>	<b>60,555</b>	<b>(62,109)</b>	<b>313,609</b>
<b>Liabilities</b>					
Borrowings	93,730	4,082	30,222	(16,228)	111,806
Other liabilities	34,898	50,804	8,326	(8,697)	85,331
<b>Total liabilities</b>	<b>128,628</b>	<b>54,886</b>	<b>38,548</b>	<b>(24,925)</b>	<b>197,137</b>
<b>Total assets less total liabilities</b>	<b>51,748</b>	<b>79,901</b>	<b>22,007</b>	<b>(37,184)</b>	<b>116,472</b>
<b>Net worth</b>					
Taxpayers' funds	28,084	35,740	4,302	(41,670)	26,456
Reserves	23,664	44,140	11,454	4,818	84,076
Net worth attributable to minority interest	-	21	6,251	(332)	5,940
<b>Total net worth</b>	<b>51,748</b>	<b>79,901</b>	<b>22,007</b>	<b>(37,184)</b>	<b>116,472</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2018	2018	2018	2018	2018
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2018</b>					
<b>Revenue</b>					
Taxation revenue	78,172	-	-	(704)	77,468
Other sovereign revenue	1,509	5,064	-	(1,422)	5,151
Revenue from core Crown funding	-	28,912	133	(29,045)	-
Sales of goods and services	1,705	2,135	14,527	(542)	17,825
Interest revenue	1,184	1,036	956	(409)	2,767
Other revenue	2,100	3,124	895	(1,146)	4,973
<b>Total revenue (excluding gains)</b>	<b>84,670</b>	<b>40,271</b>	<b>16,511</b>	<b>(33,268)</b>	<b>108,184</b>
<b>Expenses</b>					
Social assistance and official development assistance	26,396	-	-	-	26,396
Personnel expenses	7,251	13,496	2,886	(29)	23,604
Other operating expenses	45,644	22,536	11,498	(32,001)	47,677
Interest expenses	3,513	58	1,095	(523)	4,143
Insurance expenses	35	4,551	5	-	4,591
Forecast for future new spending and top-down adjustment	(1,186)	-	-	-	(1,186)
<b>Total expenses (excluding losses)</b>	<b>81,653</b>	<b>40,641</b>	<b>15,484</b>	<b>(32,553)</b>	<b>105,225</b>
Minority interest share of operating balance before gains/(losses)	-	(1)	(440)	23	(418)
<b>Operating balance before gains/(losses)</b>	<b>3,017</b>	<b>(371)</b>	<b>587</b>	<b>(692)</b>	<b>2,541</b>
Total gains/(losses)	3,217	(104)	92	(44)	3,161
Net surplus/(deficit) from associates and joint ventures	121	91	-	2	214
<b>Operating balance</b>	<b>6,355</b>	<b>(384)</b>	<b>679</b>	<b>(734)</b>	<b>5,916</b>
<b>Expenses by functional classification</b>					
Social security and welfare	26,191	6,014	-	(559)	31,646
Health	17,184	14,566	-	(15,136)	16,614
Education	14,397	11,074	-	(10,265)	15,206
Transport and communications	2,486	2,809	7,215	(2,795)	9,715
Other	19,068	6,120	7,174	(3,275)	29,087
Finance costs	3,513	58	1,095	(523)	4,143
Forecast for future new spending and top-down adjustment	(1,186)	-	-	-	(1,186)
<b>Total expenses (excluding losses)</b>	<b>81,653</b>	<b>40,641</b>	<b>15,484</b>	<b>(32,553)</b>	<b>105,225</b>
<b>Statement of Financial Position as at 30 June 2018</b>					
<b>Assets</b>					
Cash and cash equivalents	12,661	2,183	1,076	(408)	15,512
Receivables	13,962	5,396	1,779	(2,237)	18,900
Other financial assets	66,150	41,268	22,789	(19,070)	111,137
Property, plant and equipment	40,978	75,541	32,804	-	149,323
Equity accounted investments	45,705	12,295	247	(43,569)	14,678
Intangible assets and goodwill	1,781	562	1,564	(20)	3,887
Inventory and other assets	1,674	943	1,086	(27)	3,676
Forecast for new capital spending and top-down adjustment	(796)	-	-	-	(796)
<b>Total assets</b>	<b>182,115</b>	<b>138,188</b>	<b>61,345</b>	<b>(65,331)</b>	<b>316,317</b>
<b>Liabilities</b>					
Borrowings	92,455	4,998	31,072	(17,621)	110,904
Other liabilities	31,505	51,383	8,112	(8,035)	82,965
<b>Total liabilities</b>	<b>123,960</b>	<b>56,381</b>	<b>39,184</b>	<b>(25,656)</b>	<b>193,869</b>
<b>Total assets less total liabilities</b>	<b>58,155</b>	<b>81,807</b>	<b>22,161</b>	<b>(39,675)</b>	<b>122,448</b>
<b>Net worth</b>					
Taxpayers' funds	34,439	37,933	4,568	(44,156)	32,784
Reserves	23,716	43,851	11,428	4,789	83,784
Net worth attributable to minority interest	-	23	6,165	(308)	5,880
<b>Total net worth</b>	<b>58,155</b>	<b>81,807</b>	<b>22,161</b>	<b>(39,675)</b>	<b>122,448</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2019	2019	2019	2019	2019
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2019</b>					
<b>Revenue</b>					
Taxation revenue	82,817	-	-	(762)	82,055
Other sovereign revenue	1,646	5,365	-	(1,508)	5,503
Revenue from core Crown funding	-	28,815	136	(28,951)	-
Sales of goods and services	1,722	2,176	15,077	(559)	18,416
Interest revenue	1,141	1,022	1,012	(424)	2,751
Other revenue	2,131	3,331	931	(1,229)	5,164
<b>Total revenue (excluding gains)</b>	<b>89,457</b>	<b>40,709</b>	<b>17,156</b>	<b>(33,433)</b>	<b>113,889</b>
<b>Expenses</b>					
Social assistance and official development assistance	28,901	-	-	-	28,901
Personnel expenses	7,082	13,604	2,977	(35)	23,628
Other operating expenses	44,893	22,367	12,007	(32,028)	47,239
Interest expenses	3,460	58	1,061	(521)	4,058
Insurance expenses	1	4,832	5	(1)	4,837
Forecast for future new spending and top-down adjustment	1,971	-	-	-	1,971
<b>Total expenses (excluding losses)</b>	<b>86,308</b>	<b>40,861</b>	<b>16,050</b>	<b>(32,585)</b>	<b>110,634</b>
Minority interest share of operating balance before gains/(losses)	-	(2)	(448)	23	(427)
<b>Operating balance before gains/(losses)</b>	<b>3,149</b>	<b>(154)</b>	<b>658</b>	<b>(825)</b>	<b>2,828</b>
Total gains/(losses)	2,683	136	58	(115)	2,762
Net surplus/(deficit) from associates and joint ventures	114	132	2	1	249
<b>Operating balance</b>	<b>5,946</b>	<b>114</b>	<b>718</b>	<b>(939)</b>	<b>5,839</b>
<b>Expenses by functional classification</b>					
<i>Social security and welfare</i>	28,729	6,059	-	(571)	34,217
<i>Health</i>	17,250	14,577	-	(15,235)	16,592
<i>Education</i>	14,641	11,253	-	(10,415)	15,479
<i>Transport and communications</i>	2,350	2,677	7,571	(2,588)	10,010
