
Budget Economic and Fiscal Update 2026

Supplementary Information

The following information forms part of the *Budget Economic and Fiscal Update 2026 (Budget Update)* released by the Treasury on 28 May 2026. This information provides further details on the *Budget Update* and should be read in conjunction with the published document. The additional information includes the following:

- **Principles applied when assessing specific fiscal risks** – outline of the principles.
- **Unchanged specific fiscal risks** – descriptions of risks.
- **Unchanged contingent liabilities and contingent assets** – descriptions of contingent liabilities and contingent assets.
- **Detailed economic forecast information** – breakdowns of the economic forecasts.
- **Tax policy changes** – details of material changes to tax revenue since the *Budget Update 2025* as a result of policy initiatives.
- **Tobacco excise** – explanation about the weaker outlook for tobacco excise tax.
- **Fiscal stance** – details on the fiscal balance and total fiscal impulse indicators.
- **Underlying fiscal position** – details on the cyclically-adjusted and structural versions of both the operating balance before gains and losses (OBEGAL) and operating balance before gains and losses excluding ACC revenue and expenses (OBEGALx).
- **Accounting policies** – outline of the specific Crown accounting policies.

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Contents

Principles Applied when Assessing Specific Fiscal Risks	3
Unchanged Specific Fiscal Risks.....	6
Commitment or Announced Intent that may have Fiscal Implications	6
Time-limited Funding	9
Achieving Future Savings and Spending Constraint	10
Capital Cost Escalation	11
Potential Fiscal Implications of Reviews or Litigation	12
Changing Demand and Expectations on Services	14
Forecast Dependent on a Status Quo that is Uncertain	19
Forecast Risk.....	21
Unchanged Contingent Liabilities and Contingent Assets	24
Detailed Economic Forecast Information.....	31
Tax Policy Changes.....	39
Weaker Outlook for Tobacco Excise	41
Fiscal Stance: Fiscal Balance and Total Fiscal Impulse Indicators	42
Underlying Fiscal Performance: Cyclically-adjusted and Structural Balance Indicators.....	47
Accounting Policies for the Forecast Financial Statements of the Government of New Zealand for the Budget Economic and Fiscal Update 2026	50

Principles Applied when Assessing Specific Fiscal Risks

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

Risk type	Principles	Examples of how the principle has been applied
<p>Risks associated with assumptions used in the forecast for revenue and expenses and valuation of assets and liabilities (for example, discount rates, cash flow assumptions, economic conditions)</p>	<p>The forecasts for some revenue and expense items and the valuation of some assets and liabilities included in the fiscal forecasts can be subject to significant assumptions. These assumptions may change in the future and impact on the fiscal position.</p> <p>However, revenue, expenses, assets and liabilities are measured or valued at a point in time using the best available information and accepted forecasting and valuation techniques and assumptions, which means they are quantified in the fiscal forecasts for particular years with reasonable certainty.</p> <p>Significant assumptions are disclosed in the fiscal forecasts as required by generally accepted accounting practice (GAAP), and the Financial Statements of the Government provide further disclosures around the sensitivity of changes in key assumptions to the measurement and valuation of revenue, expenses, assets and liabilities.</p> <p>Where there is a government decision or other circumstance that creates uncertainty for the measurement or valuation of revenue, expenses, assets or liabilities (such as a review of policy settings or impending Court decisions that may impact assumptions used), these may be disclosed as a specific fiscal risk.</p>	<p>Specific fiscal risks are not included for most revenue or expense items or for assets or liabilities that are subject to valuation techniques that require significant assumptions, for example:</p> <ul style="list-style-type: none"> • tax revenue • student loans • revalued property, plant and equipment. <p>While the valuation of the ACC claims liability in general is not included as a specific fiscal risk, risks to the liability arising from changes to the scheme’s policy settings from Court decisions is disclosed as a specific fiscal risk.</p>
<p>Risks associated with a future event outside of the Government’s control</p>	<p>Judgement is applied as to whether the future event is reasonably possible within the forecast period.</p> <p>Reasonably possible is assessed as being in the range of 20-50% likely. Judgement is informed by factors such as how often similar events have happened in the past.</p> <p>If it is not reasonably possible that the event will happen within the forecast period, it is not a specific fiscal risk.</p>	<p>A specific fiscal risk has been included for the increased risk of adverse weather events as it is reasonably possible that such an event will occur within the forecast period. Recent history shows that such events occur at least once every four years.</p> <p>Specific fiscal risks have not been included for other major national disasters (for example, earthquakes, volcanic eruptions, tsunamis) or events such as future biosecurity incursions or pandemics. While similar events have happened recently (the Christchurch and</p>

Risk type	Principles	Examples of how the principle has been applied
		<p>Kaikōura earthquakes, <i>Mycoplasma bovis</i>, COVID-19) and required a significant fiscal response from the Government, experience suggests that these events occur individually with such variable frequency, intensity and impact as to place them outside the bounds for specific fiscal risks (less than 20% likely in the forecast period). Such fiscal shocks are considered a general fiscal risk rather than a specific fiscal risk.</p>
Risks associated with policy work and reviews	<p>Policy work is ongoing across the public sector, much of which, if agreed to and implemented, will result in material fiscal impacts. In addition, there are several reviews under way of policy settings, sectors and individual organisations in the public sector.</p> <p>In general, ongoing policy work or reviews are not disclosed as specific fiscal risks as it is not reasonably possible that there will be fiscal implications until the Government takes decisions on the policy or responds to review findings. However, where policy work or reviews have been publicly announced by the Government or are being consulted on, this increases the likelihood the policy will be progressed or there are expectations of a fiscal response to reviews, which may result in a specific fiscal risk.</p> <p>Additionally for reviews, judgement is required based on the terms of reference and objectives of each review.</p>	<p>A specific fiscal risk for the review of the Clean Car Standard has been included, even though the review is still underway and decisions on the future of the scheme have not been made. This is because the Government has publicly announced that it is undertaking the review.</p>
Risks to the fiscal forecasts from changes in accounting policy	<p>The forecast financial statements included in the <i>Budget Update</i> are prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government.</p> <p>Changes to accounting policies can arise from new accounting standards issued by standard setters, new interpretations of existing standards or evolving application of policies (particularly where there are unique or novel transactions or balances). Future changes to accounting policies may have significant implications for the fiscal forecasts.</p>	<p>The most recent example was the <i>Implementation of New Insurance Accounting Standard</i> risk. This new standard, once applied, could result in a material reduction to the measurement of insurance liabilities, particularly for ACC. This was reflected as a specific fiscal risk as, while the specific accounting treatment was still being developed, a detailed impact assessment had been completed and material fiscal impacts were reasonably possible.</p> <p>This standard has now been applied and included in the fiscal forecasts, resulting in the risk being expired in the <i>Budget Update</i>.</p>

Risk type	Principles	Examples of how the principle has been applied
	<p>Generally, a specific fiscal risk is not included for future accounting policy changes. Until applied, these are subject to changes and amendments. Where a detailed impact assessment of a required policy change has been completed, it will be included in the forecasts. Prior to that point, it is unlikely that the materiality and probability requirements will be met. However, when it is reasonably possible that the change will occur in the forecast period and material fiscal impacts are reasonably possible, a specific fiscal risk may be disclosed.</p>	
<p>Risks aggregated into a cross-portfolio risk</p>	<p>Generally, cross-portfolio risks are a single risk that can affect more than one portfolio. In some instances, several risks at an individual portfolio level can be aggregated into a cross-portfolio risk.</p> <p>A high bar is applied as to whether individual risks are aggregated into a cross-portfolio risk. The underlying nature and driver of the risks must be the same, and there must be no loss of information from aggregating risks. If there is doubt, risks are individually disclosed as specific fiscal risks by portfolio.</p>	<p>A cross-portfolio risk is included for pay equity claims as the driver of the risk (the requirements of the Equal Pay Act 1972) is the same across portfolios and there is no loss of information from aggregating these risks.</p>
<p>Risks associated with contingent liabilities and contingent assets</p>	<p>Contingent liabilities and contingent assets are disclosed separately to specific fiscal risks in the <i>Risks to the Forecasts</i> chapter. This typically covers risks associated with guarantees and indemnities, uncalled capital, and legal disputes and claims.</p> <p>There is a link between specific fiscal risk disclosures and the contingent liabilities and contingent assets disclosure. However, in general, contingent liabilities and contingent assets are not also disclosed as specific fiscal risks.</p>	<p>Guarantees, indemnities and uncalled capital are not disclosed as specific fiscal risks as they are separately disclosed in the statement of contingent liabilities and contingent assets.</p> <p>Individual legal disputes and claims disclosed as contingent liabilities or contingent assets are not disclosed as specific fiscal risks unless the claim could change the scope of policies included in the fiscal forecasts. For example, an individual claim against ACC would not be included as a specific fiscal risk. However, a claim that could significantly change the scope of the scheme overall could be.</p>

Unchanged Specific Fiscal Risks

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

The full statement of specific fiscal risks and descriptions of new and changed risks are included in the *Budget Update 2026*.

Commitment or Announced Intent that may have Fiscal Implications

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

Climate Change

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

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

New Zealand also has international obligations under the Paris Agreement, including relating to our first and second Nationally Determined Contributions (NDCs), which cover the periods 2021 to 2030 (NDC1) and 2031 to 2035 (NDC2) respectively. NDCs are countries' self-determined plans detailing what they will do to reduce their emissions in support of the international goal of limiting global warming to 1.5°C. Sizeable offshore abatement would be needed to meet NDC1 on top of domestic commitments without other interventions. While the Government has choices about how it achieves NDC1, it is likely that meeting this target would involve significant costs, starting within the current fiscal forecast period. The Government set a target range for the NDC2 in 2025. The lower end of the target range for NDC2 closely aligns with the reductions required to meet the third domestic emissions budget (2031 to 2035), making it more likely that NDC2 could be met entirely domestically. If offshore mitigation abatement were also purchased towards NDC2, it is unlikely that these costs would start within the forecast period.

Emergency Management and Recovery

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

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

Environment

Resource Management Reform Implementation Costs (Expenses)

The Government is replacing the Resource Management Act 1991 with new legislation. The Crown is expected to incur costs to effectively implement and maintain the new resource management system. Funding was provided towards planning system implementation in Budget 2026 but further costs are likely to be incurred. To the extent that these costs are not met from existing baseline funding and require additional funding, this would lead to increased expenses.

Finance

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

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

Science, Innovation and Technology

Science, Innovation and Technology Reform (Expenses and Capital)

The Government has agreed to progress a set of reforms to the science, innovation and technology system, primarily involving organisational changes assumed to have no fiscal impacts. While new organisations and decision-making bodies have been established, further decisions are required, including in relation to the future of the Gracefield Innovation Quarter. There is a risk that there may be a fiscal impact based on these decisions.

Transport

Transport Project Funding (Revenue, Expenses and Capital)

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

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

Cross-portfolio

Ongoing Costs of a New Medical School (Expenses and Capital)

As part of the Government's 100-day plan, the Ministry of Health and the University of Waikato signed a memorandum of understanding as a first phase towards establishing a new medical school. Since then, Cabinet committed capital funding for establishment activities, with some funding drawn down in 2025. The remaining balance of the capital funding is planned to be drawn down following an Approval to Deliver expected in mid-2026. The ongoing running costs of the new medical school would have fiscal impacts to the Crown.

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

The Government has signalled continued commitment to the Smokefree Aotearoa 2025 goal that by 2025 fewer than 5% of New Zealanders will be smokers. The New Zealand Health Survey indicates that 6.8% of New Zealanders were daily smokers in 2024/25. The introduction of further policies to reduce smoking would reduce tobacco excise revenue across the forecast period, including through the risk of an increase in illicit tobacco. Through coalition agreements, the Government has also committed to taxing smoked tobacco only and reforming the regulation of vaping, smokeless tobacco and oral nicotine products. Increasing the range of nicotine products available and changing the excise treatment of non-smoked tobacco products would have implications for tobacco excise revenue. This risk also reflects the level of uncertainty involved in forecasting such changes.

