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# Half Year Economic and Fiscal Update 2025

## Supplementary Information

The following information forms part of the *Half Year Economic and Fiscal Update 2025 (Half Year Update)* released by the Treasury on 16 December 2025. This information provides further details on the *Half Year Update* and should be read in conjunction with the published document. The additional information includes:

- **Principles applied when assessing Specific Fiscal Risks** – outline of the principles.
- **Unchanged Specific Fiscal Risks** – descriptions of risks.
- **Unchanged Contingent liabilities and assets** – descriptions of contingent liabilities and assets.
- **Detailed economic forecast information** – breakdowns of the economic forecasts.
- **Tax revenue uncertainty and forecast performance** – an illustration of the uncertainty around the tax and economic forecasts.
- **Cyclically adjusted balance, structural balance and fiscal impulse** – charts and data for the cyclically adjusted balance and structural balance derived from both OBEGAL and OBEGALx.
- **Accounting policies** – outline of the specific Crown accounting policies.

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## Principles Applied when Assessing Specific Fiscal Risks

The Treasury applies the following principles in assessing whether a decision or other circumstance meets the definition of a specific fiscal risk:

Risk type	Principles	Examples of how the principle has been applied
<p>Risks associated with assumptions used in the forecast for revenue and expenses and valuation of assets and liabilities (eg, discount rates, cash flow assumptions, economic conditions)</p>	<p>The forecasts for some revenue and expense items and the valuation of some assets and liabilities included in the fiscal forecasts can be subject to significant assumptions. These assumptions may change in the future and impact on the fiscal position.</p> <p>However, revenue, expenses, assets and liabilities are measured or valued at a point in time using the best available information and accepted forecasting and valuation techniques and assumptions, which means they are quantified in the fiscal forecasts for particular years with reasonable certainty.</p> <p>Significant assumptions are disclosed in the fiscal forecasts as required by generally accepted accounting practice (GAAP), and the Financial Statements of the Government provide further disclosures around the sensitivity of changes in key assumptions to the measurement and valuation of revenue, expenses, assets and liabilities.</p> <p>Where there is a government decision or other circumstance that creates uncertainty for the measurement or valuation of revenue, expenses, assets or liabilities (such as a review of policy settings or impending Court decisions that may impact assumptions used), these may be disclosed as a specific fiscal risk.</p>	<p>Specific fiscal risks are not included for most revenue or expense items or for assets or liabilities that are subject to valuation techniques that require significant assumptions, for example:</p> <ul style="list-style-type: none"> <li>• tax revenue</li> <li>• student loans</li> <li>• revalued property, plant and equipment.</li> </ul> <p>While the valuation of the ACC claims liability in general is not included as a specific fiscal risk, risks to the liability arising from changes to the scheme's policy settings from Court decisions is disclosed as a specific fiscal risk.</p>

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

Risk type	Principles	Examples of how the principle has been applied
<p>Risks to the fiscal forecasts from changes in accounting policy</p>	<p>The forecast financial statements included in the <i>Half Year Economic and Fiscal Update</i> are prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government.</p> <p>Changes to accounting policies can arise from new accounting standards issued by standard setters, new interpretations of existing standards or evolving application of policies (particularly where there are unique or novel transactions or balances). Future changes to accounting policies may have significant implications for the fiscal forecasts.</p> <p>Generally, a specific fiscal risk is not included for future accounting policy changes. Until applied, these are subject to changes and amendments. Where a detailed impact assessment of a required policy change has been completed, it will be included in the forecasts. Prior to that point, it is unlikely that the materiality and probability requirements will be met. However, when it is reasonably possible that the change will occur in the forecast period and material fiscal impacts are reasonably possible, a specific fiscal risk may be disclosed.</p>	<p>The <i>Implementation of New Insurance Accounting Standard</i> risk explains that a new accounting standard for insurance activities, required to be adopted in the 2026/27 financial year, may result in a material reduction to the measurement of insurance liabilities, particularly for ACC. This is reflected as a specific fiscal risk as while the specific accounting treatment is still being developed, a detailed impact assessment has been completed and material fiscal impacts are reasonably possible.</p>
<p>Risks aggregated into a cross-portfolio risk</p>	<p>Generally, cross-portfolio risks are a single risk that can affect more than one portfolio. In some instances, several risks at an individual portfolio level can be aggregated into a cross-portfolio risk.</p> <p>A high bar is applied as to whether individual risks are aggregated into a cross-portfolio risk. The underlying nature and driver of the risks must be the same, and there must be no loss of information from aggregating risks. If there is doubt, risks are individually disclosed as specific fiscal risks by portfolio.</p>	<p>A cross-portfolio risk is included for pay equity claims as the driver of the risk (the requirements of the Equal Pay Act 1972) is the same across portfolios and there is no loss of information from aggregating these risks.</p>

Risk type	Principles	Examples of how the principle has been applied
Risks associated with contingent liabilities and contingent assets	<p>Contingent liabilities and contingent assets are disclosed separately to specific fiscal risks in this chapter. This typically covers risks associated with guarantees and indemnities, uncalled capital, and legal disputes and claims.</p> <p>There is a link between specific fiscal risk disclosures and the contingent liabilities and contingent assets disclosure. However, in general, contingent liabilities and contingent assets are not also disclosed as specific fiscal risks.</p>	<p>Guarantees, indemnities and uncalled capital are not disclosed as specific fiscal risks as they are separately disclosed in the statement of contingent liabilities and contingent assets.</p> <p>Individual legal disputes and claims disclosed as contingent liabilities or contingent assets are not disclosed as specific fiscal risks unless the claim could change the scope of policies included in the fiscal forecasts. For example, an individual claim against ACC would not be included as a specific fiscal risk. However, a claim that could significantly change the scope of the scheme overall could be.</p>

## Descriptions of Unchanged Specific Fiscal Risks

Unchanged specific fiscal risks are those risks where there is no change to the nature or substance of the risk since the *Budget Economic and Fiscal Update 2025*, even if the size of the risk has changed. This includes risks that have updated narratives because of wording changes for clarity or that have been amended to reflect present circumstances. These changes do not reflect a change in the underlying risk.

The full statement of specific fiscal risks and descriptions of new and changed risks are included in the *Half Year Economic and Fiscal Update 2025*.

## Commitment or Announced Intent That May Have Fiscal Implications

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

### Climate Change

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

The Climate Change Response (Zero Carbon) Amendment Act 2019 sets domestic greenhouse gas targets for New Zealand. It also requires the Government to set and achieve emissions budgets, with the first three emissions budgets covering 2022 to 2035. The Government released its second emissions reduction plan in December 2024, which outlines policies and strategies to achieve these emissions budgets. Many of these policies do not require additional funding. However, if policies require new funding from the Government, this will have an impact on the operating balance and net core Crown debt.

New Zealand also has international obligations under the Paris Agreement, including relating to our first and second Nationally Determined Contributions (NDCs), which cover the periods 2021 to 2030 (NDC1) and 2031 to 2035 (NDC2) respectively. NDCs are countries' self-determined plans detailing what they will do to reduce their emissions in support of the international goal of limiting global warming to 1.5°C. Sizeable offshore abatement would be needed to meet NDC1 on top of domestic commitments without other interventions. Scenarios showing the possible fiscal impact of this offshore abatement were set out in the Climate Economic and Fiscal Assessment 2023. While the Government has choices about how it achieves NDC1, it is likely that meeting this target would involve significant costs, starting within the current fiscal forecast period. The Government set a target range for the NDC2 earlier this year. The lower end of the target range for NDC2 aligns with the reductions required to meet the third domestic emissions budget (2031 to 2035), so the fiscal risks associated with this target are similar to those associated with meeting domestic emissions budgets for the same period.

## Emergency Management and Recovery

### ***Response to the Report of the Government Inquiry into the Response to the North Island Severe Weather Events (Expenses and Capital)***

On 10 October 2024, the Government released its response to the Report of the Government Inquiry into the Response to the North Island Severe Weather Events, agreeing to its 14 headline recommendations. The level of new funding required to implement the recommendations will be subject to future decisions.

## Finance

### ***Cook Strait Ferry Replacement and Enabling Infrastructure (Expenses and Capital)***

The Government has announced a programme to replace the current Interislander ferry fleet and deliver enabling infrastructure. Funding has been set aside and reflected in the fiscal forecasts for this programme. However, there remains a risk that the timing, nature and costs of the programme may differ to what has been reflected in the fiscal forecasts.

### ***Potential Capital Raise for Kiwibank (Capital)***

The Government has announced that Kiwi Group Capital Limited is studying the feasibility of raising up to \$500 million in new capital for Kiwibank from suitable third parties. If the Government agrees to progress with a capital raise, it will have impacts on the fiscal forecasts presented in this *Half Year Update*.

## Housing

### ***Going for Housing Growth – Incentives for Communities and Councils to Support Growth (Revenue and Expenses)***

The Government has agreed to progress work on the Going for Housing Growth package. This includes incentives for communities and councils to support growth. The nature of incentives has not been determined, as advice on this is still under development.

## Science, Innovation and Technology

### ***Science, Innovation and Technology Reform (Expenses and Capital)***

The Government has agreed to progress a set of reforms to the science, innovation and technology system. These are primarily organisational changes to entities and are assumed to have no fiscal impacts. However, further decisions related to the reforms are still to be made and there is a risk that there may be a fiscal impact based on these decisions.

## Tertiary Education

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

The Government has agreed to disestablish Te Pūkenga | New Zealand Institute of Skills and Technology (NZIST) and establish a new independent network to restore regional decision making for Institutes of Technology and Polytechnics (ITPs) and Industry Skills Boards (ISBs). The Government has also agreed to establish ten polytechnics, with four former polytechnics remaining with NZIST until further decisions are made in 2026. Additional investment may be required to support the ongoing viability of ITPs and for ISBs to deliver their functions.

## Transport

### ***Transport Project Funding (Revenue, Expenses and Capital)***

The Government has signalled transport investments additional to what has already been supported through the Government Policy Statement (GPS) on land transport 2024. These investments are largely unfunded, and some of these may fall outside the scope of the National Land Transport Fund (NLTF) or are only expected to be partially funded by the NLTF. Where some funding has been provided through the NLTF, this has only been committed for the first three years that the GPS and the latest National Land Transport Programme covers (2024/25 to 2026/27), but additional investment will likely be required to complete these projects as work will extend beyond 2026/27.

If the Government chooses to progress these investments, additional Crown funding, increases to land transport revenue or new revenue sources may be required. Additional investment priorities include the Roads of National Significance programme, the Auckland – Waitematā Harbour Crossing (an indicative business case is under development), Better Public Transport, an additional Mount Victoria tunnel and residual rail projects from the former New Zealand Upgrade Programme. Many of these costs fall outside the forecast period. There are additional pressures on existing transport projects such as City Rail Link that may result in increased cost escalation.

