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2015
BUDGET

Fiscal Strategy Report

Hon Bill English, Minister of Finance

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New Zealand Government

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Fiscal Strategy Report

Summary

The Crown's books are in good shape as the New Zealand economy grows and the Government maintains its careful and responsible management of public spending. At the same time, the Government is setting challenging results for the public sector to achieve and seeing good progress across a range of social indicators.

The Government has five fiscal priorities:

1 Returning to surplus this year and maintaining surpluses in the future

2 Reducing net government debt to 20 per cent of GDP by 2020, including repaying debt in dollar terms in 2017/18

3 Further reducing Accident Compensation Corporation (ACC) levies on households and businesses

4 Beginning to reduce income taxes from 2017 with a focus on low and middle-income earners, and

5 Using any further fiscal headroom – including from positive revenue surprises – to get debt down to 20 per cent of GDP sooner than 2020.

The Government is making good progress on all these fiscal priorities.

Mostly as a result of lower-than-expected inflation flowing through to lower-than-expected revenue, the forecasts now show a deficit in the operating balance before gains and losses (OBEGAL) of $684 million in 2014/15 followed by a small surplus of $176 million in 2015/16, rising to a surplus of $3.6 billion in 2018/19.

The Government does not intend to make cuts to services, programmes or income support simply to chase a surplus. The factors that have reduced Government revenue – low inflation and low interest rates – are good for most households and businesses, and the overall fiscal position remains very positive.

In particular, net core Crown debt (net debt) is projected to reach 20 per cent of GDP by 2020, in line with the Government's key long-term fiscal objective.

The Government has also provisioned for $375 million of ACC levy reductions in 2016 and a further $120 million in 2017.

Operating allowances remain at $1 billion for Budgets 2015 and 2016 before rising to $2.5 billion in Budget 2017. This higher allowance in 2017 provides options around modest income tax reductions, should fiscal and economic conditions allow.

New capital spending in this Budget and the next will be funded by reprioritisation, in particular by drawing on proceeds from the Government share offers through the Future Investment Fund (FIF).

This *Fiscal Strategy Report* shows the Government's ongoing commitment to careful fiscal management. This includes investing in delivering better public services and getting better results for New Zealanders.

Fiscal Performance

The Government manages its revenue, expenditure, assets and liabilities to deliver a wide range of economic and social outcomes.

Since being elected in 2008, this Government has had to manage through difficult times. The New Zealand economy went into recession in early 2008 and was then hit by the global financial crisis. Large spending increases in the mid-2000s proved to be unaffordable when revenue fell. Projections showed that if the Government maintained the spending and revenue tracks it inherited, it would face never-ending deficits and net debt would exceed 60 per cent of GDP by the early 2020s. Subsequently, Canterbury was hit by devastating earthquakes and the global recovery was much slower than expected.

The Government's fiscal strategy throughout this time was to support the economy in the short term by running operating deficits, but to reduce these deficits by slowing growth in government spending as the economy recovered. The Government also looked to get better results and improve public services from its existing spending.

This approach helped to cushion New Zealanders and their families from the worst effects of the recession and did so within a clear framework that would return the operating balance to surplus and reduce debt back to more prudent levels over time.

In 2010/11, the operating deficit reached a peak of $18.4 billion, or 9 per cent of GDP. Net debt increased by the equivalent of 20 per cent of GDP between 2007/08 and 2013/14.

The fiscal outlook, however, has improved markedly. Forecasts now show growing surpluses and reducing debt. Tax revenue has increased as the economy has recovered.

The Government has taken steps to limit the build-up of debt, for example, by suspending contributions to the New Zealand Superannuation (NZS) Fund, and by recycling capital freed up through the Government share offers.

But the biggest contribution to the fiscal turnaround has been considered expenditure restraint, including reprioritising spending, reducing Budget operating allowances, and a focus on delivering better public services and improving results for the most vulnerable.

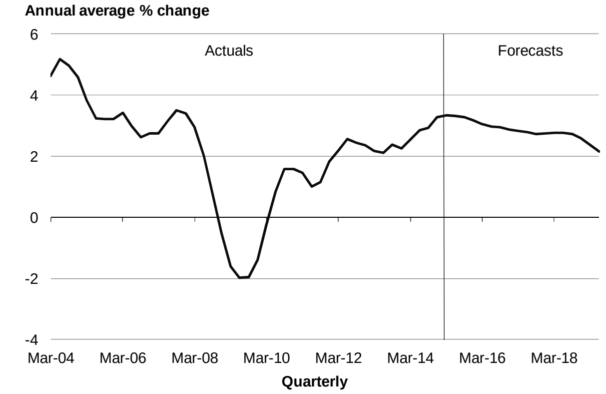
Economic Context

The outlook for the economy remains positive, with growth of 2.8 per cent on average over the next four years (Figure 1).

Employment and wages are both forecast to rise, and record high labour force participation is boosting the productive capacity of the economy.

New Zealand's relatively strong economic performance compared to other countries is demonstrated by continued high levels of net inwards migration and the strong New Zealand dollar.

