



BUDGET
2020

BUDGET POLICY STATEMENT

11 December 2019

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New Zealand Government



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EXECUTIVE SUMMARY

The 2020 *Budget Policy Statement* (BPS) sets out the priorities for the 2020 Wellbeing Budget and outlines the next steps in the Coalition Government's plan to build a more productive, sustainable and inclusive economy.



In May this year the Government delivered New Zealand's first Wellbeing Budget. The Wellbeing Approach, which was used to create the 2019 Budget, fundamentally changed the way budgets are put together and how they are delivered.

We used a broad set of indicators, beyond just economic measures, to identify five areas needing urgent focus. These areas became the five Budget Priorities for 2019: Taking Mental Health Seriously, Improving Child Wellbeing, Supporting Māori and Pacific Aspirations, Building a Productive Nation and Transforming the Economy.

This Government recognises these priority areas require not just urgent focus but also long-term attention, which is why they continue to be the core of the priorities in the 2020 Wellbeing Budget.

Budget 2020 priorities:

- **Just Transition** – Supporting New Zealanders in the transition to a climate-resilient, sustainable and low-emissions economy
- **Future of Work** – Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation
- **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities
- **Child Wellbeing** – Reducing child poverty and improving child wellbeing
- **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders.

When the Coalition Government took office in 2017 it was left with crumbling infrastructure, severe underinvestment in public services, degraded rivers and lakes, a housing crisis and rising inequality. The 2018 and 2019 Budgets started the process to repair that neglect and Budget 2020 will continue that work.

The BPS confirms operating allowances of \$3.0 billion in Budget 2020, \$2.4 billion in Budgets 2021 and 2022, then \$2.6 billion in Budget 2023. Major investments will continue to be made in health, education, housing and social programmes to address New Zealand's long-term challenges.

The Government plans to invest an additional \$12.0 billion in capital. This will take capital spending to the highest level in more than 20 years. This investment will be directed to areas like transport, health, education and greenhouse gas reductions. It is forecast to initially increase nominal gross domestic product (GDP) by a further \$10.0 billion over five years, with further positive impacts on GDP beyond that period.

The Treasury forecasts for the operating balance before gains and losses (OBEGAL) show a small deficit this year, owing to investment at recent Budgets and the effects of falling global growth. However, surpluses thereafter will more than outweigh this, to produce an OBEGAL surplus, on average, over the next five years.

The Government inherited a net debt position of 22.9 per cent of GDP.¹ The Treasury forecasts net core Crown debt to fall to 21.5 per cent of GDP in 2021/22. This includes our increased investment. Net debt is then forecast to fall further to 19.6 per cent of GDP in 2023/24, in line with the Government's target to maintain debt within a prudent range of 15 to 25 per cent of GDP.



HON GRANT ROBERTSON

Minister of Finance

11 December 2019

¹ Taken from *Financial Statements of the Government of New Zealand for the Four Months Ended 31 October 2017*.

THE WELLBEING APPROACH

What is wellbeing?

Wellbeing means giving people the capabilities to live lives of purpose, balance and meaning to them. A wellbeing approach aims to improve New Zealanders' living standards. This includes tackling our long-term challenges and ensuring that what matters to New Zealanders drives our decision-making. The Coalition Government is committed to continuing that focus.

The wellbeing approach was used to develop the first Wellbeing Budget. It made greater use of Ministerial subgroups than in previous budgets with Ministers working closely together to develop packages. This included packages tackling domestic violence and making land use more sustainable.

We are taking working collaboratively a step further in Budget 2020. A coordinating Minister has been appointed for each of the five Budget priorities. They are working with relevant Ministers to develop initiatives targeting their priority's wellbeing outcomes.

The Government used the Treasury's Living Standards Framework (LSF) to support its wellbeing approach, including in the delivery of the first Wellbeing Budget in 2019. The LSF is a framework using wellbeing data and evidence to inform the Government's policy decisions. It recognises the need for broader framing around what it means to progress as a country and to understand the impacts of current or potential policies.

The LSF Dashboard, released by the Treasury in December 2018, provides a range of wellbeing indicators and analyses. No single set of indicators can capture all that matters for New Zealanders but the Dashboard provides a perspective on how to measure a country's wellbeing.

The LSF and the Dashboard are a work in progress. The Treasury will refresh the LSF and the Dashboard in mid-2021 to better reflect priority areas, such as Te Ao Māori, Pacific Peoples' world views, child wellbeing and culture.

WELLBEING BUDGET PRIORITIES

We are committed to delivering on our commitments in 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. Budget 2020 is an opportunity for us to progress and deliver on these commitments.

In Budget 2019 we focused on five priority areas where evidence showed the greatest opportunity to make a real difference to the lives of New Zealanders. Budget 2019 made good progress in investing in these areas. Sustained investment is needed to tackle long-term infrastructure and social deficits. They are complex issues that cannot be fixed in a single Budget.

That is why we are continuing, and in some cases expanding, the work those priorities started. The Wellbeing Budget 2020 priorities were selected using a collaborative and evidence-based approach. Evidence from the Treasury's Living Standards Framework (LSF) was combined with advice from sector experts and the Government's Chief Science Advisors to identify areas where the greatest opportunities exist to make a difference to New Zealanders' wellbeing.

The Budget 2020 priorities are:

- **Just Transition** – Supporting New Zealanders in the transition to a climate-resilient, sustainable and low-emissions economy
- **Future of Work** – Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation
- **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities
- **Child Wellbeing** – Reducing child poverty and improving child wellbeing
- **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders.

INVESTING IN NEW ZEALAND

The Government is investing an additional \$12 billion in building a more productive, sustainable and inclusive economy

We believe that the conditions are right for further capital investment in New Zealand. New Zealand is facing an infrastructure deficit which has built up over the past decade. Years of failing to invest in our public services has meant that essential investment has not taken place, has been deferred or has been neglected. This led to an inevitable reduction in public service capacity and quality.

With debt low and borrowing costs at record lows, now is the right time to invest to future-proof the economy. Our new investment will take capital spending in New Zealand to the highest level in over 20 years, with capital investment of nearly \$50 billion planned over the next five years. This investment is forecast to significantly increase real GDP over the next five years, with further impacts on economic activity beyond that period, as the money allocated today continues to support economic growth.

This increase in Government investment will provide further support for the New Zealand economy in the face of slowing international growth and stronger global headwinds. The capital investment will provide a combination of shorter-term spending to support economic activity over the next two years, as well as medium- and long-term investments that will provide business with a pipeline of Government demand into the future. This investment should deliver certainty to New Zealanders that the Government is determined to tackle the infrastructure deficit.

