NATIONAL PARTY FISCAL PLAN

- Disciplined spending
- Lower taxes
- Less debt

Christopher Luxon

National Party Leader

This election is all about the economy and which party can rebuild it after six years of decline and Kiwis going backwards.

Only through a strong economy can we end the cost of living crisis, lift wages, reduce interest rates and afford the public services we all rely on - like hospitals, schools and police.

A key plank of National's plan to rebuild the economy is restoring discipline to government spending and getting the government books back in order.

Labour is now spending $1 billion more every week than when they took office, seeing debt blow out from $5 billion in 2019 to $104 billion in the latest forecast. And yet New Zealanders have not seen a material improvement in frontline services.

New Zealand cannot afford to continue down this path.

National will restore discipline to government spending. I know New Zealanders work hard for every dollar they earn - and so every dollar paid in tax should be treated with respect.

Kiwis have had to tighten their belts through the cost of living crisis and under National the Government will too.

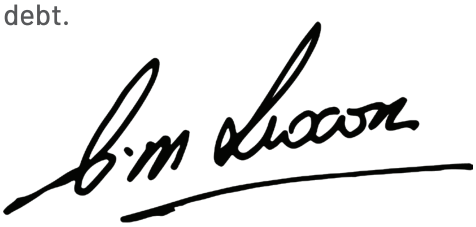
National will let people keep more of what they earn - with tax relief that provides up to $250 a fortnight for a couple on the average income with young children.

In addition, National will spend less than Labour and therefore reduce debt by $3.4 billion compared to the Pre-election Economic and Fiscal Update ('PREFU').

Frontline health and education services are priorities for me. Both health and education will see funding increases every year National is in office.

National will deliver more investment in infrastructure to boost productivity and help with our economic recovery. This Fiscal Plan sets out our commitment to infrastructure funding - including a $3.7 billion contribution to the National Land Transport Fund.

Finally, National's Fiscal Plan provides for significant buffers to ensure New Zealand can deal with whatever comes our way - be it the next international shock, natural disaster or if the books are in worse shape than Labour claims. The plan includes $9.9 billion of unallocated operating spending over the next four years, and more broadly will improve New Zealand's fiscal resilience by working towards sustainable surpluses and lower debt.



Current Outlook

The cost of living crisis is dragging into its third year, and families, superannuitants and hard-working Kiwis are struggling.

In 2017, Labour inherited a growing economy, falling debt and robust surpluses. Now, after six years of Labour, that is all gone.

Part of the driver is Labour's economic mismanagement. Government spending is up by 80%, pushing up inflation and interest rates. Since 2017 Labour has failed to stick to a single budget spending allowance they have set themselves. In the 2020 PREFU annual government spending was expected to hit $116 billion this year. In reality, government spending is actually $139 billion - $23 billion higher than forecast just three years ago.

Treasury is forecasting the economic slowdown to drag on until 2025. Labour has delayed the return to surplus three times and projected government debt has blown out by a further $13 billion compared to just four months ago.

Across its two terms in government, Labour increased spending from $76 billion per year to $139 billion. Yet the quality of the services the public expects from the government, like healthcare and education, has gone backwards. Wait times in hospitals and emergency departments are longer, and student achievement is falling.

Much of Labour's spending is wasteful. Hundreds of millions of dollars have been spent on failed transport projects like the Auckland Harbour cycle bridge and Light Rail, which have amounted to nothing. Even more was wasted on bureaucratic mergers like Three Waters, Te Pūkenga, Te Whatu Ora, and the failed media merger.

National will deliver the turnaround the government's books need.

National's five fiscal principles:

1. **Return to surplus and reduce debt** – National will achieve a surplus in 2026/27, reduce government debt (down $3.4 billion compared with PREFU forecasts) and provide buffers in future spending allowances.

2. **Support frontline services** - National will support frontline services, and prioritise increases in funding for health and education to account for inflation.

3. **Invest in infrastructure** - National will invest in infrastructure to boost productivity and contribute to New Zealand's economic recovery, including making a $3.7 billion contribution to the National Land Transport Fund.

4. **Restore discipline to government spending** – National will reduce spending on bureaucracy, better manage social welfare expenditure, and end funding for failed programmes like Auckland Light Rail.

5. **Deliver tax relief for hard-working Kiwis** - National will provide tax relief up to $250 a fortnight for an average-income family with young children in childcare.

