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THE TREASURY
Kaitohutohu Kaupapa Rawa

Budget Economic *and* Fiscal Update

15 May 2014

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Guide to the Budget Documents

A number of documents are released on Budget day. The purpose of these documents is to provide information about the Government's spending intentions for the year ahead and the wider fiscal and economic picture. The Budget documents are as follows:

Executive Summary

The *Executive Summary* is the overview of all the Budget information and contains the main points for the media and public. This summarises the Government's spending decisions and key issues raised in the *Budget Speech*, the *Fiscal Strategy Report,* and the *Budget Economic and Fiscal Update*.

Budget Speech

The *Budget Speech* is the Minister of Finance's speech delivering the Budget Statement at the start of Parliament's Budget debate. The Budget Statement generally focuses on the overall fiscal and economic position, the Government's policy priorities and how those priorities will be funded.

Fiscal Strategy Report

The *Fiscal Strategy Report* sets out the Government's fiscal strategy in areas such as the balance between operating revenues and expenses, and its debt objectives. The report includes fiscal trends covering at least the next 10 years and the Government's long term fiscal objectives.

The Government must explain changes in, and/or inconsistencies between, the *Fiscal Strategy Report*, the *Budget Policy Statement* and the previous year's *Fiscal Strategy Report*.

Budget Economic and Fiscal Update

The *Update* includes Treasury's overall economic forecasts and the forecast financial statements of the Government, along with the implications of Government financial decisions and other information relevant to the fiscal and economic position.

The Estimates of Appropriations

The *Estimates* outlines for the financial year about to start (the Budget year) expenses and capital expenditure the Government plans to incur on specified areas within each Vote, and capital injections it plans to make to individual departments. The *Estimates* is organised on the basis of 10 sector volumes, with each Vote allocated to one sector. Supporting information in the *Estimates* summarises the new policy initiatives and trend information for each Vote and provides information on what is intended to be achieved with each appropriation in a Vote and how performance against each appropriation will be assessed and reported on after the end of the Budget year.

The Supplementary Estimates of Appropriations and Supporting Information

The *Supplementary Estimates* outlines the additional expenses and capital expenditure required for the financial year about to end. The *Supporting Information* provides reasons for the changes to appropriations during the year, related changes in performance information and certain additional performance information for new appropriations.

NZ Budget App

Smartphone and tablet users can also access the Budget documents through the NZ Budget App. The App is available on the Apple Store for iOS devices and the Google Play store for Android devices or see www.treasury.govt.nz/budget/app

Websites

These documents are available at www.treasury.govt.nz and www.budget.govt.nz

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Other Information

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

Additional *Budget Update* information includes:

- Detailed economic forecast information – tables providing breakdowns of the economic forecasts.
- Treasury and Inland Revenue tax forecasts – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- Tax policy changes – an analysis of the effect of changes in tax policy on forecasts for tax revenue since the *Half Year Update.*
- Additional fiscal indicators – estimates of the cyclically-adjusted balance and fiscal impulse.
- Government Finance Statistics (GFS) for central government – fiscal tables presented under a GFS presentation framework to help with cross-country comparisons.
- Accounting policies – outline of the specific Crown accounting policies. The published forecast financial statements only provide a summary.

This other information can be accessed at:

http://www.treasury.govt.nz/budget/forecasts/befu2014

Statement of Responsibility

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in supplying the Minister of Finance with this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications both of Government decisions and other circumstances as at 29 April 2014 that were communicated to me by the Minister of Finance in accordance with the requirements of the Public Finance Act 1989 and of other economic and fiscal information available to the Treasury as at 29 April 2014. This *Update* does not incorporate any decisions, circumstances, or statements that the Minister of Finance has determined, in accordance with the Public Finance Act 1989, should not be incorporated in this *Update*.

Gabriel Makhlouf
Secretary to the Treasury

6 May 2014

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured the Secretary to the Treasury has been advised, in accordance with the requirements of the Public Finance Act 1989, of all Government decisions and other circumstances as at 29 April 2014 of which I was aware and that had material economic or fiscal implications.

I accept responsibility for the integrity of the disclosures contained in the *Update* and responsibility for the consistency and completeness of the *Update* information with the requirements of Fiscal Responsibility in the Public Finance Act 1989.

Hon Bill English
Minister of Finance

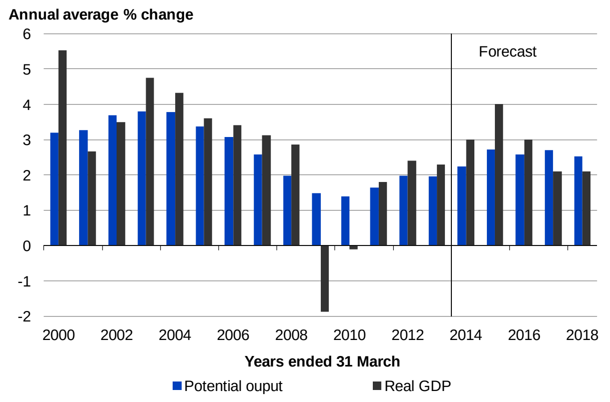
6 May 2014

Executive Summary

- The economy is entering its fourth year of expansion with real gross domestic product (GDP) estimated to be currently growing at around a 4% annualised pace. Employment is increasing and both annual Consumers Price Index (CPI) inflation and the current account deficit are low at present. Growth has become more broad-based, although it is still dominated by domestic demand.

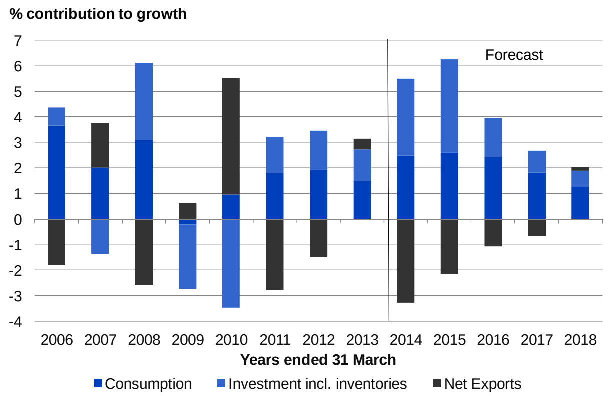
- Following estimated real GDP growth of 3.0% in the year to March 2014, 4.0% growth is forecast this March year, 3.0% in the year to March 2016, then easing to around 2% in the last two years of the forecast period. Over the five years to March 2018, real GDP growth averages 2.8%, a little above the Treasury's estimate of potential output growth over this period. The latter is forecast to increase from a low of around 1.5% during the recession to around 2.6% on average over the forecast period, as a result of lower unemployment, strong growth in the working-age population and a rebound in trend productivity growth on the back of higher investment.

Figure 1 – Real GDP and potential output growth



Sources: Statistics New Zealand, the Treasury

Figure 2 – Contributions to real GDP growth



Sources: Statistics New Zealand, the Treasury

- The Canterbury rebuild, near record-high terms of trade, strong net migration and stimulatory monetary policy settings are all contributing to robust household and firm spending, while fiscal policy and the elevated exchange rate are providing some offset. Real private spending growth is forecast to accelerate to nearly 7% during the year ahead, supported by higher income growth and asset prices, application of insurance payouts and high consumer and business confidence. Credit growth is increasing but remains moderate.

- Looking forward, the strength of some of the positive influences on GDP growth are expected to moderate, including monetary policy moving to a more neutral stance in response to emerging inflationary pressures. The latter reflects the expectation that the economy will be operating at or above capacity over much of the forecast period. Further increases in the Official Cash Rate (OCR) are expected, leading to a gradual but steady increase in short-term interest rates through 2014 and 2015, the precise pace depending on how inflation pressures evolve.

- The global backdrop to these forecasts is steady, but uneven, economic growth, notwithstanding stronger growth in advanced economies. Trading partner growth is likely to be similar to that recorded in the mid-2000s with moderate inflation. Risks overall remain skewed to the downside.

- Global financial conditions continue to be very accommodating. While the US Federal Reserve has begun to reduce its asset purchases, so-called "tapering", it is likely to be some time yet before central banks in the major advanced economies begin to increase their policy interest rates.

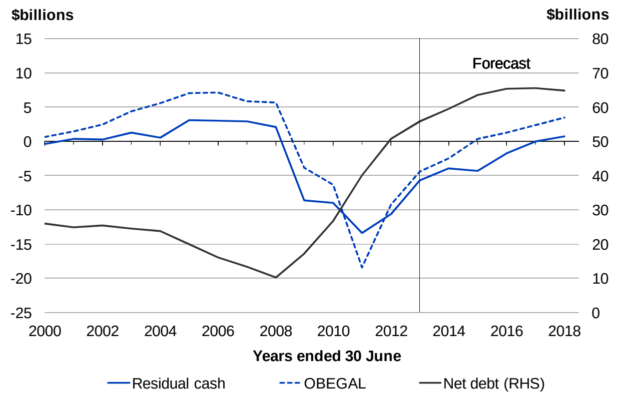
- The unemployment rate is forecast to decline to below 5%, annual CPI inflation to move back to around the middle of the 1% to 3% target band and the current account deficit to increase to over 6% of GDP by the end of the 2017/18 forecast period. Growth in imports, partly associated with strong investment growth, means net exports make a negative contribution to GDP growth over the first three years of the forecast period.

- Fiscal policy restraint and the high exchange rate imply interest rates are lower than would otherwise be the case. The recent application of Loan-to-Value Ratios (LVRs) is also reducing the amount of work monetary policy needs to do over the short term. In the absence of these downward forces, the impetus to demand from the Canterbury rebuild and the high terms of the trade would have likely forced interest rates to rise earlier and by more.

- The operating balance before gains and losses (OBEGAL) is forecast to move from a deficit of $2.4 billion this fiscal year to a surplus of $0.4 billion in the year ending June 2015, and to $3.5 billion in the year ending June 2018. Net core Crown debt is forecast to peak at $65.5 billion in June 2017 from $59.4 billion in June 2014.

- Budget 2014 incorporates net new operating initiatives of $1 billion per annum on average over the next four years. The indicative operating allowance for Budget 2015 and beyond is $1.5 billion per annum, growing at 2% per Budget. Increasing tax receipts mean core Crown operating cash flows are forecast to return to surplus in the year ending June 2015. When combined with net capital spending, core Crown residual cash returns to surplus in the year ending June 2018 (one year later than forecast in the *Half Year Update* of December 2013). This includes $4.7 billion of gross proceeds from completion of the Government Share Offer programme.

Figure 3 – OBEGAL, core Crown residual cash and net core Crown debt



Source: The Treasury

- Following a decline over recent years, the Crown's share of net worth is expected to increase modestly over the forecast period, as the Government begins to record surpluses and the growth in assets outpaces liabilities. Within the balance sheet, financial assets are forecast to increase (particularly the Crown's investment portfolios) to over 50% of total Crown assets and around 50% of GDP. Liabilities begin to fall in nominal terms by the end of the forecast period as earthquake obligations are settled and the Crown begins to pay back debt.

- There is a mix of upside and downside risks, including the size and pace of the Canterbury rebuild, the size and duration of the current upswing in net migration, the path of the terms of trade, the path and pass-through of the exchange rate and the saving behaviour of households, particularly in light of current house price increases.

- The *Budget Update* contains two alternative scenarios to illustrate how the economy could evolve if some of the judgements underpinning the main forecasts turn out differently. One scenario maps out a stronger net migration driven cycle, while the other shows the impact of a larger fall in the terms of trade.

- In addition to the fiscal impact of changes to economic activity, the Government is exposed to other fiscal risks that could impact both the operating balance and the balance sheet. For example, the Crown's financial position is susceptible to market movements in variables such as interest rates, exchange rates and equity prices. The final fiscal cost of the Canterbury earthquakes is also still uncertain. There are also a number of contingent liabilities and fiscal risks outlined in the Specific Fiscal Risks chapter.

Table 1 – Summary of the Treasury's main economic and fiscal forecasts

	2013 Actual	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
Economic (March years, %)						
Economic growth[1]	2.3	3.0	4.0	3.0	2.1	2.1
Unemployment rate[2]	6.2	5.9	5.4	5.1	4.8	4.4
CPI inflation[3]	0.9	1.5	1.8	2.5	2.3	2.0
Current account balance[4]	-3.9	-3.1	-4.4	-5.9	-6.2	-6.3
Fiscal (June years, % of GDP)						
Total Crown OBEGAL[5]	-2.1	-1.1	0.2	0.5	0.9	1.3
Net debt[6]	26.2	25.8	26.4	25.9	24.9	23.8

Notes: 1 Real production GDP, annual average percentage change
2 Percent of labour force, March quarter, seasonally adjusted
3 CPI, annual percentage change, outturn for March 2014
4 % of GDP
5 Total Crown operating balance before gains and losses (OBEGAL)
6 Net core Crown debt excluding the New Zealand Superannuation Fund and advances

Sources: Statistics New Zealand, the Treasury

Finalisation Dates for the Update

Economic data	16 April 2014
Economic forecasts	17 April 2014
Tax revenue forecasts	22 April 2014
Fiscal forecasts	29 April 2014
Specific fiscal risks	29 April 2014
Text finalised	7 May 2014

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Economic Outlook

Overview

- The pace of expansion in economic activity quickened and broadened over the second half of 2013. This trend is likely to have continued in 2014. Over the second half of 2013, agricultural production recovered from the drought earlier in the year and exports rose strongly; business confidence increased and investment in capital goods accelerated; and economy-wide employment rose sharply, supporting growth in household incomes.

- Household and business incomes have been further boosted by high prices for New Zealand's export commodities, which have underpinned record high levels in the terms of trade. The rise in incomes has been reflected in faster growth in private consumption expenditure and in market investment. Low interest rates, the Canterbury rebuild and strengthening net migration inflows are also adding to domestic demand.

- Growth in demand has reduced spare capacity in the economy and consumer price inflation has increased, particularly for non-tradable goods and services. Prices in the tradable sector have continued to fall, reflecting weak import prices and the ongoing appreciation of the exchange rate, and have helped keep overall inflation moderate. At the same time, the high exchange rate is reducing the price competitiveness of firms in the tradable sector, and restraints on high loan-to-value mortgage lending are reducing the impact of low interest rates on parts of the economy.

- Growth in New Zealand's major trading partners is gaining momentum, supported by expansionary monetary policy. However, inflation is low in many countries, public and private debt is high and financial stability risks, while reduced, remain a threat to the recovery. Internationally, monetary policy accommodation is expected to remain in place for some time.

- Domestically, the pace of expansion in the economy is expected to quicken to 4.0% over the next year and employment is forecast to increase by 3.0%. The relatively positive growth outlook and the accompanying inflationary pressures have led the Reserve Bank to begin returning interest rates to more neutral settings. Short-term interest rates are forecast to rise to 4.3% in the March 2015 quarter and to 4.8% a year later, and consumer price inflation is expected to peak at around 2.5% in mid-2016 and to ease to 2.0% in early 2018.

- Expectations of widening interest rate differentials are providing support for the current high level of the New Zealand dollar. The trade-weighted exchange rate is assumed to remain elevated throughout the forecast period, which slows growth in the tradables sector and contributes to a widening of the current account deficit.

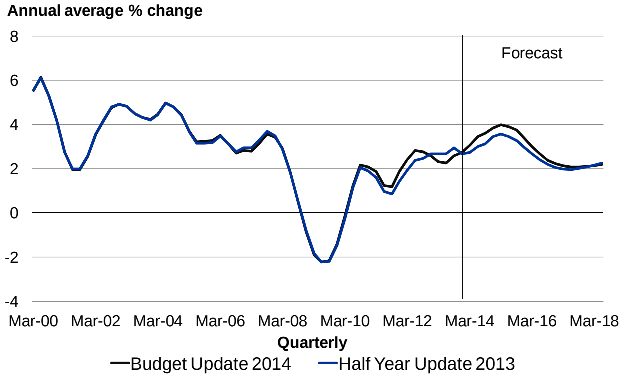
- Beyond 2015, tighter monetary conditions, combined with a decline in the terms of trade and slowing net migration inflows, contribute to a period of more moderate growth that enables inflation to stabilise and the exchange rate to depreciate. Nonetheless, the exchange rate remains high at the end of the forecast period and continues to constrain export growth, while import demand continues to be supported by the Canterbury rebuild. This is reflected in a current account deficit of 6.3% of GDP in 2018.

Economic Outlook

Higher terms of trade and increased net migration inflows provide a temporary boost...

The terms of trade (the price of exports relative to imports) have risen to 40-year highs, leading to an increase in national income and purchasing power. These gains are reflected in increased consumer spending and business investment. Higher net migration inflows are also adding to demand. As a consequence, the near-term growth outlook is slightly stronger than forecast in the *Half Year Update* (Figure 1.1). However, recent gains in the terms of trade and net migration are expected to be temporary.

Figure 1.1 – Real GDP growth



Sources: Statistics New Zealand, the Treasury

Rising dairy export prices have been a major contributor to the higher terms of trade but, more recently, dairy prices have moved lower and further falls are anticipated as global supply increases. Demand from Asia, and China in particular, is expected to remain strong and to provide support for historically high prices over the medium term. Prices for many other export commodities are also at high levels but, like the market for dairy products, increases in supply are expected to result in lower prices over the next 12 to 18 months.

Overall, the terms of trade are projected to decline by about 9% over the next year but to remain at a high level over the medium term. This is a small decline relative to many of those experienced over the past 40 years and the historical experience suggests that the terms of trade will, in all likelihood, be much more volatile than projected. Nonetheless, over the medium term the terms of trade are expected to settle at a level that is well above their long-run trend (see Box on the outlook for the terms of trade on page 13). The Risks and Scenarios chapter explores the likely effects of a large and sustained fall in the terms of trade.

Table 1.1 – Economic forecasts[1]

(Annual average % change, March years)	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Private consumption	2.6	3.6	4.1	3.6	2.4	1.6
Public consumption	-0.6	1.4	0.0	1.2	1.9	1.6
Total consumption	**1.9**	**3.1**	**3.3**	**3.1**	**2.3**	**1.6**
Residential investment	19.4	14.5	22.6	10.8	1.6	0.1
Market investment	4.9	11.3	9.6	4.3	3.8	2.8
Non-market investment	-9.9	1.6	2.7	2.4	2.4	2.4
Total investment	**7.3**	**11.8**	**13.6**	**5.7**	**3.5**	**2.4**
Stock change[2]	-0.4	0.2	0.2	-0.1	-0.2	-0.1
Gross national expenditure	**2.3**	**5.2**	**6.3**	**3.7**	**2.5**	**1.7**
Exports	2.6	-0.7	1.4	2.1	2.7	2.6
Imports	1.2	8.2	6.6	4.4	3.7	1.6
GDP (expenditure measure)	**2.6**	**2.5**	**3.9**	**3.0**	**2.1**	**2.1**
GDP (production measure)	**2.3**	**3.0**	**4.0**	**3.0**	**2.1**	**2.1**
Real GDP per capita	1.6	2.0	2.2	1.7	1.1	1.2
Nominal GDP (expenditure measure)	2.2	6.7	5.7	4.3	4.5	3.7
GDP deflator	-0.5	4.1	1.7	1.3	2.3	1.6
Output gap (% deviation, March year avg)[3]	-1.2	-0.4	0.8	1.2	0.6	0.2
Employment	0.3	2.4	3.0	1.8	1.3	1.2
Unemployment rate[4]	6.2	5.9	5.4	5.1	4.8	4.4
Participation rate[5]	67.9	69.0	69.3	69.2	69.1	69.0
Nominal wages[6]	2.1	3.0	2.7	3.1	3.5	3.5
CPI inflation[7]	0.9	1.5	1.8	2.5	2.3	2.0
Terms of trade[8]	-5.9	13.2	1.6	-4.9	0.9	0.2
House prices[9]	7.6	8.0	7.3	4.3	2.5	2.4
Current account balance						
$billion	-8.3	-7.0	-10.4	-14.6	-16.0	-17.1
% of GDP	-3.9	-3.1	-4.4	-5.9	-6.2	-6.3
Net international investment position						
% of GDP	-71.4	-65.9	-66.7	-69.8	-73.0	-76.6
TWI[10]	75.9	78.7	78.6	78.4	76.9	73.2
90-day bank bill rate[10]	2.7	3.0	4.3	4.8	4.9	5.3
10-year bond rate[10]	3.7	4.6	4.8	5.0	5.1	5.2

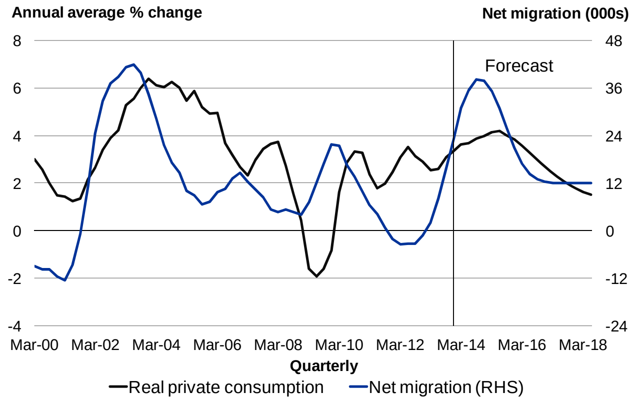
Notes: 1 Forecasts finalised 17 April 2014.
2 Contribution to GDP growth.
3 Estimated as the percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, March quarter, seasonally adjusted.
5 Percent of the working-age population, March quarter, seasonally adjusted.
6 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change.
7 Annual percentage change.
8 System of National Accounts (SNA) and merchandise basis, annual average percentage change.
9 QVNZ House Price Index, annual percentage change.
10 Average for the March quarter. CPI, TWI and interest rates are actuals for 2014.

Longer time series for these variables are provided on page 132.

Net permanent and long-term migration inflows have continued to rise in recent months, increasing the population and adding to demand in the housing market and to private consumption demand more broadly (Figure 1.2). Net inflows reached nearly 32,000 in the 12 months to March 2014, almost double the inflow at the time of the *Half Year Update*, and have contributed to a doubling in annual population growth over the past 18 months.

Much of the rise in net migration inflows is accounted for by fewer departures, mostly to Australia, reflecting the relatively positive outlook for employment growth in New Zealand. Arrivals from Australia have also strengthened, driven by returning New Zealanders. Annual net migration is expected to increase further, to around 38,000 later this year, before declining gradually to its long-run average inflow of 12,000 per year. However, like the terms of trade, movements in net migration are hard to predict and can change rapidly. The implications of a greater increase in net inflows are discussed in the Risks and Scenarios chapter.

Figure 1.2 – Private consumption and net migration



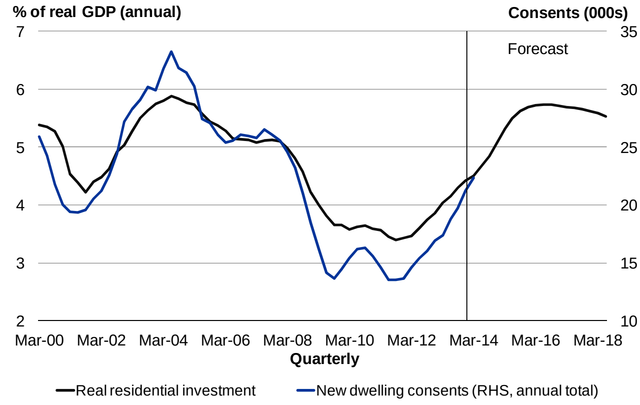
Sources: Statistics New Zealand, the Treasury

...while the Canterbury rebuild has a longer-lasting impact

The Canterbury rebuild is expected to provide significant impetus to demand over the forecast horizon and beyond, chiefly through additional residential and business investment, but also through related consumption spending on consumer durables. Reconstruction investment is estimated to total around $40 billion, with around half of this expenditure expected to have taken place by the end of the forecast period in mid-2018. Construction activity is also expected to increase elsewhere, particularly in the Auckland area where there is a shortage of housing.

Construction activity rose strongly over the first half of 2013 and continued at a high level over the remainder of the year. The number and value of residential building consents has continued to trend upward in recent months, indicating a strong pipeline of activity ahead (Figure 1.3). Employment in the industry has continued to expand and the labour market has tightened, particularly in Canterbury, where unemployment has fallen to low levels. Construction costs in the Consumers Price Index (CPI) have increased and are likely to increase further as capacity pressures become more acute, underpinning non-tradables inflation in coming years. While these costs are assumed to have limited implications for other industries, the risk of stronger cost pressures remains high.

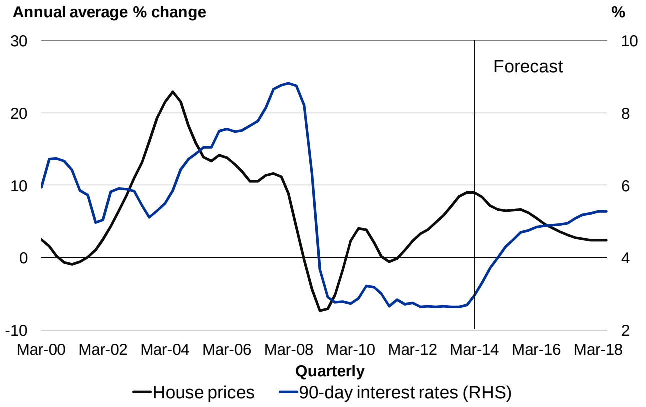
Figure 1.3 – Real residential investment



Sources: Statistics New Zealand, the Treasury

House prices rose 9% in the year ending December, although the rate of increase has eased in recent months, likely reflecting loan-to-value restrictions on mortgage lending imposed by the Reserve Bank on 1 October 2013, as well as higher mortgage interest rates. Further interest rate rises are projected and house price inflation is expected to ease further (Figure 1.4). In these forecasts, short-term interest rates rise to 4.8% by the March quarter 2016, up from 3.0% in the March quarter 2014, a little faster than projected in the *Half Year Update*, reflecting stronger growth.

Figure 1.4 –House prices and interest rates

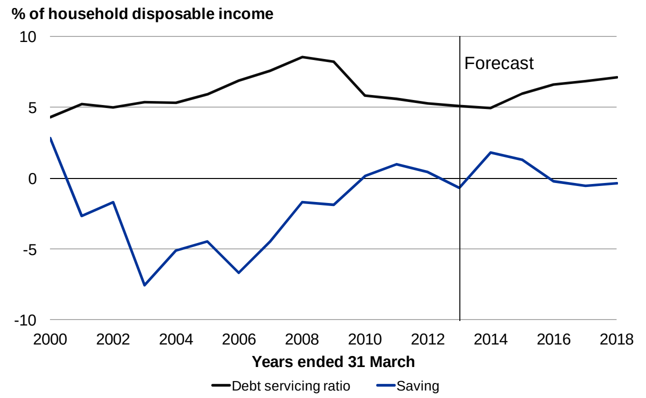


Sources: Quotable Value, Reserve Bank, the Treasury

Projected interest rate increases flow through to higher household debt servicing expenses (Figure 1.5), which constrains the rate of growth of consumption demand and the demand for housing assets. Although interest rates are projected to rise, the timing and extent of future increases are uncertain; for example, interest rates may not rise as quickly as forecast if the terms of trade fall more sharply than expected (as in the Risks and Scenarios chapter).

Household debt has declined from its earlier peak as a share of household income, but remains elevated. These forecasts assume that some of the income gains from the rise in the terms of trade are saved (Figure 1.5), but the response of consumers to increased income is uncertain. There is a risk that, rather than increase their saving, households may instead prefer to increase their debt levels to fund the purchase of houses or the consumption of other goods and services and, as a consequence, house price inflation and domestic demand pressures do not ease as anticipated. The implications of stronger private consumption are modelled in the Risks and Scenarios chapter.

Figure 1.5 – Household saving and debt servicing



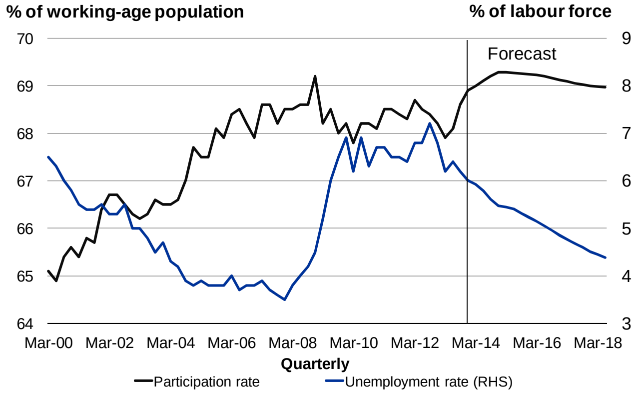
Sources: Statistics New Zealand, the Treasury

Private consumption expenditure is supported by a stronger labour market...

Growth in private consumption is supported by rising labour income and the terms of trade. Employment growth accelerated over the second half of 2013, reflecting increased demand in the economy and greater confidence in the economic outlook, and the unemployment rate fell to 6.0% (Figure 1.6). With demand continuing to strengthen and confidence remaining high, further gains in employment are anticipated. The unemployment rate is expected to decline to around 5.0% in 2016, underpinned by a labour force participation rate that is assumed to return to its pre-recession peak in coming quarters and to remain at an historically high level. The higher labour force participation rate, coupled with rising net migration inflows, partly offsets the impact of stronger labour demand and results in only a gradual increase in wage growth.

Similarly, although rising net migration adds to demand pressures in the short-run, in the medium term it increases the productive capacity of the economy. This increase is reflected in potential GDP growth, which expands at an average rate of 2.6% per year over the forecast period, slightly higher than in the *Half Year Update*.

Figure 1.6 – Labour market



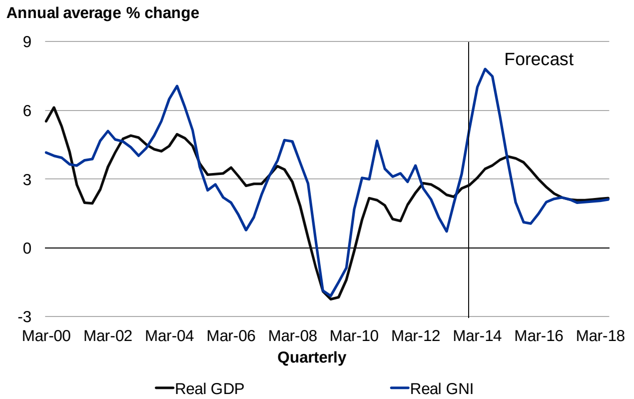
Sources: Statistics New Zealand, the Treasury

Over the year ahead, employment is expected to grow 3.0% and to be the primary factor contributing to increased output. From the year ending March 2015 onward, growth in the capital stock, which partly reflects the Canterbury rebuild, makes the largest factor contribution to increases in output. These trends are reflected in above-average labour productivity growth over the March years ending 2013 to 2016 when output growth is strongest, but slower productivity growth thereafter as output growth slows. As a consequence, the forecast pickup in GDP per capita growth to over 2.0% per year in 2014 is expected to subside by 2016, and to average around 1.7% over the forecast period, a little above its post-2000 average.

...and higher real incomes

Increases in the terms of trade, which measure the prices of goods and services New Zealand exports relative to those it imports, mean that the purchasing power of New Zealand residents has improved. The terms of trade effects are not captured directly by the measures of real GDP, which measures production, but are included in real gross national income (GNI). The recent rise in the terms of trade has caused a significant divergence between the movements of real GDP and real GNI; that is, real incomes are increasing faster than real output or GDP (Figure 1.7). Although real income growth slows as the terms of trade ease, the ongoing high level of the terms of trade means that real incomes also remain high. Some of these income flows will be required to meet increased depreciation as the capital stock expands, but a large proportion of the gains from the terms of trade are likely to be available to support domestic consumption.

Figure 1.7 – Real income and real output



Sources: Statistics New Zealand, the Treasury

Outlook for New Zealand's Terms of Trade

Until the late 1980s, New Zealand's terms of trade appeared to be on a downward trend. This was considered a serious issue for the economy and was often explained in terms of a long-term decline in commodity prices relative to manufacturing prices.[1] The trend decline in the terms of trade appears to have stopped in the late 1980s, followed by a period of stability in the 1990s and an upward trend from around 2000.

One of the main factors responsible for this change is the entry of China into the world economy, increasing the demand for commodities and contributing to falling prices for manufactured goods. This combination has resulted in a rise in New Zealand's terms of trade over the past 10-15 years (Figure 1.8).

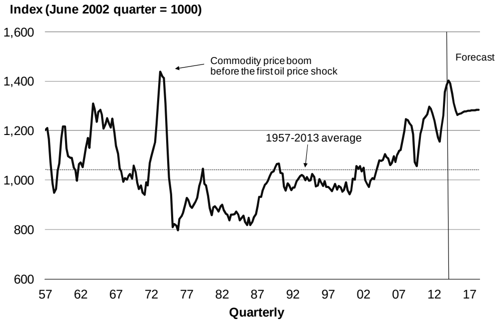
The terms of trade are an important influence on New Zealand's nominal GDP which in turn is a key driver of tax revenue. Higher export prices flow through directly to the tradables sector and indirectly to the rest of the economy.

An elevated outlook for the terms of trade has been one of the key features of recent Treasury forecasts. The headline merchandise terms of trade reached a fresh 40-year high in the December 2013 quarter and were only 3.5% short of their 1973 high.[2] The terms of trade are expected to fall over the second half of 2014 as high dairy prices drive increases in global production. This is expected to reduce global prices and to lower returns to New Zealand producers.

Nonetheless, rising demand from China and other emerging economies is expected to support demand for our commodity exports, and to underpin the terms of trade, into the medium term as total world production is unable to keep pace. In the 2014 *Budget Update*, the merchandise terms of trade are assumed to remain around 25% higher than their 50-year average.

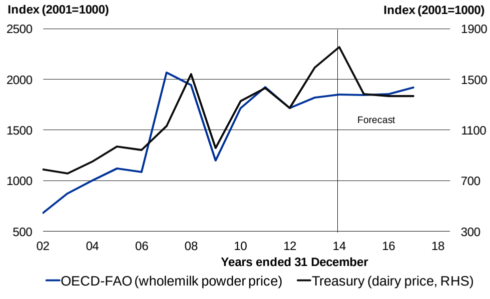
The Treasury's forecasts are supported by international research, particularly with regard to dairy prices, which the OECD-FAO expects to remain high in real terms for the next decade (Figure 1.9). The Risks and Scenarios chapter contains a scenario based on a greater fall in the terms of trade that is maintained at a lower level over the medium term.

Figure 1.8 – Merchandise terms of trade



Sources: Statistics New Zealand, the Treasury

Figure 1.9 – Forecasts of dairy prices



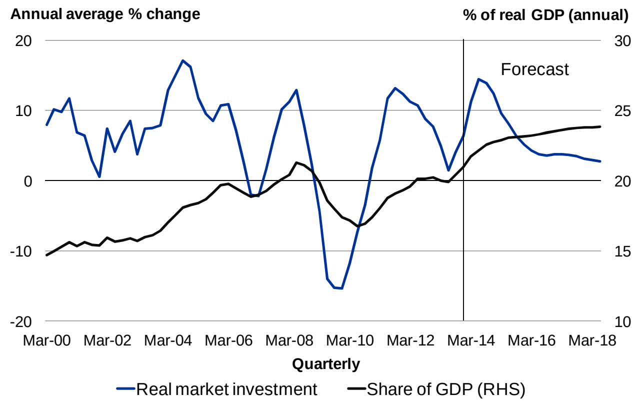
Sources: OECD-FAO, the Treasury

1 For further discussion see Borkin, P, Past, Present and Future Developments in New Zealand's Terms of Trade, New Zealand Treasury Working Paper 06/09.

2 Note that there are methodological differences between the headline measure of the terms of trade and the SNA-based series that the Treasury forecasts.

Market investment has accelerated...

Figure 1.10 – Investment demand

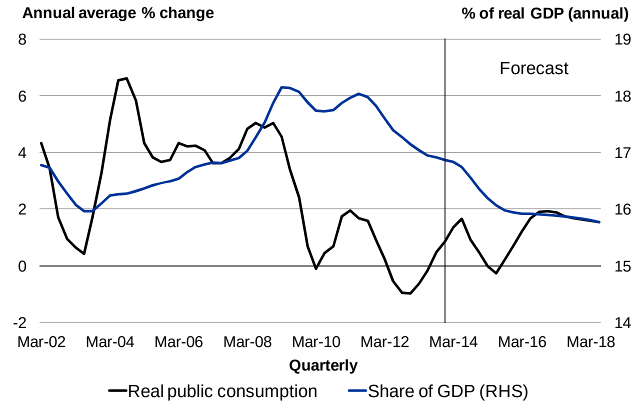


Sources: Statistics New Zealand, the Treasury

The current environment of low interest rates, positive business sentiment and an elevated exchange rate (which makes imported capital goods cheaper) has supported a marked acceleration in investment in plant, machinery and equipment, which comprises about half of market investment. These supportive factors are expected to continue to drive investment growth over the next year or so (Figure 1.10). Thereafter, the influence of tighter monetary policy and the gradual decline of the exchange rate lead to slower investment growth. Furthermore, increases in demand from the Canterbury rebuild are expected to fade over 2015 as construction activity reaches its peak and continues at a high level for a number of years beyond the end of the forecast period in 2018.

...but fiscal policy remains tight

Figure 1.11 – Public consumption



Sources: Statistics New Zealand, the Treasury

The Government's fiscal objectives of achieving an operating balance surplus in the year ending June 2015 and then reducing debt are consistent with moderate growth in real government consumption over the forecast period (Figure 1.11). The increased operating allowances announced in the Budget are assumed to result in higher government consumption expenditure. The composition of spending will be revisited when government policy decisions are confirmed in future Budgets, that is, the operating allowances may be used for either higher spending or revenue reductions (see the 2014 *Fiscal Strategy Report*).

Despite the increased allowances, government consumption is forecast to continue to decline as a proportion of GDP and the fiscal impulse or stimulus to the economy maintains its contractionary trend. That is, the net impact of the Government's spending, taxation and borrowing programmes is to reduce the share of the economy's productive resources it utilises, which enables other sectors of the economy to expand more vigorously.

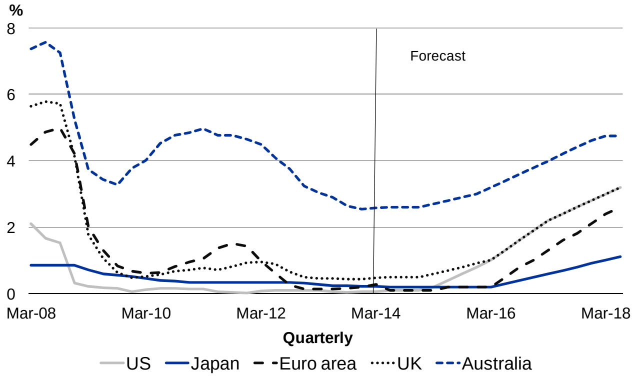
Trading partner growth is supporting export demand...

Economic growth in our major trading partners has been slightly higher than anticipated in the *Half Year Update* for most of the advanced economies, and the UK and US in particular; Japan and some of the emerging Asian economies underperformed relative to the forecasts.

The trend in world growth forecasts since late last year is for improvement in most advanced economies as their recoveries take hold, but some downgrades for emerging economies as capacity constraints, structural issues and tighter financial conditions, driven by greater investor concerns about vulnerabilities, affect their outlook. Inflation in the major advanced economies has remained subdued and the period of low interest rates is likely to be sustained for some time (Figure 1.12).

In the US, adverse winter weather has likely contributed to a period of slower growth, but a return to the moderate growth evident at the end of 2013 is expected. The labour market has continued to strengthen, albeit at a somewhat slower pace in recent months, and the unemployment rate has fallen to 6.3%. Ongoing monetary stimulus and slowing fiscal consolidation are expected to support growth of around 3% per year over the forecast period. A prolonged period of low interest rates and supportive monetary policy is also expected for the euro area and Japan.

Figure 1.12 – Short-term interest rates in advanced economies

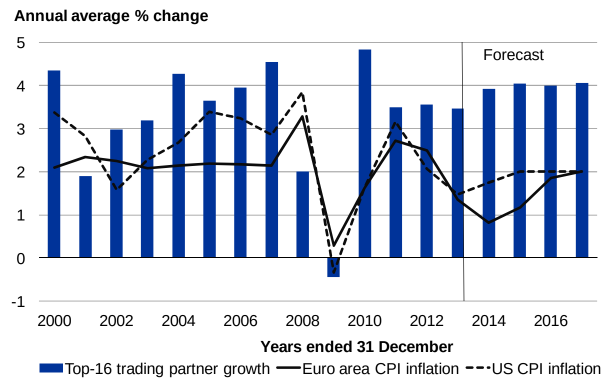


Sources: Haver, the Treasury

Growth in the Australian economy continues to reflect the rebalancing of activity from mining investment to exports and to other sectors. This transition has been accompanied by slower growth in 2013, but there are signs that demand is picking up, supported by low interest rates and strong demand in the housing market. However, the labour market remains subdued and the unemployment rate has been little changed over the past year, averaging around 5.8%. Growth is expected to remain below average for the next two years or so.

In China, growth also appears to have eased early in 2014, but is expected to recover, partly reflecting additional fiscal support. Over the medium term, growth is expected to moderate to around 7.0% as more restrained rates of credit growth and the impacts of reforms to promote a transition to a more balanced and sustainable growth path take effect. Although growth is expected to be more moderate, demand for New Zealand's export commodities is likely to remain strong as ongoing increases in per capita incomes and changing dietary tastes drive continued increases in protein consumption.

Figure 1.13 – Trading partner growth and inflation in the US and euro area



Sources: Haver, the Treasury

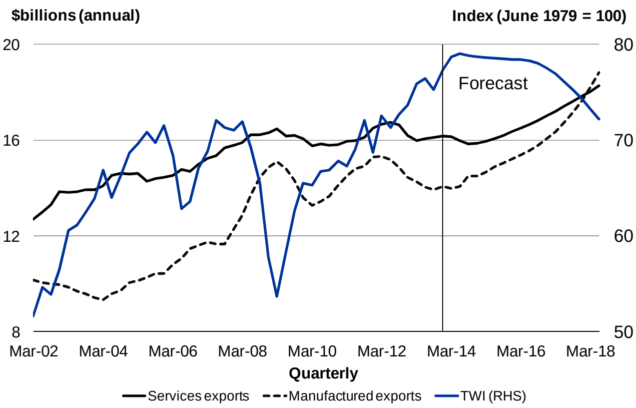
Overall, trading partner growth is expected to increase at a similar pace to that experienced through the mid-2000s (Figure 1.13). Rising demand, particularly in China, will support export growth and underpin strong export prices. Despite the improved outlook, significant downside risks remain. Public debt remains high in many advanced economies and credible medium-term plans to reduce the stock of debt are yet to emerge. Similarly, private and banking-sector debt remains high and credit conditions generally remain weak. In the euro area, the additional challenges of structural reform remain and risks to activity from very low inflation have emerged. The potential for a financial crisis in emerging markets and/or China also poses threats to the outlook. Risks to the global outlook are explored in more detail in the Risks and Scenarios chapter.

...but the high exchange rate is dampening the impact...

Expectations of future interest rate increases, combined with high commodity prices and New Zealand's relatively favourable growth outlook, lifted the trade-weighted index (TWI) to a record high in the March quarter (Figure 1.14).

In the services export sector, which is dominated by tourism, the elevated exchange rate is making New Zealand a more expensive destination for tourists and foreign students who tend to have fixed foreign currency budgets. As a result, the New Zealand dollar value of export receipts for travel services and services exports more broadly has been static over the past year despite a 6% increase in visitor arrivals. The price competitiveness of manufactured goods exports is also reduced when the exchange rate appreciates, and export receipts in this sector have fallen over the past year. Trading conditions are expected to remain challenging in both sectors, although trading partner growth and the assumed depreciation of the exchange rate, particularly after 2016, provide some relief.

Figure 1.14 – Services and manufactured goods exports and the exchange rate

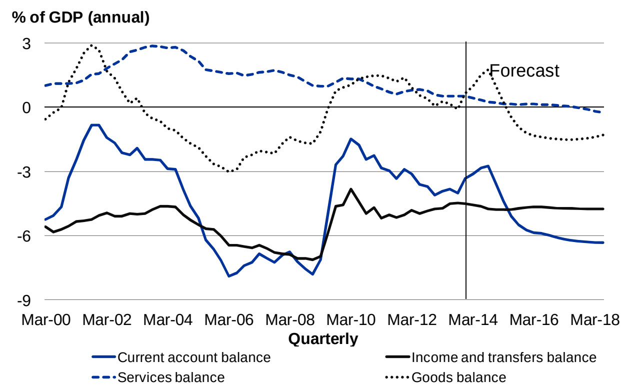


Sources: Statistics New Zealand, the Treasury

...and contributing to a widening current account deficit

In the final quarter of 2013 the strength of commodity export prices, combined with the recovery in dairy production from the earlier drought, increased the trade surplus and narrowed the current account deficit. Further increases in the trade surplus are expected in the near term reflecting ongoing high prices over the March quarter (Figure 1.15). More recently, dairy export prices have fallen and further falls are anticipated, leading to a decline in goods export receipts over the next two years or so. In addition, goods imports are expected to increase as investment and consumption demand continue to grow. As a consequence, the goods surplus is eroded over the year ahead and a widening deficit develops. This widening trend is halted late in the forecast period when the falling exchange rate supports export revenues.

Figure 1.15 – Current account

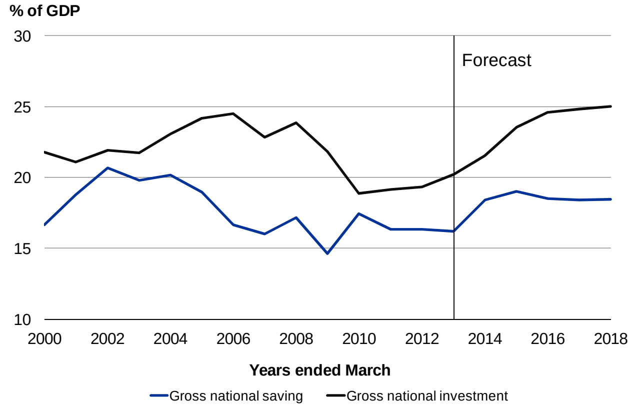


Sources: Statistics New Zealand, the Treasury

The long-term downward trend in the services surplus is forecast to continue, reflecting the depressing effect of the high exchange rate on export volume growth and its positive impact on services imports, which include holidays abroad by New Zealand residents.

Interest rates in the major developed economies are expected to remain on hold over the next year at least, but long-term rates are expected to rise gradually and to drive increases in interest outflows. Dividend outflows are also expected to increase, reflecting improved profitability, and overall the income deficit widens to around $12 billion from around $10 billion in the year ending March 2014. As a share of GDP, the income deficit is broadly stable at around 4.5% of GDP.

Figure 1.16 – Savings and investment



Sources: Statistics New Zealand, the Treasury

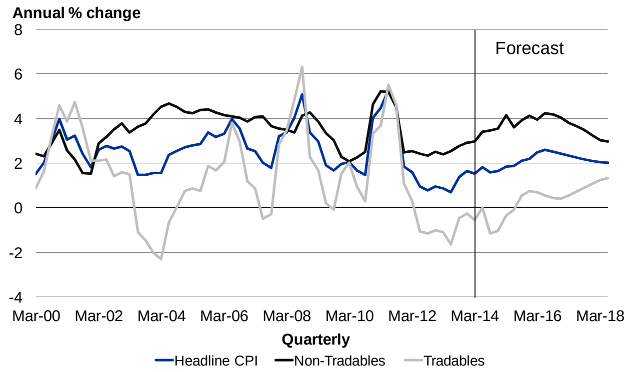
Over the forecast period investment demand rises more rapidly than saving, partly as a result of the Canterbury rebuild, which is reflected in a wider current account deficit (Figure 1.16). However, a large share of the Canterbury rebuild is assumed to be financed by overseas insurance inflows, which means that a proportion of the current account deficit is not generating additional international liabilities. Statistics New Zealand estimates a total of $19 billion of reinsurance claims from all the Canterbury earthquakes, with $13 billion of these claims having been settled.

In summary, the annual current account deficit is forecast to widen to 6.3% of GDP by the end of the forecast period in June 2018 and net international liabilities rise to 77% of GDP from 67% currently. In these forecasts, further depreciation of the exchange rate is required to stabilise the net international liability position.

Domestic sources of inflation are rising...

The strong pace of expansion evident in the economy is reducing spare capacity and contributing to price increases, particularly in non-traded sectors of the economy, including housing and household utilities. Falling tradable prices have provided an offset to rising non-tradable prices with the New Zealand dollar's appreciation, although the pace of falls has eased recently (Figure 1.17). Price pressures are expected to intensify, consistent with business survey measures of pricing intentions and with the expected stabilisation of the New Zealand dollar, which reduces opportunities for further tradable price falls.

Figure 1.17 – Consumer price inflation



Sources: Statistics New Zealand, the Treasury

Overall, headline CPI inflation is forecast to rise to around 2.5% in 2016 and decline gradually thereafter. Increases in tobacco excise taxes are expected to add 0.2 percentage points to annual inflation in each of the March 2015 and 2016 quarters.

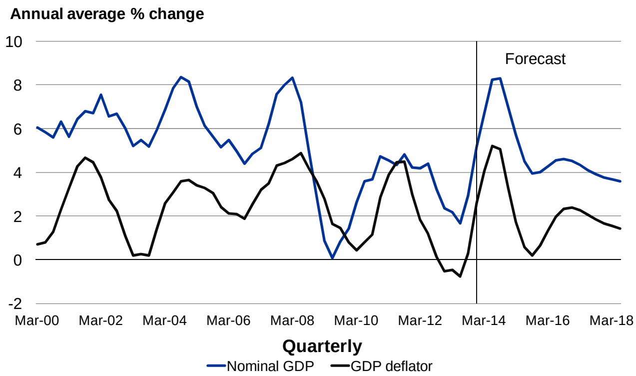
...leading to a withdrawal of monetary stimulus

As mentioned earlier, the Reserve Bank has begun to remove the stimulus to demand imparted by low interest rates. Further increases over the next two years are projected to lift short-term interest rates to around 4.8% from 3.3% currently. The higher interest rates have a direct impact on household disposable incomes through higher interest payments and an indirect impact on business investment demand, both of which result in slower growth. Although 90-day interest rates are expected to be neutral at around 4.8%, further increases may be required to offset the upward price pressure generated by the projected fall in the exchange rate and to keep inflation expectations anchored close to 2%.

