TE TAI ŌHANGA
THE TREASURY

Half Year Economic and Fiscal Update 2023

20 December 2023

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

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

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

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

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

Internet

The URL for this document on the Treasury's website at December 2023 is
https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2023

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Statement of Responsibility

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

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of government decisions and other circumstances as at 23 November 2023 that were communicated to me by the Minister of Finance as required by the Public Finance Act 1989, and of other economic and fiscal information available to the Treasury as at 24 November 2023. This *Update* does not incorporate any decisions, circumstances or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.

Caralee McLiesh
Secretary to the Treasury

14 December 2023

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 23 November 2023 of which I was aware and that had material economic or fiscal implications have been communicated to the Secretary to the Treasury, as required by the Public Finance Act 1989.

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

Hon Nicola Willis
Minister of Finance

14 December 2023

Executive Summary

Economic activity remains slow, as forecast in the *Pre-election Economic and Fiscal Update 2023* (*Pre-election Update*). High interest rates are expected to persist and drive a sustained period of soft economic growth, reducing inflationary pressure. Compared to the *Pre-election Update*, slightly stronger activity and persistence in domestic inflation means interest rates are expected to stay around current high levels for longer. This means that although economic growth is expected to be stronger in the near term than in the *Pre-election Update*, high-for-longer interest rates mean we are now forecasting a more delayed recovery in activity.

The economic forecasts in this document were finalised on 6 November, and the fiscal forecasts were finalised on 24 November. This means that the forecasts do not incorporate the potential impacts of the new Government's decisions. These will be fully captured in the *2024 Budget Economic and Fiscal Update*. For more information refer to box on page 6.

Economic growth is forecast to average just 1.5% over the next two years, as elevated interest rates increase the cost of borrowing and of servicing existing debt, driving weak consumption and investment. Strong net migration and the ongoing recovery in international tourism are expected to provide some offsetting stimulus to parts of the economy, but the overall picture is one of slow growth. This is expected to reduce labour demand and lead to the unemployment rate reaching 5.2% in early 2025. Once inflation is again within the Reserve Bank of New Zealand (Reserve Bank) 1.0% to 3.0% target band, forecast to occur in late 2024, interest rates are expected to fall and growth is expected to pick up, averaging 2.8% per year from 2026 onwards.

The fiscal outlook is expected to improve over the forecast period as the economy grows and expenditure growth declines, albeit at a slower pace compared to the *Pre-election Update*, largely reflecting the weaker forecast for tax revenue and higher finance costs. The operating balance before gains and losses (OBEGAL) is expected to return to a small surplus of $0.1 billion in 2026/27, while net debt starts to fall, as a percentage of GDP, from a peak of 23.3% in 2024/25. The forecast improvement over time is underpinned by declining growth in core Crown expenses, as lower levels of funding are set aside for future decision-making, the baseline savings announced in August 2023 start to take effect, and some temporary spending ends (such as the response to the 2023 North Island weather events). In contrast, core Crown tax revenue recovers from sluggish growth in the 2022/23 year and is expected to gradually increase, from 28.4% of GDP in 2022/23 to 30.0% of GDP by 2027/28.

Table 1 – Key economic and fiscal indicators

June years	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Real production GDP (annual average % change)	3.2	1.5	1.5	2.8	3.0	2.7
Unemployment rate (June quarter)	3.6	4.5	5.2	4.8	4.6	4.4
CPI inflation (annual % change)	6.0	4.1	2.5	2.2	2.0	2.0
Current account (annual, % of GDP)	7.5	5.7	4.9	4.1	3.6	3.2
OBEGAL ($ billion)	(9.4)	(9.3)	(6.1)	(3.5)	0.1	3.4
as a percentage of GDP	*(2.4)*	*(2.2)*	*(1.4)*	*(0.7)*	*0.0*	*0.7*
Net debt ($ billion)	71.4	97.4	102.7	107.7	107.4	99.1
as a percentage of GDP	*18.0*	*23.2*	*23.3*	*23.2*	*22.0*	*19.3*

Sources: Stats NZ, the Treasury

Record high net migration has been supporting economic activity since borders reopened in 2022 following the COVID-19 pandemic. Since the *Pre-election Update*, net migration has been even higher than expected, reaching 128,900 in the year to October 2023. These high inflows have alleviated labour shortages and wage pressures in certain industries but are driving increased population growth. Partly due to stronger migration, annual house price growth is expected to be higher than in the *Pre-election Update*, reaching 5.3% in the year to June 2024, compared to 1.6% in the *Pre-election Update*. This, coupled with a recovery in tourism, is leading to more resilient demand in the economy and stronger inflationary pressures than forecast at the *Pre-election Update*. Consequently, interest rates are expected to remain at their current levels for slightly longer than previously forecast. Higher net migration is leading to a larger population than previously forecast, which while raising additional tax revenue will also increase pressure on future government expenditure.

Household budgets are expected to remain under pressure as labour market conditions deteriorate and living costs rise. Unemployment is forecast to peak at 5.2% in early 2025, while annual wage growth is expected to ease from 6.7% in September 2023 to 5.1% in June 2025. Business conditions are also expected to remain challenging, despite stronger demand from the ongoing recovery following the North Island weather events earlier in the year. Increasing business costs, subdued consumer demand, and soft export prices will weigh on profitability and businesses investment, while residential construction is anticipated to decline markedly over the next year. Overall, weak GDP growth, coupled with high migration-led population growth, means that real GDP per capita is forecast to be lower across the forecast period than in the *Pre-election Update* and is forecast to decline until the end of 2024.

The global economy remains subdued. This has been weighing on prices for key New Zealand export products and is expected to continue doing so throughout 2024 and 2025. Additionally, increased geopolitical volatility and trade fragmentation are expected to put upward pressure on the price of imports and downward pressure on the terms of trade. As global growth recovers during the latter part of the forecast, demand for New Zealand export products is expected to recover, as do the terms of trade. The current account deficit is forecast to improve from 7.5% of GDP in the 2022/23 fiscal year to 3.2% by mid-2028.

Nominal GDP expands over the forecast period, which lifts forecast core Crown tax revenue by $41.6 billion, to $154.0 billion by 2027/28 – an average increase of $8.3 billion per annum. Around half ($20.0 billion) of this forecast growth comes from source deductions, which are mainly PAYE on wages and salaries, owing to high nominal wage growth. GST is expected to increase by $8.0 billion over the forecast period, driven mainly by a combination of price increases and population growth while spending per capita stays relatively flat. Core Crown tax revenue is forecast to increase as a proportion of GDP, from 28.4% to 30.0% by 2027/28.

However, core Crown tax revenue is expected to be $1.6 billion lower in total across the forecast period, compared to the *Pre-election Update*, in part reflecting a downgrade in business profits, which persists across the forecast period, lowering the forecasts of both corporate and other persons tax revenue.

Core Crown expenses growth remains elevated in the current fiscal year, increasing by $12.7 billion compared to 2022/23. Increases are more than halved thereafter and well below the annual growth in core Crown tax revenue. The current year growth in expenses reflects decisions taken at Budget 2023, rephasing of unused spending from 2022/23 and economic factors driving higher finance costs and benefit expenses. Core Crown expenses are expected to decline as a share of GDP, from 33.4% in 2023/24 to 31.4% by 2027/28, as the impact of the baseline savings and lower Budget operating allowances reduce expense growth. Compared to the *Pre-election Update*, core Crown expenses are higher in all years. This largely reflects that higher finance costs are now expected from high-for-longer interest rates and additional borrowings needed to cover the downward revision in tax revenue forecasts.

The factors above mean that OBEGAL deficits remain elevated in the near term, before returning to surplus in 2026/27. This forecast return to surplus is expected to occur in the same year as in the *Pre-election Update*, but it is significantly smaller at $0.1 billion. By the end of the forecast period, an OBEGAL surplus of $3.4 billion is expected.

Residual cash follows a similar trend to OBEGAL, with significant deficits in the near term, before returning to surplus by the last year of the forecast period. A total residual cash deficit of $32.2 billion is expected, slightly higher than the *Pre-election Update,* which will be largely funded through additional borrowings.

The deficits expected in the near term are the key driver for the initial lift in net debt, which rises to $107.7 billion by 2025/26, before starting to fall. Overall, the net debt track is expected to be slightly higher across the forecast period compared to the *Pre-election Update.* Net debt is now forecast to peak at 23.3% of GDP in 2024/25, before declining to 19.3% of GDP by 2027/28 – around 1 percentage point of GDP higher than forecast in the *Pre-election Update.* The higher net debt track is largely reflective of the weaker residual cash forecasts, along with recent market conditions that have had unfavourable impacts on the net financial instrument portfolio of the New Zealand Superannuation Fund, which are included in the net debt measure.

Net worth is forecast to grow by $14.3 billion over the forecast period, largely reflecting the operating balance results, but it declines as a percentage of GDP, to be 40.1% in 2027/28, as operating balance results are less than the growth in nominal GDP.

Finalisation dates for the *2023 Half Year Economic and Fiscal Update*

Economic forecasts – 6 November 2023

Tax revenue forecasts – 14 November 2023

Fiscal forecasts – 24 November 2023

Risks to fiscal forecasts – 24 November 2023

Text finalised – 14 December 2023

The Government's Mini Budget, 100 Day Action Plan and coalition agreements

The Treasury's economic and fiscal forecasts presented in the *2023 Half Year Economic and Fiscal Update* (*Half Year Update*) were completed prior to the release of the Coalition agreements, the Government's 100 Day Action Plan commitments and the decisions made on the Mini Budget. Therefore, the forecasts are based on decisions and circumstances known as at 23 November 2023 and do not capture any information after that date.

The table below outlines the anticipated fiscal impacts on key fiscal indicators from final decisions announced in the Government's Mini Budget. Only the direct impacts from Mini Budget decisions are captured in Table 2, and there will be subsequent impacts that have yet to be considered. For example, the decision to exit the Crown's contribution to Let's Get Wellington Moving will likely include the withdrawal of some National Land Transport Fund (NLTF) co-funding from the programme (in addition to the Strategic Investment Programme funding withdrawn through the Mini Budget), thereby leaving more funding available in the NLTF for other projects.

Table 2 – Indicative impact of Mini Budget decisions on key fiscal indicators[1]

Year ending 30 June $billions	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**Total change**
Core Crown revenue	-	-	1.1	0.5	0.5	2.1
Core Crown expenses	(0.2)	(1.2)	(1.4)	(1.6)	(1.0)	(5.4)
OBEGAL	**0.2**	**1.2**	**2.5**	**2.1**	**1.5**	**7.5**
Capital spending	-	(0.1)	(0.1)	(0.2)	-	
Net debt (cumulative impact)	**(0.2)**	**(1.5)**	**(4.1)**	**(6.4)**	**(7.9)**	

While overall the Mini Budget decisions will improve the fiscal outlook presented in the *Half Year Update*, it is anticipated that once combined with the other signalled commitments in the Mini Budget (eg, tax plans) expected to be agreed in the future, the overall impact would be broadly neutral over the forecast period.

Once the Mini Budget decisions and other commitments are reflected into the forecasts, there will be changes in the composition of some key indicators presented in the *Half Year Update* (eg, GDP, core Crown revenue and core Crown expenses). In addition, there is a risk that once decisions are fully reflected into the economic and fiscal forecasts, the overall fiscal impacts may not be neutral due to the indirect, or second order, impacts of the decisions. In particular, decisions may have flow on impacts to the economic outlook, which in turn have implications for forecasts of certain revenue and expense items, such as tax revenue and finance costs.

The full economic and fiscal implications from future commitments that are outlined in the Mini Budget, 100 Day Action Plan and Coalition agreements, will be assessed as part of our next forecast round, which will be released in the 2024 *Budget Economic and Fiscal Update*. There is a risk that these future decisions could impact on the economic and fiscal forecast presented in the *Half Year Update*. In addition, there will be a number of specific fiscal risks presented in the *Half Year Update* that may now expire from decisions and announcements to stop some of the previous Government's programmes.

1 The numbers in the table reflect Mini Budget decisions at the time the *Half Year Update* went to print. There is a risk that there could have been subsequent decisions in the Mini Budget that will not be captured in the table.

1

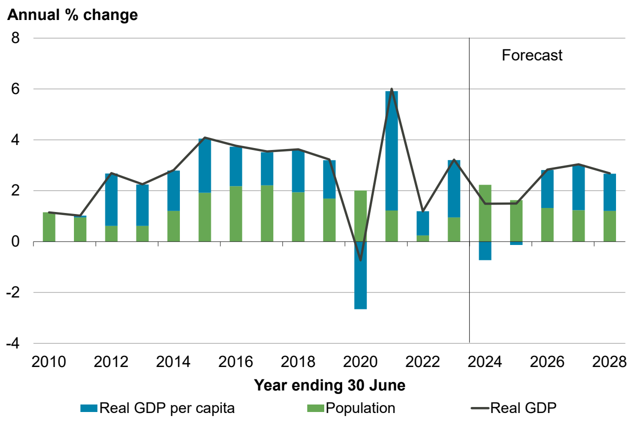
Economic Outlook

The New Zealand economy is experiencing a period of subdued growth as higher interest rates work to reduce inflation in an uncertain global environment. Consumers price index (CPI) inflation has come down substantially over the past year, but, at 5.6%, it remains well above the 1% to 3% target range of the Reserve Bank.

Domestic demand growth has eased, and global cost pressures have abated, reducing upward pressure on inflation. However, demand continues to exceed supply in many parts of the economy, and continued demand restraint is needed to enable supply to catch up and provide the conditions for further reductions in inflation.

Economic growth is expected to be subdued for some time. GDP growth is forecast to slow to around 1.5% this year and to remain low in 2024/25, as past interest rate rises continue to work their way through the economy and dampen household and business spending. Strong population growth, underpinned by record high net migration inflows of nearly 120,000 in the year ended September, will support growth but GDP per capita is expected to decline (Figure 1.1). Expected declines in real government spending reinforce the slowdown. The recovery in international tourism has provided a substantial boost to activity over the past year and is expected to continue supporting growth over the year ahead, but the uncertain global outlook is weighing on commodity export prices.

Figure 1.1 – Composition of real GDP growth



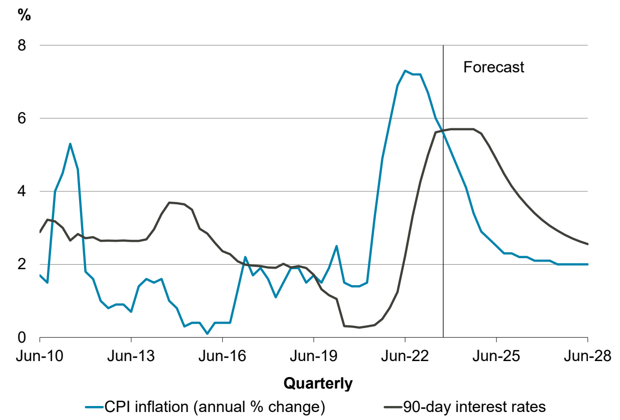
Sources: Stats NZ, the Treasury

The unemployment rate has increased to 3.9% this year from record lows of around 3.2% in 2022, highlighting the strength in labour supply relative to demand. Strong growth in labour supply supported employment gains over the first half of the year, but employment weakened in the September quarter and the unemployment rate rose. Wage growth, which responds to the degree of labour market tightness, has slowed from its peaks earlier this year but remains high. With GDP growth expected to slow, labour demand will also continue to soften, and the unemployment rate is forecast to rise to 5.2% in 2025.

In the later years of this forecast, economic growth strengthens as inflation returns to target and growth in real wages gathers pace. Growth averages around 2.8% from 2024/25 through to the end of the forecast period, a little above the medium-term rate of potential growth. The larger population and the associated investment in new housing reinforces the expected GDP growth rebound. As demand picks up, employment expands, and the unemployment rate falls to 4.4% at the end of the forecast period.

Inflation is now forecast to be 4.1% in June 2024, a little higher than in the *Pre-election Update* (Figure 1.2). GDP growth over the first half of 2023 was stronger than expected, and the outlook for GDP growth over the year ahead is also higher, leading to higher inflation pressures. Consequently, the Reserve Bank is forecast to keep short-term interest rates around current restrictive levels until late-2024, about six months longer than previously assumed. As spare capacity increases, inflation pressures are expected to subside and interest rates are expected to fall. Inflation is forecast to be back within the Reserve Bank's target range in late 2024.

Figure 1.2 – CPI inflation and 90-day interest rates



Sources: RBNZ, Stats NZ, the Treasury

Nominal GDP growth is a key driver of tax revenue growth. Nominal GDP growth is expected to slow from nearly 9% in 2022/23 to less than 5% in 2024/25, reflecting the slowdown in real GDP growth and lower inflation, and averages around 5% over the remainder of the forecast period. Compared to the *Pre-election Update,* the outlook for nominal GDP growth is a little weaker, which flows through to a downward revision in tax revenue of $1.6 billion over the forecast period.

The *Half Year Update* also includes a downward revision to potential GDP, the economy's sustainable level of activity in the medium-term. Estimates of productivity grew strongly as output rebounded from COVID-19 disruptions, and earlier forecasts for activity and inflation assumed this would continue. However, recent estimates show productivity growth has slowed, and the earlier strong increases now appear to be temporary. Conversely, migration has proven stronger than previously forecast, meaning the labour force is likely to be larger, but is expected to only partially offset the impact of slower productivity growth. Overall, potential GDP is expected to be around 0.8% lower at the end of the forecast period compared to the *Pre-election Update*. The box on page 21 provides further detail.

The challenge of reducing inflation remains the key policy focus in many economies. Higher policy interest rates are contributing to slowing global demand and easing price pressures, although services prices are declining more slowly. Progress in lowering inflation is expected to require global growth to remain low for some time. In the medium term, ageing populations, weak productivity and a more fragmented global trading environment are weighing on the prospects for a return to the growth rates achieved in earlier decades. Trading partner growth is expected to average 2.4% per year over the forecast period, down from 3.3% over 2010-2019.

Considerable uncertainty surrounds these forecasts. The impact of migration flows on the outlook remains uncertain. Changes in the level and composition of flows could result in net demand effects that are either more or less intense than assumed. Growth in household spending is a further source of uncertainty. Many households are feeling the squeeze on incomes from higher inflation and higher mortgage rates. In other households, saving has increased, higher interest rates are supporting incomes and rising house prices are adding to wealth. Inflation in the services sector has been slow to decline and continued high inflation could lead households and businesses to expect inflation to remain high, and add upward pressure to wages and prices. The impacts of the new Government's decisions are a further source of uncertainty.

Globally, uncertainty surrounds the impacts of monetary policy on growth and inflation. Core inflation may be slower to fall than expected, requiring tighter monetary policy and slower growth. Weaker growth in China is a key risk. Vulnerabilities in the property sector may add to consumer caution and reduce demand for New Zealand's exports, including through China's effects on New Zealand's other major trading partners. The conflict in the Middle East is adding to uncertainty, with a resurgence in energy price volatility a key risk. The El Niño weather pattern is also a source of uncertainty, with potential to disrupt agriculture and create volatility in food prices.

Recent developments and implications for the forecasts

The economic forecasts were finalised on 6 November. Since then, additional information has become available that may have implications for the outlook.

- The new Government announced its Mini Budget and its 100 Day Action Plan.
- September quarter GDP data showed growth this year was lower than expected. Real GDP fell 0.3% in the September quarter and growth in previous quarters was revised down.
- Selected price indices for October and November released by Stats NZ indicate that December quarter CPI inflation may be lower than the 0.9% increase included in these forecasts.
- The Real Estate Institute of New Zealand's monthly house price index for October and November point to a smaller increase in house prices over the December quarter than the 1.7% forecast.
- Migration data from Stats NZ for the year ended October showed estimated net migration inflows increased to nearly 130,000. The outturn suggests the net in-flow in the year ended December 2023 may exceed the forecast of 117,000.

Overall, the economy is in a weaker position, and price pressures appear to be less intense than expected in the *Half Year Update*. Our next forecasts, expected in the *2024 Budget Economic and Fiscal Update,* will capture these and further developments.

Table 1.1 – Economic forecasts

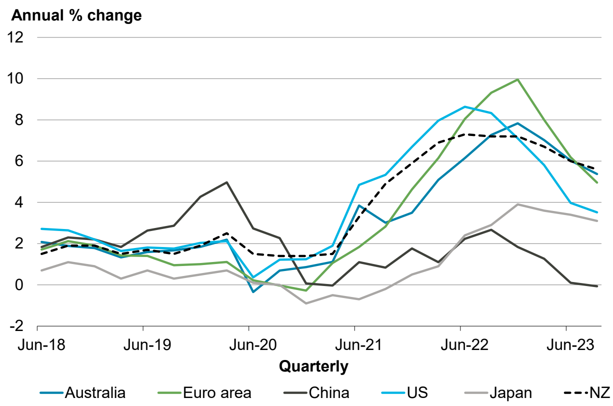
Year ending June Annual average % change	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Private consumption	3.2	-0.7	0.9	2.7	2.9	2.8
Public consumption	0.1	-0.5	-2.3	0.6	0.4	0.0
Total consumption	**2.4**	**-0.7**	**0.1**	**2.2**	**2.3**	**2.2**
Residential investment	3.4	-3.8	-2.0	1.0	3.4	4.8
Business investment[1]	4.8	-2.2	0.2	3.5	5.0	2.9
Total investment	**4.5**	**-2.6**	**-0.3**	**2.9**	**4.7**	**3.3**
Stock change[2]	-1.3	0.3	0.4	0.0	0.0	0.0
Gross national expenditure	**1.5**	**-0.1**	**0.0**	**2.4**	**2.9**	**2.5**
Exports	11.9	6.0	5.9	3.8	3.2	2.9
Imports	3.3	-2.5	1.5	2.3	2.7	2.2
GDP (expenditure measure)	**3.3**	**1.5**	**1.4**	**2.8**	**3.0**	**2.6**
GDP (production measure)	**3.2**	**1.5**	**1.5**	**2.8**	**3.0**	**2.7**
Real GDP per capita	2.3	-0.7	-0.1	1.5	1.8	1.5
Nominal GDP (expenditure measure)	8.9	6.1	4.7	5.4	5.4	5.0
GDP deflator	5.4	4.5	3.3	2.6	2.3	2.3
Potential GDP	4.4	2.7	2.7	2.6	2.5	2.4
Output gap (% of potential, June quarter)[3]	1.0	-0.1	-1.1	-0.4	-0.1	0.1
Employment	2.5	1.4	0.4	1.4	1.7	1.5
Unemployment rate[4]	3.6	4.5	5.2	4.8	4.6	4.4
Participation rate[5]	72.4	71.6	71.3	71.4	71.3	71.3
Hourly wages (annual % change)[6]	6.9	6.2	5.1	3.9	3.5	3.3
CPI inflation (annual % change)	6.0	4.1	2.5	2.2	2.0	2.0
Terms of trade (goods)[7]	-6.5	-2.0	-0.2	1.2	0.9	0.7
House prices (annual % change)[8]	-9.1	5.3	0.7	1.7	3.3	4.8
Current account balance (annual)						
$billions	-29.6	-23.9	-21.7	-19.0	-17.7	-16.4
% of GDP	-7.5	-5.7	-4.9	-4.1	-3.6	-3.2
Net international investment position (% of GDP)	-47.8	-50.8	-53.4	-54.8	-55.6	-56.1
Exchange rate (TWI)[9]	70.9	69.8	69.1	68.6	68.1	67.7
90-day bank bill rate[10]	5.6	5.7	4.9	3.6	2.9	2.6
10-year bond rate[10]	4.3	5.1	4.9	4.7	4.6	4.4
Population growth	1.0	2.2	1.6	1.3	1.2	1.2
Net migration (4-quarter sum, 000s)	104.4	77.8	49.1	42.2	40.5	40.1

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

Inflation has eased…

The global price shocks and supply disruptions that caused the run-up in inflation have eased and global consumer price inflation has slowed, although it remains above inflation targets for most of New Zealand's main trading partners (Figure 1.3). Slower goods price inflation, especially lower energy prices, has led the decline. Services inflation, including rents for housing, and measures of core or underlying inflation, which exclude volatile prices such as food and energy, have been more persistent.

Figure 1.3 – Inflation in NZ and main trading partners

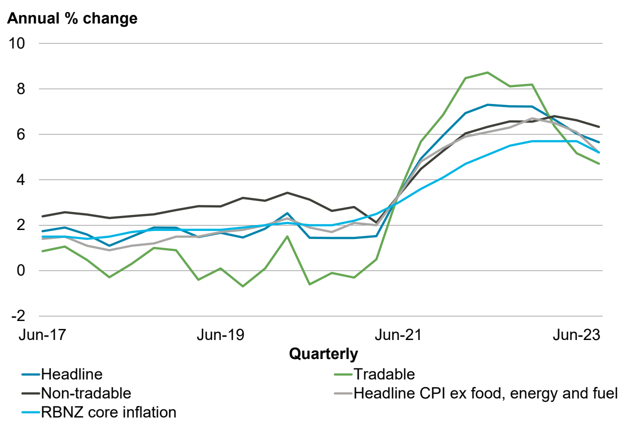


Sources: Stats NZ, Haver

Developments in New Zealand's CPI inflation rate have broadly shadowed global trends. Inflation has declined from its peak of 7.3% in the June quarter 2022 but at 5.6% it remains high. Initially, falls in prices for petrol and electronic goods, and a slower pace of home construction price increases, drove much of the slowdown, as supply chains recovered. Tradables inflation, which has a high share of goods, has fallen relatively quickly from its peak of 8.7% in mid-2022 to 4.7% in the September 2023 quarter (Figure 1.4).

More recently, price increases for other goods and for services have slowed. Annual non-tradable inflation slowed to 6.3% in the September quarter, while services inflation eased to 5.6% from a peak of 6.1% in the previous quarter. Price inflation for rental housing, which has a large weighting in services inflation, picked up slightly to 4.4%, well above its average of 2.2% in the decade prior to the pandemic. Measures of core inflation, which exclude the most volatile CPI items, have slowed but remain well above the mid-point of the Reserve Bank's inflation target.

Figure 1.4 – Inflation measures



Sources: RBNZ, Stats NZ

…as past interest rate increases work their way through the economy…

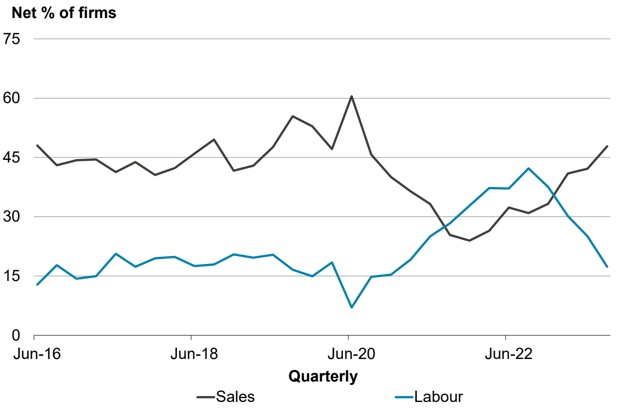
The Reserve Bank has increased its policy interest rate by 525 basis points in the past two years. The impacts of these rate rises are most immediately apparent in the cost of new debt and the refinancing of existing debt. As a result, household debt servicing costs have increased, reducing the income available to meet other expenses. The Reserve Bank estimates that the average household mortgage interest rate has risen to around 5.4% from 2.9% in late 2021 but household cash flows have yet to fully incorporate the impacts of higher mortgage interest rates: the average rate is expected to increase by about 1 percentage point over the year ahead. Household interest payments are expected to rise to 18% of disposable income by the middle of 2024, double the share paid in mid-2021.

Signs that higher interest rates are slowing demand in other parts of the economy are more mixed, as other forces provide an offset. Population growth is supporting household spending, but growth in real spending per capita has stalled. Lower spending on goods accounts for most of the slowdown in per capita spending, as households have rotated spending to services, including international travel, which reached 91% of pre-COVID-19 levels in September. Inbound tourism has also rebounded substantially, with arrivals in September returning to 86% of their pre-pandemic level, contributing to higher activity in some industries and regions.

...and the economy rebalances

Business investment has remained solid so far this year, rising 3.7% over the first two quarters, but business surveys point to easing demand. The NZIER's Quarterly Survey of Business Opinion showed that labour shortages have eased, and that softer demand has overtaken labour as the main constraint on activity, with both indicators back to pre-pandemic levels (Figure 1.5). In addition, measures of capacity utilisation have fallen, and investment and employment intentions have been subdued.

Figure 1.5 – Business constraints

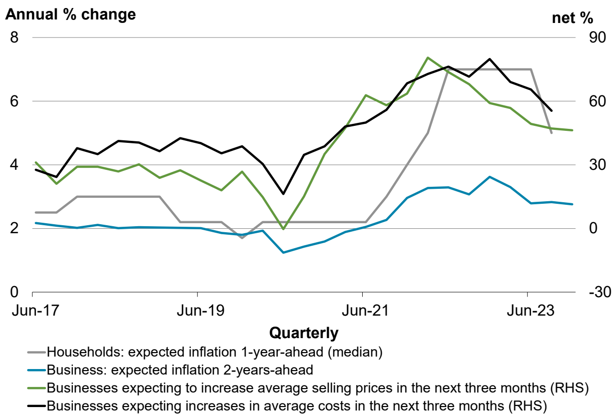


Source: NZIER

Survey measures of inflation expectations and business pricing conditions also suggest that inflationary pressures have eased. Fewer firms are expecting further cost increases and fewer are reporting that they intend to increase prices. The net share of firms expecting to increase prices in the next three months peaked at 80% in March 2022, with a similar peak in the share expecting higher costs (Figure 1.6).

Households and businesses have lowered their expectations of inflation over the next 12 to 24 months, although some measures of longer-term inflation expectations have been slower to adjust (Figure 1.6). Nonetheless, measures of price pressure remain well above levels that are consistent with low inflation, and further progress in rebalancing the economy is needed.

Figure 1.6 – Inflation expectations and price pressures



Sources: ANZ, NZIER, RBNZ

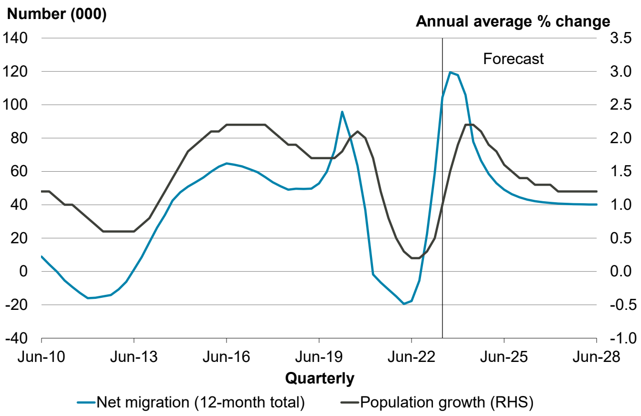
Tightness in the labour market has eased…

In the labour market, demand and supply have become more aligned. Employment growth was resilient over the first half of the year but slowed in the September quarter, while growth in hours worked per employee has been subdued this year.

Increases in labour supply have helped to promote adjustment in the labour market. Net immigration has rebounded to record-high levels and population growth has returned to the rates experienced in the latter half of the previous decade (Figure 1.7). The net inflow was estimated to be 118,800 in the 12 months ended September and contributed to the labour force participation rate rising to record high levels of over 72% so far this year.

Immigration data also shows the new arrivals are adding to the workforce: around two-thirds on the net inflow were in the 20 to 44 age range, and for non-New Zealand citizens, around half were on work visas, and one-fifth were on student visas. For migrant arrivals, citizens from India, the Philippines and China were the largest, while New Zealand citizens dominate departures, with over 70,000 leaving in the past year, the most since late 2012. The rise in migration flows likely reflects some catch-up from the period when border restrictions were in place, as well as changes to visa criteria and high levels of demand from employers to fill vacancies. The forecasts assume that the annual net migration inflow reaches a peak of 119,000 the September 2023 quarter and subsides thereafter, before levelling off at around 40,000 per year toward the end of the forecast period. After the forecasts were finalised, data for the October year showed a further rise in net inflows to 129,000, highlighting upside risks to our forecast.

Figure 1.7 – Net migration and population growth



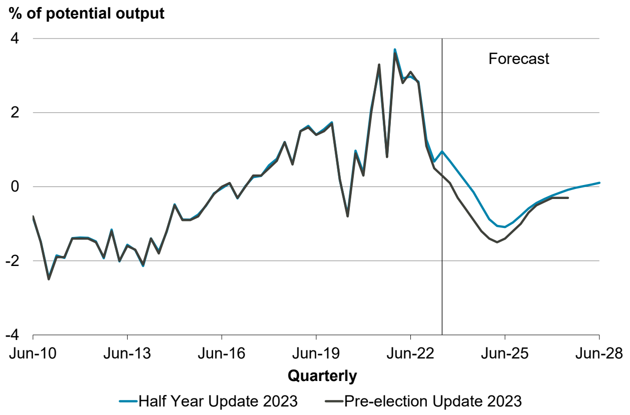
Sources: Stats NZ, the Treasury

…but demand continues to exceed supply

Strong economic demand and constrained supply is still evident in the wider economy. Wage growth remains high, supporting household incomes and demand. Average hourly wages grew 6.7% in the September 2023 quarter compared to the same quarter a year ago, down from their peak of 7.6% in the March quarter, but still much higher than the average of 3% over period from 2010 to 2019. As a share of the working-age population, employment rose to a record high of 69.8% in the June 2023 quarter and, combined with rapid wage growth, supported growth of 9.3% in overall compensation of employees in the year, only slightly below the 9.5% increase in the previous year. The current account deficit, which reflects the strength of import demand relative to global demand for New Zealand's exports, remains unsustainably large at 7.5% of GDP in the June 2023 quarter, but is below its December 2022 peak of 8.5%.

The output gap is a measure of the extent of imbalance between demand and supply in the economy. June quarter GDP data suggested that demand exceeded the available supply of capital and labour by around 1.0%, indicating that some upward inflation pressures remain (Figure 1.8). There is considerable uncertainty surrounding the degree of excess demand in the economy, including the net effects from the high level of immigration and severe weather events earlier in the year, and its impact on inflation.

Figure 1.8 – Output gap



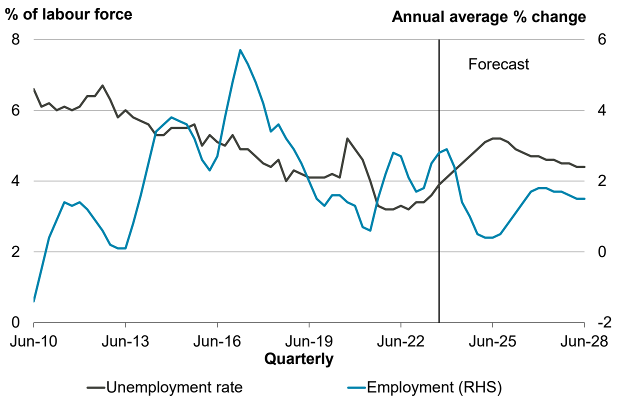
Source: The Treasury

The outlook for growth is subdued…

Growth in the New Zealand economy is forecast to be 1.5% for the next 2 years as higher interest rates restrain demand, net migration inflows subside and slower global growth weighs on exports. As demand slows, the output gap is expected to become increasingly negative from around the middle of 2024, indicating that the economy will be operating below its productive capacity. With GDP growth forecast to remain below average in 2024/25, spare capacity continues to accumulate, which allows inflation pressures to cool.

In the labour market, demand restraint is reflected in weaker employment growth and, alongside the rise in unemployment, is a signal that pressure on capacity is easing. Employment growth is forecast to slow from 2.8% in the year ended September 2023 to 1.4% in the year ending June 2024 and to 0.4% the following year (Figure 1.9). Despite slowing, labour supply growth is expected to remain well above growth in labour demand. As a result, the unemployment rate is forecast to rise to 5.2% in mid-2025. Thereafter, less restrictive monetary policy settings allow the economy to gather pace, and employment demand rises. The unemployment rate falls to 4.4% at the end of the forecast period.

Figure 1.9 – Employment and unemployment



Sources: Stats NZ, the Treasury

Compared to the *Pre-election Update,* labour demand is a little slower to decline, reflecting stronger growth in the economy over the first half of the year, and the peak in the unemployment rate has been revised down from 5.4%.

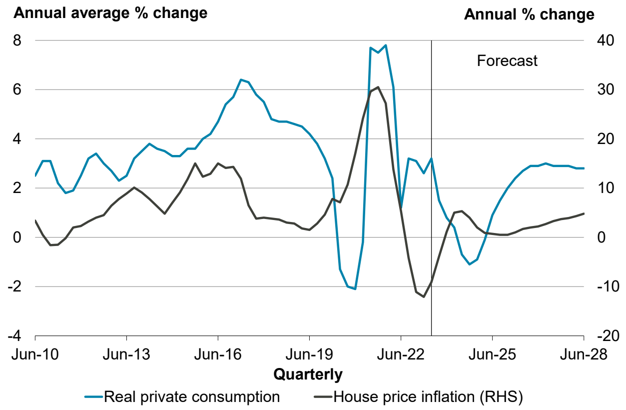
…with high interest rates constraining household spending…

Resilient growth in private consumption over the first half of the year suggests less progress in rebalancing demand and supply than was anticipated in the *Pre-election Update*. Real private consumption expenditure grew 0.4% in the June quarter following growth of 1.5% in the March quarter, but per capita spending stalled as the cumulative impacts of high inflation and rises in mortgage interest rates constrained spending.

Retail spending data points to a slower pace of spending growth in the three months ended September. High interest rates, including the additional costs of refinancing fixed rate mortgages, are expected to lead to declines in real household spending over the year ahead. Thereafter, lower inflation, rising real wages and declining interest rates help to free up household budgets and provide scope for increases in real household spending (Figure 1.10).

House prices are also influencing household spending. Falls in house prices reduce their owners' wealth, which tends to flow through to reductions in current spending. House prices declined 13.5% from their peak in late 2021 but have increased in recent months and become more supportive of household spending (Figure 1.10). The increases have occurred in most cities and regions and likely reflect faster population growth.