<i>Other</i>	17,907	6,237	7,418	(3,255)	28,307
<i>Finance costs</i>	3,460	58	1,061	(521)	4,058
Forecast for future new spending and top-down adjustment	1,971	-	-	-	1,971
<b>Total expenses (excluding losses)</b>	<b>86,308</b>	<b>40,861</b>	<b>16,050</b>	<b>(32,585)</b>	<b>110,634</b>
<b>Statement of Financial Position as at 30 June 2019</b>					
<b>Assets</b>					
Cash and cash equivalents	12,581	1,898	1,141	(406)	15,214
Receivables	14,498	5,594	1,852	(2,068)	19,876
Other financial assets	63,609	42,247	24,028	(19,402)	110,482
Property, plant and equipment	42,924	78,380	32,996	-	154,300
Equity accounted investments	48,227	12,535	247	(45,848)	15,161
Intangible assets and goodwill	1,831	550	1,555	(20)	3,916
Inventory and other assets	1,711	909	1,074	(26)	3,668
Forecast for new capital spending and top-down adjustment	719	-	-	-	719
<b>Total assets</b>	<b>186,100</b>	<b>142,113</b>	<b>62,893</b>	<b>(67,770)</b>	<b>323,336</b>
<b>Liabilities</b>					
Borrowings	91,499	5,786	32,494	(17,947)	111,832
Other liabilities	30,469	52,327	8,117	(7,736)	83,177
<b>Total liabilities</b>	<b>121,968</b>	<b>58,113</b>	<b>40,611</b>	<b>(25,683)</b>	<b>195,009</b>
<b>Total assets less total liabilities</b>	<b>64,132</b>	<b>84,000</b>	<b>22,282</b>	<b>(42,087)</b>	<b>128,327</b>
<b>Net worth</b>					
Taxpayers' funds	40,385	40,265	4,725	(46,573)	38,802
Reserves	23,747	43,710	11,464	4,789	83,710
Net worth attributable to minority interest	-	25	6,093	(303)	5,815
<b>Total net worth</b>	<b>64,132</b>	<b>84,000</b>	<b>22,282</b>	<b>(42,087)</b>	<b>128,327</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2020	2020	2020	2020	2020
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2020</b>					
<b>Revenue</b>					
Taxation revenue	87,811	-	-	(789)	87,022
Other sovereign revenue	1,693	5,764	-	(1,504)	5,953
Revenue from core Crown funding	-	28,852	124	(28,976)	-
Sales of goods and services	1,739	2,189	15,812	(569)	19,171
Interest revenue	1,116	1,047	1,079	(432)	2,810
Other revenue	2,267	3,240	993	(1,179)	5,321
<b>Total revenue (excluding gains)</b>	<b>94,626</b>	<b>41,092</b>	<b>18,008</b>	<b>(33,449)</b>	<b>120,277</b>
<b>Expenses</b>					
Social assistance and official development assistance	29,988	-	-	-	29,988
Personnel expenses	7,040	13,646	3,130	(34)	23,782
Other operating expenses	44,756	22,284	12,533	(32,011)	47,562
Interest expenses	3,452	66	1,098	(539)	4,077
Insurance expenses	3	5,485	5	(2)	5,491
Forecast for future new spending and top-down adjustment	3,921	-	-	-	3,921
<b>Total expenses (excluding losses)</b>	<b>89,160</b>	<b>41,481</b>	<b>16,766</b>	<b>(32,586)</b>	<b>114,821</b>
Minority interest share of operating balance before gains/(losses)	-	(2)	(498)	23	(477)
<b>Operating balance before gains/(losses)</b>	<b>5,466</b>	<b>(391)</b>	<b>744</b>	<b>(840)</b>	<b>4,979</b>
Total gains/(losses)	2,999	281	39	(130)	3,189
Net surplus/(deficit) from associates and joint ventures	119	162	1	1	283
<b>Operating balance</b>	<b>8,584</b>	<b>52</b>	<b>784</b>	<b>(969)</b>	<b>8,451</b>
<b>Expenses by functional classification</b>					
Social security and welfare	29,792	6,569	-	(590)	35,771
Health	17,257	14,601	-	(15,219)	16,639
Education	14,807	11,287	-	(10,446)	15,648
Transport and communications	2,280	2,592	7,915	(2,555)	10,232
Other	17,651	6,366	7,753	(3,237)	28,533
Finance costs	3,452	66	1,098	(539)	4,077
Forecast for future new spending and top-down adjustment	3,921	-	-	-	3,921
<b>Total expenses (excluding losses)</b>	<b>89,160</b>	<b>41,481</b>	<b>16,766</b>	<b>(32,586)</b>	<b>114,821</b>
<b>Statement of Financial Position as at 30 June 2020</b>					
<b>Assets</b>					
Cash and cash equivalents	12,842	1,990	1,226	(404)	15,654
Receivables	15,045	5,665	1,915	(2,037)	20,588
Other financial assets	64,557	43,659	25,231	(19,951)	113,496
Property, plant and equipment	44,065	80,746	32,816	-	157,627
Equity accounted investments	50,544	12,737	236	(47,900)	15,617
Intangible assets and goodwill	1,841	540	1,534	(19)	3,896
Inventory and other assets	1,698	910	1,073	(26)	3,655
Forecast for new capital spending and top-down adjustment	2,934	-	-	-	2,934
<b>Total assets</b>	<b>193,526</b>	<b>146,247</b>	<b>64,031</b>	<b>(70,337)</b>	<b>333,467</b>
<b>Liabilities</b>					
Borrowings	91,258	6,106	33,841	(18,483)	112,722
Other liabilities	29,516	53,968	8,029	(7,572)	83,941
<b>Total liabilities</b>	<b>120,774</b>	<b>60,074</b>	<b>41,870</b>	<b>(26,055)</b>	<b>196,663</b>
<b>Total assets less total liabilities</b>	<b>72,752</b>	<b>86,173</b>	<b>22,161</b>	<b>(44,282)</b>	<b>136,804</b>
<b>Net worth</b>					
Taxpayers' funds	48,969	42,806	4,677	(48,776)	47,676
Reserves	23,783	43,341	11,464	4,791	83,379
Net worth attributable to minority interest	-	26	6,020	(297)	5,749
<b>Total net worth</b>	<b>72,752</b>	<b>86,173</b>	<b>22,161</b>	<b>(44,282)</b>	<b>136,804</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2021	2021	2021	2021	2021
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2021</b>					
<b>Revenue</b>					
Taxation revenue	92,985	-	-	(856)	92,129
Other sovereign revenue	1,749	5,953	-	(1,503)	6,199
Revenue from core Crown funding	-	29,484	102	(29,586)	-
Sales of goods and services	1,728	2,221	16,253	(585)	19,617
Interest revenue	1,137	1,051	1,135	(432)	2,891
Other revenue	2,360	3,234	1,052	(1,225)	5,421
<b>Total revenue (excluding gains)</b>	<b>99,959</b>	<b>41,943</b>	<b>18,542</b>	<b>(34,187)</b>	<b>126,257</b>
<b>Expenses</b>					
Social assistance and official development assistance	31,173	-	-	-	31,173
Personnel expenses	7,030	13,864	3,268	(34)	24,128
Other operating expenses	45,250	22,764	12,878	(32,700)	48,192
Interest expenses	3,508	72	1,079	(548)	4,111
Insurance expenses	2	5,894	5	(2)	5,899
