



2015
BUDGET

Budget Speech

Hon Bill English, Minister of Finance

21 May 2015

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New Zealand Government

Budget Speech

Mr Speaker,

I move that the Appropriation (2015/16 Estimates) Bill be now read a second time.

It's a privilege to present the National-led Government's seventh Budget.

New Zealand has come through significant challenges and is now a more confident and resilient country than it was seven years ago.

Successive Budgets have sought to put New Zealand on a track to surplus and debt reduction, and as a result the Government's books are in good shape.

Careful management of public spending has gone hand-in-hand with investment in public services.

The economy has risen from deep recession to solid, 3 per cent growth.

In the 2011 Budget, I mentioned Treasury's forecast of 170,000 additional jobs by June 2015, and this was treated with some scepticism.

I can report that this target has already been surpassed, with three months still to go.

However, Budget 2015 is about looking forward, not looking back.

This is a responsible and supportive Budget from a responsible and supportive Government.

In this Budget we are providing further support for the lowest-income families and children in New Zealand.

We've allowed for significant ACC levy reductions.

We're strengthening tax rules on property investment.

We're investing more in the drivers of economic growth.

And we're supporting health and education with \$2.4 billion over the next four years.

This is achieved within an overall expenditure track that sees debt start reducing as a percentage of GDP and helps keep pressure off interest rates.

Delivering this Budget is only possible because of the constructive working relationships National has with the Māori Party, ACT and United Future.

I want to acknowledge their continuing support and contribution to stable government.

Economic outlook

Mr Speaker,

I want to start by talking about the economic outlook.

New Zealand remains one of the faster-growing developed economies, with conditions supporting sustained solid growth, forecast at 2.8 per cent on average over the next four years.

Growth matters. It means more jobs, higher incomes and opportunities for families to get ahead.

By mid-2019, the number of people in work is expected to rise by another 150,000 and the unemployment rate to drop to 4.5 per cent. The average wage is also expected to rise by \$7,000 to \$63,000 a year.

New Zealand's positive economic performance, relative to others, is demonstrated by the strength of the New Zealand dollar and the very low number of people leaving for Australia – the lowest, in net terms, since 1992.

Lower dairy prices are a headwind for growth, however, and global uncertainties remain. Monetary policy easing in other countries is helping to keep upward pressure on the exchange rate.

Unusually, given our current growth, New Zealand is experiencing very low inflation.

Annual CPI inflation is only 0.1 per cent, compared to the Budget 2014 forecast of 1.8 per cent.

This is good news for consumers and workers because their income goes a bit further and they get good value for any pay rises.

Low inflation is also keeping down interest rates. The concerns I expressed in last year's Budget about rising interest rates have largely disappeared.

But lower-than-expected prices also mean that nominal GDP – the size of the economy in dollar terms – is not rising as quickly as previously expected, despite solid growth in the real economy.

This means tax revenue is not rising as quickly either.

Compared to what was forecast in last year's Budget, nominal GDP is expected to be \$15 billion lower in total over this year and the next three years, and tax revenue to be \$4.5 billion lower in total over the same period.

Responsibly managing the Government's finances

Mr Speaker,

This leads me to the first of our four priorities, which is to responsibly manage the Government's finances.

The Government inherited a poor set of accounts in 2008. Spending under the previous government had risen 50 per cent in just five years, which was unaffordable. Treasury warned of permanent deficits and debt rising to over 60 per cent of GDP.

Our fiscal strategy has been to support the economy in the short term by running deficits, but to reduce these deficits over time through tight control of spending and a strong focus on value for money.

This approach has succeeded. Core Crown expenses, for example, have fallen from 34.1 per cent of GDP in 2008/09 and are expected to drop to 30 per cent next year.

The Crown's books are now in good shape, showing operating balances growing over time and debt reducing.

