Budget 2018 overview

Our priorities

Budget 2018 makes significant investment in the Coalition Government’s key priorities, building on the 100-Day Plan.

- Rebuilding critical public services
- Enhancing and protecting our natural resources
- Promoting economic development and supporting the regions
- Enriching New Zealand’s culture and identity
- Taking action on child poverty, housing and homelessness

New investment in Budget 2018

Total net new operating spending in Budget 2018: $2.8b a year on average
Total net new capital investment in Budget 2018: $11.4b over the forecast period

Total net new capital investment in Budget 2018: $3.8b in total

Operating spending by priority ($millions):
- Child poverty, housing and homelessness: 813
- 100-Day Plan: 491
- Rebuilding: 2,763
- Natural resources: 409
- Enriching New Zealand’s culture and identity: 436
- Economic development and supporting the regions: 6,479

Capital investment by priority ($millions):
- Child poverty, housing and homelessness: 369
- 100-Day Plan: 213
- Rebuilding: 1,158
- Natural resources: 43
- Enriching New Zealand’s culture and identity: 211
- Economic development and supporting the regions: 1,810

* This reflects a net increase of $409 million from operating tagged contingencies and revenue and reprioritisation initiatives. See Table 1 of the Summary of Initiatives document.

** This reflects a net increase of $211 million from capital tagged contingencies and revenue and reprioritisation initiatives. See Table 2 of the Summary of Initiatives document.
Rebuilding critical public services

Budget 2018 prioritises investment to meet the needs of a growing population and to ensure all New Zealanders have access to quality public services.

The rebuilding critical public services package provides $6.5 billion of new operating funding and $1.8 billion of capital funding. This includes funding in the following key areas:

Health

Budget 2018 puts our district health boards (DHBs) back on track to deliver the quality care New Zealanders expect and deserve, when they need it. It provides investment in core services including maternity services, disability support, air ambulances and bowel screening. We are funding a significant primary care package that delivers low-cost GP visits for Community Service Card holders and widens access. Budget 2018 provides significant operating and capital investment for our hospitals and DHBs to expand service capacity and replace sub-standard infrastructure.

Education

Budget 2018 meets increasing demand for early childhood education (ECE) and schooling, and provides an increase to the school operations grant and ECE support to make up for previous underfunding. Funding is provided to support students with the highest and most complex learning needs through a boost to the Ongoing Resourcing Scheme and other learning support initiatives. We are investing in new schools, rebuilding and expansion work, and delivering new classrooms throughout the country so our children get high-quality education.

Justice sector

Budget 2018 funds a more effective justice system that can properly support our communities. We are significantly increasing police numbers to support stable and safe communities. We are investing in community housing, and providing funding to safely manage offenders in prisons and those serving community-based sentences.

Supporting at-risk families

We are supporting those at risk by expanding family violence services to respond to growing demand, while strengthening service delivery and capability. We are including 17-year-olds in the youth justice system to provide them with appropriate support. A Welfare Expert Advisory Group will advise on how our system can better support all New Zealanders.
Promoting economic development and supporting the regions

Budget 2018 invests in economic development and productivity, with a focus on supporting regional economies to deliver shared prosperity for all.

The promoting economic development and supporting the regions package provides $2.8 billion of new operating funding and $1.2 billion of capital funding. This includes funding in the following key areas:

Infrastructure, productivity and the regions

- **$393m** Operating
- **$1.1b** Capital

We are investing in the infrastructure needed to get New Zealand moving. Budget 2018 invests in the Auckland City Rail Link, provides funding to Crown Infrastructure Partners to invest in critical water and roading infrastructure to increase housing supply, and invests in KiwiRail to support a modern rail network. We will boost productivity in the regions through the Provincial Growth Fund and enable our businesses to operate more efficiently.

Research and development

- **$1.1b** Operating
- **$2m** Capital

Innovation is critical to our ability to grow a more productive economy. Budget 2018 invests over $1 billion in an R&D tax incentive to encourage businesses to innovate. We are also investing in improving the performance and transparency of New Zealand’s science investments through a National Research Information System.