Forecast for future new spending and top-down adjustment	5,764	-	-	-	5,764
<b>Total expenses (excluding losses)</b>	<b>92,727</b>	<b>42,594</b>	<b>17,230</b>	<b>(33,284)</b>	<b>119,267</b>
Minority interest share of operating balance before gains/(losses)	-	(14)	(510)	38	(486)
<b>Operating balance before gains/(losses)</b>	<b>7,232</b>	<b>(665)</b>	<b>802</b>	<b>(865)</b>	<b>6,504</b>
Total gains/(losses)	3,271	335	39	(153)	3,492
Net surplus/(deficit) from associates and joint ventures	118	182	2	(1)	301
<b>Operating balance</b>	<b>10,621</b>	<b>(148)</b>	<b>843</b>	<b>(1,019)</b>	<b>10,297</b>
<b>Expenses by functional classification</b>					
Social security and welfare	30,913	6,991	-	(608)	37,296
Health	17,213	14,563	-	(15,210)	16,566
Education	15,092	11,480	-	(10,640)	15,932
Transport and communications	2,813	3,145	8,273	(3,092)	11,139
Other	17,424	6,343	7,878	(3,186)	28,459
Finance costs	3,508	72	1,079	(548)	4,111
Forecast for future new spending and top-down adjustment	5,764	-	-	-	5,764
<b>Total expenses (excluding losses)</b>	<b>92,727</b>	<b>42,594</b>	<b>17,230</b>	<b>(33,284)</b>	<b>119,267</b>
<b>Statement of Financial Position as at 30 June 2021</b>					
<b>Assets</b>					
Cash and cash equivalents	13,001	2,252	1,407	(405)	16,255
Receivables	16,186	5,877	1,949	(2,024)	21,988
Other financial assets	65,798	44,825	26,455	(20,434)	116,644
Property, plant and equipment	44,114	81,921	32,603	-	158,638
Equity accounted investments	52,404	12,933	225	(49,391)	16,171
Intangible assets and goodwill	1,784	515	1,532	(19)	3,812
Inventory and other assets	1,691	902	1,091	(27)	3,657
Forecast for new capital spending and top-down adjustment	5,579	-	-	-	5,579
<b>Total assets</b>	<b>200,557</b>	<b>149,225</b>	<b>65,262</b>	<b>(72,300)</b>	<b>342,744</b>
<b>Liabilities</b>					
Borrowings	87,338	6,138	35,083	(18,954)	109,605
Other liabilities	29,804	55,538	8,094	(7,410)	86,026
<b>Total liabilities</b>	<b>117,142</b>	<b>61,676</b>	<b>43,177</b>	<b>(26,364)</b>	<b>195,631</b>
<b>Total assets less total liabilities</b>	<b>83,415</b>	<b>87,549</b>	<b>22,085</b>	<b>(45,936)</b>	<b>147,113</b>
<b>Net worth</b>					
Taxpayers' funds	59,590	44,394	4,674	(50,433)	58,225
Reserves	23,825	43,155	11,464	4,789	83,233
Net worth attributable to minority interest	-	-	5,947	(292)	5,655
<b>Total net worth</b>	<b>83,415</b>	<b>87,549</b>	<b>22,085</b>	<b>(45,936)</b>	<b>147,113</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2022	2022	2022	2022	2022
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2022</b>					
<b>Revenue</b>					
Taxation revenue	97,815	-	-	(835)	96,980
Other sovereign revenue	1,789	6,196	-	(1,503)	6,482
Revenue from core Crown funding	-	29,016	97	(29,113)	-
Sales of goods and services	1,744	2,240	16,714	(605)	20,093
Interest revenue	1,131	1,052	1,171	(431)	2,923
Other revenue	2,475	3,206	1,099	(1,193)	5,587
<b>Total revenue (excluding gains)</b>	<b>104,954</b>	<b>41,710</b>	<b>19,081</b>	<b>(33,680)</b>	<b>132,065</b>
<b>Expenses</b>					
Social assistance and official development assistance	32,498	-	-	-	32,498
Personnel expenses	7,042	13,795	3,387	(36)	24,188
Other operating expenses	44,950	22,457	13,232	(32,282)	48,357
Interest expenses	3,304	78	1,087	(554)	3,915
Insurance expenses	1	6,293	5	-	6,299
Forecast for future new spending and top-down adjustment	7,509	-	-	-	7,509
<b>Total expenses (excluding losses)</b>	<b>95,304</b>	<b>42,623</b>	<b>17,711</b>	<b>(32,872)</b>	<b>122,766</b>
Minority interest share of operating balance before gains/(losses)	-	-	(531)	25	(506)
<b>Operating balance before gains/(losses)</b>	<b>9,650</b>	<b>(913)</b>	<b>839</b>	<b>(783)</b>	<b>8,793</b>
Total gains/(losses)	3,678	385	29	(145)	3,947
Net surplus/(deficit) from associates and joint ventures	120	188	5	(4)	309
<b>Operating balance</b>	<b>13,448</b>	<b>(340)</b>	<b>873</b>	<b>(932)</b>	<b>13,049</b>
<b>Expenses by functional classification</b>					
Social security and welfare	32,181	7,423	-	(627)	38,977
Health	17,334	14,544	-	(15,211)	16,667
Education	15,151	11,409	-	(10,565)	15,995
Transport and communications	2,423	2,824	8,540	(2,727)	11,060
Other	17,402	6,345	8,084	(3,188)	28,643
Finance costs	3,304	78	1,087	(554)	3,915
Forecast for future new spending and top-down adjustment	7,509	-	-	-	7,509
<b>Total expenses (excluding losses)</b>	<b>95,304</b>	<b>42,623</b>	<b>17,711</b>	<b>(32,872)</b>	<b>122,766</b>
<b>Statement of Financial Position as at 30 June 2022</b>					
<b>Assets</b>					
Cash and cash equivalents	13,206	2,118	1,545	(386)	16,483
Receivables	16,232	6,036	1,986	(2,034)	22,220
Other financial assets	80,599	46,101	27,573	(20,788)	133,485
Property, plant and equipment	44,260	83,479	32,539	-	160,278
Equity accounted investments	54,248	13,121	215	(50,890)	16,694
Intangible assets and goodwill	1,725	495	1,515	(19)	3,716
Inventory and other assets	1,683	908	1,105	(25)	3,671
Forecast for new capital spending and top-down adjustment	8,249	-	-	-	8,249
<b>Total assets</b>	<b>220,202</b>	<b>152,258</b>	<b>66,478</b>	<b>(74,142)</b>	<b>364,796</b>
<b>Liabilities</b>					
Borrowings	94,643	6,032	36,103	(19,275)	117,503
Other liabilities	28,652	57,477	8,282	(7,372)	87,039
<b>Total liabilities</b>	<b>123,295</b>	<b>63,509</b>	<b>44,385</b>	<b>(26,647)</b>	<b>204,542</b>
<b>Total assets less total liabilities</b>	<b>96,907</b>	<b>88,749</b>	<b>22,093</b>	<b>(47,495)</b>	<b>160,254</b>
<b>Net worth</b>					
Taxpayers' funds	73,038	45,770	4,698	(51,999)	71,507
Reserves	23,869	42,979	11,501	4,791	83,140
Net worth attributable to minority interest	-	-	5,894	(287)	5,607
<b>Total net worth</b>	<b>96,907</b>	<b>88,749</b>	<b>22,093</b>	<b>(47,495)</b>	<b>160,254</b>





