TE TAI ŌHANGA
THE TREASURY

Half Year Economic and Fiscal Update 2022

14 December 2022

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

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

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

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

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

The URL for this document on the Treasury's website at December 2022 is
https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2022

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Contents

On 18 October 2022, we lost a valued team member, **Peter Lorimer** ONZM.

With a career spanning more than 50 years, Peter was an institution in the New Zealand public service. His experience and contribution were acknowledged by being awarded both the New Zealand Order of Merit in 2018 and the Spirit of Service Lifetime Achievement Award in 2022.

He was instrumental in the design, development, enactment and continued stewardship of the Public Finance Act 1989. The Public Finance Act enshrines the principles of transparency, openness, accountability and inter-generational thinking. Peter displayed these principles personally and professionally.

Peter was a consummate public servant and a respected source of advice and guidance to a wide range of past and current public servants.

Peter is sorely missed by his family and friends, and within the Treasury and the wider public service.

Haere atu ra e te hoa, e te rangatira, e Peter.
Tū tonu te mahara.

Statement of Responsibility

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

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of government decisions and other circumstances as at 28 November 2022 that were communicated to me by the Minister of Finance as required by the Public Finance Act 1989, and of other economic and fiscal information available to the Treasury as at 28 November 2022. This *Update* does not incorporate any decisions, circumstances or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.

Caralee McLiesh
Secretary to the Treasury

7 December 2022

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 28 November 2022 of which I was aware and that had material economic or fiscal implications have been communicated to the Secretary to the Treasury, as required by the Public Finance Act 1989.

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

Hon Grant Robertson
Minister of Finance

7 December 2022

Executive Summary

The global and Aotearoa New Zealand economies are facing multiple challenges that are expected to lead to slower growth in the period ahead.

For Aotearoa New Zealand, this comes after overall economic activity was relatively robust over 2021/22, continuing the recovery from the COVID-19 pandemic. Both economic and fiscal indicators point to this robustness continuing in the first half of the 2022/23 fiscal year. We now expect real gross domestic product (GDP) to expand 1.8% across the six months to end-December 2022. Activity is being supported by strong employment and wage growth, high levels of investment and the rebound in international visitor spending.

Increasingly, however, ongoing demand growth has come up against supply constraints both foreign and domestic. One area this was evident is the labour market. Although real GDP growth fell short of the forecast in the *Budget Economic and Fiscal Update 2022 (Budget Update)*, demand for labour has been strong. This, combined with the marked fall in labour supply growth experienced over recent years, has seen the unemployment rate at or around historical lows since late 2021, and nominal wage growth has picked up sharply as a result.

Decades-high consumers price index (CPI) inflation, rapid growth in nominal wages and to some extent, the increase in the current account deficit, are indicators the economy is operating above capacity. These imbalances and especially their unwinding are costly for current and future wellbeing. The distribution of these costs will be uneven across firms, households and regions.

We forecast the economic cycle to be nearing a turning point, with a number of the forces shaping economic outturns having intensified over the past six months, with negative implications. Chief among these are the rise and persistence of domestic and global inflation pressures that have seen sharply higher interest rates and large exchange rate realignments; ongoing, albeit abating, supply chain challenges; adverse spill-overs from the Russian invasion of Ukraine; deteriorating global growth; falling house prices; and low consumer and business confidence.

Global growth in 2023 is likely to be the lowest since the early 1990s excepting the global pandemic and global financial crisis. Many economies are expected to contract for at least two quarters by the end of 2023. Growth in China continues to be impacted by its zero COVID-19 policy approach. The global outlook is highly uncertain and will be dependent on the effectiveness of central banks' monetary policy tightening and the absence of further negative geopolitical shocks. Even weaker global growth would likely see a faster abatement of global inflation pressures, lower export prices and reduced demand for Aotearoa New Zealand exports.

Table 1 – Key economic and fiscal indicators

June years	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Real production GDP (annual average % change)	1.0	3.5	(0.3)	2.1	3.3	3.0
Unemployment rate (June quarter)	3.3	3.8	5.5	5.2	4.6	4.3
CPI inflation (annual % change)	7.3	6.4	3.5	2.5	2.0	2.0
Current account (annual, % of GDP)	(7.8)	(7.6)	(5.6)	(4.8)	(4.6)	(4.6)
Total Crown OBEGAL[1] ($ billions)	(9.7)	(3.6)	(0.5)	1.7	6.2	9.3
(% of GDP)	(2.7)	(0.9)	(0.1)	0.4	1.4	1.9
Net debt[2] ($ billions)	61.9	78.7	88.2	83.1	78.7	68.2
(% of GDP)	17.2	19.9	21.4	19.1	17.1	14.1

Notes: 1 Operating balance before gains and losses.
2 A series of net core Crown debt (the previous headline net debt indicator) can be found on page 159.

Sources: Stats NZ, the Treasury

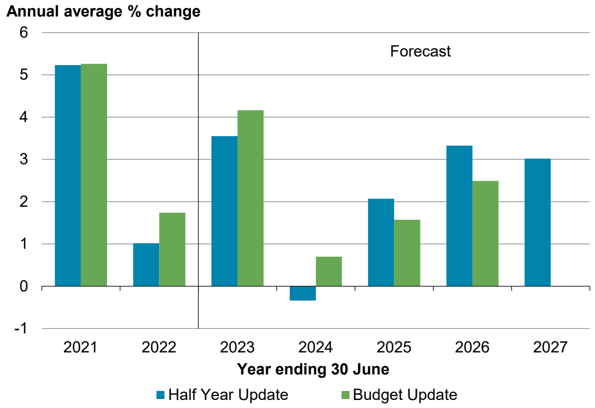
Since the *Budget Update,* inflation has been higher and more persistent than forecast, and interest rate expectations have risen markedly. While we think annual CPI inflation is near its peak, we forecast it will be relatively slow to fall away – not moving back inside the 1 to 3% target band until end-2024 – and interest rates will need to rise to a higher level than previously expected to help slow growth and reduce price pressures.

While the precise timing is uncertain, our base case is that real GDP growth is forecast to slow materially through 2023, with a contraction of 0.8% over the three quarters to end 2023 before a slow, gradual recovery in 2024 and beyond.

Overall, the outlook for real GDP growth over 2022/23 and 2023/24 is more cyclical than was forecast in the *Budget Update.* The forecast unemployment rate is higher.

All the components of domestic demand are forecast to decline through 2023, as household and firm incomes and balance sheets come under increasing pressure, savings built up during the COVID-19 period run down and the terms of trade decline. The unwind of COVID-19 related expenditures contributes to real government spending falling.

Figure 1 – Real GDP growth



Sources: Stats NZ, the Treasury

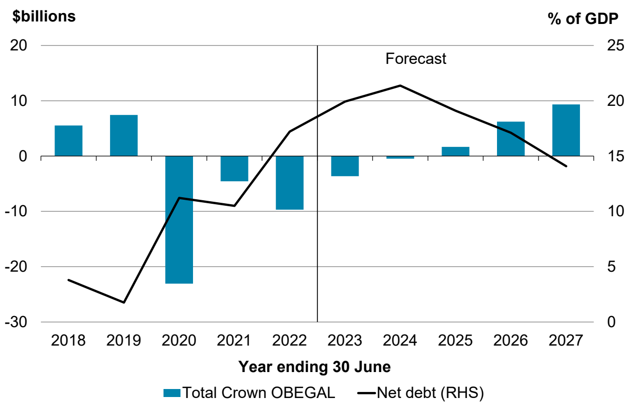
The unemployment rate is forecast to increase through 2023 to a peak of around 5.5% in mid-2024, from the near-record low level of 3.3% recorded in the September 2022 quarter.

The timing of the forecast slowdown in growth, the decline in CPI inflation and consequent implications for monetary policy are key uncertainties for the forecasts. An earlier easing in inflation pressures could see a moderation of the forecast interest rate cycle. Conversely, more persistent inflation could see a stronger interest rate and growth cycle. The impact of alternative judgements for the persistence of inflation pressures and global growth is explored further in the Risks to the Economic and Fiscal Forecasts chapter.

Economic developments have contributed to recent fiscal outturns being better than forecast in the *Budget Update*. Capacity pressures and high CPI inflation contributed to both expenditure underspends and revenue outperformance, and to the operating balance before gains and losses (OBEGAL) deficit being lower than expected in 2021/22. In economic terms, fiscal policy was less expansionary than previously estimated as measured by the fiscal impulse.

Looking forward, all the key operating indicators (the operating balance, OBEGAL and residual cash) are forecast to move from deficit to surplus over the forecast horizon. The OBEGAL deficit is forecast to shrink further this year and move close to a balanced position in 2023/24. The recovery in OBEGAL in the near-term is expected to be at a faster pace compared with the *Budget Update* and returns to a surplus ($1.7 billion) in 2024/25 – the same year as forecast in the *Budget Update*.

Figure 2 – OBEGAL and net debt



Source: The Treasury

Despite a worsening economic outlook for 2023, the strength of current activity and higher inflation result in a stronger nominal GDP forecast. This, coupled with a stronger tax base at 30 June 2022, contributes to higher forecast tax revenue. In total, core Crown tax revenue forecasts are $9.0 billion higher than the *Budget Update* forecasts or on average $2.3 billion per annum. Total core Crown revenue is expected to increase slightly faster than the nominal GDP.

The near-term improvement in OBEGAL compared with the *Budget Update* is driven by a combination of higher tax revenue forecasts, higher interest income and stronger ACC results (mainly from lower expenditure due to interest rate changes). However, in the later years of the forecast, this is more than offset by the expected impact of higher finance costs (reflecting higher interest rates), benefit expenses (mainly from stronger wage growth) and an increase in the Climate Emergency Response Fund (CERF), which has been topped up since the *Budget Update*. Taken together, the latter three items grow from 10.3% of GDP in 2021/22 to 11.5% in 2026/27.

As outlined in the 2023 Budget Policy Statement the Government has maintained the Budget operating allowances from the *Budget Update*. The Budget 2023 operating allowance is $4.5 billion, however after considering pre-commitments (including the multi-year funding announced in the *Budget Update)* on average $1.8 billion is still available. The operating allowances for Budget 2024 through to Budget 2026 are set at $3 billion.

The unwind of COVID-19 related expenditures is a key influence on the short-term expenditure profile with core Crown expenses being lower than last year as a share of GDP. After taking account of forecast inflation and wage movements, growth in public consumption (a sub-component of total Crown expenses) is forecast to stabilise this year and be negative in 2023/24 and 2024/25, with the level of real public consumption declining by 8.2% between the September quarter 2022 and the December quarter 2024.

The Government's fiscal strategy of reducing fiscal deficits and returning the OBEGAL to surplus by 2024/25 is helping to reduce demand pressure in the economy and supporting monetary policy to reduce inflation.

The net debt fiscal indicator is forecast to peak at 21.4% of GDP ($88.2 billion) in 2023/24. By the end of the forecast period, net debt is expected to fall to 14.1% of GDP ($68.2 billion). Net debt is expected to be higher across all years when compared to the *Budget Update*. In nominal terms, net debt is just over $9.0 billion higher by 2025/26, with two-thirds of the higher position reflecting additional funding requirements.

Net worth attributable to the Crown rises steadily over the forecast period reflecting the moderation in the rise of debt alongside ongoing growth in assets, as the operating balance is in a surplus position in most years of the forecast period.

Some of the negative economic risks noted above, such as weaker world growth or a stronger wage/inflation cycle, would drive contrasting changes to the fiscal position over the forecast horizon. The former would see a weaker outlook for OBEGAL, while the latter would lead to a stronger OBEGAL, the difference being due to the impact of inflation on nominal GDP growth. Conversely, a more positive economic picture such as inflation abating more quickly than expected, would likely leave the outlook for the OBEGAL pretty similar to the main forecast, with lower inflation and stronger activity largely offsetting each other in terms of their impact on nominal GDP.

Finalisation dates for the *Half Year Economic and Fiscal Update (Half Year Update)*

Economic forecasts – 9 November 2022

Tax revenue forecasts – 28 November 2022

Fiscal forecasts – 28 November 2022

Risks to fiscal forecasts – 28 November 2022

Text finalised – 9 December 2022

1

Economic Outlook

Growth is expected to remain solid over the second half of 2022…

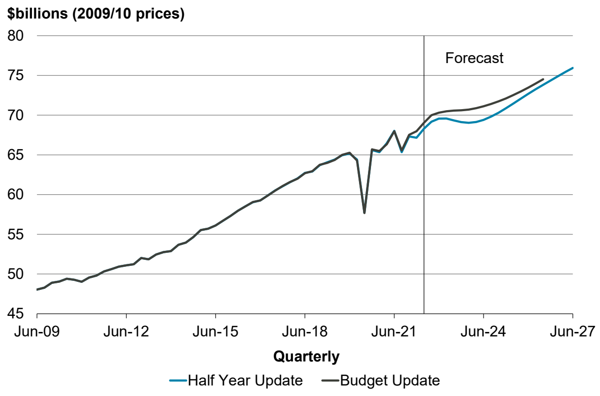
The Aotearoa New Zealand economy grew at a solid pace over the first half of 2022, and this momentum is forecast to have continued over the second half of the year. Growth is being supported by a recovery from the effects of the pandemic on household spending on services, and the tight labour market is supporting household income growth. The return of international tourists following the reopening of the borders is further boosting services activity. Investment activity is being supported by a large pipeline of projects, partly reflecting backlogs that have arisen from shortages of labour and materials, especially in the construction industry.

…but the outlook has become more challenging

Over the past six months, the challenges facing the economy have intensified. The global outlook has deteriorated, and the economy has continued to operate well above a sustainable level of activity, and consequently inflation is high. The Reserve Bank is lifting interest rates in order to reduce activity to a more sustainable level. This is necessary to reduce inflation, but it will mean a temporary period of below-zero economic growth and a rise in unemployment.

The economy is forecast to contract 0.8% across three quarters in 2023, and the unemployment rate is forecast to rise to 5.5% in 2024. This is significantly weaker than forecast in the *Budget Update* (Figure 1.1). Growth picks up in 2024 as lower inflation and declining interest rates support a recovery in real household incomes, consumption and investment (Table 1.1). The weaker outlook for the real economy flows through to nominal GDP and to downward revisions of forecast tax revenue.

Figure 1.1 – Real GDP



Sources: Stats NZ, the Treasury

The outlook is highly uncertain because of the range and scale of the challenges present, particularly persistent domestic and global inflation and sharply higher interest rates. Key sources of uncertainty include the effectiveness of central banks' monetary policy tightening, developments in Russia's war on Ukraine, the evolution of the COVID-19 pandemic in China, and the property market downturn in China.

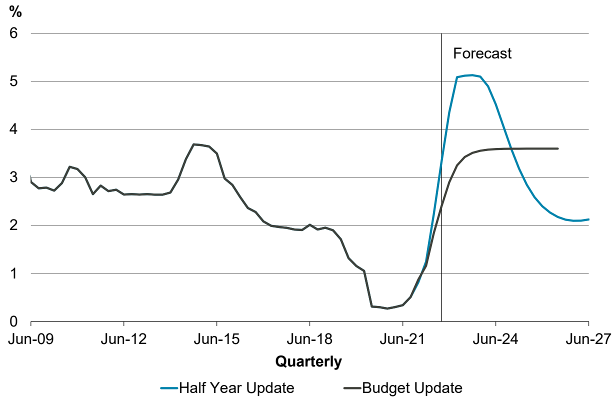
Table 1.1 – Economic forecasts

Year ending June Annual average % change	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Private consumption	-0.1	1.7	-0.5	2.7	3.8	3.5
Public consumption	10.1	0.4	-4.7	-1.5	0.7	0.2
Total consumption	**2.4**	**1.3**	**-1.5**	**1.7**	**3.1**	**2.7**
Residential investment	-4.4	2.5	-6.0	4.1	6.3	3.4
Business investment[1]	4.7	2.4	-2.0	2.8	5.8	5.4
Total investment	**2.3**	**2.4**	**-3.0**	**3.1**	**5.9**	**4.9**
Stock change[2]	0.5	-0.4	0.0	0.0	0.0	0.0
Gross national expenditure	**3.1**	**1.4**	**-1.9**	**2.0**	**3.7**	**3.2**
Exports	-2.8	14.3	3.2	3.8	3.6	2.9
Imports	11.4	1.4	-2.7	3.4	5.1	3.8
GDP (expenditure measure)	**-0.2**	**3.9**	**-0.3**	**2.0**	**3.3**	**3.0**
GDP (production measure)	**1.0**	**3.5**	**-0.3**	**2.1**	**3.3**	**3.0**
Real GDP per capita	0.7	3.2	-1.0	1.1	2.2	1.8
Nominal GDP (expenditure measure)	5.1	9.8	4.5	5.5	5.7	5.2
GDP deflator	5.3	5.8	4.9	3.4	2.4	2.2
Potential GDP	0.0	4.3	2.3	2.3	2.3	2.4
Output gap (% of potential, June quarter)[3]	2.3	0.2	-1.9	-1.3	-0.4	0.1
Employment	2.8	1.1	-1.2	0.6	2.0	1.8
Unemployment rate[4]	3.3	3.8	5.5	5.2	4.6	4.3
Participation rate[5]	70.9	71.3	71.0	71.0	71.0	71.1
Hourly wages (annual % change)[6]	6.4	6.8	6.1	4.7	4.0	3.8
CPI inflation (annual % change)	7.3	6.4	3.5	2.5	2.0	2.0
Terms of trade (goods)[7]	2.9	-7.2	0.8	1.3	0.5	0.7
House prices (annual % change)[8]	5.0	-13.0	-2.0	9.7	8.9	5.5
Current account balance (annual)						
$billions	-27.9	-29.8	-23.3	-20.8	-21.1	-22.1
% of GDP	-7.8	-7.6	-5.6	-4.8	-4.6	-4.6
Net international investment position (% of GDP)	-49.9	-53.0	-56.3	-58.2	-59.6	-61.2
Exchange rate (TWI)[9]	72.2	70.0	70.2	70.5	70.8	71.0
90-day bank bill rate[10]	2.2	5.1	4.5	2.8	2.2	2.1
10-year bond rate[10]	3.7	4.7	4.8	4.7	4.4	4.1

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

Inflation is high and interest rates are rising

Figure 1.2 – 90-day interest rate



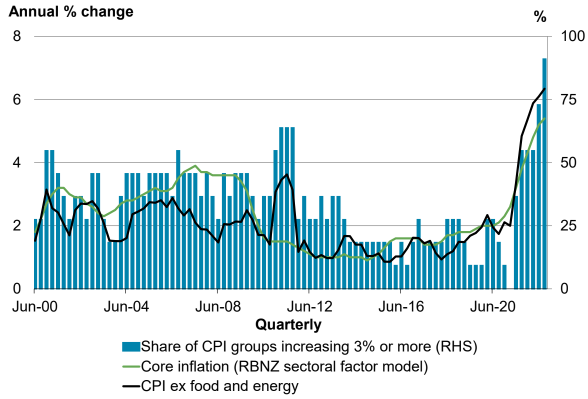
Sources: RBNZ, the Treasury

Since the *Budget Update*, inflation has been higher than forecast and interest rate expectations have risen markedly. To reduce inflation the Reserve Bank has lifted the Official Cash Rate (OCR) from 1.0% at the time of the *Budget Update* to 3.5% when these forecasts were finalised, and to 4.25% currently. The Treasury's forecasts assume the 90-day rate will rise to a little over 5.0% through most of 2023, which was broadly consistent with the expectations of other forecasters at the time of finalisation.[1] Thereafter, slowing inflation is accompanied by a gradual easing in the 90-day rate until it reaches 2.1% in late 2026. Compared to the *Budget Update*, 90-day rates are around 1.6 percentage points higher over 2023.

Inflation pressures are broad-based…

High inflation is being driven by both domestic and global forces. Internationally, inflation has risen to multi-decade highs in many countries. Although energy and food prices played a large part in this, especially in the period following Russia's invasion of Ukraine, inflation pressures have become broad-based as the strength of demand has met constrained supply of goods and labour.

Figure 1.3 – Inflation is broad-based



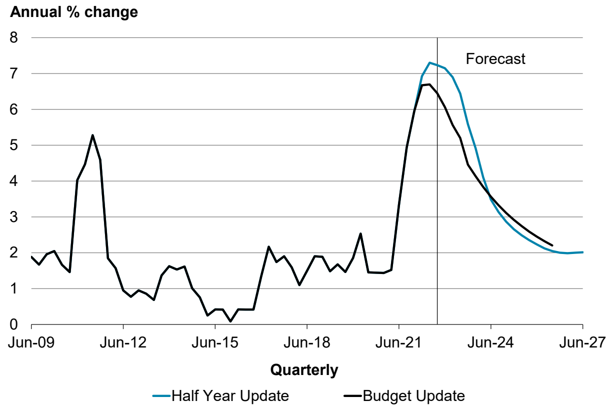
Sources: RBNZ, Stats NZ, the Treasury

There are signs that global inflation pressures are easing, but earlier increases in costs are still being passed through and keeping inflation high. Domestically, faster rates of price inflation have spread beyond the prices of building a new house and durable goods to a wide range of services and items. The broad-based nature of inflation pressures is evident in the number of groups showing annual increases of 3% or more and in measures of core or underlying inflation, which exclude changes in the prices of the most volatile items (Figure 1.3).

1 The Treasury does not explicitly forecast the OCR, but the 90-day interest rate follows closely the path of the OCR.

...and persistent

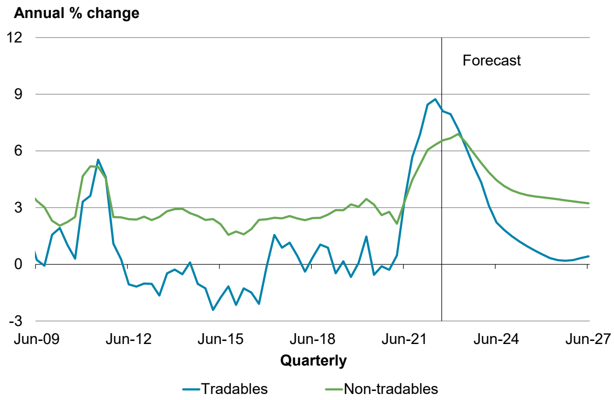
Figure 1.4 – CPI inflation



Sources: Stats NZ, the Treasury

Overall, inflation has been materially stronger than the Treasury forecast in the *Budget Update* and indicators from business surveys and other sources show near-term inflation pressures remain intense. These pressures are driven by larger increases in input costs, including imports and wages, and a greater pass-through of these costs than previously anticipated. The greater pass-through of costs is consistent with views expressed during the Treasury's business talks that it had become easier to raise prices paid by customers. From 7.2% in the September 2022 quarter, inflation is forecast to ease only gradually in the near-term, and to decline more quickly thereafter, as past increases in energy and food prices drop out of the annual figures (Figure 1.4).[2] The inflation forecast has been revised down over the second half of the forecast period. Domestically and internationally, tighter monetary policy is causing a more pronounced slowdown in activity and generating an additional margin of slack that results in a slightly lower inflation forecast.

Figure 1.5 – Tradables and non-tradables inflation



Sources: Stats NZ, the Treasury

In terms of the components of inflation, much of the unexpected strength in inflation, relative to the *Budget Update*, has been in the tradables sector. Initially, the impacts of Russia's invasion of Ukraine on global commodity prices were the main source of upward surprise. The prices of many commodities, including oil, have since returned to their pre-invasion levels, but global inflation has evolved to become more broad-based and more services and demand driven. The lower New Zealand dollar exchange rate over 2022 has also been adding to tradables inflation. As a result, tradables inflation is expected to remain strong in the near-term before lower global inflation and improved global supply chain functioning reduce price pressure (Figure 1.5).

Annual non-tradables inflation is forecast to continue rising as higher wage and other price pressures are passed through, assisted by the rise in inflation expectations (Figure 1.5). From a peak of 6.9% in the first quarter of 2023, non-tradables inflation gradually eases as interest rates slow demand growth. Inflation expectations, which are influenced by past inflation as well as the Reserve Bank's inflation target, also revert to lower levels.

2 The forecasts in the *Half Year Update* assume that temporary cuts in fuel excise duty, road user changes and public transport fares end in January 2023. The phase out of the cuts over February and March will lower annual inflation slightly in the March 2023 quarter and raise it slightly in the March 2024 quarter.

Significant risks surround the outlook for inflation. More global energy and food price shocks could cause inflation to persist for longer. Alternatively, global and domestic supply chain constraints are easing which could help to moderate inflation outcomes, particularly if accompanied by a lesser rise in inflation expectations than assumed. Inflation could be more persistent if wage growth is stronger than expected and household consumption holds up. The Risks to the Economic and Fiscal Forecasts chapter explores the implications of both higher and lower inflation outcomes for the economic and fiscal outlook.

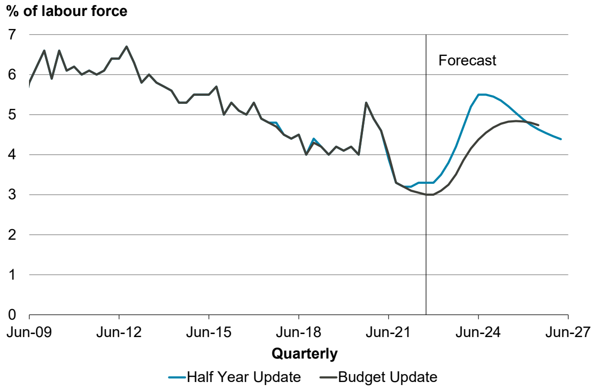
The labour market is tight…

The labour market is very tight and a number of indicators of spare capacity are at, or near, record lows. Strong employment growth in the September 2022 quarter was accompanied by a material rise in labour supply, taking both the labour force participation rate and the employment-to-population ratio to historical highs. The unemployment rate remained at 3.3% and the underutilisation rate fell, both near record low levels. In addition, measures of hours paid have risen noticeably. These conditions have contributed to a pickup in measures of labour costs, wages and overall employee compensation.

...but is expected to loosen

The labour market is expected to remain very tight over the final quarter of the year but to begin loosening in early 2023 as domestic and global headwinds cause economic activity to slow and demand for labour to ease. From 3.3% in the December 2022 quarter the unemployment rate is forecast to rise to 5.5% in the June 2024 quarter (Figure 1.6). Thereafter, the recovery in economic activity sees the unemployment rate fall gradually to 4.3% in the June 2027 quarter. The higher peak in the unemployment rate, compared with the *Budget Update*, reflects the additional monetary policy restraint required to bring inflation back to its target.

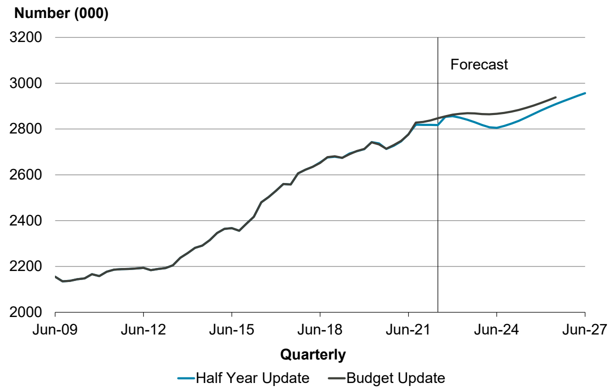
Figure 1.6 – Unemployment rate



Sources: Stats NZ, the Treasury

As GDP weakens, employment is forecast to fall. From the final quarter of 2022 until mid-2024, the number of people in paid employment is forecast to fall by around 50,000 (Figure 1.7), taking the total number employed back to its mid-2021 level.

Figure 1.7 – Employment



Sources: Stats NZ, the Treasury

Growth in the working-age population rises to 1.3% in mid-2025 underpinned by a recovery in net migration from the COVID-19 border restrictions. Net migration is assumed to move from a net outflow of 12,500 in the year ended September 2022 to a net inflow of 36,500 by the end of the forecast period (see discussion on page 16).

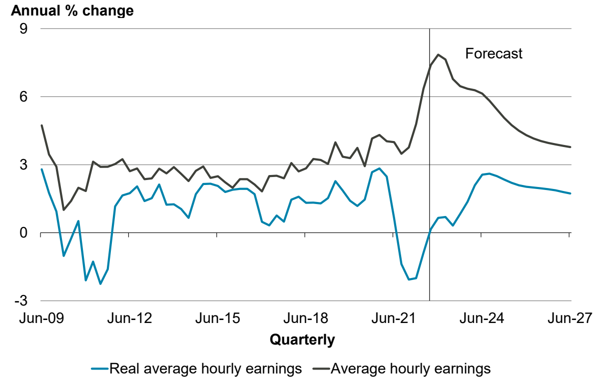
Household incomes have grown strongly…

Growth in hourly wages has strengthened in recent quarters and is broadly keeping pace with inflation. Labour incomes have been further boosted by increases in employment and in paid hours. During the Treasury's business talks, firms reported that some employees were working extra hours to compensate for labour shortages arising from both illness and wider capacity constraints. The aggregate impact of growth in employment, wages and hours paid is captured in the national accounts measure of compensation of employees (CoE). Annual growth in CoE has averaged over 9% since early 2021 and is contributing to the strength of household demand.

Growth in annual hourly earnings is forecast to rise to a peak of 7.9% in the December 2022 quarter (Figure 1.8). Growth eases but remains high over the next two years at 6.8% and 6.1% in the June 2023 and June 2024 quarters respectively, supported by public sector wage increases and fair pay agreements.

In real, inflation adjusted terms, average hourly earnings are about 1.7% below their peak in the December 2020 quarter but are expected to recover over the period ahead as nominal wage growth outpaces inflation (Figure 1.8). Real wages return to their December 2020 level by the December 2023 quarter. Real wage growth remains relatively strong over the remainder of the forecast period, growing at an average rate of 2.0% per year, as labour's share of national income returns to its pre-pandemic level.

Figure 1.8 – Earnings growth



Sources: Stats NZ, the Treasury

Despite the rise in real hourly earnings, falling employment drives a decline in the aggregate real COE measure over 2023. This decline flows through to weaker household consumption, which helps deliver the adjustment in demand necessary to reduce inflation. As interest rates decline and labour demand recovers, real COE strengthens and returns to its 2022 peak in early 2025.

The outlook for the labour market is dependent on wider economic developments. Uncertainties relating to economic growth, such as a sharper fall in demand, could lead to a weaker outlook for employment and higher unemployment. Employment could rise further if demand holds up and the participation rate continues to rise or migration inflows recover more quickly. The impact of the recent Fair Pay Agreements Act on the labour market and, in the medium-term, the proposed New Zealand Income Insurance Scheme are additional sources of uncertainty.

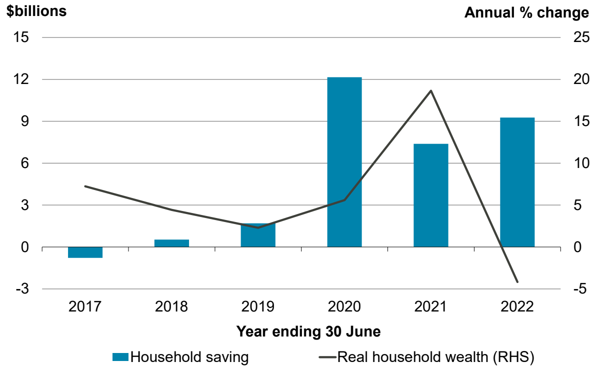
…but will come under increasing pressure…

Higher interest rates are adding to household mortgage expenses and raising the cost of capital for businesses, while persistently high inflation and falling employment will increasingly weigh on real household incomes. Rising interest rates are also causing house prices and other asset prices to fall, resulting in declining household wealth (Figure 1.9).

…as mortgages roll-over…

Some households have built up large savings buffers during the pandemic, which will help offset the impact of rising cost of living expenses and higher mortgage interest rates, while other households will feel the pressures more acutely (Figure 1.9). Low-income households with limited savings buffers and a high share of spending on essential goods and services, such as food and housing, will be particularly affected.

Figure 1.9 – Household saving and real wealth



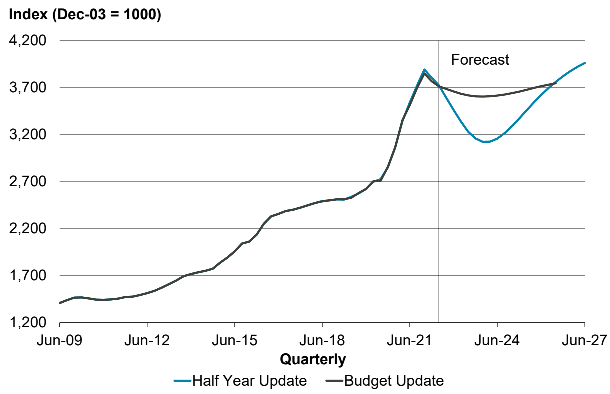
Sources: Stats NZ, the Treasury

The impact of higher interest rates will build over the year ahead as more mortgages roll over onto higher interest rates. Since the beginning of the year, one- and two-year fixed-term mortgage rates have risen by around 2 percentage points, increasing mortgage payments by around $800 per month on a $500,000 mortgage. Due to the large share of fixed-rate mortgages in the total stock of mortgage debt, higher rates take time to fully feed through into household budgets.

…and household wealth falls…

Rising interest rates have also led to falls in house prices and, after taking into account the effects of inflation, household net worth[3] has fallen. Further falls in house prices and household net worth are expected as mortgage interest rates continue to rise. House prices are forecast to fall by a further 15% between the September quarter 2022 and the December quarter 2024, much weaker than predicted in the *Budget Update*, reflecting larger declines to date and the impact of higher interest rates (Figure 1.10). House prices recover from 2025 onwards as household income growth picks up and interest rates fall, returning to their 2021 peak in late 2026.

Figure 1.10 – House prices



Sources: CoreLogic, the Treasury

…resulting in weaker household consumption

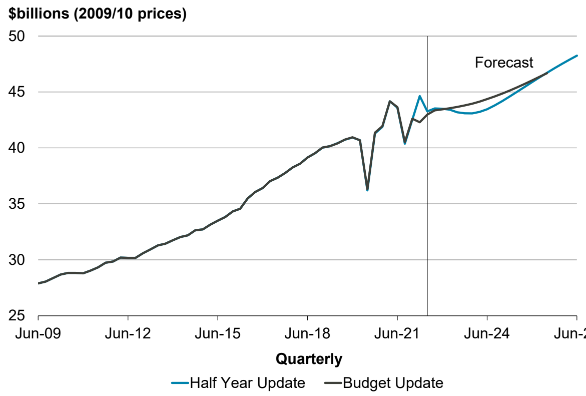
Household consumption growth has been volatile in recent quarters but, on balance, expanded solidly over the first half of 2022 as services spending recovered from the pandemic. The recovery in services spending, including overseas travel, is expected to continue over the second half of the year. While the strong labour market will continue to support incomes in the near-term, employment growth is forecast to weaken as the impacts of higher prices, rising mortgage interest expenses and large declines in

3 The value of financial and non-financial assets less total financial liabilities.

household wealth increasingly weigh on spending and reduce firms' demand for workers. These factors, as well as the global uncertainty including from the Russian invasion of Ukraine, are being reflected in weak consumer confidence.

Overall, household consumption falls by 1.0% between the fourth quarter of 2022 and the third quarter of 2023 (Figure 1.11). From late-2023, lower inflation relieves pressure on budgets and consumption begins to pick up. Lower interest rates provide further relief to household budgets and rising house prices add to wealth, which drives consumption growth of around 3.7% per year over the final two years of the forecast.

Figure 1.11 – Real household consumption



Sources: Stats NZ, the Treasury

Significant uncertainty remains around this forecast given the sensitivity of consumption to house prices and to the decisions households make around the savings they have accumulated. The response of household spending to falling house prices may be affected by their perceptions of the sustainability of house price increases over 2020 and 2021. If households viewed the higher prices as unsustainable or temporary, their consumption spending may not have increased as much. The corollary is that the dampening effects of falling house prices on spending may be less than assumed. Accumulated savings may provide a buffer against the impacts of higher interest rates and consumption may be stronger. Conversely, house prices may be more sensitive to higher interest rates than assumed.

Falling real government spending helps relieve demand pressure…

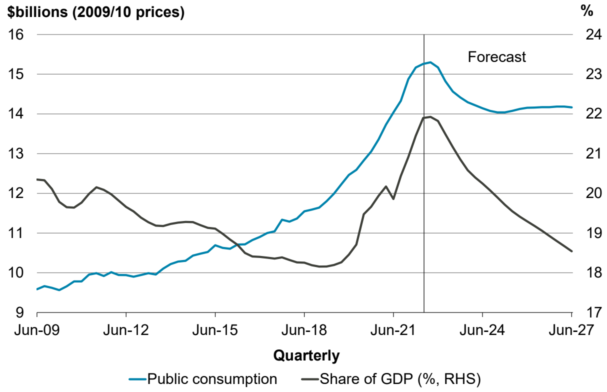
The *Budget Policy Statement 2023* confirms the Government's intention to return OBEGAL to surplus by 2024/25 and to maintain the current settings for allowances for new operating spending. The Government's fiscal decisions impact directly on public consumption and investment and indirectly, primarily through taxes and transfers, on household consumption and private investment. As discussed in the Fiscal Outlook chapter, this strategy results in a net reduction in public demand in each year of the forecasts that helps to cool inflation and reduces the need for the Reserve Bank to raise rates. The Treasury's fiscal impulse captures the scale of the Government's impact (see page 54).

Focusing on public consumption spending,[4] the Treasury's forecasts are conditioned on the profile for spending on core government services detailed in the fiscal forecasts. Over the period ahead, inflation and public sector wage increases are expected to raise the cost of purchasing goods and services and to reduce the volume of services that can be provided.

4 This measure of government spending does not include transfer payments (benefits) and subsidies and can broadly be thought of as public services.

This results in a decline in real public consumption spending of 8.2% over the period to the December 2024 quarter (Figure 1.12). This would be the largest fall since at least 1987 when current reporting standards were adopted. For comparison, the decline that occurred between the start of 1990 and the September quarter of 1991 was 7.8%. The current episode follows a period of strong growth leading into and during the COVID-19 period. Between the start of 2020 and mid-2022 real government consumption increased by 21%, meaning that after this decline real government consumption remains above pre-COVID-19 levels. As a share of GDP, public consumption declines by around 3.4 percentage points and returns to its pre-pandemic share of 18.5% of GDP at the end of the forecast period (Figure 1.12).

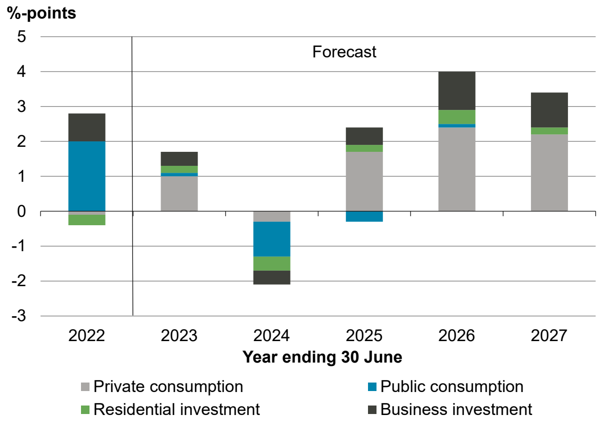
Figure 1.12 – Real public consumption expenditure



Sources: Stats NZ, the Treasury

The fall in real government consumption plays a key role in unwinding excess demand in the economy, which reduces pressure on the private sector to contract further. Figure 1.13 shows that the fall in public consumption accounts for nearly half of the total decline in domestic demand in 2023/24, and that it continues to subtract from demand in 2024/25. Real government consumption grows modestly thereafter as the pace of input price growth slows.

Figure 1.13 – Contributions to final domestic demand

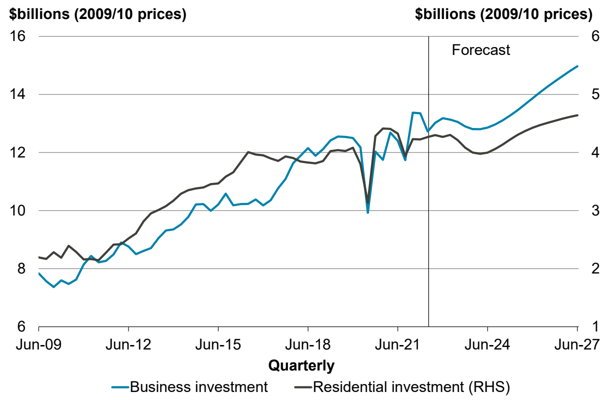


Sources: Stats NZ, the Treasury

...while residential and business investment also weaken

Both residential and business investment are expected to remain at high levels in the short-term as there is a large pipeline of housing consents and business projects to work through (Figure 1.14). Business surveys and other data point to some improvement in supply chains and material availability, which will help to sustain activity in the near-term. However, the tight labour market is a significant constraint on investment activity. Labour shortages were a key theme of the Treasury's business talks and business surveys continue to show

Figure 1.14 – Residential and business investment



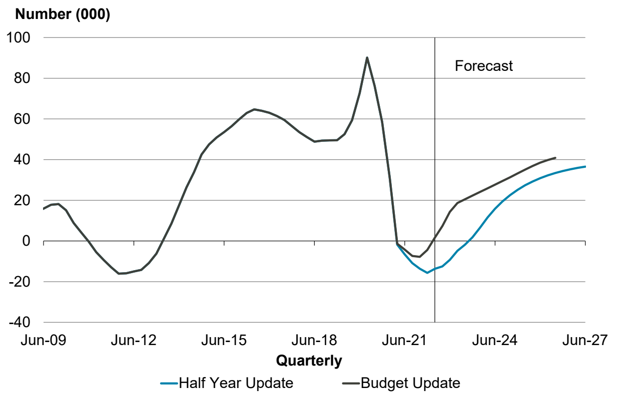
Sources: Stats NZ, the Treasury

acute constraints on labour availability. Activity is forecast to ease from around the middle of 2023 as lower house prices, high construction costs and rising interest rates slow the demand for new housing and raise the costs of business investment. In addition, the weaker global outlook will weigh on business confidence and export prices, dampening investor appetite.

Potential output is lower

The economy's productive capacity, or potential output, forms the base for assessing the degree of excess demand in the economy and the nature of the adjustment required to bring demand and supply back to a more sustainable balance.

Figure 1.15 – Annual net migration



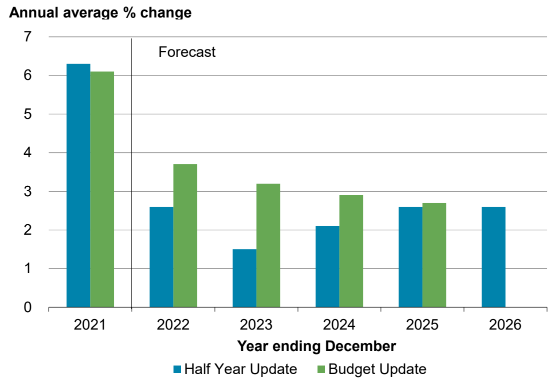
Sources: Stats NZ, the Treasury

Population is a key driver of potential output and downward revisions to official population estimates have lowered the starting point estimate of potential output by around 0.4%. Official estimates of net migration have also been revised down and, in the year ended June 2022, net migration outflows were around 14,000, well below the *Budget Update* estimate of an inflow of over 1500 (Figure 1.15). The lower level of net inflows is assumed to persist over the forecast period, and by the June 2026 quarter (the final forecast quarter of the *Budget Update*) the projected population and potential output are around 1.2% lower than in the *Budget Update*. Migrant flows also impact on demand in the economy, and on balance, the impact of the downward revision to immigration reduces both demand and supply by roughly equal amounts over the forecast period and is broadly neutral for the inflation outlook. Weaker growth in labour supply flows through into the Treasury's forecast for potential growth, which is revised down to 2.3% in 2025/26 from 2.6% in the *Budget Update.*

The global outlook has deteriorated…

The global outlook has deteriorated in the face of numerous headwinds including persistently high inflation, tighter monetary policy in many major economies, the energy crisis in Europe, sanctions and other disruptions arising from Russia's invasion of Ukraine, and subdued growth in China amidst ongoing pandemic control measures and a troubled property sector. In the United States, high inflation and rising interest rates are expected to see growth slow to around 0.4% in 2023. Lower inflation and declining interest rates enable growth to recover to 1.7% in 2024 and to around 2.0% thereafter. Annual inflation in the United States is assumed to ease from an average of around 8% this year to about 4% in 2023 and 2.4% in 2024.

