



THE TREASURY
Kaitohutohu Kaupapa Rawa

He Puna Hao Pātiki

2018 Investment Statement

Investing for Wellbeing

He Puna Hao Pātiki



The ultimate purpose of central government investment is to enable wellbeing for the benefit of all.

He Puna Hao Pātiki translates to ‘a pool for gathering flounder with a net’ – a metaphor for the source of wellbeing.

Investment Statements



- Investment Statements fulfil a reporting requirement set by Parliament within the Public Finance Act 1989.
- They are part of a suite of fiscal reporting alongside EFUs and Long-Term Fiscal Statements.

He Puna Hao Pātiki



- *He Puna Hao Pātiki* is focused on the management and performance of the government's balance sheet.
- The balance sheet represents the investment made by government on behalf of New Zealanders in things like schools, hospitals, financial assets and commercial enterprises.

Today



- Why good balance sheet management is important
- Current and future state of the balance sheet
- Lifting asset performance
- Investing for wellbeing



Why is it important?

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- Managing the balance sheet well is essential for delivering public services that provide value for money, and to achieve sustainable, resilient and adaptable public finances.
- Fiscal sustainability, resilience and adaptability are not ends in themselves. They are tools support wellbeing for generations to come.



Making the link to wellbeing

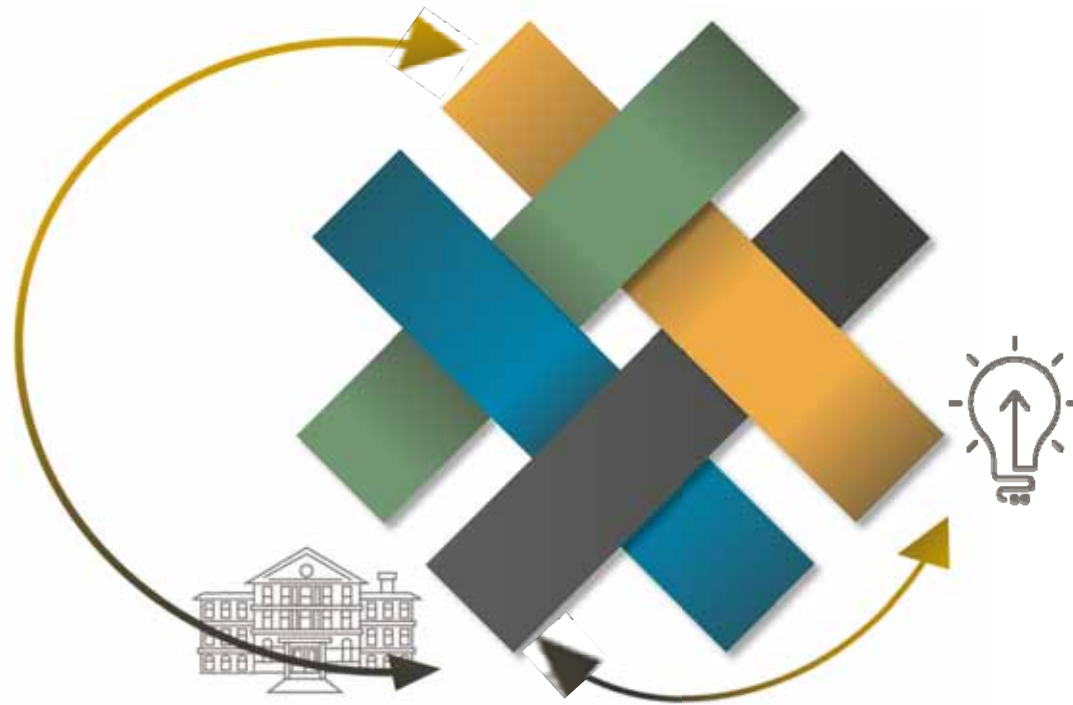
Financial & Physical capital contribution to wellbeing

The Four Capitals



The capitals are interdependent and work together to support wellbeing

Financial & Physical capital contribution to wellbeing



The capitals are interdependent so changes impact on one another.

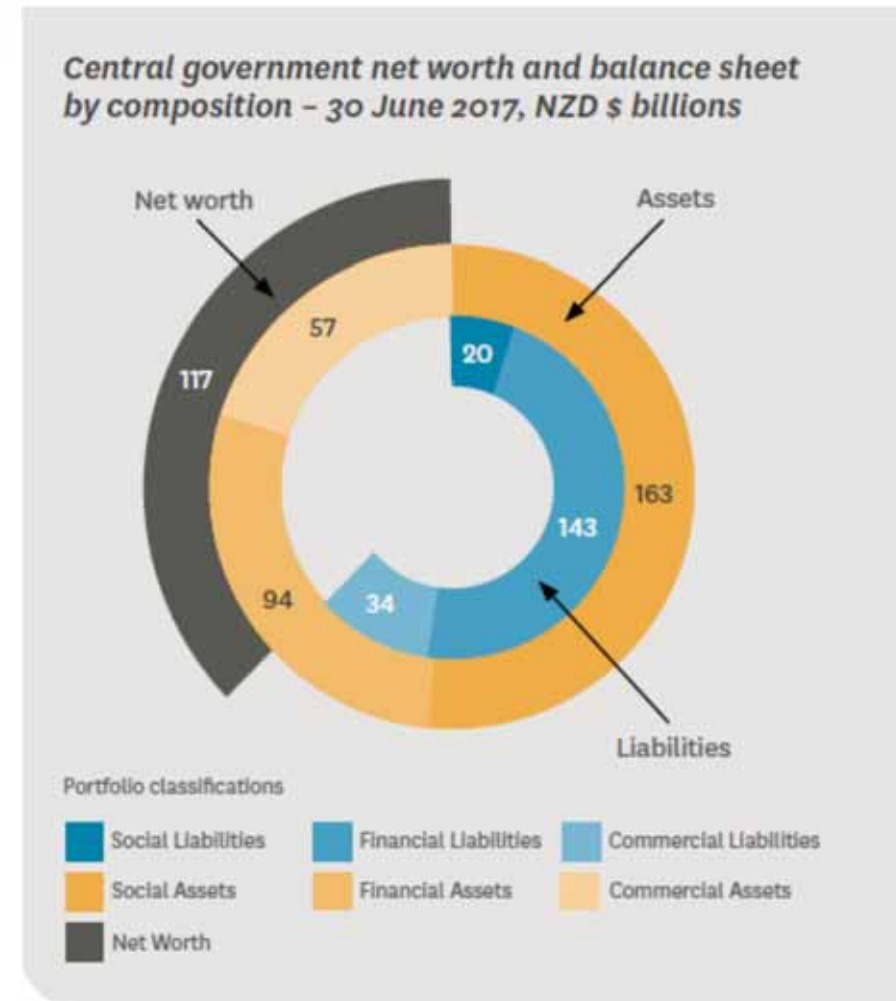
Financial & Physical capital contribution to wellbeing