## Core Crown Expense Tables

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Social security and welfare	22,459	23,026	23,523	24,081	25,294	26,191	28,729	29,792	30,913	32,181
Health	14,498	14,898	15,058	15,626	16,223	17,184	17,250	17,257	17,213	17,334
Education	12,504	12,300	12,879	13,158	13,281	14,397	14,641	14,807	15,092	15,151
Core government services	4,294	4,502	4,134	4,102	3,957	5,477	4,727	4,657	4,438	4,416
Law and order	3,394	3,463	3,515	3,648	3,882	4,146	4,170	4,208	4,244	4,265
Transport and communications	2,255	2,237	2,291	2,178	2,176	2,486	2,350	2,280	2,813	2,423
Economic and industrial services	1,978	2,058	2,228	2,107	2,544	2,941	2,817	2,804	2,789	2,730
Defence	1,804	1,811	1,961	2,026	2,146	2,318	2,363	2,373	2,383	2,389
Heritage, culture and recreation	804	842	778	787	850	879	880	840	811	824
Primary services	659	676	667	749	644	792	706	678	648	648
Housing and community development	283	347	320	558	539	662	622	548	515	511
Environmental protection	530	533	723	587	871	1,291	989	1,022	1,043	1,043
GSF pension expenses	278	282	358	271	217	150	149	179	211	234
Other	603	579	145	461	181	412	484	342	342	342
Finance costs	3,619	3,620	3,783	3,590	3,534	3,513	3,460	3,452	3,508	3,304
Forecast new operating spending	..	..	..	..	..	179	2,721	4,496	6,339	8,084
Top-down expense adjustment	..	..	..	..	..	( 1,365)	( 750)	( 575)	( 575)	( 575)
<b>Core Crown expenses</b>	<b>69,962</b>	<b>71,174</b>	<b>72,363</b>	<b>73,929</b>	<b>76,339</b>	<b>81,653</b>	<b>86,308</b>	<b>89,160</b>	<b>92,727</b>	<b>95,304</b>

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

Source: The Treasury

**Table 6.1 – Social security and welfare expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Welfare benefits (see below)	20,789	21,187	21,680	22,441	23,339	24,054	26,535	27,586	28,636	29,909
Social rehabilitation and compensation	107	173	142	151	220	241	249	260	279	279
Departmental expenses	1,168	1,204	1,319	1,339	1,417	1,646	1,588	1,556	1,553	1,552
Child support impairment	..	..	..	..	..	..	..	..	..	..
Other non-departmental expenses <sup>1</sup>	395	462	382	150	318	250	357	390	445	441
<b>Social security and welfare expenses</b>	<b>22,459</b>	<b>23,026</b>	<b>23,523</b>	<b>24,081</b>	<b>25,294</b>	<b>26,191</b>	<b>28,729</b>	<b>29,792</b>	<b>30,913</b>	<b>32,181</b>

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

Source: The Treasury

**Table 6.2 – Welfare benefit expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
New Zealand Superannuation	10,235	10,913	11,591	12,267	13,043	13,670	14,436	15,354	16,222	17,223
Jobseeker Support and Emergency Benefit <sup>1</sup>	..	1,691	1,684	1,671	1,697	1,680	1,663	1,595	1,564	1,580
Supported living payment <sup>1</sup>	..	1,422	1,515	1,523	1,533	1,542	1,559	1,575	1,585	1,599
Sole parent support <sup>1</sup>	..	1,222	1,186	1,153	1,159	1,095	1,081	1,101	1,113	1,139
Domestic Purposes Benefit <sup>1</sup>	1,738	63	..	..	..	..	..	..	..	..
Invalid's Benefit <sup>1</sup>	1,330	52	..	..	..	..	..	..	..	..
Sickness Benefit <sup>1</sup>	782	29	..	..	..	..	..	..	..	..
Unemployment Benefit <sup>1</sup>	812	29	..	..	..	..	..	..	..	..
Family Tax Credit	2,018	1,965	1,854	1,793	1,723	1,716	2,628	2,552	2,523	2,534
Other working for families tax credits	575	567	549	559	596	585	582	577	572	572
Accommodation Assistance	1,177	1,146	1,129	1,164	1,127	1,208	1,493	1,487	1,484	1,499
Income-Related Rents	611	660	703	755	815	903	990	1,049	1,107	1,166
Disability Assistance	384	379	377	377	377	378	380	382	383	386
Benefits paid in Australia	22	19	15	40	..	..	..	..	..	..
Winter energy	..	..	..	..	..	..	443	448	455	465
Best start	..	..	..	..	..	..	80	231	373	451
Paid Parental Leave	165	165	180	217	274	286	359	373	448	467
Childcare Assistance	186	186	183	182	199	199	202	209	213	218
Veterans Support Entitlement <sup>2</sup>	123	119	115	107	98	92	86	81	75	71
Veteran's Pension	171	165	178	186	175	163	152	144	135	125
Other benefits	460	395	421	447	523	537	401	428	384	414
<b>Benefit expenses</b>	<b>20,789</b>	<b>21,187</b>	<b>21,680</b>	<b>22,441</b>	<b>23,339</b>	<b>24,054</b>	<b>26,535</b>	<b>27,586</b>	<b>28,636</b>	<b>29,909</b>

Source: The Treasury

Beneficiary numbers (Thousands)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
New Zealand Superannuation	612	640	665	691	717	742	768	795	823	851
Jobseeker Support and Emergency Benefit <sup>1</sup>	..	138	133	130	131	129	125	117	113	111
Supported living payment <sup>1</sup>	..	96	98	98	97	96	96	95	94	93
Sole parent support <sup>1</sup>	..	78	72	67	64	59	57	57	57	57
Domestic Purposes Benefit <sup>1</sup>	109	..	..	..	..	..	..	..	..	..
Invalid's Benefit <sup>1</sup>	87	..	..	..	..	..	..	..	..	..
Sickness Benefit <sup>1</sup>	60	..	..	..	..	..	..	..	..	..
Unemployment Benefit <sup>1</sup>	67	..	..	..	..	..	..	..	..	..
Accommodation Supplement	305	297	292	292	290	289	295	290	287	287

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

2. From 2015, War Disablement Pensions have been renamed Veterans Support Entitlements.

Source: Ministry of Social Development

**Table 6.3 – Health expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Departmental outputs	171	183	190	188	192	201	193	192	192	193
Health services purchasing (see below)	13,348	13,648	13,937	14,361	14,855	15,442	15,396	15,398	15,393	15,393
Other non-departmental outputs	234	330	312	356	365	816	867	901	879	999
Health payments to ACC	715	694	587	694	697	698	766	739	720	720
Other expenses	30	43	32	27	114	27	28	27	29	29
<b>Health expenses</b>	<b>14,498</b>	<b>14,898</b>	<b>15,058</b>	<b>15,626</b>	<b>16,223</b>	<b>17,184</b>	<b>17,250</b>	<b>17,257</b>	<b>17,213</b>	<b>17,334</b>