Nominal GDP growth accelerates in the near term

The economy-wide price effects of movements in the terms of trade are captured in broad price measures including the GDP deflator, which is increasing sharply (Figure 1.18). With real GDP growth also rising briskly, nominal GDP growth is expected to accelerate to over 8% in the year ending June 2014. As the terms of trade fall later this year, nominal GDP growth slows to 4.5% in the year ending June 2015 and averages a little over 4% for the remainder of the forecast period.

Figure 1.18 – GDP deflator and nominal GDP



Sources: Statistics New Zealand, the Treasury

In the income measure of nominal GDP, which underpins the Treasury's tax revenue forecasts, compensation of employees grows at an average rate of 4.7% per year and remains broadly stable as a share of GDP. The net operating surplus, which drives forecasts of corporate tax, cycles around a more moderate growth rate of 3.8% per year, largely reflecting movements in commodity producer incomes.

Economic Forecast Assumptions

- Net permanent and long-term migration inflows rose to 31,900 in the year ended March 2014, although only data up to the February month (29,000) were available when the *Budget Update* was finalised. Net migrant inflows are forecast to rise to 38,100 in the September 2014 year before returning to the long-run assumption of 12,000 per year in 2017.
- The non-accelerating inflation rate of unemployment (NAIRU) is assumed to be around 4.5% by 2018.
- Average hours worked per week are assumed to decline from their current level of 33.0 to 32.8.
- Economy-wide labour productivity growth is assumed to average 1.3% per year between the years ending March 2014 and March 2018.
- Investment associated with the rebuild following the Canterbury earthquakes is assumed to be around $40 billion in 2011 prices (rounded to the nearest $5 billion), spread across residential property ($18 billion), commercial property ($9 billion) and infrastructure and social assets ($11 billion). Around $18 billion of the total is forecast to be undertaken within the forecast period to June 2018.
- WTI oil prices are assumed to fall from around US$99 per barrel in the March 2014 quarter to around US$81 in the March 2018 quarter, in line with oil futures prices.
- 90-day interest rates are assumed to increase from 3.0% in the March 2014 quarter to 5.3% in the March 2018 quarter and 10-year interest rates to rise from 4.6% in the March 2014 quarter to 5.2% in the March 2018 quarter.
- The TWI is assumed to remain around 79.0 from the June 2014 quarter until late 2016, and then to decline to 72.2 in the June 2018 quarter.
- Tobacco excise tax increases add 0.2 percentage points to annual inflation in each of the March 2015 and 2016 quarters.
- Reduced ACC levy rates will reduce contributions by households and employers by about $400 million in the 2014/15 levy year and around $480 million in the following levy year, with the latter to be finalised following ACC's public consultation.

2

Fiscal Outlook

Overview

Table 2.1 – Fiscal indicators

Year ended 30 June	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
$billions						
Total Crown OBEGAL[1]	(4.4)	(2.4)	0.4	1.3	2.4	3.5
Core Crown residual cash	(5.7)	(3.9)	(4.3)	(1.8)	(0.1)	0.7
Net core Crown debt[2]	55.8	59.4	63.6	65.3	65.5	64.9
Net worth attributable to the Crown	68.1	70.0	73.1	77.3	82.7	89.5
% of GDP						
Total Crown OBEGAL[1]	(2.1)	(1.1)	0.2	0.5	0.9	1.3
Core Crown residual cash	(2.7)	(1.7)	(1.8)	(0.7)	(0.0)	0.3
Net core Crown debt[2]	26.2	25.8	26.4	25.9	24.9	23.8
Net worth attributable to the Crown	32.0	30.4	30.3	30.6	31.5	32.8

Notes: 1 Operating balance before gains and losses.

2 Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances.

Source: The Treasury

- Core Crown tax revenue is expected to increase across the forecast period and by 2017/18 is expected to be $18.9 billion higher than 2012/13, reflecting the growth in the nominal economy, as discussed in the Economic Outlook chapter.
- The 2013/14 tax forecast has been revised downwards owing to weakness in the current year's results to date. However, this weakness is expected to dissipate by 2014/15 owing to higher growth in the drivers of tax revenue that year.
- The Budget 2014 operating allowance averaged $1.0 billion per annum, with the Government's decision to set future allowances at $1.5 billion per annum from Budget 2015 (growing at 2% per annum per Budget). When an increase in social assistance spending is added, core Crown expenses are expected to rise by $11.1 billion by the end of the forecast period. This increase is slower than growth in the nominal economy so by the end of the forecast period core Crown expenses fall to below 30% of GDP.

- These forecasts show that the Government is expected to achieve its fiscal objective of a return to surplus in 2014/15 with an OBEGAL surplus of $0.4 billion. Beyond 2014/15 these surpluses are expected to increase by between $0.9 and $1.1 billion each year and by 2017/18, the OBEGAL surplus is expected to reach $3.5 billion.

- In nominal terms, net core Crown debt increases before falling in 2017/18 as residual cash returns to surplus. As a share of GDP, net core Crown debt declines after 2015, falling to 23.8% by the end of 2017/18.

- The Government Share Offer programme has concluded, with gross proceeds of $4.7 billion available for the Future Investment Fund.

- The Crown's balance sheet continues to strengthen, enabling buffers to be built to sustain government services in the event of future shocks.

- In preparing these fiscal forecasts, key assumptions have been made on the performance of the economy and new operating allowances. As with all assumptions, there is inherent uncertainty and a change in any one assumption could negatively or positively impact the Crown's forecast surpluses and net core Crown debt position. The Risks and Scenarios and the Specific Fiscal Risks chapters outline the key risks to the Crown achieving these forecasts.

Table 2.2 – Reconciliation between OBEGAL and net core Crown debt

Year ending 30 June $billions	**2013 Actual**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
Core Crown revenue	64.1	67.8	72.5	76.9	80.8	84.7
Core Crown expenses	(70.3)	(71.6)	(73.1)	(76.0)	(78.7)	(81.5)
Net surpluses/(deficits) of SOEs and CEs	1.8	1.4	1.0	0.4	0.3	0.3
Total Crown OBEGAL	**(4.4)**	**(2.4)**	**0.4**	**1.3**	**2.4**	**3.5**
Net retained surpluses of SOEs, CEs and NZS Fund	(1.2)	(1.2)	(0.9)	(0.3)	(0.2)	(0.2)
Non-cash items and working capital movements	1.1	1.4	1.6	1.9	2.4	1.7
Net core Crown cash flow from operations	**(4.5)**	**(2.2)**	**1.1**	**2.9**	**4.6**	**5.0**
Net purchase of physical assets	(1.2)	(2.0)	(2.2)	(2.0)	(2.1)	(1.8)
Advances and capital injections	(1.7)	(2.0)	(3.5)	(2.1)	(1.9)	(1.6)
Forecast for future new capital spending	-	-	(0.3)	(0.6)	(0.7)	(0.9)
Proceeds from government share offers	1.7	2.3	0.6	-	-	-
Core Crown residual cash balance	**(5.7)**	**(3.9)**	**(4.3)**	**(1.8)**	**(0.1)**	**0.7**
Opening net core Crown debt	50.7	55.8	59.4	63.6	65.3	65.5
Core Crown residual cash deficit/(surplus)	5.7	3.9	4.3	1.8	0.1	(0.7)
Valuation changes in financial instruments	(0.6)	(0.3)	(0.1)	(0.1)	0.1	0.1
Closing net core Crown debt	**55.8**	**59.4**	**63.6**	**65.3**	**65.5**	**64.9**
As a percentage of GDP	**26.2%**	**25.8%**	**26.4%**	**25.9%**	**24.9%**	**23.8%**

Source: The Treasury

Core Crown Tax Revenue

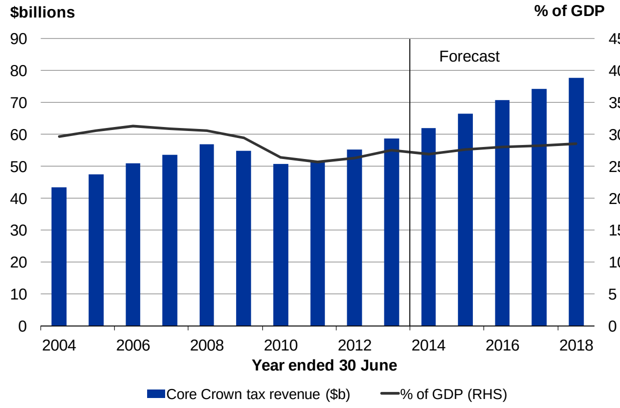
Tax revenue grows by 5.8% per annum on average over the forecast period...

Core Crown tax revenue is forecast to rise in each year of the forecast period, although at a lower rate than previously expected. While tax in the current year is weaker than previously forecast, growth of 5.8% per annum across the forecast period is still expected.

By 2017/18 core Crown tax revenue is expected to reach $77.6 billion, $18.9 billion higher than in 2012/13. Forecast tax revenue increases relative to nominal GDP, reaching 28.5% by the end of the forecast period compared to 27.5% in 2012/13 (Figure 2.1).

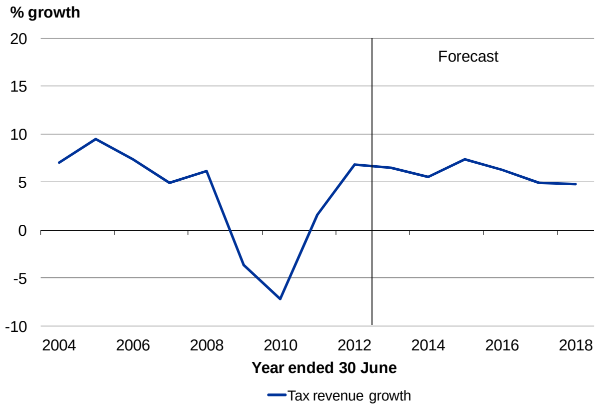
Most of the growth in tax revenue forecasts can be attributed to growth in the nominal economy, with nominal GDP forecast to grow at 5.1% per annum on average over the forecast period. Tax revenue growth increases in 2014/15 before slowing over the remainder of the forecast period as the growth in nominal GDP slows (Figure 2.2).

Figure 2.1 – Core Crown tax revenue



Source: The Treasury

Figure 2.2 – Core Crown tax revenue growth



Source: The Treasury

All tax types are expected to increase across the forecast period, with individuals' source deductions (PAYE) and goods and services tax (GST) showing the most significant growth, as shown in Table 2.3.

Table 2.3 – Growth in core Crown tax revenue over the forecast period by tax type

Year ending 30 June $billions	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**Total**
Movement in core Crown tax owing to:						
Source deductions	1.5	1.4	1.4	1.5	1.7	**7.5**
Other persons tax	0.1	0.4	0.1	0.2	0.1	**0.9**
Corporate tax	0.4	0.5	0.5	0.3	0.3	**2.0**
Residential Withholding Tax (RWT)	-	0.4	0.6	0.4	0.4	**1.8**
Goods and Services Tax (GST)	1.1	1.5	1.1	0.8	0.9	**5.4**
Other taxes	0.1	0.3	0.5	0.3	0.1	**1.3**
Total movement in core Crown tax	**3.2**	**4.5**	**4.2**	**3.5**	**3.5**	**18.9**
Plus: previous year's tax base	58.7	61.9	66.4	70.6	74.1	**58.7**
Core Crown tax revenue	**61.9**	**66.4**	**70.6**	**74.1**	**77.6**	**77.6**
As a % of GDP	**26.8%**	**27.6%**	**28.0%**	**28.2%**	**28.5%**	

Source: The Treasury

Growth in employees' compensation (contributing $6.2 billion to the growth in source deductions and the progressive nature of the personal tax scale (fiscal drag) see source deductions increase by $7.5 billion over the forecast period.

Growth in corporate profits are the main drivers behind corporate tax increasing by $2.0 billion over the forecast period, while growth in private consumption contributes to a $5.4 billion increase in GST.

Increased residential investment continues to contribute to the forecast growth in tax revenue, boosting GST by $1.4 billion by 2017/18 as residential investment is forecast to grow at an average rate of 13.8% per annum. This growth is partly offset by GST refunds to insurers, as a large part of the Canterbury residential rebuild is funded by insurance claims.

The 90-day bank bill interest rate is expected to rise from 2.6% on average in 2012/13 to 5.2% by 2017/18. This rise, together with growth in the interest-bearing deposit base, results in growth in tax on interest earned on residents' savings (RWT) of about $1.8 billion across the forecast period.

Table 2.4 – Composition of growth in core Crown tax revenue over the forecast period

Year ending 30 June **$billions**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**2018** **Forecast**	**Total**
Movement in core Crown tax owing to:						
Employees' compensation	1.4	1.2	1.1	1.2	1.3	**6.2**
Entrepreneurial income	0.5	0.2	0.1	0.2	0.1	**1.1**
Corporate profits	0.9	0.5	0.4	0.4	0.2	**2.4**
Private consumption	0.8	1.1	1.1	0.9	0.7	**4.6**
Residential investment	0.3	0.6	0.3	0.1	0.1	**1.4**
Interest rates	(0.1)	0.2	0.4	0.1	0.1	**0.7**
Fiscal drag	0.2	0.2	0.3	0.3	0.4	**1.4**
Policy changes	-	0.1	0.1	0.1	-	**0.3**
Timing and other factors	(0.8)	0.4	0.4	0.2	0.6	**0.8**
Total movement in core Crown tax	**3.2**	**4.5**	**4.2**	**3.5**	**3.5**	**18.9**
Plus: previous year's tax base	58.7	61.9	66.4	70.6	74.1	**58.7**
Core Crown tax revenue	**61.9**	**66.4**	**70.6**	**74.1**	**77.6**	**77.6**

Source: The Treasury

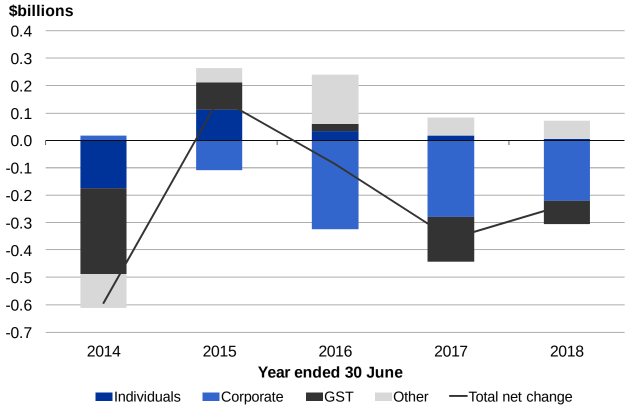
Budget 2014 includes policy changes totalling $0.3 billion across the forecast period. The largest positive changes come from an Inland Revenue initiative targeting unfiled tax returns and a reduction in the duty-free tobacco concession ($0.2 billion each), with other minor changes slightly reducing tax. These policy changes are discussed in further detail in the *Additional Information* document (on the Treasury website).

Although growth in tax revenue is forecast, risks to the forecast tax outturn remain, particularly if the assumptions on the economic outlook do not materialise as expected. The Risks and Scenarios chapter provides further discussion of the risks around tax revenue.

...but is weaker than at the Half Year Update

Overall, tax revenue is $1.1 billion less than the *Half Year Update* across the forecast period, with $0.6 billion relating to the 2013/14 year.

Figure 2.3 – Movement in core Crown tax revenue since the *Half Year Update*



Source: The Treasury

The downward revision in tax revenue in the current year is partly owing to assumptions made at the *Half Year Update* not eventuating – in particular, in individuals' tax, GST and excise duties (eg, higher earthquake-related insurance refunds than previously assumed and strength in excise that was previously assumed to be permanent but is timing-related). The reduction in the current year forecasts of $0.6 billion consists of $0.2 billion for individuals' tax, $0.3 billion for GST and $0.1 billion for other taxes (Figure 2.3).

While the current year's tax take is lower than previously forecast, this weakness is not expected to flow through to 2014/15, as stronger economic growth in that year is expected to boost tax revenues and offset the current year's weakness. Tax policy changes (as discussed above) since the *Half Year Update* also contribute to the increase in tax in 2014/15. However, the forecast for nominal GDP growth from 2015/16 onwards is lower than in the *Half Year Update*, reducing the core Crown tax revenue forecast in those years.

Tax Revenue Relative to GDP: Change Since the *Half Year Update*

Core Crown tax revenue as a percentage of GDP is lower than in the *Half Year Update* for all years of the forecast period. The average reduction across all forecast years is 0.3% of GDP. The largest movement is -0.6% and this occurs in the current year.

Table 2.5 – Drivers of change in core Crown tax revenue relative to GDP

Year ending 30 June **% of GDP**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**2018** **Forecast**
GDP revisions	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Composition of GDP	(0.19)	(0.12)	(0.27)	(0.24)	(0.29)
Other factors	(0.35)	0.02	0.14	(0.02)	0.03
Total change	**(0.60)**	**(0.16)**	**(0.19)**	**(0.32)**	**(0.32)**
Plus 2013 *Half Year Update* forecast	27.43	27.73	28.18	28.50	28.81
2014 *Budget Update* forecast	**26.83**	**27.57**	**27.99**	**28.18**	**28.49**

Source: The Treasury

Since the *Half Year Update*, values of nominal GDP for the recent past have been revised up by Statistics New Zealand (reducing the tax-to-GDP ratio for the year ended 30 June 2013). Since the 2013 year is the base year from which subsequent years' tax revenue is forecast, this has reduced the tax-to-GDP in all forecast years (by around 0.06%). Revisions to nominal GDP occur regularly as Statistics New Zealand updates for new information or incoporate new statistical standards and classifications.

Also, not all components of GDP grow at the same rate as total nominal GDP. Since the various tax bases are taxed at different rates (eg, salaries and wages are taxed at personal tax rates and domestic consumption is taxed at a flat rate of 15%), changes in the composition of GDP will affect the overall tax-to-GDP ratio. This effect is shown in the "Composition of GDP" line in Table 2.5.

There are many other factors that can cause tax revenue to grow at a different rate to GDP, thereby affecting the tax-to-GDP ratio. These might be timing effects that shift tax revenue from one year to another, or changes in tax on income that is not included in GDP (eg, investment income).

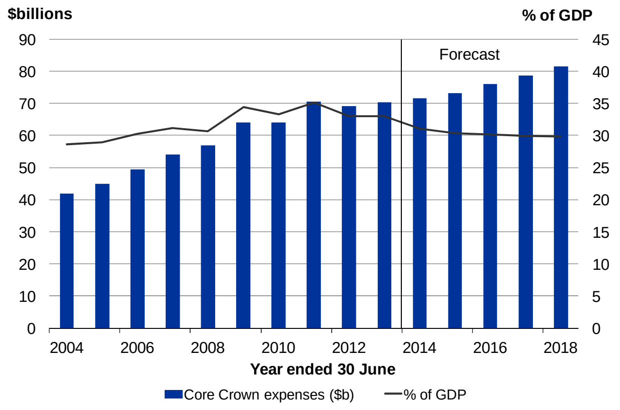
The 2013/14 "Other factors" include changes to the timing of earthquake-related GST refunds, growth in source deductions that is not as strong as underlying economic drivers, and changes to assumptions on tobacco excise.

Core Crown Expenses

Core Crown expenses grow across the forecast period...

Core Crown expenses are expected to increase in nominal terms by $11.1 billion over the forecast period (Figure 2.4). However, as growth in core Crown expenses is forecast to be at a slower rate than growth in the nominal economy, they fall from 33.0% of GDP in 2012/13 to 29.9% of GDP by the end of the forecast period. In 2015/16, core Crown expenses are expected to stand at 30.1% of GDP, consistent with the Government's target of reducing expenses to around 30% of GDP by 2015/16.

Figure 2.4 – Core Crown expenses



Source: The Treasury

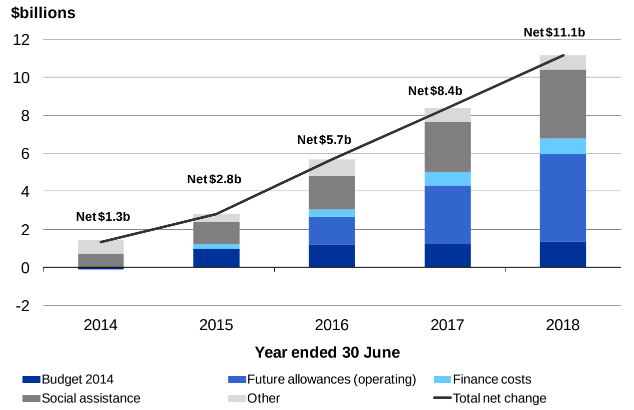
Nominal growth in core Crown expenses is largely attributable to new budget spending, along with increased social assistance spending as shown in Figure 2.5.

Offsetting these increases, core Crown expenses for the Canterbury rebuild decrease over the forecast period as the most significant operating expenses have already been recognised and the Crown moves into more of an investment phase (refer to box on page 34 for details of the profile and phasing of earthquake expenses).

The Budget 2014 package includes an average net spend of $1.0 billion each year (Table 2.6). As a portion of the package relates to revenue initiatives, the gross increase in expenditure averages $1.2 billion.

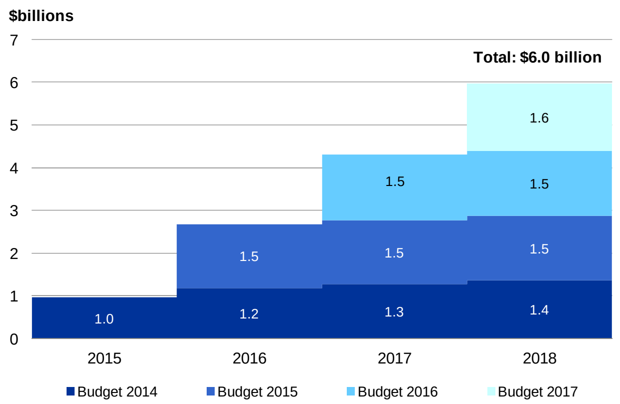
Future operating allowances are $1.5 billion per annum from Budget 2015 (increasing by 2% each Budget thereafter). Without further information on how these will be allocated, these allowances are assumed to flow through as expenses. When combined, new spending reaches $6.0 billion by 2017/18 (Figure 2.6). However, these operating allowances can be used for a combination of both revenue and expense initiatives when allocated.

Figure 2.5 – Increase in core Crown expenses



Source: The Treasury

Figure 2.6 – Budget 2014 and future Budget allowances



Source: The Treasury

The following table summarises the impact of the Budget 2014 package on core Crown revenue and expenses.

Table 2.6 – Summary of changes in revenue and expenses arising from Budget 2014

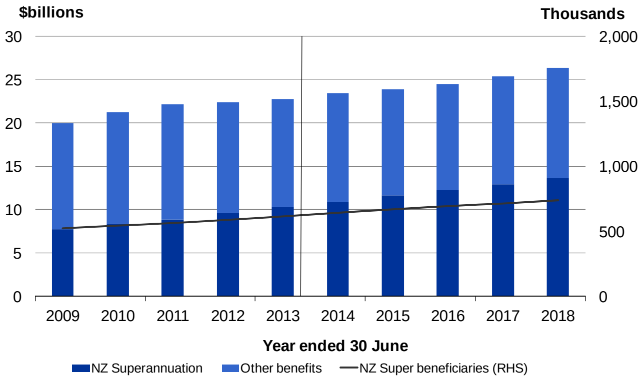
Year ending 30 June $billions	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**4-year Average**
Core Crown revenue	-	0.1	0.2	0.2	0.2	**0.2**
Core Crown expenses	(0.1)	1.0	1.2	1.3	1.4	**1.2**
OBEGAL impact	**(0.1)**	**0.9**	**1.0**	**1.1**	**1.2**	**1.0**
Composition of core Crown expense increase:						
Health	-	0.4	0.5	0.4	0.5	**0.4**
Education	-	0.1	0.2	0.2	0.3	**0.2**
Defence	-	0.1	0.1	0.2	0.2	**0.1**
Social development	-	0.1	0.1	0.1	0.1	**0.1**
Families package	-	0.1	0.1	0.1	0.1	**0.1**
Business Growth Agenda initiatives	-	0.1	0.2	0.1	0.1	**0.1**
Other (including savings)	(0.1)	0.1	-	0.2	0.1	**0.2**
Increase in core Crown expenses	**(0.1)**	**1.0**	**1.2**	**1.3**	**1.4**	**1.2**

Source: The Treasury

Refer to the *Minister's Executive Summary* document for further details of the Budget 2014 package.

Outside new budget spending, social assistance spending is expected to increase by $3.6 billion across the forecast period. New Zealand Superannuation payments (which makes up around half of social assistance costs), grow by $3.4 billion as payments are linked to wage growth and recipient numbers increase (Figure 2.7). Other benefit types also increase marginally over the forecast period.

Figure 2.7 – Social assistance spending



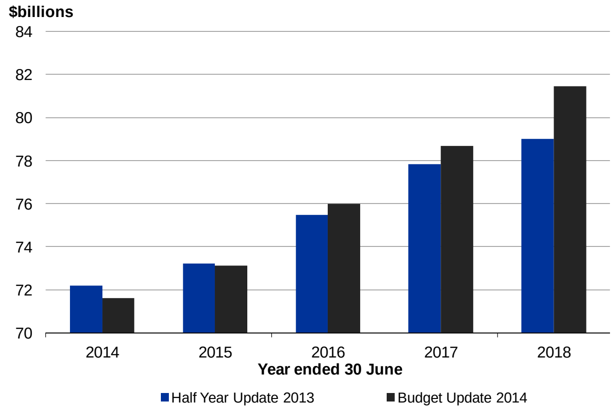
Source: The Treasury

Finance costs increase by $0.8 billion over the forecast period as gross debt continues to increase alongside rising interest rates.

...and have increased since the previous forecasts

While current year's expenses are slightly lower than forecast at the *Half Year Update*, by the end of the forecast period expenses are around $2.4 billion higher than previously expected (Figure 2.8). This increase is largely owing to the Government's decision to increase operating allowances for future Budgets to $1.5 billion, up from $1.0 billion at the *Half Year Update*.

Figure 2.8 – Changes in core Crown expenses since the *Half Year Update*



Source: The Treasury

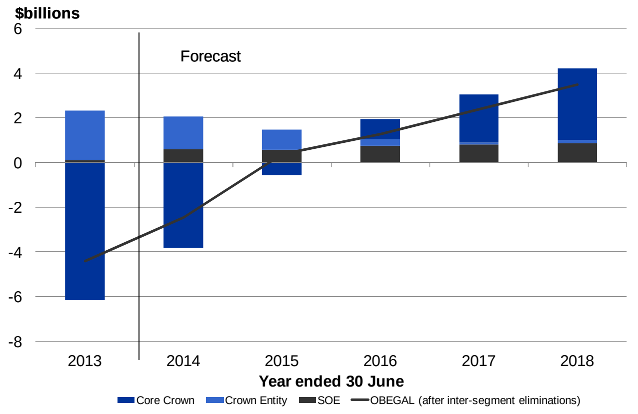
Slightly stronger real growth coupled with the ongoing impact of welfare reform see unemployment-related benefit recipient numbers reduce over the forecast period and associated social assistance expenses fall compared to the *Half Year Update*. Refer Table 2.7 in the Operating Balance section for changes to benefit expenses since the *Half Year Update*.

Operating Balance

The Crown is forecast to return to surplus in 2014/15…

The operating balance before gains and losses (OBEGAL) is expected to return to surplus in 2014/15 with a surplus of $0.4 billion forecast. Beyond 2014/15 surpluses are expected to increase by between $0.9 billion and $1.1 billion per annum.

Figure 2.9 – Components of OBEGAL by segment



Source: The Treasury

Figure 2.9 shows the composition of OBEGAL from the different segments of the Government.

The core Crown segment moves from a forecast OBEGAL deficit of $3.8 billion in 2013/14 to a forecast $3.2 billion surplus by 2017/18, largely reflecting growth in tax revenue.

The State-owned Enterprise (SOE) and Crown entity (CE) segments together contribute $2.1 billion to the OBEGAL surplus in 2013/14, halving to $1.0 billion by the end of the forecast period largely reflecting reductions in ACC levy rates announced in Budget 2013. The SOE segment's contribution stays relatively static across the forecast.

Surpluses are achieved in 2014/15 and continue to increase over the forecast period to a level that translates to being sufficient to fund the Government's capital spending as well as a reduction of debt. Maintaining a level of fiscal restraint while the economy grows will allow surpluses to be built up. These surpluses are important to enable a buffer to be built in the case of future shocks such as a global financial crisis or another large natural disaster.

...although post-2014/15 OBEGAL is lower compared to previous forecasts

OBEGAL is lower in all years with the exception of 2014/15. While lower than what had previously been forecast, nevertheless by the end of the forecast period an OBEGAL surplus of $3.5 billion is expected (Table 2.7).

Table 2.7 – Changes in OBEGAL since the *Half Year Update*

Year ending 30 June $billions	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
OBEGAL – 2013 *Half Year Update*	**(2.3)**	**0.1**	**1.7**	**3.1**	**5.6**
Changes in forecasts:					
Tax revenue	(0.6)	0.1	(0.1)	(0.2)	(0.3)
Budget 2014 package	0.1	0.1	-	(0.1)	(0.2)
Increase in future budget allowances	-	-	(0.5)	(1.0)	(1.5)
Social assistance expenses	-	(0.1)	0.1	0.2	0.1
ACC forecasts	0.1	-	0.1	0.2	0.3
EQC forecasts	0.1	0.2	0.1	-	-
Net finance costs	(0.2)	-	-	(0.1)	(0.2)
Other changes	0.4	-	(0.1)	0.3	(0.3)
Total changes since the *Half Year Update*	(0.1)	0.3	(0.4)	(0.7)	(2.1)
OBEGAL – 2014 *Budget Update*	**(2.4)**	**0.4**	**1.3**	**2.4**	**3.5**

Source: The Treasury

Major changes include:

- Tax revenue is slightly weaker than the *Half Year Update* (refer page 25).
- The Budget 2014 package has a positive impact in the first two years as spending is rephased to later years. The Government has made a number of decisions in Budget 2014 to manage the fiscal impact of spending on the 2014/15 year.
- An increase in new operating allowances from Budget 2015 ($1.5 billion increasing by 2% annually per Budget thereafter) reduces OBEGAL in the later years.
- Social assistance expenses, while higher than previously forecast in 2014/15, are expected to be less than previously forecast largely as a result of the declining number of benefit recipients.
- The positive ACC result largely reflects updated assumptions on the 2015/16 proposed reductions in the Work Account levy (now less than expected). In addition, a reduction in insurance claim expenses is expected, reflecting lower rates of growth in the cost of claims.
- Earthquake Commission (EQC) results are more positive owing to lower forecast insurance expenses after an updated valuation of EQC's insurance liabilities at 31 December 2013.
- Finance costs have increased compared to the *Half Year Update* largely as a result of rising interest costs and higher nominal net core Crown debt than previously forecast.

Operating Balance Indicators

In addition to OBEGAL and the operating balance (both of which are total Crown indicators), other operating indicators are useful in measuring different aspects of performance.

Cyclically Adjusted Balance (CAB)

The underlying nature of OBEGAL can be seen using CAB. This measure adjusts for the state of the economic cycle and significant one-off expenses. Figure 2.10 shows CAB tracking close to OBEGAL in recent years, indicating that the operating deficits between 2009 and 2013 have been largely structural. The projected size of the economy reduced during the recession, implying a smaller tax base while, in contrast, expenses continued to grow.

Government Financial Statistics (GFS)[3]

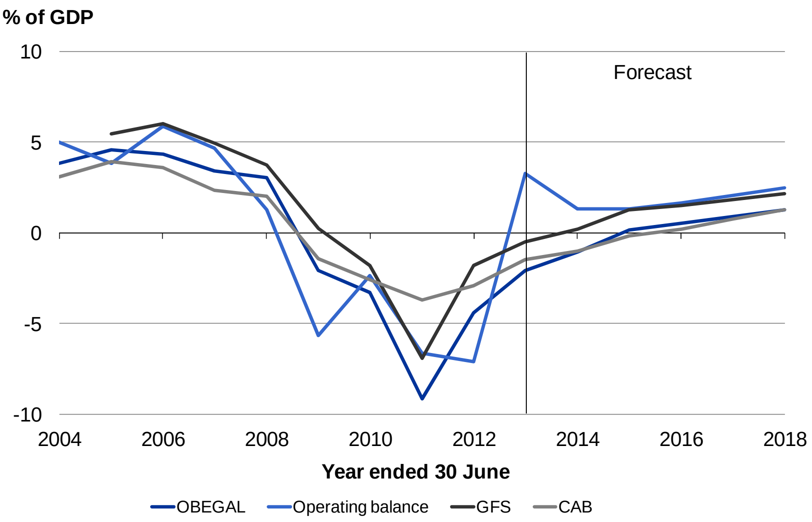
The net operating balance uses the framework developed by the International Monetary Fund called Government Financial Statistics and is specifically designed for government reporting. It is therefore a useful measure to compare with other countries. The net operating balance represents revenue and expenses of the core Crown (excluding the Reserve Bank) and CEs, and therefore excludes SOEs. It also excludes a wider range of valuation movements than OBEGAL, such as impairments and write-offs.

Table 2.8 – Operating balance indicators

Year ending 30 June % of GDP	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
OBEGAL	(2.1)	(1.1)	0.2	0.5	0.9	1.3
Operating balance	3.2	1.3	1.3	1.6	2.0	2.5
Cyclically-adjusted balance (CAB)	(1.5)	(1.0)	(0.2)	0.2	0.8	1.2
Net operating balance (GFS)	(0.5)	0.2	1.3	1.5	1.8	2.1

Source: The Treasury

Figure 2.10 – Operating balance indicators

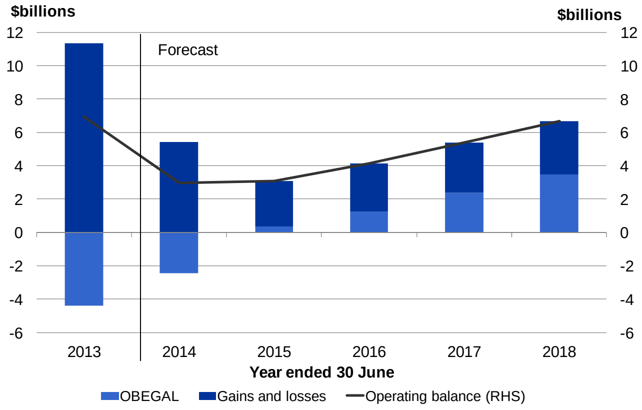


Source: The Treasury, IMF (GFS 2005-2006 years, GFS data unavailable for 2004)

3 For more details of both CAB and GFS, see the *Additional Information* document on the Treasury website www.treasury.govt.nz

... and strength in equity markets lifts the operating balance

Figure 2.11 – Components of operating balance



Source: The Treasury

When gains and losses are included, the total Crown operating balance is forecast to be in surplus across the forecast period. While growth in the operating balance is initially subdued, from 2014/15 the operating balance grows steadily (Figure 2.11). The current year's surplus is largely a result of gains expected to be made by Crown financial institutions (CFIs), largely ACC and NZS Fund, and reflects strong global equity returns (eg, by 31 March 2014 NZS Fund had made year-to-date gains of $2.6 billion). While the 2013/14 year reflects the current strong market growth, future years assume a lower long-term rate of return, resulting in subdued growth in these years. These gains play a part in increasing the Government's financial assets and the Crown's net worth (discussed on page 37).

In addition, updated long-term liability valuations for ACC (at 31 December 2013 updated for movements in discount rates to 31 March 2014) and the Government Superannuation Fund (GSF) (at 28 February 2014) have led to significant actuarial gains in the 2013/14 year (around $1.8 billion) which also contribute to the Crown's operating balance.

Given the size of the balance sheet, market movements can have a significant impact on the operating balance, as can be seen by comparing the current year's forecast with that of the 2012/13 year (Figure 2.11). The 2012/13 year included net gains of around $11.3 billion, largely as a result of gains on the investment portfolios of ACC and NZS Fund ($6.2 billion) and changes in discount rates leading to actuarial gains ($3.6 billion). While the current year's forecast includes strong returns for ACC and NZS Fund, the market is not as strong as the 2012/13 year, leading to a reduction in investment gains contributing to the operating balance. In addition, actuarial gains are forecast at just under half of the 2012/13 level, owing to smaller movements in discount rates in the year.

Cost to the Crown of the Canterbury Rebuild

Latest estimates for the total cost to the Crown are $15.4 billion to the end of the forecast period (compared to $14.9 billion in the *Half Year Update*). While core Crown costs have increased as new projects progress, Crown entity costs have reduced.

Core Crown costs have increased since the *Half Year Update* primarily owing to additional capital spending as the rebuild gets underway. These increases largely relate to the Greater Christchurch Education Renewal Programme as estimates of programmes in the outyears become clearer ($0.4 billion), the new Christchurch Housing Accord ($0.1 billion) and updated estimates for the new Canterbury hospitals. In addition, Budget 2014 allocated additional funding for the Christchurch central city anchor projects.

The increase in the core Crown costs was partially offset by a reduction in EQC costs arising from an updated actuarial valuation of its liability.

Table 2.9 outlines the latest estimates of the net impact of the earthquakes included in these forecasts, the operating/capital split and the expected cash profile of earthquake costs.

Table 2.9 – Net earthquake expenses (operating and capital)

Year ending 30 June $millions	**2011-13 Actual**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**Total *Budget Update***	***Total Half Year Update***
Local infrastructure	1,364	101	150	113	50	50	1,828	*1,828*
Crown assets[1]	40	214	586	420	456	280	1,996	*1,475*
Land zoning	912	(22)	-	92	52	-	1,034	*1,034*
Christchurch central city rebuild[2]	115	456	294	135	48	(18)	1,030	*909*
Welfare support	269	19	9	4	3	2	306	*292*
Southern Response support package	458	67	(72)	(23)	(13)	(2)	415	*360*
Other costs	508	128	154	120	55	32	997	*975*
Core Crown Canterbury earthquake recovery costs	**3,666**	**963**	**1,121**	**861**	**651**	**344**	**7,606**	***6,873***
EQC (net of reinsurance proceeds)	8,026	(412)	(198)	(125)	-	-	7,291	*7,528*
Other SOE and CEs	(217)	25	247	283	127	41	506	*507*
Total Crown	**11,475**	**576**	**1,170**	**1,019**	**778**	**385**	**15,403**	***14,908***
Operating and capital expenses								
Operating expenditure (OBEGAL)	11,253	(64)	251	358	212	122	12,132	*12,092*
Capital expenditure	222	640	919	661	566	263	3,271	*2,816*
Total Crown	**11,475**	**576**	**1,170**	**1,019**	**778**	**385**	**15,403**	***14,908***
Total cash payments[3]	**6,595**	**1,331**	**4,207**	**1,575**	**917**	**381**	**15,006**	***14,693***

Notes:
1. Crown assets includes capital expenditure on Canterbury hospitals, schools, Tertiary Education Institutions, housing and the Justice and Emergency Services Precinct.
2. Central city rebuild costs include land acquisition and are net of expected recoveries.
3. Some expenses are non-cash (eg, asset write-offs and impairments) and therefore do not have a cash element to them.

Source: The Treasury

These are the latest estimates of the cost to the Crown of the Canterbury rebuild as included in these forecasts. The Specific Fiscal Risks chapter discusses the fiscal risks associated with the Canterbury earthquake forecast net expenses.

While the expenses are largely recognised up front and indicate the Crown's obligation, the cash profile reflects the expected timing of payments to settle these obligations. As with the expenses, risks also remain regarding the timing of cash payments.

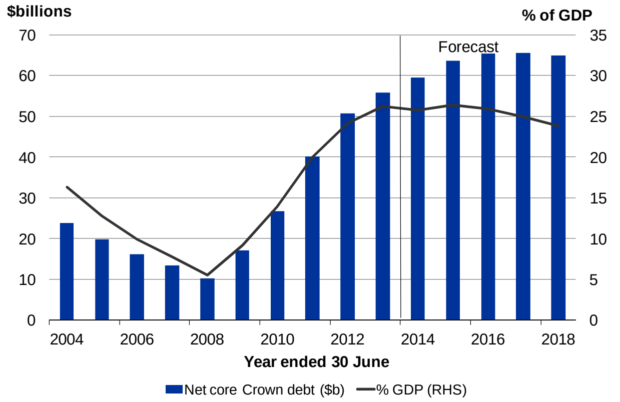
Net Core Crown Debt

Net core Crown debt peaks as a share of GDP in 2014/15...

Cash deficits are funded by an increase in net core Crown debt[4] (through additional borrowing or a reduction in financial assets), while cash surpluses reduce net core Crown debt.

While operating cash flows return to surplus in 2014/15, net capital spending is forecast to exceed operating cash flows until 2017/18, resulting in core Crown residual cash[4] remaining in deficit until then.

Figure 2.12 – Net core Crown debt



Source: The Treasury

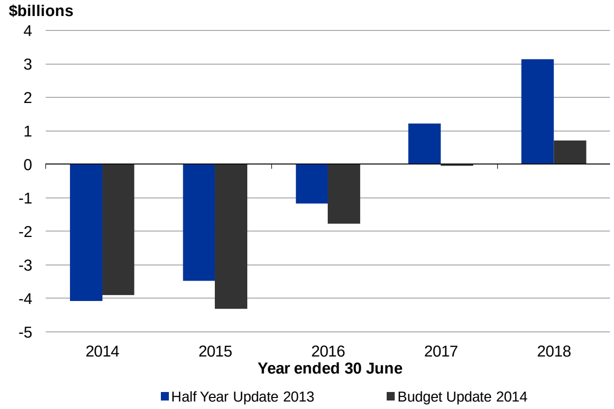
Over the forecast period, the Government is expected to generate cash flows from core Crown operations of $11.4 billion and will receive the remaining proceeds ($2.9 billion) from the Government share offer. The core Crown is forecast to spend $23.7 billion on capital items, which include purchasing physical assets (eg, school buildings), advances (eg, student loans) and future new capital spending. Overall, there is therefore a residual cash shortfall of $9.4 billion. As a result of the residual cash shortfall, net core Crown debt is expected to increase in nominal terms and to peak on an annual basis in 2016/17 at $65.5 billion, and then reduce once residual cash surpluses are achieved.

Net core Crown debt as a share of GDP peaks in 2014/15 at 26.4% (Figure 2.12). By 2017/18 net core Crown debt is expected to be 23.8% of GDP, consistent with the Government's medium-term target of net core Crown debt at a level no higher than 20% of GDP by 2020.

...but is higher than the **Half Year Update***...*

Core Crown residual cash returns to surplus one year later and at a lower level than forecast in the *Half Year Update* (Figure 2.13), largely owing to higher operating allowances and lower tax receipts than previously forecast. As a result, net core Crown debt in nominal terms is forecast to be higher than at the *Half Year Update.* However, as a share of GDP, it is similar to that previously forecast.

Figure 2.13 – Core Crown residual cash



Source: The Treasury

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

...with government bond issuances funding residual cash deficits

The bond programme to 2017/18 is $3.0 billion higher than forecast in the *Half Year Update,* largely owing to a greater cash shortfall over the forecast period ($9.4 billion compared to the previous forecast of $4.4 billion). In order to fund this shortfall, along with bond maturities, the bond programme is expected to raise funds of $36.3 billion over the forecast period, while $25.3 billion of existing debt will be repaid, providing net cash proceeds of $11.0 billion (Table 2.10). Any excess cash proceeds raised from the bond programme will be invested in financial assets and used to meet future debt maturities.

Table 2.10 – Net increase in government bonds

Year ending 30 June $billions	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**5-year Total**
Face value of government bonds issued (market)	8.0	8.0	7.0	7.0	7.0	37.0
Cash proceeds from government bond issue						
Cash proceeds from issue of market bonds	7.8	8.0	6.9	6.8	6.8	36.3
Repayment of market bonds	(2.0)	(8.8)	(1.8)	-	(11.3)	(23.9)
Net proceeds from market bonds	5.8	(0.8)	5.1	6.8	(4.5)	12.4
Repayment of non-market bonds	-	(1.4)	-	-	-	(1.4)
Net repayment of non-market bonds	-	(1.4)	-	-	-	(1.4)
Net cash proceeds from bond issuance	**5.8**	**(2.2)**	**5.1**	**6.8**	**(4.5)**	**11.0**

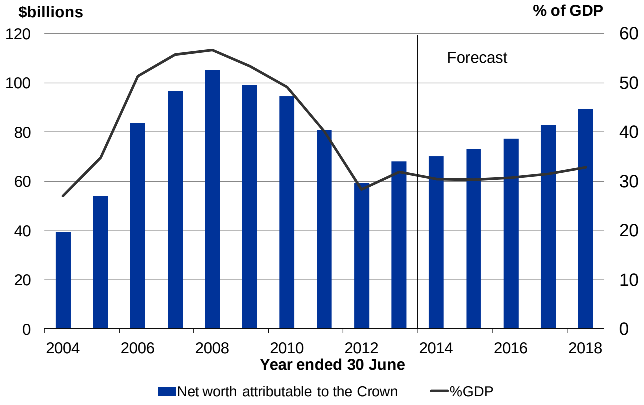
Source: The Treasury

Total Crown Balance Sheet

Operating balance surpluses result in a stronger balance sheet...

Following on from the 2012/13 increase (the first increase in five years), net worth attributable to the Crown is forecast to grow steadily in nominal terms across the forecast period largely owing to forecast operating balance surpluses. Beyond 2014, net worth attributable to the Crown is expected to grow by $19.4 billion to stand at $89.5 billion by 2017/18. As a share of GDP this is 32.8%, still below the peak of 56.6% of GDP in 2007/08 as shown in Figure 2.14.

Figure 2.14 – Net worth attributable to the Crown



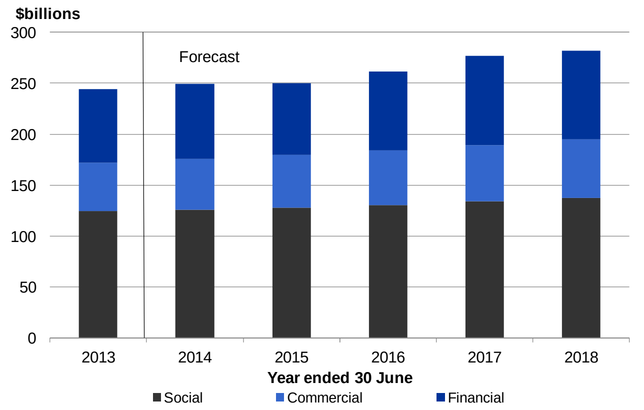
Source: The Treasury

...with assets increasing by $38 billion over the forecast period...

Total assets are forecast to grow by $37.6 billion over the forecast period, made up of additional investments in assets (both physical and financial) of $76.2 billion, partially offset by reductions (largely depreciation) of $38.6 billion.

The largest asset growth over the forecast period is in the financial assets portfolio (Figure 2.15). This growth reflects investments in Crown Financial Institutions (CFIs), with much of this growth recognised as gains in the Crown's operating balance.

Figure 2.15 – Total Crown assets



Source: The Treasury

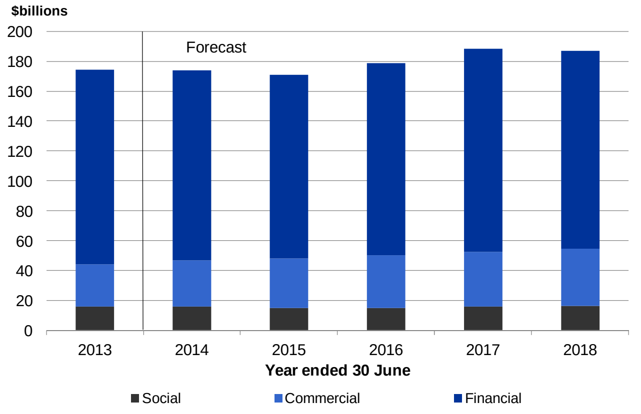
The commercial asset portfolio is expected to increase by $9.6 billion over the forecast period, with growth in Kiwibank mortgages comprising $8.0 billion of this increase, with the remainder from SOEs increasing their investment in physical assets.

Social assets (eg, schools, hospitals and social housing) are expected to increase by $13.3 billion by the end of the forecast period, primarily as a result of new capital spending. The Future Investment Fund contributes to the funding of these asset purchases, as detailed on page 41.

...and liabilities beginning to fall by the end of the forecast period

The Crown's liabilities are expected to increase by $12.5 billion (Figure 2.16) over the forecast period, largely driven by increased borrowing ($14.6 billion over the forecast period) (Figure 2.17) before beginning to fall in 2017/18. Borrowings are mostly held by the Treasury's Debt Management Office and the Reserve Bank, and are forecast to peak at $118.5 billion in 2016/17 before decreasing slightly to stand at $114.7 billion by 2017/18.

Figure 2.16 – Total Crown liabilities

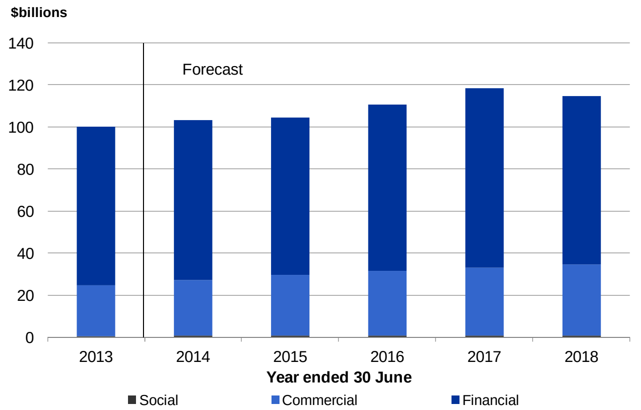


Source: The Treasury

Borrowings in the financial portfolio increase by $4.9 billion over the forecast period to meet the Crown's cash deficits (refer to page 36 for discussion of the bond programme). The remainder of borrowing is in the commercial portfolio, of which two-thirds relates to Kiwibank deposits, which continue to grow in line with Kiwibank's mortgages.

