



2016  
BUDGET

# Budget Speech

Hon Bill English, Minister of Finance

26 May 2016

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[New Zealand Government](#)



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# Budget Speech

Mr Speaker,

I move that the Appropriation (2016/17 Estimates) Bill be now read a second time.

It's a privilege to present the eighth Budget of this National-led Government.

I recall our first Budget, delivered in difficult times, with Treasury forecasting never-ending deficits and ever-rising debt.

Today, however, I can present a healthy set of public accounts.

The Crown's books show rising surpluses and falling debt.

This is on the back of an economy forecast to grow at around 3 per cent on average over the next few years, supporting more jobs and higher incomes.

Budgets are not just an accounting exercise.

They are about achieving better results for New Zealanders and their families from almost \$80 billion a year of existing spending.

And they are about ensuring that any new spending is directed to where it will make a real difference.

The Government has done that, in areas ranging from schools to child health to reducing crime and to supporting new jobs.

Budget 2016 builds on these achievements and identifies new opportunities.

Mr Speaker,

This Government is ambitious for New Zealand.

We can realise that ambition with a strong economy and continued prudent management of the public finances.

Budget 2016 invests in a growing economy. In particular, it supports four significant measures.

The first is the Innovative New Zealand package – a \$761 million investment that focuses on growing our science system, producing the skills New Zealand needs, and encouraging innovation and investment in regional New Zealand.

The second is a \$2.1 billion infrastructure programme that focuses on transport, schools, and the investment needed to deliver a modern, flexible tax system.

The third is a Social Investment package providing \$652 million more to support vulnerable New Zealanders and help them live better lives.

And the fourth measure I want to highlight is a significant investment in the health sector. This will receive an additional \$2.2 billion over four years to ensure New Zealanders continue to have access to high-quality healthcare.

The Budget delivers these measures, and more, because we have retained tight fiscal discipline and demanded better results from public services.

We owe that to New Zealanders who go out to work every day and pay their taxes.

Budget 2016 is possible because of the constructive working relationships National has with the ACT, United Future and Māori parties.

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

## **Economic outlook**

Mr Speaker,

New Zealand's economic outlook is positive.

Treasury is forecasting real GDP growth of around 2.9 per cent over the coming year, and 2.8 per cent on average over the five years to June 2020.

Over 200,000 more people are in work now than three years ago, and another 170,000 new jobs are expected by 2020.

Over that period, the unemployment rate is expected to drop to 4.6 per cent and the average wage is forecast to rise to \$63,000 a year.

Only a handful of developed economies enjoy such a positive outlook.

Strong population growth is both an indicator of New Zealand's economic performance and a contributor to it.

For the first time in a generation, we have a net annual movement of people into New Zealand from Australia – rather than an exodus of Kiwis across the Tasman.

Consumer spending and services exports are two other key factors driving economic growth.

Further impetus is apparent in a large pipeline of construction projects, and low interest rates should continue to stimulate investment.

Certainly, times are challenging for our dairy farmers, who are finishing another season facing depressed prices.

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But elsewhere, New Zealand is reaping the benefits of an increasingly diversified economy.

Total exports increased by almost \$2 billion last year.

Tourism, the beef sector, ICT, wine and much of the manufacturing sector are all performing well.

Overall, nominal GDP is expected to be \$17 billion higher over the five years to June 2020, compared to the Half-Year Update, and this flows into higher-than-expected tax revenue.

## **Responsibly managing the Government's finances**

Mr Speaker,

Responsible fiscal management has been the hallmark of this Government's previous seven Budgets.

It is also a feature of Budget 2016.

The surplus target helped us turn the Government's books around. Now our focus is shifting more to debt repayment.

Reducing debt to more prudent levels will give the Government more room to support New Zealanders, and the economy, should we face another economic shock or natural disaster.

