

8 OCTOBER 2019



TE TAI ŌHANGA  
**THE TREASURY**

# FSG BASICS

The financial statements of the Government (FSG) provide a record of the Government's financial performance and its financial position

<https://treasury.govt.nz/publications/information-release/fsg-basics-2019>

New Zealand Government

TREASURY BASICS –  
Making sense of New Zealand's economic and fiscal landscape

# The Financial Statements of the Government

## Who we are

The Treasury is New Zealand's economics and finance ministry. We advise on the direction of New Zealand's economic policy with the aim of achieving a strong and sustainable economy and raising New Zealand living standards. We also advise the Government on its fiscal strategy, report on the revenue and expenditure of the Government, and assist to ensure spending is fit for purpose and can improve outcomes for New Zealanders.

## Sharing what we do

The Treasury publishes monthly and annual (year end) financial statements for the Government and all the entities it controls. Annual statements cover the year from 1 July to 30 June.

These statements provide information on the Government's assets and liabilities, revenue and expenses, cash flows and debt. They provide a comparison with the fiscal forecasts in the *Economic and Fiscal Updates* and with the financial statements of the previous year. The financial statements also provide a snapshot of the progress the Government has made in implementing its fiscal strategy, as set out in *Budget 2019*.

## Making it New Zealander-centric

Our advice is not just based on facts and figures. Improving outcomes means we need to understand which outcomes to improve, and what is important to New Zealanders. [We use the Treasury's Living Standards Framework](#) to recognise the different aspects of New Zealanders' living standards and wellbeing.

The Framework's organising principles underpin [He Puna Hao Pātiki: 2018 Investment Statement](#). The assets and liabilities on the Crown's balance sheet provide resources which the Government can draw on for raising wellbeing, now and into the future. In 2016 we presented a living standards perspective that stretches over the next 40 years. [He Tirohanga Mokopuna: 2016 Statement on the Long-term Fiscal Position](#), sets out our take on long-term fiscal issues facing New Zealand. We know that sustainable government finances are a requirement to improving long-term living standards, and vice versa.

## Understanding what we do

The Treasury is committed to delivering first-rate economic and financial advice, and providing it in ways that help New Zealanders understand how we work to achieve our goals. This plain English version of our economic outlook and fiscal overview is a contribution to the [Open Budget](#) initiative.

# FSG Basics

The **key terms and indicators** is a plain English guide. These are **the words and figures** normally used to describe the Government's results.

The **fiscal results** are about the health of the **public purse**. They look at Government income (largely from tax) and how the Government is spending that money and managing its debt.

# Key terms and indicators

We use some key terms and indicators to describe what is happening:

## Core Crown

is a reporting segment that consists of the Crown, departments, Offices of Parliament, the New Zealand Superannuation (NZS) Fund, and the Reserve Bank. It excludes Crown entities and State-owned Enterprises (SOEs).

## Gross Domestic Product (GDP)

is one way to measure the size of the economy. It measures the value of goods and services produced in an economy in a period of time. GDP is used to measure against fiscal indicators of the Government.

## Core Crown tax revenue

is the income the Government receives from taxpayers in the form of tax (eg, income tax, GST, companies tax).

## Core Crown expenses

are the day-to-day spending of the Government to provide services to New Zealanders (eg, health and education), as well as fund the agencies that provide those services and interest costs from borrowing money.



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# Key terms and indicators

## OBEGAL

stands for Operating Balance before Gains and Losses and is what is left after expenses are deducted from revenue. It includes profits/losses from Government controlled entities such as ACC and New Zealand Post as well as the tax revenue and core Crown expenses discussed above. It excludes gains and losses.

## Net debt

is what the Government has borrowed less what assets it holds that can be used to pay off debt if required (referred to as financial assets). Examples of financial assets are cash and share investments.

## Net worth

is total assets less total liabilities. Changes in net worth are largely driven by the operating result of the Government, and any changes in the value of its assets.

## The government reporting entity

is made up of all entities that the Government controls (split into the segments of core Crown, Crown entities and SOEs).



# GDP

**Gross Domestic Product (GDP)** is a measure of the size of the economy. There are two ways we look at GDP – nominal and real.

## NOMINAL vs REAL

**Nominal GDP** is estimated at *current* prices and is a good indicator for how much tax will be generated by all the individuals and businesses in the economy.

**Real GDP** is estimated at *constant* prices so it includes the impact of inflation. How real GDP changes over time is a good measure for how fast the economy is growing.



