2

Fiscal Outlook

Key Features

- **Operating surpluses of 1.5% of GDP rising to 2.3% are projected over the forecast period, net worth is projected to increase to over $12 billion and net Crown debt to fall to nearly 20% of GDP.**

- **The surplus declines from $2.4 billion in 1996/97 to $1.5 billion in 1997/98. While deferral of tax reductions in 1997/98 more than offsets the Coalition Agreement's additional spending in that year, slower growth in the economy together with unfavourable forecasting changes combine to lower the 1997/98 operating balance.**

- **Operating surpluses rise in 1998/99 and 1999/2000, as growth in the economy accelerates, tax revenues increase and growth in spending slows.**

- **The forecasts also incorporate, for the first time, expense provisions for initiatives to be announced in the next two Budgets, up to the Coalition Agreement's three-year spending cap. This serves to lower the operating balance projections in the outyears relative to the *December Update*.**

- **Debt continues to decline over the three years to 30 June 2000, reflecting the ongoing application of cash surpluses to debt repayment. Net Crown debt falls from 27.1% of GDP at 30 June 1997 to 20.5% of GDP at 30 June 2000.**

- **The Crown's net worth is forecast to increase steadily, reflecting ongoing operating surpluses. Net worth is projected to reach $12.1 billion by 30 June 2000.**

Table 2.1 - FISCAL OUTLOOK

($ million)	1995/96 Actual	1996/97 Forecast DEFU	1996/97 Estimated Actual	1997/98 Forecast DEFU	1997/98 Forecast Budget	1998/99 Projection DEFU	1998/99 Projection Budget	1999/2000 Projection DEFU	1999/2000 Projection Budget
Statement of Financial Performance									
Revenue									
Total taxation revenue	32,233	32,610	32,205	33,043	33,267	34,434	34,284	36,075	35,993
Other revenue	2,826	2,855	2,897	2,266	2,404	2,291	2,448	2,355	2,560
Total Revenue	**35,059**	**35,465**	**35,102**	**35,309**	**35,671**	**36,725**	**36,732**	**38,430**	**38,553**
Ratio to GDP (%)	38.6%	37.1%	37.2%	35.0%	36.1%	34.8%	35.0%	34.5%	34.8%
Tax ratio to GDP (%)	35.5%	34.1%	34.1%	32.8%	33.6%	32.6%	32.7%	32.4%	32.5%
Expenses									
Functional expenses	28,643	29,961	29,875	30,169	31,469	30,679	31,769	30,972	32,230
Finance costs	3,703	3,173	3,066	2,410	2,617	2,120	2,500	1,897	2,489
Net foreign exchange gains	(603)	(8)	30	..	..	..	..	..	..
Provision for future initiatives	..	..	..	..	330	..	950	..	1,770
Contingent expense provision	..	100	..	200	200	200	200	200	200
Total Expenses	**31,743**	**33,226**	**32,971**	**32,779**	**34,616**	**32,999**	**35,419**	**33,069**	**36,689**
Ratio to GDP (%)	34.9%	34.7%	34.9%	32.5%	35.0%	31.3%	33.8%	29.7%	33.2%
Revenue less Expenses	**3,316**	**2,239**	**2,131**	**2,530**	**1,055**	**3,726**	**1,313**	**5,361**	**1,864**
Surplus attributable to SOEs and Crown entities	705	1,148	1,221	1,151	1,062	1,250	1,192	1,350	1,364
Dividends and other distributions	(707)	(894)	(904)	(556)	(585)	(571)	(578)	(604)	(660)
Operating Balance	**3,314**	**2,493**	**2,448**	**3,125**	**1,532**	**4,405**	**1,927**	**6,107**	**2,568**
Ratio to GDP (%)	3.6%	2.6%	2.6%	3.1%	1.5%	4.2%	1.8%	5.5%	2.3%
Statement of Financial Position									
Assets	58,921	55,119	55,068	55,257	56,131	55,884	57,705	57,461	58,919
Liabilities	55,577	49,076	49,041	46,089	48,572	42,311	48,219	37,781	46,865
Crown Balance	**3,344**	**6,043**	**6,027**	**9,168**	**7,559**	**13,573**	**9,486**	**19,680**	**12,054**
Ratio to GDP (%)	3.7%	6.3%	6.4%	9.1%	7.6%	12.9%	9.0%	17.7%	10.9%
Statement of Cash Flows									
Net cash flows from operations	4,233	2,492	2,761	3,489	1,700	4,340	2,065	6,097	2,687
Net cash flows from investing	(2,526)	3,184	3,090	(368)	(1,202)	(803)	(1,582)	(1,433)	(1,376)
Net cash flows from financing	(1,576)	(5,960)	(6,142)	(3,120)	(496)	(3,538)	(485)	(4,666)	(1,304)
Net Movements in Cash	**131**	**(284)**	**(291)**	**1**	**2**	**(1)**	**(2)**	**(2)**	**7**
Statement of Borrowings									
Crown Debt									
Gross debt	41,500	35,420	34,799	32,321	34,319	28,789	33,839	24,118	32,530
less financial assets	(12,863)	(9,334)	(9,189)	(8,563)	(9,084)	(8,315)	(9,520)	(8,648)	(9,845)
Net Crown Debt	**28,637**	**26,086**	**25,610**	**23,758**	**25,235**	**20,474**	**24,319**	**15,470**	**22,685**
Gross Debt to GDP (%)	45.7%	37.0%	36.9%	32.0%	34.7%	27.3%	32.3%	21.7%	29.4%
Net Crown Debt to GDP (%)	31.5%	27.3%	27.1%	23.6%	25.5%	19.4%	23.2%	13.9%	20.5%
Nominal GDP	90,879	95,690	94,339	100,856	98,889	105,496	104,898	111,298	110,636

Source: The Treasury

Full details of the fiscal forecasts are contained in the Generally Accepted Accounting Practice (GAAP) series tables at the back of this document.

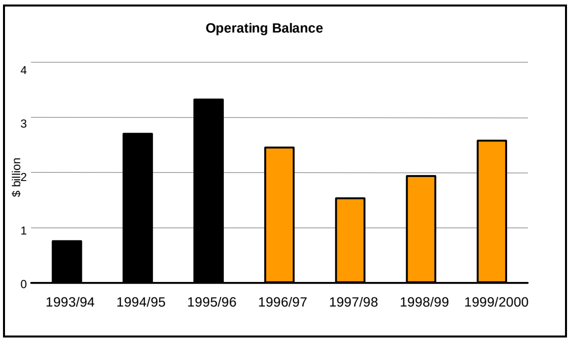
Introduction

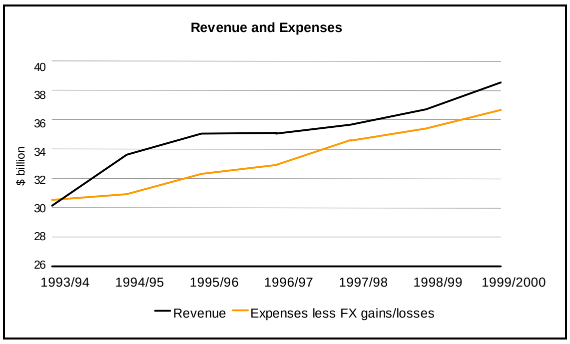
This chapter discusses the Government's fiscal position, including revenue, expenses, State-owned enterprise (SOE) and Crown entity (CE) surpluses, and assets and liabilities. It focuses on both trends in the fiscal position over time and changes in the fiscal position since the 1996 *December Economic and Fiscal Update* (*December Update*).

The fiscal forecasts are based on existing spending and revenue decisions, and are sensitive to underlying economic projections. Subsequent Government policy decisions or changes in the economic forecasts could significantly change the fiscal outlook.

Overview

Figure 2.1 - KEY FISCAL FLOWS





Source: The Treasury

Ongoing operating surpluses, falling net Crown debt and rising net worth are projected over the forecast period. Continued growth in the economy (and accordingly revenue) and comparatively slower expense growth in the outyears underlie the positive fiscal position.

Operating Balance Trends

The operating balance track - comprising revenue, expenses and SOE/Crown entity surpluses - records surpluses of 1.5% of GDP rising to 2.3% over the forecast period.

The surplus declines in 1997/98 relative to 1996/97. While deferral of tax reductions in 1997/98 more than offsets the Coalition Agreement's additional spending, slower growth in the economy together with several unfavourable forecasting changes in expenses (including higher welfare benefit expenses, unfavourable Government Superannuation Fund (GSF) unfunded pension liability movements, a change in timing of the forecast Ngai Tahu settlement and higher finance costs) have combined to lower the operating balance.

Operating surpluses rise in 1998/99 and 1999/2000, as growth in the economy accelerates resulting in an increase in tax revenues (even with a tax rate reduction from 1 July 1998), and expense growth slows.

