

9 OCTOBER 2018



THE TREASURY

Kaitohutohu Kaupapa Rawa

FSG BASICS

The financial statements of the Government (FSG) provide a record of the Government's financial performance and its financial position

<https://treasury.govt.nz/publications/information-release/fsg-basics-2018>

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New Zealand Government

TREASURY BASICS –
Making sense of New Zealand's economic and
fiscal landscape

The Financial Statements of the Government

Who we are

The Treasury is New Zealand's economics and finance ministry. We advise on the direction of New Zealand's economic policy with the aim of achieving a strong and sustainable economy and raising New Zealand living standards. We also advise the Government on its fiscal strategy, report on the revenue and expenditure of the Government, and assist to ensure spending is fit for purpose and can improve outcomes for New Zealanders.

Sharing what we do

The Treasury publishes monthly and annual (year end) financial statements for the Government and all the entities it controls. Annual statements cover the year from 1 July to 30 June.

These statements provide information on the Government's assets and liabilities, revenue and expenses, cash flows and debt. They provide a comparison with the fiscal forecasts in the *Economic and Fiscal Updates* and with the financial statements of the previous year. The financial statements also provide a snapshot of the progress the Government has made in implementing its fiscal strategy, as set out in its *Fiscal Strategy Report*.

Making it New Zealander-centric

Our advice is not just based on facts and figures. Improving outcomes means we need to understand which outcomes to improve, and what is important to New Zealanders. [We use the Treasury's Living Standards Framework](#) to recognise the different aspects of New Zealanders' living standards and wellbeing.

The Framework's organising principles underpin [He Puna Hao Pātiki: 2018 Investment Statement](#). The assets and liabilities on the Crown's balance sheet provide resources which the Government can draw on for raising wellbeing, now and into the future. And in 2016 we presented a living standards perspective that stretches over the next 40 years. [He Tirohanga Mokopuna: 2016 Statement on the Long-term Fiscal Position](#), sets out our take on long-term fiscal issues facing New Zealand. We know that sustainable government finances are a requirement to improving long-term living standards, and vice versa.

Understanding what we do

The Treasury is committed to delivering first-rate economic and financial advice, and providing it in ways that help New Zealanders understand how we work to achieve our goals. This plain English version of our economic outlook and fiscal overview is a contribution to the [Open Budget](#) initiative.

FSG Basics

The **key terms and indicators** is a plain English guide. These are **the words and figures** normally used to describe the Government's results.

The **fiscal results** are about the health of the **public purse**. They look at Government income (largely from tax) and how the Government is spending and managing its debt.

Key terms and indicators

We use some key terms and indicators to describe what is happening:

Core Crown

is a reporting segment that consists of the Crown, departments, Offices of Parliament, the New Zealand Superannuation (NZS) Fund, and the Reserve Bank. It excludes Crown entities and State-owned Enterprises (SOEs).

Gross Domestic Product (GDP)

is one way to measure the size of the economy. It measures the value of goods and services produced in an economy in a period of time. GDP is used to measure against fiscal indicators of the Government.

Core Crown tax revenue

is the income the Government receives from taxpayers in the form of tax (eg, income tax, GST, companies tax).

Core Crown expenses

are the day-to-day spending of the Government to provide services to New Zealanders (eg, health and education), as well as fund the agencies that provide those services and interest costs from borrowing money.



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Key terms and indicators

OBEGAL

stands for Operating Balance before Gains and Losses and is what is left after expenses are deducted from revenue. It includes profits/losses from Government controlled entities such as ACC and New Zealand Post as well as the tax revenue and core Crown expenses discussed above. It excludes gains and losses.

Net debt

is what the Government has borrowed less what assets it holds that can be used to pay off debt if required (referred to as financial assets). Examples of financial assets are cash and share investments.

Net worth

is total assets less total liabilities. Changes in net worth are largely driven by the operating result of the Government, and any changes in the value of its assets.

The Government reporting entity

is made up of all entities that the Government controls (split into the segments of core Crown, Crown entities and SOEs).



GDP

Gross Domestic Product (GDP) is a measure of the size of the economy. There are two ways we look at GDP – nominal and real.

NOMINAL vs REAL

Nominal GDP is estimated at *current* prices and is a good indicator for how much tax will be generated by all the individuals and businesses in the economy.

Real GDP is estimated at *constant* prices so it includes the impact of inflation. How real GDP changes over time is a good measure for how fast the economy is growing.



