Part 3: Balance Sheet Management

This section examines some of the principles of good balance sheet management and assesses the public sector management system against those principles to identify areas for potential improvement. Government Objectives and Delivery examines what it means to be a good owner of assets, and what is needed to make better investment decisions. Financial Risk Management outlines the issues the Crown faces with regard to risk, including how to improve on current risk management frameworks. Fiscal Sustainability and Liability Management examines the importance of effective whole of Crown liability management to resilience and the importance of rebuilding buffers to underpinning living standards.

Chapter 5: Government Objectives and Delivery

...The highest priority government objectives need to be delivered as efficiently and effectively as possible and quality asset management is required to get the most from new and existing investment. This allows more or better services to be provided at lower cost to taxpayers...

Chapter summary

Governments have many objectives and limited resources with which to deliver on them. Delivering on these objectives effectively and efficiently allows for more or better public goods and services to be delivered with a given amount of funding, or alternatively, to deliver current levels of service at less cost to taxpayers.

There are alternative options available to deliver on government objectives, with new options emerging over time such as cloud computing technologies. These delivery mechanisms have differing costs, benefits and risks that need to be robustly evaluated. Crown ownership should not be seen as the default option. Alternative methods of delivery can have benefits over ownership for attaining optimal value for money.

To ensure value for money, the highest value investment options should be implemented. Governments need to continually assess whether existing assets still align with objectives, and if not, consider freeing up capital resources for other uses. Better information and a more systematic decision making approach to investment would support this.

Asset management is critical to ensuring that maximum benefit is generated from Crown assets on an on-going basis. There is evidence of a gap between current and desired levels of asset management practice within capital intensive Crown entities and departments. This suggests there is scope for improvement.

While steps have been taken in recent years to improve capital allocation and investment decisions, an initial assessment suggests there is a case for greater coordination in improving asset performance and decision making. However, it is important that coordination does not reduce agency accountability.

Government objectives

This chapter focuses on mechanisms for delivering on government objectives. Various factors have shaped governments' policies and their approach to service provision. From a public policy perspective, governments should prioritise those objectives where private sector provision is unlikely to be adequate.

Individuals and communities have increasingly high expectations for the quality, range and quantity of goods and services they receive. These are provided by both the public and private sectors. Like individuals, the government has many objectives and limited resources with which to deliver on them.

Delivery mechanisms

Governments must continually strive for more effective and efficient methods of delivering on objectives. This allows more and better publicly funded goods and services to be produced and delivered, or alternatively to maintain existing levels of service for lower taxes.

Governments have entered into a wide range of arrangements to achieve their objectives. Objectives can be met by regulating private provision, purchasing services, funding or subsidising private providers or directly using public resources. Each of these has a differing set of relative costs and benefits.

Direct provision may require the acquisition of capital assets. This can be achieved through purchase, renting or leasing, or via a public private partnership (PPP) – see Box 5.1 for further detail.

Ownership can provide greater certainty of supply and control. For example, specialised hospital facilities are unlikely to be available for lease when needed. As such, ownership of these facilities may be more desirable. However, ownership is not without risk, as assets can become surplus to need over time. For example, in many provincial towns, the Crown owns social houses and school buildings that are no longer required due to the impacts of demographic change. Ownership also reduces opportunities for savings from utilising contestability between suppliers.

Ownership requires ongoing discipline to ensure its benefits continue to accrue to citizens. This is not consistently present in the public sector. Therefore, ownership should not be seen as the default option for attaining value for money from government assets. Alternative delivery methods can have benefits over ownership. But to assess this requires comprehensive evaluation of the relative costs, benefits and risks.

For the Crown, the Better Business Case methodology, including cost benefit analysis, is the primary tool for assessing the best option for delivering a government objective. However, the Crown needs a further framework for determining the best value portfolio of investments across competing government objectives.

Box 5.1 – New Zealand's approach to PPPs

What are PPPs?

A PPP is a long-term contract between a private sector provider and the Crown for services and typically involves constructing or enhancing a specialised asset. PPPs bring together a range of services under a single contract for the design, construction, finance, maintenance and operation of an asset.

In a PPP, the Crown is buying outcomes, not inputs, and only pays for services when they are available and delivered to pre-agreed performance levels. This allows the private sector provider to make decisions about the appropriate mix of inputs to best meet the outcomes sought by the Crown.

PPPs are common abroad but some have different drivers. The Australian PPP model includes a focus on reducing the whole of life cost of infrastructure investments, while in Canada PPPs are used to incentivise the delivery of a project on time and on budget.

PPPs in New Zealand

In New Zealand, the aim of PPPs is to improve the service outcomes from public sector investment for the same or less cost than traditional procurement or government provision. Projects that make good PPPs:

- have significant opportunities to improve service outcomes and reduce whole of life asset management costs
- have real opportunities for performance risk transfer
- are part of a larger portfolio that can benefit from lessons learned from the private sector, and
- require significant scale in order for benefits to outweigh additional transaction costs.

The New Zealand model seeks to hold the PPP contractor to account for the effectiveness of the asset or services being provided, rather than simply measuring whether or not they have been supplied. If suppliers do not deliver the required outcomes, their payments are reduced accordingly and their profit is at risk.

Under the New Zealand PPP model, the Crown retains legal ownership of the land and buildings used to deliver the services at all times. Examples of PPP projects that are in place are Hobsonville Point primary and secondary schools, and Wiri prison. PPP projects that are being progressed are Transmission Gully, Auckland East prison, and four new schools.

Investing well

Investment and disposal decisions (see Box 5.2) need to be considered within a comprehensive framework that systematically analyses alternative choices so that highest value options are chosen. This means assessing not only the costs and benefits of the method of delivering an objective, but also which objectives to prioritise.

Box 5.2 – Divestment in the public sector

Good balance sheet management relies on the ability to sell assets that are no longer needed to allow for capital reinvestment. The ability to reprioritise assets and recycle capital is key to balance sheet flexibility and avoiding unnecessary and costly asset holdings.

However, before Crown assets can be sold there can be a number of legal and policy requirements to be fulfilled. For example, the creation of the MOM companies required legislation. But even smaller scale and ordinary asset sales can require a number of legislative and policy requirements to be met. For example, Cabinet has decision rights over any departmental asset based divestment proposal that exceeds $25 million or is high risk. Moreover, the disposal of any Crown-owned land is subject to a range of statutory and government policy requirements. The particular requirements will depend on the legislation under which the land is held, but can include the *Public Works Act* and *Treaty of Waitangi* obligations.

In general, disposing of Crown property is a lengthy, complicated, and costly exercise because of these legal and policy obligations. This can discourage active balance sheet management of assets surplus to requirements. For this reason the government has established the Crown Land Centre of Expertise within Land Information New Zealand (LINZ), which has specialist knowledge to assist with these processes.

The decision making framework needs to take account of the following factors:

- The overall expected economic costs and benefits of the investment proposal (see Box 5.3 for a discussion of this in the context of financial and commercial assets). This process can be challenging in a public sector context as there are also non-financial considerations to be incorporated such as those outlined in the Living Standards Framework. For example, it is hard to quantify the value of an investment in a courthouse to social infrastructure.

- The project's fit with existing assets and services within the wider state sector. This is especially the case where assets are part of a highly integrated system (eg, roads, schools, health system or the delivery of defence capability).

- The risks and likelihood of an investment meeting its objectives, taking into account agency past performance, asset management maturity and delivery capability.

- What resources are already being applied to meet that objective and/or whether other resources could be reallocated for better use.

- The profile of future investments including costs, benefits and spending pressures that may emerge.

Investment outcomes also need to be carefully assessed against forecast benefits and costs. Systematic ex-post review helps support continued improvement in the investment decision making framework by providing an important feedback loop to the process.

