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# Budget Speech

Mr Speaker,

I move that the Appropriation (2013/14 Estimates) Bill be now read a second time.

It's my privilege to deliver the National-led Government's fifth Budget.

When I stood up to deliver the Government's first Budget, in 2009, New Zealand faced challenges I think we're only able to fully appreciate with the passing of time.

The world had entered the worst financial crisis since the Great Depression, from which it has yet to fully emerge.

The New Zealand economy had been in recession for more than a year and some economists were predicting the unemployment rate would go higher than 10 per cent.

The previous government had increased its spending by 50 per cent over the previous five years and that was simply unaffordable.

The Treasury told us that if we kept the policy settings we inherited, we'd never see another budget surplus again and government debt would increase to levels we're currently seeing in Europe.

That wasn't the end of it. Few at that time anticipated how difficult the global recovery would be. And no-one anticipated the Canterbury earthquakes which, apart from the terrible loss of life, have been one of the most expensive natural disasters in history.

So, starting in Budget 2009, we set out our plan to get New Zealand out of a deep hole.

We were prepared to run deficits for a few years, to support the fragile economy, preserve jobs and protect the most vulnerable New Zealanders, including families with children, from the worst of the recession. That meant increasing government debt.

But at the same time, we set out a credible path back to surplus and a plan to start paying back this debt.

That plan involved reining in expenses and getting on top of the longer-term drivers of government spending.

We also set out a comprehensive programme to build a more productive and competitive economy that supports higher incomes and more jobs.

This has included our tax package in 2010, our on-going resource management reforms, the introduction of 90-day trials, investment in infrastructure, building on our international trade deals, and a significant investment in skills, training and apprenticeships.

We have been driving for better results from public services. And, since the earthquakes, we have been working hard to support Cantabrians through the aftermath of their disaster and through the rebuilding of their city.

Mr Speaker,

The Government's plan has not involved radical change. We've done what we said we would do, and we've taken people with us.

And that plan – using sound and proven economic policies – is working, as international bodies like the IMF have recognised.

New Zealanders can look to the future with well-earned confidence and optimism.

The New Zealand economy grew 3 per cent last year, which is almost the same as Australia, and higher than almost every other developed country.

Wages are growing, cost of living increases have been modest and interest rates are at 50-year lows.

There are 50,000 more jobs in the economy than two years ago, although unemployment does remain too high and attracting new investment that creates jobs is a particular focus for the Government.

The fiscal outlook has improved markedly as a result of the Government's sound management and we are on track to post a surplus in 2014/15.

These are real achievements that are benefitting New Zealanders and their families.

Budget 2013 is about building momentum in this programme.

But there is a risk that all the gains we are now making could be lost in the future, by going back to policies that have failed in the past.

We know what these are – high and wasteful government spending, more costs and more taxes on households and businesses, and more state control of the economy that chills private sector investment and destroys jobs and growth.

New Zealanders were conditioned in the 2000s to believe that Budgets should be about the novelty of new, expensive spending programmes that held out promises of economic and social transformation, arranged by the Government.

Those promises were illusory. There was no sustainable revenue stream to pay for the increased spending, and there was nothing genuinely transformational to show for it.

In contrast, this Government believes that Budgets are about careful stewardship of public money, and investing wisely in programmes to improve people's lives and help grow the economy.

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In the end, it is the effective use of public money, not the amount of it, that makes a positive difference to the lives of New Zealanders and their families.

Mr Speaker,

The Government has four priorities this term:

- responsibly managing its finances;
- building a more productive and competitive economy;
- delivering better public services; and
- supporting the rebuilding of Christchurch.

Across our programme, we are working constructively with the ACT, United Future and Māori parties, and I want to acknowledge their support and assistance.

I intend to talk about each of the Government's four priorities in turn. But first I want to summarise the economic outlook for the next few years.

The Budget forecasts show annual growth of between 2 and 3 per cent over the next four years.

These forecasts include the impact of the recent drought, which is expected to reduce economic activity by 0.7 percentage points in 2013.

