The Treasury

Budget 2015 Information Release

Release Document July 2015

www.treasury.govt.nz/publications/informationreleases/budget/2015

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[3] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.

[4] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[5] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[6] 9(2)(ba)(i) - to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.

[6a] 9(2)(ba)(ii) - to protect information, where the making available of the information would be likely otherwise to damage the public interest

[7] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[8] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[8a] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting the collective and individual ministerial responsibility

[9] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[10] 9(2)(h) - to maintain legal professional privilege

[11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[12] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[13] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[14] Not in scope

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [4] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Office of the Minister of Finance

16 April 2015

Chair
Cabinet

BUDGET 2015

Proposal

1. This paper seeks approval of the Budget 2015 package.

Executive Summary

2. The Budget has been prepared with the economy growing steadily, flowing through to higher employment, falling unemployment and solid gains in real wages. The Government's focus has been to support sustainable growth in the economy to provide opportunities for Kiwi families and businesses to get ahead. Led by the private sector, economic growth of between 2 and 4 per cent is forecast over the next four years.

3. Sound fiscal policy is essential for sustaining economic growth over the medium term. It is also essential for New Zealand's long-term fiscal sustainability. The Government is on track to meet its key fiscal objective of reducing net core Crown debt to 20 per cent of GDP by 2020. It will do so by improving the total Crown operating balance before gains and losses (OBEGAL) from a deficit of $18.4 billion in 2010/11 to broad fiscal balance in 2014/15 and 2015/16 and solid surpluses thereafter.

4. Previously, the Government had aimed to return to surplus in 2014/15, but this was always subject to economic conditions. While the final result will not be known until October, we expect Budget forecasts for OBEGAL to be a small deficit in 2014/15 and move into a small surplus in 2015/16. In the face of the shock to dairy markets and ongoing low inflation, the Government believes it better to maintain its fiscal plans for spending restraint while making continued progress towards our net debt target, rather than cutting spending for priority areas such as health and education.

5. An operating allowance of $1.0 billion for Budgets 2015 and Budget 2016, the same as in Budget 2014, has put us on track to reduce core Crown expenses below 30% of GDP for the first time since 2005/06. They also keep us on track to meet our objectives of prudent net debt and taking pressure off interest rates, as well as allowing for modest tax reductions from 2017, subject to conditions at the time.

6. Budget Ministers propose a package of initiatives for Budget 2015 within a $1.0 billion a year fiscal envelope available to us that helps deliver on our four priorities:

    a. responsibly managing the government's finances: delivering a surplus and reducing net debt to 20% of GDP by 2020, while taking pressure off interest rates and the exchange rate, as well as continuing to fund new capital spending through the Future Investment Fund;

    b. building a more productive and competitive economy: progressing initiatives that link strongly with the Business Growth Agenda, such as: investment in tertiary education and natural resources, increasing R&D growth grants, and funding regional research institutes;

    c. better public services: Budget 2015 continues to invest in public services and focuses on improving public sector results, with health and education remaining the priority for new spending and a system package supporting Results 9 and 10; and

    d. rebuilding Christchurch: additional funding to maintain momentum in the recovery from the Canterbury earthquakes.

7. The Budget also provides for a package of initiatives that build on the Government's programme to break the cycle of material hardship among low-income families with children. It includes putting extra work obligations on beneficiary parents; providing extra Childcare Assistance for low-income families so parents can work or enter education and training; and providing extra financial support for beneficiary families and low-income working families with children.

Figure 1: New operating spending, savings and revenue in Budget 2015

	$ million increase / (decrease)					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total**
New spending	106	[12]				
Savings / revenue	(17)	(261)	(337)	(462)	[8]	
Net spending	**89**	[12]				

8. As we have done over the past six years, Budget 2015 includes a significant amount of reprioritisation of existing spending and savings to fund new spending in higher-priority areas. We will continue to focus on driving the best value from existing spending as we move towards a social investment approach, which will incorporate better customer focus, measurement, evaluation and feedback into the Budget process. The Government will invest for measurably better long-term results for individuals and families, as well as better results for the Government's books.