Partially offsetting the growth in borrowings are reductions in liabilities as a result of settling the Crown's obligations related to the Canterbury earthquakes (around $9.4 billion at 30 June 2013). These are all expected to be settled by 2017/18.

Figure 2.17 – Total Crown borrowings



Source: The Treasury

The Crown's balance sheet remains sensitive to market movements...

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

Financial assets are the largest asset group on the Crown's balance sheet and have increased significantly in recent years. CFIs (eg, NZS Fund and ACC) hold investments to make financial returns, and those asset values are dependent on market prices, interest rates and exchange rates, which can all be volatile. For example, a 10% change in the New Zealand dollar exchange rate or share prices can impact the Crown's operating balance by $1 billion to $2 billion.

In addition, the Crown has a number of significant long-term liabilities (eg, ACC claims and GSF retirement liability) which are actuarially valued based on estimated future cash flows 50 years into the future. As part of the actuarial valuation, inflation rates are used to help estimate future cash flows, while discount rates are used to obtain the value of those future cash flows in today's dollars (their present value). Even small changes in these assumptions can have significant impacts on the valuation because the cash flows are so large and over such long periods.

...and judgements and estimates will also impact on the balance sheet...

Outside of market factors, valuations are subject to a number of judgements and estimates. In general, as time goes on, better information becomes available and initial estimates are updated to reflect current information. Some examples of this include: ACC rehabilitation costs, earthquake-related insurance liabilities, and student wage growth.

...while other risks still remain

In addition to those items on the balance sheet there are a number of liabilities (and assets) that may arise in the future but are not yet included in our forecasts, either because they are contingent on an uncertain future event occurring (eg, outcome of litigation) or the liability cannot be measured reliably. If these liabilities crystallise, there will be associated costs with a negative impact (or positive in the case of contingent assets) on the operating balance or net debt. Refer to page 76 for a list of the contingent liabilities that the Crown was exposed to at 31 March 2014. The Risks and Scenarios chapter also includes further discussion on risks to the Crown's balance sheet.

The Treasury recently released its 2014 *Investment Statement,* which further discusses the Crown's balance sheet. In particular, it provides information on the shape and health of the Crown's portfolio of assets and liabilities, as well as a discussion on balance sheet management, including financial risk management.

Government Share Offer Programme

The Government's Share Offer programme has now concluded. Minority shareholdings in Mighty River Power, Meridian Energy and Genesis Energy have been sold, and the Crown has reduced its shareholding in Air New Zealand. Since the *Half Year Update*, the Genesis Energy share offer has been completed and the proceeds from the Crown reducing its shareholding in Air New Zealand have been finalised. Refer to Table 2.11 for the final proceeds of the programme.

Table 2.11 – Proceeds of programme (core Crown)

Year ended 30 June $billions	May 2011 Low estimate	 High estimate	Gross proceeds	Net proceeds[1]	% sold
Mighty River Power	1.350	1.870	1.686	1.642	48.24
Meridian Energy	2.290	3.180	1.884	1.826	48.98
Air New Zealand	0.160	0.290	0.365	0.364	20.05 [2]
Genesis Energy	0.580	0.810	0.733	0.696	47.60
Solid Energy (did not proceed)	0.620	0.850	-	-	-
	5.000	7.000	4.668	4.528	

Note: 1 Net of direct costs and present value discounting of the Meridian Energy deferred settlement.
2 This represents the additional reduction in the Crown's shareholding as part of this programme.

Source: The Treasury

Total gross proceeds for the programme are $4.7 billion, compared to a range of $5.0 billion to $7.0 billion as estimated in May 2011. The May 2011 estimates included estimates for Solid Energy; however, a decision was made not to proceed with a Solid Energy share offer. For the transactions that did proceed:

- actual proceeds for the Mighty River Power share offer were slightly above the mid-point of the estimated range from May 2011
- actual proceeds for Meridian Energy were below the estimated range from May 2011, with proceeds affected by the falls in the share prices of comparable New Zealand electricity companies, and the revised contract between Meridian Energy and New Zealand Aluminium Smelters
- actual proceeds for the Air New Zealand transaction were above the May 2011 estimated range, as a result of the significant increase in Air New Zealand's share price, and
- actual proceeds for Genesis Energy were within the upper half of the May 2011 estimated range.

Although the Share Offer programme has now been completed, owing to the use of instalment receipts for the Meridian Energy share offer some proceeds (approximately $0.6 billion) are expected to be received next year.

Future Investment Fund

Proceeds from the Government Share Offer programme have been set aside to fund future capital spending through the Future Investment Fund (FIF) – a fund established in Budget 2012. So far, $3.0 billion of this fund has been allocated. A large portion of the fund is expected to be spent on investments in health and education ($1 billion each), as well as the Canterbury rebuild and irrigation initiatives.

Table 2.12 – Analysis of Future Investment Fund

$billions	Total fund
Cash proceeds	4.668
Allocated in Budget 2012	(0.533)
Allocated in Budget 2013	(1.420)
Allocated in Budget 2014	(1.039)
To be allocated	**1.676**

Source: The Treasury

Budget 2014 allocates $1.0 billion of new spending from the fund, including $0.2 billion for KiwiRail, $0.2 billion for school property expansion, $0.2 billion for health initiatives, as well as smaller amounts for irrigation infrastructure. Refer to the *Minister's Executive Summary* document for further details of the Budget 2014 package.

With the proceeds from the Government Share Offer programme totalling $4.7 billion, the amount remaining to be allocated in future Budgets is $1.7 billion.

Table 2.13 – Estimated fiscal impact of the Government Share Offer programme

	Note	Actual to date and forecast
Completed transactions		
Gross cash proceeds		$4.7 billion
Net cash proceeds		$4.5 billion
Loss on disposal recorded in taxpayers' funds		$384 million
Forecasts		
Cash impact		
Forecast foregone dividends	1	$336 million p.a.
Estimated finance cost savings	1	$191 million p.a.
Reduction in net debt		$3.7 billion by 2017/18
Accrual impact		
Forecast foregone profits	1	$290 million p.a.
Estimated finance cost savings	1	$191 million p.a.
Net decrease in OBEGAL	1	$99 million p.a.

Note: 1 Based on an average of the fiscal forecasts subsequent to the programme being completed.

Source: The Treasury

The average profits and dividends estimated to be foregone have been updated since the *Half Year Update*, largely as a result of the Government selling slightly less than the 49% originally forecast, in addition to including updated forecasts from the companies.

The figures in Table 2.13 are based on the current profit and dividend forecasts supplied by the companies, and forecast interest rates on government debt.

The forecasts of company profits and dividends inherently contain more risk and uncertainty than forecasts of the Government's cost of borrowing. As a result, you would expect the return on commercial assets to reflect that additional risk and be generally higher than the Government's cost of borrowing. Whether forecast profits are actually delivered will depend on actual company performance.

The Forecast Financial Statements (Chapter 5) disclose forecasts for minority interests' share of profits and dividends for all minority interests of the Government. While these amounts include the forecasts as a result of the government share offer, they also include the pre-existing minority shareholding in Air New Zealand, along with minority interests in the Crown Fibre Holdings Group and Solid Energy (resulting from their recent restructure). As a result, the amounts in the Forecast Financial Statements are larger than those in Table 2.13 above.

Fiscal Forecast Assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available on 29 April 2014, when the forecasts were finalised. Actual events are likely to differ from these assumptions and judgements. Furthermore, uncertainty around the forecast assumptions and judgements increases over the forecast period. The impact of the Canterbury earthquakes add further uncertainty to the economic and fiscal forecasts.

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

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

A summary of the key economic forecasts that are particularly relevant to the fiscal forecasts is provided in Table 2.14 below (on a June-year-end basis to align with the Government's balance date).

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

Year ended 30 June	**2013 Actual**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
Real GDP[1] (ann avg % chg)	2.2	3.4	3.9	2.6	2.1	2.2
Nominal GDP[2] ($m)	213,188	230,717	241,090	252,307	262,989	272,612
CPI (ann avg % chg)	0.8	1.6	1.7	2.3	2.4	2.1
Govt 10-year bonds (ann avg, %)	3.6	4.6	4.8	5.0	5.1	5.2
5-year bonds (ann avg, %)	2.9	4.1	4.5	4.9	5.1	5.2
90-day bill rate (ann avg, %)	2.6	2.9	4.1	4.8	5.0	5.2
Unemployment rate (ann avg, %)	6.7	6.0	5.5	5.2	4.8	4.5
Employment (ann avg % chg)	0.4	3.1	2.7	1.6	1.3	1.2

Notes: 1 Production measure.
2 Expenditure measure.

Source: The Treasury

In addition, a number of other key assumptions are critical in the preparation of the fiscal forecasts.

<table>
<tr><td>Government decisions</td><td>The forecasts incorporate Government decisions and other circumstances known to the Government and advised to the Treasury up to 29 April 2014.</td></tr>
<tr><td>Tax revenue</td><td>Tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts as calculated and agreed between Inland Revenue and the Treasury.</td></tr>
<tr><td>Earthquake costs</td><td>Expenditure (accrual measure) is forecast based on estimates of when key decisions will be taken. The timing of cash payments is based on estimates of when actual spending will take place. Refer to page 34 for further discussion.</td></tr>
<tr><td>Operating allowance</td><td>Operating allowances are net $1.5 billion from Budget 2015, growing at a rate of 2.0% per annum for subsequent Budgets. For further details, see note 8 of the Forecast Financial Statements.</td></tr>
<tr><td>Provision for new capital spending</td><td>Capital allowances are $0.9 billion in Budget 2015 and Budget 2016, then growing at a rate of 2% per annum for subsequent Budgets. For further details, see note 8 of the Forecast Financial Statements.</td></tr>
<tr><td>Finance cost on new bond issuances</td><td>Based on the 5-year rate from the main economic forecasts and adjusted for differing maturities.</td></tr>
<tr><td>Top-down adjustment</td><td>A top-down adjustment is made to compensate for departments that tend to forecast upper spending limits (appropriations) rather than best estimates.

Top-down adjustment to operating and capital expenses are as follows:
<table>
<tr><th>Year ending 30 June
$billions</th><th>2014
Forecast</th><th>2015
Forecast</th><th>2016
Forecast</th><th>2017
Forecast</th><th>2018
Forecast</th></tr>
<tr><td>Operating</td><td>0.7</td><td>0.9</td><td>0.5</td><td>0.4</td><td>0.4</td></tr>
<tr><td>Capital</td><td>0.4</td><td>0.4</td><td>0.1</td><td>0.1</td><td>0.1</td></tr>
</table>
The adjustment will be higher at the front end of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years.</td></tr>
<tr><td>Property, plant and equipment</td><td>For the purposes of the forecast financial statements, no revaluations of property, plant and equipment are projected beyond the current year. Valuations as recorded for the 2013 annual financial statements and any additional valuations that have occurred up to 31 March 2014 are included in these forecasts.</td></tr>
<tr><td>Student loans</td><td>The carrying value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the carrying value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate for new borrowers. Any change in these assumptions would affect the present fiscal forecasts.</td></tr>
</table>

<table>
<tr><td>Investment rate of returns</td><td>The forecasts incorporate the actual results to 31 March 2014. Beyond this time, gains on financial instruments are based on long-term benchmark rates of return for each portfolio.</td></tr>
<tr><td>GSF and ACC liabilities</td><td>The GSF and ACC liabilities included in these forecasts have been valued as at 28 February 2014 and 31 December 2013 respectively. The ACC liability has also been adjusted for the 31 March 2014 discount rate. Both liabilities are valued by projecting future cash payments, and discounting them to the present. These valuations rely on historical data to predict future trends and use economic assumptions such as inflation and discount rates. Any changes in actual payments or economic assumptions would affect the present fiscal forecast. For example, if the discount rate decreases, the value of the liabilities would increase.

GSF's assets are offset against the gross liability and have been updated to reflect market values. The value of assets over the forecast period reflects long-run rate of return assumptions appropriate to the forecast portfolio mix.</td></tr>
<tr><td>ACC levies</td><td>The forecasts include the Government's intention to further reduce ACC levies in the 2015/16 levy year. A final decision on levy rates will be made after ACC's public consultation.</td></tr>
<tr><td>NZS Fund contributions</td><td>No contribution is assumed in the forecast period in line with the Government's stated intentions to commence contributions once net core Crown debt has reached 20% of GDP as set out in the Fiscal Strategy Report (FSR).

<table>
<tr><th>Year ending 30 June
$billions</th><th>2015
Forecast</th><th>2016
Forecast</th><th>2017
Forecast</th><th>2018
Forecast</th></tr>
<tr><td>Required contribution[1]</td><td>2.3</td><td>2.3</td><td>2.3</td><td>2.2</td></tr>
<tr><td>Actual contribution</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>

1. Calculations of annual contributions if they were to resume in 2013/14

The underlying assumptions in calculating the required contribution in each year are the previous year's NZS Fund balance and projected series, over the ensuing 40 years of nominal GDP, net (after-tax) New Zealand superannuation expenses, and the government 5-year bond rate. The latter is used in calculating the Fund's expected long-run after-tax annual return. Over the forecast years, all Fund variables, apart from the capital contributions, are provided by the NZS Fund itself.

Refer to the Treasury's website for the NZS Fund model.</td></tr>
</table>

3

Risks and Scenarios

Overview

- This chapter outlines the general economic and fiscal risks associated with the main forecast. Domestic risks to the economic outlook are fairly evenly balanced, while global risks remain skewed to the downside.
- Domestically, the risks with potentially the largest impact on the New Zealand economy relate to the pace of the Canterbury rebuild and its interaction with the wider economy, the sensitivity of households to higher debt servicing costs, along with net migration's impact on domestic demand.
- Stimulatory monetary policy settings appear to be succeeding in increasing demand in advanced economies, although inflation has been benign, particularly in the euro area. The risks posed to the recovery in emerging markets have increased since the *Half Year Update* with markets reassessing economic and financial fundamentals in some economies.
- Two scenarios are presented which represent two ways in which the New Zealand economy could deviate from the main forecast. Scenario one is based on a larger decline in the terms of trade than in the main forecast. Scenario two is based on a more robust domestic demand cycle driven by a stronger migration cycle. If these scenarios or any other significant deviations from the main forecast did eventuate, this would impact on the Government's fiscal performance and position.
- In addition to risks associated with the economy, the Crown is also subject to expenditure and balance sheet risks. In particular, volatility in market prices such as interest rates can have a significant impact on the Crown's fiscal position.
- The first part of this chapter outlines the key risks to the economic outlook. The second part of the chapter presents two alternative scenarios for the economy. The remainder of the chapter focuses on general fiscal risks that can impact the Crown's fiscal position.

Economic Risks

Domestic demand has grown faster than anticipated in the *Half Year Update*, with the economic expansion becoming more broad-based and embedded. Key areas of uncertainty remain, including the speed of the Canterbury rebuild and its wider economic implications, the reaction of households to higher debt servicing costs, and the scale of the current migration cycle and its impact on domestic demand.

Despite improvements in the prospects for some advanced economies, the balance of global risks remains skewed to the downside, with emerging economies having underperformed relative to expectations. Global economic developments may lead to adjustments in the demand for our main commodity exports and therefore affect the terms of trade (the prices of goods and services New Zealand exports relative to those that it imports) which were at a 40-year high in the December 2013 quarter. If a number of adverse global developments were to occur simultaneously, New Zealand could experience a rapid and sizeable negative adjustment in commodity prices and national income.

Other key assumptions made in the forecasts around the level and flow-through of the exchange rate, the amount of spare capacity in the economy and monetary policy developments all represent areas where deviations from forecast can exacerbate or dampen the current economic cycle.

The pace and scale of the Canterbury rebuild remain uncertain…

There is still some uncertainty around the timing and magnitude of the Canterbury rebuild. Key determinants continue to be the pace of the settlement of remaining insurance claims and the capacity of the construction sector.

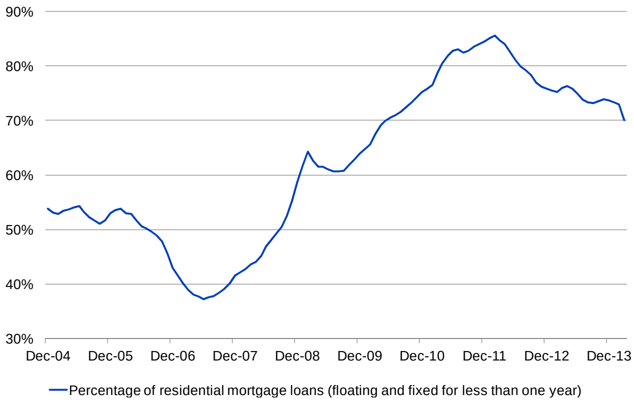
While the resolution of insurance claims has continued to progress, there are risks that the greater complexity of remaining claims could slow the rate of settlement. The availability of skilled labour will also impact on the pace of reconstruction if specific skill shortages act as bottlenecks in the construction industry. If the rebuild were to progress more slowly, residential and non-residential investment and employment growth could all be weaker than reflected in the main forecast.

The Canterbury region will account for a greater share of GDP than in previous construction booms and regional resource pressures will act to crowd out activity in other parts of the economy. Inward migration and imports of capital and materials may help to alleviate local capacity issues and will mitigate some of the upward pressure on prices in both Canterbury and the wider economy.

...as does the sensitivity of households to increasing interest rates...

After a sustained period of historically low rates, the Reserve Bank has increased the OCR from 2.5% to 3.0% with the aim of returning it to neutral levels in the medium term and then increasing it even further by 2016. It is difficult to anticipate the sensitivity of households to higher debt servicing costs. This is in view of already elevated debt levels and high exposure to interest rate increases, with a large number of households on floating or fixed mortgages of less than one year (Figure 3.1). Households could exercise more or less spending restraint than is anticipated in the main forecast. If consumption growth were to outpace income growth, then the shortfall may have to be funded by increasing levels of debt. On the other hand, if households exercise more restraint, debt levels would be lower but consumption growth would be weaker.

Figure 3.1 – Composition of residential mortgage lending



Source: Reserve Bank

…and net migration's effect on domestic demand remains uncertain

Stronger employment growth in New Zealand relative to Australia and a more positive outlook have reduced the number of New Zealand resident departures, while the Canterbury rebuild has contributed to more permanent and long-term arrivals. The annual net inflow of migrants is now forecast to peak at around 38,000 in the second half of 2014 compared to a forecast of around 26,000 in the *Half Year Update*. The impact on the wider economy of stronger rates of net migration will depend on the skill sets of the migrants and their geographic distribution. If the migration cycle is larger than forecast it would put additional pressure on the housing market and add further impetus to domestic demand. However, higher migrant inflows to Canterbury would mitigate some of the capacity risks associated with the rebuild.

If, for any reason, key factors such as those outlined above played out differently than assumed in the main forecast and impacted on the inflation outlook, then the Reserve Bank's setting of monetary policy would be responsive to those different conditions. Interest rates could rise by more or less and the pace of tightening could be faster or slower depending on the direction of change.

Global downside risks persist…

In addition to the migration channel, global developments can also impact the New Zealand economy through both trade and financial channels. For example, strong Chinese demand for our key commodity exports has contributed to the terms of trade reaching a 40-year high, improving incomes and supporting the exchange rate at high levels. Risks posed to the outlook for key trading partners, and global financial settings in general, are all factors that can lead to rapid changes in the economic outlook for New Zealand. Overall, the balance of global risks remains skewed to the downside. Geopolitical risks have also increased, with Russia's annexation of Crimea creating ongoing diplomatic tensions with the West and greater uncertainty in financial markets.

…as weak emerging-market fundamentals exposed…

In January, the US Federal Reserve began the tapering of its asset purchase programme. Expected rises in US bond yields contributed to capital outflows from emerging market economies and sizeable depreciations in exchange rates. Generally, borrowing costs for countries that have become accustomed to favourable global lending conditions in recent years have increased. Both the monetary policy responses (that are likely to magnify the higher costs of capital) and the higher capital cost itself, will act to constrain growth in emerging economies. The most fragile countries, with the largest imbalances and high inflation, account for only a small share of New Zealand's export demand. Contagion to other emerging market economies could impact New Zealand more significantly.

Importantly, Asian economies have larger foreign exchange reserves than they did prior to the Asian financial crisis in the late 1990s, as well as floating exchange rates, which make them more resilient to these market pressures.

…and risks to New Zealand's key trading partners remain

Our largest trading partner, China, would largely be immune to the risks outlined above because of its capital account restrictions. However, domestic risks to the growth outlook for China remain. The property investment and construction boom that stimulated Chinese growth following the global financial crisis was fuelled by rapid credit growth. Concerns around the high level of local government debt, the quality of lending in the shadow banking sector and exposure of financial institutions to housing market vulnerabilities persist. Chinese growth could slow more quickly than in the main forecasts if financial market disruption resulted in significantly tighter credit conditions.

Structurally, China is looking to rebalance its economy away from investment-led growth towards private consumption. Rebalancing could lead to slower growth in the short term, particularly if this transition is disorderly. As consumption's share of output increases and the purchasing power of Chinese consumers improves, demand for New Zealand's soft commodities, such as dairy, will strengthen and help maintain prices at high levels.

Australian data continue to show signs that demand is picking up as the economy transitions from growth in mining investment to growth in the non-mining sectors and exports. However, the labour market remains subdued and the unemployment rate has remained steady at around 5.8% for the past year. Australia remains exposed to a slowdown in China and emerging market economies, which would reduce demand for its hard commodities, such as iron ore. This channel could be a source of indirect effects on the New Zealand economy.

Upside risks to US growth are also apparent with the recent weakness in US data largely a result of the harsh winter. A large amount of investment activity has been deferred since the global financial crisis and the stock of capital has aged. A more rapid movement to capital investment could be a source of upside surprises to growth. Likewise, households have deferred purchases of durable goods over this time. That said, a stronger US economy would further exacerbate the risks to emerging economies if expectations of a faster withdrawal of monetary stimulus were to develop.

Euro area recovery exposed to deflationary risks

Inflation in the euro area has been on a declining trend since late 2011 as peripheral economies rebalance and attempt to achieve renewed competitiveness. Large negative output gaps also mean that pricing pressures remain subdued. In the absence of adequate policy responses, Europe could enter a period of sustained low inflation, increasing the risk of deflation. If long-term inflation expectations fall, demand and output would follow, stifling the euro area recovery.

Other risks around key judgements

Economic relationships are complex and judgements need to be made about key economic variables such as the exchange rate. For example, a higher exchange rate relative to forecast would decrease tradables inflation, as imported goods would become less expensive, and encourage the consumption of imported products. On the other hand, exporters and import-competing businesses would become less competitive, hindering manufacturing and service exports and production of import substitutes.

Recently, pasture conditions have been drier than usual in the North Island, with feed yields down from last year. Although there has been ample rain in most of the country in April, if dry conditions return, agricultural production could again act as a drag on gross domestic product as it did in the first half of 2013. Feed prices and availability amongst New Zealand's international competitors will also influence global supply and have a strong bearing on global commodity prices and the path of the terms of trade.

Alternative Scenarios

The following scenarios show how the economy might evolve if some of the key judgements in the main forecast are altered (Table 3.1). The scenarios represent two of a number of ways that the economy could deviate from the main forecast. Scenario one represents the economic impacts of a larger decline in the terms of trade. Scenario two represents the economic impacts of a larger migration cycle and stronger domestic demand.

Table 3.1 – Summary of key economic variables for main forecast and scenarios

March years	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Real GDP (annual average % change)						
Main forecast	**2.3**	**3.0**	**4.0**	**3.0**	**2.1**	**2.1**
Scenario one	2.3	3.0	3.4	3.3	1.7	1.9
Scenario two	2.3	3.1	4.6	3.0	1.9	2.0
Unemployment rate[1]						
Main forecast	**6.2**	**5.9**	**5.4**	**5.1**	**4.8**	**4.4**
Scenario one	6.2	5.9	5.7	5.2	4.9	4.6
Scenario two	6.2	5.9	5.2	4.9	4.7	4.4
Nominal GDP (annual average % change)						
Main forecast	**2.2**	**6.7**	**5.7**	**4.3**	**4.5**	**3.7**
Scenario one	2.2	6.6	2.6	4.1	4.6	3.6
Scenario two	2.2	6.8	6.9	4.5	4.1	3.5
Current account balance (% of GDP)						
Main forecast	**-3.9**	**-3.1**	**-4.4**	**-5.9**	**-6.2**	**-6.3**
Scenario one	-3.9	-3.1	-6.1	-7.5	-6.6	-6.0
Scenario two	-3.9	-3.1	-4.6	-6.4	-6.8	-6.8
90-day bank bill rate[2]						
Main forecast	**2.7**	**3.0**	**4.3**	**4.8**	**4.9**	**5.3**
Scenario one	2.7	3.0	3.3	4.1	4.2	4.7
Scenario two	2.7	3.0	5.0	5.7	5.4	5.4
Total Crown OBEGAL (% of GDP)[3]						
Main forecast	**-2.1**	**-1.1**	**0.2**	**0.5**	**0.9**	**1.3**
Scenario one	-2.1	-1.1	-0.7	-0.6	-0.2	0.1
Scenario two	-2.1	-1.0	0.5	1.1	1.6	1.9
Core Crown net debt (% of GDP)[3]						
Main forecast	**26.2**	**25.8**	**26.4**	**25.9**	**24.9**	**23.8**
Scenario one	26.2	25.9	28.2	28.6	28.7	28.7
Scenario two	26.2	25.7	25.6	24.5	23.0	21.4

Notes: 1 March quarter, seasonally adjusted

2 March quarter average

3 June years

Sources: Reserve Bank, Statistics New Zealand, the Treasury

Scenario One – Terms of Trade Shock

A larger fall in New Zealand's terms of trade…

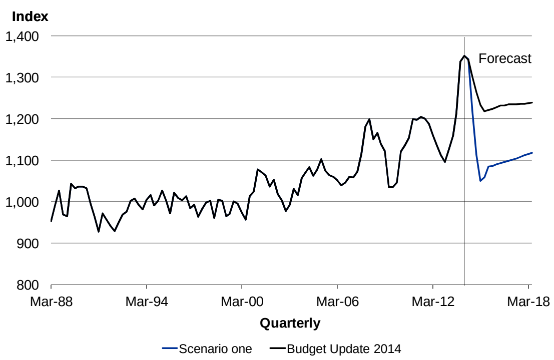
Scenario one is based on a large fall in the prices received for New Zealand's merchandise exports. This scenario represents both a faster and deeper decline in the terms of trade, and a lower level over the rest of the forecast period. The fall represents a return of the terms of trade to levels prevailing near the start of the current commodity price boom in 2004. A fall in the terms of trade of this magnitude could be triggered by demand or supply factors, or a combination of the two; for example, a financial crisis in China that spills over to emerging markets more generally, could impact on the demand for our main commodity exports. Alternatively, a larger increase in global production, in combination with softer global demand, could see a more pronounced decline in the terms of trade than in the main forecast.

In this scenario it is assumed that the merchandise terms of trade decline rapidly over 2014 from their 40-year peak, and are down by around 22% in the year to March 2015 compared to around 9% in the main forecast. The terms of trade then recover slightly, but are still down around 10% relative to the main forecast at the end of the forecast period (Figure 3.2). (See the box on the terms of trade on page 13 of the Economic Outlook chapter for more details.)

...results in a sharp depreciation in the exchange rate and a spike in inflation...

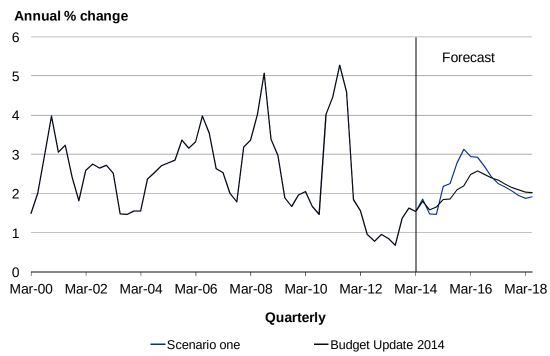
The exchange rate helps to buffer the shock to the export sector and depreciates sharply, with the trade-weighted exchange rate index (TWI) at 64.0 by mid-2015 compared to 78.6 in the main forecast. Tradables inflation rapidly increases and headline inflation peaks above the Reserve Bank's policy band at 3.1% in the December quarter of 2015 (Figure 3.3). However, given the flexibility in the Policy Targets Agreement around exceptional movements in the prices of commodities traded in world markets, the Reserve Bank largely looks through the spike in inflation, keeping rates on hold in the near term. The policy response helps to limit the negative impacts on private consumption and investment growth. If the Reserve Bank were to respond to the spike in inflation this could exacerbate the negative impacts on real GDP growth but limit the inflationary impacts.

Figure 3.2 – Merchandise terms of trade



Sources: Statistics New Zealand, the Treasury

Figure 3.3 – Consumers Price Index



Sources: Statistics New Zealand, the Treasury

...with real private consumption and investment growth lower…

The decrease in the purchasing power of New Zealand households and firms, as real gross domestic income growth slows, results in lower real private consumption and investment growth. Annual real private consumption growth averages 2.2% over the forecast period compared to 3.1% in the main forecast. Real investment growth, including residential and market investment, averages 5.8% per annum compared to 7.4% in the main forecast. Net exports contribute positively to growth rather than act as a drag, as import volumes fall away sharply. Although annual real GDP growth over the forecast period is only slightly less at 2.6% (compared to 2.8% in the main forecast), the composition and timing of that growth are different.

…and a sharp widening in the current account…

The annual current account deficit widens to 7.9% of GDP in the second half of 2015 as the trade balance deteriorates, while households and firms adjust to the real income shock, and nominal GDP growth slows. The large depreciation in the exchange rate makes New Zealand's goods and services more competitive globally. This sees a strong increase in nominal services exports and the services balance over the second half of the forecast period, notwithstanding the deterioration in the near term (the so-called "J-curve" effect). The annual current account deficit narrows to 6.0% of GDP by March 2018, a slightly lower deficit than in the main forecast.

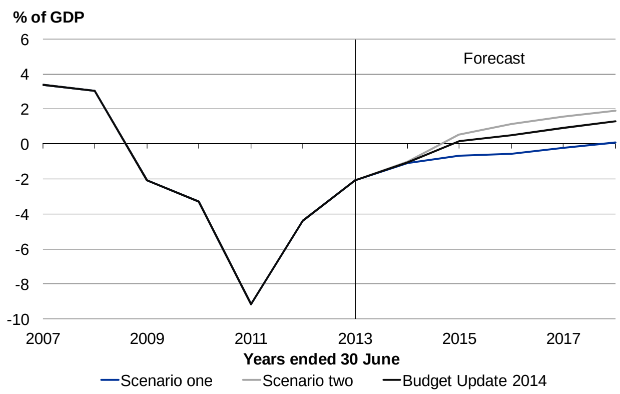
…as well as lower tax revenue and operating balance

Weaker domestic activity combined with the lower terms of trade more than offsets the higher inflation and reduces nominal GDP by a cumulative $34 billion over the forecast period.

Core Crown tax revenue is a cumulative $9.7 billion lower over the forecast period in this scenario, owing to the weaker nominal GDP. The weaker labour market and lower labour incomes reduce source deductions revenue by $1.4 billion over the forecast period. The economy's weaker nominal activity means that business profitability is reduced, resulting in corporate taxes being a cumulative $4.0 billion lower. Resident withholding tax is $1.2 billion lower over the forecast period with interest rates increasing by less than in the main forecast. Weaker nominal consumption and residential investment reduces GST revenue by a cumulative $1.6 billion over the forecast period.

Core Crown expenses are higher than in the main forecast, driven by an increase in debt servicing costs and increases in welfare payments. The increase in welfare payments results from a higher number of recipients of unemployment-related benefits than in the main forecast, reflecting the softer labour market. In this scenario, the return to surplus in OBEGAL is delayed until June 2018 (Figure 3.4). As a consequence, net core Crown debt peaks at 28.7% of GDP in the June 2017 year, compared to 26.4% in the June 2015 year in the main forecast (Figure 3.9). By the end of the forecast period net core Crown debt is 28.7% of GDP in this scenario compared to 23.8% of GDP in the main forecast.

Figure 3.4 – Operating balance (before gains and losses)



Source: The Treasury

Scenario Two – Stronger Cyclical Growth

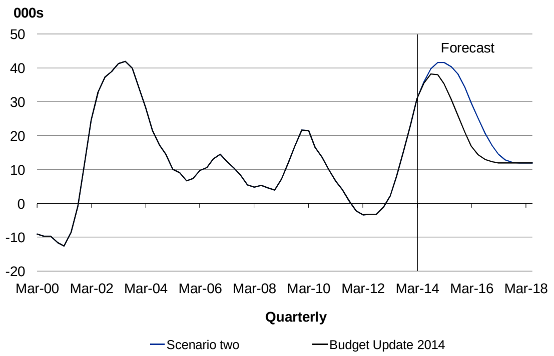
A stronger cyclical pick-up in migration…

Scenario two is based on a more robust domestic demand cycle than in the main forecast, driven by a stronger migration cycle. The scenario is similar to scenario one in the *Half Year Update* in that it presents the risks around our key migration assumption. Annual net permanent and long-term migration in this scenario peaks at 41,500 in the December quarter of 2014 compared to 38,000 in the September quarter of 2014 in the main forecast (Figure 3.5). The migration profile of scenario two represents an addition of 21,500 people to the population over the forecast period compared to the main forecast. It is also assumed that currently high levels of consumer and business confidence translate into even stronger near-term private consumption and investment growth.

…leads to more robust domestic demand in the near term…

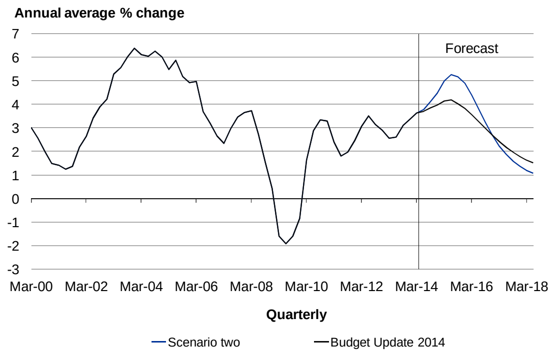
The larger migration cycle and less restrained households result in stronger annual real private consumption growth in the near term, peaking at 5.3% in the June quarter of 2015 compared to 4.2% in the main forecast (Figure 3.6). The population boost from net migration also increases demand for the existing stock of housing and provides additional support for residential investment. Stronger household demand, the current low interest rate environment and the elevated exchange rate spill over into business confidence with increased market investment and hiring intentions. Employment growth in this scenario is markedly stronger over 2015 and 2016, with the unemployment rate varying around 0.2% to 0.3% points lower over most of the forecast period compared to the main forecast.

Figure 3.5 – Annual net external migration



Sources: Statistics New Zealand, the Treasury

Figure 3.6 – Private consumption growth



Sources: Statistics New Zealand, the Treasury

…and sees increased price pressures and a faster monetary tightening cycle…

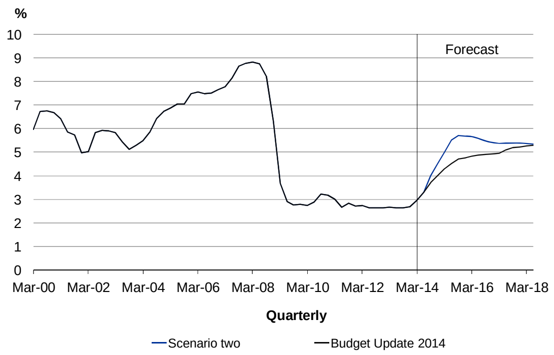
With the economy already growing faster than potential, the further boost to domestic demand sees any spare capacity in the economy used up more quickly than in the main forecast, and an even more positive output gap develop in the near term (despite net migration increasing productive capacity in the medium term). The stronger domestic outlook and expectations of higher interest rates result in a higher near-term exchange rate profile which puts downward pressure on tradables inflation. However, stronger non-tradables inflation dominates, resulting in a higher inflation track.

Given higher inflation, increased inflationary pressures and increased inflation expectations, monetary policy is tightened sooner and more aggressively to maintain price stability. The 90-day bank bill rate is around 100 basis points higher by mid-2015 than in the main forecast (Figure 3.7). The faster withdrawal of monetary stimulus acts to constrain consumption and investment growth, with lower real GDP growth over the final years of the forecast period compared to the main forecast.

…but domestic and external imbalances widen

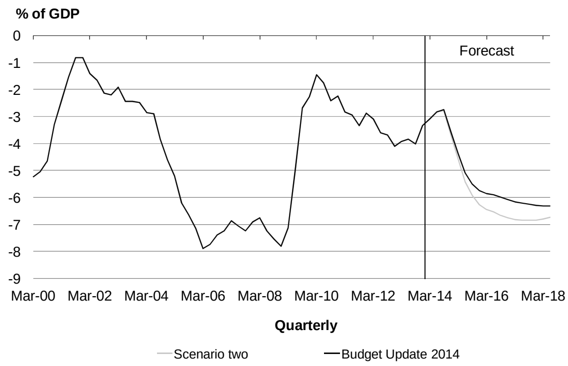
With some of the higher consumption and investment growth met from increased imports, the goods and services balances are weaker than in the main forecast. The stronger domestic economy also sees a widening in the income balance deficit as stronger profitability leads to larger dividend outflows. Consequently, the annual current account deficit is wider over the forecast period, reaching 6.8% of GDP in the March quarter of 2018 compared to 6.3% in the main forecast (Figure 3.8).

Figure 3.7 – 90-day bank bill rate



Sources: Statistics New Zealand, the Treasury

Figure 3.8 – Current account balance



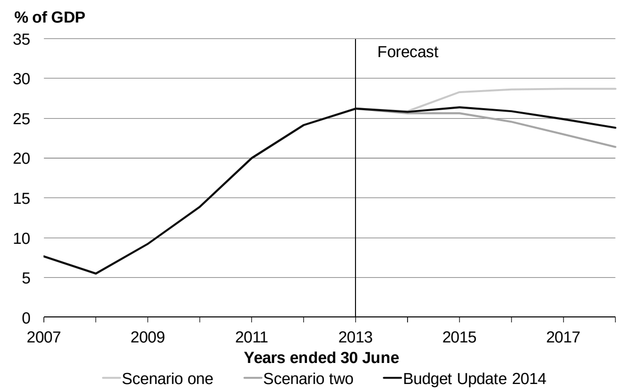
Sources: Statistics New Zealand, the Treasury

Household saving rates are also lower in this scenario, with nominal consumption growth outpacing the growth in incomes. This additional consumption is funded through increasing levels of household debt and this constrains consumption growth further as debt servicing costs increase.

Nominal GDP growth and tax revenue higher…

Stronger domestic activity, combined with greater price pressures, increases nominal GDP by a cumulative $12 billion over the forecast period. Core Crown tax revenue is a cumulative $5.3 billion higher over the forecast period. Higher nominal consumption and residential investment boost GST revenue by $1.1 billion over the forecast period. The stronger labour market and increased competition for workers push up wages and salaries, boosting source deductions revenue by a cumulative $1.1 billion. The stronger economic activity allows firms to increase their margins, boosting profitability and increasing corporate tax by $1.3 billion. Higher short-term interest rates, needed to control rising inflation, boost tax on interest by $1.1 billion.

Figure 3.9 – Net core Crown debt



Source: The Treasury

Core Crown expenses are slightly lower than in the main forecast owing to a fall in debt servicing costs and, to a lesser extent, a reduction in welfare payments. In this scenario, OBEGAL records a larger surplus of 0.5% of GDP ($1.3 billion) in the June 2015 year

(Figure 3.4). Net core Crown debt declines to 21.4% of GDP in the June 2018 year compared to 23.8% of GDP in the main forecast (Figure 3.9).

…with fiscal policy remaining restrained

Although OBEGAL records a larger surplus in 2015 in this scenario, discretionary fiscal policy is unchanged relative to the main forecast and is restrained compared to the mid-2000s cycle. If the extra income received by the Government was used to increase spending it would add to the cycle by increasing domestic demand, contributing to price pressures which could then necessitate tighter monetary policy. This would support the exchange rate remaining higher for longer and would result in greater imbalances, such as an even wider current account deficit.

General Fiscal Risks

The remainder of this chapter focuses on the links between the risks to the performance of the economy and the Crown's fiscal position. For more on fiscal risks, see the Specific Fiscal Risks chapter on page 63.

Fiscal Sensitivities

Table 3.2 provides some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point faster than we have forecast in each year up to June 2018, tax revenue would be around $3.2 billion (1.2% of GDP) higher than forecast in the June 2018 year as a result. The sensitivities are broadly symmetric and if nominal GDP growth is one percentage point slower each year than we expect, tax revenue would be around $3.1 billion lower than forecast in the June 2018 year. The figures are indicative and can be influenced by the composition of growth as different types of activity have different effective tax rates.

A different interest rate path from that forecast would also impact on the fiscal position. A one percentage point lower interest rate would result in interest income on funds managed by the Treasury's Debt Management Office (DMO) being $162 million lower in the June 2018 year. This would be more than offset by interest expenses being $358 million lower in the June 2018 year.

Table 3.2 – Fiscal sensitivity analysis

Year ending 30 June **($millions unless stated)**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**2018** **Forecast**
1% higher nominal GDP growth per annum on					
Tax revenue	-	675	1,440	2,280	3,205
(% of GDP)[1]	-	0.3	0.6	0.9	1.2
Tax revenue impact of a 1% increase in growth of					
Wages and salaries	-	285	605	965	1,390
(% of GDP)[1]	-	0.1	0.2	0.4	0.5
Taxable business profits	-	130	300	480	675
(% of GDP)[1]	-	0.1	0.1	0.2	0.2
Impact of 1% point lower interest rates on					
Interest income[2]	(37)	(90)	(86)	(151)	(162)
(% of GDP)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
Interest expenses[2]	3	(57)	(211)	(299)	(358)
(% of GDP)	0.0	(0.0)	(0.1)	(0.1)	(0.1)
Overall operating balance	(40)	(33)	125	148	196
(% of GDP)	(0.0)	(0.0)	0.0	0.1	0.1

Notes: 1 Percent of main forecast nominal GDP

2 Funds managed by the Treasury's DMO only

Source: The Treasury

Revenue Risks

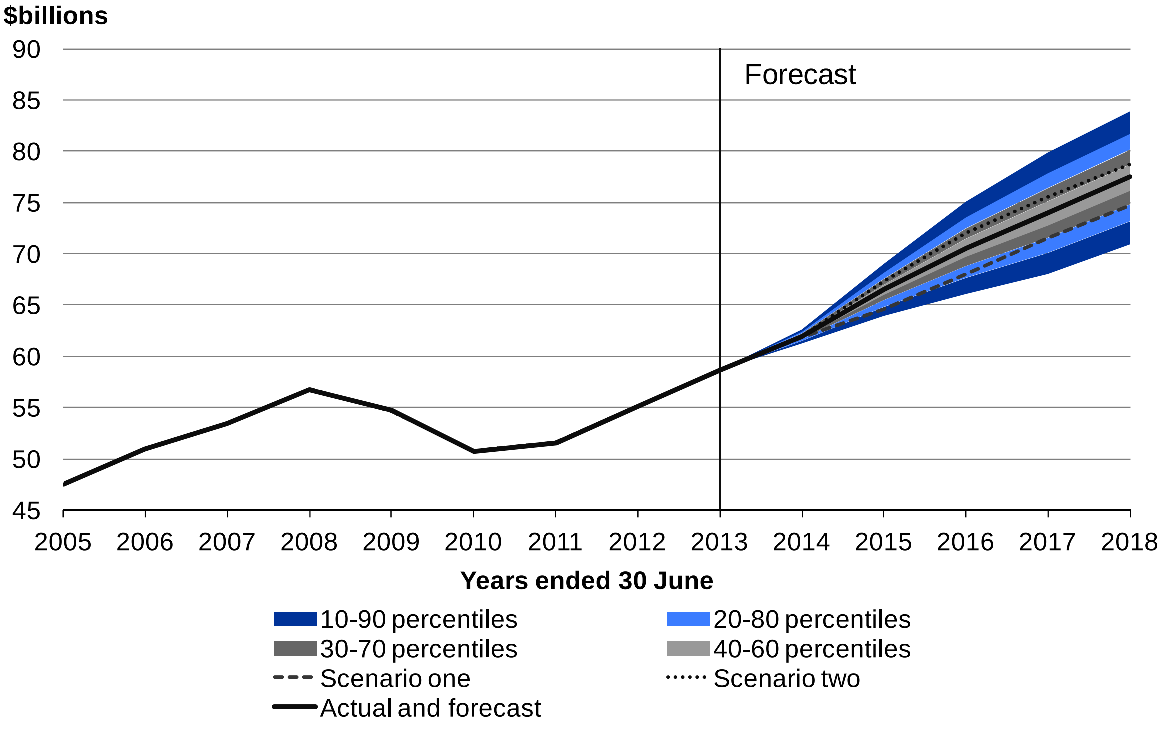
One of the major sources of risk to the fiscal position arises from the inherent uncertainty about future tax revenue. The amount of tax revenue that the Government receives in a given year is closely linked to the performance of the economy. Figure 3.10 plots the main tax revenue forecast, along with confidence intervals around these forecasts based on the Treasury's historical tax forecast errors and the assumption of an even balance of risks around the main forecast.[5] The outermost shaded area captures the range +/- $6.5 billion in the June 2018 year, within which actual tax outturns fall 80% of the time.[6]

The tax revenue forecasts from the two scenarios are also shown in Figure 3.10. The 2008/09 global financial crisis showed that exogenous shocks can have severe impacts on government revenue. Should any of the uncertainties outlined in the Economic Risks section eventuate, government revenue would be different from forecast, with scenarios one and two being examples of possible outcomes.

5 A full summary of the methodology and critical assumptions is included in New Zealand Treasury Working Paper 10/08. Standard deviation assumptions used for 0-, 1-, 2-, 3- and 4-year ahead forecasts are 0.9%, 3.2%, 5.3%, 6.6% and 6.9% of the actual result, respectively.

6 Previous Treasury analysis showed that a shock that has a significant and persistent impact on economic growth can result in tax revenues significantly beyond the outermost shaded area. See Fookes, C (2011), "Modelling shocks to New Zealand's fiscal position", New Zealand Treasury Working Paper 11/02.

Figure 3.10 – Core Crown tax revenue uncertainty



Source: The Treasury

Based on average historical forecast errors and an even balance of risks, Figure 3.10 suggests that tax revenue over the forecast period would be stronger than scenario two approximately 35% of the time and weaker than scenario one approximately 25% of the time.

There is also uncertainty around government revenue arising from the performance of SOEs and the path of interest rates as outlined in the Fiscal Sensitivities section.

Expenditure Risks

One-off and unexpected expenditure shocks can have a large impact on the Crown's operating balance in the year that they occur. Persistent over-forecasting of expenditure can also have substantial ongoing effects on the fiscal position, along with the uncertainty inherent in forecasting the cost of new policy initiatives.

There is also considerable uncertainty regarding the effect of the performance of the economy on Crown expenditures. This uncertainty largely relates to the operation of the so-called automatic stabilisers. For example, if the economy performs better (worse) than expected in a given year, official expenditures on social programmes may be lower (higher) than planned.

Meanwhile, the destructive seismic events of recent years have underlined the inherent exposure of the Crown's fiscal position to exogenous shocks. The Government's fiscal position would be impacted if another catastrophic earthquake were to occur or if the costs associated with prior events exceed the updated estimates.

The ageing population also presents risks to the medium-term fiscal position, particularly to the extent that demographic forecasts may prove to be too low or high. An ageing population requires increased government expenditure, especially for health and superannuation spending.

Balance Sheet Risks

In addition to risks around revenue and expenditure, which appear in the balance sheet through their impact on the operating balance, the Crown's financial position is also exposed to asset and liability risks. Some of these risks are on balance sheet owing to the Crown having explicit obligations either in respect of its own assets or to the wider economy. Some are off balance sheet owing to their discretionary nature, but are implicit to the Crown from strong expectations that the Crown would respond to an event. The focus here is on balance sheet risks that can be documented, based on the Crown's contractual position.

While the Crown's exposure to risk is sometimes unavoidable, the Crown's general approach is to identify, avoid or mitigate these risks where practicable. When a risk cannot be avoided or reduced, the Government's response has been to increase the Crown's resilience by reducing debt ahead of the time when it could be needed. This helps to absorb the impact of the risk through its balance sheet so that the wider economy need not adjust immediately at a greater economic cost. For more information on balance sheet risks, see the Fiscal Outlook chapter on pages 37–39.

The largest source of balance sheet risk is volatility in asset and liability values owing to movements in market variables such as interest rates, exchange rates and equity prices. This may result in an operating balance impact. Of the Crown's aggregate financial risk, roughly a third is estimated to be attributed to this "market risk".[7] Three areas of the balance sheet are particularly susceptible:

- Financial assets held by the CFIs are sensitive to financial-market volatility. CFIs diversify their portfolios across a range of financial assets to manage exposures to specific market risks. The Treasury estimates a 10% movement in world share markets would lead to around a $1.7 billion operating balance impact.
- Insurance and retirement liabilities and provisions are prone to market volatility through their actuarial valuations, which are sensitive to assumptions about variables such as interest and inflation rates, and risk margins.
- Physical assets such as land, buildings, state highways and military equipment are susceptible to valuation movements through changes in property market conditions, interest rates and changes in the costs of construction. This will affect the recorded value of physical Crown assets.

Business risks, relating to the broader commercial environment, may also affect the Crown's balance sheet. A number of entities owned by the Crown, including commercial and social entities, have their financial performance and valuations impacted by these external factors.

For additional detail, refer to the 2014 *Investment Statement* which provides information on the shape and health of the Crown's portfolio of assets and liabilities at the end of the past full financial year.[8] It outlines how the balance sheet has changed in recent years and includes forecasts of its anticipated composition and size through to 30 June 2018.