Figure 1.10 – Real private consumption and house prices



Sources: Stats NZ, the Treasury

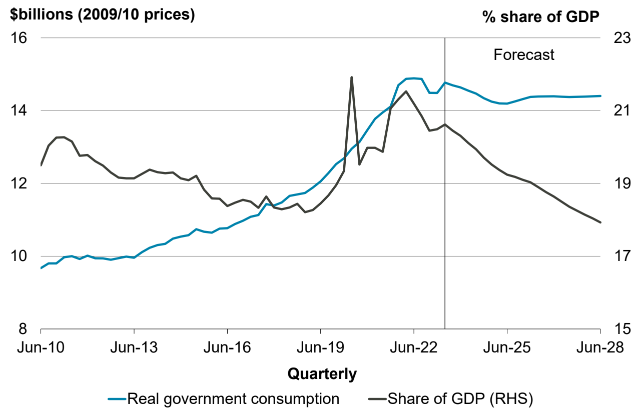
House prices are forecast to rise 5.3% in the year to June 2024. Thereafter price growth slows to around 1.5% per year, on average, over 2024/25 and 2025/26 as lower net migration reduces demand growth, while high interest rates and softening labour market conditions continue to weigh on the demand for mortgage lending. Declining interest rates and increasing employment contribute to faster house price growth over the remainder of the forecast period.

There remains significant uncertainty around the sensitivity of household spending to the current conditions. Household saving has strengthened in recent years and some households that have accumulated savings may use them to sustain their consumption. Higher interest rates are also increasing the returns on savings held by some households and increasing their disposable income. However, other households are facing significant budget pressures and discretionary spending is being cut.

…and public consumption expected to decline…

The Treasury's forecasts of government spending are based on the fiscal forecasts in the *Pre-election Update*, but updated for recent economic data, including GDP and inflation*.* The policy intentions of the new Government will be included in the 2024 *Budget Update.*

Figure 1.11 – Real government consumption



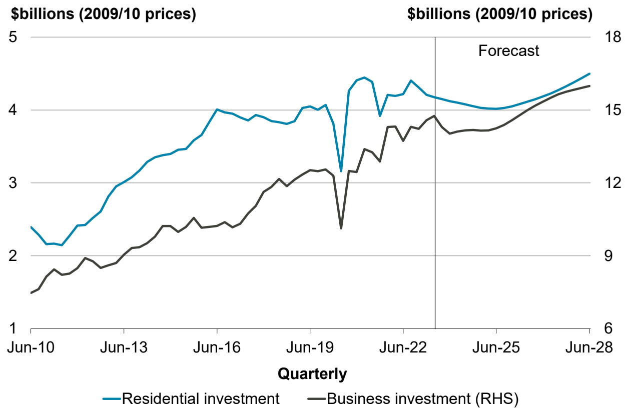
Sources: Stats NZ, the Treasury

Real government consumption spending stabilised over 2022/23 following a period of growth that reflected higher spending associated with the pandemic (Figure 1.11). The outlook is for real spending to decline 2.8% by 2024/25 and to be broadly stable over the remainder of the forecast period. With GDP growth expected to average around 2.3% per year over the forecast period, government spending is projected to decline substantially as a share of GDP.

…alongside lower residential investment…

Residential construction activity has slowed in recent quarters and the outlook is for further declines over the next two years (Figure 1.12). The main indicator of activity, residential building consents, has fallen 20% over the past year signalling less building activity once the current backlog of house construction is worked through. Forces driving the slowdown include higher construction costs and higher interest rates. Rebuild activity arising from the North Island weather events will mitigate the extent of short-term weakness. In the medium-term, easing interest rates and tighter housing supply leads to a recovery in residential investment.

Figure 1.12 – Real business and residential investment



Sources: Stats NZ, the Treasury

…and weaker business investment

Business investment has been solid so far this year, supported by a large pipeline of construction work and the rebuilding of transport capacity to support the rise in tourism. However, surveys of business sentiment report fewer orders, weaker production, and subdued intentions to invest. In addition, export commodity prices have weakened, and the global outlook is dim. In the dairy industry, profit margins have narrowed, and bank lending has slowed. Some farmers are focused on conserving cash rather than investing. Overall, weakening domestic demand, tighter financial conditions and lower commodity export prices contribute to a weak outlook for business investment (Figure 1.12).

However, rebuild activity in response to the North Island weather events is expected to provide some support to business investment over the latter part of the forecast period.

Global growth is slowing

Global inflation has eased, but monetary policy tightening is leading to slower growth in many economies. However, global growth has been higher than expected so far in 2023, mostly reflecting the performance of the United States.

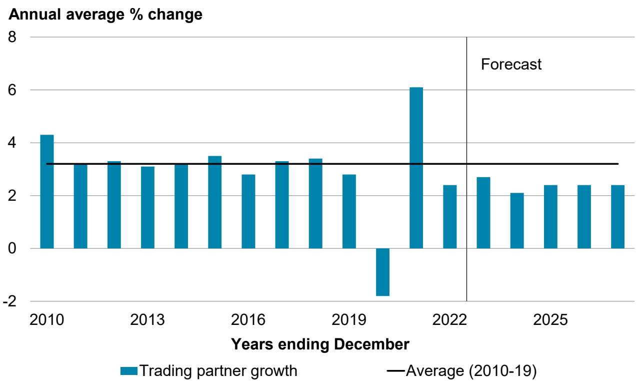
Growth in the United States has been stronger than expected, with GDP growing 3.0% in the September 2023 quarter compared to the same quarter a year ago, driven by increased household spending. Nonetheless, there are signs activity is slowing, including lower business investment and slower jobs growth. GDP growth is expected to be around 1.6% in the year ending December 2024, and to recover to around 2.1% in 2025, as monetary policy becomes less restrictive.

China's economic growth has been uneven following the reopening of the economy early this year as financial stresses in the property sector and high levels of local government debt have weighed on sentiment. Consumer spending has been leading the recovery, but persistent declines in real estate investment have led the government to increase policy support for the property market and the economy more broadly economy. Inflation has been weak for much of the year, consistent with activity remaining below the trend expected prior to the pandemic. Growth is expected to be around 5.3% in 2023 and around 4.6% in 2024, as external demand remains weak. In addition to addressing the risks posed by high debt levels and the property market, China's economy faces challenges from population ageing and slowing productivity growth. In the medium-term, growth in China is expected to slow to around 4%, around half the pace of annual growth since 2000.

In the euro area, GDP weakened in the September quarter to be just 0.1% higher than the same quarter a year ago. Japan's economy also contracted in the September quarter as domestic demand weakened. In Australia, growth has been below-average this year, led by a slowdown in household spending. Australia's labour market has eased slightly, but at 3.6% in September the unemployment rate remains low relative to historical averages.

Globally, headline inflation has fallen substantially, but measures of underlying inflation and core inflation (excluding food and energy) have declined by less. Services prices are proving to be stickier than goods prices, consistent with tight labour markets, as the wages component of services is generally a larger share of costs. In most advanced economies, demand continues to exceed supply, and restrictive monetary policies are working to lower inflation. In many cases, a prolonged period of restraint is likely to be needed to rebalance supply and demand in labour and product markets and bring inflation back to target. Overall, the outlook is for trading partner growth to slow to 2.1% in the year ending December 2024 (Figure 1.13).

Figure 1.13 – Trading partner growth outlook

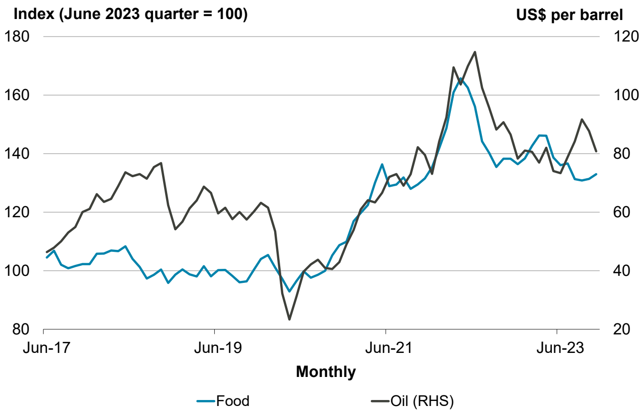


Source: Haver

Beyond 2024, easier monetary policies allow trading partner growth to recover to around 2.4%. However, continued weak productivity growth and ageing populations are limiting prospects for a more pronounced pickup, and the medium-term outlook for trading partner growth is well below the average of the past decade. Geoeconomic fragmentation is also contributing to the subdued growth outlook, as countries adopt policies to create greater self-sufficiency in production and investment. These policies are expected to weaken competition, raise prices and slow the diffusion of technology, which will add to the challenges of achieving higher productivity growth. For New Zealand, this means that imported inflation will be higher than otherwise and that demand for New Zealand's exports will be hampered by trade barriers and by slower growth than otherwise. As a result, the prospects for gains in New Zealand's terms of trade have dimmed.

Oil market volatility increased in September and October following an extension of production cuts by some of the world's largest producers and fears that the Israel – Gaza conflict would further disrupt oil supplies in the region (Figure 1.14). More recently, oil prices have retreated to levels prevailing around the middle of the year. The Treasury's forecasts assume oil prices ease slightly over the forecast period, but the prospect of renewed volatility that adds to inflation is a risk to the outlook. Global food prices have been stable in recent months, but prices remain high relative to their pre-pandemic levels (Figure 1.14).

Figure 1.14 – Global oil and food prices

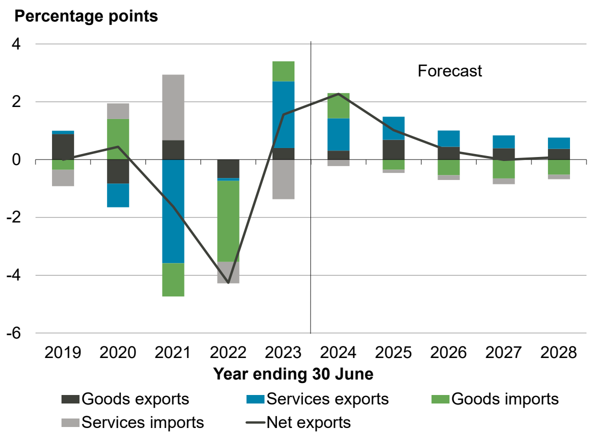


Source: IMF

Net exports are supporting growth…

Real exports grew 12% in 2022/23 – the largest rise in over 30 years – underpinned by a 55% rise in services exports. Visitors from Australia led the recovery in services, quickly returning to pre-COVID levels. More recently, tourists from China, the second largest source of visitors prior to the pandemic, have been the main driver, with numbers increasing to over 50% of 2019 levels in September. Growth in goods exports was more moderate, as declines in forestry and non-food manufactured goods partially offset higher meat and dairy export volumes. Outbound travel and tourism also recovered strongly following the reopening of borders and were the main drivers of import growth in 2022/23. Overall, net exports contributed 1.6 percentage points to GDP growth (Figure 1.15).

Figure 1.15 – Contributions to GDP growth



Sources: Stats NZ, the Treasury

The contribution to GDP growth is expected to rise to 2.3% in 2023/24 with exports forecast to grow 6.0% as the recovery in international tourism continues, while weaker domestic demand is reflected in lower goods import volumes. Net export growth is expected to remain solid in 2024/25, as primary production recovers from this year's severe weather events and supports growth in services exports. Thereafter, growth subsides as growth in export volumes returns to trend and the pickup in domestic demand supports higher import growth.

…but commodity prices have fallen

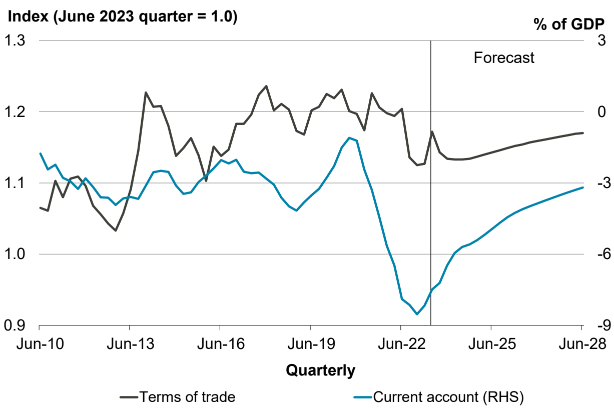
The subdued global growth outlook is weighing on New Zealand's commodity export prices and the terms of trade. Export prices have weakened this year and are projected to remain lower than in recent years, consistent with reduced returns to dairy producers announced by major processors, before picking up as the global demand backdrop strengthens. Import prices have also fallen this year, led by lower petrol prices, while lower freight costs are also contributing. The outlook is for import prices to increase, but at a slower pace than in the past 2 years, reflecting the decline in global inflation.

The terms of trade, which reflect the net impacts of movements in import and export prices, fell 6.5% in 2022/23 and are projected to remain relatively weak over the forecast period (Figure 1.16). The terms of trade are expected to be flat in the current year, and to rise gradually over the remainder of the forecast period. However, relatively slow global growth, rising geopolitical tensions and increasing barriers to trade are expected to keep imports prices high, and to restrain export prices. Recent data shows prices have picked up for some exports, including dairy commodities. If sustained, the terms of trade may become more favourable than factored into the current forecast.

The current account deficit is narrowing

The current account deficit has declined from its peak in the final quarter of 2022 and is expected to continue to narrow (Figure 1.16). The recovery in international tourism is helping to return the services balance to surplus, while easing import demand is helping to reduce the goods deficit. Higher global interest rates are expected to drive a widening in the deficit on investment income and to slow progress in returning the current account to a more sustainable level. On the other hand, the trade-weighted exchange rate is assumed to decline around 4.0% over the forecast period, which promotes the decline in the deficit to 3.2% of GDP in 2027/28.

Figure 1.16 – Current account and the terms of trade



Sources: Stats NZ, the Treasury

There are risks to the outlook for export volumes and prices from the El Niño weather pattern. El Niño may promote drought conditions in some regions and cause volatility in export volumes and prices. Over recent months, oil prices have been lower than assumed, and inflation in New Zealand's main trading partners has eased more quickly, which could lead to lower import prices, if sustained.

Nominal GDP growth is expected to slow

Nominal GDP expanded 8.9% in 2022/23, reflecting high inflation and solid real GDP growth (Table 1.2). Growth in nominal GDP was reflected in higher core Crown tax revenue, especially in GST and taxes on wages and salaries, but corporate and other persons tax fell as business profits weakened.

The subdued outlook for real GDP growth over the next two years, combined with lower wage and price inflation, sees nominal GDP growth slow to 4.7% by 2024/25 before picking up. Over the five years to 2027/28, growth in nominal GDP is expected to average 5.4% and to flow through to an increase in core Crown tax revenue of $41.6 billion. Compared to the *Pre-election Update*, nominal GDP growth is a little lower on average, and tax revenue is $1.6 billion lower over the period to 2026/27.

Table 1.2 – Nominal GDP growth

Year ending 30 June	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Annual % change	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Half Year Update	8.9	6.1	4.7	5.4	5.4	5.0
Pre-election Update	8.3	5.9	5.1	5.8	5.5	N/A

Sources: Stats NZ, the Treasury

Potential output – strong population growth is providing a partial offset to slow productivity growth

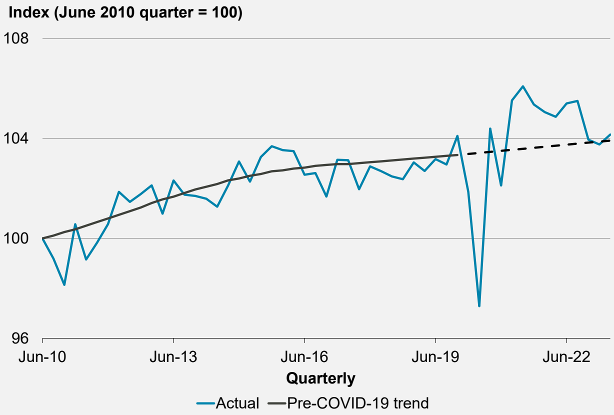
Potential output describes the maximum amount of goods and services that can be sustainably supplied without adding to inflation. The level of potential output depends on the available supply of labour and capital and 'multifactor productivity (MFP)', where the latter is a measure of how efficiently labour and capital inputs are combined to produce goods and services. A higher productivity rate means a nation can either produce a higher level of goods and services with the same level of inputs, or it can produce the same level of goods and services with a lower level of inputs.

Since the *Pre-election Update*, labour supply growth has been stronger than expected, driven by net immigration and higher labour force participation. The rapid pace of supply growth is expected to be temporary, but the higher level of labour supply is expected to persist. At the end of the forecast period, the working-age population is around 0.6% higher than in the *Pre-election Update*.

On the other hand, MFP growth has been subdued (Figure 1.17). Initially, the recovery from COVID-19 appeared to be associated with a pick-up in productivity growth, but this has not been sustained. Recent productivity outturns have been lower than expected and are more consistent with the pre-pandemic trend. The post-pandemic productivity boost now appears to have been transitory.

Compared to the *Pre-election Update* potential output is 0.8% lower at the end of the forecast period.

Figure 1.17 – Multifactor productivity



Sources: Stats NZ, the Treasury

Estimates of potential growth are a key source of uncertainty for the medium-term economic and tax forecasts and, as new data and evidence becomes available, further revisions may be likely.

Key economic forecast judgements and assumptions

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

- Net migration inflows are assumed to add approximately 50,000 more people over the forecast horizon than assumed in the *Pre-election Update*.
- The New Zealand dollar trade-weighted index (TWI) is assumed to decline from 70.9 in the June 2023 quarter to 67.7 in the June 2028 quarter.
- West Texas Intermediate oil prices averaged US$81.5 per barrel in the September 2023 quarter and are assumed to be US$79.6 per barrel by the end of the forecast period.
- The non-accelerating inflation rate of unemployment is assumed to be 4.25% in the long-run, unchanged from the *Pre-election Update.*
- The neutral 90-day interest rate is assumed to be 2.75%.
- Damage estimates from this year's North Island weather events have not changed materially since the *Budget Economic and Fiscal Update 2023 (Budget Update)* estimates, and remain in the $9.0 billion to $14.5 billion range, although considerable uncertainty remains. New information from the insurance sector and primary sector indicate that private sector damage estimates remain similar in aggregate. As in the Budget Update, the forecasts include around $7.0 billion of rebuild-related business investment, and $2.9 billion of rebuild-related residential investment and household consumption.

Alternative Scenarios

The economic and fiscal forecasts presented in this chapter include assumptions and judgements. As with any kind of forecasting, there is risk that actual events will differ from expectations. One way of illustrating the inherent uncertainty regarding the assumptions and judgements made in the economic forecasts is to consider alternative scenarios where specific judgements are modified. The economic and fiscal consequences of two different scenarios are considered in this section (Table 1.3).

The scenarios assume that the fiscal spending parameters remain the same as in the main forecasts. If inflation pressures prove stronger than expected, planned spending may not stretch as far in terms of the provision of government services. Conversely, in an environment of lower inflation, it may be that more government services are provided.

Table 1.3 – Alternative scenarios

June years	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Real GDP (annual average % change)						
Main forecast	3.2	1.5	1.5	2.8	3.0	2.7
Upside	3.2	1.8	2.2	2.6	2.6	2.3
Downside	3.2	1.2	0.7	3.2	3.5	3.0
Inflation (annual % change)						
Main forecast	6.0	4.1	2.5	2.2	2.0	2.0
Upside	6.0	4.1	2.7	2.3	2.1	2.0
Downside	6.0	4.0	2.2	2.0	2.0	2.0
Unemployment rate (June quarter)						
Main forecast	3.6	4.5	5.2	4.8	4.6	4.4
Upside	3.6	4.1	4.5	4.4	4.4	4.4
Downside	3.6	4.9	6.0	5.3	4.8	4.4
90-day interest rate (June quarter)						
Main forecast	5.6	5.7	4.9	3.6	2.9	2.6
Upside	5.6	6.3	6.0	4.7	3.7	3.0
Downside	5.6	5.6	3.8	2.5	2.2	2.1
Net debt (% of GDP)						
Main forecast	18.0	23.2	23.3	23.2	22.0	19.3
Upside	18.0	23.0	22.5	21.9	20.4	17.6
Downside	18.0	23.4	24.3	24.7	23.7	21.3
OBEGAL (% of GDP)						
Main forecast	-2.4	-2.2	-1.4	-0.7	0.0	0.7
Upside	-2.4	-2.1	-1.0	-0.2	0.4	0.9
Downside	-2.4	-2.3	-1.9	-1.4	-0.5	0.3

Sources: RBNZ, Stats NZ, the Treasury

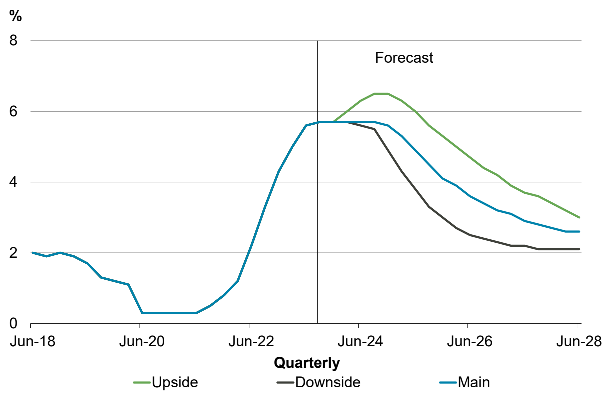
Aggregate demand impulses may differ from forecast…

This section presents stylised scenarios of the impact on forecasts should demand turn out to be more or less stimulatory than assumed in the central forecast. Key uncertainties include the net effects of high levels of net migration, and the nature of future migration, including implications for the housing market. Household spending has been more resilient than expected, supported by growth in household incomes. Household spending may be stronger than in the central forecast if wage growth does not slow as expected or if demand in the economy does not slow as expected, and employment growth is stronger. On the other hand, immigration may be less positive for demand than anticipated, and wage growth might slow more quickly.

…with additional aggregate demand leading to higher interest rates

In the upside scenario, demand for goods and services is assumed to be greater, with house prices 4% higher and household spending 0.7% higher in the current year than in the central forecast. This adds to GDP growth and to inflation pressures. As a result, a tighter monetary policy stance is required to return inflation to target. Short-term interest rates are on average 100 basis points higher over the forecast horizon (Figure 1.18). Inflation is a little higher initially but is little changed thereafter, and inflation slows to 2% by end of the forecast period.

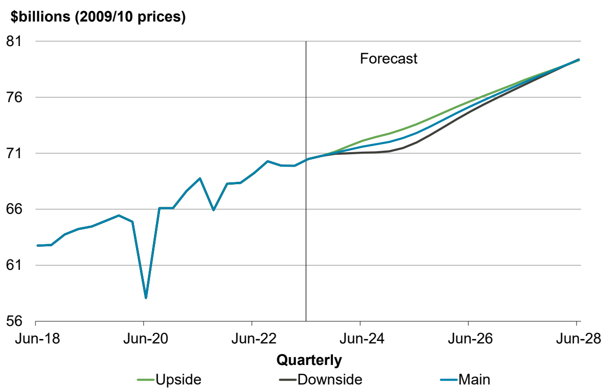
Figure 1.18 – 90-day interest rates



Sources: RBNZ, the Treasury

In the short term, the additional demand drives economic activity up, which provides further support for employment, wage incomes and house prices and household spending. The peak in the unemployment rate is 4.5%, lower than the central forecast (Figure 1.19).

Figure 1.19 – Real production GDP



Sources: Stats NZ, the Treasury

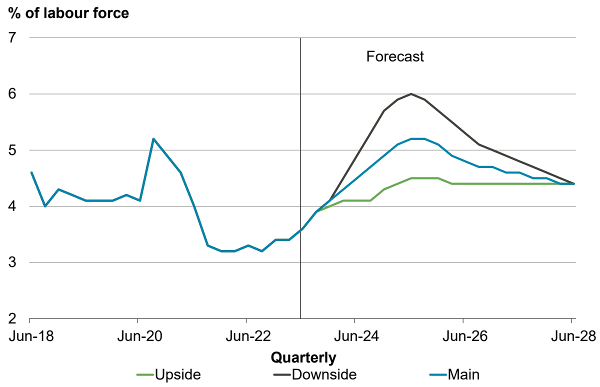
Higher inflation, combined with stronger growth, boosts nominal GDP by a cumulative $18.4 billion compared to the central forecast, and increases core Crown tax revenue by $7.3 billion. As a result, the government's operating balance before gains and losses (OBEGAL) returns to surplus in late 2026 – slightly earlier than the central forecast – and net debt reaches 17.6% of GDP by 2028.

In the downside scenario, unemployment rises to 6.0%

In the downside scenario, demand for goods and services is assumed to be lower in 2023/24, and house prices are also lower. Real GDP growth slows to 0.7% in the year ending June 2025, compared to 1.5% in the central forecast. This lessens domestic inflationary pressures, allowing interest rates to drop more rapidly than in the central forecast, averaging 100 basis points lower over the forecast period relative to the central forecast.

Lower economic activity and employment levels sees the unemployment rate rise more rapidly than in the central forecast, peaking at 6.0% at the beginning of 2025 (Figure 1.20), while wage growth is more muted. The weaker demand environment is accompanied by modest falls in house prices through to the end of 2024. Thereafter, the effects of lower interest rates begin to take hold and house prices rise over the latter half of the forecast period, boosting residential investment activity and household spending, and bringing the unemployment rate back down.

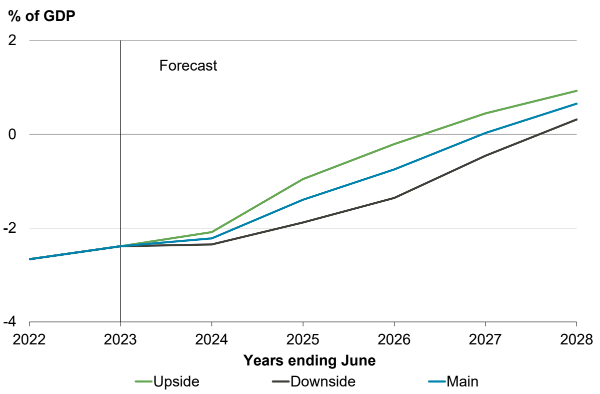
Figure 1.20 – Unemployment rate



Sources: Stats NZ, the Treasury

The downside scenario results in $21.1 billion less nominal GDP over the forecast horizon, with $8.2 billion less in core Crown tax revenue. This sees OBEGAL return to surplus a year later than in the main forecast and net debt rising to 21.3% of GDP in the year ending June 2028 (Figure 1.21).

Figure 1.21 – OBEGAL



Sources: Stats NZ, the Treasury

2

Fiscal Outlook

In the current year (2023/24), deficits are expected to remain elevated, with the operating balance before gains and losses (OBEGAL) and residual cash deficits being broadly consistent with the results from last year. Consequently, net debt continues to rise by around $26.0 billion during the year. However, from 2024/25, the Government's fiscal outlook starts to show signs of improvement. The OBEGAL deficit narrows, returns to a surplus in 2026/27, and is then forecast to reach $3.4 billion by the end of the forecast period. Net debt as a percentage of GDP is expected to peak in 2024/25 at 23.3%, before reducing to 19.3% of GDP by 2027/28.

The expected improvement in the fiscal outlook is underpinned by a decline in the growth rate of core Crown expenses, while the growth in core Crown revenue remains broadly stable over the forecast period as the economy grows.

Core Crown tax revenue is forecast to increase by $41.6 billion over the forecast period, an average increase of around $8.3 billion per year. Half of this growth is forecast to come from source deductions, reflecting both wage growth and an increasing average tax rate on salary and wage income (fiscal drag). The remaining growth results from an increase in private consumption, which lifts GST, and business profits improve after a flat period in 2023/24. As a share of GDP, core Crown tax revenue lifts from 28.4% in 2022/23 to 30.0% over the forecast horizon.

Core Crown expenses are forecast to increase by $33.6 billion over the forecast period. They are expected to increase in nominal terms by $12.7 billion in the current year, reflecting the impact from decisions at Budget 2023, the indexation of main benefit types, and higher debt servicing costs from a higher level of debt and high interest rates. Beyond the current year, the growth in core Crown expenses is much more subdued, with an average increase per year of $5.2 billion. The expected increase reflects funding set aside for future Budgets, the increasing costs of New Zealand Superannuation (NZS) and increases in debt servicing costs. With smaller nominal increases expected, core Crown expenses as a percentage of GDP fall from 33.4% in 2023/24 to 31.4% by 2027/28.

In the current year, the OBEGAL deficit is forecast to be in line with the result from 2022/23 at $9.3 billion and improves by an average of $2.6 billion per year thereafter. This reflects the stable growth in core Crown tax revenue and the declining growth in core Crown expenses across the forecast period mentioned above. OBEGAL is forecast to return to surplus in 2026/27 at $0.1 billion and to reach $3.4 billion by 2027/28.

As with OBEGAL, the residual cash deficit remains elevated in the current year. The residual cash deficit is then expected to recover significantly in 2024/25 as capital investments reduce, repayments from the Funding for Lending Programme (FLP) continue and additional tax receipts are collected in 2024/25 due to timing. Residual cash is forecast to return to a surplus position of $3.6 billion in the last year of the forecast period.

Accumulated residual cash deficits total $32.2 billion across the forecast period, with the cash shortfall largely funded through additional borrowings. As a result, net debt increases by $27.7 billion by the end of the forecast period, reaching $99.1 billion by 2027/28. The most significant lift in net debt is expected in the current year, reflecting the additional funding required to meet the residual cash deficit, an increase in the level of Crown entity borrowings and unfavourable valuation movements that have reduced the value of financial instruments. The increase in net debt over the next two years is much more modest and then starts to fall from the 2026/27 year.

Net worth is expected to grow over the forecast period by $14.3 billion, reflecting the forecast total Crown operating balance results, which are expected to be in deficit in the current year, before returning to surplus for the rest of the forecast period. As a share of GDP, net worth falls from 48.4% in 2022/23 to 40.1% by 2027/28.

Overall, the recovery in the fiscal outlook is expected to be slower than forecast in the *Pre-election Update*. In the near term, particularly in the current year, OBEGAL is stronger than previously expected. This trend reverses from the 2024/25 year, with OBEGAL around $2.0 billion weaker in 2025/26 and 2026/27 than in the *Pre-election Update*. While OBEGAL is still forecast to return to surplus in 2026/27, the surplus is much smaller, at just $0.1 billion.

A weaker outlook for economic growth across most of the forecast period is now expected as interest rates are staying higher for longer, reducing forecast tax revenue. This has resulted in higher forecast debt servicing costs; both directly, as the cost to borrow increases, and indirectly, as more borrowing is required (to replace the reduced forecast revenue since the *Pre-election Update*). These impacts flow through to other headline fiscal indicators, with both the residual cash deficit and net debt increasing over the forecast period. In addition, the net debt position has been impacted by a weaker starting position from lower returns from the New Zealand Superannuation Fund (NZS Fund) during the first quarter of the 2023/24 year.

The key fiscal indicators for the *Half Year Update* compared to the *Pre-election Update* are outlined in Table 2.1. A summary of the changes since the *Pre-election Update* is outlined on pages 46 to 48.

This chapter is broken into three sections:

- Fiscal Performance
- Fiscal Resilience
- Crown Funding and Financing.

The fiscal forecasts capture Government decisions up to 23 November 2023. Therefore, the Mini Budget decisions announced by the Government on 20 December 2023 will not be reflected. Other key judgements and assumptions that underpin the fiscal forecasts are outlined on page 98 to 100.

Table 2.1 – Key fiscal indicators

Year ending 30 June $billions	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Core Crown revenue						
Half Year Update	123.4	135.7	143.5	152.0	160.3	168.6
Pre-election Update		133.9	142.0	152.0	160.0	-
Core Crown tax revenue						
Half Year Update	112.4	122.0	129.7	138.1	146.2	154.0
Pre-election Update		121.6	129.5	139.3	147.2	-
Core Crown expenses						
Half Year Update	127.6	140.3	144.7	151.1	155.9	161.2
Pre-election Update		139.4	143.4	149.2	153.6	-
OBEGAL						
Half Year Update	(9.4)	(9.3)	(6.1)	(3.5)	0.1	3.4
Pre-election Update		(11.4)	(6.2)	(1.5)	2.1	-
Operating balance						
Half Year Update	5.3	(6.9)	(0.2)	2.9	7.0	10.7
Pre-election Update		(7.6)	0.2	4.9	9.0	-
Core Crown residual cash						
Half Year Update	(25.6)	(25.8)	(3.1)	(1.9)	(5.0)	3.6
Pre-election Update		(25.4)	(3.6)	(0.4)	(5.0)	-
Net debt						
Half Year Update	71.4	97.4	102.7	107.7	107.4	99.1
Pre-election Update		92.9	100.1	103.8	102.6	-
Net worth						
Half Year Update	191.5	185.5	185.1	188.0	195.0	205.8
Pre-election Update		183.9	184.2	189.1	198.3	-
% of GDP						
Core Crown revenue						
Half Year Update	31.2	32.3	32.6	32.8	32.8	32.9
Pre-election Update		32.2	32.4	32.8	32.7	-
Core Crown tax revenue						
Half Year Update	28.4	29.1	29.5	29.8	29.9	30.0
Pre-election Update		29.2	29.6	30.1	30.1	-
Core Crown expenses						
Half Year Update	32.2	33.4	32.9	32.6	31.9	31.4
Pre-election Update		33.5	32.7	32.2	31.4	-
OBEGAL						
Half Year Update	(2.4)	(2.2)	(1.4)	(0.7)	0.0	0.7
Pre-election Update		(2.7)	(1.4)	(0.3)	0.4	-
Operating balance						
Half Year Update	1.3	(1.6)	(0.0)	0.6	1.4	2.1
Pre-election Update		(1.8)	0.0	1.1	1.8	-
Core Crown residual cash						
Half Year Update	(6.5)	(6.2)	(0.7)	(0.4)	(1.0)	0.7
Pre-election Update		(6.1)	(0.8)	(0.1)	(1.0)	-
Net debt						
Half Year Update	18.0	23.2	23.3	23.2	22.0	19.3
Pre-election Update		22.3	22.8	22.4	21.0	-
Net worth						
Half Year Update	48.4	44.2	42.1	40.6	39.9	40.1
Pre-election Update		44.2	42.1	40.8	40.6	-

Source: The Treasury

Fiscal Performance

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

Total Revenue

Across the five-year forecast horizon, total Crown revenue is expected to increase by around \$50.3 billion, from \$153.0 billion in 2022/23 to \$203.4 billion in 2027/28. However, it remains broadly consistent as a share of the economy, at around 40% of GDP.

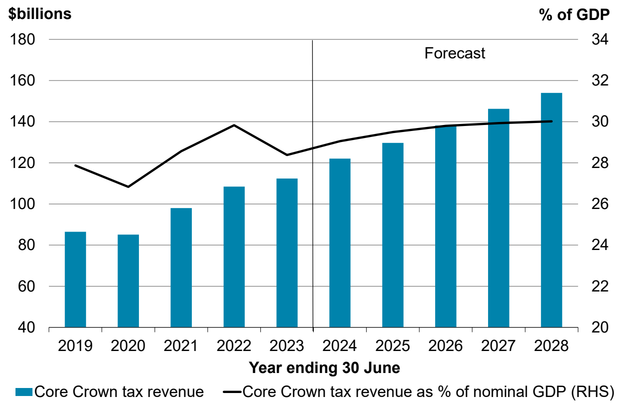
Approximately three-quarters of the Crown's revenue comes from tax revenue, of which around 70% relates to direct taxes earned from individuals (eg, source deductions such as PAYE) and businesses (eg, corporate tax), with the remainder coming from indirect taxes (eg, GST). Sales of goods and services is the second-largest component of total Crown revenue, making up around 15%, and largely comprises revenue earned from the activities of entities within the State-owned enterprise (SOE) reporting segment (eg, selling electricity and air travel). Other sovereign revenue (eg, fines and levies) contributes around 6% of total Crown revenue, which consists mainly of ACC levies and New Zealand Emissions Trading Scheme (NZETS) revenue.

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

After slowing markedly in the 2022/23 year, core Crown tax revenue is forecast to increase by \$41.6 billion over the forecast period at an average increase of around \$8.3 billion per year. Around half of this growth is forecast to come from source deductions, reflecting both wage growth and fiscal drag. Together, GST, corporate and net other persons tax revenues contribute around \$19.3 billion to the growth in tax revenue during this period as growth in private consumption lifts GST and business profits improve after a flat period in 2023/24.

Figure 2.1 shows that over the 2020/21 and 2021/22 years, the tax-to-GDP ratio increased sharply. At the time, it was unclear whether this was a structural change or something temporary, related to either COVID-19 or the very strong economy at the time. Growth in core Crown tax revenue in the 2022/23 year was weaker than GDP growth, causing the tax to GDP ratio to fall. This suggests that some components of the strong growth in tax revenue through the COVID-19 years were temporary, and therefore are not expected to continue in the future.

Figure 2.1 – Core Crown tax revenue



Source: The Treasury

After comparatively weak growth in the 12 months to 30 June 2023, core Crown tax revenue for the four months to October 2023 recovered somewhat to be up 6.6% on the same time last year. Consequently, core Crown tax revenue as a proportion of GDP is expected to increase in 2023/24, to increase steadily over the remainder of the forecast period, and to reach 30.0 percent by 2027/28.

…with most tax types contributing to this growth.

Core Crown tax revenue is expected to reach $154.0 billion in 2027/28. Most of this growth is forecast to come from higher source deductions, GST, and business income tax revenue.

