THE TREASURY
Kaitohutohu Kaupapa Rawa

Budget Economic *and* Fiscal Update

24 May 2012

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Guide to the Budget Documents

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

Executive Summary

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

Budget Speech

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

Fiscal Strategy Report

The *Fiscal Strategy Report* sets out the Government's fiscal strategy in areas such as the balance between operating revenues and expenses, and debt objectives. The 2012 report includes fiscal trends covering at least the next 10 years and the Government's long term fiscal objectives.

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

Budget Economic and Fiscal Update

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

The Estimates of Appropriations

The *Estimates* outline expenses and capital expenditure the Government plans to incur on specified areas within each Vote for the financial year about to start (the Budget year).

Information Supporting the Estimates of Appropriations

Information Supporting the Estimates is organised on the basis of sectors, with each Vote and its administering department allocated to one sector (only one department is in more than one sector). The *Information Supporting the Estimates* comprises sector overview information, together with statements of responsibility; performance information for appropriations in Votes covered by the sector; and statements of forecast service performance and forecast financial statements of departments included in the sector. The supporting information includes Statements of Intent of departments in the sector.

The Supplementary Estimates of Appropriations and Supporting Information

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

Internet

These documents will be made available on the New Zealand Treasury's Internet site at http://www.treasury.govt.nz

Contents

Other Information

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

Additional *Budget Update* information includes:

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

This other information can be accessed at:

http://www.treasury.govt.nz/budget/forecasts/befu2012

Statement of Responsibility

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in supplying the Minister of Finance with this Economic and Fiscal Update. The Update incorporates the fiscal and economic implications both of Government decisions and other circumstances as at 8 May 2012 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 8 May 2012.

Gabriel Makhlouf
Secretary to the Treasury

14 May 2012

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 8 May 2012 of which I was aware and that had material economic or fiscal implications.

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

Hon Bill English
Minister of Finance

14 May 2012

Executive Summary

- Economic growth is forecast to increase to 2.6% and 3.4% in the years ending March 2013 and 2014 respectively. Thereafter, the pace of growth is sustained at around 3%.
- Trading partner growth is expected to be a little below trend in 2012 and to be a little above trend in 2013 and to gradually strengthen thereafter.
- Households' caution in spending and investment decisions is expected to continue and is reflected in a rising household saving rate.
- Earthquake-related rebuilding of damage to property, contents and infrastructure of $20 billion (10% of annual gross domestic product [GDP]) in 2011 prices will provide a substantial addition to economic activity. The scale and timing of the rebuild remain key uncertainties.
- The economy is operating with a moderate degree of spare capacity, which is helping to restrain inflation at present. Fiscal and monetary policy support for the economy will be progressively withdrawn as activity accelerates.
- Operating deficits are forecast to narrow over the next two years and to return to surplus in the year ending June 2015. This strengthening fiscal outlook is underpinned by higher revenues, together with restrained expenditure growth.
- Over the next four years the Crown is expected to spend around $18 billion on capital items such as the purchase of physical assets and student loan advances.
- Net core Crown debt is forecast to peak at 28.7% of GDP in the year ending June 2014 and to fall to 27.7% of GDP in the year ending June 2016.
- Growth in Crown liabilities, led by borrowings, exceeds growth in assets over the year ending June 2013, leading to a fall in net worth attributable to the Crown. Net worth rises gradually thereafter, although it continues to decline relative to GDP until the year ending June 2015.
- There are upside and downside risks to these economic and fiscal forecasts, in contrast to the *Pre-election Update* when downside risks were dominant, although the balance of risks is still to the downside.
- The balance of risks is illustrated in two alternative scenarios around the main forecasts. While growth is higher in the upside scenario, the operating balance returns to surplus in the same year as in the main forecasts. In the downside scenario, lower growth means the operating balance remains in deficit over the period ending June 2016.

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

	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Economic (March years, %)						
Economic growth[1]	1.2	1.6	2.6	3.4	3.1	2.9
Unemployment rate[2]	6.6	6.3	5.7	5.2	5.0	4.7
CPI inflation[3]	4.5	1.6	2.6	2.5	2.4	2.4
Fiscal (June years, % of GDP)						
Operating balance[4]	-9.2	-4.1	-3.6	-0.9	0.1	0.8
Net debt[5]	20.0	25.0	28.1	28.7	28.6	27.7
Net worth attributable to the Crown	40.2	33.7	29.6	28.1	27.9	28.6

Notes: 1 Real production GDP, annual average percentage change
2 Percent of labour force, March quarter, seasonally adjusted. March 2012 actual was 6.7%
3 Consumers price index (CPI), annual percentage change, actual 2012
4 Total Crown operating balance before gains and losses (OBEGAL)
5 Net core Crown debt excluding the New Zealand Superannuation Fund and advances

Sources: Statistics New Zealand, the Treasury

Finalisation Dates for the Update

Economic forecasts	27 April
Economic data	27 April
Tax revenue forecasts	27 April
Fiscal forecasts	8 May
Specific fiscal risks	8 May
Text finalised	15 May

Important Notice

The economic and fiscal numbers and forecasts in this document pre-date the release of revised GDP data by Statistics New Zealand on 15 May 2012. These new GDP data incorporated a new industry classification and other updates and resulted in changes to the level of economic activity in recent years. Although historical numbers will change, we do not expect any direct impact from these new data on our economic and fiscal forecasts. In this document, all references are to the previous GDP data unless otherwise specified. The new data will be fully incorporated into the *Half Year Update 2012*.

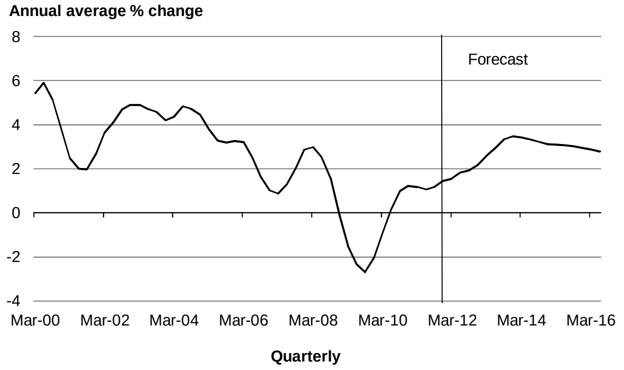
1

Economic Outlook

Overview

Over the past year, the New Zealand economy continued its recovery from the 2008/09 recession, registering 1.1% growth in the 12 months ending December 2011.[1]

Figure 1.1 – Real GDP growth



Sources: Statistics New Zealand, the Treasury

Factors facilitating this growth include strong merchandise terms of trade, good farming conditions, the Rugby World Cup (RWC) and an accommodating fiscal stance by the Government designed to underpin demand in the wake of the global financial crisis and devastating natural disasters. Monetary policy has also been supporting activity through low interest rates.

This below-trend growth rate is reflected in elevated unemployment and weaker inflation. In the current June quarter, the consumers price index (CPI) is estimated to have risen at its lowest annual rate in over a decade.

The Treasury expects the pace of overall growth in gross domestic product (GDP) to continue strengthening. This process will be aided by a substantial employment and income impulse arising out of the Christchurch rebuild, the maintenance of historically low borrowing costs and – in the case of primary industry exporters – ongoing solid demand for New Zealand produce from key trading partners.

Not all sectors of the economy will benefit equally from the factors expected to underpin overall activity levels.

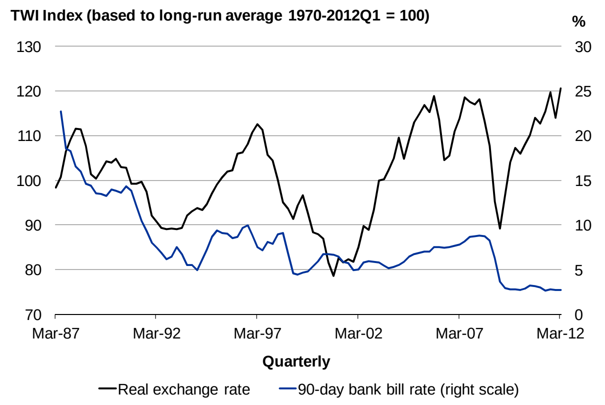
In the first part of the forecast period, non-commodity exporters are expected to continue to experience eroded competitiveness in the face of the strong exchange rate which will reduce their New Zealand dollar earnings. The tourism sector, in particular, is expected to

1 Revised from 1.4% in the 15 May 2012 GDP release.

face additional headwinds from weak income growth in a number of countries which are traditionally key sources of inbound tourists, the loss of infrastructure in Christchurch, and the effects of more New Zealanders taking advantage of the high value of the currency to holiday abroad instead of at home. In the broader retail sector, spending levels are expected to continue to be moderated by New Zealand households' rising rate of saving in the face of high average debt levels.

Despite the increase in saving, the current account deficit is forecast to widen to 6.7% of GDP in the year ending March 2016, with a significant contribution from the Canterbury rebuild. An assumed weakening of the exchange rate towards the end of the forecast period returns the goods balance to surplus and helps the current account deficit narrow. Further adjustment is required beyond the forecast period for the deficit to return to a sustainable level.

Figure 1.2 – Real exchange rate and 90-day interest rates



Source: Reserve Bank of New Zealand

International economy is more stable...

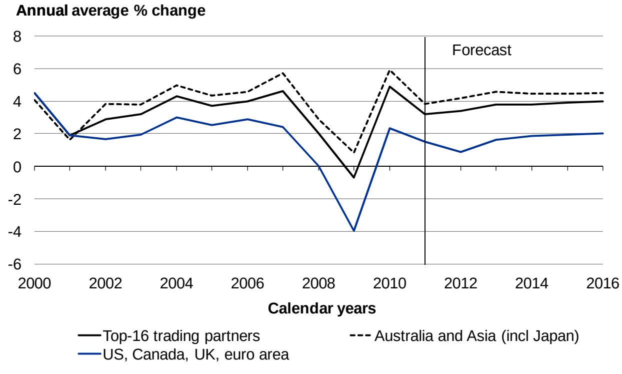
The economic outlook stabilised in the months following the publication of the *Budget Policy Statement* (BPS) earlier this year, but recent developments in Europe highlight the fragility of the outlook. Despite this uncertainty, on current readings of international and domestic indicators, New Zealand's economic outlook is relatively favourable.

...but risks remain

Ongoing financial concerns in some European countries continue to be a potential source of adverse shocks to the world economy.

In the United States (US), the economic recovery could yet be undermined by political delays in reaching a credible medium-term path to fiscal sustainability.

Figure 1.3 – Trading partner growth



Sources: IMF, the Treasury

The main threats to growth in China arise from the housing market, which became overheated following the rapid credit growth in 2009 and 2010 in response to the global financial crisis. In addition, China is Australia's largest export market so events in China have significant direct implications for the economic prospects of Australia. Together, China and Australia account for around 35% of New Zealand's merchandise exports.

Risks to the outlook from unanticipated developments internationally and domestically are explored in more detail in the *Risks and Scenarios* chapter.

Table 1.1 – Economic forecasts[1]

(Annual average % change, March years)	**2011 Actual**	**2012 Forecast**	**2013 Forecast**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**
Private consumption	2.0	2.7	2.2	2.9	2.8	2.6
Public consumption	3.7	1.1	-0.8	0.1	0.7	0.6
Total consumption	**2.4**	**2.3**	**1.5**	**2.2**	**2.4**	**2.2**
Residential investment	4.4	-11.2	29.5	40.7	14.7	5.2
Market investment	9.6	6.0	7.4	14.1	6.3	2.2
Non-market investment	-16.5	-7.4	5.4	3.3	5.6	3.4
Total investment	**6.8**	**1.0**	**12.6**	**18.4**	**8.1**	**3.0**
Stock change[2]	1.4	0.7	-0.7	-0.3	0.0	0.2
Gross national expenditure	**4.6**	**2.4**	**3.7**	**5.8**	**3.9**	**2.6**
Exports	1.9	3.0	2.1	1.0	2.1	2.1
Imports	10.5	5.2	2.8	8.5	4.9	1.7
GDP (expenditure measure)	**2.0**	**1.5**	**2.9**	**3.4**	**3.0**	**2.8**
GDP (production measure)	**1.2**	**1.6**	**2.6**	**3.4**	**3.1**	**2.9**
Real GDP per capita	0.0	0.8	1.8	2.4	2.1	2.0
Nominal GDP (expenditure measure)	5.9	4.2	4.1	6.5	5.4	4.9
GDP deflator	3.7	2.6	1.1	3.0	2.4	2.0
Output gap (% deviation, March quarter)[3]	-0.2	-1.0	-0.2	-0.6	-0.5	-0.1
Employment	1.2	1.3	1.3	1.6	1.6	1.4
Unemployment[4]	6.6	6.3	5.7	5.2	5.0	4.7
Participation rate[5]	68.6	68.3	68.2	68.2	68.2	68.4
Nominal wages[6]	2.6	3.2	3.8	3.9	3.7	3.5
CPI inflation[7]	4.5	1.6	2.6	2.5	2.4	2.4
Merchandise terms of trade[8]	9.9	1.3	-4.0	3.9	2.9	1.5
Current account balance						
$billion	-7.2	-8.7	-9.8	-13.5	-15.1	-16.8
% of GDP	-3.6	-4.2	-4.6	-5.9	-6.3	-6.7
Net international investment position						
% of GDP	-67.5	-72.1	-73.9	-75.3	-77.7	-80.8
TWI[9]	67.2	72.5	72.0	70.8	67.5	63.0
90-day bank bill rate[9]	3.0	2.7	2.9	3.6	4.1	4.4
10-year bond rate[9]	5.6	4.0	4.2	4.6	5.0	5.2

Sources: Statistics New Zealand, Reserve Bank of New Zealand, the Treasury

Notes:
1 Forecasts finalised 27 April
2 Contribution to GDP growth
3 Estimated as the percentage difference between actual real GDP and potential real GDP
4 Percent of the labour force, March quarter, seasonally adjusted
5 Percent of the working-age population, March quarter, seasonally adjusted
6 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change
7 Annual percentage change, 2012 actual
8 System of National Accounts (SNA) basis, annual average percentage change
9 Average for the March quarter, 2012 actual

A longer time series for these variables is provided on page 132.

International Outlook

Trading partner growth outlook is more stable...

The trading partner growth outlook is similar to the forecasts underpinning the BPS, which were a significant downward revision from last year's *Pre-election Update*. The economic outlook became more stable in the months following the publication of the BPS as policy responses increased financial market liquidity and eased funding pressures in Europe and elsewhere. More recent developments, particularly those in Europe, highlight the fragility of the outlook.

Trading partner growth of 3.4% is expected over the year ending December 2012, just below the 30-year average growth rate of 3.6%. Natural disasters in Australia and Japan reduced their growth rates in 2011, but the recovery from these disasters adds to growth over 2012 and offsets weaker growth in the euro zone, the United Kingdom (UK), China and other Asian economies. The modest pace of economic recovery in the US is expected to continue over 2012. Trading partner growth is expected to be just above trend in 2013 as the recovery from 2011's dip becomes more broad based, strengthening to around 4% in the longer term, supported by New Zealand's increasing dependence on China and Australia. This outlook is very similar to those from other forecasters, including the International Monetary Fund (IMF).

Table 1.2 – Trading partner growth (years ending December)

	2012 weights	**2011** *actual*	**2012** *forecast*	**2013** *forecast*	**2014** *forecast*	**2015** *forecast*	**2016** *forecast*
Australia	*28%*	2.0	3.0	3.2	3.0	3.0	3.0
China	*15%*	9.3	8.1	8.3	8.0	8.0	8.0
United States	*11%*	1.7	2.1	2.2	2.3	2.4	2.5
Euro area	*9%*	1.5	-0.6	1.0	1.4	1.4	1.4
Japan	*9%*	-0.7	1.8	1.5	1.2	1.1	1.0
United Kingdom	*4%*	0.7	0.5	1.4	1.6	1.8	2.2
Canada	*2%*	2.5	2.0	2.1	2.4	2.4	2.5
Other Asia*	*23%*	4.5	4.1	5.0	5.1	5.2	5.2
Trading Partners	***100%***	**3.2**	**3.4**	**3.8**	**3.8**	**3.9**	**4.0**
Consensus (April 2012)		3.2	3.6	4.0	4.0	4.0	4.0
IMF (April WEO)		3.2	3.5	4.1	4.2	4.3	4.4

* South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Philippines, India

Sources: IMF, Consensus Economics, the Treasury

...but risks of slower growth continue to dominate

Most of the risks to the international outlook are oriented to weaker growth than forecast. Further policy measures are required to return sovereign debt to a sustainable path in Europe, the US and Japan. Failure to address these issues could lead to disruption in financial markets. At the same time, addressing the issues through tighter fiscal policy could reduce economic activity. A slowing in emerging market economies – for example, from a sharp fall in property prices – would lead to lower trading partner growth. There is also the risk of political tensions in the Middle East escalating and disrupting oil supplies. A sharp increase in oil prices could undermine the already fragile recovery in world growth.

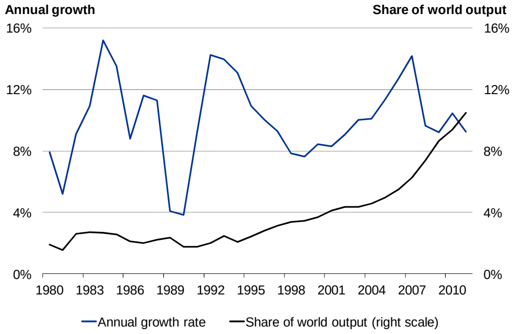
On the positive side, there is potential for a sharp improvement in sentiment in the US and a subsequent lift in investment and activity more generally, financed from the large amounts of liquidity that have been injected in bank and corporate balance sheets, which would support faster trading partner growth.

China's Economic Growth: Past, Present and Future

Since the start of the liberalisation of China's economy in 1978 it has experienced average annual growth in real GDP of 10%, doubling the size of its economy every seven years (Figure 1.4). Its share of world output has increased from 2% in 1980 to 10% in 2011 (14% if allowance is made for its lower cost of living), becoming the second largest economy in the world after the US in 2010. China has become increasingly important to New Zealand in these past three decades, especially since its accession to the World Trade Organisation in 2001 and the conclusion of a Free Trade Agreement between the two countries in 2008.

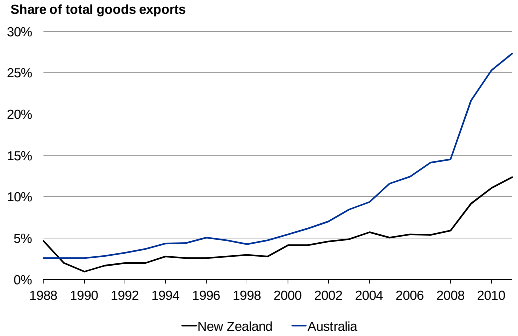
China's share of New Zealand's merchandise exports increased from 2% in the earl 1980s to 12% in 2011, surpassing the US to become our second largest trading partner after Australia (Figure 1.5). China is also an important market for services exports (eg, tourism and education) and a source of consumer goods imports and foreign investment. China is even more important to Australia as its major trading partner, accounting for more than a quarter of merchandise exports, chiefly mineral resources (Figure 1.5). The close integration between New Zealand and Australia is an additional channel for China's economic influence on New Zealand.

Figure 1.4 – China's economic growth and share of the world economy



Source: IMF

Figure 1.5 – New Zealand and Australian goods exports to China



Sources: Australian Bureau of Statistics, Statistics New Zealand

New Zealand's and Australia's exports to China are dominated by agricultural and industrial commodities. China's increasing demand for these goods arises from the related processes of urbanisation and industrialisation, combined with rising living standards and changing diets and tastes. Demand for these commodities has increased rapidly since 2008 as a result of the Chinese Government's fiscal and monetary stimulus in response to the global financial crisis. Demand for minerals and energy from Australia, and dairy, meat and forestry products from New Zealand, increased sharply in that period, driving up the terms of trade for both countries.

However, growth in China is slowing and there are risks to its sustainability. Annual growth in real GDP eased to 8.1% in the March quarter 2012, down from its post-global financial crisis peak of 11.9% two years ago. The slowdown is largely the result of monetary and fiscal tightening to reduce inflation which reached 6.5% mid-last year, as well as weaker demand from Europe, China's largest export market. Authorities have signalled slower growth and are also aiming to cool the housing market which became overheated following the rapid credit growth in 2009 and 2010 in response to the global financial crisis.

So far, China appears to be achieving a managed slowdown in economic growth and we expect growth to average just over 8% in 2012 with some additional strength in the second half of the year carrying through to 2013. There are risks to this outlook, chiefly centred on a sharper-than-expected correction in the property market, possibly combined with an increase in bad debts in the banking sector arising from the rapid expansion of credit in 2009 and 2010. This possibility is explored in the *Risks and Scenarios* chapter. While the European sovereign debt crisis does not pose a direct threat to China through financial channels (given the generally closed nature of its financial markets), weaker export demand could lead to a further slowing in the economy. The Government has room to loosen both monetary and fiscal policy if growth slows more than expected.

We expect China's growth to slow in the longer term as a number of factors come into play. Rebalancing growth from investment and exports to private consumption (a stated aim of the Government) will result in lower overall growth as households are unlikely to fully replace high investment rates as a driver of growth. In addition, growth in the working-age population is expected to peak in the next few years, limiting the sources of economic growth to gains in labour participation and productivity. We also consider that China will not be able to sustain its average 10% growth rate of the past three decades as the most rapid gains in output have already been made and growth is likely to slow as per capita incomes catch up with the developed world. However, China's per capita GDP is still only 11% of the US's. We expect that even if there are short-term fluctuations in China's growth, it will continue to be an important market for New Zealand exports.

Domestic Outlook

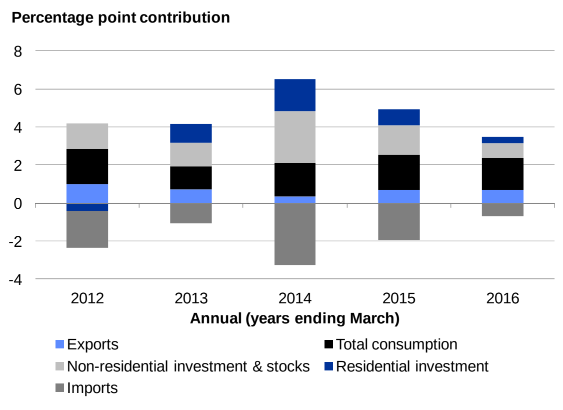
New Zealand's economic recovery continues...

Economic activity over 2011 was disrupted by the Canterbury earthquake of 22 February and subsequent aftershocks. The immediate disruption to overall economic activity proved to be less than the Treasury initially forecast, although the negative effects on tourism and on construction activity have been more pronounced. In the second half of 2011, the economy was buoyed by the effect of the RWC on consumption and a strong start to the dairy season. Offsetting these positive influences, the international environment deteriorated and domestic business confidence weakened. As a consequence, forecast real GDP growth for the year ending March 2012 has been downgraded from 1.9% in the BPS to 1.6%.

The weaker international outlook, combined with a stronger New Zealand dollar assumption, has also reduced forecast real GDP growth in the years ending March 2013 and March 2014 to 2.6% and 3.4% respectively. Growth across the remaining two years of the forecast period averages 3% per year.

GDP growth is led by investment, underpinned by the Canterbury rebuild. This is partly offset by the negative impact from the import

Figure 1.6 – Composition of GDP growth



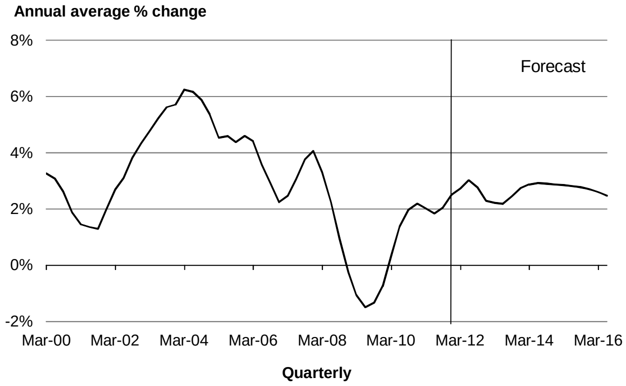
Sources: Statistics New Zealand, the Treasury

content of investment. Consumption spending also makes a significant contribution to forecast growth as private consumption spending rises and more than offsets slower growth in public consumption. Export volume growth is expected to be subdued as farming conditions return to normal, international prices weaken and the high New Zealand dollar constrains returns, although the latter factors become more favourable towards the end of the forecast period.

...consumers remain cautious...

Private consumption growth, which has moderated since the 2008/09 recession, received a boost from the RWC. While some of the rise in consumer spending, such as that on hospitality and supermarket sales, appears to be closely linked to the RWC, spending on consumer durables, such as televisions and furniture, is indicative of a more generalised improvement in consumer sentiment.

Figure 1.7 – Real private consumption growth



Sources: Statistics New Zealand, the Treasury

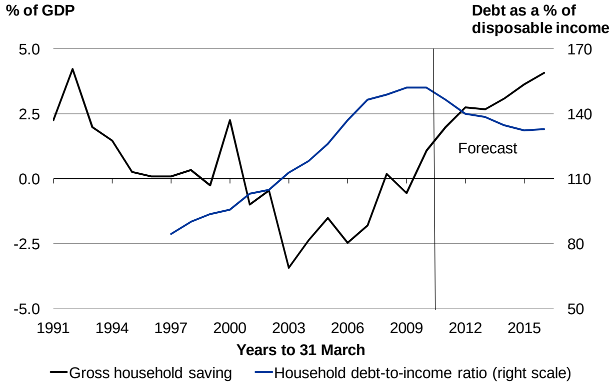
Over the past year the labour market has strengthened, although unemployment remains elevated, household incomes have risen and consumer confidence has returned to average levels. Nonetheless, consumers continue to be cautious in their spending following an extended period when household consumption exceeded income, leading to an accumulation of debt. The excess of household consumption over income closed around the time the 2008/09 recession started and gross household income is now significantly greater than consumption.

Household consumption growth is expected to slow from 2.7% over the year ending March 2012, to 2.2% in the year ending March 2013 as the one-off impact of the RWC fades. The pace of growth rises to 2.9% in the year ending March 2014, supported by increasingly favourable economic conditions and by demand for durable goods, such as furniture and furnishings, associated with newly constructed dwellings. A gradual easing, to 2.8% and 2.6%, is forecast in the following years.

...and household saving increases

Household income growth is also forecast to slow over the year to March 2013, reflecting the lower terms of trade, and the household saving ratio remains around its current rate. From March 2013 onwards, the faster pace of GDP growth feeds through to a stronger labour market and the terms of trade improve, increasing household incomes. The household debt to income ratio has declined from its peak but remains elevated. Continued restraint in consumption spending is expected to generate higher saving and further falls in the debt-to-income ratio.

Figure 1.8 – Household saving and leverage



Sources: Statistics New Zealand, Reserve Bank of New Zealand, the Treasury

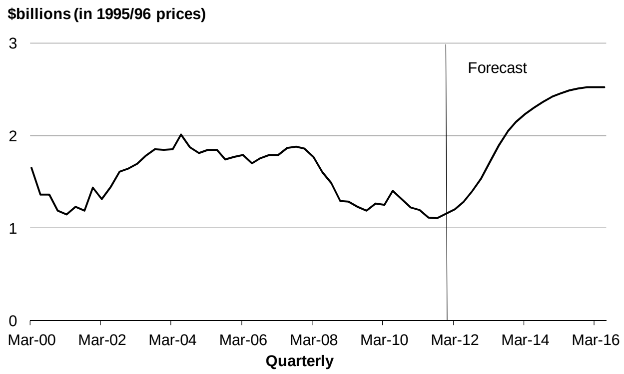
Ongoing household caution is reflected in the subdued outlook for house price inflation. The forecast for rapid growth in the supply of houses also helps to temper gains in house prices. House price growth of around 1.5% per year is forecast, less than the rate of consumer price inflation.

Residential investment rises rapidly...

Households have also been cautious in their residential investment decisions, which have contributed to weakness in the residential construction industry. This generalised weakness has been compounded by the earthquake disasters in Canterbury. Indicators of residential building activity show activity is likely to remain at a low level in the short term. Household credit growth is weak and building consents are rising but the level remains low.

In Canterbury there is a significant amount of repair work underway, but the number of new dwelling consents and rebuilds is small. Repair and rebuilding work is expected to accelerate over coming months and to continue rising for most of the forecast period. Much uncertainty surrounds the expected pace of new building work, although potential cost inflation is also a significant uncertainty. The Treasury forecasts assume a large increase in residential investment from the middle of 2012. The pace of activity is forecast to continue to rise, reaching a peak growth rate of over 40% in the year ending March 2014. The level of activity continues to rise for the remainder of the forecast period, but the growth rates slow to 15% in the year ending March 2015 and 5.2% in the year ending March 2016.

Figure 1.9 – Real residential investment



Sources: Statistics New Zealand, the Treasury

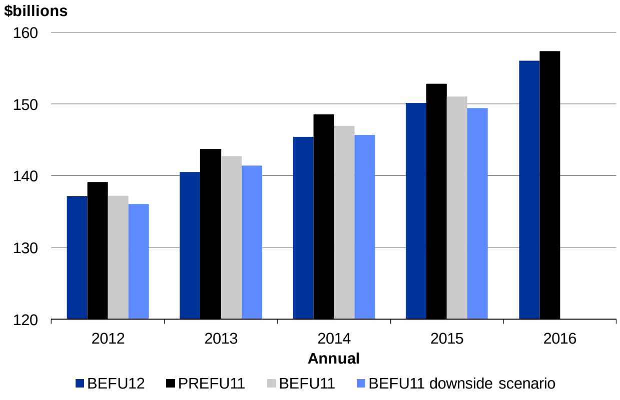
Economic Forecast Changes Since *Budget Update 2011*

The forecast level of real GDP in this *Budget Update* is lower than in recent forecasts, but is similar to that presented in the downside scenario in the *2011 Budget Update*.

In that scenario, world economic growth slowed, the terms of trade fell and business and consumer confidence weakened. This resulted in weaker real and nominal GDP growth.

The world economic outlook did deteriorate over the second half of 2011, but to a lesser extent than in the downside scenario. Other factors contributing to the weaker growth outlook since Budget 2011 include a delay in the Canterbury rebuild, a stronger currency and revisions to GDP outturns.

Figure 1.10 – Real GDP forecasts in recent *Updates*

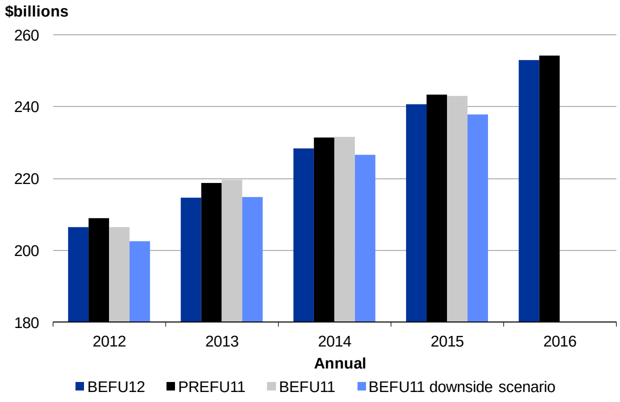


Sources: Statistics New Zealand, the Treasury

Compared to the main forecast in the *2011 Budget Update*, aggregate price pressures in the economy have been weaker than expected, reflecting the strength of the exchange rate, lower commodity prices and a greater degree of spare capacity in the economy. As a result, the level of GDP in current prices in the *2012 Budget Update* has been revised down towards the levels in the downside scenario.

GDP in current prices provides the base for tax revenue forecasts. In the downside scenario, lower nominal GDP led to tax revenue being $5 billion lower over the four year period ending June 2015 than in the main forecast. In the *2012 Budget Update*, nominal GDP is higher than in the downside scenario but forecast tax revenue over the four-year period ending June 2015 is similar. In other words, the ratio of tax to GDP in the current forecasts is lower than in previous forecasts.

Figure 1.11 – Nominal GDP forecasts in recent *Updates*



Sources: Statistics New Zealand, the Treasury

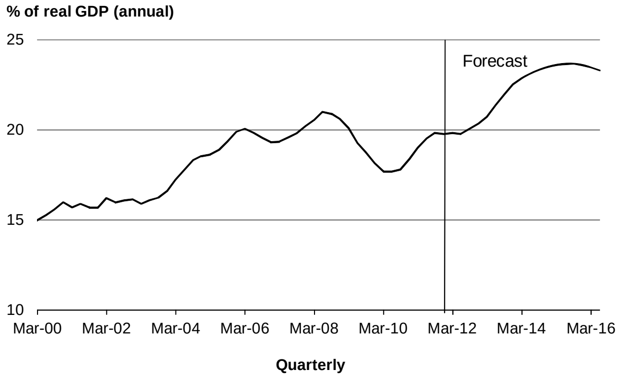
One of the main contributors to the lower tax-to-GDP ratio is the current high level of goods and services tax (GST) refunds, which are being boosted by insurance settlements following the Canterbury earthquakes. Insurance settlements include GST, which entitles insurance companies to a refund from Inland Revenue (IRD). This reduces net tax revenue until the claimants incur GST on their purchases. While temporary, the impact remains significant until the bulk of the insurance settlement are spent.

While the initial phases of the rise in residential investment are driven by the Canterbury rebuild, activity in the rest of the country is forecast to become increasingly significant over 2013. The national demand for housing is supported by past population growth, expected future population growth, rising household incomes, falling unemployment and repair of leaky homes.

...and business investment strengthens

Business investment is forecast to continue rising, picking up pace over the second half of 2012 as the rise in business confidence over the first half of 2012 and the imminent Canterbury rebuild impact on firms' decisions.

Figure 1.12 – Real business investment



Sources: Statistics New Zealand, the Treasury

The Treasury's estimate for the damage to commercial and infrastructure assets remains $7 billion (in 2011 prices), but is subject to a large degree of uncertainty. The Canterbury rebuild is expected to provide increasing support for non-residential investment particularly in the period beyond March 2013, while other construction related to the Canterbury rebuild is assumed to be spread more evenly over the forecast period. With the Canterbury rebuild underway, and continuing support from low interest rates and the high exchange rate, business investment growth is forecast to rise to 14% in the year ending March 2014 and to reach an historically high share of 24% of real GDP. The pace of business investment slows over the remainder of the forecast period, reflecting the lower exchange rate and rises in interest rates.

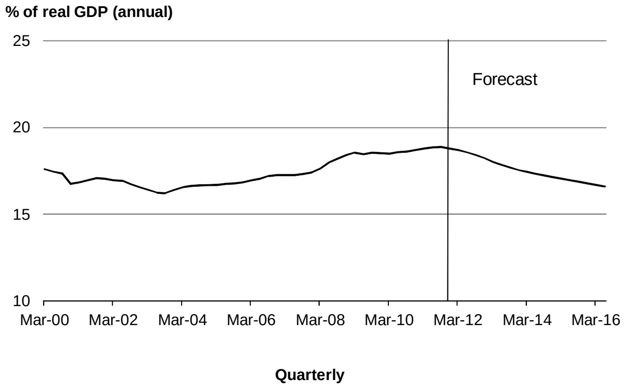
Government spending growth slows...

Real government consumption is forecast to fall in the year ending March 2013, as some of the temporary spending related to the Canterbury earthquakes is withdrawn and growth in other government spending slows. Government spending restraint in Budget 2012, and in earlier Budgets, is reflected in a reduction of government spending on goods and services as a share of real GDP (government transfer payments, such as Working for Families, are captured in private consumption). Estimates of the cyclically-adjusted operating balance show fiscal policy is withdrawing demand from the economy in each of the forecast years, with a peak contraction of almost 2% of GDP in the fiscal year ending June 2014.[2]

[2] For more details, see the *Additional Information* on the Treasury website www.treasury.govt.nz

Although government consumption expenditure continues to increase in current prices, and increases in inflation-adjusted (or constant) prices after the year ending March 2013, it grows more slowly than the rest of the economy. As a share of real GDP, government consumption declines from 18.7% in the year ending March 2012 to 16.6% by March 2016.

Figure 1.13 – Real government consumption



Sources: Statistics New Zealand, the Treasury

Partly offsetting the reduction in consumption demand, real government investment is forecast to grow at an average rate of 4% over the forecast period, reflecting the Government's ongoing social infrastructure investment programme. More generally, the reduction in demand from fiscal policy is more than offset by the increase in private sector demand from the Canterbury rebuild and other parts of the economy.

Good farming conditions lift commodity exports volumes...

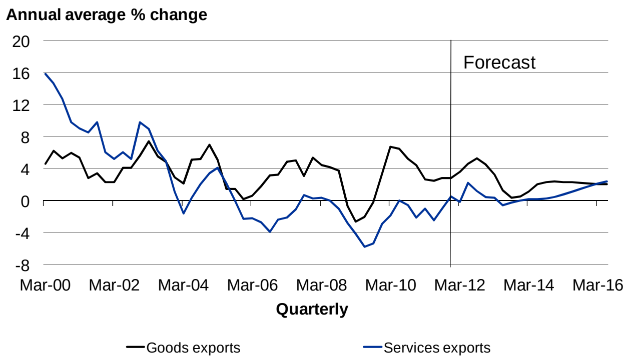
Exports of goods increased 2.9% in the year ending December 2011, led by strong growth in dairy volumes. The RWC contributed to a 0.6% rise in services exports, with much of the positive impact offset by weakness in other tourist arrivals owing to the natural disasters in Canterbury and Japan, and generally weak demand in many of the traditional tourism markets. Together, goods and services exports rose 2.4% in the year ending December 2011.

Export growth is expected to slow to around 2% in the year ending March 2013 and 1% in the following year, as farming conditions return to normal and the elevated exchange rate constrains profitability. The assumed weakening of the exchange rate over 2015 and 2016 is forecast to lift volume growth to 2% per year over the final two years of the forecasts.

...but growth slows as conditions return to normal...

The assumption of a return to normal farming conditions is reflected in lower commodity export growth. Dairy export volumes, up 9.9% in the year ending December 2011, are expected to rise further before falling back when the current season ends and conditions revert to normal.

Figure 1.14 – Export volume growth



Sources: Statistics New Zealand, the Treasury

Thereafter, ongoing productivity gains and investment in the dairy industry result in a rising profile for dairy export volumes. The meat industry is also benefiting from good farming conditions, but the trend decline in the sheep flock is expected to continue, with an offset from a larger dairy herd resulting in stable meat export volumes. Forestry export volumes are also forecast to remain stable, reflecting steady demand in an industry that is operating close to its maximum sustainable harvest rate. Some other commodity exporters, such as kiwifruit and pip fruit growers, are finding conditions challenging.

...and international demand remains subdued

Growth in non-commodity goods exports, including manufactured goods, is forecast to slow from around 4% in the year ending December 2011 to 2% in the year ending March 2013 as the elevated exchange rate and subdued trading partner conditions slow demand growth. The forecast recovery in world demand and the easing in the exchange rate contribute to growth rising to 2.9% and 3.9% in the years ending March 2014 and 2015 respectively, slowing to 3% in the year ending March 2016.

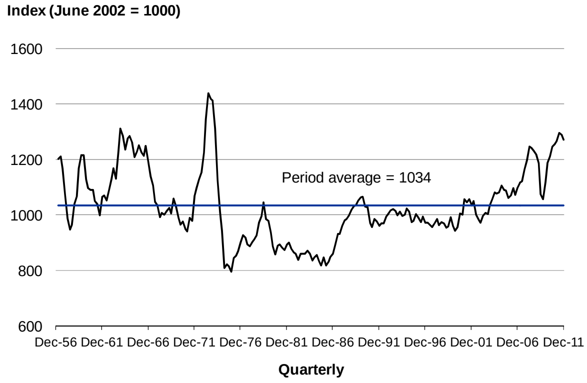
Services export growth is forecast to be weak over much of the forecast horizon – rising world incomes and a weaker exchange rate permit some recovery in the final year of the forecasts. Exports of services are dominated by travel and transport services; conditions in this industry are expected to remain subdued, reflecting weak income growth in many developed countries and the relatively high cost of New Zealand as a tourism destination. In contrast to the weakness in these industries, exports of commercial services are trending up, and have increased almost 30% since early 2007. Growth in this latter sector is expected to continue to partly offset the weakness in tourism.

Import growth is forecast to slow to 2.8% in the year ending March 2013, from 5.2% in the year ending March 2012. The expected slowing in consumption demand reduces consumption goods import growth, and imports of services, which have risen strongly in the last two years, are expected to consolidate at a high level. The Canterbury rebuild, combined with firmer domestic demand, drives the strong rise in imports in the following two years. In the final year of the forecasts, the weaker exchange rate and more restrained demand growth result in slower import growth.

Goods export prices fall in the short-term...

Over 2011 the overseas trade index (OTI) measure of the merchandise terms of trade rose to their highest level since 1974 as solid demand and short supply of dairy and meat products lifted export prices. However, good farming conditions have led to increased dairy production around the world and prices have fallen. At the same time, trading partner demand has weakened. Further falls in export prices are expected and the System of National Accounts (SNA) measure of the merchandise terms of trade is expected to fall around 8% from its peak in September 2011 to its trough in late 2012. From the end of 2012, commodity supply growth is expected to slow and demand growth to strengthen leading to a recovery in the terms of trade over 2014 and 2015. However, recent commodity price falls point to the risk of a greater decline in the terms of trade than forecast.

Figure 1.15 – Merchandise terms of trade (OTI basis)



Source: Statistics New Zealand

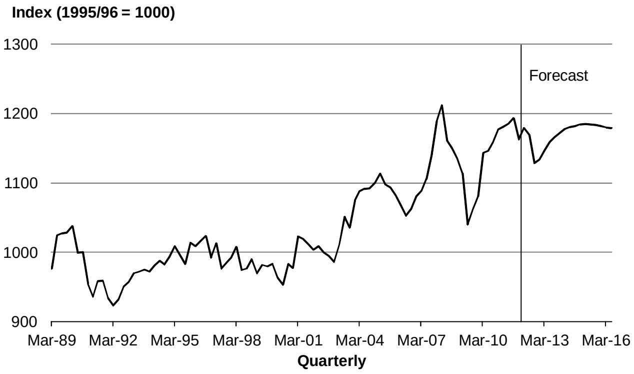
...but recover in the medium term...

World dairy prices were around 20% below their April 2011 peak and close to their average over the past 7 years when these forecasts were finalised. Dairy prices have been supported by rapid growth in China's dairy consumption and per capita consumption remains well below that of countries such as Korea and Japan. The growth outlook for China remains solid, and is expected to generate rising demand for dairy products. Global dairy supply is expected to increase, although production costs are also expected to rise due to increased land-use competition from food, fibre and bio-fuel industries. Tighter environmental standards are also likely to contribute to higher production costs. World supply of beef and lamb is generally short following several seasons of poor farming conditions. Biological constraints on the speed of the supply response are expected to sustain prices at a relatively high level over the forecast period. Prices for forestry exports have been supported by developments in China, but the weak housing market in North America has moderated the extent of price increases. The recovery in the US is expected to gather pace over the forecast period, increasing demand for forestry products and helping to maintain forestry prices at historically high levels.

World oil prices rose over the first quarter of 2012 as the prospect of supply disruptions increased, but prices have eased in recent weeks. Oil market futures prices, which form the basis for our oil price assumption, show that oil prices in 2016 are expected to be at a similar level to current prices (US$94.4 per barrel).

...offsetting weakness in the services terms of trade

Figure 1.16 – Goods and services terms of trade (SNA basis)



Sources: Statistics New Zealand, the Treasury

In contrast to the expected recovery in the merchandise terms of trade, the services terms of trade are forecast to continue weakening, ending the forecast period around 20% below their current level. The price of overseas travel by New Zealanders, which is treated as imports of services in the SNA, is currently low, and is reflected in the growing number of overseas trips. On the other hand, the high exchange rate means the cost of travel to New Zealand is relatively high and the value of tourism spending has fallen in real terms. The expected decline in the New Zealand dollar increases the relative price of travel and other services imports for New Zealanders, resulting in a falling services terms of trade. Overall, the combined goods and services terms of trade deteriorate over 2012, but recover over 2013 and 2014, and stabilise at a level similar to that prevailing over 2011.

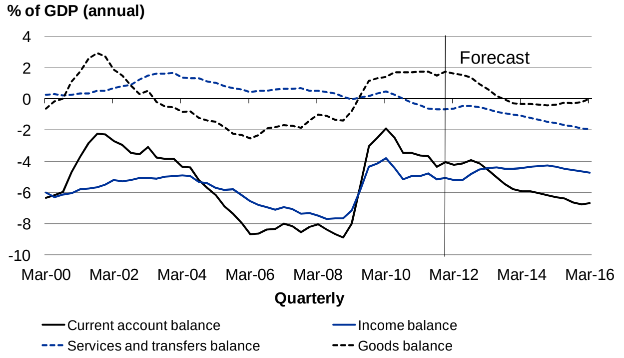
Wider current account deficit...

The current account of the balance of payments measures economic transactions between New Zealand residents and the rest of the world. It is a composite of balances on imports and exports of goods and services, income flows, and transfers. The current account deficit is expected to widen to 6.7% of GDP in the year ending March 2016, from

4.0% in the year ending December 2011, driven by a falling surplus on the trade balance and a widening of the deficit on services.

The income deficit rose over 2011 as profit outflows recovered and was a little over 5% of GDP in the year ended December 2011. Income outflows are expected to stabilise over 2012 and to decline to 4.5% of GDP in the year ending March 2013. The goods surplus is forecast to narrow from 1.7% of GDP in the year ending December 2012 to 0.6% of GDP in the year ending March 2013. As a consequence, the current account deficit widens to 4.6% of GDP.

Figure 1.17 – Current account balance



Sources: Statistics New Zealand, the Treasury

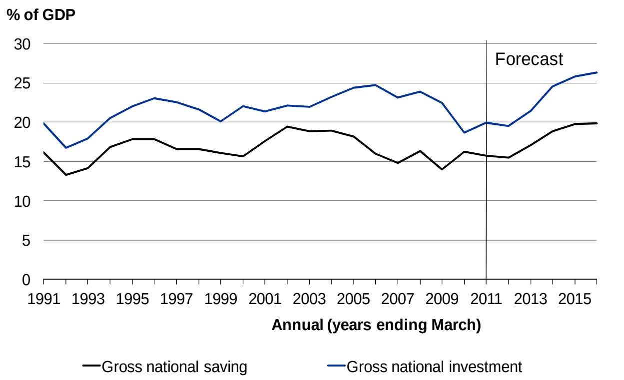
The goods surplus is forecast to continue to narrow and a goods deficit is expected to develop in late 2013. Small goods deficits, of around 0.4% of GDP, are expected to persist until the end of the forecast period, when the weaker exchange rate helps return the balance into surplus. The income deficit is forecast to remain around 4.5% of GDP over the years ending March 2013 to March 2015 as business profitability and interest payments keep pace with nominal GDP growth. The transfers balance is forecast to remain in deficit throughout the forecast horizon reflecting the impact of higher insurance premiums in the wake of the Canterbury earthquakes.

The current account deficit is forecast to widen to 6.7% of GDP in the year ending March 2016, but the assumption of a significant weakening in the exchange rate and the gradual unwind of activity in Canterbury mean that the deficit is narrowing. This narrowing trend is expected to continue beyond the end of the forecast period.

...but national saving also rises

From a saving and investment perspective, the widening of the current account reflects the expected increase in investment driven by the Canterbury rebuild and part-financed from overseas reinsurance inflows. The inflows are recorded in the capital account of the balance of payments. Statistics New Zealand estimates over $15 billion of reinsurance inflows for the earthquakes have been paid to New Zealand insurers to date, reflecting the high level of insurance coverage by Canterbury businesses and households. The large proportion of home and business equity protected by insurance policies means that households and businesses can continue saving, contributing to a rise in national saving. The Government's programme of fiscal consolidation further supports national saving.

Figure 1.18 – Saving and investment



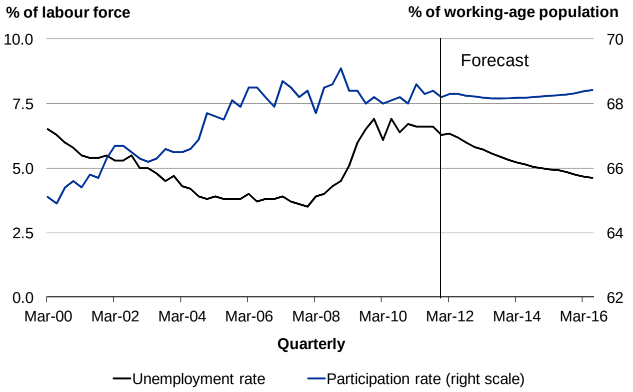
Sources: Statistics New Zealand, the Treasury

The net international liability position is forecast to rise from 72% of GDP at the end of 2011 to 81% of GDP at the end of March 2016, driven by a fall in international assets as insurance claims are settled. At the end of the forecast period, a small proportion of the insurance claims remain to be settled and the current account deficit remains above its sustainable level, suggesting that the net liability position will deteriorate further. The Treasury estimates that a current account deficit of 4% of GDP would stabilise net international liabilities at 85% of GDP.

Firmer labour market...

