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PĀNUI PĀPĀHO
MEDIA STATEMENT

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Pre-Budget speech to Wellington Chamber of Commerce

Introduction

Thank you all for coming, and my thanks to the Wellington Chamber of Commerce for hosting us.

Today I want to tell you about our Government's plan to build a more productive, more sustainable and more inclusive economy. Budget 2018 is a significant step in this plan. It will build the foundations for the future and begin a transformation of our country and our economy.

Compared to our international peers, there is no denying New Zealand has had strong economic growth recently. But when we look underneath that, at the impact of that economic growth, we see that many Kiwis have not actually seen any significant improvement in their standard of living.

My colleagues and I heard about this throughout the election campaign last year, from people of all walks of life. The message we heard from Kiwis was clear: not everyone in New Zealand society is getting a fair go.

I have met no-one of any political persuasion who is comfortable with having the highest rate of homelessness in the OECD, or having children doing their homework by torchlight in the back of a car because their family does not have a home.

Despite the strong headline economic indicators, such as GDP growth, we cannot declare success in the face of these images.

Indicators like GDP remain important measures of economic activity, but they do not tell us the full story of how well our people are actually doing.

Our Government does not believe that economic growth is an end in itself, but rather a means to an end. And that end is improving the wellbeing and living standards of New Zealanders.

Using the Living Standards Framework developed by the Treasury, we will look not just at the health of the finances at Budget time, but also the wellbeing of our people, our environment and our communities.

Budget 2019 will be our first Wellbeing Budget, in which these factors will be at the heart of our decision-making and how we measure success.

But the focus for today is Budget 2018. It will lay the foundations for our plan to future proof our economy.

We need to transition away from an economy driven by adding more people and speculating on houses, to an economy that is more productive, more sustainable, and more inclusive. What do I mean by that?

When I talk about being more productive I mean working smarter and producing more with what we have.

When I talk about being more sustainable I mean producing and consuming within our means, environmentally and economically. Meeting our current needs without reducing our ability to do so in the future.

When I talk about being more inclusive I mean ensuring that nobody misses out on the benefits of economic growth. As a teenager growing up I remember the 1980s. I remember the damage done to our communities and the people that were left behind by economic change.

We will not allow that to happen again. There must be a planned and just transition. Under our plan we will ensure New Zealand's economy is adaptable and resilient to the opportunities and challenges posed by a rapidly changing world.

Budget context

I am pleased with what we've been able to accomplish in just the first 6 months of our government. When we came into office we immediately set about implementing our plan to shape an economy where all New Zealanders share in our country's prosperity.

We took the first step in our plan with our Mini-Budget, including the Families Package, in December. This package will deliver \$5.5 billion of support to low and middle income New Zealanders when it is fully rolled out. And it is all paid for by reversing the previous Government's planned tax cuts.

That was just the start. Now we are building on it.

Budget 2018 will further lay the foundations for our transition to a stronger and fairer economy.

This is long overdue after 9 years of a government that demanded public services do more with less. In theory doing more with less sounds like efficiency, but in reality this actually meant underfunding of critical public services that could only manage less with less.

We've seen it in our dilapidated hospitals, in our aging school classrooms, and in the funding shortfall for much-needed transport infrastructure right across the country.

Budget 18 priorities

You can all see the scale of the challenges we face. We cannot make up for 9 years of neglect in one Budget. This Budget will reflect a balanced plan.

We have to build the strong foundations that give each and every New Zealander the chance to succeed.

That is why we have put the rebuilding of critical public services at the core of Budget 2018. Healthier, more secure, better-educated people have the best chance of getting ahead in life.

Our significant capital investments will form the backbone of this rebuilding effort.

I'm proud to announce today that our Government's net capital investment over the next 5 years will total \$42 billion. This is \$10 billion more than forecast for the next five years by the previous Government before the election.

This will allow us to give a long overdue boost to Health to ensure that our hospitals are fit for purpose and can cope with a growing and ageing population.

Education will also get a significant boost to support our schools to deal with ageing buildings and ever-increasing enrolments.

We will upgrade our transport network through the Land Transport Fund to ensure we have a safe, efficient transport system. This will be particularly important in Wellington, where the transport system is in need of serious upgrade and modernisation.

As you will have read, my colleague Phil Twyford has already been talking with civic leaders about what is possible here in Wellington.

You can see from our ambitious plans in Auckland what is possible. We want to work with you on creative and effective solutions. These investments are critical to improving both our productivity and sustainability. Modern public transport systems are the hallmark of all successful cities, and Wellington needs that as much as anywhere.

