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TE TAI ŌHANGA
THE TREASURY

Govt
Net worth

Budget Economic and Fiscal Update 2020

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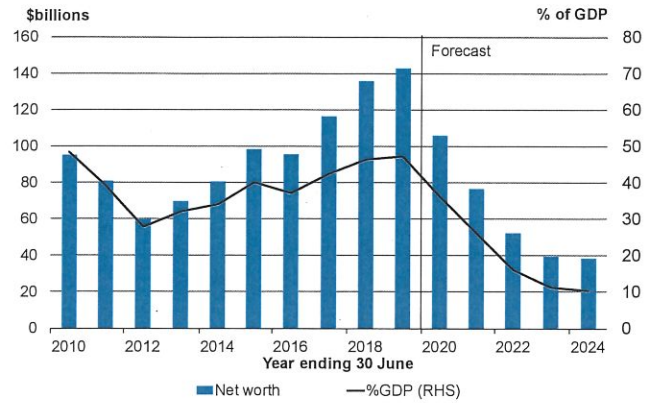


Total Crown Balance Sheet

Operating balance deficits drive the decline in the Crown’s net worth...

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

Figure 2.13 – Net worth



Source: The Treasury

In nominal terms, net worth declines by \$104.5 billion over the forecasts, a decrease of 73% from the net worth as at 2018/19. As a percentage of GDP, net worth decreases to be 10.3% in 2023/24. The impact of the operating balance deficit, which is largely owing to the COVID-19 economic impact and Government response to date, flows through to the Crown’s balance sheet. For a breakdown of net worth refer to Table 2.14.

This shows that taxpayers’ funds (which is primarily the accumulation of previous operating balance surpluses and deficits) is now forecast to be in a negative position across the forecast period; the last time this occurred was for the year ended 30 June 1999. A positive taxpayers’ funds provides a buffer against adverse events. These forecasts reflect the use of that buffer in response to COVID-19. Taxpayers’ funds will need to be rebuilt in the future to cope with future shocks.

Table 2.14 – Breakdown of net worth

Year ending 30 June	2019	2020	2021	2022	2023	2024
\$billions	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Taxpayers’ funds	36.4	(0.5)	(29.7)	(53.8)	(66.7)	(67.7)
Property, plant and equipment revaluation reserve	106.5	106.9	106.9	106.8	106.7	106.6
Other reserves	0.2	(0.4)	(0.7)	(0.6)	(0.6)	(0.4)
Total net worth	143.1	106.0	76.5	52.4	39.4	38.5
Net worth attributable to the Crown	136.7	100.1	71.0	47.0	34.2	33.4

Source: The Treasury

The forecasts show a relatively static Property, plant and equipment reserve. The impacts of the economic decline due to COVID-19 on assets valuations will not become clear until year end (30 June) valuations are completed for key non-financial assets (ie, land, buildings).

The Risks to the Fiscal Forecasts chapter includes a section on balance sheet risks and should be read in conjunction with the fiscal forecasts.

The balance sheet shrinks as liabilities increase faster than asset growth ...

While liabilities increase by \$217.9 billion, assets increase by only \$113.4 billion. Total Crown assets grow to reach \$478.0 billion in 2023/24. Total Crown liabilities increase to reach \$439.5 billion in 2023/24 largely owing to a significant increase in borrowing.

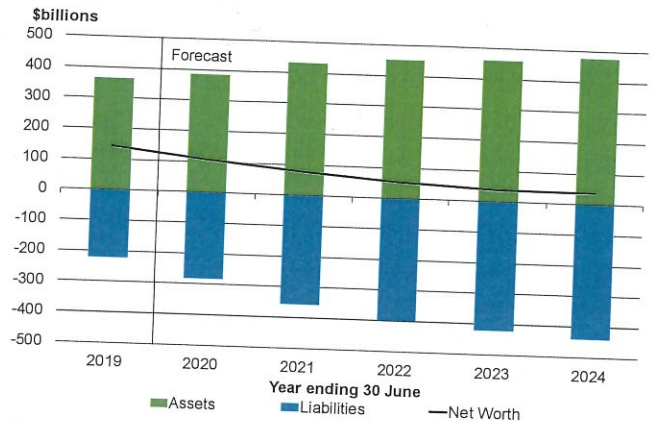
...with total borrowing expected to increase by \$207.0 billion or 188%

Total liabilities including provisions are forecast to increase by \$217.9 billion over the forecast period to \$439.5 billion in 2023/24. The increase in total liabilities is largely owing to borrowings increases of \$207.1 billion, 188% higher than the level at 2018/19.

