Budget Speech

Mr Speaker

I move that the Appropriation (2017/18 Estimates) Bill be now read a second time.

It is an honour and a privilege to present my first budget to the public of New Zealand – the ninth of this National-led Government.

In doing so I acknowledge my predecessor and our new Prime Minister Bill English for his hard work and leadership in facing down the decade of deficits, bringing New Zealand successfully through the Global Financial Crisis, and responding to the impacts of the Canterbury earthquakes.

Bill English is widely seen internationally as one of the world's best Finance Ministers of the last decade.

Mr Speaker, the 2017 Budget is about "Delivering for New Zealanders".

It is New Zealanders who have worked hard over the last eight years, who have made sacrifices, and who have turned this country around in the most trying of circumstances.

It is New Zealanders who are striving to build a more confident, more robust country.

This budget is about delivering more of the public services, the infrastructure, the resilience, and the incomes that New Zealanders need to get ahead and to provide for their families.

This budget is about the opportunity we have to build on the platform we have all created and deliver greater prosperity for New Zealanders.

Budget 2017 is possible because of the constructive working relationships the National Party has with United Future, the Māori Party and ACT. I want to acknowledge their continuing support and contribution to strong and stable government.

Economic Outlook

Mr Speaker, the New Zealand economy is performing well.

We have experienced positive growth in all but one quarter of the last six years. We are at the moment growing faster than the United States, the UK, Australia, the EU, Japan and Canada.

Our economy is 14 per cent larger than it was just five years ago.

This growth is being achieved by Kiwi entrepreneurs, Kiwi businesses, and Kiwi workers, all taking on the world and succeeding.

Under the Government's strong economic leadership, New Zealand is shaping globalisation to its advantage. We've embraced increased trade, new technologies, innovation, and investment.

We are becoming more confident both overseas and here at home.

When we hit tough times in dairy – our biggest export industry – we got on and diversified.

We've grown our tourism industry, education and business services.

We're selling more apples, wine, kiwifruit and other high-value foods.

And we're growing an increasingly impressive tech sector, with hundreds and hundreds of competitive Kiwi companies selling their amazing technologies all over the globe.

This is our future Mr Speaker. An innovative outward facing hi-tech country selling high value products and services to the world.

A strong and growing economy is important because of the job opportunities it provides for New Zealanders.

Well over 200,000 more jobs have been created over the last three years.

Our adult employment rate is now its highest ever with 67.1 per cent of everyone over the age of 15 employed. That's the third highest rate in the OECD.

The strength of our economy in recent years has started correcting some of the imbalances that have worried us for a very long time, notably our external accounts.

We have an unusually low Balance of Payments deficit for this stage of our economic cycle, and the amount we as a country owe the world has dropped from 82 per cent of GDP in 2008 to 60 per cent today. That's good progress.

We have, however, much more to do. We need to maintain and extend this growth if we are to decisively deal with the long-term imbalances of the past and provide the sustained prosperity that New Zealanders deserve.

The medium-term economic outlook is positive, led by rising export values, high levels of house building and commercial construction, and low interest rates.

Treasury forecasts annual economic growth to average over 3 per cent for the next five years, peaking at around 3.8 per cent in 2019.

The outlook is driven by the Government's strong economic plan, and confident New Zealand companies who are investing, innovating, exporting, and creating skilled jobs.

Employment is forecast to keep growing strongly and unemployment is expected to steadily decline.

Nominal GDP is now forecast to be a cumulative $23.9 billion higher over the next five years than was expected at the *Half Year Update*.

Fiscal Outlook

Treasury's economic projections flow through to increased tax revenues. These are expected to grow slightly more than forecast in last year's budget, even after the changes I am announcing today.

Included in the tax forecast is $250 million over the forecast period in additional revenue from the Government's work to halt multi-national tax avoidance.

The Government has taken the decision to increase the operating allowance in this budget to $1.8 billion a year, $300 million more than was previously allocated. This will allow us to invest more in the public services necessary for a growing country. As previously signalled the pay equity settlement for care and support workers is being treated as separate to the allowances.

We have also increased future operating allowances. Next year's allowance will be $1.7 billion and subsequent years will be adjusted upwards by 2 per cent each year.

The OBEGAL surplus for the 2017/18 year is predicted to be $2.9 billion, rising to $7.2 billion by 2020/21.

These surpluses are significant, but they will be needed to meet the cost of the very large new capital investment the Government has committed to over the next four Budgets.