Current state

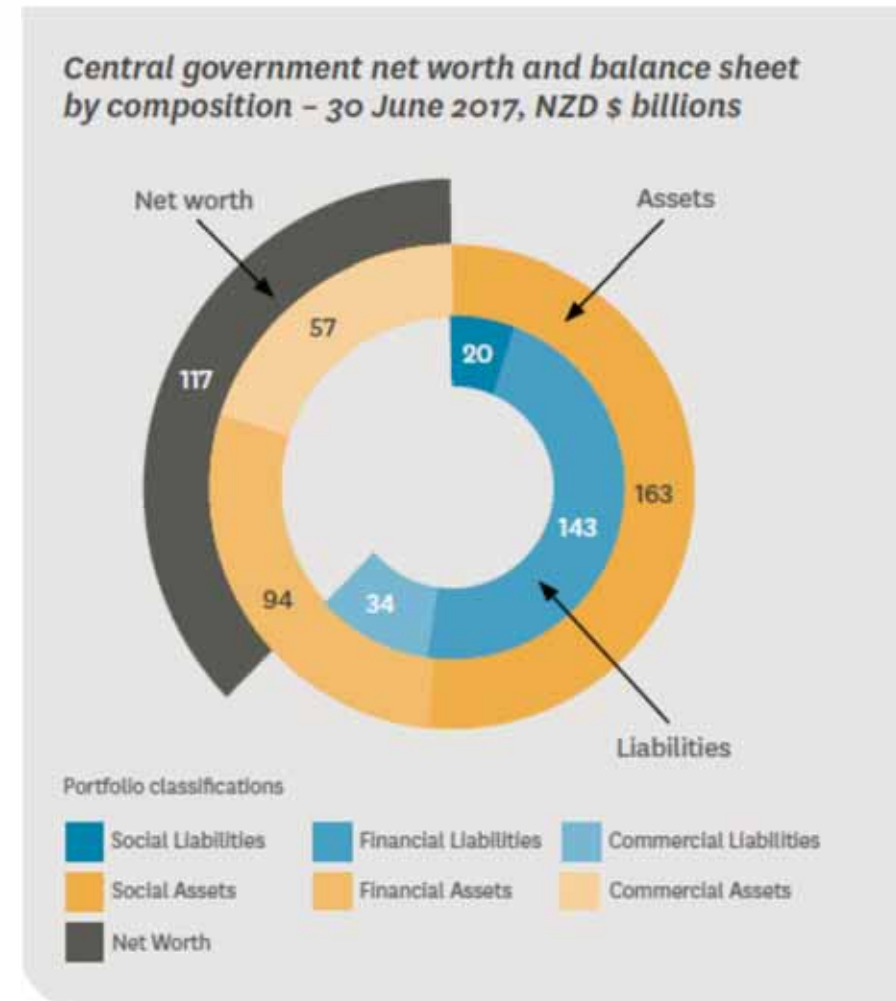
The balance sheet is in good health now

- \$ 314 billion in assets
- \$ 197 billion in liabilities



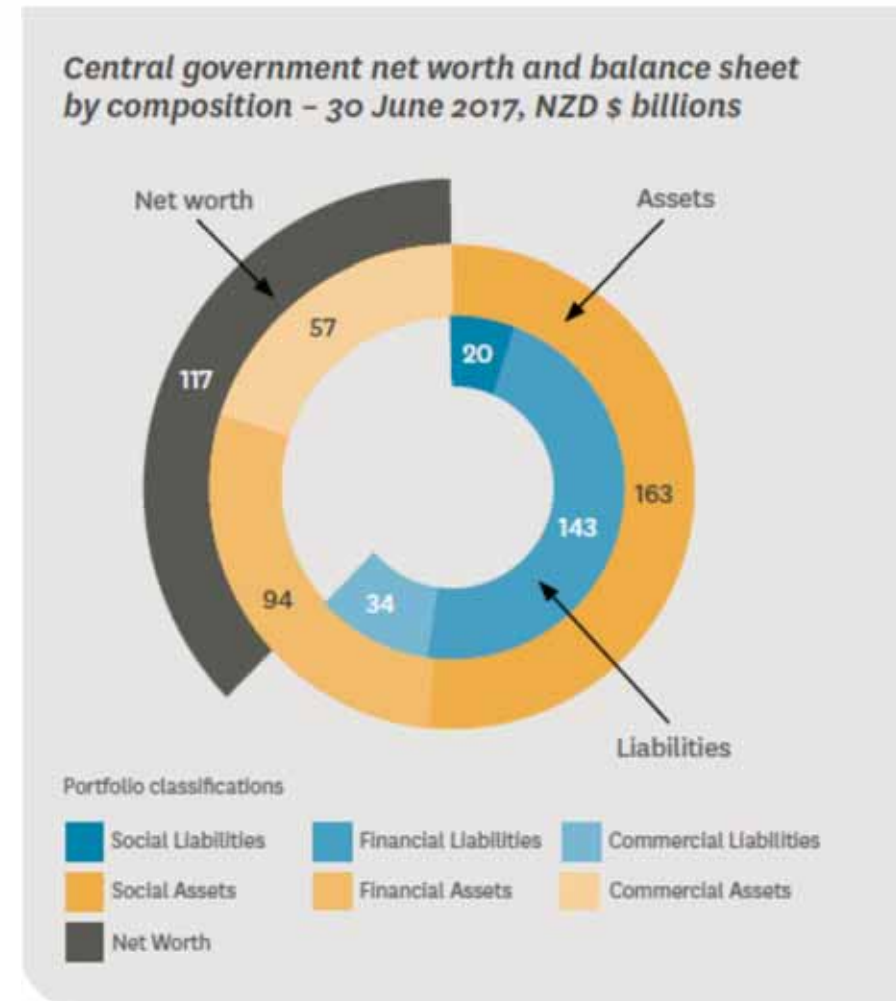
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- \$ 314 billion in assets
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- Net worth = \$117 billion

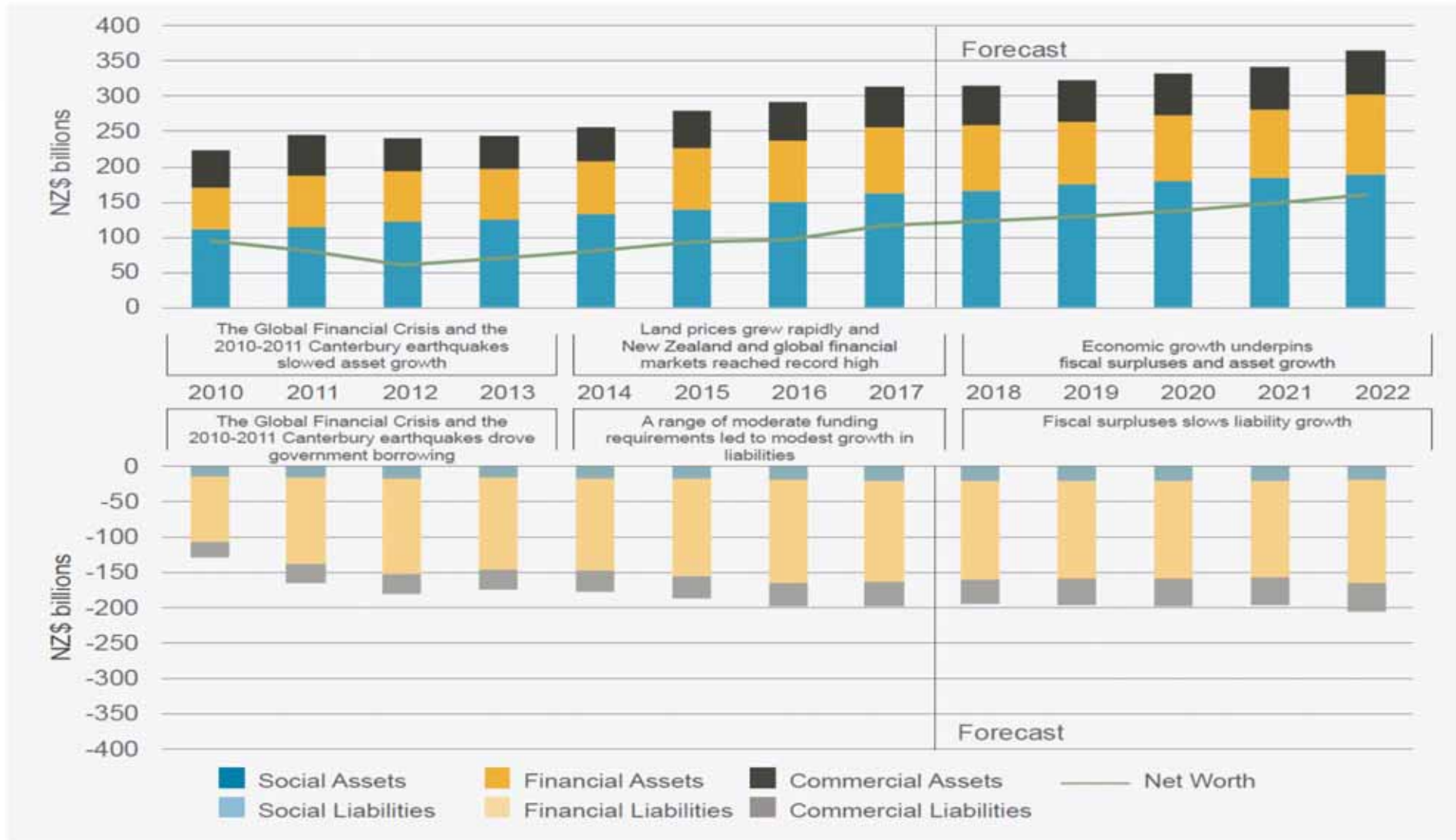


The balance sheet is in good health now

- \$ 314 billion in assets
- \$ 197 billion in liabilities
- Net worth = \$117 billion
- This amounts to around \$65,000 per person in assets and \$41,000 in liabilities for each person in New Zealand



