



# BUDGET 2019

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# Budget Policy Statement

Hon Grant Robertson  
Minister of Finance

**13 December 2018**

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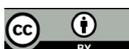
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# 2019 Budget Policy Statement

## Executive Summary

This *Budget Policy Statement* (BPS) sets out the Coalition Government's priorities for the 2019 Budget. This will be New Zealand's first Wellbeing Budget and so, for the first time, the BPS contains a Wellbeing Outlook (instead of just an Economic and Fiscal Outlook) that describes the current state of wellbeing in New Zealand and what this may mean for future wellbeing.

The Wellbeing Outlook is informed by, but offers a much broader picture than, the *Half Year Economic and Fiscal Update* (HYEFU). It shows that New Zealanders enjoy relatively high levels of overall wellbeing but that there are challenges and disparities to address.

The BPS also describes the Government's wellbeing approach and how it is being used in the Budget process. The wellbeing approach has helped us identify the actions we believe will make the greatest contribution to improving the intergenerational wellbeing of New Zealanders.

Under the Government's wellbeing approach, the development of Budget priorities represents new ways of working and of thinking about how we measure our success as a country and as a Government. The priorities for Budget 2019 have been chosen using the Treasury's Living Standards Framework (LSF), evidence from sector-based experts and the Government's Science Advisors, and collaboration among public sector agencies and Ministers. They are focussed on the outcomes New Zealanders want to achieve and all Ministers and agencies will be collectively responsible for delivering the priorities.

To begin to tackle the challenges identified in the Wellbeing Outlook, the Government has identified five Budget Priorities for Budget 2019:

- Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy
- Supporting a thriving nation in the digital age through innovation, social and economic opportunities
- Lifting Māori and Pacific incomes, skills and opportunities
- Reducing child poverty and improving child wellbeing, including addressing family violence
- Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds.

This BPS also reaffirms the Coalition Government's commitment to operating within the Budget Responsibility Rules. These rules include running sustainable operating balance before gains and losses (OBEGAL) surpluses across the economic cycle, reducing net core Crown debt to 20 per cent of GDP within five years of taking office, and maintaining core Crown expenses at around 30 per cent of GDP.

The OBEGAL is expected to be in surplus by \$1.7 billion in 2018/19 (0.6 per cent of GDP), rising to \$8.4 billion in 2022/23 (2.3 per cent of GDP). These ongoing surpluses will help ensure net core Crown debt reduces to 19.0 per cent of GDP in 2021/22, well within the target set in the Budget Responsibility Rules.

The BPS confirms operating allowances of \$2.4 billion per year in Budgets 2019 to 2022. It introduces a multi-year capital allowance which has been set at \$13.1 billion. Major investments will continue to be made in housing, health, education and infrastructure to address the social and infrastructure deficits that have emerged in New Zealand.



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# The Wellbeing Approach

## What is Wellbeing?

The Government believes wellbeing belongs at the heart of policymaking. Economic growth is an important contributor to wellbeing but not an end in itself, and is not an adequate measure of what we value in our lives. We need to measure our success as a country, and develop our policies as government, using a broader range of indicators. These include how we support our people, protect our environment and strengthen our communities and culture.

Wellbeing economics has become commonplace in recent years and is now an integral part of policy frameworks around the world.<sup>1</sup> While there are many possible definitions of wellbeing, a wellbeing approach can be described as enabling people to have the capabilities they need to live lives of purpose, balance, and meaning for them. It is an intergenerational approach that seeks to maintain and improve New Zealanders' living standards over the long-term.

A wellbeing approach is about ensuring the broad range of factors that matter to New Zealanders are central to the Government's definition of success and drive our decision making. Faced with complex issues such as child poverty, inequality, and climate change, we cannot hope to make the best choices for current and future generations if we do not look beyond economic growth and consider social, environmental, and economic implications together. While economic growth is important for creating opportunities, our recent history shows that focussing on it alone can be counterproductive and associated with poor outcomes such as greater inequality and pollution.

Embedding wellbeing into what the Government does will require shifting to a wider definition of success for our country, one that incorporates the health of our finances, natural resources, people, and communities. The Living Standards Framework (LSF) developed by the Treasury is one framework for measuring our success across this broad range of factors. It has been a core part of putting together the priorities for the Wellbeing Budget, acknowledging that the LSF requires further development to fully capture the stock of New Zealanders' wellbeing. The Government is committed to going beyond measurement alone and ensuring that wellbeing is embedded into how we undertake public policy and make decisions. This is necessary to achieve meaningful and enduring change.

This change requires developing new ways of working and of thinking about how we deliver outcomes as a Government. It represents a shift away from government departments thinking of their Budget bids in terms of their own appropriations, towards a focus on the outcomes they can achieve in collaboration with others. All Ministers and departments have been asked to consider what they can contribute to the delivery of each of the Budget priorities.

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<sup>1</sup> For example, see *Stiglitz, J., Sen, A., & Fitoussi, J.P. (2009), 'Report by the Commission on the Measurement of Economic Performance and Social Progress'* and *Dalziel, P., & Saunders, C. (2014), 'Wellbeing Economics: Future Directions for New Zealand'*.

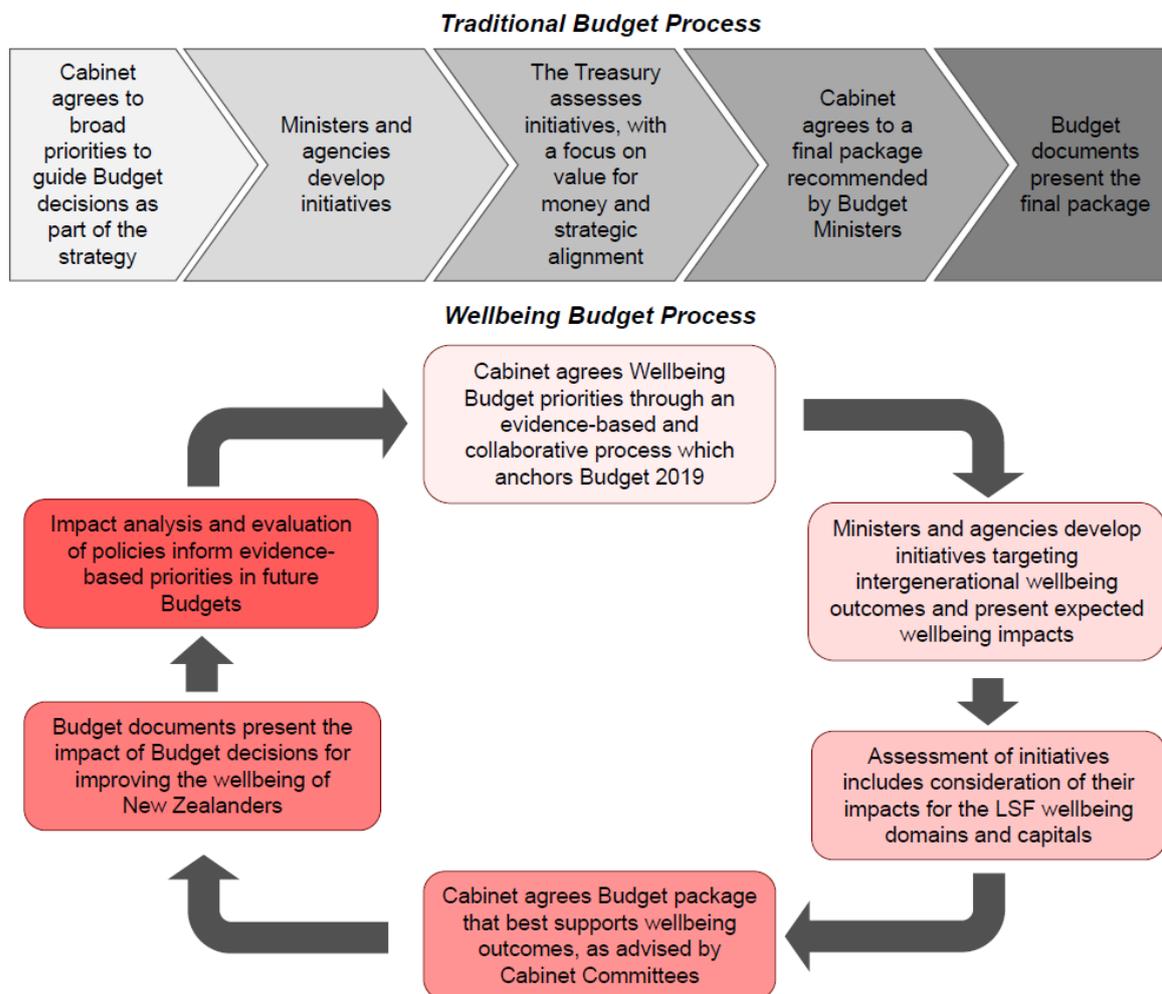
While deep reform will take time, the Government has already made significant strides. We are proud that the Wellbeing Budget will be another important step forward. It represents a significant change to how Budgets have traditionally been designed, developed, and presented, and will make a substantive difference to current and future wellbeing.

## How is a Wellbeing Approach being incorporated into the Budget?

This Budget has used a wellbeing lens from the priority-setting process, through initiative development, decision-making, and (in time) measuring and reporting on success (see Figure 1).

