
Expenses

Key Features

Expenses are forecast to rise from 1996/97 to 1999/2000, reflecting:

- increases in welfare benefit expenditure owing to the CPI indexation of benefit rates each April, increasing numbers taking up entitlements to some benefits, and new policy initiatives
- new health initiatives
- increased education spending owing to increased student numbers and new policy initiatives
- increases in other priority expenditure
- provision for future initiatives under consideration in the 1998 and 1999 Budgets.

Expenses are projected to be \$1.8 billion higher in 1997/98, \$2.4 billion higher in 1998/99, and \$3.6 billion higher in 1999/2000 than forecast in the *December Update*.

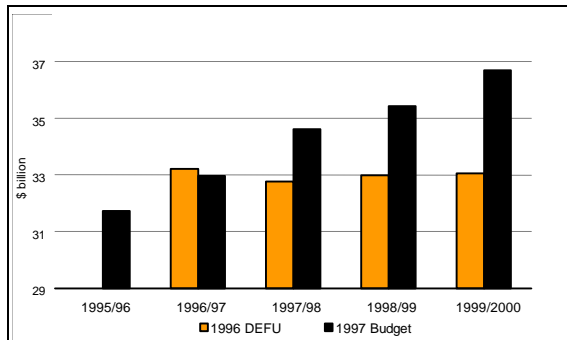
The main factors leading to higher expenses than forecast in the *December Update* are:

- Government decisions to increase priority expenditure
- changes in CPI assumptions and the projected uptake rate of some welfare benefits
- higher forecast finance costs owing to slower projected debt repayment than in the *December Update* forecasts.

Overview

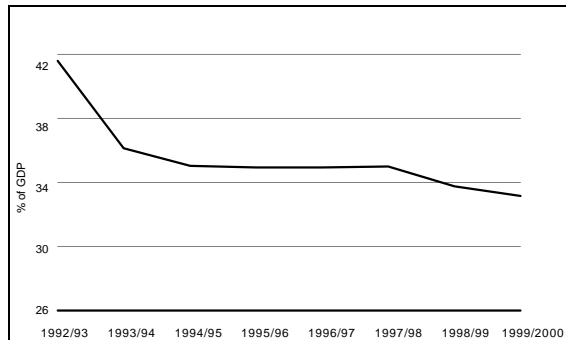
Between 1996/97 and 1999/2000, expenses are projected to increase by \$3.7 billion (11.3%). This reflects increases in priority spending, CPI and other forecasting changes to benefits, and provision for further Coalition Agreement initiatives in future years.

Figure 4.1 - EXPENSES



Source: The Treasury

Figure 4.2 - EXPENSES AS A PERCENTAGE OF GDP



Source: The Treasury

Table 4.1 - EXPENSES

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Estimated Actual	Forecast DEFU	Budget	Projection DEFU	Budget	Projection DEFU	Budget
Social security and welfare	12,240	12,461	12,679	12,827	13,237	13,027	13,532	13,242	13,922
Health	5,228	5,601	5,630	5,674	6,013	5,773	6,101	5,818	6,165
Education	4,949	5,343	5,353	5,518	5,643	5,630	5,767	5,733	5,861
Core government services	1,565	1,607	1,623	1,553	1,573	1,608	1,593	1,597	1,620
Law and order	1,234	1,252	1,279	1,235	1,267	1,221	1,274	1,219	1,270
Defence	970	1,026	945	946	1,047	1,024	1,050	960	942
Transport and communications	821	866	865	908	910	931	934	938	942
Economic and industrial services	997	833	762	788	829	745	743	749	743
Primary services	304	347	353	308	318	319	333	330	339
Heritage, culture and recreation	247	274	274	284	305	277	290	265	275
Housing and community development	40	54	45	41	48	39	43	39	43
Other	48	297	67	87	279	85	109	82	108
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 further 1997 Budget initiatives	..	..	..	..	330	..	400	..	420
1998 and 1999 Budget contingencies:									
Health initiatives	..	..	..	..	..	..	200	..	505
Other policy initiatives	..	..	..	..	..	..	350	..	845
Non-policy contingency 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

Source: The Treasury

Compared with the *December Update*, expenses are \$255 million lower in 1996/97, \$1.8 billion higher in 1997/98, \$2.4 billion higher in 1998/99, and \$3.6 billion higher in 1999/2000. A major reason for the increase in total expenses since the *December Update* is the additional contingency provisions in this year's Budget, including a provision for further 1997 Budget initiatives and provision for initiatives in the 1998 and 1999 Budgets.

Provision for Future Initiatives

The package presented in this year's Budget represents the first step in a three-year programme. This Budget foreshadows further policy initiatives through the inclusion of provisions for further 1997 Budget initiatives and for further initiatives in the 1998 and 1999 Budgets as progress is made across a range of policies over the next three years. The provision for new initiatives over the next three years totals \$330 million in 1997/98, \$950 million in 1998/99 and \$1.77 billion in 1999/2000.

The forecasts also include a contingency expense provision for non-policy forecasting changes to recognise the fact that expense baselines face pressure from changes, such as guarantees, indemnities and the discharge of legal liabilities. The provisions of \$200 million in each of 1997/98, 1998/99 and 1999/2000 have not been changed.

Other major changes since the *December Update* include:

- social security and welfare expenses are higher in each year owing to a number of factors including new policy initiatives, changes to CPI assumptions, higher uptake rates for some benefits and a higher GSF pension expense
- health expenses are higher in all years reflecting new policy initiatives including additional funding for the Transitional Health Authority and free doctors' visits for children under six
- education expenses are projected to be higher as a result of new policy initiatives
- provision for additional Police and additional funding to Votes Courts and Corrections
- the forecast settlement of the Ngai Tahu claim in 1997/98 rather than 1996/97 as forecast in the *December Update*
- finance costs are forecast at higher levels than in the *December Update* from 1997/98 owing to lower cash surpluses to repay debt and consequently higher debt levels.

As Table 4.2 indicates, new policy initiatives, higher finance costs and increases in benefit expenses have increased expense forecasts since the *December Update*.

