

Labour's Fiscal Plan







Contents

4	Andrew Little MP, Leader of the Opposition
5	Grant Robertson MP, Finance Spokesperson
6	BERL examination and analysis
7	Major first term outputs and goals
9	Budget Responsibility Rules
14	Labour's new investments



Andrew Little MP Leader of the Opposition

Setting a Budget is about priorities. The Government cannot do everything that might be desirable, and has to make choices. Labour has shown what our priorities are: fixing the housing crisis; restoring health cuts; investing in 21st century education; lifting incomes; and investment in our future.

We have prioritised these things over tax cuts. Labour is about putting people first and restoring fairness.

Labour's fiscal plan prioritises new investment in housing, health, education, and infrastructure. It will boost incomes, create opportunities for our young people, and improve the lives of families.

It does all this while running surpluses and paying down debt because, unlike National, we do not believe a tax cut can be justified at this time. I do not believe that we can honestly say that a thousand dollar tax cut for Bill English and me should be a priority when so many other, more important, investments need to be made.

Instead, we've chosen to boost incomes for lower and middle New Zealand and families that are struggling through increasing Working for Families payments, Best Start, and the Winter Energy Payment. This targeted approach delivers a bigger boost to most families, while costing less, which means we can make the investments we need in other areas.

The choices we've made reflect New Zealanders' priorities:

We've chosen to end overseas speculation in our housing market, and invest in building affordable houses to sell to first home buyers.

We've chosen to end the speculators' tax loophole and invest those savings in grants to make 600,000 Kiwi homes warmer and healthier to live in.

We've chosen to invest in state houses so we won't have to pay to put families in motels.

We've chosen to invest in our young people by putting more money into the public school system the current government has neglected.

We've chosen to invest in apprenticeships and environmental work for young people, so we won't have to pay to have them on the dole, and they have hope in the future.

We've chosen to invest in the New Zealand Superannuation Fund so that we can avoid National's plan to raise the super age.

By making these choices we will make New Zealand a better place for all our people, while balancing the books. That is the positive plan that only a Labour-led Government will deliver.

**We will make New Zealand a better place for all our people,
while balancing the books.**



Grant Robertson MP Labour Finance Spokesperson

Our fiscal plan shows New Zealanders that we will make the investments required to re-build our core public services, reduce inequality and poverty and invest for the long term benefit of New Zealand, while also responsibly managing our country's finances.

The last nine years have seen a systematic under-funding of core public and social services by the National government. We need a fresh approach to put people first. The fiscal plan confirms that we have rejected National's Budget tax cuts. This is the right thing to do. Now is the time to give more support to families, build houses and fund health and education properly.

At the same time, we will restart contributions to the New Zealand Superannuation Fund. The National Government has not put a single cent into the Fund since 2009. By saving now, we spread the cost of the ageing population out over decades, rather than leaving it to future taxpayers.

Restarting contributions to the Super Fund is in keeping with our Budget Responsibility Rules. These five rules, jointly announced in March with the Green Party, create the fiscal framework within which we have made spending and revenue decisions. They ensure that a future Labour-led government will continue to post surpluses, allowing us to pay down the record debt built up by the current Government.

Labour is determined to build durable public services, and that means ensuring that the Government's fiscal position is robust and able to withstand future economic shocks.

Meeting our target under the Budget Responsibility Rules to ensure government spending as a ratio to GDP is around 30% will reverse the declining trend under National. It will mean that the health system, the education system, and the Police have the resources they need to do the jobs that New Zealanders expect of them.

Our Budget Responsibility Rules also require that we have a progressive, fair and balanced tax system. We will establish a tax working group in government with a mandate to get a better balance between how we tax assets, wealth, income and consumption. In the meantime we are proposing changes that move in that direction. We will also stop multinational corporations from free-loading on New Zealand — taking the benefits of the physical and legal infrastructure as well as our education and health systems without appropriately contributing to the taxes that pay for them.

In government we will ensure that the Budgets we produce are not just narrow fiscal documents. We will measure our success in how we improve the well-being of all New Zealanders, how we are reducing child poverty and improving sustainability. We will always remember that our fiscal plan is merely the means to the end of supporting New Zealanders to have lives of dignity, security and hope.

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BERL examination and analysis

BERL have reviewed and checked a range of calculations provided by the Labour Party concerning their policy plans.

These costings have been benchmarked against the May 2017 Budget Economic and Fiscal Update (BEFU) and associated Fiscal Strategy Model (FSU) to determine the overall impact on the Government's fiscal situation.