Time-limited Funding

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

Education

Healthy School Lunches Programme (Expenses and Capital)

Funding for the Healthy School Lunches Programme has been provided until the end of the 2027 school year. If the Government confirms a continuation or expansion of the programme thereafter, additional ongoing funding beyond that currently provided for will be required.

This time-limited funding ceases during 2027/28.

Foreign Affairs

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

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

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

Achieving Future Savings and Spending Constraint

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

Health

Health New Zealand Operating Deficit (Expenses and Capital)

Health New Zealand has recorded significant operating deficits and has been set ambitious targets for financial savings and delivery of services. If its return to breakeven is slower than forecast, this would impact the Government's operating balance and may also result in a shortfall of cash. In that event, the Crown may be required to provide further funding to ensure Health New Zealand can meet its ongoing liabilities.

Housing

Kāinga Ora – Homes and Communities Operating Expenditure Forecast Reductions (Expenses)

Kāinga Ora is implementing a turnaround plan to address ongoing operating deficits. There is a risk that the pace for reducing operating deficits differs to forecasts, which would impact fiscal indicators.

Social Development and Employment

Social Development Forecast Savings (Expenses)

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

Capital Cost Escalation

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

Transport

Roads of Regional Significance (Expenses and Capital)

The Government Policy Statement on land transport 2024 (GPS) sets out a series of strategically important projects for New Zealand's transport system called the Roads of Regional Significance. Although referenced in the GPS, these projects are currently funded outside of the National Land Transport Fund. With cost increases, and some projects still in the pre-implementation or implementation phase, there is a risk that current funding is insufficient to complete these projects to the agreed expectations.

Potential Fiscal Implications of Reviews or Litigation

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

ACC

Impacts of Changes to Accident Compensation Policy Settings (Expenses)

Accident Compensation scheme boundaries and entitlements are subject to evolution through regulatory and legislative changes. From time to time, Court decisions can also expand the practical application of the scheme, which can have significant fiscal impacts. These impacts can arise not only from changes in eligibility but also from higher-than-expected costs from actioning recent boundary changes. These impacts may put pressure on ACC's funding policies (which provide an underlying assumption for these forecasts) and/or the pathway to reach a funding ratio target of 100% (assets to liabilities) over a 10-year funding horizon.

Transport

Metropolitan Rail Networks (Capital)

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

Treaty of Waitangi Negotiations

Treaty Settlement Forecasts (Expenses)

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

Cross-portfolio

Pay Equity Claims (Expenses)

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

Responding to the Royal Commission of Inquiry into Abuse in Care – Redress System Claims (Expenses)

The Government is implementing changes to the redress system to respond to recommendations made by the Royal Commission of Inquiry into Abuse in Care. There is a risk that more or fewer survivors may submit claims than expected. This could lead to costs that are different from what is in the fiscal forecasts.

Response to the Dame Karen Poutasi Review of Safety Nets in the Children’s System (Expenses)

A review by Dame Karen Poutasi made 14 recommendations for changes to improve the system of safety nets for preventing harm in the children’s system. In September 2025, the Government accepted all of the review’s recommendations. While implementation of the recommendations is ongoing, the recommendations are expected to increase demand on front-line services through the care system, including from increased reports of concern.

Changing Demand and Expectations on Services

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

ACC

ACC Levies (Revenue and Expenses)

ACC levies are set by the Government and reflected in the forecasts. Revenue from the levies set for these accounts may be more or less than that required to cover the cost of claims. If factors such as claims experience, ACC performance, Public Health Acute Services payments and economic assumptions (particularly discount rates and unemployment rates) differ from the forecasts, ACC's levy revenue, claims costs and liability may also differ from the forecasts.

In particular, ACC has adopted new performance targets that, if not met, will increase the cost of ACC. The forecasts also include savings from efficiencies expected from ACC through its Turnaround Plan. Any variance will have a corresponding impact on the operating balance. Beyond the rates set by Cabinet on the tri-annual basis, ACC levy rates are assumed to follow ACC's Gazetted Funding Policy Statement. Practically, this means levies beyond the 2027/28 period are assumed to increase at the 5% per annum cap on ACC's recommendations. If this is not agreed by Cabinet, there would be revenue impacts.

Children

Enabling Communities and Iwi to Help Children (Expenses)

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

Corrections

Increasing Prison Population (Expenses and Capital)

There has been a significant increase in the prison population since April 2023. Recent and future justice policy changes are expected to further increase the prison population. While funding has been provided in recent Budgets to address the immediate impact, additional funding may be required given the forecast growth in the prisoner population. This creates an additional cost pressure relating to maintaining safe staffing ratios, prisoner upkeep and potential capital costs to enable additional capacity.

The risk that new infrastructure is required to accommodate the increase in prison population is included in the *Long-term Infrastructure and Digital Investment Plans* risk.

Disability Issues

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

The demand for Disability Support Services is mainly driven by volume (both the number of people accessing support and levels of support for existing clients) and price (wage and inflationary pressures on non-government providers). Due to these factors, the cost to provide services may differ from the forecasts.

Education

Learning Support (Expenses and Capital)

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

Health

Health Capital Pressures (Expenses and Capital)

The health portfolio faces several pressures resulting from increasing demand on health services, capital and operational cost pressures, and workforce demands. Of the existing programmes of work in the health infrastructure portfolio, the following represent the largest risks:

- **New Dunedin Hospital:** Significant financial pressures remain on the New Dunedin Hospital Project. This has been driven by construction sector inflation, scope changes and the relative isolated location of the project coupled with a small contractor base with sufficient experience and capacity from which to draw.
- **Regional Hospital Redevelopment Programme (RHRP):** There are five key hospitals in the RHRP: Nelson, Whangārei, Tauranga, Hawke's Bay and Palmerston North. These developments are in the early design phase and the costs remain uncertain.
- **Remediation of existing assets and service-critical infrastructure:** Some existing health sector infrastructure is in poor condition. At times, Health New Zealand has to undertake expensive remedial works on existing assets. The timing and quantum of these remedial works may have impacts on the fiscal forecasts. The National Asset Management Strategy, released in April 2025, sets out a pathway to increased asset management maturity for more 1,200 buildings on 86 campuses with a current replacement value of \$38 billion.

Housing

Increases to Cost Per Place for Social Housing and Transitional Housing (Expenses)

Annual payments for social and transitional housing are linked to market rents, creating ongoing cost pressures as rent growth outpaces fixed baselines and increases the Crown's cost per place across both Community Housing Providers and Kāinga Ora. While current forecasts reflect expected rent movements, there remains risk if market rents rise further.

Tertiary Education

Financial Challenges Across Universities (Capital)

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

Tertiary Tuition and Training Funding Baseline Pressure (Expenses)

Demand for tertiary education and training is currently forecast to exceed the volume able to be funded by current baselines. Additionally, cost adjustments for tuition subsidies across the system have not kept pace with inflation in recent years. Additional funding may be required to continue meeting learner demand and inflationary pressures.

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

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

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

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

Transport

Support for the National Land Transport Fund (Revenue, Expenses and Capital)

There is a risk that Fuel Excise Duty (FED) and/or Road User Charges (RUC) will need to be increased or additional Government funding (a loan and/or a grant) will be required to manage pressures on the National Land Transport Fund (NLTF). This relates both to the medium-term sustainability of the NLTF and to specific project pressures in the National Land Transport Programme in the period 2024 to 2027.

The Government has also signalled in the Government Policy Statement on land transport that it intends to reform the land transport revenue system, including requiring all road vehicles to move from FED to RUC, introduce time-of-use charging in congested parts of the road network and increase the use of tolling. The fiscal implications of these reforms are uncertain.

In addition, revisions to the approach of how some of the state highway assets are valued and the useful life of these assets is expected to increase depreciation expenses, adding further pressures on the NLTF.

Cross-portfolio

Government Targets (Expenses and Capital)

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

Legal Aid and Court-Ordered Costs Demand Pressure (Expenses)

The entitlement to legal aid is provided by legislation, with costs driven by the volume and case complexity. Legal aid costs are forecast to increase while funding to meet these costs reduces by over \$35 million per year from 2027/28 onwards. Unless legal aid costs reduce in line with this, more funding will be required. In addition, the Ministry of Justice is experiencing pressures in court-ordered costs, driven by increased demand for court services, including Family Court and domestic violence professional services, interpreters and communication assistance, and Coroner-directed post-mortems.

In the *Half Year Update*, this risk was published under Vote Courts. It is now published as a cross-portfolio risk as the nature of the risk includes components for Vote Courts and Vote Justice.

Long-term Infrastructure and Digital Investment Plans (Expenses and Capital)

There are a number of investment plans across the public sector that outline a pipeline of significant investment over the longer term. These plans are high level, and funding sources for investments are generally yet to be confirmed. Decisions on individual investments within these plans require a business case and need to go through normal Budget and Cabinet approval processes. The most significant long-term investment plans include the following:

- The Defence Capability Plan (DCP) outlines indicative investments over a 15-year horizon, with investment of \$12 billion over Budgets 2025 to 2028 to ensure New Zealand can respond to the changing global security environment. It is estimated that around \$6 billion of new funding would be required over the next two Budgets to deliver on the DCP.
- The Health Infrastructure Plan, released in April 2025, identifies a pipeline of more than \$20 billion of investment over the next 10 years. Separately, the Health Digital Investment Plan (HDIP) sets out a 10-year roadmap for digital investment. The HDIP signals a significant uplift in digital services funding, most of which will be operating costs. The HDIP was released on 25 November 2025.

- The Department of Corrections Long-Term Network Configuration Plan provides a strategic view on its future investment requirements to assist the prison network to have sufficient, fit-for-purpose capacity to meet anticipated demand. Investment is intended to provide for capacity growth, signalling an increase of around 2,900 prison beds over the next 20 years.
- The Long-Term Investment Plan for School Property outlines the 10-year priority pipeline for the maintenance and growth of the portfolio. The plan signals a significant uplift in funding will be required to meet maintenance and compliance requirements as well as ensuring there is sufficient capacity in the school network.

Services Funded by Third Parties and Memorandum Account Deficits (Expenses)

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

Forecast Dependent on a Status Quo that is Uncertain

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

Corrections

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

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

Regional Development

Regional Infrastructure Fund (Expenses and Capital)

The Government has agreed to establish a Regional Infrastructure Fund (RIF) of \$1.2 billion over a three-year period. Funding has been allocated as \$300 million operating and \$900 million capital. There is a risk the current operating and capital split may need to change in the future to achieve the objectives of the RIF. The Government has several capital funding mechanisms available to provide funding in accordance with the current allocation such as loans and equity investment. However, these mechanisms may have consequential operating impacts that are currently not reflected in the forecasts.

Revenue

Potential Tax and Social Policy Changes (Revenue and Expenses)

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

Transport

Auckland City Rail Link Ownership Issues (Expenses and Capital)

The Government committed to fund 50% of the costs associated with the build of the City Rail Link project. Auckland Council has also committed to fund 50% of the project. Both the Crown and Auckland Council have treated the investment for the City Rail Link project as an equity investment into City Rail Link Limited (CRL) on the balance sheet. With the assets expected to be transferred from CRL to Auckland Transport and KiwiRail in late 2025/26, the fiscal forecasts assume the recognition of revenue from receiving vested assets, a corresponding expense incurred by CRL from vesting the assets and an impairment expense reflecting that the value of the assets received by the Crown will differ to the investment into CRL reported on the balance sheet. Overall, the divestment in CRL

is expected to have an adverse impact on the operating balance of \$700 million in the 2025/26 year. However, there is a risk this could be higher or lower and the timing may differ from what is forecast.

