



2014
BUDGET

Budget Speech

Hon Bill English, Minister of Finance

15 May 2014

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New Zealand Government

Budget Speech

Mr Speaker,

I move that the Appropriation (2014/15 Estimates) Bill be now read a second time.

It's a privilege to deliver the National-led Government's sixth Budget.

It's a particular privilege because this is the first Budget in six years to focus on managing a growing economy rather than recovering from a domestic recession and then the global financial crisis.

A growing economy supports employment and higher wages. It provides opportunities for families. And it pays for public services that New Zealanders rely on.

Budget 2014 looks ahead to build on the hard work done by every New Zealand household and business over the past five years.

New Zealand is in a good position.

We've made significant progress in recent years to deliver more jobs and higher incomes.

New Zealand is one of the first developed countries to return to normal economic conditions, with a recovery led by the private sector.

Businesses are investing, wages are rising faster than inflation and our export sector is posting record results despite the headwinds of disruption in international markets and a high exchange rate.

Public agencies are working better for New Zealanders and getting better results.

On most indicators that matter, we're moving forward as a country.

If we lock in the hard-won gains we've made, there'll be many opportunities over the next decade to improve our economic fortunes and secure a brighter future for New Zealand families.

Each year, millions more consumers in the Asia-Pacific region are becoming affluent enough to want, and afford, the goods and services New Zealand produces.

Mr Speaker,

Our challenge is to muster the capital, the people and the skills to take advantage of this historic change in our prospects and lift the aspirations and prospects of every New Zealander.

That requires sticking to our course, with careful stewardship of public money, with sound, proven economic policies and with a determined focus on results from public services.

Budget 2014 shows a return to fiscal surpluses.

There will be a small surplus next year, and increasing surpluses are forecast over time. The Budget also shows the economy continuing to build momentum, with employment continuing to grow and wages continuing to rise.

But these are just forecasts and there is a lot of work to do to make them a reality.

What matters to people and families across New Zealand are the opportunities created by a sustainable economic recovery.

So an important part of this Budget is lifting New Zealand's capacity to sustain higher levels of economic growth for longer, grow incomes and support jobs.

And what also matters to people and families is that the Government will support them when they need assistance.

Budget 2014 continues this Government's increased investment in health and education – including tertiary education. Next year, for the first time, we will invest more than \$28 billion in these two areas and we are achieving better results from spending every year.

This year's Budget also contains a \$500 million package of extra support for children and families.

We're able to do this because of the hard work in previous Budgets to get spending under control and get back to surplus.

This package will help young families and those vulnerable children who most need our care and protection. I'll describe it in detail when I talk about better public services.

Mr Speaker,

The Government's four priorities this term are:

- 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 continue to work constructively with the ACT, United Future and Māori parties. I want to acknowledge their support and assistance.

I also want to acknowledge the Prime Minister, the Rt Hon John Key. His leadership has been instrumental in the success of the Government's programme and in maintaining the trust of New Zealanders through what has been a challenging period.

I now 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 New Zealand economy has recovered much of the ground lost in the recession and the global financial crisis.

The economy grew 3.1 per cent in 2013, the fifth-highest rate in the OECD.

Growth that was initially driven by low interest rates, elevated terms of trade, a catch-up in housing supply and the Christchurch rebuild has turned into a broader-based recovery supported by strong consumer and business confidence, new investment and higher productivity.

Growth is already delivering more jobs, and wages that are rising faster than inflation.

The Budget forecasts show real GDP growth of between 2 and 4 per cent in each of the next four years, with growth forecast to peak at 4 per cent in the year to March 2015.

Compared to the December quarter of 2013, Budget forecasts show an additional 170,000 people in work by mid-2018, and the unemployment rate is expected to fall to 4.4 per cent.

The average full-time wage is forecast to rise to almost \$62,300 by mid-2018, which would be \$7,600 more than it was in December 2013.

The Government is taking a long-term view of economic growth, because some of the factors driving the economy today will peak over the next few years.

Export prices are likely to return closer to normal levels, housing supply will eventually catch up and the Christchurch rebuild will peak and eventually slow.