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7 Irwin, T and Parkyn, O (2009), "Improving the management of the Crown's exposure to risk", New Zealand Treasury Working Paper 09/06.

8 http://www.treasury.govt.nz/government/investmentstatements/2014

Funding Risks

The New Zealand Crown remains in the top-20 rated sovereigns globally, with the top Aaa foreign-currency rating from Moody's and AA foreign-currency ratings from Standard & Poor's and Fitch. Ratings outlooks are stable across all three agencies.

The cyclical downside risks identified by the rating agencies are broadly in line with the risks identified earlier in the chapter. In the case of an increase in global risk aversion and in the absence of a marked improvement in the external position, New Zealand may be more likely to face a degree of funding pressure in the future. All else being equal, a deterioration in the ratings outlook could serve to raise debt-servicing costs for the Crown. On the other hand, additional downward pressure on borrowing rates is possible if diversification flows, particularly away from Europe, continue in the future.

The Crown is also susceptible to "liquidity risk" with respect to its ability to raise cash to meet its obligations. This risk is relatively small, however, given ongoing management of the core Crown's liquidity position by the Treasury's DMO, as well as the Government's commitment to maintaining prudent debt levels.

4

Specific Fiscal Risks

The Statement of Specific Fiscal Risks is required by the Public Finance Act 1989 to set out, to the fullest extent possible, all government decisions and other circumstances known to the Government at the date of the finalisation of the fiscal forecasts that may have a material effect on the fiscal and economic outlook, but are not certain enough in timing or amount to include in the fiscal forecasts. Although the process for disclosure of specific fiscal risks involves a number of parties, including government departments, the Treasury and the Minister of Finance, there remains a possibility that not every risk is identified. Disclosure of known risks is also subject to specific requirements and materiality thresholds, which are described after the Statement of Specific Fiscal Risks.

Overview

Specific fiscal risks can be positive or negative and can affect revenue or spending. The links between external events and spending are indirect because new policies that change spending and revenue usually require a decision by the Government and approval from Parliament. The approach taken in this chapter is to disclose those potential policy decisions and key areas of uncertainty that may have a material effect on the fiscal outlook.

The Government generally sets aside allowances of new funding for future Budgets to manage uncertainty and cost pressures. These allowances are included in the fiscal forecasts. Current fiscal management policy is for future policy decisions affecting expenses or capital expenditure to be met through reprioritisation or from within existing provisions included in the fiscal forecasts. Future policy decisions are risks to the fiscal forecasts only to the extent that they cannot be managed from within:

- for operating expenditure, existing baselines or Budget allowances, or
- for capital expenditure, the Crown balance sheet, including the Future Investment Fund (FIF)/capital allowance.

Notwithstanding this, known material policy risks are identified as specific fiscal risks, even though the Government has more control in managing such risks through reprioritisation, the existing Crown balance sheet and the Budget allowances. This is done to ensure a prudent approach to the disclosure of risks, improve transparency and not pre-judge future decisions by governments.

The specific fiscal risks are categorised into:

- **Potential policy decisions affecting revenue:** For example, changes to tax policy or ACC levies could reduce or increase government income.
- **Potential policy decisions affecting expenses (expected to be funded from reprioritisation or Budget allowances):** Costs of policy proposals could increase or decrease expenses depending on decisions taken, and they are risks to the fiscal forecasts only to the extent that they cannot be managed within existing baselines or Budget allowances.
- **Potential capital decisions (expected to be funded from the Crown balance sheet, including the FIF/capital allowance):** Capital investment decisions are risks to the fiscal forecasts only to the extent that they cannot be managed within the Crown balance sheet, including the FIF/capital allowance.
- **Matters dependent on external factors:** The Crown's liability for costs is sometimes dependent on external factors such as the outcome of negotiations or international obligations.

A range of generic risks to the fiscal forecasts are not recognised as specific fiscal risks:

- The most significant economic risks have been identified in Chapter 3.
- Business risks and volatility in the returns from the Crown's investments relating to the broader economic and commercial environment.
- General cost pressures, such as those associated with demographic changes (eg, an ageing population).
- Potential risks from changes in demand for government services or transfer payments owing to underlying structural factors (such as changes in demand for Jobseeker Support).
- The costs of future individual natural disasters, and other major events, as they usually occur infrequently and their occurrence, nature and timing cannot be predicted. Once a disaster does occur, a number of choices arise about how to respond and when potential liabilities are recognised (eg, through setting aside an allocation of funding). Specific risks are disclosed at this point based on the range of possible responses.

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

Statement of Specific Fiscal Risks

Summary Table

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

Specific fiscal risks as at 29 April 2014	Status[9]
Potential policy decisions affecting revenue	
ACC – Funding Policy Review	Unchanged
Revenue – Income-sharing Tax Credits	Unchanged
Services Funded by Third Parties	Unchanged
Potential policy decisions affecting expenses (expected to be funded from reprioritisation or Budget allowances)	
ACC – Work-related Gradual Process Disease and Infection	Unchanged
Budget Operating Initiatives	Changed
Canterbury Earthquake Recovery – Christchurch Central Recovery Plan	Unchanged
Christchurch City Council/Crown Cost Sharing	Unchanged
Communications – Ultra-Fast Broadband Initiative	Unchanged
Defence Force – Operating and Capital Costs	New
Finance – Concessionary Loans	New
Government Response to Wai 262	Unchanged
Housing – Reform of Social Housing	Unchanged
Revenue – KiwiSaver Auto-enrolment	Changed
Revenue – Transformation and Technology Renewal	Unchanged
Social Development – Vulnerable Children White Paper	Changed
Social Development – Welfare Reform Costs	Changed
Social Development – Welfare Reform Forecast Benefit Savings	Unchanged
State Sector Employment Agreements	Unchanged
Potential capital decisions (expected to be funded from the Crown balance sheet, including the FIF/capital allowance)	
Departmental Capital Intentions	Changed
Earthquake Strengthening for Crown-owned Buildings	Unchanged
Finance – Crown Overseas Properties	Unchanged
Primary Industries – Investment in Water Infrastructure	Unchanged
Transport – Auckland Transport Projects	Changed
Transport – Support for KiwiRail	Changed

9 *Unchanged* – risks that have not substantively changed since the previous *Economic and Fiscal Update*.
Changed – risks that have changed substantively from the previous *Economic and Fiscal Update*.
New – risks that have not been disclosed in the previous *Economic and Fiscal Update*.

Specific fiscal risks as at 29 April 2014	Status[9]
Matters dependent on external factors	
ACC – Levies	Unchanged
ACC – Non-earners' Account	Unchanged
Canterbury Earthquake Recovery – Residential Red Zone	Unchanged
Caregiver Employment Conditions	New
Communications – Potential Impairment in Value of Broadband Investment	Unchanged
Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets	Unchanged
Energy – Crown Revenue from Petroleum Royalties	Unchanged
Finance – EQC	Unchanged
Finance – Goodwill on Acquisition	Unchanged
Finance – Solid Energy	New
Finance – Southern Response Earthquake Services Support	Unchanged
Housing – Divestment of Housing	Unchanged
Revenue – Cash Held in Tax Pools	Unchanged
Revenue – Student Loans	New
Treaty Negotiations – Treaty Settlement Forecasts	Unchanged
Treaty Negotiations – Relativity Clause	Unchanged

Potential Policy Decisions Affecting Revenue

ACC – Funding Policy Review (Unchanged)

The Government is undertaking a review of ACC's funding policy. Adopting a lower funding target band midpoint would result in a reduction in levies and reduce Crown revenue and Crown assets, with a flow-on impact to the operating balance.

Revenue – Income-sharing Tax Credits (Unchanged)

The Government has introduced legislation to establish an income-sharing tax credit. If passed as introduced, the legislation will allow couples with children under the age of 18 to pool their earnings for income tax purposes if they meet certain criteria. If implemented, the changes could reduce tax revenue by $500 million a year once the scheme is fully operational. The Finance and Expenditure Committee has recommended that the significant fiscal cost of the package be addressed before the Bill proceeds further.

Services Funded by Third Parties (Unchanged)

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

Potential Policy Decisions Affecting Expenses (Expected to be Funded from Reprioritisation or Budget Allowances)

ACC – Work-related Gradual Process Disease and Infection (Unchanged)

Under current legislation, the Government incurs an obligation for Work-related Gradual Process Disease and Infection claims when the claim is made, and an expense is recognised at this point. The liability for commercial accident and sickness insurance contracts would usually be recognised when exposure to conditions that will give rise to a claim occurs. An amendment to legislation would be required to recognise claims at the same time as for commercial contracts. This is under active consideration, but would require an appropriate legislative vehicle. An initial adjustment to the liability, and an expense of about $650 million would need to be reported if such an amendment were to be made.

Budget Operating Initiatives (Changed)

Future Budgets may well include new operating initiatives other than those identified in other specific fiscal risks. Such new operating initiatives are risks to the fiscal forecasts only to the extent they cannot be managed through reprioritisation or from within the existing provision in the fiscal forecasts for forecast new operating spending. The Government's stated intention is that all new operating initiatives will be managed through these mechanisms.

Canterbury Earthquake Recovery – Christchurch Central Recovery Plan (Unchanged)

The Crown is partially funding the construction of Anchor Projects as part of the Christchurch Central Recovery Plan as set out in the cost-sharing agreement with the Christchurch City Council. The extent of funding will vary from project to project, dependent on final project costs. Business cases are progressing through the decision-making process. Project costing for construction of the Anchor Projects will become increasingly clear during the business case process and the subsequent procurement phase. The Crown's contribution may differ from that included in the fiscal forecasts.

Christchurch City Council/Crown Cost Sharing (Unchanged)

The Crown is partially funding the recovery of local infrastructure in Canterbury as set out in the cost-sharing agreement with the Christchurch City Council. The agreement includes a review clause. The review is to be completed by 1 December 2014. Therefore, the fiscal forecasts make no allowance for additional costs arising from the review.

Communications – Ultra-Fast Broadband Initiative (Unchanged)

The Government has expressed support for Crown Fibre Holdings to enter into discussions with Chorus Limited to help manage potential issues for Chorus in delivering the Ultra-Fast Broadband Initiative. Depending on their nature, the outcomes of those discussions could give rise to a fiscal risk. The Government's expectation is that any options arising from the discussions will remain within the current funding envelope.

Defence Force – Operating and Capital Costs (New)

Operating and capital investment decisions may be made to achieve Defence White Paper (2010) policy over the forecast period. In 2013, the Government reconsidered New Zealand Defence Force (NZDF) funding, output requirements and capability intentions, through the Defence Mid-Point Rebalancing Review. The Government is yet to make final decisions on future funding for NZDF. However, funding increases may be approved for NZDF within the forecast period.

Finance – Concessionary Loans (New)

The Crown has provided loans to local government and iwi-based organisations on a concessionary, usually interest free, basis to achieve public policy purposes. To reflect the concession, these loans have been written down and are measured at $290 million in the financial statements. There is, however, a risk that the write-down provisions may be insufficient to cover the credit risk involved in these non-commercial loans.

Government Response to Wai 262 (Unchanged)

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

Housing – Reform of Social Housing (Unchanged)

The Government has decided to change the policy settings for social housing. This includes growing third party providers of social housing, increasing the effectiveness of financial assistance, and Housing New Zealand Corporation focusing on providing social housing to those with the greatest housing need. Increasing the scale or speed of change may require reprioritisation or additional funding.

Revenue – KiwiSaver Auto-enrolment (Changed)

The Government has announced its intention to consult on the design of a one-off KiwiSaver auto-enrolment exercise to increase the number of KiwiSaver members. The Government will proceed with a one-off KiwiSaver enrolment exercise only when it is confident that such a step poses no significant risks to returning to, and maintaining, an operating surplus and debt repayment is on track. An auto-enrolment exercise is likely to entail a one-off cost for kick-start payments to new members and ongoing additional costs for the Member Tax Credit. Depending on the timing, design features and take-up rate, these costs could be in the order of $100 million to $290 million over the first four years after auto-enrolment takes place, and are expected to be funded out of the operating allowance.

Revenue – Transformation and Technology Renewal (Unchanged)

The Government is exploring options that will change the way Inland Revenue manages its processes and data. Any changes could impact tax revenue collections and may have material costs to implement. Inland Revenue has commenced the development of a detailed business cases for Stage 1: Enabling secure digital services. The business cases will inform the Government's decision-making for the first stage of transformation and may require significant reprioritisation or new funding.

Social Development – Vulnerable Children White Paper (Changed)

The Government has begun to implement proposals to better identify and provide assistance to vulnerable children. While funding for 2014/15 has been included in the fiscal forecasts, future costs of the proposal are still being developed. To the extent that these cannot be funded from reprioritisation, additional funding from the Budget operating allowance may be required.

Social Development – Welfare Reform Costs (Changed)

The Welfare Reform package of changes to the benefit system was introduced from July 2013, following amendments to the Social Security Act 1964. The current phase is to review programmes with a view to reducing future benefit dependency and long-term liability. Additional funding was appropriated at Budget 2014. The extent of any further costs associated with the ongoing implementation of the Investment Approach is uncertain.

Social Development – Welfare Reform Forecast Benefit Savings (Unchanged)

A conservative estimate of the likely benefits from Welfare Reform has been included in the fiscal forecasts. The actual impact may differ owing to behavioural factors and the complexity in implementing the reforms, with a corresponding impact on benefit expenditure.

State Sector Employment Agreements (Unchanged)

A number of large collective agreements are due to be negotiated in the short-to-medium term. As well as direct fiscal implications from any changes to remuneration, the renegotiation of these agreements can have flow-on effects to remuneration in other sectors. The Government has signalled an expectation of restraint given its current fiscal stance and that agreements will be managed within the current fiscal forecasts.

Potential Capital Decisions (Expected to be Funded from the Crown Balance Sheet, Including the FIF/Capital Allowance)

Departmental Capital Intentions (Changed)

Future Budgets may well include new capital initiatives other than those identified in other specific fiscal risks. Such initiatives are likely to be primarily from the 16 capital-intensive agencies or sectors that are required to identify their capital spending intentions over the next 10 years based on current policy settings and certain demographic and inflation assumptions. The Government expects that these intentions will be managed back through a range of measures such as prioritisation, changes to asset utilisation, alternative methods of service delivery and changes to policy settings. New capital initiatives and departmental capital intentions are risks to the fiscal forecasts only to the extent they cannot be managed through existing balance sheets, including the FIF, and the provision in the fiscal forecasts for forecast new capital spending.

Earthquake Strengthening for Crown-owned Buildings (Unchanged)

There is a possibility that the Crown will incur costs for earthquake strengthening some of its buildings that do not meet modern building standards. The Government is currently undertaking a stocktake of Crown-owned earthquake-prone buildings. The likelihood, timing and fiscal impact of any earthquake strengthening are uncertain.

Finance – Crown Overseas Properties (Unchanged)

The Government holds New Zealand House in London on a long-term lease from the Crown Estate (UK). Depending on the outcome of ongoing discussions with the Crown Estate an upgrade to the building may be required. A rough-order cost estimate for this upgrade is $100 million over the forecast period.

Primary Industries – Investment in Water Infrastructure (Unchanged)

In addition to $80 million provided in Budget 2013 and $40 million provided in Budget 2014, the Government will consider providing up to $280 million in future Budgets to Crown Irrigation Investments Limited as schemes reach the “investment-ready” stage.

Transport – Auckland Transport Projects (Changed)

The Government has signalled its intention to accelerate transport projects in the Auckland Council’s Auckland Plan, including Auckland Manukau Eastern Transport Initiatives, the East-West Link and support for the City Rail Link and a second Waitemata Harbour Crossing. Decisions on further Crown financial assistance for Auckland Manukau Eastern Transport Initiatives and the East-West Link will be made as part of future Budgets.

Transport – Support for KiwiRail (Changed)

The Government has supported KiwiRail Holdings Limited (KiwiRail) with around $1 billion invested in its plan to become a commercially viable network in Budgets 2010 to 2014. Further funding is being sought by KiwiRail in support of this objective. A major review of the business has commenced and will be assessed to inform Budget 2015 and any further investment.

Matters Dependent on External Factors

ACC – Levies (Unchanged)

Revenue from the levies set for the Work, Earners’ and Motor Vehicle accounts may be more or less than is required to cover the cost of claims, if factors such as claims experience, ACC performance and economic assumptions (particularly discount rates) turn out differently from what has been forecast. Any such variance will have a corresponding impact on the operating balance.

ACC – Non-earners’ Account (Unchanged)

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

Canterbury Earthquake Recovery – Residential Red Zone (Unchanged)

Some recoveries from the EQC and private insurers remain outstanding and there is a risk that final recoveries may be greater or less than forecast. In addition, potential costs associated with the future use of residential red zone are uncertain. The future value may change depending on any future alternate uses of the land.

Caregiver Employment Conditions (New)

Several cases and funding claims in the disability support and aged care sectors may involve significant costs to the Crown relating to interpretation of the Minimum Wage Act 1983, the Equal Pay Act 1972 and the Government's policy of paying certain family members through its Funded Care Policy. Changes to the existing policy could require additional funding. Successful litigation may have implications for agencies that target assistance based on family circumstances and/or employ workers under similar contracts.

Communications – Potential Impairment in Value of Broadband Investment (Unchanged)

The Government has set aside $1.345 billion to progressively capitalise Crown Fibre Holdings so that it can invest with private partners in a new network delivering "ultra-fast" broadband services. Given the contracts entered into, the extent of the recovery of this investment is particularly dependent on the number of connections made to the network. The fiscal forecasts include a provision for impairing this investment, but the final amount of the impairment may vary from this provision.

Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets (Unchanged)

The Government is considering the potential to dispose of a number of NZDF assets, including the Seasprite helicopters and Unimog trucks. Depending on market conditions, the timing of disposal and sale price received could have an impact on the Government's overall financial position. NZDF is also completing analysis of inventory that is surplus to requirements and is over and above the existing provision for obsolescence. The existing provision is also being reviewed to ensure that all items comprising the provision are still relevant.

Energy – Crown Revenue from Petroleum Royalties (Unchanged)

Crown revenue from petroleum royalties is very dependent upon extraction rates, the US dollar value per barrel and the US dollar/NZ dollar exchange rate. Movements up or down in either of these variables could result in a significant decrease or increase in Crown revenue. The overall impact for the Crown could be positive or negative.

Finance – EQC (Unchanged)

The net financial position of EQC, and the size of any requirement for additional Crown funding, remain uncertain, although EQC expects the National Disaster Fund to be fully depleted during the 2014/15 financial year, after which the Crown funding will begin. The uncertainty is around EQC's outstanding claims liability – the actuarial estimate of EQC's outstanding claims liability is highly uncertain and sensitive to assumptions; for example, construction demand surge, land damage estimates, legal challenges, reinsurance recoveries and the profile of claims settlement. The magnitude of the net outstanding cost claims is large, so small percentage changes in the liability can have a material impact on the fiscal forecasts.

Finance – Goodwill on Acquisition (Unchanged)

As at 30 June 2013, the Government had goodwill on acquisition of a number of sub-entities totalling $655 million. Under New Zealand accounting standards (NZIAS 36), such goodwill items are required to be assessed annually for impairment. If there is any indication that the goodwill may be impaired, the recoverable amount of the cash generating units to which the goodwill is allocated is required to be estimated. If the recoverable amount is less than the carrying amount of those units, the units and the goodwill allocated to them are regarded as impaired and the Government is required to recognise impairment losses in the operating statement. Such assessments will be conducted at the end of the financial year, and the fiscal forecasts currently make no allowance for such impairment losses.

Finance – Solid Energy (New)

Since Solid Energy's financial restructure in October 2013 the company's export prices have deteriorated significantly driven mainly by a decrease in US dollar coal price. The company continues to develop and implement a business strategy to adapt to these challenging market conditions and continue operating. Any changes to the restructure arrangements or further deterioration in market conditions or the company's financial position may adversely impact the Crown.

Finance – Southern Response Earthquake Services Support (Unchanged)

The ultimate cost to the Crown of settling earthquake claims remains subject to significant uncertainty. Out-year forecasts assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision. There is a risk that the actual cost could vary from this estimate.

Housing – Divestment of Housing (Unchanged)

The forecasts reflect related divestments and redevelopments of some housing property. Property sales are subject to market conditions and therefore there is an inherent level of uncertainty about the return to the Crown associated with forecast divestments and to the proposed funding of the related developments.

Revenue – Cash Held in Tax Pools (Unchanged)

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

Revenue – Student Loans (New)

The valuation of student loans in the fiscal forecasts use data compiled by Statistics New Zealand from the Ministry of Social Development, Ministry of Education and Inland Revenue. The structure of the datasets has changed to those previously used. While this change is expected to improve the accuracy of the forecasts in the future, the change may lead to revisions of assumptions in the short term which could affect the valuation of outstanding student loans.

Treaty Negotiations – Treaty Settlement Forecasts (Unchanged)

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

Treaty Negotiations – Relativity Clause (Unchanged)

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds $1 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 and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngāi Tahu.

There is a risk that the timing and amount of the expense for the relativity payments may differ from that included in the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Risks Removed Since the 2013 *Half Year Update*

The following risks have been removed since the 2013 *Half Year Update*:

Expired risks	Reason
Defence Force – Mid-point Rebalancing Review	Merged with Defence Force – Operating and Capital Costs risk
Environment – Post-2012 International Climate Change Obligations	No longer material
Health – Litigation in the Disability Support and Aged Care Areas	Merged with Caregiver Employment Conditions risk
Justice – Christchurch Justice and Emergency Services Precinct	No longer material
Finance – Government Commitments to International Financial Institutions	No longer material
Finance – Sale of Part of the Crown's Shareholding in Certain Companies	Included in forecasts

Criteria and Rules for Inclusion in the Fiscal Forecasts or Disclosure as Specific Fiscal Risks

The Public Finance Act 1989 requires that the Statement of Specific Fiscal Risks sets out all government decisions, contingent liabilities or contractual obligations known to the Government and subject to specific requirements that may have a material effect on the economic or fiscal outlook.[10]

The criteria and rules set out below are used to determine if government decisions or other circumstances should be incorporated into the fiscal forecasts, disclosed as specific fiscal risks or, in some circumstances, excluded from disclosure.

Criteria for Including Matters in the Fiscal Forecasts

Matters are incorporated into the fiscal forecasts provided they meet the following criteria:

- The matter can be quantified for particular years with reasonable certainty.
- A decision has been taken, or a decision has not yet been taken but it is reasonably probable[11] the matter will be approved, or it is reasonably probable the situation will occur.

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[10] The Statement of Specific Fiscal Risks is a requirement set out in sections 26Q and 26U of the Public Finance Act 1989.

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

Additionally, any other matters may be incorporated into the forecasts if the Secretary to the Treasury considers, using best professional judgement, that the matters may have a material effect on the fiscal and economic outlook and are certain enough to include in the fiscal forecasts.

Rules for the Disclosure of Specific Fiscal Risks

Matters are disclosed as specific fiscal risks if:

- the likely impact is more than $100 million over five years, and either
- a decision has not yet been taken but it is reasonably possible[12] (but not probable) that the matter will be approved or the situation will occur, or
- it is reasonably probable that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.

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

Exclusions from Disclosure

Matters are excluded from disclosure as specific fiscal risks if they fail to meet the materiality criterion (ie, are less than $100 million over five years), or if they are unlikely[13] to be approved or occur within the forecasting period.

Additionally, the Minister of Finance may determine that a matter be included in the fiscal forecasts or a specific fiscal risk not be disclosed, if such disclosure would be likely to:

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

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

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

13 For these purposes “unlikely” is taken to mean that the matter **will probably not** be approved within the forecast period (by considering, for example, whether there is a less than 20% chance of the matter occurring or being approved).

Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed all unquantifiable contingent liabilities and unquantifiable contingent assets that are not expected to be remote.[14]

Contingent liabilities have been stated as at 31 March 2014, being the latest set of reported contingent liabilities.

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

Quantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities		
	Status[15]	**($millions)**
Guarantees and indemnities		
Other guarantees and indemnities	Unchanged	158
		158
Uncalled capital		
Asian Development Bank	Unchanged	2,763
International Monetary Fund – promissory notes	Unchanged	1,033
International Bank for Reconstruction and Development	Unchanged	948
International Monetary Fund – arrangements to borrow	Unchanged	972
Other uncalled capital	Unchanged	22
		5,738
Legal proceedings and disputes		
Tax disputes	Unchanged	591
Other legal proceedings and disputes	Unchanged	65
		656
Other quantifiable contingent liabilities		
Unclaimed monies	Unchanged	112
Transpower New Zealand Limited	Unchanged	150
Other quantifiable contingent liabilities	Unchanged	228
		490
Total quantifiable contingent liabilities		**7,042**
Contingent assets		
Tax disputes	Unchanged	118
Other quantifiable contingent assets	Unchanged	46
Total quantifiable contingent assets		**168**

[15] Status of contingent liabilities or assets when compared to the *Half Year Economic and Fiscal Update* published on 17 December 2013.

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities	
Indemnities:	**Status**
Air New Zealand	Unchanged
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy Limited	Unchanged
Housing New Zealand Corporation	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Contracts	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal claims and proceedings:	
Accident Compensation Corporation (ACC) litigations	Unchanged
Air New Zealand litigation	Unchanged
Television New Zealand	Unchanged
Treaty of Waitangi claims	Unchanged
Ministry of Education litigation	Unchanged
Other unquantifiable contingent liabilities:	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

The following unquantifiable contingent liability was removed: Meridian Energy Limited Initial Public Offering.

Description of Contingent Liabilities

Quantifiable contingent liabilities over $100 million

Uncalled capital

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

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

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

Uncalled capital	**31 March 2014**	**30 June 2013**
	$millions	**$millions**
Asian Development Bank	2,763	2,992
International Monetary Fund – promissory notes	1,033	1,163
International Bank for Reconstruction and Development	948	1,056
International Monetary Fund – arrangements to borrow	972	1,052

Legal proceedings and disputes

Tax in dispute

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

$591 million at 31 March 2014 ($641 million at 30 June 2013)

Other quantifiable contingent liabilities

Unclaimed monies

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

$112 million at 31 March 2014 ($101 million at 30 June 2013)

Transpower New Zealand Limited

Transpower has a contingent liability relating to excess capital expenditure on the North Island Grid Upgrade Project (NIGU). The NIGU spend exceeds the amount initially approved in 2006. If the excess expenditure is not approved by the Commerce Commission it cannot be recovered from customers. NIGU is operational and a submission for the excess expenditure has been made.

$150 million at 31 March 2014 ($156 million at 30 June 2013)

Unquantifiable contingent liabilities

This part of the Statement provides details of those contingent liabilities of the Crown that are not quantified, excluding those that are considered remote, reported by the following categories:

a Indemnities.

b Legal disputes.

c Other contingent liabilities.

a Indemnities

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

A number of these indemnities are provided to organisations within the Crown's control. 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 core Crown net debt.

Party indemnified	Instrument of indemnification	Actions indemnified
Air New Zealand	Deed of indemnity issued 24 September 2001.	Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US$1 billion in respect of any one claim.
Contact Energy Limited	The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei.	The documents contained two reciprocal indemnities between the Crown and 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 any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines. See risk page 71.
Genesis Energy Limited	Deed between Genesis Power Limited and the Crown.	The agreement sees the Crown compensate Genesis in the event that Genesis has less gas than it requires for the long-term supply of gas to cover Huntly Power station's minimum needs.
	Genesis acquisition of Tekapo A & B power stations.	Indemnity against any damage to bed of lakes and rivers subject to operating easements.

Party indemnified	Instrument of indemnification	Actions indemnified
Housing New Zealand Corporation (HNZC)	The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL).	The Crown indemnified HNZL against: • any breach of the warranty provided, and • any third party claims that are a result of acts or omissions prior to 1 November 1992. The Crown also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referee	Section 197 of the Summary Proceedings Act 1957. Section 58 of the Disputes Tribunal Act 1988.	Damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Contracts	Contracts in respect of which the Crown purchases gas from Maui Mining companies and sells gas downstream to Contact Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited.	The contracts provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.
Maui Partners	Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information.	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill.	The indemnity relates to 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 9 of the Civil Defence Emergency Management Act 2002. Civil Defence Emergency Management Plan.	The Guide to the National Civil Defence Emergency Management Plan ("the Guide") states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Railways Corporation	The Minister of Finance signed the indemnity on 1 September 2004.	The directors of New Zealand Railways Corporation are indemnified against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities.
	Section 10 of the Finance Act 1990.	The Act guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Persons exercising investigating powers	Section 63 of the Corporations (Investigation and Management) Act 1989.	Indemnifies the Financial Markets Authority (formerly Securities Commission), the Registrar of Companies, every statutory manager of a corporation, every member of an advisory committee appointed under the Act and persons appointed pursuant to sections 17 to 19 of the Act (to exercise powers of inspection and investigation). The indemnity applies to the exercise, or omission to exercise, of any powers under the Act, unless the exercise of the power or the omission is shown to be in bad faith.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI).	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line 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	The Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004.	The Crown has indemnified Westpac: • in relation to letters of credit issued on behalf of the Crown, and • for costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and IRD processing arrangements.

Party indemnified	Instrument of indemnification	Actions indemnified
	Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010.	The Crown has indemnified Westpac New Zealand Limited against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation).

Legal claims and proceedings

Numerous legal actions 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 impact 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

There are a number of actions involving ACC in existence, arising from the statutory review and appeal process, and in the main coming from challenges to operational decisions made by ACC. Given the nature of these proceedings and uncertainty as to their outcomes, attempting to quantify the financial effect would be unrealistic, so no estimate has been made.

Air New Zealand litigation

Air New Zealand is currently named in class actions. Two (one in Australia and the other in the United States) make allegations against more than 30 airlines, of anti competitive conduct in relation to pricing in the air cargo business. A class action in the United States alleges that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes. The United States class action is being defended. Claims against Air New Zealand in the Australian class action are to be discontinued under terms of a proposed settlement of the proceedings. Air New Zealand is not contributing to that settlement. The allegations made in relation to the air cargo business are also the subject of proceedings by the Australian Competition and Consumer Commission. A defended hearing in the Federal Court concluded in May 2013 and a decision is awaited. In the event that the Court determines that Air New Zealand had breached Australian laws, the Company would have potential liability for pecuniary penalties.

Television New Zealand Limited (TVNZ)

In the normal course of business various legal claims have been made against TVNZ. Given the stage of proceedings and uncertainty as to the outcomes of the claims, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

Treaty of Waitangi claims

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

On occasion, Māori claimants pursue the resolution of particular claims against the Crown through higher courts. There are currently two such actions against the Crown being heard at the Court of Appeal and the Supreme Court. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

Ministry of Education litigation

Post Primary Teachers Association and several teachers have lodged a claim in the High Court alleging breach of statutory duty, and compensation, in respect of the Novopay system failures. The Ministry is defending this claim.

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. The timing and amount of any possible payments required are not able to be estimated.

Environmental liabilities

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

Any contaminated sites for which costs can be reliably measured have been included in the Statement of Financial Position as provisions.

Treaty of Waitangi claims – Settlement Relativity Payments – see page 72.

Description of Contingent Assets

Quantifiable contingent assets over $100 million

Tax disputes – non-assessed

A contingent asset is recognised when Inland Revenue has advised, or was about to advise, a taxpayer of a proposed adjustment to their tax assessment. The taxpayer has the right to dispute this adjustment and a disputes resolution process can be entered into. The contingent asset is based on the likely outcome of the disputes process based on experience and similar prior cases.

$118 million at 31 March 2014 ($169 million at 30 June 2013)

5

Forecast Financial Statements

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

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

The forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 29 April 2014.

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 45).

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 *Financial Reporting Standard 42: Prospective Financial Statements*.

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

The specific accounting policies are included within the 2014 *Budget Economic and Fiscal Update Additional Information* document which can be found on the Treasury's website at www.treasury.govt.nz/budget/forecasts/befu2014

Changes in Accounting Policies

All policies have been applied on a consistent basis during the forecast period. There have been no changes in accounting policies during the period.

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Specific Fiscal Risks chapter on pages 63 to 83.

Key forecast assumptions are set out on pages 43 to 45.

Government Reporting Entity as at 29 April 2014

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

Core Crown segment

Departments

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

Offices of Parliament

Controller and Auditor-General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises segment

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
Learning Media Limited (in liquidation)
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act schedule 5 companies)

Genesis Energy Limited
Meridian Energy Limited
Mighty River Power Limited

Others

Air New Zealand Limited

Crown entities segment

Accident Compensation Corporation
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Careers New Zealand
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
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
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Historic Places Trust (Pouhere Taonga)
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
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 (2,453)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
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
Tertiary education institutions (29)
Testing Laboratory Registration Council
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
Leadership Development Centre Trust
Māori Trustee
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Reserves Boards (21)
Sentencing Council
Te Ariki Trust

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

Crown Asset Management Limited
Crown Fibre Holdings Limited
Fairway Resolution Limited
Health Benefits Limited
The Network for Learning Limited
Research and Education Advanced Network New Zealand Limited
Southern Response Earthquake Services Limited
Tāmaki Redevelopment Company Limited

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

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Revenue								
Taxation revenue	1	58,134	61,773	61,380	65,824	69,912	73,348	76,848
Other sovereign revenue	1	5,172	5,296	5,383	5,138	4,826	4,790	4,909
Total revenue levied through the Crown's sovereign power		**63,306**	**67,069**	**66,763**	**70,962**	**74,738**	**78,138**	**81,757**
Sales of goods and services		16,713	17,080	16,432	17,091	17,593	18,107	18,764
Interest revenue and dividends	2	2,939	3,588	3,160	3,672	3,982	4,636	5,132
Other revenue		3,697	3,867	3,622	3,842	4,055	4,110	4,085
Total revenue earned through the Crown's operations		**23,349**	**24,535**	**23,214**	**24,605**	**25,630**	**26,853**	**27,981**
Total revenue (excluding gains)		**86,655**	**91,604**	**89,977**	**95,567**	**100,368**	**104,991**	**109,738**
Expenses								
Transfer payments and subsidies	3	22,708	23,485	23,394	23,876	24,479	25,334	26,326
Personnel expenses	4	19,935	20,172	20,488	20,881	21,227	21,424	21,705
Depreciation and amortisation	5	4,812	4,640	4,644	4,882	5,048	5,151	5,213
Other operating expenses	5	36,163	37,608	36,527	37,520	37,497	37,327	37,567
Interest expenses	6	4,358	4,516	4,461	4,763	5,054	5,543	5,708
Insurance expenses	7	3,031	3,215	3,283	3,517	4,048	4,418	4,723
Forecast new operating spending	8	-	461	77	291	1,864	3,375	4,921
Top-down expense adjustment	8	-	(600)	(660)	(875)	(485)	(360)	(360)
Total expenses (excluding losses)		**91,007**	**93,497**	**92,214**	**94,855**	**98,732**	**102,212**	**105,803**
Minority interest share of operating balance before gains/losses[1]		(62)	(140)	(210)	(340)	(374)	(410)	(450)
Operating balance before gains/(losses)		**(4,414)**	**(2,033)**	**(2,447)**	**372**	**1,262**	**2,369**	**3,485**
Net gains/(losses) on financial instruments	9	7,270	1,748	3,604	2,583	2,728	2,837	3,013
Net gains/(losses) on non-financial instruments	10	3,674	443	1,557	(107)	(109)	(73)	(74)
Total gains/(losses)		**10,944**	**2,191**	**5,161**	**2,476**	**2,619**	**2,764**	**2,939**
Net surplus from associates and joint ventures		395	200	259	254	255	255	256
Operating balance	11	**6,925**	**358**	**2,973**	**3,102**	**4,136**	**5,388**	**6,680**

1. Minority interests include those who recently purchased shares in the Government Share Offer Programme as well as the pre-existing minority interests in Air New Zealand Limited, and the minority interests held in the Crown Fibre Holdings Group and Solid Energy.

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

Forecast Analysis of Expenses by Functional Classification

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Total Crown expenses							
By functional classification							
Social security and welfare	26,268	27,510	27,373	28,125	28,967	30,062	31,279
GSF pension expenses	286	283	300	409	436	464	493
Health	13,856	14,433	14,382	14,741	14,668	14,616	14,598
Education	13,366	13,180	13,180	13,571	13,774	13,833	13,909
Core government services	3,960	4,201	4,351	4,462	4,549	4,414	4,331
Law and order	3,670	3,804	3,811	3,750	3,788	3,764	3,767
Defence	1,766	1,893	1,818	1,936	1,975	1,950	1,947
Transport and communications	9,052	9,036	9,212	9,427	9,558	9,692	9,965
Economic and industrial services	8,375	8,098	7,538	7,924	8,066	8,348	8,797
Primary services	1,579	1,892	1,759	1,788	1,757	1,733	1,582
Heritage, culture and recreation	2,351	2,532	2,360	2,348	2,431	2,470	2,523
Housing and community development	989	1,057	1,109	1,141	1,180	1,187	1,220
Environmental protection	528	473	536	511	513	492	495
Other	603	728	607	543	637	629	628
Finance costs	4,358	4,516	4,461	4,763	5,054	5,543	5,708
Forecast new operating spending	-	461	77	291	1,864	3,375	4,921
Top-down expense adjustment	-	(600)	(660)	(875)	(485)	(360)	(360)
Total Crown expenses excluding losses	**91,007**	**93,497**	**92,214**	**94,855**	**98,732**	**102,212**	**105,803**

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.

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Core Crown expenses							
By functional classification							
Social security and welfare	22,741	23,595	23,329	23,954	24,377	25,186	26,137
GSF pension expenses	278	274	282	395	423	450	479
Health	14,498	14,950	14,889	15,065	15,132	15,191	15,274
Education	12,504	12,389	12,411	12,827	12,974	13,035	13,109
Core government services	4,294	4,637	4,792	4,816	4,910	4,761	4,664
Law and order	3,456	3,561	3,575	3,486	3,523	3,496	3,497
Defence	1,804	1,933	1,867	1,984	2,023	1,998	1,996
Transport and communications	2,255	2,162	2,241	2,217	2,176	2,240	2,308
Economic and industrial services	1,978	2,152	2,100	2,215	2,241	2,246	2,299
Primary services	659	818	716	700	638	605	603
Heritage, culture and recreation	804	854	838	770	778	753	744
Housing and community development	283	335	377	326	280	224	220
Environmental protection	530	496	534	510	511	491	494
Other	603	728	607	543	637	629	628
Finance costs	3,619	3,622	3,641	3,883	3,978	4,354	4,440
Forecast new operating spending	-	461	77	291	1,864	3,375	4,921
Top-down expense adjustment	-	(600)	(660)	(875)	(485)	(360)	(360)
Total core Crown expenses excluding losses	**70,306**	**72,367**	**71,616**	**73,107**	**75,980**	**78,674**	**81,453**

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

Forecast Statement of Comprehensive Income

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Operating balance (including minority interest)	**7,019**	**498**	**3,216**	**3,467**	**4,530**	**5,816**	**7,148**
Other comprehensive income							
Revaluation of physical assets	1,367	-	(351)	-	-	-	-
Net change in hedging instruments entered into for cash flow hedges	280	(21)	(102)	(3)	5	8	2
Foreign currency translation differences for foreign operations	-	39	(7)	4	-	-	-
Valuation gains/(losses) on investments available for sale taken to reserves	36	8	(13)	10	10	12	13
Other movements	7	(38)	3	(30)	23	31	40
Total other comprehensive income	**1,690**	**(12)**	**(470)**	**(19)**	**38**	**51**	**55**
Total comprehensive income	**8,709**	**486**	**2,746**	**3,448**	**4,568**	**5,867**	**7,203**
Attributable to:							
- minority interest	153	140	243	365	394	428	468
- the Crown	8,556	346	2,503	3,083	4,174	5,439	6,735
Total comprehensive income	**8,709**	**486**	**2,746**	**3,448**	**4,568**	**5,867**	**7,203**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Opening net worth	59,780	63,270	70,011	75,467	78,633	82,838	88,314
Operating balance	7,019	498	3,216	3,467	4,530	5,816	7,148
Net revaluations	1,367	-	(351)	-	-	-	-
Transfers to/(from) reserves	260	(59)	(119)	10	26	39	43
(Gains)/losses transferred to the Statement of Financial Performance	(10)	-	(3)	3	2	-	(1)
Other movements	73	47	3	(32)	10	12	13
Comprehensive income attributable to the Crown	**8,709**	**486**	**2,746**	**3,448**	**4,568**	**5,867**	**7,203**
Gain/(loss) on Government share offers	167	175	(542)	-	-	-	-
Increase in minority interest from Government share offers	1,371	1,325	3,300	-	-	-	-
Transactions with minority interest	(16)	(74)	(48)	(282)	(363)	(391)	(396)
Closing net worth	**70,011**	**65,182**	**75,467**	**78,633**	**82,838**	**88,314**	**95,121**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Cash flows from operations							
Cash was provided from							
Taxation receipts	56,413	60,695	60,442	64,913	68,831	72,357	75,787
Other sovereign receipts	4,806	4,747	4,969	4,645	4,454	4,560	4,667
Sales of goods and services	16,651	17,175	16,460	17,113	17,626	18,151	18,867
Interest and dividend receipts	2,694	3,175	2,888	3,310	3,560	4,083	4,489
Other operating receipts	5,933	5,443	6,168	4,972	3,894	3,938	3,862
Total cash provided from operations	**86,497**	**91,235**	**90,927**	**94,953**	**98,365**	**103,089**	**107,672**
Cash was disbursed to							
Transfer payments and subsidies	22,780	23,877	23,800	24,020	24,496	25,319	26,297
Personnel and operating payments	58,450	62,622	60,717	63,953	59,698	59,688	60,903
Interest payments	4,369	4,629	4,412	4,728	4,778	5,226	5,378
Forecast new operating spending	-	461	77	291	1,864	3,375	4,921
Top-down expense adjustment	-	(600)	(660)	(875)	(485)	(360)	(360)
Total cash disbursed to operations	**85,599**	**90,989**	**88,346**	**92,117**	**90,351**	**93,248**	**97,139**
Net cash flows from operations	**898**	**246**	**2,581**	**2,836**	**8,014**	**9,841**	**10,533**
Cash flows from investing activities							
Cash was provided from/(disbursed to)							
Net purchase of physical assets	(5,169)	(7,234)	(6,787)	(7,832)	(6,807)	(6,157)	(5,648)
Net purchase of shares and other securities	6,342	(5,221)	(5,336)	4,339	(4,855)	(8,284)	2,005
Net purchase of intangible assets	(581)	(516)	(568)	(576)	(505)	(424)	(403)
Net repayment/(issues) of advances	(1,405)	(2,029)	(2,166)	(1,971)	(1,672)	(1,512)	(1,428)
Net acquisition of investments in associates	280	65	34	(46)	58	45	46
Government share offer programme[1]	1,547	1,500	2,216	598	-	-	-
Forecast new capital spending	-	(503)	(13)	(326)	(565)	(747)	(901)
Top-down capital adjustment	-	50	395	370	75	50	50
Net cash flows from investing activities	**1,014**	**(13,888)**	**(12,225)**	**(5,444)**	**(14,271)**	**(17,029)**	**(6,279)**
Net cash flows from operating and investing activities	**1,912**	**(13,642)**	**(9,644)**	**(2,608)**	**(6,257)**	**(7,188)**	**4,254**
Cash flows from financing activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	234	141	382	152	157	161	166
Net issue/(repayment) of government stock[2]	5,476	10,245	5,723	(759)	5,099	6,824	(4,487)
Net issue/(repayment) of foreign-currency borrowings	(2,926)	(519)	(52)	(838)	(641)	(37)	(576)
Net issue/(repayment) of other New Zealand dollar borrowings	(634)	2,647	251	3,808	2,140	1,117	1,674
Dividends paid to minority interests[3]	(20)	(120)	(246)	(365)	(401)	(416)	(435)
Net cash flows from financing activities	**2,130**	**12,394**	**6,058**	**1,998**	**6,354**	**7,649**	**(3,658)**
Net movement in cash	**4,042**	**(1,248)**	**(3,586)**	**(610)**	**97**	**461**	**596**
Opening cash balance	10,686	16,492	14,924	11,108	10,498	10,595	11,056
Foreign-exchange gains/(losses) on opening cash	196	-	(230)	-	-	-	-
Closing cash balance	**14,924**	**15,244**	**11,108**	**10,498**	**10,595**	**11,056**	**11,652**

1. Excludes purchases by ACC and NZSF.

2. Further information on the proceeds and repayments of government stock ("domestic bonds") is available in note 22.

3. Minority interests include those who recently purchased shares in the Government Share Offer Programme as well as the pre-existing minority interests in Air New Zealand Limited, and the minority interests held in the Crown Fibre Holdings Group and Solid Energy.

