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Government Relations

Barton Deakin Brief: New Zealand Budget 2014-15

15 May 2014

New Zealand's Deputy Prime Minister and Minister of Finance, the Hon. Bill English MP, has today handed down the National-led government's first surplus budget. It is New Zealand's first surplus budget in seven years.

Elected in 2011 for a three-year term, the minority government is led by the National Party with support from minor parties ACT, United Future and the Māori Party. The 2014 General Election has been announced for Saturday 20 September.

Overview

The 2014 Budget forecasts that New Zealand will deliver a surplus of NZ $372 million by June 2015. This is greater than the predicted NZ $86 million surplus forecast in December 2013.

The government also raised its surplus forecasts into the future, predicted to reach NZ $3.5 billion in 2017-18, due to better than expected economic growth.

The New Zealand economy grew 3.1% in 2013, which was the fifth-highest of the 34 OECD countries. Economic growth is expected to peak at 4% next year before reducing to 2.1% in 2017.

Employment is growing and wages continue to rise at a rate faster than inflation. Unemployment sits at 6% and is expected to fall to 4.4% by mid-2018, which will see an additional 170,000 people in the workforce. Average annual wages are expected to rise by 14% by 2018, with inflation expected to rise by less than 10% over the same period.

The 2014 Budget outlines new spending of $5.7 billion over the forward estimates.

Four stated priorities

The 2014 Budget focuses on key initiatives in areas that support the four stated priorities of the New Zealand Government for this parliamentary term:

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

Responsibly managing the Government's finances

The Budget shows the New Zealand Government is on track to meet its two key fiscal targets:

1. Return to surplus by 2014-15: A surplus of NZ $372 million is forecast by mid-2015; and
2. Reduce net core Crown debt to 20% by 2020: Net core Crown debt is forecast to peak at 26.4% of GDP in 2014-15 and decline thereafter to 20% by 2020.

Expenditure restraint will continue to be the primary contributor to meeting these objectives. Core crown expenses have decreased from 34.4% of GDP in 2008-09 to a forecast 30.3% in 2014-15 and are predicted to soon fall below 30% of GDP.

The New Zealand Government has set 10 challenging results for the public sector to achieve within five years – such as reducing long-term welfare dependency and reducing crime – and is using four-year plans based on in-depth data analysis for government agencies to achieve these.

The Government is lifting the operating allowance for the 2015 Budget, from $1 billion to $1.5 billion, which will increase further by 2% per Budget.

The Government has flagged that this increase may be used for investment in public services (particularly those that help achieve the 10 challenging targets), or for moderate tax cuts in future.

Building a more productive and competitive economy

The New Zealand Government's plan for building a more productive economy is set out in its Business Growth Agenda. The Agenda focuses on six key elements: access to export markets; innovation; infrastructure; skilled and safe workplaces; natural resources; and capital markets.

The 2014 Budget adds new initiatives to this programme:

- NZ $375 million in new capital funding by way of an interest-free loan to the New Zealand Transport Agency, to accelerate NZ $815 million of Auckland transport projects;
- NZ $200 million from the Future Investment Fund to be invested in health projects, including the new Grey Base Hospital at Greymouth;
- NZ $198 million from the Future Investment Fund to KiwiRail's Turnaround Plan;
- NZ $172 million from the Future Investment Fund to school construction and upgrades, including completion of a new school at Pegasus near Christchurch;
- NZ $83 million of operating funding over four years to raise tuition subsidies in science, agriculture and health sciences;
- NZ $69 million over four years to expand the presence of New Zealand Trade and Enterprise in China, South America and the Middle East, and to assist more than 200 New Zealand businesses break into overseas markets;
- A further NZ $57 million over four years for contestable science and innovation research;
- NZ $53 million over four years to establish three additional Centres of Research Excellence;
- NZ $40 million for irrigation to boost agricultural production;
- NZ $20 million over two years to fund 6,000 extra places for apprentices;
- An additional NZ $20 million over four years for environmental initiatives.

