2

Fiscal Outlook

Overview

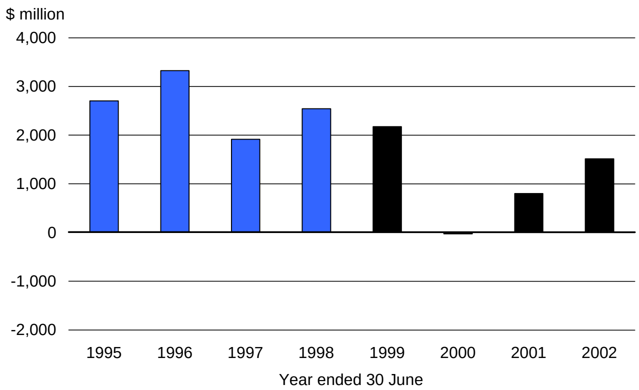
One-off factors boost the Operating Balance in 1998/99…

The forecast operating balance in 1998/99 is $2.2 billion.

As in 1997/98, a number of items boost the 1998/99 operating balance including:

- gains on sale of assets ($1,740 million):
  - Contact Energy Limited ($1,421 million)[1]
  - ECNZ small hydro-stations ($115 million)
  - Auckland and Wellington Airport companies ($204 million)
- a reduction in the valuation of the GSF (Government Superannuation Fund) pension liability ($217 million).

Figure 2.1 - Operating Balance



Source: The Treasury

1 See box on page 30.

Fiscal Indicators

Table 2.1 - Fiscal Indicators

($ million)	1997/98 Actual	1998/99 Forecast Estimated[2] Actual	1998/99 Forecast December Update	1999/2000 Projection Budget	1999/2000 Projection December Update	2000/01 Projection Budget	2000/01 Projection December Update	2001/02 Projection Budget	2001/02 Projection December Update
Statement of Financial Performance									
Revenue									
Taxation revenue	32,982	32,356	31,993	33,565	32,836	35,230	34,135	36,943	36,205
Other revenue	2,599	4,106	2,601	2,176	2,364	2,329	2,485	2,495	2,549
Total Revenue	35,581	36,462	34,594	35,741	35,200	37,559	36,620	39,438	38,754
Ratio to GDP (%)	36.3%	36.7%	34.9%	34.5%	34.6%	34.5%	34.5%	34.6%	34.5%
Tax ratio to GDP (%)	33.6%	32.6%	32.3%	32.4%	32.2%	32.3%	32.2%	32.4%	32.3%
Expenses									
Functional expenses	31,394	32,787	33,159	33,714	33,791	33,891	34,071	34,271	34,465
Finance Costs	2,804	2,520	2,548	2,294	2,514	2,454	2,604	2,512	2,645
Net foreign exchange losses/(gains)	13	(51)	(116)	..	..	..	..	..	..
Provision for future initiatives	..	..	80	250	690	900	1,370	1,580	2,050
Contingency expense provision	..	..	50	100	100	100	100	100	100
Total Expenses	34,211	35,256	35,721	36,358	37,095	37,345	38,145	38,463	39,260
Ratio to GDP (%)	34.9%	35.5%	36.1%	35.1%	36.4%	34.3%	36.0%	33.8%	35.0%
Contribution of SOEs and CEs									
Surplus attributable to SOEs and CEs	1,560	1,433	1,467	861	956	901	981	912	1,069
Dividends and other distributions	(396)	(475)	(392)	(280)	(381)	(325)	(449)	(383)	(489)
Net Contribution of SOEs and CEs	1,164	958	1,075	581	575	576	532	529	580
Operating Balance	2,534	2,164	(52)	(36)	(1,320)	790	(993)	1,504	74
Ratio to GDP (%)	2.6%	2.2%	(0.1%)	(0.0%)	(1.3%)	0.7%	(0.9%)	1.3%	0.1%
Statement of Financial Position									
Assets	62,356	55,674	54,684	55,608	56,009	57,083	56,943	57,867	57,764
Liabilities	52,435	50,218	52,209	50,188	54,854	50,873	56,781	50,153	57,528
Crown Balance	9,921	5,456	2,475	5,420	1,155	6,210	162	7,714	236
Ratio to GDP (%)	10.1%	5.5%	2.5%	5.2%	1.1%	5.7%	0.2%	6.8%	0.2%
Statement of Borrowings									
Crown Debt									
Gross Debt	37,892	36,056	37,776	36,096	40,156	36,857	42,248	36,349	43,094
less financial assets	(13,823)	(13,687)	(11,952)	(12,489)	(12,551)	(13,101)	(12,775)	(13,359)	(12,945)
Net Crown Debt	24,069	22,369	25,824	23,607	27,605	23,756	29,473	22,990	30,149
Net Crown Debt to GDP (%)	24.6%	22.5%	26.1%	22.8%	27.1%	21.8%	27.8%	20.2%	26.9%
Net Debt Repayment/(Increase)	1,255	1,700	(1,755)	(1,238)	(1,781)	(149)	(1,868)	766	(676)
Nominal GDP	98,038	99,238	99,055	103,606	101,872	109,018	106,005	113,887	112,200

Source: The Treasury

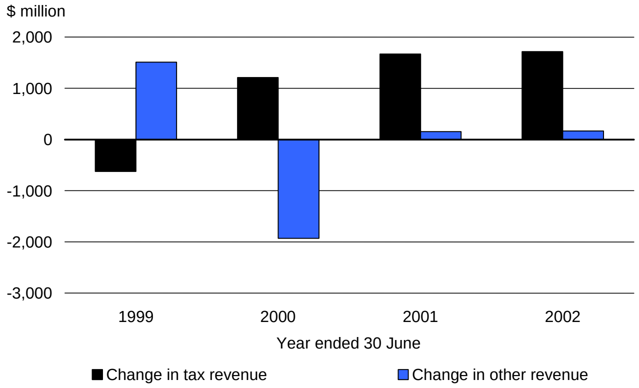
2 The forecast for 1998/99 is based on nine months of actual results. There is potential for the actual year end result to be significantly different from the estimated actual forecast.

… with the Operating Balance falling in 1999/2000...

Despite a pick-up in tax revenue from higher nominal economic growth, the operating balance falls significantly to around balance in 1999/2000, reflecting:

- the absence of the positive one-off factors that boosted the operating surplus in 1998/99 (mainly included in other revenue)
- lower SOE and Crown Entity surpluses from the recognition of the ACC outstanding claims liability ($500 million)
- higher expenses of around $1.1 billion.

Figure 2.2 - Change in Revenue Components Between Years



Source: The Treasury

… and then improving beyond 1999/2000.

Beyond 1999/2000, the operating balance rises as revenue growth outpaces expense growth.

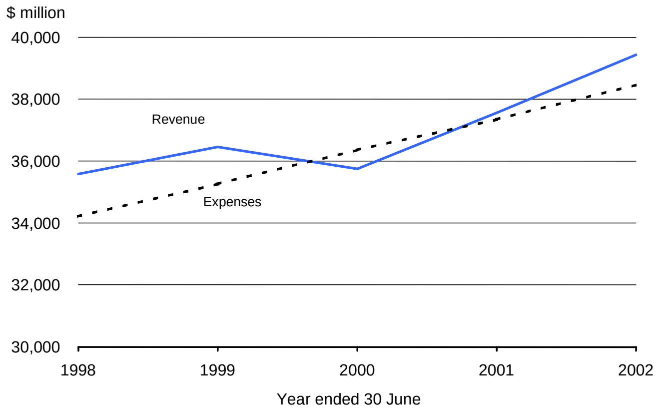
Revenue growth averages 5.1%, reflecting tax revenue growth from the improving nominal economy.

Tax revenue growth is relatively constant between 1999/2000 and 2001/02.

Expense growth averages 2.9%, reflecting a combination of CPI, demographic and policy spending increases.

Finance costs and Community Wage - Unemployment costs are relatively stable.

Figure 2.3 - Revenue and Expense Trends



Source: The Treasury

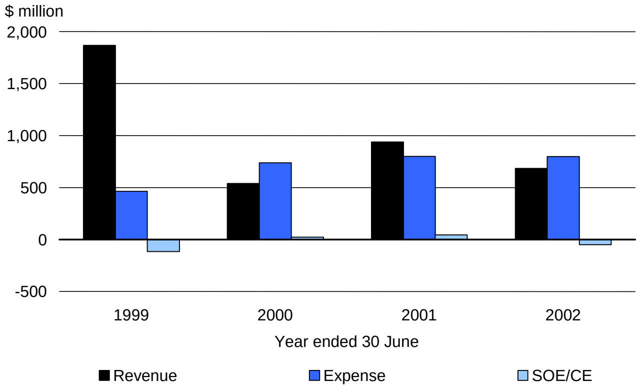
Operating Balance forecasts are higher than at December owing to a stronger economy …

The revised economic forecasts result in:

- higher tax revenue from upward revisions to nominal GDP
- lower benefit spending from lower unemployment forecasts
- lower finance costs reflecting lower debt levels and lower interest rates.

From 1999/2000 revenue increases and expense reductions contribute relatively evenly to the operating balance improvement.

Figure 2.4 - Contributions to the Operating Balance: Change since December



Source: The Treasury

The effect of different economic outcomes on the fiscal position is outlined in Chapter 3.