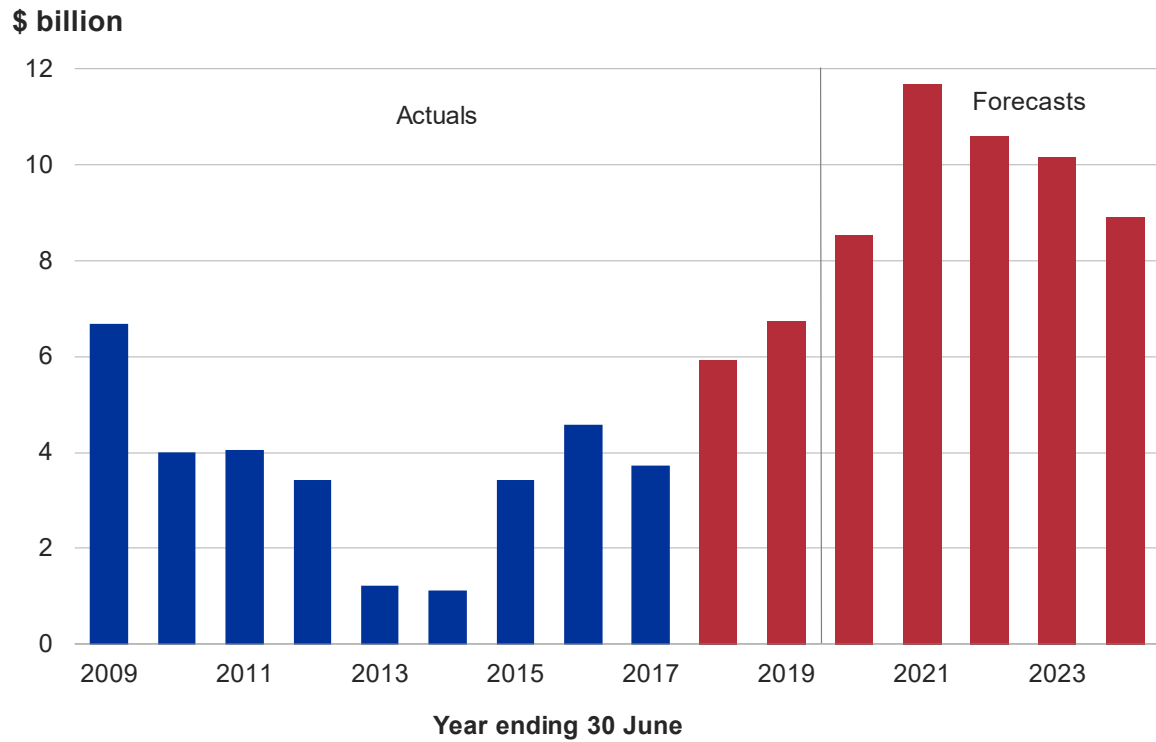
The Government's strong fiscal management has ensured that debt has returned to levels last seen nearly a decade ago. This provides space for us to invest further, while still maintaining a strong fiscal position. Interest rates are at historically low levels and the cost of Government borrowing has fallen substantially. This has resulted in the cost of servicing the Government's debt being \$107 million lower in 2018/19 than in 2016/17. Borrowing costs for the core Crown have fallen from 1.3 per cent of GDP in 2016/17 to 1.1 per cent of GDP in 2018/19.² Figure 1 shows that the ten-year New Zealand Government Bond rate is currently less than half what it was in late 2017.

Figure 1 – 10-year New Zealand Government Bond Yields (Secondary Market)



Sources: Reserve Bank of New Zealand, Reuters

² Based on the interest on financial liabilities as a percentage of nominal GDP, as reported in the *Half Year Economic and Fiscal Update (Half Year Update)*.

Figure 2 – Net capital spending

Source: The Treasury

The \$12 billion of additional investment will support the shifts identified in the Government's *Economic Plan* for a more productive, sustainable and inclusive economy. A majority of this capital investment will consist of expenditure in areas such as health, education, justice, transport, regional investment opportunities and carbon reduction. The Government will announce further details about these spending plans over the coming months.

BUDGET ALLOWANCES

Budget allowances show how much new investment and spending is available in each Budget over the next four years. In this BPS the Government has kept the operating allowances as presented in Budget 2019.

The Government has decided to increase the multi-year capital allowance by \$4.0 billion as part of the \$12.0 billion increase in capital investment. The multi-year capital allowance was introduced in Budget 2019 and uses a four-year funding envelope, rather than a single-year allowance. After Budget 2019 decisions, \$4.4 billion of the allowance was remaining, meaning \$8.4 billion is now available from the multi-year allowance for capital investment across the period.

A further \$8.0 billion of capital expenditure will also be announced in this financial year. This capital expenditure, in addition to the multi-year capital allowance, brings the total available between now and Budget 2023 to \$16.4 billion.

The operating and capital allowances may change as the fiscal outlook develops and more information becomes available.

The total levels of additional investment and current baselines in the Budget are consistent with the Government's target of maintaining net debt between 15 and 25 per cent of GDP 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 1 – Budget allowances before pre-commitments

\$ billion	Budget 2020	Budget 2021	Budget 2022	Budget 2023
Operating allowances (per year)	3.0	2.4	2.4	2.6
Multi-year capital allowance				

Source: The Treasury

In addition, as noted above, a further \$8.0 billion of capital expenditure is being announced in this financial year.

DELIVERING FOR NEW ZEALAND

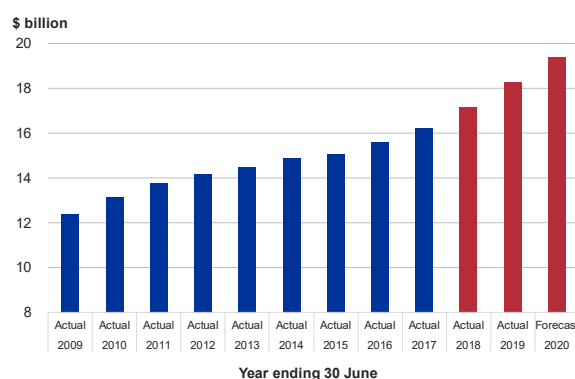
Our Investments

We are making major investments in rebuilding the health sector...

At the *Half Year Update*, core Crown operating expenditure on health for 2019/20 was forecast to be \$3.1 billion higher than 2016/17 – an increase of 19.4 per cent over three years. In Budget 2019 we committed to investing another \$4.4 billion operating expenditure over the forecast period. This increase to operating expenditure in Budget 2019 was the highest percentage increase in a decade. Of this additional investment, \$2.9 billion went to District Health Boards (DHBs) to allow them to continue to provide their communities with essential health services.

Budget 2019 included \$1.7 billion in new capital funding for health, in addition to the \$750 million allocated in Budget 2018. This \$2.5 billion investment over three years compares to \$827 million in total over the nine years of the previous Government.

Figure 3 – Core Crown health operating expenditure



Source: The Treasury

Taking mental health seriously was a Budget Priority in the Wellbeing Budget 2019. The Government committed an additional \$1.9 billion for mental health. This investment is being used to:

- Establish a new primary mental health service
- Establish the Mental Health and Wellbeing Commission
- Support and enhance acute mental health and addiction services
- Enhance mental health support for people in the justice system
- Expand and improve initiatives to prevent suicide.

We are committed to ensuring primary health care is affordable for all New Zealanders. In the previous two Budgets we invested a total of \$491.9 million to make GP visits cheaper for 600,000 New Zealanders, provide free GP visits for under-14 year olds, and keep fees stable for all New Zealanders.

Our investments over the past two years have allowed us to begin rebuilding the health workforce after years of neglect. Since this Government came into office there are now 1,699 more nurses, 677 more doctors, 105 more midwives and 594 more allied health workers. According to Ministry of Health information this is the largest recorded health workforce.

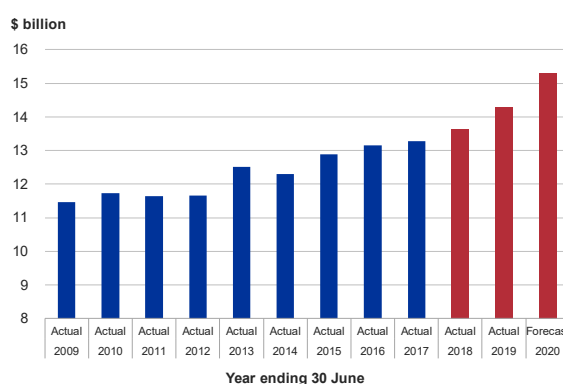
... as well as our investment in education

At the *Half Year Update*, core Crown operating expenditure on education for 2019/20 was forecast to be \$2.0 billion higher than 2016/17 – an increase of 15.2 per cent over three years. In Budget 2019 we committed to investing another \$2.1 billion operating and \$1.5 billion capital over the forecast period in our schools, early childhood education providers, tertiary education system, learning support and teachers, and to reduce education costs for parents and whānau. This investment built on funding for tertiary education through the 100-Day Plan, as well as the additional \$3 billion (combined operating and capital) committed to education in Budget 2018.