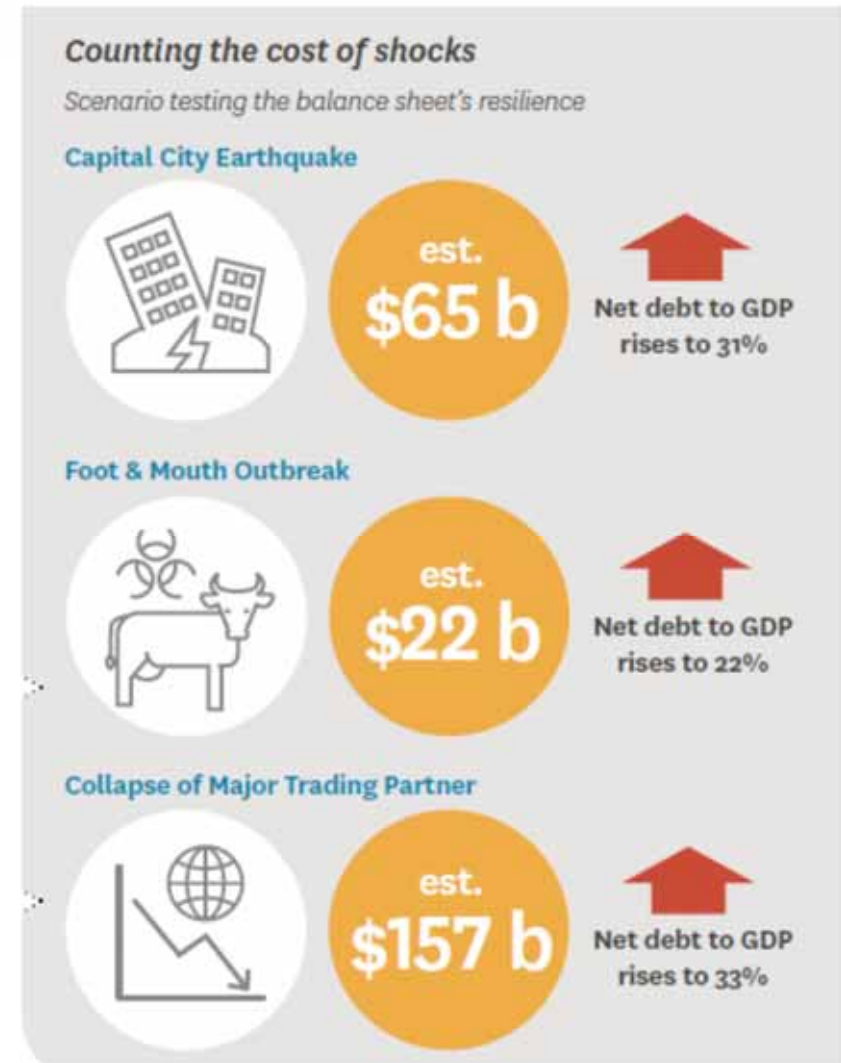
The balance sheet continues to grow



Source: The Treasury

The balance sheet is ready to respond

- New Zealand's balance sheet is resilient to shocks. That means government can sustain important policies – just when stability is most needed to support wellbeing.
- Essentially, a strong balance sheet helps us to adapt to change and uncertainty – and to thrive.



The balance sheet is ready to adapt

A strong and resilient balance sheet supports adaptation to medium to-longer-term challenges that will affect our economy and the government balance sheet in uncertain ways.

Critical changes ahead



Demographic change – a predictable long-term fiscal pressure

New Zealand's growing, ageing and urbanising population will increase government expenditure on social services, like public health.



Climate change – certain change with uncertain impacts

The climate is changing. Likely consequences include sea-level rise, extreme weather events and changes in temperature and rainfall. These will significantly affect the things government owns and may require a government response.



Technological change – challenges of uncertain character






Technology constantly changes. Assets can become obsolete and opportunities to introduce quite different assets and technologies for the delivery of public services, arise.



Lifting asset performance






Effective investment





- Adaptable 
- Efficient 
- Effective 
- Resilient 
- Sustainable 

Effective investment



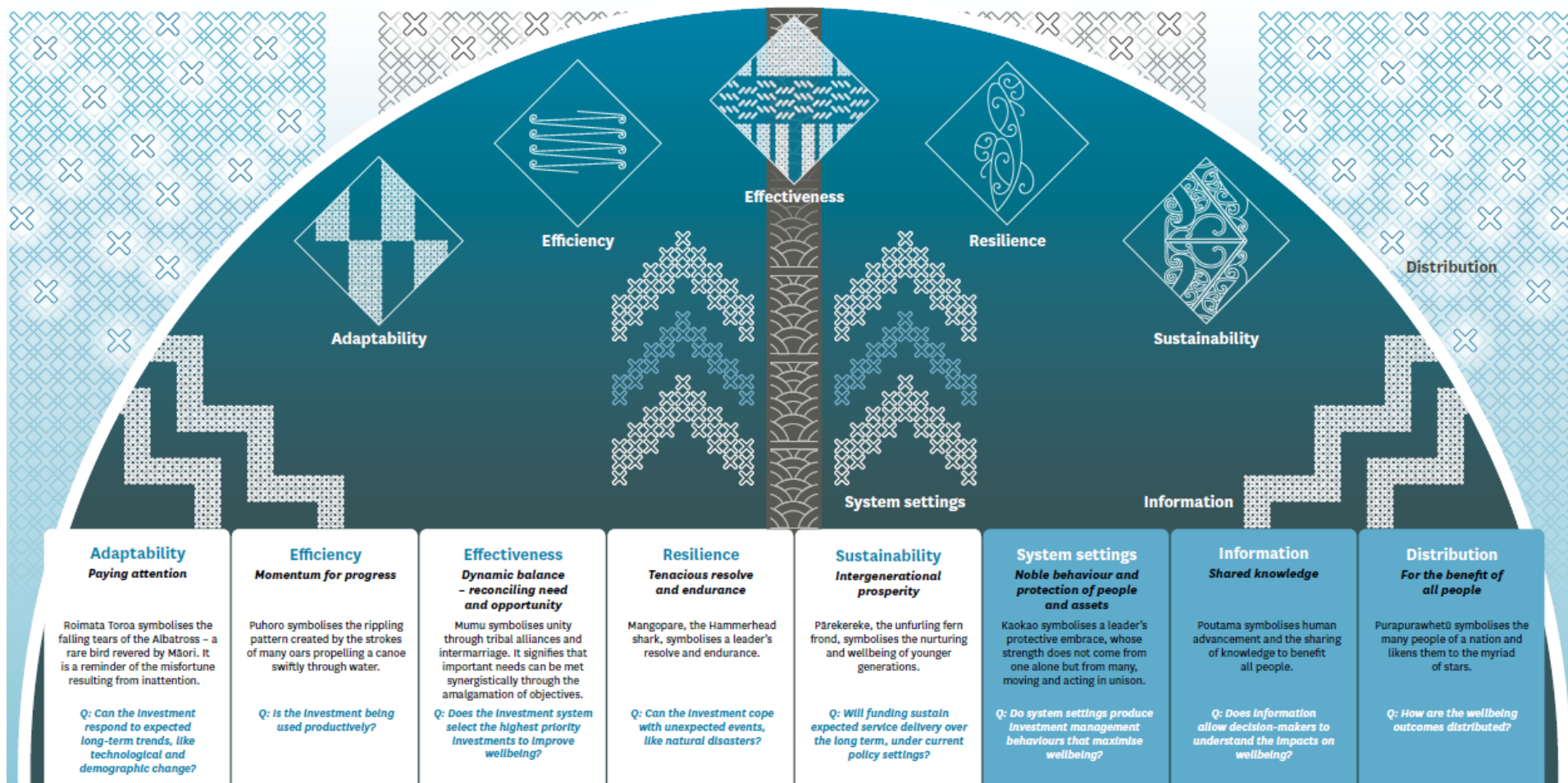
- Adaptable 
- Efficient 
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Underpinned by

- information 
- system settings and 
- distribution. 