The labour market has firmed over the past year and this is expected to continue over the forecast period. In the year ending December 2011, the number of people employed increased 1.6% and the unemployment rate eased to 6.4% (revised up from 6.3%). Data released after the forecasts were finalised show employment increased 1.4% in the year ending March 2012, compared to a forecast rise of 1.3%, and the unemployment rate increased to 6.7% in the March 2012 quarter, higher than the 6.3% forecast. A higher labour force participation rate, which rose to 68.8% compared to a forecast of 68.3%, accounts for most of the difference between the actual unemployment rate and the forecast rate. The participation rate can be volatile but, if sustained, the increase in the size of the labour force points to greater spare capacity in the labour market, which may moderate inflation pressures as a result of weaker wage growth and the assumed rise in labour productivity.

Figure 1.19 – Labour market



Sources: Statistics New Zealand, the Treasury

Employment growth is expected to remain modest over 2012, but to begin rising more quickly in 2013 as the Canterbury rebuild increases labour demand. Employment growth of 1.6% is expected in the years ending March 2014 and 2015, up from 1.3% in the year ending March 2013, easing to 1.4% in the final year of the forecasts.

Labour force participation has averaged a little over 68% of the working-age population in recent years. Participation in older age groups has been increasing, but that has been offset by falling participation in younger age groups, where unemployment is highest. These trends are expected to continue, and the participation rate is forecast to remain close to 68% over the forecast period.[3] The unemployment rate is expected to decline to 4.7% in the March 2016 quarter, reflecting ongoing employment growth.

...leads to ongoing wage growth

Annual wage and salary growth accelerated to 3.8% in the March 2012 quarter, up from 2.6% in the previous March quarter. The wage and salary data for the March quarter was released after the forecasts were finalised, and shows that wages and salaries grew more

3 Some components of welfare reform (work tests and associated provisions for sole parents and partners) are within the scope of these forecasts (see *Specific Fiscal Risks* page 66) and their impact has been considered during the development of these forecasts.

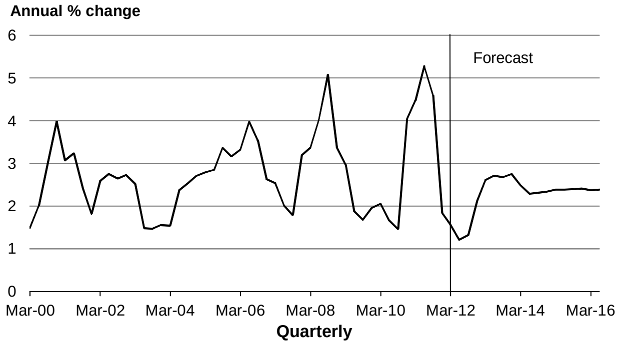
strongly than expected. If sustained, the most recent data point to higher wage growth than contained in our forecasts. However, when considered alongside the moderating influence of the higher unemployment rate on wage growth, the forecast for wages to continue growing at around the current rate remains appropriate.

The Canterbury rebuild will likely see construction sector wages rise more rapidly than those in other industries. There is a risk that this exerts more upward pressure on wages in other industries than is currently factored in, either because of greater labour shortages for the types of labour skills required or because labour productivity in the rebuild is lower than expected. On the other hand, the localised and intensive nature of the rebuild may lift labour productivity.

Inflation is restrained...

Inflation is restrained but is forecast to rise as downward price pressure from the recent appreciation of the exchange rate fades, excises on tobacco and transport increase, and spare capacity in the economy is reduced.

Figure 1.20 – CPI inflation



Sources: Statistics New Zealand, the Treasury

The Treasury estimates the output gap, a measure of spare capacity, to be around 1% of GDP currently. This is contributing to relatively low domestically generated, or non-tradable, inflation. The acceleration in business investment over the next two years increases productive capacity, partly through an increase in imports, but output increases more rapidly and the output gap narrows, closing at the end of the forecast period. With resources less than fully employed across the forecast period, non-tradables inflation is expected to remain restrained. However, in the year ahead, rising insurance premiums, higher excises on tobacco and transport, and higher rental accommodation prices, are expected to increase non-tradable inflation. With tradable inflation also increasing, headline inflation is forecast to rise to 2.6% in the March quarter of 2013. Further tobacco excise increases, ongoing but diminishing spare capacity, and a depreciating exchange rate, contribute to inflation remaining around 2.4% over the remainder of the forecast period.

...and monetary policy stimulus is withdrawn...

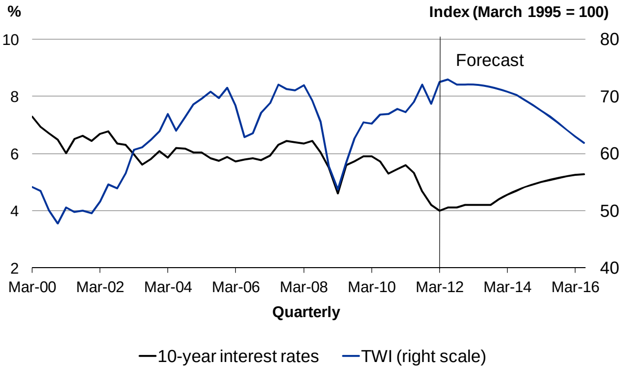
The forecasts assume that monetary policy does not tighten to offset the temporary effects of the higher excises on the CPI. However, strengthening demand in the economy and diminishing spare capacity are forecast to lead to a gradual withdrawal of monetary stimulus. The withdrawal of this support is forecast to begin in early 2013. Short-term 90-day interest rates are expected to rise from 2.7% in the March 2012 quarter to 4.4% in the March 2016 quarter.

...but the pace of tightening is uncertain

The pace and extent of interest rate rises are dependent on the strength of the exchange rate, the strength of domestic demand, and conditions in financial markets; a stronger exchange rate would also lead to tighter monetary conditions. Banks continue to find the cost of funds elevated relative to their pre-global financial crisis levels, which is increasing the margin between the Reserve Bank's Official Cash Rate (OCR) and retail interest rates. These higher costs are assumed to persist over the forecast horizon; international funding markets are expected to improve but to remain impaired; and upward pressure on domestic funding costs is expected as domestic deposit growth slows and credit demand rises. Further increases in the cost of funds would, if passed on to borrowers, reduce the extent of increases in the OCR required to meet the Reserve Bank's medium-term target of inflation between 1% and 3%.

The rate of productivity growth is also critical to the inflation outlook. The Treasury forecasts assume labour productivity growth of 1.4% per year over the forecast period, similar to that over the decade prior to the 2008/09 recession. A lower rate of productivity growth would lead to a faster reduction in spare capacity and require an earlier tightening of monetary policy.

Figure 1.21 – Exchange rate and 10-year interest rates



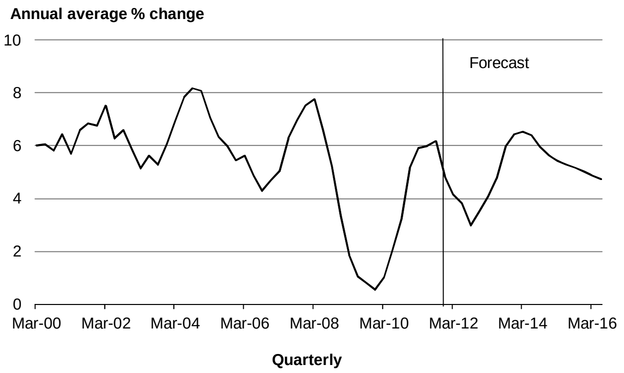
Sources: Reserve Bank of New Zealand, the Treasury

Ten-year interest rates fell to an historic low of 4.0% in the March 2012 quarter, reflecting lower yields internationally, but also some specific factors such as an improvement in investor sentiment as New Zealand's economic outlook has remained favourable relative to a number of other countries. Long-term interest rates are forecast to rise to a little over 5% by the end of the forecast period, reflecting the expected recovery in world economic growth and the gradual normalisation of global monetary conditions. The expected rise in 10-year interest rates flows through to higher business and government borrowing costs.

Stronger income growth expected

Nominal GDP growth is expected to slow to 4.1% over the year ending March 2013, reflecting the decline in the terms of trade. Nominal GDP is forecast to rise strongly in the following year as the terms of trade recover and the pace of growth in the real economy accelerates. Nominal GDP growth eases to around 5% per year in the last two years of the forecast period as real activity slows and the terms of trade level off.

Figure 1.22 – Nominal GDP growth



Sources: Statistics New Zealand, the Treasury

Nominal GDP is comprised of compensation of employees, and business and agricultural operating surplus.

Compensation of employees is forecast to grow 3.9% in the year ending March 2013, increasing to 5.2% the following year, underpinned by the firming labour market and the Canterbury rebuild. Compensation of employees continues to grow at around 5% per year through to the end of the forecasts. This means compensation of employees is stable as a share of GDP at around 44%.

Agricultural operating surplus is expected to fall in the year ending March 2013, reflecting lower commodity prices and the assumption that the exchange rate will provide only a limited offset. Operating surplus growth is expected to remain subdued in the year ending March 2014, but to recover strongly in the following years as the exchange rate falls and commodity demand firms.

Business operating surplus is expected to increase to 5.3% in the year ending March 2013, while the impetus from the Canterbury rebuild generates surplus growth of over 10% in the year ending March 2014. Operating surplus growth averages around 5% in the following years, in line with the moderation in activity across the economy.

Economic Forecast Assumptions

- From an outflow of 4,000 in the year ending March 2012, net permanent and long-term migration rises to an inflow of 19,000 in the year ending March 2014 and returns to a long-run assumption of 10,000 by mid-2015.
- The non-accelerating inflation rate of unemployment (NAIRU) is assumed to be around 4.5% by 2016 (it varies over time, starting out around 5.2% in 2011).
- Average hours worked per week are assumed to be 33 (near their current level).
- Economy-wide labour productivity growth is assumed to average around 1.4% per year between the years ending March 2012 and March 2016.
- Damage caused by the Canterbury earthquakes is assumed to be $20 billion (2011 dollars) spread across residential property and contents ($13 billion), commercial ($4 billion) and infrastructure ($3 billion). Rebuilding is expected to ramp up from the second half of 2012.
- West Texas Intermediate (WTI) oil prices are assumed to fall from above US$100 per barrel in the March quarter 2012 to US$94.4 in the June quarter 2016, although we also look at other oil price measures.
- 90-day interest rates are assumed to increase starting with OCR rises in early 2013 to around 4.5% at the end of the forecast period, while 10-year interest rates are assumed to move towards our anchor assumption of 5.5%, reaching 5.3% within the forecast period.
- The Trade Weighted Index (TWI) is assumed to remain around 72 for the next two years or so before falling to 62 by the June quarter 2016, which is the end of the forecast period.
- Tobacco excise increases add 0.2 percentage points to the CPI in each of the March quarters 2013, 2014, 2015 and 2016.

2

Fiscal Outlook

Overview

Table 2.1 – Fiscal indicators

Year ended 30 June	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
$billions						
Core Crown tax revenue	51.6	54.7	58.2	63.1	67.2	71.2
Core Crown expenses	70.5	69.6	73.7	72.9	74.9	77.3
Total Crown OBEGAL[a]	-18.4	-8.4	-7.9	-2.0	0.2	2.1
Total Crown OBEGAL (excluding earthquake expenses)	-9.3	-7.1	-5.9	-1.7	0.4	2.2
Total Crown operating balance	-13.4	-10.6	-5.7	0.4	2.7	4.8
Core Crown residual cash	-13.3	-12.1	-9.7	-5.2	-3.7	-1.2
Net debt[b]	40.1	51.9	61.3	66.5	69.8	70.7
Gross debt[c]	72.4	80.1	80.0	88.1	84.2	84.8
Net worth attributable to the Crown	80.6	70.0	64.6	65.2	68.1	73.2
% of GDP						
Core Crown tax revenue	25.7%	26.3%	26.7%	27.2%	27.5%	27.8%
Core Crown expenses	35.2%	33.5%	33.8%	31.5%	30.7%	30.2%
Total Crown OBEGAL[a]	-9.2%	-4.1%	-3.6%	-0.9%	0.1%	0.8%
Total Crown OBEGAL (excluding earthquake expenses)	-4.6%	-3.4%	-2.7%	-0.8%	0.1%	0.9%
Total Crown operating balance	-6.7%	-5.1%	-2.6%	0.2%	1.1%	1.9%
Core Crown residual cash	-6.7%	-5.8%	-4.4%	-2.2%	-1.5%	-0.5%
Net debt[b]	20.0%	25.0%	28.1%	28.7%	28.6%	27.7%
Gross debt[c]	36.2%	38.5%	36.7%	38.0%	34.5%	33.2%
Net worth attributable to the Crown	40.2%	33.7%	29.6%	28.1%	27.9%	28.6%

Notes: a Operating balance before gains and losses
b Net core Crown debt excluding the New Zealand Superannuation Fund and advances
c Gross sovereign-issued debt excluding Reserve Bank bills and settlement cash

A glossary and longer time series for these indicators are provided on pages 126 and 131 respectively.

Source: The Treasury

Budget 2012 forecasts narrowing operating deficits over the next three years before the Crown returns to surplus in the 2014/15 fiscal year.

This strengthening fiscal outlook is underpinned by higher revenues together with restrained growth in discretionary spending.

While the nominal value of core Crown expenses is expected to increase across the four-year forecast period, growth in spending is anticipated to be modest, so that expenses will decline as a share of GDP from 35% of GDP in 2010/11 to 30% of GDP in 2015/16.

Over the next four years, the core Crown is expected to spend around $18 billion on capital items such as the purchase of physical assets and advancing student loans. Net debt is expected to peak at 28.7% of GDP in 2013/14, fall to 27.7% of GDP in 2015/16 and continue to ease throughout the projection period[4] ending 2025/26.

Total Crown assets are forecast to grow by $18.9 billion over the next five years, from $245.2 billion to $264.1 billion. This five-year growth figure is roughly half that forecast in Budget 2011, reflecting ongoing fiscal restraint and the beginning of an unwinding of financial assets that had been built up in recent years to fund a series of upcoming bond maturities.

Table 2.2 – Reconciliation between OBEGAL and net debt

Year ending 30 June	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
$billions	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Core Crown revenue	57.6	60.0	64.2	69.2	73.6	77.9
Core Crown expenses	(70.5)	(69.6)	(73.7)	(72.9)	(74.9)	(77.3)
Net surpluses/(deficits) of SOEs and CEs	(5.5)	1.2	1.6	1.7	1.5	1.5
Total Crown OBEGAL	**(18.4)**	**(8.4)**	**(7.9)**	**(2.0)**	**0.2**	**2.1**
Net retained surpluses of SOEs, CEs and NZS Fund	6.0	(1.4)	(1.7)	(1.7)	(1.5)	(1.4)
Non-cash items and working capital movements	3.1	1.6	2.9	1.1	1.0	1.1
Net core Crown cash flow from operations	**(9.3)**	**(8.2)**	**(6.7)**	**(2.6)**	**(0.3)**	**1.8**
Net purchase of physical assets	(1.5)	(1.4)	(1.9)	(1.6)	(1.6)	(1.4)
Advances and capital injections	(2.5)	(2.4)	(2.4)	(1.9)	(2.5)	(2.2)
Forecast for future new capital spending	-	(0.1)	(0.2)	(0.6)	(0.8)	(0.9)
Partial share sales	-	-	1.5	1.5	1.5	1.5
Core Crown residual cash deficit	**(13.3)**	**(12.1)**	**(9.7)**	**(5.2)**	**(3.7)**	**(1.2)**
Opening net debt	26.7	40.1	51.9	61.3	66.5	69.8
Core Crown residual cash deficit	13.3	12.1	9.7	5.2	3.7	1.2
Other valuation changes in financial assets and financial liabilities	0.1	(0.3)	(0.3)	-	(0.4)	(0.3)
Closing net debt	**40.1**	**51.9**	**61.3**	**66.5**	**69.8**	**70.7**
As a percentage of GDP	**20.0%**	**25.0%**	**28.1%**	**28.7%**	**28.6%**	**27.7%**

Source: The Treasury

4 The projection period is the ten year period from 2016/17 to 2025/26.

Core Crown Tax Revenue

Tax revenue continues to recover ...

Core Crown tax revenue is forecast to increase over the next four years, reaching $71.2 billion (27.8% of GDP) in 2015/16.

All of the major macroeconomic drivers of tax revenue (compensation of employees, entrepreneurial income, operating surplus and domestic consumption) are forecast to grow at above 4% per year.

Increased residential investment in the Canterbury region is expected to provide a significant boost to GST revenue in the 2012/13 and 2013/14 fiscal years. This increase is expected to offset reduced GST revenue in the current year (resulting from refunds paid on the insurance proceeds that will be used to fund much of this investment).

In addition to the impact of economic growth, the *Budget Update* includes a number of policy changes, including changes to tobacco excise, fuel excise and road user charges. These policy changes increase core Crown tax revenue by $1.7 billion over the forecast period. Further detail of the tax policy changes can be found at www.treasury.govt.nz/budget/forecasts/befu2012.

Table 2.3 – Movement in core Crown tax revenue

Year ending 30 June	**2012**	**2013**	**2014**	**2015**	**2016**
$billions	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
2011 Pre-election Update	55.5	59.2	63.6	67.6	71.5
Policy changes	-	-	-	-	-
Forecast changes	(1.1)	(1.0)	(0.7)	(0.5)	(0.4)
2012 Budget Policy Statement	54.4	58.2	62.9	67.1	71.1
Policy changes	-	0.2	0.4	0.5	0.6
Forecast changes	0.3	(0.2)	(0.2)	(0.4)	(0.5)
2012 Budget Update	**54.7**	**58.2**	**63.1**	**67.2**	**71.2**
Composition of 2012 Budget Update:					
Source deductions	21.2	22.6	24.1	25.6	27.2
Corporate tax	8.6	9.0	9.8	10.5	11.0
GST	14.7	15.7	17.3	18.3	19.3
Other taxes	10.2	10.9	11.9	12.8	13.7

Source: The Treasury

Core Crown tax revenue forecasts are lower than in the *Pre-election Update* but higher than in the *Budget Policy Statement.*

The forecast of nominal GDP is the main driver of the tax forecasts. The outlook for GDP was lowered in the *Budget Policy Statement*, which resulted in reductions in the tax revenue forecasts ranging from $0.4 billion to $1.1 billion in each year of the forecast period.

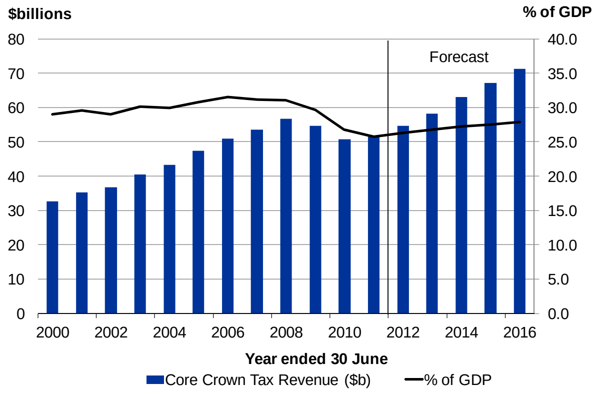
Nominal GDP forecasts were reduced further in this *Budget Update*, which, with the exception of the 2012 year, caused further reductions in the underlying tax revenue forecasts. Policy changes that affected tax revenue more than offset these reductions, resulting in tax revenue forecasts increasing slightly from the *Budget Policy Statement*.

... and increases as a percentage of GDP

Core Crown tax revenue is forecast to increase over the forecast period from 25.7% of GDP in 2010/11 to 27.8% of GDP in 2015/16.

Further discussion of the changes to core Crown tax revenue as a percentage of GDP and their drivers can be found in the box below.

Figure 2.1 – Core Crown Tax Revenue



Source: The Treasury

In line with established practice, Inland Revenue has also prepared a set of tax forecasts which, like the Treasury's tax forecasts, is based on the Treasury's macroeconomic forecasts. The two sets of forecasts differ from each other because of the different modelling approaches used by the two agencies and the various assumptions and judgements made by the forecasting teams in producing their forecasts. In this *Budget Update*, the two sets of tax forecasts are very close to each other, with the largest difference in any one year being almost $350 million (around 0.2% of core Crown tax revenue).

A full comparison of the Treasury and Inland Revenue forecasts can be found at www.treasury.govt.nz/budget/forecasts/befu2012.

Core Crown Tax Revenue as a Percentage of GDP

While core Crown tax revenue increases as a percentage of GDP over the forecast period, it has been decreasing as a percentage of GDP since 2008. The reasons for the previous decline and forecast increase are outlined in the following tables. Values in these tables were estimated using data as at 1 May 2012 and could change in the future as current data are revised and more data become available.

Table 2.4 – Change in core Crown tax revenue from 2008 to 2011

Year ending 30 June % of GDP	2008 Actual	2009 Actual	2010 Actual	2011 Actual	Total 3 years
Core Crown tax revenue	31.0	29.5	26.8	25.7	
Annual movement		(1.5)	(2.7)	(1.1)	(5.3)
Annual movement owing to:					
Legislated tax system changes					
Up to 2008 Budget		(1.7)	(0.3)	(0.4)	(2.4)
Post 2008 Budget		(0.3)	(0.4)	0.1	(0.6)
Composition of GDP		(1.3)	0.3	(0.5)	(1.5)
Timing		0.4	(0.7)	(0.2)	(0.5)
Interest RWT		-	(0.4)	-	(0.4)
Company tax losses		0.3	(0.6)	0.1	(0.2)
Structured finance tax settlements		0.9	(0.6)	(0.3)	-
Fiscal drag		0.2	0.1	0.1	0.4
Other		-	(0.1)	-	(0.1)
Total annual movement		(1.5)	(2.7)	(1.1)	(5.3)

Source: The Treasury

- "Legislated tax system changes" shows movements in tax revenue caused by changes to tax rates, thresholds and taxable bases. Broadly speaking, the "Up to 2008 Budget" reductions were caused by the changes made in 2008 to the personal and business tax rates. "Post 2008 Budget" changes relate to the 2009 personal tax changes and the initial impacts of tax changes made in the *2010 Budget Update* package.

- The composition of GDP affects the tax-to-GDP ratio because not all parts of GDP are taxed at the same rate. For instance, compensation of employees, which measures total wages and salaries in the economy, has a higher average implicit tax rate than does operating surplus, the measure of profits in the economy.

- Timing largely reflects movements between years caused by changes in the amounts of tax paid as provisional tax and final tax.

- Movements in interest rates and the size of interest bearing deposits affect the amount of resident withholding tax (RWT) collected. Deposit interest rates declined sharply throughout this period.

- Income tax payers can use accumulated tax losses to reduce the amount of tax that they pay on profits earned in later tax years. This loss offset effect is most prevalent in company tax and can result in swings of several hundreds of millions of dollars in income tax from one year to the next.

- "Structured finance tax settlements" refers to the major trading banks' settlements of their structured finance tax liabilities (mostly recognised in 2009).

- "Fiscal drag" is the additional source deduction revenue generated as an individual's average tax rate increases as their income increases.

While core Crown tax revenue as a percentage of GDP declined over the past few years, it is forecast to increase over the forecast period from 25.7% of GDP in 2010/11 to 27.8% in 2015/16.

Table 2.5 – Change in core Crown tax revenue from 2011 to 2016

Year ending 30 June **% of GDP**	**2011** **Actual**	**2012** **Forecast**	**2013** **Forecast**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**Total** **5 years**
Core Crown tax revenue	25.7	26.3	26.7	27.2	27.5	27.8	
Annual movement		0.6	0.4	0.5	0.3	0.3	2.1
Annual movement owing to:							
Fiscal drag		0.1	0.1	0.2	0.2	0.2	0.8
Composition of GDP		-	0.2	0.2	0.1	0.1	0.6
Legislated tax system changes		0.3	0.1	-	0.1	0.1	0.6
Other		0.2	-	0.1	(0.1)	(0.1)	0.1
Total annual movement		0.6	0.4	0.5	0.3	0.3	2.1

Source: The Treasury

"Legislated tax system changes" are mainly the increases to tobacco excise rates, the fuel excise rate and road user charges. The 0.3% of GDP in 2011/2012 represents the revenue-positive aspects of the *2010 Budget Update* package beginning to take effect.

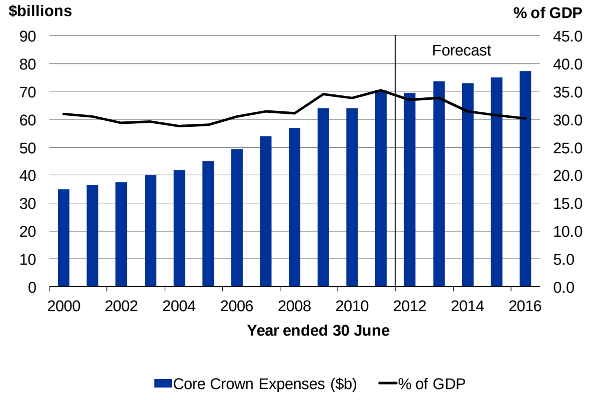
Core Crown Expenses

Core Crown expenses continue to increase over the forecast period ...

Core Crown expenses are expected to increase in nominal terms by $6.8 billion over the forecast period, reaching $77.3 billion in 2015/16 (Table 2.6).

The major increases are in relation to social assistance expenses ($3.6 billion), new spending ($3.5 billion), and finance costs ($1.2 billion) reflecting the expected increase in gross debt.

Figure 2.2 – Core Crown Expenses



Source: The Treasury

The reductions relating to the financial assistance package for weathertight homes and the emissions trading scheme reflect expenditure incurred in 2011/12 which has not been repeated to the same extent in future periods.

Earthquake expenses are expected to increase core Crown expenses over the next couple of years then decline to have minimal impact by 2014/15 onwards. The largest impact is in 2012/13 when earthquake costs are estimated to reach $2.2 billion. Excluding these costs, core Crown expenses would reduce from the estimated $73.7 billion in 2012/13 to $71.5 billion.

Table 2.6 – Cumulative growth in core Crown expenses

Year ended 30 June $billions	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Movements in expenditure					
New spending					
Budget 2011 decisions	0.4	(0.1)	(0.4)	(0.3)	(0.3)
Budget 2012 decisions	(0.7)	0.5	0.6	0.4	0.6
Budget 2013 allowance	-	-	0.8	0.8	0.8
Budget 2014 allowance	-	-	-	1.2	1.2
Budget 2015 allowance	-	-	-	-	1.2
Forecast changes					
New Zealand Superannuation costs	0.8	1.4	2.0	2.8	3.5
Other social assistance	(0.1)	-	(0.1)	(0.1)	0.1
Emissions Trading Scheme	(0.2)	(0.6)	(0.6)	(0.4)	(0.2)
Debt impairments	0.2	0.5	0.6	0.4	0.5
Other movements					
Finance costs	0.5	0.7	0.9	1.2	1.2
Weathertight homes	(0.8)	(0.6)	(0.6)	(0.6)	(0.6)
Earthquake expenses	(0.9)	0.6	(1.2)	(1.4)	(1.5)
Other movements	(0.1)	0.8	0.4	0.4	0.3
Increase/(decrease) in core Crown expenses	(0.9)	3.2	2.4	4.4	6.8
2011 Core Crown expenses	70.5	70.5	70.5	70.5	70.5
Core Crown expenses	**69.6**	**73.7**	**72.9**	**74.9**	**77.3**

Source: The Treasury

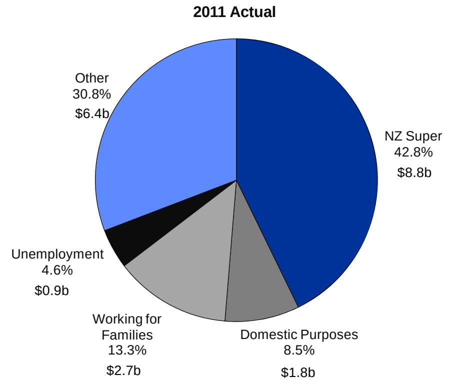
Almost half of the growth in expenses since 2010/11 relates to increases in New Zealand Superannuation costs and other social assistance. Total social assistance expenses rise from $20.6 billion in 2010/11 to $24.2 billion in 2015/16.

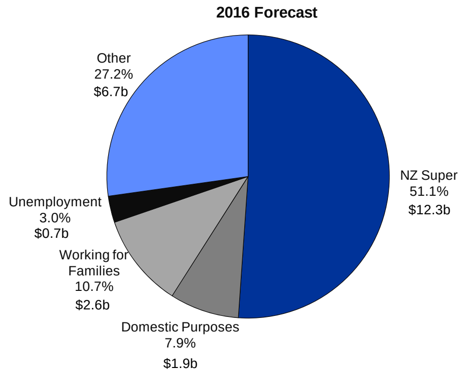
New Zealand Superannuation is forecast to increase from $8.8 billion in 2010/11 to $12.3 billion in 2015/16 (an increase of $3.5 billion). Recipient numbers are estimated to reach nearly 680,000 by that time, 20% higher than current levels.

Overall, New Zealand Superannuation is forecast to consume a larger share of social assistance expenses at just over 51% in 2015/16 compared to around 43% last year. As a percentage of GDP, superannuation expenses rise from 4.4% of GDP in 2010/11 to 4.8% of GDP in 2015/16.

Working for Families stays relatively flat over the forecast period while Domestic Purposes Benefits are forecast to rise slightly.

Figure 2.3 – Components of social assistance expenses in 2011 and 2016





Source: The Treasury

... but falls as a percentage of GDP ...

While core Crown expenses increase in nominal terms across the forecast period they fall as a percentage of GDP, largely reflecting two years of net zero budgets. In the current *Budget Update* the Government has announced new spending of $4.4 billion offset by $4.4 billion of savings (representing $3.0 billion of reprioritisation and $1.4 billion of revenue initiatives) (Table 2.7). This net zero budget compares to the $800 million per year spending previously forecast.

Table 2.7 – Reconciliation of Budget 2012

Year ended 30 June **$billions**	**2012** **Forecast**	**2013** **Forecast**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**5 year** **Total**
Savings in Budget 2012	(0.7)	(0.8)	(0.8)	(1.1)	(1.0)	(4.4)
New spending in Budget 2012	-	1.1	1.1	1.1	1.1	4.4
Budget 2012	**(0.7)**	**0.3**	**0.3**	**-**	**0.1**	**-**
Impact of Budget 2012:						
Increase core Crown revenue	-	0.2	0.3	0.4	0.5	1.4
Increase/(decrease) core Crown expenses	(0.7)	0.5	0.6	0.4	0.6	1.4
Budget 2012	**(0.7)**	**0.3**	**0.3**	**-**	**0.1**	**-**

Source: The Treasury

The allowance for new operating spending in Budget 2013 has been set at $800 million per year while Budget 2014 and 2015 increases to $1.2 billion per year.

Table 2.8 – New operating spending in future Budgets

Year ended 30 June $billions	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	5 year Total
Budget 2013	-	-	0.8	0.8	0.8	2.4
Budget 2014	-	-	-	1.2	1.2	2.4
Budget 2015	-	-	-	-	1.2	1.2
Future budgets new operating spend	**-**	**-**	**0.8**	**2.0**	**3.2**	**6.0**

Source: The Treasury

... while the costs associated with the Canterbury Earthquake Recovery Fund are expected to be recorded later than previously estimated

Some costs associated with the Canterbury Earthquake Recovery Fund (the "Fund") are now expected to be recorded later than previously forecast. While total costs are expected to remain the same, some expenses previously forecast to occur in the current financial year are now expected to be reported in the 2012/13 financial year. This includes costs associated with the Government's share of repairing local infrastructure, which are not now expected to be determined until the end of this calendar year.

Table 2.9 – Canterbury Earthquake Recovery Fund

Year ending 30 June $billions	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	Total
Budget 2012	1.6	0.8	2.2	0.5	0.2	0.2	5.5
Pre-election Update	1.6	2.8	0.4	0.3	0.3	0.1	5.5
Increase/(decrease) in core Crown earthquake expenses	**-**	**(2.0)**	**1.8**	**0.2**	**(0.1)**	**0.1**	**-**

Source: The Treasury

The Fund excludes costs incurred by Crown entities (including the Earthquake Commission) and State-owned enterprises (SOEs). An estimate of total Crown costs can be found on page 38.

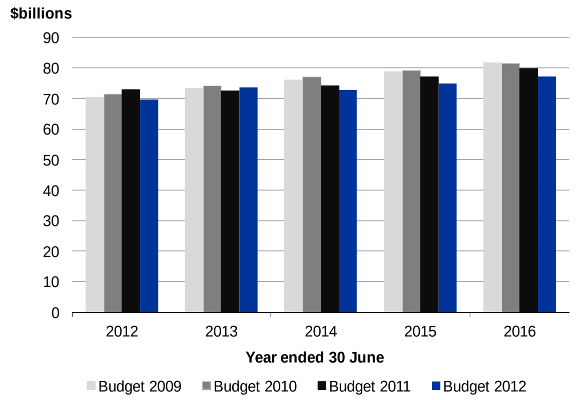
In addition to the costs outlined above, the Crown has guaranteed any cash shortfall in the Earthquake Commission. These forecasts estimate the cash shortfall to be $0.8 billion in the final two years of the forecast. The funding is assumed to be an advance to the Earthquake Commission, which is expected to be repaid. While this funding is forecast to increase net core Crown debt, there is no impact on core Crown expenses.

Fiscal Restraint

The return to surplus in 2014/15 is achieved through both the recovery of tax revenue and fiscal restraint. Expenses, as a percentage of GDP, are expected to decline from 35.2% of GDP in 2010/11 to 30.2% of GDP by the end of the forecast period.

While some of this decline is attributable to the one-off nature of earthquake expenses, a large portion is the result of savings identified in both Budget 2011 and Budget 2012.

Figure 2.4 – Core Crown expenses



Source: The Treasury

The return to surplus in 2014/15 was first forecast in the *2010 Half Year Update* at a modest $39 million. Since then economic recovery has been slower than initially expected and the country has experienced the devastating Canterbury earthquakes. As a result, tax revenue has fallen more than previously estimated, and expenses associated with the earthquakes have led to a deterioration of the fiscal outlook.

In response to the declining tax revenue and increased expense forecasts, the Government has identified fiscal restraint as key to meeting its target to return to surplus by 2014/15.

In the *2010 Half Year Update* core Crown expenses were forecast to reach $78.6 billion in the 2014/15 financial year (based on the policy settings at that time). In Budget 2012 these expenses are forecast to have reduced to $74.9 billion. This is a net saving of $3.7 billion.

These savings have largely been achieved through a reduction in the amount of new operating spending. The major reductions in spending have been as follows:

- savings of $1.4 billion in Budget 2011 by reducing new spending from a previously forecast spending of $1.1 billion to a saving of $0.3 billion
- savings of $0.7 million in Budget 2012 by reducing new spending from a previously forecast $1.1 billion to $0.4 billion
- savings of $0.4 billion in Budget 2013. Previous forecasts had assumed an allowance of $1.2 billion for new operating spending. This allowance was reduced to $0.8 billion in Budget 2011
- reduced finance costs as a result of the consequential reduction in borrowings.

Operating Surplus

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

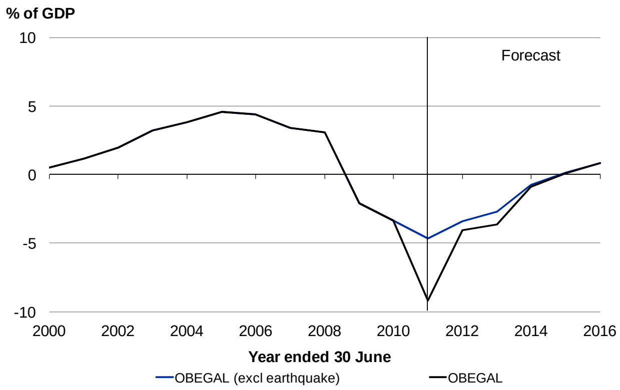
OBEGAL is expected to reach a surplus of $197 million in 2014/15.

The deficit is expected to fall from a high of 9.2% of GDP last year to 4.1% of GDP in the current year before reaching a positive 0.1% of GDP in 2014/15. Surpluses are then projected to continue. The *Risks and Scenarios* chapter outlines risks to OBEGAL, along with their potential impact.

While core Crown expenses exceed core Crown revenue for most of the forecast period, SOEs and Crown entities are forecasting surpluses from the current financial year onwards. These surpluses are after the estimated profits forgone from the Government's partial share sale in five companies are deducted (refer page 42).

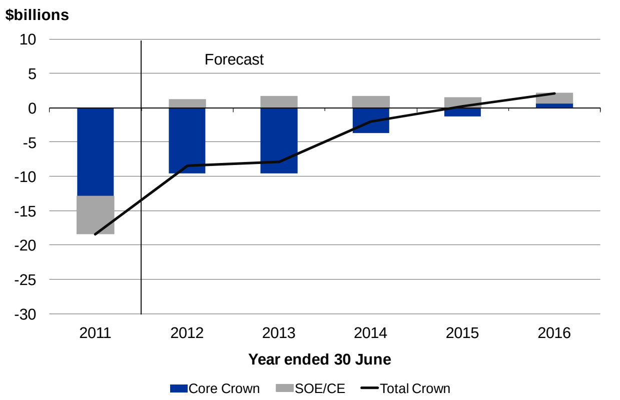
Earthquake expenses will continue to affect the deficit over the next few years (refer page 38) as costs such as the repair of infrastructure and restoration of the central business district are finalised. When earthquake expenses are excluded, the track to surplus is not as sharp, rising from -4.6% of GDP last year to -3.4% in the current year. The surplus in 2014/15 excluding earthquake expenses is forecast as $356 million (0.1% of GDP).

Figure 2.5 – Operating balance before gains and losses



Source: The Treasury

Figure 2.6 – Operating balance before gains and losses by sector



Source: The Treasury

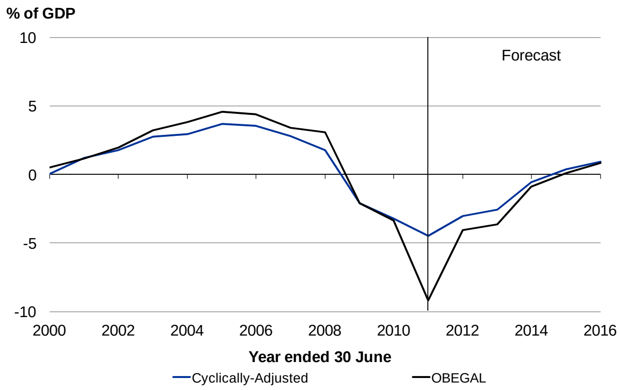
The 2011/12 deficit has decreased from the $12.1 billion forecast in the *Budget Policy Statement* to $8.4 billion in this *Budget Update*. The main reasons for this reduction are delays in expenditure (including earthquake expenses) now expected to be recognised in 2012/13 (the deficit in 2012/13 has risen from the previously forecast $4.4 billion to $7.9 billion), as well as savings identified as part of the current year's budget package.

Operating Balance Indicators

The operating balance before gains and losses (OBEGAL) is used as the indicator of the Government's performance against its objective to return an operating surplus sufficient to meet the Government's net capital requirements, including capital contributions to the New Zealand Superannuation (NZS) Fund, and ensure consistency with the debt objective.

There are, however, other operating indicators that are also useful in measuring different aspects of that performance, as well as allowing international comparison.

Figure 2.7 – Cyclically-adjusted balance



Source: The Treasury

Operating balance

The operating balance includes gains and losses (primarily from valuation changes to assets and liabilities) and tends to be more volatile than OBEGAL as it includes (often short term) movements in market prices. This indicator is the best measure of the full financial costs of the Government's operations. Changes in asset and liability valuations, although volatile, represent changes in the resource demands facing the Government.

Cyclically-adjusted balance

The cyclically-adjusted balance (sometimes referred to as the structural balance) attempts to remove temporary cyclical factors (such as the effects of the economic cycle on tax revenue and unemployment benefits) and one-off impacts such as the Canterbury earthquakes. This indicator provides a useful measure of the effects of policy decisions.

Net operating balance (GFS)

The net operating balance (GFS) uses the framework developed by the International Monetary Fund called Government Financial Statistics (GFS) and is specifically designed for government reporting. The net operating balance represents revenue and expenses of the core Crown (excluding the Reserve Bank) and Crown entities, and therefore excludes SOEs. It also excludes a wider range of valuation movements than OBEGAL.

Further discussion on the cyclically-adjusted balance and the net operating balance (GFS) can be found at www.treasury.govt.nz/budget/forecasts/befu2012.

Table 2.10 – Operating balance indicators

Year ended 30 June	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
% of GDP						
OBEGAL	(9.2)	(4.1)	(3.6)	(0.9)	0.1	0.8
OBEGAL excluding earthquake expenses	(4.6)	(3.4)	(2.7)	(0.8)	0.1	0.9
Operating balance	(6.7)	(5.1)	(2.6)	0.2	1.1	1.9
Cyclically-adjusted balance	(4.5)	(3.0)	(2.5)	(0.5)	0.4	0.9
Net operating balance (GFS)	(6.9)	(2.5)	(1.8)	0.5	1.2	2.0

Source: The Treasury

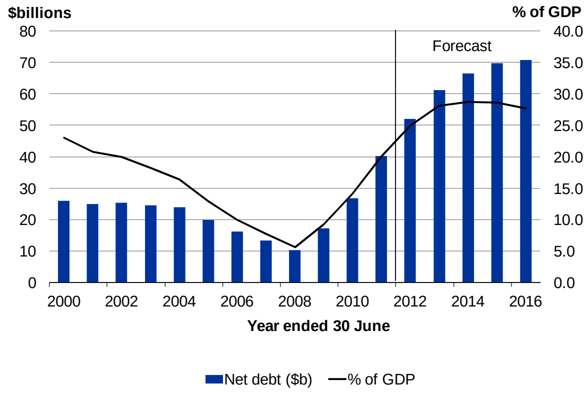
Net Debt

Operating deficits result in cash shortfalls...

Operating cash deficits are also expected to persist across most of the forecast period reaching surplus in 2015/16.

In addition to these operating cash deficits, the Crown is forecast to spend $18 billion on capital items such as the purchase of physical assets and student loans over the next four years. When the proceeds from the Government's partial sale of shares in five companies are included the net capital spend is $12 billion (Table 2.2 on page 26).

Figure 2.8 – Net core Crown debt



Source: The Treasury

Unlike the new operating spend (which is an annual spend), the amount set aside for new capital spending is spread across a number of years. New capital spending for *Budget 2012* was just under $560 million, spread across five years. This compares to the $900 million previously forecast. The amount set aside for new capital spending in future budgets has been forecast as $1.2 billion in Budget 2013 and $0.9 billion in Budgets 2014, 2015, and 2016 (Table 2.11).

Table 2.11 – New capital spending in future budgets

Year ending 30 June $billions	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	Outside the forecast period	Total
Budget 2013	0.1	0.4	0.3	0.2	0.2	1.2
Budget 2014	-	0.1	0.4	0.2	0.2	0.9
Budget 2015	-	-	0.1	0.4	0.4	0.9
Budget 2016	-	-	-	0.1	0.8	0.9

Source: The Treasury

The resulting residual cash deficit will be funded by an increase in net core Crown debt,[5] which is expected to increase from $40.1 billion (20.0% of GDP) in 2010/11 to $70.7 billion (27.7% of GDP) in 2015/16 after peaking at 28.7% of GDP in 2013/14.

5 Net core Crown debt excluding the New Zealand Superannuation Fund and advances.

... which must be funded in part by the issue of government bonds

The residual cash deficit is forecast to be funded by either reducing financial assets (eg, marketable securities) or raising debt.

Gross debt[6] is forecast to peak at 38.5% of GDP in the current year before reducing to 33.2% of GDP by 2015/16. This reduction includes bond repayments of $30.5 billion across the five-year forecast.

The New Zealand Debt Management Office (NZDMO) can raise debt through a number of programmes, but mainly funds via the domestic bond programme. The forecast cash proceeds from government bonds are outlined in Table 2.12. The cash proceeds from the issue of government bonds are forecast to be $51.5 billion across the five-year forecast period, with a face value of $49.5 billion.

Table 2.12 – Net increase in government bonds

Year ending 30 June **$billions**	**2012** **Forecast**	**2013** **Forecast**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**5 year** **Total**
Face value of government bonds issued (market)	15.0	13.5	10.0	8.0	3.0	49.5
Cash proceeds						
Cash proceeds from issue of government bonds (market)	17.0	14.1	9.9	7.7	2.8	51.5
Repayment of government bonds (market)	(7.6)	(10.0)	-	(11.0)	(1.9)	(30.5)
Net increase in government bonds (market)	9.4	4.1	9.9	(3.3)	0.9	21.0
Cash proceeds from issue of government bonds (non-market)	-	-	-	-	-	-
Repayment of government bonds (non-market)	(1.5)	(0.5)	(1.4)	-	-	(3.4)
Net increase in government bonds (non-market)	(1.5)	(0.5)	(1.4)	-	-	(3.4)
Net cash proceeds from bond issuance	**7.9**	**3.6**	**8.5**	**(3.3)**	**0.9**	**17.6**

Source: The Treasury

6 Gross sovereign-issued debt excluding Reserve Bank bills and settlement cash.

Canterbury Earthquakes

The Canterbury earthquakes will continue to impact the Government's fiscal position over a number of years, both indirectly through impacts on economic growth, and directly through the provision of financial assistance to the region and payment of insurance claims (by the Earthquake Commission and Southern Response Earthquake Services Limited[7]).

The amount and timing of these costs continue to change over time as damage estimates are refined and policy decisions are made, and it may still be some time before the final cost will be known. The *Specific Fiscal Risks* chapter includes discussion on the risks associated with the Canterbury earthquakes (page 68).

The latest estimate of the impact on OBEGAL (net of reinsurance) included in these forecasts is outlined in Table 2.13 below.

Table 2.13 – Impact on OBEGAL of earthquake direct expenses

Year ending 30 June $millions	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	Total Forecast	*Pre-election Update*
Local infrastructure	160	208	801	187	133	154	1,643	*1,555*
State-owned assets	46	30	3	-	-	-	79	*77*
Welfare support	220	13	-	-	-	-	233	*261*
AMI insurance	355	(38)	(90)	(46)	(17)	(16)	148	*335*
Land zoning	653	343	71	-	-	-	1,067	*847*
Other costs	159	229	244	67	35	39	773	*1,907*
Yet to be allocated	-	74	1,136	284	70	-	1,564	*525*
Canterbury Earthquake Recovery Fund	**1,593**	**859**	**2,165**	**492**	**221**	**177**	**5,507**	***5,507***
EQC	7,471	515	(173)	(220)	(62)	(86)	7,445	*7,977*
Other SOEs and CEs	23	-	-	-	-	-	23	*23*
Total Crown	**9,087**	**1,374**	**1,992**	**272**	**159**	**91**	**12,975**	***13,507***

Source: The Treasury

Negative amounts primarily represent the unwind of the risk margin (the forecast assumes that earthquake-related claims are paid out at the central estimate) and unexpired risk liabilities. These are non-cash liabilities which are estimated to reverse over the forecast period.

Table 2.14 – Estimated cash profile of earthquake direct expenses

Year ending 30 June $millions	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	Total Forecast	*Pre-election Update*
Local infrastructure	64	347	350	328	264	290	1,643	*1,555*
State-owned assets	46	30	3	-	-	-	79	*77*
Welfare support	220	13	-	-	-	-	233	*261*
AMI insurance	-	100	-	-	-	48	148	*335*
Land zoning	-	694	308	65	-	-	1,067	*847*
Other costs	179	256	196	68	35	39	773	*1,907*
Yet to be allocated	-	72	592	590	286	24	1,564	*525*
Canterbury Earthquake Recovery Fund	**509**	**1,512**	**1,449**	**1,051**	**585**	**401**	**5,507**	***5,507***
EQC	1,178	2,374	832	1,725	1,097	239	7,445	*7,977*
Other SOEs and CEs	23	-	-	-	-	-	23	*23*
Total Crown	**1,710**	**3,886**	**2,281**	**2,776**	**1,682**	**640**	**12,975**	***13,507***

Source: The Treasury

Table 2.14 outlines the expected cash profile for earthquake costs. Cash payments in relation to the Canterbury Earthquake Recovery Fund will result in an increase in net debt.

7 Formerly AMI Insurance.

Total Crown Balance Sheet

Table 2.15 – Summary balance sheet forecasts, 2011 to 2016

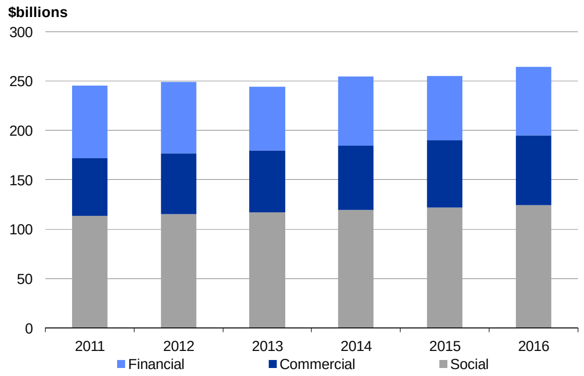
Year ending 30 June $billions	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	Change between 2011 and 2016
Total Crown Assets							
Budget Update	245.2	249.2	244.3	254.5	255.1	264.1	18.9
Pre-election Update	245.2	245.6	242.0	253.0	256.4	267.4	22.2
Total Crown Liabilities							
Budget Update	164.3	178.9	178.1	186.3	182.6	185.0	20.7
Pre-election Update	164.3	177.3	176.0	185.5	184.9	190.2	25.9
Total Net Worth Attributable to the Crown							
Budget Update	80.6	70.0	64.6	65.2	68.1	73.2	(7.4)
Pre-election Update	80.6	68.0	65.6	67.2	71.2	76.9	(3.7)

Source: The Treasury

Growth in assets is expected over the forecast period, but at a more muted pace than in recent years

By 2016, total Crown assets are forecast to increase by $18.9 billion (net of asset reductions) to $264.1 billion. This growth is slower than in previous years, at roughly half the rate forecast for the 2010 to 2015 period in last year's *Budget Update*. This reflects ongoing fiscal constraint and the beginning, from this year, of an unwinding of financial assets built-up in recent years to help fund upcoming government bond maturities.