Source: The Treasury

**Table 6.4 – Health services purchasing**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Payments to District Health Boards	11,946	12,165	12,414	12,822	13,281	13,823	13,803	13,804	13,799	13,799
National disability support services	1,028	1,087	1,126	1,167	1,188	1,205	1,205	1,205	1,205	1,205
Public health services purchasing	374	396	397	372	386	414	388	389	389	389
<b>Health services purchasing</b>	<b>13,348</b>	<b>13,648</b>	<b>13,937</b>	<b>14,361</b>	<b>14,855</b>	<b>15,442</b>	<b>15,396</b>	<b>15,398</b>	<b>15,393</b>	<b>15,393</b>

Source: The Treasury

**Table 6.5 – Education expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Early childhood education	1,436	1,545	1,644	1,735	1,805	1,877	1,982	2,090	2,168	2,257
Primary and secondary schools (see below)	5,590	5,550	5,773	6,044	6,116	6,490	6,548	6,530	6,684	6,602
Tertiary funding (see below) <sup>1</sup>	4,370	4,027	4,272	4,235	4,051	4,616	4,725	4,812	4,876	4,930
Departmental expenses	1,039	1,107	1,129	1,112	1,190	1,311	1,280	1,250	1,247	1,247
Other education expenses	69	71	61	32	119	103	106	125	117	115
<b>Education expenses</b>	<b>12,504</b>	<b>12,300</b>	<b>12,879</b>	<b>13,158</b>	<b>13,281</b>	<b>14,397</b>	<b>14,641</b>	<b>14,807</b>	<b>15,092</b>	<b>15,151</b>

1. From 2018, tertiary funding includes the tertiary education package.

Source: The Treasury

	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
<b>Number of places provided<sup>1</sup></b>										
Early childhood education	174,853	185,336	195,817	205,714	211,752	223,358	235,366	246,342	256,565	265,249

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

Source: The Ministry of Education

**Table 6.6 – Primary and secondary schools**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Primary	2,845	2,812	2,920	3,033	3,091	3,294	3,333	3,320	3,400	3,345
Secondary	2,148	2,146	2,229	2,329	2,336	2,470	2,496	2,497	2,568	2,552
School transport	175	177	186	185	186	195	190	190	190	190
Special needs support	332	322	336	396	410	425	423	417	424	417
Professional development	84	87	98	96	88	100	100	100	96	92
Schooling improvement	6	6	4	5	5	6	6	6	6	6
<b>Primary and secondary education expenses</b>	<b>5,590</b>	<b>5,550</b>	<b>5,773</b>	<b>6,044</b>	<b>6,116</b>	<b>6,490</b>	<b>6,548</b>	<b>6,530</b>	<b>6,684</b>	<b>6,602</b>

Source: The Treasury

	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
<b>Number of places provided<sup>1</sup></b>										
Primary	493,025	497,765	507,132	517,782	525,673	535,497	540,854	541,366	539,210	536,837
Secondary	267,627	266,734	265,557	264,189	271,635	272,278	275,028	278,658	285,685	290,761

1. These are snapshots based as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude special school rolls, health camps, hospital schools and home schooling (prior published tables included special school rolls). These estimates include a new entrant adjustment to make provision for the number of new entrants likely to be enrolled between 1 March and 10 October. Actual numbers have been restated to include this adjustment so may differ from previous published *Economic and Fiscal Update* numbers.

Source: The Ministry of Education

**Table 6.7 – Tertiary funding**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Tuition <sup>1</sup>	2,322	2,383	2,406	2,463	2,466	2,759	2,727	2,739	2,761	2,771
Other tertiary funding	432	463	484	487	520	577	575	574	573	573
Student allowances <sup>1</sup>	596	539	511	486	465	513	592	583	606	626
Student loans <sup>1</sup>	1,020	642	871	799	600	767	831	916	936	960
<b>Tertiary education expenses</b>	<b>4,370</b>	<b>4,027</b>	<b>4,272</b>	<b>4,235</b>	<b>4,051</b>	<b>4,616</b>	<b>4,725</b>	<b>4,812</b>	<b>4,876</b>	<b>4,930</b>

1. From 2018, tertiary funding includes the tertiary education package.

Source: The Treasury

	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
<b>Number of places provided<sup>1</sup></b>										
Actual delivered places <sup>1</sup>	241,796	239,086	233,132	231,413						
Estimated funded places (excluding policy change)					234,874	234,993	230,521	230,692	230,850	230,975
Estimated funded (including policy change) <sup>2</sup>					234,874	234,993	231,322	233,482	236,671	236,671

1. Tertiary places are the number of equivalent full time students (EFTS) in: student achievement component; adult and community education; and youth guarantee programmes. Note that historical place numbers have been revised so may differ from previous published *Economic and Fiscal Update* numbers. Place numbers are based on calendar years rather than fiscal years.
2. This line shows the estimated volume of EFTS to be funded following Cabinet decisions to make tertiary education and training fees-free from the start of 2018 and to increase weekly student allowance and student loan living cost payments by \$50.

Source: Tertiary Education Commission

**Table 6.8 – Core government services expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Official development assistance	437	533	513	534	520	647	583	586	586	586
Indemnity and guarantee expenses	27	29	38	30	22	18	16	16	16	16
Departmental expenses <sup>5</sup>	1,576	1,635	1,740	1,845	1,835	2,346	2,072	1,984	1,844	1,833
Non-departmental expenses <sup>1,2,3,4</sup>	330	689	481	379	511	830	688	761	668	651
Tax receivable write-down and impairments	925	1,069	873	680	493	800	800	800	800	800
Science expenses	115	118	121	118	91	95	103	111	111	111
Other expenses <sup>1</sup>	884	429	368	516	485	741	465	399	413	419
<b>Core government service expenses</b>	<b>4,294</b>	<b>4,502</b>	<b>4,134</b>	<b>4,102</b>	<b>3,957</b>	<b>5,477</b>	<b>4,727</b>	<b>4,657</b>	<b>4,438</b>	<b>4,416</b>

1. Non-departmental expenses and other expenses include costs associated with the Canterbury earthquakes.
2. From 2017 onwards, biological research has been reclassified from Primary services to non-departmental expenses within core government services.
3. From 2017 onwards, some investment and research expenditure has been reclassified from core government service to economic and industrial services.
4. The 2018 forecast includes the concessionary element of the Housing Infrastructure Fund loans.
5. Departmental expenses includes costs relating to the Inland Revenue Business Transformation project.