And the New Zealand economy faces ongoing global risks, including uncertainty about the performance of our two largest and linked trading partners, China and Australia.

But against the background of a growing economy, we have the opportunity to do more work on longer-term economic fundamentals like investment, skills and productivity.

Our aim is a long period of steady growth delivering pay rises and more jobs every year, rather than a shorter period of unsustainable growth.

Responsibly managing the Government's finances

Mr Speaker,

I turn now to the first of the Government's four priorities, which is responsibly managing the Government's finances.

Budget 2014 shows the Crown's books continuing to improve as the economy grows and the Government maintains its careful and responsible management of public spending.

The Government is on track to meet its two key fiscal targets.

First, the operating balance before gains and losses is forecast to be in surplus in 2014/15, by \$372 million. Surpluses increase moderately in future years.

We are achieving our surplus target while still spending \$5.7 billion on new initiatives in the current year and over the next four years, financed in part by \$1.6 billion of savings and revenue initiatives.

Future surpluses give the Government choices, including paying for new capital investments, reducing debt, increasing spending and reducing tax.

Those choices have to be sustainable – recognising that surpluses rise and fall with the economic cycle – and they must also avoid putting material pressure on interest rates during the upswing.

As surpluses grow, the Government will be able to conduct a KiwiSaver auto-enrolment exercise for non-members.

Currently, the number of KiwiSaver members aged 18 to 64 is equivalent to 85 per cent of the labour force, and auto-enrolment is expected to increase this proportion even more.

The Government's second fiscal target concerns debt. On an annual basis, net core Crown debt is forecast to peak at 26.4 per cent of GDP in 2014/15 and decline thereafter.

Longer-term projections show net debt dropping to 20 per cent in 2019/20, in line with the Government's target. This includes the impact of resuming full contributions to the New Zealand Superannuation Fund in 2019/20.

These projections are a far cry from the projections made for Budget 2009, that showed net debt rising to over 60 per cent of GDP by the early 2020s.

It was appropriate to run deficits and take on debt to support the economy and New Zealand families over the past few years. But as households know, carrying substantial debt is neither comfortable nor financially prudent.

Making these projections a reality requires sticking to the Government's plan of careful spending and responsible public management.

After net debt has gone below 20 per cent of GDP we intend to maintain it within a range of 10 to 20 per cent of GDP over the economic cycle, while also making contributions to the New Zealand Superannuation Fund.

Mr Speaker,

The fiscal position has improved markedly over the past five years.

Tax revenue has increased as the economy has recovered. But the biggest contribution to the fiscal turnaround has been considered expenditure restraint that rigorously tests spending for value and results.

Core Crown expenses have fallen from 34.4 per cent of GDP in 2008/09 to a forecast 30.3 per cent in 2014/15 and are soon expected to fall below 30 per cent of GDP.

In the next four years, the Government will continue to focus on achieving better results as the main way of restraining future government expenditure.

The Government has 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.

We are willing and able to spend more now to reduce the long-term social and economic costs of dysfunction. What is good for families and communities is also good for the Government's books.

To implement this investment approach, government agencies must prepare comprehensive four-year plans incorporating data analysis and long-term payoffs.

These new ways of thinking have allowed the Government to maintain a track to surplus while delivering better public services.

Mr Speaker,

An improving fiscal outlook means there is some room to increase future operating allowances.

The Government is aware, however, that changes in fiscal policy settings can increase aggregate demand in the economy, raise inflation pressures and push interest rates higher than they otherwise would be.

This relationship was seen clearly in the mid-2000s, when big increases in spending by the previous government were accompanied by home mortgage rates of over 10 per cent.

Advice from the Treasury is that lifting Budget spending allowances to around \$1.5 billion a year is about the upper limit for increased spending, or revenue initiatives, before they begin to materially affect interest rates.

The Government is therefore lifting the operating allowance for Budget 2015 from \$1 billion to \$1.5 billion, growing after that at 2 per cent each Budget.

This moderate increase will provide the Government with future options around investment in public services and modest tax reductions.

There is room to move some of the allowance between Budgets, providing they average around \$1.5 billion and economic conditions permit.