The Budget priorities were determined on the basis of evidence. They have been identified and refined using the LSF and other international and national evidence, including the views of the Government’s Science Advisors, Ministries and Departments.

**Figure 1** – Development of initiatives in a Wellbeing Budget



Initiatives are being developed that align with the priorities. They will be assessed using the LSF to ensure wellbeing is at the heart of Budget 2019. Agencies have been required to provide wellbeing analysis in support of each new initiative. This analysis will outline how expected outcomes contribute to the LSF’s wellbeing areas, including current and future wellbeing, to ensure a long-term view of intergenerational outcomes. The risk and resilience of New Zealand’s wellbeing will also be considered. Ministers will use this information to help them make decisions on Budget packages.

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As part of this process, significant emphasis is being placed on Ministers and their agencies working together to produce initiatives that are focused on the outcomes contained in the Budget priorities. For too long the focus has been on inputs (the amount of money being sought) or the outputs (a particular numerical result of the funding). A focus on *outcomes* means a focus on the long-term changes and benefits that arise from our work. The wellbeing approach prioritises work that breaks down the silos of government to focus instead on the contribution that each Minister and their agency can make towards the long-term wellbeing goal.

Over the next few years, through the work on Indicators Aotearoa New Zealand (IANZ)<sup>2</sup> and the LSF, we will be able to show how Budget decisions are improving the wellbeing of New Zealanders. As part of our commitment to open and transparent government, this information will be presented in an accessible way to allow all New Zealanders to track our progress, as shown by the LSF Dashboard.

## **Embedding wellbeing into the State sector**

Delivering a Wellbeing Budget in 2019 is an important first step, but embedding a focus on wellbeing into the State Sector requires careful phasing, and will continue to evolve. To support this, New Zealand needs a public sector that is more strongly focused on improving current and future wellbeing. We are working to deliver enduring change.

### ***Embedding wellbeing in the Public Finance Act 1989***

This Government intends to amend the Public Finance Act to ensure that broader framing is used in the development of the Budget. Each year, the Government will be required to set out how its wellbeing objectives, together with its fiscal objectives, will guide its Budget and fiscal policy.

To support this, the Treasury will be required to report on current and future wellbeing outcomes at least every four years. This will provide a comprehensive picture of how New Zealand is performing over time, and can be used by the Government to identify areas needing attention.

Future governments will have flexibility to decide on their own wellbeing objectives, but will be required to explain how each Budget will contribute to those objectives.

### ***Wider State sector reform***

This Government intends to re-write the State Sector Act 1998 to make it easier for the Public Service to mobilise quickly around the priorities of any Government to improve the wellbeing of New Zealanders.

Our aim is a Public Service that puts people at the heart of how it organises services. People today expect to interact with one Public Service, not multiple different agencies. Leaders of a unified Public Service will take joint responsibility for big issues and leading organisations that can move and flex with changing times, issues and needs.

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<sup>2</sup> IANZ (being developed by Stats NZ) will be a broad data set, which will serve a number of domestic and international reporting needs. Domestically, IANZ is expected to supply many of the LSF Dashboard indicators and be used by agencies for their own internal and external reporting purposes.

These reforms will make it easier for different organisational models to be established, such as the recently announced joint venture to end family violence and sexual violence and initiatives such as SmartStart, which provides step-by-step information and support to help parents access the right services for themselves and their newborn.

We expect to see more of these different organisational models working across the Public Service, particularly once legislative change has been enacted.

### ***Incorporating wellbeing in agencies' reporting***

The work of departments across government is critical to supporting the successful implementation of a wellbeing focus. Agencies' performance reporting provides important information to stakeholders and decision-makers, and can generate insights that lead to changes in the behaviour and actions of agencies.

The Treasury is working with agencies to understand how best to embed a focus on wellbeing in accountability documents, guided by the following principles:

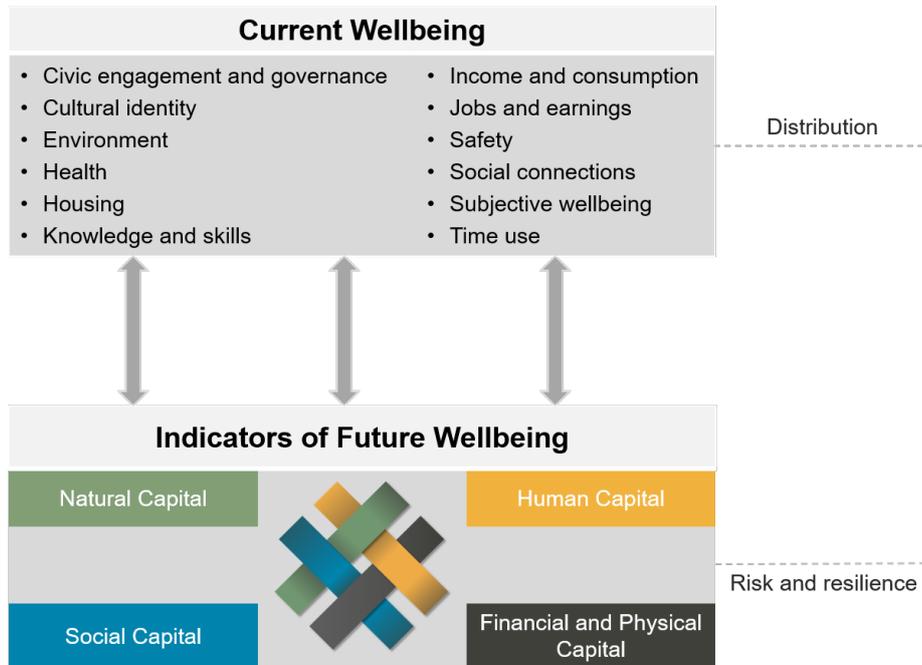
- taking a longer-term, intergenerational view
- thinking broadly about impacts, both positive and negative
- working collectively towards shared outcomes, and
- recognising and building on existing frameworks, strategies or indicators.

This work ties into the State Sector Act changes and our focus of enabling a more coordinated, joined up public service, and will inform future legislation change.

## Box 1: The Treasury's Living Standards Framework

To assist in the delivery of the Government's 2019 Wellbeing Budget, the Government has asked the Treasury to further develop and accelerate the world-leading work it has been doing on its LSF. The Treasury's LSF builds on 30 years of New Zealand and international evidence on wellbeing, such as the OECD's wellbeing approach, and provides a high-level framework on intergenerational wellbeing.

**Figure 2** – The Treasury's Living Standards Framework



The Treasury has developed the LSF to improve the quality of its policy advice. To support this work, the Treasury has recently developed a Dashboard, which measures wellbeing through a selection of indicators for every domain of current wellbeing and each of the four capitals (<https://treasury.govt.nz/lstdashboard>).

Analysis based on a range of data that fed into the development of the LSF Dashboard was one of a number of inputs into the 2019 Budget Priorities.

The LSF Dashboard aims to capture a comprehensive and balanced range of important wellbeing indicators. However, no single set of indicators can capture all that matters for all New Zealanders. The current LSF Dashboard is the first version and further work is needed to ensure future versions improve on areas where there are known gaps and limitations. These areas include more fully and richly expressing and representing Te Ao Māori perspectives, children's wellbeing and New Zealand cultural identity.

## New Zealand's Wellbeing Outlook

Improving the wellbeing and living standards of New Zealanders is a key focus for the Coalition Government. Previous Budget Policy Statements have tended to focus on economic growth. Our Government is instead taking into account a broader range of factors that New Zealanders value as being important for wellbeing. Recent history shows that too narrow a focus on economic growth can be associated with negative outcomes such as growing income inequality and environmental degradation.

The Government has based this Wellbeing Outlook on some of the indicators in the Treasury's inaugural LSF Dashboard, a structured database of wellbeing indicators. This includes measures across the domains of current wellbeing and the capitals, combined with specialist advice from agencies and experts, such as the Government's Science Advisors. We will look to develop and expand this Wellbeing Outlook in future Budget Policy Statements and Budget documents.

The Wellbeing Outlook presents evidence about wellbeing and opportunities for improvement framed by the capitals in the LSF. The capitals are the foundations of wellbeing and include: Human (our people and skills), social (our connections), natural (our environment) and financial and physical (our built and financial assets). The section also contains a fuller description of New Zealand's economic and fiscal outlook, informed by the Treasury's HYEPU, as a strong fiscal position and economy are important for improving the wellbeing of New Zealanders.

### ***New Zealand has a high standard of living but too many people are being left out or left behind***

The evidence summarised in this Wellbeing Outlook suggests that at an aggregate level New Zealanders have high levels of wellbeing. Relative to other OECD countries we feel socially connected, well governed, and we enjoy a clean environment. We are a healthy, well-educated population with increasing material standards of living.

There are, however, significant challenges to address. For example, while unemployment is at a 10 year low, too many young people are still not in education, employment, or training. The economy grew at its fastest rate for two years last quarter, but the benefits of that growth are not being shared by all New Zealanders. In addition, in other areas as diverse as the quality of our rivers or the levels of loneliness, there is a need for significant improvement.

