

**THE TREASURY**  
Kaitohutohu Kaupapa Rawa

# UPDATE

**Audit NZ**  
**Crown Entities**  
**June 2016**

- Annual reporting
- Investment management and asset performance
- Economic and fiscal context

# ANNUAL REPORTING



# REPORTING GUIDELINES

LARGELY UNCHANGED THIS YEAR

## **Various changes over the last couple of years**

- Decouple strategic and annual information
- Clarify how performance is measured and reported

## **New guidance is largely unchanged**

- Focus on improving what is reported
- Coordination around appropriation reporting
- Non-financial performance information

## **External Reporting Board exposure draft, performance reporting**

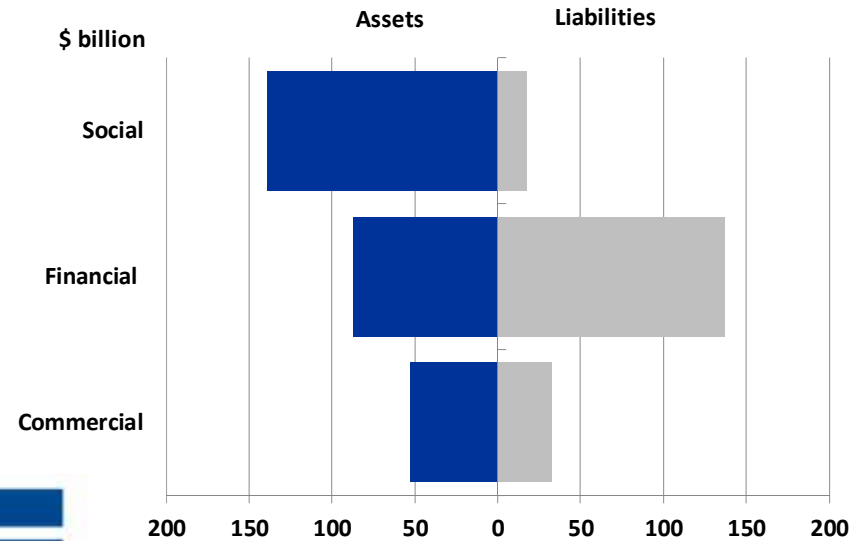
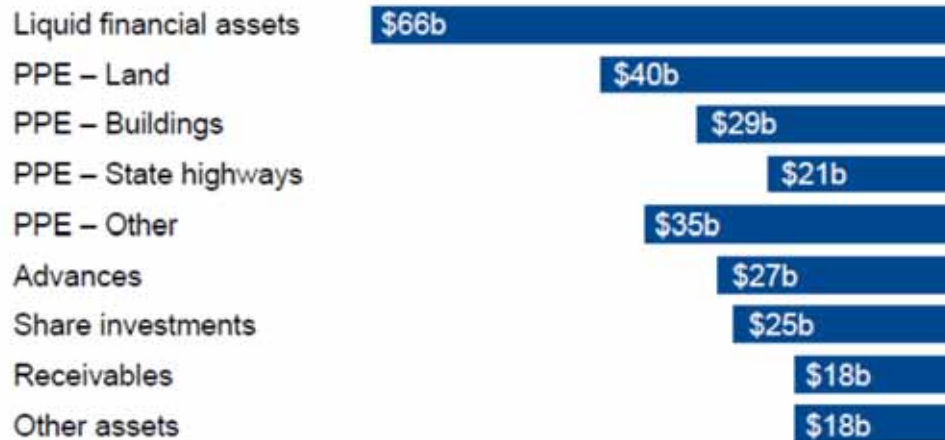
- Feedback by 31 July

