

Barton Deakin Brief: New Zealand Budget 2015-16

21 May 2015

New Zealand's Deputy Prime Minister and Minister of Finance, the Hon Bill English MP, has today handed down the National-led government's seventh budget.

Re-elected in September 2014 for a third term, the minority government is led by the National Party with support from minor parties ACT, United Future and the Māori Party.

Overview

The 2015 Budget forecasts that New Zealand will deliver a deficit of NZ \$684 million this year, significantly lower than the government's NZ \$18.4 billion deficit four years ago. A surplus of NZ \$176 million is expected next year, rising to NZ \$1.5 billion in 2016/17.

Net debt is expected to peak at 26.3% of GDP in 2015/16 and to fall to 19.7% of GDP in 2020/21.

The New Zealand economy grew by 3.3% in 2014, up slightly from 3.1% in 2013. Growth is forecast to remain solid, averaging around 2.8% over the next four years.

By 2019 the number of people in work is expected to rise by 150,000. The unemployment rate is forecast to drop from 5.8%, down to 4.5% in four years' time.

Annual CPI inflation is only 0.1%, compared to the Budget 2014 forecast of 1.8%. This means interest rates remain low, but nominal GDP will be NZ \$15 billion lower and tax revenues NZ \$4.5 billion lower over the forward estimates.

Net migration to Australia currently sits at its lowest rate since 1992.

Four stated priorities

The 2015 Budget focuses on key initiatives in areas that support the four stated priorities of the New Zealand Government:

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

In Budget 2015, the New Zealand Government has outlined five fiscal priorities:

1. Returning to surplus this year and maintaining surpluses in the future;
2. Reducing net core Crown debt to 20% of GDP by 2020, down from 34.4% of GDP in 2008-09;
3. Further reducing Accident Compensation Corporation (ACC) levies;
4. Beginning to reduce income taxes from 2017; and
5. Using any further fiscal headroom to reduce debt faster.

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 2015 Budget adds new initiatives to this programme of work:

- An NZ \$80 million boost over four years to R&D growth grants, which support innovative businesses by contributing 20% of their R&D costs;
- NZ \$74 million over five years for extra tax compliance, of which NZ \$29 million is focussed on property investment tax compliance;
- NZ \$52 million to facilitate housing development on Crown-owned land in Auckland. The Government is a major owner of under-utilised land in Auckland and believes this measure will increase supply and help take pressure off the city's housing market;
- NZ \$37 million of operating funding over four years to provide greater support to councils as they implement the Government's resource management and freshwater reforms. (Further information on the reforms can be found [here](#));
- NZ \$33 million over four years for more immigration staff, as New Zealand experiences record-breaking visitor numbers;
- NZ \$32 million over four years to increase the number of labour inspectors and strengthen enforcement of employment laws;
- NZ \$22 million over six years for a grants scheme to encourage the planting of new forests;
- An additional NZ \$25 million over four years for more security services such as x-ray machines and detector dogs;
- Up to NZ \$25 million over three years to support the establishment of new, privately-led Regional Research Institutes, to support increased innovation in regional areas outside of Auckland, Wellington and Christchurch; and
- NZ \$13 million over four years for the expansion of the primary industries sector, with initiatives to improve the productivity of under-utilised Māori land.

In terms of transport, the Budget allocates:

- NZ \$210 million in new capital next year and a further NZ \$190 million in Budget 2016 for KiwiRail. This is intended to give KiwiRail a two-year window to identify savings;
- NZ \$97 million in capital for regional highways; and
- NZ \$40 million for urban cycleway.



A change to the tax paid on capital gains from the sale residential properties has also been announced. Income tax will now have to be paid on any profit made from a property that is bought and sold within two years, except if the property is the principal place of residence.

The NZ \$1,000 KiwiSaver kick-start payment will be discontinued, effective immediately. KiwiSaver was established in 2007 and is a voluntary long-term savings scheme for retirement savings and also to assist young people to buy a home. Until now, the scheme has offered a NZ \$1,000 kick-start payment for new participants. Other incentives remain in place.

A new levy to fund passenger-related biosecurity and customs activities will be introduced. The Border Clearance Levy will be charged on a per-passenger basis from 1 January 2016. It will be set at NZ \$16 for incoming passengers and NZ \$6 for departing passengers, to raise NZ \$100 million a year.

Delivering better public services

The New Zealand Government will continue to take a social investment approach, focussed on targeted, evidence-based initiatives to address social issues.

Children and families

This Budget announces a number of changes that affect families:

- Benefit rates for families with children will rise by NZ \$25 a week after tax from 1 April 2016. This will be the first time core benefit rates have increased above inflation since 1972;
- More financial support, in the form of changes to tax credits, will be given to lower-income working families not receiving a benefit;
- Child Assistance for low-income families will increase from NZ \$4 per hour to NZ \$5 per hour, for up to 50 hours of childcare a week per child;
- From 1 April, most sole parents (and partners of sole parent payment beneficiaries) will have to look for part-time work when their youngest child turns three, rather than five. They will be expected to find work for 20 hours per week, up from 15 hours per week; and
- Beneficiaries of Sole Parent Support will have to re-apply for their benefit every year, matching the process used for Jobseeker support.

The Budget announces further initiatives for children and families, including:

- New operating funding of NZ \$36 million over the next four years to support the Children's Action Plan for vulnerable children. This includes funding for Children's Teams that work with at-risk children and their families on individually-tailored support plans;
- An extra NZ \$23 million over four years for Child, Youth and Family; and
- NZ \$8 million over four years for initiatives to help vulnerable students participate more in education or training, and life achievement.

The New Zealand Government has allocated up to \$1.7 billion to write-off unpaid child support debts for parents who commit to pay support into the future. The Government's research has found that accumulated large debts currently act as a disincentive for parents to begin paying.



Health

Budget 2015 sees NZ \$1.7 billion allocated over four years for health initiatives including:

- NZ \$98 million to increase elective surgery volumes;
- NZ \$76 million for hospices and 60 new palliative care nurses; and
- NZ \$12 million to extend the bowel cancer screening pilot.

In next year's health budget, District Health Boards have been allocated NZ \$320 million for extra services to help meet cost pressures and population growth.

Education

Budget 2015 allocates NZ \$443 million operating funding and NZ \$244 million in capital spending on education. Of that:

- NZ \$75 million is allocated over four years for early childhood education;
- NZ \$42 million is allocated to increase school operating grants; and
- An extra NZ \$63 million is allocated over four years to assist children with special needs.

Māori issues

Budget 2015 allocates spending to a number of measures to support Māori people, including:

- NZ \$50 million to support the Whānau Ora. (Whānau Ora is an indigenous health approach, driven by Māori cultural values);
- NZ \$32.5 million over the forward estimates to help reduce Māori welfare dependency; and
- NZ \$2 million over four years for rengatahi Māori suicide prevention.

Policing and corrections

Budget 2015 will see:

- NZ \$164 million allocated over four years for better frontline policing and crime prevention;
- NZ \$40 million over four years for further justice sector initiatives;
- NZ \$8 million for the Serious Fraud Office, and NZ \$6.5 million to reduce reoffending.

Support the rebuilding of Christchurch

The 2015 Budget confirms additional operating funding of NZ \$108 million over four years for the anchor projects to rebuild Christchurch.

Further information

- The 2015 Budget Papers and Budget Speech are available [here](#).
- Previous Barton Deakin Briefs on the New Zealand Government can be found [here](#).

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