Figure 2.9 – Total Crown assets – portfolio break-down



Source: The Treasury

As discussed in previous *Economic and Fiscal Updates*, the Crown's balance sheet can be thought of as divided into three areas – the Social, Commercial and Financial Portfolios.[8]

Social asset growth is expected to form roughly half of all growth, increasing from $113.6 billion in 2010/11 to $124.4 billion by 2015/16. This is driven largely by continued investment in priority social areas, including education, health and state highways. The student loan book is another driver which, after loan repayments, is expected to grow by $2.3 billion in net terms as new loan issuances continue to outpace repayments.

Total Crown commercial assets are expected to grow strongly through commercial expansion, particularly in the electricity and banking areas. This is forecast to see commercial assets grow by $12.2 billion over the next five years. Commercial assets include assets from the companies included in the Government's partial sale of shares.[9]

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8 The 'Social Portfolio' consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations; the "Financial Portfolio" reflects assets and liabilities held by the Crown to finance or pre-fund government expenditure; while the Crown's "Commercial Portfolio" consists of the portfolio of companies held with purely commercial objectives. For more details, see the *Investment Statement of the Government of New Zealand 2010* on the Treasury website http://www.treasury.govt.nz/budget/2010/is

9 For more details on the balance sheet impacts of the Government's partial sale of shares in five companies see page 42.

The Financial Portfolio is the only area expected to experience a decline in asset levels, from $73.5 billion in 2010/11 to $69.4 billion by 2015/16. As mentioned, this is primarily owing to the realisation of assets accumulated by the New Zealand Debt Management Office (NZDMO) in recent years to help meet government bond maturities in 2012/13 and 2014/15. Ongoing reductions in Earthquake Commission assets, as claims from the Canterbury earthquakes are paid out, will also reduce financial assets. These reductions are expected to more than offset financial returns made on the remaining financial investments.

This growth will be funded from a range of sources

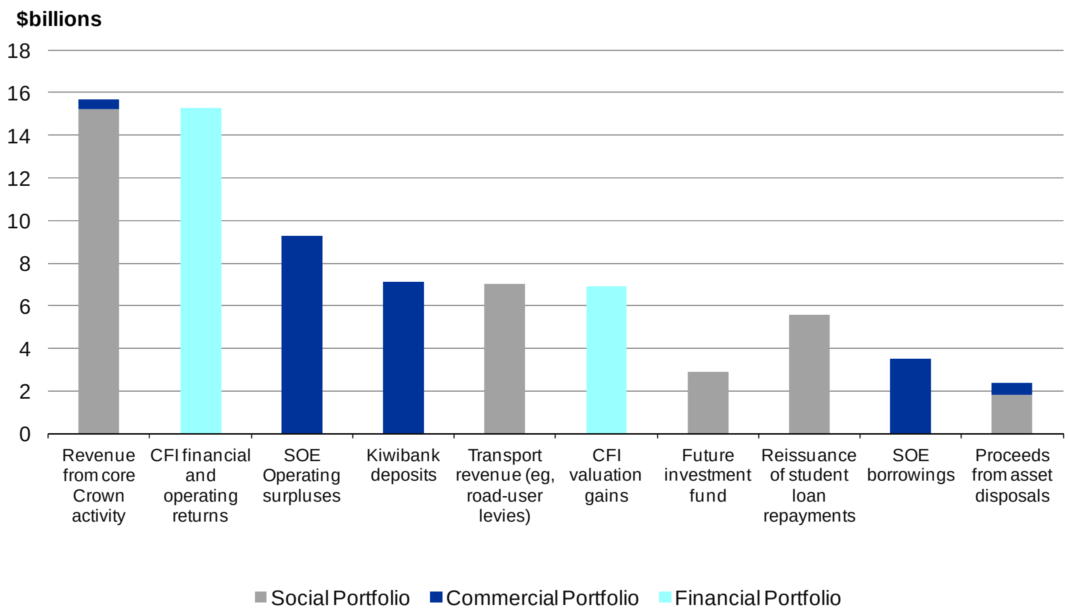
Once asset reductions are added to net growth, gross asset growth is forecast at $75.7 billion over the forecast period. This gross growth will be funded from a range of sources across the three balance sheet portfolios (Figure 2.10).

While proceeds from the Future Investment Fund are forecast to fund all new capital investments (such as new projects announced in each year's Budget) these represent only a small portion of the total forecast capital spend. Of the remaining capital spend, the majority of funding from core Crown funding sources (eg, general taxation, borrowing) is expected to be invested in the Social Portfolio, contributing half of social funding. Only $250 million of core Crown funding is currently forecast to be required for the Commercial Portfolio, for KiwiRail's 'Turnaround Plan'.

Aside from the KiwiRail injection, the remaining commercial growth is currently forecast to be funded from within the portfolio, for example through operating returns ($9.3 billion) and SOE borrowing ($3.5 billion). For the purposes of these forecasts, growth in Kiwibank loans is assumed to be directly funded by growth in deposits ($7.1 billion).

Financial Portfolio growth is also forecast to be funded from sources within the portfolio, through financial and operating returns on investments and valuation gains ($22.3 billion). Contributions to the NZS Fund are not expected to resume until the 2017/18 fiscal year.

Figure 2.10 – Forecast funding sources, 2012-2016



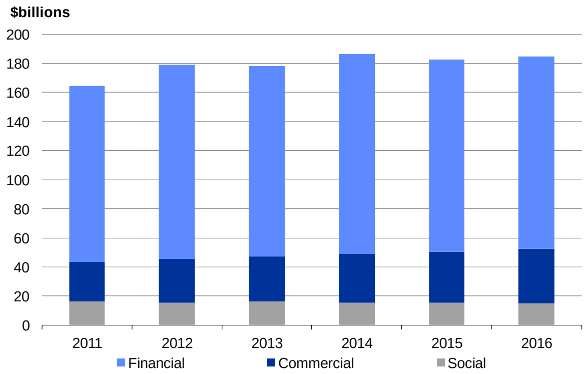
Source: The Treasury

Growth in liabilities is expected to outpace the growth in assets...

The value of total Crown liabilities is also forecast to increase over the next five years, from $164.3 billion in 2010/11 to $185.0 billion by the end of the forecast period, $1.8 billion more than assets.

These forecasts are higher in the early years than those of the *Pre-election Update*, reflecting larger borrowings than previously forecast owing to larger initial operating deficits. However, borrowings are now expected to be lower over later years, resulting in total liabilities in 2015/16 being $5.2 billion lower than in the last forecasts.

Figure 2.11 – Total Crown liabilities – portfolio break-down



Source: The Treasury

From 2011 to 2016, the largest increase in liabilities is expected in the Financial Portfolio, increasing from $120.7 billion to $132.5 billion. Rising core Crown borrowing, issued by the NZDMO, is the main driver. However, the majority of this is expected before the 2014/15 return to surplus, with borrowings remaining largely flat in the last two years of the forecast. Liabilities in relation to the Canterbury earthquakes, held by both the Earthquake Commission and Southern Response Earthquake Services Limited, are expected to peak in 2012/13 before declining as these claims continue to be paid out.

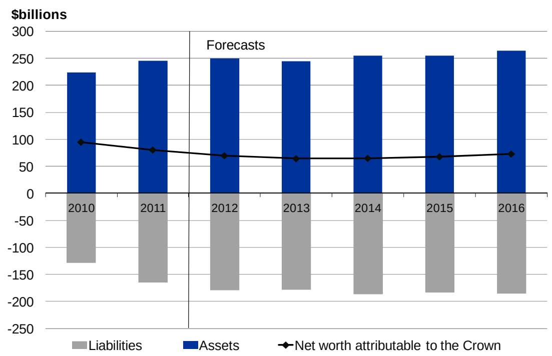
Commercial liabilities are also expected to increase, from $27.2 billion to $37.5 billion. Of this, $7.1 billion is from forecast growth in Kiwibank deposits with most of the remainder driven by higher borrowings being carried out by other SOEs.

Social liabilities are expected to reduce by $1.4 billion, owing largely to earthquake provisions relating to Christchurch's reconstruction held by the Department of Internal Affairs and the Canterbury Earthquake Reconstruction Authority being paid out.

...resulting in an overall weaker balance sheet across the forecast period.

Overall, these asset and liability movements lead to a reduction in net worth attributable to the Crown over the first two years of the forecast period, to $64.6 billion, as the balance sheet continues to bear the effects of the forecast operating balance deficits.[10] Following the return to fiscal surplus in 2014/15, a gradual improvement is expected, with net worth attributable to the Crown rising to $73.2 billion by 2016, still remaining $7.4 billion below 2011 levels.

Figure 2.12 – Net worth attributable to the Crown, 2010 to 2016

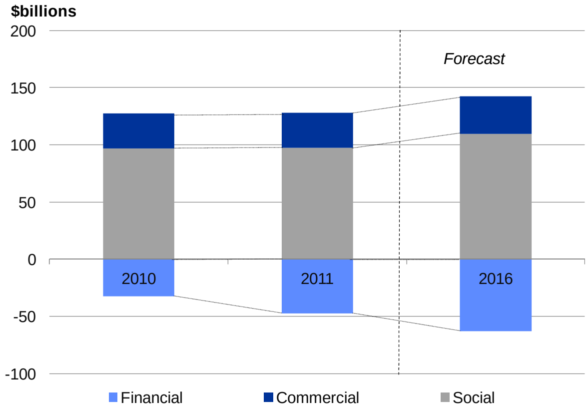


Source: The Treasury

10 "Net worth attributable to the Crown" excludes the portion attributable to minority interests. Over the forecast period, net worth attributable to minority interests is forecast to rise to $5.6 billion as a result of the Government's partial sale of shares in five companies. See page 43 for further details.

In terms of balance sheet composition, the overall changes are consistent with the broad trends outlined in the *Pre-election Update* (Figure 2.13).

Figure 2.13 – Total Crown balance sheet composition, 2010, 2011 and 2016



Source: The Treasury

The Social and Commercial Portfolios are expected to grow in net terms, by $12.2 billion and $2.0 billion respectively, as asset growth in each area outpaces that of liabilities.

The Financial Portfolio is the only area of the balance sheet expected to fall in value, as the growth in core Crown borrowings, combined with the reductions in NZDMO and Earthquake Commission assets, results in an increasingly negative net position, from -$47.2 billion to -$63.1 billion by 2015/16.

Government's Partial Share Sales

The Government intends to sell up to 49% of its shareholdings in the SOEs Mighty River Power, Meridian, Genesis Energy and Solid Energy and reduce the Crown's current shareholding in Air New Zealand.

Mighty River Power is the first company being prepared for partial share sales, via an Initial Public Offering, which is expected to commence in the third quarter of 2012, subject to market conditions.

Table 2.16 below outlines the forecast fiscal impacts of the Government's partial sale of shares in these five companies. These assumptions are similar to those reported in the *2012 Budget Policy Statement*, but the assumptions and accounting treatment have been slightly revised in accordance with International Accounting Standards.

Table 2.16 – Estimated fiscal impact of the partial share sales

Year ending 30 June	**2013**	**2014**	**2015**	**2016**	
$billion	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Total**
Cash/Debt impact					
Forecast cash proceeds	1,500	1,500	1,500	1,500	6,000
Forecast forgone dividends	(50)	(90)	(140)	(180)	(460)
Estimated finance cost savings	55	91	173	256	575
Reduction in net debt	1,505	1,501	1,533	1,576	6,115
Accrual impact					
Forecast forgone profits	(90)	(180)	(270)	(360)	(900)
Estimated finance cost savings	55	91	173	256	575
Net decrease in the operating balance before gains and losses (OBEGAL)	(35)	(89)	(97)	(104)	(325)
Forecast gain on disposal recorded in taxpayer funds	200	200	200	200	800
Increase in net worth attributable to the Crown	165	111	103	96	475

Estimated finance costs are based on average bond yields.
Profits include dividends paid in cash to shareholders and earnings that are retained by the company.

Source: The Treasury

The estimated fiscal impact of the partial share sales is:

- a $6.1 billion reduction in net debt. Proceeds will reduce the Crown's borrowing requirement. Forgone dividends increase net debt but are offset by estimated finance cost savings
- a $325 million reduction in the operating balance before gains and losses (OBEGAL). Profits attributable to minority shareholders (forgone profits) reduce the surplus. This is offset somewhat by a reduction in finance costs resulting from the reduced net debt, and
- a $475 million increase in net worth attributable to the Crown over the forecast horizon. Gains on disposal are forecast, reflecting an expectation that sale prices will be greater than the proportion of the companies' carrying value divested by the Government.

As the Government will retain control of these entities they will continue to be Government Reporting Entities. This means that the companies will continue to be fully consolidated in the financial statements of the Government, with the minority interest in those companies, which will increase substantially, being disclosed separately.

As a result, the Government's balance sheet will not reduce in size as a result of the partial share sales. 100 percent of the assets and liabilities of those companies will continue to be included in the Government's total assets and liabilities. Instead, the minority interests' share of those assets and liabilities will increase.

Table 2.17 – Estimated balance sheet fiscal impact of the partial share sales

Year ended 30 June $million	**2016 Without Partial Sale**	**Impact of Partial Sale**	**2016 With Partial Sale**	Notes
Assets				
Social	124,392	-	124,392	
Commercial	70,279	-	70,279	
Financial	69,414	-	69,414	
Total Assets	**264,085**	**-**	**264,085**	
Liabilities				
Social	14,945	-	14,945	
Commercial	37,484	-	37,484	
Financial	138,643	(6,115)	132,528	1
Total Liabilities	**191,072**	**(6,115)**	**184,957**	
Net Worth				
Attributable to the Crown	72,705	475	73,180	2
Attributable to minority interests	308	5,640	5,948	3
Total Net Worth	**73,013**	**6,115**	**79,128**	

1 Financial liabilities reduce in line with the reduction in net debt.

2 Net worth attributable to the Crown increases to reflect the accrual impact outlined in table 2.16 above.

3 Net worth attributable to minority interests increases as follows:

Net assets divested	5,200
Forgone profits	900
Less forgone dividends	(460)
Increase in minority interests	**5,640**

Source: The Treasury

Fiscal Forecast Assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available on 8 May 2012, when the forecasts were finalised. Actual events are likely to differ from some of these assumptions and judgements. Furthermore, uncertainty around the forecast assumptions and judgements increases over the forecast period. The Canterbury earthquakes add further uncertainty to the economic and fiscal forecasts.

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

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

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

Table 2.18 – Summary of key economic forecasts used in fiscal forecasts

	2011/12		2012/13	2013/14	2014/15	2015/16
June years	**PREFU forecasts**	**Budget forecasts**	**Budget forecasts**	**Budget forecasts**	**Budget forecasts**	**Budget forecasts**
Real GDP[a] (ann avg % chg)	2.8	1.8	2.9	3.3	3.1	2.8
Nominal GDP[b] ($m)	211,773	207,987	217,870	231,787	244,028	255,567
CPI (annual avg % change)	3.2	2.3	2.2	2.5	2.4	2.4
Govt 10-year bonds (ann avg %)	4.5	4.1	4.2	4.7	5.1	5.3
5-year bonds (ann avg %)	3.6	3.6	3.8	4.2	4.8	5.0
90-day bill rate (ann avg %)	2.9	2.8	3.1	3.7	4.2	4.4
Unemployment rate (ann avg %)	6.0	6.4	5.8	5.3	5.0	4.7
Employment (ann avg % change)	1.7	1.1	1.4	1.6	1.5	1.4
Current account (% of GDP)	-2.2	-4.1	-5.1	-5.9	-6.4	-6.5

Notes: a Production measure
b Expenditure measure

Source: The Treasury

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

Government decisions	Incorporate government decisions up to 8 May 2012.
Tax revenue	Tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts as calculated and agreed by Inland Revenue and the Treasury. Nominal tax revenue will grow in line with growth in nominal GDP and its components.
Earthquake costs	Expenditure (accrual measure) is forecast based on estimates on when key decisions will be taken. The timing of cash payments is based on estimates of when actual spending will take place. Refer page 38 for further discussion.
Operating allowance	Net $800 million in Budget 2013. Net $1.2 billion from Budget 2014 growing at a rate of 2% per annum for subsequent Budgets.
Provision for new capital spending	Net $1.2 billion in Budget 2013. Net $900 million in Budget 2014 onwards as follows:
Partial share sales	Sale programme spread evenly across the four years from 2012/13 to 2015/16. Net sale proceeds of $6 billion (based on a mid-point estimate of between $5 billion and $7 billion). Forgone profits and dividends are based on an average of the fiscal forecasts provided by the companies for *Budget 2012 Update*.
Finance cost on new bond issuances	Based on 5-year rate from the main economic forecasts and adjusted for differing maturity.
Top-down adjustment	A top-down adjustment is made to compensate for departments who tend to forecast upper spending limits (appropriations) rather than best estimates. Top-down adjustment to operating and capital as follows:
Borrowing requirements	The forecast cash deficits will be met by reducing financial assets and issuing debt.

Provision for new capital spending:

Year ending 30 June $billion	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	Outside the forecast period	Total
Budget 2013	0.1	0.4	0.3	0.2	0.2	1.2
Budget 2014	-	0.1	0.4	0.2	0.2	0.9
Budget 2015	-	-	0.1	0.4	0.4	0.9
Budget 2016	-	-	-	0.1	0.8	0.9

Top-down adjustment:

Year ending 30 June $billion	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Operating	0.5	0.7	0.2	0.2	0.2
Capital	0.3	0.1	-	-	-

Property, plant and equipment	For the purposes of the forecast financial statements, no revaluations of property, plant and equipment are projected beyond the current year. Valuations as recorded for the 2011 annual financial statements and any additional valuations that have occurred up to 29 February 2012 are included in these forecasts.
Student loans	The carrying value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the carrying value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate for new borrowers. Any change in these assumptions would affect the present fiscal forecast.
Investment rate of returns	Incorporate the actual results to 29 February 2012. Beyond this time, gains on financial instruments are based on long-term benchmark rates of return for each portfolio.
Government Superannuation Fund and ACC liabilities	The Government Superannuation Fund and ACC liabilities included in these forecasts have been valued as at 29 February 2012 and 31 December 2011 respectively. The ACC liability has been adjusted for the 31 March 2012 discount rate. Both liabilities are valued by projecting future cash payments, and discounting them to present value. These valuations rely on historical data to predict future trends and use economic assumptions such as inflation and discount rates. Any change in actual payments or economic assumptions would affect the present fiscal forecast. For example, if the discount rate decreases, the value of the liabilities would increase. The Government Superannuation Fund's assets are offset against the gross liability and have been updated to reflect market values. The value of assets over the forecast period reflects long-run rate of return assumptions appropriate to the forecast portfolio mix.
Emissions Trading Scheme (ETS)	The forecasts have been prepared in accordance with current government ETS policies. Details of current climate change policies are listed at: www.mfe.govt.nz/issues/climate/policies-initiatives. The carbon price assumption for the ETS is based on estimates of the current certified emission reduction (CER) carbon price from Point Carbon, and is €6.50 with an exchange rate of 0.61 (a carbon price of NZ$10.60) over the forecast period. The economic models used to project agriculture and energy activity assume an international carbon price of NZ$25 per tonne. The forecast assumes a 62% uptake of post-1989 foresters into the ETS over Commitment Period One (CP1). Revenues and the associated expenses arising from the agriculture sector entering the ETS are included from the June 2015 financial year. It is assumed the ETS has no fiscal impact on debt or cash flows, as the net cash impact from the ETS and international obligations is highly uncertain.

Kyoto position	The Kyoto position included in the fiscal forecasts reflects the Government's obligation for CP1, from 2008 to 2012. It does not include any future potential reduction of the position through the transfer of units offshore through the forestry sector, or any future changes to the position through transactions under the ETS. The carbon price assumption for the Kyoto position is based on estimates of the current assigned amount unit (AAU) carbon price from Point Carbon, and is €5.03 with an exchange rate of 0.61 (a carbon price of NZ$8.20) over the forecast period.
NZS Fund contributions	No contribution is assumed in the forecast period.

3

Risks and Scenarios

Overview

- The global economic outlook remains uncertain and poses risks to the New Zealand economy. While the initial short-term challenges, in Europe for example, have partly been addressed, ongoing medium-term challenges for the global economy remain.
- The uncertainties around the pace of growth in the domestic economy lie mainly with the growth in household spending and the timing and scale of the Canterbury earthquake rebuild.
- There are upside and downside risks to the forecasts included in the *Economic Outlook* and *Fiscal Outlook* chapters. In pre-global financial crisis conditions, we might expect outcomes better or worse than the main forecasts with roughly a 50-50 split. However, the balance of risks in these forecasts is on the downside.
- The balance of these risks also means that the Government's fiscal strategy will remain challenging, as illustrated by the scenarios presented in this chapter. In the downside scenario nominal GDP is $25 billion lower than the main forecasts, compared to $15 billion higher in the upside scenario. Also, the operating balance remains in deficit over the forecast period in the downside scenario. While the operating surplus in the upside scenario is larger than in the main forecasts, a surplus is achieved in the same year.

Table 3.1 – Comparison of scenarios with the main forecasts

	Nominal GDP[1]	**Tax revenue**[1]	**Operating surplus**[2]	**Net core Crown debt as at June 2016**[3]
Upside Scenario	+$15 billion	+$5.4 billon	Yes (same year, 2015)	-1.9% of GDP
Downside Scenario	-$25 billion	-$8.1 billion	No (outside forecast period)	+4.4% of GDP

Notes:

1 5-year cumulative change from main forecasts

2 Operating balance before gains and losses. "Yes" or "No" refers to whether or not a surplus is achieved within the forecast period, June 2012-June 2016

3 Change from main forecasts

Source: The Treasury

Introduction

The first part of this chapter outlines the key risks to the economic outlook. In the second part of the chapter we present upside and downside scenarios for the New Zealand economy. The chapter then focuses on the established channels between the risks facing the economy and the Crown's fiscal position.

Economic Risks

Global outlook remains uncertain...

The global economy faces several medium-term challenges. Actions by euro area authorities have alleviated some financial market tensions and the risk of extremely negative outcomes. Nonetheless, further measures are required to restore sovereign balance sheets to sustainable positions. Our main forecasts assume that European authorities manage through further crises as they arise. However, any worsening of the euro area debt crisis would lead to tighter financial conditions and increased risk-aversion worldwide, subduing growth.

Also, many developed-economy governments face the challenge of continuing fiscal austerity measures without overly compromising fragile recoveries. Failure to manage this process will have effects on growth in parts of the euro area, the UK and US, with spillover effects on growth in other regions of the global economy. Political uncertainty around structural reform and changing governance arrangements may similarly lead to increased risk aversion and lower growth.

A sharp slowing in emerging market economies (eg, from a tightening in bank lending standards in Asia) would lead to slower world growth. Geo-political tensions in the Middle East could lead to an increase in oil prices, and, if prolonged, would hinder the global recovery. On the other hand, growth slowing at a manageable pace and inflation easing in China, as well as room for authorities to stimulate the economy, if necessary, could underpin a more sustainable medium-term growth outlook.

Any positive or negative risks to the outlook for China will be amplified through Australia. With a mining-related investment boom largely locked in, risks to Australian growth over the forecast period are small. However, with consumer confidence modest, the economy outside of mining remains subdued.

Other positives include recent US data indicating that growth is stabilising. In addition, positive corporate earnings may underpin growth in the short term. Overall, while extreme or "tail" risks have receded, the global outlook remains skewed to the downside.

...posing risks to New Zealand's economy

If international activity turns out to be weaker than we have built into our main forecasts, demand for our exports would fall. Reduced demand would lead to lower volumes of manufactured goods exports and lower tourist arrivals and spending. For commodity exports, production tends to respond less to reduced demand; instead, the reduced demand is reflected in falling prices of commodity exports. Lower export prices would result in a lower terms of trade.

Our main forecasts assume that the terms of trade decline in the near term, but remain high relative to historical standards over the five-year forecast period. Should the terms of trade, in contrast, fall much further and reach their 30-year average, a sharp drop in incomes for agricultural producers would flow through into weaker domestic demand, less income for investment and debt repayment, and a significantly wider current account deficit. Lower commodity prices could also impact on New Zealand goods and services providers that export to Australia, which would also experience a cut in its national income from international commodity sales.

On the financial side, a drop in confidence and pick-up in global risk-aversion would be expected to reduce the availability, and raise the cost, of credit for New Zealand. With a high current account deficit, there is a risk that markets would demand a higher risk premium for New Zealand's debt in the future. That said, there is room for the Reserve Bank to provide liquidity as needed and, if the outlook for inflation permits, to facilitate easier monetary conditions to help domestic borrowers adjust.

Finally, lower world growth may lead to falls in consumer and business confidence. With lower confidence, households may lower their spending and increase their saving more than assumed in the main forecasts. Similarly, businesses may invest less and hire fewer workers than assumed in the main forecasts.

The economy faces domestic challenges as well...

There are risks to our forecasts arising from domestic sources as well. Private consumption growth is expected to be held back by modest house price growth and households' aggregate desire to reduce their debt-to-income ratios to more comfortable levels. Given the greater potential for tighter conditions in global funding markets, the risk is that the degree of household consolidation could be more intense than expected, with households seeking to move to an even lower level of debt than we have forecast. While this might bring forward some rebalancing in the economy from later years, such a scenario would involve weaker domestic activity in the near term. At present, the risk of a large-scale increase in borrowing by households, reflecting an increased willingness by banks to lend, seems small. If this were to occur, it would drive a stronger economy in the near term and defer household rebalancing until later years.

...including ongoing uncertainty over the timing of the Canterbury rebuild ...

The timing and extent of the Canterbury earthquake rebuild is difficult to forecast. If large aftershocks cause further damage, the risk is that the current $20 billion damage estimate factored into our main forecasts would clearly rise, as would the risk that the rebuild would be slower and overall economic activity lower in the short term. Conversely, if the issues delaying the process (including aftershocks and insurance claim delays), were to be rectified sooner than assumed, the rebuild could gather pace more quickly. Accordingly, residential and non-residential construction, imported goods and employment would all be stronger than in the main forecasts. As a result, we would expect wages in and around the rebuild area to come under upward pressure, as well as prices for some goods – particularly housing construction-related goods and services.

On the other hand, higher worker migration into Canterbury, as well as increased productivity in the construction sector owing to the localised nature of the rebuild, may help to relieve pressure on prices in the construction sector. On top of this, a more rapid rebuild could boost wider confidence in the economy, providing a lift to consumer spending and business investment.

...and risks from non-economic events

There are also non-economic risks that may impact on the economy, particularly climatic conditions here and abroad. Poor weather and droughts have adversely affected domestic agricultural production in the past; equally, climatic conditions can lift production as we have seen in New Zealand over the past season. Any impact on agricultural incomes from production may be offset by prices moving in the opposite direction, although this will depend on many factors, particularly production abroad. Other risks may impact on the economy, including the potential for biosecurity issues to hit the agricultural sector.

Table 3.2 – Summary of key economic variables for main forecasts and scenarios

March years	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Real GDP (annual average % change)						
Main forecast	**1.2**	**1.6**	**2.6**	**3.4**	**3.1**	**2.9**
Upside scenario		1.6	3.0	4.2	3.5	2.6
Downside scenario		1.6	2.5	2.6	2.1	2.7
CPI inflation (annual % change)[1]						
Main forecast	**4.5**	**1.6**	**2.6**	**2.5**	**2.4**	**2.4**
Upside scenario		1.6	2.6	2.6	2.9	3.0
Downside scenario		1.6	3.2	2.8	1.7	1.6
Unemployment rate[2]						
Main forecast	**6.6**	**6.3**	**5.7**	**5.2**	**5.0**	**4.7**
Upside scenario		6.3	5.7	5.1	4.6	4.3
Downside scenario		6.3	6.0	5.7	5.9	5.8
Nominal GDP (expenditure measure, $billions)						
Main forecast	**198**	**206**	**215**	**229**	**241**	**253**
Upside scenario		206	215	231	246	258
Downside scenario		206	211	223	235	245
Current account balance (% of GDP)						
Main forecast	**-3.6**	**-4.2**	**-4.6**	**-5.9**	**-6.3**	**-6.7**
Upside scenario		-4.2	-4.6	-6.3	-7.0	-7.5
Downside scenario		-4.2	-6.6	-8.3	-6.8	-6.7

Notes:

1 Annual percentage change, 2012 is actual figure

2 March quarter, seasonally adjusted

Source: The Treasury

Downside Scenario

Growth in emerging Asia, particularly China, is lower over the forecast period…

The downside scenario stems from a lower growth outlook across emerging Asia, particularly China, over the forecast period. The lower growth could arise from a tightening in lending standards by banks and authorities, given heightened concern about the quality of banks' commercial and residential loans.

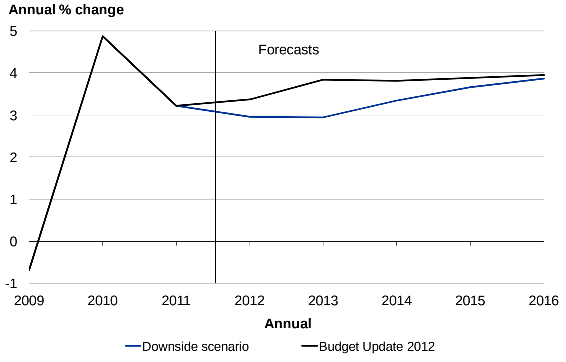
Weaker-than-assumed activity flows through to New Zealand in the form of lower prices for key commodity exports, particularly dairy, meat and forestry products. In addition, growth in our largest single trading partner, Australia, slows as demand for hard commodities from emerging Asia falls in the face of weaker growth. The consequences of this scenario highlight the increasing trade linkages in the Asia-Pacific region, with emerging Asia and Australia currently taking around half of New Zealand's goods exports. Trading partner growth is lower in every year and 2.1% points cumulatively lower over the five years to 2016 than in the main forecasts (Figure 3.1).

An escalation of the sovereign debt crisis in Europe, leading to slower global growth, is a plausible alternative to this scenario and would have broadly similar effects. Given our larger reliance on Asia for trade, the impact may be less direct, but still large. On the other hand, Australasian banks are more reliant on Europe for funding and the impact on funding costs and its availability may be larger and more direct in a Europe-based scenario. For more discussion of a Europe-based scenario see the *Pre-election Update*.

...with a lower terms of trade and reduced incomes...

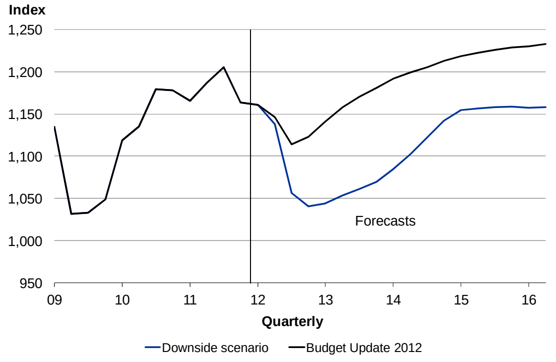
In this scenario, the merchandise terms of trade fall sharply (Figure 3.2), down around 9% in the March 2013 year, reflecting lower prices for export commodities. The lower terms of trade result in a more rapid deterioration in the current account balance. The current account deficit increases to 8.3% of GDP in the March 2014 year compared to 5.9% in the main forecasts. However, as the terms of trade rebound in 2015 along with growth in export volumes, the current account deficit decreases to 6.7% by March 2016, the same level as in the main forecasts.

Figure 3.1 – Trading partner growth



Sources: IMF, the Treasury

Figure 3.2 – Merchandise terms of trade (SNA)



Sources: Statistics New Zealand, the Treasury

A slow-down in Australasia may mean that Australian and New Zealand banks face a higher risk premium on their international wholesale borrowing. While part of these increased funding costs may be absorbed in falling bank margins, the remainder would be passed on to household and business borrowers. This scenario assumes that households and businesses are charged an additional 50 basis point premium on their borrowing compared to the main forecasts.

The rapid fall in the terms of trade leads to lower incomes. Higher retail interest rates compound the fall in incomes, resulting in a more subdued outlook for household spending. Private consumption averages around 2% over the four years to March 2016, compared with 2.6% in the main forecasts and over 3% in the upside scenario. The higher interest rates along with falling profitability lead to around 2% and 1% lower market and residential investment for the March 2014 year respectively, compared to the main forecasts. Nevertheless, residential investment activity remains high, underpinned by the earthquake rebuild.

Weaker domestic activity, combined with lower terms of trade and inflation, results in nominal GDP being a cumulative $25 billion lower through to June 2016.

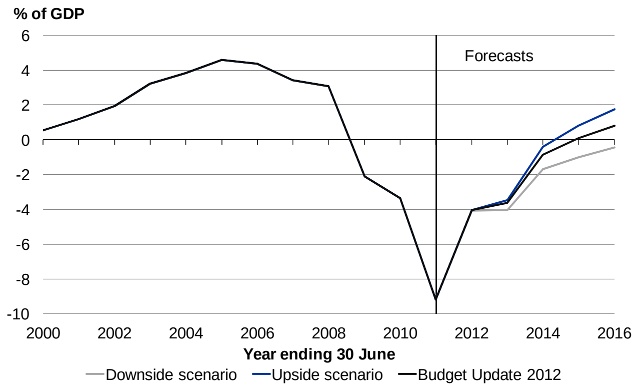
…leading to lower tax revenue while raising operating deficits and net debt

Core Crown revenue is a cumulative $8.1 billion lower in the downside scenario, owing mainly to lower income taxes. The weaker domestic economy reduces source deductions and corporate tax by about $2 billion each, compared to the main forecasts, while other persons tax falls by $0.6 billion. Also, lower private consumption and residential investment lead to $1.2 billion lower GST revenue, compared to the main forecasts, while the fall in interest rates reduces resident withholding tax.

In the downside scenario, core Crown expenses are $0.8 billion higher, as the weaker labour market flows through to increased Unemployment Benefit recipient numbers. In addition, finance costs are higher, owing to higher government borrowing.

In this scenario, the operating balance (before gains and losses) does not move into surplus within the forecast period and, consequently, net core Crown debt as a proportion of GDP is still rising at the end of the forecast period (June 2016), reaching 32.0% at that time.

Figure 3.3 – Operating balance (before gains and losses)



Source: The Treasury

Upside Scenario

A faster earthquake rebuild and higher household spending increase growth...

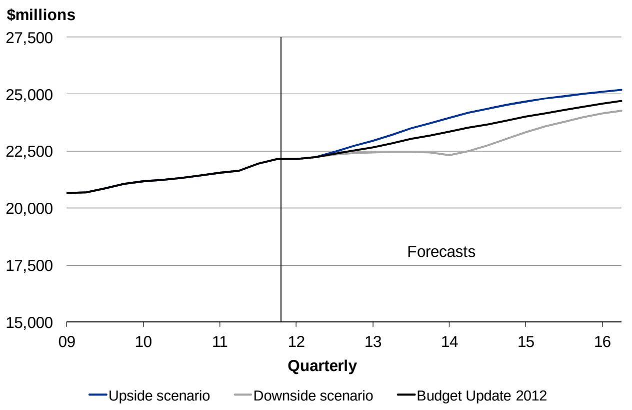
There is a large degree of uncertainty around the timing and scale of the Canterbury rebuild. In the upside scenario, we allow for a faster rebuild compared to the main forecasts and bring more of the rebuild inside the forecast period. Immigration is higher in 2013 with most of the increase assumed to be workers moving into Canterbury. In addition, productivity in the construction sector is higher with the localised rebuild helping the sector to achieve more economies of scale than assumed in the main forecasts.

The higher migration of workers into Canterbury and increased productivity combine to increase residential investment, with growth around 1% point higher in the March 2014 year than in the main forecasts. Also, the higher productivity and increased supply of workers lower pressure on construction prices.

We also assume stronger private consumption in the upside scenario, with growth 0.6% and 1.6% points higher in the March 2013 and 2014 years respectively than in the main forecasts. Higher private consumption translates into lower household saving as well as higher imports compared to the main forecasts. Part of the higher spending is owing to households spending more on durables to accompany the rebuild of their homes. This would be more consistent with the historical relationship between residential investment and durables spending than assumed in the main forecasts.

With more household spending, profits improve, leading to higher employment and investment growth compared to the main forecasts, particularly in the retail sector. Reflecting employment growth, the unemployment rate falls below 5% by September 2014 – one year earlier than in the main forecasts. The stronger-than-expected domestic economy means CPI inflation is around the top of the 1% to 3% band over the forecast period. The higher inflation, together with increased real activity, results in about $15 billion higher nominal GDP cumulatively by June 2016 compared with the main forecasts.

Figure 3.4 – Real private consumption



Sources: Statistics New Zealand, the Treasury

With higher inflation over the forecast period, monetary conditions are tighter. Ninety-day bank bill rates are 0.4% points higher than in the main forecasts on average in the year to March 2014, with the difference increasing to 1.2% points by the year to March 2016.

…giving a modest increase in the operating surplus in 2015

Core Crown revenue is a cumulative $5.4 billion higher in the upside scenario, led by increases in various tax types. Increased income driven off the stronger domestic economy lifts corporate tax and source deductions by about $1.9 and $0.9 billion respectively compared to the main forecasts. The boosts to private consumption and residential investment flow through to $1.7 billion higher GST revenue, compared to the main forecasts, while the faster increase in interest rates lifts resident withholding tax.

Core Crown expenses are $0.5 billion lower, as the stronger labour market flows through to fewer Unemployment Benefit recipients. In addition, finance costs are lower, owing to less government borrowing.

In this scenario, the operating balance (before gains and losses) moves into surplus in the June 2015 year, the same year as the main forecasts, with the surplus 0.7% points of GDP higher than in the main forecasts. Net core Crown debt as a proportion of GDP peaks at 27.8% of GDP in the June 2013 year.

These results are consistent with the balance of risks remaining on the downside

In pre-global financial crisis conditions, we might expect outcomes better or worse than the main forecasts with roughly a 50-50 split. Similarly, if the risks were balanced we would expect that the differences between the scenarios and the main forecasts would be broadly equal. However, we have assumed that the risks are skewed to the downside. This is illustrated in Table 3.1 which shows that in the downside scenario nominal GDP is $25 billion lower than in the main forecasts, compared to $15 billion higher in the upside scenario. Tax revenue is $8.1 billion lower in the downside scenario, while it is $5.4 billion higher in the upside scenario. Moreover, in the downside scenario, the operating balance remains in deficit over the forecast period, and in the upside scenario, while the operating surplus is larger than in the main forecasts, it is achieved in the same year. Overall, these results reflect our view that the balance of risks remains skewed to the downside.

General Fiscal Risks

The discussion up to this point has focused on the main near-term economic risks. The rest of this chapter focuses on the links between the inherent risks to the performance of the economy and the Crown's fiscal position.

Table 3.3 provides some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if for some reason nominal GDP growth is 1 % point slower than we have forecast each year up to the year ending June 2016, we would expect tax revenue to be around $3.5 billion (1.7% of GDP) lower than forecast as a result. The sensitivities are broadly symmetric; that is, if nominal GDP growth is 1% point faster each year than we expect, tax revenue would be around $3.5 billion *higher* than forecast instead.

Fiscal Sensitivities

Table 3.3 – Fiscal sensitivity analysis

Year ending 30 June ($millions unless stated)	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
1% lower nominal GDP growth per annum on					
Tax revenue	(560)	(1,180)	(1,895)	(2,670)	(3,520)
(% of GDP)	(0.3)	(0.6)	(0.9)	(1.3)	(1.7)
Revenue impact of a 1% decrease in growth of					
Wages and salaries	(240)	(510)	(810)	(1,145)	(1,510)
(% of GDP)	(0.1)	(0.2)	(0.4)	(0.6)	(0.7)
Taxable business profits	(100)	(230)	(380)	(545)	(725)
(% of GDP)	(0.0)	(0.1)	(0.2)	(0.3)	(0.3)
Impact of 1% point lower interest rates on					
Interest income[1]	(55)	(135)	(75)	(105)	(55)
(% of GDP)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Expenses[1]	(40)	(230)	(280)	(450)	(535)
(% of GDP)	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)
Overall operating balance	(15)	95	205	345	480
(% of GDP)	(0.0)	0.0	0.1	0.1	0.2

Note:

1 New Zealand Debt Management Office holdings only

Source: The Treasury

Revenue Risks

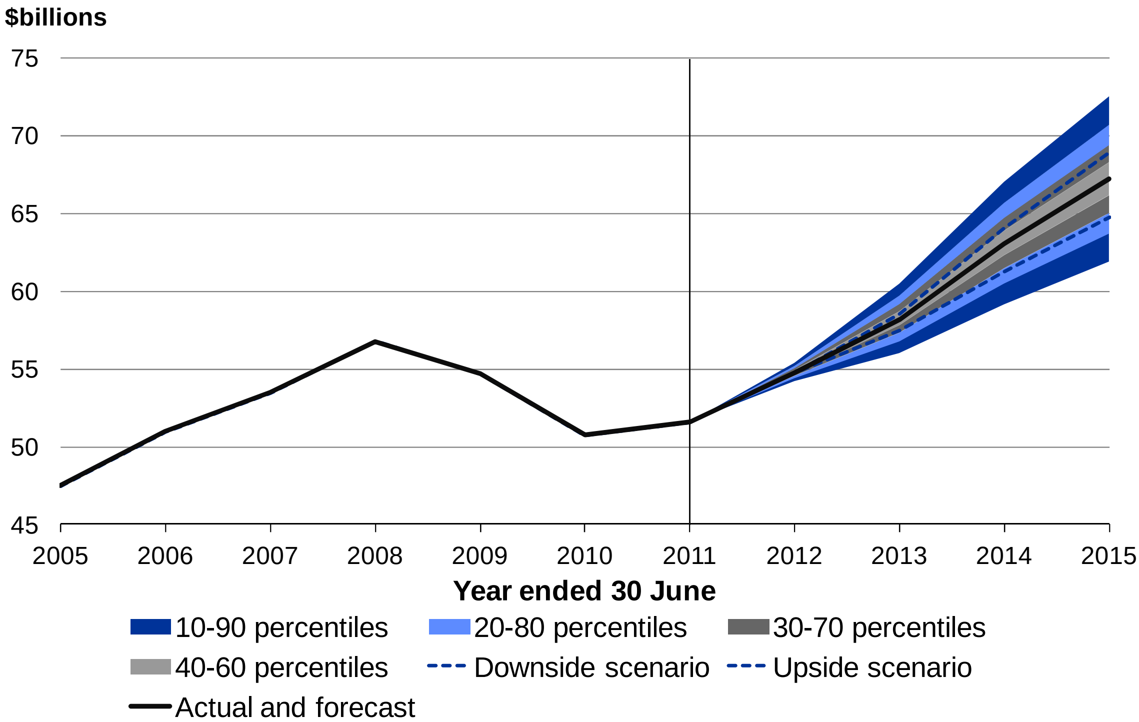
One of the major sources of risk to the fiscal position arises from the inherent uncertainty about future tax revenue. The amount of tax revenue that the Government accrues in a given year is closely linked to the performance of the economy.

Figure 3.5 plots our main tax revenue forecast, along with confidence intervals around those forecasts based on the Treasury's historical tax forecast errors.[11] The outermost shaded area captures the range (+/- $5 billion in the June 2015 year) within which actual tax forecasts would typically fall for 80% of the time.[12] The tax revenue forecasts from the upside and downside scenarios are also plotted; tax revenue in the June 2015 year is $1.7 billion higher and $2.5 billion lower than in the main forecasts in the upside and downside scenarios, respectively.

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

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

Figure 3.5 – Core Crown tax revenue uncertainty



Source: The Treasury

Based on average historical forecast errors and an even balance of risks, Figure 3.5 shows that tax revenue over the forecast period would come in weaker than shown in the downside scenario approximately one-quarter of the time, and conversely come in stronger approximately three-quarters of the time. For the upside scenario, tax revenue over the forecast period would come in stronger than shown in the upside scenario approximately one-third of the time, and come in weaker approximately two-thirds of the time.

However, as discussed previously, the forecast risks are not evenly balanced – they are skewed to the downside. Accordingly, the probability of tax revenue undershooting the downside scenario is likely to be higher than one-quarter, and the probability of tax revenue overshooting the upside scenario is likely to be lower than one-third.

Expenditure Risks

One-off and unexpected expenditure shocks can have a large impact on the Crown's operating balance in the year that they occur. Persistent errors in forecasting the cost of various programmes (ie, policies that cost more than the Government allows for) can also have substantial ongoing effects on the fiscal position.

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

Meanwhile, the destructive seismic events of recent years have underlined the inherent exposure of the Crown's fiscal position to exogenous shocks on the capital side. The Government's fiscal position would be impacted if another catastrophic earthquake were to occur or if the costs associated with the recent events exceed the updated estimates. The ageing population also presents risks to the medium-term fiscal position, particularly to the extent that demographic forecasts may prove to be too low or high.

Balance Sheet Risks

In addition to risks around revenue and expenditure, the Crown's financial position is exposed to risks from its balance sheet. While some are unavoidable, the Crown's general approach is to identify, avoid, or mitigate these risks where practicable.

The largest source of balance sheet risk is volatility in asset and liability values owing to movements in market variables such as interest rates, exchange rates, and equity prices. Of the Crown's aggregate financial risk, roughly a third is estimated to be attributed to this "market risk".[13] Three areas of the balance sheet are particularly susceptible:

- Financial assets held by the Crown financial institutions (CFIs) are sensitive to financial-market volatility. While practices such as hedging are used where practicable, the Crown Ownership Monitoring Unit (COMU) estimates a 10% fall (rise) in the MSCI World Equity Index would lead to a 4.4% fall (rise) in the value of the Crown's financial portfolio.

- Insurance and retirement liabilities and provisions are prone to market volatility through their actuarial valuations, which are sensitive to assumptions around variables such as interest and inflation rates, and risk margins. For example, a 1% fall in the risk-free discount rate used is estimated to result in a $5.5 billion increase in the combined value of the Crown's liabilities from ACC, the Earthquake Commission, AMI and the Government Superannuation Fund.[14]

- Physical assets such as land, buildings, state highways, and military equipment are susceptible to market movements through their accounting valuations. Changes in property market conditions, interest rates and changes in the costs of construction will affect the recorded value of many Crown physical assets.

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

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

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

14 For more information, see the Notes to the *Financial Statements of the Government of New Zealand 2011*.

Funding Risks

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

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

4

Specific Fiscal Risks

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

Overview

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

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

- existing baselines or Budget allowances for operating expenditure, or
- existing balance sheets or the Future Investment Fund for 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 the Budget allowances and Future Investment Fund. This is done to ensure a prudent approach to disclosing risks, improve transparency and not pre-judge future decisions by governments.

The specific fiscal risks are categorised into:

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

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

- The most significant economic risks have been identified in Chapter 3.
- General cost pressures, such as those associated with demographic changes (for example 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 Unemployment Benefits).
- The costs of future individual natural disasters, and other major events, are not recognised as specific fiscal risks in advance as they usually occur infrequently and their 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 for the disaster). Specific risks are disclosed at this point based on the range of possible responses.

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

Statement of Specific Fiscal Risks

Summary Table

The matters listed below are disclosed as specific fiscal risks because they meet the rules for disclosure outlined at the end of the chapter. Full descriptions of the risks listed below are set out in the next section.

