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Hon Grant Robertson, Minister of Finance

## Budget 2018: Future Proofing New Zealand's Economy

Thank you all for coming this morning and special thanks to Westpac for hosting us today.

I want to discuss how Budget 2018 will take the first steps towards this Coalition Government's plan for a transformation of the New Zealand economy. A transformation to one that is more productive, more sustainable and more inclusive. In essence, a modern economy that is better equipped to take on the opportunities and meet the challenges of a rapidly changing world.

Six months into our work I am pleased with the progress that we are making. We came into Government with a clear and different set of priorities. We immediately set about implementing our plan to support more New Zealanders to have a share in our country's prosperity.

There is no doubt that the high-level indicators for the New Zealand economy have been, and are, strong. But despite the economic growth seen in recent years, many Kiwis have not seen any significant improvement in their standard of living. In fact, far too many of our people have been left out of the benefits of economic growth.

One of the main features of the election campaign last year was the growing level of inequality in New Zealand society.

Whether I was in a smoko room or a board room, I heard very similar concerns. And that is, that no New Zealander is comfortable with levels of homelessness that are the highest in the OECD, or that children are growing up in cold, damp houses. Nobody is. No New Zealander is comfortable knowing that there are people who aren't able to house their families, or who aren't able to put food on the table. That's not the New Zealand that we all believe in, and we – made it our first priority to set about righting this wrong.

So, our first action was to reverse the untargeted tax cuts proposed by the previous government and re-invest that money in supporting low and middle income families.

Our Families Package will see \$5.5 billion over the next four years focused on improving the living standards of those who need it the most. And there was money left beside to build the foundations of our economic transformation.

Through our mini-Budget in December, we introduced:

- The Families Package, which when fully rolled out in 2020/21, will see 384,000 families with children better off by an average of \$75 a week, and many hard-working lower-income families receiving more. Our Winter Energy Payment will support Superannuitants and recipients of main benefits with their energy costs.
- Further support to families by extending paid parental leave.

- An increase in the minimum wage to \$16.50 an hour from April, and it will rise in phases to \$20 an hour by 2021.
- The Healthy Homes Guarantee Bill to ensure that all rentals are warm and dry. This isn't just a housing policy. This is a health policy, and an economic policy.
- We allocated \$2 billion for our ambitious Kiwibuild programme to deliver 100,000 long-overdue affordable houses built across the country, including 50,000 here in Auckland.
- We have fully funded the first year of our fees-free post-secondary education and training policy.
- We established our Tax Working Group to look at ways to improve the fairness and balance of the tax system, and shift investment towards the productive economy.
- We restarted payments into the NZ Superannuation Fund, after no contributions since 2009.
- We introduced the Prime Minister's Child Poverty Reduction Bill to set the targets and measures to achieve a significant and sustained reduction in child poverty.
- And we are setting up an independent climate commission to begin work on the goal of a net zero emissions economy by 2050.

That mini-Budget in December was just the start. It represented the first steps of a plan that will be rolled out over at least the next three years by the Coalition Government.

We have a plan for a stronger and fairer economy; a modern economy that will be fit for purpose for our children and grandchildren. We have a plan to transition to an economy that is more productive, more sustainable, and more inclusive, and which is continuously focussed on improving the living standards and wellbeing of all New Zealanders.

This will require a different approach, with different priorities, and different measures of success.

Budget 2018 will take the next critical steps in rolling out that plan. It will lay the foundations required to rebuild the critical social and physical infrastructure in New Zealand.

We've come in after nine years of a government that demanded public services do more with less. This might sound great in theory, but in reality, as we have seen in many cases, the result was underfunded critical public services doing less with less.

I don't want to dwell on the past today, but you can all see the scale of the challenge in the examples of the urgent capital needs in our hospitals. The same can be found in our ageing school classrooms, and the failure of the previous government to plan for population growth in the education system. Or, in the failure to address the growing multi-billion dollar funding gap in Auckland's transport problems, or make the decisions necessary to complete Christchurch's rebuild on time and on budget.

The scale of the challenge is large, but we have the plan to deal with it.

We cannot make up for nine years of neglect in one Budget. Our commitments are for three years of Government and beyond. This means some things will be phased or will not start until next year, but the commitments of our Coalition and Confidence and Supply agreements and Speech from the Throne stand.

It is time for a better balance in our economy, to reflect the desires of New Zealanders to live up to our values and principles of fairness and equality of opportunity.

Dealing with these issues is an essential part of future-proofing the economy. We have to build the strong foundations that give each and every New Zealander the chance to succeed.