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

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

Treaty of Waitangi Negotiations

Relativity Clause (Expenses)

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

Cross-portfolio

Adverse Weather Events (Expenses and Capital)

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

Public Sector Employment Agreements (Expenses)

All collective agreements in the public sector are due to be renegotiated over the forecast period. As well as direct fiscal implications for the employers of workforces covered by any changes to remuneration, the renegotiation of agreements can have flow-on effects for remuneration for other employers across the sector.

Forecast Risk

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

ACC

Non-Earners' Account (Expenses)

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

In particular, ACC has adopted new performance targets that, if not met, will increase the cost of claims. The fiscal forecasts also include savings from efficiencies expected from ACC through its Turnaround Plan.

Climate Change

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

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

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

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

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

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

Defence

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

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

Finance

Alternative Monetary Policy Tools (Expenses)

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

Natural Hazards Commission (Revenue, Expenses and Capital)

The Natural Hazards Commission (NHC) engages independent professional actuaries to undertake half-yearly valuations of the total NHC liability to the Government. This includes estimates for yet-to-settle claims (including those in litigation), claims not yet received for events that have occurred and the possibility that some previously resolved claims may reopen. An estimate is also made for the associated claims-handling expenses that may be incurred in resolving claims. These estimates and their expected settlement profiles are included in the fiscal forecasts.

There is the possibility the NHC's remaining expenditure for the Canterbury earthquakes will be higher or lower than forecast. Risks include litigation and the level of future reopened claims. It is not possible at this stage to fully quantify the potential financial impact or the timing of these risks owing to the uncertainty associated with them, and variance from what is in the fiscal forecasts could be material.

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

Housing

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

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

Social Development and Employment

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

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

Veterans' Affairs

Veterans' Disability Entitlements Liability (Expenses)

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

Unchanged Contingent Liabilities and Contingent Assets

Below are the descriptions on unchanged contingent liabilities and contingent assets from what was reported in the *Half Year Update*.

Description of Quantifiable Contingent Liabilities

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand contributes capital by subscribing to shares in certain institutions. The capital (when called) is typically used to raise additional funding for loans to member countries or, in the case of the quota contributions, to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both paid-in capital and callable capital or promissory notes. In addition to uncalled capital, New Zealand also has an arrangement to borrow with one of these international organisations which constitutes a contingent liability.

Guarantees and indemnities

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

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

New Zealand Export Credit Office guarantees

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

Legal proceedings and disputes

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

Inland Revenue – legal tax proceedings

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

Other quantifiable contingent liabilities

Unclaimed monies

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

Air New Zealand partnership agreement

The Air New Zealand Group has a partnership agreement with Pratt and Whitney in relation to the Christchurch Engine Centre (CEC), holding a 49% interest. By the nature of the agreement, joint and several liabilities exist between the two parties. The contingent liability represents Air New Zealand's share of CEC's liabilities.

Waitangi Tribunal – binding recommendations

In September 2021, the Waitangi Tribunal issued interim recommendations under section 8A of the Treaty of Waitangi Act 1975 in relation to the transfer of 7,676 hectares of the Mangatū Crown Forest licensed land to a trust comprising Te Aitanga a Māhaki, Ngā Uri o Tamanui and Te Whānau a Kai. Should the recommendation become final, compensation will be payable to the recipients under Schedule 1 to the Crown Forest Assets Act 1989. A stay of the Tribunal's interim recommendations was granted in December 2021 to allow for judicial review proceedings. The February 2023 High Court decision on this matter was appealed to the Court of Appeal by claimants and a hearing was held in July 2024 with a decision pending.

*Ministry for Primary Industries – *Mycoplasma bovis* compensation claims*

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

Clean Car Standard credits

The Clean Car Standard scheme became effective from 1 January 2023. Cars that are imported with a carbon dioxide (CO₂) level above the Government-mandated standard pay a charge. Cars that are imported with a CO₂ level below the Government-mandated standard receive a credit. The credit can be used to offset a current charge, kept to offset future charges or sold to another importer. As at 31 March 2026, \$141 million of credits were held by importers. Of this total, \$23 million is recorded as a provision on the basis that the credits may be used to offset \$23 million of current charges. The remaining \$118 million of credits are recorded as a contingent liability. NZTA's view is that, under the current policy settings of the scheme, it is more probable that the \$118 million of credits will not be used to offset future charges. This is based on NZTA's view that the current import trends (with more imported cars receiving credits than incurring charges) will not sufficiently reverse to enable use of the current level of credits beyond the provision. The residual amount is recorded as a contingent liability.

Ministry of Justice – Waipāoa Remedies Inquiry

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

Description of Quantifiable Contingent Assets

Other quantifiable contingent assets

Transpower New Zealand – economic gains

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

The contingent asset amount of \$116 million provides the EV account balance for the disclosure year ended 30 June 2025.

Description of Unquantifiable Contingent Liabilities

This part of the statement provides details of the contingent liabilities of the Crown that are not quantified, excluding those that are considered remote by the following categories: *Indemnities, Legal proceedings and disputes* and *Other unquantifiable contingent liabilities*.

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

Indemnities

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

A number of these indemnities are provided by the Crown to organisations consolidated to protect them against specified losses. If these indemnities were to crystallise, the Crown would compensate the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and net core Crown debt. The total operating balance and net worth would, however, not be impacted by the indemnity itself but rather by the specified losses incurred by the indemnified organisations.

Party indemnified	Instrument of indemnification	Actions indemnified
Contact Energy Limited	The Crown and Contact Energy Limited signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei	The documents contain two reciprocal indemnities with Contact Energy Limited to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Genesis Energy	Genesis acquisition of Tekapo A and B Power Stations	Indemnity against any damage to the bed of lakes and rivers subject to operating easements. Current indemnity follows from original indemnity granted by the Crown to ECNZ in 1993 and to Meridian, Mercury Energy and Contact in 2004.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 50 of the District Court Act 2016, section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
Natural Hazards Commission Toka Tū Ake	Section 112 of the Natural Hazards Insurance Act 2023	As set out in the Natural Hazards Insurance Act 2023, the Government shall fund (by means of loan or grant) any deficiency in Natural Hazards Commission Toka Tū Ake assets held in the Natural Disaster Fund to cover its financial liabilities on such terms and conditions that the Minister determines. As the contingency has no end date, it is not possible to quantify the value of commitments that may arise from past or future hazard events that are covered by the Natural Hazards Insurance Act 2023.
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 – National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan states that, with the approval of the Minister, local authorities will be reimbursed in whole or in part for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.

Party indemnified	Instrument of indemnification	Actions indemnified
New Zealand Railways Corporation	Section 10 of the Finance Act 1990	All loan and swap obligations of the New Zealand Railways Corporation (NZRC). This includes such loans or swaps entered by NZRC on or prior to 31 December 2012 and vested in KiwiRail Holdings Limited Vesting Order 2012.
Southern Response Earthquake Services Limited	Deed of indemnity	Southern Response Earthquake Services Limited (SRES) continues to settle the claims of AMI residual policy holders for Canterbury earthquake damage that occurred before 5 April 2012. The Minister of Finance has provided SRES with a deed of indemnity to ensure that SRES can access sufficient resources to operate and discharge its contractual obligations.
Synfuels–Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a deed of indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line that was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.
Westpac New Zealand Limited	Letter of Indemnity relating to the agreement for supply of transactional banking services to the Crown	<p>The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited (WNZL) and Westpac Banking Corporation (WBC) was entered into on 28 June 2023. The Crown has indemnified WNZL against certain costs, damages and losses resulting from third-party claims against WNZL or WBC regarding:</p> <ul style="list-style-type: none"> • unauthorised, forged or fraudulent payment instructions • unauthorised or incorrect direct debit instructions • letters of credit issued by WNZL in favour of a third party as part of providing transactional banking services to the Crown.

Legal proceedings and disputes

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

Accident Compensation Corporation (ACC) litigations

Litigation involving ACC arises mainly from challenges to operational decisions made by ACC through the statutory review and appeal process but also occasionally includes general civil proceedings such as judicial review applications. The majority of appeals are able to be managed on a case-by-case basis, depending on the merits of the issue in dispute, and without wider scheme management impact.

Ministry of Transport – Public Works Act claims

As of 31 March 2026, there are six legal claims before the Land Valuation Tribunal or Courts where City Rail Link Limited (CRL) is either directly or indirectly involved as a party. CRL continues to assess the compensation payable to those landowners to resolve outstanding claims. However, it is not possible to reliably estimate the obligations of CRL or accurately predict whether any compensation offer will be acceptable to the landowner, each property owner being entitled to have compensation determined by the Land Valuation Tribunal.

Ministry of Social Development – redress for historical abuse in care

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

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Government with respect to land that has been transferred by the Government to a state-owned enterprise, university, wānanga or Te Pūkenga New Zealand Institute of Skills and Technology or is subject to the Crown Forest Assets Act 1989.

On occasion, Māori claimants pursue the resolution of particular claims through higher courts. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

Other unquantifiable contingent liabilities

Aquaculture settlements

Under the Māori Commercial Aquaculture Claims Settlement Act 2004 the Crown is obligated to provide regional iwi with 20% of future aquaculture growth. This settlement is ongoing and includes prospective settlement. As aquaculture in New Zealand grows, settlement obligations arise. Iwi may choose to accept settlement as cash, marine rights or a combination following the negotiation process. The amount and timing of settlements are therefore uncertain as they are dependent on sector growth as well as the preferred nature of settlement, this results in challenges with regards to reliably estimating the Crown's potential obligations.

Criminal Proceeds (Recovery) Act 2009

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

Environmental liabilities

Under common law and various statutes, the Government may have a responsibility to remedy adverse effects on the environment arising from Government activities. Entities managing significant government properties have implemented systems to identify, monitor and assess potential contaminated sites. In accordance with NZ GAAP, any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

Ministry for Primary Industries – Biosecurity Act compensation

In addition to the quantifiable liabilities under section 162A of the Biosecurity Act 1993 (refer page 25), there are also unquantifiable contingent liabilities. In particular, the Ministry for Primary Industries has been notified that compensation will be sought for incursions, including the *Mycoplasma bovis* outbreak, but the amount remains unquantified. This is due to the Ministry being unable to reliably estimate the period of time that losses will be incurred as a result of its actions under the Biosecurity Act 1993.

Pay equity claims See page 13.

Treaty of Waitangi claims – settlement relativity payments See page 20.

Detailed Economic Forecast Information

This section includes tables with additional detail on the economic forecasts in the *Budget Update*.

The economic numbers and forecasts in this section were finalised on 21 April 2026.