The Government's fiscal priorities over the next few years are:

- Maintaining rising operating surpluses.
- Reducing net debt to around 20 per cent of GDP in 2020.
- If economic and fiscal conditions allow, beginning to reduce income taxes.
- And using any further fiscal headroom to reduce debt faster.

Budget 2016 forecasts confirm the Government is on track and its books are in good shape.

We're continuing to manage our spending carefully. This means government expenditure falls to 29.7 per cent of GDP this year and stays under 30 per cent thereafter.

Modest OBEGAL surpluses are forecast for this year and the next, before rising strongly from 2017/18.

Cash surpluses are forecast from 2018/19, which means the Government will start paying down debt in dollar terms.

Net debt is expected to peak at 25.6 per cent of GDP next year and to fall to 19.3 per cent of GDP in 2020/21.

As a result, New Zealand Superannuation Fund contributions are expected to resume in 2020/21, two years earlier than forecast in the Half-Year Update.

Mr Speaker,

Spending pressures have changed since the last Budget – in part because higher-than-expected population growth has increased demand for public services.

As a result, \$600 million a year of new spending previously earmarked for Budget 2017 has been brought forward.

This takes new operating spending in Budget 2016 to \$1.6 billion a year on average.

This allowance remains much smaller than those of the previous government, whose eighth and ninth Budgets, for example, contained an average of \$4.3 billion a year of new operating initiatives.

As I have mentioned, reducing debt is one of the Government's key priorities.

Therefore, a further \$400 million a year previously earmarked for Budget 2017 has been used to reduce debt.

Extra capital spending to fund investment in infrastructure and other public assets is set at \$1.4 billion in Budget 2016, slightly lower than previously anticipated.

However, in addition, significant capital spending will be funded from reprioritising within the Crown's balance sheet, taking the total new capital spend in Budget 2016 to \$2.6 billion.

In total, these changes reduce Budget allowances for new spending by around \$1.2 billion over the next five years, helping to further reduce debt while still investing in public services.

## **Building a productive and competitive economy**

Mr Speaker,

A priority for this Government is to build a more productive and competitive economy that supports jobs and higher incomes.

New Zealand has a proud history of innovation.

Our national prosperity hinges on businesses, large and small, investing in new products and markets.

We are already seeing that happening.

Business investment has increased from \$31 billion in 2010 to \$40 billion last year, and is expected to grow to \$50 billion by 2020.

Our export sectors are taking advantage of free trade agreements, and selling more New Zealand products to growing markets around the world.

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The economy is diversifying, with the ICT sector, for example, more than doubling its exports over the past eight years.

This Budget looks to the future, and includes measures to further support business and regional innovation.

The largest is the \$761 million Innovative New Zealand package to encourage entrepreneurship, skills and economic growth.

This package will support more jobs, higher wages and a stronger, more diversified economy.

The package has three parts.

First, investment in science and innovation will increase by \$411 million over the next four years.

A number of different science and research funding streams have been boosted, including those that have a strong potential impact on New Zealand's economy, environment and society.

The Marsden Fund – which supports excellence in research – will be expanded, as will funding for the Health Research Council.

In total, increased funding will take cross-government investment in science and innovation to \$1.6 billion a year by 2019/20.

Second, to support skills and employment, we are investing \$257 million in more tertiary education and apprenticeship programmes, particularly in the areas of science, engineering and agriculture.

Tuition subsidies will be increased in a number of subject areas and the Government will fund 5,500 more apprentices by 2020.

Funding will be provided to help second-chance learners gain basic skills and to strengthen workplace literacy and numeracy programmes.

Finally, to support regional economic development, we are introducing a series of initiatives worth \$94 million that will unlock business opportunities and benefit regional communities.

Additional funding will be provided for the Government's Regional Growth Programme and to develop more regional research institutes across New Zealand.

As a package, Innovative New Zealand provides significant and targeted support to help New Zealanders and businesses across the country meet the demands of a changing modern economy.