Budget 2019 made the largest investment in school property by a New Zealand Government, committing \$1.2 billion of capital expenditure for the first waves of a 10-year School Property Programme. This was in addition to the \$332 million of capital invested in school property through Budget 2018.

Budget 2019 invested \$131 million in across-the-board increases to early childhood education subsidy rates, the largest funding increases to early childhood education subsidy rates over the last decade and the first full rates adjustment since 2007. This builds on the additional \$105 million invested through Budget 2018.

Figure 4 – Core Crown education operating expenditure



Source: The Treasury

Similarly, we have invested in core resourcing for schools by providing just under \$180 million through both Budget 2018 and Budget 2019 combined for schools' operational grants. We have also negotiated the largest pay increases for teachers in a decade and invested \$135 million in teacher supply initiatives.

Learning Support has also received a boost, receiving \$336 million in new operating funding and \$95 million in capital funding in Budget 2019. This will alleviate critical cost pressures that have built up over the past decade, as well as provide for new Learning Support Coordinators in schools.

We are investing in vocational education to create a strong, unified, sustainable system for all vocational education that delivers the skills that learners, employers and communities need to thrive. Through Budget 2019 we set aside an initial \$197 million for this reform, as well as \$154 million for tuition and training subsidy increases.

Through the 100-Day Plan we are providing the first year free for those studying in tertiary education for the first time, benefiting 47,019 learners in 2018. We also increased student allowance rates by \$50 per week for single students from 1 January 2018, supporting over 50,000 learners each year. Student allowance rates had not increased since 1 April 2012, and now student allowance rates will continue to increase in line with inflation.

We have also taken a number of practical steps to relieve financial pressure on families when it comes to their children's education. Budget 2019 set aside \$266 million for increased funding for deciles 1-7 schools that agree not to request donations from parents. Nearly 90 per cent of eligible schools have opted into the scheme. We've also committed \$49 million to remove National Certificate of Educational Achievement (NCEA) fees for the 168,000 New Zealanders who study these qualifications each year.

Under this Government:

- there are 419,417 children in schools that are no longer asking for parental donations
- there are 2,000 more teachers
- 726 new classrooms have been built or upgraded for more than 15,000 students
- we announced over \$1.0 billion of classroom upgrades – this investment will upgrade at least 1,100 classrooms for around 33,000 students
- we announced a package of \$400 million for school property improvements for nearly all state schools.

We're addressing child poverty

Our Government is reducing child poverty and improving child wellbeing. Too many children and young people live in places where it is a struggle to meet every day needs and do things that other New Zealanders take for granted.

There is strong evidence that growing up in poverty can harm children in multiple ways. These effects are particularly evident when poverty is severe and persistent and when it occurs during early childhood. They can continue into adulthood, impacting individuals' future wellbeing and potential.

This Government invested in this priority area in Budget 2019. We know sustained investment will be necessary, so it is a focus again in Budget 2020.

The \$5.5 billion Families Package boosted the incomes of low and middle-income families, supported parents with new babies and supported people through winter:

- More families received a Family Tax Credit payment, and those who received payments also received more, with an average increase of \$40 per week received from Inland Revenue Department (IRD) from June 2017 to June 2019.
- The Best Start tax credit helped all families in the first year, with further support in years two and three for middle- and low-income families.
- The Winter Energy Payment helped about one million people during winter.
- Increased payment rates for the Accommodation Supplement supported people with the cost of rental accommodation.

In Budget 2019 we changed the indexation of all main benefits from inflation to average wage growth, increased the amount that beneficiaries can earn before their benefit reduces and removed the penalty for sole parents who do not identify the other parent and/or do not apply for child support. Modelling indicates that around 146,000 families with 269,000 children will benefit from these investments.

Across Budgets 2018 and 2019 we also invested in initiatives to ease cost of living pressures for families with children, directly tackle material deprivation, support housing affordability and tenure and support people into employment. These included:

- helping parents with education costs by removing NCEA fees and increasing funding to deciles 1-7 schools so they don't need to ask for parental donations
- reducing the cost of GP visits
- expanding and enhancing school-based health services
- continuing to fund KickStart and KidsCan
- increasing the minimum wage
- expanding employment support through the Ministry of Social Development's frontline workforce
- expanding Housing First to tackle homelessness, delivering additional public and transitional housing and regulating housing quality and conditions for renters
- reviewing the price of electricity for households
- cracking down on predatory lending.

We have also announced a prototype programme to deliver free, healthy lunches to Years 1-8 students in 30 schools with high levels of disadvantage in 2020. Up to 21,000 students in about 120 schools will benefit from this programme from the beginning of 2021.

At Budget 2020 we will publish the second Budget day Child Poverty Report, setting out the Budget 2020 initiatives that may impact child poverty and recent trends on the measures of child poverty based on Statistics New Zealand (Stats NZ) data.

We are investing in lifting outcomes for Māori and Pacific peoples

This Government is committed to better supporting Māori and Pacific peoples' aspirations in New Zealand.

That's why in Budget 2019, one of our five priorities was supporting Māori and Pacific peoples' aspirations by lifting Māori and Pacific incomes, skills and opportunities. We committed \$593 million in operating expenditure over the forecast period to this priority.

Supporting Māori and Pacific peoples' aspirations remains a priority for us in Budget 2020, signalling our commitment to continue to invest in these communities.

Enhancing the Māori/Crown relationship

Budget 2019 included \$208 million of operating funding to support Te Reo Māori and Communities and promote a stronger sense of national identity. This included major investments in culture and community-focused initiatives. Te Reo Māori initiatives, like Te Ahu o te Reo and Te Kawa Matakura and supporting the Māori Housing Network and revitalising marae were invested in. Between 2016/17 and 2019/20 spending on Vote Māori Development has increased by 41 per cent.

This package included an initiative aimed at supporting equitable outcomes for Māori learners. We allocated \$42 million to help address cultural bias and racism in the education system and support whānau to engage in the education of Māori learners.

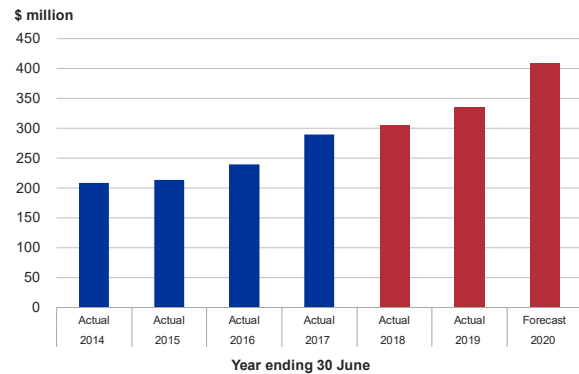
We also invested in the Whenua Māori Programme, co-led by Te Puni Kōkiri and the Ministry of Justice. This programme supports the sustainable development of whenua Māori, increasing the knowledge and skills of Māori landowners, generating wealth and strengthening the connection between Māori and their whenua. Through the Whenua Māori Programme the Government is investing \$56.1 million over the next four years.