9. Budget 2015 is a further step for the social investment approach. We have applied more sophisticated versions of tools such as cost-benefit analysis and return on investment to Budget initiatives based on a better understanding of people and outcome. Work is underway to embed the social investment approach for Budgets 2016 and beyond. This will provide better information on

returns on investment, to support Ministers in making spending choices and apply these tools to baseline spending.

10. Budget 2015 confirms the fourth tranche of capital spending from the Future Investment Fund (FIF) of $939 million. This includes pre-commitments for regional highways and urban cycleways, an extension of Ultrafast Broadband, significant investments in education, and ongoing support for KiwiRail. This leaves $726 million in the FIF for Budget 2016, ensuring we meet our commitment to fund new capital spending from the balance sheet over the five Budgets from 2012 to 2016.

11. We will continue to use the balance sheet more efficiently to reduce our future borrowing requirements. Recent changes to the Investment Management and Asset Performance in the State Services Cabinet Circular should help provide the right incentives on agencies necessary to drive efficient use of Crown capital. To further support this, we will signal in this year's Fiscal Strategy Report that the Government intends to review capital spending allowances post the FIF to help support further capital savings.

Summary of new spending

Figure 2: Operating spending in Budget 2015

$ million	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total**
Health	-	372	401	384	371	1,528
Education	-	[12]				
Social Development	2	46	11	13	14	85
Justice and Police	-	[12]				
Social Housing	5	20	15	12	17	70
Total Social sector, including other	*7*	*661*	*731*	*747*	*780*	*2926*
Children in Material Hardship	-	71	245	238	237	790
Defence	3	19	72	92	92	278
Business Growth Agenda	-	103	63	73	76	315
Canterbury Earthquake Recovery	89	143	41	35	32	340
Other	7	46	66	110	117	345
[8]						
Pre-commitments	-	63	51	57	60	231
Total spending	**106**	[12]				

Figure 3: Savings and Revenue in Budget 2015

	$ million increase / (decrease)					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total**
Return on IRD Revenue Investments	-	(60)	(133)	(252)	(252)	(697)
Removal of KiwiSaver kick-start payment	(17)	(175)	(126)	(106)	(107)	(531)
Cost recovery for passenger clearance at the border - MPI and Customs	-	(26)	(78)	(104)	(104)	(312)
[8]						
Total	(17)	(261)	(337)	(462)	[8]	

Figure 4: Future Investment Fund spending in Budget 2015

	$ million increase / (decrease)
Investments agreed before Budget 2015, including • Regional Highway Projects • Urban Cycleways	137
New Schools and Roll Growth Classrooms (agreed by Cabinet on 13 April 2015)	244
KiwiRail Ongoing Support [8]	210 this Budget [8]
Extending Ultra-fast Broadband	210
Lincoln University	100
Waitangi Wharf (Chatham Islands)	52
[12]	
Te Papa Wellington	40
Conservation – retention of capital injections	(144)
Other Investments	48
Budget 2015 Future Investment Fund spend	**939**

The economy continues to enjoy sustainable growth

12. Budget 2015 has been prepared with the economy growing steadily, flowing through to higher employment, falling unemployment and solid real growth in wages. The Government's focus has been to continue to support sustainable growth in the economy.

13. Annual growth in real GDP increased to 3.3 percent in the year to December 2014, the strongest pace of expansion since 2007. This compares favourably with the performance of most developed nations, including Australia (2.7 percent), the United Kingdom (2.6 percent), the United States (2.4 percent), the Euro area (0.9 percent) and Japan (-0.1 percent).

14. The Treasury's Budget forecasts show that the outlook for real GDP growth remains solid: sustained growth in employment and real wages is expected; net migration is expected to peak higher, reflecting the strength of the New Zealand economy relative to many other countries; investment is expected to support domestic demand as construction activity in Christchurch and Auckland continues; and weaker inflationary pressure means interest rates are now expected to stay low for longer.