Low interest rates, increased activity resulting from the Canterbury rebuild, and strong commodity export prices will all contribute to growth. And across the Asia Pacific region, growing numbers of consumers will be demanding the goods and services New Zealand produces.

The New Zealand economy is expected to grow more strongly over the next two years than many other developed economies, including the United States, Canada, the United Kingdom, Japan, and the Euro area.

Budget forecasts also show an improved outlook for jobs and for wage growth. As a result, household disposable income is forecast to rise by almost 20 per cent over the next four years.

The current account deficit is forecast to rise gradually to over 6 per cent of GDP in the next few years, driven by stronger investment by businesses and households, including investment in the Canterbury rebuild. If investment in the rebuild is excluded, the current account deficit remains below 5 per cent of GDP.

New Zealand's net offshore liabilities will worsen slightly as insurance pay-outs for Canterbury continue. However, national saving is expected to rise, led by the Government getting its finances in order. Household saving rates are expected to retain the gains made over recent years, following the large dissaving over much of the 2000s.

In summary, New Zealand is well placed.

However, a number of risks and challenges remain. The recent drought, for example, may have a more persistent effect than expected, and rapid house price growth, if sustained, may place more pressure on the domestic economy.

Internationally, risks for the global economy appear to have receded over recent months, although global conditions continue to place upward pressure on the New Zealand dollar.

Budget decisions have been made with this economic context in mind.

Mr Speaker,

I want to talk now about the first of the Government's four priorities, which is to responsibly manage the Government's finances.

The Budget shows that the Government is on track to meet its two key fiscal targets.

We are on track to get back to surplus by 2014/15.

And we are on track to reduce government debt to 20 per cent of GDP by 2020.

Budget forecasts show an operating surplus before gains and losses of \$75 million in 2014/15.

We are achieving this while still spending \$5.1 billion on new initiatives in the current year and over the next four years in Budget 2013 – funded, in part, by reprioritising existing spending.

A surplus is forecast because tax revenue is picking up and the Government is continuing to restrict growth in expenses. Core Crown expenses are forecast to drop below 31 per cent of GDP in 2014/15 – down from 35 per cent of GDP just two years ago – and then remain well under that level.

The Government's return to operating surplus is not dependent on the Mighty River Power share sale. The share offer programme effectively swaps one type of asset for another – electricity company shares for cash – so its primary effect is on the mix of assets and debt that the Government owns, rather than on the operating balance.

Budget forecasts also show net core Crown debt peaking at 28.7 per cent of GDP in 2014/15 and declining thereafter. Longer-term projections show net debt dropping to 17.6 per cent of GDP by 2020/21, in line with the Government's target.

This is a remarkable turnaround in the books. Projections in Budget 2009, for example, showed that if the Government had maintained the spending track it inherited, and hadn't made policy changes, net debt would exceed 60 per cent of GDP by the early 2020s.

But I would remind everyone that forecasts and projections are, by definition, about the future. While the fiscal outlook has improved markedly over the last few years, a lot of work is needed to make the forecasts a reality, particularly when it comes to reducing debt.

Taking on more debt has been appropriate to support the economy and cushion New Zealanders and their families from a number of major shocks including the recession, the global financial crisis and the Canterbury earthquakes. And, as a percentage of New Zealand's GDP, our level of debt is still well below most of the countries we typically compare ourselves with.

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But, in dollar terms, net government debt is still rising by around \$130 million a week and is expected to reach \$70 billion in 2016/17, which is the equivalent of around \$15,000 for each and every New Zealander.

As households around the country know, carrying substantial debt is neither comfortable nor financially prudent. Annual interest payments on our debt will this year cost about as much as spending on the Police, early childhood education and the Unemployment Benefit combined.

A sizeable debt also risks keeping interest rates and the exchange rate higher than they would otherwise be, and in turn crowding out the internationally-competitive sectors of the economy.

So the Government is firmly focused on capping, then reducing, its debt.

And, alongside debt reduction, future surpluses will also give us more choices. These choices will include, for example, investing in public services, reducing costs on businesses, and helping families get ahead.

Mr Speaker,

Three key changes have been made to the Government's fiscal parameters.