What the Treasury says

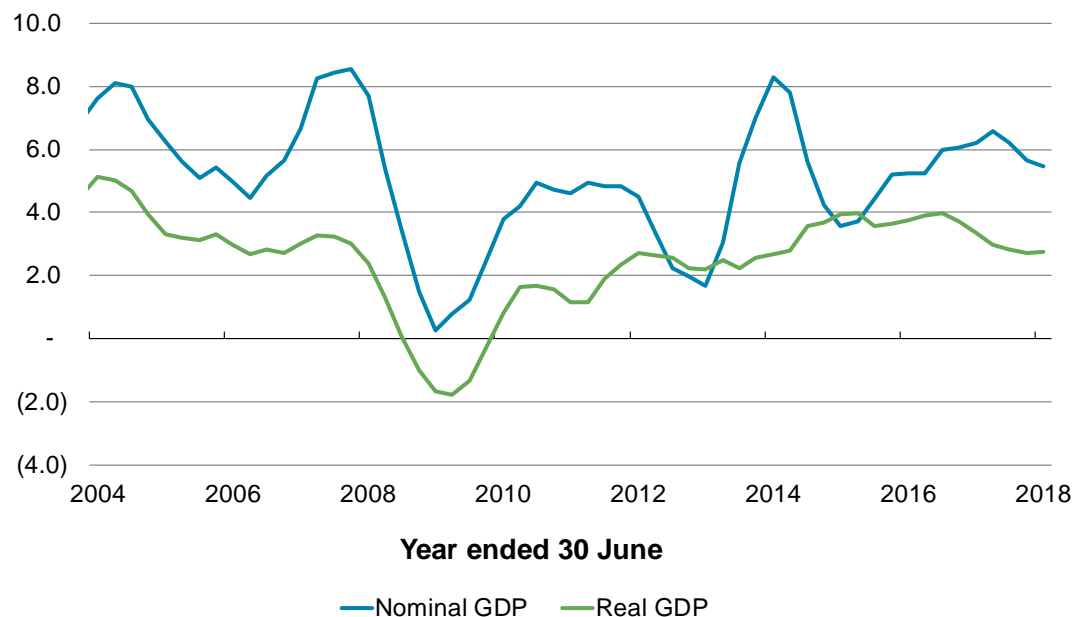
Nominal GDP increased by 5.5% to June 2018, supported by growth in private consumption, plus strong contributions from housing construction and inbound tourist spending.

Real GDP grew 2.7% in the current year, this economic growth was broad-based across most industries.

Facts and figures

- \$289.3 billion nominal GDP **(up \$15.0 billion)**
- 1,580,200 average full time equivalent employees **(up 33,000)**
- \$31.00 average ordinary time hourly pay rate **(up 3.0%)**
- 4.5% average unemployment **(down 0.3%)**
- 1.5% annual average inflation **(up 0.1%)**

Annual average % change



Core Crown Tax Revenue

Core Crown tax revenue is earned by the Government from various sources (eg, income tax, GST, motor vehicle fees)

Who pays?

For the March 2019 tax year, **3.8 million New Zealanders** are expected to pay income tax of **\$34.6 billion**.

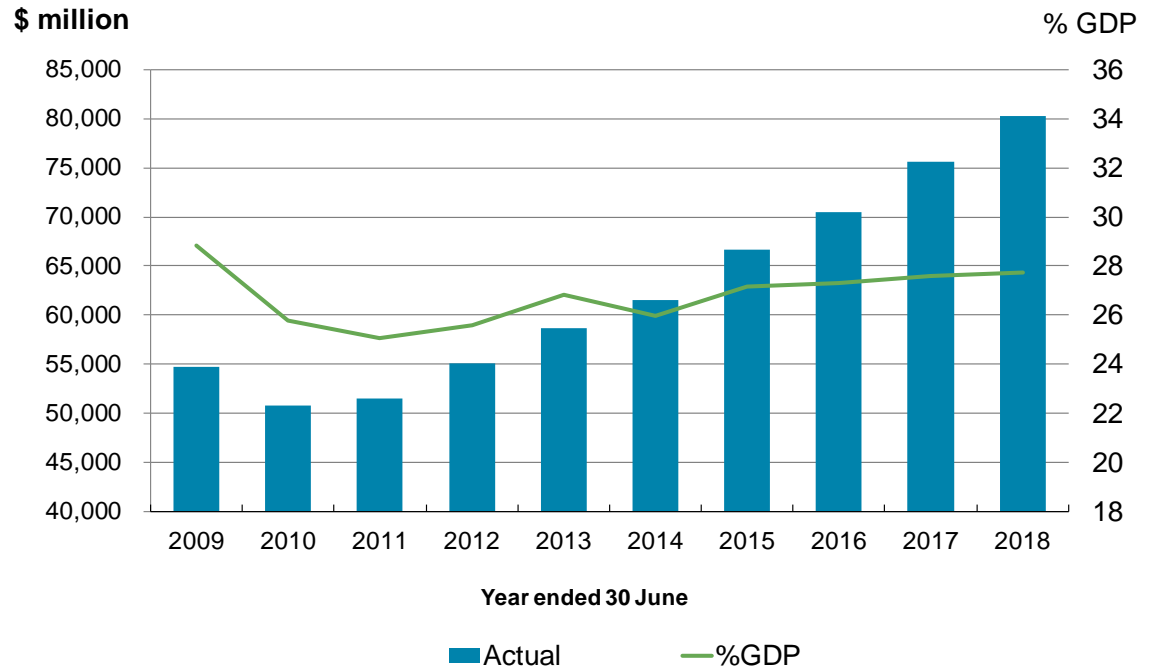
And how much?

