

## 2018 New Zealand Budget May 2018

On 17 May 2018 Minister of Finance Grant Robertson delivered the Ardern Labour-led Government's first Budget.

The theme of Budget 2018 is on building "foundations for the future" and it focuses on investing in New Zealand's social services, allocating significant expenditure in health, education and housing.

The Finance Minister's speech is available [here](#).

The 2018 Budget is available in full [here](#).

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### The Budget Outlook

Budget 2018 forecasts a \$3.7 billion surplus in 2019, an improvement from the \$3.1 billion forecast in the current fiscal year. The forecast surplus will rise to \$7.3 billion in 2022.

The New Zealand economy is expected to grow by 2.8 per cent in 2018, with this figure forecast to rise over the following two years to 3.4 per cent.

Employment growth is forecast to be 3.8 per cent in 2018. An unemployment rate of 4.5 per cent is expected in 2018, with this figure set to fall in the four years subsequent.

Net core Crown debt is forecast to be worth 20.8 per cent of GDP in 2018, with the figure forecast to drop to 19.1 per cent in 2022.

**Table 1 – Summary of the Treasury's economic forecasts**

	2017	2018	2019	2020	2021	2022
Year ending 30 June	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (annual average % change)	3.3	2.8	3.3	3.4	2.7	2.5
Real GDP per capita (annual average % change)	1.2	0.7	1.3	1.7	1.3	1.3
Consumers Price Index (annual % change)	1.7	1.4	1.5	1.8	1.9	2.0
Employment growth (annual average % change)	5.2	3.8	2.1	1.9	1.5	1.3
Unemployment rate (June quarter)	4.8	4.5	4.2	4.1	4.1	4.2
Wage growth (annual % change)	1.6	3.2	2.7	3.1	3.3	3.4
Current account (% of GDP)	-2.7	-2.6	-3.1	-3.0	-3.0	-3.1

Sources: The Treasury, Stats NZ

Source: NZ Budget 2018: Fiscal Strategy Report, pg 4.

**Table 2 – Summary of the Treasury's fiscal forecasts**

	2017	2018	2019	2020	2021	2022
Year ending 30 June	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
<b>\$billions</b>						
Core Crown tax revenue	75.6	79.5	83.9	89.0	93.9	99.0
Core Crown expenses	76.3	81.7	86.7	90.1	94.7	98.1
Total Crown OBEGAL	4.1	3.1	3.7	5.4	5.7	7.3
Core Crown residual cash	2.6	(1.3)	(3.9)	(1.7)	(1.9)	0.7
Net core Crown debt	59.5	60.4	64.2	65.9	67.6	67.0
Net worth attributable to the Crown	110.5	117.6	124.5	133.3	142.9	154.7
<b>% of GDP</b>						
Core Crown tax revenue	27.6	27.3	27.5	27.8	28.1	28.3
Core Crown expenses	27.8	28.1	28.5	28.2	28.3	28.0
Total Crown OBEGAL	1.5	1.1	1.2	1.7	1.7	2.1
Core Crown residual cash	0.9	(0.4)	(1.3)	(0.5)	(0.6)	0.2
Net core Crown debt	21.7	20.8	21.1	20.6	20.2	19.1
Net worth attributable to the Crown	40.3	40.4	40.9	41.7	42.7	44.2

Source: The Treasury

Source: NZ Budget 2018: Fiscal Strategy Report, pg 5.

## Tax

The Government-commissioned Tax Working Group will report back in early 2019, with no significant changes recommended in the Group's final report to come into force until after the 2020 election. Tax measures in the 2018 Budget include:

- \$726.3 million of revenue over the next four years through strengthening tax compliance measures and ending tax loopholes.
- \$218 million in increased revenue over the next four years by ensuring offshore suppliers of low-value goods will be required to register for, collect and return goods and services tax (GST).



- \$31.3 million to Inland Revenue, including \$23.5 million to ensure outstanding company tax returns are filed. This is expected to recover approximately \$183.3 million.
- \$3 million towards analysing the potential to improve tax compliance in specific industries through the use of third-party reporting and withholding taxes.

### **Jobs and industry**

- \$1 billion over four years towards financing an R&D tax credit, giving eligible businesses 12.5 cents back for every dollar they spend on R&D. This funding will be available to all businesses spending more than \$100,000 a year on R&D.
- \$15 million to enhance education and employment outcomes for rangatahi. The funding will focus especially on young people not in education, employment or training.

### **Education**

- \$649.4 million in additional spending on the school system over the next four years, including \$370 million to fund 1,500 new teacher places by 2021.
- \$394.9 million of capital expenditure to fund new schools and hundreds of additional classrooms between 2018-21.
- \$62 million in new capital investment for the Christchurch Schools Rebuild programme.
- \$12.5 million towards a package of initiatives to lift capability across the system for delivering quality te reo Māori education.
- \$1 million towards better support for Māori school students to achieve as Māori in English-medium settings.