Box 5.3 – Financial and commercial assets, risk and return and cost benefit analysis

When making an assessment as to whether to invest in financial and commercial assets both risk and return must be accounted for. Thus, making the case for investment on the basis that government borrowing rates are lower than the expected returns available on financial or commercial asset is not sufficient.

Financial and commercial assets have a higher expected return than government borrowing because of their greater risk. Their higher expected return compensates an investor for the chance that these assets may *decrease* in value. Because of this, a decision to invest must take account of risk tolerance – that is, how much additional return is required for the increased risk.

In a government context this is difficult, as individuals' risk tolerances vary. Also, and always, governments should only intervene where they are either more efficient than the private sector in doing so, or the private sector will not or cannot provide the intervention.

For these reasons, the Crown should only invest in assets for which there is an underlying reason for ownership. For example, in the case of the NZSF, this is to part fund the increasing future costs of superannuation benefits.

Assessment

Based on the initial assessment in this Statement, the public sector management system has some of the features required for effective capital decision making. However, even where individual agencies are making rational decisions from their perspective, they may not be ideal from a whole of government perspective.

Each year through the budget process a new capital allowance is made. New investment alternatives compete for this capital. They are assessed with a whole of Crown lens and decisions to invest are made by Cabinet. The budget process is supported by departmental four-year plans which provide a longer term view of agency needs and plans.

However, these capital allocation decisions are not always supported by rigorous cost benefit analysis. Typically funding is conditional upon further analysis in the form of a business case. In addition, decision making is not systematically supported by analysis of agency capability, what it currently owns, or the utilisation and condition of these assets. Improved information about Crown assets would give a better understanding of needs and enable judgements on whether capital is meeting current objectives or could be put to more productive uses.

Both the quality of cost-benefit analysis and planning could also be improved. With cost-benefit analysis there is some evidence that its practical application often overstates benefits and understates costs of projects.[47] In addition, planning horizons are currently too short. Planning over a longer term would further support decision making, especially for capital intensive but less frequent projects. Systematic review of project outcomes against expectations would also improve incentives on agencies to analyse investments accurately.

Investments made using the funding that agencies hold specifically for the replacement of existing capital, or from their own asset reprioritisations, or from specific revenue streams, are not subject to a systematic whole of Crown prioritisation process.[48] This contrasts with the oversight applied to new spending decisions through the budget process.

There is no formal process to ensure capital investment funded this way aligns well with overall government priorities. While this may already be occurring to some degree, a more systematic approach would better ensure that it does.

This also makes it more difficult for the government to manage its overall fiscal strategy. Ideally investment timing should take into account prevailing economic conditions.

Capital spending funded in this way is the majority of total investment made each year. In recent years the Crown has allocated around $1 billion of new capital at each budget, this compares with annual capital expenditure of around $7 billion of capital reinvestment.

Owning well

The process of good asset management does not stop at the investment decision. The *State Sector Act* now explicitly requires departmental chief executives to exercise good asset stewardship.

Owning well is critical to ensuring that maximum benefit is generated from Crown assets at lowest cost. To be successful there needs to be continual assessment of whether the rationale for past investment decisions remains valid. Such a review process would highlight where capital is no longer needed or where new more efficient delivery methods are available. To do this an owner of physical assets should have well formed asset management plans and practices.

Agencies should regularly assess asset performance including asset condition and use, operating cost implications, timing of maintenance and refurbishment, and long-term disposal and investment plans. These are the hallmarks of a mature asset owner (see Box 5.4).

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47 See http://www.infrastructure.govt.nz/publications/betterbusinesscases/guidance for a discussion of bias in cost benefit analysis.

48 Cabinet retains some decision rights with respect to major capital projects. See http://www.dpmc.govt.nz/cabinet/circulars/co10/2

Box 5.4 – Asset management maturity in the public sector

In 2011/12 the Treasury commissioned an independent assessment of the level of asset management maturity within capital intensive departments and Crown entities. The findings showed that:

- Most agencies were able to demonstrate an intermediate level of asset management maturity, and there were some advanced practices in a number of agencies.
- Some agencies were close to demonstrating an appropriate level of asset management maturity, but most had more work to do to build people, process and information capability to the level appropriate to their business context and government expectations.
- The size of some capability gaps (between current and target levels of maturity) suggested that life-cycle decisions may not be as well informed by plans, information and analysis as they should be given the scale and complexity of assets under management.

In the current fiscal environment and with government imperatives for better public services, agencies face more pressure to maintain or strengthen asset management and service delivery capability. Yet without ongoing investment in such capability, agencies (and the Crown) will carry more risk to service failure or poorer quality decisions than would otherwise be the case.

While progress has been made since 2011/12, most agencies still struggle to articulate the strategic linkages between the services they provide and the assets they need to use, and capture that thinking and analysis in their planning documents and in subsequent asset-related performance reporting.

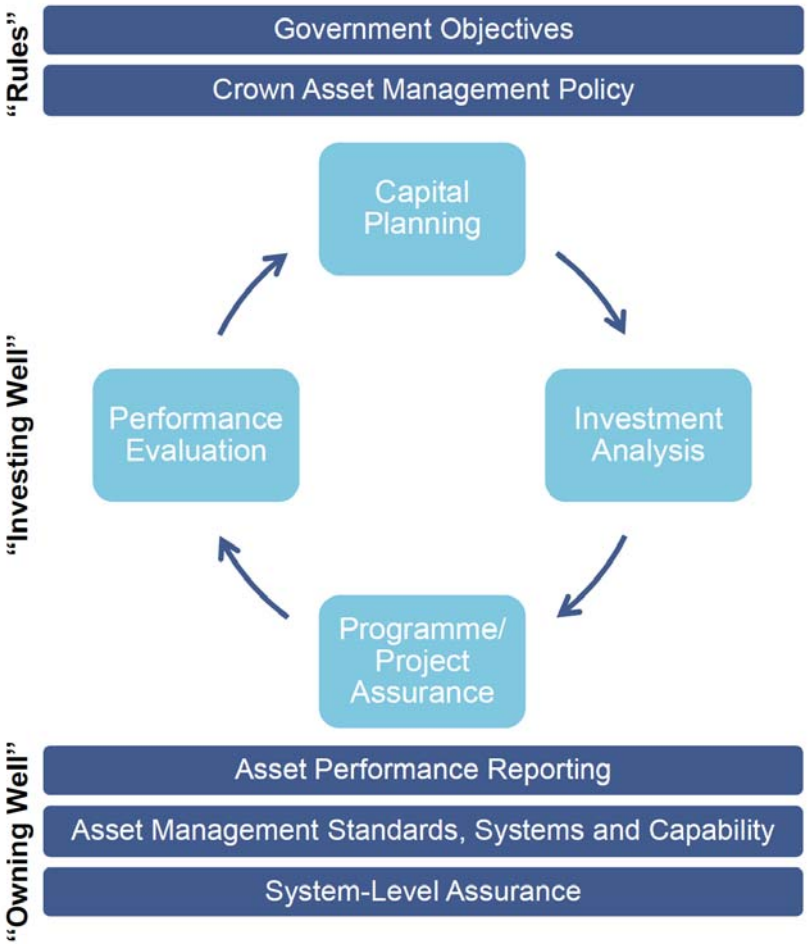
Good asset management practices ensure that assets continue to remain fit for purpose and align with objectives, and that costs of ownership are minimised and asset values are maximised. This will be necessary in the future given demographic changes, which will require considerable adaptation of the balance sheet as the demand for services change. Good asset management is important to all Crown assets regardless of their type, use and ownership arrangements.[49]

[49] A new international asset management standard has recently been issued by the International Organisation for Standardisation (ISO55000) that reinforces the need for good asset management practices.

Capital asset management

The processes outlined in the chapter are called Capital Asset Management, and are summarised in Figure 5.1.