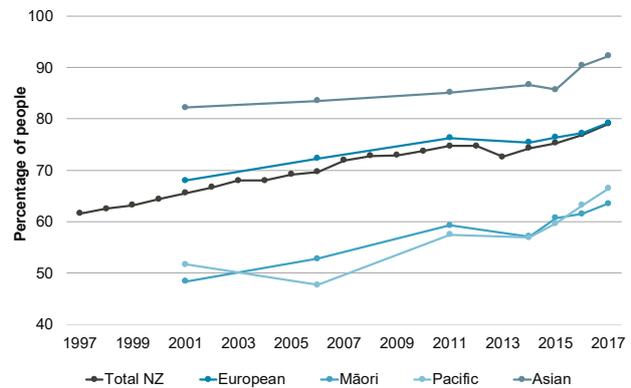
## Human Capital: Our People and Skills

Human capital is the skills, knowledge, and physical and mental health that enable people to participate fully in work, study, recreation and society more broadly. Human capital has a direct link to key elements of wellbeing including employment, income and social connections.

Many aspects of our human capital look good. Overall, New Zealanders are well-educated and healthy. Cognitive skills at age 15, and expected educational attainment, are above the OECD median.<sup>3</sup> In addition, nearly 80 per cent of our adult population have at least an upper secondary education or equivalent (equivalent to NCEA Level 2).<sup>4</sup> But, we know there are areas in need of focus and improvement, particularly given future trends in the labour market that will require workers to transfer or adapt their skills from areas of decreasing employment to new industries. Evidence suggests upskilling will be important to support adaptability and resilience.<sup>5</sup> This is important given that 11 per cent of young people aged 15-24 years are not in education, employment or training.<sup>6</sup>

New Zealanders' life expectancy is also above the OECD median and has been gradually increasing.<sup>7</sup> Furthermore, a consistently high percentage of New Zealanders (85 per cent or more) report good or very good health.<sup>8</sup> However, there are areas in health that need addressing. We have high rates of suicide, particularly in our young adults. He ara Oranga – *Report of the Government Inquiry into Mental Health and Addiction*,

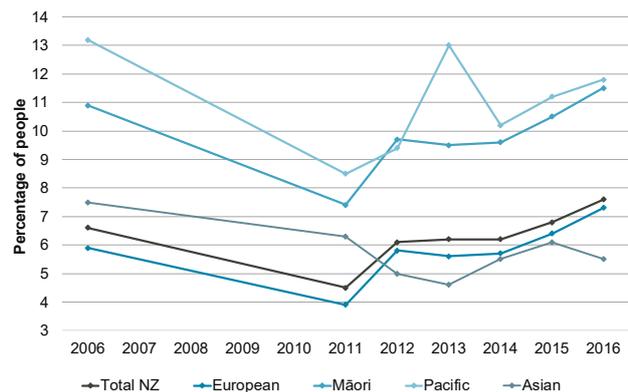
**Figure 3** – Educational attainment – per cent of adults with at least an upper secondary education



Source: Treasury analysis of the Household Labour Force Survey (Stats NZ)

Note: Results prior to 2015 were sourced from the MSD Social Report

**Figure 4** – Mental health – per cent of adults with high levels of psychological distress



Source: New Zealand Health Survey (Ministry of Health)

<sup>3</sup> The Treasury's Living Standards Framework Dashboard.

<sup>4</sup> Ibid.

<sup>5</sup> Mackinsey Global Institute (2017) *Jobs lost, jobs gained: Workforce transition in a time of automation*; OECD (2017) *OECD Economic Surveys: New Zealand 2017*. OECD Publishing: Paris. Productivity Commission (March 2017) *New Models of Tertiary Education*.

<sup>6</sup> Stats NZ.

<sup>7</sup> The Treasury's Living Standards Framework Dashboard.

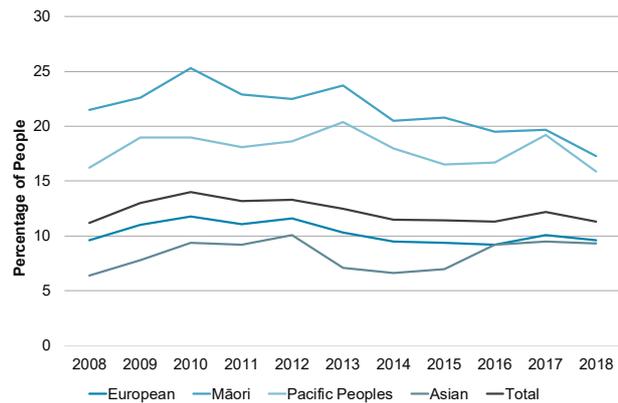
<sup>8</sup> Ibid.

found that New Zealand’s suicide rate for young people is among the worst in the OECD.<sup>9</sup> Obesity (especially child obesity) in New Zealand is also a problem. The New Zealand Health Survey in 2016/17 found that around one in eight children were obese and 18 per cent and 29 per cent of Māori and Pacific children were obese, respectively.<sup>10</sup>

We also know there are significant differences in human capital between New Zealanders. Of all New Zealanders aged 15 or over, there are clear ethnic disparities in qualifications and skills. On average, Māori and Pacific people are less likely to attain high qualifications.<sup>11,12</sup>

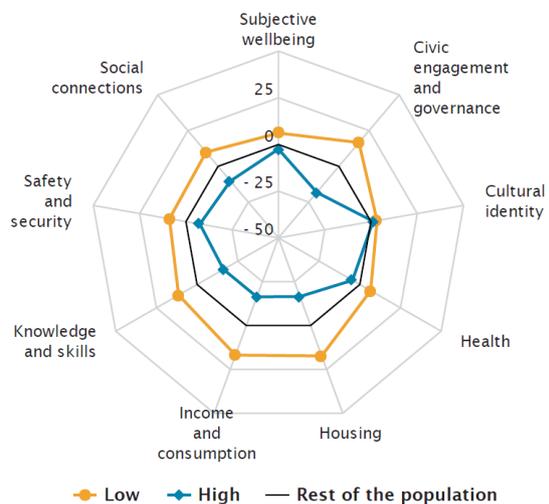
Mental health has a strong connection with many elements of wellbeing, including life satisfaction, social connections and material standards of living. As in education, there are clear ethnic disparities in mental health outcomes. He Ara Oranga – *Report of the Government Inquiry into Mental Health and Addiction*, found that mental health outcomes for Māori and Pacific people are worse than for the overall population.<sup>13</sup> Additionally, a significantly higher percentage of Māori and Pacific people experience high levels of psychological stress, relative to the rest of the population.<sup>14</sup> This evidence has strongly influenced the priorities for Budget 2019.

**Figure 5** – Per cent of 15-24 year olds Not in Employment, Education or Training (NEETs)



Source: Stats NZ, Household Labour Force Survey

**Figure 6** – Māori wellbeing analysis compared to the rest of New Zealand<sup>12</sup>



Source: Stats NZ, General Social Survey

<sup>9</sup> He Ara Oranga – *Report of the Government Inquiry into Mental Health and Addiction*. Accessed from <https://mentalhealth.inquiry.govt.nz/assets/Summary-reports/He-Ara-Oranga-report-30-November.pdf>

<sup>10</sup> The New Zealand Health Survey 2016/2017. Accessed from <https://www.health.govt.nz/nz-health-statistics/national-collections-and-surveys/surveys/new-zealand-health-survey>

<sup>11</sup> Education Counts (2018). *Highest Attainment Numbers (2009-2016)*. Accessed from <https://www.educationcounts.govt.nz/statistics/schooling/senior-student-attainment/school-leavers2/highest-attainment-numbers>

<sup>12</sup> Figure 6 shows how Māori compare to the rest of the population. If in a particular wellbeing domain the yellow point is further from the middle of the diagram than the black point, and the blue point is closer to the middle, this means the particular group’s wellbeing is lower than the national average in that domain. It is clear that Māori rank low relative to the rest of the population in most measures of wellbeing.

<sup>13</sup> He Ara Oranga – *Report of the Government Inquiry into Mental Health and Addiction*. Accessed from <https://mentalhealth.inquiry.govt.nz/assets/Summary-reports/He-Ara-Oranga-report-30-November.pdf>

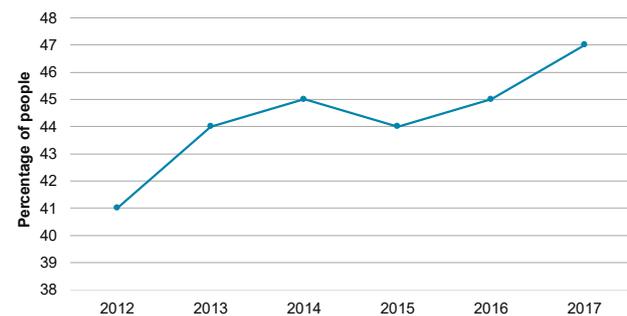
<sup>14</sup> The Treasury’s Living Standards Framework Dashboard.

The experiences we have as children lay the foundation for healthy development and positive outcomes throughout the rest of life. Up to 300,000 children live in poverty or hardship in New Zealand.<sup>15</sup> Poverty early in life has long-term detrimental effects on many areas including cognitive skills, health and income levels, which are likely to lead to poor life outcomes. This suggests improving outcomes for those worst off, particularly children and their families, would have significant benefits. This evidence has strongly influenced the priorities for Budget 2019.