In addition to the \$208 million package, Budget 2019 also provided a major boost for Whānau Ora. New investment of \$81 million will expand the integrated service model to improve outcomes for whānau. Additional Whānau Ora programmes will be delivered to improve primary healthcare outcomes.

Enabling growth in the Māori economy is one of the key priorities in our *Economic Plan*. This will involve supporting whānau, hapū and iwi to lift economic, social, environmental and cultural wellbeing by building strong partnerships with Māori, with a focus on employment, skills, enterprises, rangatahi and whenua.

Through Budget 2019 the Government established Te Arawhiti – a Crown agency dedicated to strengthening the Māori/Crown relationships by supporting the Crown to grow the capability to be better Treaty partners and enabling better working relationships with Māori.

Figure 5 – Vote Māori Development operating expenditure



Source: The Treasury

Strengthening Pacific peoples' aspirations

We invested an additional \$113 million through the Budget 2019 'Supporting our Pacific Communities' package. Between 2016/17 and 2019/20 Vote Pacific Peoples rose by 115 per cent.

An investment of \$27.4 million will continue to help ensure Pacific students and their families have the skills, knowledge and equitable opportunities to pursue any education pathway. This includes an investment in Pacific PowerUP, an education programme that actively supports Pacific parents, families and communities to champion their children's learning.

We've invested an extra \$14.5 million in the Ministry for Pacific Peoples to grow opportunities for Pacific young people not in employment, education or training. This funding expands collaboration with Pacific providers in Auckland, Wellington and Christchurch to support and mentor up to 2,220 Pacific young people into employment, education or training.

To support the Pacific health workforce pipeline we've invested \$10 million to increase the Pacific Provider Workforce Development Fund and focused \$4.3 million on the Pacific nursing and midwifery pipeline.

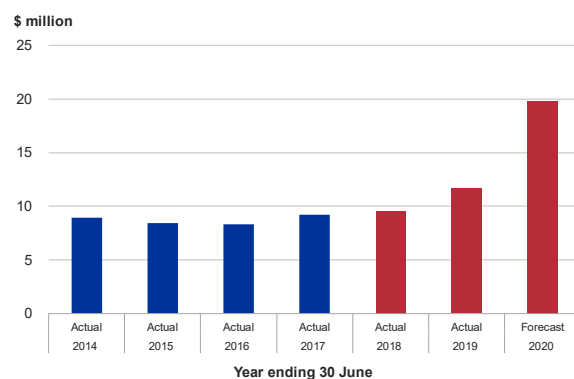
To help Pacific languages survive and thrive in New Zealand's Pacific communities, the Government committed \$20 million in Budget 2019 to establish a Pacific languages unit within the Ministry for Pacific Peoples.

Meeting the climate change challenge

This Government recognises that climate change is the greatest challenge of our time. After years of Government inaction and economic growth at the expense of our environment, this Government is taking positive steps to ensure New Zealand leads the world in combatting climate change. We want to grow our economy in a sustainable way, while also protecting and enhancing our natural environment.

We have made significant investments across both Budgets 2018 and 2019 to help transition New Zealand to a low-emissions future.

Figure 6 – Vote Pacific Peoples operating expenditure



Source: The Treasury

The way we use our land has a serious impact on our environment, whether in greenhouse gas emissions or in the poor quality of our waterways. In Budget 2019 Ministers from across Government worked together to produce the Productive and Sustainable Land Use package – a \$229.2 million package of investments in projects to support farmers and councils to make positive land use changes.

Within this package, \$122.2 million is going towards:

- supporting Māori agribusiness
- protecting high-value food exports
- improving on-farm emissions data and upgrading tools
- providing information, tools and advice to support farmers making the change to more sustainable and higher-value production.

The Productive and Sustainable Land Use package also provided funding to accelerate improvements in water quality in at-risk catchments and wetlands.

The package included funding for the Climate Change Commission, which will provide the advice, guidance and monitoring for New Zealand to reduce greenhouse gas emissions in line with our Paris Agreement commitment.

Meeting our climate commitments will be a challenge. But we are making the necessary investments to ensure New Zealand takes advantage of the opportunities afforded by transitioning to a low-emissions economy.

In Budget 2018 the Government established the \$100 million Green Investment Fund to invest in high-value, low-carbon industries and clean technology. This will also help stimulate further private investment in green industries and businesses.

This Government has also invested in research into cutting-edge energy production. Budget 2019 invested \$27 million to build the National New Energy Development centre, to create new business and jobs in Taranaki, alongside a \$20 million science research fund for research into new energy technologies.

New Zealand's infrastructure

Infrastructure supports much of our daily lives. It supports wellbeing by providing the means for current and future generations to live fulfilling lives.

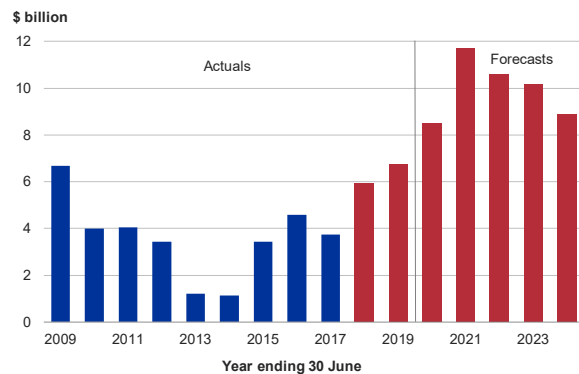
New Zealand faces a number of challenges, including the need to renew ageing infrastructure, the pressures of an ageing and urbanising population, tight fiscal constraints, changing technology, the effects of climate change and increased pressures on our natural resources. Previous systematic underinvestment will take sustained, ongoing investment to resolve.

The International Monetary Fund (2018) and Organisation for Economic Co-operation and Development (OECD) (2019) have both recently warned that historic underinvestment will have a negative impact on our long-term growth if it continues. To keep our economy growing we are improving our infrastructure to support higher levels of productivity.

The Government is committed to closing New Zealand's infrastructure deficit and ensuring we have modern infrastructure that supports our transition to a more productive, sustainable and inclusive economy.

We are focusing our attention on priority areas, where the greatest opportunities exist to make real differences to the lives of New Zealanders.

Figure 7 – Net capital spending



Source: The Treasury

The Government has established the New Zealand Infrastructure Commission, Te Waihanga, to identify the infrastructure New Zealand needs to keep pace with population growth, to continue to grow our economy and to improve our living standards. Our national infrastructure pipeline, which is still under development by the Infrastructure Commission, contains more than 500 projects over the short to medium-term – with an estimated value of \$21.1 billion.

The Commission will improve how New Zealand coordinates, plans and invests in infrastructure through the delivery of a 30-year infrastructure strategy. It will also provide procurement and delivery support functions to lift our social and physical infrastructure and ensure everyone has access to quality healthcare, education and social services.

The Commission is already providing this support on major infrastructure projects such as the Christchurch Multi-Use Arena. Funding was set aside in Budget 2018 for the early design of this project. In addition, a \$300 million Acceleration Fund was established in Budget 2018 for critical projects to properly support the regeneration of Christchurch. This included faster progress on the residential red zone and the Multi-Use Arena.

Rebuilding our health services is a top priority. A significant proportion of our health assets are in poor or very poor condition. Across Budgets 2018 and 2019, the Government invested \$2.5 billion in health infrastructure. This investment is to upgrade current facilities such as earthquake-prone hospitals, remove asbestos, fix leaky roofs, replace buildings that have come to the end of their useful lives, and invest in new facilities.

A further \$1.2 billion has been set aside in Budget 2019 for the first wave of a 10-year School Property Programme to refurbish and expand existing schools and build new schools. This includes \$286.8 million for new schools and classrooms and to purchase property for kura and special education schools. We have set aside \$913.3 million to plan for student population growth and demographic changes. This spending is in addition to the \$62 million of new capital funding invested as part of Budget 2018 in the Christchurch Schools Rebuild programme.