The Government intends to further support innovation through two new tax measures:

- Loss-making start-up companies will be able to cash out part or all of their tax losses for R&D expenditure; and
- All businesses will be allowed tax deductibility for R&D "black hole" expenditure that is currently neither tax deductible nor depreciable.

Other initiatives designed to build a productive economy include:

- Temporarily removing duties and tariffs off home building materials;
- Increased tax compliance funding to Inland Revenue; and
- Removing cheque duty.

Delivering better public services

Children and families

The New Zealand Government has determined that the future cost to taxpayers of people who received welfare in 2012-13 will be NZ $76 billion over their lifetimes. Around 75% of this welfare will be paid to people who first received a benefit prior to the age of 20.

The Government sees supporting children and families as key to reducing welfare dependence. The Budget includes a NZ $500 million support package, which has five elements:

1. **Paid Parental Leave will be extended**, at a cost of NZ $172 million over four years. The Government will extend paid parental leave from 14 to 18 weeks, as well as broadening the eligibility. "Home for Life" caregivers will be eligible, as well as seasonal and casual workers.
2. **The parental tax credit will be increased**, at a cost of NZ $42 million over four years. The payment is for working families with a newborn child who are not on a benefit and do not receive paid parental leave. From 1 April 2015 payment will increase from $150 per week to $220 per week and be extended from eight weeks to ten weeks.
3. **Free doctors' visit and prescriptions for children under 13**, at a cost of NZ $90 million over four years. The scheme will begin from 1 July 2015.
4. **Increased funding for early childhood education**, costing NZ $156 million over four years. This is in-line with the aim to increase participation in early childhood education to 98%.
5. **Assistance for children at risk of abuse and neglect**, costing $33 million in 2014-15. The funding will see eight more children's teams set up throughout the country to identify and work with at-rick children and their families.

Health

Budget 2014 sees NZ $1.8 billion allocated over four years (including NZ $413 million in savings) for health initiatives including:

- An additional NZ $110 million to reduce elective surgery waiting times;
- An additional NZ $33 million for cancer screening and treatment;
- An additional NZ $20 million to prevent rheumatic fever; and
- An additional NZ $40 million for elderly people, including people with dementia.

The New Zealand Government will also reduce the duty-free tobacco allowance from 200 cigarettes to 50 cigarettes, in line with Australia, to further reduce smoking rates and the health consequences.

Education

An additional NZ $858 million is allocated to education over the forward estimates. Of this:

- NZ $359 million is allocated to recognising excellent teachers and principals and to share expertise across schools;
- NZ $111 million is allocated for school property development and maintenance; and
- Operational grants to schools will increase by NZ $85 million.

Welfare reforms

The New Zealand Government's efforts to increase workforce participation and boost productivity will be further funded through:

- An additional NZ $100 million over the next four years to support people off benefits and into the workforce, including 8,000 additional places in work-readiness programmes;
- NZ $22 million for non-government organisations to deliver budgeting services;
- NZ $3.5 million in 2014-15 to incentivise up to 1,000 people to take up job offers and move to Canterbury.

Support the rebuilding of Christchurch

The 2014 Budget confirms an additional NZ $50 million of funding over the next two years for the Canterbury Earthquake Recovery Authority on top of what has already been committed, to help rebuild New Zealand's second-biggest city.

This brings the total of the New Zealand Government's past spending and future commitments to rebuilding greater Christchurch to $15.4 billion by 2018.

Further information

Detailed information on the 2014 New Zealand Budget can be found online:

- The 2014 Budget Papers are available here.

Previous Barton Deakin Briefs:

- Our brief on the announcement of the 2014 General Election can be found here.
- Our brief on the 2013 Half-Year Economic and Fiscal Update can be found here.
- Our brief on the Business Growth Agenda 2013 Progress Report can be found here.
- Our brief on the 2013 Budget can be found here.

For more information, please contact Matthew Hingerty, Gerard Paynter or Lauren Clark or call +61 (0)407 220 945.