Table 2.2 - Operating Balance Changes

($ million)	**1998/99**	**1999/00**	**2000/01**	**2001/02**
Operating Balance per December Update	**(52)**	**(1,320)**	**(993)**	**74**
Taxation revenue forecasts	363	806	1,172	815
Demand driven and CPI changes to benefits	213	328	421	383
Net finance costs	60	202	185	231
Movement in GSF unfunded pension liability	275	60	87	86
Surplus of SOEs/Crown entities	(34)	(95)	(80)	(157)
Gain on sale of Contact Energy	1,421	..	..	..
Reduction in Treaty of Waitangi settlement expenses	128	..	..	..
Reduction in investment in IBRD (World Bank)	(70)	..	..	..
Reduction in foreign exchange gains	(65)	..	..	..
Reduction in gains on sale of marketable securities and deposits	(45)	..	..	..
Reduction in contingency expense provision	50	..	..	..
Other	(80)	(17)	(2)	72
Total change	**2,216**	**1,284**	**1,783**	**1,430**
Operating Balance per Budget	**2,164**	**(36)**	**790**	**1,504**

Source: The Treasury

… complemented by other changes.

Other forecasting changes contribute to an improving operating balance since the *December Update*. Changes include:

- A devaluation of the GSF unfunded pension liability, which improves the operating balance by $275 million in 1998/99 with a flow-on effect in following years. Lower-than-expected inflation and higher-than-expected returns to Fund assets over the past year drive the revision (see page 45 for more detail).
- A reduction in benefit expenses. Recent outturns suggest lower take-up rates for the Domestic Purposes, Invalids and Community Wage-Sickness benefits.
- The gain on sale of Contact Energy Limited of $1.4 billion in 1998/99.
- Lower 1998/99 Treaty of Waitangi settlement expenses than provided for in the *December Update*.

Net Debt falls as a percentage of GDP over the forecast period…

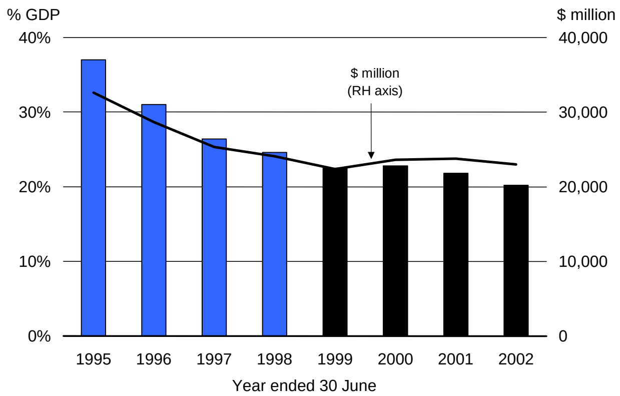
Net debt falls from 24.6% of GDP in 1997/98 to 22.5% in 1998/99, largely reflecting asset sale proceeds.

In 1999/2000 net debt rises slightly reflecting:

- an operating cash deficit
- increased capital investment in particular for health, education and prudential capital for At Work Insurance Ltd.

Net debt falls to 20.2% of GDP in 2001/02 as operating cash-flows improve.

Figure 2.5- Net Debt ($ and % GDP)



Source: The Treasury

…and is significantly lower than the December Update.

Net debt in 2001/02 is lower than forecast in the *December Update* by $7.2 billion. The sale of Contact Energy Limited, which was not included in the forecasts, and the cumulative impact of improved cash-flows drive the improvement.

Sale of Contact Energy Limited

The sale of Contact Energy Limited was finalised by Cabinet on 10 May. Contact Energy was valued in the Crown's accounts at around $910 million and the sale has occurred in two distinct stages:

- The sale of the cornerstone shareholding of 40% to Edison Mission Energy for $1.2 billion.
- The remaining 60% was offered to the public and institutions by way of public share float. The price per share has been established at $3.10, resulting in proceeds of around $1.1 billion.

Total sales proceeds were therefore $2.3 billion. These proceeds have been used to reduce net debt.

A gain on sale of $1.4 billion, reflecting the difference between total sales proceeds and the book value, has been recorded in the 1998/99 operating balance. The sale proceeds lower finance costs, therefore improving the operating balance from 1999/2000.

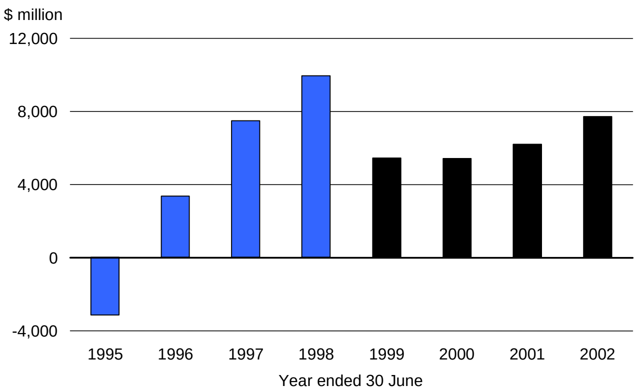
Net Worth falls in 1998/99 owing to ARCIC liability recognition.

In 1998/99 net worth falls by $4.5 billion to a level of $5.5 billion.

ARCIC's recognition of the future cost of already accepted ACC claims ($6.9 billion), partly offset by a $2.2 billion operating surplus, drives the fall.

ARCIC's recognition is an accounting policy change and does not reflect, in substance, an increased obligation for the Crown.

Figure 2.6 - Net Worth



Source: The Treasury

Beyond 1999/2000, net worth increases with operating balance surpluses.

Relative to the *December Update*, net worth is $7.5 billion higher in 2001/02 reflecting higher operating balance forecasts and a lower valuation of the ACC outstanding claims liability.

*

The Operating Balance Limit

The operating balance limit for policy initiatives for the three years 1997/98 to 1999/2000 is $4.25 billion, reduced from $5 billion. All changes to the operating balance from government decisions to introduce a new policy initiative or change the cost of existing initiatives are included. The reconciliation below shows that decisions to date together with the provision for future initiatives are within the overall limit.

Table 2.3 - Operating Limit

($ million)	1997/98	1998/99	1999/2000	Three-year total
Operating Balance Impact ($4.25 billion limit)*				
1997 Budget Initiatives	606	787	889	***2,282***
1997 December Update Initiatives	135	112	155	***402***
1998 Budget Initiatives	118	307	363	***788***
1998 December Update Initiatives	..	83	16	***99***
Decisions since 1998 December Update				
Revenue Initiatives				
Abolishing conveyance and lease duties	..	..	69	*69*
Expense Initiatives				
Education	..	28	50	*78*
Removal of public broadcasting fees	..	..	55	*55*
Economic team package	..	..	25	*25*
Enterprise and Innovation team package	..	(2)	23	*21*
Justice team package	..	..	10	*10*
Social team pacakge	..	..	22	*22*
Māori Disparities taskforce package	..	..	8	*8*
Transport: drivers licences	..	9	6	*15*
Cost recovery border clearance delay	..	..	24	*24*
Māori broadcasting: television services	..	10	..	*10*
Police cost pressures	..	(2)	16	*14*
Other initiatives	..	(19)	57	*38*
	..	***24***	***365***	***389***
SOE/Crown Entity Initiatives				
Timberlands WestCoast: early cessation of Buller overcut	..	..	8	*8*
Total Initiatives since 1998 December Update	**..**	**24**	**373**	**397**
Provision for Future Initiatives	..	..	227	*227*
Total Operating Balance Impact	**859**	**1,313**	**2,023**	**4,195**
Reduction in Operating Balance Limit				
May '98 - Reduction in spending intentions	..	150	150	***300***
July '98 - Savings Package	..	80	220	***300***
Sept '98 - Policies for Progress Package	..	25	125	***150***
May '99 - Budget Package	..	15	40	***55***
				5,000

* Decisions taken since the December Update and the provisions 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 Capital Limit

The limit for new capital initiatives for the three years 1997/98 to 1999/2000 is $900 million.

Table 2.4 - Capital Limit

($ million)	1997/98	1998/99	1999/2000	Three-year total
Capital spending ($900 million limit)				
Decisions taken up to the 1998 Budget				
Capital decisions in 1997 Budget	266	200	186	*652*
Capital decisions in 1997 December Update	(483)	167	60	*(256)*
Capital decisions in 1998 Budget	284	267	16	*567*
Capital decisions in 1998 December Update	..	31	(4)	*27*
	67	665	258	*990*
Decisions since the 1998 December Update				
Repayment of advance from Housing Corporation of NZ	..	(177)	..	*(177)*
Capital withdrawal from Housing Corporation of NZ	..	(61)	..	*(61)*
School property business case	..	..	100	*100*
North Shore Court building	..	..	15	*15*
Land Information NZ's capital rephasing of National Property	..	(18)	1	*(18)*
Other initiatives	..	11	30	*41*
	..	(245)	145	*(100)*
Total Capital Spending	**67**	**420**	**403**	**890**

The preceding overview summarises the main trends and changes since the *December Update* in the operating balance, net debt and net worth.

Further detail follows for:

- Tax Revenue
- Expenses
- SOE and Crown entity surpluses
- Balance Sheet items, including GSF and ARCIC.