Expense growth in 1998/99 and 1999/2000 slows compared with growth in 1997/98. This reflects a number of factors including smaller annual increments in the Coalition's three-year spending plan, one-off expenses in 1997/98 such as the Ngai Tahu settlement, the implementation in 1997/98 of the second stage of increases in family assistance and the level of the contingency expense provision not increasing beyond 1997/98.

Total revenue is estimated to have grown slowly in 1996/97, reflecting the impact of tax reductions and weakness in corporate taxes. Revenue grows only moderately in 1997/98, reflecting weaker growth in the economy, and more steadily beyond 1997/98 as growth in the economy accelerates. In 1998/99 strong growth in the economy is offset partly by the tax rate reduction deferred from the previous year.

In nominal terms, expenses are projected to climb steadily throughout the forecast period to 1999/2000. The Coalition Agreement's spending initiatives, particularly increased education, health and welfare expenses, explain some of the rise.

The fiscal forecasts in this *Update* also incorporate, for the first time, expense provisions for initiatives to be announced in the next two Budgets, up to the Coalition Agreement's three-year spending limits.

Demand-driven factors also contribute to spending increases. These include increased take-up of benefit entitlements, demographic factors and CPI-indexed benefits rising in line with inflation. Falling finance costs and a declining number of recipients of New Zealand Superannuation and Unemployment Benefit over the forecast period partially offset the impact of new expense initiatives and demand-driven spending. Relative to GDP, expenses fall in the two final years reaching 33.2% of GDP in 1999/2000.

The contribution of SOEs and Crown entities to the Crown operating balance[1] increases by around $140 million over the forecast period. Expectations of ongoing economic growth and improved operating performance underlie this improvement.

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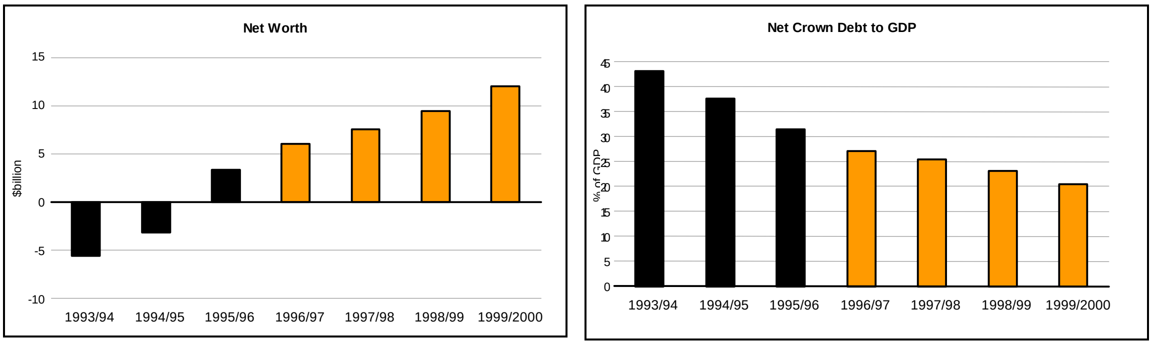
1 The contribution of SOEs and Crown entities to the Crown operating balance reflects their operating surplus. Any dividend payments do not impact on the Crown operating balance.

Balance Sheet Trends

Net worth grows steadily over the forecast period, reaching around $12 billion in 1999/2000. This trend results from ongoing operating surpluses being used to repay borrowings, as well as continuing investment in physical assets and SOEs and Crown entities.

Gross Crown debt is projected to fall to 29.4% of GDP in 1999/2000 and net Crown debt will fall to nearly 20% of GDP by that time. This results from the ongoing application of cash surpluses to debt reduction.

Figure 2.2 - KEY FISCAL STOCKS



Source: The Treasury

Changes Since the December Update

The fiscal outlook differs significantly from that reported in the *December Update*.

Previous fiscal updates, including the *December Update*, have assumed no spending decisions in future Budget rounds. The fiscal forecasts in this *Update* incorporate expense provisions for initiatives to be announced in the 1998 and 1999 Budgets, up to the Coalition Agreement's three-year spending limits.

These provisions, together with several significant unfavourable forecasting changes in expenses, have combined to lower the operating balance track compared with that reported in the *December Update*. Changes in the operating balance since the *December Update* are summarised in Table 2.2. Major features are:

- lower growth in the economy in the short term and revised judgments on the tax base (following 1996/97 outturns) have reduced tax revenues in 1997/98, largely offsetting the effect of deferring the 1 July 1997 tax reductions by one year

- beyond 1997/98, economic growth is expected to be stronger than previously projected, nearly bringing tax revenues back to *December Update* levels
- higher benefit expenditure resulting from revised projections of beneficiary numbers and higher CPI indexation of benefits, and upwards revisions to the GSF unfunded pension liability
- higher finance costs reflecting higher debt levels resulting from lower surpluses, and higher interest rates than previously forecast.

Relative to the *December Update*, net worth projections are lower, and debt projections higher. Net Crown debt is by around $3.8 billion in 1998/99, increasing to $7.2 billion by 1999/2000, largely reflecting the cumulative impact of the operating balance reductions.

Table 2.2 - CHANGES IN THE OPERATING BALANCE SINCE THE *DECEMBER UPDATE*[1]

($ million)	1997/98	1998/99	1999/2000
Operating Balance per December Update	**3,125**	**4,405**	**6,107**
Taxation Changes[2]			
Direct taxation	294	(239)	(183)
Indirect taxation	(70)	89	101
	224	(150)	(82)
Expense Changes[3]			
Policy initiatives[4]	(637)	(689)	(754)
Provision for future initiatives[4]	(330)	(950)	(1,770)
Forecasting and other changes	(870)	(781)	(1,096)
	(1,837)	(2,420)	(3,620)
Change in SOE surpluses	(36)	(48)	(41)
Change in Crown entity surpluses	(53)	(10)	55
Changes in other revenue, excluding SOE/CE dividends (eg other operational revenue)	109	150	149
Total Change in Operating Balance	**(1,593)**	**(2,478)**	**(3,539)**
Operating Balance per 1997 Budget	**1,532**	**1,927**	**2,568**

Notes:
1. Figures in parentheses represent a negative impact on the operating balance.
2. Changes in taxation revenue are set out in more detail in Chapter 3 (refer Table 3.2).
3. Changes in expenses are set out in more detail in Chapter 4 (refer Table 4.2).
4. The "policy initiatives" and "provision for future initiatives" totals in this table differ from those in the $5 billion spending programme (refer box on page 54), as the cost of most policy initiatives is reported in the operating balance (and this table) on a GST inclusive basis, whereas for the purposes of counting against the $5 billion spending cap, expense changes are reported exclusive of GST.

Source: The Treasury

Coalition Agreement's Fiscal Parameters

Schedule B to the National/New Zealand First 1996 Coalition Agreement set fiscal parameters for the Coalition Government for the next three years. These parameters effectively set limits for the Coalition Government's spending over the next three years.

The fiscal parameters were $5 billion for additional expenses and the abolition of the superannuation surcharge over the next three years (to the end of the 1999/2000 financial year) and additional capital spending as provided in the 1996 *December Economic and Fiscal Update* capital contingency ($900 million over the next three years).

The Government has subsequently agreed to a general framework for the purposes of counting changes in the fiscal position against these fiscal limits. The key components of this approach are outlined below.

Operating items ($5 billion additional expense limit)

- All changes to the operating balance, resulting from Government decisions to introduce a new policy initiative or change the fiscal cost of existing initiatives, will be counted against the Coalition's $5 billion expense limit over three years.
- All changes of this type, impacting on the operating balance, except for tax reduction changes identified in Schedule B of the Coalition Agreement and additional finance costs, will be counted, whether they be expense, revenue or SOE or Crown entity surplus changes.
- Policy decisions that affect 1996/97 baselines will be counted against the fiscal parameters for 1997/98. However, one-off changes affecting 1996/97 which are not related to the Coalition Agreement will not be counted.
- Policy decisions will be counted according to their net impact on the fiscal aggregates. In particular policy decisions will be counted exclusive of both GST and any income tax on transfer payments.

Capital items ($900 million additional capital spending limit)

- All new capital funding by the Crown will be counted against the Coalition Agreement's capital limit. This includes capital injections to departments and SOEs and Crown entities, purchase or development of capital assets by the Crown, and advances.
- Any new capital withdrawals, decisions to reduce existing baselines for purchase or development of capital assets by the Crown or reduce existing baselines for advances will represent a capital saving, increasing the amount available for new capital.
- The impact of any major balance sheet restructures, such as the restructuring of the Health sector and its implications for the Residual Health Management Unit (RHMU), will not be counted against the capital limit.
- Proceeds from a specific Government decision to sell assets (including any proceeds from privatisation of an SOE) will not be added to the capital limit.

Forecasting changes

Forecasting changes impacting on the operating balance (for example changes to debt servicing as a result of changes to interest rates) and demand-driven changes in student loan advances will not be counted against the Coalition Agreement's limits.

