



2012 BUDGET

Executive Summary

Investing In Our Future

Hon Bill English, Minister of Finance

24 May 2012

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New Zealand Government

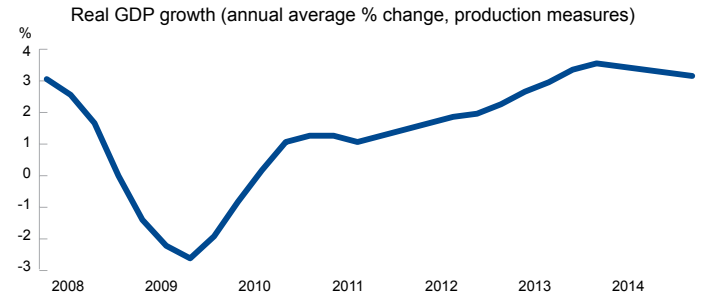
ISBN: 978-0-478-39619-5 (Online) 978-0-478-39618-8 (Print), PURL: <http://purl.oclc.org/nzt/b-1454>, Treasury URL: <http://www.treasury.govt.nz/budget/2012/execsumm>

The economic recovery continues...

The economy is building momentum, after the domestic recession, global financial crisis and Canterbury earthquakes. There are still risks to the outlook, but the recovery is expected to strengthen over the coming years.



GDP growth is forecast to increase to above 3 per cent...

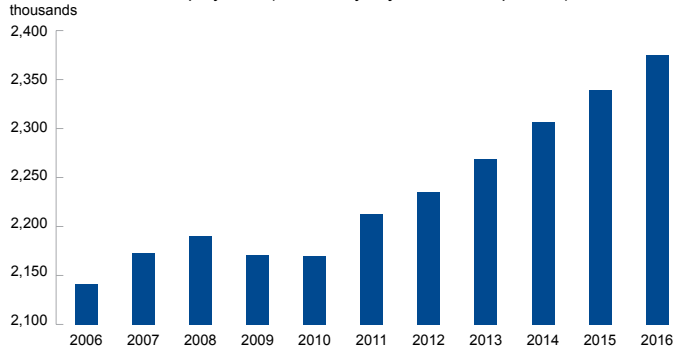


...and will outpace growth in many of our trading partners for the next few years.



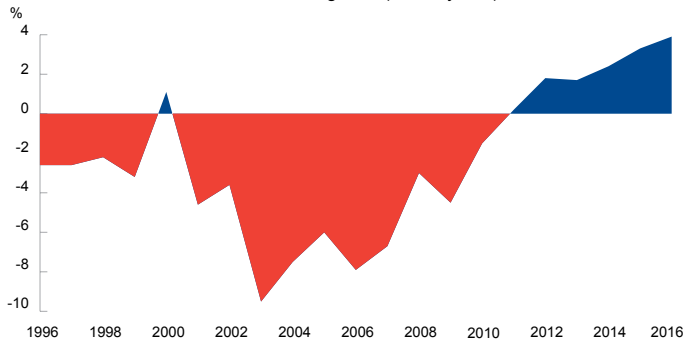
Employment growth will accelerate, especially as the Canterbury rebuild picks up...

Total employment (seasonally adjusted, June quarters)



...and household saving will continue to improve, leaving New Zealanders better off.

Household saving ratio (March years)



Note: The household saving rate is the difference between the disposable income and expenditure of households, as a percentage of disposable income.

However, the Christchurch rebuild will put pressure on New Zealand's total external debt, especially after 2014. This reinforces the importance of bringing the government accounts back into surplus and getting public debt under control.

Net international investment position



Delivering a stronger and more prosperous New Zealand will ultimately depend on the confidence businesses have to invest and employ. The Government has a clear plan to build this confidence, based around 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** Rebuilding Christchurch

1. Responsibly managing the Government's finances

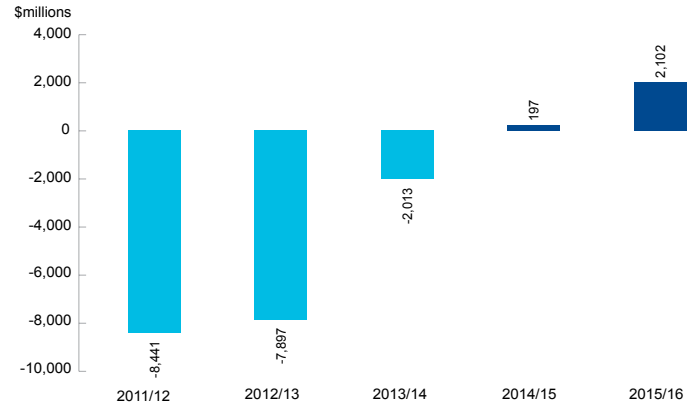
The build-up in government debt over recent years has been appropriate to absorb much of the shock of the recession, the global financial crisis and the Canterbury earthquakes.