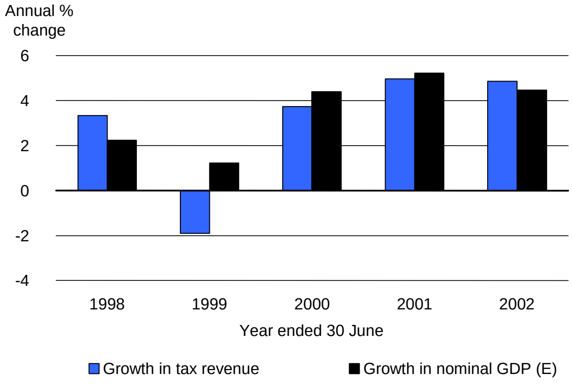
Tax Revenue

Tax revenue falls in 1998/99…

Tax revenue[3] in the 1998/99 year is expected to decline by 1.8% on the prior year. This reflects the increased revenue from a modest increase in nominal GDP being more than offset by:

- the 1 July 1998 tax-rate reductions
- the removal of the superannuation surcharge on 1 April 1998
- the removal of motor vehicle tariffs on 15 May 1998
- the 1 July 1998 tariff rate reductions.

Figure 2.7 - Tax Revenue and Nominal GDP Growth



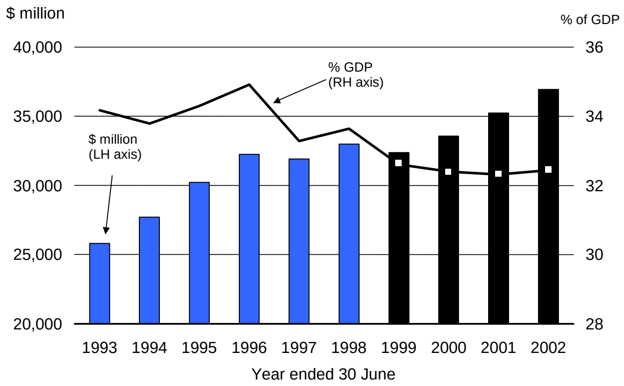
Source: The Treasury

3 This refers to accrual revenue, which is the measure of taxation that affects the operating balance.

… but tracks nominal GDP thereafter.

From 1999/2000 onwards, growth in tax revenue broadly tracks growth in nominal GDP, resulting in a flat tax-to-GDP ratio throughout the forecast period. However, there are some additional factors, such as new withholding rates for bonuses, further scheduled tariff cuts, the removal of stamp duty, and changes to the ACC scheme, which affect growth in tax revenue to varying degrees.

Figure 2.8 - Tax Revenue ($ and % of GDP)



Source: The Treasury

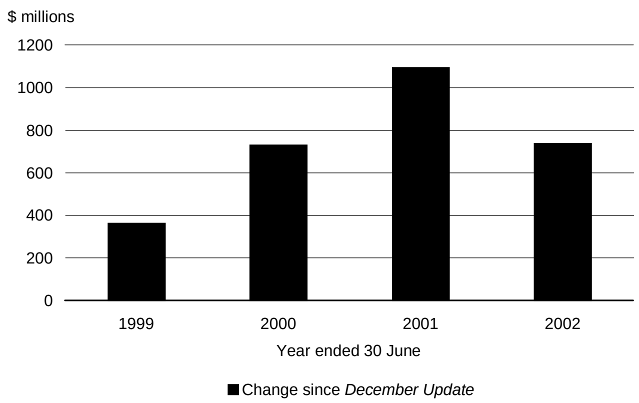
Tax forecasts have increased since the December Update…

Tax revenue in all years is significantly higher than in the *December Update* forecasts.

The current year revision is a result of:

- an improved economic outlook
- tax outturn information to date.

Figure 2.9 - Change in Tax Revenue Forecasts since the *December Update*



Source: The Treasury

Over the remaining three years, the improved economic outlook and the bigger tax base in 1998/99 drive the increases in the tax forecasts. The bulk of the upward revisions occur in source deductions and GST, with corporate taxes also making a significant contribution in 2000/01.

… but risks remain.

Since tax revenue is closely related to components of nominal income and expenditure, the main risk to the tax forecasts is economic. However, the tax forecasts also incorporate judgements regarding taxpayer behaviour, particularly in response to recent policy and administrative changes. As this behaviour can never be accurately predicted, actual tax outturns will show some variation around the forecasts.

Corporate taxes[4] resume growth after a flat 1998/99…

Aggregate business profits are expected to drop in 1998/99 before recovering in 1999/2000 as the economy recovers. Profit growth is expected to be more moderate in later years.

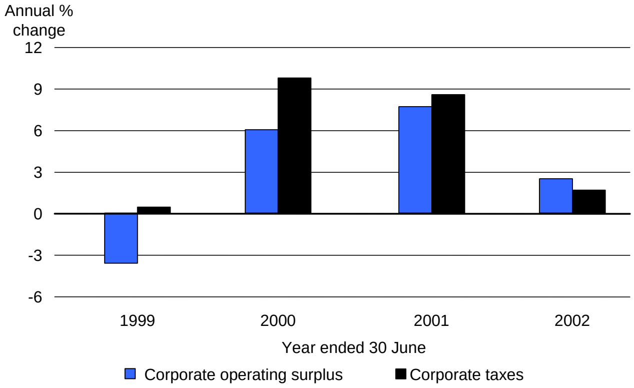
Some recent legislative adjustments, for example, trading stock reform, are expected to add to the corporate tax base in 1998/99, offsetting the dip in corporate profits (as proxied by corporate operating surplus).

Corporate taxes rise in 1999/2000, further boosted by the impact of low interest rates, which reduce businesses' interest expenses, and lower refunds in 1999/2000.

Increased provisional payments through late calendar 2000, as companies recognise improved profits, will bring forward some growth into 2000/01 from 2001/02. However, on average, corporate tax growth beyond 1999/2000 is similar to forecast growth in business profits.

Changes to the ACC scheme will affect the timing of deductions claimed by companies in respect of their work accident insurance expenses. This is estimated to reduce company tax revenue by a total of $160 million over the next three years.

Figure 2.10 - Growth in Corporate Operating Surplus and Corporate Taxes



Source: The Treasury

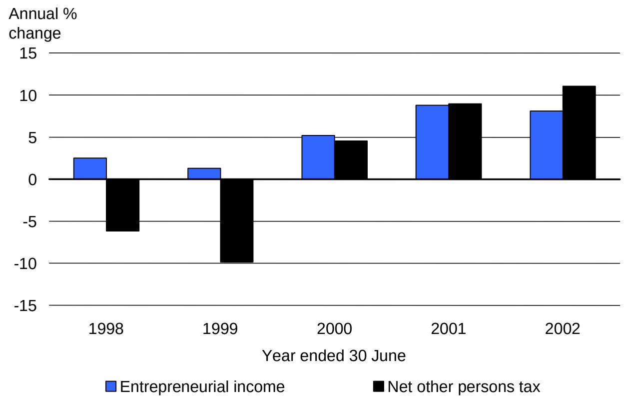
…and small-business taxes follow a similar profile.

Net other persons tax[5] is expected to fall in 1998/99, chiefly owing to higher refunds resulting from previously overpaid tax and the effect of the July 1998 tax cuts. The impact of the 1998 and 1999 droughts on farm incomes also contribute to the drop in other persons tax revenue.

Growth in other persons tax in 1999/2000 is affected by a number of policy and administrative changes. These forecasts include the judgements that:

- the lower tax rates and the removal

Figure 2.11 - Entrepreneurial Income and Other Persons Tax Growth



Source: The Treasury

4 Corporate taxes include net company income tax, foreign dividend withholding payments and non-resident withholding taxes.

5 Net other persons tax is largely made up of provisional tax from small-business owners, farmers and investors, less refunds to all individuals, including wage and salary earners.

of the surcharge will reduce terminal tax from 1999 tax returns

- the initiatives that ensure more tax is withheld at the correct rate during the year will also reduce terminal tax
- the removal of the IR5 return from the year 2000 onwards, as a result of tax simplification initiatives, will reduce refunds over the forecast period.

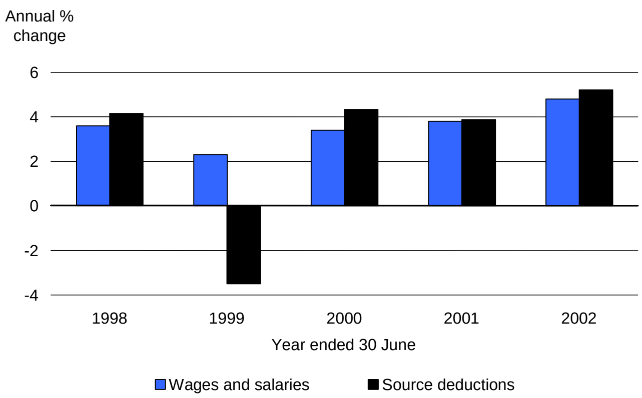
In the final two years of the forecast period, net other persons tax increases at an average rate of around 10%, broadly in line with growth in entrepreneurial income.

The strengthening labour market supports PAYE growth…

Despite employment and wage growth, source deductions revenue declines by about 3.5% in 1998/99 as a result of the 1 July 1998 tax cuts.

Growth resumes in 1999/2000 as the tax cuts are assimilated into the tax base. For 2000/01 and 2001/02, source deductions grow in line with wages and salaries.