Source: The Treasury

**Table 6.9 – Law and order expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Police	1,408	1,416	1,456	1,498	1,539	1,636	1,658	1,674	1,699	1,699
Ministry of Justice	404	433	451	468	479	514	506	500	507	507
Department of Corrections	972	1,001	1,024	1,068	1,145	1,268	1,273	1,281	1,272	1,287
NZ Customs Service	140	150	161	153	171	180	175	178	180	183
Other departments	98	86	100	83	121	136	144	146	146	147
<b>Departmental expenses</b>	<b>3,022</b>	<b>3,086</b>	<b>3,192</b>	<b>3,270</b>	<b>3,455</b>	<b>3,734</b>	<b>3,756</b>	<b>3,779</b>	<b>3,804</b>	<b>3,823</b>
Non-departmental outputs	317	327	320	359	397	391	391	405	415	418
Other expenses	55	50	3	19	30	21	23	24	25	24
<b>Law and order expenses</b>	<b>3,394</b>	<b>3,463</b>	<b>3,515</b>	<b>3,648</b>	<b>3,882</b>	<b>4,146</b>	<b>4,170</b>	<b>4,208</b>	<b>4,244</b>	<b>4,265</b>

Source: The Treasury

**Table 6.10 – Transport and communication expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
New Zealand Transport Agency	1,819	1,880	1,992	1,982	1,888	2,159	2,114	2,050	2,589	2,239
Departmental outputs	40	45	43	45	52	58	58	57	57	57
Other non-departmental expenses	213	227	114	106	168	212	140	136	130	90
Rail funding	153	56	93	3	3	3	3	3	3	3
Other expenses	30	29	49	42	65	54	35	34	34	34
<b>Transport and communication expenses</b>	<b>2,255</b>	<b>2,237</b>	<b>2,291</b>	<b>2,178</b>	<b>2,176</b>	<b>2,486</b>	<b>2,350</b>	<b>2,280</b>	<b>2,813</b>	<b>2,423</b>

Source: The Treasury

**Table 6.11 – Economic and industrial services expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Departmental outputs	350	372	391	389	465	443	424	412	404	404
Employment initiatives <sup>1</sup>	192	141	75	3	3	4	4	4	4	4
Non-departmental outputs <sup>2</sup>	618	660	742	798	1,085	1,284	1,204	1,235	1,207	1,112
KiwiSaver (includes housing deposit subsidy)	740	828	888	763	743	814	847	895	940	980
Other expenses	78	57	132	154	248	396	338	258	234	230
<b>Economic and industrial services expenses</b>	<b>1,978</b>	<b>2,058</b>	<b>2,228</b>	<b>2,107</b>	<b>2,544</b>	<b>2,941</b>	<b>2,817</b>	<b>2,804</b>	<b>2,789</b>	<b>2,730</b>

1. From 2016 some of the employment initiatives spending has been reclassified to other non-departmental expenses in housing and community development expenses.
2. From 2017 onwards, spending on new investment and research fund initiatives is included in non-departmental outputs, this has been reclassified from core government services.

Source: The Treasury

**Table 6.12 – Defence expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
NZDF core expenses	1,747	1,768	1,879	1,986	2,084	2,204	2,255	2,258	2,275	2,275
Other expenses	57	43	82	40	62	114	108	115	108	114
<b>Defence expenses</b>	<b>1,804</b>	<b>1,811</b>	<b>1,961</b>	<b>2,026</b>	<b>2,146</b>	<b>2,318</b>	<b>2,363</b>	<b>2,373</b>	<b>2,383</b>	<b>2,389</b>

Source: The Treasury

**Table 6.13 – Heritage, culture and recreation expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Departmental outputs	270	286	280	274	282	312	309	300	285	284
Non-departmental outputs	442	471	468	477	512	503	503	500	500	512
Other expenses	92	85	30	36	56	64	68	40	26	28
<b>Heritage, culture and recreation expenses</b>	<b>804</b>	<b>842</b>	<b>778</b>	<b>787</b>	<b>850</b>	<b>879</b>	<b>880</b>	<b>840</b>	<b>811</b>	<b>824</b>

Source: The Treasury

**Table 6.14 – Primary service expenses**

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Departmental expenses	347	365	384	424	458	530	478	476	476	474
Non-departmental outputs	137	135	114	100	92	126	113	110	106	106
Biological research <sup>1</sup>	105	92	91	95	..	..	..	..	..	..
Other expenses	70	84	78	130	94	136	115	92	66	68
<b>Primary service expenses</b>	<b>659</b>	<b>676</b>	<b>667</b>	<b>749</b>	<b>644</b>	<b>792</b>	<b>706</b>	<b>678</b>	<b>648</b>	<b>648</b>

1. From 2017 onwards, biological research has been reclassified from Primary services to non-departmental expenses within core government services.

Source: The Treasury

**Table 6.15** – Housing and community development expenses

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Financial assistance package <sup>1</sup>	(60)	..	..	..	..	..	..	..	..	..
Housing subsidies	5	5	5	5	5	1	1	1	1	1
Community Services <sup>2</sup>	..	..	..	189	189	191	182	179	180	180
Departmental outputs	89	100	113	171	187	169	146	141	138	135
Other non-departmental expenses	117	138	117	114	127	269	268	202	174	173
Warm up New Zealand	76	49	37	22	..	..	..	..	..	..
Other expenses	56	55	48	57	31	32	25	25	22	22
<b>Housing and community development expenses</b>	<b>283</b>	<b>347</b>	<b>320</b>	<b>558</b>	<b>539</b>	<b>662</b>	<b>622</b>	<b>548</b>	<b>515</b>	<b>511</b>

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

2. For 2016 onwards, community services have been reclassified from non-departmental expenses in Social Security and Welfare expenses and employment initiatives in economic expenses.

Source: The Treasury

**Table 6.16** – Environmental protection expenses

(\$millions)	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Emissions Trading Scheme	55	46	133	163	295	707	469	491	493	493
Departmental outputs	335	362	360	383	404	430	405	411	413	413
Non-departmental outputs	88	48	41	1	64	97	69	74	91	91
Other expenses	52	77	189	40	108	57	46	46	46	46
<b>Environmental protection expenses</b>	<b>530</b>	<b>533</b>	<b>723</b>	<b>587</b>	<b>871</b>	<b>1,291</b>	<b>989</b>	<b>1,022</b>	<b>1,043</b>	<b>1,043</b>

Source: The Treasury

## Glossary of Terms

### ***Accruals basis of accounting***

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

### ***Appropriations***

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

### ***Baselines***

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

### ***Commercial portfolio***

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

### ***Consumers Price Index (CPI)***

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

### ***Contingent assets***

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

### ***Contingent liabilities***

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

comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

### ***Core Crown***

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

### ***Core Crown expenses***

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

### ***Core Crown revenue***

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

### ***Corporate tax***

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

### ***Current account (Balance of Payments)***

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

***Cyclically-adjusted balance (CAB) or structural balance***

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

***Demographic changes***

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

***Domestic bond programme***

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

***Excise duties***

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

***Financial assets***

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

***Financial liabilities***

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

***Financial portfolio***

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

***Fiscal drag***

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

***Fiscal impulse***

A summary measure of how changes in the fiscal position affect aggregate demand in the economy. To isolate discretionary changes,

the fiscal impulse is calculated on a cyclically-adjusted basis and excludes net interest payments. To better capture the role of capital spending, the indicator is derived from cash flow information.