He Puna Hao Pātiki

Investing for Wellbeing



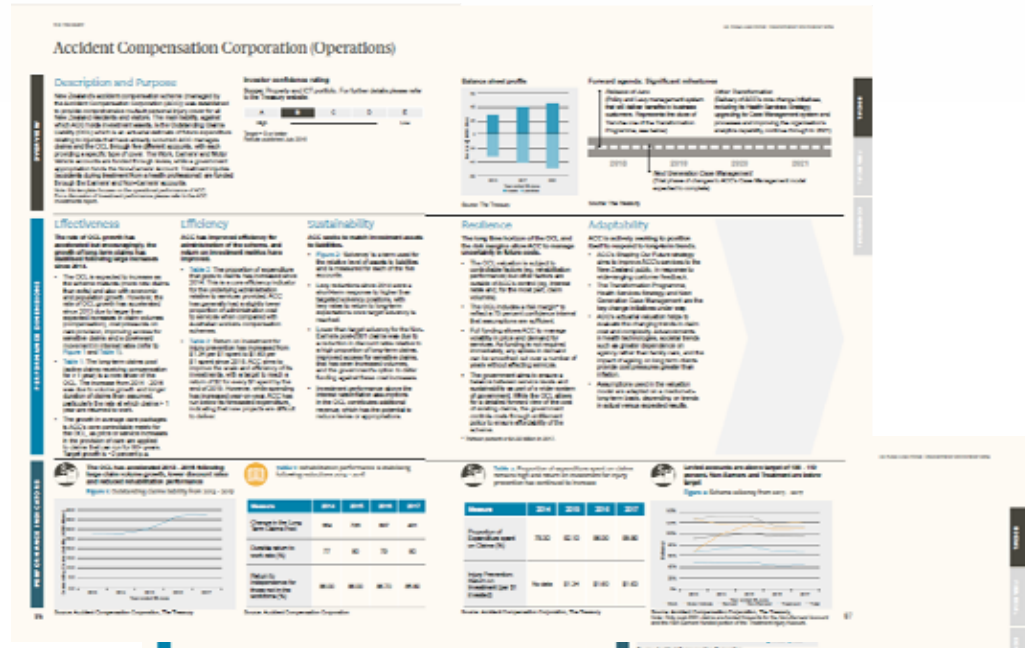
This poster has been produced in conjunction with the New Zealand Treasury's 2018 Investment Statement *He Puna Hao Pātiki*. The Statement appraises government's investment in public assets and liabilities – like schools, hospitals, financial investments and commercial enterprises – and explores how investments can more effectively contribute to wellbeing.

At the heart of the Treasury is our meeting house, named Ngā Mokopuna a Tāne, literally The Grandchildren of Tāne. The design elements in this poster employ patterns from the lattice-work panels, scrolls and carvings adorning Ngā Mokopuna a Tāne, to portray key themes of *He Puna Hao Pātiki*.

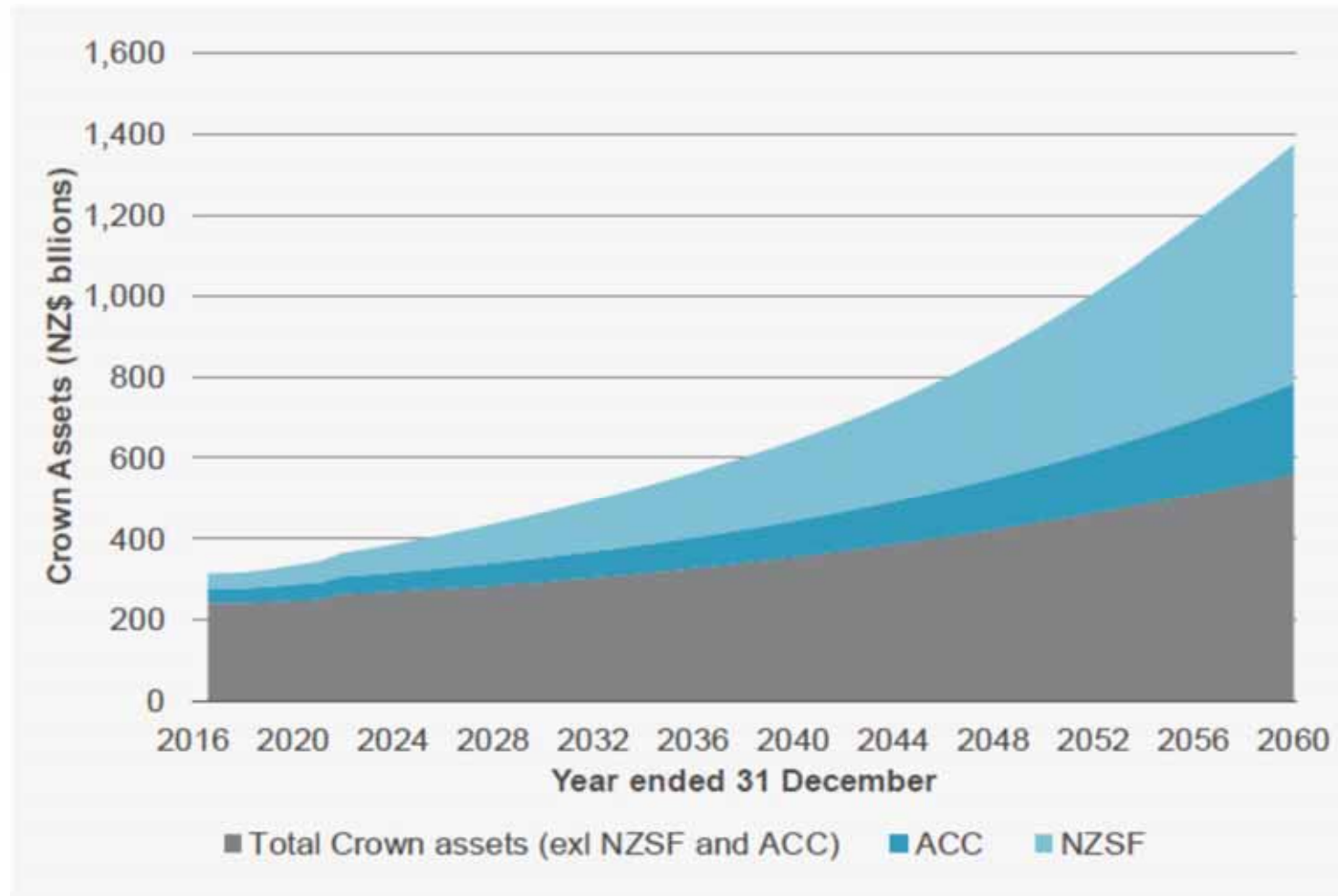
Read *He Puna Hao Pātiki* at www.treasury.govt.nz