# INVESTMENT MANAGEMENT AND ASSET PERFORMANCE IN THE STATE SERVICES

CABINET OFFICE CIRCULAR  
CO(15)5

# CROWN BALANCE SHEET

JUNE 2015



- Total assets \$279 billion
- Total liabilities \$186 billion

Financial assets & liabilities are sensitive to market changes

# OPTIMISE VALUE

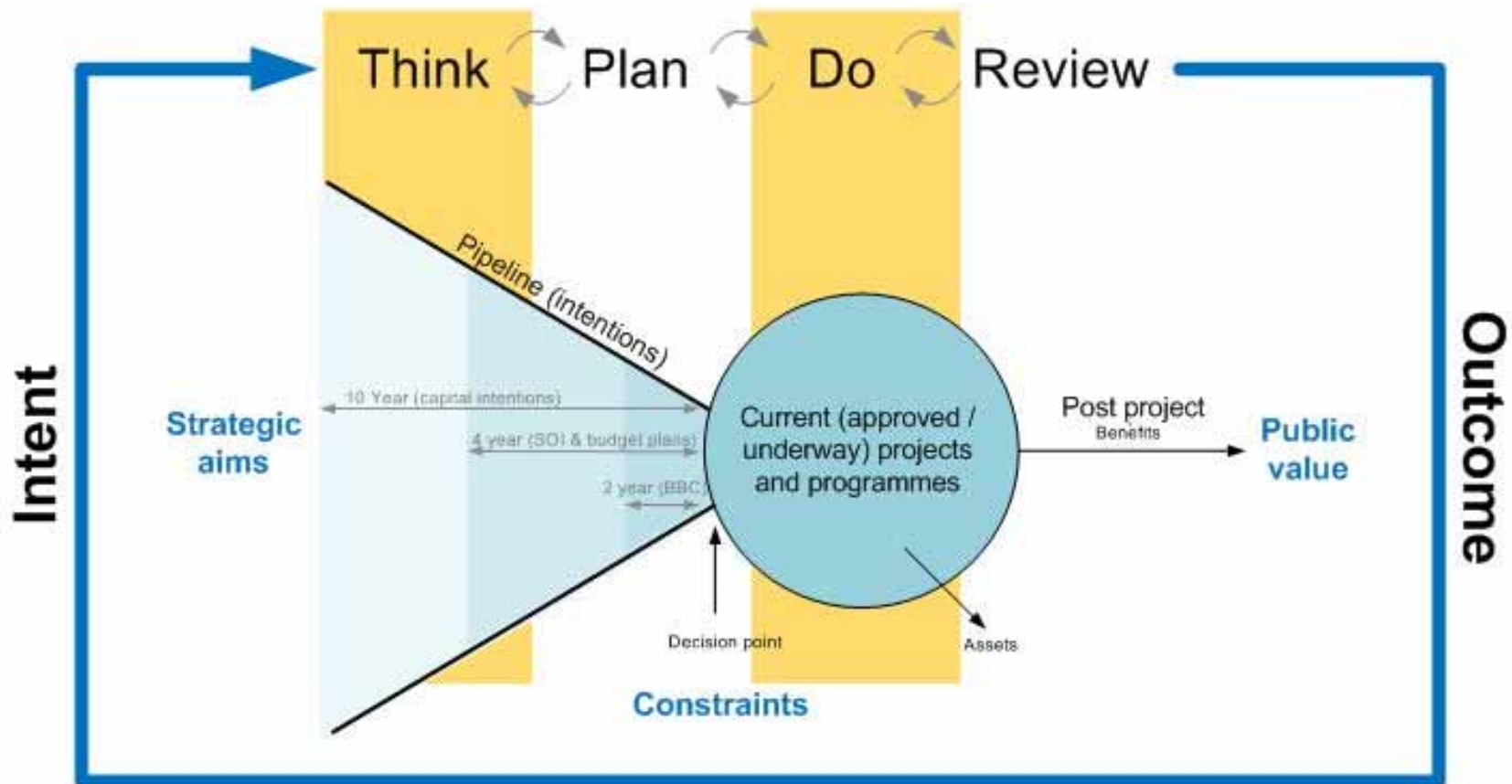
FROM NEW INVESTMENTS AND EXISTING RESOURCES

## Improving investment management and asset performance

- System perspective - Treasury, Panel, functional leads
- Lifecycle approach - thinking, planning, doing, reviewing
- Incentives - rewards and sanctions

## Cabinet office circular CO(15)5

- Long-term investment plans
- Investor confidence rating - decision rights, reporting, support from the centre
- Asset performance reporting





# FOCUSING ON

25 INVESTMENT-INTENSIVE AGENCIES

Tranche 1 2015	Tranche 2 Feb-June 2016	Tranche 3 July– Dec 2016	Tranche 4 Feb– June 2016
ACC Corrections Education IRD NZDF NZTA	Auckland DHB Northland DHB Counties-M. DHB Waitemata DHB Canterbury DHB	Conservation Customs Housing NZ Internal Affairs Justice MBIE MFAT MSD Police Ministry of Health	Waikato DHB Capital & Coast DHB Southern DHB Ōtākaro