Particular attention has been paid to whether the plans are consistent with the Budget Responsibility Rules (BRR) published by the Labour Party and the Green Party; namely

- Operating Balance before Gains and Losses (OBEGAL) in surplus across an economic cycle
- Net Core Crown debt reduced to 20% of GDP within 5 years
- Core Crown spending is managed around a trend of 30% of GDP.

Incorporating the policy plans listed in this document, and assuming the economic parameters incorporated in the May 2017 BEFU (and its associated FSM), results in the outcomes for these fiscal indicators as illustrated in this report.

Further, it should be noted that incorporated into these figures are allowances for new operating spending totalling \$0.9 billion, \$1.8 billion, \$3.2 billion, and \$4.1 billion in the – respectively – 2018/19, 2019/20, 2020/21 and 2021/22 June fiscal years.

Finance costs have been adjusted to account for the different debt tracks. The implied interest rate on Government gross debt – as per the FSM – were assumed to apply to the different debt tracks.

In addition, as noted above, we have not changed the economic growth parameters assumed in the BEFU.

Findings

We find that the Labour Party policy plans and costings are consistent with the stated Budget Responsibility Rules and, in particular

- **The OBEGAL remains in surplus throughout the period to 2022**
- **Net Core Crown debt is reduced to 20% by June 2022**
- **Core Crown expenses remain comfortably under 30% throughout the period to 2022.**

"We find that the Labour Party policy plans and costings are consistent with the stated Budget Responsibility Rules"

- BERL

Major first term outputs and goals

In its first term, Labour will implement a series of policies to address the big issues facing New Zealand....

After nine years of the National Government, social deficits have built up that need to be tackled. The current Government has failed to implement the needed policies and make the necessary investments to fix the problems in housing, health, education, police, and infrastructure. Labour's plan will rebuild our social foundations while creating more jobs and lifting the incomes of families. These investments will be made while running surpluses and paying down debt.

... by tackling the housing crisis and restoring the Kiwi Dream of homeownership....

In the first term, the Labour Government will:

- Ease the housing shortage by building affordable homes and selling them at cost to first home buyers, building state houses, and implementing modern rules around urban limits and density controls
- Crack down on speculators by banning overseas speculators from buying existing houses and tightening the tax rules speculators exploit
- Increase our building capacity by investing in our young people, encouraging them into building trades, and investing in modern manufacturing techniques
- Improve the quality of housing by requiring all rentals to be fit to live in, and invest in insulation and heating grants paid for by closing the speculators' tax loophole.

These policies will see thousands more homes being built while removing speculative demand from the market. Kiwi families will have a fair go at buying a place of their own. By the end of our first term, we expect to see more families owning their own home and a significant reduction in homelessness, on the path to our target of making sure every Kiwi has a warm, dry, safe place to live.

... addressing chronic underfunding of health, education, and police...

In the first term, the Labour Government will:

- Reverse National's health cuts and begin the process of making up for the years of underfunding that have occurred. This extra funding will allow us to invest in mental health services, more affordable primary care, providing more operations, and the latest medicines. By the end of the four year forecast period, Labour will invest \$8 billion more in health than was proposed in Budget 2017
- Introduce the first stage of our three years free post-secondary school education and training policy. We will also fund schools and early childhood education centres properly, so they can deliver world class education to our children. By the end of the four year forecast period Labour will invest \$4 billion more in education than was proposed in Budget 2017
- Increase funding to Police to recruit 1,000 additional officers to make our communities safer.

These policies will begin to fix the chronic problems that are emerging in our public services. By the end of our first term, we will have more doctors and nurses in our hospitals, more teachers in our schools, better educated young people, and more police keeping our streets safe.

By the end of our first term, we expect to see more families owning their own home and a significant reduction in homelessness.

Major first term outputs and goals

... investing in infrastructure, our future, and jobs...

In the first term, the Labour Government will:

- Restart contributions to the New Zealand Superannuation Fund, to maintain the superannuation age at 65
- Begin the construction of a light rail network in Auckland and restart commuter rail in Christchurch as part of a nationwide increase in investment to reduce the infrastructure deficit that has emerged under National
- Boost growth and jobs through our Regional Development Fund and R&D tax credits
- Target reducing New Zealand's unemployment to 4% by backing apprenticeships, getting young people off the dole and Ready for Work, investing in regional development opportunities that will create jobs, and creating employment through KiwiBuild and our infrastructure programme.