Table 4.2 - TOTAL EXPENSE CHANGES

<u>(\$ million)</u>	<u>1997/98</u>	<u>1998/99</u>	<u>1999/2000</u>
Total expenses per December Update	32,779	32,999	33,069
Policy Initiatives			
Health	338	338	338
Education	122	135	136
Impact of surcharge abolition ¹	4	94	105
Housing (Accommodation Supplement and Special Benefit)	48	50	54
Safer communities (including Police)	14	14	15
Courts and Corrections	14	31	29
Strengthening families	13	14	15
Green Package	15	17	15
Employment Strategy	14	16	14
Impact on benefits from deferral of tax reduction	23	(8)	..
Other policy initiatives	32	(12)	33
	637	689	754
Provision for Future Initiatives	330	950	1,770
Forecasting and Other Changes			
Revisions to Treaty expenses	192	(25)	(27)
Finance costs	207	380	592
Revisions to GSF unfunded pension liability	124	145	106
Forecast increases to welfare benefits, including demand changes and revised demographics	156	182	320
CPI-indexed benefits	23	28	77
Interest on Equiticorp settlement	37	..	..
Change in timing of arrival of Anzac ship	80	..	..
Other changes	51	71	28
	870	781	1,096
Total Change in Expenses²	1,837	2,420	3,620
Total Expenses per 1997 Budget	34,616	35,419	36,689

Notes: 1 This represents the impact on expenses of abolishing the surcharge. There is also a revenue impact from abolishing the surcharge (refer page 54).

2 A positive sign represents an increase in expenses.

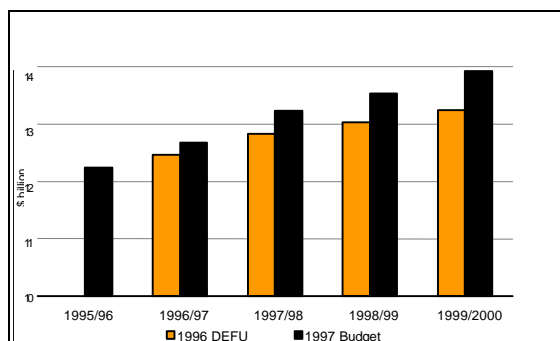
Source: The Treasury

Social Security and Welfare

Between 1996/97 and 1999/2000, social security and welfare expenses are projected to increase by \$1.2 billion (9.8%).

Welfare benefits (comprising 88% of social security and welfare expenses in 1996/97) are forecast to grow by \$1.3 billion (11.5%) between 1996/97 and 1999/2000. This growth reflects a combination of factors including new policy initiatives, increasing numbers taking up entitlements to some benefits, and the CPI indexation of benefit rates each April.

Figure 4.3 - SOCIAL SECURITY AND WELFARE EXPENSES



Source: The Treasury

Table 4.3 - SOCIAL SECURITY AND WELFARE EXPENSES

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Estimated Actual	Forecast DEFU	Budget	Projection DEFU	Budget	Projection DEFU	Budget
Welfare benefits	10,593	11,128	11,156	11,475	11,729	11,695	12,041	11,880	12,436
GSF pension expense	1,009	639	786	665	771	657	770	691	772
Social rehabilitation and compensation funding	93	80	89	89	87	95	88	103	95
Departmental outputs	534	527	530	515	528	500	516	489	503
Other non-departmental expenses	11	87	118	83	122	80	117	79	116
Total Social Security and Welfare Expenses	12,240	12,461	12,679	12,827	13,237	13,027	13,532	13,242	13,922

Source: The Treasury

Compared with the *December Update* total social security and welfare expenses are projected to be higher in all years. Since the *December Update* the major changes to social security and welfare expenses have been to welfare benefit expenses and GSF expenses.

Table 4.4 - CHANGES TO SOCIAL SECURITY AND WELFARE EXPENSES

(\$ million)	1997/98	1998/99	1999/2000
Policy Changes			
Housing (Accommodation Supplement and Special Benefit)	48	50	54
Impact of surcharge abolition	4	94	105
Strengthening families	13	14	15
Deferral of tax reduction (NZ Superannuation)	(3)	(8)	..
Deferral of tax reduction (other benefits)	26	..	..
Total Policy Changes	88	150	174
Effect of Revised CPI forecasts			
NZ Superannuation	13	10	15
Domestic Purposes Benefit	4	6	22
Unemployment Benefit	3	5	17
Invalids Benefit	1	3	9
Sickness Benefit	1	2	6
All other benefits	1	2	8
Total Effect of Revised CPI forecasts	23	28	77
Non-CPI Changes to Benefits			
NZ Superannuation	60	56	165
Unemployment Benefit	56	58	67
Accommodation Supplement	49	39	35
Invalids Benefit	10	16	23
Sickness Benefit	(9)	(8)	(5)
Domestic Purposes Benefit	2	6	(5)
All other benefits	(12)	15	40
Total Effect of Non-CPI Changes to Benefits	156	182	320
Non-Benefit Forecasting Changes			
GSF Pensions	106	113	81
ARCIC funding for social rehabilitation	(2)	(7)	(8)
Provision for outstanding child support debt	29	31	31
Other non-benefit forecasting changes	10	8	5
Total Non-Benefit Forecasting Changes	143	145	109
Total Change to Social Security and Welfare Expenses	410	505	680

Source: The Treasury/Department of Social Welfare

Policy Initiatives

Major policy initiatives since the *December Update* include

- changing the Accommodation Supplement formula so the Government pays a 70 cents in the dollar subsidy instead of 65 cents (above the eligibility baseline) to low-income households, increasing the maximum payment limits for the Supplement, and changing the treatment of board payments, as well as making the Special Benefit more available to those in need by easing the eligibility criteria
- the removal of the New Zealand Superannuation surcharge, resulting in a projected increase in the takeup of New Zealand Superannuation
- the Government is funding a number of extra services for children and young people most in need in the community. This includes significant resources for the Children, Young Persons and Family Service and a continuation of the Family Service Centre pilots. It also includes extra resources for the Commissioner for Children
- the deferral of the tax reductions scheduled for July this year will increase non-superannuation benefit expenditure by \$26 million in 1997/98 only. It also reduces New Zealand Superannuation expenses by an estimated \$3 million in 1997/98 and \$8 million in 1998/99. The reason for the different effects on New Zealand Superannuation and other benefits is that New Zealand Superannuation rates are set in gross of tax terms, while benefit rates are set in net terms.