Table 1	Real gross domestic product
Table 2	Consumers price index and trade-weighted exchange rate
Table 3	Expenditure on gross domestic product and gross domestic product (Income) in current prices
Table 4	Nominal gross domestic product components
Table 5	Real gross domestic product components
Table 6	Labour market indicators
Table 7	Oil and fuel price assumptions

Table 1 – Real gross domestic product

Production based chain volume series expressed in 2009/10 prices

Seasonally adjusted

	\$ million	Quarterly % change	Annual % change	Annual average % change
2021Q4	67,852	4.1	2.3	5.5
2022Q1	67,783	-0.1	0.3	4.3
2022Q2	68,439	1.0	0.4	0.4
2022Q3	69,729	1.9	6.9	2.4
2022Q4	69,879	0.2	3.0	2.6
2023Q1	69,880	0.0	3.1	3.3
2023Q2	70,520	0.9	3.0	4.0
2023Q3	70,564	0.1	1.2	2.6
2023Q4	70,882	0.5	1.4	2.2
2024Q1	70,997	0.2	1.6	1.8
2024Q2	70,596	-0.6	0.1	1.1
2024Q3	69,716	-1.2	-1.2	0.5
2024Q4	69,728	0.0	-1.6	-0.3
2025Q1	70,494	1.1	-0.7	-0.9
2025Q2	69,886	-0.9	-1.0	-1.1
2025Q3	70,489	0.9	1.1	-0.6
2025Q4	70,664	0.2	1.3	0.2
2026Q1	70,975	0.4	0.7	0.5
2026Q2	71,144	0.2	1.8	1.2
2026Q3	71,590	0.6	1.6	1.3
2026Q4	72,153	0.8	2.1	1.5
2027Q1	72,763	0.8	2.5	2.0
2027Q2	73,368	0.8	3.1	2.3
2027Q3	73,962	0.8	3.3	2.8
2027Q4	74,534	0.8	3.3	3.1
2028Q1	75,084	0.7	3.2	3.2
2028Q2	75,609	0.7	3.1	3.2
2028Q3	76,103	0.7	2.9	3.1
2028Q4	76,592	0.6	2.8	3.0
2029Q1	77,094	0.7	2.7	2.8
2029Q2	77,589	0.6	2.6	2.7
2029Q3	78,070	0.6	2.6	2.7
2029Q4	78,542	0.6	2.5	2.6
2030Q1	79,010	0.6	2.5	2.6
2030Q2	79,478	0.6	2.4	2.5

Sources: Stats NZ, the Treasury

Table 2 – Consumers price index and trade-weighted exchange rate

	Consumers price index				Exchange rate
	Index	Quarterly % change	QPC s.a.	Annual % change	TWI
2021Q4	1122	1.4	1.6	5.9	74.3
2022Q1	1142	1.8	1.8	6.9	72.5
2022Q2	1161	1.7	1.8	7.3	72.2
2022Q3	1186	2.2	1.8	7.2	70.6
2022Q4	1203	1.4	1.6	7.2	70.8
2023Q1	1218	1.2	1.3	6.7	71.3
2023Q2	1231	1.1	1.2	6.0	70.9
2023Q3	1253	1.8	1.4	5.6	70.6
2023Q4	1259	0.5	0.7	4.7	70.8
2024Q1	1267	0.6	0.6	4.0	71.6
2024Q2	1272	0.4	0.6	3.3	71.4
2024Q3	1280	0.6	0.3	2.2	70.9
2024Q4	1287	0.5	0.7	2.2	69.5
2025Q1	1299	0.9	0.9	2.5	67.8
2025Q2	1306	0.5	0.7	2.7	69.1
2025Q3	1319	1.0	0.6	3.0	68.4
2025Q4	1327	0.6	0.8	3.1	66.4
2026Q1	1339	0.9	0.9	3.1	67.2
2026Q2	1358	1.4	1.6	4.0	66.8
2026Q3	1368	0.7	0.4	3.7	66.4
2026Q4	1369	0.1	0.3	3.2	66.9
2027Q1	1376	0.5	0.4	2.7	67.3
2027Q2	1379	0.3	0.5	1.6	67.6
2027Q3	1391	0.9	0.5	1.7	67.9
2027Q4	1396	0.3	0.5	1.9	68.2
2028Q1	1404	0.6	0.5	2.0	68.5
2028Q2	1408	0.3	0.5	2.1	68.8
2028Q3	1421	0.9	0.5	2.1	69.0
2028Q4	1425	0.3	0.5	2.1	69.2
2029Q1	1433	0.6	0.5	2.1	69.5
2029Q2	1438	0.3	0.5	2.1	69.7
2029Q3	1450	0.9	0.5	2.1	69.8
2029Q4	1455	0.3	0.5	2.1	70.0
2030Q1	1463	0.5	0.5	2.1	70.2
2030Q2	1467	0.3	0.5	2.0	70.3

Sources: Stats NZ, RBNZ, the Treasury

Table 3 – Expenditure on gross domestic product and gross domestic product (Income) in current prices

June Years	2025	2026	2027	2028	2029	2030	2025	2026	2027	2028	2029	2030
	\$ million						Annual average % change					
Private consumption	248,680	258,410	272,169	285,560	300,096	315,434	3.1	3.9	5.3	4.9	5.1	5.1
Government consumption	91,540	96,595	97,943	101,108	103,754	106,139	2.8	5.5	1.4	3.2	2.6	2.3
Residential investment	28,504	28,399	31,622	35,682	38,354	40,419	-10.6	-0.4	11.3	12.8	7.5	5.4
Business investment	71,475	73,174	74,725	80,206	85,086	89,289	0.2	2.4	2.1	7.3	6.1	4.9
Change in stocks	-1,498	491	660	800	800	800						
Gross national expenditure	438,712	457,091	477,118	503,356	528,089	552,081	1.7	4.2	4.4	5.5	4.9	4.5
Exports	109,061	118,215	125,428	131,591	136,808	142,024	10.0	8.4	6.1	4.9	4.0	3.8
Imports	113,163	122,565	127,623	131,205	135,059	139,702	3.3	8.3	4.1	2.8	2.9	3.4
Gross domestic product(E)	434,974	452,159	474,922	503,742	529,839	554,403	3.4	4.0	5.0	6.1	5.2	4.6
Compensation of employees	190,444	195,231	203,442	212,983	223,203	234,066	1.4	2.5	4.2	4.7	4.8	4.9
Net operating surplus	122,323	129,592	138,676	151,125	160,586	168,025	5.0	5.9	7.0	9.0	6.3	4.6
- Business	104,402	112,105	120,394	131,873	140,314	146,678	5.9	7.4	7.4	9.5	6.4	4.5
- Imputed rent	17,921	17,487	18,282	19,251	20,272	21,347	-0.2	-2.4	4.5	5.3	5.3	5.3
Consumption of fixed capital	67,864	69,659	71,359	74,413	77,386	80,368	5.4	2.6	2.4	4.3	4.0	3.9
Taxes on production and imports	57,189	59,531	62,825	66,109	69,184	72,201	4.9	4.1	5.5	5.2	4.7	4.4
Less: Subsidies	2,349	2,271	2,464	2,610	2,744	2,869	-3.0	-3.3	8.5	5.9	5.1	4.6
Gross domestic product(I)	435,471	451,742	473,838	502,018	527,616	551,791	3.5	3.7	4.9	5.9	5.1	4.6

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

Table 4 – Nominal gross domestic product components

	Consumption				Investment				Change in stocks		Exports		Imports		Expenditure GDP		
	Private		Public		Residential		Business		Change in stocks \$M	\$M	QPC	\$M	QPC	\$M	QPC	\$M	QPC
	\$M	QPC	\$M	QPC	\$M	QPC	\$M	QPC									
2021Q4	51,615	6.6	19,562	6.5	7,667	13.1	15,580	13.7	436	20,510	1.9	24,335	6.4	91,173	5.4		
2022Q1	54,894	6.4	19,978	2.1	7,746	1.0	16,083	3.2	260	18,779	-8.4	25,403	4.4	92,559	1.5		
2022Q2	54,654	-0.4	20,327	1.7	7,969	2.9	15,762	-2.0	2017	22,428	19.4	27,209	7.1	95,107	2.8		
2022Q3	56,119	2.7	20,839	2.5	8,430	5.8	17,054	8.2	-688	25,187	12.3	29,167	7.2	97,704	2.7		
2022Q4	57,496	2.5	20,738	-0.5	8,199	-2.7	17,348	1.7	1931	24,236	-3.8	29,848	2.3	99,981	2.3		
2023Q1	58,617	1.9	21,164	2.1	8,082	-1.4	17,737	2.2	275	23,130	-4.6	28,442	-4.7	100,996	1.0		
2023Q2	59,552	1.6	21,631	2.2	8,250	2.1	17,996	1.5	-1076	25,039	8.3	27,617	-2.9	103,162	2.1		
2023Q3	59,665	0.2	21,890	1.2	8,200	-0.6	17,518	-2.7	-111	24,571	-1.9	27,489	-0.5	104,531	1.3		
2023Q4	60,241	1.0	22,160	1.2	8,153	-0.6	17,795	1.6	-1742	24,345	-0.9	26,969	-1.9	103,942	-0.6		
2024Q1	60,474	0.4	22,309	0.7	7,946	-2.5	17,856	0.3	-219	24,684	1.4	27,449	1.8	105,841	1.8		
2024Q2	60,728	0.4	22,657	1.6	7,588	-4.5	18,152	1.7	-92	25,533	3.4	27,683	0.9	106,539	0.7		
2024Q3	61,052	0.5	22,640	-0.1	7,325	-3.5	17,444	-3.9	-97	25,489	-0.2	27,280	-1.5	106,858	0.3		
2024Q4	61,616	0.9	22,680	0.2	6,979	-4.7	17,946	2.9	-135	27,178	6.6	27,926	2.4	108,067	1.1		
2025Q1	62,775	1.9	23,044	1.6	7,232	3.6	18,235	1.6	-771	28,357	4.3	29,360	5.1	109,906	1.7		
2025Q2	63,237	0.7	23,176	0.6	6,968	-3.7	17,850	-2.1	-495	28,037	-1.1	28,597	-2.6	110,143	0.2		
2025Q3	63,674	0.7	23,644	2.0	7,056	1.3	18,439	3.3	-580	28,755	2.6	29,269	2.3	111,669	1.4		
2025Q4	64,066	0.6	24,479	3.5	7,091	0.5	17,946	-2.7	701	29,741	3.4	30,471	4.1	113,094	1.3		
2026Q1	64,858	1.2	24,225	-1.0	7,036	-0.8	18,201	1.4	210	29,502	-0.8	30,562	0.3	113,424	0.3		
2026Q2	65,812	1.5	24,247	0.1	7,216	2.6	18,588	2.1	160	30,217	2.4	32,263	5.6	113,972	0.5		
2026Q3	66,773	1.5	24,302	0.2	7,445	3.2	18,432	-0.8	150	30,774	1.8	31,992	-0.8	115,883	1.7		
2026Q4	67,691	1.4	24,385	0.3	7,760	4.2	18,486	0.3	110	31,134	1.2	31,744	-0.8	117,822	1.7		
2027Q1	68,450	1.1	24,525	0.6	8,066	4.0	18,740	1.4	200	31,535	1.3	31,848	0.3	119,667	1.6		
2027Q2	69,255	1.2	24,731	0.8	8,351	3.5	19,067	1.7	200	31,985	1.4	32,039	0.6	121,550	1.6		
2027Q3	70,085	1.2	24,967	1.0	8,607	3.1	19,486	2.2	200	32,364	1.2	32,362	1.0	123,347	1.5		
2027Q4	70,927	1.2	25,193	0.9	8,829	2.6	19,884	2.0	200	32,742	1.2	32,699	1.0	125,076	1.4		
2028Q1	71,825	1.3	25,392	0.8	9,031	2.3	20,256	1.9	200	33,083	1.0	32,979	0.9	126,808	1.4		
2028Q2	72,724	1.3	25,556	0.6	9,214	2.0	20,580	1.6	200	33,401	1.0	33,165	0.6	128,511	1.3		
2028Q3	73,621	1.2	25,709	0.6	9,372	1.7	20,872	1.4	200	33,713	0.9	33,376	0.6	130,112	1.2		
2028Q4	74,523	1.2	25,861	0.6	9,518	1.6	21,138	1.3	200	34,046	1.0	33,611	0.7	131,675	1.2		
2029Q1	75,494	1.3	26,016	0.6	9,664	1.5	21,400	1.2	200	34,366	0.9	33,889	0.8	133,250	1.2		
2029Q2	76,459	1.3	26,168	0.6	9,801	1.4	21,675	1.3	200	34,684	0.9	34,183	0.9	134,803	1.2		
2029Q3	77,418	1.3	26,317	0.6	9,928	1.3	21,942	1.2	200	35,003	0.9	34,476	0.9	136,333	1.1		
2029Q4	78,376	1.2	26,464	0.6	10,047	1.2	22,200	1.2	200	35,332	0.9	34,772	0.9	137,848	1.1		
2030Q1	79,337	1.2	26,608	0.5	10,164	1.2	22,450	1.1	200	35,669	1.0	35,072	0.9	139,356	1.1		
2030Q2	80,303	1.2	26,749	0.5	10,280	1.1	22,697	1.1	200	36,019	1.0	35,381	0.9	140,867	1.1		