By the end of our first term, we expect to see unemployment in New Zealand among the lowest in the OECD, from the current position of 13th. The New Zealand Superannuation Fund will be growing rapidly again and worth around \$63 billion. The infrastructure projects to get our cities moving will be underway.

While these investments are being made, we will take a breather on immigration until our cities can keep up with rapid population growth.

... and boosting incomes to families while helping those in need.

In the first term, the Labour Government will:

- Boost wages by introducing Fair Pay Agreements, increasing the minimum wage on the path to making it two-thirds of the average wage, and paying the living wage to core government employees, and — over time — contractors to government agencies
- Increase family incomes with higher Working For Families payments and a Best Start payment to families with babies and toddlers
- Help older New Zealanders and low-income families stay warm and healthy in winter with a new Winter Energy Payment
- Reinstate the Independent Earner Tax Credit for single low-income people.

By the end of our first term, we expect to see a significant increase in incomes, especially for working families and those in need. This will help to reduce inequality and poverty, and create a New Zealand where everyone shares in prosperity. Over the four year forecast period Labour will spend an additional \$5 billion lifting the incomes of middle-income families and those in need.

By the end of our first term, we expect to see unemployment in New Zealand among the lowest in the OECD.

Budget Responsibility Rules

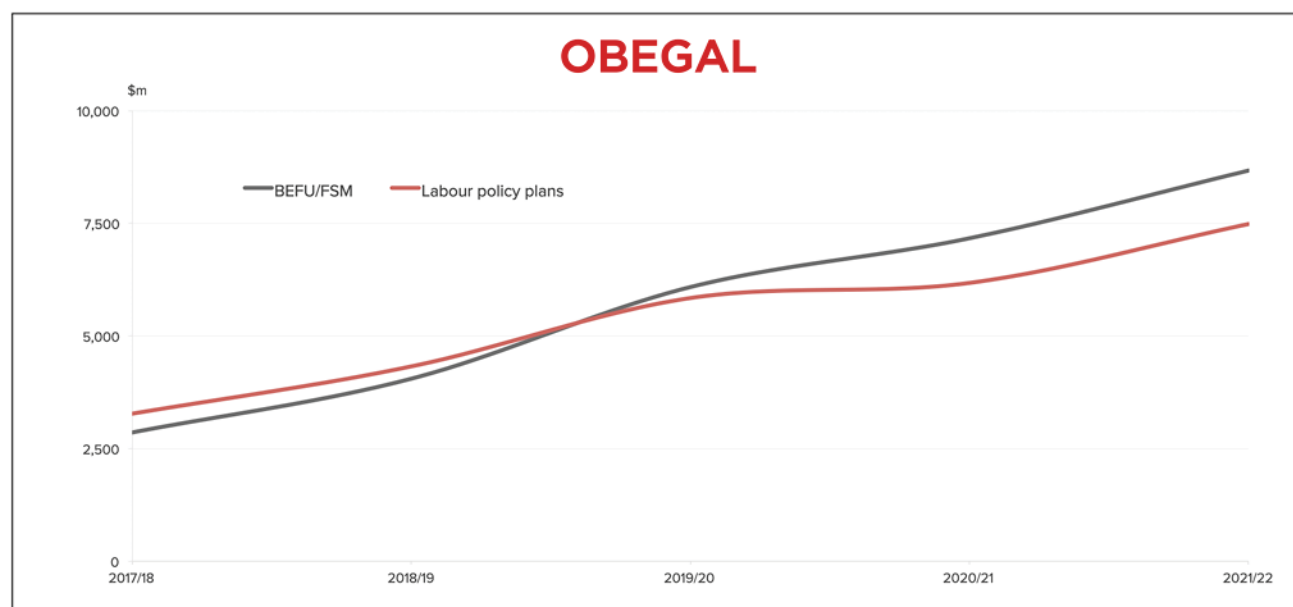
Labour's Fiscal Plan meets all of our Budget Responsibility Rules.

Rule 1: The Government will deliver a sustainable operating surplus across an economic cycle.

An OBEGAL surplus indicates the Government is financially disciplined and building resilience to withstand and adapt to unforeseen events. We expect to be in surplus every year unless there is a significant natural event or a major economic shock or crisis. Our surpluses will exist once our policy objectives have been met, and we will not artificially generate surpluses by underfunding key public services.

Labour's Fiscal Plan projects OBEGAL surpluses throughout the forecast period. Higher investment in operating expenditure in health, education, and police is offset by higher revenue from cancelling National's tax cuts, closing the speculators' tax loophole, and reducing multinational tax avoidance. By running consistent surpluses, as the previous Labour Government did, the Government will be able to reduce debt to sustainable levels.