Welfare Benefits

Compared with the *December Update* welfare benefit expenses are projected to be \$28 million higher in 1996/97, \$254 million higher in 1997/98, \$346 million higher in 1998/99 and \$556 million higher in 1999/2000.

These changes are the result of policy initiatives outlined above, higher forecasts of CPI-indexed benefits and a variety of other forecasting changes to specific benefits.

Table 4.5 - WELFARE BENEFITS

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Estimated Actual	Forecast DEFU	Budget	Projection DEFU	Budget	Projection DEFU	Budget
NZ Superannuation	5,051	5,074	5,107	5,064	5,138	5,052	5,203	5,039	5,325
Domestic Purposes									
Benefit	1,362	1,456	1,449	1,508	1,531	1,561	1,573	1,645	1,661
Unemployment Benefit	1,236	1,304	1,325	1,267	1,327	1,210	1,273	1,148	1,231
Accommodation									
Supplement	562	631	661	675	774	709	801	750	840
Invalids Benefit	481	534	535	581	596	624	643	673	705
Sickness Benefit	353	385	379	408	401	423	418	443	444
Disability Allowance	149	179	179	203	207	223	238	238	270
Transitional Retirement									
Benefit	101	108	108	114	114	124	121	138	137
Family Support	748	831	794	908	902	944	943	963	969
Independent Family Tax									
Credit	..	48	45	148	144	210	210	224	225
Special Benefit	87	74	75	69	65	70	67	72	70
Benefits paid in Australia	30	53	53	61	61	70	74	70	73
Other benefits	433	451	446	469	469	475	477	477	486
Total Benefits and NZ Superannuation	10,593	11,128	11,156	11,475	11,729	11,695	12,041	11,880	12,436

Source: The Treasury

Table 4.6 - BENEFICIARY NUMBERS

(Thousands)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Budget	Projection DEFU	Budget	Projection DEFU	Budget	Projection DEFU	Budget
NZ Superannuation	485	475	476	465	470	454	470	442	461
Domestic Purposes									
Benefit	107	111	112	114	116	119	120	124	125
Unemployment Benefit	139	136	144	135	141	129	134	121	128
Accommodation									
Supplement	276	295	297	305	310	310	309	317	313
Invalids Benefit	41	44	44	47	48	50	51	52	54
Sickness Benefit	33	34	34	35	35	36	36	37	37

Source: The Treasury

Accommodation Supplement

Higher forecasts for Accommodation Supplement expenses reflect the impact of policy decisions outlined earlier and recent outturn information showing housing costs of Accommodation Supplement recipients increasing faster than expected at the *December Update*.

New Zealand Superannuation

New Zealand Superannuation expenses are projected to be higher than the *December Update* by \$33 million in 1996/97, \$74 million in 1997/98, \$151 million in 1998/99 and \$286 million in 1999/2000. This reflects the impact of the surcharge removal (outlined earlier), recent CPI information and the correction of population projections from Statistics New Zealand supplied to the Department of Social Welfare (DSW), which are a key component in DSW's forecasts for New Zealand Superannuation. The projected number of New Zealand Superannuation beneficiaries for 1999/2000 is now 19,000 higher than estimated in the *December Update* (of which 11,000 is a result of the removal of the surcharge).

Unemployment Benefit

Lower economic growth forecasts than those on which the *December Update* was based have led to higher forecast Unemployment Benefit numbers. The projection for the number of unemployment beneficiaries in 1998/99 is now 5,000 higher than in the *December Update*.

Invalids Benefit

The increases to forecast Invalids Benefit expenses are the result of recent outturn information, which shows the number of invalids beneficiaries increasing at a faster rate than expected in the *December Update*. The projection for the number of Invalids beneficiaries over 1999/2000 is now 2,000 higher than in the *December Update*.

Disability Allowance

Since the *December Update*, there has been continued growth in the number of people receiving a Disability Allowance. The increase to forecast Disability Allowance expenditure reflects a re-assessment of likely take-up trends.

Domestic Purposes Benefit

Higher-than-forecast growth in the number of Domestic Purposes Benefit recipients since the *December Update* forecasts were prepared have led to an upward revision.

Sickness Benefit

Lower forecasts for the Sickness Benefit reflect downwards revisions to benefit outturns and the average amount paid per recipient.

GSF Pension Expense

Table 4.7 - GSF PENSION EXPENSE

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast	Estimated	Forecast	Budget	Projection	Budget	Projection	Budget
Pension expenses	783	700	720	704	686	724	692	728	703
Change in the unfunded liability	226	(61)	66	(39)	85	(67)	78	(37)	69
Total GSF and Pension Expense	1,009	639	786	665	771	657	770	691	772

Source: The Treasury

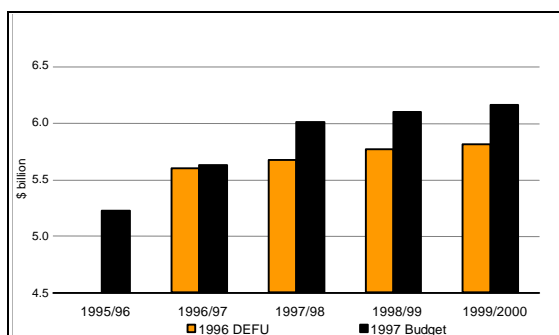
The Government's obligation for pension expenses incurred by the Government Superannuation Fund have been revised following lower than expected levels of payments. Movements in the unfunded liability are determined by actuarial revaluations and have been revised following a periodic review.