New Zealand’s international presence

- **$1.1b** Operating
- **$44m** Capital

Our ability to afford quality public services at home is linked to our ability to connect and trade successfully with the rest of the world. Budget 2018 includes investment to build foreign and trade policy capacity, which will improve our relationships and strengthen our voice internationally. We are boosting our offshore presence with a new embassy in Stockholm and funding our representation at the UN Committee on the Rights of Persons with Disabilities. We are significantly boosting Official Development Assistance to do our part internationally to respond to global issues such as climate change, particularly in the Pacific.

Employment and immigration

- **$88m** Operating
- **$1m** Capital

Budget 2018 properly funds employment and immigration services, including an increase in the number of labour inspectors, and funding for compliance and border activities to combat migrant exploitation. We are funding an additional 800 places for the Limited Service Volunteer programme to improve the work-readiness of unemployed 18 to 25-year-olds, and targeting further investment to reduce the number of young people not in education, employment and training (NEETs).
Taking action on child poverty, housing and homelessness

Child poverty and housing are at the heart of the Government’s priorities. Budget 2018 builds on the $5.5 billion investment made through the Families Package as part of the 100-Day Plan.

The child poverty, housing and homelessness package provides $813 million of new operating funding and $369 million of capital funding. This includes funding in the following key areas:

### Child poverty, housing and homelessness

- **$634m** Operating
- **$369m** Capital

Every New Zealander deserves a healthy and safe home. Budget 2018 makes a significant investment to increase public housing by more than 6,000 homes over the next four years to address the severe shortage of public housing. We are targeting chronic homelessness by strengthening the Housing First initiative and expanding it beyond the main centres by 550 places, with the same tailored wrap-around support. Funding is also provided to implement the Healthy Homes Guarantee Act and insulation grants for eligible owner occupiers.

- **$179m** Operating

We are extending free GP visits to under-14s, extending the provision of clothing support to children on the Orphan’s Benefit and Unsupported Child’s Benefit, setting up a new Child Poverty Unit and continuing funding to the KidsCan and KickStart programmes.

### Protecting our natural resources

There is increasing pressure on our natural resources. Budget 2018 supports investment to improve the way these resources are managed and to enhance sustainability.

The protecting our natural resources package provides $436 million of new operating funding and $213 million of capital funding. This includes funding in the following key areas:

- **Biodiversity, forestry and conservation**
  - **$257m** Operating
  - **$113m** Capital

Budget 2018 invests significantly in conservation and biodiversity. This includes strengthening the Department of Conservation’s capability, eradicating predators and protecting New Zealand’s unique biodiversity. Provincial Growth Fund funding supports the planting of one billion trees.

- **Climate change, biosecurity and environmental protection**
  - **$179m** Operating
  - **$100m** Capital

Climate change is our greatest environmental challenge. Budget 2018 responds by establishing the Green Investment Fund to stimulate $1 billion of private investment in high-value, low-carbon industries and clean technology. Funding has been set aside for setting up a Climate Change Commission and biosecurity funding is increased to protect our natural resources and safeguard our country.
Enriching New Zealand’s culture and identity

Budget 2018 strengthens New Zealand’s culture and identity through investment in Māori development, arts, culture and heritage, defence and internal affairs.

The enriching New Zealand’s culture and identity package provides $491 million of new operating funding and $43 million of capital funding. This includes funding in the following key areas:

Crown Māori relations and Māori development

$56m Operating

Budget 2018 includes funding to support the new Crown Māori relations portfolio and enable work to be progressed on key projects. It also includes funding to develop and test programmes that are focused on improving outcomes for rangatahi (18 to 25-year-olds, in particular Māori) who are not in education, employment or training (NEETs), address challenges associated with Māori freehold land and provides resources to Māori housing providers to support papakāinga development and repair.

New Zealand’s arts, culture and heritage

$49m Operating

Budget 2018 provides significant investment to celebrate our history, culture and identity through initiatives including funding the 125th anniversary of women’s suffrage and Armistice Day commemorations. It also includes a boost for the Ministry for Culture and Heritage to build capability. We are increasing support to New Zealand musicians to take our music to the rest of the world and setting aside funding to implement any immediate recommendations from the Ministerial Advisory Group on Public Media.