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2021/22
OBEGAL (\$m)					
BEFU	2,858	4,051	6,085	7,168	8,670
% of GDP	1.0	1.4	2.0	2.2	2.6
Labour policy plans	3,240	4,317	5,805	6,141	7,443
% of GDP	1.2	1.5	1.9	1.9	2.2



We will not artificially generate surpluses by underfunding key public services.

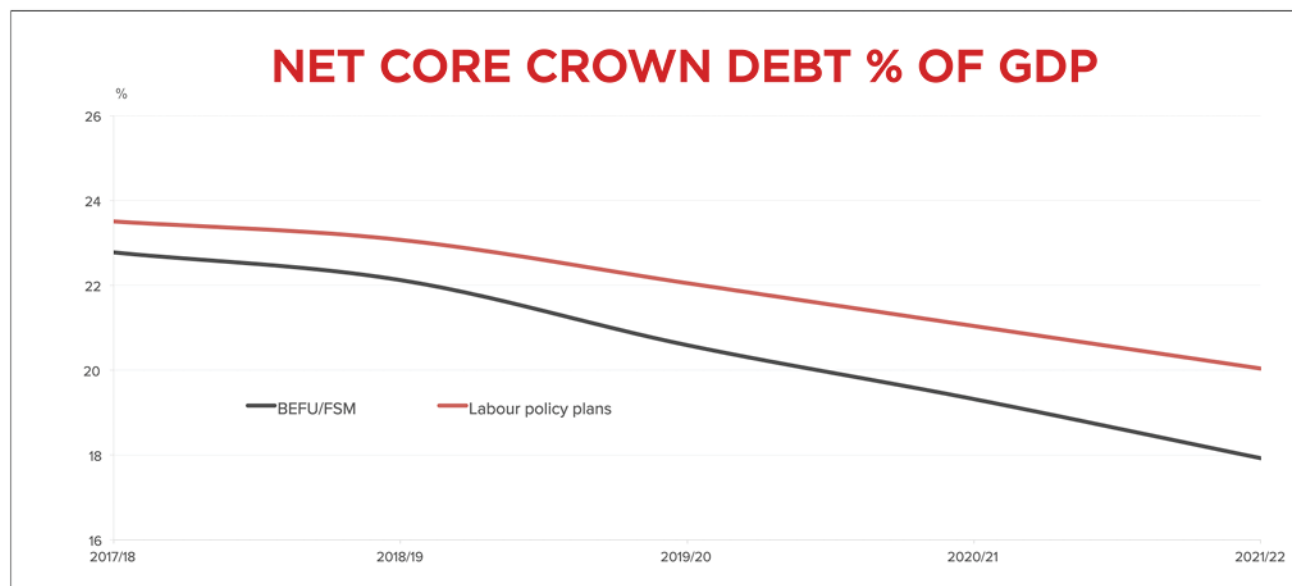
Budget Responsibility Rules

Rule 2: The Government will reduce the level of Net Core Crown Debt to 20% of GDP within five years of taking office.

To give future generations more options, reducing government debt has to be a priority. By setting a target, provided that economic conditions allow, we will be able to make responsible debt reductions and invest in housing and infrastructure that strengthen our country and prepare us for future challenges.

Labour's Fiscal Plan projects that, by running continued surpluses and not undertaking irresponsible tax cuts, net core Crown debt will be 20% of GDP in 2021/22, five years after the 2017 election. This will give the Government the fiscal space it needs to make much-needed investments in housing, health, education, and infrastructure. Getting debt down will control the Crown's interest costs of \$10m a day, help to insulate New Zealand against economic shocks, and make greater public service investment sustainable.

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2021/22
Net core Crown debt (\$m)					
BEFU	64,171	65,721	64,218	62,769	60,738
% of GDP	22.8	22.1	20.6	19.3	17.9
Labour policy plans	66,259	68,513	68,760	68,357	67,899
% of GDP	23.5	23.1	22.0	21.0	20.0



To give future generations more options, reducing government debt has to be a priority.

