

# Pre-election Economic and Fiscal Update 2017

23 August 2017

## An introduction to the *Pre-election Economic and Fiscal Update*

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

### Sharing what we do

As the government's lead economic and financial adviser we forecast the economic outlook for New Zealand and the Government's fiscal outlook. This *Pre-election Economic and Fiscal Update (PREFU)* is part of a suite of documents we release as required by the Public Finance Act 1989. With the announcement of an election date of 23 September 2017, the 2017 PREFU must be published between 20 and 30 working days prior to this date.

The PREFU is an opening of the Government's books ahead of the General Election. It primarily outlines what the Treasury observes in our current economic and fiscal climate, what we might see in the future, and what risks we may face over the next four years (our forecast period). This gives an indication of what the economy is most-likely to do to inform decision-making.

### Making it New Zealander-centric

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

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

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

### Understanding our path

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

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### Other Information

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

Additional *Pre-election Update* information includes detailed economic forecast tables, a comparison of the Treasury and Inland Revenue tax forecasts, tax policy changes, additional fiscal indicators and accounting policies.

This other information can be accessed at:

<http://www.treasury.govt.nz/budget/forecasts/prefu2017>

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## Statement of Responsibility

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications of both government decisions and other circumstances as at 7 August 2017 that were communicated to me by the Minister of Finance in accordance with the requirements of the Public Finance Act 1989 and of other economic and fiscal information available to the Treasury as at 7 August 2017. This *Update* does not incorporate any decisions, circumstances or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.

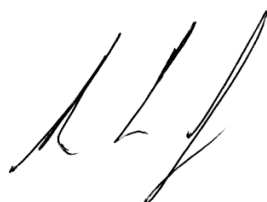


Gabriel Makhoul  
Secretary to the Treasury

16 August 2017

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured the Secretary to the Treasury has been advised, in accordance with the requirements of the Public Finance Act 1989, of all government decisions and other circumstances as at 7 August 2017 of which I was aware and that had material economic or fiscal implications.

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



Hon Steven Joyce  
Minister of Finance

16 August 2017





# Executive Summary

Summary of the Treasury's economic and fiscal forecasts

June years	2016 Actual	2017 Estimate	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Economic</b>						
Real production GDP (annual average % change)	2.7	2.8	3.2	3.7	2.8	2.3
Unemployment rate (June quarter)	5.0	4.9	4.7	4.4	4.3	4.3
CPI inflation (annual % change, June quarter)	0.4	1.7	1.3	1.9	2.1	2.1
Current account balance (% of GDP)	(2.9)	(3.1)	(2.2)	(2.8)	(3.3)	(3.9)
<b>Fiscal (% of GDP)</b>						
Core Crown tax revenue	30.1	30.4	29.9	29.6	29.8	29.9
Core Crown expenses	29.2	28.6	28.7	28.2	27.7	27.7
Total Crown operating balance before gains and losses	0.7	1.4	1.0	1.2	1.9	2.0
Core Crown residual cash	(0.5)	0.6	(0.5)	(0.5)	0.6	0.3
Net core Crown debt	24.5	22.5	22.0	21.5	20.0	18.8
Net worth attributable to the Crown	35.3	40.5	40.5	40.9	42.0	43.5

Sources: Statistics New Zealand, the Treasury

New Zealand's economy and the Crown's books are in a sound state.

The economy is expected to continue its steady growth over the 4-year forecast period. Growth in real GDP is forecast to pick up to 3.7 percent in mid-2019 before easing to 2.3 percent in 2020/21.

The stronger period of economic growth over the next two years or so is expected to lead to a gradual decline in the unemployment rate and a pick-up in wages and prices that lifts inflation to 2.1 percent in 2019/20. Beyond 2019, slower population growth and reduced monetary policy stimulus are forecast to lead to slower economic growth. The forecast growth profile is a little lower than in the *Budget Economic and Fiscal Update (Budget Update)*, mostly reflecting a smaller contribution to growth from residential investment. As a result, over the four years ending June 2021, nominal GDP is 0.2 percent (\$2.6 billion) lower than in the *Budget Update*.

The 2016/17 fiscal result is anticipated to be stronger than expected while fiscal forecasts for the next 4 years remain fairly close to the *Budget Update*. The operating balance before gains and losses (OBEGAL) surplus is estimated to reach \$3.7 billion in 2016/17, largely reflecting stronger tax revenue growth. Owing to the one-off nature of some of the factors behind the tax revenue growth in 2016/17, the rate of growth is not expected to

continue. Budget allowances remain unchanged from those set out in the 2017 *Fiscal Strategy Report* (FSR).

Largely as a result of the expected improvement in the 2016/17 fiscal results, net debt is estimated to be \$2.0 billion lower than anticipated in the *Budget Update* by 2020/21 to stand at 18.8 percent of GDP. Contributions to the New Zealand Superannuation Fund are forecast to resume that year. Projections show net debt as a share of GDP continuing to decline beyond 2020/21, based on the same assumptions for operating and capital allowances as in the FSR.

The economic and fiscal outlook is subject to a range of assumptions, risks and uncertainties. For the fiscal forecast, a judgement has been made that the current strength in tax revenue does not continue throughout the forecast period. For the economy, the terms of trade may be stronger if prices for key export commodities hold up for longer than expected, or domestic demand may be lower if households' expectations of future income and wealth are dampened by slow wage growth or weaker house price growth. More detail and discussion of assumptions, risks and uncertainties are included in the Fiscal Outlook, Specific Fiscal Risks, Economic Outlook, and Risks and Scenarios chapters.

#### Finalisation Dates for the Update

Economic forecasts	21 July
Tax revenue forecasts	26 July
Fiscal forecasts	7 August
Specific fiscal risks	7 August
Text finalised	15 August

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# Economic Outlook

## Overview

- The New Zealand economy grew an estimated 2.8% in the 2016/17 fiscal year, a little lower than anticipated in the *Budget Economic and Fiscal Update (Budget Update)*. Measured in current prices, the economy is estimated to have grown 6.2% in 2016/17, unchanged from the *Budget Update*.
- Growth is forecast to pick up to 3.7% in 2018/19 before easing to 2.3% in 2020/21. The outlook is underpinned by ongoing strength in population growth, the continued cyclical upturn in the international economy, the stimulus provided by Budget 2017 and supportive monetary policy.
- The pick-up in growth over the next two years or so is expected to lead to a gradual decline in the unemployment rate and a faster pace of increase in wages and prices. Headline inflation is expected to be variable this year and to increase gradually thereafter, rising to 2.1% in 2019/20. Net immigration is assumed to ease over the forecast period, although there is considerable uncertainty around its path. Beyond 2018/19, slower population growth and reduced monetary policy stimulus lead to slower economic growth.
- Residential investment declined in the March 2017 quarter, likely reflecting the impacts of higher mortgage rates, tighter bank lending standards and higher construction costs. Looking forward, strong population growth and still-low interest rates suggest that residential investment will pick up, although growth may be slower than previously forecast. Reflecting these developments, the outlook for economic growth is a little lower than in the *Budget Update*.
- Recent gains in the terms of trade lead to a modest upward revision to current price estimates of economic growth in 2017/18. Thereafter, nominal GDP growth is forecast to be a bit lower than in the *Budget Update*. Cumulatively, over the four years to 2020/21, nominal GDP is 0.2% (\$2.6 billion) lower than in the *Budget Update*.
- As usual, the outlook is subject to a range of risks and uncertainties. The terms of trade may be stronger if prices for key export commodities hold up for longer than expected, providing a boost to national income. Growth in domestic demand may be lower than expected if households' expectations of future income or wealth are dampened by continuing slow wage growth or a weaker outlook for house price growth.

**Table 1.1** – Economic forecasts

(Annual average % change, June years)	2016	2017	2018	2019	2020	2021
	Actual	Estimated	Forecast	Forecast	Forecast	Forecast
Private consumption	3.2	4.6	3.8	3.7	2.5	2.0
Public consumption	1.9	3.2	1.8	1.4	1.4	1.1
<b>Total consumption</b>	<b>2.8</b>	<b>4.2</b>	<b>3.4</b>	<b>3.2</b>	<b>2.3</b>	<b>1.8</b>
Residential investment	6.3	6.1	-0.1	4.5	3.0	3.9
Business investment <sup>1</sup>	2.6	5.3	7.6	5.3	6.2	5.2
<b>Total investment</b>	<b>3.6</b>	<b>5.5</b>	<b>5.6</b>	<b>5.1</b>	<b>5.4</b>	<b>4.9</b>
Stock change <sup>2</sup>	-0.4	0.4	-0.6	0.4	0.4	0.1
<b>Gross national expenditure</b>	<b>2.6</b>	<b>4.8</b>	<b>4.0</b>	<b>4.1</b>	<b>3.4</b>	<b>2.7</b>
Exports	5.1	-0.6	4.0	2.5	2.3	2.2
Imports	1.0	6.7	4.1	3.8	4.4	3.6
<b>GDP (expenditure measure)</b>	<b>3.6</b>	<b>2.7</b>	<b>3.4</b>	<b>3.7</b>	<b>2.7</b>	<b>2.2</b>
<b>GDP (production measure)</b>	<b>2.7</b>	<b>2.8</b>	<b>3.2</b>	<b>3.7</b>	<b>2.8</b>	<b>2.3</b>
Real GDP per capita	0.7	0.6	1.0	1.7	1.2	1.0
Nominal GDP (expenditure measure)	4.1	6.2	5.1	4.9	4.7	4.1
GDP deflator	0.5	3.4	1.7	1.2	1.9	1.8
Potential GDP	2.7	2.9	3.0	3.1	2.8	2.5
Output gap (% of potential, June quarter) <sup>3</sup>	-0.3	-0.4	0.0	0.4	0.2	0.0
Working-age population	2.4	2.6	2.4	2.1	1.7	1.4
Employment	2.3	5.4	2.7	2.1	1.5	1.1
Unemployment rate <sup>4</sup>	5.0	4.9	4.7	4.4	4.3	4.3
Nominal wages <sup>5</sup>	2.1	1.5	2.6	2.8	2.7	2.6
CPI inflation <sup>6</sup>	0.4	1.7	1.3	1.9	2.1	2.1
Terms of trade <sup>7</sup>	-2.7	6.7	3.2	-1.9	0.1	-0.1
House prices <sup>8</sup>	13.9	3.8	2.2	3.4	3.0	2.2
Current account balance						
\$billions	-7.3	-8.3	-6.3	-8.2	-10.4	-12.6
% of GDP	-2.9	-3.1	-2.2	-2.8	-3.3	-3.9
Net International Investment Position (% of GDP)	-64.4	-58.3	-57.6	-57.7	-58.5	-60.0
Household saving ratio (% of HHDI) <sup>9</sup>	-2.2	-0.7	-1.0	0.4	0.4	0.6
TWI <sup>10</sup>	73.6	76.5	78.1	78.5	78.7	78.0
90-day bank bill rate <sup>10</sup>	2.4	2.0	2.0	2.6	3.3	3.8
10-year bond rate <sup>10</sup>	2.7	2.9	3.0	3.5	4.0	4.2

Economic forecasts are presented on a June year basis for consistency with the fiscal forecasts. Longer time series for these variables are provided on page 142.

- Notes: 1 Business investment is the total of all investment types excluding residential building. Previous separations of market and non-market investment are no longer produced by Statistics New Zealand.
- 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, June quarter, seasonally adjusted.
- 5 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change.
- 6 Annual percentage change.
- 7 System of National Accounts (SNA) and merchandise basis.
- 8 Quotable Value New Zealand (QVNZ) House Price Index, annual percentage change.
- 9 Percent of household disposable income (HHDI), March years.
- 10 Average for the June quarter.

### Key economic forecast judgements and assumptions

- These forecasts cover the period June quarter 2017 to June quarter 2021.
- International prices for dairy exports are projected to fall slightly over the year ahead and to remain broadly stable thereafter.
- West Texas Intermediate (WTI) oil prices rise from US\$48.1 per barrel in the June 2017 quarter to US\$60.0 in the June 2021 quarter.
- Net permanent and long-term immigration declines from 72,540 persons in the year ended September 2017 to 20,000 persons in the year ended June 2021 and, consistent with Statistics New Zealand's long-run migration assumption, to 15,000 in the year ended June 2022 (outside the forecast period).
- Working-age population (15 years of age and over) growth averages 1.9% per year over the forecast period, including the contribution of net migration.
- The labour force participation rate declines from 70.6% in the March quarter 2017 to 69.8% in June 2021.
- Economy-wide multifactor productivity growth averages 0.5% per year over the forecast period.
- Economy-wide labour productivity growth averages 1.0% per year over the forecast period.
- Potential output growth averages 2.9% per year over the forecast period.
- The neutral nominal 90-day interest rate is 4.5% in June 2021.
- The non-accelerating inflation rate of unemployment (NAIRU) is 4.25% in June 2021.
- Tobacco excise tax increases in the March quarter for each of the next three years and contributes 0.2 percentage points to annual Consumers Price Index (CPI) inflation.
- The Family Incomes Package announced by the Government in Budget 2017 is implemented on 1 April 2018. Households are assumed to spend 60% of the additional income. Overall, the Family Incomes Package increases nominal GDP by \$3.0 billion over the period ended June 2021.

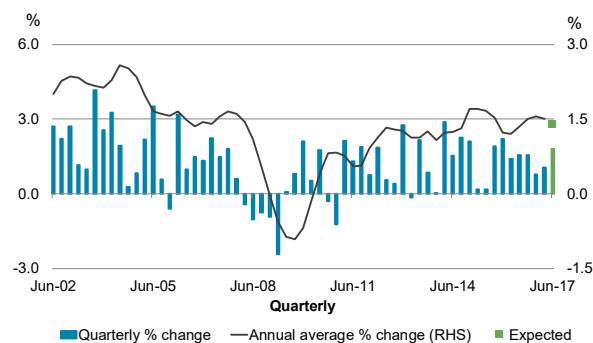
## Recent Developments

### *Economic expansion has continued at a moderate pace...*

This section discusses recent developments and their implications for the economic outlook.

The economy appears to have grown at a moderate pace, on average, so far this year. Economic growth slowed over the six months to March 2017, reflecting both temporary factors, including the Kaikōura earthquakes and bad weather, and more persistent factors, most noticeably in the housing market. Recent indicators point to a faster pace of growth over the June quarter (Figure 1.1). The Treasury estimates the economy grew 2.8% over the year ended June 2017.

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



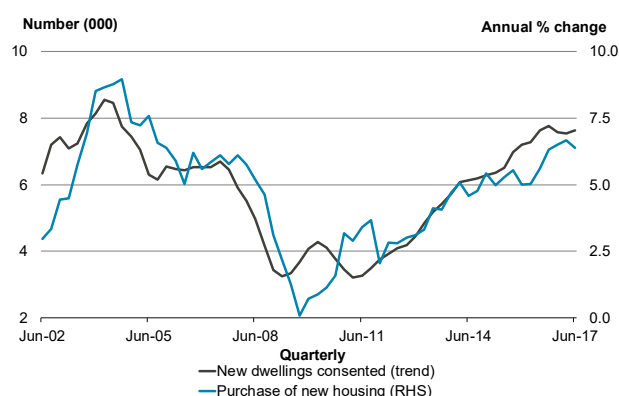
Sources: Statistics New Zealand, the Treasury

### *...although the housing market has eased...*

Long-term global bond yields rose late last year leading to a rise in the cost of funding for New Zealand banks and to an increase in two-year mortgage rates of around 45 basis points, although mortgage rates remain low in historical terms. Loan-to-value ratio restrictions were tightened late last year, particularly for investors, and bank lending criteria for residential property developers have also been tightened. These developments have contributed to slower growth in total new residential mortgage lending, fewer sales of existing dwellings and slower house price growth, particularly in Auckland.

Residential investment activity eased in the March quarter and growth in dwelling consents, which provide an indicator of future activity, has slowed (Figure 1.2). The slowdown in dwelling consents has been most pronounced in Canterbury, where earthquake rebuild activity is winding down. Nationally, activity in the industry is at a high level and there is some evidence from surveys and discussions with businesses that the supply of labour and other resources are tight and are constraining growth in activity, particularly in Auckland. The pressure on resources is being reflected in rising construction costs (Figure 1.2).

**Figure 1.2** – Dwelling consents and costs



Source: Statistics New Zealand

Looking ahead, still-low interest rates and strong population growth will continue to support housing demand. However, tighter financial conditions and higher construction costs point to a slower pace of growth than previously forecast, although it is difficult to know how much of an impact these developments will have or how persistent they will be.

The lower level of activity in Canterbury may release resources for use elsewhere and increased availability of public finance may hasten the pace of infrastructure investment. On the other hand, mortgage interest rates could increase further and/or high levels of household debt may have made household borrowing more sensitive to past interest rate increases than assumed.

***...growth has been supported by higher export volumes and improved terms of trade...***

Other recent indicators point to a stronger pace of growth in the second quarter of 2017 following a March outturn that was weaker than expected. In particular, export volumes rebounded following a period of weakness and export prices increased further over the June quarter. Goods import volumes also increased strongly, although part of the increase appears to be related to the timing of fuel imports, which can be lumpy, and is expected to be temporary. Services export activity will benefit from the British and Irish Lions rugby tour, although much of the impact is expected to be recorded in the September quarter when most of the supporting visitors departed. Import prices remained subdued as oil and fuel prices weakened, helping offset a fall in the exchange rate. These price movements are providing additional support for the terms of trade, which are expected to rise to their highest level in over 40 years in the June 2017 quarter, and are boosting national income.

The improved international outlook evident earlier this year has been largely confirmed by recent data. Growth in the major advanced economies has strengthened and unemployment has fallen. In a number of countries, unemployment rates are low in historical terms, although most countries in the OECD are above New Zealand and it remains high in the euro area (Table 1.2). Wage growth remains weak and inflationary pressures are subdued.

**Table 1.2** – Unemployment rates

Latest available	Unemployment rate
Japan	2.8
Korea	3.8
Germany	3.8
United States	4.3
United Kingdom	4.4
New Zealand	4.8
Australia	5.6
OECD	5.8
Euro area	9.1

Source: OECD

Growth in Australia has slowed in recent quarters, partly because of temporary factors, but appears to have recovered in the June quarter. Business confidence has improved, employment growth has strengthened and retail sales have picked up. In China, growth has remained stronger than in 2016, buoyed by policy stimulus, particularly for property construction and infrastructure. Consumption growth has remained robust, supporting imports of food products, including from New Zealand, and stronger foreign demand has boosted exports. Stronger growth in China and increased global trade volumes are helping to sustain solid growth in trade-dependent Asian economies.

Stronger foreign demand, particularly from China, has supported prices for dairy, forestry and horticultural products, while meat prices have been underpinned by tight global supply (Figure 1.3). Export prices are expected to ease a little this year but to remain high and to add to domestic demand.

Growth in household spending seems to have continued at a solid pace, supported by past gains in employment, improved export returns, rising wealth and favourable consumer sentiment. Net migration inflows have remained high, propelling population growth to its fastest pace since 1974, and are adding to domestic demand.

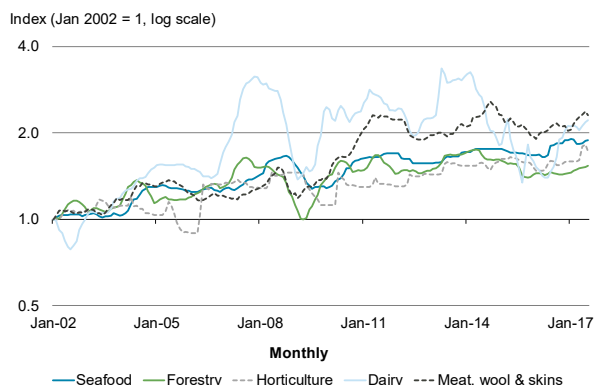
### ***...and business investment has picked up***

Growth in business investment has picked up in recent quarters, driven by business equipment investment. Following a period of strong growth, non-residential building investment fell in the March 2017 quarter. This fall is expected to be temporary and forward looking indicators point to a solid pipeline of activity over the forecast period.

### ***Unemployment is lower...***

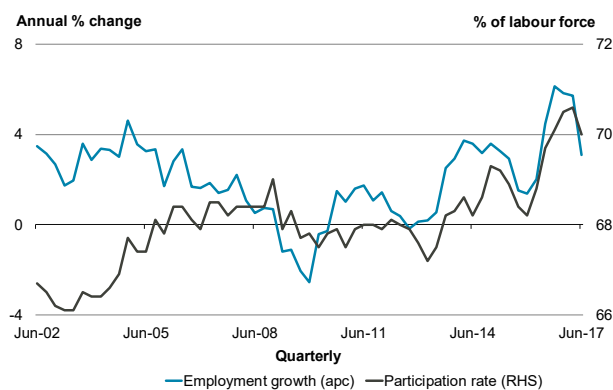
June quarter 2017 labour market data showed employment growth weakened in the quarter, although growth over the year grew at a robust pace, up 3.1% from a year ago (Figure 1.4). The decline in employment in June was driven by a fall in part-time employment, which tends to be highly variable from quarter-to-quarter. Full-time employment continued to expand, rising 0.7% in the quarter and 3.0% from the same quarter a year ago. The labour force participation rate declined 0.6 percentage points to 70.0 in the June quarter (Figure 1.4), and the unemployment rate fell 0.1 percentage point to 4.8%.

**Figure 1.3 – Commodity export prices**



Source: ANZ World Price Indexes

**Figure 1.4 – Employment and labour force participation**



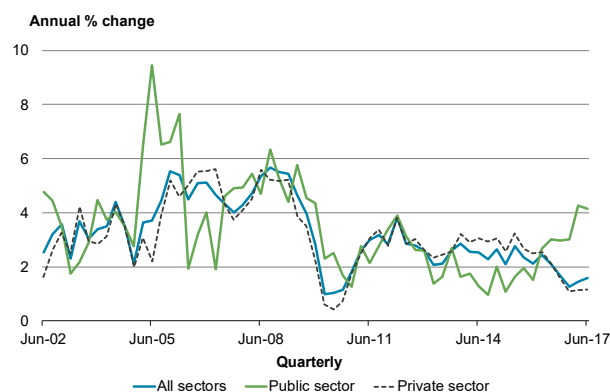
Source: Statistics New Zealand

Annual growth in ordinary time hourly earnings of 1.6% in the year to June 2017 was driven by public sector wages, which rose 4.1% partly owing to collective pay settlements in the education sector, while private sector growth was more modest at 1.2% (Figure 1.5). However, private sector wages have recovered from a period of very weak growth over the second half of 2016, to an annualised rate of 2.0% over the first half of 2017. Although subdued wage growth is consistent with our view that some spare capacity remains in the labour market, wage growth is weaker than can be explained by excess capacity alone.



June quarter 2017 labour market data were received after the forecasts were finalised. Employment, participation and unemployment were lower than expected while wage growth was close to expectations. However, the differences were within the usual range of quarterly variation and do not materially alter our view of the labour market. Nonetheless, the lower unemployment rate and the decline in participation, alongside other indicators of labour market capacity, such as survey measures of the degree of difficulty finding labour, increase the risk that there is less spare capacity in the labour market than assumed<sup>1</sup>. In addition to uncertainty around the extent of spare capacity, it is difficult to determine the degree of inflationary pressure associated with reduced labour market slack. A number of countries with historically low unemployment rates are finding wage growth has not picked up to the same extent as in the past.

**Figure 1.5 – Wage growth**

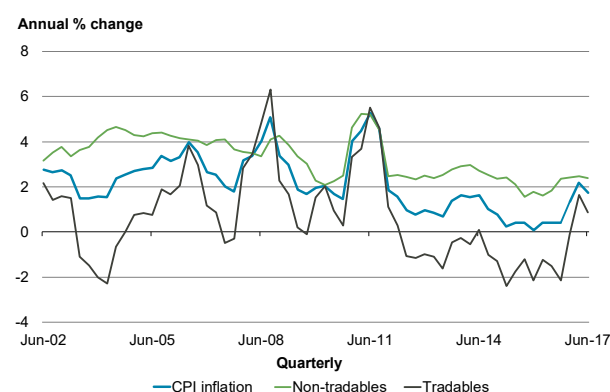


Source: Statistics New Zealand

### **...and inflation has eased**

Consumer price inflation eased to 1.7% in the year to June 2017 from 2.2% in March, partly reflecting lower fuel prices in the quarter (Figure 1.6). Non-tradables inflation was also a bit weaker and measures of core, or underlying inflation, also eased slightly. Overall, the lower inflation outturn appears to partly reflect some unusual reductions in some categories of prices, which will hold down annual inflation until they drop out of the calculation. The lower inflation reading also appears to reflect some factors that may be more long-lasting, including the rapid pace of technological improvement embodied in goods and services, which may delay progress in returning inflation to the 2.0% mid-point of the Reserve Bank's target range.

**Figure 1.6 – CPI inflation**



Source: Statistics New Zealand

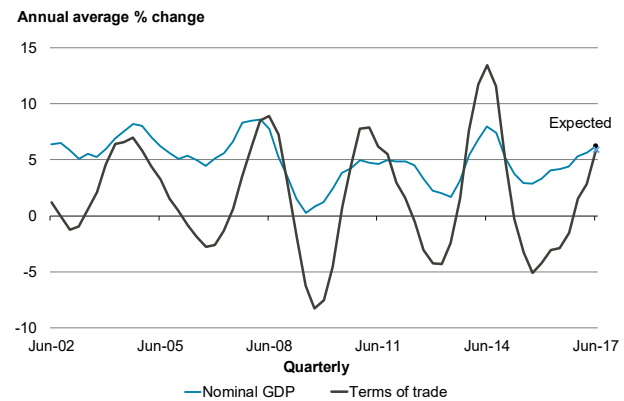
<sup>1</sup> See the box entitled *Uncertainty surrounding estimates of the output gap* in the *Risks and Scenarios* chapter for further information.

### **Nominal GDP growth reflects higher terms of trade and inflation over the year**

Although annual inflation eased in June it has increased from 0.4% in June 2016 as the effects of previous oil price declines have dropped out of the annual calculation. The terms of trade have also improved significantly over the past year.

Gains in the terms of trade and higher inflation have supported growth in nominal gross domestic product (GDP), which includes movements in both real activity and prices (Figure 1.7). The faster pace of nominal GDP growth has flowed through to tax revenue, which is expected to be 1.3% (\$1.0 billion) higher in 2016/17 than forecast in the *Budget Update*.

**Figure 1.7 – Nominal GDP and the terms of trade**



Sources: Statistics New Zealand, the Treasury

## Economic Outlook

This section discusses the outlook for the economy over the next four years.

The forecasts for the domestic outlook are conditioned on a number of judgements and assumptions (see box on page 7). The TWI exchange rate is assumed to remain around its current level (78.1), which is slightly higher than in the *Budget Update*, for most of the forecast period. Growth in potential output is assumed to average 2.9% over the forecast period, slightly lower than in the *Budget Update*, reflecting downward revisions to past growth and growing evidence of capacity constraints in the economy. Lower growth in potential output is reflected in lower average labour productivity growth over the forecasts.

As in the *Budget Update*, we assume the 12-month total net migration inflow remains over 70,000 for the remainder of 2017 and thereafter declines steadily to 20,000 in the June quarter 2021. Growth in the working-age population slows from 2.5% in 2016/17 to 2.1% in 2018/19 and to 1.4% in 2020/21.

### Positive growth outlook...

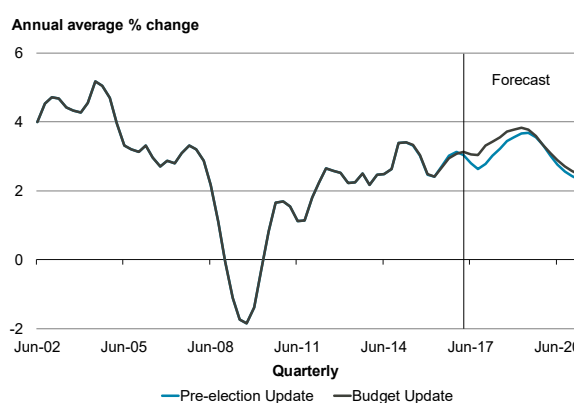
The pace of economic growth is expected to increase over the next two years or so and to absorb remaining spare capacity in the economy (Figure 1.8). The outlook is underpinned by strong population growth, the cyclical upturn in the international economy, the stimulus provided in Budget 2017 and supportive monetary policy.

Compared to the *Budget Update* growth is slightly weaker over the next two years, mostly because there appears to be less spare capacity in the economy than previously thought. The higher exchange rate is also contributing to a slower pick up in growth and inflation than might otherwise occur.

Growth in the 2017/18 year is forecast to pick up to 3.2% as exports rebound from a period of weakness. Growth in 2017/18 is forecast to be slightly lower than in the *Budget Update*, reflecting recent data, including housing market activity and house prices, that suggests there is a bit less momentum in residential investment and private consumption expenditure than previously thought. Nonetheless, private consumption growth is expected to remain solid.

Economic growth accelerates to 3.7% in 2018/19, well above potential growth, as ongoing employment growth supports household income growth and, therefore, consumer spending (Figure 1.9). Household income and consumption gets a further boost from the introduction of the Family Incomes Package on 1 April 2018, which reduces income tax and increases government transfers to households. Household saving also gets a boost, reflecting our assumption that 60% of the increase in income is spent. The assumptions around household behaviour are based on past experience, but the way households respond to an increase in income may be affected by a range of factors, including expectations around future income and wealth, that are difficult to predict.

**Figure 1.8** – Economic growth (production GDP)



Sources: Statistics New Zealand, the Treasury

Private consumption growth slows over 2019/20 and 2020/21 as rising interest rates and slower employment growth lead to slower growth in disposable income.

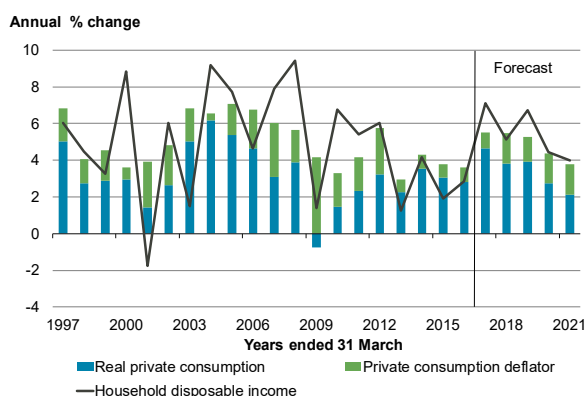
The forecast for public consumption expenditure is little changed from the *Budget Update*. Growth slows over the years ahead, consistent with announcements in Budget 2017. The Treasury's fiscal impulse measure, which captures the impact of fiscal policy changes on the economy, including the Family Incomes Package and capital spending, shows fiscal policy is expected to contribute around one percentage point to economic growth in 2018/19 and a bit less the following year. The decline in government operating expenses as a share of GDP results in negative impulses from 2019/20.<sup>2</sup>

Residential investment activity is expected to continue to contribute to growth over the forecast period given the strength of population growth and support from low interest rates. However, should tighter financial conditions and higher construction costs persist, the pace of growth in activity is likely to be lower than previously forecast (Figure 1.10).

### ...provides broad-based support for business investment

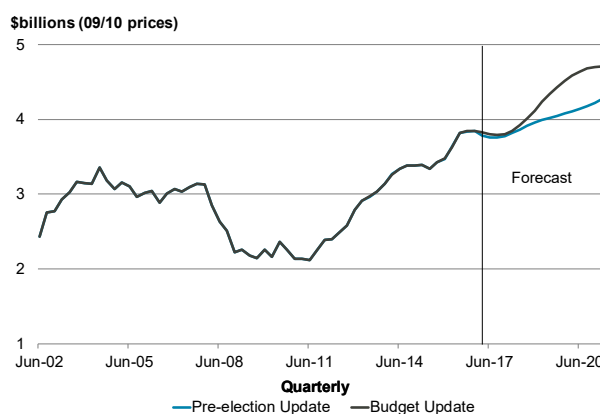
Growth in business investment has picked up over the past year or so and, as a share of GDP, it is close to historical highs (Figure 1.11). The outlook over the next few years is positive, consistent with surveyed intentions of business investment and the Government's announcements of capital expenditure including Canterbury and Kaikōura earthquake related work and other public infrastructure works (eg, Auckland City Rail Link). Rising international visitor numbers, continued low global and domestic interest rates, population

**Figure 1.9 – Private consumption and household income growth**



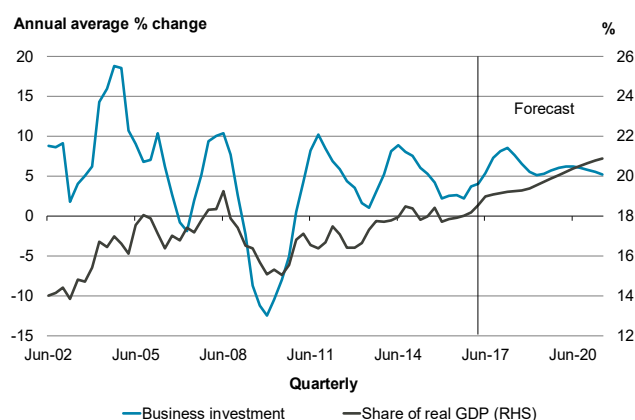
Sources: Statistics New Zealand, the Treasury

**Figure 1.10 – Residential investment**



Sources: Statistics New Zealand, the Treasury

**Figure 1.11 – Business investment**



Sources: Statistics New Zealand, the Treasury

<sup>2</sup> See the box entitled *Summary fiscal indicators* in the *Fiscal Outlook* chapter for additional detail.

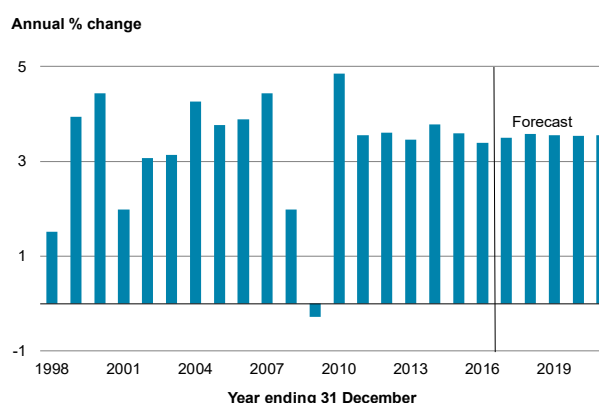
growth and the prospect of a sustained improvement in export prices provide support for business investment.

### **Improved external environment...**

The outlook for growth in New Zealand's major trading partners is little changed from the *Budget Update* (Figure 1.12). The improvement in global conditions evident earlier this year has been maintained through the June quarter. Above-trend growth has contributed to declines in unemployment rates to historically low levels in some large economies, including the United States (US) and Japan. Above-trend growth is projected to continue in a number of advanced economies leading to further declines in unemployment and a pick up in wage and price inflation from current low rates.

The outlook for China is a little stronger than previously as the faster pace of growth in the first quarter has continued. Growth is expected to be only a little lower than last year, supported by increased spending on infrastructure and property construction. The possibility of policy change following the Chinese Communist Party's National Congress later this year is a source of uncertainty. Credit growth remains high and high levels of debt continue to pose a risk to the medium-term outlook. Growth is expected to slow modestly over the forecast horizon, from around 6.6% in 2017 to 5.8% in 2020, as the economy continues to rebalance towards more services-led growth. This rebalancing is expected to provide significant support for New Zealand's exports and the terms of trade. Growth in other Asian economies (excluding China and Japan) is being supported by the improved global outlook and by expansionary macroeconomic policies.

**Figure 1.12 – Trading partner growth**



Sources: Haver Analytics, the Treasury

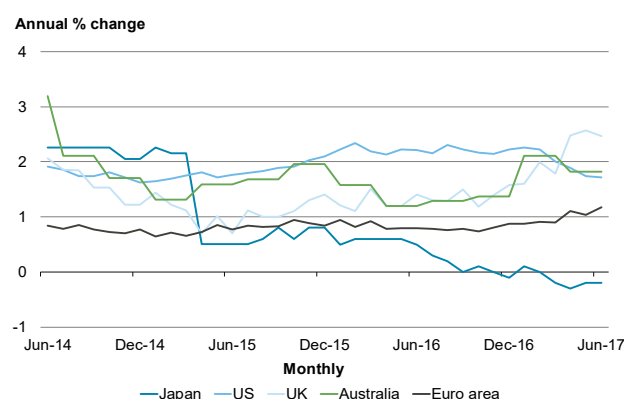
Growth in Australia has been variable in recent quarters, largely reflecting temporary factors, including weather-related disruptions to mining sector output. In recent months, employment growth has strengthened and the unemployment rate has decreased, although wage growth remains subdued. Household debt is high and growing faster than household incomes, raising medium-term risks to the growth outlook. Australia is expected to grow at a moderate pace, supported by low interest rates and higher export volumes, leading to a gradual decline in the unemployment rate.

The US has continued to grow at a moderate above-trend pace and, in the euro-area and Japan, growth momentum has strengthened further. Delays in reaching political agreement have increased uncertainty around the prospects of expansionary fiscal policy in the US, although we continue to project some fiscal stimulus in 2018. In the euro area, political uncertainty appears to have declined in recent months and business and consumer sentiment has improved. Euro area growth is projected to remain around trend over the forecast period leading to modest reductions in the unemployment rate. In the United Kingdom (UK), growth has weakened as the lower exchange rate has eroded consumer spending power. Economic growth is projected to slow as uncertainty around the implications of the UK's exit from the European Union undermines investment

spending in particular. Household spending is also likely to remain subdued as the labour market weakens and real income growth slows.

Inflation remains below target in many advanced economies and core inflation has remained subdued (Figure 1.13). Monetary policy remains highly accommodative in advanced economies, although the risks of further easing have retreated. Monetary policy is expected to continue to support growth until economic slack is absorbed and inflation rises to its target, which is around 2019 or later in many economies. However, the outlook for monetary policy remains uncertain. If there is less spare capacity than assumed, or if growth is stronger than expected, inflation could rise more quickly than expected and monetary policy may be tighter. In these circumstances, the New Zealand dollar could depreciate, leading to some rebalancing of activity in New Zealand towards the external sector.

**Figure 1.13 – Core inflation**

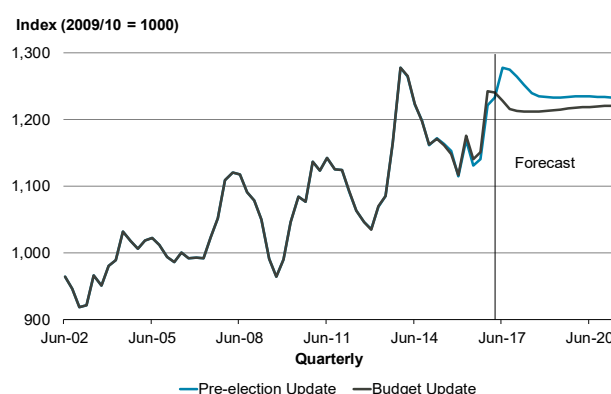


Source: Haver Analytics

### ***...is supporting the terms of trade...***

New Zealand's terms of trade are estimated to have increased further in the June quarter but are expected to decline later this year, partly reflecting recent falls in dairy auction prices (Figure 1.14). However, the terms of trade are assumed to remain a little higher than previously forecast largely reflecting improved prospects across a number of export commodities, and a weaker outlook for oil prices. Dairy, meat and forestry prices are all benefiting from stronger demand in China and from regulatory restrictions on alternative sources of supply. Oil prices have been weaker than anticipated in the *Budget Update* reflecting falling production costs, particularly of US shale oil, which is expected to persist.

**Figure 1.14 – Terms of trade**



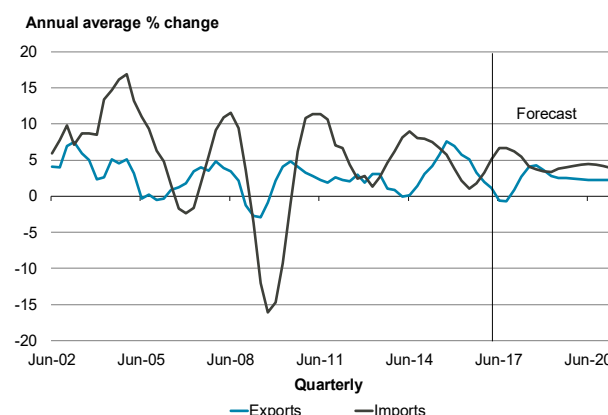
Sources: Statistics New Zealand, the Treasury

There are both upside and downside risks to the terms of trade. The terms of trade may be stronger if oil production costs continue to fall or if production rises. Growth in China may hold up, further supporting commodity export prices. On the other hand, high levels of debt in China may lead to a tightening in financial conditions that leads to slower growth and lower demand for New Zealand's exports. In the oil market, past weakness in investment may lead to supply constraints, and higher prices, as global demand continues to expand.