Figure 1.16 – Trading partner growth



Sources: Haver, the Treasury

In China, the pandemic is continuing to disrupt the economy and the property sector is a further drag on growth. Conditions are expected to improve in 2023 and growth is assumed to rise to 4.7%, from 3.3% in 2022. Growth is assumed to be around 4.5% thereafter.

The Australian economy is continuing to hold up well although tighter monetary policy and high inflation are weighing on the outlook. Monetary policy is expected to tighten further in coming months but the policy rate is not expected to rise as high as in some other economies and the slowdown in growth is expected to be relatively mild. Growth is expected to be around 4% this year before slowing to be a bit below 2% in 2023 and 2024 and returning to trend growth of around 2.4% thereafter.

Overall, growth in Aotearoa New Zealand's major trading partners is expected to be 1.5% in 2023 and 2.1% in 2024, lower than expected in the *Budget Update* (Figure 1.16). This would be the weakest outturn since at least 1991 outside the contractions in trading partner GDP that occurred with the onset of the pandemic and the global financial crisis of 2007/08. Growth recovers to an average of around 2.6% over the rest of the forecast period, well below the pre-pandemic decade average growth rate of 3.3%.

The forecast for trading partner growth is highly uncertain. Key sources of uncertainty include the impacts of the current synchronised tightening in monetary policy. Monetary policy may prove more effective than expected, leading to a sharper slowdown in growth and inflation. Alternatively, inflation may prove more persistent and require additional policy action. In China, COVID-19 outbreaks and a worsening of conditions in the property sector could prove more disruptive to growth than assumed. There are also risks on the supply side, including the threat of further disruption to global energy supplies and from COVID-19-related supply chain disruptions in China. The Risks to the Economic and Fiscal Forecasts chapter explores the impacts of weaker trading partner growth on the economic outlook.

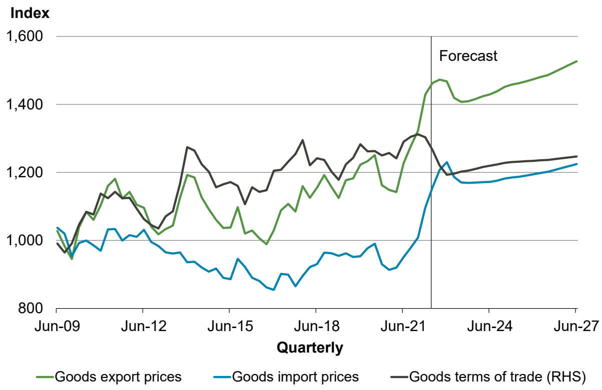
…export prices are falling…

The weaker global outlook is being reflected in lower prices for NZ's commodity exports. Global dairy prices have declined 33% from their peak earlier this year and broader measures of world commodity export prices have also declined significantly. The weaker New Zealand dollar has helped to buffer these falls over much of 2022 but, in recent weeks, the dollar has recovered somewhat, broadly in line with the assumptions underlying these forecasts. The forecasts assume the New Zealand dollar trade-weighted index (TWI) exchange rate is broadly steady over the next year or so, and that weaker world prices will flow through to declines in New Zealand dollar export prices through to the middle of 2023. Falling global commodity prices, including oil, and declines in global freight rates have reduced some import price pressures, but global core inflation is continuing to rise, and we expect import prices to increase further[5]. The net impact of lower export prices and higher import prices is reflected in the weaker terms of trade. From their trough in mid-2023, the terms of trade are assumed to increase only modestly (Figure 1.17).

…and global trade is fragmenting…

Increasing geopolitical fragmentation is expected to impinge on global trade and to weigh on the outlook for the terms of trade. Before the pandemic, increasing globalisation caused import prices to fall relative to global inflation, largely owing to increased competition in manufacturing through abundant labour supply in developing economies. A resumption of this trend is unlikely in an increasingly polarised environment with growing barriers to trade. While the medium-term outlook for Aotearoa New Zealand export prices is expected to be positive, partly reflecting increasing constraints on the global supply of agricultural commodities, higher import prices are expected to slow overall growth in the terms of trade.

Figure 1.17 – Terms of trade



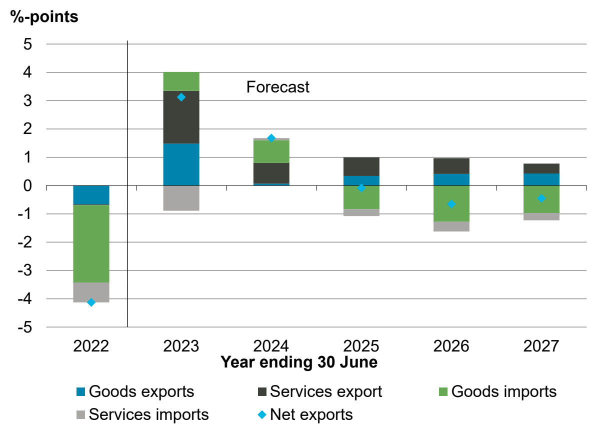
Sources: Stats NZ, the Treasury

…but export volumes are recovering…

Net exports are forecast to make a positive contribution to real GDP growth over the next two years, driven by a recovery in services exports as tourism picks up (Figure 1.18). Thereafter, the recovery in domestic demand results in modest negative contributions as import demand outpaces growth in exports.

International visitor arrivals and spending have increased faster than anticipated, but the weaker global outlook is expected to dampen demand. Overall, the forecast for services exports is not much different to the *Budget Update*.

Figure 1.18 – Net exports contribution to GDP growth



Sources: Stats NZ, the Treasury

5 Oil prices are assumed to ease across the forecast period from US$86 in the December 2022 quarter to US$75 in 2027.

Total real exports are forecast to increase 14.3% in 2022/23 underpinned by a lift in services exports to around three-quarters of its pre-pandemic level. Further ahead, services exports continue to recover more slowly thereafter and are close to their pre-pandemic level at the end of the forecast period. Goods exports, which were disrupted by illness and labour shortages in early 2022, are forecast to rise by 8.0% in 2022/23. Goods exports stabilise in 2023/24 as the poor start to the 2022/23 dairy season and weaker world demand weigh on growth.

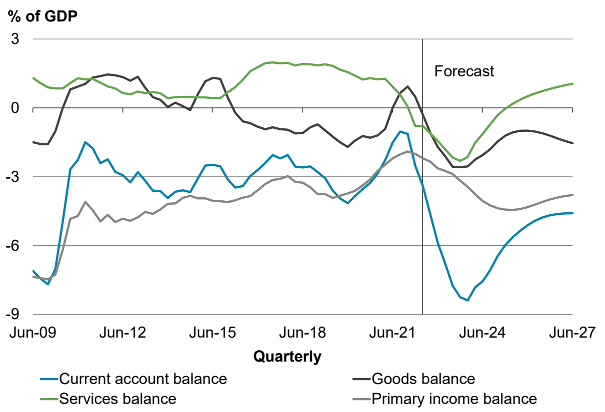
The forecast for growth in real goods exports has been revised down from the *Budget Update*, primarily owing to a more constrained outlook for dairy exports. Growth in dairy production has slowed in recent years and future growth is expected to be limited by measures to reduce greenhouse gas emissions. Compared to the *Budget Update* export volumes are around 5% lower in 2025/26.

Import growth has been strong, reflecting underlying demand growth and high commodity prices and, more recently, an increase in outbound tourism. The deteriorating economic outlook is expected to see imports of goods and services weaken sharply in the near term and to remain weak through to the end of 2024 when domestic demand starts to pick up again. However, import demand remains lower than in the *Budget Update*, reflecting the weaker real economy, and provides a partial offset to the impact of the downward revision to exports on overall GDP growth.

…helping the current account deficit to narrow

The weaker terms of trade will weigh on the current account, but the continued recovery in international tourism provides an offset and the services balance returns to surplus (Figure 1.19). The current account deficit is forecast to widen to 8.4% of GDP in the December 2022 quarter, as the continued strength in near-term activity keeps import demand high. The lower New Zealand dollar exchange rate is exacerbating import price increases. The income deficit is projected to widen to around 5% of GDP, driven by higher global interest rates and the accumulation of debt, including public debt, over the past few years. On balance, the narrower goods deficit and rising services surpluses outweigh the effects of the wider income deficit and the current account deficit narrows to around 4.5% by the end of the forecast period. The cumulative impact of these deficits is reflected in the net international liability position, which rises from 50% of GDP at 30 June 2022 to 61.2% of GDP at 30 June 2027.

Figure 1.19 – Current account balance



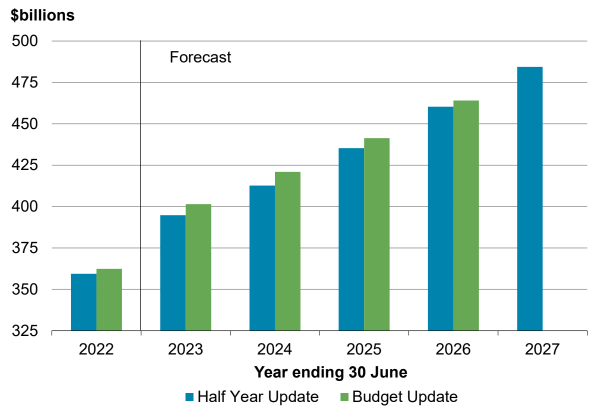
Sources: Stats NZ, the Treasury

The current account deficit is significantly wider than forecast in the *Budget Update*. Higher global interest rates add to the income deficit while the lower terms of trade and the weaker outlook for net exports weighs on the goods deficit. Overall, the current account deficit is around 1% wider on average over the forecast period and the decline in the net liability to GDP ratio is 4.5 percentage points larger over the period to 30 June 2026.

Nominal GDP is lower

Nominal GDP is the key driver of the fiscal revenue forecast and its level is projected to be 0.8% lower in 2025/26 than in *Budget Update*, driven by the lower level of real GDP discussed above (Figure 1.20).

Figure 1.20 – Nominal GDP



Sources: Stats NZ, the Treasury

Nominal GDP is forecast to grow strongly in 2022/23, rising 9.8%, driven by growth in labour incomes and higher prices. Exports prices have a dampening influence initially and a small positive effect from 2023/24 onwards as they recover. Slower growth in labour income, lower inflation and weak real activity lead to slower nominal growth in 2023/24 of 4.5%. Growth averages around 5.5% over the remainder of the forecast horizon as real growth recovers, labour incomes pick up and inflation continues to ease.

In terms of cumulative growth between 2022/23 and 2025/26, nominal GDP is around 1.4% or $24.8 billion lower than in the *Budget Update*.

Key economic forecast judgements and assumptions

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

- The Trade Weighted Index (TWI) exchange rate is assumed to average 68.5 in the December 2022 quarter and to rise gradually to 71.0 at the end of the forecast period.
- Net migration is assumed to be around -12,500 in the year ended September 2022 and to rise to 36,500 by the June 2027 quarter.
- Oil prices are assumed to ease across the forecast period from US$86 in the December 2022 quarter to US$75 in 2027.
- Trading partner growth is forecast to increase 2.1% in the year ended December 2023, and 1.5% in the year ended December 2024, down from the *Budget Update* forecast of 3.2% and 2.9% in 2023 and 2024 respectively.
- The non-accelerating inflation rate of unemployment is assumed to be 4.25% in the long-run, unchanged from the *Budget Update.*

2

Fiscal Outlook

- The fiscal outlook is expected to improve over the forecast period. The operating balance before gains and losses (OBEGAL) is expected to return to surplus in 2024/25, while net debt starts to fall from 2023/24.
- The improvement in the fiscal outlook is underpinned by stable growth in tax revenue, reflective of the strength in near-term activity and higher inflation, which results in a strong outlook for nominal GDP. In contrast, core Crown expenses as a percentage of GDP are expected to decline, as temporary COVID-19 spending falls away and smaller levels of funding are set aside for future Budget operating allowances.
- All the key operating indicators (the operating balance, OBEGAL and residual cash) are expected to improve, moving from deficits in the near term into surplus positions during the forecast period. OBEGAL is forecast to return to a surplus of $1.7 billion in the 2024/25 year, before reaching $9.3 billion (or 1.9% of GDP) in 2026/27. Although residual cash improves, an accumulated cash deficit of $24.6 billion is still expected over the forecast period.
- Despite a weaker economic outlook for 2023, the stronger-than-expected base provided from the 30 June 2022 results and higher inflation has resulted in growth in nominal GDP across the forecast period, which contributes to the increasing forecast tax revenue. Core Crown tax revenue is forecast to increase by $40.7 billion between 2021/22 and 2026/27. This growth is broadly in line with the nominal economy, as core Crown tax revenue remains around 30.0% of GDP across the forecast period.
- Core Crown expenses are expected to increase by $24.2 billion over the forecast period, an average of $4.8 billion per year. As a percentage of GDP, core Crown expenses decline from 35.0% of GDP in 2021/22 to 30.9% of GDP by 2026/27, with the reduction in COVID-19 related expenditure being a key driver. In addition, as outlined in the *2023 Budget Policy Statement*, the Government has maintained the current settings for allowances for new operating spending. For Budget 2023, of the signalled operating allowance of $4.5 billion around, $1.8 billion remains unallocated.
- The nominal increase in core Crown expenses is driven primarily by economic factors that have increased finance costs and benefit expenses. Core Crown finance costs nearly treble across the forecast period, to $8.0 billion in 2026/27. In addition, a decision to top up the Climate Emergency Response Fund (CERF) has added around $0.4 billion per year to core Crown expenses from 2023/24.
- Core Crown residual cash is expected to return to surplus in 2024/25, the same year as OBEGAL. While the trend in operating cashflows largely mirrors OBEGAL, the forecast for capital spending has also impacted the residual cash trend. Net capital spending of $61.3 billion is expected over the forecast period, the majority of which falls in the first two years, resulting in residual cash deficits forecast in those years.

- Net debt is expected to peak in 2023/24 at 21.4% of GDP ($88.2 billion), before falling to 14.1% of GDP in 2026/27. Across the forecast period, net debt increases by $6.3 billion, predominantly owing to funding the accumulated residual cash deficits over the period (excluding net increases in advances and contributions to the New Zealand Superannuation Fund (NZS Fund).

- Net worth grows over the forecast period by $40.7 billion, reflecting the forecast total Crown operating balance results. As a share of GDP, net worth falls from 48.5% of GDP in 2021/22 to 42.8% of GDP in 2024/25, before rising to 44.4% of GDP by the end of the forecast period (as operating surpluses increase).

- Compared to the *Budget Update*, the fiscal outlook is expected to be slightly stronger in the near term, but weaker by the end of the forecast period. The near-term strength is driven by the better-than-expected financial results to 30 June 2022, which means the starting base for the *Half Year Update* fiscal forecast is stronger. Over the remaining forecast period, the change is largely driven by the updated economic outlook, which shows stronger wage growth, higher inflation and higher interest rates than previously expected. This impacts both revenue and expenses, but overall has an adverse impact on the fiscal outlook. Decisions to increase both the CERF and the Multi-year Capital Allowance (MYCA) have adversely impacted the fiscal outlook.

Table 2.1 – Key fiscal indicators

Year ending 30 June	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
$billions						
Core Crown revenue	117.5	130.2	137.3	144.7	154.1	161.8
Core Crown tax revenue	108.5	118.1	124.9	132.0	141.2	149.1
Core Crown expenses	125.6	129.3	134.5	140.1	144.9	149.8
Total Crown OBEGAL[1]	(9.7)	(3.6)	(0.5)	1.7	6.2	9.3
Total Crown operating balance	(16.9)	(0.7)	5.2	7.6	12.5	16.2
Core Crown residual cash	(27.0)	(25.4)	(17.6)	7.4	4.6	6.4
Net debt[2]	61.9	78.7	88.2	83.1	78.7	68.2
Total borrowings	204.0	229.9	240.6	255.4	255.5	264.0
Net worth	174.3	173.5	179.0	186.5	198.9	215.0
% of GDP						
Core Crown revenue	32.7	33.0	33.3	33.2	33.5	33.4
Core Crown tax revenue	30.2	29.9	30.3	30.3	30.7	30.8
Core Crown expenses	35.0	32.8	32.6	32.2	31.5	30.9
Total Crown OBEGAL[1]	(2.7)	(0.9)	(0.1)	0.4	1.4	1.9
Total Crown operating balance	(4.7)	(0.2)	1.3	1.7	2.7	3.3
Core Crown residual cash	(7.5)	(6.4)	(4.3)	1.7	1.0	1.3
Net debt[2]	17.2	19.9	21.4	19.1	17.1	14.1
Total borrowings	56.8	58.2	58.3	58.7	55.5	54.5
Net worth	48.5	44.0	43.4	42.8	43.2	44.4

Notes: 1 Operating balance before gains and losses.

2 The net debt indicator includes core Crown advances, Crown entity borrowings (excluding Kiwi Group borrowings) and the financial assets and borrowings of the NZS Fund. A series of net core Crown debt (the previous headline net debt indicator) can be found on page 159.

Source: The Treasury

The rest of this chapter is broken into four sections:

- **Fiscal Performance** – discusses the trends in the key indicators that illustrate the fiscal performance and therefore the fiscal sustainability of the Government's fiscal policy settings.
- **Fiscal Resilience** – discusses the trends in the key indicators that illustrate the fiscal resilience of the Government's fiscal position.
- **Crown Funding and Financing** – discusses the funding and financing requirements of the Government over the forecast period.
- **Comparison to the *Budget Update*** – discusses the drivers of the changes in key indicators from our previous forecast.

Key judgements and assumptions

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

- The forecasts incorporate Government decisions and other matters known to the Government and advised to the Treasury (up to 28 November 2022). The criteria for inclusion in these forecasts, along with the key risks, can be found in the Risks to the Economic and Fiscal Forecasts chapter. In addition to the key assumptions underpinning the economic forecasts (refer to page 20, the following key judgements and assumptions supporting the fiscal forecasts were made:
- To calculate income tax revenue across the forecast period, firms' net operating surplus forecasts on a System of National Accounts basis are used to create tax-year forecasts of total income tax for both other persons tax and corporate tax, which are then converted into fiscal years (to 30 June). For the five-year forecast period to 2026/27, the annual operating surplus growth forecasts range from 2.2% to 8.1%.
- Tax forecasts are based on the economic forecasts completed on 9 November 2022. There have been a number of tax policy changes, which are outlined below (refer to Table 2.2) as required under section 26R of the Public Finance Act 1989.

Table 2.2 – Estimated tax effects of material initiatives announced since the *Budget Update*

Year ending 30 June $millions	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**Total change**
Extension of fuel excise duty and road and track user charges rates reduction	(589)	-	-	-	-	**(589)**
Digital platforms GST compliance	-	12	47	47	47	**153**
Other changes	(4)	(18)	3	7	7	**(5)**
Total change	**(593)**	**(6)**	**50**	**54**	**54**	**(441)**

Source: The Treasury

Fuel excise duty and road user charges rates reduction – the temporary 25-cents-per-litre reductions in the rates of petroleum fuels excise and excise-equivalent duty, and the equivalent reductions in road user charges and track user charges that have been in place since March 2022, have been extended to January 2023.

Digital platforms GST compliance – with effect from 1 April 2024, digital platforms are required to collect and return GST for supplies of certain services facilitated through such platforms.

- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) is assumed to be met from within the Budget operating allowances, the MYCA or the CERF, which are included in the fiscal forecasts.
- As outlined in the *2023 Budget Policy Statement,* the funding set aside in the CERF is reviewed at each Economic and Fiscal Update, to consider factors such as changes in the cash proceeds in the New Zealand Emissions Trading Scheme (NZETS). Since the *Budget Update* the CERF has been topped up by a further $2.1 billion, reflecting the updated forecasts of NZETS cash proceeds. This leaves $3.6 billion of funding in the CERF to allocate in the future, which we assume will be allocated evenly over the next four years. It is assumed that the unallocated funds will be split between operating (90%) and capital (10%), broadly based on the allocation of funding in Budget 2022.
- The New Zealand Income Insurance Scheme (NZIIS) is assumed to commence partway through the 2024/25 fiscal year. The forecast assumes levy revenue recognised from the scheme will result in an equivalent increase in expense, therefore there is no net impact on the Government's operating balance.
- Departments will continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment will be higher at the start of the forecast period, as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have in transferring expenses into these years.
- Forecast returns on the investment portfolios managed by the Accident Compensation Corporation (ACC) and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- No revaluations of property, plant and equipment (PPE) are projected beyond the current year. Only revaluations that have already been completed are included in these forecasts.
- Significant valuations (eg, the student loans portfolio, ACC claims liability and Government Superannuation Fund retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.
- Contributions to the NZS Fund over the forecast period are set out in Table 2.3. Over the forecast years, all NZS Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund itself. For more information, refer to the Treasury website for the NZS Fund model.

Table 2.3 – NZS Fund contributions

Year ending 30 June **$billions**	**2023** **Forecast**	**2024** **Forecast**	**2025** **Forecast**	**2026** **Forecast**	**2027** **Forecast**
Forecast contributions in the *Half Year Update*[1]	2.6	1.8	1.6	1.8	1.7

Note: 1 Apart from the current year, the Government's contributions are assumed to be derived from the legislative formula.

Source: The Treasury

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 55.

Fiscal Performance

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

Total Revenue

Total Crown revenue is expected to be $159.7 billion in 2022/23, before reaching $200.6 billion by 2026/27. In the current year, around three-quarters (or $117.4 billion) of the Crown's revenue comes from tax revenue. Of this, around 70% relates to direct taxes earned from individuals (eg, source deductions such as PAYE) and businesses (eg, corporate tax), with the remainder coming from indirect taxes (eg, GST).

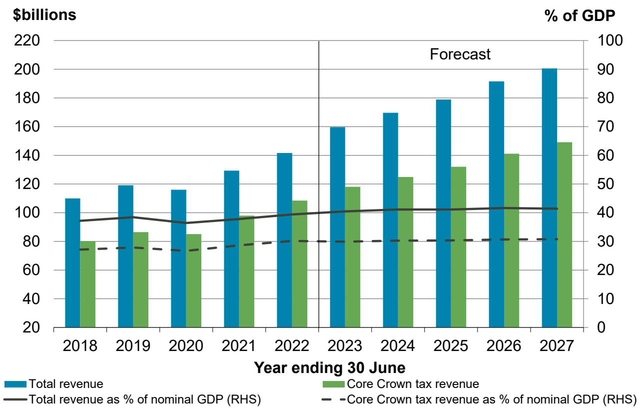
Sales of goods and services is the second-largest component, making up around 14% ($22.4 billion in 2022/23) of the total Crown revenue, and largely comprises the revenue earned from the activities of entities within the State-owned enterprise (SOE) reporting segment, such as selling electricity and air travel. Other sovereign revenue (eg, fines and levies) contributes around 7% of total Crown revenue ($10.3 billion in 2022/23), which consists mainly of ACC levies and NZETS revenue.

Total revenue grows over the forecast period in nominal terms…

Total revenue is expected to increase by $58.9 billion between 2021/22 and 2026/27. An increase of $18.0 billion is expected in the current year, followed by an average increase of $10.2 billion per year thereafter. As a share of the economy, total revenue increases by around one percentage point of GDP during 2022/23, before levelling off at around 41% of GDP across the remaining forecast period. By 2026/27, total revenue is expected to reach 41.4% of GDP. The trends in total revenue in nominal terms and as a share of GDP are largely influenced by tax revenue.

Core Crown tax revenue makes up the majority of total revenue growth and is discussed further in the next section (Figure 2.1).

Figure 2.1 – Total revenue and core Crown tax revenue



Source: The Treasury

In addition, sales of goods and services, primarily from the activities of SOEs, are expected to increase over the forecast period by $6.7 billion, which is largely matched by an associated growth in their expense.

Interest revenue grows by $4.1 billion across the forecast period owing to the impact of higher interest rates applied on interest-bearing assets, while other sovereign revenue – primarily from Crown entities – accounts for $6.0 billion of the growth in total Crown revenue.

Other sovereign revenue has increased primarily as a result of the levies associated with the NZIIS reaching $3.6 billion in 2026/27 (on a net basis, this offsets the increase in total expenses mentioned on page 28). This scheme is assumed to commence partway through 2024/25 and is intended to support workers for a period after they lose their jobs.

Revenue from ACC levies also increases over the forecast period by $1.6 billion, reaching a total of $5.0 billion in 2026/27. This increase is largely owing to increasing levy rates on Earners' and Motor Vehicle Accounts, as well as higher expected liable earnings.

…largely attributable to growth in core Crown tax revenue…

Core Crown tax revenue is expected to increase from $108.5 billion in 2021/22 to $118.1 billion in the current year – an increase of $9.6 billion in 2022/23. A smaller increase of $6.9 billion is expected in 2023/24 and is then forecast to grow at a more constant rate (averaging $8.1 billion per year). By 2026/27, core Crown tax revenue is expected to reach $149.1 billion (Table 2.4). As a percentage of GDP, core Crown tax revenue is forecast to gradually increase from 29.9% in 2022/23 to 30.8% in 2026/27.

Tax outturns for the 2021/22 fiscal year came in much stronger than expected, leading to a stronger starting position for the forecast of core Crown tax revenue. Despite a contraction in economic activity in the 2023/24 year (as described in the Economic Outlook chapter), the strength of near-term activity and higher inflation result in a stronger near-term nominal GDP forecast that contributes to higher tax revenue.

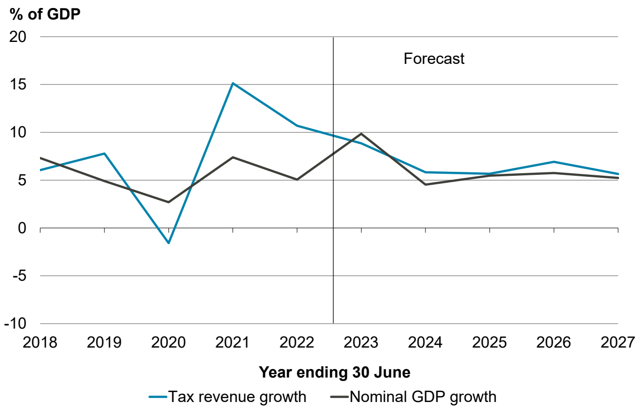
…which is primarily driven by economic factors

The expected growth in core Crown tax revenue over the forecast period is largely in line with the growth in nominal GDP. In 2022/23, core Crown tax revenue is expected to grow by $9.6 billion, with inflation accounting for $7.4 billion of this growth.

Over the remaining forecast period, core Crown tax revenue is expected to grow by $31.0 billion, or an average of $7.8 billion per year. This is broadly in line with growth in the nominal economy, as shown in Figure 2.2.

However, growth rates are not the same across all components of the GDP forecast, affecting the various tax types in different ways. The uplift in core Crown tax revenue has been driven by the tax types as set out in Table 2.4.

Figure 2.2 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

Table 2.4 – Movements in core Crown tax revenue by major tax type

Year ending 30 June $billions	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	Total Change
Source deductions	4.9	3.0	3.6	4.1	3.9	19.5
Goods and services tax (GST)	2.8	0.8	2.0	2.2	1.9	9.7
Corporate tax	1.5	0.9	0.5	2.1	1.4	6.4
Net other persons tax	0.3	0.4	0.6	0.7	0.5	2.5
Customs and excise duties	(0.1)	0.7	0.1	0.1	0.1	0.9
Resident withholding tax (RWT) on interest	0.6	0.3	0.1	(0.1)	(0.1)	0.8
Other taxes	(0.4)	0.7	0.2	0.1	0.2	0.8
Total movement in core Crown tax revenue	**9.6**	**6.8**	**7.1**	**9.2**	**7.9**	**40.6**
Plus previous year	108.5	118.1	124.9	132.0	141.2	
Core Crown tax revenue	**118.1**	**124.9**	**132.0**	**141.2**	**149.1**	

Source: The Treasury

Source deductions (which are mainly PAYE on wages and salaries) are forecast to grow at an average of $3.9 billion per year, predominantly due to wage growth, fiscal drag and employment growth. In 2023/24, the growth is lower at $3.0 billion owing to the weaker employment outlook which partially offsets the wage growth and fiscal drag. It is estimated that fiscal drag is expected to contribute on average $1.0 billion per year to the overall increase in source deductions.

GST is expected to increase by $2.8 billion in the current year, mostly driven by greater private consumption owing to the high inflationary environment. In 2023/24, the increase is expected to be weaker, at $0.8 billion. While the greater private consumption owing to the high inflationary environment continues, this is partially offset by weaker residential investment, as the economic slowdown makes for weaker trading conditions. Over the remaining forecast period growth is driven by private consumption and residential investment as well as higher nominal prices and stronger goods import growth (following the weaker growth in 2023/24).

Corporate and net other persons tax is forecast to increase by $1.8 billion in the current year – owing to a combination of high growth forecasts for operating surplus and policy measures (eg, the 39% tax rate on income over $180,000 and capital expensing). Growth in corporate tax is expected to be weaker in 2023/24 and 2024/25 owing to the impact of weaker economic conditions in 2023/24.

The near-term growth in other tax types is largely driven by economic factors, including higher withholding tax on interest earned due to increasing interest rates and the impact of higher inflation indexation (as excise rates are indexed annually in line with inflation).

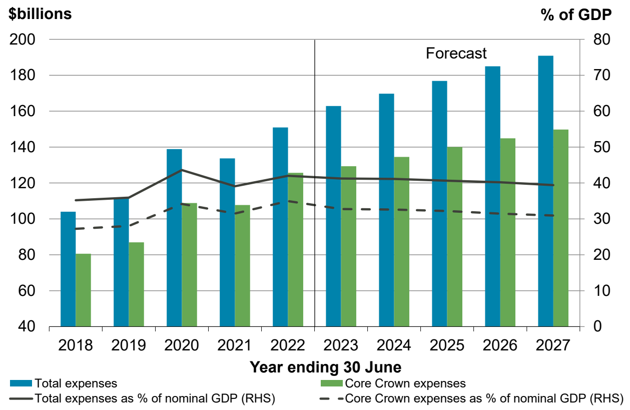
Total Expenses

Total expenses are expected to increase across the forecast period…

Total expenses were $151.0 billion in 2021/22 and are forecast to increase by $39.9 billion by the end of the forecast period, reaching $190.9 billion by 2026/27. As a share of the economy, total expenses decline gradually across the forecast period, from 42.0% of GDP in 2021/22 to 39.4% of GDP by 2026/27 (Figure 2.3).

The majority of the nominal growth in total expenses is driven by core Crown expenses, which contributes around $24.2 billion to the increase over the forecast (discussed further below).

Figure 2.3 – Total expenses and core Crown expenses



Source: The Treasury

In addition to core Crown expenses, insurance expenses are expected to increase over the forecast period by $3.9 billion, largely relating to ACC. The expected increase in the costs of insurance claims is mainly driven by economic factors (such as wage growth and increased inflation assumptions), the increasing cost of health services and an expected increase in claims volumes.

The introduction of the NZIIS also increases total expenses from the 2024/25 year and adds $3.6 billion to total expenses by the final year of the forecast period. In addition, higher expenses in the SOE segment, particularly impacting the current year, largely offset the higher revenue on sales of goods and services discussed on page 26.

…with core Crown expenses driving most of this trend…

Overall, core Crown expenses are expected to increase by an average of $4.8 billion per year. However, as a percentage of GDP, core Crown expenses decline from 35.0% of GDP in 2021/22 to 30.9% of GDP by 2026/27, as temporary COVID-19 spending is expected to fall away after 2022/23 and smaller levels of funding are set aside for future Budget operating allowances.

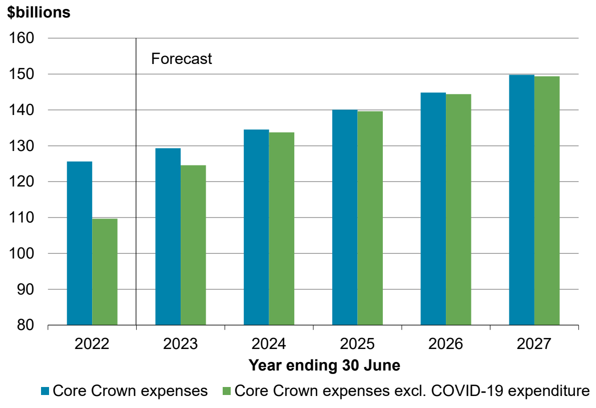
…a significant lift in core Crown expenses is expected in the current year…

When looking through the impacts of COVID-19-related expenditure, core Crown expenses are expected to increase by $14.9 billion between 2021/22 and the current year. The significant increase in core Crown expenses is owing to a combination of decisions to increase spending and economic factors which have driven higher finance costs and benefit expenses. Factoring in the significant reduction in COVID-19-related expenditure, core Crown expenses are still expected to increase by $3.7 billion in the current year.

Core Crown finance costs are expected to almost double during the current year, from $2.9 billion in 2021/22 to $5.7 billion in 2022/23. The increase is largely a result of higher interest rates. For example, the yield rate on 10-year government bonds was 2.6% in 2021/22 and is now expected to increase to 4.4% in 2022/23. Higher inflation forecasts also increase the finance costs associated with inflation-indexed bonds.

Benefit expenses (looking through COVID-19-related support measures) are forecast to increase by $3.0 billion in the current year. The increase is driven by NZ Super payments – with costs expected to increase by $1.8 billion in 2022/23, largely as a result of an increasing wage growth forecast to which payments are indexed and an increase in recipients. There are also increases to most other benefit payment types (eg, Jobseeker Support) in the current year, as they are also indexed to wage growth.

Figure 2.4 – Core Crown expenses excluding COVID-19 expenditure



Source: The Treasury

In Budget 2022, the Government announced decisions on investments in new operating spending that increased core Crown expenses by $9.9 billion in the 2022/23 year. These decisions account for most of the growth in core Crown expenditure from the 2021/22 year, when looking through COVID-19 spending. Of this, the core Budget 2022 operating package contributed $6.7 billion. Other Budget 2022 spending decisions (eg, climate change spending, COVID-19 spending and the Cost of Living Payment) have also added around $3.0 billion to expenses in the current year.

In addition, around $3.8 billion of unspent expenses from the 2021/22 year were transferred into the 2022/23 year. However, this has been offset by the operating top-down adjustment which reduces core Crown expenditure by $6.4 billion in the current year. The operating top-down adjustment has increased, owing to the amount of expense transfers and likely delays to the implementation of projects owing to current capacity constraints.

…with more modest increases expected after 2022/23…

Beyond 2022/23, COVID-19 expenditure no longer has a significant impact on the trend, and core Crown expenses are expected to grow by an average of $6.2 billion per year. Economic factors continue to play a role, contributing to increases in finance costs and benefit expenses across the forecast period. In addition, from the 2023/24 fiscal year, funding set aside in the Budget allowances and CERF contributes significantly to the nominal growth in expenses. Outside of the above-mentioned factors, the remaining parts of spending have had a very minimal impact on the growth in core Crown expenses.

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

After 2022/23, benefit expenses are forecast to increase by $9.0 billion. The increase is driven by New Zealand Superannuation payments, with costs expected to increase by $6.9 billion over that period. New Zealand Superannuation payments primarily grow owing to increasing wage growth forecasts to which payments are indexed, which adds $4.4 billion. In addition, New Zealand Superannuation recipient numbers are forecast to increase from 848,000 in 2021/22 to over 988,000 by the end of the forecast period, which adds around $2.6 billion to the costs by 2026/27. Most other benefit payment types (eg, Jobseeker Support) also increase, as they are also indexed to wage growth.

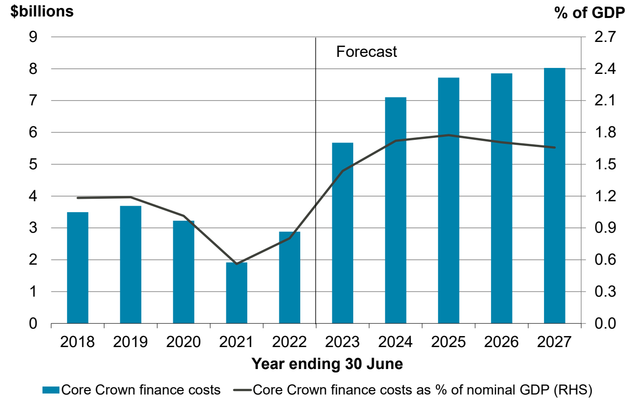
From 2023/24 onwards, core Crown finance costs are expected to increase by $2.4 billion – from $5.7 billion (1.4% of GDP) in 2022/23 to $8.0 billion (1.7% of GDP) by the end of the forecast period (Figure 2.5).

Finance costs increase as the interest rates on interest-bearing lending goes up. The impact is both immediate and delayed depending on the forms of borrowing (eg, short-term Treasury bills versus new issuances of government bonds). The yield rate on 10-year government bonds is expected to peak at 4.8% in 2023/24, before reducing slightly to 4.2% by 2026/27 (Figure 2.6).

Higher inflation forecasts also increase the finance costs associated with inflation indexed bonds, and a portion of the increase is also owing to interest on additional borrowings to fund the forecast residual cash deficits (page 42).

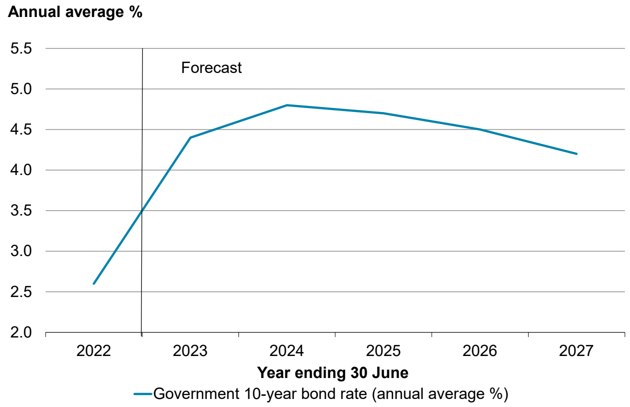
Higher interest rates across the forecast period have had a positive impact on interest income, tax revenue and insurance expenses.

Figure 2.5 – Core Crown finance costs



Source: The Treasury

Figure 2.6 – Government 10-year bond rate (annual average %)



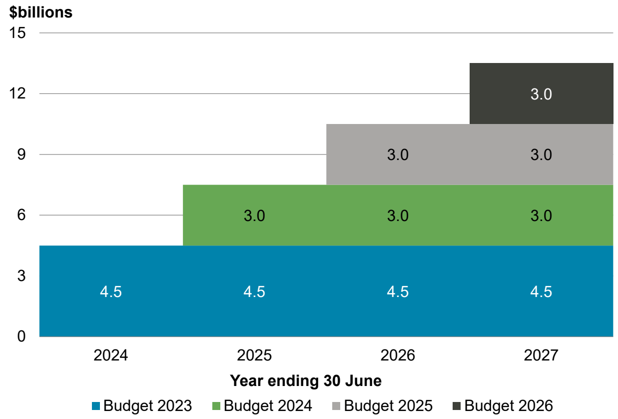
Source: The Treasury

However, overall, the increase in interest rates adversely impacts OBEGAL over the forecast, as the changes in finance costs have been greater than the improvements mentioned above.

…and funding set aside in future Budget allowances and CERF.

In the *2023 Budget Policy Statement*, the Government has signalled a Budget operating allowance of $4.5 billion for Budget 2023 and $3.0 billion each for Budgets 2024 through to Budget 2026. These allowances for new spending in future Budgets accounts for $13.5 billion of the growth in expenditure by the end of the forecast.

Figure 2.7 – Operating allowances



Source: The Treasury

However, some decisions have already been pre-committed against the Budget 2023 and Budget 2024 allowances, meaning there is less of the allowance available for future decision-making. The funding available (after pre-commitments) for future Budgets is forecast to increase expenses by $10.3 billion by 2026/27. For further information on the remaining Budget allowances and in-year decisions made, refer to the box on pages 32 and 33.

In addition, the CERF is expected to contribute $0.8 billion to the growth in core Crown expenses by 2026/27. The remaining unallocated portion of the CERF sits at $3.6 billion, which includes the Government’s decision to top up the CERF by $2.1 billion, based on the higher cash proceeds forecast to be generated by the NZETS since the *Budget Update*.

For forecasting purposes, Budget allowances are assumed to be all operating expenditure. However, these allowances can be used for a combination of revenue and expenditure initiatives when allocated. The fiscal forecasts also assume that any additional costs in relation to government commitments and future cost pressures, such as those outlined in the Risks to the Economic and Fiscal Forecasts (pages 57 to 109), will be met from operating allowances.

More details on the functional classification of total expenses and core Crown expenses can be found in the Core Crown Expense Tables on pages 147 to 151.

Pressures on Budget allowances and in-year decisions

Under the Government's fiscal management approach, most expenses are fixed in nominal terms, and therefore they are not automatically adjusted for expected changes in price or demand. Instead of building in changes to prices and demand, the Government sets aside future funding in the form of budget allowances, which can be applied to meet these cost pressures to existing services in the future. As well as meeting the impact from cost pressures in the future, Budget allowances are also expected to manage the fiscal impact from new policy decisions made by the Government.

Inflation and wage growth are higher than normal…

As outlined in the Economic Outlook chapter, higher-than-normal inflation and wage growth are forecast in the near term. As a result, it is expected that the funding of cost pressures may be significantly higher over the next few Budgets, as the costs to maintain the delivery of existing services will be higher.

It is difficult to accurately estimate how much of the Budget allowances included in the forecasts will be needed to meet future cost pressures in the current environment of higher inflation and wage growth, as the inputs used in providing goods and services are sensitive to different factors. In addition, not all expenses will be sensitive to changes in inflation and wage growth, or else have already been factored into our forecasts (eg, benefit costs).

Based on a high-level analysis, it is estimated that departments' baseline expenses could need to increase by around $3.7 billion in the 2023/24 year to maintain the existing level of services, which would be within the signalled funding set aside in the Budget 2023 operating allowance of $4.5 billion. The analysis also indicates that increased baselines could be expected to continue into future Budgets, with signalled allowances just sufficient to cover increasing cost pressures.

…which could crowd out spending on new initiatives

After the additional pre-commitments that were made at and since the *Budget Update*, the Government has $1.8 billion available to fund all other cost pressures and new initiatives at Budget 2023. Although the Government has already funded some cost pressures through pre-commitments (eg, multi-year funding to health, justice and natural resources sectors), the possibility of higher-than-normal cost pressures expected in the 2023/24 year, could make it challenging to meet these costs from the funding remaining in the Budget 2023 operating allowance.

The Government does have choices if a situation arises where additional funding is required to manage the fiscal impact of Budget 2023 decisions. These choices include:

- reprioritising existing services to fund new Budget decisions
- introducing policy decisions to change revenue settings (eg, increasing tax revenue) or finding savings in the delivery of existing services
- increasing the amount of the Budget operating allowance.

As Budget allowances are a net concept, the first two options mentioned above would not impact on the signalled level of Budget operating allowance. However, this is not the case if the Government decides to increase the Budget 2023 operating allowances. This would result in a higher announced operating allowance and would impact on the forecast fiscal outlook.