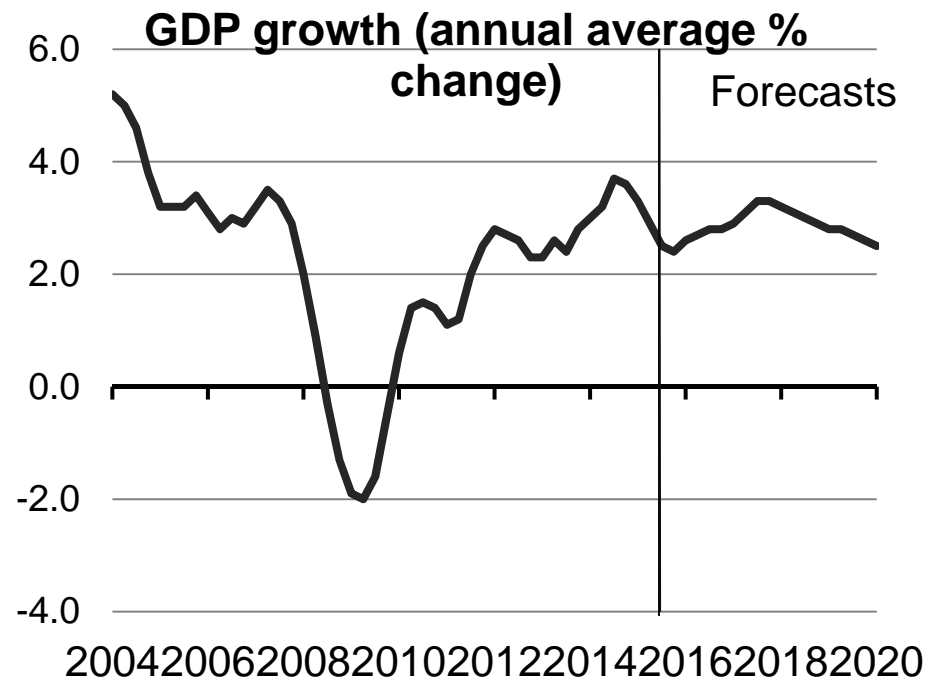
# **ECONOMIC AND FISCAL CONTEXT**

**BUDGET 2016**

# ECONOMIC CONTEXT

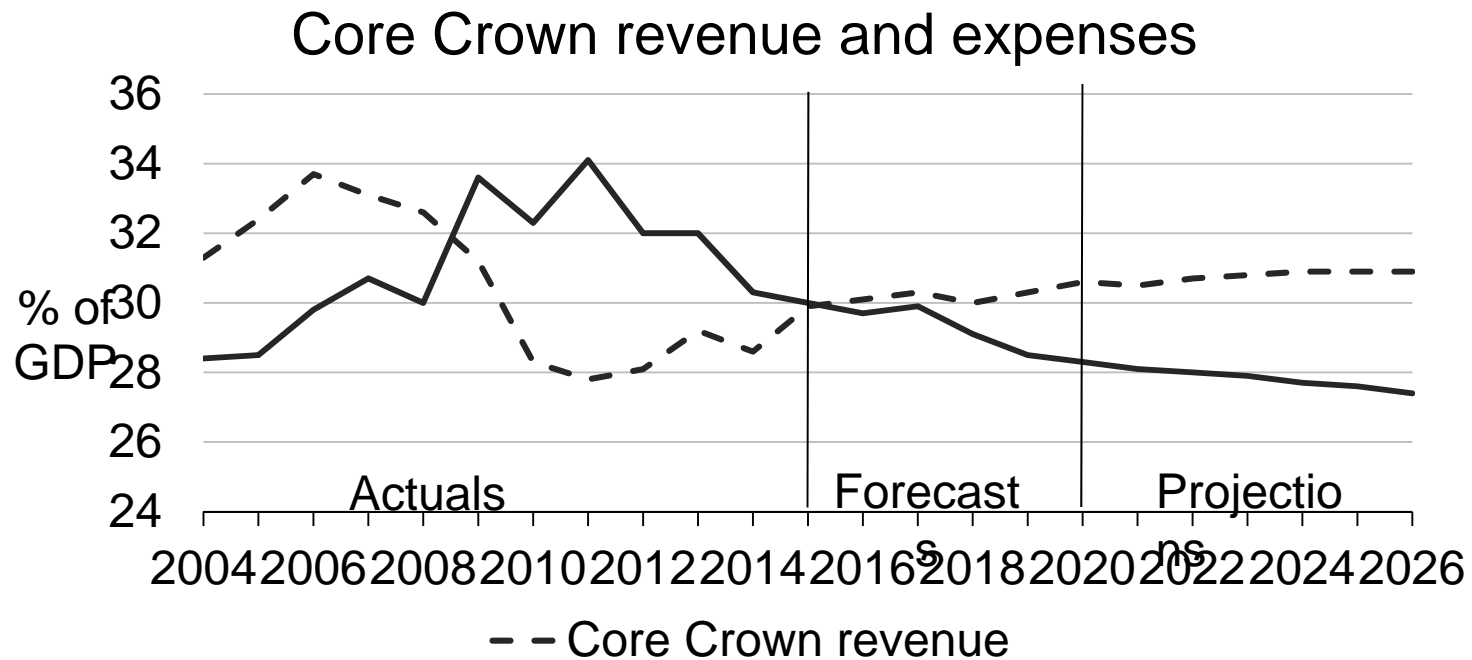
THE OUTLOOK IS POSITIVE

- Net migration, construction and tourism were key growth drivers in 2015
- Weak global demand and increased supply restrained export prices
- Forecast growth around 2.8% (average over next 5 years)
- Unemployment falls. Inflation picks up



# FISCAL CONTEXT

EXPENSES FALL & REVENUE RISES (AS SHARES OF GDP)



# RISKS

THINGS MIGHT EVOLVE DIFFERENTLY

## International

- Sharp slowdown of growth in China
- Further moderation of growth in advanced economies