But it is not just about our cities. The Budget will also include the largest investment of our lifetimes into New Zealand's regions. The \$1 billion per year Provincial Growth Fund, agreed to in the Coalition Agreement with New Zealand First, is investing in infrastructure and in lifting the value of business where it is needed most. We need strong regions providing high paying jobs.

In Housing, we will provide a boost on top of the \$2 billion we announced in the December mini-Budget for KiwiBuild, including \$100 million to combat homelessness this winter. This is an issue that has grown over time, and while this won't fix the problem overnight, it is a significant first step.

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

As I said earlier, we simply cannot drive economic growth by merely increasing our population and speculating on the housing market. These are not sustainable drivers of growth. Our labour productivity is far below the OECD average. To transform our economy we have to work smarter, and get more out of every hour worked. We need to apply our knowledge and innovation to lift our industries and businesses up the value chain.

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. You may have heard the Prime Minister's announcement that we are establishing a tripartite Future Work Forum, bringing together the Government, Business New Zealand and the Council of Trade Unions - the three key partners in the economy.

The forum will examine key challenges facing the economy including technological change, workplace productivity, improving skills and knowledge, and the transition to a low carbon economy.

The investment we have already made in education and training, through our fees-free tertiary policy in the mini-Budget, is critical to facing these challenges, as is our introduction of 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 investment. We must do better and the R&D tax incentive represents the first step in an ambitious plan to work with business to achieve that goal.

This will be critical for Wellington. We want to see even more successful tech companies in the capital, like Xero and 8i and more, which will lead the way in our economy's transition. Getting the investment signals right in our economy is also central to our shift to a more productive economy. The Tax Working Group is focussed on this, as is our reform of the Reserve Bank Act.

We also recognise the importance of quality trade agreements to expanding our exports and generating wealth. We are proud to have signed the CPTPP and are looking towards agreements with the EU and beyond. This week's announcement of increased funding for MFAT is an important step in building stronger relationships and building influence in key markets.

Perhaps the biggest shift our economy needs to make is to be more sustainable. Sustainability is about meeting the needs of the present without jeopardising our ability to meet the needs of the future.

A future-proofed economy recognises the importance of protecting our natural resources and will make the shift to a low carbon economy. Budget 2018 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. We are thinking not just about the next 3 years, but about the next 30.

Fiscal management

Sustainability is not just about the environment. It's also about 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 recently. 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. 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.

It's likely you all know what the Rules are, but in brief:

- We will deliver a sustainable operating surplus across an economic cycle. Budget 2018 will generate a surplus. We will not create 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. This commitment is to ensure that we are in the best position to be able to respond effectively to any shocks that might occur – be they natural or economic.
- This Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand. We have already reinstated contributions to the Super Fund after nine years of no government contributions.
- We will show discipline in Government expenditure by keeping it 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. The Tax Working Group will be making their recommendations to us about this by early 2019.

How do we pay for it?

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 will pay down debt at a slightly slower rate than the previous government. This frees up resources that we can invest in correcting the social and infrastructure deficits that are undermining our economy and communities.

Secondly, tax revenue has tracked higher than forecast in recent months. 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. You will have recently heard about Revenue Minister Stuart Nash's proposal to close the GST loophole for foreign online retailers. This levels the playing field for local businesses, and will bring in further revenue for the Government.

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 continuing to pursue those foreign and multi-national companies which do not pay their fair share of tax in New Zealand. We are also ensuring a level playing field for all taxpayers by ending the practice of negative gearing for those with an investment property portfolio.

Finally, we have been able to reprioritise around \$700 million of funding over the next four years. 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.

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 a number of 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.

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 to 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.

Conclusion

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. We are making the critical investments in core services we need to, while maintaining New Zealand's resilience to any future shocks that may hit us.

We are starting the transformation to shift our economy to be able to face the rapidly changing world of work, to drive more productivity and to make the transition to a more sustainable economy.

Budget 2018 begins an economic and social transformation that must happen if we are to improve New Zealanders' quality of life and living standards for future generations.

We have to make sure that the people we serve have access to the critical public services they need and deserve – health, education and housing.

We are investing in the future. We are a positive, energetic government which is managing the books responsibly, so that our country and our economy can support our children and grandchildren to thrive.

I am looking forward to Budget Day.

It represents this Government's first major opportunity to initiate the changes we need for a more productive, more sustainable and more inclusive economy for New Zealand. As the Prime Minister was heard to say, "Let's Do This".

Thank you.