Specific fiscal risks as at 8 May 2012	**Status**	**Value of risk**
Potential policy decisions affecting revenue		
ACC – Levies	Changed	Unquantified
Revenue – Income-Sharing Tax Credits	Unchanged	$500 million per annum
Revenue – Salary Trade-Offs	Unchanged	Unquantified
Services funded by Third Party Revenue	Changed	Unquantified
Potential policy decisions affecting expenses but expected to be funded from Budget allowances		
Environment – Review of the Emissions Trading Scheme	Changed	Between $175 million of operating savings and $145 million of operating expenses
Government Response to Wai 262	Unchanged	Unquantified
Housing – Reform of Social Housing	Unchanged	Unquantified
Revenue – KiwiSaver Auto-Enrolment	Changed	$350 to $550 million operating expenses
Revenue – Transformation and Technology Renewal	Unchanged	Unquantified
Reviews of Public Services	Unchanged	Unquantified
Social Development – Welfare Reform	New	Unquantified
State Sector Employment Agreements	Unchanged	Unquantified
Potential capital decisions but expected to be funded from the Future Investment Fund		
Departmental Capital Intentions	Changed	Unquantified
Earthquake Strengthening for Crown-Owned Buildings	New	Unquantified
Finance – Crown Overseas Properties	Changed	$150 million capital expenditure
Finance – Investment in Kiwibank	New	Unquantified
Primary Industries – Investment in Water Infrastructure	Unchanged	Unquantified
Transport – Support for KiwiRail	Changed	Unquantified
Matters dependent on external factors		
ACC – Non-Earners' Account	Changed	Unquantified
ACC – Work-Related Gradual Process Disease and Infection	Changed	Unquantified
Canterbury Earthquake – AMI Support Package	Changed	Unquantified
Canterbury Earthquake – EQC	Changed	Unquantified
Canterbury Earthquake – Exceeding the CERF	Changed	Unquantified
Communications – Potential Impairment in Value of Broadband Investment	Unchanged	Unquantified

Specific fiscal risks as at 8 May 2012	Status	Value of risk
Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets	New	Unquantified
Energy – Crown Revenue from Petroleum Royalties	Unchanged	Unquantified
Environment – Finance for Developing Countries	Unchanged	Unquantified
Environment – International Climate Change Obligations	Changed	Unquantified
Environment – Kyoto Protocol Obligations	Changed	Unquantified
Finance – Entities in Receivership under Crown Retail Deposit Guarantee Scheme	Unchanged	Unquantified
Finance – Goodwill on Acquisition	New	Unquantified
Finance – Government Commitments to International Financial Institutions	Unchanged	Unquantified
Finance – Sale of Part of the Crown's Shareholding in Five Companies	Changed	Unquantified
Health – Payment of Family Caregivers	Changed	Unquantified
Housing – Weathertight Homes	New	Unquantified
Revenue – Cash Held in Tax Pools	Unchanged	Unquantified
Transport – KiwiRail Balance Sheet Restructure	New	Unquantified
Treaty Negotiations – Treaty Settlement Forecast	Unchanged	Unquantified
Treaty Negotiations – Relativity Clause	Unchanged	Unquantified

Potential Policy Decisions Affecting Revenue

ACC – Levies (Changed, Unquantified)

Levy rates for the Work, Earners' and Motor Vehicle accounts are set by Cabinet following a public consultation process. Claims experience, ACC performance and economic assumptions (particularly discount rates) can impact insurance expenditure, both in the current year and the estimated future liability. If any of these factors differ from what is forecast the revenue collected may be more or less than required to cover the costs of claims, resulting in unplanned savings or costs to the Crown.

Revenue – Income-Sharing Tax Credits (Unchanged, Quantified)

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

Revenue – Salary Trade-Offs (Unchanged, Unquantified)

The Government is reviewing the tax treatment of employee benefits traded off for salary, including the treatment of car parks. Any changes are expected to result in an increase in tax revenues.

Services funded by Third Party Revenue (Changed, Unquantified)

A wide range of government services are funded through third party fees and charges. Demand for these services can vary which has 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 cost 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.

Potential Policy Decisions Affecting Expenses but Expected to be Funded from Budget Allowances

Environment – Review of the Emissions Trading Scheme (Changed, Quantified)

A statutory review of the Emissions Trading Scheme (ETS) was completed in 2011 and the Government released its public consultation document on proposed changes to the ETS in April 2012. The Government is considering changes to the ETS in response to the recommendations of the review. Depending on final decisions, the impacts of these changes could range from a net fiscal cost of $145 million to fiscal savings of up to $175 million over the forecast period. These estimates are subject to change, based on carbon price fluctuations and the final decisions to be taken following public consultation.

Government Response to Wai 262 (Unchanged, Unquantified)

The Waitangi Tribunal released its report on the Wai 262 claim on 2 July 2011. The report 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 is currently considering the Tribunal's report and recommendations to fully understand their implications (including any fiscal implications).

Housing – Reform of Social Housing (Unchanged, Unquantified)

The Government has decided to change the policy settings for social housing. This includes growing third party providers of social housing, increasing the effectiveness of financial assistance and Housing New Zealand Corporation focusing on providing social housing to those with the greatest housing need. Plans for implementation remain under development, but may require reprioritisation or additional funding. However, there may be offsetting financial benefits to the Crown if significant gains in efficiency are achieved.

Revenue – KiwiSaver Auto-Enrolment (Changed, Quantified)

The Government has announced its intention to consult on the design of a one-off KiwiSaver auto-enrolment exercise to increase the number of KiwiSaver members. An auto-enrolment exercise is likely to entail a one-off cost for kick-start payments to new members and ongoing additional costs for the Member Tax Credit. Depending on the timing, design features and take-up rate, these costs could be in the order of $350 to $550 million over the first four years after the auto-enrolment took place and are expected to be funded out of the operating allowances. The Government will proceed with a one-off KiwiSaver enrolment exercise only when it is confident that such a step poses no significant risks to returning to and maintaining an operating surplus.

Revenue – Transformation and Technology Renewal (Unchanged, Unquantified)

Inland Revenue is exploring options that will fundamentally change the way in which it manages its processes and data, in order to deliver smarter, modern services for less. Technology renewal is an integral part of Inland Revenue's future business model. Any changes could impact tax revenue collections and/or have material administrative costs to implement.

Reviews of Public Services (Unchanged, Unquantified)

A series of reviews have been initiated to improve the effectiveness and efficiency of public services. Reviews may recommend, or result in, changes to service delivery and/or free up resources for reprioritisation within Votes or be used to meet pressures in other areas.

Social Development – Welfare Reform (New, Unquantified)

The Government is currently working on two phases of welfare reform. Best estimates of the likely costs and benefit savings for the first phase, being legislated for in the Social Security (Youth Support and Work Focus) Amendment Bill, are included in the fiscal forecasts. This risk covers any variance in the actual costs and savings of the first phase plus the total cost and benefit savings for the second phase, for which final decisions have not yet been made.

State Sector Employment Agreements (Unchanged, Unquantified)

A number of large collective agreements are due to be renegotiated in the short-to-medium term. As well as direct fiscal implications from any changes to remuneration, the renegotiation of these agreements can have flow-on effects to remuneration in other sectors. The Government has signalled an expectation of restraint given the current economic environment.

Potential Capital Decisions but Expected to be Funded from the Future Investment Fund

Departmental Capital Intentions (Changed, Unquantified)

The Government requires 16 capital-intensive agencies or sectors to identify their capital spending intentions over the next 10 years based on current policy settings and certain demographic and inflation assumptions. Government expects that these intentions will be managed back through a range of measures such as prioritisation, changes to asset utilisation, alternative methods of service delivery and changes to policy settings. Departmental capital intentions are risks to the fiscal forecasts only to the extent that they cannot be managed through existing balance sheets and the Future Investment Fund.

Earthquake Strengthening for Crown-Owned Buildings (New, Unquantified)

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

Finance – Crown Overseas Properties (Changed, Quantified)

The Government holds New Zealand House in London on a long-term lease from the Crown Estate (UK). Depending on the Government's future intentions for this building, an upgrade may be required. Preliminary cost estimates for this upgrade total $150 million over the period 2013/14 to 2015/16.

Finance – Investment in Kiwibank (New, Unquantified)

Kiwibank has indicated that it may require new equity within the next three years mainly to meet the Basel III regulatory capital requirements. New Zealand Post is reaching constraints in its balance sheet to support Kiwibank.

Primary Industries – Investment in Water Infrastructure (Unchanged, Unquantified)

In Budget 2011 the Government established a funding programme to support potential irrigation development projects to an investment-ready stage. The Government intends to consider as part of Budget 2013 investing up to $400 million of equity for the construction and operation of water harvesting, storage and off-farm distribution infrastructure. The proposal will provide detailed advice on the key investment principles and the provision of a clear separation in the Crown's role in supporting scheme development and investment decisions.

Transport – Support for KiwiRail (Changed, Unquantified)

KiwiRail has signalled its intention to seek further Crown funding to complete the 10-year strategy for KiwiRail to achieve a commercially viable rail network, with $243 million likely to be requested in 2013 and $90 million in 2014.

Matters Dependent on External Factors

ACC – Non-Earners' Account (Changed, Unquantified)

Funding for the Non-Earners' Account is agreed as part of the annual Budget process. Claims experience, ACC's performance and economic assumptions (particularly discount rates) can impact insurance expenditure, both in the current year and the estimated future liability. If any of these factors differ from what is forecast the amount required to cover the costs of non-earners' claims for that year may be more or less than the agreed level of funding, resulting in unplanned savings or costs to the Crown.

ACC – Work-Related Gradual Process Disease and Infection (Changed, Unquantified)

The appropriate accounting treatment of Work-Related Gradual Process Disease and Infection claims is under consideration. Current practice is to recognise such claims at the date that someone first presents to a health provider with an injury. An alternative would be to recognise the estimated future claims cost when the individual is originally exposed to potential injury-causing events. ACC may need to recognise an additional liability for injuries resulting from exposure that has already occurred, but where claimants have yet to present to a health provider with an injury.

Canterbury Earthquake – AMI Support Package (Changed, Unquantified)

Sale of AMI's ongoing business to IAG was completed on 5 April 2012. AMI's earthquake claims liability has been retained in a new Crown company named Southern Response Earthquake Services Ltd. The ultimate cost to the Crown of settling earthquake claims remains subject to significant uncertainty; out-year forecasts assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision; however, small percentage changes in the liability can result in a material impact on the forecasts.

Canterbury Earthquake – EQC (Changed, Unquantified)

The net financial position of the Earthquake Commission (EQC), and the size of any requirement for additional Crown funding, is extremely uncertain. The key drivers of this uncertainly are:

- *EQC's outstanding claims liability* – The actuarial estimate of EQC's outstanding claims liability is highly uncertain and sensitive to assumptions; for example, cost apportionment across events, reinsurance recoveries and the profile of claims settlement. The magnitude of the net outstanding claims cost is large, so small percentage changes in the liability will have a material impact on forecasts.
- *Reinsurance market conditions* – Forecast reinsurance price assumptions, which are a substantial component of EQC's forecasts, are very uncertain.
- *Seismicity in New Zealand* – Seismic conditions, especially in Canterbury, impact on insurance provisioning within EQC's forecasts.
- *EQC review and policy decisions* – Outcomes from the review of the EQC or other policy decisions (eg, reinsurance) may be implemented during the forecast period. Any significant decisions could have a material impact on EQC's forecasts.

Canterbury Earthquake – Exceeding the CERF (Changed, Unquantified)

The Christchurch Earthquake Recovery Fund (CERF) was established in Budget 2011 to manage the Crown's costs of the Canterbury earthquakes. Although earthquake-related costs are becoming clearer, there remain a number of pending decisions and possible eventualities that result in a risk that the amount of the CERF may be exceeded. These include:

- *Land decisions* – Some properties are still classified as orange or white. Further decisions on land zoning and associated government policies have yet to be made. These may increase costs to the Crown.
- *Rock fall* – The costs of rock fall risk are uncertain. The Crown may be required to provide a contribution towards costs not met by other parties.
- *Infrastructure* – Not all damage to infrastructure has been fully assessed. There is a risk that the damage is greater than currently expected, which would increase the costs to the Crown.
- *Contribution to council costs* – Cost-sharing arrangements are yet to be finalised. There is a risk that the Crown share is greater than forecast, which would increase the costs to the Crown. This includes any potential Crown contribution towards the Central Business District Plan costs.

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

The Government has set aside $1.345 billion to progressively capitalise Crown Fibre Holdings so that it can invest with private partners in a new network delivering “ultra-fast” broadband services. Crown Fibre Holdings has entered into contracts with several partners. Given the nature of the investments made, it is possible that the full value of the investments will not be recovered. The fiscal forecasts include a provision for this impairment, but the final amount of the impairment may vary from this provision.

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

The creation of the Defence Logistics Command within the New Zealand Defence Force (NZDF) may result in the rationalisation of inventory that is surplus to requirements and is over and above the existing provision for obsolescence. In addition, the revaluation of NZDF assets on 30 June 2012 could see an increase in asset values across the NZDF of up to $300 million. The Government is also considering the potential to dispose of a number of New Zealand Defence Force Assets, including the Seasprite helicopters, Unimog trucks, light armoured vehicles and the HMNZS Resolution. Depending on the timing of disposal and sale price received, this could have an impact on the Government’s overall financial position.

Energy – Crown Revenue from Petroleum Royalties (Unchanged, Unquantified)

The Crown Revenue from Petroleum Royalties is very dependent upon the US dollar value per barrel and the exchange rate. Movements up or down in either of these variables could result in a significant decrease or increase in the Crown revenue. The overall impact for the Crown could therefore be negative or positive. In addition, the Government is currently reviewing the regulatory, royalty and taxation arrangements for petroleum as part of the Petroleum Action Plan. Although the outcomes of this review are still uncertain, any changes to policies in this area could have a significant impact on future revenue from petroleum royalties.

Environment – Finance for Developing Countries (Unchanged, Unquantified)

There is an international expectation that developed countries, including New Zealand, contribute finance to developing countries to support adaptation to, and mitigation of, the effects of climate change. Developed countries have committed to mobilising US$100 billion per year by 2020 to address the needs of developing countries. This would come from a wide variety of sources, both public and private.

Environment – International Climate Change Obligations (Changed, Unquantified)

The Government is currently taking part in international negotiations for a post-2012 international climate change agreement. Currently, no rights or obligations are included in the fiscal forecasts for any post-2012 agreement because of the high levels of uncertainty. Any New Zealand climate change commitments post-2012 could have significant financial implications, which will need to be recognised when the commitment is considered binding. Following the Conference of Parties in Durban in 2011, New Zealand is considering decisions on the nature of any international commitments to 2020, including whether to sign up to a second commitment period under the Kyoto Protocol.

Environment – Kyoto Protocol Obligations (Changed, Unquantified)

The fiscal impact of the Government's Kyoto Protocol obligations (2008 to 2012) is currently uncertain. An increase in New Zealand's net emissions or the future transfer of emission units offshore could reduce the net Kyoto position significantly. Increased allocation to emitters or increased participation by foresters under the ETS would negatively impact the Government's ETS position. The fiscal impact of any changes is dependent on the carbon price, which is subject to uncertainty around any future international agreements. The Government may also need to purchase emission units to meet its obligations, which would have a corresponding impact on net debt.

Finance – Entities in Receivership under Crown Retail Deposit Guarantee Scheme (Unchanged, Unquantified)

Eight entities that were guaranteed under the original Deposit Guarantee Scheme and one that was guaranteed under the extended scheme are now in receivership. The Crown has previously recognised its obligations under the schemes as a liability and has forecast its rights of recovery from the receivers as assets. While the reported assets represent the receivers' best prudent estimates of likely recoveries from the receiverships, the eventual return to the Crown is uncertain and dependent upon the value that can be realised from these entities' assets.

Finance – Goodwill on Acquisition (New, Unquantified)

As at 31 March 2012, the Government had goodwill on acquisition of a number of sub-entities totalling $527 million. Under New Zealand accounting standards (NZ IAS 36), such goodwill items are required to be assessed annually for impairment. If there is any indication that the goodwill may be impaired, the recoverable amount of the cash generating units to which the goodwill is allocated is required to be estimated. If the recoverable amount is less than the carrying amount of those units, the units and the goodwill allocated to them are regarded as impaired and the Government is required to recognise impairment losses in the operating statement. Such assessments will be conducted at the end of the financial year and the fiscal forecasts currently make no allowance for such impairment losses.

Finance – Government Commitments to International Financial Institutions (Unchanged, Unquantified)

The forecast level of government commitments to international financial institutions is subject to change, depending on the Government's response to any changed financial plans on the part of these institutions. The risk of government commitments to the International Monetary Fund being called has increased owing to the global financial crisis and recent world events, including in the euro area.

Finance – Sale of Part of the Crown's Shareholding in Five Companies (Changed, Unquantified)

The Government has agreed to sell part of the Crown's shareholding in Mighty River Power. It is also proposing to sell part of the Crown's shareholding in Genesis Energy, Meridian Energy, Solid Energy and Air New Zealand. The fiscal forecasts include an estimate of the cash proceeds from the sale of part of the Crown's shareholding in these five companies, the dividends and profits from these companies that will be paid or are attributable to minority shareholders rather than to the Crown, and the estimated finance cost savings. However, the final amount and timing of any cash proceeds, foregone profits, the flow-on effects for the Crown and any implementation costs are uncertain, and may differ from what has been assumed in the fiscal forecasts.

Health – Payment of Family Caregivers (Changed, Unquantified)

The Human Rights Tribunal has declared that the Ministry of Health's policy of not employing family members to provide care to disabled relatives is in breach of section 19 of the New Zealand Bill of Rights. The High Court has found in favour of the family caregivers. The Court of Appeal heard the Crown's appeal in early 2012 and, subsequent to the finalisation of the fiscal forecasts, announced that it had dismissed the Crown's appeal. The Crown is now working through the fiscal and policy implications of the decision.

Housing – Weathertight Homes (New, Unquantified)

The Government has agreed to offer a package to assist homeowners to repair homes affected by the weathertightness issues that occurred in the late 1990s and early 2000s. The package includes a 25% government contribution towards agreed repair costs, a 25% contribution from participating territorial authorities and credit support for the remaining repair costs for those who meet the eligibility and lending criteria. There is a risk that the costs of the package will differ significantly from the current provision of $357.9 million as uncertainty remains regarding the extent of damage to eligible homes and the level of uptake.

Revenue – Cash Held in Tax Pools (Unchanged, Unquantified)

Funds held in tax pools are recognised as an asset to the Crown. There is a risk that funds held in these pools, over and above a customer's provisional tax liability, may be withdrawn, resulting in an unquantified cash loss to the Crown.

Transport – KiwiRail Balance Sheet Restructure (New, Unquantified)

KiwiRail intends to restructure its balance sheet to become more commercial. As part of this it intends to write down the value of its assets to represent a more commercial value. KiwiRail and the Government are currently considering the timing of this restructure. Any decision to complete the restructure could result in a significant write-down in the value of KiwiRail's assets depending on the extent and value of the assets deemed to be commercialised. Any write-down will impact on the Crown's net worth, initially through a reduction in the revaluation reserve and, secondly, if the revaluation reserve is insufficient to cover the write-down, through the operating balance.

Treaty Negotiations – Treaty Settlement Forecast (Unchanged, Unquantified)

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 what is forecast.

Treaty Negotiations – Relativity Clause (Unchanged, Unquantified)

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds $1 billion in 1994 present-value terms, 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 the amount of the expense for the relativity payments may differ from that included in the fiscal forecasts.

Risks Removed Since the 2011 PREFU

The following risks have been removed since the *2011 Pre-election Economic and Fiscal Update*:

Expired risks	Reason
ACC, Education, Health, Social Development – Caregiver Employment Conditions	Some decisions taken and included in fiscal forecasts, no longer material
Defence Force – Future Operationally Deployed Forces Activity	No longer material
Defence Force – Asset Valuations	Incorporated into new risk *Potential Rationalisation, Revaluation and Disposal of NZDF Assets*
Education – Early Childhood Education Funding	No longer material
Education – Upward Adjustment for School Operating Funding	No longer material
Finance – Extended Crown Retail Deposit Guarantee Scheme	Extended scheme ended on 31 December 2011
Revenue – Apportionment Rules for Mixed-Use Assets	Included in fiscal forecasts
Revenue – Potential Tax Policy Changes	No longer material
Social Development – Welfare Working Group Recommendations	Some decisions taken and included in fiscal forecasts, remaining risk incorporated into *Welfare Reform* risk
Transport – Response to the MV Rena Grounding	No longer material

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.[15]

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.

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

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[16] 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 his 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 cost is more than $100 million over five years, and either
- a decision has not yet been taken but it is reasonably possible[17] (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 his best professional judgement, that the matters may have a material effect (more than $100 million over five years) on the fiscal and economic outlook but are not certain enough to include in the fiscal forecasts.

Exclusions from Disclosure

Matters are excluded from disclosure as specific fiscal risks if they fail to meet the materiality criterion (ie, are less than $100 million over five years), or if they are unlikely[18] to be approved or occur within the forecasting period.

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16 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).

17 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).

18 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).

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

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

If possible, the Minister of Finance should avoid withholding the matter either by making a decision on it before the forecasts are finalised, or by disclosing it as an unquantified risk.

Contingent Liabilities and Contingent Assets

Contingent liabilities are costs that the Crown will have to face if 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 debt. In the case of the contingencies for uncalled capital, the negative impact would be restricted to net debt because the cost would be offset by the acquisition of capital.

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

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

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

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

Contingent liabilities and contingent assets have been stated as at 31 March 2012, being the latest set of reported contingencies.

Quantifiable Contingent Liabilities and Contingent Assets

Contingent Liabilities		
Guarantees and indemnities	**Status[19]**	**($millions)**
Indemnification of touring exhibitions	New	370
Other guarantees and indemnities	Changed	91
		461
Uncalled capital		
Asian Development Bank	Changed	2,935
International Bank for Reconstruction and Development	Changed	1,003
International Monetary Fund – arrangements to borrow	New	1,092
International Monetary Fund – promissory notes	Changed	1,154
Other uncalled capital	Changed	176
		6,360
Legal proceedings and disputes		
Tax disputes	Changed	312
Other legal proceedings and disputes	Changed	46
		358
Other quantifiable contingent liabilities		
Kyoto protocol units	Changed	528
New Zealand Export Credit Office	Changed	171
Other quantifiable contingent liabilities	Changed	349
		1,048
Total contingent liabilities		**8,227**
Contingent Assets		
Legal proceedings and tax disputes	Changed	592
Other quantifiable contingent assets	Changed	112
Total contingent assets		**704**

19 Relative to reporting in the *Financial Statements of the New Zealand Government* for the year ending 30 June 2011 and reported in the *2011 Pre-election Fiscal Update*.

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities

Guarantees and indemnities	Status
Airways Corporation of New Zealand	Unchanged
Asure New Zealand Limited	Unchanged
At Work Insurance Limited	Unchanged
Building Industry Authority	Unchanged
Civil Defence Emergency Management – New Zealand Local Authorities	Unchanged
Contact Energy Limited	Unchanged
EQC	Unchanged
Electricity Corporation of New Zealand Limited	Unchanged
Genesis Energy – letters of credit and performance bonds	Unchanged
Housing New Zealand Corporation	Unchanged
Indemnities against acts of war and terrorism	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Landcorp Farming Limited	Unchanged
Maui Partners	Unchanged
Meridian Energy – letters of credit and performance bonds	Unchanged
National Provident Fund	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust	Unchanged
Reserve Bank of New Zealand	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Tainui Corporation	Unchanged
Other unquantifiable contingent liabilities	
Abuse claims	Unchanged
ACC litigations	Unchanged
Air New Zealand litigation	Unchanged
Environmental liabilities	Unchanged
Maui contracts	Unchanged
Television New Zealand	Unchanged
Treaty of Waitangi claims	Unchanged
Westpac New Zealand Limited	Unchanged

Contingent assets

Unquantifiable contingent assets	
Properties acquired under the Canterbury red zone support package	Unchanged

Description of Contingent Liabilities

Quantified contingent liabilities over $100 million

Guarantees and indemnities

Indemnification of touring exhibitions

The Crown has a contingent liability for damages and losses under the scheme for indemnifying touring exhibitions.

$370 million at 31 March 2012 (nil at 30 June 2011)

Uncalled capital

New Zealand contributes to the World Bank: International Bank for Reconstruction and Development, the International Monetary Fund (IMF) and the Asian Development Bank (ADB) as part of its commitment to multilateral approaches to ensuring global financial and economic stability. Member countries contribute capital by subscribing to shares in the institutions.

Capital is typically used to raise additional funding on the international capital markets for loans to member countries, or in the case of the IMF 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”. Even though promissory notes are technically “at call”, they are treated as contingent liabilities, as there are significant restrictions on the actual ability to call them, and there is no realistic estimate of either the amount or the timeframe of any call.

The specific amounts of uncalled capital with the various institutions were:

Asian Development Bank

$2,935 million at 31 March 2012 ($2,995 million at 30 June 2011)

International Bank for Reconstruction and Development

$1,003 million at 31 March 2012 ($991 million at 30 June 2011)

International Monetary Fund – new arrangements to borrow

$1,092 million at 31 March 2012 (was considered remote at 30 June 2011, $1,207 million)

International Monetary Fund – promissory notes

$1,154 million at 31 March 2012 ($1,254 million at 30 June 2011)

Legal proceedings and disputes

Tax in dispute

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 outstanding debt of tax assessments raised against which an objection has been lodged and legal action is proceeding.

$312 million at 31 March 2012 ($281 million at 30 June 2011)

Other quantifiable contingent liabilities

Kyoto Protocol

The Government has a contingent liability relating to 64.3 million forestry credits. During the first commitment period, the Net Kyoto Position of the Crown estimates that 92.2 million tonnes of carbon credits will be generated by carbon removals via forests. To the extent that these forests are harvested in subsequent commitment periods there will be an associated liability generated.

The New Zealand ETS transfers a portion of the potential future liability to forest owners. As at 31 March 2012, approximately 27.9 million tonnes had been transferred to forest owners in the form of New Zealand Units. The Crown's contingent liability is calculated as the remaining credits the Crown is potentially liable for (64.3 million tonnes). Using the carbon price as at 31 March 2012, this contingent liability can be measured at $528 million.

$528 million at 31 March 2012 ($997 million at 30 June 2011)

New Zealand Export Credit Office

The New Zealand Export Credit Office (NZECO) 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 New Zealand Government and are intended to extend the capacity of facilities in the private sector.

$171 million at 31 March 2012 ($132 million at 30 June 2011)

Unquantifiable contingent liabilities

Guarantees and indemnities

Airways Corporation of New Zealand Limited

The Crown has indemnified Airways Corporation of New Zealand Limited as contained in Airways' contract with New Zealand Defence Force for the provision of air traffic control services. The indemnity relates to any claim brought against Airways by third parties arising from military flight operations undertaken by the Royal New Zealand Air Force.

AsureQuality Limited

The Crown has indemnified the directors of AsureQuality Limited in the event that they incur any personal liability for redundancies arising from any agreement by international trading partners that allows post-mortem meat inspection by parties other than the Ministry for Primary Industries, or its subcontractor.

At Work Insurance Limited

The Crown has indemnified the liquidators of At Work Insurance Limited (Deloitte Touche Tohmatsu) against various employment-related claims.

Building Industry Authority

The Building Industry Authority (BIA) is a joint defendant in a number of claims before the courts and the Weathertight Homes Resolution Service relating to the BIA's previous role as regulator of the building industry. The BIA has been disestablished and absorbed into the Department of Building and Housing. To prevent conflicts of interest, the Treasury was given responsibility for managing weathertight claims against the BIA on behalf of the Crown from 1 July 2005.

The Crown introduced the weathertight homes Financial Assistance Package (FAP) to assist homeowners in getting their leaky homes repaired. The FAP sees the Crown contribute 25% of agreed repair costs (with affected local authorities also contributing the same amount) and provide assistance to homeowners to access bank finance for the remaining agreed repair costs by way of loss share agreements with banks. Affected homeowners who take up this assistance agree to forgo legal actions against the Crown.

Civil Defence Emergency Management – New Zealand Local Authorities

The *Guide to the National Civil Defence Emergency Management Plan* ("the Guide") states that 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 issued by the Director of Civil Defence Emergency Management (CDEM) under Section 9 of the Civil Defence Emergency Management Act 2002.

Under current policy as set out in the Guide, local authorities will be eligible for reimbursement of cost categories above individually specified thresholds, as follows:

- 100% of "direct response" costs (these are costs associated with caring for displaced people)
- 60% of "other response" costs (temporary repairs to essential infrastructure and precautionary measures to reduce immediate damage), and
- 60% of "recovery" costs (these relate to restoration of local authority essential infrastructure (fresh water, storm water and waste water) and river management systems, where there is major community disruption or continuing risk to life).

The Crown's obligation to reimburse Canterbury local authorities for "recovery costs" in respect of the Canterbury earthquakes is detailed in the "Specific Fiscal Risks" section of this chapter.

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. Those documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.

EQC

The Crown is liable to meet any deficiency in the EQC's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993). In the event of a major natural disaster the Crown may be called upon to meet any financial shortfall incurred by the Commission.

The Crown's current obligation to meet EQC's cash shortfall as a result of the Canterbury earthquakes is detailed in the "Specific Fiscal Risks" section of this chapter.

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy or royalty imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The agreement also provides for compensation for any net costs to ECNZ arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that the Crown is no longer liable to ECNZ in respect of those assets transferred to it from ECNZ. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the deed to ECNZ's successors (Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited).

Under the Transpower New Zealand Limited (Transpower) Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Transpower separation process.

Following the split of ECNZ in 1999 into three new companies, the Crown has indemnified ECNZ in relation to all of ECNZ's pre-split liabilities, including:

- existing debt and swap obligations
- hedge contracts and obligations, and
- any liabilities that arose out of the split itself.

Genesis Energy Limited – letters of credit and performance bonds

Genesis, as a participant in the electricity market, issued letters of credit to the Energy Clearing House Limited under the markets' security requirements. These letters of credit are issued as part of normal trading conditions and are to ensure there is no significant credit risk exposure to any one market participant.

Housing New Zealand Corporation (HNZC)

HNZC is liable to the owners (ANZ National Bank Limited, Ichthus Limited and Westpac Banking Corporation) of mortgages sold by HNZC during 1992 to 1999 for credit losses they may incur from specified limited aspects of their ownership of those mortgages with the Crown standing behind this obligation.

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) (HNZL was incorporated into the HNZC group as a subsidiary in 2001 as part of a legislated consolidation of government housing functions) and has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against any third party claims that are a result of acts or omissions prior to 1 November 1992. It has 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.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against 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.

Justices of the Peace, Community Magistrates and Disputes Tribunal Referees

Under section 197 of the Summary Proceedings Act 1957, the Crown has indemnified Justices of the Peace and Community Magistrates against damages or costs awarded against them as a result of them exceeding their jurisdiction. The indemnification is given provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and that they ought to be indemnified. Section 58 of the Disputes Tribunal Act 1988 confers a similar indemnity on Disputes Tribunal Referees.

Landcorp Farming Limited

The Protected Land Agreement provides that the Crown will pay Landcorp any accumulated capital costs and accumulated losses, or Landcorp will pay the Crown any accumulated profit, attributed to a Protected Land property that is required to be transferred to the Crown or that the Crown releases for sale. The Crown will also be liable to pay Landcorp, at the time of sale or transfer of any property deemed to be Protected Land, the amount of any outstanding equity payments on the initial value of the property.

Maui Partners

The Crown has entered into confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information. The deed contains an indemnity against any losses arising from a breach of the deed.

Meridian Energy Limited – letters of credit and performance bonds

In addition to its borrowings, Meridian has entered into a number of letters of credit and performance guarantee arrangements which provide credit support to support the collateral requirements of Meridian’s trading business.

National Provident Fund (NPF)

NPF has been indemnified for certain potential tax liabilities. Under the NPF Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF schemes (section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61), and
- payment to certain NPF defined contribution schemes where application of the 4% minimum earnings rate causes any deficiency or increased deficiencies in reserves to arise (section 72).

New Zealand Aluminium Smelters and Comalco

The Crown has indemnified New Zealand Aluminium Smelters and Comalco in relation to aluminium dross disposed of in their landfill, specifically for costs that may be incurred in removing the dross and disposing of it at another site if they are required to do so by an appropriate authority. The Minister of Finance signed the indemnity on

24 November 2003. In February 2004, a similar indemnity was signed in respect of aluminium dross currently stored at another site in Invercargill. The timing and amount of this are uncertain and cannot be quantified.

New Zealand Railways Corporation

The Crown has indemnified the directors of New Zealand Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor.

The Crown has further indemnified 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 on 1 September 2004.

Section 10 of the Finance Act 1990 guarantees all loan and swap obligations of the New Zealand Railways Corporation.

Persons exercising investigating powers

The Crown, under section 63 of the Corporations (Investigation and Management) Act 1989, indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of an advisory committee, every statutory manager of a corporation and persons appointed pursuant to sections 17 and 19 of the Act in respect of any liability arising as a result of exercising the investigating powers conferred under the Act. The indemnity does not apply where the investigating powers have been exercised in bad faith.

Public Trust

Section 52 of the Public Trust Act 2001 provides for the Crown to meet any deficiency in the Public Trust's Common Fund in meeting lawful claims on the Fund. This is a permanent (legislated) liability. On 12 October 2010 the Minister of Finance guaranteed interest payable on estates whose money constitutes the Common Fund. The guarantee continues until the earlier of the date the Public Trust Act 2001 is amended to provide that the guarantee in section 52 of that Act applies to both capital and accrued interest, or the date that the Minister of Finance revokes the guarantee.

Reserve Bank of New Zealand

Section 21(2) of the Reserve Bank of New Zealand Act 1989 requires the Crown to pay the Reserve Bank the amount of any exchange losses incurred by the Bank as a result of dealing in foreign exchange under sections 17 and 18 of the Act. This is a permanent (legislated) liability.

Synfuels-Waitara outfall indemnity

As part of the 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.

Tainui Corporation

Several leases of Tainui land at Huntly and Meremere have been transferred from ECNZ to Genesis Power. The Crown has provided guarantees to Tainui Corporation relating to Genesis Power's obligations under the lease agreements.

Other unquantifiable contingent liabilities

Abuse claims

There is ongoing legal action against the Crown in relation to historical abuse claims. At this stage the number of claimants and outcome of these cases are uncertain.

ACC litigations

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. ACC will be defending these claims.

Air New Zealand litigation

Air New Zealand has been named in five class actions. One (in Australia) claims travel agents' commission on fuel surcharges and two (one in Australia and the other in the United States) make allegations against more than 30 airlines, of anti-competitive conduct in relation to pricing in the air cargo business. The other two class actions (in the United States and in Canada) allege that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes.

Air New Zealand is defending each of these proceedings. In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, the company would have potential liability for pecuniary penalties and to third party damages under the laws of the relevant jurisdictions.

Environmental liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities.

Departments managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with NZ IAS 37: Provisions, Contingent Liabilities and Contingent Assets, any contaminated sites for which the Crown has accepted liability, and for which costs can be reliably measured, were included as a provision.

Maui contracts

Contracts in respect of which the Crown purchases gas from Maui mining companies and sells gas downstream to Contact Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.

Television New Zealand

Television New Zealand is subject to a number of legal claims. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

The Government has announced that analogue television transmission will cease by November 2013. The Company has an obligation to decommission its analogue transmitters which are located on Kordia Limited's transmission sites. The decommissioning of analogue transmitters will be undertaken as a broadcasting industry initiative and the Company's share of the cost of decommissioning, net of any amounts recovered from disposal, cannot be reliably estimated.

Treaty of Waitangi claims

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

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

Westpac New Zealand Limited

Under the Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004, the Crown has indemnified Westpac:

- in relation to letters of credit issued on behalf of the Crown, and
- for costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and Inland Revenue processing arrangements.

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

Description of Contingent Assets

Quantified contingent assets

Legal proceedings and tax disputes

Contingent assets arise where Inland Revenue has advised or is about to advise a taxpayer of a proposed adjustment to their tax assessment. There has been no amended assessment issued at this point or revenue recognised so these are recorded as legal proceedings and disputes – non-assessed. The taxpayer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue quantifies a contingent asset based on the likely outcome of the disputes process based on experience and similar prior cases.

$592 million at 31 March 2012 ($636 million at 30 June 2011)

Unquantified contingent assets

Properties acquired under the Canterbury Red Zone Support Package

A provision has been made for the costs associated with the Red Zone Support Package. As a consequence of this package, the Crown will acquire residential properties that are unlikely to be suitable for continued residential occupation for a prolonged period of time (red zone properties). As no determination has been made of the possible use of the properties the Crown will acquire, any value for the asset is contingent.

5

Forecast Financial Statements

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

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends.

The 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 8 May 2012.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined on pages 44 to 47.

Statement of Accounting Policies

Significant Accounting Policies

These 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.

These forecast financial statements comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *Financial Reporting Standard 42: Prospective Financial Statements*.

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

The specific accounting policies are included within the *2012 Budget Update Additional Information* document which can be found on the Treasury's website at http://www.treasury.govt.nz/budget/forecasts/befu2012.

Changes in Accounting Policies

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

Forecast Policies

These 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. 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 chapter on Fiscal Risks on pages 61 to 85.

Key forecast assumptions used are set out on pages 44 to 47.

Government Reporting Entity as at 8 May 2012

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:

Core Crown

Departments

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

Offices of Parliament

Controller and Auditor General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises

Air New Zealand Limited*
Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Genesis Power Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited
Meridian Energy Limited
Meteorological Service of New Zealand Limited
Mighty River Power Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Terralink NZ Limited (in liquidation)
Transpower New Zealand Limited

Subsidiaries of State-owned enterprises are consolidated by their parents and not listed separately in this table

* *included for disclosure purposes as if they were an SOE*

Crown entities

Accident Compensation Corporation
Alcohol Advisory Council of New Zealand
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Careers New Zealand
Charities Commission
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commisson
Crown Health Financing Agency
Crown Research Institutes (8)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electricity Authority
Electoral Commission
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Quality and Safety Commission
Health Research Council of New Zealand
Health Sponsorship Council
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime Safety Authority of New Zealand
Mental Health Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Board
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Historic Places Trust (Pouhere Taonga)
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,470)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (29)
Testing Laboratory Registration Council
Transport Accident Investigation Commission

Crown entity subsidiaries are consolidated by their parents and not listed separately in this table

Organisations named or described in Schedule 4 of the Public Finance Act 1989

Agriculture and Marketing Research and Development Trust
Asia New Zealand Foundation
Crown Asset Management Limited
Crown Fibre Holdings Limited
Dispute Resolution Services Limited
Fish and Game Councils (12)
Health Benefits Limited
Leadership Development Centre Trust
Learning State Limited
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
Research and Education Advanced Network New Zealand Limited
Reserves Boards (23)
Road Safety Trust
Sentencing Council
Southern Response Earthquake Services Limited
Te Ariki Trust
The Māori Trustee

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Revenue								
Taxation revenue	1	51,128	54,690	54,331	57,663	62,370	66,341	70,297
Other sovereign revenue	1	5,281	5,808	5,112	5,446	5,679	5,872	6,221
Total revenue levied through the Crown's sovereign power		**56,409**	**60,498**	**59,443**	**63,109**	**68,049**	**72,213**	**76,518**
Sales of goods and services		15,084	16,078	16,380	16,337	16,975	17,939	18,590
Interest revenue and dividends	2	2,570	3,051	2,824	3,376	3,644	4,245	4,617
Other revenue		7,500	3,106	3,928	3,481	3,580	3,774	3,865
Total revenue earned through the Crown's operations		**25,154**	**22,235**	**23,132**	**23,194**	**24,199**	**25,958**	**27,072**
Total revenue (excluding gains)		**81,563**	**82,733**	**82,575**	**86,303**	**92,248**	**98,171**	**103,590**
Expenses								
Transfer payments and subsidies	3	22,172	22,926	22,534	23,218	23,742	24,459	25,442
Personnel expenses	4	19,088	19,149	19,315	19,676	19,811	20,055	20,301
Depreciation and amortisation	5	4,682	4,631	4,520	4,687	4,819	4,915	5,010
Other operating expenses	5	35,829	37,792	36,386	38,929	36,235	36,568	37,113
Interest expenses	6	3,596	4,685	4,173	4,663	5,019	5,636	5,781
Insurance expenses	7	14,592	3,138	4,451	3,289	3,464	3,851	4,063
Forecast new operating spending	8	-	463	87	348	1,141	2,370	3,568
Top-down expense adjustment	8	-	(310)	(450)	(700)	(150)	(150)	(150)
Total expenses (excluding losses)		**99,959**	**92,474**	**91,016**	**94,110**	**94,081**	**97,704**	**101,128**
Forgone profits from partial share sales		-	-	-	(90)	(180)	(270)	(360)
Operating balance before		**(18,396)**	**(9,741)**	**(8,441)**	**(7,897)**	**(2,013)**	**197**	**2,102**
Net gains/(losses) on financial instruments	9	4,619	1,973	917	1,735	1,932	2,082	2,256
Net gains/(losses) on non-financial instruments	10	79	172	(3,371)	201	176	183	186
Total gains/(losses)		**4,698**	**2,145**	**(2,454)**	**1,936**	**2,108**	**2,265**	**2,442**
Net surplus from associates and joint ventures		237	303	253	262	271	273	270
Attributable to minority interest		101	-	-	-	-	-	-
Operating balance	11	**(13,360)**	**(7,293)**	**(10,642)**	**(5,699)**	**366**	**2,735**	**4,814**

Forecast Statement of Financial Performance (continued) – Functional Expense Analysis

for the years ending 30 June

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Total Crown expenses							
By functional classification							
Social security and welfare	25,324	26,353	25,772	26,912	27,662	28,474	29,682
GSF pension expenses	311	311	200	340	369	426	467
Health	13,068	13,787	13,471	14,013	13,800	13,780	13,749
Education	12,406	13,005	12,690	13,164	13,068	13,183	13,335
Core government services	5,515	5,440	4,791	6,459	4,583	4,204	4,245
Law and order	3,567	3,745	3,679	3,779	3,677	3,675	3,754
Defence	1,778	1,872	1,776	1,973	1,834	1,831	1,827
Transport and communications	8,402	8,584	8,829	8,801	9,032	9,416	9,702
Economic and industrial services	18,818	7,758	9,560	7,900	7,670	8,245	8,401
Primary services	1,603	1,700	1,650	1,830	1,743	1,744	1,719
Heritage, culture and recreation	3,437	3,327	3,421	3,022	2,998	3,217	3,423
Housing and community development	1,655	1,119	878	1,115	1,103	1,123	1,094
Other	479	635	489	491	532	530	531
Finance costs	3,596	4,685	4,173	4,663	5,019	5,636	5,781
Forecast new operating spending	-	463	87	348	1,141	2,370	3,568
Top-down expense adjustment	-	(310)	(450)	(700)	(150)	(150)	(150)
Total Crown expenses excluding losses	**99,959**	**92,474**	**91,016**	**94,110**	**94,081**	**97,704**	**101,128**

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 State-owned enterprises.

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Core Crown expenses							
By functional classification							
Social security and welfare	22,005	22,935	22,236	23,239	23,794	24,365	25,307
GSF pension expenses	305	302	190	329	356	413	453
Health	13,753	14,353	14,130	14,745	14,630	14,611	14,583
Education	11,650	12,257	11,883	12,387	12,213	12,289	12,420
Core government services	5,563	5,564	4,943	6,537	4,649	4,298	4,339
Law and order	3,382	3,555	3,494	3,558	3,448	3,436	3,505
Defence	1,809	1,911	1,818	2,016	1,877	1,875	1,871
Transport and communications	2,281	2,378	2,366	2,174	2,041	2,107	1,992
Economic and industrial services	2,609	2,235	2,099	2,134	1,910	1,844	1,862
Primary services	706	755	677	832	731	726	695
Heritage, culture and recreation	1,966	1,947	2,015	1,548	1,452	1,625	1,800
Housing and community development	876	333	103	328	307	307	256
Other	479	635	489	491	532	530	531
Finance costs	3,066	3,714	3,553	3,766	3,971	4,266	4,224
Forecast new operating spending	-	463	87	348	1,141	2,370	3,568
Top-down expense adjustment	-	(310)	(450)	(700)	(150)	(150)	(150)
Total core Crown expenses excluding losses	**70,450**	**73,027**	**69,633**	**73,732**	**72,902**	**74,912**	**77,256**

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

Forecast Statement of Comprehensive Income

for the years ending 30 June

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Revaluation of physical assets	(443)	-	(47)	-	-	-	-
Effective portion of changes in the fair value of cash flow hedges	(252)	3	56	(3)	-	-	(1)
Net change in fair value of cash flow hedges transferred to operating balance	17	-	-	-	-	-	-
Net change in fair value of cash flow hedges transferred to the hedged item	95	(7)	(22)	-	-	-	-
Foreign currency translation differences for foreign operations	(37)	(6)	58	55	-	-	-
Valuation gain/(losses) on investments available for sale taken to reserves	(1)	6	11	10	12	12	14
Other movements	1	50	2	2	31	3	34
Other comprehensive income for the year	**(620)**	**46**	**58**	**64**	**43**	**15**	**47**
Operating balance (including minority interest)	(13,461)	(7,293)	(10,642)	(5,609)	546	3,005	5,174
Total comprehensive income	**(14,081)**	**(7,247)**	**(10,584)**	**(5,545)**	**589**	**3,020**	**5,221**
Attributable to:							
- minority interest	(74)	-	-	90	180	270	360
- the Crown	(14,007)	(7,247)	(10,584)	(5,635)	409	2,750	4,861
Total comprehensive income	**(14,081)**	**(7,247)**	**(10,584)**	**(5,545)**	**589**	**3,020**	**5,221**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Cash flows from operations							
Cash was provided from							
Taxation receipts	50,418	53,959	53,178	56,856	61,671	65,605	69,385
Other sovereign receipts	4,693	4,878	4,889	4,729	4,758	4,813	5,110
Sales of goods and services	14,899	16,046	16,284	16,369	16,873	17,829	18,475
Interest and dividend receipts	2,682	2,594	2,808	3,106	3,300	3,814	4,080
Other operating receipts	2,990	4,536	4,738	7,172	5,020	4,411	4,119
Total cash provided from operations	**75,682**	**82,013**	**81,897**	**88,232**	**91,622**	**96,472**	**101,169**
Cash was disbursed to							
Transfer payments and subsidies	22,172	23,435	23,049	23,284	23,806	24,534	25,518
Personnel and operating payments	55,152	59,108	60,303	62,535	60,388	59,098	58,264
Interest payments	3,107	4,583	4,045	4,797	4,998	5,733	5,755
Forecast new operating spending	-	463	87	348	1,141	2,370	3,567
Top-down expense adjustment	-	(310)	(450)	(700)	(150)	(150)	(150)
Total cash disbursed to operations	**80,431**	**87,279**	**87,034**	**90,264**	**90,183**	**91,585**	**92,954**
Net cash flows from operations	**(4,749)**	**(5,266)**	**(5,137)**	**(2,032)**	**1,439**	**4,887**	**8,215**
Cash flows from investing activities							
Cash was provided from/(disbursed to)							
Net purchase of physical assets	(5,996)	(7,852)	(6,474)	(7,039)	(6,226)	(5,760)	(6,016)
Net purchase of shares and other securities	(8,405)	5,831	(8,289)	7,480	(5,939)	3,852	(3,449)
Net purchase of intangible assets	(600)	(532)	(547)	(515)	(399)	(355)	(331)
Net repayment/(issues) of advances	(1,003)	(2,039)	(2,099)	(1,840)	(2,007)	(2,061)	(1,810)
Net acquisition of investments in associates	173	(137)	102	1,510	1,533	1,532	1,530
Forecast new capital spending	-	(242)	(88)	(194)	(571)	(811)	(850)
Balance sheet funding of new capital spending	-	100	-	-	-	-	-
Top-down capital adjustment	-	170	250	100	-	-	-
Net cash flows from investing activities	**(15,831)**	**(4,701)**	**(17,145)**	**(498)**	**(13,609)**	**(3,603)**	**(10,926)**
Net cash flows from operating and investing activities	**(20,580)**	**(9,967)**	**(22,282)**	**(2,530)**	**(12,170)**	**1,284**	**(2,711)**
Cash flows from financing activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	234	219	306	144	141	145	150
Net issue/(repayment) of Government stock[1]	21,088	4,774	22,386	3,921	9,354	(3,930)	2,536
Net issue/(repayment) of foreign-currency borrowings	1,809	(6,639)	(8,774)	(623)	(679)	(1,256)	(1,120)
Net issue/(repayment) of other New Zealand dollar borrowings	81	11,390	13,410	(1,484)	2,997	2,895	917
Net cash flows from financing activities	**23,212**	**9,744**	**27,328**	**1,958**	**11,813**	**(2,146)**	**2,483**
Net movement in cash	**2,632**	**(223)**	**5,046**	**(572)**	**(357)**	**(862)**	**(228)**
Opening cash balance	7,774	9,103	9,801	14,899	14,327	13,970	13,108
Foreign-exchange gains/(losses) on opening cash	(605)	6	52	-	-	-	-
Closing cash balance	**9,801**	**8,886**	**14,899**	**14,327**	**13,970**	**13,108**	**12,880**

1: Net issue of Government stock is after elimination of holdings by entities such as NZS Fund, ACC and EQC. Further information on the proceeds and repayments of Government stock ("domestic bonds") is available in note 22.

