Executive Summary

Building Momentum

Hon Bill English, Minister of Finance
16 May 2013

Embargo: Contents not for communication in any form before 2:00pm on Thursday 16 May 2013.

New Zealand Government

The economic recovery gains momentum...

Economic growth is the highest in five years. Wages are growing, cost of living increases have been modest and interest rates are at 50-year lows.

GDP growth is forecast to continue at between 2 and 3 per cent...

Real production GDP (annual average % change)

...while many other countries have struggled with too much government debt and little growth

Forecast trading partner growth (calendar years)
...driven by low interest rates, investment and strong export prices

Households enjoy higher disposable income...

Household disposable income (March years)

Investment, including for the Canterbury rebuild, is expected to be a driver of economic growth.

There are 50,000 more jobs than two years ago and the unemployment rate has fallen to 6.2 per cent, the lowest in three years.

Household income has risen by 20 per cent over the past four years, and is expected to rise by almost 20 per cent over the next four years.

Delivering a stronger and more prosperous New Zealand depends on businesses having the confidence to invest and employ more people. The Government has a clear plan to build this confidence, based around its four key priorities:

1. Responsibly managing the Government’s finances
2. Building a more productive and competitive economy
3. Delivering better public services within tight fiscal constraints
4. Supporting the rebuilding of Christchurch
1. Responsibly managing the Government’s finances

The Budget confirms the Government remains on track to post a surplus in 2014/15 and start to reduce government debt. We are achieving this while still spending a total of $5.1 billion on new initiatives in the current year and over the next four years in Budget 2013.

Return to surplus in 2014/15

Total Crown operating balance before gains and losses (OPEGAL)

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>-6,285</td>
</tr>
<tr>
<td>2013/14</td>
<td>-2,033</td>
</tr>
<tr>
<td>2014/15</td>
<td>75</td>
</tr>
<tr>
<td>2015/16</td>
<td>797</td>
</tr>
<tr>
<td>2016/17</td>
<td>2,618</td>
</tr>
</tbody>
</table>

Note: Excludes revenue initiatives.

...and new Budget spending is set at sustainable levels

New operating spending per Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending (billions per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>2.5</td>
</tr>
<tr>
<td>2010/11</td>
<td>2.5</td>
</tr>
<tr>
<td>2011/12</td>
<td>2.0</td>
</tr>
<tr>
<td>2012/13</td>
<td>1.5</td>
</tr>
<tr>
<td>2013/14</td>
<td>0.75</td>
</tr>
<tr>
<td>2014/15</td>
<td>0.5</td>
</tr>
<tr>
<td>2015/16</td>
<td>0.5</td>
</tr>
<tr>
<td>2016/17</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Return to surplus in 2014/15...

Expenditure returns to 30 per cent of GDP...

Core Crown expenses and revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Core Crown expenses</th>
<th>Core Crown revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003/04</td>
<td>36%</td>
<td>36%</td>
</tr>
<tr>
<td>2005/06</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>2007/08</td>
<td>32%</td>
<td>32%</td>
</tr>
<tr>
<td>2009/10</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>2011/12</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>2013/14</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>2015/16</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>2017/18</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>2019/20</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>2021/22</td>
<td>18%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Note: Excludes revenue initiatives.
Running deficits, and taking on more debt, has been the appropriate response to the challenges the economy has faced and has cushioned New Zealanders and their families from major shocks. But this build up of debt cannot continue forever.

We have prioritised our goal of reducing government debt to prudent levels (20 per cent of GDP by 2020) by:

- Reducing operating allowances for new spending from $1.2 billion to $1.0 billion a year from Budget 2014, growing thereafter at 2 per cent each Budget.
- Delaying contributions to the NZ Super Fund until this debt target is reached (a delay of two years).

...and paying down debt

We will reduce net core Crown debt to prudent levels...

Net core Crown debt

...and run cash surpluses

Core Crown residual cash
Increasing economic growth...

2. Building a productive and competitive economy

Budget 2013 supports the Government’s Business Growth Agenda. This focuses on the six key elements that businesses need to grow.