However, that debt build-up could only ever be temporary. **Budget 2012 shows the Government is on track to post an operating surplus in 2014/15 and start bringing debt down to more prudent levels.**

This allows the Government to build New Zealand's resilience to future shocks, help lift national savings, keep interest rates lower for longer and reduce future finance costs.

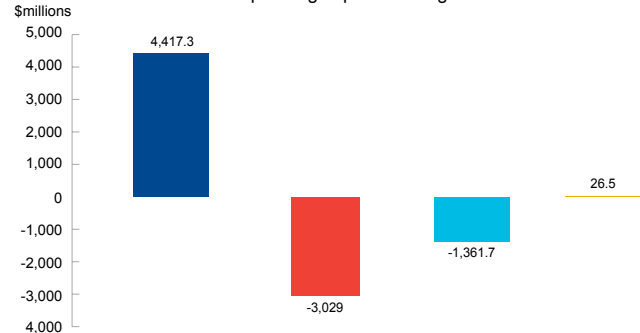


Operating Balance before Gains and Losses (OBEGAL)



Budget 2012 assists the return to surplus by offsetting new spending with savings and new revenue.

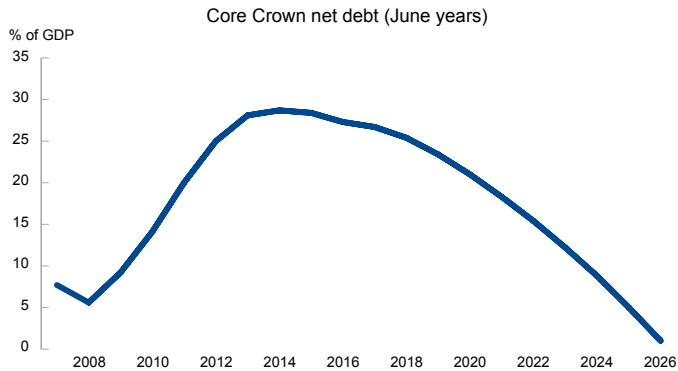
Total operating impact of Budget 2012



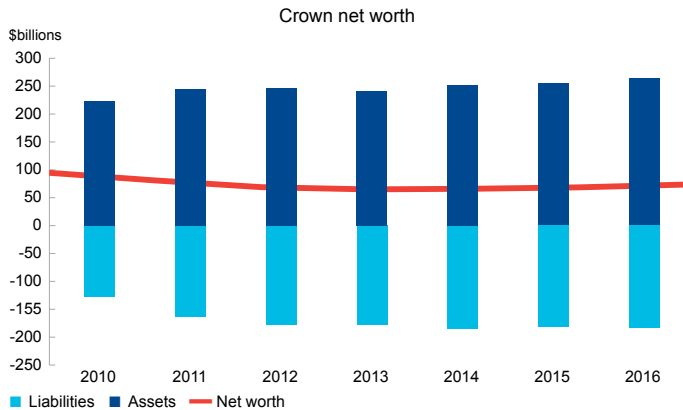
■ Gross new spending ■ Savings ■ New revenue ■ Net new spending

Note: 'Total operating impact' covers expenses, reprioritisation and revenue over 2011/12 to 2015/16.

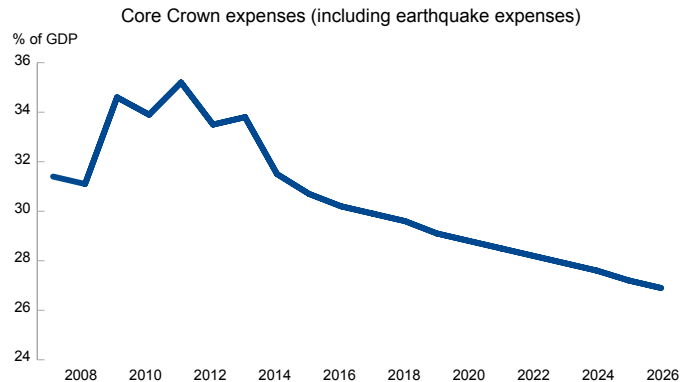
Returning to surplus will allow the Government to bring forward debt repayment...