Figure 5.1 – Capital Asset Management (CAM) regime



Source: The Treasury

Future developments

This chapter has discussed the mechanisms to achieve effective capital investment and management. In recent years steps have been taken to improve capital allocation and investment decisions, but improvements could still be made. Accordingly, there may be a case for greater coordination in improving asset performance and decision making to better ensure government objectives are met as efficiently and effectively as possible.

Better information to support analysis and decision making

Better analysis and decision making requires better information. The Crown needs to develop a way to systematically capture better information about the state of its assets and their effectiveness at meeting government objectives. Longer term capital planning would also support decision making and accountability for achieving outcomes cost effectively. Systematic ex-post review of investment outcomes against expectations would help support continued improvement in the investment decision making framework.

Better analysis of options

There is a need for better analysis of investment alternatives and for interventions to meet government objectives as efficiently and effectively as possible. While cost benefit analysis is a useful tool, it is not always performed well and has limitations. Analysis needs to continue to improve.

Prioritising investments from a whole of government perspective

Notwithstanding the existing controls that help ensure that investment is well founded, capital resources may not be as well allocated as they could be relative to the priorities of the government as a whole. Coordination across government could be improved, but needs to be mindful of maintaining agency accountability. This could take the form of adjusting settings such as decision rights, clarifying guidance, issuing directions, or stronger monitoring to sharpen incentives and improve practice.

Sharper incentives

Asset management is the responsibility of agencies, as are many investment decisions. Capital ownership and decision making should be improved such as through agencies implementing more robust business case methodologies and through a higher rate of capital recycling on the Crown balance sheet. These issues could be addressed by sharpening the incentives on the various agents of the Crown.

Recent legislative changes and the Better Public Services policy initiatives are helping. However, they will still need to be supported with more effective administration and coordinated decision making to ensure that Crown capital is employed to the highest and best use over time in response to changing circumstances.

Areas of focus

- Ensure settings bring about more rigorous capital investment decision making and support asset management practice to improve alignment between investment and governments' long-term priorities.
- Strengthen the means for recycling capital into priority areas to meet changing demands and priorities without incurring unnecessary costs.

Chapter 6: Financial Risk Management

...The Crown bears significant risk from a wide variety of sources. Crown risk management is needed to support delivery of government funded services, and economic and social outcomes...

Chapter summary

Risk affects governments' ability to cost-effectively deliver on their objectives. This chapter focuses on the financial implications to the Crown of a wide variety of risks, including many non-financial risks.

Effective financial risk management is important because it can raise the living standards of New Zealanders by increasing New Zealand's resilience to shocks. This maximises the benefits and minimises the costs of publicly funded goods and services and improves economic and social outcomes.

Given the breadth of governments' objectives, Crown risk management needs to be aware of risks well beyond those that directly relate to its own asset and liability holdings. These risks can be some of the largest that the Crown will ever face – such as an international economic or financial crisis, a global pandemic or a natural disaster at home. These require astute management.

To manage this diverse range of risks effectively, a comprehensive and cost-effective framework needs to be in place which systematically and continually assesses risk.

The Crown's risk management framework generally involves holding agencies responsible for the risks that they individually face, subject to some central guidance and coordination for risks with broader national implications. This is because agencies are generally best placed to understand their own risks. These processes have worked well under a wide range of circumstances, although there is scope to strengthen the

framework further through the development of a more complete understanding of the risk exposure of the Crown as a whole. This issue will gain in importance as the balance sheet grows and becomes more heavily weighted towards financial assets, which expose the Crown to new forms of risk.

A focus in the years ahead will be to better understand aggregate Crown risk to enable more effective and integrated risk management practices. An assessment is necessary on whether efficiencies can be captured while ensuring that total risk exposure remains within the risk appetite of governments.

Why manage risk?

Governments have a number of objectives that aim to improve living standards which are generally advanced through delivery of public goods and services. Risk comprises anything that might affect this delivery – either by impacting on costs or benefits. Risks affect governments' ability to deliver value for money. However, risk may be tolerated if expected benefits are assessed to outweigh expected costs.

Because of its size and unique role in the economy and society, the Crown has a role to play far beyond managing the direct risks to its own assets and liabilities. The Crown bears risk on behalf of all New Zealanders. Where the Crown is better placed than individuals to do this there are benefits. However bearing risk also incurs costs, because resources used to manage risk cannot be used to meet other objectives.

Sources of risk

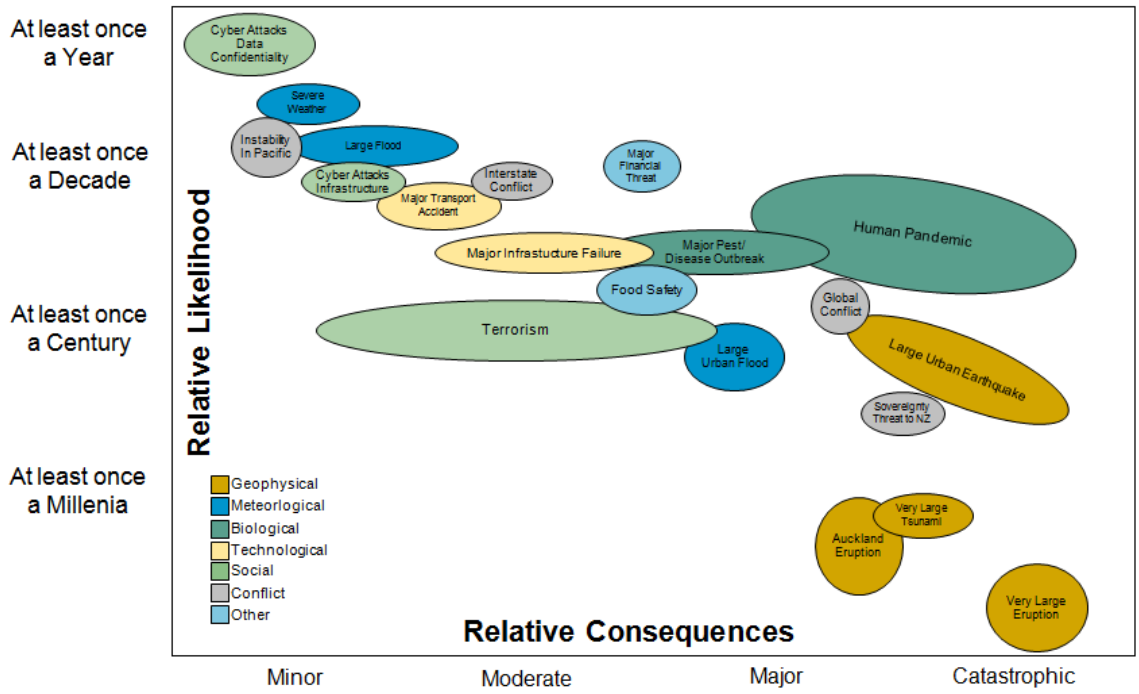
Risk can arise from everyday occurrences or from one-off shocks. These can have operating or capital implications, but all affect the balance sheet. Sources of risk include economic, environmental, natural disaster, biosecurity, societal, technological and operational events. See Figure 6.1 for a broad indication of consequences and likelihood of risks to New Zealand.

A shock is an event with an uncertain likelihood and timing that tends to have a greater effect on the Crown. Shocks can come from many sources with different likelihoods, sizes and impacts, and durations. Shocks to economic activity have particularly large effects on the Crown. New Zealand is a small open economy with relatively high external debt, mainly in the private sector, thus it is susceptible to economic shocks from overseas. This susceptibility makes risk management and resilience even more important for the Crown.

The Crown bears a number of contingent liabilities and implicit risks. Contingent liabilities are contractual obligations that arise after the occurrence of some uncertain event.[50] Implicit risks are non-contractual obligations that the Crown may choose to meet following a shock for policy reasons.

[50] Contingent risks are documented in the FSGNZ.