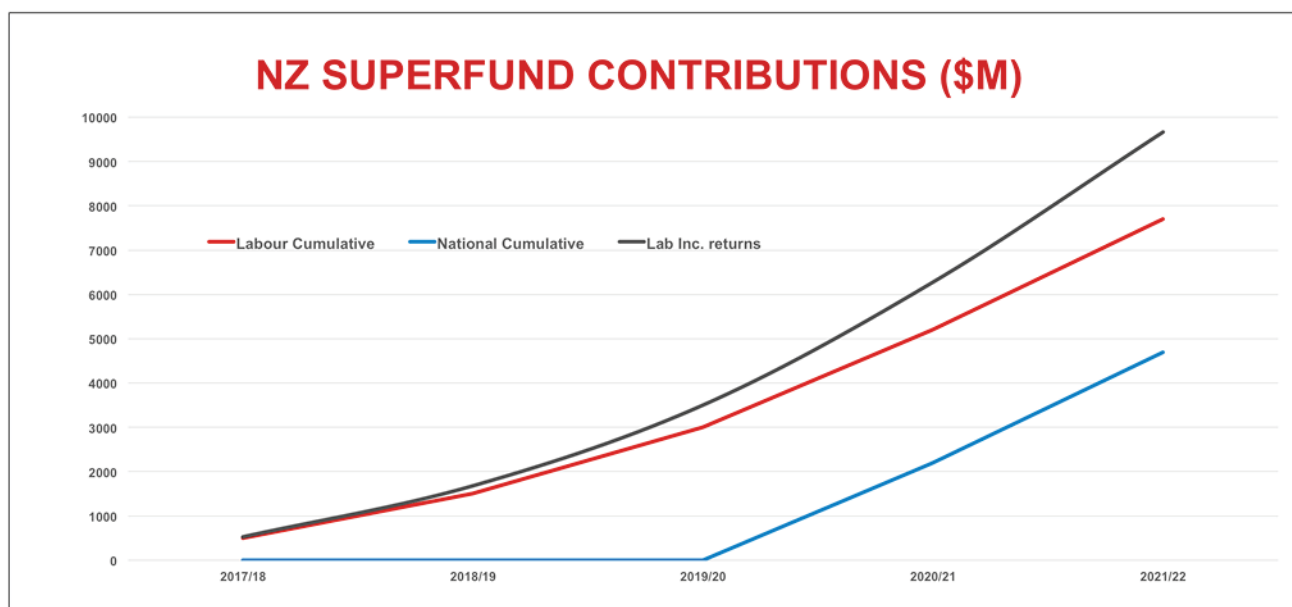
Rule 3: The Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.

The Government will prioritise responsible investments that enhance the long term wellbeing of New Zealanders - such as restarting contributions to the Super Fund. In addition we will invest in infrastructure to support our growing population, and reduce the long term fiscal and economic risks of climate change.

Labour’s Fiscal Plan projects that, by making measured increases to investment in housing, health, education, and infrastructure, while not undertaking irresponsible tax cuts, enough fiscal headroom will be created to restart contributions to the New Zealand Super Fund without compromising on the debt target. Restarting investment in the NZ Super Fund will increase the size of the fund to over \$63bn by 2022/23 and will help to keep superannuation at 65 sustainable.

Labour is also committed to delivering an all gasses, all sectors emissions trading scheme. Any positive revenues generated by this scheme will be used to deliver a just transition to a low carbon economy.

	2017/18	2018/19	2019/20	2020/21	2022/23
NZS Fund Contributions (\$m)	500	1,000	1,500	2,200	2,500



The Government will prioritise responsible investments that enhance the long term wellbeing of New Zealanders.