Budget 2013 also includes new initiatives and policies to boost economic performance:

- A $100 million-a-year internationally-focused growth and innovation package that increases funding for business R&D, scientific research, tourism marketing and international education.
- Expected ACC levy reductions of around $300 million in 2014/15 rising to around $1 billion from 2015/16.
- Tax changes to allow loss-making start-up businesses to claim tax losses on R&D.
- New housing accords that speed up the provision of new housing, in areas where it is least affordable.
- New tools for the Reserve Bank to use to protect the economy and the financial system from boom and bust cycles.
Realising the benefits of the Government’s share offer programme

Budget 2013 allocates $1.5 billion of spending from the Future Investment Fund:
- $426 million to redevelop Christchurch and Burwood Hospitals.
- $94 million for the fourth year of KiwiRail’s turnaround plan.
- $80 million to invest in irrigation infrastructure.
- $50 million to speed up the School Network Upgrade Project.
- Contingencies totalling over $700 million for key projects, including new, modern schools; Christchurch’s justice and emergency services precinct; and Canterbury tertiary education institutes.

Across multiple Budgets the Government intends to spend:
- $1 billion on 21st Century schools and new classrooms.
- $1 billion on priority health investments.

Meridian Energy will be the next company to be prepared for a partial share offer in the second half of 2013.
3. Delivering better public services

Last year, the Prime Minister set 10 challenging results for the public sector to achieve over the next three to five years:

<table>
<thead>
<tr>
<th>Reducing long-term welfare dependence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Reduce the number of people who have been on a working age benefit for more than 12 months</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supporting vulnerable children</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Increase participation in early childhood education</td>
</tr>
<tr>
<td>3 Increase infant immunisation rates and reduce the incidence of rheumatic fever</td>
</tr>
<tr>
<td>4 Reduce the number of assaults on children</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Boosting skills and employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Increase the proportion of 18-year-olds with NCEA level 2 or equivalent qualification</td>
</tr>
<tr>
<td>6 Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at level 4 or above)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reducing crime</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Reduce the rates of total crime, violent crime and youth crime</td>
</tr>
<tr>
<td>8 Reduce reoffending</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Improving interaction with government</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business</td>
</tr>
<tr>
<td>10 New Zealanders can complete their transactions with the Government easily in a digital environment</td>
</tr>
</tbody>
</table>
Budget 2013 focuses on programmes that will achieve results and improve the lives of New Zealanders and their families.

Supporting those most in need

- $100 million over three years for the Healthy Homes insulation programme targeted at low-income households with children or high health needs.
- Over $21 million over four years for rheumatic fever prevention.
- $1.5 million in 2013/14 for additional budgeting services for low-income families.

$1.6 billion over four years to improve frontline health services

- $1 billion to meet demographic growth and cost pressures.
- $70 million for aged care dementia services.
- $48 million for elective surgery.

Improving skills so people can fulfil their potential

- $173 million over four years for early childhood education.
- $215 million over four years for schools.
- $130 million over four years for tertiary education, including extra funding for Māori and Pasifika trades training, to boost science and engineering courses and increasing the proportion of young people with higher-level qualifications.

Improving delivery of social housing

- Funding to extend reviewable tenancies so people can regain independence, and so houses are available for families with the highest needs.
- $27 million over four years to extend the income-related rent subsidy to community housing providers.
- Shifting housing needs assessments from Housing New Zealand to the Ministry of Social Development.

Helping jobseekers into paid employment

- $189 million over four years to support the next phase of the Government’s welfare reforms, including new funding to help more people into work.
4. Rebuilding Christchurch

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

This funding includes:

- Over $900 million from the Future Investment Fund for projects including redeveloping Christchurch hospitals, establishing a justice and emergency services precinct and supporting tertiary education institutes.
- $300 million for anchor projects for the Christchurch city centre.
- $642 million of capital funding from departmental balance sheets, largely for health and education projects.

The Crown’s contribution to earthquake recovery is now estimated at around $15.2 billion.

- $7.6 billion incurred by the Earthquake Commission and other Crown entities.
- Direct Government support, which also totals $7.6 billion.