The Government's capital spend over the next four years uses virtually all the cash generated from the operating surpluses. When added together, core Crown residual cash over the forecast period is almost exactly nil.

As a result of our responsible fiscal management, net debt peaked at 25.5 per cent of GDP and is projected to fall to 19.3 per cent of GDP by 2020/21.

New Zealand Superannuation Fund contributions are expected to resume as scheduled in that year.

Keeping the Economy Growing

Mr Speaker, the first priority in any budget must be to take the right steps to keep the economy growing.

To improve public services, invest in infrastructure, or boost family incomes, we must continue to have a strong successful economy.

A strong economy can never be taken for granted. It must be nurtured and worked on, or it will quickly go backwards.

While the world economy is growing, there are plenty of risks and plenty of political uncertainties that could affect us.

One of the biggest current risks is the more inward-looking isolationist economic policies being pushed in some parts of the world, and by some politicians here at home.

These people want to be more protectionist on trade, slash immigration, reduce foreign investment, centralise wage bargaining, and increase taxes.

All of these things would slow our industries down, reduce competitiveness and cost jobs.

That's the opposite of a recipe for growth – that's a recipe for stalling growth.

The Government's plan for growth is sensible conservative fiscal policy, strong orthodox monetary policy, and an ongoing programme of microeconomic reform that enhances the competitiveness and confidence of Kiwi businesses.

It is crucial that we pull on all three of these levers.

Our programme of microeconomic reform is called the Business Growth Agenda. It includes measures to boost New Zealand's trade, lift the skills of our workforce, recruit skilled migrants our companies need to grow, boost innovation, attract new investment especially in regional New Zealand, and build the infrastructure that a growing economy needs.

Budget 2017 invests $1 billion over four years in sustaining the strong economic plan that is getting New Zealand to grow.

First, the Government is allocating $373 million in the second round of our Innovative New Zealand programme.

Innovative New Zealand is a series of science, R&D and skills initiatives that are working together to lift the innovation activity of New Zealand companies.

The funding includes $82 million for the Government's pre-eminent applied science fund – the Endeavour fund; $132 million for Tertiary Education to ensure young New Zealanders obtain the skills we need; and $75 million for Callaghan Innovation's R&D grants to help our tech companies succeed.

It's all about adding more value to our export volumes. Investment in innovation is hugely important for lifting our productivity and providing for our future prosperity.

Budget 2017 allocates $134 million over four years to advance New Zealand's Trade Agenda 2030, including opening new embassies in Dublin and Colombo, as we work towards our ambitious target of having 90 per cent of goods exports covered by trade agreements.

There is $304 million towards the ongoing development of our screen sector, and $146 million in new funding to grow our tourism infrastructure around the country so every region can benefit from the growth in our tourism industry.

We can't talk about lifting economic growth in New Zealand without talking about the increasingly important Māori economy which is crucial for lifting not just the economic and social fortunes of Māori, but of all New Zealanders.

The Government's comprehensive programme for Māori Economic Development is called He Kai Kei Aku Ringa and it is led by Māori Development Minister Te Ururoa Flavell. Budget 2017 contains $93 million in new Māori Development initiatives, including $10 million to support the development of Māori tourism, and $17 million for Māori housing initiatives.

The funding will also allow for an extra 2,500 families to access Whānau Ora, and additional support for the continued revitalisation of te reo and Māori culture.

Better Public Services

Mr Speaker, the Government's biggest single fiscal priority in Budget 2017 is to invest in the public services necessary for a growing country.

We are therefore allocating $7 billion over four years to sustain and expand public services in health, education, law and order and social development.

This investment reflects our commitment to meet the requirements of a growing population while investing prudently in the core services Kiwis rely on.

The new funding in Budget 2017 includes $3.9 billion over four years for New Zealand's Health Sector – taking health investment to a record $16.7 billion next year.

DHBs will benefit most, with an extra $1.76 billion added over four years to invest in services, improve access, and help meet cost pressures and population growth. Over $200 million will be invested in Disability Support Services, and $38 million more in primary care.

$59 million will be invested in our ambulance services, across health and ACC, so that all emergency road ambulance call outs are double crewed by 2021.

$60 million more will be provided to Pharmac for access to new medicines for Kiwis that need them.

The Health budget includes $1.54 billion for the pay equity settlement of 55,000 care and support workers. From 1 July this dedicated and predominantly female workforce will receive a significant pay increase. For the 20,000 workers currently on the minimum wage, this increase will be at least 21 per cent which means full-time workers will be taking home at least an extra $100 a week.