## Social Capital: Our Connections

Social capital is the social connections, attitudes, understandings and formal rules or institutions that contribute to societal wellbeing. Social capital is both a prerequisite for and an outcome of wellbeing, promoting collective action to resolve problems among people and groups in society. These societal understandings encourage social connections and strengthen institutions. Both general (e.g. the court system) and more specific (e.g. the set of rules concerned with protecting privacy) institutions play an important role in supporting the overarching social understandings of fairness and respect.

**Figure 7** – Trust in government institutions – per cent of adults who trust the public service



Source: Kiwis Count Survey (State Services Commission)

In general, New Zealand does well on various areas of social capital. We have very low rates of perceived corruption, particularly in comparison to OECD countries.<sup>16</sup> Additionally, trust in police and public services, and voter turnout, have been gradually improving.<sup>17</sup> We also have, on average, a strong sense of belonging, which is important in seeing value in life and in coping with painful emotions.<sup>18</sup> However, there is always room for improvement.

This positive story is not necessarily spread across all indicators of social capital, or groups in society. Areas such as loneliness, homelessness and discrimination need improving. In 2016, 17 per cent of New Zealanders reported that they had experienced discrimination in the past 12 months and 17 per cent of New Zealanders felt lonely in the last four weeks.<sup>19</sup> Additionally, there are clear ethnic disparities in peoples' social connections and sense of safety. We also have high rates of family violence. In 2016 and 2017, 118,910 and 122,000 family violence investigations took place respectively.<sup>20</sup> It has been estimated that 76 per cent of family violence incidents are not reported to the Police,

<sup>15</sup> The most recently published child poverty figures from MSD's Household Incomes Report (based on the Stats NZ 2014/15 Household Economic Survey) consider various measures of child poverty, and each indicates a different number of children in poverty. The measure indicating the largest group of children in poverty, just under 300,000, is *60 percent of median equivalised income after housing costs*.

<sup>16</sup> The Treasury's Living Standards Framework Dashboard.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> New Zealand Police data (2017, 2018).

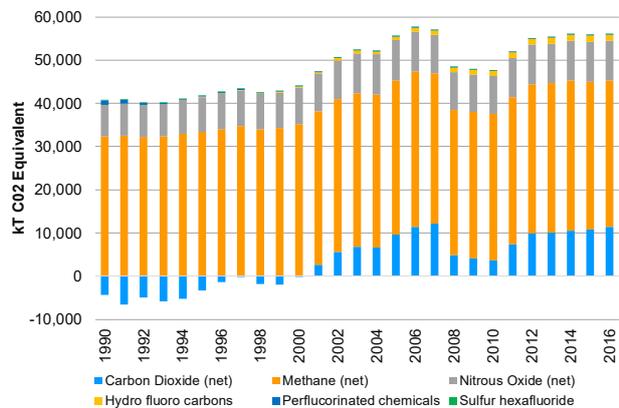
according to the New Zealand Crime & Safety Survey 2014.<sup>21</sup> A lack of safety at home undermines social connection and can have a considerable impact on many or all areas of wellbeing including mental health and self-worth. This evidence is why addressing family violence is a priority for Budget 2019.

Poor wellbeing in housing, material standards of living and health are strongly associated with reduced social connections and safety. In particular, poor mental health is a barrier to participating in the community and developing social connections, which contribute to greater life satisfaction. As a result, supporting mental wellbeing for all New Zealanders, with a special focus on under-24s, is a priority for Budget 2019.

## Natural Capital: Our Environment

Natural capital refers to all aspects of the natural environment needed to support life and human activity. Building natural capital is part of the foundation for ensuring wellbeing and building a strong and sustainable economy. Our wellbeing depends on the condition and extent of our natural capital, as well as the capacity of that capital to generate ‘services’ such as environmental amenity and other benefits derived from healthy ecosystems. The quality, quantity and sustainability of our natural capital can have direct effects on aspects of wellbeing including, health, cultural identity and subjective wellbeing.

**Figure 8 – New Zealand Net Emissions by Gas Type**



Source: Ministry for the Environment

Certain areas of our natural capital are looking positive. The proportion of New Zealanders with access to drinking water that meets international health standards has gradually improved since 2012.<sup>22</sup> However, there is always room for improvement in these areas. For example, poor fresh water quality can negatively affect wellbeing by increasing health risks and can negatively affect the mauri of fresh water ecosystems.<sup>23</sup>

<sup>21</sup> Ministry of Justice (2014), New Zealand Crime and Safety Survey: Main Findings Report, available: <https://www.justice.govt.nz/assets/Documents/Publications/NZCASS-201602-Main-Findings-Report-Updated.pdf>

<sup>22</sup> The Treasury’s Living Standards Framework Dashboard.

<sup>23</sup> Ministry for the Environment & Stats NZ (2017). *New Zealand’s Environmental Reporting Series: Our Fresh Water*. Accessed from [http://www.mfe.govt.nz/sites/default/files/media/Environmental%20reporting/our-fresh-water-2017\\_1.pdf](http://www.mfe.govt.nz/sites/default/files/media/Environmental%20reporting/our-fresh-water-2017_1.pdf)

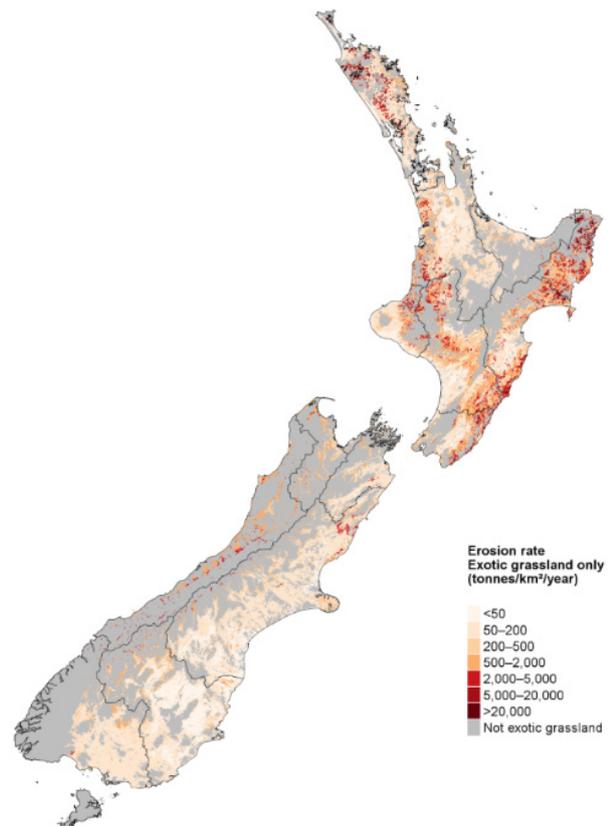
Further areas that need improvement include access to the natural environment.<sup>24</sup> New Zealand's level of waste per capita has increased substantially since 2013. Evidence further suggests that our greenhouse gas emissions (Figure 8) is an area that needs attention. Additionally, data on New Zealand's natural capital and research into the natural environment could be improved.

The goal to transition to a low-emissions economy is about making a deliberate choice to follow a different growth path. Such a transition will take time and Budget 2019 is an opportunity to build on and accelerate the progress already underway. Transitioning to a low-emissions economy aligns with a global shift. There is increasing evidence that low-carbon, climate-resilient growth can be progressed alongside other socio-cultural, environmental and economic goals. Technology will play an

essential role in supporting this transition as well as delivering on our other priority areas.

New Zealand has a significant land-based economy: Land provides critical ecosystem services and the foundation of our economy and society. Cultivation, grazing and logging often degrade soils through erosion, and can cause loss of nutrients and organic matter. It is estimated that we lose 192 million tonnes of soil each year through erosion. Figure 9 illustrates long-term soil erosion in exotic grasslands across New Zealand.<sup>25</sup> This reduces the productivity of the land and harms aquatic ecosystems. Land that is polluted can affect our health, and may be difficult to convert to other uses, such as housing. This affects intergenerational wellbeing. This evidence has strongly influenced the priorities for Budget 2019.

**Figure 9** – Estimated long-term soil erosion in exotic grasslands, 2012



Source: MfE, Our land 2018

<sup>24</sup> The Treasury's Living Standards Framework Dashboard.

<sup>25</sup> 2012 is the latest year when this data was collected. It is unlikely that erosion rates have reduced significantly since then. For soil erosion, and many other natural capital indicators, annual data is not always available. This is because data collection can be resource-intensive and significant changes often take a number of years.

