THE TREASURY
Kaitohutohu Kaupapa Rawa

Inside...

He Puna Hao Pātiki

Quick Guide to the 2018 Investment Statement – Investing for Wellbeing

He Puna Hao Pātiki is the New Zealand Treasury's 2018 Investment Statement. It analyses the government balance sheet – which represents the investment made by government on behalf of New Zealanders in things like schools, hospitals, financial assets and commercial enterprises.

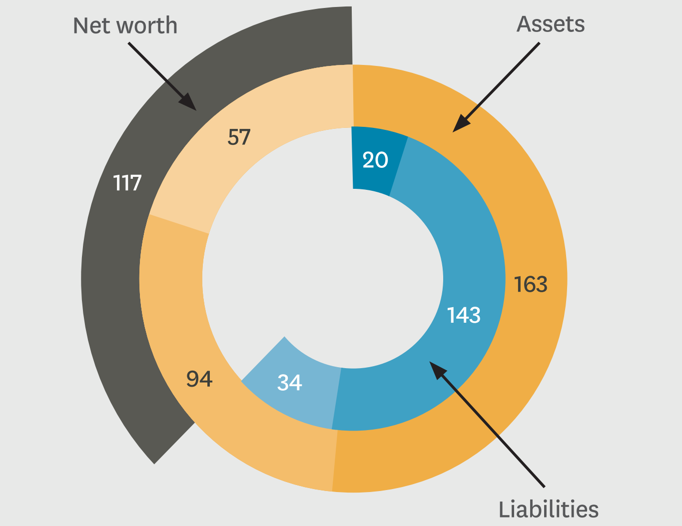
Managing the balance sheet well is essential for delivering public services that provide value for money, and helps to achieve sustainable, resilient and adaptable public finances that will support wellbeing for generations to come.

Fiscal sustainability is not an end in itself. It is a tool to support the wellbeing of current and future generations, including helping to achieve social and environmental goals.

Not all of New Zealand's physical and financial capital is held by government. Other entities, like private businesses, territorial authorities, iwi and households, hold a share, too.

Even so, government holdings are significant, and small changes can have big impacts on our wellbeing.

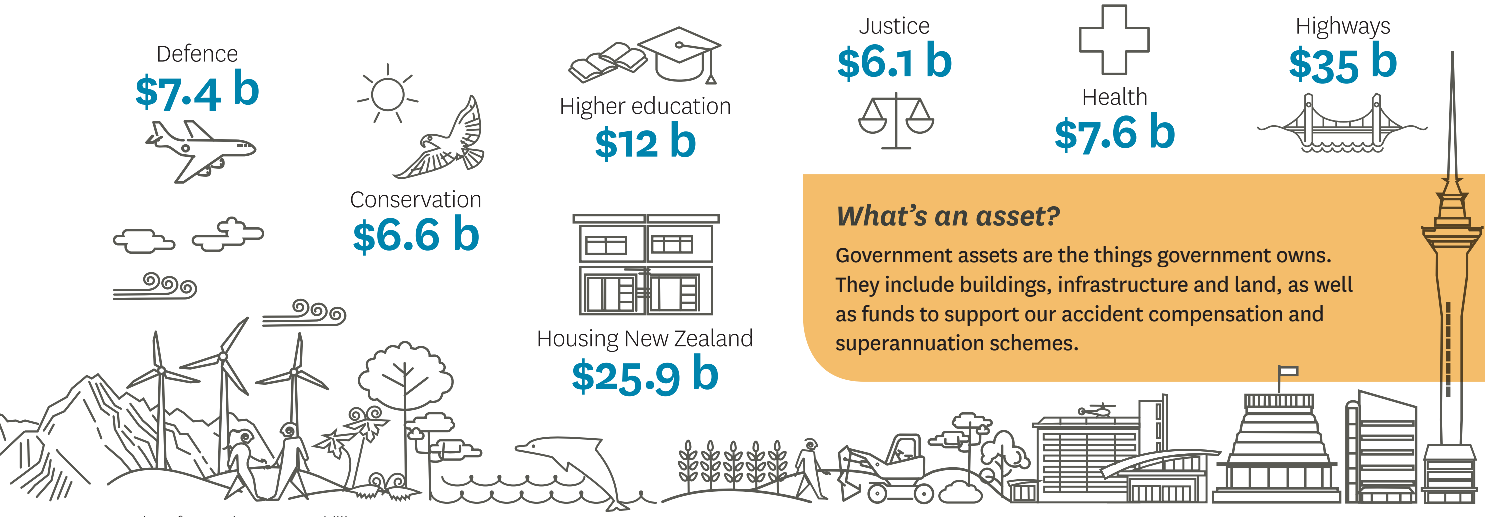
Central government net worth and balance sheet by composition – 30 June 2017, NZ $ billions



What's the balance sheet worth?

Last year, on behalf of New Zealanders, the Government managed NZ $314 billion in assets and NZ $197 billion in liabilities.

