



# 2013 BUDGET

## Executive Summary

### *Building Momentum*

Hon Bill English, Minister of Finance

16 May 2013

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New Zealand Government

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# The economic recovery gains momentum...

**Economic growth is the highest in five years. Wages are growing, cost of living increases have been modest and interest rates are at 50-year lows.**



GDP growth is forecast to continue at between 2 and 3 per cent...

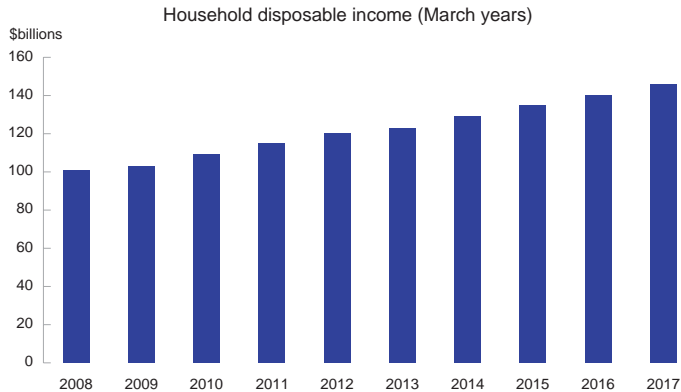


...while many other countries have struggled with too much government debt and little growth

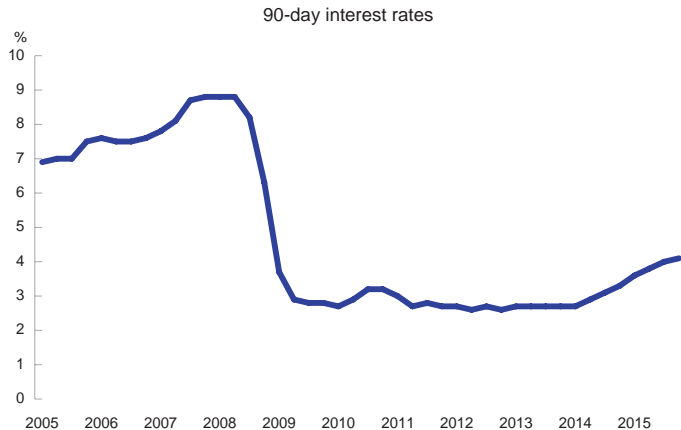


# ...driven by low interest rates, investment and strong export prices

Households enjoy higher disposable income...



...and low interest rates



Investment, including for the Canterbury rebuild, is expected to be a driver of economic growth.

There are 50,000 more jobs than two years ago and the unemployment rate has fallen to 6.2 per cent, the lowest in three years.

Household income has risen by 20 per cent over the past four years, and is expected to rise by almost 20 per cent over the next four years.

Delivering a stronger and more prosperous New Zealand depends on businesses having the confidence to invest and employ more people. The Government has a clear plan to build this confidence, based around its four key priorities:

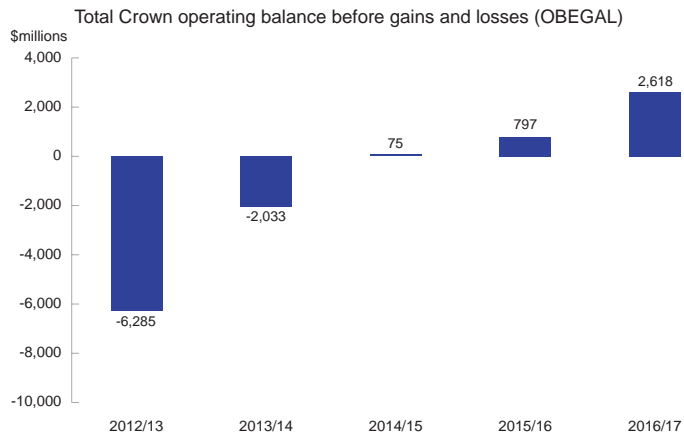
- 1 Responsibly managing the Government's finances
- 2 Building a more productive and competitive economy
- 3 Delivering better public services within tight fiscal constraints
- 4 Supporting the rebuilding of Christchurch