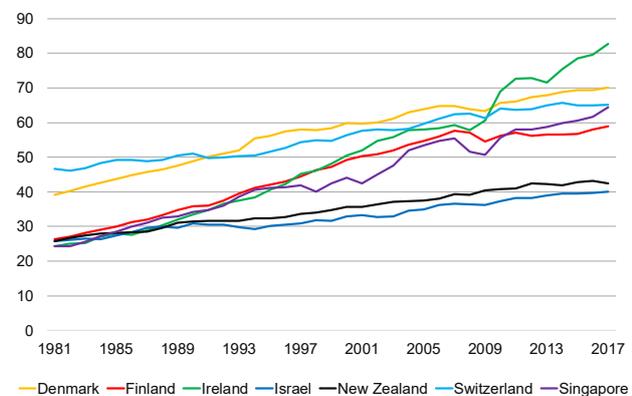
## Financial and Physical Capital: Our Built and Financial Assets

Financial and physical capital refers to our country's financial and physical assets that support incomes and material living conditions. A number of areas of our financial and physical capital are looking positive. We have reasonably strong levels of material standards of living overall. New Zealand incomes are increasing at roughly the same rate as the incomes of other OECD countries.<sup>26</sup> However, there are areas in need of improvement. Not all population groups are experiencing strong levels of material standards of living. Māori and Pacific people particularly experience poor material standards of living, which can have direct effects on areas of wellbeing, including health and housing. We have low expenditure on research and development (R&D) (1.28 per cent of GDP in 2015) in comparison to other OECD countries (2.36 per cent of GDP).<sup>27</sup> R&D has the ability to impact on the flows and strengths of all four capitals by creating new knowledge, innovative processes and products, which can boost productivity.

Additionally, our incomes are in the bottom half of the OECD, despite many New Zealanders working long hours compared to the rest of the OECD.<sup>28</sup> This reflects our relatively low productivity, which is outlined in Figure 10.

Productivity growth matters for material wellbeing. Improved productivity growth means more opportunities for New Zealanders to raise their living standards and lead the lives they want to live. There are opportunities to improve productivity by assisting firms, regions, iwi and individuals to respond to 21st century changes in the economy and through growing our digital capabilities (which includes aspects of both physical capital, such as IT equipment, and human capital such as the relevant skills). This evidence has strongly influenced the priorities for Budget 2019.

**Figure 10** – Labour productivity in small advanced economies (output per hour worked, 2017 US dollars)



Source: The Conference Board Total Economy Database

<sup>26</sup> OECD. (2017). OECD Economic Surveys: New Zealand 2017. Accessed from <http://www.oecd.org/newzealand/economic-survey-new-zealand.htm>

<sup>27</sup> OECD. (2018). Gross Domestic Spending on R&D (indicator). Access from <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>

<sup>28</sup> OECD. (2017). OECD Economic Surveys: New Zealand 2017. Accessed from <http://www.oecd.org/newzealand/economic-survey-new-zealand.htm>

Housing is an important physical asset for many New Zealanders, and the Government owns significant housing assets. Affordable, secure and healthy housing is an important determinant of wellbeing. Rising house prices and a lack of housing affordability have flow-on implications across a number of wellbeing areas. New Zealanders pay significantly more for their homes than it costs to make them, and housing is unaffordable to many New Zealanders, suggesting a range of problems in the

housing market.<sup>29</sup> We know that poor housing can have devastating impacts on people's lives. Analysis from the General Social Survey (GSS) shows that poor housing is strongly correlated with reduced material standards of living, poor health and poor safety. Evidence shows that children living in poverty, Māori and Pacific people, and those with mental illness are more likely to live in poor housing conditions compared to other groups in society. This evidence has strongly influenced the priorities for Budget 2019.

## Economic Strategy

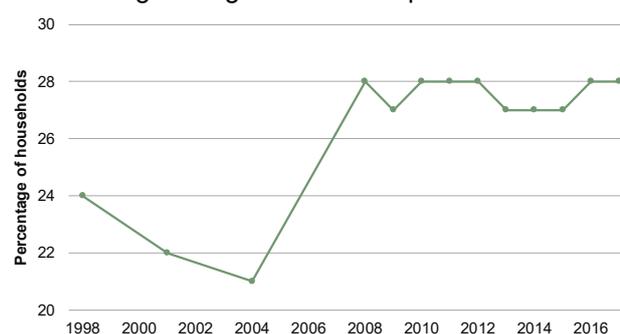
### *Productive, sustainable and inclusive growth*

It is the quality of economic growth that improves wellbeing; growth that provides decent opportunities for all New Zealanders while maintaining and enhancing our natural environment (as opposed to poor-quality growth that provides opportunities for some while exacerbating inequality and degrading the environment). The need to deliver high-quality growth is why the Government's economic strategy is to build a productive, sustainable and inclusive economy. The Government is delivering on this strategy through the following priorities:

- grow and share more fairly New Zealand's prosperity
- support thriving and sustainable regions
- deliver responsible governance with a broader measure of success, and
- transition to a clean, green carbon neutral New Zealand.

Successful implementation of the economic strategy will see a more productive economy that will deliver higher wages and enable greater prosperity for all New Zealanders. The Government's goal is to support more innovative and competitive firms in the economy to realise a shift to higher productivity. This will see New Zealand firms operating in a more diverse range of sectors that supply a greater range of goods and services to a broader range of markets. The economy will also sustainably use New Zealand's natural resources for the wellbeing of today's society and future generations.

**Figure 11** – Housing cost – per cent of households with housing costs greater than 30 per cent of income



Source: Household Incomes in New Zealand (Ministry of Social Development)

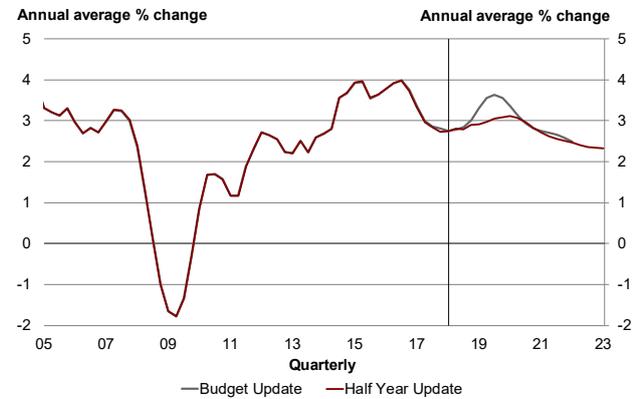
<sup>29</sup> Quantifying the impact of land use regulation: Evidence from New Zealand (2017).

## Economic and Fiscal Forecasts

### *Economic growth plays an important role in raising New Zealanders' wellbeing and living standards*

The economy is growing at a solid rate and the outlook continues to be positive. In its *Half Year Update* the Treasury forecasts economic growth to be supported by strengthening wage growth, low interest rates and accelerating residential investment growth. Economic growth is forecast to be 3 per cent on average over the next two years. Annual per capita GDP growth is expected to rise from 0.7 per cent in 2017/18 to 1.5 per cent in 2019/20.

**Figure 12 – Real GDP Growth**



Sources: The Treasury, Stats NZ

The unemployment rate is expected to be around 4 per cent over the forecast period, in line with the Government's target of reducing the unemployment rate to 4 per cent by the end of this parliamentary term.

Wage growth is forecast to increase faster than inflation in each year of the forecast period, averaging more than 3 per cent per year. Together with employment growth in every year of the forecasts, these numbers illustrate that this Government's plan for sustainable economic growth that is shared by everyone is working.

**Table 1 – Summary of the Treasury's economic forecasts**

Year ending 30 June	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Real GDP (annual average per cent change)	2.7	2.9	3.1	2.7	2.5	2.3
Real GDP per capita (annual average per cent change)	0.7	1.1	1.5	1.4	1.2	1.2
Consumers Price Index (annual per cent change)	1.5	2.0	2.0	2.0	2.0	2.0
Employment growth (annual per cent change)	3.7	2.6	1.9	1.5	1.3	1.2
Unemployment rate (June quarter)	4.4	4.1	3.9	4.0	4.1	4.1
Wage growth (annual per cent change)	3.0	3.1	3.3	3.5	3.4	3.5
Current account (per cent of GDP)	-3.4	-3.5	-3.6	-3.6	-3.6	-3.7

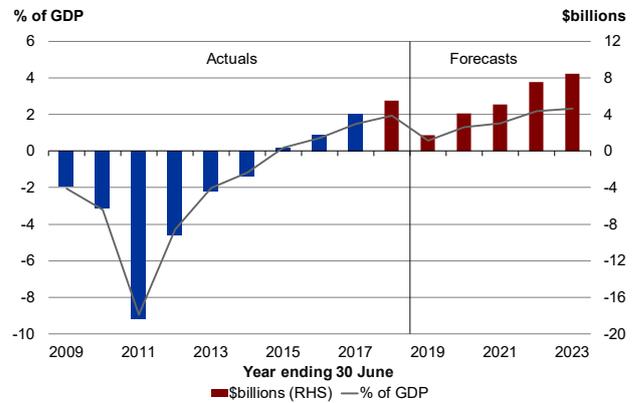
Source: Stats NZ, the Treasury

**A strong fiscal position is a prerequisite for improving the intergenerational wellbeing of New Zealanders**

A strong fiscal position helps to maintain levels of wellbeing, giving future generations more options, and providing resilience to help manage economic change. In its *Half Year Update* the Treasury forecasts the Government’s fiscal position to remain strong.

As a percentage of GDP, core Crown expenses are expected to gradually fall from 29.5 per cent of GDP in 2018/19 to 28.3 per cent of GDP in 2022/23, well below the recent historical average of 30 per cent of GDP.