...allow the Government's balance sheet to start growing in value again...



...and will free up resources for the tradable sector.



Note: The "core Crown" includes all departments, offices of Parliament, the Reserve Bank and the New Zealand Superannuation Fund. The "total Crown" adds SOEs, Crown Entities and other organisations named or described in Schedule 4 of the Public Finance Act 1989.

2. Building a more productive and competitive economy

Since its election in 2008, the Government has focused on ensuring New Zealand has the infrastructure, skills and systems to support faster economic growth and better public services.

Budget 2012 steps up these policies, **with significant new investments in research and innovation.**



Investing in research and innovation:

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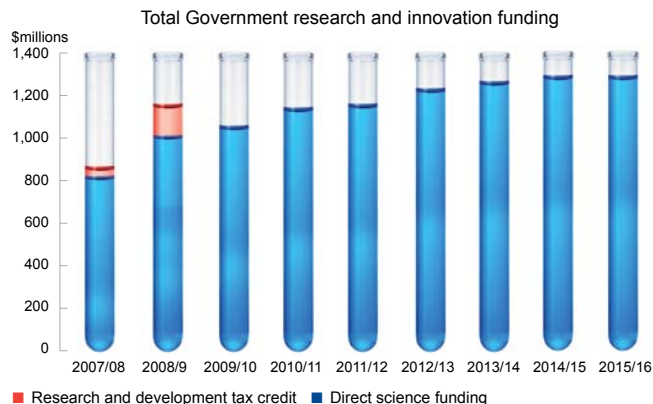
\$166 million extra over four years (operating and capital) to develop an Advanced Technology Institute, which will help New Zealand's high-tech firms grow, increase exports and ramp up productivity.
- 

\$60 million extra over four years for National Science Challenges, to find innovative solutions to some of the most fundamental issues New Zealand faces.
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\$100 million extra over four years to increase the Performance-Based Research Fund, to support excellent research in New Zealand's universities.
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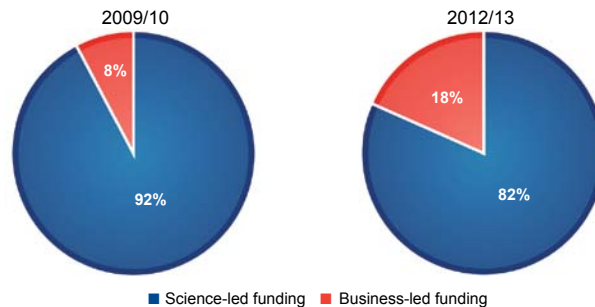
\$59 million extra over four years to boost funding for science and engineering tertiary courses, so that New Zealand firms can access the skilled people they need to be innovative and grow.

Science and innovation funding across government will grow to more than \$1.3 billion a year by 2015/16...

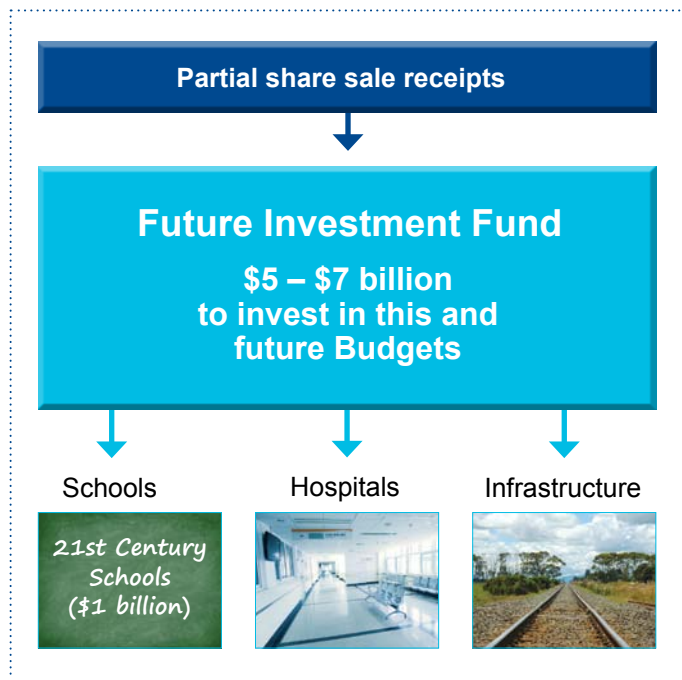


Note: includes science funding in Votes Science and Innovation, Foreign Affairs and Trade, Primary Industries, Tertiary Education and Revenue.