The Government has five fiscal priorities:

- Returning to surplus this year and maintaining surpluses in the future
- Reducing net debt to 20 per cent of GDP by 2020, including repaying debt in dollar terms in 2017/18
- Further reducing ACC levies
- Beginning to reduce income taxes from 2017, and
- Using any further fiscal headroom to reduce debt faster.

The Government is making good progress on all these fiscal priorities.

While expenditure is firmly under control, tax revenue – as I mentioned – is not rising as quickly as expected.

This is lowering operating balances across the forecast period, compared to Budget 2014 predictions.

But the overall trajectory has not changed. We have come from an \$18.4 billion deficit four years ago to seeing steadily rising surpluses into the future.

A deficit of \$684 million is now forecast for 2014/15, which is \$2.2 billion less than last year's deficit.

A surplus of \$176 million is expected in 2015/16, followed by \$1.5 billion in 2016/17 and rising to \$3.6 billion in 2018/19.

As I've said previously, the Government has no intention of making spending cuts simply to chase a surplus in a particular year.

The surplus target has been successful in applying greater discipline to government spending.

That discipline has turned the Government's books around, and the fiscal outlook remains very positive.

Net debt is expected to peak at 26.3 per cent of GDP in 2015/16 and to fall thereafter.

Debt rises a bit further in dollar terms until 2017/18, after which there will be sufficient cash surpluses to meet our objective of repaying debt.

Budget projections show net debt falling to 19.7 per cent of GDP in 2020/21.

At the same time, the Government has allowed for significant ACC levy reductions in 2016 and 2017.

The healthy state of the books means the Government is keeping operating allowances unchanged.

These remain at \$1 billion for Budgets 2015 and 2016 before rising to \$2.5 billion in 2017.

The higher allowance in 2017 provides options for modest income tax reductions should fiscal and economic conditions allow.

New capital spending of \$939 million in this Budget comes from the Future Investment Fund, which was set up to distribute proceeds from the Government share offers. \$726 million remains in the Fund.

From Budget 2017, around \$3.7 billion has been set aside in capital allowances to fund new initiatives over four Budgets.

The Government's assets are expected to grow significantly faster than its liabilities over the next four years, which means total net worth attributable to the Crown rises by \$19 billion.

The Government will continue to focus its balance sheet strategy on improving capital investment decisions and getting the best value possible from the Crown's existing assets.

Building a productive and competitive economy

Mr Speaker,

The Government's second priority is to build a more productive and competitive economy that supports jobs and higher incomes.

Through difficult times, New Zealand firms have become more resilient and innovative.

They've been supported by a Government that understands that the country's prosperity is created by private sector businesses, large and small, throughout New Zealand.

Our plan is set out in the Business Growth Agenda, and the Budget adds a number of initiatives to this important programme of work.

Mr Speaker,

Budget 2015 increases the Government's investment in tertiary education, research and innovation, which are important drivers of economic growth.

The Budget provides up to \$25 million over three years to support the establishment of new, privately-led Regional Research Institutes, to support increased innovation in regional areas outside of Auckland, Wellington and Christchurch.

As announced previously, the Budget will also give an \$80 million boost over four years to R&D growth grants, which support innovative businesses by contributing 20 per cent of their R&D costs.

The additional funding announced in Budget 2015 will bring the Government's total investment in science and innovation to over \$1.5 billion in 2015/16.

The Budget also provides \$113 million over four years, mostly from reprioritised spending, for a number of tertiary education initiatives.

These include increases in tuition rates for some science subjects, an increase in the number of engineering places, and a contingency to grow Māori and Pasifika Trades Training.

Mr Speaker,

The Government has already reduced annual ACC levies for households and businesses by \$1.5 billion since 2012.

The Budget allows for further levy cuts of \$375 million in 2016 and an additional \$120 million in 2017.

Final decisions on the levies will be made after public consultation, but we anticipate the cuts will cover all levied accounts and therefore reduce annual costs for businesses, workers and motor vehicle owners.