Figure 6.1 – Relative likelihood and consequences of various risks



Source: http://www.dpmc.govt.nz/sites/all/files/publications/national-security-system.pdf

Managing risk

General elements of good risk management

A good risk management framework will operate within clear lines of agency accountability and responsibility with overall central coordination. These should be based on who has the necessary skills, knowledge and expertise to manage risks as efficiently and effectively as possible. Risk tolerance needs to be clearly specified at an aggregate level, as this will impact how agencies manage risk. See Figure 6.2 for an overview of the risk management cycle.

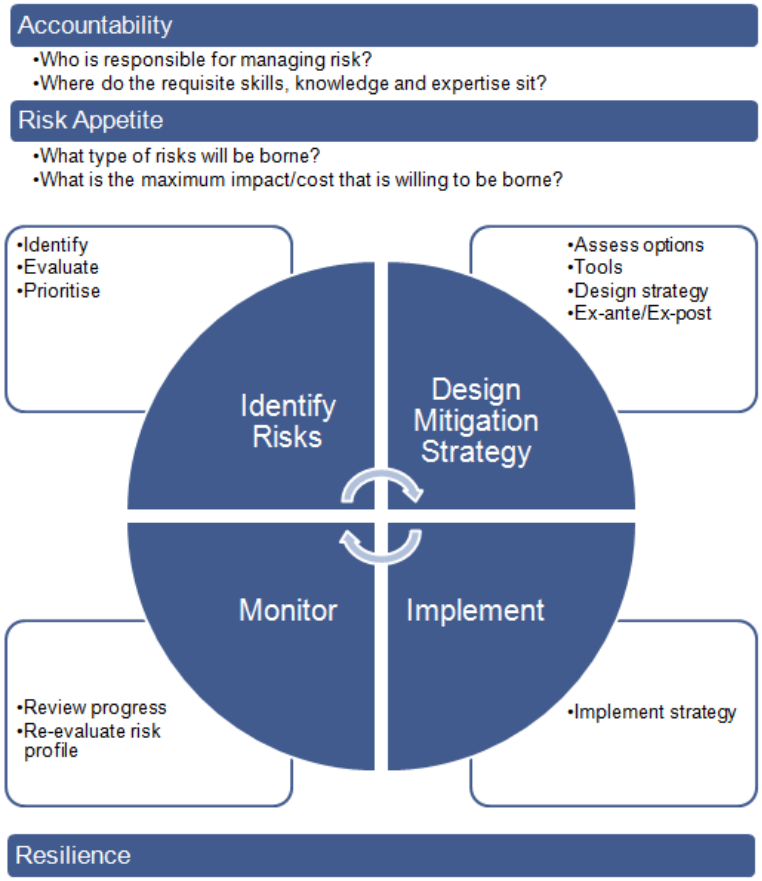
Mitigating risk

Mitigating risk involves taking actions to reduce the potential impacts of risks before they are realised. This can include taking regulatory measures, buying insurance, public information and communication exercises, cost sharing or risk pooling arrangements and hedging actions.

Risk management also involves building resilience. Resilience refers to the ability to withstand the effects of an event or shock.

Risk management is rarely free of cost. Accordingly, its desirability will depend on the overall costs and benefits to the Crown and wider economy. These need to be continually assessed to ensure efficiency and effectiveness.

Figure 6.2 – Comprehensive risk management



Source: The Treasury

The Crown's current framework for balance sheet risk management

The basic elements of a comprehensive approach to systematic risk management are present in the Crown's current framework for risk management.

Agency risk

Each individual entity is responsible for identifying and managing any risks they are exposed to on the basis that they have the best information and incentives to do so. This generally involves managing individual operational, insurance, financial, asset management, and reputational risks.

However, risk management may be subject to overarching guidance. For example, Treasury Instructions stipulate that departments must undertake a systematic financial risk management process covering:

- identification of the risks faced, or likely to be faced
- quantification of the type and size of the risk (including consideration of possible losses and probability of loss)

- determination of a risk appetite (ie, the amount of risk the department is prepared to accept), and
- how the risks are to be managed or controlled, including whether to purchase insurance cover.[51]

Taking this into account, there are strong expectations that each agency considers and manages risks that are relevant to their responsibilities.

Macro and national security risks

In the case of macro and national security risks that affect New Zealand (such as financial and economic risks, biosecurity and natural disaster risks), risk is managed more centrally. The Officials' Domestic and External Security Committee, led by the Department of the Prime Minister and Cabinet, provide an overarching risk management framework for risk of national significance that spans the responsibilities of several agencies. This involves assessing overall national preparedness, providing guidance and policy advice, planning, and co-ordinating risk management roles across agencies.

In some instances, purpose-designed agencies have been established to manage these risks, such as the EQC. The Treasury has responsibility for providing advice around the overall fiscal and economic implications of nationally important events.

Implicit risks and contingent liabilities

The Crown plays a key role in managing risks on behalf of others. Events in other countries through the GFC have shown the material effect implicit risks can have on governments' finances. In New Zealand this led to the Retail Deposit Guarantee Scheme, which transferred risk from the private to the public sector.

This highlights why efficient and effective management of these off-balance sheet risks and issues is critical. Where the Crown is best placed to address these risks on behalf of others this can be a valuable function. However, there can be unintended consequences particularly where the Crown takes on costs that would be more appropriately carried by the private sector.

Implicit risks and contingent liabilities need to be well understood to allow for careful management to ensure there are no unintended negative fiscal consequences and that economic and social outcomes are protected.[52] These types of risks, including the effects of natural disasters and perceptions about implicit support of the banking sector, represent some of the largest risks the Crown faces.

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[51] http://www.treasury.govt.nz/publications/guidance/instructions

[52] The EQC scheme is an example of this approach. In the event of a disaster, it can be difficult for governments to withstand the pressure to meet the costs of uninsured homeowners. Knowing this, homeowners may choose to underinsure. The EQC scheme is a way of limiting this moral hazard by levying homeowners in return for financial support following an earthquake.

Resilience

Ultimately the Crown and taxpayers bear any residual risk of an event through potential loss of service provision, increased costs, or both.

New Zealand's approach to resilience has been to run a strong and disciplined fiscal position with low net core Crown debt levels. This allows the cost of an event to be absorbed without unduly affecting the continuation of core public services or the wider economy. For example, many of the costs of the Canterbury rebuild were funded through an increase in debt issuance. This allowed the response to the earthquake to be swift, without putting undue pressure on Crown finances or current taxpayers. This approach is discussed in more depth in the next chapter regarding fiscal buffers.

Assessment

The devolved model for Crown risk management, with some centralisation of nationally significant risks, generally has worked well. The way that risk management responsibilities are assigned has created generally appropriate management accountabilities.

That does not mean there is not scope to seek opportunities to find efficiency gains in risk management practices. This may involve, for example, finding ways for agencies to take advantage of offsetting risks or diversification benefits available elsewhere in the Crown's overall balance sheet.

In addition, taxpayers through the Crown may bear some of the residual impacts of risk that agencies are responsible for managing. There may be room to improve the alignment of incentives for managing risk in agencies and the wider Crown.

As the Crown balance sheet grows and its composition changes the magnitude of risks the Crown faces will increase and their sources will likely change. Therefore, managing risk will become more important over time. In particular, the projected growth of financial assets the Crown owns will likely lead to increased operating and balance sheet volatility. This will require astute management and a greater understanding of the implications of interventions.

These issues will require a greater understanding of the total risk implications of agency interventions, and on and off-balance sheet risks. Accordingly, there could be further improvements to the existing Crown risk management framework to capture some of these benefits while maintaining the benefits of the status quo.

Implications of the Canterbury earthquakes

The Canterbury earthquake sequence beginning 2010 highlighted the importance of Crown risk management. In addition to the loss of life and property damage, earthquakes in densely populated areas can have significant impacts on government service delivery and Crown finances.