The change in the unfunded liability reflects a number of factors including a change in the methodology used to project the past service portion of the total unfunded liability, changes in financial assumptions (in particular price adjustments and expected return on assets) and revised pension number projections.

Health

Health expenses are projected to grow by \$535 million (9.5%) between 1996/97 and 1999/2000. This reflects a number of new policy initiatives including additional funding for: the Transitional Health Authority (THA) to manage health pressures; free doctor visits and pharmaceuticals for children under six; and funding for a further reduction in the elective services backlog.

Figure 4.4 - HEALTH EXPENSES



Source: The Treasury

Table 4.8 - HEALTH EXPENSES

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Estimated Actual	Forecast DEFU	Budget	Projection DEFU	Projection Budget	Projection DEFU	Projection Budget
Departmental outputs	55	58	58	58	58	59	60	59	59
Personal health, disability support and public health services	4,958	5,309	5,339	5,375	5,705	5,472	5,793	5,509	5,847
Other non-departmental outputs	35	43	45	44	45	41	41	41	41
Health payments to ARCIC	171	184	193	197	190	206	200	215	210
Other expenses	9	7	(5)	0	15	(5)	7	(6)	8
Total Health Expenses	5,228	5,601	5,630	5,674	6,013	5,773	6,101	5,818	6,165

Source: The Treasury

This year's Budget foreshadows further increases in health expenditure (above that included in Table 4.8) with the inclusion of a provision for further health initiatives in the 1998 and 1999 Budgets. As outlined in table 4.1, this provision totals \$200 million in 1998/99 and \$505 million in 1999/2000.

Health expenses are higher than the *December Update* by \$29 million in 1996/97, \$339 million in 1997/98, \$328 million in 1998/99 and \$347 million in 1999/2000. This largely reflects the impact of new policy initiatives.

Table 4.9 - CHANGES TO HEALTH EXPENSES

(\$ million)	1997/98	1998/99	1999/2000
Policy Changes			
THA increase for managing pressures	200	200	200
Free doctor visits for children under six	69	69	69
Elective services backlog reduction	35	35	35
Additional mental health funding	15	15	15
Provider development	12	12	12
Hospital user part charges	7	7	7
	338	338	338
Changes to Forecasts			
Revised forecast Crown payments to ARCIC	(7)	(7)	(5)
Other forecasting changes	8	(3)	14
	1	(10)	9
Total Change in Health Expenses	339	328	347

Source: The Treasury

The main reasons for the change in Health expenses since the *December Update* are:

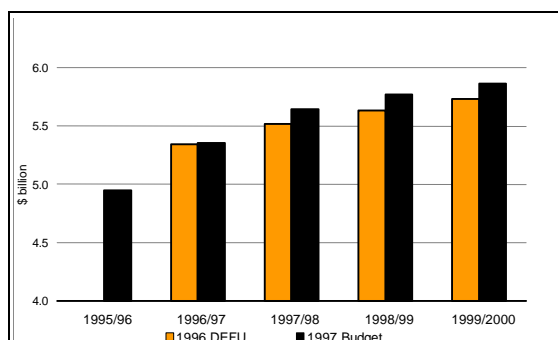
- Transitional Health Authority baseline increase of \$200 million from 1997/98 to manage a range of health pressures
- free doctor visits and prescriptions for children under six from 1 July 1997
- the purchase of additional elective services to reduce the waiting list backlog
- the purchase of additional mental health services
- the establishment of a Provider Development programme for Māori health development and to facilitate further provider development of health information systems
- the removal of outpatient and daypatient user part charges. This will affect such services as accident and emergency services, outpatient consultation and X-ray services.

Education

Education expenses are projected to grow by \$508 million (9.5%) over the period from 1996/97 to 1999/2000. This reflects increased roll projections for the compulsory sector, higher student numbers for tertiary education and additional spending on key Coalition initiatives.

Compared with the December Update, Education expenses are higher by \$10 million in 1996/97, \$125 million in 1997/98, \$137 million in 1998/99 and \$128 million in 1999/2000.

Figure 4.5 - EDUCATION EXPENSES



Source: The Treasury

Table 4.10 - EDUCATION EXPENSES

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Estimated Actual	Forecast DEFU	Budget	Projection DEFU	Budget	Projection DEFU	Budget
Early childhood funding	227	273	252	293	280	310	295	324	310
Primary and secondary schools	2,478	2,690	2,723	2,827	2,888	2,889	2,954	2,952	3,009
Tertiary funding	1,697	1,810	1,813	1,840	1,878	1,866	1,921	1,886	1,935
Departmental expenses	280	299	293	300	323	314	333	325	344
Other education expenses	267	271	272	258	274	251	264	246	263
Total	4,949	5,343	5,353	5,518	5,643	5,630	5,767	5,733	5,861

Source: The Treasury

The development of further policy initiatives foreshadows further increases in education expenditure (above that included in Table 4.10) as progress is made across a range of Coalition policies.

Table 4.11 - CHANGES TO EDUCATION EXPENSES

(\$ million)	1997/98	1998/99	1999/2000
Policy Changes			
Strengthening schools and communities	42	55	58
Teacher and teaching initiatives	35	44	39
Early childhood education resourcing	19	21	22
Property initiatives	22	6	9
Post-compulsory education and training	4	9	8
	122	135	136
Forecast Changes			
Early childhood education	(28)	(31)	(31)
Compulsory	2	13	5
Student allowances	25	29	30
Other forecasting changes	4	(9)	(12)
	3	2	(8)
Total Change to Education Expenses	125	137	128

Source: The Treasury

Included in this year's Budget are a significant number of education policy initiatives. The new spending aims to raise the quality of education in New Zealand and to enable the sector to better respond to the needs of an increasingly diverse population.