- Lower for longer global interest rates and inflation



## Domestic

- Extent and impact of current migration cycle
- House prices
- Inflation dynamics



# FISCAL PRIORITIES

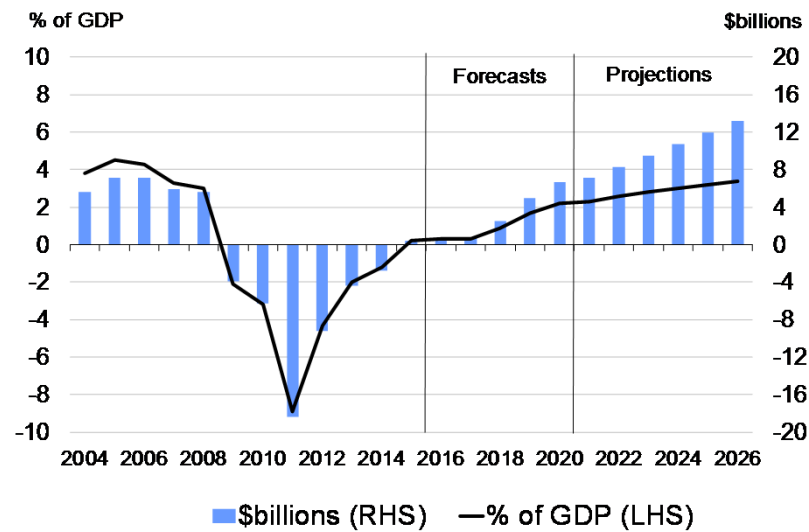
THE GOVERNMENT HAS FOUR FISCAL PRIORITIES

- Maintain rising operating surpluses, generate cash surpluses and reduce net debt in dollar terms
- Reduce net debt to around 20% of GDP by 2020
- If economic and fiscal conditions allow, begin to reduce income taxes
- Use any further fiscal headroom to reduce net debt faster

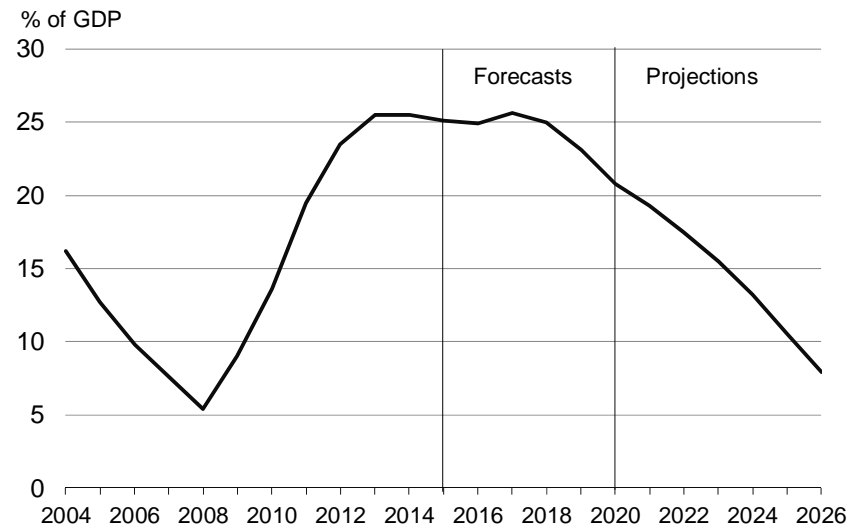
# FISCAL FORECASTS

## OPERATING SURPLUSES AND LESS DEBT

Operating balance (OBEGAL)