Operating Items ($5 Billion Limit)

The operating implications of 1997 Budget initiatives, and provisions for future initiatives, are summarised and reconciled to the Coalition Agreement's fiscal parameters as follows.

($ million)	1997/98	1998/99	1999/2000	Three-year total
Operating Balance Impact ($5 billion limit)[1]				
Revenue Initiatives				
Impact of surcharge abolition on taxation[2]	21	140	190	351
Expense Initiatives				
Expense initiatives in baselines[3]				
Health	300	300	300	900
Education	111	121	123	355
Impact of surcharge abolition on NZ Super[2]	4	94	105	203
Housing package (Accommodation Supplement)	52	48	51	151
Courts and Corrections	14	31	29	74
Safer communities (including Police)	14	14	15	43
Green package	14	16	15	45
Employment	14	16	14	44
Strengthening families	13	14	15	42
1996/97 initiatives counted against 1997/98	22	..	..	22
Net other policy initiatives/(savings)	27	(7)	32	52
	585	647	699	1,931
Provision for future initiatives[3]				
Provision for further 1997 Budget initiatives	297	354	376	1,027
Provision for 1998 and 1999 Budget initiatives	..	491	1,200	1,691
	297	845	1,576	2,718
Total Expense Initiatives	882	1,492	2,275	4,649
Total Revenue Initiatives	21	140	190	351
Total Operating Balance Impact	**903**	**1,632**	**2,465**	**5,000**

Notes:
1. A positive sign represents a reduction in the operating balance.
2. The total fiscal impact of abolishing the surcharge is $25 million in 1997/98, $234 million in 1998/99 and $295 million in 1999/2000. This totals $554 million over the three-year period.
3. Expense initiatives incorporated in baselines and the provision for future initiatives are reported here exclusive of GST. The provisions factored into the forecast financial statements are grossed up for GST and rounded to the nearest $10 million. The provision for future initiatives becomes $330 million in 1997/98, $950 million in 1998/99 and $1,770 million in 1999/2000.

Source: The Treasury

Provision for Future Initiatives

The fiscal forecasts in this Budget incorporate, for the first time, provisions for future initiatives. These total $330 million in 1997/98, $950 million in 1998/99 and $1,770 million in 1999/2000 (all GST inclusive).

These represent both provision for 1997 Budget initiatives which have yet to be fully developed, and provision for extra spending in the 1998 and 1999 Budgets. The 1998 and 1999 Budget provisions include amounts specifically allocated for additional spending on health ($200 million in 1998/99 and $505 million in 1999/2000).

These provisions differ from the contingency expense provisions of $200 million per annum from 1997/98. The contingency expense provisions are to meet possible pressures such as guarantees and indemnities and the discharge of legal liabilities which are not counted towards the $5 billion limit for policy initiatives.

Capital Items ($900 Million Limit)

The capital implications of 1997 Budget initiatives, and provisions for future capital spending, are summarised and reconciled to the Coalition Agreement's fiscal parameters as follows.

($ million)	1997/98	1998/99	1999/2000	Three year total
Capital Spending ($900 million limit)				
Capital changes in baselines				
Education	122	..	..	122
Health - CHE equity	148	188	188	524
CYPFS - residential services	5	17	3	25
Corrections	10	..	..	10
Courts	10	..	..	10
Reductions in HCNZ lending	(38)	(5)	(5)	(48)
Other	9	..	..	9
	266	200	186	652
Provision for future capital spending [1]	84	100	64	248
Total Capital Spending	**350**	**300**	**250**	**900**

Note: 1 The provisions for future capital spending have been rounded to the nearest $10 million in the forecast financial statements.

Source: The Treasury

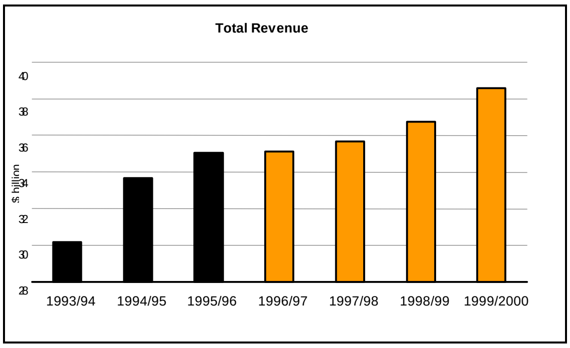
Revenue

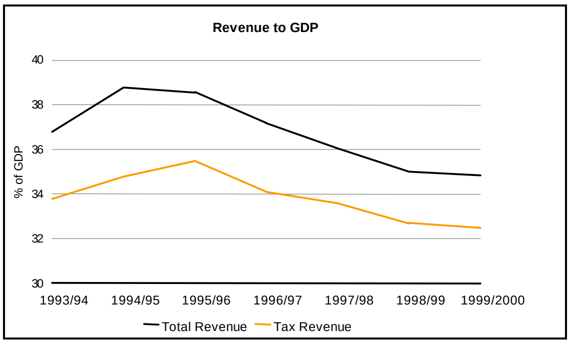
Revenue continues to grow over the forecast period, increasing by nearly 10%, from $35.1 billion in 1996/97 to $38.6 billion in 1999/2000. Tax revenue remains by far the most significant component of total revenue, accounting for 93% by 1999/2000.

Other (non-tax) revenue declines by nearly $500 million in 1997/98 largely reflecting special dividends received in 1996/97. Other revenue grows by around $150 million from 1997/98 to 1999/2000, largely as a result of increases in accrued interest on student loans (reflecting higher advance balances) and increases in SOE dividends.

Relative to the *December Update*, total revenue is not significantly different. Extra tax revenue in 1997/98 from deferral of the 1 July 1997 tax rate reductions is largely offset by the impact of slower growth in the economy and changes in judgments about the tax base in the short term. Economic growth accelerates beyond 1997/98 nearly bringing tax revenue back to *December Update* levels in 1998/99 and 1999/2000.

Figure 2.3 - REVENUE INDICATORS





Source: The Treasury

Tax Revenue

Tax Revenue Trends

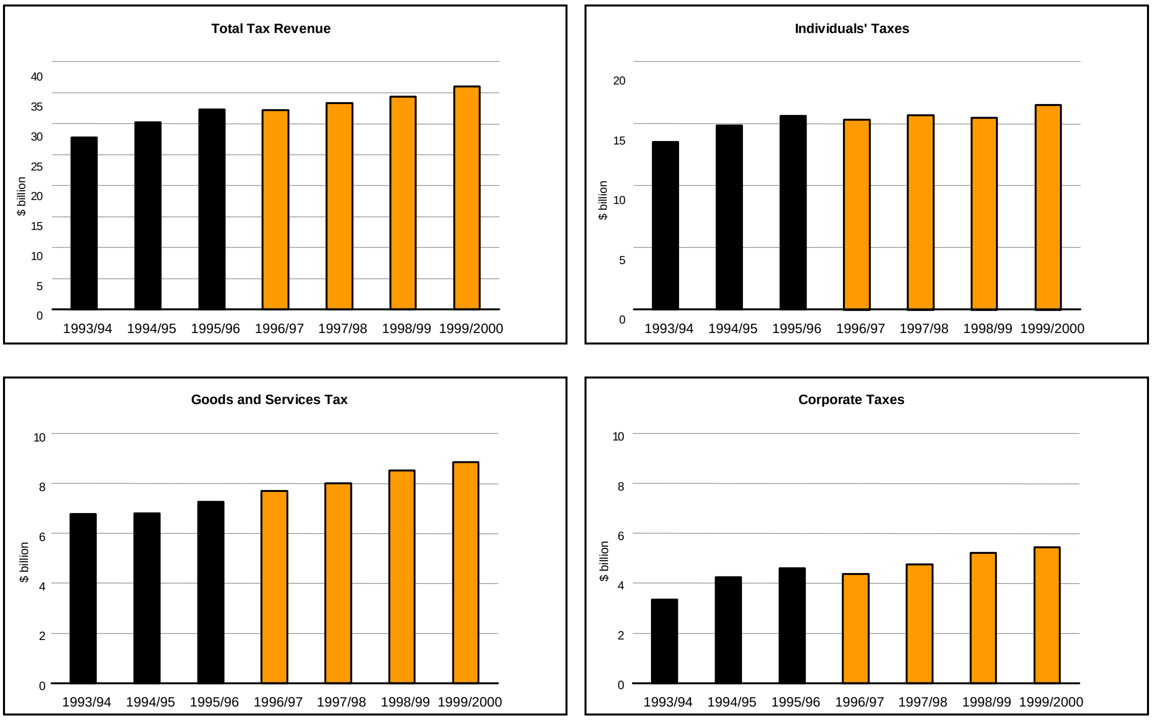
Over the four years ended 30 June 1997, tax revenue will have grown by nearly 25%, reflecting strong growth in the New Zealand economy. Over the forecast period, growth in tax revenue is expected to slow as the economy moves into a slower and more sustainable growth phase, and as a further round of tax reductions takes effect.