Allowances averaging around \$1.5 billion per Budget remain well below those adopted in the mid-2000s, and core Crown expenses will continue to fall each year as a proportion of GDP.

The new allowances are built into all the forecasts and projections presented in the Budget.

If tax revenue comes in well ahead of forecast, the Government's main priority will be additional debt repayment until the 20 per cent debt target is met.

Building a productive and competitive economy

Mr Speaker,

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

A broad-based economic recovery is now well established. Through difficult times, New Zealand firms have become resilient and innovative.

This has enabled them to secure good prices on world markets despite the headwinds of an historically high exchange rate and lower growth among our trading partners.

Looking ahead, there are huge opportunities for New Zealand as countries in the Asia-Pacific region develop rapidly and demand more of what we produce.

New Zealand can take this opportunity if we are prepared to support people and businesses to invest and grow, create new products and services, and sell more of them to the world.

Our plan for building a more productive and competitive economy is set out in the Business Growth Agenda, and the Budget adds a number of new initiatives to this important programme.

One focus of the Business Growth Agenda is export markets, where the Government is negotiating trade agreements, working to expand market access and helping New Zealand exporters compete overseas.

Mr Speaker,

As previously announced, the Budget includes funding of \$69 million over four years, including \$14 million of reprioritised funding, to expand New Zealand Trade and Enterprise's presence in China, South America and the Middle East, and to help 200 more New Zealand firms break into overseas markets.

Budget 2014 also increases the Government's investment in tertiary education, research and innovation, which are crucial for sustained economic growth.

This investment includes \$83 million of operating funding over four years to raise tuition subsidies in science, agriculture and health sciences.

As announced last week, the Government is providing \$20 million over two years to fund 6,000 extra places for apprentices.

The Budget provides an additional \$53 million over four years to establish another three Centres of Research Excellence, bringing the total number to 10. This includes a Centre focusing on Māori research.

The Budget also provides an additional \$57 million over four years for contestable research in science and innovation.

As a result of this investment, and the investments made in previous Budgets, the Government's total funding of science and innovation is expected to reach \$1.5 billion by 2015/16.

The Government is also supporting innovation through two new tax measures.

First, loss-making start-up companies will be able to cash out all or part of their tax losses from R&D expenditure. And second, all businesses will be allowed tax deductibility for R&D "black hole" expenditure that is currently neither deductible nor able to be depreciated.

These two measures will return an estimated \$58 million in tax to innovative companies over four years.

Mr Speaker,

Cheque duty will be abolished from 1 July this year.

While fewer people now use cheques, they are still common enough for the duty to be a cost for many people and businesses. But the duty doesn't apply to other methods of payment and is simply a compliance cost.

Removing cheque duty will cost \$15.5 million over four years.

The Budget also provides Inland Revenue with an additional \$132 million over five years to bolster tax compliance. This funding is expected to generate a gross increase in Crown revenue of almost \$300 million over five years.

Mr Speaker,

The Accident Compensation Corporation's consistent performance is delivering benefits to New Zealand households and businesses.

Annual levies for households and businesses have fallen by close to \$1 billion since 2011/12.

Budget 2014 indicates ACC is on track to provide further levy reductions of around \$480 million in 2015/16. Final decisions on the levies will be made after public consultation by ACC.

Depending on the outcome of this consultation, the average levy for a private motor vehicle could fall by around \$130 a year from 1 July 2015.

Mr Speaker,

The Government is continuing its multi-billion dollar programme of investment in modern infrastructure.

Last year, the Prime Minister announced the Government's commitment to accelerate key Auckland transport projects.

Budget 2014 pushes ahead this commitment by providing \$375 million of new capital funding for the New Zealand Transport Agency, by way of an interest-free loan, to accelerate \$815 million worth of projects.

These projects will assist in reducing congestion in Auckland, improve access to the airport and capitalise on the benefits of major roading projects already underway in the region.

Mr Speaker,

The Government remains focused on opportunities to use New Zealand's natural resources productively, while maintaining environmental standards that preserve and enhance the quality of our environment.