Figure 2.12 - Wage and Salary, and Source Deductions Growth



Source: The Treasury

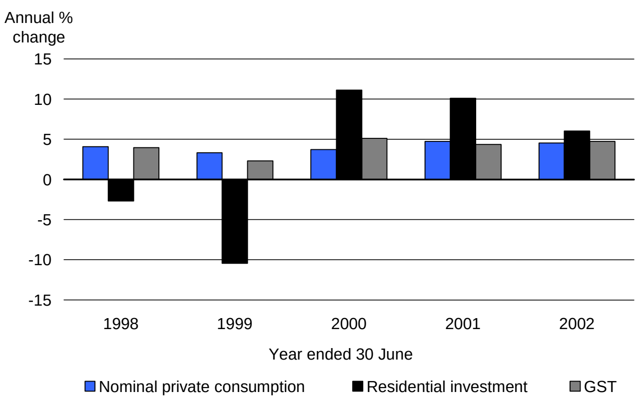
…and steady consumption growth drives GST growth.

Consumption growth is expected to be 3-4% per annum over the next four years. GST growth follows a similar track, with the exception of some one-off factors:

- GST increases by 2.3% in 1998/99. The arrival of the frigate Te Kaha in August 1997 boosted GST in 1997/98, which flattens growth in 1998/99.
- Residential investment bounces back in 1999/2000. This, together with the arrival of the second ANZAC frigate in the latter part of 1999, provides a boost to GST.

The GST base will be expanded from 1999/2000 onwards. Currently, consumption of some services within New Zealand does not attract GST when the services are purchased in advance from overseas. Legislation to remedy this anomaly in the GST system was scheduled to be introduced in May 1999.

Figure 2.13 - Growth in Consumption, Residential Investment and GST



Source: The Treasury

The tariff reduction programme moderates customs duty growth…

As a result of the 1994 tariff review, tariff rates on goods imported into New Zealand have been gradually declining since 1 July 1997. Also, in a 1998 *Budget* initiative, motor vehicle tariffs were abolished on 15 May 1998.

The removal of motor vehicle tariffs was the largest single factor in the decline in customs duty in 1998/99. However, movements in other components of customs duty, such as duty on imports of refined fuel, and general tariff rate reductions have also affected collections. This has resulted in some uncertainty about the underlying level of the customs duty base.

Over the next few years, ongoing tariff cuts offset import volume growth curtailing customs duty growth.

…while lower interest rates reduce tax on interest income.

Lower interest rates result in lower tax on interest income in the 1998/99 year. Tax on interest declines further in 1999/2000 as the full effect of a lower interest rate environment takes hold. Growth resumes in 2000/01 as interest rates edge upwards again.

Recent legislative changes have allowed depositors to elect to have tax withheld on interest at their marginal tax rate. There is some uncertainty around the precise effect of this change but it is estimated to have a small positive effect on resident withholding tax from 1999/2000 onwards.

Inland Revenue's forecasts

Inland Revenue has prepared an alternative set of tax forecasts that were used in the Treasury's quality assurance process. These independent forecasts were developed at the same time as the Treasury's forecasts and used the Treasury's view of the macroeconomy.

Inland Revenue's forecasts of aggregate tax revenue are similar to the Treasury's for 1998/99, with minor differences spread across all tax types. The Treasury's forecasts are higher throughout the following three years, but by no more than $180 million in any one year. The largest difference occurs in 1999/2000 on the accrued revenue measure, originating mainly from different judgements regarding the impact of the policy and administrative changes affecting individuals' taxation.

Annex A on page 48, contains tables showing the detailed Treasury and Inland Revenue forecasts on both an accrual revenue and cash receipts basis.

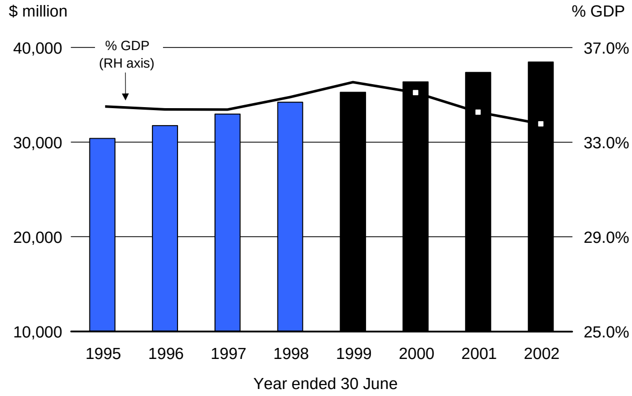
Expenses

Expenses decline as a share of GDP over the forecast period...

Between 1997/98 and 2001/02 expenses fall from 34.9% to 33.8% of GDP.

In dollar terms, expenses increase from $34.2 billion to $38.5 billion over the same period.

Figure 2.14 - Expenses ($ and % of GDP)



Source: The Treasury

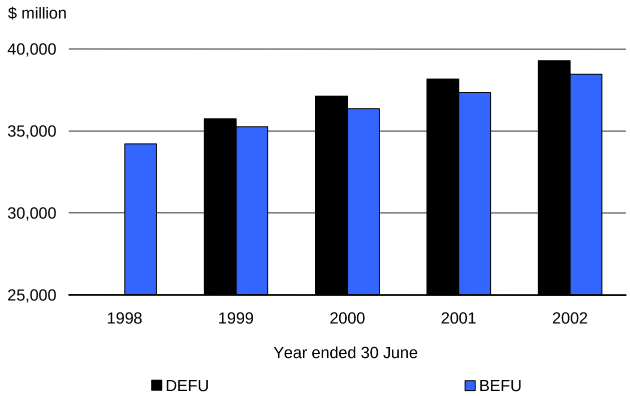
…and are lower than at the December Update.

Compared to the *December Update,* total expenses are lower by around $450 million (1.3%) in 1998/99, and around $800 million (2.0%) in 2001/02.

This largely reflects:

- demand driven changes to benefit spending
- lower finance costs
- the operating balance impact of the lower GSF valuation.

Figure 2.15 - Expenses - Budget and December



Source: The Treasury

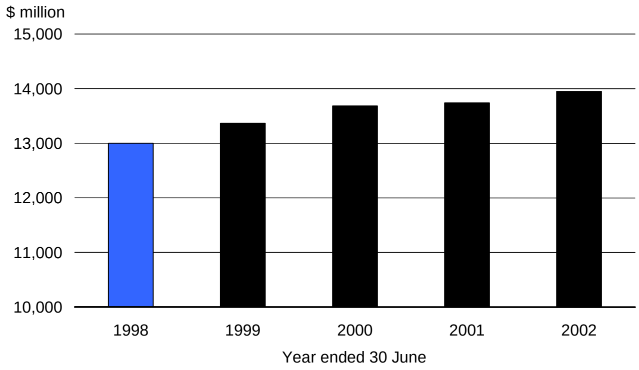
Social welfare benefits rise slowly reflecting CPI indexation…

Between 1997/98 and 2001/02 social welfare expenses are projected to increase from $13.0 billion to $13.9 billion.

Inflation is the primary benefit driver, as most benefits are adjusted each April by the December year CPI movement.

In 1998/99, forecast increases in Community Wage - Unemployment expenses are the main contributor to the real increases in welfare spending. Projected unemployment rate reductions — from 7.6% in 1998/99 to 6.0% in 2001/02 — slow welfare spending growth from 1999/2000.

Figure 2.16 - Social Welfare spending



Source: The Treasury

… but improve significantly from the December Update.

Welfare spending forecasts are significantly lower than at the *December Update*, reflecting lower forecasts for CPI and benefit take-up rates.

Table 2.5 - Change in Welfare Benefit Spending since the *December Update*

($ million)	**1998/99**	**1999/2000**	**2000/01**	**2001/02**
Benefit spending - *December Update*	**12,231**	**12,516**	**12,706**	**12,921**
CPI changes	(16)	(71)	(80)	(53)
Policy changes				
Working parent assistance		22	29	29
Other policy changes	1	2	..	(13)
Forecasting changes (lower take-up rates)				
Community Wage - Unemployment	(72)	(99)	(161)	(167)
Other forecasting	(125)	(158)	(180)	(163)
Total change	(212)	(304)	(392)	(367)
Benefit spending - *Budget*	**12,019**	**12,212**	**12,314**	**12,554**

Source: The Treasury

Lower benefit expenses are largely driven by:

- An improved economic outlook that significantly reduces Community Wage - Unemployment and Accommodation Supplement spending.
- Evidence from recent outturns showing lower beneficiary take-up rates, most probably due to recent policy changes, such as work testing for the Domestic Purposes Benefit, tighter eligibility criteria for the Invalids Benefit, and the inclusion of the Sickness Benefit in the Community Wage.

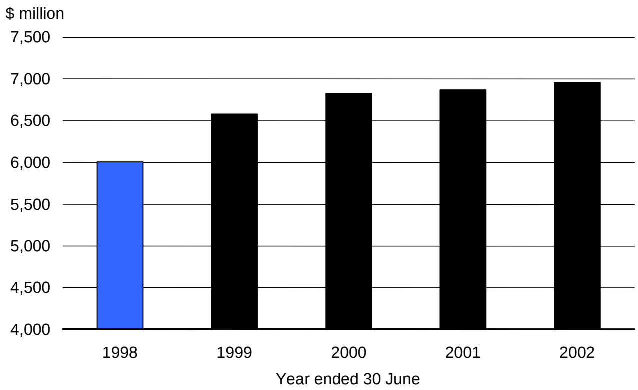
Health spending rises with additional services purchased and demographic growth…

Health spending increases between 1997/98 and 2001/02 reflecting extra funding for:

- demographic growth
- maintaining existing services
- additional health services.

Offsetting this is a lower level of elective surgery funding in 2000/01, as 1999/00 is the last year of a four-year appropriation to reduce the backlog in elective surgery.