### **Provincial Growth Fund**

Budget 2018 finalised the initial year's allocation of funding from the \$1 billion Fund, including:

- \$245.0 million (\$132.5 million operating and \$112.6 million capital, over 10 years) to support the Government's One Billion Trees program.
- \$15 million towards the establishment of a new Forestry Service.
- \$6 million over four years to allow the Ministry for Primary Industries to consult across government, Māori, industry, land owners and other relevant groups to develop a cost-effective One Billion Trees programme. A Ministerial Advisory Group for Forestry will be established to ensure a coordinated approach across Government to deliver the programme.

### **Health**

Budget 2018 allocates an additional \$3.2 billion worth of funding over the forward estimates, including:

- \$2.2 billion to District Health Boards to help relieve cost pressures and ensure DHBs maintain quality standards of care, mental health services and support for older New Zealanders. Up to \$100 million in capital will be made available if necessary in 2018/19 to strengthen DHB balance sheets through deficit support.
- \$750 million towards new capital investment in the nation's hospital system.
- \$362.7 million towards extending low-cost general practitioner visits to all Community Services Card holders and extending the Card to all Housing New Zealand tenants and New Zealanders who receive an accommodation supplement or income-related rent subsidy.
- \$210.6 million for Disability Support Services to cover population growth, ageing and cost pressures.
- \$126 million in additional funding towards elective surgery, maternity services and the National Bowel Screening Programme.
- \$103.6 million to support community midwifery services, half of which will be allocated to an 8.9 per cent 'catch-up' increase in fees for over 1,400 lead maternity carers.
- \$60 million (as well as an additional \$22.9 million from ACC) to strengthen existing air helicopter service levels and begin a programme of modernization of the fleet.

- \$20 million to make doctors' visits free for everyone under the age of 14 – an additional 56,000 young people from the current Government policy.
- \$17 million towards extending the nurses in schools programme to cover all public decile 4 secondary schools.
- \$10.5 million over three years to pilot a free counselling and evidence-based therapy service for young adults aged 18 to 25.
- A free annual health check (including vision) for all SuperGold card holders, at a one-off cost of \$1.0 million.

### **Child poverty reduction and wellbeing**

The Budget outlines the establishment of two expert units in Prime Minister's Department to help develop the Government's strategy to improve child wellbeing.

The \$7.9 million Child Poverty Unit will advise on policies that affect poverty among children and coordinate the Government's work to reduce poverty and material hardship.

The Child Wellbeing Unit will help develop the Government's strategy to improve the wellbeing of all children in New Zealand. Part of the Unit's work will be leading public consultation on policy priorities for the strategy. The Unit will be funded by Oranga Tamariki.

The Budget also provides:

- \$284 million to increase access to additional learning support and the amount of support each child receives
- \$269.9 million over the next four years to expand the survives of the Oranga Tamariki.
- \$105 million towards a clothing allowance for children supported by an Orphans or Unsupported Child's benefit
- \$25.7 million to give Stats NZ resources to increase the sample size of the Household Economic Survey to 20,000 households, improving the dataset used to measure poverty and household wellbeing.

### **Housing**

The Budget outlines a plan to increase public housing by 6,400 homes over the next four years, exceeding the Government's earlier commitment to build at least 1,000 State houses each year. The new public housing will be built through a combination of:

- \$234.4 million in operating funding from the 2018 Budget.
- Housing New Zealand borrowing up to \$2.9 billion from third parties and investing a further \$900 million from its operations.

### **Environment**

- \$142.5 million towards a new insulation program to provide insulation for thousands of households, to be delivered by grants from the Energy Efficiency and Conservation Authority.
- \$81.3 million towards landscape-scale predator control to protect threatened species and habitats.
- \$76 million towards biodiversity initiatives across land, freshwater and marine ecosystems.
- \$16.2 million for the Department of Conservation to strengthen its core capability and carry out Government policies.
- \$15 million towards the Sustainable Farming Fund to support ideas being applied into research and extension projects that deliver economic, environmental and social benefits.
- \$5.5 million to enable better visitor management strategies in areas such as transport and waste management.
- \$3 million over next two years to respond to problems identified in the first stage of a three-waters review.



- \$2.6 million to fund better protection of the unique landscapes and biodiversity of the Mackenzie Basin.

#### **Justice and corrections**

- \$316.1 million over four years towards the operating costs of the rising prison population.
- \$313.6 million over the next four years, and \$159.7 million in 2022/23, towards increasing the recruitment of an extra 920 police officers and 240 support staff.
- \$198.4 million of capital expenditure to accommodate an additional 600 prisoner places in rapid-build modular units in prisons by the end of 2019.
- \$127.9 million for other initiatives to manage community-based sentences, including \$82.7 million for probation and community services and 270 more probation officers by 2022.
- \$54.2 million towards enhancing Customs' capabilities to detect and deal with criminal networks, including an additional 127 Customs staff, both in New Zealand and overseas.
- \$17.4 million towards 21st-century policing, including updating technology to combat organised and serious crime.
- \$6.7 million to maintain and expand residential alcohol treatment services.