Performance appraisal

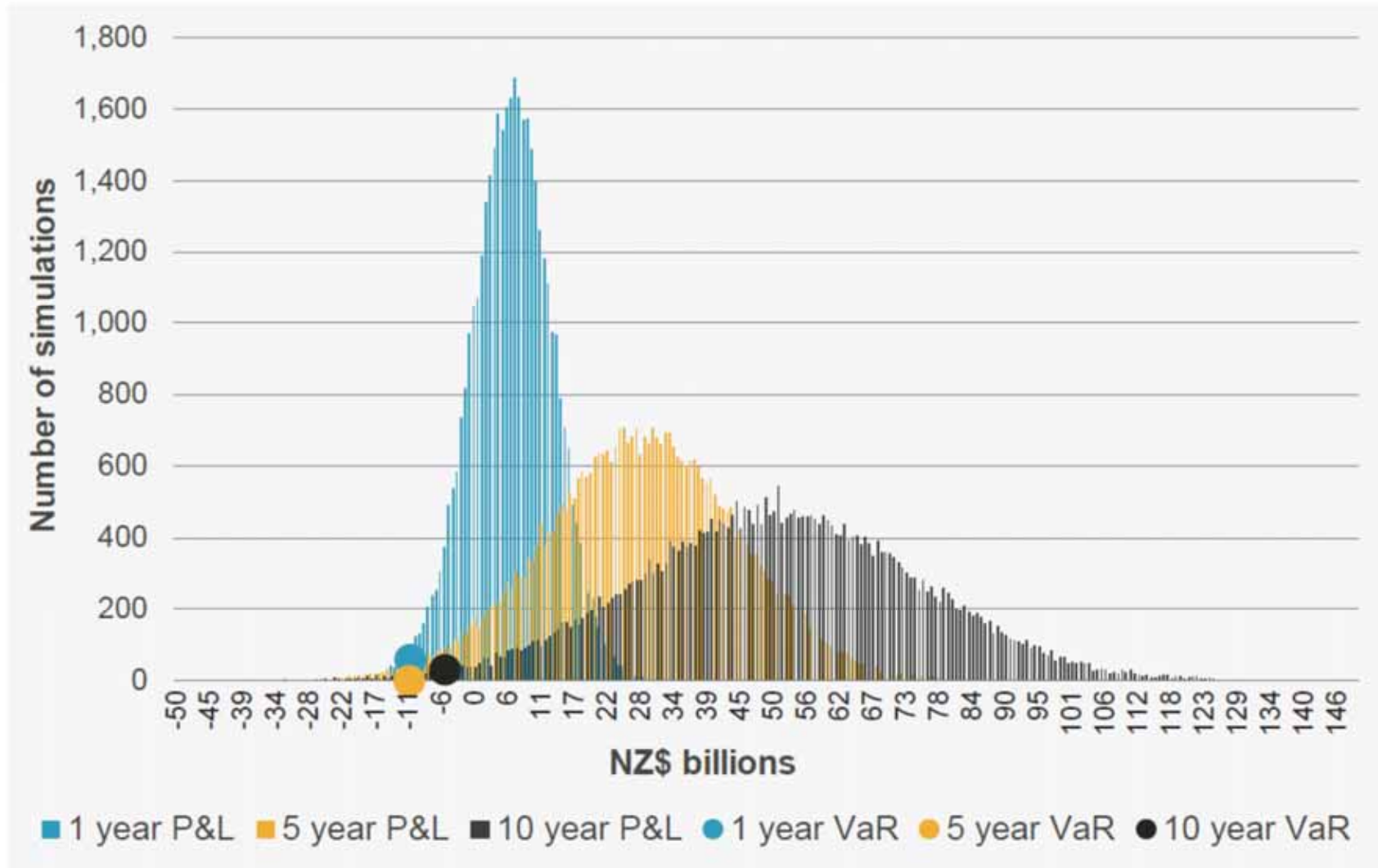


The proportion of financial assets is growing...



Source: The Treasury

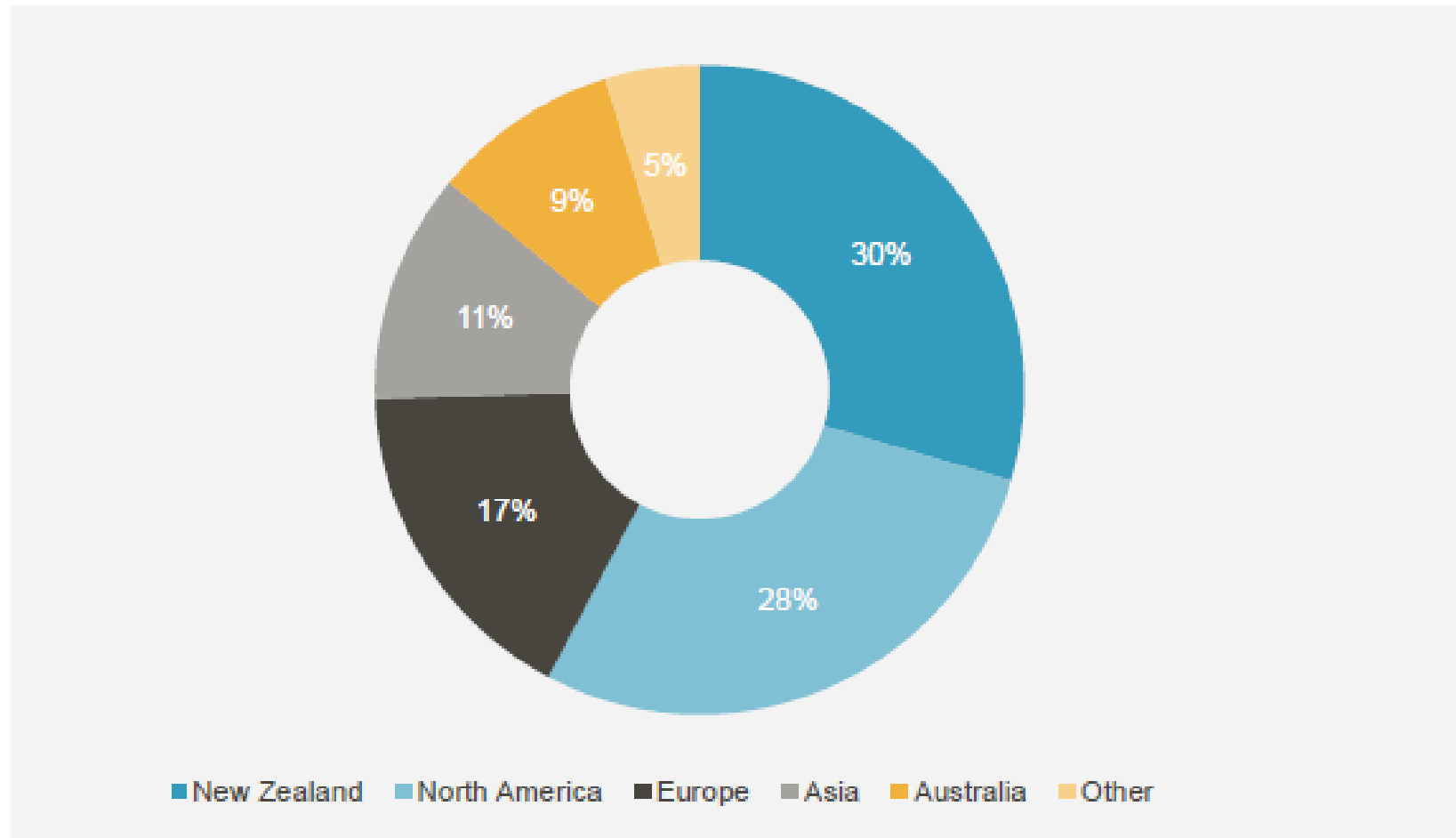
...and though risk is reasonable,
ongoing monitoring is required