Tax revenue decreases slightly in 1996/97, reflecting the 1 July 1996 tax reductions and weak corporate tax flows. Tax revenue growth picks up slightly in 1997/98 as economic growth remains subdued. Tax revenue grows more strongly beyond 1997/98 as growth in the economy accelerates, more than offsetting the tax rate reduction deferred from the previous year. Despite the tax reduction, tax revenue is expected to grow by nearly 12% over the period from 1996/97 to 1999/2000.

The ratio of tax revenue to GDP declines across the forecast period reflecting a second round of tax reductions and abolition of the New Zealand Superannuation surcharge.

Chapter 3 discusses tax revenue in more detail. This chapter focuses on the trend in key components of tax revenue, and overall changes in tax revenue since the *December Update*.

Figure 2.4 - KEY TAX COMPONENTS



Source: The Treasury

Individuals

Individuals' taxes comprise source deductions, other persons (net of refunds) and fringe benefit tax. Source deductions account for around 80% of individuals' tax, and explain much of the trend in total individuals' taxes.

Source deductions revenue declined in 1996/97 largely because of the tax reductions from 1 July 1996 and a slowdown in employment growth. Employment growth is expected to further slow in 1997/98, resulting in relatively slow growth in source deductions in that year.

Beyond 1997/98 growth in the economy accelerates. However the second round of tax reductions is scheduled to take effect in 1998/99, which leads to a decline in source deductions revenue of 1.7%. Source deductions are projected to grow in the last year of the forecast by 6.4%.

Corporate Taxes

Corporate taxes comprise company tax, non-residents' withholding tax and foreign dividend withholding payments. Corporate taxes are estimated to have declined in 1996/97, but are forecast to grow by over $1 billion (or more than 25%) over the forecast period.

Annual growth in corporate profits in 1996/97 was subdued. Firms' profits were squeezed throughout 1995/96 by the strong dollar along with interest rate and wage bill pressures. This pressure continued into 1996/97 in many sectors.

Corporate profits in 1997/98 are expected to be slightly up on 1996/97, with a stronger pick-up in 1998/99. This is driven initially by lower interest rates, slower wage growth and an upturn in productivity growth. Then in 1998/99, economic growth accelerates, boosted by the cumulative effect of increased government spending in the 1997 and 1998 Budgets, the second round of tax reductions and stronger exports on the back of stronger world economic growth.

Goods and Services Tax (GST)

Forecasts of total GST revenue are based on forecasts of total nominal consumption, adjusted to include residential housing construction and foreign tourist spending and to exclude New Zealand tourist spending overseas and actual and imputed rent.

GST growth in 1997/98 is forecast to be $307 million (4.0%) up on 1996/97. Nominal consumption growth is expected to slow in 1997/98 offset slightly by steady growth in residential investment and a rebound in tourist spending. Contributing to the GST growth is $80 million of GST on the import of the first ANZAC ship now expected in 1997/98.

The forecasts for 1998/99 and 1999/2000 largely follow the growth of nominal income. Steady growth in nominal consumption, strong growth in residential investment and the GST payment on the second ANZAC ship in 1998/99 contribute to growth in GST.

Table 2.3 - INDICATIVE CHANGES IN TAX REVENUE SINCE THE *DECEMBER UPDATE*

($ million)	1997/98	1998/99	1999/2000
Total Tax Revenue per December Update	**33,043**	**34,434**	**36,075**
Indicative changes since December Update			
Impact of revised macroeconomic forecasts	(560)	150	180
Changes in income bases	(220)	(220)	(220)
Deferral of 1 July 1997 tax reduction	1,020	40	20
Abolition of New Zealand Superannuation surcharge	(21)	(140)	(190)
Change in timing of GST on ANZAC ship	80	..	..
Other	(75)	20	128
Total Change in Tax Revenue	224	(150)	(82)
Total Tax Revenue per 1997 Budget	**33,267**	**34,284**	**35,993**

Source: The Treasury

Changes in Tax Revenue Since the December Update

The weak outturn for 1996/97 ($405 million below the *December Update*) has tended to lower the level of tax revenue throughout the forecast period. A change in the pattern of projected economic growth has also had important effects on the tax forecasts. Growth is now expected to be more than one percentage point lower for 1997/98 than in the *December Update*, while growth in the following years is expected to be higher.

Two major policy changes since the *December Update* have further changed the revenue outlook. These are abolition of the New Zealand Superannuation surcharge from 1 April 1998 and deferral of the second round of tax reductions from 1 July 1997 to 1 July 1998.

Deferral of the tax reductions helps raise revenue in 1997/98 by $224 million above the level projected in the *December Update*. All things being equal, this increase would have been about $1.0 billion, the consequence of deferring the tax reductions. However, weaker economic growth in 1997/98 shaves about $560 million off the tax forecast in that year. The remaining downwards revision can be attributed to re-interpretation of tax flows in the 1995/96 and 1996/97 years, based on updated information and its implications for the future.

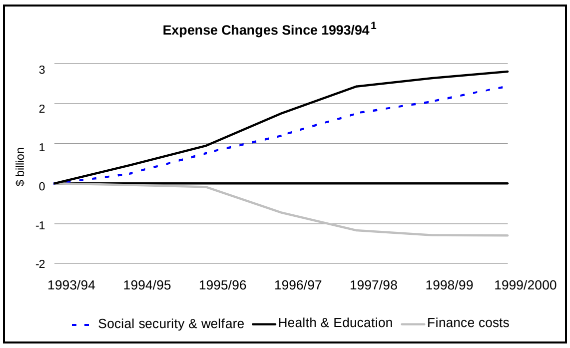
By 1998/99, growth is expected to be stronger than projected in the *December Update*, helping to boost revenue, and by 1999/2000 tax revenue is projected to be just $82 million below that forecast in the *December Update*.

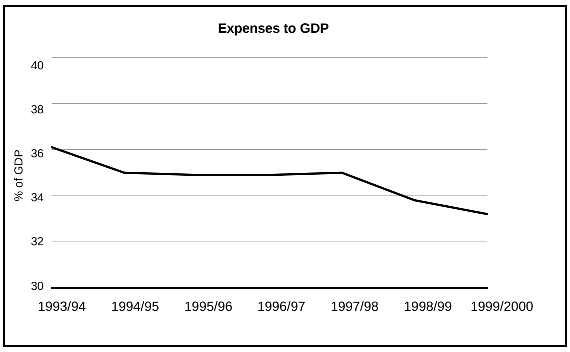
Expenses

Total expenses are projected to rise steadily, increasing by 11.3% throughout the forecast period to 1999/2000. This trend is largely driven by increases in social welfare, education and health expenditure. In total, these key expense categories account for over 70% of total expenses. The provision for future initiatives also increases significantly over the forecast period.

Spending in the remaining expense categories[2] is relatively constant, although Transport and communication expenses grow over the forecast period, reflecting increased funding to Transfund for road maintenance. Finance costs continue to fall over the period, owing to ongoing cash surpluses and corresponding reductions in debt.

Figure 2.5 - EXPENSES





Note: 1 The expense changes in this graph are based upon the functional expense figures per the forecast Statement of Financial Performance. They do not include any provision for future initiatives.

Source: The Treasury

Total expenses are forecast to fall to 33.2% of GDP by 1999/2000.

From 1996/97 to 1999/2000, total expenses are forecast to rise by $3.7 billion. The major influences increasing spending are:

- the Coalition Agreement's three-year spending programme. A large portion of this spending is incorporated in the provision for future initiatives
- the cumulative effect of CPI-linked increases to social welfare benefits

2 A full breakdown of the composition of expense categories is contained in Annex A of Chapter 4 and tables showing the trends in expenses are in Annex B of Chapter 4.

- other factors, such as increases in demand-driven benefit expenditure and demographic factors such as population growth.

Offsetting these increases to some extent have been:

- a declining number of recipients of New Zealand Superannuation and Unemployment Benefit
- a reduction in finance costs (of $577 million) as debt is repaid.

The following sections provide more detail on trends in the key functional classifications: social security and welfare; education; health; and finance costs. Some of the forecasts for particular expense areas (eg, education spending) used here are likely to understate the actual growth which will occur over the next three years. This is because the Government will take decisions to commit the provision for future initiatives to specific spending areas.

Social Security and Welfare

Social security and welfare expenses are forecast to rise by $1,243 million from 1996/97 to 1999/2000, an increase of nearly 10%.