**Figure 13 – Operating balance before gains and losses (OBEGAL)**



Source: The Treasury

The Government is committed to running sustainable surpluses and paying down debt as a percentage of GDP to ensure we are in a good position to deal with any unexpected shocks. OBEGAL surpluses are forecast to reach \$8.4 billion in 2022/23 (2.3 per cent of GDP).

The Treasury forecasts net core Crown debt to reduce to 19.0 per cent of GDP in 2021/22, in line with the Government’s target to reduce net core Crown debt to 20 per cent of GDP within five years of taking office. Crown net worth is forecast to continue to increase in line with the operating surpluses.

**Table 2 – Summary of the Treasury’s fiscal forecasts**

Year ending 30 June	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
<b>per cent of GDP</b>						
Core Crown tax revenue	27.9	28.1	28.2	28.5	28.8	28.9
Core Crown expenses	28.0	29.5	28.7	28.8	28.4	28.3
Total Crown OBEGAL	1.9	0.6	1.3	1.5	2.2	2.3
Core Crown residual cash	0.5	(1.7)	(0.8)	(0.3)	0.3	0.8
Net core Crown debt	20.0	20.9	20.7	20.1	19.0	17.4
Net worth attributable to the Crown	45.1	44.5	44.5	45.0	46.3	48.0

Source: The Treasury

### **Box 2: Our Achievements So Far**

The Government has made significant progress on a number of key initiatives during our first year, including delivering on a number of commitments in the Coalition, and Confidence and Supply Agreements:

- Implementing the Families Package, including Best Start payments, Winter Energy Payment, and Working For Families payments
- Extending paid parental leave to 22 weeks, and 26 weeks in 2020
- Committing to child poverty reduction targets
- Establishing a \$1 billion per annum Provincial Growth Fund
- Introducing an Independent Climate Commission
- Setting up a \$100 million Green Investment Fund
- Taking up a leadership role in our region, including increased official development assistance (ODA), through our Pacific Reset
- Constructing the first homes in the KiwiBuild programme
- Making record investments in transport, including in public transport and road safety
- Increasing the minimum wage to \$16.50 per hour, to rise to \$20 per hour by 2021
- Making record capital investments in hospitals and schools
- Initiating review and reform of the Reserve Bank Act
- Banning foreign speculators from our existing residential housing market
- Making GP visits cheaper for over 500,000 Kiwis
- Giving a significant funding boost to Conservation work
- Establishing an inquiry into Mental Health and Addiction
- Re-establishing the New Zealand Forestry Service
- Establishing an integrated therapies mental health pilot for all 18-25 year olds
- Restarting contributions to the NZ Superannuation Fund
- Cracking down on loan sharks
- Expanding the Limited Service Volunteer Programme
- Establishing the Pike River recovery agency.

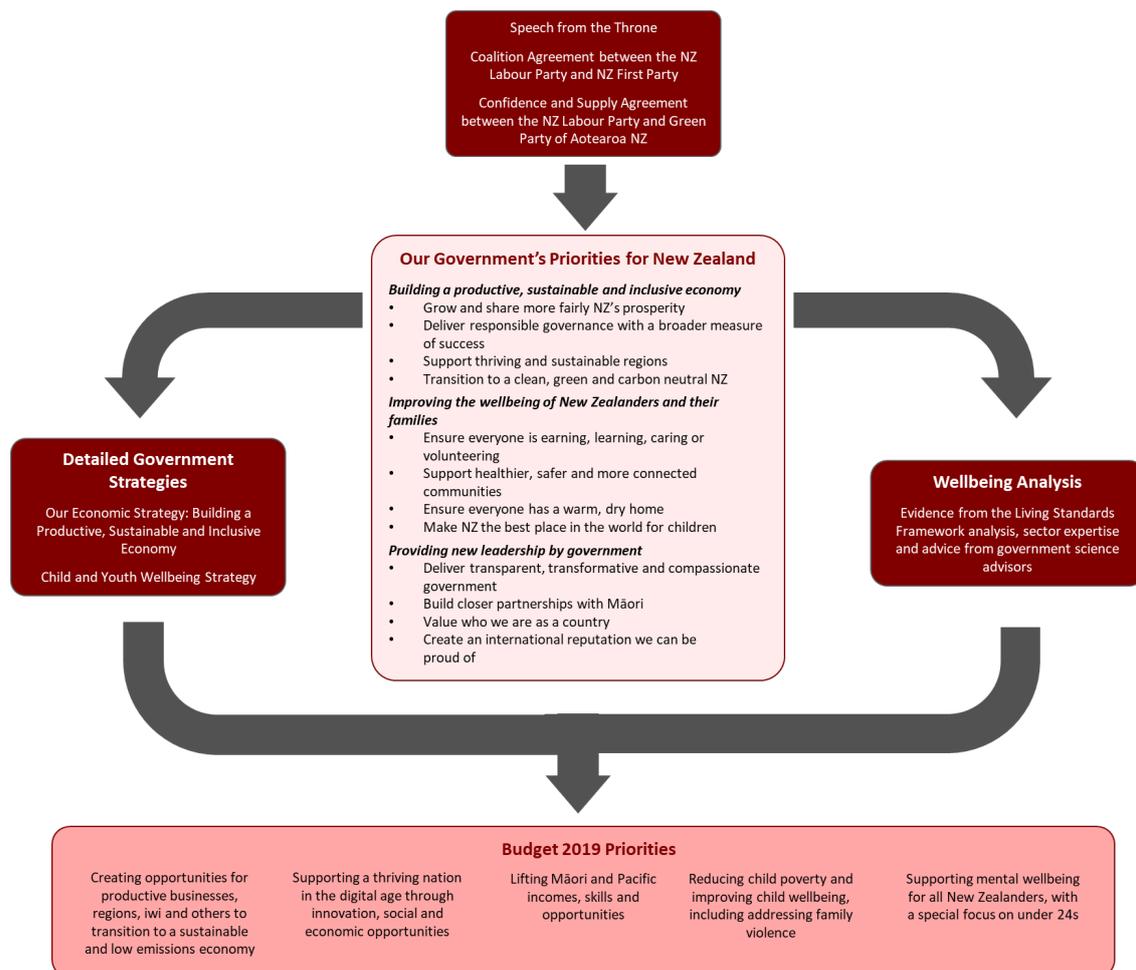
# Budget Priorities

Budget 2019 will be New Zealand’s first Wellbeing Budget. It will confirm the Coalition Government’s commitment to a new approach to formulating policy and measuring success – an approach that puts the wellbeing of New Zealanders at the heart of what we do.

The foundation documents for the Budget continue to be the Speech from the Throne, the Coalition Agreement between the New Zealand Labour Party and New Zealand First, and the Confidence and Supply Agreement between the New Zealand Labour Party and the Green Party of Aotearoa New Zealand. It remains our priority to fulfil all of the commitments in those documents during this term, and we are well on track to do so.

Budget 2019 will have a particular focus on five priorities that have been set through a collaborative and evidence-based approach, as outlined below. The priorities represent five areas where initial evidence from the LSF and other sources show that substantive opportunities exist to make a difference to New Zealanders’ wellbeing. They were refined through a process of consultation with officials, Ministers, sector experts, and Government Science Advisors, and combined with other inputs including the Child Wellbeing Strategy and international evidence. They progress the Government’s overarching and long-term policy priorities (Figure 14).

**Figure 14 – Setting priorities for the Wellbeing Budget**



### **1) *Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy***

Budget 2019 will see a focus on providing opportunities to sustainably grow and modernise our economy. Our economic strategy is defined by a focus on productive, sustainable and inclusive growth. Despite New Zealanders working longer hours on average than residents of many developed countries, our incomes remain in the bottom half of the OECD due in part to our low productivity. Lifting productivity supports wellbeing through higher incomes and material standards of living, retains and creates employment, and provides the opportunity for New Zealanders to live the lives they value.

The Government is committed to achieving this in a way that transitions the economy to a sustainable and low-emissions future. We want an economy that preserves and enhances our natural capital, as our natural resource base is an important foundation for our long-term wellbeing. This transition will take time and Budget 2019 will be an important step. We are also committed to a just transition to a low-carbon economy. This means having the courage to do the long-term planning required to ensure workers, businesses and communities are supported as we move away from fossil fuels and towards a low-carbon economy.

### **2) *Supporting a thriving nation in the digital age through innovation, social and economic opportunities***

The Government is committed to ensuring New Zealand is well placed to thrive in the digital age and the rapidly changing world of work. The pace of technological change is accelerating around the world, driving significant change across economies, governments, and societies. Thriving amidst this change requires us to leverage data, technologies, and skills to realise a responsive and efficient economy and society. With many of today's jobs predicted to either not exist or be radically changed in a few decades, it is vital we support businesses to undertake research and development, and provide workers with the foundational skills they need to adapt. We can also support this transition by using technology to deliver a more open digital Government that breaks down silos and encourages new ways of working.

This priority is also about ensuring that no one is left out. While it's easy to take the online world for granted, there are still many New Zealanders who are not included in the digital age. Over 100,000 New Zealand children live in households without an internet connection. Research also shows other groups such as rural and low socio-economic communities, people with disabilities, and senior citizens are at greatest risk of digital exclusion. The Government is committed to all New Zealanders having the chance to share in the opportunities provided by the digital age.