First, the operating allowances for new spending have been slightly adjusted.

The operating allowance is \$900 million in Budget 2013, compared with the \$800 million signalled in the most recent Budget Policy Statement, and will be \$1 billion in Budget 2014, compared with \$1.2 billion in the BPS. From 2015 onwards, operating allowances will grow by 2 per cent per Budget.

This change to future allowances will mean bigger surpluses and a greater ability to pay down debt.

In addition, new capital spending in this and the next three Budgets will continue to be funded from the Crown's balance sheet, including from the proceeds of the Government's share offer programme.

Second, the Government intends to delay contributions to the New Zealand Superannuation Fund until the long-term debt target is reached – that is, until net debt is no higher than 20 per cent of GDP.

This means Super Fund contributions are now expected to resume in 2020/21. This is two years later than was projected in the most recent Half Year Update, but is the same time as was expected when contributions were initially suspended in Budget 2009.

I want to stress that this change in no way affects New Zealanders' entitlement to New Zealand Superannuation, either now or in the future.

The choice for the Government is whether to use future cash surpluses to reduce debt to more prudent levels, or whether to put money into world sharemarkets while holding higher debt. The first option is clearly more responsible.

Third, and finally, the Government is now satisfied there is scope for significant reductions in ACC levies.

I will outline these proposed changes in a moment. The impact on the Government's books, however, is to reduce total Crown revenue, and therefore the total Crown operating balance. This has already been built into the Budget forecasts.

Mr Speaker,

I now want to turn to the second of the Government's priorities, which is to build a more productive and competitive economy that supports higher incomes and more jobs.

The Government's plan for building a more productive economy is set out in the Business Growth Agenda.

This focuses on six key elements that businesses need to grow: access to export markets, innovation, infrastructure, skilled and safe workplaces, natural resources, and capital markets.

Each of these areas involves government investment and regulation, and with regard to the second of these I acknowledge, in particular, the contribution of Regulatory Reform Minister, and ACT Party leader, John Banks.

The Budget adds a number of new initiatives to the Government's existing agenda.

In particular, the Budget contains a \$100 million-a-year internationally-focused growth package.

This growth package acknowledges New Zealand's need to pay its way in the world through increased trade and investment, which in turn creates jobs and opportunities for New Zealanders.

The largest part of the package is a \$200 million boost in funding, over four years, for science, innovation and research.

This extra funding will be invested in expanding current business R&D grants, as well as establishing a new repayable grant for start-up businesses to assist them to become investment-ready. There is also new funding for the National Science Challenges and the Marsden Fund.

The internationally-focused growth package also provides a significant boost for tourism, as the Prime Minister recently announced.

The Government will invest \$158 million over four years to attract more visitors to New Zealand, particularly high-spending visitors. This includes funding to attract high-end visitors from emerging markets and funding to attract international business events to New Zealand.

The growth package also includes additional funding of \$40 million over four years to market and promote New Zealand's international education sector, which already contributes more than \$2 billion to our economy each year.

Mr Speaker,

When the Government took office in 2008, we were confronted with significant financial problems at ACC and we took action to rebuild its long-term sustainability.

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The Government is now satisfied there is scope for significant and sustainable reductions in ACC levies.

We have therefore made an allowance for levy reductions of around \$300 million in 2014/15. Final figures will be determined after ACC consults on levies later this year.

ACC's improved performance, and an on-going review of its funding policy, mean the Government has also allowed for levy reductions to increase to around \$1 billion in 2015/16.

When combined with the \$630 million reduction in levies in 2012/13, these proposed changes amount to around 40 per cent lower ACC levy rates for households and businesses.

Mr Speaker,

The Budget also confirms a number of revenue measures, and I want to thank Revenue Minister, and United Future leader, Peter Dunne for his work in this area.

These measures include proposals to let loss-making start-up businesses claim tax losses on R&D expenditure, together with proposals allowing tax deductibility for certain types of 'black hole' expenditure.

Changes to thin capitalisation rules will help to ensure that multinational companies investing in New Zealand contribute their fair share of tax.