We set aside \$1.9 billion over 10 years to maintain the safety and security of our prison network. This funding will enable us to provide additional capacity in the prison network and meet the costs of safely managing prison populations.

We are also investing \$11.2 million per annum in the Defence Estate over the next five years, as part of our Defence Estate Regeneration Programme. A series of investments will occur in our defence bases on housing, utilities and hospital facilities. Additionally, we have also invested in replacing New Zealand's ageing maritime reconnaissance capability through the purchase of a new fleet of P-8A aircraft.

To support sustainable economic development, the Government is unlocking the potential of regional New Zealand through investments in transport. The Government is revitalising rail, with investments in regional rail and the Auckland City Rail Link. Alongside this, the Future of Rail Programme provides substantial investment in KiwiRail. Budget 2019 and the Provincial Growth Fund (PGF) together provided more than \$1 billion to support KiwiRail's redevelopment. This is on top of a significant investment of \$45.6 billion in transport over the next 10 years through the Government Policy Statement on Land Transport. The Government is prioritising investments in regional roads, safety, public transport and active modes, such as walking and cycling.

NEW ZEALAND'S WELLBEING OUTLOOK

This section provides an overview of New Zealand's wellbeing outlook.³ We want New Zealanders' wellbeing to drive the decisions we make. This means measuring progress on a broader range of indicators than just GDP.

This section draws on evidence from the Treasury's Living Standards Framework (LSF), together with evidence from Stats NZ Official Statistics, the OECD, and specialist advice from agencies and experts, like the Government Chief Science Advisors.

Human capital: our people and skills

Human capital includes our skills, knowledge and physical and mental health, which directly link to areas like employment, income, housing and social connections.⁴

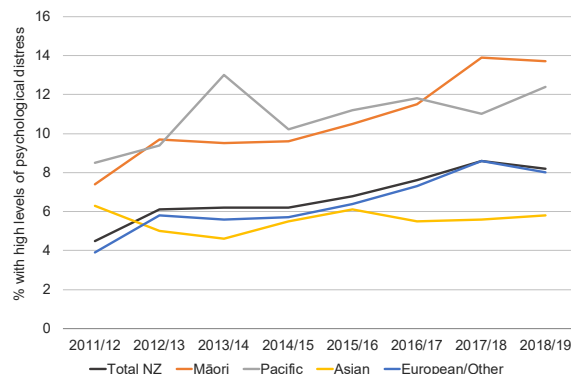
Although most New Zealanders are generally healthy and well educated, not everyone is experiencing these positive outcomes.

Mental health is a significant issue. In any year one in five New Zealanders will have a diagnosable mental illness, with most cases beginning before the age of 25. Tackling issues surrounding mental health early in life can help prevent poor outcomes later. The Chief Science Advisors heavily supported a continued strong focus in this area to build on the \$1.9 billion of mental health investments in Budget 2019. This will require sustained investment across multiple Budgets to fully address.

There are significant inequities in our health sector and in our education and skills system. These can persist through to adulthood, affecting areas like occupation, income and overall living standards. Nearly 10 per cent of young people aged 15-24 are not in employment, education or training, despite low overall unemployment.

We also need to ensure that people are prepared to adjust to technological change and the future of work. In developing the Budget priorities, the Chief Science Advisors emphasised the importance of supporting adaptation to the digital economy.

Figure 8 – Percentage of adults experiencing psychological distress, by ethnicity



Sources: New Zealand Health Survey, Ministry of Health

³ The main evidence sources of wellbeing data for this section are the Treasury's Living Standards Framework Dashboard and Indicators Aotearoa New Zealand.

⁴ Additional source used in this subsection: *He Ara Oranga – Report of the Government Inquiry into Mental Health and Addiction 2018*.

The Government is already investing in our skills and overcoming social deficits:

- **Improving mental health** – \$1.9 billion over four years, including investment in new universal frontline mental health services, new and existing mental health and addiction facilities and commencing the roll out of the Nurses in Schools programme to decile 5 secondary schools
- **Whānau Ora** – \$80 million over four years to expand the coverage and impact of Whānau Ora
- **Reforming Vocational Education** – to create a strong, unified, sustainable system for all vocational education that delivers the skills that learners, employers and communities need to thrive
- **Implementing active labour market programmes** – such as Mana in Mahi to support people to find and stay in work.

There is more to do and we are committed to continuing our focus in these areas.

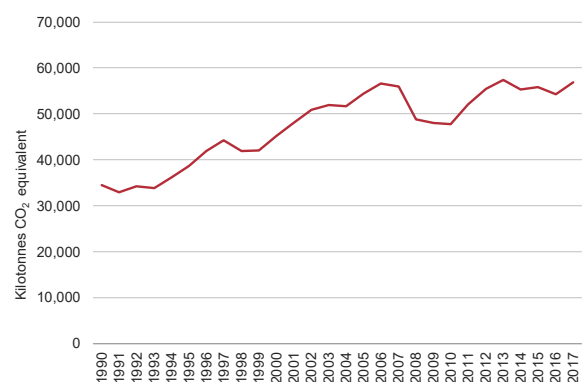
Natural capital: our environment

Natural capital covers all aspects of the natural environment that support life and human activity, like land, soil, water, plants and animals, minerals and energy resources.⁵

In developing the Budget 2020 priorities, the Chief Science Advisors emphasised the need to transition to a sustainable and low-emissions economy. In international terms New Zealand has relatively high rates of greenhouse gas (GHG) emissions per person, which need to be reduced to support New Zealand's position of global leadership on climate change. In particular, energy-related emissions continue to grow, driven primarily by population growth and increasing demand for transport.

The quality of our waterways is also an issue. Many of our waterways are under pressure from changes to the way we use land. For example, between 2013 and 2017, 71 per cent of river length in pastoral farming areas had modelled nitrogen levels that could affect the growth of sensitive aquatic species. In addition, models show that over 80 per cent of the total river length in urban areas exceeds the guidelines for quantity of pollutants eg, nitrogen, E. coli, phosphorus. This evidence and advice strongly influenced the Budget 2020 priorities.

Figure 9 – New Zealand's net greenhouse gas emissions, 1990-2017



Source: Ministry for the Environment

5 Additional source used in this subsection: *Environment Aotearoa 2019 Summary*. Accessed from <https://www.mfe.govt.nz/Environment-Aotearoa-2019-Summary>

We have committed to transition to a sustainable, low-emissions economy. We have started this long-term work by investing in, and implementing:

- **Productive and sustainable land use** – a \$229 million package to support farmers and councils to reduce climate and water impacts and improve productivity
- **The One Billion Trees Programme** – \$183.8 million to increase tree planting across New Zealand by lowering barriers and improving incentives
- **Essential freshwater** – a work programme to stop further degradation in water quality, reverse past damage and address water allocation issues
- **The Climate Change Response (Zero Carbon) Amendment Act 2019** – establishing greenhouse gas emission reduction targets and an independent Climate Change Commission to provide advice on the transition to a low-emissions economy.

These initiatives mark the beginning of our work to create a climate-resilient, sustainable and low-emissions economy, underpinned by a sustainable and affordable energy system.