Defence and internal affairs

$386m Operating

Budget 2018 funding will mean New Zealand’s Defence Force can continue making meaningful contributions to global security and peacekeeping efforts, and respond effectively to events like natural disasters at home and abroad. Funding is also provided to support system-wide digital and data initiatives to support the Government to meet key commitments including more open government, strengthened democracy and greater public participation.
### The Provincial Growth Fund

The Coalition Government has established a $1.0 billion per year Provincial Growth Fund (PGF). The PGF will support the Government’s overall goal of productive, sustainable and inclusive growth by investing in regional economic development.

Budget 2018 allocates $1.0 billion to the PGF across both operating and capital expenditure, as set out below.

#### Operating

- **$536m** of new funding from Budget 2018 for:
  - part of the One Billion Trees programme, and
  - investment-ready initiatives for the current year that meet the criteria for the Fund, and funding for administration.

- **$148m** of existing funding. This includes $75.0 million from the Tourism Infrastructure Fund and $13.0 million for One Billion Trees from the Budget 2017 Between-Budget contingency.

#### Capital

- **$236m** of new funding from Budget 2018 for:
  - part of the One Billion Trees programme, and
  - investment-ready initiatives for the current year that meet the criteria for the Fund.

- **$80m** of existing capital funding. This reflects a portion of KiwiRail’s capital injection for the 2018/19 financial year.

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<table>
<thead>
<tr>
<th>Total Operating</th>
<th>Total Capital</th>
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<tbody>
<tr>
<td><strong>$684m</strong></td>
<td><strong>$316m</strong></td>
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$1b
The 100-Day Plan

Budget 2018 builds on the Coalition Government’s 100-Day Plan which made significant investments in key areas such as families, KiwiBuild, education and training, and restarting New Zealand Superannuation Fund contributions.

The 100-Day Plan consisted of funding for the following key areas:

<table>
<thead>
<tr>
<th>The Families Package</th>
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<tr>
<td><strong>$5.5b</strong> Operating</td>
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<tr>
<td>The Families Package will deliver more money to middle and low-income families and is projected to significantly reduce the number of children in poverty. The package includes increased Working for Families support, a new Best Start payment to help families with children in their early years, a Winter Energy Payment to help superannuitants heat their homes through the coldest months and accommodation supplement increases to support those under housing stress. When fully rolled out, 384,000 families with children will be better off by an average of $75 per week.</td>
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<tr>
<th>Education and training</th>
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<tr>
<td><strong>$2.6b</strong> Operating</td>
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<tr>
<td>Our post-secondary school education and training fees-free policy was successfully implemented on 1 January 2018. This will provide access to vocational training, apprenticeships and tertiary study for tens of thousands of people. The package also boosted both student allowances and living cost entitlements for eligible students.</td>
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<table>
<thead>
<tr>
<th>KiwiBuild</th>
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<tr>
<td><strong>$2.0b</strong> Capital</td>
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<tr>
<td>KiwiBuild will deliver 100,000 quality, affordable homes throughout New Zealand within a decade. A KiwiBuild unit has been established within the Ministry of Business, Innovation and Employment and the first houses are underway.</td>
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<table>
<thead>
<tr>
<th>New Zealand Superannuation</th>
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<tr>
<td><strong>$3.3b</strong> Capital</td>
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<tr>
<td>Contributions to the New Zealand Superannuation Fund have restarted after nine years, with the first payment to the Fund made on 15 December 2017.</td>
</tr>
</tbody>
</table>
Economic outlook

The outlook for the economy is positive

The Treasury forecasts economic growth of about 3.0 per cent per year on average over the period to June 2022. The New Zealand economy is forecast to grow at a rate faster than that expected for our major trading partners.

Unemployment is expected to remain steady over 2018 before falling to 4.1 per cent in late 2019, in line with the Government’s target of reducing the unemployment rate to 4.0 per cent by the end of this parliamentary term. Wage growth is forecast to be higher than inflation each year and to gradually rise to 3.4 per cent in 2022.