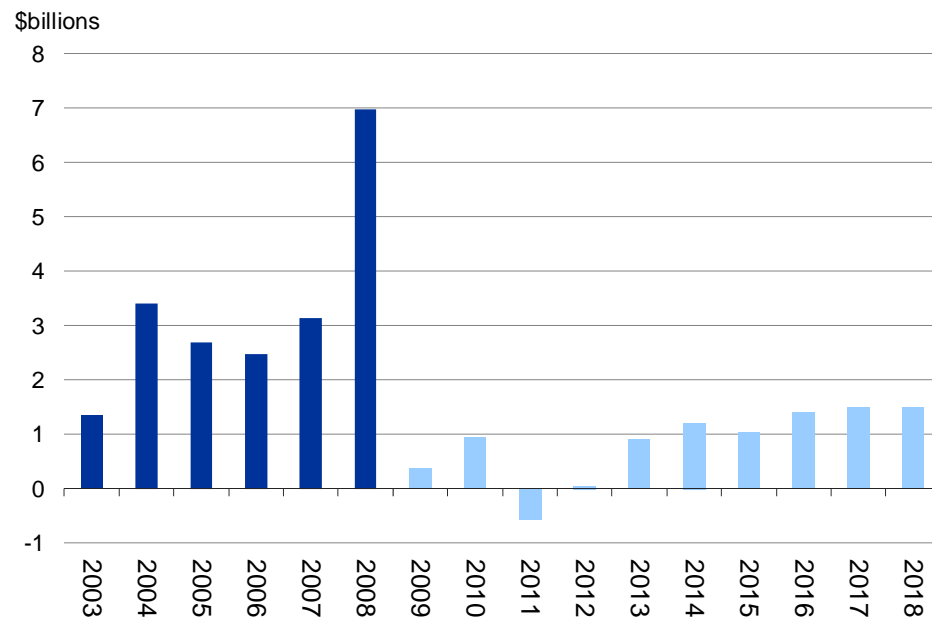
Net debt



# BUDGET ALLOWANCES

REDUCED BY \$1.2 BILLION OVER THE NEXT FIVE YEARS

## Operating allowance

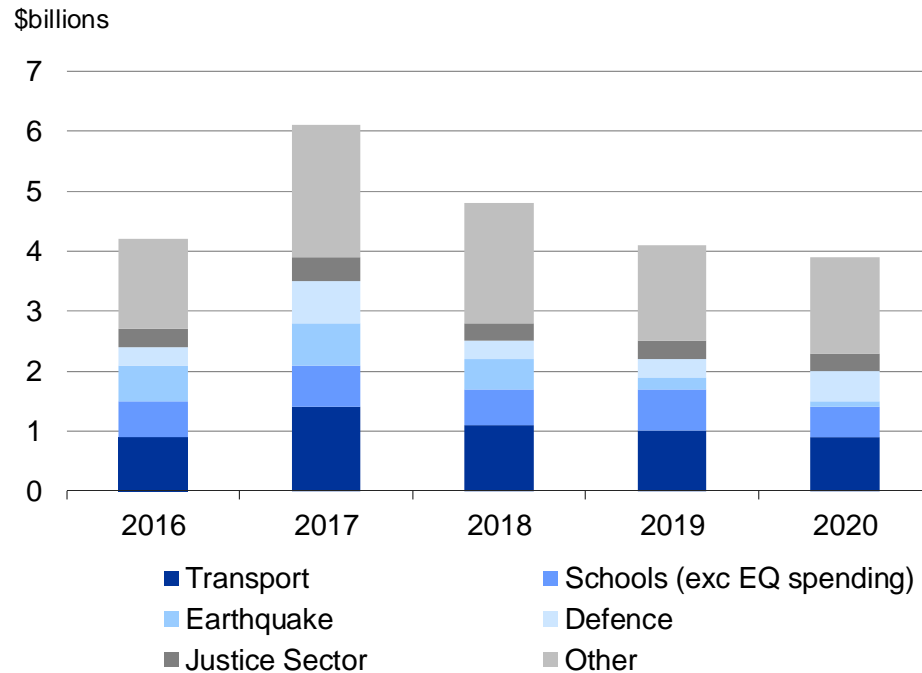


- Lower allowances mean debt is repaid faster
- Some spending brought forward from Budget 17 to support core services
- Operating allowances remain well below mid-2000s
- Net capital spending \$1.4b in Budget 16 (\$0.9b allowances for subsequent Budgets)



# TOTAL CAPITAL SPENDING

\$23.1 BILLION OVER THE FORECAST PERIOD



- Purchase of physical assets
- Capital injections to Crown entities
- Advances (e.g. student loans)

# BUDGET 2016 PACKAGES



## **Innovative New Zealand**

A \$761 million package to support more jobs and higher wages for New Zealanders

## **Public Infrastructure**

A \$2.2 billion package to support a stronger, more productive economy & deliver better public services