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

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Reconciliation between the net cash flows from operations and the operating balance							
Net cash flows from operations	**898**	**246**	**2,581**	**2,836**	**8,014**	**9,841**	**10,533**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on financial instruments	7,270	1,748	3,604	2,583	2,728	2,837	3,013
Net gains/(losses) on non-financial instruments	3,674	443	1,557	(107)	(109)	(73)	(74)
Total gains/(losses)	**10,944**	**2,191**	**5,161**	**2,476**	**2,619**	**2,764**	**2,939**
Other non-cash items in operating balance							
Depreciation and amortisation	(4,812)	(4,640)	(4,644)	(4,882)	(5,048)	(5,151)	(5,213)
Write-down on initial recognition of financial assets	(684)	(723)	(843)	(838)	(866)	(885)	(895)
Impairment on financial assets (excl. receivables)	(497)	23	(18)	(128)	(131)	(134)	(137)
Decrease/(increase) in defined benefit retirement plan liabilities	385	461	458	353	338	322	304
Decrease/(increase) in insurance liabilities	1,106	2,517	1,730	3,629	(801)	(1,392)	(1,638)
Other	331	201	47	(86)	(119)	(152)	(193)
Total other non-cash Items	**(4,171)**	**(2,161)**	**(3,270)**	**(1,952)**	**(6,627)**	**(7,392)**	**(7,772)**
Movements in working capital							
Increase/(decrease) in receivables	(1,302)	(1,119)	(1,346)	(803)	120	453	648
Increase/(decrease) in accrued interest	257	526	222	326	147	235	313
Increase/(decrease) in inventories	(94)	73	18	(4)	25	8	(51)
Increase/(decrease) in prepayments	32	(29)	(24)	(27)	2	6	(2)
Decrease/(increase) in deferred revenue	(2)	26	(87)	(20)	(19)	(14)	(64)
Decrease/(increase) in payables/provisions	363	605	(282)	270	(145)	(513)	136
Total movements in working capital	**(746)**	**82**	**(1,499)**	**(258)**	**130**	**175**	**980**
Operating balance	**6,925**	**358**	**2,973**	**3,102**	**4,136**	**5,388**	**6,680**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Assets								
Cash and cash equivalents	12	14,924	15,244	11,108	10,498	10,595	11,056	11,652
Receivables	12	19,883	18,070	17,873	16,610	16,757	17,244	17,933
Marketable securities, deposits and derivatives in gain	12	44,000	44,713	47,870	42,731	47,323	55,603	53,641
Share investments	12	17,359	18,176	19,672	21,234	22,743	24,412	26,209
Advances	12	22,613	25,312	24,611	26,626	28,655	30,343	31,949
Inventory		1,140	1,321	1,158	1,155	1,180	1,188	1,137
Other assets		2,295	2,061	2,267	2,144	2,167	2,182	2,192
Property, plant and equipment	14	109,833	112,627	112,264	115,873	118,485	120,399	121,969
Equity accounted investments[1]		9,593	9,642	10,021	10,326	10,530	10,713	10,895
Intangible assets and goodwill	15	2,776	2,837	2,841	2,934	2,970	2,900	2,870
Forecast for new capital spending	8	-	505	13	339	904	1,651	2,551
Top-down capital adjustment	8	-	(330)	(395)	(765)	(840)	(890)	(940)
Total assets		**244,416**	**250,178**	**249,303**	**249,705**	**261,469**	**276,801**	**282,058**
Liabilities								
Issued currency		4,691	4,897	5,072	5,224	5,381	5,543	5,709
Payables	17	11,160	12,360	11,952	11,874	12,676	13,629	14,288
Deferred revenue		1,714	1,553	1,802	1,821	1,840	1,854	1,918
Borrowings		100,087	112,201	103,058	104,390	110,727	118,421	114,698
Insurance liabilities	18	37,712	35,902	34,900	31,272	32,072	33,464	35,102
Retirement plan liabilities	19	11,903	11,766	10,732	10,380	10,042	9,719	9,416
Provisions	20	7,138	6,317	6,320	6,111	5,893	5,857	5,806
Total liabilities		**174,405**	**184,996**	**173,836**	**171,072**	**178,631**	**188,487**	**186,937**
Total assets less total liabilities		**70,011**	**65,182**	**75,467**	**78,633**	**82,838**	**88,314**	**95,121**
Net worth								
Taxpayers' funds		10,862	6,230	13,344	16,601	21,010	26,603	33,489
Property, plant and equipment revaluation reserve		57,068	55,831	56,648	56,509	56,259	56,085	55,919
Other reserves		141	(64)	40	5	20	40	55
Total net worth attributable to the Crown		**68,071**	**61,997**	**70,032**	**73,115**	**77,289**	**82,728**	**89,463**
Net worth attributable to minority interest		1,940	3,185	5,435	5,518	5,549	5,586	5,658
Total net worth	21	**70,011**	**65,182**	**75,467**	**78,633**	**82,838**	**88,314**	**95,121**

1. Tertiary education institutions constitute most equity accounted investments.

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

Forecast Statement of Borrowings

as at 30 June

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Borrowings							
Government bonds	57,377	68,469	60,499	58,855	63,426	69,678	64,664
Treasury bills	4,084	3,541	3,087	3,688	3,561	3,560	3,555
Government retail stock	199	204	190	190	190	190	190
Settlement deposits with Reserve Bank	7,575	7,183	6,849	6,849	6,849	6,849	6,849
Derivatives in loss	3,188	1,854	2,099	1,890	1,775	1,744	1,564
Finance lease liabilities	1,454	1,475	1,574	1,994	2,132	2,137	2,175
Other borrowings	26,210	29,475	28,760	30,924	32,794	34,263	35,701
Total borrowings	**100,087**	**112,201**	**103,058**	**104,390**	**110,727**	**118,421**	**114,698**
Total sovereign-guaranteed debt	75,684	84,580	76,653	75,602	79,940	86,132	80,971
Total non-sovereign-guaranteed debt	24,403	27,621	26,405	28,788	30,787	32,289	33,727
Total borrowings	**100,087**	**112,201**	**103,058**	**104,390**	**110,727**	**118,421**	**114,698**
Net debt:							
Core Crown borrowings[1]	84,873	94,504	88,442	86,246	91,216	98,132	93,740
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(587)	(1,027)	(640)	(767)	(898)	(939)	(941)
Gross sovereign-issued debt[2]	**84,286**	**93,477**	**87,802**	**85,479**	**90,318**	**97,193**	**92,799**
Less core Crown financial assets[3]	62,984	65,786	66,764	63,248	68,868	77,954	76,562
Net core Crown debt	**21,302**	**27,691**	**21,038**	**22,231**	**21,450**	**19,239**	**16,237**
Core Crown advances	13,126	14,375	13,786	15,056	15,512	15,759	15,898
Net core Crown debt (incl. NZS Fund)[4]	**34,428**	**42,066**	**34,824**	**37,287**	**36,962**	**34,998**	**32,135**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	21,407	22,699	24,597	26,280	28,359	30,486	32,732
Net core Crown debt (excl. NZS Fund and advances)[6]	**55,835**	**64,765**	**59,421**	**63,567**	**65,321**	**65,484**	**64,867**
Gross debt:							
Gross sovereign-issued debt[2]	84,286	93,477	87,802	85,479	90,318	97,193	92,799
Less Reserve Bank settlement cash and bank bills	(7,902)	(7,391)	(7,245)	(7,245)	(7,245)	(7,245)	(7,245)
Add back changes to DMO borrowing owing to settlement cash[7]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and bank bills[4]	**77,984**	**87,686**	**82,157**	**79,834**	**84,673**	**91,548**	**87,154**

Notes on borrowings

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

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

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

Statement of Actual Commitments

as at 31 March 2014

	As at 31 Mar 2014 $m	As at 30 June 2013 $m
Capital commitments		
Specialist military equipment	422	549
Land and buildings	961	717
Other property, plant and equipment	5,126	5,478
Other capital commitments	898	790
Tertiary education institutions	169	169
Total capital commitments	**7,576**	**7,703**
Operating commitments		
Non-cancellable accommodation leases	2,626	2,792
Other non-cancellable leases	2,550	2,735
Tertiary education institutions	466	466
Total operating commitments	**5,642**	**5,993**
Total commitments	**13,218**	**13,696**
Total commitments by segment		
Core Crown	3,722	4,226
Crown entities	5,344	5,296
State-owned enterprises	5,006	5,078
Inter-segment eliminations	(854)	(904)
Total commitments	**13,218**	**13,696**

Statement of Actual Contingent Liabilities and Assets

as at 31 March 2014

	As at 31 Mar 2014 $m	As at 30 June 2013 $m
Quantifiable contingent liabilities		
Guarantees and indemnities	158	225
Uncalled capital	5,738	6,286
Legal proceedings and disputes	656	707
Other contingent liabilities	490	432
Total quantifiable contingent liabilities	**7,042**	**7,650**
Total quantifiable contingent liabilities by segment		
Core Crown	6,685	7,350
Crown entities	43	35
State-owned enterprises	314	265
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**7,042**	**7,650**
Quantifiable contingent assets by segment		
Core Crown	164	245
Crown entities	4	4
State-owned enterprises	-	21
Total quantifiable contingent assets	**168**	**270**

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

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

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation revenue (accrual)							
Individuals							
Source deductions	22,330	23,709	23,811	25,224	26,627	28,175	29,849
Other persons	5,210	5,083	5,161	5,428	5,681	5,955	6,106
Refunds	(1,644)	(1,488)	(1,531)	(1,395)	(1,520)	(1,609)	(1,635)
Fringe benefit tax	480	477	487	512	533	556	581
Total individuals	**26,376**	**27,781**	**27,928**	**29,769**	**31,321**	**33,077**	**34,901**
Corporate tax							
Gross companies tax	8,747	9,240	9,195	9,555	9,956	10,220	10,450
Refunds	(151)	(197)	(195)	(207)	(233)	(240)	(248)
Non-resident withholding tax	420	447	421	481	528	551	569
Foreign-source dividend w/holding payments	2	-	2	2	2	2	2
Total corporate tax	**9,018**	**9,490**	**9,423**	**9,831**	**10,253**	**10,533**	**10,773**
Other direct income tax							
Resident w/holding tax on interest income	1,631	1,671	1,642	2,007	2,638	3,022	3,381
Resident w/holding tax on dividend income	516	607	472	495	516	534	545
Total other direct income tax	**2,147**	**2,278**	**2,114**	**2,502**	**3,154**	**3,556**	**3,926**
Total direct income tax	**37,541**	**39,549**	**39,465**	**42,102**	**44,728**	**47,166**	**49,600**
Goods and services tax							
Gross goods and services tax	25,125	27,220	27,364	29,392	30,722	32,241	34,410
Refunds	(9,920)	(10,695)	(11,079)	(11,630)	(11,832)	(12,568)	(13,807)
Total goods and services tax	**15,205**	**16,525**	**16,285**	**17,762**	**18,890**	**19,673**	**20,603**
Other indirect taxation							
Road user charges	1,066	1,164	1,162	1,268	1,366	1,425	1,473
Petroleum fuels excise – domestic production	855	931	848	936	1,088	1,214	1,246
Alcohol excise – domestic production	663	678	655	681	707	738	770
Tobacco excise – domestic production	281	277	274	286	297	309	308
Petroleum fuels excise – imports[1]	674	659	746	766	725	654	671
Alcohol excise – imports[1]	250	267	246	255	265	276	288
Tobacco excise – imports[1]	954	1,043	1,029	1,108	1,186	1,235	1,232
Other customs duty	178	172	169	155	147	139	132
Gaming duties	214	223	211	209	210	210	211
Motor vehicle fees	174	187	186	195	202	208	213
Approved issuer levy and cheque duty	45	62	68	65	65	65	65
Energy resources levies	34	36	36	36	36	36	36
Total other indirect taxation	**5,388**	**5,699**	**5,630**	**5,960**	**6,294**	**6,509**	**6,645**
Total indirect taxation	**20,593**	**22,224**	**21,915**	**23,722**	**25,184**	**26,182**	**27,248**
Total taxation revenue	**58,134**	**61,773**	**61,380**	**65,824**	**69,912**	**73,348**	**76,848**
Other sovereign revenue (accrual)							
ACC levies	3,437	3,465	3,546	3,172	2,966	2,897	2,972
Fire Service levies	331	338	338	348	350	353	358
EQC levies	242	269	275	282	285	288	291
Child support	590	729	604	665	523	550	584
Court fines	168	173	173	173	173	173	173
Other miscellaneous items	404	322	447	498	529	529	531
Total other sovereign revenue	**5,172**	**5,296**	**5,383**	**5,138**	**4,826**	**4,790**	**4,909**
Total sovereign revenue	**63,306**	**67,069**	**66,763**	**70,962**	**74,738**	**78,138**	**81,757**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation receipts (cash)							
Individuals							
Source deductions	22,188	23,584	23,665	25,074	26,471	28,019	29,685
Other persons	5,194	5,549	5,655	5,964	6,184	6,429	6,632
Refunds	(2,251)	(2,222)	(2,149)	(2,211)	(2,321)	(2,372)	(2,472)
Fringe benefit tax	465	476	485	510	531	554	579
Total individuals	**25,596**	**27,387**	**27,656**	**29,337**	**30,865**	**32,630**	**34,424**
Corporate tax							
Gross companies tax	8,665	9,495	9,390	9,963	10,269	10,647	10,857
Refunds	(597)	(766)	(652)	(703)	(755)	(785)	(811)
Non-resident withholding tax	451	446	399	480	527	550	568
Foreign-source dividend w/holding payments	1	-	2	2	2	2	2
Total corporate tax	**8,520**	**9,175**	**9,139**	**9,742**	**10,043**	**10,414**	**10,616**
Other direct income tax							
Resident w/holding tax on interest income	1,635	1,670	1,641	2,005	2,636	3,020	3,379
Resident w/holding tax on dividend income	516	607	471	495	516	534	545
Total other direct income tax	**2,151**	**2,277**	**2,112**	**2,500**	**3,152**	**3,554**	**3,924**
Total direct income tax	**36,267**	**38,839**	**38,907**	**41,579**	**44,060**	**46,598**	**48,964**
Goods and services tax							
Gross goods and services tax	24,539	26,352	26,537	28,504	29,809	31,318	33,485
Refunds	(9,783)	(10,195)	(10,629)	(11,130)	(11,332)	(12,068)	(13,307)
Total goods and services tax	**14,756**	**16,157**	**15,908**	**17,374**	**18,477**	**19,250**	**20,178**
Other indirect taxation							
Road user charges	1,064	1,164	1,162	1,268	1,366	1,425	1,473
Petroleum fuels excise – domestic production	865	931	848	936	1,088	1,214	1,246
Alcohol excise – domestic production	666	678	655	681	707	738	770
Tobacco excise – domestic production	287	277	274	286	297	309	308
Customs duty	2,035	2,141	2,190	2,284	2,323	2,304	2,323
Gaming duties	216	223	208	209	210	210	211
Motor vehicle fees	179	187	186	195	202	208	213
Approved issuer levy and cheque duty	44	62	68	65	65	65	65
Energy resources levies	34	36	36	36	36	36	36
Total other indirect taxation	**5,390**	**5,699**	**5,627**	**5,960**	**6,294**	**6,509**	**6,645**
Total indirect taxation	**20,146**	**21,856**	**21,535**	**23,334**	**24,771**	**25,759**	**26,823**
Total taxation receipts	**56,413**	**60,695**	**60,442**	**64,913**	**68,831**	**72,357**	**75,787**
Other sovereign receipts (cash)							
ACC levies	3,524	3,438	3,550	3,174	2,959	3,049	3,133
Fire Service levies	331	338	338	348	350	353	358
EQC levies	274	267	278	282	285	287	290
Child support	230	237	227	252	267	278	293
Court fines	159	148	148	137	137	137	137
Other miscellaneous items	288	319	428	452	456	456	456
Total other sovereign receipts	**4,806**	**4,747**	**4,969**	**4,645**	**4,454**	**4,560**	**4,667**
Total sovereign receipts	**61,219**	**65,442**	**65,411**	**69,558**	**73,285**	**76,917**	**80,454**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 2: Interest revenue and dividends							
By type							
Interest revenue	2,382	3,006	2,555	3,101	3,367	3,984	4,443
Dividends	557	582	605	571	615	652	689
Total interest revenue and dividends	**2,939**	**3,588**	**3,160**	**3,672**	**3,982**	**4,636**	**5,132**
By source							
Core Crown	2,104	2,639	2,304	2,492	2,717	3,226	3,581
Crown entities	1,270	1,242	1,156	1,277	1,308	1,364	1,455
State-owned enterprises	856	878	885	1,006	1,167	1,317	1,477
Inter-segment eliminations	(1,291)	(1,171)	(1,185)	(1,103)	(1,210)	(1,271)	(1,381)
Total interest revenue and dividends	**2,939**	**3,588**	**3,160**	**3,672**	**3,982**	**4,636**	**5,132**
NOTE 3: Transfer payments and subsidies							
New Zealand Superannuation	10,235	10,894	10,903	11,590	12,242	12,885	13,643
Jobseeker Support and Emergency Benefit	-	1,773	1,693	1,648	1,556	1,538	1,569
Supported Living Payment	-	1,392	1,422	1,518	1,538	1,560	1,591
Sole Parent Support	-	1,288	1,225	1,243	1,249	1,263	1,285
Domestic Purposes Benefit	1,738	67	63	-	-	-	-
Invalid's Benefit	1,330	53	52	-	-	-	-
Sickness Benefit	782	32	29	-	-	-	-
Unemployment Benefit	812	29	29	-	-	-	-
Family tax credit	2,018	2,038	1,976	1,934	1,912	1,982	1,951
Other working for families tax credits	575	539	556	527	527	522	515
Accommodation Assistance	1,177	1,191	1,149	1,141	1,129	1,129	1,145
Income related rents	611	662	670	718	775	825	879
Disability assistance	384	380	379	373	374	375	378
Student allowances	596	574	542	531	534	540	546
Other social assistance benefits	1,290	1,316	1,354	1,293	1,294	1,295	1,348
Total social assistance grants	**21,548**	**22,228**	**22,042**	**22,516**	**23,130**	**23,914**	**24,850**
Subsidies							
KiwiSaver subsidies	723	748	822	827	807	847	890
Other transfer payments							
Official development assistance	437	509	530	533	542	573	586
Total transfer payments and subsidies	**22,708**	**23,485**	**23,394**	**23,876**	**24,479**	**25,334**	**26,326**

From 15 July 2013 the benefit categories Domestic Purposes Benefit, Invalid's Benefit, Unemployment and Emergency Benefit and Sickness Benefit, as well as Widow's Benefit, were replaced by new benefit categories. These categories are Jobseeker Support and Emergency Benefit, Supported Living Payment and Sole Parent Support.

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 4: Personnel expenses							
By source							
Core Crown	6,037	6,066	6,253	6,361	6,450	6,478	6,524
Crown entities	10,966	11,198	11,302	11,607	11,821	11,964	12,114
State-owned enterprises	2,949	2,919	2,940	2,923	2,967	2,993	3,078
Inter-segment eliminations	(17)	(11)	(7)	(10)	(11)	(11)	(11)
Total personnel expenses	**19,935**	**20,172**	**20,488**	**20,881**	**21,227**	**21,424**	**21,705**
NOTE 5: Depreciation, amortisation and other operating expenses							
Other operating expenses by source							
Core Crown	36,565	37,811	37,474	38,038	38,128	37,901	37,995
Crown entities	17,065	17,458	17,580	17,759	17,927	17,836	17,720
State-owned enterprises	9,689	9,743	9,154	9,556	9,789	10,123	10,539
Inter-segment eliminations	(27,156)	(27,404)	(27,681)	(27,833)	(28,347)	(28,533)	(28,687)
Total other operating expenses	**36,163**	**37,608**	**36,527**	**37,520**	**37,497**	**37,327**	**37,567**
Depreciation and amortisation by source							
Core Crown	1,378	1,522	1,435	1,533	1,567	1,592	1,604
Crown entities	1,583	1,642	1,656	1,710	1,792	1,821	1,822
State-owned enterprises	1,851	1,476	1,553	1,639	1,689	1,738	1,787
Inter-segment eliminations	-	-	-	-	-	-	-
Total depreciation and amortisation	**4,812**	**4,640**	**4,644**	**4,882**	**5,048**	**5,151**	**5,213**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 6: Interest expenses							
By type							
Interest on financial liabilities	4,312	4,465	4,416	4,721	5,020	5,501	5,669
Interest unwind on provisions	46	51	45	42	34	42	39
Total interest expenses	**4,358**	**4,516**	**4,461**	**4,763**	**5,054**	**5,543**	**5,708**
By source							
Core Crown	3,620	3,622	3,641	3,883	3,978	4,354	4,440
Crown entities	235	239	224	237	236	245	250
State-owned enterprises	1,248	1,279	1,173	1,295	1,433	1,568	1,696
Inter-segment eliminations	(745)	(624)	(577)	(652)	(593)	(624)	(678)
Total interest expenses	**4,358**	**4,516**	**4,461**	**4,763**	**5,054**	**5,543**	**5,708**
NOTE 7: Insurance expenses							
By entity							
ACC	3,133	3,315	3,461	3,561	3,936	4,213	4,496
EQC	(103)	(19)	(252)	34	142	218	224
Southern Response	(22)	(95)	61	(89)	(42)	(24)	(8)
Other (incl. inter-segment eliminations)	23	14	13	11	12	11	11
Total insurance expenses	**3,031**	**3,215**	**3,283**	**3,517**	**4,048**	**4,418**	**4,723**

NOTE 8: Forecast new spending and top-down expense adjustment

	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Forecast new operating spending					
Unallocated contingencies	77	291	364	345	330
Forecast new spending for Budget 2015	-	-	1,500	1,500	1,500
Forecast new spending for Budget 2016	-	-	-	1,530	1,530
Forecast new spending for Budget 2017	-	-	-	-	1,561
Total forecast new operating spending	**77**	**291**	**1,864**	**3,375**	**4,921**
Operating top-down adjustment	**(660)**	**(875)**	**(485)**	**(360)**	**(360)**

Unallocated contingencies represent expenses included in Budget 2014 and previous Budgets that has yet to be allocated. Forecast new spending indicates the expected spending increases from future Budgets.

	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	Post-2018 Forecast $m	Total Forecast $m
Forecast new capital spending (annual)							
Unallocated contingencies	13	226	165	97	-	-	501
Forecast new spending for Budget 2015	-	100	300	250	250	-	900
Forecast new spending for Budget 2016	-	-	100	300	250	250	900
Forecast new spending for Budget 2017	-	-	-	100	300	518	918
Forecast new spending for Budget 2018	-	-	-	-	100	836	936
Total forecast new capital spending	**13**	**326**	**565**	**747**	**900**	**1,604**	**4,155**
Forecast new capital spending (cumulative)	**13**	**339**	**904**	**1,651**	**2,551**		
Capital top-down adjustment (cumulative)	**(395)**	**(765)**	**(840)**	**(890)**	**(940)**		

Unallocated contingencies represent capital spending from Budget 2014 and previous Budgets that has yet to be allocated. Forecast new spending indicates the expected capital spending increases from future Budgets, which will be mostly funded from the Future Investment Fund.

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 9: Gains and losses on financial instruments							
By source							
Core Crown	5,081	1,663	3,301	2,378	2,473	2,521	2,613
Crown entities	1,192	252	342	373	435	512	600
State-owned enterprises	354	11	88	52	49	39	44
Inter-segment eliminations	643	(178)	(127)	(220)	(229)	(235)	(244)
Net gains/(losses) on financial instruments	**7,270**	**1,748**	**3,604**	**2,583**	**2,728**	**2,837**	**3,013**
NOTE 10: Gains and losses on non-financial instruments							
By type							
Actuarial gains/(losses) on GSF liability	1,251	-	713	-	-	-	-
Actuarial gains/(losses) on ACC outstanding claims	2,369	498	1,082	-	-	-	-
Other	86	(55)	(205)	(82)	(89)	(55)	(56)
Minority interest share of net gains/losses	(32)	-	(33)	(25)	(20)	(18)	(18)
Net gains/(losses) on non-financial instruments	**3,674**	**443**	**1,557**	**(107)**	**(109)**	**(73)**	**(74)**
By source							
Core Crown	1,298	(2)	557	(13)	(36)	(1)	(1)
Crown entities	2,309	446	1,034	(69)	(53)	(54)	(55)
State-owned enterprises	68	(1)	(6)	(45)	(40)	(28)	(28)
Inter-segment eliminations	(1)	-	(28)	20	20	10	10
Net gains/(losses) on non-financial instruments	**3,674**	**443**	**1,557**	**(107)**	**(109)**	**(73)**	**(74)**
NOTE 11: Operating balance							
By source							
Core Crown	371	(2,249)	109	1,871	3,395	4,753	5,901
Crown entities	5,877	2,646	2,993	1,357	848	711	860
State-owned enterprises	614	732	654	593	764	823	880
Inter-segment eliminations	63	(771)	(783)	(719)	(871)	(899)	(961)
Total operating balance	**6,925**	**358**	**2,973**	**3,102**	**4,136**	**5,388**	**6,680**
NOTE 12: Financial assets							
Cash and cash equivalents	14,924	15,244	11,108	10,498	10,595	11,056	11,652
Tax receivables	8,184	7,831	8,555	8,664	9,206	9,711	10,498
Trade and other receivables	11,699	10,239	9,318	7,946	7,551	7,533	7,435
Student loans (refer note 13)	8,288	8,989	8,752	9,024	9,287	9,513	9,695
Kiwibank mortgages	13,202	14,544	14,784	16,361	18,152	19,652	21,152
Long-term deposits	3,588	2,089	2,407	1,986	1,886	1,913	2,090
IMF financial assets	2,291	2,404	2,507	2,557	2,574	2,598	2,623
Other advances	1,123	1,779	1,075	1,241	1,216	1,178	1,102
Share investments	17,359	18,176	19,672	21,234	22,743	24,412	26,209
Derivatives in gain	3,775	3,906	3,194	2,797	2,507	2,346	2,224
Other marketable securities	34,346	36,314	39,762	35,391	40,356	48,746	46,704
Total financial assets	**118,779**	**121,515**	**121,134**	**117,699**	**126,073**	**138,658**	**141,384**
Financial assets by entity							
NZDMO	17,799	20,153	19,405	13,555	16,823	23,539	19,583
Reserve Bank of New Zealand	19,342	18,228	18,481	18,657	19,127	19,714	19,296
NZS Fund	23,419	23,891	25,698	27,419	29,393	31,515	33,801
Other core Crown	22,339	20,464	22,419	21,202	21,450	21,753	22,391
Intra-segment eliminations	(7,788)	(6,691)	(7,733)	(6,318)	(6,097)	(6,202)	(5,332)
Total core Crown segment	**75,111**	**76,045**	**78,270**	**74,515**	**80,696**	**90,319**	**89,739**
ACC portfolio	28,243	32,161	30,632	32,539	34,303	36,263	38,380
EQC portfolio	5,401	2,597	3,237	102	58	57	59
Other Crown entities	9,075	9,735	8,722	7,852	7,075	7,071	7,213
Intra-segment eliminations	(1,422)	(3,625)	(1,764)	(1,777)	(1,820)	(1,862)	(1,904)
Total Crown entities segment	**41,297**	**40,868**	**40,827**	**38,716**	**39,616**	**41,529**	**43,748**
Total state-owned enterprises segment	**20,058**	**22,141**	**21,541**	**23,459**	**25,460**	**27,205**	**29,121**
Inter-segment eliminations	(17,687)	(17,539)	(19,504)	(18,991)	(19,699)	(20,395)	(21,224)
Total financial assets	**118,779**	**121,515**	**121,134**	**117,699**	**126,073**	**138,658**	**141,384**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 13: Student loans							
Nominal value (including accrued interest)	13,562	14,144	14,209	14,790	15,377	15,952	16,484
Opening book value	8,291	8,528	8,288	8,752	9,024	9,287	9,513
Amount borrowed in current year	1,481	1,632	1,545	1,586	1,645	1,701	1,732
Less initial write-down to fair value	(536)	(537)	(644)	(668)	(693)	(716)	(729)
Repayments made during the year	(1,054)	(1,135)	(1,050)	(1,158)	(1,219)	(1,304)	(1,379)
Interest unwind	590	600	572	601	618	634	647
(Impairment)/reversal of impairment	(484)	(110)	30	(100)	(100)	(100)	(100)
Other movements	-	11	11	11	12	11	11
Closing book value	**8,288**	**8,989**	**8,752**	**9,024**	**9,287**	**9,513**	**9,695**
NOTE 14: Property, plant and equipment							
By class of asset							
Net carrying value							
Land (valuation)	34,453	34,759	34,934	35,030	34,887	34,990	34,996
Buildings (valuation)	25,784	25,312	25,969	27,365	28,393	29,008	29,542
State highways (valuation)	17,930	18,918	18,875	19,797	20,809	21,839	22,907
Electricity generation assets (valuation)	13,555	14,104	13,660	13,529	13,345	13,172	12,990
Electricity distribution network (cost)	3,865	4,273	4,167	4,261	4,365	4,487	4,544
Specialist military equipment (valuation)	3,094	3,330	2,854	3,080	3,268	3,373	3,338
Specified cultural and heritage assets (valuation)	2,617	2,502	2,677	2,679	2,704	2,726	2,736
Aircraft (excluding military) (valuation)	2,296	2,498	2,639	3,269	3,774	3,983	4,107
Rail network (valuation)	1,035	1,012	1,134	1,372	1,401	1,447	1,480
Other plant and equipment (cost)	5,204	5,919	5,355	5,491	5,539	5,374	5,329
Total property, plant and equipment	**109,833**	**112,627**	**112,264**	**115,873**	**118,485**	**120,399**	**121,969**
By source							
Core Crown	29,507	30,565	29,971	31,334	31,986	32,595	32,886
Crown entities	51,823	52,207	53,043	54,618	56,327	57,628	59,039
State-owned enterprises	28,503	29,855	29,250	29,921	30,172	30,176	30,044
Inter-segment eliminations	-	-	-	-	-	-	-
Total property, plant and equipment	**109,833**	**112,627**	**112,264**	**115,873**	**118,485**	**120,399**	**121,969**
Land breakdown by usage							
Housing	9,580	8,750	9,582	9,410	9,149	8,943	8,730
State highway corridor land	8,003	8,653	8,153	8,303	8,453	8,603	8,753
Conservation land	5,364	5,460	5,373	5,385	5,407	5,417	5,417
Rail network	3,256	3,418	3,252	3,232	3,212	3,202	3,192
Schools	2,887	2,724	2,880	2,875	2,870	2,865	2,860
Commercial (SOEs) excluding Rail	1,374	1,520	1,491	1,491	1,509	1,624	1,669
Other	3,989	4,234	4,203	4,334	4,287	4,336	4,375
Total land	**34,453**	**34,759**	**34,934**	**35,030**	**34,887**	**34,990**	**34,996**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 14 (continued): Property, plant and equipment							
Schedule of movements							
Cost or valuation							
Opening balance	121,717	126,589	122,796	129,107	136,883	143,769	150,056
Additions (refer below for further breakdown)	5,779	7,830	7,318	8,678	7,957	7,133	6,791
Disposals	(1,471)	(598)	(639)	(865)	(1,061)	(858)	(763)
Net revaluations	(2,047)	-	(363)	-	-	-	-
Other[1]	(1,182)	(56)	(5)	(37)	(10)	12	(24)
Total cost or valuation	**122,796**	**133,765**	**129,107**	**136,883**	**143,769**	**150,056**	**156,060**
Accumulated depreciation and impairment							
Opening balance	13,133	17,255	12,963	16,843	21,010	25,284	29,657
Eliminated on disposal	(659)	(42)	(98)	(52)	(52)	(52)	(50)
Eliminated on revaluation	(3,587)	-	(69)	-	-	-	-
Impairment losses charged to operating balance	473	-	-	-	-	-	-
Depreciation expense	3,697	4,011	4,025	4,224	4,329	4,429	4,521
Other[1]	(94)	(86)	22	(5)	(3)	(4)	(37)
Total accumulated depreciation and impairment	**12,963**	**21,138**	**16,843**	**21,010**	**25,284**	**29,657**	**34,091**
Total property, plant and equipment	**109,833**	**112,627**	**112,264**	**115,873**	**118,485**	**120,399**	**121,969**

1. Other mainly includes transfers to/from other asset categories.

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Additions – by functional classification							
Transport	2,041	2,579	2,625	3,235	2,945	2,659	2,581
Economic	1,521	1,338	1,147	717	682	739	734
Education	472	862	757	895	959	880	720
Health	578	636	572	803	700	576	800
Defence	201	548	413	619	613	561	439
Other	966	1,867	1,804	2,409	2,058	1,718	1,517
Total additions to property, plant and equipment[2]	**5,779**	**7,830**	**7,318**	**8,678**	**7,957**	**7,133**	**6,791**

2. These additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 15: Intangible assets and goodwill							
By type							
Net Kyoto position	53	3	31	37	37	37	37
Goodwill	655	744	650	650	650	650	650
Other intangible assets	2,068	2,090	2,160	2,247	2,283	2,213	2,183
Total intangible assets and goodwill	**2,776**	**2,837**	**2,841**	**2,934**	**2,970**	**2,900**	**2,870**
By source							
Core Crown	1,041	1,175	1,136	1,182	1,196	1,197	1,205
Crown entities	573	534	498	587	603	537	499
State-owned enterprises	1,162	1,128	1,207	1,165	1,171	1,166	1,166
Inter-segment eliminations	-	-	-	-	-	-	-
Total intangible assets and goodwill	**2,776**	**2,837**	**2,841**	**2,934**	**2,970**	**2,900**	**2,870**

Net Kyoto position

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases from 2008 to 2012 (the first commitment period of the Kyoto Protocol, or CP1) are reduced to gross 1990 emission levels, or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests.

To assist New Zealand in meeting its Kyoto Protocol commitments, an Emissions Trading Scheme (ETS) was established (refer note 20). These two initiatives should be looked at together when understanding New Zealand's international climate change obligations.

The latest Net Position estimate can be found on the Ministry for the Environment's website: www.mfe.govt.nz/issues/climate/greenhouse-gas-emissions/net-position

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 16: NZS Fund							
Revenue	595	777	707	685	757	832	913
Less current tax expense	983	478	832	585	631	681	735
Less other expenses	165	148	141	157	184	209	235
Add gains/(losses)	4,374	1,358	2,872	1,914	2,054	2,205	2,367
Operating balance	**3,821**	**1,509**	**2,606**	**1,857**	**1,996**	**2,147**	**2,310**
Opening net worth	18,703	21,752	22,549	25,157	27,033	29,056	31,238
Operating balance	3,821	1,509	2,606	1,857	1,996	2,147	2,310
Other movements in reserves	25	22	2	19	27	35	44
Closing net worth	**22,549**	**23,283**	**25,157**	**27,033**	**29,056**	**31,238**	**33,592**
Comprising:							
Financial assets	23,419	23,891	25,698	27,419	29,393	31,515	33,801
Financial liabilities	(2,055)	(1,714)	(1,636)	(1,557)	(1,599)	(1,646)	(1,699)
Net other assets	1,185	1,106	1,095	1,171	1,262	1,369	1,490
Closing net worth	**22,549**	**23,283**	**25,157**	**27,033**	**29,056**	**31,238**	**33,592**
NOTE 17: Payables							
By type							
Accounts payable	7,616	8,403	7,756	7,439	7,627	7,893	7,633
Taxes repayable	3,544	3,957	4,196	4,435	5,049	5,736	6,655
Total payables	**11,160**	**12,360**	**11,952**	**11,874**	**12,676**	**13,629**	**14,288**
By source							
Core Crown	7,873	6,860	7,682	7,856	8,791	9,696	10,176
Crown entities	4,996	5,929	5,584	5,270	4,981	4,884	4,941
State-owned enterprises	4,877	5,663	5,003	5,146	5,301	5,426	5,534
Inter-segment eliminations	(6,586)	(6,092)	(6,317)	(6,398)	(6,397)	(6,377)	(6,363)
Total payables	**11,160**	**12,360**	**11,952**	**11,874**	**12,676**	**13,629**	**14,288**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 18: Insurance liabilities							
By entity							
ACC	29,446	31,423	29,209	30,383	31,663	33,202	34,859
EQC	6,869	3,743	4,308	364	184	178	178
Southern Response	1,744	698	1,327	466	165	21	-
Other (incl. inter-segment eliminations)	(347)	38	56	59	60	63	65
Total insurance liabilities	**37,712**	**35,902**	**34,900**	**31,272**	**32,072**	**33,464**	**35,102**

ACC liability

Levy reductions

The forecast includes a reduction in levy rates for the 2015/16 levy year. The amounts factored in for the 2015/16 levy year are based on a best estimate of the likely outcome, which may differ from ACC's consultation document and the final outcome.

Calculation information

PwC NZ has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 31 December 2013. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims.
The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), average weekly earnings and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 31 March 2014. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 5.15% and allows for a long-term discount rate of 5.5% from 2035.

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

Presentation approach

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

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Gross ACC liability							
Opening gross liability	30,648	30,767	29,446	29,209	30,383	31,663	33,202
Net change	(1,202)	656	(237)	1,174	1,280	1,539	1,657
Closing gross liability	**29,446**	**31,423**	**29,209**	**30,383**	**31,663**	**33,202**	**34,859**
Less net assets available to ACC							
Opening net asset value	23,466	27,486	27,193	29,309	31,351	33,137	35,054
Net change	3,727	2,503	2,116	2,042	1,786	1,917	2,102
Closing net asset value	**27,193**	**29,989**	**29,309**	**31,351**	**33,137**	**35,054**	**37,156**
Net ACC reserves (net liability)							
Opening reserves position	(7,182)	(3,281)	(2,253)	100	968	1,474	1,852
Net change	4,929	1,847	2,353	868	506	378	445
Closing reserves position (net liability)/net asset	**(2,253)**	**(1,434)**	**100**	**968**	**1,474**	**1,852**	**2,297**

Notes to the Forecast Financial Statements

NOTE 18 (continued): Insurance liabilities

EQC liability

Calculation information
Melville Jessup Weaver prepared an independent actuarial estimate of the EQC outstanding claims liability at 31 December 2013 by estimating the projected ultimate claims costs then deducting the payments made in relation to those claims on or before that date. Each component of the claims liability was split into separate groups depending upon the Canterbury earthquake event grouping or other "business as usual" claims. These event groups were further split into sub-claim valuation groups being land claims, building claims or contents claims. The assumptions underpinning the 31 December 2013 valuation form the basis of the five-year forecast of the outstanding claims liability.

Critical assumptions used in projecting the ultimate costs include apportionment of costs across earthquake events, the profile of claims settlement, claims inflation rate per annum, risk margins and claims handling costs.

There is a high level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. Some of the key uncertainties are: cost apportionment across events; the potential for construction cost to exceed expectations; land damage estimates; reinsurance recoveries and profile of claims settlement.

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

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

	2013	2014	2014	2015	2016	2017	2018
		Previous					
	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	$m	$m	$m	$m	$m	$m	$m
EQC liability							
Opening gross liability	8,877	7,114	6,869	4,308	364	184	178
Net change	(2,008)	(3,371)	(2,561)	(3,944)	(180)	(6)	-
Closing gross liability	**6,869**	**3,743**	**4,308**	**364**	**184**	**178**	**178**
Less reinsurance receivable							
Opening reinsurance receivable	4,066	2,616	2,623	1,161	50	3	-
Net change	(1,443)	(1,238)	(1,462)	(1,111)	(47)	(3)	-
Closing reinsurance receivable	**2,623**	**1,378**	**1,161**	**50**	**3**	**-**	**-**
Net EQC liability							
Opening net position	(4,811)	(4,498)	(4,246)	(3,147)	(314)	(181)	(178)
Net change	565	2,133	1,099	2,833	133	3	-
Closing net position (net liability)	**(4,246)**	**(2,365)**	**(3,147)**	**(314)**	**(181)**	**(178)**	**(178)**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 19: Retirement plan liabilities							
Government Superannuation Fund	11,908	11,767	10,738	10,385	10,047	9,725	9,421
Other funds	(5)	(1)	(6)	(5)	(5)	(6)	(5)
Total retirement plan liabilities	**11,903**	**11,766**	**10,732**	**10,380**	**10,042**	**9,719**	**9,416**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 28 February 2014. 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 28 February 2014, based on membership data as at 30 June 2013 with adjustments for cash flows to 28 February 2014. 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 28 February 2014.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index, of 1.9% for the year to 28 February 2015, 2.3% for the two years to 28 February 2017, 2.4% for the two years to 28 February 2019 and increasing to 2.5% for all years after that. In addition an annual salary growth rate, before any promotional effects, of 3% (unchanged from 30 June 2013).

The 2013/14 projected decrease in the net GSF liability is $1,170 million, reflecting a decrease in the GSF liability of $930 million and an increase in the GSF net assets of $240 million.

The decrease in the GSF liability of $930 million includes an actuarial gain between 1 July 2013 and 28 February 2014, of $550 million, owing to movements in the discount rates. The remaining $380 million reduction is owing to lower than expected benefits paid to members (reduces the liability), offset by current service cost and interest unwind (increases the liability).

The increase in the value of the net assets of GSF of $240 million includes a gain of $163 million reflecting the updated market value of assets at 28 February 2014. The balance of $77 million is the total of the expected investment returns and contributions received, offset by the benefits paid to members.

The changes in the projected net GSF liability from 2013/14 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
GSF liability							
Opening GSF liability	16,557	15,504	15,290	14,360	14,061	13,774	13,499
Net projected change	(1,267)	(395)	(930)	(299)	(287)	(275)	(260)
Closing GSF liability	**15,290**	**15,109**	**14,360**	**14,061**	**13,774**	**13,499**	**13,239**
Less net assets available to GSF							
Opening net asset value	3,018	3,276	3,382	3,622	3,676	3,727	3,774
Investment valuation changes	493	177	346	195	198	201	203
Contribution and other income less pension payments	(129)	(111)	(106)	(141)	(147)	(154)	(159)
Closing net asset value	**3,382**	**3,342**	**3,622**	**3,676**	**3,727**	**3,774**	**3,818**
Net GSF liability							
Opening unfunded liability	13,539	12,228	11,908	10,738	10,385	10,047	9,725
Net projected change	(1,631)	(461)	(1,170)	(353)	(338)	(322)	(304)
Closing unfunded liability	**11,908**	**11,767**	**10,738**	**10,385**	**10,047**	**9,725**	**9,421**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 20: Provisions							
Provision for employee entitlements	3,374	3,233	3,181	3,174	3,181	3,197	3,204
Provision for ETS credits	179	-	351	362	342	324	304
Provision for National Provident Fund guarantee	977	987	987	942	901	864	827
Provision for Canterbury Red Zone support package	222	-	-	-	-	-	-
Provision for infrastructure costs	769	837	391	201	-	-	-
Provision for weathertight services financial assistance package	123	62	123	123	123	123	123
Other provisions	1,494	1,198	1,287	1,309	1,346	1,349	1,348
Total provisions	**7,138**	**6,317**	**6,320**	**6,111**	**5,893**	**5,857**	**5,806**
By source							
Core Crown	4,492	3,905	3,776	3,562	3,160	3,018	2,978
Crown entities	1,979	1,907	1,988	2,017	2,032	2,037	2,011
State-owned enterprises	1,151	963	1,013	1,016	1,029	1,019	1,047
Inter-segment eliminations	(484)	(458)	(457)	(484)	(328)	(217)	(230)
Total provisions	**7,138**	**6,317**	**6,320**	**6,111**	**5,893**	**5,857**	**5,806**

Provision for ETS credits

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

The allocation of NZUs creates a provision if allocated for free; the provision is reduced, and revenue recognised, as NZUs and Kyoto compliant units are surrendered to the Crown by emitters. The Kyoto compliant units collected through the ETS are recognised as revenue and as part of the net Kyoto Protocol position.

The prices for NZUs and Kyoto compliant units used to calculate the ETS provision are assumed to remain constant over the forecast period and are based on market prices during February 2014.

The ETS impact on the fiscal forecast is as follows:

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Revenue	40	5	19	46	73	72	74
Expenses	(55)	(4)	(51)	(51)	(53)	(54)	(55)
Kyoto compliant units surrender expense	(24)	-	(12)	(6)	-	-	-
Gains/(losses)	235	-	(128)	-	-	-	-
Operating balance	**196**	**1**	**(172)**	**(11)**	**20**	**18**	**19**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 21: Net worth							
Taxpayers' funds	10,862	6,230	13,344	16,601	21,010	26,603	33,489
Property, plant and equipment revaluation reserve	57,068	55,831	56,648	56,509	56,259	56,085	55,919
Investment revaluation reserve	107	84	94	104	114	126	139
Cash flow hedge reserve	58	(142)	(44)	(47)	(42)	(34)	(32)
Foreign currency translation reserve	(49)	(6)	(56)	(52)	(52)	(52)	(52)
Share based payment reserve	25	-	46	-	-	-	-
Net worth attributable to minority interests	1,940	3,185	5,435	5,518	5,549	5,586	5,658
Total net worth	**70,011**	**65,182**	**75,467**	**78,633**	**82,838**	**88,314**	**95,121**
Taxpayers' funds							
Opening taxpayers' funds	3,520	5,601	10,862	13,344	16,601	21,010	26,603
Operating balance excluding minority interest	6,925	358	2,973	3,102	4,136	5,388	6,680
Government share offers in SOEs	167	175	(542)	-	-	-	-
Transfers from/(to) other reserves	250	96	51	155	273	205	206
Closing taxpayers' funds	**10,862**	**6,230**	**13,344**	**16,601**	**21,010**	**26,603**	**33,489**
Property, plant and equipment revaluation reserve							
Opening revaluation reserve	56,001	55,965	57,068	56,648	56,509	56,259	56,085
Net revaluations	1,335	-	(351)	-	-	-	-
Transfers from/(to) other reserves	(268)	(134)	(69)	(139)	(250)	(174)	(166)
Closing property, plant and equipment revaluation reserve	**57,068**	**55,831**	**56,648**	**56,509**	**56,259**	**56,085**	**55,919**

Notes to the Forecast Financial Statements

	2013 Actual $m	2014 Previous Budget $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
NOTE 22: Core Crown residual cash							
Core Crown cash flows from operations							
Tax receipts	57,808	62,056	61,892	66,030	70,099	73,731	77,261
Other sovereign receipts	651	644	732	771	789	801	815
Interest, profits and dividends	1,553	1,660	1,546	1,737	1,838	2,204	2,441
Sale of goods and services and other receipts	2,385	2,641	2,917	2,307	2,309	2,231	2,117
Transfer payments and subsidies	(22,780)	(23,877)	(23,800)	(24,021)	(24,496)	(25,319)	(26,297)
Personnel and operating costs	(40,412)	(42,800)	(42,417)	(42,419)	(42,449)	(41,967)	(42,703)
Finance costs	(3,729)	(3,680)	(3,664)	(3,884)	(3,758)	(4,069)	(4,114)
Forecast for future new operating spending	-	(461)	(77)	(291)	(1,864)	(3,375)	(4,921)
Top-down expense adjustment	-	600	660	875	485	360	360
Net core Crown operating cash flows	**(4,524)**	**(3,217)**	**(2,211)**	**1,105**	**2,953**	**4,597**	**4,959**
Core Crown capital cash flows							
Net purchase of physical assets	(1,231)	(2,560)	(2,370)	(2,600)	(2,129)	(2,132)	(1,836)
Net increase in advances	(342)	(990)	(877)	(1,423)	(608)	(407)	(287)
Net purchase of investments	(1,308)	(1,166)	(1,153)	(2,060)	(1,492)	(1,411)	(1,275)
Government share offer programme	1,663	1,500	2,315	628	-	-	-
Forecast for future new capital spending	-	(503)	(13)	(326)	(565)	(747)	(901)
Top-down capital adjustment	-	50	395	370	75	50	50
Net core Crown capital cash flows	**(1,218)**	**(3,669)**	**(1,703)**	**(5,411)**	**(4,719)**	**(4,647)**	**(4,249)**
Residual cash (deficit)/surplus	**(5,742)**	**(6,886)**	**(3,914)**	**(4,306)**	**(1,766)**	**(50)**	**710**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt programme cash flows							
Market:							
Issue of government bonds	15,458	10,245	7,769	8,046	6,915	6,824	6,825
Repayment of government bonds	(9,982)	-	(2,046)	(8,805)	(1,816)	-	(11,312)
Net issue/(repayment) of short-term borrowing[1]	(5,404)	90	(795)	720	-	-	-
Total market debt cash flows	72	10,335	4,928	(39)	5,099	6,824	(4,487)
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	(499)	(757)	-	(1,427)	-	-	-
Net issue/(repayment) of short-term borrowing	100	(219)	-	(500)	(80)	-	-
Total non-market debt cash flows	(399)	(976)	-	(1,927)	(80)	-	-
Total debt programme cash flows	**(327)**	**9,359**	**4,928**	**(1,966)**	**5,019**	**6,824**	**(4,487)**
Other borrowing cash flows							
Net (repayment)/issue of other New Zealand dollar borrowing	4,494	724	(440)	1,136	761	58	710
Net (repayment)/issue of foreign currency borrowing	(3,047)	(512)	(118)	(842)	(639)	(35)	(574)
Total other borrowing cash flows	**1,447**	**212**	**(558)**	**294**	**122**	**23**	**136**
Investing cash flows							
Net sale/(purchase) of marketable securities and deposits	5,699	(2,826)	(2,644)	5,830	(3,527)	(6,952)	3,480
Issues of circulating currency	234	141	382	152	157	161	166
Decrease/(increase) in cash	(1,311)	-	1,806	(4)	(5)	(6)	(5)
Total investing cash flows	**4,622**	**(2,685)**	**(456)**	**5,978**	**(3,375)**	**(6,797)**	**3,641**
Residual cash deficit/(surplus) funding or investing	**5,742**	**6,886**	**3,914**	**4,306**	**1,766**	**50**	**(710)**

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

Forecast Statement of Segments

	Core Crown 2013 Actual $m	Crown entities 2013 Actual $m	State-Owned Enterprises 2013 Actual $m	Inter-segment eliminations 2013 Actual $m	Total Crown 2013 Actual $m
Statement of Financial Performance for the year ended 30 June 2013					
Revenue					
Taxation revenue	58,651	-	-	(517)	58,134
Other sovereign revenue	1,133	5,295	-	(1,256)	5,172
Revenue from core Crown funding	-	24,096	268	(24,364)	-
Sales of goods and services	1,461	1,856	14,002	(606)	16,713
Interest revenue and dividends	2,104	1,270	856	(1,291)	2,939
Other revenue	800	2,547	810	(460)	3,697
Total revenue (excluding gains)	**64,149**	**35,064**	**15,936**	**(28,494)**	**86,655**
Expenses					
Social assistance and official development assistance	22,709	-	-	(1)	22,708
Personnel expenses	6,037	10,966	2,949	(17)	19,935
Other operating expenses	37,943	18,648	11,540	(27,156)	40,975
Interest expenses	3,620	235	1,248	(745)	4,358
Insurance expenses	1	3,011	15	4	3,031
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	**70,310**	**32,860**	**15,752**	**(27,915)**	**91,007**
Minority interest share of operating balance before gains/losses	-	10	(75)	3	(62)
Operating balance before gains/(losses)	**(6,161)**	**2,214**	**109**	**(576)**	**(4,414)**
Total gains/(losses)	6,379	3,501	422	642	10,944
Net surplus/(deficit) from associates and joint ventures	153	162	83	(3)	395
Operating balance	**371**	**5,877**	**614**	**63**	**6,925**
Expenses by functional classification					
Social security and welfare	*22,741*	*4,151*	*-*	*(624)*	*26,268*
Health	*14,498*	*12,236*	*-*	*(12,878)*	*13,856*
Education	*12,504*	*9,594*	*19*	*(8,751)*	*13,366*
Transport and communications	*2,255*	*2,250*	*6,891*	*(2,344)*	*9,052*
Other	*14,692*	*4,394*	*7,594*	*(2,573)*	*24,107*
Finance costs	*3,620*	*235*	*1,248*	*(745)*	*4,358*
Forecast for future new spending and top-down adjustment	*-*	*-*	*-*	*-*	*-*
Total Crown expenses (excluding losses)	***70,310***	***32,860***	***15,752***	***(27,915)***	***91,007***
Statement of Financial Position as at 30 June 2013					
Assets					
Cash and cash equivalents	11,047	2,933	1,594	(650)	14,924
Receivables	11,924	8,369	2,037	(2,447)	19,883
Other financial assets	52,140	29,995	16,427	(14,590)	83,972
Property, plant and equipment	29,507	51,823	28,503	-	109,833
Equity accounted investments	32,611	8,151	187	(31,356)	9,593
Intangible assets and goodwill	1,041	573	1,162	-	2,776
Inventory and other assets	1,605	560	1,301	(31)	3,435
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
Total assets	**139,875**	**102,404**	**51,211**	**(49,074)**	**244,416**
Liabilities					
Borrowings	84,870	5,251	24,839	(14,873)	100,087
Other liabilities	29,392	45,261	7,226	(7,561)	74,318
Total liabilities	**114,262**	**50,512**	**32,065**	**(22,434)**	**174,405**
Total assets less total liabilities	**25,613**	**51,892**	**19,146**	**(26,640)**	**70,011**
Net worth					
Taxpayers' funds	8,274	24,213	8,382	(30,007)	10,862
Reserves	15,840	27,638	10,192	3,539	57,209
Net worth attributable to minority interest	1,499	41	572	(172)	1,940
Total net worth	**25,613**	**51,892**	**19,146**	**(26,640)**	**70,011**

Forecast Statement of Segments (continued)