This value amounts to nearly $65,000 in assets and $41,000 in liabilities for each person in New Zealand.



What's an asset?

Government assets are the things government owns. They include buildings, infrastructure and land, as well as funds to support our accident compensation and superannuation schemes.

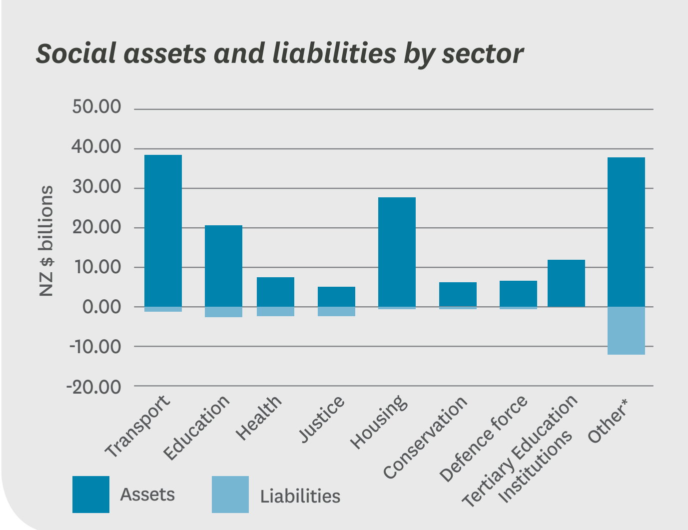
Value of assets in 2017, NZ $ billions.

Health of the balance sheet

In good health now...

The difference between assets and liabilities results in net worth of NZ $117 billion or $24,000 for each person in New Zealand.

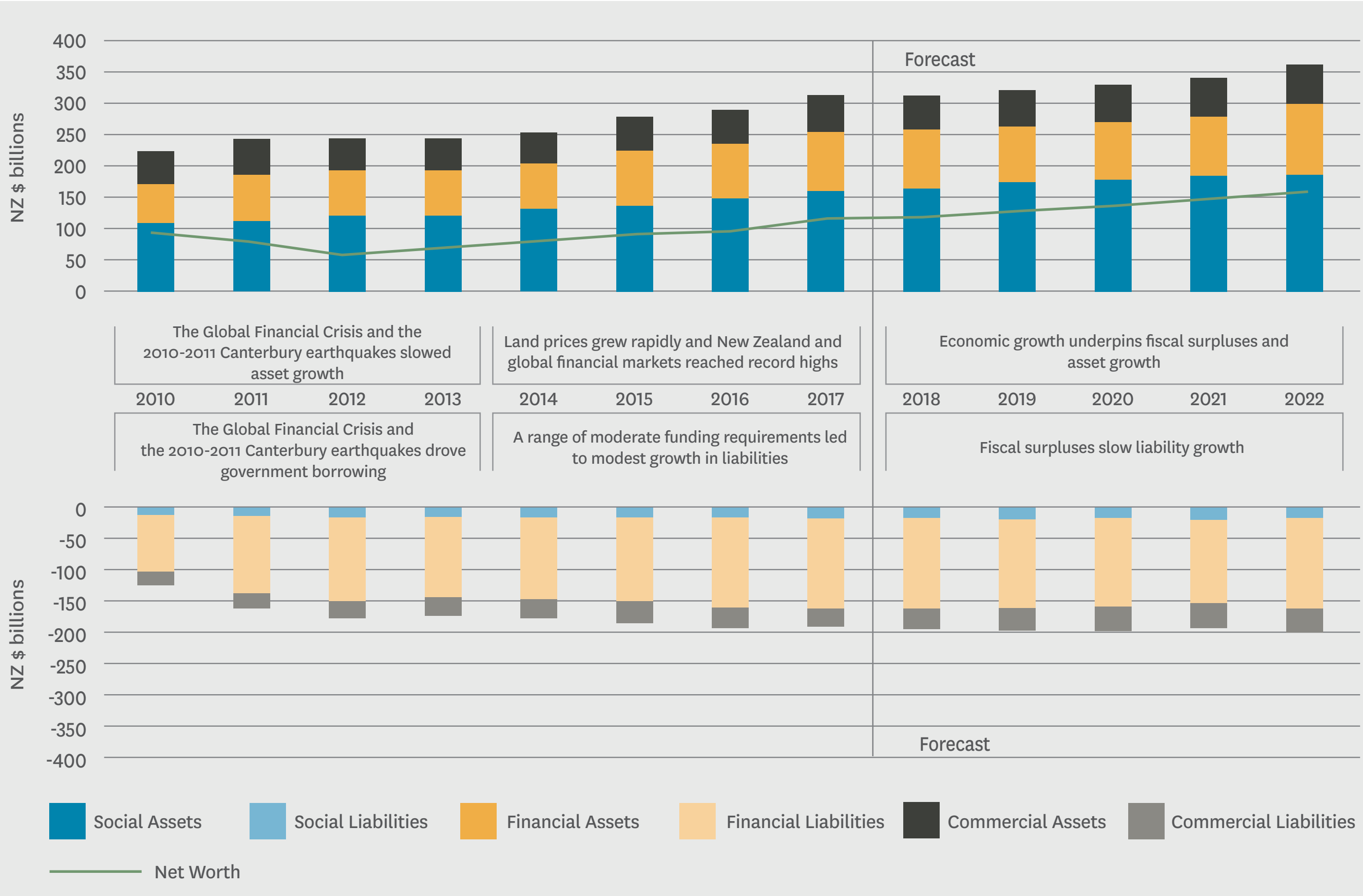
- Assets supporting the delivery of social services make up 52% of total assets.
- Pre-funding for government expenses like superannuation makes up 30% of total assets.
- Investment in commercial enterprises makes up 18% of total assets, and returns contribute to the funding of social services and transfers.
- Most of the government's liabilities represent general borrowing to help fund the operations of government.