...and the initiatives in Budget 2012 continue the Government's work of **focusing science funding across government on helping businesses grow.**



Budget 2012 establishes the Future Investment Fund, which will invest proceeds from the partial sale of shares in four SOEs and Air New Zealand in new taxpayer assets over the next few Budgets.



Budget 2012 allocates the first tranche of investments from the Future Investment Fund – \$509 million of new capital and \$50 million for between-Budget items. This includes:

➔ **\$88.1 million for the health sector**, most of which will go towards hospital redevelopments.

➔ **\$250 million for the third year of KiwiRail's turnaround plan.**

➔ **\$76 million for the capital costs of establishing the Advanced Technology Institute.**

The Government has earmarked the first \$1 billion from the Future Investment Fund to invest in 21st Century Schools and classrooms, as signalled at the election. Budget 2012 announces the first investments in schools.

➔ **\$34 million to fit out schools so that students and teachers can enjoy the full benefits of ultrafast broadband.**

The remaining funding will be released after a review of school property management has been completed.

3. Delivering better public services within tight financial constraints



The Government is committed to getting better results from the public services it funds.

Better Public Services results

The Prime Minister has set 10 challenging results for the public service to achieve over the next three to five years, including reducing crime, reducing long-term welfare dependency and reducing educational underachievement.

The Government has already announced one measurable results target and Budget 2012 announces two more. Progress towards these targets will be reported publicly. They are:

- 85 per cent of 18-year-olds having NCEA Level 2 or equivalent in five years – up from 68 per cent
- Increasing the rate of participation in early childhood education to 98 per cent in four years – up from 94.7 per cent, and
- Reducing prisoner reoffending by 25 per cent in five years. Reaching this target would mean 18,500 fewer victims of crime every year.

The other seven results targets will be released by 30 June.

Budget 2012 focuses new spending on frontline services. Much of the new spending is funded by making savings in lower-priority areas of spending.

Budget 2012 includes a number of new initiatives, which are either partly or entirely funded from within current spending:

- Budget 2012 puts an extra \$1.5 billion into **health** services, while ensuring the sector achieves efficiencies and better results from existing services. New spending is focused on frontline services such as faster cancer treatment, more elective surgery and strengthened maternity and disability services.
- Budget 2012 provides \$512.3 million for new **education** initiatives including support for early childhood education to ensure children have a strong platform for learning and to increase participation to 98 per cent. The Budget commits substantial new funding to schools to help lift student achievement, including investing more in improving the quality of teaching and an increase to school operations grants.
- Budget 2012 provides \$287.5 million up-front investment in the first phase of the Government's **welfare reforms** which include a range of initiatives to help more people off welfare into work. This includes \$81.5 million of new funding, with the remainder reprioritised from within Vote Social Development. The first stage of the reforms is expected to save \$135.5 million as a result of more beneficiaries moving into work.
- The **Justice sector** (Courts, Police, Corrections, Attorney-General, Justice, Serious Fraud) will meet the costs of new programmes – including preventative policing initiatives, court modernisation, and a programme to reduce reoffending by 25 per cent – from within current budgets.



- Budget 2012 provides \$240.3 million for **tertiary education initiatives**, including higher funding rates for engineering and science degrees, higher rates for private providers, a boost to the Performance-Based Research Fund and 3,000 more fee-free Youth Guarantee places. This is offset by better targeting of student allowances, an increase to the Student Loan repayment rate and repealing the Student Loan voluntary repayment bonus.
- Budget 2012 allocates \$104 million for the **Social Housing Fund** and \$23.7 million for **other social housing reform and policy expenses**. These are funded from Housing New Zealand Corporation operating savings, targeting of the Welcome Home Loans Scheme and reprioritisation in the Weathertight Home Resolution Service.

As part of improving public services and getting better results from the over \$70 billion it spends every year, the Government is reprioritising resources to areas that make the most difference. In Budget 2012, \$4.42 billion of new priority spending in areas like health, education, law and order, welfare reform and science and innovation is almost completely paid for by savings and revenue initiatives totalling \$4.39 billion.