As an illustration of how levies are falling, the average motor vehicle levy, including the annual licence fee and petrol levy, could fall to around \$120 in 2016, which is about a third of what it is now.

Mr Speaker,

As previously announced, the Budget contains measures to bolster and enforce the tax rules on property.

This is to ensure that people buying and selling properties for a profit – including foreigners – are paying their fair share of tax.

In particular, some people will now have to provide an IRD number when they buy and sell property.

This requirement will apply to all non-residents, and to New Zealanders who are buying and selling a property that's not their main home.

In addition, if someone sells a residential property within two years of purchase they will now have to pay income tax on any profit they make from the sale.

There will be some exceptions, including for a person's main home.

The Government will consult on these changes, and implement them from 1 October.

The Budget also contains a funding boost of \$74 million over five years for extra tax compliance and enforcement, of which \$29 million is focused on property investment.

The new tax measures we are introducing will help to take some of the pressure off Auckland's housing market.

But the Government's main focus in Auckland is on increasing supply, including through special housing areas and reforms to the Resource Management Act.

The Government is also a major owner of under-utilised land in Auckland. Budget 2015 sets aside a \$52 million capital contingency to facilitate housing development on Crown-owned land in Auckland.

This follows confirmation last month that the Tāmaki Redevelopment Company will build around 7,500 new houses in Tāmaki to replace 2,500 existing properties currently owned by Housing New Zealand.

Mr Speaker,

New capital investment of \$939 million is provided from the Future Investment Fund.

This includes a contingency of up to \$210 million for additional investment to bring Ultra-Fast Broadband to 80 per cent of New Zealanders.

The Telecommunications Development Levy is also being extended to provide \$150 million for major improvements in rural broadband.

The Budget includes a contingency of up to \$52 million to replace the Waitangi Wharf on the Chatham Islands, which is a critical lifeline for one of New Zealand's most remote communities.

KiwiRail receives \$210 million in new capital next year, and a further \$190 million as a pre-commitment against Budget 2016. This support gives KiwiRail a two-year window to identify savings, as this level of on-going support is not sustainable.

As previously announced, the Budget also provides \$97 million in capital for regional highways and \$40 million for urban cycleways.

Mr Speaker,

Through Budget 2015, the Government is investing an additional \$37 million of operating funding over four years to provide greater national direction and support to councils as they implement the Government's resource management and freshwater reforms.

High quality analysis and regulation of freshwater is critical to the ongoing success of our primary production industries.

Further expansion in the primary sector will be supported by \$13 million over four years for initiatives to improve the productivity of under-utilised Māori land, complementing the reform of Te Ture Whenua Māori Act.

A new grant scheme has been established to encourage the planting of new forests, and the Budget provides \$22 million for this scheme over the next six years.

The Government is also investing \$32 million over four years to increase the number of labour inspectors and strengthen enforcement of employment law.

The New Zealand Business Number gets a boost from the Budget, with funding of \$12 million over four years, including from company fees. This unique identifier will help to reduce costs for businesses when they interact with government agencies.

Mr Speaker,

The KiwiSaver scheme has been successful in attracting 2.5 million members.

It also has considerable costs, with the Government spending over \$850 million this year on two subsidies – the annual subsidy of up to \$521, and the \$1,000 kick-start payment for new members.

To reduce this cost, the Government has decided to remove the kick-start payment, which has cost taxpayers a total of \$2.5 billion since the scheme began.

This change is effective immediately, but I want to stress that it does not affect existing KiwiSaver members in any way.

The other incentives in the scheme – matching employer contributions and the annual government subsidy – will remain as they are.

These incentives also provide a strong reason to join KiwiSaver. Removing the kick-start payment for future enrolments will save over \$500 million over the next four years, with little or no effect on the number of people expected to join the scheme.

Mr Speaker,

The Government will introduce a new levy to fund passenger-related biosecurity and customs activities at our border. Currently, the cost of these activities – which protect New Zealand from imported pests, diseases, illegal drugs and other threats – are met by taxpayers.