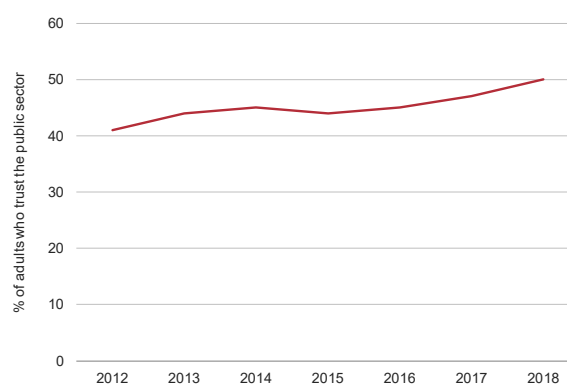
Social capital: our connections

Social capital includes our social connections, attitudes, norms and the institutions that contribute to societal wellbeing.⁶

Many areas of New Zealand's social capital are strong. For example, New Zealanders' trust of their public sector is at its highest point in more than a decade (Figure 10). However, there are issues that need attention.

New Zealand continues to have higher rates of family and sexual violence than our peers. Almost 80,000 adults experienced more than 190,000 incidents of family violence over the last 12 months. Rates of family violence victimisation are significantly higher for females than males and higher for Māori than Europeans. Although a lack of safety at home is itself damaging, it is also detrimental to other areas of wellbeing.

Figure 10 – Public trust in the public sector



Source: Kiwi Counts survey

6 Additional source used in this subsection: *New Zealand Crime and Victims Survey 2018*.

The wellbeing of our tamariki also needs attention. While many children are doing well and are achieving positive outcomes, a significant number need further support. Approximately 150,000 children in New Zealand live in households experiencing material hardship. The experiences we have as children lay the foundations for healthy development and positive outcomes throughout life. The Chief Science Advisors reiterated the importance of continued investment to break the cycle of these complex issues, particularly through prevention and early intervention.

Homelessness is a continuing issue. Based on data from the University of Otago, one in 100 New Zealanders are homeless.⁷ Other studies have found that those who are homeless are severely disadvantaged and are more vulnerable to significant life challenges, including mental health problems, drug and alcohol abuse and violence. In addition, despite many areas of social capital looking positive, there are clear ethnic disparities.

The Government is making progress on addressing the issues above but there is more we can do through Budget 2020. We have already invested in:

- **Addressing family and sexual violence** – a \$320 million package to reduce family and sexual violence and better support survivors
- **The Families Package and Budget 2019 income support changes** – \$5.5 billion over four years to deliver more money to families with children and help reduce child poverty through the Families Package. A further \$535.1 million was invested over four years to lift the incomes of 339,000 individuals and families as part of the Government’s overhaul of the welfare system
- **Tackling homelessness** – \$197 million to strengthen the Housing First programme to approximately 2,700 places to improve the social and housing outcomes of the chronically homeless
- **Building state houses** – we stopped the previous Government’s state house sell-off and are investing to build 6,400 more state houses over four years
- **Oranga Tamariki’s new operating model** – aimed at improving support for New Zealand’s most vulnerable children and young people

A sustained focus will be required to address what are often complex, intergenerational issues.

⁷ University of Otago research using Stats NZ Official Statistics. Note: Homelessness is defined by Stats NZ as “living situations where people with no other options to acquire safe and secure housing are: without shelter, in temporary accommodation, sharing accommodation with a household or living in uninhabitable housing”.

Financial and physical capital: our built and financial assets

Financial and physical capital refers to assets owned by households, companies and the Government that range from things like cars and databases to financial assets, such as cash and shares.⁸

New Zealand's incomes and labour productivity are below the OECD average. Labour productivity growth in New Zealand was negative, on average, from 2013-2017, which meant New Zealanders were having to work harder just to maintain their standards of living.

Despite New Zealanders, on average, having good material standards of living, the Treasury's LSF indicates there are significant opportunities to build on the strengths of Māori, Pacific and rural communities. A key opportunity for Māori and Pacific communities, in particular, is to increase rates of home ownership.

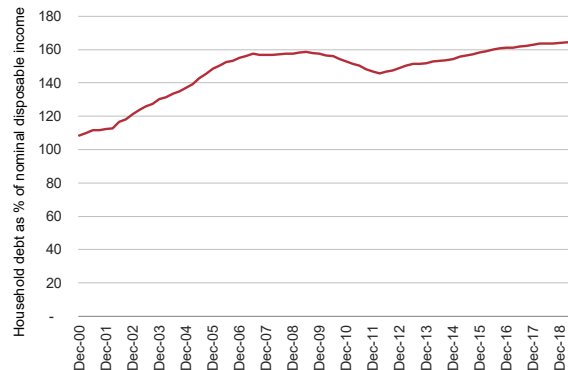
In terms of our physical assets, the quality and affordability of our housing stock, particularly social housing, are significant issues in New Zealand. This is particularly true for households that are disadvantaged in other areas, which can contribute to poor health outcomes and negative outcomes for children.

The condition of other social assets also needs improving – in particular, hospitals and school buildings. We have started investing in these areas and our new capital spending outlined in this document will take further steps to address these needs.

We have developed a range of initiatives to start to address the infrastructure challenges above, which will require sustained investment to address, for example:

- **Industry Transformation Plans** – our approach to transforming key industries to support a more productive, sustainable and inclusive economy
- **Bridging the venture capital gap** – \$300 million fund to foster innovation and encourage start-ups to expand
- **Unlocking regional economic growth** – more than \$1 billion boost in funding for KiwiRail, including investment in rail infrastructure and new locomotives to enable regional economic growth, cut emissions and reduce traffic congestion
- **Record transport infrastructure investment** – \$17.7 billion over four years is being invested in transport infrastructure by the National Land Transport Fund.

Figure 11 – Household indebtedness



Sources: Reserve Bank of New Zealand and Stats NZ

Note: Household debt comprises mortgage loans, consumer loans such as credit cards, and student loans

⁸ Additional source used in this subsection: *He Puna Hao Pātiki – 2018 Investment Statement*. Accessed from <https://treasury.govt.nz/sites/default/files/2018-03/is18-hphp-wellbeing.pdf>

Economic Outlook

Building a more productive, sustainable and inclusive economy

The Government’s plan to tackle New Zealand’s long-term challenges and build a more productive, sustainable and inclusive economy is set out in the *Economic Plan*.

The *Economic Plan* identifies eight key economic shifts to deliver on this vision.

These shifts represent some of the most important transitions the Government wants to make in the economy to prepare for the big changes coming our way and address our most pressing economic, social and environmental challenges.

If we achieve these shifts, we will go a long way towards making New Zealand a great place to live and work. We know the shifts will not take place overnight; tackling long-term challenges takes time. Our work programme as a Government is just the start of a 30-year plan.

Economic Plan



ECONOMIC FORECASTS

The economy grew at 2.4 per cent in the year to June 2019. New Zealand is growing faster than other advanced economies, such as Australia, Canada, Japan, the United Kingdom and the Euro area. In the past year the unemployment rate was the lowest in a decade, and growth in annual hourly earnings was the highest it has been in a decade.

However, New Zealand is a small, open economy and is experiencing the impacts of global headwinds like the US-China trade war, uncertainty around Brexit and geopolitical tensions in places like the Middle East and Hong Kong. The economy is in good shape to counter these headwinds.

In its *Half Year Update* the Treasury forecasts growth of 2.5 per cent on average across the forecast period. Growth over this period is supported by low interest rates, Government investment and a slight recovery in trading partner growth. These factors help to support household consumption and business investment growth.

The unemployment rate is forecast to remain low and wage growth is expected to remain solid. This is supported by continued strength in the labour market and through the Government's labour market policies. Wages are expected to grow faster than inflation in every year of the forecast period, averaging around 3.5 per cent per year, helping New Zealanders with the cost of living.