Budget 2014 provides an additional \$20 million over four years for environmental initiatives and to help the management of our natural environment. This includes \$12 million to help local councils and communities improve the way they plan and make decisions about managing fresh water.

The Budget also provides \$15.8 million operating funding over four years and \$10.7 million capital funding to protect New Zealand's kauri forests from dieback disease.

Mr Speaker,

The Government's share offer programme was completed successfully last month, with the sale of shares in Genesis Energy.

This programme met every objective the Government set for it and raised almost \$4.7 billion for taxpayers. This has been put into the Future Investment Fund so it can be invested in new public assets.

Budget 2014 sets out another \$1 billion of new capital investments from the Future Investment Fund.

\$200 million will be invested in health sector projects, including the new Grey Base Hospital on the West Coast.

\$172 million will be invested in building and upgrading schools, including completion of a new school at Pegasus near Christchurch.

\$198 million will be invested in KiwiRail's Turnaround Plan and a further \$40 million in the design and construction of irrigation schemes to boost agricultural production.

Other investments bring the total allocated so far from the Future Investment Fund to almost \$3 billion over three Budgets. That leaves \$1.7 billion in the Fund for new capital spending in Budgets 2015 and 2016.

Mr Speaker,

New Zealand cannot afford another doubling of house prices, as occurred between 1999 and 2008.

The Government has taken a number of steps to free up housing supply, which is essential to improving affordability. These steps include signing housing accords with Auckland and Christchurch councils, with the latter subject to consultation.

We have reformed legislation to limit development contributions for funding infrastructure.

We have increased support for those on low and moderate incomes to get into their first home through increased eligibility for KiwiSaver first home deposit subsidies, and by trebling funding for Welcome Home Loans.

A Productivity Commission inquiry into housing affordability found building materials for a typical modest family home in New Zealand are 30 per cent higher than in Australia. Duties and tariffs currently apply to most of the materials used to build a standard house.

Budget 2014 temporarily removes these duties and tariffs to increase competition and improve housing affordability. This is expected to save around \$3,500 on the construction of a standard New Zealand home.

Delivering better public services

Mr Speaker,

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

I want to compliment the thousands of New Zealanders who deliver public services for their dedication and innovation in achieving better results for our families, communities and businesses.

We have learned how much more can be achieved, particularly for the most vulnerable and the most dependent, by spending taxpayers' money more carefully and deliberately.

For example, there is a group of around 2,000 six- to nine-year-olds in New Zealand who have had the worst start in life.

These young children will cost taxpayers an estimated \$750 million in prison costs alone over the course of their lives if we don't do more to prevent them getting into trouble.

The future cost to taxpayers of people who received welfare in 2012/13 will be \$76 billion by the time they exit welfare or retire. About three-quarters of that cost is due to people who first received a benefit under the age of 20.

These sorts of insights are starting to drive decisions made by public agencies, because the cost estimates help to tell the Government in more detail who needs help and what support they need.

Mr Speaker,

One of the Government's key priorities is to support children and families.

Even when finances were at their tightest, the Government maintained programmes like Working for Families.

We increased funding for health and education.

And we developed new initiatives like our home insulation programme, breakfast in schools, rheumatic fever prevention, and free GP visits for under-sixes.

The fiscal outlook has now improved. That means we can free up money to provide more practical assistance for families and children, while still running surpluses.

This Budget contains a \$500 million package of support for children and families.

The package is clearly focused on young families and those vulnerable children who most need our care and protection.

It has five elements and I'll go through each of these in turn.

First, the Government will extend paid parental leave from 14 weeks to 18 weeks. This will happen in two steps – to 16 weeks on 1 April 2015 and to 18 weeks on 1 April 2016.

We have previously said we would support extending paid parental leave, in an affordable way, when conditions permit. The Budget delivers on that commitment.

In addition, eligibility for paid parental leave will be significantly extended.

For the first time, "Home for Life" caregivers and people with similar permanent care arrangements will become eligible for paid parental leave.

Parental leave payments will also be extended to people in less-regular jobs, including seasonal and casual workers, those who have recently changed jobs, and workers with more than one employer.

These changes recognise New Zealanders' wide range of family and work arrangements.