## Cross-portfolio

### ***Commitments Under the Coalition Agreements (Expenses and Capital)***

The coalition agreements between National and ACT and National and New Zealand First outline commitments that may have fiscal impacts. Most of these commitments have been funded by the Government and reflected in the fiscal forecasts or as separate specific fiscal risks. However, there are other commitments that are yet to be progressed and funded by the Government that may have fiscal impacts.

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

The Government has signalled continued commitment to the Smokefree Aotearoa 2025 goal that by the end of 2025 fewer than 5% of New Zealanders will be smokers. The New Zealand Health Survey indicates that 6.9% of New Zealanders were daily smokers in 2023/24. The introduction of further policies to reduce smoking would reduce tobacco excise revenue across the forecast period (currently forecast to be \$1.4 billion in 2025/26). In addition, any initiatives to achieve these goals may have additional costs to the Government.

## Time-limited Funding

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

### Education

#### ***Healthy School Lunches Programme (Expenses and Capital)***

Funding for the Healthy School Lunches Programme has been provided until the end of the 2026 school year. If the Government confirms a continuation or expansion of the programme thereafter, additional ongoing funding beyond that currently provided for will be required.

This time-limited funding ceases during 2026/27.

### Foreign Affairs

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

New Zealand's international climate finance commitment is \$1.3 billion over the four-year period from 2022 to 2025. While the timing and quantum of New Zealand's next international climate finance commitment for the period 2026 to 2030 are unknown, making a commitment at a similar level to the 2022 to 2025 commitment will require more funding.

Time-limited funding for New Zealand's current international climate finance commitment ceases during 2025/26.

### Transport

#### ***Rail Network Investment Programme (Revenue, Expenses and Capital)***

The Rail Network Investment Programme (RNIP) is a 10-year programme of planned network maintenance, operation and renewal of the national rail network. The RNIP is funded to 2026/27 and partially funded with track user charges estimated at \$20 million per annum beyond this point. From 2027/28 onwards Crown funding would be needed to top-up the Rail Network activity class to continue with core renewals and maintenance of the national rail infrastructure.

This time-limited funding ceases after 2026/27.

## Cross-portfolio

### ***New Zealand Screen Production Rebate (Expenses)***

The New Zealand Screen Production Rebate is an uncapped, on-demand rebate that incentivises production work (from both domestic and international studios) in New Zealand by offering a cash rebate on qualifying expenditure. At Budget 2025, additional funding was provided for the international rebate to meet expected costs across the forecast period. The domestic rebate is funded to meet expected costs until the end of 2026/27. Further funding for the domestic rebate will likely be needed to meet expected costs in 2027/28 and outyears. In addition, due to the uncapped and on-demand nature of the rebate, there remains a risk that costs for both the international and domestic rebates could vary from what has been included in the forecasts.

At the *Budget Update*, this risk was included in the changing demand and expectations on services category.

The time-limited funding for the domestic rebate ceases after 2026/27.

## Achieving Future Savings and Spending Constraint

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

### Health

#### ***Health New Zealand Operating Deficit (Expenses and Capital)***

Health New Zealand has recorded significant operating deficits, and the Health Delivery Plan sets out a plan to return Health New Zealand to its budgeted funding level. There is a risk that delivery of the Health Delivery Plan is slower than forecast, which would impact the Government's operating balance. In addition, there is a risk that the Crown may be required to provide further funding to support Health New Zealand if the outcomes of the Health Delivery Plan fail to materialise.

### Social Development and Employment

#### ***Social Development Forecast Savings (Expenses)***

The fiscal forecasts include savings agreed in Budget 2025 from policy changes that aim to decrease the number of Jobseeker Support and emergency housing recipients and improve the accuracy of the Ministry of Social Development's payments. The fiscal forecasts also include savings from the Ministry of Social Development's Services for the Future transformation programme, which is now in the delivery phase. There is a risk that the actual impact of these changes differs from these forecasts.

## Capital Cost Escalation

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

### Transport

#### ***Roads of Regional Significance (Expenses and Capital)***

The Government Policy Statement (GPS) on land transport sets out a series of strategically important projects for New Zealand's transport system called Roads of Regional Significance. Although referenced in the GPS, these projects are funded outside the National Land Transport Fund. With a significant level of planning still required for many projects, there is a risk that further funding is required to complete these projects.

## Potential Fiscal Implications of Reviews or Litigation

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

### ACC

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

Accident Compensation scheme boundaries and entitlements are subject to expansion and contraction through regulatory and legislative changes. From time to time, Court decisions can also expand the application of the scheme, which can also have significant fiscal impacts. These may 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.

### Disability Issues

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

In 2021, the Ombudsman 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.

### Transport

#### ***Metropolitan Rail Networks (Expenses and Capital)***

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

### Treaty of Waitangi Negotiations

#### ***Treaty Settlement Forecasts (Expenses)***

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

## **Cross-portfolio**

### ***Pay Equity Claims (Expenses)***

A number of claims were raised and some settled under the 2020 pay equity amendments to the Equal Pay Act 1972. The forecasts include an estimate of the expected costs to settle future public sector claims following further amendments to the Equal Pay Act 1972 enacted on 13 May 2025. The Government also chose to manage any contributions to claims settled in the funded sector through Budget allowances. There is a risk that the fiscal costs of pay equity claims may differ from what is currently expected depending on the number of claims that are raised under the new law, the outcomes reached through negotiation in each claim, and the level of Government support for pay equity settlements in the funded sector.

## Changing Demand and Expectations on Services

The following section outlines risks where there is changing demand for a service or good, or changed expectations on the level of service, that may increase or decrease costs beyond the funding allocated. This may be driven by changes in policy or through external factors such as technological advances or behavioural change. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

### Children

#### ***Enabling Communities and Iwi to Help Children (Expenses)***

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

### Corrections

#### ***Increasing Prison Population (Expenses and Capital)***

There has been a significant increase in the prison population since April 2023. Recent and future justice policy changes, including changes to sentencing legislation, are likely to further increase the prison population. While funding has been provided in Budget 2024 and Budget 2025 to address the immediate impact, there remains a risk that further funding is needed if the increase in prison numbers is higher than allowed for in the fiscal forecasts. This creates an additional cost pressure relating to reconditioning retired capacity within the existing prison network, maintaining safe staffing ratios, prisoner upkeep and potential capital costs to enable additional capacity.

### Disability Issues

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

Disability Support Services is likely to face significant operating pressures to maintain the delivery of existing services. The main drivers are volume (both a growing number of people accessing support and increased level of support for existing clients) and price (largely comprising wage and inflationary pressures on non-Government providers).

### Education

#### ***Learning Support (Expenses and Capital)***

The Ministry of Education faces several pressures relating to learning support that may not be able to be met within existing baselines, including workforce and inflationary pressures, notwithstanding significant Budget 2025 investment. Additionally, several reviews have led to proposals for additional and expanded learning support, which may require additional funding. This includes work addressing workforce pressures and vacancies within the existing learning support workforce and work to meet the different needs of all students.

## Internal Affairs

### ***Civil Registration Replacement (Expenses and Capital)***

The Department of Internal Affairs' civil registration system is reaching the end of its useful life. Following the termination of the civil registration system replacement vendor contract on 1 December 2023, the Department returned unspent funding. Therefore, the delivery of any future replacement is currently unfunded.

## Tertiary Education

### ***Financial Challenges Across Universities (Capital)***

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

### ***Tertiary Tuition and Training Funding Baseline Pressure (Expenses)***

Demand for tertiary education and training is currently forecast to exceed the volume able to be funded by current baselines. Additionally, while time-limited subsidy increases for higher education agreed in 2023 have now been funded permanently, this is on a reduced basis. Additional funding may be required to continue meeting learner demand and inflationary pressures.

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

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

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

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

## Cross-portfolio

### ***Government Targets (Expenses and Capital)***

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

## Forecast Dependent on a Status Quo That is Uncertain

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

### Corrections

#### ***Timing of Fiscal Impacts of Christchurch Men's Prison Public Private Partnership (Expenses and Capital)***

The Government has funded the redevelopment of Christchurch Men's Prison through a Public Private Partnership (PPP) as part of Budget 2025. While the funding for the project has been fully allocated into a tagged contingency the fiscal impacts may differ to what has been reflected in the forecasts once the PPP agreement is signed.

### Finance

#### ***Te Pae Christchurch Convention Centre Write-down Costs (Expenses)***

As part of the Greater Christchurch Recovery Plan, the Government entered into a Global Settlement Agreement with Christchurch City Council. That agreement included a commitment that the parties continue to engage on future ownership of Te Pae Convention Centre. Any future transfer of Te Pae could result in the write-down of the cost of the asset, which has been captured in the fiscal forecasts. However, the timing of actual transfer is uncertain, so it may differ to what has been reflected in the fiscal forecasts.

### Regional Development

#### ***Regional Infrastructure Fund (Expenses and Capital)***

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

### Revenue

#### ***Investment Boost (Revenue)***

The fiscal and economic impacts of Investment Boost are significant and have been based on some assumptions and judgements which have a degree of uncertainty. The modelled impacts use aggregate macroeconomic data as an input together with assumptions on coverage within the tax base, and forecasts of growth in investment. Variations in any of these factors can materially affect the fiscal and economic impacts of the policy.

### ***Potential Tax and Social Policy Changes (Revenue and Expenses)***

The refreshed Government's Tax and Social Policy Work Programme has projects that could have negative and positive fiscal impacts. Therefore, general tax policy settings and their collective fiscal implications are subject to change.

## **Transport**

### ***Auckland City Rail Link Ownership Issues (Expenses and Capital)***

The Government committed to fund 50% of the costs associated with the build of the City Rail Link project. Auckland Council has also committed to fund 50% of the project. Both the Crown and Auckland Council have treated the investment for the City Rail Link project as an equity investment into City Rail Link Limited (CRL) on the balance sheet. With the assets expected to be transferred from CRL to Auckland Transport and KiwiRail in late 2025, the fiscal forecasts assume the recognition of revenue from receiving vested assets, a corresponding expense incurred by CRL from vesting the assets and an impairment expense reflecting that the value of the assets received by the Crown will differ to the investment into CRL reported on the balance sheet. Overall, the divestment in CRL is expected to have an adverse impact on the operating balance of \$700 million in the 2025/26 year. However, there is a risk this could be higher or lower and the timing may differ from what is forecast.

### ***Forecast Operating and Capital Spending in the National Land Transport Programme (Expenses and Capital)***

Operating and capital expenditure is incurred on projects under the National Land Transport Programme (NLTP). The forecast split between operating and capital expenditure is based on best estimates at the time of the forecasts, but there is inherent uncertainty particularly given the nature of the projects under the NLTP, the impact of delays and rescheduling of projects across the forecast period and potential changes in the accounting treatment of projects as they are completed.