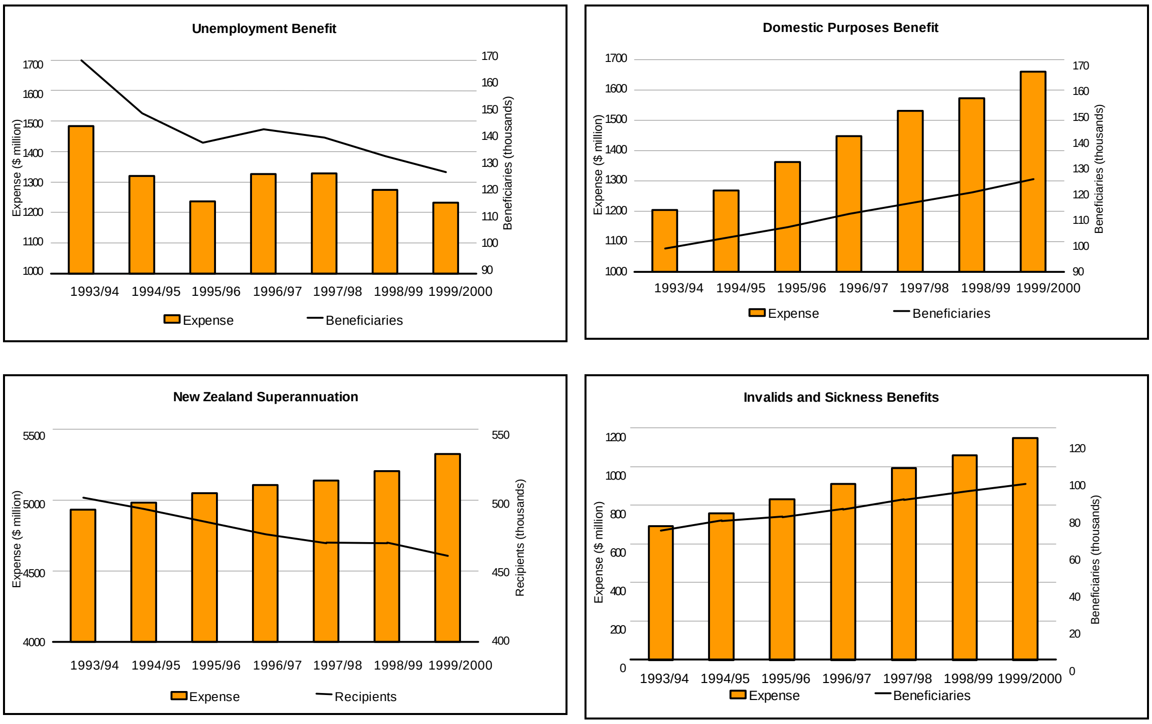
Part of this increase is attributable to Coalition initiatives introduced in this Budget, most notably the abolition of the New Zealand Superannuation surcharge (which results in an increase in the take-up of New Zealand Superannuation) and changes to the Accommodation Supplement. Other key influences are:

- CPI-indexation of benefit rates each April
- the operation of the “wage band” for New Zealand Superannuation rates (currently forecast to result in increased rates from 1 April 1999 onwards)
- the 1996 Budget’s Tax Reduction and Social Policy Programme which scheduled increases in Family Support, the Independent Family Tax Credit (IFTC) from 1 July 1996 and 1 July 1997, and changes as a result of relaxed abatement rules
- increasing numbers taking up entitlements to the Accommodation Supplement, Disability Allowance, and Domestic Purposes, Invalids and Sickness Benefits

partially offset by:

- falling New Zealand Superannuation beneficiary numbers owing to favourable demographic trends over the next few years and increases in the age of eligibility
- falling Unemployment Benefit expenses owing to economic growth. By the end of the forecast period there are nearly the same number of unemployment and domestic purposes beneficiaries.

Figure 2.6 - BENEFICIARY EXPENSES AND NUMBERS

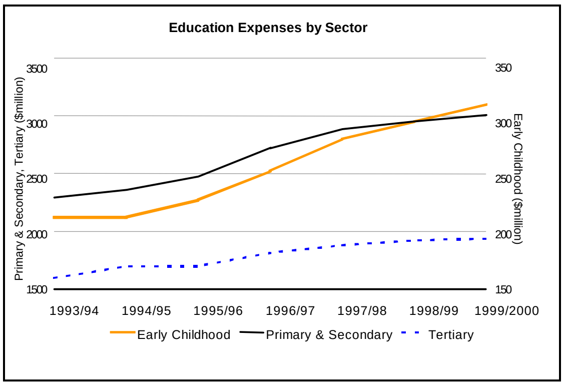


Source: The Treasury

Education

Education expenses are forecast to rise by $508 million from 1996/97 to 1999/2000, an increase of over 9%. As a portion of the total provision for future initiatives will be allocated to education, growth in education expenses will be higher than reported here.

Figure 2.7 - EDUCATION EXPENSES



Source: The Treasury

From 1996/97 to 1999/2000, the fastest growing sector is early childhood, where expenses increase by 23%. The main reason for this growth is increased participation.

The 7% increase in tertiary expenses over the same period is driven by increasing numbers of funded student places.

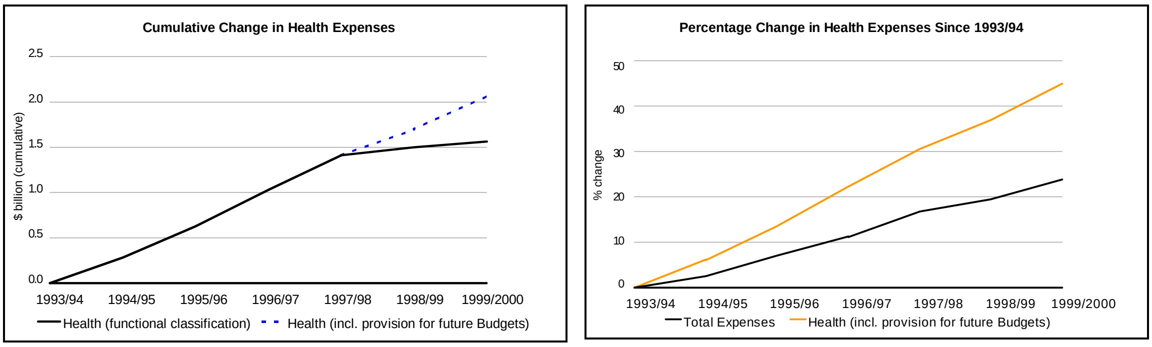
Primary and secondary expenses rise by over 10% from 1996/97 to 1999/2000 reflecting:

- roll growth, reflecting demographic changes (including recent net migration)
- negotiated increases in teachers' salaries
- additional funding for better management and delivery of education.

Health

Health expenses are forecast to rise by $535 million from 1996/97 to 1999/2000, an increase of nearly 10%. These figures do not include that portion of the provision for future initiatives that has been earmarked for health spending (refer Table 2.4). If these provisions are confirmed in the 1998 and 1999 Budgets, health expenses in 1999/2000 will be higher than 1996/97 expenses by $1,040 million (an increase of over 18%).

Figure 2.8 - HEALTH EXPENSES



Source: The Treasury

The main drivers of this increase in health expenses over the forecast period are:

- Coalition Agreement initiatives announced in this Budget including a baseline increase to improve services within a sustainable funding path, funding for doctor visits and prescriptions for children aged under six, and additional funding for the purchase of additional elective services to reduce the waiting list backlog
- increased spending on mental health services following the Mason report
- adjustments to funding to reflect demographic changes and population growth.

Finance Costs

Finance costs fall by around 19% from $3,066 million in 1996/97 to $2,489 million in 1999/2000. Finance costs reduce as continuing cash surpluses allow debt to be repaid.

Foreign currency finance costs fall from $430 million to $302 million (nearly 30%) over the same period.

Expense Provisions

Provision for Future Initiatives

These represent both provision for 1997 Budget initiatives which have yet to be fully developed, and provision for extra spending in the 1998 and 1999 Budgets - up to the Coalition's three-year spending limits. They comprise the following:

Table 2.4 - PROVISION FOR FUTURE INITIATIVES[1]

($ million)	1997/98	1998/99	1999/2000
Provision for further 1997 Budget initiatives	330	400	420
1998 and 1999 Budget contingencies:			
Health initiatives	..	200	505
Other policy initiatives	..	350	845
Total Provision for Future Initiatives	**330**	**950**	**1,770**

Note: 1 These provisions are inclusive of GST. The total provisions have been rounded to the nearest $10 million and the component parts to the nearest $5 million.

Source: The Treasury

Contingency Expense Provisions

The contingency expense provisions recognise possible pressures on expense baselines such as guarantees and indemnities and the discharge of legal liabilities which are not counted towards the Coalition's limit for policy initiatives.

The contingency expense provision totals $200 million per annum from 1997/98 and is unchanged in those years from the provision included in the *December Update*.

Changes in Expenses Since the *December Update*

Changes in expenses since the *December Update* are discussed by functional classification and in more detail in Chapter 4.

The most significant changes to expenses since the *December Update* result from the Coalition Agreement's three-year spending limits. The fiscal forecasts in this Budget effectively factor in spending decisions for the next two Budgets, via the provision for future initiatives.