Figure 1 – Real GDP growth



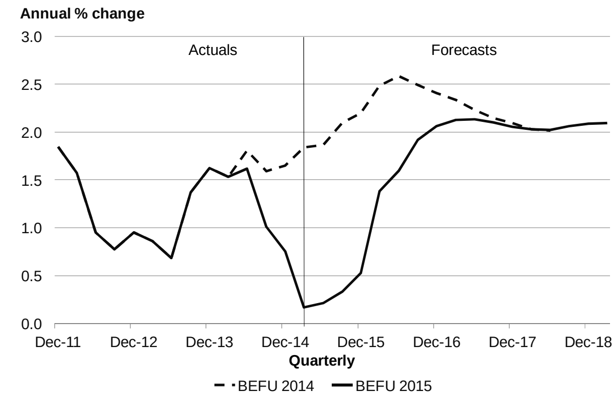
Sources: Statistics New Zealand, The Treasury

The economic outlook is not without risks, however. There is a chance that dairy prices and nominal GDP growth may not recover as expected, and global uncertainties remain.

Annual CPI inflation is currently 0.1 per cent – well below the Reserve Bank's 2 per cent target – and inflation forecasts have dropped significantly (Figure 2).

Low inflation, assisted by the Government's fiscal restraint, will help maintain strong real wage growth and keep interest rates lower for longer. Upward pressure on interest rates expected in the last Budget has fallen away considerably.

Figure 2 – CPI inflation



Sources: Statistics New Zealand, The Treasury

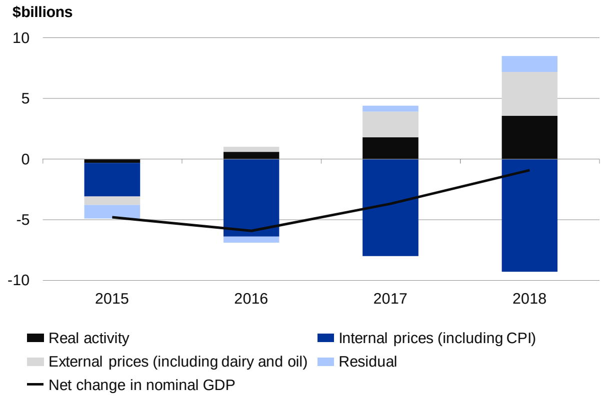
However, policy easing overseas, together with a relatively strong New Zealand outlook, is keeping upward pressure on the exchange rate.

While New Zealand's economy continues to grow solidly in real terms, the growth in nominal GDP (the dollar value of what is produced each year) is expected to be more muted and less than previously forecast in the *Budget Economic and Fiscal Update 2014* (BEFU 2014). This is due primarily to a weaker outlook for export prices – particularly dairy prices – and lower-than-expected inflation.

As a result, New Zealand's nominal economy is expected to be about $15 billion lower this year and over the next three years than was forecast in last year's Budget (Figure 3).

This has a direct impact on tax revenue but not on most of the Government's expenditure which, outside of indexed benefits, is mainly fixed in dollar terms. As a consequence, future surpluses are lower than previously forecast, although the positive direction of change remains unaffected.

Figure 3 – Contributions to changes in nominal GDP from BEFU 2014



Sources: Statistics New Zealand, The Treasury

The Government's Fiscal Priorities

There is no change in the Government's five fiscal priorities set out in the *Budget Policy Statement* in December 2014.

1 Returning to surplus this year and maintaining surpluses in the future

2 Reducing net government debt to 20 per cent of GDP by 2020, including repaying debt in dollar terms in 2017/18

3 Further reducing Accident Compensation Corporation (ACC) levies on households and businesses

4 Beginning to reduce income taxes from 2017 with a focus on low and middle-income earners, and

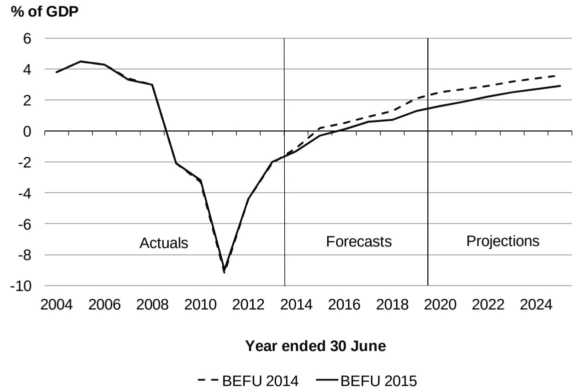
5 Using any further fiscal headroom – including from positive revenue surprises – to get debt down to 20 per cent of GDP sooner than 2020.

The Government is making good progress on all these fiscal priorities.

The Government's fiscal strategy has been to focus strongly on spending control. Core Crown expenses in the current year, for example, are expected to be $4 billion lower than was forecast in Budget 2011.

However, tax revenue is not rising as quickly as expected and this is lowering operating balances across the forecast period, compared to Budget 2014 predictions (Figure 4).

Figure 4 – OBEGAL in BEFU 2014 and 2015



Source: The Treasury

A deficit of $684 million is now forecast for 2014/15, a $2.2 billion improvement on the 2013/14 deficit. The final balance, however, will not be known until the year-end financial statements are published in October.

A surplus of $176 million is expected in 2015/16, followed by $1.5 billion in 2016/17.

Although a deficit is now expected in 2014/15, the overall trajectory has not changed. Sustained expenditure control has moved the Government's books from an $18.4 billion deficit four years ago to steadily rising surpluses from 2015/16.

Debt rises a bit further in dollar terms until 2017/18, after which there will be sufficient cash surpluses to start repaying debt. Net debt is projected to reach 19.7 per cent of GDP in 2020/21, in line with the Government's key long-term fiscal objective.