Figure 5: Real GDP Growth forecasts

% change, year to 31 March	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Budget 2015	2.5	3.3	3.1	2.8	2.8	2.4
Half Year Update 2014	3.2	3.5	3.4	2.8	2.3	2.2
Budget 2014	3.0	4.0	3.0	2.1	2.1	...

15. While the outlook for economic activity remains positive, nominal GDP (the dollar value of output) is significantly lower than was expected a year ago. This reflects weaker outlooks for the terms of trade (primarily driven by lower dairy prices) and Consumers Price Index (CPI) inflation. Compared with Budget 2014, these developments have reduced the cumulative amount of nominal GDP over the forecast period by over $20 billion. Risks to these forecasts remain skewed to the downside reflecting global economic developments and the risk that dairy prices and CPI inflation (and hence nominal GDP growth) do not rebound as expected.

Responsibly managing the Government's finances

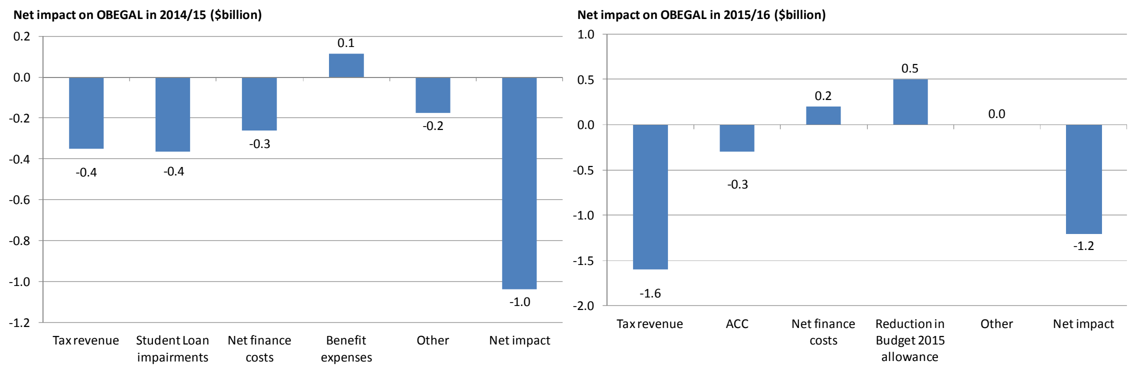
The fiscal outlook is on track to achieve medium-term objectives

16. The fiscal outlook has weakened since last year's Budget, due mainly to lower expected tax revenue. This reflects wider economic developments noted above, particularly a downward revision in export prices, weaker inflation and a lower interest rate track. While there are some offsetting benefits for the fiscal position, such as lower finance costs, these effects are small.

17. Previously, the Government had aimed to return to surplus in 2014/15, but this was always subject to economic conditions. In the face of a significant reduction in forecast tax revenue, the Government believes it better to maintain its fiscal plans for spending restraint to make progress towards the net debt target. While

the final 2014/15 result will not be known until October, the Budget 2015 forecasts are likely to show a small deficit in 2014/15 and a small surplus in 2015/16. These numbers are considered as broad fiscal balance given normal forecast variability.

Figure 6: Total Crown OBEGAL forecasts for 2014/15 and 2015/16 between Budget 2014 and preliminary Budget 2015 forecasts



18. Beyond the return to surplus, our fiscal target is getting net debt below 20 per cent of GDP by 2020, and starting to repay nominal debt. In Budget 2014, we added the objective of ensuring that changes in allowances will not have a material adverse impact on interest rates. Combined, these two objectives are the main considerations when looking at the level of future allowances.

19. On current projections, we can maintain an allowance of $1.0 billion in Budget 2016 and $2.5 billion in Budget 2017. These would be sufficient to incorporate modest tax reductions as well as prudent spending increases. These allowances will continue to be subject to economic and fiscal conditions at the time.