Expanding paid parental leave will cost \$172 million over four years.

Second, the Government will significantly boost the parental tax credit.

This payment was introduced by the National Government in 1999. It is available to working families with a newborn child who are not on a benefit and who are not receiving paid parental leave.

From 1 April 2015, the Government will increase the parental tax credit from \$150 a week to \$220 a week, and the payment period will be extended from eight weeks to 10 weeks. This increases the total credit from \$1,200 to \$2,200.

In addition, the abatement rules will be changed to better target the parental tax credit towards low-to middle-income families. A couple having their second child, for example, will not receive any payments if they together earn more than \$99,847.

Boosting the parental tax credit will cost \$42 million over four years.

Third, the Government will invest \$90 million over four years to make doctors' visits and prescriptions free for children aged under 13.

This means that cost will not be an obstacle for families wanting to take their young children to the doctor.

Already, doctors' visits and prescriptions are free for children under the age of six. We will extend this to children under 13, so primary school-aged children will be able to go to the doctor for free, any time of the day or night, and get their prescriptions free as well.

The Government will offer this scheme to GPs from 1 July 2015.

The fourth part of this package is an increase in funding for early childhood education.

The Government has a target of increasing participation in early childhood education so 98 per cent of children starting school will have participated in quality ECE.

The Budget contains funding of \$156 million over four years to help early childhood centres remain accessible and affordable, meet demand pressures and increase participation towards the 98 per cent target.

Finally, the Budget contains funding to help the most vulnerable young New Zealanders and protect them from abuse and neglect.

This includes funding to roll out eight more children's teams around the country to identify and work with at-risk children and their families.

The Budget also provides funding to screen people who work with children, as set out in the Vulnerable Children Bill, to help support children in Child, Youth and Family care, and to provide greater support for caregivers.

This new funding comes to \$33 million in 2014/15.

In total, the Government's comprehensive package of practical support for children and families – including paid parental leave, the parental tax credit, free GP visits, early childhood education and support for vulnerable children – involves new funding of \$493 million over four years.

Mr Speaker,

Through difficult economic times, and through "zero Budgets", the Government has protected funding for frontline health services and education.

As a result, spending on health next year will reach \$15.6 billion and total spending on early childhood, primary and secondary education will reach \$10.1 billion. In addition, the Government will spend just over \$3 billion on tertiary education.

We have also been focused on doing more for people and their families within existing budgets.

A lot more elective surgery procedures are now being performed, for example, and waiting times for diagnostic tests, cancer treatment and emergency treatment have dropped.

Budget 2014 continues this commitment to funding and to results.

It includes \$1.8 billion over four years, including \$413 million of savings, for new health initiatives and to meet cost pressures and population growth within the health system.

Apart from free doctors' visits and prescriptions for under-13s, which I've already mentioned, the Budget contains an additional \$110 million to fund more elective surgery and reduce waiting times, \$33 million for cancer screening and treatment, and \$20 million to prevent rheumatic fever.

The Government is also providing \$96 million for home-based support services, \$112 million for disability support services, and \$40 million for additional support for elderly people, including those with dementia.

As previously announced, the duty-free tobacco allowance will fall from 200 cigarettes to 50 cigarettes, in line with the allowance that applies in Australia.

This is a further step towards reducing the harm from smoking, which still causes up to 5,000 premature deaths in New Zealand each year and I want to acknowledge the contribution of the Hon Tariana Turia to this initiative.

Mr Speaker,

Educational achievement at school has started to improve after years of spending that failed to deliver better results.

In Budget 2014, education receives an additional \$858 million over the next four years and the remainder of this year, to lift the achievement of New Zealand students, strengthen the teaching profession and meet funding pressures.

Of this, \$359 million is to recognise excellent teachers and principals, keep good teachers in the classroom, and share expertise across schools, as the Prime Minister announced earlier this year.

Schools' operational grants will increase by \$85 million and, as I mentioned, early childhood education services get a \$156 million increase.

The Budget also provides \$111 million of operating funding for school property development and maintenance.

Mr Speaker,

The Government's welfare reforms have already made a significant difference, with nearly 15,000 fewer people on benefits now than there were 12 months ago.