The Government does not intend to make cuts to services, programmes or income support simply to chase a surplus. The factors that have reduced Government revenue – low inflation and low interest rates – are good for most households and businesses, and the overall fiscal position remains very positive.

New Zealand will remain one of the first countries in the developed world to return to a budget surplus after the global financial crisis.

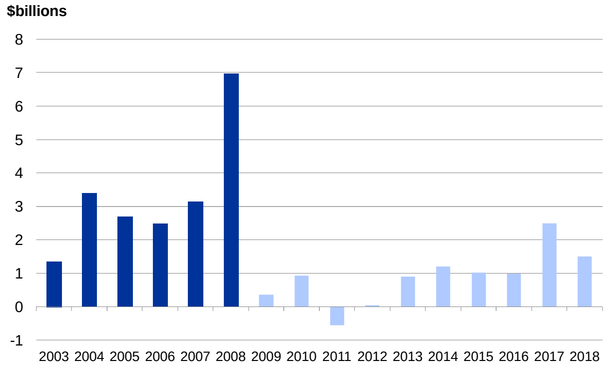
There is consequently no change to the operating allowances set out in the *Budget Policy Statement*. Budgets 2015 and 2016 have operating allowances of $1 billion, before increasing to $2.5 billion in Budget 2017. A higher Budget operating allowance in 2017 provides options around future income tax reductions should fiscal and economic conditions allow.

The operating allowance for Budget 2018 has been set at $1.5 billion, rising thereafter at 2 per cent per Budget.

These allowances remain well below the new discretionary operating allowances adopted in the mid-2000s (Figure 5), and core Crown expenses will continue to fall each year as a proportion of GDP.

In addition to the operating allowance, the forecasts also include an indicative sum for ACC levy reductions of $375 million in 2016 and a further $120 million in 2017 (levy years).

Figure 5 – New operating allowances in each Budget (final-year impact)



Source: The Treasury

Final decisions on ACC levies will be made by Cabinet after public consultation. Any levy cuts in 2016 and 2017 will come on top of previous reductions that together have totalled close to $1.5 billion since 2011/12.

In this Budget, and Budget 2016, new capital spending will be funded from reprioritisation, in particular by drawing on proceeds from the Government share offers through the FIF.

To date, proceeds from the Government Share Offer Programme have allowed investments of over $600 million each in health and education and nearly $1 billion in transport, out of a total spend of $3.9 billion.

The fiscal forecasts set aside up to $3.7 billion in capital allowances to fund priority new capital projects in the four Budgets from 2017. However, the Government will look to finance some of this new spending through better managing existing capital, reducing the funds required to finance new capital expenditure in those future years.

The Government's short-term fiscal intentions and long-term fiscal objectives are set out formally in Annex 1.

Box 1: Changes to the OBEGAL surplus over time

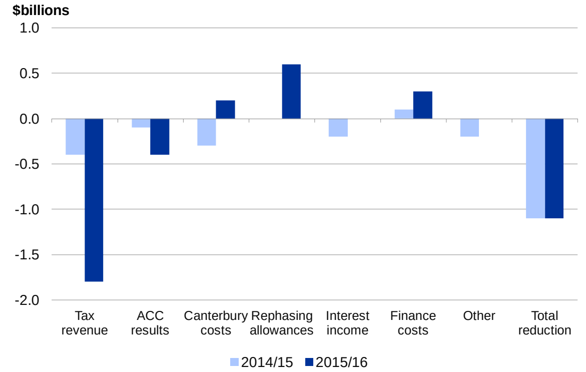
Treasury has revised down its forecasts of the OBEGAL since Budget 2014 by $1.1 billion in both 2014/15 and 2015/16. The OBEGAL represents the difference between revenue and expenses – both of which are over $94 billion. Modest movements in revenue and expense forecasts can therefore move the OBEGAL forecast significantly.

While lower inflation forecasts may reduce both tax revenue and benefit forecasts, the impact on OBEGAL is not symmetrical because inflation-sensitive tax revenues (roughly $66 billion in 2015) are nearly ten times larger than directly inflation-sensitive expenses (largely benefits indexed to CPI inflation at $8 billion in 2015).

Valuations of the Crown's assets and liabilities (for example, the re-estimation of insurance claims costs or revaluation of student loans) and factors unrelated to the economic environment (for example, the timing of Treaty of Waitangi settlements) can also influence the results in the near term. The operating results of Crown entities and state-owned enterprises can also have a significant impact on OBEGAL. For example, increased insurance expenses in ACC will have a direct impact on OBEGAL.

The factors explaining the downward revision to the OBEGAL forecast differ in each of the next two years (Figure 6). In 2014/15, around half the fall is attributable to the reduced tax revenue, while the other half is due to other factors such as increased claims costs associated with the Canterbury rebuild. This contrasts with 2015/16 where the expected fall in tax revenue is much larger, but other factors have a positive impact on OBEGAL, particularly the re-phasing of operating allowances since Budget 2014 to align with the Government's fiscal priorities. The majority of interest-bearing financial assets are short-term in nature, which means lower interest rates result in a decrease in interest income earlier than a decrease in finance costs.

Figure 6 – Changes in OBEGAL forecasts since BEFU 2014



Source: The Treasury

Fiscal Forecasts and Projections

For Budget 2015, fiscal forecasts have been prepared for the period 2014/15 to 2018/19 and longer-term projections have been prepared out to 2028/29.