## **Treaty of Waitangi Negotiations**

### ***Relativity Clause (Expenses)***

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds \$1.0 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of the Ngāi Tahu and Waikato-Tainui settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and 16.1% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

## **Cross-portfolio**

### ***Adverse Weather Events (Expenses and Capital)***

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

### ***Public Sector Employment Agreements (Expenses)***

All collective agreements in the public sector are due to be renegotiated over the forecast period. As well as direct fiscal implications for the employers of workforces covered by any changes to remuneration, the renegotiation of agreements can have flow-on effects for remuneration for other employers across the sector. In addition, there may be increased costs arising from increases in employer KiwiSaver contributions following Budget 2025 decisions.

## Forecast Risk

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

### Climate Change

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

New Zealand's Emissions Trading Scheme (ETS) involves auctioning a certain volume of New Zealand Units (units) each calendar year across four auctions. One unit represents one metric tonne of carbon dioxide equivalent. ETS auctions have two reserve prices that, if not met, can prevent units from being sold:

- Auction price floor: The price floor is the minimum price under regulations that units can be sold for at auction. It is set by the Government and published in advance.
- Confidential reserve price: The confidential reserve price is set by the Government ahead of each auction and prevents the sale of units at auction if the clearing price is significantly below prevailing secondary market prices.

If auctions are cancelled (if either of these thresholds are not met) or only partially clear (due to insufficient bids), some units will remain unsold. These unsold units are rolled over to remaining auctions in the same calendar year. If fewer units are sold in a given fiscal year than assumed in the forecasts, this results in lower cash proceeds from auctions, higher net core Crown debt and a reduced ETS liability (because the sale of units represents a liability for the Crown).

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

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

### Defence

#### ***Costs Associated with the Sinking of the HMNZS Manawanui (Expenses and Capital)***

The sinking of HMNZS Manawanui resulted in the value of the asset being written off and other costs incurred in response to the event. There may be further costs in future (for example, clean-up of the wreck), which at this stage are unclear.

## Finance

### ***Alternative Monetary Policy Tools (Expenses)***

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

### ***Natural Hazards Commission (Revenue, Expenses and Capital)***

The Natural Hazards Commission (NHC) engages independent professional actuaries to undertake half-yearly valuations of the total NHC 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 NHC'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.

In addition, the Government announced a review of the NHC's Funding and Risk Management Statement, including the NHC's financial settings and levy settings, in June 2024. The Treasury's consultation on changes to the financial settings and levy settings include options to increase the levy rate and the monetary cap on NHC building cover. While consultation has closed, the Government is yet to take any final decisions, and the fiscal forecasts do not include any potential increase to levies. Any increase to levy rates would have a positive impact on the operating balance.

## Housing

### ***Realising Sales of Land and Dwellings – Kāinga Ora (Expenses and Capital)***

There is a risk that costs and revenues differ from forecast expectations for the Kāinga Ora Land Programme and super lots in the Large-Scale Projects. There is a risk that divestments do not crystallise to the carrying value in the Crown accounts, which will adversely impact the operating balance.

## **Social Development and Employment**

### ***Ministry of Social Development's Services for the Future (Expenses and Capital)***

The Ministry of Social Development received funding in Budget 2025 to continue the delivery of its business transformation. The programme, which began in July 2023, is expected to be delivered over nine years and will transform how the Ministry operates. The Ministry is expected to deliver greater efficiencies and improve the effectiveness of services, thereby reducing benefit costs in the future. There is a risk that the remaining delivery and operating costs may differ from forecasts.

## **Veterans' Affairs**

### ***Veterans' Disability Entitlements Liability (Expenses)***

The fiscal forecasts include an estimate for the impacts on the veterans' disability entitlement liability following the recent decision by the Veterans' Entitlement Appeal Board. Given the high level of uncertainty around the impact of this decision, there is a risk the actual fiscal impact will differ to the amounts assumed in the fiscal forecasts.

## Unchanged Contingent Liabilities and Contingent Assets

Below are the descriptions on unchanged contingent liabilities and contingent assets from what was reported in the Financial Statements of the Government for the year ended 30 June 2025.

### 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 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". In addition to uncalled capital New Zealand also has an arrangement to borrow with one of these international organisations which constitutes a contingent liability.

#### ***Guarantees and indemnities***

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

Indemnities are legally binding promises where there is an undertaking 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***

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases have an adverse outcome. The amount shown is the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award.

*Inland Revenue – Legal tax proceedings*

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

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

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

*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.

*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 was appealed to the Court of Appeal by claimants and a hearing was held in July 2024 with a decision pending.

*Clean Car Standard credits*

The Clean Car Standard scheme became effective from 1 January 2023. Cars that are imported with a CO2 level above the Government mandated standard pay a charge. Cars that are imported with a CO2 level below the Government mandated standard receive a credit. The credit can either be used to offset a current charge, keep offsetting future charges or sold to another importer.

As at 31 October 2025, there were \$220 million of credits held by importers. Of this total, \$60 million is recorded as a provision on the basis that the credits may be used to offset \$60 million of current charges. The remaining \$160 million of credits are recorded as a contingent liability. NZTA's view is that, under the current policy settings of the scheme, it is more probable that the \$160 million of credits will not be used to offset future charges. This is based on NZTA's view that the current import trends (with more imported cars receiving credits than incurring charges) will not sufficiently reverse to enable use of the current level of credits beyond the provision. The residual amount is recorded as a contingent liability.

*Ministry for Primary Industries – Mycoplasma bovis compensation claims*

Litigation proceedings have been initiated against Biosecurity New Zealand claiming compensation under section 16A of the Biosecurity Act 1993 for an estimated loss in equity value of up to \$125 million. This claim related to the powers exercised by Biosecurity New Zealand in July 2017 to impose movement restrictions on properties owned by a large-scale dairy operator and to cull cattle suspected of having *Mycoplasma bovis*. While compensation payments have been made for losses arising from Biosecurity New Zealand's exercise of power upon detection of *Mycoplasma bovis*, the claimants are seeking compensation for potential loss in equity they believe they have suffered.

*Ministry of Justice – Waipāoa Remedies Inquiry*

In June 2025, a claim related to 4,883 hectares of the Mangatū Crown Forest Licensed land, including the Waipāoa blocks, was accepted by the Waitangi Tribunal for inquiry. The inquiry is at an early stage, and any recommendation for land transfer and associated compensation is likely to be several years away.

## Description of Quantifiable Contingent Assets

### **Other quantifiable contingent assets**

*Transpower New Zealand – Economic gains*

Transpower operates its revenue-setting methodology within an economic value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under Commerce Commission regulations, Transpower is required to pass onto, or claim from customers, the customer balance during the next Regulatory Control Period. When the balance is in gain, it is recorded as a contingent asset, and when it is in loss, it is recorded as a contingent liability.

The contingent asset amount of \$106 million provides the EV account balance for the disclosure year ended 30 June 2025.

## Description of Unquantifiable Contingent Liabilities

This part of the statement provides details of the contingent liabilities of the Crown which are not quantified, excluding those that are considered remote by the following categories: *Indemnities, Legal Claims and Proceedings, and Other unquantifiable 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 by the Crown to organisations consolidated 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 core Crown 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 with 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.
Genesis Energy	Genesis acquisition of Tekapo A and 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.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 50 of the District Court 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.
Natural Hazards Commission Toka Tū Ake	Section 112 of the Natural Hazards Insurance Act 2023	<p>As set out in the Natural Hazards Insurance Act 2023 the Government shall fund (by means of loan or grant) any deficiency in Natural Hazards Commission Toka Tū Ake assets held in the Natural Disaster Fund to cover its financial liabilities on such terms and conditions that the Minister determines.</p> <p>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 that are covered by the Natural Hazards Insurance Act 2023.</p>
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited	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.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	All loan and swap obligations of the New Zealand Railways Corporation. This includes such loans or swaps entered by NZRC on or prior to 31 December 2012 and vested in KiwiRail Holdings Limited Vesting Order 2012.
Southern Response Earthquake Services Limited (SRES)	Deed of indemnity	SRES continues to settle the claims of AMI residual policy holders for Canterbury earthquake damage that 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 that was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.
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: <ul style="list-style-type: none"> <li>• unauthorised, forged, or fraudulent payment instructions</li> <li>• unauthorised or incorrect direct debit instructions</li> <li>• letters of credit issued by WNZL in favour of a third party as part of providing transactional banking services to the Crown.</li> </ul>

### **Legal claims and proceedings**

There are numerous legal actions that have been brought against the Government. However, in the majority of these actions, it is considered a remote possibility that the Government would lose the case, or if the Government 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.

### *Ministry of Health – New Zealand College of Midwives class action*

In August 2022, the New Zealand College of Midwives filed a class action proceeding against the Ministry of Health on behalf of self-employed midwives over contractual issues. The High Court hearing was completed on 13 September 2024, there is still no indication when the decision following the hearing might be available.

### *Ministry of Social Development – Disability Support Services employment obligations*

The Ministry of Social Development, on behalf of the Crown, is currently a party in a number of Employment Relations Authority matters. These cases are awaiting the outcome of a Supreme Court appeal on whether people providing care to family in their own home – funded from Disability Support Services – are employees of the Crown. The Supreme Court considered this matter in April 2025, but it is unknown when the judgment will be released. The legal work and associated costs required to implement the Court's decision and apply it to the remaining cases is likely to continue past the current financial year.

### *Ministry of Transport – Public Works Act claims*

As of 31 October 2025, there is one claim before the Land Valuation Tribunal (LVT) or Courts where CRLL is either directly or indirectly involved as a party. This claim relates to compensation for the acquisition of land and a restrictive covenant. City Rail Link Limited continues to assess the compensation payable to those landowners to resolve outstanding claims. However, it is not possible to reliably estimate the obligations of CRLL or accurately predict whether any compensation offer will be acceptable to the landowner, each property owner being entitled to have compensation determined by the Land Valuation Tribunal.

### *Redress for historical abuse in care*

There are claims against the Crown relating to historical abuse in care. At this stage the number of claimants and the outcomes of these cases are uncertain. The disclosure of an amount for these claims may prejudice the legal proceedings.

### *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.

## ***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.

### *Losses under Section 28N of the Fisheries Act 1983*

On 27 March 2025, a High Court ruling concluded that the Crown is obliged to provide appropriate redress for the losses Māori have incurred as a result of historic quota allocation decisions under Section 28N of the Fisheries Act 1983. This ruling means the Crown is required to discuss redress with Iwi. There is a high degree of uncertainty when working out the amount of the Crown's potential obligation due to the availability of data and valuation method used. The Crown has appealed the High Court decision.

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

In addition to the quantifiable liabilities under section 162A of the Biosecurity Act 1993 (refer page 24), there are also unquantifiable contingent liabilities. In particular 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 being 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 13

*Treaty of Waitangi claims* – settlement relativity payments – See page 17

## Detailed Economic Forecast Information

This section includes tables with additional detail on the economic forecasts in the *Half Year Economic and Fiscal Update*.