Policy Initiatives

Major policy initiatives include:

- new early childhood education expenditure in the 1997 Budget to provide a 5% increase in the hourly subsidy paid to early childhood services that are licensed and chartered, and align the hourly subsidy rate for under-two-year-olds for playcentres with the rate paid to other providers
- additional operational funding for primary and secondary schools and increased targeted support for schools in low-income communities
- additional resources for the compulsory and tertiary education sectors for teacher training and other measures to increase the number of teachers to meet demand from increasing school rolls as part of the Government's teacher supply initiatives. Also included is provision for teacher professional development to contribute to increasing the quality of education

- increased funding for the Industry Training Fund to meet increased demand, funding to meet the Government’s commitment to subsidise tertiary tuition costs at 75%, pending a review of tertiary education, and an additional subsidy for assisting tertiary students with disabilities.

Forecasting Changes

Major forecasting changes since the *December Update* include:

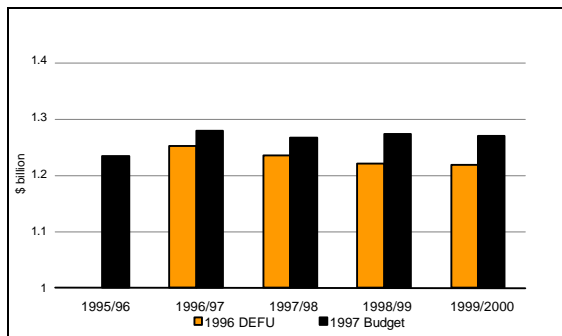
- lower expected growth in forecast subsidised hours for early childhood education
- compulsory education forecast changes are predominantly a result of higher average salary rates offset by decreased growth in roll forecasts
- higher student allowance payments owing to increased enrolment projections and a higher proportion of students projected above the age of 25. This is partially offset by revised uptake assumptions.

Law and Order Expenses

Law and order expenses are projected to remain relatively stable between 1996/97 and 1999/2000.

Compared with the December Update, expenses are higher by \$27 million in 1996/97, \$32 million in 1997/98, \$53 million in 1998/99 and \$51 million in 1999/2000.

Figure 4.6 - LAW AND ORDER EXPENSES



Source: The Treasury

Table 4.12 - LAW AND ORDER EXPENSES

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Estimated Actual	Forecast DEFU	Budget	Projection DEFU	Budget	Projection DEFU	Budget
Departmental outputs									
Police	579	582	593	566	580	564	579	564	579
Department of Justice	69	0	0	0	0	0	0	0	0
Ministry of Justice	9	12	11	12	12	12	12	12	12
Department of Corrections	205	258	263	257	269	258	272	259	272
Department for Courts	164	179	184	175	186	165	189	161	184
Other departments	98	86	92	84	83	83	82	83	82
Total Departments	1,124	1,117	1,143	1,094	1,130	1,082	1,134	1,079	1,129
Non-departmental expenses	101	106	105	111	102	109	107	109	107
Other expenses	9	29	31	30	35	30	33	31	34
Total Law and Order Expenses	1,234	1,252	1,279	1,235	1,267	1,221	1,274	1,219	1,270

Source: The Treasury

The main reasons for the change in law and order expenses since the *December Update* are:

- funding for the establishment of 200 additional Police positions
- additional funding to Vote Courts as part of a three-year package to modernise the courts, including costs associated with new information technology and new internal processes. Vote Courts also includes an additional \$1 million in 1997/98 and beyond for the additional operating costs associated with the Waitangi Tribunal
- extra funding to Vote Corrections as part of an information technology upgrade and the implementation of a national strategy to reduce the use of drugs in prisons.

Defence

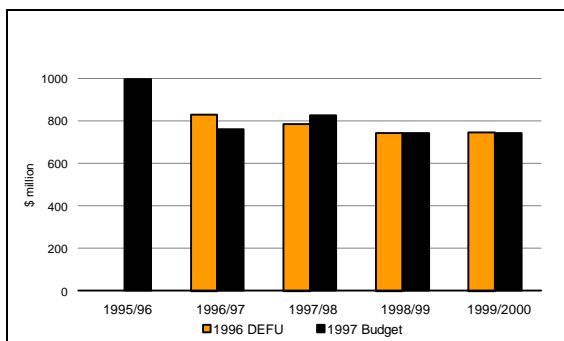
The defence trend is flat, with one-off increases in 1997/98 and 1998/99 reflecting timing of the payment of GST on the purchase of new frigates. The major changes in expenses since the *December Update* are owing to the deferral of the payment of GST on the first ANZAC frigate and an expense transfer for Vote Defence Force, both from 1996/97 to 1997/98.

Economic and Industrial Services

Apart from a one-off increase in 1997/98, the trend in economic and industrial service expenses is flat for 1996/97 and beyond.

Compared with the *December Update*, expenses are \$71 million lower in 1996/97, \$41 million higher in 1997/98, and largely unchanged in 1998/99 and 1999/2000.

Figure 4.7 - ECONOMIC AND INDUSTRIAL SERVICES EXPENSES



Source: The Treasury

Table 4.13 - ECONOMIC AND INDUSTRIAL SERVICES EXPENSES

(\$ million)	1995/96	1996/97		1997/98		1998/99		1999/2000	
	Actual	Forecast DEFU	Estimated Actual	Forecast DEFU	Budget	Projection DEFU	Projection Budget	Projection DEFU	Projection Budget
Employment initiatives	259	305	280	314	294	282	270	287	268
Equiticorp judgment	328	..	..	..	..	..	..	..	..
Departmental outputs	247	274	263	272	291	260	272	260	276
Non-departmental outputs	156	161	154	169	164	170	163	169	162
Other expenses	7	93	65	33	80	33	38	33	37
Total Economic and Industrial Services	997	833	762	788	829	745	743	749	743

Source: The Treasury

As part of the Government's employment strategy, \$76 million has been committed over the next three years to Vote Employment. This comprises \$44 million new resources and \$32 million which has been reprioritised from other programmes.

Offsetting this additional expenditure is a decrease in forecast employment initiative expenditure following recent outturn information showing lower take-up of the Training Incentive Allowance over recent months than forecast in the *December Update*. Also included under Other Expenses in 1997/98 are additional interest expenses associated with the assumed settlement of the Equiticorp claim in 1997/98 rather than 1996/97 as forecast in the *December Update*.