**...although import volumes grow strongly...**

Export volume growth is forecast to strengthen to around 4.0% over the year ahead, although a large part of this strength reflects the rebound evident in goods exports over the June 2017 quarter (Figure 1.15). The Lions rugby tour, which concluded in July 2017, is also expected to provide a boost to exports. Beyond the initial quarters, the outlook is for exports to grow a little over 2% per year, somewhat below their long-run average as the relatively high exchange rate constrains profitability. High commodity export prices provide an offset to the high exchange rate for some sectors, but non-commodity and services exporters, including tourism services, are likely to find it challenging to maintain competitiveness.

**Figure 1.15 – Exports and imports**



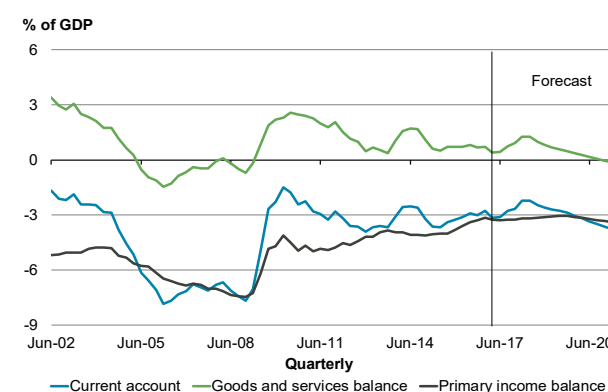
Sources: Statistics New Zealand, the Treasury

Ongoing domestic demand strength, the high exchange rate and the absorption of spare capacity are reflected in steady import demand growth of around 4.0% per year. With import growth outstripping export growth, net exports subtract from GDP growth over the forecast period. Goods import prices, which have been weakening, are projected to be broadly stable over the forecast period, reflecting expectations that commodity prices, including oil, will increase over time and that higher global inflation will support prices of non-commodity goods.

**...leading to a gradual widening of the current account deficit**

The annual goods deficit is expected to narrow over the year ahead, reflecting the rebound in June's trade data, the boost from the Lions rugby tour and the higher terms of trade (Figure 1.16). However, when these factors drop out of the annual calculation, the goods deficit is projected to widen. The deficit on primary income has narrowed over the past few years as growth in net external debt has slowed and global interest rates have fallen. Looking forward, global interest rates are projected to rise gradually and the income deficit is expected to stabilise as a share of GDP before increasing slightly in the later years as global interest rates continue to rise. Overall, the current account deficit is forecast to widen from around 3.1% of GDP in the year ended June 2017 to 3.9% of GDP in the year ended June 2021.

**Figure 1.16 – Current account and components**



Sources: Statistics New Zealand, the Treasury



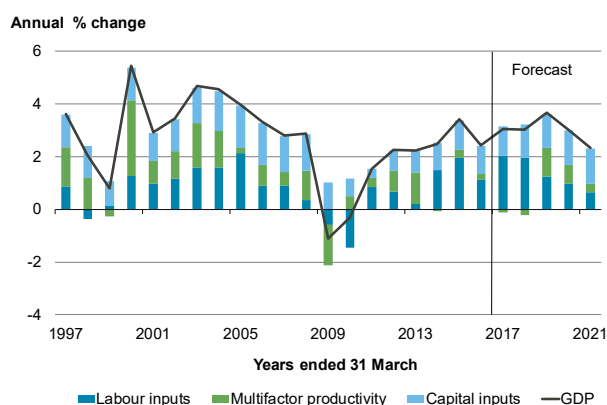
The net international liability position is expected to remain broadly stable at around 58% of GDP until late in the forecast period when it begins to increase as the current account deficit rises above 3% of GDP.

### ***As the labour market tightens...***

Employment growth has been strong over the past year, although it slowed in the June 2017 quarter. Survey indicators of employment intentions point to solid growth over the rest of the year. Further out, employment growth is expected to ease, although it is projected to be a little stronger than previously forecast. Labour force participation has been very high recently, and the starting point for the participation rate forecast is higher than in the *Budget Update*.

Partly a reflection of the strength of labour supply growth, the unemployment rate has declined only modestly over the past year, although it is a little lower than anticipated in the *Budget Update*. Over the year ahead, net immigration is projected to remain high, complementing further strong expansion in labour inputs and a pickup in business investment (capital inputs). Productivity growth is projected to remain weak (Figure 1.17).

**Figure 1.17 – Contributions to GDP growth<sup>3</sup>**



Sources: Statistics New Zealand, the Treasury

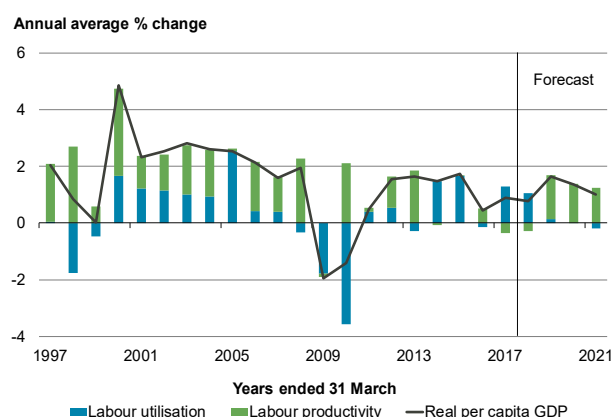
Over the remainder of the forecast period, slowing net migration and easing labour force participation lead to slower growth in labour inputs. Productivity growth is expected to pick up although the strength and timing of the pick up in productivity is uncertain, particularly in the context of subdued growth over recent years. Productivity growth may be slower than assumed if labour inputs grow more strongly than expected. Productivity growth may be faster than assumed if past investment decisions better enable firms to take advantage of opportunities for trade than expected.

<sup>3</sup> Labour input, labour productivity, labour utilisation and unit labour cost estimates are adjusted for the structural break in June 2016. See *Monthly Economic Indicators July 2017 Special Topic: Adjusting for level shifts in labour market data* for details <http://www.treasury.govt.nz/economy/mei/jul17>



Unemployment is expected to remain around its current rate over the year ahead, before easing gradually over the remainder of the forecast period. We expect participation to remain high, albeit easing gradually, over the forecast period as the proportion of the older working-age population, which has a relatively low participation rate, continues its secular increase. Similarly, average hours worked per employee are assumed to decline gradually over the forecast period ahead.

**Figure 1.18** – Contributions to GDP per capita growth<sup>3</sup>



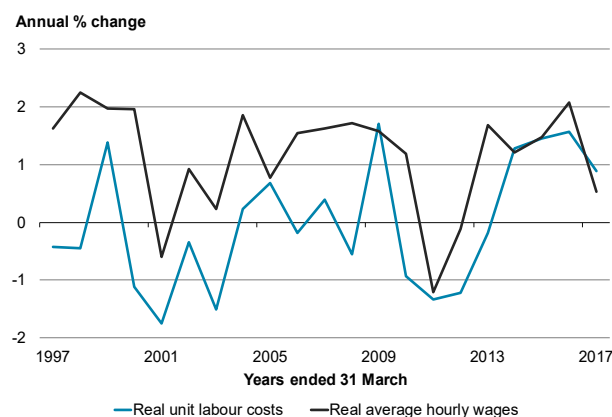
Sources: Statistics New Zealand, the Treasury

In aggregate, these trends result in a decline in average hours worked across the population as a whole (a measure of labour utilisation), although the declining unemployment rate provides some offset. As a consequence, real GDP per capita (output per person), which reflects the projected increase in labour productivity (output per hour worked) and the decline in labour utilisation (hours worked per person), is expected to grow at a similar rate over the forecast period to its average over the past few years (ie, around 1.2%) (Figure 1.18).

### **...wage growth picks up...**

As the labour market tightens, annual wage growth is forecast to increase to 2.8% and to slow a little thereafter. Real wages have grown strongly over recent years despite weak productivity growth, and real unit labour costs, which are a measure of cost competitiveness, have increased (Figure 1.19). The projected lift in productivity growth, combined with a slower period of real wage growth, is forecast to restore competitiveness. However, the pace of adjustment in unit labour costs is uncertain. It could be faster if nominal wages grow more slowly than anticipated or if the terms of trade hold up at a higher level than assumed. Conversely, lower inflation or weaker productivity growth may prolong the adjustment.

**Figure 1.19** – Unit labour costs and real wages<sup>3</sup>



Source: The Treasury

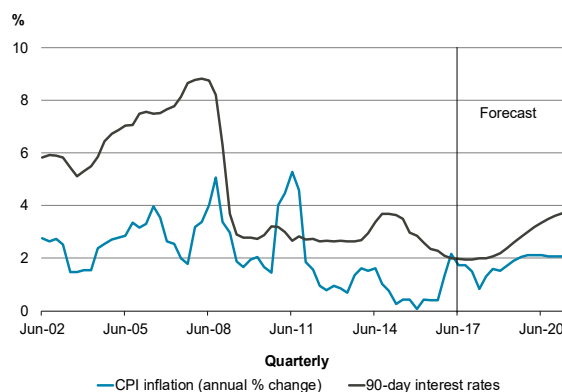
### **...and inflation rises...**

Interest rates are expected to remain around their current levels until mid-2018, when we estimate the economy will be operating at, or close to, full capacity (Figure 1.20). With demand expected to continue to strengthen, wages and prices will come under greater pressure to increase. These conditions allow monetary policy support for growth to be gradually reduced from the middle of 2018.

Inflation is expected to remain around 1.7% this year before declining temporarily early next year as higher oil prices in the March quarter this year drop out of the annual CPI calculation. The exchange rate, which is projected to remain around current levels, helps to keep tradables inflation well contained over 2018, while domestic wage and price pressures underpin a gradual rise in non-tradables inflation. By the end of 2018, headline inflation is forecast to be increasing at an annualised pace of 2.0%, and annual inflation rises to 2.0% by the end of 2019.

The Official Cash Rate is expected to begin rising in mid-2018 as the Reserve Bank seeks to achieve its objective of stabilising inflation at the 2.0% mid-point of its target range. From around 2.0% in June 2018, short-term interest rates are forecast to rise to around 3.8% in June 2021.

**Figure 1.20 – Inflation and 90-day rates**



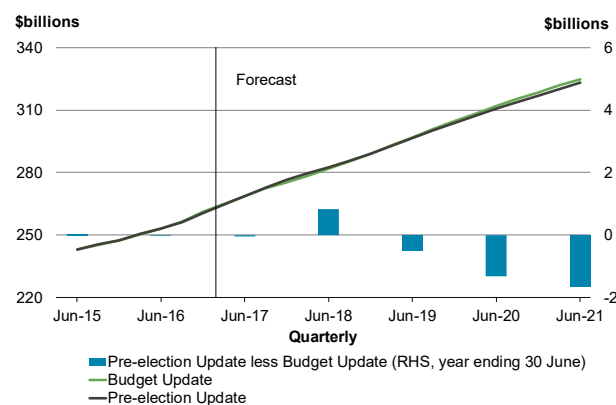
Sources: Statistics New Zealand, RBNZ, the Treasury

### ...supporting growth in nominal GDP

Nominal GDP growth eases over the forecast period from an expected peak of 6.2% in the year ended June 2017 to 4.1% in the year ending June 2021. Compared to *Budget Update 2017*, nominal GDP is expected to be a little higher in the year ended June 2018, mostly reflecting recent gains in the terms of trade (Fig 1.21).

In subsequent years, nominal GDP is forecast to be a little lower than in the *Budget Update*, reflecting small downward revisions to both real GDP growth and inflation. In total, nominal GDP is lower by \$2.6 billion (0.2%) over the four years to June 2021. Most of the lower GDP is accounted for by downward revisions to residential investment.

**Figure 1.21 – Nominal GDP**



Sources: Statistics New Zealand, the Treasury

## Risks

The judgements and assumptions underpinning these forecasts are, as usual, attended by considerable uncertainty. There is, for example, uncertainty surrounding estimates of spare capacity and when, and by how much, inflation will respond to increased capacity pressure. Possible changes in fiscal and other government policy both here and abroad are further sources of uncertainty. Prospects for the global economy have improved, but some of the major challenges facing a number of our key trading partners have yet to be resolved, and the risk of slower global growth remains high, particularly over the medium term.

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## Fiscal Outlook

### Overview

- The 2016/17 fiscal results are estimated to be significantly improved from the previous financial year. The operating balance before gains and losses (OBEGAL) surplus is estimated to reach \$3.7 billion with core Crown tax revenue expected to grow by 7.4% compared to an increase of around 4% in core Crown expenses. In addition net core Crown debt is expected to reduce by \$1.3 billion compared to 2015/16, to be \$60.6 billion.
- Growth in the nominal economy, partially offset by the introduction of the Family Incomes Package in April 2018, contribute to core Crown tax revenue increasing across the remainder of the forecast period.
- Core Crown expenses rise in nominal terms but continue to decline as a percentage of GDP to reach 27.7% by 2020/21. Budget allowances (both operating and capital) are as set out in the 2017 *Fiscal Strategy Report (FSR)*.
- Residual cash is largely neutral over the forecast period with net core Crown debt at the end of the forecast period similar to current levels. As a percentage of GDP, it reduces across the forecast period and is forecast to be 18.8% of GDP by 2020/21.
- Net worth attributable to the Crown continues to grow across the forecast period, largely owing to rising operating balances.
- Contributions to the New Zealand Superannuation Fund (NZS Fund) are forecast to resume in 2020/21 when net debt is forecast to fall below 20% of GDP, with \$2.2 billion assumed to be contributed in that year.
- Total assets are forecast to grow by \$47.3 billion to stand at \$340.0 billion by 2020/21 largely reflecting the increased capital spend and the upward valuation of property, plant and equipment at 30 June 2017. Liabilities fall in nominal terms, with borrowings decreasing in the later part of the forecast period. Total liabilities are expected to stand at \$193.8 billion at the end of 2020/21, with borrowings making up \$109.5 billion of that balance.
- While the 2016/17 fiscal results are estimated to be better than previously forecast, the OBEGAL forecasts for the next four years remain fairly close to the *Budget Update*. Net core Crown debt is estimated to be around \$2.0 billion lower than the *Budget*

*Update* across the forecast period, largely reflecting the 2016/17 outturn. Further discussion on the comparison to the *Budget Update* is on page 41.

- These forecasts are sensitive to a number of assumptions and should be read in conjunction with the Risks and Scenarios and Specific Fiscal Risks chapters. In particular, judgements have been made regarding the extent to which the current strength in tax revenue outturns continues throughout the forecast period.
- The Fiscal Outlook chapter also includes medium term projections that extend beyond the forecast period until 2030/31. These projections represent a potential future path based on historic averages. The assumptions for allowances in the projections remain unchanged from those used in the 2017 *FSR*.

**Table 2.1** – Fiscal indicators

Year ending 30 June	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>\$billions</b>						
Core Crown tax revenue	70.4	75.6	78.3	81.3	85.8	89.8
Core Crown expenses	73.9	76.8	81.0	83.7	86.1	89.5
Total Crown OBEGAL <sup>1</sup>	1.8	3.7	2.9	3.5	5.7	6.4
Core Crown residual cash	(1.3)	1.5	(1.4)	(1.4)	1.7	1.1
Net core Crown debt <sup>2</sup>	61.9	60.6	62.2	63.7	62.0	60.8
Net worth attributable to the Crown	89.4	108.9	114.5	121.2	130.4	140.6
<b>% of GDP</b>						
Core Crown tax revenue	27.8	28.1	27.7	27.4	27.6	27.8
Core Crown expenses	29.2	28.6	28.7	28.2	27.7	27.7
Total Crown OBEGAL <sup>1</sup>	0.7	1.4	1.0	1.2	1.9	2.0
Core Crown residual cash	(0.5)	0.6	(0.5)	(0.5)	0.6	0.3
Net core Crown debt <sup>2</sup>	24.5	22.5	22.0	21.5	20.0	18.8
Net worth attributable to the Crown	35.3	40.5	40.5	40.9	42.0	43.5

Notes: 1 Operating balance before gains and losses.

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

Source: The Treasury

## Fiscal Forecasts

This section of the chapter focuses on the five-year forecast horizon, up to and including 2020/21.

The preparation of the pre-election fiscal forecasts has involved:

- reassessing tax revenue (in conjunction with Inland Revenue (IRD) and benefit expense forecasts in light of the revisions to the macroeconomic forecasts
- updating the operating results and expense forecasts using the 2016/17 pre-audited financial information from departments and significant other government reporting entities
- considering the impact of additional financial information that has occurred since the finalisation of the *Budget Update* forecasts on 3 May 2017, and
- incorporating the fiscal impact of significant Cabinet decisions made since the *Budget Update*, up to and including 7 August 2017.

This section discusses the following areas: core Crown tax revenue, core Crown expenses, the operating balance, core Crown capital spending, residual cash and net core Crown debt, the total Crown balance sheet and a comparison to the *Budget Update*.

### Key judgements and assumptions

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

The forecasts incorporate government decisions and other circumstances known to the Government and advised to the Treasury up to 7 August 2017. In the lead up to an election, political parties, including the current Government, make announcements regarding their policies and intentions. It does not automatically follow, however, that all announcements are included in these fiscal forecasts.

In addition to the key assumptions underpinning the economic forecasts (refer page 7), the following key judgements and assumptions supporting the fiscal forecasts were made:

- Tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts.
- Judgements have been made around the extent to which the current strength in tax revenue outturns continues throughout the forecast period.
- Any future new spending or revenue reductions will be limited to the operating and capital allowances set by the Government. For further details of these allowances, see note 9 of the Forecast Financial Statements.
- Departments will continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment will be higher at the front end of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years.
- The Government has committed \$1.0 billion of funding to assist high growth councils facing financial constraints to finance roads and water infrastructure (referred to as the Housing Infrastructure Fund). The fund has been forecast to be allocated based on the timing outlined in initial bids received.
- The Government and Auckland Council have agreed to each fund 50% of the costs of the City Rail Link. The Government's share of these costs is estimated to be around \$1.7 billion. These fiscal forecasts include an amount allocated as part of the *Budget Update* and assume the Government's remaining share of costs will be met from existing budget allowances.
- The Government recently announced it will provide up to \$600 million of capital in Crown Infrastructure Partners which will co-invest in water and transport infrastructure to enable housing supply growth. These fiscal forecasts assume the Government's costs associated with this programme will be met from existing budget allowances.

### Key judgements and assumptions (continued)

- The Government has committed to reinstating State Highway 1 between Picton and Christchurch following the Kaikōura earthquake. These fiscal forecasts include an amount allocated as part of the *Budget Update* and assume the Government's remaining share of costs will be met from existing budget allowances, existing baselines or the National Land Transport Fund.
- Forecast returns on the large investment portfolios managed by the Accident Compensation Corporation (ACC) and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- Significant valuations (eg, student loan portfolio, ACC claims liability and the Government Superannuation Fund retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.
- No revaluations of property, plant and equipment are projected beyond the current year. Only valuations that have already been completed are included in these forecasts.
- KiwiRail freight assets continue to be valued on a commercial basis (refer Specific Fiscal Risks chapter for risks to the valuation methodology).
- Where possible, 2016/17 results have been based on pre-audited actual results. However, these results have not yet been finalised or audited and are likely to differ from the final published 2016/17 financial statements.
- Contributions to the NZS Fund are assumed to resume in the 2020/21 financial year. Table 2.2 sets out the estimated contribution to the Fund if contributions were to start earlier (2017/18). For more information, refer to the Treasury website for the NZS Fund model.

**Table 2.2** – NZS Fund contributions

Year ending 30 June \$billions	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Estimated contribution <sup>1</sup>	2.0	2.0	2.0	2.0
Estimated contribution <sup>2</sup>	2.7	2.7	2.7	2.8
Forecast contribution	-	-	-	2.2

Notes: 1. Calculations of estimated contributions if they were to resume in 2017/18 (under the policy to lift the age of eligibility for New Zealand Superannuation (NZS) to 67 years by 2040/41).

2. Calculations of estimated contributions if they were to resume in 2017/18 (under the current age of eligibility for NZS of 65 years).

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 46.

## Core Crown Tax Revenue

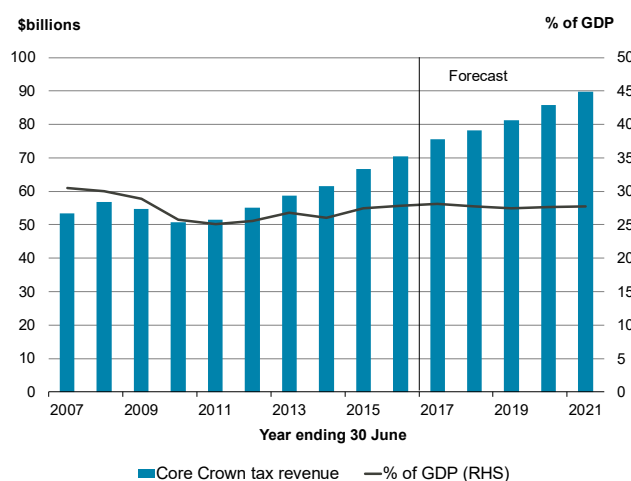
### *Tax revenue grows over the forecast period...*

Core Crown tax revenue (Figure 2.1) is forecast to rise in each year of the forecast period in nominal terms while falling slightly as a percentage of nominal GDP. By 2020/21, core Crown tax revenue is expected to reach \$89.8 billion, \$19.4 billion higher than in 2015/16.

### *...with a relatively strong 2016/17 outturn expected...*

Based on preliminary data for June 2017, core Crown tax revenue grew 7.4% (\$5.2 billion) in the 2016/17 financial year (Table 2.3), to 28.1% of nominal GDP.

**Figure 2.1 – Core Crown tax revenue**



Source: The Treasury

**Table 2.3 – Growth in 2016/17 core Crown tax revenue compared with 2015/16**

Year ending 30 June \$billions	2016 Actual	2017 Forecast	Increase	% Increase
Source deductions	27.0	28.7	1.7	6.3
Other persons tax	4.5	5.1	0.6	13.3
Corporate tax	11.7	13.2	1.5	12.8
RWT	2.3	2.2	(0.1)	(4.3)
GST	18.2	19.7	1.5	8.2
Other taxes	6.7	6.7	-	-
<b>Core Crown tax revenue</b>	<b>70.4</b>	<b>75.6</b>	<b>5.2</b>	<b>7.4</b>
<b>Percentage of GDP</b>	<b>27.8%</b>	<b>28.1%</b>		

Source: The Treasury

The strong corporate tax outturn was spread across most sectors of the economy, with a notable contribution from the finance and investment sectors. The box on page 28 provides further discussion on the impact the corporate tax outturn has had on the fiscal forecasts.

In nominal terms, source deduction revenue contributed the most (\$1.7 billion) to tax revenue growth in 2016/17. This growth came mainly from growth in the number of people in employment, with a lesser contribution from growth in personal income rates.

With more people in employment, and those in employment earning more than in 2015/16, domestic consumer spending also grew strongly in 2016/17 (5.6%). This was the major component of the 8.2% growth in goods and services tax (GST) revenue, helped by continued growth in residential construction.

The extent to which the current 2016/17 strength is a permanent uplift in tax revenue is a key judgement in the tax forecasts. The volatility of corporate tax in particular creates



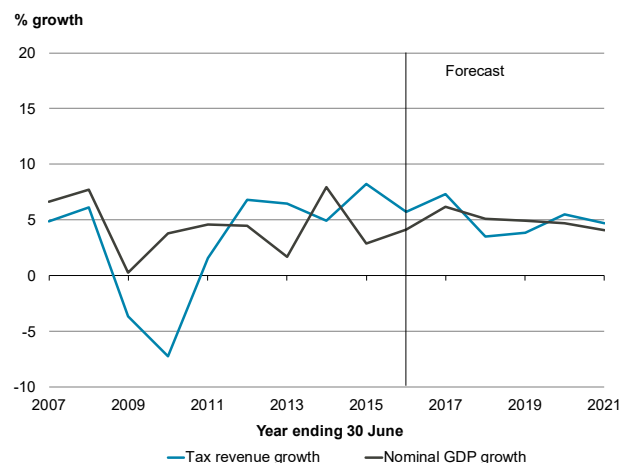
some uncertainty. Page 55 of the Risks and Scenarios chapter demonstrates the range of tax revenue outturns under different scenarios.

**... while tax revenue grows in line with nominal GDP for the remainder of the forecast period**

Most of the growth in the tax revenue forecasts after 2016/17 can be attributed to growth in the nominal economy, with nominal GDP forecast to grow at 4.7% per year on average from 2016/17 to 2020/21.

Tax revenue growth remains below GDP growth in 2018/19, mainly owing to the effects of the Family Incomes Package that was included in the *Budget Update*. Tax revenue is then forecast to grow at a faster rate than GDP, owing to fiscal drag (ie, the effect whereby pay as you earn (PAYE) grows more quickly than underlying salary and wage income owing to the progressive nature of the income tax scale), and the effect that increasing deposit interest rates have on resident withholding tax (RWT).

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



Source: The Treasury

**Comparison with IRD forecasts**

IRD has also prepared a set of tax forecasts which, like the Treasury's tax forecasts, were based on the Treasury's macroeconomic forecasts. The Treasury's forecasts of core Crown tax revenue are, on average, 0.6% higher than IRD's forecasts. Most of the forecast differences arise from differing assumptions made around interest rates and the difference between wholesale and retail interest rates between the two agencies, and other judgements made in relation to RWT.

This comparison is included in the Additional Information on the Treasury website at <http://www.treasury.govt.nz/budget/forecasts/prefu2017>

### Corporate tax forecasts

#### ***The outturn for corporate tax in 2016/17 is expected to be strong...***

Corporate tax growth in the 2016/17 year is expected to have been particularly strong, currently estimated at 12.5% (Figure 2.3).

This box outlines the key assumptions and judgements applied to the corporate tax forecasts, which is not expected to continue to grow at such a pace.

#### ***...but the rate of growth is not expected to continue at the same pace...***

Although corporate tax is expected to rise across the forecast period, this rate of growth is unlikely to persist. There are two factors contributing to this: macroeconomic factors and the relatively high investment returns earned in the finance/investment sector in 2016/17 that are not assumed to continue.

Analysis of the latest corporate tax assessment data indicates that a large portion of the 2016/17 tax revenue growth was spread across most sectors of the economy, and across firms both large and small.

Since the increase in tax revenue is broad-based, we have made a judgement that it is likely some permanent effect will persist into later years of the forecast period.

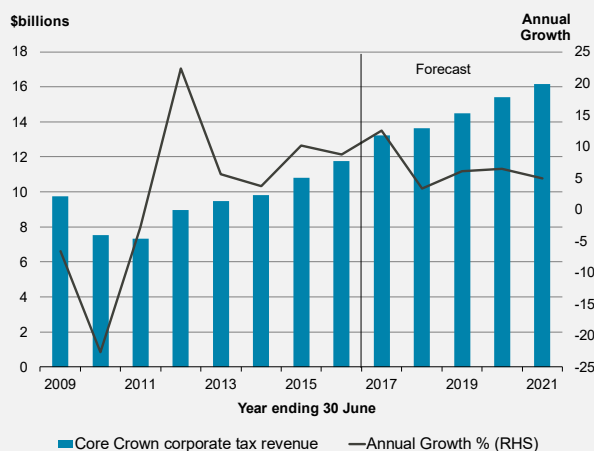
The contribution to 2016/17 corporate tax growth from the finance and investment sectors may not be so permanent. The growth in finance/investment sector tax occurred in a year of relatively high investment market returns which, in our judgement, is unlikely to occur every year as this level of volatility in this sector is not unusual.

Overall, after taking account of these factors, total corporate tax revenue is expected to continue to rise in each year of the forecast period, reaching \$16.2 billion (5.0% of GDP) by 2020/21.

#### ***... and corporate tax forecasts are higher than the Budget Update.***

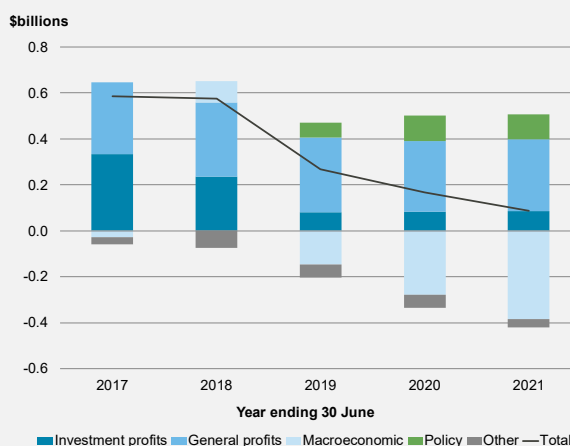
As a result, while the forecasts are \$1.7 billion higher than at the *Budget Update* across the forecast period, \$1.2 billion of this lift occurs in the 2016/17 and 2017/18 years. As there has been some downgrade to the macroeconomic outlook for operating surpluses relative to the *Budget Update* (see macroeconomic bars in Figure 2.4) by the last year of the forecast the corporate taxes are only \$86 million higher in 2020/21 (Figure 2.4).

**Figure 2.3 – Core Crown corporate tax**



Source: The Treasury

**Figure 2.4 – Core Crown corporate tax compared to the Budget Update**



Source: The Treasury

## Core Crown Expenses

### ***Core Crown expenses reduce as a percentage of GDP ...***

Core Crown expenses are expected to grow more slowly than the nominal economy, which sees core Crown expenses declining across the forecast period from 29.2% in 2015/16 to 27.7% of GDP at the end of the forecast period (Figure 2.5).

### ***... despite nominal core Crown expenses increasing...***

Core Crown expenses are expected to increase by \$15.5 billion over the forecast period from \$74.0 billion in 2015/16 to \$89.5 billion in 2020/21, an increase of around \$3 billion each year (Figure 2.5).

This nominal growth is largely as a result of past budget decisions and new spending set aside for future budgets via the operating allowances (Figure 2.6). Budget operating allowances are assumed to be the same as those included in the *Budget Update*.

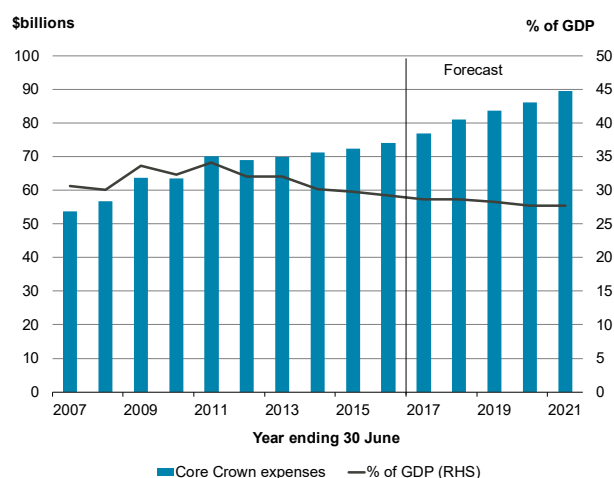
Future operating allowances are currently set at \$1.7 billion for Budget 2018, increasing by 2% each subsequent Budget.<sup>4</sup>

The forecasts assume that future cost increases, whether they be from increased demand for government services, inflation or additional services, can be met from these future allowances.

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

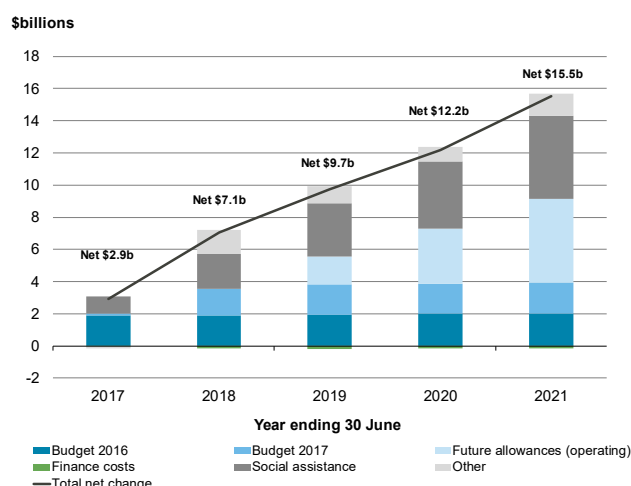
In addition to new budget spending, social assistance spending is forecast to increase by \$5.2 billion across the forecast period while finance costs remain fairly static.

**Figure 2.5 – Core Crown expenses**



Source: The Treasury

**Figure 2.6 – Increase in core Crown expenses relative to 2015/16 actuals**



Source: The Treasury

<sup>4</sup> New operating spending will be allocated to department baselines when budget decisions are made. As a result, the different functional expense areas (eg, health spending), with the exception of social security and welfare and finance costs, remain flat across the forecast period (refer page 100). Therefore, comparisons across the forecast period will not necessarily reflect the expected spend at a functional level.

**...with an increase in the number New Zealand superannuation recipients contributing to expenditure growth...**

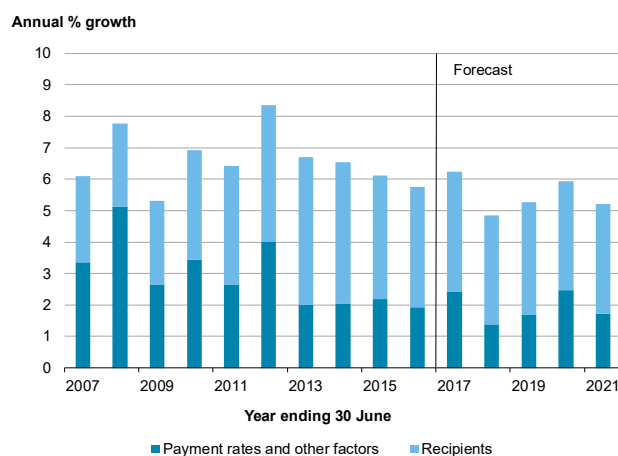
NZS payments account for \$3.8 billion of the increase in core Crown expenses over the forecast period. The majority of this growth relates to growth in the number of NZS recipients. Recipient numbers are forecast to increase from almost 691,000 in 2015/16 to 823,000 by the end of the forecast horizon (an increase of 19.1%). The remaining increase is largely owing to indexation of entitlements to wage growth (Figure 2.7). By the end of the forecast period, NZS is around 55% of the total social assistance spending (compared to 50% in 2015/16) and 18% of core Crown expenditure.

**...while other forms of social assistance also increase**

While New Zealand superannuation is around half of social assistance spending, other types of social assistance are also expected to increase by \$1.3 billion over the same period (Figure 2.8).

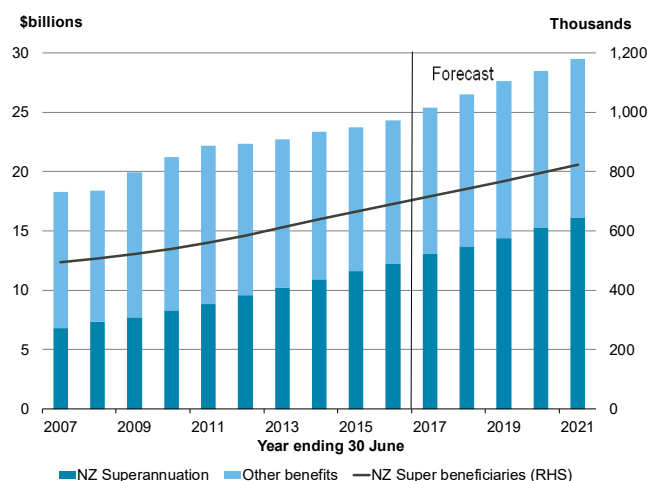
The Family Incomes Package included in the *Budget Update* is expected to increase social assistance spending by \$0.5 billion per year from 2019/20. In addition income-related rents and Kiwisaver subsidies are also expected to add \$0.4 billion and \$0.3 billion respectively.

**Figure 2.7 – Growth of NZS expenses**



Source: The Treasury

**Figure 2.8 – Social assistance spending**



Source: The Treasury

# Operating Balance

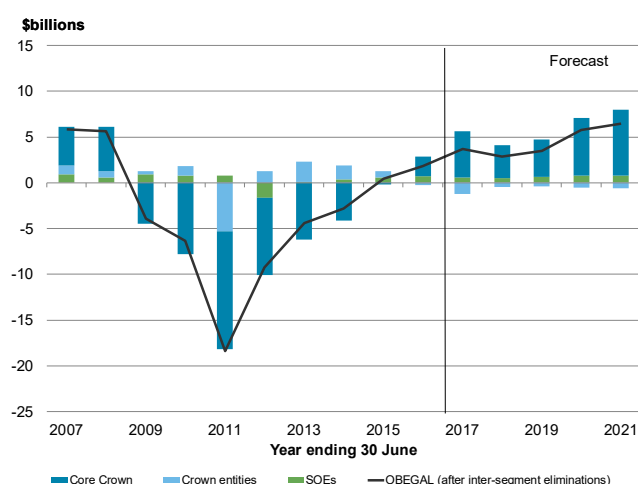
***The 2016/17 operating performance is expected to be significantly improved...***

The strong tax outturn is the key contributor to an expected OBEGAL surplus of \$3.7 billion in 2016/17, just over double the \$1.8 billion recorded in 2015/16 (Table 2.4).

As discussed earlier, core Crown tax is expected to be \$5.2 billion higher in 2016/17 compared with the previous year. However, core Crown expenses are only forecast to increase by \$2.9 billion with the largest increases expected to be social assistance spending.

Partially offsetting the core Crown result, Crown entities (CEs) are expected to make an OBEGAL deficit in 2016/17 largely reflecting increased insurance expenses from the new costs associated with the Kaikōura earthquakes. In addition the OBEGAL deficits in ACC have also increased from the previous year. This is driven by several factors including a higher number of claims across all accounts, lower discount rates (used to calculate the present value of claims), and price increases.

**Figure 2.9** – Components of OBEGAL by segment



Source: The Treasury

**Table 2.4** – Growth in 2016/17 OBEGAL compared with 2015/16

Year ending 30 June \$billions	2016 Actual	2017 Forecast	Increase
Core Crown	2.2	5.0	2.8
Crown entities	(0.3)	(1.2)	(0.9)
SOE's	0.7	0.6	(0.1)
Eliminations between segments	(0.8)	(0.7)	0.1
<b>OBEGAL</b>	<b>1.8</b>	<b>3.7</b>	<b>1.9</b>
<b>Percentage of GDP</b>	<b>0.7</b>	<b>1.4</b>	

Source: The Treasury

***...before returning to steady growth over the next four years ...***

OBEGAL is expected to grow steadily in the remaining years of the forecasts rising to \$6.4 billion by 2020/21.

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

The core Crown segment is forecast to have an OBEGAL surplus that remains relatively constant in the next two years, albeit less than the current year, before continuing to rise over the remainder of the forecast period, largely reflecting growth in tax revenue outpacing growth in nominal spending.

CEs are expected to be largely neutral with relatively small deficits while State-owned Enterprises' (SOEs) contribution to OBEGAL remains fairly stable with operating surpluses forecast to average \$0.7 billion throughout the forecast period.

See pages 97 to 98 for a list of CEs and SOEs.

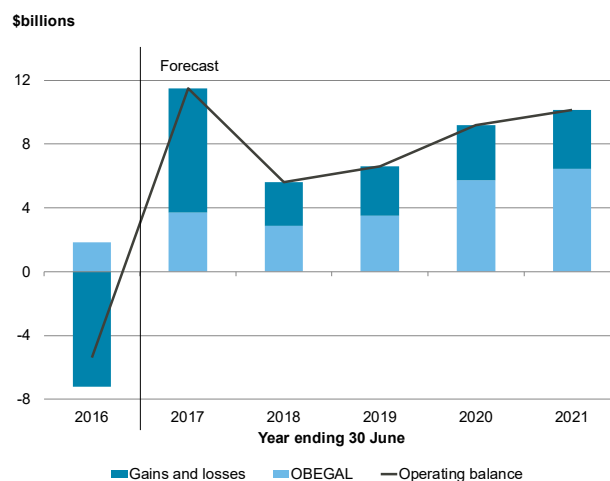
**...while investment returns contribute to the growth in net worth**

The total Crown operating balance, inclusive of gains and losses, is forecast to be in surplus across all years of the forecast period with an initial peak in 2016/17 of \$11.5 billion.

Gains and losses then return to long-term assumptions and the operating balance follows the OBEGAL trend growing to \$10.1 billion in 2020/21 (Figure 2.10).

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

**Figure 2.10 – Components of operating balance**



Source: The Treasury

The NZS Fund had small investment losses in 2015/16 and is now forecasting gains on investments of around \$5.5 billion in the current year. Beyond 2016/17, investment gains assume a long-term rate of return.