These show revenue increasing as the economy grows (Figure 7), albeit at a slightly slower pace than was previously forecast.

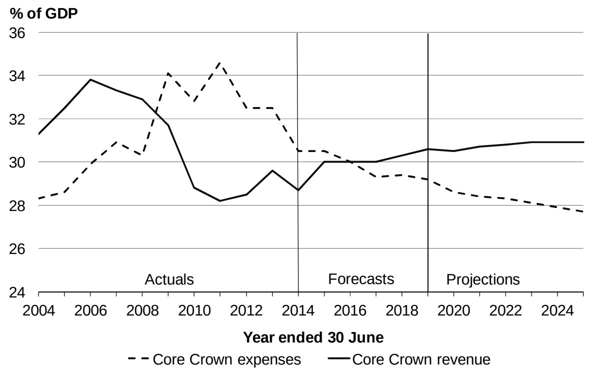
Core Crown expenses are forecast to rise in dollar terms (Figure 8), but fall as a share of GDP. In total, core Crown expenses have fallen from 34.1 per cent of GDP in 2008/09 to an expected 30.0 per cent in 2015/16, and are expected to continue to fall.

These revenue and expense tracks translate into a growing operating surplus from 2015/16 onwards. The OBEGAL surplus is forecast to grow to $3.6 billion (1.3 per cent of GDP) in 2018/19 (Figure 9).

The residual cash balance is forecast to be in surplus in 2018/19, which means the Government will begin to repay net debt in dollar terms. Cash balances are projected to increase over time (Figure 10).

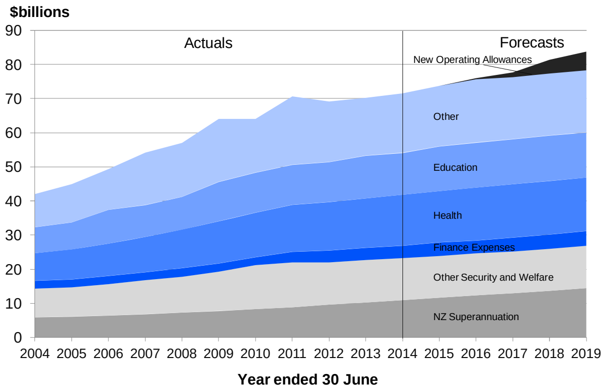
As a percentage of GDP, net debt is forecast to reach a peak of 26.3 per cent in 2015/16 before beginning to fall. Net debt is projected to decline to 19.7 per cent of GDP by 2020/21 (Figure 11).

Figure 7 – Core Crown revenue and expenses



Source: The Treasury

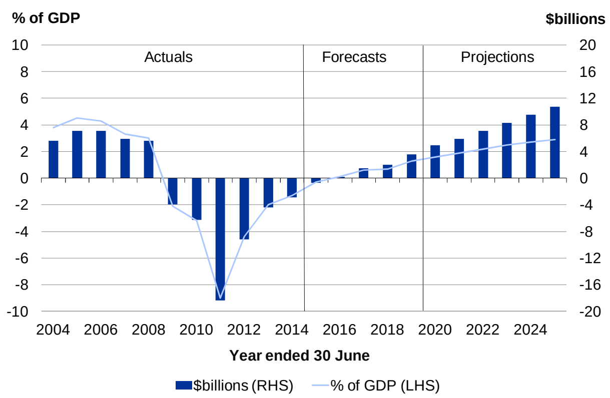
Figure 8 – Core Crown expenses



Source: The Treasury

Note: Future increases in functional spending will be allocated from the forecast for new operating allowances.

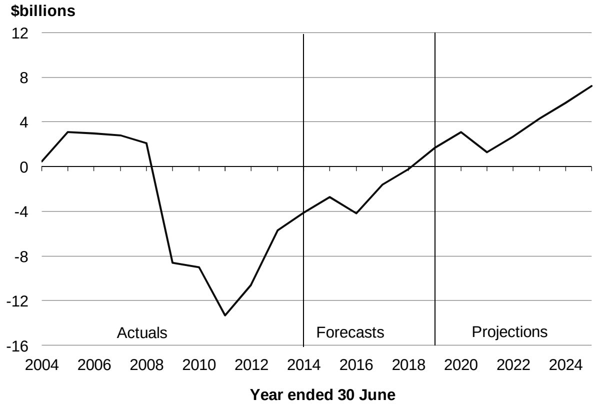
Figure 9 – Total Crown operating balance (before gains losses)



Source: The Treasury

Reducing government debt through higher public savings puts New Zealand in a better position to cope with the next economic shock or natural disaster. It helps to raise national savings, maintain credibility with international lenders, reduce finance costs and allow the internationally competitive sectors of the economy to grow.