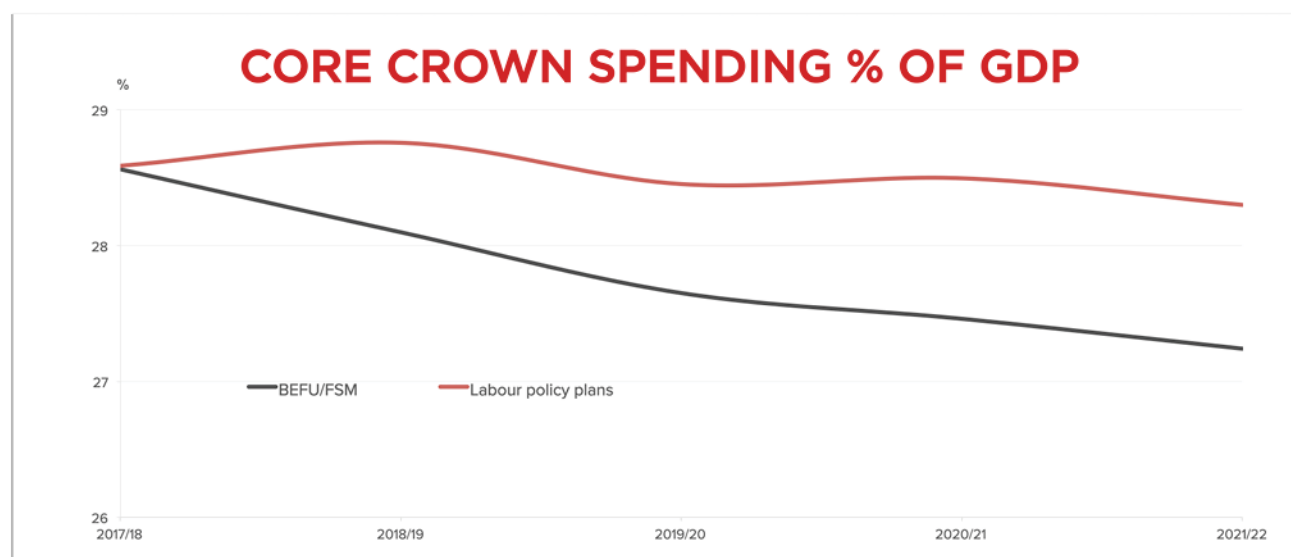
Budget Responsibility Rules

Rule 4: The Government will take a prudent approach to ensure expenditure is phased, controlled, and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio.

During the global financial crisis Core Crown spending rose to 34% of GDP. However, for the last 20 years, Core Crown spending has been around 30% of GDP and we will manage our expenditure carefully to continue this trend.

Labour's Fiscal Plan projects that government spending as a share of the economy will remain stable throughout the forecast period at 29%. This level of investment is higher than forecast in Budget 2017 and is made possible by not cutting taxes, a slower debt repayment track and some additional revenue measures. Over the forecast period Labour will invest \$8bn more in health, \$4bn more in education, and \$5bn more in income assistance for families (through Working for Families, Best Start, and the Winter Energy Payment) than projected in Budget 2017.

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2021/22
Core Crown expenses (\$m)					
BEFU	80,486	83,466	86,234	89,223	92,300
% of GDP	28.6	28.1	27.7	27.5	27.2
Labour policy plans	80,560	85,401	88,744	92,591	95,898
% of GDP	28.6	28.8	28.5	28.5	28.3



For the last 20 years, Core Crown spending has been around 30% of GDP. We will manage our expenditure carefully to continue this trend.

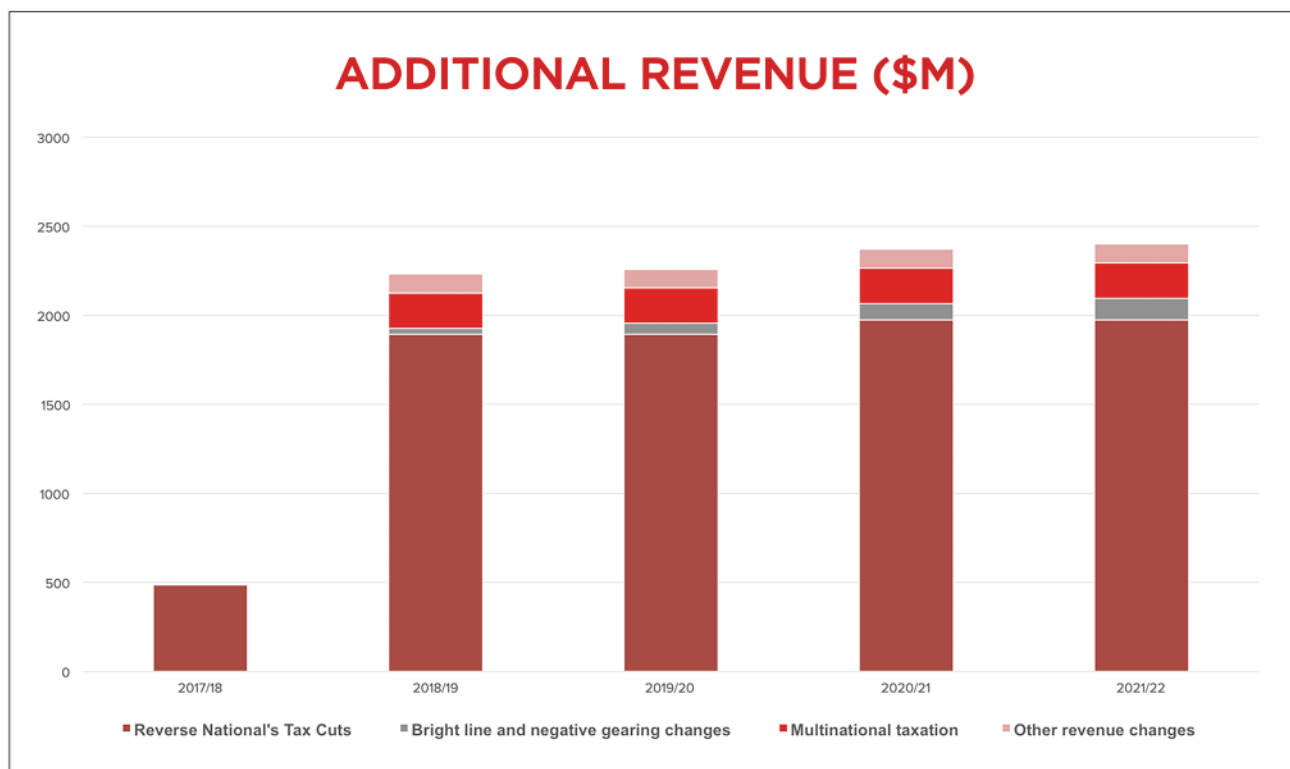
Rule 5: The Government will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