National's Fiscal Principles:

1. Return to surplus and reduce debt

Responsible governments build up New Zealand's fiscal buffers following shocks by returning the country to surplus and steadily paying down debt. That approach under successive governments ensured New Zealand could weather the storms of the Global Financial Crisis and the COVID pandemic.

But under Labour, the return to surplus has been delayed three times in the last two years and debt is expected to blow out to $104 billion, up from $5 billion in 2019 – and even this depends on Labour exercising fiscal constraint they have never demonstrated to date.

National will return to surplus in 2026/27 and will deliver sustainable surpluses over the medium term so New Zealand can reduce debt and rebuild the country's ability to deal with the next rainy day. By 2027/28, debt will be $3.4 billion lower than forecast in the PREFU.

In addition, National's Fiscal Plan provides for significant spending buffers to deal with the unexpected, with $9.9 billion of unallocated operating spending over the next four years.

2. Support frontline services

Frontline services like health and education are going backwards under Labour - school attendance and achievement are falling and Kiwis are waiting longer for essential services like emergency department care and surgeries.

National will get back to basics, focus on the frontline, set Better Public Service targets and deliver better results.

We will back this up by continuing to increase frontline health and education spending every year. As part of this commitment, National will honour the PREFU health spending pre-commitment which allows for health cost pressures of approximately $1.4 billion every year.

3. Invest in productivity-enhancing infrastructure

National recognises the crucial role of infrastructure in enhancing our quality of life and rebuilding our economy. National will build infrastructure for the future, like roads, a public EV charging network, public transport and social housing.

To support that investment, National will make a significant contribution to the National Land Transport Fund worth $3.7 billion over four years to support the delivery of new Roads of National Significance and public transport projects.

As detailed in National's Transport for the Future policy, additional private sector financing is anticipated for a series of projects, specifically identified to unlock housing growth, including Northwest Rapid Transit and four roading projects. Funding options for these projects are expected to include value capture charges, tolls, and other cost recovery tools.

4. More disciplined government spending

National will restore discipline to government spending.

Rather than seeing more spending as a success, National knows that it is the results that we get from that spending that matters. So National will bring back a rigour to proposals for new spending as well as examining existing spending to ensure it is delivering value.

National can reduce the size of future budget spending allowances while still investing in the frontline, building infrastructure and delivering tax cuts.

National has also outlined a programme of savings to support its tax plan. This includes cutting spending on consultants and reducing spending from the back-office bureaucracy, excluding non-core and frontline agencies such as health, education and corrections.

National will continue to identify and stop poor quality spending throughout our time in government, and reprioritise it to the frontline to ensure Kiwis get the public services they deserve. Over time we aim to return core Crown expenditure to around 30% of GDP.

5. Delivering tax relief to help with the cost-of-living crisis

National will ease cost of living pressures for New Zealanders by letting them keep more of what they earn each fortnight.

Through our Back Pocket Boost plan, National will increase after-tax pay for Kiwi households by shifting tax brackets to compensate for inflation, expanding tax credits, increasing Working for Families, and introducing the FamilyBoost childcare tax credit.

Under National's Back Pocket Boost, New Zealanders will be better off by:

- Up to $250 more per fortnight for an average-income family with young children.
- Up to $100 more per fortnight for an average-income household with no children.
- Up to $20 more per fortnight for a full-time minimum-wage earner, and lowering the tax they pay for additional hours worked.
- Up to $26 more per fortnight for a superannuitant couple.

National's tax plan also reduces major cost pressures faced by New Zealanders by removing some current and planned petrol taxes and reducing the taxes on rental properties which have driven higher rents.

Operating Allowances

National will spend less in each Budget, with new allowances set out in the table below:

Labour PREFU ($m)	2024/25	2025/26	2026/27	2027/28	Total
Budget 2024	3,500	3,500	3,500	3,500	14,000
Budget 2025		3,250	3,250	3,250	9,750
Budget 2026			3,000	3,000	6,000
Budget 2027				3,000	3,000
Total	**3,500**	**6,750**	**9,750**	**12,750**	**32,750**

National ($m)	2024/25	2025/26	2026/27	2027/28	Total
Budget 2024	3,200	3,200	3,200	3,200	12,800
Budget 2025		2,850	2,850	2,850	8,550
Budget 2026			2,700	2,700	5,400
Budget 2027				2,700	2,700
Total	**3,200**	**6,050**	**8,750**	**11,450**	**29,450**

Savings (vs. Labour)	**300**	**700**	**1,000**	**1,300**	**3,300**

The Budget 2024 operating allowance has been reduced by $300 million. It remains higher than future allowances, reflecting the nearly $2 billion in annual pre-commitments in that Budget. A number of fiscal cliffs are also apparent in the PREFU, with no forward funding for the school lunch programme, the apprenticeship boost, and a significant proportion of PHARMAC funding.