The increase in borrowing is driven by two main factors:

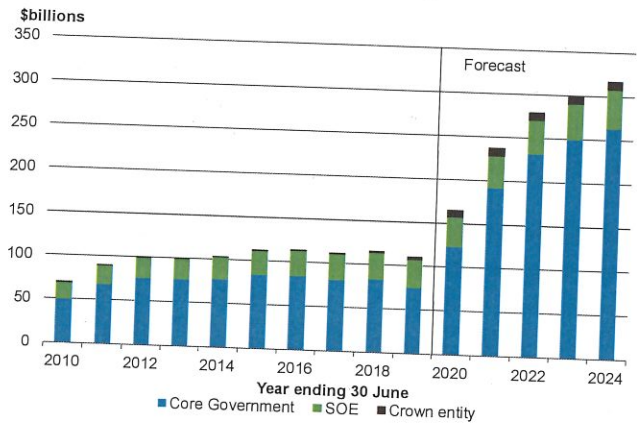
- Government bonds and short term borrowings have increased by \$132.5 billion.
- Kiwibank borrowing (eg, deposits held) increasing by \$10.8 billion to fund lending growth through growth in deposits from customers, as discussed on page 51.

Figure 2.14 – Total Crown net worth



Source: The Treasury

Figure 2.15 – Borrowings by segments



Source: The Treasury

weeks that are reflected in these forecasts. Crown financial institutions set long-term investment strategies based on underlying policy objectives. These strategies aim to look through short-term volatility and take exposures that would offset the impact of long-term social insurance or retirement liabilities.

- Liquidity risk: the Crown incurs liquidity risk with respect to its ability to raise cash to meet its obligations. Each agency manages its own specific liquidity risk while the Treasury manages the Crown's liquidity requirements. The LSAP programme instituted by the Reserve Bank provides additional assurance that this risk is managed in the current environment.

Sources of (Commercial) balance sheet risk to meet commercial objectives

- A number of commercial entities owned by the Crown have their financial performance and valuations impacted by the commercial environment in which they operate. These forecasts include support packages for Air New Zealand and Airways Corporation where COVID-19 has significantly impacted their commercial environment.

Managing risk into the future

The Crown's exposure to balance sheet risks is unavoidable if it is to pursue its objectives. The general approach that has been taken to identify, measure and treat these risks where practicable, to maintain debt at prudent levels and to hold a healthy level of net worth has enabled the Government to effectively absorb much of the shock of COVID-19.

The build-up and subsequent deployment of that fiscal resilience in response to COVID-19 has underscored the importance of the fiscal responsibility principles in the Public Finance Act 1989.

The forthcoming risk management challenge is to move from absorption to adaptation, as the Government moves from fighting the virus and cushioning the blow, toward kickstarting the economy, resetting the Crown's balance sheet objectives and rebuilding its capacity to absorb shocks in the future.

achieved.

Sources of (Social) balance sheet risk to public services

- Physical assets such as land, buildings, state highways and military equipment are susceptible to external natural hazards, and the quality of asset management in delivering services. The government generally relies on asset management, including built in redundancies (eg, in network capacities), and its ability to re-allocate or repurpose assets (eg, in responding to a crisis) rather than risk transfer instruments such as insurance in managing these risks.
- The replacement costs of physical assets are also susceptible to valuation movements through changes in property market conditions, changes in demand and changes in the costs of construction. Valuations are updated as part of the financial reporting cycle, rather than the budgeting cycle. These forecasts therefore do not reflect any impact from COVID-19 in physical asset valuations.
- Social insurance and retirement liabilities (eg, Accident Compensation, Veterans' Disability and the Government Superannuation Fund) are prone to volatility through their actuarial valuations, including changes to expectations of future interest rates and inflation rates. These forecasts reflect a significant crystallisation of this risk as a consequence of the recent reduction of interest rates to unprecedented low levels.
- The Crown faces contingent liabilities, for example, indemnities of activities in the public interest, environmental claims and legal proceedings. The government indemnities associated with the Business Finance Guarantee Scheme to support viable businesses represent a significant increase in balance sheet risk. Contingent liabilities are more fully discussed in pages 84 to 94 at the end of this chapter.

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2019 Actual ¹ \$m	2020 Previous Budget ¹ \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m	2023 Forecast \$m	2024 Forecast \$m
Operating Balance (including minority interest)	781	4,963	(37,153)	(29,250)	(23,786)	(12,571)	(574)
Other comprehensive revenue and expense							
Revaluation of physical assets	12,474	(22)	600	-	-	-	-
Revaluation of defined benefit retirement plan schemes	(2,615)	-	(257)	181	182	181	176
Net revaluations of veterans' disability entitlements	(995)	(995)	-	-	-	-	-
Transfers to/(from) reserves	(202)	30	332	45	25	(44)	56
(Gains)/losses transferred to the statement of financial performance	(3)	(4)	(33)	(6)	(2)	-	(1)
Foreign currency translation differences on foreign operations	(30)	-	(10)	24	-	-	-
Other movements	6	12	(20)	17	32	34	(1)
Total other comprehensive revenue and expense	8,635	(979)	612	261	237	171	230
Total comprehensive revenue and expense	9,416	3,984	(36,541)	(28,989)	(23,549)	(12,400)	(344)
Attributable to:							
- minority interest	943	359	43	85	444	427	476
- the Crown	8,473	3,625	(36,584)	(29,074)	(23,993)	(12,827)	(820)
Total comprehensive revenue and expense	9,416	3,984	(36,541)	(28,989)	(23,549)	(12,400)	(344)