Mr Speaker, we are committing $1.1 billion over four years in additional operating expenditure for schools and early childhood centres, including $767 million for roll growth, a $61 million increase in operational grant funding for schools, and $35 million in targeted additional funding for early childhood centres.

$63 million will be provided to support students with additional learning needs including more teacher aide hours and a new programme for parents and teachers of young children with autism.

We are also investing significantly in school infrastructure and I want to come back to this later because infrastructure is a major focus of Budget 2017.

We are investing $1.2 billion in new operating expenditure over four years for law and order.

This includes funding 10 per cent more police staff to reduce crime and reoffending and ensure 95 per cent of the population will live within 25 kilometres of a 24/7 police presence.

We're also upping our investment in justice, courts and corrections services, and introducing new initiatives in burglary prevention, reducing youth reoffending, and supporting at-risk prisoners.

Social Investment

This Government is focused on helping our most vulnerable people lead more successful lives.

Budget 2017 includes $64 million to help people move off benefits and into work by tailoring interventions to individuals' needs.

$37 million will be provided to help improve the safety of family violence victims and stop family violence escalating.

We will be providing $185 million to further expand social housing services.

And we are making a $424 million investment in the new Ministry for Vulnerable Children, Oranga Tamariki, including funding for caregiver support, Children's Teams, Family Start and Youth Justice.

Budget 2017 includes $321 million for fourteen cross-agency social investment initiatives that are designed to tackle long-term issues for vulnerable New Zealanders.

These cover areas like helping kids get a better start in life; addressing barriers to employment and independence; and reducing criminal reoffending.

A big focus in our social investment programme is mental health, so we've ring-fenced $100 million in a special social investment fund to support innovative solutions to address mental health issues.

Overall the Government has budgeted an additional $224 million over four years for mental health services.

Social investment is about tackling our most challenging social issues. The combination of these new initiatives and the Government's decisions about family incomes will allow us to make serious headway with some of the longer-term challenges faced by the most vulnerable New Zealanders.

Mr Speaker, it is crucially important that those delivering core public services maintain a constant focus on lifting the productivity of their sectors.

These are big funding increases, which reflect the needs of a growing country. However it is my expectation that we also achieve a greater return for each additional dollar of taxpayers' money.

As well as placing a number of requirements on results for the increased expenditure, I am today announcing that the Government is asking the Productivity Commission to conduct an investigation into measuring and improving the productivity of core public services – to ensure all New Zealanders see better results from the investment of their tax monies in these services.

Infrastructure

The Government's second fiscal priority in this budget is investing in the infrastructure for a growing economy.

This Government has a strong track record as New Zealand's infrastructure government. Over the last several years we have grown infrastructure spending considerably and commenced some major transformative investments in New Zealand's public infrastructure on behalf of taxpayers.

We are completely modernising our telecommunications system with the ultrafast broadband and rural broadband programmes. We have embarked upon the most ambitious development of new motorways and expressways seen in several decades, and invested more than $4 billion in our railway system including funding new commuter rail fleets in both Auckland and Wellington. And we are in the process of building more new hospitals and schools than New Zealand has seen in generations.

However Budget 2017 takes New Zealand infrastructure investment to another level.

For the first time, the Government is allocating $4 billion in new capital funding in one budget across the Education, Health, Defence, Justice, Housing, Primary Sector and Transport portfolios.

The new investment includes a further $392 million for more new schools and classrooms around New Zealand – taking our total investment to $1.4 billion over the last four budgets.

The new money will provide for six new schools, two major school expansions, the relocation of two special education schools, 11 new special education satellite units and around 305 new classrooms nationwide.

Budget 2017 includes $150 million in additional capital for the Health Sector, $576 million for Defence Force upgrades, $763 million for new prison capacity, $63 million for Crown Irrigation to invest in new water storage and $100 million for the Crown Land Programme, which frees up more Government land for housing.

$1.8 billion of the new budget spend is in the Transport portfolio. This includes $450 million for KiwiRail for the rail network around New Zealand, $436 million for the first stage in Auckland's City Rail Link, $812 million for the reinstatement of State Highway 1 north and south of Kaikōura, and $98 million for upgrades to Wellington's metro rail network.

I am also confirming today the Government's intention to allocate a further $7 billion in new capital spend in the next three budgets, taking our total additional capital spend to $11 billion.