#### **Crown/ Māori relations**

- \$37 million towards Vote Māori Development.
- \$15 million towards papakāinga housing.
- \$15 million towards supporting rangatahi Māori to move into the job market.
- \$7 million towards the whenua Māori programme to support and unlock opportunities in whenua Māori.

#### **Earthquake Commission**

The Budget provides \$6.5 million operating funds and \$1.5 million capital expenditure towards establishing a special insurance tribunal to resolve outstanding Earthquake Commission (EQC) and insurance claims, as well as establishing a public inquiry into EQC to determine its shortcomings during previous earthquakes.

#### **Workplace relations**

- \$8.8 million towards additional labour inspectors and support staff.
- \$4.3 million towards addressing cost pressures in frontline employment services administered by the Ministry of Business, Innovation and Employment, including the Labour Inspectorate and Employment Mediation Services.

#### **Defence and veterans**

- \$324.1 million in additional funding towards the Defence Force operating budget.
- \$41.3 million towards capital investment for the first tranche of investment under the Defence Estate Regeneration Programme Plan.
- \$22.6 million to deliver the enhanced Limited Service Volunteer programme (supported by a related investment of \$4.2 million over the next four years for the Ministry of Social Development to administer the programme).
- \$6.3 million in 2018/19 towards the repatriation of the remains of service personnel and their dependents for those buried overseas since 1955.
- As previously announced, \$1.1 million in grants to the Royal New Zealand Returned & Services Association (RSA) and No Duff Charitable Trust over the next four years to support the services they provide to veterans.

#### **Immigration**

- \$20.9 million in operating funding in 2017/18, \$98.9 million in operating funding over the following four years, and \$12.5 million in capital funding to help meet cost pressures on Immigration New Zealand as it transitions to a new visa operating model.



- \$34 million to enable Immigration New Zealand to employ an additional 29 staff to increase screening and assessment of air passengers to detect potential risks.
- \$6.2 million of additional operating funding over the next four years, plus \$7.7 million of new capital, to build and operate two new accommodation blocks at the Mangere Refugee Resettlement Centre.
- \$5.6 million to enable the Immigration Advisers Authority to target unlawful immigration advice.
- \$3.8 million towards the Refugee and Protection Unit.

### **Cyber security**

The 2018 Budget provides \$3.9 million of new operating funding over the forward estimates to the Computer Emergency Response Team (CERT), enabling it to continue to respond to major cyber events and provide advice to businesses, organisations and individuals who may be affected by cyber security incidents.

\$6.2 million of new operating funding is allocated to the Ministry for Business, Innovation and Employment over the next four years, enabling it to continue to provide policy advice on communications issues, such as 5G mobile networks and ultra-fast broadband

### **Greater Christchurch Regeneration**

The Budget allocates \$298.5 million of capital expenditure in 2018/19 for an acceleration fund for the Regeneration.

Christchurch City Council will be eligible to apply for capital investment through the fund to complete projects beyond the arrangements already fully dealt with in the Cost Sharing Agreement with the Crown, helping to speed up development in the area.

### **Tourism, arts and sport**

- \$26.8 million to double the number of places in the Limited Service Volunteer (LSV) Programme from 800 to 1,600. The Defence Force will receive an additional \$1 million in 2018/19 for set-up costs at Whenuapai and Trentham.
- \$23.3 million in additional funding to the Manatū Taonga Ministry for Culture and Heritage, seeking to reinvigorate the Pathways to Arts and Cultural Employment (PACE) initiative and explore ways to enhance the creative sector.
- \$6.3 million in additional funding to Heritage New Zealand.
- \$4.8 million over the next four years for tax deductions that can be claimed for the costs of high-quality horses acquired with the intention to breed, providing an incentive to those seeking to enter the racing industry.
- \$2.6 million in additional funding for the New Zealand Music Commission.
- \$400,000 one-off funding to celebrate the centenary of Armistice Day.

### **Other**

- \$15 million in 2018/19 to implement any accepted recommendations stemming from a new ministerial advisory group that will look into the contribution of public media to an informed democracy.
- \$9.3 million to improve offshore biosecurity systems to manage the risks posed by imports.
- \$7.5 million towards sexual abuse assessment and treatment services, co-funded by ACC, the Police and the Ministry of Health. \$2.0 million will be allocated from Vote Justice to enable work to start on a dedicated government agent to transform the family and sexual violence system.
- \$5 million towards enhancing the science behind the Overseer farm management tool.

### **Further information**

The Finance Minister's Budget speech is available [here](#).



The 2018-19 Budget is available in full [here](#).

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