Mr Speaker,

Further support for businesses – particularly small enterprises – comes through a \$187 million SME-friendly tax package, which the Prime Minister announced last month.

This provides a better balance of incentives to encourage taxpayers to pay the right amount of tax.

Provisional tax will be reformed, with a new pay-as-you-go option allowing small businesses to pay tax as they earn income.

Use-of-money interest will be eliminated or reduced for the vast majority of taxpayers.

Contractors will be able to choose a withholding tax rate that suits their own circumstances.

And the ongoing 1 per cent monthly late-payment penalty will be scrapped from 1 April 2017 for new debt – although immediate penalties and interest charges will continue.

Mr Speaker,

The Government remains committed to ensuring that everyone pays their share of tax according to the rules.

We have a strong tax system in New Zealand and we are making further changes targeted at multi-national companies.

New Zealand recently signed an international agreement that will make it harder for multi-nationals to artificially lower their tax liabilities.

We will soon introduce legislation to increase the amount of tax compliance information shared between our treaty partners.

We have commissioned an independent review of the disclosure requirements for foreign trusts, which is due by 30 June.

And we will continue to work with the OECD to address tax avoidance.

These changes will help ensure that our tax base and disclosure rules remain robust into the future.

Mr Speaker,

The tax changes previously announced are part of a wider business transformation programme that embraces new technology to make it easier and less complicated to pay tax.

The Budget includes \$857 million for Inland Revenue's new tax administration system, replacing one that is a quarter of a century old.

This funding is just one part of a significant Budget infrastructure investment package totalling \$2.1 billion.

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The package provides \$115 million for roading projects in Gisborne, Marlborough and Taranaki, under the Government's previously announced Accelerated Regional Roding Programme.

KiwiRail will receive \$190 million for the operation of the national rail network. The Government has a strong expectation that KiwiRail will continue to improve its performance to reduce the level of Crown support required in the future.

Nine new schools and 480 new classrooms are included in a package of schooling investments that total \$883 million.

The package provides for growth in student numbers as well as for the Christchurch schools rebuild programme.

Tourism infrastructure is also being upgraded.

Mr Speaker,

As well as investing in infrastructure, the Budget also includes funding to free up more land and increase housing supply in Auckland.

Housing development on surplus Crown land in Auckland receives a \$100 million boost in capital funding.

This follows the \$52 million set aside in Budget 2015 that has so far resulted in agreements for 20 parcels of land.

The Government's longstanding view is that obstacles to the supply of land and housing are the main issues facing the housing market.

It is essential these obstacles are removed.

As well as our work on reforming the Resource Management Act, the Government will soon issue a National Policy Statement on Urban Development.

This will direct councils to allow more housing development where necessary and to measure the impact of their decisions on house prices.

Mr Speaker,

The Budget includes significant extra funding to ensure more people in need have access to social housing.

\$200 million is provided over four years for at least 750 more places for those with the most pressing housing needs, and to meet the rising cost of social housing rents.

Another \$41 million will support around 3,000 emergency housing places a year and establish a new emergency housing Special Needs Grant.

This is part of the Government's wide-ranging reforms focused on ensuring that New Zealanders in need have access to appropriate housing.

Mr Speaker,

The tourism sector is experiencing rapid growth and Budget 2016 provides a \$45 million package of support over four years.

This includes a new \$12 million fund to help communities with smaller-scale infrastructure projects, like restrooms and carparks, to deal with growing numbers of tourists.

Tourism New Zealand will receive \$8 million to target key growth markets and increase the record number of tourists arriving here.

\$25 million is being provided to upgrade and extend the New Zealand Cycle Trail and ensure it continues to offer a world-class visitor experience.

And we are also starting a two-year trial to streamline border processing for low-risk travellers to make it easier for them to visit New Zealand.

Mr Speaker,

The Government is committed to protecting our natural environment and to playing our part in addressing global climate change.