Through this new capital spend and existing commitments the Government and its key infrastructure agencies will invest a total of $32.5 billion over the next four years in new infrastructure.

That's a 40 per cent increase on the last four years.

The New Zealand Transport Agency alone will invest $9.17 billion in new State Highways over the four years, and will open over 540 lane kilometres of new highways.

And Housing New Zealand will invest $2.2 billion in the Auckland Housing Programme as announced by Minister Adams last week, which will contribute to the 34,000 new houses that we will build in Auckland over the next 10 years alongside the huge growth in private sector housing construction which is underway.

This is an unprecedented level of infrastructure investment for any New Zealand government, even including the period of funding the Christchurch rebuild.

We intend to extend that investment further with a greater use of partnerships between central and local government, and between government and the private sector. I will have more to say on that subject in the coming weeks.

Resilience

Mr Speaker, one of the most important duties of government is to be able to stand behind vulnerable communities and vulnerable people when the chips are down.

People generally prefer to look after themselves, and for the most part they can.

But when disaster strikes, or a big economic shock happens, families and communities need their government to be ready to help them through.

This government's definition of 'resilience' is the ability to provide that support.

Through the Global Financial Crisis we stood behind New Zealanders. And following the Canterbury and now the Kaikōura earthquakes, we have pledged to rebuild shattered communities.

It is that experience that has taught us the importance of having the financial capacity to respond.

The GFC and the Canterbury earthquakes involved the Government running up debts amounting to around 20 per cent of GDP. It was the right thing to do, and the right thing to do now is to run a strong economy and reduce that debt so we have the room to do the same again, if and when we need to.

That is why I announced a new medium term target of reducing net debt to between 10 and 15 per cent of GDP by 2025, following on from the current target of around 20 per cent of GDP by 2020.

We owe it to our future to take that decision.

Once we reach that target, the intention is to stabilise debt at that level, and use any extra fiscal room for further investment in public services and infrastructure, or further tax changes.

Another important part of the New Zealand resilience story is the role of the Earthquake Commission and the National Disaster Fund.

With the help of international re-insurance, the Fund has so far paid out over $9.5 billion in claims to those affected by the Canterbury earthquakes. It is currently expected to pay out another $550 million in claims for the Kaikōura earthquakes.

Those claims will completely exhaust the National Disaster Fund. We need to re-start the process of replenishing it.

I am therefore announcing that from 1 November this year the EQC premium rate will increase from 15 cents per $100 in cover to 20 cents per $100 in cover.

This will have the effect of increasing home owners' annual EQC premiums by up to $69 per year.

The change will mean that we are well on the road to restoring the National Disaster Fund to around $1.75 billion within 10 years.

Family Incomes Package

Mr Speaker, it is important that New Zealand families directly share the benefits of strong economic growth. This is the whole point of having a strong, growing economy and a healthy set of Government accounts.

The first and most enduring way we can do that is to ensure that there are job opportunities for all those who want to work.

That is now increasingly the case.

There are more than two and a half million people employed in this country for the first time, and indexes of job vacancies are at near record highs.

Fewer people are reliant on the benefit system. The percentage of people whose income is received through a main benefit has dropped to just 9.6 per cent of the working age population – the lowest level it's been in the March quarter since 1997.

The number of children growing up in a benefit dependent family has dropped by more than 50,000 over the last five years.

However it is also important to ensure that the income tax system works well for New Zealanders and keeps pace with rising incomes.

It is now seven years since we last altered the income tax system. Over that time the average wage has risen from $49,500 to $58,900.

That's good news. But because of that change many more middle income earners are faced with a marginal tax rate of 30 per cent cutting in at just $48,000.

We also have a number of lower income people with young families that are struggling to get ahead.

And we have a system that is becoming too complex. As a result of Working for Families and other changes, it can be very hard for people to work out what they are entitled to, and how the work they do is linked to the income they receive.

If the level of complexity is indicated by the number of businesses advertising to do people's tax returns, then confusion is at near record highs.

Today I am announcing a $2 billion a year Family Incomes Package commencing 1 April next year that will start addressing some of these issues.

The Package will make changes to tax thresholds, Working for Families and the Accommodation Supplement to help Kiwi families get ahead.

It is a first step towards simplifying the income tax system.

The Family Incomes Package is carefully designed to assist low and middle income earners with young families and higher housing costs.

It will benefit 1.3 million working-age families in New Zealand by, on average, $26 per week.

The Package is in four parts.

First, it increases the $14,000 income tax threshold to $22,000, and the $48,000 tax threshold to $52,000.