## What the Treasury says

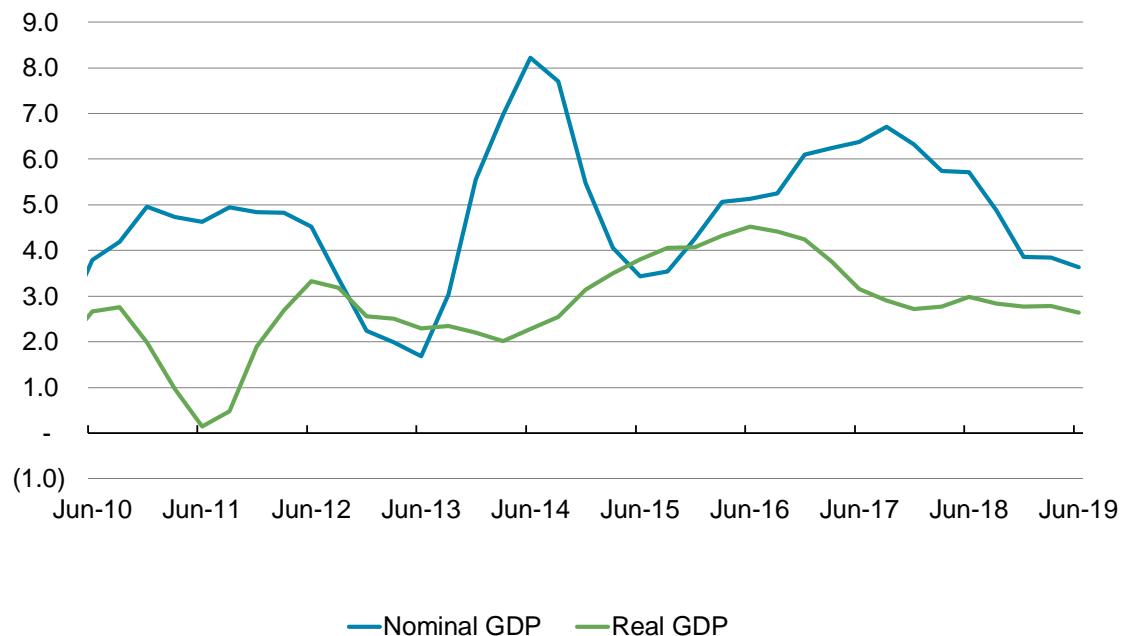
Nominal GDP increased by 3.6% to June 2019, supported by growth in private and government consumption, higher consumer spending and residential investment.

Real GDP grew 2.6% in the current year. This was driven by population growth in New Zealand of 1.6% in the year to date.

### Facts and figures

- \$300.0 billion nominal GDP **(up \$10.5 billion)**
- 1,590,700 average full time equivalent employees **(up 30,100)**
- \$31.84 average ordinary time hourly pay rate **(up 3.5%)**
- 4.1% average unemployment **(down 0.3%)**
- 1.7% annual average inflation **(up 0.2%)**

Annual average % change



# Core Crown Tax Revenue

Core Crown tax revenue is earned by the Government from various sources (eg, income tax, GST, motor vehicle fees).

## Tax revenue recognition process change

Estimates are used to recognise tax revenue because actual tax revenue is not known until the returns have been filed. This usually happens sometime after the financial statements are published.

In 2018/19, the administration of income tax moved to Inland Revenue Department's new system, START (Simplified Tax and Revenue Technology).

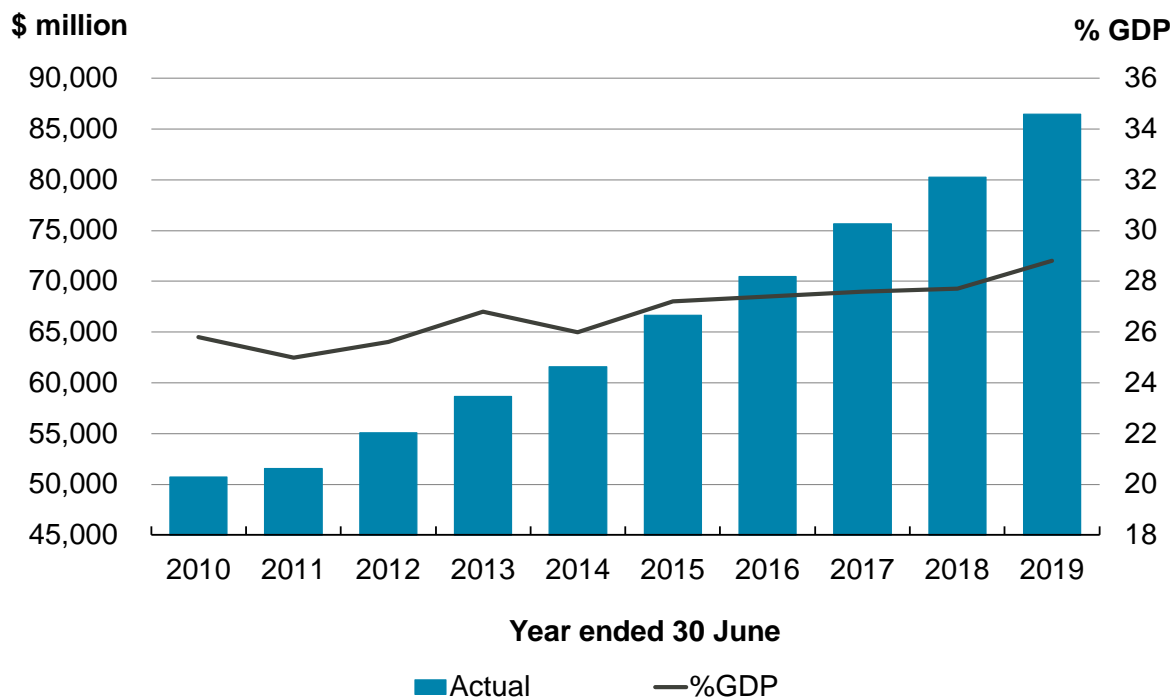
START has improved the way tax revenue is recognised as estimates are based on the most recently-available data for each taxpayer. This has resulted in bringing forward the recognition of some tax revenue for the 2018/19 year while cash has not changed.