How the sources of funding have changed since the Budget Update…

As signalled in the *2023 Budget Policy Statement*, the Government's Budget operating allowances are $4.5 billion for Budget 2023 and $3.0 billion for Budget 2024 onwards. Table 2.5 highlights that pre-commitments made against the operating allowance for Budget 2023 are around $2.7 billion, leaving $1.8 billion to fund all other cost pressures and new initiatives.

Table 2.5 – Movement in Budget 2023 operating allowance

Average	$billions
Budget 2023 operating allowance	**4.5**
Pre-commitments at the *Budget Update*	(2.0)
Pre-commitments since the *Budget Update*	(0.7)
Budget 2023 operating allowance at the *Half Year Update*	**1.8**

Source: The Treasury

As part of the *Half Year Update,* the CERF has been topped up by $2.1 billion, reflecting the additional cash proceeds expected from the NZETS since the *Budget Update.* The top-up has both an operating and capital component.

The MYCA envelope has also changed since the *Budget Update*. Table 2.6 shows decisions of $2.2 billion the Government has charged to the MYCA, which mainly reflects the decision to purchase Kiwi Group Holdings Limited (which includes Kiwibank).Additionally, the Government has decided to top up the MYCA by $9.1 billion, to $12.0 billion. Prior to finalising the *Half Year Update*, $0.8 billion has been allocated, leaving $11.2 billion remaining to allocate from the MYCA in future Budgets (of which $8.3 billion is assumed to fall within the forecast period).

Table 2.6 – Movement in the CERF and MYCA

$billions	CERF	MYCA
Funding remaining at the *Budget Update*	**1.5**	**5.1**
Decisions taken since the *Budget Update*	-	(2.2)
Funding top-up	2.1	9.1
	3.6	**12.0**
Decisions taken at the *Half Year Update*	-	(0.8)
Funding remaining at the *Half Year Update*	**3.6**	**11.2**

Source: The Treasury

For more information, including the expected phasing of forecast new spending, refer to Note 6 in the Forecast Financial Statements on page 127.

Managing decisions outside of the Budget allowances should be rare, but, in some cases, can occur. Since the *Budget Update*, the Government has made decisions that have not been charged to the Budget allowances or the CERF and have directly impacted on the fiscal forecast (affecting OBEGAL and net debt). This includes the extension to the reductions in fuel excise duty, road user charges and half-price public transport, as part of the Government providing more cost of living support to New Zealanders.

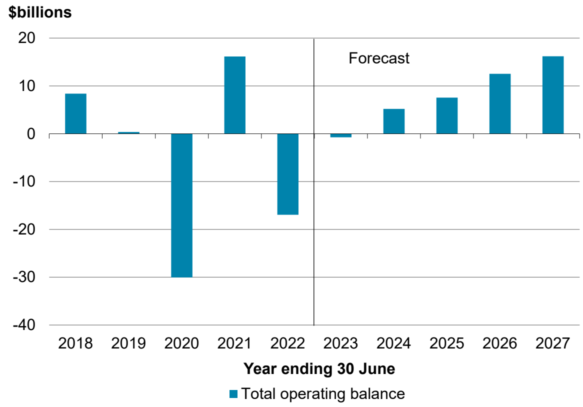
Generally, all items with fiscal implications should be managed within Budget allowances or against the CERF, as this ensures that decisions are consistent with the Government's fiscal strategy, incentivises prioritisation and provides transparency on how policies are funded.

Operating Balance

The operating balance is expected to improve, with a small deficit in 2022/23…

In the current year, total expenses exceed total revenue earned by around $3.2 billion, but this has been partially offset by expected valuation gains on some of the Government's assets and liabilities. As a result, the operating balance is forecast to be a deficit of $0.7 billion in the current year, from a deficit of $16.9 billion reported in 2021/22 (Figure 2.8).

Figure 2.8 – Total operating balance



Source: The Treasury

The net gains on non-financial instruments in 2022/23 amount to $1.8 billion, while net gains on financial instruments contribute $1.1 billion.

The net gains on non-financial instruments are driven largely by two items. First, a gain of $3.1 billion is expected from the revaluation of the ACC outstanding claims liability (which reflects the lifetime costs of current claims in present value). This is driven mainly by an increase to the discount rates used to estimate the present value of the liability, partially offset by revisions to inflation forecasts. The increase in discount rates is owing to higher interest rates (which have a favourable impact on the ACC liability reported in present-day values).

This has been partially offset by an expected loss of $1.4 billion on the revaluation of the NZETS liability, reflecting the increase in the market price of New Zealand Units (NZUs) used to value the liability, from $85.00 per NZU for the fiscal forecasts to $76.00 at 30 June 2022.

The net gain on financial instruments of $1.1 billion forecast for 2022/23 primarily reflects gains on the large investment fund portfolios of ACC and the NZS Fund, owing to recent market conditions.

…and then reverts to surplus over the rest of the forecast period

Beyond 2023/24, total revenue exceeds total expenses, as growth in revenue exceeds the growth in expenses. In addition, financial markets are expected to recover, leading to forecast gains on investments of $5.6 billion in 2023/24.

As a result, the operating balance is expected to return to a surplus of $5.2 billion in 2023/24, which then continues to increase over the forecast period by an average of $3.7 billion per year. The operating balance surplus is forecast to reach $16.2 billion by 2026/27.

The Government's Headline Fiscal Indicators

The Government focuses on specific headline fiscal indicators to measure and communicate its objectives, and to ensure its fiscal policy decisions are sustainable. Ahead of Budget 2022*,* the Government announced that its fiscal strategy will be focused on two fiscal rules – namely, once an OBEGAL surplus is achieved, the Government intends to keep OBEGAL surpluses in the range of 0% to 2% of GDP on average over time; and the introduction of a debt ceiling of 30% of GDP for net debt.

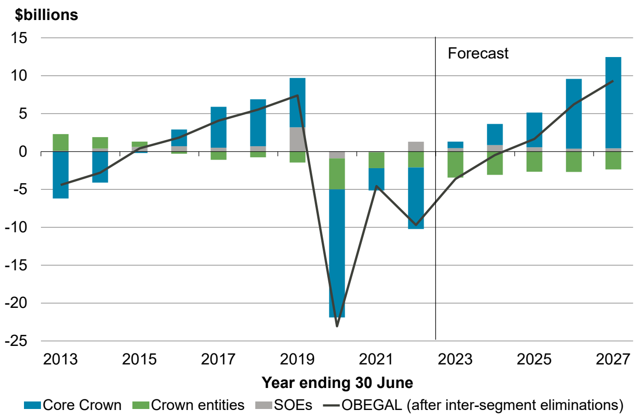
While OBEGAL and net debt are not indicators prescribed under generally accepted accounting practice (GAAP), both indicators provide greater insight into the activities the Government has more influence over. Therefore, they play an important role in the accountability of how the Government is managing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

OBEGAL is forecast to return to surplus in 2024/25…

An OBEGAL deficit of $3.6 billion is expected in the current year as expenses remain higher than revenues. However, this is expected to improve in the following year and by 2024/25, OBEGAL is expected to return to a surplus of $1.7 billion. By the end of the forecast period, OBEGAL is forecast to reach a surplus of $9.3 billion (or 1.9% of GDP).

As shown in Figure 2.9, much of the recovery in OBEGAL over the forecast period is driven by expected results of the core Crown segment.

Figure 2.9 – Components of OBEGAL by segment



Source: The Treasury

In the current year, the OBEGAL deficit is $6.1 billion less than the deficit reported in 2021/22, which is predominantly driven by the core Crown segment. While core Crown expenses are still expected to grow by $3.7 billion in the current year, this is more than offset by growth in core Crown revenue of $12.7 billion. Around three-quarters of the core Crown revenue growth is owing to growth in core Crown tax revenue, with the remainder largely due to higher interest revenue and other sovereign revenue, as discussed on page 26.

Beyond the current year, core Crown revenue growth is expected to continue outpacing the growth in core Crown expenses, resulting in growing OBEGAL surpluses. The trends in core Crown revenue and core Crown expenses are explained further on pages 26 and 28.

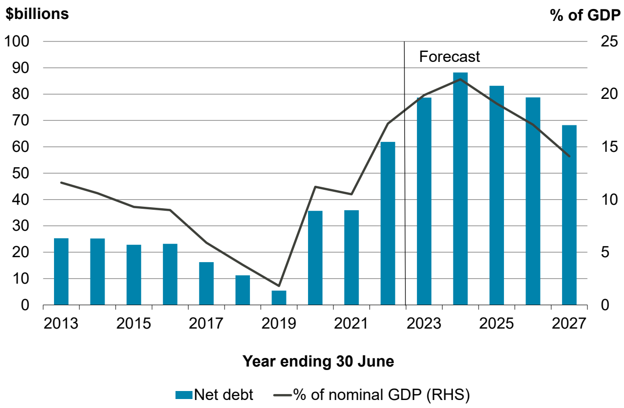
Crown entity results fluctuate slightly year on year across the period, but ultimately only contribute marginally to the OBEGAL improvement. ACC is expected to have growing OBEGAL deficits across the forecast period, owing to higher consumer price index (CPI) inflation forecasts and updated information around claims costs, which together increase insurance expenses. This has been partially offset by improved results across several other Crown entities.

...while net debt peaks in 2023/24 before falling, staying below the debt ceiling

Net debt is forecast to peak at 21.4% of GDP ($88.2 billion) in 2023/24, before reducing over the remaining forecast period as residual cash returns to surplus. By 2026/27, net debt is expected to fall to 14.1% of GDP, or $68.2 billion (Figure 2.10).

Across the forecast period, net debt increases by $6.3 billion, which is predominantly owing to the accumulated residual cash deficits over the period (excluding net increases in advances and contributions to the NZS Fund).[6]

Figure 2.10 – Net debt



Source: The Treasury

In addition to residual cash, the net debt measure is also impacted by changes in the level of Crown entity borrowings (excluding Kiwi Group) and the financial assets and borrowings of the NZS Fund (Table 2.7). Crown entity borrowings (excluding Kiwi Group) have increased by an average of $1.5 billion per annum across the forecast period, mainly driven by forecast increases in Kāinga Ora's borrowings. Refer to the box on page 37 for further information on how net debt is constructed and why Kiwi Group is excluded from the measure. The net financial assets of the NZS Fund are expected to increase from $55.3 billion in 2021/22 to $83.2 billion in 2026/27 – an average growth of $5.6 billion per annum. This is primarily owing to growth in the NZS Fund's investment portfolio in line with the long-term benchmark rate of return assumptions.

Table 2.7 – Changes in net debt

Year ending 30 June $billions	**2022 Actual**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**Total change**
Opening net debt		61.9	78.7	88.2	83.1	78.7	
Core Crown residual cash (surplus)/deficit		25.4	17.6	(7.4)	(4.6)	(6.4)	**24.6**
Less net increase in advances		(10.4)	(2.0)	6.2	4.7	0.7	**(0.8)**
Less contributions to the NZS Fund		(2.6)	(1.8)	(1.6)	(1.8)	(1.7)	**(9.5)**
Net increase/(decrease) in Crown entity borrowings		5.1	(0.2)	0.9	0.8	0.8	**7.4**
Net (increase)/decrease in NZS Fund financial assets and borrowings		(1.0)	(4.5)	(3.9)	(4.3)	(4.8)	**(18.5)**
Issues of circulating currency		-	(0.1)	(0.1)	(0.1)	(0.1)	**(0.4)**
Other fair value movements in financial assets and financial liabilities		0.3	0.5	0.8	0.9	1.0	**3.5**
Total movement		**16.8**	**9.5**	**(5.1)**	**(4.4)**	**(10.5)**	**6.3**
Closing net debt	61.9	78.7	88.2	83.1	78.7	68.2	
As a % of GDP	17.2	19.9	21.4	19.1	17.1	14.1	

Source: The Treasury

There are other indicators such as the cyclically-adjusted balance and structural balance, which are also useful when analysing the fiscal sustainability of the Government's fiscal policy settings. These are discussed further in the box on pages 52 to 54, alongside the total fiscal impulse, which illustrates the effect of fiscal policy on aggregate demand.

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6 Since core Crown advances and the NZS Fund are now included in the key net debt indicator, the additional cash required to fund increases in advances and Government contributions to the NZS Fund no longer impact on net debt (as both the asset and liability are included in the measure, so the impact of any change is neutral). The residual cash surplus or deficit excluding these items will continue to impact net debt.

Developments in operationalising the new net debt indicator

Ahead of Budget 2022, the Government accepted the Treasury's recommendation to broaden the net debt indicator. The coverage for the new headline net debt indicator was widened to include core Crown advances, Crown entity borrowings and financial instruments of the NZS Fund. These changes bring Aotearoa New Zealand's net debt indicator closer to international norms, allowing for better comparison of fiscal sustainability against other countries. There have been a few developments in operationalising the move to the new net debt indicator, with the most notable discussed below.

Changes in the fiscal management approach

The fiscal management approach is the core tool available to help the Government ensure decisions with fiscal implications are consistent with their fiscal strategy. A key feature of the approach is that the fiscal impacts of any new policy decision and costs increases in existing policies are managed against the funding set aside in Budget allowances, ensuring these decisions are consistent with their fiscal strategy.

The wider coverage of the new net debt indicator will mean more factors will now influence the Government's ability to stay below its debt ceiling. To ensure the fiscal management approach remains effective, the Government has decided to expand the scope of decisions managed against Budget allowances to align with the broader coverage of net debt. The main operational implication from this change is that when Ministers agree to increase the borrowings of Crown entities the fiscal impact would be managed against the Budget allowances (most likely the MYCA).

Kāinga Ora borrowings

One of the features of the new net debt indicator is that it does not differentiate between borrowings undertake by the Crown or Crown entities. As a result, Cabinet has agreed that Kāinga Ora borrowings in the future will be with the Crown's New Zealand Debt Management (NZDM), as it is cheaper and provides more certainty than borrowing from private sources. This decision has not impacted the level of net debt, compared to the *Budget Update* as both forms of borrowing are included in the calculation of the new measure. However, it has created a divergence in the trend between net debt and gross debt, as the Government bond programme has been increased to fund the borrowings to Kāinga Ora. As this borrowing is now undertaken through NZDM, there is an increase in core Crown finance costs, but there will also be an increase in core Crown interest revenue. Overall, the impact on OBEGAL from this change is expected to be positive given the cost of borrowings will now be cheaper going forward.

Treatment of Kiwi Group Capital Limited

On 22 August 2022 the Government announced the purchase of Kiwibank's parent company, Kiwi Group Holdings via the establishment of a Schedule 4A company – Kiwi Group Capital (KGC). This acquisition is purely transferring assets and liabilities within the Crown, so will not change the overall balance sheet of the Government. However, for reporting on government activity by institutional segments KGC will be included in the Crown entity segment like other Schedule 4A companies. As the operations of Kiwibank will be reported by KGC, this will mean the level of Crown entity borrowings will increase significantly from the 2022/23 year. For the purposes of net debt, the Government accepted the Treasury's recommendation that KGC borrowings should be excluded from the calculation. The rationale for this recommendation was to ensure the new measure continues to be internationally comparable (KGC would be considered a market entity under the government finance statistics (GFS) reporting framework), and the borrowings are matched by a corresponding financial assets portfolio, so there is minimal impact to the overall fiscal sustainability of the Government. The Treasury will take into consideration international comparability and impacts on fiscal sustainability when judgements may be needed in the future.

Fiscal Resilience

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

Net Worth

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

Net worth increases from $174.3 billion to $215.0 billion by the end of the forecast period – an increase of $40.7 billion, mainly reflecting the forecast operating balance results excluding minority interests (net surpluses of $40.8 billion in total are expected over the forecast period). As a share of GDP, net worth falls from 48.5% of GDP in 2021/22 to 42.8% of GDP in 2024/25, before rising to 44.4% of GDP by the end of the forecast period (as operating surpluses increase).

In the current year, net worth is expected to decline by $0.8 billion from its position in 2021/22, as the operating balance is expected to remain in deficit in this year as explained on page 34. The operating balance is then expected to return to surplus across the remaining forecast years. As a result of these surpluses, taxpayers' funds grow across the forecast from $1.8 billion in 2022/23 to $43.0 billion in the last year of the forecast. Refer to Table 2.8 for a breakdown of net worth.

PPE revaluations generally occur at 30 June each year and are not forecast beyond the current year. Overall, the PPE revaluation reserve is the largest contributor to the overall net worth balance.

Table 2.8 – Breakdown of net worth

Year ending 30 June $billions	**2022 Actual**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**
Taxpayers' funds	2.7	1.8	6.9	14.4	26.9	43.0
PPE revaluation reserve	164.4	164.4	164.4	164.4	164.4	164.4
Other reserves	(0.1)	-	0.1	0.2	0.2	0.2
Total net worth attributable to the Crown	**167.0**	**166.2**	**171.4**	**179.0**	**191.5**	**207.6**
Net worth attributable to minority interest	7.3	7.3	7.6	7.5	7.4	7.4
Total net worth	**174.3**	**173.5**	**179.0**	**186.5**	**198.9**	**215.0**
As a % of GDP	48.5	44.0	43.4	42.8	43.2	44.4

Source: The Treasury

Total Crown Balance Sheet

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

Total assets are forecast to increase by $102.6 billion over the forecast period, reaching $604.5 billion in 2026/27. This amounts to average growth of around $20.5 billion per year, largely driven by growth in financial assets and PPE.

Total liabilities are forecast to increase by $61.9 billion, reaching $389.5 billion in the last year of the forecast. The growth is primarily attributable to an increase in borrowings and insurance liabilities.

Table 2.9 – Composition of the total Crown balance sheet

Year ending 30 June $billions	**2022 Actual**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**
Financial assets	225.4	234.9	240.0	257.1	264.4	287.2
PPE	249.2	260.3	268.6	273.5	277.4	278.8
Other assets	27.3	26.6	28.2	31.0	34.8	38.5
Total assets	**501.9**	**521.8**	**536.8**	**561.6**	**576.6**	**604.5**
Borrowings	204.0	229.9	240.6	255.4	255.5	264.0
Insurance liabilities	55.3	54.8	57.6	60.6	63.6	67.0
Other liabilities	68.3	63.6	59.6	59.1	58.6	58.5
Total liabilities	**327.6**	**348.3**	**357.8**	**375.1**	**377.7**	**389.5**
Total net worth	**174.3**	**173.5**	**179.0**	**186.5**	**198.9**	**215.0**

Source: The Treasury

…growth in financial assets drives a significant portion of the increase in assets…

Financial assets are forecast to increase by $61.8 billion by 2026/27. The following areas contribute to most of this growth.

The investment portfolios of the NZS Fund and ACC contribute $30.8 billion to the overall growth in financial assets, of which around a third is owing to growth in investments from the Crown's contribution to the NZS Fund. The remaining growth comes from investment returns expected from the NZS Fund and ACC investment portfolios over the forecast period, based on long-term benchmark rates of return. The actual returns on these investment portfolios can vary significantly depending on market conditions.

Kiwi Group loans and advances are forecast to increase by $15.0 billion, primarily as a result of expected growth in mortgage lending (which also results in a corresponding impact on borrowings as discussed on page 40).

The Funding for Lending Programme (FLP) provides low-interest loans to eligible counterparties. The FLP is forecast to continue increasing in the current year by $6.3 billion, peaking at $17.6 billion in 2022/23, and is assumed to be fully repaid by 2025/26. The advances for FLP have an overall impact of reducing financial assets by $11.3 billion by the end of the forecast period, owing to the repayment of the loans.

A large portion of the remaining increase in financial assets across the forecast period relates to the movements in marketable securities, primarily driven by the Reserve Bank.

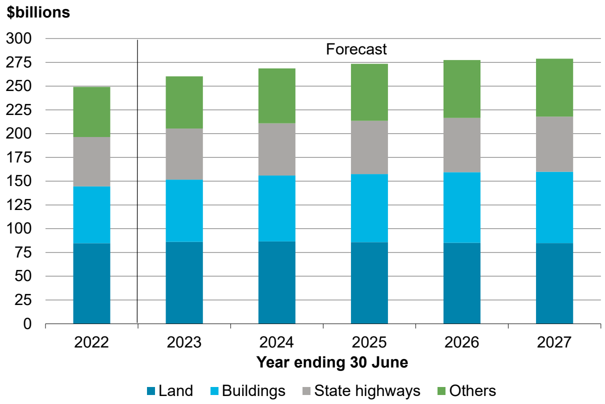
…as does the growth in property, plant and equipment…

PPE assets are expected to reach $278.8 billion by 2026/27, an increase of $29.6 billion from 2021/22. This rise is largely due to asset additions of $65.3 billion, which are partly offset by depreciation expenses over the forecast period that total $35.1 billion.

The largest growth in PPE is attributable to building assets, which increase by $15.2 billion over the forecast period, mainly driven by growth in assets held by the education, health and housing sectors. The state highways asset is also forecast to increase by $6.1 billion by 2026/27 (Figure 2.11).

The growth in PPE also includes new investments announced by the Government in Budget 2022, including significant investments received by the education and health sectors.

Figure 2.11 – Total PPE by asset type



Source: The Treasury

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

In addition to the above, the forecast for new capital spending is expected to increase assets by $14.0 billion by 2026/27. This includes spending the Government has set aside for new investments through the MYCA for Budgets 2023 to 2026. As discussed in the *2023 Budget Policy Statement*, the Government decided to top up the MYCA to $12.0 billion. Decisions totalling $0.8 billion have subsequently been managed against the MYCA, leaving $11.2 billion of funding remaining in the MYCA, with $8.3 billion of this falling within the forecast period. Funding has also been set aside in the CERF for capital investments of $0.4 billion. Funding agreed in previous Budgets for specific projects, but which has not yet been appropriated into an entity's baseline (as further work is required prior to this occurring – ie, unallocated capital contingencies), adds $5.5 billion to the expected growth in assets.

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

Total borrowings are forecast to increase by $60.0 billion over the forecast period. Total borrowings represent the borrowings undertaken by the core Crown, Crown entities and SOEs.

Government bonds are expected to increase by $70.5 billion by the end of the forecast period. Government bond issuances are largely reflective of the borrowing required to meet any additional cash requirements to fund operating and capital expenditure of the Government after revenue (such as tax revenue); the level of Government bonds is also impacted by managing down the Reserve Bank's Large-scale Asset Purchases (LSAP) programme (refer to page 46).

Kiwi Group borrowings (eg, deposits and debt securities) are forecast to increase by $16.7 billion, which is largely offset by increases in Kiwi Group advances (as discussed on page 39).

These increases are offset by forecast reductions in settlement cash held by the Reserve Bank, of $23.5 billion across the forecast period, largely owing to the expected managing down of the LSAP bond programme. By the end of the forecast period, settlement cash falls to $20.0 billion from $43.5 billion in 2021/22, as the balance returns closer to pre-COVID-19 pandemic levels.

…while economic factors increase the Government's insurance liabilities

Insurance liabilities are forecast to increase by $11.7 billion to $67.0 billion by 2026/27. The ACC insurance liability is the largest and is forecast to grow by $12.4 billion over the forecast period. The ACC insurance liability is an estimate of the present-day value of the amount ACC would need to pay out to meet future compensation and rehabilitation costs of injuries that have already occurred or are expected to occur over the forecast period. In the current year, the ACC insurance liability is expected to reduce marginally by $0.3 billion, and then increase by an average of $3.2 billion per year over the remaining forecast period.

The increases are largely due to economic factors, growth in claims volumes and increases in the price of rehabilitation costs.

Changes in inflation and interest rates per the economic forecast are key factors in the revaluation of the liability projected at 30 June 2023, which results in the current year net gains on the ACC insurance liability of $3.1 billion (refer to page 34).

The increase in the insurance expenditure each year throughout the forecast period, as discussed on page 28, also increases the insurance liability (ie, price and volume changes). In the current year, the impact of higher insurance expenses has partially offset the actuarial gains mentioned above.

Crown Funding and Financing

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

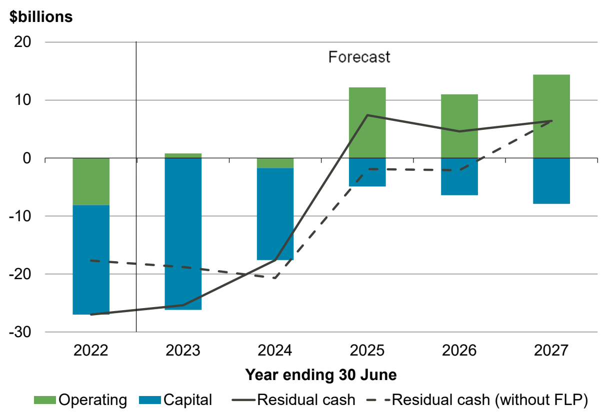
Residual Cash

Significant core Crown residual cash deficits are expected in the near term, before returning to surplus in 2024/25…

Core Crown residual cash deficits peak in the current year, then reduce over the next two years. A return to surplus of $7.4 billion is expected in the 2024/25 year – the same year OBEGAL returns to surplus. Across the forecast period, the residual cash deficits total $24.6 billion.

In particular years, residual cash will be influenced by the Reserve Bank's FLP. For the purposes of looking at Crown funding requirements, it is best to look through the impact of the FLP on residual cash, as it is funded from settlement cash rather than by the Crown.

Figure 2.12 – Core Crown residual cash



Source: The Treasury

Once the impact of the FLP is looked through, the residual cash deficit is expected to peak a year later in 2023/24 and is not expected to return to surplus until the final year of the forecast period. Apart from the current year, the trend without FLP is generally weaker than residual cash, reflecting the expected repayments of FLP loans.

…overall, the cash inflow from operations is sufficient to meet operating payments…

Over the forecast period as a whole, net operating cash inflows total $36.7 billion, although there are significant year-on-year changes (as shown in Figure 2.12). Over the next two years, cash received from operating activities is not expected to cover operating payments, but from 2024/25 onwards there are net operating cash inflows.

Operating cash flows are influenced by the same contributors to the trends in core Crown revenue and core Crown expenses, such as economic conditions impacting tax revenue, finance costs and benefits, as well as future new spending decisions. This means that, overall, the trend in operating cash flows broadly follows the trend in OBEGAL. However, there are timing differences between tax revenue and tax receipts, mainly impacting the 2023/24 and 2024/25 years. This means that the trend in OBEGAL differs to residual cash in these years.

…but not enough to cover capital investments…

Net capital spending is forecast to be $61.3 billion over the forecast period. Capital spending is forecast to be greater in the near term, which results in residual cash deficits forecast in those years. Included within the capital spending is $10.2 billion relating to items that are considered financial assets (advances and NZS Fund contributions) for the purpose of measuring net debt, as well as $42.4 billion in non-financial assets.

The remaining net capital spending is owing to the forecast for future new capital spending. As signalled in the *2023 Budget Policy Statement*, the MYCA was increased by $9.1 billion, which left $12.0 billion of the MYCA unallocated at the time. Some decisions have since been managed against the MYCA, leaving $11.2 billion of the MYCA unallocated at the *Half Year Update*. Of this, $8.3 billion is expected to be spent within the forecast period.

Table 2.10 shows a breakdown of net capital expenditure that has an impact on core Crown residual cash. It excludes capital spending undertaken directly by SOEs and Crown entities funded from their own resources (including third-party financing).

Table 2.10 – Net capital expenditure activity

Year ending 30 June $billions	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**5-year Total**
Education	1.6	1.4	1.2	1.1	1.0	**6.3**
Defence	1.8	1.2	1.1	0.5	0.4	**5.0**
Corrections	0.3	0.3	0.2	0.2	0.3	**1.3**
Police	0.1	0.1	0.2	0.2	0.2	**0.8**
Social Development	0.2	0.1	0.1	0.1	0.1	**0.6**
Justice	0.1	0.1	0.1	0.1	0.1	**0.5**
Business, Innovation and Employment	0.1	0.1	0.1	0.1	0.1	**0.5**
Internal Affairs	0.1	0.1	0.1	0.1	0.1	**0.5**
Foreign Affairs	0.1	0.1	0.1	0.1	-	**0.4**
Other	0.7	0.7	0.3	0.3	0.2	**2.2**
Net purchase of physical assets	**5.1**	**4.2**	**3.5**	**2.8**	**2.5**	**18.1**
Kāinga Ora	3.2	4.5	3.4	2.7	-	**13.8**
NZTA	0.9	0.8	-	(0.2)	(0.2)	**1.3**
Housing Infrastructure Fund	0.4	0.1	0.1	-	-	**0.6**
Small Business Cashflow Loan Scheme	(0.1)	(0.2)	(0.3)	(0.3)	(0.2)	**(1.1)**
Student Loans	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)	**(1.2)**
Funding for Lending Programme	6.5	(3.1)	(9.3)	(6.7)	-	**(12.6)**
Other	(0.2)	0.1	0.1	-	-	**0.0**
Net advances	**10.4**	**2.0**	**(6.2)**	**(4.7)**	**(0.7)**	**0.8**
Health sector	2.7	3.6	1.1	1.7	-	**9.1**
NZTA	1.5	1.1	0.8	0.6	1.1	**5.1**
KiwiRail	0.8	1.1	0.7	0.4	0.1	**3.1**
Kiwi Group Capital	2.1	-	-	-	-	**2.1**
Housing Acceleration Fund	0.8	0.4	0.3	0.3	-	**1.8**
City Rail Link	0.5	0.3	0.1	-	-	**0.9**
Crown Regional Holdings Limited	0.2	0.2	-	-	-	**0.4**
Crown Infrastructure Partners	-	-	0.1	0.1	-	**0.2**
Schools	0.1	0.1	-	-	-	**0.2**
New Zealand Green Investment Fund	0.2	-	-	-	-	**0.2**
Ōtākaro	0.1	0.1	-	-	-	**0.2**
Other	0.6	0.2	0.2	0.1	-	**1.1**
Net investments	**9.6**	**7.1**	**3.3**	**3.2**	**1.2**	**24.4**
Future new capital spending	1.4	2.3	3.2	3.6	3.4	**13.9**
Top-down capital adjustment	(2.9)	(1.5)	(0.5)	(0.3)	(0.2)	**(5.4)**
Contribution to NZS Fund	2.6	1.8	1.6	1.8	1.7	**9.5**
Net capital spending	**26.2**	**15.9**	**4.9**	**6.4**	**7.9**	**61.3**

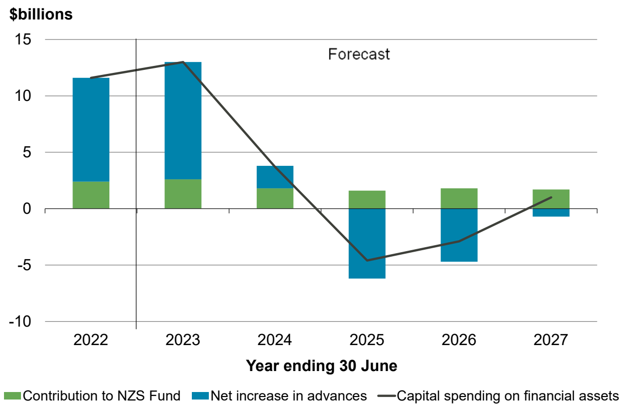
Source: The Treasury

…which consist of cash flows for financial assets, that are neutral to net debt…

The core Crown capital spending on items which result in a financial asset do not impact on the net debt level, as the borrowings to fund the spending are offset by the financial asset, which is also included in the net debt measure.

This includes the Government's contributions to the NZS Fund, which are forecast to total $9.5 billion by 2026/27. In addition, issuances and repayments of advances are also neutral to the net debt measure. Over the forecast period, there is an overall net repayment of advances of $0.7 billion, but the trend significantly varies year-on-year within the forecast (Figure 2.13). The key activity influencing this trend is the FLP and Kāinga Ora lending.

Figure 2.13 – Core Crown spending on financial assets



Source: The Treasury

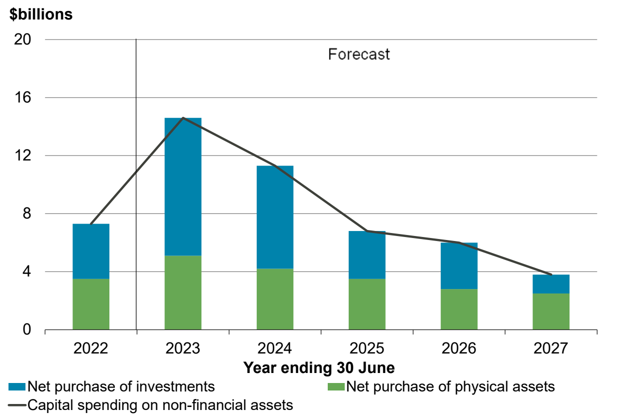
In the current year, there are expected to be net increases in advances of $10.4 billion as the Reserve Bank continues to issue FLP loans (contributing $6.5 billion to the increase). However, these loans are expected to be fully repaid by 2025/26, meaning that between 2023/24 and 2025/26, a cash inflow of around $19.1 billion is expected. These receipts are partially offset by issuances of advances to Kāinga Ora; refer to Table 2.10.

…and cash flows for non-financial assets and centrally held funding, which flow through to net debt…

The core Crown capital spending on items which result in non-financial assets, flow through to increase the net debt level, as the borrowing to fund the spending is not offset by the asset it is used to purchase (Figure 2.14). This includes both net purchases of physical assets and investments.

Net purchase of investments total $24.4 billion over the forecast period. The spending is forecast to be greater in the near term, with $9.6 billion for the current year and $7.1 billion for next year. Over the remaining forecast period, the average spend is much lower, at around $2.6 billion per year.

Figure 2.14 – Core Crown spending on non-financial assets



Source: The Treasury

As shown in Table 2.10, this is largely owing to the health sector, which includes investments into Te Whatu Ora – Health New Zealand, which total $9.1 billion, and most of which are expected in the near term.

In addition, investments in the transport sector (to NZTA and KiwiRail) total a further $8.2 billion. Combined with the health sector investments, these make up around 70% of the total net purchases of investments over the forecast period.

Net purchases of physical assets total $18.1 billion across the forecast period. This is driven by physical asset purchases by the Ministry of Education and the Ministry of Defence which, when combined, account for around 63% of the spend over the forecast period. Around half of this spending is forecast to occur in the first two years of the forecast, with $5.1 billion expected in the current year.

Centrally held funding includes the remaining MYCA and funding agreed in the current and previous Budgets for specific projects, but which has not yet been appropriated into an entity's baseline (ie, unallocated capital contingencies). Of the MYCA, $8.3 billion is expected to be spent within the forecast period, while unallocated capital contingencies add $5.3 billion to the residual cash deficit.

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

The core Crown borrowing programme includes the issuance of both government bonds and short-term borrowings (eg, Treasury bills). Overall, the programme will provide net funds of $18.0 billion to help cover core Crown residual cash deficits. This includes providing financing for Kāinga Ora, which will now be met by loans from NZDM, rather than Kāinga Ora borrowing in private markets.

In total, the bond programme is expected to raise funds of $122.0 billion over the forecast period. Bond maturities and repurchases will result in repayments of $101.9 billion of existing debt. In addition, short-term borrowing is expected to be $2.1 billion lower at the end of the forecast period, relative to the end of 2021/22 (Table 2.11).

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

Year ending 30 June $billions	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**5-year Total**
Face value of government bonds issued	28.0	30.0	30.0	20.0	20.0	**128.0**
Debt programme cash flows						
Cash proceeds from issue of government bonds	26.9	28.5	28.8	18.6	19.2	**122.0**
Repayment of government bonds	(21.8)	(18.4)	(19.0)	(21.6)	(21.1)	**(101.9)**
Net issue/(repayment) of short-term borrowings	(2.1)	-	-	-	-	**(2.1)**
Net debt programme cash flows	**3.0**	**10.1**	**9.8**	**(3.0)**	**(1.9)**	**18.0**

Notes: 1 The table above only reflects the transactions forecast by NZDM. It is not consolidated with other entities within the Crown.

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

Source: The Treasury

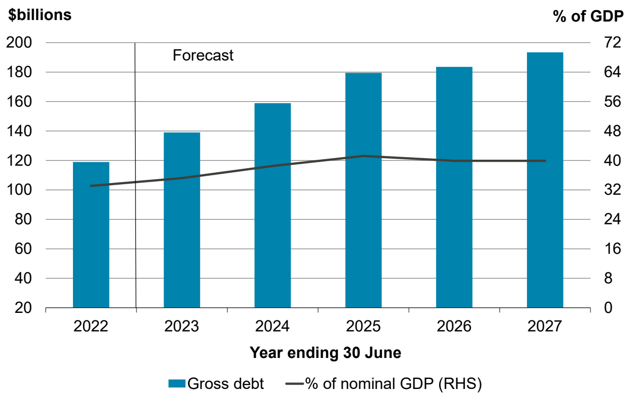
…and the use of accumulated financial assets

In addition, a portion of the financing needed to fund the residual cash shortfall will be obtained by reducing the current level of financial assets held by the Crown. Some of the build-up in financial assets comes from the bond issuances in the 2021/22 year.

Gross Debt

Gross debt increases as a result of the bond programme and the managing down of the LSAP programme

Figure 2.15 – Gross debt



Source: The Treasury

Gross debt is forecast to increase, reaching $193.5 billion in the 2026/27 year – an overall increase of $74.5 billion (Figure 2.15).

The majority of the increase occurs in the first half of the forecast period, as the average annual increase up to 2024/25 is around $20.2 billion. This drops over the last two years of the forecast to an annual average increase of $7.0 billion.

A large part of the increase in gross debt is owing to changes in the Government's bond programme (mentioned above).

The issuance of government bonds is expected to increase gross debt by $122.0 billion over the forecast period. Although repayments of government bonds of $101.9 billion are expected over the forecast period, this includes repayments relating to managing down of the Reserve Bank's LSAP (including both bonds maturing and the selling back of bonds to NZDM).

As these repayments to the Reserve Bank are within the Crown, they do not flow through to reduce the balance of gross debt. However, the increase in government bonds is partially offset by reductions in settlement cash held by the Reserve Bank, which does not form part of gross debt. By removing the expected repayments from within the Crown, gross debt is only expected to reduce by around $43.0 billion over the forecast period.

In addition, there have been increases to the Government's bond programme of around $13.8 billion to reflect Kāinga Ora borrowings now assumed to be funded through the Crown, going forward, rather than through private markets.

The increase to the government bond programme, combined with higher current interest rates, has had a significant impact on the Government's expected finance costs over the forecast period as discussed on page 30.

Comparison to the *Budget Update*

This section explains the drivers for the changes in key fiscal indicators compared to the Treasury's previous forecast update.

Overall, the fiscal outlook shows a recovery across the forecast period with OBEGAL returning to surplus and net debt starting to fall. Compared to the *Budget Update*, this recovery is now expected to be slightly stronger in the near-term but weaker by the end of the forecast period. The near term strength is largely owing to the better-than-expected financial results to 30 June 2022, which means the starting base for the *Half Year Update* fiscal forecast is stronger. Over the rest of the forecast period, the change is largely owing to economic factors (stronger wage growth, higher inflation and higher interest rates than previously forecast), which increase expenses more than tax revenues. In addition, decisions taken to increase spending have also contributed to the change in core Crown expenses. Table 2.12 provides a summary of the change in key fiscal indicators.

Table 2.12 – Key fiscal indicators compared to the *Budget Update*[1]

Year ending 30 June $billions	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Core Crown tax revenue					
Half Year Update	108.5	118.1	124.9	132.0	141.2
Budget Update	103.8	116.1	122.7	129.9	138.5
Change	**4.7**	**2.0**	**2.2**	**2.1**	**2.7**
Core Crown expenses					
Half Year Update	125.6	129.3	134.5	140.1	144.9
Budget Update	128.4	127.1	131.1	134.1	138.2
Change	**2.8**	**(2.2)**	**(3.4)**	**(6.0)**	**(6.7)**
OBEGAL					
Half Year Update	(9.7)	(3.6)	(0.5)	1.7	6.2
Budget Update	(19.0)	(6.6)	(2.6)	2.6	7.0
Change	**9.3**	**3.0**	**2.1**	**(0.9)**	**(0.8)**
Core Crown residual cash					
Half Year Update	(27.0)	(25.4)	(17.6)	7.4	4.6
Budget Update	(31.8)	(29.3)	(9.3)	7.9	17.7
Change	**4.8**	**3.9**	**(8.3)**	**(0.5)**	**(13.1)**
Net debt					
Half Year Update	61.9	78.7	88.2	83.1	78.7
Budget Update	61.2	75.0	83.6	76.4	69.5
Change	**(0.7)**	**(3.7)**	**(4.6)**	**(6.7)**	**(9.2)**
Net worth					
Half Year Update	174.3	173.5	179.0	186.5	198.9
Budget Update	130.4	128.9	132.4	141.7	155.8
Change	**43.9**	**44.6**	**46.6**	**44.8**	**43.1**

Note: 1 Favourable variances against the previous forecast have a positive sign, and unfavourable variances against the previous forecast have a negative sign.

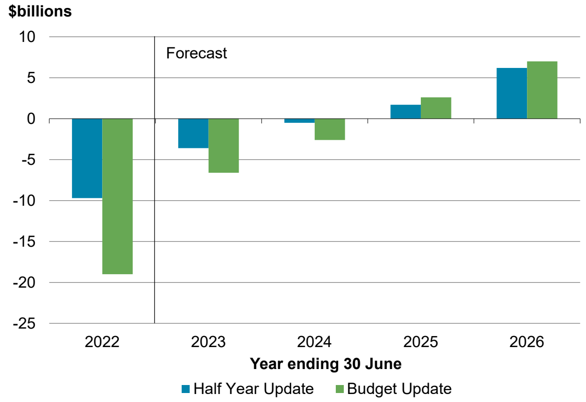
Source: The Treasury

Overall, OBEGAL is expected to recover across the forecast period, but the growth is expected to be slower than previously forecast…

The OBEGAL deficit is expected to be smaller in the near term compared to the *Budget Update.* However, from 2024/25, OBEGAL is then expected to be slightly weaker than previously forecast (Figure 2.16).

In the current fiscal year, the OBEGAL deficit is $3.0 billion lower than expected at the *Budget Update.* OBEGAL is expected to return to a surplus of $1.7 billion in 2024/25 – the same year as expected at the *Budget Update.* However, the surplus is $0.9 billion lower than previously expected, and this slower growth continues to 2025/26.

Figure 2.16 – OBEGAL compared to the *Budget Update*



Source: The Treasury

The largest drivers of change in the OBEGAL forecasts are changes to core Crown tax revenue and core Crown expenses. In total, over the forecast period, core Crown tax revenue is forecast to be $9.0 billion higher compared to the *Budget Update*, while core Crown expenses are higher by $18.3 billion.

…while core Crown tax revenue is expected to be higher in all years...

Core Crown tax revenue has increased since the *Budget Update* by an average of $2.3 billion per year. Despite a weaker economic outlook, the recent strength in economic activity in the first half of 2022/23 and higher inflation result in a higher forecast of tax revenue compared to the *Budget Update*.

This is broadly explained by increases in source deductions, corporate and net other persons tax, partially offset by lower GST. The movement in core Crown tax revenue since the *Budget Update* is summarised in Table 2.13.

Table 2.13 – Change in core Crown tax revenue since the *Budget Update*, by tax type

Year ending 30 June $billions	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**2026 Forecast**	**Total change**
Core Crown tax revenue – *Budget Update*	116.1	122.7	129.9	138.5	
Source deductions	2.4	1.9	1.8	1.8	7.9
Net other persons tax	0.1	1.0	0.5	1.4	3.0
Corporate tax	0.4	0.1	0.3	0.3	1.1
GST	(0.5)	(1.1)	(0.7)	(0.9)	(3.2)
All other taxes	0.2	0.3	0.2	-	0.7
Total forecasting changes	**2.6**	**2.2**	**2.1**	**2.6**	**9.5**
Tax policy change effects (refer box on page 23)	(0.6)	-	-	0.1	(0.5)
Total changes	**2.0**	**2.2**	**2.1**	**2.7**	**9.0**
Core Crown tax revenue – *Half Year Update*	**118.1**	**124.9**	**132.0**	**141.2**	

Source: The Treasury

- Source deductions have been driven by changes to the forecast for compensation of employees, which is owing to higher wage growth, partly offset by weaker employment forecasts. In addition, fiscal drag and PAYE on transfers has also contributed to the increase across the forecast.