At least 80% of the costs to the Crown from the Canterbury earthquakes, net of insurance proceeds, have arisen from the need to meet, or contribute to, the costs of replacing or repairing physical assets. Not all of these assets are owned by the Crown. For instance, costs have arisen from:

Canterbury rebuild costs:

Total estimated cost:

$40.0 billion

Crown contribution to cost:

$14.9 billion

- the Earthquake Commission's insurance of privately owned residential property
- the Crown's contribution to the restoration of essential local government underground infrastructure such as fresh water supply, wastewater and stormwater services (see Box 6.1), and
- the Crown's decision to support AMI insurance – a private company – after property claims arising from earthquakes caused it financial distress.

Box 6.1 – The cost of restoring local government infrastructure

Under current policy settings the Crown may contribute 60% of eligible costs incurred in the restoration of essential local government infrastructure, being fresh water supply, wastewater, stormwater and flood protection management systems (horizontal infrastructure). The relevant local authorities are responsible for maintaining sufficient financial capacity to meet remaining horizontal infrastructure restoration costs.

Before the Canterbury earthquakes, the estimated replacement cost of the Christchurch City Council's (CCC) entire network of horizontal infrastructure was approximately $2.6 billion. Post earthquake, restoration costs are still uncertain but are likely to be at least $2.0 billion even though, as the below table illustrates, there were significant proportions of the CCC's network which did not sustain damage.

Network	Type of Asset		Total	Damaged	% of Total Damaged
All networks	Reticulation	Km	4785	754	16
	Pump Stations	No.	309	254	82
	Reservoirs	No.	113	113	100

If this is representative of other local authorities, it may mean that they are not maintaining sufficient financial capacity for their share of restoration costs, investing sufficiently in resilience or adequately transferring the risks on to other parties. This has implications for ratepayers' exposure to the costs of future disasters and ultimately Councils' financial sustainability.

Future developments

Ultimately the Crown faces the consequences of the quality of risk management and needs to have confidence in agency risk policies. While the overall focus on risk management across government as a whole appears to be adequate, there are opportunities to improve on current arrangements through more coordination in Crown risk management.

Improved coordinated, aggregated risk information

Because most risk management decision making is the primary responsibility of individual entities, there has been no systematic coordinated collection of specific agency risk information. This could have significant implications for cost effective and appropriate risk management from a whole of Crown perspective.

The current risk management framework could be improved through increased sharing of agency risk information. This would assist in determining overall Crown risk exposure and allow for identification of potential action.

An enhanced understanding of risk could support government objectives by increasing resilience. It could also support policy development and lead to a better understanding of the possible impacts of, and risk management techniques for, high impact low probability events such as earthquakes. For example, understanding Crown risk is helpful when looking at how to best structure the core Crown debt portfolio.

Better policy decision making to manage implicit risks

Events in other countries through the global financial crisis and the experience with AMI Insurance and cost sharing arrangements post Canterbury earthquakes highlight the importance of appropriate policy settings in supporting efficient and effective risk management. In particular, the ability of the Crown to manage the implications of large scale events is critical.

Further policy development to support risk management and ensure that appropriate incentives are in place and that costs are borne appropriately is needed.

Better risk pooling

The current model for individual agency risk management means agencies manage risk without consideration of others. Risk pooling would allow diversification benefits to be captured and could potentially reduce costs.

This can be achieved by transferring risk to a central hub, which could then be managed on a consolidated basis. This is a model utilised by many private sector organisations and some other governments. Risk transfer would occur on a commercial arm's length basis and it would remain the responsibility of agencies to make their risk management decisions, thus maintaining accountability.

Risks most fit for pooling are those that can be contracted easily, have similar characteristics, and are easily understood. Arrangements may only apply to agencies where risk management is not core business.[53] This approach currently occurs to an extent within the Crown, as some government agencies voluntarily transact foreign exchange risk with the NZDMO.

Better risk appetite guidance

Agencies' individual risk affects the Crown, so risk appetite guidance is needed. While expectations are set with respect to certain risks and agencies, the approach could be more holistic and comprehensive.

With the growth in financial assets forecast in the future, the contribution to total risk from the financial component of the balance sheet will continue to grow. In the future, the Crown will need to consider the level of risk it is willing to bear with respect to this activity.

Areas of focus

- Build a fuller understanding of aggregate Crown financial risk.
- Investigate whether efficiencies can be achieved within the current financial risk management framework.
- Continue to develop policy to manage the Crown's contingent and implicit liabilities to help ensure economic stability, fiscal resilience and social outcomes are maintained.

[53] This suggests specialised financial management entities such as the RBNZ or the CFIs would be excluded from arrangements for the pooling of financial risk.

Chapter 7: Fiscal Sustainability and Liability Management

...The ability of the Crown to remain solvent over time within predicable tax and spending parameters is integral to all of the dimensions that underpin living standards. This requires careful management of both debt and non-debt liabilities...

- **Chapter summary**
- **Understanding balance sheet sustainability**
- **Balance sheet buffers**
- **Debt composition**
- **Managing non-debt liabilities**
- **Future developments**

Chapter summary

Over the economic cycle, operating revenue should be sufficient to at least cover operating expenses, meaning that in the long term, borrowing is mainly used to fund asset acquisition. Sustainability requires fiscal buffers to be sufficient to manage both the effects of economic cycles and shocks. The composition of the fiscal buffer can reflect some combination of borrowing capacity and reserve assets.

The current Government has a long-term fiscal objective of reducing net core Crown debt to no higher than 20% of GDP by 2020, which reflects a prudent level of debt. This debt target is lower than in many other OECD countries because New Zealand faces vulnerability because of its relatively high levels of private offshore debt and its narrow commodity export base.

The Crown also has many non-debt liabilities that require careful management. Saving now to meet these obligations reduces the resources available for spending today, but will reduce future fiscal pressures. This approach has the potential benefit of better aligning the costs of an obligation to those who benefit from them.

A key focus should be to rebuild the fiscal buffer following the effects of the global financial crisis and Canterbury earthquakes. Reducing net core Crown debt to a prudent level should be a priority and would go some way to rebuilding the fiscal

buffers. Following that, there is scope to continue to increase resiliency of the Crown balance sheet by further reducing debt, financing other non-debt liabilities, building reserves, or a combination of these approaches. If managed well, this process can support macroeconomic stability and growth objectives.

Understanding balance sheet sustainability

Crown solvency – a minimum requirement

A sovereign is solvent if it can meet its obligations or liabilities when they fall due. This requires it to be able to raise finance when needed, refinance debts as they mature, and meet any associated finance costs.

There are a number of important factors that impact on solvency that are not captured by the balance sheet. These include future tax revenues, discretionary social expenses and the possible triggering of implicit or contingent liabilities. These issues were outlined in Box 2.1.

Sustainability – the heart of fiscal strategy

Fiscal sustainability is a stricter form of solvency. It requires that a sovereign be able to meet its obligations as they fall due without significantly changing existing tax and spending policies.

Sustainable fiscal policy provides confidence that allows for better planning across the economy. This improves labour productivity, investment and innovation leading to better economic performance. A stronger economy in turn helps to support fiscal sustainability.

The importance of sustainable fiscal policies has been demonstrated following the global financial crisis, where countries with fiscal positions that have not been perceived as sustainable have faced significant fiscal adjustments to avoid further destabilising interest rate increases. This has frustrated efforts to improve economic growth.

To maintain fiscal sustainability, it is important that governments keep debt at prudent levels. Achieving this over the long run requires governments running a balanced budget or operating surpluses on average over the economic cycle.[54] This means that over the long run the primary use of debt is to finance capital expenditure.[55] These requirements are a key feature of the fiscal responsibility provisions in the PFA.

[54] See http://www.treasury.govt.nz/publications/research-policy/wp/2013/13-20 for more discussion.