The Government will phase out a subsidy in the Emissions Trading Scheme that was introduced as a temporary measure during the global financial crisis.

This has allowed some businesses to pay one emissions unit for every two tonnes of pollution they emit.

We believe it is time businesses move towards paying the market price for their emissions.

Removing the subsidy will positively impact the operating balance by \$356 million over the next four years, based on a New Zealand Unit price of \$12.

The Budget also establishes a \$100 million fund to help clean up New Zealand's rivers, lakes and aquifers over the next decade.

The Freshwater Improvement Fund will contribute to projects that help communities improve water quality. Priority will be given to projects involving the private sector or philanthropic funds.

An additional \$16 million is being provided to control wilding pines in the highest priority areas.

And the Battle for Our Birds programme – New Zealand's largest pest control operation – will receive \$21 million this year. This will help fight an expected pest population boom caused by a heavy forest seeding.

\$70 million over four years is being provided to tackle bovine tuberculosis.

This new funding will help achieve our goals of eradicating TB from cattle and deer by 2026, and from infected wildlife by 2055.

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## Delivering better public services

Mr Speaker,

The Government is committed to delivering better public services.

Four years ago, the Prime Minister gave the public service a set of challenging targets covering welfare, education, crime and health.

Since then, significant progress has been made.

For example:

- More than 40,000 fewer children now live in a benefit-dependent household.
- The proportion of 18-year olds achieving an NCEA Level 2 qualification has increased from 74 per cent to over 84 per cent.
- Total crime has dropped by 16 per cent, with youth crime down by almost 40 per cent.
- And rheumatic fever rates have fallen by 45 per cent.

Child abuse in New Zealand, however, remains too high.

Mr Speaker,

The Government is investing in new ways of supporting more New Zealanders off benefits and into work, so they can lead better lives.

As a result, the number of people on a benefit is the lowest for eight years, and the lifetime cost of the welfare system has fallen by \$12 billion since 2011.

This is an example of our Social Investment approach, which uses data-driven investment techniques to determine when and how to intervene to change lives for the better.

Budget 2016 includes a comprehensive and wide-ranging Social Investment package, with extra funding of \$652 million over four years.

There are a number of parts to this package.

The Government recently announced major state care reforms and a complete overhaul of Child, Youth and Family to improve the long-term life outcomes for New Zealand's most vulnerable population. A new system will be in place by the end of March 2017.

The Budget provides funding of \$200 million for these reforms over the next four years.

This includes developing an independent youth advocacy service, raising the age of care and protection, caregiver recruitment and training, workforce training and development, and better access to support for caregivers.

This is the Social Investment part of new Budget funding for the care and protection of children. In addition, a further \$145 million will meet increased demand from more children and young people in care.

Mr Speaker,

Another part of the Social Investment package provides \$61 million to extend the Youth Service to 19-year old parents, and to 18 and 19-year old job seekers at risk of long-term welfare dependency.

If we do not take action, the average 19-year old sole parent will spend 18 years on a benefit.

It is our responsibility, both to families and to taxpayers, to do more to help these sole parents gain independence.

The Social Investment package also includes \$50 million to reduce barriers to employment, including for people with complex health conditions who would otherwise spend significant time on a benefit.

The package includes an extra \$43 million for schools to increase support for around 150,000 students most at risk of educational failure.

The Whānau Ora programme, which focuses on self-determination, receives another \$40 million to support around 2,500 more whānau and families in areas such as managing health and disability issues, improving financial literacy and reducing household debt.

I acknowledge the advocacy and support of the Māori Party for this new approach.

Another \$20 million from the Social Investment package is to support offenders at a particularly vulnerable time when they leave the controlled routine of prison and return to the community.

The package also provides \$36 million to ensure more New Zealand families live in warmer, drier and healthier homes.

Half of this funding is targeted at insulating around 20,000 rental homes occupied by low-income families through the Warm Up New Zealand programme. This will take the total number of newly-insulated homes since 2009 to well over 300,000.