Table 2.2 – Movements in core Crown tax revenue by major tax type

Year ending 30 June $billions	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**Total change**
Source deductions	4.8	3.8	3.9	3.8	3.7	20.0
Goods and services tax	1.4	1.6	1.5	1.8	1.8	8.1
Corporate tax	0.9	1.0	1.1	2.5	1.5	7.0
Net other persons tax	0.5	0.9	1.7	0.3	0.8	4.2
Motor vehicle fees and road user charges	0.5	0.4	0.3	0.1	0.1	1.4
Customs and excise duties	0.4	0.1	(0.1)	0.0	0.1	0.5
Resident withholding tax on interest	1.0	(0.1)	(0.1)	(0.6)	(0.3)	(0.1)
Other taxes	0.1	0.0	0.1	0.2	0.1	0.5
Total movement in core Crown tax revenue	**9.6**	**7.7**	**8.4**	**8.1**	**7.8**	**41.6**
Plus previous year	112.4	122.0	129.7	138.1	146.2	
Core Crown tax revenue	**122.0**	**129.7**	**138.1**	**146.2**	**154.0**	

Source: The Treasury

Source deductions, which are mainly PAYE on wages and salaries, are forecast to grow by $20.0 billion over the forecast period. This growth is predominantly due to wage growth ($12.7 billion) and fiscal drag of $4.5 billion (increase in a person's average tax rate as nominal income increases).

The $8.1 billion increase in GST over the forecast period is mostly driven by growth in nominal private consumption. Growth in GST revenue is forecast to be relatively stable over the forecast period, as private consumption holds up and residential investment recovers in the latter part of the forecast period.

Corporate tax and other persons tax revenue are forecast to grow by $7.0 billion and $4.2 billion, respectively. Growth in the forecast for the macroeconomic aggregate operating surplus (a proxy for taxable profits) is forecast to be weak in the 2023/24 year but to recover from 2024/25 onwards, leading to stronger revenue growth for these taxes towards the latter part of the forecast period.

Apart from residents withholding tax (RWT) on interest, the other main tax types are all forecast to increase over the forecast period. The drop in RWT is owing to the forecast drop-in deposit interest rates.

Total Expenses

Total expenses are expected to increase across the forecast period…

Total expenses are forecast to increase from $161.8 billion in 2022/23 to $199.5 billion by the end of the forecast period. As a share of the economy, total expenses decline across the forecast period, from 40.9% of GDP in 2022/23 to 38.9% of GDP by 2027/28.

Most of the nominal growth in total expenses is driven by core Crown expenses, which contribute around $33.6 billion to the increase over the forecast (discussed further below).

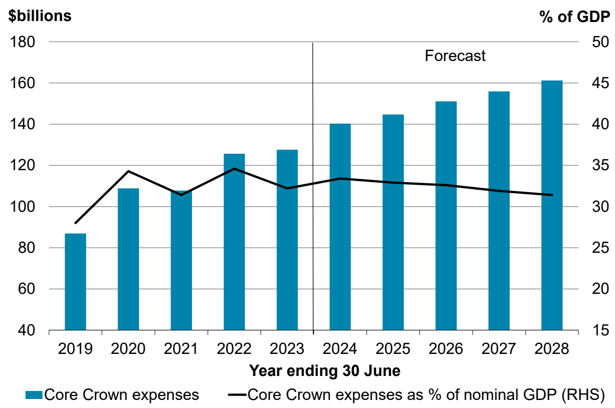
In addition to core Crown expenses, ACC's insurance expenses are expected to increase by $3.2 billion over the forecast period. The expected increase in the costs of insurance claims is mainly driven by economic factors (such as wage growth and inflation assumptions), the increasing cost of health services, and higher expected claims volumes. SOE expenses are forecast to increase by $3.7 billion over the forecast period, although this is largely offset by higher revenue on sales of goods and services.

…with core Crown expenses driving most of this trend…

Core Crown expenses are expected to increase in nominal terms across the forecast period, but as a percentage of GDP, are forecast to fall from 2023/24 onwards.

As shown in Figure 2.2, the core Crown expenses-to-GDP ratio is expected to increase in the current fiscal year, from 32.2% of GDP in 2022/23 to 33.4% of GDP. This represents a nominal increase of $12.7 billion in the current year. Over the remaining forecast period, the average nominal increase is much lower – an average of $5.2 billion per year – resulting in a reduction in the expenditure track as a percentage of GDP.

Figure 2.2 – Core Crown expenses



Source: The Treasury

…a significant lift in core Crown expenses is expected in the current year…

The significant growth in core Crown expenses expected in the current year is owing to a combination of factors, including policy decisions, economic factors, rephasing of spending, and the response to adverse weather events at the beginning of the 2023 calendar year.

At Budget 2023, the Government announced policy decisions that were expected to increase core Crown expenses by $5.6 billion in the 2023/24 year and by an average of $4.8 billion over the remaining forecast period.

Benefit expenses are forecast to increase by $3.5 billion in the current year. The increase is largely driven by NZS payments, with costs expected to increase by $2.1 billion, mainly as a result of the wage growth (to which payments are indexed) and an increase in the number of recipients.

Core Crown finance costs are expected to increase by $2.3 billion, to $8.8 billion in 2023/24. The increase is owing to a combination of higher interest rates and increased level of borrowings. For example, the yield rate on 10-year government bonds was 4.2% in 2022/23 and is now expected to increase to 5.1% in 2023/24.

Further spending of around $1.7 billion is expected this year on the response to the North Island weather events. This includes around $1.1 billion of spending associated with Crown support to local councils, as well as $0.5 billion remaining as part of the National Resilience Plan (NRP).

Table 2.3 – Increase in core Crown expenses in 2023/24

Year ending 30 June	$billions
Core Crown expenses – 2022/23	**127.6**
Budget 2023 package decisions	5.6
Benefit payments	3.5
Finance costs	2.3
Significant North Island weather event spending	1.7
Other	(0.4)
Total increase	**12.7**
Core Crown expenses – 2023/24	**140.3**

Source: The Treasury

Other factors include expenditure that has been rephased into the current year from last year. This includes unused funding from the previous fiscal year of around $2.1 billion and the rephasing of expenditure. However, much of the rephased expenditure into the current year has been taken into consideration in the operating top-down adjustment, which reduces core Crown expenditure by $4.4 billion in the current year to better reflect a best estimate of likely Government spending.

…with smaller increases expected from 2023/24 onwards…

Beyond 2023/24, the nominal growth in core Crown expenses is expected to be lower than in the current year, as smaller levels of funding are set aside for future decision making and the baseline savings exercise starts to take effect.

Core Crown expenses are expected to grow by an average of $5.2 billion per year after 2023/24. Economic factors continue to impact the trend, contributing to increases in finance costs and benefit expenses across the forecast period. Outside of economic factors, funding set aside for future Budget operating allowances and the Climate Emergency Response Fund also add to core Crown expenses, while the impact of the baseline savings exercise partially offsets this.

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

From 2024/25, core Crown benefit expenses are forecast to increase by a further $9.3 billion. This is driven by NZS payments, with costs expected to increase by $6.6 billion over that period. These payments primarily grow owing to expected wage growth and an increase in recipient numbers. NZS recipient numbers are forecast to increase, from 899,000 in 2023/24 to just over 1,020,000 by the end of the forecast period. Most other main benefit payment types are also forecast to increase from 2024/25, owing to indexation of wage growth.

From 2024/25, core Crown finance costs are expected to increase by a further $3.1 billion – from $8.8 billion (2.1% of GDP) to $11.9 billion (2.3% of GDP) by the end of the forecast period (Figure 2.3). The increase in finance costs beyond 2023/24 largely reflects the additional borrowings required to help fund the accumulated residual cash deficit (refer to page 44).

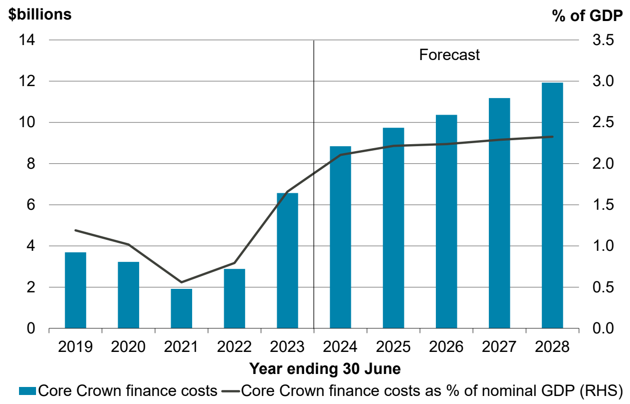
Across the forecast period, core Crown finance costs are the fourth-highest area of core Crown spending by functional classification (after social security and welfare, health and education).

…and funding set aside in future Budget allowances…

These forecasts assume Budget operating allowances of $3.5 billion for Budget 2024, $3.25 billion for Budget 2025 and $3.0 billion each for Budgets 2026 and 2027 (unchanged from the *Pre-election Update*). These allowances for new spending in future Budgets account for $12.75 billion of the growth in expenditure by the end of the forecast (Figure 2.4).

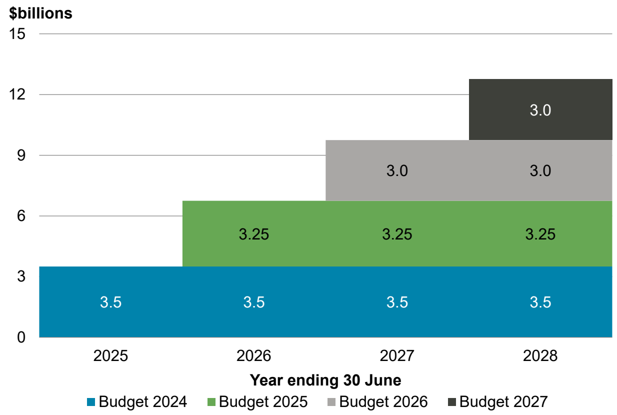
However, some decisions have already been pre-committed against the Budget allowances, meaning there is less of the allowance available for future decision-making. The funding available (after pre-commitments) for future Budgets is forecast to increase expenses by $7.9 billion by 2027/28.

Figure 2.3 – Core Crown finance costs



Source: The Treasury

Figure 2.4 – Operating allowances



Source: The Treasury

The pre-commitments include the multi-year funding decisions (eg, health sector cost pressures) and several decisions taken since Budget 2023.

As illustrated in recent economic and fiscal updates, our analysis suggest that the funding set aside for the future should be sufficient to support the level of existing services against the impact of inflation and wage growth in the future. However, this may not be the case if demand for services (eg, from higher migration) in the future were to increase.

…partly offset by some expenditure that is expected to reduce.

The increase in spending noted above is partially offset by some expenditure which is expected to decline over the forecast period, including the baseline savings exercise announced in August 2023. The baseline savings commence in the 2024/25 year and are expected to reduce core Crown expenses by $0.5 billion in the last year of the forecast period. In addition, spending in relation to the response to the North Island weather events starts to subside by 2026/27. There are also existing programmes for which funding is set to end, such as Ka Ora, Ka Ako | Healthy School Lunches, the Rail Network Investment Programme, and Affordable Water Services.

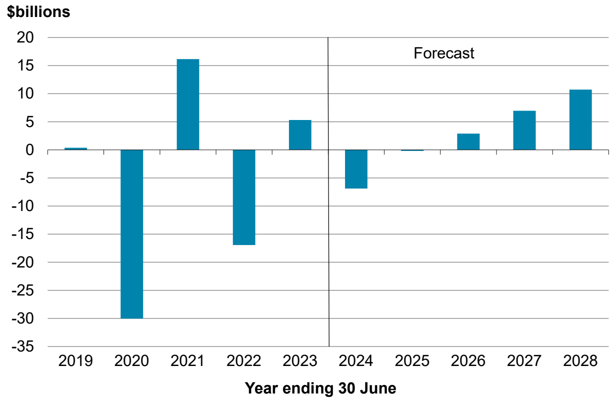
More details on the functional classification of core Crown expenses can be found in the Core Crown Expense tables on pages 135 to 140.

Operating Balance

The operating balance is expected to return to a deficit in 2023/24…

In the current year, total expenses exceed total revenue earned by around $8.8 billion. While this is partly offset by expected valuation gains (of $2.5 billion) on some of the Government's assets and liabilities, the operating balance is forecast to be a deficit of $6.9 billion. This compares with a surplus of $5.3 billion in 2022/23 (Figure 2.5), which was somewhat propped up by significant valuation gains.

Figure 2.5 – Operating balance



Source: The Treasury

The expected 2023/24 valuation gains of $2.5 billion comprises:

- $1.8 billion net gains on financial instruments, reflecting the expected returns on the large investment fund portfolios of ACC and the NZS Fund.
- $0.7 billion net gains on non-financial instruments, predominantly reflecting the actuarial gain on the ACC outstanding claims liability ($4.9 billion) offset by the forecast revaluation loss of the NZ ETS liability ($4.1 billion).

The forecast gain on the ACC outstanding claims liability reflects an increase in the effective single discount rate – from 4.79% as at 30 June 2023 to 5.47% at 30 September 2023 – partly offset by increased inflation assumptions. The forecast loss on the NZ ETS liability reflects the increase in market price of New Zealand Units (NZUs) since 30 June 2023 (from $41.75 to $70.00 at 31 October 2023), which has resulted in an increase in the value of the liability.

…before moving back into surplus in 2025/26.

After 2023/24, the gap between forecast revenue and expenditure narrows and the expected valuation gains increase significantly[2] (from $2.5 billion in 2023/24 to $7.3 billion in 2027/28). The valuation gains are expected to offset the revenue and expenditure gap for the first time in the forecast period in 2025/26, resulting in the operating balance returning to surplus, at $2.9 billion.

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

Government Fiscal Indicators

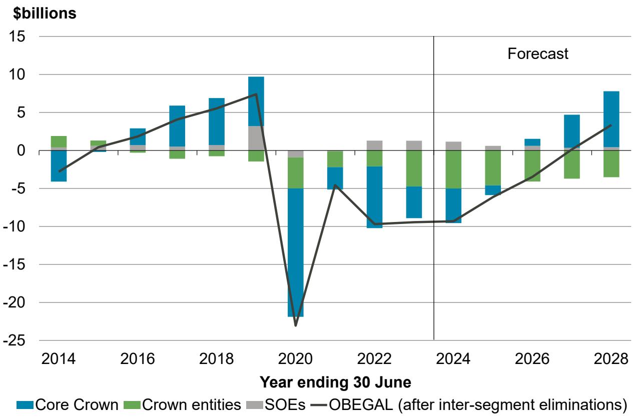
The Government focuses on specific headline fiscal indicators to measure and communicate its objectives, and to ensure its fiscal policy decisions are sustainable. Recent Governments have focused on OBEGAL and net debt as headline fiscal indicators in setting their fiscal objectives.

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

OBEGAL deficits narrow in the near term and return to a small surplus in 2026/27…

In the current year, the OBEGAL deficit is expected to remain elevated at $9.3 billion, similar to the deficit recorded in 2022/23. The OBEGAL deficit is then expected to improve, reducing by around $3 billion each year, with a deficit of $3.5 billion expected in 2025/26. By 2026/27, a small OBEGAL surplus of $0.1 billion is forecast and this is then expected to grow, reaching a surplus of $3.4 billion by 2027/28. Given the modest surplus in 2026/27, a small shift in either revenue or expenses could push out the return to surplus by a year.

Figure 2.6 – Components of OBEGAL by segment

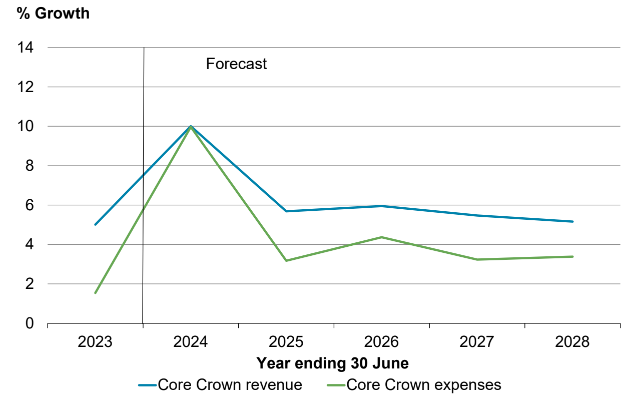


Source: The Treasury

As shown in Figure 2.6, much of the recovery in OBEGAL over the forecast period is driven by expected results of the core Crown segment.

It is underpinned by a decline in core Crown expense growth, as smaller levels of funding are set aside for future Budget operating allowances, and a reduction in expenses from the baseline savings announced in August 2023, which start to take effect from next year. In contrast, the growth in core Crown revenue remains broadly stable (Figure 2.7). Growth in core Crown tax revenue is reflective of the strength of near-term activity and higher inflation, which results in a growth in nominal GDP, which is the main driver of the trends in tax revenue.

Figure 2.7 – Growth in core Crown revenue and core Crown expenses



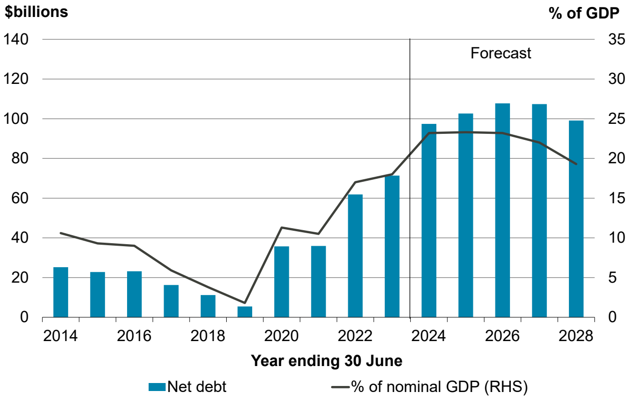
Source: The Treasury

Outside of the core Crown, SOE's are expected to contribute small OBEGAL surpluses throughout the forecast period ($1.2 billion surplus in 2023/24, decreasing to $0.4 billion surplus in 2027/28). Crown entities are expected to contribute an OBEGAL deficit across the forecast period, averaging $4.2 billion per year. These results have been largely driven by ACC, which are forecasting an average OBEGAL deficit of $3.3 billion per year of the forecast period. This largely reflects that ACC levies are not expected to be sufficient to fully cover costs (eg, insurance expenses). Inflation is a large driver of the increase in insurance expenses, alongside other factors, like growing claim numbers.

…while net debt peaks in the near term before falling.

As a percentage of GDP, net debt is forecast to peak at 23.3% of GDP in 2024/25, before declining to 19.3% of GDP by the end of the forecast period. In nominal terms, net debt does not start reducing until 2026/27 (Figure 2.8).

Figure 2.8 – Net debt



Source: The Treasury

The most significant lift in net debt is expected in the current year reflecting the additional funding required to meet the residual cash deficit ($25.8 billion), an increase in the level of Crown entity borrowings, and unfavourable valuation movements in financial instruments. The nominal increase in net debt over the next two years is expected to be more modest, and then starts to decline thereafter (Figure 2.8).

Towards the end of the forecast period, growth in core Crown tax revenue is expected to exceed the growth in core Crown expenditure, while capital spending also declines. As a result, the level of net debt is expected to fall in nominal terms from 2026/27. The factors behind the tax revenue growth and the declining expense forecast are discussed further on pages 30 to 34.

From 2022/23 to 2027/28, net debt is forecast to increase by around $27.7 billion. The increase in net debt is lower than the accumulated residual cash shortfall ($32.2 billion), largely reflecting that some capital investments (advances and contributions to the NZS Fund) are neutral to net debt.[3]

[3] Since core Crown advances and the NZS Fund are included in the key net debt indicator, the additional cash required to fund increases in advances and government contributions to the NZS Fund do not impact net debt (as both the asset and liability are included in the measure, the impact of any change is neutral).

In addition to residual cash, the net debt measure is also impacted by changes in the level of Crown entity borrowings (excluding Kiwi Group) and the valuation gains from the NZS Fund (Table 2.4). Crown entity borrowings (excluding Kiwi Group) are expected to increase by $18.5 billion over the forecast period, mainly driven by forecast increases in the borrowings of Kāinga Ora. The net financial assets of the NZS Fund increase by $26.3 billion over the forecast period. Of this increase, $6.6 billion is owing to the Government's contributions to the NZS Fund, with the remaining reflecting gains from the NZS Fund's investment portfolio, in line with the long-term benchmark rate of return assumptions.

Table 2.4 – Changes in net debt

Year ending 30 June $billions	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	Total change
Opening net debt		71.4	97.4	102.7	107.7	107.4	
Core Crown residual cash (surplus)/deficit		25.8	3.1	1.9	5.0	(3.6)	**32.2**
Less net (increase)/decrease in advances		(2.9)	2.5	3.8	(3.4)	(2.3)	**(2.3)**
Less contributions to the NZS Fund		(1.6)	(1.3)	(1.3)	(1.3)	(1.1)	**(6.6)**
Net increase/(decrease) in Crown entity borrowings		6.1	3.9	3.6	2.9	2.0	**18.5**
Net (increase)/decrease in NZS Fund net financial assets		(2.1)	(3.5)	(4.3)	(4.7)	(5.1)	**(19.7)**
Net (issues)/repayments of circulating currency		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	**(0.5)**
Other fair value movements in financial assets and financial liabilities		0.8	0.7	1.4	1.3	1.9	**6.1**
Total movement		**26.0**	**5.3**	**5.0**	**(0.3)**	**(8.3)**	**27.7**
Closing net debt	71.4	97.4	102.7	107.7	107.4	99.1	
As a % of GDP	**18.0**	**23.2**	**23.3**	**23.2**	**22.0**	**19.3**	

Source: The Treasury

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

Cyclically-adjusted balance, structural balance and total fiscal impulse[4]

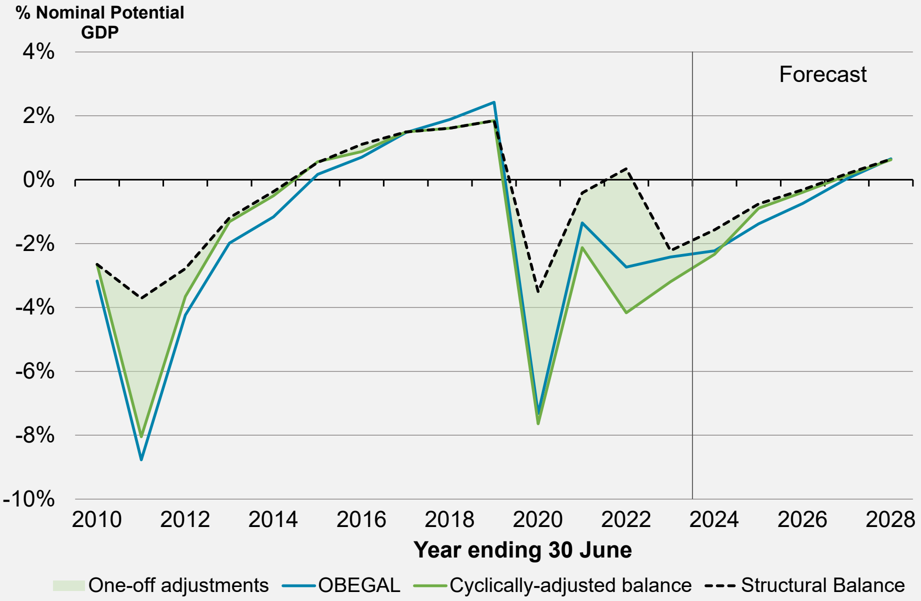
Cyclically-adjusted balance and structural balance

The cyclically-adjusted balance (CAB) and the structural balance are additional indicators that can be used to understand the Government's fiscal position.

The CAB shows what OBEGAL would be in the absence of fluctuations in expenses and tax revenue that happen automatically over the economic cycle (known as automatic stabilisers). The structural balance helps to show the underlying fiscal position by adjusting the CAB for significant one-off expenditure items, such as those associated with the North Island weather events.[5]

All three measures follow a similar improving trajectory over the forecast period and return to surplus in 2026/27. The structural balance and the CAB largely converge in 2024/25 as the effects of one-off expenditure items such as the North Island weather events dissipate. Reflecting the shift to a negative output gap in 2024/25 the CAB is slightly less negative than OBEGAL over the middle years of the forecast period. The return to surplus for the CAB and structural balance are one year later compared to the *Pre-election Update*, reflecting the weaker fiscal outlook.

Figure 2.9 – OBEGAL, CAB and structural balance



Source: The Treasury

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

5 In addition, these one-off adjustments include, for example, payments relating to the COVID-19 Wage Subsidy Scheme, COVID-19 vaccine purchases, and payments relating to the Christchurch and Kaikōura earthquakes. One-off measures to support New Zealanders with their day-to-day living costs, such as the Cost of Living Payment, have not been excluded from the structural balance as these do not meet the required materiality threshold (see note above, pages 5 to 6).

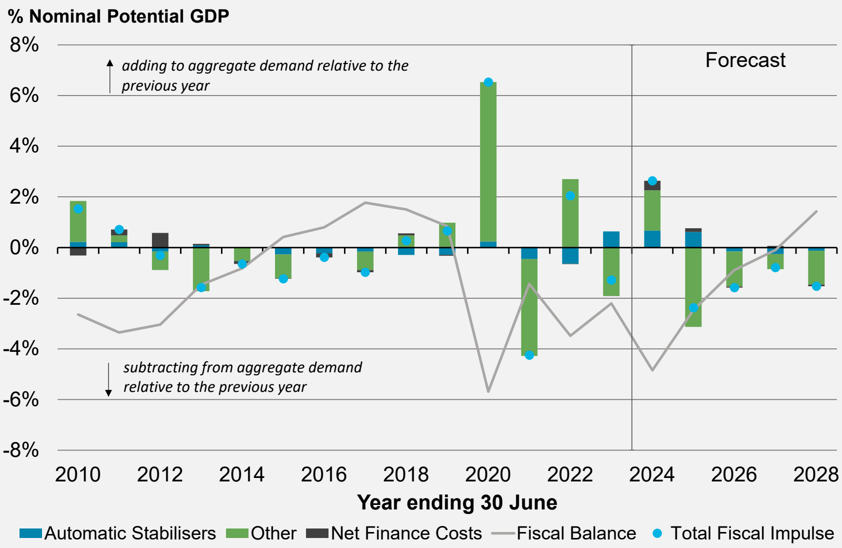
Total fiscal impulse

The total fiscal impulse (TFI) is a measure of the change in the Government's fiscal contribution to aggregate demand from one year relative to the next. It is based on a comprehensive measure of fiscal outlays and revenues, including their structural, discretionary, and automatic components, including finance costs, but adjusted for some items that do not directly affect aggregate demand.[6] The TFI is based on a cash measure of core Crown and Crown entity spending and revenue flows, and therefore differs from OBEGAL, the CAB and the structural balance, which are accrual based.

The TFI does not estimate whether fiscal policy is expansionary or contractionary in an absolute sense, only whether it has moved in one direction or the other compared to the previous year. For example, a positive TFI implies that fiscal policy is contributing more to aggregate demand relative to the previous year. As a summary indicator, the TFI does not provide a full picture of the economic impact of fiscal policy, which will also vary depending on the composition of government revenue and expenses, and the capacity of the economy to absorb new investment.

Figure 2.10 provides a breakdown of the TFI into its components, with the 'Other' category reflecting the net impulse arising from government operating and capital cash flows (revenues and expenses) after automatic stabilisers and net finance costs have been removed. The 2023/24 TFI is estimated to be +2.6% of nominal potential GDP, up from +2.0% in the *Pre-election Update*, reflecting upward revisions relating to spending on North Island weather events, higher finance costs and lower-than-forecast proceeds from the ETS. Net finance costs contribute around +0.4 percentage points to the +2.6% TFI in 2023/24, reflecting elevated interest rates and debt. Higher finance costs are likely to have less impact on aggregate demand than other forms of government expenditure. As was the case in the *Pre-election Update*, the TFI is expected to be negative over the remaining years of the forecast period, consistent with the forecast improvement in OBEGAL.

Figure 2.10 – Total fiscal impulse and fiscal balance[7]



Source: The Treasury

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

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

Fiscal Resilience

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

Net Worth

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

While net worth is forecast to increase in nominal terms, from $191.5 billion in 2022/23 to $205.8 billion in 2027/28, it is expected to decline as a percentage of GDP. The nominal increase reflects the accumulated forecast operating balance results (excluding minority interests), with net surpluses of $13.6 billion expected over the forecast period. However, as a share of GDP, net worth declines, from 48.4% of GDP in 2022/23 to 40.1% of GDP by 2027/28, as the operating balance results are less than the growth in nominal GDP over the forecast period.

A breakdown of net worth is provided in Table 2.5.

Table 2.5 – Breakdown of net worth

Year ending 30 June $billions	**2023 Actual**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**
Taxpayers' funds	8.4	1.5	1.2	4.1	11.0	21.7
PPE revaluation reserve	174.6	174.3	174.3	174.3	174.3	174.3
Other reserves	0.5	1.4	1.3	1.3	1.3	1.3
Total net worth attributable to the Crown	**183.5**	**177.2**	**176.8**	**179.7**	**186.6**	**197.3**
Net worth attributable to minority interest	8.0	8.3	8.3	8.3	8.4	8.5
Total net worth	**191.5**	**185.5**	**185.1**	**188.0**	**195.0**	**205.8**
As a % of GDP	48.4	44.2	42.1	40.6	39.9	40.1

Source: The Treasury

Total Crown Balance Sheet

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

Total assets are forecast to increase by $103.4 billion over the forecast period, reaching $640.1 billion in 2027/28 (Table 2.6). Total liabilities are forecast to increase by $89.1 billion, reaching $434.3 billion in the last year of the forecast (Table 2.6).

Table 2.6 – Composition of the total Crown balance sheet

Year ending 30 June **$billions**	**2023** **Actual**	**2024** **Forecast**	**2025** **Forecast**	**2026** **Forecast**	**2027** **Forecast**	**2028** **Forecast**
PPE	267.4	281.8	292.6	300.6	306.2	308.0
Financial assets	240.7	246.9	253.2	267.7	282.9	298.4
Other assets	28.6	27.9	29.2	30.6	32.2	33.7
Total assets	**536.7**	**556.6**	**575.0**	**598.9**	**621.3**	**640.1**
Borrowings	226.8	253.8	274.2	292.5	305.2	309.6
Insurance liabilities	57.5	55.5	58.6	61.8	65.1	68.6
Other liabilities	60.9	61.8	57.1	56.6	56.0	56.1
Total liabilities	**345.2**	**371.1**	**389.9**	**410.9**	**426.3**	**434.3**
Total net worth	**191.5**	**185.5**	**185.1**	**188.0**	**195.0**	**205.8**

Source: The Treasury

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

Financial assets are forecast to increase by $57.7 billion by 2027/28. The following areas contribute to most of this growth.

- The investment portfolios of the NZS Fund and ACC contribute $31.6 billion to the overall growth in financial assets, which includes growth from expected investment returns and additional investments funded from the Crown's contribution to the NZS Fund ($6.6 billion).
- Kiwi Group loans and advances are forecast to increase by $17.0 billion, primarily as a result of expected growth in mortgage lending (which also results in a corresponding impact on borrowings, as discussed on page 43).
- The Reserve Bank's FLP advances are forecast to decline, with the outstanding balance at 2022/23 of $18.1 billion expected to be fully repaid by the end of the forecast period.
- A large portion of the remaining forecast increase in financial assets relates to the movements in marketable securities, owing to the management of financing requirements and the Reserve Bank's managing down of its portfolio of bonds purchased under its Large Scale Asset Purchase (LSAP) programme.

…along with growth in property, plant and equipment…

PPE assets are expected to increase by $40.6 billion by 2027/28. This rise is largely due to additions of $83.0 billion, which are partly offset by depreciation expenses over the forecast period that total $40.1 billion.

The largest growth in PPE is attributable to buildings, which are forecast to increase by $20.8 billion over the forecast period, mainly driven by growth in assets held by the education, health and housing sectors. The state highways asset category is also forecast to increase by $8.2 billion by 2027/28.

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

In addition to the above, the forecast for new capital spending is expected to increase assets by $7.1 billion by 2027/28. This comprises funding set aside to allocate in future Budgets and funding agreed in previous Budgets, for specific projects, that has not yet been appropriated into an entity's baseline because further work is required prior to this occurring (ie, unallocated capital contingencies).

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

Total borrowings are forecast to increase by $82.8 billion from 2022/23, to reach $309.6 billion by 2027/28. Government bonds are expected to increase by $87.1 billion by the end of the forecast period. Government bond issuances are largely reflective of the borrowing required to meet any additional cash requirements to fund operating and capital expenditure of the Government after revenue (such as tax revenue). The level of government bonds is also impacted by managing down the Reserve Bank's LSAP programme, which results in a switch in liabilities from settlement deposits to government bonds.

Kiwi Group borrowings (eg, deposits and debt securities) are forecast to increase by $11.7 billion, which is more than offset by increases in Kiwi Group advances (as discussed on page 42). These increases are offset by forecast reductions in settlement cash held by the Reserve Bank of $23.3 billion across the forecast period, largely owing to the expected managing down of the LSAP bond programme.

…while the Government's insurance liabilities also increase.

Insurance liabilities are forecast to increase by $11.1 billion to reach $68.6 billion by 2027/28. The ACC insurance liability makes up the vast majority of this balance and is forecast to grow by $12.4 billion over the forecast period. The ACC insurance liability is an estimate of the present-day value of the amount ACC would need to pay out to meet future compensation and rehabilitation costs of injuries that have already occurred, or which are expected to occur over the forecast period. The increases in the ACC insurance liability are slightly offset by a decrease in the Earthquake Commission (EQC) liability of $1.1 billion over the forecast period, reflecting the settlement of claims (including the North Island weather events).

The ACC insurance liability is expected to reduce by $1.4 billion in 2023/24, primarily due to the latest actuarial valuation. It is then expected grow by an average of $3.5 billion per year over the rest of the forecast period, with the increases largely reflecting growth in claims volumes, increases in the rehabilitation costs, and economic factors.

Crown Funding and Financing

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

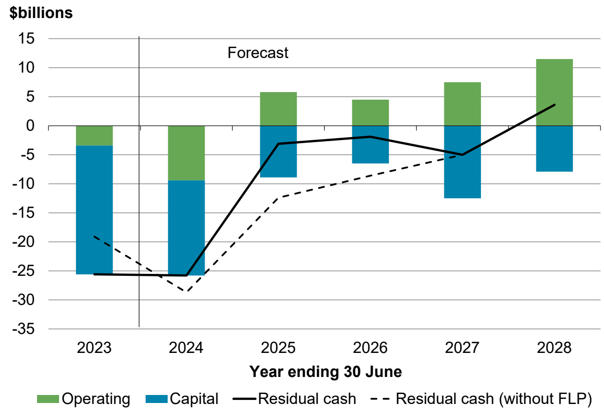
Residual Cash

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

Core Crown residual cash is expected to remain in deficit until 2027/28 (Figure 2.11). The accumulated residual cash deficit over the forecast period is expected to be $32.2 billion.

As with OBEGAL, the core Crown residual cash deficit remains elevated in the current year, reflecting the net operating cash deficit and significant capital investments. The cash deficit is then expected to recover considerably in the 2024/25 year (by around $23.0 billion), primarily owing to the repayments from the FLP and additional tax receipts forecast to be collected in this year (reflecting the timing of the Matariki holiday in the 2024 calendar year).

Figure 2.11 – Core Crown residual cash

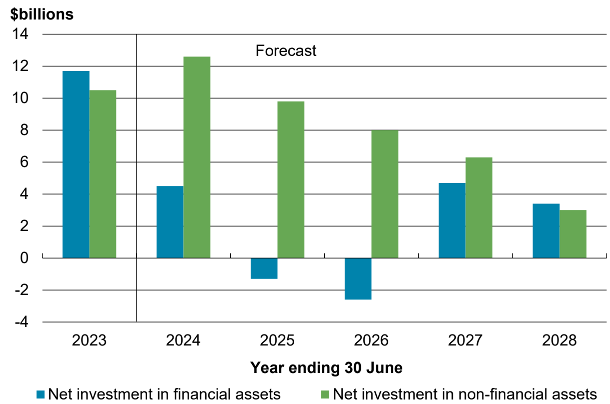


Source: The Treasury

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

Net capital spending is forecast to be $52.2 billion over the forecast period. The net capital spending includes $8.8 billion relating to investments in financial assets (advances and contributions to NZS Fund) as well as $39.6 billion investments in non-financial assets (physical assets and equity injections) (Figure 2.12). The remaining net capital spending comprises the forecast for future new capital spending, including funding remaining in the Multi-Year Capital Allowance (MYCA), the NRP, and in tagged contingencies.

Figure 2.12 – Core Crown spending on capital investments



Source: The Treasury

The net decrease in investment in financial assets noted in the short term largely reflects the repayments from the FLP, as outlined on page 42.

A breakdown of net capital expenditure that has an impact on core Crown residual cash can be found on page 132 within the forecast financial statements.

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

The government borrowing programme includes the issuance of both government bonds (NZGB) and short-term borrowings (Treasury Bills and Euro-Commercial Paper). Overall, the programme will provide net funds of $50.6 billion (Table 2.7) to help cover the residual cash deficits and maintain the liquidity buffer. The forecast increases to NZGBs, largely to meet the Crowns funding requirements, is the main driver of the increases in gross debt and finance costs over the forecast period.

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

Table 2.7 – Net issuance of market government bonds and short-term borrowing[1]

Year ending 30 June $billions	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**Total**
Face value of market government bonds issued	38.0	36.0	34.0	28.0	16.0	**152.0**
Debt programme cash flows						
Cash proceeds from issue of market government bonds	34.7	33.3	31.6	26.1	15.0	**140.7**
Repayment of market government bonds	(18.1)	(19.0)	(19.2)	(22.4)	(15.4)	**(94.1)**
Net issue/(repayment) of short-term borrowings	4.1	(0.1)	-	-	-	**4.0**
Net debt programme cash flows	**20.7**	**14.2**	**12.4**	**3.7**	**(0.4)**	**50.6**

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

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

Source: The Treasury

The forecast net debt programme cash flows are higher than the accumulated residual cash deficits over the forecast period. Most of the variance between the accumulated residual cash deficit over the forecast period ($32.2 billion) and the forecast increase to the government borrowing programme (net funds of $50.6 billion) reflects the impact of the FLP. This is because the FLP (Figure 2.11) repayments will reduce the settlement cash liability, rather than being available to the Crown to fund its activities. Looking through the impacts of FLP, the accumulated residual cash deficit would be much closer to the cash generated from the Government's bond programme.