Figure 2.17 Health Expenses



Source: The Treasury

Table 2.6 - Growth in Health spending between years

($ million)	1997/98	1998/99	1999/00	2000/01	2001/02
Health Spending	6,001	6,577	6,822	6,866	6,952
Growth in Health Spending		**576**	**245**	**44**	**86**
This growth is explained by:					
Demographic adjustment, and maintaining and improving services		276	212	94	84
Extra electives		94	..	(70)	..
Mental Health		15	18	15	..
ACC changes		52	(28)	11	1
Increased prices to hospitals		146	..	..	..
Other		(7)	43	(6)	1
Total Growth in Health Spending		**576**	**245**	**44**	**86**

Source: The Treasury

Any additional health funding for 2000/01 and 2001/02 will be funded from the provision for additional policy initiatives.

There are no significant changes in health spending since the *December Update*, as the 1999 Health Funding Package — totalling over $200 million extra in 1999/00 and beyond — was included in the *December Update*.

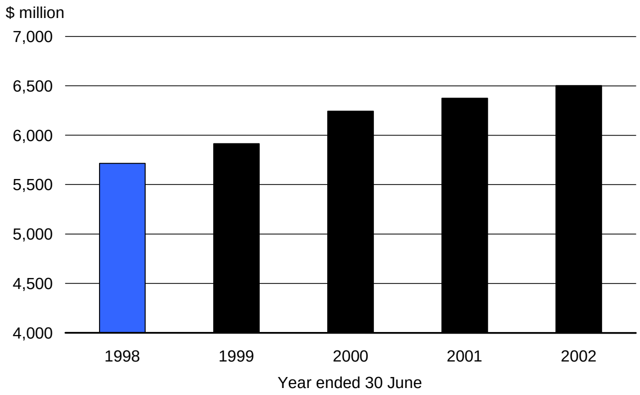
…while policy and demographic changes boost education spending...

Between 1997/98 and 2001/02 education expenses are projected to increase from $5.7 billion to $6.5 billion.

The growth largely reflects:

- demographic changes
- primary teachers' and principals' pay settlement
- Special Education 2000 policies
- the assumed uptake of the Fully Funded Option
- changes to tertiary education funding.

Figure 2.18 - Education expenses



Source: The Treasury

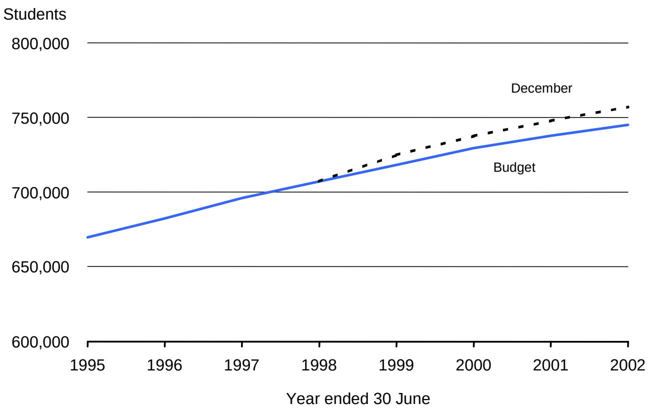
Education spending will increase further than shown because:

- Most of the unallocated portion of the operating balance limit will be spent on education. Settlement of the secondary teachers' wage claim is an example of future education spending pressure.
- Some of the provision for future initiatives in 2000/01 and 2001/02 will be used to meet education spending pressures.

Education spending is higher than projected in the *December Update* by around $80 million each year from 1999/2000, as a result of new policy initiatives including:

- funding to encourage every school to have an Information Technology Plan and an Internet connection in place by 2001
- a 1.6% increase for school operations grants.

Figure 2.19 - Forecast School Roll - Primary and Secondary



Source: Ministry of Education

Offsetting the new policy initiatives, lower primary and secondary roll projections reduce funding for school salaries and operations.

Table 2.7 - Change in Education Spending since the *December Update*

($ million)	1998/99	1999/00	2000/01	2001/02
Education Expenses - *December Update*	**5,939**	**6,166**	**6,292**	**6,413**
Policy Changes				
Information Technology for Schools	..	30	10	10
Property Funding Regime for Integrated Schools	13	21	23	23
Operations grants	..	6	12	12
Transfers	12	(12)	..	..
Other initiatives	15	57	56	60
Total Policy Changes	40	102	101	105
Forecasting Changes				
School salaries	(33)	(21)	(20)	(21)
School operations	(15)	(15)	(11)	(8)
Other forecasting changes	(21)	6	9	9
Total forecasting changes	(69)	(30)	(22)	(20)
Education Expenses - *Budget*	**5,910**	**6,238**	**6,371**	**6,498**

Source: The Treasury

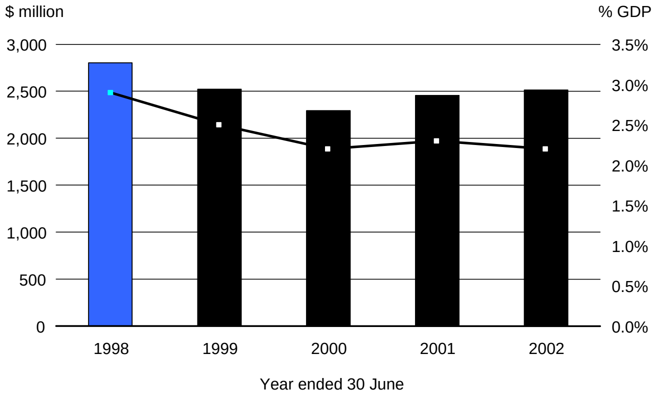
…and finance costs remain steady.

Finance costs fall in 1999/2000 as net debt falls with the sale of Contact Energy Limited.

Beyond 1998/99 finance costs are broadly stable as lower debt levels offset rising interest rates.

Compared to the *December Update* finance costs fall from lower net debt levels and interest rates.

Figure 2.20 - Finance Costs ($ and % GDP)



Source: The Treasury

Expenses in a number of other functional classifications have moved significantly since the *December Update* including:

- Reduced Primary Services spending by around $30 million (10%) from 1999/2000 as two new SOEs (Asure NZ Ltd and Agriquality NZ Ltd) are formed. The reduction in expenses is offset by a reduction in revenue.
- Reduced Other expenses of $130 million in 1998/99, reflecting lower Treaty of Waitangi settlement costs than provided for in the *December Update*.
- Increased Heritage, Culture and Recreation spending by $60 million (20%) in 1999/2000 and $90 million (31%) in 2000/01 and beyond, as direct government expenditure offsets the broadcasting fee abolition.
- Increased Core Government expenses of $70 million (4%) in 1998/99 to write down the Crown's investment in the World Bank. The write-down was necessary, as the investment was over-stated when the Crown balance sheet was first established.

State-Owned Enterprises and Crown Entities

SOEs and Crown entities make a significant contribution to the Operating Balance.

The gross surplus of SOEs and Crown entities represent their contribution to the Crown's operating balance.

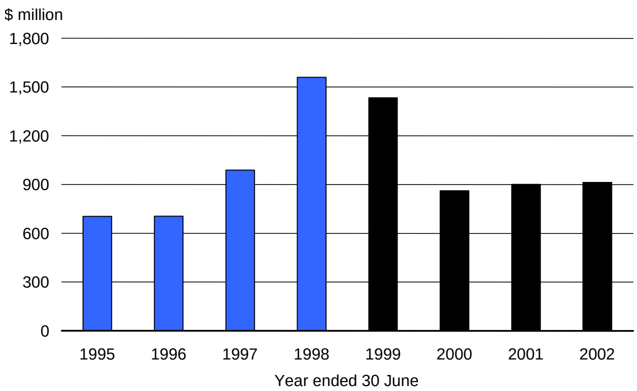
In 1997/98 SOEs and Crown entities gross surpluses were around $1.6 billion.

In 1998/99 the contribution declines slightly. Surpluses fall further in 1999/2000 as:

- ARCIC surpluses fall by around $500 million with the recognition of the future costs of previously accepted ACC claims
- surpluses from the electricity sector reduce, partly owing to the removal of future Contact Energy Limited surpluses following its sale in 1998/99.

Beyond 1999/2000 surpluses rise slowly to reach around $900 million in 2001/02.

Figure 2.21 - SOE and Crown Entity Gross Surplus



Source: The Treasury

Balance Sheet

Net worth decreases in 1998/99 to $5.5 billion, largely as a result of the ACC outstanding claims liability recognition adjustment of $6.9 billion, offset by the $2.2 billion operating balance. Net worth reaches $7.7 billion by the end of the forecast period as a result of the steadily increasing operating balances.

The following sections provide further information on key areas within the balance sheet of the Crown, covering:

- the ACC outstanding claims liability
- the GSF liability
- the relationships between net debt and the operating balance and the domestic bond programme.

ACC Outstanding Claims Liability

As signalled in the September Economic and Fiscal Outlook and the December Economic and Fiscal Update, ARCIC and the Crown will recognise the future cost of past claims as at 30 June 1999, and from 1 July 1999, the future cost of new claims.

The initial recognition of the liability is forecast to have a net negative impact of around $6.9 billion on the Crown's net worth at 30 June 1999. From 1 July 1999, changes in the valuation will be recorded through the operating balance.

The ACC outstanding claims obligation is valued at the expected present value and is subject to a number of assumptions. A change in any one of these assumptions could significantly alter the value of the liability.