A significant share of future allowances remains unallocated in National's Fiscal Plan. After accounting for new spending initiatives and funding set aside for health there is $9.9 billion of unallocated operating spending across the next four years. An additional $8 billion also remains unallocated in the Multi Year Capital Allowance.

National's Fiscal Commitments

Policy ($m)	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Total Operating Expenditure		3,200	6,050	8,750	11,450	29,450
PREFU 2023 Pre-Commitments		461	461	461	461	1,844
Natural Resources and Justice Clusters		419	419	419	419	1,676
Other		42	42	42	42	168
National Tax Plan	**91**	**-537**	**-157**	**197**	**363**	**-45**
Tax Relief Initiatives	91	3, 118	3,525	3,902	3,970	14,606
Savings and Reprioritisations		-2,120	-2,125	-2,129	-2,009	-8,383
New revenue initiatives		-1,535	-1,557	-1,576	-1,598	-6,266
Health		**1,721**	**3,041**	**4,414**	**5,802**	**14,977**
Health Sector Cost Pressures Pre-commitment		1,430	2,800	4,170	5,540	13,940
PHARMAC Fiscal Cliff		181	181	181	181	724
Mental Health Innovation Fund		5	5	5	5	20
Delivering More Nurses and Midwives		57	57	57	59	230
Training More Doctors		2	7	13	26	49
Target Prescription Funding		-76	-79	-82	-80	-317
13 New Cancer Treatments		70	70	70	70	280
Immunisation Funding		52	-	-	-	52
Education	-	**357**	**571**	**406**	**246**	**1,579**
Teacher Registration Fees		10	10	10	10	40
Teacher Pay Round Pre-commitment		102	102	102	102	408
School Lunches Fiscal Cliff		165	325	160		650
Apprenticeship Boost Fiscal Cliff		60	120	120	120	420
Structured Literacy		20	14	14	14	61
						-
Law and order	-	**106**	**192**	**277**	**367**	**942**
Combatting Youth Offending		25	25	25	25	100
Funding 300 Police Officers		9	23	37	55	124
Corrections Tagged Contingency (Sentencing)		72	144	215	287	718
						-
Other commitments	**-90**	**29**	**88**	**179**	**70**	**276**
Index Benefits to Inflation	-40	-195	-452	-616	-739	-2,042
Transport Operating Commitment (NLTF)		180	480	720	720	2,100
Welfare that Works		15	25	36	46	122
Future Announcements		30	34	39	43	146
COVID-19 Public Health Response Savings	-50					-50
Total Spending Commitments	**1**	**2,137**	**4,195**	**5,934**	**7,309**	**19,573**
Unallocated Budget Allowances	**-1**	**1,063**	**1,855**	**2,816**	**4,141**	**9,877**

National's Tax Plan

Policy ($m)	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Tax Relief Initiatives						
Tax Threshold Indexation		2,142	2,212	2,282	2,348	8,985
Interest Deductibility Changes	41	244	528	650	650	2,113
WFF Changes	50	195	255	445	455	1,400
FamilyBoost		249	249	249	249	996
IETC Adjustment		188	180	174	165	707
App Tax Reversal		50	51	52	53	206
Brightline Adjustment		50	50	50	50	200
Total	**91**	**3,118**	**3,525**	**3,902**	**3,970**	**14,606**
Savings and Reprioritisations						
Bureaucracy Savings		-594	-594	-594	-594	-2,376
Climate Dividend		-602	-602	-602	-482[1]	-2,289[2]
Close Labour Programmes		-524	-529	-533	-533	-2,119
Contractor Savings		-400	-400	-400	-400	-1,600
Total		**-2,120**	**-2,125**	**-2,129**	**-2,009**	**-8,384**
New Revenue Initiatives						
Foreign Buyer Tax		-715	-732	-747	-764	-2,958
Commercial Building Depreciation		-525	-525	-525	-525	-2,100
Close Gambling Tax Loophole		-176	-178	-180	-182	-716
Immigration Savings		-119	-122	-124	-127	-492
Total		**-1,535**	**-1,557**	**-1,576**	**-1,598**	**-6,266**
Total Savings		**-3,655**	**-3,682**	**-3,705**	**-3,607**	**-14,650**
Net Fiscal Impact	**91**	**-537**	**-157**	**197**	**363**	**-45**

[1] This is a reduction of $72 million since the tax plan was released, reflecting a change in forecast ETS revenue in the PREFU. This change is fully incorporated in National's Fiscal Plan.