20. In recent years, we have demonstrated that you do not need significant increases in government spending to deliver better public services if we address the drivers of public service costs and demand. We have taken this further in Budget 2015 by starting with an investment approach applied to social outcomes and also using Sir Peter Gluckman and his science panel to test the evidence base for initiatives from the social sector. Work is underway on a social investment approach for Budgets 2016 and beyond to provide better information on returns on investment and support Ministers making spending choices.

Greater focus on capital investment and the Crown balance sheet

21. We reduced the amount we need to borrow by recycling capital, thereby making the Crown balance sheet more efficient. We began this process with the Government Share Offer programme. The $4.7 billion raised has been placed in the FIF, which has covered new capital spending since Budget 2012 and will continue to do so for this Budget and Budget 2016.

22. After the FIF is spent, we will continue to actively manage the balance sheet and use our assets more effectively. We will explore a balanced approach to finding capital savings to reduce our need to borrow, involving options to reduce capital allowances, look for baseline savings and recycle capital where we can. To support this we will signal in this year's Fiscal Strategy Report that capital allowances in the period post-FIF to Budget 2020 will be up to $3.7 billion in total, which will be partially funded from capital savings.

Package for children living in material hardship

23. The Government believes all New Zealand families and children should have the opportunity to live fulfilling lives. Over a number of years, we have actively supported families and children in material hardship by investing heavily in areas that achieve better results for both the families concerned and for taxpayers.

24. Our approach includes:

    a. Creating a strong and competitive economy that supports more jobs, better opportunities, and higher incomes for New Zealand families.

    b. Maintaining the Government's substantial financial support for low-income families, despite the recession, the Global Financial Crisis, and significant pressures on the Government's budget.

    c. Addressing the long-term drivers of material hardship, including poor educational achievement, poor child health, dysfunctional families, high housing costs, and intergenerational welfare dependency.

25. The Prime Minister has confirmed that helping New Zealand's most deprived children will be a key focus for the Government this term. We are already making good progress and we have laid strong foundations. Budget 2015 will build on this progress by further supporting low-income families who are bringing up children – including beneficiary families.

26. There has been a growing gap between the take-home incomes of beneficiary households and those of low to average wage workers. On one hand, this gap creates a strong incentive to move from welfare into work. However, we are concerned about the children who are affected when their family resources fall further and further behind other households. There is a balance to be achieved.

27. We are particularly concerned about a group of children living in families experiencing deeper levels of material hardship – 60,000 to 100,000 children, or 30,000 to 50,000 families – who are at higher risk of poor outcomes. Around two thirds of these children are from beneficiary families or from families moving between benefit and work. The remaining one third of these children are from working families.

28. As the next steps in the Government's programme, we propose a package of measures focused on beneficiary and low-income working families with children in material hardship. The key components of the package are:

    a. strengthening work availability obligations for beneficiary parents, by:

        i. lowering the age of the youngest child at which part-time work search obligations for beneficiaries begin from five years to three years; and

        ii. changing the hours of the part-time work sought from 15 to 20 hours a week (while retaining flexibility around suitable employment and the exact hours required);

    b. increasing Childcare Assistance (including both the Childcare Subsidy for pre-schoolers and the Out of School Care and Recreational (OSCAR) subsidy for after-school and school holiday programmes) for low-income working families from $4.00 an hour to $5.00 an hour;

c. increasing benefit rates for families with dependent children by $25 a week, giving beneficiary households an on average gain of around $23.00 in the hand each week;

d. introducing a requirement for Sole Parent Support recipients to reapply for the benefit and reconfirm eligibility on an annual basis;

e. increasing incomes for low-income working households through Working for Families, including a $12.50 per week increase in the $60 rate of the In Work Tax Credit (IWTC), and a $12.00 increase in the Minimum Family Tax Credit (MFTC); and

f. increasing the abatement rate for Working for Families tax credits from 21.25c to 22.5c in the dollar, to better target these payments towards low-income *families.*

29. The total cost of the package is around $800 million over the four-year forecast period in Budget 2015.

Building a more productive and competitive economy

30. While ensuring responsible fiscal management, we also need to press on with wide-ranging economic reforms under the Business Growth Agenda. Building a more competitive and productive economy for New Zealand is one of this Government's key priorities. The Business Growth Agenda drives this by ensuring we stay focused on what matters to business, to encourage confidence and further investment. Our vision for a successful economy is one where growth delivers real and ongoing improvements in the quality of life of all New Zealanders, by enabling businesses to prosper. Achieving this vision is dependent on businesses having the confidence to invest.