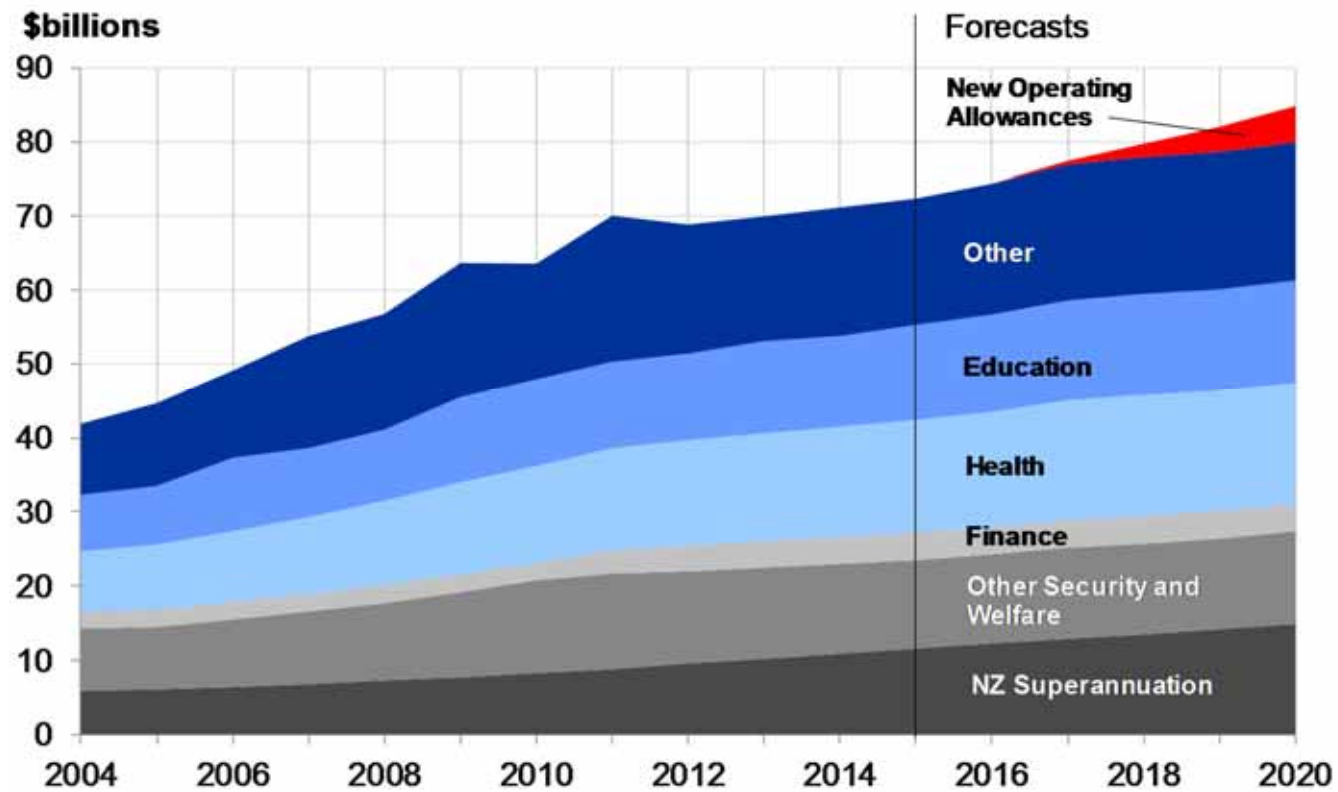
## **Social Investment**

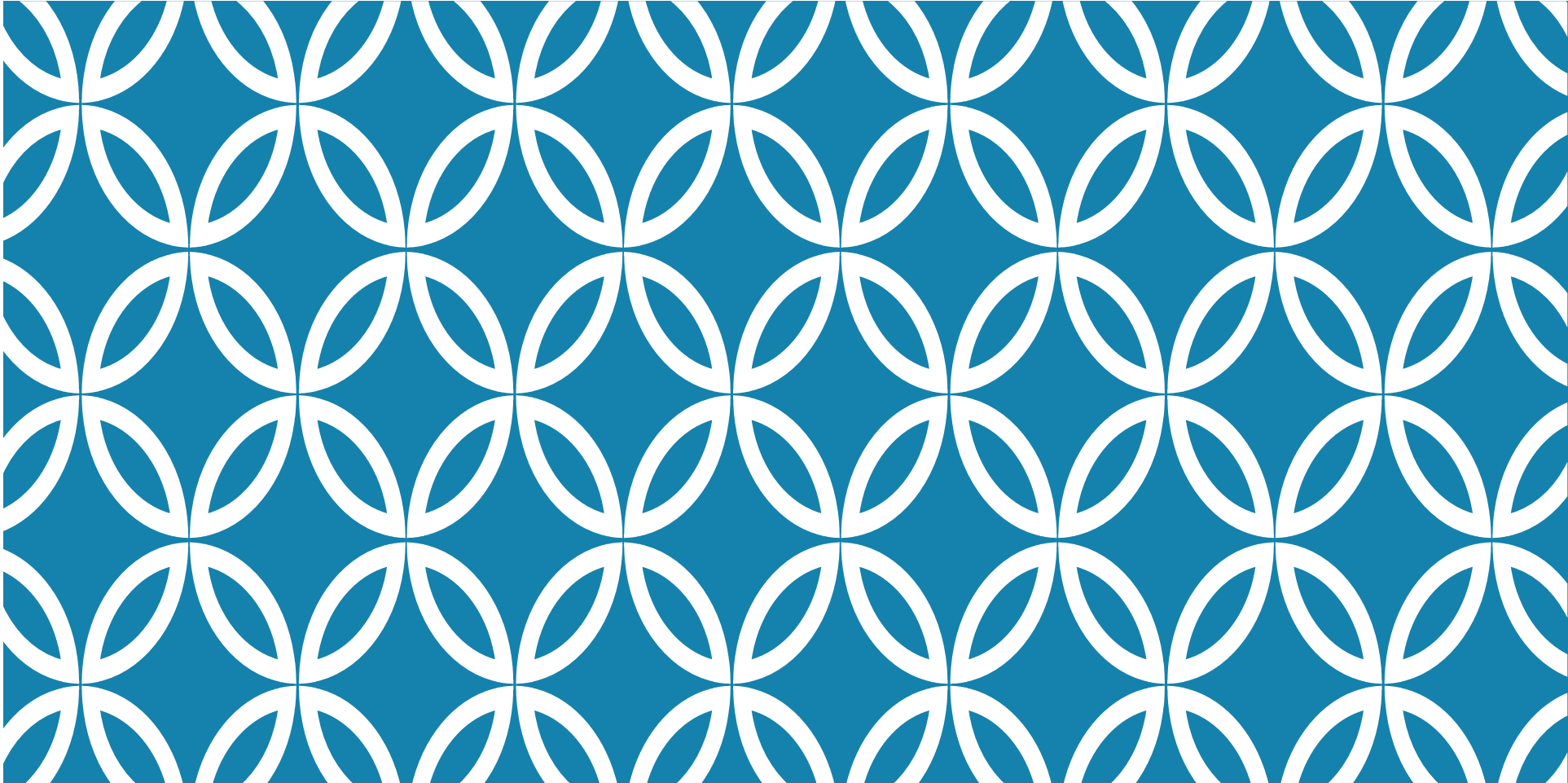
A \$652 million package to improve the lives of our most vulnerable

## **Health**

A \$2.2 billion package for our healthcare system

# CORE CROWN EXPENSES





**THE END**

Any questions?