[2] Labour allocated $500 million from the CERF to the NLTF in the PREFU. National will retain that $500 million to be used for tax relief. National will replace this allocation from the CERF with separate allocations to the NLTF, which are explained in the notes to the Fiscal Plan on page 13.

Capital Allowance

There is currently $2.9 billion unallocated in the Multi Year Capital Allowance ('MYCA'), with the PREFU allowing for an additional $7 billion to become available as the forecast period rolls over in the Half Year Economic and Fiscal Update in December. Treasury forecasts that an additional $7 billion (adjusted by 2% per year) will roll into the MYCA each year – providing room to fund the Crown's capital programme over the forecast period. Since this growth in the capital allowance is already factored into Treasury's forecasts, allocations within the forecast MYCA do not have a material impact on the debt track.

National's proposed allocations from the MYCA are set out below. This includes $1.6 billion allocated to the National Land Transport Fund, $309.5 million allocated in health for the Waikato Medical School and Dunedin Hospital expansion, and $18 million allocated for any necessary retrofitting of military facilities for National's policy to introduce youth offender military academies . National will fund initial work for the Hawkes Bay hospital business case from the existing health budget, with additional funding to come from the MYCA once project specification has been finalised.

At Budget 2024, this leaves approximately $8 billion available for further capital allocations and cost pressures, with more funding available at future budgets as additional funding rolls into the MYCA.

Capital Budget	($m)
Existing MYCA	$2,900
27/28 MYCA Rollover	$7,000
Military Academies	-$18
Transport Commitment	-$1,600
Health Commitments	-$310
Remaining MYCA - Budget 24	**$7,973**

Key Fiscal Indicators

Under National, the Government's books are forecast to return to surplus in 2026/27, with an expected surplus of $2.9 billion - $0.8 billion higher than Labour's PREFU forecast.[3] This contributes to an overall improvement in the fiscal outlook, with debt forecast to be $3.4 billion lower by 2027/28 compared to PREFU. As a share of the economy, net debt is expected to fall to 19.1% of GDP in 2027/28 – compared to 22.3% this year.

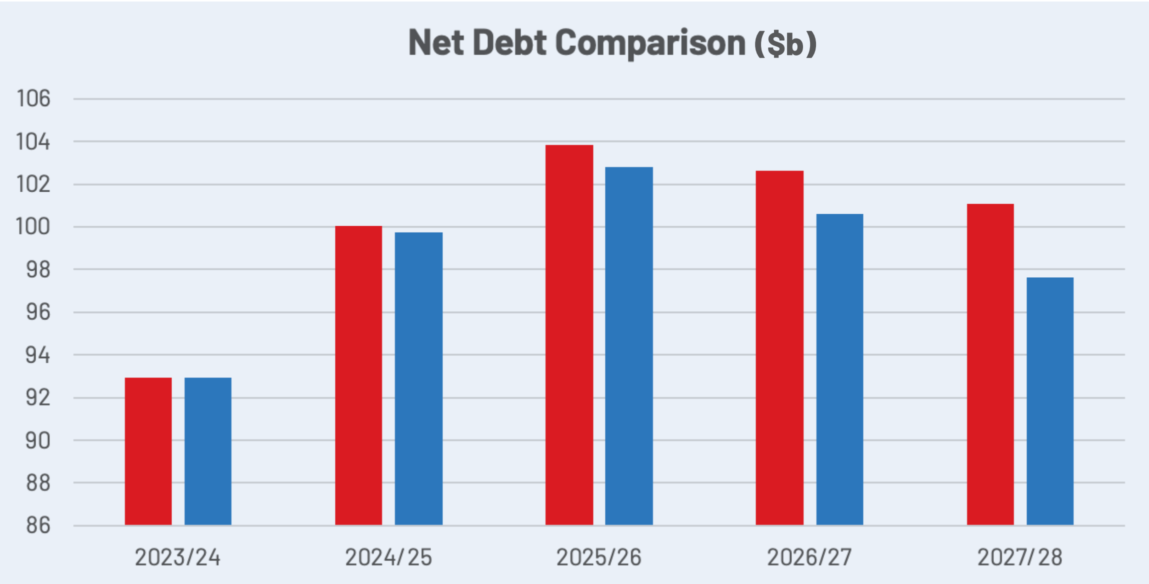
As a share of the economy, tax revenue and government spending are also forecast to decline relative to current forecasts. By 2027/28, core Crown expenditure is expected to fall to 31.0% of GDP – compared with 33.5% this year.