31. Budget 2015 includes specific initiatives to bring ongoing economic benefits within the Business Growth Agenda. This year the focus is on Investing for Growth. We are prioritising a number of key areas that we see as particularly critical to further build business confidence and to provide the platform for sustained growth into the future.

32. As announced by the Prime Minister on 14 April, the Budget package includes $80 million of new operating funding over four years for R&D grants. This funding will be allocated to a range of qualifying businesses over the next 12 months on an objective independent basis in order to help businesses succeed and achieve a stronger economy.

33. The Budget package also confirms:

a. $35 million of operating funding over four years to improve the competitiveness of New Zealand's higher education system;

b. $79 million of operating funding over four years to support the natural resources sector including funding for the Afforestation Grants Scheme, Animal Welfare, Strengthening Biosecurity Capability, Water Reform and expanding the Department of Conversation's efforts to save the kiwi; and

c. [11]

34. The FIF provides $210 million for the extension of Ultrafast Broadband, $100 million for Lincoln University and $28 million for Immigration – Vision 2015 to improve the delivery of immigration services through transformed business processes and updated ICT systems.

35. We also plan on further reductions in ACC levies on households and businesses as conditions allow. With ACC in good financial health, it is appropriate to reduce levies further. For the economy, the benefits and economic impacts of ACC levy reductions will be similar to a tax cut. Final decisions on levy rates for 2016/17 and 2017/18 will be made following public consultation and recommendations by ACC.

Delivering better public services

36. The Government has been driving better value for money from its spending for the past six years. We have taken the time to think through the changes that needed to be made to the services we deliver. The Better Public Services programme has started to deliver measurable results. The Government has set itself ambitious new targets including 75,000 fewer New Zealanders being on benefits by June 2018. And in developing new services, identifying the populations that are most in need and allocating resources accordingly helps avoid duplication and ensures a more effective mix of interventions.

Priority investments in the social sector

37. Budget 2015 delivers $2.9 billion over four years for the broader social sector, including funding for Health, Education, Justice, Social Development and Social Housing.

Health:

38. Budget 2015 includes further significant increases to health spending. The package includes $1.5 billion of new health operating funding over the next four years, including:

    a. $1.1 billion over four years for District Health Boards to manage demographic, cost and volume increases;

    b. New funding for approximately 18,500 elective surgeries over the next four years;

        i. $48 million over four years for an additional 2000 per year (with a further 2000 funded per year from the new funding to DHBs);

        ii. $14 million over three years for more elective surgery of around 2500, as well as reducing pain, and increasing prevention;

    c. $76 million over four years for an expansion of palliative care services including $24 million for support role development; and

    d. $12 million to extend the Waitemata DHB bowel screening pilot, which is due to end in December 2015.

Education:

39. [12] over four years will fund increased costs within Vote Education. The Budget package includes [12] [12] and new funding for demand pressures, particularly for Early Childhood Education. The package also includes an increase to the school operations grant of 1 percent, at a cost of $42 million over four years, to maintain the real value of the operations grant to support the ongoing viability of state and state integrated schools. The package also includes $244 million of new capital, as announced by the Prime Minister on 14 April, and $88 million of operating funding over four years to provide new schools and classrooms.

Social Development:

40. $83 million over four years will fund increased costs within Vote Social Development. The Budget package includes funding for BPS Result 1 – to reduce long–term welfare dependency. The refreshed result will to encompass a wider segment of clients and will require a whole-of-government approach. This funding will enable greater innovation and collaboration.