- Corporate and net other persons tax drivers include stronger-than-expected tax outturns to date, partially offset by a weaker outlook for taxable profits across the forecast period, compared to the *Budget Update*. In the results to 30 June 2022, corporate and net other persons tax revenue was above forecast by $2.6 billion and $1.1 billion, respectively, resulting in a higher base for the *Half Year Update* forecasts, offsetting the weaker forecast for taxable profits.

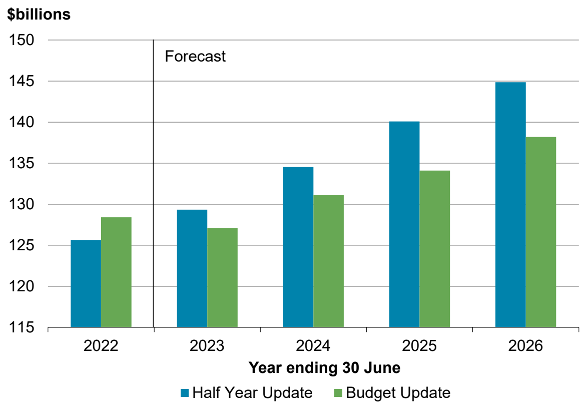
- GST outturns have been below forecast in recent months largely owing to weaker private consumption, and this has reduced the GST forecast for the current fiscal year. Weaker forecasts for nominal consumption, residential investment and net tourism drive the overall downward change across the remaining forecast period.

…growth in core Crown expenditure outpaces the growth in tax revenue, largely due to economic factors…

Overall, core Crown expenses are expected to be higher than the *Budget Update*, largely owing to economic conditions (inflation, wage increases and interest rates) impacting on finance costs and benefit expenses.

The increase from the previous forecast grows across the forecast period, from an average of $2.8 billion in the first two years, to an average increase of $6.3 billion from 2024/25 onwards.

Figure 2.17 – Core Crown expenses compared to the *Budget Update*



Source: The Treasury

Core Crown finance costs are the largest single driver of the change in core Crown expenses since the *Budget Update*, increasing by a total of $9.7 billion over the forecast. The change since the *Budget Update* grows over the forecast period, from an increase of $1.4 billion expected in 2022/23, to an increase of $3.3 billion by 2025/26. The increase is largely a result of the higher interest and inflation rates, as well as a larger bond programme due to increased lending to Kāinga Ora. At the *Budget Update,* the yield rate on 10-year government bonds was expected to peak at 4.1% in 2025/26, but is now expected to peak at 4.8% in 2023/24.

Higher forecasts for interest rates have also resulted in increased core Crown interest revenue, which has increased by a total of $5.8 billion since the *Budget Update*.
This means the overall impact on the fiscal outlook from the higher interest rates is slightly less than the impact on core Crown expenses.

Benefit expenses have increased compared to the *Budget Update,* by $2.3 billion over the forecast period. From 2023/24 onwards, benefit expenses are expected to be a higher than the *Budget Update* by an average of $0.8 billion per year, largely owing to stronger wage-growth forecasts and an increase in the expected number of benefit recipients owing to the weaker employment forecasts.

…spending decisions made since the* Budget Update *have also increased core Crown expenditure…

The CERF has also been topped up by $2.1 billion, which represents the increase since the *Budget Update* in the cash proceeds generated from the NZETS. This adds around $0.4 billion per year to core Crown expenditure from 2023/24 to 2026/27.

…other expenses and assumptions have also changed…

NZETS expenses – which are incurred when the Government allocates NZUs to market participants for free – have increased since the previous forecast by an average of $0.5 billion per year. This is due to a combination of a higher number of units expected to be allocated over the forecast and a higher NZU price used for these forecasts ($85.00 at the *Half Year Update* versus $75.90 at the *Budget Update*).

Other changes since the *Budget Update* include increases to expenditure due to changes in assumptions around pay settlements. Offsetting these items is an increase in the operating top-down adjustment. Compared to the *Budget Update*, the change to the operating top-down adjustment reduces core Crown expenditure by $5.3 billion across the forecast period, which primarily falls in the current year. This is largely owing to a significant amount of unspent expenses from 2021/22 transferring into the 2022/23 year and likely delays to the implementation of projects owing to current capacity constraints.

…the results of the Crown Entities have improved…

Increases in the forecast for interest rates since the *Budget Update* have resulted in a stronger outlook for the results of ACC across the forecast period, by an average of $1.2 billion per year. Higher interest rates have driven higher expected investment revenues, which have increased by an average of $0.2 billion per year compared with the previous forecasts. In addition, higher discount rates (owing to the higher current interest rates) have resulted in lower forecast insurance expenses over the forecast period by an average of $0.9 billion per year, compared to those at the *Budget Update.*

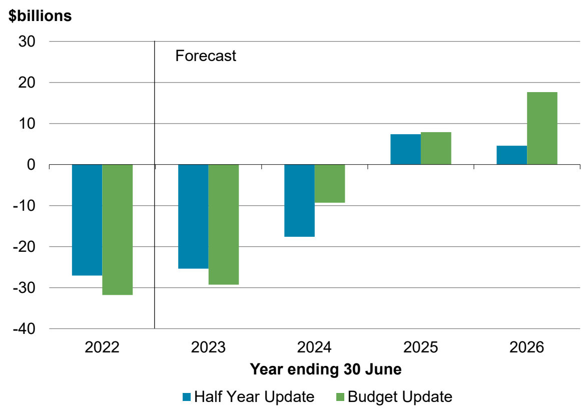
…the core Crown results lead to a weaker core Crown residual cash position over the forecast period…

In total, the core Crown residual cash deficits are expected to be higher by $18.0 billion over the forecast period, compared to the *Budget Update.*

Tax receipts are forecast to be $5.7 billion higher compared to the *Budget Update* and while the trend is usually expected to move in line with revenue, there can be differences in the timing of cash receipts that cause it to vary.

The operating cash flow movements broadly reflect the increases in core Crown expenses previously discussed.

Figure 2.18 – Core Crown residual cash compared to the *Budget Update*



Source: The Treasury

However, there are also capital cash flows that impact residual cash, which have made a significant contribution to the change since the *Budget Update*.

A decision has been made for future Kāinga Ora borrowings to be funded through the Crown, rather than through the private markets. This has added around $13.8 billion to the residual cash deficit over the forecast period.

The Government has chosen to top up to the MYCA, as explained in the *2023 Budget Policy Statement.* The top-up means there is a higher level of capital investment expected in the future, which has contributed to the residual cash deficit over the forecast period. Some of the top-up falls outside of the forecast period as the MYCA is a funding envelope so covers Budget 2023 through to Budget 2026.

These increases to the residual cash deficit have been partially offset by the forecast for the FLP, which has been reduced by around $3.0 billion, reflecting lower expectation around the take-up of the programme.

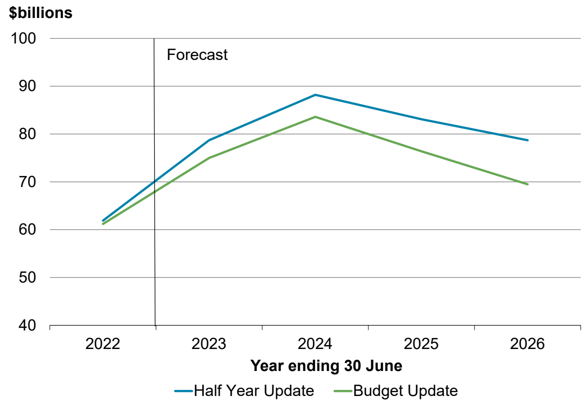
…most of which flows through to a higher net debt level…

Compared to the *Budget Update*, net debt is higher in all years covered by the forecast period. By 2025/26, net debt is higher than the *Budget Update* by $9.2 billion.

Around $6.9 billion of the increase relates to the higher residual cash deficits across the forecast period (excluding net increases in advances and contributions to the NZS Fund).

The remaining change compared to the *Budget Update* is attributable to changes in the NZS Fund's net financial assets, changes to Crown entity borrowings, and other financial instrument valuation changes.

Figure 2.19 – Net debt compared to the *Budget Update*



Source: The Treasury

By the end of the forecast period, the NZS Fund net financial assets are lower by $9.2 billion, largely owing to the weaker-than-forecast results to 30 June 2022, which resulted in a lower starting point for the *Half Year Update* forecasts. Crown entity borrowings are $1.7 billion lower by the end of the forecast period.

…the stronger starting position for the* Half Year Update *means net worth is higher in all years, despite higher net debt…

Net worth is $43.1 billion higher than forecast in the *Budget Update* by 2025/26, which is predominantly due to the results to 30 June 2022. Net worth was $43.9 billion higher than expected in 2021/22, which results in a higher starting point for net worth in the *Half Year Update* forecasts.

The total Crown operating balance, which flows through to impact net worth, is reasonably consistent with the *Budget Update* – in total lower by $0.2 billion to 2025/26.

Cyclically-adjusted balance, structural balance and total fiscal impulse[7]

Cyclically-adjusted balance and structural balance

The cyclically-adjusted balance (CAB) and structural balance illustrate how Aotearoa New Zealand's public finances are continuing to recover from the COVID-19 pandemic as one-off fiscal support tapers off and the underlying fiscal position improves.

The CAB shows what the operating balance would be in the absence of fluctuations in expenses and tax revenue that happen automatically with time through the economic cycle (known as automatic stabilisers). The structural balance helps show the underlying fiscal position by further adjusting the CAB for significant one-off expenditure items.[8]

Because much of the COVID-19-related fiscal support provided by the Government was temporary, fluctuations in the structural balance have been less pronounced than fluctuations in OBEGAL and the CAB. As one-off spending comes to an end, however, the structural balance and CAB are forecast to converge, with all three measures returning to surplus by 2024/25.

Despite a weaker forecast for OBEGAL (though still forecast to return to surplus in 2024/25, as at the *Budget Update*), the CAB and structural balance have improved since the *Budget Update* and in these forecasts return to surplus in 2023/24 – a year earlier than previously forecast. In contrast, the forecast OBEGAL surplus in 2024/25 narrows to 0.4% of GDP, compared to 0.6% forecast at the *Budget Update*. By the end of the forecast period, strong surpluses are expected for all three indicators.

The weaker position of the CAB relative to OBEGAL at the beginning of the forecast period reflects a positive forecast output gap, indicating that the economy is operating above potential (so automatic stabilisers are improving OBEGAL relative to the CAB). The output gap becomes negative in 2023/24, and the CAB outperforms OBEGAL through to 2025/26 before converging in 2026/27, indicating that the economy is expected to be operating below potential for several years.

This divergence between the CAB and OBEGAL (relative to the CAB and structural balance) indicates that, with the removal of temporary COVID-19 support from the economy, the automatic stabilisers are playing a greater role in supporting the smoothing of the economic cycle, weakening OBEGAL relative to the CAB, with expense stabilisers increasing in line with the forecast increase in unemployment (which is forecast to peak at 5.5% in 2023/24, compared to 4.8% in 2024/25 forecast at the *Budget Update*).

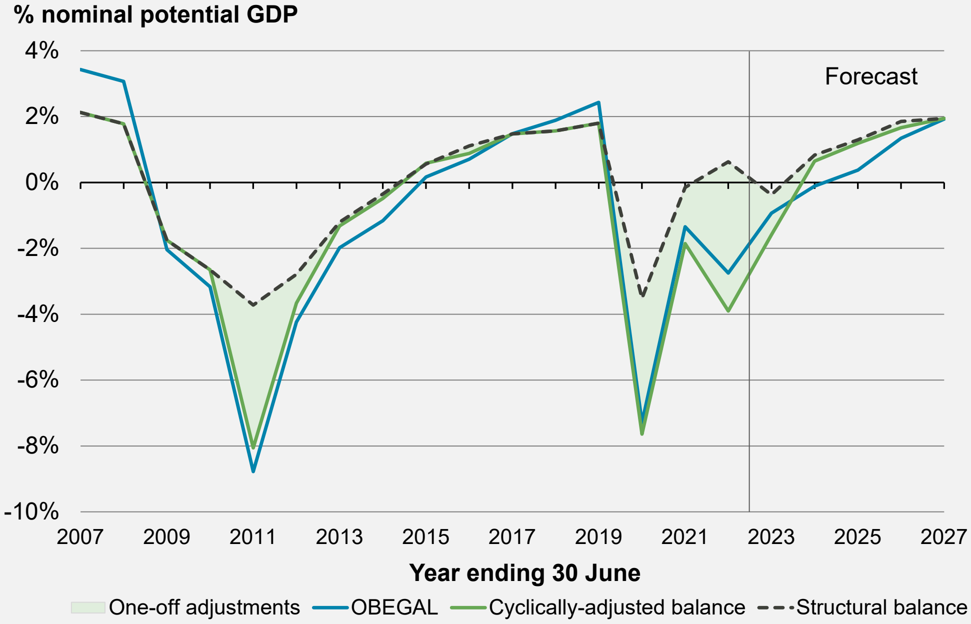
The weaker OBEGAL position relative to the CAB from 2023/24 indicates that the forecast OBEGAL surpluses do not result from the impact of the economic cycle on automatic stabilisers, but from the underlying structural position.

7 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.

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

A small structural balance surplus was also recorded in 2021/22 (though this was not forecast at the *Budget Update*). This is a result of the underlying OBEGAL deficit in this year being markedly better than previously forecast, which has similarly flowed through to improvements in both the CAB and structural balance.

Figure 2.20 – OBEGAL, CAB and structural balance



Source: The Treasury

Total fiscal impulse

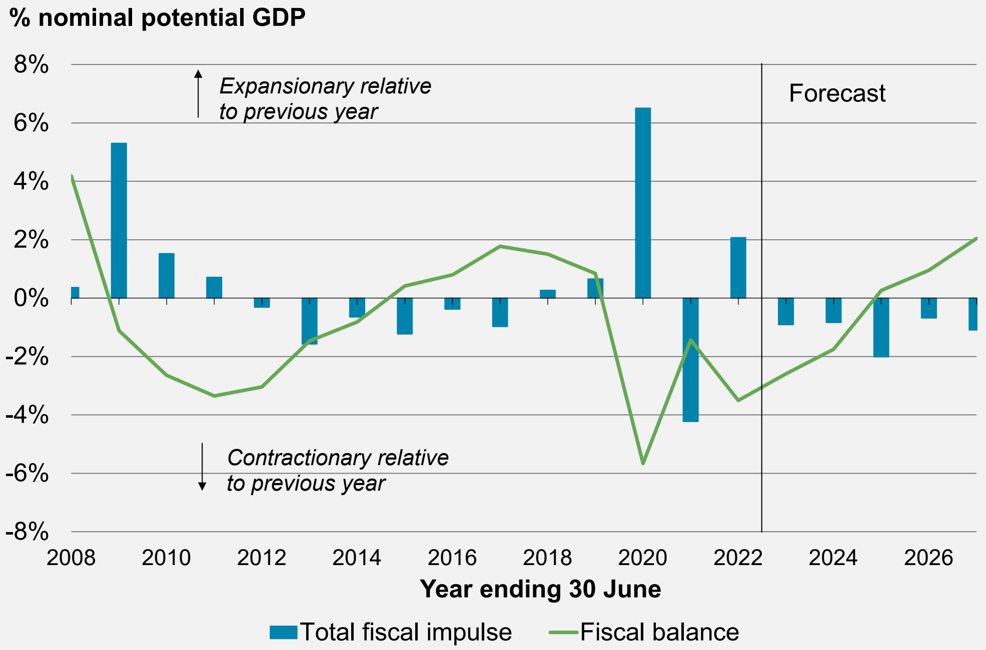
The total fiscal impulse is a measure of the change in the Government's fiscal support for aggregate demand from one year relative to the next, including the impacts of discretionary fiscal policy, automatic stabilisers and finance costs. It is calculated as the change in the fiscal balance, which is residual cash adjusted for some expenditure items that do not directly affect domestic demand. This is a cash measure of core Crown and Crown entity flows, and therefore differs from OBEGAL, the CAB and the structural balance.

A positive total fiscal impulse implies that the level of fiscal support is expanding compared to the previous year, while a negative total fiscal impulse implies it is contracting compared to the previous year. The total fiscal impulse does not estimate the absolute level of support or the economic impact of that support, which will vary depending on factors such as the composition of spending.

From 2021/22, the fiscal balance is forecast to improve throughout the forecast period, with a surplus expected in 2024/25. As a result of tightening fiscal policy implied by an improving fiscal balance, the fiscal impulse is expected to be negative (contractionary) throughout the forecast period. This shows that the Government's contribution to aggregate demand in the economy is forecast to reduce relative to each preceding year, indicating that, overall, fiscal policy is expected to support monetary policy's objective of dampening inflationary pressures.

A materially smaller fiscal balance deficit in 2021/22 than previously forecast (relative to the *Budget Update*) means that the fiscal impulse for this year was markedly less expansionary than previously forecast. As the fiscal impulse measures whether fiscal policy is expansionary or contractionary relative to each preceding year, less expansionary fiscal policy in 2021/22 has likewise resulted in a less contractionary fiscal stance forecast for 2022/23.

Figure 2.21 – Total fiscal impulse and fiscal balance[9]



Source: The Treasury

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

Key Economic Assumptions Used in the Forecast Financial Statements

The Forecast Financial Statements are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates.

For example:

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

A summary of the key economic forecasts that are particularly relevant to the forecast financial statements is provided in Table 2.14.

Table 2.14 – Summary of key economic forecasts used in the Forecast Financial Statements

Year ending 30 June	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Real GDP[1] (annual average % change)	1.0	3.5	(0.3)	2.1	3.3	3.0
Nominal GDP[2] ($billions)	359.4	394.8	412.7	435.3	460.3	484.4
CPI (annual average % change)	6.3	6.9	4.5	2.8	2.2	2.0
Govt 10-year bonds (annual average %)	2.6	4.4	4.8	4.7	4.5	4.2
5-year bonds (annual average %)	2.4	4.4	4.8	4.5	4.1	3.8
90-day bill rate (annual average %)	1.2	4.5	4.9	3.4	2.4	2.1
Unemployment rate (annual average %)	3.3	3.5	4.9	5.4	4.8	4.4
Employment (annual average % change)	2.8	1.1	(1.2)	0.6	2.0	1.8
Average weekly earnings[3] (annual % change)	5.5	6.9	5.8	4.5	4.0	3.7

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

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

3

Risks to the Economic and Fiscal Forecasts

Overview

The economic and fiscal forecasts presented in the previous two chapters involved a number of assumptions and judgements. As with any kind of forecasting there is risk that actual events will differ from expectations. This chapter outlines the key risks to the economic and fiscal forecasts and presents as scenarios possible alternative paths for the economy including likely fiscal implications.

The economy is a key influence on fiscal outcomes…

Forecasts of nominal GDP are a key driver of forecast tax revenue, wage growth forecasts are used to index most main benefit types and forecasts for interest rates are used to estimate interest revenue, finance costs and the valuation of some long-term assets and liabilities. Table 3.1 provides rules of thumb for the sensitivity of tax revenue to economic growth, as well as how government income and expenses are affected by interest rates. For example, if nominal GDP was to grow by one percentage point more than forecast in each year of the forecasts, then tax revenue would likely be around $7.7 billion higher than forecast in the final year of the forecast.[10]

Economic conditions, and judgements and assumptions about how these change, also directly impact the value of some assets and liabilities on the Crown balance sheet and the forecast fiscal position. To inform these judgements and assumptions we rely on market information, such as foreign exchange rates, share prices, the carbon price and property prices. For example, foreign-currency-denominated financial assets and liabilities are converted into New Zealand dollars, the Government's listed share investments are reported at market prices, and property owned by the Crown is valued using market information. Where the actual outcome differs from our assumptions, the Crown's actual financial position is likely to differ from the forecasts. In addition, changes in these variables can also have flow-on effects for the Crown's operating balance. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

[10] The impacts are broadly symmetrical, should the opposite occur.

Table 3.1 – Fiscal sensitivity analysis

Years ending 30 June ($millions)	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Impact on tax revenue of a one percentage point increase[1] in growth of					
Nominal GDP	1,150	2,505	4,010	5,760	7,660
Wages and salaries	520	1,140	1,845	2,645	3,550
Taxable business profits	270	635	1,030	1,490	1,990
Impact of 1% lower[1] interest rates on					
Interest income[2]	-281	-393	-418	-465	-474
Interest expenses[2]	-445	-856	-1,090	-1,256	-1,348
Net impact on operating balance	164	463	672	791	874

Note: 1 These sensitivities are broadly symmetrical.
2 Interest sensitivities relate to consolidated external exposures of both the Treasury (Debt Management) and the Reserve Bank of New Zealand.

Source: The Treasury

…but fiscal policy can also influence the wider economy

Fiscal impacts on the economy can be direct – for example, through increased provision of health services in public hospitals – or indirect, through changes to household incomes such as increases to benefit rates, which are then spent by households. Revenue policies, such as tax policy, can affect household and firm incomes and influence private sector behaviour.

Several key areas of risk to the economic forecasts are outlined below. Scenarios illustrate the economic implications should some of these risks eventuate and consider the likely impacts on key fiscal variables.

Globally, there are risks around supply, the persistence of inflation and how tight monetary policy will need to be to control inflation…

As noted in the Economic Outlook chapter, the global outlook is highly uncertain. Global supply challenges resulted from COVID-19 disrupting production and the movement of freight and people, and these challenges were compounded by events such as Russia's invasion of Ukraine. COVID-19-related disruption has eased in many countries, but there remain risks associated with new strains of the virus, as well as China's zero-COVID approach. Supply disruptions could fade sooner than anticipated if China were to rapidly reduce COVID restrictions, or they could increase if more dangerous strains of COVID were to emerge or the conflict in the Ukraine intensifies.

The current synchronised tightening in monetary policy is the key risk at present in relation to global growth. Monetary policy may prove more or less effective than expected, leading to sharper or less pronounced slowdowns in growth. Alternatively, the persistence of inflation may be greater or less than anticipated, impacting the extent of further monetary policy tightening that is required. Weaker (or stronger) global growth would impact Aotearoa New Zealand through export demand and prices.

The speed at which supply and demand imbalances unwind as monetary policy tightens is also a domestic uncertainty. Monetary policy is currently focused on slowing demand. However, this is occurring during a period when international tourism is re-emerging following the full reopening of the border in late July, which will support demand in this industry. The labour market is particularly tight and, while unemployment is expected to rise significantly, there is uncertainty about the pace, particularly as employment decisions by firms may be influenced by the recent difficulty in attracting staff.

…with three alternative scenarios illustrating possible outcomes if some of these risks eventuate

The results of three scenarios are briefly considered below (Table 3.2) and expanded on in the Alternative Scenarios section. The 'wage/inflation' scenario considers the implications should inflation prove to be more persistent and impact on wage setting behaviour to a greater degree. The 'weaker world' scenario illustrates the impact of a weaker global economy should global demand ease by more than expected. Finally, the 'inflation unwinds' scenario considers the implications should inflation in Aotearoa New Zealand and the rest of the world unwind in a more benign manner.

Table 3.2 – Alternative scenarios

June years	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Real GDP (Annual average % change)						
Main forecast (*Half Year Update 2022*)	**1.0**	**3.5**	**-0.3**	**2.1**	**3.3**	**3.0**
Wage/Inflation	1.0	3.7	-0.5	1.5	3.1	3.0
Weaker world	1.0	3.4	-1.0	2.4	3.8	3.3
Inflation unwinds	1.0	3.7	0.4	2.7	3.1	2.7
Inflation (Annual % change)						
Main forecast (*Half Year Update 2022*)	**7.3**	**6.4**	**3.5**	**2.5**	**2.0**	**2.0**
Wage/Inflation	7.3	7.0	4.4	2.9	2.2	2.0
Weaker world	7.3	6.4	3.3	2.3	2.0	2.0
Inflation unwinds	7.3	5.7	3.0	2.4	2.1	1.9
Unemployment rate (June quarter)						
Main forecast (*Half Year Update 2022*)	**3.3**	**3.8**	**5.5**	**5.2**	**4.6**	**4.3**
Wage/Inflation	3.3	3.7	5.6	5.7	5.2	4.8
Weaker world	3.3	4.0	6.1	5.5	4.6	4.1
Inflation unwinds	3.3	3.6	4.8	4.2	3.8	3.7
90-day interest rate (June quarter)						
Main forecast (*Half Year Update 2022*)	**2.2**	**5.1**	**4.5**	**2.8**	**2.2**	**2.1**
Wage/Inflation	2.2	5.6	5.4	3.4	2.3	2.0
Weaker world	2.2	4.9	3.7	2.2	1.9	2.2
Inflation unwinds	2.2	4.9	3.1	2.6	2.5	2.2
Net debt (% of GDP)						
Main forecast (*Half Year Update 2022*)	**17.2**	**19.9**	**21.4**	**19.1**	**17.1**	**14.1**
Wage/Inflation	17.2	19.8	20.8	18.2	16.1	13.0
Weaker world	17.2	20.0	22.0	20.1	18.4	15.4
Inflation unwinds	17.2	20.0	21.4	18.9	16.7	13.4
OBEGAL (% of GDP)						
Main forecast (*Half Year Update 2022*)	**-2.7**	**-0.9**	**-0.1**	**0.4**	**1.4**	**1.9**
Wage/Inflation	-2.7	-0.8	0.3	0.7	1.5	2.1
Weaker world	-2.7	-1.0	-0.6	-0.1	1.1	1.8
Inflation unwinds	-2.7	-1.0	-0.1	0.6	1.6	2.1

Sources: Stats NZ, Haver Analytics, the Treasury

Both the ‘wage/inflation’ and ‘weaker world’ scenarios involve more of a contraction in activity and rise in unemployment than in the main forecast, but for different reasons. In the ‘wage/inflation’ scenario higher interest rates in response to higher inflation are the main driver, whereas in the ‘weaker world’ scenario the weakness comes from reduced export demand and weaker terms of trade. In the ‘inflation unwinds’ scenario annual growth remains positive in the year to June 2024, with interest rates easing earlier than in the main forecast and other scenarios and as a consequence unemployment is lower.

The ‘weaker world’ scenario involves weaker real activity and prices. These both drive the weaker outlook for OBEGAL, including delaying the return to surplus by a year. The ‘wage/inflation’ scenario also has weaker real activity, but higher inflation boosts nominal GDP and tax revenue and results in a stronger OBEGAL across the forecast period (including a small surplus in 2024, one year prior to the main forecasts). The ‘inflation unwinds’ scenario results in an outlook for OBEGAL that is pretty similar to the main forecast. In this instance the stronger outlook for activity on nominal GDP and tax revenue is significantly offset by the impact of lower inflation.

Future fiscal policy decisions are also likely to impact the Government’s fiscal outlook…

The *Half Year Update* fiscal forecasts are based on Government decisions up to 28 November 2022. A number of policies under development or consideration will be decided upon in the future. A list of potential future policy decisions that are likely to have a fiscal impact of more than $100 million over the forecast period, and where it is reasonably possible they will be approved, is included in the Specific Fiscal Risks section of this chapter.

…as well as changes in the cost of providing existing services and delivery of core infrastructure…

The Specific Fiscal Risks section of this chapter discusses the material cost pressures the Government may face in the future. In most cases it is assumed that the services provided by departments can be met from the funding received from the Government. However, just as households face changes in the cost of living and firms face changes in input costs including labour, the cost of providing government services and delivering core infrastructure and ICT projects may also change, potentially requiring additional funding beyond that in the fiscal forecasts.

…while past commitments could crystallise costing the Government

The Government enters into commitments that may have fiscal costs if certain events occur in the future. These kinds of commitments do not meet the criteria for inclusion in the fiscal forecasts owing in part to the uncertainty around the triggering of the future event. These events may include economic developments, the financial sustainability of entities, and legal decisions. The Contingent Liabilities section of this chapter (page 99) outlines these kinds of commitments.

Climate change poses a significant challenge...

Climate change is likely to pose a significant risk to Aotearoa New Zealand's economy and the Government's financial sustainability. The fiscal forecasts include several mitigation (taking action to reduce emissions) and adaptation (adjusting to the effects of climate change) measures to support the Government's climate change response, most notably the New Zealand Emissions Trading Scheme (ETS) and climate change related initiatives funded from the Climate Emergency Response Fund (CERF). For the ETS, the forecasts include forecast cash proceeds from auctioning New Zealand Units (NZUs), revenue from NZU surrenders, expenses for NZUs issued, with the balance sheet including the value of the stock of outstanding NZUs. These estimates are based on a number of assumptions (eg, price of carbon), so there is a risk that results will differ to forecast.

The forecasts also include the allocation of an additional $2.1 billion of funding to the CERF over the forecast period to support climate-related action, leaving $3.6 billion total available. Over the longer term, the actual cost of achieving emissions reduction targets and addressing risks from climate change will likely be in excess of the $7.4 billion overall size of the fund. Given the uncertainty around these costs and their likely timing, these are reported as specific fiscal risks to the forecasts.

…as do any major unforeseen adverse events

The past 15-year period has seen Aotearoa New Zealand hit by several major events, including earthquakes and the COVID-19 pandemic. The economic and fiscal impacts of unforeseen events are unpredictable but potentially large, and from previous experience we can expect that any future events would likely involve considerable government support.

The current pandemic appears to have passed its worst in terms of economic impacts. As a consequence, while flow-on implications from the current pandemic remain in the Specific Fiscal Risks, risks associated with possible future policy decisions beyond 2023, such as ongoing business support measures, have been removed. However, new strains or viruses still pose risks and the impacts of any necessary response would need to be considered.

The Government has several tools to mitigate and manage risks

The Government sets aside funding in the Budget operating allowance, multi-year capital allowance and CERF to help meet the fiscal impact of future policy decisions (both new and extending current settings). These funding envelopes are included in the fiscal forecasts, so are reflected in the Government's key fiscal indicators.

Budget 2022 piloted a multi-year funding approach for the health, justice and natural resources sectors, with the objective that funding certainty would encourage longer-term planning and collaboration within sectors, as well as foster prioritisation and efficiency of spending. This approach has seen a significant quantum of funding pre-committed against the Budget 2023 and Budget 2024 operating allowances. As a consequence, this will require careful choices and trade-offs around government spending in order to manage spending within the remaining allowances.

The Government's fiscal strategy of requiring OBEGAL to return to a surplus, aiming to maintain a surplus thereafter, and keeping net debt below 30%, will support the fiscal resilience of the Government to absorb future shocks. Governments have been able to respond to past adverse events by increasing debt levels, to absorb shocks rather than significantly changing fiscal policy settings. The fiscal forecasts presented in the 2022 *Half Year Update* expect net debt to peak at 21.4% of GDP before narrowing to 14.1% by June 2027.

In the scenarios in the next section, it is assumed that the Budget operating, and multi-year capital allowances remain the same as in the main forecasts. If inflation pressures prove greater than expected, then these allowances will not stretch as far in terms of the provision of government services. Conversely in an environment of lower inflation it may be that relatively greater government services are possible.

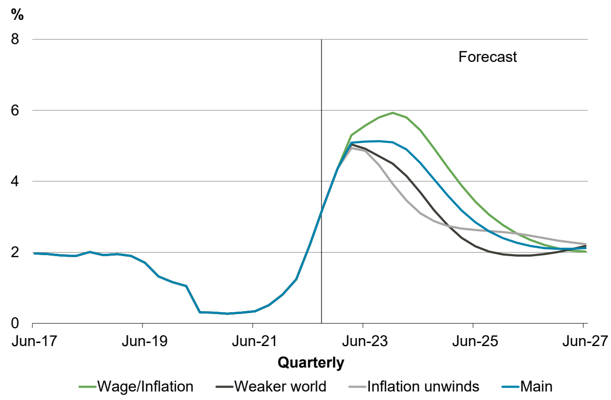
Alternative Scenarios

As noted above, the economic and fiscal forecasts necessarily involve making a number of assumptions and judgements. One way of illustrating the inherent uncertainty regarding the assumptions and judgements made is to consider alternative scenarios where specific judgements are modified. The economic and fiscal consequences of three different scenarios are considered in this section.

Higher than expected wage inflation would require a greater monetary response…

In the 'wage/inflation' scenario, wage growth is higher than in the main forecast, supporting near term demand but adding further upward pressure to inflation. Monetary policy is tighter, with 90-day interest rates peaking at 5.9% by the end of 2024 (Figure 3.1) and remaining higher than in the main forecast throughout the majority of the forecast horizon.

Figure 3.1 – 90-day interest rates



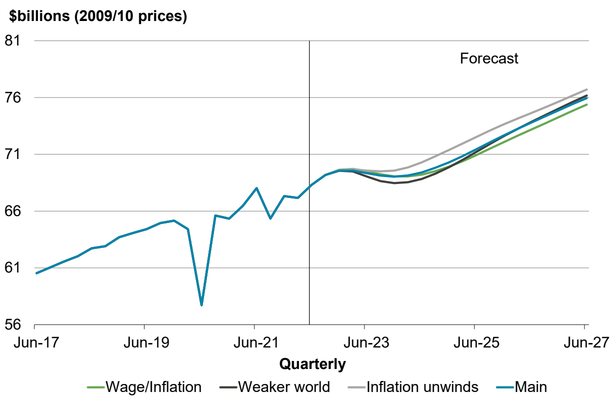
Sources: Haver Analytics, the Treasury

While the boost to household incomes from higher wages supports household spending in the short term, higher interest rates weaken aggregate demand over most of the forecast horizon, deepening the contraction in activity over 2023 (Figure 3.2), with unemployment reaching 5.8% at the end of 2025 (Figure 3.3). In all the scenarios, nominal government consumption remains unchanged from the main forecast. Accordingly, for this scenario, the higher price level results in a larger reduction in the volume of real government spending, which contributes to the sustained reduction in the level of real GDP.

…while inflation pressures unwinding sooner supports aggregate demand…

In the 'inflation unwinds' scenario, favourable foreign and domestic supply conditions see inflation returning to target sooner than in the main forecast. This requires less aggressive monetary policy tightening both at home and abroad. 90-day interest rates peak slightly lower and fall more rapidly than in the main forecast, to be almost 100 basis points lower (at 2.7%) by the end of 2024 (Figure 3.1).

Figure 3.2 – Real production GDP



Sources: Stats NZ, the Treasury

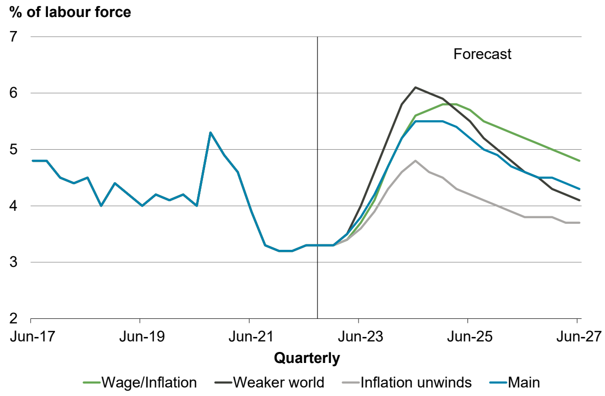
Lower interest rates see house prices fall by less than in the main forecast. Together with the positive impact on real incomes from lower inflation, this boosts household spending and supports aggregate demand, with real GDP growing 0.4% over the year to June 2024, compared to the 0.3% contraction in the main forecast (Figure 3.2).

This stronger growth supports employment, with the unemployment rate peaking at 4.8% (compared with 5.5% in the main forecast) and remaining lower over the entire forecast period (Figure 3.3).

…and a weaker world outlook sees lower demand for exports...

In the 'weaker world' scenario, the global growth slowdown is deeper over 2023 and 2024, resulting in reduced demand and lower world prices for Aotearoa New Zealand exports together with a deterioration in the terms of trade.

Figure 3.3 – Unemployment rate



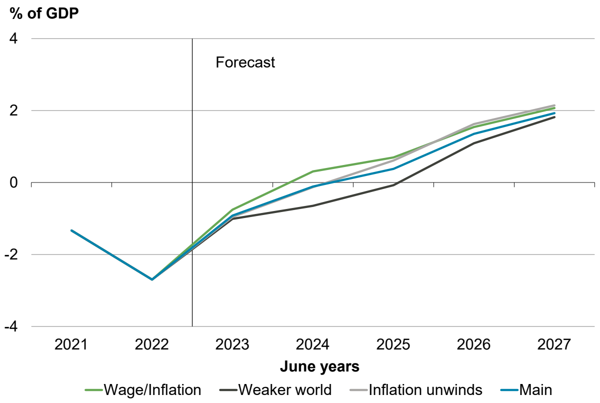
Sources: Stats NZ, the Treasury

The reduction in aggregate demand in the near term relative to the main forecast results in less inflationary pressure, requiring lower interest rates (Figure 3.1) to keep inflation on target. This helps support aggregate demand and real output over the latter part of the forecast period (Figure 3.2). Unemployment peaks higher, at 6.1% in mid-2024 (Figure 3.3) before easing as the effects of the less contractionary monetary policy are felt, with rising house prices supporting household spending.

…impacting core Crown revenues and government debt

The stronger 'wage/inflation' scenario sees $18.7 billion more cumulative nominal GDP across the forecast period, providing an additional $9.1 billion in core Crown revenue, relative to the main forecast. Much of this additional revenue is the result of fiscal drag due to higher wages and sees OBEGAL returning to surplus a year earlier than in the main forecast (Figure 3.4), and net debt reaching 13.0% of GDP in the year ending June 2027.

Figure 3.4 – OBEGAL



Sources: Stats NZ, the Treasury

In the 'inflation unwinds' scenario, the weaker price level is broadly offset by the stronger real economy, meaning there is only an additional $2.8 billion extra cumulative nominal GDP and $0.7 billion more core Crown revenue, relative to the central forecast. Welfare cost savings from New Zealand Superannuation and Job Seeker Support drive higher OBEGAL surpluses over the last three years of the forecast, leaving net debt slightly lower than in the main forecast at 13.4% of GDP in the year ending June 2027.

The 'weaker world' scenario results in $20 billion less cumulative nominal GDP over the forecast horizon, with $5.3 billion less in core Crown revenues. This sees OBEGAL return to surplus a year later than in the main forecast, and net debt reaching 15.4% of GDP in the year ending June 2027.

Balance Sheet Risks

The size and nature of the Government's balance sheet are important to the financial resilience of Aotearoa New Zealand. They enable the Government to absorb shocks on behalf of New Zealanders, and to adapt to risks and trends. They therefore play a significant role in macro-economic risk management.

The operational and financial capability that is reflected in the balance sheet is itself subject to hazards and risks, that, if they crystallise, may impair the Government's ability to achieve its operating and financial objectives. For assessing these risks, the Government's balance sheet can be usefully categorised by function or purpose as illustrated in Table 3.3.

Table 3.3 – Balance sheet functional classifications[11]

Social	Social assets and liabilities are held to support the delivery of public services such as schools, roads, hospitals and national parks. Social assets are mainly managed by government departments and Crown entities. Social assets also include tax receivables and student loans managed by the Inland Revenue Department (IRD), and Crown-owned companies that do not have purely commercial objectives, such as Crown Research Institutes.
Financial	Financial assets and liabilities are held to support a balance sheet management purpose. Assets are predominantly held to prefund government expenditure or obligations for future expenditure. Liabilities include borrowing by the government to fund investment or operating deficits, including government debt issued by NZDM.
Commercial	Assets and liabilities of entities that carry out commercial activities and are expected to act as successful businesses. The entities are largely independent entities operating in competitive environments.

Balance sheet risks are therefore risks those assets and liabilities will not be able to provide public services, finance or prefund future government expenditure and obligations, or achieve commercial objectives. The resilience of the balance sheet refers to its ability to absorb and adapt to shocks and stresses that might otherwise hinder the achievement of these objectives.

Sources of (Social) Balance Sheet Risk to Public Services

Physical assets such as land, buildings, state highways and military equipment are susceptible to external natural hazards, the impact of climate change and the quality of asset management in delivering services. In managing these risks, the Government generally relies on asset management, including built-in redundancies (eg, in network capacities), and its ability to reallocate or repurpose assets rather than risk transfer instruments such as insurance. The Government is consulting the public on a draft National Adaptation Plan in response to climate change risks that the Climate Change Commission has identified.

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11 *See He Puna Hao Pātiki: 2022 Investment Statement:* https://www.treasury.govt.nz/publications/investment-statement/he-puna-hao-patiki-2022-investment-statement

The replacement costs of physical assets are also susceptible to valuation movements through changes in property market conditions, in demand and in the costs of construction. The *Half Year Update* forecasts incorporate actual valuations up to 28 November 2022.

Social insurance and retirement liabilities (eg, Accident Compensation, veterans' disability entitlements and the Government Superannuation Fund (GSF)) are prone to volatility through their actuarial valuations. As well as variability in claims experience, the valuations of these obligations are particularly subject to changes in the assessment of the future value of money, driven by changes in expectations of future interest rates and inflation rates.

Social assets also include significant concessionary lending made available to achieve public policy purposes. This lending includes student loans, the Small Business Cashflow Scheme, and Progressive Home Ownership loans. This lending brings counterparty risk, and also exposes the Crown to risks associated with changes in assumptions about the future value of money, affecting how these future repayments are discounted. Expected credit losses from this lending are closely monitored.

The Crown also faces contingent liabilities, for example, indemnities of activities in the public interest, environmental claims, and legal proceedings.

Sources of (Financial) Balance Sheet Risk to Finance or Prefund Future Government Expenditure and Obligations

The deployment of the Government's fiscal capacity since the arrival of COVID-19 has meant that the balance sheet is now more highly leveraged than previously. In addition, monetary policy activities including the Large-Scale Asset Purchases (LSAP) programme and lending to the finance sector by the Reserve Bank have significantly increased interest-rate risk to the Government.

Financial assets held by the ACC, the New Zealand Superannuation Fund and the GSF are sensitive to financial market volatility, such as movements in interest rates, exchange rates and equity prices. Crown financial institutions set long-term investment strategies based on underlying policy objectives. These strategies aim to look through short-term volatility and take exposures that would offset the impact of long-term social insurance or retirement liabilities.

The Crown incurs liquidity risk with respect to its ability to raise cash to meet its obligations. Each agency manages its own specific liquidity risk while the Treasury manages the Crown's liquidity requirements. The Government's funding strategy operates within a risk management framework approved by the Minister of Finance. This framework specifies policies for managing credit risk, market risk, operational risk, funding risk and liquidity risk that aim to ensure that risk is maintained within the organisational risk appetite while enabling the delivery of core roles and responsibilities.

The Crown also faces financial obligations relating to natural disasters. For example, the Crown guarantees that it will fund any shortfall in the Earthquake Commission’s assets. The Crown may also decide to meet a share of local government infrastructure rebuild costs after natural disasters.

The Crown may also be exposed to balance sheet risks when there are significant financial market stresses. What risks the Crown is exposed to will depend on actions it chooses to take in response to such situations.

Sources of (Commercial) Balance Sheet Risk to Meet Commercial Objectives

Crown entities with commercial objectives are exposed to changes in customer demand for their products and services, the availability and price of the business inputs needed to provide these products and services, changes to the competitive landscape brought about by new technologies they and their competitors adopt, new market entrants and externally generated shocks and trends.

Crown entities with commercial objectives are governed by boards that operate at arm's length from Ministers. Commercial balance sheet risks are managed through each board's accountability to Ministers for the entity's overall performance and through use of the levers provided to Ministers as shareholders of companies by the applicable legislation to influence the performance of entities and companies.