Other significant changes in expenses are as follows:

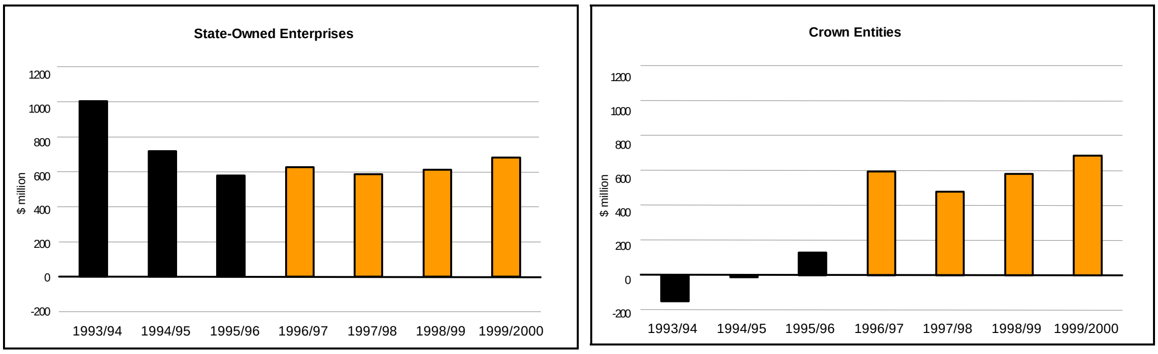
- forecasting changes (including revised CPI indexation) increase welfare benefit expenses in all years (by $397 million in 1999/2000). The major influences are:
  - significant changes in New Zealand Superannuation, reflecting revised demographic projections
  - forecast increases in the Accommodation Supplement, owing to higher expected housing costs, and Unemployment Benefit reflecting lower short-term economic growth forecasts and the resulting higher number of unemployment beneficiaries
  - higher CPI projections resulting in higher increases in CPI-indexed benefits
- Treaty settlement expenses are higher by $192 million in 1997/98 largely owing to a change in expected timing of settlement of the Ngai Tahu claim. The *December Update* forecasts assumed settlement in 1996/97, however it is now likely that the Deed of Settlement will be signed (the point at which the expense is recognised) in the 1997/98 financial year
- increases in the actuarial projection of the unfunded GSF liability have increased expenses by over $100 million in all periods. The revised actuarial projections reflect a revised methodology for calculating the liability projected in the fiscal forecasts, and revisions to actuarial assumptions reflecting recent actual outturns (in particular for retirement numbers and price adjustments)
- finance costs are significantly higher in all years from 1997/98 onward, largely reflecting higher debt levels resulting from lower surpluses, but also partly attributable to higher interest rates than previously forecast.

Surplus from State-Owned Enterprises and Crown Entities

Over the forecast period the SOE/Crown entity contribution to the operating surplus[3] does not change significantly. SOE surpluses rise over the period from 1997/98. This is based largely on economic growth and improved operating performance.

Surpluses of Crown entities decline in 1997/98 and then grow steadily through to 1999/2000. This trend is mainly owing to annual movements in the Accident Rehabilitation Compensation and Insurance Corporation (ARCIC) operating balance. By the end of the forecast period total Crown entity surpluses marginally exceed total SOE surpluses.

Figure 2.9 - SURPLUS ATTRIBUTABLE TO STATE-OWNED ENTERPRISES AND CROWN ENTITIES



Source: The Treasury

Compared with the *December Update*, gross SOE and Crown entity surpluses are lower by $89 million in 1997/98 and $58 million in 1998/99, and not significantly different in the final year. Major influences include:

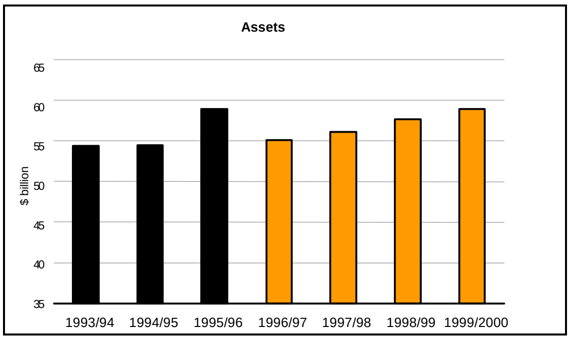
- higher ARCIC surpluses throughout the period, reflecting revised forecast assumptions including fewer claimants and more people returning to self-support
- larger Crown health enterprise (CHE) deficits as updated forecasts are based on new 1997/98 business plans.

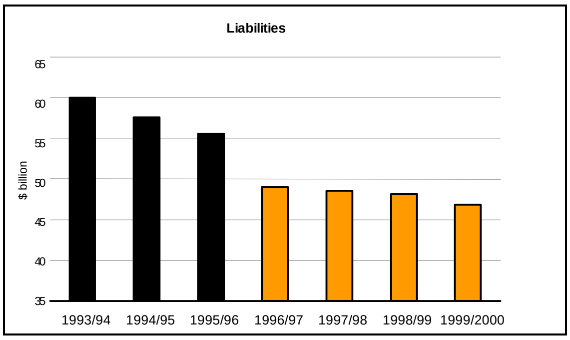
3 The contribution of SOE/Crown entities to the Crown operating balance reflects their gross operating surplus. Any dividend payments do not impact on the Crown operating balance.

Assets and Liabilities

The Crown's net worth is forecast to continue rising from $6.0 billion in 1996/97 to $12.1 billion in 1999/2000. This is largely owing to ongoing operating surpluses which are applied primarily to reduce borrowings.

Figure 2.10 - NET WORTH COMPONENTS



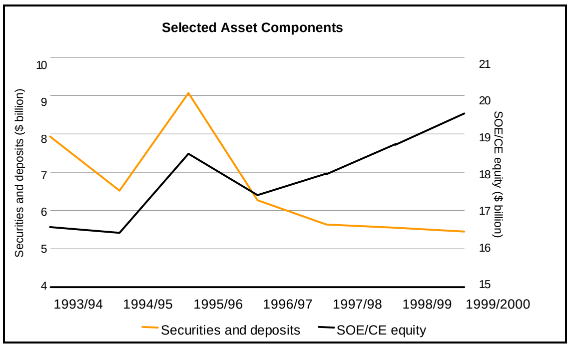


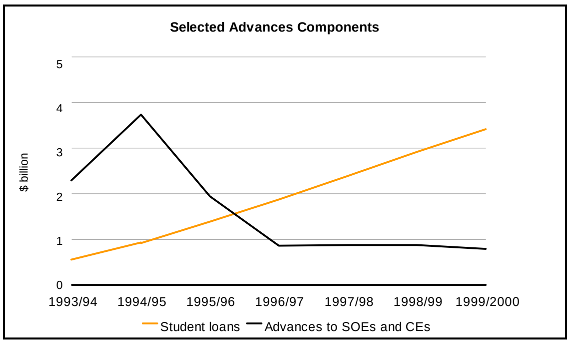
Source: The Treasury

Assets

The forecast trend in total assets is reasonably stable, reducing from a high in 1995/96 then increasing steadily through until 1999/2000, nearly reaching the 1995/96 level. Most of the asset trend story can be explained by a significant reduction in SOE/Crown entity equity in 1996/97 reflecting the sale of Forestry Corporation of New Zealand (FCNZ), and a steady increase from 1997/98 as retained surpluses and capital injections increase net equity in SOEs and Crown entities.

Figure 2.11 - KEY ASSET TRENDS





Source: The Treasury

Securities and Deposits

Securities and deposits reduce from 1996/97 as foreign-currency financial assets are used to repay foreign-currency debt. In 1999/2000, the level of securities and deposits stabilises as a minimum prudent level of foreign-currency reserves is reached.

Compared with the *December Update*, securities and deposits are forecast to be higher by around $1 billion in 1998/99 and 1999/2000, reflecting an assumption that the Crown will now hold liquid assets over and above the level of the Reserve Bank’s foreign-currency reserves. Gross debt will be higher, as maturing loans are refinanced (rather than being repaid from the proceeds of the sale of foreign currency securities). There will be no effect on the Crown’s net debt.

Advances

Total advances increase, by nearly $1.5 billion from 1996/97 to 1999/2000. The key movements are a small decline in advances to SOEs and Crown entities (partly from private-sector refinancing), more than offset by increases in student loans.

Compared with the *December Update*, advances are forecast to be higher in all periods (the variance increasing to $262 million in 1999/2000). The major influences are higher lending to the RHMU, driven by higher forecasts of capital spending and lower levels of private sector debt, partly offset by lower advances to Housing Corporation of New Zealand (HCNZ).

Investment in SOEs and Crown Entities

SOE/Crown entity equity reduces in 1996/97 primarily owing to the sale of FCNZ, and special dividends arising from revaluations of Contact Energy Ltd (Contact) and the Electricity Corporation of New Zealand Ltd (ECNZ).

Over the forecast period, equity increases as surpluses are retained within SOE and Crown entity balance sheets, and capital injections are made to several entities, in particular CHEs.