Source: The Treasury

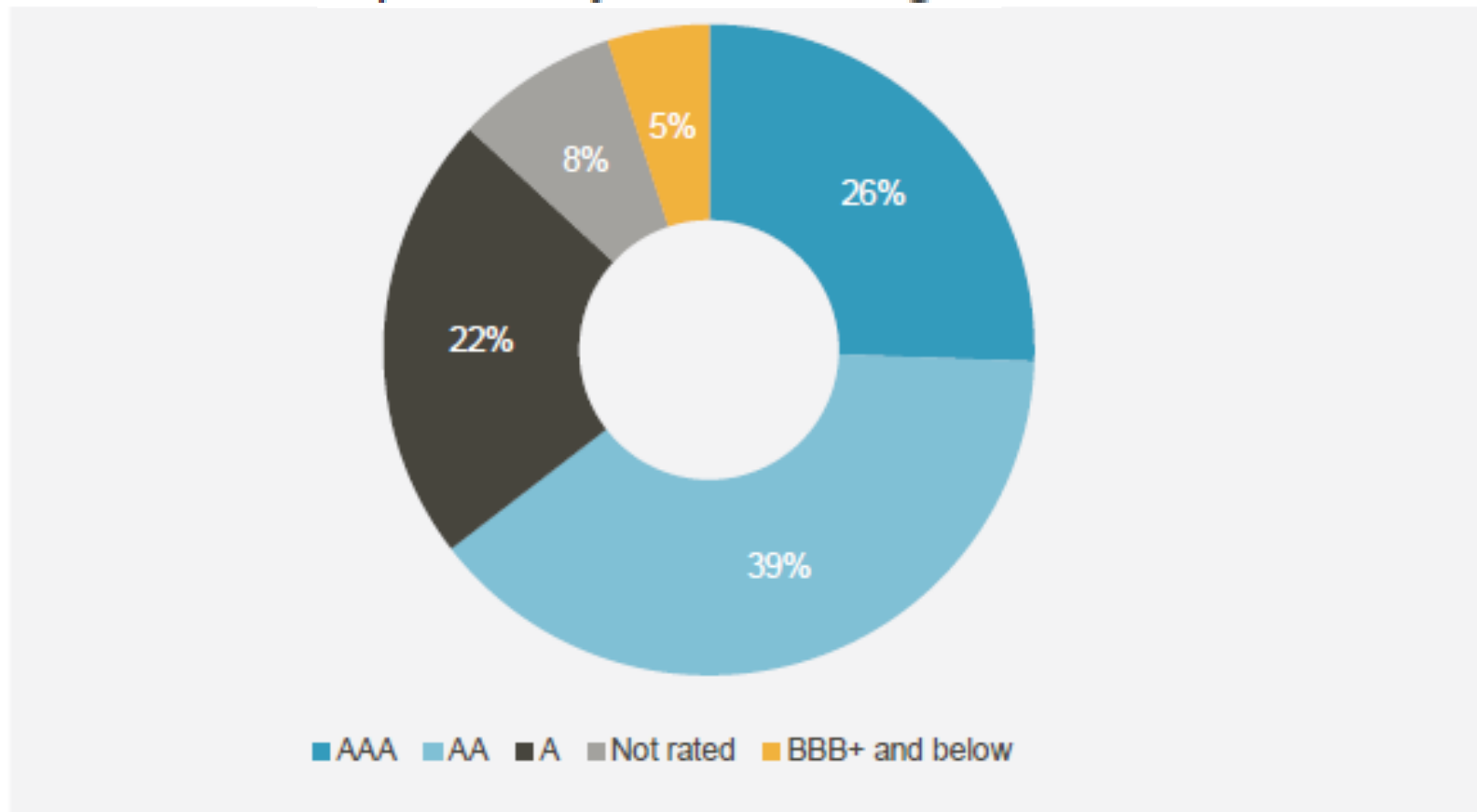
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Figure 1.22: Investment asset exposure by region



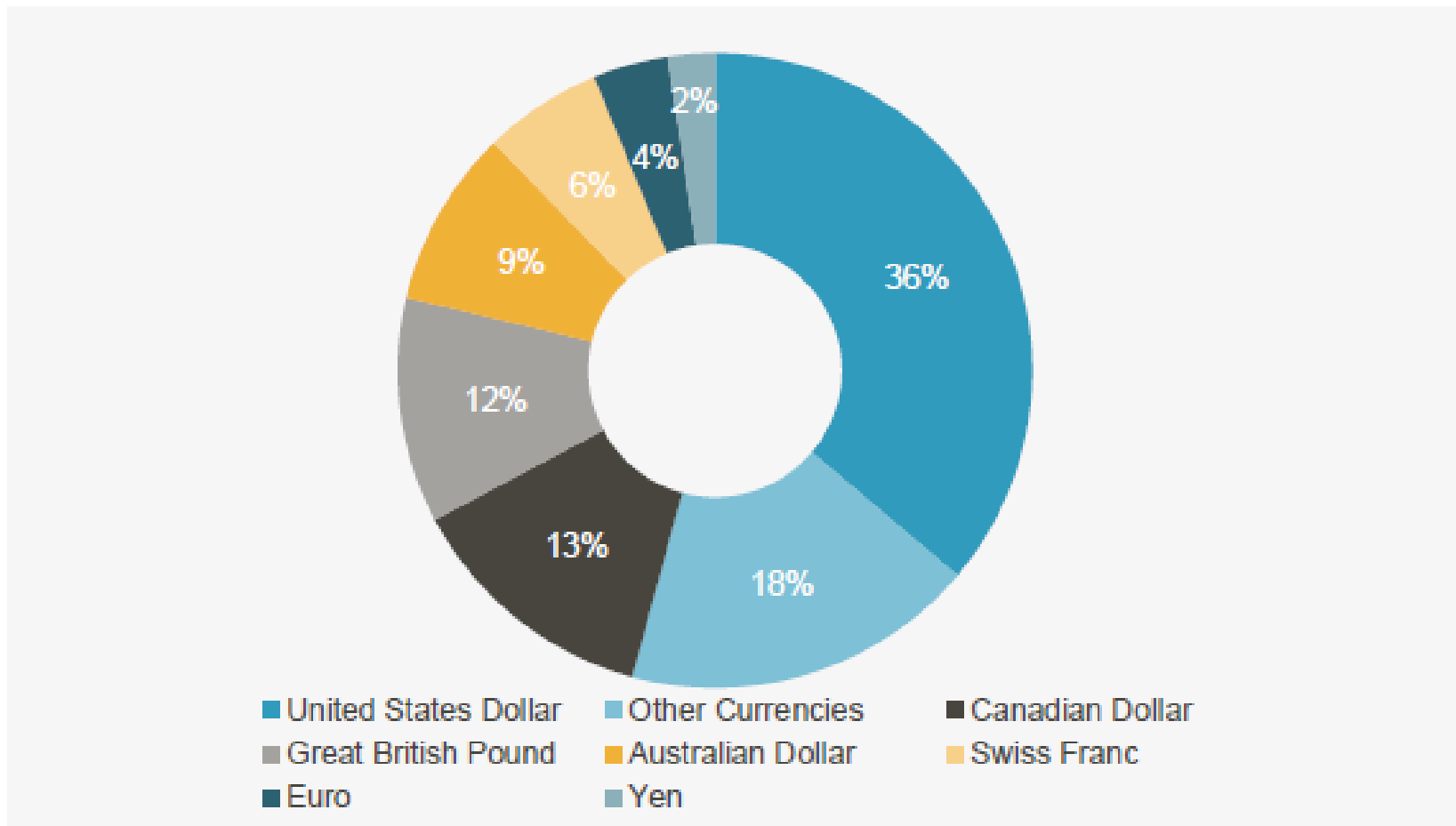
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Figure 1.24: Total consolidated Crown financial asset credit exposure by credit rating