Two key determinants of the valuation are the number of long term claimants who will leave the scheme over the next few years and the rate chosen to discount the obligations due to be paid many years in the future.

Exit rates

The actuarial assessment of the liability valuation assumes a rate at which long-term claimants will leave the scheme over the forecast period. The assessment is largely based on scheme history.

For every 1,000 claimants that exit the scheme, the outstanding claims liability is estimated to fall by around $200 million.

Discount rates

The liability is sensitive to changes in interest rates and to changes in the methodology used to calculate the discount rates. For instance a 1% increase in interest rates would change the discount rates applied, and decrease the liability by approximately $500 million.

The discount rates chosen for the valuation are intended to reflect the appropriate risk free rates. However, there is currently little professional consensus on the appropriate discount rate methodology for valuing liabilities.

For insurance activities, the most authoritative support exists in a draft accounting standard (Financial Reporting of Insurance Activities) issued by the Institute of Chartered Accountants of New Zealand (ICANZ). This draft standard is due to be promulgated by 1 July 1999 in time for the new workplace insurance regime. Following submissions by interested parties, the draft standard proposes the use of a risk-free rate appropriate to the future period or periods over which the expected future liability is to fall.

Therefore, the approach adopted is consistent with the draft standard. The use of a rate higher than the risk-free rate, in response to accounting developments, would significantly lower the liability valuation and improve the operating balance.

GSF Liability

The GSF pension liability fluctuates from year to year due to changes in:

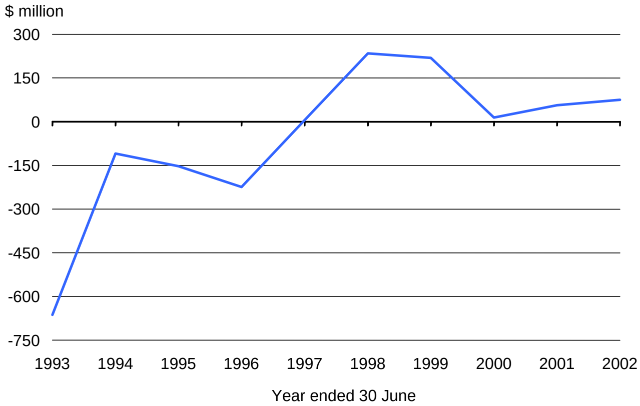
- long-term financial assumptions (inflation, expected investment return – the discount rate, and salary growth)
- fund experience (rates of withdrawal, mortality, and actual investment returns).

Since the unfunded liability represents such a large component of the Crown's balance sheet (15% of total liabilities as at 30 June 1998), relatively small movements in the liability have a significant impact on the Crown's operating balance.

The Government Actuary's most recent actuarial valuation, as at 31 December 1998, reduced the unfunded liability by 2.7% and improved the operating balance by $217 million in 1998/99. This downward revision is due to lower than expected inflation, together with higher than expected returns to Fund assets over the past year.

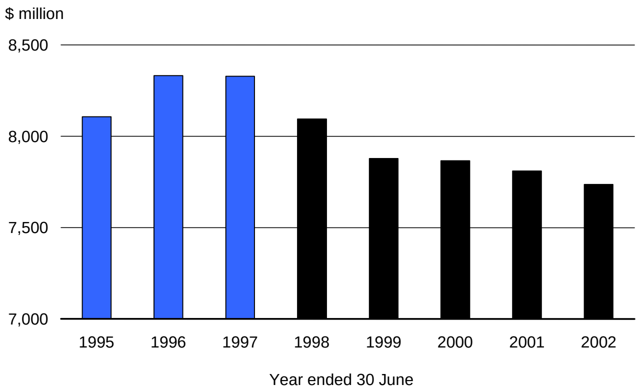
In addition, the latest calculations suggest that the liability has now peaked, and should slowly decline over the next 50 years. This result is reflected in decreases each year over the remaining forecast period.

Figure 2.22 - GSF Liability



Source: The Treasury

Figure 2.23 - Operating Balance Impact of GSF Liability



Source: The Treasury

When compared with the *December Update*, these movements represent a $275 million improvement in the operating balance for 1998/99, and an overall improvement of $508 million over the total forecast period.

Net Debt

Relationship with the Operating Balance

The movements in net debt do not reflect the operating balance in a given year. There is always a difference between the changes in net debt and the operating balance for a period. This arises as the operating balance is an accrual measure and recognises non-cash items such as the retained surpluses of SOEs and Crown entities.

Table 2.8 - Relation between Operating Balance and Net Debt

($ million)	**1997/98** Actual	**1998/99** Forecast	**1999/2000** Projection	**2000/01** Projection	**2001/02** Projection
Operating balance	2,534	2,164	(36)	790	1,504
Change in net debt	1,255	1,700	(1,238)	(149)	766
Difference	**(1,279)**	**(464)**	**(1,202)**	**(939)**	**(738)**
This difference comprises:					
SOE/CE retained surplus net of dividends	(1,164)	(958)	(581)	(576)	(529)
Depreciation	737	779	833	885	902
Gain on sale of asset sales	..	(1,625)	..	..	..
Net purchase of physical assets including capital contingency provision	(981)	(1,064)	(1,090)	(1,085)	(1,037)
Asset sale receipts	..	2,824	63[6]	..	..
Net capital withdrawals/(injections)	96	(180)	(334)	133	188
Timing and other working capital items	33	(240)	(93)	(296)	(262)
	(1,279)	**(464)**	**(1,202)**	**(939)**	**(738)**

Source: The Treasury

Net capital investment in physical assets and the retained surpluses of SOEs and Crown entities largely drive the difference between the operating balance and the change in net debt. In 1999/2000 the difference is somewhat larger due to a capital injection of prudential capital into At Work Insurance Limited and transfer of 1998/99 capital underspends relating to Education and Health into 1999/2000.

6 This represents the instalment due in June 2000 from the sale of Capital Properties New Zealand Limited.

Relationship with the Domestic Bond Programme

The domestic bond programme for 1999/2000 has been established at $2.85 billion. The bond programme is calculated on the basis of the Crown's operating, investing and financing cashflows. Although the operating position is in broad balance in 1999/2000, financing is required to meet:

- Operating and investing (excluding marketable securities and deposit activity) cashflows of around $1.8 billion.[7]

- The repayment of maturing domestic term debt of around $2.7 billion.

This implies a domestic bond programme of $4.5 billion. However, the bond programme is $2.85 billion, with the difference largely financed from cash available from over funding in 1998/99.

The Crown's forecast cashflows for the two year period to 30 June 2000 have improved by around $4 billion from the *December Update.* This improvement has allowed the bond programme for 1998/99 and 1999/2000 to be reduced by around $2.7 billion since the *December Update*. The balance of the cashflow improvement has permitted Reserve Bank bills to be repaid without the need for new debt to be issued.

7 The $1.8 billion incorporates cashflows from operations, net purchase of physical assets, net increase of advances and net capital injections/(withdrawals) included within net purchase/(sale) of investments.

Annex A: Tax Revenue Tables

Table 2.9 - Treasury and Inland Revenue Forecasts of Tax Revenue

($ million)	1997/98 Actual	1998/99 Estimated Actual Treasury	1998/99 Estimated Actual IRD	1999/00 Forecast Treasury	1999/00 Forecast IRD	2000/01 Projection Treasury	2000/01 Projection IRD	2001/02 Projection Treasury	2001/02 Projection IRD
Direct Tax									
Individuals									
Source deductions	12,773	12,325	12,340	12,859	12,820	13,357	13,390	14,053	14,085
Other persons	3,243	3,008	3,040	3,061	3,025	3,291	3,345	3,587	3,605
Refunds	(687)	(704)	(730)	(652)	(690)	(666)	(650)	(672)	(650)
Fringe benefit tax	340	334	327	345	334	355	341	366	350
Subtotal: Individuals	**15,669**	**14,963**	**14,977**	**15,613**	**15,489**	**16,337**	**16,426**	**17,334**	**17,390**
Company Tax (net)	**3,721**	**3,888**	**3,890**	**4,375**	**4,325**	**4,748**	**4,655**	**4,810**	**4,765**
Withholding Tax									
Resident interest income	961	885	857	660	715	766	812	898	913
Non-resident income	662	692	691	643	610	701	645	729	665
Resident dividend income	42	32	32	35	45	38	45	40	45
Foreign-source dividends	205	28	23	40	48	42	45	44	45
Subtotal: Withholding Tax	**1,870**	**1,637**	**1,603**	**1,378**	**1,418**	**1,547**	**1,547**	**1,711**	**1,668**
Total Income Tax	**21,260**	**20,488**	**20,470**	**21,366**	**21,232**	**22,632**	**22,628**	**23,855**	**23,823**
Other Direct Tax									
Estate and gift duties	..	2	2	2	2	2	2	2	2
Land tax	..	..	..	..	..	..	..	..	..
Subtotal: Other Direct Tax	**..**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Total Direct Tax	**21,260**	**20,490**	**20,472**	**21,368**	**21,234**	**22,634**	**22,630**	**23,857**	**23,825**
Indirect Tax									
GST									
GST (Customs)	2,959	3,041	3,031	3,177	3,215	3,259	3,187	3,409	3,391
GST (IRD)	5,071	5,174	5,186	5,457	5,415	5,751	5,769	6,027	6,054
Subtotal: GST	**8,030**	**8,215**	**8,217**	**8,634**	**8,630**	**9,010**	**8,956**	**9,436**	**9,445**
Excise duties on:									
Alcoholic drinks	439	428	437	428	432	431	439	434	448
Tobacco products	681	732	718	737	732	737	733	739	734
Petroleum fuels	786	833	828	840	825	853	825	865	825
Subtotal: Excise Duties	**1,906**	**1,993**	**1,983**	**2,005**	**1,989**	**2,021**	**1,997**	**2,038**	**2,007**
Other Indirect Tax									
Customs duty	750	540	550	567	533	539	545	540	555
Road user charges	466	469	468	501	503	533	536	561	569
Motor vehicle fees	158	167	175	169	172	173	174	179	176
Stamp and cheque duties	186	228	222	74	77	68	69	72	69
Gaming duties	139	160	159	157	156	163	160	171	165
Energy resources levy	87	94	95	90	95	89	95	89	95
Subtotal: Other Indirect Tax	**1,786**	**1,658**	**1,669**	**1,558**	**1,536**	**1,565**	**1,579**	**1,612**	**1,629**
Total Indirect Tax	**11,722**	**11,866**	**11,869**	**12,197**	**12,155**	**12,596**	**12,532**	**13,086**	**13,081**
Total Tax	**32,982**	**32,356**	**32,341**	**33,565**	**33,389**	**35,230**	**35,162**	**36,943**	**36,906**
Tax-to-GDP	33.6%	32.6%	32.6%	32.4%	32.2%	32.3%	32.3%	32.4%	32.4%
GDP	98,038	99,238	99,238	103,606	103,606	109,018	109,018	113,887	113,887