That is why Budget 2018 has the re-building of critical public services at its core:

Health and Education will get long overdue boosts to their capital and operating funding to deal with cost pressures and ensure that our hospitals and schools are fit for purpose.

Housing initiatives will receive a boost on top of the \$2 billion we announced in the December mini-Budget for KiwiBuild.

These plans, along with the Families Package which lifts children out of poverty and reduces inequality, are the bedrock of establishing a more inclusive economy.

Budget 2018 will also reflect the plan we have to transform the New Zealand economy to be more productive and more sustainable.

We simply cannot rely on merely increasing our population, exporting raw commodities and an ever-overheated housing market to drive our economic growth. Our globally poor labour productivity is holding us back. To transform our economy we have to work smarter.

We are building on the work of Labour's Future of Work Commission to ensure we can face the future with confidence, built on a resilient and adaptable economy.

The investment we have already made to education and training in the mini-Budget is critical to that. Adding to that, the Minister for Science and Innovation and I recently announced that we would introduce a Research and Development tax incentive to lift our investment in innovation.

We have committed through the Coalition Agreement to lifting our R&D investment to 2% of GDP inside ten years. That is a 50% increase in R&D spending. We are well-below the OECD average for R&D. We must do better, and we have an ambitious plan for achieving that goal.

We will also be continuing to put resources into ensuring New Zealand is in the best position to push for, and benefit from, trade agreements which will grow jobs, exports and our productive economy. The CPTPP gives us a significant opportunity, as do future potential agreements with the EU, UK and others.

We must give ourselves the resources to achieve these deals, and Budget 2018 will start rebuilding New Zealand's Foreign Affairs and Trade capability. We must improve our country's ability to promote trade, have our voice heard on the international stage and be in a position to support our neighbours as the Pacific faces threats like Climate Change.

The Budget will also include the biggest investment in the regions of New Zealand seen in our lifetimes. The Provincial Growth Fund agreed in the Coalition Agreement with New Zealand First is investing in infrastructure and in lifting the value of business in our regions.

A core element of our shift to a more productive economy will be getting the investment signals right in our economy. That is the focus of the Tax Working Group, and indeed our reform of the Reserve Bank Act. It is also why we are investing significantly in infrastructure. We recently announced a refreshed and fully costed Auckland Transport Alignment Project, which is a demonstration of what we can do as a Government to lift New Zealand's productivity by leveraging our balance sheet.

The ATAP refresh is also a demonstration of how this Government wants to work collaboratively. We are committed to developing strong partnerships with local government, business, iwi and workers to transform our economy, and you will be hearing more on these types of partnerships in the coming weeks and months.

We also want to measure our success differently. For Budget 2019 we will be using the Living Standards Framework developed by The Treasury to create New Zealand's first Wellbeing Budget. We will look beyond the normal GDP measures to measures which show how what we do improves the health and wellbeing of our people, our environment and our communities. Improving intergenerational wellbeing will drive our priorities and how we measure our success.

Perhaps the biggest shift our economy needs to make is to be more sustainable. A future-proofed economy has to be one that recognises the importance of protecting our natural resources and makes the shift to a low carbon economy. This Budget will make the investments to start that journey. This will include seizing the opportunity for new, clean technologies through the Green Investment Fund, agreed as part of our Confidence and Supply agreement with the Green Party.

We will begin the process of a Just Transition to this more sustainable economy by responsibly looking now at the challenges New Zealand will face in the future.

There is another element to sustainability that I want to talk about this morning. That is fiscal sustainability. This Government, like all others, has to be responsible to future generations with how we manage our finances, just as we do for our environment.

There has been quite a lot of comment about the Budget Responsibility Rules. Today I want to re-assure you that we are committed to them as much as we are to the investments needed to transform our economy. Both are possible and both are necessary.

It goes without saying that a Government that presides over high deficits, increasing debt, or a shrinking economy would not be able to provide the critical and quality public services that New Zealanders want and deserve. That is why we developed and committed to the Budget Responsibility Rules.

You know what they are, but in brief:

We will deliver a sustainable operating surplus across an economic cycle. We will not generate artificial surpluses by underfunding essential areas such as health, education, and infrastructure.

We will reduce the level of net core Crown debt to 20 percent of GDP within five years of taking office. We have made this commitment to ensure that future generations of New Zealanders are in a position to be able to respond effectively to any shocks – natural or economic.

This Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand

We will maintain Government expenditure within the recent historical range of spending to GDP, which has averaged around 30 percent over the last 20 years.

