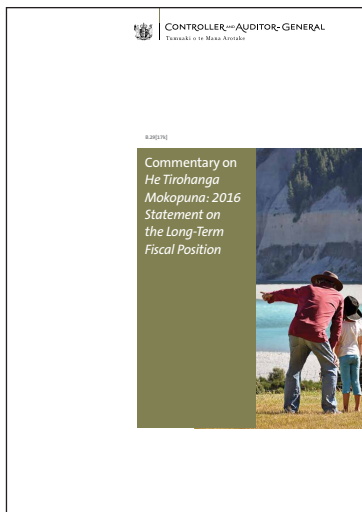




Summary of our report

Commentary on *He Tirohanga Mokopuna: 2016 Statement on the Long-Term Fiscal Position*



A regular and wide-ranging assessment of the factors that could affect the Government's long-term financial position can help clarify what is important for the future of New Zealanders. It also provides current and future governments with the information they need for long-term financial management and decision-making.

Long-term financial management and stewardship requires an outlook that considers future uncertainties and plausible scenarios. It is about good planning, not perfect prediction.

In this report we look at the Treasury's latest long-term fiscal statement, *He Tirohanga Mokopuna: 2016 Statement on the Long-Term Fiscal Position* (the 2016 Statement).

We review the 2016 Statement's financial projections, how they compare with previous statements, and what they tell us about the financial challenges and opportunities that governments might face in the future. We also consider the 2016 Statement's projection model, how it has changed since 2013, and review the reasonableness and robustness of the assumptions that are used.

The 2016 Statement describes many of the future challenges and opportunities that could affect New Zealand's well-being in detail. These challenges and opportunities include:

- immigration;
- education, skills, and employment;
- housing;
- natural resource risks, including climate change, water quality, and natural disasters; and
- social inclusion and inequality.

However, despite including a wider discussion about future challenges and opportunities, the 2016 Statement's financial projections focus primarily on demographic change and the consequences for future superannuation and healthcare spending. Although these are important matters, New Zealand and the Government are facing a more uncertain future and a broader set of challenges than just a changing demographic.

Vital statistics:

- 48 pages
- Presented to Parliament on 25 June 2017
- Download from www.oag.govt.nz
- Contact: reports@oag.govt.nz

As a result, the financial projections can be too easily dismissed by current and future decision-makers, reducing the value of the 2016 Statement. More projections would have allowed useful analysis and insights for planning and managing the uncertainties that surround the Government's long-term financial position. Further work is needed to prepare long-term financial projections based on a set of plausible scenarios of different futures for New Zealand, the public sector, and the Government.

In preparing future long-term fiscal statements, the Treasury should:

- prepare a set of plausible scenarios in support of its financial projections;
- establish a clear rationale and uniform approach to projecting these scenarios;
- reassess the consistency and reasonableness of the key projection assumptions;
- reconsider the rationale for excluding New Zealand Superannuation Fund assets from the primary financial sustainability indicator of net debt;
- explore different approaches to measuring financial sustainability; and
- obtain expert financial modelling advice.

These improvements should better align the financial projections with the positive work the Treasury has done with the wider narrative of the 2016 Statement. It would also help people to better understand the dynamic relationship between the well-being of New Zealand and the financial sustainability of the Government.