Income	2018		2017	
	% of people	% of tax paid	% of people	% of tax paid
Under \$30,000	50%	9%	49%	9%
\$30,001 - \$70,000	31%	27%	33%	29%
Over \$70,000	19%	64%	18%	62%

What the Treasury says

Tax revenue is the main source of core Crown revenue and totalled \$80.2 billion in the 2017/18 financial year. This result is stronger than last year (an increase of \$4.6 billion) and higher than what was forecast in Budget 2018. This improvement was largely the result of the growing economy (eg, increases in population, salaries and wages, and consumer spending).

With more people in employment and those in employment earning more, source deductions (ie, tax deducted from people's pay) increased by \$2.1 billion, while corporate tax was up \$0.8 billion reflecting growth in company profits. Consumer spending grew, reflected in an increase in GST of \$1.3 billion over last year.



Core Crown Expenses

Core Crown expenses are day-to-day government spending, such as maintaining government services like health, benefit payments, public servant salaries, and paying interest on debt.

On the rise

In 2017/18 core Crown expenses were around **\$16,495 per capita** (15,839 for 2016/17).

70.5% of core Crown expenses were on **Social assistance, Health, and Education.**



What the Treasury says

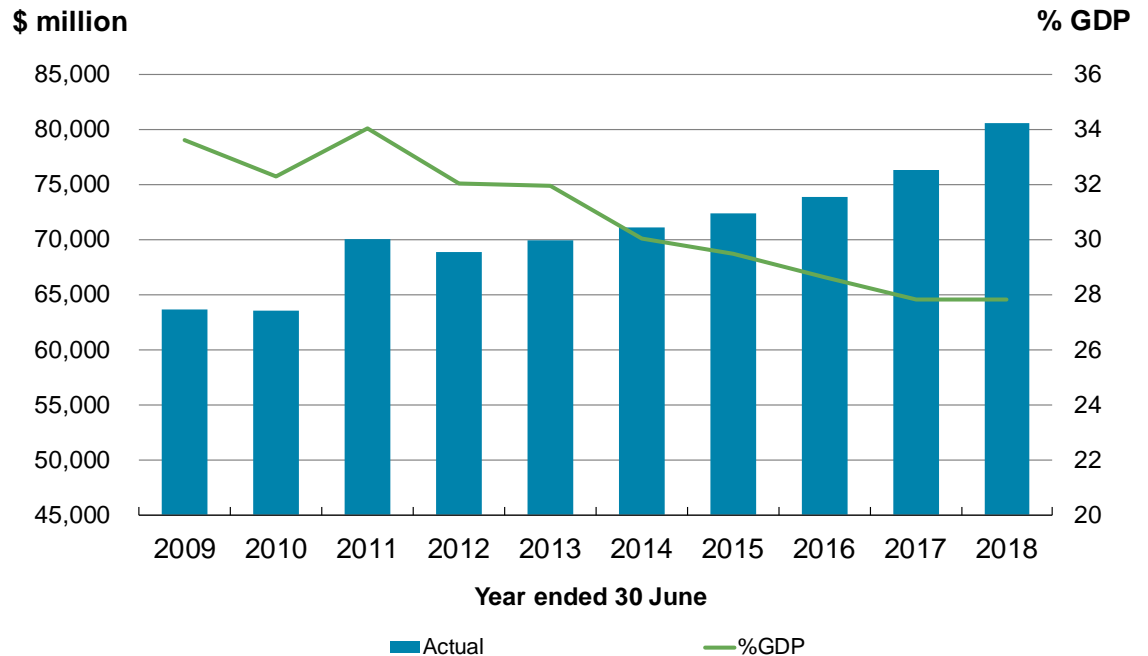
Core Crown expenses have increased by \$4.3 billion from \$76.3 billion in 2016/17 to \$80.6 billion in 2017/18.

Much of this increase is due to spending from decisions made at *Budget 2017* and the *Half-Year Economic and Fiscal Update 17* which came into effect in 2017/18.

The largest increase in core Crown expenses was in the health sector (\$0.9 billion). Social assistance spending (including New Zealand Superannuation) also increased by \$0.7 billion.

Core Crown expenses as a share of the economy were slightly higher, at 27.9% of GDP compared to 27.8% in 2016/17.

Measuring as a percentage of GDP is important, as it shows the size of Government spending in relation to the size of the economy.