[3] These OBEGAL forecasts allow for the impact of re-allocating $600 million of CERF capital allocations to tax relief. This includes the $500 million allocation made by the Government to the NLTF and $100 million remaining in the CERF assumed by Treasury to be allocated to capital expenditure. The effect of this re-allocation is a debt-neutral deterioration in the OBEGAL position by $200 million per year for the 2024/25, 2025/26, and 2026/27 financial years.

Labour PREFU ($b)					
Year	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Net Debt	92.9	100.1	103.8	102.6	101.1
OBEGAL	-11.4	-6.2	-1.5	2.1	0.4

Changes to Spending Commitments - National's Fiscal Plan ($b)				
Reduced Operating Allowances	-0.3	-0.7	-1.0	-1.3
Debt Servicing Reduction	0.00	-0.01	-0.04	-0.08
Total	**-0.3**	**-0.7**	**-1.0**	**-1.4**
Cumulative total	**-0.3**	**-1.0**	**-2.1**	**-3.4**

Fiscal Indicators - National's Fiscal Plan ($b)					
Net Debt	92.9	99.8	102.8	100.6	97.6
OBEGAL	-11.4	-6.1	-1.0	2.9	1.8



Inflation and Interest Rates

Compared with the forecasts set out in the PREFU, National's plan has less spending and less pressure on inflation. In 2024/25, National expects a fiscal contraction of $300 million relative to the PREFU and a cumulative reduction in operating expenditure of $3.4 billion over the forecast period.

Government spending over the forecast period is expected to decline from 33.5% of GDP to 31.0% of GDP by 2027/28 and a significant share of this reduction in spending is allocated to delivering tax relief to New Zealanders struggling with the cost of living.

Recent Treasury work has been clear that "government investment and consumption tends to have the largest effects on domestic demand and interest rates, while transfers and tax changes have less effect".[4] On that basis, the effect of reducing government expenditure to fund income tax relief will be disinflationary.

[4] T2022/608 New Zealand Treasury Report, 'The State of Inflation and Fiscal Policy Implications', 17 March 2022, [25].

Notes on Budget Allocations

Law and Order

National will restore law and order by backing Police with new tools to crack down on gangs, delivering more Police, and ensuring criminals face real consequences for their crimes.

As part of this, we are proposing to strengthen sentencing for criminal offenders by placing limits on the discounts judges can apply to sentences, strengthening sentences for gang offenders, and restoring Three Strikes.

Since 2017, the prison population has fallen by approximately 2,000 individuals. Overall, National's policies are designed to reduce crime, but the increase in sentences may result in a higher prison population.

To account for this, National has allocated a $718 million contingency to cover a potential 1,400 increase in the prison population over the next four years, costed on the basis of current average per prisoner costs.

National will assess the impact of sentencing changes over time and adjust spending allocations accordingly, including any allocations from the Multi Year Capital Allowance for more prison capacity, if required.

National is also setting aside $18 million in capital expenditure to cover the cost of retrofitting existing military facilities to host National's Young Offender Military Academies, on top of the $60 million in operating commitments previously announced.

Health

National is committed to increasing health expenditure every year in government, including matching Treasury's assessment of health sector cost pressures as set out in the PREFU, worth approximately $1.4 billion each year over the next four years. National will also provide the ongoing funding for PHARMAC's budget, which was left facing a fiscal cliff in Budget 2023.

National is also allocating funding to a series of new health initiatives – including additional medical school training places and a new bonding scheme for graduate nurses and midwives.

Over four years, these combined health commitments are worth almost $15 billion.

Social Housing

National will maintain the existing social housing capital allocations in Budget 2023, which span 2023/24 and 2024/25.

National will continue to grow the number of social housing places, but will not commit any additional capital to Kāinga Ora until an urgent review of their performance has been completed – including an assessment of Kāinga Ora's financial resilience. That review will be initiated by the end of 2023.

Indexation of Main Benefits

In Budget 2019, Labour indexed main benefits to wages instead of inflation.