[55] Another benefit of this approach to fiscal policy is that it helps spread the financing costs of long-lived assets over the generations that benefit from them. It does this by transferring financing payment obligations to current and subsequent generations.

Benefits of debt

Debt creates a financial obligation that needs to be serviced through future revenues, but its sustainable use provides many benefits. Along with financing capital expenditure that would otherwise be delayed if funded through current revenues, debt can be used to finance short term fiscal deficits. This helps support stability in tax policies and government services.

Crown debt also supports capital markets in New Zealand by enhancing their liquidity and depth, providing a useful benchmark for the pricing of credit, and giving investors access to instruments that better meet their needs.

For these reasons debt should not necessarily be seen as something to be avoided, as long as it is used prudently.

Balance sheet buffers

What is a fiscal buffer?

The Crown needs mechanisms to cope with unexpected expenses and falls in revenue. Fiscal buffers play a key role in the event of a shock such as the global financial crisis. The extra financing capacity provided by fiscal buffers can be used to bridge the shortfall between taxes and spending and allows the Crown to absorb the impact of the shock.

A particular case in point is the response to the Canterbury earthquakes, where the Crown is assisting with the replacement of key assets to restore valued public services and reduce further disruptions to economic activity. To date the Canterbury earthquakes have directly cost the Crown around $15 billion. This has been able to occur without undue effects on sustainability because of the Crown's strong balance sheet position prior to the earthquakes.

Considerations for a prudent fiscal buffer

A strong balance sheet provides a fiscal buffer by allowing governments to either sell assets or increase debt in order to raise finance.

There are few international benchmarks to help guide governments on what constitutes sufficient balance sheet strength. Therefore, attaining and maintaining prudent debt has been a focus of successive governments.

A focus on debt constrains balance sheet size. If debt is to be kept at a prudent level any significant future capital expansion would need to be funded by reprioritising existing assets, or from operating surpluses mainly generated from tax revenues.[56]

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[56] Reprioritising assets would change the mix of services government provides. Taxation has associated economic costs, but also using tax to fund capital expenditure means it cannot be used for other purposes (ie, there is an opportunity cost).

Determining a prudent level of debt

Section 26G(1) of the PFA requires that government pursue policy objectives that include moving to prudent debt levels and maintaining them over a reasonable period of time. The focus in New Zealand is net core Crown debt. It is defined as gross sovereign-issued debt less core Crown financial assets that are liquid. It excludes advances, and NZSF financial assets as these are held for public policy purposes (see Box 7.1 for a fuller discussion of reserve assets).[57]

Box 7.1 – Determining levels of reserve assets

Current practice

The Treasury holds reserves consisting of liquid assets available on demand to help finance general government activities. Sufficient assets are held to fund core government needs in case funding markets are closed for short time periods. In addition, around $76 billion in CFI and RBNZ financial assets are held for specific reasons, respectively to mainly match non-debt liabilities or to manage financial market stability. Accordingly, these assets are unavailable for general fiscal purposes.

Why hold reserves?

In rare instances, maintaining a prudent net core Crown debt level may be an insufficient buffer to adequately cope with the financial implications of an extreme shock. This may be because it is difficult for the government to borrow immediately following a shock. Additionally, reserves can be a more cost-effective source of financing than borrowing during a shock. Accordingly, there could be a case for the Crown holding some additional assets, available on demand irrespective of the state of credit markets – a form of permanent self insurance for risk management and resilience purposes – to help cope with fiscal shocks.

Size of reserves

The level of reserves required depends on what scenarios it would be reasonable for the Crown to plan for. This depends on the fiscal, contingent and implicit risks the Crown faces. However, it is unlikely that any country could insure itself through reserves alone against the sort of shocks that were faced during the global financial crisis.

Type of reserves

Different types of reserves carry different benefits and risks that depend on the circumstances. Given managing a domestic crisis is a more likely scenario, carrying reserves in the form of liquid foreign assets is likely to provide the most benefit because the asset value would be less likely to be related to the onset of a New Zealand specific shock.

Alternatives

Extra resilience can also be sought through alternative arrangements, including pre-arranged emergency credit facilities through organisations such as the IMF. These sorts of facilities have their own set of pros and cons.

[57] The definition of net core Crown debt is not determined by GAAP.

There are several factors that need to be considered in determining what constitutes a prudent level of net core Crown debt, including:

- ensuring there is an adequate financial buffer for the fiscal risks posed from shocks
- maintaining the sovereign credit rating at a level that provides for diverse sources of funds at low cost to the Crown and the economy as a whole[58]
- ensuring that debt servicing expenses remain at a reasonable proportion of tax revenues
- spreading the financing cost of assets with long-term benefits over time, and
- consideration of present and projected economic and demographic impacts on expected fiscal revenues and expenses, asset and financial markets, and the level of external debt.

Many of these factors will depend on circumstances, which change through time. Nonetheless, the current Government's objective to reduce net core Crown debt to no higher than 20% of GDP by 2020 will return debt to prudent levels. This level is low by international standards and reflects New Zealand's relatively high level of foreign indebtedness and a relatively narrow range of commodity exports, which can create vulnerability to international investor sentiment and shocks.

Figure 7.1 compares New Zealand's net international investment position and gross Crown debt against other OECD countries. It shows that one of the key differences between New Zealand and several OECD countries under financial stress is New Zealand's relatively low level of Crown debt.

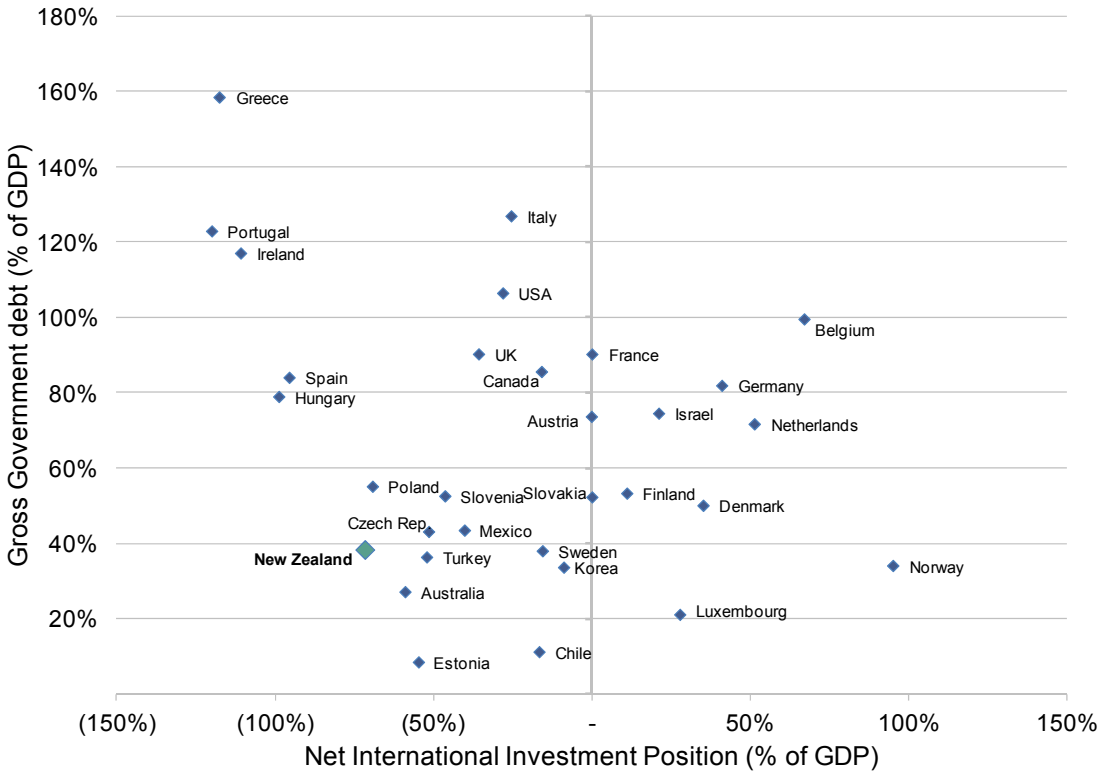
Short-term cyclical issues

The speed at which a prudent level of debt is achieved through saving can have macroeconomic stability implications. In particular, an emphasis on debt reduction during an upswing in an economic cycle as New Zealand is currently experiencing could help take the pressure off monetary conditions and allow interest rates and the currency to be lower than they otherwise would be. The timing of Crown investment in fixed assets also has impacts on the economic cycle, particularly if these are large.