When there are opportunities or challenges for businesses that require or otherwise involve the Crown injecting new capital, this is effectively managed for most entities through the conditions set on accessing this capital.

For listed companies in which the Crown has ownership interests, the rules of the NZX apply. For 100% Crown-owned entities, the two most important levers available to Ministers are the appointment of effective boards and the annual business planning and reporting process.

Specific Fiscal Risks

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

- how specific fiscal risks are managed
- criteria for inclusion and exclusion of specific fiscal risks
- a statement of specific fiscal risks of the Government
- narrative summaries of all specific fiscal risks, and
- a table of risks that have been removed from the statement of specific fiscal risks since the *Budget Update*.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts: 28 November 2022. Although the process for disclosure of specific fiscal risks involves several entities, including government departments, the Treasury and the Minister of Finance, it is still possible that not every significant risk is identified.

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

- *Policy change* risks relate to potential decisions likely to be taken by the Government relating to both new and existing policy settings.
- *Cost pressure or variance* risks relate to the cost pressures faced by agencies in the future, owing to changes in demand or costs of inputs used in the delivery of existing services or products and/or the variance costs of items included in the fiscal forecasts. The key drivers of future cost pressures are likely to come from population changes, wage increases (both pay negotiations and progression through pay scales) and the price inflation of inputs.

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

Criteria for inclusion either in the fiscal forecasts or as a specific fiscal risk

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

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

Fiscal forecasts	Specific fiscal risks
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but it is reasonably probable[12] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is $100 million or more over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[13] (but not probable) that the matter will be approved or the situation will occur, or • it is reasonably probable or possible that the matter will be approved or the situation will occur, but the matter cannot be quantified for, or assigned to, particular years with reasonable certainty.

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

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

General risks not included as specific fiscal risks

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

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

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

Exclusions to disclosure

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

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

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

- incorporating the decision and/or circumstance in the *Half Year Update* is likely to result in one of the consequences listed above, and
- there is no reasonable way that the Government can avoid this prejudice, compromise or material loss by:

  i. in the case of a circumstance, making a decision before the day the fiscal forecasts are finalised, or

  ii. in the case of a decision or circumstance, incorporating in the update the fiscal implications of that decision or circumstance, or the nature of that decision or circumstance, but without reference to its fiscal implications.

Statement of Specific Fiscal Risks

New risks		
Portfolio	**Risk title**	**Type of risk**
Agriculture	He Waka Eke Noa Revenue Uncertainty	Policy Change – Revenue
Arts, Culture and Heritage	New Zealand Screen Production Grant – Domestic	Cost Pressure or Variance - – Expenses
Broadcasting and Media	Capital Receipts from Aotearoa New Zealand Public Media	Cost Pressure or Variance – Revenue
Conservation	Ruapehu Alpine Lifts Voluntary Administration	Cost Pressure or Variance – Revenue and Expenses
Education	Wānanga Funding and the Crown's Te Tiriti Obligations to Wānanga	Policy Change – Expenses
	Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiārangi	Policy Change – Expenses
Transport	Fuel Excise Duty and Road User Charges Discount Ending	Policy Change – Revenue and Expenses
Cross-portfolio	New Zealand Income Insurance Scheme Implementation and Employer Levies	Policy Change – Revenue and Expenses

Changed risks		
Portfolio	**Risk title**	**Type of risk**
Climate Change	Emissions Trading Scheme – Variations in Revenue and Expenses	Cost Pressure or Variance – Revenue and Expenses
Education	Learning Support	Cost Pressure or Variance – Expenses and Capital
Housing	Large-scale Housing and Urban Development Projects	Cost Pressure or Variance – Expenses and Capital
Revenue	Potential Tax and Social Policy Changes	Policy Change – Revenue
Social Development and Employment	Replacement and Transformation of the Ministry of Social Development's Systems	Cost Pressure or Variance – Expenses
Transport	COVID-19 Impacts on National Land Transport Fund Revenue	Cost Pressure or Variance – Revenue and Expenses
Cross-portfolio	Information and Communications Technology Operating and Capital Pressures	Cost Pressure or Variance – Expenses and Capital
	Public Sector Employment Agreements	Cost Pressure or Variance – Expenses

Updated risks		
Portfolio	**Risk title**	**Type of risk**
ACC	Work-related Gradual Process, Disease or Infection	Policy Change – Expenses
Children	Enabling Community and Iwi to Help Children	Cost Pressure or Variance – Expenses
Climate Change	Emissions Trading Scheme – Abatement Obligations Arising from Price Ceilings Being Exceeded	Cost Pressure or Variance – Expenses
Defence	Defence Funding Requirements to Deliver Aotearoa New Zealand's Defence Strategy	Policy Change – Expenses and Capital
Disability Issues	Transforming and Sustaining Disability Support Services for New Zealanders	Cost Pressure or Variance – Expenses
Economic and Regional Development	New Zealand Screen Production Grant – International	Cost Pressure or Variance – Expenses
Education	Change in Demand for Tertiary Education and Training	Cost Pressure or Variance – Expenses
	Early Learning Action Plan	Policy Change – Expenses
	Ka Ora, Ka Ako | Healthy School Lunch Programme	Policy Change – Expenses
	Reform of Vocational Education	Policy Change – Capital
	Work Programme to Grow Māori-medium and Kaupapa Māori Education	Policy Change – Expenses and Capital
Finance	Depositor Compensation Scheme	Policy Change – Expenses
Foreign Affairs	Aid to Support Our Pacific Neighbours: Support for Pacific Fiscal Crises	Policy Change – Expenses
	Time-limited International Climate Financing Funding: Unfunded 2026-29 Commitment Period	Policy Change – Expenses
Health	Combined Pharmaceutical Budget	Cost Pressure or Variance – Expenses
	COVID-19 Response – Ongoing Costs of Current Response	Cost Pressure or Variance – Expenses
	Health Capital Pressure	Cost Pressure or Variance – Capital
	Health and Disability System Reform	Policy Change – Expenses
	Reducing Planned Care Waiting Lists	Policy Change – Expenses
Housing	Divestment and Development of Kāinga Ora – Homes and Communities' Housing	Cost Pressure or Variance – Expenses
	Housing Acceleration Fund	Cost Pressure or Variance – Expenses and Capital
Internal Affairs	National Archival and Library Services Storage Capacity	Cost Pressure or Variance – Expenses and Capital

Updated risks		
Portfolio	**Risk title**	**Type of risk**
Local Government	Three Waters Reform Programme	Policy Change – Expenses and Capital
Oceans and Fisheries	Aquaculture Settlements	Cost Pressure or Variance – Expenses
Revenue	International Tax	Policy Change – Revenue
Social Development and Employment	Changes to the Welfare System	Policy Change – Expenses
Transport	City Centre to Māngere Rapid Transit Project	Cost Pressure or Variance – Expenses and Capital
	Future of Rail Commitments	Cost Pressure or Variance – Expenses and Capital
	Increases in the Fuel Excise Duty and/or Road User Charges	Policy Change – Revenue
	New Zealand Upgrade Programme	Cost Pressure or Variance – Expenses and Capital
	Wellington Transport Investment Programme	Policy Change – Expenses and Capital
Cross-portfolio	Achieving Aotearoa New Zealand's International and Domestic Climate Change Targets	Policy Change – Expenses and Capital
	Adverse Weather Events	Cost Pressure or Variance – Expenses and Capital
	Carbon Neutral Government Programme	Policy Change – Expenses and Capital
	Maintenance for Crown-owned Buildings	Cost Pressure or Variance – Capital
	National Adaptation Plan	Policy Change – Expenses
	Pay Equity Claims	Cost Pressure or Variance – Expenses
	Services Funded by Third Parties	Cost Pressure or Variance – Expenses

Unchanged risks		
Portfolio	**Risk title**	**Type of risk**
ACC	ACC Levies	Cost Pressure or Variance – Revenue and Expenses
	Court Decision – Expansion of Treatment Injury	Cost Pressure or Variance – Expenses
	Impacts of Changes to Accident Compensation Policy Settings	Policy Change – Expenses
	Non-Earners' Account	Cost Pressure or Variance – Expenses
Biosecurity	Mycoplasma Bovis Biosecurity Response	Policy Change – Revenue and Expenses
Defence	Disposal of New Zealand Defence Force Assets	Policy Change – Revenue and Expenses
Education	Improving Engagement, Attendance and Inclusion	Policy Change – Expenses and Capital
Finance	Alternative Monetary Policy Tools	Cost Pressure or Variance – Expenses
Finance, Earthquake Commission	Earthquake Commission	Cost Pressure or Variance – Expenses
	Southern Response Earthquake Services Support	Cost Pressure or Variance – Expenses and Capital
Housing	Emergency Housing Special Needs Grant	Cost Pressure or Variance – Expenses
Public Service	Royal Commission Independent Redress System Claims for Survivors of Abuse in Care	Policy Change – Expenses
Revenue	Cash Held in Tax Pools	Cost Pressure or Variance – Revenue
	Research and Development Tax Incentive	Cost Pressure or Variance – Revenue
	Small Business Cashflow Scheme	Cost Pressure or Variance – Expenses and Capital
	Student Loans – Valuation	Cost Pressure or Variance – Expenses
Tourism	Proposed Changes to the International Visitor Levy	Policy Change – Revenue
Transport	Auckland City Rail Link	Cost Pressure or Variance – Expenses and Capital
	Auckland City Rail Link Ownership Issues	Policy Change – Expenses

Unchanged risks		
Portfolio	**Risk title**	**Type of risk**
Treaty of Waitangi Negotiations	Relativity Clause	Cost Pressure or Variance – Expenses
	Treaty Settlement Forecasts	Cost Pressure or Variance – Expenses
Cross-portfolio	Non-government Providers Receiving Funding from the Crown	Cost Pressure or Variance – Expenses
	Other Capital Cost Pressures	Cost Pressure or Variance – Capital
	Other Operating Cost Pressures	Cost Pressure or Variance – Expenses

New Risks by Portfolio

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

Agriculture

He Waka Eke Noa Revenue Uncertainty (Policy Change – Revenue)

There is a risk that the levy revenue from the emissions levies applied to agricultural generated short- and long-lived gases may not fully cover the full range of proposed offsets to levies (such as payments of sequestration and incentive payments) and establishment and administration costs. There is also general uncertainty over the levy rates that will be set, and therefore the revenue available to the pricing system. The impacts and likelihood of this risk occurring will be established through further analysis following finalisation of pricing policy proposals.

Arts, Culture and Heritage

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

The New Zealand Screen Production Grant is an uncapped, on-demand grant that incentivises local production work. While there is uncertainty over the demand for the grant, current levels of activity are greater than the current funding level. If current settings around eligibility for the grant remain unchanged, available funding will need to be increased from 2023/24 onwards.

Broadcasting and Media

Capital Receipts from Aotearoa New Zealand Public Media (Cost Pressure or Variance – Revenue)

In early 2022, the Government agreed to merge Radio New Zealand and Television New Zealand to create a new media entity known as ‘Aotearoa New Zealand Public Media’ (ANZPM). The entity received funding through Budget 2022 and is expected to run surpluses in the initial years of operations, which are to be returned to the Crown.

Since Budget 2022 cost pressures and risks have emerged, reflecting economic trends, market conditions, pressures relating to content-production costs, the level of required investment in technology, and confirmation of ANZPM status as a taxable entity. As a result of these factors, there is a risk that the actual return in funding to the Crown may need to be lower than assumed in the fiscal forecasts, to ensure ANZPM’s financial viability and ability to deliver on public media outcomes.

Conservation

Ruapehu Alpine Lifts Voluntary Administration (Cost Pressure or Variance – Revenue and Expenses)

Ruapehu Alpine Lifts (RAL) operate the Whakapapa and Tūroa ski areas in the central North Island under a concession. During October 2022, the ski fields went into voluntary administration, and at this stage it is unknown whether the business can be restored, whether some or all of RAL's operations will be sold to another party, or whether the ski fields will have to close.

This situation creates several risks for the Department of Conservation (DOC). The immediate risk would be a potential loss of Crown revenue from RAL and other concessionaires. In the longer term, if ski-field operations cease, then there would be a requirement for RAL to remove all related infrastructure from Tongariro National Park and remediate the land. If RAL are unable to complete the removal, then this may create a liability for DOC to fund the removal and remediation work.

Education

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

The wānanga sector has longstanding concerns about Crown tertiary funding policies – in particular, the lack of formal recognition, support and funding for their unique role and contributions. In particular, Te Wānanga o Raukawa's Whakatupu Mātauranga Waitangi Tribunal claim (WAI 2698) focuses on the Crown's tertiary education and society policies and the Māori–Crown relationship. The Ministry of Education is co-designing solutions to these concerns with wānanga through Te Hono Wānanga, a work programme prompted by the impacts of the Reform of Vocational Education and the Government's priority of building closer partnerships with Māori. Te Hono Wānanga may lead to significant changes to the Crown's relationship with, and funding of, wānanga. In addition, Cabinet have directed a review of funding for te reo Māori and mātauranga Māori provision within the tertiary sector, which will likely result in additional funding for wānanga and other providers of mātauranga Māori across the tertiary system.

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

On 19 September 2022, Cabinet agreed to publicly consult on amendments to the Education and Training Act 2020 to create a wānanga sector framework. This will enable wānanga to develop new rules in terms of who they are accountable to and how, their purpose and functions, and their governance structures. Under the framework, wānanga could also be reconstituted through an Order in Council as either a bespoke tertiary education institution or an independent statutory entity. Consultation has occurred on the legislative framework, as well as on a specific proposal to reconstitute Te Wānanga o Raukawa under the framework as an independent statutory entity. However, if Cabinet agrees to the framework that enables wānanga to be reconstituted as an independent statutory entity, there is a possibility that other wānanga would opt to be reconstituted. If agreed, reconstituting any wānanga as an independent statutory entity would have financial implications, as the wānanga would no longer be an asset on the Crown's balance sheet.

Transport

Fuel Excise Duty and Road User Charges Discount Ending (Policy Change – Revenue and Expenses)

The Government has implemented a temporary reduction to Fuel Excise Duty (FED) and Road User Charges (RUC) from 21 April 2022 to 31 January 2023. $1,174 million of Crown funding has been appropriated to date, to top up the lower-than-forecast revenue to the National Land Transport Fund (NLTF) as a result of reduced FED and RUC rates. Demand for reduced rates of FED and RUC may continue beyond January 2023, and there is a possibility that some form of further extension to the reductions could be agreed to. There is a risk to NLTF revenue if reduced rates of FED and RUC are continued; there is also a risk to expenses if existing appropriated funding is insufficient to cover the full amount of lost revenue over the course of the reductions.

Cross-portfolio

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

The forecasts assume that the Government will implement an income insurance scheme from the 2024/25 fiscal year. The timing and implementation of the scheme, design revisions following consultation, judgements as to the likely take-up and duration of scheme claims, the likely average income of claimants, and the behavioural responses are all subject to uncertainty and could have a positive or negative effect on the forecasts. Second-order effects on labour participation, productivity and wage growth, and the impact on other social benefits, have mixed international evidence and are also too uncertain to forecast at this stage.

The costs of the scheme are intended to be met through a compulsory levy paid in equal proportions by employers and employees. There is a fiscal risk to the Government, should public sector agencies be unable to cover the cost of employer levies from baselines.

Changed Risks by Portfolio

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

Climate Change

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

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the Crown, both of which are uncertain. The uncertainty is partly owing to the future market price of New Zealand Units (NZUs) and the responses of participants (eg, the extent of afforestation and deforestation activity or the level of decarbonisation made by Aotearoa New Zealand's emitting sectors). 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 market price at 31 October 2022. In addition, any government decisions which update ETS price and unit supply settings could affect forecasts of ETS cash proceeds from auctions.

Education

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

The Ministry of Education faces a number of pressures relating to learning support that cannot be met within existing baselines. In addition, high demand is putting pressure on the learning-support workforce. Although funding is provided through Budget 2022, there is a risk that further funding will be required. Further, existing learning support services that are provided and/or funded by the Ministry of Education face volume and inflationary pressures. There are also further risks of funding requirements, due to proposals from the Highest Needs Review, the Social Wellbeing Agency's review of unmet need and the Enabling Good Lives approach, and the Māori Affairs Select Committee Inquiry into Learning Support for ākonga Māori.

Housing

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

Kāinga Ora is currently carrying out a number of large-scale infrastructure redevelopment projects, including the Tāmaki Regeneration Project. Some projects will be funded from sale proceeds from land sold for affordable and market housing. There is ongoing risk around cost overrun, given the scale and complexity of the projects. Risks also remain around the sale proceeds of land sold for affordable and market housing not meeting expectations. There is also a risk that, while the fiscal forecasts are based on our best estimate of the current split between operating and capital costs, these will be subject to change, as costs are further refined. In addition, if the sale of land to be used for affordable and market housing is lower than its carrying value, this may necessitate expense write-offs in the future.

Revenue

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

The Government's tax and social policy work programme (which includes international tax) was released on 20 July 2021 (see https://taxpolicy.ird.govt.nz/news/2021/2021-07-20-tax-policy-work-programme). The measures on the work programme, and their collective fiscal implications, are subject to change. Note that the title was previously 'Potential Tax Policy Changes'.

Social Development and Employment

Replacement and Transformation of the Ministry of Social Development's Systems (Cost Pressure or Variance – Expenses)

The Ministry of Social Development (MSD) has identified technology investments that it has analysed as being critical and which require continuous software and hardware upgrades, or replacement, to maintain and keep secure core operational systems. System redesign is well underway, with funding for upgrading MSD's corporate platform having recently been sought, and further improvements under development. Costs associated with these core systems are maintained from within existing baselines. MSD may require further funding to manage these core systems as urgent patching arises due to cyber events or risk-profile changes, which may necessitate further action on these core systems.

Transport

COVID-19 Impacts on National Land Transport Fund Revenue (Cost Pressure or Variance – Revenue and Expenses

NLTF revenue is less than – and expenditure required to deliver on agreed levels of service is more than – what was predicted when the 2021-24 National Land Transport Programme was developed. This is due to impacts from COVID-19 (ie, reduced public transport patronage) and general economic slowdown being experienced in Aotearoa New Zealand. There is a risk that additional funding is required to fully implement the 2021-24 National Land Transport Programme.

Cross-portfolio

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

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

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

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

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

Updated Risks by Portfolio

The following section outlines policy change and cost pressure or variance risks that are unchanged in nature and substance since the *Budget Update*, but have been updated to reflect present circumstances. Any necessary update to the costings or narrative of a risk since the *Budget Update*, no matter how small, is reflected in this section. Among other reasons, risks may be classified as updated risks as a result of the progression of legislation or the provision of more complete information.

ACC

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

Under current legislation, the Government incurs an obligation for work-related gradual process disease and infection claims when the claim is made, and an expense is recognised at this point. The liability for commercial accident and sickness insurance contracts would usually be recognised when exposure to conditions that will give rise to a claim occurs. An amendment to legislation would be required to recognise claims at the same time as for commercial contracts. An initial adjustment to the liability and an expense of about $1 billion to $1.5 billion would need to be reported if such an amendment were to be enacted.

Children

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

The Government is committed to ensuring that Oranga Tamariki continues its progress to honour Te Tiriti o Waitangi, and partners with iwi, hapū and Māori organisations to find appropriate solutions for children in need, in line with the Future Direction Plan for Oranga Tamariki.

Any changes to the way Oranga Tamariki partners with Māori will have operational and fiscal implications in excess of what is in the fiscal forecasts. The risk may be mitigated as Oranga Tamariki's partnership strategy is further developed, as some current funding may be reprioritised to meet this need. The estimated costings of this risk have changed since the *Budget Update.*

Climate Change

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

Aotearoa New Zealand's Emissions Trading Scheme has a trigger price ceiling, called the Cost Containment Reserve (CCR), which releases additional New Zealand Units (NZUs) at auction if a certain price threshold is reached. Despite the CCR being exhausted for both the 2021 and 2022 calendar years, the CCR volumes are not included in the fiscal forecasts, as it is assumed it will not typically be triggered. Under the Climate Change Response Act 2002, if releasing these units causes an emissions budget to be exceeded, the Minister of Climate Change must obtain equivalent emissions reductions to 'back' these NZUs. This obligation also applies to NZUs allocated through industrial allocation.

If this were to occur, there is a fiscal risk associated with the cost of obtaining the emissions reductions required. The overall fiscal impact of this risk is uncertain and depends on the cost of obtaining equivalent emissions reductions, which could be achieved through domestic or offshore mitigation.

Defence

Defence Funding Requirements to Deliver Aotearoa New Zealand's Defence Strategy (Policy Change – Expenses and Capital)

In 2018, the Government updated Defence policy settings in the Strategic Defence Policy Statement 2018. These policy settings, and the Defence Capability Plan 2019 subsequently agreed by the Government in 2019, provide an indication of future Defence capital and operating funding requirements. However, the precise quantum and timing of actual Defence spending will depend on the approval of future business cases and Budget decisions. The estimated costings of this risk have changed since the *Budget Update*.

Disability Issues

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

Disability support services are likely to face significant operating pressures over the forecast period, driven by several factors including the rollout of the Enabling Good Lives approach to disability support services, providers' equity and sustainability concerns, increased utilisation of existing allocations, and changes in client behaviour and expectations. Although funding is provided for the Ministry for Disabled People through Budget 2022, further funding may be needed. The estimated costings of this risk have changed since the *Budget Update.*

Economic and Regional Development

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

The New Zealand Screen Production Grant (NZSPG) is an uncapped, on-demand grant that incentivises international studios to locate production work in Aotearoa New Zealand by offering them a rebate on their qualifying expenditure. There remains a high level of international interest in Aotearoa New Zealand as a place to do screen business over the forecast period.

Funding for the NZSPG has been allocated in through the resetting of the multi-year appropriation in Budget 2021. Contingency funding was allocated in Budget 2022, to be drawn down as needed to top up the appropriation to meet forecast spend over the forecast period. However, there remains a risk that demand for the NZSPG will exceed what is included in the fiscal forecasts and the amount of the existing contingency if more large-budget productions choose to locate in Aotearoa New Zealand.

In December 2021, the Government announced a Review of Government Investment in the Screen Sector, with the NZSPG (including the international grant) being a focal point of the review. The review may propose changes to the NZSPG that could impact on spend over the forecast period. Potential decisions in response to the review are expected to be made by mid-2023, with a period of implementation to follow.

Education

Change in Demand for Tertiary Education and Training (Cost Pressure or Variance – Expenses)

Demand for tertiary education and training is expected to exceed the volume able to be funded by current funding baselines. Although there is ongoing uncertainty about the impact of COVID-19 on unemployment, changes in the net migration of Aotearoa New Zealand residents, transitions of school leavers, and the scale of the changes in increased enrolments in tertiary education and training that may result, the Ministry of Education's forecasts for provider-based tertiary education and estimates for work-based training show that expected volume is expected to significantly exceed the volume able to be funded from 2024.

Early Learning Action Plan (Policy Change – Expenses)

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

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

The Ka Ora, Ka Ako | Healthy School Lunches Programme is funded until the end of the 2023 school year. The programme is offered to the top 25 per cent of ākonga in Years 1-15 in schools and kura who face the greatest socioeconomic barriers to achieving in education. If the Government confirms an extension or expansion of the programme, additional ongoing funding beyond that currently provided for will be required. The estimated costings of this risk have changed since the *Budget Update.*

Reform of Vocational Education (Policy Change – Capital)

The Government's Reform of Vocational Education has reshaped the vocational education and training sector, particularly with the establishment of Te Pūkenga | New Zealand Institute of Skills and Technology (Te Pūkenga). Te Pūkenga is expected to seek significant additional Crown funding to complete its transformation into an integrated national network of tertiary education and training delivery.

Work Programme to Grow Māori-Medium and Kaupapa Māori Education (Policy Change – Expenses and Capital)

In September 2021, Cabinet agreed to the Ministry of Education developing a work programme to grow Māori-medium education and kaupapa Māori education (MME), with a target of 30 per cent of Māori learners participating in MME by 2040 (up from 10 per cent in 2020). Part of the work programme will be estimating the costings to 2040 of growing MME by this amount.

The key cost drivers of this work programme are in the resourcing and governance, the network planning and provision, the teaching and learning resources, and the development of curriculum and qualifications. There is a risk that additional funding may be required for this programme.

Finance

Depositor Compensation Scheme (Policy Change – Expenses)

Cabinet has agreed to implement a depositor compensation scheme (DCS) with a target timeframe of 2023/24. The Deposit Takers Bill has now been introduced to the House and is at the Select Committee stage. The DCS will have a coverage limit of $100,000 per eligible depositor, per licensed deposit taker. The DCS will be administered by the Reserve Bank of New Zealand and will be fully funded over time by levies on licensed deposit takers. The funding framework for the DCS will be determined through a funding strategy and levy regulations set by the Minister of Finance. The funding strategy and levies are expected to be determined prior to implementation of the DCS. An estimate of the levy revenue is included in the fiscal forecasts.

However, as further policy work is required to develop the funding strategy and levies, there is significant uncertainty around the estimates. Because of the uncertainty of the losses that might arise under the scheme, and uncertainty around the accounting treatment of them, expenses relating to the scheme have not been included in the fiscal forecasts. They may need to be included in future fiscal forecasts once the accounting treatment and full scope of deposit takers and depositors eligible for the DCS are confirmed.

Foreign Affairs

Aid to Support Our Pacific Neighbours: Support for Pacific Fiscal Crises (Policy Change – Expenses)

The Government is committed to strengthening the long-term resilience of Pacific Island countries while responding to the impacts of COVID-19, and has been providing emergency budget support through grant financing to Pacific Island countries facing fiscal crises. The need for, and scale of, additional emergency budget support depends in part on the countries' domestic revenues and may exceed what is provided for in the fiscal forecasts.

Time-limited International Climate Financing Funding: Unfunded 2026-29 Commitment Period (Policy Change – Expenses)

Aotearoa New Zealand's international climate finance commitment is increasing to $1.3 billion over the four-year period from 2022 to 2025. While the timing and quantum of Aotearoa New Zealand's next international climate finance commitment for the period 2026 to 2029 are unknown, continuing the 2022 to 2025 commitment may require more than is provided for in the fiscal forecasts.

Health

Combined Pharmaceutical Budget (Cost Pressure or Variance – Expenses)

Budget 2022 included additional funding for pharmaceutical purchasing to enable Pharmac to fund new medicines or widen access to already funded medicines. This additional funding is provided for the 2022/23 and 2023/24 fiscal years only, consistent with the two-year funding arrangement for health agreed at Budget 2022. Further funding may be required in subsequent years to maintain access to the same selection of funded medicines.

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

Funding has been allocated for the Government's public health response to COVID-19 to December 2022. If the scale of COVID-19 outbreaks increases, or a new variant emerges, there is a risk that additional funding will be required for the public health response, in excess of the $1.2 billion contingency established at Budget 2022. This could include the costs of testing and providing care for COVID-19 cases in the community, as well as for the purchase and distribution of additional therapeutics and vaccines. The estimated costings of this risk have changed since the *Budget Update.*

Health Capital Pressure (Cost Pressure or Variance – Capital)

Notwithstanding the funding provided in Budget 2022, there remain significant capital pressures on the health system. These pressures are largely driven by asset-condition issues and demographic change (population growth and an ageing population), placing pressure on infrastructure capacity. The estimated costings of this risk have changed since the *Budget Update.*

Health and Disability System Reform (Policy Change – Expenses)

Te Whatu Ora and Te Aka Whai Ora were established on 1 July 2022. In Budget 2022, the Government made a significant two-year investment in these new entities and in health services for New Zealanders, before moving towards a three-year funding cycle from Budget 2024 to support the first New Zealand Health Plan. While the costs of the two-year Budget 2022 investment are included in the fiscal forecasts, throughout the forecast period there will be a need for further funding to support reform. In addition, Budget 2022 health-funding decisions were based on several assumptions about the combined deficits of district health boards and scope for efficiencies in the early years of the reformed system. If these assumptions turn out to be incorrect, additional funding may be required.

Reducing Planned Care Waiting Lists (Policy Change – Expenses)

During the COVID-19 pandemic, it has been challenging to deliver intended planned care volumes. This risk identifies that there may be a future cost to clear the backlog resulting from the COVID-19 pandemic. The estimated costings of this risk have changed since the *Budget Update.*

Housing

Divestment and Development of Kāinga Ora – Homes and Communities' Housing (Cost Pressure or Variance – Expenses)

The Crown's fiscal forecasts include business-as-usual divestments, acquisitions and the redevelopment of land and housing as part of Kāinga Ora's asset-management strategy. The Crown also faces commercial and financial risks inherent in large-scale building and urban development programmes – the magnitude of which has increased as a result of the adverse impact of inflationary cost pressures on Kāinga Ora's pipeline, international supply chains and the financial viability of its build partners.

Housing Acceleration Fund (Cost Pressure or Variance – Expenses and Capital)

The Housing Acceleration Fund includes contestable funding for infrastructure projects across Aotearoa New Zealand. There is a risk that the phasing of funding and delivery will be different from what is currently forecast, which would affect Crown fiscal indicators. There is also a risk that while the fiscal forecasts are based on a best estimate of the current split between operating and capital costs, this will be subject to change, as costs are further refined.

Internal Affairs

National Archival and Library Services Storage Capacity (Cost Pressure or Variance – Expenses and Capital)

There are capacity and condition issues with the current property portfolio for the storage of Aotearoa New Zealand's documentary heritage. Budget 2019 and Budget 2020 provided funding for the development and subsequent lease of the new Wellington Archives New Zealand facility, and the land purchase and design for a new Regional Shared Repository (RSR). Funding in excess of what is provided for in the fiscal forecasts will be needed for the construction of the new RSR, to respond to forecast storage growth to 2050 for the three institutions (Archives New Zealand, National Library of New Zealand and Ngā Taonga Sound & Vision). The estimated costings of this risk have changed since the *Budget Update.*

Local Government

Three Waters Reform Programme (Policy Change – Expenses and Capital)

In October 2021, the Government announced it would introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The fiscal forecasts include costs for these reforms, however there is a risk that actual costs will exceed those forecast. At present the new water service entities are not considered to be controlled by the Crown for consolidated financial reporting purposes. As such, the consolidated forecast financial statements do not include any corresponding assets, liabilities, revenue and expenses of the new water service entities. This treatment will need to be continually assessed to take any future decisions into consideration.

As part of the reform, the new water services entities will require investment in new ICT to ensure they are functional on day one of operation. The fiscal forecasts include estimated operating expenditure of $582 million and capital expenditure of $75 million for this ICT investment. There is a risk that additional funding may be required for the ICT system and the actual split between operating and capital expenditure may differ to what has been assumed in the fiscal forecasts. In addition, the intention is for the Crown to recover all of these costs, and other establishment costs over time from the new water services entities once they are established. However, no recovery of costs have been included in these forecasts because there is too much uncertainty at this point around the timing and amounts of any cost recovery.

Note this risk was previously titled '*Three Waters ICT Investment'*.

Oceans and Fisheries

Aquaculture Settlements (Cost Pressure or Variance – Expenses)

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

Revenue

International Tax (Policy Change – Revenue)

The Government is currently considering options for reform of the international tax framework, in light of the challenges posed by digitalisation and globalisation. The Government's preference is to continue working with the Organisation for Economic Co-operation and Development (OECD) to find a multilaterally agreed solution to these challenges. There has been significant progress on this work during 2022, following the agreement by 136 countries and territories in October 2021 to key design features of the solution. As part of this agreement, countries have agreed to a moratorium on imposing any new digital services tax on multinationals until 31 December 2023, in order to give the OECD-led solution a chance to be successfully implemented. However, the Government may consider a digital services tax if the OECD solution falters. The revenue impact of a digital services tax or OECD solution would depend on how it is designed.

Social Development and Employment

Changes to the Welfare System (Policy Change – Expenses)

Cabinet has agreed to a multi-year policy work programme to deliver on the Government's vision for the welfare system. Any changes agreed to in future will likely have legislative, operational, ICT and fiscal implications. Cabinet will be provided with detailed information on the scale of change, implications and associated costs as part of future decisions.

Transport

City Centre to Māngere Rapid Transit Project (Cost Pressure or Variance – Expenses and Capital)

The detailed planning phase for the Auckland Light Rail programme is currently underway, with funding approved in Budget 2022. The detailed planning phase will provide a refined view of the implementation cost, which is expected to increase, as the indicative business case (IBC) did not provide clear estimates of the urban development and enabling infrastructure costs associated with the transport solution. The level of capital or operational funding contributed by the Auckland Council remains uncertain and other funding tools, including value capture, will continue to be considered. Final investment decisions and agreements to funding and financing are not expected to be made until 2024.

Future of Rail Commitments (Cost Pressure or Variance – Expenses and Capital)

The final tranche of Crown funding investment is required to implement the approved Rail Plan and Rail Network Investment Programme (RNIP). This investment will fund maintenance and renewal of the rail network. The estimated costings of this risk have changed since the *Budget Update.*

Increases in the Fuel Excise Duty and/or Road User Charges (Policy Change – Revenue)

There is a risk that Fuel Excise Duty (FED) and/or Road User Charges (RUC) will need to be increased in order to manage pressures on the National Land Transport Fund and enable repayment of a $2 billion loan, which is being provided to support delivery of the 2021-24 National Land Transport Programme. If FED and/or RUC were to be increased, it is likely that any increases would take effect no sooner than 1 July 2024.

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

After a reset of the $6.8 billion New Zealand Upgrade Programme in May 2021, a further $1.9 billion of Crown funding was set aside in a tagged capital contingency to support completion of the Programme.

However, with the current inflationary conditions, there is an ongoing risk further funding may be required to deliver the Programme, which is now valued at $10.5 billion.

Wellington Transport Investment Programme (Policy Change – Expenses and Capital)

The Government Policy Statement on land transport (GPS) 2021 was developed with the expectation that Let's Get Wellington Moving (LGWM), along with the Government's other priorities, could be funded from the National Land Transport Fund (NLTF), based on information available at the time. Since that time, costs have increased.

As the NLTF is currently under significant pressure, it is possible that the Government will be asked to contribute funding to LGWM. The ability to deliver LGWM in full also relies on local government providing its own share.

Cross-portfolio

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

The Climate Change Response (Zero Carbon) Amendment Act 2019 requires the Government to set and achieve domestic greenhouse gas emissions targets and achieve emissions budgets, starting with 2022 to 2025. The Government released its first emissions reduction plan in May 2022, which outlines a suite of complementary policies to achieve Aotearoa New Zealand's domestic targets. Some of these policies are currently funded under existing baselines, but many will seek new or additional funding in future, which will affect the Government's operating balance and net core Crown debt.

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

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

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

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

As part of its own contribution to achieving Aotearoa New Zealand’s climate change targets, the Government has established the Carbon Neutral Government Programme, supported by the existing State Sector Decarbonisation Fund, with the aim of accelerating emissions reductions and making a number of government organisations carbon neutral by 2025. Funding was provided for this in Budget 2021. However, a fiscal risk exists to the extent that government commitments are unable to be met through existing provisions in the fiscal forecasts

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

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

National Adaptation Plan (Policy Change – Expenses)

The first National Climate Change Risk Assessment was released in August 2020, as required by the Climate Change Response (Zero Carbon) Amendment Act 2019. It identified 43 priority risks across five value domains (natural environment, human, economy, built environment and governance) and highlighted 10 risks considered to be the most significant. In August 2022, the Government published Aotearoa New Zealand’s first national adaptation plan (NAP) to respond to these risks. The NAP is an all-of-government plan for Aotearoa New Zealand’s adaptation to the effects of climate change, including over 100 actions to be rolled out over the next six years. Implementation of new actions in the NAP is likely to impact on the Government’s operating balance and net debt.

Pay Equity Claims (Cost Pressure or Variance – Expenses)

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

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

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

Unchanged Risks by Portfolio

The following section outlines policy change and cost pressure or variance risks that are unchanged in nature and substance since the *Budget Update.*

ACC

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

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

Court Decision – Expansion of Treatment Injury (Cost Pressure or Variance – Expenses)

The Crown is appealing a recent High Court decision that potentially expands the existing boundary of treatment injury and therefore the costs of the scheme. These costs would be borne by the Non-Earners' Account and would necessitate additional Government funding.

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

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

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

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

Biosecurity

Mycoplasma Bovis Biosecurity Response (Policy Change – Revenue and Expenses)

The Government and the farming sector have agreed to attempt to eradicate the cattle disease Mycoplasma bovis. Crown funding has been appropriated and included in the forecasts for response activities to the end of 2022/23. The timing of farming sector contributions may differ from what is in the fiscal forecasts. The need for Crown funding to be appropriated for 2023/24 and subsequent years will be considered depending on progress in eradicating the disease

Defence

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

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

Education

Improving Engagement, Attendance and Inclusion (Policy Change – Expenses and Capital)

The Education and Workforce Select Committee's inquiry into school attendance reported in March 2022 a rise in chronic absenteeism in schools and recommended that the Government prioritise the development and implementation of a school attendance strategy. Although funding aimed at improving attendance is provided through Budget 2022, further funding may be needed to fully implement the Select Committee's recommendations.

Finance

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

The fiscal forecasts already include an assumed fiscal impact from the Large-Scale Asset Purchases (LSAP) programme and the Funding for Lending Programme, which have been implemented by the Reserve Bank. There is a risk that the fiscal impact of both these programmes may differ from what is assumed in the fiscal forecasts. This may include changes to expenses from the LSAP programme as a result of interest rate risk. Any additional use of Alternative Monetary Policy tools in response to future shocks could impact key fiscal indicators.

Finance, Earthquake Commission

Earthquake Commission (Cost Pressure or Variance – Expenses)

The Earthquake Commission's (EQC's) independent actuary undertakes half-yearly valuations of the total EQC earthquake liability to the Crown. This includes settled and yet to-settle claims (including those in litigation), an estimation of future claims not yet received and any associated reinsurance recoveries. Based on these valuations, a profile of the yet-to-settle claims is included in the fiscal forecasts. There are risks that EQC's remaining settlement expenditure relating to the Canterbury earthquakes will differ from (be higher or lower than) forecast. EQC recognises expected future costs only where it is liable for such costs under the Earthquake Commission Act 1993. The risks include litigation and the level of future remedial 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.

Southern Response Earthquake Services Support (Cost Pressure or Variance – Expenses and Capital)

The ultimate cost to the Crown of settling earthquake claims is subject to uncertainty. Forecasts currently assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision. There is a risk that the actual cost could be higher than this estimate, which is sensitive to its underlying assumptions such as damage estimates, recent and future court decisions, claims emerging in the future and the forecast profile of claims settlement.

Housing

Emergency Housing Special Needs Grant (Cost Pressure or Variance – Expenses)

Emergency Housing Special Needs Grants help individuals and families with the cost of staying in short-term accommodation if they are unable to access a transitional or public housing place. If demand increases and/or the number of transitional or public housing places does not increase as forecast, this would increase demand for the grants, with associated fiscal costs.

Public Service

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

The Abuse in Care Royal Commission of Inquiry has recommended the establishment of a new independent, holistic redress system for survivors of abuse in care, to replace the existing historical claims processes. The Government has agreed that work to develop a redress system is required. There is too much uncertainty to estimate the fiscal impact from a new redress system to include in the fiscal forecasts at this point.

Revenue

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

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

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

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

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

The Small Business Cashflow Scheme was introduced to support small-to-medium businesses affected by COVID-19. There is a risk that the total value of the lending may differ, either positively or negatively, from what is currently forecast, as the lending under the scheme is dependent on demand until the application closing date of 31 December 2023. As new lending occurs, an initial write-down to fair value is made based on assumptions about when and how much borrowers will repay in the future. The fair value write-down reflects the cost the Crown incurs in making a loan at below-market terms. The fair value of the loan portfolio may change over time and will depend on borrower repayments and defaults over the life of the scheme, which are based on volatile factors that are subject to change.

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

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

Tourism

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

The Government is reviewing the International Visitor Conservation and Tourism Levy and there are a range of options under consideration which could increase the levy, impacting revenue. Prior to COVID-19 the levy was forecast to collect around $75 million per annum. However, future levels of international tourism are uncertain. It is intended that revenue remain hypothecated, so the impact of any change should be fiscally neutral overall. There is a risk that the expected increase in revenue does not occur.

Transport

Auckland City Rail Link (Cost Pressure or Variance – Expenses and Capital)

The Government has committed to funding 50% of the costs associated with the City Rail Link project, which is estimated to cost $4.4 billion. Based on this estimate, the Crown contribution to the project will be around $2.2 billion. There is a risk that the timing, scope and amount of the Crown contribution to the project could be different from what is included in the fiscal forecasts, in particular because of additional costs and delays arising from the impact of COVID-19 (primarily Alert Levels 3 and 4), including supply chain disruption (delays and extra costs with shipping), obstacles/delays in obtaining and retaining skilled overseas workers, and higher-than-expected construction cost inflation.

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

The Government has committed to fund 50% of the costs associated with the City Rail Link project, along with Auckland Council, which has also committed to fund 50% of the project. Both the Government and Auckland Council have treated the investment for the City Rail Link project as capital expenditure. Depending on the final ownership structure of the City Rail Link, the Government may need to write off some the value currently capitalised in the fiscal forecasts. Any write-off is likely to be in the range of ±20% of the Crown's investment (ie, there may be a write-up of value), but this depends on several factors including allocation of assets and valuation basis once allocation has been determined. The timeframe for decisions on future ownership has yet to be finalised.

Treaty of Waitangi Negotiations

Relativity Clause (Cost Pressure or Variance – Expenses)

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

Treaty Settlement Forecasts (Cost Pressure or Variance – Expenses)

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

Cross-portfolio

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

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

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

Agencies are likely to face capital expenditure pressures related to replacing ageing infrastructure and other capital requirements driven by demand pressures. These are likely to be exacerbated by the impact from COVID-19, supply chain disruption and the tight labour market. These pressures are risks to the fiscal forecasts to the extent that they cannot be managed through agencies' existing balance sheets and baselines, new capital spending set aside in forecasts from the multi-year capital allowance, or other funding mechanisms (eg, Crown Infrastructure Partners).

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

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

Risks Removed Since the *Budget Update*

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

Portfolio	Title	Reason for removal
Conservation	Department of Conservation's Compliance with the Water Services Act 2021	This risk no longer meets the materiality threshold for publication.
Education	Inclusive Access to Education	This risk no longer meets the probability threshold for publication. The outcome of the IHC case is unlikely to require the Crown to invest more than $10 million in the next financial year.
Housing	Increases to Market Rent	This risk no longer meets the probability threshold for publication.
Social Development and Employment	New Zealand Income Insurance Scheme	This risk has been subsumed into the new cross-portfolio risk "*New Zealand Income Insurance Scheme Implementation and Employer Levies".*
Veterans	Veterans' Support Entitlements Liability	This risk is included in the fiscal forecasts as a contingent liability.
Cross-portfolio	Further COVID-19 Business Support	This risk no longer meets the materiality threshold for publication.

Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact in excess of $20 million and are not expected to be remote.[14]

The contingencies have been stated as at 31 October 2022, being the latest set of published financial statements of Government.