# Returning to surplus in 2014/15...

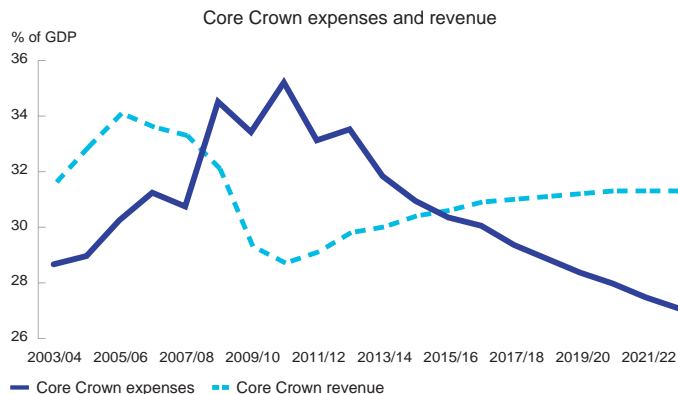
## 1. Responsibly managing the Government's finances

The Budget confirms the Government remains on track to post a surplus in 2014/15 and start to reduce government debt. We are achieving this while still spending a total of \$5.1 billion on new initiatives in the current year and over the next four years in Budget 2013.

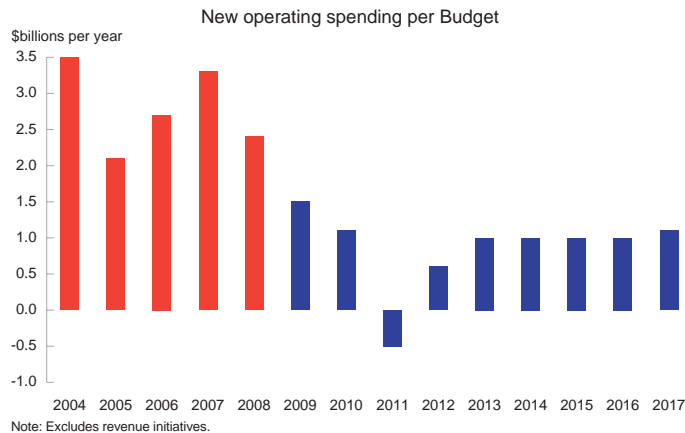
### Return to surplus in 2014/15



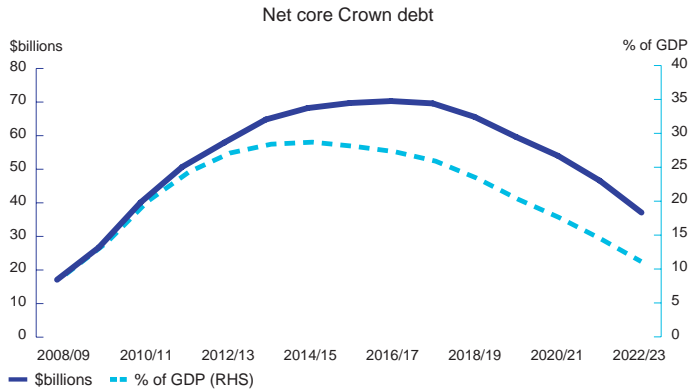
### Expenditure returns to 30 per cent of GDP...



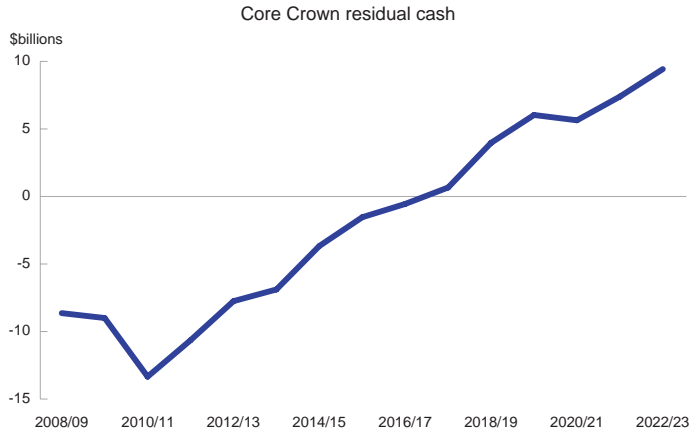
### ...and new Budget spending is set at sustainable levels



We will reduce net core Crown debt to prudent levels...



...and run cash surpluses



**Running deficits, and taking on more debt, has been the appropriate response to the challenges the economy has faced and has cushioned New Zealanders and their families from major shocks. But this build up of debt cannot continue forever.**

We have prioritised our goal of reducing government debt to prudent levels (20 per cent of GDP by 2020) by:

- Reducing operating allowances for new spending from \$1.2 billion to \$1.0 billion a year from Budget 2014, growing thereafter at 2 per cent each Budget.
- Delaying contributions to the NZ Super Fund until this debt target is reached (a delay of two years).



## 2. Building a productive and competitive economy

Budget 2013 supports the Government's Business Growth Agenda. This focuses on the six key elements that businesses need to grow.