The Budget invests an additional \$100 million over the next four years to support people to come off benefits and into work, including around 8,000 additional places in employment and work-readiness programmes.

As previously announced, the Government is also putting aside \$3.5 million in 2014/15 to help up to 1,000 beneficiaries take up job offers and move to Canterbury, where demand for labour is strong.

The Budget allocates \$22 million over four years for non-government organisations delivering community budgeting services, as recently announced by the Minister for Social Development.

And it provides \$15 million over three years for Whānau Ora navigators to work with and support whānau and families.

Mr Speaker,

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

Police's core operating spending is being maintained at almost \$1.5 billion in 2014/15. A focus on frontline policing and crime prevention has reduced crime by over 20 per cent in the past four years.

Budget 2014 also supports the Government's targets to reduce the reoffending rate by 25 per cent. Reoffending has already been reduced by 12.6 per cent, which has meant around 9,300 fewer victims of crime each year.

The Budget provides \$10 million over four years to support sexual violence services, including support for frontline crisis response and community-based treatment services.

Mr Speaker,

The Government is continuing its reform of social housing. Social housing should be a step to independence for those capable of it, not a dependency trap.

Budget 2014 provides a \$30 million boost to the Social Housing Fund to help the community housing sector provide homes for high-needs families.

The Budget also allocates \$64 million of operating and \$16 million of capital funding to enable the Ministry of Social Development to assess clients' needs and allocate tenants to both Housing New Zealand and community housing providers.

From July this year, reviewable tenancies will begin to be rolled out for social housing tenants. Budget 2014 provides \$13 million of operating and \$2 million of capital funding to find the best housing option for tenants and to support those who are ready to return to the wider housing market.

Mr Speaker,

The Government is committed to strengthening the New Zealand Defence Force so it can meet its domestic and international humanitarian, aid and military commitments.

As previously announced, Budget 2014 provides \$535 million in operating funding for the Defence Force over the next four years.

Rebuilding Christchurch

The Government's fourth priority is rebuilding Christchurch.

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

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

The total cost of the rebuild has been estimated at \$40 billion and the Government's share will be significant.

On current estimates, the Government's contribution to the rebuild is expected to be \$15.4 billion, of which \$7.3 billion will be incurred by the Earthquake Commission, net of reinsurance proceeds.

At the moment, the Government is paying an estimated \$9 million every working day in rebuild invoices.

Demolitions in the central city are nearing completion and buildings are going up.

There are now more than 200 private-sector buildings – both commercial and residential – either under way or consented within Christchurch's four avenues.

And construction will begin on a number of anchor projects this year, including the \$300 million Justice and Emergency Services precinct, for which the first sod was turned in January.

The Government is also on track to move 1,700 staff in about 20 government departments and agencies back into the central city in 2016.

Housing New Zealand expects to build 700 new houses and complete repairs on 5,000 existing state houses by the end of next year.

And the Government is progressing a housing accord with the Christchurch City Council to accelerate development on central and local government land, and deliver more social housing in the city.

Budget 2014 provides \$50 million of additional funding over the next two years for the Canterbury Earthquake Recovery Authority, in addition to \$19 million funded from existing contingencies established in Budget 2013.

As previously announced, funding of \$13.5 million will be provided over the next four years to continue the Earthquake Coordination Service, including counselling services and the Canterbury 0800 support phone line.

These initiatives bring the Government's spending and commitments to rebuilding greater Christchurch to \$15.4 billion by 2018.

Conclusion

Mr Speaker,

New Zealand is among the first developed countries to achieve a return to normal economic settings.

We are on the right track. We are making good progress. And we are looking ahead with confidence.

The Government's books are on track to surplus next year and are the envy of most developed countries.

The economy is growing, wages are increasing faster than inflation and more jobs are being created every year.

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

Our challenge now is to secure these hard-won gains through to 2020.

This is a Budget that looks to the future and to the substantial opportunities New Zealand has earned.

If we stick to the plan the Government has outlined, we can grasp those opportunities and deliver sustainable growth that all New Zealanders can share in.

Mr Speaker,

I commend this Budget to the House.