### **3) *Lifting Māori and Pacific incomes, skills and opportunities***

There is significant disparity in the standards of living of population groups in New Zealand. Māori and Pacific people have lower average wellbeing across many areas compared with other groups of New Zealanders. As measured by the GSS, the material standards of living for Pacific people is around half that of the general population, and a third lower for Māori. Enduring inequities persist across areas such as housing, health, and employment outcomes.

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Budget 2019 will focus on measures that address these disparities and support opportunities for Māori and Pacific people to lift their wellbeing. There is enormous opportunity for economic and social success in Māori and Pacific communities. The Government has already been collaborating with Māori and Pacific communities, partners, and stakeholders to understand how we can best invest in and pilot initiatives that will lead to a meaningful shift in the wellbeing of these individuals and communities. Budget 2019 will include a package of initiatives to support this.

**4) *Reducing child poverty and improving child wellbeing, including addressing family violence***

Budget 2019 will continue progress toward our goal of making New Zealand the best place in the world to be a child. The experiences we have as children lay the foundation for healthy development and positive wellbeing throughout our lives. However, too many New Zealand children do not have the strong foundations they need. Up to 300,000 children live in poverty or hardship in New Zealand, and such material standards of living early in life are shown to contribute to lasting wellbeing impacts in areas such as health, housing, and education.

This Budget will also have a particular focus on breaking the intergenerational cycle of family violence. Exposure to family violence and sexual violence has impacts on child and youth wellbeing that persist throughout life: These people are more likely to attempt suicide, make up the majority of youth offenders, and are less likely to succeed in the education system and beyond. More than this, their exposure to violence as children makes them more likely to be a perpetrator or victim of family violence as an adult. Meaningfully improving long-term wellbeing requires breaking this cycle.

**5) *Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds***

Budget 2019 will give mental wellbeing the priority and focus it deserves. In any 12-month period, about one in five New Zealanders will have a diagnosable mental illness, with three-quarters of lifetime cases starting by the age of 25. Poor mental health strongly affects life satisfaction, sense of purpose, material standards of living, social connections, and cultural wellbeing. Addressing these issues early in life can also significantly improve risk factors that would otherwise contribute to poor outcomes later in life, including interactions with the justice and welfare systems.

Earlier this year, the Government launched He Ara Oranga – *Report of the Government Inquiry into Mental Health and Addiction*. Following over 5,200 submissions and a substantial process of engagement across the country, the Inquiry recently delivered its report identifying a range of unmet needs and recommendations for the system. Budget 2019 will be an important step in responding to the Inquiry's recommendations by requiring agencies to work together to achieve overall wellbeing.

### Box 3: Wellbeing Approach in Action

Budget 2019 will represent a significant step forward for implementing a wellbeing approach to government funding and policy decisions. However, there is a range of ways we are already demonstrating a wellbeing approach that supports the Budget priorities.

#### Child Wellbeing Initiatives

The Government has implemented a range of initiatives to support a significant and sustained reduction in child poverty. The landmark Child Poverty Reduction Bill will embed a wellbeing approach to child poverty into New Zealand's legislative framework, requiring Governments to regularly report on child poverty levels, be transparent about how Budget decisions will impact child poverty, and adopt clear strategies for improving the wellbeing of all children. We have also implemented the Families Package that provides support to more than 384,000 families with children, extended free doctors' visits and prescriptions to under-14-year-olds, and established new ways of working across government through the Child Poverty Unit that is leading further efforts to tackle child poverty.

#### Eastern Porirua community development

The Government has applied a wellbeing approach to the revitalisation of eastern Porirua. Partnering with local iwi and council, the Government has taken the opportunity presented by the development of affordable housing to undertake a major integrated urban development plan. In addition to providing warm, dry, high-quality public and affordable housing, it will provide education, recreation, and social service opportunities that will support child and family outcomes, lift incomes and skills, and create opportunities for social and economic growth in the community.

#### Nurses in Schools

The Government's pledge to expand the nurses in schools programme to all public secondary schools up to decile four is one example of our approach to addressing mental health issues. The expansion announced in Budget 2018 will ensure an extra 24,000 students will have access to the mental health support they need to address issues early, before they become more severe and affect other outcomes. This support was combined with the establishment of a pilot programme providing young people aged 18 to 25 free mental health counselling and therapy to support them after they leave school.

#### Mental wellbeing in the prison network

Decisions the Government has taken on the prison network are further examples of how we are tackling mental health issues through a wellbeing lens. Instead of progressing plans already underway for a 2,500 bed mega-prison at Waikeria, the Coalition Government saw an opportunity to address the factors behind offending and recidivism by supporting offenders' mental health. Waikeria Prison will now be a 500-bed facility with a first-of-its-kind mental health and substance rehabilitation facility addressing the underlying causes of offending and improving long-term outcomes. This is supplemented by a focus across the prison network on better prisoner housing and support to improve reintegration into communities.

#### Future of Work Forum

The Future of Work Tripartite Forum illustrates how we are working differently to ensure the economy is future-proofed for the digital age. The Forum is a collaboration between government, business and unions and is tasked with investigating and championing initiatives that improve the use of technology, create more productive workplaces, and improve the skills and training of our workers. Established through Budget 2018, it is already shaping the Government's efforts to support New Zealand workers and businesses. It recently endorsed a '*Skills Shift in Manufacturing*' initiative created by the Manufacturers' Network that will identify the skills needed within the sector to support its workforce to face the opportunities presented by technological change.

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### Green Investment Fund

The Green Investment Fund is one example of how the Government is leading the shift to a cleaner path for the economy. Once established, the Fund will be a government-owned, independently operated vehicle that will utilise public and private capital for transformational low-carbon, climate-resilient projects. As in other countries, it will create opportunities to support economic prosperity while at the same time reducing our contribution to climate change. In doing so, it will move New Zealand towards the Government's goal of a net-zero emissions economy by 2050.

### Our Pacific Vision

The Government's *Pacific Vision* shows how we are taking a new approach to understanding issues and opportunities within New Zealand's Pacific communities. Over the past year, the Ministry for Pacific Peoples has engaged with more than 2,500 Pacific peoples from community organisations, businesses, NGOs, and churches across the country. This engagement has identified a range of ways to make a material difference to the wellbeing of these communities from their own perspectives – highlighting the need to address health, housing, education, and employment challenges as well as preserve languages, cultures, and identities. This engagement has provided a strong basis from which we will work with these communities to co-design solutions.

## Fiscal Strategy

### ***Having a strong fiscal strategy is a pre-requisite to maintaining and improving wellbeing***

Balancing the Government's revenue and expenses over time helps to ensure intergenerational fairness. Maintaining a sufficient debt buffer allows the Government to respond to negative shocks.

### ***The Government is committed to meeting the Budget Responsibility Rules***

***The Government will deliver a sustainable operating surplus across an economic cycle.*** A sustainable surplus is one that exists once policy objectives have been met, and is not artificially generated by underfunding key public services. The Treasury forecasts show OBEGAL surpluses reaching \$8.4 billion in 2022/23 (2.3 per cent of GDP).

***The Government will reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office.*** Reducing government debt will give future generations more options and provide a buffer to help manage future risks or shocks. The Treasury forecasts net core Crown debt to reduce from 20.0 per cent in 2017/18, to 19.0 per cent of GDP in 2021/22. The Government will provide further detail on a post-2021/22 fiscal strategy at Budget 2019.

***The Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.*** The Government remains committed to making responsible investments that enhance the long-term wellbeing of New Zealanders, such as restarting contributions to the New Zealand Superannuation Fund (NZS Fund). In addition, we will continue to invest in infrastructure to support our growing population, develop our regions and reduce the long-term fiscal and economic risks of climate change.

***The Government will take a prudent approach to ensure expenditure is phased, controlled and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio.*** On average for the last 20 years, core Crown spending has been around 30 per cent of GDP. This Government will manage expenditure carefully to continue this trend. The Treasury forecasts that Government core Crown expenditure will fall from 29.5 per cent of GDP in 2018/19 to 28.3 per cent of GDP in 2022/23.

***The Government will ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy.*** The Government believes that we need a better balance in our tax system to support the productive sector and ensure all taxpayers are paying their fair share. The Tax Working Group is considering whether improvements can be made to the structure, fairness and balance of the tax system. Final recommendations are due to be provided to the Government in early 2019.

Further details on the Government's specific short-term intentions and long-term objectives, as required by the Public Finance Act 1989, can be found in the Annex.

## Setting Budget Allowances

Budget allowances show how much new investment and spending is available in each Budget for the Government to meet its fiscal priorities over the next four years. The Government has decided to keep the operating allowances signalled in Budget 2018 at this time. These allowances may change as the fiscal outlook develops and more information becomes available.

The total levels of additional investment are consistent with the Government's target of reducing net core Crown debt to 20 per cent of GDP within five years of taking office and the Government's short-term fiscal intentions. The Government will use these allowances to prioritise responsible investments that enhance the wellbeing of New Zealanders.