The economic numbers and forecasts in this section were finalised on 28 October 2025.

<b>Table 1</b>	Real Gross Domestic Product
<b>Table 2</b>	Consumers Price Index and Trade-weighted exchange rate
<b>Table 3</b>	Expenditure on Gross Domestic Product and Gross Domestic Product (Income) in Current Prices
<b>Table 4</b>	Nominal Gross Domestic Product Components
<b>Table 5</b>	Real Gross Domestic Product Components
<b>Table 6</b>	Labour Market Indicators

**Table 1** – Real Gross Domestic Product

Production based chain volume series expressed in 2009/10 prices

Seasonally adjusted

	Quarterly \$ million	Quarterly % change	Annual % change	Annual average % change
2021Q4	68,102	4.0	2.6	5.7
2022Q1	68,075	0.0	0.5	4.6
2022Q2	68,827	1.1	0.7	0.7
2022Q3	70,249	2.1	7.3	2.7
2022Q4	70,218	0.0	3.1	2.9
2023Q1	70,084	-0.2	3.0	3.5
2023Q2	70,669	0.8	2.7	4.0
2023Q3	70,749	0.1	0.7	2.3
2023Q4	70,870	0.2	0.9	1.8
2024Q1	70,954	0.1	1.2	1.4
2024Q2	70,299	-0.9	-0.5	0.6
2024Q3	69,557	-1.1	-1.7	0.0
2024Q4	69,860	0.4	-1.4	-0.6
2025Q1	70,518	0.9	-0.6	-1.1
2025Q2	69,850	-0.9	-0.6	-1.1
2025Q3	70,138	0.4	0.8	-0.5
2025Q4	70,762	0.9	1.3	0.2
2026Q1	71,435	1.0	1.3	0.7
2026Q2	72,139	1.0	3.3	1.7
2026Q3	72,760	0.9	3.7	2.4
2026Q4	73,299	0.7	3.6	3.0
2027Q1	73,797	0.7	3.3	3.5
2027Q2	74,279	0.7	3.0	3.4
2027Q3	74,741	0.6	2.7	3.1
2027Q4	75,202	0.6	2.6	2.9
2028Q1	75,663	0.6	2.5	2.7
2028Q2	76,137	0.6	2.5	2.6
2028Q3	76,622	0.6	2.5	2.5
2028Q4	77,107	0.6	2.5	2.5
2029Q1	77,590	0.6	2.5	2.5
2029Q2	78,071	0.6	2.5	2.5
2029Q3	78,554	0.6	2.5	2.5
2029Q4	79,042	0.6	2.5	2.5
2030Q1	79,537	0.6	2.5	2.5
2030Q2	80,043	0.6	2.5	2.5

Sources: Stats NZ, the Treasury

**Table 2 – Consumers Price Index and Trade-weighted exchange rate**

	Consumers price index				Exchange rate
	Index	Quarterly % change	QPC s.a.	Annual % change	TWI
2021Q4	1122	1.4	1.6	5.9	74.3
2022Q1	1142	1.8	1.8	6.9	72.5
2022Q2	1161	1.7	1.8	7.3	72.2
2022Q3	1186	2.2	1.8	7.2	70.6
2022Q4	1203	1.4	1.6	7.2	70.8
2023Q1	1218	1.2	1.3	6.7	71.3
2023Q2	1231	1.1	1.2	6.0	70.9
2023Q3	1253	1.8	1.4	5.6	70.6
2023Q4	1259	0.5	0.7	4.7	70.8
2024Q1	1267	0.6	0.7	4.0	71.6
2024Q2	1272	0.4	0.6	3.3	71.4
2024Q3	1280	0.6	0.2	2.2	70.9
2024Q4	1287	0.5	0.8	2.2	69.5
2025Q1	1299	0.9	1.0	2.5	67.8
2025Q2	1306	0.5	0.7	2.7	69.1
2025Q3	1319	1.0	0.6	3.0	68.4
2025Q4	1324	0.4	0.6	2.9	66.8
2026Q1	1332	0.6	0.6	2.5	66.9
2026Q2	1337	0.4	0.6	2.4	67.2
2026Q3	1350	0.9	0.6	2.3	67.5
2026Q4	1355	0.4	0.6	2.3	67.8
2027Q1	1362	0.5	0.5	2.3	68.0
2027Q2	1367	0.4	0.5	2.2	68.2
2027Q3	1379	0.9	0.5	2.2	68.4
2027Q4	1384	0.3	0.5	2.1	68.6
2028Q1	1390	0.5	0.5	2.1	68.8
2028Q2	1395	0.3	0.5	2.1	69.0
2028Q3	1408	0.9	0.5	2.1	69.1
2028Q4	1412	0.3	0.5	2.0	69.3
2029Q1	1419	0.5	0.5	2.0	69.4
2029Q2	1423	0.3	0.5	2.0	69.5
2029Q3	1436	0.9	0.5	2.0	69.7
2029Q4	1440	0.3	0.5	2.0	69.8
2030Q1	1447	0.5	0.5	2.0	69.9
2030Q2	1452	0.3	0.5	2.0	70.0

Sources: Stats NZ, RBNZ, the Treasury

**Table 3** – Expenditure on Gross Domestic Product and Gross Domestic Product (Income) in Current Prices

June Years	2025	2026	2027	2028	2029	2030	2025	2026	2027	2028	2029	2030
	\$ million						Annual average % change					
Private consumption	248,705	259,482	272,366	285,981	300,201	315,126		4.3	5.0	5.0	5.0	5.0
Government consumption	93,828	96,463	98,946	101,089	103,383	105,887	3.1	2.8	2.6	2.2	2.3	2.4
Residential investment	27,761	29,084	32,159	34,726	37,510	40,424	-9.8	4.8	10.6	8.0	8.0	7.8
Business investment	71,679	71,807	76,002	79,995	83,881	87,949	-0.1	0.2	5.8	5.3	4.9	4.8
Change in stocks	-2,190	-330	800	800	800	800						
Gross national expenditure	439,770	456,501	480,273	502,591	525,775	550,186	2.1	3.8	5.2	4.6	4.6	4.6
Exports	109,076	118,390	124,485	129,371	134,814	140,774	10.0	8.5	5.1	3.9	4.2	4.4
Imports	113,159	120,393	125,770	129,721	134,373	139,892	3.2	6.4	4.5	3.1	3.6	4.1
<b>Gross domestic product(E)</b>	<b>436,042</b>	<b>454,497</b>	<b>478,988</b>	<b>502,241</b>	<b>526,216</b>	<b>551,069</b>	<b>3.8</b>	<b>4.2</b>	<b>5.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.7</b>
Compensation of employees	191,913	197,281	205,012	213,498	222,791	232,801	2.0	2.8	3.9	4.1	4.4	4.5
Net operating surplus	118,116	125,140	136,387	145,618	154,330	162,799	3.6	5.9	9.0	6.8	6.0	5.5
- Business	99,095	105,626	115,838	123,979	131,544	138,805	4.5	6.6	9.7	7.0	6.1	5.5
- Imputed rent	19,021	19,514	20,549	21,638	22,786	23,994	-0.5	2.6	5.3	5.3	5.3	5.3
Consumption of fixed capital	66,617	68,420	70,653	73,090	75,907	79,043	4.3	2.7	3.3	3.4	3.9	4.1
Taxes on production and imports	57,153	59,489	62,616	65,608	68,699	71,914	4.4	4.1	5.3	4.8	4.7	4.7
Less: Subsidies	2,276	2,330	2,456	2,575	2,699	2,827	-3.7	2.4	5.4	4.9	4.8	4.8
<b>Gross domestic product(I)</b>	<b>431,523</b>	<b>448,000</b>	<b>472,212</b>	<b>495,238</b>	<b>519,028</b>	<b>543,730</b>	<b>3.1</b>	<b>3.8</b>	<b>5.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.8</b>