All new funding (\$millions)

Vote	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Health	0.4	381.8	359.7	356.8	358.4	1,457.1
Education	0.4	125.1	130.0	131.2	125.6	512.3
Social Development (including welfare reform)	0.1	82.2	91.7	80.2	79.9	334.0
Tertiary Education	0.0	25.0	57.0	73.4	84.9	240.3
Science and Innovation	0.0	34.4	38.5	48.5	48.5	169.9
Housing	1.1	48.6	38.7	36.7	2.7	127.7
Canterbury Earthquake Recovery Authority	0.0	35.6	30.8	23.6	25.1	114.9
Revenue	0.0	18.4	20.0	20.0	20.0	78.4
New contingencies	0.0	233.9	263.4	283.4	269.1	1,049.8
Other	13.5	117.1	52.7	72.1	77.6	333.1
Total new initiatives	15.4	1,102.0	1,082.4	1,125.9	1,091.6	4,417.3

All savings and revenue (\$millions)

Vote	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Revenue measures	0.0	177.3	292.8	405.8	485.8	1,361.7
Student support package	240.3	66.4	73.9	70.7	65.3	516.6
Welfare package benefit savings	0.0	14.3	33.2	41.4	46.6	135.5
Housing	41.1	20.5	21.5	19.5	20.5	123.1
Spending funded from contingencies	107.7	191.0	166.1	114.9	192.1	771.8
Other reprioritisation/savings	314.3	287.2	223.1	418.8	238.7	1,482.1
Total savings and revenue	703.3	756.8	810.6	1,071.1	1,049.0	4,390.8

4. Rebuilding Christchurch

The Government is committed to standing beside the people of Canterbury and supporting the rebuild of Christchurch.



The reconstruction process is continuing to gather pace:

- **Work on around three quarters of the 1,000 buildings required to be partially or fully demolished in the Christchurch CBD has been completed.**
- **About 13,000 building repairs are underway across greater Christchurch.**
- **A significant number of infrastructure repair projects, worth about \$820 million, have been completed, are underway or in the design stage.**
- **Nearly 5,000 of the 7,000 property owners in the residential red zone have formally accepted the Government's offer to purchase their properties. About half of these owners have already settled on their properties, allowing them to move on and restart their lives.**

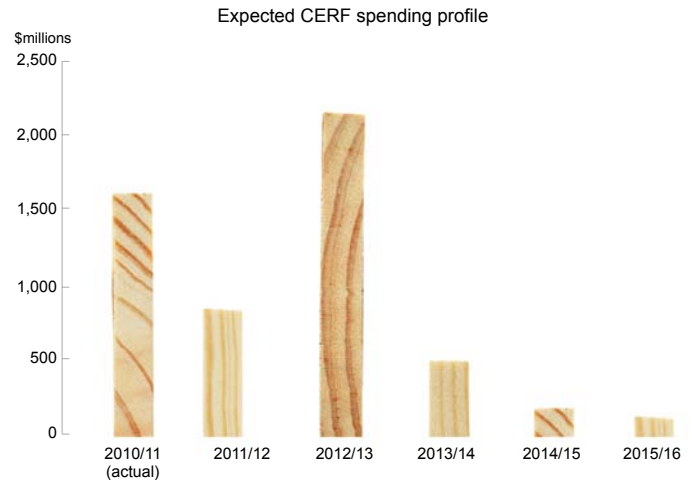
The rebuild in Canterbury is forecast to have a significant impact on GDP, with residential investment increasing by 30 per cent in the year ending March 2013, and 41 per cent in the year ending March 2014.

Canterbury Earthquake Recovery Fund (CERF)

Budget 2012 announces new initiatives to support the rebuild of Christchurch funded from the CERF, including:

- **\$114.9 million** in additional funding for the Canterbury Earthquake Recovery Authority to oversee the reconstruction.
- **\$13 million** in Vote Social Development for NGO-led initiatives to support Cantabrians and assist with the recovery.