Global economic factors, such as heightened trade policy uncertainty, remain a key risk to the forecasts. A greater-than-expected slow down in global growth would impact the New Zealand economy through a range of channels, including reduced demand for exports, commodity price movements, lower confidence and shifts in financial conditions and asset prices. The economy is in a strong position to handle this, with low Government debt and a strong pipeline of investments planned in infrastructure.

Table 2 – Summary of the Treasury's economic forecasts

June Years	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Real GDP growth (annual average % change)	2.4	2.2	2.8	2.7	2.5	2.4
Real GDP per capita (annual average % change)	0.8	0.7	1.4	1.3	1.1	1.1
Unemployment rate (June quarter)	3.9	4.3	4.2	4.2	4.3	4.3
Consumers Price Index (annual % change)	1.7	1.9	1.9	2.0	2.0	2.0
Wage growth (annual % change)	4.4	3.0	3.3	3.6	3.7	3.7
Current account (% of GDP)	-3.4	-3.2	-3.4	-3.6	-3.7	-3.8

Sources: Stats NZ, the Treasury

FISCAL FORECASTS

The final fiscal position for 2018/19 was stronger than the Treasury expected at Budget 2019. The Government achieved an OBEGAL surplus of \$7.3 billion⁹ in the 2018/19 financial year compared to an expected OBEGAL surplus of \$3.5 billion. This was a strong result, even accounting for a number of one-off factors that are likely temporary.

The Government reduced net core Crown debt to 19.0 per cent of GDP at 30 June 2019, below the 20 per cent target in the Budget Responsibility Rules. This was the second year in a row that net debt fell below 20 per cent of GDP.

The Treasury's fiscal forecasts in the *Half Year Update* reflect the Government's decisions to increase investment in infrastructure and social services over the next four years. The Government inherited a public sector that had suffered from years of underfunding in these areas and is committed to closing these social and infrastructure deficits.

Budgets 2018 and 2019 formed a strong foundation, prioritising increased investment to fix hospitals, build new classrooms and revive rail and regional road infrastructure.

The *Half Year Update* forecasts reflect the next steps in our plan. The additional capital investment announced alongside this *Budget Policy Statement* uses the opportunity provided by the Government's careful fiscal management. Current low Government debt, together with the record low cost of borrowing, mean now is the right time to invest in high-value infrastructure that will build, grow and future-proof the economy.

The Government inherited a net debt position of 22.9 per cent of GDP. The Treasury forecasts net core Crown debt to fall to 21.5 per cent of GDP in 2021/22. Net debt is forecast to then fall further to 19.6 per cent of GDP in 2023/24, in line with the Government's target to maintain debt within a prudent range of 15 to 25 per cent of GDP.

In the past two years the Government has run surpluses of \$5.5 billion and \$7.3 billion. The Treasury forecasts a small OBEGAL deficit in 2019/20. This is owing to increased investment at recent Budgets and the temporary effects of the global headwinds mentioned above flowing through the New Zealand economy.

Surpluses will return from 2020/21, rising to 1.5 per cent of GDP in 2023/24. These, combined with the Government's first two surpluses, will more than outweigh one year of a small deficit. The OBEGAL surplus is forecast to average 0.6 per cent of GDP over the next five years.

As a percentage of GDP, core Crown expenses are expected to gradually increase from 28.6 per cent in 2018/19 to 29.4 per cent in 2020/21 and back down to 28.1 per cent in 2023/24.

⁹ The 2018/19 financial results have been restated owing to changes in accounting policies to be consistent with policies applied in the Treasury's fiscal forecasts. The results stated here therefore differ from those published in the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2019*.

Table 3 – Summary of the Treasury's fiscal forecasts

Year ending 30 June % of GDP	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Core Crown tax revenue	28.4	27.7	28.0	28.0	28.2	28.4
Core Crown expenses	28.6	29.3	29.4	28.8	28.6	28.1
Total Crown OBEGAL	2.4	(0.3)	0.0	0.5	1.1	1.5
Core Crown residual cash	(0.2)	(1.6)	(2.4)	(1.6)	(0.6)	0.2
Net core Crown debt	19.0	19.6	21.0	21.5	20.9	19.6
Net worth attributable to the Crown	45.9	43.7	42.6	42.2	42.5	43.5

Source: The Treasury

FISCAL STRATEGY

Having a strong fiscal position is a prerequisite to maintaining and improving intergenerational wellbeing

A strong fiscal position helps to ensure intergenerational fairness, while maintaining resilience to risks. Running surpluses, on average, will ensure future generations are not burdened with paying for initiatives that primarily benefit the current generation. The *Budget Policy Statement 2020* sets out our fiscal strategy in the form of short-term intentions and long-term objectives.

The Government remains committed to a prudent fiscal strategy

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

A sustainable operating surplus is one that exists once policy objectives have been met, recognising that sustainability is a long-term concept where outcomes in one year are less important than the overall trend.

Over the last two financial years, OBEGAL surpluses averaged \$6.4 billion per year, and last year's \$7.3 billion surplus represented the largest surplus since 2008.¹⁰

The Treasury forecasts OBEGAL to show an initial small deficit this year owing to increased investment at recent Budgets and the temporary effects of global headwinds flowing through to the New Zealand economy. The rising OBEGAL surpluses thereafter will more than outweigh this deficit to produce an OBEGAL surplus, on average, over the next five years. The Treasury forecasts OBEGAL to be in a small deficit initially of 0.3 per cent of GDP in 2019/20, rising to a surplus of 1.5 per cent in 2023/24.

The Government will maintain net debt within a range between 15 and 25 per cent of GDP.

Maintaining Government debt within a prudent range provides the flexibility for fiscal policy to support economic stability. The target range recognises that current and forecast debt levels are prudent and provides a degree of flexibility for the Government to use debt to progress high-value investments in New Zealand. It also encourages a longer-term perspective for fiscal policy by allowing the Government to look through short-term volatility in net debt.

We reached our net core Crown debt target of below 20 per cent of GDP within a year of taking office. In the fiscal year 2018/19 it reached 19.0 per cent. While the Treasury's forecasts suggest that net core Crown debt will increase as a share of GDP over the next three financial years, the benefits of increasing debt to fund investment in high-value initiatives outweigh the costs. Nevertheless, we remain committed to keeping debt at prudent levels. The Treasury forecasts net core Crown debt will fall to 19.6 per cent of GDP in 2023/24.

¹⁰ The 2018/19 financial results have been restated owing to changes in accounting policies, to be consistent with policies applied in the Treasury's fiscal forecasts. The results stated here therefore differ from those published in the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2019*.

Credit rating agencies view New Zealand's fiscal position as strong compared to similarly rated peers. Moody's most recent credit opinion report states: "the stable outlook is anchored by our expectation that, even in the face of shocks, New Zealand's credible institutions with highly effective policymaking and ample policy space will maintain economic and financial stability and credit metrics consistent with an Aaa rating". Investor demand for New Zealand Government debt has also remained robust.

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. The new capital investment will enable investment in infrastructure to support our growing population, develop our regions and reduce the long-term fiscal and economic risks of climate change. In addition, the Government restarted contributions to the New Zealand Superannuation Fund (NZS Fund) after seven years of no payments by the previous Government, and we are making investments through the Green Investment Fund and the New Zealand Venture Capital Fund.

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. The Treasury forecasts that core Crown expenditure will rise to 29.4 per cent of GDP in 2020/21 before falling back down to 28.1 per cent of GDP in 2023/24. These forecasts are well below the recent peak of spending of 34.1 per cent of GDP in 2011 and in line with the recent historical average of 30.3 per cent of GDP.