Other

Other expenses are related to the settlement of Treaty of Waitangi claims. Since the *December Update*, changes in this category are the result of:

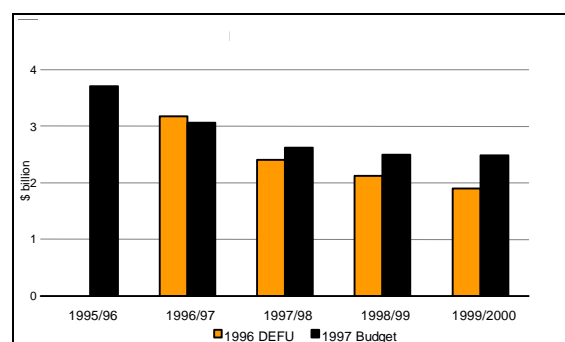
- the recalculation of the multi-year appropriation for Treaty Settlements
- the forecast settlement of the Ngai Tahu claim in 1997/98 rather than 1996/97 as forecast in the *December Update*.

Finance

Finance expenses are forecast to continue to fall as cash surpluses are used to reduce net Crown debt. Finance costs are projected to fall by \$577 million (18.8%) from 1996/97 to 1999/2000.

Compared with the 1996 *December Update*, finance expenses are \$107 million lower in 1996/97, \$207 million higher in 1997/98, \$380 million higher in 1998/99, and \$592 million higher in 1999/2000.

Figure 4.8 - FINANCE COSTS



Source: The Treasury

Finance costs are lower than projected in the *December Update* in 1996/97 owing to lower net debt levels, lower short-term domestic interest rates and technical adjustments to the amortisation of swap transaction fees.

From 1997/98 finance costs are higher than projected in the *December Update*. This principally reflects:

- higher domestic debt levels owing to a reduction in the cash available to repay domestic debt

- higher levels of gross foreign-currency debt, although net foreign-currency debt remains relatively constant
- higher forecast domestic short and long-term interest rates than projected in the *December Update*.

Annex A

Functional Classification Definitions

The expense classifications are based on those used by the International Monetary Fund for international comparison purposes. They identify broad areas of government activity and, in most cases, they do not coincide with the expenses of any one department. Votes may cover expenses included in more than one category.

Function Classification	Comprises Expenses of
Social Security and Welfare	Votes Social Welfare, Senior Citizens, Revenue (Family Support), Government Superannuation Fund, Labour (rehabilitation and compensation expenses)
Education	Votes Education, Education Review Office Other Votes with an educational component
Health	Health Health-related expenses of ARCIC
Core Government Services	Audit, part of Vote Finance, Vote Treasurer, Foreign Affairs and Trade, Internal Affairs, Justice (Electoral Office), Office of the Clerk, Ombudsmen, Parliamentary Services, Prime Minister and Cabinet, Research Science and Technology, Revenue, State Services, Statistics, Lands, Valuation
Law and Order	Attorney-General, Courts, Corrections, Customs, Justice, Police, Serious Fraud, Prime Minister and Cabinet, Security Intelligence
Defence	Defence, Defence Force, Communications Security, Civil Defence

Function Classification	Comprises Expenses of
Transport and Communications	part of Vote Communications, Vote Transport
Economic and Industrial Services	Business Development, Consumer Affairs, Employment, Energy, Finance, Immigration, Labour, Tourism
Primary Services	Agriculture, Fisheries, Forestry, Vote Biosecurity, part of Vote Finance
Heritage, Culture and Recreation	Communications, Conservation, Cultural Affairs, Māori Affairs, National Library, Women's Affairs, Youth Affairs
Housing and Community Development	Environment, Housing
Other	Treaty negotiations and settlements
Finance	Finance costs in Vote Finance

Annex B

Expense Tables

Attached are tables showing expense trends. These tables may be influenced from time to time by classification changes and the effects of revaluations. Where possible, we have shown adjustments to the tables for significant items.

Revaluations

To understand the underlying trends in expenses over time, it is useful to exclude certain revaluation expenses. Tables 4.14, 4.15 and 4.18 show how the exclusion of these items affects the trends.

Foreign Exchange Gains or Losses

Gains and losses on foreign-currency monetary assets and liabilities resulting from movements in exchange rates are recorded as expenses, whether positive or negative. Foreign-exchange gains and losses are not forecast as a matter of policy.

Unfunded Pension Liability

The unfunded pension liability is the actuarial value of unfunded obligations incurred by the Government through state service superannuation schemes to current and former employees in respect of past services.

This is a liability recognised in the Statement of Financial Position. The value of the liability is actuarially re-calculated periodically and changes (positive or negative) are expensed through the Statement of Financial Performance.

NPF Guarantee

NPF Guarantee expenses relate to the Crown's guarantee of the DBP(A) Scheme of the National Provident Fund. The Crown has recognised the actuarial deficit of the DBP(A) Scheme as a liability in its Statement of Financial Position.

Table 4.14 - EXPENSES BY CATEGORY

	1992/93	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
<u>(\$ million)</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Social security and welfare	12,071	11,479	11,724	12,240	12,679	13,237	13,532	13,922
Health	4,168	4,602	4,886	5,228	5,630	6,013	6,101	6,165
Education	4,539	4,627	4,803	4,949	5,353	5,643	5,767	5,861
Core government services	1,464	1,723	1,340	1,565	1,623	1,573	1,593	1,620
Law and order	1,054	1,150	1,190	1,234	1,279	1,267	1,274	1,270
Defence	1,173	1,049	1,013	970	945	1,047	1,050	942
Transport and communications	781	815	796	821	865	910	934	942
Economic and industrial services	744	711	673	997	762	829	743	743
Primary services	372	299	309	304	353	318	333	339
Heritage, culture and recreation	310	241	233	247	274	305	290	275
Housing and community development	260	39	46	40	45	48	43	43
Other	236	14	181	48	67	279	109	108
Finance costs	3,961	3,788	3,757	3,703	3,066	2,617	2,500	2,489
Net foreign exchange losses/(gains)	296	(898)	(551)	(603)	30	..	..	..
Provision for future initiatives	..	..	..	..	..	330	950	1,770
Contingency expense provision	..	..	..	..	..	200	200	200
Total Expenses	31,429	29,639	30,400	31,743	32,971	34,616	35,419	36,689
Less								
Foreign exchange (losses)/gains	(296)	898	551	603	(30)	..	..	..
Unfunded GSF liability revaluation	(664)	(111)	(155)	(226)	(66)	(85)	(78)	(69)
NPF guarantee revaluation	..	..	40	15	(27)	..	..	..
Adjusted Total Expenses	30,469	30,426	30,836	32,135	32,848	34,531	35,341	36,620