The Government will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

Labour’s Fiscal Plan shows that the tax system will become more progressive and favourable to the productive economy. By rejecting tax cuts that would give as much to the top 10% of income earners as the bottom 60%, we have stopped the tax system becoming more regressive. Cracking down on property speculation makes the housing market fairer and moves the incentives towards productive investments. Improving taxation of multinational corporations ensures that they are paying their fair share for the public investments they benefit from.

We will establish a Tax Working Group in government. It will have a mandate to create a better balanced tax system, including between assets, wealth, income and consumption. Labour is committed to delivering a tax system that is fair, simple, and collected.

The figure below sets out the additional sources of revenue that the Labour Government intends to use over the forecast period.



Labour is committed to delivering a tax system that is fair, simple, and collected.

Labour's new investments

Major Labour Party policy plans (\$m) - additional to BEFU 2017

Year	2017/18	2018/19	2019/20	2020/21	2021/22
Families Package		1,211	1,212	1,260	1,313
Double refugee quota		25	50	50	52
Other changes		56	56	56	58
Social security and welfare		1,291	1,317	1,365	1,423
Paying back National's underfunding		293	293	293	293
Delivering a Modern Health System		554	1,243	2,069	2,864
Health		846	1,535	2,361	3,157
3 years free post-schools education		130	265	271	276
Increased funds for 100% qualified ECE centres		33	74	86	86
Careers advisory services		10	20	26	27
Delivering a Modern Education System		95	360	475	843
Other education changes		149	200	257	259
Education		417	920	1,114	1,491
Extra police		40	41	42	43
Law and order		40	41	42	43
Extra IRD investigation staff		30	31	32	33
Core Government services		30	31	32	33
R & D tax credits		100	200	250	300
Regional Development		50	75	75	0
Ready for Work		60	60	60	60
Other changes		20	25	28	28
Economic and industrial services		230	360	413	388
Affordable Housing Authority set up		100	0	0	0
Insulation Grants		30	60	90	120
Housing and community development*		130	60	90	120
Additional spending commitments		2,985	4,264	5,418	6,654
Additional contribution to NZS Fund	500	1,000	1,500	48	376
KiwiBuild	2,000	0	0	0	0
Additional capital spending commitments	2,500	1,000	1,500	48	376
Additional finance costs	74	101	174	228	299
Reverse National's Tax Cuts	486	1,896	1,895	1,976	1,976
Bright line and negative gearing changes		30	60	90	120
Multinational taxation		200	200	200	200
Other revenue changes		105	105	105	105
Additional revenue	486	2,231	2,260	2,371	2,401
Labour spending allowance for unannounced policies (see also p16)		878	1,776	3,161	4,086

* Not including expenditure delivered by Housing New Zealand Corporation for the delivery of new social housing.