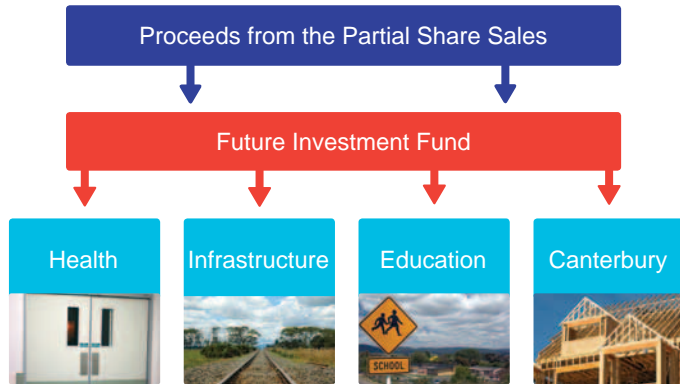
Budget 2013 also includes new initiatives and policies to boost economic performance:

- A \$100 million-a-year internationally-focused growth and innovation package that increases funding for business R&D, scientific research, tourism marketing and international education.
- Expected ACC levy reductions of around \$300 million in 2014/15 rising to around \$1 billion from 2015/16.
- Tax changes to allow loss-making start-up businesses to claim tax losses on R&D.
- New housing accords that speed up the provision of new housing, in areas where it is least affordable.
- New tools for the Reserve Bank to use to protect the economy and the financial system from boom and bust cycles.



# ...and investing the proceeds from the Government's share offers

Realising the benefits of the Government's share offer programme



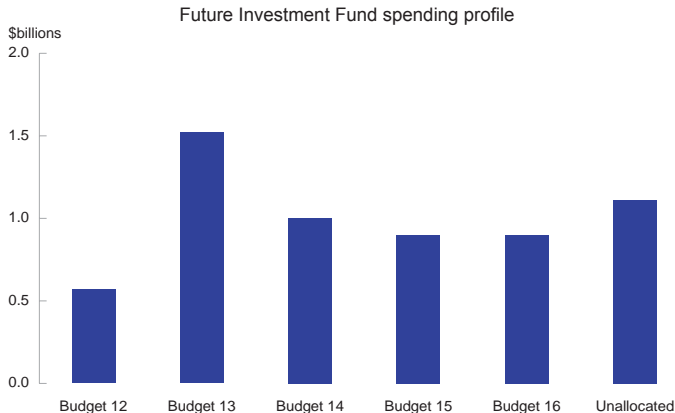
## Budget 2013 allocates \$1.5 billion of spending from the Future Investment Fund:

- \$426 million to redevelop Christchurch and Burwood Hospitals.
- \$94 million for the fourth year of KiwiRail's turnaround plan.
- \$80 million to invest in irrigation infrastructure.
- \$50 million to speed up the School Network Upgrade Project.
- Contingencies totalling over \$700 million for key projects, including new, modern schools; Christchurch's justice and emergency services precinct; and Canterbury tertiary education institutes.

## Across multiple Budgets the Government intends to spend:

- \$1 billion on 21<sup>st</sup> Century schools and new classrooms.
- \$1 billion on priority health investments.

**Meridian Energy will be the next company to be prepared for a partial share offer in the second half of 2013.**

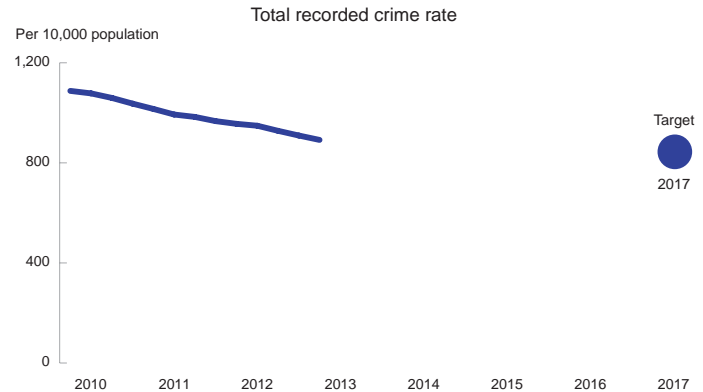


## 3. Delivering better public services

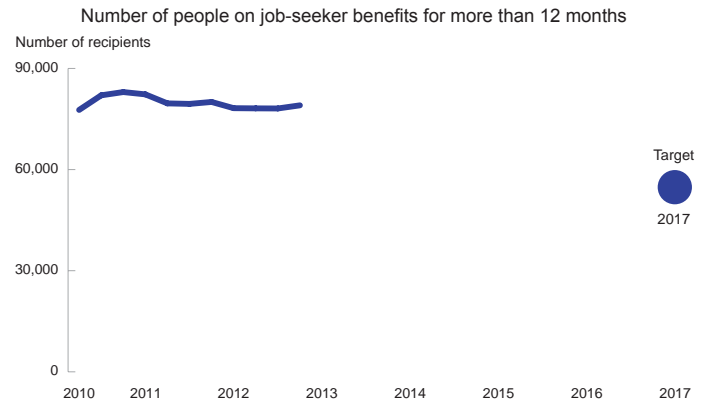
Last year, the Prime Minister set 10 challenging results for the public sector to achieve over the next three to five years:

<b>Reducing long-term welfare dependence</b>	
1	Reduce the number of people who have been on a working age benefit for more than 12 months
<b>Supporting vulnerable children</b>	
2	Increase participation in early childhood education
3	Increase infant immunisation rates and reduce the incidence of rheumatic fever
4	Reduce the number of assaults on children
<b>Boosting skills and employment</b>	
5	Increase the proportion of 18-year-olds with NCEA level 2 or equivalent qualification
6	Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at level 4 or above)
<b>Reducing crime</b>	
7	Reduce the rates of total crime, violent crime and youth crime
8	Reduce reoffending
<b>Improving interaction with government</b>	
9	New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business
10	New Zealanders can complete their transactions with the Government easily in a digital environment

We're making good progress in reducing crime...



...and have targeted new spending towards other challenging issues, such as reducing long-term welfare dependence





# ...by targeting spending to those most in need

## **Budget 2013 focuses on programmes that will achieve results and improve the lives of New Zealanders and their families.**

### Supporting those most in need

- \$100 million over three years for the Healthy Homes insulation programme targeted at low-income households with children or high health needs.
- Over \$21 million over four years for rheumatic fever prevention.
- \$1.5 million in 2013/14 for additional budgeting services for low-income families.

### \$1.6 billion over four years to improve frontline health services

- \$1 billion to meet demographic growth and cost pressures.
- \$70 million for aged care dementia services.
- \$48 million for elective surgery.

### Improving skills so people can fulfil their potential

- \$173 million over four years for early childhood education.
- \$215 million over four years for schools.
- \$130 million over four years for tertiary education, including extra funding for Māori and Pasifika trades training, to boost science and engineering courses and increasing the proportion of young people with higher-level qualifications.

### Improving delivery of social housing

- Funding to extend reviewable tenancies so people can regain independence, and so houses are available for families with the highest needs.
- \$27 million over four years to extend the income-related rent subsidy to community housing providers.
- Shifting housing needs assessments from Housing New Zealand to the Ministry of Social Development.

### Helping jobseekers into paid employment

- \$189 million over four years to support the next phase of the Government's welfare reforms, including new funding to help more people into work.



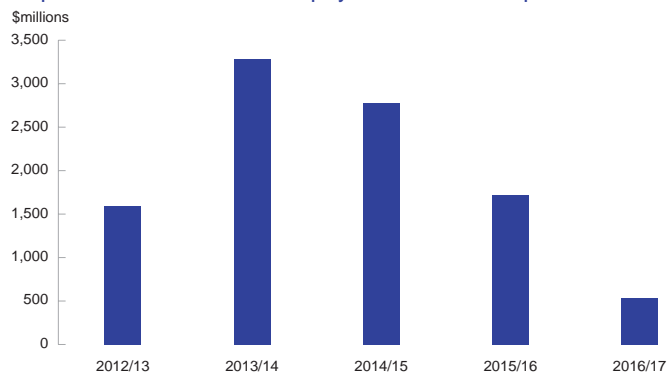
## 4. Rebuilding Christchurch

The Budget confirms an additional **\$2.1 billion** of operating and capital spending to further support the rebuilding of our second-biggest city.

This funding includes:

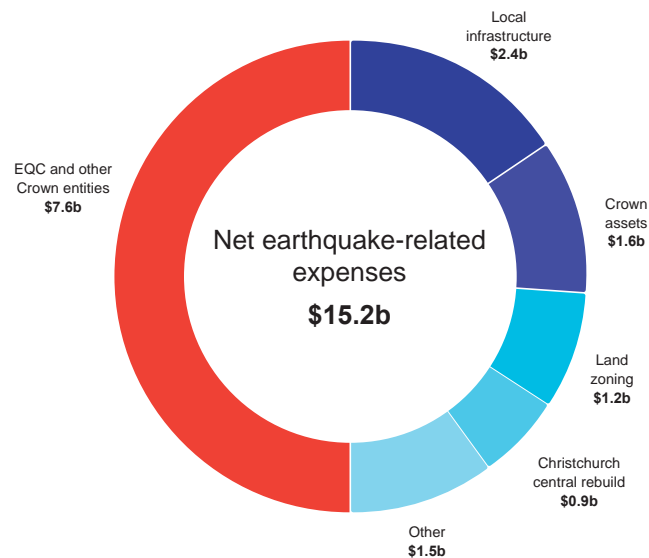
- Over \$900 million from the Future Investment Fund for projects including redeveloping Christchurch hospitals, establishing a justice and emergency services precinct and supporting tertiary education institutes.
- \$300 million for anchor projects for the Christchurch city centre.
- \$642 million of capital funding from departmental balance sheets, largely for health and education projects.