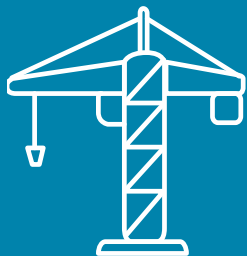


OBEGAL

OBEGAL is the difference between revenue the Government (and the entities it controls) earns and expenses it pays. When the Government earns more than it pays, an OBEGAL surplus is achieved.

Operating vs Capital

OBEGAL includes operating expenses of the Government but does not include spending on capital items such as building new state highways or prisons.



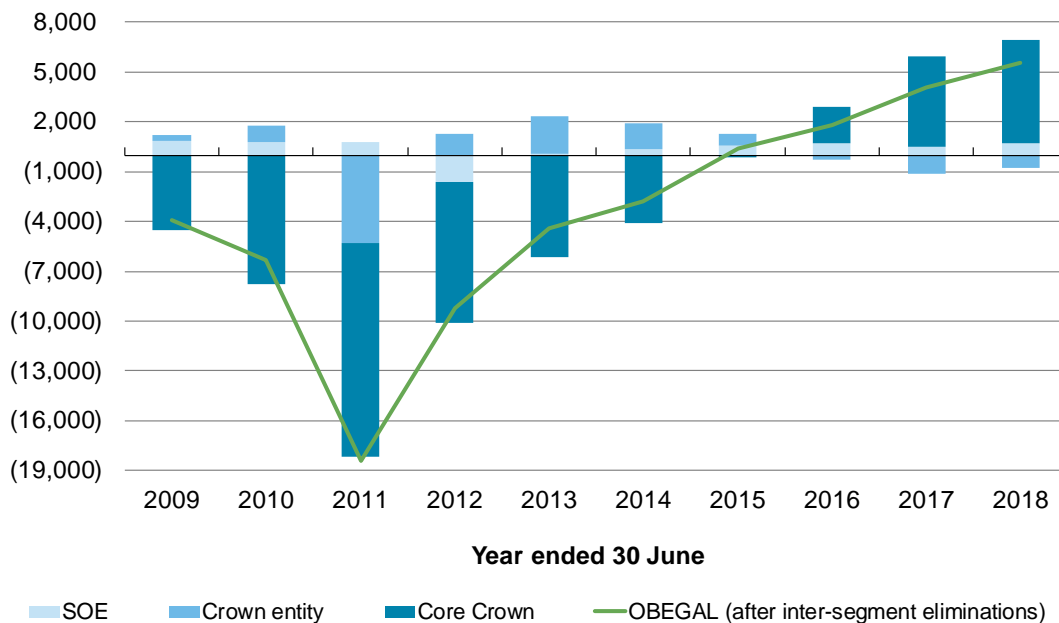
What the Treasury says

OBEGAL was a surplus of \$5.5 billion, with tax revenue growing at a faster rate than expenditure.

The strong growth in tax revenue largely reflects the growing economy.

Core Crown and SOEs reported surpluses of \$6.2 billion and \$0.7 billion respectively. However, the Crown entity segment reported a deficit of \$0.8 billion this year. The primary entities contributing to this deficit were ACC, EQC (high insurance costs) and District Health Boards.

\$ million



Core Crown Capital Spend

The Government continually buys or upgrades physical assets such as land and buildings (like schools and hospitals). It also invests in Crown entities to fund their capital programmes and issue loans (like state highways).

Capital Spending

Class	June 2018 \$ billion
Transport	2.4
Education	0.9
Defence	0.5
NZS Fund	0.5
Health	0.3
Other	1.3
Total	5.9

What the Treasury says

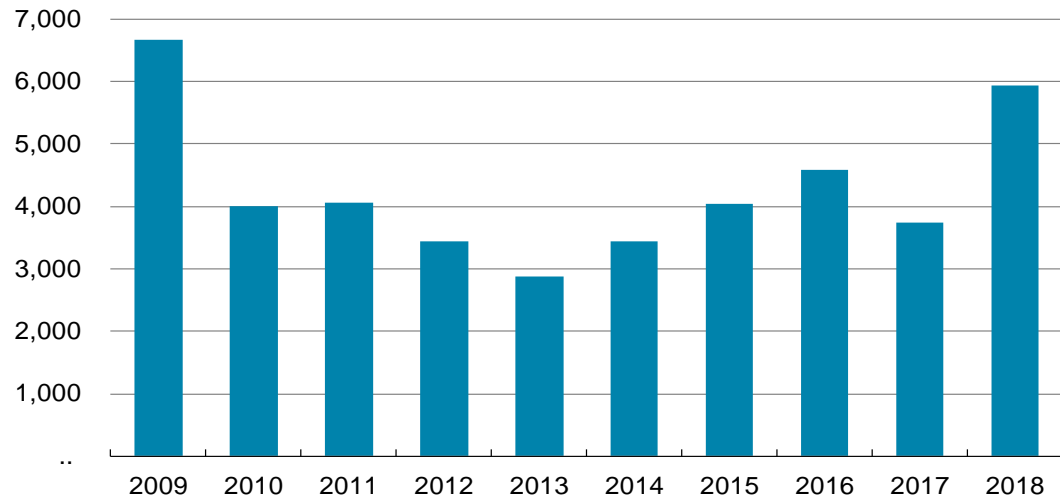
Net capital spending totalled \$5.9 billion for the 2017/18 financial year.