Expected total Crown cash payments for earthquake recovery

- Net earthquake-related expenses: $15.2b
The rebuild is one driver of economic growth over the next five years. The total estimated cost of the rebuild is expected to be around $40 billion (equivalent to 20 per cent of annual GDP).

Investment associated with the Canterbury rebuild contributes to a larger current account deficit.

Current account balance and rebuild (March years)

% of nominal GDP

Total estimated cost of the rebuild
$40 billion (20 per cent of annual GDP)
Social security and welfare, health and education costs will make up over two-thirds of core Crown expenses in 2013/14.

### New operating spending, savings and revenue in Budget 2013

<table>
<thead>
<tr>
<th></th>
<th>$million</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>$23.6b</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,598</td>
</tr>
<tr>
<td>Education</td>
<td>$12.4b</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>423</td>
</tr>
<tr>
<td>Social Development</td>
<td>$27.9b</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>368</td>
</tr>
<tr>
<td>Canterbury Earthquake</td>
<td>84</td>
<td>72</td>
<td>37</td>
<td>18</td>
<td>0</td>
<td>211</td>
<td></td>
</tr>
<tr>
<td>Internationally-focused growth package</td>
<td>0</td>
<td>106</td>
<td>106</td>
<td>106</td>
<td>106</td>
<td>423</td>
<td></td>
</tr>
<tr>
<td>Emissions Trading Scheme Review</td>
<td>31</td>
<td>83</td>
<td>94</td>
<td>105</td>
<td>104</td>
<td>417</td>
<td></td>
</tr>
<tr>
<td>Other initiatives</td>
<td>3</td>
<td>134</td>
<td>143</td>
<td>126</td>
<td>118</td>
<td>524</td>
<td></td>
</tr>
<tr>
<td>New contingencies</td>
<td>0</td>
<td>189</td>
<td>152</td>
<td>161</td>
<td>164</td>
<td>667</td>
<td></td>
</tr>
<tr>
<td>Total new spending</td>
<td>164</td>
<td>1,265</td>
<td>1,234</td>
<td>1,219</td>
<td>1,227</td>
<td>5,109</td>
<td></td>
</tr>
</tbody>
</table>

### Social security and welfare, health and education costs will make up over two-thirds of core Crown expenses in 2013/14.

Core Crown expenses, 2013/14

<table>
<thead>
<tr>
<th>Description</th>
<th>$million</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings returned to the centre</td>
<td>52</td>
<td>68</td>
<td>54</td>
<td>44</td>
<td>33</td>
<td>252</td>
<td></td>
</tr>
<tr>
<td>New revenue initiatives</td>
<td>0</td>
<td>3</td>
<td>96</td>
<td>107</td>
<td>107</td>
<td>313</td>
<td></td>
</tr>
<tr>
<td>Intra-vote reprioritisation</td>
<td>92</td>
<td>118</td>
<td>125</td>
<td>173</td>
<td>133</td>
<td>641</td>
<td></td>
</tr>
<tr>
<td>Funded from contingencies</td>
<td>10</td>
<td>66</td>
<td>87</td>
<td>74</td>
<td>67</td>
<td>303</td>
<td></td>
</tr>
<tr>
<td>Total savings and revenue</td>
<td>154</td>
<td>255</td>
<td>362</td>
<td>398</td>
<td>340</td>
<td>1,509</td>
<td></td>
</tr>
</tbody>
</table>
New operating spending in Budget 2013

Other initiatives
- $100 million over three years for the Healthy Homes programme
- $130 million for tertiary education
- $47 million to extend reviewable tenancies from 2015/16
- $27 million increased spending on income-related rent subsidies

Internationally-focused growth package
- $200 million new funding for science and innovation
- $158 million for tourism to attract more visitors to New Zealand
- $40 million for international education

New contingencies
- Funding set aside for items on which the Government is yet to make final decisions

Canterbury Earthquake Recovery
- $5.1b between 2012/13 and 2016/17

Education
- $215 million for schooling, including nearly $80 million for operations grants
- $173 million for early childhood education
- $92 million for Greater Christchurch Education Recovery and Renewal and 21st Century schools