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

The residual cash deficit flows through to net debt indicators (page 37) and, as it is predominantly funded by borrowings, will also flow through to the gross debt indicator. Overall, gross debt is expected to increase from $135.8 billion in 2022/23 to $229.1 billion by 2027/28. In addition to the change in the bond programme, the managing down from the Reserves Bank's LSAP contributes most of the remaining increase in gross debt.

Comparison to the *Pre-election Update*

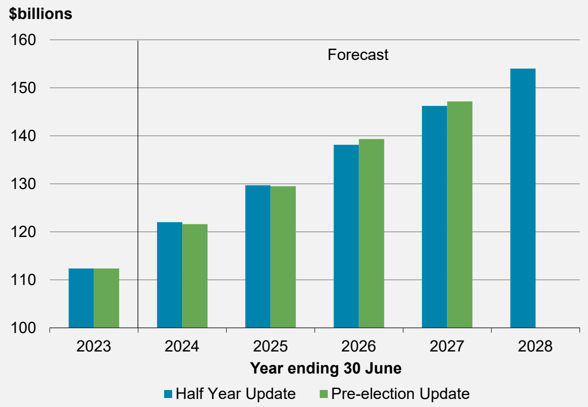
Overall, the fiscal outlook is weaker compared to the Pre-election Update, largely owing to economic factors…

The updated economic forecasts show interest rates being higher-for-longer for a longer period to combat inflation and dampen demand in the economy. As a result, slower economic growth is expected which impacts the forecast for tax revenue. The change in the interest rate track also leads to higher finance costs – both directly, as the cost to borrow increases, and indirectly, as more borrowing is required (to cover the reduction in forecast revenue since the *Pre-election Update*).

...resulting in a downward revision in the forecast for core Crown tax revenue…

The core Crown tax revenue forecast is $1.6 billion [8] lower across the forecast period compared to the *Pre-election Update*. Forecast RWT revenue and source deductions are higher than at the *Pre-election Update*, reflecting higher interest rates and an improved outlook for employment, but forecasts for all other major tax types have been reduced. A lower forecast for GST reflects weaker consumption growth over the forecast period, while slower growth in operating surplus lowers corporate and other persons tax revenue.

Figure 2.13 – Core Crown tax revenue compared to the *Pre-election Update*



Source: The Treasury

… and higher debt servicing costs…

Core Crown finance costs are expected to be higher by $3.9 billion over the forecast period, an average increase of around $1.0 billion per year. The majority of the increase is driven by higher interest rates impacting the yields on the existing debt stock. The government bond programme has been increased by $7.0 billion since the *Pre-election Update* (as the weaker tax revenue forecasts result in an additional need to borrow), which has also contributed to the lift in finance costs.

The higher interest rates have also resulted in upward revisions to core Crown interest revenue, which is forecast to rise by an average of $0.7 billion per year. This has partially offset the higher interest expenses discussed above and, therefore, the overall impact that flows through to OBEGAL.

…while also impacting the results of the Crown entities, particularly in the current year...

The increase in the forecast of interest rates since the *Pre-election Update* has resulted in a stronger outlook for the results of ACC, as the decrease in the unexpired risk liability has led to a lower forecast for insurance claims expense.

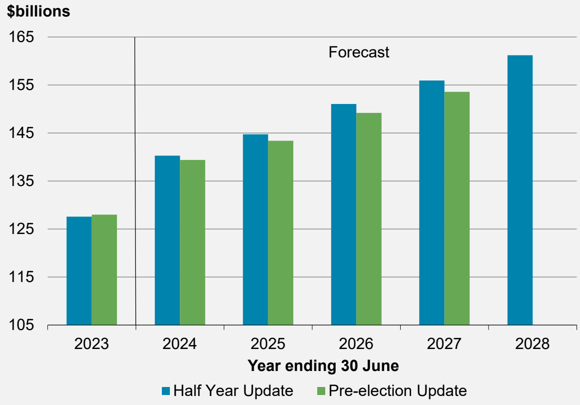
8 This includes a policy change to extend the deductibility of distributions by certain co-operative companies until 2024/25, which has reduced revenue by $58 million over the forecast period.

…while phasing and reclassification of spending have also influence core Crown expenses.

Spending on the response and recovery from the North Island weather event is now expected to be more front loaded. As a result, an additional $0.8 billion is now expected to be spent in the current year compared to the *Pre-election Update*.

Drawdowns from NRP fund since the *Pre-election Update* include around $0.7 billion on cost-sharing agreements with councils, and $0.4 billion on road and rail repairs. This will mean there are smaller amounts now expected in the later part of the forecast period.

Figure 2.14 – Core Crown expenses compared to the *Pre-election Update*



Source: The Treasury

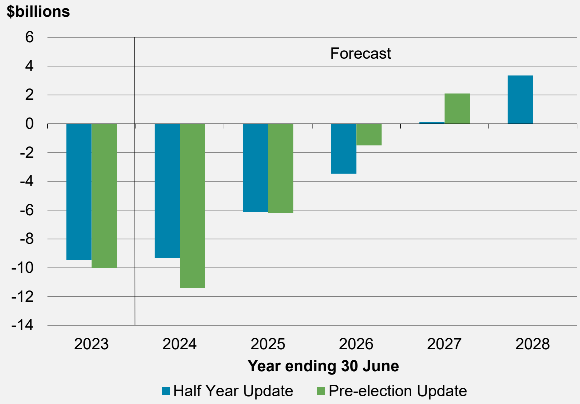
In addition, there have been some reclassifications in transport-related spending that were forecast to be capital expenditure in the *Pre-election Update* and are now expected to be operating expenditure. This results in an overall increase of $0.9 billion compared to the *Pre-election Update* starting from 2024/25.

An OBEGAL surplus is still forecast for 2026/27, however the surplus is smaller than forecast at the Pre-election Update...

The OBEGAL deficit over the next two years are forecast to be smaller compared to the *Pre-election Update*. The near-term improvement is largely driven by core Crown revenue, which is higher than previously forecast. However, this trend reverses from 2025/26, as tax revenue forecasts are expected to be weaker.

As a result, OBEGAL is still expected to return to a small surplus of $0.1 billion in 2026/27, compared to a surplus of $2.1 billion at the *Pre-election Update* (Figure 2.15).

Figure 2.15 – OBEGAL compared to the *Pre-election Update*



Source: The Treasury

Overall, residual cash deficits are slightly higher than the Pre-election Update…

Core Crown residual cash deficits are slightly higher than the previous forecast, with an overall increase of $1.5 billion across the four years to 2026/27.

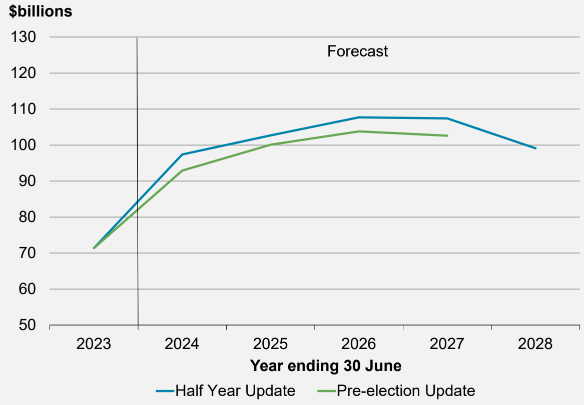
There are offsetting year-on-year changes. The majority of the influences on OBEGAL discussed above (with the exception of ACC results) have flowed through to impact on the residual cash forecast. However, many of these impacts have been offset by changes to, and rephasing of, capital investments. In particular, forecasts for health-related capital expenditure have been rephased to earlier in the forecast period.

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

Net debt is expected to remain higher than forecast at the *Pre-election Update*, across the forecast period. In the current fiscal year, net debt is around $4.5 billion higher than previously forecast and by 2026/27 is $4.8 billion (or around 1 percentage point of GDP) higher than previously forecast.

Most of the weaker residual cash deficits flow through to increase the net debt balance relative to the *Pre-election Update* forecasts.

Figure 2.16 – Net debt compared to the *Pre-election Update*



Source: The Treasury

However, net debt is also impacted by changes in the net financial assets of the NZS Fund and Crown entity borrowings. Since the *Pre-election Update*, weaker market conditions have resulted in a lower starting point for the forecast of the net financial assets of the NZS Fund financial investment portfolio, which increases the net debt balance ($2.6 billion lower per year on average). In addition, Crown entity borrowings are expected to be higher in the near term which also increases net debt.

3

Risks to the Fiscal Forecasts

Overview

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

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

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

The economy is a key influence on fiscal outcomes…

Forecasts of nominal GDP are a key driver of forecast tax revenue. Forecasts for interest rates are used to estimate interest revenue, finance costs and the valuation of some long-term assets and liabilities. Higher net migration is leading to increased population growth, which while raising additional tax revenue will also increase pressure on future government expenditure. Page 23 in the Economic Outlook chapter provides a summary of the fiscal impact from alternative economic scenarios. Table 3.1 provides rules of thumb for the sensitivity of tax revenue to economic growth, as well as how government income and expenses are affected by interest rates. For example, if nominal GDP was to grow by 1 percentage point more than forecast in each year of the forecasts, tax revenue would likely be around $8.0 billion higher than forecast in the final year of the forecast.

Table 3.1 – Fiscal sensitivity analysis

Years ending 30 June ($millions)	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**
Impact on tax revenue of a 1 percentage point increase[a] in growth of					
Nominal GDP	1,235	2,655	4,260	6,045	7,995
Wages and salaries	580	1,265	2,040	2,905	3,865
Taxable business profits	245	575	945	1,405	1,885
Impact of 1% lower[a] interest rates on					
Interest income[b]	(275)	(381)	(461)	(533)	(577)
Interest expenses[b]	(584)	(1,066)	(1,350)	(1,586)	(1,755)
Net impact on operating balance	309	685	889	1,053	1,178

Notes: a These sensitivities are broadly symmetrical.

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

Source: The Treasury

Furthermore, the forecast financial position is based on judgements and assumptions about the future. These judgements and assumptions are informed by market information, such as foreign exchange rates, share prices, the carbon price and property prices. For example, foreign-currency-denominated financial assets and liabilities are converted into New Zealand dollars, the Government's listed share investments are reported at market prices and property owned by the Crown is valued using market information where possible. The Crown's actual financial position is likely to differ from forecast if actual outcomes differ from that assumed. In addition, changes in these variables can also have flow-on effects for the Crown's operating balance. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

There are also a range of general risks to the fiscal forecasts not separately disclosed as specific fiscal risks…

There is a range of general risks to the fiscal forecasts – although these are not separately disclosed as specific fiscal risks – such as:

- risks from changes to economic assumptions, the most significant of which have been recognised elsewhere in this chapter and in the *Half Year Update*
- business risks and volatility in the returns from the Government's investments and the valuation of these investments and the Government's long-term liabilities relating to the broader economic and commercial environment, and
- the costs of future individual natural disasters, individual events resulting from climate change, and other major events (including biosecurity incursions), as their occurrence, nature and timing cannot be predicted.

New Zealand will continue to experience natural disasters and, with some of these, the frequency and/or severity is likely to increase with climate change – for example, increased coastal flooding because of sea-level rise and extreme weather events. Once such an event does occur, various choices arise about how to respond and when to recognise potential liabilities. Specific risks are disclosed at that point, based on the range of possible responses.

Climate change continues to pose a significant challenge...

The fiscal forecasts include several mitigation measures (taking action to reduce emissions) and adaptation measures (adjusting to the effects of climate change) to support the Government's climate change response; most notably the New Zealand Emissions Trading Scheme (ETS) and funding for climate change-related initiatives previously funded through the Climate Emergency Response Fund.

Funding for a number of climate change mitigation and adaptation initiatives is reflected in the forecasts. However, over the long term, the total cost of achieving emissions reduction targets and addressing the impacts of climate change will be significant and is likely to exceed provisions made in the forecasts. Given the uncertainty of the scale and frequency of these costs, there is an overarching risk to the forecasts. More specific climate-related risks have been identified in the Specific Fiscal Risks section.

And the Government's large investment pipeline is facing capacity constraints and cost escalations.

There has been significant allocation of capital funding in recent years in response to a range of issues, from economic headwinds before and after the COVID-19 pandemic, funding to accelerate infrastructure delivery to support housing development and response and recovery to the recent extreme weather events. There has also been government commitment to a number of multi-billion-dollar transport programmes over the coming decades. This is in addition to significant levels of funding required for maintenance and renewals of the Crown's infrastructure assets to maintain current levels of service.

This has led to an investment pipeline larger than agencies and the market have capacity to deliver. In particular, capacity constraints in regional New Zealand are expected to extend timeframes for the cyclone and flood recovery and infrastructure rebuild, as well as restrict broader aspirations for increased investment in infrastructure.

Although the market is softening in some areas, costs escalations for projects in delivery are ongoing due to high inflation, supply chain issues and high demand. While there may be fiscal headroom for increased infrastructure investment, the operating funding requirements for capital investments will also make it challenging to achieve increases in investment given the pressure on operating expenditure.

There are several specific fiscal risks that are related to time-limited funded programmes.

The following table outlines programmes that have time-limited funding that decreases or ceases at some point in the forecast period and may potentially be extended, using a materiality threshold of $100 million or greater across the forecast period. Time-limited funding often relates to pilot programmes or to fund programmes until reviews of the programme are completed. If these programmes are going to be continued, they will either need to be funded from allowances or through reprioritisation.

The table below refers to specific programmes with time-limited funding. The Specific Fiscal Risk chapter also includes risks relating to broader responses to significant events including the *North Island Weather Events – Response and Recovery* (on page 81) and the *COVID-19 – Ongoing Costs of Current Response* (on page 73) which are normally time-limited, but could require extension if the impact of the events persist.

Vote	Programme	Year Funding Ceases	Further information in the Specific Risks chapter
Education	Ka Ora, Ka Ako | Healthy School Lunch Programme	2024	The *Ka Ora, Ka Ako | Healthy School Lunches* risk can be found on page 69
Foreign Affairs	International Climate Financing Funding	2025	The *Time-limited International Climate Financing Funding: Unfunded 2026-2030 Commitment Period* risk can be found on page 72
Tertiary Education	Tertiary Tuition and Training Funding Baseline Pressure	2025	The *Tertiary Tuition and Training Funding Baseline Pressure* risk can be found on page 69
Cross-portfolio	New Zealand Screen Production Rebate (International and Domestic)	2027 (International) and 2025 (Domestic)	The *New Zealand Screen Production Rebate* can be found on page 80
Cross-portfolio	Apprenticeship Boost	2024	The *Apprenticeship Boost* risk can be found on page 63
Education	Cyber Security Programmes	2024	This programme has been aggregated into the *Information and Communications Technology Operating and Capital Pressures* risk, which can be found on page 79
Housing	Kāinga Ora Operating Funding	2024	This time-limited funding has been aggregated into the *Other Operating Cost Pressures* risk, which can be found on page 81
Health	Pharmac – Combined Pharmaceutical Budget	2024	The full *Combined Pharmaceutical Budget* risk can be found on page 72
Health	Pharmac – COVID-19 therapeutics and vaccinations	2024	The full *Combined Pharmaceutical Budget* risk can be found on page 72

Specific Fiscal Risks

This statement of specific fiscal risks is required by the Public Finance Act 1989. In addition to the discussion of other types of risks to the fiscal forecasts outlined in this chapter, it sets out all government decisions and other circumstances known to the Government that may have a material effect on the fiscal outlook, but which are not certain enough in timing or quantum to include in the fiscal forecasts. This section covers:

- how specific fiscal risks are managed
- criteria for inclusion and exclusion of specific fiscal risks
- a statement of specific fiscal risks of the Government
- narrative summaries of all specific fiscal risks, and
- a table of risks that have been removed from the statement of specific fiscal risks since the *Pre-election Economic and Fiscal Update 2023 (Pre-election Update)*.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts: 24 November 2023. We explain the impact of this further on page 6. Although the process for disclosure of specific fiscal risks involves several entities, including government departments, the Treasury and the Minister of Finance, it is still possible that not every significant risk is identified.

Within each category of risks (new, changed, updated, and unchanged), risks are grouped by portfolio and classified as either policy change or cost pressure or variance risks:

- Policy change risks relate to potential decisions likely to be taken by the Government relating to both new and existing policy settings.
- Cost pressure or variance risks relate to changes in demand or pricing that impact revenue or the cost of delivering services under existing policy settings. The key drivers of future cost pressures are likely to come from population changes, wage increases (both pay negotiations and progression through pay scales) and the price inflation of inputs.

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

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

The *Half Year Update* must incorporate – to the fullest extent possible that is consistent with section 26V of the Public Finance Act 1989 (the limitations on the disclosure requirements) – all government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook. Specific criteria based on section 26U of the Public Finance Act 1989 determine what is included in the forecast financial statements, as opposed to what is disclosed as a specific fiscal risk.

The forecast financial statements must include all quantified fiscal implications of government decisions and all other circumstances (excluding those that are not required to be disclosed by section 26V) that may have a material effect on the fiscal and economic outlook, and which can be quantified for particular years with reasonable certainty by the day on which the forecast financial statements are finalised. Where the fiscal implications of those government decisions and other circumstances cannot be quantified for, or assigned to, particular years with reasonable certainty, they are required to be disclosed in the statement of specific fiscal risks.

Fiscal forecasts	Specific fiscal risks
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but is reasonably probable[9] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is $100 million or more over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[10] (but not probable) that the matter will be approved or the situation will occur, or • it is reasonably probable or possible that the matter will be approved or the situation will occur, but the matter cannot be quantified for, or assigned to, particular years with reasonable certainty.

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

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

Exclusions to Disclosure

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

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

Section 26V requires the Minister of Finance to determine that:

- incorporating the decision and/or circumstance in the *Half Year Update* is likely to result in one of the consequences listed above, and
- there is no reasonable way that the Government can avoid this prejudice, compromise or material loss by:
  - in the case of a circumstance, making a decision before the day the fiscal forecasts are finalised, or
  - in the case of a decision or circumstance, incorporating in the update the fiscal implications of that decision or circumstance, or the nature of that decision or circumstance, but without reference to its fiscal implications.

Effect of the Government's Commitments on the Statement of Specific Fiscal Risks

The statement of Specific Fiscal Risks is required to disclose the risks that are known at the date of the finalisation of the fiscal forecasts. As explained on pages 5 and 6, the finalisation date for the fiscal forecasts was 24 November 2023. This means the fiscal forecasts were finalised prior to the release of the Coalition agreements, the Government's 100 Day Action Plan commitments, and the decisions made on the Mini Budget. The statement of Specific Fiscal Risks reflects the risks as at 24 November.

Since 24 November, the Government has taken decisions on a range of matters that will significantly change (or will expire) several risks in the statement of Specific Fiscal Risks. In particular, the Government agreed to its 100 Day Action Plan on 29 November. The table below outlines the risks that are affected by the commitments made in the 100 Day Action Plan. There may also be further specific fiscal risks (positive or negative) that arise as a result of the commitments in the 100 Day Action Plan, the Coalition Agreements, and other Government announcements. These risks will be considered and published as part of the 2024 *Budget Economic and Fiscal Update.*

Specific Fiscal Risk	Reference	Commitment in the 100 Day Action Plan	Likely impact of 100 Day Action Plan
New Zealand Income Insurance Scheme Implementation and Employment Levies	pg. 80	Stop work on the Income Insurance Scheme.	Risk will expire
New Zealand Battery Project	pg. 70	Stop work on the Lake Onslow pumped hydro scheme.	Risk will expire
Transport Project Funding	pg. 78	• Withdraw central government from Let's Get Wellington Moving (LGWM). • Stop central government work on the Auckland Light Rail project.	Change to the risk
Affordable Water Reform Programme	pg. 74	Introduce legislation to repeal the Water Services Entities Act 2022.	Risk will expire
Affordable Water Reform Programme – ICT Requirements	pg. 74	Introduce legislation to repeal the Water Services Entities Act 2022.	Risk will expire
Resource Management Reform Implementation (RMRI)	pg. 70	Repeal the Spatial Planning and Natural and Built Environment Act and introduce a fast-track consenting regime.	Risk will expire
Additional Government Investment in Te Pūkenga | New Zealand Institute of Skills and Technology	pg. 68	Begin disestablishing Te Pūkenga	Change to the risk
Smokefree Aotearoa 2025	pg. 82	Repeal amendments to the Smokefree Environments and Regulated Products Act 1990 and regulations.	Risk will expire
Support for the National Land Transport Fund	pg. 77	• Cancel fuel tax hikes. • Begin work on a new Government Policy Statement reflecting the new Roads of National Significance and new public transport priorities.	Change to the risk
Public Sector Employment Agreements	pg. 81	Repeal the Fair Pay Agreement legislation.	Change to the risk
Baseline Savings	pg. 79	Start reducing public sector expenditure, including consultant and contractor expenditure.	Change to the risk

Statement of Specific Fiscal Risks

New Risks		
Portfolio	**Risk Title**	**Type of Risk**
Corrections	Increasing Prison Population	Cost Pressure or Variance – Expenses and Capital
Education	Supporting Quality Teaching, Learning, and Curriculum	Cost Pressure or Variance – Expenses
Health	Health Capital Envelope – Adjustment for COVID-19 Related Inventories	Cost Pressure or Variance – Capital
Housing	Amortisation of Upfront Payments	Cost Pressure or Variance – Expenses
Justice	Legal Aid Demand Pressures	Cost Pressure or Variance – Expenses
Cross-portfolio	Apprenticeship Boost	Policy Change – Expenses
	New Zealand House Lease Agreements	Cost Pressure or Variance – Expenses

Changed Risks		
Portfolio	**Risk Title**	**Type of Risk**
Education	Work Programme Supporting Māori-medium Education and Growing Kaupapa Māori Education	Policy Change – Expenses and Capital
Revenue	Potential Tax and Social Policy Changes	Policy Change – Revenue and Expenses
	Small Business Cashflow Scheme	Cost Pressure or Variance – Expenses and Capital

Unchanged Risks		
Portfolio	**Risk Title**	**Type of Risk**
ACC	ACC Levies	Cost Pressure or Variance – Revenue and Expenses
	Court of Appeal Actions	Cost Pressure or Variance – Expenses
	Impacts of Changes to Accident Compensation Policy Settings	Policy Change – Expenses
	Non-Earner's Account	Cost Pressure or Variance – Expenses
	Work-related Gradual Process, Disease or Infection	Policy Change – Expenses
Children	Enabling Communities and Iwi to Help Children	Cost Pressure or Variance – Expenses
	Establishment of two Youth High-needs Youth Units	Policy Change – Expenses and Capital

Unchanged Risks		
Portfolio	**Risk Title**	**Type of Risk**
Climate Change	Achieving New Zealand's International and Domestic Climate Change Targets	Policy Change – Expenses and Capital
	Emissions Trading Scheme – Abatement Obligations Arising from Price Ceiling Being Exceeded	Cost Pressure or Variance – Expenses
	Emissions Trading Scheme – Variations Arising from Unit Auctions Failing to Clear	Cost Pressure or Variance – Revenue
	Emissions Trading Scheme – Variations in Revenue and Expenses	Cost Pressure or Variance – Revenue and Expenses
Conservation	Chateau Tongariro Hotel	Cost Pressure or Variance – Expenses and Capital
Defence	Disposal of New Zealand Defence Force Assets	Policy Change – Revenue and Expenses
Disability Issues	Disability Support Services – High and Complex Framework	Cost Pressure or Variance – Expenses and Capital
	Transforming and Sustaining Disability Support Services for New Zealanders	Cost Pressure or Variance – Expenses
Education	Additional Government Investment in Te Pūkenga | New Zealand Institute of Skills and Technology	Policy Change – Expenses
	Early Learning Action Plan	Policy Change – Expenses
	Ka Ora, Ka Ako | Healthy School Lunch Programme	Policy Change – Expenses and Capital
	Learning Support	Cost Pressure or Variance – Expenses and Capital
	Review of Higher Education Funding System	Policy Change – Expenses
	Tertiary Tuition and Training Funding Baseline Pressure	Cost Pressure or Variance – Expenses
	Wānanga funding and the Crown's Te Tiriti Obligations to Wānanga	Policy Change – Expenses
	Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiārangi	Policy Change – Expenses
Energy and Resources	New Zealand Battery Project	Policy Change – Expenses and Capital
Environment	Resource Management Reform Implementation (RMRI)	Policy Change – Expenses and Capital

Unchanged Risks		
Portfolio	**Risk Title**	**Type of Risk**
Finance	Alternative Monetary Policy Tools	Cost Pressure or Variance – Expenses
	Depositor Compensation Scheme	Policy Change – Expenses
	Earthquake Commission	Cost Pressure or Variance – Expenses
	Infrastructure Funding and Financing	Cost Pressure or Variance – Expenses and Capital
	Natural Disaster Fund	Cost Pressure or Variance – Expenses
	On-sold Canterbury Properties Programme	Cost Pressure or Variance – Expenses
Foreign Affairs	Scott Base Redevelopment	Cost Pressure or Variance – Expenses and Capital
	Time-limited International Climate Finance Funding: Unfunded 2026-30 Commitment Period	Policy Change – Expenses
Health	Combined Pharmaceutical Budget	Cost Pressure or Variance – Expenses
	COVID-19 Response – Ongoing Costs of Current Response	Cost Pressure or Variance – Expenses
	Health Capital Pressure	Cost Pressure or Variance – Capital
	Reducing Planned Care Waiting Lists	Policy Change – Expenses
Housing	Cost escalation in the divestment and development of housing by providers	Cost Pressure or Variance – Expenses
	Large-scale Housing and Urban Development Projects	Cost Pressure or Variance – Expenses and Capital
Local Government	Affordable Water Reform Programme	Policy Changes – Expenses and Capital
	Affordable Water Reform Programme – ICT Requirements	Policy Change – Expenses
Oceans and Fisheries	Aquaculture Settlements	Cost Pressure or Variance – Expenses
Public Service	Royal Commission Independent Redress System Claims for Survivors of Abuse in Care	Policy Change – Expenses
Research, Science and Innovation	Science City	Policy Change – Expenses and Capital
Revenue	Cash Held in Tax Pools	Cost Pressure or Variance – Revenue
	International Tax	Policy Change – Revenue
	Research and Development Tax Incentive	Cost Pressure or Variance – Revenue
	Student Loans – Valuation	Cost Pressure or Variance – Expenses and Capital
	Trustee tax rate increase	Policy Change – Revenue

Unchanged Risks		
Portfolio	**Risk Title**	**Type of Risk**
Social Development and Employment	Changes to the Welfare System	Policy Change – Expenses
	Te Pae Tawhiti Programme – Horizon One year 3 and Horizon Two	Policy Change – Expenses and Capital
Tourism	Proposed Changes to the International Visitor Levy	Policy Change – Revenue
Transport	Auckland City Rail Link Ownership Issues	Policy Change – Expenses
	Inter-Island Resilient Connection Project	Cost Pressure or Variance – Expenses and Capital
	New Zealand Upgrade Programme	Cost Pressure or Variance – Expenses and Capital
	Rail Network Investment Programme	Cost Pressure or Variance – Revenue, Expenses, and Capital
	Support for the National Land Transport Fund	Policy Change – Revenue, Expenses, and Capital
	Transport Local Government Share	Cost Pressure or Variance – Expenses
	Transport Project Funding	Cost Pressure or Variance – Revenue, Expenses, and Capital
Treaty of Waitangi Negotiations	Relativity Clause	Cost Pressure or Variance – Expenses
	Treaty Settlement Forecasts	Cost Pressure or Variance – Expenses
Cross-portfolio	Adverse Weather Events	Cost Pressure or Variance – Expenses and Capital
	Baseline Savings	Cost Pressure or Variance – Expenses
	Carbon Neutral Government Programme	Policy Change – Expenses and Capital
	Information and Communications Technology Operating and Capital Pressures	Cost Pressure or Variance – Expenses and Capital
	Maintenance for Government-owned Buildings	Cost Pressure or Variance – Capital
	National Adaptation Plan	Policy Change – Expenses
	New Zealand Income Insurance Scheme Implementation and Employer Levies	Policy Change – Revenue and Expenses
	New Zealand Screen Production Rebate	Cost Pressure or Variance – Expenses
	Non-government Providers Receiving Funding from the Government	Cost Pressure or Variance – Expenses
	North Island Weather Events – Response and Recovery	Cost Pressure or Variance – Expenses and Capital
	Other Capital Cost Pressures	Cost Pressure or Variance – Capital

Unchanged Risks		
Portfolio	**Risk Title**	**Type of Risk**
Cross-portfolio	Other Operating Cost Pressures	Cost Pressure or Variance – Expenses
	Pay Equity Claims	Cost Pressure or Variance – Expenses
	Public Sector Employment Agreements	Cost Pressure or Variance – Expenses
	Safeguarding New Zealand’s Defence and Security Interests	Policy Change – Expenses and Capital
	Services Funded by Third Parties	Cost Pressure or Variance – Expenses
	Smokefree Aotearoa 2025	Cost Pressure or Variance – Revenue

New Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that have been newly identified or disclosed since the *Pre-election Economic and Fiscal Update 2023 (Pre-election Update)*. The expectation is that these risks will be managed through existing funding sources and/or the Budget operating and capital allowances.

Corrections

Increasing Prison Population (Cost Pressure or Variance – Expenses and Capital)

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

Education

Supporting Quality Teaching, Learning, and Curriculum (Cost Pressure or Variance – Expenses)

New Zealand's national curriculum is in a period of significant change. Professional learning and development (PLD) provides teachers | kaiako with tools to engage with that change. Curriculum changes, inflation and population increases are expected to lead to increased funding demands for PLD costs over the forecast period.

Health

Health Capital Envelope – Adjustment for COVID-19 Related Inventories (Cost Pressure or Variance – Capital)

Due to a late change in accounting treatment, the Ministry of Health used an existing capital appropriation to ensure parliamentary authority was in place for the non-cash transfer of COVID-19 inventory to Te Whatu Ora in the 2022/23 fiscal year. As a result, the amount available to fund future capital projects agreed by the previous Government in Budget 2023 is reduced. Funding had previously been provided to recognise this transfer as a COVID-19 operating expense. Due to this change in accounting treatment, this operating funding was returned to the Crown at year end as a surplus and the inventory transfer was instead charged against Health Capital Envelope multi-year appropriation. For Te Whatu Ora to meet the funding requirements of its planned capital programme, the funding utilised for the inventory transfer will need to be reappropriated from the surplus returned to the Crown.

Housing

Amortisation of Upfront Payments (Cost Pressure or Variance – Expenses)

Under generally accepted accounting practice, grant funding provided upfront for some housing programmes must be recognised as capital expenditure. As performance obligations are met, the funding is amortised as an operating expense. For some housing programmes, including Māori Housing and the Affordable Rentals Pathway, the Ministry of Housing and Urban Development has appropriated capital funding for the grants but has not sought the full amount of associated operating expenditure for the amortisation expense. There may be insufficient amortisation funding within the forecast period.

Justice

Legal Aid Demand Pressures (Cost Pressure or Variance – Expenses)

The entitlement to legal aid is provided by legislation, with costs driven by the volume and complexity of cases. The average cost per case has increased due to growth in more serious cases. Volumes can be affected, either positively or negatively, by changes to justice sector policy settings and trends in crime. Recent changes in legal aid policy settings have meant that more people are now eligible for legal aid, resulting in increased volumes. There is a risk that additional funding will be required if volumes are higher or cases more complex than assumed in the forecasts.

Cross-portfolio

Apprenticeship Boost (Policy Change – Expenses)

The Apprenticeship Boost provides support for employers to retain and take on new apprentices. It was initially established to support the economy on a time-limited basis after the impact of COVID-19 and is funded until 31 December 2024. If the Government confirms a continuation of the Apprenticeship Boost, additional ongoing funding beyond that currently provided for will be required.

New Zealand House Lease Agreements (Cost Pressure or Variance – Expenses)

The Crown has entered into a conditional agreement for New Zealand House in London to be redeveloped by the property landlord, the Crown Estate. The Ministry of Foreign Affairs and Trade will receive new long-term leases in the property to accommodate the New Zealand High Commission and other government agencies. The expected cost of the agreement has been provided for but there is a risk that the actual cost of lease arrangements will vary from that amount, if there are additional costs associated with the implementation of the new arrangements, such as the write-off value of the existing lease; or costs related to the accounting treatment of the new long-term leases and fit-out costs associated with the refurbished premises; or because the agreement does not become unconditional.

Changed Risks by Portfolio

The following section outlines *policy change* and *cost pressure* or *variance* risks that have significantly changed in nature or substance since the *Pre-election Update*. This may relate to a change in the underlying driver(s) of the risk and/or the risk's scope. Risks that have been updated, but do not meet this definition of changed are listed in the Unchanged Risks by Portfolio section of this statement.

Education

Work Programme Supporting Māori-medium Education and Growing Kaupapa Māori Education (Policy Change – Expenses and Capital)

The Ministry of Education has a work programme to support and grow Māori-medium Education (MME) and Kaupapa Māori Education (KME), with a target of 30.0% of Māori learners participating in MME and KME by 2040 (up from 10.0% in 2020). Funding was provided to support this goal in Budget 2023 but additional investment would be needed to support future stages of growth across the system.

In September 2023, the previous Government agreed to defer decisions on the MME and KME work programme, including a programme business case, until the Waitangi Tribunal has provided its report on the Kura Kaupapa Māori claim (Wai 1718). The report is expected by the end of 2023 and, when completed, may result in some consequential changes to the process or scope of these programmes.

Revenue

Potential Tax and Social Policy Changes (Policy Change – Revenue and Expenses)

The Government expects to agree a new tax and social policy work programme. Therefore, general tax policy settings and their collective fiscal implications are subject to change.

Small Business Cashflow Scheme (Cost Pressure or Variance – Expenses and Capital)

The Small Business Cashflow Scheme was introduced to support small-to-medium businesses affected by COVID-19, with new lending ceasing on 31 December 2023. The fair value of the loan portfolio may change over time and will depend on borrower repayments and defaults over the life of the scheme, which are based on volatile factors.

Unchanged Risks by Portfolio

The following section outlines *policy change* and *cost pressure* or *variance* risks that are unchanged in nature and substance since the *Pre-election Update*. This includes risks that have updated narratives as a result of wording changes for clarity, or which have been updated to reflect present circumstances. These changes do not reflect a change in the underlying risk.

ACC

ACC Levies (Cost Pressure or Variance – Revenue and Expenses)

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

Court of Appeal Actions (Cost Pressure or Variance – Expenses)

ACC is party to multiple different proceedings currently in the Court of Appeal, which may result in an expansion of the current understanding about the bounds of the scheme. One of the proceedings may result in an increase in the number of claimants eligible for Loss of Potential Earnings compensation. One of the other proceedings relates to the extent of cover for treatment injury cover, and consequent entitlements. The costs associated with these increased claims would likely be borne mainly by the Non-Earners' Account (and the non-earners' portion of the Treatment Injury Account), which could necessitate additional Crown funding. The extent of the additional funding could put pressure on ACC's funding policy (which provides an underlying assumption for these forecasts) and/or the goal to reach a funding ratio target of 100% (assets to liabilities) over a 10-year funding horizon.

Impacts of Changes to Accident Compensation Policy Settings (Policy Change – Expenses)

The previous Government signalled a review of Accident Compensation scheme policy settings. Some of the policy issues identified would require either legislative or regulatory change. These changes could result in a significant fiscal impact. From time to time, court decisions expand the application of the scheme, which can also have significant fiscal impacts.

Non-Earner's Account (Cost Pressure or Variance – Expenses)

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

Work-related Gradual Process, Disease or Infection (Policy Change – Expenses)

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 upon exposure to conditions that will give rise to a claim. 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.

Children

Enabling Communities and Iwi to Help Children (Cost Pressure or Variance – Expenses)

Changes to the way Oranga Tamariki partners with Māori will likely have operational and fiscal implications beyond what is in the fiscal forecasts. Further funding may be required for initiatives aimed at building capacity and local solutions with iwi and other strategic community groups. The risk may be mitigated as the Oranga Tamariki partnership strategy is further developed, as some existing funding may be able to be reprioritised.

Establishment of two Youth Justice High-needs Youth Units (Policy Change – Expenses and Capital)

The youth justice residential environment and overall security of residences has become an area of significant concern for the safety of young people and staff. Oranga Tamariki has proposed two new High-needs Youth Units, which will offer 30 new beds and more intensive intervention over a longer period in a secure setting (which differs from current secure care which is only available and appropriate for short periods). The Government has yet to agree to any funding arrangements or business cases for this programme. Detailed costings and timeframes are currently too uncertain to include in the fiscal forecasts.

Climate Change

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

The Climate Change Response (Zero Carbon) Amendment Act 2019 requires the Government to set and achieve domestic greenhouse gas emissions targets and emissions budgets (first budget covering 2022 to 2025). The previous Government released the first emissions reduction plan in May 2022 which outlines a suite of complementary policies to achieve New Zealand's domestic targets. Some of these policies are currently funded under existing baselines, but many may require additional funding in the future.

New Zealand also has international commitments under the Paris Agreement to limit global average temperature increases. Sizeable domestic and offshore abatement will be needed to meet the first Nationally Determined Contribution (2021 to 2030) commitments on top of domestic commitments. The Government has choices around how it achieves this. However, regardless of what these choices are, it is likely that fulfilling these commitments will involve significant costs to the Government, starting within the current fiscal forecast period.

Emissions Trading Scheme – Abatement Obligations Arising from Price Ceiling Being Exceeded (Cost Pressure or Variance – Expenses)

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

Emissions Trading Scheme – Variations Arising from Unit Auctions Failing to Clear (Cost Pressure or Variance – Revenue)

New Zealand's Emissions Trading Scheme (ETS) involves the auctioning of a certain volume of New Zealand Units (NZUs) each calendar year, subject to a reserve price being met at auction. When auctions do not clear, any unsold units are rolled over to remaining auctions in the same calendar year. However, if the final auction of the year does not clear, any remaining unsold credits do not get rolled over into future years. The first three auctions of 2023 declined and had low cover ratios. For this reason, the fiscal forecasts have assumed that the December auction will not clear. However, looking beyond the December auction, the forecasts assume that auctions in future years will clear. Currently, secondary market prices are close to the regulated auction reserve price for 2024, which increases the risk that future auctions may not clear. Fewer units being sold than assumed in the forecasts would result in lower cash proceeds, higher net debt, and lower ETS liability (due to fewer NZUs having been sold).