	Core Crown 2014 Forecast $m	Crown entities 2014 Forecast $m	State-Owned Enterprises 2014 Forecast $m	Inter-segment eliminations 2014 Forecast $m	Total Crown 2014 Forecast $m
Statement of Financial Performance for the year ended 30 June 2014					
Revenue					
Taxation revenue	61,896	-	-	(516)	61,380
Other sovereign revenue	1,153	5,319	-	(1,089)	5,383
Revenue from core Crown funding	-	24,812	207	(25,019)	-
Sales of goods and services	1,513	1,904	13,596	(581)	16,432
Interest revenue and dividends	2,304	1,156	885	(1,185)	3,160
Other revenue	909	2,284	964	(535)	3,622
Total revenue (excluding gains)	**67,775**	**35,475**	**15,652**	**(28,925)**	**89,977**
Expenses					
Social assistance and official development assistance	23,394	-	-	-	23,394
Personnel expenses	6,253	11,302	2,940	(7)	20,488
Other operating expenses	38,909	19,236	10,707	(27,681)	41,171
Interest expenses	3,641	224	1,173	(577)	4,461
Insurance expenses	2	3,274	8	(1)	3,283
Forecast for future new spending and top-down adjustment	(583)	-	-	-	(583)
Total expenses (excluding losses)	**71,616**	**34,036**	**14,828**	**(28,266)**	**92,214**
Minority interest share of operating balance before gains/losses	-	16	(226)	-	(210)
Operating balance before gains/(losses)	**(3,841)**	**1,455**	**598**	**(659)**	**(2,447)**
Total gains/(losses)	3,858	1,376	82	(155)	5,161
Net surplus/(deficit) from associates and joint ventures	92	162	(26)	31	259
Operating balance	**109**	**2,993**	**654**	**(783)**	**2,973**
Expenses by functional classification					
Social security and welfare	*23,329*	*4,583*	*-*	*(539)*	*27,373*
Health	*14,889*	*12,636*	*-*	*(13,143)*	*14,382*
Education	*12,411*	*9,668*	*9*	*(8,908)*	*13,180*
Transport and communications	*2,241*	*2,431*	*6,925*	*(2,385)*	*9,212*
Other	*15,688*	*4,494*	*6,721*	*(2,714)*	*24,189*
Finance costs	*3,641*	*224*	*1,173*	*(577)*	*4,461*
Forecast for future new spending and top-down adjustment	*(583)*	*-*	*-*	*-*	*(583)*
Total Crown expenses (excluding losses)	***71,616***	***34,036***	***14,828***	***(28,266)***	***92,214***
Statement of Financial Position as at 30 June 2014					
Assets					
Cash and cash equivalents	7,746	2,798	1,229	(665)	11,108
Receivables	11,507	6,035	2,077	(1,746)	17,873
Other financial assets	59,017	31,994	18,235	(17,093)	92,153
Property, plant and equipment	29,971	53,043	29,250	-	112,264
Equity accounted investments	32,764	8,479	348	(31,570)	10,021
Intangible assets and goodwill	1,136	498	1,207	-	2,841
Inventory and other assets	1,697	602	1,164	(38)	3,425
Forecast for new capital spending and top-down adjustment	(382)	-	-	-	(382)
Total assets	**143,456**	**103,449**	**53,510**	**(51,112)**	**249,303**
Liabilities					
Borrowings	88,438	5,107	26,916	(17,403)	103,058
Other liabilities	27,585	42,651	7,332	(6,790)	70,778
Total liabilities	**116,023**	**47,758**	**34,248**	**(24,193)**	**173,836**
Total assets less total liabilities	**27,433**	**55,691**	**19,262**	**(26,919)**	**75,467**
Net worth					
Taxpayers' funds	11,835	28,081	3,540	(30,112)	13,344
Reserves	15,598	27,544	10,065	3,481	56,688
Net worth attributable to minority interest	-	66	5,657	(288)	5,435
Total net worth	**27,433**	**55,691**	**19,262**	**(26,919)**	**75,467**

Forecast Statement of Segments (continued)

	Core Crown 2015 Forecast $m	Crown entities 2015 Forecast $m	State-Owned Enterprises 2015 Forecast $m	Inter-segment eliminations 2015 Forecast $m	Total Crown 2015 Forecast $m
Statement of Financial Performance for the year ended 30 June 2015					
Revenue					
Taxation revenue	66,442	-	-	(618)	65,824
Other sovereign revenue	1,265	4,924	-	(1,051)	5,138
Revenue from core Crown funding	-	25,016	123	(25,139)	-
Sales of goods and services	1,435	1,981	14,251	(576)	17,091
Interest revenue and dividends	2,492	1,277	1,006	(1,103)	3,672
Other revenue	903	2,491	977	(529)	3,842
Total revenue (excluding gains)	**72,537**	**35,689**	**16,357**	**(29,016)**	**95,567**
Expenses					
Social assistance and official development assistance	23,876	-	-	-	23,876
Personnel expenses	6,361	11,607	2,923	(10)	20,881
Other operating expenses	39,571	19,469	11,195	(27,833)	42,402
Interest expenses	3,883	237	1,295	(652)	4,763
Insurance expenses	(1)	3,508	8	2	3,517
Forecast for future new spending and top-down adjustment	(584)	-	-	-	(584)
Total expenses (excluding losses)	**73,106**	**34,821**	**15,421**	**(28,493)**	**94,855**
Minority interest share of operating balance before gains/losses	-	17	(357)	-	(340)
Operating balance before gains/(losses)	**(569)**	**885**	**579**	**(523)**	**372**
Total gains/(losses)	2,365	304	7	(200)	2,476
Net surplus/(deficit) from associates and joint ventures	75	168	7	4	254
Operating balance	**1,871**	**1,357**	**593**	**(719)**	**3,102**
Expenses by functional classification					
Social security and welfare	*23,954*	*4,699*	*-*	*(528)*	*28,125*
Health	*15,065*	*12,781*	*-*	*(13,105)*	*14,741*
Education	*12,827*	*9,903*	*9*	*(9,168)*	*13,571*
Transport and communications	*2,217*	*2,443*	*7,083*	*(2,316)*	*9,427*
Other	*15,744*	*4,758*	*7,034*	*(2,724)*	*24,812*
Finance costs	*3,883*	*237*	*1,295*	*(652)*	*4,763*
Forecast for future new spending and top-down adjustment	*(584)*	*-*	*-*	*-*	*(584)*
Total Crown expenses (excluding losses)	***73,106***	***34,821***	***15,421***	***(28,493)***	***94,855***
Statement of Financial Position as at 30 June 2015					
Assets					
Cash and cash equivalents	7,801	2,094	1,248	(645)	10,498
Receivables	11,266	5,086	2,160	(1,902)	16,610
Other financial assets	55,448	31,536	20,051	(16,444)	90,591
Property, plant and equipment	31,334	54,618	29,921	-	115,873
Equity accounted investments	34,814	8,771	352	(33,611)	10,326
Intangible assets and goodwill	1,182	587	1,165	-	2,934
Inventory and other assets	1,454	631	1,249	(35)	3,299
Forecast for new capital spending and top-down adjustment	(426)	-	-	-	(426)
Total assets	**142,873**	**103,323**	**56,146**	**(52,637)**	**249,705**
Liabilities					
Borrowings	86,243	5,779	29,180	(16,812)	104,390
Other liabilities	27,316	38,737	7,527	(6,898)	66,682
Total liabilities	**113,559**	**44,516**	**36,707**	**(23,710)**	**171,072**
Total assets less total liabilities	**29,314**	**58,807**	**19,439**	**(28,927)**	**78,633**
Net worth					
Taxpayers' funds	13,743	31,329	3,651	(32,122)	16,601
Reserves	15,571	27,397	10,063	3,483	56,514
Net worth attributable to minority interest	-	81	5,725	(288)	5,518
Total net worth	**29,314**	**58,807**	**19,439**	**(28,927)**	**78,633**

Forecast Statement of Segments (continued)

	Core Crown 2016 Forecast $m	Crown entities 2016 Forecast $m	State-Owned Enterprises 2016 Forecast $m	Inter-segment eliminations 2016 Forecast $m	Total Crown 2016 Forecast $m
Statement of Financial Performance for the year ended 30 June 2016					
Revenue					
Taxation revenue	70,594	-	-	(682)	69,912
Other sovereign revenue	1,154	4,830	-	(1,158)	4,826
Revenue from core Crown funding	-	25,256	111	(25,367)	-
Sales of goods and services	1,411	2,052	14,714	(584)	17,593
Interest revenue and dividends	2,717	1,308	1,167	(1,210)	3,982
Other revenue	987	2,654	1,031	(617)	4,055
Total revenue (excluding gains)	**76,863**	**36,100**	**17,023**	**(29,618)**	**100,368**
Expenses					
Social assistance and official development assistance	24,479	-	-	-	24,479
Personnel expenses	6,450	11,821	2,967	(11)	21,227
Other operating expenses	39,695	19,719	11,478	(28,347)	42,545
Interest expenses	3,978	236	1,433	(593)	5,054
Insurance expenses	(2)	4,039	8	3	4,048
Forecast for future new spending and top-down adjustment	1,379	-	-	-	1,379
Total expenses (excluding losses)	**75,979**	**35,815**	**15,886**	**(28,948)**	**98,732**
Minority interest share of operating balance before gains/losses	-	14	(388)	-	(374)
Operating balance before gains/(losses)	**884**	**299**	**749**	**(670)**	**1,262**
Total gains/(losses)	2,437	382	9	(209)	2,619
Net surplus/(deficit) from associates and joint ventures	74	167	6	8	255
Operating balance	**3,395**	**848**	**764**	**(871)**	**4,136**
Expenses by functional classification					
Social security and welfare	*24,377*	*5,130*	*-*	*(540)*	*28,967*
Health	*15,132*	*12,798*	*-*	*(13,262)*	*14,668*
Education	*12,974*	*10,072*	*9*	*(9,281)*	*13,774*
Transport and communications	*2,176*	*2,520*	*7,288*	*(2,426)*	*9,558*
Other	*15,963*	*5,059*	*7,156*	*(2,846)*	*25,332*
Finance costs	*3,978*	*236*	*1,433*	*(593)*	*5,054*
Forecast for future new spending and top-down adjustment	*1,379*	*-*	*-*	*-*	*1,379*
Total Crown expenses (excluding losses)	***75,979***	***35,815***	***15,886***	***(28,948)***	***98,732***
Statement of Financial Position as at 30 June 2016					
Assets					
Cash and cash equivalents	8,126	1,963	1,149	(643)	10,595
Receivables	11,830	4,426	2,275	(1,774)	16,757
Other financial assets	60,740	33,227	22,036	(17,282)	98,721
Property, plant and equipment	31,986	56,327	30,172	-	118,485
Equity accounted investments	36,120	8,964	354	(34,908)	10,530
Intangible assets and goodwill	1,196	603	1,171	-	2,970
Inventory and other assets	1,519	600	1,262	(34)	3,347
Forecast for new capital spending and top-down adjustment	64	-	-	-	64
Total assets	**151,581**	**106,110**	**58,419**	**(54,641)**	**261,469**
Liabilities					
Borrowings	91,214	5,980	31,188	(17,655)	110,727
Other liabilities	27,640	39,264	7,742	(6,742)	67,904
Total liabilities	**118,854**	**45,244**	**38,930**	**(24,397)**	**178,631**
Total assets less total liabilities	**32,727**	**60,866**	**19,489**	**(30,244)**	**82,838**
Net worth					
Taxpayers' funds	17,128	33,639	3,684	(33,441)	21,010
Reserves	15,599	27,127	10,068	3,485	56,279
Net worth attributable to minority interest	-	100	5,737	(288)	5,549
Total net worth	**32,727**	**60,866**	**19,489**	**(30,244)**	**82,838**

Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-Owned Enterprises	Inter-segment eliminations	Total Crown
	2017	2017	2017	2017	2017
	Forecast $m	Forecast $m	Forecast $m	Forecast $m	Forecast $m
Statement of Financial Performance for the year ended 30 June 2017					
Revenue					
Taxation revenue	74,082	-	-	(734)	73,348
Other sovereign revenue	1,181	4,872	-	(1,263)	4,790
Revenue from core Crown funding	-	25,342	110	(25,452)	-
Sales of goods and services	1,408	2,136	15,156	(593)	18,107
Interest revenue and dividends	3,226	1,364	1,317	(1,271)	4,636
Other revenue	932	2,640	1,069	(531)	4,110
Total revenue (excluding gains)	**80,829**	**36,354**	**17,652**	**(29,844)**	**104,991**
Expenses					
Social assistance and official development assistance	25,334	-	-	-	25,334
Personnel expenses	6,478	11,964	2,993	(11)	21,424
Other operating expenses	39,493	19,657	11,861	(28,533)	42,478
Interest expenses	4,354	245	1,568	(624)	5,543
Insurance expenses	1	4,409	8	-	4,418
Forecast for future new spending and top-down adjustment	3,015	-	-	-	3,015
Total expenses (excluding losses)	**78,675**	**36,275**	**16,430**	**(29,168)**	**102,212**
Minority interest share of operating balance before gains/losses	-	6	(416)	-	(410)
Operating balance before gains/(losses)	**2,154**	**85**	**806**	**(676)**	**2,369**
Total gains/(losses)	2,520	458	11	(225)	2,764
Net surplus/(deficit) from associates and joint ventures	79	168	6	2	255
Operating balance	**4,753**	**711**	**823**	**(899)**	**5,388**
Expenses by functional classification					
Social security and welfare	*25,186*	*5,426*	*-*	*(550)*	*30,062*
Health	*15,191*	*12,774*	*-*	*(13,349)*	*14,616*
Education	*13,035*	*10,082*	*9*	*(9,293)*	*13,833*
Transport and communications	*2,240*	*2,525*	*7,448*	*(2,521)*	*9,692*
Other	*15,654*	*5,223*	*7,405*	*(2,831)*	*25,451*
Finance costs	*4,354*	*245*	*1,568*	*(624)*	*5,543*
Forecast for future new spending and top-down adjustment	*3,015*	*-*	*-*	*-*	*3,015*
Total Crown expenses (excluding losses)	***78,675***	***36,275***	***16,430***	***(29,168)***	***102,212***
Statement of Financial Position as at 30 June 2017					
Assets					
Cash and cash equivalents	8,462	1,986	1,252	(644)	11,056
Receivables	12,362	4,221	2,339	(1,678)	17,244
Other financial assets	69,495	35,322	23,614	(18,073)	110,358
Property, plant and equipment	32,595	57,628	30,176	-	120,399
Equity accounted investments	37,430	9,134	359	(36,210)	10,713
Intangible assets and goodwill	1,197	537	1,166	-	2,900
Inventory and other assets	1,550	589	1,266	(35)	3,370
Forecast for new capital spending and top-down adjustment	761	-	-	-	761
Total assets	**163,852**	**109,417**	**60,172**	**(56,640)**	**276,801**
Liabilities					
Borrowings	98,129	6,057	32,691	(18,456)	118,421
Other liabilities	28,216	40,563	7,898	(6,611)	70,066
Total liabilities	**126,345**	**46,620**	**40,589**	**(25,067)**	**188,487**
Total assets less total liabilities	**37,507**	**62,797**	**19,583**	**(31,573)**	**88,314**
Net worth					
Taxpayers' funds	21,870	35,753	3,751	(34,771)	26,603
Reserves	15,637	26,930	10,072	3,486	56,125
Net worth attributable to minority interest	-	114	5,760	(288)	5,586
Total net worth	**37,507**	**62,797**	**19,583**	**(31,573)**	**88,314**

Forecast Statement of Segments (continued)

	Core Crown 2018 Forecast $m	Crown entities 2018 Forecast $m	State-Owned Enterprises 2018 Forecast $m	Inter-segment eliminations 2018 Forecast $m	Total Crown 2018 Forecast $m
Statement of Financial Performance for the year ended 30 June 2018					
Revenue					
Taxation revenue	77,636	-	-	(788)	76,848
Other sovereign revenue	1,217	5,053	-	(1,361)	4,909
Revenue from core Crown funding	-	25,500	110	(25,610)	-
Sales of goods and services	1,435	2,222	15,705	(598)	18,764
Interest revenue and dividends	3,581	1,455	1,477	(1,381)	5,132
Other revenue	793	2,539	1,117	(364)	4,085
Total revenue (excluding gains)	**84,662**	**36,769**	**18,409**	**(30,102)**	**109,738**
Expenses					
Social assistance and official development assistance	26,326	-	-	-	26,326
Personnel expenses	6,524	12,114	3,078	(11)	21,705
Other operating expenses	39,599	19,542	12,326	(28,687)	42,780
Interest expenses	4,440	250	1,696	(678)	5,708
Insurance expenses	3	4,714	9	(3)	4,723
Forecast for future new spending and top-down adjustment	4,561	-	-	-	4,561
Total expenses (excluding losses)	**81,453**	**36,620**	**17,109**	**(29,379)**	**105,803**
Minority interest share of operating balance before gains/losses	-	(3)	(447)	-	(450)
Operating balance before gains/(losses)	**3,209**	**146**	**853**	**(723)**	**3,485**
Total gains/(losses)	2,612	545	16	(234)	2,939
Net surplus/(deficit) from associates and joint ventures	80	169	11	(4)	256
Operating balance	**5,901**	**860**	**880**	**(961)**	**6,680**
Expenses by functional classification					
Social security and welfare	*26,137*	*5,705*	*-*	*(563)*	*31,279*
Health	*15,274*	*12,825*	*-*	*(13,501)*	*14,598*
Education	*13,109*	*10,103*	*9*	*(9,312)*	*13,909*
Transport and communications	*2,308*	*2,551*	*7,723*	*(2,617)*	*9,965*
Other	*15,624*	*5,186*	*7,681*	*(2,708)*	*25,783*
Finance costs	*4,440*	*250*	*1,696*	*(678)*	*5,708*
Forecast for future new spending and top-down adjustment	*4,561*	*-*	*-*	*-*	*4,561*
Total Crown expenses (excluding losses)	***81,453***	***36,620***	***17,109***	***(29,379)***	***105,803***
Statement of Financial Position as at 30 June 2018					
Assets					
Cash and cash equivalents	8,812	1,960	1,526	(646)	11,652
Receivables	13,176	4,049	2,392	(1,684)	17,933
Other financial assets	67,751	37,739	25,203	(18,894)	111,799
Property, plant and equipment	32,886	59,039	30,044	-	121,969
Equity accounted investments	38,710	9,303	363	(37,481)	10,895
Intangible assets and goodwill	1,205	499	1,166	-	2,870
Inventory and other assets	1,546	590	1,229	(36)	3,329
Forecast for new capital spending and top-down adjustment	1,611	-	-	-	1,611
Total assets	**165,697**	**113,179**	**61,923**	**(58,741)**	**282,058**
Liabilities					
Borrowings	93,738	6,096	34,132	(19,268)	114,698
Other liabilities	28,518	42,232	8,097	(6,608)	72,239
Total liabilities	**122,256**	**48,328**	**42,229**	**(25,876)**	**186,937**
Total assets less total liabilities	**43,441**	**64,851**	**19,694**	**(32,865)**	**95,121**
Net worth					
Taxpayers' funds	27,759	37,967	3,825	(36,062)	33,489
Reserves	15,682	26,732	10,075	3,485	55,974
Net worth attributable to minority interest	-	152	5,794	(288)	5,658
Total net worth	**43,441**	**64,851**	**19,694**	**(32,865)**	**95,121**

6

Core Crown Expense Tables

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Social security and welfare	19,382	21,185	22,005	22,028	22,741	23,329	23,954	24,377	25,186	26,137
GSF pension expenses	655	328	305	192	278	282	395	423	450	479
Health	12,368	13,128	13,753	14,160	14,498	14,889	15,065	15,132	15,191	15,274
Education	11,455	11,724	11,650	11,654	12,504	12,411	12,827	12,974	13,035	13,109
Core government services	5,293	2,974	5,563	5,428	4,294	4,792	4,816	4,910	4,761	4,664
Law and order	3,089	3,191	3,382	3,403	3,456	3,575	3,486	3,523	3,496	3,497
Defence	1,757	1,814	1,809	1,736	1,804	1,867	1,984	2,023	1,998	1,996
Transport and communications	2,663	2,345	2,281	2,232	2,255	2,241	2,217	2,176	2,240	2,308
Economic and industrial services	2,960	2,806	2,542	2,073	1,978	2,100	2,215	2,241	2,246	2,299
Primary services	534	507	706	648	659	716	700	638	605	603
Heritage, culture and recreation	586	630	741	863	804	838	770	778	753	744
Housing and community development	297	339	943	(46)	283	377	326	280	224	220
Environmental protection	416	651	1,225	769	530	534	510	511	491	494
Other	118	80	479	425	603	607	543	637	629	628
Finance costs	2,429	2,311	3,066	3,511	3,619	3,641	3,883	3,978	4,354	4,440
Forecast for future new spending	..	..	..	..	..	77	291	1,864	3,375	4,921
Top-down expense adjustment	..	..	..	..	..	(660)	(875)	(485)	(360)	(360)
Core Crown expenses	**64,002**	**64,013**	**70,450**	**69,076**	**70,306**	**71,616**	**73,107**	**75,980**	**78,674**	**81,453**

Source: The Treasury

Table 6.1 – Social security and welfare expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Welfare benefits (see below)	17,366	18,961	19,781	20,375	20,789	21,194	21,736	22,387	23,199	24,052
Social rehabilitation and compensation	336	331	119	81	107	173	142	151	157	163
Departmental expenses	1,092	1,130	1,127	1,122	1,168	1,218	1,313	1,265	1,262	1,260
Child support impairment	205	371	281	72	282	296	321	148	147	243
Other non-departmental expenses[1]	383	392	697	378	395	448	442	426	421	419
Social security and welfare expenses	**19,382**	**21,185**	**22,005**	**22,028**	**22,741**	**23,329**	**23,954**	**24,377**	**25,186**	**26,137**

1. Other non-departmental expenses and other expenses include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.2 – Welfare benefit expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
New Zealand Superannuation	7,744	8,290	8,830	9,584	10,235	10,903	11,590	12,242	12,885	13,643
Jobseeker Support and Emergency Benefit	..	..	..	..	..	1,693	1,648	1,556	1,538	1,569
Supported living payment	..	..	..	..	..	1,422	1,518	1,538	1,560	1,591
Sole parent support	..	..	..	..	..	1,225	1,243	1,249	1,263	1,285
Domestic Purposes Benefit	1,530	1,693	1,757	1,811	1,738	63	..	..	..	..
Invalid's Benefit	1,260	1,303	1,306	1,325	1,330	52	..	..	..	..
Sickness Benefit	613	710	743	775	782	29	..	..	..	..
Unemployment Benefit	586	930	943	883	812	29	..	..	..	..
Family Tax Credit	2,053	2,159	2,130	2,071	2,018	1,976	1,934	1,912	1,982	1,951
Other working for families tax credits	620	629	616	599	575	556	527	527	522	515
Accommodation Assistance	989	1,154	1,197	1,195	1,177	1,149	1,141	1,129	1,129	1,145
Income-Related Rents	512	522	553	580	611	670	718	775	825	879
Disability Assistance	390	411	409	401	384	379	373	374	375	378
Benefits paid in Australia	50	45	40	37	22	19	15	12	34	..
Paid Parental Leave	143	154	154	158	165	164	176	223	244	254
Childcare Assistance	159	178	188	188	186	185	183	184	186	188
War Disablement Pensions	125	137	135	128	123	122	119	120	115	110
Veteran's Pension	176	179	178	177	171	165	156	152	147	143
Other benefits	416	467	602	463	460	393	395	394	394	401
Benefit expenses	**17,366**	**18,961**	**19,781**	**20,375**	**20,789**	**21,194**	**21,736**	**22,387**	**23,199**	**24,052**

Source: The Treasury

Beneficiary numbers (Thousands)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
New Zealand Superannuation	522	540	561	585	612	640	665	690	713	736
Jobseeker Support and Emergency Benefit[1]	..	..	..	..	..	137	126	117	113	113
Supported living payment[1]	..	..	..	..	..	96	98	97	97	97
Sole parent support[1]	..	..	..	..	..	78	75	74	74	73
Domestic Purposes Benefit[1]	101	110	114	114	109	..	..	..	..	..
Invalid's Benefit[1]	86	88	88	87	87	..	..	..	..	..
Sickness Benefit[1]	50	58	60	60	60	..	..	..	..	..
Unemployment Benefit[1]	48	78	80	73	67	..	..	..	..	..
Accommodation Supplement	267	312	320	311	305	297	291	285	284	286

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

Source: Ministry of Social Development

Table 6.3 – Health expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental outputs	206	211	199	186	171	184	183	188	189	189
Health services purchasing (see below)	11,354	12,077	12,530	13,018	13,348	13,645	14,024	13,999	13,971	13,930
Other non-departmental outputs	98	106	120	119	234	332	217	201	214	266
Health payments to ACC	667	691	849	744	715	690	598	700	773	847
Other expenses	43	43	55	93	30	38	43	44	44	42
Health expenses	**12,368**	**13,128**	**13,753**	**14,160**	**14,498**	**14,889**	**15,065**	**15,132**	**15,191**	**15,274**

Source: The Treasury

Table 6.4 – Health services purchasing

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Payments to District Health Boards	10,038	10,670	11,133	11,542	11,946	12,161	12,476	12,490	12,491	12,464
National disability support services	889	930	971	1,029	1,028	1,089	1,118	1,112	1,109	1,101
Public health services purchasing	427	477	426	447	374	395	430	397	371	365
Health services purchasing	**11,354**	**12,077**	**12,530**	**13,018**	**13,348**	**13,645**	**14,024**	**13,999**	**13,971**	**13,930**

Source: The Treasury

Table 6.5 – Education expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Early childhood education	1,030	1,184	1,340	1,355	1,436	1,540	1,604	1,650	1,680	1,716
Primary and secondary schools (see below)	4,936	5,157	5,354	5,443	5,590	5,629	5,824	5,924	5,923	5,933
Tertiary funding (see below)	4,564	4,465	3,991	3,795	4,370	4,042	4,253	4,286	4,325	4,344
Departmental expenses	888	898	923	988	1,039	1,126	1,066	1,040	1,043	1,048
Other education expenses	37	20	42	73	69	74	80	74	64	68
Education expenses	**11,455**	**11,724**	**11,650**	**11,654**	**12,504**	**12,411**	**12,827**	**12,974**	**13,035**	**13,109**

Source: The Treasury

Number of places provided[1]	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Early childhood education	142,135	152,877	159,997	166,434	174,782	182,481	187,212	192,038	195,243	199,319

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

Source: Ministry of Education

Table 6.6 – Primary and secondary schools

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Primary	2,484	2,622	2,731	2,771	2,845	2,843	2,961	3,028	3,033	3,041
Secondary	1,898	1,972	2,051	2,085	2,148	2,171	2,236	2,262	2,254	2,252
School transport	152	160	163	172	175	177	183	189	195	202
Special needs support	290	297	310	323	332	336	335	338	339	339
Professional development	101	95	90	85	84	95	103	101	96	93
Schooling improvement	11	11	9	7	6	7	6	6	6	6
Primary and secondary education expenses	**4,936**	**5,157**	**5,354**	**5,443**	**5,590**	**5,629**	**5,824**	**5,924**	**5,923**	**5,933**

Source: The Treasury

Number of places provided[1]	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Primary	474,630	473,431	474,149	474,821	477,716	480,634	487,107	492,031	494,939	497,422
Secondary	280,062	281,095	281,999	279,554	278,136	277,895	275,815	273,295	272,900	271,133

1. These are snapshots based as at 1 July for primary year levels (years 1 to 8, with no year one student adjustment included) and 1 March for secondary year levels (years 9 to 13). These numbers include special school rolls but exclude health camps, hospital schools and home schooling.

Source: Ministry of Education

Table 6.7 – Tertiary funding

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Tuition	2,287	2,398	2,354	2,306	2,322	2,404	2,469	2,467	2,471	2,471
Other tertiary funding	522	489	429	430	432	482	485	492	498	498
Student allowances	444	570	620	644	596	542	531	534	540	546
Student loans	1,311	1,008	588	415	1,020	614	768	793	816	829
Tertiary education expenses	**4,564**	**4,465**	**3,991**	**3,795**	**4,370**	**4,042**	**4,253**	**4,286**	**4,325**	**4,344**

Source: The Treasury

Number of places provided[1]	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Actual delivered and estimated funded places	246,041	250,440	240,529	245,784	240,472	242,517	239,714	240,171	238,778	238,426

1. Tertiary places are the number of equivalent full time (EFT) students in: student achievement component; adult and community education; and youth guarantee programmes. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. Place numbers are based on calendar years rather than fiscal years.

Source: Ministry of Education

Table 6.8 – Core government service expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Official development assistance	458	435	495	510	437	530	533	542	573	586
Indemnity and guarantee expenses	992	7	319	59	27	27	25	28	32	32
Departmental expenses	1,668	1,324	1,492	1,518	1,576	1,711	1,728	1,663	1,617	1,605
Non-departmental expenses[1]	117	236	471	524	330	535	609	780	808	766
Tax receivable write-down and impairments	1,654	590	1,010	1,003	925	1,248	1,162	1,220	1,220	1,267
Science expenses	179	191	174	116	115	118	124	124	114	115
Other expenses[1]	225	191	1,602	1,698	884	623	635	553	397	293
Core government service expenses	**5,293**	**2,974**	**5,563**	**5,428**	**4,294**	**4,792**	**4,816**	**4,910**	**4,761**	**4,664**

1. Non-departmental expenses and other expenses include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.9 – Law and order expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Police	1,326	1,349	1,393	1,394	1,408	1,433	1,399	1,396	1,386	1,386
Ministry of Justice	379	372	397	440	466	483	450	457	454	454
Department of Corrections	829	903	956	988	972	1,019	997	1,037	1,021	1,021
NZ Customs Service[1]	12	13	120	126	140	154	153	150	150	150
Other departments	80	102	237	103	98	97	95	96	95	96
Department expenses	**2,626**	**2,739**	**3,103**	**3,051**	**3,084**	**3,186**	**3,094**	**3,136**	**3,106**	**3,107**
Non-departmental outputs	380	399	261	315	317	317	314	309	306	306
Other expenses	83	53	18	37	55	72	78	78	84	84
Law and order expenses	**3,089**	**3,191**	**3,382**	**3,403**	**3,456**	**3,575**	**3,486**	**3,523**	**3,496**	**3,497**

1. Prior to 2010/11 the majority of NZ Customs Service expenses were classified as core government services.

Source: The Treasury

Table 6.10 – Defence expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
NZDF core expenses	1,697	1,747	1,736	1,678	1,747	1,829	1,933	1,972	1,948	1,946
Other expenses	60	67	73	58	57	38	51	51	50	50
Defence expenses	**1,757**	**1,814**	**1,809**	**1,736**	**1,804**	**1,867**	**1,984**	**2,023**	**1,998**	**1,996**

Source: The Treasury

Table 6.11 – Transport and communication expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
New Zealand Transport Agency	1,562	1,778	1,696	1,744	1,819	1,880	1,914	2,011	2,076	2,145
Departmental outputs	83	63	65	60	40	48	45	45	45	45
Other non-departmental expenses	170	58	105	62	213	215	133	93	91	91
Asset impairments	320	..	..	..	..	..	..	..	..	..
Rail funding	507	418	386	305	153	67	93	3	3	3
Other expenses	21	28	29	61	30	31	32	24	25	24
Transport and communication expenses	**2,663**	**2,345**	**2,281**	**2,232**	**2,255**	**2,241**	**2,217**	**2,176**	**2,240**	**2,308**

Source: The Treasury

Table 6.12 – Economic and industrial services expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental outputs	389	382	420	346	350	366	375	347	340	339
Employment initiatives[1]	185	220	214	206	192	151	77	77	77	78
Non-departmental outputs	809	894	689	614	618	668	797	843	851	843
Reserve electricity generation	20	23	9	5	..	..	..	..	..	..
KiwiSaver (includes housing deposit subsidy)	1,281	1,024	1,045	698	740	848	857	842	882	936
Research and development tax credits	154	..	..	..	..	..	..	..	..	..
Other expenses	122	263	165	204	78	67	109	132	96	103
Economic and industrial services expenses	**2,960**	**2,806**	**2,542**	**2,073**	**1,978**	**2,100**	**2,215**	**2,241**	**2,246**	**2,299**

1. From 2015 some of the employment initiatives spending has been classified as other non-departmental expenses in social security and welfare.

Source: The Treasury

Table 6.13 – Primary service expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental expenses	364	352	354	348	347	353	375	376	368	365
Non-departmental outputs	82	123	142	134	137	128	104	30	43	62
Biological research[1]	..	..	167	102	105	92	94	92	89	84
Other expenses	88	32	43	64	70	143	127	140	105	92
Primary service expenses	**534**	**507**	**706**	**648**	**659**	**716**	**700**	**638**	**605**	**603**

1. Prior to 2011, biological research was classified as an economic and industrial services expense.

Source: The Treasury

Table 6.14 – Heritage, culture and recreation expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Departmental outputs	120	115	133	172	270	295	275	260	255	254
Non-departmental outputs	422	405	455	444	442	465	462	449	448	448
Other expenses	44	110	153	247	92	78	33	69	50	42
Heritage, culture and recreation expenses	**586**	**630**	**741**	**863**	**804**	**838**	**770**	**778**	**753**	**744**

Source: The Treasury

Table 6.15 – Housing and community development expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Financial assistance package[1]	..	..	567	(407)	(60)	..	..	..	..	..
Housing subsidies	29	30	31	22	5	6	6	6	6	6
Departmental outputs	148	140	136	98	89	110	112	111	105	101
Other non-departmental expenses	112	122	105	113	117	156	125	96	92	92
Warm up New Zealand	..	33	67	84	76	49	33	28	..	..
Other expenses	8	14	37	44	56	56	50	39	21	21
Housing and community development expenses	**297**	**339**	**943**	**(46)**	**283**	**377**	**326**	**280**	**224**	**220**

1. Financial assistance package for 2012 and 2013 actual includes the impact of a revised estimate of the weathertight homes financial assistance package provision.

Source: The Treasury

Table 6.16 – Environmental protection expenses

($millions)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Emissions Trading Scheme	17	80	838	334	55	51	51	53	54	55
Departmental outputs	306	300	301	342	335	357	356	348	344	347
Non-departmental outputs	47	231	26	46	88	46	41	51	35	34
Other expenses	46	40	60	47	52	80	62	59	58	58
Environmental protection expenses	**416**	**651**	**1,225**	**769**	**530**	**534**	**510**	**511**	**491**	**494**

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). All amounts within baselines are included in the forecasts.

Commercial portfolio

Consists of assets and liabilities held by companies with commercial objectives.

Consumers Price Index (CPI)

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

Contingent assets

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

Contingent liabilities

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

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and RBNZ. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 87 to 89).

Core Crown expenses

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

Core Crown revenue

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

Corporate tax

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

Current account (Balance of Payments)

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

Cyclically-adjusted balance (CAB) or structural balance

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

Demographic changes

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

Domestic bond programme

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

Excise duties

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

Financial assets

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

Financial liabilities

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

Financial portfolio

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

Fiscal drag

The additional tax revenue generated from source deductions as an individual's average tax rate increases as their income increases.

Fiscal impulse

A summary measure of how changes in the fiscal position affect aggregate demand. To isolate discretionary changes, fiscal impulse is calculated on a cyclically-adjusted basis and excludes net interest payments. To better capture the role of capital spending, the indicator is derived from cash flow information.

Fiscal intentions (short-term)

Indications of the Government's intentions for operating expenses, operating revenues and the impact of its intentions on the operating balance, debt and net worth over (at least) the next three years. These intentions are required under the Public Finance Act 1989 (PFA).

Fiscal objectives (long-term)

The Government's long-term goals for operating expenses, operating revenue, the operating balance, debt and net worth, as required by the PFA. The objectives must be consistent with the defined principles of responsible fiscal management as outlined in the PFA and must cover a period of (at least) 10 years.

Forecast new capital spending (Capital allowance)

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

Forecast new operating spending (Operating allowance)

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

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the statement of financial performance.

GDP deflator

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

Generally accepted accounting practice (GAAP)

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

Government Finance Statistics (GFS)

A statistical framework for government reporting developed by IMF to aid comparability of results between countries. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Gross sovereign-issued debt [GSID]

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

Gross debt

GSID excluding settlement cash and bank bills.

Gross domestic product (GDP)

A measure of the value of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured as the actual dollar value of goods and services at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

Gross domestic product (expenditure)

The sum of total expenditure on final goods and services in the economy.

Gross national expenditure (GNE)

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

Insurance liabilities

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

Inter-segment eliminations

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

Labour force participation rate

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

Labour productivity

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

Line-by-line consolidation

A term used to refer to the general approach to the presentation of the Crown financial statements. It means that the individual line items for revenues, expenses, assets and liabilities in the financial statements of Government include all departments, Offices of Parliament, RBNZ, SOEs, Crown entities and other entities controlled by the Government.

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 interests include those who recently purchased shares in the Government Share Offer Programme as well as the pre-existing minority interests in Air New Zealand limited and the minority interests held in the Crown Fibre Holdings Group and Solid Energy

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 RBNZ uses to regulate the supply of money in New Zealand. RBNZ implements its monetary policy decisions by adjusting its Official Cash Rate (OCR) in an effort to maintain stability in the rate of CPI inflation within a defined target range.

Tightening monetary policy means raising the OCR in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

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

Net core Crown debt

Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country. It represents gross debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

Net international investment position (NIIP)

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

Net worth

Total assets less total liabilities. The change in net worth in any given forecast year is largely driven by the operating balance and property, plant and equipment revaluations.

Net worth attributable to the Crown

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

Operating balance

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

Operating balance before gains and losses (OBEGAL)

Represents total Crown revenue less total Crown expenses. 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. Potential GDP is the level of output an economy can sustain without acceleration of inflation.

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.

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.

Residual cash

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

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

Settlement cash

This is the amount of money deposited with RBNZ 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)

SNA is a comprehensive, consistent and flexible set of macroeconomic accounts which meets the needs of government and private sector analysts, policy-makers and decision-takers.

Tax revenue

The accrual, rather than the cash ("tax receipts") measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

Terms of trade

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

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts.

Total borrowings

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

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 87 to 89.

Tradable/non-tradable output

There is no official definition of the tradable sector. In this document the tradable sector is defined as the part of the economy particularly exposed to foreign competition. It includes primary, manufacturing and tourism industries. Non-tradable output is estimated as a residual of total real GDP.

Trade-weighted index (TWI)

A measure of movements in the New Zealand dollar against the currencies of our major trading partners. The currencies comprise the US dollar, the Australian dollar, the Japanese yen, the euro and the UK pound.

Votes

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

Year ended

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2013/14 or 2014 will mean the end of the financial year.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
$millions																
Revenue and expenses																
Core Crown revenue	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550	60,565	64,149	67,775	72,537	76,863	80,829	84,662
Core Crown expenses	39,897	41,882	44,895	49,320	54,003	56,997	64,002	64,013	70,450	69,076	70,306	71,616	73,107	75,980	78,674	81,453
Surpluses																
Total Crown OBEGAL	4,366	5,573	7,075	7,091	5,860	5,637	(3,893)	(6,315)	(18,396)	(9,240)	(4,414)	(2,447)	372	1,262	2,369	3,485
Total Crown operating balance	1,621	7,309	5,931	9,542	8,023	2,384	(10,505)	(4,509)	(13,360)	(14,897)	6,925	2,973	3,102	4,136	5,388	6,680
Cash position																
Core Crown residual cash	1,217	520	3,104	2,985	2,877	2,057	(8,639)	(9,000)	(13,343)	(10,644)	(5,742)	(3,914)	(4,306)	(1,766)	(50)	710
Debt																
Gross debt[1]	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420	79,635	77,984	82,157	79,834	84,673	91,548	87,154
Gross debt incl RB settlement cash and bank bills	36,617	36,017	35,478	35,867	36,805	37,745	50,973	58,891	77,290	84,168	84,286	87,802	85,479	90,318	97,193	92,799
Net core Crown debt (incl NZS Fund)[2]	22,647	19,902	13,324	6,302	1,620	(2,676)	5,633	12,549	23,969	33,475	34,428	34,824	37,287	36,962	34,998	32,135
Net core Crown debt[2]	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128	50,671	55,835	59,421	63,567	65,321	65,484	64,867
Net worth																
Total Crown net worth	28,012	39,595	54,240	83,971	96,827	105,514	99,515	94,988	80,887	59,780	70,011	75,467	78,633	82,838	88,314	95,121
Total net worth attributable to the Crown	27,918	39,456	54,025	83,678	96,531	105,132	99,068	94,586	80,579	59,348	68,071	70,032	73,115	77,289	82,728	89,463
Nominal GDP	135,761	146,397	155,363	163,081	173,230	185,715	185,845	192,525	200,880	209,684	213,188	230,717	241,090	252,307	262,989	272,612
% of GDP																
Revenue and expenses																
Core Crown revenue	32.0	31.6	32.9	34.2	33.6	33.3	32.0	29.2	28.6	28.9	30.1	29.4	30.1	30.5	30.7	31.1
Core Crown expenses	29.4	28.6	28.9	30.2	31.2	30.7	34.4	33.2	35.1	32.9	33.0	31.0	30.3	30.1	29.9	29.9
Surpluses																
Total Crown OBEGAL	3.2	3.8	4.6	4.3	3.4	3.0	(2.1)	(3.3)	(9.2)	(4.4)	(2.1)	(1.1)	0.2	0.5	0.9	1.3
Total Crown operating balance	1.2	5.0	3.8	5.9	4.6	1.3	(5.7)	(2.3)	(6.7)	(7.1)	3.2	1.3	1.3	1.6	2.0	2.5
Cash position																
Core Crown residual cash	0.9	0.4	2.0	1.8	1.7	1.1	(4.6)	(4.7)	(6.6)	(5.1)	(2.7)	(1.7)	(1.8)	(0.7)	(0.0)	0.3
Debt																
Gross debt[1]	27.0	24.6	22.8	20.8	17.7	16.9	23.3	27.8	36.1	38.0	36.6	35.6	33.1	33.6	34.8	32.0
Gross debt incl RB settlement cash and bank bills	27.0	24.6	22.8	22.0	21.2	20.3	27.4	30.6	38.5	40.1	39.5	38.1	35.5	35.8	37.0	34.0
Net core Crown debt (incl NZS Fund)[2]	16.7	13.6	8.6	3.9	0.9	(1.4)	3.0	6.5	11.9	16.0	16.1	15.1	15.5	14.6	13.3	11.8
Net core Crown debt[2]	18.1	16.3	12.8	9.9	7.7	5.5	9.2	13.9	20.0	24.2	26.2	25.8	26.4	25.9	24.9	23.8
Net worth																
Total Crown net worth	20.6	27.0	34.9	51.5	55.9	56.8	53.5	49.3	40.3	28.5	32.8	32.7	32.6	32.8	33.6	34.9
Total net worth attributable to the Crown	20.6	27.0	34.8	51.3	55.7	56.6	53.3	49.1	40.1	28.3	31.9	30.4	30.3	30.6	31.5	32.8

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

Economic Indicators

March years	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	5.3	6.1	5.5	5.0	2.3	3.7	-1.6	1.6	2.4	3.1	2.6	3.6	4.1	3.6	2.4	1.6
Public consumption	0.7	5.1	4.3	4.3	3.6	4.8	4.5	-0.1	2.0	0.2	-0.6	1.4	0.0	1.2	1.9	1.6
TOTAL CONSUMPTION	4.2	5.9	5.2	4.8	2.6	4.0	-0.3	1.2	2.3	2.4	1.9	3.1	3.3	3.1	2.3	1.6
Residential investment	23.6	14.7	2.3	-5.0	-2.1	1.8	-21.3	-8.6	0.3	-0.5	19.4	14.5	22.6	10.8	1.6	0.1
Non-market investment	10.8	15.0	11.9	8.2	-1.9	-8.0	22.3	-0.3	-0.8	-24.6	-9.9	1.6	2.7	2.4	2.4	2.4
Market investment	3.8	12.9	11.8	10.9	-2.2	11.2	-4.4	-11.8	5.7	11.2	4.9	11.3	9.6	4.3	3.8	2.8
TOTAL INVESTMENT	8.6	13.5	8.4	6.6	-2.7	7.4	-7.8	-9.5	1.8	4.4	7.3	11.8	13.6	5.7	3.5	2.4
Stock change (contribution to growth)	-0.1	0.3	0.3	-0.5	-1.1	1.2	-0.5	-1.1	1.0	0.5	-0.4	0.2	0.2	-0.1	-0.2	-0.1
GROSS NATIONAL EXPENDITURE	4.9	7.7	6.2	4.8	0.3	5.7	-2.3	-2.1	3.0	3.5	2.3	5.2	6.3	3.7	2.5	1.7
Exports	7.4	2.0	3.9	-0.3	3.8	3.7	-2.7	4.0	2.9	2.7	2.6	-0.7	1.4	2.1	2.7	2.6
Imports	7.1	13.3	13.2	4.8	-1.6	10.8	-4.0	-8.9	11.4	6.6	1.2	8.2	6.6	4.4	3.7	1.6
EXPENDITURE ON GDP	5.0	4.2	3.5	3.3	1.8	3.5	-1.9	2.2	0.7	2.3	2.6	2.5	3.9	3.0	2.1	2.1
GDP (production measure)	4.8	4.4	3.7	3.5	2.8	2.9	-1.9	-0.1	1.8	2.4	2.3	3.0	4.0	3.0	2.1	2.1
- annual % change	4.5	5.4	2.4	3.5	3.4	1.3	-3.0	2.1	1.2	3.2	2.1	3.4	4.0	2.4	2.0	2.2
Real GDP per capita	3.3	2.5	2.1	2.3	1.5	1.8	-2.9	-1.2	0.6	1.5	1.6	2.0	2.2	1.7	1.1	1.2
Nominal GDP (expenditure basis)	5.2	6.9	7.0	5.5	5.1	8.3	0.8	2.6	4.5	4.2	2.2	6.7	5.7	4.3	4.5	3.7
GDP deflator	0.2	2.6	3.4	2.1	3.2	4.6	2.8	0.4	3.9	1.8	-0.5	4.1	1.7	1.3	2.3	1.6
Output gap (% deviation, March year average)	0.4	1.0	1.3	1.7	1.9	2.8	-0.6	-2.1	-1.9	-1.5	-1.2	-0.4	0.8	1.2	0.6	0.2
Employment	2.8	3.0	3.6	2.8	2.2	1.7	0.5	-1.3	1.2	1.4	0.3	2.4	3.0	1.8	1.3	1.2
Unemployment (% March quarter s.a.)	5.0	4.3	3.9	4.0	3.9	3.8	5.2	6.2	6.7	6.8	6.2	5.9	5.4	5.1	4.8	4.4
Wages (average ordinary-time hourly, ann % change)	2.3	3.5	3.6	5.4	4.6	4.7	5.5	1.0	2.6	3.8	2.1	3.0	2.7	3.1	3.5	3.5
CPI inflation (ann % change)	2.5	1.5	2.8	3.3	2.5	3.4	3.0	2.0	4.5	1.6	0.9	1.5	1.8	2.5	2.3	2.0
Merchandise terms of trade (SNA basis)	-5.5	4.5	3.6	-1.7	-1.1	8.6	0.3	-7.5	10.6	1.4	-5.9	13.2	1.6	-4.9	0.9	0.2
House prices (ann % change)	14.7	23.4	13.5	12.2	11.7	2.8	-9.2	6.4	-1.5	3.6	7.6	8.0	7.3	4.3	2.5	2.4
Current account balance - $billion	-2.6	-4.1	-8.0	-12.8	-11.6	-12.4	-13.2	-2.8	-5.6	-6.4	-8.3	-7.0	-10.4	-14.6	-16.0	-17.1
Current account balance - % of GDP	-1.9	-2.9	-5.2	-7.9	-6.9	-6.8	-7.1	-1.5	-2.8	-3.1	-3.9	-3.1	-4.4	-5.9	-6.2	-6.3
TWI (March quarter)	60.6	66.9	69.6	68.3	68.8	71.9	53.7	65.3	67.2	72.5	75.9	78.7	78.6	78.4	76.9	73.2
90-day bank bill rate (March quarter)	5.8	5.5	6.9	7.6	7.8	8.8	3.7	2.7	3.0	2.7	2.7	3.0	4.3	4.8	4.9	5.3
10-year bond rate (March quarter)	6.0	5.9	6.0	5.7	5.9	6.4	4.6	5.9	5.6	4.0	3.7	4.6	4.8	5.0	5.1	5.2

Based on data available at 17 April 2014. CPI, TWI and interest rates are actuals for 2014.

Budget Economic and Fiscal Update 2014 Additional Information

The following information forms part of the *Budget Economic and Fiscal Update 2014* (*Budget Update*), released by the Treasury on 15 May 2014. This information provides further details on the *Budget Update* and should be read in conjunction with the published document. The additional information includes:

- **Detailed economic forecast information** – breakdowns of the economic forecasts.
- **Treasury and Inland Revenue tax forecasts** – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts.
- **Tax policy changes** – an analysis of the effect of changes in tax policy on forecasts for tax revenue since the Budget Economic and Fiscal Update 2013.
- **Additional fiscal indicators** – estimates of the cyclically-adjusted balance and fiscal impulse.
- **Government Finance Statistics (GFS) for central government** – fiscal tables presented under a GFS presentation framework to help with cross-country comparisons.
- **Accounting policies** – outline of the specific Crown accounting policies.