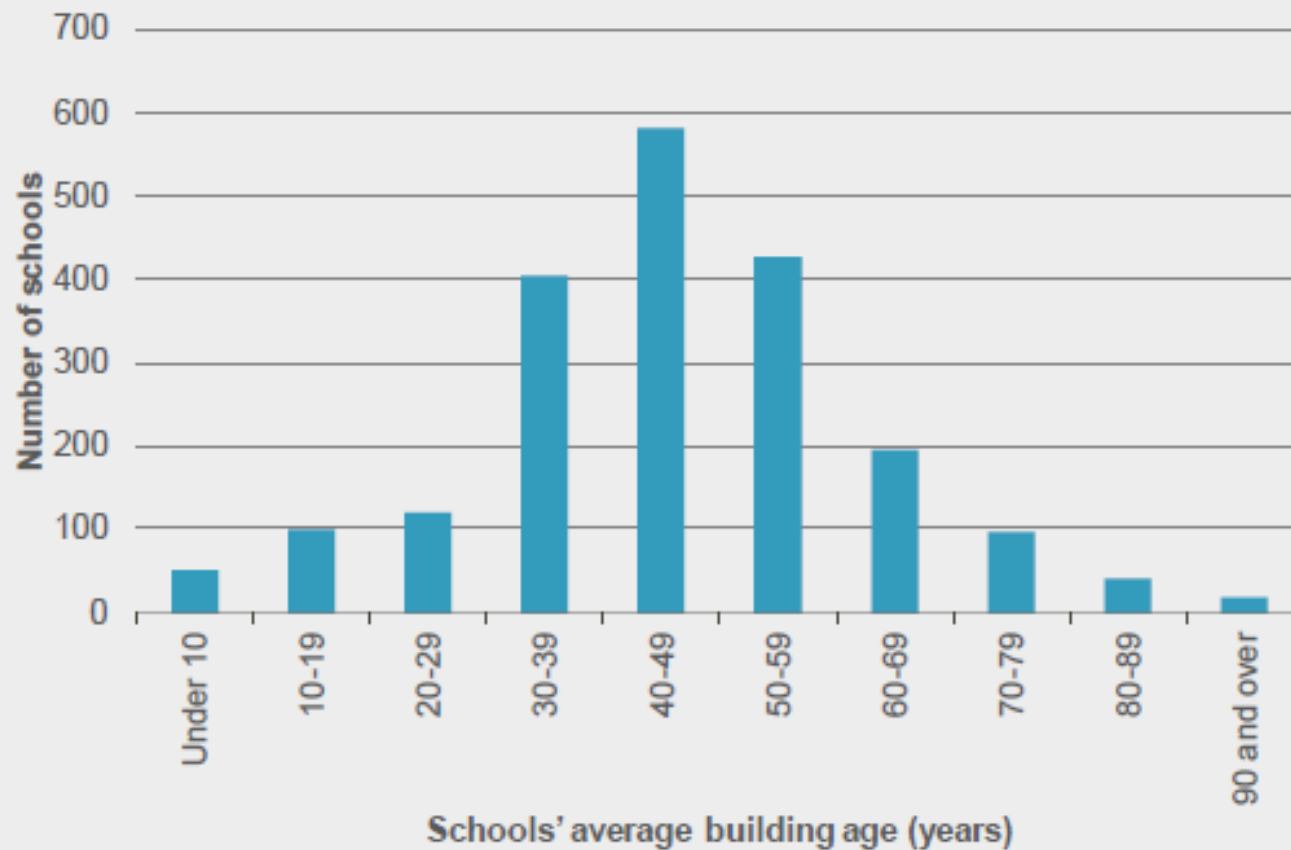
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Figure 1.23: Foreign currency exposure



Social assets are ageing, impacting effectiveness

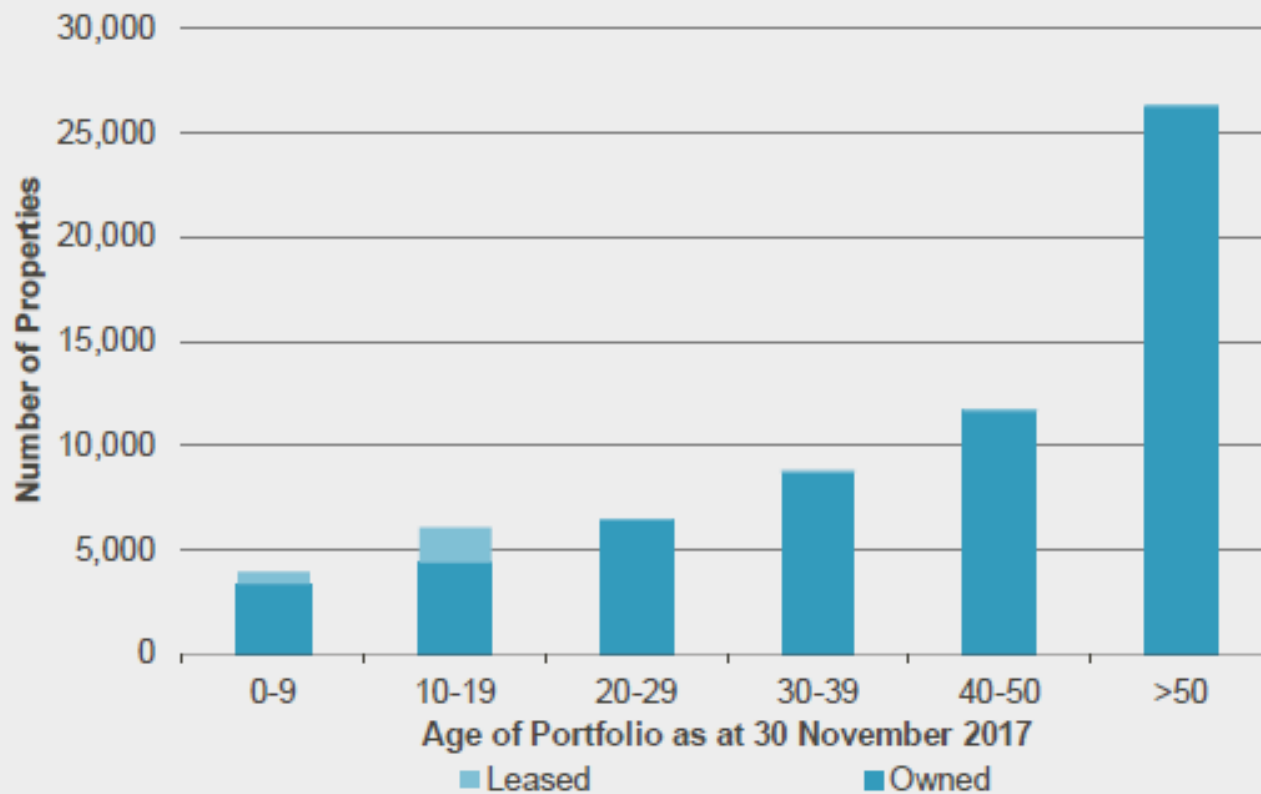
Figure 3: Average age of the school portfolio