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2019 Actual ¹ \$m	2020 Previous Budget ¹ \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m	2023 Forecast \$m	2024 Forecast \$m
Opening net worth	136,296	136,166	143,067	106,018	76,490	52,381	39,417
Impacts of adoption of NZ PBE IPSAS 35/ Inclusion of veterans' disability entitlements	(2,172)	(2,234)	-	-	-	-	-
Adjusted opening net worth	134,124	133,932	143,067	106,018	76,490	52,381	39,417
Operating balance (including minority interest)	781	4,963	(37,153)	(29,250)	(23,786)	(12,571)	(574)
Net revaluations of physical assets	12,474	(22)	600	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	(2,615)	-	(257)	181	182	181	176
Net revaluations of veterans' disability entitlements	(995)	(995)	-	-	-	-	-
Transfers to/(from) reserves	(202)	30	332	45	25	(44)	56
(Gains)/losses transferred to the Statement of Financial Performance	(3)	(4)	(33)	(6)	(2)	-	(1)
Foreign currency translation differences on foreign operations	(30)	-	(10)	24	-	-	-
Other movements	6	12	(20)	17	32	34	(1)
Comprehensive income	9,416	3,984	(36,541)	(28,989)	(23,549)	(12,400)	(344)
Transactions with minority interest	(473)	(508)	(508)	(539)	(560)	(564)	(557)
Closing net worth	143,067	137,408	106,018	76,490	52,381	39,417	38,516

1. The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows

for the years ending 30 June

	2019 Actual ¹ \$m	2020 Previous Budget ¹ \$m	2020 Forecast \$m	2021 Forecast \$m	2022 Forecast \$m	2023 Forecast \$m	2024 Forecast \$m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	83,017	87,567	80,903	76,576	86,951	94,058	100,381
Other sovereign receipts	5,187	4,827	5,380	5,288	6,210	6,465	6,663
Sales of goods and services	19,764	19,075	19,083	17,165	19,874	20,111	20,534
Interest receipts	2,528	2,444	2,162	2,190	2,438	2,623	2,825
Other operating receipts	4,563	4,450	5,252	5,101	5,136	5,199	5,294
Total cash provided from operations	115,059	118,363	112,780	106,320	120,609	128,456	135,697
Cash was disbursed to							
Transfer payments and subsidies	27,982	30,056	30,981	35,966	35,685	36,030	37,040
Personnel and operating payments	72,079	76,094	91,538	80,272	80,277	81,009	81,095
Interest payments	4,025	3,844	3,700	4,519	5,491	6,543	6,553
Forecast new operating spending	-	1,266	5,357	10,991	18,266	16,168	8,972
Top-down expense adjustment	-	(1,400)	(1,075)	(975)	(750)	(650)	(650)
Total cash disbursed to operations	104,086	109,860	130,501	130,773	138,969	139,100	133,010
Net cash flows from operations	10,973	8,503	(17,721)	(24,453)	(18,360)	(10,644)	2,687
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(8,464)	(10,034)	(11,211)	(10,929)	(9,945)	(9,021)	(8,663)
Net (purchase)/sale of shares and other securities	3,804	(1,757)	(17,314)	(52,664)	(10,295)	8,688	(5,982)
Net (purchase)/sale of intangible assets	(791)	(951)	(924)	(912)	(677)	(645)	(611)
Net (issue)/repayment of advances	(1,902)	(1,995)	(3,850)	(6,383)	(2,291)	(2,728)	(2,871)
Net acquisition of investments in associates	136	(502)	(551)	(622)	(821)	(572)	(227)
Forecast new capital spending	-	(466)	(212)	(1,990)	(2,145)	(2,654)	(3,288)
Top-down capital adjustment	-	950	1,050	650	350	250	250
Net cash flows from investing activities	(7,217)	(14,755)	(33,012)	(72,850)	(25,824)	(6,682)	(21,392)
Net cash flows from operating and investing activities	3,756	(6,252)	(50,733)	(97,303)	(44,184)	(17,326)	(18,705)
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	437	198	339	215	221	228	234
Net issue/(repayment) of government bonds ²	(3,536)	3,760	34,366	54,546	42,278	21,003	16,457
Net issue/(repayment) of foreign-currency borrowings	1,487	24	(3,025)	(106)	1	-	-
Net issue/(repayment) of other New Zealand dollar borrowings	(530)	1,814	29,884	43,354	854	(4,132)	2,391
Dividends paid to minority interests ³	(504)	(524)	(550)	(549)	(570)	(573)	(573)
Net cash flows from financing activities	(2,646)	5,272	61,014	97,460	42,784	16,526	18,509
Net movement in cash	1,110	(980)	10,281	157	(1,400)	(800)	(196)
Opening cash balance	18,894	21,768	20,248	31,496	31,651	30,249	29,448
Foreign-exchange gains/(losses) on opening cash	244	5	967	(2)	(2)	(1)	(2)
Closing cash balance	20,248	20,793	31,496	31,651	30,249	29,448	29,250

- The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
- Further information on the proceeds and repayments of government bonds is available in note 16.
- Excludes transactions with ACC and NZS Fund.

The accompanying notes and accounting policies are an integral part of these Statements.