Source: The Treasury

Table 4.15 - SOCIAL SECURITY AND WELFARE EXPENSES

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	Actual	Actual	Actual	Actual	Forecast	Projection	Projection
Welfare benefits	9,959	10,301	10,593	11,156	11,729	12,041	12,436
GSF pension expense	736	805	1,009	786	771	770	772
Social rehabilitation and compensation	211	93	93	89	87	88	95
Departmental expenses	518	512	534	530	528	516	503
Other non-departmental expenses	55	13	11	118	122	117	116
Total Social Security and Welfare	11,479	11,724	12,240	12,679	13,237	13,532	13,922
Less effects of unfunded liability revaluation	(111)	(155)	(226)	(66)	(85)	(78)	(69)
Adjusted Social Security and Welfare	11,368	11,569	12,014	12,613	13,152	13,454	13,853

Source: The Treasury

Table 4.16 - NEW ZEALAND SUPERANNUATION AND WELFARE BENEFITS

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	Actual	Actual	Actual	Actual	Forecast	Projection	Projection
New Zealand Superannuation	4,931	4,982	5,051	5,107	5,138	5,203	5,325
Domestic Purposes Benefit	1,204	1,269	1,362	1,449	1,531	1,573	1,661
Unemployment Benefit	1,483	1,320	1,236	1,325	1,327	1,273	1,231
Accommodation Supplement	352	491	562	661	774	801	840
Invalids Benefit	391	429	481	535	596	643	705
Sickness Benefit	305	332	353	379	401	418	444
Disability Allowance	116	130	149	179	207	238	270
Transitional Retirement Benefit	87	88	101	108	114	121	137
Family Support	645	700	748	794	902	943	969
Independent Family Tax Credit	..	..	..	45	144	210	225
Special Benefit	67	83	87	75	65	67	70
Benefits paid in Australia	28	31	30	53	61	74	73
Other benefits	350	446	433	446	469	477	486
Total Welfare Benefits	9,959	10,301	10,593	11,156	11,729	12,041	12,436

Source: The Treasury

Table 4.17 - BENEFICIARY NUMBERS

(Thousands)	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	Estimated <u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
New Zealand Superannuation	502	494	485	476	470	470	461
Domestic Purposes Benefit	99	103	107	112	116	120	125
Unemployment Benefit	170	150	139	144	141	134	128
Accommodation Supplement	211	262	276	297	310	309	313
Invalids Benefit	36	39	41	44	48	51	54
Sickness Benefit	31	33	33	34	35	36	37

Source: The Treasury

Table 4.18 - GSF PENSION EXPENSE

(\$ million)	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	Estimated <u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
GSF pension expense	736	805	1,009	786	771	770	772
Less revaluation of Unfunded Liability	(111)	(155)	(226)	(66)	(85)	(78)	(69)
Adjusted GSF pension expense	625	650	783	720	686	692	703

Source: The Treasury

Table 4.19 - HEALTH EXPENSES

(\$ million)	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	Estimated <u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Departmental outputs	65	50	55	58	58	60	59
Personal health, disability support and public health services	4,395	4,645	4,958	5,339	5,705	5,793	5,847
Other non-departmental outputs	52	39	35	45	45	41	41
Health payments to ARCIC	59	161	171	193	190	200	210
Other expenses	31	(9)	9	(5)	15	7	8
Total Health Expenses	4,602	4,886	5,228	5,630	6,013	6,101	6,165

Source: The Treasury

Table 4.20 - PERSONAL HEALTH, DISABILITY SUPPORT AND PUBLIC HEALTH SERVICES

	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Personal health services:							
Northern	1,016	1,102	1,154	1,224	1,338	1,374	1,393
Midland	668	720	750	791	844	860	870
Central	820	859	888	933	982	996	1,005
Southern	746	778	812	858	909	923	932
Additional health purchases	..	..	..	25	..	..	..
Additional elective services	..	..	..	49	78	60	35
Total Personal Health	3,250	3,459	3,604	3,880	4,151	4,213	4,235
Disability support services							
Northern	329	343	395	429	466	475	488
Midland	199	208	248	268	285	291	299
Central	287	295	330	345	361	367	373
Southern	254	262	302	321	342	347	353
Total Disability Support	1,069	1,108	1,275	1,363	1,454	1,480	1,513
Public Health Service Purchasing	76	78	79	96	100	100	99
Total	4,395	4,645	4,958	5,339	5,705	5,793	5,847

Source: The Treasury

Table 4.21 - HEALTH RELATED PAYMENTS TO ARCIC

	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Petrol excise	59	65	67	64	65	66	67
Medical treatment	..	96	104	129	125	134	143
Total	59	161	171	193	190	200	210

Source: The Treasury

Table 4.22 - EDUCATION EXPENSES

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Early childhood education	212	212	227	252	280	295	310
Primary and secondary schools	2,297	2,362	2,478	2,723	2,888	2,954	3,009
Tertiary funding	1,593	1,696	1,697	1,813	1,878	1,921	1,935
Departmental expenses	297	292	280	293	323	333	344
Other education expenses	228	241	267	272	274	264	263
Total Education Expenses	4,627	4,803	4,949	5,353	5,643	5,767	5,861

Source: The Treasury

Table 4.23¹ - PRIMARY AND SECONDARY EDUCATION

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Primary	1,131	1,175	1,269	1,380	1,442	1,475	1,498
Secondary	946	954	964	1,071	1,151	1,167	1,194
Secondary allowances	6	6	7	8	14	28	30
School transport	87	84	87	88	92	93	94
Special needs support	127	143	151	176	189	191	193
Total Schools Funding	2,297	2,362	2,478	2,723	2,888	2,954	3,009
Places (year)	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Primary	420,151	433,601	451,450	462,240	472,950	481,840	489,010
Secondary	234,387	236,315	237,940	239,110	243,180	253,650	259,240

Source: The Treasury

¹ The amount shown here for Total Schools funding varies from the amount shown in Note 5 of the Forecast Financial Statements by the amount included for secondary allowances. In Note 5, this amount is included in the amount shown for student allowances.