And Inland Revenue will receive additional funding of \$7 million a year so it can better pursue tax compliance in the area of property investments. This is expected to return about \$45 million a year in additional tax revenue.

Mr Speaker,

Proceeds from the Government's share offer programme – including from the Mighty River Power float last week – are being placed in the Future Investment Fund, and will be used to pay for new public assets.

The Budget confirms another \$1.5 billion of investment from the Fund.

\$426 million will be invested in redeveloping Christchurch and Burwood Hospitals which, as previously announced, will be the biggest building project in the history of New Zealand's public health system.

Contingencies totalling over \$700 million have been set aside for key projects that include new, modern schools, Christchurch's justice and emergency services precinct, and Canterbury tertiary education institutes.

The rest of the \$1.5 billion investment includes \$50 million for school network upgrades, \$94 million for the fourth year of KiwiRail's turnaround plan, and \$80 million for irrigation infrastructure.

Overall, across multiple Budgets, the Government intends to spend a total of \$1 billion from the Future Investment Fund on 21st Century schools and classrooms, and \$1 billion on priority health investments.

Mr Speaker,

Investing in hospitals, schools and other public assets depends on money coming into the Future Investment Fund through further share offers.

Today I can announce that Meridian Energy will be the next company to be prepared for a partial share offer in the second half of 2013.

As with Mighty River Power, New Zealanders will be at the front of the queue for shares in Meridian and we will be targeting widespread New Zealand ownership.

The Government's share offer programme remains important for the Government's books and for the economy.

As well as raising money to invest in new public assets, it benefits the companies themselves through greater market discipline. In addition, the share offer programme gives New Zealand savers the opportunity to invest in large, New Zealand businesses.

Mr Speaker,

Housing can be made more affordable in New Zealand by focusing on the key areas that actually make a difference: land supply, consent processes, provision of infrastructure, and productivity in the construction sector.

The Government is working with councils on these issues, because the decisions they make about housing affect the entire economy. High housing costs affect financial stability and create an increased demand for housing assistance.

Today we are introducing legislation to speed up the provision of new housing in areas where the pressure is greatest and housing is least affordable.

Special housing areas will be designated under accords between the Government and councils. Council approvals for new housing in those areas can then be managed under a streamlined process.

This legislation, which will apply for three years, is an immediate response to housing pressures in areas facing severe affordability problems.

It gives time for the Government's resource management changes to bear fruit, and address land and housing supply issues in the longer term.

Mr Speaker,

Alongside the Budget, the Government is confirming measures to help ensure New Zealand's financial stability.

Earlier this week, the Reserve Bank Governor and I signed a memorandum of understanding that gives the Reserve Bank the ability to require banks to:

- hold additional capital on their balance sheet as a buffer during an economy-wide credit boom;
- hold additional capital against loans in specific sectors if risks emerge in those sectors;

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- use more stable sources of funding to avoid short-term funding shortages; and
  - restrict high loan-to-value ratio lending in the housing sector.

These measures will be available – if required – to help protect the economy and the financial system from boom and bust cycles.

Mr Speaker,

The Government's third priority for this term is delivering better public services within tight fiscal constraints.

Spending restraint is not a handbrake on providing better public services. In fact, big increases in spending have often been a measure of failure, rather than a measure of success.

Our approach has been to spend well, not to spend up.

The Government's spending increases have been modest and focused on programmes that will achieve results and improve the lives of New Zealanders and their families.

Last year, the Prime Minister set 10 challenging results for the public sector to achieve over the next few years, in areas such as reducing long-term welfare dependency, supporting vulnerable children, boosting skills and employment and reducing crime.

These results span the public sector and the Budget contributes to meeting all of them.

Mr Speaker,

I want to start with the Government's support for vulnerable children and families. This is already very substantial, with billions of dollars spent on income support, as well as targeted support for families with complex needs.

The Ministerial Committee on Poverty was established under the confidence and supply agreement between the National and Māori parties, and I want to acknowledge my fellow Minister and Māori Party co-leader, Tariana Turia, for her support.