The Government considers it fairer for the cost to fall on travellers, as happens in many other countries. A per-passenger levy also helps ensure that border services are funded to meet future demand.

The new Border Clearance Levy is expected to take effect from 1 January 2016 and, subject to consultation, will be around \$16 for arriving passengers and around \$6 for departing passengers. It will raise around \$100 million a year.

At the same time, the Budget expands some border activities, including an additional \$25 million over four years for more biosecurity services such as x-ray machines and detector dogs.

The Budget also provides \$33 million over four years for more immigration staff at a time of record-breaking visitor numbers.

Delivering better public services

Mr Speaker,

The Government's third priority is to deliver better public services.

Our approach is to get better results from the billions of dollars of existing spending, and to invest new money where it will make a difference.

Three years ago, the Prime Minister set 10 challenging results for the public sector to achieve, and good progress is being made.

At the same time, New Zealanders' overall trust in public services has continued to grow as public services improve.

The Government is pressing ahead with its social investment approach, which is about targeted, evidence-based investment to secure better long-term results for the most vulnerable New Zealanders.

We're willing to pay a bit more upfront to get real, sustainable change, and in doing so we can generate significant long-term savings for the Crown.

Mr Speaker,

The Government is focused on addressing long-term drivers of hardship and this approach is already seeing results. Educational achievement is increasing, for example, and the number of children in benefit-dependent households has fallen by 42,000 over the past three years.

In addition, the Prime Minister said last year he wanted to do more to help children living in the poorest households.

The Budget responds to his call.

This Government believes that the primary responsibility for the welfare of children lies with their parents.

But government actions can, and do, help children whose home lives are challenging.

Two-thirds of children in more severe material hardship have a parent on a benefit, and nine out of 10 of those are sole parents.

The best thing we can do for these children is to get their parents into sustainable, full-time work, where that is possible.

So, as part of a child hardship package in this Budget, we are strengthening work expectations for parents on a benefit.

From 1 April next year, most sole parents, and partners of beneficiaries, will have to be available for part-time work when their youngest child turns three, rather than five as it is now.

In addition, all beneficiaries with part-time work obligations will be expected to find work for 20 hours a week, rather than 15 hours a week under the current requirements.

Part-time work brings more income into a family, and is a stepping stone to full-time work and to going off a benefit altogether.

However, when families do rely on a benefit, it has to be enough for children to get a decent upbringing.

Over many years, beneficiary family incomes have hardly changed in real terms, while those for working families have increased.

On one hand, this gap creates a strong incentive to move from welfare into work.

But the Government is concerned about the effect on children when their family's resources fall behind those of other households.

In terms of that balance, and with an improving economy, the Government considers there is scope to increase benefit rates for families, to help ensure they can pay for family necessities.

On 1 April next year, benefit rates for families with children will rise by \$25 a week after tax.

It will be the first time core benefit rates have been increased – apart from inflation adjustments – since 1972.

Around 110,000 families, with 190,000 children, will be better off as a result.

This increase to benefit rates comes after widespread reform of the welfare system, so we're confident it will have a positive impact on the lives of beneficiary families and children, rather than contribute to further dependence.

In addition, to make sure the increase is going to the right people, we will require beneficiaries on Sole Parent Support to reapply for their benefit every year, matching the current process for Jobseeker Support.

Mr Speaker,

While two-thirds of children in more severe material hardship live in beneficiary families, the other third live in low-income working families.

So on 1 April next year, there will also be changes to Working for Families, to give more financial support to lower-income working families not on a benefit. As a result:

- Low-income working families earning \$36,350 or less a year, before tax, will get \$12.50 extra a week from Working for Families, and some very low-income families will get \$24.50 extra.
- Working families earning more than \$36,350 will get extra from Working for Families, but it will be less than \$12.50 a week, with the exact amount dependent on their family income.
- Families earning more than \$88,000 a year will get slightly lower Working for Families payments, with the average reduction being around \$3 a week.