Sources: Stats NZ, The Treasury
Fiscal outlook

The books are in good shape and on track to meet the Government’s Budget Responsibility Rules

Rising surpluses are forecast in the operating balance before gains and losses (OBE GAL), reaching $7.3 billion in 2021/22 (2.1 per cent of GDP). These OBE GAL surpluses mean core Crown net debt falls as a percentage of GDP to 19.1 per cent in 2021/22, in line with the Government’s target.

The most recent month-end financial results show strong tax revenue which is expected to persist for the remainder of the current year and into the future. As a percentage of GDP, core Crown expenses are forecast to gradually fall to 28.0 per cent in 2022, below the historical average of around 30.0 per cent of GDP.

Improving the Government’s fiscal position makes New Zealand more resilient to future economic shocks and natural disasters. It helps to deal with the costs associated with future challenges such as an ageing population.
Budget allowances

Operating and capital allowances for future Budgets will be higher

Our fiscal position is strong. Given the social and infrastructure deficits, the Government has chosen to increase Budget allowances in this and future Budgets in order to manage cost pressures and continue to invest in our priorities.

In future Budgets, we will ensure all remaining commitments in the Coalition Agreement, Confidence and Supply Agreement and Speech from the Throne are implemented and fully funded.

Budget 2019: Focus on wellbeing

The Government is committed to putting people’s wellbeing and the environment at the heart of its policies, including reporting against a wider set of wellbeing indicators in future Budgets.

The Budget provides an annual opportunity to review New Zealand’s performance across some high-level indicators, place the Government’s programme within the context of the economic and fiscal outlook, set out the Government’s strategy for the future and draw links to specific actions that have been, or will be, taken.

Budget 2019: The Wellbeing Budget, will broaden the Budget’s focus beyond economic and fiscal policy by using the Treasury’s Living Standards Framework to inform the Government’s investment priorities and funding decisions. The Government will measure and report against a broader set of indicators to show a more rounded measure of success, as a country and as a Government. This will be supported by Budget processes that facilitate evidence-based decisions and deliver the Government’s objectives in a cost-effective way. The Wellbeing Budget represents an important step towards embedding wellbeing in New Zealand’s public policy.

Details of the Wellbeing Budget will be announced later in the year, and detailed in the Government’s Budget Policy Statement for 2019.
How are we funding the higher allowances?

The Government’s Budget allowances over the next four years and 100-Day Plan spending is about $24 billion higher than planned by the previous government for the years 2018/19 to 2021/22. This represents a 5.0 per cent increase in total core Crown expenses and a 31.0 per cent increase in total core Crown capital investment over the years 2018/19 to 2021/22.

Additional Budget allowances +100-Day Plan spending*

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>$9.0b</td>
<td>Adopting a responsible debt reduction track</td>
</tr>
<tr>
<td>$7.9b</td>
<td>Reversing National’s tax cuts</td>
</tr>
<tr>
<td>$5.3b</td>
<td>Revenue from a growing economy</td>
</tr>
<tr>
<td>$1.5b</td>
<td>Reprioritisation and revenue from a fairer tax system</td>
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</tbody>
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* The funding sources have been averaged across a four year period and are cumulative.

Additional new operating and capital spending of $24 billion is funded by:

Adopting a responsible debt reduction track

$9.0b  Fiscal space created by a core Crown net debt target of 20.0 per cent of GDP five years from taking office, which is only two years later than the previous government. This enables much-needed investments in housing, health, education and infrastructure. This spending track sees core Crown net debt reach 19.1 per cent of GDP in 2021/22.

Reversing National’s tax cuts

$7.9b  Reversal of the previous Government’s poorly-targeted tax cuts. This will fund the Families Package and other 100-Day Plan commitments.

Revenue from a growing economy

$5.3b  Higher tax revenue driven by higher-than-expected economic growth than forecast at the Pre-Election Economic and Fiscal Update.

Reprioritisation and revenue from a fairer tax system

$1.5b  Revenue from changes to make our tax system fairer and from the Government’s initial reprioritisations.

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