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

Table 5 – Real gross domestic product components

	Consumption				Investment				Change in stocks		Exports		Imports		Expenditure GDP		
	Private		Public		Residential		Business		Change in stocks \$M	\$M	QPC	\$M	QPC	\$M	QPC	\$M	QPC
	\$M	QPC	\$M	QPC	\$M	QPC	\$M	QPC									
2021Q4	42,887	5.3	14,441	4.1	4,338	8.2	14,118	11.2	266	15,827	-0.5	22,753	2.2	69,088	4.1		
2022Q1	44,858	4.6	14,696	1.8	4,250	-2.0	14,250	0.9	20	13,584	-14.2	22,125	-2.8	69,147	0.1		
2022Q2	43,987	-1.9	14,546	-1.0	4,239	-0.3	13,659	-4.1	1298	15,688	15.5	22,528	1.8	70,032	1.3		
2022Q3	44,294	0.7	14,746	1.4	4,362	2.9	14,496	6.1	-413	17,152	9.3	23,035	2.3	71,628	2.3		
2022Q4	44,623	0.7	14,450	-2.0	4,176	-4.3	14,342	-1.1	1055	16,593	-3.3	23,325	1.3	71,809	0.3		
2023Q1	44,907	0.6	14,378	-0.5	4,054	-2.9	14,478	0.9	252	16,567	-0.2	22,948	-1.6	71,665	-0.2		
2023Q2	45,214	0.7	14,685	2.1	4,111	1.4	14,617	1.0	-987	18,004	8.7	22,707	1.1	72,210	0.8		
2023Q3	44,678	-1.2	14,756	0.5	4,051	-1.5	14,104	-3.5	236	17,523	-2.7	22,947	1.1	72,167	-0.1		
2023Q4	44,978	0.7	14,692	-0.4	4,003	-1.2	14,170	0.5	-985	17,890	2.1	21,875	-4.7	72,447	0.4		
2024Q1	44,952	-0.1	14,636	-0.4	3,851	-3.8	14,115	-0.4	-112	18,089	1.1	23,157	5.9	72,492	0.1		
2024Q2	44,850	-0.2	14,544	-0.6	3,666	-4.8	14,100	-0.1	66	18,374	1.6	22,868	-1.2	72,235	-0.4		
2024Q3	44,752	-0.2	14,351	-1.3	3,528	-3.8	13,600	-3.5	-73	18,079	-1.6	22,809	-0.3	71,368	-1.2		
2024Q4	44,882	0.3	14,462	0.8	3,346	-5.2	13,814	1.6	-243	18,702	3.4	23,106	1.3	71,462	0.1		
2025Q1	45,373	1.1	14,651	1.3	3,448	3.0	13,931	0.8	-521	18,743	0.2	23,221	0.5	72,244	1.1		
2025Q2	45,535	0.4	14,675	0.2	3,331	-3.4	13,761	-1.2	-7	18,466	-1.5	23,476	1.1	71,768	-0.7		
2025Q3	45,571	0.1	14,885	1.4	3,366	1.1	14,063	2.2	-385	19,026	3.0	24,020	2.3	72,406	0.9		
2025Q4	45,505	-0.1	15,211	2.2	3,364	-0.1	13,685	-2.7	229	19,036	0.1	24,267	1.0	72,457	0.1		
2026Q1	45,687	0.4	14,899	-2.0	3,314	-1.5	13,863	1.3	350	19,169	0.7	24,095	-0.7	72,918	0.6		
2026Q2	45,596	-0.2	14,703	-1.3	3,347	1.0	13,946	0.6	350	19,404	1.2	23,955	-0.6	73,145	0.3		
2026Q3	46,067	1.0	14,692	-0.1	3,440	2.8	13,836	-0.8	240	19,561	0.8	23,963	0.0	73,645	0.7		
2026Q4	46,552	1.1	14,706	0.1	3,574	3.9	13,921	0.6	140	19,668	0.5	24,083	0.5	74,258	0.8		
2027Q1	46,882	0.7	14,730	0.2	3,699	3.5	14,140	1.6	180	19,784	0.6	24,287	0.8	74,916	0.9		
2027Q2	47,212	0.7	14,780	0.3	3,809	3.0	14,399	1.8	180	19,897	0.6	24,505	0.9	75,566	0.9		
2027Q3	47,544	0.7	14,840	0.4	3,904	2.5	14,714	2.2	180	19,998	0.5	24,774	1.1	76,201	0.8		
2027Q4	47,882	0.7	14,890	0.3	3,982	2.0	15,004	2.0	180	20,100	0.5	25,022	1.0	76,813	0.8		
2028Q1	48,236	0.7	14,918	0.2	4,048	1.7	15,261	1.7	180	20,204	0.5	25,244	0.9	77,401	0.8		
2028Q2	48,592	0.7	14,926	0.1	4,105	1.4	15,479	1.4	180	20,309	0.5	25,428	0.7	77,961	0.7		
2028Q3	48,943	0.7	14,926	0.0	4,150	1.1	15,669	1.2	180	20,416	0.5	25,595	0.7	78,488	0.7		
2028Q4	49,295	0.7	14,927	0.0	4,189	1.0	15,832	1.0	180	20,546	0.6	25,761	0.6	79,007	0.7		
2029Q1	49,689	0.8	14,929	0.0	4,228	0.9	15,986	1.0	180	20,668	0.6	25,941	0.7	79,539	0.7		
2029Q2	50,075	0.8	14,929	0.0	4,263	0.8	16,143	1.0	180	20,784	0.6	26,114	0.7	80,060	0.7		
2029Q3	50,452	0.8	14,928	0.0	4,294	0.7	16,290	0.9	180	20,899	0.6	26,275	0.6	80,568	0.6		
2029Q4	50,824	0.7	14,926	0.0	4,321	0.6	16,424	0.8	180	21,014	0.6	26,426	0.6	81,064	0.6		
2030Q1	51,195	0.7	14,924	0.0	4,346	0.6	16,549	0.8	180	21,131	0.6	26,570	0.5	81,554	0.6		
2030Q2	51,566	0.7	14,920	0.0	4,371	0.6	16,668	0.7	180	21,250	0.6	26,712	0.5	82,043	0.6		

Note: All data seasonally adjusted. Dollar amounts are in 2009/10 prices.
Sources: Stats NZ, the Treasury

Table 6 – Labour market indicators

Annual average percentage change						
Year ended June	2025	2026	2027	2028	2029	2030
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (production measure)	-1.1	1.2	2.3	3.2	2.7	2.5
Working-age population	1.2	1.0	1.2	1.3	1.3	1.3
Labour force	-0.1	0.6	1.8	1.7	1.5	1.4
Employment - total	-1.0	0.3	2.0	2.3	1.8	1.5
Total hours worked (HLFS)	-2.5	0.9	2.1	2.3	1.8	1.4
Labour productivity (hours worked basis)	1.4	0.4	0.3	0.9	0.9	1.1
CPI (annual percentage change)	2.7	4.0	1.6	2.1	2.1	2.0
Average ordinary time hourly wages	4.3	3.2	2.9	2.9	3.3	3.5
Average ordinary time weekly earnings	4.4	3.2	2.3	2.7	3.2	3.4
Real wages	1.8	-0.1	0.1	1.0	1.1	1.4
Compensation of employees	1.4	2.5	4.2	4.7	4.8	4.9
Unit labour costs (hours worked basis)	2.8	2.8	2.7	2.0	2.3	2.4
Real unit labour costs	0.4	-0.5	-0.1	0.1	0.2	0.3

Number (000s)						
As at June quarter	2025	2026	2027	2028	2029	2030
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Total population	5,323	5,370	5,432	5,497	5,562	5,628
Natural increase	19	19	25	26	26	26
Net migration	12	28	36	39	40	40
Annual change	31	47	62	65	66	66
Working-age population	4,300	4,348	4,404	4,462	4,521	4,580
Annual change	37	48	56	58	59	59
Not in the labour force (s.a.)	1,269	1,275	1,275	1,282	1,295	1,310
Annual change	59	6	0	7	13	16
Labour force (s.a.)	3,030	3,074	3,129	3,180	3,227	3,270
Annual change	-22	44	56	51	46	43
Total employment (s.a.)	2,872	2,906	2,973	3,036	3,086	3,128
Annual change	-37	34	67	63	50	42
Unemployment (s.a.)	158	168	157	144	141	142
Annual change	15	10	-11	-12	-4	1
Participation rate (% , s.a.)	70.5	70.7	71.1	71.3	71.4	71.4
Unemployment rate (% , s.a.)	5.2	5.5	5.0	4.5	4.4	4.3

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

Table 7 – Oil and fuel price assumptions

	Brent oil	Diesel	Unleaded 91
	US\$/barrel	cents/litre	cents/litre
2025M01	79	197.5	268.3
2025M02	75	199.2	268.6
2025M03	73	194.7	263.1
2025M04	68	188.8	257.5
2025M05	64	181.7	251.6
2025M06	71	180.8	251.4
2025M07	71	184.9	254.5
2025M08	68	184.8	252.9
2025M09	68	186.7	254.9
2025M10	65	189.6	257.9
2025M11	64	194.4	262.0
2025M12	63	194.5	262.1
2026M01	67	189.0	256.1
2026M02	71	186.7	253.4
2026M03	103	274.8	304.5
2026M04	113	368.0	340.0
2026M05	99	314.0	311.8
2026M06	95	288.7	302.5
2026M07	91	266.7	293.2
2026M08	87	248.1	284.6
2026M09	85	236.9	280.2
2026M10	84	227.6	276.3
2026M11	82	219.7	272.7
2026M12	81	214.8	270.7
2027M01	80	210.8	269.0
2027M02	80	207.3	267.3
2027M03	79	204.4	265.8
2027M04	78	201.7	264.3
2027M05	77	199.3	262.9
2027M06	77	198.3	262.4
2027M07	77	197.3	261.9
2027M08	76	196.5	261.4
2027M09	76	195.8	261.0
2027M10	76	195.1	260.6
2027M11	76	194.5	260.2
2027M12	75	193.9	259.7
2028M01	75	193.3	259.3

Sources: MBIE, Haver Analytics, the Treasury

Tax Policy Changes

This section details the material changes to forecast tax revenue since the *Budget Update 2025* as a result of tax revenue initiatives. Table 8 shows a breakdown of the changes, and the supplementary text describes each initiative.

Table 8 – Estimated tax effects of initiatives announced since the *Budget Update 2025*

Year ending 30 June \$ millions	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	Total 5 years
<i>Policy changes included at Half Year Update 2025:</i>						
Offshore gambling duty rate increase	0.0	8.0	16.0	16.0	16.0	56.0
<i>Policy changes included at Budget Update 2026:</i>						
Company loans to shareholders: taxation rules	7.0	31.0	28.0	46.0	40.0	152.0
Research and Development Tax Incentive amendments	0.0	1.3	26.2	27.4	32.4	87.3
Charities and Not-for-profits	0.0	-1.6	15.0	18.7	18.6	50.7
Thin capitalisation: foreign-owned banks	0.0	3.2	13.1	14.4	14.5	45.2
Thin capitalisation: infrastructure	-2.5	-10.0	-10.0	-10.0	-10.0	-42.5
New Zealand-India Free Trade Agreement tariffs	0.0	-7.5	-15.0	-15.0	-15.0	-52.5
Foreign Investment Funds tax rule reforms	-4.2	-17.1	-16.6	-17.1	-17.5	-72.5
Other	-1.1	-6.1	-9.2	-9.0	-8.9	-34.3
Total policy changes since Budget Update 2025	-0.8	1.2	47.5	71.4	70.1	189.4

Sources: Inland Revenue, the Treasury

Offshore Gambling Duty Rate Increase

The rate of duty on offshore gambling will increase from 12% to 16% on 1 January 2027.