41. The package also includes an increase of $17 million in 2015/16 for initiatives relating to Child, Youth and Family (CYF), specifically:

    a. CYF client demand pressure driven by meeting extra demand (largely driven by an increase to the duration of care) under the existing model;

    b. CYF Modernisation, intended to develop a new operating model that takes an investment approach to delivering services for children in care; and

    c. Implementing the amendments to the Children, Young Persons, and their Families Act.

Social Housing:

42. Budget 2015 allocates $65 million over the next four years towards implementing the Government's Social Housing Reform Programme (SHRP). The SHRP is a series of cross-agency initiatives that will, over time, transform how social housing is provided, contribute to the supply of more social and affordable housing and improve the lives of vulnerable New Zealanders. The operating funding includes:

    a. $27 million for the Treasury to undertake stock transfers to community housing providers with the objective of growing the social housing market and improving tenant outcomes. It also includes funding in 2015/16 to progress large scale redevelopment projects on HNZC land aimed at increasing the supply of social and affordable housing.

    b. $28 million for MSD to develop a long-term social housing purchasing strategy and implement other initiatives such as supporting clients to independence, progressing a social housing liability valuation and reviewing the needs assessment model.

Justice and Police:

43. The Budget package includes a contingency [12] and $8 million of new funding over four years for Serious Fraud Office to maintain current investigative capacity and increase agency resilience.

Other initiatives

44. Budget 2015 also provides for a net reduction in child support penalty revenue by progressing measures aimed at addressing debt arising from high and cumulative penalties over time, and which cause liable parents to cease engagement with the system. These initiatives complement the measures introduced in current reforms which are not flexible enough to adequately address legacy debt. These proposals are to:

    a. Extend the mandatory write-off of monthly incremental penalties for payment arrangements, subject to 26 week review, to payment arrangements where a liable person has not explicitly agreed to the arrangement (such is the case with beneficiaries); and

    b. Amend the discretionary penalty write-off tests to adopt a more pragmatic test based on “fair and reasonable”.

45. These measures will permit fairer treatment of liable parents, encouraging them to focus on meeting their obligations to pay financial support for their children; the original intent of the penalties regime. These measures will reduce the value of penalties on the debt book, which are unlikely to be collected, but are unable to be written off, will better reward compliance, and will promote more equitable treatment of individuals within the system. In addition, it is expected that these measures will increase payment of core assessment to receiving carers by $4 million over four years.

46. In October 2013, we agreed to a funding track for the New Zealand Defence Force that would let the NZDF retain and replace its current combat resource and border protection capabilities. This would leave the NZDF able to lead an operation in the region and operate without needing to rely on others, as well as make concurrent contributions to international security.

47. The Budget package includes the second tranche of funding, $248 million of new operating funding over four years, including contingencies, so the NZDF can maintain this capability.

System Package – Cross-Agency Initiatives

48. The system package focuses on initiatives that have diffuse benefits across agencies. A focus on system initiatives gives better visibility of the pressures across the system, enables prioritization, signals the collective system priorities and spreads contributions. The components of the system package for Budget 2015 focuses on the delivery of Results 9 and 10, together with resolving long running ICT tensions in the system, and reducing transaction costs. This includes continued funding for RealMe, the New Zealand Business Number and ICT Common Capabilities.

49. The system package is to be funded through baseline contributions returned to the Crown, equitably spread across departments, combined with capital from the

FIF. The baseline contributions total $18 million on average per annum for the system package and reduce transaction costs, speed up action and provide more sustainable funding. The cross-agency initiative Growing Up in New Zealand is to be funded through a combination of new Crown funding and baseline contributions returned to the Crown from the user agencies.

50. Treasury will continue to work with agencies on options for the spread across departments of the baseline contributions. The final amount of the departmental baseline contributions for the system package could be reduced by up to 25 per cent through Crown entity contributions, to be confirmed following discussions with appropriate Crown entities. I will report back to Cabinet with a finalised distribution of contributions.

Rebuilding Christchurch

51. As Christchurch moves deeper into the rebuild phase, the Budget confirms additional spending to further support the rebuilding of our second-biggest city.