In total, these changes to tax credits will benefit around 200,000 lower-income working families who are not dependent on benefits. Around 50,000 of these families earn \$36,350 or less a year, and will therefore get the full \$12.50 a week increase.

The child hardship package also recognises that lower-income working parents need affordable childcare.

From April next year, Childcare Assistance for low-income families will increase from \$4 an hour to \$5 an hour, for up to 50 hours of childcare a week per child.

The new rate will apply to both the Childcare Subsidy for pre-schoolers and the OSCAR subsidy for out-of-school care and school holiday programmes.

It will lower the cost of childcare for around 40,000 low-income working families and reduce barriers for parents moving off welfare and into work.

The child hardship package has a number of different elements. Its exact impact on any given family will depend on their individual circumstances, including the types of supplementary assistance they receive.

Overall, it will have a meaningful impact for recipient families, particularly for those on very low incomes, and reduce the depth of hardship these families and their children experience.

The total cost of the package is around \$240 million in each full year, and \$790 million in total over the four-year forecast period.

It follows last year's \$500 million children and families package which included free doctors' visits and prescriptions for children under 13.

I want to thank the Māori Party for its strong contribution to poverty-related issues over the past few years.

Mr Speaker,

The Budget also provides new operating funding of \$36 million over the next four years to support the Children's Action Plan for vulnerable children.

This includes funding for new and existing Children's Teams, which bring together social workers, health professionals, NGOs and others, to work with at-risk children and their families on an individually-tailored support plan.

An extra \$23 million over four years is being provided to bolster the work of Child, Youth and Family.

The Budget also contains \$8 million over four years for initiatives to help vulnerable students participate more in education or training, and lift achievement.

Mr Speaker,

The Budget includes measures to tackle child support debt and encourage parents to pay what they owe for their children.

Currently, large penalty debts are discouraging many parents from paying any child support at all.

This penalty debt, or a portion of it, will now be forgiven in certain circumstances, including where liable parents are meeting their payment requirements.

If maximum discretion is applied, this will result in \$1.7 billion of penalties being forgiven over four years.

The cost to the Crown is an estimated \$47 million over four years, as most of the penalty debt is already reflected as an impairment in the Government's books.

There will continue to be no tolerance for parents who deliberately avoid responsibility.

Mr Speaker,

Despite fiscal challenges, a priority in every Budget has been to increase funding for health and education.

This year's Budget invests \$1.7 billion of operating funding in health over the next four years.

As a result, District Health Boards will have around \$320 million available next year for extra services and to help meet cost pressures and population growth.

New health initiatives include \$98 million to increase elective surgery volumes and help New Zealanders suffering from orthopaedic conditions.

An extra \$76 million is being provided for hospices, and to support 60 new palliative care nurse specialists.

The bowel cancer screening pilot is being extended, at a cost of \$12 million.

And the Budget provides an additional \$16 million over four years to continue support for very high needs students with disabilities after they leave school.

Mr Speaker,

Educational achievement is improving, supported by government investment that is focused on getting better results.

In Budget 2015, early childhood, primary and secondary education together receive an additional \$443 million of new operating funding and \$244 million of capital.

Of this, \$75 million of operating funding over four years is for early childhood education and \$42 million is to increase school operating grants.

An extra \$63 million over four years will better assist children with special education needs. This includes funding to continue teacher aide support for 1,500 additional students with special needs.

As previously announced, Budget 2015 provides \$244 million of capital from the Future Investment Fund to build new schools, expand existing schools and construct around 240 classrooms.

Mr Speaker,

The Government is committed to providing more social housing places, more diverse ownership of social housing, and helping tenants transition to housing independence when they are able to.

As part of our social housing reforms, the Ministry of Social Development has become the sole purchaser of social housing places. The Government also intends to sell some Housing New Zealand properties for use as ongoing social housing run by community housing providers.