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

**Table 4 – Nominal Gross Domestic Product Components**

	Consumption				Investment				Change in stocks		Exports		Imports		Expenditure GDP	
	Private		Public		Residential		Business		QPC	QPC	QPC	QPC	QPC	QPC	QPC	QPC
	\$M	QPC	\$M	QPC	\$M	QPC	\$M	QPC								
2021Q4	51,750	6.6	19,586	6.4	7,506	12.9	15,645	13.3	374	20,518	2.0	24,346	6.5	91,239	5.4	
2022Q1	55,082	6.4	19,996	2.1	7,590	1.1	16,165	3.3	184	18,787	-8.4	25,416	4.4	92,610	1.5	
2022Q2	54,869	-0.4	20,334	1.7	7,782	2.5	15,748	-2.6	2053	22,432	19.4	27,194	7.0	95,202	2.8	
2022Q3	56,330	2.7	20,827	2.4	8,238	5.9	17,124	8.7	-429	25,146	12.1	29,143	7.2	97,933	2.9	
2022Q4	57,667	2.4	20,702	-0.6	7,951	-3.5	17,353	1.3	1897	24,251	-3.6	29,872	2.5	99,920	2.0	
2023Q1	58,764	1.9	21,093	1.9	7,843	-1.4	17,790	2.5	-15	23,149	-4.5	28,473	-4.7	100,586	0.7	
2023Q2	59,690	1.6	21,533	2.1	7,987	1.8	18,043	1.4	-938	25,044	8.2	27,594	-3.1	103,141	2.5	
2023Q3	59,723	0.1	21,850	1.5	7,954	-0.4	17,699	-1.9	-13	24,512	-2.1	27,448	-0.5	104,503	1.3	
2023Q4	60,245	0.9	22,224	1.7	7,835	-1.5	17,918	1.2	-1832	24,365	-0.6	27,001	-1.6	103,795	-0.7	
2024Q1	60,485	0.4	22,474	1.1	7,671	-2.1	17,960	0.2	-282	24,716	1.4	27,498	1.8	105,781	1.9	
2024Q2	60,771	0.5	23,069	2.6	7,320	-4.6	18,184	1.2	-806	25,544	3.4	27,654	0.6	106,078	0.3	
2024Q3	61,073	0.5	23,071	0.0	7,098	-3.0	17,581	-3.3	-786	25,397	-0.6	27,219	-1.6	106,425	0.3	
2024Q4	61,530	0.7	23,328	1.1	6,741	-5.0	17,968	2.2	-113	27,210	7.1	27,966	2.7	108,511	2.0	
2025Q1	62,782	2.0	23,731	1.7	7,045	4.5	18,257	1.6	-660	28,398	4.4	29,426	5.2	110,482	1.8	
2025Q2	63,320	0.9	23,698	-0.1	6,877	-2.4	17,873	-2.1	-631	28,071	-1.2	28,548	-3.0	110,624	0.1	
2025Q3	63,842	0.8	23,864	0.7	7,067	2.8	17,757	-0.6	-340	28,585	1.8	29,084	1.9	111,688	1.0	
2025Q4	64,445	0.9	24,031	0.7	7,135	1.0	17,843	0.5	-170	29,474	3.1	30,079	3.4	112,679	0.9	
2026Q1	65,184	1.1	24,199	0.7	7,314	2.5	17,947	0.6	30	29,968	1.7	30,421	1.1	114,220	1.4	
2026Q2	66,011	1.3	24,369	0.7	7,567	3.4	18,260	1.7	150	30,363	1.3	30,809	1.3	115,910	1.5	
2026Q3	66,839	1.3	24,515	0.6	7,776	2.8	18,577	1.7	200	30,689	1.1	31,086	0.9	117,510	1.4	
2026Q4	67,673	1.2	24,662	0.6	7,966	2.4	18,872	1.6	200	30,981	1.0	31,325	0.8	119,029	1.3	
2027Q1	68,506	1.2	24,810	0.6	8,130	2.1	19,150	1.5	200	31,261	0.9	31,559	0.7	120,497	1.2	
2027Q2	69,348	1.2	24,959	0.6	8,287	1.9	19,404	1.3	200	31,553	0.9	31,799	0.8	121,953	1.2	
2027Q3	70,195	1.2	25,083	0.5	8,435	1.8	19,648	1.3	200	31,857	1.0	32,038	0.8	123,380	1.2	
2027Q4	71,056	1.2	25,209	0.5	8,598	1.9	19,880	1.2	200	32,173	1.0	32,292	0.8	124,824	1.2	
2028Q1	71,925	1.2	25,335	0.5	8,759	1.9	20,115	1.2	200	32,501	1.0	32,560	0.8	126,276	1.2	
2028Q2	72,805	1.2	25,462	0.5	8,934	2.0	20,351	1.2	200	32,840	1.0	32,831	0.8	127,761	1.2	
2028Q3	73,696	1.2	25,614	0.6	9,111	2.0	20,595	1.2	200	33,178	1.0	33,122	0.9	129,273	1.2	
2028Q4	74,594	1.2	25,768	0.6	9,287	1.9	20,845	1.2	200	33,523	1.0	33,428	0.9	130,789	1.2	
2029Q1	75,499	1.2	25,923	0.6	9,467	1.9	21,095	1.2	200	33,875	1.1	33,747	1.0	132,313	1.2	
2029Q2	76,411	1.2	26,078	0.6	9,645	1.9	21,346	1.2	200	34,237	1.1	34,077	1.0	133,842	1.2	
2029Q3	77,340	1.2	26,235	0.6	9,824	1.9	21,599	1.2	200	34,609	1.1	34,420	1.0	135,388	1.2	
2029Q4	78,286	1.2	26,392	0.6	10,007	1.9	21,855	1.2	200	34,985	1.1	34,778	1.0	136,955	1.2	
2030Q1	79,254	1.2	26,550	0.6	10,197	1.9	22,115	1.2	200	35,385	1.1	35,151	1.1	138,549	1.2	
2030Q2	80,246	1.3	26,710	0.6	10,395	1.9	22,381	1.2	200	35,788	1.1	35,542	1.1	140,178	1.2	

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

**Table 5 – Real Gross Domestic Product Components**

	Consumption				Investment				Change in stocks		Exports		Imports		Expenditure GDP		
	Private		Public		Residential		Business		Change in stocks \$M	\$M	QPC	\$M	QPC	\$M	QPC	\$M	QPC
	\$M	QPC	\$M	QPC	\$M	QPC	\$M	QPC									
2021Q4	43,107	5.3	14,445	4.1	4,245	8.0	14,163	10.8	238	15,858	-0.4	22,750	2.2	69,266	3.9		
2022Q1	45,143	4.7	14,701	1.8	4,157	-2.1	14,312	1.1	-23	13,548	-14.6	22,126	-2.7	69,325	0.1		
2022Q2	44,288	-1.9	14,611	-0.6	4,133	-0.6	13,653	-4.6	1354	15,681	15.7	22,519	1.8	70,244	1.3		
2022Q3	44,600	0.7	14,754	1.0	4,263	3.1	14,536	6.5	-285	17,178	9.5	23,088	2.5	72,020	2.5		
2022Q4	44,894	0.7	14,451	-2.1	4,053	-4.9	14,309	-1.6	1017	16,630	-3.2	23,347	1.1	71,916	-0.1		
2023Q1	45,175	0.6	14,367	-0.6	3,926	-3.1	14,491	1.3	82	16,522	-0.6	22,950	-1.7	71,611	-0.4		
2023Q2	45,469	0.7	14,718	2.4	3,975	1.2	14,622	0.9	-900	17,982	8.8	22,691	-1.1	72,315	1.0		
2023Q3	44,861	-1.3	14,757	0.3	3,931	-1.1	14,182	-3.0	185	17,561	-2.3	23,006	1.4	72,331	0.0		
2023Q4	45,104	0.5	14,743	-0.1	3,854	-2.0	14,178	-0.4	-1099	17,938	2.1	21,901	-4.8	72,424	0.1		
2024Q1	45,093	0.0	14,730	-0.1	3,707	-3.8	14,123	-0.4	-200	18,039	0.6	23,162	5.8	72,535	0.2		
2024Q2	45,025	-0.2	14,772	0.3	3,530	-4.8	14,067	-0.4	-280	18,338	1.7	22,849	-1.4	71,962	-0.8		
2024Q3	44,904	-0.3	14,539	-1.6	3,420	-3.1	13,628	-3.1	-538	18,118	-1.2	22,871	0.1	71,245	-1.0		
2024Q4	44,930	0.1	14,785	1.7	3,240	-5.3	13,732	0.8	-250	18,764	3.6	23,114	1.1	71,740	0.7		
2025Q1	45,528	1.3	15,001	1.5	3,348	3.3	13,874	1.0	-495	18,685	-0.4	23,225	0.5	72,629	1.2		
2025Q2	45,718	0.4	15,014	0.1	3,286	-1.9	13,744	-0.9	-136	18,470	-1.2	23,354	0.6	71,984	-0.9		
2025Q3	45,859	0.3	15,064	0.3	3,385	3.0	13,744	0.0	-360	18,599	0.7	23,456	0.4	72,272	0.4		
2025Q4	46,023	0.4	15,084	0.1	3,418	1.0	13,826	0.6	-190	18,813	1.2	23,605	0.6	72,935	0.9		
2026Q1	46,254	0.5	15,090	0.0	3,498	2.3	13,914	0.6	10	19,032	1.2	23,801	0.8	73,644	1.0		
2026Q2	46,543	0.6	15,092	0.0	3,607	3.1	14,161	1.8	130	19,220	1.0	24,070	1.1	74,382	1.0		
2026Q3	46,833	0.6	15,076	-0.1	3,692	2.4	14,403	1.7	180	19,367	0.8	24,250	0.7	75,036	0.9		
2026Q4	47,126	0.6	15,061	-0.1	3,764	2.0	14,621	1.5	180	19,487	0.6	24,391	0.6	75,607	0.8		
2027Q1	47,421	0.6	15,047	-0.1	3,822	1.5	14,819	1.4	180	19,609	0.6	24,536	0.6	76,134	0.7		
2027Q2	47,724	0.6	15,036	-0.1	3,873	1.4	14,992	1.2	180	19,732	0.6	24,676	0.6	76,644	0.7		
2027Q3	48,033	0.6	15,012	-0.2	3,918	1.2	15,151	1.1	180	19,856	0.6	24,807	0.5	77,132	0.6		
2027Q4	48,350	0.7	14,991	-0.1	3,969	1.3	15,294	0.9	180	19,981	0.6	24,939	0.5	77,619	0.6		
2028Q1	48,673	0.7	14,972	-0.1	4,016	1.2	15,434	0.9	180	20,108	0.6	25,074	0.5	78,104	0.6		
2028Q2	49,001	0.7	14,955	-0.1	4,068	1.3	15,569	0.9	180	20,235	0.6	25,203	0.5	78,602	0.6		
2028Q3	49,334	0.7	14,954	0.0	4,119	1.3	15,706	0.9	180	20,363	0.6	25,346	0.6	79,109	0.6		
2028Q4	49,671	0.7	14,956	0.0	4,167	1.2	15,844	0.9	180	20,490	0.6	25,492	0.6	79,614	0.6		
2029Q1	50,009	0.7	14,959	0.0	4,217	1.2	15,978	0.8	180	20,616	0.6	25,641	0.6	80,116	0.6		
2029Q2	50,349	0.7	14,964	0.0	4,264	1.1	16,108	0.8	180	20,742	0.6	25,790	0.6	80,616	0.6		
2029Q3	50,695	0.7	14,970	0.0	4,310	1.1	16,236	0.8	180	20,870	0.6	25,943	0.6	81,117	0.6		
2029Q4	51,048	0.7	14,977	0.0	4,356	1.1	16,362	0.8	180	20,998	0.6	26,099	0.6	81,622	0.6		
2030Q1	51,409	0.7	14,986	0.1	4,403	1.1	16,487	0.8	180	21,128	0.6	26,260	0.6	82,133	0.6		
2030Q2	51,780	0.7	14,996	0.1	4,452	1.1	16,614	0.8	180	21,259	0.6	26,427	0.6	82,654	0.6		

Note: All data seasonally adjusted. Dollar amounts are in 2009/10 prices.