Emissions Trading Scheme – Variations in Revenue and Expenses (Cost Pressure or Variance – Revenue and Expenses)

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the Crown, both of which are uncertain. The uncertainty is largely owing to the future market price of New Zealand Units (NZUs) and the responses of participants. There is uncertainty both about future prices and whether auctions will clear in the short term. Forecast ETS auction cash proceeds are based on NZU prices in the secondary market (where participants on-sell NZUs among themselves), and the Government's announced auction volumes. Because of these factors, actual revenue and expenses may vary from the fiscal forecasts. In addition, any government decisions to update the ETS price and unit supply settings could affect ETS cash proceeds from auctions.

Conservation

Chateau Tongariro Hotel (Cost Pressure or Variance – Expenses and Capital)

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

Defence

Disposal of New Zealand Defence Force Assets (Policy Change – Revenue and Expenses)

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

Disability Issues

Disability Support Services – High and Complex Framework (Cost Pressure or Variance – Expenses and Capital)

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

Transforming and Sustaining Disability Support Services for New Zealanders (Cost Pressure or Variance – Expenses)

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

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

There may be additional costs which arise from the roll-out of the Enabling Good Lives approach to disability support services.

Education

Additional Government Investment in Te Pūkenga | New Zealand Institute of Skills and Technology (Policy Change – Expenses)

The previous Government's Reform of Vocational Education has reshaped the vocational education and training sector, particularly with the establishment of Te Pūkenga | New Zealand Institute of Skills and Technology (Te Pūkenga). Te Pūkenga is implementing a significant and complex transformation. A $220 million no-interest Crown loan was approved through Budget 2023 to support its digital transformation programme, which will result in an integrated national network of tertiary education and training delivery. There is a residual risk that Te Pūkenga will require additional Crown investment to complete its transformation programme and deliver its expected outcomes for learners, employers and regions.

Early Learning Action Plan (Policy Change – Expenses)

Following public consultation between November 2018 and March 2019, the previous Government released He Taonga Te Tamaiti | Every Child a Taonga: Early Learning Action Plan 2019 to 2029 (ELAP). The estimated cost of the ELAP in the forecast period is approximately $1.2 billion. This estimated cost relates to actions that are indicated in the ELAP as likely to begin within the forecast period, such as improving adult-to-child ratios. There is a risk that these costs may not be met within the existing provision in the fiscal forecasts.

Ka Ora, Ka Ako | Healthy School Lunch Programme (Policy Change – Expenses and Capital)

The Ka Ora, Ka Ako | Healthy School Lunches Programme is funded until the end of the 2024 school year. If the Government confirms a continuation or expansion of the programme, additional ongoing funding beyond that currently provided for will be required.

Learning Support (Cost Pressure or Variance – Expenses and Capital)

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

- implementation and further roll out of Learning Support Coordinators
- work addressing workforce pressures and vacancies within the existing learning support workforce
- work responding to the Highest Needs Review and implementing the improvements suggested by that review.

Review of Higher Education Funding System (Policy Change – Expenses)

In June 2023, the previous Government committed to a review of the funding system for higher education, with draft terms of reference and scope to be presented to Cabinet in December 2023. The announcement of the review has raised expectations that significant additional funding for higher education will result. The scale of the fiscal risk (and potential additional expenditure) associated with the review will depend on the Government's decisions about its priority, terms of reference and scope.

Tertiary Tuition and Training Funding Baseline Pressure (Cost Pressure or Variance – Expenses)

Demand for tertiary education and training is currently expected to exceed the volume able to be funded by current baselines after 2024. Although Budget 2023 provided additional funding for enrolments in 2024 and 2025, the Ministry of Education's current forecasts and estimates of potential demand in 2025 and subsequent years exceeds the volume able to be funded. In addition, in late June 2023, the previous Government announced a time-limited increase to tuition and training subsidies for 2024 and 2025. This will add to the drop-off in baseline funding after 2025. There may also be expectations of further cost adjustments in response to continuing inflationary pressures.

Wānanga funding and the Crown's Te Tiriti Obligations to Wānanga (Policy Change – Expenses)

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

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

The Education and Training Amendment Bill (No 3) could lead to significant changes to the legislative status of wānanga and the Government's relationship with wānanga. The Bill grants wānanga the ability to become independent statutory entities. If they do so, this could have financial implications as the wānanga would no longer be an asset on the Government's balance sheet.

Energy and Resources

New Zealand Battery Project (Policy Change – Expenses and Capital)

The previous Government was considering options to address the 'dry year problem' through the New Zealand Battery Project. The 'dry year problem' is when hydro lake levels run low, requiring fossil fuel generation to produce enough electricity to maintain supply security. There is a risk that expenditure to advance the project by testing the feasibility of the options identified and undertaking pre-operational capital investment will exceed the funding available across the forecast period, particularly if a decision is made to continue with the project following completion of a Detailed Business Case.

Environment

Resource Management Reform Implementation (RMRI) (Policy Change – Expenses and Capital)

Budget 2022 established a tagged contingency for resource management reform implementation, providing funding to central and local government, and iwi/Māori to enable delivery of the previous Government's resource management reforms. This funding has now been drawn down and the relevant Bills came into effect following Royal Assent in August.

Agencies have highlighted potential future costs, such as for digital transformation of the resource management system to enable efficiencies. There is still a need for data/digital investment across local and central government to achieve greater system efficiency and consistency for informed decision-making. The Ministry for the Environment is currently working with central and local government agencies to align its digital futures programme business case with the objectives of the Government.

Finance

Alternative Monetary Policy Tools (Cost Pressure or Variance – Expenses)

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

Depositor Compensation Scheme (Policy Change – Expenses)

The Deposit Takers Act 2023 provides for a depositor compensation scheme to come into effect on a date or dates set by Order in Council, currently forecast in 2024/25. There is significant uncertainty around the revenue estimates included in the fiscal forecasts. Because of the uncertainty of the losses that might arise under the scheme and uncertainty around the accounting treatment of them, expenses relating to the scheme have not been included in the fiscal forecasts. They may need to be included in future fiscal forecasts once the accounting treatment and full scope of depositors eligible for the Depositor Compensation Scheme are confirmed.

Earthquake Commission (Cost Pressure or Variance – Expenses)

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

There is the possibility the EQC’s remaining expenditure for the Canterbury earthquakes will be higher or lower than forecast. Risks include litigation and the level of future reopened claims. It is not possible at this stage to fully quantify the potential financial impact or the timing of these risks owing to the uncertainty associated with them, and variance from what is in the fiscal forecasts could be material.

Infrastructure Funding and Financing (Cost Pressure – Expenses and Capital)

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

Natural Disaster Fund (Cost Pressure or Variance – Expenses)

The financial cost of the weather events in the North Island in early 2023 and Nelson/Marlborough in 2022 have a high level of uncertainty, and some outcomes may place significant pressure on the Natural Disaster Fund. Depending on the eventual cost of the events and the occurrence of any significant future events, it could result in a depletion of the Natural Disaster Fund.

On-sold Canterbury Properties Programme (Cost Pressure or Variance – Expenses)

The Government is providing support to homeowners of on-sold over-cap properties impacted by the Canterbury earthquakes. There is considerable uncertainty in valuing the future cost of the policy as it depends on several variables. As a result a number of significant judgements have been made to address this uncertainty, including the expected cost per claim and conversion from applications to settled claim assumptions. There is a risk the final costs of the programme will differ from the estimate included in these fiscal forecasts.

Foreign Affairs

Scott Base Redevelopment (Cost Pressure or Variance – Expenses and Capital)

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

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

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

Health

Combined Pharmaceutical Budget (Cost Pressure or Variance – Expenses)

Budget 2022, alongside other funding increases including for COVID-19 vaccines and therapeutics, provided additional funding for pharmaceutical purchasing to enable PHARMAC to fund new medicines or widen access to already funded medicines. This additional funding is provided for the 2022/23 and 2023/24 fiscal years only, consistent with the two-year funding arrangement for health agreed at Budget 2022. Further funding is required in subsequent years to maintain access to the same selection of funded medicines.

COVID-19 Response – Ongoing Costs of Current Response (Cost Pressure or Variance – Expenses)

While the last of the COVID-19 mandatory requirements have been removed, there is still a risk that additional costs may be incurred depending on future COVID-19 cases and variants or on policy decisions. The level of funding for the COVID-19 public health response beyond 2023/24 is yet to be decided.

Health Capital Pressure (Cost Pressure or Variance – Capital)

There remain significant capital pressures on the health system, such as the Regional Hospital Redevelopment Programme, which includes projects such as Dunedin Hospital. These pressures are largely driven by construction sector inflation and insufficient planning ahead of investment decisions for many legacy investments.

Reducing Planned Care Waiting Lists (Policy Change – Expenses)

During the COVID-19 pandemic, it proved challenging to deliver intended planned care volumes. This risk identifies that there may be a future cost to clear the backlog resulting from the COVID-19 pandemic.

Housing

Cost escalation in the divestment and development of housing by providers (Cost Pressure or Variance – Expenses)

The fiscal forecasts include business-as-usual divestments, acquisitions and the redevelopment of land and housing as part of the Kāinga Ora asset-management strategy, and by community housing providers and other housing providers. The Government also faces commercial and financial risks inherent in large-scale building and urban development programmes. The magnitude of these risks has increased as a result of the adverse impact of inflationary cost pressures, increased interest rates, international supply chains and the financial viability of its build partners.

Large-scale Housing and Urban Development Projects (Cost Pressure or Variance – Expenses and Capital)

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

Local Government

Affordable Water Reform Programme (Policy Changes – Expenses and Capital)

In April 2023, the previous Government announced changes to planned water services reform, including an increase in the number of water service entities planned to be established (from four to ten), a change in the expected date the water service entities will become operational, and a longer transition period, with water service entities required to be established by 1 July 2026. The extension of the programme from 1 July 2024 to 1 July 2026 and the increase in the number of entities will require additional funding. The fiscal forecasts include the expected costs of these reforms. However, as decisions on funding mechanisms are yet to be taken, there is a risk that actual costs will exceed those forecasts, or that if the full amount of funding required is not available, the establishment activities will be scaled. At present the new water service entities are not considered to be controlled by the Government for financial reporting purposes. Therefore, the forecast financial statements do not include any assets, liabilities, or revenue and expenses of the new water service entities. This treatment continues to be assessed as decisions are taken.

Affordable Water Reform Programme – Information and Communications Technology Requirements (Policy Change – Expenses)

The new water service entities will require investment in information and communications technology (ICT) to ensure they are functional on day one of operation. The fiscal forecasts reflect the approved funding for the costs of ICT investment to date (known as the Systems of Record), which are intended to be recovered from the new water service entities once established. Additional funding will need to be sought to complete the implementation of other ICT systems. The amount of funding required for these ICT systems may differ from what is included in the fiscal forecast. As final decisions have not been taken on the timing and amounts of the recovery of the costs of ICT, shared services and any other establishment costs from the new water service entities, no recovery of costs has been included in the forecasts.

Oceans and Fisheries

Aquaculture Settlements (Cost Pressure or Variance – Expenses)

Fisheries New Zealand delivers the Government's aquaculture settlement obligations under the Māori Commercial Aquaculture Claims Settlement Act 2004. Based on current forecasts of settlements, what is provided for in the fiscal forecasts may be insufficient to fund all future expected settlements.

Public Service

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

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

Research, Science and Innovation

Science City (Policy Change – Expenses and Capital)

Budget 2023 included a tagged operating and tagged capital contingency for the Science City (Wellington Science City) project. Development of the project is still at an early stage, with a business case expected to be completed by July 2024. There is a risk that, following completion of the business case, decisions are made about the scope and scale of the project that leads to additional costs beyond what has been provisioned. There may also be an option to expand the project further to incorporate the full suite of accommodation requirements, including for GNS Science. This expansion of the programme is not currently included in the package and would require additional funding.

Revenue

Cash Held in Tax Pools (Cost Pressure or Variance – Revenue)

Funds held in tax pools are recognised as a government asset. There is a risk that funds held in these pools may be withdrawn by the depositor, resulting in a reduction in the Government's available cash reserves.

International Tax (Policy Change – Revenue)

In light of delays and uncertainty around the final design of the Organisation for Economic Co-operation and Development (OECD) solution, the previous Government decided to introduce legislation to impose a digital services tax (DST). The revenue impact of a DST is expected to be $315 million over the forecast period, with an additional $93 million per annum expected beyond the forecast period. However, before the tax is imposed on 1 January 2025, the OECD solution might be agreed and adopted (or otherwise make satisfactory progress towards implementation) instead of the proposed DST. In that case, the DST would not be implemented. The OECD solution would generate different revenue than a DST. However, the net revenue impact is currently uncertain because it would depend on the final design of the OECD solution which has not yet been decided.

Research and Development Tax Incentive (Cost Pressure or Variance – Revenue)

The research and development (R&D) tax incentive allows eligible firms to receive a tax credit based on a percentage of their expenditure on R&D. Under certain circumstances, eligible firms may receive a cash payment in place of a tax credit. There is a risk that costs may differ from forecasts owing to the limited availability of data for forecasting purposes on future R&D expenditure, including how firms' R&D expenditure will respond to the subsidy.

Student Loans – Valuation (Cost Pressure or Variance – Expenses and Capital)

The value of student loans is sensitive to assumptions such as the borrower's future income, as well as general economic factors such as risk-free interest rates, risk premiums, unemployment levels, salary inflation and the consumers price index. As new lending occurs, an initial write-down to fair value is made, and an expense is incurred, reflecting the cost the Government incurs in making an interest-free loan and the risk that borrowers may not repay their loans. However, the assumptions made at the time of lending rely on factors that may change materially between valuations.

Trustee Tax Rate Increase (Policy Change – Revenue)

The fiscal forecasts include the impact from the increase of the trustee tax rate to 39.0%. There is a risk that the impact from the increase to the tax rate included in the fiscal forecasts may differ to the actual revenue recognised, largely reflecting uncertainty around behavioural responses.

Social Development and Employment

Changes to the Welfare System (Policy Change – Expenses)

The previous Government agreed to a multi-year policy work programme looking at changes to the welfare system, including the review of Working for Families. Any changes agreed to in the future will likely have legislative, operational, ICT and fiscal implications. The Government will be provided with detailed information on the scale of change, implications and associated costs as part of future decision-making.

Te Pae Tawhiti Programme – Horizon One year 3 and Horizon Two (Policy Change – Expenses and Capital)

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

Tourism

Proposed Changes to the International Visitor Levy (Policy Change – Revenue)

The previous Government was reviewing sustainable funding options for tourism-related costs and activities, which could include considering an amendment to the rate of the International Visitor Levy. In addition, future levels of international tourism are uncertain. However, given that revenue from the International Visitor Levy remains hypothecated the impact of any change should be fiscally neutral overall.

Transport

Auckland City Rail Link Ownership Issues (Policy Change – Expenses)

The previous Government committed to fund 50.0% of the costs associated with the City Rail Link project. Auckland Council has also committed to fund 50.0% of the project. Both the Crown and Auckland Council have treated the investment for the City Rail Link project as capital expenditure. Depending on the final ownership structure of the City Rail Link, the Crown may need to write off some the value currently capitalised in the fiscal forecasts. Any write-off is likely to be in the range of ±20.0% of the Crown’s investment (ie, there may be a write-up of value). However, this depends on several factors including allocation of assets and valuation basis once allocation has been determined.
The timeframe for decisions on future ownership has yet to be finalised.

Inter-Island Resilient Connection Project (Cost Pressures or Variance – Expenses and Capital)

The previous Government provided initial funding for the Inter-Island Resilient Connection (iReX) project, which relates to the purchase of new interisland ferries and the development of new terminals to improve resilience for the connection between the North and South Islands. While final decisions, including cost-sharing arrangements, have not been finalised, cost estimates have increased significantly since the initial funding application.

New Zealand Upgrade Programme (Cost Pressure or Variance – Expenses and Capital)

With the current inflationary conditions, and with many projects at an early stage in their lifecycle, New Zealand Transport Agency Waka Kotahi and KiwiRail has signalled that there are significant levels of further funding required to deliver the New Zealand Upgrade Programme as currently scoped.

Rail Network Investment Programme (Cost Pressure or Variance – Revenue, Expenses, and Capital)

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

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

There is a risk that fuel excise duty (FED) and/or road user charges (RUC) will need to be increased further, or additional government funding (loan and/or a grant) will be required, in order to manage existing pressures on the National Land Transport Fund (NLTF). This relates both to the medium-term sustainability of the NLTF and to specific potential pressures in the National Land Transport Programme (NLTP) 2021 and NLTP 2024 periods, including public transport operating pressures and emergency work funding. Further risks associated with transport funding are disclosed as part of the *Transport Project Funding* risk.

Transport Local Government Share (Cost Pressure or Variance – Expenses)

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

Transport Project Funding (Cost Pressure or Variance – Revenue, Expenses, and Capital)

A number of investment choices are currently underway or under investigation. The Government may consider making additional investments (additional to what has already been signalled through the Government Policy Statement (GPS) on land transport) to support progress towards specific investments. Some of these may fall outside the scope of the National Land Transport Fund (NLTF) or are only expected to be partially funded by the NLTF. Such additional investment priorities include the following:

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

- Auckland – Waitematā Harbour Crossing: An indicative business case for the Waitematā Harbour Crossing is currently under way and could be followed by a detailed business case, and potentially by early works.

- Auckland Light Rail: Funding for the detailed planning phase was approved in Budget 2022. The detailed planning phase is intended to provide a refined view of the implementation cost, including estimates of enabling urban infrastructure costs associated with the transport solution. The level of capital and operational funding contributed by Auckland Council is yet to be negotiated, and other beneficiary-pays funding tools are also being considered. Final investment decisions and agreements to funding and financing are not expected to be made until 2024.

- Let's Get Wellington Moving (LGWM): The mass rapid transit elements of LGWM are now entering the detailed business case phase, investigating light rail or bus rapid transit options to the south from the Wellington Railway Station.

- Strategic Investment Programme: The draft GPS 2024 sets out a series of strategically important projects for New Zealand's transport system. Funding has only been committed in principle for the first three years that the GPS covers.

Treaty of Waitangi Negotiations

Relativity Clause (Cost Pressure or Variance – Expenses)

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

Treaty Settlement Forecasts (Cost Pressure or Variance – Expenses)

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

Cross-portfolio

Adverse Weather Events (Cost Pressure or Variance – Expenses and Capital)

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

Baseline Savings (Cost Pressure or Variance – Expenses)

The previous Government has announced a baseline savings programme, which would lead to a permanent reduction in core Crown expenditure. The estimate of the fiscal impact has been reflected in the fiscal forecasts. However, the reductions have not been reflected in adjustments to appropriations. Until final decisions are made there is a risk that the fiscal impact of the baseline savings will be different to the estimate included in the fiscal forecast.

Carbon Neutral Government Programme (Policy Change – Expenses and Capital)

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

Information and Communications Technology Operating and Capital Pressures (Cost Pressure or Variance – Expenses and Capital)

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

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

Maintenance for Government-owned Buildings (Cost Pressure or Variance – Capital)

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

National Adaptation Plan (Policy Change – Expenses)

The first National Climate Change Risk Assessment was released in August 2020, as required by the Climate Change Response (Zero Carbon) Amendment Act 2019. In August 2022, the previous Government published New Zealand's first national adaptation plan (NAP) to respond to these risks. The NAP is an all-of-government plan for New Zealand's adaptation to the effects of climate change, including over 100 actions to be rolled out over the next 6 years. Implementation of new actions in the NAP is likely to impact on the Government's operating balance and net debt.

New Zealand Income Insurance Scheme Implementation and Employer Levies (Policy Change – Revenue and Expenses)

The previous Government decided not to progress with the New Zealand Income Insurance Scheme in the previous parliamentary term. If the scheme does progress at a later time there will be fiscal implications, in particular to revenue from levies collected from the scheme and expenses for payments out to claimants. There could also be second-round effects to benefit expenses. In addition, there is a risk to the Government if the scheme is implemented and public sector agencies are unable to cover the cost of employer levies from existing funding.

New Zealand Screen Production Rebate (Cost Pressure or Variance – Expenses)

The New Zealand Screen Production Rebate (NZSPR) is an uncapped, on-demand grant that incentivises production work (from both domestic and international studios) in New Zealand by offering a rebate on qualifying expenditure. Changes to the NZSPR settings from the Review of Government Investment in the Screen Sector are expected to increase demand on the NZSPR. Funding for both the international and domestic rebate programmes was drawn down from a tagged contingency established at Budget 2022. However, further funding across the forecast period will likely be needed to meet expected costs in 2024/25 and outyears for the Domestic rebate, and in 2026/27 and outyears for the International rebate. Due to the uncapped and on-demand nature of the rebates, there remains a risk that funding in addition to the current expected costs will be required in the future.

Non-government Providers Receiving Funding from the Government (Cost Pressure or Variance – Expenses)

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

North Island Weather Events – Response and Recovery (Cost Pressure or Variance – Expenses and Capital)

Extreme weather events in early 2023 caused significant damage and disruption across the North Island. In response, the forecasts reflect a range of support measures. These included funding from the National Resilience Plan for urgent road repair, as well as providing local funding support for recovery in affected regions including sharing the cost of buying out high risk (category 3) residential properties and of support for whenua Māori in category 3. Further, some Crown agencies may face cost pressures to replace assets damaged during the severe weather events that were not funded at Budget 2023. While current estimates of the cost and phasing of the Government's response and recovery measures have been incorporated in the fiscal forecasts, there is considerable uncertainty around those estimates, and there is a risk that actual cost and phasing differ from those in the forecast.

Other Capital Cost Pressures (Cost Pressure or Variance – Capital)

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

Other Operating Cost Pressures (Cost Pressure or Variance – Expenses)

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

Pay Equity Claims (Cost Pressure or Variance – Expenses)

A number of claims have been raised, and some have been settled, under the 2020 pay equity amendments to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value). The forecasts include an estimate of the expected cost to settle current and future claims. However, there is a risk that the costs may differ depending on the number of further claims that are raised, the outcomes reached from applying the pay equity principles to each particular claim, and any subsequent funding decisions.

Public Sector Employment Agreements (Cost Pressure or Variance – Expenses)

All collective agreements in the public sector are due to be renegotiated over the forecast period. As well as direct fiscal implications for the employers of workforces covered by any changes to remuneration, the renegotiation of agreements can have flow-on effects for remuneration for other employers across the sector. The Fair Pay Agreements Act 2022, which came into effect in December 2022, may also have effects on remuneration for public sector employees.

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

The previous Government published a National Security Strategy and updated New Zealand's strategic defence policy through the Defence Policy Review. Increased spending across defence and security portfolios is expected in recognition of the increasingly complex international security environment. The composition, quantum and timing of spending will be subject to the outcome of an updated Defence Capability Plan and other security policy work, and subsequently will be dependent on the approval of future business cases and Budget decisions.

Services Funded by Third Parties (Cost Pressure or Variance – Expenses)

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

Smokefree Aotearoa 2025 (Cost Pressure or Variance – Revenue)

The previous Government approved the Smokefree Aotearoa 2025 Action Plan, which included actions to reduce the appeal and addictiveness of smoked tobacco products in New Zealand. Key elements of the action plan were enacted through the Smokefree Environments and Regulated Products (Smoked Tobacco) Amendment Act 2022 and include:

- limits on the amount of nicotine in smoked tobacco from 1 April 2025
- a limit of no more than 600 retailers from 1 July 2024
- a smokefree generation for those born on or after 1 January 2009.

A number of these interventions have not been trialled extensively in other jurisdictions, and there is incomplete international evidence to indicate to what degree these collective actions will impact smoked tobacco consumption. There is a risk to the fiscal forecast that the measures in the action plan will have a greater or lesser impact than assumed on smoking prevalence or consumption than what is currently forecast, resulting in variance in actual excise revenue collected.

Risks Removed Since the *Pre-election Update*

The following table outlines risks that were published in the *Pre-election Update* but are no longer disclosed as specific fiscal risks because they are provided for in the forecasts, are adequately captured by existing risks or no longer meet the materiality threshold for publication.

Portfolio	Title	Reason for removal
Climate Change	Returning Underspends to the Climate Emergency Response Fund	This risk no longer meets the materiality threshold for publication.
Cross-portfolio	Emergency Housing Special Needs Grant	This risk no longer meets the materiality threshold for publication.

Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact in excess of $20 million and are not expected to be remote.[11]

The contingencies have been stated as at 31 October 2023, being the latest set of published financial statements of Government.

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

Statement of Contingent Liabilities and Contingent Assets

Quantifiable contingent liabilities

	Status[12]	31 October 2023 ($millions)	30 June 2023 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,486	3,391
International Bank for Reconstruction and Development	Unchanged	2,097	2,009
International Monetary Fund – promissory notes	Unchanged	1,939	1,955
International Monetary Fund – arrangements to borrow	Unchanged	1,529	1,485
Asian Infrastructure Investment Bank	Unchanged	633	607
Other uncalled capital		25	21
		9,709	**9,468**
Guarantees and indemnities			
New Zealand Export Credit Office guarantees	Unchanged	119	175
Other guarantees and indemnities		106	106
		225	**281**
Legal proceedings and disputes			
New Zealand Transport Agency Waka Kotahi – contractual disputes	Unchanged	275	317
Rau Paenga - Parakiore Recreation and Sport Centre – contractual dispute	Unchanged	439	197
Other legal proceedings and disputes		165	176
		879	**690**
Other quantifiable contingent liabilities			
Unclaimed monies	Unchanged	419	398
Waitangi Tribunal – binding recommendations	Unchanged	220	220
Air New Zealand partnership agreement	Unchanged	159	215
Other quantifiable contingent liabilities		203	173
		980	**1,006**
Total quantifiable contingent liabilities		**11,793**	**11,445**

12 Status of contingent liabilities or assets when compared with the *Financial Statements of the Government* published on 5 October 2023, (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated).

Quantifiable contingent assets

	31 October 2023 ($millions)	31 June 2023 ($millions)
Other contingent assets	139	137
Total quantifiable contingent assets	**139**	**137**

Unquantifiable contingent liabilities

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

Description of Quantifiable Contingent Liabilities

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of the organisations listed on page 85, contributes capital by subscribing to shares in certain institutions. The capital (when called) is typically used to raise additional funding for loans to member countries, or in the case of the quota contributions to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both 'paid-in' capital and 'callable' capital or promissory notes.

The Crown's uncalled capital subscriptions over $100 million are listed on page 85.

Guarantees and indemnities

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

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

New Zealand Export Credit Office guarantees

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

Legal proceedings and disputes

New Zealand Transport Agency Waka Kotahi – contractual disputes

New Zealand Transport Agency Waka Kotahi (NZTA) has received a claim for Pūhoi to Warkworth comprising current and estimated future elements, totalling $253 million. The claim is moving to binding arbitration, with a decision required within 24 months of the service commencement date (June 2025). NZTA has paid $92 million that would offset the amount of any successful claim. In the event the arbitration determined that no money was payable then the $92 million would be returned to NZTA. NZTA has not been presented with any evidence to indicate that a claim of that size would be supported by an independent reviewer. The net contingent liability is $161 million.

There are a number of other roading claims (non-PPP), totalling approximately $114 million, that have also been received by NZTA that are being validated.

Rau Paenga – Parakiore Recreation and Sport Centre – contractual dispute

Claims with a disputed value of $439 million have been lodged by the main works contractor for Metro Sport Facility Parakiore Recreation and Sports Centre. Rau Paenga is disputing these claims and arbitration with the contractor regarding these claims is underway and expected to continue through to June 2024.

Other quantifiable contingent liabilities

Unclaimed monies

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

Waitangi Tribunal – binding recommendations

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

Air New Zealand partnership agreement

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

Description of Unquantifiable Contingent Liabilities

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

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

Indemnities

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

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

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

Party indemnified	Instrument of indemnification	Actions indemnified
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 50 of the District Courts Act 2016, section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 – National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, local authorities will be reimbursed, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	All loan and swap obligations of the NZ Railways Corporation. This includes such loans or swaps entered by NZRC on or prior to 31 December 2012 and vested in KiwiRail Holdings Limited pursuant to the KiwiRail Holdings Limited Vesting Order 2012.
Reserve Bank	A letter of indemnity provided by the Crown to the Reserve Bank to cover losses arising from the large-scale asset purchases of New Zealand domestic government bonds	The Crown agreed to indemnify the Reserve Bank in respect of losses which the Reserve Bank incurs in respect of Indemnified Bonds under the Large-Scale Asset Purchase Programme. The Crown may terminate its obligations under this letter of indemnity at any time after 31 August 2022 (Termination Date) by giving one day's notice to the Reserve Bank. Otherwise, obligations under this letter of indemnity may be terminated by agreement between the Crown and the Reserve Bank if they both believe the Programme is no longer needed as a monetary policy tool.

Party indemnified	Instrument of indemnification	Actions indemnified
		Termination of this indemnity will not release the Crown from any liability in respect of Losses occurring after the termination date in respect of the Indemnified Bonds. Indemnified Bonds means all New Zealand domestic government bonds and Local Government Funding Agency bonds purchased by the Reserve Bank under the Programme prior to the Termination Date and any New Zealand domestic government bonds purchased as a reinvestment of those bonds up to the Cap. As at August 2020, cap means 60% of the face value of all New Zealand government nominal bonds on issue on the date of purchase; 30% of the face value of all New Zealand government inflation-indexed bonds on issue on the date of purchase; and 30% of the face value of all LGFA bonds on issue on the date of purchase of any LGFA bonds, or such amount agreed between the Minister and the Reserve Bank from time to time. Losses means interest risk losses and LGFA credit risk losses.
Southern Response Earthquake Services Limited (SRES)	Deed of indemnity	SRES continues to settle the claims of AMI residual policy holders for Canterbury earthquake damage which occurred before 5 April 2012. The Minister of Finance has provided SRES with a Deed of Indemnity to ensure that SRES can access sufficient resources to operate and discharge its contractual obligations.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.

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

Legal proceedings and disputes

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

Accident Compensation Corporation (ACC) litigations

Litigation involving ACC arises mainly from challenges to operational decisions made by ACC through the statutory review and appeal process, but also occasionally includes general civil proceedings such as judicial review applications. The majority of appeals are able to be managed on a case-by-case basis, depending on the merits of the issue in dispute, and without wider Scheme management impact. There are currently three proceedings of note that ACC is a party to. Only when these matters have been fully resolved will it be possible to make a meaningful assessment of the financial impact of the outcome. The range of potential outcomes is wide and could have a material effect on the financial statements of government.

Department of Corrections – contractual disputes

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

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

Kāinga Ora – Commerce Act litigation

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

Ministry of Health – New Zealand College of Midwives class action

In August 2022, the College of Midwives filed class action proceedings against the Ministry of Health on behalf of self-employed midwives' contractual issues. At this stage it is too early to quantify any possible liability.

Ministry of Transport – Public Works Act claims

As of 30 June 2023, there were eight claims before the courts or awaiting judgment (including the Land Valuation Tribunal (LVT)) where City Rail Link Limited is either directly or indirectly involved as a party. The claimants are seeking compensations payable under sections 60, 62 and 63 of the Public Works Act 1981 and an Environment Court proceeding relating to ventilation arrangements for the City Rail Link.

Stafford litigation

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

Treaty of Waitangi claims

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

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

Waka Kotahi New Zealand Transport Agency – contractual disputes

In addition to the quantifiable legal disputes (refer page 87). On 25 September 2023, New Zealand Transport Agency Waka Kotahi (NZTA) received a claim for cost and delay from the Transmission Gully PPP builder, relating to COVID-19 and a number of other matters. The claim does not immediately establish the dollar value claimed by the builder, however based on discussions to date this could be a material figure. NZTA's position remains that, based on discussions and documentation received from the builder prior to its claim in the High Court, no liability exists for NZTA.

Whaikaha – Ministry of Disabled People – employment obligations

The Crown has an unquantifiable contingent liability related to Disability Support Services and employment obligations. The Crown is appealing aspects of an Employment Court decision that would create employment obligations for Whaikaha towards a large number of people who provide 24/7 care to a disabled family member. This would also create further obligations to Whaikaha in terms of liability under health and safety legislation. A Court of Appeal hearing concluded in March 2023. The expected date for release of the decision is unknown and as such it is not possible to reliably estimate any potential liability.

Other unquantifiable contingent liabilities

Aquaculture settlements

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

Criminal Proceeds (Recovery) Act 2009

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

Environmental liabilities

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

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

Holidays Act compliance

A number of entities are undertaking or have recently completed a review of calculations in recent years to ensure compliance with the Holidays Act 2003. Where reliable estimates can be made, a provision has been made in these financial statements for obligations arising from those reviews that have been made in the current year or previous years. To the extent that an obligation cannot reasonably be quantified, there is an unquantified contingency. Further work continues to be undertaken by entities to calculate the potential liability. For some entities, there are complexities and key assumptions that need to be agreed and resolved before a provision can be reliably estimated.

Ministry for Primary Industries – Biosecurity Act compensation

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

Pay equity claims – *see page 81*

Treaty of Waitangi claims – settlement relativity payments – *see page 78*

4

Forecast Financial Statements

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

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

These forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. The forecast financial statements reflect all government decisions and circumstances communicated up to 23 November 2023, where these can be reliably measured.

The key assumptions that underpin the preparation of the Forecast Financial Statements are outlined on pages 98 to 100.

Statement of Accounting Policies, Judgements and Assumptions

Significant Accounting Policies

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

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

The Forecast Financial Statements reflect the accounting standards in place in the year that they are prepared. Adoption of new accounting standards in future financial years are consequently not reflected in these Forecast Financial Statements. For example, the public sector modified version of PBE IFRS 17 Insurance Contracts was issued in 2023 (to supersede PBE IFRS 4 Insurance Contracts) and is effective for reporting periods beginning on or after 1 January 2026. A detailed assessment of this standard has not been performed and therefore, the impact of the standard on the forecast financial statements has not yet been determined.

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

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Risks to the Economic and Fiscal Forecasts chapter on pages 49 to 95.

Key Judgements and Assumptions

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

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

- To calculate income tax revenue across the forecast period, firms' net operating surplus forecasts on a System of National Accounts basis are used to create tax-year forecasts of total income tax for both net other persons tax and corporate tax, which are then converted into fiscal years (to 30 June). For the five-year forecast period to 2027/28, the annual operating surplus growth forecasts range from 3.2% to 6.6%.
- Tax forecasts are based on the economic forecasts completed on 6 November 2023.
- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) are assumed to be met from within the Budget operating allowances, the Multi-Year Capital Allowance (MYCA) and the Climate Emergency Response Fund (CERF), which are included in the fiscal forecasts.
- The unallocated portion of the CERF is $1.0 billion, which we assume will be allocated evenly over three forecast years from 2024/25 to 2026/27. It is assumed that the unallocated funds will be split between operating (90%) and capital (10%), broadly based on the allocation of funding in Budget 2022 and Budget 2023.
- The National Resilience Plan (NRP) has $3.3 billion of funding remaining. It is assumed to be split between operating ($1.5 billion) and capital expenditure ($1.8 billion) with the operating portion forecast over five years and the capital portion over 10 years, starting from 2023/24. More information on the NRP can be found in Note 6: Forecast New Spending and Top-down Adjustments.
- The fiscal forecasts include costs related to the Government's response to the North Island weather events decided up to 23 November 2023. Any future costs are assumed to be managed against the NRP contingency or Budget allowances.
- Departments continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment is higher at the start of the forecast period, as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have in transferring expenses into these years.
- Forecast returns on the investment portfolios managed by the Accident Compensation Corporation (ACC) and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- No revaluations of property, plant and equipment are projected beyond the current year. Only revaluations that have already been completed are included in these forecasts.
- Significant valuations (eg, the student loans portfolio, the ACC claims liability and the Government Superannuation Fund retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.
- Contributions to the NZS Fund over the forecast period, which are assumed to be derived from the legislative formula, are in Note 11: NZ Superannuation Fund. Over the forecast years, all NZS Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund. For more information, refer to the Treasury website for the NZS Fund model.