Source: The Ministry of Education

Social assets are ageing, impacting effectiveness

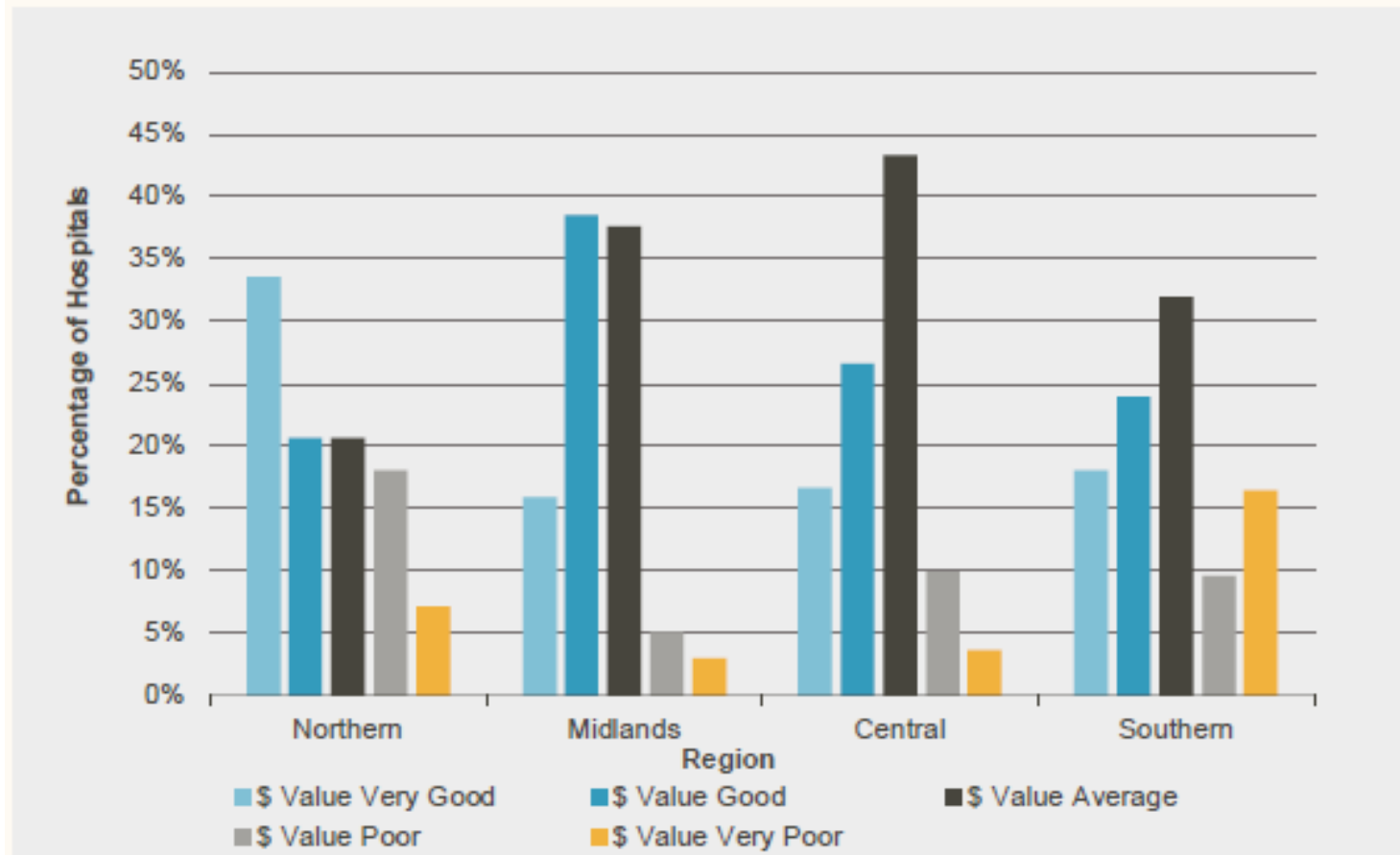
Figure 3: Age of the Housing portfolio



Source: Housing New Zealand Corporation

Social assets are ageing, impacting effectiveness

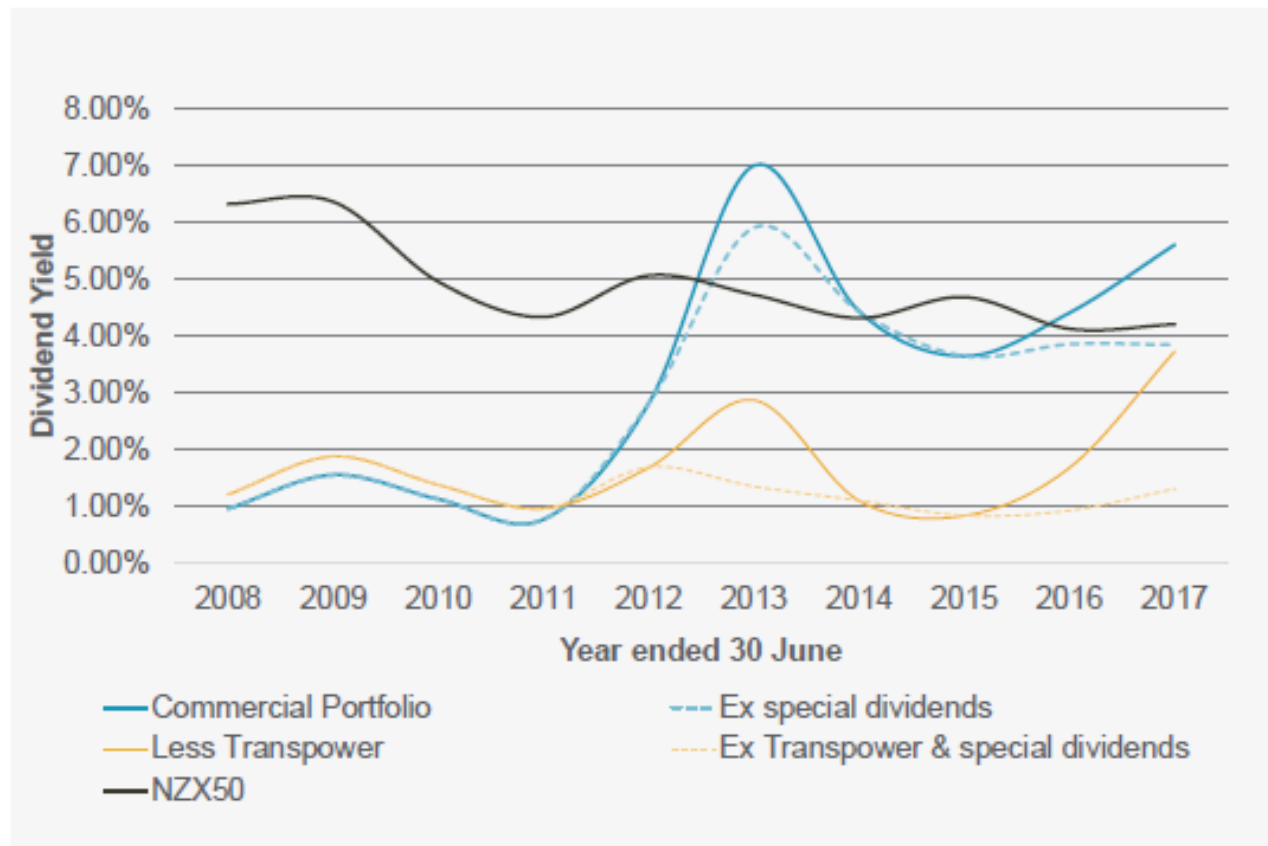
Figure 2: Regional asset condition



Source: Ministry of Health

Returns realised from dividends – and dividends have been low

Figure 2.11: Dividend returns for the commercial priority companies



Source: Bloomberg, The Treasury

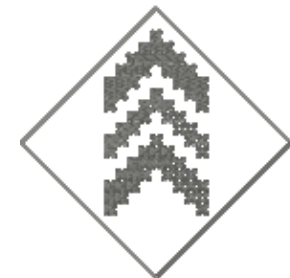
Time to re-examine the complex system settings

Do system settings produce investment management behaviours that maximise wellbeing?

Kaokao tukutuku:

System settings

Noble behaviour and protection of people and assets





Pursuing distant horizons

How do we get better at investing for wellbeing?

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How do we get better at investing for wellbeing?



As the saying goes – you manage what you measure.

- The Treasury will work towards regular assessment of the state of, and future prospects for, wellbeing.
- Related to this, we need to identify indicators of asset performance that can demonstrate the link to wellbeing.
- A clear approach to measuring and valuing non-financial resources – such as skills and knowledge, social cohesion and the natural environment.

An illustration: Natural capital

- First, we need to better measure the ways natural capital supports social, economic and cultural activities. Without doing this we add to the problem of natural capital being undervalued.



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- Second, we need a better and more consistent view over all of New Zealand's natural capital, while also recognising the variety of specific regional and local environmental issues.

An illustration: Natural capital



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- Second, we need a better and more consistent view over all of New Zealand's natural capital, while also recognising the variety of specific regional and local environmental issues.
- And third, we need to know more about the tipping points in environmental processes where behaviour and resilience shift abruptly for the worse.