In addition to investment gains, actuarial gains on the Crown's significant long-term liabilities such as ACC and Government Superannuation Fund (GSF) are forecast to be \$1.4 billion in 2016/17 (compared to actuarial losses of \$7.1 billion in 2015/16). However, as future actuarial gains or losses resulting from discount rates and CPI changes are not forecast, they do not impact the operating balance beyond 2016/17.

### Summary fiscal indicators

The Treasury calculates two summary fiscal indicators – the cyclically-adjusted balance and the fiscal impulse indicator – to help assess the Government's fiscal position. These indicators are subject to uncertainty as their calculation relies on estimated variables. Further detail on these indicators, including sensitivity analysis, can be found in the Additional Information on the Treasury website ([www.treasury.govt.nz/budget/forecasts/prefu2017](http://www.treasury.govt.nz/budget/forecasts/prefu2017)).

**Table 2.5** – Structural fiscal balance indicators

Year ending 30 June % of GDP	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
OBEGAL	0.7	1.4	1.0	1.2	1.9	2.0
Cyclically-adjusted balance	1.2	2.2	1.3	1.1	1.7	2.0
Fiscal impulse <sup>5</sup>	-0.2	-0.6	1.0	0.6	-1.1	-0.4

Source: The Treasury

### Cyclically-adjusted balance

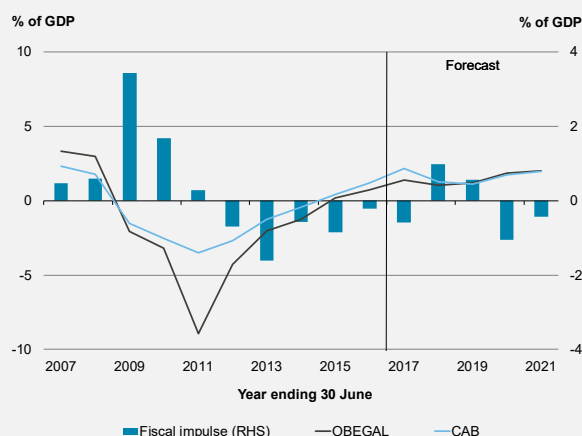
The cyclically-adjusted balance (CAB) is an estimate of the OBEGAL adjusted for the cyclical position of the economy. Cyclical factors (eg, higher tax receipts in an upturn or higher unemployment expenses in a downturn) are removed to assess the Government's underlying fiscal position. The CAB is in surplus across the entire forecast period, indicating the forecast OBEGAL surpluses are structural – that is, they are not owing to cyclical economic conditions. The profile of the CAB broadly reflects the profile of the OBEGAL across the forecast period. In 2016/17 the CAB peaks owing to high company tax revenue, timing of expenditure and the improved performance of CES and SOEs. The introduction of the Family Incomes Package sees the CAB decline over 2017/18 and 2018/19. Cyclically-adjusted surpluses are forecast to rise from 1.1% of GDP in 2018/19 to 2.0% of GDP by the end of the forecast period.

### Fiscal impulse

The fiscal impulse is an estimate of discretionary changes in the fiscal position that have an impact on aggregate demand pressures in the economy. The fiscal impulse indicates that fiscal policy is forecast to have a contractionary impact on aggregate demand in 2016/17. This stance turns stimulatory in 2017/18 and 2018/19, and returns to a contractionary stance in the last two years of the forecast period. The positive impulses in 2017/18 and 2018/19 reflect the stimulatory impact of the Family Incomes Package, timing effects of company tax receipts and elevated capital spending. This is somewhat offset by the ongoing decline in operating expenditure as a percentage of GDP across the forecast period, which also drives the negative impulses from 2019/20.

Movements in the timing of operating and capital expenditure, and higher company tax receipts have resulted in a contractionary impulse in 2016/17 and a more stimulatory impulse in 2017/18 relative to the *Budget Update*.

**Figure 2.11** – Operating balance indicators



Source: The Treasury

<sup>5</sup> The fiscal impulse measure shown is the core Crown fiscal impulse plus Crown entities excluding EQC and Southern Response payments. A positive number indicates stimulatory fiscal policy.

## Core Crown Capital Spending

While capital spending is expected to be similar in 2016/17 to the previous year at \$4.3 billion, the Government is forecast to spend around \$6.0 billion a year (excluding contributions to the NZS Fund) over the next four years. Recommencing contributions to the NZS Fund in 2020/21 will add a further \$2.2 billion in 2020/21. Including the current year's spending of \$4.3 billion raises the total spend on capital items over the forecast period to \$30.5 billion (Table 2.6).

**Table 2.6** – Net capital expenditure activity 2016/17 to 2020/21

Year ending 30 June \$billions	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	5-year Total
Education	0.6	0.9	0.9	1.0	0.8	0.6	4.2
Defence	0.4	0.4	0.7	0.5	0.5	0.3	2.5
City Rail Link	-	-	0.3	0.2	0.3	0.4	1.2
Corrections	0.1	0.1	0.2	0.2	0.1	0.1	0.7
IRD	-	0.1	0.2	0.2	0.1	0.1	0.7
Other	0.9	0.9	1.4	0.5	0.5	0.5	3.7
<b>Net purchase of physical assets</b>	<b>2.0</b>	<b>2.4</b>	<b>3.7</b>	<b>2.6</b>	<b>2.3</b>	<b>2.0</b>	<b>13.0</b>
Student loans	0.2	0.2	0.2	0.2	-	-	0.6
Housing Infrastructure Fund	-	-	0.1	0.2	0.2	0.2	0.7
Other	0.3	(0.2)	0.1	(0.1)	(0.1)	(0.1)	(0.4)
<b>Net advances</b>	<b>0.5</b>	<b>-</b>	<b>0.4</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.9</b>
NZTA	1.1	1.2	1.4	1.4	1.5	1.1	6.6
Crown Infrastructure Partners	-	-	-	0.1	0.2	0.3	0.6
Southern Response	0.3	0.3	0.4	0.1	-	-	0.8
DHBs	-	0.2	0.1	0.2	0.1	0.1	0.7
KiwiRail	0.2	0.2	0.2	0.2	-	-	0.6
Other	0.5	-	0.6	0.4	0.3	0.1	1.5
<b>Net investments</b>	<b>2.1</b>	<b>1.9</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>1.6</b>	<b>10.8</b>
Future new capital spending	-	-	0.3	1.4	1.5	1.7	5.5
Top-down capital adjustment	-	-	(1.0)	(0.2)	(0.2)	-	(1.3)
Contribution to NZS Fund	-	-	-	-	-	2.2	2.2
<b>Net capital spending</b>	<b>4.6</b>	<b>4.3</b>	<b>6.2</b>	<b>6.6</b>	<b>5.8</b>	<b>7.6</b>	<b>30.5</b>

Source: The Treasury

Net capital spending is expected to increase significantly in 2017/18 and 2018/19, with the largest capital spend in a number of years. The size of the forecast spend increases the risk that spending may be pushed into future periods as capacity constraints are tested.

Some capital payments in relation to City Rail Link and the Housing Infrastructure Fund are expected to fall outside the forecast period.

Table 2.6 outlines the capital spending by the core Crown that impacts cash flows. It excludes capital spending undertaken by CEs and SOEs directly that is funded from their own resources. As such, they will differ from the total Crown infrastructure spending



announced by the Government, which focuses on this broader (and therefore larger) investment by the Crown<sup>6</sup>.

In addition to the capital spending in Table 2.6 above, a number of capital projects have been undertaken through Public Private Partnerships (PPPs) (eg, Transmission Gully).

Unlike capital spending where cash payments are made as the asset is being constructed, cash flows in relation to PPPs do not typically commence until the completion of the project. Instead, borrowings are accumulated across the period reflecting the progress towards completion. Payments are then spread over a number of subsequent years as the assets become operational. Table 2.7 below summarises the expected amount of borrowings accrued over the forecast period in relation to PPPs.

**Table 2.7 – Public Private Partnerships (cumulative)**

Year ending 30 June \$billions	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Correctional facilities and prisons	0.6	0.6	0.6	0.6	0.6
Transport projects	0.5	1.0	1.5	1.8	1.9
Educational facilities	0.3	0.3	0.5	0.5	0.5
<b>Public Private Partnerships</b>	<b>1.4</b>	<b>1.9</b>	<b>2.6</b>	<b>2.9</b>	<b>3.0</b>

Source: The Treasury

PPPs managed by the Department of Corrections and the Ministry of Education will be included in the net core Crown debt calculation. However the transport projects managed by the New Zealand Transport Agency (NZTA) are not included in net core Crown debt to the extent that funding will be obtained from existing sources (eg, the National Land Transport Fund in the case of Transmission Gully).

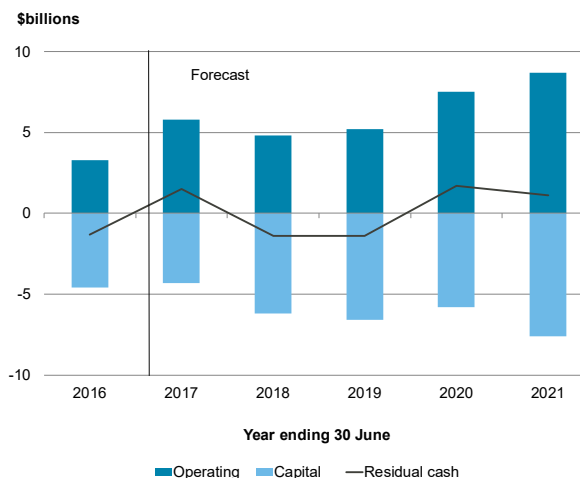
<sup>6</sup> Further detail on the Government's planned infrastructure spending can be found in the *Capital at a Glance* document published in the *Budget Update*.

## Residual Cash and Net Core Crown Debt<sup>7</sup>

### ***A residual cash surplus is expected in 2016/17...***

Net operating cash flows of \$5.8 billion in 2016/17 are forecast to exceed capital spending of \$4.3 billion, resulting in a residual cash surplus of \$1.5 billion. This surplus compares to a residual cash deficit of \$1.3 billion in 2015/16. Overall, capital payments are slightly less than the previous year while operating cash flows have increased by \$2.5 billion reflecting higher receipts and lower payments.

**Figure 2.12 – Core Crown residual cash**



Source: The Treasury

### ***...leading to a reduction of net core Crown debt in 2016/17...***

As a result of the expected residual cash surplus in 2016/17, net core Crown debt is expected to reduce in nominal terms from \$61.9 billion (24.5% of GDP) in 2015/16 to \$60.6 billion (22.5% of GDP) in 2016/17.

### ***...before capital spending picks up pace...***

Net operating cash flows are forecast to be in surplus across the forecast period, rising in a similar trend to the OBEGAL forecast. By 2020/21, net operating cash flows are forecast to be \$9.1 billion. The increasing operating cash flows largely represent growth in tax receipts exceeding the growth in operating payments.

While operating cash flows are positive across the forecasts, capital spending is forecast to increase over the next four years as some of the large infrastructure projects such as the City Rail Link get underway.

As a result, capital payments are expected to exceed operating cash flows over the next two years before core Crown residual cash returns to surplus in 2019/20. Core Crown residual cash is broadly neutral in the last four years of the forecast period, with cash deficits in the next two years mostly offset by cash surpluses at the end of the forecast period.

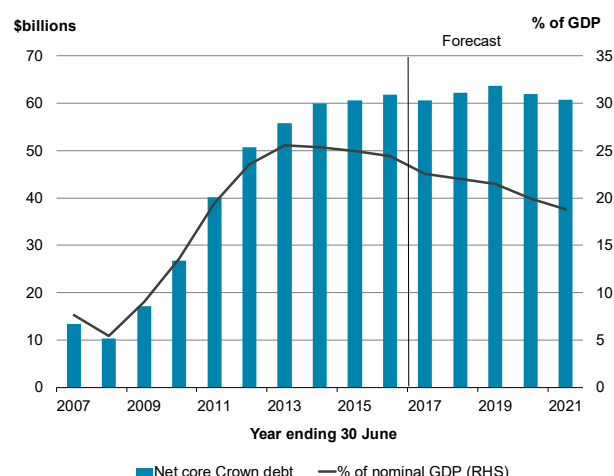
<sup>7</sup> Net core Crown debt and residual cash indicators are measured on a core Crown basis. Residual cash includes both operating and capital activity. This differs from OBEGAL, which is measured at a total Crown level and includes operating activity only.

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

In dollar terms, net core Crown debt is forecast to increase over the next two years as cash flows from operating activities are not expected to be sufficient to meet capital spending before starting to decline once residual cash returns to surplus in 2019/20.

However, as a percentage of GDP, net core Crown debt continues to reduce across the forecast period, reaching 18.8% of GDP by 2020/21.

**Figure 2.13 – Net core Crown debt**



Source: The Treasury

**The bond programme remains relatively stable ...**

While nominal net core Crown debt increases in the short term the bond programme is forecast to remain unchanged over the forecast period.

The issuance profile is relatively flat in order to reduce the year-to-year volatility of bond programmes and ensure consistency of supply over this time.

The bond programme<sup>8</sup> is expected to raise funds of \$34.6 billion over the forecast period, while \$41.2 billion of existing debt will be repaid, providing net repayments of \$7.4 billion (Table 2.8).

**Table 2.8 – Net issuance of government bonds**

Year ending 30 June \$billions	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	5-year Total
Face value of government bonds issued (market)	8.0	7.0	7.0	7.0	6.0	35.0
<b>Cash proceeds from government bond issue</b>						
Cash proceeds from issue of market bonds	7.8	7.0	7.0	6.9	5.9	34.6
Repayment of market bonds	(5.9)	(10.5)	(6.4)	(7.3)	(11.1)	(41.2)
Net proceeds from market bonds	1.9	(3.5)	0.6	(0.4)	(5.2)	(6.6)
Repayment of non-market bonds	(0.8)	-	-	-	-	(0.8)
<b>Net cash proceeds from bond issuance</b>	<b>1.1</b>	<b>(3.5)</b>	<b>0.6</b>	<b>(0.4)</b>	<b>(5.2)</b>	<b>(7.4)</b>

Source: The Treasury

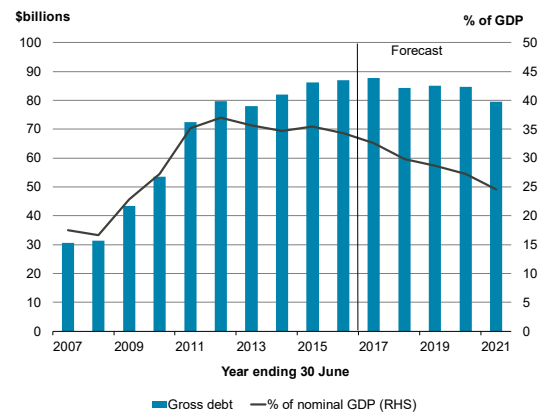
<sup>8</sup> More information on the bond programme can be found at <https://www.nzdm.govt.nz/analyst-centre/201718-new-zealand-government-bond-programme>

### ...and gross debt falls as a percentage of GDP

Gross debt is expected to decline across the forecast period as a percentage of GDP. By 2020/21 gross debt is expected to decrease to 24.6% of GDP from 32.6% at the end of 2016/17.

In nominal terms gross debt also declines, primarily as forecast maturities are then expected to exceed new debt being issued. Gross debt is forecast to be \$79.4 billion in 2020/21, \$8.3 billion lower than current levels (Figure 2.14).

**Figure 2.14 – Gross debt**



Source: The Treasury

## Total Crown Balance Sheet

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

Net worth attributable to the Crown is forecast to grow in nominal terms across the forecast period largely owing to forecast operating balance surpluses to stand at \$140.6 billion by 2020/21. In addition an upward valuation of property, plant and equipment of \$8.0 billion in 2016/17 also caused some of the uplift.

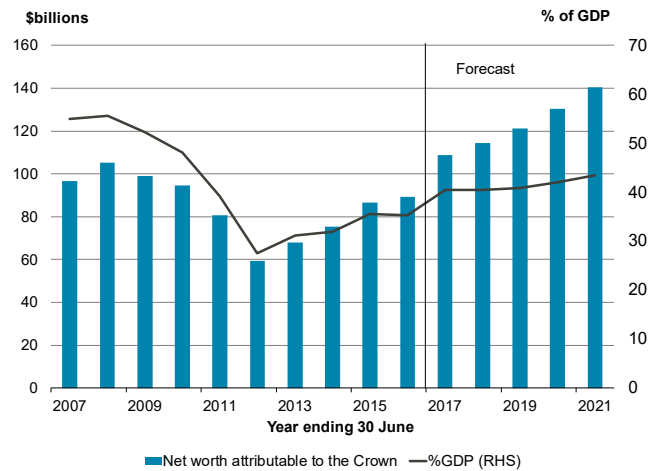
As a share of nominal GDP, net worth attributable to the Crown is expected to increase across the forecast period as operating surpluses outpace GDP growth. Net worth attributable to the Crown reaches 43.5% by 2020/21 (Figure 2.15), up from 40.5% in 2016/17.

### **...with assets increasing by \$47.4 billion over the forecast period while liabilities reduce**

Total assets are forecast to grow by \$47.3 billion over the forecast period to \$340.0 billion in 2020/21, made up of additional investments in assets, both physical and financial (Figure 2.16). At the same time, the Crown's liabilities are expected to decrease \$3.4 billion and are estimated to be \$193.8 billion in 2020/21.

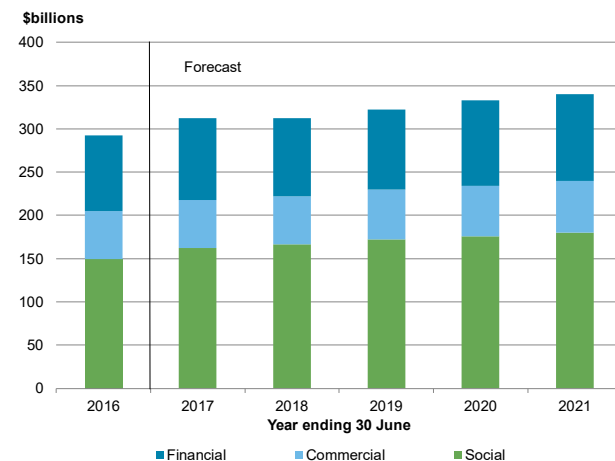
The largest asset growth over the forecast period is in the social assets portfolio (just over 50% of the total Crown balance sheet). Social assets (eg, schools, hospitals and social housing) are expected to increase by \$30.6 billion over the forecast period to be \$180.1 billion in 2020/21 (Figure 2.17). This increase largely reflects growing capital spending.

**Figure 2.15 – Net worth attributable to the Crown**



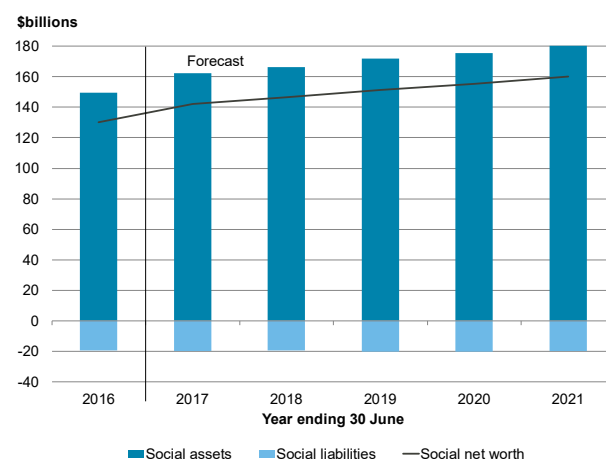
Source: The Treasury

**Figure 2.16 – Total Crown assets**



Source: The Treasury

**Figure 2.17 – Social balance sheet**



Source: The Treasury

Liabilities in relation to the social segment (eg, tax refunds, Emissions Trading Scheme (ETS) provision) remain fairly static. As a result, social net worth is expected to increase.

The financial asset portfolio (around 30% of the total Crown balance sheet) is expected to increase by \$12.0 billion to be \$99.9 billion in 2020/21, primarily reflecting investment growth in the large investment portfolios (NZS Fund and ACC).

On the liability side, borrowings in the financial sector are forecast to decrease by \$9.0 billion by 2020/21, mostly as a result of the reduction in gross debt discussed earlier (page 38).

ACC's insurance liability is expected to continue to increase from \$39.1 billion at the end of 2015/16 to \$47.3 billion in 2020/21. By contrast, the GSF liability is forecast to fall to \$8.8 billion by 2020/21, as pensions are paid out.

Overall, net worth in the financial sector increases by \$20.9 billion across the forecast period (Figure 2.18).

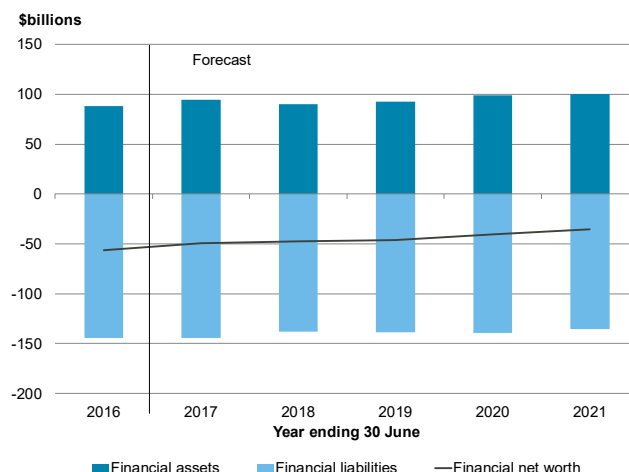
The commercial asset portfolio (representing nearly 20% of the Crown's balance sheet) is expected to increase by \$4.7 billion over the forecast period to be \$60.0 billion in 2020/21, with growth mostly coming from growth in the Kiwibank loan book (with a corresponding increase in liabilities as deposit balances are also forecast to rise). Commercial net worth remains fairly static (Figure 2.19).

### ***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 show current estimates of what the Crown owns and owes. While the measurement at fair value is intended to reflect the value of these items, it can be volatile, resulting in fluctuations in the value of the assets and liabilities reflecting changes in the market and underlying assumptions.

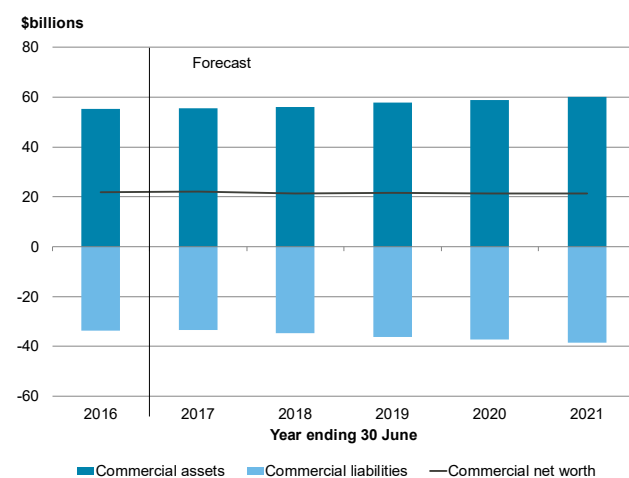
The Risks and Scenarios chapter includes a section on balance sheet risks and should be read in conjunction with the fiscal forecasts.

**Figure 2.18 – Financial balance sheet**



Source: The Treasury

**Figure 2.19 – Commercial balance sheet**



Source: The Treasury

## Comparison to the *Budget Update*

The *Budget Update* was published on 25 May 2017. Since then, there have been a number of developments that have impacted the fiscal outlook, in particular the 2016/17 outturn which was stronger than estimated. Subsequent to that, the forecasts for the next four years remain fairly close to the *Budget Update* forecasts.

Table 2.9 below summarises the changes in the key fiscal indicators.

**Table 2.9** – Key fiscal indicators compared to the *Budget Update*

Year ending 30 June \$billions	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Core Crown tax revenue</b>					
<i>Pre-election Update</i>	75.6	78.3	81.3	85.8	89.8
<i>Budget Update</i>	74.6	77.5	81.0	85.9	89.9
<b>Change</b>	<b>1.0</b>	<b>0.8</b>	<b>0.3</b>	<b>(0.1)</b>	<b>(0.1)</b>
<b>Core Crown expenses</b>					
<i>Pre-election Update</i>	76.8	81.0	83.7	86.1	89.5
<i>Budget Update</i>	77.5	80.5	83.5	86.2	89.2
<b>Change</b>	<b>(0.7)</b>	<b>0.5</b>	<b>0.2</b>	<b>(0.1)</b>	<b>0.3</b>
<b>OBEGAL (excluding minority interests)</b>					
<i>Pre-election Update</i>	3.7	2.9	3.5	5.7	6.4
<i>Budget Update</i>	1.6	2.9	4.1	6.1	7.2
<b>Change</b>	<b>2.1</b>	<b>(0.0)</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(0.8)</b>
<b>Core Crown residual cash</b>					
<i>Pre-election Update</i>	1.5	(1.4)	(1.4)	1.7	1.1
<i>Budget Update</i>	0.1	(1.8)	(1.6)	1.7	1.4
<b>Change</b>	<b>1.4</b>	<b>0.4</b>	<b>0.2</b>	<b>0.0</b>	<b>(0.3)</b>
<b>Net core Crown debt</b>					
<i>Pre-election Update</i>	60.6	62.2	63.7	62.0	60.8
<i>Budget Update</i>	62.3	64.1	65.7	64.2	62.8
<b>Change</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>	<b>2.0</b>
<b>Net worth attributable to the Crown</b>					
<i>Pre-election Update</i>	108.9	114.5	121.2	130.4	140.6
<i>Budget Update</i>	100.0	105.6	112.6	122.1	133.0
<b>Change</b>	<b>8.9</b>	<b>8.9</b>	<b>8.6</b>	<b>8.3</b>	<b>7.6</b>

Source: The Treasury

## 2016/17 Core Crown tax revenue is expected to be \$1.0 billion higher than the Budget Update...

Core Crown tax revenue for the 2016/17 financial year is forecast to be \$1.0 billion (1.3%) higher than the *Budget Update* forecast.

Corporate tax, GST and source deductions were the tax types that varied most from the *Budget Update* (Figure 2.20).

The higher-than-expected corporate tax revenue was spread around most sectors of the economy, but with a notable contribution from firms operating in the finance and investment sectors. Included in this, Portfolio Investment Entity (PIE) tax contributed around \$80 million to the corporate tax variance. Such profits are inherently volatile and therefore difficult to forecast accurately.

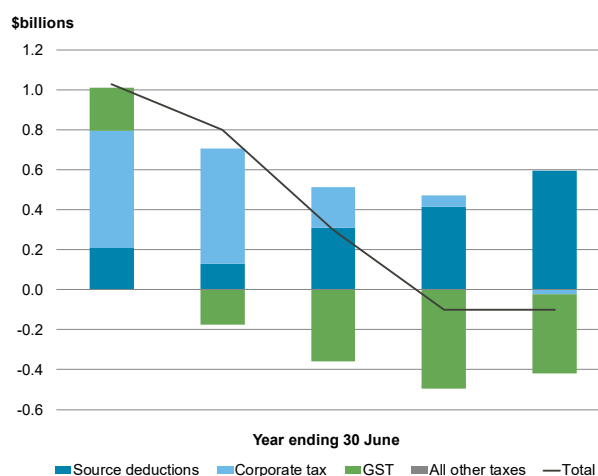
At the time of the *Budget Update*, employment levels were running above forecast, but this had not translated into above-forecast source deductions. Since that time, the strength in employment became evident in the PAYE data, which moved steadily ahead of forecast.

Although 2016/17 GST revenue was above the *Budget Update* forecast, underlying GST strength may actually be timing in nature, as indicated by the GST receipts outturn, which was 0.5% below forecast. There is more support in the macroeconomic data for the 2016/17 GST receipts position than for the revenue position, with most of the major indicators of GST (eg, domestic consumption, residential investment and net tourist spending) being either close to or a little below their *Budget Update* forecasts.

As discussed earlier in the Core Crown tax revenue section, not all of the 2016/17 tax revenue strength has been assumed to continue through the remainder of the forecast period.

The net effect of these temporary and permanent factors was that, before considering the effect of changes in the macroeconomic forecast, the tax forecasts were increased by around \$0.4 billion each year from 2017/18 onwards.

**Figure 2.20** – Movement in core Crown tax revenue since the *Budget Update*



Source: The Treasury



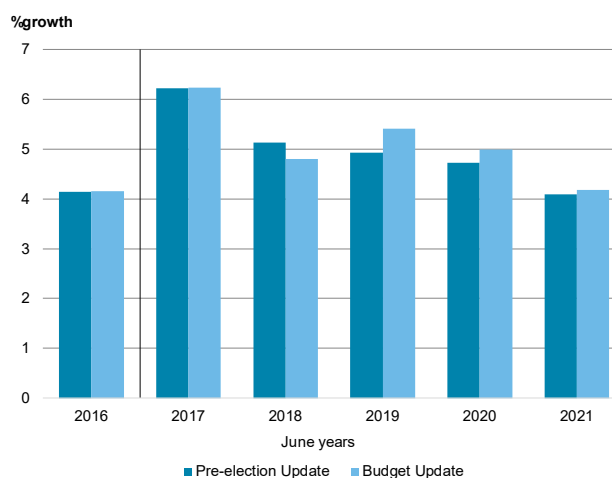
**...but when combined with a lower outlook for GDP growth...**

The outlook for nominal GDP growth has been revised downwards since the *Budget Update*, as shown in Figure 2.21.

In addition to the overall decrease, individual components of GDP have also been revised as follows:

- Forecasts of aggregate employees' compensation have been increased, mainly as a result of a higher forecast for growth in wage rates.
- The forecast for growth in operating surpluses are now lower than in the *Budget Update* (the box on page 33 provides further discussion on the impact of the corporate tax fiscal forecasts).
- As mentioned in the Economic Outlook chapter, the forecast for residential investment growth has been reduced.

**Figure 2.21** – Nominal GDP growth forecast, *Budget Update* and *Pre-election Update*



Source: The Treasury

In total, changes in the macroeconomic forecast were slightly positive (\$0.2 billion) for the tax revenue forecast in 2017/18, but slightly negative (\$0.2 to \$0.4 billion per year) thereafter.

**...resulted in core Crown tax revenue forecast being similar to the *Budget Update* in the last few years of the forecast**

The sum total of all of these factors has increased the total core Crown tax revenue forecast by \$0.8 billion in 2017/18, but with very little net effect through 2018/19, 2019/20 and 2020/21. The largest forecast movements were in:

- source deductions, which is \$1.6 billion higher in total than in the *Budget Update*, mainly owing to the higher starting position and a higher forecast for growth in wage rates
- corporate tax, which is expected to be higher than in the *Budget Update* in 2017/18, mainly owing to the higher 2017 starting position, but is expected to be similar to the *Budget Update* forecast by 2020/21, and
- GST, in which the forecasts are lower than in the *Budget Update*, mainly owing to the reduced outlook for residential investment growth.

**Table 2.10** – Reconciliation of the change in core Crown tax revenue

Year ending 30 June \$billions	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	Total Change
<b>Movement in core Crown tax owing to:</b>						
Source deductions	0.2	0.1	0.3	0.4	0.6	<b>1.6</b>
Other persons tax	(0.1)	-	(0.1)	(0.2)	(0.2)	<b>(0.6)</b>
Corporate tax	0.6	0.6	0.3	0.2	0.1	<b>1.8</b>
RWT	-	0.1	-	(0.1)	(0.3)	<b>(0.3)</b>
GST	0.2	(0.2)	(0.4)	(0.5)	(0.4)	<b>(1.3)</b>
Other taxes	0.1	0.2	0.2	0.1	0.1	<b>0.7</b>
<b>Total movement in core Crown tax revenue</b>	<b>1.0</b>	<b>0.8</b>	<b>0.3</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>1.9</b>
Plus: <i>Budget Update</i> tax base	74.6	77.5	81.0	85.9	89.9	
<b>Core Crown tax revenue at 2017 <i>Pre-election Update</i></b>	<b>75.6</b>	<b>78.3</b>	<b>81.3</b>	<b>85.8</b>	<b>89.8</b>	
<b>As a % of GDP</b>	<b>28.1%</b>	<b>27.7%</b>	<b>27.4%</b>	<b>27.6%</b>	<b>27.8%</b>	
<b>Core Crown tax movements consist of:</b>						
Other policy initiatives	-	-	0.1	0.1	0.1	<b>0.3</b>
Forecast changes	1.0	0.8	0.2	(0.2)	(0.2)	<b>1.6</b>

Source: The Treasury

**OBE GAL is higher in the short term ...**

The 2016/17 OBE GAL is likely to be significantly higher than the *Budget Update* while subsequent years are similar to the previous forecast. The major movements since the *Budget Update* are outlined in Table 2.11 below.

**Table 2.11** – Changes in OBE GAL since the *Budget Update*

Year ending 30 June \$billions	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>OBE GAL – 2017 <i>Budget Update</i></b>	<b>1.6</b>	<b>2.9</b>	<b>4.1</b>	<b>6.1</b>	<b>7.2</b>
<i>Changes in forecasts:</i>					
Tax revenue forecasts	1.0	0.8	0.3	(0.1)	(0.1)
ACC results	-	(0.2)	(0.6)	(0.2)	(0.2)
Other SOE and CE results	0.3	-	(0.1)	(0.2)	(0.1)
Transport spending	-	(0.3)	0.1	0.2	(0.3)
Net finance costs	-	0.1	0.1	0.3	0.3
Other changes	0.8	(0.4)	(0.4)	(0.4)	(0.4)
<b>Total changes since the <i>Budget Update</i></b>	<b>2.1</b>	<b>-</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(0.8)</b>
<b>OBE GAL – 2017 <i>Pre-election Update</i></b>	<b>3.7</b>	<b>2.9</b>	<b>3.5</b>	<b>5.7</b>	<b>6.4</b>

Source: The Treasury

In addition to the tax revenue forecast changes discussed above, other changes to OBE GAL forecasts include:

- ACC's OBE GAL results are forecast to decline in the last four years of the forecast period as a result of updating assumptions following the completion of the outstanding claims liability valuation at 30 June 2017. This resulting increase in expenditure is largely owing to two impacts since the *Budget Update*, a reduction in the discount rate (meaning the forecast cost of new claims in today's dollars is higher than estimated at the *Budget Update*) and a change in the assumptions relating to the in-between travel settlement with care providers.

- Other SOE and CE results are forecast to have a positive impact on OBEGAL in the 2016/17 fiscal year. These improved results are not expected to continue across the forecast period, with a slight deterioration from previous forecasts expected in the later years.
- Transport operating expenditure has increased, largely owing to the reclassification of capital spending in relation to the re-instatement of the Picton to Kaikōura state highway to operating spending.
- Net finance costs have reduced in the later years of the forecast owing to lower interest rates than previously forecast.
- Other changes include the re-phasing of expenditure in the current year until later in the forecast period along with expected increases in social assistance expenses (mainly owing to the upward revision of the wage growth increasing New Zealand Superannuation expenditure, partially offset by other benefit types as a result of a mix of lower inflation and a lower starting point in regards to recipients).

**...while net core Crown debt is consistently lower across the forecast period compared to the Budget Update**

Net core Crown debt is expected to be around \$2 billion lower than the *Budget Update* in all years of the forecast (Table 2.12). This is largely owing to the expected 2016/17 result flowing through to the change in net core Crown debt in 2020/21, residual cash is neutral 2017/18 to 2020/21, leading to net core Crown debt being broadly in balance also.

Overall, tax receipts have a positive cash impact on net debt totalling \$1.9 billion by the end of the forecast period. Changes to the timing and amount of operating and capital spending have reduced net core Crown debt since the *Budget Update*, particularly in the current year.

**Table 2.12** – Changes in net core Crown debt since the *Budget Update*

Year ending 30 June \$billions	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Net debt – 2017 <i>Budget Update</i></b>	<b>62.3</b>	<b>64.1</b>	<b>65.7</b>	<b>64.2</b>	<b>62.8</b>
<i>Changes in forecasts (cumulative):</i>					
Tax receipts	(0.4)	(1.2)	(1.7)	(1.8)	(1.9)
Net finance costs	-	(0.1)	(0.2)	(0.3)	(0.4)
Transport spending changes	(0.1)	(0.1)	0.1	0.2	0.4
Re-phasing of expenditure	(0.5)	-	0.1	-	-
Other changes	(0.7)	(0.5)	(0.3)	(0.3)	(0.1)
<b>Total changes since the Budget Update</b>	<b>(1.7)</b>	<b>(1.9)</b>	<b>(2.0)</b>	<b>(2.2)</b>	<b>(2.0)</b>
<b>Net debt – 2017 <i>Pre-election Update</i></b>	<b>60.6</b>	<b>62.2</b>	<b>63.7</b>	<b>62.0</b>	<b>60.8</b>

Source: The Treasury

The Transport spending changes are a mix of changes from capital to operating, timing of expected cash flows and an increase in capital spending subsequent to the *Budget Update*, including improvements being made to State Highway 1 (in the Kaikōura area), increasing the overall spending on roading projects.

Some re-phasing of expenditure has been forecast reflecting the latest information on when costs are going to be incurred, particularly around the timing of capital expenditure.

## Key Economic Assumptions Used in the Fiscal Forecasts

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

- A nominal GDP forecast is needed 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 2.13 below.

**Table 2.13** – Summary of key economic forecasts used in fiscal forecasts

Year ending 30 June	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Real GDP <sup>1</sup> (ann avg, % chg)	2.7	2.8	3.2	3.7	2.8	2.3
Nominal GDP <sup>2</sup> (\$m)	253,086	268,821	282,626	296,548	310,543	323,240
CPI (ann avg, % chg)	0.3	1.4	1.3	1.7	2.1	2.1
Govt 10-year bonds (ann avg, %)	3.2	2.9	2.9	3.3	3.8	4.1
5-year bonds (ann avg, %)	2.6	2.3	2.7	2.9	3.5	3.8
90-day bill rate (ann avg, %)	2.7	2.1	2.0	2.3	3.1	3.7
Unemployment rate (ann avg, %)	5.2	5.0	4.9	4.6	4.4	4.3
Employment (ann avg' % chg)	2.3	5.4	2.7	2.1	1.5	1.1

Notes: 1 Production measure.  
2 Expenditure measure.

Source: The Treasury

## 10-Year Medium-term Projections

The previous sections of this chapter have concentrated on the five-year forecast horizon, up to and including 2020/21. The focus now switches to the decade beyond the last forecast year, extending to 2030/31, referred to as the medium-term projections. Projections differ from forecasts in a number of ways.

Forecasts are based on comprehensive modelling of, and expert opinion on, economic and fiscal conditions. They take into account the relationships and interactions between variables, and make allowance for the impacts of existing policies. Forecasts represent the best attempt to predict future outcomes based on the information available.

Projections represent potential future paths of variables. They are usually based on historical averages of the levels or growth rates, and depend greatly on both the forecast base from which they arise and the assumptions used to generate them. Projections should not be viewed as accurate predictions, but rather as indicators of potential outcomes under a given set of assumptions. The projections assume an economy that is free of cycles and growing on trend, and contain no unplanned future policy responses that might be enacted.

### ***Projected nominal GDP growth slows...***

The two most important economic variables that influence the fiscal projections are nominal GDP and the CPI inflation measure. A table in the annex to this section shows the paths of the other main economic projections.

Annual growth of nominal GDP gradually slows over the projection period, from a peak of 4.4% in the year ending June 2025 to 4.1% by the year ending June 2031. This is owing to the labour force contribution, where an ageing population slowly reduces overall participation rates.

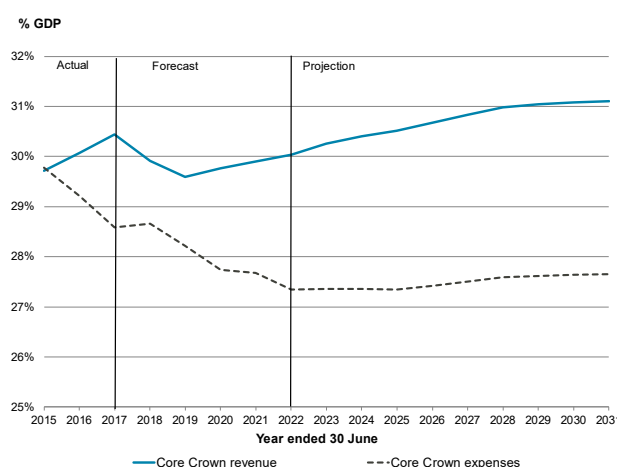
While projected nominal GDP growth rates are almost identical to those produced for the 2017 FSR, they arise from an end-of-forecast GDP base which is \$1.7 billion (0.5%) lower. This difference is maintained over the projection decade.

### ***...revenue rises faster than expenses...***

Revenue and expenses are projected to increase in nominal terms but revenue rises faster than expenses, which is fairly flat as a share of GDP across the medium-term horizon.