Key Economic Assumptions used in the Forecast Financial Statements

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

For example:

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

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

Year ending 30 June	**2023 Actual**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**
Real GDP[1] (ann avg % chg)	3.2	1.5	1.5	2.8	3.0	2.7
Nominal GDP[2] ($b)	395.9	420.0	439.7	463.6	488.6	513.0
CPI (ann avg % chg)	6.8	4.9	2.9	2.2	2.1	2.0
Govt 10-year bonds (ann avg, %)	4.2	5.1	5.0	4.8	4.6	4.5
5-year bonds (ann avg, %)	4.1	5.1	5.1	4.6	4.3	4.1
90-day bill rate (ann avg, %)	4.5	5.7	5.4	4.0	3.2	2.7
Unemployment rate (ann avg, %)	3.4	4.2	5.0	5.0	4.6	4.5
Employment (ann avg % chg)	2.5	1.4	0.4	1.4	1.7	1.5
Average weekly earnings[3] (ann % chg)	6.7	5.5	4.9	3.9	3.5	3.2

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

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

Reporting and Forecast Period

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

Government Reporting Entity as at 24 November 2023

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

Core Crown Segment

Departments

Crown Law Office

Department of Conservation

Department of Corrections

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

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

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

Government Communications Security Bureau

Inland Revenue Department

Land Information New Zealand

Ministry for Culture and Heritage

Ministry for Pacific Peoples

Ministry for Primary Industries

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

Ministry for Women

Ministry of Business, Innovation, and Employment

Ministry of Defence

Ministry of Education

Ministry of Foreign Affairs and Trade

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

Ministry of Housing and Urban Development

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

Ministry of Māori Development – Te Puni Kōkiri

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

Ministry of Transport

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

New Zealand Defence Force

New Zealand Police

New Zealand Security Intelligence Service

Office of the Clerk of the House of Representatives

Oranga Tamariki – Ministry for Children

Parliamentary Counsel Office

Parliamentary Service

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

Serious Fraud Office

Statistics New Zealand

The Treasury

Others

New Zealand Superannuation Fund

Reserve Bank of New Zealand

Offices of Parliament

Controller and Auditor-General

Office of the Ombudsman

Parliamentary Commissioner for the Environment

State-owned Enterprises Segment

State-owned Enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
KiwiRail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited
Mercury NZ Limited
Meridian Energy Limited

Other

Air New Zealand Limited

Crown Entities Segment

Crown Entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Auckland Light Rail Limited
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children and Young People's Commission
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health New Zealand
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora – Homes and Communities
Law Commission
Maritime New Zealand
Mental Health and Wellbeing Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood and Organ Service
New Zealand Film Commission
New Zealand Growth Capital Partners Limited
New Zealand Infrastructure Commission/ Te Waihanga
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,424)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Taumata Arowai – the Water Services Regulator
Te Pūkenga – New Zealand Institute of Skills and Technology
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown Entities Segment (continued)

Organisations listed in Schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (20)

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

Crown Infrastructure Partners Limited

Crown Regional Holdings Limited

Education Payroll Limited

Kiwi Group Capital Limited

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Predator Free 2050 Limited

Rau Paenga Limited (formerly Ōtākaro Limited)

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

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

Te Urewera

Others

Elevate NZ Venture Fund

Māori Health Authority

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

Crown entities

Tertiary Education Institutions (11)

(8 Universities and 3 Wānanga)

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

City Rail Link Limited

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

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Revenue								
Taxation revenue	1	111,712	122,647	121,419	129,031	137,291	145,430	153,069
Other sovereign revenue	1	8,407	9,743	10,757	11,193	11,256	11,584	12,048
Total Revenue Levied through the Crown's Sovereign Power		**120,119**	**132,390**	**132,176**	**140,224**	**148,547**	**157,014**	**165,117**
Sales of goods and services		21,954	24,099	23,985	24,046	24,737	25,427	26,054
Interest revenue	2	5,012	4,548	5,912	5,621	5,924	6,092	6,484
Other revenue		5,926	5,297	5,257	5,225	5,497	5,664	5,701
Total revenue earned through the Crown's operations		**32,892**	**33,944**	**35,154**	**34,892**	**36,158**	**37,183**	**38,239**
Total revenue (excluding gains)		**153,011**	**166,334**	**167,330**	**175,116**	**184,705**	**194,197**	**203,356**
Expenses								
Transfer payments and subsidies	3	38,803	42,546	42,201	44,963	46,917	48,950	51,110
Personnel expenses		36,052	35,362	38,031	37,833	38,159	38,114	38,424
Depreciation		6,601	7,011	7,358	7,751	8,106	8,390	8,472
Other operating expenses	4	64,134	67,160	71,479	66,966	66,572	67,102	65,907
Finance costs	2	7,448	8,505	9,963	10,729	11,529	12,411	13,192
Insurance expenses	5	8,784	9,697	9,553	10,059	10,451	10,974	11,579
Forecast new operating spending	6	-	5,731	1,920	3,543	6,310	7,961	11,106
Top-down operating expense adjustment	6	-	(2,600)	(4,350)	(1,050)	(300)	(300)	(300)
Total expenses (excluding losses)		**161,822**	**173,412**	**176,155**	**180,794**	**187,744**	**193,602**	**199,490**
Gains/(losses)								
Net gains/(losses) on financial instruments	2	7,711	6,040	1,822	5,928	6,273	6,769	7,293
Net gains/(losses) on non-financial instruments	7	6,947	-	709	-	-	-	-
Total gains/(losses) (including minority interests)		**14,658**	**6,040**	**2,531**	**5,928**	**6,273**	**6,769**	**7,293**
Net surplus/(deficit) from associates and joint ventures		29	80	(27)	98	162	147	188
Less minority interests' share of operating balance		(555)	(448)	(552)	(522)	(499)	(543)	(606)
Operating balance (excluding minority interests)		**5,321**	**(1,406)**	**(6,873)**	**(174)**	**2,897**	**6,968**	**10,741**
Minority interests' share of operating balance		555	448	552	522	499	543	606
Operating balance (including minority interests)		**5,876**	**(958)**	**(6,321)**	**348**	**3,396**	**7,511**	**11,347**

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

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Operating Balance (including minority interests)	**5,876**	**(958)**	**(6,321)**	**348**	**3,396**	**7,511**	**11,347**
Other comprehensive revenue and expense							
Revaluation of physical assets	10,870	-	(240)	-	-	-	-
Revaluation of defined benefit retirement plan schemes	354	28	754	(19)	2	11	8
Net revaluations of veterans' disability entitlements	173	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	417	(92)	(23)	(25)	23	(31)	(8)
Transfers into/(out of) reserves	(22)	-	105	(42)	13	6	3
(Gains)/losses transferred to the statement of financial performance	(230)	-	-	-	-	-	-
Foreign currency translation differences on foreign operations	(3)	-	-	-	-	-	-
Other movements	76	39	(36)	(94)	(54)	(51)	(40)
Total other comprehensive revenue and expense	**11,635**	**(25)**	**560**	**(180)**	**(16)**	**(65)**	**(37)**
Total comprehensive revenue and expense	**17,511**	**(983)**	**(5,761)**	**168**	**3,380**	**7,446**	**11,310**
Attributable to:							
- minority interests	1,033	456	593	518	504	530	601
- the Crown	16,478	(1,439)	(6,354)	(350)	2,876	6,916	10,709
Total comprehensive revenue and expense	**17,511**	**(983)**	**(5,761)**	**168**	**3,380**	**7,446**	**11,310**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Opening net worth	174,319	178,956	191,472	185,481	185,088	187,993	194,965
Operating balance (including minority interests)	5,876	(958)	(6,321)	348	3,396	7,511	11,347
Net revaluations of physical assets	10,870	-	(240)	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	354	28	754	(19)	2	11	8
Net revaluations of veterans' disability entitlements	173	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	417	(92)	(23)	(25)	23	(31)	(8)
Transfers into/(out of) reserves	(22)	-	105	(42)	13	6	3
(Gains)/losses transferred to the Statement of Financial Performance	(230)	-	-	-	-	-	-
Foreign currency translation differences on foreign operations	(3)	-	-	-	-	-	-
Other movements	76	39	(36)	(94)	(54)	(51)	(40)
Comprehensive income	**17,511**	**(983)**	**(5,761)**	**168**	**3,380**	**7,446**	**11,310**
Increase in minority interest from equity issues	66	370	373	9	85	89	93
Transactions with minority interests	(424)	(488)	(603)	(570)	(560)	(563)	(591)
Closing net worth	**191,472**	**177,855**	**185,481**	**185,088**	**187,993**	**194,965**	**205,777**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	110,787	115,665	115,240	133,121	136,662	143,835	151,436
Other sovereign receipts	7,631	7,811	7,667	8,670	9,065	9,380	9,837
Sales of goods and services	22,284	23,579	23,364	23,778	24,386	25,101	25,683
Interest receipts	3,611	3,697	4,332	4,536	5,097	5,335	5,774
Other operating receipts	4,922	5,268	5,353	5,314	5,620	5,855	5,686
Total cash provided from operations	**149,235**	**156,020**	**155,956**	**175,419**	**180,830**	**189,506**	**198,416**
Cash was disbursed to							
Transfer payments and subsidies	39,170	42,772	42,163	46,152	47,096	49,173	50,982
Personnel and operating payments	99,414	106,207	115,399	108,800	108,304	109,265	108,396
Interest payments	6,126	7,090	8,005	8,784	9,541	10,398	10,771
Forecast new operating spending	-	5,731	1,920	3,543	6,310	7,961	11,106
Top-down operating expense adjustment	-	(2,600)	(4,350)	(1,050)	(300)	(300)	(300)
Total cash disbursed to operations	**144,710**	**159,200**	**163,137**	**166,229**	**170,951**	**176,497**	**180,955**
Net cash flows from operations	**4,525**	**(3,180)**	**(7,181)**	**9,190**	**9,879**	**13,009**	**17,461**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(14,271)	(20,426)	(21,668)	(19,180)	(16,226)	(14,340)	(10,340)
Net (purchase)/sale of shares and other securities	(4,906)	3,754	4,487	(16,737)	(12,287)	(5,570)	(5,143)
Net (purchase)/sale of intangible assets	(868)	(1,018)	(849)	(839)	(735)	(677)	(649)
Net (issue)/repayment of advances	(8,215)	(210)	1,175	5,661	3,415	(3,039)	(3,769)
Net acquisition of investments in associates	(202)	(438)	(479)	(690)	(81)	(41)	(6)
Forecast new capital spending	-	(2,964)	(995)	(1,077)	(1,435)	(1,808)	(1,816)
Top-down capital adjustment	-	2,200	1,700	700	400	300	300
Net cash flows from investing activities	**(28,462)**	**(19,102)**	**(16,629)**	**(32,162)**	**(26,949)**	**(25,175)**	**(21,423)**
Net cash flows from operating and investing activities	**(23,937)**	**(22,282)**	**(23,810)**	**(22,972)**	**(17,070)**	**(12,166)**	**(3,962)**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	(59)	93	65	91	92	92	93
Net issue/(repayment) of government bonds[1]	15,744	23,791	26,006	24,773	18,838	15,088	(331)
Net issue/(repayment) of foreign-currency borrowings	(113)	(121)	(2,567)	1,365	442	369	117
Net issue/(repayment) of other New Zealand dollar borrowings	9,298	(1,353)	3,659	(4,139)	(1,642)	(3,130)	3,672
Net issuances of equity	-	296	296	-	-	-	-
Dividends paid to minority interests[2]	(372)	(421)	(516)	(484)	(498)	(503)	(529)
Net cash flows from financing activities	**24,498**	**22,285**	**26,943**	**21,606**	**17,232**	**11,916**	**3,022**
Net movement in cash	**561**	**3**	**3,133**	**(1,366)**	**162**	**(250)**	**(940)**
Opening cash balance	17,835	19,084	18,791	22,108	20,742	20,904	20,654
Foreign-exchange gains/(losses) on opening cash	395	(33)	184	-	-	-	-
Closing cash balance	**18,791**	**19,054**	**22,108**	**20,742**	**20,904**	**20,654**	**19,714**

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

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

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**4,525**	**(3,180)**	**(7,181)**	**9,190**	**9,879**	**13,009**	**17,461**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses) and Other Interests							
Net gains/(losses) on financial instruments	7,711	6,040	1,822	5,928	6,273	6,769	7,293
Net gains/(losses) on non-financial instruments	6,947	-	709	-	-	-	-
Net surplus/(deficit) from associates and joint ventures	29	80	(27)	98	162	147	188
Total gains/(losses) and other interests	**14,687**	**6,120**	**2,504**	**6,026**	**6,435**	**6,916**	**7,481**
Other Non-cash Items in Operating Balance							
Depreciation	(6,601)	(7,011)	(7,358)	(7,751)	(8,106)	(8,390)	(8,472)
Amortisation and net impairment of non-financial assets	(734)	(995)	(904)	(915)	(923)	(909)	(898)
Cost of concessionary lending	(738)	(760)	(726)	(742)	(787)	(713)	(688)
Impairment of financial assets (excluding receivables)	(97)	4	(56)	79	2	(22)	(19)
Change in accumulating insurance expenses	(3,525)	(3,115)	(2,909)	(3,123)	(3,235)	(3,236)	(3,558)
Change in NZ ETS liability	395	1,574	2,048	1,864	1,384	1,065	858
Change in accumulating pension expenses	61	613	(52)	(46)	(45)	(43)	(42)
Other non-cash items	-	-	-	-	-	-	-
Total other non-cash items in operating balance	**(11,239)**	**(9,690)**	**(9,957)**	**(10,634)**	**(11,710)**	**(12,248)**	**(12,819)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	1,155	7,135	5,572	(4,514)	414	1,339	1,543
Increase/(decrease) in accrued interest	183	(665)	(438)	(980)	(1,265)	(1,394)	(1,858)
Increase/(decrease) in inventories	(27)	98	(17)	102	69	(239)	(161)
Increase/(decrease) in prepayments	113	259	324	58	28	32	53
Decrease/(increase) in deferred revenue	(244)	56	397	(70)	(38)	(70)	(63)
Decrease/(increase) in payables/provisions	(3,277)	(1,091)	2,475	1,170	(416)	166	(290)
Total working capital and other movements	**(2,097)**	**5,792**	**8,313**	**(4,234)**	**(1,208)**	**(166)**	**(776)**
Operating balance (including minority interests)	**5,876**	**(958)**	**(6,321)**	**348**	**3,396**	**7,511**	**11,347**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Assets								
Cash and cash equivalents	8	18,791	19,054	22,108	20,742	20,904	20,654	19,714
Receivables	8	33,548	40,005	40,459	34,188	34,617	35,969	37,512
Marketable securities, deposits and derivatives in gain	8	66,490	59,350	60,703	76,328	90,289	97,080	104,370
Share investments	8	48,046	48,576	50,082	53,350	56,119	58,960	61,856
Advances	8	66,489	65,238	66,681	60,951	56,768	59,886	63,107
Investments in controlled enterprises	8	7,317	7,732	6,895	7,654	8,997	10,376	11,820
Inventory		3,041	3,366	3,024	3,126	3,195	2,956	2,795
Other assets		4,612	4,439	4,394	4,335	4,394	4,525	4,595
Property, plant and equipment	10	267,390	270,751	281,842	292,608	300,579	306,208	307,976
Equity accounted investments[1]		17,034	17,157	17,336	18,148	18,364	18,500	18,647
Intangible assets and goodwill		3,908	4,423	3,816	3,935	3,970	3,986	3,975
Forecast for new capital spending	6	-	2,964	995	2,072	3,507	5,314	7,130
Top-down capital adjustment		-	(4,050)	(1,700)	(2,400)	(2,800)	(3,100)	(3,400)
Total assets		**536,666**	**539,005**	**556,635**	**575,037**	**598,903**	**621,314**	**640,097**
Liabilities								
Issued currency		9,002	9,349	9,066	9,157	9,248	9,341	9,434
Payables	12	18,726	17,051	21,092	18,778	18,856	19,107	19,562
Deferred revenue		3,610	3,364	3,213	3,283	3,320	3,391	3,454
Borrowings	16	226,755	243,395	253,847	274,205	292,498	305,170	309,615
New Zealand Emissions Trading Scheme	15	6,125	7,680	8,656	7,731	7,171	6,806	6,517
Insurance liabilities	5	57,511	59,965	55,486	58,608	61,844	65,079	68,638
Retirement plan liabilities	13	8,039	7,948	7,035	6,777	6,454	6,098	5,735
Provisions	14	15,426	12,398	12,759	11,410	11,519	11,357	11,365
Total liabilities		**345,194**	**361,150**	**371,154**	**389,949**	**410,910**	**426,349**	**434,320**
Total assets less total liabilities		**191,472**	**177,855**	**185,481**	**185,088**	**187,993**	**194,965**	**205,777**
Net Worth								
Taxpayers' funds		8,380	5,540	1,511	1,235	4,075	10,993	21,695
Property, plant and equipment revaluation reserve		174,575	164,210	174,335	174,339	174,343	174,346	174,349
Defined benefit plan revaluation reserve		409	224	1,163	1,144	1,146	1,157	1,165
Veterans' disability entitlements reserve		(392)	(566)	(392)	(392)	(392)	(392)	(392)
Other reserves		542	201	543	484	514	498	494
Total net worth attributable to the Crown		**183,514**	**169,609**	**177,160**	**176,810**	**179,686**	**186,602**	**197,311**
Net worth attributable to minority interests		7,958	8,246	8,321	8,278	8,307	8,363	8,466
Total net worth	17	**191,472**	**177,855**	**185,481**	**185,088**	**187,993**	**194,965**	**205,777**

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

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

Statement of Actual Commitments

as at 30 June

	As at 31 October 2023 $m	As at 30 June 2023 $m
Capital Commitments		
State highways	2,437	2,437
Specialist military equipment	921	1,129
Land and buildings	9,521	9,343
Other property, plant and equipment	5,740	5,429
Other capital commitments	1,064	1,222
Universities and Wānanga	635	635
Total capital commitments	**20,318**	**20,195**
Operating Commitments		
Non-cancellable accommodation leases	5,839	6,010
Other non-cancellable leases	4,388	4,308
Universities and Wānanga	1,293	1,288
Total operating commitments	**11,520**	**11,606**
Total commitments	**31,838**	**31,801**
Total Commitments by Segment		
Core Crown	11,748	11,970
Crown entities	12,558	12,651
State-owned Enterprises	7,918	7,576
Inter-segment eliminations	(386)	(396)
Total commitments	**31,838**	**31,801**

Statement of Actual Contingent Liabilities and Assets

as at 30 June

	As at 31 October 2023 $m	As at 30 June 2023 $m
Quantifiable Contingent Liabilities		
Uncalled capital	9,709	9,468
Guarantees and indemnities	225	281
Legal proceedings and disputes	879	690
Other contingent liabilities	980	1,006
Total quantifiable contingent liabilities	**11,793**	**11,445**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	11,822	11,662
Crown entities	737	529
State-owned Enterprises	184	239
Inter-segment eliminations	(950)	(985)
Total quantifiable contingent liabilities	**11,793**	**11,445**
Quantifiable Contingent Assets by Segment		
Core Crown	64	62
Crown entities	34	34
State-owned Enterprises	41	41
Total quantifiable contingent assets	**139**	**137**

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

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

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	47,386	50,464	52,125	55,942	59,835	63,652	67,331
Other persons	9,904	11,380	10,447	11,428	13,269	13,730	14,730
Refunds	(2,182)	(1,884)	(2,278)	(2,352)	(2,503)	(2,671)	(2,838)
Fringe benefit tax	769	739	812	843	864	886	916
Total individuals	**55,877**	**60,699**	**61,106**	**65,861**	**71,465**	**75,597**	**80,139**
Corporate Tax							
Gross companies tax	18,327	21,450	18,935	19,870	20,781	23,399	24,838
Refunds	(970)	(633)	(650)	(671)	(686)	(737)	(792)
Non-resident withholding tax	621	636	681	695	669	660	669
Total corporate tax	**17,978**	**21,453**	**18,966**	**19,894**	**20,764**	**23,322**	**24,715**
Other Direct Income Tax							
Resident w/holding tax on interest income	2,092	1,839	3,148	3,049	2,860	2,347	2,029
Resident w/holding tax on dividend income	1,127	1,180	1,283	1,138	1,315	1,331	1,451
Total other direct income tax	**3,219**	**3,019**	**4,431**	**4,187**	**4,175**	**3,678**	**3,480**
Total direct income tax	**77,074**	**85,171**	**84,503**	**89,942**	**96,404**	**102,597**	**108,334**
Goods and Services Tax							
Gross goods and services tax	47,185	48,743	47,730	50,570	53,612	56,947	60,065
Refunds	(19,055)	(19,181)	(18,269)	(19,512)	(20,992)	(22,545)	(23,890)
Total goods and services tax	**28,130**	**29,562**	**29,461**	**31,058**	**32,620**	**34,402**	**36,175**
Other Indirect Taxation							
Road and track user charges	1,414	1,940	1,922	2,412	2,656	2,786	2,905
Alcohol excise – domestic production	785	874	848	920	963	1,004	1,045
Petroleum fuels excise	1,326	2,043	1,866	1,988	2,140	2,272	2,281
Alcohol excise – imports[1]	505	535	542	564	590	615	640
Tobacco excise – imports[1]	1,666	1,748	1,501	1,434	1,074	943	866
Other customs duty	187	177	148	91	99	108	119
Gaming duties	255	251	265	274	283	292	301
Motor vehicle fees	236	233	232	231	230	228	227
Approved issuer levy and cheque duty	111	91	109	95	81	68	56
Digital services tax	-	-	-	-	129	93	98
Energy resources levies	23	22	22	22	22	22	22
Total other indirect taxation	**6,508**	**7,914**	**7,455**	**8,031**	**8,267**	**8,431**	**8,560**
Total indirect taxation	**34,638**	**37,476**	**36,916**	**39,089**	**40,887**	**42,833**	**44,735**
Total taxation revenue	**111,712**	**122,647**	**121,419**	**129,031**	**137,291**	**145,430**	**153,069**
Other Sovereign Revenue (accrual)							
ACC levies	3,855	4,019	4,106	4,416	4,797	5,239	5,707
Emissions trading revenue	1,582	2,707	3,520	3,346	2,918	2,720	2,670
Fire and Emergency levies	673	672	706	789	811	876	900
EQC levies	612	819	819	870	898	912	925
Clean vehicle discount	170	253	253	286	300	294	294
Child support and working for families penalties	371	119	166	163	160	160	160
Court fines	120	115	115	115	115	115	115
Other miscellaneous items	1,024	1,039	1,072	1,208	1,257	1,268	1,277
Total other sovereign revenue	**8,407**	**9,743**	**10,757**	**11,193**	**11,256**	**11,584**	**12,048**
Total sovereign revenue	**120,119**	**132,390**	**132,176**	**140,224**	**148,547**	**157,014**	**165,117**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	46,929	50,185	51,843	55,640	59,511	63,307	66,964
Other persons	10,685	11,346	10,476	12,218	13,664	14,125	15,043
Refunds	(2,703)	(2,396)	(2,732)	(2,827)	(2,975)	(3,170)	(3,379)
Fringe benefit tax	747	739	812	843	864	886	915
Total individuals	**55,658**	**59,874**	**60,399**	**65,874**	**71,064**	**75,148**	**79,543**
Corporate Tax							
Gross companies tax	19,733	20,538	19,153	21,104	22,007	23,782	25,472
Refunds	(1,728)	(1,155)	(1,582)	(1,408)	(1,531)	(1,693)	(1,893)
Non-resident withholding tax	601	636	681	695	669	660	669
Total corporate tax	**18,606**	**20,019**	**18,252**	**20,391**	**21,145**	**22,749**	**24,248**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,917	1,839	3,148	3,049	2,860	2,347	2,029
Resident w/holding tax on dividend income	1,165	1,180	1,283	1,138	1,315	1,331	1,451
Total other direct income tax	**3,082**	**3,019**	**4,431**	**4,187**	**4,175**	**3,678**	**3,480**
Total direct income tax	**77,346**	**82,912**	**83,082**	**90,452**	**96,384**	**101,575**	**107,271**
Goods and Services Tax							
Gross goods and services tax	45,251	43,859	42,783	53,878	52,774	56,121	59,236
Refunds	(18,334)	(18,921)	(18,009)	(19,252)	(20,732)	(22,285)	(23,630)
Total goods and services tax	**26,917**	**24,938**	**24,774**	**34,626**	**32,042**	**33,836**	**35,606**
Other Indirect Taxation							
Road and track user charges	1,418	1,940	1,922	2,412	2,656	2,786	2,905
Alcohol excise – domestic production	779	874	848	920	963	1,004	1,045
Customs duty	3,761	4,404	3,986	4,089	3,915	3,933	3,908
Gaming duties	255	251	265	274	283	292	301
Motor vehicle fees	185	233	232	231	230	228	227
Approved issuer levy and cheque duty	103	91	109	95	81	68	56
Digital services tax	-	-	-	-	86	91	95
Energy resources levies	23	22	22	22	22	22	22
Total other indirect taxation	**6,524**	**7,815**	**7,384**	**8,043**	**8,236**	**8,424**	**8,559**
Total indirect taxation	**33,441**	**32,753**	**32,158**	**42,669**	**40,278**	**42,260**	**44,165**
Total taxation receipts	**110,787**	**115,665**	**115,240**	**133,121**	**136,662**	**143,835**	**151,436**
Other Sovereign Receipts (cash)							
ACC levies	3,763	3,901	4,025	4,306	4,699	5,140	5,604
Emissions trading receipts	832	894	488	939	824	700	569
Fire and Emergency levies	669	668	692	772	806	786	895
EQC levies	697	846	841	881	905	919	932
Clean vehicle discount	170	253	253	286	300	294	294
Child support and working for families penalties	381	96	185	162	158	154	150
Court fines	115	115	115	115	115	115	115
Other miscellaneous items	1,004	1,038	1,068	1,209	1,258	1,272	1,278
Total other sovereign receipts	**7,631**	**7,811**	**7,667**	**8,670**	**9,065**	**9,380**	**9,837**
Total sovereign receipts	**118,418**	**123,476**	**122,907**	**141,791**	**145,727**	**153,215**	**161,273**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest Revenue	**5,012**	**4,548**	**5,912**	**5,621**	**5,924**	**6,092**	**6,484**
Interest Expenses							
Interest on financial liabilities	7,022	7,977	9,374	10,188	11,033	11,943	12,738
Interest unwind on provisions	426	528	589	541	496	468	454
Total interest expenses	**7,448**	**8,505**	**9,963**	**10,729**	**11,529**	**12,411**	**13,192**
Net interest revenue/(expense)	**(2,436)**	**(3,957)**	**(4,051)**	**(5,108)**	**(5,605)**	**(6,319)**	**(6,708)**
Dividend revenue	1,343	1,296	1,473	1,392	1,474	1,555	1,642
Net gains/(losses) on financial instruments	7,711	6,040	1,822	5,928	6,273	6,769	7,293
Total investment revenue/(expenditure)	**6,618**	**3,379**	**(756)**	**2,212**	**2,142**	**2,005**	**2,227**

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	19,517	21,629	21,610	23,331	24,824	26,436	28,253
Family tax credit	2,151	2,284	2,278	2,323	2,294	2,375	2,312
Jobseeker support and emergency benefit	3,473	4,136	4,052	4,415	4,600	4,684	4,766
Accommodation assistance	2,349	2,449	2,492	2,604	2,647	2,671	2,705
Supported living payment	2,311	2,520	2,537	2,675	2,802	2,908	3,004
Sole parent support	1,917	2,085	2,139	2,333	2,399	2,444	2,494
KiwiSaver subsidies	997	1,094	1,061	1,119	1,166	1,214	1,263
Official development assistance	971	1,281	1,214	1,111	961	861	861
Other working for families tax credits	476	489	487	443	423	420	399
Student allowances	525	595	555	639	691	695	700
Winter energy payment	519	538	536	555	566	575	585
Disability assistance	430	440	460	473	483	492	501
Hardship assistance	673	756	702	778	836	878	923
Orphan's/unsupported child's benefit	350	368	382	401	412	420	427
Best start tax credit	321	339	334	338	334	342	335
Cost of living payment	600	-	-	-	-	-	-
Income related rent subsidy	122	137	293	319	330	338	338
Other social assistance benefits	1,101	1,406	1,069	1,106	1,149	1,197	1,244
Total transfer payments and subsidies	**38,803**	**42,546**	**42,201**	**44,963**	**46,917**	**48,950**	**51,110**

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 4: Other Operating Expenses							
Grants and subsidies	11,023	11,811	14,010	12,058	11,311	11,014	10,287
Repairs and maintenance	2,983	3,065	3,547	3,206	3,391	3,348	3,384
Rental and leasing costs	1,724	1,754	1,680	1,701	1,719	1,698	1,687
Amortisation and impairment of non-financial assets	734	995	904	915	923	909	898
Impairment of financial assets	1,750	1,115	1,455	1,189	1,131	1,180	1,182
Cost of concessionary lending	738	760	726	742	787	713	688
Lottery prize payments	810	866	789	789	792	799	806
Inventory expenses and clinical supplies	3,219	2,581	2,859	2,921	3,078	3,366	3,527
Other operating expenses	41,153	44,213	45,509	43,445	43,440	44,075	43,448
Total other operating expenses	**64,134**	**67,160**	**71,479**	**66,966**	**66,572**	**67,102**	**65,907**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	7,619	9,110	9,103	9,454	9,756	10,235	10,794
EQC	1,134	528	364	520	599	638	678
Other (incl. inter-segment eliminations)	31	59	86	85	96	101	107
Total insurance expenses	**8,784**	**9,697**	**9,553**	**10,059**	**10,451**	**10,974**	**11,579**
Insurance liability by entity							
ACC	55,664	58,814	54,260	57,710	61,075	64,509	68,068
EQC	1,617	1,032	1,063	780	671	486	496
Other (incl. inter-segment eliminations)	230	119	163	118	98	84	74
Total insurance liabilities	**57,511**	**59,965**	**55,486**	**58,608**	**61,844**	**65,079**	**68,638**

ACC liability

Calculation information

ACC, with support from Taylor Fry, prepared an actuarial estimate of the ACC outstanding claims liability as at 30 June 2023. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The estimate also includes a risk margin to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), Average Weekly Earnings (AWE) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 September 2023. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 5.47% and allows for a long-term discount rate of 4.30% beyond 40 years.

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

Presentation approach

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

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Gross ACC Liability							
Opening gross liability	54,115	55,251	55,664	54,260	57,710	61,075	64,509
Net change	1,549	3,563	(1,404)	3,450	3,365	3,434	3,559
Closing gross liability	**55,664**	**58,814**	**54,260**	**57,710**	**61,075**	**64,509**	**68,068**
Less Net Assets Available to ACC							
Opening net asset value	48,076	49,683	50,536	50,286	51,999	53,765	55,684
Net change	2,460	1,570	(250)	1,713	1,766	1,919	2,184
Closing net asset value	**50,536**	**51,253**	**50,286**	**51,999**	**53,765**	**55,684**	**57,868**
Net ACC Reserves (Net Liability)							
Opening reserves position	(6,039)	(5,568)	(5,128)	(3,974)	(5,711)	(7,310)	(8,825)
Net change	911	(1,993)	1,154	(1,737)	(1,599)	(1,515)	(1,375)
Closing reserves position (net liability)/net asset	**(5,128)**	**(7,561)**	**(3,974)**	**(5,711)**	**(7,310)**	**(8,825)**	**(10,200)**

Notes to the Forecast Financial Statements

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	1,420	1,990	3,389	3,498	3,576
Climate Emergency Response Fund	-	300	300	300	-
National Resilience Plan	500	500	165	165	164
Baseline savings	-	(400)	(500)	(500)	(500)
Budget operating allowance for Budget 2024	-	1,153	1,076	988	1,356
Budget operating allowance for Budget 2025	-	-	1,880	1,880	1,880
Budget operating allowance for Budget 2026	-	-	-	1,630	1,630
Budget operating allowance for Budget 2027	-	-	-	-	3,000
Total forecast new operating spending	**1,920**	**3,543**	**6,310**	**7,961**	**11,106**

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	Post-2028 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	819	527	544	722	1,007	206	3,825
Climate Emergency Response Fund	-	33	33	33	-	-	99
National Resilience Plan	176	176	176	176	176	880	1,760
Multi-Year Capital Allowance	-	341	682	877	633	390	2,922
Total forecast new capital spending	**995**	**1,077**	**1,435**	**1,808**	**1,816**	**1,476**	**8,606**
Forecast new capital spending (cumulative)	**995**	**2,072**	**3,507**	**5,314**	**7,130**		

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

The Climate Emergency Response Fund (CERF) reflects expected spending to be incurred in the future for climate change related initiatives. Following decisions since Budget 2023, $1.0 billion remains available to allocate from the CERF in the future. It is assumed that funding allocated in the future will be evenly spread between the 2024/25 and 2026/27 years, split between operating (90%) and capital (10%).

The National Resilience Plan (NRP) reflects expected spending to be incurred in the future on investments in the resilience of New Zealand's critical infrastructure, including the response to the North Island weather events. Overall, the Government has set aside $6.0 billion in the NRP.

Budget operating allowances for Budget 2024 through to Budget 2027 indicate the expected spending increases from future Budgets. Some of the operating allowances have been assumed to be pre-committed as at the forecast finalisation date of 24 November 2023, with only the unallocated portion of the allowances included within this note. Further details on pre-commitments against future Budget operating allowances can be found within the Fiscal Outlook chapter.

The Government has $2.9 billion available in the Multi-Year Capital Allowance (MYCA) for future capital investments for Budget 2024 through to Budget 2026. It is assumed that future capital investments will be spread evenly across these Budgets.

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(4,350)	(1,050)	(300)	(300)	(300)
Top-down capital adjustment (cumulative)	(1,700)	(2,400)	(2,800)	(3,100)	(3,400)

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	1,315	-	4,935	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	5,620	-	(4,091)	-	-	-	-
Other	12	-	(135)	-	-	-	-
Net gains/(losses) on non-financial instruments	**6,947**	**-**	**709**	**-**	**-**	**-**	**-**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	18,791	19,054	22,108	20,742	20,904	20,654	19,714
Tax receivables	20,299	26,998	25,497	20,556	20,485	21,348	22,259
Trade and other receivables	13,249	13,007	14,962	13,632	14,132	14,621	15,253
Student loans (refer to note 9)	9,373	8,948	9,141	8,848	8,432	7,886	7,271
Kiwi Group loans and advances	29,785	32,702	32,338	35,776	39,353	42,924	46,787
Long-term deposits	9,231	6,226	8,237	7,713	7,735	7,992	8,706
IMF financial assets	5,588	5,286	5,656	5,656	5,656	5,656	5,656
FLP advances	18,088	15,080	16,529	7,362	-	-	-
Other advances	9,243	8,508	8,673	8,965	8,983	9,076	9,049
Share investments	48,046	48,576	50,082	53,350	56,119	58,960	61,856
Investments in controlled enterprises	7,317	7,732	6,895	7,654	8,997	10,376	11,820
Derivatives in gain	6,935	5,285	5,806	4,664	4,268	3,966	3,774
Other marketable securities	44,736	42,553	41,004	58,295	72,630	79,466	86,234
Total financial assets (including receivables)	**240,681**	**239,955**	**246,928**	**253,213**	**267,694**	**282,925**	**298,379**
Financial Assets by Segment							
The Treasury	41,634	37,188	37,020	43,417	48,394	49,827	55,144
Reserve Bank of New Zealand	67,088	58,389	65,042	58,251	51,912	45,589	45,893
NZS Fund	68,234	70,925	73,413	76,229	81,796	87,795	93,958
Other core Crown	43,509	47,228	46,887	38,831	37,388	37,299	37,845
Intra-segment eliminations	(59,196)	(43,198)	(47,829)	(31,959)	(22,740)	(10,164)	(10,066)
Total core Crown segment	**161,269**	**170,532**	**174,533**	**184,769**	**196,750**	**210,346**	**222,774**
ACC	51,773	51,176	51,556	51,811	53,586	55,510	57,694
EQC	709	301	517	491	592	594	757
Kiwi Group loans and advances	29,785	32,702	32,338	35,776	39,353	42,924	46,787
Other Crown entities	22,365	19,671	22,168	21,966	22,812	24,266	24,891
Intra-segment eliminations	(4,863)	(3,134)	(5,220)	(5,526)	(5,850)	(6,583)	(7,256)
Total Crown entities segment	**99,769**	**100,716**	**101,359**	**104,518**	**110,493**	**116,711**	**122,873**
Total State-owned Enterprises segment	**8,187**	**6,619**	**6,601**	**6,274**	**6,452**	**6,595**	**7,216**
Inter-segment eliminations	(28,544)	(37,912)	(35,565)	(42,348)	(46,001)	(50,727)	(54,484)
Total financial assets (including receivables)	**240,681**	**239,955**	**246,928**	**253,213**	**267,694**	**282,925**	**298,379**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	15,942	15,754	15,791	15,633	15,444	15,199	14,940
Opening book value	9,209	9,267	9,373	9,141	8,848	8,432	7,886
Net new lending (including fees)	1,271	1,505	1,402	1,469	1,491	1,506	1,522
Less initial write-down to fair value	(551)	(640)	(601)	(629)	(640)	(651)	(663)
Repayments made during the year	(1,634)	(1,805)	(1,725)	(1,801)	(1,867)	(1,953)	(1,995)
Interest unwind	577	595	665	643	576	527	496
Unwind of administration costs	30	26	27	25	24	25	25
Experience/actuarial adjustments:							
- Expected repayment adjustments	277	-	-	-	-	-	-
- Discount rate adjustments	194	-	-	-	-	-	-
Closing book value	**9,373**	**8,948**	**9,141**	**8,848**	**8,432**	**7,886**	**7,271**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	79,708	86,731	81,904	83,427	83,354	82,954	82,215
Buildings	68,194	70,493	74,680	78,592	82,615	86,128	88,953
State highways	59,502	54,971	61,716	64,036	66,071	68,077	67,724
Electricity generation assets	20,052	20,063	19,879	20,050	20,242	20,229	20,175
Electricity distribution network (cost)	4,459	4,394	4,427	4,688	5,153	5,682	6,323
Aircraft (excluding military)	4,562	4,795	5,031	5,777	6,367	6,640	6,608
Specialist military equipment	4,964	5,789	5,954	6,443	6,433	6,146	5,851
Specified cultural and heritage assets	3,401	3,211	3,188	3,196	3,204	3,221	3,238
Rail network	14,580	11,209	15,685	16,336	16,465	16,473	16,360
Other plant and equipment (cost)	7,968	9,095	9,378	10,063	10,675	10,658	10,529
Total property, plant and equipment	**267,390**	**270,751**	**281,842**	**292,608**	**300,579**	**306,208**	**307,976**
Land breakdown by usage							
Housing	28,921	34,237	30,643	32,720	32,844	32,521	31,686
State highway corridor land	23,134	23,020	23,120	22,679	22,306	22,073	21,933
Conservation estate	8,342	7,817	8,322	8,328	8,337	8,339	8,341
Rail network	4,261	4,492	4,341	4,388	4,409	4,423	4,432
Schools	6,279	7,673	6,401	6,502	6,603	6,704	6,804
Commercial (SOEs) excluding Rail	1,578	1,677	1,688	1,731	1,745	1,761	1,778
Other	7,193	7,815	7,389	7,079	7,110	7,133	7,241
Total land	**79,708**	**86,731**	**81,904**	**83,427**	**83,354**	**82,954**	**82,215**
Schedule of Movements							
Cost or Valuation							
Opening balance	268,071	283,812	287,777	309,123	327,140	342,667	356,042
Additions[2]	14,881	18,805	21,977	19,135	15,921	15,562	10,388
Disposals	(1,474)	(791)	(216)	(1,117)	(645)	(2,186)	(826)
Net revaluations	5,335	-	(378)	-	-	-	-
Other	964	(13)	(37)	(1)	251	(1)	(2)
Total cost or valuation	**287,777**	**301,813**	**309,123**	**327,140**	**342,667**	**356,042**	**365,602**
Accumulated Depreciation and Impairment							
Opening balance	18,889	24,532	20,387	27,281	34,532	42,088	49,834
Eliminated on disposal	(1,007)	(479)	(161)	(495)	(548)	(642)	(672)
Eliminated on revaluation	(5,540)	-	(138)	-	-	-	-
Impairment losses charged to operating balance	220	-	-	-	-	-	-
Depreciation expense	6,601	7,011	7,358	7,751	8,106	8,390	8,472
Other	1,224	(2)	(165)	(5)	(2)	(2)	(8)
Total accumulated depreciation and impairment	**20,387**	**31,062**	**27,281**	**34,532**	**42,088**	**49,834**	**57,626**
Total property, plant and equipment	**267,390**	**270,751**	**281,842**	**292,608**	**300,579**	**306,208**	**307,976**

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

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	1,320	1,218	1,557	1,620	1,685	1,751	1,824
Less current tax expense	127	1,153	802	1,245	1,342	1,454	1,564
Less other expenses	1,054	263	206	291	309	332	352
Add gains/(losses)	5,766	3,900	966	3,919	4,281	4,706	5,116
Operating balance	**5,905**	**3,702**	**1,515**	**4,003**	**4,315**	**4,671**	**5,024**
Opening net worth	56,210	62,388	64,673	67,802	73,059	78,653	84,597
Gross contribution from the Crown[1]	2,558	1,614	1,614	1,254	1,279	1,273	1,083
Operating balance	5,905	3,702	1,515	4,003	4,315	4,671	5,024
Other movements in reserves	-	-	-	-	-	-	-
Closing net worth	**64,673**	**67,704**	**67,802**	**73,059**	**78,653**	**84,597**	**90,704**
Comprising:							
Financial assets	68,234	70,925	73,413	76,229	81,796	87,795	93,958
Financial liabilities	(3,501)	(3,146)	(5,518)	(3,066)	(3,113)	(3,162)	(3,213)
Net other assets	(60)	(75)	(93)	(104)	(30)	(36)	(41)
Closing net worth	**64,673**	**67,704**	**67,802**	**73,059**	**78,653**	**84,597**	**90,704**

1. The Government's contributions are assumed to be derived from the legislative formula.

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 12: Payables							
Accounts payable	12,520	11,043	14,667	12,102	11,941	11,951	12,165
Taxes repayable	6,206	6,008	6,425	6,676	6,915	7,156	7,397
Total payables	**18,726**	**17,051**	**21,092**	**18,778**	**18,856**	**19,107**	**19,562**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	8,038	7,946	7,029	6,771	6,448	6,092	5,729
Other funds	1	2	6	6	6	6	6
Total retirement plan liabilities	**8,039**	**7,948**	**7,035**	**6,777**	**6,454**	**6,098**	**5,735**

Government Superannuation Fund

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 2023. 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 2023, based on membership data as at 30 June 2023. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date. For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 September 2023.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 2.49% for the year ended 30 June 2024 decreasing to 2.04% after 3 years, increasing to 2.08% after 2 further years and remaining there for 12 years, and then decreasing to 2.0% after 36 years. In addition, an annual salary growth rate, before any promotional effects, of 2.5% (2.5% at 30 June 2023).