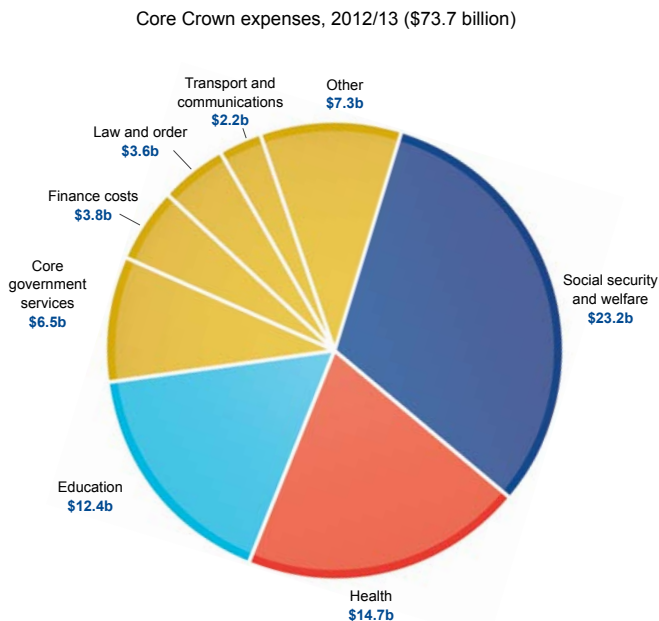
Of the \$5.5 billion in the CERF, the current estimate of specific costs is \$4.0 billion, with the remaining \$1.5 billion made up of contingencies relating mainly to land. Almost \$1.6 billion was spent in 2010/11, and most of the remaining funding is expected to be spent before 2014/15.



Budget 2012 at a glance

Expenses

Social security and welfare, health and education costs will make up over two-thirds of core Crown expenses in Budget 2012.



Core Crown expenses will increase in 2012/13 over the previous year, reflecting higher superannuation and finance costs and a transfer of earthquake costs from the previous year.

However, expenses fall in 2013/14 and core Crown expenses as a percentage of GDP start falling after 2012/13.

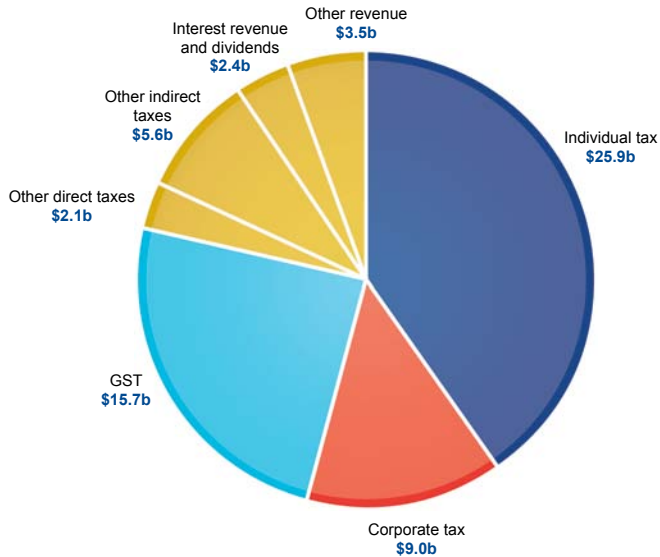
Cumulative growth in core Crown expenses

Year ended 30 June \$billions	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Movements in expenditure					
New spending					
Budget 2011 decisions	0.4	(0.1)	(0.4)	(0.3)	(0.3)
Budget 2012 decisions	(0.7)	0.5	0.6	0.4	0.6
Budget 2013 allowance	-	-	0.8	0.8	0.8
Budget 2014 allowance	-	-	-	1.2	1.2
Budget 2015 allowance	-	-	-	-	1.2
Forecast changes					
Increase in New Zealand Superannuation costs	0.8	1.4	2.0	2.8	3.5
Increase in other social assistance	(0.1)	-	(0.1)	(0.1)	0.1
Emissions Trading Scheme	(0.2)	(0.6)	(0.6)	(0.4)	(0.2)
Debt impairments	0.2	0.5	0.6	0.4	0.5
Other movements					
Finance costs	0.5	0.7	0.9	1.2	1.2
Weathertight homes	(0.8)	(0.6)	(0.6)	(0.6)	(0.6)
Earthquake expenses	(0.9)	0.6	(1.2)	(1.4)	(1.5)
Other movements	(0.1)	0.8	0.4	0.4	0.3
Increase in core Crown expenses	(0.9)	3.2	2.4	4.4	6.8
Baseline expenses (June 2011)	70.5	70.5	70.5	70.5	70.5
Core Crown expenses	69.6	73.7	72.9	74.9	77.3
Core Crown expenses as a % of GDP	33.5%	33.8%	31.5%	30.7%	30.2%