## What the Treasury says

Tax revenue is the main source of core Crown revenue and totalled \$86.5 billion in the 2018/19 financial year. This result is stronger than the previous year (an increase of \$6.2 billion) and higher than what was forecast in Budget 2019. This improvement was largely the result of economic activity and the impact of moving to the new processes and system used to calculate tax revenue.

With more people in employment and those in employment earning more, source deductions (ie, tax deducted from people's pay) has increased, while corporate tax and individuals income increased reflecting growth in company profits. Consumer spending also grew, resulting in an increase in GST revenue.

The change in the way tax revenue is calculated means that it is not practical to estimate the amount of tax revenue brought forward this year from transitioning to the new processes.



# Core Crown Expenses

Core Crown expenses are day-to-day government spending, such as maintaining government services like health, benefit payments, public servant salaries, and paying interest on debt.

## On the rise

In 2018/19 core Crown expenses were around **\$17,824 per capita** (\$16,495 for 2017/18).

**70.6%** of core Crown expenses were on **Social assistance, Health, and Education.**



## What the Treasury says

Core Crown expenses have increased by \$6.4 billion from \$80.6 billion in 2017/18 to \$87.0 billion in 2018/19.

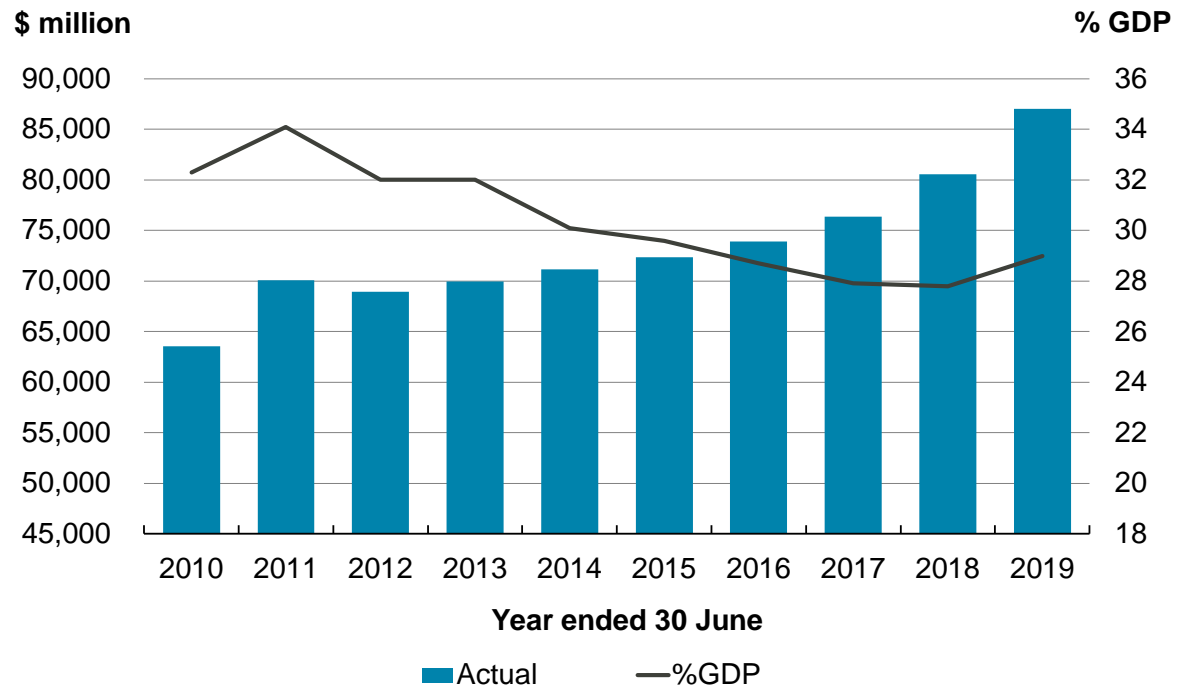
The majority of this increase is due to the spending decisions made in the Government's *100-Day Plan, Budget 2018* and *Budget 2019*.

Together, these decisions increased core Crown expenses by around \$4.7 billion in 2018/19.

The budget decisions with the biggest cost were for social security and welfare, being mainly funding for the Families Package. The second largest impact related to health services.

Core Crown expenses as a share of the economy were slightly higher, at 29.0% of GDP compared to 27.8% in 2017/18.

Measuring as a percentage of GDP is important, as it shows the size of Government spending in relation to the size of the economy.

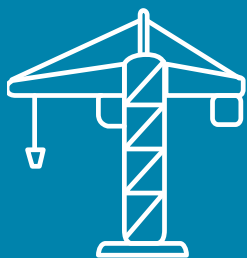


# OBE GAL

OBE GAL is the difference between revenue the Government (and the entities it controls) earns and expenses it pays. When the Government earns more than it pays, an OBE GAL surplus is achieved.