Detailed Economic Forecast Information

This section includes a series of tables to provide additional detail on the economic forecasts presented in the *Budget Update.*

Table 1	Real Gross Domestic Product
Table 2	Consumers price index and exchange rates
Table 3	Gross domestic expenditure and income
Table 4	Labour market indicators
Table 5	Exports – SNA basis
Table 6	Imports – SNA basis
Table 7	Balance of payments – current account

Table 1 – Real Gross Domestic Product (production measure)

Chain-volume series expressed in 1995/96 prices
Seasonally Adjusted

	$ million	Quarterly % change	Annual % change	Annual Average % change
2011Q1	35,436	0.9	1.2	1.8
2011Q2	35,709	0.8	0.9	1.2
2011Q3	36,035	0.9	2.1	1.2
2011Q4	36,253	0.6	3.2	1.9
2012Q1	36,578	0.9	3.2	2.4
2012Q2	36,646	0.2	2.6	2.8
2012Q3	36,725	0.2	1.9	2.7
2012Q4	37,166	1.2	2.5	2.6
2013Q1	37,356	0.5	2.1	2.3
2013Q2	37,510	0.4	2.4	2.2
2013Q3	37,949	1.2	3.3	2.6
2013Q4	38,304	0.9	3.1	2.7
2014Q1	38,630	0.9	3.4	3.0
2014Q2	38,997	1.0	4.0	3.4
2014Q3	39,427	1.1	3.9	3.6
2014Q4	39,855	1.1	4.0	3.8
2015Q1	40,162	0.8	4.0	4.0
2015Q2	40,418	0.6	3.6	3.9
2015Q3	40,702	0.7	3.2	3.7
2015Q4	40,928	0.6	2.7	3.4
2016Q1	41,136	0.5	2.4	3.0
2016Q2	41,327	0.5	2.2	2.6
2016Q3	41,556	0.6	2.1	2.4
2016Q4	41,764	0.5	2.0	2.2
2017Q1	41,977	0.5	2.0	2.1
2017Q2	42,195	0.5	2.1	2.1
2017Q3	42,425	0.5	2.1	2.1
2017Q4	42,655	0.5	2.1	2.1
2018Q1	42,896	0.6	2.2	2.1
2018Q2	43,160	0.6	2.3	2.2

Source: Statistics New Zealand, The Treasury

Table 2 – Consumers price index and exchange rates

	Consumers Price Index			Exchange rates	
	Index	Quarterly % change	Annual % change	TWI	USD
2011Q1	1146	0.8	4.5	67.2	0.76
2011Q2	1157	1.0	5.3	69.1	0.80
2011Q3	1162	0.4	4.6	72.0	0.83
2011Q4	1158	-0.3	1.8	68.7	0.78
2012Q1	1164	0.5	1.6	72.5	0.82
2012Q2	1168	0.3	1.0	71.3	0.79
2012Q3	1171	0.3	0.8	72.7	0.81
2012Q4	1169	-0.2	0.9	73.6	0.82
2013Q1	1174	0.4	0.9	75.9	0.83
2013Q2	1176	0.2	0.7	76.5	0.82
2013Q3	1187	0.9	1.4	75.3	0.80
2013Q4	1188	0.1	1.6	77.3	0.83
2014Q1	1192	0.3	1.5	78.7	0.84
2014Q2	1197	0.4	1.8	79.0	0.85
2014Q3	1206	0.7	1.6	78.8	0.83
2014Q4	1208	0.1	1.6	78.7	0.83
2015Q1	1214	0.5	1.8	78.6	0.83
2015Q2	1220	0.5	1.9	78.6	0.83
2015Q3	1231	0.9	2.1	78.5	0.83
2015Q4	1234	0.2	2.2	78.5	0.84
2016Q1	1244	0.8	2.5	78.4	0.84
2016Q2	1251	0.6	2.6	78.3	0.83
2016Q3	1262	0.9	2.5	78.0	0.83
2016Q4	1264	0.2	2.4	77.5	0.83
2017Q1	1273	0.7	2.3	76.9	0.82
2017Q2	1279	0.5	2.2	76.1	0.81
2017Q3	1289	0.8	2.1	75.3	0.80
2017Q4	1290	0.1	2.1	74.3	0.80
2018Q1	1299	0.7	2.0	73.2	0.79
2018Q2	1305	0.4	2.0	72.2	0.78

Source: RBNZ, Statistics New Zealand, The Treasury

Table 3 – Expenditure on Gross Domestic Product and Gross Domestic Product (income) in current prices

March Year	**2013**			**2014**			**2015**			**2016**			**2017**			**2018**
	Actual			**Forecast**			**Forecast**			**Forecast**			**Forecast**			**Forecast**
	$million	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million	%volume	%price	$million
Consumption:																
- *Private*	126,230	3.6	0.7	131,670	4.1	1.2	138,761	3.6	2.0	146,636	2.4	2.1	153,367	1.6	2.0	159,037
- *Public*	41,238	1.4	1.1	42,264	0.0	2.2	43,203	1.2	2.4	44,760	1.9	2.2	46,614	1.6	2.0	48,280
Gross Fixed Capital Formation:																
- *Residential*	10,979	14.5	4.5	13,134	22.6	5.2	16,939	10.8	4.5	19,605	1.6	4.3	20,768	0.1	4.3	21,700
- *Market **	28,276	11.3	-1.5	30,977	9.6	2.4	34,781	4.3	2.4	37,142	3.8	2.2	39,399	2.8	2.2	41,418
- *Non-market ***	2,728	1.6	2.4	2,840	2.7	4.2	3,042	2.4	2.4	3,191	2.4	2.4	3,347	2.4	2.4	3,511
- *Total all sectors*	41,943	11.8	0.1	46,935	13.6	2.2	54,474	5.7	3.6	59,658	3.5	2.4	63,234	2.4	2.5	66,349
Change in Stocks	841			1,750			1,714			1,577			1,311			1,114
Gross National Expenditure	210,256	5.2	0.7	222,659	6.3	0.6	238,156	3.7	2.3	252,634	2.5	2.2	264,529	1.7	2.1	274,784
Exports	62,762	-0.7	6.2	66,235	1.4	-2.8	65,229	2.1	-3.5	64,328	2.7	2.3	67,608	2.6	6.0	73,516
Imports	61,101	8.2	-4.7	63,009	6.6	-4.4	64,258	4.4	0.3	67,294	3.7	2.2	71,342	1.6	7.3	77,733
Expenditure on GDP	211,867	2.5	4.1	226,100	3.9	1.7	238,961	3.0	1.3	249,321	2.1	2.3	260,466	2.1	1.6	270,199
Statistical Discrepancy	-228			-241			-252			-261			-271			-280
Gross Domestic Product	211,639			225,859			238,709			249,060			260,194			269,919
Compensation of employees	95,756			100,849			106,419			111,154			116,088			121,381
Operating Surplus, net:																
- *Agriculture*	5,942			7,972			7,894			7,600			8,140			8,538
- *Other*	54,488			58,724			62,753			65,217			67,709			68,715
- *Total all sectors*	60,430			66,696			70,647			72,817			75,849			77,252
Consumption of fixed capital	29,150			30,608			32,138			33,745			35,432			37,204
Indirect Taxes	27,031			28,434			30,233			32,072			33,554			34,811
Less subsidies	728			728			728			728			728			728
Gross Domestic Product	211,639			225,859			238,709			249,060			260,194			269,919

* Includes Local Government and Non-profit Organisations
** Central Government (includes Crown Entities but not SOEs)

Source: Statistics New Zealand, The Treasury

Table 4 – Labour market indicators

Annual Average Percentage Change **March Year**	**2013** Actual	**2014** Forecast	**2015** Forecast	**2016** Forecast	**2017** Forecast	**2018** Forecast
Real GDP (production basis)	2.3	3.0	4.0	3.0	2.1	2.1
Working Age Population	0.8	1.2	1.6	1.4	1.1	1.0
Labour Force	0.5	1.7	2.4	1.4	0.9	0.8
Employment	0.3	2.4	3.0	1.8	1.3	1.2
Labour Productivity*	1.6	1.4	1.3	1.5	1.1	1.1
CPI (annual percentage change)	0.9	1.5	1.8	2.5	2.3	2.0
Average Ordinary Time Hourly Wages	2.6	2.6	2.9	3.0	3.4	3.5
Average Weekly Earnings	2.9	2.6	2.3	2.6	3.1	3.3
Real Wages	1.7	1.3	1.2	0.8	0.9	1.4
Compensation of Employees	4.0	5.3	5.5	4.4	4.4	4.6
Unit Labour Costs (Hours worked basis)	1.0	1.3	1.6	1.4	2.3	2.4
Real Unit Labour Costs	0.1	-0.1	-0.1	-0.7	-0.2	0.2

* Hours worked basis

Number (000's) **As at March Quarter**	**2013** Actual	**2014** Forecast	**2015** Forecast	**2016** Forecast	**2017** Forecast	**2018** Forecast
Total Population	4,464	4,521	4,584	4,633	4,676	4,718
Natural Increase	31	26	27	32	31	30
Net Migration	2	31	35	17	12	12
Annual Change	33	57	63	49	43	42
Working Age Population	3,511	3,560	3,617	3,661	3,699	3,735
Annual Change	29	49	56	44	38	37
Not in the labour force (s.a.)	1,128	1,104	1,111	1,127	1,143	1,159
Annual Change	36	-24	7	16	17	15
Labour Force (s.a.)	2,383	2,457	2,506	2,534	2,555	2,577
Annual Change	-7	74	49	29	21	21
Total Employment (s.a.)	2,235	2,311	2,369	2,404	2,434	2,462
Annual Change	8	76	59	35	30	28
Unemployment (s.a.)	148	146	136	131	122	115
Annual Change	-15	-2	-9	-6	-9	-7
Participation Rate (%sa)	67.9	69.0	69.3	69.2	69.1	69.0
Unemployment Rate (%sa)	6.2	5.9	5.4	5.1	4.8	4.4

Source: Statistics New Zealand, The Treasury

Table 5 – Exports – SNA basis

Breakdown of Exports

March Years	Dairy Products %volume	Dairy Products %price	Dairy Products $million	Meat and Meat Products %volume	Meat and Meat Products %price	Meat and Meat Products $million	Non-Commodity* %volume	Non-Commodity* %price	Non-Commodity* $million
2010	32.5	-32.0	9,045	-1.9	-7.5	5,285	-5.3	-7.4	13,270
2011	-0.7	29.6	11,667	-2.6	6.4	5,484	6.7	2.4	14,489
2012	9.0	0.4	12,777	-5.2	10.4	5,748	3.5	2.1	15,322
2013	18.4	-16.5	12,593	10.0	-8.9	5,746	-2.2	-4.9	14,263
2014	-6.1	32.8	15,869	-0.4	-1.6	5,646	-0.1	-2.0	13,972
2015	8.8	-7.8	15,817	-2.2	-4.8	5,256	2.7	2.3	14,675
2016	1.7	-16.8	13,376	2.8	-1.1	5,343	1.8	3.0	15,374
2017	3.2	1.4	14,010	2.3	1.8	5,570	1.9	4.4	16,362
2018	3.2	6.0	15,335	2.0	6.4	6,050	2.3	8.8	18,211

March Years	Total Goods** %volume	Total Goods** %price	Total Goods** $million	Services %volume	Services %price	Services $million	Total Exports %volume	Total Exports %price	Total Exports $million
2010	6.8	-15.4	40,053	-3.6	-0.8	15,760	4.0	-11.7	55,813
2011	3.3	10.2	45,565	1.6	-0.4	15,949	2.9	7.2	61,515
2012	2.7	3.2	48,294	2.8	1.6	16,670	2.7	2.8	64,964
2013	5.3	-8.0	46,775	-5.0	0.9	15,986	2.6	-5.8	62,762
2014	-0.5	7.4	50,086	-0.1	1.1	16,149	-0.7	6.2	66,235
2015	2.2	-3.7	49,279	-1.6	0.3	15,947	1.4	-2.8	65,229
2016	1.9	-4.8	47,816	3.0	0.5	16,509	2.1	-3.5	64,328
2017	2.4	2.9	50,387	3.9	0.4	17,217	2.7	2.3	67,608
2018	2.5	7.4	55,474	2.9	1.8	18,038	2.6	6.0	73,516

* Consists of 'Metal Products and Machinery Equipment', 'Chemicals, Rubber and Other Non-Metallic Goods' and 'Textile, Apparel and Leather'

** Note that Statistics NZ withholds data for some components of exports for confidentiality reasons. As a result we have not published the "Wood and Wood Products' and 'Other Goods' components of exports.

Table 6 – Imports – SNA basis

March Years	Capital Goods (Value for Duty) %volume	Capital Goods (Value for Duty) %price	Capital Goods (Value for Duty) $million	Mineral Fuel* (VFD) %volume	Mineral Fuel* (VFD) %price	Mineral Fuel* (VFD) $million	Intermediate Goods** (VFD) %volume	Intermediate Goods** (VFD) %price	Intermediate Goods** (VFD) $million	Consumption Goods (VFD) %volume	Consumption Goods (VFD) %price	Consumption Goods (VFD) $million
2010	-26.3	0.3	6,204	1.6	-27.4	6,059	-10.7	-9.8	14,806	-5.1	-1.3	10,843
2011	26.7	-5.3	7,429	-1.7	16.4	6,945	13.4	0.5	16,922	7.5	-4.7	11,116
2012	14.8	-6.5	7,974	5.8	19.5	8,795	6.4	0.4	18,062	5.7	-2.1	11,502
2013	7.4	-6.3	8,035	-3.0	0.5	8,537	0.8	-2.3	17,785	4.1	-1.4	11,799
2014	19.2	-6.5	8,956	-0.7	-5.9	8,020	7.9	-2.8	18,666	6.1	-3.1	12,120
2015	8.1	-3.3	9,359	5.0	-11.0	7,484	4.8	-2.3	19,117	6.7	-2.0	12,679
2016	5.0	-1.4	9,686	7.6	-5.2	7,638	3.0	1.6	20,016	6.7	1.5	13,726
2017	4.2	0.0	10,093	4.8	-2.4	7,807	3.3	3.6	21,427	5.4	3.2	14,920
2018	1.2	4.3	10,651	2.1	3.5	8,249	1.9	8.6	23,709	2.9	7.7	16,542

March Years	Total Goods (VFD) %volume	Total Goods (VFD) %price	Total Goods (VFD) $million	Services %volume	Services %price	Services $million	Total %volume	Total %price	Total $million
2010	-10.5	-8.5	38,048	-4.2	-6.0	13,246	-8.9	-7.9	51,294
2011	12.4	-0.4	42,616	8.5	-1.1	14,235	11.4	-0.6	56,852
2012	6.9	1.8	46,383	5.7	-0.2	15,032	6.6	1.3	61,415
2013	1.8	-2.2	46,198	-0.8	-0.1	14,903	1.2	-1.7	61,101
2014	8.9	-4.9	47,838	6.2	-4.2	15,171	8.2	-4.7	63,009
2015	7.5	-5.3	48,704	3.1	-0.5	15,554	6.6	-4.4	64,258
2016	4.9	0.1	51,130	2.5	1.4	16,163	4.4	0.3	67,294
2017	4.1	2.0	54,312	2.3	3.0	17,030	3.7	2.2	71,342
2018	1.7	7.2	59,215	1.0	7.6	18,518	1.6	7.3	77,733

* Consists of 'Fuels and Lubricants' and 'Petrol and Aviation Gas'

** Consists of 'Intermediate Goods' excluding 'Fuels and Lubricants' and 'Passenger Cars'

Source: Statistics New Zealand, The Treasury

Table 7 – Balance of payments – current account

$NZ Million **Year ended March**	**2013** Actual	**2014** Forecast	**2015** Forecast	**2016** Forecast	**2017** Forecast	**2018** Forecast
Exports Goods	46,775	50,086	49,279	47,816	50,387	55,474
annual % change	*-3.1*	*7.1*	*-1.6*	*-3.0*	*5.4*	*10.1*
Imports Goods	46,198	47,838	48,704	51,130	54,312	59,215
annual % change	*-0.4*	*3.6*	*1.8*	*5.0*	*6.2*	*9.0*
Balance on Goods	577	2,248	575	-3,315	-3,925	-3,741
% of nominal GDP	*0.3*	*1.0*	*0.2*	*-1.3*	*-1.5*	*-1.4*
Exports Services	15,986	16,149	15,947	16,509	17,217	18,038
annual % change	*-4.1*	*1.0*	*-1.3*	*3.5*	*4.3*	*4.8*
Imports Services	14,903	15,171	15,554	16,163	17,030	18,518
annual % change	*-0.9*	*1.8*	*2.5*	*3.9*	*5.4*	*8.7*
Balance on services	1,083	978	393	346	187	-480
% of nominal GDP	*0.5*	*0.4*	*0.2*	*0.1*	*0.1*	*-0.2*
Balance on goods & services	1,660	3,226	968	-2,969	-3,738	-4,221
% of nominal GDP	*0.8*	*1.4*	*0.4*	*-1.2*	*-1.4*	*-1.6*
Int'l investment income and transfers balance	-9,975	-10,336	-11,409	-11,623	-12,307	-12,829
% of nominal GDP	*-4.7*	*-4.6*	*-4.8*	*-4.7*	*-4.7*	*-4.7*
Current account balance	**-8,320**	**-7,017**	**-10,441**	**-14,592**	**-16,045**	**-17,050**
% of nominal GDP	***-3.9***	***-3.1***	***-4.4***	***-5.9***	***-6.2***	***-6.3***

Source: Statistics New Zealand, The Treasury

Treasury and Inland Revenue Tax Forecasts

In line with established practice, Inland Revenue has also prepared a set of tax forecasts, which, like the Treasury's tax forecasts, were based on the Treasury's macroeconomic forecasts. The two sets of forecasts differ from each other because of the different modelling approaches used by the two agencies and the various assumptions and judgements made by the forecasting teams in producing their forecasts.

In this *Budget Update*, the two sets of tax forecasts are quite close to each other by historical standards, with the largest difference in any one year being $201 million (0.1% of GDP). Over the whole forecast period, the Treasury's forecasts are generally lower than Inland Revenue's. The main point of difference occurs in the forecasts of resident withholding tax on interest.

The following two tables detail the respective forecasts by the Treasury and the IRD for tax revenue and receipts across each of the various sources:

Table 8 Treasury and IRD forecasts of tax revenue (accrual)

Table 9 Treasury and IRD forecasts of tax receipts (cash)

Table 8 – Treasury and IRD forecasts of tax revenue (accrual)

$ million	2012/13 Actual	2013/14 Forecast Treasury	2013/14 Forecast IRD	2013/14 Difference	2014/15 Forecast Treasury	2014/15 Forecast IRD	2014/15 Difference	2015/16 Forecast Treasury	2015/16 Forecast IRD	2015/16 Difference	2016/17 Forecast Treasury	2016/17 Forecast IRD	2016/17 Difference	2017/18 Forecast Treasury	2017/18 Forecast IRD	2017/18 Difference
Direct tax																
Individuals																
Source deductions	22,768	24,266	24,296	(30)	25,684	25,814	(130)	27,094	27,196	(102)	28,648	28,719	(71)	30,328	30,325	3
Other persons tax	5,210	5,161	5,122	39	5,428	5,473	(45)	5,681	5,654	27	5,955	5,852	103	6,106	5,967	139
Refunds	(1,644)	(1,531)	(1,497)	(34)	(1,395)	(1,495)	100	(1,520)	(1,554)	34	(1,609)	(1,591)	(18)	(1,635)	(1,550)	(85)
Fringe benefit tax	480	487	482	5	512	506	6	533	522	11	556	542	14	581	561	20
Subtotal: Individuals	**26,814**	**28,383**	**28,403**	**(20)**	**30,229**	**30,298**	**(69)**	**31,788**	**31,818**	**(30)**	**33,550**	**33,522**	**28**	**35,380**	**35,303**	**77**
Company tax (net)	**10,026**	**10,286**	**10,456**	**(170)**	**10,482**	**10,454**	**28**	**10,964**	**10,909**	**55**	**11,321**	**11,233**	**88**	**11,648**	**11,419**	**229**
Withholding taxes on:																
Resident interest income	1,631	1,642	1,636	6	2,007	2,102	(95)	2,638	2,865	(227)	3,022	3,217	(195)	3,381	3,658	(277)
Non-resident income	420	421	401	20	481	475	6	528	514	14	551	530	21	569	543	26
Foreign-source dividends	2	2	1	1	2	1	1	2	1	1	2	1	1	2	1	1
Resident dividend income	516	472	448	24	495	493	2	516	512	4	534	527	7	545	532	13
Subtotal: Withholding tax	**2,569**	**2,537**	**2,486**	**51**	**2,985**	**3,071**	**(86)**	**3,684**	**3,892**	**(208)**	**4,109**	**4,275**	**(166)**	**4,497**	**4,734**	**(237)**
Total direct tax	**39,409**	**41,206**	**41,345**	**(139)**	**43,696**	**43,823**	**(127)**	**46,436**	**46,619**	**(183)**	**48,980**	**49,030**	**(50)**	**51,525**	**51,456**	**69**
Indirect tax																
GST (net)	**21,356**	**22,591**	**22,515**	**76**	**24,163**	**24,175**	**(12)**	**25,577**	**25,536**	**41**	**26,560**	**26,687**	**(127)**	**27,682**	**27,580**	**102**
Excise duties on:																
Alcoholic drinks	663	655	650	5	681	700	(19)	707	730	(23)	738	770	(32)	770	800	(30)
Tobacco products	281	274	265	9	286	295	(9)	297	310	(13)	309	320	(11)	308	325	(17)
Petroleum fuels	855	848	850	(2)	936	950	(14)	1,088	1,010	78	1,214	1,030	184	1,246	1,050	196
Subtotal: excise duties	**1,799**	**1,777**	**1,765**	**12**	**1,903**	**1,945**	**(42)**	**2,092**	**2,050**	**42**	**2,261**	**2,120**	**141**	**2,324**	**2,175**	**149**
Other indirect tax																
Customs duty	2,056	2,190	2,160	30	2,284	2,225	59	2,323	2,325	(2)	2,304	2,455	(151)	2,323	2,525	(202)
Road user charges	1,066	1,162	1,190	(28)	1,268	1,295	(27)	1,366	1,395	(29)	1,425	1,450	(25)	1,473	1,505	(32)
Gaming duties	267	267	263	4	267	265	2	271	268	3	274	271	3	278	275	3
Motor vehicle fees	174	186	185	1	195	190	5	202	195	7	208	200	8	213	205	8
Exhaustible resource levy	34	36	34	2	36	32	4	36	31	5	36	30	6	36	29	7
Approved issuer levy, cheque duty & other	86	98	101	(3)	95	102	(7)	95	101	(6)	95	101	(6)	95	101	(6)
Subtotal: Other indirect tax	**3,683**	**3,939**	**3,933**	**6**	**4,145**	**4,109**	**36**	**4,293**	**4,315**	**(22)**	**4,342**	**4,507**	**(165)**	**4,418**	**4,640**	**(222)**
Total indirect tax	**26,838**	**28,307**	**28,213**	**94**	**30,211**	**30,229**	**(18)**	**31,962**	**31,901**	**61**	**33,163**	**33,314**	**(151)**	**34,424**	**34,395**	**29**
Total tax	**66,247**	**69,513**	**69,558**	**(45)**	**73,907**	**74,052**	**(145)**	**78,398**	**78,520**	**(122)**	**82,143**	**82,344**	**(201)**	**85,949**	**85,851**	**98**
Total tax (% of GDP)	31.1%	30.1%	30.1%	0.0%	30.7%	30.7%	0.0%	31.1%	31.1%	0.0%	31.2%	31.3%	-0.1%	31.5%	31.5%	0.0%
less Core Crown tax eliminations																
Core Crown income tax	984	832	832		585	585		631	631		681	681		735	735	
GST on Crown expenses and departmental outputs	6,151	6,306	6,306		6,401	6,401		6,687	6,687		6,887	6,887		7,079	7,079	
Crown ESCT	421	448	448		449	449		456	456		463	463		468	468	
Crown AIL	41	30	30		30	30		30	30		30	30		30	30	
Core Crown taxation	**58,651**	**61,896**	**61,942**	**(45)**	**66,442**	**66,587**	**(145)**	**70,594**	**70,716**	**(122)**	**74,082**	**74,283**	**(201)**	**77,636**	**77,539**	**98**
Core Crown tax (% of GDP)	27.5%	26.8%	26.8%	0.0%	27.6%	27.6%	0.0%	28.0%	28.0%	0.0%	28.2%	28.3%	-0.1%	28.5%	28.4%	0.0%
less Total Crown tax eliminations																
Income tax from SOEs and CEs	446	454	454		549	549		610	610		660	660		711	711	
Other Crown GST	..	..	..		..	..		..	..		..	..		..	..	
ESCT from SOEs and CEs	17	7	7		11	11		11	11		10	10		11	11	
Lottery duty	54	56	56		58	58		61	61		64	64		67	67	
Total Crown taxation	**58,134**	**61,380**	**61,425**	**(45)**	**65,824**	**65,969**	**(145)**	**69,912**	**70,034**	**(122)**	**73,348**	**73,549**	**(201)**	**76,848**	**76,750**	**98**
Total Crown tax (% of GDP)	27.3%	26.6%	26.6%	0.0%	27.3%	27.3%	0.0%	27.7%	27.8%	0.0%	27.9%	28.0%	-0.1%	28.2%	28.2%	0.0%
Nominal GDP	213,188	230,717	230,717		241,090	241,090		252,307	252,307		262,989	262,989		272,612	272,612	

Table 9 – Treasury and IRD forecasts of tax receipts (cash)

$ million	2012/13 Actual	2013/14 Forecast Treasury	2013/14 Forecast IRD	2013/14 Difference	2014/15 Forecast Treasury	2014/15 Forecast IRD	2014/15 Difference	2015/16 Forecast Treasury	2015/16 Forecast IRD	2015/16 Difference	2016/17 Forecast Treasury	2016/17 Forecast IRD	2016/17 Difference	2017/18 Forecast Treasury	2017/18 Forecast IRD	2017/18 Difference
Direct tax																
Individuals																
Source deductions	22,618	24,118	24,148	(30)	25,532	25,660	(128)	26,936	27,036	(100)	28,490	28,561	(71)	30,162	30,159	3
Other persons tax	5,194	5,655	5,696	(41)	5,964	6,061	(97)	6,184	6,210	(26)	6,429	6,408	21	6,632	6,499	133
Refunds	(2,251)	(2,149)	(2,225)	76	(2,211)	(2,395)	184	(2,321)	(2,439)	118	(2,372)	(2,469)	97	(2,472)	(2,428)	(44)
Fringe benefit tax	465	485	480	5	510	504	6	531	520	11	554	540	14	579	559	20
Subtotal: Individuals	**26,026**	**28,109**	**28,099**	**10**	**29,795**	**29,830**	**(35)**	**31,330**	**31,327**	**3**	**33,101**	**33,040**	**61**	**34,901**	**34,789**	**112**
Company tax (net)	**9,319**	**10,120**	**10,220**	**(100)**	**10,331**	**10,299**	**32**	**10,729**	**10,714**	**15**	**11,174**	**11,084**	**90**	**11,445**	**11,228**	**217**
Withholding taxes on:																
Resident interest income	1,635	1,641	1,635	6	2,005	2,100	(95)	2,636	2,863	(227)	3,020	3,215	(195)	3,379	3,656	(277)
Non-resident income	451	399	366	33	480	474	6	527	513	14	550	529	21	568	542	26
Foreign-source dividends	1	2	1	1	2	1	1	2	1	1	2	1	1	2	1	1
Resident dividend income	516	471	447	24	495	493	2	516	512	4	534	527	7	545	532	13
Subtotal: Withholding tax	**2,603**	**2,513**	**2,449**	**64**	**2,982**	**3,068**	**(86)**	**3,681**	**3,889**	**(208)**	**4,106**	**4,272**	**(166)**	**4,494**	**4,731**	**(237)**
Total direct tax	**37,948**	**40,742**	**40,768**	**(26)**	**43,108**	**43,197**	**(89)**	**45,740**	**45,930**	**(190)**	**48,381**	**48,396**	**(15)**	**50,840**	**50,748**	**92**
Indirect tax																
GST (net)	**20,978**	**22,229**	**22,160**	**69**	**23,795**	**23,798**	**(3)**	**25,194**	**25,140**	**54**	**26,176**	**26,291**	**(115)**	**27,283**	**27,169**	**114**
Excise duties on:																
Alcoholic drinks	666	655	650	5	681	700	(19)	707	730	(23)	738	770	(32)	770	800	(30)
Tobacco products	287	274	265	9	286	295	(9)	297	310	(13)	309	320	(11)	308	325	(17)
Petroleum fuels	865	848	850	(2)	936	950	(14)	1,088	1,010	78	1,214	1,030	184	1,246	1,050	196
Subtotal: Excise duties	**1,818**	**1,777**	**1,765**	**12**	**1,903**	**1,945**	**(42)**	**2,092**	**2,050**	**42**	**2,261**	**2,120**	**141**	**2,324**	**2,175**	**149**
Other indirect tax																
Customs duty	2,035	2,190	2,160	30	2,284	2,225	59	2,323	2,325	(2)	2,304	2,455	(151)	2,323	2,525	(202)
Road user charges	1,064	1,162	1,170	(8)	1,268	1,295	(27)	1,366	1,395	(29)	1,425	1,450	(25)	1,473	1,505	(32)
Gaming duties	268	264	263	1	267	265	2	271	268	3	274	271	3	278	275	3
Motor vehicle fees	179	186	185	1	195	190	5	202	195	7	208	200	8	213	205	8
Exhaustible resource levy	34	36	34	2	36	32	4	36	31	5	36	30	6	36	29	7
Approved issuer levy, cheque duty & other	87	98	101	(3)	95	102	(7)	95	101	(6)	95	101	(6)	95	101	(6)
Subtotal: Other indirect tax	**3,667**	**3,936**	**3,913**	**23**	**4,145**	**4,109**	**36**	**4,293**	**4,315**	**(22)**	**4,342**	**4,507**	**(165)**	**4,418**	**4,640**	**(222)**
Total indirect tax	**26,463**	**27,942**	**27,838**	**104**	**29,843**	**29,852**	**(9)**	**31,579**	**31,505**	**74**	**32,779**	**32,918**	**(139)**	**34,025**	**33,984**	**41**
Total tax	**64,411**	**68,684**	**68,606**	**78**	**72,951**	**73,049**	**(98)**	**77,319**	**77,435**	**(116)**	**81,160**	**81,314**	**(154)**	**84,865**	**84,732**	**133**
Total tax (% of GDP)	30.2%	29.8%	29.7%	0.1%	30.3%	30.3%	0.0%	30.6%	30.7%	-0.1%	30.9%	30.9%	0.0%	31.1%	31.1%	0.0%
less Core Crown tax eliminations																
Core Crown income tax	877	887	887		575	575		622	622		671	671		724	724	
GST on Crown expenses and departmental outputs	6,145	6,316	6,316		6,443	6,443		6,735	6,735		6,938	6,938		7,106	7,106	
Crown ESCT	415	446	446		448	448		455	455		461	461		467	467	
Crown AIL	42	30	30		30	30		30	30		30	30		30	30	
Core Crown taxation	**56,932**	**61,005**	**60,927**	**78**	**65,455**	**65,553**	**(98)**	**69,477**	**69,593**	**(116)**	**73,060**	**73,214**	**(154)**	**76,538**	**76,405**	**133**
Core Crown tax (% of GDP)	26.7%	26.4%	26.3%	0.1%	27.1%	27.1%	0.0%	27.5%	27.6%	-0.1%	27.8%	27.8%	0.0%	28.1%	28.1%	0.0%
less Total Crown tax eliminations																
Income tax from SOEs and CEs	374	495	495		496	496		593	593		641	641		675	675	
Other Crown GST	77	5	5		(22)	(22)		(18)	(18)		(12)	(12)		(1)	(1)	
ESCT from SOEs and CEs	15	7	7		10	10		10	10		10	10		10	10	
Lottery duty	53	56	56		58	58		61	61		64	64		67	67	
Total Crown taxation	**56,413**	**60,442**	**60,364**	**78**	**64,913**	**65,011**	**(98)**	**68,831**	**68,947**	**(116)**	**72,357**	**72,511**	**(154)**	**75,787**	**75,654**	**133**
Total Crown tax (% of GDP)	26.5%	26.2%	26.1%	0.1%	26.9%	26.9%	0.0%	27.3%	27.4%	-0.1%	27.5%	27.5%	0.0%	27.8%	27.8%	0.0%

Tax Policy Changes

As required by section 26R of the Public Finance Act 1989, this section details the changes to forecast tax revenue since the *2013 Budget Update* as a result of revenue initiatives. Table 10 gives a full breakdown of the changes, while the supplementary text describes each initiative.

Table 10 – Tax forecasting effects of revenue initiatives

Year ending 30 June	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
$ millions	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**5 years**
Unfiled tax returns	..	32	70	70	70	242
Reduced duty-free tobacco concession	..	35	50	50	50	185
Supporting newborns (PAYE effect)	..	1	5	8	8	23
Cashing-out research & development tax losses	..	..	(15)	(15)	(15)	(45)
Building materials tariff concession	..	(6)	(6)	(6)	(6)	(22)
Repeal of cheque duty	..	(4)	(4)	(4)	(4)	(16)
Blackhole research & development expenditure	..	(1)	(3)	(4)	(6)	(13)
Other measures	6	..	..	..	..	6
Total	**6**	**57**	**98**	**99**	**98**	**359**

Source: The Treasury
Numbers in the table may not add exactly to stated totals owing to rounding of intermediate results

Revenue initiatives

Unfiled tax returns

Inland Revenue is to be provided with additional funding to focus on:

- reducing outstanding return volumes, and
- returns with higher revenue values.

Reduced duty-free tobacco concession

The concession for personal importation of duty-free tobacco is to be reduced with effect from 1 November 2014.

Supporting newborns

A consequential effect of changes to the Paid Parental Leave and Parental Tax Credit schemes is that additional PAYE will be collected.

Cashing-out research and development tax losses

Effective for income years commencing on or after 1 April 2015, in certain circumstances, taxpayers undertaking research and development will have early access to all or part of their tax losses that arise from expenditure on research and development, in the form of a cash receipt, instead of carrying these losses forward.

Building materials tariff concession

A tariff concession scheme for key residential construction materials will be introduced on 1 July 2014 for an initial period of five years.

Repeal of cheque duty

Cheque duty will be abolished with effect from 1 July 2014.

Black-hole research and development expenditure

With effect from the 2015/16 income year, all capitalised costs on depreciable intangible assets will be deductible over time, and in certain circumstances, research and development expenditure towards an unsuccessful asset will be tax deductible.

Additional Fiscal Indicators

There are different approaches to assessing the relationship between the economy and the fiscal performance, and the relationship between fiscal policy and the economy. One approach to assessing these relationships uses summary fiscal indicators. A discussion of the Treasury's perspective on these indicators, their use and limitations, and the relationship between them, can be found in the 2010 *Budget Update* Additional Information.[1]

The Treasury calculates two summary fiscal indicators: the cyclically-adjusted balance (CAB) and the fiscal impulse indicator.

- The cyclically-adjusted balance adjusts the operating balance before gains and losses (OBEGAL) for the cyclical position of the economy. The CAB is subject to uncertainty because it uses estimated variables and is sensitive to new information, particularly regarding the output gap.
- The fiscal impulse indicator uses the change in a cash-based version of the fiscal balance (a cyclically-adjusted balance supplemented by capital expenditure).

Further information on the methodology behind the indicators can be found in Treasury Working Papers 02/30 and 10/08.[2]

Central estimate

This section discusses the Treasury's central estimates of the cyclically-adjusted balance and fiscal impulse. Detailed tables of data can be found at the end of the Additional Fiscal Indicators section.

The significant "one-off" impact on expenses of the Canterbury earthquake is removed from estimates of the cyclically-adjusted balance. This is to give a better indication of the underlying fiscal performance. Similarly for one measure of the fiscal impulse, some earthquake expenditures that are more of a financial nature are removed as the demand effects arising from such flows (eg, EQC payments to households) will show up in other parts of the economy.

Cyclically-adjusted balance

Figure 1 shows the operating balance (before gains and losses) and the cyclically-adjusted balance. They are similar to those estimated in the 2013 *Half Year Update*, although are marginally lower across much of the forecast period, reflecting higher expenditure than previously forecast. The headline OBEGAL deficit is forecast to be 1.1% of GDP in the year ended June 2014 (compared to 1.0% in the *Half Year Update*). The cyclically-adjusted balance, excluding earthquake expenses, is estimated to be a deficit of 1.0% of GDP in the ended June 2014 (compared to 0.6% in the *Half Year Update*). The

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1 Available at http://www.treasury.govt.nz/budget/forecasts/befu2010/befu10-pt6of6.pdf

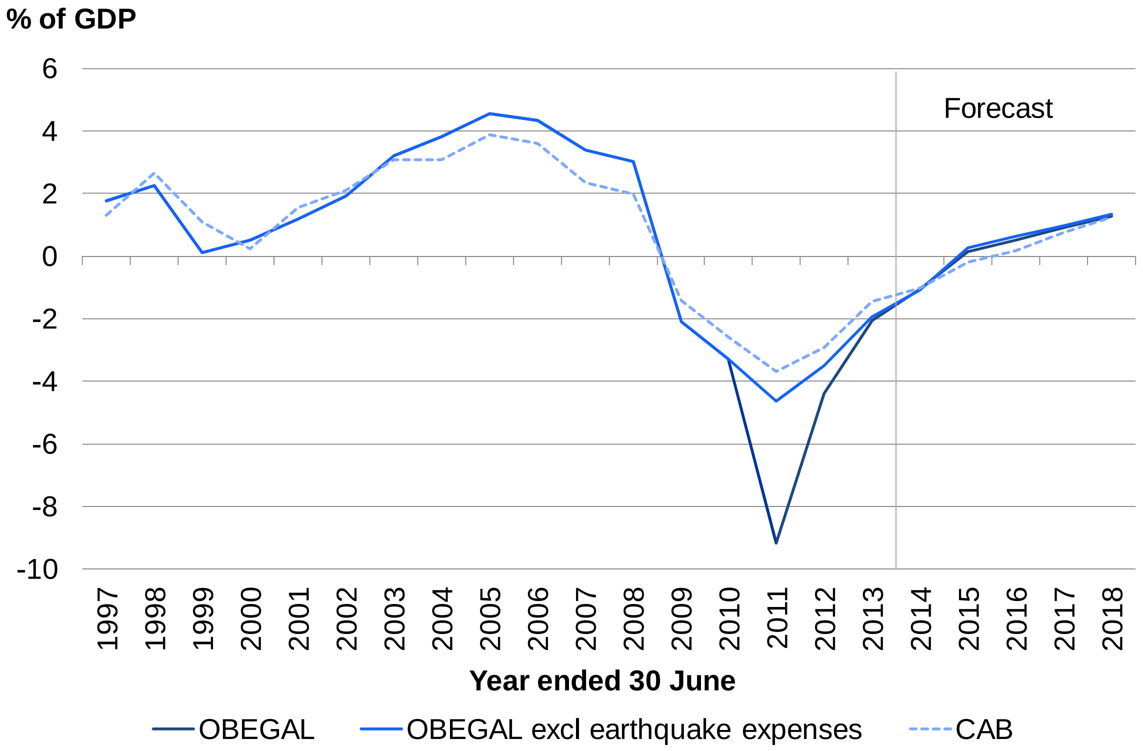
2 Renee Philip and John Janssen (2002) "Indicators of Fiscal Impulse for New Zealand" New Zealand Treasury Working Paper 02/30, December 2002 http://www.treasury.govt.nz/publications/research-policy/wp/2002/02-30/

Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance" New Zealand Treasury Working Paper 10/08, December 2010 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/

difference between the headline and cyclically-adjusted balance comprises the impact of the automatic stabilisers and the earthquake adjustment.

The cyclically-adjusted balance is expected to move into surplus in the year ended June 2016 – the same year as previously forecast. By the end of the forecast period in 2018, the cyclically-adjusted balance reaches a surplus of 1.3% of GDP. This is 0.8% lower than previously forecast largely as a result of higher forecast operating allowances from Budget 2015 onwards.

Figure 1 – Cyclically-adjusted balance



Source: The Treasury

Fiscal impulse

The fiscal impulse indicator is shown in Figure 2. As has been noted in previous *Economic and Fiscal Updates*, capital expenditure on defence, KiwiSaver subsidies and Deposit Guarantee Scheme payments are excluded from the measure of fiscal impulse since these are expected to have a limited direct impact on aggregate demand. Purchases and sales of investments are also excluded from the measure. As a result, any sale proceeds from the Government's share offer programme do not impact on the fiscal impulse indicator.

The fiscal impulse is shown for both the core Crown and combined core Crown and Crown entity segments. The core Crown indicator mostly reflects changes in receipts and expenditure impacted by Budget decisions, whereas the core Crown plus Crown entity indicator provides a better indication of the total impact of central government activities (ie, excluding State-Owned Enterprises). A measure of the fiscal impulse that excludes Canterbury-related financial transactions is also shown, which adjusts for EQC and Southern Response payments and receipts. EQC and Southern Response payments and receipts account for much of the difference between the core Crown fiscal impulse and the indicator for the core Crown plus Crown entities.

It is worth noting that summary indicators such as fiscal impulse do not take account of the composition of fiscal policy changes or how a change in fiscal policy will be transmitted through the economy. Treasury research using time series statistical analysis indicates that spending and taxes have different effects on New Zealand GDP.[3] Therefore the fiscal impulse indicator is only a very imprecise guide to the impact of fiscal policy on the economy.

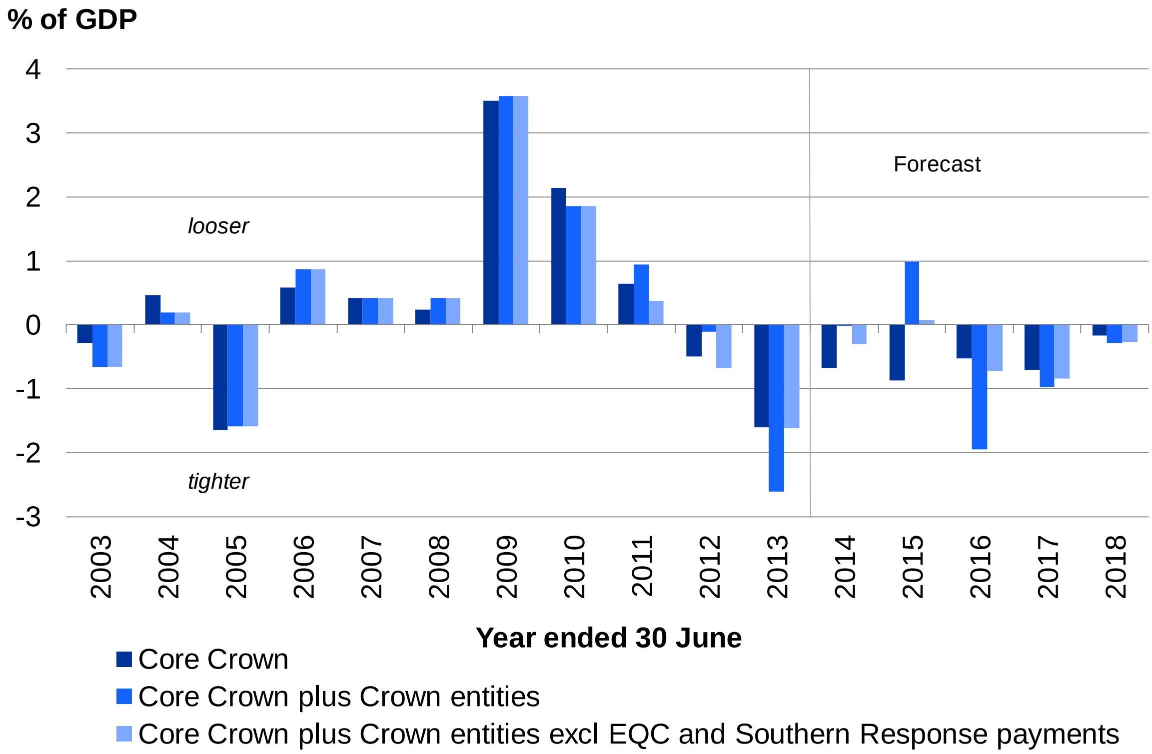
The fiscal impulse shows that fiscal policy is expected to have a contractionary impact on demand in almost every year of the forecast horizon. The forecast fiscal impulse for the 2014 June year is more contractionary than expected in the *Half Year Update* (*Budget Update*: -0.3% of GDP; *Half Year Update*: 0.1% of GDP). The forecast for the 2015 June year is less contractionary than forecast in the *Half Year Update* and is now broadly neutral (*Budget Update*: 0.1% of GDP; *Half Year Update*: -0.7% of GDP). This reflects changes to the expected timing of capital spending, particularly related to District Health Boards, New Zealand Transport Agency and anchor projects in Canterbury and also the profile of the allocation of new capital spending in Budget 2014. Lower spending in the 2014 June year also contribute to this result.

Over the latter half of the forecast period, fiscal policy is expected to withdraw 0.6% of GDP from aggregate demand on average each year. This is marginally less than in the *Half Year Update* (showing an average of 0.7% of GDP per year) largely due to higher forecast operating allowances from Budget 2015.

It is also worth noting the difference in 2015 between the unadjusted and Canterbury-adjusted fiscal impulses. The fiscal impulse is affected by large payments and receipts by EQC and Southern Response. The significant one-off positive impulse in the unadjusted measure is due to the timing of reinsurance inflows. As these reinsurance flows do not reflect the impact of discretionary fiscal policy on the domestic economy, the adjusted measure gives a better estimate of the impact of fiscal policy in these years. Current forecasts show a rephrasing of reinsurance flows and therefore a positive impulse in the 2015 instead of 2014, as was the case in the *Half Year Update*.

3 Parkyn and Vehbi (2013) "The Effects of Fiscal Policy in New Zealand: Evidence from a VAR Model with Debt Constraints" New Zealand Treasury Working Paper 13/02. The degree to which the fiscal impulse indicator matches the time series estimates depends on the exact form of the latter. In neither of the time series specifications does the summary indicator match the time series estimate across the entire sample period

Figure 2 – Estimates of the fiscal impulse



Source: The Treasury

Sensitivity analysis

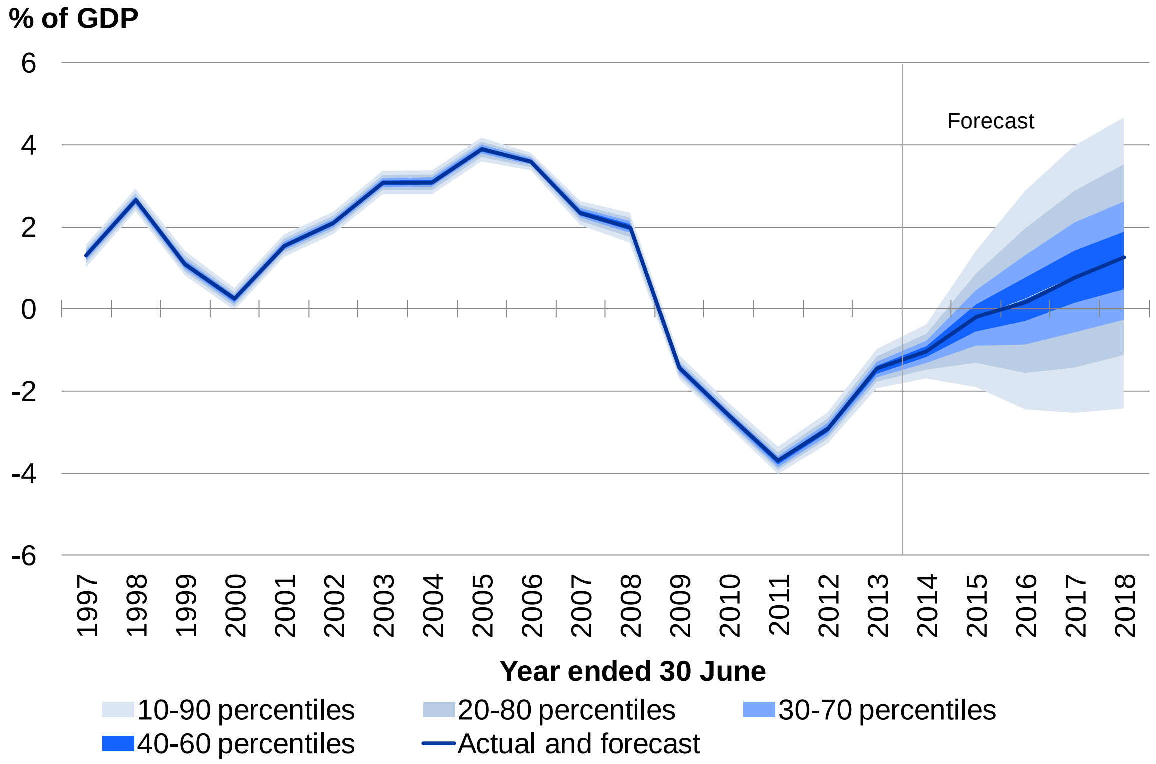
There is much uncertainty about the summary indicator estimates. There are two broad sources of that uncertainty which can lead to revisions in the indicator estimates:

- estimation uncertainty of the key model parameters (ie, the output gap and the average sensitivity of tax revenues to changes in the output gap), and
- forecast uncertainty relating to future fiscal and economic developments.

Sensitivity analysis is performed by calculating the indicators using alternative output gaps (from the RBNZ, IMF and OECD) and values for the elasticity of tax revenues with respect to the output gap which are half and twice the magnitude of the baseline estimate. The range of alternative estimates is plotted in Figures 4 to 6 (with data reported in Tables 14 and 15). Differences in the output gap estimates are mainly the result of differences in estimation technique, although it also reflects different institutions' judgements about the forecast outlook and the availability of data at the time of forecast finalisation. Accordingly, it provides an indication of uncertainty due to model specification but it does not capture total forecast uncertainty.

An alternative means of illustrating uncertainty is to show a probability distribution around the central forecast. A probability distribution requires making some assumptions about future forecast errors based on historical forecast errors of observable economic and fiscal variables and historical revisions to the Treasury's output gap estimates. In Figure 3, a fan chart of the cyclically-adjusted balance indicator is shown. The probability intervals calculated are conditional on current policy and reflect historical revisions to the Treasury's official output gap estimate, rather than the full uncertainty implied by different estimation techniques. Details of the methodology and parameter values for the confidence intervals are reported in Treasury Working Paper 10/08.[4] This analysis would suggest that there is a structural fiscal deficit in the year 2013/14 with a high degree of confidence, but there is considerable uncertainty in future years shown by the model's symmetric distribution assumption.

Figure 3 – Fan chart for cyclically-adjusted balance

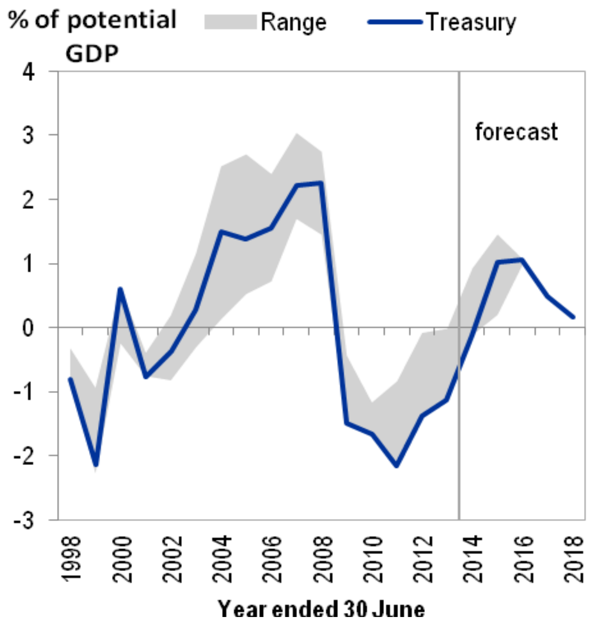


Source: The Treasury

Note: the bands represent sequential deciles such that the difference between the 10th and 90th percentiles represents an 80% confidence interval.