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

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Reconciliation between the net cash flows from operations and the operating balance							
Net cash flows from operations	**(4,749)**	**(5,266)**	**(5,137)**	**(2,032)**	**1,439**	**4,887**	**8,215**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on financial instruments	4,619	1,973	917	1,735	1,932	2,082	2,256
Net gains/(losses) on non-financial instruments	79	172	(3,371)	201	176	183	186
Total gains/(losses)	**4,698**	**2,145**	**(2,454)**	**1,936**	**2,108**	**2,265**	**2,442**
Other non-cash items in operating balance							
Depreciation and amortisation	(4,682)	(4,631)	(4,520)	(4,687)	(4,819)	(4,915)	(5,010)
Write-down on initial recognition of financial assets	(807)	(806)	(855)	(748)	(771)	(782)	(810)
Impairment on financial assets (excl. receivables)	105	85	82	181	169	178	186
Decrease/(increase) in defined benefit retirement plan liabilities	358	377	483	405	362	321	295
Decrease/(increase) in insurance liabilities	(13,179)	1,269	1,080	2,985	2,092	364	(909)
Other	238	307	253	262	272	273	270
Total other non-cash Items	**(17,967)**	**(3,399)**	**(3,477)**	**(1,602)**	**(2,695)**	**(4,561)**	**(5,978)**
Movements in working capital							
Increase/(decrease) in receivables	6,605	(1,081)	(312)	(3,767)	(1,184)	(243)	(117)
Increase/(decrease) in accrued interest	(599)	356	(111)	404	322	528	511
Increase/(decrease) in inventories	149	70	(7)	59	26	7	2
Increase/(decrease) in prepayments	39	(3)	25	(44)	43	(1)	(1)
Decrease/(increase) in deferred revenue	(46)	62	244	32	24	(1)	(4)
Decrease/(increase) in payables/provisions	(1,490)	(177)	587	(685)	283	(146)	(256)
Total movements in working capital	**4,658**	**(773)**	**426**	**(4,001)**	**(486)**	**144**	**135**
Operating balance	**(13,360)**	**(7,293)**	**(10,642)**	**(5,699)**	**366**	**2,735**	**4,814**

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

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Opening net worth	94,988	85,519	80,887	70,303	66,208	68,207	72,587
Operating balance (excluding minority interest)	(13,461)	(7,293)	(10,642)	(5,699)	366	2,735	4,814
Net revaluations	(443)	-	(47)	-	-	-	-
Transfers to/(from) reserves	(278)	53	58	(1)	31	3	33
(Gains)/losses transferred to the Statement of Financial Performance	17	-	-	-	-	-	-
Other movements	84	(7)	47	65	12	12	14
Total comprehensive income	**(14,081)**	**(7,247)**	**(10,584)**	**(5,635)**	**409**	**2,750**	**4,861**
Partial share sales in SOEs	-	-	-	200	200	200	200
Transactions with minority interest	(20)	-	-	1,340	1,390	1,430	1,480
Closing net worth	**80,887**	**78,272**	**70,303**	**66,208**	**68,207**	**72,587**	**79,128**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Assets								
Cash and cash equivalents	12	9,801	8,886	14,899	14,327	13,970	13,108	12,880
Receivables	12	21,690	16,709	20,566	16,799	15,615	15,372	15,255
Marketable securities, deposits and derivatives in gain	12	49,056	43,034	43,821	36,197	41,263	36,844	39,622
Share investments	12	14,248	16,095	14,470	15,853	17,228	18,645	20,122
Advances	12	20,567	22,433	22,091	23,895	25,875	27,872	29,999
Inventory		1,308	1,380	1,301	1,360	1,386	1,392	1,394
Other assets		1,996	1,662	2,003	2,051	2,221	1,934	1,931
Property, plant and equipment	14	114,854	121,186	118,008	121,335	123,704	125,761	127,638
Equity accounted investments[1]		9,301	9,613	9,756	9,967	10,151	10,303	10,458
Intangible assets and goodwill	15	2,394	2,714	2,430	2,571	2,609	2,604	2,622
Forecast for new capital spending	8	-	142	88	282	853	1,664	2,514
Top-down capital adjustment		-	(270)	(250)	(350)	(350)	(350)	(350)
Total assets		**245,215**	**243,584**	**249,183**	**244,287**	**254,525**	**255,149**	**264,085**
Liabilities								
Issued currency		4,254	4,598	4,560	4,704	4,845	4,990	5,140
Payables	17	11,099	9,603	12,866	13,503	13,607	13,841	13,892
Deferred revenue		1,674	1,371	1,430	1,399	1,374	1,375	1,380
Borrowings		90,245	101,383	101,466	103,207	114,346	111,350	113,276
Insurance liabilities	18	39,314	30,533	39,905	36,919	34,828	34,464	35,373
Retirement plan liabilities	19	10,156	8,895	11,886	11,481	11,119	10,798	10,503
Provisions	20	7,586	8,929	6,767	6,866	6,199	5,744	5,393
Total liabilities		**164,328**	**165,312**	**178,880**	**178,079**	**186,318**	**182,562**	**184,957**
Total assets less total liabilities		**80,887**	**78,272**	**70,303**	**66,208**	**68,207**	**72,587**	**79,128**
Net worth								
Taxpayer funds	21	18,188	14,463	7,573	2,144	2,790	5,805	10,901
Property, plant and equipment revaluation reserve	21	62,690	63,614	62,618	62,550	62,501	62,424	62,376
Other reserves	21	(299)	(207)	(196)	(134)	(122)	(110)	(97)
Total net worth attributable to the Crown		**80,579**	**77,870**	**69,995**	**64,560**	**65,169**	**68,119**	**73,180**
Net worth attributable to minority interest		308	402	308	1,648	3,038	4,468	5,948
Total net worth		**80,887**	**78,272**	**70,303**	**66,208**	**68,207**	**72,587**	**79,128**

1: Tertiary education institutions constitute most equity accounted investments.

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

Forecast Statement of Borrowings

as at 30 June

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Borrowings							
Government stock	46,018	52,145	53,293	56,380	65,066	60,235	60,749
Treasury bills	7,028	7,707	8,371	4,700	4,690	4,681	4,677
Government retail stock	261	270	251	251	251	251	251
Settlement deposits with Reserve Bank	6,276	6,736	6,244	6,244	6,244	6,244	6,244
Derivatives in loss	2,767	1,559	2,553	2,401	2,214	2,083	1,989
Finance lease liabilities	1,176	1,492	1,596	1,471	1,517	1,607	1,623
Other borrowings	26,719	31,474	29,158	31,760	34,364	36,249	37,743
Total borrowings	**90,245**	**101,383**	**101,466**	**103,207**	**114,346**	**111,350**	**113,276**
Total sovereign-guaranteed debt	67,765	74,900	76,445	76,212	84,760	79,813	79,526
Total non-sovereign-guaranteed debt	22,480	26,483	25,021	26,995	29,586	31,537	33,750
Total borrowings	**90,245**	**101,383**	**101,466**	**103,207**	**114,346**	**111,350**	**113,276**
Net debt:							
Core Crown borrowings[1]	76,885	83,195	85,759	85,674	93,903	90,198	90,965
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	405	(231)	(873)	(884)	(1,012)	(1,110)	(1,238)
Gross sovereign-issued debt[2]	**77,290**	**82,964**	**84,886**	**84,790**	**92,891**	**89,088**	**89,727**
Less core Crown financial assets[3]	65,400	59,728	63,974	56,569	61,684	57,279	59,417
Net core Crown debt	**11,890**	**23,236**	**20,912**	**28,221**	**31,207**	**31,809**	**30,310**
Core Crown advances	12,079	12,568	13,147	13,894	14,496	15,546	16,125
Net core Crown debt (incl. NZS Fund)[4]	**23,969**	**35,804**	**34,059**	**42,115**	**45,703**	**47,355**	**46,435**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	16,159	19,068	17,862	19,150	20,767	22,436	24,233
Net core Crown debt (excl. NZS Fund and advances)[6]	**40,128**	**54,872**	**51,921**	**61,265**	**66,470**	**69,791**	**70,668**
Gross debt:							
Gross sovereign-issued debt[2]	77,290	82,964	84,886	84,790	92,891	89,088	89,727
Less Reserve Bank settlement cash and bank bills	(6,470)	(6,800)	(6,344)	(6,418)	(6,438)	(6,458)	(6,478)
Add back changes to DMO borrowing owing to settlement cash[7]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and bank bills[4]	**72,420**	**77,764**	**80,142**	**79,972**	**88,053**	**84,230**	**84,849**

Notes on borrowings

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

1: Core Crown borrowings in this instance includes 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 NZS Fund, ACC and EQC.

3: Core Crown financial assets exclude receivables.

4: Net core Crown debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country.

5: Adding back the NZS Fund assets provides the financial liabilities less financial assets of the core Crown, excluding those assets set aside to meet part of the future cost of New Zealand Superannuation.

6: Net core Crown debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.

7: The Reserve Bank has used $1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZDMO borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

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

Statement of Actual Commitments

as at 31 March 2012

	As at 31 Mar 2012 $m	As at 30 June 2011 $m
Capital commitments		
Specialist military equipment	331	369
Land and buildings	609	701
Other property, plant and equipment	6,921	7,032
Other capital commitments	344	408
Tertiary Education Institutions	413	413
Total capital commitments	**8,618**	**8,923**
Operating commitments		
Non-cancellable accommodation leases	2,757	2,909
Other non-cancellable leases	2,974	3,171
Non-cancellable contracts for the supply of goods and services	5,382	5,520
Other operating commitments	7,477	7,415
Tertiary Education Institutions	366	366
Total operating commitments	**18,956**	**19,381**
Total commitments	**27,574**	**28,304**

Statement of Actual Contingent Liabilities and Assets

as at 31 March 2012

	As at 31 Mar 2012 $m	As at 30 June 2011 $m
Quantifiable contingent liabilities		
Guarantees and indemnities	461	106
Uncalled capital	6,360	2,310
Legal proceedings and disputes	358	414
Other contingent liabilities	1,048	3,535
Total quantifiable contingent liabilities	**8,227**	**6,365**
Total quantifiable contingent liabilities by segment		
Core Crown	8,000	6,050
Crown entities	93	171
State-owned enterprises	134	144
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**8,227**	**6,365**
Quantifiable contingent assets by segment		
Core Crown	684	570
Crown entities	20	2
Total quantifiable contingent assets	**704**	**572**

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

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

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 1: Revenue collected through the Crown's sovereign power							
Taxation revenue (accrual)							
Individuals							
Source deductions	20,857	21,165	21,169	22,563	24,057	25,622	27,231
Other persons	3,791	4,342	4,242	4,386	4,609	4,802	4,992
Refunds	(1,679)	(1,656)	(1,657)	(1,567)	(1,466)	(1,394)	(1,326)
Fringe benefit tax	462	430	444	458	482	507	532
Total individuals	**23,431**	**24,281**	**24,198**	**25,840**	**27,682**	**29,537**	**31,429**
Corporate tax							
Gross companies tax	6,687	7,978	8,019	8,301	8,961	9,469	9,975
Refunds	(197)	(400)	(274)	(279)	(305)	(342)	(349)
Non-resident withholding tax	467	508	451	455	513	572	613
Foreign-source dividend w/holding payments	-	1	5	-	-	-	-
Total corporate tax	**6,957**	**8,087**	**8,201**	**8,477**	**9,169**	**9,699**	**10,239**
Other direct income tax							
Resident w/holding tax on interest income	1,704	1,665	1,671	1,673	1,893	2,208	2,503
Resident w/holding tax on dividend income	195	209	288	375	575	605	630
Estate and gift duties	2	-	-	-	-	-	-
Total other direct income tax	**1,901**	**1,874**	**1,959**	**2,048**	**2,468**	**2,813**	**3,133**
Total direct income tax	**32,289**	**34,242**	**34,358**	**36,365**	**39,319**	**42,049**	**44,801**
Goods and services tax							
Gross goods and services tax	23,484	26,007	25,853	26,795	29,730	32,152	34,639
Refunds	(9,776)	(10,965)	(11,212)	(11,052)	(12,450)	(13,869)	(15,377)
Total goods and services tax	**13,708**	**15,042**	**14,641**	**15,743**	**17,280**	**18,283**	**19,262**
Other indirect taxation							
Road user charges	1,016	1,049	1,038	1,152	1,240	1,320	1,399
Petroleum fuels excise - domestic production	872	886	885	939	969	1,012	1,041
Alcohol excise - domestic production	623	665	665	698	734	769	803
Tobacco excise - domestic production	220	251	254	223	211	218	227
Petroleum fuels excise - imports[1]	575	668	602	626	646	675	694
Alcohol excise - imports[1]	229	250	240	249	260	272	284
Tobacco excise - imports[1]	924	1,005	957	983	1,030	1,066	1,108
Other customs duty	188	130	190	179	172	162	155
Gaming duties	214	223	229	231	233	237	242
Motor vehicle fees	172	168	174	170	171	173	176
Energy resources levies	36	38	33	36	36	36	36
Approved issuer levy and cheque duty	62	73	65	69	69	69	69
Total other indirect taxation	**5,131**	**5,406**	**5,332**	**5,555**	**5,771**	**6,009**	**6,234**
Total indirect taxation	**18,839**	**20,448**	**19,973**	**21,298**	**23,051**	**24,292**	**25,496**
Total taxation revenue	**51,128**	**54,690**	**54,331**	**57,663**	**62,370**	**66,341**	**70,297**
Other sovereign revenue (accrual)							
ACC levies	3,586	3,882	3,670	3,395	3,484	3,573	3,663
Fire Service levies	312	309	322	313	319	326	337
EQC levies	88	89	98	240	272	275	277
Other miscellaneous items	1,295	1,528	1,022	1,498	1,604	1,698	1,944
Total other sovereign revenue	**5,281**	**5,808**	**5,112**	**5,446**	**5,679**	**5,872**	**6,221**
Total sovereign revenue	**56,409**	**60,498**	**59,443**	**63,109**	**68,049**	**72,213**	**76,518**

1: Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 1 (continued): Receipts collected through the Crown's sovereign power							
Taxation receipts (cash)							
Individuals							
Source deductions	20,699	21,066	21,011	22,450	23,938	25,498	27,102
Other persons	4,386	4,765	4,890	5,062	5,232	5,365	5,492
Refunds	(2,463)	(2,394)	(2,558)	(2,493)	(2,325)	(2,210)	(2,102)
Fringe benefit tax	457	424	440	457	481	506	531
Total individuals	**23,079**	**23,861**	**23,783**	**25,476**	**27,326**	**29,159**	**31,023**
Corporate tax							
Gross companies tax	7,588	8,369	8,285	8,737	9,438	9,994	10,394
Refunds	(772)	(799)	(729)	(756)	(815)	(918)	(969)
Non-resident withholding tax	462	508	432	454	512	571	612
Foreign-source dividend w/holding payments	(1)	1	5	-	-	-	-
Total corporate tax	**7,277**	**8,079**	**7,993**	**8,435**	**9,135**	**9,647**	**10,037**
Other direct income tax							
Resident w/holding tax on interest income	1,701	1,664	1,670	1,672	1,892	2,207	2,502
Resident w/holding tax on dividend income	196	208	288	375	575	605	630
Estate and gift duties	2	-	-	-	-	-	-
Total other direct income tax	**1,899**	**1,872**	**1,958**	**2,047**	**2,467**	**2,812**	**3,132**
Total direct income tax	**32,255**	**33,812**	**33,734**	**35,958**	**38,928**	**41,618**	**44,192**
Goods and services tax							
Gross goods and services tax	22,162	25,135	25,024	25,895	28,922	31,347	33,836
Refunds	(9,177)	(10,394)	(10,912)	(10,552)	(11,950)	(13,369)	(14,877)
Total goods and services tax	**12,985**	**14,741**	**14,112**	**15,343**	**16,972**	**17,978**	**18,959**
Other indirect taxation							
Road user charges	1,015	1,049	1,038	1,152	1,240	1,320	1,399
Petroleum fuels excise - domestic production	869	886	885	939	969	1,012	1,041
Alcohol excise - domestic production	625	665	665	698	734	769	803
Tobacco excise - domestic production	181	251	254	223	211	218	227
Customs duty	2,005	2,053	1,989	2,037	2,108	2,175	2,241
Gaming duties	216	223	229	231	233	237	242
Motor vehicle fees	171	168	174	170	171	173	176
Energy resources levies	36	38	33	36	36	36	36
Approved issuer levy and cheque duty	60	73	65	69	69	69	69
Total other indirect taxation	**5,178**	**5,406**	**5,332**	**5,555**	**5,771**	**6,009**	**6,234**
Total indirect taxation	**18,163**	**20,147**	**19,444**	**20,898**	**22,743**	**23,987**	**25,193**
Total taxation receipts	**50,418**	**53,959**	**53,178**	**56,856**	**61,671**	**65,605**	**69,385**
Other sovereign receipts (cash)							
ACC levies	3,612	3,804	3,703	3,413	3,423	3,459	3,732
Fire Service levies	312	309	322	313	319	326	337
EQC levies	88	88	121	270	273	275	278
Other miscellaneous items	681	677	743	733	743	753	763
Total other sovereign receipts	**4,693**	**4,878**	**4,889**	**4,729**	**4,758**	**4,813**	**5,110**
Total sovereign receipts	**55,111**	**58,837**	**58,067**	**61,585**	**66,429**	**70,418**	**74,495**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 2: Interest revenue and dividends							
By type							
Interest revenue	2,142	2,569	2,383	2,885	3,111	3,675	4,003
Dividends	428	482	441	491	533	570	614
Total interest revenue and dividends	**2,570**	**3,051**	**2,824**	**3,376**	**3,644**	**4,245**	**4,617**
By source							
Core Crown	2,169	2,134	1,856	2,397	2,487	2,736	2,817
Crown entities	1,234	768	1,126	1,123	1,171	1,282	1,423
State-owned enterprises	801	1,021	838	905	1,083	1,309	1,537
Inter-segment eliminations	(1,634)	(872)	(996)	(1,049)	(1,097)	(1,082)	(1,160)
Total interest revenue and dividends	**2,570**	**3,051**	**2,824**	**3,376**	**3,644**	**4,245**	**4,617**
NOTE 3: Transfer payments and subsidies							
New Zealand Superannuation	8,830	9,575	9,587	10,243	10,867	11,583	12,369
Family tax credit	2,139	2,178	2,111	2,113	2,065	2,040	2,062
Domestic Purposes Benefit	1,757	1,895	1,818	1,820	1,841	1,880	1,919
Invalid's Benefit	1,306	1,347	1,326	1,321	1,327	1,341	1,353
Accommodation supplement	1,197	1,264	1,203	1,243	1,271	1,288	1,310
Unemployment Benefit	943	1,029	888	881	849	788	737
Sickness Benefit	743	782	774	781	803	830	858
Student allowances	620	627	649	602	532	505	494
Disability allowances	409	411	403	366	360	362	365
Other social assistance benefits	2,691	2,637	2,532	2,661	2,659	2,678	2,737
Total social assistance grants	**20,635**	**21,745**	**21,291**	**22,031**	**22,574**	**23,295**	**24,204**
Subsidies							
KiwiSaver subsidies	1,042	656	708	688	673	669	693
Other transfer payments							
Official development assistance	495	525	535	499	495	495	545
Total transfer payments and subsidies	**22,172**	**22,926**	**22,534**	**23,218**	**23,742**	**24,459**	**25,442**
NOTE 4: Personnel expenses							
Core Crown	5,996	6,021	5,860	6,003	5,977	6,034	6,120
Crown entities	10,410	10,440	10,655	10,897	10,982	11,094	11,170
State-owned enterprises	2,695	2,697	2,810	2,786	2,862	2,937	3,021
Inter-segment eliminations	(13)	(9)	(10)	(10)	(10)	(10)	(10)
Total personnel expenses	**19,088**	**19,149**	**19,315**	**19,676**	**19,811**	**20,055**	**20,301**
NOTE 5: Depreciation, amortisation and other operating expenses							
Core Crown	39,157	40,197	38,028	41,041	38,150	37,873	38,000
Crown entities	17,905	18,390	17,967	18,062	17,906	17,967	18,116
State-owned enterprises	9,567	10,560	11,289	11,173	11,526	12,315	12,817
Inter-segment eliminations	(26,118)	(26,724)	(26,378)	(26,660)	(26,528)	(26,672)	(26,810)
Total depreciation, amortisation and other operating expenses	**40,511**	**42,423**	**40,906**	**43,616**	**41,054**	**41,483**	**42,123**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 6: Interest expenses							
By type							
Interest on financial liabilities	3,545	4,592	4,128	4,610	4,955	5,557	5,686
Interest unwind on provisions	51	93	45	53	64	79	95
Total interest expenses	**3,596**	**4,685**	**4,173**	**4,663**	**5,019**	**5,636**	**5,781**
By source							
Core Crown	3,066	3,714	3,553	3,766	3,971	4,266	4,224
Crown entities	248	272	244	247	244	248	260
State-owned enterprises	1,027	1,392	1,104	1,254	1,482	1,706	1,932
Inter-segment eliminations	(745)	(693)	(728)	(604)	(678)	(584)	(635)
Total interest expenses	**3,596**	**4,685**	**4,173**	**4,663**	**5,019**	**5,636**	**5,781**
NOTE 7: Insurance expenses							
By entity							
ACC	2,979	3,042	3,138	3,300	3,501	3,722	3,964
EQC	11,776	78	958	71	11	154	121
Other (incl. Inter-segment eliminations)	(163)	18	355	(82)	(48)	(25)	(22)
Total insurance expenses	**14,592**	**3,138**	**4,451**	**3,289**	**3,464**	**3,851**	**4,063**
NOTE 8: Forecast new spending and top-down expense adjustment							
Forecast new operating spending							
Unallocated contingencies	-	463	87	348	341	380	364
Forecast new spending for Budget 2013	-	-	-	-	800	800	800
Forecast new spending for Budget 2014	-	-	-	-	-	1,190	1,190
Forecast new spending for Budget 2015	-		-	-	-	-	1,214
Total forecast new operating spending	**-**	**463**	**87**	**348**	**1,141**	**2,370**	**3,568**
Operating top-down adjustment	**-**	**(310)**	**(450)**	**(700)**	**(150)**	**(150)**	**(150)**

Unallocated contingencies represents expenses included in Budget 2012 and previous Budgets that has yet to be allocated.

Forecast new spending indicates the expected spending increases from future Budgets.

	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	Post-2016 Forecast $m	Total Forecast $m
Forecast new capital spending (annual)							
Unallocated contingencies	88	94	21	21	-	-	224
Forecast new spending for Budget 2013	-	100	450	340	200	151	1,241
Forecast new spending for Budget 2014	-	-	100	350	200	250	900
Forecast new spending for Budget 2015	-	-	-	100	350	450	900
Forecast new spending for Budget 2016	-	-	-	-	100	800	900
Total forecast new capital spending	**88**	**194**	**571**	**811**	**850**	**1,651**	**4,165**
Forecast new capital spending (cumulative)	**88**	**282**	**853**	**1,664**	**2,514**		
Capital top-down adjustment (cumulative)	**(250)**	**(350)**	**(350)**	**(350)**	**(350)**		

Unallocated contingencies represents capital spending from Budget 2012 and previous Budgets that has yet to be allocated.

Forecast new spending indicates the expected capital spending increases from future Budgets.

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 9: Gains and losses on financial instruments							
By source							
Core Crown	4,116	1,546	558	1,685	1,765	1,841	1,884
Crown entities	1,058	688	650	288	346	454	591
State-owned enterprises	(281)	(68)	(262)	(46)	20	(6)	-
Inter-segment eliminations	(274)	(193)	(29)	(192)	(199)	(207)	(219)
Net gains/(losses) on financial instruments	**4,619**	**1,973**	**917**	**1,735**	**1,932**	**2,082**	**2,256**
NOTE 10: Gains and losses on non-financial instruments							
By type							
Actuarial gains/(losses) on GSF liability	(574)	-	(2,212)	-	-	-	-
Actuarial gains/(losses) on ACC outstanding claims	996	-	(1,671)	-	-	-	-
Other	(343)	172	512	201	176	183	186
Net gains/(losses) on non-financial instruments	**79**	**172**	**(3,371)**	**201**	**176**	**183**	**186**
By source							
Core Crown	(588)	(8)	(2,129)	7	4	2	-
Crown entities	931	(1)	(1,691)	(11)	(41)	(40)	(40)
State-owned enterprises	(264)	180	448	205	214	221	226
Inter-segment eliminations	-	1	1	-	(1)	-	-
Net gains/(losses) on non-financial instruments	**79**	**172**	**(3,371)**	**201**	**176**	**183**	**186**
NOTE 11: Source of operating balance							
Core Crown	(9,267)	(10,350)	(11,098)	(7,774)	(1,887)	600	2,603
Crown entities	(3,143)	2,533	347	1,873	1,916	1,813	1,932
State-owned enterprises	327	981	419	890	985	1,092	1,106
Inter-segment eliminations	(1,277)	(457)	(310)	(688)	(648)	(770)	(827)
Total operating balance	**(13,360)**	**(7,293)**	**(10,642)**	**(5,699)**	**366**	**2,735**	**4,814**
NOTE 12: Financial assets							
Cash and cash equivalents	9,801	8,886	14,899	14,327	13,970	13,108	12,880
Tax receivables	7,104	6,788	7,196	6,974	6,923	6,952	6,943
Trade and other receivables	14,586	9,921	13,370	9,825	8,692	8,420	8,312
Student loans (refer note 13)	7,460	7,822	8,238	8,781	9,165	9,489	9,782
Kiwibank mortgages	11,495	13,493	12,637	13,830	15,303	16,827	18,575
Long-term deposits	2,259	2,047	1,888	1,697	1,747	2,209	2,386
IMF financial assets	2,168	2,528	2,228	2,445	2,486	2,537	2,403
Other advances	1,612	1,118	1,216	1,284	1,407	1,556	1,642
Share investments	14,248	16,095	14,470	15,853	17,228	18,645	20,122
Derivatives in gain	5,415	2,394	4,989	4,028	3,511	3,216	2,878
Other marketable securities	39,214	36,065	34,716	28,027	33,519	28,882	31,955
Total financial assets	**115,362**	**107,157**	**115,847**	**107,071**	**113,951**	**111,841**	**117,878**
Financial assets by entity							
NZDMO	29,928	20,413	25,455	14,820	17,984	11,328	11,493
Reserve Bank of New Zealand	17,909	17,628	17,352	17,631	17,441	16,953	17,022
NZS Fund	18,687	19,543	19,101	20,445	21,933	23,510	25,179
Other core Crown	19,116	17,694	19,269	18,863	18,873	19,320	19,745
Intra-segment eliminations	(9,165)	(6,769)	(7,188)	(5,832)	(5,328)	(4,489)	(4,565)
Total core Crown segment	76,475	68,509	73,989	65,927	70,903	66,622	68,874
ACC portfolio	21,569	23,742	25,873	28,440	31,168	34,134	37,344
EQC portfolio	9,305	6,168	7,024	3,781	1,106	201	69
Other Crown entities	8,831	6,343	8,723	8,191	8,109	7,504	7,212
Intra-segment eliminations	(3,314)	(1,532)	(3,498)	(3,503)	(3,507)	(2,927)	(2,712)
Total Crown entities segment	36,391	34,721	38,122	36,909	36,876	38,912	41,913
Total state-owned enterprises segment	20,241	19,624	20,756	21,393	23,078	25,028	27,172
Inter-segment eliminations	(17,745)	(15,697)	(17,020)	(17,158)	(16,906)	(18,721)	(20,081)
Total financial assets	**115,362**	**107,157**	**115,847**	**107,071**	**113,951**	**111,841**	**117,878**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 13: Student loans							
Nominal value (including accrued interest)	12,070	12,909	12,982	13,840	14,541	15,178	15,798
Opening book value	6,790	7,325	7,460	8,238	8,781	9,165	9,489
Amount borrowed in current year	1,564	1,590	1,607	1,644	1,692	1,699	1,744
Less initial write-down to fair value	(713)	(707)	(714)	(651)	(673)	(683)	(710)
Repayments made during the year	(802)	(834)	(859)	(953)	(1,169)	(1,253)	(1,326)
Interest unwind	484	534	537	601	632	659	683
(Impairment)/reversal of impairment	125	(110)	194	(110)	(110)	(110)	(110)
Other movements	12	24	13	12	12	12	12
Closing book value	**7,460**	**7,822**	**8,238**	**8,781**	**9,165**	**9,489**	**9,782**
NOTE 14: Property, plant and equipment							
By class of asset							
Net carrying value							
Land (valuation)[1]	35,111	36,055	35,341	35,551	35,516	35,802	35,973
Buildings (valuation)	24,539	25,232	24,980	25,528	25,995	26,170	26,164
Electricity distribution network (cost)	2,690	3,553	3,412	3,835	4,036	4,153	4,200
Electricity generation assets (valuation)	14,439	14,915	14,900	15,348	15,871	16,341	17,035
Aircraft (excluding military) (valuation)	1,805	2,587	2,066	2,222	2,539	2,618	2,736
State highways (valuation) - excluding land	17,713	18,913	18,391	19,120	19,997	20,926	21,959
Rail network (valuation) - excluding land	7,100	7,106	7,244	7,614	7,606	7,523	7,434
Specialist military equipment (valuation)	3,331	3,377	3,273	3,346	3,347	3,425	3,412
Specified cultural and heritage assets (valuation)	2,456	2,636	2,483	2,506	2,531	2,557	2,584
Other plant and equipment (cost)	5,670	6,812	5,918	6,265	6,266	6,246	6,141
Total property, plant and equipment	**114,854**	**121,186**	**118,008**	**121,335**	**123,704**	**125,761**	**127,638**
By source							
Core Crown	29,549	30,595	29,686	30,140	30,243	30,582	30,510
Crown entities	48,480	50,949	49,798	51,182	52,375	53,535	54,792
State-owned enterprises	36,825	39,642	38,524	40,013	41,086	41,644	42,336
Inter-segment eliminations	-	-	-	-	-	-	-
Total property, plant and equipment	**114,854**	**121,186**	**118,008**	**121,335**	**123,704**	**125,761**	**127,638**
Land breakdown by usage[1]							
Housing	8,423	8,571	8,415	8,394	8,341	8,276	8,209
State highway corridor land	7,413	7,591	7,513	7,603	7,708	7,808	7,903
Conservation land	5,677	5,923	5,685	5,679	5,695	5,708	5,718
Rail network	5,641	5,649	5,641	5,641	5,641	5,641	5,641
Schools	2,718	2,830	2,721	2,747	2,761	2,773	2,786
Commercial (SOEs) excluding Rail	1,531	1,607	1,553	1,594	1,556	1,743	1,821
Other	3,708	3,884	3,813	3,893	3,814	3,853	3,895
Total land	**35,111**	**36,055**	**35,341**	**35,551**	**35,516**	**35,802**	**35,973**

1: Land relating to state highways, the rail network and conservation which had previously been included within the State highways, Rail network and Specified cultural and heritage assets categories has been reclassified to the Land category.

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 14 (continued): Property, plant and equipment							
Schedule of movements							
Cost or valuation							
Opening balance	123,941	131,282	126,601	133,898	141,147	147,225	152,914
Additions (refer below for further breakdown)	6,644	8,628	7,327	7,437	6,917	6,766	6,574
Disposals	(1,283)	(287)	(465)	(436)	(441)	(643)	(451)
Net revaluations	(2,471)	-	(9)	-	-	-	-
Other	(230)	(240)	444	248	(398)	(434)	(454)
Total cost or valuation	**126,601**	**139,383**	**133,898**	**141,147**	**147,225**	**152,914**	**158,583**
Accumulated depreciation and impairment							
Opening balance	10,611	14,349	11,747	15,890	19,812	23,521	27,153
Eliminated on disposal	(832)	(73)	(158)	(40)	(32)	(161)	(80)
Eliminated on revaluation	(1,884)	-	(44)	-	-	-	-
Depreciation expense	3,727	4,032	3,900	4,070	4,173	4,263	4,344
Other	125	(111)	445	(108)	(432)	(470)	(472)
Total accumulated depreciation and impairment	**11,747**	**18,197**	**15,890**	**19,812**	**23,521**	**27,153**	**30,945**
Total property, plant and equipment	**114,854**	**121,186**	**118,008**	**121,335**	**123,704**	**125,761**	**127,638**
Additions - by functional classification							
Transport	2,807	2,685	2,396	2,299	2,483	2,227	2,267
Economic	1,200	2,573	1,928	1,659	1,591	1,450	1,639
Education	648	865	753	931	733	717	730
Health	617	605	749	686	445	397	397
Defence	258	726	436	556	472	463	406
Other	1,114	1,174	1,065	1,306	1,193	1,512	1,135
Total additions to property, plant and equipment[1]	**6,644**	**8,628**	**7,327**	**7,437**	**6,917**	**6,766**	**6,574**

1: 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).

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 15: Intangible assets and goodwill							
By type							
Net Kyoto position[2]	291	444	189	189	189	189	189
Goodwill	485	484	442	431	452	452	452
Other intangible assets	1,618	1,786	1,799	1,951	1,968	1,963	1,981
Total intangible assets and goodwill	**2,394**	**2,714**	**2,430**	**2,571**	**2,609**	**2,604**	**2,622**
By source							
Core Crown	1,157	1,498	1,160	1,294	1,317	1,304	1,251
Crown entities	430	500	455	472	464	451	440
State-owned enterprises	807	716	815	805	828	849	931
Inter-segment eliminations	-	-	-	-	-	-	-
Total intangible assets and goodwill	**2,394**	**2,714**	**2,430**	**2,571**	**2,609**	**2,604**	**2,622**

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

To assist New Zealand in meeting its Kyoto Protocol commitments, an Emissions Trading Scheme (ETS) was established (refer note 20). These two initiatives should be looked at together when understanding New Zealand's international climate change obligations. The asset reported in these financial statements could be significantly reduced if international units are transferred offshore through foresters participating in the ETS. This, combined with other ETS variables, has a significant impact on the Government's net fiscal position from the Kyoto Protocol, which will crystallise when the first Kyoto commitment period is settled up post-2012.

These financial statements report on the New Zealand Government's international climate change obligations for the first commitment period, but not for future commitment periods which are currently being negotiated.

The latest Net Position estimate for 2012 can be found on the Ministry for the Environment's website: www.mfe.govt.nz/issues/climate/greenhouse-gas-emissions/net-position

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 16: NZS Fund							
Revenue	518	551	516	563	578	602	641
Less current tax expense	872	367	175	419	450	483	521
Less other expenses	169	172	132	160	161	169	184
Add gains/(losses)	3,518	1,215	(100)	1,327	1,436	1,555	1,686
Operating balance	**2,995**	**1,227**	**109**	**1,311**	**1,403**	**1,505**	**1,622**
Opening net worth	15,656	18,668	18,652	18,777	20,120	21,558	23,101
Operating balance	2,995	1,227	109	1,311	1,403	1,505	1,622
Other movements in reserves	1	6	16	32	35	38	42
Closing net worth	**18,652**	**19,901**	**18,777**	**20,120**	**21,558**	**23,101**	**24,765**
Comprising:							
Financial assets	18,687	19,543	19,101	20,445	21,933	23,510	25,179
Financial liabilities	(1,161)	(674)	(1,560)	(1,620)	(1,633)	(1,645)	(1,660)
Net other assets	1,126	1,032	1,236	1,295	1,258	1,236	1,246
Closing net worth	**18,652**	**19,901**	**18,777**	**20,120**	**21,558**	**23,101**	**24,765**
NOTE 17: Payables							
By type							
Accounts payable	7,337	6,161	9,564	10,139	9,816	9,683	9,512
Taxes repayable	3,762	3,442	3,302	3,364	3,791	4,158	4,380
Total payables	**11,099**	**9,603**	**12,866**	**13,503**	**13,607**	**13,841**	**13,892**
By source							
Core Crown	6,997	6,371	6,796	7,367	7,362	7,478	7,473
Crown entities	5,587	4,663	6,618	6,501	6,499	6,487	6,465
State-owned enterprises	4,779	4,917	5,302	5,523	5,748	5,968	6,164
Inter-segment eliminations	(6,264)	(6,348)	(5,850)	(5,888)	(6,002)	(6,092)	(6,210)
Total payables	**11,099**	**9,603**	**12,866**	**13,503**	**13,607**	**13,841**	**13,892**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 18: Insurance liabilities							
By entity							
ACC liability	26,939	27,687	29,433	30,651	31,963	33,448	35,100
EQC liability	10,570	2,785	8,643	5,210	2,272	656	145
Southern Response[1] liability	2,082	-	1,764	992	517	270	35
Other insurance liabilities	(277)	61	65	66	76	90	93
Total insurance liabilities	**39,314**	**30,533**	**39,905**	**36,919**	**34,828**	**34,464**	**35,373**

1: Southern Response Earthquake Services Limited - previously AMI liability

ACC liability

Calculation information

PricewaterhouseCoopers Actuarial Pty Ltd have prepared an independent actuarial estimate of the ACC outstanding claims liability as at 31 December 2011. 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 key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), average weekly earnings and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 31 March 2012. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is a short-term discount rate of 4.56% and a long-term discount rate of 6%.

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

The projected outstanding claims liability is included within total liabilities. ACC has available to it a portfolio of assets that partially offset the claims liability. The assets (less cross-holdings of NZ Government stock) are included in the asset portion of the Crown's overall statement of financial position.

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Gross ACC liability							
Opening gross liability	26,997	26,761	26,939	29,433	30,651	31,963	33,448
Net change	(58)	926	2,494	1,218	1,312	1,485	1,652
Closing gross liability	**26,939**	**27,687**	**29,433**	**30,651**	**31,963**	**33,448**	**35,100**
Less net assets available to ACC							
Opening net asset value	16,745	20,236	20,233	23,165	25,744	28,468	31,429
Net change	3,488	2,926	2,932	2,579	2,724	2,961	3,219
Closing net asset value	**20,233**	**23,162**	**23,165**	**25,744**	**28,468**	**31,429**	**34,648**
Net ACC reserves (net liability)							
Opening reserves position	(10,252)	(6,525)	(6,706)	(6,268)	(4,907)	(3,495)	(2,019)
Net change	3,546	2,000	438	1,361	1,412	1,476	1,567
Closing reserves position (net liability)	**(6,706)**	**(4,525)**	**(6,268)**	**(4,907)**	**(3,495)**	**(2,019)**	**(452)**

Notes to the Forecast Financial Statements

NOTE 18 (continued): Insurance liabilities

EQC liability

Calculation information

Melville Jessup Weaver has refreshed their 30 June 2011 independent actuarial estimate of the EQC outstanding claims liability as at 31 December 2011 for inclusion in this forecast. The refresh included a $450 million estimate of earthquake costs, net of reinsurance, for the 23 December 2011 earthquake in Christchurch.

To determine the outstanding claims liability the actuarial approach adopted was to estimate the projected ultimate claims costs then deduct the payments made in relation to those claims. An aggregate stochastic methodology was adopted to calculate the estimate ultimate claims cost. Each component of the claims liability was split into separate groups depending upon the Canterbury earthquake event grouping or other "business as usual" claims. These event groups were further split into sub-claim valuation groups being land claims, building claims or personal property claims. Critical assumptions used in projecting the ultimate costs include cost of apportionment across earthquake events, the profile of claims settlement, claims inflation rate per annum, risk margins and claims handling costs.

There is a high level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. Some of the key uncertainties are: the impact of multiple earthquake events; severe land damage and a complex land claims environment from both an engineering and legal perspective; the relatively early stage of claims development, particularly from the 23 December earthquake and the potential for construction cost inflation to exceed expectations. The actual claims outcome may differ from the one currently forecast.

Presentation approach

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

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
EQC liability							
Opening gross liability	88	4,985	10,570	8,643	5,210	2,272	656
Net change	10,482	(2,200)	(1,927)	(3,433)	(2,938)	(1,616)	(511)
Closing gross liability	**10,570**	**2,785**	**8,643**	**5,210**	**2,272**	**656**	**145**
Less reinsurance receivable							
Opening reinsurance receivable	-	3,340	4,185	4,040	1,595	594	131
Net change	4,185	(1,140)	(145)	(2,445)	(1,001)	(463)	(131)
Closing reinsurance receivable	**4,185**	**2,200**	**4,040**	**1,595**	**594**	**131**	**-**
Net EQC liability							
Opening net position	(88)	(1,645)	(6,385)	(4,603)	(3,615)	(1,678)	(525)
Net change	(6,297)	1,060	1,782	988	1,937	1,153	380
Closing net position (net liability)	**(6,385)**	**(585)**	**(4,603)**	**(3,615)**	**(1,678)**	**(525)**	**(145)**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 19: Retirement plan liabilities							
Government Superannuation Fund	10,152	8,891	11,883	11,478	11,116	10,795	10,500
Other funds	4	4	3	3	3	3	3
Total retirement plan liabilities	**10,156**	**8,895**	**11,886**	**11,481**	**11,119**	**10,798**	**10,503**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 29 February 2012. 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 29 February 2012, based on membership data as at that date with allowance for subsequent movements to 29 February 2012. 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 29 February 2012.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumer Price Index, of 2.5% for 2012 and an annual salary growth rate, before any promotional effects, of 3% (unchanged from 30 June 2011).

The 2011/12 projected increase in the net GSF liability is $1,731 million, reflecting an increase in the GSF liability of $1,650 million and a decrease in the GSF assets of $81 million.

The increase in the GSF liability of $1,650 million includes an actuarial loss between 1 July 2011 and 29 February 2012, of $2,056 million owing to movements in the discount rates and an increase in the allowance for future mortality improvements. The remaining $406 million reduction is due to expected benefits paid to members (reduces the liability) and current service cost and interest unwind (increases the liability).

The decrease in the value of the net assets of GSF of $81 million includes a loss of $156 million reflecting the updated market value of assets at 29 February 2012. The balance of $75 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 2011/12 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
GSF liability							
Opening GSF liability	12,881	12,497	13,311	14,961	14,606	14,288	14,006
Net projected change	430	(321)	1,650	(355)	(318)	(282)	(261)
Closing GSF liability	**13,311**	**12,176**	**14,961**	**14,606**	**14,288**	**14,006**	**13,745**
Less net assets available to GSF							
Opening net asset value	2,945	3,229	3,159	3,078	3,128	3,172	3,211
Investment valuation changes	336	180	38	188	191	193	196
Contribution and other income less pension payments	(122)	(124)	(119)	(138)	(147)	(154)	(162)
Closing net asset value	**3,159**	**3,285**	**3,078**	**3,128**	**3,172**	**3,211**	**3,245**
Net GSF liability							
Opening unfunded liability	9,936	9,268	10,152	11,883	11,478	11,116	10,795
Net projected change	216	(377)	1,731	(405)	(362)	(321)	(295)
Closing unfunded liability	**10,152**	**8,891**	**11,883**	**11,478**	**11,116**	**10,795**	**10,500**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 20: Provisions							
Provision for ETS credits	612	1,241	889	815	636	441	233
Provision for National Provident Fund guarantee	983	925	911	843	787	736	685
Provision for employee entitlements	3,050	2,919	3,073	3,133	3,069	3,060	3,075
Provision for Canterbury Red Zone support package	1,039	-	280	-	-	-	-
Provision for weathertight services financial assistance package	567	687	358	306	207	93	29
Other provisions	1,335	3,157	1,256	1,769	1,500	1,414	1,371
Total provisions	**7,586**	**8,929**	**6,767**	**6,866**	**6,199**	**5,744**	**5,393**
By source							
Core Crown	5,351	6,433	4,372	4,529	3,849	3,354	2,938
Crown entities	1,770	1,705	1,807	1,814	1,835	1,839	1,848
State-owned enterprises	1,028	882	967	925	940	1,001	1,028
Inter-segment eliminations	(563)	(91)	(379)	(402)	(425)	(450)	(421)
Total provisions	**7,586**	**8,929**	**6,767**	**6,866**	**6,199**	**5,744**	**5,393**

Provision for ETS credits

The Emissions Trading Scheme (ETS) was established to encourage reduction in greenhouse gas emissions. The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate. The allocation of NZ Units creates a provision (and an expense if allocated for free). The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use international Kyoto Units to settle their emission obligation, which might occur where obligations exceed the number of allocated NZ Units. Emitters can also currently use the NZ$25 price option to settle their emission obligation.

Until the end of 2012, the Government's net position regarding its climate change obligations will be determined by the net Kyoto position and the provision for ETS credits. After 2012, the net position will depend on any future international climate change commitments.

The carbon price used to calculate the ETS provision is assumed to remain constant over the forecast period and is based on the estimated current carbon price of €6.50 with an exchange rate of 0.6131 (a carbon price of NZ$10.60).

The carbon price for the ETS provision has been determined by the Ministry for the Environment based on international market transactions that have occurred in the certified emission reduction (CER) markets. Currently, the CER market has been determined to be the most relevant market to use for determining the carbon price for NZ Units and the calculation of the provision for ETS credits. As the market for NZ Units develops the basis for determining this carbon price will be reviewed.