On a gross basis (before cash inflows are deducted), capital spending totalled \$8.6 billion.

Capital spending of \$6.0 billion related to the purchase of physical assets (such as buying and upgrading existing property to maintain the quality of the State school portfolio), and providing capital funding to Crown entities (such as the NZ Transport Agency for State Highways) for their capital programmes. As well as asset purchases and investments, the Government issued student loans totalling \$1.4 billion.

Around 61% of capital spending is in the transport (State Highway network) and education (school property) sectors.

\$ million



Year ended 30 June

■ Capital cash flows

Residual Cash

The amount of money (after operating and capital spending) the Government has available to repay debt, or that it needs to borrow in any given year.

What the Treasury says

During the year, the Government received more revenue from tax and other sources than it paid out in operating and capital expenses, resulting in a residual cash surplus of \$1.3 billion. This result directly affects (reduces) net debt.

Net operating cash inflows were \$7.3 billion, primarily owing to tax receipts exceeding operating spending during the year. This exceeded net capital spending of \$5.9 billion.

For the 2017/18 year, physical purchases of property, plant and equipment were \$2.5 billion (an increase of \$0.4 billion from 2016/17), with the Government continuing to invest in capital spending as mentioned earlier.

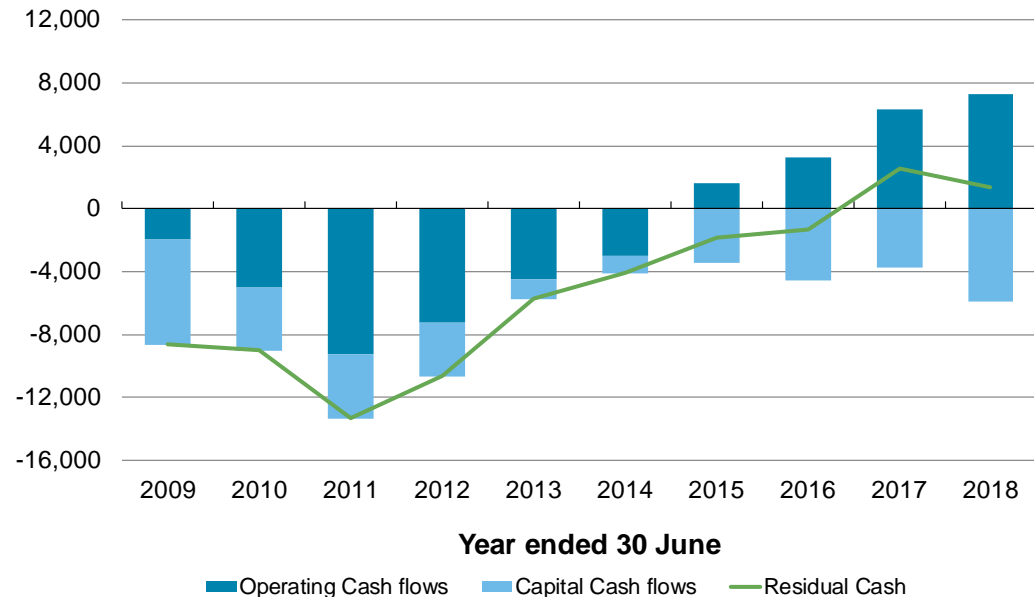
Government resumed contribution to the NZ Superannuation Fund of \$0.5 billion for the first time since 2009.

NZS Fund

Net capital cash flows in 2008/09 and 2017/18, look higher than other years as they include contributions to the NZS Fund.



\$millions

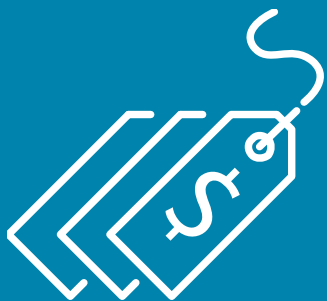


Net Debt

The amount the core Crown has borrowed, less the assets it has on hand to pay off that debt.

Why borrow?

Even though net debt has decreased, the Crown has continued to borrow. The Crown maintains regular borrowing programmes to fund maturing bonds, maintain access to debt markets and to ensure consistency of supply over time.