### Expected total Crown cash payments for earthquake recovery



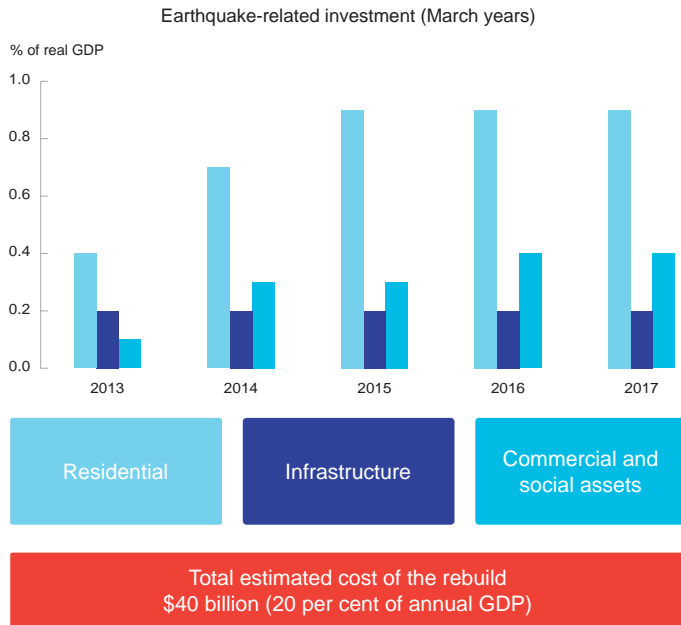
The Crown's contribution to earthquake recovery is now estimated at around **\$15.2 billion**.

- \$7.6 billion incurred by the Earthquake Commission and other Crown entities.
- Direct Government support, which also totals \$7.6 billion.

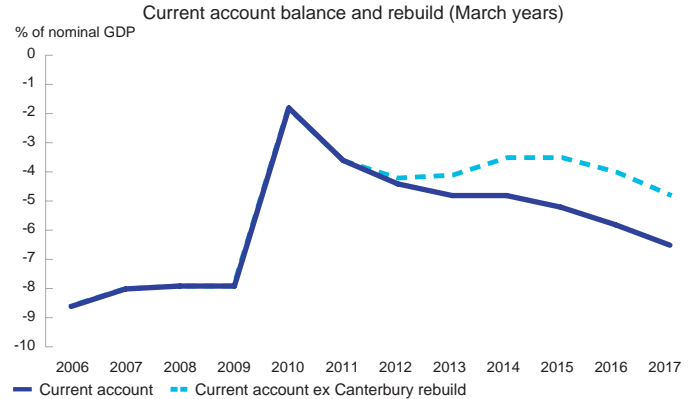


# ...in Christchurch, our second-biggest city

The rebuild is one driver of economic growth over the next five years. The total estimated cost of the rebuild is expected to be around \$40 billion (equivalent to 20 per cent of annual GDP).

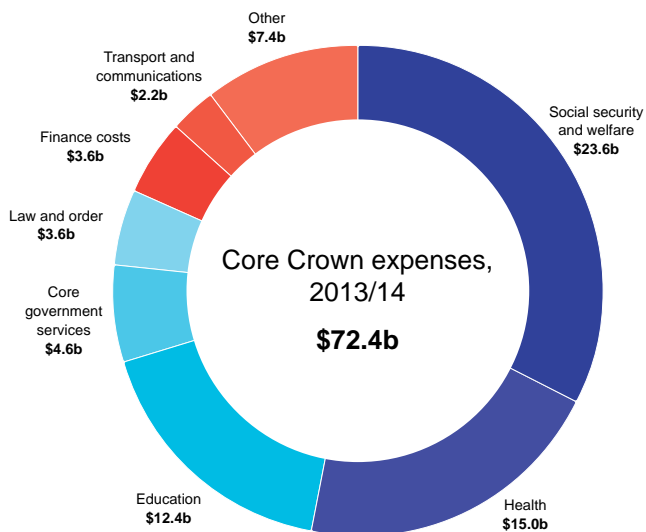


Investment associated with the Canterbury rebuild contributes to a larger current account deficit



# Expenses in Budget 2013

Social security and welfare, health and education costs will make up over two-thirds of core Crown expenses in 2013/14.