The ETS impact on the fiscal forecast is as follows:

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Revenue	326	379	191	311	427	644	825
Expenses	(838)	(692)	(668)	(237)	(248)	(449)	(618)
Gains/(losses)	(22)	-	201	-	-	-	-
Operating balance	**(534)**	**(313)**	**(276)**	**74**	**179**	**195**	**207**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 21: Net worth attributable to the Crown							
Taxpayer funds	18,188	14,463	7,573	2,144	2,790	5,805	10,901
Property, plant and equipment revaluation reserve	62,690	63,614	62,618	62,550	62,501	62,424	62,376
Investment revaluation reserve	58	69	69	79	91	103	117
Cash flow hedge reserve	(310)	(223)	(276)	(279)	(279)	(279)	(280)
Foreign currency translation reserve	(47)	(53)	11	66	66	66	66
Total net worth attributable to the Crown	**80,579**	**77,870**	**69,995**	**64,560**	**65,169**	**68,119**	**73,180**
Taxpayer Funds							
Opening taxpayer funds	31,087	21,720	18,188	7,573	2,144	2,790	5,805
Operating balance excluding minority interest	(13,360)	(7,293)	(10,642)	(5,699)	366	2,735	4,814
Partial share sales in state-owned enterprises	-	-	-	200	200	200	200
Transfers from/(to) other reserves	461	36	27	70	80	80	82
Closing taxpayer funds	**18,188**	**14,463**	**7,573**	**2,144**	**2,790**	**5,805**	**10,901**
Property, plant and equipment revaluation							
Opening revaluation reserve	63,593	63,600	62,690	62,618	62,550	62,501	62,424
Net revaluations	(443)	-	(47)	-	-	-	-
Transfers from/(to) other reserves	(460)	14	(25)	(68)	(49)	(77)	(48)
Closing property, plant and equipment revaluation reserve	**62,690**	**63,614**	**62,618**	**62,550**	**62,501**	**62,424**	**62,376**
Investment revaluation reserve							
Opening investment revaluation reserve	59	63	58	69	79	91	103
Valuation gain/(losses) on investments available for sale taken to reserves	(1)	6	11	10	12	12	14
Closing investment revaluation reserve	**58**	**69**	**69**	**79**	**91**	**103**	**117**
Cash flow hedge reserve							
Opening cash flow hedge reserve	(143)	(219)	(310)	(276)	(279)	(279)	(279)
Transfer into reserve	(279)	3	56	(3)	-	-	(1)
Transfer to the Statement of Financial Performance	17	-	-	-	-	-	-
Transfer to initial carrying value of hedged item	95	(7)	(22)	-	-	-	-
Closing cash flow hedge reserve	**(310)**	**(223)**	**(276)**	**(279)**	**(279)**	**(279)**	**(280)**
Foreign currency translation reserve							
Opening foreign currency translation reserve	(10)	(47)	(47)	11	66	66	66
Movement arising from translation of foreign operations	(37)	(6)	58	55	-	-	-
Closing foreign currency translation reserve	**(47)**	**(53)**	**11**	**66**	**66**	**66**	**66**

Notes to the Forecast Financial Statements

	2011 Actual $m	2012 Previous Budget $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
NOTE 22: Core Crown residual cash							
Core Crown operating cash flows							
Tax receipts	51,454	55,084	53,953	57,762	62,751	66,791	70,641
Other sovereign receipts	646	645	664	653	663	673	683
Interest, profits and dividends	1,817	1,469	1,469	1,676	1,648	1,796	1,743
Sale of goods and services and other receipts	2,094	2,496	2,735	2,506	2,156	1,994	1,990
Transfer payments and subsidies	(22,226)	(23,448)	(23,062)	(23,334)	(23,874)	(24,593)	(25,567)
Personnel and operating costs	(40,433)	(42,107)	(40,960)	(42,411)	(41,062)	(40,341)	(40,028)
Finance costs	(2,637)	(3,493)	(3,398)	(3,918)	(3,877)	(4,407)	(4,246)
Forecast for future new operating spending	-	(463)	(87)	(348)	(1,141)	(2,370)	(3,567)
Top-down expense adjustment	-	310	450	700	150	150	150
Net core Crown operating cash flows	**(9,285)**	**(9,507)**	**(8,236)**	**(6,714)**	**(2,586)**	**(307)**	**1,799**
Core Crown capital cash flows							
Net purchase of physical assets	(1,524)	(1,863)	(1,631)	(1,999)	(1,627)	(1,576)	(1,433)
Net increase in advances	(1,242)	(879)	(1,080)	(926)	(760)	(1,187)	(710)
Net purchase of investments	(1,292)	(1,261)	(1,334)	62	360	201	(4)
Forecast for future new capital spending	-	(242)	(88)	(194)	(571)	(811)	(850)
Balance sheet funding of new capital spending	-	100	-	-	-	-	-
Top-down capital adjustment	-	170	250	100	-	-	-
Net Core Crown capital cash flows	**(4,058)**	**(3,975)**	**(3,883)**	**(2,957)**	**(2,598)**	**(3,373)**	**(2,997)**
Residual cash deficit	**(13,343)**	**(13,482)**	**(12,119)**	**(9,671)**	**(5,184)**	**(3,680)**	**(1,198)**
The residual cash deficit is funded as follows:							
Debt programme cash flows							
Market:							
Issue of government bonds	19,468	13,635	17,012	14,122	9,933	7,711	2,840
Repayment of government bonds	-	(7,602)	(7,602)	(9,982)	-	(10,985)	(1,871)
Net issue/(repayment) of short-term borrowing[1]	(422)	1,534	1,342	(3,701)	-	-	-
Total market debt cash flows	19,046	7,567	10,752	439	9,933	(3,274)	969
Non market:							
Issue of government bonds	270	187	-	-	-	-	-
Repayment of government bonds	(803)	(1,113)	(1,501)	(499)	(1,450)	-	-
Net issue/(repayment) of short-term borrowing	(125)	-	(50)	-	-	-	-
	(658)	(926)	(1,551)	(499)	(1,450)	-	-
Total debt programme cash flows	**18,388**	**6,641**	**9,201**	**(60)**	**8,483**	**(3,274)**	**969**
Other borrowing cash flows							
Net (repayment)/issue of other New Zealand dollar borrowing	(1,096)	7,261	8,641	741	945	1,524	1,260
Net (repayment)/issue of foreign currency borrowing	1,469	(7,371)	(8,406)	(620)	(676)	(1,254)	(1,117)
Total other borrowing cash flows	**373**	**(110)**	**235**	**121**	**269**	**270**	**143**
Investing cash flows							
Other net sale/(purchase) of marketable securities and deposits	(4,791)	6,733	6,360	9,465	(3,708)	6,539	(63)
Issues of circulating currency	234	219	306	144	141	145	150
Decrease/(increase) in cash	(861)	(1)	(3,983)	1	(1)	-	(1)
Total investing cash flows	**(5,418)**	**6,951**	**2,683**	**9,610**	**(3,568)**	**6,684**	**86**
Residual cash deficit funding	**13,343**	**13,482**	**12,119**	**9,671**	**5,184**	**3,680**	**1,198**

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

Forecast Statement of Segments

	Core Crown	Crown entities	State-owned enterprises	Inter-segment eliminations	Total Crown
	2011	2011	2011	2011	2011
	Actual	Actual	Actual	Actual	Actual
	$m	$m	$m	$m	$m
Statement of Financial Performance					
for the year ended 30 June 2011					
Revenue					
Taxation revenue	51,557	-	-	(429)	51,128
Other sovereign revenue	1,275	5,080	-	(1,074)	5,281
Sales of goods and services	1,443	14,680	12,510	(13,549)	15,084
Interest revenue and dividends	2,169	1,234	801	(1,634)	2,570
Other revenue	1,106	17,042	935	(11,583)	7,500
Total revenue (excluding gains)	**57,550**	**38,036**	**14,246**	**(28,269)**	**81,563**
Expenses					
Social assistance and official development assistance	22,227	-	-	(55)	22,172
Personnel expenses	5,996	10,410	2,695	(13)	19,088
Other operating expenses	39,161	32,670	9,727	(26,455)	55,103
Interest expenses	3,066	248	1,027	(745)	3,596
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	**70,450**	**43,328**	**13,449**	**(27,268)**	**99,959**
Operating balance before gains/(losses)	**(12,900)**	**(5,292)**	**797**	**(1,001)**	**(18,396)**
Total gains/(losses)	3,530	1,989	(545)	(276)	4,698
Net surplus/(deficit) from associates and joint ventures	103	160	(26)	-	237
Attributable to minority interest in Air NZ	-	-	101	-	101
Operating balance	**(9,267)**	**(3,143)**	**327**	**(1,277)**	**(13,360)**
Expenses by functional classification					
Social security and welfare	22,005	3,945	-	(626)	25,324
Health	13,753	11,467	-	(12,152)	13,068
Education	11,650	9,176	23	(8,443)	12,406
Transport and communications	2,281	2,117	6,203	(2,199)	8,402
Other	17,695	16,375	6,196	(3,103)	37,163
Finance costs	3,066	248	1,027	(745)	3,596
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total Crown expenses (excluding losses)	**70,450**	**43,328**	**13,449**	**(27,268)**	**99,959**
Statement of Financial Position					
as at 30 June 2011					
Assets					
Cash and cash equivalents	6,087	2,773	1,425	(484)	9,801
Receivables	11,376	8,999	3,576	(2,261)	21,690
Other financial assets	59,012	24,619	15,240	(15,000)	83,871
Property, plant and equipment	29,549	48,480	36,825	-	114,854
Equity accounted investments	30,093	7,979	197	(28,968)	9,301
Intangible assets and goodwill	1,157	430	807	-	2,394
Inventory and other assets	1,691	378	1,290	(55)	3,304
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
Total assets	**138,965**	**93,658**	**59,360**	**(46,768)**	**245,215**
Liabilities					
Borrowings	76,827	5,123	23,099	(14,804)	90,245
Other liabilities	27,207	45,105	9,021	(7,250)	74,083
Total liabilities	**104,034**	**50,228**	**32,120**	**(22,054)**	**164,328**
Total assets less total liabilities	**34,931**	**43,430**	**27,240**	**(24,714)**	**80,887**
Net worth					
Taxpayer funds	19,531	17,098	9,574	(28,015)	18,188
Reserves	15,400	26,332	17,323	3,336	62,391
Net worth attributable to minority interest in Air NZ	-	-	343	(35)	308
Total net worth	**34,931**	**43,430**	**27,240**	**(24,714)**	**80,887**

Forecast Statement of Segments (continued)

	Core Crown 2012 Forecast $m	Crown entities 2012 Forecast $m	State-owned enterprises 2012 Forecast $m	Inter-segment eliminations 2012 Forecast $m	Total Crown 2012 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2012					
Revenue					
Taxation revenue	54,741	-	-	(410)	54,331
Other sovereign revenue	958	5,355	-	(1,201)	5,112
Sales of goods and services	1,414	14,424	13,964	(13,422)	16,380
Interest revenue and dividends	1,856	1,126	838	(996)	2,824
Other revenue	1,062	13,278	970	(11,382)	3,928
Total revenue (excluding gains)	**60,031**	**34,183**	**15,772**	**(27,411)**	**82,575**
Expenses					
Social assistance and official development assistance	22,546	-	-	(12)	22,534
Personnel expenses	5,860	10,655	2,810	(10)	19,315
Other operating expenses	38,037	22,064	11,641	(26,385)	45,357
Interest expenses	3,553	244	1,104	(728)	4,173
Forecast for future new spending and top-down adjustment	(363)	-	-	-	(363)
Total expenses (excluding losses)	**69,633**	**32,963**	**15,555**	**(27,135)**	**91,016**
Operating balance before gains/(losses)	**(9,602)**	**1,220**	**217**	**(276)**	**(8,441)**
Total gains/(losses)	(1,571)	(1,041)	186	(28)	(2,454)
Net surplus/(deficit) from associates and joint ventures	74	168	16	(5)	253
Operating balance	**(11,099)**	**347**	**419**	**(309)**	**(10,642)**
Expenses by functional classification					
Social security and welfare	22,236	4,153	-	(617)	25,772
Health	14,130	11,707	-	(12,366)	13,471
Education	11,883	9,388	23	(8,604)	12,690
Transport and communications	2,366	2,252	6,539	(2,328)	8,829
Other	15,828	5,219	7,889	(2,492)	26,444
Finance costs	3,553	244	1,104	(728)	4,173
Forecast for future new spending and top-down adjustment	(363)	-	-	-	(363)
Total Crown expenses (excluding losses)	**69,633**	**32,963**	**15,555**	**(27,135)**	**91,016**
Statement of Financial Position					
as at 30 June 2012					
Assets					
Cash and cash equivalents	10,736	3,283	1,479	(599)	14,899
Receivables	10,014	8,568	3,447	(1,463)	20,566
Other financial assets	53,239	26,271	15,830	(14,958)	80,382
Property, plant and equipment	29,686	49,797	38,524	1	118,008
Equity accounted investments	31,304	8,186	445	(30,179)	9,756
Intangible assets and goodwill	1,160	455	815	-	2,430
Inventory and other assets	1,666	317	1,359	(38)	3,304
Forecast for new capital spending and top-down adjustment	(162)	-	-	-	(162)
Total assets	**137,643**	**96,877**	**61,899**	**(47,236)**	**249,183**
Liabilities					
Borrowings	85,761	5,436	25,441	(15,172)	101,466
Other liabilities	28,002	46,734	8,988	(6,310)	77,414
Total liabilities	**113,763**	**52,170**	**34,429**	**(21,482)**	**178,880**
Total assets less total liabilities	**23,880**	**44,707**	**27,470**	**(25,754)**	**70,303**
Net worth					
Taxpayer funds	8,432	18,407	9,769	(29,035)	7,573
Reserves	15,448	26,300	17,358	3,316	62,422
Net worth attributable to minority interest	-	-	343	(35)	308
Total net worth	**23,880**	**44,707**	**27,470**	**(25,754)**	**70,303**

Forecast Statement of Segments (continued)

	Core Crown 2013 Forecast $m	Crown entities 2013 Forecast $m	State-owned enterprises 2013 Forecast $m	Inter-segment eliminations 2013 Forecast $m	Total Crown 2013 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2013					
Revenue					
Taxation revenue	58,251	-	-	(588)	57,663
Other sovereign revenue	1,433	5,231	-	(1,218)	5,446
Sales of goods and services	1,379	14,553	13,857	(13,452)	16,337
Interest revenue and dividends	2,397	1,123	905	(1,049)	3,376
Other revenue	731	13,102	1,160	(11,512)	3,481
Total revenue (excluding gains)	**64,191**	**34,009**	**15,922**	**(27,819)**	**86,303**
Expenses					
Social assistance and official development assistance	23,267	-	-	(49)	23,218
Personnel expenses	6,003	10,897	2,786	(10)	19,676
Other operating expenses	41,048	21,435	11,087	(26,665)	46,905
Interest expenses	3,766	247	1,254	(604)	4,663
Forecast for future new spending and top-down adjustment	(352)	-	-	-	(352)
Total expenses (excluding losses)	**73,732**	**32,579**	**15,127**	**(27,328)**	**94,110**
Forgone profits from partial share sales	-	-	(90)	-	(90)
Operating balance before	**(9,541)**	**1,430**	**705**	**(491)**	**(7,897)**
Total gains/(losses)	1,692	277	159	(192)	1,936
Net surplus/(deficit) from associates and joint ventures	75	166	26	(5)	262
Operating balance	**(7,774)**	**1,873**	**890**	**(688)**	**(5,699)**
Expenses by functional classification					
Social security and welfare	23,239	4,345	-	(672)	26,912
Health	14,745	11,725	-	(12,457)	14,013
Education	12,387	9,574	23	(8,820)	13,164
Transport and communications	2,174	2,223	6,654	(2,250)	8,801
Other	17,773	4,465	7,196	(2,525)	26,909
Finance costs	3,766	247	1,254	(604)	4,663
Forecast for future new spending and top-down adjustment	(352)	-	-	-	(352)
Total Crown expenses (excluding losses)	**73,732**	**32,579**	**15,127**	**(27,328)**	**94,110**
Statement of Financial Position					
as at 30 June 2013					
Assets					
Cash and cash equivalents	10,611	2,752	1,639	(675)	14,327
Receivables	9,357	6,146	2,791	(1,495)	16,799
Other financial assets	45,959	28,011	16,963	(14,988)	75,945
Property, plant and equipment	30,140	51,181	40,013	1	121,335
Equity accounted investments	32,458	8,364	485	(31,340)	9,967
Intangible assets and goodwill	1,294	472	805	-	2,571
Inventory and other assets	1,706	326	1,417	(38)	3,411
Forecast for new capital spending and top-down adjustment	(68)	-	-	-	(68)
Total assets	**131,457**	**97,252**	**64,113**	**(48,535)**	**244,287**
Liabilities					
Borrowings	85,674	5,257	27,636	(15,360)	103,207
Other liabilities	28,439	44,414	8,395	(6,376)	74,872
Total liabilities	**114,113**	**49,671**	**36,031**	**(21,736)**	**178,079**
Total assets less total liabilities	**17,344**	**47,581**	**28,082**	**(26,799)**	**66,208**
Net worth					
Taxpayer funds	1,883	21,351	10,240	(31,330)	2,144
Reserves	15,461	26,230	17,409	3,316	62,416
Net worth attributable to minority interest	-	-	433	1,215	1,648
Total net worth	**17,344**	**47,581**	**28,082**	**(26,799)**	**66,208**

Forecast Statement of Segments (continued)

	Core Crown 2014 Forecast $m	Crown entities 2014 Forecast $m	State-owned enterprises 2014 Forecast $m	Inter-segment eliminations 2014 Forecast $m	Total Crown 2014 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2014					
Revenue					
Taxation revenue	63,069	-	-	(699)	62,370
Other sovereign revenue	1,540	5,377	-	(1,238)	5,679
Sales of goods and services	1,360	14,611	14,442	(13,438)	16,975
Interest revenue and dividends	2,487	1,171	1,083	(1,097)	3,644
Other revenue	723	12,928	1,192	(11,263)	3,580
Total revenue (excluding gains)	**69,179**	**34,087**	**16,717**	**(27,735)**	**92,248**
Expenses					
Social assistance and official development assistance	23,811	-	-	(69)	23,742
Personnel expenses	5,977	10,982	2,862	(10)	19,811
Other operating expenses	38,152	21,419	11,474	(26,527)	44,518
Interest expenses	3,971	244	1,482	(678)	5,019
Forecast for future new spending and top-down adjustment	991	-	-	-	991
Total expenses (excluding losses)	**72,902**	**32,645**	**15,818**	**(27,284)**	**94,081**
Forgone profits from partial share sales	-	-	(180)	-	(180)
Operating balance before	**(3,723)**	**1,442**	**719**	**(451)**	**(2,013)**
Total gains/(losses)	1,769	305	234	(200)	2,108
Net surplus/(deficit) from associates and joint ventures	66	169	32	4	271
Operating balance	**(1,888)**	**1,916**	**985**	**(647)**	**366**
Expenses by functional classification					
Social security and welfare	23,794	4,574	-	(706)	27,662
Health	14,630	11,643	-	(12,473)	13,800
Education	12,213	9,531	23	(8,699)	13,068
Transport and communications	2,041	2,253	6,943	(2,205)	9,032
Other	15,262	4,400	7,370	(2,523)	24,509
Finance costs	3,971	244	1,482	(678)	5,019
Forecast for future new spending and top-down adjustment	991	-	-	-	991
Total Crown expenses (excluding losses)	**72,902**	**32,645**	**15,818**	**(27,284)**	**94,081**
Statement of Financial Position					
as at 30 June 2014					
Assets					
Cash and cash equivalents	10,560	2,514	1,594	(698)	13,970
Receivables	9,219	5,207	2,771	(1,582)	15,615
Other financial assets	51,124	29,155	18,713	(14,626)	84,366
Property, plant and equipment	30,243	52,376	41,086	(1)	123,704
Equity accounted investments	33,301	8,537	516	(32,203)	10,151
Intangible assets and goodwill	1,317	464	828	-	2,609
Inventory and other assets	1,866	331	1,450	(40)	3,607
Forecast for new capital spending and top-down adjustment	503	-	-	-	503
Total assets	**138,133**	**98,584**	**66,958**	**(49,150)**	**254,525**
Liabilities					
Borrowings	93,901	5,331	30,296	(15,182)	114,346
Other liabilities	27,506	42,813	8,164	(6,511)	71,972
Total liabilities	**121,407**	**48,144**	**38,460**	**(21,693)**	**186,318**
Total assets less total liabilities	**16,726**	**50,440**	**28,498**	**(27,457)**	**68,207**
Net worth					
Taxpayer funds	1,221	24,291	10,476	(33,198)	2,790
Reserves	15,505	26,149	17,409	3,316	62,379
Net worth attributable to minority interest	-	-	613	2,425	3,038
Total net worth	**16,726**	**50,440**	**28,498**	**(27,457)**	**68,207**

Forecast Statement of Segments (continued)

	Core Crown 2015 Forecast $m	Crown entities 2015 Forecast $m	State-owned enterprises 2015 Forecast $m	Inter-segment eliminations 2015 Forecast $m	Total Crown 2015 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2015					
Revenue					
Taxation revenue	67,185	-	-	(844)	66,341
Other sovereign revenue	1,633	5,480	-	(1,241)	5,872
Sales of goods and services	1,333	14,679	15,390	(13,463)	17,939
Interest revenue and dividends	2,736	1,282	1,309	(1,082)	4,245
Other revenue	716	12,974	1,342	(11,258)	3,774
Total revenue (excluding gains)	**73,603**	**34,415**	**18,041**	**(27,888)**	**98,171**
Expenses					
Social assistance and official development assistance	24,516	-	-	(57)	24,459
Personnel expenses	6,034	11,094	2,937	(10)	20,055
Other operating expenses	37,876	21,845	12,286	(26,673)	45,334
Interest expenses	4,266	248	1,706	(584)	5,636
Forecast for future new spending and top-down adjustment	2,220	-	-	-	2,220
Total expenses (excluding losses)	**74,912**	**33,187**	**16,929**	**(27,324)**	**97,704**
Forgone profits from partial share sales	-	-	(270)	-	(270)
Operating balance before	**(1,309)**	**1,228**	**842**	**(564)**	**197**
Total gains/(losses)	1,843	414	215	(207)	2,265
Net surplus/(deficit) from associates and joint ventures	66	171	35	1	273
Operating balance	**600**	**1,813**	**1,092**	**(770)**	**2,735**
Expenses by functional classification					
Social security and welfare	24,365	4,821	-	(712)	28,474
Health	14,611	11,643	-	(12,474)	13,780
Education	12,289	9,654	23	(8,783)	13,183
Transport and communications	2,107	2,258	7,235	(2,184)	9,416
Other	15,054	4,563	7,965	(2,587)	24,995
Finance costs	4,266	248	1,706	(584)	5,636
Forecast for future new spending and top-down adjustment	2,220	-	-	-	2,220
Total Crown expenses (excluding losses)	**74,912**	**33,187**	**16,929**	**(27,324)**	**97,704**
Statement of Financial Position					
as at 30 June 2015					
Assets					
Cash and cash equivalents	10,454	2,058	1,314	(718)	13,108
Receivables	9,342	4,861	2,842	(1,673)	15,372
Other financial assets	46,826	31,993	20,872	(16,330)	83,361
Property, plant and equipment	30,582	53,536	41,644	(1)	125,761
Equity accounted investments	34,304	8,709	517	(33,227)	10,303
Intangible assets and goodwill	1,304	451	849	-	2,604
Inventory and other assets	1,588	331	1,447	(40)	3,326
Forecast for new capital spending and top-down adjustment	1,314	-	-	-	1,314
Total assets	**135,714**	**101,939**	**69,485**	**(51,989)**	**255,149**
Liabilities					
Borrowings	90,197	5,885	32,195	(16,927)	111,350
Other liabilities	26,948	42,681	8,202	(6,619)	71,212
Total liabilities	**117,145**	**48,566**	**40,397**	**(23,546)**	**182,562**
Total assets less total liabilities	**18,569**	**53,373**	**29,088**	**(28,443)**	**72,587**
Net worth					
Taxpayer funds	3,046	27,305	10,797	(35,343)	5,805
Reserves	15,523	26,068	17,408	3,315	62,314
Net worth attributable to minority interest	-	-	883	3,585	4,468
Total net worth	**18,569**	**53,373**	**29,088**	**(28,443)**	**72,587**

Forecast Statement of Segments (continued)

	Core Crown 2016 Forecast $m	Crown entities 2016 Forecast $m	State-owned enterprises 2016 Forecast $m	Inter-segment eliminations 2016 Forecast $m	Total Crown 2016 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2016					
Revenue					
Taxation revenue	71,171	-	-	(874)	70,297
Other sovereign revenue	1,880	5,588	-	(1,247)	6,221
Sales of goods and services	1,333	14,732	16,018	(13,493)	18,590
Interest revenue and dividends	2,817	1,423	1,537	(1,160)	4,617
Other revenue	708	13,098	1,397	(11,338)	3,865
Total revenue (excluding gains)	**77,909**	**34,841**	**18,952**	**(28,112)**	**103,590**
Expenses					
Social assistance and official development assistance	25,491	-	-	(49)	25,442
Personnel expenses	6,120	11,170	3,021	(10)	20,301
Other operating expenses	38,003	22,203	12,790	(26,810)	46,186
Interest expenses	4,224	260	1,932	(635)	5,781
Forecast for future new spending and top-down adjustment	3,418	-	-	-	3,418
Total expenses (excluding losses)	**77,256**	**33,633**	**17,743**	**(27,504)**	**101,128**
Forgone profits from partial share sales	-	-	(360)	-	(360)
Operating balance before	**653**	**1,208**	**849**	**(608)**	**2,102**
Total gains/(losses)	1,884	551	226	(219)	2,442
Net surplus/(deficit) from associates and joint ventures	66	173	31	-	270
Operating balance	**2,603**	**1,932**	**1,106**	**(827)**	**4,814**
Expenses by functional classification					
Social security and welfare	25,307	5,093	-	(718)	29,682
Health	14,583	11,643	-	(12,477)	13,749
Education	12,420	9,778	23	(8,886)	13,335
Transport and communications	1,992	2,268	7,617	(2,175)	9,702
Other	15,312	4,591	8,171	(2,613)	25,461
Finance costs	4,224	260	1,932	(635)	5,781
Forecast for future new spending and top-down adjustment	3,418	-	-	-	3,418
Total Crown expenses (excluding losses)	**77,256**	**33,633**	**17,743**	**(27,504)**	**101,128**
Statement of Financial Position					
as at 30 June 2016					
Assets					
Cash and cash equivalents	10,274	2,038	1,308	(740)	12,880
Receivables	9,458	4,667	2,872	(1,742)	15,255
Other financial assets	49,142	35,208	22,992	(17,599)	89,743
Property, plant and equipment	30,510	54,791	42,336	1	127,638
Equity accounted investments	35,394	8,882	518	(34,336)	10,458
Intangible assets and goodwill	1,251	440	931	-	2,622
Inventory and other assets	1,602	331	1,432	(40)	3,325
Forecast for new capital spending and top-down adjustment	2,164	-	-	-	2,164
Total assets	**139,795**	**106,357**	**72,389**	**(54,456)**	**264,085**
Liabilities					
Borrowings	90,965	6,066	34,477	(18,232)	113,276
Other liabilities	26,383	43,810	8,193	(6,705)	71,681
Total liabilities	**117,348**	**49,876**	**42,670**	**(24,937)**	**184,957**
Total assets less total liabilities	**22,447**	**56,481**	**29,719**	**(29,519)**	**79,128**
Net worth					
Taxpayer funds	6,874	30,497	11,068	(37,538)	10,901
Reserves	15,573	25,984	17,408	3,314	62,279
Net worth attributable to minority interest	-	-	1,243	4,705	5,948
Total net worth	**22,447**	**56,481**	**29,719**	**(29,519)**	**79,128**

6

Core Crown Expense Tables

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Social security and welfare	16,768	17,877	19,382	21,185	22,005	22,236	23,239	23,794	24,365	25,307
GSF pension expenses	645	690	655	328	305	190	329	356	413	453
Health	10,355	11,297	12,368	13,128	13,753	14,130	14,745	14,630	14,611	14,583
Education	9,269	9,551	11,455	11,724	11,650	11,883	12,387	12,213	12,289	12,420
Core government services	4,816	3,371	5,293	2,974	5,563	4,943	6,537	4,649	4,298	4,339
Law and order	2,699	2,894	3,089	3,191	3,382	3,494	3,558	3,448	3,436	3,505
Defence	1,517	1,562	1,757	1,814	1,809	1,818	2,016	1,877	1,875	1,871
Transport and communications	2,405	2,244	2,663	2,345	2,281	2,366	2,174	2,041	2,107	1,992
Economic and industrial services	1,595	2,889	2,960	2,839	2,609	2,099	2,134	1,910	1,844	1,862
Primary services	438	541	534	507	706	677	832	731	726	695
Heritage, culture and recreation	844	1,107	1,002	1,281	1,966	2,015	1,548	1,452	1,625	1,800
Housing and community development	255	260	297	306	876	103	328	307	307	256
Other	68	254	118	80	479	489	491	532	530	531
Finance costs	2,329	2,460	2,429	2,311	3,066	3,553	3,766	3,971	4,266	4,224
Forecast for future new spending	..	..	..	..	..	87	348	1,141	2,370	3,568
Top-down expense adjustment	..	..	..	..	..	(450)	(700)	(150)	(150)	(150)
Core Crown expenses	**54,003**	**56,997**	**64,002**	**64,013**	**70,450**	**69,633**	**73,732**	**72,902**	**74,912**	**77,256**

Source: The Treasury

Table 6.1 – Social security and welfare expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Welfare benefits	15,435	16,288	17,366	18,961	19,781	20,452	21,134	21,742	22,491	23,414
Social rehabilitation and compensation	163	199	336	331	119	81	107	128	119	109
Departmental expenses	845	850	1,092	1,130	1,127	1,138	1,102	1,080	1,055	1,051
Child support impairment	183	193	205	371	281	112	422	401	268	316
Other non-departmental expenses[1]	142	347	383	392	697	453	474	443	432	417
Social security and welfare expenses	**16,768**	**17,877**	**19,382**	**21,185**	**22,005**	**22,236**	**23,239**	**23,794**	**24,365**	**25,307**

1: Other non-departmental expenses in the 2011 actuals include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.2 – New Zealand superannuation and welfare benefit expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
New Zealand Superannuation	6,810	7,348	7,744	8,290	8,830	9,587	10,243	10,867	11,583	12,369
Domestic Purposes Benefit	1,468	1,478	1,530	1,693	1,757	1,818	1,820	1,841	1,880	1,919
Unemployment Benefit	613	458	586	930	943	888	881	849	788	737
Invalid's Benefit	1,132	1,216	1,260	1,303	1,306	1,326	1,321	1,327	1,341	1,353
Family Tax Credit	1,699	1,897	2,062	2,168	2,139	2,111	2,113	2,065	2,040	2,062
Accommodation Supplement	877	891	989	1,154	1,197	1,203	1,243	1,271	1,288	1,310
Sickness Benefit	573	582	613	710	743	774	781	803	830	858
Disability Allowance	270	278	390	411	409	403	366	360	362	365
Income-Related Rents	434	465	512	522	553	589	626	672	719	771
In Work Tax Credit	461	563	584	595	585	568	565	533	507	503
Child Tax Credit	44	11	6	4	3	2	2	1	1	..
Special Benefit	106	71	..	..	..	..	..	..	..	..
Benefits paid in Australia	71	58	50	45	40	37	22	19	15	12
Paid Parental Leave	122	135	143	154	154	156	163	170	180	197
Childcare Assistance	139	150	159	178	188	189	191	190	193	196
War Disablement Pensions	122	134	125	137	135	129	124	119	115	111
Veteran's Pension	143	161	176	179	178	176	172	167	162	158
Other benefits	351	392	437	488	621	496	501	488	487	493
Benefit expenses	**15,435**	**16,288**	**17,366**	**18,961**	**19,781**	**20,452**	**21,134**	**21,742**	**22,491**	**23,414**

Source: The Treasury

Table 6.3 – Beneficiary numbers

(Thousands)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
New Zealand Superannuation	495	508	522	540	561	585	611	634	655	677
Domestic Purposes Benefit	100	97	101	110	114	115	113	112	111	111
Unemployment Benefit	52	37	48	78	80	74	72	68	61	55
Accommodation Supplement	251	245	267	312	320	312	315	314	312	310
Invalid's Benefit	78	82	86	88	88	87	86	85	85	84
Sickness Benefit	48	48	50	58	60	60	60	60	61	61

Source: Ministry of Social Development

Table 6.4 – Health expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Departmental outputs	180	206	206	211	199	190	186	185	185	185
Health services purchasing	9,614	10,503	11,354	12,077	12,530	12,979	13,586	13,457	13,437	13,406
Other non-departmental outputs	99	97	98	106	120	118	117	108	109	109
Health payments to ACC	425	463	667	691	849	752	757	781	781	783
Other expenses	37	28	43	43	55	91	99	99	99	100
Health expenses	**10,355**	**11,297**	**12,368**	**13,128**	**13,753**	**14,130**	**14,745**	**14,630**	**14,611**	**14,583**

Source: The Treasury

Table 6.5 – Health services purchasing

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Payments to District Health Boards	8,547	9,312	10,038	10,670	11,133	11,503	12,057	11,992	11,982	11,956
National disability support services	755	834	889	930	971	1,028	1,053	1,053	1,053	1,053
Public health services purchasing	312	357	427	477	426	448	476	412	402	397
Health services purchasing	**9,614**	**10,503**	**11,354**	**12,077**	**12,530**	**12,979**	**13,586**	**13,457**	**13,437**	**13,406**

Source: The Treasury

Table 6.6 – Education expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Early childhood education	617	860	1,030	1,184	1,340	1,344	1,402	1,445	1,478	1,512
Primary and secondary schools	4,325	4,552	4,936	5,157	5,354	5,521	5,670	5,540	5,598	5,676
Tertiary funding	3,322	3,266	4,564	4,465	3,991	3,933	4,215	4,173	4,169	4,197
Departmental expenses	875	828	888	898	923	1,017	1,020	982	972	964
Other education expenses	130	45	37	20	42	68	80	73	72	71
Education expenses	**9,269**	**9,551**	**11,455**	**11,724**	**11,650**	**11,883**	**12,387**	**12,213**	**12,289**	**12,420**

Places	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Early childhood education[1]	123,413	134,155	142,135	152,862	159,619	164,014	167,712	171,613	175,397	180,926

1: Full-time equivalent based on 1,000 funded child hours per calendar year. Numbers were previously based on the year commencing 1 July.

Sources: Ministry of Education, the Treasury

Table 6.7 – Primary and secondary education expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Primary	2,141	2,262	2,484	2,622	2,731	2,817	2,898	2,828	2,856	2,908
Secondary	1,682	1,761	1,898	1,972	2,051	2,113	2,157	2,102	2,123	2,140
School transport	125	131	152	160	163	173	179	187	194	201
Special needs support	263	278	290	297	310	321	338	327	329	331
Professional development	104	108	101	95	90	88	89	87	87	87
Schooling improvement	10	12	11	11	9	9	9	9	9	9
Primary and secondary education expenses	**4,325**	**4,552**	**4,936**	**5,157**	**5,354**	**5,521**	**5,670**	**5,540**	**5,598**	**5,676**

Places	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Primary[1]	479,230	475,820	474,630	473,431	474,149	479,882	485,490	491,237	499,329	505,611
Secondary[1]	277,619	277,582	280,062	281,095	281,999	279,579	278,822	277,590	276,540	275,300

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 include special school rolls but exclude health camps, hospital schools and home schooling.

Sources: Ministry of Education, the Treasury

Table 6.8 – Tertiary education expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Tuition	1,962	2,172	2,287	2,398	2,354	2,314	2,404	2,399	2,403	2,406
Other tertiary funding	339	452	522	489	429	450	448	459	468	477
Tertiary student allowances	382	386	444	570	620	649	602	532	505	494
Student loans	639	256	1,311	1,008	588	520	761	783	793	820
Tertiary education expenses	**3,322**	**3,266**	**4,564**	**4,465**	**3,991**	**3,933**	**4,215**	**4,173**	**4,169**	**4,197**
Places (year)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Estimated funded places[1]	225,652	225,836	234,230	239,978	238,721	244,791	242,369	241,667	241,740	241,775
Actual delivered places[1]	230,319	229,224	246,041	250,440	240,618					

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 will differ from previous published EFU numbers. Place numbers are based on calendar years rather than fiscal years.

Sources: Ministry of Education, the Treasury

Table 6.9 – Core government service expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Official development assistance	330	362	458	435	495	535	499	495	495	545
Indemnity and guarantee expenses	..	..	992	7	319	29	37	43	48	48
Departmental expenses	1,402	1,557	1,668	1,324	1,492	1,641	1,689	1,593	1,550	1,543
Non-departmental expenses	237	277	117	236	471	455	1,582	592	610	625
Tax receivable write-down and impairments	2,479	701	1,654	590	1,010	1,104	1,141	1,197	1,153	1,200
Science expenses	163	168	179	191	174	117	120	121	124	124
Other expenses[1]	205	306	225	191	1,602	1,062	1,469	608	318	254
Core government service expenses	**4,816**	**3,371**	**5,293**	**2,974**	**5,563**	**4,943**	**6,537**	**4,649**	**4,298**	**4,339**

1: Non-departmental expenses and other expenses in the forecast period include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.10 – Law and order expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Police	1,086	1,198	1,326	1,349	1,393	1,393	1,407	1,392	1,391	1,392
Ministry of Justice	454	367	379	372	397	447	475	429	421	430
Department of Corrections	662	787	829	903	956	984	996	982	976	1,034
NZ Customs Service[1]	12	12	12	13	120	128	152	149	150	151
Other departments	48	79	80	102	237	107	94	90	88	88
Department expenses	**2,262**	**2,443**	**2,626**	**2,739**	**3,103**	**3,059**	**3,124**	**3,042**	**3,026**	**3,095**
Non-departmental outputs	354	326	380	399	261	365	357	332	336	336
Other expenses	83	125	83	53	18	70	77	74	74	74
Law and order expenses	**2,699**	**2,894**	**3,089**	**3,191**	**3,382**	**3,494**	**3,558**	**3,448**	**3,436**	**3,505**

1: Previously the majority of NZ Customs Service expenses were classified as core government services.

Source: The Treasury

Table 6.11 – Defence expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
NZDF core expenses	1,459	1,517	1,697	1,747	1,736	1,721	1,953	1,818	1,815	1,807
Other expenses	58	45	60	67	73	97	63	59	60	64
Defence expenses	**1,517**	**1,562**	**1,757**	**1,814**	**1,809**	**1,818**	**2,016**	**1,877**	**1,875**	**1,871**

Source: The Treasury

Table 6.12 – Transport and communication expenses

($million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
New Zealand Transport Agency[1]	1,874	1,966	1,562	1,778	1,696	1,743	1,767	1,817	1,822	1,827
Departmental outputs	113	137	83	63	65	64	46	46	46	46
Other non-departmental expenses	221	104	170	58	105	181	175	121	120	91
Asset impairments	47	..	320	..	..	..	..	..	..	..
Rail funding	142	24	507	418	386	312	157	31	93	3
Other expenses	8	13	21	28	29	66	29	26	26	25
Transport and communication expenses	**2,405**	**2,244**	**2,663**	**2,345**	**2,281**	**2,366**	**2,174**	**2,041**	**2,107**	**1,992**

1: Since 2008/09 funding has been provided to New Zealand Transport Agency (NZTA). From 2004/05 to 2007/08 funding was provided to Land Transport NZ. Prior to 2008/09, all NZTA funding was recognised as operating expenditure. However, from 2008/09 some funding is now classified as capital, resulting in a reduction to operating expenditure.

Source: The Treasury

Table 6.13 – Economic and industrial services expenses

($ million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Departmental outputs	546	603	389	382	420	367	366	375	370	364
Employment initiatives	207	186	185	220	214	219	200	197	171	171
Non-departmental outputs	873	822	809	927	756	581	771	581	552	552
Reserve electricity generation	16	81	20	23	9	8	1	..	..	..
KiwiSaver (includes housing deposit subsidy)	..	1,102	1,281	1,024	1,045	719	701	686	682	706
Research and development tax credits	..	37	154	..	..	..	..	..	..	..
Other expenses	(47)	58	122	263	165	205	95	71	69	69
Economic and industrial services expenses	**1,595**	**2,889**	**2,960**	**2,839**	**2,609**	**2,099**	**2,134**	**1,910**	**1,844**	**1,862**

Source: The Treasury

Table 6.14 – Employment initiatives

($ million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Training incentive allowance	29	27	30	19	11	16	14	15	15	15
Subsidised work	88	67	63	109	112	111	93	89	63	63
Employment support for the disabled	86	88	88	88	87	88	89	89	89	89
Other employment assistance schemes	4	4	4	4	4	4	4	4	4	4
Employment initiatives	**207**	**186**	**185**	**220**	**214**	**219**	**200**	**197**	**171**	**171**

Source: The Treasury

Table 6.15 – Primary service expenses

($ million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Departmental expenses	342	363	364	352	354	358	400	377	378	381
Non-departmental outputs	80	95	82	123	142	129	152	130	125	99
Biological research[1]	..	..	..	..	167	105	106	102	102	102
Other expenses	16	83	88	32	43	85	174	122	121	113
Primary service expenses	**438**	**541**	**534**	**507**	**706**	**677**	**832**	**731**	**726**	**695**

1: Biological research was previously classified as an economic and industrial services expense.

Source: The Treasury

Table 6.16 – Heritage, culture and recreation expenses

($ million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Environmental protection	321	546	416	651	1,225	1,119	713	646	839	1,020
Community grants	7	8	9	8	8	7	..	..	..	..
Departmental outputs	111	109	120	115	133	179	272	266	260	258
Non-departmental outputs	388	430	422	405	455	431	462	464	460	455
Other expenses	17	14	35	102	145	279	101	76	66	67
Heritage, culture and recreation expenses	**844**	**1,107**	**1,002**	**1,281**	**1,966**	**2,015**	**1,548**	**1,452**	**1,625**	**1,800**

Source: The Treasury

Table 6.17 – Environmental protection expenses

($ million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Emissions Trading Scheme	..	..	17	80	838	668	237	248	449	618
Departmental outputs	242	283	306	300	301	357	335	320	317	317
Non-departmental outputs	27	38	47	231	26	47	85	48	43	55
Other expenses	52	225	46	40	60	47	56	30	30	30
Environmental protection expenses	**321**	**546**	**416**	**651**	**1,225**	**1,119**	**713**	**646**	**839**	**1,020**

Source: The Treasury

Table 6.18 – Housing and community development expenses

($ million)	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Financial assistance package [1]	..	..	..	..	567	(209)	..	..	..	..
Housing subsidies	25	28	29	30	31	23	6	6	6	6
Departmental outputs	134	141	148	140	136	95	116	106	102	102
Other non-departmental expenses	96	91	112	122	105	150	150	149	149	110
Other expenses	..	..	8	14	37	44	56	46	50	38
Housing and community development expenses	**255**	**260**	**297**	**306**	**876**	**103**	**328**	**307**	**307**	**256**

1: Financial assistance package for 2012 forecast includes the impact of a revised estimate of the weathertight homes financial assistance package provision.

Source: The Treasury

Glossary of Terms

ACC insurance liability

The gross obligation for the future cost of ACC claims incurred prior to balance date. The net ACC liability is the gross liability less the asset reserves held to meet these claims.

Baselines

The level of funding approved for any given spending area (eg, Vote Education). All amounts within baselines are included in the forecasts.

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

Potential assets dependent on an uncertain event occurring.

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). They typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

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

Core Crown expenses

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

Core Crown revenue

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

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)

A measure of the flows of income between New Zealand and the rest of the world. A net inflow to New Zealand represents a current account surplus, a net outflow a deficit. The current account balance is commonly expressed as a percentage of nominal GDP.

Cyclically-adjusted or structural fiscal balance

An estimate of the fiscal balance (eg, operating balance before gains and losses) adjusted for short-term fluctuations of actual GDP around trend GDP. The estimate provides a picture of the underlying trend fiscal position and helps measure the effects of policy decisions. Because it is based on a number of assumptions and is sensitive to new information, the estimate is subject to some uncertainty.

Demographic changes

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

Domestic bond programme

The amount and timing of additional 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 or a right to exchange a financial asset or liability on favourable terms.

Fiscal impulse

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

Fiscal intentions (short-term)

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

Fiscal objectives (long-term)

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

Forecast new capital spending

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

Forecast new operating spending

An amount included in the forecasts to provide for the operating balance 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 the Government Superannuation Fund. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance. The impact of gains and losses on the operating balance can be volatile; therefore the operating balance (before gains and losses) indicator can provide a more useful measure of underlying stewardship.

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.

Gross domestic product (GDP)

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

Gross domestic product (expenditure)

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

Gross national expenditure (GNE)

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

Gross sovereign-issued debt (GSID)

Includes all debt issued by the sovereign (the core Crown). It therefore includes government stock held within the Crown (eg, by the NZS Fund, ACC and the Earthquake Commission).

Labour force participation rate

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

Labour productivity

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

Line-by-line consolidation

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

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes, and include any funds the Government has invested in the International Monetary Fund.

Monetary conditions

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

Monetary policy

The Reserve Bank implements its monetary policy decisions by adjusting its Official Cash Rate (OCR) in an effort to maintain stability in general level of prices within a defined annual CPI target range.

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

National saving

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

Net core Crown cash flow from operations

Operating balance (before gains and losses) less retained items (eg, net surplus of State-owned enterprises, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

Net core Crown debt

Represents GSID 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 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.

Net international investment position (NIIP)

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

Net worth

Total assets less total liabilities (also referred to as the Crown balance). The change in net worth in any given forecast year is largely driven by the operating balance.

New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)

The reporting and measurement framework under which these forecast financial statements are prepared. These standards are approved by the External Reporting Board in New Zealand, based on requirements of the international financial reporting standards issued by the International Accounting Standards Board, adjusted where appropriate for entities that are not profit-oriented.

Operating balance

The residual of revenues less expenses plus surpluses from State-owned enterprises and Crown entities. It includes gains and losses not reported directly as a movement against net worth.

Operating balance before gains and losses

The impact of gains and losses on the operating balance can be subject to short-term market fluctuations so the operating balance before gains and losses can provide a more useful measure of underlying stewardship.

Output gap

The difference between actual and potential GDP. Potential GDP is the level of output an economy can sustain without acceleration of inflation.

Productivity

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

Projections

Projections of the key fiscal indicators beyond the five-year forecast period. The projections are based on long-run economic and fiscal assumptions. For example, the projections assume no economic cycle and constant long-run interest, inflation and unemployment rates.

Residual cash

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

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

Settlement cash

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

Specific fiscal risks

A category of government decisions or circumstances which may have a material impact on the fiscal position. They are not included in the main forecasts because their fiscal impact cannot be reasonably quantified, the likelihood of realisation is uncertain and/or the timing is uncertain.

System of National Accounts (SNA)

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

Tax revenue

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

Terms of trade

The terms of trade measure the changing volume of imports that can be funded by a fixed volume of New Zealand's exports. The terms of trade index is calculated as the ratio of the total export price index to the total import price index.

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 State-owned enterprises 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 State-owned enterprises and Crown entities that are not explicitly guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities and State-owned Enterprises.

Tradable/non-tradable output

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

Trade-weighted index (TWI)

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

Unit labour costs

Wages and other costs associated with employment per unit of output.

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 2011/12 or 2012 will mean the end of the financial year.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$ millions																	
Revenue and Expenses																	
Core Crown revenue	34,946	37,842	39,945	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550	60,031	64,191	69,179	73,603	77,909
Core Crown expenses	34,829	36,559	37,513	39,897	41,882	44,895	49,320	54,003	56,997	64,002	64,013	70,450	69,633	73,732	72,902	74,912	77,256
Surpluses																	
Total Crown OBEGAL	594	1,422	2,471	4,366	5,573	7,075	7,091	5,860	5,637	(3,893)	(6,315)	(18,396)	(8,441)	(7,897)	(2,013)	197	2,102
Total Crown operating balance	1,405	1,208	2,286	1,621	7,309	5,931	9,542	8,023	2,384	(10,505)	(4,509)	(13,360)	(10,642)	(5,699)	366	2,735	4,814
Cash Position																	
Core Crown residual cash	(386)	349	216	1,217	520	3,104	2,985	2,877	2,057	(8,639)	(9,000)	(13,343)	(12,119)	(9,671)	(5,184)	(3,680)	(1,198)
Debt																	
Gross debt[1]	36,580	37,194	36,650	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420	80,142	79,972	88,053	84,230	84,849
Gross debt incl RB settlement cash and bank bills	36,580	37,194	36,650	36,617	36,017	35,478	35,867	36,805	37,745	50,973	58,891	77,290	84,886	84,790	92,891	89,088	89,727
Net core Crown debt (incl NZS Fund)[2]	25,895	24,908	24,773	22,647	19,902	13,324	6,302	1,620	(2,676)	5,633	12,549	23,969	34,059	42,115	45,703	47,355	46,435
Net core Crown debt[2]	25,895	24,908	25,388	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128	51,921	61,265	66,470	69,791	70,668
Net Worth																	
Total Crown net worth	12,605	15,450	22,825	28,012	39,595	54,240	83,971	96,827	105,514	99,515	94,988	80,887	70,303	66,208	68,207	72,587	79,128
Total net worth attributable to the Crown	12,605	15,450	22,766	27,918	39,456	54,025	83,678	96,531	105,132	99,068	94,586	80,579	69,995	64,560	65,169	68,119	73,180
Nominal GDP	112,588	119,991	127,511	134,660	145,199	154,377	161,885	172,023	183,331	185,242	189,016	200,329	207,987	217,870	231,787	244,028	255,567
% GDP																	
Revenue and Expenses																	
Core Crown revenue	31.0	31.5	31.3	32.3	31.8	33.1	34.4	33.8	33.7	32.1	29.7	28.7	28.9	29.5	29.8	30.2	30.5
Core Crown expenses	30.9	30.5	29.4	29.6	28.8	29.1	30.5	31.4	31.1	34.6	33.9	35.2	33.5	33.8	31.5	30.7	30.2
Surpluses																	
Total Crown OBEGAL	0.5	1.2	1.9	3.2	3.8	4.6	4.4	3.4	3.1	(2.1)	(3.3)	(9.2)	(4.1)	(3.6)	(0.9)	0.1	0.8
Total Crown operating balance	1.2	1.0	1.8	1.2	5.0	3.8	5.9	4.7	1.3	(5.7)	(2.4)	(6.7)	(5.1)	(2.6)	0.2	1.1	1.9
Cash Position																	
Core Crown residual cash	(0.3)	0.3	0.2	0.9	0.4	2.0	1.8	1.7	1.1	(4.7)	(4.8)	(6.7)	(5.8)	(4.4)	(2.2)	(1.5)	(0.5)
Debt																	
Gross debt[1]	32.5	31.0	28.7	27.2	24.8	23.0	20.9	17.8	17.1	23.4	28.4	36.2	38.5	36.7	38.0	34.5	33.2
Gross debt incl RB settlement cash and bank bills	32.5	31.0	28.7	27.2	24.8	23.0	22.2	21.4	20.6	27.5	31.2	38.6	40.8	38.9	40.1	36.5	35.1
Net core Crown debt (incl NZS Fund)[2]	23.0	20.8	19.4	16.8	13.7	8.6	3.9	0.9	(1.5)	3.0	6.6	12.0	16.4	19.3	19.7	19.4	18.2
Net core Crown debt[2]	23.0	20.8	19.9	18.2	16.4	12.9	10.0	7.8	5.6	9.2	14.1	20.0	25.0	28.1	28.7	28.6	27.7
Net Worth																	
Total Crown net worth	11.2	12.9	17.9	20.8	27.3	35.1	51.9	56.3	57.6	53.7	50.3	40.4	33.8	30.4	29.4	29.7	31.0
Total net worth attributable to the Crown	11.2	12.9	17.9	20.7	27.2	35.0	51.7	56.1	57.3	53.5	50.0	40.2	33.7	29.6	28.1	27.9	28.6

1 Excludes Reserve Bank settlement cash and bank bills

2 Excludes advances

Economic Indicators[1]

March Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.3	1.4	2.7	4.8	6.2	4.5	4.4	2.5	3.3	-1.1	0.4	2.0	2.7	2.2	2.9	2.8	2.6
Public consumption	5.8	-2.1	4.2	1.4	4.9	4.6	4.9	4.1	5.0	4.2	0.2	3.7	1.1	-0.8	0.1	0.7	0.6
TOTAL CONSUMPTION	3.8	0.6	3.0	4.0	5.9	4.6	4.5	2.8	3.7	0.1	0.3	2.4	2.3	1.5	2.2	2.4	2.2
Residential investment	19.5	-13.3	2.0	23.6	15.0	2.6	-5.1	-1.5	4.3	-23.0	-12.8	4.4	-11.2	29.5	40.7	14.7	5.2
Non-market investment	13.0	-13.8	21.9	10.7	15.7	11.0	5.9	-7.0	-7.9	15.6	-5.6	-16.5	-7.4	5.4	3.3	5.6	3.4
Market investment	7.4	7.3	6.9	2.8	13.0	11.9	11.3	-1.5	9.2	-3.3	-11.4	9.6	6.0	7.4	14.1	6.3	2.2
TOTAL INVESTMENT	10.9	-0.1	6.8	8.0	13.6	8.8	6.6	-2.3	6.4	-7.7	-10.8	6.8	1.0	12.6	18.4	8.1	3.0
Stock change (contribution to growth)	1.2	-0.3	0.1	-0.1	0.2	0.3	-0.5	-0.7	0.6	0.2	-2.1	1.4	0.7	-0.7	-0.3	0.0	0.2
GROSS NATIONAL EXPENDITURE	6.4	0.2	3.8	4.7	7.6	5.8	4.5	1.0	4.8	-1.4	-3.9	4.6	2.4	3.7	5.8	3.9	2.6
Exports	7.4	6.3	3.0	7.8	1.1	4.8	-0.2	2.9	3.4	-3.0	4.8	1.9	3.0	2.1	1.0	2.1	2.1
Imports	11.3	-0.7	4.0	7.2	12.7	12.5	4.2	-1.6	10.4	-4.3	-9.4	10.5	5.2	2.8	8.5	4.9	1.7
EXPENDITURE ON GDP	5.2	2.4	3.5	5.0	4.0	3.6	3.3	2.2	2.8	-1.0	0.6	2.0	1.5	2.9	3.4	3.0	2.8
GDP (production measure)	5.4	2.5	3.6	4.9	4.4	3.8	3.2	0.9	3.0	-1.5	-0.9	1.2	1.6	2.6	3.4	3.1	2.9
- annual % change	6.5	0.8	4.6	4.6	5.3	2.6	2.4	1.7	2.2	-3.4	1.3	1.2	1.6	3.3	3.1	3.0	2.8
Real GDP per capita	4.8	1.9	2.7	3.0	2.4	2.4	2.1	-0.4	1.9	-2.4	-2.1	0.0	0.8	1.8	2.4	2.1	2.0
Nominal GDP (expenditure basis)	6.0	5.7	7.5	5.1	6.9	7.1	5.6	5.0	7.7	1.9	1.0	5.9	4.2	4.1	6.5	5.4	4.9
GDP deflator	0.8	3.2	3.9	0.2	2.8	3.3	2.3	2.8	4.7	2.9	0.4	3.7	2.6	1.1	3.0	2.4	2.0
Output gap (% deviation, March year average)	0.6	0.1	0.2	1.1	1.4	1.7	2.1	1.0	2.8	0.8	-0.5	-0.2	-0.8	-0.5	-0.4	-0.6	-0.3
Employment	1.9	2.0	2.9	2.8	3.0	3.6	2.8	2.2	1.3	0.9	-1.3	1.2	1.3	1.3	1.6	1.6	1.4
Unemployment (% March quarter s.a.)	6.5	5.5	5.3	5.0	4.3	3.9	4.0	3.9	3.9	5.1	6.1	6.6	6.3	5.7	5.2	5.0	4.7
Wages (average ordinary-time hourly, ann % change)	1.7	3.2	3.7	2.3	3.5	3.6	5.4	4.7	4.7	5.4	1.0	2.6	3.2	3.8	3.9	3.7	3.5
CPI inflation (ann % change)	1.5	3.1	2.6	2.5	1.5	2.8	3.3	2.5	3.4	3.0	2.0	4.5	1.6	2.6	2.5	2.4	2.4
Merchandise terms of trade (SNA basis)	0.2	3.4	4.0	-5.6	4.3	3.5	-2.0	-1.1	8.5	-0.1	-7.5	9.9	1.3	-4.0	3.9	2.9	1.5
Current account balance - $billion	-7.1	-4.4	-3.4	-4.1	-6.2	-9.4	-14.0	-13.5	-14.6	-14.8	-3.6	-7.2	-8.7	-9.8	-13.5	-15.2	-16.9
Current account balance - % of GDP	-6.4	-3.7	-2.7	-3.1	-4.4	-6.2	-8.7	-8.0	-8.0	-8.0	-1.9	-3.6	-4.2	-4.6	-5.9	-6.3	-6.7
TWI (March quarter)	54.1	50.5	51.6	60.6	66.9	69.6	68.3	68.8	71.9	53.7	65.3	67.2	72.5	72.0	70.8	67.5	63.0
90-day bank bill rate (March quarter)	6.0	6.4	5.0	5.8	5.5	6.9	7.6	7.8	8.8	3.7	2.7	3.0	2.7	2.9	3.6	4.1	4.4
10-year bond rate (March quarter)	7.3	6.0	6.7	6.0	5.9	6.0	5.7	5.9	6.3	4.6	5.9	5.6	4.0	4.2	4.6	5.0	5.2

1 Data for 2012 and subsequently are forecasts, except CPI inflation, TWI, 90-day bank bill rate and 10-year bond rate, which are actual for 2012. Historical GDP data are those that were available on 27 April when the forecasts were completed.