A better mix between fiscal and monetary settings could be helpful to wider economic objectives by rebalancing towards a more investment and tradables led economy.

[58] Credit rating agencies have a balanced approach to sovereign credit rating, that includes consideration of economic, institutional, government financial, and event susceptibility factors.

Figure 7.1 – New Zealand's Relative Government Debt and Net International Investment Positions (2012)



Source: The Treasury

Debt composition

Least cost and risk core Crown debt

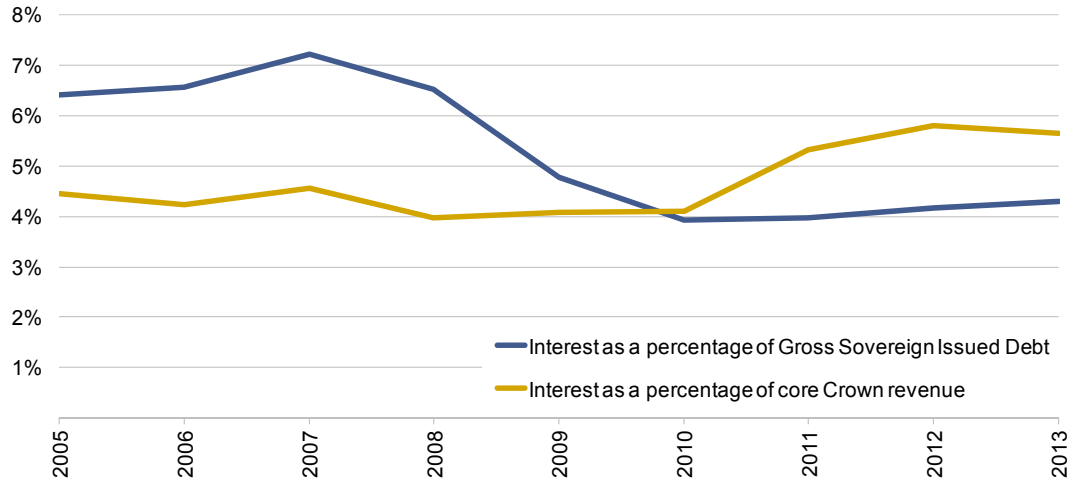
The composition of the core Crown debt portfolio impacts on its cost and risk, and the overall quality of balance sheet management. Like asset holdings, debt needs to be managed carefully to minimise its costs and risks.

A diversified portfolio of debt instruments can balance several risks. Floating-rate, short-maturity debt instruments and inflation indexed bonds help stabilise the impact of economic cycles on the fiscal position through their interest rates varying in an offsetting way to the revenue and expenditure changes. For example, during an economic upswing, increases in tax revenue offset higher interest expenses (Box 7.2 highlights these effects). Meanwhile, fixed-rate and long-term debt instruments help offset the impact of interest rate movements on the value of long-term assets on the Crown's balance sheet.

Box 7.2 – Core Crown debt serviceability

Core Crown debt imposes a financing cost in the form of an interest expense. While the traditional method of assessing the Crown's ability to meet its debt obligations is its debt-to-GDP ratio, an alternative approach is to measure debt serviceability. This can be achieved by examining gross interest costs relative to gross debt levels and Crown revenues. For these purposes, revenue includes core Crown tax, interest and dividend revenues, but excludes levies.

Figure – 7.2 – Costs of debt



Source: The Treasury

The relative cost of gross sovereign issued debt has improved since 2007, as lower interest rates have seen financing costs decrease from 7.2% of gross debt, to 4.2%. This means that while gross core Crown debt has been increasing, it has come at a lower average cost to the Crown.

Debt servicing costs as a proportion of revenue remained relatively constant at around 4% until 2011, when it started to increase. However, overall the increase in financing costs was proportionately smaller than that of the Crown's debt position.

Other types of debt

Not all debt on the Crown's balance sheet is core Crown debt. Around $30 billion in debt is raised by entities that are controlled by the Crown. This debt is serviced by those entities from their revenues and is legally separate from the Crown. As a result, unless the Crown guarantees payment, this type of debt is more expensive than sovereign-issued debt because of its higher credit risk.

The biggest borrower is Kiwibank with around $15 billion of debt. In normal circumstances, it is government policy for SOEs and MOM companies to borrow at commercial rates from the private sector to preserve competitive neutrality in the industries that they operate in. In contrast, most Crown entity debt (around $5 billion) is borrowed from the Crown at a range of rates depending on the policy circumstances.[59]

[59] This debt is eliminated on consolidation.

There are pros and cons of this approach. It is more expensive, but it has a number of policy and practical benefits – especially for the commercial organisations.

Managing non-debt liabilities

The Crown has many non-debt liabilities requiring careful management. These may arise due to specified contractual arrangements, such as government employee superannuation schemes through the GSF or insurance obligations such as ACC. In addition, the Crown is also exposed to other contingent liabilities, such as Crown guarantees, as well as a range of commitments driven by existing policy settings, the largest of these is New Zealand superannuation.

These future expenses can be funded when they fall due – pay as you go (PAYGO), or they can be matched with assets by saving now based on estimated future needs – save as you go (SAYGO). The discussion below outlines the pros and cons of the respective approaches.

PAYGO

With fiscal pressures arising from an ageing population, a PAYGO approach would require a combination of significantly higher future taxes, lower spending on other objectives, and increased levels of debt. This approach has immediate benefits through lower current taxes or more spending, but it imposes higher costs on future generations that may not receive the benefits.

SAYGO

SAYGO requires higher taxes today or less spending on other objectives, but would see lower future taxes as savings can then be used to meet the future expenses. This is likely to reduce future fiscal pressures and the risk of core Crown debt rising to imprudent levels. It can also lead to economic benefits from increased saving. A SAYGO approach also has the potential benefit of better aligning the costs of an obligation to those who benefit from them, which is considered to be more inter-generationally equitable.

However, there can be risk implications depending on the design of any SAYGO scheme. In addition SAYGO has limitations, it is better suited to circumstances where liabilities are well defined and cannot be avoided by changes to existing policy settings. Overuse of SAYGO may have the unintended effect of unnecessarily locking-in these settings or encourage general fiscal spending because of the better asset position.

Implementing SAYGO

The Crown can save today by investing in assets to match its liabilities using fiscal surpluses or levies, such as in the case of EQC. Alternatively, funds can be used to lower net core Crown debt.

Saving through the use of funds for specific purposes provides greater transparency, and it is likely to be more widely understood. This contrasts with lower levels of core Crown debt which may be less permanent if the reasons for lower debt are not well understood. This could undermine saving for future obligations.

Funding arrangements for non-debt liabilities

The Crown has a range of funding arrangements that depend on the circumstances of the non-debt liability. Non-debt liabilities that are contractual in nature tend to be funded through SAYGO schemes. Future policy obligations tend to be PAYGO, with the exception of New Zealand superannuation. Contingent and unexpected obligations are managed by fiscal buffers.

ACC liabilities are largely fully-funded contractual obligations, however GSF obligations are far less than 100% funded. The NZSF was established to recognise there is a strong policy commitment for New Zealand superannuation.