Sources: Stats NZ, the Treasury

**Table 6** – Labour Market Indicators

<b>Annual average percentage change</b>						
<b>Year ended June</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (production measure)	-1.1	1.7	3.4	2.6	2.5	2.5
Working age population	1.3	1.1	1.2	1.3	1.3	1.3
Labour force	0.0	0.8	2.0	1.7	1.5	1.4
Employment - total	-0.8	0.5	2.5	2.0	1.7	1.6
Total hours worked (HLFS)	-2.4	0.7	2.8	2.0	1.7	1.6
Labour productivity (hours worked basis)	1.3	0.9	0.5	0.6	0.8	0.9
CPI (annual percentage change)	2.7	2.4	2.2	2.1	2.0	2.0
Average ordinary time hourly wages	4.3	3.5	2.5	2.8	2.9	3.0
Average ordinary time weekly earnings	4.4	2.2	1.8	2.5	2.8	2.9
Real wages	1.8	0.8	0.3	0.7	0.8	0.9
Compensation of employees	2.0	2.8	3.9	4.1	4.4	4.5
Unit labour costs (hours worked basis)	2.9	2.5	2.0	2.2	2.1	2.0
Real unit labour costs	0.5	-0.2	-0.3	0.1	0.0	0.0

<b>Number (000's)</b>						
<b>As at June quarter</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Total population	5,327	5,376	5,436	5,501	5,566	5,632
Natural increase	24	26	26	26	26	26
Net migration	11	23	34	39	40	40
Annual change	35	49	60	65	66	66
Working age population	4,314	4,360	4,414	4,472	4,530	4,589
Annual change	50	46	54	58	59	59
Not in the labour force (s.a.)	1,271	1,270	1,266	1,274	1,286	1,300
Annual change	61	-1	-4	8	12	14
Labour force (s.a.)	3,041	3,089	3,147	3,198	3,245	3,289
Annual change	-11	48	58	50	47	45
Total employment (s.a.)	2,882	2,924	2,995	3,049	3,100	3,148
Annual change	-27	42	71	54	51	48
Unemployment (s.a.)	158	165	152	149	145	141
Annual change	15	7	-13	-3	-4	-3
Participation rate (% , s.a.)	70.5	70.9	71.3	71.5	71.6	71.7
Unemployment rate (% , s.a.)	5.2	5.3	4.8	4.6	4.5	4.3

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

## Assessing the Accuracy of the Treasury's Economic and Tax Forecasts

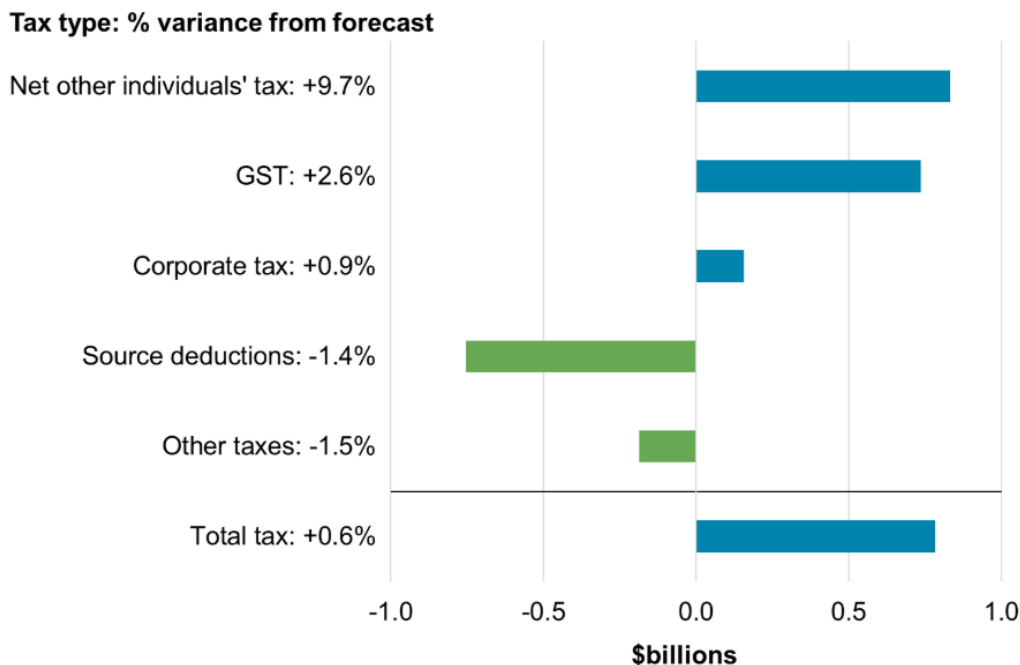
The Treasury periodically reviews the accuracy of its economic and tax forecasts, given the importance that they have in the Government's Budget decisions and policy decision-making process. This section summarises the findings for key economic and tax variables in our latest review, and compares the Treasury's economic forecasting performance against other economic forecasting organisations.

### Tax Revenue Variance Against Previous Half Year Update Forecast

To improve forecast accuracy, the Treasury publishes analysis of recent variances between actual and forecast tax revenue alongside forecast updates. Being transparent on forecast performance will help the Treasury to understand why actuals differ from forecast, which should lead to more accurate forecasts in the future. The following commentary compares the latest annual tax revenue outcome with last year's Half Year Update forecast (2024 HYEUFU).

Core Crown tax revenue for the 12 months to June 2025 was \$0.8 billion (0.6%) above the 2024 HYEUFU forecast, after adjusting for tax policy changes announced after the 2024 HYEUFU was finalised. The variance from forecast was spread across the major tax types as shown in Figure 1.

**Figure 1** – Core Crown tax revenue, 12 months to June 2025 vs 2024 HYEUFU forecast



Source: The Treasury

As can be seen in Figure 1, there were both positive and negative influences on the total net variance:

- Net other individuals' tax was above forecast mainly owing to tax revenue from 2024 tax returns filed in the 2025 fiscal year being higher than expected.
- Above-forecast domestic consumption was the main contributor to the positive forecast variance on GST.
- Although taxable profits for the 2025 tax year appear to have been below forecast, Portfolio Investment Entity (PIE) tax was \$0.7 billion higher than forecast, so total corporate tax finished the year close to the 2024 HYEFU forecast.
- Aggregate salaries and wages were close to forecast, but a positive adjustment included in the forecast to smooth out an apparent dip in the forecast source deductions-to-GDP ratio turned out to be unnecessary, causing source deduction revenue to be below forecast.

The 0.6% variance from forecast for core Crown tax revenue is smaller than the average errors for total tax across all forecast horizons shown in Table 7 below and is also smaller than the average error for current-year HYEFU tax forecasts.

## Economic and Tax Forecast Accuracy Across a Longer Timeframe

It is desirable for economic and fiscal forecasts to possess the following two properties, such that the Government can base its decisions on sound information and can have confidence that its decisions will have the desired economic and/or fiscal impacts:

- Forecast errors should average zero over time. This indicates the forecasts are neither persistently too low nor too high.
- The variance of the forecast errors should be as small as possible, indicating that the forecasts stay within a relatively small distance from actual outcomes.

The first property can be evaluated by looking at the average forecast errors over time using the following formula:

$$\varepsilon_t^{t-h} = y_t - y_t^{t-h}$$

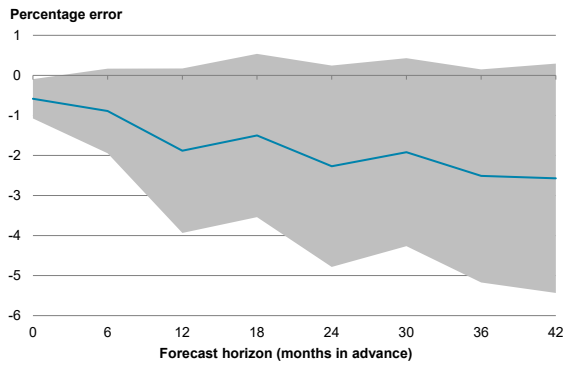
The variable  $\varepsilon_t^{t-h}$  is the forecast error for a given horizon  $h$ , and  $y_t^{t-h}$  is the forecast made  $h$  quarters prior and  $y_t$  is the outturn of the variable at time  $t$ . Errors that have a positive sign therefore imply that outturn was higher than forecast, and vice versa.

The second property can be evaluated by looking at the root mean square error (RMSE), the average absolute difference between the forecast value and outturn of a variable. A higher RMSE implies a less accurate forecast for a given time horizon. RMSE is calculated as follows:

$$RMSE^h = \sqrt{\frac{\sum_{t=1}^N \varepsilon_t^{t-h^2}}{N}}$$

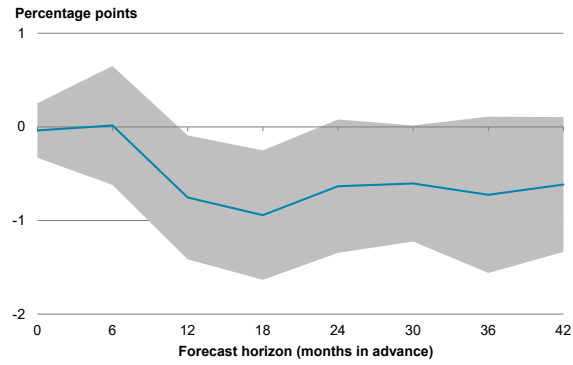
Looking across the entirety of the 1990-2025 sample period, the results show that the Treasury’s March year forecasts of annual average real GDP growth and June year tax revenue tend to be higher than the outturn on average. There may be a degree of bias as well, shown by the confidence bands being close to but not including zero (Figures 2 and 3). On the other hand, forecasts of the June quarter unemployment rate are unbiased and have less variation in the errors than the other forecast variables (Table 7).

**Figure 2 – Tax revenue forecast errors**



Source: The Treasury

**Figure 3 – Real GDP forecast errors**



Source: The Treasury

Note that the accuracy of GDP forecasts are reported on percentage point differences in growth rate forecasts and outturns, whereas the tax revenue forecast accuracy is based on the difference between the level of tax revenue forecast vs the outturns.

The mean errors and RMSEs for the last five years are generally similar or larger in absolute terms compared to the whole sample, implying that there has been a decrease in overall accuracy since the COVID-19 pandemic.

**Table 7 – Treasury forecast evaluation, all forecast horizons, 1990-2025**

	Real GDP (AAPC, March years)	Nominal GDP (AAPC, June years)	CPI inflation (APC, March quarter)	Unemployment rate (June quarter)	Tax revenue (June years)
<b>Mean Error</b>	-0.5	0.0	0.3	0.0	2.2
<b>Mean Error (last 5 years)</b>	-1.5	-0.4	2.0	-0.8	1.4
<b>RMSE</b>	1.9	2.4	1.5	1.3	6.5
<b>RMSE (last 5 years)</b>	1.9	1.7	3.0	1.7	5.6

Source: The Treasury

The NZIER quarterly consensus forecasts provide a useful benchmark to compare the performance of different forecasters. For these consensus forecasts, respondents submit their forecasts of future March year annual average real GDP growth rates, and future annual inflation rates in the March quarter. As the Treasury’s forecasts are typically finalised in April and November each year, the March and December quarter consensus forecasts are the most relevant comparisons.

When looking at the whole sample, the mean errors and RMSEs in the Treasury’s forecasts of the annual average real GDP growth rate and annual inflation are generally comparable to the sample average for all forecast horizons (Table 8). However, the pandemic resulted in a marked decline in the Treasury’s relative forecast accuracy for real GDP growth, reflecting the different timing of when the forecasts were finalised. The consensus forecasts were submitted in March 2020, when many were forecasting growth in the March 2021 year, whereas the Treasury’s forecasts were finalised in mid-April, when the outlook had been significantly altered following the imposition of the first national lockdown. This meant that while the Treasury had correctly forecast a downturn, the prediction of an 11.8% contraction was much larger than the outturn, which was milder and closer in absolute terms to forecasts from before lockdowns were announced.

As the date boundaries for the COVID-19 period are ambiguous, exercises to exclude the COVID-19 period can lead to different results. For illustrative purposes, the table below presents the results if the years ending March 2021 to 2023 are excluded from both the forecasts and outturns. The results show that forecasters tended to have smaller variations in forecast errors (lower RMSEs), and more accurate forecasts of annual inflation when this period is excluded, with the Treasury’s results being more in line with other forecasters, particularly for forecasts of real GDP growth.