Most revenue types grow in line with nominal GDP once they have reached an assumed steady-state level of GDP. Some tax types take several years into the projections to reach their stable percentages of GDP. This strengthens the revenue projections because some tax types grow faster than nominal GDP for some of the projected years. Growth in expenses is mainly driven by growth in transfer payments (including NZS) each year, along with allowances for new expenditure.

**Figure 2.22 – Core Crown revenue and expenses**



Source: The Treasury

Figure 2.22 illustrates the paths of core Crown revenue and expenses, as percentages of nominal GDP, in recent history and the *Pre-election Update* forecasts and projections.

**...and OBEGAL surpluses are projected to continue...**

The OBEGAL is projected to increase across the projection period.

Surpluses increase, not just in dollar terms, but also as a percentage of nominal GDP.

The projected OBEGAL in the *Pre-election Update* is slightly weaker in each year compared to the projections in the 2017 FSR (Figure 2.23). The majority of the difference is owing to higher transfer payment costs and other operating expenses in the *Pre-election Update*.

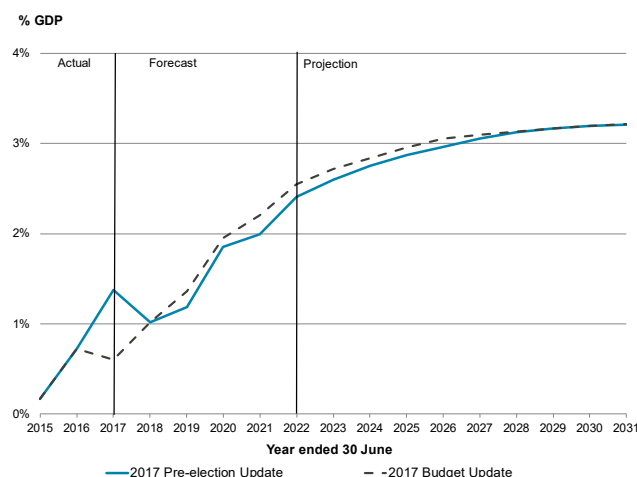
**...resulting in net core Crown debt falling below 15% of GDP in 2022/23...**

In the 2017 FSR, the Government announced a new long-term objective to reduce net debt to within a range of 10% and 15% and to be within that range by 2025. In the *Pre-election Update*, net core Crown debt is expected to be within this range approximately two years earlier than target (14.9% of GDP by 2023) and will steadily decline as a percentage of GDP for the remaining projection years. This is illustrated in Figure 2.24.

**...assuming that operating and capital allowances are the same as the allowances in the 2017 FSR.**

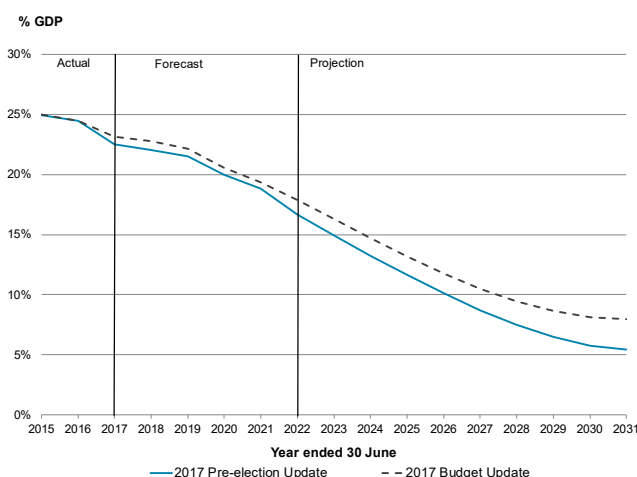
The projections assume the same operating and capital allowances as at the FSR 2017. From 2021/22, operating allowances are assumed to be \$2 billion, growing at 4% per budget and capital allowances are assumed to be \$4 billion growing at 20% per budget. These were set at the 2017 FSR so as to meet the Government's net debt objective. They reflect the headroom the Government has to invest in capital and public services or to alter tax and transfer settings. The updated forecast base, and the fact that allowances have remained unchanged from the 2017 FSR, result in a net core Crown debt to GDP that is lower in the *Pre-election Update* compared to the 2017 FSR (Figure 2.24).

**Figure 2.23 – Total Crown operating balance before gains/(losses) or OBEGAL**



Source: The Treasury

**Figure 2.24 – Net core Crown debt (excluding NZS Fund and advances) assuming no policy intervention**



Source: The Treasury

# Key Assumptions for Medium-term Fiscal Projections

The assumptions for the medium-term economic and fiscal projections are outlined in this section. The full assumptions can be found in the 2017 *Pre-election Update*, at <http://www.treasury.govt.nz/government/fiscalstrategy/model>

**Table 2.14** – Summary of economic and demographic assumptions<sup>1</sup>

June Year <sup>2</sup>	2017	2018	2019	2020	2021	2022	2023	2024	2025	.....	2031
	Forecasts					Projections					
Labour force	5.2	2.6	1.8	1.3	1.0	0.8	0.8	0.8	0.8	...	0.6
Unemployment rate <sup>3</sup>	5.0	4.9	4.6	4.4	4.3	4.3	4.3	4.3	4.3	...	4.3
Average weekly hours worked	33.7	33.7	33.7	33.7	33.6	33.6	33.6	33.7	33.6	...	33.6
Average weekly hours paid	33.1	32.8	32.8	32.8	32.8	32.7	32.7	32.7	32.7	...	32.7
Labour productivity growth <sup>4</sup>	(2.4)	0.4	1.7	1.3	1.3	1.5	1.5	1.5	1.5	...	1.5
Real GDP <sup>5</sup>	2.8	3.2	3.7	2.8	2.3	2.2	2.3	2.3	2.3	...	2.1
Nominal GDP <sup>6</sup>	6.2	5.1	4.9	4.7	4.1	4.3	4.4	4.4	4.4	...	4.1
Consumers Price Index (CPI) (annual percentage change)	1.7	1.3	1.9	2.1	2.1	2.0	2.0	2.0	2.0	...	2.0
Government 10-year bonds (average percentage rate)	2.9	2.9	3.3	3.8	4.2	4.4	4.6	4.8	5.0	...	5.3
Nominal average hourly wage	1.5	2.3	2.9	2.7	2.7	3.5	3.5	3.5	3.5	...	3.5

- Notes:
- 1 Annual average percentage change unless otherwise stated
  - 2 Note that the economic forecasts in the *Pre-election Update* are based on a June year.
  - 3 Total unemployed as a percentage of the labour force (annual average)
  - 4 Hours worked measure
  - 5 Production measure, 2009/10 base
  - 6 Expenditure measure

Sources: The Treasury, Statistics New Zealand

The assumptions for the economic variables remain unchanged from the 2017 FSR. As average hours worked per week is assumed to grow at the rate of average hours paid per week, it has stabilised at a slightly higher level one year earlier (in the first projected year). This affects projected GDP in 2022/23 and results in higher GDP growth rate in that year compared to the 2017 FSR.

Economic projections display the potential path that some key economic indicators take beyond their forecast bases, and provide inputs to projecting many fiscal variables. For example, the modelling of many future benefit expenses uses inflation to annually index payment rates. Nominal GDP acts as the denominator in fiscal indicators to make them more comparable over time.

The stable projection assumption for annual growth in CPI is 2%, which is the midpoint of the 1% to 3% target in the Reserve Bank's Policy Targets Agreement. With annual growth in CPI at 2.09% by the end of the forecasts, the stable assumption is attained in the first projected year and maintained in all later ones.

Nominal GDP is projected using a growth rate produced by combining those of real GDP and CPI. Projected real GDP growth is itself derived from the growth rates of several economic variables, particularly that of the labour force and annual labour productivity growth.

**Table 2.15** – Summary of fiscal projections, as percentages of nominal GDP

Year ended 30 June	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Forecasts					Projections									
Core Crown revenue	30.4	29.9	29.6	29.8	29.9	30.0	30.3	30.4	30.5	30.7	30.8	31.0	31.0	31.1	31.1
Core Crown expenses	28.6	28.7	28.2	27.7	27.7	27.3	27.4	27.4	27.4	27.4	27.5	27.6	27.6	27.6	27.7
Core Crown residual cash	0.6	-0.5	-0.5	0.6	0.3	1.3	1.0	1.0	1.0	1.0	1.0	0.9	0.7	0.4	0.1
Total Crown revenue	38.8	38.1	37.8	37.9	37.9	38.2	38.4	38.5	38.6	38.8	39.0	39.1	39.2	39.2	39.3
Total Crown expenses	37.3	37.0	36.5	35.9	35.8	35.6	35.6	35.6	35.6	35.7	35.8	35.9	35.9	35.9	35.9
Total Crown OBEGAL <sup>1</sup>	1.4	1.0	1.2	1.9	2.0	2.4	2.6	2.7	2.9	3.0	3.1	3.1	3.2	3.2	3.2
Total Crown operating balance <sup>2</sup>	4.3	2.0	2.2	3.0	3.1	3.4	3.7	3.9	4.0	4.2	4.3	4.4	4.5	4.5	4.6
Gross sovereign-issued debt	34.6	31.7	30.4	29.0	26.2	24.4	23.0	21.5	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Net core Crown debt <sup>3</sup>	22.5	22.0	21.5	20.0	18.8	16.7	14.9	13.2	11.6	10.1	8.7	7.5	6.5	5.8	5.4
Total Crown net worth	42.7	42.6	42.8	43.8	45.2	46.8	48.5	50.3	52.2	54.3	56.4	58.5	60.6	62.7	64.8
Net worth attributable to the Crown <sup>4</sup>	40.5	40.5	40.9	42.0	43.5	45.0	46.8	48.7	50.6	52.7	54.9	57.0	59.2	61.3	63.4

- Notes:
- 1 Operating balance before gains/(losses)
  - 2 Excludes minority interests
  - 3 Excludes financial assets of the NZS Fund and core Crown advances.
  - 4 Excludes assets and liabilities belonging to minority interests.

Source: The Treasury



### Key judgements and assumptions

Tax revenue	<p>Linked to growth in nominal GDP. All tax categories change at a rate of 0.05 percentage points of GDP per year from their end-of-forecast percentage of GDP, either upward or downward, until they reach a long-run stable percentage of GDP. These stable assumptions are based on historical data, taking into account tax rate and policy changes that could affect them.</p> <ul style="list-style-type: none"> <li>• Source deductions (mainly PAYE tax on salary and wages) track towards a stable percentage to nominal GDP of 11.0%.</li> <li>• The stable percentage for corporate tax (dominated by company tax) is 4.2%.</li> <li>• The assumption for GST is 7.4%.</li> <li>• Hypothecated transport taxes, used to fund most transport-related operating and capital expenditure, stabilise at 1.3% of GDP.</li> <li>• All remaining tax types are aggregated into the other taxes category, which uses a long-run stable assumption of 4.4% of GDP.</li> </ul> <p>The elimination from core Crown tax to total Crown tax applies a long-run stable assumption of 0.3% of GDP.</p>
New Zealand Superannuation (NZS)	<p>Demographically adjusted and linked to net wage growth, via the “wage floor”. The latter refers to the net (after-tax) weekly NZS rate for a couple as set in legislation to lie between 65% and 72.5% of net average weekly earnings.</p> <p>NZS eligibility age increases to 67 and the residency requirement increases to 20 years.</p>
Other benefits	Demographically adjusted and linked to inflation.
Health and education	Held constant at the end-of-forecast values, because their growth is assumed to come from a share of the projected operating allowance annual increment.
Other expenditure	Held constant at the end-of-forecast values, because their growth is assumed to come from a share of the projected operating allowance annual increment.
Finance costs	A function of debt levels and interest rates.
Operating allowance	\$2 billion in 2021/22. Operating allowances continue to grow at 4% per budget from this value in later projected years.
Capital allowance	\$4 billion in 2021/22. Capital allowances continue to grow at 20% per budget from this value in later projected years.
NZS Fund	Contributions to the Fund suspended until 2019/20. Contributions begin again in 2020/21, at a level consistent with the New Zealand Superannuation and Retirement Income Act 2001. The assumed resumption year is determined by the Government’s policy of restarting capital contributions once net core Crown debt is no higher than 20% of nominal GDP.



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## Risks and Scenarios

### Overview

- In this chapter we discuss the risks and uncertainties surrounding the economic and fiscal forecasts. Fan charts are used to help illustrate forecast uncertainty and two alternative scenarios are presented to show how the economic and fiscal outlook might evolve under different assumptions and judgements. Specific Fiscal Risks are discussed in Chapter 4.
- Key risks to the international economy include: high levels of debt in China; uncertainty around fiscal stimulus and monetary policy normalisation in the US; the ability to achieve sustainably higher growth rates in Europe and Japan remains unclear; and high household debt and housing market risks in Australia. Should these risks materialise, global growth could deviate from that presented in the main forecast and, with it, key forecast judgements such as the terms of trade, exchange rate and migration flows. Other risks include the impact of the UK's exit from the European Union and ongoing political debate about the merits of trade liberalisation.
- There are risks to domestic activity around household and investor behaviour and how high household debt levels and slowing house price growth will impact demand. There are also risks around the technical assumptions underpinning these forecasts, such as estimates of spare capacity in the economy which, if altered, would impact how the economy is expected to evolve.
- Scenario One illustrates how a higher terms of trade could support a faster pace of economic expansion and a stronger fiscal position. Scenario Two shows how weaker momentum in domestic activity could lead to weaker fiscal outcomes.
- The Crown's balance sheet is exposed to a number of risks beyond those associated with the operating balance. The Crown's financial position is exposed to risk through changes in the value of the Crown's assets or liabilities, and also through the potential impact of the Crown's fiscal obligations that arise from policy choices.

## Risks and Uncertainties Around the Economic and Fiscal Outlook

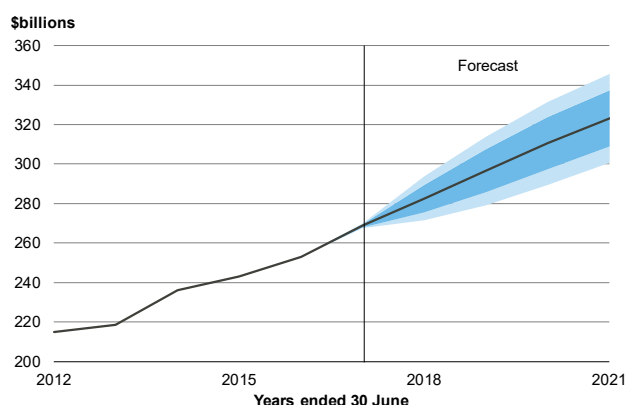
The main forecasts are based on a set of assumptions (such as the evolution of the exchange rate, the terms of trade and population growth) and judgements around how developments in one part of the economy impact the rest of the economy<sup>9</sup>. Should these assumptions and judgements prove incorrect, the economic and fiscal outlook would deviate from that presented in Chapters 1 and 2. As shown in Figures 3.1 and 3.2, fan charts based on past forecast errors provide one way to illustrate the degree of uncertainty surrounding the outlook. Alternative scenarios are also useful as they provide an assessment of how the economy and fiscal position may deviate from the main forecast when key assumptions and judgements are altered<sup>10</sup>.

### ***Risks to the economic outlook add uncertainty to government revenue forecasts...***

The amount of tax revenue that the Government receives in a given year is closely linked to the performance of the economy. For example, a fall in dairy export prices reduces farm incomes, which impacts on investment and consumption spending. Government tax revenue is affected through a number of channels including taxes on wages and salaries, corporate profits, and sales of goods and services.

Figure 3.1 shows a fan chart of nominal expenditure on GDP<sup>11</sup>. The width of the fan increases further into the forecast period, meaning the further away from the present the more uncertainty there is around the main forecast. The area within the outermost edges of the fan shows where nominal GDP is expected to be 90% of the time. At the end of the forecast period, this is within +/-7% (\$22.6 billion) of the main forecast. The boundaries of the darker fan show where nominal GDP is expected to be 70% of the time. At the end of the forecast period, this is within +/-4.4% (\$14.2 billion) of the main forecast. In the two scenarios considered in this chapter, nominal GDP forecasts remain within the darker fan (70th percentile).

**Figure 3.1 – Nominal GDP fan chart**



Sources: Statistics New Zealand, the Treasury

<sup>9</sup> See *Key economic forecast judgements and assumptions* on page 7 for those underpinning the main forecasts.

<sup>10</sup> The Statement of Specific Fiscal Risks (Chapter 4) provides details of government decisions, contingent liabilities and contractual obligations that may also have a material impact on the economic or fiscal outlook.

<sup>11</sup> For further details, see <http://www.treasury.govt.nz/publications/research-policy/staff-insights/mei-forecasting-uncertainty>

Figure 3.2 shows the uncertainty surrounding the main tax revenue forecast<sup>12</sup>. At the end of the forecast period, the outermost shaded area captures a range of approximately +/- \$10.4 billion, within which actual tax outturns are expected to fall 90% of the time<sup>13</sup>.

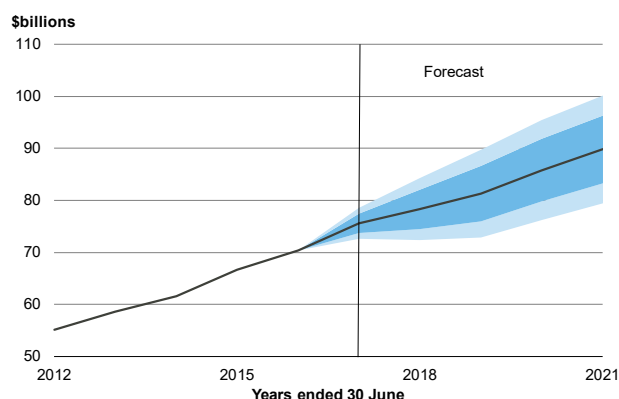
### **...and uncertainty around fiscal expenditure pressures**

Government expenses may also be impacted by economic developments. One channel is through changes in labour market conditions that affect the demand for working-age benefits. Another channel is through the indexation of a range of welfare benefits to wage and price movements. Government tax expenditures, including Working for Families, may also be affected by labour market conditions. Changes in net migration flows may also impact on the demand for central government services, particularly health, education and publicly funded infrastructure. Over the longer term, current policies imply population growth and population ageing will place increasing pressure on public expenditure, particularly in the areas of health and superannuation<sup>14</sup>.

Changes in the valuation of long-term liabilities, such as the ACC claims liability and the GSF retirement plan, caused by changes in inflation and long-term interest rates, may also affect the Crown operating balance.

One-off and unexpected expenditures can also have a large impact on the Crown's fiscal position. In recent years, earthquakes have demonstrated the inherent exposure of the Crown's fiscal position to unexpected events. More generally, uncertainty is inherent in forecasting the fiscal impacts of new policy initiatives.

**Figure 3.2 – Tax revenue fan chart**



Source: The Treasury

<sup>12</sup> Parkyn, O. (2010), *Estimating New Zealand's Structural Budget Balance*, New Zealand Treasury Working Paper 10/08, available at <http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/>

<sup>13</sup> For circumstances that can result in tax revenues significantly beyond the outermost shaded area, see Fookes, C. (2011), *Modelling Shocks to New Zealand's Fiscal Position*, New Zealand Treasury Working Paper 11/02, available at <http://www.treasury.govt.nz/publications/research-policy/wp/2011/11-02/>

<sup>14</sup> For more detail on the longer-term challenges and opportunities facing New Zealand, see *He Tirohanga Mokopuna: 2016 Statement on New Zealand's Long-term Fiscal Position*, available at <http://www.treasury.govt.nz/government/longterm/fiscalposition/2016/he-tirohanga-mokopuna>

## Key Risks to the Economic and Fiscal Outlook

A range of risks to global economic, financial and political stability exist that could have a significant impact on the New Zealand economy should they materialise. In China, high levels of debt present a risk to growth. There is considerable uncertainty regarding the extent and timing of fiscal stimulus in the US. In Europe and Japan, the ability to achieve sustainably higher growth rates remains unclear. The UK's exit negotiations with the European Union will remain a key source of uncertainty and a risk to growth for some time. Other global risks include heightened geopolitical tensions and ongoing political debate about the merits of trade liberalisation. While international risks are skewed towards weaker growth outcomes than incorporated in the main forecasts, upside risks to New Zealand's terms of trade remain. For example, despite slowing aggregate GDP growth in China, demand for consumption goods could be stronger than assumed, leading to higher export prices. Lower oil production costs could support lower import prices.

In addition to the above, there are a number of key risks to the domestic economy. Households could be more sensitive to tighter financial conditions than assumed, particularly given record-high debt levels relative to incomes. There are risks to the main forecast assumptions around the impact of net migration inflows and how migration flows may evolve in the future. Capacity constraints in the construction sector may prove more binding than assumed, while estimates of economy-wide capacity pressures are uncertain.

### ***High debt levels in China are a risk to trading partner growth...***

Growth in China has been supported by significant policy stimulus, strong credit growth and rapidly rising debt. This has been particularly apparent in the housing market, where residential investment has accelerated strongly. As authorities turn their attention towards tightening financial market regulations to reduce debt risks, the impact on the real economy could be stronger than expected. A sharper-than-anticipated slowdown in growth could negatively impact commodity prices, trade and capital flows, which could slow growth in China's trading partners, including New Zealand and other key trading partners in the Asia-Pacific region.

### ***...along with uncertainty around fiscal settings in the US***

In the US, challenges in reaching political agreement have increased uncertainty around the extent and timing of future fiscal stimulus. While the main forecasts continue to reflect expectations of an easing in fiscal policy settings over the next two years, it is possible that stimulus is more modest and less stimulatory for growth than assumed. That said, the size and impact could also be larger than incorporated into the main forecasts. Meanwhile, the US labour market has continued to strengthen and monetary policy is expected to tighten further. Higher-than-expected US interest rates present a risk to governments and businesses holding US dollar debt, particularly in China and other emerging market economies.

### ***Exporters face uncertainty around the terms of trade...***

As a commodity exporter, New Zealand's terms of trade are exposed to a raft of risks. Changes to regulatory settings in key overseas markets can have significant impacts on global supply and the price of goods New Zealand produces and exports. On the other hand, a stronger international outlook would likely increase demand for exports resulting in a higher terms of trade. The impact of increased global competition owing to shale oil production could be greater than assumed, supporting lower import prices and a higher terms of trade, particularly over the medium term.

The terms of trade have been trending upwards since the early 2000s. Until 2013, this was driven mostly by rising export prices. However, more recently falling import prices have driven the increase. For New Zealand's terms of trade to continue rising, global demand for exports would need to outpace global supply or the inverse would need to occur on the imports side. Developments in China have been a key determinant of the terms of trade in recent years. Chinese urbanisation and ongoing transition towards consumption-led growth has supported demand for New Zealand's exports, while China's ability to produce manufactured products cheaply and at scale has kept import prices low. Stronger demand from Chinese consumers and/or tighter supply restrictions in China on the goods New Zealand produces, including from environmental policies, presents an upside risk to New Zealand's export prices.

### ***...and the future of global trade policy***

Political debate about the merits of trade liberalisation has intensified in recent years. A shift in trade policy towards protectionism, particularly in the US, is a key risk to the outlook for global trade volumes and global GDP. In addition, uncertainty surrounding the future of trade has the potential to negatively impact investment and productivity growth.

### ***Developments in the Australian economy could affect net inward migration***

In Australia, low interest rates are supporting the transition of growth towards non-mining sectors. They are also encouraging household borrowing and contributing to rising house prices. Household debt relative to incomes has reached record highs, making households more vulnerable to rising interest rates. In the housing market, investment in medium-to-high density housing has increased rapidly, raising the risk that the market is oversupplied, which could lead to a slowdown in construction, a fall in house prices, slower growth and higher unemployment. Conditions in the Australian labour market are a major determinant of the strength and direction of trans-Tasman migration flows. To the extent that the labour market in Australia is weaker than expected, net trans-Tasman flows are likely to continue to support higher net migration inflows than assumed in the main forecast.

Overall, net migration inflows may prove to be higher than assumed in the main forecast if the relative attractiveness of living, working and studying in New Zealand is stronger than expected. However, stronger growth internationally or shifts in domestic factors may lead to lower migration and softer GDP growth. There are also risks around the assumed impacts of migration on the economy, particularly the degree to which the current net migration cycle contributes to demand for consumption, housing and non-residential investment, including public infrastructure, as well as supply through the labour market.

***High household debt relative to incomes could lead to softer domestic demand***

Low interest rates and strong demand for housing have contributed to rising house prices and record-high household debt relative to incomes. In recent months, tighter lending standards and increased mortgage interest rates have caused credit growth to slow. Availability of credit is a key determinant of consumption and investment growth. Further increases in lending standards, or a decrease in the availability of credit, could slow economic growth by imposing tougher constraints on housing activity, which could spill over to the wider economy. In this environment, house price growth, and therefore household wealth, could be weaker as fewer households will be in a position to bid up prices. This could also contribute to slower growth.

An unexpected rise in interest rates or softer income growth may also prompt households to reduce their exposure to future interest rate rises by prioritising debt repayment over consumption, leading to softer growth. Renewed concerns around global financial market stability or a faster pace of monetary policy normalisation in the US are possible examples where unexpectedly higher offshore funding costs could drive interest rates higher. That said, there is headroom for domestic monetary policy settings to provide an offset.

There are also risks around assumptions of potential output and capacity constraints. The following box discusses these in further detail.



### Uncertainty surrounding estimates of the output gap

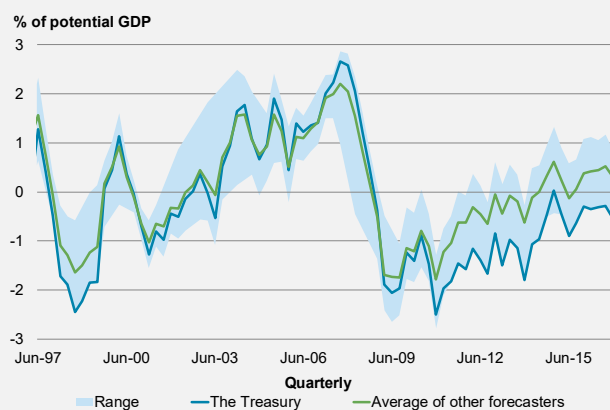
The output gap is a measure of spare capacity in the economy. It is used to help forecasters determine inflationary pressures. However, the output gap is an unobservable variable so forecasters must estimate the output gap in order to understand the underlying state of the economy. Estimates of the output gap are, by their nature, highly uncertain and depend on different methodologies and assumptions. It is therefore useful to compare our estimate with those of other forecasters.

The output gap is the difference between actual GDP and potential GDP (the level of GDP that will stimulate excess inflation if exceeded). In this way the output gap is an estimate of the cyclical position of the economy and a measure of the degree of spare capacity. A positive output gap suggests the economy is operating above its potential level and capacity constraints are beginning to affect the economy. This would typically suggest that the economy has less room to grow, prices are likely to rise and, all else unchanged, less of the operating balance is structural (see box *Summary fiscal indicators* on page 33 for more details). We estimate the output gap is below zero at -0.5% on average in 2016/17.

Figure 3.3 shows the Treasury's estimate of the output gap relative to a range of other estimates<sup>15</sup>. For most of the sample period our estimate of the output gap is near the centre of the range of forecasts (the blue area) and close to the average (the green line). However, from 2011 onwards our estimate diverges somewhat and has been the lowest in the sample over the past few years.

Given that the output gap is unobservable, forecasters look at a range of observable data to help inform estimates of the output gap. Some key indicators include non-tradable inflation, labour market data and businesses surveyed opinions of capacity.

**Figure 3.3 – Output gap estimates**



Sources: IMF, OECD, the Treasury and others

The Treasury's current lower output gap estimate implies a more optimistic view of potential GDP; that is, we believe the economy has more room to grow than other forecasters. In part, this view reflects the persistent weakness in non-tradable inflation over the past four years, and the degree of spare capacity that we see in the labour market, particularly in light of recent strong migration. However, this view is becoming increasingly challenged by persistently strong survey measures of capacity (such as the Quarterly Survey of Business Opinions) which have been showing that businesses are facing significant capacity constraints. In light of this and other evidence we have revised up our view of the output gap from the *Budget Update*. Given the high degree of uncertainty surrounding the output gap and its importance for understanding the underlying state of the economy and subsequent inflationary pressure, it is crucial that we review our estimation and interpretation of the output gap regularly.

<sup>15</sup> The sample includes eight other forecasters of the New Zealand economy including the IMF, the OECD, the Reserve Bank and a range of commercial banks.

## Alternative Scenarios

The following scenarios show how the economy might evolve if some of the assumptions in the main forecast are altered. They illustrate two of the many ways that the economy may deviate from the main forecast. Scenario One illustrates the economic and fiscal impacts of a higher terms of trade and stronger inflation. In this scenario, stronger export prices hold the terms of trade higher throughout the forecast horizon and inflationary pressures are stronger. Higher nominal GDP and tax revenues generate larger fiscal surpluses and lower net debt. Scenario Two illustrates the impact of weaker underlying momentum in the domestic economy. Specifically, tighter global credit conditions lead to a higher degree of credit rationing, dampening investment and private consumption growth. Weaker demand leads to lower inflationary pressure and softer nominal GDP growth, resulting in a weaker fiscal position.

### Scenario One – Higher Terms of Trade and Inflation

This scenario illustrates the impact of a higher terms of trade and stronger inflation on the economic and fiscal outlook. Export prices are assumed to rise slightly above the main forecast in 2017 and remain higher throughout the forecast period. Higher export prices are achieved through stronger demand for New Zealand's goods exports, particularly stronger demand in China for dairy, meat and forestry products. As a result, the terms of trade are around 7% above the main forecast by June 2021 (Figure 3.4).

The impact on domestic demand from the higher terms of trade is positive. Sustained higher exporter earnings support investment and consumption demand, which contributes to stronger employment growth and a lower unemployment rate. Wages increase at a faster pace than in the main forecast and real GDP per capita is higher.

The higher terms of trade also contributes to a stronger New Zealand dollar, which redistributes some of the higher export earnings to non-exporting households. However, exporters who do not benefit from a higher world price for their goods will have profits eroded by the stronger dollar.

**Figure 3.4 – Higher goods terms of trade (SNA)**



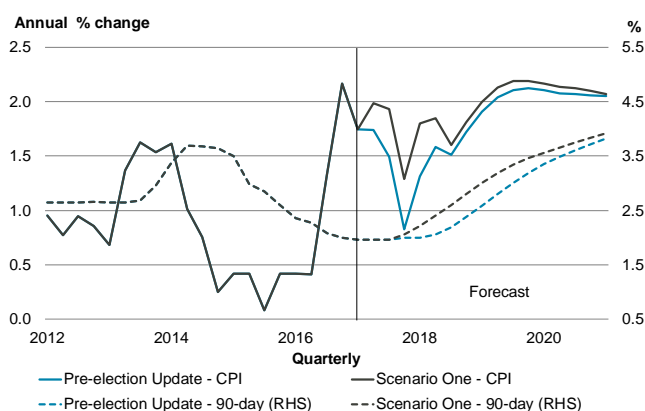
Sources: Statistics New Zealand, the Treasury

While the stronger dollar has a dampening effect on tradables inflation, this scenario also assumes tighter capacity constraints and stronger non-tradables inflationary pressures than in the main forecast. As a result, the rate of CPI inflation is higher from the onset. The boost to domestic demand from higher export earnings also causes capacity constraints to bind sooner than assumed in the main forecast. In response to the stronger inflation outlook, the Reserve Bank lifts the Official Cash Rate earlier (Figure 3.5).

Overall, higher export prices, stronger inflation and faster real GDP growth increase nominal GDP by a cumulative \$22 billion over the forecast period to June 2021. This additional income generates \$6.6 billion extra core Crown tax revenue than in the main forecast (Figure 3.7), with source deductions and GST \$1.5 billion and \$1.2 billion higher respectively.

In this scenario we assume that the Government's operating and capital allowances are unchanged from those in the main forecast (see Chapter 2 for details). Under these assumptions, OBEGAL surpluses are larger in each year, reaching \$8.9 billion (2.7% of GDP) in 2021. This is \$2.5 billion above that in the main forecast. The Government's debt position also improves, with the level of net core Crown debt \$6.9 billion lower by June 2021 (Table 3.1).

**Figure 3.5 – Higher inflation and interest rates**



Sources: Statistics New Zealand, Reserve Bank, the Treasury

## Scenario Two – Softer Growth in the Domestic Economy

This scenario illustrates the possible implications for the economic and fiscal outlook when underlying momentum in the domestic economy is weaker than the main forecast. Tighter global financial market conditions – a decrease in the availability of credit in particular – are assumed to drive an increase in domestic lending standards and a higher degree of credit rationing than in the main forecast. As a result, activity in the housing market slows with less residential investment (Figure 3.6) and softer growth in house prices.

Consumption expenditure on durables, such as household furnishings, is weaker as a result of fewer residential dwellings. We also assume households and investors have a lower appetite for risk in this environment, leading to lower domestic demand.

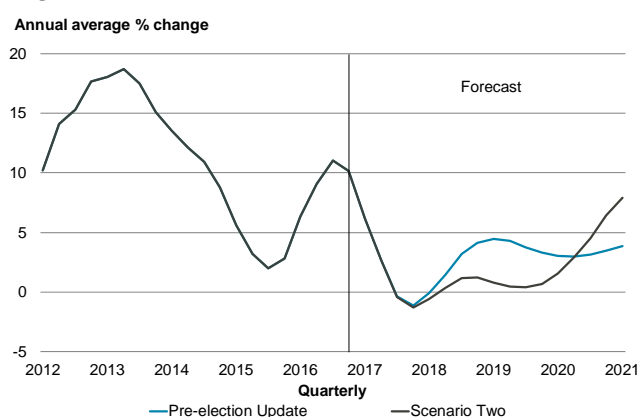
In the labour market, weaker activity translates into lower employment growth, a higher unemployment rate and slower wage growth. Annual CPI inflation is weaker across the forecast horizon and the Reserve Bank is assumed to remain on hold for longer.

Compared to the main forecast, real GDP growth peaks 0.4 percentage points lower (at 3.3% vs 3.7%) and six months later. However, with interest rates on hold for longer, the interest rate sensitive components of growth, such as residential investment, support an acceleration of growth later in the forecast period (Figure 3.6, Table 3.1).

Overall, nominal GDP is around \$21 billion lower over the forecast period. Core Crown tax revenue is \$8.1 billion lower (Figure 3.7), with lower source deductions (-\$2.9 billion) and GST (-\$2.3 billion).

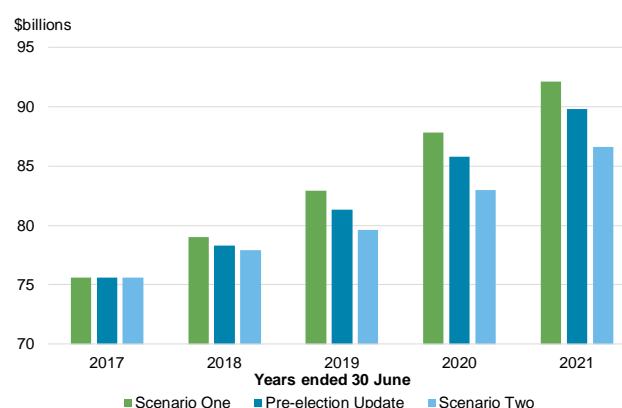
As in Scenario One, we assume that the Government's operating and capital allowances are unchanged from those in the main forecast (see Chapter 2 for details). Under these assumptions, OBEGAL surpluses are smaller but increase to \$3.3 billion (1.0% of GDP) in 2021, and net debt is higher (Table 3.1).

**Figure 3.6 – Real residential investment**



Sources: Statistics New Zealand, the Treasury

**Figure 3.7 – Core Crown tax revenue**



Source: The Treasury

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

June years	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Real GDP (aapc*)</b>					
<b>Main forecast</b>	<b>2.8</b>	<b>3.2</b>	<b>3.7</b>	<b>2.8</b>	<b>2.3</b>
Scenario One: Higher terms of trade	2.8	3.6	3.8	2.8	2.3
Scenario Two: Weaker domestic activity	2.8	2.8	3.2	3.0	2.6
<b>Nominal GDP</b>					
<b>Main forecast (aapc)</b>	<b>6.2</b>	<b>5.1</b>	<b>4.9</b>	<b>4.7</b>	<b>4.1</b>
<b>(\$billions)</b>	<b>268.8</b>	<b>282.6</b>	<b>296.5</b>	<b>310.5</b>	<b>323.2</b>
Scenario One: Higher terms of trade (aapc)	6.2	6.4	5.6	5.0	4.3
(\$billions)	268.8	285.9	301.9	316.9	330.7
Scenario Two: Weaker domestic activity (aapc)	6.2	4.6	3.7	4.1	4.0
(\$billions)	268.8	281.1	291.5	303.5	315.8
<b>Operating balance before gains and losses</b>					
<b>Main forecast (% of GDP)</b>	<b>1.4</b>	<b>1.0</b>	<b>1.2</b>	<b>1.9</b>	<b>2.0</b>
<b>(\$billions)</b>	<b>3.7</b>	<b>2.9</b>	<b>3.5</b>	<b>5.7</b>	<b>6.4</b>
Scenario One: Higher terms of trade (% of GDP)	1.4	1.2	1.7	2.5	2.7
(\$billions)	3.7	3.6	5.1	7.8	8.9
Scenario Two: Weaker domestic activity (% of GDP)	1.4	0.9	0.6	1.0	1.0
(\$billions)	3.7	2.5	1.8	2.9	3.3
<b>Net core Crown debt (% of GDP)</b>					
<b>Main forecast</b>	<b>22.5</b>	<b>22.0</b>	<b>21.5</b>	<b>20.0</b>	<b>18.8</b>
Scenario One: Higher terms of trade	22.5	21.5	20.3	18.2	16.3
Scenario Two: Weaker domestic activity	22.5	22.3	22.6	22.0	21.8

\*annual average % change

Source: The Treasury

## Fiscal Sensitivities

Table 3.2 sets out some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point higher than forecast in each year up to June 2021, tax revenue would be around \$3.7 billion higher than forecast in the June 2021 year as a result. The sensitivities are broadly symmetric and if nominal GDP growth is one percentage point lower than expected each year, tax revenue would be around \$3.6 billion lower than forecast in the June 2021 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 the forecast would also impact the fiscal position owing to the effect on the portfolios of various government reporting entities, such as the NZS Fund, ACC and the Treasury's New Zealand Debt Management Office (NZDMO). For example, at 30 June 2016, a 1.0% increase in NZ interest rates would have reduced the total Crown operating balance by \$896 million while a 1.0% decrease would have increased the total Crown operating balance by \$926 million. The majority of the Government's borrowings and a large number of financial assets are managed by NZDMO. To illustrate the interest rate sensitivities on the NZDMO portfolio, Table 3.2 provides the estimated impact of lower interest rates on those assets and liabilities. A one percentage point lower interest rate would result in interest income on funds managed by the NZDMO being \$100 million lower in the June 2021 year. This would be more than offset by interest expenses \$298 million lower in the June 2021 year. As above, the sensitivities are broadly symmetric.

**Table 3.2** – Fiscal sensitivity analysis

Years ended 30 June (\$millions)	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
<b>Impact on tax revenue of a 1 percentage point increase in growth of</b>				
Nominal GDP	790	1,650	2,630	3,695
Wages and salaries	335	685	1,090	1,535
Taxable business profits	170	390	630	895
<b>Impact of 1% lower interest rates on</b>				
Interest income <sup>1</sup>	-78	-73	-87	-100
Interest expenses <sup>1</sup>	-79	-155	-229	-298
Net impact on operating balance	1	82	142	198

Note: 1 Funds managed by the Treasury's NZDMO only.

Source: The Treasury

The forecast financial position is based on a number of judgements and assumptions about the future. To inform these judgements and assumptions we rely on market information. Some additional assumptions include those around foreign exchange rates, share prices, the carbon price and property prices. Where the actual outcome differs from our assumptions, the Crown's actual financial position is likely to differ from the forecasts. For example, foreign currency-denominated financial assets and liabilities are converted into New Zealand dollars at the reporting date, the Government's listed share investments are reported on market prices and property owned by the Crown is valued using market information. Changes in these variables can also have flow-on effects on the Crown's operating balance. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

## Balance Sheet Risks

The Crown's balance sheet is exposed to a number of risks beyond those associated with the operating balance. The Crown's financial position is exposed to risk through changes in the value of its assets or liabilities, and also through the potential impact of the Crown's explicit and implicit obligations (including a strong expectation that the Crown would respond to an event) as a result of policy settings.

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

A large source of balance sheet risk can be attributed to changes in the value of the Crown's assets and liabilities owing to movements in market variables such as interest rates, exchange rates and equity prices. As noted above, these changes can also have an impact on the Crown's operating balance.