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 is committed to a progressive tax system that is sustainable, fair and efficient. It has refreshed its tax policy work programme, and is committed to a tax system with the fundamental principles of a broad base and low rates, while making improvements to maintain its integrity, fairness and neutrality.

Further details on the Government's specific short-term intentions and long-term objectives can be found in the Annex.

SUPERANNUATION STATEMENT AND VENTURE CAPITAL INVESTMENT

Contributions to the Super Fund will enhance the long-term wellbeing of New Zealanders

The Government is prioritising responsible investments that enhance the long-term wellbeing of New Zealanders.

Having restarted contributions to the NZS Fund, the Government is making regular contributions. These are projected to increase the size of the closing balance of the NZS Fund to \$71.4 billion by 2023/24 and will help protect the Government's ability to pay superannuation at age 65. Over the 2018/19 year the NZS Fund grew by \$3.3 billion to \$42.3 billion, a pre-tax return of seven per cent.

The Government is also supporting New Zealand's early-stage capital markets by investing in the Venture Capital Fund administered by the Guardians of New Zealand Superannuation. The Government's *Economic Plan* calls for deeper capital markets, and with the passing of the Venture Capital Fund Bill, the Government looks forward to the Venture Capital Fund making its first investments.

It is important that the Government supports New Zealand's high-growth firms as they bring numerous benefits for New Zealanders. These firms are also critical for facilitating the use of newer technologies, which are a key part of our *Economic Plan*. New technologies contribute to productivity improvements in agriculture, horticulture and aquaculture, while also bringing improvements to water quality and emissions reductions.

As Table 4 shows the Government will contribute \$11.5 billion to the NZS Fund in total over the next five years. Having restarted contributions in 2017/18, contributions will increase gradually to be in line with the contribution formula in 2022/23.¹¹ This contrasts with the previous Government's approach of not having made any payments in the years between 2011 and 2017, estimated by the NZS Fund¹² to have cost up to \$26.2 billion in lost contributions and investment returns.

11 More information about NZS Fund contributions and the contribution formula is available here: <https://treasury.govt.nz/publications/model/new-zealand-superannuation-fund-contribution-rate-model-2019>

12 Details from <https://www.nzsuperfund.co.nz/nz-super-fund-explained-purpose-and-mandate/contributions-suspension>

Table 4 – Contributions to the NZS Fund

Year ending 30 June \$ billion	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Estimated contributions – <i>prescribed by formula</i>	2.4	2.5	2.6	2.7	2.7
Forecast contributions – <i>Half Year Update 2019</i>	1.5	2.1	2.4	2.7	2.8

Source: The Treasury

Having NZS Fund contributions below the level prescribed by the contribution formula for the next three years will not change the Government's ability to make superannuation payments in the future.

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 2019* (FSR).

Table A1 – Long-term objectives

Budget Policy Statement 2020

Operating balance

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

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.

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.

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. Prudent levels of net core Crown debt are within a range of 15 to 25 per cent of GDP (subject to any significant shocks to the economy).

Net worth

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

The Government's debt short-term fiscal intention (in Table A2 below) has changed since the FSR to incorporate our commitment to maintain net debt within a prudent range of 15 to 25 per cent of GDP. The operating balance short-term intention has been updated to reflect this. Maintaining debt within a range provides flexibility for fiscal policy to support economic stability and encourages a longer-term perspective for fiscal policy by allowing the Government to look through short-term volatility in net debt.

In addition, the forecast values (in Table A2 below) have been updated since the FSR to reflect the impact of changes in the *Half Year Update* forecasts. The updates to the forecast values reflect changes to the economic forecasts and the impact of policy changes, such as the new capital investment. The Treasury's latest forecasts show that Budget 2020 will be consistent with the Government's short-term fiscal intentions.

Both the short-term intentions and long-term objectives remain 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: <https://treasury.govt.nz/publications/introduction-new-zealands-fiscal-policy-framework.html>

Table A2 – Short-term intentions

Budget Policy Statement 2020

Debt

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 in the economy). We will continue to maintain debt at prudent levels (a range of 15-25 per cent of GDP).

Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 28.2 per cent of GDP in 2023/24.

Net core Crown debt (excluding NZS Fund and advances) is forecast to be 19.6 per cent of GDP in 2019/20, 21.5 per cent of GDP in 2021/22 and 19.6 per cent of GDP in 2023/24.

This assumes a new capital allocation of \$8.0 billion in the 2019/20 financial year and a multi-year capital allowance of \$8.4 billion for Budget 2020 and the next three Budgets.

Operating balance

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 and to maintain it at prudent levels thereafter (a range of 15-25 per cent of GDP).

The operating balance (before gains and losses) is forecast to be -0.3 per cent of GDP in 2019/20, increasing to 1.5 per cent of GDP in 2023/24. This is consistent with the long-term objective for the operating balance.

The operating balance is forecast to be 2.8 per cent of GDP in 2023/24.

Fiscal Strategy Report 2019

Debt

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).

Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 26.9 per cent of GDP in 2022/23.

Net core Crown debt (excluding NZS Fund and advances) is forecast to be 20.4 per cent of GDP in 2019/20, 20.7 per cent of GDP in 2020/21, 19.9 per cent of GDP in 2021/22 and 18.7 per cent of GDP in 2022/23.

This assumes a multi-year capital allowance of \$14.8 billion for Budget 2019 and the next three Budgets.

Operating balance

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.

The operating balance (before gains and losses) is forecast to be 1.2 per cent of GDP in 2018/19, rising to 1.3 per cent of GDP in 2021/22 and 1.7 per cent of GDP in 2022/23. This is consistent with the long-term objective for the operating balance.

The operating balance is forecast to be 3.0 per cent of GDP in 2022/23.

Budget Policy Statement 2020**Expenses**

Our intention is to ensure expenses are consistent with the operating balance objective.

Core Crown expenses are forecast to fall from 29.3 per cent of GDP in 2019/20 to 28.1 per cent of GDP in 2023/24.

Total Crown expenses are forecast to be 35.9 per cent of GDP in 2023/24.

This assumes new operating allowances of \$3.0 billion per year in Budget 2020, \$2.4 billion per year in Budget 2021, \$2.4 billion per year in Budget 2022 and \$2.6 billion per year in Budget 2023.

Revenue

Our intention is to ensure sufficient revenue to meet the operating balance objective.

Total Crown revenues are forecast to be 37.6 per cent of GDP in 2023/24.

Core Crown revenues are forecast to be 30.2 per cent of GDP in 2023/24.

Core Crown tax revenues are forecast to be 28.4 per cent of GDP in 2023/24.

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 43.5 per cent of GDP in 2023/24.

Total Crown net worth is forecast to be 44.9 per cent of GDP in 2023/24.

Fiscal Strategy Report 2019**Expenses**

Our intention is to ensure expenses are consistent with the operating balance objective.

Core Crown expenses are forecast to fall from 29.1 per cent of GDP in 2018/19 to 28.8 per cent of GDP in 2022/23.

Total Crown expenses are forecast to be 36.5 per cent of GDP in 2022/23.

This assumes new operating allowances of \$3.8 billion per year in Budget 2019, \$3.0 billion per year in Budget 2020 and \$2.4 billion per year in Budgets 2021 and 2022.

Revenues

Our intention is to ensure sufficient revenue to meet the operating balance objective.

Total Crown revenues are forecast to be 38.3 per cent of GDP in 2022/23.

Core Crown revenues are forecast to be 31.1 per cent of GDP in 2022/23.

Core Crown tax revenues are forecast to be 28.8 per cent of GDP in 2022/23.

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 43.9 per cent of GDP in 2022/23.

Total Crown net worth is forecast to be 45.4 per cent of GDP in 2022/23.