The Budget confirms several important initiatives in this area.

Funding of \$100 million over three years has been provided for the Healthy Homes insulation programme, targeting low-income households with children or high health needs. The extended programme is expected to insulate around 46,000 additional houses.

More than \$21 million has been provided over the next four years for rheumatic fever prevention.

Another \$1.5 million has been provided next year for budgeting services for low-income families, on top of the \$8.9 million that is already provided.

The Government is also exploring a warrant of fitness programme for social housing, and will investigate and pilot a low and no interest loan scheme for low-income borrowers.

Some of these initiatives were included in the Children's Commissioner's child poverty report, which the Government will be responding to in the next few weeks.

Mr Speaker,

It is widely acknowledged that paid employment is the best way to lift vulnerable families out of poverty.

That's why the Government is focused on helping those families by creating conditions where businesses are prepared to invest and to take on new staff. And it's why the Government's welfare policies have an unrelenting focus on supporting people into work.

The Budget provides \$189 million over four years for the next stage of welfare reform.

This includes funding for more intensive case management for people who are able to work, and means that Work and Income staff will be actively working with over 40 per cent of beneficiaries.

Mr Speaker,

Despite the Government's \$15 billion investment in housing, some people cannot get social housing assistance when they need it. The provision of social housing is also dominated by Housing New Zealand, with relatively few other providers.

The Government is therefore announcing three major changes.

First, we will begin developing pathways for New Zealanders in social housing to regain independence and self-sufficiency in housing as their individual circumstances permit and as alternatives allow.

Reviewable tenancies, which already apply to some Housing New Zealand tenants, will then be progressively extended to all social housing tenants.

This will mean people can be in social housing when they have high needs, and for as long as those needs persist. But they will be given support to move into alternative housing when their situation improves and they are in a position to take that step to independence.

This will free up houses for other people and families with high needs, who would otherwise be shut out of social housing.

The Budget contains funding of \$47 million to support this policy, starting in 2015/16.

Second, the Government is increasing its spending on income-related rent subsidies by \$27 million over four years and will make this available as a capped pool to community housing providers.

Opening income-related rents up to community housing providers puts them on an equal footing with Housing New Zealand and opens the door for much greater participation in the social housing sector.

Finally, housing needs assessments will be shifted from Housing New Zealand to the Ministry of Social Development. This means needs assessments will be independent of any housing provider, and people seeking different types of government assistance can get it from one organisation.

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Mr Speaker,

The Government has made frontline health services a priority, and this is benefitting many more New Zealanders and their families.

Elective surgery procedures, for example, have increased significantly, emergency room waiting times have dropped, more MRI and CT scans have been performed and more children have been immunised.

The Budget continues the Government's focus on better healthcare and prevention.

It includes \$1.6 billion over the next four years for new initiatives and to meet cost pressures and population growth.

\$1 billion of that funding, over four years, will go to district health boards to cover demographic growth and cost pressures. \$70 million has been set aside for aged care and dementia services, \$48 million for more elective operations, \$36 million for heart disease and diabetes care, and \$25 million for preventative screening services.

The Government is also providing \$92 million over four years to pay family members who care for their disabled adult children.

The additional funding in the Budget takes the total health budget next year to \$14.7 billion.

Mr Speaker,

The Government is helping more New Zealanders get the skills they need to build successful careers and fulfil their potential.

We are lifting student achievement at all levels of the education system, making more information available to parents and lifting the quality of teaching and professional leadership in schools.

We have set ambitious targets for student achievement. In particular, we want to have 98 per cent of school entrants having participated in early childhood education, and 85 per cent of 18-year-olds achieving NCEA Level 2 or equivalent qualification.

The Government's total investment in education will next year increase to over \$9.7 billion.

Over the next four years, the Budget provides new operating funding of \$173 million for early childhood education and \$215 million for schools, including nearly \$80 million for operations grants. It also provides \$134 million in capital for new school property.

Our particular focus is on supporting children who have too often missed out on educational opportunities. The Budget therefore provides \$41 million to support vulnerable children to participate in early childhood education and \$6 million for a new mentoring programme to help vulnerable students achieve NCEA Level 2.