Three areas of the balance sheet are particularly susceptible to market risk:

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

### ***Other sources of balance sheet risk<sup>16</sup>***

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

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<sup>16</sup> For further information see the 2014 *Investment Statement: Managing the Crown's Balance Sheet* at <http://www.treasury.govt.nz/government/investmentstatements/2014>. The next four-yearly Investment Statement will be released in March 2018.





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## Specific Fiscal Risks

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

### Overview

Specific fiscal risks can be positive or negative and can affect revenue or spending or assets and liabilities. 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.

Established practice is that the Government sets aside operating and capital allowances for future Budgets to manage uncertainty and cost pressures. These allowances are included in the fiscal forecasts. Future policy decisions affecting operating expenses or capital expenditure are met either from within these allowances or through reprioritisation.

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 the allowance in the fiscal forecasts for forecast new operating expenses, or
- for capital, the existing Crown balance sheet or the allowance in the fiscal forecasts, for forecast new capital expenditure.

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 by ministerial portfolio. The summary table also classifies each risk 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 the Budget operating allowance):** 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 the Budget operating allowances.
- **Potential capital decisions (expected to be funded from the existing Crown balance sheet or the Budget capital allowance):** Capital investment decisions are risks to the fiscal forecasts only to the extent that they cannot be managed within the existing Crown balance sheet or the Budget capital allowance.

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

- Risks from changes to economic assumptions; the most significant economic risks have been identified in Chapter 3.
- Business risks and volatility in the returns from and valuation of the Crown's investments relating to the broader economic and commercial environment.
- 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, biosecurity incursions and other major events, as they usually occur infrequently and their occurrence, nature and timing cannot be predicted. Once a disaster does occur, a number of choices arise about how to respond and when potential liabilities are recognised (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.

## 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.

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<sup>17</sup> the matter will be approved, or it is reasonably probable the situation will occur.

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<sup>18</sup> (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.

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<sup>17</sup> For these purposes “reasonably probable” is taken to mean that the matter is **more likely than not** to be approved within the forecast period (by considering, for example, whether there is a better than 50% chance of the matter occurring or being approved).

<sup>18</sup> For these purposes “reasonably possible” is taken to mean that the matter **might** be approved within the forecast period (by considering, for example, whether there is a 20% to 50% chance of the matter occurring or being approved).

## 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<sup>19</sup> to be approved or occur within the forecasting period.

Additionally, the Minister of Finance may determine, under section 26V of the Public Finance Act 1989, 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.

## Charges against Future Budgets

This section provides transparency around amounts that are available in future Budget allowances to help mitigate risks noted in the Statement of Specific Fiscal Risks.

As noted, future government decisions and other circumstances are only a risk to the fiscal forecasts if they cannot be managed within existing baselines or future Budget allowances. In the *Fiscal Strategy Report 2017* the Government set operating allowances for Budget 2018 of \$1.7 billion, growing at 2% each Budget until Budget 2020. An allowance for Budget 2018 of \$2.0 billion was set for capital, growing to \$2.5 billion for Budget 2019 and Budget 2020.

The table below outlines decisions taken by the Government since Budget 2017 that have been charged against future Budget allowances. The decisions below have been incorporated into the fiscal forecasts and result in a corresponding reduction in funding available from future Budget capital allowances.

*Charges against future capital allowances:*

\$millions	Budget 2018	Budget 2019	Budget 2020
City Rail Link	427	427	427
Crown Infrastructure Partners	300	300	-

<sup>19</sup> 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).

# 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 before 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.

The table below is ordered by portfolio and includes the title of the risk, its status and the type of risk. The status of the risk describes whether the risk is changed or unchanged since the *2017 Budget Economic and Fiscal Update* or reflects a new matter. The type of risk highlights whether the risk impacts on revenue, operating expenses or capital expenditure. Cross-portfolio risks to the fiscal forecasts are outlined in a separate table.

### Specific fiscal risks as at 7 August 2017

Specific fiscal risk by portfolio	Status <sup>20</sup>	Type of risk
<b>ACC</b>		
ACC Levies	Unchanged	Revenue
Non-earners' Account	Unchanged	Expenses
Work-related Gradual Process Disease and Infection	Unchanged	Expenses
<b>Building and Construction</b>		
Housing Infrastructure Fund	Unchanged	Capital and Expenses
<b>Children</b>		
Investing in Children Transformation	Unchanged	Expenses
<b>Corrections</b>		
Additional Capacity to Address Prison Population	Unchanged	Expenses and Capital
<b>Defence</b>		
Disposal of NZDF Assets	Unchanged	Expenses
NZDF Operating and Capital Costs	Unchanged	Expenses and Capital
<b>Earthquake Commission</b>		
EQC	Unchanged	Expenses
<b>Economic Development</b>		
New Zealand Screen Production Grant	Unchanged	Expenses
<b>Education</b>		
School and ECE Funding Review	Changed	Expenses
<b>Finance</b>		
Crown Overseas Properties	Unchanged	Capital
Goodwill on Acquisition	Unchanged	Expenses

<sup>20</sup> *Unchanged* – risks where the nature and/or scale of the risk has not changed substantively since the previous *Economic and Fiscal Update*.

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

<b>Greater Christchurch Regeneration</b>		
Christchurch Central Recovery Plan – Anchor Projects	Unchanged	Expenses
Residential Red Zone	Unchanged	Expenses
Southern Response Earthquake Services Support	Unchanged	Expenses
<b>Infrastructure</b>		
Crown Infrastructure Partnership	New	Expenses and Capital
<b>Internal Affairs</b>		
Fire Services Levy	Unchanged	Revenue
North Island Property Review	New	Expenses and Capital
<b>Māori Development</b>		
Proposed Māori Land Service	New	Expenses and Capital
<b>Parliamentary Service</b>		
Parliamentary Office Accommodation	New	Expenses and Capital
<b>Primary Industries</b>		
Investment in Water Infrastructure	Unchanged	Capital
<b>Revenue</b>		
Cash Held in Tax Pools	Unchanged	Capital
Potential Tax Policy Changes	Changed	Revenue
Student Loans – Valuation	Unchanged	Expenses
Tax and Transfer Settings	New	Revenue and Expenses
Transformation and Technology Renewal	Unchanged	Expenses
<b>Social Housing</b>		
Divestment and Development of Housing	Unchanged	Capital
Social Housing Reform	Unchanged	Expenses
Tamaki Regeneration Project	Unchanged	Expenses
<b>Tertiary Education</b>		
Possible University of Waikato Medical School	New	Expenses and Capital
<b>Transport</b>		
Auckland City Rail Link	Unchanged	Capital
Auckland Transport Alignment Plan	Unchanged	Capital
Rail Network Valuation Approach	Unchanged	Revenue and Expenses
South Island Transport Corridor Reinstatement	Unchanged	Expenses and Capital
Support for KiwiRail	Unchanged	Capital
<b>Treaty Negotiations</b>		
Government Response to Wai 262	Unchanged	Expenses
Relativity Clause	Unchanged	Expenses
Treaty Settlement Forecasts	Unchanged	Expenses

Cross-portfolio specific fiscal risks	Status	Type of risk
Agency Capital Intentions	Unchanged	Capital
Budget Operating Initiatives	Unchanged	Expenses
Changes in the Accounting Standard for Financial Instruments	New	Capital
Pay Equity and Caregiver Employment Conditions	Changed	Expenses
Services Funded by Third Parties	Unchanged	Revenue
State Sector Employment Agreements	Unchanged	Expenses
Unexpected Maintenance for Crown-owned Buildings	Unchanged	Capital

## Specific Fiscal Risks by Portfolio

### ACC

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

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

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

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

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

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

## Building and Construction

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

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

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



## Children

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

The new Ministry for Vulnerable Children, Oranga Tamariki was established on 1 April 2017 with a new operating model to be implemented over the next few years and an expanded focus and target group, and new obligations from associated legislation. To the extent that the costs associated with the new Ministry cannot be funded from an amount the Government has set aside in a tagged contingency or from reprioritisation, additional funding is likely to be required.

## Corrections

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

The fiscal forecasts include provision for the Government's agreed investment to create additional prison capacity to accommodate prison population growth over the next 10 years. It is likely that the Department of Corrections will require additional funding relating to the direct costs of accommodating prison population increases, as they arise, which would impact on operating and capital expenditure. There is also a risk that growth in the prison population is different from what is included in the forecasts and additional funding is required.

## Defence

### ***Disposal of NZDF Assets (Unchanged)***

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

### ***NZDF Operating and Capital Costs (Unchanged)***

In 2016, the Government reconsidered NZDF capability and funding requirements through the Defence White Paper 2016. It is expected that changes to NZDF operating and capital funding will be made over the forecast period to achieve the Defence White Paper settings. However, the precise quantum and timing of these changes will be dependent on a range of business cases that will be considered by Cabinet in the future. In particular, significant asset purchases may be sought earlier than previously planned.

## Earthquake Commission

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

EQC's independent actuary undertakes half-yearly valuations of the total earthquake liability to the Crown. This includes settled and yet-to-settle claims and reinsurance recoveries. Based on these valuations, a profile of the claims yet to settle is included in the fiscal forecasts. There still remains some risk that EQC's remaining settlement

expenditure relating to the Canterbury and Kaikōura earthquakes will be different (higher or lower) than forecast.

## Economic Development

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

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

## Education

### ***School and ECE Funding Review (Changed)***

The Government has made its first decisions on the Review of Education Funding Systems across schooling and Early Childhood Education (ECE), agreeing that for state and state integrated schools and ECE services and ngā kōhanga reo the decile system will be replaced by a predictive risk index to allocate funding to overcome educational disadvantage. Decisions are yet to be taken on the system-wide level of funding required to mitigate disadvantage and other components of the funding model which may also have expenditure implications.

## 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. Should a decision be taken to refurbish the property, a rough-order cost estimate for this upgrade is \$100 million over the forecast period.

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

As at 30 June 2016, the Government had goodwill on acquisition of a number of sub-entities totalling \$602 million. Under New Zealand accounting standards (PBE IPSAS 26), such goodwill items are required to be assessed annually for impairment. If there is any indication that the goodwill may be impaired, the recoverable amount of the cash generating units to which the goodwill is allocated is required to be estimated. If the recoverable amount is less than the carrying amount of those units, the units and the goodwill allocated to them are regarded as impaired and the Government is required to recognise impairment losses in the operating statement. Such assessments will be conducted at the end of the financial year, and the fiscal forecasts currently make no allowance for such impairment losses.

## Greater Christchurch Regeneration

### ***Christchurch Central Recovery Plan – Anchor Projects (Unchanged)***

The Crown is partially funding the construction of Anchor Projects as part of the Christchurch Central Recovery Plan. The funding for the construction of Anchor Projects will vary from project to project, dependent on final scope, ownership decisions, implementation and project costs, and will to some extent eventually be recovered. Projects are progressing through the decision-making process and construction costs will become increasingly clear during the procurement phase. The quantum and timing of Crown contribution may differ from that included in the fiscal forecasts.

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

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

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

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

## Infrastructure

### ***Crown Infrastructure Partners (New)***

In July 2017, Cabinet agreed to task Crown Fibre Holdings with negotiating and, where viable, funding Crown investment to accelerate growth enabling infrastructure development in a manner that attracts immediate or future external investment. The initial task will be the design of the commercial model for investing in water and transport infrastructure to enable housing supply in growth areas and determining where this model can be successfully applied. Cabinet agreed to provide up to \$600 million of uncalled capital to Crown Fibre Holdings for the delivery of Crown Infrastructure Partners to be pre-committed evenly between the Budget 2018 and 2019 capital allowances, but the funding has been reflected as capital expenditure in the forecasts. As the commercial model and funding arrangements for specific projects have not yet been developed, there is a high level of uncertainty in the areas noted below, which may have additional fiscal impacts that need to be managed:

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

## Internal Affairs

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

The unification of New Zealand's Fire Services into Fire and Emergency New Zealand, which occurred on 1 July 2017, is expected to cost approximately \$303 million and is being funded through a Crown contribution, a repayable capital loan and levy increases. The increase in levies required to meet the increased expenditure on Fire Services, and to contribute to repaying the repayable capital injection, has been approved for the year 2017/18 only. Any future levy changes beyond 2017/18 are still uncertain and not yet included in the fiscal forecasts.

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

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

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

## Māori Development

### ***Proposed Māori Land Service (New)***

The Te Ture Whenua Māori Bill is currently before the House. The Bill envisages services for Māori land owners which are not currently provided by the Crown at scale, including a Māori land register, owner decision-making service and dispute resolution service. Decisions are yet to be made on how these services will be delivered, and these decisions will determine their cost. If and when the Bill is passed, it provides for an 18-month period to develop and deliver the services. Funding has been set aside to design the proposed services, but there is currently no appropriated funding to implement or operate the service once the design process has been completed.

## Parliamentary Service

### ***Parliamentary Office Accommodation (New)***

The Parliamentary Service is considering options for the provision of accommodation for future Parliaments following the expiry of the lease on Bowen House. Construction and some demolition costs have yet to be finalised or funded but are currently assessed to exceed \$100 million.

## Primary Industries

### ***Investment in Water Infrastructure (Unchanged)***

To date, a total of \$183 million has been appropriated for the Crown-owned company, Crown Irrigation Investments Limited, to manage the Crown's investment in irrigation infrastructure. The Government will consider providing further capital up to \$217 million in future Budgets as schemes reach the "investment-ready" stage.

## 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.

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

Some of the items on the tax policy work programme could have a significant positive impact on operating revenue. A summary of the Government's tax policy work programme can be viewed on Inland Revenue's tax policy website <http://taxpolicy.ird.govt.nz/work-programme>. The government will consult on any policy changes as part of the Generic Tax Policy Process before making any final decisions.

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

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

### ***Tax and Transfer Settings (New)***

The Government's *Fiscal Strategy Report 2017* indicated that one of its short-term priorities is to consider further changes to tax and transfer settings, if fiscal conditions allow. A decision to implement any changes could have an impact on the operating balance.

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

The Business Transformation programme agreed by Cabinet is reflected in forecasts. There are risks that the expected implementation costs, revenue gains and operating costs savings may differ from forecasts. This includes a risk that, during the transition between systems, Inland Revenue discovers historic procedural issues. In addition, the Government is considering possible policy changes affecting the way Inland Revenue manages its processes and data. Any changes to procedures or policy could materially impact the programme's cost, and the additional revenue collected.

## Social Housing

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

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

### ***Social Housing Reform (Unchanged)***

The Government is progressing the Social Housing Reform Programme (SHRP). The SHRP aims to improve the housing and associated services provided to those in housing need, to build the social housing market and to fully recognise the costs of social housing. Specific fiscal risks associated with the SHRP are as follows:

- Existing and additional social housing places may require funding above the current Income Related Rent Subsidy (IRRS) appropriation cap.
- The development of a more diverse and competitive social housing market may adversely affect HNZC's financial position.
- Proceeds from social housing transfers are likely to differ from book value.

### ***Tamaki Regeneration Project (Unchanged)***

Proceeds from housing sales in Tamaki over the next 10 to 15 years may be less than the forecasted loss on houses sold. Over this period 7,500 new houses are planned to be built in Tamaki in place of about 2,500 existing houses.

## Tertiary Education

### ***Possible University of Waikato Medical School (New)***

The University of Waikato and Waikato District Health Board have jointly developed a proposal to establish a third medical school based in Hamilton, with enhanced rural clinical training. The school would run a four-year graduate-entry medical programme from 2021.

Advice for Ministers on the proposal is being developed. The proposal represents a fiscal risk insofar as no funding has been set aside if Ministers decide to progress it.

## Transport

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

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

### ***Auckland Transport Alignment Plan (Unchanged)***

The Government and Auckland Council released the final report for the Auckland Transport Alignment Project (ATAP) in August 2016. The ATAP process has identified a funding gap of \$4 billion to \$6 billion over the next 30 years. The Government and Auckland Council are considering options to address this funding gap.

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

KiwiRail operates both freight and passenger transport services. The valuation approach for the assets used for these different activities is outlined in Pre-election 2017 Additional Information – Accounting Policies.

The freight business of KiwiRail is predominantly commercially focused and therefore for financial reporting purposes, assets relating to the freight business are fair valued on a net realisable value basis.

In order for the freight infrastructure to continue to be valued on this basis, KiwiRail needs to meet certain criteria set out in the Accounting Standards Framework. Consistent with prior years, there is a likelihood of continued Crown support and a risk that KiwiRail no longer meets the criteria for valuing freight infrastructure on a net realisable value basis and may need to change to a depreciated replacement cost basis.

The impact of this change would increase the value of assets by around \$4 billion, with an estimated \$1 billion to \$2 billion impacting OBEGAL reflecting the reversal of previous impairments of freight infrastructure assets recorded through the Statement of Financial Performance.

### ***South Island Transport Corridor Reinstatement (Unchanged)***

There is a risk that the costs of reinstating the South Island Transport Corridor (Picton–Christchurch) will cost more than what is currently included in the fiscal forecasts. It is also possible that the capital and operating classification of costs may change as the project progresses, which would have a corresponding impact on the operating balance. The classification between capital and operating expenditure has no impact on net core Crown debt.

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

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

## **Treaty Negotiations**

### ***Government Response to Wai 262 (Unchanged)***

The Waitangi Tribunal's report on the Wai 262 claim focuses on the protection of Māori culture and identity, with a particular focus on mātauranga Māori and associated taonga. The Tribunal's recommendations are directed towards a number of government agencies



individually, as groups and across sectors. The Government has yet to respond to the Tribunal's report and recommendations.

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

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

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

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

## **Cross-portfolio Specific Fiscal Risks**

### ***Agency Capital Intentions (Unchanged)***

Future Budgets may well include new capital investments other than those identified in other specific fiscal risks. Such investments are most likely to be developed by the 25 investment-intensive agencies 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, improvements in asset performance, alternative methods of service delivery and changes to policy settings. New investments are risks to the fiscal forecasts only to the extent they cannot be managed through existing balance sheets, or the provision in the fiscal forecasts for forecast new capital spending.

### ***Budget Operating Initiatives (Unchanged)***

Future Budgets may well include new operating initiatives for new policies or to address cost pressures 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.

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

The External Reporting Board has recently issued changes to accounting standard PBE IFRS 9 *Financial Instruments* and it is likely that the Crown will adopt the amended accounting standard in the 2018/19 financial year. The resulting changes include new valuation methodology for some financial assets, a new impairment model for financial assets, and revised hedge accounting requirements. The impact of these new



requirements has not yet been assessed, except for some initial impact analysis on the student loan asset (an estimated one-off increase of around \$600 million).

### ***Pay Equity and Caregiver Employment Conditions (Changed)***

There are several cases and funding claims mainly from workers in the social sectors (including health, education and welfare) relating to the interpretation, and application, of the Equal Pay Act 1972, the Minimum Wage Act 1983 and the Government's policy of paying certain family members through its Funded Care Policy.

A pay equity claim for Care and Support workers in the aged care, disability support and home and community services sector has already been resolved, but there are a number of outstanding claims and it is expected that further claims will be raised. Current claims include:

- social workers employed by the Ministry for Vulnerable Children, Oranga Tamariki
- education support workers employed by the Ministry of Education
- school support workers employed by school boards of trustees
- mental health support workers employed by non-government organisations (funded by Government), and
- clerical/administration workers employed by five DHBs in the South Island.

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

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

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

### ***State Sector Employment Agreements (Unchanged)***

A number of large collective agreements are due to be renegotiated over the forecast period. 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.

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

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

## **Risks Removed Since the 2017 Budget Update**

No risks have been expired since the *Budget Economic and Fiscal Update 2017*.

## 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 net core Crown debt. In the case of some contingencies (eg, uncalled capital) the negative impact would be restricted to net core Crown debt because the cost would be offset by the acquisition of capital.

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

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

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

Some contingencies of the Crown are not able to be quantified. We have disclosed all unquantifiable contingent liabilities and unquantifiable contingent assets that are not expected to be remote.<sup>21</sup>

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

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<sup>21</sup> “Remote” is defined as being an item with less than a 10% chance of occurring.

## Quantifiable Contingent Liabilities and Contingent Assets

<b>Contingent liabilities</b>		
	<b>Status<sup>22</sup></b>	<b>31 May 2017 (\$millions)</b>
<b>Uncalled capital</b>		
Asian Development Bank	Unchanged	3,019
International Monetary Fund – promissory notes	Unchanged	2,182
International Bank for Reconstruction and Development	Unchanged	1,560
International Monetary Fund – arrangements to borrow	Unchanged	550
Asian Infrastructure Investment Bank	Unchanged	520
Other uncalled capital	Unchanged	17
		<b>7,848</b>
<b>Guarantees and indemnities</b>		
New Zealand Export Credit Office guarantees	Unchanged	139
The Body Laid Bare Exhibition indemnity	Unchanged	438
Other guarantees and indemnities	Unchanged	84
		<b>661</b>
<b>Legal proceedings and disputes</b>		
Legal tax proceedings	Unchanged	146
Other legal proceedings and disputes	Unchanged	120
		<b>266</b>
<b>Other quantifiable contingent liabilities</b>		
Unclaimed monies	Unchanged	149
Christchurch Engine Centre Partnership Agreement	Unchanged	111
Other quantifiable contingent liabilities	Unchanged	43
		<b>303</b>
<b>Total quantifiable contingent liabilities</b>		<b>9,078</b>

<b>Contingent assets</b>		
	<b>Status<sup>22</sup></b>	<b>31 May 2017 (\$millions)</b>
<b>Legal proceedings and disputes</b>		
Other contingent assets	Unchanged	98
<b>Total quantifiable contingent assets</b>		<b>98</b>

<sup>22</sup> Status of contingent liabilities or assets when compared to the *Budget Economic and Fiscal Update* published on 25 May 2017.

## Unquantifiable Contingent Liabilities and Contingent Assets

<b>Contingent liabilities</b>	
<b>Indemnities</b>	<b>Status</b>
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 Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
<b>Legal claims and proceedings</b>	
Accident Compensation Corporation (ACC) litigation	Unchanged
Ministry for Primary Industries – Biosecurity Act compensation	New
Treaty of Waitangi claims	Unchanged
<b>Other unquantifiable contingent liabilities</b>	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged
Holidays Act 2003 and other relevant legislation	Unchanged

The following unquantifiable contingent liability was removed: Maui Contracts, as the possibility of realisation is now considered to be remote.

Kiwifruit Vine Disease legal claim from Ministry for Primary Industries has been incorporated into Ministry for Primary Industries – Biosecurity Act compensation new contingent liability.

## Description of Contingent Liabilities

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

#### *Uncalled capital*

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

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

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

<b>Uncalled capital</b>	<b>31 May 2017 (\$millions)</b>	<b>30 June 2016 (\$millions)</b>
Asian Development Bank	3,019	3,051
International Monetary Fund – promissory notes	2,182	2,205
International Bank for Reconstruction and Development	1,560	1,558
International Monetary Fund – arrangements to borrow	550	559
Asian Infrastructure Investment Bank	520	519

In addition to the uncalled capital detailed above, the Crown has agreed to provide an uncalled capital facility of \$230 million to Southern Response Earthquake Services Limited (SRES) to support the Christchurch earthquake recovery process.

The above capital support will increase core Crown net debt when called; however, as Southern Response is part of the Crown there would be no impact on the total Crown operating balance.

#### *Guarantees and indemnities*

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

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

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

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

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

\$139 million at 31 May 2017 (\$211 million at 30 June 2016)

### The Body Laid Bare Exhibition indemnity

The Auckland Art Gallery Toi o Tāmaki is hosting the exhibition The Body Laid Bare: Masterpieces from the Tate Gallery. The exhibition is indemnified under the Government Indemnity of Touring Exhibition Scheme from 7 February 2017 to 28 July 2017 to cover the period of transit and display of these valuable works of art. This contingent liability therefore expired on 28 July 2017.

\$438 million at 31 May 2017 (Nil at 30 June 2016)

### *Legal proceedings and disputes*

#### Legal tax proceedings

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

\$146 million at 31 May 2017 (\$172 million at 30 June 2016)

### *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.

\$149 million at 31 May 2017 (\$133 million at 30 June 2016)

### Christchurch Engine Centre (CEC) Partnership Agreement

The Air New Zealand Group has a partnership agreement with Pratt and Whitney in which it holds a 49% interest in the CEC. By the nature of the agreement, joint and several liability exists between the two parties.

\$111 million at 31 May 2017 (\$68 million at 30 June 2016)

### ***Unquantifiable contingent liabilities***

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

#### *Indemnities*

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

Party indemnified	Instrument of indemnification	Actions indemnified
Air New Zealand	Deed of indemnity issued 24 September 2001	Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US\$1 billion in respect of any one claim.
Contact Energy Limited	The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei	The documents contained two reciprocal indemnities between the Crown and Contact Energy to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines. Net core Crown's debt will increase as a result of funding the EQC liabilities.
Genesis Energy Limited	Deed between Genesis Power Limited and the Genesis acquisition of Crown Tekapo A & B power stations	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. Indemnity against any damage to bed of lakes and rivers subject to operating easements.
Housing New Zealand Limited (HNZL)	The Crown has provided a warranty in respect of title to the assets transferred to HNZL	The Crown indemnified HNZL against: <ul style="list-style-type: none"> <li>any breach of the warranty provided, and</li> <li>any third-party claims that are a result of acts or omissions prior to 1 November 1992.</li> </ul> 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 4F of the Justices of the Peace Act 1957 Section 50 of the District Courts Act 2016 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 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.

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



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

### *Legal claims and proceedings*

There are numerous legal actions that have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the case. 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 and not considered to be remote.

### Accident Compensation Corporation (ACC) litigation

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

### Ministry for Primary Industries – Biosecurity Act compensation

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

In regards to the Psa-V incursion, in November 2014, 42 growers filed a claim against the Ministry for Primary Industries (MPI) alleging MPI is legally liable for damages they have suffered from a biosecurity incursion of the kiwifruit vine disease Psa-V in New Zealand. Included in the proceedings are approximately 210 grower claims represented by the first

plaintiff, Strathboss Kiwifruit Limited. As Strathboss Kiwifruit Limited is required to prove MPI owes a duty of care to the growers before losses will be assessed, MPI is unable to quantify the first plaintiff's claim. The Ministry is defending the claim.

### [Treaty of Waitangi claims](#)

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land 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. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

### *Other unquantifiable contingent liabilities*

### [Criminal Proceeds \(Recovery\) Act 2009](#)

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

### [Environmental liabilities](#)

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

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

### [Treaty of Waitangi claims – Settlement Relativity Payments – see page 82](#)

### [Holidays Act 2003 and other relevant legislation](#)

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

## **Description of Contingent Assets**

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

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

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## Forecast Financial Statements

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

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

The forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 7 August 2017.

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 51).

## Statement of Accounting Policies

### Significant Accounting Policies

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

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

The specific accounting policies are included within the 2017 *Pre-election Economic and Fiscal Update Additional Information* document which can be found on the Treasury's website at [www.treasury.govt.nz/budget/forecasts/prefu2017](http://www.treasury.govt.nz/budget/forecasts/prefu2017)

### 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 67 to 92.

Key forecast assumptions are set out on pages 24 to 25.

### Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2017 to 30 June 2021. The "2016 Actual" figures reported in the statements are the audited results reported in the Financial Statements of the Government for the year ended 30 June 2016. The "2017 Previous Budget" figures are the original forecasts to 30 June 2017 as presented in the 2016 Budget.

## Government Reporting Entity as at 7 August 2017

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

### Core Crown Segment

#### Departments

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

#### Offices of Parliament

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

#### Others

New Zealand Superannuation Fund  
Reserve Bank of New Zealand

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

Airways Corporation of New Zealand Limited

Animal Control Products Limited

AsureQuality Limited

Electricity Corporation of New Zealand Limited

KiwiRail Holdings Limited

Kordia Group Limited

Landcorp Farming Limited

Meteorological Service of New Zealand Limited

New Zealand Post Limited

New Zealand Railways Corporation

Quotable Value Limited

Solid Energy New Zealand Limited

Transpower New Zealand Limited

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

Genesis Energy Limited

Mercury NZ Limited

Meridian Energy Limited

**Other**

Air New Zealand Limited

## Crown entities Segment

### Crown entities

Accident Compensation Corporation	Maritime New Zealand
Accreditation Council	Museum of New Zealand Te Papa Tongarewa Board
Arts Council of New Zealand Toi Aotearoa	New Zealand Antarctic Institute
Broadcasting Commission	New Zealand Artificial Limb Service
Broadcasting Standards Authority	New Zealand Blood Service
Callaghan Innovation	New Zealand Film Commission
Careers New Zealand	New Zealand Lotteries Commission
Children's Commissioner	New Zealand Productivity Commission
Civil Aviation Authority of New Zealand	New Zealand Qualifications Authority
Commerce Commission	New Zealand Symphony Orchestra
Crown Irrigation Investments Limited	New Zealand Tourism Board
Crown Research Institutes (7)	New Zealand Trade and Enterprise
District Health Boards (20)	New Zealand Transport Agency
Drug Free Sport New Zealand	New Zealand Venture Investment Fund Limited
Earthquake Commission	New Zealand Walking Access Commission
Education New Zealand	Office of Film and Literature Classification
Electoral Commission	Pharmaceutical Management Agency
Electricity Authority	Privacy Commissioner
Energy Efficiency and Conservation Authority	Public Trust
Environmental Protection Authority	Radio New Zealand Limited
External Reporting Board	Real Estate Agents Authority
Families Commission	Retirement Commissioner
Financial Markets Authority	School Boards of Trustees (2,487)
Fire and Emergency New Zealand	Social Workers Registration Board
Government Superannuation Fund Authority	Sport and Recreation New Zealand
Guardians of New Zealand Superannuation	Takeovers Panel
Health and Disability Commissioner	Te Reo Whakapuaki Iirangi (Māori Broadcasting Funding Agency)
Health Promotion Agency	Te Taura Whiri i te Reo Māori (Māori Language Commission)
Health Quality and Safety Commission	Television New Zealand Limited
Health Research Council of New Zealand	Tertiary Education Commission
Heritage New Zealand Pouhere Taonga	Transport Accident Investigation Commission
Housing New Zealand Corporation	WorkSafe New Zealand
Human Rights Commission	
Independent Police Conduct Authority	
Law Commission	

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

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Leadership Development Centre Trust

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (22)

Te Arika Trust

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

Crown Asset Management Limited

Crown Fibre Holdings Limited

Education Payroll Limited

Health Benefits Limited (ceased operating)

Ōtākaro Limited

Predator Free 2050 Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

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

Te Urewera

**Others**

Education Council of Aotearoa New Zealand

Regenerate Christchurch

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

Tertiary Education Institutions (28)

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

City Rail Link Limited

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

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



## Forecast Statement of Financial Performance

for the years ending 30 June

		2016	2017	2017	2018	2019	2020	2021
	Note	Actual \$m	Previous Budget \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>Revenue</b>								
Taxation revenue	1	69,668	71,221	75,012	77,586	80,657	85,063	89,063
Other sovereign revenue	1	4,643	4,593	4,987	5,079	5,422	5,826	6,040
<b>Total Revenue Levied through the Crown's Sovereign Power</b>		<b>74,311</b>	<b>75,814</b>	<b>79,999</b>	<b>82,665</b>	<b>86,079</b>	<b>90,889</b>	<b>95,103</b>
Sales of goods and services		16,364	17,259	17,049	17,523	18,191	18,800	19,202
Interest revenue and dividends	2	3,603	4,267	3,626	3,772	3,921	4,142	4,361
Other revenue		3,881	3,615	3,626	3,780	3,871	3,926	3,975
<b>Total revenue earned through the Crown's operations</b>		<b>23,848</b>	<b>25,141</b>	<b>24,301</b>	<b>25,075</b>	<b>25,983</b>	<b>26,868</b>	<b>27,538</b>
<b>Total revenue (excluding gains)</b>		<b>98,159</b>	<b>100,955</b>	<b>104,300</b>	<b>107,740</b>	<b>112,062</b>	<b>117,757</b>	<b>122,641</b>
<b>Expenses</b>								
Transfer payments and subsidies	3	24,312	25,395	25,379	26,494	27,646	28,498	29,471
Personnel expenses	4	21,763	22,144	22,405	22,985	23,180	23,333	23,637
Depreciation and amortisation	5	4,875	5,200	5,163	5,327	5,491	5,595	5,684
Other operating expenses	6	35,869	38,666	37,788	41,543	41,166	41,103	41,829
Finance costs	7	4,336	4,566	4,188	4,215	4,128	4,178	4,158
Insurance expenses	8	4,725	4,239	5,240	4,598	5,051	5,623	5,951
Forecast new operating spending	9	-	534	-	492	2,034	3,746	5,495
Top-down expense adjustment	9	-	(1,025)	-	(1,175)	(570)	(525)	(500)
<b>Total expenses (excluding losses)</b>		<b>95,880</b>	<b>99,719</b>	<b>100,163</b>	<b>104,479</b>	<b>108,126</b>	<b>111,551</b>	<b>115,725</b>
Minority interest share of operating balance before gains/(losses)		(448)	(517)	(431)	(392)	(421)	(460)	(476)
<b>Operating balance before gains/(losses) (excluding minority interests)</b>		<b>1,831</b>	<b>719</b>	<b>3,706</b>	<b>2,869</b>	<b>3,515</b>	<b>5,746</b>	<b>6,440</b>
Net gains/(losses) on financial instruments	10	1,117	2,111	5,882	2,770	2,935	3,187	3,440
Net gains/(losses) on non-financial instruments	11	(8,636)	(54)	1,388	(177)	(78)	(27)	(32)
Less minority interest share of net gains/losses	12	(4)	(12)	(48)	(19)	(9)	(9)	(9)
<b>Total gains/(losses)</b>		<b>(7,507)</b>	<b>2,053</b>	<b>7,258</b>	<b>2,545</b>	<b>2,838</b>	<b>3,151</b>	<b>3,399</b>
Net surplus/(deficit) from associates and joint ventures		307	286	514	206	245	281	299
<b>Operating balance (excluding minority interests)</b>	12	<b>(5,369)</b>	<b>3,058</b>	<b>11,478</b>	<b>5,620</b>	<b>6,598</b>	<b>9,178</b>	<b>10,138</b>

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

## Forecast Analysis of Expenses by Functional Classification

for the years ending 30 June

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Total Crown expenses</b>							
<b>By functional classification</b>							
Social security and welfare	28,901	30,120	30,593	31,796	33,068	34,314	35,554
Health	15,160	15,567	15,722	16,432	16,449	16,481	16,396
Education	13,809	14,235	14,011	14,784	14,910	14,955	15,172
Core government services	3,950	4,874	4,153	5,343	4,655	4,477	4,320
Law and order	3,894	4,062	4,253	4,435	4,537	4,590	4,631
Transport and communications	9,400	9,641	9,296	9,778	10,083	10,191	11,120
Economic and industrial services	7,428	7,551	8,251	8,097	8,503	8,762	8,801
Defence	2,013	2,149	2,137	2,286	2,351	2,362	2,372
Heritage, culture and recreation	2,210	2,401	2,511	2,327	2,351	2,356	2,364
Primary services	1,852	1,961	1,860	1,994	1,987	1,992	2,043
Housing and community development	1,600	1,694	1,869	2,080	2,025	1,978	2,087
Environmental protection	580	719	847	1,025	937	994	996
GSF pension expenses	286	231	234	167	213	240	256
Other	461	439	238	403	465	460	460
Finance costs	4,336	4,566	4,188	4,215	4,128	4,178	4,158
Forecast new operating spending	-	534	-	492	2,034	3,746	5,495
Top-down expense adjustment	-	(1,025)	-	(1,175)	(570)	(525)	(500)
<b>Total Crown expenses excluding losses</b>	<b>95,880</b>	<b>99,719</b>	<b>100,163</b>	<b>104,479</b>	<b>108,126</b>	<b>111,551</b>	<b>115,725</b>

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

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Core Crown expenses</b>							
<b>By functional classification<sup>1</sup></b>							
Social security and welfare	24,081	25,224	25,320	26,280	27,397	28,222	29,136
Health	15,626	16,214	16,189	17,120	17,225	17,234	17,193
Education	13,158	13,478	13,316	14,032	14,160	14,210	14,430
Core government services	4,102	4,943	4,157	5,215	4,666	4,504	4,381
Law and order	3,648	3,811	3,986	4,119	4,178	4,222	4,278
Transport and communications	2,178	2,358	2,182	2,537	2,340	2,274	2,807
Economic and industrial services	2,107	2,493	2,584	2,833	2,781	2,737	2,749
Defence	2,026	2,177	2,145	2,294	2,360	2,370	2,380
Heritage, culture and recreation	787	855	861	885	875	841	814
Primary services	749	709	679	730	676	663	639
Housing and community development	558	568	577	596	557	519	540
Environmental protection	587	716	849	1,027	939	996	998
GSF pension expenses	271	212	218	151	197	224	240
Other	461	439	238	403	465	460	460
Finance costs	3,590	3,682	3,540	3,445	3,393	3,422	3,424
Forecast new operating spending	-	534	-	492	2,034	3,746	5,495
Top-down expense adjustment	-	(1,025)	-	(1,175)	(570)	(525)	(500)
<b>Total core Crown expenses excluding losses</b>	<b>73,929</b>	<b>77,388</b>	<b>76,841</b>	<b>80,984</b>	<b>83,673</b>	<b>86,119</b>	<b>89,464</b>

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

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

## Forecast Statement of Comprehensive Income Revenue and Expense

for the years ending 30 June

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating Balance (including minority interest)</b>	<b>(4,933)</b>	<b>3,579</b>	<b>11,921</b>	<b>6,060</b>	<b>7,038</b>	<b>9,647</b>	<b>10,623</b>
<b>Other comprehensive revenue and expense</b>							
Revaluation of physical assets	8,865	-	8,013	-	-	-	-
Net change in hedging instruments entered into for cash flow hedges	(248)	22	37	(7)	26	16	13
Foreign currency translation differences for foreign operations	(15)	-	(4)	-	-	-	-
Valuation gains/(losses) on investments available for sale taken to reserves	(14)	9	8	16	7	7	8
Other movements	34	13	(2)	(15)	3	11	18
<b>Total other comprehensive revenue and expense</b>	<b>8,622</b>	<b>44</b>	<b>8,052</b>	<b>(6)</b>	<b>36</b>	<b>34</b>	<b>39</b>
<b>Total comprehensive revenue and expense</b>	<b>3,689</b>	<b>3,623</b>	<b>19,973</b>	<b>6,054</b>	<b>7,074</b>	<b>9,681</b>	<b>10,662</b>
<b>Attributable to:</b>							
- minority interest	777	529	460	420	431	457	472
- the Crown	2,912	3,094	19,513	5,634	6,643	9,224	10,190
<b>Total comprehensive revenue and expense</b>	<b>3,689</b>	<b>3,623</b>	<b>19,973</b>	<b>6,054</b>	<b>7,074</b>	<b>9,681</b>	<b>10,662</b>

## Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Opening net worth</b>	<b>92,236</b>	<b>89,302</b>	<b>95,521</b>	<b>114,712</b>	<b>120,351</b>	<b>126,919</b>	<b>136,071</b>
Operating balance (including minority interest)	(4,933)	3,579	11,921	6,060	7,038	9,647	10,623
Net revaluations	8,865	-	7,977	-	-	-	-
Transfers to/(from) reserves	(136)	40	91	2	38	37	44
(Gains)/losses transferred to the Statement of Financial Performance	(56)	6	(5)	11	6	7	8
Other movements	(51)	(2)	(11)	(19)	(8)	(10)	(13)
<b>Comprehensive income</b>	<b>3,689</b>	<b>3,623</b>	<b>19,973</b>	<b>6,054</b>	<b>7,074</b>	<b>9,681</b>	<b>10,662</b>
Transactions with minority interest	(404)	(500)	(782)	(415)	(506)	(529)	(540)
<b>Closing net worth</b>	<b>95,521</b>	<b>92,425</b>	<b>114,712</b>	<b>120,351</b>	<b>126,919</b>	<b>136,071</b>	<b>146,193</b>