National will return to indexing main benefits to inflation, which was the standard approach for decades prior to Budget 2019. This is the most cost effective way to maintain the safety net provided by benefits while ensuring benefits increase every year to keep up with the cost of living.

National costed this policy by adjusting the indexation formula in the Treasury's Fiscal Strategy Model to align with growth in the consumers price index, instead of hourly wage growth. In their independent review, Castalia took a different approach – correcting the track of forecast benefit expenditure for the cumulative difference in growth between wages and prices. There was no material difference in savings between each of these methodologies.

Transport

National's Transport for the Future plan set out a significant 10-year programme of investment in New Zealand's transport network, including 13 new Roads of National Significance and four public transport projects.

To support these projects, National's Fiscal Plan contributes $3.7 billion to the National Land Transport Fund over the coming four years:

- $2.1 billion from the operating allowance, and
- $1.6 billion of capital contributions met from the MYCA.

In addition to the Crown contribution set out in the Fiscal Plan, a number of new projects will be funded using private capital – with new cost recovery tools, like tolls and value capture levies, being introduced to cover the cost of these projects.

National's contributions to the NLTF replace the following funding set out in PREFU:

- $2.1 billion from increases to fuel taxes[5]
- $1.2 billion of operating contributions
- $500 million from the Climate Emergency Response Fund[6]

National will issue a new Government Policy Statement on Land Transport, in line with the funding set out this Fiscal Plan. As outlined in Transport for the Future, priority will be given to state highway improvements, road maintenance including fixing potholes, and the roll-out of a nationwide EV charging network. National intends to spend less on other areas such as coastal shipping, inter-regional public transport and walking and cycling.

---

[5] National's fiscal plan replaces the revenue from fuel tax increases with an equivalent commitment funded from the operating allowance. By replacing forecast fuel excise with an explicit funding commitment, National is providing the revenue stream required for repayment of the loan facility set out in the PREFU, which National will retain.
[6] This $500 million will be returned to the CERF, supporting National's programme of tax relief.

Other Fiscally Neutral Commitments

National has made a series of fiscally neutral commitments - to be funded from baselines or existing funding sources. These include:

- $50 million over four years for a Social Impact Bond in the social housing sector to be funded from funding set aside for the emergency housing reset.
- $22 million over four years for a series of tourism initiatives funded from unallocated future International Visitor Levy revenue.
- $7 million over two years for a Cyclone and Flood Recovery Ombudsman, to be funded from the National Resilience Programme, of which $4.9 billion remains unspent according to the PREFU.
- National will repeal the Ute Tax, including stopping the Clean Car Discount, with funding required to close this programme outlined in National's Supercharging EV Infrastructure policy document.

National will also establish "Build for Growth" payments - worth $25,000 for every house a council delivers above their five-year average. Initial funding for this programme will come from closing a series of existing initiatives, including Kāinga Ora's land acquisition programme, the Housing Acceleration Fund, the Affordable Housing Fund, and the Buying Off the Plans initiative.

When National's Going for Housing Growth policy was launched, it was estimated that $1.134 billion remained available from these programmes for allocation to Build for Growth - although these numbers are expected to have changed somewhat since the policy was launched. National will re-estimate the savings available once in Government to establish initial funding for Build for Growth - with further funding possible from future budgets if these funds are exhausted.

The exact level of funding available to councils will depend on the number of homes they deliver above their five-year average in a given year. Consent data for the year to the end of June 2023 suggests the cost of the Build for Growth programme in the previous financial year would have been $131.3 million – with $68 million going to Auckland Council and $34.7 million going to Christchurch City Council.

Existing Programmes	($m)
Affordable Housing Fund	$235
Buying Off the Plans initiative	$272
Kāinga Ora Land Programme	$219
Housing Acceleration Fund	$410
Total	**$1,134**

Castalia Review

“Castalia was asked by National to review the underlying assumptions and the calculations of elements of the fiscal plan, as well as its overall consistency. We have not been asked to comment on the merits of the proposed policies or to cost all of them.”

“In addition to reviewing National’s tax plan, we also assessed the specific policy costings for changes to benefit indexation, changes to transport policies, and an increase in correctional occupancy. Castalia has not modelled the costings of some other policies in National’s fiscal plan. Overall, we confirm that National’s calculations are consistent and that the ir policies can be met from the proposed spending allowances. Their proposed allowances are fully reflected in the projected net debt and OBEGAL.”