## Operating vs Capital

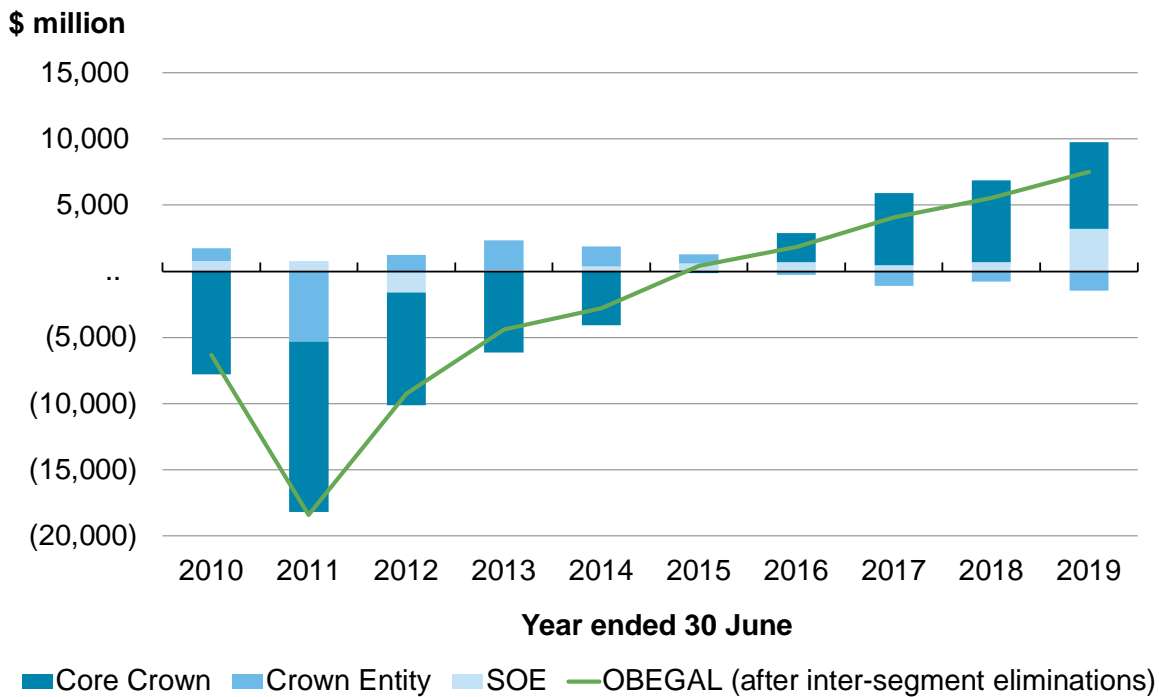
OBE GAL includes operating expenses of the Government but does not include spending on capital items such as building new state highways or prisons.



## What the Treasury says

OBE GAL was a surplus of \$7.5 billion. This was the result of revenue growing at a faster rate than expenditure and some large positive one-off items (eg, changes to tax revenue recognition and to how the value of the rail network is calculated).

Core Crown and SOEs reported surpluses of \$6.6 billion and \$3.2 billion respectively. The SOEs surplus was partly due to a reduction in expenses driven by the change in the valuation approach of the rail network. However, the Crown entity segment reported a deficit of \$1.5 billion this year. The primary entities contributing to this deficit were ACC and District Health Boards.





# Core Crown Capital Spend

The Government continually buys or upgrades physical assets such as land and buildings (like schools and hospitals). It also invests in Crown entities to fund their capital programmes and issue loans (like state highways).

## Capital Spending

Class	June 2019 \$ billion
Transport	1.8
Education	1.0
NZS Fund	1.0
Defence	0.7
Law and Order	0.6
Health	0.4
Other	1.2
<b>Total</b>	<b>6.7</b>

## What the Treasury says

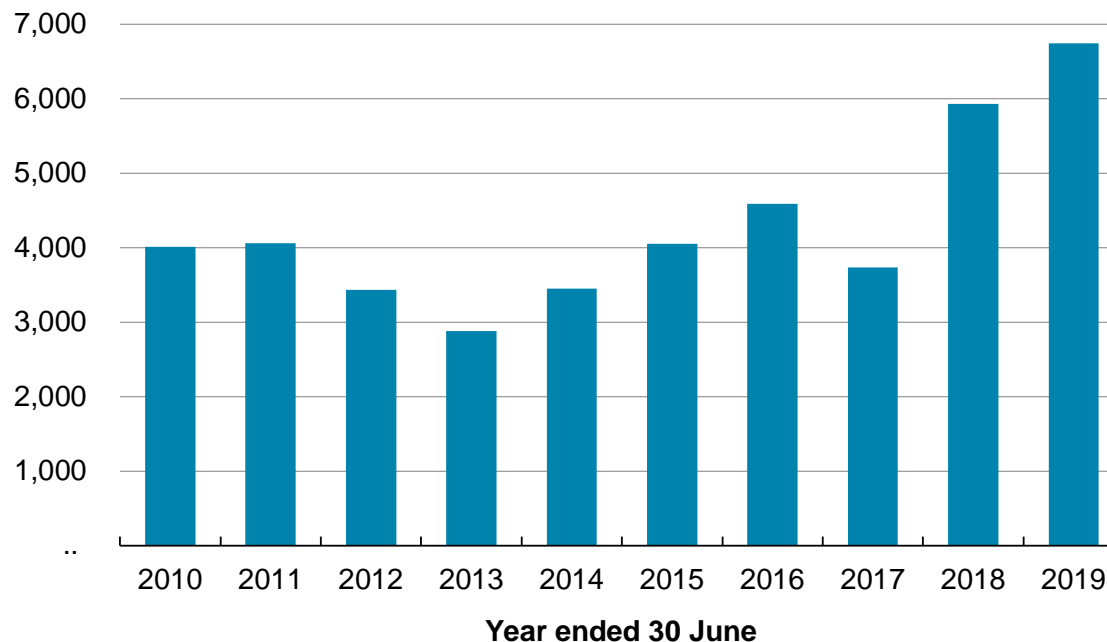
Net capital spending totalled \$6.7 billion for the 2018/19 financial year.