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

## Forecast Statement of Cash Flows

for the years ending 30 June

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cash Flows from Operations</b>							
<b>Cash was provided from</b>							
Taxation receipts	69,027	70,058	73,178	76,364	79,557	84,019	87,904
Other sovereign receipts	4,685	4,154	4,480	4,431	4,541	5,059	5,205
Sales of goods and services	17,074	17,327	16,540	17,666	18,299	18,863	19,268
Interest and dividend receipts	3,430	3,504	3,313	3,288	3,470	3,700	3,928
Other operating receipts	4,131	3,590	3,876	3,832	3,737	3,799	3,844
<b>Total cash provided from operations</b>	<b>98,347</b>	<b>98,633</b>	<b>101,387</b>	<b>105,581</b>	<b>109,604</b>	<b>115,440</b>	<b>120,149</b>
<b>Cash was disbursed to</b>							
Transfer payments and subsidies	24,338	25,384	25,310	26,442	27,596	28,518	29,484
Personnel and operating payments	61,160	63,751	62,876	67,986	67,132	67,351	67,756
Interest payments	4,333	4,682	4,218	4,090	4,077	4,086	4,146
Forecast new operating spending	-	534	-	492	2,034	3,746	5,495
Top-down expense adjustment	-	(1,025)	-	(1,175)	(570)	(525)	(500)
<b>Total cash disbursed to operations</b>	<b>89,831</b>	<b>93,326</b>	<b>92,404</b>	<b>97,835</b>	<b>100,269</b>	<b>103,176</b>	<b>106,381</b>
<b>Net cash flows from operations</b>	<b>8,516</b>	<b>5,307</b>	<b>8,983</b>	<b>7,746</b>	<b>9,335</b>	<b>12,264</b>	<b>13,768</b>
<b>Cash Flows from Investing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
Net (purchase)/sale of physical assets	(6,198)	(7,971)	(6,890)	(8,661)	(8,248)	(7,064)	(6,550)
Net (purchase)/sale of shares and other securities	1,410	(3,881)	1,723	2,197	(242)	(2,559)	653
Net (purchase)/sale of intangible assets	(687)	(837)	(720)	(840)	(642)	(574)	(521)
Net (issue)/repayment of advances	(1,702)	(1,504)	(911)	(1,319)	(1,143)	(971)	(952)
Net acquisition of investments in associates	113	57	(15)	5	20	55	245
Forecast new capital spending	-	(587)	-	(346)	(1,353)	(1,585)	(1,735)
Top-down capital adjustment	-	625	-	990	150	240	-
<b>Net cash flows from investing activities</b>	<b>(7,064)</b>	<b>(14,098)</b>	<b>(6,813)</b>	<b>(7,974)</b>	<b>(11,458)</b>	<b>(12,458)</b>	<b>(8,860)</b>
<b>Net cash flows from operating and investing activities</b>	<b>1,452</b>	<b>(8,791)</b>	<b>2,170</b>	<b>(228)</b>	<b>(2,123)</b>	<b>(194)</b>	<b>4,908</b>
<b>Cash Flows from Financing Activities</b>							
<b>Cash was provided from/(disbursed to)</b>							
Issues of circulating currency	378	175	302	178	184	189	194
Net issue/(repayment) of government bonds <sup>2</sup>	6,250	7,893	1,765	(3,589)	585	(389)	(5,168)
Net issue/(repayment) of foreign-currency borrowings	2,210	(957)	533	(4,207)	342	7	10
Net issue/(repayment) of other New Zealand dollar borrowings	(5,961)	2,360	(347)	5,860	1,460	1,240	1,032
Dividends paid to minority interests <sup>1</sup>	(509)	(546)	(644)	(415)	(506)	(529)	(540)
<b>Net cash flows from financing activities</b>	<b>2,368</b>	<b>8,925</b>	<b>1,609</b>	<b>(2,173)</b>	<b>2,065</b>	<b>518</b>	<b>(4,472)</b>
<b>Net movement in cash</b>	<b>3,820</b>	<b>134</b>	<b>3,779</b>	<b>(2,401)</b>	<b>(58)</b>	<b>324</b>	<b>436</b>
<b>Opening cash balance</b>	<b>11,982</b>	<b>15,036</b>	<b>15,617</b>	<b>18,976</b>	<b>16,580</b>	<b>16,523</b>	<b>16,850</b>
Foreign-exchange gains/(losses) on opening cash	(185)	(2)	(420)	5	1	3	2
<b>Closing cash balance</b>	<b>15,617</b>	<b>15,168</b>	<b>18,976</b>	<b>16,580</b>	<b>16,523</b>	<b>16,850</b>	<b>17,288</b>

1. Excludes transactions with ACC and NZS Fund.

2. Further information on the proceeds and repayments of government bonds is available in note 23.

*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

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Reconciliation Between the Net Cash Flows from Operations and the Operating Balance</b>							
<b>Net Cash Flows from Operations</b>	<b>8,516</b>	<b>5,307</b>	<b>8,983</b>	<b>7,746</b>	<b>9,335</b>	<b>12,264</b>	<b>13,768</b>
<i>Items included in the operating balance but not in net cash flows from operations</i>							
<b>Gains/(losses)</b>							
Net gains/(losses) on financial instruments	1,117	2,111	5,882	2,770	2,935	3,187	3,440
Net gains/(losses) on non-financial instruments	(8,636)	(54)	1,388	(177)	(78)	(27)	(32)
Minority interest share of net gains/(losses)	12	(4)	(12)	(48)	(19)	(9)	(9)
<b>Total gains/(losses)</b>	<b>(7,507)</b>	<b>2,053</b>	<b>7,258</b>	<b>2,545</b>	<b>2,838</b>	<b>3,151</b>	<b>3,399</b>
<b>Other Non-cash Items in Operating Balance</b>							
Depreciation and amortisation	(4,875)	(5,200)	(5,163)	(5,327)	(5,491)	(5,595)	(5,684)
Cost of concessionary lending	(747)	(842)	(771)	(1,140)	(810)	(746)	(730)
Impairment on financial assets (excluding receivables)	(169)	(126)	55	(114)	(115)	(115)	(117)
Decrease/(increase) in defined benefit retirement plan liabilities	420	505	455	590	547	530	521
Decrease/(increase) in insurance liabilities	(597)	44	(1,142)	125	(1,055)	(1,780)	(1,984)
Other	(85)	(229)	80	(185)	(178)	(181)	(178)
<b>Total other non-cash Items</b>	<b>(6,053)</b>	<b>(5,848)</b>	<b>(6,486)</b>	<b>(6,051)</b>	<b>(7,102)</b>	<b>(7,887)</b>	<b>(8,172)</b>
<b>Movements in Working Capital</b>							
Increase/(decrease) in receivables	(532)	188	1,776	226	821	539	751
Increase/(decrease) in accrued interest	169	879	343	359	400	350	422
Increase/(decrease) in inventories	115	(116)	24	(108)	(9)	6	23
Increase/(decrease) in prepayments	70	(14)	(17)	(17)	8	2	44
Decrease/(increase) in deferred revenue	(66)	3	119	(48)	(74)	(5)	(44)
Decrease/(increase) in payables/provisions	(81)	606	(522)	968	381	758	(53)
<b>Total movements in working capital</b>	<b>(325)</b>	<b>1,546</b>	<b>1,723</b>	<b>1,380</b>	<b>1,527</b>	<b>1,650</b>	<b>1,143</b>
<b>Operating balance (excluding minority interests)</b>	<b>(5,369)</b>	<b>3,058</b>	<b>11,478</b>	<b>5,620</b>	<b>6,598</b>	<b>9,178</b>	<b>10,138</b>

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

## Forecast Statement of Financial Position

as at 30 June

		2016	2017	2017	2018	2019	2020	2021
			Previous					
	Note	Actual \$m	Budget \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m
<b>Assets</b>								
Cash and cash equivalents	13	15,617	15,168	18,976	16,580	16,523	16,850	17,288
Receivables	13	16,789	17,484	18,569	18,163	19,021	19,600	20,393
Marketable securities, deposits and derivatives in gain	13	53,398	53,289	49,384	44,738	44,886	47,464	45,316
Share investments	13	24,217	26,617	30,787	32,844	34,798	36,995	41,038
Advances	13	28,234	28,779	28,640	30,042	31,290	32,411	33,336
Inventory		1,110	863	1,133	1,026	1,017	1,022	1,045
Other assets		2,914	2,301	2,897	2,490	2,509	2,530	2,590
Property, plant and equipment	15	134,499	131,100	144,126	148,853	153,054	155,539	156,688
Equity accounted investments <sup>1</sup>		12,705	12,451	14,167	14,351	14,547	14,740	14,935
Intangible assets and goodwill	16	3,196	3,643	3,532	3,809	3,853	3,820	3,710
Forecast for new capital spending	9	-	618	-	346	1,699	3,284	5,019
Top-down capital adjustment	9	-	(725)	-	(990)	(1,140)	(1,380)	(1,380)
<b>Total assets</b>		<b>292,679</b>	<b>291,588</b>	<b>312,211</b>	<b>312,252</b>	<b>322,057</b>	<b>332,875</b>	<b>339,978</b>
<b>Liabilities</b>								
Issued currency		5,715	6,074	6,017	6,195	6,379	6,568	6,762
Payables	18	12,029	12,282	14,313	11,705	11,969	11,877	11,951
Deferred revenue		2,178	2,127	2,058	2,107	2,180	2,185	2,229
Borrowings		113,956	121,698	112,962	110,594	113,185	113,940	109,466
Insurance liabilities	19	42,126	39,281	42,881	42,756	43,811	45,591	47,574
Retirement plan liabilities	20	12,442	10,782	11,005	10,415	9,868	9,338	8,817
Provisions	21	8,712	6,919	8,263	8,129	7,746	7,305	6,986
<b>Total liabilities</b>		<b>197,158</b>	<b>199,163</b>	<b>197,499</b>	<b>191,901</b>	<b>195,138</b>	<b>196,804</b>	<b>193,785</b>
<b>Total assets less total liabilities</b>		<b>95,521</b>	<b>92,425</b>	<b>114,712</b>	<b>120,351</b>	<b>126,919</b>	<b>136,071</b>	<b>146,193</b>
<b>Net Worth</b>								
Taxpayers' funds		13,932	20,087	25,565	31,547	38,327	47,930	58,312
Property, plant and equipment revaluation reserve		75,626	66,623	83,455	83,096	82,935	82,538	82,329
Other reserves		(192)	(69)	(141)	(130)	(106)	(88)	(71)
<b>Total net worth attributable to the Crown</b>		<b>89,366</b>	<b>86,641</b>	<b>108,879</b>	<b>114,513</b>	<b>121,156</b>	<b>130,380</b>	<b>140,570</b>
Net worth attributable to minority interest		6,155	5,784	5,833	5,838	5,763	5,691	5,623
<b>Total net worth</b>	22	<b>95,521</b>	<b>92,425</b>	<b>114,712</b>	<b>120,351</b>	<b>126,919</b>	<b>136,071</b>	<b>146,193</b>

1. Tertiary education institutions constitute most of the equity accounted investments.

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

## Forecast Statement of Borrowings

as at 30 June

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Borrowings</b>							
Government bonds	65,046	71,308	64,828	60,718	61,107	60,445	54,960
Treasury bills	3,799	3,809	4,071	4,094	4,017	3,942	3,865
Government retail stock	201	190	192	192	192	192	192
Settlement deposits with Reserve Bank	6,878	7,657	6,189	6,189	6,189	6,189	6,189
Derivatives in loss	4,577	3,531	2,926	2,606	2,210	2,022	1,849
Finance lease liabilities	1,631	2,406	2,264	2,394	2,532	2,425	2,165
Other borrowings	31,824	32,797	32,492	34,401	36,938	38,725	40,246
<b>Total borrowings</b>	<b>113,956</b>	<b>121,698</b>	<b>112,962</b>	<b>110,594</b>	<b>113,185</b>	<b>113,940</b>	<b>109,466</b>
Sovereign-guaranteed debt	84,043	90,594	82,411	78,445	78,672	77,808	72,105
Non sovereign-guaranteed debt	29,913	31,104	30,551	32,149	34,513	36,132	37,361
<b>Total borrowings</b>	<b>113,956</b>	<b>121,698</b>	<b>112,962</b>	<b>110,594</b>	<b>113,185</b>	<b>113,940</b>	<b>109,466</b>
<b>Net Debt:</b>							
Core Crown borrowings <sup>1</sup>	95,037	102,812	94,479	91,134	91,754	91,416	86,226
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(1,754)	(1,651)	(1,437)	(1,445)	(1,457)	(1,466)	(1,469)
<b>Gross sovereign-issued debt<sup>2</sup></b>	<b>93,283</b>	<b>101,161</b>	<b>93,042</b>	<b>89,689</b>	<b>90,297</b>	<b>89,950</b>	<b>84,757</b>
Less core Crown financial assets <sup>3</sup>	75,793	80,236	80,343	76,273	77,999	81,928	82,801
<b>Net core Crown debt</b>	<b>17,490</b>	<b>20,925</b>	<b>12,699</b>	<b>13,416</b>	<b>12,298</b>	<b>8,022</b>	<b>1,956</b>
Add back core Crown advances	14,612	14,572	12,040	12,285	12,434	12,368	12,292
<b>Net core Crown debt (incl. NZS Fund)<sup>4</sup></b>	<b>32,102</b>	<b>35,497</b>	<b>24,739</b>	<b>25,701</b>	<b>24,732</b>	<b>20,390</b>	<b>14,248</b>
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets <sup>5</sup>	29,778	30,837	35,821	36,538	38,982	41,588	46,559
<b>Net core Crown debt (excl. NZS Fund and advances)<sup>6</sup></b>	<b>61,880</b>	<b>66,334</b>	<b>60,560</b>	<b>62,239</b>	<b>63,714</b>	<b>61,978</b>	<b>60,807</b>
<b>Gross Debt:</b>							
Gross sovereign-issued debt <sup>2</sup>	93,283	101,161	93,042	89,689	90,297	89,950	84,757
Less Reserve Bank settlement cash and Reserve Bank bills	(7,955)	(8,881)	(6,921)	(6,921)	(6,921)	(6,921)	(6,921)
Add back changes to DMO borrowing owing to settlement cash <sup>7</sup>	1,600	1,600	1,600	1,600	1,600	1,600	1,600
<b>Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills<sup>4</sup></b>	<b>86,928</b>	<b>93,880</b>	<b>87,721</b>	<b>84,368</b>	<b>84,976</b>	<b>84,629</b>	<b>79,436</b>

### Notes on borrowings

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

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

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

## Statement of Actual Commitments

	As at 31 May 2017 \$m	As at 30 June 2016 \$m
<b>Capital Commitments</b>		
State highways	5,657	5,398
Specialist military equipment	525	235
Land and buildings	2,627	2,200
Other property, plant and equipment	2,247	2,578
Other capital commitments	225	246
Tertiary education institutions	533	533
<b>Total capital commitments</b>	<b>11,814</b>	<b>11,190</b>
<b>Operating Commitments</b>		
Non-cancellable accommodation leases	3,272	3,197
Other non-cancellable leases	2,446	2,411
Tertiary education institutions	730	730
<b>Total operating commitments</b>	<b>6,448</b>	<b>6,338</b>
<b>Total commitments</b>	<b>18,262</b>	<b>17,528</b>
<b>Total Commitments by Segment</b>		
Core Crown	6,085	5,102
Crown entities	8,636	8,392
State-owned Enterprises	4,643	4,826
Inter-segment eliminations	(1,102)	(792)
<b>Total commitments</b>	<b>18,262</b>	<b>17,528</b>

## Statement of Actual Contingent Liabilities and Assets

	As at 31 May 2017 \$m	As at 30 June 2016 \$m
<b>Quantifiable Contingent Liabilities</b>		
Uncalled capital	7,848	7,910
Guarantees and indemnities	661	288
Legal proceedings and disputes	266	221
Other contingent liabilities	303	314
<b>Total quantifiable contingent liabilities</b>	<b>9,078</b>	<b>8,733</b>
<b>Total Quantifiable Contingent Liabilities by Segment</b>		
Core Crown	8,923	8,593
Crown entities	11	40
State-owned Enterprises	144	100
Inter-segment eliminations	-	-
<b>Total quantifiable contingent liabilities</b>	<b>9,078</b>	<b>8,733</b>
<b>Quantifiable Contingent Assets by Segment</b>		
Core Crown	51	51
Crown entities	1	1
State-owned Enterprises	46	21
<b>Total quantifiable contingent assets</b>	<b>98</b>	<b>73</b>

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

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



## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 1: Sovereign Revenue (Accrual)</b>							
<b>Taxation Revenue (accrual)</b>							
<b>Individuals</b>							
Source deductions	27,019	27,778	28,649	29,624	30,108	31,733	33,259
Other persons	5,786	5,865	6,291	6,521	6,685	6,871	7,171
Refunds	(1,739)	(1,712)	(1,737)	(1,738)	(1,719)	(1,634)	(1,670)
Fringe benefit tax	502	547	540	549	577	602	624
<b>Total individuals</b>	<b>31,568</b>	<b>32,478</b>	<b>33,743</b>	<b>34,956</b>	<b>35,651</b>	<b>37,572</b>	<b>39,384</b>
<b>Corporate Tax</b>							
Gross companies tax	10,566	10,645	12,286	12,645	13,488	14,270	14,951
Refunds	(238)	(207)	(188)	(206)	(222)	(233)	(245)
Non-resident withholding tax	734	504	599	606	659	743	808
Foreign-source dividend w/holding payments	(8)	2	(10)	-	-	-	-
<b>Total corporate tax</b>	<b>11,054</b>	<b>10,944</b>	<b>12,687</b>	<b>13,045</b>	<b>13,925</b>	<b>14,780</b>	<b>15,514</b>
<b>Other Direct Income Tax</b>							
Resident w/holding tax on interest income	1,667	1,629	1,465	1,604	1,772	2,231	2,581
Resident w/holding tax on dividend income	626	604	743	756	792	835	869
<b>Total other direct income tax</b>	<b>2,293</b>	<b>2,233</b>	<b>2,208</b>	<b>2,360</b>	<b>2,564</b>	<b>3,066</b>	<b>3,450</b>
<b>Total direct income tax</b>	<b>44,915</b>	<b>45,655</b>	<b>48,638</b>	<b>50,361</b>	<b>52,140</b>	<b>55,418</b>	<b>58,348</b>
<b>Goods and Services Tax</b>							
Gross goods and services tax	29,366	29,855	31,278	32,628	33,819	35,262	36,787
Refunds	(11,158)	(10,801)	(11,615)	(12,223)	(12,288)	(12,780)	(13,408)
<b>Total goods and services tax</b>	<b>18,208</b>	<b>19,054</b>	<b>19,663</b>	<b>20,405</b>	<b>21,531</b>	<b>22,482</b>	<b>23,379</b>
<b>Other Indirect Taxation</b>							
Road user charges	1,381	1,361	1,458	1,464	1,497	1,534	1,574
Petroleum fuels excise – domestic production	1,185	1,176	1,142	1,242	1,259	1,277	1,291
Alcohol excise – domestic production	671	666	681	712	728	751	774
Tobacco excise – domestic production	362	345	344	356	369	382	396
Petroleum fuels excise – imports <sup>1</sup>	691	660	768	701	711	720	728
Alcohol excise – imports <sup>1</sup>	276	265	301	305	312	322	332
Tobacco excise – imports <sup>1</sup>	1,348	1,342	1,325	1,351	1,402	1,455	1,510
Other customs duty	127	175	153	153	153	153	153
Gaming duties	220	220	245	247	253	257	263
Motor vehicle fees	214	225	231	232	236	238	241
Approved issuer levy and cheque duty	42	46	32	27	36	44	44
Energy resources levies	28	31	31	30	30	30	30
<b>Total other indirect taxation</b>	<b>6,545</b>	<b>6,512</b>	<b>6,711</b>	<b>6,820</b>	<b>6,986</b>	<b>7,163</b>	<b>7,336</b>
<b>Total indirect taxation</b>	<b>24,753</b>	<b>25,566</b>	<b>26,374</b>	<b>27,225</b>	<b>28,517</b>	<b>29,645</b>	<b>30,715</b>
<b>Total taxation revenue</b>	<b>69,668</b>	<b>71,221</b>	<b>75,012</b>	<b>77,586</b>	<b>80,657</b>	<b>85,063</b>	<b>89,063</b>
<b>Other Sovereign Revenue (accrual)</b>							
ACC levies	2,819	2,668	2,824	2,709	2,874	3,251	3,426
Fire Service levies	372	363	392	518	499	504	509
EQC levies	280	290	283	315	384	388	392
Child support and working for families penalties	278	274	262	264	265	264	264
Court fines	100	111	103	96	96	96	96
Other miscellaneous items	794	887	1,123	1,177	1,304	1,323	1,353
<b>Total other sovereign revenue</b>	<b>4,643</b>	<b>4,593</b>	<b>4,987</b>	<b>5,079</b>	<b>5,422</b>	<b>5,826</b>	<b>6,040</b>
<b>Total sovereign revenue</b>	<b>74,311</b>	<b>75,814</b>	<b>79,999</b>	<b>82,665</b>	<b>86,079</b>	<b>90,889</b>	<b>95,103</b>

1. Customs excise-equivalent duty.

## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 1 (continued): Sovereign Receipts (Cash)</b>							
<b>Taxation Receipts (cash)</b>							
<b>Individuals</b>							
Source deductions	26,851	27,664	28,437	29,596	29,940	31,556	33,073
Other persons	6,170	6,196	6,683	6,872	7,116	7,317	7,548
Refunds	(2,540)	(2,438)	(2,540)	(2,527)	(2,585)	(2,533)	(2,535)
Fringe benefit tax	506	546	526	549	577	602	624
<b>Total individuals</b>	<b>30,987</b>	<b>31,968</b>	<b>33,106</b>	<b>34,490</b>	<b>35,048</b>	<b>36,942</b>	<b>38,710</b>
<b>Corporate Tax</b>							
Gross companies tax	11,287	10,739	12,135	12,631	13,733	14,618	15,266
Refunds	(905)	(613)	(586)	(616)	(651)	(685)	(724)
Non-resident withholding tax	636	504	583	606	659	743	808
Foreign-source dividend w/holding payments	(5)	2	3	-	-	-	-
<b>Total corporate tax</b>	<b>11,013</b>	<b>10,632</b>	<b>12,135</b>	<b>12,621</b>	<b>13,741</b>	<b>14,676</b>	<b>15,350</b>
<b>Other Direct Income Tax</b>							
Resident w/holding tax on interest income	1,727	1,628	1,446	1,604	1,772	2,231	2,581
Resident w/holding tax on dividend income	620	604	729	756	792	835	869
<b>Total other direct income tax</b>	<b>2,347</b>	<b>2,232</b>	<b>2,175</b>	<b>2,360</b>	<b>2,564</b>	<b>3,066</b>	<b>3,450</b>
<b>Total direct income tax</b>	<b>44,347</b>	<b>44,832</b>	<b>47,416</b>	<b>49,471</b>	<b>51,353</b>	<b>54,684</b>	<b>57,510</b>
<b>Goods and Services Tax</b>							
Gross goods and services tax	28,962	29,283	30,679	32,130	33,352	34,798	36,311
Refunds	(10,973)	(10,551)	(11,584)	(12,063)	(12,128)	(12,620)	(13,248)
<b>Total goods and services tax</b>	<b>17,989</b>	<b>18,732</b>	<b>19,095</b>	<b>20,067</b>	<b>21,224</b>	<b>22,178</b>	<b>23,063</b>
<b>Other Indirect Taxation</b>							
Road user charges	1,379	1,361	1,458	1,464	1,497	1,534	1,574
Petroleum fuels excise – domestic production	1,187	1,176	1,135	1,242	1,259	1,277	1,291
Alcohol excise – domestic production	667	666	678	712	728	751	774
Tobacco excise – domestic production	370	345	330	356	369	382	396
Customs duty	2,553	2,424	2,525	2,516	2,572	2,644	2,718
Gaming duties	220	220	245	247	253	257	263
Motor vehicle fees	240	225	231	232	236	238	241
Approved issuer levy and cheque duty	47	46	34	27	36	44	44
Energy resources levies	28	31	31	30	30	30	30
<b>Total other indirect taxation</b>	<b>6,691</b>	<b>6,494</b>	<b>6,667</b>	<b>6,826</b>	<b>6,980</b>	<b>7,157</b>	<b>7,331</b>
<b>Total indirect taxation</b>	<b>24,680</b>	<b>25,226</b>	<b>25,762</b>	<b>26,893</b>	<b>28,204</b>	<b>29,335</b>	<b>30,394</b>
<b>Total taxation receipts</b>	<b>69,027</b>	<b>70,058</b>	<b>73,178</b>	<b>76,364</b>	<b>79,557</b>	<b>84,019</b>	<b>87,904</b>
<b>Other Sovereign Receipts (cash)</b>							
ACC levies	3,137	2,602	2,809	2,685	2,729	3,235	3,360
Fire Service levies	371	362	384	486	459	500	518
EQC levies	282	289	282	298	383	388	392
Child support and working for families penalties	211	212	204	212	212	211	210
Court fines	129	152	120	119	119	119	119
Other miscellaneous items	555	537	681	631	639	606	606
<b>Total other sovereign receipts</b>	<b>4,685</b>	<b>4,154</b>	<b>4,480</b>	<b>4,431</b>	<b>4,541</b>	<b>5,059</b>	<b>5,205</b>
<b>Total sovereign receipts</b>	<b>73,712</b>	<b>74,212</b>	<b>77,658</b>	<b>80,795</b>	<b>84,098</b>	<b>89,078</b>	<b>93,109</b>

## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m

### NOTE 2: Interest Revenue and Dividends

#### By type

Interest revenue	2,788	3,431	2,754	2,857	2,955	3,124	3,297
Dividends	815	836	872	915	966	1,018	1,064

#### Total interest revenue and dividends

	<b>3,603</b>	<b>4,267</b>	<b>3,626</b>	<b>3,772</b>	<b>3,921</b>	<b>4,142</b>	<b>4,361</b>
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#### By source

Core Crown	2,389	3,254	2,626	2,512	2,569	2,726	2,900
Crown entities	1,484	1,411	1,439	1,405	1,434	1,468	1,473
State-owned Enterprises	997	1,114	912	1,020	1,076	1,143	1,197
Inter-segment eliminations	(1,267)	(1,512)	(1,351)	(1,165)	(1,158)	(1,195)	(1,209)

#### Total interest revenue and dividends

	<b>3,603</b>	<b>4,267</b>	<b>3,626</b>	<b>3,772</b>	<b>3,921</b>	<b>4,142</b>	<b>4,361</b>
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### NOTE 3: Transfer Payments and Subsidies

New Zealand superannuation	12,267	12,912	13,043	13,682	14,412	15,281	16,085
Family tax credit	1,793	1,797	1,723	1,822	2,088	2,023	2,006
Jobseeker support and emergency benefit	1,671	1,677	1,697	1,671	1,629	1,559	1,549
Supported living payment	1,523	1,515	1,533	1,536	1,543	1,561	1,574
Accommodation assistance	1,164	1,149	1,127	1,213	1,484	1,493	1,513
Sole parent support	1,153	1,199	1,159	1,086	1,043	1,048	1,065
Income related rents	755	827	815	933	985	1,048	1,105
KiwiSaver subsidies	698	738	805	828	869	909	954
Other working for families tax credits	559	645	596	585	581	576	571
Official development assistance	534	592	539	644	586	586	586
Student allowances	486	510	477	505	517	519	526
Disability assistance	377	376	377	379	381	382	384
Other social assistance benefits	1,332	1,458	1,488	1,610	1,528	1,513	1,553

#### Total transfer payments and subsidies

	<b>24,312</b>	<b>25,395</b>	<b>25,379</b>	<b>26,494</b>	<b>27,646</b>	<b>28,498</b>	<b>29,471</b>
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### NOTE 4: Personnel Expenses

#### By source

Core Crown	6,666	6,899	6,909	7,174	7,167	7,141	7,151
Crown entities	12,205	12,413	12,669	12,968	13,051	13,083	13,244
State-owned Enterprises	2,921	2,855	2,863	2,880	2,999	3,146	3,280
Inter-segment eliminations	(29)	(23)	(36)	(37)	(37)	(37)	(38)

#### Total personnel expenses

	<b>21,763</b>	<b>22,144</b>	<b>22,405</b>	<b>22,985</b>	<b>23,180</b>	<b>23,333</b>	<b>23,637</b>
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### NOTE 5: Depreciation and Amortisation

#### By source

Core Crown	1,529	1,586	1,629	1,768	1,821	1,894	1,949
Crown entities	1,686	1,929	1,702	1,779	1,836	1,850	1,871
State-owned Enterprises	1,660	1,685	1,832	1,780	1,834	1,851	1,864
Inter-segment eliminations	-	-	-	-	-	-	-

#### Total depreciation and amortisation

	<b>4,875</b>	<b>5,200</b>	<b>5,163</b>	<b>5,327</b>	<b>5,491</b>	<b>5,595</b>	<b>5,684</b>
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### NOTE 6: Other Operating Expenses

#### By source

Core Crown	37,832	40,316	39,380	42,787	42,178	41,945	42,474
Crown entities	18,613	19,023	19,497	20,463	20,138	19,868	20,382
State-owned Enterprises	8,464	9,332	8,918	9,683	10,169	10,555	10,917
Inter-segment eliminations	(29,040)	(30,005)	(30,007)	(31,390)	(31,319)	(31,265)	(31,944)

#### Total other operating expenses

	<b>35,869</b>	<b>38,666</b>	<b>37,788</b>	<b>41,543</b>	<b>41,166</b>	<b>41,103</b>	<b>41,829</b>
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## Notes to the Forecast Financial Statements

	2016 Actual \$m	2017 Previous Budget \$m	2017 Forecast \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
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### NOTE 7: Finance Costs

#### By type

Interest on financial liabilities	4,297	4,502	4,158	4,178	4,094	4,146	4,125
Interest unwind on provisions	39	64	30	37	34	32	33
<b>Total finance costs</b>	<b>4,336</b>	<b>4,566</b>	<b>4,188</b>	<b>4,215</b>	<b>4,128</b>	<b>4,178</b>	<b>4,158</b>

#### By source

Core Crown	3,590	3,682	3,540	3,445	3,393	3,422	3,424
Crown entities	215	209	109	53	60	68	74
State-owned Enterprises	1,154	1,276	1,068	1,154	1,127	1,158	1,137
Inter-segment eliminations	(623)	(601)	(529)	(437)	(452)	(470)	(477)
<b>Total finance costs</b>	<b>4,336</b>	<b>4,566</b>	<b>4,188</b>	<b>4,215</b>	<b>4,128</b>	<b>4,178</b>	<b>4,158</b>

### NOTE 8: Insurance Expenses

#### By entity

ACC	4,166	4,251	4,597	4,799	4,968	5,415	5,743
EQC	337	34	338	(143)	103	199	200
Southern Response	200	(56)	294	(66)	(29)	-	-
Other (incl. inter-segment eliminations)	22	10	11	8	9	9	8
<b>Total insurance expenses</b>	<b>4,725</b>	<b>4,239</b>	<b>5,240</b>	<b>4,598</b>	<b>5,051</b>	<b>5,623</b>	<b>5,951</b>

### NOTE 9: Forecast New Spending and Top-down Expense Adjustment

	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
<b>Forecast New Operating Spending</b>				
Unallocated contingencies	492	333	320	359
Forecast new spending for Budget 2018	-	1,701	1,692	1,633
Forecast new spending for Budget 2019	-	-	1,734	1,734
Forecast new spending for Budget 2020	-	-	-	1,769
<b>Total forecast new operating spending</b>	<b>492</b>	<b>2,034</b>	<b>3,746</b>	<b>5,495</b>
<b>Operating top-down adjustment</b>	<b>(1,175)</b>	<b>(570)</b>	<b>(525)</b>	<b>(500)</b>

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

The forecast for new operating spending for Budget 2018 is \$1.7 billion. It has been assumed that some of the allowances will be used to fund current commitments. Therefore the spending above represents the remaining allowances as at the forecast finalisation date of 7 August 2017, with only the unallocated portion of the allowance included in this note.

	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m	Post-2021 Forecast \$m	Total Forecast \$m
<b>Forecast New Capital Spending (annual)</b>						
Unallocated contingencies	276	765	465	245	-	1,751
Forecast new spending for Budget 2018	70	488	195	320	200	1,273
Forecast new spending for Budget 2019	-	100	825	245	603	1,773
Forecast new spending for Budget 2020	-	-	100	825	1,148	2,073
Forecast new spending for Budget 2021	-	-	-	100	2,400	2,500
<b>Total forecast new capital spending</b>	<b>346</b>	<b>1,353</b>	<b>1,585</b>	<b>1,735</b>	<b>4,351</b>	<b>9,370</b>
<b>Forecast new capital spending (cumulative)</b>	<b>346</b>	<b>1,699</b>	<b>3,284</b>	<b>5,019</b>		
<b>Capital top-down adjustment (cumulative)</b>	<b>(990)</b>	<b>(1,140)</b>	<b>(1,380)</b>	<b>(1,380)</b>		

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

The forecast for new capital spending for Budget 2018 is \$2.0 billion. Budgets 2019 to 2021 are \$2.5 billion. It has been assumed that some of these allowances will be used to fund current Government commitments. Therefore the spending above represents the remaining allowances as at the forecast finalisation date of 7 August 2017, with only the unallocated portion of the allowance included in this note.

## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m

### NOTE 10: Net Gains and Losses on Financial Instruments

#### By source

Core Crown	299	1,971	5,269	2,481	2,669	2,892	3,100
Crown entities	1,793	294	834	219	284	350	396
State-owned Enterprises	(51)	30	118	174	98	76	82
Inter-segment eliminations	(924)	(184)	(339)	(104)	(116)	(131)	(138)
<b>Net gains/(losses) on financial instruments</b>	<b>1,117</b>	<b>2,111</b>	<b>5,882</b>	<b>2,770</b>	<b>2,935</b>	<b>3,187</b>	<b>3,440</b>

### NOTE 11: Net Gains and Losses on Non-Financial Instruments

#### By type

Actuarial gains/(losses) on ACC outstanding claims	(5,099)	-	387	-	-	-	-
Actuarial gains/(losses) on GSF liability	(2,028)	-	982	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(1,503)	-	73	(59)	-	-	-
Other	(6)	(54)	(54)	(118)	(78)	(27)	(32)
<b>Net gains/(losses) on non-financial instruments</b>	<b>(8,636)</b>	<b>(54)</b>	<b>1,388</b>	<b>(177)</b>	<b>(78)</b>	<b>(27)</b>	<b>(32)</b>

#### By source

Core Crown	(3,558)	(3)	1,038	(92)	(1)	(1)	(1)
Crown entities	(5,093)	(51)	361	(85)	(77)	(27)	(29)
State-owned Enterprises	57	-	(5)	-	-	-	-
Inter-segment eliminations	(42)	-	(6)	-	-	1	(2)
<b>Net gains/(losses) on non-financial instruments</b>	<b>(8,636)</b>	<b>(54)</b>	<b>1,388</b>	<b>(177)</b>	<b>(78)</b>	<b>(27)</b>	<b>(32)</b>

### NOTE 12: Operating Balance (excluding Minority Interests)

#### By source

Core Crown	(912)	3,217	11,610	6,070	6,873	9,317	10,407
Crown entities	(3,480)	178	206	(253)	(82)	(45)	(81)
State-owned Enterprises	720	767	706	669	726	825	847
Inter-segment eliminations	(1,697)	(1,104)	(1,044)	(866)	(919)	(919)	(1,035)
<b>Total operating balance</b>	<b>(5,369)</b>	<b>3,058</b>	<b>11,478</b>	<b>5,620</b>	<b>6,598</b>	<b>9,178</b>	<b>10,138</b>

### NOTE 13: Financial Assets (including receivables)

Cash and cash equivalents	15,617	15,168	18,976	16,580	16,523	16,850	17,288
Tax receivables	9,161	9,263	10,286	10,772	11,095	11,414	11,827
Trade and other receivables	7,628	8,221	8,283	7,391	7,926	8,186	8,566
Student loans (refer note 14)	8,982	9,260	9,197	9,229	9,178	9,046	8,828
KiwiBank mortgages	16,689	17,753	17,716	18,892	19,992	21,092	22,192
Long-term deposits	4,791	4,875	4,267	3,786	3,779	3,783	3,774
IMF financial assets	1,897	2,299	1,837	1,837	1,837	1,837	1,837
Other advances	2,563	1,766	1,727	1,921	2,120	2,273	2,316
Share investments	24,217	26,617	30,787	32,844	34,798	36,995	41,038
Derivatives in gain	5,888	2,758	4,336	3,792	3,658	3,525	3,453
Other marketable securities	40,822	43,357	38,944	35,323	35,612	38,319	36,252
<b>Total financial assets (including receivables)</b>	<b>138,255</b>	<b>141,337</b>	<b>146,356</b>	<b>142,367</b>	<b>146,518</b>	<b>153,320</b>	<b>157,371</b>

#### Financial Assets by Entity

NZDMO	22,258	23,832	18,398	13,438	12,542	13,659	9,394
Reserve Bank of New Zealand	20,079	21,487	19,306	18,835	19,293	19,502	19,701
NZS Fund	30,561	32,759	37,345	37,421	39,886	42,527	47,538
Other core Crown	23,609	22,311	28,047	27,947	27,658	27,994	28,245
Intra-segment eliminations	(8,493)	(7,575)	(8,888)	(7,935)	(7,520)	(7,463)	(7,256)
<b>Total core Crown segment</b>	<b>88,014</b>	<b>92,814</b>	<b>94,208</b>	<b>89,706</b>	<b>91,859</b>	<b>96,219</b>	<b>97,622</b>
ACC portfolio	37,840	38,067	39,458	40,277	41,474	42,807	44,191
EQC portfolio	1,996	670	1,091	198	55	164	301
Other Crown entities	10,660	8,404	10,744	10,063	9,496	9,513	9,517
Intra-segment eliminations	(3,011)	(2,246)	(3,226)	(2,651)	(2,107)	(1,966)	(1,798)
<b>Total Crown entities segment</b>	<b>47,485</b>	<b>44,895</b>	<b>48,067</b>	<b>47,887</b>	<b>48,918</b>	<b>50,518</b>	<b>52,211</b>
<b>Total state-owned enterprises segment</b>	<b>24,237</b>	<b>24,167</b>	<b>24,633</b>	<b>25,705</b>	<b>27,013</b>	<b>28,331</b>	<b>29,745</b>
Inter-segment eliminations	(21,481)	(20,539)	(20,552)	(20,931)	(21,272)	(21,748)	(22,207)
<b>Total financial assets (including receivables)</b>	<b>138,255</b>	<b>141,337</b>	<b>146,356</b>	<b>142,367</b>	<b>146,518</b>	<b>153,320</b>	<b>157,371</b>

## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 14: Student Loans</b>							
Nominal value (including accrued interest)	15,340	15,709	15,735	16,000	16,182	16,291	16,335
Opening book value	8,864	9,097	8,982	9,197	9,229	9,178	9,046
Net new lending (excluding fees)	1,512	1,580	1,493	1,533	1,544	1,557	1,579
New lending - establishment fee	10	11	(7)	10	10	10	11
Less initial write-down to fair value	(659)	(689)	(662)	(670)	(669)	(674)	(683)
Repayments made during the year	(1,208)	(1,247)	(1,273)	(1,336)	(1,427)	(1,509)	(1,596)
Interest unwind	603	608	602	595	591	584	571
Impairment	(140)	(100)	62	(100)	(100)	(100)	(100)
Other movements	-	-	-	-	-	-	-
<b>Closing book value</b>	<b>8,982</b>	<b>9,260</b>	<b>9,197</b>	<b>9,229</b>	<b>9,178</b>	<b>9,046</b>	<b>8,828</b>
<b>NOTE 15: Property, Plant and Equipment</b>							
<b>Net Carrying Value<sup>1</sup></b>							
<b>By class of asset</b>							
Land	44,959	40,046	48,703	49,029	49,472	49,687	49,197
Buildings	31,490	31,070	34,090	34,646	35,381	35,281	35,528
State highways	22,347	23,686	24,251	26,239	28,194	29,994	31,169
Electricity generation assets	15,719	14,398	15,799	15,573	15,392	15,101	14,829
Electricity distribution network (cost)	4,073	4,313	3,966	3,865	3,809	3,688	3,559
Aircraft (excluding military)	3,860	4,744	4,432	4,856	5,277	5,415	5,434
Specialist military equipment	3,070	3,319	3,004	3,299	3,419	3,410	3,229
Specified cultural and heritage assets	3,035	3,007	3,032	3,036	3,041	3,054	3,072
Rail network <sup>2</sup>	959	1,194	1,017	1,380	1,751	2,146	2,636
Other plant and equipment (cost)	4,987	5,323	5,832	6,930	7,318	7,763	8,035
<b>Total property, plant and equipment</b>	<b>134,499</b>	<b>131,100</b>	<b>144,126</b>	<b>148,853</b>	<b>153,054</b>	<b>155,539</b>	<b>156,688</b>
<b>By source</b>							
Core Crown	35,697	34,734	39,147	41,128	42,209	42,721	42,981
Crown entities	66,769	64,898	72,187	74,910	77,755	79,862	81,035
State-owned Enterprises	32,033	31,468	32,792	32,815	33,090	32,956	32,672
Inter-segment eliminations	-	-	-	-	-	-	-
<b>Total property, plant and equipment</b>	<b>134,499</b>	<b>131,100</b>	<b>144,126</b>	<b>148,853</b>	<b>153,054</b>	<b>155,539</b>	<b>156,688</b>
<b>Land breakdown by usage</b>							
Housing	15,632	13,066	17,778	17,883	18,008	18,069	18,136
State highway corridor land	9,757	9,343	10,575	10,551	10,525	10,475	10,425
Conservation land	5,691	5,515	5,688	5,700	5,710	5,721	5,732
Rail network	3,354	3,316	3,497	3,484	3,476	3,474	3,472
Schools	4,770	3,433	5,708	5,743	5,882	5,954	5,981
Commercial (SOEs) excluding Rail	1,306	1,675	1,244	1,230	1,247	1,273	1,296
Other	4,449	3,698	4,213	4,438	4,624	4,721	4,155
<b>Total land</b>	<b>44,959</b>	<b>40,046</b>	<b>48,703</b>	<b>49,029</b>	<b>49,472</b>	<b>49,687</b>	<b>49,197</b>