Source: The Treasury and Inland Revenue

Note: Numbers are after elimination of GST on departmental outputs.

Table 2.10 - Treasury and Inland Revenue Forecasts of Tax Receipts (Cash)

($ million)	1997/98 Actual	1998/99 Forecast Treasury	1998/99 Forecast IRD	1999/00 Projection Treasury	1999/00 Projection IRD	2000/01 Projection Treasury	2000/01 Projection IRD	2001/02 Projection Treasury	2001/02 Projection IRD
Direct Tax									
Individuals									
Source deductions	12,739	12,325	12,340	12,859	12,820	13,357	13,390	14,053	14,085
Other persons	3,721	3,548	3,560	3,442	3,480	3,669	3,690	3,969	3,930
Refunds	(1,078)	(1,104)	(1,150)	(1,023)	(1,045)	(1,044)	(980)	(1,054)	(980)
Fringe benefit tax	341	334	330	345	331	355	338	366	348
Subtotal: Individuals	**15,723**	**15,103**	**15,080**	**15,623**	**15,586**	**16,337**	**16,438**	**17,334**	**17,383**
Company Tax (net)	**3,783**	**3,908**	**3,920**	**4,355**	**4,325**	**4,728**	**4,675**	**4,790**	**4,785**
Withholding Tax									
Resident interest income	961	875	837	670	715	764	808	892	907
Non-resident income	655	692	691	643	610	701	645	729	665
Resident dividend income	43	32	32	35	45	38	45	40	45
Foreign-source dividends	204	28	23	40	48	42	45	43	45
Subtotal: Withholding Tax	**1,863**	**1,627**	**1,583**	**1,388**	**1,418**	**1,545**	**1,543**	**1,704**	**1,662**
Total Income Tax	**21,369**	**20,638**	**20,583**	**21,366**	**21,329**	**22,610**	**22,656**	**23,828**	**23,830**
Other Direct Tax									
Estate and gift duties	2	2	2	2	2	2	2	2	2
Land tax	..	..	..	..	..	..	..	..	..
Subtotal: Other Direct Tax	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Total Direct Tax	**21,371**	**20,640**	**20,585**	**21,368**	**21,331**	**22,612**	**22,658**	**23,830**	**23,832**
Indirect Tax									
GST									
GST (Customs)	2,937	3,021	3,026	3,157	3,207	3,239	3,182	3,389	3,386
GST (IRD)	4,987	5,154	5,176	5,437	5,407	5,731	5,757	6,007	6,042
Subtotal: GST	**7,924**	**8,175**	**8,202**	**8,594**	**8,614**	**8,970**	**8,939**	**9,396**	**9,428**
Excise duties on:									
Alcoholic drinks	424	426	427	428	432	431	439	434	448
Tobacco products	738	672	668	737	732	737	733	739	734
Petroleum fuels	757	832	825	839	825	852	825	864	825
Subtotal: Excise Duties	**1,919**	**1,930**	**1,920**	**2,004**	**1,989**	**2,020**	**1,997**	**2,037**	**2,007**
Other Indirect Tax									
Customs duty	830	500	510	569	533	541	545	540	555
Road user charges	447	476	478	501	501	533	533	561	566
Motor vehicle fees	150	164	172	169	169	173	172	179	174
Stamp and cheque duties	191	227	222	75	77	68	69	72	69
Gaming duties	141	153	153	156	156	162	160	170	165
Energy resources levy	87	94	95	90	95	89	95	89	95
Other	(1)	..	..	..	..	..	..	..	..
Subtotal: Other Indirect Tax	**1,845**	**1,614**	**1,630**	**1,560**	**1,531**	**1,566**	**1,574**	**1,611**	**1,624**
Total Indirect Tax	**11,688**	**11,719**	**11,752**	**12,158**	**12,134**	**12,556**	**12,510**	**13,044**	**13,059**
Total Tax	**33,059**	**32,359**	**32,337**	**33,526**	**33,465**	**35,168**	**35,168**	**36,874**	**36,891**
Tax-to-GDP	33.7%	32.6%	32.6%	32.4%	32.3%	32.3%	32.3%	32.4%	32.4%

Source: Inland Revenue, The Treasury

Note: Numbers are after elimination of GST on departmental outputs.

Annex B: Expense Tables

Table 2.11 - Expenses by Category

($ million)	1993/94 Actual	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Social security and welfare	11,479	11,724	12,240	12,620	13,003	13,367	13,681	13,736	13,949
Health	4,602	4,886	5,228	5,626	6,001	6,577	6,822	6,866	6,952
Education	4,627	4,803	4,949	5,335	5,714	5,910	6,238	6,371	6,498
Core government services	1,723	1,340	1,565	1,667	1,562	1,714	1,682	1,672	1,635
Law and order	1,150	1,190	1,234	1,281	1,345	1,527	1,448	1,422	1,431
Defence	1,049	1,013	970	946	1,065	1,031	1,135	1,113	1,076
Transport and communications	815	796	821	888	948	1,018	1,027	1,056	1,083
Economic and industrial services	711	673	997	763	840	898	809	773	771
Primary services	299	309	304	351	423	342	300	300	302
Heritage, culture and recreation	241	233	247	277	297	328	375	391	389
Housing and community	39	46	40	47	29	45	48	45	40
Other	14	181	48	68	167	30	149	146	145
Finance costs	3,788	3,757	3,703	3,072	2,804	2,520	2,294	2,454	2,512
Net foreign exchange (gains)/losses	(898)	(551)	(603)	12	13	(51)	..	..	..
Provision for future initiatives	..	..	..	..	..	..	250	900	1,580
Contingency expense provision	..	..	..	..	..	..	100	100	100
Total Expenses	**29,639**	**30,400**	**31,743**	**32,953**	**34,211**	**35,256**	**36,358**	**37,345**	**38,463**
Less									
Foreign exchange (losses)/gains	898	551	603	(12)	(13)	51	..	..	..
Unfunded GSF liability revaluation	(111)	(155)	(226)	4	233	217	13	55	74
NPF revaluation	..	40	15	..	5	28	..	..	..
Adjusted Total Expenses	**30,426**	**30,836**	**32,135**	**32,945**	**34,436**	**35,552**	**36,371**	**37,400**	**38,537**

Table 2.12 - Social Security and Welfare

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Welfare benefits	10,301	10,593	11,145	11,730	12,019	12,212	12,314	12,554
GSF pension expense	805	1,009	742	493	471	653	647	644
Social rehabilitation and compensation	93	93	89	123	91	59	60	63
Departmental expenses	512	534	529	532	664	673	629	607
Other non-departmental expenses	13	11	115	125	122	84	86	81
Total Social Security and Welfare	**11,724**	**12,240**	**12,620**	**13,003**	**13,367**	**13,681**	**13,736**	**13,949**
Less effects of unfunded liability revaluation	(155)	(226)	4	233	217	13	55	74
Adjusted Social Security and Welfare	**11,569**	**12,014**	**12,624**	**13,236**	**13,584**	**13,694**	**13,791**	**14,023**

Table 2.13 - New Zealand Superannuation and Welfare Benefits

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
New Zealand Superannuation	4,982	5,051	5,102	5,106	5,071	5,025	4,978	5,065
Domestic Purposes Benefit	1,269	1,362	1,447	1,501	1,451	1,472	1,520	1,582
Unemployment Benefit	1,320	1,236	1,327	1,436	369	..	..	..
Community Wage	..	..	..	..	1,486	2,013	2,001	1,996
Accommodation Supplement	491	562	662	793	843	874	902	936
Invalids Benefit	429	481	536	599	630	667	703	745
Sickness Benefit	332	353	379	400	97	..	..	..
Disability Allowance	130	149	179	198	204	198	187	194
Transitional Retirement Benefit	88	101	108	111	116	122	133	112
Family Support	700	748	785	874	912	952	959	963
Independent Family Tax Credit	..	..	41	121	164	187	193	198
Special Benefit	83	87	74	60	44	34	34	36
Benefits paid in Australia	31	30	53	63	146	126	143	155
Other benefits	446	433	452	468	486	542	561	572
Total Welfare Benefits	**10,301**	**10,593**	**11,145**	**11,730**	**12,019**	**12,212**	**12,314**	**12,554**

Table 2.14 - Beneficiary Numbers

(Thousands)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
New Zealand Superannuation	494	485	476	470	464	456	446	447
Domestic Purposes Benefit	103	107	112	115	113	116	118	122
Unemployment Benefit	150	139	144	152	..	..	..	..
Community Wage	..	..	..	..	205	208	205	202
Accommodation Supplement	262	276	296	310	321	329	333	337
Invalids Benefit	39	41	44	48	50	52	54	56
Sickness Benefit	33	33	34	36	..	..	..	..