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

Statement of Contingent Liabilities and Contingent Assets

Quantifiable contingent liabilities

	Status[15]	31 October 2022 ($millions)	30 June 2022 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,422	3,309
International Bank for Reconstruction and Development	Unchanged	2,036	1,905
International Monetary Fund – promissory notes	Unchanged	1,930	1,927
International Monetary Fund – arrangements to borrow	Unchanged	1,494	1,444
Asian Infrastructure Investment Bank	Unchanged	635	594
Other uncalled capital	Unchanged	20	19
		9,537	**9,198**
Guarantees and indemnities			
New Zealand Export Credit guarantees	Unchanged	287	266
Other guarantees and indemnities	Unchanged	121	121
		408	**387**
Legal proceedings and disputes			
Waka Kotahi New Zealand Transport Agency – contractual disputes	Unchanged	353	383
Ōtākaro Parakiore Recreation and Sport Centre – contractual dispute	New	212	-
Inland Revenue – legal tax proceedings	Unchanged	104	118
Other legal proceedings and disputes	Unchanged	51	52
		720	**553**
Other quantifiable contingent liabilities			
Unclaimed monies	Unchanged	243	229
Waitangi Tribunal – binding recommendations	Unchanged	221	220
Air New Zealand partnership agreement	Unchanged	174	154
Ministry for Primary Industries – Biosecurity Act compensation	Unchanged	127	115
Other quantifiable contingent liabilities	Unchanged	43	60
		808	**778**
Total quantifiable contingent liabilities		**11,473**	**10,916**

15 Status of contingent liabilities or assets when compared with the *Financial Statements of the Government of New Zealand for the year ended 30 June 2022* (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated), published on 5 October 2022.

Quantifiable contingent assets

		31 October 2022 ($millions)	30 June 2022 ($millions)
Other contingent assets	Unchanged	55	63
Total quantifiable contingent assets		**55**	**63**

Unquantifiable contingent liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Earthquake Commission	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Reserve Bank	Unchanged
Southern Response Earthquake Services Limited	Unchanged
Synfuels–Waitara Outfall indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal proceedings and disputes	
Accident Compensation Corporation (ACC) litigations	Unchanged
Aquaculture settlements	Unchanged
Department of Corrections – contractual disputes	Unchanged
Ministry of Health – College of Midwives class action	New
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged
Treaty of Waitangi claims	Unchanged
Proprietors of Wakatū	Unchanged
Whaikaha – Ministry of Disabled People – employment obligations	New
Other unquantifiable contingent liabilities	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Holidays Act compliance	Unchanged
Pay equity claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged
Waka Kotahi New Zealand Transport Agency – contractual disputes	Unchanged

Description of Quantifiable Contingent Liabilities

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, Aotearoa New Zealand, as a member country of the organisations listed on page 100, 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 Aotearoa New Zealand and other donor countries, capital contributions comprise both 'paid-in' capital and 'callable capital or promissory notes'.

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

Guarantees and indemnities

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

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

New Zealand Export Credit guarantees

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

Legal proceedings and disputes

Waka Kotahi New Zealand Transport Agency – contractual disputes

Waka Kotahi is a party to two PPPs. Transmission Gully, north of Wellington and Puhoi to Warkworth north of Auckland. They have both had previous disputes and settlements. The most recent settlements have been in relation to the COVID-19 related lockdowns of 2020. Those settlements also included agreed terms for future risk allocation related to COVID-19, while maintaining the remainder of general terms related to performance and risk allocation.

In relation to progress and delays on the works since the 2020 settlements, Waka Kotahi has received a claim for Puhoi to Warkworth comprising current and estimated future elements, totalling approximately $280 million that are being validated using internal and external resources. Waka Kotahi has not been presented with any evidence to indicate that a claim of that size will be supported by the independent reviewer.

There are a number of other roading claims (non-PPP), totalling approximately $70 million, that have also been received by Waka Kotahi that are being validated.

Ōtākaro – Parakiore Recreation and Sport Centre – contractual dispute

Six claims totalling $212 million have been lodged by the main works contractor for Metro Sport Facility Parakiore Recreation and Sports Centre. Ōtākaro is disputing these claims and arbitration with the contractor regarding these claims is underway and expected to continue into December 2022.

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) hand over money not claimed after five years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

Waitangi Tribunal – binding recommendations

In September 2021, the Waitangi Tribunal issued interim recommendations under section 8A of the Treaty of Waitangi Act 1975 in relation to the transfer of 7,676 hectares of the Mangatū Crown forest licensed land to a trust comprising Te Aitanga a Māhaki, Ngā Uri o Tamanui and Te Whānau a Kai. Should the recommendation become final compensation will be payable to the recipients under Schedule 1 to the Crown Forest Assets Act 1989. A stay of the Tribunal's interim recommendations was granted in December 2021 and pending the outcome of judicial review hearing, held in June 2022. The High Court has not given a decision; when the decision is issued it is likely there will be further appeals.

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.

Ministry for Primary Industries – Biosecurity Act 1993 compensation

Under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The Ministry for Primary Industries has been notified that compensation will be sought following biosecurity responses for incursions including bonamia ostraea, as well as claims for losses incurred following the destruction of bud-stock, known as the Post Entry Quarantine response.

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, reported by indemnities, legal disputes, and other contingent liabilities.

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

Indemnities

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

Party indemnified	Instrument of indemnification	Actions indemnified
Contact Energy Limited	The Crown and Contact Energy 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 to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund (by means of grant or advance) any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister determines. As the contingency has no end date, it is not possible to quantify the value of commitments that may arise from past or future natural hazard events which are covered by the Earthquake Commission Act 1993.
Genesis Energy	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to the bed of lakes and rivers subject to operating easements.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 50 of the District Courts Act 2016, section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 – National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide was approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Reserve Bank	A letter of indemnity provided by the Crown to the Reserve Bank to cover losses arising from the large-scale asset purchases of New Zealand domestic government bonds	The Crown has agreed to indemnify the Reserve Bank in respect of losses which the Reserve Bank incurs in respect of Indemnified Bonds under the Large-Scale Asset Purchases (LSAP) programme. The indemnity was amended and restated several times, and the current indemnity came into effect on 12 August 2020. The Crown may terminate coverage for any additional purchases at any time after 31 August 2022 (Termination Date) by giving one day's notice to the Reserve Bank. Otherwise, obligations under this letter of indemnity may be terminated by agreement between the Crown and the Reserve Bank if they both believe the programme is no longer needed as a monetary policy tool. Termination of this indemnity will not release the Crown from any liability in respect of losses occurring after the termination date in respect of the Indemnified Bonds. Indemnified Bonds means all New Zealand domestic nominal government bonds, inflation-indexed government bonds and Local Government Funding Agency (LGFA) bonds purchased by the Reserve Bank under the LSAP programme prior to the Termination Date – Including the reinvestments of maturing bonds up to the cap.

Party indemnified	Instrument of indemnification	Actions indemnified
		Indemnified bonds are limited to a cap of 60% of the face value of all New Zealand government nominal bonds on issue on the date of purchase; 30% of the face value of all New Zealand government inflation-indexed bonds on issue on the date of purchase; and 30% of the face value of all LGFA bonds on issue on the date of purchase of any LGFA bonds, or such amount agreed between the Minister and the Reserve Bank from time to time.
Southern Response Earthquake Services Limited (SRES)	Deed of indemnity	SRES continues to settle the claims of AMI residual policy holders for Canterbury earthquake damage which occurred before 5 April 2012. The Minister of Finance has provided SRES with a Deed of Indemnity to ensure that SRES can access sufficient resources to operate and discharge its contractual obligations.
Synfuels-Waitara Outfall indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.
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 was entered into on 24 September 2015. The Crown has indemnified Westpac New Zealand Limited against certain cost, damages, and losses to third parties resulting from: • unauthorised, forged, or fraudulent payment instructions • unauthorised or incorrect direct debit instructions, or • payments mistakenly made in favour of a third party rather than made in favour of the Crown.

Legal claims and proceedings

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

Accident Compensation Corporation (ACC) litigations

Litigation involving ACC arises mainly from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities, which could arise, as these disputes are issue based and ACC's active management of litigation means that it will be either settling or defending, depending on the merits of the issue in dispute.

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 Aotearoa 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.

Department of Corrections – contractual disputes

In August 2022, the Department of Corrections received claims from the main contractor on the Waikeria Prison Development PPP for compensation for time and productivity losses incurred between October 2020 and August 2022 due to the COVID-19 pandemic.

In accordance with the Projects Agreement, the jointly appointed Independent Reviewer is assessing these claims and has rejected the majority of the claims based on the evidence provided by the consortium. For the remaining claims that are still under review, the Department of Corrections has itself assessed the nature of the claims and has provided for contractual matters to the extent a liability is considered probable.

At this stage it is not possible to reliably estimate the impact on the department's operations, or its financial position for future periods in relation to this matter.

Ministry of Health – College of Midwives class action

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

Ministry for Primary Industries – Biosecurity Act compensation

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

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.

Proprietors of Wakatū

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

Whaikaha – Ministry of Disabled People – employment obligations

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

A Court of Appeal hearing is expected to take place in late 2022. At this stage it is not possible to reliably estimate any potential liability.

Other unquantifiable contingent liabilities

Criminal Proceeds (Recovery) Act 2009

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

Environmental liabilities

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

In accordance with PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets, any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

Holidays Act compliance

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

Pay equity claims – see page 90

Treaty of Waitangi claims – settlement relativity payments – see page 96

Waka Kotahi New Zealand Transport Agency – Contractual disputes

Waka Kotahi has also received various documents and presentations from the Transmission Gully builder in relation to several issues, including COVID-19, however no contractual claims have been presented by the contractor. Waka Kotahi has not been presented with any evidence to indicate when a valid and material claim may be presented to Waka Kotahi. Accordingly, any potential contingent liability cannot be quantified at present. Waka Kotahi has not been presented with any evidence to indicate that a material claim net of relief already provided would be valid.

Contingent Assets

There are no material quantifiable or unquantifiable contingent assets as at 31 October 2022.

4

Forecast Financial Statements

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

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

These forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 28 November 2022, where these can be reliably measured.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook chapter (pages 21 to 55).

Statement of Accounting Policies

Significant Accounting Policies

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

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

The Forecast Financial Statements reflect the accounting standards in place in the year that they are prepared. Adoption of new accounting standards in future financial years are consequently not reflected in these Forecast Financial Statements. Where accounting standards are to be adopted within the fiscal forecasts period, this has been signalled in the note disclosures where impacts may be significant. The specific accounting policies are included on the Treasury's website at https://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance/reporting-financial/accounting-policies.

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Risks to the Economic and Fiscal Forecasts chapter on pages 57 to 109. Key forecast assumptions are set out on pages 23 to 24 and page 55.

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2023 to 30 June 2027. The "Previous Budget" figures are the original forecasts to 30 June 2023 as presented in the 2022 *Budget Update* and the "2022 Actual" figures are the audited actual results reported in the Financial Statements of Government (FSG) for the year ended 30 June 2022 (restated where necessary).

Government Reporting Entity as at 28 November 2022

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

Core Crown Segment

Departments

Crown Law Office

Department of Conservation

Department of Corrections

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

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

Education Review Office

Government Communications Security Bureau

Inland Revenue Department

Land Information New Zealand

Ministry for Culture and Heritage

Ministry for Pacific Peoples

Ministry for Primary Industries

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

Ministry for Women

Ministry of Business, Innovation, and Employment

Ministry of Defence

Ministry of Education

Ministry of Foreign Affairs and Trade

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

Ministry of Housing and Urban Development

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

Ministry of Māori Development – Te Puni Kōkiri

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

Ministry of Transport

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

New Zealand Defence Force

New Zealand Police

New Zealand Security Intelligence Service

Office of the Clerk of the House of Representatives

Oranga Tamariki – Ministry for Children

Parliamentary Counsel Office

Parliamentary Service

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

Serious Fraud Office

Statistics New Zealand

The Treasury

Offices of Parliament

Controller and Auditor-General

Office of the Ombudsman

Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund

Reserve Bank of New Zealand

State-owned Enterprises Segment

State-owned Enterprises

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

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited
Mercury NZ Limited
Meridian Energy Limited

Other

Air New Zealand Limited

Crown Entities Segment

Crown Entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Auckland Light Rail Limited
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children's Commissioner
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health New Zealand
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora – Homes and Communities
Law Commission
Maritime New Zealand
Māori Health Authority
Mental Health and Wellbeing Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood and Organ Service
New Zealand Film Commission
New Zealand Growth Capital Partners Limited
New Zealand Infrastructure Commission/ Te Waihanga
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,430)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Taumata Arowai—the Water Services Regulator
Te Pūkenga—New Zealand Institute of Skills and Technology
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown Entities Segment (continued)

Organisations listed in Schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (20)

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

Crown Asset Management Limited

Crown Infrastructure Partners Limited

Crown Regional Holdings Limited

Education Payroll Limited

Kiwi Group Capital Limited[16]

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Ōtākaro Limited

Predator Free 2050 Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

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

Te Urewera

Others

Christ Church Cathedral Reinstatement Trust

Venture Capital Fund

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

Crown entities

Tertiary Education Institutions (11)

(8 Universities and 3 Wānanga)

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

City Rail Link Limited

[16] On 22 August 2022, the Government announced that Kiwi Group Holdings Limited, would be purchased from its current owners by Kiwi Group Capital Limited. While the purchase has no impact on the overall financial statements of the Government there will be a change for segmental reporting. Kiwi Group Capital Limited is included in the Crown Entity segment, while the operations of Kiwi Group Holdings Limited are reported in the SOE segment.

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Revenue								
Taxation revenue	1	107,873	115,509	117,442	124,350	131,345	140,452	148,417
Other sovereign revenue	1	8,894	9,297	10,328	11,043	12,059	14,534	14,904
Total Revenue Levied through the Crown's Sovereign Power		**116,767**	**124,806**	**127,770**	**135,393**	**143,404**	**154,986**	**163,321**
Sales of goods and services		17,442	19,441	22,397	23,235	23,681	24,160	24,176
Interest revenue	2	2,292	2,829	4,069	5,040	5,378	6,033	6,382
Other revenue		5,126	5,078	5,422	6,021	6,462	6,429	6,686
Total revenue earned through the Crown's operations		**24,860**	**27,348**	**31,888**	**34,296**	**35,521**	**36,622**	**37,244**
Total revenue (excluding gains)		**141,627**	**152,154**	**159,658**	**169,689**	**178,925**	**191,608**	**200,565**
Expenses								
Transfer payments and subsidies	3	44,087	39,444	39,320	42,212	45,086	46,795	48,860
Personnel expenses		32,648	32,998	34,163	34,475	34,653	34,895	35,032
Depreciation		6,152	6,613	6,622	6,950	7,085	7,178	7,248
Other operating expenses	4	58,273	61,968	68,733	63,358	61,213	63,009	62,536
Finance costs	2	3,349	5,233	7,223	8,757	9,617	10,028	10,507
Insurance expenses	5	6,447	9,368	8,220	8,909	9,376	9,845	10,389
Forecast new operating spending	6	-	4,904	4,980	6,863	11,005	14,360	17,198
Top-down operating expense adjustment	6	-	(2,000)	(6,400)	(1,800)	(1,200)	(1,100)	(900)
Total expenses (excluding losses)		**150,956**	**158,528**	**162,861**	**169,724**	**176,835**	**185,010**	**190,870**
Gains/(losses)								
Net gains/(losses) on financial instruments	2	(9,687)	4,894	1,071	5,610	5,782	6,183	6,686
Net gains/(losses) on non-financial instruments	7	2,965	(49)	1,779	(42)	(70)	(76)	(82)
Total gains/(losses) (including minority interests)		**(6,722)**	**4,845**	**2,850**	**5,568**	**5,712**	**6,107**	**6,604**
Net surplus/(deficit) from associates and joint ventures		(126)	149	34	86	176	199	238
Less minority interests' share of operating balance		(755)	(252)	(406)	(403)	(411)	(355)	(333)
Operating balance (excluding minority interests)		**(16,932)**	**(1,632)**	**(725)**	**5,216**	**7,567**	**12,549**	**16,204**
Minority interests' share of operating balance		755	252	406	403	411	355	333
Operating balance (including minority interests)		**(16,177)**	**(1,380)**	**(319)**	**5,619**	**7,978**	**12,904**	**16,537**

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

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Operating Balance (including minority interests)	**(16,177)**	**(1,380)**	**(319)**	**5,619**	**7,978**	**12,904**	**16,537**
Other comprehensive revenue and expense							
Revaluation of physical assets	30,920	-	16	-	-	-	-
Revaluation of defined benefit retirement plan schemes	1,615	162	560	45	42	41	40
Net revaluations of veterans' disability entitlements	93	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	697	(61)	(314)	(84)	(58)	(66)	(78)
Transfers into/(out of) reserves	(23)	49	36	-	-	-	-
(Gains)/losses transferred to the statement of financial performance	(12)	(10)	(133)	-	-	-	-
Foreign currency translation differences on foreign operations	39	-	(2)	-	-	-	-
Other movements	(385)	44	(237)	(7)	(20)	(28)	(50)
Total other comprehensive revenue and expense	**32,944**	**184**	**(74)**	**(46)**	**(36)**	**(53)**	**(88)**
Total comprehensive revenue and expense	**16,767**	**(1,196)**	**(393)**	**5,573**	**7,942**	**12,851**	**16,449**
Attributable to:							
- minority interests	999	256	397	410	410	349	321
- the Crown	15,768	(1,452)	(790)	5,163	7,532	12,502	16,128
Total comprehensive revenue and expense	**16,767**	**(1,196)**	**(393)**	**5,573**	**7,942**	**12,851**	**16,449**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Opening net worth	156,992	130,368	174,319	173,527	178,970	186,473	198,878
Operating balance (including minority interests)	(16,177)	(1,380)	(319)	5,619	7,978	12,904	16,537
Net revaluations of physical assets	30,920	-	16	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	1,615	162	560	45	42	41	40
Net revaluations of veterans' disability entitlements	93	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	697	(61)	(314)	(84)	(58)	(66)	(78)
Transfers into/(out of) reserves	(23)	49	36	-	-	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(12)	(10)	(133)	-	-	-	-
Foreign currency translation differences on foreign operations	39	-	(2)	-	-	-	-
Other movements	(385)	44	(237)	(7)	(20)	(28)	(50)
Comprehensive income	**16,767**	**(1,196)**	**(393)**	**5,573**	**7,942**	**12,851**	**16,449**
Increase in minority interest from equity issues	949	-	41	314	19	19	119
Transactions with minority interests	(389)	(318)	(440)	(444)	(458)	(465)	(478)
Closing net worth	**174,319**	**128,854**	**173,527**	**178,970**	**186,473**	**198,878**	**214,968**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	102,712	113,567	115,968	117,458	135,191	138,715	146,470
Other sovereign receipts	7,803	7,275	7,895	8,143	9,320	12,130	12,772
Sales of goods and services	17,834	19,353	22,236	22,875	23,364	23,597	23,526
Interest receipts	1,961	2,199	3,326	4,259	4,651	5,367	5,766
Other operating receipts	4,802	4,867	5,740	6,055	6,315	6,476	6,909
Total cash provided from operations	**135,112**	**147,261**	**155,165**	**158,790**	**178,841**	**186,285**	**195,443**
Cash was disbursed to							
Transfer payments and subsidies	44,273	39,777	39,708	42,533	45,381	48,247	49,372
Personnel and operating payments	92,965	99,046	105,309	100,023	97,550	99,355	100,484
Interest payments	3,251	4,558	6,234	7,348	8,170	8,737	9,426
Forecast new operating spending	-	4,904	4,980	6,863	11,005	14,360	17,198
Top-down operating expense adjustment	-	(2,000)	(6,400)	(1,800)	(1,200)	(1,100)	(900)
Total cash disbursed to operations	**140,489**	**146,285**	**149,831**	**154,967**	**160,906**	**169,599**	**175,580**
Net cash flows from operations	**(5,377)**	**976**	**5,334**	**3,823**	**17,935**	**16,686**	**19,863**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(10,572)	(16,388)	(19,492)	(17,709)	(12,184)	(11,610)	(8,887)
Net (purchase)/sale of shares and other securities	(4,986)	13,498	(4,978)	2,041	(22,660)	(3,269)	(11,562)
Net (purchase)/sale of intangible assets	(710)	(1,383)	(1,058)	(946)	(772)	(783)	(846)
Net (issue)/repayment of advances	(12,958)	(14,154)	(8,821)	(464)	5,559	3,012	(3,730)
Net acquisition of investments in associates	(448)	(584)	(245)	(361)	(170)	(18)	34
Forecast new capital spending	-	(1,311)	(1,439)	(2,311)	(3,198)	(3,640)	(3,374)
Top-down capital adjustment	-	1,060	2,850	1,450	500	325	225
Net cash flows from investing activities	**(29,674)**	**(19,262)**	**(33,183)**	**(18,300)**	**(32,925)**	**(15,983)**	**(28,140)**
Net cash flows from operating and investing activities	**(35,051)**	**(18,286)**	**(27,849)**	**(14,477)**	**(14,990)**	**703**	**(8,277)**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	805	-	(5)	91	91	92	93
Net issue/(repayment) of government bonds[1]	18,373	15,360	19,051	19,822	20,503	3,645	9,535
Net issue/(repayment) of foreign-currency borrowings	2,259	(1,159)	(4,806)	111	1,214	(74)	267
Net issue/(repayment) of other New Zealand dollar borrowings	11,879	4,722	10,880	(6,764)	(6,379)	(3,435)	(1,052)
Issue of equity	898	-	-	296	-	-	99
Dividends paid to minority interests[2]	(304)	(269)	(354)	(384)	(407)	(418)	(432)
Net cash flows from financing activities	**33,910**	**18,654**	**24,766**	**13,172**	**15,022**	**(190)**	**8,510**
Net movement in cash	**(1,141)**	**368**	**(3,083)**	**(1,305)**	**32**	**513**	**233**
Opening cash balance	18,755	17,317	17,835	15,679	14,360	14,384	14,896
Foreign-exchange gains/(losses) on opening cash	221	28	927	(14)	(8)	(1)	(3)
Closing cash balance	**17,835**	**17,713**	**15,679**	**14,360**	**14,384**	**14,896**	**15,126**

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

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

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**(5,377)**	**976**	**5,334**	**3,823**	**17,935**	**16,686**	**19,863**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses) and Other Interests							
Net gains/(losses) on financial instruments	(9,687)	4,894	1,071	5,610	5,782	6,183	6,686
Net gains/(losses) on non-financial instruments	2,965	(49)	1,779	(42)	(70)	(76)	(82)
Net surplus/(deficit) from associates and joint ventures	(126)	149	34	86	176	199	238
Total gains/(losses) and other interests	**(6,848)**	**4,994**	**2,884**	**5,654**	**5,888**	**6,306**	**6,842**
Other Non-cash Items in Operating Balance							
Depreciation	(6,152)	(6,613)	(6,622)	(6,950)	(7,085)	(7,178)	(7,248)
Amortisation and net impairment of non-financial assets	224	(964)	(1,359)	(1,015)	(998)	(989)	(940)
Cost of concessionary lending	(858)	(1,097)	(1,012)	(956)	(797)	(804)	(817)
Impairment of financial assets (excluding receivables)	(38)	(89)	(81)	(20)	(21)	(23)	(19)
Change in accumulating insurance expenses	(1,696)	(3,642)	(2,523)	(2,839)	(2,979)	(3,054)	(3,373)
Change in accumulating pension expenses	790	761	812	687	687	689	685
Other non-cash items	45	-	-	-	-	-	-
Total other non-cash items in operating balance	**(7,685)**	**(11,644)**	**(10,785)**	**(11,093)**	**(11,193)**	**(11,359)**	**(11,712)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	5,027	2,017	1,488	6,630	(3,895)	1,680	1,976
Increase/(decrease) in accrued interest	197	(114)	(256)	(709)	(776)	(688)	(536)
Increase/(decrease) in inventories	874	292	52	346	220	185	68
Increase/(decrease) in prepayments	303	(27)	(48)	(11)	(75)	40	43
Decrease/(increase) in deferred revenue	(819)	(122)	19	92	(129)	(63)	(80)
Decrease/(increase) in payables/provisions	(1,849)	2,248	993	887	3	117	73
Total working capital and other movements	**3,733**	**4,294**	**2,248**	**7,235**	**(4,652)**	**1,271**	**1,544**
Operating balance (including minority interests)	**(16,177)**	**(1,380)**	**(319)**	**5,619**	**7,978**	**12,904**	**16,537**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Assets								
Cash and cash equivalents	8	17,835	17,713	15,679	14,360	14,384	14,896	15,126
Receivables	8	35,135	28,906	36,498	42,478	38,593	40,278	42,255
Marketable securities, deposits and derivatives in gain	8	65,456	51,202	65,363	61,016	84,214	88,747	101,772
Share investments	8	46,261	53,423	45,429	49,026	51,020	53,290	55,690
Advances	8	54,659	70,883	64,582	64,633	58,601	55,098	58,265
Investments in controlled enterprises	8	6,096	5,991	7,382	8,519	10,279	12,113	14,056
Inventory		3,068	2,908	3,120	3,466	3,686	3,871	3,939
Other assets		4,208	4,027	4,224	4,056	3,758	3,884	3,995
Property, plant and equipment	10	249,182	230,776	260,306	268,590	273,487	277,381	278,816
Equity accounted investments[1]		16,247	15,816	16,695	17,079	17,367	17,537	17,698
Intangible assets and goodwill		3,697	4,209	3,931	4,096	4,079	4,114	4,246
Forecast for new capital spending	6	-	2,274	1,439	3,750	6,948	10,588	13,962
Top-down capital adjustment		-	(2,810)	(2,850)	(4,300)	(4,800)	(5,125)	(5,350)
Total assets		**501,844**	**485,318**	**521,798**	**536,769**	**561,616**	**576,672**	**604,470**
Liabilities								
Issued currency		9,061	9,159	9,056	9,146	9,238	9,330	9,423
Payables	12	21,420	15,057	17,355	17,029	17,739	17,815	17,910
Deferred revenue		3,368	2,807	3,349	3,257	3,387	3,449	3,529
Borrowings	16	203,965	230,618	229,918	240,602	255,433	255,532	264,040
New Zealand Emissions Trading Scheme	15	11,308	10,694	12,837	11,854	11,055	10,710	10,698
Insurance liabilities	5	55,301	69,026	54,762	57,601	60,579	63,633	67,006
Retirement plan liabilities	13	8,769	9,061	7,834	7,463	7,080	6,682	6,273
Provisions	14	14,333	10,042	13,160	10,847	10,632	10,643	10,623
Total liabilities		**327,525**	**356,464**	**348,271**	**357,799**	**375,143**	**377,794**	**389,502**
Total assets less total liabilities		**174,319**	**128,854**	**173,527**	**178,970**	**186,473**	**198,878**	**214,968**
Net Worth								
Taxpayers' funds		2,681	(10,254)	1,757	6,923	14,424	26,908	43,042
Property, plant and equipment revaluation reserve		164,385	134,146	164,372	164,388	164,405	164,422	164,440
Defined benefit plan revaluation reserve		55	(687)	615	660	702	743	783
Veterans' disability entitlements reserve		(566)	(659)	(566)	(566)	(566)	(566)	(566)
Other reserves		481	(145)	68	4	(24)	(64)	(128)
Total net worth attributable to the Crown		**167,036**	**122,401**	**166,246**	**171,409**	**178,941**	**191,443**	**207,571**
Net worth attributable to minority interests		7,283	6,453	7,281	7,561	7,532	7,435	7,397
Total net worth	17	**174,319**	**128,854**	**173,527**	**178,970**	**186,473**	**198,878**	**214,968**

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

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

Statement of Actual Commitments

as at 31 October

	As at 31 October 2022 $m	As at 30 June 2022 $m
Capital Commitments		
State highways	2,380	2,380
Specialist military equipment	1,861	2,169
Land and buildings	7,203	7,249
Other property, plant and equipment	5,207	5,192
Other capital commitments	876	1,045
Universities and Wānanga	763	763
Total capital commitments	**18,290**	**18,798**
Operating Commitments		
Non-cancellable accommodation leases	5,675	5,645
Other non-cancellable leases	3,172	3,184
Universities and Wānanga	1,279	1,279
Total operating commitments	**10,126**	**10,108**
Total commitments	**28,416**	**28,906**
Total Commitments by Segment		
Core Crown	11,644	11,979
Crown entities	9,946	10,107
State-owned Enterprises	7,126	7,131
Inter-segment eliminations	(300)	(311)
Total commitments	**28,416**	**28,906**

Statement of Actual Contingent Liabilities and Assets

as at 31 October

	As at 31 October 2022 $m	As at 30 June 2022 $m
Quantifiable Contingent Liabilities		
Uncalled capital	9,537	9,198
Guarantees and indemnities	408	387
Legal proceedings and disputes	720	553
Other contingent liabilities	808	778
Total quantifiable contingent liabilities	**11,473**	**10,916**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	10,711	10,366
Crown entities	574	392
State-owned Enterprises	226	206
Inter-segment eliminations	(38)	(48)
Total quantifiable contingent liabilities	**11,473**	**10,916**
Quantifiable Contingent Assets by Segment		
Core Crown	30	26
Crown entities	25	37
State-owned Enterprises	-	-
Total quantifiable contingent assets	**55**	**63**

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

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

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	42,448	45,022	47,377	50,321	53,990	58,024	61,979
Other persons	11,120	11,265	11,533	12,138	12,915	13,687	14,311
Refunds	(1,739)	(2,001)	(1,883)	(2,016)	(2,169)	(2,290)	(2,403)
Fringe benefit tax	684	657	714	722	752	787	820
Total individuals	**52,513**	**54,943**	**57,741**	**61,165**	**65,488**	**70,208**	**74,707**
Corporate Tax							
Gross companies tax	20,010	21,062	21,307	22,243	22,748	24,844	26,310
Refunds	(630)	(410)	(526)	(573)	(605)	(646)	(690)
Non-resident withholding tax	516	571	522	569	554	543	555
Total corporate tax	**19,896**	**21,223**	**21,303**	**22,239**	**22,697**	**24,741**	**26,175**
Other Direct Income Tax							
Resident w/holding tax on interest income	842	1,354	1,414	1,716	1,774	1,685	1,582
Resident w/holding tax on dividend income	1,108	980	1,146	1,233	1,300	1,373	1,440
Total other direct income tax	**1,950**	**2,334**	**2,560**	**2,949**	**3,074**	**3,058**	**3,022**
Total direct income tax	**74,359**	**78,500**	**81,604**	**86,353**	**91,259**	**98,007**	**103,904**
Goods and Services Tax							
Gross goods and services tax	43,044	47,286	47,381	48,054	50,843	54,174	57,355
Refunds	(16,920)	(17,904)	(18,499)	(18,320)	(19,184)	(20,318)	(21,590)
Total goods and services tax	**26,124**	**29,382**	**28,882**	**29,734**	**31,659**	**33,856**	**35,765**
Other Indirect Taxation							
Road and track user charges	1,840	1,874	1,468	2,040	2,105	2,186	2,276
Alcohol excise – domestic production	737	896	826	915	972	1,017	1,060
Petroleum fuels excise	1,749	1,890	1,459	2,048	2,052	2,066	2,086
Alcohol excise – imports[1]	504	504	528	561	596	624	650
Tobacco excise – imports[1]	1,866	1,705	1,923	1,955	1,945	1,914	1,876
Other customs duty	178	203	177	167	174	186	196
Gaming duties	189	233	247	250	257	265	272
Motor vehicle fees	234	234	236	233	238	242	245
Approved issuer levy and cheque duty	67	65	69	72	66	67	65
Energy resources levies	26	23	23	22	22	22	22
Total other indirect taxation	**7,390**	**7,627**	**6,956**	**8,263**	**8,427**	**8,589**	**8,748**
Total indirect taxation	**33,514**	**37,009**	**35,838**	**37,997**	**40,086**	**42,445**	**44,513**
Total taxation revenue	**107,873**	**115,509**	**117,442**	**124,350**	**131,345**	**140,452**	**148,417**
Other Sovereign Revenue (accrual)							
ACC levies	3,461	3,598	3,705	3,945	4,240	4,596	5,027
Income insurance levies	-	-	-	-	800	3,400	3,600
Emissions trading revenue	3,006	3,190	4,015	4,253	4,008	3,490	3,206
Fire and Emergency levies	638	637	651	666	679	693	707
EQC levies	528	597	598	796	804	812	820
Clean vehicle discount	25	132	133	191	205	223	223
Child support and working for families penalties	287	217	244	106	100	100	100
Court fines	100	115	115	115	115	115	115
Other miscellaneous items	849	811	867	971	1,108	1,105	1,106
Total other sovereign revenue	**8,894**	**9,297**	**10,328**	**11,043**	**12,059**	**14,534**	**14,904**
Total sovereign revenue	**116,767**	**124,806**	**127,770**	**135,393**	**143,404**	**154,986**	**163,321**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	42,436	44,782	47,121	50,052	53,700	57,711	61,643
Other persons	9,723	11,280	11,761	11,989	13,345	13,836	14,491
Refunds	(2,423)	(2,467)	(2,444)	(2,576)	(2,769)	(2,916)	(3,072)
Fringe benefit tax	674	657	714	722	752	787	820
Total individuals	**50,410**	**54,252**	**57,152**	**60,187**	**65,028**	**69,418**	**73,882**
Corporate Tax							
Gross companies tax	18,343	21,273	21,838	21,738	24,363	25,387	26,784
Refunds	(1,317)	(1,187)	(1,509)	(1,313)	(1,491)	(1,611)	(1,762)
Non-resident withholding tax	529	571	522	569	554	543	555
Total corporate tax	**17,555**	**20,657**	**20,851**	**20,994**	**23,426**	**24,319**	**25,577**
Other Direct Income Tax							
Resident w/holding tax on interest income	813	1,354	1,414	1,716	1,774	1,685	1,582
Resident w/holding tax on dividend income	1,098	980	1,136	1,233	1,300	1,373	1,440
Total other direct income tax	**1,911**	**2,334**	**2,550**	**2,949**	**3,074**	**3,058**	**3,022**
Total direct income tax	**69,876**	**77,243**	**80,553**	**84,130**	**91,528**	**96,795**	**102,481**
Goods and Services Tax							
Gross goods and services tax	41,973	46,568	46,634	43,181	54,163	53,391	56,573
Refunds	(16,473)	(17,744)	(18,239)	(18,060)	(18,924)	(20,058)	(21,330)
Total goods and services tax	**25,500**	**28,824**	**28,395**	**25,121**	**35,239**	**33,333**	**35,243**
Other Indirect Taxation							
Road and track user charges	1,853	1,874	1,468	2,040	2,105	2,186	2,276
Alcohol excise – domestic production	740	896	826	915	972	1,017	1,060
Customs duty	4,250	4,175	4,151	4,675	4,764	4,788	4,806
Gaming duties	193	233	247	250	257	265	272
Motor vehicle fees	213	234	236	233	238	242	245
Approved issuer levy and cheque duty	61	65	69	72	66	67	65
Energy resources levies	26	23	23	22	22	22	22
Total other indirect taxation	**7,336**	**7,500**	**7,020**	**8,207**	**8,424**	**8,587**	**8,746**
Total indirect taxation	**32,836**	**36,324**	**35,415**	**33,328**	**43,663**	**41,920**	**43,989**
Total taxation receipts	**102,712**	**113,567**	**115,968**	**117,458**	**135,191**	**138,715**	**146,470**
Other Sovereign Receipts (cash)							
ACC levies	3,363	3,476	3,565	3,837	4,150	4,509	4,927
Income insurance levies	-	-	-	-	800	3,400	3,600
Emissions trading receipts	2,096	1,388	1,767	1,494	1,396	1,268	1,204
Fire and Emergency levies	634	634	651	663	676	624	704
EQC levies	530	546	546	790	798	810	818
Clean vehicle discount	25	132	133	191	205	223	223
Child support and working for families penalties	212	199	250	83	76	76	76
Court fines	110	93	115	115	111	115	115
Other miscellaneous items	833	807	868	970	1,108	1,105	1,105
Total other sovereign receipts	**7,803**	**7,275**	**7,895**	**8,143**	**9,320**	**12,130**	**12,772**
Total sovereign receipts	**110,515**	**120,842**	**123,863**	**125,601**	**144,511**	**150,845**	**159,242**

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest Revenue	**2,292**	**2,829**	**4,069**	**5,040**	**5,378**	**6,033**	**6,382**
Interest Expenses							
Interest on financial liabilities	3,251	4,970	6,844	8,337	9,209	9,634	10,130
Interest unwind on provisions	98	263	379	420	408	394	377
Total interest expenses	**3,349**	**5,233**	**7,223**	**8,757**	**9,617**	**10,028**	**10,507**
Net interest revenue/(expense)	**(1,057)**	**(2,404)**	**(3,154)**	**(3,717)**	**(4,239)**	**(3,995)**	**(4,125)**
Dividend revenue	1,248	1,176	1,195	1,225	1,340	1,463	1,597
Net gains/(losses) on financial instruments	(9,687)	4,894	1,071	5,610	5,782	6,183	6,686
Total investment revenue/(expenditure)	**(9,496)**	**3,666**	**(888)**	**3,118**	**2,883**	**3,651**	**4,158**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	17,764	19,529	19,530	21,621	23,277	24,766	26,426
Wage subsidy scheme	4,689	-	-	-	-	-	-
Family tax credit	2,017	2,375	2,240	2,399	2,506	2,519	2,661
Jobseeker support and emergency benefit	3,330	3,428	3,434	4,045	4,486	4,470	4,542
Accommodation assistance	2,386	2,331	2,343	2,388	2,482	2,485	2,497
Supported living payment	2,047	2,219	2,302	2,465	2,574	2,671	2,759
Sole parent support	1,704	1,819	1,917	2,118	2,266	2,326	2,317
KiwiSaver subsidies	964	1,030	1,035	1,089	1,141	1,188	1,233
Official development assistance	827	1,058	1,073	1,111	1,111	961	861
Other working for families tax credits	519	562	537	491	484	475	475
Student allowances	556	682	570	650	749	812	832
Winter energy payment	513	518	518	537	555	562	569
Disability assistance	412	418	428	452	464	468	472
Hardship assistance	497	608	581	685	772	819	873
Orphan's/unsupported child's benefit	313	356	348	370	383	391	395
Best start tax credit	308	375	347	363	373	375	389
COVID-19 resurgence and support payment	4,019	-	-	-	-	-	-
Cost of living payment	-	800	800	-	-	-	-
Income related rent subsidy	145	133	133	133	133	134	135
Other social assistance benefits	1,077	1,203	1,184	1,295	1,330	1,373	1,424
Total transfer payments and subsidies	**44,087**	**39,444**	**39,320**	**42,212**	**45,086**	**46,795**	**48,860**
NOTE 4: Other Operating Expenses							
Grants and subsidies	10,118	10,286	11,142	9,872	9,478	9,258	9,297
Repairs and maintenance	2,513	2,617	2,612	2,650	2,736	2,858	2,805
Rental and leasing costs	1,441	1,629	1,697	1,724	1,733	1,751	1,697
Amortisation and impairment of non-financial assets[1]	(224)	964	1,359	1,015	998	989	940
Impairment of financial assets	1,047	1,117	1,150	1,068	1,065	1,070	1,068
Cost of concessionary lending	858	1,097	1,012	956	797	804	817
Lottery prize payments	803	841	802	866	891	905	919
Inventory expenses and clinical supplies	2,240	2,730	3,217	3,165	3,136	3,398	3,161
Income insurance	-	-	-	-	800	3,400	3,600
Other operating expenses	39,477	40,687	45,742	42,042	39,579	38,576	38,232
Total other operating expenses	**58,273**	**61,968**	**68,733**	**63,358**	**61,213**	**63,009**	**62,536**

1. The 2021/22 year includes the reversal of past impairments.

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	5,833	9,010	7,839	8,454	8,891	9,362	9,894
EQC	496	322	324	398	420	413	424
Southern Response	92	(20)	(14)	(15)	(8)	(4)	(2)
Other (incl. inter-segment eliminations)	26	56	71	72	73	74	73
Total insurance expenses	**6,447**	**9,368**	**8,220**	**8,909**	**9,376**	**9,845**	**10,389**
Insurance liability by entity							
ACC	54,115	68,353	53,834	56,822	59,898	63,111	66,488
EQC	863	576	770	662	593	450	454
Southern Response	284	33	102	60	31	16	6
Other (incl. inter-segment eliminations)	39	64	56	57	57	56	58
Total insurance liabilities	**55,301**	**69,026**	**54,762**	**57,601**	**60,579**	**63,633**	**67,006**

ACC liability

Calculation information

ACC, with support from Taylor Fry, prepared an actuarial estimate of the ACC outstanding claims liability as at 30 June 2022. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The estimate also includes a risk margin to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), Average Weekly Earnings (AWE) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 September 2022. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 4.66% and allows for a long-term discount rate of 4.30% beyond 40 years.

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

Presentation approach

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

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Gross ACC Liability							
Opening gross liability	50,272	64,527	54,115	53,834	56,822	59,898	63,111
Net change	3,843	3,826	(281)	2,988	3,076	3,213	3,377
Closing gross liability	**54,115**	**68,353**	**53,834**	**56,822**	**59,898**	**63,111**	**66,488**
Less Net Assets Available to ACC							
Opening net asset value	44,282	52,053	48,076	47,960	49,373	50,881	52,577
Net change	3,794	706	(116)	1,413	1,508	1,696	1,908
Closing net asset value	**48,076**	**52,759**	**47,960**	**49,373**	**50,881**	**52,577**	**54,485**
Net ACC Reserves (Net Liability)							
Opening reserves position	(5,990)	(12,474)	(6,039)	(5,874)	(7,449)	(9,017)	(10,534)
Net change	(49)	(3,120)	165	(1,575)	(1,568)	(1,517)	(1,469)
Closing reserves position (net liability)/net asset	**(6,039)**	**(15,594)**	**(5,874)**	**(7,449)**	**(9,017)**	**(10,534)**	**(12,003)**

Notes to the Forecast Financial Statements

	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	4,980	4,210	5,771	6,185	6,119
Climate Emergency Response Fund	-	815	815	815	815
Forecast new spending for Budget 2023	-	1,838	1,838	1,779	1,683
Forecast new spending for Budget 2024	-	-	2,581	2,581	2,581
Forecast new spending for Budget 2025	-	-	-	3,000	3,000
Forecast new spending for Budget 2026	-	-	-	-	3,000
Total forecast new operating spending	**4,980**	**6,863**	**11,005**	**14,360**	**17,198**

Unallocated operating contingencies represent operating expenses agreed by the Government, or likely to be agreed in the future, that have yet to be allocated to departments. Forecast new spending for Budget 2023, 2024, 2025 and 2026 indicates the expected spending increases from future Budgets. Some of these allowances have been pre-committed as at the forecast finalisation date of 28 November 2022, with only the unallocated portion of the allowances included within this note.

At Budget 2022 the Government used future Budget operating allowances to fund multi-year decisions in the health sector and the agencies within the Justice and Natural Resources clusters. This means the overall amounts available to be allocated in future Budgets have been reduced as multi-year investment decisions have been managed against future Budget allowances. Although this results in a reduction in funding available in future Budgets, the expectation is that the health sector will not need to seek new funding until Budget 2024 and the clusters will not need to seek funding until Budget 2025.

The forecast for new operating spending for Budget 2023 is $4.5 billion. In Budget 2022 multi-year funding decisions have been made, which effectively reduces the funding available for future new spending for Budget 2023. In addition, there have been a few decisions since Budget 2022 that have been funded from Budget 2023 operating allowances. Overall, on average $1.8 billion of funding is still available for Budget 2023.

The forecast for new operating spending for Budget 2024 is $3.0 billion. In Budget 2022 multi-year funding decisions were made, which effectively reduces the funding available for future new spending for Budget 2024 to an average of $2.6 billion per annum.

	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	Post-2027 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	1,439	1,237	1,141	1,022	475	233	5,547
Climate Emergency Response Fund	-	91	91	91	91	-	364
Forecast new spending for Budgets 2023 - 2026	-	983	1,966	2,527	2,808	2,948	11,232
Total forecast new capital spending	**1,439**	**2,311**	**3,198**	**3,640**	**3,374**	**3,181**	**17,143**
Forecast new capital spending (cumulative)	**1,439**	**3,750**	**6,948**	**10,588**	**13,962**		

The Government has signalled a capital allowance of $12.0 billion for Budget 2023 through to Budget 2026. As at 28 November 2022, $11.2 billion of funding is assumed to remain available. Unallocated capital contingencies represent capital spending yet to be allocated to departments. Forecast new capital spending indicates the funding available for capital spending from future Budgets.