Mr Speaker,

The Budget also includes over \$130 million of new investment, and reprioritised funding, in tertiary education over the next four years.

Extra funding is provided for Māori and Pasifika trades training, to boost science and engineering courses, and to increase the proportion of young people with higher-level qualifications.

The Budget also confirms funding to support the new and expanded apprenticeship system the Prime Minister announced earlier this year.

The reprioritisation of tertiary funding includes initiatives to increase repayments of student loans from overseas-based borrowers and reduce defaulting.

The Government is also reining in big rises in student allowance costs by focusing on younger learners and on people studying for their first degrees. People aged 40 and over will be restricted to 120 weeks of student allowances, while people aged 65 and over will no longer be eligible for an allowance.

Students of all ages will continue to have access to the interest-free student loan scheme.

The Budget also invests in expanding the Māori cadetship programme, which will increase the number of cadets from 250 to 350 each year. I want to acknowledge Māori Affairs Minister, and Māori Party co-leader, Pita Sharples for his leadership and support in this area.

Mr Speaker,

Over the last four-and-a-half years, the Government has had a comprehensive programme of reform to protect communities, prevent crime and put victims first.

This is delivering results.

Reported crime has fallen by almost 17 per cent over the past three years.

And our justice agencies are focused on areas that will get the best results in the future.

The Department of Corrections, for example, is investing \$10 million over two years to reduce offending by prisoners after they are released.

And, as previously announced, the Police are investing more than \$160 million over a number of years to give frontline officers access to new technology such as smartphones and tablets, which means they can deal with issues on the street without having to return to the station to do paperwork.

Mr Speaker,

The Government's fourth priority is to support the rebuilding of Christchurch.

Since the first earthquake, almost three years ago, the Government has made it clear that it will stand beside the people of Canterbury as they rebuild their lives and their communities.

I want to pay tribute to my colleague, Canterbury Earthquake Recovery Minister Gerry Brownlee, and the many public servants, community organisations and families who continue to work so hard to help each other through the many challenges that remain in their community.

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Considerable progress is being made. The SCIRT Infrastructure alliance has completed \$700 million worth of work, with another \$400 million under construction. The demolition of nearly 1,000 buildings in the Christchurch CBD has almost finished and the cordon will be removed at the end of June. And, by the end of this month, the Earthquake Commission will have completed 38,000 repairs and paid out more than \$5.3 billion in claims.

The Treasury has recently increased its estimate of total rebuilding costs from \$30 billion to \$40 billion – the equivalent of almost 20 per cent of New Zealand's annual GDP.

The Government's share of that total cost will be significant.

On current estimates, around \$7.6 billion will be incurred by the Earthquake Commission and other Crown entities.

Direct government support amounts to another \$7.6 billion, making a total Crown contribution of around \$15.2 billion.

Of the Government's direct support, \$5.5 billion has already been allocated through the Canterbury Earthquake Recovery Fund, which was established two years ago and is now fully committed.

This Budget confirms an additional \$2.1 billion of operating and capital spending to further support the rebuilding of our second-biggest city.

Over \$900 million of this funding comes from the Future Investment Fund, for projects including redeveloping Christchurch hospitals, establishing a justice and emergency services precinct and supporting tertiary education institutes.

The Government is also investing \$300 million in anchor projects for the Christchurch city centre. And almost \$650 million of additional capital funding from departmental balance sheets will be used for health and education projects in Canterbury.

Mr Speaker,

New Zealand is on the right track.

The Government's books are the envy of most developed countries.

The economy is growing and families are benefitting from that.

The country is seeing the benefit of improved public services that are focused on getting results.

Things haven't always been easy. But as a nation, we have coped with adversity and we're now making real progress.

We are seeing the benefits of the Government's programme of sensible, responsible change.

There are a lot of opportunities ahead of us as a country.

Providing we stick to the plan the Government has set out, I'm confident we will grasp those opportunities and keep building the brighter future New Zealanders deserve.

Mr Speaker,

I commend this Budget to the House.