52. The rebuild continues to be led by the Canterbury Earthquake Recovery Authority (CERA), now a Departmental agency within DPMC. The Budget package includes over [11]

53. The package also includes over $100 million over the next four years for anchor projects. This will ensure we have building sites ready for the start of anchor project construction, and recognise that land and completed public spaces realm will transfer to the Christchurch City Council.

Savings to fund higher-priority spending

54. As we have done over the past six years, Budget 2015 includes a significant amount of reprioritisation of existing spending to fund new spending in higher-priority areas. It also includes a number of savings options listed below:

Figure 7: Savings and Revenue in Budget 2015

	$ million increase / (decrease)				
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Net return on IRD Revenue Investments	-	(60)	(133)	(252)	(252)
Removal of KiwiSaver kick-start payment	(17)	(175)	(126)	(106)	(107)
Cost recovery for passenger clearance at the border - MPI and Customs	-	(26)	(78)	(104)	(104)
[8]					

55. The largest savings are from extending investment in revenue-generating initiatives from IRD. This includes extending Budget 2012 funding from 2017/18 for increased activity in the areas of aggressive tax planning, fraud, unfiled returns and collection of older debt, as well as new opportunities in areas such as aggressive tax planning, property compliance, and addressing the hidden economy.

56. Savings also include the removal of the $1,000 kick-start payment (kick-start) paid to all new enrolees in the KiwiSaver scheme. Removing the kick-start will improve the value for money and target effectiveness of the KiwiSaver scheme and will allow the Government to redirect this spending to other priorities. This change is likely to have only limited effect (if any) on enrolment rates in KiwiSaver among the legislated target population because other subsidies and employer contributions remain in place.

57. In order to implement this proposal it will be necessary to make consequential changes to administrative aspects of KiwiSaver and rules relating to KiwiSaver providers. We therefore propose that Cabinet delegate authority to the Minister of Revenue, Minister of Commerce and Minister of Finance to make decisions on such detailed implementation issues.

58. We will continue to focus on driving the best value from existing spending as we move towards embedding a social investment approach for Budgets 2016 and beyond. This will provide better information on returns on investment, to support Ministers in making spending choices and apply these tools to baseline spending.

Contingency for Between Budget Spending

59. [8]

In line with Cabinet Office guidelines, Ministers should only seek funding from the between-Budget contingency for urgent issues that cannot be deferred to Budget 2016. Such proposals should demonstrate that the initiative cannot be funded through reprioritisation of lower value activities and cannot be deferred until the next Budget. Proposals should not be submitted if the initiative could reasonably have been considered in this Budget, or was previously considered and declined.

60. Between-Budget capital expenditure will be charged directly against the final tranche of the FIF.

Moratorium on Papers with Financial Implications

61. Once the Budget 2015 package has been agreed by Cabinet, production of the Budget documents must be completed. In order to ensure that the documentation tabled in the House of Representatives on Budget Day is accurate, Ministers should not submit papers that have fiscal and/or appropriation implications for agreement by Cabinet Committees or Cabinet between now and Thursday 21 May 2015.

Consultation

62. This paper was prepared by the Treasury. The Budget package has been developed in line with the overall strategy agreed by Cabinet in August 2014 (CAB Min (14) 26/9 refers), submissions in Four-year Plans, separate Cabinet consideration of some key proposals, and a series of meetings between Ministers. The package was confirmed by Budget Ministers in a meeting on Monday 13 April.

Publicity

63. Budget Day is Thursday 21 May. The Office of the Minister of Finance coordinates all communications relating to Budget 2015, including requests for early announcements. Written approval from the Prime Minister and me is required for any early announcements.