	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(6,400)	(1,800)	(1,200)	(1,100)	(900)
Top-down capital adjustment (cumulative)	(2,850)	(4,300)	(4,800)	(5,125)	(5,350)

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	6,730	-	3,062	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(4,917)	-	(1,432)	-	-	-	-
Other[1]	1,152	(49)	149	(42)	(70)	(76)	(82)
Net gains/(losses) on non-financial instruments	**2,965**	**(49)**	**1,779**	**(42)**	**(70)**	**(76)**	**(82)**

1. The other balance in 2021/22 largely relates to realised gains on the disposal of Tilt Renewables and Meridian Energy Australia.

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	17,835	17,713	15,679	14,360	14,384	14,896	15,126
Tax receivables	20,076	17,321	21,023	27,318	22,881	24,032	25,402
Trade and other receivables	15,059	11,585	15,475	15,160	15,712	16,246	16,853
Student loans (refer to note 9)	9,209	9,679	8,846	8,511	8,132	7,686	7,137
Kiwi Group loans and advances	27,786	30,354	30,002	32,702	35,702	39,103	42,802
Long-term deposits	8,444	4,711	8,614	8,053	8,285	8,697	9,212
IMF financial assets	5,324	5,237	5,597	5,597	5,597	5,597	5,597
FLP advances	11,277	20,622	17,608	15,052	6,398	-	-
Other advances	6,387	10,228	8,126	8,368	8,369	8,309	8,326
Share investments	46,261	53,423	45,429	49,026	51,020	53,290	55,690
Investments in controlled enterprises	6,096	5,991	7,382	8,519	10,279	12,113	14,056
Derivatives in gain	6,643	2,830	7,150	4,444	3,847	3,556	3,324
Other marketable securities	45,045	38,424	44,002	42,922	66,485	70,897	83,639
Total financial assets (including receivables)	**225,442**	**228,118**	**234,933**	**240,032**	**257,091**	**264,422**	**287,164**
Financial Assets by Segment							
The Treasury	54,178	31,714	40,443	33,368	42,785	38,086	41,711
Reserve Bank of New Zealand	60,590	59,677	66,952	59,693	52,201	45,281	38,267
NZS Fund	65,411	69,651	66,897	72,682	78,210	84,264	90,733
Other core Crown	42,845	36,370	43,003	47,784	41,464	41,499	42,347
Intra-segment eliminations	(73,598)	(43,167)	(57,687)	(44,800)	(30,500)	(21,256)	(9,256)
Total core Crown segment	**149,426**	**154,245**	**159,608**	**168,727**	**184,160**	**187,874**	**203,802**
ACC	50,041	53,097	50,929	50,383	51,904	53,612	55,532
EQC	541	531	627	835	1,091	1,300	1,660
Kiwi Group loans and advances[1]	-	-	30,002	32,702	35,702	39,103	42,802
Other Crown entities	17,547	14,487	20,382	19,757	20,016	21,055	22,428
Intra-segment eliminations	(4,318)	(4,179)	(3,069)	(2,985)	(2,932)	(3,210)	(3,541)
Total Crown entities segment	**63,811**	**63,936**	**98,871**	**100,692**	**105,781**	**111,860**	**118,881**
Total State-owned Enterprises segment[1]	**38,443**	**39,223**	**6,495**	**5,842**	**5,733**	**6,062**	**6,426**
Inter-segment eliminations	(26,238)	(29,286)	(30,041)	(35,229)	(38,583)	(41,374)	(41,945)
Total financial assets (including receivables)	**225,442**	**228,118**	**234,933**	**240,032**	**257,091**	**264,422**	**287,164**

1. The 2022 Actuals and 2023 Previous Budget figures represent Kiwi Group Holdings (KGH) loans and advances, which were reported within the State-owned Enterprise segment. For the forecast years, the assets of KGH are transferred to a newly incorporated Schedule 4A company, called Kiwi Group Capital, which is reported in the Crown Entity segment.

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 9: Student Loans							
Nominal value (including accrued interest)	16,137	16,369	15,975	15,901	15,852	15,793	15,676
Opening book value	10,841	9,923	9,209	8,846	8,511	8,132	7,686
Net new lending (including fees)	1,295	1,648	1,380	1,582	1,682	1,736	1,752
Less initial write-down to fair value	(489)	(662)	(625)	(728)	(772)	(800)	(812)
Repayments made during the year	(1,605)	(1,665)	(1,718)	(1,821)	(1,895)	(1,958)	(2,032)
Interest unwind	280	398	562	595	570	541	508
Unwind of administration costs	38	37	38	37	36	35	35
Experience/actuarial adjustments:							
- Expected repayment adjustments	519	-	-	-	-	-	-
- Discount rate adjustments	(1,670)	-	-	-	-	-	-
Closing book value	**9,209**	**9,679**	**8,846**	**8,511**	**8,132**	**7,686**	**7,137**

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	84,744	71,458	86,141	86,583	85,848	85,177	84,872
Buildings	59,781	60,665	65,505	69,329	71,588	74,323	75,022
State highways	51,915	45,856	53,679	54,980	56,055	57,123	58,039
Electricity generation assets	19,027	18,582	18,897	18,703	18,554	18,318	18,036
Electricity distribution network (cost)	4,353	4,392	4,206	4,394	4,689	5,038	5,508
Aircraft (excluding military)	4,220	3,793	4,322	4,649	5,330	5,711	5,991
Specialist military equipment	4,293	5,183	5,060	5,775	6,314	5,977	5,640
Specified cultural and heritage assets	3,254	3,194	3,190	3,202	3,161	3,119	3,114
Rail network	10,583	8,319	11,013	11,741	12,042	12,137	12,084
Other plant and equipment (cost)	7,012	9,334	8,293	9,234	9,906	10,458	10,510
Total property, plant and equipment	**249,182**	**230,776**	**260,306**	**268,590**	**273,487**	**277,381**	**278,816**
Land breakdown by usage							
Housing	32,802	26,910	33,608	34,460	34,007	33,570	33,168
State highway corridor land	23,486	18,000	23,418	23,032	22,639	22,286	22,246
Conservation estate	7,826	7,150	7,815	7,817	7,818	7,820	7,822
Rail network	4,309	3,928	4,377	4,531	4,528	4,526	4,521
Schools	7,478	7,320	7,563	7,648	7,733	7,818	7,903
Commercial (SOEs) excluding Rail	1,582	1,272	1,636	1,681	1,698	1,717	1,736
Other	7,261	6,878	7,724	7,414	7,425	7,440	7,476
Total land	**84,744**	**71,458**	**86,141**	**86,583**	**85,848**	**85,177**	**84,872**
Schedule of Movements							
Cost or Valuation							
Opening balance	231,234	245,166	268,071	285,387	300,174	311,716	322,314
Additions[2]	12,880	16,537	17,686	15,915	12,131	11,185	8,424
Disposals	(2,011)	(1,102)	(323)	(1,064)	(577)	(587)	(267)
Net revaluations	26,271	-	97	-	-	-	-
Other	(303)	(79)	(144)	(64)	(12)	-	(15)
Total cost or valuation	**268,071**	**260,522**	**285,387**	**300,174**	**311,716**	**322,314**	**330,456**
Accumulated Depreciation and Impairment							
Opening balance	18,018	23,596	18,889	25,081	31,584	38,229	44,933
Eliminated on disposal	(949)	(471)	(688)	(488)	(441)	(475)	(543)
Eliminated on revaluation	(3,377)	-	-	-	-	-	-
Impairment losses charged to operating balance	(851)	-	312	-	-	-	-
Depreciation expense	6,152	6,613	6,622	6,950	7,085	7,178	7,248
Other	(104)	8	(54)	41	1	1	2
Total accumulated depreciation and impairment	**18,889**	**29,746**	**25,081**	**31,584**	**38,229**	**44,933**	**51,640**
Total property, plant and equipment	**249,182**	**230,776**	**260,306**	**268,590**	**273,487**	**277,381**	**278,816**

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

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	1,077	949	1,018	1,170	1,228	1,257	1,376
Less current tax expense	35	1,117	(16)	288	1,197	1,326	1,473
Less other expenses	(517)	230	92	1,064	296	330	369
Add gains/(losses)	(5,133)	3,969	(129)	3,673	4,097	4,639	5,173
Operating balance	**(3,574)**	**3,571**	**813**	**3,491**	**3,832**	**4,240**	**4,707**
Opening net worth	57,365	60,255	56,210	59,581	64,863	70,340	76,338
Gross contribution from the Crown	2,420	2,558	2,558	1,791	1,645	1,758	1,699
Operating balance	(3,574)	3,571	813	3,491	3,832	4,240	4,707
Other movements in reserves	(1)	-	-	-	-	-	-
Closing net worth	**56,210**	**66,384**	**59,581**	**64,863**	**70,340**	**76,338**	**82,744**
Comprising:							
Financial assets	65,411	69,651	66,897	72,682	78,210	84,264	90,733
Financial liabilities	(9,102)	(3,238)	(7,191)	(7,779)	(7,817)	(7,860)	(7,908)
Net other assets	(99)	(29)	(125)	(40)	(53)	(66)	(81)
Closing net worth	**56,210**	**66,384**	**59,581**	**64,863**	**70,340**	**76,338**	**82,744**
NOTE 12: Payables							
Accounts payable	15,933	9,649	11,604	11,026	11,494	11,333	11,193
Taxes repayable	5,487	5,408	5,751	6,003	6,245	6,482	6,717
Total payables	**21,420**	**15,057**	**17,355**	**17,029**	**17,739**	**17,815**	**17,910**

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	8,765	9,061	7,830	7,460	7,077	6,678	6,269
Other funds	4	-	4	3	3	4	4
Total retirement plan liabilities	**8,769**	**9,061**	**7,834**	**7,463**	**7,080**	**6,682**	**6,273**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 2022. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 30 September 2022, based on membership data as at 30 June 2022. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date. For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 September 2022.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 3.35% p.a. for the year ended 30 June 2023 decreasing to 1.83% p.a. after 3 years, increasing slightly to 1.84% p.a. after 5 years and remaining at that level for 13 years, and then gradually increasing to 2.0% p.a after 38 years. In addition, an annual salary growth rate, before any promotional effects, of 2.5% p.a. (2.5% p.a. at 30 June 2022).

The 2022/23 projected decrease in the net GSF liability is $935 million, reflecting a decrease in the GSF liability of $1,089 million and a decrease in the GSF net assets of $154 million.

The expected decrease in the GSF liability of $1,089 million includes an actuarial gain (which decreases the liability) as at 30 June 2023, of $604 million, owing to movements in the discount rates ($636 million) which are partly offset by changes in the CPI rates ($32 million). The difference of $485 million is owing to the current service cost and interest unwind (increasing the liability) which is more than offset by benefits paid to members (reducing the liability).

The decrease in the value of the net assets of GSF of $154 million includes a valuation loss of $44 million reflecting the updated market value of assets at 30 September 2022. The balance of $110 million is owing to the total of the expected investment returns and expected contributions received/receivable, which is more than offset by expected lower expenses and benefits paid/payable to members.

The changes in the projected net GSF liability from 2022/23 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
GSF Liability							
Opening GSF liability	16,240	15,078	13,723	12,634	12,207	11,761	11,295
Net projected change	(2,517)	(606)	(1,089)	(427)	(446)	(465)	(478)
Closing GSF liability	**13,723**	**14,472**	**12,634**	**12,207**	**11,761**	**11,295**	**10,817**
Less Net Assets Available to GSF							
Opening net asset value	5,202	5,415	4,958	4,804	4,747	4,684	4,617
Investment valuation changes	(67)	263	117	244	241	238	234
Contribution and other income less benefit payments	(177)	(267)	(271)	(301)	(304)	(304)	(303)
Closing net asset value	**4,958**	**5,411**	**4,804**	**4,747**	**4,684**	**4,617**	**4,548**
Net GSF Liability							
Opening unfunded liability	11,038	9,663	8,765	7,830	7,460	7,077	6,678
Net projected change	(2,273)	(602)	(935)	(370)	(383)	(399)	(409)
Closing unfunded liability	**8,765**	**9,061**	**7,830**	**7,460**	**7,077**	**6,678**	**6,269**

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	7,543	4,503	7,106	5,230	5,174	5,254	5,303
Veterans' disability entitlements	2,843	2,862	2,798	2,758	2,718	2,678	2,638
Provision for National Provident Fund guarantee	660	627	624	582	543	506	468
Other provisions	3,287	2,050	2,632	2,277	2,197	2,205	2,214
Total provisions	**14,333**	**10,042**	**13,160**	**10,847**	**10,632**	**10,643**	**10,623**
NOTE 15: New Zealand Emissions Trading Scheme							
Opening liability	5,824	11,036	11,308	12,837	11,854	11,055	10,710
Units sold	2,096	1,388	1,767	1,494	1,396	1,268	1,204
Allocated units	1,489	1,586	2,396	1,832	1,853	1,941	2,056
Units surrendered	(3,006)	(3,190)	(4,015)	(4,253)	(4,008)	(3,490)	(3,206)
(Gains)/ losses due to revaluation in NZ Units	4,917	-	1,432	-	-	-	-
Other movements	(12)	(126)	(51)	(56)	(40)	(64)	(66)
Closing liability	**11,308**	**10,694**	**12,837**	**11,854**	**11,055**	**10,710**	**10,698**

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

The prices for NZUs used to calculate the NZ ETS liability are assumed to remain constant over the forecast period and are based on the market price at 31 October 2022 ($85.00).

NOTE 16: Borrowings

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Borrowings							
Government bonds	89,489	104,281	104,544	125,024	146,195	150,237	160,018
Treasury bills	3,487	2,976	2,919	2,959	2,959	2,960	2,960
Government retail stock	152	161	148	148	148	148	148
Settlement deposits with Reserve Bank	43,521	58,297	47,740	40,805	33,870	26,935	20,000
Derivatives in loss	10,275	4,387	13,845	11,032	9,984	9,478	8,852
Finance lease liabilities	1,177	1,176	1,140	1,012	924	871	769
Kiwi Group	27,174	30,130	29,253	32,627	36,063	39,879	43,827
Other borrowings	28,690	29,210	30,329	26,995	25,290	25,024	27,466
Total borrowings	**203,965**	**230,618**	**229,918**	**240,602**	**255,433**	**255,532**	**264,040**
By guarantee							
Sovereign-guaranteed debt	153,263	175,758	176,536	189,401	202,422	199,465	202,226
Non sovereign-guaranteed debt	50,702	54,860	53,382	51,201	53,011	56,067	61,814
Total borrowings	**203,965**	**230,618**	**229,918**	**240,602**	**255,433**	**255,532**	**264,040**

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

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

Notes to the Forecast Financial Statements

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
NOTE 17: Changes in Net Worth							
Taxpayers' funds	2,681	(10,254)	1,757	6,923	14,424	26,908	43,042
Property, plant and equipment revaluation reserve	164,385	134,146	164,372	164,388	164,405	164,422	164,440
Defined benefit plan revaluation reserve	55	(687)	615	660	702	743	783
Veterans' disability entitlements reserve	(566)	(659)	(566)	(566)	(566)	(566)	(566)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	344	(250)	(102)	(197)	(253)	(315)	(398)
Fair value hedge reserve	181	178	216	247	275	297	316
Foreign currency translation reserve	(37)	(66)	(39)	(39)	(39)	(39)	(39)
Net worth attributable to minority interests	7,283	6,453	7,281	7,561	7,532	7,435	7,397
Total net worth	**174,319**	**128,854**	**173,527**	**178,970**	**186,473**	**198,878**	**214,968**
Taxpayers' funds							
Opening taxpayers' funds	19,656	(8,674)	2,681	1,757	6,923	14,424	26,908
Operating balance excluding minority interests	(16,932)	(1,632)	(725)	5,216	7,567	12,549	16,204
Transfers from/(to) other reserves	385	-	29	-	-	-	-
Other movements	(428)	52	(228)	(50)	(66)	(65)	(70)
Closing taxpayers' funds	**2,681**	**(10,254)**	**1,757**	**6,923**	**14,424**	**26,908**	**43,042**
Property, Plant and Equipment Revaluation Reserve							
Opening property, plant and equipment revaluation reserve	134,003	134,125	164,385	164,372	164,388	164,405	164,422
Net revaluations	30,920	-	16	-	-	-	-
Transfers from/(to) other reserves	(385)	21	(29)	16	17	17	18
Net revaluations attributable to minority interests	(153)	-	-	-	-	-	-
Closing property, plant and equipment revaluation reserve	**164,385**	**134,146**	**164,372**	**164,388**	**164,405**	**164,422**	**164,440**
Net Worth Attributable to Minority Interests							
Opening minority interest	5,724	6,515	7,283	7,281	7,561	7,532	7,435
Operating balance attributable to minority interests	755	252	406	403	411	355	333
Transactions with minority interest	(389)	(318)	(440)	(444)	(458)	(465)	(478)
Increase in minority interest from equity issues	949	-	41	314	19	19	119
Other	244	4	(9)	7	(1)	(6)	(12)
Closing minority interest	**7,283**	**6,453**	**7,281**	**7,561**	**7,532**	**7,435**	**7,397**

Statement of Segments

	Core Crown 2022 Actual $m	Crown entities 2022 Actual $m	State-owned Enterprises 2022 Actual $m	Inter-segment eliminations 2022 Actual $m	Total Crown 2022 Actual $m
Statement of Financial Performance for the year ended 30 June 2022					
Revenue					
Taxation revenue	108,458	-	-	(585)	107,873
Other sovereign revenue	4,327	6,574	-	(2,007)	8,894
Revenue from core Crown funding	-	40,049	933	(40,982)	-
Sales of goods and services	1,386	2,741	14,068	(753)	17,442
Interest revenue	858	827	957	(350)	2,292
Other revenue	2,486	4,250	767	(2,377)	5,126
Total revenue (excluding gains)	**117,515**	**54,441**	**16,725**	**(47,054)**	**141,627**
Expenses					
Social assistance and official development assistance	45,266	-	-	(1,179)	44,087
Personnel expenses	9,945	19,897	2,861	(55)	32,648
Other operating expenses	67,545	29,903	11,531	(44,554)	64,425
Interest expenses	2,884	301	660	(496)	3,349
Insurance expenses	1	6,440	7	(1)	6,447
Total expenses (excluding losses)	**125,641**	**56,541**	**15,059**	**(46,285)**	**150,956**
Total gains/(losses) and other items	(11,406)	1,377	82	2,344	(7,603)
Operating balance	**(19,532)**	**(723)**	**1,748**	**1,575**	**(16,932)**
Expenses by functional classification					
Social security and welfare	*42,860*	*7,388*	*-*	*(1,945)*	*48,303*
Health	*27,781*	*22,005*	*-*	*(22,128)*	*27,658*
Education	*18,023*	*13,805*	*-*	*(12,917)*	*18,911*
Transport and communications	*4,657*	*4,503*	*4,873*	*(4,505)*	*9,528*
Other	*29,436*	*8,539*	*9,526*	*(4,294)*	*43,207*
Finance costs	*2,884*	*301*	*660*	*(496)*	*3,349*
Total expenses (excluding losses)	***125,641***	***56,541***	***15,059***	***(46,285)***	***150,956***
Statement of Financial Position as at 30 June 2022					
Assets					
Cash and cash equivalents	11,407	5,187	2,789	(1,548)	17,835
Receivables	28,289	7,833	2,386	(3,373)	35,135
Other financial assets	109,730	50,791	33,268	(21,317)	172,472
Property, plant and equipment	56,519	145,186	47,476	1	249,182
Equity accounted investments	57,801	14,239	470	(56,263)	16,247
Intangible assets and goodwill	1,465	728	1,772	(268)	3,697
Inventory and other assets	4,109	1,967	1,414	(214)	7,276
Total assets	**269,320**	**225,931**	**89,575**	**(82,982)**	**501,844**
Liabilities					
Borrowings	168,986	14,345	41,098	(20,464)	203,965
Other liabilities	55,050	70,218	10,480	(12,188)	123,560
Total liabilities	**224,036**	**84,563**	**51,578**	**(32,652)**	**327,525**
Total assets less total liabilities	**45,284**	**141,368**	**37,997**	**(50,330)**	**174,319**
Net worth					
Taxpayers' funds	9,319	39,896	10,189	(56,723)	2,681
Reserves	35,965	101,472	20,178	6,740	164,355
Net worth attributable to minority interests	-	-	7,630	(347)	7,283
Total net worth	**45,284**	**141,368**	**37,997**	**(50,330)**	**174,319**

Forecast Statement of Segments (continued)

	Core Crown	Crown entities[1]	State-owned Enterprises[1]	Inter-segment eliminations	Total Crown
	2023	2023	2023	2023	2023
	Forecast $m	Forecast $m	Forecast $m	Forecast $m	Forecast $m
Statement of Financial Performance for the year ended 30 June 2023					
Revenue					
Taxation revenue	118,061	-	-	(619)	117,442
Other sovereign revenue	5,478	7,107	-	(2,257)	10,328
Revenue from core Crown funding	-	44,759	904	(45,663)	-
Sales of goods and services	1,853	3,454	17,744	(654)	22,397
Interest revenue	1,747	2,926	23	(627)	4,069
Other revenue	3,055	5,101	809	(3,543)	5,422
Total revenue (excluding gains)	**130,194**	**63,347**	**19,480**	**(53,363)**	**159,658**
Expenses					
Social assistance and official development assistance	40,648	-	-	(1,328)	39,320
Personnel expenses	10,273	20,852	3,086	(48)	34,163
Other operating expenses	74,149	35,968	15,104	(49,866)	75,355
Interest expenses	5,676	1,754	389	(596)	7,223
Insurance expenses	3	8,208	9	-	8,220
Forecast for future new spending	4,980	-	-	-	4,980
Top-down operating expense adjustment	(6,400)	-	-	-	(6,400)
Total expenses (excluding losses)	**129,329**	**66,782**	**18,588**	**(51,838)**	**162,861**
Total gains/(losses) and other items	(493)	2,941	(420)	450	2,478
Operating balance	**372**	**(494)**	**472**	**(1,075)**	**(725)**
Expenses by functional classification					
Social security and welfare	*42,073*	*9,590*	*-*	*(2,322)*	*49,341*
Health	*28,835*	*25,727*	*-*	*(25,713)*	*28,849*
Education	*18,751*	*14,386*	*-*	*(13,293)*	*19,844*
Transport and communications	*5,230*	*5,318*	*8,716*	*(5,245)*	*14,019*
Other	*30,184*	*10,007*	*9,483*	*(4,669)*	*45,005*
Finance costs	*5,676*	*1,754*	*389*	*(596)*	*7,223*
Forecast for future new spending	*4,980*	*-*	*-*	*-*	*4,980*
Top-down operating expense adjustment	*(6,400)*	*-*	*-*	*-*	*(6,400)*
Total expenses (excluding losses)	***129,329***	***66,782***	***18,588***	***(51,838)***	***162,861***
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	8,825	6,495	1,419	(1,060)	15,679
Receivables	28,916	7,665	2,324	(2,407)	36,498
Other financial assets	121,868	84,711	2,752	(26,575)	182,756
Property, plant and equipment	58,531	153,007	48,768	-	260,306
Equity accounted investments	68,306	14,286	416	(66,313)	16,695
Intangible assets and goodwill	1,647	944	1,608	(268)	3,931
Inventory and other assets	3,562	2,627	1,267	(112)	7,344
Forecast for new capital spending	1,439	-	-	-	1,439
Top-down capital adjustment	(2,850)	-	-	-	(2,850)
Total assets	**290,244**	**269,735**	**58,554**	**(96,735)**	**521,798**
Liabilities					
Borrowings	194,257	50,469	11,521	(26,329)	229,918
Other liabilities	49,737	69,337	10,329	(11,050)	118,353
Total liabilities	**243,994**	**119,806**	**21,850**	**(37,379)**	**348,271**
Total assets less total liabilities	**46,250**	**149,929**	**36,704**	**(59,356)**	**173,527**
Net worth					
Taxpayers' funds	9,665	48,199	9,598	(65,705)	1,757
Reserves	36,585	101,484	19,766	6,654	164,489
Net worth attributable to minority interests	-	246	7,340	(305)	7,281
Total net worth	**46,250**	**149,929**	**36,704**	**(59,356)**	**173,527**

1. Kiwi Group Capital is reported in the Crown Entities segment from the 2023 financial year.
Kiwi Group Holdings Limited was reported in the State-owned Enterprises segment for the 2022 financial year.

Forecast Statement of Segments (continued)

	Core Crown 2024 Forecast $m	Crown entities 2024 Forecast $m	State-owned Enterprises 2024 Forecast $m	Inter-segment eliminations 2024 Forecast $m	Total Crown 2024 Forecast $m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	124,937	-	-	(587)	124,350
Other sovereign revenue	5,725	7,662	-	(2,344)	11,043
Revenue from core Crown funding	-	43,861	700	(44,561)	-
Sales of goods and services	1,777	3,648	18,500	(690)	23,235
Interest revenue	2,566	3,397	26	(949)	5,040
Other revenue	2,323	5,857	903	(3,062)	6,021
Total revenue (excluding gains)	**137,328**	**64,425**	**20,129**	**(52,193)**	**169,689**
Expenses					
Social assistance and official development assistance	43,743	-	-	(1,531)	42,212
Personnel expenses	10,056	21,414	3,055	(50)	34,475
Other operating expenses	68,559	34,985	15,352	(48,588)	70,308
Interest expenses	7,105	2,216	427	(991)	8,757
Insurance expenses	3	8,897	9	-	8,909
Forecast for future new spending	6,863	-	-	-	6,863
Top-down operating expense adjustment	(1,800)	-	-	-	(1,800)
Total expenses (excluding losses)	**134,529**	**67,512**	**18,843**	**(51,160)**	**169,724**
Total gains/(losses) and other items	4,500	1,232	(419)	(62)	5,251
Operating balance	**7,299**	**(1,855)**	**867**	**(1,095)**	**5,216**
Expenses by functional classification					
Social security and welfare	*44,080*	*10,231*	*-*	*(2,574)*	*51,737*
Health	*27,168*	*25,213*	*-*	*(24,965)*	*27,416*
Education	*18,540*	*14,369*	*-*	*(13,098)*	*19,811*
Transport and communications	*4,904*	*5,360*	*8,324*	*(5,118)*	*13,470*
Other	*27,669*	*10,123*	*10,092*	*(4,414)*	*43,470*
Finance costs	*7,105*	*2,216*	*427*	*(991)*	*8,757*
Forecast for future new spending	*6,863*	*-*	*-*	*-*	*6,863*
Top-down operating expense adjustment	*(1,800)*	*-*	*-*	*-*	*(1,800)*
Total expenses (excluding losses)	***134,529***	***67,512***	***18,843***	***(51,160)***	***169,724***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	8,392	5,786	1,207	(1,025)	14,360
Receivables	34,685	7,999	2,314	(2,520)	42,478
Other financial assets	125,651	86,907	2,321	(31,685)	183,194
Property, plant and equipment	60,053	157,658	50,879	-	268,590
Equity accounted investments	75,437	14,330	451	(73,139)	17,079
Intangible assets and goodwill	1,795	912	1,658	(269)	4,096
Inventory and other assets	3,476	2,853	1,304	(111)	7,522
Forecast for new capital spending	3,750	-	-	-	3,750
Top-down capital adjustment	(4,300)	-	-	-	(4,300)
Total assets	**308,939**	**276,445**	**60,134**	**(108,749)**	**536,769**
Liabilities					
Borrowings	207,196	53,179	11,607	(31,380)	240,602
Other liabilities	48,147	69,241	10,345	(10,536)	117,197
Total liabilities	**255,343**	**122,420**	**21,952**	**(41,916)**	**357,799**
Total assets less total liabilities	**53,596**	**154,025**	**38,182**	**(66,833)**	**178,970**
Net worth					
Taxpayers' funds	16,963	52,024	11,103	(73,167)	6,923
Reserves	36,633	101,459	19,764	6,630	164,486
Net worth attributable to minority interests	-	542	7,315	(296)	7,561
Total net worth	**53,596**	**154,025**	**38,182**	**(66,833)**	**178,970**

Forecast Statement of Segments (continued)

	Core Crown 2025 Forecast $m	Crown entities 2025 Forecast $m	State-owned Enterprises 2025 Forecast $m	Inter-segment eliminations 2025 Forecast $m	Total Crown 2025 Forecast $m
Statement of Financial Performance for the year ended 30 June 2025					
Revenue					
Taxation revenue	132,018	-	-	(673)	131,345
Other sovereign revenue	5,633	8,917	-	(2,491)	12,059
Revenue from core Crown funding	-	42,621	598	(43,219)	-
Sales of goods and services	1,777	3,922	18,695	(713)	23,681
Interest revenue	2,795	3,671	20	(1,108)	5,378
Other revenue	2,448	6,478	649	(3,113)	6,462
Total revenue (excluding gains)	**144,671**	**65,609**	**19,962**	**(51,317)**	**178,925**
Expenses					
Social assistance and official development assistance	46,804	-	-	(1,718)	45,086
Personnel expenses	10,075	21,502	3,126	(50)	34,653
Other operating expenses	65,672	34,810	15,374	(47,558)	68,298
Interest expenses	7,722	2,596	447	(1,148)	9,617
Insurance expenses	3	9,363	10	-	9,376
Forecast for future new spending	11,005	-	-	-	11,005
Top-down operating expense adjustment	(1,200)	-	-	-	(1,200)
Total expenses (excluding losses)	**140,081**	**68,271**	**18,957**	**(50,474)**	**176,835**
Total gains/(losses) and other items	4,640	1,346	(443)	(66)	5,477
Operating balance	**9,230**	**(1,316)**	**562**	**(909)**	**7,567**
Expenses by functional classification					
Social security and welfare	*47,015*	*11,531*	*-*	*(2,783)*	*55,763*
Health	*26,920*	*25,235*	*-*	*(24,820)*	*27,335*
Education	*18,264*	*14,237*	*-*	*(12,789)*	*19,712*
Transport and communications	*4,453*	*4,562*	*8,557*	*(4,642)*	*12,930*
Other	*25,902*	*10,110*	*9,953*	*(4,292)*	*41,673*
Finance costs	*7,722*	*2,596*	*447*	*(1,148)*	*9,617*
Forecast for future new spending	*11,005*	*-*	*-*	*-*	*11,005*
Top-down operating expense adjustment	*(1,200)*	*-*	*-*	*-*	*(1,200)*
Total expenses (excluding losses)	***140,081***	***68,271***	***18,957***	***(50,474)***	***176,835***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	8,308	5,931	1,171	(1,026)	14,384
Receivables	30,528	8,276	2,334	(2,545)	38,593
Other financial assets	145,325	91,574	2,228	(35,013)	204,114
Property, plant and equipment	60,982	159,911	52,594	-	273,487
Equity accounted investments	78,770	14,446	502	(76,351)	17,367
Intangible assets and goodwill	1,830	850	1,683	(284)	4,079
Inventory and other assets	3,135	3,082	1,338	(111)	7,444
Forecast for new capital spending	6,948	-	-	-	6,948
Top-down capital adjustment	(4,800)	-	-	-	(4,800)
Total assets	**331,026**	**284,070**	**61,850**	**(115,330)**	**561,616**
Liabilities					
Borrowings	220,855	56,904	12,346	(34,672)	255,433
Other liabilities	47,305	72,040	10,684	(10,319)	119,710
Total liabilities	**268,160**	**128,944**	**23,030**	**(44,991)**	**375,143**
Total assets less total liabilities	**62,866**	**155,126**	**38,820**	**(70,339)**	**186,473**
Net worth					
Taxpayers' funds	26,193	53,117	11,766	(76,652)	14,424
Reserves	36,673	101,467	19,768	6,609	164,517
Net worth attributable to minority interests	-	542	7,286	(296)	7,532
Total net worth	**62,866**	**155,126**	**38,820**	**(70,339)**	**186,473**

Forecast Statement of Segments (continued)

	Core Crown 2026 Forecast $m	Crown entities 2026 Forecast $m	State-owned Enterprises 2026 Forecast $m	Inter-segment eliminations 2026 Forecast $m	Total Crown 2026 Forecast $m
Statement of Financial Performance for the year ended 30 June 2026					
Revenue					
Taxation revenue	141,156	-	-	(704)	140,452
Other sovereign revenue	5,149	12,061	-	(2,676)	14,534
Revenue from core Crown funding	-	42,422	636	(43,058)	-
Sales of goods and services	1,985	4,083	18,824	(732)	24,160
Interest revenue	3,166	4,045	24	(1,202)	6,033
Other revenue	2,604	6,166	299	(2,640)	6,429
Total revenue (excluding gains)	**154,060**	**68,777**	**19,783**	**(51,012)**	**191,608**
Expenses					
Social assistance and official development assistance	48,161	-	-	(1,366)	46,795
Personnel expenses	10,135	21,668	3,142	(50)	34,895
Other operating expenses	65,445	37,063	15,351	(47,672)	70,187
Interest expenses	7,854	2,906	511	(1,243)	10,028
Insurance expenses	3	9,832	10	-	9,845
Forecast for future new spending	14,360	-	-	-	14,360
Top-down operating expense adjustment	(1,100)	-	-	-	(1,100)
Total expenses (excluding losses)	**144,858**	**71,469**	**19,014**	**(50,331)**	**185,010**
Total gains/(losses) and other items	4,991	1,438	(402)	(76)	5,951
Operating balance	**14,193**	**(1,254)**	**367**	**(757)**	**12,549**
Expenses by functional classification					
Social security and welfare	*48,399*	*14,667*	*-*	*(2,898)*	*60,168*
Health	*27,001*	*25,375*	*-*	*(24,957)*	*27,419*
Education	*18,338*	*14,183*	*-*	*(12,777)*	*19,744*
Transport and communications	*4,171*	*4,283*	*8,923*	*(4,382)*	*12,995*
Other	*25,835*	*10,055*	*9,580*	*(4,074)*	*41,396*
Finance costs	*7,854*	*2,906*	*511*	*(1,243)*	*10,028*
Forecast for future new spending	*14,360*	*-*	*-*	*-*	*14,360*
Top-down operating expense adjustment	*(1,100)*	*-*	*-*	*-*	*(1,100)*
Total expenses (excluding losses)	***144,858***	***71,469***	***19,014***	***(50,331)***	***185,010***
Statement of Financial Position as at 30 June 2026					
Assets					
Cash and cash equivalents	8,096	6,434	1,389	(1,023)	14,896
Receivables	31,870	8,592	2,351	(2,535)	40,278
Other financial assets	147,908	96,834	2,322	(37,816)	209,248
Property, plant and equipment	60,888	162,783	53,710	-	277,381
Equity accounted investments	82,005	14,567	550	(79,585)	17,537
Intangible assets and goodwill	1,846	820	1,752	(304)	4,114
Inventory and other assets	3,188	3,312	1,365	(110)	7,755
Forecast for new capital spending	10,588	-	-	-	10,588
Top-down capital adjustment	(5,125)	-	-	-	(5,125)
Total assets	**341,264**	**293,342**	**63,439**	**(121,373)**	**576,672**
Liabilities					
Borrowings	218,052	61,133	13,786	(37,439)	255,532
Other liabilities	46,109	75,527	10,893	(10,267)	122,262
Total liabilities	**264,161**	**136,660**	**24,679**	**(47,706)**	**377,794**
Total assets less total liabilities	**77,103**	**156,682**	**38,760**	**(73,667)**	**198,878**
Net worth					
Taxpayers' funds	40,386	54,671	11,815	(79,964)	26,908
Reserves	36,717	101,469	19,772	6,577	164,535
Net worth attributable to minority interests	-	542	7,173	(280)	7,435
Total net worth	**77,103**	**156,682**	**38,760**	**(73,667)**	**198,878**

Forecast Statement of Segments (continued)

	Core Crown 2027 Forecast $m	Crown entities 2027 Forecast $m	State-owned Enterprises 2027 Forecast $m	Inter-segment eliminations 2027 Forecast $m	Total Crown 2027 Forecast $m
Statement of Financial Performance for the year ended 30 June 2027					
Revenue					
Taxation revenue	149,128	-	-	(711)	148,417
Other sovereign revenue	4,927	12,861	-	(2,884)	14,904
Revenue from core Crown funding	-	41,908	639	(42,547)	-
Sales of goods and services	1,794	4,201	18,936	(755)	24,176
Interest revenue	3,226	4,375	30	(1,249)	6,382
Other revenue	2,769	6,137	320	(2,540)	6,686
Total revenue (excluding gains)	**161,844**	**69,482**	**19,925**	**(50,686)**	**200,565**
Expenses					
Social assistance and official development assistance	50,219	-	-	(1,359)	48,860
Personnel expenses	10,103	21,816	3,164	(51)	35,032
Other operating expenses	65,148	36,425	15,422	(47,211)	69,784
Interest expenses	8,026	3,224	546	(1,289)	10,507
Insurance expenses	3	10,376	10	-	10,389
Forecast for future new spending	17,198	-	-	-	17,198
Top-down operating expense adjustment	(900)	-	-	-	(900)
Total expenses (excluding losses)	**149,797**	**71,841**	**19,142**	**(49,910)**	**190,870**
Total gains/(losses) and other items	5,452	1,504	(371)	(76)	6,509
Operating balance	**17,499**	**(855)**	**412**	**(852)**	**16,204**
Expenses by functional classification					
Social security and welfare	*50,517*	*15,474*	*-*	*(2,955)*	*63,036*
Health	*27,075*	*25,536*	*-*	*(25,059)*	*27,552*
Education	*18,366*	*14,083*	*-*	*(12,772)*	*19,677*
Transport and communications	*3,892*	*3,916*	*9,077*	*(4,120)*	*12,765*
Other	*25,623*	*9,608*	*9,519*	*(3,715)*	*41,035*
Finance costs	*8,026*	*3,224*	*546*	*(1,289)*	*10,507*
Forecast for future new spending	*17,198*	*-*	*-*	*-*	*17,198*
Top-down operating expense adjustment	*(900)*	*-*	*-*	*-*	*(900)*
Total expenses (excluding losses)	***149,797***	***71,841***	***19,142***	***(49,910)***	***190,870***
Statement of Financial Position as at 30 June 2027					
Assets					
Cash and cash equivalents	7,769	6,732	1,650	(1,025)	15,126
Receivables	33,458	9,085	2,365	(2,653)	42,255
Other financial assets	162,575	103,064	2,411	(38,267)	229,783
Property, plant and equipment	60,517	164,069	54,230	-	278,816
Equity accounted investments	83,374	14,713	565	(80,954)	17,698
Intangible assets and goodwill	1,894	845	1,792	(285)	4,246
Inventory and other assets	3,198	3,451	1,395	(110)	7,934
Forecast for new capital spending	13,962	-	-	-	13,962
Top-down capital adjustment	(5,350)	-	-	-	(5,350)
Total assets	**361,397**	**301,959**	**64,408**	**(123,294)**	**604,470**
Liabilities					
Borrowings	221,044	65,765	15,084	(37,853)	264,040
Other liabilities	45,713	79,060	10,955	(10,266)	125,462
Total liabilities	**266,757**	**144,825**	**26,039**	**(48,119)**	**389,502**
Total assets less total liabilities	**94,640**	**157,134**	**38,369**	**(75,175)**	**214,968**
Net worth					
Taxpayers' funds	57,885	55,023	11,587	(81,453)	43,042
Reserves	36,755	101,471	19,757	6,546	164,529
Net worth attributable to minority interests	-	640	7,025	(268)	7,397
Total net worth	**94,640**	**157,134**	**38,369**	**(75,175)**	**214,968**

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 111 to 139) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

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

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

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

Expenses by Functional Classification

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

Core Crown Residual Cash

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

Debt Indicators

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

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

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

For further detail on the net debt indicator, refer to the box on page 37.