*'Other' amounts to the effect of new investment assigned to capital allowances, that is yet to be allocated across the portfolio.

How is the balance sheet changing?

The balance sheet continues to grow.



The balance sheet position is strong – New Zealand's public finances are resilient and we have choices about how we can improve the wellbeing of New Zealanders, now and into the future.

...and ready to respond and adapt

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

Resilient in the face of shocks

Whilst shocks like natural disasters are inevitable, stress testing shows a range of big individual shocks can be absorbed without the need for immediate and substantial changes to policy settings, which might further damage wellbeing.

The cost estimate equates to the total estimated financial impact over 15 years on the government balance sheet, assuming no substantial changes to policy settings are made. The figure is adjusted so that it is equivalent to today's dollars.

Net debt to GDP represents New Zealand's estimated net core Crown debt as a proportion of Gross Domestic Product, five years after the event.

Net core Crown debt is a key measure of New Zealand's fiscal strength.

Counting the cost of shocks

Scenario testing the balance sheet's resilience

Capital City Earthquake

est. **$65 b**

Net debt to GDP rises to 31%

Foot & Mouth Outbreak

est. **$22 b**

Net debt to GDP rises to 22%

Collapse of Major Trading Partner

est. **$157 b**

Net debt to GDP rises to 33%

est. = estimate

Adaptable to long-term change

Fiscal pressures are projected to build over the next 40 years*. A strong and resilient balance sheet supports adaptation to medium-to-longer-term challenges that will affect our economy and the government balance sheet in uncertain ways.

Critical changes ahead

Demographic change – a predictable long-term fiscal pressure

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

Climate change – certain change with uncertain impacts

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

Technological change – challenges of uncertain character

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

* Learn more by reading the Treasury's 2016 Statement on the Long-term Fiscal Position *He Tirohanga Mokopuna*.

Investing for wellbeing: lifting asset performance

Whilst the balance sheet is in good health now and ready to respond and adapt to the future, improvements can be made.

How are government investments performing?

Investment performance is mixed. To lift performance and improve contribution to wellbeing, the complex system settings underpinning investment management decisions and behaviours, and the assets themselves, need to evolve.

SOCIAL	Social assets, like many State houses and school buildings, are ageing.	Asset rejuvenation needs to embrace opportunities to modernise service delivery.
FINANCIAL	The proportion of financial assets on the balance sheet has grown and is projected to continue growing.	This increase in financial assets changes the balance sheet risk profile and requires ongoing monitoring and management.
COMMERCIAL	The government realises returns from commercial assets mostly through shareholder dividends, and the dividend yield has been low.	Focus should be given to improving dividend yield or expanding options for realising returns.
	SYSTEM SETTINGS underpin investment for wellbeing by encouraging asset management behaviour focused on performance. Yet the settings have become increasingly complex over time.	System settings need examining to ensure they are fit-for-purpose and maximise positive impact.

How will we get better at investing for wellbeing?

To bring about an investment management system focused on wellbeing, we need to confront a number of challenges. We are unlikely to get there in a straight line but only by having a go will we create opportunities to learn and improve.

As the saying goes – you manage what you measure.

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

How do we improve measurement and valuation?

A natural capital* example

Taking account of the full value of natural capital in decision-making is the goal but this remains challenging for a number of reasons.

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

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

And third, we need to know more about the tipping points in environmental processes where behaviour and resilience shift abruptly for the worse.

*A capital is a store of future value. The Treasury's Living Standards Framework refers to four capitals: physical and financial, human, social and natural.

Life is about more than just money. Investing for wellbeing increases the opportunities and the capabilities of New Zealanders to live lives they have reason to value. And that represents the most important return on investment.

The Treasury is focused on promoting better public sector investment management. This means better value for money and improved wellbeing for current and future generations of New Zealanders.

Read He Puna Hao Pātiki the Treasury's 2018 Investment Statement to learn more. Visit www.treasury.govt.nz

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New Zealand Government