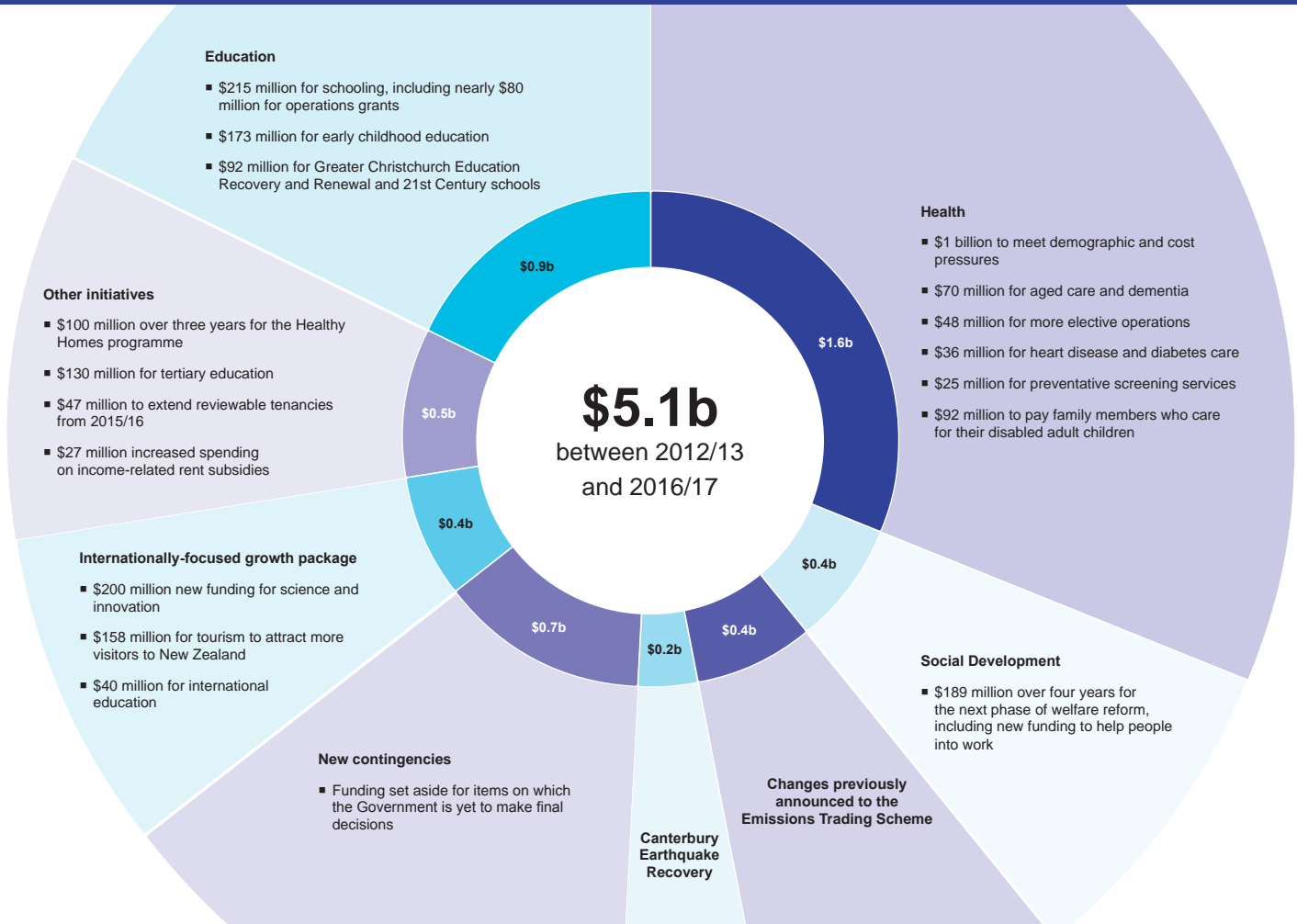


New operating spending, savings and revenue in Budget 2013

\$million	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Health	0	385	382	393	438	1,598
Education	19	202	231	228	220	901
Social Development	27	95	89	82	76	368
Canterbury Earthquake Recovery	84	72	37	18	0	211
Internationally-focused growth package	0	106	106	106	106	423
Emissions Trading Scheme Review	31	83	94	105	104	417
Other initiatives	3	134	143	126	118	524
New contingencies	0	189	152	161	164	667
<b>Total new spending</b>	<b>164</b>	<b>1,265</b>	<b>1,234</b>	<b>1,219</b>	<b>1,227</b>	<b>5,109</b>