**Table 8** – Forecast comparisons against external forecasters 2014-2025

	Real GDP (AAPC, March Years)				CPI Inflation (Annual % change, March quarter)			
	Mean Error	Mean Error (Excluding COVID-19)	RMSE	RMSE (Excluding COVID-19)	Mean Error	Mean Error (Excluding COVID-19)	RMSE	RMSE (Excluding COVID-19)
<b>Treasury</b>	-0.8	-0.8	2.3	1.4	0.6	-0.1	1.9	0.8
<b>Median (excluding Treasury)</b>	-0.7	-0.7	1.8	1.2	0.7	0.0	2.0	0.8
<b>High</b>	0.1	0.4	2.3	1.6	1.1	0.4	2.2	1.3
<b>Low</b>	-1.0	-1.1	0.3	0.3	-0.8	-0.8	0.8	0.7

Sources: The Treasury, NZIER

# Cyclically-adjusted Balance, Structural Balance and Total Fiscal Impulse<sup>1</sup>

## ***Cyclically-adjusted balance and structural balance***

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

- The CAB shows what OBEGAL or OBEGALx 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 items.<sup>2</sup>

The Half Year Update contains information on the trends in the CAB and structural balance derived from OBEGALx. For ease of reference, we provide here the charts and data for these indicators derived from both OBEGAL and OBEGALx.

Focusing on the OBEGALx versions, the final HYEUFU 2025 forecasts indicate a deterioration in the CAB and structural balance, compared to the Budget Update 2025 forecasts.

The CAB and structural balance deficits are expected to be larger across most years of the forecast period compared to the *Budget Update 2025* (see Figure 5). However, the CAB for 2024/25 has improved relative to the Budget Update 2025 forecast. This improvement is mainly due to lower-than-expected expenses, with higher-than-forecast revenue playing a smaller role.

The CAB is now expected to reach a small surplus in 2029/30. This represents a delay of one year compared to the Budget Update 2025, which had forecast surpluses for the CAB, and structural balance in 2028/29. The structural balance is still projected to reach a small surplus (0.01% of nominal potential GDP) in 2028/29, albeit smaller than forecast at Budget Update 2025 (0.14%).

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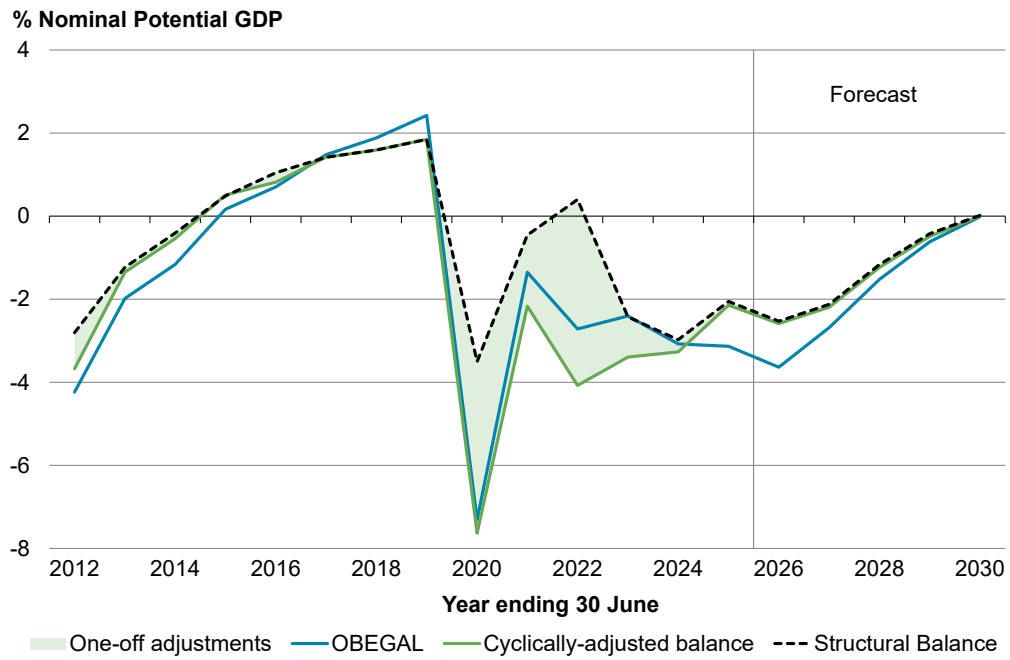
<sup>1</sup> Refer to this guide for more detail on the methodology behind calculating the CAB, the structural balance and the total fiscal impulse: <https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse>

<sup>2</sup> Aside from the North Island weather events, the one-off adjustments in the forecast period primarily relate to ongoing COVID-19 operating expenditure. Of the COVID-19 operating expenditure, around half of this relates to the Housing Acceleration Fund.

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

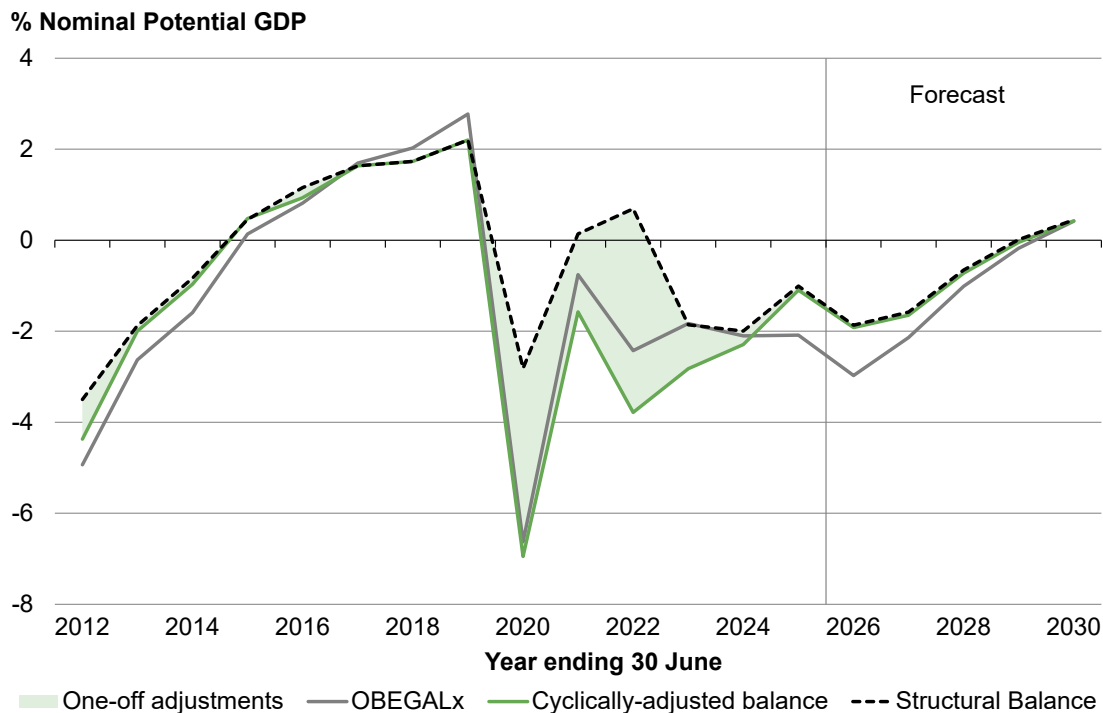
	<b>OBEGAL</b>	<b>Cyclically-adjusted balance</b>	<b>Structural balance</b>	<b>One-off adjustments</b>
<b>2012</b>	-4.24	-3.67	-2.80	-0.87
<b>2013</b>	-1.98	-1.35	-1.23	-0.12
<b>2014</b>	-1.16	-0.54	-0.41	-0.14
<b>2015</b>	0.17	0.51	0.49	0.02
<b>2016</b>	0.71	0.82	1.05	-0.23
<b>2017</b>	1.48	1.42	1.42	0.00
<b>2018</b>	1.89	1.59	1.59	0.00
<b>2019</b>	2.42	1.85	1.85	0.00
<b>2020</b>	-7.31	-7.63	-3.50	-4.13
<b>2021</b>	-1.35	-2.17	-0.45	-1.71
<b>2022</b>	-2.72	-4.07	0.40	-4.48
<b>2023</b>	-2.40	-3.39	-2.43	-0.96
<b>2024</b>	-3.08	-3.27	-2.97	-0.30
<b>2025</b>	-3.13	-2.14	-2.05	-0.09
<b>2026</b>	-3.64	-2.58	-2.53	-0.05
<b>2027</b>	-2.68	-2.19	-2.12	-0.07
<b>2028</b>	-1.52	-1.23	-1.17	-0.07
<b>2029</b>	-0.62	-0.49	-0.42	-0.06
<b>2030</b>	-0.01	0.00	0.02	-0.02

**Figure 4 – OBEGAL, CAB (OBEGAL-derived), and structural balance (OBEGAL-derived) (% of nominal potential GDP)**



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

	<b>OBEGALx</b>	<b>Cyclically-adjusted balance</b>	<b>Structural balance</b>	<b>One-off adjustments</b>
<b>2012</b>	-4.93	-4.37	-3.50	-0.87
<b>2013</b>	-2.63	-2.00	-1.88	-0.12
<b>2014</b>	-1.59	-0.97	-0.83	-0.14
<b>2015</b>	0.13	0.48	0.45	0.02
<b>2016</b>	0.82	0.93	1.16	-0.23
<b>2017</b>	1.69	1.63	1.63	0.00
<b>2018</b>	2.03	1.73	1.73	0.00
<b>2019</b>	2.77	2.20	2.20	0.00
<b>2020</b>	-6.63	-6.95	-2.82	-4.13
<b>2021</b>	-0.76	-1.58	0.14	-1.71
<b>2022</b>	-2.43	-3.78	0.69	-4.48
<b>2023</b>	-1.83	-2.82	-1.86	-0.96
<b>2024</b>	-2.10	-2.29	-2.00	-0.30
<b>2025</b>	-2.09	-1.10	-1.01	-0.09
<b>2026</b>	-2.97	-1.92	-1.87	-0.05
<b>2027</b>	-2.14	-1.65	-1.58	-0.07
<b>2028</b>	-1.01	-0.72	-0.65	-0.07
<b>2029</b>	-0.18	-0.05	0.01	-0.06
<b>2030</b>	0.42	0.43	0.45	-0.02

**Figure 5 – OBEGALx, CAB (OBEGALx-derived), and structural balance (OBEGALx-derived)**

### Fiscal balance and total fiscal impulse

The fiscal balance is a measure of the Government's fiscal contribution to aggregate demand. A fiscal balance deficit implies fiscal policy is providing net support to aggregate demand. The fiscal balance is a comprehensive measure of fiscal outlays and revenues, including their structural, discretionary, and automatic components such as finance costs but adjusted for some items that do not directly affect aggregate demand.<sup>3</sup> It is a cash measure of core Crown and Crown entity spending and revenue flows and therefore differs from the OBEGAL and OBEGALx measures, the CAB, and the structural balance, which are all accrual based.