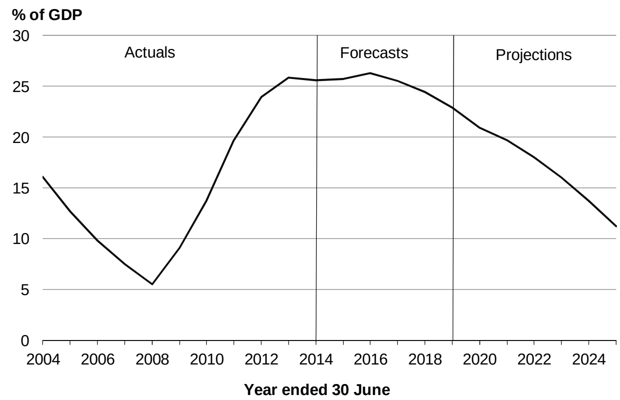
Figure 10 – Core Crown residual cash



Source: The Treasury

Contributions to the NZS Fund are projected to resume in 2020/21 when net debt reaches 20 per cent of GDP. Beyond 2020, the Government intends to maintain net debt within a range of around 10 per cent to 20 per cent of GDP. This reflects the fact that debt provides a buffer for economic shocks and will fluctuate over the economic cycle.

Figure 11 – Net core Crown debt



Source: The Treasury

These forecasts and projections show a significant turnaround in the Government's books over the past seven years. However, there is a lot of work to be done to make the forecasts and projections a reality.

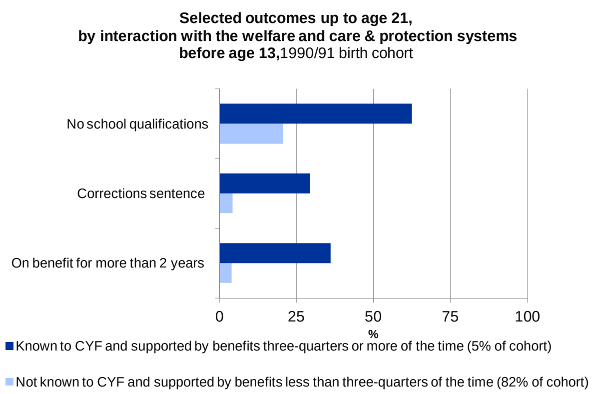
A key way of managing long-term government expenditure is delivering better public services, and in particular improving results for the most vulnerable in society.

Better data is helping the Government understand the risk factors that indicate whether a young person is likely to require government intervention in the future, such as going on a benefit or going to prison.

For example, certain groups of thirteen-year-olds known to Child, Youth and Family (CYF) services are nine times more likely to be long-term benefit recipients and seven times more likely to have had a Corrections sentence by age 21 (Figure 12).

This information helps the Government make better decisions about investing earlier, and in a more targeted way, to help at-risk groups of the population. When this is done well, it can generate long-term fiscal savings.

Figure 12 – Outcomes for groups known to CYF



Source: Integrated Child Dataset, The Treasury

The Government's focus on delivering better public services is working. More people are coming off welfare and into work, achievement of NCEA Level 2 is increasing, the crime rate is dropping, and a range of other indicators are showing marked improvement.

Looking further into the future, the fiscal challenges associated with population ageing and cost growth are outlined in the Treasury's *Long-term Fiscal Statement.* The Statement stresses that good fiscal policy in the short to medium term – controlling government spending and getting debt down – is crucial in preparing for an ageing population. Reducing net debt to no higher than 20 per cent of GDP, resuming NZS Fund contributions as planned, and delivering further improvements in public-sector performance will have a significant effect on long-term projections of the Government's fiscal position and reduce the burden on future generations.

Managing the Crown's Balance Sheet

Crown assets support the delivery of valuable public services.

The most recent forecasts show the Crown currently owns $265 billion of assets (up from $223 billion five years ago) and has $185 billion of liabilities. The difference between these numbers represents the Crown's net worth (Figure 13).

Crown net worth is expected to continue to increase in line with the improving fiscal outlook, and the forecast reduction in net debt.

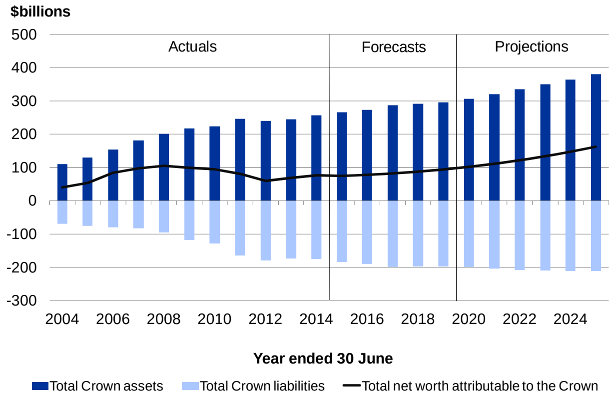
The Government's spending on new capital in the Budget since 2012 has been financed from the FIF. But new capital allowances in the Budget only make up a small component of total capital spending by the Crown. Over the next five years, forecasts show $24 billion will be spent on capital across all parts of the Crown (Figure 14). Managing this spending well is important.

The Government has moved to more consistent and deliberate management of its balance sheet. This strategy involves, amongst other things:

- encouraging asset ownership only when it assists in delivering public services
- recycling capital to better uses, for example by reinvesting the proceeds from the Government share offers in electricity companies and the reduction in the Crown's shareholding in Air New Zealand (Box 2)
- introducing private sector capital and disciplines where appropriate
- better monitoring of Crown-owned entities and of actual investment performance against expectations, and
- requiring Government agencies to provide better analysis and planning for capital use and spending, improve capital investment decisions, develop meaningful asset performance measures, and increase transparency in the use of Crown assets to deliver outcomes.