***Fiscal intentions (short-term)***

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

***Fiscal objectives (long-term)***

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

***Forecast new capital spending (Capital allowance)***

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

***Forecast new operating spending (Operating allowance)***

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

***Gains and losses***

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



**GDP deflator**

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

**Generally accepted accounting practice (GAAP)**

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

**Government Finance Statistics (GFS)**

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

**Gross debt**

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

**Gross domestic product (GDP)**

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

**Gross domestic product (expenditure)**

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

**Gross domestic product (nominal)**

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

**Gross domestic product (production)**

The value-added of goods and services produced in New Zealand, after deducting the

cost of goods and services used in the production process. Production GDP is calculated only in real terms.

**Gross domestic product (real)**

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

**Gross national expenditure (GNE)**

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

**Gross sovereign-issued debt (GSID)**

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

**Insurance liabilities**

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

**Inter-segment eliminations**

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

**Labour force participation rate**

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

**Labour productivity**

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

**Line-by-line consolidation**

A term used to refer to the general approach to the presentation of the Financial Statements of the Government. It means that the individual line items for revenues, expenses, assets and liabilities in the Financial Statements of the Government include all departments, Offices of Parliament,

the Reserve Bank, SOEs, Crown entities and other entities controlled by the Government.

### ***Loan-to-value ratio (LVR)***

A measure of how much a bank lends against residential property, compared to the value of that property. The Reserve Bank introduced LVR restrictions in October 2013 and revised them in November 2015 and October 2016. From 1 January 2018, investor loans with a LVR of more than 65% can make up no more than 5% of a bank's total new lending within this category. Non-investor loans with an LVR of more than 80% can make up no more than 15% of a bank's total new lending in that category.

### ***Marketable securities***

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

### ***Minority interest***

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

### ***Monetary conditions***

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

### ***Monetary policy***

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

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

### ***Multi-factor productivity***

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

### ***National saving***

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

### ***Net core Crown cash flow from operations***

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

### ***Net core Crown debt***

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

### ***Net international investment position (NIIP)***

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

### ***Net worth***

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

### ***Net worth attributable to the Crown***

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

### ***Operating balance***

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

### ***Operating balance before gains and losses (OBEGAL)***

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

### ***Output gap***

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

### ***Outputs***

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

### ***Potential output***

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

### ***Productivity***

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

### ***Projections***

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

economic cycle and constant long-run interest, inflation and unemployment rates.

### ***Real unit labour costs***

Real unit labour costs (ULC) show how much output an economy receives relative to real wages (wages adjusted for inflation), or labour cost per unit of output. ULCs can be calculated as the ratio of real labour compensation to real GDP. It is also the equivalent of the ratio between labour compensation per labour input (per hour or per employee) worked and labour productivity.

### ***Residual cash***

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

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

### ***Settlement cash***

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

### ***Social portfolio***

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

### ***Specific fiscal risks***

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

**System of National Accounts (SNA)**

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

**Tax revenue**

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

**Terms of trade**

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

**Top-down adjustment**

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

**Total borrowings**

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

**Total Crown**

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 99 to 102.

**Tradable/non-tradable output**

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

**Trade-weighted index (TWI)**

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

**Votes**

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

**Year ended**

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government’s financial year (30 June). For example, unless otherwise stated references to 2016/17 or 2017 will mean the end of the financial year.

# Time Series of Fiscal and Economic Indicators

## Fiscal Indicators

June years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
\$millions															
<b>Revenue and expenses</b>															
Core Crown tax revenue	56,747	54,681	50,744	51,557	55,081	58,651	61,563	66,636	70,445	75,644	78,172	82,817	87,811	92,985	97,815
Core Crown revenue	61,575	59,191	55,757	57,199	60,428	63,805	67,093	72,213	76,121	81,782	84,670	89,457	94,626	99,959	104,954
Core Crown expenses	56,753	63,711	63,554	70,099	68,939	69,962	71,174	72,363	73,929	76,339	81,653	86,308	89,160	92,727	95,304
<b>Surpluses</b>															
Total Crown OBEGAL	5,637	(3,893)	(6,315)	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	4,069	2,541	2,828	4,979	6,504	8,793
Total Crown operating balance	2,384	(10,505)	(4,509)	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	12,317	5,916	5,839	8,451	10,297	13,049
<b>Cash position</b>															
Core Crown residual cash	2,057	(8,639)	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	(2,647)	(4,657)	(2,552)	345	2,347
<b>Debt</b>															
Gross debt <sup>1</sup>	31,390	43,356	53,591	72,420	79,635	77,984	81,956	86,125	86,928	87,141	84,524	83,554	83,304	79,381	86,684
Gross debt incl RB settlement cash and bank bills	37,745	50,973	58,891	77,290	84,168	84,286	88,468	93,156	93,283	92,620	91,343	90,373	90,123	86,200	93,503
Net core Crown debt (incl NZS Fund) <sup>2</sup>	(2,676)	5,633	12,549	23,969	33,475	34,428	34,174	30,862	32,102	23,619	24,284	25,805	24,067	18,437	10,233
Net core Crown debt <sup>2</sup>	10,258	17,119	26,738	40,128	50,671	55,835	59,931	60,631	61,880	59,480	62,114	66,827	69,404	69,030	66,763
<b>Net worth</b>															
Total Crown net worth	105,514	99,515	94,988	80,887	59,780	70,011	80,697	98,236	95,521	116,472	122,448	128,327	136,804	147,113	160,254
Total net worth attributable to the Crown	105,132	99,068	94,586	80,579	59,348	68,071	75,486	86,454	89,366	110,532	116,568	122,512	131,055	141,458	154,647
<b>Nominal expenditure GDP (revised actuals)</b>	189,001	189,500	196,735	205,819	215,109	218,792	236,731	245,094	257,353	272,766	286,391	301,430	316,488	331,627	345,650
% GDP															
<b>Revenue and expenses</b>															
Core Crown tax revenue	30.0	28.9	25.8	25.0	25.6	26.8	26.0	27.2	27.4	27.7	27.3	27.5	27.7	28.0	28.3
Core Crown revenue	32.6	31.2	28.3	27.8	28.1	29.2	28.3	29.5	29.6	30.0	29.6	29.7	29.9	30.1	30.4
Core Crown expenses	30.0	33.6	32.3	34.1	32.0	32.0	30.1	29.5	28.7	28.0	28.5	28.6	28.2	28.0	27.6
<b>Surpluses</b>															
Total Crown OBEGAL	3.0	(2.1)	(3.2)	(8.9)	(4.3)	(2.0)	(1.2)	0.2	0.7	1.5	0.9	0.9	1.6	2.0	2.5
Total Crown operating balance	1.3	(5.5)	(2.3)	(6.5)	(6.9)	3.2	1.2	2.4	(2.1)	4.5	2.1	1.9	2.7	3.1	3.8
<b>Cash position</b>															
Core Crown residual cash	1.1	(4.6)	(4.6)	(6.5)	(4.9)	(2.6)	(1.7)	(0.7)	(0.5)	0.9	(0.9)	(1.5)	(0.8)	0.1	0.7
<b>Debt</b>															
Gross debt <sup>1</sup>	16.6	22.9	27.2	35.2	37.0	35.6	34.6	35.1	33.8	31.9	29.5	27.7	26.3	23.9	25.1
Gross debt incl RB settlement cash and bank bills	20.0	26.9	29.9	37.6	39.1	38.5	37.4	38.0	36.2	34.0	31.9	30.0	28.5	26.0	27.1
Net core Crown debt (incl NZS Fund) <sup>2</sup>	(1.4)	3.0	6.4	11.6	15.6	15.7	14.4	12.6	12.5	8.7	8.5	8.6	7.6	5.6	3.0
Net core Crown debt <sup>2</sup>	5.4	9.0	13.6	19.5	23.6	25.5	25.3	24.7	24.0	21.8	21.7	22.2	21.9	20.8	19.3
<b>Net worth</b>															
Total Crown net worth	55.8	52.5	48.3	39.3	27.8	32.0	34.1	40.1	37.1	42.7	42.8	42.6	43.2	44.4	46.4
Total net worth attributable to the Crown	55.6	52.3	48.1	39.2	27.6	31.1	31.9	35.3	34.7	40.5	40.7	40.6	41.4	42.7	44.7
1 Excludes Reserve Bank settlement cash and bank bills.															
2 Excludes advances.															