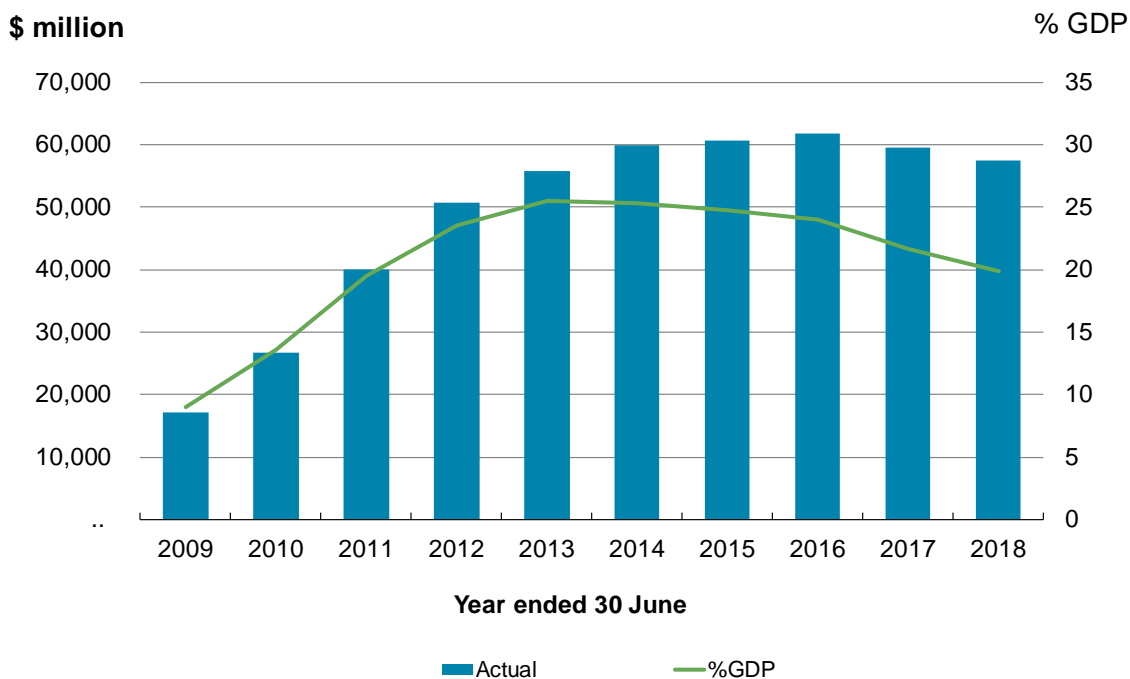


What the Treasury says

Net debt is the total of the Government's core Crown borrowings, less the financial assets it has available to pay that debt back. Residual cash surpluses mean the Government has more financial assets available to pay back its debt, and net debt reduces.

At \$57.5 billion, net debt is \$2.0 billion lower than 2016/17, largely as a result of the residual cash surplus discussed earlier.

As a share of the economy, net debt continued to fall from 21.7% in 2016/17 to 19.9% for 2017/18.



Total Borrowings

Total borrowings provides a whole-of-Government perspective of financing that has been required to fund all of the Government's activity.

Debt Reconciliation

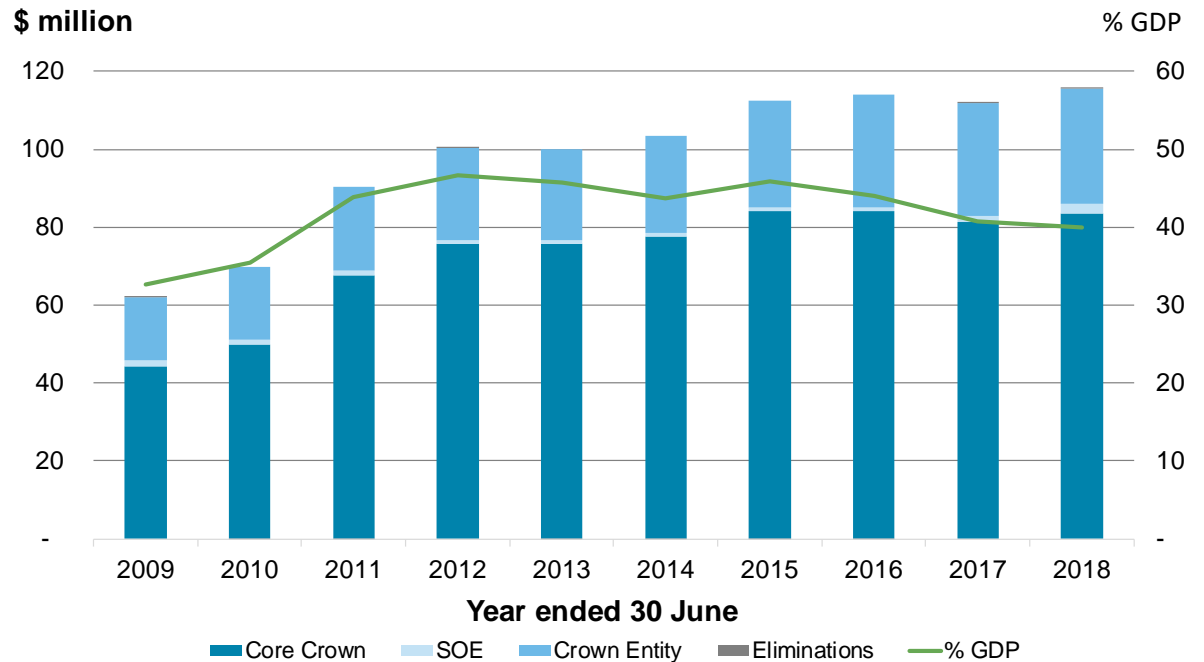
Year ended 30 June	2018 (\$ billion)	2017 (\$ billion)
Net core Crown debt	57.5	59.5
Core Crown financial assets	37.9	33.1
Gross sovereign-issued debt	95.4	92.6
Other adjustments	(7.4)	(5.5)
Gross debt	88.1	87.1
Crown entities, SOEs borrowings and eliminations	27.6	24.7
Total borrowings	115.7	111.8