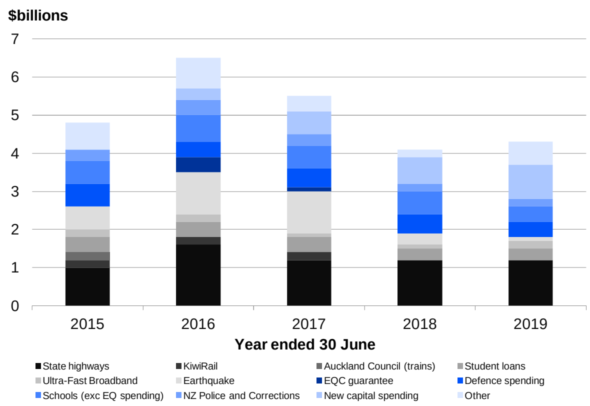
Execution of this balance sheet strategy will ensure the Government gets the best value possible from its capital spending and from the Crown's existing assets.

Figure 13 – Net worth attributable to the Crown



Source: The Treasury

Figure 14 – Total capital spending over the forecast period



Source: The Treasury

Box 2: Performance of the listed electricity companies

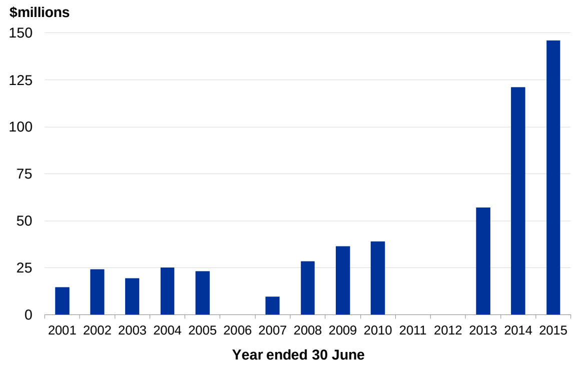
The Government share offers in three electricity companies – Mighty River Power, Meridian Energy and Genesis Energy – have achieved a number of balance sheet objectives.

The Crown has reduced the exposure of all New Zealanders to the risks involved in owning commercial companies, and has received just under $4.7 billion in proceeds for investment in new public assets through the FIF.

In addition, the share offers have introduced sharper commercial disciplines, more transparency and greater external oversight of the companies involved. This is reflected in the dividends these companies are now paying shareholders – of which the Crown is by far the largest. For example, the Crown has received more in dividends from Genesis Energy this year as a 51 per cent owner than it did in the best year between 2000/01 and 2012/13, when it was a 100 per cent shareholder (Figure 15). Similar improvements in dividends have been seen for the other two electricity companies.

These higher dividends have not been paid at the expense of electricity consumers. The energy component of electricity prices actually decreased slightly in 2014, and the Electricity Authority is anticipating flat to declining electricity prices in 2015, on average across New Zealand.

Figure 15 – Total dividends paid by Genesis Energy to all shareholders



Source: The Treasury

Some of the increase in dividends from the three electricity companies reflects factors separate from the share offers. For example, none of the three companies are currently building new power stations in New Zealand, and this means a greater portion of their cash flows is available for distribution to shareholders. However, the Crown would not have received this level of dividends without the sharper commercial disciplines on the companies from the share offers programme.

Crown Revenue

The tax system should be as fair and efficient as possible in raising the revenue required to meet the Government's needs. The Government supports a broad-base, low-rate tax system that responds to New Zealand's medium-term needs in a planned and coherent way, minimises economic distortions, rewards effort, has low compliance and administrative costs and minimises opportunities for tax avoidance and evasion. Further details on the Government's revenue strategy can be found at http://www.treasury.govt.nz/government/revenue/strategy

A comprehensive review of New Zealand's tax system was undertaken in 2009 which led to major tax reforms, including a reduction in all personal tax rates, a reduction in the company tax rate, stricter rules around property and an increase in goods and services tax. The Government considered, and rejected, other potential tax changes such as a widespread capital gains tax.

The current tax policy work programme focuses on three areas:

- Ensuring that the main tax bases (personal income, corporate income and consumption) are a stable basis for revenue. Work will continue to ensure that these tax bases are applied fairly and as evenly as possible.

- Ensuring that New Zealand receives its fair share of revenue from businesses operating in New Zealand and from consumption occurring here. Legitimate concerns have been expressed over large multinationals exploiting the differences between tax jurisdictions to pay minimal tax and also over the taxation of overseas purchases of intangibles and low-value goods.

- Using the Inland Revenue Department's Business Transformation programme to bring New Zealand's tax administration into the 21st century. In particular, changes in technology create opportunities to make it easier and less costly for individuals and businesses to comply with their tax obligations.

The Government is also committed to a modest reduction in income tax rates and/or changes to thresholds, when that is affordable and when economic conditions permit.

Annex 1

Short-term Fiscal Intentions and Long-term Fiscal Objectives

The Government's short-term fiscal intentions are substantially unchanged since the *Budget Policy Statement*. There are minor changes to the intentions reflecting the revisions to the fiscal forecasts, largely reflecting the weaker outlook for inflation (see Table A1.1). These revised fiscal intentions are consistent with the Government's long-term fiscal objectives (see Table A1.2) and the BEFU forecasts.