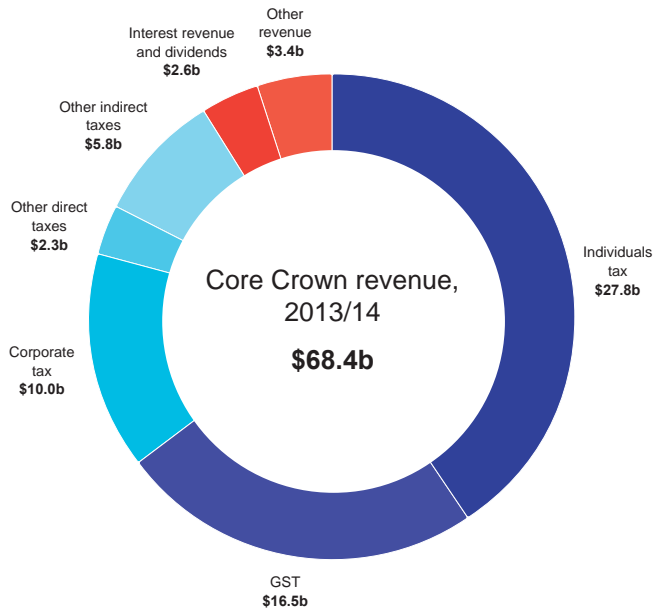
\$million	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Savings returned to the centre	52	68	54	44	33	252
New revenue initiatives	0	3	96	107	107	313
Intra-vote reprioritisation	92	118	125	173	133	641
Funded from contingencies	10	66	87	74	67	303
<b>Total savings and revenue</b>	<b>154</b>	<b>255</b>	<b>362</b>	<b>398</b>	<b>340</b>	<b>1,509</b>

# New operating spending in Budget 2013

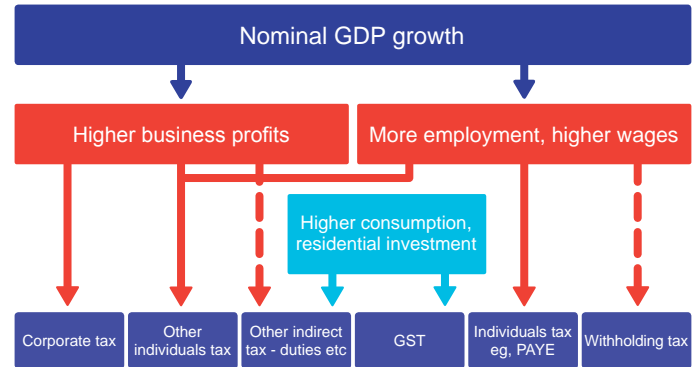


# Revenue in Budget 2013

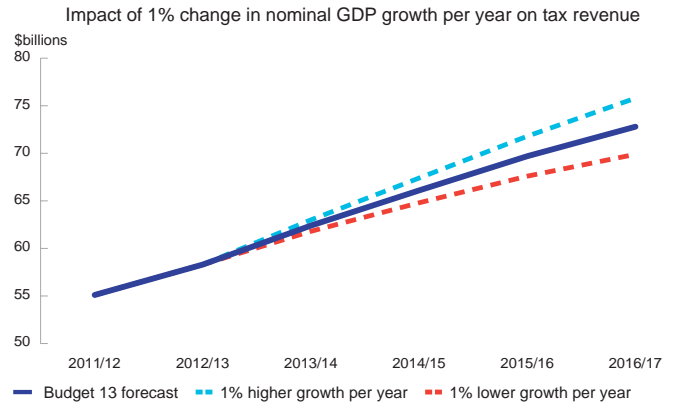
Individual, corporate and goods and services tax will make up over three-quarters of core Crown revenue in 2013/14.



Tax is the major source of core Crown revenue, and is driven by economic growth



But can be volatile and susceptible to small changes in nominal GDP growth



# The Crown's assets and liabilities

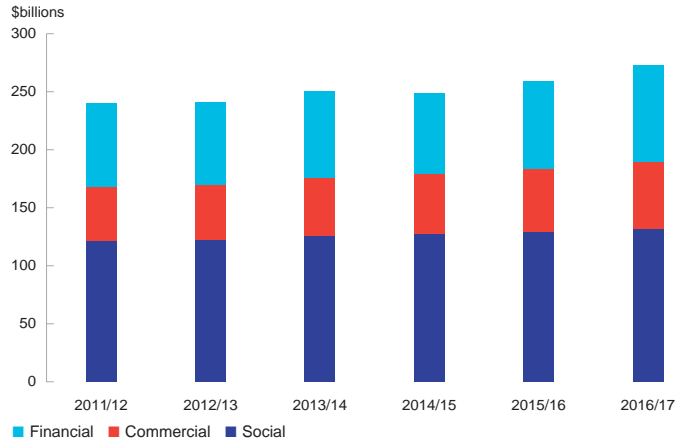
**In 2013/14, the value of the Crown's assets is forecast to be \$250 billion. By 2016/17, total assets are expected to grow to \$273 billion.**

The social portfolio is the single biggest component of the Crown's assets. Social assets are used to deliver public services, such as state highways, social housing, schools and hospitals.