## Economic Indicators

June Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.9	-1.0	2.3	2.0	3.5	2.4	3.3	3.1	3.2	4.7	3.0	3.5	3.1	2.6	2.2
Public consumption	4.3	3.3	-0.4	2.5	0.7	0.0	2.9	3.1	1.8	3.4	2.8	1.9	1.0	1.0	0.7
<b>TOTAL CONSUMPTION</b>	<b>3.2</b>	<b>0.1</b>	<b>1.6</b>	<b>2.2</b>	<b>2.8</b>	<b>1.8</b>	<b>3.2</b>	<b>3.1</b>	<b>2.9</b>	<b>4.4</b>	<b>2.9</b>	<b>3.1</b>	<b>2.6</b>	<b>2.2</b>	<b>1.9</b>
Residential investment	-3.8	-22.0	-2.5	-3.1	10.2	18.0	13.6	5.6	6.3	6.3	-1.5	3.0	6.2	8.0	4.5
Business investment	10.3	-8.6	-8.0	8.2	6.0	0.8	8.7	5.2	2.4	3.8	6.7	5.5	6.0	5.1	4.2
<b>TOTAL INVESTMENT</b>	<b>6.5</b>	<b>-12.0</b>	<b>-6.8</b>	<b>5.6</b>	<b>6.8</b>	<b>4.7</b>	<b>10.0</b>	<b>5.3</b>	<b>3.5</b>	<b>4.6</b>	<b>4.1</b>	<b>4.9</b>	<b>6.0</b>	<b>5.8</b>	<b>4.3</b>
Stock change (contribution to growth)	0.9	-1.4	0.9	-0.1	0.1	-0.3	0.4	-0.1	-0.4	0.1	-0.7	0.2	0.2	0.3	0.3
<b>GROSS NATIONAL EXPENDITURE</b>	<b>4.8</b>	<b>-4.2</b>	<b>0.7</b>	<b>2.7</b>	<b>3.9</b>	<b>2.2</b>	<b>4.6</b>	<b>3.4</b>	<b>2.6</b>	<b>4.4</b>	<b>2.9</b>	<b>4.1</b>	<b>3.8</b>	<b>3.4</b>	<b>2.7</b>
Exports	3.5	-2.9	4.8	2.2	2.1	3.0	0.1	5.8	5.0	0.0	3.4	2.7	2.8	2.1	1.5
Imports	11.6	-12.0	-1.0	11.4	4.4	2.6	9.0	6.6	1.0	6.0	2.7	3.3	5.0	4.3	3.3
<b>EXPENDITURE ON GDP</b>	<b>2.4</b>	<b>-1.3</b>	<b>2.7</b>	<b>0.2</b>	<b>3.3</b>	<b>2.3</b>	<b>2.1</b>	<b>3.2</b>	<b>3.7</b>	<b>2.7</b>	<b>3.0</b>	<b>3.6</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>
<b>GDP (production measure)</b>	<b>2.2</b>	<b>-1.7</b>	<b>0.8</b>	<b>1.1</b>	<b>2.6</b>	<b>2.2</b>	<b>2.5</b>	<b>3.3</b>	<b>2.7</b>	<b>2.7</b>	<b>2.9</b>	<b>3.6</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>
- annual % change	0.5	-2.0	2.6	0.9	2.5	2.6	2.7	2.4	3.5	2.5	3.3	3.4	2.9	2.5	1.9
Real GDP per capita	1.3	-2.6	-0.3	0.2	2.0	1.6	1.3	1.6	0.7	0.6	0.9	1.7	1.4	1.4	1.1
Nominal GDP (expenditure basis)	7.7	0.3	3.8	4.6	4.5	1.7	8.0	2.9	4.2	5.8	5.0	5.3	5.0	4.8	4.2
GDP deflator	5.2	1.6	1.1	4.4	1.2	-0.6	5.7	-0.3	0.5	3.1	1.9	1.6	2.0	2.1	2.1
Output gap (% deviation, June year average)	2.1	-0.9	-1.4	-1.9	-1.4	-1.3	-1.3	-0.5	-0.4	-0.4	-0.3	0.6	0.8	0.8	0.4
Employment	1.3	-0.2	-1.3	1.5	0.9	0.2	3.2	3.2	2.3	5.2	3.3	1.9	1.5	1.3	0.9
Unemployment (% June quarter s.a.)	3.8	5.7	6.5	6.0	6.3	5.9	5.2	5.5	5.0	4.8	4.6	4.4	4.2	4.0	4.1
Wages (average ordinary-time hourly, ann % change)	5.4	4.7	1.1	3.0	2.9	2.1	2.5	2.7	2.1	1.6	2.8	3.3	3.2	3.4	3.5
CPI inflation (ann % change)	4.0	1.9	1.7	5.3	1.0	0.7	1.6	0.4	0.4	1.7	2.0	1.9	2.1	2.2	2.2
Merchandise terms of trade (SNA basis)	10.0	-4.3	-3.0	9.7	-1.7	-3.8	16.4	-4.7	-2.7	5.1	4.2	-0.9	0.4	0.3	0.1
House prices (ann % change)	-4.4	-3.2	3.4	0.4	4.2	9.1	6.9	11.2	13.9	5.2	2.1	2.3	2.1	2.0	2.0
Current account balance - \$billion	-13.4	-9.4	-3.5	-6.0	-7.7	-7.9	-6.0	-8.8	-6.8	-7.8	-5.9	-6.7	-8.4	-10.8	-13.3
Current account balance - % of GDP	-7.1	-4.9	-1.8	-2.9	-3.6	-3.6	-2.5	-3.6	-2.7	-2.9	-2.1	-2.3	-2.7	-3.3	-3.9
TWI (June quarter)	73.0	62.3	68.6	70.8	72.4	76.3	81.5	76.2	73.6	76.5	73.8	73.8	73.8	73.8	73.8
90-day bank bill rate (June quarter)	8.8	2.9	2.9	2.7	2.6	2.6	3.4	3.5	2.4	2.0	2.0	2.4	3.6	4.1	4.2
10-year bond rate (June quarter)	6.4	5.6	5.7	5.3	3.7	3.5	4.4	3.6	2.7	2.9	3.0	3.4	3.9	4.2	4.3

Data for 2018 and subsequently are forecasts. Data for 2017 and prior years are those that were available when the forecasts were finalised.