Table A1.1 – Short-term fiscal intentions

Fiscal Strategy Report 2015 (May 2015)	*Budget Policy Statement 2015 (Dec 2014)*
Debt Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 31.4 per cent of GDP in 2018/19. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 22.9 per cent in 2018/19, 20.9 per cent of GDP in 2019/20 and 19.7 per cent of GDP in 2020/21.	***Debt*** Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 31.0 per cent of GDP in 2018/19. Net core Crown debt (excluding NZS Fund and advances) is forecast to be 22.5 per cent in 2018/19.
Operating balance Our intention is to return the operating balance (before gains and losses) to surplus as soon as practical and no later than 2014/15, subject to any significant shocks. The operating balance (before gains and losses) is forecast to be -0.3 per cent of GDP in 2014/15. The operating balance (before gains and losses) is then forecast to be 0.1 per cent of GDP in 2015/16 and 1.3 per cent of GDP in 2018/19. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 2.3 per cent of GDP in 2018/19.	***Operating balance*** Our intention is to return the operating balance (before gains and losses) to surplus in 2014/15. The operating balance (before gains and losses) is forecast to be -0.2 per cent of GDP in 2014/15, and 0.2 per cent of GDP in 2015/16. This is consistent with the long-term objective for the operating balance. The operating balance is forecast to be 0.8 per cent of GDP in 2014/15.
Expenses Our intention is to support a return to fiscal surplus by restraining the growth in core Crown expenses – so that they are reduced to around 30 per cent of GDP by 2015/16. Core Crown expenses are forecast to be 29.2 per cent of GDP in 2018/19. Total Crown expenses are forecast to be 37.7 per cent of GDP in 2018/19. This assumes a new operating allowance of $1 billion in Budget 2016, $2.5 billion in Budget 2017 and $1.5 billion from Budget 2018.	***Expenses*** Our intention is to support a return to fiscal surplus by restraining the growth in core Crown expenses – so that they are reduced to around 30 per cent of GDP by 2015/16. Core Crown expenses are forecast to be 29.0 per cent of GDP in 2018/19. Total Crown expenses are forecast to be 37.7 per cent of GDP in 2018/19. This assumes new operating allowances over the Parliamentary term of $1 billion in Budgets 2015 and 2016, and $2.5 billion in Budget 2017.

Fiscal Strategy Report 2015 (May 2015)	Budget Policy Statement 2015 (Dec 2014)
Revenues	***Revenues***
Total Crown revenues are forecast to be 39.2 per cent of GDP in 2018/19.	Total Crown revenues are forecast to be 39.3 per cent of GDP in 2018/19.
Core Crown revenues are forecast to be 30.6 per cent of GDP in 2018/19.	Core Crown revenues are forecast to be 30.4 per cent of GDP in 2018/19.
Core Crown tax revenues are forecast to be 28.2 per cent of GDP in 2018/19.	Core Crown tax revenues are forecast to be 27.9 per cent of GDP in 2018/19.
Net worth	***Net worth***
Total Crown net worth is forecast to be 34.6 per cent of GDP in 2018/19.	Total Crown net worth is forecast to be 36.8 per cent of GDP in 2018/19.
Total net worth attributable to the Crown is forecast to be 32.8 per cent of GDP in 2018/19.	Total net worth attributable to the Crown is forecast to be 35.0 per cent of GDP in 2018/19.

The Government's long-term objectives relate to the next 10 years. These are unchanged from the 2014 *Fiscal Strategy Report*.

Table A1.2 – Long-term fiscal objectives

Fiscal Strategy Report 2015
Debt
Manage total debt at prudent levels.
We will reduce net debt to a level no higher than 20 per cent of GDP by 2020. We will work towards achieving this earlier as conditions permit.
Beyond 2020, we intend to maintain net debt within a range of around 10 per cent to 20 per cent of GDP over the economic cycle.
Operating balance
Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the NZS Fund, and ensure consistency with the debt objective.
Operating expenses
To meet the operating balance objective, the Government will control the growth in government spending so that, over time, core Crown expenses are reduced to below 30 per cent of GDP.
Operating revenues
Ensure sufficient operating revenue to meet the operating balance objective.
Net worth
Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the full fiscal impact of the demographic change expected in the mid-2020s.

These 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.

Contributions to the New Zealand Superannuation Fund

Contributions to the NZS Fund are projected to resume in 2020/21 when net debt reaches 20 per cent of GDP.

This delay in contributions reflects the Government's view that it is more prudent to reduce debt than to put money into world share markets while debt is still too high.

It will not affect New Zealanders' entitlement to New Zealand Superannuation, either now or in the future. The Government has no intention of changing the age of eligibility of New Zealand Superannuation, the way that payments are calculated or the link to 66 per cent of the average wage. Delaying contributions to the NZS Fund will not change the Government's ability to make these payments, because low debt is equally as important as NZS Fund assets in meeting some of the future fiscal pressures from population ageing.

No capital contributions will therefore be paid into the NZS Fund over the forecast period. By comparison, Table A1.3 shows the contributions that would be required if they started again in 2015/16.