Lastly on the Budget Responsibility Rules, we will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy. Our Tax Working Group, chaired by Sir Michael Cullen, will be making their recommendations to us about this by early 2019. This review isn't a revenue-grab – one option open to the Working Group is that the recommendations are fiscally neutral. It is a responsible review of New Zealand's tax system to ensure it is appropriate for the 21st Century.

We have been criticised by people who argue that these rules are too tight, and on the other hand by those who, despite all evidence to the contrary, believe Labour-led governments cannot carefully manage the Government's books.

Budget 2018 will show that we can both meet the Rules and make the investments needed to rebuild the foundations of our critical public services and to start the transformation a modern, productive economy.

That means Budget 2018 will deliver a surplus. You will see it there on Budget Day. It is what we promised, and it is what we are delivering, as a responsible Government.

It is a legitimate question to ask of any government, how will you pay for your commitments?

Our plan to do so has been clear since the election campaign.

First, we have slowed down the debt repayment track of the previous government by two years. This frees up resources that we can invest in infrastructure, housing, and correcting the social deficits that are undermining our economy and communities. These investments will generate a rate of return for the economy and the Government in terms of greater capacity and productivity growth.

Secondly, tax revenue has tracked higher than forecast in recent months because of a strong economy. This gives us more choices. It is important that we use this extra revenue wisely and carefully to meet previously unfunded cost pressures over the coming years, but some will be available for this Budget.

Thirdly, we are increasing Government revenue through initiatives that were clearly flagged during the election campaign and by building on work done by the previous government.

A person's ability to hire an expensive accountant to get them around their tax obligations should not define how much tax they pay. By investing in the IRD's compliance capability, we will generate a greater return by ensuring tax dodgers are caught and made to contribute, just like all of the hard-working New Zealanders who pay tax out of every pay cheque.

We are also cracking down on property speculators by extending the bright line test on the sale of investment properties, and we are ensuring a level playing field for all taxpayers by ending the practice of negative gearing for those with an investment property portfolio.

And we are also aggressively pursuing those foreign and multi-national companies which do not pay their fair share of tax in New Zealand.

You'll hear more later today from Revenue Minister Stuart Nash on how we are continuing work initiated by the last government to make sure that there is a level playing field for New Zealand retailers competing in a global market.

Finally, it will also come as no surprise that this Government has different priorities. It is only natural that some of the previous Government's policies and schemes do not fit with our plans, have not stacked up as value for money, or have simply not come to fruition.

One of the first things I did as Minister of Finance was ask my Ministerial colleagues to look through their budgets for spending that could be better invested elsewhere.

Within five months, we have been able reprioritise around \$700 million of funding over the next four years.

Combined with our moves to crack down on speculators, tax dodgers and ensuring multi-nationals pay their fair share of tax, we have freed up \$1.4 billion worth of funding for this Government's priorities and investments over the next four years.

Every responsible Government should be reviewing policies and spending regularly to ensure taxpayers are getting the best value for money and that policies will benefit the greatest number of people.

One lesson I can draw from my first Budget process is that we spend a lot of time debating new proposals, but comparatively little on the substantial baseline allocations.

That is why, in the next phase of our reprioritisation exercise, I will work with Ministers to take a further look into their allocations to ensure we are getting the best value for money from the investments the Government makes on behalf of all New Zealanders.

Over the next few weeks, and on Budget Day, every single investment that we announce is fully accounted for within the operating and capital allowances that are set with those Budget Responsibility Rules in mind.

Responsibility has two meanings in Government. We must be fiscally responsible. We must ensure that New Zealand is well-placed to handle any natural disasters or economic shocks.

But Governments also have the responsibility to prepare our country for the future by making sure the foundations on which that future will be built on are strong and sustainable.

Budget 2018 begins an economic and social transformation that must happen if we are to deliver to New Zealanders an improved quality of life and better living standards for decades to come.

This starts with making sure that the people we serve have access to the critical public services they need and deserve – health, education and housing.

It means shifting the settings of our economy to face the rapidly changing world of work, to drive more productivity and to make the transition to a more sustainable economy – one which will last and withstand changes by turning them into opportunities.

A Budget is always a balancing act defined by the priorities of the government of the day. Our priorities are different to the previous government – and we have been responsible by making sure we have created the room to make the critical investments we need to, while maintaining New Zealand’s resilience to any future shocks that may hit us.

We are investing in the future of our people, our economy and our environment. We are a transformational government which is managing the books responsibly, so that our economy is prepared for the future.

I am very much looking forward to Budget Day as this Government’s opportunity to set in place some vital changes for a productive, sustainable and inclusive economy for New Zealand.

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