Budget Update 2012
Additional Information

The following information forms part of the *Budget Economic and Fiscal Update 2012* (*Budget Update*), released by the Treasury on 24 May 2012. This information provides further details on the *Budget Update* and should be read in conjunction with the published document. The additional information includes:

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

Detailed Economic Forecast Information

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

The economic and fiscal numbers and forecasts in this document pre-date the release of revised GDP data by Statistics New Zealand on 15 May 2012. These new GDP data incorporated a new industry classification and other updates and resulted in changes to the level of economic activity in recent years. Although historical numbers will change, we do not expect any direct impact from these new data on our economic and fiscal forecasts. In this document, all references are to the previous GDP data unless otherwise specified. The new data will be fully incorporated into the *Half Year Update 2012*.

Table 1	Real gross domestic product
Table 2	Consumers price index and exchange rates
Table 3	Gross domestic expenditure and income
Tables 4 and 5	Labour market indicators
Table 6	Current account
Table 7	Exports – SNA basis
Table 8	Imports – SNA basis

Table 1 – Real gross domestic product

Chain-volume series expressed in 1995/96 prices

	Actual			Seasonally Adjusted	
Quarter	$ million	Annual % change	Annual Average % change	$ million	Quarterly % change
2009Q1	32,877	-3.4	-1.5	33,151	-1.1
2009Q2	32,544	-2.7	-2.3	33,186	0.1
2009Q3	32,799	-2.1	-2.7	33,211	0.1
2009Q4	34,826	0.0	-2.0	33,486	0.8
2010Q1	33,316	1.3	-0.9	33,591	0.3
2010Q2	33,021	1.5	0.1	33,675	0.3
2010Q3	33,213	1.3	1.0	33,638	-0.1
2010Q4	35,104	0.8	1.2	33,746	0.3
2011Q1	33,703	1.2	1.2	33,980	0.7
2011Q2	33,347	1.0	1.0	34,006	0.1
2011Q3	33,807	1.8	1.2	34,244	0.7
2011Q4	35,743	1.8	1.4	34,360	0.3
2012Q1	34,250	1.6	1.6	34,532	0.5
2012Q2	34,066	2.2	1.8	34,739	0.6
2012Q3	34,516	2.1	1.9	34,962	0.6
2012Q4	36,745	2.8	2.2	35,323	1.0
2013Q1	35,390	3.3	2.6	35,681	1.0
2013Q2	35,257	3.5	2.9	35,954	0.8
2013Q3	35,787	3.7	3.3	36,250	0.8
2013Q4	37,993	3.4	3.5	36,523	0.8
2014Q1	36,499	3.1	3.4	36,799	0.8
2014Q2	36,370	3.2	3.3	37,088	0.8
2014Q3	36,900	3.1	3.2	37,377	0.8
2014Q4	39,176	3.1	3.1	37,660	0.8
2015Q1	37,608	3.0	3.1	37,917	0.7
2015Q2	37,458	3.0	3.1	38,198	0.7
2015Q3	37,973	2.9	3.0	38,464	0.7
2015Q4	40,290	2.8	2.9	38,731	0.7
2016Q1	38,654	2.8	2.9	38,972	0.6
2016Q2	38,443	2.6	2.8	39,203	0.6

Source: Statistics New Zealand, The Treasury

Table 2 – Consumers price index and exchange rates

Consumers Price Index				Exchange rates	
Quarter	Index	Quarterly % change	Annual % change	TWI	USD
2009Q1	1075	0.3	3.0	53.7	0.53
2009Q2	1081	0.6	1.9	58.4	0.60
2009Q3	1095	1.3	1.7	62.6	0.67
2009Q4	1093	-0.2	2.0	65.5	0.73
2010Q1	1097	0.4	2.0	65.3	0.71
2010Q2	1099	0.2	1.7	66.7	0.70
2010Q3	1111	1.1	1.5	66.9	0.72
2010Q4	1137	2.3	4.0	67.8	0.76
2011Q1	1146	0.8	4.5	67.2	0.76
2011Q2	1157	1.0	5.3	69.1	0.80
2011Q3	1162	0.4	4.6	72.0	0.83
2011Q4	1158	-0.3	1.8	68.7	0.78
2012Q1	1164	0.5	1.6	72.5	0.82
2012Q2	1171	0.6	1.2	72.9	0.82
2012Q3	1177	0.5	1.3	72.0	0.80
2012Q4	1183	0.4	2.1	72.0	0.80
2013Q1	1194	1.0	2.6	72.0	0.80
2013Q2	1203	0.7	2.7	71.9	0.80
2013Q3	1209	0.5	2.7	71.6	0.79
2013Q4	1215	0.5	2.8	71.3	0.79
2014Q1	1224	0.7	2.5	70.8	0.78
2014Q2	1230	0.5	2.3	70.2	0.77
2014Q3	1237	0.5	2.3	69.4	0.76
2014Q4	1244	0.5	2.3	68.5	0.74
2015Q1	1253	0.8	2.4	67.5	0.73
2015Q2	1260	0.5	2.4	66.4	0.71
2015Q3	1267	0.5	2.4	65.3	0.69
2015Q4	1274	0.6	2.4	64.1	0.68
2016Q1	1283	0.7	2.4	63.0	0.66
2016Q2	1290	0.5	2.4	61.9	0.64

Source: Statistics New Zealand, The Treasury, Reserve Bank of New Zealand

Table 3 – Gross domestic expenditure and income

March Year	2011			2012			2013			2014			2015			2016
	Actual			Estimate			Forecast			Forecast			Forecast			Forecast
	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill	%vol	%pr	$ mill
Consumption:																
- *Private*	115,209	2.7	2.6	121,391	2.2	1.5	125,909	2.9	1.9	131,972	2.8	1.8	138,191	2.6	1.9	144,522
- *Public*	40,552	1.1	2.9	42,182	-0.8	2.0	42,649	0.1	2.2	43,604	0.7	2.2	44,886	0.6	2.2	46,158
Gross Fixed Capital Formation:																
- *Residential*	8,665	-11.2	2.9	7,925	29.5	4.5	10,736	40.7	6.8	16,105	14.7	5.2	19,410	5.2	4.9	21,430
- *Market **	27,397	6.0	-1.5	28,631	7.4	4.6	32,165	14.1	1.5	37,247	6.3	0.9	39,976	2.2	1.8	41,588
- *Non-market ***	2,577	-7.4	1.4	2,421	5.4	2.8	2,618	3.3	2.4	2,772	5.6	2.4	2,998	3.4	2.4	3,176
- *Total all sectors*	38,618	1.0	-0.1	38,965	12.6	3.7	45,518	18.4	4.2	56,125	8.1	2.8	62,384	3.0	3.1	66,194
Change in Stocks	746			1,307			402			-114			-184			287
Gross National Expenditure	195,124	2.4	2.1	203,845	3.7	1.4	214,477	5.8	2.0	231,586	3.9	1.9	245,277	2.6	2.2	257,162
Exports	58,157	3.0	1.8	60,899	2.1	-4.8	59,195	1.0	3.9	62,179	2.1	6.8	67,809	2.1	9.8	76,076
Imports	55,288	5.2	0.5	58,513	2.8	-1.9	59,047	8.5	1.8	65,145	4.9	5.5	72,076	1.7	9.9	80,513
Expenditure on GDP	197,994	1.5	2.6	206,229	2.9	1.1	214,625	3.4	3.0	228,621	3.0	2.4	241,011	2.8	2.0	252,725
Statistical Discrepancy	447			447			447			447			447			447
Gross Domestic Product	198,441			206,676			215,072			229,068			241,458			253,172
Compensation of employees	87,590		5.2	92,172		3.9	95,758		5.2	100,710		5.3	106,056		5.0	111,377
Operating Surplus, net:																
- *Agriculture*	7,250		7.2	7,775		-7.3	7,205		3.7	7,469		7.2	8,005		9.0	8,723
- *Other*	48,351		-2.3	47,238		5.0	49,614		9.9	54,533		5.2	57,346		3.6	59,421
- *Total all sectors*	55,601		-1.1	55,013		3.3	56,818		9.1	62,002		5.4	65,351		4.3	68,144
Consumption of fixed capital	29,924		5.4	31,540		5.4	33,243		5.4	35,038		5.4	36,930		5.4	38,925
Indirect Taxes	25,979		10.1	28,606		4.5	29,906		6.9	31,972		5.6	33,775		4.8	35,380
Less subsidies	654		0.0	654		0.0	654		0.0	654		0.0	654		0.0	654
Gross Domestic Product	198,441		4.2	206,676		4.1	215,072		6.5	229,068		5.4	241,458		4.9	253,172

* Includes Local Government and Non-profit Organisations
** Central Government (includes Crown Entities but not SOEs)
Note: Income GDP numbers presented here are consistent with the previous National Accounts release for 2010 as the 2011 release was done under a new industry classification

Source: Statistics New Zealand, The Treasury

Tables 4 and 5 – Labour market indicators

Annual Average Percentage Change

March Year	2011 Actual	2012 Estimate	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Real GDP (production basis)	1.2	1.6	2.6	3.4	3.1	2.9
Working-age Population	1.4	1.0	0.9	1.1	1.1	1.0
Labour Force	1.5	1.2	0.7	1.0	1.2	1.2
Employment	1.2	1.3	1.3	1.6	1.6	1.4
Labour Productivity *	-0.9	0.0	1.8	2.1	1.6	1.5
CPI (annual percentage change)	4.5	1.6	2.6	2.5	2.4	2.4
Average Ordinary Time Hourly Wages	1.6	3.0	3.4	3.8	3.8	3.6
Average Weekly Earnings	2.7	3.6	2.5	3.6	3.7	3.6
Real Wages	-1.2	-0.3	1.6	1.1	1.4	1.2
Compensation of Employees	3.7	5.2	3.9	5.2	5.3	5.0
Unit Labour Costs *	2.5	3.1	1.5	1.7	2.1	2.1
Real Unit Labour Costs	-0.3	-0.2	-0.3	-0.9	-0.2	-0.3

* Hours worked basis

Number (000's)

As at March Quarter	2011 Actual	2012 Estimate	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Total Population	4,403	4,430	4,467	4,514	4,556	4,595
Natural Increase	34	31	33	28	30	29
Net Migration	6	-3	5	19	12	10
Annual Change	41	27	37	47	42	39
Working-age Population	3,458	3,482	3,516	3,556	3,594	3,630
Annual Change	46	25	33	40	38	36
Not in the labour force (s.a.)	1,083	1,096	1,111	1,126	1,136	1,143
Annual Change	-7	13	16	14	10	7
Labour Force (s.a.)	2,367	2,378	2,397	2,424	2,453	2,482
Annual Change	53	11	19	27	29	29
Total Employment (s.a.)	2,211	2,228	2,260	2,298	2,331	2,366
Annual Change	38	17	33	37	34	34
Unemployment (s.a.)	155	151	137	127	121	116
Annual Change	13	-4	-14	-10	-5	-5
Participation Rate (% s.a.)	68.6	68.3	68.2	68.2	68.2	68.4
Unemployment Rate (% s.a.)	6.6	6.3	5.7	5.2	5.0	4.7

s.a - seasonally adjusted

Source: Statistics New Zealand, The Treasury

Table 6 – Current account

$NZ Million **Year ended March**	**2011** Actual	**2012** Estimate	**2013** Forecast	**2014** Forecast	**2015** Forecast	**2016** Forecast
Exports Goods	45,523	48,118	46,411	49,444	54,827	62,339
annual % change	*13.5*	*5.7*	*-3.5*	*6.5*	*10.9*	*13.7*
Imports Goods	42,093	44,760	45,153	50,257	55,738	62,325
annual % change	*12.3*	*6.3*	*0.9*	*11.3*	*10.9*	*11.8*
Balance on Goods	3,431	3,358	1,258	-813	-911	14
% of nominal GDP	*1.7*	*1.6*	*0.6*	*-0.4*	*-0.4*	*0.0*
Exports Services	12,633	12,801	12,727	12,661	12,906	13,652
annual % change	*-1.4*	*1.3*	*-0.6*	*-0.5*	*1.9*	*5.8*
Imports Services	13,195	13,754	13,894	14,888	16,338	18,188
annual % change	*6.0*	*4.2*	*1.0*	*7.2*	*9.7*	*11.3*
Balance on services	-562	-953	-1,167	-2,227	-3,432	-4,536
% of nominal GDP	*-0.3*	*-0.5*	*-0.5*	*-1.0*	*-1.4*	*-1.8*
Balance on goods & services	2,869	2,405	91	-3,040	-4,343	-4,522
% of nominal GDP	*1.4*	*1.2*	*0.0*	*-1.3*	*-1.8*	*-1.8*
Int'l investment income and transfers balance	-10,063	-11,118	-9,885	-10,475	-10,854	-12,351
% of nominal GDP	*-5.1*	*-5.4*	*-4.6*	*-4.6*	*-4.5*	*-4.9*
Current account balance	**-7,196**	**-8,713**	**-9,794**	**-13,515**	**-15,197**	**-16,873**
% of nominal GDP	***-3.6***	***-4.2***	***-4.6***	***-5.9***	***-6.3***	***-6.7***

Source: Statistics New Zealand, The Treasury

Table 7 – Exports – SNA basis

March	Dairy Products			Meat and Meat Products			Non-Commodity*		
Years	%volume	%price	$ mill	%volume	%price	$ mill	%volume	%price	$ mill
2008	-0.9	25.7	9,434	-2.9	-5.1	4,656	0.7	6.3	12,456
2009	-15.1	27.9	10,101	1.5	23.2	5,796	1.6	16.8	14,804
2010	30.8	-31.9	9,078	-1.1	-7.5	5,332	-5.6	-6.7	13,052
2011	0.5	29.4	11,668	-2.4	6.3	5,550	6.2	2.4	14,173
2012	8.2	0.9	12,779	-3.1	9.4	5,852	4.9	-0.9	14,774
2013	1.7	-11.2	11,576	3.4	-8.6	5,543	2.0	-0.2	15,028
2014	-0.4	5.1	12,136	-0.4	4.0	5,736	2.9	6.3	16,428
2015	2.0	7.2	13,269	2.8	7.5	6,342	3.9	9.3	18,648
2016	2.0	9.1	14,782	2.8	8.8	7,099	3.0	13.3	21,758

March	Total Goods**			Services			Total Exports		
Years	%volume	%price	$ mill	%volume	%price	$ mill	%volume	%price	$ mill
2008	4.5	3.9	38,718	0.4	2.2	12,988	3.4	3.3	51,705
2009	-2.6	17.6	44,248	-4.1	6.9	13,309	-3.0	15.1	57,556
2010	6.8	-15.4	40,092	-1.9	-1.8	12,809	4.8	-12.5	52,900
2011	2.7	10.7	45,523	-1.0	-0.5	12,633	1.9	7.9	58,157
2012	3.6	2.0	48,118	-0.1	1.5	12,801	3.0	1.8	60,899
2013	3.3	-6.5	46,411	0.4	-0.9	12,727	2.1	-4.8	59,195
2014	1.2	5.3	49,444	0.2	-0.8	12,661	1.0	3.9	62,179
2015	2.4	8.3	54,827	0.8	1.0	12,906	2.1	6.8	67,809
2016	2.1	11.4	62,339	2.2	3.5	13,652	2.1	9.8	76,076

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

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

Table 8 – Imports – SNA basis

March	Capital Goods (VFD*)			Mineral Fuel** (VFD)			Intermediate Goods*** (VFD)			Consumption Goods (VFD)		
Years	%volume	%price	$ mill	%volume	%price	$ mill	%volume	%price	$ mill	%volume	%price	$ mill
2008	10.2	-9.7	7,213	15.8	2.7	6,982	10.3	-6.4	16,225	6.9	-2.7	9,908
2009	3.5	13.2	8,292	-6.3	26.3	8,186	-6.3	21.9	18,452	-2.7	12.4	10,788
2010	-28.2	2.1	6,202	1.5	-27.4	6,059	-11.1	-9.9	14,818	-4.1	-1.0	10,256
2011	25.3	-4.3	7,436	-2.0	16.7	6,945	12.9	1.2	16,943	7.7	-4.5	10,564
2012	11.5	-6.8	7,739	2.5	18.0	8,410	5.5	0.0	17,903	3.5	-2.7	10,638
2013	0.5	-13.2	6,749	6.7	1.1	9,074	5.2	-2.1	18,466	2.6	-1.5	10,754
2014	19.6	-0.2	8,055	3.2	1.2	9,469	5.5	4.9	20,428	9.5	3.6	12,185
2015	7.7	3.2	8,958	2.7	2.9	10,009	3.3	7.8	22,753	6.1	7.5	13,898
2016	1.8	7.0	9,750	0.9	7.2	10,826	1.1	11.3	25,600	3.6	11.3	16,029

March	Total Goods (VFD)			Services			Total		
Years	%volume	%price	$ mill	%volume	%price	$ mill	%volume	%price	$ mill
2008	10.3	-4.3	40,596	10.9	-5.8	12,725	10.4	-4.7	53,321
2009	-4.3	17.9	45,768	-4.2	16.6	14,091	-4.3	17.6	59,859
2010	-10.5	-8.5	37,471	-6.1	-6.4	12,453	-9.4	-8.0	49,925
2011	11.6	0.7	42,093	7.3	-1.5	13,195	10.5	0.1	55,288
2012	5.4	0.7	44,760	4.6	-0.3	13,754	5.2	0.5	58,513
2013	3.5	-2.5	45,153	0.8	0.2	13,894	2.8	-1.9	59,047
2014	10.0	1.3	50,257	3.2	3.9	14,888	8.5	1.8	65,145
2015	5.3	5.3	55,738	3.0	6.6	16,338	4.9	5.5	72,076
2016	1.9	9.7	62,325	0.8	10.5	18,188	1.7	9.9	80,513

* Value for duty

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

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

Treasury and Inland Revenue Tax Forecasts

In line with established practice, the Inland Revenue Department (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 two sets of forecasts differ from each other because of the different modelling approaches used by the two agencies and the various assumptions and judgements made by the forecasting teams in producing their forecasts.

In recent years, there have been large differences between the Treasury and the IRD tax forecasts. For instance, at the *Pre-election Update*, the Treasury's tax forecasts were, on average, $700 million (approx. 1% of unconsolidated tax) p.a. higher than the IRD forecasts.

In this *Budget Update*, the two sets of tax forecasts are very close to each other, with the largest difference in any one year being approximately $500 million (0.2% of GDP). The gap between the forecasts has closed because:

- the Treasury has revised down its view of current corporate profitability and is now forecasting a milder tax loss cycle than in previous forecast updates
- the GST forecasts have converged towards each other, as the IRD and the Treasury now give similar weight to residential investment in the GST forecasts, something that is quite significant, given the size of the likely rebuild in Canterbury as the region recovers from the devastation of the earthquakes, and
- the Treasury has revised down its source deductions forecasts to be more in line with Inland Revenue's forecasts, as labour market data has softened over the past two quarters.

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

Table 9 Treasury and IRD forecasts of tax revenue (accrual)

Table 10 Treasury and IRD forecasts of tax receipts (cash)

Table 9 – Treasury and IRD forecasts of tax revenue (accrual)

$ million	2010/11 Actual	2011/12 Forecast Treasury	2011/12 Forecast IRD	2011/12 Difference	2012/13 Forecast Treasury	2012/13 Forecast IRD	2012/13 Difference	2013/14 Forecast Treasury	2013/14 Forecast IRD	2013/14 Difference	2014/15 Forecast Treasury	2014/15 Forecast IRD	2014/15 Difference	2015/16 Forecast Treasury	2015/16 Forecast IRD	2015/16 Difference
Direct tax																
Individuals																
Source deductions	21,243	21,562	21,599	(37)	22,977	22,922	55	24,480	24,468	12	26,053	26,049	4	27,669	27,646	23
Other persons tax	3,791	4,242	4,172	70	4,386	4,300	86	4,609	4,616	(7)	4,802	4,955	(153)	4,992	5,188	(196)
Refunds	(1,679)	(1,657)	(1,660)	3	(1,567)	(1,570)	3	(1,466)	(1,520)	54	(1,394)	(1,470)	76	(1,326)	(1,410)	84
Fringe benefit tax	462	444	459	(15)	458	459	(1)	482	471	11	507	483	24	532	492	40
Subtotal: Individuals	**23,817**	**24,591**	**24,570**	**21**	**26,254**	**26,111**	**143**	**28,105**	**28,035**	**70**	**29,968**	**30,017**	**(49)**	**31,867**	**31,916**	**(49)**
Company tax (net)	**7,727**	**8,274**	**8,448**	**(174)**	**8,968**	**9,078**	**(110)**	**9,741**	**9,800**	**(59)**	**10,390**	**10,301**	**89**	**10,958**	**10,739**	**219**
Withholding taxes on:																
Resident interest income	1,704	1,671	1,754	(83)	1,673	1,670	3	1,893	1,752	141	2,208	2,133	75	2,503	2,619	(116)
Non-resident income	467	451	418	33	455	461	(6)	513	526	(13)	572	605	(33)	613	665	(52)
Foreign-source dividends	..	5	5	..	..	1	(1)	..	1	(1)	..	1	(1)	..	1	(1)
Resident dividend income	195	288	270	18	375	350	25	575	540	35	605	555	50	630	565	65
Subtotal: Withholding tax	**2,366**	**2,415**	**2,447**	**(32)**	**2,503**	**2,482**	**21**	**2,981**	**2,819**	**162**	**3,385**	**3,294**	**91**	**3,746**	**3,850**	**(104)**
Total income tax	**33,910**	**35,280**	**35,465**	**(185)**	**37,725**	**37,671**	**54**	**40,827**	**40,654**	**173**	**43,743**	**43,612**	**131**	**46,571**	**46,505**	**66**
Other: Estate and gift duties	2	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total direct tax	**33,912**	**35,280**	**35,465**	**(185)**	**37,725**	**37,671**	**54**	**40,827**	**40,654**	**173**	**43,743**	**43,612**	**131**	**46,571**	**46,505**	**66**
Indirect tax																
GST (net)	**19,461**	**20,771**	**20,902**	**(131)**	**22,116**	**21,932**	**184**	**23,517**	**23,309**	**208**	**24,705**	**24,549**	**156**	**25,832**	**25,796**	**36**
Excise duties on:																
Alcoholic drinks	623	665	673	(8)	698	710	(12)	734	748	(14)	769	776	(7)	803	814	(11)
Tobacco products	220	254	248	6	223	218	5	211	216	(5)	218	219	(1)	227	224	3
Petroleum fuels	872	885	891	(6)	939	958	(19)	969	970	(1)	1,012	1,010	2	1,041	1,040	1
Subtotal: excise duties	**1,715**	**1,804**	**1,812**	**(8)**	**1,860**	**1,886**	**(26)**	**1,914**	**1,934**	**(20)**	**1,999**	**2,005**	**(6)**	**2,071**	**2,078**	**(7)**
Other indirect tax																
Customs duty	1,916	1,989	1,996	(7)	2,037	2,047	(10)	2,108	2,114	(6)	2,175	2,180	(5)	2,241	2,253	(12)
Road user charges	1,016	1,038	1,055	(17)	1,152	1,155	(3)	1,240	1,245	(5)	1,320	1,320	0	1,399	1,390	9
Gaming duties	266	276	277	(1)	281	278	3	286	280	6	291	282	9	296	286	10
Motor vehicle fees	172	174	175	(1)	170	180	(10)	171	185	(14)	173	190	(17)	176	195	(19)
Exhaustible resource levy	36	33	34	(1)	36	34	2	36	35	1	36	38	(2)	36	41	(5)
Approved issuer levy, cheque duty & other	91	95	96	(1)	99	96	3	99	94	5	99	92	7	99	90	9
Subtotal: Other indirect tax	**3,497**	**3,605**	**3,633**	**(28)**	**3,776**	**3,790**	**(14)**	**3,940**	**3,953**	**(13)**	**4,094**	**4,102**	**(8)**	**4,247**	**4,255**	**(8)**
Total indirect tax	**24,673**	**26,179**	**26,347**	**(168)**	**27,752**	**27,608**	**144**	**29,371**	**29,196**	**175**	**30,798**	**30,656**	**142**	**32,150**	**32,129**	**21**
Total tax	**58,585**	**61,459**	**61,812**	**(353)**	**65,477**	**65,279**	**198**	**70,198**	**69,850**	**348**	**74,541**	**74,268**	**273**	**78,721**	**78,634**	**87**
Total tax (% of GDP)	29.2%	29.5%	29.7%	-0.2%	30.1%	30.0%	0.1%	30.3%	30.1%	0.2%	30.5%	30.4%	0.1%	30.8%	30.8%	0.0%
***less* Core Crown tax eliminations**																
Core Crown income tax	872	175	175		419	419		450	450		483	483		521	521	
GST on Crown expenses and departmental outputs	5,753	6,130	6,130		6,373	6,373		6,237	6,237		6,422	6,422		6,570	6,570	
Crown ESCT	373	383	383		404	404		413	413		421	421		428	428	
Crown AIL	29	30	30		30	30		30	30		30	30		30	30	
Core Crown taxation	**51,558**	**54,741**	**55,094**	**(353)**	**58,251**	**58,053**	**198**	**63,069**	**62,721**	**348**	**67,185**	**66,912**	**273**	**71,171**	**71,084**	**87**
Core Crown tax (% of GDP)	25.7%	26.3%	26.5%	-0.2%	26.7%	26.6%	0.1%	27.2%	27.1%	0.2%	27.5%	27.4%	0.1%	27.8%	27.8%	0.0%
***less* Total Crown tax eliminations**																
Income tax from SOEs and CEs	365	353	353		528	528		636	636		780	780		810	810	
Other Crown GST	..	..	..		..	..		..	..		..	..		..	..	
ESCT from SOEs and CEs	13	10	10		10	10		10	10		10	10		10	10	
Lottery duty	52	47	47		50	50		53	53		54	54		54	54	
Total Crown taxation	**51,128**	**54,331**	**54,684**	**(353)**	**57,663**	**57,465**	**198**	**62,370**	**62,022**	**348**	**66,341**	**66,067**	**273**	**70,297**	**70,210**	**87**
Total Crown tax (% of GDP)	25.5%	26.1%	26.3%	-0.2%	26.5%	26.4%	0.1%	26.9%	26.8%	0.2%	27.2%	27.1%	0.1%	27.5%	27.5%	0.0%
Nominal GDP	200,329	207,987	207,987		217,870	217,870		231,787	231,787		244,028	244,028		255,567	255,567	

Table 10 – Treasury and IRD forecasts of tax receipts (cash)

	2010/11 Actual	2011/12 Forecast			2012/13 Forecast			2013/14 Forecast			2014/15 Forecast			2015/16 Forecast		
$ million		Treasury	IRD	Difference	Treasury	IRD	Difference	Treasury	IRD	Difference	Treasury	IRD	Difference	Treasury	IRD	Difference
Direct tax																
Individuals																
Source deductions	21,081	21,395	21,397	(2)	22,855	22,815	40	24,353	24,356	(3)	25,921	25,932	(11)	27,532	27,524	8
Other persons tax	4,386	4,890	4,800	90	5,062	4,820	242	5,232	5,180	52	5,365	5,460	(95)	5,492	5,650	(158)
Refunds	(2,463)	(2,558)	(2,440)	(118)	(2,493)	(2,370)	(123)	(2,325)	(2,370)	45	(2,210)	(2,270)	60	(2,102)	(2,190)	88
Fringe benefit tax	457	440	446	(6)	457	455	2	481	467	14	506	479	27	531	491	40
Subtotal: Individuals	**23,461**	**24,167**	**24,203**	**(36)**	**25,881**	**25,720**	**161**	**27,741**	**27,633**	**108**	**29,582**	**29,601**	**(19)**	**31,453**	**31,475**	**(22)**
Company tax (net)	**7,717**	**8,272**	**8,370**	**(98)**	**8,775**	**8,788**	**(13)**	**9,660**	**9,548**	**112**	**10,236**	**10,084**	**152**	**10,671**	**10,459**	**212**
Withholding taxes on:																
Resident interest income	1,701	1,670	1,703	(33)	1,672	1,669	3	1,892	1,751	141	2,207	2,132	75	2,502	2,618	(116)
Non-resident income	462	432	415	17	454	460	(6)	512	525	(13)	571	604	(33)	612	664	(52)
Foreign-source dividends	(1)	5	5	..	..	1	(1)	..	1	(1)	..	1	(1)	..	1	(1)
Resident dividend income	196	288	270	18	375	350	25	575	540	35	605	555	50	630	565	65
Subtotal: Withholding tax	**2,358**	**2,395**	**2,393**	**2**	**2,501**	**2,480**	**21**	**2,979**	**2,817**	**162**	**3,383**	**3,292**	**91**	**3,744**	**3,848**	**(104)**
Total income tax	**33,536**	**34,834**	**34,966**	**(132)**	**37,157**	**36,988**	**169**	**40,380**	**39,998**	**382**	**43,201**	**42,977**	**224**	**45,868**	**45,782**	**86**
Other: Estate and gift duties	2	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total direct tax	**33,538**	**34,834**	**34,966**	**(132)**	**37,157**	**36,988**	**169**	**40,380**	**39,998**	**382**	**43,201**	**42,977**	**224**	**45,868**	**45,782**	**86**
Indirect tax																
GST (net)	**18,796**	**20,266**	**20,470**	**(204)**	**21,803**	**21,681**	**122**	**23,189**	**23,041**	**148**	**24,363**	**24,264**	**99**	**25,477**	**25,497**	**(20)**
Excise duties on:																
Alcoholic drinks	625	665	673	(8)	698	710	(12)	734	748	(14)	769	776	(7)	803	814	(11)
Tobacco products	181	254	248	6	223	218	5	211	216	(5)	218	219	(1)	227	224	3
Petroleum fuels	869	885	891	(6)	939	958	(19)	969	970	(1)	1,012	1,010	2	1,041	1,040	1
Subtotal: Excise duties	**1,675**	**1,804**	**1,812**	**(8)**	**1,860**	**1,886**	**(26)**	**1,914**	**1,934**	**(20)**	**1,999**	**2,005**	**(6)**	**2,071**	**2,078**	**(7)**
Other indirect tax																
Customs duty	2,005	1,989	1,996	(7)	2,037	2,047	(10)	2,108	2,114	(6)	2,175	2,180	(5)	2,241	2,253	(12)
Road user charges	1,015	1,038	1,055	(17)	1,152	1,155	(3)	1,240	1,245	(5)	1,320	1,320	0	1,399	1,390	9
Gaming duties	268	276	277	(1)	281	278	3	286	280	6	291	282	9	296	286	10
Motor vehicle fees	171	174	175	(1)	170	180	(10)	171	185	(14)	173	190	(17)	176	195	(19)
Exhaustible resource levy	36	33	34	(1)	36	34	2	36	35	1	36	38	(2)	36	41	(5)
Approved issuer levy, cheque duty & other	89	95	97	(2)	99	96	3	99	94	5	99	92	7	99	90	9
Subtotal: Other indirect tax	**3,584**	**3,605**	**3,634**	**(29)**	**3,776**	**3,790**	**(14)**	**3,940**	**3,953**	**(13)**	**4,094**	**4,102**	**(8)**	**4,247**	**4,255**	**(8)**
Total indirect tax	**24,055**	**25,674**	**25,916**	**(242)**	**27,439**	**27,357**	**82**	**29,043**	**28,928**	**115**	**30,456**	**30,371**	**85**	**31,795**	**31,830**	**(35)**
Total tax	**57,593**	**60,508**	**60,882**	**(374)**	**64,596**	**64,345**	**251**	**69,423**	**68,926**	**497**	**73,657**	**73,348**	**309**	**77,663**	**77,612**	**51**
Total tax (% of GDP)	28.7%	29.1%	29.3%	-0.2%	29.6%	29.5%	0.1%	30.0%	29.7%	0.2%	30.2%	30.1%	0.1%	30.4%	30.4%	0.0%
***less* Core Crown tax eliminations**																
Core Crown income tax	517	316	316		369	369		444	444		476	476		514	514	
GST on Crown expenses and departmental outputs	5,741	6,146	6,146		6,404	6,404		6,232	6,232		6,418	6,418		6,567	6,567	
Crown ESCT	370	379	379		400	400		410	410		418	418		425	425	
Crown AIL	29	30	30		30	30		30	30		30	30		30	30	
Core Crown taxation	**50,936**	**53,638**	**54,012**	**(374)**	**57,392**	**57,141**	**251**	**62,308**	**61,811**	**497**	**66,315**	**66,006**	**309**	**70,128**	**70,077**	**51**
Core Crown tax (% of GDP)	25.4%	25.8%	26.0%	-0.2%	26.3%	26.2%	0.1%	26.9%	26.7%	0.2%	27.2%	27.0%	0.1%	27.4%	27.4%	0.0%
***less* Total Crown tax eliminations**																
Income tax from SOEs and CEs	384	401	401		425	425		594	594		684	684		732	732	
Other Crown GST	70	8	8		56	56		(15)	(15)		(33)	(33)		(49)	(49)	
ESCT from SOEs and CEs	12	5	5		5	5		5	5		5	5		5	5	
Lottery duty	52	47	47		50	50		53	53		54	54		54	54	
Total Crown taxation	**50,418**	**53,178**	**53,552**	**(374)**	**56,856**	**56,605**	**251**	**61,671**	**61,174**	**497**	**65,605**	**65,296**	**309**	**69,385**	**69,334**	**51**
Total Crown tax (% of GDP)	25.2%	25.6%	25.7%	-0.2%	26.1%	26.0%	0.1%	26.6%	26.4%	0.2%	26.9%	26.8%	0.1%	27.1%	27.1%	0.0%

Tax Policy Changes

This section details the changes to forecast tax revenue since the *Pre-election Update* as a result of changes in tax policy. Table 11 gives a full breakdown of the changes, while the supplementary text describes the specific policy changes.

Table 11 – Tax forecasting effects of tax policy changes

Year ending 30 June $ millions	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	Total 5 years
Tobacco excise rate increases	..	22	94	167	249	532
Petrol excise rate increase	..	55	59	60	61	235
Extra audit and debt resource	..	83	98	98	98	377
RUC increases	..	38	48	49	51	186
Livestock valuation methods	..	46	46	46	46	184
Tax credit reform	..	12	35	35	35	117
Mixed-use assets	..	..	9	50	50	109
Other	(3)	(7)	5	..	(1)	(6)
Total	**(3)**	**249**	**394**	**505**	**589**	**1,734**

Source: The Treasury

Changes in tax policy

Tobacco excise rate increases

Tobacco excise and excise-equivalent rates will be increased by 10% on 1 January in 2013, 2014, 2015 and 2016.

Petrol excise rate increase

The petrol excise and excise-equivalent rates will increase by two cents per litre on 1 August 2012.

Extra audit and debt resource

Additional funding will be provided to Inland Revenue’s auditing and debt recovery functions. This is expected to yield gross revenue gains totalling nearly $100 million p.a. by 2016.

RUC increases

Road User Charges will increase on 1 August 2012 in line with the increase in the fuel excise rate.

Livestock valuation methods

Restrictions have been placed on the ability of farmers to switch between livestock valuation methods for a tax advantage. (This policy change was a base maintenance measure put in place to address a revenue issue that became apparent after the *Pre-election Update*. As such, it had no net effect on the tax revenue forecast, but is included here for completeness and to maintain consistency with tables that appear elsewhere in *2012 Budget* documents.)

Tax credit reform

The child taxpayer credit, the housekeeping and childcare tax credit, and the tax credit for transitional circumstances will be discontinued with effect from the 2012/13 income year.

Mixed-use assets

New rules will prescribe the deductibility of expenditure relating to assets that are used both personally and for earning income.

Additional Fiscal Indicators

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

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

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

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

Main indicators

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

The significant "one-off" impact on expenses of the Canterbury earthquake is removed from estimates of the cyclically-adjusted balance. This is to give a better indication of the underlying fiscal position. Earthquake expenditure is not removed when calculating the fiscal impulse indicator, since it is expected to add to demand pressure along with other government expenditure.

Cyclically-adjusted balance

The operating balance (before gains and losses) and the cyclically-adjusted balance are shown in Figure 1. The headline OBEGAL deficit is forecast to be 4.1% of GDP in 2011/12 (*Pre-election Update:* 5.1% of GDP). The cyclically-adjusted balance, excluding earthquake expenses, is estimated to be a deficit of 3.0% of GDP in 2011/12 (*Pre-election Update*: 3.4% of GDP). The difference between the headline and cyclically-adjusted balance comprises the impact of the automatic stabilisers of 0.4% of GDP and the earthquake-adjustment of 0.7% of GDP. As consolidation measures take hold, the cyclically-adjusted deficit is projected to be eliminated over the forecast horizon. The cyclically-adjusted balance, excluding earthquake expenses, is forecast to be a surplus of $895 million (0.9% of GDP) in 2014/15.

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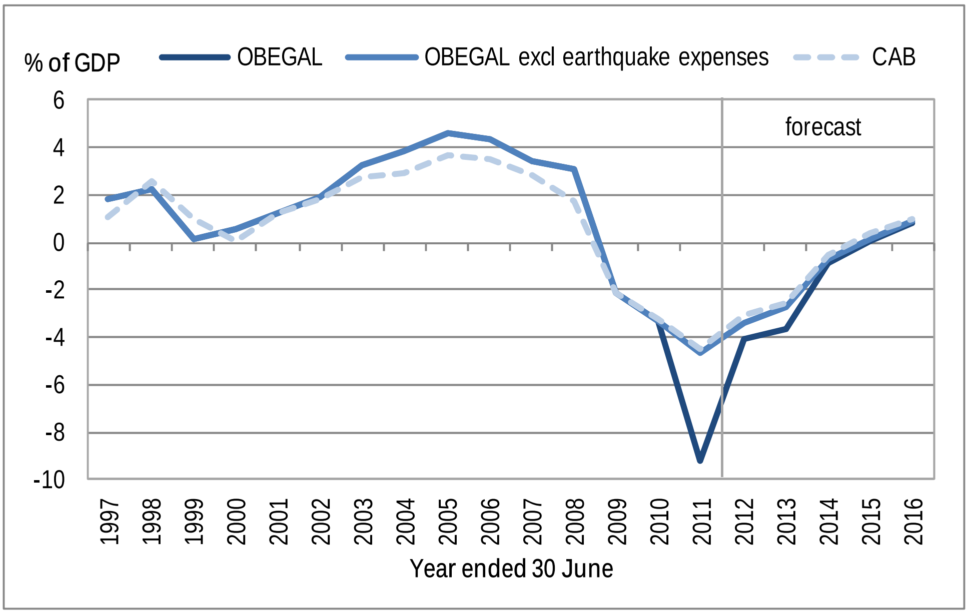
1 Available at http://www.treasury.govt.nz/budget/forecasts/befu2010/befu10-pt6of6.pdf.

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

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

Figure 1 – Cyclically-adjusted balance



Source: The Treasury

Fiscal impulse

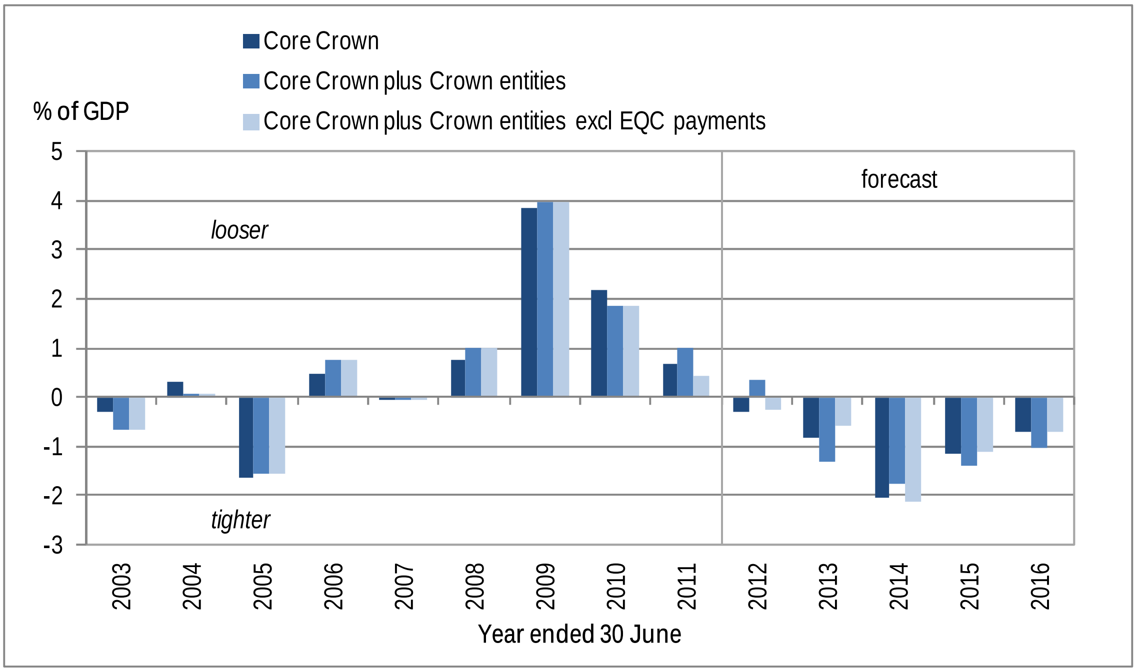
The fiscal impulse indicator is shown in Figure 2. As has been noted in previous *Economic and Fiscal Updates*, capital expenditure on defence, KiwiSaver subsidies and Deposit Guarantee Scheme payments are excluded from the measure of fiscal impulse since these are expected to have a limited direct impact on aggregate demand. Purchases and sales of investments are excluded from the measure of fiscal balance used in the calculation of the fiscal impulse indicator. Therefore the forecast sale proceeds from the policy to extend the partial share sales do not have any impact on the fiscal impulse indicator.

The fiscal impulse is shown for both the core Crown and combined core Crown and Crown entity segments. A measure of the fiscal impulse excluding EQC payments is also shown (EQC is a Crown entity). The core Crown indicator mostly reflects changes in receipts and expenditure which are impacted by Budget decisions, whereas the core Crown plus Crown entity indicator provides a better indication of the total impact of central government activities (excluding State-owned enterprises). EQC payments account for much of the difference between the core Crown fiscal impulse and the indicator for the core Crown plus Crown entities.

The fiscal impulse indicator estimates that discretionary fiscal policy is broadly neutral in 2011/12, with a tightening of about 1% of GDP in 2012/13, 2% of GDP in 2013/14 and 1% in each of 2014/15 and 2015/16. The broadly neutral stance in 2011/12 reflects underlying fiscal tightening offset by temporary earthquake-related spending.

Compared to the *Pre-election Update*, the core Crown fiscal impulse in 2011/12 is tighter (*Budget Update*: -0.3% of GDP; *Pre-election Update*: 0.6% of GDP). In 2012/13, there is less tightening forecast relative to the *Pre-election Update* (*Budget Update*: -0.8% of GDP; *Pre-election Update*: -1.8% of GDP). This change reflects less expenditure expected for 2011/12 and some changes in the expected timing of expenditure from 2011/12 to 2012/13.

Figure 2 – Fiscal impulse estimates



Source: The Treasury

Uncertainty

As noted above, there is much uncertainty about the indicator estimates. There are two broad sources of uncertainty which can lead to revisions in the indicator estimates:

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

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

Sensitivity analysis is performed by calculating the indicators using alternative output gaps (from the RBNZ, IMF and OECD) and values for the elasticity of tax revenues with respect to the output gap which are half and twice the magnitude of the baseline estimate. The range of alternative estimates is plotted in Figures 4 to 6 (with data reported in Tables 16 and 17). Differences in the output gap estimates are mainly the result of differences in estimation technique, although it also reflects different institutions' judgements about the forecast outlook and the availability of data at the time of forecast finalisation. Accordingly,

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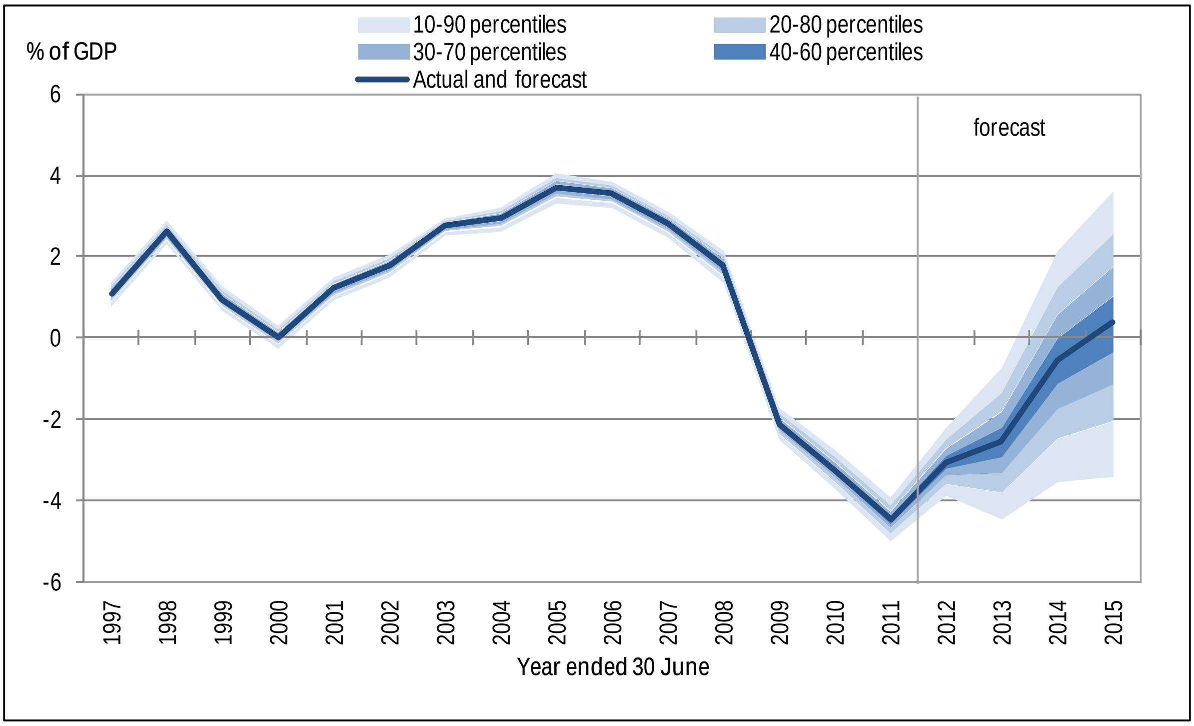
3 Iris Claus, Aaron Gill, Boram Lee and Nathan McLellan (2006) "An empirical investigation of fiscal policy in New Zealand." New Zealand Treasury Working Paper 06/08 http://www.treasury.govt.nz/publications/researchpolicy/ wp/2006/06-08/. The degree to which the fiscal impulse indicator matches the time series estimates depends on the exact form of the latter. In neither of the time series specifications does the summary indicator match the time series estimate across the entire sample period.

it provides an indication of uncertainty due to model specification but it does not capture total forecast uncertainty.