The total fiscal impulse (TFI) is a measure of the change in the Government's fiscal contribution to aggregate demand from one year to the next. The TFI measures whether fiscal policy is easing or tightening compared to the previous year.

The fiscal balance is in deficit over the forecast period, indicating that fiscal policy is having an expansionary impact on the economy in absolute terms. However, the impact of fiscal policy on aggregate demand is expected to decline, as reflected by the narrowing fiscal balance deficits in the years following 2025/26.

The HYEPU 2025 forecasts show that operational spending for the 2024/25 year was lower than forecast in the Budget Update 2025. This reduction is primarily due to deferred personnel and operating costs, which have been rephased into 2025/26 and later years. As a result, the fiscal balance deficit for 2024/25 was smaller than previously forecast. This has resulted in a slightly negative (contractionary) TFI of -0.35% for 2024/25, compared to the Budget Update 2025 forecast of a slightly positive (expansionary) TFI of 0.52%.

<sup>3</sup> The total fiscal impulse is not cyclically adjusted, as discussed in this guide:

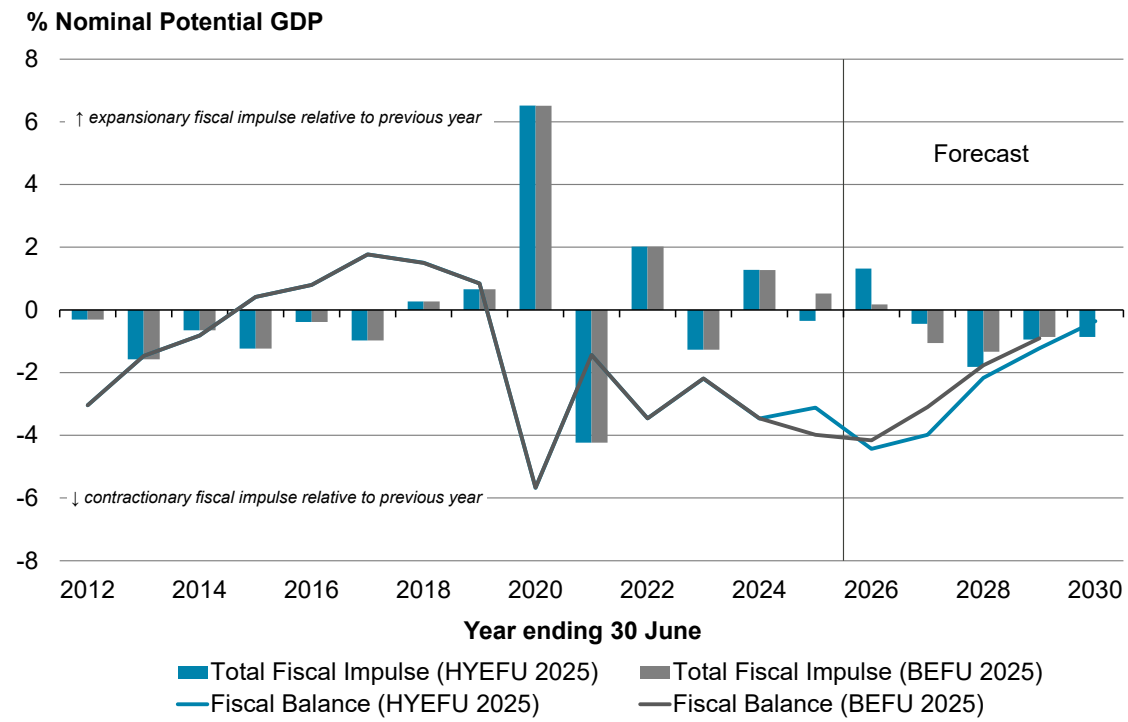
<https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse>

The TFI in 2025/26 is forecast to be expansionary relative to the previous year as the fiscal balance deficit peaks. Since the TFI is a relative measure, the improvement in the fiscal balance in 2024/25 relative to the Budget Update 2025 has an automatic impact on the fiscal impulse in 2025/26. Additionally, the fiscal balance in 2025/26 is expected to be more negative than previously forecast, as the rephasing of expenses from 2024/25 increases expenses in the 2025/26 year. The TFI of 1.32% that is forecast for 2025/26 contrasts with the Budget Update 2025 forecast of a slightly positive 0.18%.

**Table 11** – Total fiscal impulse and fiscal balance (% of nominal potential GDP)

	Fiscal balance	Total Fiscal Impulse
2012	-3.04	-0.31
2013	-1.47	-1.57
2014	-0.82	-0.65
2015	0.41	-1.23
2016	0.80	-0.38
2017	1.77	-0.97
2018	1.50	0.27
2019	0.84	0.66
2020	-5.68	6.52
2021	-1.44	-4.24
2022	-3.46	2.02
2023	-2.19	-1.27
2024	-3.47	1.28
2025	-3.12	-0.35
2026	-4.43	1.32
2027	-3.99	-0.45
2028	-2.17	-1.82
2029	-1.22	-0.95
2030	-0.36	-0.86

**Figure 6** – Total fiscal impulse and fiscal balance from the Half Year Update 2025 and Budget Update 2025 fiscal forecasts



## Accounting Policies

The forecast financial statements contained in the published *2025 Half Year Economic and Fiscal Update* are based on the following accounting policies:

### Statement of Compliance

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

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

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

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

### Reporting and Forecast Periods

The reporting period for these forecast financial statements are for the years ended 30 June 2026 to 30 June 2030.

The “2026 Previous Budget” figures are the original forecasts to 30 June 2026 as presented in the *2025 Budget Economic and Fiscal Update (2025 Budget Update)* and the “2025 Actual” figures are the audited results reported in the *Financial Statements of the Government of New Zealand for the year ended 30 June 2025*.

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

## Basis of Preparation

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

These financial statements have been prepared on an accrual basis unless otherwise specified (eg, the statement of cash flows). Under an accrual basis, revenues are recognised when rights to assets are earned or levied rather than when cash is received, and expenses are recognised when obligations are incurred rather than when they are settled.

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

### **Comparatives**

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

### **Accounting Standards issued and not yet effective and not early adopted**

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

#### *Insurance Contracts*

PBE IFRS 17: *Insurance Contracts* was issued in June 2023 and is effective for periods beginning on or after 1 January 2026. This standard supersedes PBE IFRS 4 *Insurance Contracts*. The Government Reporting Entity will adopt PBE IFRS 17 for the year ending 30 June 2027 and will apply the standard retrospectively with restatement of comparatives for the year ending 30 June 2026.

PBE IFRS 17 sets out new recognition, measurement, presentation and disclosure requirements for insurance contracts and will impact the reporting of transactions undertaken by the Accident Compensation Corporation (ACC) and the Natural Hazards Commission (NHC).

This change in standard will likely result in a material reduction of ACC's insurance liabilities with a corresponding increase to net worth. This is due to a reduction in the risk margin added to the outstanding claims liability (OCL) and the requirement to include an illiquidity premium to the discount rate. The NHC's implementation is not expected to have a material impact on the Financial Statements of the Government.

Due to the complex nature of the standard, ACC and NHC continue to work on identifying all the transition impacts of PBE IFRS 17, including other adjustments and new disclosures in the financial statements for 2026/27.

There are no other changes to accounting standards that will have a material impact on these forecast financial statements.

## Judgements and Estimations

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

These forecasts include budget adjustments for:

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

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

The top-down adjustment is an adjustment to expenditure (both operating and capital) Budgets to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to state-owned enterprises or Crown entity forecasts. The estimates and associated assumptions for Budget adjustments are based on historical experience, government intentions and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

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

## Reporting Entity

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

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

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

## Basis of Combination

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

### Core Crown entities

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

### Other entities

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

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

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

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

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

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

## Significant Accounting Policies

The accounting policies set out below are applied consistently to all periods in the forecast financial statements in the *2025 Half Year Economic and Fiscal Update*.

### Revenue

#### *Taxation revenue levied through the Crown's sovereign power*

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

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

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

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

### *Revenue earned through operations*

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

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

### *Interest revenue*

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

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

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

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

### *Dividend revenue*

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

### *Rental revenue*

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

### *Donated or subsidised assets*

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

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

### *Gains*

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

### **Expenses**

#### *General*

Expenses are recognised in the period to which they relate.

#### *Welfare benefits and entitlements and subsidies*

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

#### *Grants and subsidies*

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

#### *Interest expense*

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

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

### *Losses*

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

#### *Foreign currency*

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

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

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

### ***Sovereign receivables and taxes repayable***

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

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

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

### ***Financial instruments – Forecasting policies***

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

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

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

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

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

### *Derivatives*

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

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

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

### ***Financial instruments – Accounting policies***

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

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

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

### *Non-derivative financial assets*

#### General principles

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

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

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

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

## Specific application

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

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

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

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

#### Fair value measurement

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

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

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

#### Allowances for expected losses

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

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

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

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

### *Non-derivative financial liabilities*

#### General principles

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

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

#### Specific application

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

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

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

### *Financial guarantee contracts*

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

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

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

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

### *Derivative financial instruments*

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

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

### *Hedging*

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

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

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

### (a) Cash flow hedge

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

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

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

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

### (b) Fair value hedge

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

## **Inventories**

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

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

**Property, plant and equipment – Forecasting policy**

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

**Property, plant and equipment (PPE) – Accounting policies**

*Measurement on initial recognition*

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

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

*Capitalisation of borrowing costs*

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

*Subsequent measurement*

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

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

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

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

### Revaluation

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

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

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

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

### *Depreciation*

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

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

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

### *Impairment*

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

*Disposal*

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

**Public private partnerships**

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

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

Subsequent to initial recognition:

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

**Equity accounted investments**

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

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

**Biological assets**

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

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

### ***Intangible assets***

Intangible assets are initially recorded at cost.

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

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

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

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

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

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

Goodwill is tested for impairment annually.

### ***Non-current assets held for sale and discontinued operations***

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

**Investment property**

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

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

**Employee benefits***Retirement and other similar long-term benefit liabilities*

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

*Other employee entitlements*

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

*Termination benefits*

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

**Insurance contracts**

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

### *Reinsurance*

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

### *Reinsurance and other recoveries receivable*

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

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

### **Leases**

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

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

### **Other liabilities and provisions**

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

### **Contingent liabilities and contingent assets**

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

## **Commitments**

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

Commitments are classified as follows:

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

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

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

## **Segment analysis**

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

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

Functional analysis is also provided of a number of financial statements items.

This functional analysis is drawn from the Classification of the Functions of Government as developed by the Organisation for Economic Co-operation and Development (OECD).