The other \$18 million – delivered through the health system – focuses on reducing preventable illnesses among young children who are living in cold, damp and unhealthy homes.

By addressing the drivers of demand for public services, and helping people become more independent, Social Investment also reduces the long-term costs of providing public services.

As I've said many times, what works for communities also works for the Government's books.

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Mr Speaker,

Budget 2016 contains a significant increase in funding for core public services that New Zealanders rely on every day.

This extra investment comes with a clear expectation that public agencies must strengthen their focus on delivering better results.

The health sector is a particular priority and the Government will invest over \$16 billion in health in the coming year.

Over the next four years, \$2.2 billion of additional funding will be provided for new health initiatives and to meet demand.

Pharmac, for example, will receive an additional \$124 million over four years to provide more New Zealanders with access to new medicines.

As Pharmac has announced, it proposes using this funding to provide new treatments in a range of areas, including for melanoma and hepatitis C.

The Budget also provides \$39 million for a national bowel screening programme which, when fully implemented, is expected to screen over 700,000 people every two years.

As well as that, a further \$96 million over four years will increase the number of elective operations.

This is part of a continued effort to increase elective operations. Around 50,000 more surgeries are now performed each year than in 2008.

Budget 2016 provides \$169 million more for disability support services and a further \$73 million for primary healthcare. This includes extra support for the free doctors' visits and prescriptions for under 13s that we announced in Budget 2014.

District Health Boards will receive \$1.6 billion over four years to invest in services, meet population growth and deliver better results.

Mr Speaker,

Increasing the price of tobacco is the single most powerful tool to reduce smoking.

The Budget confirms that tobacco excise duty will rise by 10 per cent on 1 January each year for the next four years.

I want to thank the Māori Party for continuing its advocacy for this effective approach to reducing smoking.

Mr Speaker,

This Government measures success by the results achieved for New Zealanders, rather than the amount of money spent.

Since 2008, the proportion of children in early childhood education has increased to almost 97 per cent.

As I've mentioned, the proportion of 18-year olds with NCEA Level 2 qualifications has also grown considerably.

Children are starting school better prepared to learn, and leaving school better equipped to succeed.

The Budget continues this focus on results.

The Government will invest a total of \$11 billion in early childhood, primary and secondary education in 2016/17. Together, these sectors will receive an extra \$1.4 billion over this year and the next four years.

\$397 million of this will meet growing demand for early childhood education and provide places for a further 14,000 children.

Additional funding is directed at students most in need of assistance.

Instead of an across-the-board increase in operations grants, schools will receive \$43 million over four years to target students most at risk of under-achieving.

In addition, \$42 million will be provided for students with high and special educational needs.

As I mentioned previously, the Budget provides \$883 million for new school property.

It also includes funding for around seven new Partnership Schools in 2018 and 2019.

I want to acknowledge David Seymour for his advocacy for this initiative.

Mr Speaker,

This Government is providing considerable support for initiatives to improve the education and skills of Māori and Pasifika New Zealanders.

We have provided almost \$10 million more over four years for Māori and Pasifika Trades Training. This will increase the number of training places to 3,400 next year – up from just 1,200 in 2014.

In addition, the Budget allocates \$6 million over four years for other Pacific peoples initiatives, such as helping Pacific youth in Auckland find work, education or training opportunities.

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Mr Speaker,

The Justice sector faces a number of challenges, including the rising prison population, preventing crime and prisoner rehabilitation.

Overall, this sector receives \$837 million over the next four years, plus \$56 million in 2015/16.

Police receives \$299 million, including \$49 million from Budget 2015, which will primarily be used to meet wage increases.

Funding of \$208 million supports a number of justice sector initiatives, including addressing family violence, increasing access to legal aid and ensuring the justice system better caters for victims of crime.

Corrections receives \$356 million to protect the safety of the public, reduce reoffending and accommodate higher numbers of prisoners.