What the Treasury says

Total borrowings represents gross debt (the borrowings of the core Crown) and the borrowings undertaken by Crown Entities and SOEs.

Total borrowing for the Government increased by \$3.9 billion from \$111.8 billion in 2016/17 to \$115.7 billion.

As a percentage of GDP, total borrowings at 40.0%, decreased by 0.8% compared to the prior year.



Net Worth Attributable to the Crown

Net worth attributable to the Crown primarily consists of the accumulation of past operating surpluses and deficits and revaluation uplifts in the value of the Crown's physical assets (the property, plant and equipment revaluation reserve).

Revaluation reserve

The revaluation reserve is used when an entity has to enter an amount on its balance sheet due to a revaluation performed on an asset.

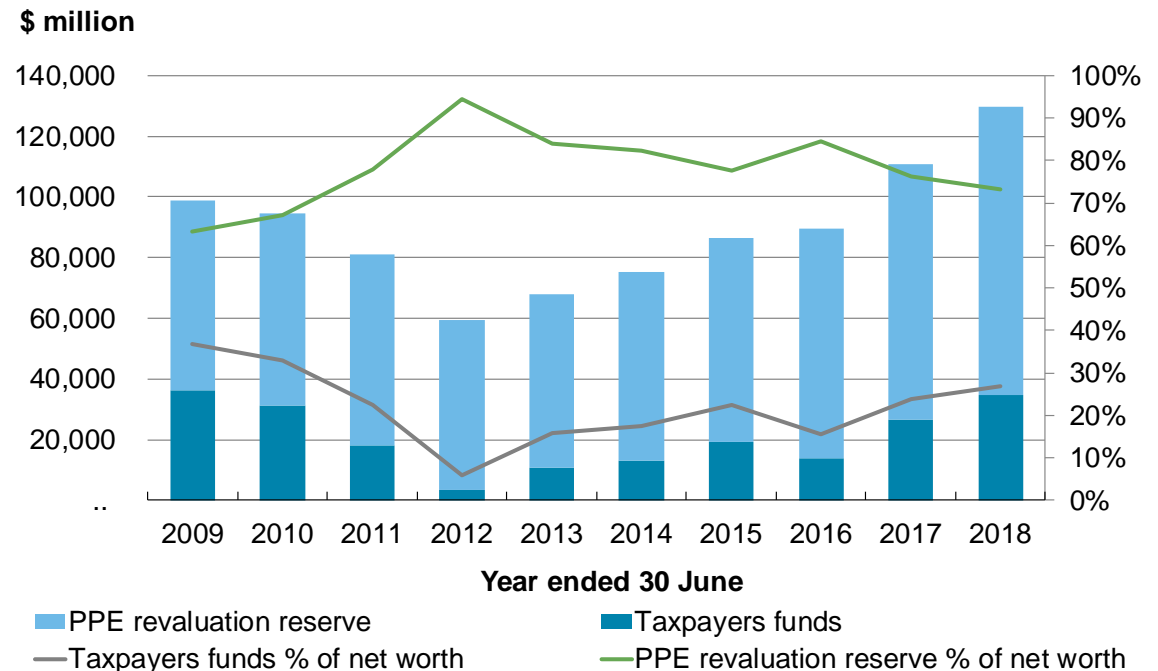
The revaluation reserve is used when the revaluation assessment finds that the current and probable future value of the asset is higher than the recorded historic cost of the same asset.

What the Treasury says

Net worth attributable to the Crown was \$129.6 billion in 2017/18, an increase of \$19.1 billion from a year earlier. As a share of the economy, net worth attributable to the Crown grew 4.5% from 40.3% of GDP in 2016/17 to 44.8% of GDP in the current year.

The Crown's operating balance surplus and revaluation uplifts of the Crown's physical assets resulted in this increase in the Crown's net worth in the 2017/18 year.