1. Using a revaluation methodology unless otherwise stated.

2. Includes the Crown's share of costs in the Auckland City Rail Link.

## Notes to the Forecast Financial Statements

	2016 Actual \$m	2017 Previous Budget \$m	2017 Forecast \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
<b>NOTE 15: Property, Plant and Equipment</b>							
<b>Schedule of Movements</b>							
<b>Cost or Valuation</b>							
Opening balance	138,681	145,209	149,806	162,320	170,873	179,637	186,782
Additions <sup>2</sup>	7,608	9,421	8,420	10,058	9,509	8,144	7,510
Disposals	(1,747)	(1,722)	(1,199)	(1,384)	(593)	(830)	(1,499)
Net revaluations	6,371	-	6,017	-	-	-	-
Other <sup>1</sup>	(1,107)	(106)	(724)	(121)	(152)	(169)	(104)
<b>Total cost or valuation</b>	<b>149,806</b>	<b>152,802</b>	<b>162,320</b>	<b>170,873</b>	<b>179,637</b>	<b>186,782</b>	<b>192,689</b>
<b>Accumulated Depreciation and Impairment</b>							
Opening balance	14,123	18,208	15,307	18,194	22,020	26,583	31,243
Eliminated on disposal	(399)	(962)	(664)	(705)	(91)	(98)	(99)
Eliminated on revaluation	(2,475)	-	(911)	(46)	(38)	(27)	(20)
Impairment losses charged to operating balance	288	-	-	-	-	-	-
Depreciation expense	3,912	4,456	4,497	4,554	4,696	4,788	4,880
Other <sup>1</sup>	(142)	-	(35)	23	(4)	(3)	(3)
<b>Total accumulated depreciation and impairment</b>	<b>15,307</b>	<b>21,702</b>	<b>18,194</b>	<b>22,020</b>	<b>26,583</b>	<b>31,243</b>	<b>36,001</b>
<b>Total property, plant and equipment</b>	<b>134,499</b>	<b>131,100</b>	<b>144,126</b>	<b>148,853</b>	<b>153,054</b>	<b>155,539</b>	<b>156,688</b>

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

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

### NOTE 16: Intangible Assets and Goodwill

#### By type

Goodwill	602	600	687	688	688	688	688
Other intangible assets	2,594	3,043	2,845	3,121	3,165	3,132	3,022
<b>Total intangible assets and goodwill</b>	<b>3,196</b>	<b>3,643</b>	<b>3,532</b>	<b>3,809</b>	<b>3,853</b>	<b>3,820</b>	<b>3,710</b>

#### By source

Core Crown	1,351	1,601	1,520	1,693	1,755	1,752	1,667
Crown entities	544	690	517	581	576	571	556
State-owned Enterprises	1,301	1,352	1,495	1,535	1,522	1,497	1,487
Inter-segment eliminations	-	-	-	-	-	-	-
<b>Total intangible assets and goodwill</b>	<b>3,196</b>	<b>3,643</b>	<b>3,532</b>	<b>3,809</b>	<b>3,853</b>	<b>3,820</b>	<b>3,710</b>

## Notes to the Forecast Financial Statements

	2016 Actual \$m	2017 Previous Budget \$m	2017 Forecast \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
<b>NOTE 17: New Zealand Superannuation Fund</b>							
Revenue	752	800	833	813	874	938	1,006
Less current tax expense	512	610	1,134	716	769	824	883
Less other expenses	138	170	228	178	185	196	207
Add gains/(losses)	(76)	1,927	5,507	2,365	2,526	2,699	2,883
<b>Operating balance</b>	<b>26</b>	<b>1,947</b>	<b>4,978</b>	<b>2,284</b>	<b>2,446</b>	<b>2,617</b>	<b>2,799</b>
Opening net worth	29,522	29,042	29,527	34,511	36,818	39,291	41,939
Gross contribution from the Crown	-	-	-	-	-	-	2,183
Operating balance	26	1,947	4,978	2,284	2,446	2,617	2,799
Other movements in reserves	(21)	17	6	23	27	31	37
<b>Closing net worth</b>	<b>29,527</b>	<b>31,006</b>	<b>34,511</b>	<b>36,818</b>	<b>39,291</b>	<b>41,939</b>	<b>46,958</b>
<b>Comprising:</b>							
Financial assets	30,561	32,759	37,345	37,421	39,886	42,527	47,537
Financial liabilities	(2,580)	(2,827)	(4,651)	(2,480)	(2,534)	(2,591)	(2,651)
Net other assets	1,546	1,074	1,817	1,877	1,939	2,003	2,072
<b>Closing net worth</b>	<b>29,527</b>	<b>31,006</b>	<b>34,511</b>	<b>36,818</b>	<b>39,291</b>	<b>41,939</b>	<b>46,958</b>
<b>NOTE 18: Payables</b>							
<b>By type</b>							
Accounts payable <sup>1</sup>	7,508	7,409	9,871	7,261	7,504	7,392	7,444
Taxes repayable	4,521	4,873	4,442	4,444	4,465	4,485	4,507
<b>Total payables</b>	<b>12,029</b>	<b>12,282</b>	<b>14,313</b>	<b>11,705</b>	<b>11,969</b>	<b>11,877</b>	<b>11,951</b>
<b>By source</b>							
Core Crown	8,158	8,804	10,526	7,940	8,184	8,299	8,447
Crown entities	5,734	4,902	5,557	5,386	5,273	5,069	4,894
State-owned Enterprises	5,128	5,020	5,559	5,516	5,558	5,610	5,604
Inter-segment eliminations	(6,991)	(6,444)	(7,329)	(7,137)	(7,046)	(7,101)	(6,994)
<b>Total payables</b>	<b>12,029</b>	<b>12,282</b>	<b>14,313</b>	<b>11,705</b>	<b>11,969</b>	<b>11,877</b>	<b>11,951</b>

1. At 30 June 2017 accounts payable is expected to be higher due to a large value of unsettled trades at 30 June.



## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m

### NOTE 19: Insurance Liabilities

#### By entity

ACC	39,106	38,250	40,298	41,822	43,491	45,292	47,276
EQC	2,485	750	1,859	634	264	242	241
Southern Response	807	215	668	243	-	-	-
Other (incl. inter-segment eliminations)	(272)	66	56	57	56	57	57
<b>Total insurance liabilities</b>	<b>42,126</b>	<b>39,281</b>	<b>42,881</b>	<b>42,756</b>	<b>43,811</b>	<b>45,591</b>	<b>47,574</b>

#### ACC liability

##### Calculation information

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

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), average weekly earnings and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability is based on the discount rates as at 30 June 2017. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 3.80% and allows for a long-term discount rate of 4.75% from 2048.

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

##### Presentation approach

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

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m

#### Gross ACC Liability

Opening gross liability	32,518	36,976	39,106	40,298	41,822	43,491	45,292
Net change	6,588	1,274	1,192	1,524	1,669	1,801	1,984
<b>Closing gross liability</b>	<b>39,106</b>	<b>38,250</b>	<b>40,298</b>	<b>41,822</b>	<b>43,491</b>	<b>45,292</b>	<b>47,276</b>

#### Less Net Assets Available to ACC

Opening net asset value	34,021	36,375	37,241	39,043	39,947	41,154	42,495
Net change	3,220	1,139	1,802	904	1,207	1,341	1,382
<b>Closing net asset value</b>	<b>37,241</b>	<b>37,514</b>	<b>39,043</b>	<b>39,947</b>	<b>41,154</b>	<b>42,495</b>	<b>43,877</b>

#### Net ACC Reserves (Net Liability)

Opening reserves position	1,503	(601)	(1,865)	(1,255)	(1,875)	(2,337)	(2,797)
Net change	(3,368)	(135)	610	(620)	(462)	(460)	(602)
<b>Closing reserves position (net liability)/net asset</b>	<b>(1,865)</b>	<b>(736)</b>	<b>(1,255)</b>	<b>(1,875)</b>	<b>(2,337)</b>	<b>(2,797)</b>	<b>(3,399)</b>

## Notes to the Forecast Financial Statements

### NOTE 19: Insurance Liabilities (continued)

#### EQC liability

##### Calculation information

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

There is a high level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. Some of the key uncertainties are

- outstanding litigation, particularly in respect of ILV land settlements
- the level of remedial activity required on repairs completed under the Canterbury Home Repair Programme, and
- the need to reach an agreed financial settlement position with 3rd parties such as insurers and reinsurers as the Commission seeks to finalise its liability

##### Presentation approach

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

	2016 Actual \$m	2017 Previous Budget \$m	2017 Forecast \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
<b>EQC Liability</b>							
Opening gross liability	2,965	1,908	2,485	1,859	634	264	242
Net change	(480)	(1,158)	(626)	(1,225)	(370)	(22)	(1)
Closing gross liability	<b>2,485</b>	<b>750</b>	<b>1,859</b>	<b>634</b>	<b>264</b>	<b>242</b>	<b>241</b>
<b>Less Reinsurance Receivable</b>							
Opening reinsurance receivable	962	390	515	194	53	1	-
Net change	(447)	(245)	(321)	(141)	(52)	(1)	-
Closing reinsurance receivable	<b>515</b>	<b>145</b>	<b>194</b>	<b>53</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Net EQC Liability</b>							
Opening net position	(2,003)	(1,518)	(1,970)	(1,665)	(581)	(263)	(242)
Net change	33	913	305	1,084	318	21	1
Closing net position (net liability)	<b>(1,970)</b>	<b>(605)</b>	<b>(1,665)</b>	<b>(581)</b>	<b>(263)</b>	<b>(242)</b>	<b>(241)</b>

## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m
<b>NOTE 20: Retirement Plan Liabilities</b>							
Government Superannuation Fund	12,441	10,792	11,004	10,414	9,867	9,337	8,816
Other funds	1	(10)	1	1	1	1	1
<b>Total retirement plan liabilities</b>	<b>12,442</b>	<b>10,782</b>	<b>11,005</b>	<b>10,415</b>	<b>9,868</b>	<b>9,338</b>	<b>8,817</b>

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

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

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 1.67% for the 20 years to 30 June 2037, then increasing gradually each year to 2.0% in the year ended 30 June 2048 and remaining at 2.0% p.a. for all years after that. In addition an annual salary growth rate, before any promotional effects, of 2.5% (unchanged from 31 January 2017).

The 2016/17 projected decrease in the net GSF liability is \$1,437 million, reflecting a decrease in the GSF liability of \$1,134 million and an increase in the GSF net assets of \$303 million.

The decrease in the GSF liability of \$1,134 million includes an actuarial gain between 1 July 2016 and 30 June 2017, of \$766 million, owing to movements in the discount rates partly offset by the impact of movements in CPI rates. The remaining \$368 million reduction is owing to the current service cost, interest unwind and membership changes (increases the liability) offset by the lower than expected benefits to members (reduced the liability).

The increase in the value of the net assets of GSF of \$303 million includes a gain of \$289 million reflecting the updated market value of assets at 30 June 2017. The balance of \$14 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 2016/17 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	Budget	\$m	\$m	\$m	\$m	\$m
<b>GSF Liability</b>							
Opening GSF liability	14,932	15,249	16,406	15,272	14,712	14,195	13,692
Net projected change	1,474	(482)	(1,134)	(560)	(517)	(503)	(496)
Closing GSF liability	<b>16,406</b>	<b>14,767</b>	<b>15,272</b>	<b>14,712</b>	<b>14,195</b>	<b>13,692</b>	<b>13,196</b>
<b>Less Net Assets Available to GSF</b>							
Opening net asset value	4,087	3,952	3,965	4,268	4,298	4,328	4,355
Investment valuation changes	38	212	483	209	210	212	213
Contribution and other income less pension payments	(160)	(189)	(180)	(179)	(180)	(185)	(188)
Closing net asset value	<b>3,965</b>	<b>3,975</b>	<b>4,268</b>	<b>4,298</b>	<b>4,328</b>	<b>4,355</b>	<b>4,380</b>
<b>Net GSF Liability</b>							
Opening unfunded liability	10,845	11,297	12,441	11,004	10,414	9,867	9,337
Net projected change	1,596	(505)	(1,437)	(590)	(547)	(530)	(521)
Closing unfunded liability	<b>12,441</b>	<b>10,792</b>	<b>11,004</b>	<b>10,414</b>	<b>9,867</b>	<b>9,337</b>	<b>8,816</b>

## Notes to the Forecast Financial Statements

	2016 Actual \$m	2017 Previous Budget \$m	2017 Forecast \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
<b>NOTE 21: Provisions</b>							
Provision for employee entitlements	3,604	3,492	3,504	3,550	3,574	3,565	3,656
Provision for ETS credits	2,250	1,169	2,005	2,003	1,769	1,503	1,209
Provision for National Provident Fund guarantee	918	797	856	806	751	700	650
Other provisions	1,940	1,461	1,898	1,770	1,652	1,537	1,471
<b>Total provisions</b>	<b>8,712</b>	<b>6,919</b>	<b>8,263</b>	<b>8,129</b>	<b>7,746</b>	<b>7,305</b>	<b>6,986</b>
<b>By source</b>							
Core Crown	6,633	4,174	6,026	5,753	5,158	4,657	4,540
Crown entities	2,139	2,118	2,220	2,285	2,417	2,508	2,274
State-owned Enterprises	1,271	934	1,050	960	886	725	717
Inter-segment eliminations	(1,331)	(307)	(1,033)	(869)	(715)	(585)	(545)
<b>Total provisions</b>	<b>8,712</b>	<b>6,919</b>	<b>8,263</b>	<b>8,129</b>	<b>7,746</b>	<b>7,305</b>	<b>6,986</b>

### Provision for ETS credits

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

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

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

The ETS impact on the fiscal forecast is as follows:

	2016 Actual \$m	2017 Previous Budget \$m	2017 Forecast \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
Revenue	271	350	442	543	663	716	746
Expenses	(163)	(216)	(270)	(482)	(429)	(450)	(452)
Kyoto compliant units surrender expense	-	-	-	-	-	-	-
Gains/(losses)	(1,503)	-	73	(59)	-	-	-
<b>Operating balance</b>	<b>(1,395)</b>	<b>134</b>	<b>245</b>	<b>2</b>	<b>234</b>	<b>266</b>	<b>294</b>

## Notes to the Forecast Financial Statements

	2016	2017	2017	2018	2019	2020	2021
	Actual	Previous Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>NOTE 22: Changes in Net Worth</b>							
Taxpayers' funds	13,932	20,087	25,565	31,547	38,327	47,930	58,312
Property, plant and equipment revaluation reserve	75,626	66,623	83,455	83,096	82,935	82,538	82,329
Investment revaluation reserve	86	108	94	110	117	124	132
Intangible asset reserve	8	-	8	8	8	8	8
Cash flow hedge reserve	(227)	(89)	(176)	(181)	(164)	(153)	(144)
Foreign currency translation reserve	(59)	(88)	(67)	(67)	(67)	(67)	(67)
Net worth attributable to minority interests	6,155	5,784	5,833	5,838	5,763	5,691	5,623
<b>Total net worth</b>	<b>95,521</b>	<b>92,425</b>	<b>114,712</b>	<b>120,351</b>	<b>126,919</b>	<b>136,071</b>	<b>146,193</b>
<b>Taxpayers' funds</b>							
Opening taxpayers' funds	19,354	16,807	13,932	25,565	31,547	38,327	47,930
Operating balance excluding minority interest	(5,369)	3,058	11,478	5,620	6,598	9,178	10,138
Transfers from/(to) other reserves	(106)	222	148	361	181	423	244
Other movements	53	-	7	1	1	2	-
<b>Closing taxpayers' funds</b>	<b>13,932</b>	<b>20,087</b>	<b>25,565</b>	<b>31,547</b>	<b>38,327</b>	<b>47,930</b>	<b>58,312</b>
<b>Property, Plant and Equipment Revaluation Reserve</b>							
Opening revaluation reserve	67,107	66,831	75,626	83,455	83,096	82,935	82,538
Net revaluations	8,413	-	7,977	-	-	-	-
Transfers from/(to) other reserves	106	(208)	(148)	(359)	(161)	(397)	(209)
<b>Closing property, plant and equipment revaluation reserve</b>	<b>75,626</b>	<b>66,623</b>	<b>83,455</b>	<b>83,096</b>	<b>82,935</b>	<b>82,538</b>	<b>82,329</b>

## Notes to the Forecast Financial Statements

	2016 Actual \$m	2017 Previous Budget \$m	2017 Forecast \$m	2018 Forecast \$m	2019 Forecast \$m	2020 Forecast \$m	2021 Forecast \$m
<b>NOTE 23: Core Crown Residual Cash</b>							
<b>Core Crown Cash Flows from Operations</b>							
Tax receipts	69,750	71,177	74,751	77,935	81,017	85,547	89,579
Other sovereign receipts	835	846	937	893	899	866	865
Interest, profits and dividends	1,699	2,030	1,727	1,435	1,422	1,546	1,674
Sale of goods and services and other receipts	2,026	2,313	2,152	2,480	2,165	2,172	2,124
Transfer payments and subsidies	(24,338)	(25,384)	(25,309)	(26,442)	(27,596)	(28,518)	(29,484)
Personnel and operating costs	(43,103)	(45,728)	(44,924)	(48,699)	(47,891)	(47,586)	(47,774)
Interest payments	(3,604)	(3,819)	(3,527)	(3,461)	(3,315)	(3,259)	(3,306)
Forecast for future new operating spending	-	(534)	-	(492)	(2,034)	(3,746)	(5,495)
Top-down expense adjustment	-	1,025	-	1,175	570	525	500
<b>Net core Crown operating cash flows</b>	<b>3,265</b>	<b>1,926</b>	<b>5,807</b>	<b>4,824</b>	<b>5,237</b>	<b>7,547</b>	<b>8,683</b>
<b>Core Crown Capital Cash Flows</b>							
Net purchase of physical assets	(1,971)	(3,430)	(2,429)	(3,676)	(2,648)	(2,313)	(1,981)
Net increase in advances	(468)	(616)	46	(375)	(311)	(108)	(122)
Net purchase of investments	(2,148)	(2,080)	(1,927)	(2,773)	(2,440)	(2,073)	(1,588)
Contribution to NZS Fund	-	-	-	-	-	-	(2,183)
Forecast for future new capital spending	-	(587)	-	(346)	(1,353)	(1,585)	(1,735)
Top-down capital adjustment	-	625	-	990	150	240	-
<b>Net core Crown capital cash flows</b>	<b>(4,587)</b>	<b>(6,088)</b>	<b>(4,310)</b>	<b>(6,180)</b>	<b>(6,602)</b>	<b>(5,839)</b>	<b>(7,609)</b>
<b>Residual cash (deficit)/surplus</b>	<b>(1,322)</b>	<b>(4,162)</b>	<b>1,497</b>	<b>(1,356)</b>	<b>(1,365)</b>	<b>1,708</b>	<b>1,074</b>
<i>The residual cash (deficit)/surplus is funded or invested as follows:</i>							
<b>Debt Programme Cash Flows</b>							
Market:							
Issue of government bonds	8,079	7,893	7,844	7,036	7,040	6,901	5,891
Repayment of government bonds	(1,779)	-	(6,080)	(10,626)	(6,455)	(7,290)	(11,059)
Net issue/(repayment) of short-term borrowing <sup>1</sup>	(3,513)	400	160	100	-	-	-
<b>Total market debt cash flows</b>	<b>2,787</b>	<b>8,293</b>	<b>1,924</b>	<b>(3,490)</b>	<b>585</b>	<b>(389)</b>	<b>(5,168)</b>
Non-market:							
Repayment of government bonds	(139)	(665)	(833)	-	-	-	-
Net issue/(repayment) of short-term borrowing	(100)	-	-	-	-	-	-
<b>Total non-market debt cash flows</b>	<b>(239)</b>	<b>(665)</b>	<b>(833)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total debt programme cash flows</b>	<b>2,548</b>	<b>7,628</b>	<b>1,091</b>	<b>(3,490)</b>	<b>585</b>	<b>(389)</b>	<b>(5,168)</b>
<b>Other Borrowing Cash Flows</b>							
Net (repayment)/issue of other New Zealand dollar borrowing	(3,546)	559	(1,360)	4,410	(342)	(23)	(27)
Net (repayment)/issue of foreign currency borrowing	3,176	(590)	458	(4,304)	338	6	(1)
<b>Total other borrowing cash flows</b>	<b>(370)</b>	<b>(31)</b>	<b>(902)</b>	<b>106</b>	<b>(4)</b>	<b>(17)</b>	<b>(28)</b>
<b>Investing Cash Flows</b>							
Net sale/(purchase) of marketable securities and deposits	685	(3,603)	1,554	3,957	602	(1,492)	3,927
Issues of circulating currency	378	175	302	178	184	189	194
Decrease/(increase) in cash	(1,919)	(7)	(3,542)	605	(2)	1	1
<b>Total investing cash flows</b>	<b>(856)</b>	<b>(3,435)</b>	<b>(1,686)</b>	<b>4,740</b>	<b>784</b>	<b>(1,302)</b>	<b>4,122</b>
<b>Residual cash deficit/(surplus) funding/(investing)</b>	<b>1,322</b>	<b>4,162</b>	<b>(1,497)</b>	<b>1,356</b>	<b>1,365</b>	<b>(1,708)</b>	<b>(1,074)</b>

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

## Notes to the Forecast Financial Statements

### NOTE 24: Net Canterbury earthquake expenses (operating and capital)

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

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

	2011-16	2017	2018	2019	2020	2021	Outside forecast period	Total Pre-election Update	Total Budget Update
	Actual \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	Forecast \$m	\$m	\$m	\$m
<b>Expenses by source</b>									
Core Crown recovery costs	6,867	1,474	900	439	233	164	77	10,154	10,127
SOEs and CEs recovery costs	7,433	72	60	190	132	46	32	7,965	7,679
<b>Total Crown earthquake expenses</b>	<b>14,300</b>	<b>1,546</b>	<b>960</b>	<b>629</b>	<b>365</b>	<b>210</b>	<b>109</b>	<b>18,118</b>	<b>17,806</b>
<b>Operating and Capital expenses</b>									
Operating expenditure (OBEGAL)	12,084	684	181	133	79	91	3	13,254	13,195
Capital expenditure	2,216	862	779	496	287	119	106	4,865	4,611
<b>Total Crown earthquake expenses</b>	<b>14,300</b>	<b>1,546</b>	<b>960</b>	<b>629</b>	<b>365</b>	<b>210</b>	<b>109</b>	<b>18,118</b>	<b>17,806</b>
<b>Total Cash payments<sup>1</sup></b>	<b>11,570</b>	<b>2,431</b>	<b>2,280</b>	<b>672</b>	<b>346</b>	<b>240</b>	<b>109</b>	<b>17,648</b>	<b>17,335</b>

Notes: 1. Some expenses are non-cash (eg, asset write-offs and impairments) and therefore do not have a cash element to them.

## Forecast Statement of Segments

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2016	2016	2016	2016	2016
	Actual	Actual	Actual	Actual	Actual
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2016</b>					
<b>Revenue</b>					
Taxation revenue	70,445	-	-	(777)	69,668
Other sovereign revenue	1,116	4,712	-	(1,185)	4,643
Revenue from core Crown funding	-	26,197	113	(26,310)	-
Sales of goods and services	1,453	1,938	13,538	(565)	16,364
Interest revenue and dividends	2,389	1,484	997	(1,267)	3,603
Other revenue	718	2,807	729	(373)	3,881
<b>Total revenue (excluding gains)</b>	<b>76,121</b>	<b>37,138</b>	<b>15,377</b>	<b>(30,477)</b>	<b>98,159</b>
<b>Expenses</b>					
Social assistance and official development assistance	24,312	-	-	-	24,312
Personnel expenses	6,666	12,205	2,921	(29)	21,763
Other operating expenses	39,361	20,299	10,124	(29,040)	40,744
Interest expenses	3,590	215	1,154	(623)	4,336
Insurance expenses	-	4,705	9	11	4,725
Forecast for future new spending and top-down adjustment	-	-	-	-	-
<b>Total expenses (excluding losses)</b>	<b>73,929</b>	<b>37,424</b>	<b>14,208</b>	<b>(29,681)</b>	<b>95,880</b>
Minority interest share of operating balance before gains/(losses)	-	14	(474)	12	(448)
<b>Operating balance before gains/(losses)</b>	<b>2,192</b>	<b>(272)</b>	<b>695</b>	<b>(784)</b>	<b>1,831</b>
Total gains/(losses)	(3,259)	(3,300)	6	(954)	(7,507)
Net surplus/(deficit) from associates and joint ventures	155	92	19	41	307
<b>Operating balance</b>	<b>(912)</b>	<b>(3,480)</b>	<b>720</b>	<b>(1,697)</b>	<b>(5,369)</b>
<b>Expenses by functional classification</b>					
Social security and welfare	24,081	5,360	-	(540)	28,901
Health	15,626	13,347	-	(13,813)	15,160
Education	13,158	10,160	-	(9,509)	13,809
Transport and communications	2,178	2,658	7,059	(2,495)	9,400
Other	15,296	5,684	5,995	(2,701)	24,274
Finance costs	3,590	215	1,154	(623)	4,336
Forecast for future new spending and top-down adjustment	-	-	-	-	-
<b>Total expenses (excluding losses)</b>	<b>73,929</b>	<b>37,424</b>	<b>14,208</b>	<b>(29,681)</b>	<b>95,880</b>
<b>Statement of Financial Position as at 30 June 2016</b>					
<b>Assets</b>					
Cash and cash equivalents	11,859	2,774	1,516	(532)	15,617
Receivables	12,242	5,757	1,754	(2,964)	16,789
Other financial assets	63,913	38,954	20,967	(17,985)	105,849
Property, plant and equipment	35,697	66,769	32,033	-	134,499
Equity accounted investments	38,376	10,819	228	(36,718)	12,705
Intangible assets and goodwill	1,351	544	1,301	-	3,196
Inventory and other assets	1,732	1,251	1,120	(79)	4,024
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
<b>Total assets</b>	<b>165,170</b>	<b>126,868</b>	<b>58,919</b>	<b>(58,278)</b>	<b>292,679</b>
<b>Liabilities</b>					
Borrowings	95,036	5,961	29,813	(16,854)	113,956
Other liabilities	33,515	50,615	7,848	(8,776)	83,202
<b>Total liabilities</b>	<b>128,551</b>	<b>56,576</b>	<b>37,661</b>	<b>(25,630)</b>	<b>197,158</b>
<b>Total assets less total liabilities</b>	<b>36,619</b>	<b>70,292</b>	<b>21,258</b>	<b>(32,648)</b>	<b>95,521</b>
<b>Net worth</b>					
Taxpayers' funds	15,915	30,966	3,890	(36,839)	13,932
Reserves	20,704	39,178	11,022	4,530	75,434
Net worth attributable to minority interest	-	148	6,346	(339)	6,155
<b>Total net worth</b>	<b>36,619</b>	<b>70,292</b>	<b>21,258</b>	<b>(32,648)</b>	<b>95,521</b>



## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2017	2017	2017	2017	2017
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2017</b>					
<b>Revenue</b>					
Taxation revenue	75,625	-	-	(613)	75,012
Other sovereign revenue	1,430	4,865	-	(1,308)	4,987
Revenue from core Crown funding	-	27,119	101	(27,220)	-
Sales of goods and services	1,602	2,231	13,776	(560)	17,049
Interest revenue and dividends	2,626	1,439	912	(1,351)	3,626
Other revenue	560	2,360	951	(245)	3,626
<b>Total revenue (excluding gains)</b>	<b>81,843</b>	<b>38,014</b>	<b>15,740</b>	<b>(31,297)</b>	<b>104,300</b>
<b>Expenses</b>					
Social assistance and official development assistance	25,379	-	-	-	25,379
Personnel expenses	6,909	12,669	2,863	(36)	22,405
Other operating expenses	41,009	21,199	10,750	(30,007)	42,951
Interest expenses	3,540	109	1,068	(529)	4,188
Insurance expenses	4	5,232	5	(1)	5,240
Forecast for future new spending and top-down adjustment	-	-	-	-	-
<b>Total expenses (excluding losses)</b>	<b>76,841</b>	<b>39,209</b>	<b>14,686</b>	<b>(30,573)</b>	<b>100,163</b>
Minority interest share of operating balance before gains/(losses)	-	(6)	(452)	27	(431)
<b>Operating balance before gains/(losses)</b>	<b>5,002</b>	<b>(1,201)</b>	<b>602</b>	<b>(697)</b>	<b>3,706</b>
Total gains/(losses)	6,307	1,195	101	(345)	7,258
Net surplus/(deficit) from associates and joint ventures	301	212	3	(2)	514
<b>Operating balance</b>	<b>11,610</b>	<b>206</b>	<b>706</b>	<b>(1,044)</b>	<b>11,478</b>
<b>Expenses by functional classification</b>					
Social security and welfare	25,320	5,821	-	(548)	30,593
Health	16,189	14,004	-	(14,471)	15,722
Education	13,316	10,211	-	(9,516)	14,011
Transport and communications	2,182	2,634	6,913	(2,433)	9,296
Other	16,294	6,430	6,705	(3,076)	26,353
Finance costs	3,540	109	1,068	(529)	4,188
Forecast for future new spending and top-down adjustment	-	-	-	-	-
<b>Total expenses (excluding losses)</b>	<b>76,841</b>	<b>39,209</b>	<b>14,686</b>	<b>(30,573)</b>	<b>100,163</b>
<b>Statement of Financial Position as at 30 June 2017</b>					
<b>Assets</b>					
Cash and cash equivalents	15,539	2,542	1,297	(402)	18,976
Receivables	13,865	5,469	1,721	(2,486)	18,569
Other financial assets	64,804	40,056	21,615	(17,664)	108,811
Property, plant and equipment	39,147	72,187	32,848	(56)	144,126
Equity accounted investments	42,883	12,130	190	(41,036)	14,167
Intangible assets and goodwill	1,520	517	1,520	(25)	3,532
Inventory and other assets	1,779	1,158	1,165	(72)	4,030
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
<b>Total assets</b>	<b>179,537</b>	<b>134,059</b>	<b>60,356</b>	<b>(61,741)</b>	<b>312,211</b>
<b>Liabilities</b>					
Borrowings	94,478	4,065	30,191	(15,772)	112,962
Other liabilities	34,095	50,933	7,981	(8,472)	84,537
<b>Total liabilities</b>	<b>128,573</b>	<b>54,998</b>	<b>38,172</b>	<b>(24,244)</b>	<b>197,499</b>
<b>Total assets less total liabilities</b>	<b>50,964</b>	<b>79,061</b>	<b>22,184</b>	<b>(37,497)</b>	<b>114,712</b>
<b>Net worth</b>					
Taxpayers' funds	27,528	35,414	4,425	(41,802)	25,565
Reserves	23,436	43,647	11,608	4,623	83,314
Net worth attributable to minority interest	-	-	6,151	(318)	5,833
<b>Total net worth</b>	<b>50,964</b>	<b>79,061</b>	<b>22,184</b>	<b>(37,497)</b>	<b>114,712</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2018	2018	2018	2018	2018
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2018</b>					
<b>Revenue</b>					
Taxation revenue	78,278	-	-	(692)	77,586
Other sovereign revenue	1,477	5,027	-	(1,425)	5,079
Revenue from core Crown funding	-	28,344	92	(28,436)	-
Sales of goods and services	1,639	1,991	14,448	(555)	17,523
Interest revenue and dividends	2,512	1,405	1,020	(1,165)	3,772
Other revenue	647	2,613	895	(375)	3,780
<b>Total revenue (excluding gains)</b>	<b>84,553</b>	<b>39,380</b>	<b>16,455</b>	<b>(32,648)</b>	<b>107,740</b>
<b>Expenses</b>					
Social assistance and official development assistance	26,494	-	-	-	26,494
Personnel expenses	7,174	12,968	2,880	(37)	22,985
Other operating expenses	44,555	22,242	11,463	(31,390)	46,870
Interest expenses	3,445	53	1,154	(437)	4,215
Insurance expenses	(1)	4,592	5	2	4,598
Forecast for future new spending and top-down adjustment	(683)	-	-	-	(683)
<b>Total expenses (excluding losses)</b>	<b>80,984</b>	<b>39,855</b>	<b>15,502</b>	<b>(31,862)</b>	<b>104,479</b>
Minority interest share of operating balance before gains/(losses)	-	-	(414)	22	(392)
<b>Operating balance before gains/(losses)</b>	<b>3,569</b>	<b>(475)</b>	<b>539</b>	<b>(764)</b>	<b>2,869</b>
Total gains/(losses)	2,389	134	126	(104)	2,545
Net surplus/(deficit) from associates and joint ventures	112	88	4	2	206
<b>Operating balance</b>	<b>6,070</b>	<b>(253)</b>	<b>669</b>	<b>(866)</b>	<b>5,620</b>
<b>Expenses by functional classification</b>					
<i>Social security and welfare</i>	26,280	6,081	-	(565)	31,796
<i>Health</i>	17,120	14,398	-	(15,086)	16,432
<i>Education</i>	14,032	10,601	-	(9,849)	14,784
<i>Transport and communications</i>	2,537	2,836	7,208	(2,803)	9,778
<i>Other</i>	18,253	5,886	7,140	(3,122)	28,157
<i>Finance costs</i>	3,445	53	1,154	(437)	4,215
Forecast for future new spending and top-down adjustment	(683)	-	-	-	(683)
<b>Total expenses (excluding losses)</b>	<b>80,984</b>	<b>39,855</b>	<b>15,502</b>	<b>(31,862)</b>	<b>104,479</b>
<b>Statement of Financial Position as at 30 June 2018</b>					
<b>Assets</b>					
Cash and cash equivalents	13,482	2,094	1,379	(375)	16,580
Receivables	13,430	5,188	1,795	(2,250)	18,163
Other financial assets	62,794	40,605	22,531	(18,306)	107,624
Property, plant and equipment	41,128	74,910	32,871	(56)	148,853
Equity accounted investments	45,437	12,293	201	(43,580)	14,351
Intangible assets and goodwill	1,693	581	1,560	(25)	3,809
Inventory and other assets	1,674	831	1,036	(25)	3,516
Forecast for new capital spending and top-down adjustment	(644)	-	-	-	(644)
<b>Total assets</b>	<b>178,994</b>	<b>136,502</b>	<b>61,373</b>	<b>(64,617)</b>	<b>312,252</b>
<b>Liabilities</b>					
Borrowings	91,134	4,749	31,144	(16,433)	110,594
Other liabilities	30,799	50,656	7,920	(8,068)	81,307
<b>Total liabilities</b>	<b>121,933</b>	<b>55,405</b>	<b>39,064</b>	<b>(24,501)</b>	<b>191,901</b>
<b>Total assets less total liabilities</b>	<b>57,061</b>	<b>81,097</b>	<b>22,309</b>	<b>(40,116)</b>	<b>120,351</b>
<b>Net worth</b>					
Taxpayers' funds	33,598	37,811	4,560	(44,422)	31,547
Reserves	23,463	43,286	11,600	4,617	82,966
Net worth attributable to minority interest	-	-	6,149	(311)	5,838
<b>Total net worth</b>	<b>57,061</b>	<b>81,097</b>	<b>22,309</b>	<b>(40,116)</b>	<b>120,351</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2019	2019	2019	2019	2019
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2019</b>					
<b>Revenue</b>					
Taxation revenue	81,301	-	-	(644)	80,657
Other sovereign revenue	1,604	5,324	-	(1,506)	5,422
Revenue from core Crown funding	-	28,184	93	(28,277)	-
Sales of goods and services	1,679	1,978	15,106	(572)	18,191
Interest revenue and dividends	2,569	1,434	1,076	(1,158)	3,921
Other revenue	608	2,792	946	(475)	3,871
<b>Total revenue (excluding gains)</b>	<b>87,761</b>	<b>39,712</b>	<b>17,221</b>	<b>(32,632)</b>	<b>112,062</b>
<b>Expenses</b>					
Social assistance and official development assistance	27,646	-	-	-	27,646
Personnel expenses	7,167	13,051	2,999	(37)	23,180
Other operating expenses	43,999	21,974	12,003	(31,319)	46,657
Interest expenses	3,393	60	1,127	(452)	4,128
Insurance expenses	4	5,045	5	(3)	5,051
Forecast for future new spending and top-down adjustment	1,464	-	-	-	1,464
<b>Total expenses (excluding losses)</b>	<b>83,673</b>	<b>40,130</b>	<b>16,134</b>	<b>(31,811)</b>	<b>108,126</b>
Minority interest share of operating balance before gains/(losses)	-	-	(443)	22	(421)
<b>Operating balance before gains/(losses)</b>	<b>4,088</b>	<b>(418)</b>	<b>644</b>	<b>(799)</b>	<b>3,515</b>
Total gains/(losses)	2,668	207	79	(116)	2,838
Net surplus/(deficit) from associates and joint ventures	117	129	3	(4)	245
<b>Operating balance</b>	<b>6,873</b>	<b>(82)</b>	<b>726</b>	<b>(919)</b>	<b>6,598</b>
<b>Expenses by functional classification</b>					
Social security and welfare	27,397	6,253	-	(582)	33,068
Health	17,225	14,458	-	(15,234)	16,449
Education	14,160	10,640	-	(9,890)	14,910
Transport and communications	2,340	2,646	7,588	(2,491)	10,083
Other	17,694	6,073	7,419	(3,162)	28,024
Finance costs	3,393	60	1,127	(452)	4,128
Forecast for future new spending and top-down adjustment	1,464	-	-	-	1,464
<b>Total expenses (excluding losses)</b>	<b>83,673</b>	<b>40,130</b>	<b>16,134</b>	<b>(31,811)</b>	<b>108,126</b>
<b>Statement of Financial Position as at 30 June 2019</b>					
<b>Assets</b>					
Cash and cash equivalents	13,598	1,866	1,435	(376)	16,523
Receivables	13,861	5,391	1,868	(2,099)	19,021
Other financial assets	64,400	41,661	23,710	(18,797)	110,974
Property, plant and equipment	42,209	77,755	33,146	(56)	153,054
Equity accounted investments	47,689	12,479	201	(45,822)	14,547
Intangible assets and goodwill	1,755	576	1,548	(26)	3,853
Inventory and other assets	1,706	839	1,006	(25)	3,526
Forecast for new capital spending and top-down adjustment	559	-	-	-	559
<b>Total assets</b>	<b>185,777</b>	<b>140,567</b>	<b>62,914</b>	<b>(67,201)</b>	<b>322,057</b>
<b>Liabilities</b>					
Borrowings	91,754	5,799	32,467	(16,835)	113,185
Other liabilities	30,057	51,729	7,991	(7,824)	81,953
<b>Total liabilities</b>	<b>121,811</b>	<b>57,528</b>	<b>40,458</b>	<b>(24,659)</b>	<b>195,138</b>
<b>Total assets less total liabilities</b>	<b>63,966</b>	<b>83,039</b>	<b>22,456</b>	<b>(42,542)</b>	<b>126,919</b>
<b>Net worth</b>					
Taxpayers' funds	40,470	39,937	4,780	(46,860)	38,327
Reserves	23,496	43,102	11,608	4,623	82,829
Net worth attributable to minority interest	-	-	6,068	(305)	5,763
<b>Total net worth</b>	<b>63,966</b>	<b>83,039</b>	<b>22,456</b>	<b>(42,542)</b>	<b>126,919</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2020	2020	2020	2020	2020
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2020</b>					
<b>Revenue</b>					
Taxation revenue	85,785	-	-	(722)	85,063
Other sovereign revenue	1,623	5,706	-	(1,503)	5,826
Revenue from core Crown funding	-	28,113	94	(28,207)	-
Sales of goods and services	1,691	1,980	15,709	(580)	18,800
Interest revenue and dividends	2,726	1,468	1,143	(1,195)	4,142
Other revenue	608	2,688	1,005	(375)	3,926
<b>Total revenue (excluding gains)</b>	<b>92,433</b>	<b>39,955</b>	<b>17,951</b>	<b>(32,582)</b>	<b>117,757</b>
<b>Expenses</b>					
Social assistance and official development assistance	28,498	-	-	-	28,498
Personnel expenses	7,141	13,083	3,146	(37)	23,333
Other operating expenses	43,839	21,718	12,406	(31,265)	46,698
Interest expenses	3,422	68	1,158	(470)	4,178
Insurance expenses	(2)	5,617	5	3	5,623
Forecast for future new spending and top-down adjustment	3,221	-	-	-	3,221
<b>Total expenses (excluding losses)</b>	<b>86,119</b>	<b>40,486</b>	<b>16,715</b>	<b>(31,769)</b>	<b>111,551</b>
Minority interest share of operating balance before gains/(losses)	-	-	(483)	23	(460)
<b>Operating balance before gains/(losses)</b>	<b>6,314</b>	<b>(531)</b>	<b>753</b>	<b>(790)</b>	<b>5,746</b>
Total gains/(losses)	2,891	323	67	(130)	3,151
Net surplus/(deficit) from associates and joint ventures	112	163	5	1	281
<b>Operating balance</b>	<b>9,317</b>	<b>(45)</b>	<b>825</b>	<b>(919)</b>	<b>9,178</b>
<b>Expenses by functional classification</b>					
Social security and welfare	28,222	6,690	-	(598)	34,314
Health	17,234	14,465	-	(15,218)	16,481
Education	14,210	10,626	-	(9,881)	14,955
Transport and communications	2,274	2,543	7,904	(2,530)	10,191
Other	17,536	6,094	7,653	(3,072)	28,211
Finance costs	3,422	68	1,158	(470)	4,178
Forecast for future new spending and top-down adjustment	3,221	-	-	-	3,221
<b>Total expenses (excluding losses)</b>	<b>86,119</b>	<b>40,486</b>	<b>16,715</b>	<b>(31,769)</b>	<b>111,551</b>
<b>Statement of Financial Position as at 30 June 2020</b>					
<b>Assets</b>					
Cash and cash equivalents	13,723	1,977	1,524	(374)	16,850
Receivables	14,288	5,502	1,919	(2,109)	19,600
Other financial assets	68,208	43,039	24,888	(19,265)	116,870
Property, plant and equipment	42,721	79,862	33,012	(56)	155,539
Equity accounted investments	49,744	12,663	199	(47,866)	14,740
Intangible assets and goodwill	1,752	571	1,522	(25)	3,820
Inventory and other assets	1,701	859	1,018	(26)	3,552
Forecast for new capital spending and top-down adjustment	1,904	-	-	-	1,904
<b>Total assets</b>	<b>194,041</b>	<b>144,473</b>	<b>64,082</b>	<b>(69,721)</b>	<b>332,875</b>
<b>Liabilities</b>					
Borrowings	91,416	6,067	33,740	(17,283)	113,940
Other liabilities	29,303	53,396	7,913	(7,748)	82,864
<b>Total liabilities</b>	<b>120,719</b>	<b>59,463</b>	<b>41,653</b>	<b>(25,031)</b>	<b>196,804</b>
<b>Total assets less total liabilities</b>	<b>73,322</b>	<b>85,010</b>	<b>22,429</b>	<b>(44,690)</b>	<b>136,071</b>
<b>Net worth</b>					
Taxpayers' funds	49,787	42,328	4,830	(49,015)	47,930
Reserves	23,535	42,682	11,610	4,623	82,450
Net worth attributable to minority interest	-	-	5,989	(298)	5,691
<b>Total net worth</b>	<b>73,322</b>	<b>85,010</b>	<b>22,429</b>	<b>(44,690)</b>	<b>136,071</b>