Company Loans to Shareholders – Taxation Rules

The change ensures that loans made by companies to shareholders are taxed as income to the shareholder when the loan remains outstanding more than six months after the company is liquidated or otherwise removed from the Companies' Register.

Research and Development Tax Incentive Amendments

A range of changes relating to the Research and Development Tax Incentive Credit, the most significant of which is a smaller \$3 million cap (previously \$25 million) on eligible internal software expenditure.

Charities and Not-for-profits – Taxation and Changes to Settings

A range of changes to the settings for charitable donations and the income tax treatment of some not-for profits. The most significant fiscal change is from introducing an annual donation cap of \$100,000 for rebate claims on donations made by individuals.

Thin Capitalisation Changes for Foreign-owned New Zealand Banking Groups

Changes to tax rules for foreign owned New Zealand banking groups, increasing the thin capitalisation threshold to 12% for banking groups with a domestic systemically important bank and 11% for other banking groups.

Thin Capitalisation: Infrastructure

A change that allows eligible entities investing in infrastructure projects to hold more third-party debt than previous limits permitted. In the *Budget Update 2025*, a tagged operating contingency of \$85 million over the forecast period was established for any changes to the thin capitalisation settings for infrastructure. \$42.5 million of the tagged contingency was not required and was returned to operating allowances.

New Zealand-India Free Trade Agreement

From 1 January 2027, tariffs will be removed on Indian goods imported into New Zealand.

Foreign Investment Funds – Tax Rule Reforms

A range of changes to the foreign investment fund rules, of which the most significant are a lifting of the de minimis threshold to \$100,000 of shareholdings before these rules apply and allowing eligibility to the revenue account method for unlisted shares held by any New Zealand resident.

Other Initiatives

Some minor policy changes, each with a revenue effect of less than \pm \$10 million per annum, were also included in the tax forecasts.

Weaker Outlook for Tobacco Excise

Tobacco excise is \$1.6 billion lower than the *Half Year Update* across the forecast period. This weaker outlook reflects weaker than forecast demand for taxable tobacco products, which we expect to persist. Tobacco excise revenue for the nine months to 31 March 2026 was \$102 million (9.1%) below the *Half Year Update* forecast, and \$210 million (17.1%) below the same period last year.

In response to the below-forecast outturns, the *Budget Update* tobacco excise revenue forecast assumes a bigger demand drop in the current year (17%) than was assumed in the *Half Year Update*, with a similarly weakened demand profile of -12.5% per year over the remainder of the forecast period. The 17% reduction in tobacco demand in the current year is in line with the latest tax outturns, while the 12.5% reduction over the remainder of the forecast period aligns with the steep downward trend in the volume of excisable tobacco over the last 5 years.

The excise rates for heated tobacco products (HTPs) were reduced by 50% on 1 July 2024. Recent data show that the decline in duty from the lower HTP duty rates has not been as large as was expected. Furthermore, subsequent research suggests that future HTP take-up will not be as large as was previously assumed. We have therefore moderated the forecast total taxable tobacco demand profile to allow for the possibility that the revenue loss will not be as large as was originally calculated.

Table 9 – Change in total tobacco excise duty revenue since the *Half Year Update*

Year ending 30 June	2026	2027	2028	2029	2030	Total
\$millions	Forecast	Forecast	Forecast	Forecast	Forecast	
Budget Update 2026	1,241	1,138	1,017	908	811	
Half Year Update 2025	1,426	1,385	1,328	1,292	1,264	
Difference	-186	-247	-311	-384	-453	-1,580

Source: The Treasury

Fiscal Stance: Fiscal Balance and Total Fiscal Impulse Indicators

The Treasury's fiscal balance and total fiscal impulse (TFI) indicators aim to provide a picture of the impact of fiscal policy on the economic cycle.

The fiscal balance is a measure of the contribution of fiscal policy to aggregate demand. A negative fiscal balance implies fiscal policy is supporting demand relative to a balance of zero, with cash payments exceeding demand-relevant receipts. The fiscal balance is calculated as core Crown and Crown entity residual cash adjusted for some expenditure items that do not directly affect domestic demand, such as advances (other than student loans), NZ Super Fund contributions, defence purchases, and KiwiSaver subsidies. It is expressed as a percentage of nominal potential GDP.¹

The TFI is a measure of the change in the contribution of fiscal policy to aggregate demand from one year to the next. The TFI is calculated as the annual change in the fiscal balance, with the sign reversed so that positive values indicate support is increasing relative to the previous year.

These indicators provide only a partial indication of the impact of fiscal policy on aggregate demand. They do not capture how the direct effect varies with the composition of revenue and spending, nor do they account for flow-on (multiplier) effects or supply-side responses. The impact will also depend on the level of spare capacity and whether this reflects demand weakness or supply constraints.

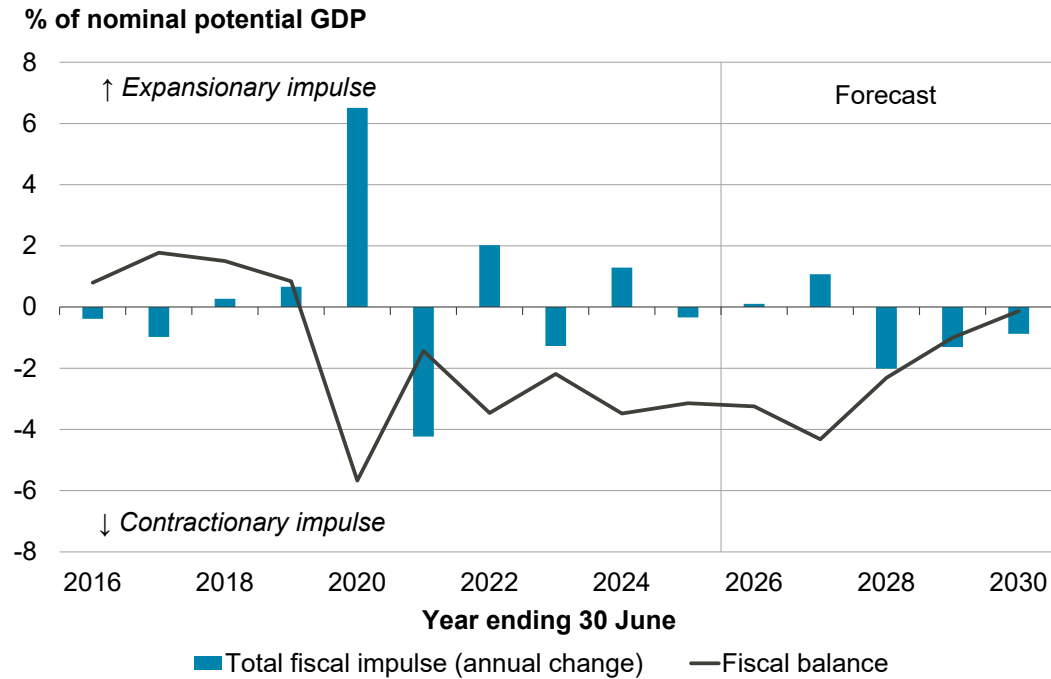
Trends over the forecast period

The fiscal balance has remained in deficit through the recent economic downturn (Figure 1), indicating that fiscal policy has been supporting demand. This support is expected to continue over the forecast period, increasing in 2025/26 and 2026/27 before declining as fiscal consolidation takes effect. Although the OBEGAL and OBEGALx deficits reach their peak in 2025/26, the fiscal balance deficit does not peak until 2026/27. The reduction in support from 2027/28 onwards reflects both the reduced contribution from automatic stabilisers as the output gap closes and the effect of tighter discretionary policy.

Relative to the previous year, fiscal policy increases support in 2026/27, as reflected in a TFI of 1.1% of potential GDP. This is mainly driven by a timing lag in tax receipts, where some tax revenue recognised in 2025/26 is not received until 2026/27, alongside a rise in net finance costs. These factors may have limited direct relevance for aggregate demand. From 2027/28, fiscal policy begins to withdraw support, with the TFI averaging -1.4% over the remainder of the forecast period. The timing of this withdrawal broadly aligns with spare capacity being used up towards the end of the forecast period.

¹ The fiscal balance captures the structural, discretionary, and automatic components of government cash flows, including finance costs. It is measured on a cash basis and therefore differs from accrual-based measures such as OBEGAL and OBEGALx. For more detail on the methodology used to calculate the fiscal balance and TFI, see: <https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse>.

Figure 1 – Fiscal balance and TFI

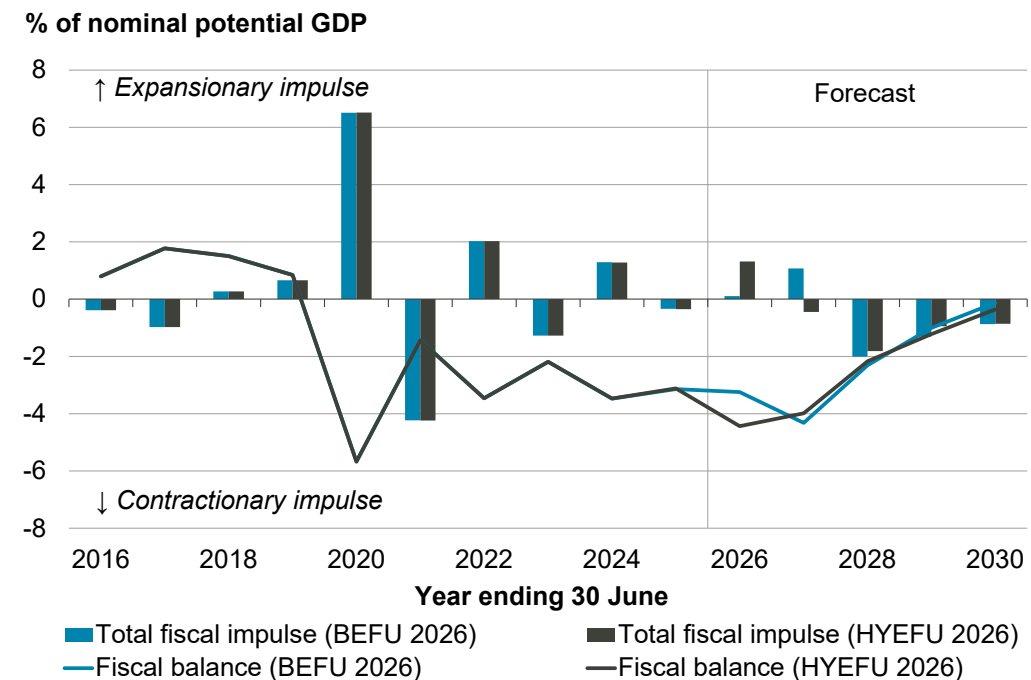


Source: The Treasury

Comparison with *Half Year Update 2025*

Compared with the *Half Year Update*, the fiscal balance deficit now peaks one year later (Figure 2), mainly due to changes in the timing of spending and the profile of the budget package. This suggests that fiscal policy is providing less support to aggregate demand in 2025/26 than previously forecast. As a result, the TFI falls to near-zero in 2025/26 and becomes expansionary in 2026/27. Toward the end of the forecast period, tax receipts are higher and expenditure is lower, leading to a smaller fiscal balance deficit and more contractionary TFI.