Table 4.24 - TERTIARY EDUCATION

	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
<u>(\$ million)</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Tuition	1,115	1,131	1,152	1,170	1,191	1,207	1,209
Other tertiary funding	237	241	254	251	265	268	266
Total Tertiary Education and Training Purchases	1,352	1,372	1,406	1,421	1,456	1,475	1,475
Tertiary student allowances	241	260	286	321	342	357	371
Student loan provision and write-offs	..	64	5	71	80	89	89
Total Tertiary Funding	1,593	1,696	1,697	1,813	1,878	1,921	1,935
<u>Places (year)</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
EFTS Students	137,224	139,916	142,961	145,686	149,480	152,468	152,468

Source: The Treasury

Table 4.25 - CORE GOVERNMENT SERVICES

	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
<u>(\$ million)</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Official development assistance	130	170	165	184	198	210	223
Indemnity and guarantee expenses	273	..	(15)	27	..	..	..
Departmental expenses	870	806	906	935	868	848	838
Science expenses	287	295	304	315	355	376	407
Other expenses	163	69	205	162	152	159	152
Total Core Government Services Expenses	1,723	1,340	1,565	1,623	1,573	1,593	1,620

Source: The Treasury

Table 4.26 - LAW AND ORDER

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Departmental expenses:							
Police	560	573	579	593	580	579	579
Department of Justice	462	403	69	..	..	..	..
Ministry of Justice	..	..	9	11	12	12	12
Department of Corrections	..	..	205	263	269	272	272
Department for Courts	..	..	164	184	186	189	184
Other departments	86	87	98	92	83	82	82
Total Departments	1,108	1,063	1,124	1,143	1,130	1,134	1,129
Non-departmental outputs	39	92	101	105	102	107	107
Other expenses	3	35	9	31	35	33	34
Total Law and Order Expenses	1,150	1,190	1,234	1,279	1,267	1,274	1,270

Source: The Treasury

Table 4.27 - DEFENCE EXPENSES

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
NZDF expenses	1,017	959	937	908	927	907	907
Other departments	32	54	33	37	120	143	35
Total Defence Expenses	1,049	1,013	970	945	1,047	1,050	942

Source: The Treasury

Table 4.28 - TRANSPORT AND COMMUNICATIONS

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Transit New Zealand	721	695	710	..	..	..	..
Transfund	..	..	..	749	791	817	830
Departmental outputs	74	60	66	65	68	67	68
Other non-departmental expenses	8	39	45	51	51	50	44
Other expenses	12	2	..	..	..	..	..
Total Transport and Communications	815	796	821	865	910	934	942

Source: The Treasury

Table 4.29 - ECONOMIC AND INDUSTRIAL SERVICES

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Departmental outputs	192	217	246	263	291	272	276
Equiticorp judgment	..	..	328	..	..	..	..
Employment initiatives	286	271	259	280	294	270	268
Non-departmental outputs	131	154	156	154	164	163	162
Other expenses	102	31	8	65	80	38	37
Total Economic and Industrial Services	711	673	997	762	829	743	743

Source: The Treasury

Table 4.30 - EMPLOYMENT INITIATIVES

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Training benefit (including tax)	101	98	98	99	92	76	77
Training incentive allowance	17	21	27	29	33	38	41
Community employment projects	13	13	16	15	14	13	13
Job plus	77	86	80	82	..	..	..
Taskforce Green	39	31	25	35	..	..	..
Subsidised work	..	..	..	..	133	124	117
Other employment assistance schemes	39	22	13	20	22	19	20
Total Employment Initiative Expenses	286	271	259	280	294	270	268

Source: The Treasury

Table 4.31 - PRIMARY SERVICES

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Compensation payments	5	12	..	..	..	..	..
Departmental expenses	239	255	240	251	228	228	226
Non-departmental outputs	22	21	45	45	73	88	95
Other expenses	33	21	19	57	17	17	18
Total Primary Services Expenses	299	309	304	353	318	333	339

Source: The Treasury

Table 4.32 - HERITAGE, CULTURE AND RECREATION

	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Community grants	17	17	22	20	20	20	20
Departmental outputs	197	167	171	195	202	198	189
Non-departmental outputs	27	39	46	58	58	58	54
Other expenses	..	10	8	1	25	14	12
Total Heritage, Culture and Recreation	241	233	247	274	305	290	275

Source: The Treasury

Table 4.33 - HOUSING AND COMMUNITY DEVELOPMENT

	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Housing subsidies	18	10	5	5	2	3	3
Departmental outputs	23	24	25	27	30	29	29
Other non-departmental expenses	61	12	10	13	16	11	11
Prior years over-provision	(63)	..	..	..	..	..	..
Total Housing and Community Development	39	46	40	45	48	43	43

Source: The Treasury

Table 4.34 - OTHER EXPENSES

	1993/94	1994/95	1995/96	1996/97 Estimated	1997/98	1998/99	1999/2000
(\$ million)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Total Other Expenses	14	181	48	67	279	109	108

Source: The Treasury

Table 4.35 - FINANCE COSTS

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
				Estimated			
<u>(\$ million)</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Projection</u>	<u>Projection</u>
Total Finance Costs	3,788	3,757	3,703	3,066	2,617	2,500	2,489

Source: The Treasury