The net GSF liability is expected to reduce by $1,009 million over the twelve month period to 30 June 2024. This is mainly due to contributions made by the Crown, as well as gains arising on the liability due to increases in the discount rate assumptions and gains on assets due to postive investment experience.

The expected decrease in the GSF liability of $1,179 million includes an actuarial gain (which decreases the liability) as at 30 June 2024, of $885 million, owing to movements in the discount rates ($848 million) which are partly offset by changes in the CPI rates ($37 million). The remaining movement of $294 million is owing to the current service cost and interest unwind (increasing the liability) which is more than offset by benefits paid to members (reducing the liability).

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

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
GSF Liability							
Opening GSF liability	13,723	13,199	13,183	12,004	11,662	11,250	10,801
Net projected change	(540)	(358)	(1,179)	(342)	(412)	(449)	(459)
Closing GSF liability	**13,183**	**12,841**	**12,004**	**11,662**	**11,250**	**10,801**	**10,342**
Less Net Assets Available to GSF							
Opening net asset value	4,958	4,947	5,145	4,975	4,891	4,802	4,709
Investment valuation changes	459	252	140	252	248	243	238
Contribution and other income less benefit payments	(272)	(304)	(310)	(336)	(337)	(336)	(334)
Closing net asset value	**5,145**	**4,895**	**4,975**	**4,891**	**4,802**	**4,709**	**4,613**
Net GSF Liability							
Opening unfunded liability	8,765	8,252	8,038	7,029	6,771	6,448	6,092
Net projected change	(727)	(306)	(1,009)	(258)	(323)	(356)	(363)
Closing unfunded liability	**8,038**	**7,946**	**7,029**	**6,771**	**6,448**	**6,092**	**5,729**

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	9,129	6,351	6,712	5,936	5,939	5,915	6,042
Veterans' disability entitlements	2,651	2,758	2,651	2,658	2,643	2,625	2,603
Provision for National Provident Fund guarantee	638	582	613	572	527	485	444
Other provisions	3,008	2,707	2,783	2,244	2,410	2,332	2,276
Total provisions	**15,426**	**12,398**	**12,759**	**11,410**	**11,519**	**11,357**	**11,365**

NOTE 15: New Zealand Emissions Trading Scheme

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Opening liability	11,308	8,360	6,125	8,656	7,731	7,171	6,806
Units sold	832	894	488	939	824	700	569
Allocated units	1,103	1,201	1,495	1,519	1,592	1,683	1,780
Units surrendered	(1,583)	(2,707)	(3,520)	(3,346)	(2,918)	(2,720)	(2,670)
(Gains)/ losses due to revaluation in NZ Units	(5,620)	-	4,091	-	-	-	-
Other movements	85	(68)	(23)	(37)	(58)	(28)	32
Closing liability	**6,125**	**7,680**	**8,656**	**7,731**	**7,171**	**6,806**	**6,517**

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

The prices for NZUs used to calculate the NZ ETS liability are assumed to remain constant over the forecast period and are based on the market price at 31 October 2023 of $70.00.

NOTE 16: Borrowings

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Borrowings							
Government bonds	105,162	128,657	129,970	155,559	175,310	191,306	192,267
Treasury bills	2,891	2,960	5,941	5,901	5,904	5,905	5,903
Government retail stock	157	143	162	162	161	161	161
Settlement deposits with Reserve Bank	49,915	39,300	46,151	39,651	33,151	26,651	26,651
Derivatives in loss	7,311	4,880	7,879	5,481	4,998	4,519	4,234
Finance lease liabilities	1,220	1,070	1,117	1,039	1,253	1,148	1,111
Kiwi Group customer deposits	24,972	27,213	25,301	28,931	31,406	34,010	36,658
Other borrowings	35,127	39,172	37,326	37,481	40,315	41,470	42,630
Total borrowings	**226,755**	**243,395**	**253,847**	**274,205**	**292,498**	**305,170**	**309,615**
By guarantee							
Sovereign-guaranteed debt	175,791	189,547	198,426	216,475	229,568	238,678	239,695
Non sovereign-guaranteed debt	50,964	53,848	55,421	57,730	62,930	66,492	69,920
Total borrowings	**226,755**	**243,395**	**253,847**	**274,205**	**292,498**	**305,170**	**309,615**

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

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

Notes to the Forecast Financial Statements

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
NOTE 17: Changes in Net Worth							
Taxpayers' funds	8,380	5,540	1,511	1,235	4,075	10,993	21,695
Property, plant and equipment revaluation reserve	174,575	164,210	174,335	174,339	174,343	174,346	174,349
Defined benefit plan revaluation reserve	409	224	1,163	1,144	1,146	1,157	1,165
Veterans' disability entitlements reserve	(392)	(566)	(392)	(392)	(392)	(392)	(392)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	404	17	300	286	307	289	284
Fair value hedge reserve	186	229	291	246	255	257	258
Foreign currency translation reserve	(41)	(38)	(41)	(41)	(41)	(41)	(41)
Net worth attributable to minority interests	7,958	8,246	8,321	8,278	8,307	8,363	8,466
Total net worth	**191,472**	**177,855**	**185,481**	**185,088**	**187,993**	**194,965**	**205,777**
Taxpayers' funds							
Opening taxpayers' funds	2,480	6,932	8,380	1,511	1,235	4,075	10,993
Operating balance excluding minority interests	5,321	(1,406)	(6,873)	(174)	2,897	6,968	10,741
Transfers from/(to) other reserves	308	-	-	-	-	-	-
Other movements	271	14	4	(102)	(57)	(50)	(39)
Closing taxpayers' funds	**8,380**	**5,540**	**1,511**	**1,235**	**4,075**	**10,993**	**21,695**
Property, Plant and Equipment Revaluation							
Opening property, plant and equipment revaluation reserve	164,385	164,188	174,575	174,335	174,339	174,343	174,346
Net revaluations	10,870	-	(240)	-	-	-	-
Transfers from/(to) other reserves	(308)	22	-	4	4	3	3
Net revaluations attributable to minority interests	(372)	-	-	-	-	-	-
Closing property, plant and equipment revaluation reserve	**174,575**	**164,210**	**174,335**	**174,339**	**174,343**	**174,346**	**174,349**
Net Worth Attributable to Minority Interests							
Opening minority interest	7,283	7,908	7,958	8,321	8,278	8,307	8,363
Operating balance attributable to minority interests	555	448	552	522	499	543	606
Transactions with minority interest	(424)	(488)	(603)	(570)	(560)	(563)	(591)
Increase in minority interest from equity issues	66	370	373	9	85	89	93
Other (includes net revaluations)	478	8	41	(4)	5	(13)	(5)
Closing minority interest	**7,958**	**8,246**	**8,321**	**8,278**	**8,307**	**8,363**	**8,466**

Statement of Segments

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

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

Statement of Segments (continued)

	Core Crown 2024 Forecast $m	Crown entities 2024 Forecast $m	State-owned Enterprises 2024 Forecast $m	Inter-segment eliminations 2024 Forecast $m	Total Crown 2024 Forecast $m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	122,025	-	-	(606)	121,419
Other sovereign revenue	5,145	7,974	-	(2,362)	10,757
Revenue from core Crown funding	-	50,321	1,105	(51,426)	-
Sales of goods and services	1,868	2,812	20,031	(726)	23,985
Interest revenue	4,061	2,698	161	(1,008)	5,912
Other revenue	2,641	4,573	775	(2,732)	5,257
Total revenue (excluding gains)	**135,740**	**68,378**	**22,072**	**(58,860)**	**167,330**
Expenses					
Social assistance and official development assistance	43,485	-	-	(1,284)	42,201
Personnel expenses	11,227	23,513	3,349	(58)	38,031
Other operating expenses	79,160	38,935	16,492	(55,750)	78,837
Interest expenses	8,841	1,409	554	(841)	9,963
Insurance expenses	3	9,538	12	-	9,553
Forecast for future new spending	1,920	-	-	-	1,920
Top-down operating expense adjustment	(4,350)	-	-	-	(4,350)
Total expenses (excluding losses)	**140,286**	**73,395**	**20,407**	**(57,933)**	**176,155**
Total gains/(losses) and other items	(3,069)	4,429	(479)	1,071	1,952
Operating balance	**(7,615)**	**(588)**	**1,186**	**144**	**(6,873)**
Expenses by functional classification					
Social security and welfare	*44,739*	*10,907*	-	*(2,180)*	*53,466*
Health	*30,103*	*26,714*	-	*(28,156)*	*28,661*
Education	*20,526*	*15,479*	-	*(14,310)*	*21,695*
Transport and communications	*6,222*	*8,317*	*9,017*	*(7,631)*	*15,925*
Other	*32,285*	*10,569*	*10,836*	*(4,815)*	*48,875*
Finance costs	*8,841*	*1,409*	*554*	*(841)*	*9,963*
Forecast for future new spending	*1,920*	-	-	-	*1,920*
Top-down operating expense adjustment	*(4,350)*	-	-	-	*(4,350)*
Total expenses (excluding losses)	***140,286***	***73,395***	***20,407***	***(57,933)***	***176,155***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	15,144	6,722	1,392	(1,150)	22,108
Receivables	32,529	7,710	2,647	(2,427)	40,459
Other financial assets	126,860	86,927	2,562	(31,988)	184,361
Property, plant and equipment	65,410	160,567	55,865	-	281,842
Equity accounted investments	72,381	14,557	474	(70,076)	17,336
Intangible assets and goodwill	1,801	677	1,615	(277)	3,816
Inventory and other assets	3,791	2,377	1,376	(126)	7,418
Forecast for new capital spending	995	-	-	-	995
Top-down capital adjustment	(1,700)	-	-	-	(1,700)
Total assets	**317,211**	**279,537**	**65,931**	**(106,044)**	**556,635**
Liabilities					
Borrowings	216,904	57,326	11,417	(31,800)	253,847
Other liabilities	48,025	68,361	11,304	(10,383)	117,307
Total liabilities	**264,929**	**125,687**	**22,721**	**(42,183)**	**371,154**
Total assets less total liabilities	**52,282**	**153,850**	**43,210**	**(63,861)**	**185,481**
Net worth					
Taxpayers' funds	10,064	50,153	11,346	(70,052)	1,511
Reserves	42,218	103,155	23,772	6,504	175,649
Net worth attributable to minority interests	-	542	8,092	(313)	8,321
Total net worth	**52,282**	**153,850**	**43,210**	**(63,861)**	**185,481**

Forecast Statement of Segments (continued)

	Core Crown 2025 Forecast $m	Crown entities 2025 Forecast $m	State-owned Enterprises 2025 Forecast $m	Inter-segment eliminations 2025 Forecast $m	Total Crown 2025 Forecast $m
Statement of Financial Performance for the year ended 30 June 2025					
Revenue					
Taxation revenue	129,701	-	-	(670)	129,031
Other sovereign revenue	5,135	8,581	-	(2,523)	11,193
Revenue from core Crown funding	-	47,432	729	(48,161)	-
Sales of goods and services	1,911	4,280	20,015	(2,160)	24,046
Interest revenue	4,067	2,780	116	(1,342)	5,621
Other revenue	2,644	4,844	527	(2,790)	5,225
Total revenue (excluding gains)	**143,458**	**67,917**	**21,387**	**(57,646)**	**175,116**
Expenses					
Social assistance and official development assistance	46,484	-	-	(1,521)	44,963
Personnel expenses	10,905	23,611	3,378	(61)	37,833
Other operating expenses	75,118	37,094	16,301	(53,796)	74,717
Interest expenses	9,738	1,767	620	(1,396)	10,729
Insurance expenses	3	10,043	13	-	10,059
Forecast for future new spending	3,543	-	-	-	3,543
Top-down operating expense adjustment	(1,050)	-	-	-	(1,050)
Total expenses (excluding losses)	**144,741**	**72,515**	**20,312**	**(56,774)**	**180,794**
Total gains/(losses) and other items	4,344	1,653	(378)	(115)	5,504
Operating balance	**3,061**	**(2,945)**	**697**	**(987)**	**(174)**
Expenses by functional classification					
Social security and welfare	*47,522*	*11,360*	*-*	*(2,469)*	*56,413*
Health	*29,734*	*26,840*	*-*	*(27,885)*	*28,689*
Education	*20,845*	*15,790*	*-*	*(14,484)*	*22,151*
Transport and communications	*5,524*	*6,053*	*9,098*	*(6,014)*	*14,661*
Other	*28,885*	*10,705*	*10,594*	*(4,526)*	*45,658*
Finance costs	*9,738*	*1,767*	*620*	*(1,396)*	*10,729*
Forecast for future new spending	*3,543*	*-*	*-*	*-*	*3,543*
Top-down operating expense adjustment	*(1,050)*	*-*	*-*	*-*	*(1,050)*
Total expenses (excluding losses)	***144,741***	***72,515***	***20,312***	***(56,774)***	***180,794***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	14,044	6,452	1,394	(1,148)	20,742
Receivables	25,786	7,997	2,681	(2,276)	34,188
Other financial assets	144,939	90,069	2,199	(38,924)	198,283
Property, plant and equipment	66,373	167,826	58,409	-	292,608
Equity accounted investments	78,304	14,685	547	(75,388)	18,148
Intangible assets and goodwill	1,908	658	1,663	(294)	3,935
Inventory and other assets	3,908	2,319	1,360	(126)	7,461
Forecast for new capital spending	2,072	-	-	-	2,072
Top-down capital adjustment	(2,400)	-	-	-	(2,400)
Total assets	**334,934**	**290,006**	**68,253**	**(118,156)**	**575,037**
Liabilities					
Borrowings	235,443	64,734	12,689	(38,661)	274,205
Other liabilities	44,167	70,074	11,446	(9,943)	115,744
Total liabilities	**279,610**	**134,808**	**24,135**	**(48,604)**	**389,949**
Total assets less total liabilities	**55,324**	**155,198**	**44,118**	**(69,552)**	**185,088**
Net worth					
Taxpayers' funds	13,124	51,548	12,291	(75,728)	1,235
Reserves	42,200	103,108	23,781	6,486	175,575
Net worth attributable to minority interests	-	542	8,046	(310)	8,278
Total net worth	**55,324**	**155,198**	**44,118**	**(69,552)**	**185,088**

Forecast Statement of Segments (continued)

	Core Crown 2026 Forecast $m	Crown entities 2026 Forecast $m	State-owned Enterprises 2026 Forecast $m	Inter-segment eliminations 2026 Forecast $m	Total Crown 2026 Forecast $m
Statement of Financial Performance for the year ended 30 June 2026					
Revenue					
Taxation revenue	138,139	-	-	(848)	137,291
Other sovereign revenue	4,779	9,191	-	(2,714)	11,256
Revenue from core Crown funding	-	47,235	640	(47,875)	-
Sales of goods and services	1,925	5,757	20,605	(3,550)	24,737
Interest revenue	4,457	2,953	110	(1,596)	5,924
Other revenue	2,692	5,137	545	(2,877)	5,497
Total revenue (excluding gains)	**151,992**	**70,273**	**21,900**	**(59,460)**	**184,705**
Expenses					
Social assistance and official development assistance	48,504	-	-	(1,587)	46,917
Personnel expenses	10,894	23,888	3,438	(61)	38,159
Other operating expenses	75,283	37,998	16,644	(55,247)	74,678
Interest expenses	10,366	2,040	757	(1,634)	11,529
Insurance expenses	4	10,434	13	-	10,451
Forecast for future new spending	6,310	-	-	-	6,310
Top-down operating expense adjustment	(300)	-	-	-	(300)
Total expenses (excluding losses)	**151,061**	**74,360**	**20,852**	**(58,529)**	**187,744**
Total gains/(losses) and other items	4,674	1,657	(339)	(56)	5,936
Operating balance	**5,605**	**(2,430)**	**709**	**(987)**	**2,897**
Expenses by functional classification					
Social security and welfare	*49,401*	*11,734*	*-*	*(2,591)*	*58,544*
Health	*31,140*	*27,961*	*-*	*(29,333)*	*29,768*
Education	*20,806*	*15,863*	*-*	*(14,451)*	*22,218*
Transport and communications	*5,575*	*5,730*	*9,297*	*(6,004)*	*14,598*
Other	*27,763*	*11,032*	*10,798*	*(4,516)*	*45,077*
Finance costs	*10,366*	*2,040*	*757*	*(1,634)*	*11,529*
Forecast for future new spending	*6,310*	*-*	*-*	*-*	*6,310*
Top-down operating expense adjustment	*(300)*	*-*	*-*	*-*	*(300)*
Total expenses (excluding losses)	***151,061***	***74,360***	***20,852***	***(58,529)***	***187,744***
Statement of Financial Position as at 30 June 2026					
Assets					
Cash and cash equivalents	13,484	7,186	1,331	(1,097)	20,904
Receivables	25,733	8,292	2,777	(2,185)	34,617
Other financial assets	157,533	95,015	2,344	(42,719)	212,173
Property, plant and equipment	66,674	173,430	60,475	-	300,579
Equity accounted investments	83,196	14,803	642	(80,277)	18,364
Intangible assets and goodwill	1,921	614	1,753	(318)	3,970
Inventory and other assets	3,912	2,441	1,361	(125)	7,589
Forecast for new capital spending	3,507	-	-	-	3,507
Top-down capital adjustment	(2,800)	-	-	-	(2,800)
Total assets	**353,160**	**301,781**	**70,683**	**(126,721)**	**598,903**
Liabilities					
Borrowings	249,013	71,677	14,185	(42,377)	292,498
Other liabilities	43,220	73,181	11,614	(9,603)	118,412
Total liabilities	**292,233**	**144,858**	**25,799**	**(51,980)**	**410,910**
Total assets less total liabilities	**60,927**	**156,923**	**44,884**	**(74,741)**	**187,993**
Net worth					
Taxpayers' funds	18,730	53,263	13,018	(80,936)	4,075
Reserves	42,197	103,118	23,794	6,502	175,611
Net worth attributable to minority interests	-	542	8,072	(307)	8,307
Total net worth	**60,927**	**156,923**	**44,884**	**(74,741)**	**187,993**

Forecast Statement of Segments (continued)

	Core Crown 2027 Forecast $m	Crown entities 2027 Forecast $m	State-owned Enterprises 2027 Forecast $m	Inter-segment eliminations 2027 Forecast $m	Total Crown 2027 Forecast $m
Statement of Financial Performance for the year ended 30 June 2027					
Revenue					
Taxation revenue	146,238	-	-	(808)	145,430
Other sovereign revenue	4,596	9,905	-	(2,917)	11,584
Revenue from core Crown funding	-	47,169	607	(47,776)	-
Sales of goods and services	1,962	7,474	20,930	(4,939)	25,427
Interest revenue	4,733	3,013	115	(1,769)	6,092
Other revenue	2,778	5,258	268	(2,640)	5,664
Total revenue (excluding gains)	**160,307**	**72,819**	**21,920**	**(60,849)**	**194,197**
Expenses					
Social assistance and official development assistance	50,556	-	-	(1,606)	48,950
Personnel expenses	10,850	23,937	3,389	(62)	38,114
Other operating expenses	75,697	39,438	16,875	(56,518)	75,492
Interest expenses	11,181	2,196	833	(1,799)	12,411
Insurance expenses	3	10,957	14	-	10,974
Forecast for future new spending	7,961	-	-	-	7,961
Top-down operating expense adjustment	(300)	-	-	-	(300)
Total expenses (excluding losses)	**155,948**	**76,528**	**21,111**	**(59,985)**	**193,602**
Total gains/(losses) and other items	5,081	1,694	(356)	(46)	6,373
Operating balance	**9,440**	**(2,015)**	**453**	**(910)**	**6,968**
Expenses by functional classification					
Social security and welfare	*51,465*	*12,300*	*-*	*(2,663)*	*61,102*
Health	*32,619*	*29,319*	*-*	*(30,838)*	*31,100*
Education	*20,810*	*15,770*	*-*	*(14,369)*	*22,211*
Transport and communications	*5,462*	*5,678*	*9,364*	*(5,863)*	*14,641*
Other	*26,750*	*11,265*	*10,914*	*(4,453)*	*44,476*
Finance costs	*11,181*	*2,196*	*833*	*(1,799)*	*12,411*
Forecast for future new spending	*7,961*	*-*	*-*	*-*	*7,961*
Top-down operating expense adjustment	*(300)*	*-*	*-*	*-*	*(300)*
Total expenses (excluding losses)	***155,948***	***76,528***	***21,111***	***(59,985)***	***193,602***
Statement of Financial Position as at 30 June 2027					
Assets					
Cash and cash equivalents	12,833	7,575	1,346	(1,100)	20,654
Receivables	26,465	8,753	2,856	(2,105)	35,969
Other financial assets	171,048	100,383	2,393	(47,522)	226,302
Property, plant and equipment	66,139	178,747	61,322	-	306,208
Equity accounted investments	86,905	14,869	710	(83,984)	18,500
Intangible assets and goodwill	1,894	617	1,770	(295)	3,986
Inventory and other assets	3,910	2,331	1,365	(125)	7,481
Forecast for new capital spending	5,314	-	-	-	5,314
Top-down capital adjustment	(3,100)	-	-	-	(3,100)
Total assets	**371,408**	**313,275**	**71,762**	**(135,131)**	**621,314**
Liabilities					
Borrowings	258,674	78,376	15,283	(47,163)	305,170
Other liabilities	42,353	76,543	11,594	(9,311)	121,179
Total liabilities	**301,027**	**154,919**	**26,877**	**(56,474)**	**426,349**
Total assets less total liabilities	**70,381**	**158,356**	**44,885**	**(78,657)**	**194,965**
Net worth					
Taxpayers' funds	28,170	54,692	12,973	(84,842)	10,993
Reserves	42,211	103,122	23,785	6,491	175,609
Net worth attributable to minority interests	-	542	8,127	(306)	8,363
Total net worth	**70,381**	**158,356**	**44,885**	**(78,657)**	**194,965**

Forecast Statement of Segments (continued)

	Core Crown 2028 Forecast $m	Crown entities 2028 Forecast $m	State-owned Enterprises 2028 Forecast $m	Inter-segment eliminations 2028 Forecast $m	Total Crown 2028 Forecast $m
Statement of Financial Performance for the year ended 30 June 2028					
Revenue					
Taxation revenue	153,998	-	-	(929)	153,069
Other sovereign revenue	4,548	10,601	-	(3,101)	12,048
Revenue from core Crown funding	-	46,526	592	(47,118)	-
Sales of goods and services	2,024	7,559	21,426	(4,955)	26,054
Interest revenue	5,139	3,159	135	(1,949)	6,484
Other revenue	2,872	5,225	305	(2,701)	5,701
Total revenue (excluding gains)	**168,581**	**73,070**	**22,458**	**(60,753)**	**203,356**
Expenses					
Social assistance and official development assistance	52,716	-	-	(1,606)	51,110
Personnel expenses	10,986	24,099	3,402	(63)	38,424
Other operating expenses	74,781	38,525	17,250	(56,177)	74,379
Interest expenses	11,928	2,408	837	(1,981)	13,192
Insurance expenses	4	11,560	15	-	11,579
Forecast for future new spending	11,106	-	-	-	11,106
Top-down operating expense adjustment	(300)	-	-	-	(300)
Total expenses (excluding losses)	**161,221**	**76,592**	**21,504**	**(59,827)**	**199,490**
Total gains/(losses) and other items	5,472	1,848	(394)	(51)	6,875
Operating balance	**12,832**	**(1,674)**	**560**	**(977)**	**10,741**
Expenses by functional classification					
Social security and welfare	*53,621*	*12,930*	*-*	*(2,719)*	*63,832*
Health	*32,762*	*29,321*	*-*	*(31,008)*	*31,075*
Education	*20,851*	*15,771*	*-*	*(14,365)*	*22,257*
Transport and communications	*5,092*	*5,175*	*9,453*	*(5,489)*	*14,231*
Other	*26,161*	*10,987*	*11,214*	*(4,265)*	*44,097*
Finance costs	*11,928*	*2,408*	*837*	*(1,981)*	*13,192*
Forecast for future new spending	*11,106*	*-*	*-*	*-*	*11,106*
Top-down operating expense adjustment	*(300)*	*-*	*-*	*-*	*(300)*
Total expenses (excluding losses)	***161,221***	***76,592***	***21,504***	***(59,827)***	***199,490***
Statement of Financial Position as at 30 June 2028					
Assets					
Cash and cash equivalents	12,101	7,314	1,399	(1,100)	19,714
Receivables	27,267	9,315	2,978	(2,048)	37,512
Other financial assets	183,406	106,244	2,839	(51,336)	241,153
Property, plant and equipment	65,264	180,926	61,786	-	307,976
Equity accounted investments	87,761	14,949	778	(84,841)	18,647
Intangible assets and goodwill	1,838	615	1,727	(205)	3,975
Inventory and other assets	3,776	2,369	1,370	(125)	7,390
Forecast for new capital spending	7,130	-	-	-	7,130
Top-down capital adjustment	(3,400)	-	-	-	(3,400)
Total assets	**385,143**	**321,732**	**72,877**	**(139,655)**	**640,097**
Liabilities					
Borrowings	259,994	84,261	16,294	(50,934)	309,615
Other liabilities	41,929	80,023	11,763	(9,010)	124,705
Total liabilities	**301,923**	**164,284**	**28,057**	**(59,944)**	**434,320**
Total assets less total liabilities	**83,220**	**157,448**	**44,820**	**(79,711)**	**205,777**
Net worth					
Taxpayers' funds	41,002	53,783	12,804	(85,894)	21,695
Reserves	42,218	103,123	23,787	6,488	175,616
Net worth attributable to minority interests	-	542	8,229	(305)	8,466
Total net worth	**83,220**	**157,448**	**44,820**	**(79,711)**	**205,777**

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 97 to 127) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

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

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

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

Expenses by Functional Classification

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

Core Crown Residual Cash

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

Debt Indicators

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

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

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

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

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

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

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Operating Balance							
Total revenue	153,011	166,334	167,330	175,116	184,705	194,197	203,356
Total expenses	161,822	173,412	176,155	180,794	187,744	193,602	199,490
Total gains/(losses)	14,658	6,040	2,531	5,928	6,273	6,769	7,293
Net surplus from associates and joint ventures	29	80	(27)	98	162	147	188
Less Minority interests' share of operating balance	(555)	(448)	(552)	(522)	(499)	(543)	(606)
Operating balance	**5,321**	**(1,406)**	**(6,873)**	**(174)**	**2,897**	**6,968**	**10,741**
Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses							
Operating balance	**5,321**	**(1,406)**	**(6,873)**	**(174)**	**2,897**	**6,968**	**10,741**
Less items excluded from OBEGAL:							
Net gains/(losses) on financial instruments	7,711	6,040	1,822	5,928	6,273	6,769	7,293
Net gains/(losses) on non-financial instruments	6,947	-	709	-	-	-	-
Minority interests share of total gains/(losses)	80	36	(58)	(65)	(70)	(88)	(96)
Net surplus from associates and joint ventures	29	80	(27)	98	162	147	188
OBEGAL	**(9,446)**	**(7,562)**	**(9,319)**	**(6,135)**	**(3,468)**	**140**	**3,356**

Expenses by Functional Classification

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	48,845	53,250	53,466	56,413	58,544	61,102	63,832
Health	29,824	28,161	28,661	28,689	29,768	31,100	31,075
Education	19,609	20,715	21,695	22,151	22,218	22,211	22,257
Core government services	6,663	6,411	8,104	6,211	6,285	5,817	5,638
Law and order	6,666	6,822	7,119	6,891	6,885	6,838	6,941
Transport and communications	14,428	14,684	15,925	14,661	14,598	14,641	14,231
Economic and industrial services	12,384	14,358	14,763	14,162	14,329	14,255	14,416
Defence	2,838	3,152	3,128	3,198	3,216	3,209	3,211
Heritage, culture and recreation	3,417	3,402	3,435	3,364	3,356	3,317	3,304
Primary services	2,740	2,590	3,026	2,664	2,602	2,531	2,491
Housing and community development	4,396	5,153	5,770	5,221	5,198	5,307	4,921
Environmental protection	2,353	2,766	3,185	3,129	3,047	3,045	3,019
GSF pension expenses	78	75	71	66	65	63	62
Other	133	237	274	752	94	94	94
Finance costs	7,448	8,505	9,963	10,729	11,529	12,411	13,192
Forecast new operating spending	-	5,731	1,920	3,543	6,310	7,961	11,106
Top-down operating expense adjustment	-	(2,600)	(4,350)	(1,050)	(300)	(300)	(300)
Total Crown expenses excluding losses	**161,822**	**173,412**	**176,155**	**180,794**	**187,744**	**193,602**	**199,490**

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

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	41,514	44,623	44,739	47,522	49,401	51,465	53,621
Health	28,489	28,653	30,103	29,734	31,140	32,619	32,762
Education	18,403	19,383	20,526	20,845	20,806	20,810	20,851
Core government services	6,806	6,548	8,163	6,225	6,249	5,763	5,676
Law and order	6,165	6,337	6,603	6,300	6,296	6,276	6,268
Transport and communications	5,472	5,206	6,222	5,524	5,575	5,462	5,092
Economic and industrial services	3,690	3,955	4,303	3,686	3,591	3,418	3,308
Defence	2,886	3,178	3,174	3,245	3,263	3,257	3,258
Heritage, culture and recreation	1,537	1,433	1,590	1,417	1,394	1,347	1,324
Primary services	1,156	1,142	1,374	1,192	1,144	1,073	1,043
Housing and community development	2,312	2,879	3,530	2,859	2,601	2,391	2,075
Environmental protection	2,381	2,768	3,223	3,163	3,086	3,088	3,073
GSF pension expenses	61	56	52	46	45	43	42
Other	133	237	274	752	94	94	94
Finance costs	6,569	7,462	8,840	9,738	10,366	11,181	11,928
Forecast new operating spending	-	5,731	1,920	3,543	6,310	7,961	11,106
Top-down operating expense adjustment	-	(2,600)	(4,350)	(1,050)	(300)	(300)	(300)
Total core Crown expenses excluding losses	**127,574**	**136,991**	**140,286**	**144,741**	**151,061**	**155,948**	**161,221**

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

Core Crown Residual Cash

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	111,292	117,184	116,028	135,634	138,847	146,240	154,032
Other sovereign receipts	2,492	2,445	2,105	2,701	2,637	2,507	2,373
Interest receipts	982	1,505	1,825	2,314	3,045	3,341	3,788
Sale of goods and services and other receipts	3,954	3,398	3,631	3,614	3,605	3,663	3,743
Transfer payments and subsidies	(40,417)	(44,212)	(43,447)	(47,672)	(48,756)	(50,780)	(52,722)
Personnel and operating costs	(76,434)	(77,791)	(85,063)	(80,542)	(80,479)	(80,705)	(79,498)
Interest payments	(5,305)	(5,957)	(6,939)	(7,793)	(8,355)	(9,109)	(9,412)
Forecast for future new operating spending	-	(5,731)	(1,920)	(3,543)	(6,310)	(7,961)	(11,106)
Top-down operating expense adjustment	-	2,600	4,350	1,050	300	300	300
Net core Crown operating cash flows	**(3,436)**	**(6,559)**	**(9,430)**	**5,763**	**4,534**	**7,496**	**11,498**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(4,435)	(4,986)	(4,949)	(3,853)	(3,156)	(2,585)	(2,228)
Net increase in advances	(9,159)	(5,710)	(2,897)	2,510	3,829	(3,421)	(2,315)
Net purchase of investments	(6,060)	(7,242)	(7,646)	(5,928)	(4,826)	(3,700)	(773)
Contribution to NZS Fund	(2,558)	(1,614)	(1,614)	(1,254)	(1,279)	(1,273)	(1,083)
Forecast for future new capital spending	-	(2,964)	(995)	(1,077)	(1,435)	(1,808)	(1,816)
Top-down capital adjustment	-	2,200	1,700	700	400	300	300
Net core Crown capital cash flows	**(22,212)**	**(20,316)**	**(16,401)**	**(8,902)**	**(6,467)**	**(12,487)**	**(7,915)**
Residual cash (deficit)/surplus	**(25,648)**	**(26,875)**	**(25,831)**	**(3,139)**	**(1,933)**	**(4,991)**	**3,583**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	26,076	32,495	34,652	33,258	31,577	26,130	14,963
Repayment of government bonds	(21,879)	(18,481)	(18,069)	(18,995)	(19,229)	(22,370)	(15,431)
Net issue/(repayment) of short-term borrowing[1]	(66)	4,540	4,143	(50)	-	-	-
Total market debt cash flows	4,131	18,554	20,726	14,213	12,348	3,760	(468)
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	(300)	(345)	(300)	(100)	-	-	-
Total non-market debt cash flows	(300)	(345)	(300)	(100)	-	-	-
Total debt programme cash flows	**3,831**	**18,209**	**20,426**	**14,113**	**12,348**	**3,760**	**(468)**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	19,918	7,391	8,291	3,119	141	4,777	82
Net (repayment)/issue of foreign currency borrowing	(1,034)	(4,405)	(3,772)	928	(242)	(21)	(16)
Total other borrowing cash flows	**18,884**	**2,986**	**4,519**	**4,047**	**(101)**	**4,756**	**66**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	2,775	5,619	3,980	(14,988)	(10,354)	(3,660)	(3,274)
Net issues/(repayments) of circulating currency	(60)	93	65	91	92	92	93
Decrease/(increase) in cash	218	(32)	(3,159)	(124)	(52)	43	-
Total investing cash flows	**2,933**	**5,680**	**886**	**(15,021)**	**(10,314)**	**(3,525)**	**(3,181)**
Residual cash deficit/(surplus) funding/(investing)	**25,648**	**26,875**	**25,831**	**3,139**	**1,933**	**4,991**	**(3,583)**

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

Core Crown Residual Cash – Breakdown of Net Capital Expenditure Activity

for the years ending 30 June

Below shows a breakdown of net capital expenditure that has an impact on core Crown residual cash. It excludes capital spending undertaken directly by SOEs and Crown entities funded from their own resources (including third-party financing).