This spending related to the purchase of physical assets totalling \$3.0 billion (such as buying and upgrading existing property to maintain the quality of the state school portfolio), and providing capital funding to Crown entities (such as the NZ Transport Agency for state highways) for their capital programmes.

The Government contributions to the New Zealand Superannuation Fund (NZS Fund) were \$1.0 billion this year, an increase of \$0.5 billion from the previous year. These contributions resumed in 2017/18 and will continue to increase over the next two years.

Excluding the contributions to the NZS Fund, around 48% of capital spending is in the transport (state highway network) and education (school property) sectors.

**\$ million**



# Residual Cash

The amount of money (after operating and capital spending) the Government has available to repay debt, or that it needs to borrow in any given year.

## Cash borrowings to fund capital spending

When money paid for capital spending is higher than operating spending, this suggests that some capital spending is continuing to be paid for through new borrowings.



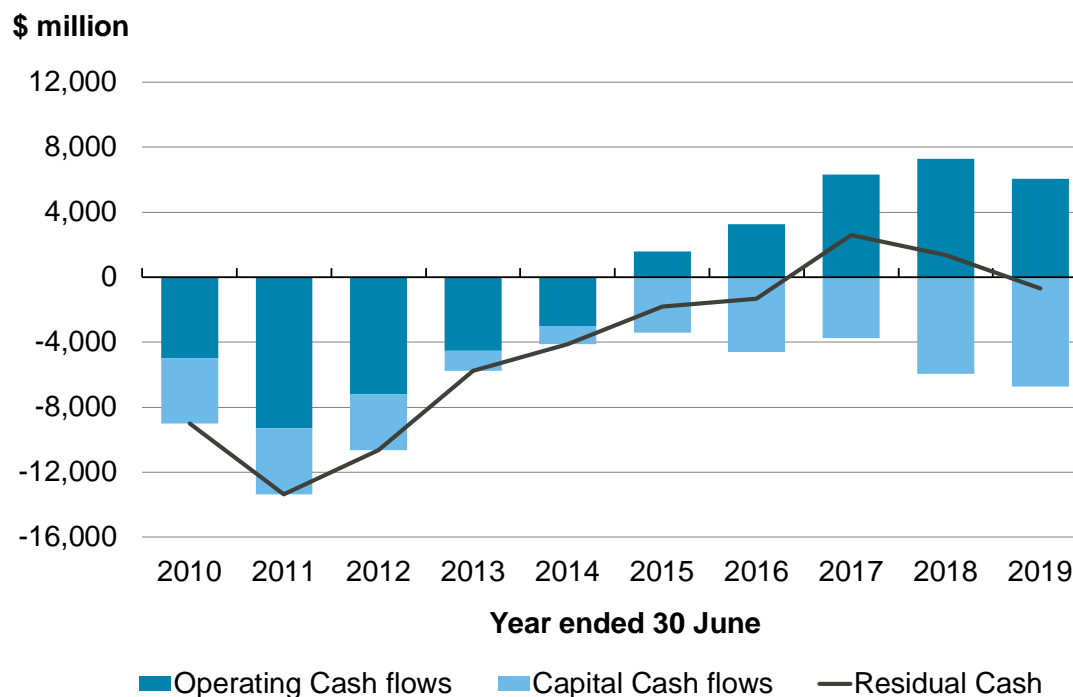
## What the Treasury says

During the year, the Government paid out more in operating and capital expenses than it received from tax and other revenue sources, resulting in a residual cash deficit of \$0.7 billion. This result directly affects (increases) net debt.

Net operating cash inflows were \$6.0 billion, primarily owing to tax receipts exceeding operating spending during the year. This was lower than net capital spending of \$6.7 billion.

Tax receipts was higher by \$3.6 billion from last year, partly driven by the increases in core Crown revenue from economic growth and particularly, the labour market.

Money paid for operating spending was also higher than last year because of the cash impacts from the Government's spending decisions.