Social Development
- $189 million over four years for the next phase of welfare reform, including new funding to help people into work

Health
- $1 billion to meet demographic and cost pressures
- $70 million for aged care and dementia
- $48 million for more elective operations
- $36 million for heart disease and diabetes care
- $25 million for preventative screening services
- $92 million to pay family members who care for their disabled adult children

Internationally-focused growth package
- $200 million new funding for science and innovation
- $158 million for tourism to attract more visitors to New Zealand
- $40 million for international education

Changes previously announced to the Emissions Trading Scheme
- $0.9b
- $1.6b
- $0.5b
- $0.4b
- $0.7b
- $0.2b
- $0.4b
- $0.4b
- $0.2b
- $0.2b
- $0.4b
- $0.9b
Individual, corporate and goods and services tax will make up over three-quarters of core Crown revenue in 2013/14.

Revenue in Budget 2013

Tax is the major source of core Crown revenue, and is driven by economic growth.

But can be volatile and susceptible to small changes in nominal GDP growth.

Impact of 1% change in nominal GDP growth per year on tax revenue.

Core Crown revenue, 2013/14

$68.4b
The Crown’s assets and liabilities

In 2013/14, the value of the Crown’s assets is forecast to be $250 billion. By 2016/17, total assets are expected to grow to $273 billion.

The social portfolio is the single biggest component of the Crown’s assets. Social assets are used to deliver public services, such as state highways, social housing, schools and hospitals.

The Crown’s total liabilities in 2013/14 are forecast to be $185 billion. These are expected to grow to $193 billion in 2016/17.

Most of the Crown’s liabilities are in the financial portfolio, which is largely composed of Crown borrowing and long-term liabilities.
Guide to the Budget Documents

A number of documents are released on Budget day. The purpose of these documents is to provide information about the wider fiscal and economic picture and the Government’s spending intentions for the year ahead. The Budget documents are as follows:

Executive Summary
The Executive Summary is the overview of all the Budget information and contains the main points for the media and public. This summarises the Government’s spending decisions and key issues raised in the Budget Speech, the Fiscal Strategy Report, and the Budget Economic and Fiscal Update.

Budget Speech
The Budget Speech is the Minister of Finance’s speech delivering the Budget Statement at the start of Parliament’s Budget debate. The Budget Statement generally focuses on the overall fiscal and economic position, the Government’s policy priorities and how those priorities will be funded.

Fiscal Strategy Report
The Fiscal Strategy Report sets out the Government’s fiscal strategy in areas such as the balance between operating revenues and expenses, and debt objectives. The report includes fiscal trends covering at least the next 10 years and the Government’s long term fiscal objectives.

The Government must explain changes in, and/or inconsistencies between, the Fiscal Strategy Report, the Budget Policy Statement and the previous year’s Fiscal Strategy Report.

Budget Economic and Fiscal Update
The Update includes Treasury’s overall economic forecasts and the forecast financial statements of the Government, along with the implications of Government financial decisions and other information relevant to the fiscal and economic position.

The Estimates of Appropriations
The Estimates outline expenses and capital expenditure the Government plans to incur on specified areas within each Vote for the financial year about to start (the Budget year).

Information Supporting the Estimates of Appropriations
Information Supporting the Estimates is organised on the basis of sectors, with each Vote and its administering department allocated to one sector (a small number of departments are in more than one sector). The Information Supporting the Estimates comprises sector overview information, together with statements of responsibility; performance information for appropriations in Votes covered by the sector; and statements of forecast service performance and forecast financial statements of departments included in the sector.

The Supplementary Estimates of Appropriations and Supporting Information
The Supplementary Estimates outlines the additional expenses and capital expenditure required for the financial year about to end. The Supporting Information provides reasons for the changes to appropriations during the year, related changes in performance information and certain additional performance information for new appropriations.

NZ Budget App
Smartphone and tablet users can also access the Budget documents through the NZ Budget App. The App is available on the Apple Store for iOS devices and the Google Play store for Android devices or see www.treasury.govt.nz/budget/app.

Websites
These documents are available at www.treasury.govt.nz and www.budget.govt.nz.