Table 2.5 - MOVEMENTS IN THE EQUITY INVESTMENT IN SOES AND CROWN ENTITIES

($ million)	1995/96 Actual	1996/97 Forecast DEFU	1996/97 Estimated Actual	1997/98 Forecast DEFU	1997/98 Forecast Budget	1998/99 Projection DEFU	1998/99 Projection Budget	1999/2000 Projection DEFU	1999/2000 Projection Budget
Opening Net Equity	16,420	18,487	18,487	17,285	17,414	17,870	17,962	18,402	18,727
Operating surplus	705	1,148	1,221	1,151	1,062	1,250	1,192	1,350	1,364
Revaluations	2,436	10	(23)	..	..	..	..	..	..
Dividends receivable	(707)	(894)	(904)	(556)	(585)	(571)	(578)	(604)	(660)
Capital (withdrawals)/injections	(367)	(1,466)	(1,367)	(10)	71	(147)	151	(149)	104
Closing Net Equity	**18,487**	**17,285**	**17,414**	**17,870**	**17,962**	**18,402**	**18,727**	**18,999**	**19,535**

Source: The Treasury

Compared with the *December Update*, the Crown's equity investment in SOEs and Crown entities is higher in all periods largely as a result of higher capital injections to CHEs. These increases in CHE equity injections represent a charge against the Coalition Agreement's capital limit.

Physical Assets and State Highways

The Government's stock of physical assets and State highways is forecast to remain relatively unchanged over the forecast period. Significant investment in purchasing physical assets is more or less offset by ongoing depreciation. The Government's most significant forecast physical asset purchases are shown below.

Table 2.6 - SIGNIFICANT PURCHASES OF PHYSICAL ASSETS (FLOWS)

($ million)	1995/96 Actual	1996/97 Forecast DEFU	1996/97 Estimated Actual	1997/98 Forecast DEFU	1997/98 Forecast Budget	1998/99 Projection DEFU	1998/99 Projection Budget	1999/2000 Projection DEFU	1999/2000 Projection Budget
Specialist military equipment	237	359	343	305	313	249	256	274	220
Education[1]	226	436	297	206	425	166	177	178	193
State highways	126	142	143	196	199	224	224	249	249
Properties for treaty settlements	20	103	89	74	79	68	43	68	23
Contingency capital provision	..	100	..	300	80	300	100	300	60

Note: 1 Chapter 5 includes a specific fiscal risk for further capital contributions for school property of around $250 million in each of 1998/99 and 1999/2000. This would increase the above Education purchase of physical asset figures, in those years.

Source: The Treasury

Provision for Future Capital Spending

This provision is included in the forecast financial statements to cover potential additional capital spending. The cumulative provision is reported in the Crown's balance sheet (or Statement of Financial Position), and amounts to $80 million in 1997/98, $180 million in 1998/99 and $240 million in 1999/2000.

The provisions are significantly lower than the contingency capital provisions in the *December Update*, because of the Coalition Agreement's $900 million additional capital spending limit, and the fact that much of this additional capital spending is now specifically included in the forecasts (refer box on page 55).

Liabilities

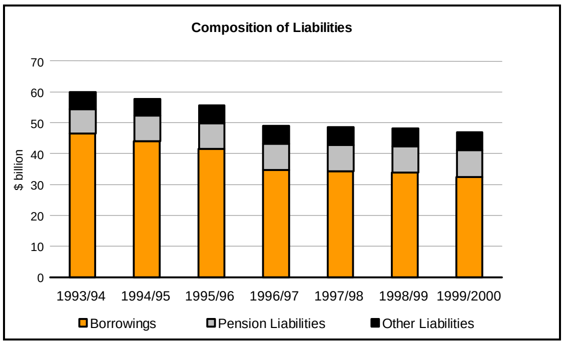
The two most significant components of the Crown's total liabilities are borrowings and the GSF unfunded pension liability.

Borrowings (Gross Crown Debt)

Borrowings are the single largest liability component, accounting for around 77% of total liabilities in 1993/94, falling to around 69% in 1999/2000. The ongoing reduction in borrowings results from the application of surpluses to debt repayment.

Borrowings decline significantly in 1996/97, reflecting the use of proceeds from sale of FCNZ to repay debt, and more slowly from 1997/98.

Figure 2.12 - LIABILITIES



Source: The Treasury

Total borrowings in 1996/97 are lower than *December Update* forecasts, largely owing to higher cash surpluses from delays in the purchase of physical assets and a change in timing of the Equiticorp appeal hearing.

Equiticorp

In August 1996, the High Court found the Crown should pay to Ararimu Investments Four Ltd, a plaintiff in the Equiticorp proceedings, the sum of $328 million. A provision of $328 million was included in the results for 1995/96 to cover this expense.

The Crown has subsequently appealed the judgment. The *December Update* forecasts adopted a conservative approach, assuming payment at the end of 1996/97. As a result, $32 million interest was accrued on the $328 million to the end of 1996/97.

The appeal will now be heard in February 1998. The forecasts in this Update continue to adopt a conservative approach, assuming payment at the end of 1997/98. As a result, an extra $37 million interest has been accrued on the $328 million to the end of 1997/98. The specific fiscal risk in Chapter 5 has been amended since the *December Update* to reflect this change.

From 1997/98, borrowings are higher than *December Update* forecasts largely as a result of the cumulative effect of lower cash surpluses, but also reflecting the decision to hold higher levels of foreign currency securities (refer "Securities and Deposits" above).

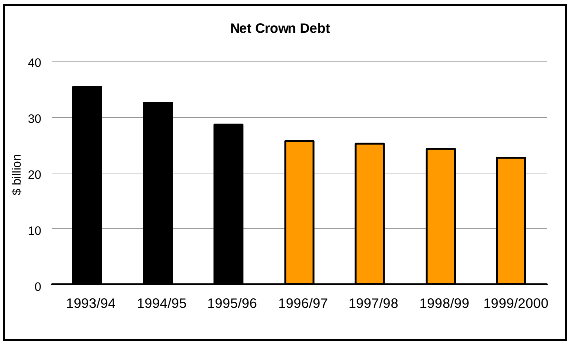
GSF Unfunded Pension Liability

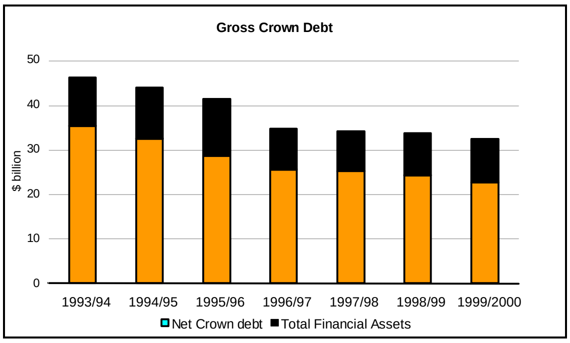
Revised actuarial projections of the GSF pension liability have increased the liability, relative to the *December Update*, in all years (discussed above in "Changes in Expenses since the *December Update*").

Net Crown debt

The improvement in net worth from 1996/97 to 1999/2000 is reflected in the reduction of liabilities (principally borrowings). As a result of this debt repayment, net Crown debt is projected to fall to 20.5% of GDP by 1999/2000 (from 27.1% at 30 June 1997).

Figure 2.13 - CROWN DEBT





Source: The Treasury

Changes Since the December Update

Net Crown debt is forecast to be higher than in the *December Update* by around $1.5 billion, $3.8 billion and $7.2 billion from 1997/98 to 1999/2000 respectively. This results from less cash being available for debt repayment, as illustrated in Table 2.7. The major influence is lower cash flows from operations, consistent with the lower operating surpluses discussed above.

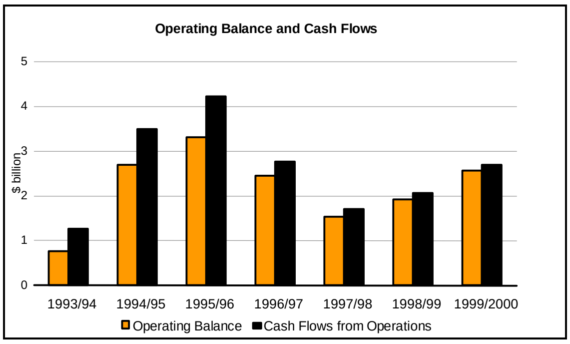
As shown in Table 2.7, compared with the *December Update* the reduction in net Crown debt in 1997/98 is nearly $2 billion lower. This reflects the lower operating balance in 1997/98 as well as the change in the assumed timing of the Equiticorp payment and physical asset purchases deferred from 1996/97 to 1997/98.