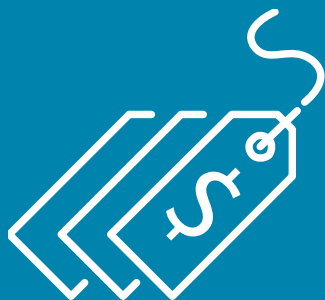


# Net Debt

The amount the core Crown has borrowed, less the assets it has on hand to pay off that debt.

## Why borrow?

The Crown maintains regular borrowing programmes to fund maturing bonds, maintain access to debt markets and to ensure consistency of supply over time.

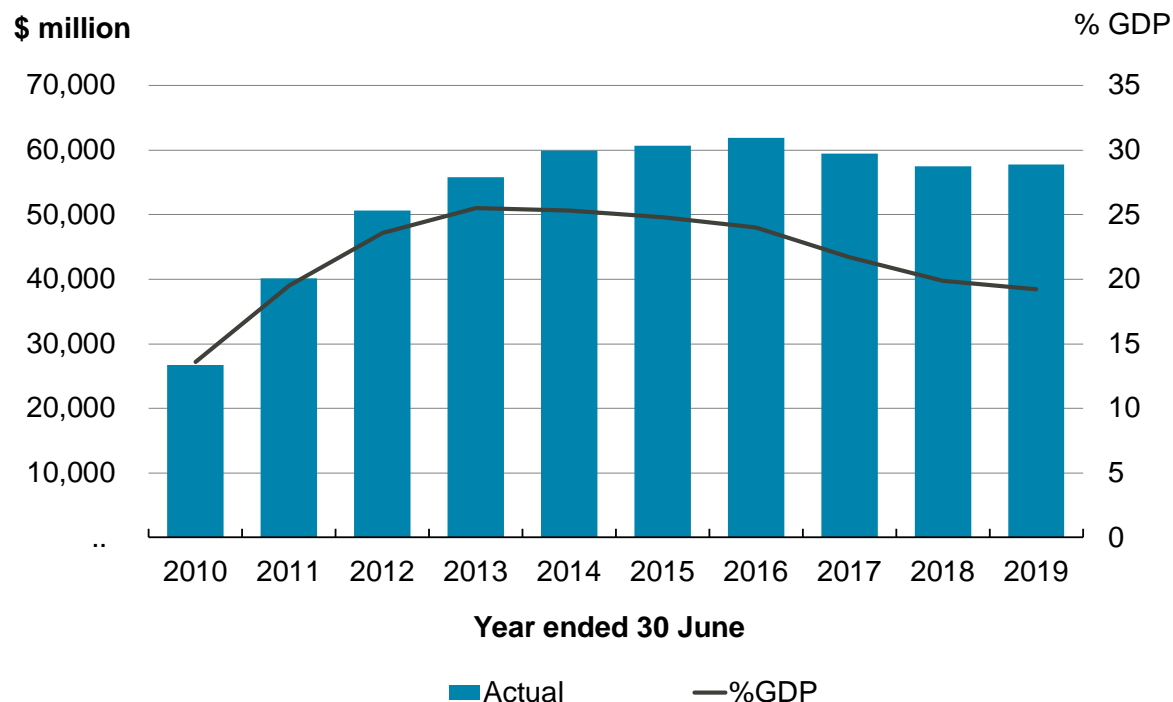


## What the Treasury says

Net debt is the total of the Government's core Crown borrowings, less the financial assets it has available to pay that debt back. A residual cash deficit means the Government has less financial assets available to pay back its debt, and net debt increases.

This year, net debt increased by \$0.2 billion to \$57.7 billion. This increase was mainly to fund the \$0.7 billion residual cash deficit explained on the previous slide, partly offset by more cash issued by the Reserve Bank in response to public demand.

As a share of the economy, net debt continued to fall from 19.9% in 2017/18 to 19.2% for 2018/19.



# Total Borrowings

Total borrowings provides a whole-of-Government perspective of financing that was needed to fund all of the Government's activity.

## Debt Reconciliation

Year ended 30 June	2019 (\$ billion)	2018 (\$ billion)
Net core Crown debt	57.7	57.5
Core Crown financial assets	33.2	37.9
Gross sovereign-issued debt	90.9	95.4
Other adjustments	(6.5)	(7.4)
Gross debt	84.4	88.1
CEs, SOEs borrowings and eliminations	26.1	27.6
<b>Total borrowings</b>	<b>110.5</b>	<b>115.7</b>