The property, plant and equipment revaluation reserve increased by \$10.6 billion; the main driver of this has been the increase in land and building prices. The increase in the current year was mainly due to the revaluation of the state highway network (excluding land), increasing state highways by \$7.9 billion in 2017/18.



Crown Balance Sheet

The balance sheet is a point in time snapshot of all assets the Government holds and how these are funded.

A matter of control

Even though the Government has sold a portion of some SOEs (such as Genesis Energy), 100% of the assets and liabilities of those companies are on the Crown's balance sheet as the Government remains the controlling shareholder.

The portion of those assets and liabilities "owned" by other shareholders is called "net worth attributable to minority interests". The portion "owned" by the Government is called "net worth attributable to the Crown"

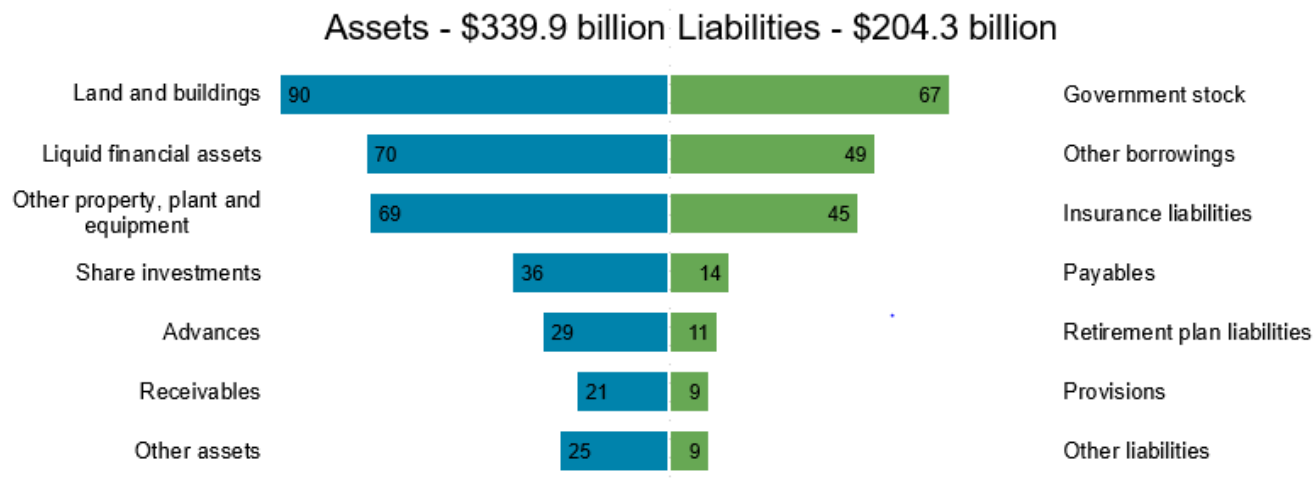
What the Treasury says

On the Crown's balance sheet, assets have increased since June 2017 while liabilities remained relatively stable. This resulted in an increase in net worth of \$19.1 billion.

The largest asset type on the balance sheet is property, plant and equipment at \$159.0 billion, nearly 50% of total assets.

Growth in assets was primarily due to:

- Property, plant and equipment growth of \$14.5 billion, with new assets being added and the value of existing assets increasing.
- Financial assets grew by \$10.5 billion, primarily due to the performance of the large investment portfolios held by NZSF and ACC.



Want to know more?

For more details on the **financial statements of the Government**, see

<https://treasury.govt.nz/publications/year-end/financial-statements-2018>

The fiscal time series: contains historical fiscal data, including debt, fiscal balance, tax and spending since 1972.

(<https://treasury.govt.nz/publications/information-release/data-fiscal-time-series-historical-fiscal-indicators-1972-2018>)

Monthly economic indicators (MEI): is a stock-take of economic data released by the Treasury. It includes commentary on the major data releases over the previous month and an annex with more detailed charts and source data.

(<http://www.treasury.govt.nz/economy/mei>)

Tax outturn data: is tables of monthly tax revenue and receipts. Tax outturns are among the earliest data available about the state of the economy.

(<http://www.treasury.govt.nz/government/revenue/taxoutturn>)

Monthly financial statements of the Government: The latest month end financial statements are published on the Treasury's website.

(<http://www.treasury.govt.nz/government/financialstatements/monthend>)

For more information about the individual entities, refer to <https://www.govt.nz/>

www.treasury.govt.nz

Need to access our [glossary](#)?

Need to dive deeper?

You can access the different chapters of our full FSG here:

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2. [Statement of Responsibility](#)
3. [Commentary](#)
4. [Fiscal overview](#)
5. [Audit Report](#)
6. [Audited Financial Statements](#)
7. [Supplementary Statements](#)
8. [Additional Financial Information](#)



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