Figure 2 – Comparison with the *Half Year Update*



Source: The Treasury

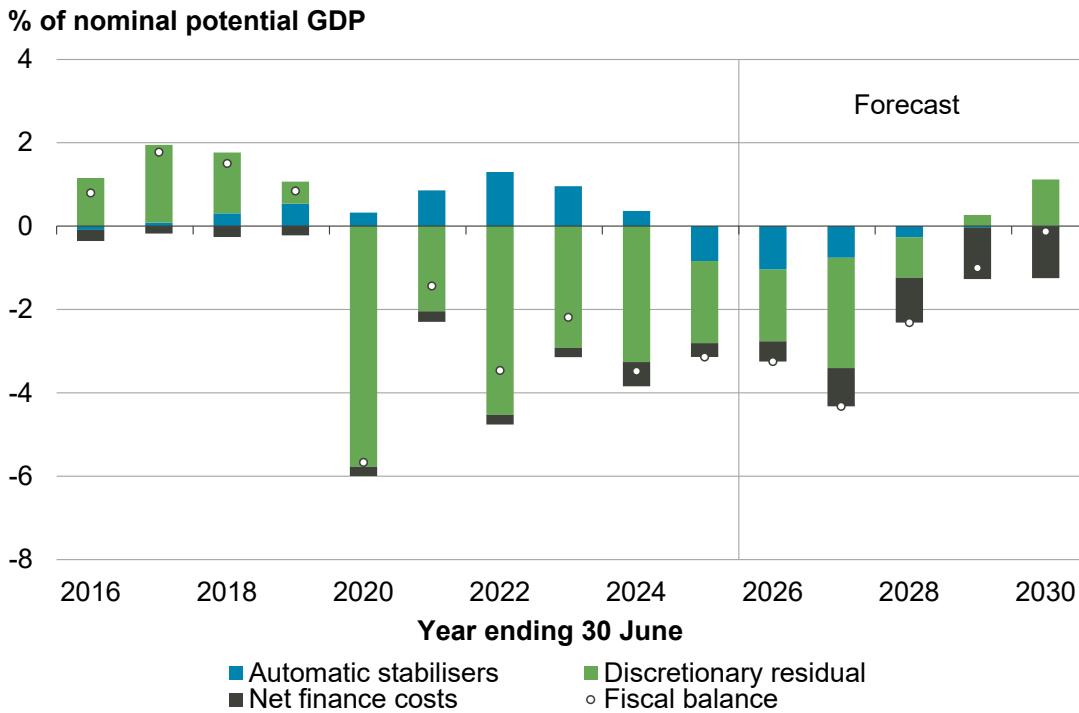
Policy decomposition

The policy decomposition of the fiscal balance reveals that automatic stabilisers contributed to the expansionary stance of fiscal policy in 2024/25 and continue to do so over the first three years of the forecast period, suggesting that stabilisers are working as expected during a downturn. The contribution of automatic stabilisers increases in 2025/26 as the output gap reaches its peak before decreasing over the next two years as the economy recovers.

Net finance costs have historically been a minor contributor to the fiscal balance, but they increase significantly in 2026/27 and remain higher over the forecast period, contributing to larger deficits in the fiscal balance. As a large proportion of expenditure on finance costs is to overseas lenders, it is likely to have a smaller effect on aggregate demand than other types of expenditure.

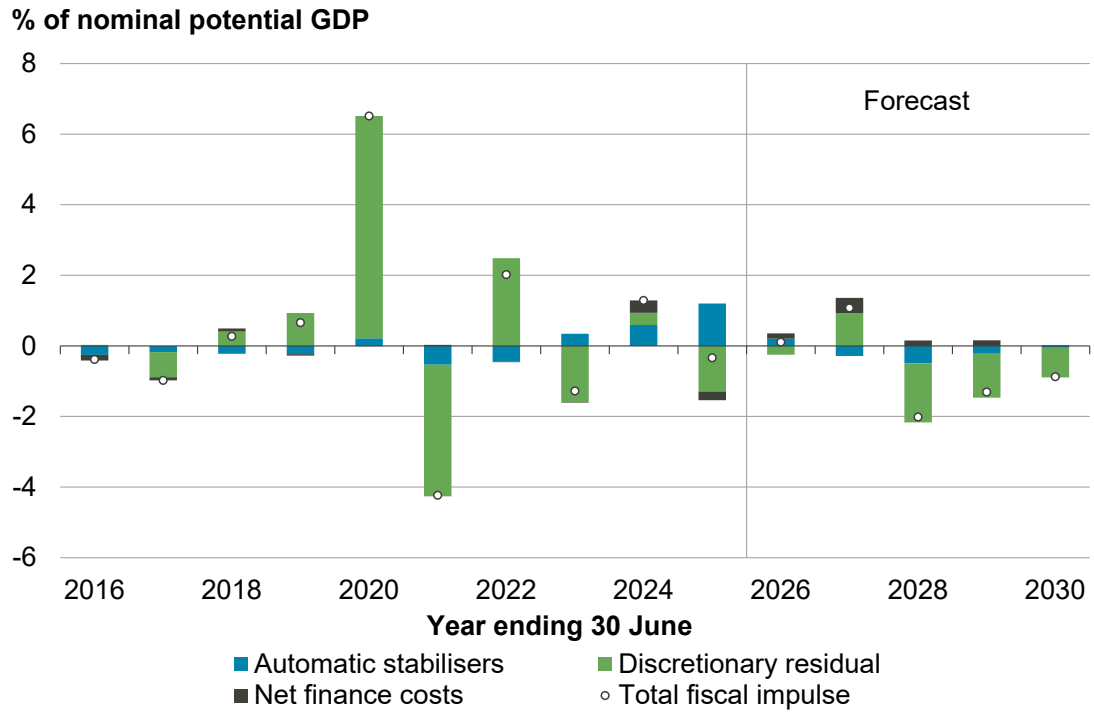
After accounting for the effects of automatic stabilisers and net finance costs, the discretionary residual is the main factor contributing to the narrowing fiscal balance deficit and generally contractionary TFI from 2024/25 onwards, as well as the temporary widening fiscal balance deficit and expansionary TFI in 2026/27.

Figure 3 – Policy decomposition of the fiscal balance



Source: The Treasury

Figure 4 – Policy decomposition of the TFI



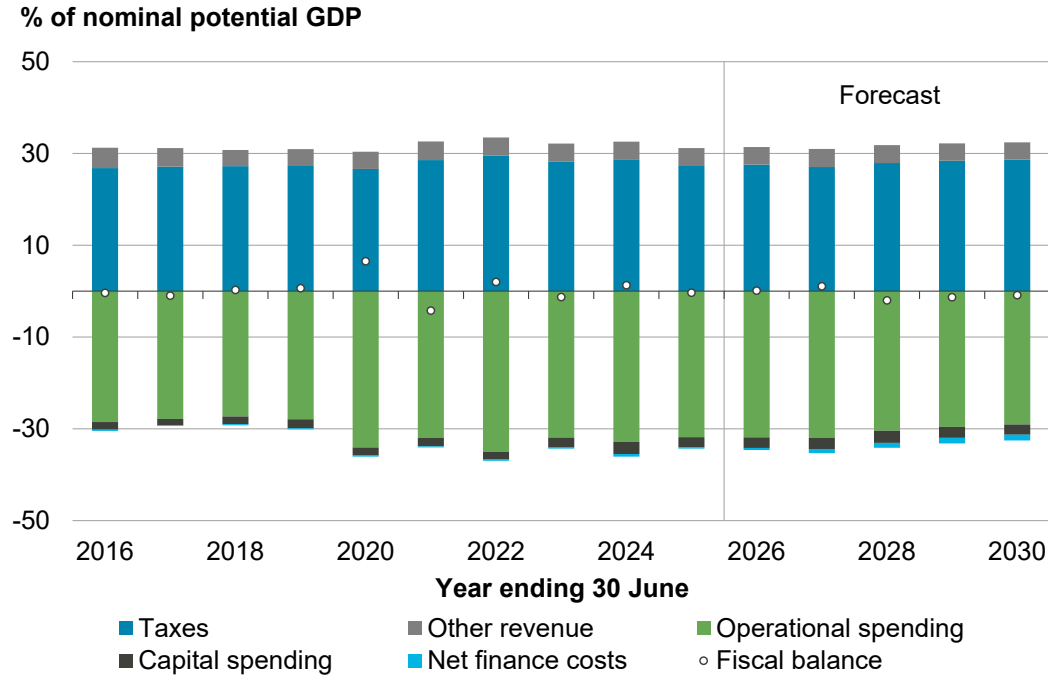
Source: The Treasury

Financial decomposition

The financial decomposition shows that the expansionary TFI in 2026/27 is driven mainly by a temporary decrease in tax receipts relative to nominal potential GDP and a sustained increase in net finance costs. The contractionary TFI over the remainder of the forecast period is mainly driven by operational spending, with increased taxes also playing a role.

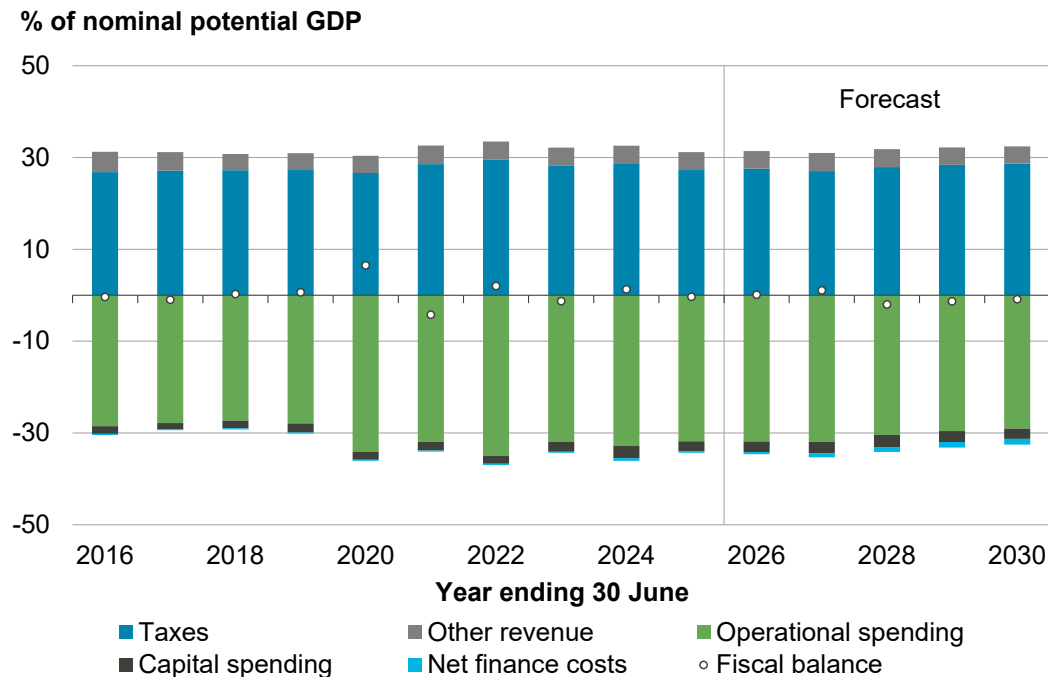
Changes in spending may have larger flow-on effects on aggregate demand than changes in taxes due to different multipliers. These different flow-on effects are not accounted for in the fiscal balance and TFI indicators.

Figure 5 – Financial decomposition of the fiscal balance



Source: The Treasury

Figure 6 – Financial decomposition of the TFI



Source: The Treasury

Underlying Fiscal Performance: Cyclically-adjusted and Structural Balance Indicators

The Treasury's cyclically-adjusted and structural balance indicators reveal underlying trends in fiscal performance. They help distinguish discretionary fiscal policy choices from cyclical and temporary influences and measure medium-term fiscal sustainability.

The cyclically-adjusted versions of OBEGAL and OBEGALx remove the estimated effects of the economic cycle. They are calculated by subtracting automatic changes in tax revenue and welfare expenses, known as automatic stabilisers.²

The structural balance indicators are calculated from the cyclically-adjusted indicators by excluding significant revenue or spending associated with one-off events, such as COVID-19 and the North Island weather events.

Trends over the forecast period

The Treasury's estimate of the cyclically-adjusted OBEGAL is -2.3% of potential GDP in 2025/26, accounting for around two-thirds of the OBEGAL deficit. Similarly, cyclically-adjusted OBEGALx is -1.6% of potential GDP in 2025/26, around two-fifths of the OBEGALx deficit.

These figures suggest that less than half of the deficit is expected to close automatically as the economy recovers. Most of the improvement in OBEGAL and OBEGALx over the forecast period is expected to come from actions to limit expenditure growth and improve Crown entity performance.