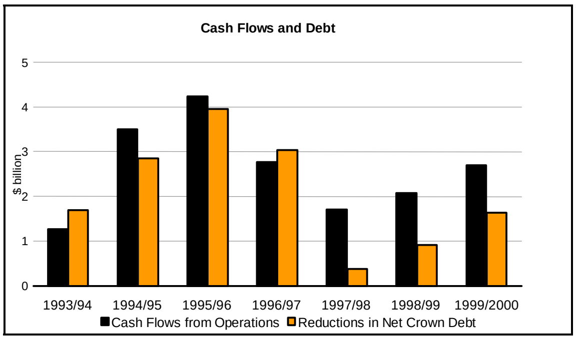
Table 2.7 - SUMMARY OF MOVEMENTS IN NET CROWN DEBT

$ million	1996/97 Forecast DEFU	1996/97 Estimated Actual	1997/98 Forecast DEFU	1997/98 Forecast Budget	1998/99 Projection DEFU	1998/99 Projection Budget	1999/2000 Projection DEFU	1999/2000 Projection Budget
Opening Net Crown Debt	**28,637**	**28,637**	**26,086**	**25,610**	**23,758**	**25,235**	**20,474**	**24,319**
Closing Net Crown Debt	**26,086**	**25,610**	**23,758**	**25,235**	**20,474**	**24,319**	**15,470**	**22,685**
Annual reduction	2,551	3,027	2,328	375	3,284	916	5,004	1,634
Represented by:								
Cash items								
Net cash flows from operations	2,492	2,761	3,489	1,700	4,340	2,065	6,097	2,687
Net purchase of physical assets	(1,341)	(1,144)	(1,026)	(1,336)	(952)	(968)	(995)	(963)
Contingency capital provision	(100)	..	(300)	(80)	(300)	(100)	(300)	(60)
Sale/(purchase) of investments with a net debt impact	1,494	1,407	5	(75)	146	(151)	147	(106)
RHMU swap cash flows	(15)	(10)	118	118	(7)	(7)	(4)	(4)
Issue of circulating currency	34	59	..	..	..	..	..	..
Total cash flow movement	*2,564*	*3,073*	*2,286*	*327*	*3,227*	*839*	*4,945*	*1,554*
Non-cash items								
Foreign-exchange gains/(losses)	8	(30)	..	..	..	..	..	..
Non-cash movements in advances (including accrued interest and provisions)	52	63	61	66	63	82	54	75
Other (including amortisation of discounts and premiums)	(73)	(79)	(19)	(18)	(6)	(5)	5	5
Total non-cash movement	*(13)*	*(46)*	*42*	*48*	*57*	*77*	*59*	*80*
Total Annual Reduction	**2,551**	**3,027**	**2,328**	**375**	**3,284**	**916**	**5,004**	**1,634**

Source: The Treasury

Net Crown Debt, the Operating Balance and the Cash Flow Statement





Net Crown debt consists of outstanding debt less financial assets. Financial assets principally consist of marketable securities and deposits, student loans, and lending to SOEs and Crown entities. Reductions in net Crown debt do not correspond to the operating balance. Reductions in net Crown debt principally reflect:

- surplus cash flows from operations, as recorded in the Statement of Cash Flows, less
- any capital investment in fixed assets and in SOEs and Crown entities, as recorded in the Statement of Cash Flows.

Cash flows from operations differ from the operating balance, as the latter is an accrual measure. A reconciliation between the operating balance and cash flows from operations appears in the GAAP series tables on page 196. Examples of non-cash items in the operating balance include:

- depreciation expenses, which reduce the operating balance but do not impact on cash flows from operations
- surpluses (or deficits) of SOEs and Crown entities; these are included in the operating balance but do not impact on cash flows from operations.

As the above graph shows, cash flows from operations are generally higher than the operating balance, primarily owing to the fact that depreciation exceeds the retained surpluses of SOEs and Crown entities.

The Statement of Cash Flows provides information for determining the cash available for debt repayment. Surplus cash flows from operations are used either to reduce net Crown debt or to invest.

The reductions in net Crown debt are generally smaller than cash flows from operations. This reflects items such as purchases of physical assets and investment in SOEs and Crown entities, which reduce the amount of cash available for the repayment of debt. In 1996/97 however, the reduction in net Crown debt is higher than cash flows from operations, largely reflecting the cash available from the sale of FCNZ. Movements in net Crown debt are fully reconciled in Table 2.7.

Risks

The forecasts are based on several important judgments and assumptions about likely movements in the Government's finances and the state of the economy.

Government Finances

Both the revenue and expenditure forecasts are dependent on a number of assumptions. The revenue forecasts are driven largely by the economic outlook, include a number of key judgments about taxpayer behaviour and, as always, are potentially vulnerable to base erosion. Chapter 3 includes a more detailed discussion of tax forecasting risks.

Social spending components of the expenditure forecasts are sensitive to demographic factors such as the age and gender composition of the population, as well as its distribution and overall size. Changes in the proportion of those eligible for benefits or services who actually take up their entitlement can also lead to forecast revisions.

The fiscal forecasts are compiled on the basis of existing Government policy decisions, and, as a matter of policy, do not include any forecasts of asset revaluations or sales. For example, the forecasts currently assume no further tax reductions beyond the 1 July 1998 tax rate reductions. However, the Government has signalled its intention to introduce further tax reductions from 1999/2000, depending on the result of the compulsory superannuation savings referendum and the economic and fiscal conditions at the time.

Many of the specific fiscal risks which arise from the above revenue and expenditure assumptions are set out in Chapter 5.

Economic Risk

The assumptions underlying the economic forecasts are set out in Chapter 1. The table below provides an indication of the sensitivity of the fiscal forecasts to changes in economic conditions.

($ million)	1997/98	1998/99	1999/2000
1% higher GDP Growth			
Revenues	+315	+655	+1,035
Expenses (unemployment and debt servicing)	+10	+50	+115
Impact on the operating balance	+325	+705	+1,150
10% reduction in Unemployment Benefit costs			
Revenue	-20	-20	-20
Expenses	+130	+125	+125
Impact on the operating balance	+110	+105	+105
Revenue impact of a 1% increase in the growth rate of			
Wages and salaries	+125	+240	+385
Taxable business profits	+60	+150	+250
One percentage point lower interest rates			
Revenues	-40	-45	-50
Expenses	+85	+130	+155
Impact on the operating balance	+45	+85	+105

Note: A positive sign indicates an improvement in the fiscal position

Source: The Treasury

The table above summarises key sensitivities regarding changes in the economic position. However, there is a considerable degree of uncertainty regarding these sensitivities. One of the key sensitivities is that of revenue to changes in economic growth.

The more sensitive revenue is relative to changes in GDP, the larger the impact a change in economic growth will have on the fiscal position. In estimating the sensitivity of the fiscal position to growth, we have generally assumed that revenue grows at the same rate as GDP so that the revenue-to-GDP ratio remains constant. That is, the overall elasticity of revenue with respect to GDP is about one. This is likely to be true especially when assessing changes over a long period of time.

However, evidence from outturns over the four years to 30 June 1996 indicates some revenue components, including individual income tax and company tax, may show a higher variability to economic growth in the short term than is implied by a unit elasticity (ie, elasticity of one). While nominal GDP grew by around 24% over the four years to June 1996, individual income tax has grown by over 32% and company tax by around 75%. In the four years preceding 1991/92, company tax declined by around 9%.

These suggest much larger changes in taxes relative to GDP than implied by a unit elasticity. For example, the Organisation for Economic Cooperation and Development's (OECD) estimates of the elasticity for taxes have ranged between 1 for indirect taxes to 2.5 for company taxes.

Key reasons for this include the progressive nature of the individual income tax system, the volatility of company income, the use of past losses to reduce tax liabilities for several years, and significant changes to the tax base.

In future, these factors may change significantly - for example, as companies have used up their stock of losses, company tax revenue may be less volatile than in the past.

In addition, it should be noted that a change in GDP may also lead to other effects, such as a change in unemployment, or changes in distribution of income, which are not accounted for here. These effects may be considerable for large changes in economic activity. This suggests that there is a wide range of outcomes from any change in GDP growth, depending on the exact nature of the change.

Stop Press

The last date for including Government decisions in the Forecast Financial Statements was 26 May 1997. Since that date the Government has made a couple of decisions that impact on the Crown's fiscal forecasts. Significant decisions taken after 26 May and up to 16 June are set out below:

- The Government has decided to remove the income and asset tests for older people in long-stay public hospital care, and to remove the asset test for older people in long-stay private hospital care, from 1 October 1998. This initiative is estimated to cost $34 million in 1998/99 and $45 million in 1999/2000. The item has not been included in Health expenses in the Forecast Statement of Financial Performance. However, it will not increase the overall level of expenses as it will be funded from that portion of the "provision for future initiatives" earmarked for health spending.

- The Government has decided to defer the introduction of the policy to raise the school leaving age to 17, which was to have taken place from 1 January 1998. Instead there will be an emphasis on developing programmes to improve educational results so that students will benefit from staying at school longer.

  Raising the leaving age during a period of roll growth would worsen the teacher supply problem and put even greater pressure on school accommodation and other facilities. The deferral of this policy is estimated to save $3.83 million in 1997/98, $18.61 million in 1998/99 and $28.50 million in 1999/2000. These savings will be available to fund future education initiatives.