Labour's fiscal forecasts

Labour Party policy plans (\$m)

Fiscal year ending June	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
Revenue Including Labour's changes					
Taxation revenue	77,328	82,614	87,410	91,562	95,922
Other sovereign revenue	5,057	5,452	5,849	6,064	6,422
Total revenue levied through Sovereign power	82,385	88,066	93,259	97,626	102,344
Sales of goods and services	16,994	17,711	18,177	18,566	19,770
Interest revenue and dividends	3,724	3,878	4,108	4,362	4,253
Other revenue	3,700	3,765	3,826	3,874	4,164
Total revenue earned through operations	24,418	25,354	26,111	26,802	28,187
Total revenue (excluding gains)	106,803	113,420	119,370	124,428	130,532
Expenses including Labour's investments (see p.14)					
Social security and welfare	31,577	33,732	35,330	36,634	38,178
Health Expenditure	16,389	17,276	17,997	18,739	19,485
Education	14,741	15,299	15,851	16,267	16,604
Core government services*	4,572	4,243	4,065	3,920	4,122
Law and order	4,435	4,577	4,631	4,713	4,728
Transport and communications	9,637	9,952	10,141	10,615	11,190
Economic and industrial services	7,949	8,646	8,909	9,043	9,456
Defence	2,286	2,351	2,362	2,372	2,371
Heritage, culture and recreation	2,391	2,409	2,399	2,398	2,512
Primary services	1,986	1,970	1,975	2,034	2,097
Housing and community development	1,954	2,109	1,998	2,060	2,212
Environmental protection**	1,012	926	982	984	984
GSF pension expenses	239	251	263	263	254
Other	406	401	396	396	0
Finance costs	4,298	4,214	4,547	4,716	4,879
Labour Spending Allowance for unannounced policies (see page 14)	293	878	1,776	3,161	4,086
Top-down expense adjustment	-1,000	-545	-500	-500	-520
Total Crown expenses excluding losses	103,165	108,689	113,121	117,816	122,636
Balances					
Minority interest share of OBEGAL	-398	-414	-444	-471	-452
OBEGAL (excluding minority interests)	3,240	4,317	5,805	6,141	7,443
Net gains/losses on financial instruments	2,538	2,781	3,092	3,399	2,983
Net gains/losses on non-financial instruments	-88	-76	-35	-45	0
Less minority interest share of net gains/losses	-26	-7	-6	-7	-7
Total gains/losses	2,424	2,698	3,051	3,347	2,976
Net surplus/deficit frm associates & joint ventures	214	247	315	309	315
Operating balance (excluding minority interests)	5,878	7,262	9,171	9,797	10,734

*This declines due to the impact of spending on Kaikoura and Canterbury earthquakes

** This declines due to changes in the revenue generated by the Emissions Trading Scheme

Labour Party policy plans (\$m)

Fiscal year ending June	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
Core Crown					
Core Crown revenue	84,246	89,717	94,766	99,174	103,697
Core Crown expenses	80,560	85,401	88,744	92,591	95,898
Net surplus SoEs and Ces	-416	31	-187	-412	-326
OBE GAL (excluding minority interests)	3,270	4,347	5,835	6,171	7,473
Core Crown cash					
Retained suprluses SoEs, CEs and NZS Fund; and non-cash items and working capital movements	1,368	632	1,386	1,934	2,350
Net core Crown operating cash flow	4,638	4,979	7,221	8,105	9,823
NZS Fund contribution	-500	-1,000	-1,500	-2,200	-2,500
Other capital items	-8,015	-6,233	-5,768	-5,501	-6,865
Net core Crown capital cash flow	-8,515	-7,233	-7,268	-7,701	-9,365
Core Crown residual cash	-3,877	-2,254	-47	404	458
Core Crown debt					
Opening Core Crown net debt	62,382	66,259	68,513	68,760	68,357
Core Crown residual cash deficit	3,877	2,254	47	-404	-458
Valuation adjustments	0	0	200	0	0
Closing Core Crown net debt	66,259	68,513	68,760	68,357	67,899
as a % of GDP					
Core Crown expenses	28.6	28.8	28.5	28.5	28.3
OBE GAL	1.2	1.5	1.9	1.9	2.2
Closing Core Crown net debt	23.5	23.1	22.0	21.0	20.0
<i>memo item: nominal GDP</i>	<i>281,801</i>	<i>297,042</i>	<i>311,862</i>	<i>324,898</i>	<i>338,815</i>
Net capital expenditure activity					
Net purchase of physical assets	3,196	2,350	2,057	1,620	2,157
Net advances	325	208	193	89	230
Net investments	2,888	2,523	2,114	1,768	1,380
Contribution to NZS Fund	500	1,000	1,500	2,200	2,500
KiwiBuild	2,000	0	0	0	0
Future new capital spending (incl top-down adj)	-394	1,152	1,404	2,024	3,099
Net capital spending*	8,515	7,233	7,268	7,701	9,365

*This table includes \$5.5bn of unallocated capital expenditure over the period. This table also excludes any expenditure associated with any future infrastructure bond financing. The exact way in which this will be accounted for on the balance sheet has yet to be determined.