## What the Treasury says

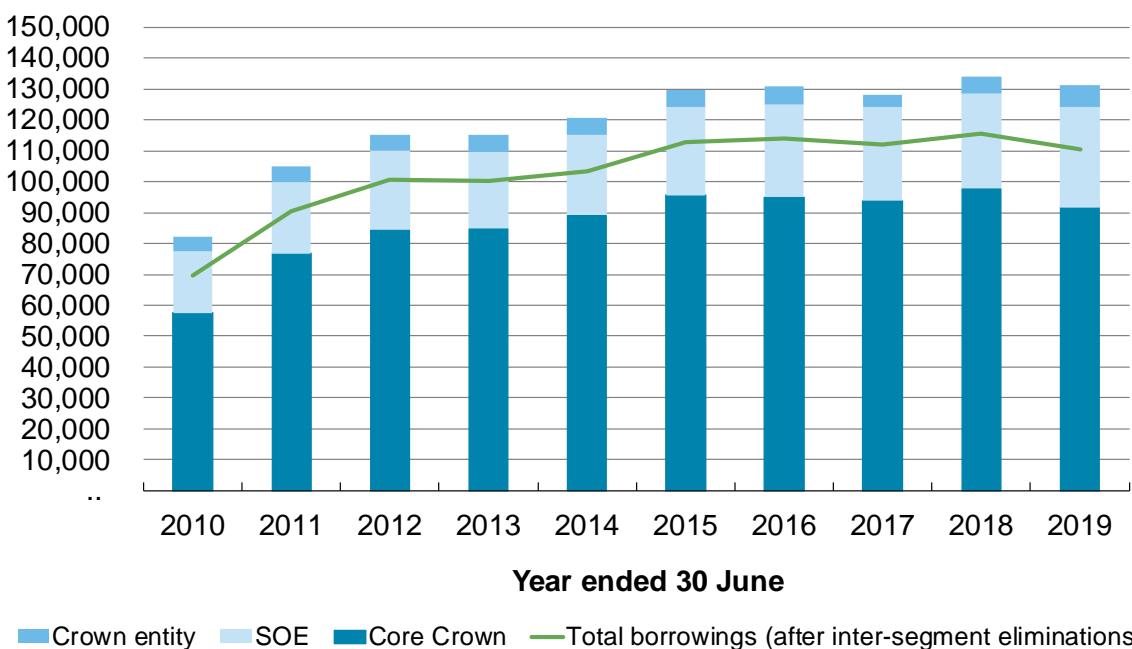
Total borrowings represents gross debt (the borrowings of the core Crown) and the borrowings undertaken by Crown Entities and SOEs.

Total borrowing for the Government decreased by \$5.2 billion from \$115.7 billion in 2017/18 to \$110.5 billion.

This year, the level of outstanding Government bonds (debt issued by the Government) went down from \$95.4 billion in 2017/18 to \$90.9 billion. This reduction was somewhat matched by a decrease in core Crown financial assets to fund the repayment of these bonds. On the other hand, borrowings by Crown entities increased to fund capital projects by the New Zealand Transport Agency and Housing New Zealand.

Total borrowings were 36.8% of GDP, decreasing by 3.1% compared to the prior year.

\$ million



# Net Worth

Net worth is the difference between the Crown's total assets (what the government owns) and liabilities (what the government owes). This difference primarily consists of the accumulation of past operating surpluses and deficits (referred to as taxpayers' funds) and revaluation uplifts in the physical assets.

## Revaluation reserve

The revaluation reserve is used when an entity has to enter an amount on its balance sheet due to a revaluation performed on an asset.

The revaluation reserve is used when the revaluation assessment finds that the current and probable future value of the asset is higher than the recorded historic cost of the same asset.

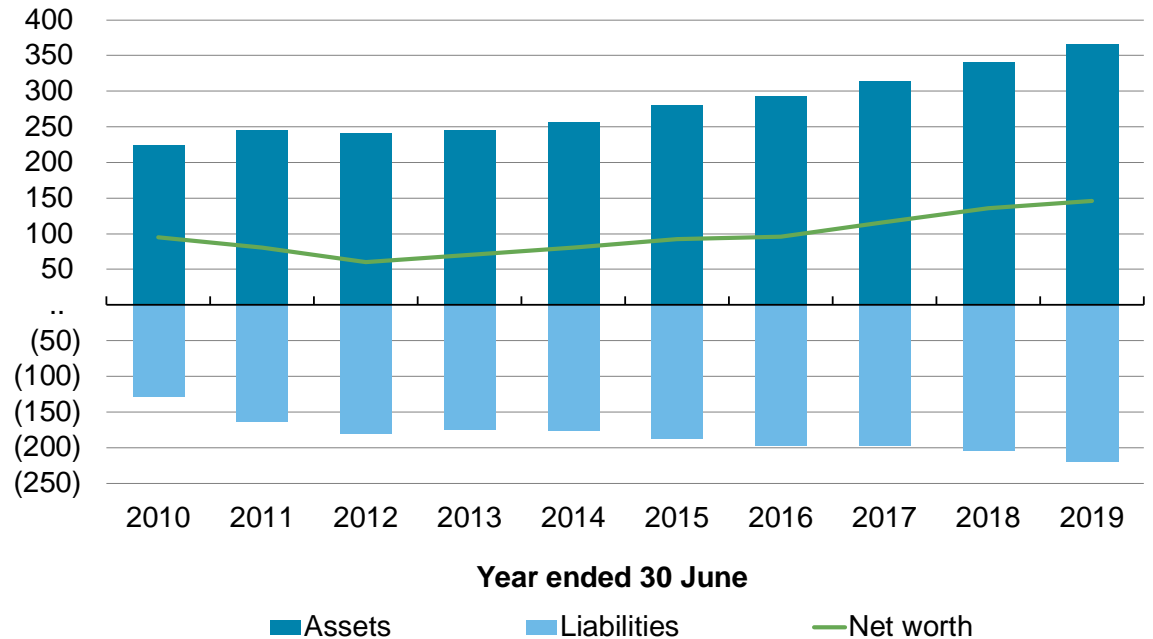
## What the Treasury says

Net worth was \$146.3 billion in 2018/19, an increase of \$10.7 billion from a year earlier. As a share of the economy, net worth grew 1.9% from 46.9% of GDP in 2017/18 to 48.8% of GDP in the current year.