This includes funding to manage offenders returning from overseas and to continue 24-hour GPS electronic monitoring for the highest risk offenders.

Mr Speaker,

\$303 million is provided over four years to combine urban and rural fire services into one organisation from the middle of next year.

As announced previously, this will come from a proposed increase in the fire levy from 2017/18, as well as government funding.

I want to thank Peter Dunne for overseeing these changes.

In addition, the Ministry of Civil Defence and Emergency Management will receive an extra \$6 million over four years to ensure New Zealand is well prepared for future natural disasters.

Mr Speaker,

A fundamental responsibility of the Government is to protect the safety of New Zealanders.

The Budget provides \$301 million of new funding over four years for the New Zealand Defence Force to concurrently undertake domestic, regional and international security tasks.

The New Zealand intelligence community will receive new funding of \$179 million over four years.

This will ensure it can provide essential intelligence and security services and remain effective in a rapidly-evolving environment.

As announced previously, the Government is investing \$20 million over four years on a new Computer Emergency Response Team to combat cyber-attacks and cyber-crime.

Mr Speaker,

Recognising the importance of the arts, the Budget provides an additional \$12 million over four years for the New Zealand Symphony Orchestra, Royal New Zealand Ballet and Te Matatini Kapa Haka Aotearoa.

Budget 2016 also provides \$16 million over four years for High Performance Sport to support athletes and enhance our medal prospects at the Tokyo Olympics in 2020.

A further \$4 million over four years will go to Drug Free Sport New Zealand.

Mr Speaker,

The Government supports the SuperGold card scheme and is providing \$41 million of additional funding to provide certainty for more than 670,000 cardholders across New Zealand.

## Christchurch regeneration

Mr Speaker,

Since the first Christchurch earthquake in September 2010, the Government has backed Cantabrians in the initial response, and now in the recovery and regeneration of the region.

I want to acknowledge the leadership of my colleague Gerry Brownlee.

Taxpayers' financial commitment to the Christchurch regeneration now stands at more than \$17 billion – around \$700 million more than signalled in the last Budget.

Nearly six years after the first earthquake, the Canterbury community can take real pride in what has been achieved.

Almost 100,000 cash settlements have been made by EQC, which has also resolved more than 60,000 land claims. Around 68,000 homes have been repaired in the Canterbury Home Repair Programme.

In Christchurch's central business district, 97 per cent of the horizontal infrastructure repairs have been completed.

Overall, \$3.9 billion of public sector projects are completed or are under construction, with almost \$800 million more forecast to begin in the next six months.

Three anchor projects have been completed in Christchurch – the Hagley Park cricket oval, the bus interchange and the Margaret Mahy family playground.

Work is progressing on the Metro Sports Facility and the Convention Centre.

The recovery phase in Christchurch formally came to an end last month, with the expiry of the Canterbury Earthquake Recovery Act.

The Government will now progressively step back from its leadership role in Christchurch.

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Local organisations have been set up to deliver on the Government's ongoing commitment to the city and the wider region.

This new regeneration phase is not just about rebuilding Christchurch, but also fulfilling the long-held potential of New Zealand's second largest city.

## Conclusion

Mr Speaker,

New Zealanders rightly place a premium on stable government.

Under John Key's strong leadership, the National-led Government is providing that stability.

New Zealand has made significant progress over the past eight years.

As a country, we are more confident and our economy is growing.

Businesses are creating thousands of new jobs and incomes are rising.

We are getting to grips with our toughest social problems.

And the books are back in the black.

This all means so much more is possible over the next eight years and beyond.

The Government takes a long-term view of its stewardship.

We are shaping policy around a 20 to 30-year view of how we can improve the lives of New Zealanders.

Budget 2016 does that by making positive long-term choices that will further strengthen our economy and our communities into the future.

Mr Speaker,

I commend this Budget to the House.