Budget 2015 supports this programme with \$35 million of operating funding over four years, and \$29 million reprioritised from other areas.

The Budget also provides operating funding of \$35 million over four years to support the Māori Housing Strategy, which aims to improve housing for Māori families and grow the Māori housing sector.

Mr Speaker,

Whānau Ora is an innovative way of providing health and social services.

Budget 2015 further supports the Whānau Ora approach with \$50 million over four years. This will continue funding Whānau Ora navigators to help families tackle problems together, develop whānau plans and access a range of services.

The Budget also provides \$2 million over four years for rangatahi Māori suicide prevention.

New funding of \$32.5 million is provided over four years to further reduce welfare dependency.

This includes funding for up to 10,000 extra places next year for intensive, work-focused case management, particularly for beneficiaries with health conditions and disabilities.

Mr Speaker,

Police and Corrections will continue to target their resources to prevent crime and make our communities safer.

Budget 2015 provides \$164 million over four years for Police to continue delivering more effective frontline policing and crime prevention.

It also provides \$8 million over four years for the Serious Fraud Office.

The Department of Corrections receives \$6.5 million of reprioritised funding for programmes to reduce reoffending.

And the Budget provides \$40 million over four years for other justice sector initiatives.

Mr Speaker,

The Government is committed to strengthening the New Zealand Defence Force and ensuring our country is safe from security threats.

Budget 2015 provides \$264 million over four years to allow the Defence Force to meet its domestic and international humanitarian, aid and military commitments.

The Security Intelligence Service and the Government Communications Security Bureau each receive additional funding of \$20 million over four years.

Mr Speaker,

Kiwi are New Zealand's most iconic birds, but numbers are declining every year.

The Budget contains \$11 million of funding over four years for breeding and predator control programmes, run by community groups as well as the Department of Conservation.

Rebuilding Christchurch

Mr Speaker,

The Government's fourth priority is supporting the rebuild of Christchurch.

Since the first earthquake in September 2010, the Government has backed Cantabrians in the initial response, and now the recovery and rebuild.

The total cost of rebuilding the city and surrounding areas has been estimated at \$40 billion.

Budget forecasts show that the Government's share of that cost is expected to be \$16.5 billion, of which \$7.3 billion will be incurred by the Earthquake Commission, net of reinsurance proceeds.

Good progress is being made on the commercial and residential rebuild, including in the central city.

Large private sector projects are a testament to the positive future investors see for Christchurch, and 23,000 square metres of office space has been completed.

Major Government projects are also progressing. By the end of next year, 1,700 government workers will have returned to the central business district.

It is important to maintain momentum with the city's anchor projects, most of which are complex developments with multiple partners. The Budget contains additional operating funding of \$108 million over four years to ensure these projects remain on track.

This new funding will support land and building clearances. It will also cover the cost of owning and developing the hundreds of millions of dollars of assets purchased by the Crown.

The Canterbury Earthquake Recovery Authority, and the Act that governs it, were established in 2011 with a limited lifespan.

Last year, the Government established an Advisory Board on Transition, to provide recommendations on the future role, functions and powers of the Government in Christchurch.

By the middle of this year we will have a better idea about what the right structure in Christchurch should be, and implementing this structure will help maintain progress towards long-term recovery in the city and its surrounds.

Conclusion

Mr Speaker,

This is the kind of Budget a responsible Government can deliver when it's following a plan that's working.

The Government's finances are sound and the economy is doing well – thanks to the hard work of New Zealand households and businesses.

Under John Key's positive leadership, the Government has been stable and cohesive.

That has helped build New Zealanders' confidence, both in their homes and at work.

New Zealand is in good shape, though we're not complacent.

There are very real risks in the world but New Zealand is much more resilient now than when we took office in 2008.

Our challenge is to secure for our economy and for our communities the hard-won gains this country has made through to 2020 and beyond.

New Zealanders can look to that future with well-deserved confidence and optimism.

Mr Speaker,

I commend this Budget to the House.