**Table 3** – Budget allowances (before pre-commitments)

<b>\$ billions</b>	<b>Budget 2019</b>	<b>Budget 2020</b>	<b>Budget 2021</b>	<b>Budget 2022</b>
Operating allowances (per year)	2.400	2.400	2.400	2.400
Previous single-year capital allowance (total)	3.700	3.400	3.000	3.000
Multi-year capital envelope (total)	← 13.100 →			

Source: The Treasury

Earlier this year the Government agreed to move away from single-year capital allowances to a rolling multi-year capital envelope. The new envelope provides flexibility to meet medium-term investment objectives while ensuring that the near-term fiscal strategy can be achieved.

A significant proportion of the Crown's capital expenditure is funded through agency balance sheets and baselines (including depreciation funding). However, the largest initiatives generally require part or full funding from the Budget capital allowance. The allowance is a Budget management tool that can be adapted to the management and communication needs of the Government.

In the past, the Government has set a single-year capital allowance for the coming year and the next three Budgets to guide the amount of capital expenditure committed to in future Budgets. This approach does not provide a clear link between the funding committed through Budget decisions and the impact of the procurement on net core Crown debt, a key fiscal indicator. It also means that trade-offs are made between the initiatives submitted in a single year, rather than based on a medium or long-term view of likely capital requirements.

We are adopting a new approach that is sufficiently flexible to meet medium-term objectives while ensuring that the near-term fiscal target can be achieved. The new approach is:

- to move from a single-year Budget capital allowance to a rolling multi-year allowance 'envelope'
- for the size of the envelope to reflect available capital funding for the next four Budgets
- for the envelope to roll forward each year (rather than be for a fixed period), and
- to consider the impact of the procurement profile on net core Crown debt as part of the decision-making process.

As now, the full cost of the decisions made through the Budget process will be counted against the capital envelope, along with any pre-commitments during the year. The Government has already made a number of decisions that have been charged against the multi-year capital envelope, leaving a remaining total of \$9.0 billion to be allocated in future Budgets. The largest pre-commitments relate to the Boeing P-8A Poseidon maritime patrol aircraft, Provincial Growth Fund and City Rail Link funding.

The amount of funding in the envelope will be revised at the time of the *Fiscal Strategy Report* and *Budget Economic and Fiscal Update* in May, based on the amount of funding already committed and an updated view of fiscal headroom over the next four years. This is consistent with the established process for updating a single-year allowance.

The new approach improves alignment between the Government's fiscal strategy and how capital expenditure is managed through the Budget process. It also improves our ability to take a longer-term view of capital commitments and increases transparency, by tracking and reporting more clearly the cash impact of initiatives over time. The new approach does not increase the amount of funding available for capital expenditure. However, with a longer-term view of potential initiatives, funding could be committed earlier to investment-ready initiatives that require several years to procure, plan or design, without impacting on the net core Crown debt target in 2021/22.

The new approach does not change the need for Budget responsibility and careful prioritisation of investment decisions. It will be important to maintain a high-bar for capital investment bids in this Budget and ensure that they are clearly aligned with government priorities and supported by rigorous analysis.

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# Annex

## Long-term Fiscal Objectives and Short-term Fiscal Intentions

The Government's long-term objectives relate to the next 10 years. These long-term objectives are unchanged from those set out in the *Fiscal Strategy Report 2018* (FSR).

**Table A1** – Long-term fiscal objectives

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### **Budget Policy Statement 2019**

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#### **Operating balance**

The Government will deliver a sustainable operating surplus across an economic cycle.

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#### **Operating expenses**

The Government will maintain its expenditure to within the recent historical range of spending as a ratio of GDP. The Government will take a prudent approach to ensure expenditure is phased, controlled and directed to maximise its benefits, in particular prioritising investments to address the long-term financial and sustainability challenges facing New Zealand.

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#### **Operating revenues**

The Government will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

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#### **Debt**

Maintain total debt at prudent levels.

The Government will reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office and maintain it at prudent levels thereafter.

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#### **Net worth**

The Government will strengthen net worth consistent with the debt and operating balance objectives.

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The Government's short-term fiscal intentions (in Table A2 below) have not changed since the FSR 2018.

The short-term intentions and long-term objectives are consistent with each other and with the principles of responsible fiscal management as set out in the Public Finance Act 1989. That is, they aim to:

- reduce total debt to prudent levels and achieve and maintain levels of total net worth so as to provide a buffer against adverse economic shocks
- ensure that, on average, total operating expenses do not exceed total operating revenues
- take into account the impact of fiscal policy on monetary policy
- prudently manage the fiscal risks facing government
- have regard for present and future generations, and
- ensure the Crown's resources are managed effectively and efficiently.

More detailed information about the principles of responsible fiscal management can be found at: [www.treasury.govt.nz/publications/guidance/publicfinance/fiscalpolicyframework/](http://www.treasury.govt.nz/publications/guidance/publicfinance/fiscalpolicyframework/)

**Table A2 – Short-term fiscal intentions**

<b>Budget Policy Statement 2019</b>	<b>Fiscal Strategy Report 2018</b>
<p><b>Debt</b></p> <p>Our intention is to reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office (subject to any significant shocks to the economy).</p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 25.4 per cent of GDP in 2022/23.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 20.7 per cent in 2019/20, 20.1 per cent of GDP in 2020/21 and 19.0 per cent of GDP in 2021/22.</p> <p>This assumes a multi-year capital envelope of \$13.1 billion for the next four Budgets.</p>	<p><b>Debt</b></p> <p>Our intention is to reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office (subject to any significant shocks to the economy).</p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 27.3 per cent of GDP in 2021/22.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 20.6 per cent of GDP in 2019/20, 20.2 per cent of GDP in 2020/21 and 19.1 per cent in 2021/22.</p> <p>This assumes new capital allowances of \$3.8 billion in Budget 2018, \$3.7 billion in Budget 2019, \$3.4 billion in Budget 2020, and \$3.0 billion in Budget 2021.</p>
<p><b>Operating balance</b></p> <p>Our intention is to deliver operating surpluses (before gains and losses) to ensure net debt falls to 20 per cent of GDP within five years of taking office.</p> <p>The operating balance (before gains and losses) is forecast to be 0.6 per cent of GDP in 2018/19, rising to 2.2 per cent of GDP in 2021/22 and 2.3 per cent of GDP in 2022/23. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 3.6 per cent of GDP in 2022/23.</p>	<p><b>Operating balance</b></p> <p>Our intention is to deliver operating surpluses (before gains and losses) to ensure net debt falls to 20 per cent of GDP within five years of taking office.</p> <p>The operating balance (before gains and losses) is forecast to be 1.1 per cent of GDP in 2017/18, rising to 1.7 per cent of GDP in 2019/20 and 2.1 per cent of GDP in 2021/22. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 3.3 per cent of GDP in 2021/22.</p>
<p><b>Expenses</b></p> <p>Our intention is to ensure expenses are consistent with the operating balance objective.</p> <p>Core Crown expenses are forecast to fall from 29.5 per cent of GDP in 2018/19 to 28.3 per cent of GDP in 2022/23.</p> <p>Total Crown expenses are forecast to be 36.1 per cent of GDP in 2022/23.</p> <p>This assumes new operating allowances of \$2.4 billion per year in Budgets 2019 – 2022.</p>	<p><b>Expenses</b></p> <p>Our intention is to ensure expenses are consistent with the operating balance objective.</p> <p>Core Crown expenses are forecast to be 28.1 per cent of GDP in 2017/18 and 28.0 per cent of GDP in 2021/22.</p> <p>Total Crown expenses are forecast to be 36.2 per cent of GDP in 2021/22.</p> <p>This assumes new operating allowances of \$2.8 billion per year in Budget 2018 and \$2.4 billion per year in Budget 2019, 2020 and 2021.</p>
<p><b>Revenues</b></p> <p>Our intention is to ensure sufficient revenue to meet the operating balance objective.</p> <p>Total Crown revenues are forecast to be 38.6 per cent of GDP in 2022/23.</p> <p>Core Crown revenues are forecast to be 31.0 per cent of GDP in 2022/23.</p> <p>Core Crown tax revenues are forecast to be 28.9 per cent of GDP in 2022/23.</p>	<p><b>Revenues</b></p> <p>Our intention is to ensure sufficient revenue to meet the operating balance objective.</p> <p>Total Crown revenues are forecast to be 38.4 per cent of GDP in 2021/22.</p> <p>Core Crown revenues are forecast to be 30.4 per cent of GDP in 2021/22.</p> <p>Core Crown tax revenues are forecast to be 28.3 per cent of GDP in 2021/22. Core Crown tax revenues are forecast to be 27.7 per cent of GDP in 2020/21.</p>

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**Budget Policy Statement 2019****Net worth**

Our intention is to increase net worth consistent with the operating balance objective.

Total net worth attributable to the Crown is forecast to be 48.0 per cent of GDP in 2022/23.

Total Crown net worth is forecast to be 49.5 per cent of GDP in 2022/23.

**Fiscal Strategy Report 2018****Net worth**

Our intention is to increase net worth consistent with the operating balance objective.

Total net worth attributable to the Crown is forecast to be 44.2 per cent of GDP in 2021/22.

Total Crown net worth is forecast to be 45.8 per cent of GDP in 2021/22.