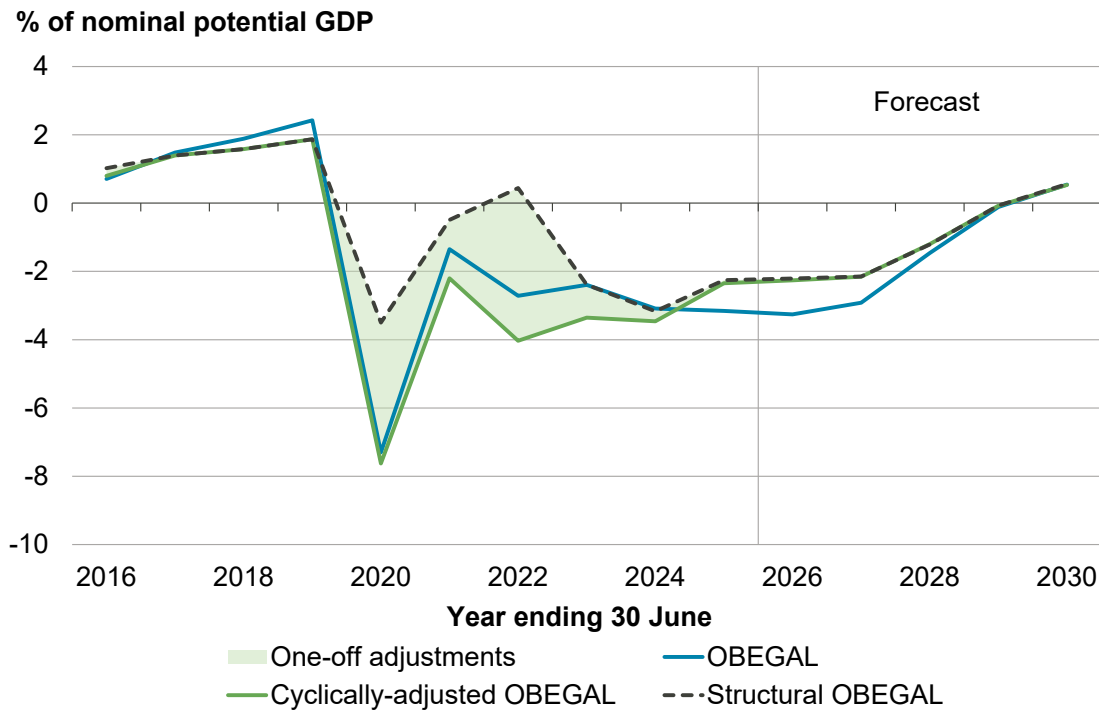
Since 2023/24, the OBEGAL and OBEGALx deficits have widened while their cyclically-adjusted and structural versions have narrowed. This suggests that the part of the deficit that is structural has declined, but this has been more than offset by the effect of automatic stabilisers.

In 2025/26, cyclically-adjusted OBEGALx deteriorates, indicating that the widening of the OBEGALx deficit in that year is not solely due to cyclical factors. This points to a temporary easing in the underlying fiscal position, partly reversing the broader consolidation trend.

The cyclically-adjusted versions of OBEGAL and OBEGALx are forecast to improve gradually over the remainder of the forecast period, in line with the non-adjusted versions, returning to surplus in 2029/30 for OBEGAL and 2028/29 for OBEGALx. The structural indicators follow similar paths to the cyclically-adjusted indicators.

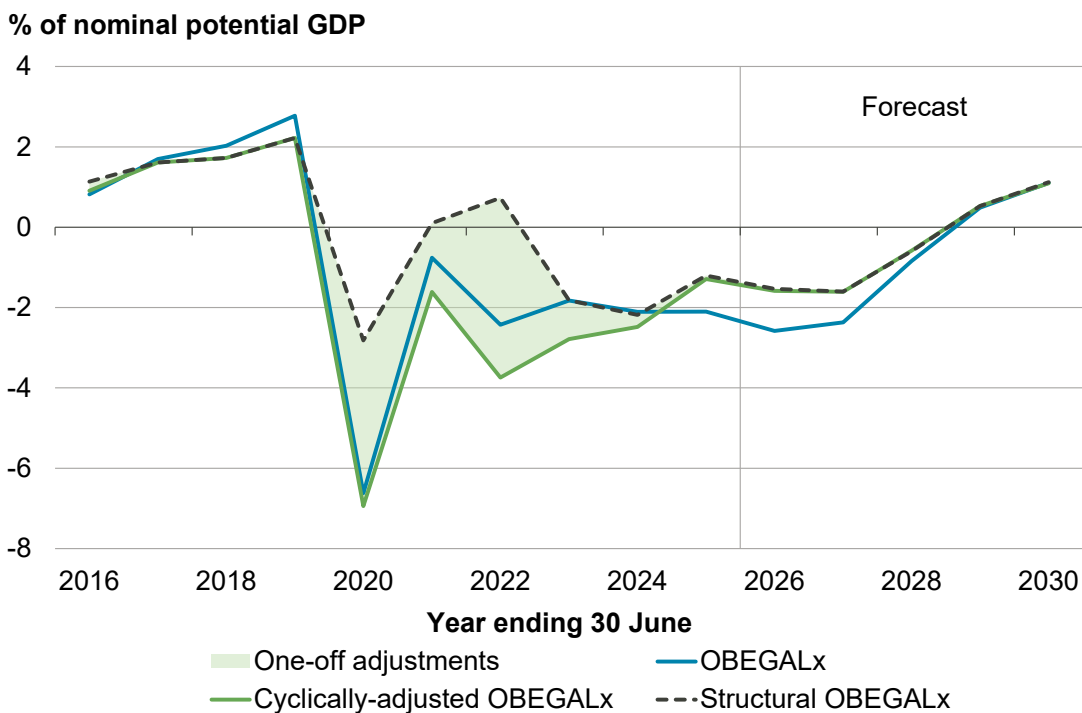
² For more detail on the methodology used to calculate the cyclically-adjusted and structural balance indicators, see: <https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse>.

Figure 7 – Cyclically-adjusted and structural versions of OBEGAL



Source: The Treasury

Figure 8 – Cyclically-adjusted and structural versions of OBEGALx

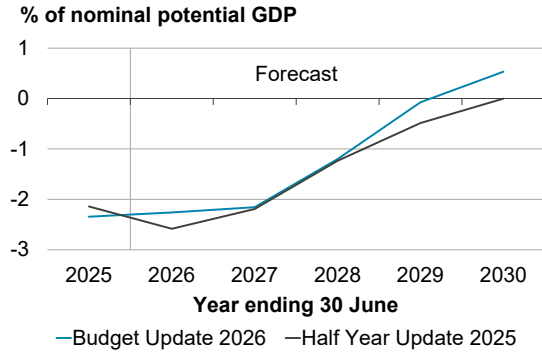


Source: The Treasury

Comparison with *Half Year Update 2025*

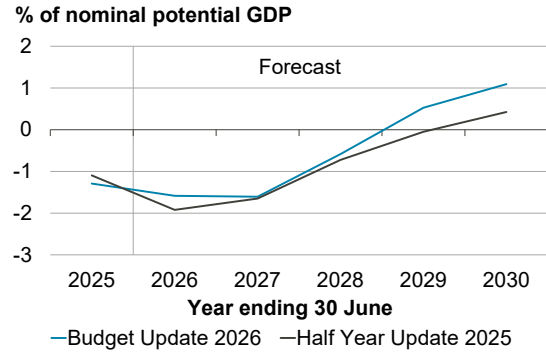
Compared with the *Half Year Update*, the cyclically-adjusted versions of OBEGAL and OBEGALx have smaller deficits in 2025/26 and reach surplus earlier in the forecast period. This is driven by changes in the non-adjusted versions of the indicators.

Figure 9 – Cyclically-adjusted OBEGAL comparison with the *Half Year Update*



Source: The Treasury

Figure 10 – Cyclically-adjusted OBEGALx comparison with the *Half Year Update*



Source: The Treasury

Accounting Policies for the Forecast Financial Statements of the Government of New Zealand for the Budget Economic and Fiscal Update 2026

The forecast financial statements contained in the published *Budget Update 2026* are based on the following accounting policies.

Statement of Compliance

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

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

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

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

Reporting and Forecast Periods

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

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

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

Basis of Preparation

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

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

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

Comparatives

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

Accounting standards issued and not yet effective and not early adopted

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

PBE IFRS Insurance Contracts

The public sector version of PBE IFRS 17 *Insurance Contracts* was issued in June 2023 and is effective for periods beginning on or after 1 January 2026. This standard supersedes PBE IFRS 4 *Insurance Contracts*. The Government reporting entity will adopt PBE IFRS 17 for the year ending 30 June 2027 and will apply the standard retrospectively with restatement of comparatives for the year ending 30 June 2026. As this new standard applies to the Government's financial statements from 1 July 2026, the figures in the *Budget Update 2026* forecast for the 2026/27 year and onwards have been prepared using PBE IFRS 17. The forecast figures in the 2025/26 year have been prepared using the current standard.

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

The impact of adopting PBE IFRS 17 is explained in Chapter 4 Forecast Financial Statements of the *Budget Update 2026*.

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

Judgements and Estimations

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

These forecasts include budget adjustments for:

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

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

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

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

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

Reporting Entity

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

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

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

Basis of Combination

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

Core Crown entities

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

Other entities

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

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

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

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

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

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

Significant Accounting Policies

The accounting policies set out below are applied consistently to all periods in the forecast financial statements in the *Budget Update 2026*.

Revenue

Taxation revenue levied through the Crown's sovereign power

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

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

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

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

Revenue earned through operations

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

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

Interest revenue

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

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

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

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

Dividend revenue

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

Rental revenue

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

Donated or subsidised assets

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

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

Gains

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

Expenses

General

Expenses are recognised in the period to which they relate.

Welfare benefits and entitlements and subsidies

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

Grants and subsidies

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

Interest expense

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

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

Losses

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

Foreign currency

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

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

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

Sovereign receivables and taxes repayable

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

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

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

Financial instruments – forecasting policies

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

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

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

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

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

Derivatives

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

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

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

Financial instruments – accounting policies

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

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

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

Non-derivative financial assets

General principles

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

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

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

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

Specific application

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

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

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

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

Fair value measurement

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

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

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

Allowances for expected losses

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

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

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

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

Non-derivative financial liabilities

General principles

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

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

Specific application

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

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

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

Financial guarantee contracts

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

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

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

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

Derivative financial instruments

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

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

Hedging

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

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

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

(a) Cash flow hedge

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

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

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

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

(b) Fair value hedge

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

Inventories

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

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

Property, plant and equipment – forecasting policy

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

Property, plant and equipment (PPE) – accounting policies*Measurement on initial recognition*

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

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

Capitalisation of borrowing costs

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

Subsequent measurement

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

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

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

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

Revaluation

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

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

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

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

Depreciation

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

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

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

Impairment

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. The main reason for holding some assets (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.

Disposal

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

Public private partnerships

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

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

Subsequent to initial recognition:

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

Equity accounted investments

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

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

Biological assets

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

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

Intangible assets

Intangible assets are initially recorded at cost.

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

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

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

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

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

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

Goodwill is tested for impairment annually.

Non-current assets held for sale and discontinued operations

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

Investment property

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

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

Employee benefits

Retirement and other similar long-term benefit liabilities

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

Other employee entitlements

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

Termination benefits

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

Insurance contracts

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

Reinsurance

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

Reinsurance and other recoveries receivable

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

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

Leases

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

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

Other liabilities and provisions

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

Contingent liabilities and contingent assets

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

Commitments

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

Commitments are classified as follows:

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

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

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

Segment analysis

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

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

Functional analysis is also provided of a number of financial statements items. This functional analysis is drawn from the Classification of the Functions of Government as developed by the Organisation for Economic Co-operation and Development (OECD).