Table 2.15 - Health

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Departmental outputs	50	55	58	58	60	54	53	53
Personal health, disability support and public health service purchasing	4,645	4,958	5,333	5,723	6,107	6,373	6,415	6,499
Other non-departmental outputs	39	35	45	18	134	122	116	116
Health payments to ARCIC	161	171	193	185	237	252	263	264
Other expenses	(9)	9	(3)	17	39	21	19	20
Total Health Expenses	**4,886**	**5,228**	**5,626**	**6,001**	**6,577**	**6,822**	**6,866**	**6,952**

Table 2.16 - Personal Health, Disability Support and Public Health Services

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Personal health services:								
Northern	1,102	1,154	1,224	1,337	1,452	1,540	1,545	1,570
Midland	720	750	791	844	890	934	931	942
Central	859	888	933	981	1,047	1,094	1,086	1,094
Southern	778	812	858	910	1,004	1,045	1,041	1,047
Additional health purchases	..	..	25	..	..	..	..	..
Additional elective services	..	..	43	96	70	..	..	..
Total Personal Health	**3,459**	**3,604**	**3,874**	**4,168**	**4,463**	**4,613**	**4,603**	**4,653**
Disability support services								
Northern	343	395	429	465	495	536	556	569
Midland	208	248	268	285	303	324	336	344
Central	295	330	345	361	383	403	413	419
Southern	262	302	321	343	355	374	385	391
Total Disability Support	**1,108**	**1,275**	**1,363**	**1,454**	**1,536**	**1,637**	**1,690**	**1,723**
Public Health Service Purchasing	**78**	**79**	**96**	**101**	**108**	**123**	**122**	**123**
Total	**4,645**	**4,958**	**5,333**	**5,723**	**6,107**	**6,373**	**6,415**	**6,499**

Table 2.17 - Health Related Payments to ARCIC

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Petrol excise	65	67	64	65	66	68	69	70
Medical treatment	96	104	129	120	171	184	194	194
Total	**161**	**171**	**193**	**185**	**237**	**252**	**263**	**264**

Table 2.18 - Education

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Early childhood education	212	227	251	277	295	317	327	334
Primary and secondary schools	2,362	2,478	2,714	2,978	3,126	3,332	3,388	3,434
Tertiary funding	1,696	1,697	1,810	1,871	1,846	1,928	2,020	2,101
Departmental expenses	292	280	287	316	366	392	379	374
Other education expenses	241	267	273	272	277	269	257	255
Total Education Expenses	**4,803**	**4,949**	**5,335**	**5,714**	**5,910**	**6,238**	**6,371**	**6,498**

Table 2.19 - Primary and Secondary Education

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Primary	1,175	1,269	1,374	1,515	1,611	1,729	1,756	1,764
Secondary	954	964	1,073	1,158	1,144	1,250	1,273	1,309
Secondary allowances	6	7	8	..	..	..	..	..
School transport	84	87	89	94	93	96	97	99
Special needs support	143	151	170	211	278	257	262	262
Total Schools Funding	**2,362**	**2,478**	**2,714**	**2,978**	**3,126**	**3,332**	**3,388**	**3,434**

Table 2.20 - Tertiary Education

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Tuition	1,131	1,152	1,169	1,183	1,235	1,243	1,301	1,341
Other tertiary funding	241	254	252	258	128	172	167	168
Total Tertiary Education and Training	**1,372**	**1,406**	**1,421**	**1,441**	**1,363**	**1,415**	**1,468**	**1,509**
Tertiary student allowances	260	286	318	344	392	409	433	455
Student loan provision and write-offs	64	5	71	86	91	104	119	137
Total Tertiary Funding	**1,696**	**1,697**	**1,810**	**1,871**	**1,846**	**1,928**	**2,020**	**2,101**

Table 2.21 - Core Government Services

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Official development assistance	170	165	184	195	204	213	223	223
Indemnity and guarantee expenses	..	(15)	..	(5)	(29)	..	..	..
Departmental expenses	806	906	931	888	909	917	884	838
Science expenses	295	304	312	389	405	420	440	442
Other expenses	69	205	240	95	225	132	125	132
Total Core Government Services	**1,340**	**1,565**	**1,667**	**1,562**	**1,714**	**1,682**	**1,672**	**1,635**

Table 2.22 - Law and Order

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Departmental expenses:								
Police	573	579	592	611	726	676	659	666
Department of Justice	403	69	..	..	..	..	..	..
Ministry of Justice	..	9	12	11	12	12	12	12
Department of Corrections	..	205	261	290	329	332	328	330
Department for Courts	..	164	185	194	205	176	172	172
Other departments	87	98	92	92	99	55	55	55
Total Departments	**1,063**	**1,124**	**1,142**	**1,198**	**1,371**	**1,251**	**1,226**	**1,235**
Non-departmental outputs	92	101	105	109	119	159	159	158
Other expenses	35	9	34	38	37	38	37	38
Total Law and Order Expenses	**1,190**	**1,234**	**1,281**	**1,345**	**1,527**	**1,448**	**1,422**	**1,431**

Table 2.23 - Defence

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
NZDF expenses	959	937	909	955	989	1,022	1,040	1,040
Other expenses	54	33	37	110	42	113	73	36
Total Defence Expenses	**1,013**	**970**	**946**	**1,065**	**1,031**	**1,135**	**1,113**	**1,076**

Table 2.24- Transport and Communications

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Transit New Zealand	695	710	..	..	..	..	..	..
Transfund	..	..	772	828	869	899	935	959
Departmental outputs	60	66	65	67	72	70	70	71
Other non-departmental expenses	39	45	51	52	61	57	50	52
Other expenses	2	..	..	1	16	1	1	1
Total Transport and Communications	**796**	**821**	**888**	**948**	**1,018**	**1,027**	**1,056**	**1,083**

Table 2.25 - Economic and Industrial Services

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Departmental outputs	217	246	264	293	456	374	334	333
Equiticorp judgment	..	328	32	(92)	..	..	..	..
Employment initiatives	271	259	278	294	187	206	212	212
Non-departmental outputs	154	156	151	159	181	156	157	156
Other expenses	31	8	38	186	74	73	70	70
Total Economic and Industrial Services	**673**	**997**	**763**	**840**	**898**	**809**	**773**	**771**

Table 2.26 - Employment Initiative

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Training benefit (including tax)	98	98	99	98	22	..	..	..
Training incentive allowance	21	27	29	34	29	31	34	34
Community employment projects	13	16	19	18	16	14	18	18
Job plus	86	80	81	..	..	..	..	..
Taskforce Green	31	25	35	..	..	..	..	..
Subsidised work	..	..	..	124	99	111	110	110
Employment support for Disabled					17	48	48	48
Other employment assistance schemes	22	13	15	20	4	2	2	2
Total Employment Initiative Expenses	**271**	**259**	**278**	**294**	**187**	**206**	**212**	**212**

Table 2.27 - Primary Services

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Compensation payments	12	..	..	..	..	..	..	..
Departmental expenses	255	240	252	281	236	210	207	204
Non-departmental outputs	21	45	44	51	73	73	76	80
Other expenses	21	19	55	91	33	17	17	18
Total Primary Services Expenses	**309**	**304**	**351**	**423**	**342**	**300**	**300**	**302**

Table 2.28 - Heritage, Culture and Recreation

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Community grants	17	22	20	20	20	18	18	18
Departmental outputs	167	171	195	199	207	204	196	195
Non-departmental outputs	39	46	57	58	82	142	170	171
Other expenses	10	8	5	20	19	11	7	5
Total Heritage, Culture and Recreation	**233**	**247**	**277**	**297**	**328**	**375**	**391**	**389**

Table 2.29 - Housing and Community Development

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Housing subsidies	10	5	5	2	3	3	3	3
Departmental outputs	24	25	27	30	30	30	31	25
Other non-departmental expenses	12	10	15	(3)	12	15	11	12
Prior years over provision	..	..	..	..	..	..	..	..
Total Housing and Community Development	**46**	**40**	**47**	**29**	**45**	**48**	**45**	**40**

Table 2.30 - Other Expenses

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Total Other Expenses	**181**	**48**	**68**	**167**	**30**	**149**	**146**	**145**

Table 2.31 - Finance Costs

($ million)	1994/95 Actual	1995/96 Actual	1996/97 Actual	1997/98 Actual	1998/99 Forecast	1999/2000 Projection	2000/01 Projection	2001/02 Projection
Total Finance Costs	**3,757**	**3,703**	**3,072**	**2,804**	**2,520**	**2,294**	**2,454**	**2,512**