This change provides a tax reduction of $11 a week to anyone earning more than $22,000 per year, increasing to $20 a week for anyone earning more than $52,000 per year.

A couple with both partners earning the average wage will be $41 a week better off from these threshold changes.

Second, it removes the Independent Earner Tax Credit of up to $10 a week.

The Independent Earner Tax Credit was introduced to provide a tax reduction to lower income people without families. It is only claimed by about one third of eligible recipients during the tax year.

People who lose this Credit will be compensated in full by the lifting of the lowest income tax threshold from $14,000 to $22,000.

The third change is to Family Tax Credits.

Working for Families currently varies the amount each family receives according to the age of their children, with families with children aged 16 to 18 years old receiving a higher rate than those with children aged under 16.

And yet as many parents will tell you, bringing up younger children can be just as expensive as bringing up older children.

I am therefore announcing today that the Government will lift Family Tax Credit rates for young children to those of children aged 16 to 18, also from 1 April next year.

This is a significant change.

The Family Tax Credit rates for the first child aged under 16 will increase by $9 a week, while the rates for each subsequent child increase by either $18 or $27 per week, depending on the age of the child.

At the same time the Government will complete its planned adjustment to Working for Families abatements, with the Family Tax Credit set to abate at 25c in the dollar above an income of $35,000. This will ensure that the Government's extra assistance is targeted at lower income families.

Approximately 310,000 families will benefit from these increases to the Family Tax Credit.

A couple with two children under 13, and one partner working earning $55,000 a year, will gain $41 per week – $20 from the income tax change and $21 from the Working for Families change.

The final part of the Family Incomes Package relates to the Accommodation Supplement, which assists New Zealanders with high housing costs.

The Accommodation Supplement has not been updated since 2005, and is based on 2003 rents.

Today I am announcing that from 1 April next year the maximum Accommodation Supplement rates for a two person household will increase between $25 and $75 a week, while the maximum rates for larger households will increase between $40 and $80 a week.

In addition, changes to the Accommodation Supplement areas will provide further gains for some families.

These are in addition to the tax and Working for Families changes already announced in the Package.

This increase in the Accommodation Supplement is expected to directly benefit around 136,000 low income households around New Zealand. It will also reduce the reliance on Temporary Additional Support that some families currently receive to top up their Accommodation Supplement.

I am also announcing that the Accommodation Benefit, which is paid to eligible Student Allowance recipients who experience housing stress, will also increase by up to $20 per week.

The Family Incomes Package is a coordinated set of measures to lift family incomes and improve the rewards for hard work.

Each element works together.

While lower income families receive a smaller amount from the tax component, they receive relatively more from the Accommodation Supplement and the Family Tax Credit changes. The reverse is true for higher income families.

The Package particularly focuses on assisting low income families with young children and those experiencing high housing costs.

154,000 families in the lowest quintile will benefit by an average of more than $35 a week, or $1,840 per year.

It is expected to lift 20,000 households above the threshold of severe housing stress, and reduce the number of children living in families receiving less than half of the median wage by around 50,000.

There will also be flow-on effects of this package. Around three quarters of a million superannuitants will benefit because of the link between New Zealand Superannuation and after-tax wages. The couple rate for superannuitants will increase by $13 a week on 1 April next year in addition to the normal adjustments because of wage indexation.

A small number of families may face losses from this package because of the complex interactions of our tax and transfer system. The Government has established a transitional fund of $2 million over the next four years for anyone significantly impacted by the changes.

The total cost of this package is $6.5 billion over four years, rising from $604 million in the 2017/18 financial year through to $2 billion in out years.

Mr Speaker, it is always important for politicians to remember that the money they spend each year comes directly from the pockets of hard-working Kiwis.

We spend a lot of time thinking about how we can spend that money. The Families Incomes Package is the first step in allowing Kiwi families to spend more of their own money, to make the decisions that are best for them.

Conclusion

Mr Speaker

This budget is all about “Delivering for New Zealanders”.

It takes four significant steps to bring the benefits of a stronger economy to all New Zealanders. It makes a big investment in public services, it makes a record investment in new infrastructure, it improves the resilience of our country to future shocks, and it strengthens families by lifting their incomes.

It’s important that we remember that the only reason we get to have this conversation is because we have a strong and growing economy built on a strong economic plan.

We must maintain our focus on growing the economy and sticking to the plan.

It is only by doing that, that we can provide for the prosperity of all New Zealanders.