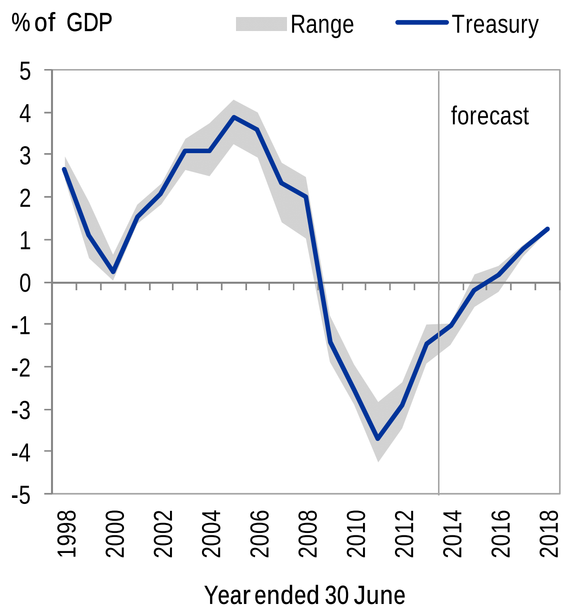
4 Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/.

Figure 4 – Output gap range



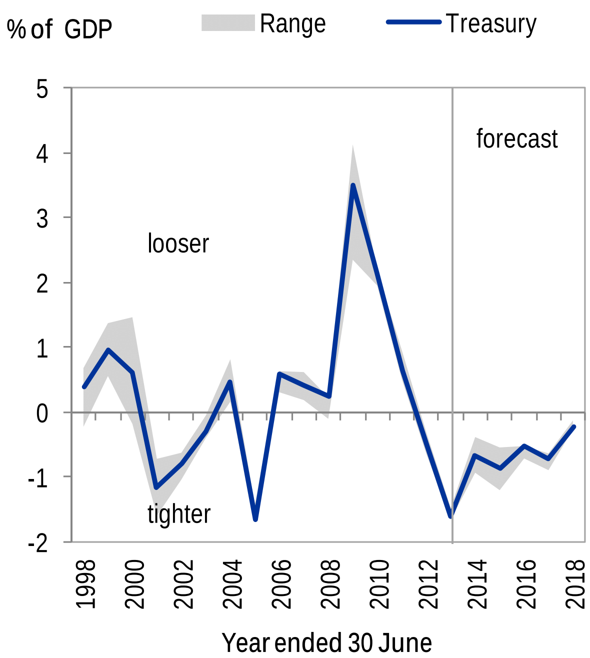
Source: The Treasury

Figure 5 – Cyclically-adjusted balance range



Source: The Treasury

Figure 6 – Core Crown fiscal impulse range



Source: The Treasury

Terms-of-trade adjustment

The Treasury produces regular estimates of the terms-of-trade effect on the budget balance following the methodology outlined in Treasury Working Paper 10/08.[5]

Estimating the terms-of-trade effect means calculating the approximate amount of tax revenue that is due to deviations in the terms of trade from some specified structural, or long-run, level. The central forecast has the terms of trade remaining at a relatively elevated level throughout the forecast horizon. A terms-of-trade adjustment to the fiscal balance is made to understand what the underlying fiscal position may be under different assumptions (ie, scenarios) about the long-run level of the terms of trade. The purpose is to produce information that helps to make judgements about the fiscal position from a medium-term perspective, without compromising the forecasts' role of presenting the most likely near-term outcome.

Figure 7 shows New Zealand's terms of trade and historical average levels (50-, 30– and 20-year averages) and a time-varying trend using a statistical filter.[6] The historical average and trend estimates are used as estimates of the structural level of the terms of trade. Using the statistical filter runs the risk of interpreting long cycles as structural shifts in real time, whereas using an historical average suffers from the opposite risk.

A terms-of-trade adjustment, for each alternative assumption, is reported in Table 16. The adjusted cyclically-adjusted balance estimate is plotted in Figure 8. Using the 30-year average, this analysis suggests that a terms-of-trade adjustment would subtract 3.5% of GDP from structural tax revenues in the year ended June 2014. This implies a larger structural budget deficit than without the terms-of-trade adjustment. Alternatively, using the statistical filter, which smoothes out fluctuations around a time-varying trend, shows a terms-of-trade adjustment would subtract 0.8% of GDP from the structural budget balance in the 2014 June year.

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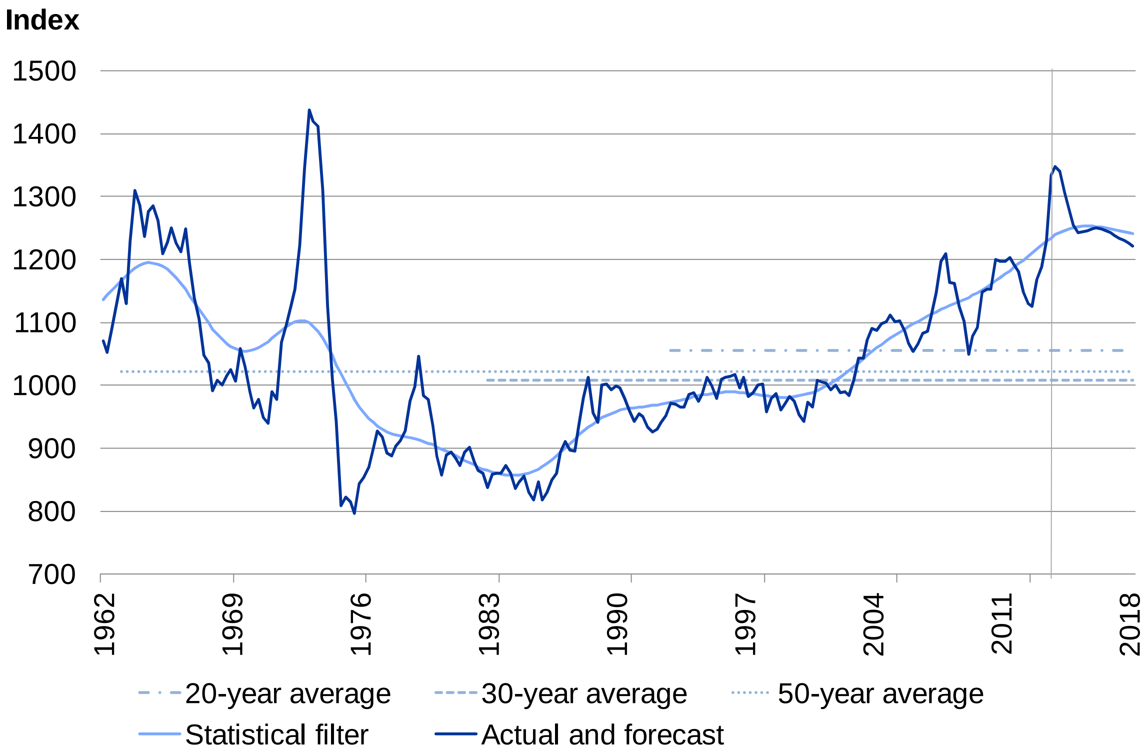
5 Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/.

6 A Hodrick-Prescott filter is used on quarterly data with a smoothing parameter of 1600.

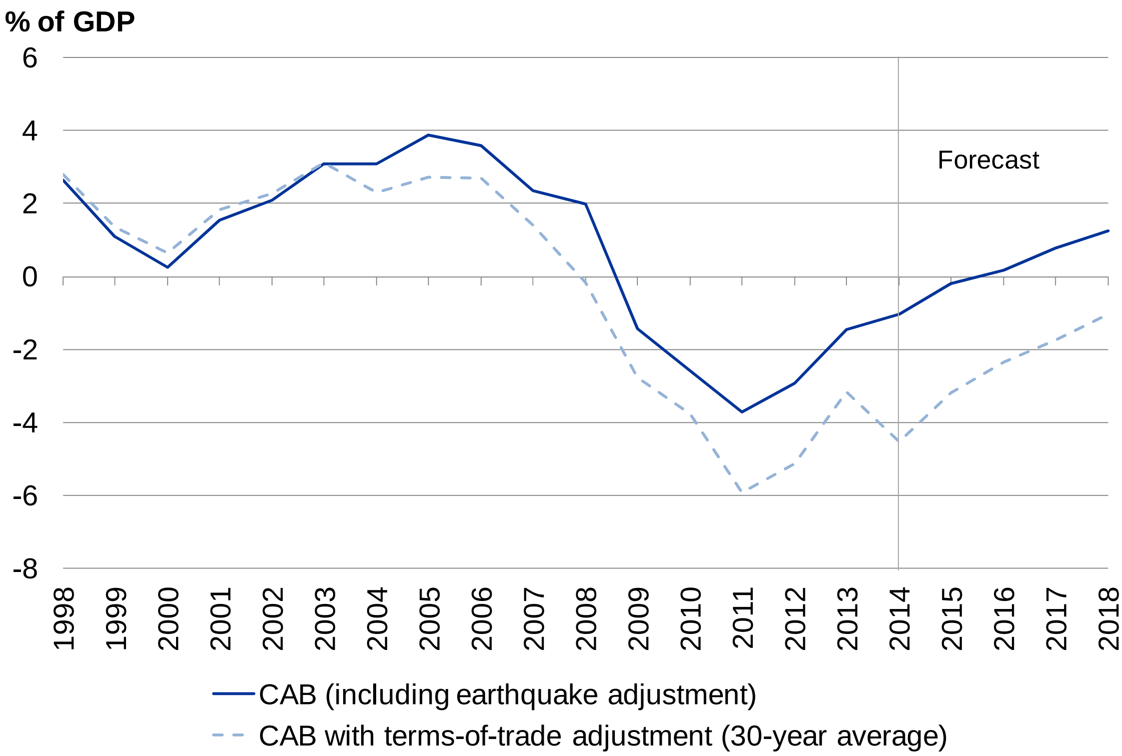
Figure 7 – Terms of trade with historical average and time-varying trend



Sources: Statistics New Zealand, the Treasury

Note: Due to data availability, this uses the goods and services terms of trade spliced with the goods terms of trade for the period prior to 1987.

Figure 8 – Cyclically-adjusted balance with terms-of-trade adjustment



Source: The Treasury

Data tables for summary fiscal indicators

Table 11 – Central estimates of output gap, cyclically-adjusted balance and fiscal impulse (% of GDP)

June year	Output gap	OBEGAL	OBEGAL excl earthquake expenses	CAB	Fiscal impulse (core Crown)	Fiscal impulse (core Crown plus Crown entity)	Fiscal impulse (core Crown plus CE) excluding EQC & Southern Response payouts
1997	1.0	1.8		1.3	2.3		
1998	-0.8	2.3		2.6	0.4		
1999	-2.1	0.1		1.1	1.0		
2000	0.6	0.5		0.2	0.6		
2001	-0.8	1.2		1.5	-1.2		
2002	-0.4	1.9		2.1	-0.8		
2003	0.3	3.2		3.1	-0.3	-0.7	-0.7
2004	1.5	3.8		3.1	0.5	0.2	0.2
2005	1.4	4.6		3.9	-1.6	-1.6	-1.6
2006	1.6	4.3		3.6	0.6	0.9	0.9
2007	2.2	3.4		2.3	0.4	0.4	0.4
2008	2.3	3.0		2.0	0.2	0.4	0.4
2009	-1.5	-2.1		-1.4	3.5	3.6	3.6
2010	-1.7	-3.3		-2.6	2.1	1.9	1.9
2011	-2.2	-9.2	-4.6	-3.7	0.6	0.9	0.4
2012	-1.4	-4.4	-3.5	-2.9	-0.5	-0.1	-0.7
2013	-1.1	-2.1	-1.9	-1.5	-1.6	-2.6	-1.6
2014	-0.1	-1.1	-1.1	-1.0	-0.7	0.0	-0.3
2015	1.0	0.2	0.3	-0.2	-0.9	1.0	0.1
2016	1.1	0.5	0.6	0.2	-0.5	-1.9	-0.7
2017	0.5	0.9	1.0	0.8	-0.7	-1.0	-0.8
2018	0.2	1.3	1.3	1.2	-0.2	-0.3	-0.3

Source: The Treasury

Table 12 – Sources for alternative output gaps

Institution	Source	Publication date
The Treasury	*Budget Economic and Fiscal Update*	May 2014
RBNZ	*Monetary Policy Statement*	March 2014
IMF	*World Economic Outlook*	April 2014
OECD	*Economic Outlook*	November 2013

Table 13 – Elasticity values used in sensitivity analysis

Elasticities	Base case	Low	High
Individual income tax	0.9	0.5	1.8
Company tax	1.4	0.7	2.8
GST	1.0	0.5	2.0
Excise duties	1.0	0.5	2.0
Other indirect tax	1.0	0.5	2.0
Interest, profits and dividends	0.0	0.0	0.0
Other receipts	1.0	0.5	2.0

Source: The Treasury

Table 14 – Output gap estimates used in sensitivity analysis (% of potential GDP)

June year	The Treasury	RBNZ	IMF	OECD
1997	1.0	1.9	1.5	0.5
1998	-0.8	-0.4	-0.3	-0.6
1999	-2.1	-2.3	-1.1	-0.9
2000	0.6	0.6	-0.3	-0.1
2001	-0.8	-0.6	-0.6	-0.4
2002	-0.4	0.2	-0.8	-0.2
2003	0.3	1.1	-0.3	1.1
2004	1.5	2.5	0.1	2.2
2005	1.4	2.3	0.5	2.7
2006	1.6	2.4	0.7	2.2
2007	2.2	3.0	1.7	2.3
2008	2.3	2.7	1.5	1.4
2009	-1.5	-1.1	-0.7	-0.4
2010	-1.7	-1.2	-1.4	-1.2
2011	-2.2	-1.2	-0.8	-1.6
2012	-1.4	-0.1	-0.5	-1.2
2013	-1.1	0.0	-0.3	-0.5
2014	-0.1	0.9	0.0	-0.1
2015	1.0	1.4	0.2	0.4
2016	1.1	1.0		
2017	0.5			
2018	0.2			

Sources: The Treasury, RBNZ, IMF, OECD

Table 15 – Cyclically-adjusted balance with alternative output gap and elasticity values (% of GDP)

June year	OBEGAL	Baseline CAB	CAB using alternative output gaps			CAB using alternative elasticities	
			RBNZ	IMF	OECD	Low	High
1997	1.8	1.3	0.9	1.1	1.5	1.5	0.9
1998	2.3	2.6	2.5	2.4	2.6	2.5	3.0
1999	0.1	1.1	1.2	0.6	0.6	0.7	1.9
2000	0.5	0.2	0.3	0.6	0.6	0.4	0.0
2001	1.2	1.5	1.5	1.5	1.4	1.4	1.8
2002	1.9	2.1	1.8	2.3	2.0	2.0	2.2
2003	3.2	3.1	2.6	3.4	2.7	3.1	3.0
2004	3.8	3.1	2.6	3.7	2.7	3.4	2.5
2005	4.6	3.9	3.4	4.3	3.2	4.2	3.3
2006	4.3	3.6	3.2	4.0	3.3	3.9	2.9
2007	3.4	2.3	2.0	2.6	2.3	2.8	1.4
2008	3.0	2.0	1.8	2.3	2.4	2.5	1.0
2009	-2.1	-1.4	-1.6	-1.8	-1.9	-1.7	-0.8
2010	-3.3	-2.6	-2.8	-2.7	-2.8	-2.9	-2.0
2011	-9.2	-3.7	-4.1	-4.3	-3.9	-4.1	-2.8
2012	-4.4	-2.9	-3.5	-3.3	-3.0	-3.2	-2.4
2013	-2.1	-1.5	-1.9	-1.8	-1.7	-1.7	-1.0
2014	-1.1	-1.0	-1.5	-1.1	-1.0	-1.1	-1.0
2015	0.2	-0.2	-0.4	0.2	0.1	0.0	-0.6
2016	0.5	0.2	0.2			0.4	-0.2
2017	0.9	0.8				0.9	0.6
2018	1.3	1.2				1.3	1.2

Source: The Treasury

Table 16 – Core Crown fiscal impulse with alternative output gap and elasticity values (% of GDP)

June year	Fiscal impulse	Fiscal impulse using alternative output gaps			Fiscal impulse using alternative elasticities	
		RBNZ	IMF	OECD	Low	High
1997	2.3	2.2	2.8	2.3	2.2	2.4
1998	0.4	0.2	0.4	0.7	0.7	-0.2
1999	1.0	0.7	1.2	1.4	1.2	0.6
2000	0.6	0.7	-0.2	-0.2	0.2	1.5
2001	-1.2	-1.1	-0.7	-0.7	-0.9	-1.6
2002	-0.8	-0.6	-1.0	-0.9	-0.8	-0.7
2003	-0.3	-0.2	-0.3	0.0	-0.4	-0.1
2004	0.5	0.5	0.2	0.4	0.3	0.8
2005	-1.6	-1.7	-1.5	-1.4	-1.6	-1.7
2006	0.6	0.5	0.6	0.3	0.5	0.6
2007	0.4	0.4	0.5	0.2	0.3	0.6
2008	0.2	0.1	0.2	-0.1	0.2	0.2
2009	3.5	3.5	4.0	4.1	4.1	2.4
2010	2.1	2.2	2.0	2.0	2.2	2.1
2011	0.6	0.8	1.0	0.7	0.7	0.5
2012	-0.5	-0.4	-0.6	-0.6	-0.6	-0.3
2013	-1.6	-1.6	-1.6	-1.5	-1.6	-1.5
2014	-0.7	-0.7	-0.9	-0.9	-0.8	-0.4
2015	-0.9	-1.1	-1.2	-1.1	-1.0	-0.5
2016	-0.5	-0.7			-0.5	-0.5
2017	-0.7				-0.6	-0.9
2018	-0.2				-0.1	-0.3

Source: The Treasury

Table 17 – Terms-of-trade adjustment to the cyclically-adjusted balance (% of GDP)

June year	Baseline CAB	Terms-of-trade adjustment (impact on CAB)				CAB with terms-of-trade adjustment			
		50-year average	30-year average	20-year average	Statistical filter	50-year average	30-year average	20-year average	Statistical filter
1997	1.3	0.0	-0.1	0.3	-0.4	1.3	1.1	1.6	0.9
1998	2.6	0.3	0.1	0.6	-0.1	2.9	2.8	3.3	2.5
1999	1.1	0.4	0.3	0.7	0.0	1.5	1.4	1.8	1.1
2000	0.2	0.6	0.4	0.9	0.1	0.8	0.7	1.2	0.4
2001	1.5	0.5	0.3	0.9	0.0	2.0	1.8	2.4	1.6
2002	2.1	0.3	0.2	0.8	0.1	2.4	2.3	2.9	2.2
2003	3.1	0.2	0.0	0.6	0.3	3.3	3.1	3.7	3.3
2004	3.1	-0.6	-0.8	-0.2	-0.3	2.5	2.3	2.9	2.8
2005	3.9	-1.0	-1.2	-0.6	-0.4	2.9	2.7	3.3	3.5
2006	3.6	-0.7	-0.9	-0.3	0.1	2.9	2.7	3.3	3.7
2007	2.3	-0.8	-0.9	-0.3	0.2	1.6	1.4	2.0	2.6
2008	2.0	-2.0	-2.2	-1.5	-0.6	0.0	-0.2	0.5	1.3
2009	-1.4	-1.2	-1.4	-0.7	0.3	-2.6	-2.8	-2.1	-1.1
2010	-2.6	-1.0	-1.2	-0.6	0.4	-3.6	-3.8	-3.2	-2.2
2011	-3.7	-2.0	-2.2	-1.6	-0.2	-5.7	-5.9	-5.3	-3.9
2012	-2.9	-2.0	-2.2	-1.6	0.0	-5.0	-5.1	-4.5	-3.0
2013	-1.5	-1.5	-1.7	-1.1	0.6	-3.0	-3.2	-2.5	-0.9
2014	-1.0	-3.3	-3.5	-2.8	-0.8	-4.3	-4.5	-3.9	-1.8
2015	-0.2	-2.8	-3.0	-2.4	-0.4	-3.0	-3.2	-2.6	-0.6
2016	0.2	-2.3	-2.5	-2.0	-0.1	-2.2	-2.3	-1.8	0.0
2017	0.8	-2.4	-2.5	-2.0	-0.1	-1.6	-1.7	-1.2	0.7
2018	1.2	-2.1	-2.3	-1.7	0.2	-0.9	-1.0	-0.4	1.4

Source: The Treasury

Government Finance Statistics for Central Government

Government Finance Statistics (GFS) is a fiscal reporting framework developed by the International Monetary Fund (IMF) and is specifically designed for government reporting.

The main purpose for having a common government reporting framework is to more easily enable cross-country comparisons of fiscal data and assessment of fiscal policy (eg, as in the case of the IMF's Article IV consultation with New Zealand).

It is important to note that even though the GFS framework provides a consistent presentation format there are underlying differences between countries in measurement and recognition. These differences mean that it can be difficult to make meaningful cross-country comparisons.

Further information on GFS can be found on the IMF's website[7].

New Zealand's GFS accounts

The following section provides fiscal forecasts for central Government on a GFS basis. These are prepared by applying top-down adjustments to the Forecast Financial Statements presented in the *Budget Update*, which were prepared on a Generally Accepted Accounting Practice (GAAP) basis. The major differences between the forecasts are:

Coverage	The Central Government entity is defined here as the consolidation of core Crown (excluding Reserve Bank) and Crown entities, as opposed to the emphasis on the total Crown in the *Budget Update* document. As a result, the Government's interest in the Reserve Bank and State-Owned Enterprises is equity accounted rather than consolidated line-by-line.
Other economic flows	The GFS operating balance excludes valuation changes on assets and liabilities, which are instead reported in a Statement of other economic flows.
Transactions	Defence weapons are treated as being expensed at the time of purchase. In addition there are some reclassifications of transactions (eg, some levies move to taxation revenue).

The GFS data presented in this section is provisional. Statistics New Zealand is working towards an official GFS series, which will also include local government. Table 18 outlines some of the key indicators for the central government under a GFS presentation.

[7] http://www.imf.org/external/pubs/ft/gfs/manual/index.htm

Table 18 – Summary indicators for central government

	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
$million						
Net operating balance	(1,054)	422	3,029	3,734	4,735	5,860
Fiscal Balance (Net lending/borrowing)	(1,491)	(1,700)	91	892	2,064	3,111
Cash surplus/(deficit)	(4,146)	(4,144)	(5,460)	(104)	1,895	2,643
Net worth	65,647	67,727	70,829	74,965	80,353	87,033
Net financial worth	21,249	20,940	20,776	19,482	16,765	12,834
Borrowing	68,398	70,766	69,664	74,062	80,197	75,664
%GDP						
Net operating balance	(0.5)	0.2	1.3	1.5	1.8	2.1
Fiscal Balance (Net lending/borrowing)	(0.7)	(0.7)	0.0	0.4	0.8	1.1
Cash surplus/(deficit)	(1.9)	(1.8)	(2.3)	(0.0)	0.7	1.0
Net worth	30.8	29.4	29.4	29.7	30.6	31.9
Net financial worth	10.0	9.1	8.6	7.7	6.4	4.7
Borrowing	32.1	30.7	28.9	29.4	30.5	27.8

The following tables provide additional detail around the calculation of the key indicators.

Table	Name of the statement	What the statement shows
19	Statement of operations	A summary of the results of all transactions during an accounting period.
20	Statement of other economic flows	Changes to stocks of assets, liabilities and net worth that come about from sources other than transactions.
21	Balance sheet	Stocks of assets and liabilities and the corresponding net worth.
22	Statement of sources and uses of cash	A summary of all cash flows presented using classifications similar to the Statement of operations.
23	Statement of stocks and flows	How the operating balance is applied to capital investment and debt repayment at a component level.
24	Reconciliation between GAAP and GFS operating balance	The adjustments between the GAAP and GFS operating balance.
25	Reconciliation between GAAP residual cash and GFS cash surplus/(deficit)	The adjustments between the GAAP and GFS cash indicators.

The GFS manual (on the IMF’s website) includes additional explanations on definitions for some of the terminology used in this section.

Table 19 – Statement of operations

for the years ended 30 June

	2013 Actual $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Revenue						
Taxation revenue	62,548	65,890	70,053	73,980	77,385	81,003
Interest revenue and dividends	3,015	3,164	3,129	3,304	3,692	3,987
Sale of goods and services and other revenue	9,514	9,464	9,779	9,873	9,988	10,060
Total revenue	**75,077**	**78,518**	**82,961**	**87,157**	**91,065**	**95,050**
Expenses						
Compensation of employees	19,590	20,162	20,561	20,866	21,042	21,240
Consumption of capital	3,140	3,248	3,358	3,475	3,519	3,518
Social benefits	22,271	22,854	23,323	23,937	24,746	25,692
Grants and subsidies	4,892	5,352	5,434	5,608	5,597	5,689
Finance costs	3,195	3,309	3,396	3,506	3,837	3,852
Other expenses	23,043	23,754	24,444	24,652	24,574	24,638
Forecast for new operating spending and top-down adjustment	-	(583)	(584)	1,379	3,015	4,561
Total expenses	**76,131**	**78,096**	**79,932**	**83,423**	**86,330**	**89,190**
Net operating balance	**(1,054)**	**422**	**3,029**	**3,734**	**4,735**	**5,860**
Net acquisition of non-financial assets						
Acquisition of non-financial assets	3,923	6,098	6,921	6,661	6,161	6,041
Disposal of non-financial assets	(310)	(341)	(584)	(841)	(665)	(616)
Consumption of fixed assets	(3,140)	(3,248)	(3,358)	(3,475)	(3,519)	(3,518)
Change in inventories	(36)	(5)	3	7	(3)	(8)
Forecast for new capital spending and top-down adjustment		(382)	(44)	490	697	850
Fiscal Balance (Net lending/borrowing)	**(1,491)**	**(1,700)**	**91**	**892**	**2,064**	**3,111**
Net acquisition of financial assets						
Receivables	394	(540)	219	1,491	1,886	2,178
Advances	919	1,407	1,332	1,120	1,095	1,027
Other financial assets	(5,927)	494	(7,176)	3,447	7,136	(2,673)
Other assets	(977)	(2,798)	125	16	(88)	(38)
	(5,591)	**(1,437)**	**(5,500)**	**6,074**	**10,029**	**494**
Net incurrence of liabilities						
Borrowings	(1,990)	2,705	(938)	4,495	6,174	(4,551)
Accounts payable	(179)	705	(328)	598	858	790
Other liabilities	(1,931)	(3,147)	(4,325)	89	933	1,144
	(4,100)	**263**	**(5,591)**	**5,182**	**7,965**	**(2,617)**
Difference between net lending/borrowing and financing	**-**	**-**	**-**	**-**	**-**	**-**

Table 20 – Statement of other economic flows

for the years ended 30 June

	2013 Actual $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Other Economic Flows						
Impairments and write-offs of financial assets	(2,433)	(2,384)	(2,479)	(2,413)	(2,447)	(2,523)
GSF valuations changes	1,251	713	-	-	-	-
Other gains/(losses) on non financial instruments	2,302	827	(134)	(142)	(110)	(112)
Derivatives gains	3,414	2,442	681	709	746	783
Derivatives losses	70	182	114	73	45	26
Gains/(losses) on financial assets	2,986	620	1,693	1,951	2,188	2,444
Gains/(losses) on financial liabilities	168	155	50	24	(6)	(44)
Expenses relating to earthquake provisions	-	-	-	-	-	-
Reserve Bank equity accounted	308	132	185	196	232	286
SOEs equity accounted	(82)	(61)	(25)	90	114	116
Other items	(5)	(75)	(12)	(86)	(109)	(156)
Total other economic flows	**7,979**	**2,551**	**73**	**402**	**653**	**820**

Table 21 – Balance sheet

as at 30 June

	2013 Actual $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Assets						
Cash and cash equivalents	14,993	13,904	13,255	13,449	13,809	14,132
Receivables	18,390	16,290	14,973	15,021	15,449	16,103
Marketable securities, deposits and derivatives in gain	24,156	26,305	20,481	24,780	32,714	31,042
Share investments	17,149	19,623	21,193	22,700	24,370	26,168
Advances	11,888	12,493	12,983	13,240	13,452	13,585
Inventory	549	544	547	554	551	543
Other assets	1,622	1,739	1,528	1,543	1,553	1,566
Property, plant & equipment	86,347	88,505	91,484	93,829	95,806	97,713
Equity accounted investments	24,829	21,349	21,697	21,868	22,072	22,297
Intangible assets and goodwill	1,611	1,630	1,766	1,796	1,731	1,701
Forecast for new capital spending and top-down adjustment	-	(382)	(426)	64	761	1,611
Total assets	**201,534**	**202,000**	**199,481**	**208,844**	**222,268**	**226,461**
Liabilities						
Payables	10,129	10,864	10,565	11,191	12,078	12,867
Deferred revenue	1,334	1,304	1,275	1,247	1,218	1,219
Borrowings	68,398	70,766	69,664	74,062	80,197	75,664
Insurance liabilities	37,705	34,893	31,265	32,065	33,457	35,096
Retirement plan liabilities	11,916	10,745	10,393	10,055	9,732	9,429
Provisions	6,405	5,701	5,490	5,259	5,233	5,153
Total liabilities	**135,887**	**134,273**	**128,652**	**133,879**	**141,915**	**139,428**
Net Worth	**65,647**	**67,727**	**70,829**	**74,965**	**80,353**	**87,033**

Table 22 – Statement of sources and uses of cash

for the years ended 30 June

	2013 Actual $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Cash receipts from operating activities						
Total tax receipt	60,851	65,002	69,117	72,881	76,532	80,071
Interest and dividends	2,601	2,668	2,780	2,979	3,367	3,656
Sale of goods and services and other receipts	11,238	11,593	10,415	9,370	9,459	9,473
Total receipts	74,690	79,263	82,312	85,230	89,358	93,200
Cash payments from operating activities						
Compensation of employees and other payments	(42,261)	(44,750)	(47,834)	(43,280)	(42,879)	(42,861)
Social benefits	(22,780)	(23,800)	(24,020)	(24,496)	(25,319)	(26,297)
Grants and subsidies	(6,551)	(6,988)	(6,961)	(6,991)	(7,008)	(7,741)
Finance costs	(3,345)	(3,276)	(3,405)	(3,267)	(3,581)	(3,608)
Forecast for new operating spending and top-down adjustment	-	583	584	(1,379)	(3,015)	(4,561)
Total payments	(74,937)	(78,231)	(81,636)	(79,413)	(81,802)	(85,068)
Net cash inflow/(outflow) from operating activities	(247)	1,032	676	5,817	7,556	8,132
Net cash outflow from investments in non-financial assets						
Acquisition of non-financial assets	(4,209)	(5,899)	(6,764)	(6,272)	(5,629)	(5,254)
Disposal of non-financial assets	310	341	584	841	665	616
Forecast for new capital spending and top-down adjustment	-	382	44	(490)	(697)	(851)
Cash surplus/(deficit)	**(4,146)**	**(4,144)**	**(5,460)**	**(104)**	**1,895**	**2,643**
Net acquisition of financial assets						
Advances	(130)	(943)	(631)	(419)	(374)	(292)
Share investments	3,400	(1,131)	5,642	(4,355)	(7,797)	1,991
Net purchase of investments	(570)	(108)	(79)	36	22	26
Capital contributions	18	90	(98)	-	-	-
Net incurrence of liabilities						
New Zealand dollar borrowings	(3,235)	(454)	1,712	745	80	719
Foreign currency borrowings	(2,152)	(303)	(792)	(956)	(437)	(55)
Government stock	5,273	5,904	(943)	5,247	6,971	(4,709)
Net cash inflows from financing activities	**2,604**	**3,055**	**4,811**	**298**	**(1,535)**	**(2,320)**
Net change in the stock of cash	**(1,542)**	**(1,089)**	**(649)**	**194**	**360**	**323**

Table 23 – Statement of stocks and flows

for the year ended 30 June 2013

Opening balance statement	$million	Statement of operations	$million	Other economic flows	$million	Closing balance sheet	$million
Opening net worth	56,954	Operating balance	(1,054)	Holding gains	9,747	Closing net worth	65,647
Equals		*Equals*					
Non-financial assets	84,691	Transactions	437	Valuation changes	1,768	Non-financial assets	86,896
plus		*plus*		*plus*		*plus*	
Net financial worth	**(27,737)**	**Net lending**	**(1,491)**	**Change in net financial worth**	**11,515**	**Net financial worth**	**(17,713)**
Equals		*Equals*					
Financial assets	116,041	Transactions in financial assets	(5,591)	Changes in financial assets	4,188	Closing financial assets	114,638
less		*less*		*less*		*less*	
Opening liabilities	143,778	Transactions in liabilities	(4,100)	Changes in liabilities	(3,791)	Closing liabilities	135,887

for the year ended 30 June 2014

Opening balance statement	$million	Statement of operations	$million	Other economic flows	$million	Closing balance sheet	$million
Opening net worth	65,647	Operating balance	422	Holding gains	1,658	Closing net worth	67,727
Equals		*Equals*					
Non-financial assets	86,896	Transactions	2,122	Valuation changes	(351)	Non-financial assets	88,667
plus		*plus*		*plus*		*plus*	
Net financial worth	**(21,249)**	**Net lending**	**(1,700)**	**Change in net financial worth**	**1,307**	**Net financial worth**	**(21,642)**
Equals		*Equals*					
Financial assets	114,638	Transactions in financial assets	(1,437)	Changes in financial assets	132	Closing financial assets	113,333
less		*less*		*less*		*less*	
Opening liabilities	135,887	Transactions in liabilities	263	Changes in liabilities	(1,877)	Closing liabilities	134,273

for the year ended 30 June 2015

Opening balance statement	$million	Statement of operations	$million	Other economic flows	$million	Closing balance sheet	$million
Opening net worth	67,727	Operating balance	3,029	Holding gains	73	Closing net worth	70,829
Equals		*Equals*					
Non-financial assets	88,667	Transactions	2,938	Valuation changes	-	Non-financial assets	91,605
plus		*plus*		*plus*		*plus*	
Net financial worth	**(20,940)**	**Net lending**	**91**	**Change in net financial worth**	**73**	**Net financial worth**	**(20,776)**
Equals		*Equals*					
Financial assets	113,333	Transactions in financial assets	(5,500)	Changes in financial assets	43	Closing financial assets	107,876
less		*less*		*less*		*less*	
Opening liabilities	134,273	Transactions in liabilities	(5,591)	Changes in liabilities	(30)	Closing liabilities	128,652

for the year ended 30 June 2016

Opening balance statement	$million	Statement of operations	$million	Other economic flows	$million	Closing balance sheet	$million
Opening net worth	70,829	Operating balance	3,734	Holding gains	402	Closing net worth	74,965
Equals		*Equals*					
Non-financial assets	91,605	Transactions	2,842	Valuation changes	-	Non-financial assets	94,447
plus		*plus*		*plus*		*plus*	
Net financial worth	**(20,776)**	**Net lending**	**892**	**Change in net financial worth**	**402**	**Net financial worth**	**(19,482)**
Equals		*Equals*					
Financial assets	107,876	Transactions in financial assets	6,074	Changes in financial assets	447	Closing financial assets	114,397
less		*less*		*less*		*less*	
Opening liabilities	128,652	Transactions in liabilities	5,182	Changes in liabilities	45	Closing liabilities	133,879

for the year ended 30 June 2017

Opening balance statement	$million	Statement of operations	$million	Other economic flows		Closing balance sheet	$million
Opening net worth	74,965	Operating balance	4,735	Holding gains	653	Closing net worth	80,353
Equals		*Equals*					
Non-financial assets	94,447	Transactions	2,671	Valuation changes	-	Non-financial assets	97,118
plus		*plus*		*plus*		*plus*	
Net financial worth	**(19,482)**	**Net lending**	**2,064**	**Change in net financial worth**	**653**	**Net financial worth**	**(16,765)**
Equals		*Equals*					
Financial assets	114,397	Transactions in financial assets	10,029	Changes in financial assets	724	Closing financial assets	125,150
less		*less*		*less*		*less*	
Opening liabilities	133,879	Transactions in liabilities	7,965	Changes in liabilities	71	Closing liabilities	141,915

for the year ended 30 June 2018

Opening balance statement	$million	Statement of operations	$million	Other economic flows		Closing balance sheet	$million
Opening net worth	80,353	Operating balance	5,860	Holding gains	820	Closing net worth	87,033
Equals		*Equals*					
Non-financial assets	97,118	Transactions	2,749	Valuation changes	-	Non-financial assets	99,867
plus		*plus*		*plus*		*plus*	
Net financial worth	**(16,765)**	**Net lending**	**3,111**	**Change in net financial worth**	**820**	**Net financial worth**	**(12,834)**
Equals		*Equals*					
Financial assets	125,150	Transactions in financial assets	494	Changes in financial assets	950	Closing financial assets	126,594
less		*less*		*less*		*less*	
Opening liabilities	141,915	Transactions in liabilities	(2,617)	Changes in liabilities	130	Closing liabilities	139,428

Table 24 – Reconciliation between GAAP and GFS operating balance

	2013 Actual $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Operating balance per GAAP	**6,925**	**2,973**	**3,102**	**4,136**	**5,388**	**6,680**
Remove gains/losses and net surpluses from associates and joint ventures	(11,339)	(5,420)	(2,730)	(2,874)	(3,019)	(3,195)
Operating balance before gains and losses (OBEGAL)	**(4,414)**	**(2,447)**	**372**	**1,262**	**2,369**	**3,485**
Remove SOE portion of OBEGAL (incl. eliminations)	588	103	33	(84)	(119)	(116)
Remove ETS expenses	55	51	51	53	54	55
Remove impairments and write-offs on financial assets	2,433	2,384	2,479	2,413	2,447	2,523
Tertiary institutions included on a line-by-line basis	169	170	169	169	170	170
Reserve Bank (equity accounted)	127	180	(56)	(64)	(180)	(260)
Other adjustments	(12)	(19)	(19)	(15)	(6)	3
Net operating balance per GFS	**(1,054)**	**422**	**3,029**	**3,734**	**4,735**	**5,860**

Table 25 – Reconciliation between GAAP residual cash and GFS cash surplus/(deficit)

	2013 Actual $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m
Residual cash per GAAP	**(5,742)**	**(3,914)**	**(4,306)**	**(1,766)**	**(50)**	**710**
Back out advances	342	877	1,423	608	407	287
Back out investments	1,308	1,153	2,060	1,492	1,411	1,275
Add in cash flows from Crown entities	1,890	335	(3,901)	(440)	171	472
Remove cash flows from the Reserve Bank	(71)	13	(83)	8	(14)	(55)
Back out proceeds from government share offer	(1,663)	(2,315)	(628)	-	-	-
Add in NZSF cash flows	(326)	(290)	(79)	(36)	(46)	(51)
Other adjustments	116	(3)	54	30	16	5
Cash surplus/(deficit)	**(4,146)**	**(4,144)**	**(5,460)**	**(104)**	**1,895**	**2,643**

Accounting Policies

The forecast financial statements contained in the published *Budget Economic and Fiscal Update 2014* are based on the following accounting policies:

Statement of compliance

These forecast financial statements have been prepared in accordance with the Public Finance Act 1989 and with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as defined in the Financial Reporting Act 1993.

Forecasts for the 2013/14 year have been prepared in accordance with NZ equivalents to International Financial Reporting Standards as appropriate for public benefit entities (NZ IFRS (PBE)). Forecasts for the 2014/15 year and beyond have been prepared in accordance with Public Sector PBE Accounting Standards (PBE IPSAS).

For the purposes of these forecast financial statements, the government reporting entity has been designated as a public benefit entity (PBE). Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. The forecast financial statements comply with FRS-42 (PBE): *Prospective Financial Statements* and NZ GAAP as it relates to prospective financial statements.

Reporting entity

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

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

The description “consolidated financial statements for the Government reporting entity” and the description “financial statements for the Government of New Zealand” have the same meaning and can be used interchangeably.

Basis of preparation

These forecast financial statements have been prepared on the basis of historic cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the statement of cash flows).

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

Judgements and estimations

The preparation of these forecast financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future, as with the settlement of ACC outstanding claim obligations and Government Superannuation retirement benefits, depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. A further area of uncertainty relates to the estimation of the claims and provisions arising from the Canterbury earthquakes.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

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

Early adoption of standards and interpretations

The New Zealand Accounting Standards Board has issued a new suite of accounting standards (called Public Sector PBE Accounting Standards) that will apply to the Financial Statements of Government for the financial year beginning 1 July 2014.

While these forecasts incorporate changes as a consequence of the new suite of standards for the 2014/15 year and beyond, the impact is not significant. This is due to a strong degree of convergence between the current NZ IFRS and the Public Sector PBE Accounting Standards.

The Government has adopted all NZ IFRSs and interpretations applicable to public benefit entities issued to date for the 2013/14 year, with the exception of NZ IFRS 9: *Financial Instruments*, approved in 2010. NZ IFRS 9 becomes effective for annual reporting periods commencing on or after 1 January 2015.

As the Government will be adopting PBE IPSAS 29: *Financial Instruments: Recognition and Disclosure* on 1 July 2014, the Crown has not early adopted NZ IFRS 9 in 2013/14, to reduce the risk of unnecessary accounting changes.

Reporting and forecast period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2014 to 30 June 2018.

The “2013 Actual” figures reported in the statements are the audited results reported in the Financial Statements of Government for the year ended 30 June 2013. The “2014 Previous Budget” figures are the original forecasts to 30 June 2014 as presented in the 2013 Budget. The “2014 Forecast” figures incorporate actual financial results up to either 31 January 2014 or 28 February 2014, and a forecast for the remainder of the financial year.

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

Basis of combination

These forecast financial statements combine the following entities using the acquisition method of combination:

Core entities

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

Other entities

- State-owned Enterprises
- Crown entities (excluding tertiary education institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 and 4A of the Public Finance Act 1989
- Organisations listed in Schedule 5 of the Public Finance Act 1989

Corresponding assets, liabilities, income and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Government reporting entity.

Tertiary education institutions are equity-accounted for the reasons explained in the notes to the Government's financial statements for the period ended 30 June 2013. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

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

Accounting policies

The accounting policies set out below have been applied consistently to all periods in the *Budget Update*.

Income

Taxation revenue levied through the Crown's sovereign power

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

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

Revenue type	**Revenue recognition point**
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax (RWT)	When an individual is paid interest or dividends subject to deduction at source
Fringe benefit tax (FBT)	When benefits are provided that give rise to FBT
Provisional tax	When assessed income is earned during the taxation period
Terminal tax	Assessment filed date
Goods and services tax (GST)	When the purchase or sale of taxable goods and services occurs during the taxation period
Customs and excise duty	When goods become subject to duty
Road user charges and motor vehicle fees	When payment of the fee or charge is made
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
Exhaustible resources levy	When the resource is extracted
Other indirect taxes	When the debt to the Crown arises
Levies (eg, ACC levies)	When the obligation to pay the levy is incurred

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

Revenue earned through operations

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

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Dividend income

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

Rental income

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

Donated or subsidised assets

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

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

Grants and subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Foreign currency

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

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

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

Sovereign receivables and taxes repayable

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

Sovereign receivables are initially assessed at nominal amount or face value; that is, the receivable reflects the amount of tax owed, levy, fine charged, or social benefit debt payable. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.

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

Financial Instruments – forecasting policies

For forecasting purposes, financial instruments held after 31 January 2014 or 28 February 2014 are assumed to be held until they mature. Additional gains and losses on financial assets measured at fair value are based on long-run rate of return assumptions appropriate to the forecast portfolio mix, after adjusting for interest revenue and dividend revenue which are reported separately. Gains and losses on financial liabilities measured at fair value are assumed to unwind over the period to maturity, as they are assumed to be redeemed at par value.

Forecast sales and purchases of financial instruments are assumed to be issued at par value, with no premiums or discounts forecast. The exceptions are interest-free assets with long maturities, such as student loans and some sovereign receivables, where a write-down to fair value is recognised when the loan or receivable is issued.

Derivatives held for trading are measured at fair value, which is nil when initially entered into. That is, fair value changes are only recognised after the derivative is created and as a result of changes in underlying variables such as exchange rates. Hence, forecasts for derivatives expected to be entered into over the forecast period are assumed to have a nil balance. Forward margins on forward-exchange contracts existing as at 31 January 2014 or 28 February 2014 are amortised over the period of the contract on a straight line basis.

Gains and losses are not forecast for financial assets measured at amortised cost.

Financial instruments – Accounting Policies

Financial assets

Financial assets are designated into the following categories: loans and receivables at amortised cost, financial assets available-for-sale, financial assets held-for-trading and financial assets designated as fair value through profit and loss. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

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

Major financial asset type	Designation
Trade and other receivables	All designated as loans and receivables at amortised cost
Student loans	All designated as loans and receivables at amortised cost
Kiwibank mortgages	Generally designated as loans and receivables at amortised cost
Other advances	Generally designated as loans and receivables at amortised cost
IMF financial assets	All designated as loans and receivables at amortised cost
Share investments	Generally designated as fair value through profit and loss
Marketable securities	Generally designated as fair value through profit and loss
Long-term deposits	Generally designated as loans and receivables at amortised cost

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer interest income policy). Loans and receivables issued with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance.

A financial asset is designated at fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis, such as with the NZ Superannuation Fund. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income with some exceptions. Those exceptions are for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses resulting from translation differences due to changes in amortised cost of the asset. These latter items are recognised in the statement of financial performance. For non-monetary available-for-sale financial assets (eg, some unlisted equity instruments) the fair value movements recognised in the statement of comprehensive income include any related foreign exchange component. At derecognition, the cumulative fair value gain or loss previously recognised in the statement of comprehensive income, is recognised in the statement of financial performance.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Fair values of quoted investments are based on market prices. Regular way purchases and sales of all financial assets are accounted for at trade date. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques, as set out in the notes to the financial statements. At each balance date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

Financial liabilities

Financial liabilities are designated into the following categories: amortised cost, financial liabilities held-for-trading and financial liabilities designated as fair value through profit and loss. This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Major financial liability type	**Designation**
Accounts payable	All designated at amortised cost
Government stock	Generally designated at amortised cost
Treasury bills	Generally designated at amortised cost
Government retail stock	All designated at amortised cost
Settlement deposits with Reserve Bank	All designated at amortised cost
Issued currency	Not designated: Recognised at face value

Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. A financial liability is designated at fair value through profit and loss if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

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

Derivative Financial Instruments

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

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

Hedging

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

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

Transactions between entities within the Government reporting entity do not qualify for hedge accounting in the financial statements of the Government (although they may qualify for hedge accounting in the separate financial statements of the individual entities). Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, the effects of the hedge relationship are automatically reflected in the statement of financial performance so hedge accounting is not necessary.

(a) Cash flow hedge

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive income and the ineffective portion is recognised in the statement of financial performance. Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (eg, where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive income is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive income transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (eg, when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

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

(b) Fair value hedge

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

Inventories

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

Inventories include unissued currency and harvested agricultural produce (eg, logs, wool). The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

Property, plant and equipment – Forecasting Policy

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

Property, plant and equipment – Accounting Policies

Items of property, plant and equipment (PPE) are initially recorded at cost. Cost may include transfers from net worth of any gains or losses on qualifying cash flow hedges of foreign currency purchases of PPE. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, as income in the statement of financial performance.

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

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

Class of PPE	Accounting policy
Specialist military equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the basis for the valuation is confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.
Rail network	Rail infrastructure used for freight services (freight only and dual use lines required for freight operations) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued. Rail infrastructure not required for freight operations and used for metro services is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation	Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less subsequent impairment losses and, for non-land assets, less subsequent accumulated depreciation. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

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

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

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

Realised gains and losses arising from disposal of PPE are recognised in the statement of financial performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to taxpayer funds.

Generally, Government borrowings are not directly attributable to individual assets. Therefore, any borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised. The major exception relates to service concession assets resulting from public private partnership arrangements where the liability incurred, and therefore the associated interest costs, are directly attributable to the service concession asset.

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

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

Typically, the estimated useful lives of different classes of PPE are as follows:

Class of PPE	**Estimated useful lives**
Buildings	25 to 60 years
Specialist military equipment (SME)	5 to 55 years
State highways: Pavement (surfacing) Pavement (other) Bridges	 7 years 50 years 70 to 105 years
Rail Network: Track and ballast Tunnels and bridges Overhead traction and signalling	 25 to 40 years 60 to 100 years 10 to 40 years
Aircraft (excluding SME)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 100 years
Other plant and equipment	3 to 30 years

Specified heritage and cultural assets are generally not depreciated.

Equity accounted investments

Generally accepted accounting practice (GAAP) determines the combination bases for entities that make up the Government reporting entity and is used by public benefit entities to determine whether they control another entity.

However, generally accepted accounting practice is not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, for example, where legislation provides public sector entities with statutory autonomy and independence, in particular with Tertiary Education Institutions. Treasury's view is that because the Government cannot determine their operating and financing policies, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

Biological assets

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

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible assets

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

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

The Government's holdings of assigned amount units arising from the Kyoto protocol are reported at fair value. Other intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three to five years.

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

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance in the period in which the transaction occurs.

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

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

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

Investment property

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

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

Employee benefits

Pension liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. All movements in the liability, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

Other employee entitlements

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

Termination benefits

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

Insurance contracts

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

Reinsurance

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

Reinsurance and other recoveries receivable

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

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

Deferred acquisition costs

Accident compensation and earthquake commission levies are imposed through regulation and do not attract acquisition costs. Costs incurred in obtaining other insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under the Group’s general insurance contracts cover a period of up to 12 months, therefore, deferred acquisition costs are amortised within one year.

Leases

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

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

Other liabilities and provisions

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

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

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

Commitments are classified as:

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

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

Interest commitments on debts, commitments for funding, and commitments relating to employment contracts are not included in the statement of commitments.

Comparatives

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

Comparatives referred to as Previous Budget were forecasts published in the *2013 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment analysis

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

- Core Crown: This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.
- State–owned enterprises: This group includes entities governed by the State–Owned Enterprises Act 1986, and (for the purposes of these statements) also includes Air New Zealand, Mighty River Power, Meridian and Genesis, represents entities that undertake commercial activity.
- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified governance frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

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