	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	5-year Total $m
Education	2,120	1,407	1,231	1,118	947	**6,823**
Defence	1,174	1,077	738	410	370	**3,769**
Corrections	180	174	212	206	201	**973**
Justice	192	215	200	199	136	**942**
Social Development	138	106	82	97	75	**498**
Police	138	106	82	97	75	**498**
Internal Affairs	166	140	57	54	54	**471**
Other	841	628	554	404	370	**2,797**
Net purchase of physical assets	**4,949**	**3,853**	**3,156**	**2,585**	**2,228**	**16,771**
Kāinga Ora	4,852	6,039	2,725	3,905	3,561	**21,082**
Waka Kotahi NZ Transport Agency	1,405	833	620	92	(732)	**2,218**
Small Business Cashflow Loan Scheme	(420)	(304)	(116)	(65)	(20)	**(925)**
Student Loans	(331)	(340)	(384)	(455)	(480)	**(1,990)**
Funding for Lending Programme	(2,856)	(9,254)	(6,711)	-	-	**(18,821)**
Other	247	516	37	(56)	(14)	**730**
Net advances	**2,897**	**(2,510)**	**(3,829)**	**3,421**	**2,315**	**2,294**
Health Sector	3,436	1,943	1,431	735	266	**7,811**
Waka Kotahi NZ Transport Agency	1,962	1,718	1,493	1,852	462	**7,487**
KiwiRail	739	918	654	182	-	**2,493**
Housing Acceleration Fund	584	65	485	259	-	**1,393**
City Rail Link	373	611	3	1	-	**988**
Other	552	673	761	671	45	**2,702**
Net investments	**7,646**	**5,928**	**4,826**	**3,700**	**773**	**22,873**
Future new capital spending	995	1,077	1,435	1,808	1,816	**7,131**
Top-down capital adjustment	(1,700)	(700)	(400)	(300)	(300)	**(3,400)**
Contribution to NZS Fund	1,614	1,254	1,279	1,273	1,083	**6,503**
Net capital spending	**16,401**	**8,902**	**6,467**	**12,487**	**7,915**	**52,172**

Debt Indicators

as at 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Net Debt:							
Core Crown borrowings[1]	191,029	209,411	216,904	235,443	249,013	258,674	259,994
Crown entity borrowings[2]	48,110	55,844	57,326	64,734	71,677	78,376	84,261
Less Kiwi Group borrowings	(28,884)	(32,682)	(32,522)	(36,701)	(40,439)	(44,304)	(48,155)
Add back inter-entity eliminations	(1,690)	(1,277)	(1,133)	(487)	(126)	(98)	(98)
Net unsettled purchases/(sales) of securities[3]	(1,603)	(1,035)	(1,157)	(1,352)	(1,359)	(1,368)	(1,377)
Less core Crown financial assets (per net debt definition)[4]	(135,595)	(139,025)	(142,004)	(158,983)	(171,017)	(183,881)	(195,507)
Net debt (incl. NZS Fund)	**71,367**	**91,236**	**97,414**	**102,654**	**107,749**	**107,399**	**99,118**
Additional net debt analysis							
Net debt (incl. NZS Fund)	71,367	91,236	97,414	102,654	107,749	107,399	99,118
Less NZS Fund borrowings	(2,264)	(2,417)	(2,476)	(2,490)	(2,557)	(2,566)	(2,567)
Less NZS Fund net unsettled purchases/(sales) of securities	1,045	1,376	2,096	2,291	2,298	2,307	2,316
Less NZS Fund financial assets	66,120	69,229	69,018	73,609	79,223	85,221	91,372
Net debt (excl. NZS Fund)	**136,268**	**159,424**	**166,052**	**176,064**	**186,713**	**192,361**	**190,239**
Gross Debt:							
Core Crown borrowings	191,029	209,411	216,904	235,443	249,013	258,674	259,994
Unsettled purchases of securities	962	454	3,024	1,073	1,080	1,085	1,090
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(3,093)	(2,522)	(4,539)	(2,602)	(2,676)	(2,690)	(2,696)
Less Reserve Bank settlement cash[5] and Reserve Bank bills	(53,109)	(44,000)	(48,749)	(42,249)	(35,749)	(29,249)	(29,249)
Gross Debt	**135,789**	**163,343**	**166,640**	**191,665**	**211,668**	**227,820**	**229,139**

Notes on borrowings

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

for the years ending 30 June

	2023 Actual $m	2024 Previous Budget $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Movement in net debt							
Opening net debt	**61,850**	**70,957**	**71,367**	**97,414**	**102,654**	**107,749**	**107,399**
Core Crown residual cash (surplus)/deficit	25,648	26,875	25,831	3,139	1,933	4,991	(3,583)
Less net (increase)/decrease in advances	(9,159)	(5,710)	(2,897)	2,510	3,829	(3,421)	(2,315)
Less contributions to the NZS Fund	(2,558)	(1,614)	(1,614)	(1,254)	(1,279)	(1,273)	(1,083)
Net increase/(decrease) in Crown entity borrowings	3,191	4,664	6,135	3,875	3,566	2,862	2,034
Issues of circulating currency	60	(93)	(65)	(91)	(92)	(92)	(93)
Other fair value movements in financial assets and financial liabilities (including NZSF)	(7,665)	(3,843)	(1,343)	(2,939)	(2,862)	(3,417)	(3,241)
Closing net debt	**71,367**	**91,236**	**97,414**	**102,654**	**107,749**	**107,399**	**99,118**

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

Financial Results	2023 Actual $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m
Core Crown taxation revenue...	112,358	122,025	129,701	138,139	146,238	153,998
...combined with other core Crown revenue...	11,040	13,715	13,757	13,853	14,069	14,583
...funds core Crown expenses...	(127,574)	(140,286)	(144,741)	(151,061)	(155,948)	(161,221)
...and with SOE and CE[1] results...	(5,270)	(4,773)	(4,852)	(4,399)	(4,219)	(4,004)
...this results in an operating balance before gains and losses **(OBEGAL)**...	(9,446)	(9,319)	(6,135)	(3,468)	140	3,356
...with gains/losses leading to an **operating surplus/(deficit)...**	5,321	(6,873)	(174)	2,897	6,968	10,741
...with income in SOEs, CEs[1] and the NZS Fund retained...	(2,933)	(2,257)	(768)	(1,607)	(2,199)	(2,933)
...and some items do not impact cash	(5,824)	(300)	6,705	3,244	2,727	3,690
This leads to an operating residual cash surplus/(deficit)...	**(3,436)**	**(9,430)**	**5,763**	**4,534**	**7,496**	**11,498**
...used to make contributions to the NZS Fund...	(2,558)	(1,614)	(1,254)	(1,279)	(1,273)	(1,083)
...and to use for capital expenditure...	(4,435)	(4,949)	(3,853)	(3,156)	(2,585)	(2,228)
...and to make advances	(9,159)	(2,897)	2,510	3,829	(3,421)	(2,315)
...and to purchase investments	(6,060)	(7,646)	(5,928)	(4,826)	(3,700)	(773)
Adjusting for forecast adjustments (top-down/new spending)...	-	705	(377)	(1,035)	(1,508)	(1,516)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(25,648)**	**(25,831)**	**(3,139)**	**(1,933)**	**(4,991)**	**3,583**

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

5

Core Crown Expense Tables

($millions)	2019[1] Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Social security and welfare	28,740	44,028	36,759	42,860	41,514	44,739	47,522	49,401	51,465	53,621
Health	18,268	19,891	22,784	27,781	28,489	30,103	29,734	31,140	32,619	32,762
Education	14,293	16,322	16,039	18,023	18,403	20,526	20,845	20,806	20,810	20,851
Core government services[1]	5,166	6,083	5,754	5,720	6,806	8,163	6,225	6,249	5,763	5,676
Law and order	4,625	4,911	5,202	5,444	6,165	6,603	6,300	6,296	6,276	6,268
Transport and communications	2,889	3,179	5,656	4,657	5,472	6,222	5,524	5,575	5,462	5,092
Economic and industrial services	3,006	3,988	4,481	8,078	3,690	4,303	3,686	3,591	3,418	3,308
Defence	2,395	2,499	2,664	2,832	2,886	3,174	3,245	3,263	3,257	3,258
Heritage, culture and recreation	918	1,106	1,420	1,468	1,537	1,590	1,417	1,394	1,347	1,324
Primary services	960	961	1,015	949	1,156	1,374	1,192	1,144	1,073	1,043
Housing and community development	727	1,015	1,813	2,033	2,312	3,530	2,859	2,601	2,391	2,075
Environmental protection	1,119	1,485	1,906	2,549	2,381	3,223	3,163	3,086	3,088	3,073
GSF pension expenses[1]	66	73	99	94	61	52	46	45	43	42
Other	96	63	254	269	133	274	752	94	94	94
Finance costs[1]	3,691	3,228	1,918	2,884	6,569	8,840	9,738	10,366	11,181	11,928
Forecast new operating spending	..	..	..	..	..	1,920	3,543	6,310	7,961	11,106
Top-down operating expense adjustment	..	..	..	..	..	(4,350)	(1,050)	(300)	(300)	(300)
Core Crown expenses	**86,959**	**108,832**	**107,764**	**125,641**	**127,574**	**140,286**	**144,741**	**151,061**	**155,948**	**161,221**

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

1. The '2019 Actual' has been restated for the impact of new accounting standards and interpretations.

Source: The Treasury

Table 5.1 – Social security and welfare expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Welfare benefits (see below)	26,689	41,308	33,671	39,187	37,672	40,457	43,405	45,519	47,615	49,715
Departmental expenses	1,784	2,062	2,424	2,747	2,782	3,066	2,913	2,737	2,694	2,721
Social rehabilitation and compensation	249	260	333	358	386	415	447	481	517	553
Flexi-wage subsidy	..	..	8	59	52	25	28	..	..	..
COVID-19 Income Relief Assistance	..	15	182	..	..	..	..	..	..	..
Other non-departmental expenses[1]	18	383	141	509	622	776	729	664	639	632
Social security and welfare expenses	**28,740**	**44,028**	**36,759**	**42,860**	**41,514**	**44,739**	**47,522**	**49,401**	**51,465**	**53,621**

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

Source: The Treasury

Table 5.2 – Welfare benefit expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
New Zealand Superannuation	14,562	15,521	16,569	17,764	19,517	21,610	23,331	24,824	26,436	28,253
Jobseeker Support and Emergency Benefit	1,854	2,285	3,224	3,330	3,473	4,052	4,415	4,600	4,684	4,766
Supported living payment	1,556	1,650	1,826	2,047	2,311	2,537	2,675	2,802	2,908	3,004
Sole parent support	1,115	1,231	1,455	1,704	1,917	2,139	2,333	2,399	2,444	2,494
Family Tax Credit	2,131	2,189	2,103	2,017	2,151	2,278	2,323	2,294	2,375	2,312
Other working for families tax credits	635	641	585	519	476	487	443	423	420	399
Accommodation Assistance	1,640	1,923	2,302	2,386	2,349	2,492	2,604	2,647	2,671	2,705
Income-Related Rents	974	1,071	1,202	1,323	1,322	1,353	1,590	1,707	1,730	1,730
Disability Assistance	386	395	409	412	431	460	473	483	492	501
Cost of living payment	..	..	..	..	600	..	..	..	..	..
Covid leave support	..	..	..	471	273	20	..	..	..	..
Winter energy	441	669	812	513	519	536	555	566	575	585
Best start	48	184	271	308	321	334	338	334	342	335
Orphan's/Unsupported Child's Benefit	225	248	293	313	350	382	401	412	420	427
Hardship Assistance	300	418	479	497	673	702	778	836	878	923
Paid Parental Leave	369	422	503	603	608	650	685	730	775	815
Childcare Assistance	183	144	145	132	139	172	199	205	210	218
Veteran's Support Entitlement[1]	90	66	..	..	..	..	..	..	..	..
Veteran's Pension	153	145	139	134	132	131	128	122	117	113
Wage Subsidy Scheme	..	12,095	1,197	4,689	..	1	..	..	..	..
Other benefits[2]	27	11	157	25	110	121	134	135	138	135
Benefit expenses	**26,689**	**41,308**	**33,671**	**39,187**	**37,672**	**40,457**	**43,405**	**45,519**	**47,615**	**49,715**

1. Expenditure on Veteran's support entitlements are no longer recognised from 2021 owing to a change in accounting treatment.
2. The '2021 Actual' for other benefits expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
New Zealand Superannuation	767	795	825	848	870	899	928	958	989	1,021
Jobseeker Support and Emergency Benefit	139	162	211	193	177	193	200	199	195	192
Supported living payment	95	96	97	98	103	105	106	106	106	106
Sole parent support	59	61	66	70	73	76	79	78	76	75
Accommodation Supplement	295	318	364	353	347	360	373	376	376	376

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

Source: Ministry of Social Development

Table 5.3 – Health expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	210	236	298	386	222	279	219	214	214	211
Purchasing of health services[1,2,6]	14,953	16,577	17,882	18,812	22,549	25,304	25,517	26,833	28,180	28,190
National disability support services[3]	1,358	1,599	1,659	1,870	2,062	2,281	2,272	2,277	2,287	2,301
Other non-departmental outputs[4]	1,014	767	623	770	583	621	625	626	643	667
Health payments to ACC[4]	705	679	1,038	896	952	1,010	1,095	1,185	1,288	1,386
National health response to COVID-19[5]	..	..	1,261	4,965	2,112	601	..	..	..	..
Other expenses[4]	28	33	23	82	9	7	6	5	7	7
Health expenses	**18,268**	**19,891**	**22,784**	**27,781**	**28,489**	**30,103**	**29,734**	**31,140**	**32,619**	**32,762**

1. Reforms to the NZ health system took place from 1 July 2022 with the regional DHB systems replaced by a national health system governed by Te Whatu Ora – Health New Zealand in partnership with Te Aka Whai Ora – Māori Health Authority. Payments to deliver a variety of health and hospital services are replaced by payments to Te Whatu Ora – Health New Zealand and Te Aka Whai Ora – Māori Health Authority to deliver health services at national, regional and local levels.
2. Purchasing of health services includes expenses previously disclosed as payments to DHBs and public health service purchasing, but excludes disability support services which are disclosed separately.
3. National disability support services were previously funded through Vote Health and are now funded through Vote Social Development.
4. Some actuals amounts have been reclassified to different lines within this table to align with changes in the forecast period so may differ from previously published Economic and Fiscal Updates.
5. This line includes spending in relation to vaccines, managed isolation and quarantine as well as the overall COVID-19 response.
6. This line includes health multi-year funding that has been pre-committted against future budget allowances.

Source: The Treasury

Table 5.4 – Education expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Early childhood education	1,896	2,007	2,132	2,247	2,355	2,783	3,158	3,203	3,241	3,298
Primary and secondary schools (see below)	6,823	7,108	8,230	8,478	8,616	9,679	9,745	9,772	9,723	9,692
Tertiary funding (see below)[1]	4,112	5,621	3,519	4,804	4,663	5,237	5,358	5,337	5,286	5,304
Departmental expenses	1,416	1,534	1,656	1,962	2,188	2,540	2,386	2,358	2,426	2,425
COVID-19 apprentice support	..	..	156	255	141	112	55	..	..	..
Other education expenses[1,2]	46	52	346	277	440	175	143	136	134	132
Education expenses	**14,293**	**16,322**	**16,039**	**18,023**	**18,403**	**20,526**	**20,845**	**20,806**	**20,810**	**20,851**

1. The '2021 and 2022 Actuals' were restated to include a reclassification from other education expenses to student loans.
2. Includes training incentive allowance.

Source: The Treasury

Number of places provided[1]	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Early childhood education	221,137	221,971	225,206	220,878	222,314	224,957	227,227	230,176	235,261	235,261

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

Source: The Ministry of Education

Table 5.5 – Primary and secondary schools

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Primary	3,452	3,600	4,107	4,122	4,116	4,669	4,859	4,933	4,897	4,845
Secondary	2,606	2,683	3,043	3,135	3,174	3,575	3,573	3,674	3,640	3,673
School transport	206	208	216	210	235	248	248	248	248	248
Special needs support	447	515	641	658	673	719	748	763	785	772
Professional development	104	91	104	129	128	143	132	124	124	125
Schooling improvement	8	7	25	20	23	41	26	30	29	29
School lunch programme	..	4	94	204	267	284	159	..	..	..
Primary and secondary education expenses	**6,823**	**7,108**	**8,230**	**8,478**	**8,616**	**9,679**	**9,745**	**9,772**	**9,723**	**9,692**

Source: The Treasury

Number of places provided[1]	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Primary	527,429	530,379	529,859	520,060	523,982	522,840	519,698	514,642	511,288	505,477
Secondary	279,904	286,511	294,216	297,309	303,706	310,554	315,320	317,930	318,099	315,935

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

Source: The Ministry of Education

Table 5.6 – Tertiary funding

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Tuition[1]	2,571	3,911	2,019	3,205	3,135	3,301	3,370	3,291	3,223	3,226
Other tertiary funding	606	637	698	755	729	780	720	715	717	715
Student allowances	583	567	590	556	525	555	639	691	695	700
Student loans[2]	352	506	212	288	274	601	629	640	651	663
Tertiary education expenses	**4,112**	**5,621**	**3,519**	**4,804**	**4,663**	**5,237**	**5,358**	**5,337**	**5,286**	**5,304**

1. The '2020 Actual' includes increased funding to provide revenue certainty to tertiary education organisations for the June to December 2020 period due to the impact of COVID-19.
There is a corresponding reduction in the '2021 Actual' with the timing of funding returning to normal from 2022.
2. The '2021 and 2022 Actuals' were restated to include a reclassification from other education expenses to student loans.

Source: The Treasury

Number of places provided[1]	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Actual delivered and estimated funded places	217,767	214,172	234,350	219,847	280,600	273,200	270,000	259,700	259,400	258,400

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

Source: Tertiary Education Commission

Table 5.7 – Core government services expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental expenses	2,199	2,249	2,271	2,477	2,736	3,052	2,687	2,576	2,502	2,506
Official development assistance	708	736	804	827	971	1,214	1,111	961	861	861
Tax receivable write-down and impairments	829	1,356	882	662	1,453	1,200	1,100	960	980	980
Science expenses	103	113	121	114	128	122	118	123	127	127
Crown Research Institutes: COVID-19	..	45	45	..	..	..	..	..	..	..
Shovel ready project funding	..	..	137	..	28	25	..	..	..	..
Indemnity and guarantee expenses	16	14	6	3	3	37	31	25	24	23
North Island weather events	..	..	..	..	..	1,210	219	149	102	77
Non-departmental expenses	961	785	905	928	1,171	317	240	899	728	691
Other expenses[1]	350	785	583	709	316	986	719	556	439	411
Core government service expenses	**5,166**	**6,083**	**5,754**	**5,720**	**6,806**	**8,163**	**6,225**	**6,249**	**5,763**	**5,676**

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

Source: The Treasury

Table 5.8 – Law and order expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Police	1,760	1,997	2,079	2,206	2,476	2,523	2,324	2,342	2,321	2,314
Department of Corrections	1,417	1,527	1,641	1,645	1,798	1,961	1,945	1,976	1,975	1,973
Ministry of Justice	542	591	642	704	748	846	814	816	816	815
NZ Customs Service	187	201	182	200	201	226	241	225	224	224
Other departments	111	163	178	152	221	259	241	238	238	238
Departmental expenses	**4,017**	**4,479**	**4,722**	**4,907**	**5,444**	**5,815**	**5,565**	**5,597**	**5,574**	**5,564**
Non-departmental outputs	457	419	477	537	712	747	699	664	667	669
Other expenses	151	13	3	..	9	41	36	35	35	35
Law and order expenses	**4,625**	**4,911**	**5,202**	**5,444**	**6,165**	**6,603**	**6,300**	**6,296**	**6,276**	**6,268**

Source: The Treasury

Table 5.9 – Transport and communication expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	60	70	73	82	124	168	124	125	88	88
Waka Kotahi NZ Transport Agency	2,601	2,719	3,122	2,782	2,212	3,128	4,463	4,786	5,050	4,711
Rail funding	3	3	13	310	567	1,039	482	350	15	..
Funding to support the aviation and transport industries	..	78	570	554	197	148	..	..	..	..
Funding to support Waka Kotahi NZ Transport Agency due to impact of COVID-19	..	..	322	128	18	66	..	..	..	..
Shovel ready project funding to Crown Infrastructure Partners	..	..	1,035	..	..	326	..	..	..	..
Transport temporary relief package[1]				411	1,613	..	..	..	..	..
North Island weather events	..	..	..	..	250	431	42	..	..	..
Other non-departmental expenses	158	145	169	200	395	401	215	179	171	155
Other expenses[2]	67	164	352	190	96	515	198	135	138	138
Transport and communication expenses	**2,889**	**3,179**	**5,656**	**4,657**	**5,472**	**6,222**	**5,524**	**5,575**	**5,462**	**5,092**

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

Source: The Treasury

Table 5.10 – Economic and industrial services expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	499	561	633	626	695	757	715	704	682	681
Employment initiatives	10	5	4	4	4	4	4	4	4	4
Non-departmental outputs[1]	1,328	1,614	1,976	1,697	1,569	1,574	1,595	1,488	1,310	1,195
KiwiSaver (includes HomeStart grant)	951	893	916	964	997	1,061	1,119	1,166	1,214	1,263
Initial fair value write-down on the Small Business Cashflow Scheme loans	..	686	143	230	54	2	..	..	..	..
COVID-19 Resurgence Support payments	..	..	200	4,019	..	..	..	..	..	..
Shovel ready project to support energy projects	..	..	24	14	13	106	..	..	..	..
Shovel ready project funding to support regional projects	..		159	174	67	..	..	..	..	..
Worker redeployment package	..	19	50	6	1	1	..	..	..	..
Other expenses[2]	218	210	376	344	290	798	253	229	208	165
Economic and industrial services expenses	**3,006**	**3,988**	**4,481**	**8,078**	**3,690**	**4,303**	**3,686**	**3,591**	**3,418**	**3,308**

1. From 2019 onwards, non-departmental outputs includes Provincial Growth Fund expenses.
2. The '2020 Actual' to '2022 Actual' other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.11 – Defence expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
New Zealand Defence Force expenses	2,286	2,418	2,531	2,672	2,754	3,051	3,084	3,091	3,094	3,094
Other expenses	109	81	133	160	132	123	161	172	163	164
Defence expenses	**2,395**	**2,499**	**2,664**	**2,832**	**2,886**	**3,174**	**3,245**	**3,263**	**3,257**	**3,258**

Source: The Treasury

Table 5.12 – Heritage, culture and recreation expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	305	326	379	374	449	486	490	526	501	475
Non-departmental outputs	538	627	884	809	837	870	849	823	792	792
Screen Production Grants	42	31	48	69	66	86	37	..	..	..
COVID-19 cultural sector response	..	..	6	73	70	37	1	..	..	..
Other expenses[1]	33	122	103	143	115	111	40	45	54	57
Heritage, culture and recreation expenses	**918**	**1,106**	**1,420**	**1,468**	**1,537**	**1,590**	**1,417**	**1,394**	**1,347**	**1,324**

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

Source: The Treasury

Table 5.13 – Primary services expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental expenses[1]	677	727	691	724	788	893	831	822	795	795
Non-departmental outputs	110	89	178	106	149	163	215	200	180	149
Other expenses[1,2,3]	173	145	146	119	219	318	146	122	98	99
Primary services expenses	**960**	**961**	**1,015**	**949**	**1,156**	**1,374**	**1,192**	**1,144**	**1,073**	**1,043**

1. From '2019 Actual' other expenses and departmental expenses includes costs associated with Mycoplasma bovis.
2. From 2019 onwards other expenses includes funding for forestry grants and partnership programmes.
3. From 2023 onwards other expenses includes aquaculture settlements, expenses associated with sustainable food and fibre futures and the North Island weather events.

Source: The Treasury

Table 5.14 – Housing and community development expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Departmental outputs	195	220	237	255	259	317	205	201	230	240
Housing subsidies	4	4	3	4	4	11	4	4	4	4
Community services	183	235	349	438	477	481	424	401	400	400
Housing Acceleration Fund	..	..	..	22	30	263	200	220	155	..
Water infrastructure	..	..	267	239	301	529	474	293	89	..
Shovel ready project funding to support housing projects	..	..	46	35	39	158	..	..	..	..
Other non-departmental expenses[1]	267	476	775	925	958	1,617	1,452	1,266	1,340	1,301
Warm up New Zealand[2]	16	47	99	62	34	16	97	111	126	126
Other expenses	62	33	37	53	210	138	3	105	47	4
Housing and community development expenses	**727**	**1,015**	**1,813**	**2,033**	**2,312**	**3,530**	**2,859**	**2,601**	**2,391**	**2,075**

1. From 2019 onwards, KiwiBuild and transitional housing costs are included in non-departmental expenses.
2. Previously included in other non-departmental expenses.

Source: The Treasury

Table 5.15 – Environmental protection expenses

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
NZ Emissions Trading Scheme	543	650	875	1,498	1,113	1,495	1,519	1,592	1,683	1,780
Departmental outputs	460	542	614	690	776	989	853	816	801	799
Non-departmental outputs	82	257	318	170	165	416	290	193	154	142
Clean car discount	..	..	..	128	203	179	153	134	128	128
Accelerating energy efficiency and fuel switching[1]	..	..	..	..	2	81	248	263	240	140
Other expenses	34	36	99	63	122	63	100	88	82	84
Environmental protection expenses	**1,119**	**1,485**	**1,906**	**2,549**	**2,381**	**3,223**	**3,163**	**3,086**	**3,088**	**3,073**

1. This relates to appropriations with MBIE to decarbonise industrial and commercial processes.

Source: The Treasury

Table 5.16 – Finance costs

($millions)	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Interest on financial liabilities	3,398	2,971	1,846	2,796	6,154	8,264	9,210	9,885	10,729	11,491
Interest unwind on provisions	293	257	72	88	415	576	528	481	452	437
Finance costs expenses	**3,691**	**3,228**	**1,918**	**2,884**	**6,569**	**8,840**	**9,738**	**10,366**	**11,181**	**11,928**

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

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

Appropriations

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

Baselines

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

Consumers Price Index (CPI)

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

Contingent assets

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

Contingent liabilities

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

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZ Super Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 101 to 104).

Core Crown expenses

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

Core Crown revenue

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

Corporate tax

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

Current account (balance of payments)

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

Cyclically-adjusted balance (CAB) and structural balance

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

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

Demographic changes

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

Domestic bond programme

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

Excise duties

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

Financial assets

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

Financial liabilities

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

Fiscal drag

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

Forecast new capital spending

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

Forecast new operating spending

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

Gains and losses

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

GDP deflator

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

Generally accepted accounting practice (GAAP)

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

Gross domestic product (GDP)

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

Gross domestic product (expenditure)

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

Gross domestic product (nominal)

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

Gross domestic product (production)

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

Gross domestic product (real)

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

Gross national expenditure (GNE)

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

Gross sovereign-issued debt (GSID)

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

Insurance liabilities

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

Inter-segment eliminations

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

Labour Cost Index (LCI)

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

Labour force participation rate

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

Labour productivity

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

Loan-to-value ratio restrictions

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

Marketable securities

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

Minority interest

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

Monetary conditions

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

Monetary policy

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

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

Multi-factor productivity

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

National saving

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

Net core Crown cash flow from operations

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

Net debt

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

In 2022, net debt replaced net core Crown debt as the Government's primary debt indicator.

Net international investment position (NIIP)

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

Net worth attributable to the Crown

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

New Zealand Activity Index (NZAC)

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

Operating balance

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

Operating balance before gains and losses (OBEGAL)

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

Output gap

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

Outputs

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

Potential output

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

Productivity

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

Residual cash

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

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

Settlement cash

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

Specific fiscal risks

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

System of National Accounts (SNA)

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

Tax revenue

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

Terms of trade

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

Top-down adjustment

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

Total borrowings

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

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs and other entities controlled by the Government Reporting Entity as listed on pages 101 to 104.

Total fiscal impulse

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

Tradable/non-tradable output

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

Trade Weighted Index (TWI)

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

Underutilisation rate

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

Votes

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

Year ended

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

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983	108,458	112,358	122,025	129,701	138,139	146,238	153,998
Core Crown revenue	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968	117,515	123,398	135,740	143,458	151,992	160,307	168,581
Total Crown revenue	88,536	93,805	97,416	103,422	109,973	119,142	116,003	129,335	141,627	153,011	167,330	175,116	184,705	194,197	203,356
Core Crown expenses	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764	125,641	127,574	140,286	144,741	151,061	155,948	161,221
Total Crown expenses	91,179	93,064	95,137	99,007	104,014	111,376	138,916	133,722	150,956	161,822	176,155	180,794	187,744	193,602	199,490
Operating balance (excluding minority interests)	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,932)	5,321	(6,873)	(174)	2,897	6,968	10,741
Fiscal strategy indicators															
OBEGAL (excluding minority interests)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(9,446)	(9,319)	(6,135)	(3,468)	140	3,356
Core Crown residual cash	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(25,648)	(25,831)	(3,139)	(1,933)	(4,991)	3,583
Net debt	25,208	22,825	23,193	16,249	11,219	5,432	35,710	35,921	61,850	71,367	97,414	102,654	107,749	107,399	99,118
Net debt (excl. NZS Fund)	51,333	52,131	53,229	51,548	50,763	50,822	79,930	95,188	117,115	136,268	166,052	176,064	186,713	192,361	190,239
Gross debt[1]	81,956	86,125	86,928	87,141	88,053	84,449	102,257	100,835	118,950	135,789	166,640	191,665	211,668	227,820	229,139
Net core Crown debt[2]	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080	128,873	155,273	182,755	186,112	188,481	194,708	192,848
Statement of financial position															
Total assets	256,824	279,214	292,679	313,609	339,932	364,652	393,400	438,596	501,844	536,666	556,635	575,037	598,903	621,314	640,097
Total liabilities	176,127	186,978	197,158	197,137	204,295	221,313	277,457	281,403	327,525	345,194	371,154	389,949	410,910	426,349	434,320
Net worth	80,697	92,236	95,521	116,472	135,637	143,339	115,943	157,193	174,319	191,472	185,481	185,088	187,993	194,965	205,777
Net worth attributable to the Crown	75,486	86,454	89,366	110,532	129,644	136,949	110,320	151,469	167,036	183,514	177,160	176,810	179,686	186,602	197,311
Nominal expenditure GDP (revised)	236,911	245,584	258,814	275,514	295,623	310,274	317,159	343,035	363,617	395,937	419,982	439,736	463,604	488,586	513,024
% GDP															
Revenue and expenses															
Core Crown tax revenue	26.0%	27.1%	27.2%	27.5%	27.1%	27.9%	26.8%	28.6%	29.9%	28.4%	29.1%	29.5%	29.8%	29.9%	30.0%
Core Crown revenue	28.3%	29.4%	29.4%	29.7%	29.4%	30.1%	29.0%	30.6%	32.4%	31.2%	32.3%	32.6%	32.8%	32.8%	32.9%
Total Crown revenue	37.4%	38.2%	37.6%	37.5%	37.2%	38.4%	36.6%	37.7%	39.0%	38.6%	39.8%	39.8%	39.8%	39.7%	39.6%
Core Crown expenses	30.0%	29.5%	28.6%	27.7%	27.3%	28.0%	34.3%	31.4%	34.6%	32.2%	33.4%	32.9%	32.6%	31.9%	31.4%
Total Crown expenses	38.5%	37.9%	36.8%	35.9%	35.2%	35.9%	43.8%	39.0%	41.6%	40.9%	41.9%	41.1%	40.5%	39.6%	38.9%
Operating balance (excluding minority interests)	1.2%	2.3%	(2.1%)	4.5%	2.8%	0.1%	(9.5%)	4.7%	(4.7%)	1.3%	(1.6%)	0.0%	0.6%	1.4%	2.1%
Fiscal strategy indicators															
OBEGAL (excluding minority interests)	(1.2%)	0.2%	0.7%	1.5%	1.9%	2.4%	(7.3%)	(1.3%)	(2.7%)	(2.4%)	(2.2%)	(1.4%)	(0.7%)	0.0%	0.7%
Core Crown residual cash	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.5%)	(4.0%)	(7.4%)	(6.5%)	(6.2%)	(0.7%)	(0.4%)	(1.0%)	0.7%
Net debt	10.6%	9.3%	9.0%	5.9%	3.8%	1.8%	11.3%	10.5%	17.0%	18.0%	23.2%	23.3%	23.2%	22.0%	19.3%
Net debt (excl. NZS Fund)	21.7%	21.2%	20.6%	18.7%	17.2%	16.4%	25.2%	27.7%	32.3%	34.4%	39.5%	40.0%	40.3%	39.4%	37.1%
Gross debt[1]	34.6%	35.1%	33.6%	31.6%	29.8%	27.2%	32.2%	29.4%	32.8%	34.3%	39.7%	43.6%	45.7%	46.6%	44.7%
Net core Crown debt[2]	25.3%	24.7%	23.9%	21.6%	19.4%	18.6%	26.3%	29.8%	35.5%	39.2%	43.5%	42.3%	40.7%	39.9%	37.6%
Statement of financial position															
Total assets	108.4%	113.7%	113.1%	113.8%	115.0%	117.5%	124.0%	127.9%	138.2%	135.5%	132.5%	130.8%	129.2%	127.2%	124.8%
Total liabilities	74.3%	76.1%	76.2%	71.6%	69.1%	71.3%	87.5%	82.0%	90.2%	87.2%	88.4%	88.7%	88.6%	87.3%	84.7%
Net worth	34.1%	37.6%	36.9%	42.3%	45.9%	46.2%	36.6%	45.8%	48.0%	48.4%	44.2%	42.1%	40.6%	39.9%	40.1%
Net worth attributable to the Crown	31.9%	35.2%	34.5%	40.1%	43.9%	44.1%	34.8%	44.2%	46.0%	46.3%	42.2%	40.2%	38.8%	38.2%	38.5%

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

Economic Indicators

June Years	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.6	3.6	4.7	6.3	4.7	4.2	-1.3	7.7	1.2	3.2	-0.7	0.9	2.7	2.9	2.8
Public consumption	3.0	3.3	1.2	2.9	4.3	3.1	6.5	7.7	7.8	0.1	-0.5	-2.3	0.6	0.4	0.0
TOTAL CONSUMPTION	3.5	3.5	3.9	5.5	4.6	3.9	0.5	7.7	2.8	2.4	-0.7	0.1	2.2	2.3	2.2
Residential investment	13.2	6.3	10.1	3.9	-1.0	1.4	-4.4	16.3	-5.5	3.4	-3.8	-2.0	1.0	3.4	4.8
Business investment	9.0	6.9	1.3	1.2	12.2	4.7	-2.9	8.7	7.1	4.8	-2.2	0.2	3.5	5.0	2.9
TOTAL INVESTMENT	10.0	6.8	3.5	1.9	8.6	3.9	-3.2	10.5	3.9	4.5	-2.6	-0.3	2.9	4.7	3.3
Stock change (contribution to growth)	0.5	0.0	-0.3	0.4	0.2	-0.6	-0.3	0.2	0.8	-1.3	0.3	0.4	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	4.8	4.0	3.3	5.0	5.8	3.3	-0.7	8.6	4.0	1.5	-0.1	0.0	2.4	2.9	2.5
Exports	0.3	6.4	6.3	0.9	4.0	3.3	-5.3	-10.9	-3.1	11.9	6.0	5.9	3.8	3.2	2.9
Imports	9.0	6.9	2.1	6.1	8.6	2.8	-5.8	-4.2	12.2	3.3	-2.5	1.5	2.3	2.7	2.2
EXPENDITURE ON GDP	2.3	4.0	4.4	3.6	4.6	3.4	-0.7	6.7	0.5	3.3	1.5	1.4	2.8	3.0	2.6
GDP (production measure)	2.8	4.1	3.8	3.5	3.6	3.2	-0.7	6.0	1.2	3.2	1.5	1.5	2.8	3.0	2.7
- annual % change	2.8	4.1	4.1	3.4	3.8	2.7	-9.9	18.4	0.7	1.8	1.6	1.7	3.3	2.9	2.6
Real GDP per capita	1.6	2.1	1.6	1.3	1.7	1.5	-2.7	4.7	0.9	2.3	-0.7	-0.1	1.5	1.8	1.5
Nominal GDP (expenditure basis)	8.3	3.7	5.4	6.5	7.3	5.0	2.2	8.2	6.0	8.9	6.1	4.7	5.4	5.4	5.0
GDP deflator	5.8	-0.3	0.9	2.7	2.6	1.5	2.9	1.3	5.4	5.4	4.5	3.3	2.6	2.3	2.3
Output gap (% deviation, June year average)	-1.7	-0.9	-0.4	0.0	0.7	1.3	0.7	1.7	2.6	1.4	0.3	-0.9	-0.7	-0.2	0.0
Employment	3.4	3.6	2.7	5.3	3.6	2.0	1.6	0.6	2.7	2.5	1.4	0.4	1.4	1.7	1.5
Unemployment (% June quarter s.a.)	5.3	5.5	5.1	4.9	4.6	4.1	4.1	4.0	3.3	3.6	4.5	5.2	4.8	4.6	4.4
Wages (average ordinary-time hourly, ann % change)	2.3	2.5	2.4	2.5	2.8	4.0	2.9	4.0	6.3	6.9	6.2	5.1	3.9	3.5	3.3
CPI inflation (ann % change)	1.6	0.4	0.4	1.7	1.5	1.7	1.5	3.3	7.3	6.0	4.1	2.5	2.2	2.0	2.0
Merchandise terms of trade (SNA basis)	16.4	-4.8	-2.0	4.3	4.7	-2.8	4.4	-0.2	2.8	-6.5	-2.0	-0.2	1.2	0.9	0.7
House prices (ann % change)	6.3	11.8	15.0	6.5	3.6	1.5	7.1	29.6	5.3	-9.1	5.3	0.7	1.7	3.3	4.8
Current account balance - $billion	-5.9	-8.3	-5.3	-7.1	-10.7	-10.9	-4.9	-11.4	-28.8	-29.6	-23.9	-21.7	-19.0	-17.7	-16.4
Current account balance - % of GDP	-2.5	-3.4	-2.0	-2.6	-3.6	-3.5	-1.5	-3.3	-7.9	-7.5	-5.7	-4.9	-4.1	-3.6	-3.2
TWI (June quarter)	81.5	76.2	73.6	76.5	73.8	72.7	69.7	74.7	72.2	70.9	69.8	69.1	68.6	68.1	67.7
90-day bank bill rate (June quarter)	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.3	2.2	5.6	5.7	4.9	3.6	2.9	2.6
10-year bond rate (June quarter)	4.4	3.6	2.7	2.9	2.8	1.8	0.8	1.7	3.7	4.3	5.1	4.9	4.7	4.6	4.4