## Forecast Statement of Segments (continued)

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2021	2021	2021	2021	2021
	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m
<b>Statement of Financial Performance for the year ended 30 June 2021</b>					
<b>Revenue</b>					
Taxation revenue	89,817	-	-	(754)	89,063
Other sovereign revenue	1,653	5,890	-	(1,503)	6,040
Revenue from core Crown funding	-	28,793	94	(28,887)	-
Sales of goods and services	1,682	2,003	16,116	(599)	19,202
Interest revenue and dividends	2,900	1,473	1,197	(1,209)	4,361
Other revenue	608	2,731	1,064	(428)	3,975
<b>Total revenue (excluding gains)</b>	<b>96,660</b>	<b>40,890</b>	<b>18,471</b>	<b>(33,380)</b>	<b>122,641</b>
<b>Expenses</b>					
Social assistance and official development assistance	29,471	-	-	-	29,471
Personnel expenses	7,151	13,244	3,280	(38)	23,637
Other operating expenses	44,423	22,253	12,781	(31,944)	47,513
Interest expenses	3,424	74	1,137	(477)	4,158
Insurance expenses	-	5,945	5	1	5,951
Forecast for future new spending and top-down adjustment	4,995	-	-	-	4,995
<b>Total expenses (excluding losses)</b>	<b>89,464</b>	<b>41,516</b>	<b>17,203</b>	<b>(32,458)</b>	<b>115,725</b>
Minority interest share of operating balance before gains/(losses)	-	(2)	(499)	25	(476)
<b>Operating balance before gains/(losses)</b>	<b>7,196</b>	<b>(628)</b>	<b>769</b>	<b>(897)</b>	<b>6,440</b>
Total gains/(losses)	3,099	367	73	(140)	3,399
Net surplus/(deficit) from associates and joint ventures	112	180	5	2	299
<b>Operating balance</b>	<b>10,407</b>	<b>(81)</b>	<b>847</b>	<b>(1,035)</b>	<b>10,138</b>
<b>Expenses by functional classification</b>					
Social security and welfare	29,136	7,034	-	(616)	35,554
Health	17,193	14,413	-	(15,210)	16,396
Education	14,430	10,770	-	(10,028)	15,172
Transport and communications	2,807	3,049	8,299	(3,035)	11,120
Other	17,479	6,176	7,767	(3,092)	28,330
Finance costs	3,424	74	1,137	(477)	4,158
Forecast for future new spending and top-down adjustment	4,995	-	-	-	4,995
<b>Total expenses (excluding losses)</b>	<b>89,464</b>	<b>41,516</b>	<b>17,203</b>	<b>(32,458)</b>	<b>115,725</b>
<b>Statement of Financial Position as at 30 June 2021</b>					
<b>Assets</b>					
Cash and cash equivalents	13,684	2,269	1,709	(374)	17,288
Receivables	14,820	5,711	1,962	(2,100)	20,393
Other financial assets	69,118	44,231	26,074	(19,733)	119,690
Property, plant and equipment	42,981	81,035	32,728	(56)	156,688
Equity accounted investments	51,341	12,849	198	(49,453)	14,935
Intangible assets and goodwill	1,667	556	1,512	(25)	3,710
Inventory and other assets	1,731	895	1,033	(24)	3,635
Forecast for new capital spending and top-down adjustment	3,639	-	-	-	3,639
<b>Total assets</b>	<b>198,981</b>	<b>147,546</b>	<b>65,216</b>	<b>(71,765)</b>	<b>339,978</b>
<b>Liabilities</b>					
Borrowings	86,226	6,121	34,848	(17,729)	109,466
Other liabilities	28,982	54,969	7,969	(7,601)	84,319
<b>Total liabilities</b>	<b>115,208</b>	<b>61,090</b>	<b>42,817</b>	<b>(25,330)</b>	<b>193,785</b>
<b>Total assets less total liabilities</b>	<b>83,773</b>	<b>86,456</b>	<b>22,399</b>	<b>(46,435)</b>	<b>146,193</b>
<b>Net worth</b>					
Taxpayers' funds	60,194	44,020	4,865	(50,767)	58,312
Reserves	23,579	42,436	11,619	4,624	82,258
Net worth attributable to minority interest	-	-	5,915	(292)	5,623
<b>Total net worth</b>	<b>83,773</b>	<b>86,456</b>	<b>22,399</b>	<b>(46,435)</b>	<b>146,193</b>



## Core Crown Expense Tables

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Social security and welfare	21,956	22,459	23,026	23,523	24,081	25,320	26,280	27,397	28,222	29,136
Health	14,160	14,498	14,898	15,058	15,626	16,189	17,120	17,225	17,234	17,193
Education	11,654	12,504	12,300	12,879	13,158	13,316	14,032	14,160	14,210	14,430
Core government services	5,428	4,294	4,502	4,134	4,102	4,157	5,215	4,666	4,504	4,381
Law and order	3,338	3,394	3,463	3,515	3,648	3,986	4,119	4,178	4,222	4,278
Transport and communications	2,232	2,255	2,237	2,291	2,178	2,182	2,537	2,340	2,274	2,807
Economic and industrial services	2,073	1,978	2,058	2,228	2,107	2,584	2,833	2,781	2,737	2,749
Defence	1,736	1,804	1,811	1,961	2,026	2,145	2,294	2,360	2,370	2,380
Heritage, culture and recreation	863	804	842	778	787	861	885	875	841	814
Primary services	648	659	676	667	749	679	730	676	663	639
Housing and community development	( 46)	283	347	320	558	577	596	557	519	540
Environmental protection	769	530	533	723	587	849	1,027	939	996	998
GSF pension expenses	192	278	282	358	271	218	151	197	224	240
Other	425	603	579	145	461	238	403	465	460	460
Finance costs	3,511	3,619	3,620	3,783	3,590	3,540	3,445	3,393	3,422	3,424
Forecast new operating spending	..	..	..	..	..	..	492	2,034	3,746	5,495
Top-down expense adjustment	..	..	..	..	..	..	( 1,175)	( 570)	( 525)	( 500)
<b>Core Crown expenses</b>	<b>68,939</b>	<b>69,962</b>	<b>71,174</b>	<b>72,363</b>	<b>73,929</b>	<b>76,841</b>	<b>80,984</b>	<b>83,673</b>	<b>86,119</b>	<b>89,464</b>

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

Source: The Treasury

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

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Welfare benefits (see below)	20,375	20,789	21,187	21,680	22,441	23,334	24,187	25,369	26,220	27,121
Social rehabilitation and compensation	81	107	173	142	151	220	241	249	260	279
Departmental expenses	1,122	1,168	1,204	1,319	1,339	1,421	1,613	1,572	1,534	1,529
Other non-departmental expenses <sup>1</sup>	378	395	462	382	150	345	239	207	208	207
<b>Social security and welfare expenses</b>	<b>21,956</b>	<b>22,459</b>	<b>23,026</b>	<b>23,523</b>	<b>24,081</b>	<b>25,320</b>	<b>26,280</b>	<b>27,397</b>	<b>28,222</b>	<b>29,136</b>

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

Source: The Treasury

**Table 6.2 – Welfare benefit expenses**

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
New Zealand Superannuation	9,584	10,235	10,913	11,591	12,267	13,043	13,682	14,412	15,281	16,085
Jobseeker Support and Emergency Benefit <sup>1</sup>	..	..	1,691	1,684	1,671	1,697	1,671	1,629	1,559	1,549
Supported living payment <sup>1</sup>	..	..	1,422	1,515	1,523	1,533	1,536	1,543	1,561	1,574
Sole parent support <sup>1</sup>	..	..	1,222	1,186	1,153	1,159	1,086	1,043	1,048	1,065
Domestic Purposes Benefit <sup>1</sup>	1,811	1,738	63	..	..	..	..	..	..	..
Invalid's Benefit <sup>1</sup>	1,325	1,330	52	..	..	..	..	..	..	..
Sickness Benefit <sup>1</sup>	775	782	29	..	..	..	..	..	..	..
Unemployment Benefit <sup>1</sup>	883	812	29	..	..	..	..	..	..	..
Family Tax Credit	2,071	2,018	1,965	1,854	1,793	1,723	1,822	2,088	2,023	2,006
Other working for families tax credits	599	575	567	549	559	596	585	581	576	571
Accommodation Assistance	1,195	1,177	1,146	1,129	1,164	1,127	1,213	1,484	1,493	1,513
Income-Related Rents	580	611	660	703	755	815	933	985	1,048	1,105
Disability Assistance	401	384	379	377	377	377	379	381	382	384
Benefits paid in Australia	37	22	19	15	40	..	..	..	..	..
Paid Parental Leave	158	165	165	180	217	274	285	297	309	321
Childcare Assistance	188	186	186	183	182	197	197	200	204	207
Veterans Support Entitlement <sup>2</sup>	128	123	119	115	107	97	91	85	80	75
Veteran's Pension	177	171	165	178	186	175	164	154	145	135
Other benefits	463	460	395	421	447	521	543	487	511	531
<b>Benefit expenses</b>	<b>20,375</b>	<b>20,789</b>	<b>21,187</b>	<b>21,680</b>	<b>22,441</b>	<b>23,334</b>	<b>24,187</b>	<b>25,369</b>	<b>26,220</b>	<b>27,121</b>

Source: The Treasury

Beneficiary numbers (Thousands)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
New Zealand Superannuation	585	612	640	665	691	717	742	768	795	823
Jobseeker Support and Emergency Benefit <sup>1</sup>	..	..	138	133	130	131	129	124	116	113
Supported living payment <sup>1</sup>	..	..	96	98	98	97	97	97	97	96
Sole parent support <sup>1</sup>	..	..	78	72	67	64	60	58	57	57
Domestic Purposes Benefit <sup>1</sup>	114	109	..	..	..	..	..	..	..	..
Invalid's Benefit <sup>1</sup>	87	87	..	..	..	..	..	..	..	..
Sickness Benefit <sup>1</sup>	60	60	..	..	..	..	..	..	..	..
Unemployment Benefit <sup>1</sup>	73	67	..	..	..	..	..	..	..	..
Accommodation Assistance	311	305	297	292	292	290	290	295	292	292

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

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

Source: Ministry of Social Development

**Table 6.3 – Health expenses**

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Departmental outputs	186	171	183	190	188	196	197	192	192	192
Health services purchasing (see below)	13,018	13,348	13,648	13,937	14,361	14,852	15,402	15,376	15,378	15,374
Other non-departmental outputs <sup>1</sup>	119	234	330	312	356	359	796	858	893	875
Health payments to ACC	744	715	694	587	694	668	697	770	742	724
Other expenses <sup>2</sup>	93	30	43	32	27	114	28	29	29	28
<b>Health expenses</b>	<b>14,160</b>	<b>14,498</b>	<b>14,898</b>	<b>15,058</b>	<b>15,626</b>	<b>16,189</b>	<b>17,120</b>	<b>17,225</b>	<b>17,234</b>	<b>17,193</b>

1. Other non-departmental output expenses from the 2018 forecast year includes the Care and Support Workers pay equity settlement.

2. The increase in other expenses in the 2017 forecast year relates to a one off restructuring of District Health Board balance sheets. These expenses are offset by additional revenue for the New Zealand Debt Management Office (excluded from these tables) and therefore have no impact on OBEGAL.

Source: The Treasury



**Table 6.4 – Health services purchasing**

(Millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Payments to District Health Boards	11,542	11,946	12,165	12,414	12,822	13,283	13,789	13,784	13,785	13,780
National disability support services	1,029	1,028	1,087	1,126	1,167	1,183	1,208	1,208	1,208	1,208
Public health services purchasing	447	374	396	397	372	386	405	384	385	386
<b>Health services purchasing</b>	<b>13,018</b>	<b>13,348</b>	<b>13,648</b>	<b>13,937</b>	<b>14,361</b>	<b>14,852</b>	<b>15,402</b>	<b>15,376</b>	<b>15,378</b>	<b>15,374</b>

Source: The Treasury

**Table 6.5 – Education expenses**

(Millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Early childhood education	1,355	1,436	1,545	1,644	1,735	1,835	1,867	1,956	2,052	2,120
Primary and secondary schools (see below)	5,443	5,590	5,550	5,773	6,044	6,190	6,453	6,508	6,486	6,630
Tertiary funding (see below)	3,795	4,370	4,027	4,272	4,235	4,077	4,333	4,348	4,358	4,375
Departmental expenses	988	1,039	1,107	1,129	1,112	1,200	1,305	1,288	1,264	1,261
Other education expenses	73	69	71	61	32	14	74	60	50	44
<b>Education expenses</b>	<b>11,654</b>	<b>12,504</b>	<b>12,300</b>	<b>12,879</b>	<b>13,158</b>	<b>13,316</b>	<b>14,032</b>	<b>14,160</b>	<b>14,210</b>	<b>14,430</b>

Source: The Treasury

Number of places provided <sup>1</sup>	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Early childhood education	166,430	174,853	185,336	195,817	204,853	213,096	222,587	232,997	243,017	252,155

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

Source: The Ministry of Education

**Table 6.6 – Primary and secondary schools**

(Millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Primary	2,771	2,845	2,812	2,920	3,033	3,120	3,282	3,311	3,298	3,375
Secondary	2,085	2,148	2,146	2,229	2,329	2,374	2,457	2,482	2,479	2,544
School transport	172	175	177	186	185	184	195	190	190	190
Special needs support	323	332	322	336	396	413	418	419	413	419
Professional development	85	84	87	98	96	94	95	100	100	96
Schooling improvement	7	6	6	4	5	5	6	6	6	6
<b>Primary and secondary education expenses</b>	<b>5,443</b>	<b>5,590</b>	<b>5,550</b>	<b>5,773</b>	<b>6,044</b>	<b>6,190</b>	<b>6,453</b>	<b>6,508</b>	<b>6,486</b>	<b>6,630</b>

Source: The Treasury

Number of places provided <sup>1</sup>	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Primary	489,799	493,025	497,765	507,132	517,782	524,647	531,348	535,108	535,798	533,484
Secondary	271,078	267,627	266,734	265,557	264,189	270,883	271,131	273,667	277,012	284,099

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

Source: The Ministry of Education

**Table 6.7 – Tertiary funding**

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Tuition	2,306	2,322	2,383	2,406	2,463	2,466	2,482	2,487	2,491	2,493
Other tertiary funding	430	432	463	484	487	534	576	575	574	573
Student allowances	644	596	539	511	486	477	505	517	519	526
Student loans	415	1,020	642	871	799	600	770	769	774	783
<b>Tertiary education expenses</b>	<b>3,795</b>	<b>4,370</b>	<b>4,027</b>	<b>4,272</b>	<b>4,235</b>	<b>4,077</b>	<b>4,333</b>	<b>4,348</b>	<b>4,358</b>	<b>4,375</b>

Source: The Treasury

Number of places provided <sup>1</sup>	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Estimated funded places	244,059	242,357	237,938	233,551	232,330	235,090	234,314	230,737	230,837	230,937

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: Tertiary Education Commission

**Table 6.8 – Core government services expenses**

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Official development assistance	510	437	533	513	534	539	644	586	586	586
Indemnity and guarantee expenses	59	27	29	38	30	20	18	16	16	16
Departmental expenses	1,518	1,576	1,635	1,740	1,845	1,863	2,620	2,063	1,997	1,837
Non-departmental expenses <sup>1,2,3</sup>	524	330	689	481	379	487	547	643	646	691
Tax receivable write-down and impairments	1,003	925	1,069	873	680	588	800	800	800	800
Science expenses	116	115	118	121	118	91	96	104	112	112
Other expenses <sup>1</sup>	1,698	884	429	368	516	569	490	454	347	339
<b>Core government services expenses</b>	<b>5,428</b>	<b>4,294</b>	<b>4,502</b>	<b>4,134</b>	<b>4,102</b>	<b>4,157</b>	<b>5,215</b>	<b>4,666</b>	<b>4,504</b>	<b>4,381</b>

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

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

3. From 2017 onwards, some investment and research expenditure has been reclassified from core government service to economic and industrial services.

Source: The Treasury

**Table 6.9 – Law and order expenses**

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Police	1,394	1,408	1,416	1,456	1,498	1,553	1,604	1,642	1,669	1,695
Ministry of Justice	375	404	433	451	468	482	520	527	511	517
Department of Corrections	988	972	1,001	1,024	1,068	1,160	1,241	1,243	1,259	1,270
NZ Customs Service	126	140	150	161	153	175	180	177	180	183
Other departments	103	98	86	100	83	118	138	143	146	145
<b>Department expenses</b>	<b>2,986</b>	<b>3,022</b>	<b>3,086</b>	<b>3,192</b>	<b>3,270</b>	<b>3,488</b>	<b>3,683</b>	<b>3,732</b>	<b>3,765</b>	<b>3,810</b>
Non-departmental outputs	315	317	327	320	359	456	415	421	433	443
Other expenses	37	55	50	3	19	42	21	25	24	25
<b>Law and order expenses</b>	<b>3,338</b>	<b>3,394</b>	<b>3,463</b>	<b>3,515</b>	<b>3,648</b>	<b>3,986</b>	<b>4,119</b>	<b>4,178</b>	<b>4,222</b>	<b>4,278</b>

Source: The Treasury

**Table 6.10** – Transport and communication expenses

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
New Zealand Transport Agency	1,744	1,819	1,880	1,992	1,982	1,881	2,165	2,115	2,050	2,589
Departmental outputs	60	40	45	43	45	54	57	58	57	57
Other non-departmental expenses	62	213	227	114	106	170	228	130	130	124
Rail funding	305	153	56	93	3	3	3	3	3	3
Other expenses	61	30	29	49	42	74	84	34	34	34
<b>Transport and communication expenses</b>	<b>2,232</b>	<b>2,255</b>	<b>2,237</b>	<b>2,291</b>	<b>2,178</b>	<b>2,182</b>	<b>2,537</b>	<b>2,340</b>	<b>2,274</b>	<b>2,807</b>

Source: The Treasury

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

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Departmental outputs	346	350	372	391	389	462	411	406	394	387
Employment initiatives <sup>1</sup>	206	192	141	75	3	4	4	4	4	4
Non-departmental outputs <sup>2, 3</sup>	614	618	660	742	798	1,038	1,220	1,164	1,172	1,159
KiwiSaver (includes housing deposit subsidy)	698	740	828	888	763	880	930	975	1,015	1,060
Other expenses	209	78	57	132	154	200	268	232	152	139
<b>Economic and industrial services expenses</b>	<b>2,073</b>	<b>1,978</b>	<b>2,058</b>	<b>2,228</b>	<b>2,107</b>	<b>2,584</b>	<b>2,833</b>	<b>2,781</b>	<b>2,737</b>	<b>2,749</b>

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

Source: The Treasury

**Table 6.12** – Defence expenses

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
NZDF core expenses	1,678	1,747	1,768	1,879	1,986	2,096	2,195	2,255	2,258	2,275
Other expenses	58	57	43	82	40	49	99	105	112	105
<b>Defence expenses</b>	<b>1,736</b>	<b>1,804</b>	<b>1,811</b>	<b>1,961</b>	<b>2,026</b>	<b>2,145</b>	<b>2,294</b>	<b>2,360</b>	<b>2,370</b>	<b>2,380</b>

Source: The Treasury

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

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Departmental outputs	172	270	286	280	274	285	309	311	302	288
Non-departmental outputs	444	442	471	468	477	514	504	505	501	500
Other expenses	247	92	85	30	36	62	72	59	38	26
<b>Heritage, culture and recreation expenses</b>	<b>863</b>	<b>804</b>	<b>842</b>	<b>778</b>	<b>787</b>	<b>861</b>	<b>885</b>	<b>875</b>	<b>841</b>	<b>814</b>

Source: The Treasury

**Table 6.14** – Primary service expenses

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Departmental expenses	348	347	365	384	424	471	492	465	466	467
Non-departmental outputs	134	137	135	114	100	101	104	104	105	55
Biological research <sup>1</sup>	102	105	92	91	95	..	..	..	..	..
Other expenses	64	70	84	78	130	107	134	107	92	117
<b>Primary service expenses</b>	<b>648</b>	<b>659</b>	<b>676</b>	<b>667</b>	<b>749</b>	<b>679</b>	<b>730</b>	<b>676</b>	<b>663</b>	<b>639</b>

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

Source: The Treasury

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

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Financial assistance package <sup>1</sup>	(407)	(60)	..	..	..	..	..	..	..	..
Housing subsidies	22	5	5	5	5	6	2	2	2	2
Community Services <sup>2</sup>	..	..	..	..	189	192	183	181	178	179
Departmental outputs	98	89	100	113	171	191	159	141	136	134
Other non-departmental expenses	113	117	138	117	114	148	228	208	178	204
Warm up New Zealand	84	76	49	37	22	..	..	..	..	..
Other expenses	44	56	55	48	57	40	24	25	25	21
<b>Housing and community development expenses</b>	<b>(46)</b>	<b>283</b>	<b>347</b>	<b>320</b>	<b>558</b>	<b>577</b>	<b>596</b>	<b>557</b>	<b>519</b>	<b>540</b>

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

2. For 2016 onwards, community services have been reclassified from non-departmental expenses in Social security and welfare expenses and Economic expenses.

Source: The Treasury

**Table 6.16** – Environmental protection expenses

(\$millions)	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Emissions Trading Scheme	334	55	46	133	163	270	482	429	450	452
Departmental outputs	342	335	362	360	383	414	401	398	406	408
Non-departmental outputs	46	88	48	41	1	56	91	66	94	92
Other expenses	47	52	77	189	40	109	53	46	46	46
<b>Environmental protection expenses</b>	<b>769</b>	<b>530</b>	<b>533</b>	<b>723</b>	<b>587</b>	<b>849</b>	<b>1,027</b>	<b>939</b>	<b>996</b>	<b>998</b>

Source: The Treasury

## Glossary of Terms

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

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

### ***Appropriations***

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

### ***Baselines***

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

### ***Commercial portfolio***

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

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

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

### ***Contingent assets***

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

### ***Contingent liabilities***

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

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

### ***Core Crown***

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 95 to 98).

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

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

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

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

### ***Corporate tax***

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

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

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

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

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

***Demographic changes***

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

***Domestic bond programme***

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

***Excise duties***

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

***Financial assets***

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

***Financial liabilities***

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

***Financial portfolio***

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

***Fiscal drag***

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

***Fiscal impulse***

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

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

***Fiscal intentions (short-term)***

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

***Fiscal objectives (long-term)***

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

***Forecast new capital spending (Capital allowance)***

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

***Forecast new operating spending (Operating allowance)***

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

***Gains and losses***

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

### ***GDP deflator***

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

### ***Generally accepted accounting practice (GAAP)***

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

### ***Government Finance Statistics (GFS)***

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

### ***Gross debt***

GSID (refer below) excluding settlement cash and bank bills.

### ***Gross domestic product (GDP)***

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

### ***Gross domestic product (expenditure)***

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

### ***Gross domestic product (nominal)***

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

### ***Gross domestic product (production)***

The value-added of goods and services produced in New Zealand, after deducting the

cost of goods and services used in the production process. Production GDP is calculated only in real terms.

### ***Gross domestic product (real)***

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

### ***Gross national expenditure (GNE)***

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

### ***Gross sovereign-issued debt (GSID)***

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

### ***Insurance liabilities***

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

### ***Inter-segment eliminations***

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

### ***Labour force participation rate***

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

### ***Labour productivity***

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

### ***Line-by-line consolidation***

A term used to refer to the general approach to the presentation of the Financial Statements of the Government. It means that the individual line items for revenues, expenses, assets and liabilities in the Financial Statements of the Government include all departments, Offices of Parliament,

the Reserve Bank, SOEs, Crown entities and other entities controlled by the Government.

### ***Loan-to-value ratio (LVR)***

A measure of how much a bank lends against residential property, compared to the value of that property. The Reserve Bank introduced LVR restrictions in October 2013 and revised them in November 2015 and October 2016. Investor loans with a LVR of more than 60% can make up no more than 5% of a bank's total new lending within this category. Non-investor loans with an LVR of more than 80% can make up no more than 10% of a bank's total lending in that category. LVR restrictions apply to new loans, and not retrospectively to existing loans (except new 'top-up' lending on existing loans).

### ***Marketable securities***

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

### ***Minority interest***

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

### ***Monetary conditions***

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

### ***Monetary policy***

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

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

### ***Multi-factor productivity***

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

### ***National saving***

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

### ***Net core Crown cash flow from operations***

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

### ***Net core Crown debt***

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

### ***Net international investment position (NIIP)***

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

### ***Net worth***

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



### ***Net worth attributable to the Crown***

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

### ***Operating balance***

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

### ***Operating balance before gains and losses (OBEGAL)***

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

### ***Output gap***

The difference between actual and potential GDP. (See Potential output.)

### ***Outputs***

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

### ***Potential output***

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

### ***Productivity***

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

### ***Projections***

Projections relate to the period beyond the five-year forecast period and are based on long-run economic and fiscal assumptions. For example, the projections assume no

economic cycle and constant long-run interest, inflation and unemployment rates.

### ***Real unit labour costs***

Real unit labour costs show how much output an economy receives relative to real wages (wages adjusted for inflation), or labour cost per unit of output. ULCs can be calculated as the ratio of real labour compensation to real GDP. It is also the equivalent of the ratio between labour compensation per labour input (per hour or per employee) worked and labour productivity.

### ***Residual cash***

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

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

### ***Settlement cash***

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

### ***Social portfolio***

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

### ***Specific fiscal risks***

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

**System of National Accounts (SNA)**

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

**Tax revenue**

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

**Terms of trade**

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

**Top-down adjustment**

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

**Total borrowings**

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

**Total Crown**

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 95 to 98.

**Tradable/non-tradable output**

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

**Trade-weighted index (TWI)**

A measure of movements in the NZ dollar against the currencies of our major trading partners. Since December 2014, the TWI has been based on 17 currencies, weighted according to each country’s direct bilateral trade in goods and services with New Zealand. Together these countries account for more than 80% of New Zealand’s foreign trade.

**Votes**

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

**Year ended**

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government’s financial year (30 June). For example, unless otherwise stated references to 2015/16 or 2016 will mean the end of the financial year.

# Time Series of Fiscal and Economic Indicators

## Fiscal Indicators

June years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
\$millions															
<b>Revenue and expenses</b>															
Core Crown tax revenue	53,477	56,747	54,681	50,744	51,557	55,081	58,651	61,563	66,636	70,445	75,625	78,278	81,301	85,785	89,817
Core Crown revenue	57,971	61,575	59,191	55,757	57,199	60,428	63,805	67,093	72,213	76,121	81,843	84,553	87,761	92,433	96,660
Core Crown expenses	53,764	56,753	63,711	63,554	70,099	68,939	69,962	71,174	72,363	73,929	76,841	80,984	83,673	86,119	89,464
<b>Surpluses</b>															
Total Crown OBEGAL	5,860	5,637	(3,893)	(6,315)	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	3,706	2,869	3,515	5,746	6,440
Total Crown operating balance	8,023	2,384	(10,505)	(4,509)	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	11,478	5,620	6,598	9,178	10,138
<b>Cash position</b>															
Core Crown residual cash	2,793	2,057	(8,639)	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	1,497	(1,356)	(1,365)	1,708	1,074
<b>Debt</b>															
Gross debt <sup>1</sup>	30,647	31,390	43,356	53,591	72,420	79,635	77,984	81,956	86,125	86,928	87,721	84,368	84,976	84,629	79,436
Gross debt incl RB settlement cash and bank bills	36,805	37,745	50,973	58,891	77,290	84,168	84,286	88,468	93,156	93,283	93,042	89,689	90,297	89,950	84,757
Net core Crown debt (incl NZS Fund) <sup>2</sup>	1,620	(2,676)	5,633	12,549	23,969	33,475	34,428	34,174	30,862	32,102	24,739	25,701	24,732	20,390	14,248
Net core Crown debt <sup>2</sup>	13,196	10,258	17,119	26,738	40,128	50,671	55,835	59,931	60,631	61,880	60,560	62,239	63,714	61,978	60,807
<b>Net worth</b>															
Total Crown net worth	96,827	105,514	99,515	94,988	80,887	59,780	70,011	80,697	98,236	95,521	114,712	120,351	126,919	136,071	146,193
Total net worth attributable to the Crown	96,531	105,132	99,068	94,586	80,579	59,348	68,071	75,486	86,454	89,366	108,879	114,513	121,156	130,380	140,570
<b>Nominal expenditure GDP (revised actuals)</b>	175,457	189,001	189,501	196,735	205,819	215,108	218,721	236,172	243,021	253,086	268,821	282,626	296,548	310,543	323,240
% GDP															
<b>Revenue and expenses</b>															
Core Crown tax revenue	30.5	30.0	28.9	25.8	25.0	25.6	26.8	26.1	27.4	27.8	28.1	27.7	27.4	27.6	27.8
Core Crown revenue	33.0	32.6	31.2	28.3	27.8	28.1	29.2	28.4	29.7	30.1	30.4	29.9	29.6	29.8	29.9
Core Crown expenses	30.6	30.0	33.6	32.3	34.1	32.0	32.0	30.1	29.8	29.2	28.6	28.7	28.2	27.7	27.7
<b>Surpluses</b>															
Total Crown OBEGAL	3.3	3.0	(2.1)	(3.2)	(8.9)	(4.3)	(2.0)	(1.2)	0.2	0.7	1.4	1.0	1.2	1.9	2.0
Total Crown operating balance	4.6	1.3	(5.5)	(2.3)	(6.5)	(6.9)	3.2	1.2	2.4	(2.1)	4.3	2.0	2.2	3.0	3.1
<b>Cash position</b>															
Core Crown residual cash	1.6	1.1	(4.6)	(4.6)	(6.5)	(4.9)	(2.6)	(1.7)	(0.8)	(0.5)	0.6	(0.5)	(0.5)	0.6	0.3
<b>Debt</b>															
Gross debt <sup>1</sup>	17.5	16.6	22.9	27.2	35.2	37.0	35.7	34.7	35.4	34.3	32.6	29.9	28.7	27.3	24.6
Gross debt incl RB settlement cash and bank bills	21.0	20.0	26.9	29.9	37.6	39.1	38.5	37.5	38.3	36.9	34.6	31.7	30.4	29.0	26.2
Net core Crown debt (incl NZS Fund) <sup>2</sup>	0.9	(1.4)	3.0	6.4	11.6	15.6	15.7	14.5	12.7	12.7	9.2	9.1	8.3	6.6	4.4
Net core Crown debt <sup>2</sup>	7.5	5.4	9.0	13.6	19.5	23.6	25.5	25.4	24.9	24.5	22.5	22.0	21.5	20.0	18.8
<b>Net worth</b>															
Total Crown net worth	55.2	55.8	52.5	48.3	39.3	27.8	32.0	34.2	40.4	37.7	42.7	42.6	42.8	43.8	45.2
Total net worth attributable to the Crown	55.0	55.6	52.3	48.1	39.2	27.6	31.1	32.0	35.6	35.3	40.5	40.5	40.9	42.0	43.5
1 Excludes Reserve Bank settlement cash and bank bills.															
2 Excludes advances.															

## Economic Indicators

June Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.7	2.9	-1.0	2.3	2.0	3.5	2.4	3.3	3.1	3.2	4.6	3.8	3.7	2.5	2.0
Public consumption	4.2	4.3	3.3	-0.4	2.5	0.7	0.0	2.9	3.1	1.9	3.2	1.8	1.4	1.4	1.1
<b>TOTAL CONSUMPTION</b>	<b>3.8</b>	<b>3.2</b>	<b>0.1</b>	<b>1.6</b>	<b>2.2</b>	<b>2.8</b>	<b>1.8</b>	<b>3.2</b>	<b>3.1</b>	<b>2.8</b>	<b>4.2</b>	<b>3.4</b>	<b>3.2</b>	<b>2.3</b>	<b>1.8</b>
Residential investment	2.5	-3.8	-22.0	-2.5	-3.1	10.2	18.0	13.6	5.6	6.3	6.1	-0.1	4.5	3.0	3.9
Business investment	1.9	10.4	-8.7	-8.0	8.2	5.9	1.0	8.8	5.3	2.6	5.3	7.6	5.3	6.2	5.2
<b>TOTAL INVESTMENT</b>	<b>2.1</b>	<b>6.5</b>	<b>-12.0</b>	<b>-6.8</b>	<b>5.6</b>	<b>6.8</b>	<b>4.7</b>	<b>10.0</b>	<b>5.3</b>	<b>3.6</b>	<b>5.5</b>	<b>5.6</b>	<b>5.1</b>	<b>5.4</b>	<b>4.9</b>
Stock change (contribution to growth)	-0.5	0.9	-1.4	0.9	-0.1	0.1	-0.3	0.4	-0.1	-0.4	0.4	-0.6	0.4	0.4	0.1
<b>GROSS NATIONAL EXPENDITURE</b>	<b>2.8</b>	<b>4.8</b>	<b>-4.2</b>	<b>0.7</b>	<b>2.7</b>	<b>3.9</b>	<b>2.2</b>	<b>4.6</b>	<b>3.4</b>	<b>2.6</b>	<b>4.8</b>	<b>4.0</b>	<b>4.1</b>	<b>3.4</b>	<b>2.7</b>
Exports	4.0	3.5	-2.9	4.8	2.2	2.1	3.0	0.1	5.7	5.1	-0.6	4.0	2.5	2.3	2.2
Imports	1.7	11.6	-12.0	-1.0	11.4	4.4	2.6	9.0	6.6	1.0	6.7	4.1	3.8	4.4	3.6
<b>EXPENDITURE ON GDP</b>	<b>3.5</b>	<b>2.4</b>	<b>-1.3</b>	<b>2.7</b>	<b>0.2</b>	<b>3.3</b>	<b>2.3</b>	<b>2.1</b>	<b>3.2</b>	<b>3.6</b>	<b>2.7</b>	<b>3.4</b>	<b>3.7</b>	<b>2.7</b>	<b>2.2</b>
<b>GDP (production measure)</b>	<b>3.1</b>	<b>2.2</b>	<b>-1.7</b>	<b>0.8</b>	<b>1.1</b>	<b>2.6</b>	<b>2.2</b>	<b>2.5</b>	<b>3.3</b>	<b>2.7</b>	<b>2.8</b>	<b>3.2</b>	<b>3.7</b>	<b>2.8</b>	<b>2.3</b>
- annual % change	3.3	0.5	-2.0	2.6	0.9	2.5	2.6	2.7	2.4	3.6	2.6	3.5	3.5	2.5	2.2
Real GDP per capita	2.0	1.3	-2.6	-0.3	0.2	2.0	1.6	1.3	1.5	0.7	0.6	1.0	1.7	1.2	1.0
Nominal GDP (expenditure basis)	6.6	7.7	0.3	3.8	4.6	4.5	1.7	8.0	2.9	4.1	6.2	5.1	4.9	4.7	4.1
GDP deflator	3.0	5.2	1.6	1.1	4.4	1.2	-0.6	5.7	-0.3	0.5	3.4	1.7	1.2	1.9	1.8
Output gap (% deviation, June year average)	1.7	2.1	-1.0	-1.4	-1.9	-1.4	-1.2	-1.2	-0.5	-0.4	-0.5	-0.2	0.3	0.3	0.1
Employment	1.6	1.3	-0.2	-1.3	1.5	0.9	0.2	3.2	3.2	2.3	5.4	2.7	2.1	1.5	1.1
Unemployment (% June quarter s.a.)	3.6	3.8	5.7	6.5	6.0	6.3	6.0	5.2	5.5	5.0	4.9	4.7	4.4	4.3	4.3
Wages (average ordinary-time hourly, ann % change)	4.4	5.4	4.7	1.1	3.0	2.9	2.1	2.5	2.8	2.1	1.5	2.6	2.8	2.7	2.6
CPI inflation (ann % change)	2.0	4.0	1.9	1.7	5.3	1.0	0.7	1.6	0.4	0.4	1.7	1.3	1.9	2.1	2.1
Merchandise terms of trade (SNA basis)	0.2	10.0	-4.3	-3.0	9.7	-1.7	-3.8	16.4	-4.8	-2.7	6.7	3.2	-1.9	0.1	-0.1
House prices (ann % change)	13.8	-4.4	-3.2	3.4	0.4	4.2	9.1	6.9	11.2	13.9	3.8	2.2	3.4	3.0	2.2
Current account balance - \$billion	-12.2	-13.4	-9.4	-3.5	-6.0	-7.7	-7.9	-6.0	-8.9	-7.3	-8.3	-6.3	-8.2	-10.4	-12.6
Current account balance - % of GDP	-6.9	-7.1	-4.9	-1.8	-2.9	-3.6	-3.6	-2.5	-3.7	-2.9	-3.1	-2.2	-2.8	-3.3	-3.9
TWI (June quarter)	75.7	73.0	62.3	68.6	70.8	72.4	76.3	81.5	76.2	73.6	76.5	78.1	78.5	78.7	78.0
90-day bank bill rate (June quarter)	8.1	8.8	2.9	2.9	2.7	2.6	2.6	3.4	3.5	2.4	2.0	2.0	2.6	3.3	3.8
10-year bond rate (June quarter)	6.3	6.4	5.6	5.7	5.3	3.7	3.5	4.4	3.6	2.7	2.9	3.0	3.5	4.0	4.2

Data for 2017 and subsequently are forecasts. Data for 2016 and prior years are those that were available when the forecasts were finalised.