Table A1.3 – New Zealand Superannuation Fund calculations ($billions)

Year ended 30 June	2016	2017	2018	2019
Calculations of annual contributions if they were to resume in 2015/16	2.2	2.4	2.5	2.4

Fiscal projections and assumptions

Fiscal projections out to 2029 are extended using the final forecast year (2019) as a base (Table A1.4). These are constructed using a revised Fiscal Strategy Model. The main changes to fiscal projections reflect changes to economic and fiscal forecasts, including changes to the outlook for dairy prices, inflation, and the re-phasing of operating allowances that was announced in the *Budget Policy Statement* 2015. The only other significant change to assumptions since the *Fiscal Strategy Report* 2014 is a reduction in the long-run stable assumption for core Crown tax-to-GDP beyond 2022/23. Based on historical out turns over the past two decades, this has been reduced from 29 per cent of GDP to 28.6 per cent of GDP, reflecting recent upward revisions to historical GDP figures.

The full set of modelling assumptions is outlined on the Treasury website at www.treasury.govt.nz/government/fiscalstrategy/model. Key assumptions include:

- non-welfare spending growth is largely determined by operating allowances
- operating allowances are $1 billion in Budget 2016, $2.5 billion in Budget 2017, and $1.5 billion in Budget 2018 growing at 2 per cent per Budget thereafter
- new capital spending allowances are $0.9 billion in Budget 2017, then growing at a rate of 2 per cent per annum for subsequent Budgets, and
- the economy is assumed to grow at trend growth rates with no economic cycles three years after the forecast period.

Table A1.4 – Summary of fiscal projections, as percentages of nominal GDP

Year ending 30 June	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**...**	**2029**
	Forecasts					**Projections**					
Core Crown revenue	30.0	30.0	30.0	30.3	30.6	30.5	30.7	30.8	30.9	**...**	31.0
Core Crown expenses	30.5	30.0	29.3	29.4	29.2	28.6	28.4	28.3	28.1	**...**	26.7
Total Crown revenue	39.4	39.2	39.0	39.1	39.2	39.1	39.2	39.3	39.4	**...**	39.5
Total Crown expenses	39.5	39.0	38.2	38.2	37.7	37.2	37.1	37.0	36.8	**...**	35.5
Total Crown OBEGAL[1]	-0.3	0.1	0.6	0.7	1.3	1.6	1.9	2.2	2.5	**...**	3.9
Total Crown operating balance[2]	-0.3	1.2	1.6	1.8	2.3	2.6	2.9	3.3	3.6	**...**	5.2
Core Crown GSID[3]	37.5	37.3	37.9	34.4	31.4	29.4	28.1	26.5	24.5	**...**	7.4
Net core Crown debt[4]	25.7	26.3	25.5	24.4	22.9	20.9	19.7	18.0	16.0	**...**	-1.1
Total Crown net worth	33.4	33.2	33.2	33.5	34.6	35.8	37.2	38.9	40.8	**...**	56.3
Net worth attributable to the Crown[5]	31.2	31.1	31.2	31.6	32.8	33.9	35.4	37.1	39.1	**...**	54.8

Notes

1 Operating balance (before gains and losses)

2 Excludes minority interests

3 Gross sovereign-issued debt

4 Excludes financial assets of the NZS Fund and core Crown advances

5 Excludes assets and liabilities belonging to minority interests

Source: The Treasury

Guide to the Budget Documents

A number of documents are released on Budget day. The purpose of these documents is to provide information about the Government's spending intentions for the year ahead and the wider fiscal and economic picture. The Budget documents are as follows:

Executive Summary

The *Executive Summary* is the overview of all the Budget information and contains the main points for the media and public. This summarises the Government's spending decisions and key issues raised in the *Budget Speech*, the *Fiscal Strategy Report,* and the *Budget Economic and Fiscal Update*.

Budget Speech

The *Budget Speech* is the Budget Statement the Minister of Finance delivers at the start of Parliament's Budget debate. The Budget Statement generally focuses on the overall fiscal and economic position, the Government's policy priorities and how those priorities will be funded.

Fiscal Strategy Report

The *Fiscal Strategy Report* sets out the Government's fiscal strategy in areas such as the balance between operating revenues and expenses, and its debt objectives. The report includes the Government's long-term fiscal objectives and short-term fiscal intentions plus fiscal trends covering at least the next 10 years.

The Government must explain changes in the *Fiscal Strategy Report* from the *Budget Policy Statement* and the previous year's *Fiscal Strategy Report* and any inconsistencies between these documents.

Budget Economic and Fiscal Update

The *Update* includes Treasury's economic forecasts and the forecast financial statements of the Government incorporating the financial implications of Government decisions and other information relevant to the fiscal and economic outlook.

The Estimates of Appropriations

The *Estimates* outlines for the financial year about to start (the Budget year) expenses and capital expenditure the Government plans to incur on specified areas within each Vote, and capital injections it plans to make to individual departments. The *Estimates* is organised into 10 sector volumes, with each Vote allocated to one sector. Supporting information in the *Estimates* summarises the new policy initiatives and trend information for each Vote and provides information on what is intended to be achieved with each appropriation in a Vote and how performance against each appropriation will be assessed and reported on after the end of the Budget year.

Also released on Budget day:

The Supplementary Estimates of Appropriations

The *Supplementary Estimates* outlines the additional expenses, capital expenditure and capital injections to departments required for the financial year about to end. Supporting information for each Vote provides reasons for the changes to appropriations during the year, related changes in performance information and full performance information for new appropriations.

NZ Budget App

Smartphone and tablet users can also access the Budget documents through the NZ Budget App. The App is available on the Apple Store for iOS devices and the Google Play store for Android devices or see www.treasury.govt.nz/budget/app.

Websites

These documents are available at www.treasury.govt.nz and www.budget.govt.nz