The Crown's operating balance deficit and higher valuations of the Crown's physical assets resulted in this increase.

The property, plant and equipment revaluation reserve increased by \$11.8 billion mainly due to changes and improvements in the way some assets have been valued. The increase in the current year was mainly due to the revaluation of the state highway network (including land), and the rail network.

\$ billion



# Crown Balance Sheet

The balance sheet is a point in time snapshot of all assets the Government holds and how these are funded.

## Sensitivities

The Crown's Balance sheet is particularly sensitive to changes in some key assumptions used to value assets and liabilities.

For example, the lower discount rates used in 2018/19 to value the future costs of existing accident claims in today's dollars added \$10.8 billion to the ACC liability.

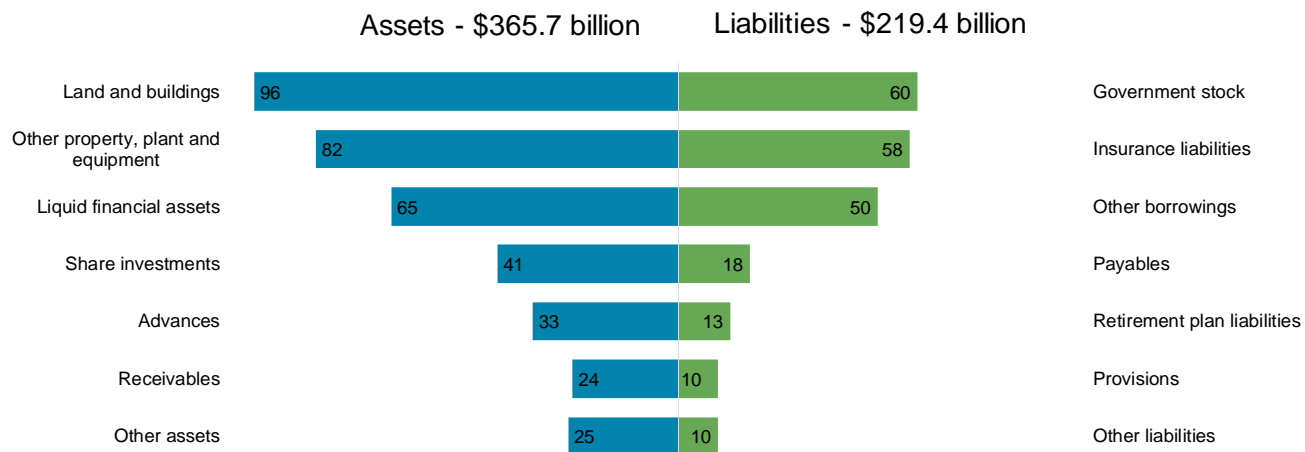
If discount rates reduce, the liability in today's dollar increases.

## What the Treasury says

On the Crown's balance sheet, assets have increased by \$25.8 billion since June 2018 while the Crown's liabilities increased by \$15.1 billion. This resulted in an increase in net worth of \$10.7 billion.

Growth in assets was largely due to property, plant and equipment growth of \$19.0 billion, with new assets being added and the value of existing assets increasing.

Growth in liabilities was primarily due to increases in the ACC insurance liability and the Government Superannuation Fund liability, with the largest factor being lower discount rates used in the valuation of these liabilities.



# Want to know more?

For more details on the **financial statements of the Government**, see

<https://treasury.govt.nz/publications/year-end/financial-statements-2019>

**The fiscal time series:** contains historical fiscal data, including debt, fiscal balance, tax and spending since 1972.

(<http://www.treasury.govt.nz/government/data>)

**Monthly economic indicators (MEI):** is a stock-take of economic data released by the Treasury. It includes commentary on the major data releases over the previous month and an annex with more detailed charts and source data.

(<http://www.treasury.govt.nz/economy/mei>)

**Tax outturn data:** is tables of monthly tax revenue and receipts. Tax outturns are among the earliest data available about the state of the economy.

(<http://www.treasury.govt.nz/government/revenue/taxoutturn>)

**Monthly financial statements of the Government:** The latest month end financial statements are published on the Treasury's website.

(<http://www.treasury.govt.nz/government/financialstatements/monthend>)

For more information about the individual entities, refer to <https://www.govt.nz/>

[www.treasury.govt.nz](http://www.treasury.govt.nz)

Need to access our [glossary](#)?

## Need to dive deeper?

You can access the different chapters of our full FSG here:

1. [Ministerial Statement](#)
2. [Statement of Responsibility](#)
3. [Commentary](#)
4. [Fiscal overview](#)
5. [Audit Report](#)
6. [Audited Financial Statements](#)
7. [Supplementary Statements](#)
8. [Additional Financial Information](#)



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