Recommendations

64. I recommend that Cabinet:

    1. **note** that on 13 April 2015, Cabinet agreed to the technical Budget initiatives for Budget 2015 *[CAB Paper: 2015 Budget Technical Financial Recommendations];*

    2. **note** that the economy is experiencing sustainable growth, with a small 2015/16 forecast surplus expected on Budget Day;

    3. **note** that Budget 2015 will continue to help achieve the Government's top four priorities:

        3.1 responsibly managing the Government's finances;

        3.2 building a more productive and competitive economy;

        3.3 better public services; and

        3.4 rebuilding Christchurch;

    4. **note** that a particular focus of Budget 2015 is the package of initiatives for children living in material hardship which Cabinet agreed to on 13 April 2015 *[CAB Paper: Package For Children Living in Material Hardship];*

    Fiscal strategy beyond Budget 2015

    5. **note** that there are two key criteria for setting operating allowances:

        5.1 ensuring that the government remains on track to achieve its target of reducing core Crown net debt to 20 per cent of GDP by 2020; and

        5.2 ensuring that there is no material adverse impact on interest rates as a result of any change to allowances;

    6. **note** that operating allowances over the Parliamentary term were agreed by Cabinet in November 2014 at $1 billion in Budget 2016 and $2.5 billion in Budget 2017;

    7. **note** that an operating allowance of $2.5 billion in Budget 2017 will allow room for us to consider tax reductions or additional debt repayment, subject to economic and fiscal conditions at the time;

    8. **note** that the Budget Policy Statement 2015 signalled the intent to develop performance targets to better support the management of the Crown's balance sheet;

9. **note** that the developments in the Government's balance sheet management strategy will continue to bring greater transparency to Crown balance sheet performance, and may result in addition performance targets in the future;

10. **agree** to signal in the Fiscal Strategy Report 2015 that capital allowances in the period post-FIF to Budget 2020 will be up to $3.7 billion in total, which will be partially funded from capital savings;

Budget 2015 Package

11. **note** that new operating spending proposals in Budget 2015 have been partially offset by savings and revenue initiatives, resulting in a net increase in spending of approximately $1.0 billion a year on average over the forecast period;

12. **note** that the fourth tranche of spending from the Future Investment Fund to be announced at Budget 2015 totals $939 million, including $137 million previously agreed by Cabinet;

13. **agree** to the initiatives for Budget 2015 as set out in the financial recommendations accompanying this paper;

14. **agree** that expenses or capital expenditure against appropriations and capital injection authorisations set out in the 2015/16 Estimates and being sought in that Bill may be met from Imprest Supply until the Appropriation (2015/16 Estimates) Bill is enacted;

15. **authorise** the Minister of Finance and relevant Vote Ministers to approve changes to initiatives and appropriations where this proves necessary to finalise the 2015 Budget package;

16. [8]

17. **note** that funding for initiatives agreed as tagged contingencies will expire on 1 February 2016;

18. **agree** to remove the KiwiSaver kick-start contribution paid to all new KiwiSaver members with effect from an announcement and bill on 21 May 2015. Refer to initiative 8876;

System Package

19. **agree** that the funding for the system package of initiatives will be recovered through baseline contributions returned to the Crown from all departments excluding Parliamentary agencies;

20. **agree** that half of the funding for the Growing Up in New Zealand initiative will be recovered through baseline contributions returned to the Crown from user departments, with the other half funded by Crown revenue;

21. **note** that the Treasury is still finalising the distribution of baseline contributions across agencies, and an illustrative example is attached in the annex;

[8]

23. **invite** the Minister of Finance to report back to Cabinet with the final departmental baseline contributions returned to the Crown, following Treasury discussions with departments and Crown entities;

General Matters

24. **agree** that:

    24.1 proposals for funding from the between-Budget contingency must be for urgent issues that cannot be deferred to Budget 2016; and

    24.2 Ministers will be expected to demonstrate that they have exhausted their search for opportunities to fund the initiative through reprioritisation of lower value activities;

25. **agree** that no papers with fiscal and/or appropriation implications for agreement by Cabinet or Cabinet committees be submitted between 20 April 2015 and 21 May 2015 so that Budget documentation is accurate; and

26. **note** that all communications relating to Budget 2015 are coordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office.

Hon Bill English
Minister of Finance

Date: 16 April 2015

[8]

[8]