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

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

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

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Operating Balance							
Total revenue	141,627	152,154	159,658	169,689	178,925	191,608	200,565
Total expenses	150,956	158,528	162,861	169,724	176,835	185,010	190,870
Total gains/(losses)	(6,722)	4,845	2,850	5,568	5,712	6,107	6,604
Net surplus from associates and joint ventures	(126)	149	34	86	176	199	238
Less Minority interests' share of operating balance	(755)	(252)	(406)	(403)	(411)	(355)	(333)
Operating balance	**(16,932)**	**(1,632)**	**(725)**	**5,216**	**7,567**	**12,549**	**16,204**
Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses							
Operating balance	**(16,932)**	**(1,632)**	**(725)**	**5,216**	**7,567**	**12,549**	**16,204**
Less items excluded from OBEGAL:							
Net gains/(losses) on financial instruments	(9,687)	4,894	1,071	5,610	5,782	6,183	6,686
Net gains/(losses) on non-financial instruments	2,965	(49)	1,779	(42)	(70)	(76)	(82)
Minority interests share of total gains/(losses)	(393)	8	22	23	20	22	18
Net surplus from associates and joint ventures	(126)	149	34	86	176	199	238
OBEGAL	**(9,691)**	**(6,634)**	**(3,631)**	**(461)**	**1,659**	**6,221**	**9,344**

Expenses by Functional Classification

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	48,303	50,226	49,341	51,737	55,763	60,168	63,036
Health	27,658	25,493	28,849	27,416	27,335	27,419	27,552
Education	18,911	19,518	19,844	19,811	19,712	19,744	19,677
Core government services	5,426	6,180	6,410	6,171	5,683	5,487	5,359
Law and order	5,921	6,403	6,670	6,496	6,521	6,463	6,412
Transport and communications	9,528	12,568	14,019	13,470	12,930	12,995	12,765
Economic and industrial services	16,673	12,598	13,157	13,393	12,731	12,265	12,110
Defence	2,803	2,906	2,970	3,033	3,081	3,095	3,088
Heritage, culture and recreation	3,260	3,414	3,550	3,239	3,258	3,353	3,360
Primary services	2,302	2,493	2,819	2,509	2,398	2,362	2,353
Housing and community development	3,935	5,318	5,171	5,201	4,503	4,936	4,851
Environmental protection	2,535	3,033	3,996	3,264	3,105	3,042	3,111
GSF pension expenses	110	78	73	71	69	68	66
Other	242	163	189	93	324	325	325
Finance costs	3,349	5,233	7,223	8,757	9,617	10,028	10,507
Forecast new operating spending	-	4,904	4,980	6,863	11,005	14,360	17,198
Top-down operating expense adjustment	-	(2,000)	(6,400)	(1,800)	(1,200)	(1,100)	(900)
Total Crown expenses excluding losses	**150,956**	**158,528**	**162,861**	**169,724**	**176,835**	**185,010**	**190,870**

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

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	42,860	41,552	42,073	44,080	47,015	48,399	50,517
Health	27,781	26,579	28,835	27,168	26,920	27,001	27,075
Education	18,023	18,587	18,751	18,540	18,264	18,338	18,366
Core government services	5,720	6,110	6,532	6,139	5,577	5,469	5,436
Law and order	5,444	5,966	6,184	6,046	5,969	5,965	5,942
Transport and communications	4,657	4,754	5,230	4,904	4,453	4,171	3,892
Economic and industrial services	8,078	4,254	4,243	3,654	3,202	3,183	3,175
Defence	2,832	2,924	2,999	3,062	3,111	3,125	3,118
Heritage, culture and recreation	1,468	1,533	1,713	1,347	1,295	1,335	1,321
Primary services	949	1,159	1,297	1,062	1,074	1,044	1,019
Housing and community development	2,033	3,076	2,976	2,943	2,188	2,294	2,124
Environmental protection	2,549	3,118	3,997	3,269	3,111	3,047	3,117
GSF pension expenses	94	61	56	53	51	49	48
Other	269	163	189	93	324	325	325
Finance costs	2,884	4,311	5,676	7,105	7,722	7,854	8,026
Forecast new operating spending	-	4,904	4,980	6,863	11,005	14,360	17,198
Top-down operating expense adjustment	-	(2,000)	(6,400)	(1,800)	(1,200)	(1,100)	(900)
Total core Crown expenses excluding losses	**125,641**	**127,051**	**129,331**	**134,528**	**140,081**	**144,859**	**149,799**

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

Core Crown Residual Cash

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	105,487	115,061	116,154	118,034	137,012	140,720	148,591
Other sovereign receipts	3,364	2,656	3,186	2,906	2,957	2,849	2,786
Interest receipts	393	553	611	1,314	1,703	2,216	2,318
Sale of goods and services and other receipts	2,883	3,172	4,000	3,309	3,341	3,595	3,452
Transfer payments and subsidies	(45,440)	(41,108)	(41,037)	(44,064)	(47,098)	(49,613)	(50,732)
Personnel and operating costs	(71,980)	(74,403)	(78,964)	(72,615)	(69,668)	(69,071)	(68,966)
Interest payments	(2,841)	(3,587)	(4,577)	(5,529)	(6,197)	(6,475)	(6,789)
Forecast for future new operating spending	-	(4,904)	(4,980)	(6,863)	(11,005)	(14,360)	(17,198)
Top-down operating expense adjustment	-	2,000	6,400	1,800	1,200	1,100	900
Net core Crown operating cash flows	**(8,134)**	**(560)**	**793**	**(1,708)**	**12,245**	**10,961**	**14,362**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(3,474)	(5,355)	(5,061)	(4,195)	(3,484)	(2,767)	(2,466)
Net increase in advances	(9,192)	(12,820)	(10,412)	(1,953)	6,249	4,658	715
Net purchase of investments	(3,823)	(7,736)	(9,537)	(7,102)	(3,278)	(3,187)	(1,323)
Contribution to NZS Fund	(2,420)	(2,558)	(2,558)	(1,791)	(1,645)	(1,758)	(1,699)
Forecast for future new capital spending	-	(1,311)	(1,439)	(2,311)	(3,198)	(3,640)	(3,374)
Top-down capital adjustment	-	1,060	2,850	1,450	500	325	225
Net core Crown capital cash flows	**(18,909)**	**(28,720)**	**(26,157)**	**(15,902)**	**(4,856)**	**(6,369)**	**(7,922)**
Residual cash (deficit)/surplus	**(27,043)**	**(29,280)**	**(25,364)**	**(17,610)**	**7,389**	**4,592**	**6,440**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	19,275	25,721	26,944	28,502	28,795	18,596	19,243
Repayment of government bonds	-	(22,746)	(21,848)	(18,362)	(19,024)	(21,616)	(21,068)
Net issue/(repayment) of short-term borrowing[1]	(4,158)	(591)	(2,076)	40	-	-	-
Total market debt cash flows	15,117	2,384	3,020	10,180	9,771	(3,020)	(1,825)
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	(412)	(400)	(400)	(280)	-	-	-
Total non-market debt cash flows	(412)	(400)	(400)	(280)	-	-	-
Total debt programme cash flows	**14,705**	**1,984**	**2,620**	**9,900**	**9,771**	**(3,020)**	**(1,825)**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	12,400	12,652	23,587	2,455	2,797	(68)	4,436
Net (repayment)/issue of foreign currency borrowing	1,589	(917)	(3,262)	338	1,126	(231)	1
Total other borrowing cash flows	**13,989**	**11,735**	**20,325**	**2,793**	**3,923**	**(299)**	**4,437**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	(28)	15,899	(247)	4,841	(21,167)	(1,364)	(9,142)
Net issues/(repayments) of circulating currency	805	-	(5)	91	91	92	93
Decrease/(increase) in cash	(2,428)	(338)	2,671	(15)	(7)	(1)	(3)
Total investing cash flows	**(1,651)**	**15,561**	**2,419**	**4,917**	**(21,083)**	**(1,273)**	**(9,052)**
Residual cash deficit/(surplus) funding/(investing)	**27,043**	**29,280**	**25,364**	**17,610**	**(7,389)**	**(4,592)**	**(6,440)**

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

Debt Indicators

as at 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Net Debt:							
Core Crown borrowings[1]	168,986	192,255	194,257	207,196	220,855	218,052	221,044
Crown entity borrowings[2]	14,345	16,511	50,469	53,179	56,904	61,133	65,765
Less Kiwi Group borrowings[3]	-	-	(29,375)	(32,761)	(36,208)	(40,016)	(43,846)
Add back interentity eliminations[3]	-	-	(1,638)	(1,138)	(538)	(193)	(163)
Net unsettled purchases/(sales) of securities[4]	(343)	(1,636)	(4,365)	(4,227)	(4,233)	(4,235)	(4,247)
Less core Crown financial assets (per net debt definition)[5]	(121,138)	(132,158)	(130,693)	(134,043)	(153,633)	(156,004)	(170,344)
Net debt (incl. NZS Fund)	**61,850**	**74,972**	**78,655**	**88,206**	**83,147**	**78,737**	**68,209**
Additional net debt analysis							
Net debt (incl. NZS Fund)	61,850	74,972	78,655	88,206	83,147	78,737	68,209
Less NZS Fund borrowings	(5,040)	(2,740)	(7,285)	(7,284)	(7,290)	(7,347)	(7,346)
Less NZS Fund net unsettled purchases/(sales) of securities	235	1,637	3,347	3,209	3,215	3,217	3,229
Less NZS Fund financial assets	60,070	67,780	62,759	69,191	74,715	80,821	87,281
Net debt (excl. NZS Fund)	**117,115**	**141,649**	**137,476**	**153,322**	**153,787**	**155,428**	**151,373**
Gross Debt:							
Core Crown borrowings	168,986	192,255	194,257	207,196	220,855	218,052	221,044
Unsettled purchases of securities	5,042	81	635	121	125	129	132
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(9,990)	(2,820)	(7,888)	(7,373)	(7,383)	(7,444)	(7,446)
Less Reserve Bank settlement cash and Reserve Bank bills	(45,088)	(59,297)	(48,015)	(41,080)	(34,145)	(27,210)	(20,275)
Gross Debt	**118,950**	**130,219**	**138,989**	**158,864**	**179,452**	**183,527**	**193,455**

Notes on borrowings

1. Core Crown borrowings represent the total debt obligations of the consolidated core Crown segment. This includes any government stock held by ACC and includes settlement deposits with the Reserve Bank.
2. Crown entity borrowings represents the total debt obligations of the consolidated Crown entities. This includes debt issued by Crown entities, such as Kāinga Ora.
3. The 2022 Actuals and 2023 Previous Budget figures represent Kiwi Group Holdings (KGH) borrowings, which was reported within the State-owned Enterprise segment. For the forecast years, the assets and liabilities of KGH are transferred to a newly incorporated Schedule 4A company, called Kiwi Group Capital (Kiwi Group), which is reported in the Crown entity segment. This amount includes derivative balances.
4. Unsettled sales and purchases of securities are classified in the Statement of Financial Position as receivables and accounts payable, respectively.
5. Core Crown financial assets per the net debt definition includes any asset that is cash, deposits, share investments, advances, other marketable securities or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

for the years ending 30 June

	2022 Actual $m	2023 Previous Budget $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Movement in net debt							
Opening net debt	**35,921**	**61,163**	**61,850**	**78,655**	**88,206**	**83,147**	**78,737**
Core Crown residual cash (surplus)/deficit	27,043	29,280	25,364	17,610	(7,389)	(4,592)	(6,440)
Less net increase in advances	(9,192)	(12,820)	(10,412)	(1,953)	6,249	4,658	715
Less contributions to the NZS Fund	(2,420)	(2,558)	(2,558)	(1,791)	(1,645)	(1,758)	(1,699)
Net increase/(decrease) in Crown entity borrowings	2,509	2,354	5,111	(176)	878	766	832
Issues of circulating currency	(805)	-	5	(91)	(91)	(92)	(93)
Other fair value movements in financial assets and financial liabilities (including NZSF)	8,794	(2,447)	(705)	(4,048)	(3,061)	(3,392)	(3,843)
Closing net debt	**61,850**	**74,972**	**78,655**	**88,206**	**83,147**	**78,737**	**68,209**

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

Financial Results	2022 Actual $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m
Core Crown taxation revenue...	108,458	118,061	124,937	132,018	141,156	149,128
...combined with other core Crown revenue...	9,057	12,133	12,391	12,653	12,904	12,716
...funds core Crown expenses...	(125,641)	(129,331)	(134,528)	(140,081)	(144,859)	(149,799)
...and with SOE and CE[1] results...	(1,565)	(4,494)	(3,261)	(2,931)	(2,980)	(2,701)
...this results in an operating balance before gains and losses **(OBEGAL)**...	(9,691)	(3,631)	(461)	1,659	6,221	9,344
...with gains/losses leading to an **operating surplus/(deficit)...**	(16,932)	(725)	5,216	7,567	12,549	16,204
...with income in SOEs, CEs[1] and the NZS Fund retained...	974	284	(1,408)	(2,169)	(2,596)	(3,412)
...and some items do not impact cash	7,824	1,234	(5,516)	6,847	1,008	1,570
This leads to an operating residual cash surplus/(deficit)...	**(8,134)**	**793**	**(1,708)**	**12,245**	**10,961**	**14,362**
...used to make contributions to the NZS Fund...	(2,420)	(2,558)	(1,791)	(1,645)	(1,758)	(1,699)
...and to use for capital expenditure...	(3,474)	(5,061)	(4,195)	(3,484)	(2,767)	(2,466)
...and to make advances (eg, to students)	(9,192)	(10,412)	(1,953)	6,249	4,658	715
...and to purchase investments	(3,823)	(9,537)	(7,102)	(3,278)	(3,187)	(1,323)
Adjusting for forecast adjustments (top-down/new spending)...	-	1,411	(861)	(2,698)	(3,315)	(3,149)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(27,043)**	**(25,364)**	**(17,610)**	**7,389**	**4,592**	**6,440**

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

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Core Crown Expense Tables

($millions)	2018 Actual	2019[1] Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Social security and welfare	25,999	28,740	44,028	36,759	42,860	42,073	44,080	47,015	48,399	50,517
Health	17,159	18,268	19,891	22,784	27,781	28,835	27,168	26,920	27,001	27,075
Education	13,629	14,293	16,322	16,039	18,023	18,751	18,540	18,264	18,338	18,366
Core government services[1]	4,670	5,166	6,083	5,754	5,720	6,532	6,139	5,577	5,469	5,436
Law and order	4,184	4,625	4,911	5,202	5,444	6,184	6,046	5,969	5,965	5,942
Transport and communications	2,559	2,889	3,179	5,656	4,657	5,230	4,904	4,453	4,171	3,892
Economic and industrial services	2,732	3,006	3,988	4,481	8,078	4,243	3,654	3,202	3,183	3,175
Defence	2,251	2,395	2,499	2,664	2,832	2,999	3,062	3,111	3,125	3,118
Heritage, culture and recreation	850	918	1,106	1,420	1,468	1,713	1,347	1,295	1,335	1,321
Primary services	807	960	961	1,015	949	1,297	1,062	1,074	1,044	1,019
Housing and community development	552	727	1,015	1,813	2,033	2,976	2,943	2,188	2,294	2,124
Environmental protection	1,238	1,119	1,485	1,906	2,549	3,997	3,269	3,111	3,047	3,117
GSF pension expenses[1]	150	66	73	99	94	56	53	51	49	48
Other	299	96	63	254	269	189	93	324	325	325
Finance costs[1]	3,497	3,691	3,228	1,918	2,884	5,676	7,105	7,722	7,854	8,026
Forecast new operating spending	..	..	..	..	..	4,980	6,863	11,005	14,360	17,198
Top-down operating expense adjustment	..	..	..	..	..	(6,400)	(1,800)	(1,200)	(1,100)	(900)
Core Crown expenses	**80,576**	**86,959**	**108,832**	**107,764**	**125,641**	**129,331**	**134,528**	**140,081**	**144,859**	**149,799**

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

1. 'The '2019 Actual' has been restated for the impact of new accounting standards and interpretations. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

Table 5.1 – Social security and welfare expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Welfare benefits (see below)	24,005	26,689	41,308	33,671	39,187	38,128	40,692	43,608	45,012	47,100
Departmental expenses	1,593	1,784	2,062	2,424	2,747	2,849	2,439	2,442	2,425	2,417
Social rehabilitation and compensation	241	249	260	333	358	386	415	443	477	506
Flexi-wage subsidy	..	..	..	8	59	211	..	..	..	..
COVID-19 Income Relief Assistance	..	..	15	182	..	..	..	..	..	..
Other non-departmental expenses[1]	160	18	383	141	509	499	534	522	485	494
Social security and welfare expenses	**25,999**	**28,740**	**44,028**	**36,759**	**42,860**	**42,073**	**44,080**	**47,015**	**48,399**	**50,517**

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

Source: The Treasury

Table 5.2 – Welfare benefit expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
New Zealand Superannuation	13,699	14,562	15,521	16,569	17,764	19,530	21,621	23,277	24,766	26,426
Jobseeker Support and Emergency Benefit	1,697	1,854	2,285	3,224	3,330	3,434	4,045	4,486	4,470	4,542
Supported living payment	1,541	1,556	1,650	1,826	2,047	2,302	2,465	2,574	2,671	2,759
Sole parent support	1,117	1,115	1,231	1,455	1,704	1,917	2,118	2,266	2,326	2,317
Family Tax Credit	1,639	2,131	2,189	2,103	2,017	2,240	2,399	2,506	2,519	2,661
Other working for families tax credits	556	635	641	585	519	537	491	484	475	475
Accommodation Assistance	1,204	1,640	1,923	2,302	2,386	2,343	2,388	2,482	2,485	2,497
Income-Related Rents	890	974	1,071	1,202	1,323	1,462	1,664	1,850	1,500	1,495
Disability Assistance	379	386	395	409	412	428	452	464	468	472
Cost of living payment	..	..	..	..	..	800	..	..	..	..
Covid leave support	..	..	..	..	471	349	..	..	..	..
Winter energy	..	441	669	812	513	518	537	555	562	569
Best start	..	48	184	271	308	347	363	373	375	389
Orphan's/Unsupported Child's Benefit	165	225	248	293	313	348	370	383	391	395
Hardship Assistance	355	300	418	479	497	581	685	772	819	873
Paid Parental Leave	288	369	422	503	603	634	683	715	765	810
Childcare Assistance	196	183	144	145	132	154	206	220	225	230
Veteran's Support Entitlement[1]	93	90	66	..	..	..	..	..	..	..
Veteran's Pension	163	153	145	139	134	131	130	125	120	116
Wage Subsidy Scheme		..	12,095	1,197	4,689	..	..	..	..	..
Other benefits[2]	23	27	11	157	25	73	75	76	75	74
Benefit expenses	**24,005**	**26,689**	**41,308**	**33,671**	**39,187**	**38,128**	**40,692**	**43,608**	**45,012**	**47,100**

1. The Veteran's support entitlement appropriation was discontinued from 2021 owing to a change in accounting treatment.
2. The '2021 Actuals' for other benefits expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
New Zealand Superannuation	741	767	795	825	848	872	899	928	957	988
Jobseeker Support and Emergency Benefit	129	139	162	211	193	177	195	206	197	193
Supported living payment	96	95	96	97	98	102	103	102	102	102
Sole parent support	60	59	61	66	70	73	76	78	76	73
Accommodation Supplement	285	295	318	364	353	348	367	381	376	374

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

Source: Ministry of Social Development

Table 5.3 – Health expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	200	210	236	298	386	231	215	206	205	205
Purchasing of health services[1,2]	14,193	14,953	16,577	17,882	18,812	21,658	21,171	20,939	20,916	20,890
National disability support services[3]	1,256	1,358	1,599	1,659	1,870	2,030	2,028	2,028	2,028	2,028
Other non-departmental outputs[4]	869	1,014	767	623	770	1,323	2,701	2,617	2,624	2,643
Health payments to ACC[4]	617	705	679	1,038	896	960	1,047	1,124	1,221	1,303
National health response to COVID-19[5]	..	..	..	1,261	4,965	2,625	..	..	..	..
Other expenses[4]	24	28	33	23	82	8	6	6	7	6
Health expenses	**17,159**	**18,268**	**19,891**	**22,784**	**27,781**	**28,835**	**27,168**	**26,920**	**27,001**	**27,075**

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

Source: The Treasury

Table 5.4 – Education expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Early childhood education	1,844	1,896	2,007	2,132	2,247	2,328	2,426	2,506	2,541	2,571
Primary and secondary schools (see below)	6,334	6,823	7,108	8,230	8,478	8,694	8,539	8,311	8,289	8,253
Tertiary funding (see below)	4,112	4,112	5,621	3,288	4,486	5,183	5,326	5,388	5,468	5,500
Departmental expenses	1,281	1,416	1,534	1,656	1,962	2,167	2,064	2,002	1,997	2,000
COVID-19 apprentice support	..	..	..	156	255	237	93	..	..	..
Training incentive allowance	..	..	..	..	9	18	21	10	1	1
Other education expenses	58	46	52	577	586	124	71	47	42	41
Education expenses	**13,629**	**14,293**	**16,322**	**16,039**	**18,023**	**18,751**	**18,540**	**18,264**	**18,338**	**18,366**

Source: The Treasury

Number of places provided[1]	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Early childhood education	217,241	221,137	221,945	223,919	220,805	222,941	225,878	229,598	232,510	235,172

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

Source: The Ministry of Education

Table 5.5 – Primary and secondary schools

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Primary	3,216	3,452	3,600	4,107	4,122	4,140	4,120	4,042	4,010	4,005
Secondary	2,407	2,606	2,683	3,043	3,135	3,213	3,215	3,212	3,212	3,158
School transport	195	206	208	216	210	245	242	242	242	242
Special needs support	429	447	515	641	658	670	677	680	687	710
Professional development	82	104	91	104	129	123	127	125	124	124
Schooling improvement	5	8	7	25	20	29	27	10	14	14
School lunch programme	..	..	4	94	204	274	131	..	..	..
Primary and secondary education expenses	**6,334**	**6,823**	**7,108**	**8,230**	**8,478**	**8,694**	**8,539**	**8,311**	**8,289**	**8,253**

Source: The Treasury

Number of places provided[1]	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Primary	520,496	527,429	530,379	529,859	520,060	517,005	509,963	503,793	498,326	498,517
Secondary	277,734	279,904	286,511	294,216	297,309	305,226	311,239	312,859	312,389	310,200

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

Source: The Ministry of Education

Table 5.6 – Tertiary funding

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Tuition[1]	2,552	2,571	3,911	2,019	3,205	3,267	3,222	3,138	3,133	3,133
Other tertiary funding	561	606	637	698	755	721	726	729	723	723
Student allowances	511	583	567	590	556	570	650	749	812	832
Student loans	488	352	506	(19)	(30)	625	728	772	800	812
Tertiary education expenses	**4,112**	**4,112**	**5,621**	**3,288**	**4,486**	**5,183**	**5,326**	**5,388**	**5,468**	**5,500**

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

Source: The Treasury

Number of places provided[1]	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Actual delivered and estimated funded places	220,717	217,767	213,715	234,434	236,100	276,000	258,500	257,400	257,400	257,400

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

Source: Tertiary Education Commission

Table 5.7 – Core government services expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental expenses	2,119	2,199	2,249	2,271	2,477	2,911	2,511	2,431	2,373	2,356
Official development assistance	643	708	736	804	827	1,073	1,111	1,111	961	861
Tax receivable write-down and impairments	616	829	1,356	882	662	855	858	858	858	858
Science expenses	94	103	113	121	114	116	116	112	112	112
Crown Research Institutes: COVID-19	..	..	45	45	..	..	..	..	..	..
Shovel ready project funding	..	..	..	137	..	..	..	..	..	..
Indemnity and guarantee expenses	18	16	14	6	3	3	4	5	5	5
Non-departmental expenses	683	961	785	905	928	871	1,417	989	1,075	1,137
Other expenses[1]	497	350	785	583	709	703	122	71	85	107
Core government service expenses	**4,670**	**5,166**	**6,083**	**5,754**	**5,720**	**6,532**	**6,139**	**5,577**	**5,469**	**5,436**

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

Source: The Treasury

Table 5.8 – Law and order expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Police	1,629	1,760	1,997	2,079	2,206	2,469	2,337	2,246	2,287	2,266
Department of Corrections	1,301	1,417	1,527	1,641	1,645	1,806	1,820	1,832	1,838	1,838
Ministry of Justice	502	542	591	642	704	755	741	729	723	721
NZ Customs Service	174	187	201	182	200	220	205	205	199	199
Other departments	132	111	163	178	152	252	236	239	237	238
Departmental expenses	**3,738**	**4,017**	**4,479**	**4,722**	**4,907**	**5,502**	**5,339**	**5,251**	**5,284**	**5,262**
Non-departmental outputs	445	457	419	477	537	681	705	716	681	680
Other expenses	1	151	13	3	..	1	2	2	..	..
Law and order expenses	**4,184**	**4,625**	**4,911**	**5,202**	**5,444**	**6,184**	**6,046**	**5,969**	**5,965**	**5,942**

Source: The Treasury

Table 5.9 – Transport and communication expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	55	60	70	73	82	208	117	109	108	91
Waka Kotahi NZ Transport Agency	2,280	2,601	2,719	3,122	2,782	2,032	3,560	3,798	3,873	3,610
Rail funding	3	3	3	13	310	606	658	327	12	13
Funding to support the aviation and transport Industries	..	..	78	570	554	383	..	..	..	..
Funding to support Waka Kotahi due to impact of COVID-19	..	..	..	322	128	45	..	..	..	..
Shovel ready project funding to Crown Infrastructure Partners	..	..	..	1,035	..	254	15	15	..	..
Transport temporary relief package	..	..	..	..	411	1,160	..	..	..	..
Other non-departmental expenses	177	158	145	169	200	363	274	160	134	134
Other expenses[1]	44	67	164	352	190	179	280	44	44	44
Transport and communication expenses	**2,559**	**2,889**	**3,179**	**5,656**	**4,657**	**5,230**	**4,904**	**4,453**	**4,171**	**3,892**

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

Source: The Treasury

Table 5.10 – Economic and industrial services expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	447	499	561	633	626	681	618	599	586	586
Employment initiatives	4	10	5	4	4	4	4	4	4	4
Non-departmental outputs[2]	1,155	1,328	1,614	1,976	1,697	1,553	1,599	1,322	1,280	1,227
KiwiSaver (includes HomeStart grant)[1]	897	951	893	916	964	1,035	1,089	1,141	1,188	1,233
Initial fair value write-down on the Small Business Cashflow Scheme loans	..	..	686	143	230	168	84	..	..	..
COVID-19 Resurgence Support Payments	..	..	..	200	4,019	..	..	..	..	..
Shovel ready funding to support energy projects	..	..	..	24	14	146	..	..	..	..
Shovel ready project funding to support regional projects	..	..	..	159	174	70	..	..	..	..
Worker redeployment package	..	..	19	50	6	5	..	..	..	..
Other expenses[3]	229	218	210	376	344	581	260	136	125	125
Economic and industrial services expenses	**2,732**	**3,006**	**3,988**	**4,481**	**8,078**	**4,243**	**3,654**	**3,202**	**3,183**	**3,175**

1. From 2018 onwards, spending includes KiwiSaver HomeStart grant initiative.
2. From 2019 onwards, non-departmental outputs includes Provincial Growth Fund expenses.
3. From 2020 onwards, other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.11 – Defence expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
New Zealand Defence Force core expenses	2,172	2,286	2,418	2,531	2,672	2,790	2,888	2,933	2,937	2,938
Other expenses	79	109	81	133	160	209	174	178	188	180
Defence expenses	**2,251**	**2,395**	**2,499**	**2,664**	**2,832**	**2,999**	**3,062**	**3,111**	**3,125**	**3,118**

Source: The Treasury

Table 5.12 – Heritage, culture and recreation expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	302	305	326	379	374	490	421	440	467	453
Non-departmental outputs	503	538	627	884	809	848	862	804	817	817
Screen Production Grants	17	42	31	48	69	79	..	..	..	..
COVID-19 cultural sector response	..	..	..	6	73	135	..	..	..	..
Other expenses[1]	28	33	122	103	143	161	64	51	51	51
Heritage, culture and recreation expenses	**850**	**918**	**1,106**	**1,420**	**1,468**	**1,713**	**1,347**	**1,295**	**1,335**	**1,321**

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

Source: The Treasury

Table 5.13 – Primary services expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental expenses[1]	549	677	727	691	724	903	780	768	756	751
Non-departmental outputs	188	110	89	178	106	124	148	212	196	177
Other expenses[1,2]	70	173	145	146	119	270	134	94	92	91
Primary services expenses	**807**	**960**	**961**	**1,015**	**949**	**1,297**	**1,062**	**1,074**	**1,044**	**1,019**

1. The '2019 Actual' to the '2022 Actual' other expenses and departmental expenses includes costs associated with Mycoplasma bovis.
2. From 2019 onwards other expenses includes funding for forestry grants and partnership programmes.

Source: The Treasury

Table 5.14 – Housing and community development expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Departmental outputs	150	195	220	237	255	286	241	240	221	221
Housing subsidies	5	4	4	3	4	4	4	4	4	4
Community Services	179	183	235	349	438	514	391	376	348	348
Housing Acceleration Fund	..	..	..	..	22	63	445	433	430	430
Water Infrastructure	..	..	..	267	239	265	388	..	..	..
Shovel ready project funding to support housing projects	..	..	..	46	35	86	110	..	..	..
Other non-departmental expenses[1]	193	283	523	874	987	1,413	1,122	1,061	1,065	1,092
Other expenses	25	62	33	37	53	345	242	74	226	29
Housing and community development expenses	**552**	**727**	**1,015**	**1,813**	**2,033**	**2,976**	**2,943**	**2,188**	**2,294**	**2,124**

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

Source: The Treasury

Table 5.15 – Environmental protection expenses

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
NZ Emissions Trading Scheme	720	543	650	875	1,498	2,396	1,832	1,853	1,941	2,056
Departmental outputs	412	460	542	614	690	866	839	739	717	712
Non-departmental outputs	72	82	257	318	170	454	283	200	81	66
Clean car discount	..	..	..	..	128	164	146	90	75	75
Other expenses	34	34	36	99	63	117	169	229	233	208
Environmental protection expenses	**1,238**	**1,119**	**1,485**	**1,906**	**2,549**	**3,997**	**3,269**	**3,111**	**3,047**	**3,117**

Source: The Treasury

Table 5.16 – Finance costs

($millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Interest on financial liabilities	3,454	3,398	2,971	1,846	2,796	5,311	6,696	7,325	7,473	7,661
Interest unwind on provisions	43	293	257	72	88	365	409	397	381	365
Finance costs expenses	**3,497**	**3,691**	**3,228**	**1,918**	**2,884**	**5,676**	**7,105**	**7,722**	**7,854**	**8,026**

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

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

Appropriations

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

Baselines

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

Commercial portfolio

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

Consumers Price Index (CPI)

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

Contingent assets

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

Contingent liabilities

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

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 113 to 116).

Core Crown expenses

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

Core Crown revenue

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

Core Crown residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Core Crown residual cash is alternatively termed "Cash available/(shortfall to be funded)". Core Crown residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others).

Corporate tax

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

Current account (Balance of Payments)

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

Cyclically-adjusted balance (CAB) and structural balance

The Treasury's CAB is an estimate of OBEGAL adjusted for fluctuations of actual GDP around potential GDP. The CAB aims to provide a picture of the underlying fiscal position by excluding the impacts of the economic cycle. Like OBEGAL, the CAB is an accrual-based measure.

The Treasury's structural balance removes from the cyclically-adjusted balance (CAB) significant expenditure or revenue associated with one-off events. The structural balance aims to provide a better picture of fiscal sustainability. One-off impacts are excluded if the item can be individually identified in the Crown accounts; has a cumulative impact over the forecast period of 0.5% of the current year's GDP; and is either one-off spending, or results from a change in accounting treatment with no impact on the Crown's cashflow. Like the CAB, the structural balance is accrual-based.

Departmental agency

A departmental agency is an operationally autonomous agency hosted by a public service department and is legally considered part of its host department. A departmental agency is headed by its own chief executive who is directly responsible to an appropriate Minister for its clearly identified, ringfenced activities and performance. Part 2 of Schedule 2, Public Service Act 2020 includes a list of all departmental agencies and their host departments.

Demographic changes

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

Domestic bond programme

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

Excise duties

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

Financial assets

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

Financial liabilities

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

Financial portfolio

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

Fiscal drag

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

Fiscal impulse

The fiscal impulse shows whether the stance of discretionary fiscal policy is becoming more expansionary or contractionary relative to the previous year. The Treasury's fiscal impulse measure is calculated by expressing the cash-version of the CAB as a percentage of nominal GDP and taking year-on-year differences. This cyclically-adjusted measure excludes items that do not directly contribute to domestic demand, such as net interest payments, capital expenditure on imported items, and the purchases and sales of financial investments.

Forecast new capital spending (multi-year capital envelope)

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

Forecast new operating spending (Operating allowance)

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

Gains and losses

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

GDP deflator

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

Generally accepted accounting practice (GAAP)

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

Government Finance Statistics (GFS)

A statistical framework for government reporting developed by IMF to aid comparability of results between countries. This differs from the GAAP framework that is used for reporting by the Government in Aotearoa New Zealand.

Gross debt

Represents debt issued by sovereign (core Crown) and includes Government stock held by NZS Fund, Accident Compensation Corporation, and the Earthquake Commission. It does not include debt issued by State-owned Enterprises and Crown Entities. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Gross domestic product (GDP)

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

Gross domestic product (expenditure)

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

Gross domestic product (nominal)

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

Gross domestic product (production)

The value-added of goods and services produced in Aotearoa New Zealand, after deducting the cost of goods and services used in the production process.

Gross domestic product (real)

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

Gross national expenditure (GNE)

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

Interdepartmental executive board

An interdepartmental executive board is a board of public service chief executives. It is a new model of public service agency, designed to draw together chief executives to deal with complex issues that have impacts and policy levers that sit across a wide range of portfolio areas and cannot be dealt with by one single agency. A list of all interdepartmental executive boards and the department that services them can be found in Part 3 of Schedule 2, Public Service Act 2020.

Insurance liabilities

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

Inter-segment eliminations

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

Labour cost index (LCI)

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

Labour force participation rate

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

Labour productivity

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

Loan-to-value ratio restrictions

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

Long-term objectives and short-term intentions for fiscal policy

These refer to the Government's short-term (at least the next three years) and long-term (at least the next ten years) goals for operating expenses, operating revenues, the operating balance, debt and net worth. The fiscal strategy report must assess the consistency of these intentions and objectives with the defined principles of responsible fiscal management, as outlined in the Public Finance Act 1989.

Marketable securities

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

Minority interest

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

Monetary conditions

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

Monetary policy

The policies that the Reserve Bank uses to regulate the supply of money in Aotearoa New Zealand. In the past, the Reserve Bank has primarily used the Official Cash Rate (OCR) to implement monetary policy decisions. Recently, increased focus has been given to alternative monetary policy responses, such as the Large Scale Asset Purchase (LSAP) programme and the Funding for Lending (FLP) programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range and to support maximum sustainable employment.

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

Multi-factor productivity

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

National saving

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

Net core Crown cash flow from operations

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

Net debt

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

Net international investment position (NIIP)

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

Net worth attributable to the Crown

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

New Zealand Activity Index (NZAC)

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

Operating balance

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

Operating balance before gains and losses (OBEGAL)

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

Output gap

The difference between actual and potential GDP. (See Potential output.)

Outputs

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

Potential output

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

Productivity

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

Projections

Projections relate to the period beyond the five-year forecast period and are based on long-run economic and fiscal assumptions. For example, the projections assume no economic cycle and constant long-run interest, inflation and unemployment rates.

Settlement cash

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

Social portfolio

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

Specific fiscal risks

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

System of National Accounts (SNA)

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

Tax revenue

The accrual, rather than the cash ("tax receipts") measure of taxation. It is recognised when taxable activity occurs, regardless of whether or not it has actually been paid.

Terms of trade

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

Top-down adjustment

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

Total borrowings

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

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 113 to 116. Also known as the Government Reporting Entity.

Tradable/non-tradable output

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

Trade Weighted index (TWI)

A measure of movements in the NZ dollar against the currencies of our major trading partners. Since December 2014, the TWI has been based on 17 currencies, weighted according to each country's direct bilateral trade in goods and services with Aotearoa New Zealand. Together these countries account for more than 80% of Aotearoa New Zealand's foreign trade.

Transfer payments

An expense where income and wealth are being redistributed rather than a good or service being provided, such as a social welfare entitlement or subsidy.

Underutilisation rate

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

Votes

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

Year ended

Graphs and tables within this document use different expressions of the timeframe.
While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2022/23 or 2023 will mean the year ended 30 June.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	58,651	61,563	66,636	70,445	75,644	80,224	86,468	85,102	97,983	108,458	118,061	124,937	132,018	141,156	149,128
Core Crown revenue	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923	104,968	117,515	130,194	137,328	144,671	154,060	161,844
Total Crown revenue	85,678	88,536	93,805	97,416	103,422	109,973	119,142	116,003	129,335	141,627	159,658	169,689	178,925	191,608	200,565
Core Crown expenses	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	107,764	125,641	129,331	134,528	140,081	144,859	149,799
Total Crown expenses	90,030	91,179	93,064	95,137	99,007	104,014	111,376	138,916	133,722	150,956	162,861	169,724	176,835	185,010	190,870
Operating balance (excluding minority interests)	6,925	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,932)	(725)	5,216	7,567	12,549	16,204
Fiscal strategy indicators															
OBEGAL (excluding minority interests)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(3,631)	(461)	1,659	6,221	9,344
Core Crown residual cash	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(25,364)	(17,610)	7,389	4,592	6,440
Net debt	25,298	25,208	22,825	23,193	16,249	11,219	5,432	35,710	35,921	61,850	78,655	88,206	83,147	78,737	68,209
Net debt (excl. NZS Fund)	47,960	51,333	52,131	53,229	51,548	50,763	50,822	79,930	95,188	117,115	137,476	153,322	153,787	155,428	151,373
Gross debt[1]	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257	100,835	118,950	138,989	158,864	179,452	183,527	193,455
Net core Crown debt[2]	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	102,080	128,873	154,625	172,600	165,815	161,865	156,025
Statement of financial position															
Total assets	244,416	256,824	279,214	292,679	313,609	339,932	364,652	393,400	438,596	501,844	521,798	536,769	561,616	576,672	604,470
Total liabilities	174,405	176,127	186,978	197,158	197,137	204,295	221,313	277,457	281,403	327,525	348,271	357,799	375,143	377,794	389,502
Net worth	70,011	80,697	92,236	95,521	116,472	135,637	143,339	115,782	157,193	174,319	173,527	178,970	186,473	198,878	214,968
Net worth attributable to the Crown	68,071	75,486	86,454	89,366	110,532	129,644	136,949	110,320	151,469	167,036	166,246	171,409	178,941	191,443	207,571
Nominal expenditure GDP (revised)	218,832	236,893	245,595	258,858	275,525	295,671	310,164	318,522	342,064	359,387	394,778	412,678	435,268	460,280	484,352
% GDP															
Revenue and expenses															
Core Crown tax revenue	26.8%	26.0%	27.1%	27.2%	27.5%	27.1%	27.9%	26.7%	28.6%	30.2%	29.9%	30.3%	30.3%	30.7%	30.8%
Core Crown revenue	29.2%	28.3%	29.4%	29.4%	29.7%	29.3%	30.1%	28.9%	30.7%	32.7%	33.0%	33.3%	33.2%	33.5%	33.4%
Total Crown revenue	39.2%	37.4%	38.2%	37.6%	37.5%	37.2%	38.4%	36.4%	37.8%	39.4%	40.4%	41.1%	41.1%	41.6%	41.4%
Core Crown expenses	32.0%	30.0%	29.5%	28.6%	27.7%	27.3%	28.0%	34.2%	31.5%	35.0%	32.8%	32.6%	32.2%	31.5%	30.9%
Total Crown expenses	41.1%	38.5%	37.9%	36.8%	35.9%	35.2%	35.9%	43.6%	39.1%	42.0%	41.3%	41.1%	40.6%	40.2%	39.4%
Operating balance (excluding minority interests)	3.2%	1.2%	2.3%	(2.1%)	4.5%	2.8%	0.1%	(9.4%)	4.7%	(4.7%)	(0.2%)	1.3%	1.7%	2.7%	3.3%
Fiscal strategy indicators															
OBEGAL (excluding minority interests)	(2.0%)	(1.2%)	0.2%	0.7%	1.5%	1.9%	2.4%	(7.2%)	(1.3%)	(2.7%)	(0.9%)	(0.1%)	0.4%	1.4%	1.9%
Core Crown residual cash	(2.6%)	(1.7%)	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.4%)	(4.0%)	(7.5%)	(6.4%)	(4.3%)	1.7%	1.0%	1.3%
Net debt	11.6%	10.6%	9.3%	9.0%	5.9%	3.8%	1.8%	11.2%	10.5%	17.2%	19.9%	21.4%	19.1%	17.1%	14.1%
Net debt (excl. NZS Fund)	21.9%	21.7%	21.2%	20.6%	18.7%	17.2%	16.4%	25.1%	27.8%	32.6%	34.8%	37.2%	35.3%	33.8%	31.3%
Gross debt[1]	35.6%	34.6%	35.1%	33.6%	31.6%	29.8%	27.2%	32.1%	29.5%	33.1%	35.2%	38.5%	41.2%	39.9%	39.9%
Net core Crown debt[2]	25.5%	25.3%	24.7%	23.9%	21.6%	19.4%	18.6%	26.2%	29.8%	35.9%	39.2%	41.8%	38.1%	35.2%	32.2%
Statement of financial position															
Total assets	111.7%	108.4%	113.7%	113.1%	113.8%	115.0%	117.6%	123.5%	128.2%	139.6%	132.2%	130.1%	129.0%	125.3%	124.8%
Total liabilities	79.7%	74.3%	76.1%	76.2%	71.5%	69.1%	71.4%	87.1%	82.3%	91.1%	88.2%	86.7%	86.2%	82.1%	80.4%
Net worth	32.0%	34.1%	37.6%	36.9%	42.3%	45.9%	46.2%	36.3%	46.0%	48.5%	44.0%	43.4%	42.8%	43.2%	44.4%
Net worth attributable to the Crown	31.1%	31.9%	35.2%	34.5%	40.1%	43.8%	44.2%	34.6%	44.3%	46.5%	42.1%	41.5%	41.1%	41.6%	42.9%

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

Economic Indicators

June Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.5	3.6	3.6	4.7	6.3	4.7	4.1	-1.0	7.8	-0.1	1.7	-0.5	2.7	3.8	3.5
Public consumption	-0.1	2.8	3.0	1.3	2.6	4.0	3.3	6.6	8.1	10.1	0.4	-4.7	-1.5	0.7	0.2
TOTAL CONSUMPTION	1.9	3.4	3.4	3.9	5.4	4.6	3.9	0.7	7.9	2.4	1.3	-1.5	1.7	3.1	2.7
Residential investment	18.2	13.2	6.3	10.1	3.9	-1.0	1.4	-4.4	15.9	-4.4	2.5	-6.0	4.1	6.3	3.4
Business investment	1.3	8.9	7.0	1.4	1.1	12.2	4.7	-3.7	3.6	4.7	2.4	-2.0	2.8	5.8	5.4
TOTAL INVESTMENT	5.0	10.0	6.8	3.6	1.8	8.6	3.9	-3.9	6.6	2.3	2.4	-3.0	3.1	5.9	4.9
Stock change (contribution to growth)	-0.3	0.5	0.0	-0.3	0.4	0.2	-0.5	-0.3	0.3	0.5	-0.4	0.0	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	2.3	4.7	4.0	3.4	5.0	5.8	3.3	-0.6	7.9	3.1	1.4	-1.9	2.0	3.7	3.2
Exports	3.0	0.3	6.4	6.3	0.9	4.0	3.3	-5.0	-10.9	-2.8	14.3	3.2	3.8	3.6	2.9
Imports	2.6	9.0	6.9	1.5	6.7	8.4	2.3	-5.9	-4.3	11.4	1.4	-2.7	3.4	5.1	3.8
EXPENDITURE ON GDP	2.4	2.3	3.9	4.6	3.4	4.6	3.6	-0.4	6.0	-0.2	3.9	-0.3	2.0	3.3	3.0
GDP (production measure)	2.3	2.8	4.1	3.8	3.6	3.6	3.1	-1.1	5.2	1.0	3.5	-0.3	2.1	3.3	3.0
- annual % change	2.7	2.9	4.0	4.3	3.4	3.6	2.7	-10.4	17.9	0.4	1.5	0.1	3.0	3.3	2.9
Real GDP per capita	1.6	1.5	2.1	1.6	1.3	1.7	1.4	-3.0	3.9	0.7	3.2	-1.0	1.1	2.2	1.8
Nominal GDP (expenditure basis)	1.8	8.3	3.7	5.4	6.4	7.3	4.9	2.7	7.4	5.1	9.8	4.5	5.5	5.7	5.2
GDP deflator	-0.6	5.8	-0.2	0.8	2.9	2.6	1.2	3.2	1.3	5.3	5.8	4.9	3.4	2.4	2.2
Output gap (% deviation, June year average)	-1.7	-1.8	-0.9	-0.4	0.0	0.8	1.4	0.7	0.9	1.9	1.2	-1.4	-1.6	-0.7	-0.1
Employment	0.1	3.4	3.6	2.6	5.3	3.6	1.9	1.6	0.6	2.8	1.1	-1.2	0.6	2.0	1.8
Unemployment (% June quarter s.a.)	6.0	5.3	5.5	5.1	4.8	4.5	4.0	4.0	3.9	3.3	3.8	5.5	5.2	4.6	4.3
Wages (average ordinary-time hourly, ann % change)	2.8	2.3	2.5	2.4	2.5	2.8	4.0	2.9	4.0	6.4	6.8	6.1	4.7	4.0	3.8
CPI inflation (ann % change)	0.7	1.6	0.4	0.4	1.7	1.5	1.7	1.5	3.3	7.3	6.4	3.5	2.5	2.0	2.0
Merchandise terms of trade (SNA basis)	-3.8	16.4	-4.8	-2.7	5.0	4.6	-3.4	4.3	-0.2	2.9	-7.2	0.8	1.3	0.5	0.7
House prices (ann % change)	8.9	6.3	11.8	15.0	6.5	3.6	1.5	7.1	29.7	5.0	-13.0	-2.0	9.7	8.9	5.5
Current account balance - $billion	-7.9	-5.9	-8.4	-5.3	-7.2	-10.6	-11.0	-4.8	-11.6	-27.9	-29.8	-23.3	-20.8	-21.1	-22.1
Current account balance - % of GDP	-3.6	-2.5	-3.4	-2.1	-2.6	-3.6	-3.5	-1.5	-3.4	-7.8	-7.6	-5.6	-4.8	-4.6	-4.6
TWI (June quarter)	76.3	81.5	76.2	73.6	76.5	73.8	72.7	69.7	74.7	72.2	70.0	70.2	70.5	70.8	71.0
90-day bank bill rate (June quarter)	2.6	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.3	2.2	5.1	4.5	2.8	2.2	2.1
10-year bond rate (June quarter)	3.5	4.4	3.6	2.7	2.9	2.8	1.8	0.8	1.7	3.7	4.7	4.8	4.7	4.4	4.1