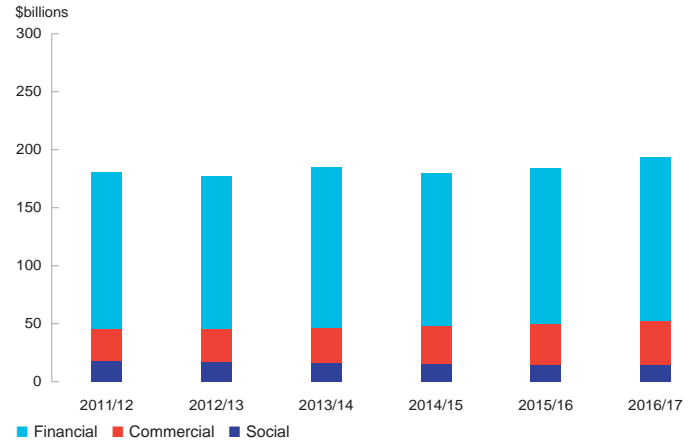
**The Crown's total liabilities in 2013/14 are forecast to be \$185 billion. These are expected to grow to \$193 billion in 2016/17.**

Most of the Crown's liabilities are in the financial portfolio, which is largely composed of Crown borrowing and long-term liabilities.

Forecast Crown assets



Forecast Crown liabilities



# Guide to the Budget Documents

A number of documents are released on Budget day. The purpose of these documents is to provide information about the wider fiscal and economic picture and the Government's spending intentions for the year ahead. The Budget documents are as follows:

## Executive Summary

The *Executive Summary* is the overview of all the Budget information and contains the main points for the media and public. This summarises the Government's spending decisions and key issues raised in the *Budget Speech*, the *Fiscal Strategy Report*, and the *Budget Economic and Fiscal Update*.

## Budget Speech

The *Budget Speech* is the Minister of Finance's speech delivering the Budget Statement at the start of Parliament's Budget debate. The Budget Statement generally focuses on the overall fiscal and economic position, the Government's policy priorities and how those priorities will be funded.

## Fiscal Strategy Report

The *Fiscal Strategy Report* sets out the Government's fiscal strategy in areas such as the balance between operating revenues and expenses, and debt objectives. The report includes fiscal trends covering at least the next 10 years and the Government's long term fiscal objectives.

The Government must explain changes in, and/or inconsistencies between, the *Fiscal Strategy Report*, the *Budget Policy Statement* and the previous year's *Fiscal Strategy Report*.

## Budget Economic and Fiscal Update

The *Update* includes Treasury's overall economic forecasts and the forecast financial statements of the Government, along with the implications of Government financial decisions and other information relevant to the fiscal and economic position.

## The Estimates of Appropriations

The *Estimates* outline expenses and capital expenditure the Government plans to incur on specified areas within each Vote for the financial year about to start (the Budget year).

## Information Supporting the Estimates of Appropriations

*Information Supporting the Estimates* is organised on the basis of sectors, with each Vote and its administering department allocated to one sector (a small number of departments are in more than one sector). The *Information Supporting the Estimates* comprises sector overview information, together with statements of responsibility; performance information for appropriations in Votes covered by the sector; and statements of forecast service performance and forecast financial statements of departments included in the sector.

## The Supplementary Estimates of Appropriations and Supporting Information

The *Supplementary Estimates* outlines the additional expenses and capital expenditure required for the financial year about to end. The *Supporting Information* provides reasons for the changes to appropriations during the year, related changes in performance information and certain additional performance information for new appropriations.

## NZ Budget App

Smartphone and tablet users can also access the Budget documents through the NZ Budget App. The App is available on the Apple Store for iOS devices and the Google Play store for Android devices or see [www.treasury.govt.nz/budget/app](http://www.treasury.govt.nz/budget/app).

## Websites

These documents are available at [www.treasury.govt.nz](http://www.treasury.govt.nz) and [www.budget.govt.nz](http://www.budget.govt.nz).

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