An alternative means of illustrating uncertainty is to show a probability distribution around the central forecast. A probability distribution requires making some assumptions about future forecast errors based on historical forecast errors of observable economic and fiscal variables and historical revisions to the Treasury's output gap estimates. In Figure 3, a fan chart of the cyclically-adjusted balance indicator is shown. The probability intervals calculated are conditional on current policy and reflect historical revisions to the Treasury's official output gap estimate, rather than the full uncertainty implied by different estimation techniques. Details of the methodology and parameter values for the confidence intervals are reported in Treasury Working Paper 10/08.[4] This analysis would suggest that there is a structural fiscal deficit in 2011/12 with a high degree of confidence. There is considerable uncertainty in the forecasts over a three-year horizon.

Figure 3 – Fan chart for cyclically-adjusted balance

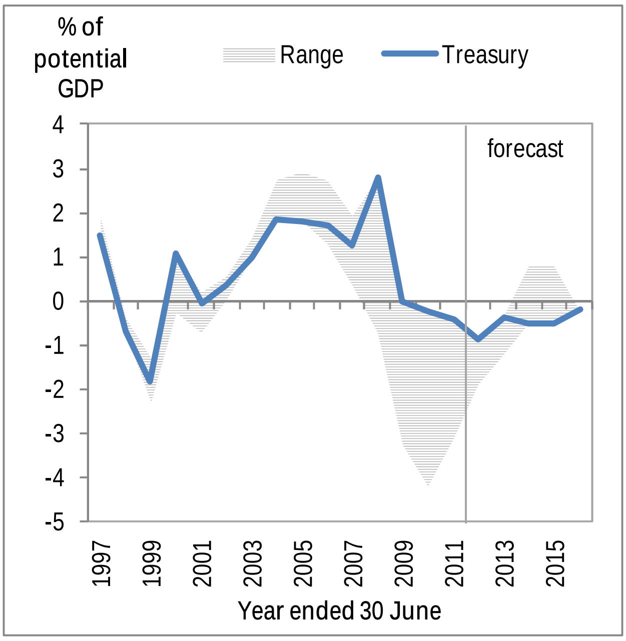


Source: The Treasury

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

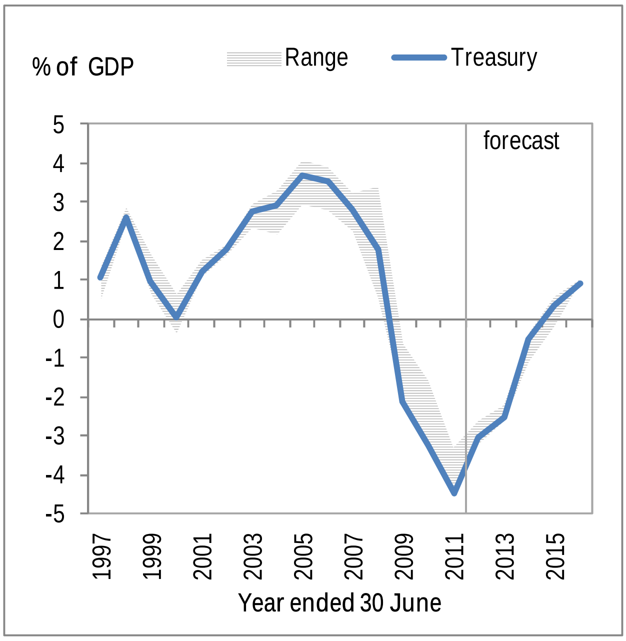
4 Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/.

Figure 4 – Output gap range



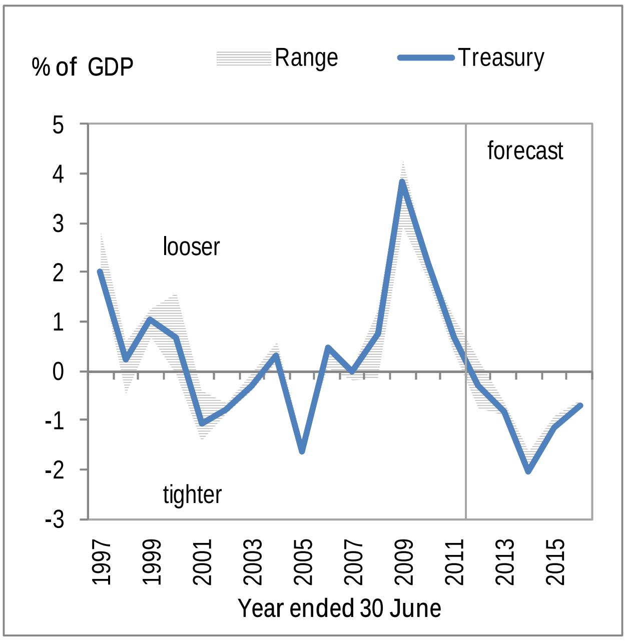
Source: The Treasury

Figure 5 – Cyclically-adjusted balance range



Source: The Treasury

Figure 6 – Core Crown fiscal impulse range



Source: The Treasury

Terms-of-trade adjustment

The Treasury has recently started to produce regular estimates of the terms-of-trade effect on the budget balance. This follows the methodology outlined in Treasury Working Paper 10/08. [5]

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

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

A terms-of-trade adjustment, for each alternate assumption, is reported in Table 18. The adjusted structural budget balance estimate is plotted in Figure 8. This analysis would suggest that, using an historical average, a terms-of-trade adjustment would subtract about 2% of GDP from structural tax revenues in 2011/12. This implies a larger structural budget deficit than without the terms-of-trade adjustment. Alternately, using the statistical filter, which smoothes out fluctuations around a time-varying trend, a terms-of-trade adjustment would subtract only 0.2% of GDP from the structural budget balance in 2011/12.

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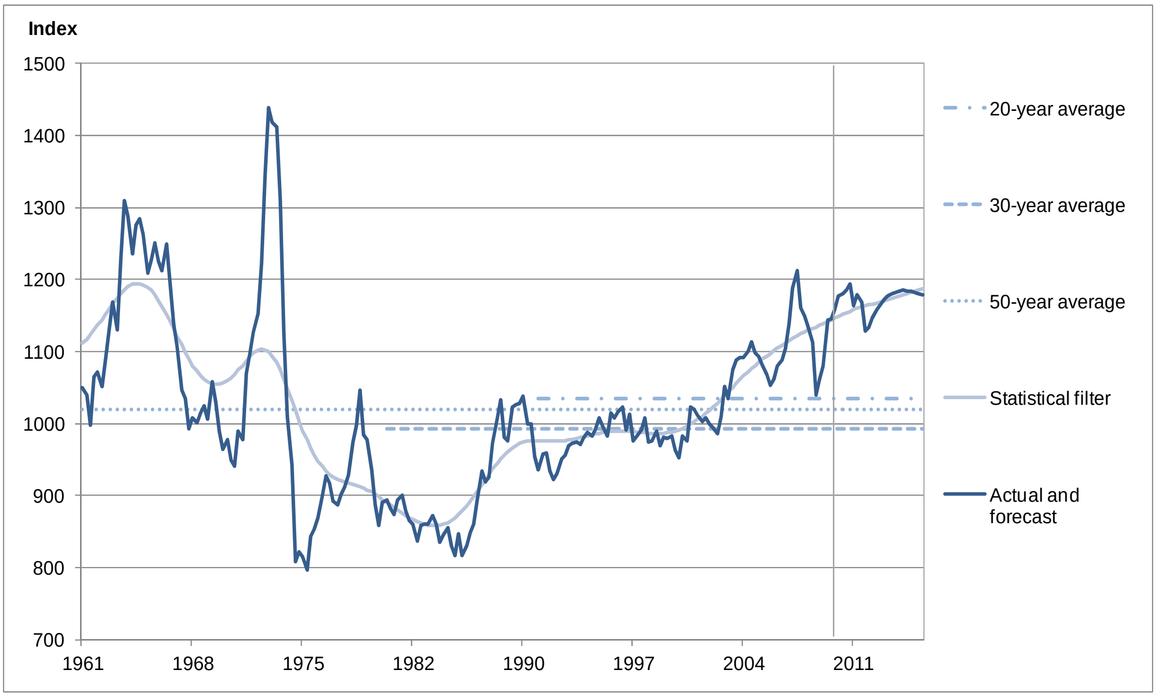
5 Oscar Parkyn (2010) "Estimating New Zealand's Structural Budget Balance." New Zealand Treasury Working Paper 10/08 http://www.treasury.govt.nz/publications/research-policy/wp/2010/10-08/.

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

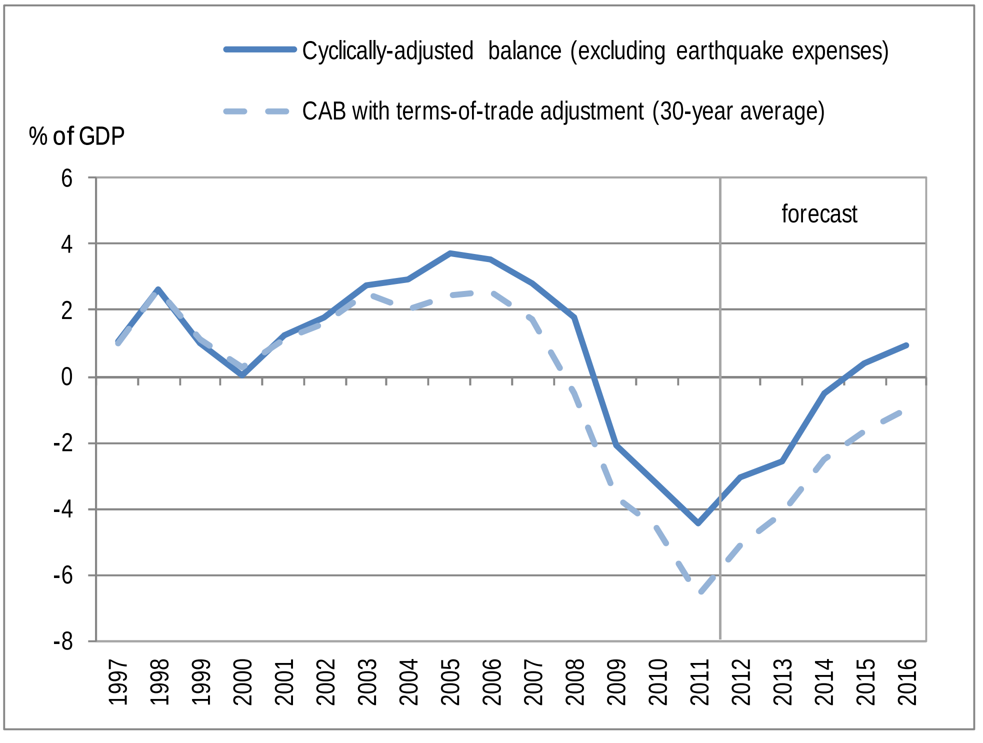
Figure 7 – Terms of trade with historical average and time-varying trend



Sources: Statistics New Zealand, The Treasury

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

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



Source: The Treasury

Data tables for summary fiscal indicators

Table 12 – Central estimates of output gap, cyclically-adjusted balance and fiscal impulse (% of GDP)

June year	Output gap	OBEGAL	OBEGAL excl earthquake expenses	CAB	Fiscal impulse (core Crown)	Fiscal impulse (core Crown plus Crown entity)	Fiscal impulse (core Crown plus CE) excluding EQC payouts
1997	1.5	1.8		1.1	2.0		
1998	-0.7	2.3		2.6	0.3		
1999	-1.8	0.1		1.0	1.0		
2000	1.1	0.5		0.0	0.7		
2001	-0.1	1.2		1.2	-1.1		
2002	0.3	1.9		1.8	-0.8		
2003	1.0	3.2		2.7	-0.3	-0.7	-0.7
2004	1.9	3.8		2.9	0.3	0.1	0.1
2005	1.8	4.6		3.7	-1.6	-1.6	-1.6
2006	1.7	4.4		3.5	0.5	0.7	0.7
2007	1.3	3.4		2.8	0.0	0.0	0.0
2008	2.8	3.1		1.8	0.8	1.0	1.0
2009	0.0	-2.1		-2.1	3.8	4.0	4.0
2010	-0.3	-3.3		-3.2	2.2	1.9	1.9
2011	-0.4	-9.2	-4.6	-4.5	0.7	1.0	0.4
2012	-0.9	-4.1	-3.4	-3.0	-0.3	0.4	-0.2
2013	-0.4	-3.6	-2.7	-2.5	-0.8	-1.3	-0.6
2014	-0.5	-0.9	-0.8	-0.5	-2.0	-1.8	-2.1
2015	-0.5	0.1	0.1	0.4	-1.1	-1.4	-1.1
2016	-0.2	0.8	0.9	0.9	-0.7	-1.0	-0.7

Source: The Treasury

Table 13 – Sources for alternative output gaps

Institution	Source	Publication date
The Treasury	*Budget Economic and Fiscal Update*	May 2012
RBNZ	*Monetary Policy Statement*	March 2012
IMF	*World Economic Outlook*	April 2012
OECD	*Economic Outlook*	November 2011

Table 14 – Elasticity values used in sensitivity analysis

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

Source: The Treasury

Table 15 – Output gap estimates used in sensitivity analysis (% of potential GDP)

June year	The Treasury	RBNZ	IMF	OECD
1997	1.5	1.9	1.6	1.2
1998	-0.7	-0.4	-0.4	-0.7
1999	-1.8	-2.3	-1.4	-1.3
2000	1.1	0.4	-0.3	-0.2
2001	-0.1	-0.7	0.2	-0.1
2002	0.3	0.0	0.6	0.5
2003	1.0	1.3	1.4	1.4
2004	1.9	2.7	2.0	2.1
2005	1.8	2.9	2.5	2.4
2006	1.7	2.7	1.7	1.3
2007	1.3	1.9	1.2	0.4
2008	2.8	2.7	0.6	-0.7
2009	0.0	-1.1	-1.8	-3.3
2010	-0.3	-1.9	-2.9	-4.2
2011	-0.4	-2.1	-2.2	-3.1
2012	-0.9	-1.5	-1.7	-1.9
2013	-0.4	-0.3	-0.9	-1.2
2014	-0.5	0.8		
2015	-0.5	0.8		
2016	-0.2			

Sources: The Treasury, RBNZ, IMF, OECD

Table 16 – Cyclically-adjusted balance with alternative output gap and elasticity values (% of GDP)

June year	OBEGAL	Baseline CAB	CAB using alternative output gaps			CAB using alternative elasticities	
			RBNZ	IMF	OECD	Low	High
1997	1.8	1.1	0.9	1.0	1.2	1.4	0.5
1998	2.3	2.6	2.5	2.5	2.6	2.5	2.9
1999	0.1	1.0	1.2	0.8	0.7	0.6	1.6
2000	0.5	0.0	0.3	0.6	0.6	0.2	-0.4
2001	1.2	1.2	1.5	1.1	1.2	1.2	1.2
2002	1.9	1.8	1.9	1.7	1.7	1.8	1.7
2003	3.2	2.7	2.6	2.5	2.5	2.9	2.3
2004	3.8	2.9	2.5	2.9	2.8	3.3	2.2
2005	4.6	3.7	3.2	3.4	3.4	4.1	2.9
2006	4.4	3.5	3.0	3.5	3.7	3.9	2.8
2007	3.4	2.8	2.5	2.8	3.2	3.1	2.3
2008	3.1	1.8	1.8	2.8	3.4	2.4	0.6
2009	-2.1	-2.1	-1.6	-1.3	-0.6	-2.1	-2.1
2010	-3.3	-3.2	-2.5	-2.1	-1.6	-3.3	-3.1
2011	-9.2	-4.5	-3.7	-3.7	-3.3	-4.5	-4.3
2012	-4.1	-3.0	-2.8	-2.7	-2.6	-3.2	-2.7
2013	-3.6	-2.5	-2.6	-2.3	-2.2	-2.6	-2.4
2014	-0.9	-0.5	-1.1			-0.6	-0.4
2015	0.1	0.4	-0.2			0.3	0.6
2016	0.8	0.9				0.9	1.0

Source: The Treasury

Table 17 – Core Crown fiscal impulse with alternative output gap and elasticity values (% of GDP)

June year	Fiscal impulse	Fiscal impulse using alternative output gaps			Fiscal impulse using alternative elasticities	
		RBNZ	IMF	OECD	Low	High
1997	2.0	2.2	2.8	2.6	2.1	1.9
1998	0.3	0.2	0.3	0.4	0.6	-0.5
1999	1.0	0.7	1.1	1.3	1.2	0.7
2000	0.7	0.6	-0.1	-0.1	0.2	1.6
2001	-1.1	-1.1	-0.4	-0.5	-0.9	-1.4
2002	-0.8	-0.7	-0.8	-0.7	-0.9	-0.7
2003	-0.3	0.0	-0.2	-0.2	-0.4	-0.1
2004	0.3	0.5	0.2	0.2	0.2	0.6
2005	-1.6	-1.5	-1.4	-1.5	-1.6	-1.6
2006	0.5	0.4	0.2	0.1	0.5	0.4
2007	0.0	-0.2	0.0	-0.2	0.1	-0.2
2008	0.8	0.5	0.0	-0.1	0.5	1.2
2009	3.8	3.5	4.0	4.0	4.3	3.0
2010	2.2	2.0	1.9	1.9	2.2	2.1
2011	0.7	0.7	1.0	1.1	0.7	0.6
2012	-0.3	0.0	0.0	0.2	-0.2	-0.4
2013	-0.8	-0.6	-0.7	-0.8	-0.9	-0.7
2014	-2.0	-1.6			-2.0	-2.1
2015	-1.1	-1.1			-1.1	-1.1
2016	-0.7				-0.7	-0.6

Source: The Treasury

Table 18 – Terms-of-trade adjustment to the cyclically-adjusted balance (% of GDP)

June year	Baseline CAB	Terms-of-trade adjustment (impact on CAB)				CAB with terms-of-trade adjustment			
		50-year average	30-year average	20-year average	Statistical filter	50-year average	30-year average	20-year average	Statistical filter
1997	1.1	0.2	-0.1	0.3	-0.1	1.3	1.0	1.4	1.0
1998	2.6	0.3	0.0	0.5	0.0	2.9	2.6	3.1	2.6
1999	1.0	0.4	0.2	0.6	0.1	1.4	1.1	1.6	1.0
2000	0.0	0.6	0.3	0.7	0.2	0.6	0.3	0.7	0.3
2001	1.2	0.2	-0.1	0.4	0.0	1.5	1.1	1.6	1.2
2002	1.8	0.2	-0.2	0.4	0.1	2.0	1.6	2.1	1.9
2003	2.7	0.1	-0.2	0.3	0.3	2.9	2.5	3.0	3.0
2004	2.9	-0.6	-0.9	-0.4	-0.2	2.3	2.0	2.5	2.7
2005	3.7	-0.9	-1.2	-0.7	-0.3	2.8	2.5	3.0	3.4
2006	3.5	-0.6	-1.0	-0.4	0.2	2.9	2.6	3.1	3.7
2007	2.8	-0.7	-1.1	-0.6	0.2	2.1	1.7	2.2	3.1
2008	1.8	-1.9	-2.3	-1.7	-0.6	-0.1	-0.5	0.1	1.2
2009	-2.1	-1.1	-1.5	-0.9	0.2	-3.3	-3.6	-3.0	-1.9
2010	-3.2	-1.0	-1.3	-0.8	0.3	-4.2	-4.5	-4.0	-2.9
2011	-4.5	-1.8	-2.2	-1.6	-0.3	-6.3	-6.6	-6.1	-4.7
2012	-3.0	-1.7	-2.1	-1.5	-0.2	-4.8	-5.1	-4.6	-3.2
2013	-2.5	-1.3	-1.6	-1.1	0.2	-3.8	-4.1	-3.6	-2.3
2014	-0.5	-1.6	-1.9	-1.4	0.0	-2.2	-2.5	-2.0	-0.6
2015	0.4	-1.7	-2.0	-1.5	0.0	-1.3	-1.6	-1.1	0.3
2016	0.9	-1.6	-1.9	-1.4	0.1	-0.6	-1.0	-0.5	1.0

Source: The Treasury

Government Finance Statistics for Central Government

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

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

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

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

New Zealand's GFS accounts

The following section provides fiscal forecasts for central Government on a GFS basis. These are prepared by applying top-down adjustments to the forecast financial statements presented in the Budget, which were prepared on a Generally Accepted Accounting Practice (GAAP) basis. The following adjustments are made:

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

The GFS data presented in this section is experimental. Statistics New Zealand is working towards an official GFS series, which will also include local government. Table 19 outlines some of the key indicators for the central government under a GFS presentation.

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

Table 19 – Summary indicators for central government

	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
$million						
Net operating balance	(13,906)	(5,290)	(3,964)	1,225	2,933	5,022
Fiscal Balance (Net lending/borrowing)	(14,815)	(6,765)	(5,987)	(738)	509	2,815
Cash surplus/(deficit)	(10,144)	(10,428)	(8,597)	(5,080)	(2,377)	765
Net worth	77,841	67,199	61,500	61,866	64,601	69,415
Net financial worth	5,398	17,515	25,237	26,834	26,523	23,916
Borrowing	62,606	71,102	70,065	79,092	74,997	75,007
%GDP						
Net operating balance	(6.9)	(2.5)	(1.8)	0.5	1.2	2.0
Fiscal Balance (Net lending/borrowing)	(7.4)	(3.3)	(2.7)	(0.3)	0.2	1.1
Cash surplus/(deficit)	(5.1)	(5.0)	(3.9)	(2.2)	(1.0)	0.3
Net worth	38.9	32.3	28.2	26.7	26.5	27.2
Net financial worth	2.7	8.4	11.6	11.6	10.9	9.4
Borrowing	31.3	34.2	32.2	34.1	30.7	29.3

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

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

The GFS manual (on the IMF's website) should assist with definitions for some of the terminology used in this section.

Table 20 – Statement of operations

	2011 Actual $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Revenue						
Taxation revenue	55,754	58,883	62,337	67,384	71,805	76,068
Interest revenue and dividends	2,984	2,642	2,950	3,067	3,251	3,281
Grants	-	-	-	-	-	-
Sale of goods and services and other revenue	13,411	9,084	8,871	8,835	8,745	8,871
Total revenue	**72,149**	**70,609**	**74,158**	**79,286**	**83,801**	**88,220**
Expenses						
Compensation of employees	18,847	18,974	19,344	19,396	19,568	19,730
Consumption of capital	3,370	3,190	3,218	3,245	3,273	3,303
Social benefits	21,709	21,999	22,720	23,247	23,964	24,897
Grants and subsidies	4,686	4,803	5,043	5,083	5,121	5,180
Finance costs	2,707	3,190	3,436	3,497	3,853	3,725
Other expenses	34,736	24,106	24,713	22,602	22,869	22,945
Forecast for new operating spending and top-down adjustment	-	(363)	(352)	991	2,220	3,418
Total expenses	**86,055**	**75,899**	**78,122**	**78,061**	**80,868**	**83,198**
Net operating balance	**(13,906)**	**(5,290)**	**(3,964)**	**1,225**	**2,933**	**5,022**
Net acquisition of non-financial assets						
Acquisition of non-financial assets	4,417	5,025	5,449	4,913	5,185	4,879
Disposal of non-financial assets	(165)	(164)	(311)	(276)	(305)	(232)
Consumption of fixed assets	(3,370)	(3,190)	(3,218)	(3,245)	(3,273)	(3,303)
Change in inventories	27	(34)	9	-	6	13
Forecast for new capital spending and top-down adjustment		(162)	94	571	811	850
Fiscal Balance (Net lending/borrowing)	**(14,815)**	**(6,765)**	**(5,987)**	**(738)**	**509**	**2,815**
Net acquisition of financial assets						
Receivables	8,007	(245)	(1,453)	532	1,175	1,398
Advances	1,577	1,237	1,692	1,405	1,416	1,159
Other financial assets	8,114	(1,648)	(9,467)	4,530	(5,676)	1,622
Other assets	1,751	52	(1,037)	(1,309)	(1,771)	(1,461)
	19,449	**(604)**	**(10,265)**	**5,158**	**(4,856)**	**2,718**
Net incurrence of liabilities						
Borrowings	20,849	8,399	(840)	9,206	(3,969)	51
Accounts payable	2,391	1,065	448	8	131	116
Other liabilities	11,024	(3,303)	(3,886)	(3,318)	(1,527)	(264)
	34,264	**6,161**	**(4,278)**	**5,896**	**(5,365)**	**(97)**
Difference between net lending/borrowing and financing	**-**	**-**	**-**	**-**	**-**	**-**

Table 21 – Statement of other economic flows

	2011 Actual $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Other Economic Flows						
Impairments and write-offs of financial assets	(1,997)	(1,850)	(2,590)	(2,630)	(2,469)	(2,596)
GSF valuations changes	(574)	(2,212)	-	-	-	-
Other gains/(losses) on non financial instruments	43	(2,274)	(241)	(286)	(487)	(658)
Derivatives gains	2,028	565	677	724	776	836
Derivatives losses	1,836	26	126	120	81	21
Gains/(losses) on financial assets	607	740	949	1,129	1,379	1,660
Gains/(losses) on financial liabilities	405	(123)	71	59	45	20
Expenses relating to earthquake provisions	(1,121)	(160)	(1,185)	(381)	(90)	(31)
Reserve Bank equity accounted	(147)	(92)	119	(13)	34	43
SOEs equity accounted	(639)	(38)	268	353	462	435
Other items	92	66	71	66	71	62
Total other economic flows	**533**	**(5,352)**	**(1,735)**	**(859)**	**(198)**	**(208)**

Table 22 – Balance sheet

	2011 Actual $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Assets						
Cash and cash equivalents	20,459	14,939	14,283	13,993	13,432	13,231
Receivables	19,318	17,832	14,790	13,701	13,432	13,293
Marketable securities, deposits and derivatives in gain	21,260	25,998	17,284	22,447	17,935	20,633
Share investments	14,015	14,389	15,770	17,147	18,561	20,038
Advances	11,366	12,059	12,898	13,427	13,956	14,200
Inventory	631	597	606	606	612	625
Other assets	1,465	1,415	1,454	1,619	1,336	1,337
Property, plant & equipment	82,608	84,279	86,199	87,591	89,198	90,542
Equity accounted investments	34,178	34,190	33,420	32,336	31,443	30,584
Intangible assets and goodwill	1,582	1,608	1,760	1,776	1,748	1,685
Forecast for new capital spending (net) and top-down adjustment	-	(162)	(68)	503	1,314	2,164
Total assets	**206,882**	**207,144**	**198,396**	**205,146**	**202,967**	**208,332**
Liabilities						
Payables	9,885	11,021	11,502	11,537	11,671	11,787
Deferred revenue	1,429	1,358	1,325	1,298	1,295	1,295
Borrowings	62,606	71,102	70,065	79,092	74,997	75,007
Insurance liabilities	37,559	38,131	35,924	34,305	34,178	35,323
Retirement plan liabilities	10,155	11,885	11,480	11,118	10,797	10,502
Provisions	7,407	6,448	6,600	5,930	5,428	5,003
Total liabilities	**129,041**	**139,945**	**136,896**	**143,280**	**138,366**	**138,917**
Net Worth	**77,841**	**67,199**	**61,500**	**61,866**	**64,601**	**69,415**

Table 23 – Statement of sources and uses of cash

	2011 Actual $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Cash receipts from operating activities						
Total tax receipt	54,774	57,647	61,171	66,131	70,216	74,322
Interest and dividends	2,929	2,490	2,711	2,829	2,995	2,989
Sale of goods and services and other receipts	8,249	9,510	11,411	9,657	9,021	8,754
Total receipts	65,952	69,647	75,293	78,617	82,232	86,065
Cash payments from operating activities						
Compensation of employees and other payments	(41,327)	(43,610)	(45,675)	(43,615)	(41,781)	(40,539)
Social benefits	(22,172)	(23,049)	(23,284)	(23,806)	(24,534)	(25,518)
Grants and subsidies	(5,976)	(6,400)	(6,701)	(6,905)	(6,931)	(6,896)
Finance costs	(2,193)	(3,015)	(3,556)	(3,444)	(3,912)	(3,650)
Forecast for new operating spending and top-down adjustment	-	363	352	(991)	(2,220)	(3,417)
Total payments	(71,668)	(75,711)	(78,864)	(78,761)	(79,378)	(80,020)
Net cash inflow/(outflow) from operating activities	(5,716)	(6,064)	(3,571)	(144)	2,854	6,045
Net cash outflow from investments in non-financial assets						
Acquisition of non-financial assets	(4,593)	(4,690)	(5,243)	(4,641)	(4,725)	(4,662)
Disposal of non-financial assets	165	164	311	276	305	232
Forecast for new capital spending and top-down adjustment	-	162	(94)	(571)	(811)	(850)
Cash surplus/(deficit)	**(10,144)**	**(10,428)**	**(8,597)**	**(5,080)**	**(2,377)**	**765**
Net acquisition of financial assets						
Advances	(1,041)	(819)	(965)	(660)	(640)	(357)
Share investments	(2,685)	(17,749)	8,099	(5,841)	3,941	(2,944)
Net purchase of investments	224	4	1,535	1,572	1,567	1,543
Capital contributions	(380)	(342)	(244)	6	6	(54)
Net incurrence of liabilities						
New Zealand dollar borrowings	(951)	10,187	(3,379)	891	1,483	(656)
Foreign currency borrowings	1,356	(8,170)	(289)	(532)	(621)	(1,035)
Government stock	21,382	21,797	3,184	9,354	(3,920)	2,537
Net cash inflows from financing activities	**17,905**	**4,908**	**7,941**	**4,790**	**1,816**	**(966)**
Net change in the stock of cash	**7,761**	**(5,520)**	**(656)**	**(290)**	**(561)**	**(201)**

Table 24 – Statement of stocks and flows

for the year ended 30 June 2011

Opening balance statement	**$million**	**Statement of operations**	**$million**	**Other economic flows**	**$million**	**Closing balance sheet**	**$million**
Opening net worth	91,834	Operating balance	(13,906)	Holding gains	(87)	Closing net worth	77,841
Equals		*Equals*					
Non-financial assets	82,950	Transactions	909	Valuation changes	(620)	Non-financial assets	83,239
plus		*plus*		*plus*		*plus*	
Net financial worth	**8,884**	**Net lending**	**(14,815)**	**Change in net financial worth**	**(707)**	**Net financial worth**	**(6,638)**
Equals		*Equals*					
Financial assets	104,250	Transactions in financial assets	19,449	Changes in financial assets	(56)	Closing financial assets	123,643
less		*less*		*less*		*less*	
Opening liabilities	95,366	Transactions in liabilities	34,264	Changes in liabilities	(589)	Closing liabilities	129,041

for the year ended 30 June 2012

Opening balance statement	**$million**	**Statement of operations**	**$million**	**Other economic flows**	**$million**	**Closing balance sheet**	**$million**
Opening net worth	77,841	Operating balance	(5,290)	Holding gains	(5,352)	Closing net worth	67,199
Equals		*Equals*					
Non-financial assets	83,239	Transactions	1,475	Valuation changes	-	Non-financial assets	84,714
plus		*plus*		*plus*		*plus*	
Net financial worth	**(5,398)**	**Net lending**	**(6,765)**	**Change in net financial worth**	**(5,352)**	**Net financial worth**	**(17,515)**
Equals		*Equals*					
Financial assets	123,643	Transactions in financial assets	(604)	Changes in financial assets	(609)	Closing financial assets	122,430
less		*less*		*less*		*less*	
Opening liabilities	129,041	Transactions in liabilities	6,161	Changes in liabilities	4,743	Closing liabilities	139,945

for the year ended 30 June 2013

Opening balance statement	**$million**	**Statement of operations**	**$million**	**Other economic flows**	**$million**	**Closing balance sheet**	**$million**
Opening net worth	67,199	Operating balance	(3,964)	Holding gains	(1,735)	Closing net worth	61,500
Equals		*Equals*					
Non-financial assets	84,714	Transactions	2,023	Valuation changes	-	Non-financial assets	86,737
plus		*plus*		*plus*		*plus*	
Net financial worth	**(17,515)**	**Net lending**	**(5,987)**	**Change in net financial worth**	**(1,735)**	**Net financial worth**	**(25,237)**
Equals		*Equals*					
Financial assets	122,430	Transactions in financial assets	(10,265)	Changes in financial assets	(506)	Closing financial assets	111,659
less		*less*		*less*		*less*	
Opening liabilities	139,945	Transactions in liabilities	(4,278)	Changes in liabilities	1,229	Closing liabilities	136,896

for the year ended 30 June 2014

Opening balance statement	**$million**	**Statement of operations**	**$million**	**Other economic flows**	**$million**	**Closing balance sheet**	**$million**
Opening net worth	61,500	Operating balance	1,225	Holding gains	(859)	Closing net worth	61,866
Equals		*Equals*					
Non-financial assets	86,737	Transactions	1,963	Valuation changes	-	Non-financial assets	88,700
plus		*plus*		*plus*		*plus*	
Net financial worth	**(25,237)**	**Net lending**	**(738)**	**Change in net financial worth**	**(859)**	**Net financial worth**	**(26,834)**
Equals		*Equals*					
Financial assets	111,659	Transactions in financial assets	5,158	Changes in financial assets	(371)	Closing financial assets	116,446
less		*less*		*less*		*less*	
Opening liabilities	136,896	Transactions in liabilities	5,896	Changes in liabilities	488	Closing liabilities	143,280

for the year ended 30 June 2015

Opening balance statement	**$million**	**Statement of operations**	**$million**	**Other economic flows**	**$million**	**Closing balance sheet**	**$million**
Opening net worth	61,866	Operating balance	2,933	Holding gains	(198)	Closing net worth	64,601
Equals		*Equals*					
Non-financial assets	88,700	Transactions	2,424	Valuation changes	-	Non-financial assets	91,124
plus		*plus*		*plus*		*plus*	
Net financial worth	**(26,834)**	**Net lending**	**509**	**Change in net financial worth**	**(198)**	**Net financial worth**	**(26,523)**
Equals		*Equals*					
Financial assets	116,446	Transactions in financial assets	(4,856)	Changes in financial assets	253	Closing financial assets	111,843
less		*less*		*less*		*less*	
Opening liabilities	143,280	Transactions in liabilities	(5,365)	Changes in liabilities	451	Closing liabilities	138,366

for the year ended 30 June 2016

Opening balance statement	**$million**	**Statement of operations**	**$million**	**Other economic flows**	**$million**	**Closing balance sheet**	**$million**
Opening net worth	64,601	Operating balance	5,022	Holding gains	(208)	Closing net worth	69,415
Equals		*Equals*					
Non-financial assets	91,124	Transactions	2,207	Valuation changes	-	Non-financial assets	93,331
plus		*plus*		*plus*		*plus*	
Net financial worth	**(26,523)**	**Net lending**	**2,815**	**Change in net financial worth**	**(208)**	**Net financial worth**	**(23,916)**
Equals		*Equals*					
Financial assets	111,843	Transactions in financial assets	2,718	Changes in financial assets	440	Closing financial assets	115,001
less		*less*		*less*		*less*	
Opening liabilities	138,366	Transactions in liabilities	(97)	Changes in liabilities	648	Closing liabilities	138,917

Table 25 – Reconciliation between GAAP and GFS operating balance

	2011 Actual $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Operating balance per GAAP	**(13,360)**	**(10,642)**	**(5,699)**	**366**	**2,735**	**4,814**
Remove gains/losses and net surpluses from associates and joint ventures	(5,036)	2,201	(2,198)	(2,379)	(2,538)	(2,712)
Operating balance before gains and losses (OBEGAL)	**(18,396)**	**(8,441)**	**(7,897)**	**(2,013)**	**197**	**2,102**
Remove SOE portion of OBEGAL (incl. eliminations)	81	173	(126)	(128)	(260)	(232)
Remove ETS expenses	838	668	237	248	449	618
Remove impairments and write-offs on financial assets	1,997	1,850	2,590	2,630	2,469	2,596
Remove expenses relating to earthquake provisions	1,121	160	1,185	381	90	31
Tertiary institutions included on a line-by-line basis	168	170	168	168	170	169
Reserve Bank (equity accounted)	255	124	(125)	(62)	(181)	(269)
Other adjustments	30	6	4	1	(1)	7
Net operating balance per GFS	**(13,906)**	**(5,290)**	**(3,964)**	**1,225**	**2,933**	**5,022**

Table 26 – Reconciliation between GAAP residual cash and GFS cash surplus/(deficit)

	2011 Actual $m	2012 Forecast $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m
Residual cash per GAAP	**(13,343)**	**(12,119)**	**(9,671)**	**(5,184)**	**(3,680)**	**(1,198)**
Back out advances	1,242	1,080	926	760	1,187	710
Back out investments	1,292	1,334	(62)	(360)	(201)	4
Add in cash flows from Crown entities	633	(825)	186	(428)	244	1,200
Remove cash flows from the Reserve Bank	52	(46)	(131)	7	(36)	(45)
Other adjustments (mainly impact of NZS Fund)	(20)	148	155	125	109	94
Cash surplus/(deficit)	**(10,144)**	**(10,428)**	**(8,597)**	**(5,080)**	**(2,377)**	**765**

Accounting Policies

The forecast financial statements contained in the published *Budget Economic and Fiscal Update 2012* are based on the following accounting policies:

Statement of compliance

These forecast financial statements have been prepared in accordance with the Public Finance Act 1989 and with New Zealand Generally Accepted Accounting Practice (NZ GAAP). The accounting policies applied in the forecast financial statements were the same as those applied in the audited, actual financial statements of the Government for the year ended 30 June 2011.

For the purposes of these forecast financial statements, the government reporting entity has been designated as a public benefit entity. The forecast financial statements comply with FRS-42*: Prospective Financial Statements* and NZ GAAP as it relates to prospective financial statements.

Reporting entity

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

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

Basis of preparation

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

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

Judgements and estimations

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

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

A second area of uncertainty relates to the relative immature nature of the claims experience available to assist in estimating the claims and provisions arising from the Canterbury earthquakes. Actuarial valuations of these liabilities using the best available information have been used, however it is common in such cases for adjustments to be required as the claims experience develops.

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

Early adoption of standards and interpretations

The Government has elected to early-adopt all NZ IFRSs and Interpretations that had been approved by the New Zealand Accounting Standards Review Board as at 30 June 2011 but that are not yet effective, with the exception of *NZ IFRS 9: Financial Instruments*. The first of three phases of this new standard (which is incomplete) were approved by the Accounting Standards Review Board in November 2009 and November 2010. The standard addresses the issues of classification and measurement of financial assets and financial liabilities and becomes effective for annual reporting periods commencing on or after 1 January 2015.

An initial assessment of standards approved since 30 June 2011 does not indicate any issues which would have a material impact on these forecast financial statements.

Reporting and forecast period

The reporting period for these forecast financial statements is the year ended 30 June 2012 to 30 June 2016.

The “2011 Actual” figures reported in the statements are the audited results reported in the Financial Statements of Government for the year ended 30 June 2011. The “2012 Previous Budget” figures are the original forecasts to 30 June 2012, as presented in the 2011 Budget. The “2012 Forecast” figures incorporate actual financial results up to 31 March 2011 and a forecast for the remainder of the financial year.

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

Basis of combination

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

Core Entities

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

Other entities

- State-owned enterprises
- Crown entities (excluding Tertiary Education Institutions)
- Air New Zealand Limited
- Organisations listed in Schedule 4 of the Public Finance Act 1989

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

Tertiary education institutions are equity-accounted for the reasons explained in the notes to the Government's financial statements for the period ended 30 June 2011. This treatment recognises these entities' net assets, including asset revaluation movements, surpluses and deficits.

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

- *Jointly controlled operations*: The Government reporting entity recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the jointly controlled operations' income
- *Jointly controlled assets*: The Government reporting entity recognises its share of the jointly controlled assets, its share of any liabilities and expenses incurred jointly, any other liabilities and expenses it has incurred in respect of the jointly controlled asset, and income from the sale or use of its share of the output of the jointly controlled assets; and
- *Jointly controlled entities*: Jointly controlled entities are equity accounted, whereby the Government reporting entity initially recognises its share of interest in these entities' net assets at cost and subsequently adjusts the cost for changes in net assets. The Government reporting entity's share of the jointly controlled entities' surpluses and deficits are recognised in the statement of financial performance.

Accounting policies

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

Income

Taxation revenue levied through the Crown's sovereign power

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

Where possible, taxation revenue is recognised at the time the debt to the Crown arises.

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

Revenue earned through operations

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

Interest income

Interest income is accrued using the effective interest rate method.

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

Dividend income

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

Rental income

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

Donated or Subsidised Assets

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements

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

Grants and subsidies

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

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Foreign currency

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

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

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

Sovereign receivables and taxes repayable

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

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

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

Financial instruments

Financial assets

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

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

Major financial asset type	**Designation**
Trade and other receivables	All designated as loans and receivables
Student loans	All designated as loans and receivables
Kiwibank mortgages	Generally designated as loans and receivables
Other advances	Generally designated as loans and receivables
IMF financial assets	All designated as loans and receivables
Share investments	Generally designated as fair value through profit and loss
Marketable securities	Generally designated as fair value through profit and loss

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

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

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

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

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

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

Financial liabilities

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

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

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

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

Derivatives

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

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

Hedging

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

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

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

(a) Cash flow hedge

Where a derivative qualifies as a hedge of variability in asset or liability cash flows (cash flow hedge), the effective portion of any gain or loss on the derivative is recognised in the statement of comprehensive income and the ineffective portion is recognised in the statement of financial performance. Where the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability (eg, where the hedge relates to the purchase of an asset in a foreign currency), the amount recognised in the statement of comprehensive income is included in the initial cost of the asset or liability. Otherwise, gains or losses recognised in the statement of comprehensive income transfer to the statement of financial performance in the same period as when the hedged item affects the statement of financial performance (eg, when the forecast sale occurs). Effective portions of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

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

(b) Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in the statement of financial performance together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of the statement of financial performance as the hedged item.

Financial Instruments – forecasting policies

For forecasting purposes, financial instruments held after 30 June 2011 are assumed to be held until they mature. Additional gains and losses on financial assets measured at fair value are based on long-run rate of return assumptions appropriate to the forecast portfolio mix, after adjusting for interest revenue and dividend revenue which are reported separately. Gains and losses on financial liabilities measured at fair value are assumed to unwind over the period to maturity, as they are assumed to be redeemed at par value.

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

Forecasts of borrowings incorporate a number of technical assumptions regarding the use of the Crown's fiscal surplus for domestic debt reduction. These assumptions may not reflect the actual future composition of the domestic debt programmes, as these decisions have yet to be made.

Derivatives held for trading are measured at fair value, which is nil when initially entered into. That is, fair value changes are only recognised after the derivative is created and as a result of changes in underlying variables such as exchange rates. Hence, forecasts for derivatives expected to be entered into over the forecast period are assumed to have a nil balance. Forward margins on forward-exchange contracts existing as at 30 June 2011 are amortised over the period of the contract on a straight line basis.

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

Inventories

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

Inventories include unissued currency and harvested agricultural produce (eg, logs, wool).

The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

Property, plant and equipment

Items of property, plant and equipment (PPE) are initially recorded at cost. Cost may include transfers from net worth of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, as income in the statement of financial performance.

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

Subsequent to initial recognition, classes of property, plant and equipment are accounted for as set out below.

Class of PPE	Accounting policy
Land and buildings	Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations undertaken in accordance with standards issued by the New Zealand Property Institute are used where available. Otherwise, valuations conducted in accordance with the Rating Valuation Act 1998, may be used if they have been confirmed as appropriate by an independent valuer. When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out. State highways, the rail network and specified cultural and heritage assets, have their own class of PPE; however, land associated with each of these classes is presented within Land and Buildings. The valuation methods for these types of land are described in the relevant section below.
Specialist military equipment	Specialist military equipment is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Valuations are obtained through specialist assessment by New Zealand Defence Force advisers, and the bases of these valuations are confirmed as appropriate by an independent valuer.
State highways	State highways are recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the state highways is valued using an opportunity cost based on adjacent use, as an approximation to fair value.

Class of PPE	Accounting policy
Rail network	The rail network is recorded on a depreciated replacement cost basis less depreciation and impairment losses accumulated since the assets were last revalued. Land associated with the rail network is valued using an opportunity cost based on adjacent use, as an approximation to fair value.
Aircraft	Aircraft (excluding Specialised Military Equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Electricity distribution	Electricity distribution network assets are recorded at cost, less depreciation and impairment losses accumulated since the assets were purchased.
Electricity generation	Electricity generation assets are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Specified cultural and heritage assets	Specified cultural and heritage assets comprise national parks, conservation areas and related recreational facilities, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Such physical assets are recorded at fair value less subsequent impairment losses and, for non-land assets, less subsequent accumulated depreciation. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and when they do not generate cash flows and where no market exists to provide a valuation.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

Classes of property, plant and equipment that are revalued are revalued at least every five years or whenever the carrying amount differs materially to fair value.

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

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

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the statement of financial performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to taxpayer funds.

Generally, Government borrowings are not directly attributable to individual assets. Therefore, any borrowing costs incurred during the period required to complete and prepare assets for their intended use are expensed rather than capitalised.

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

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Class of PPE	**Estimated useful lives**
Buildings	25 to 60 years
Specialist military equipment	5 to 55 years
State highways: Pavement (surfacing) Pavement (other) Bridges	 7 years 50 years 70 to 105 years
Rail Network: Track and ballast Tunnels and bridges Overhead traction and signalling	 25 to 40 years 60 to 100 years 10 to 40 years
Aircraft (excluding specialist military equipment)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 55 years
Other plant and equipment	3 to 30 years

Specified heritage and cultural assets are generally not depreciated.

Property, plant and equipment

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

Equity accounted investments

The applicable financial reporting standards that determine the basis of combination of entities that make up the Government reporting entity are NZ IAS 27: *Consolidated and Separate Financial Statements* and NZ IAS 28: *Investments in Associates.* NZ IAS 27 refers to guidance provided in IPSAS 6: *Consolidated and Separate Financial Statements* and FRS 37: *Consolidating Investments in Subsidiaries* which shall be used by public benefit entities in determining whether they control another entity.

These standards are, however, not clear about how the definitions of control and significant influence should be applied in some circumstances in the public sector, particularly where legislation provides public sector entities with statutory autonomy and independence, in particular with Tertiary Education Institutions. Treasury's view is that because the Government cannot determine their operating and financing policies, but does have a number of powers in relation to these entities, it is appropriate to treat them as associates.

Biological assets

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

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as property, plant and equipment in accordance with the policies for property, plant and equipment.

Intangible assets

Intangible assets are initially recorded at cost. Where an intangible asset is created for nil or nominal consideration it is also initially carried at cost, which by definition is nil/nominal.

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

The Government's holdings of assigned amount units arising from the Kyoto protocol are reported at fair value. Other intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three to five years.

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

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance in the period in which the transaction occurs.

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

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

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

Investment property

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

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

Employee benefits

Pension liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of financial performance as they fall due. Obligations for defined benefit retirement plans are recorded at the latest actuarial value of the Crown liability. All movements in the liability, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

Other employee entitlements

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

Termination benefits

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

Insurance contracts

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

Reinsurance

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

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, and unexpired risk liabilities are recognised as income in the statement of financial performance.

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

Deferred acquisition costs

Accident compensation and earthquake commission levies are imposed through regulation and do not attract acquisition costs. Costs incurred in obtaining other insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under the Group's general insurance contracts cover a period of up to 12 months, therefore, deferred acquisition costs are amortised within 1 year.

Leases

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

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

Other liabilities and provisions

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

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Commitments

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

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

Commitments are classified as:

- capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date
- non-cancellable operating leases with a lease term of more than one year; and
- other non-cancellable commitments (these may include consulting contracts, cleaning contracts and ship charters).

Interest commitments on debts and commitments relating to employment contracts are not included in the Statement of Commitments.

Comparatives

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

Comparatives referred to as Previous Budget were forecasts published in the *2011 Budget Economic and Fiscal Update*. These forecasts include budget adjustments for new unallocated spending during the year (both operating and capital) and top-down adjustments which reduce the bias for forecast expenditure by departments to reflect maximum spending limits instead of mid-point estimates.

Segment analysis

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

- Core Crown: This group, which includes Ministers, government departments, Offices of Parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund most closely represents the budget sector and provides information that is useful for fiscal analysis purposes.
- State-owned enterprises: This group includes entities governed by the State–owned Enterprises Act 1986, and (for the purposes of these statements) also includes Air New Zealand represents entities that undertake commercial activity.
- Crown entities: This group includes entities governed by the Crown Entities Act 2004. These entities have separate legal form and specified government frameworks (including the degree to which each Crown entity is required to give effect to, or be independent of, government policy).

Functional analysis is also provided of a number of financial statements items. This functional analysis is drawn from the *Classification of the Functions of Government* as developed by the Organisation for Economic Co-operation and Development (OECD).