The NDF has a mandate to hold assets to meet the costs of future natural disasters. The Crown's other contingent liabilities and unexpected expenses are managed by holding core Crown debt at lower levels so there is a fiscal buffer available when needed. Not all contingent and unexpected events are likely to occur at once, which allows the Crown to cover a range of risks with a smaller fiscal buffer.

Future developments

Fiscal sustainability supports economic growth by increasing resilience and predictability of economic conditions. Key to achieving fiscal sustainability is lowering net core Crown debt to prudent levels to rebuild the fiscal buffer.

Once this is achieved there may be a case for further strengthening of the balance sheet by funding other non-debt liabilities or increasing general purpose reserves. These investments would help match future Crown liabilities to smooth taxes in the future.

Choices around how quickly to lower debt and improve the balance sheet more generally should reflect the state of the economy, with greater saving during economic upturns. This would contribute to macroeconomic stability and help with economic growth objectives.

Areas of focus

- Investigate whether improvements could be made to the Crown's current arrangements for contingency funds and reserves.
- Continue the focus on strengthening the Crown's balance sheet buffers in a timely way to further improve resilience.

Appendix 1 – Government Reporting Entities as at 30 June 2013

Core Crown

Departments

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

Offices of Parliament

Controller and Auditor-General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Genesis Power Limited
Kiwirail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited
Meridian Energy Limited
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Transpower New Zealand Limited

Organisations named or described in Schedule 5 of the Public Finance Act 1989

Mighty River Power Limited

Others

Air New Zealand Limited

Crown entities

Accident Compensation Corporation
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Careers New Zealand
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Board
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Historic Places Trust (Pouhere Taonga)
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,453)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (29)
Testing Laboratory Registration Council
Transport Accident Investigation Commission

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

Agriculture and Marketing Research and Development Trust
Asia New Zealand Foundation
Crown Asset Management Limited
Crown Fibre Holdings Limited
Dispute Resolution Services Limited
Fish and Game Councils (12)
Health Benefits Limited
Leadership Development Centre Trust
Learning State Limited
Māori Trustee
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngai Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Research and Education Advanced Network New Zealand Limited
Reserves Boards (21)
Sentencing Council
Southern Response Earthquake Services Limited
Tāmaki Redevelopment Company Limited
Te Ariki Trust
The Network for Learning Limited

Glossary of terms

Term	Definition
ACC	Accident Compensation Corporation.
ALOS	Average length of stay.
APR	Annual Portfolio Report – Produced by the Treasury and describes the performance of the Crown-owned enterprises that have full or partial commercial objectives.
Appropriation	A parliamentary authorisation for the Crown or an Office of Parliament to incur expenses or capital expenditure.
Asset	A resource controlled as a result of past activities which is expected to deliver future economic benefits.
Balance sheet	A statement of assets, liabilities and net worth, also known as the Statement of Financial Position.
Better Business Cases	A structured way that stakeholders can work and think together to provide a business case.
Capital expenditure	Expenditure which purchases or upgrades an asset.
Carrying value	The value at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.
CCC	Christchurch City Council.
Contingent liability	A cost the Crown will have to face if a particular uncertain and not probable event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital.
Core Crown	The core Crown is represented by departments, Offices of Parliament, the Reserve Bank, and the NZS Fund.
Cost benefit analysis	A systematic process for calculating and comparing the benefits and costs of a project(s).
Corrections	Department of Corrections.
Crown	Includes all Ministers of the Crown and all departments, but does not include an Office of Parliament, a Crown entity, or a state enterprise.

Term	Definition
Crown entities	The term Crown entity covers a wide range of different organisations that collectively undertake a range of different functions: regulatory, advisory, service delivery, devolved purchase and ownership. Most Crown entities exist under their own governing legislation. They form part of the Crown reporting entity, but are not part of the Crown itself.
CFI	Crown Financial Institution – Crown entity that has specific responsibilities relating to the management and investment of significant Crown financial assets. This group includes: ACC, EQC, GSF, and NZSF.
Department	A government department is an organization responsible for the administration of a particular area of government.
Depreciation	The wearing out, consumption or other loss of value of assets. Allocated as an expense over the estimated useful life of each asset.
DHB	District Health Board.
DLOC	Directed Level of Capability.
DOC	Department of Conservation.
DRTWR	Durable return to work rate.
EFTS	Equivalent Full Time Student.
EFU	Economic and Fiscal Update – The Treasury's latest economic forecasts and the forecast financial statements of the Crown.
EQC	Earthquake Commission.
Equity	The residual interest in an entity's assets after deducting liabilities.
Fiscal policy	The government's policy relating to its spending, revenue and balance sheet.
FSGNZ	Financial Statements of the Government of New Zealand.
GAAP	Generally Accepted Accounting Practice – Describes the assumptions and rules applied when preparing and presenting financial statements; In New Zealand the *Financial Reporting Act 1993* requires most reporting entities in both the private and public sectors to comply with GAAP.
GDP	Gross domestic product – A measure of the value of all goods and services produced in New Zealand.
Genesis	Genesis Power Limited.

Term	Definition
GFC	Global financial crisis.
Government	The party or parties that command a majority of the House on confidence and supply matters; also used to mean the Executive.
GSF	Government Superannuation Fund.
GST	Goods and Services Tax.
HNZC	Housing New Zealand Corporation.
HYEFU	Half Year Economic and Fiscal Update.
ICT	Information and Communication Technology.
Implicit risk	Cost the Crown may face in the future which arises from public expectation or moral obligation (rather than a legal obligation).
IRD	Inland Revenue Department.
IRRS	Income Related Rent Subsidy.
ITPs	Institutes of Technology and Polytechnics.
LINZ	Land Information New Zealand.
Liability	Obligations arising as a result of past transactions which are expected to result in an outflow of benefits in the future.
LTFS	Statement of the Long-term Fiscal Position.
M Ha	Million Hectares.
Meridian	Meridian Energy Limited.
MFAT	Ministry of Foreign Affairs and Trade.
MLE	Modern Learning Environment.
MRP	Mighty River Power Limited.
MoE	Ministry of Education.
MoJ	Ministry of Justice.
MOM	Mixed ownership model. Also referred to as the Government Share Offer Programme.
MPI	Ministry for Primary Industries.
NDF	Natural Disaster Fund.
Net core Crown debt	Represents gross sovereign issued debt less core Crown financial assets (excluding advances and financial assets held by the NZSF).

Term	Definition
Net International Investment Position	A country's public and private international financial assets less liabilities.
Net worth	Assets less liabilities (also referred to as Crown balance or equity).
NWAC	Net Worth Attributable to the Crown.
NZD	New Zealand Dollar.
NZDMO	New Zealand Debt Management Office – An operating unit of Treasury.
NZDF	New Zealand Defence Force.
NZSF	New Zealand Superannuation Fund.
NZTA	New Zealand Transport Agency.
OCL	Outstanding Claims Liability.
OCR	Official Cash Rate.
OECD	Organisation for Economic Co-operation and Development.
OIS	Overnight Index Swap.
Outcomes	Impacts on or consequences for the community of the outputs or activities of the Government.
PAYE	Pay as you earn.
PAYGO	Pay as you go.
PCL	Public Conservation Land.
PP&E	Property, plant and equipment.
PFA	Public Finance Act 1989.
Police	New Zealand Police.
PPP	Public Private Partnership.
Public Sector Discount Rate	The Treasury's estimate of the public sector cost of capital.
RBNZ	Reserve Bank of New Zealand.
SAYGO	Save as you go.
SME	Specialised Military Equipment.
SOE	State-owned enterprise.

Term	Definition
TEI	Tertiary Education Institute.
Transpower	Transpower New Zealand Limited.
TSR	Total Shareholder Return.
TVNZ	Television New Zealand Limited.
TWI	NZD Trade Weighted Index.
VKT	Vehicle Kilometres Travelled.