Revenue

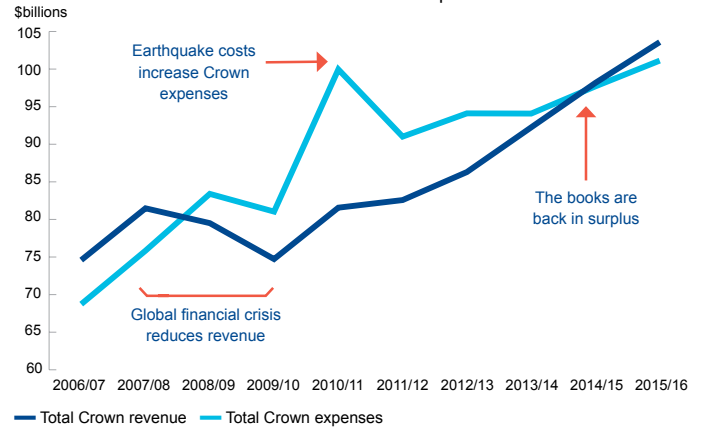
Individual, corporate and goods and services tax will make up over three-quarters of core Crown revenue in 2012/13.

Core Crown revenue, 2012/13 (\$64.2 billion)



Revenue is expected to grow strongly over coming years, as the economy and therefore tax revenue pick up, while expense growth will be restrained.

Total Crown revenue and expenses

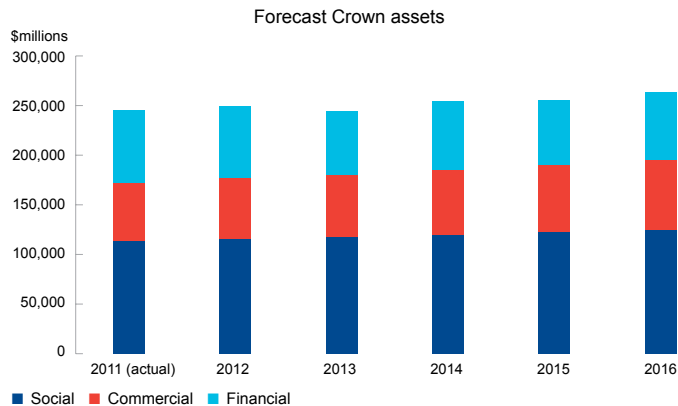


Assets and liabilities

In 2012/13, the Crown's assets are forecast to be worth \$244.3 billion. By 2015/16, total assets will have grown to \$264.1 billion.

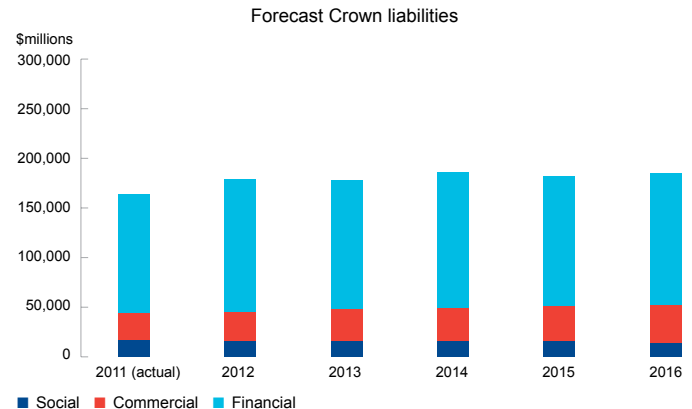
The single biggest component of the Crown's forecast assets is the social portfolio (assets that are used to deliver public services, such as state highways, social housing, schools, hospitals, student loans and the conservation estate).

Growth in the social asset portfolio will make up over half (57 per cent) of the growth in the Crown's total assets up to 2015/16, reflecting continued investment in priority services.



The Crown's total liabilities in 2012/13 are forecast to be \$178.1 billion. This will grow to \$185 billion in 2015/16.

Most of the Crown's liabilities are in the financial portfolio, which is largely composed of Crown borrowing through the New Zealand Debt Management Office and liabilities in relation to the Canterbury earthquakes. Increasing debt will make up 61 per cent of the growth in total liabilities up to 2015/16.



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 general public. This section 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 2012 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 (only one department is 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 supporting information includes Statements of Intent of departments 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.

Internet

These documents will be made available on the New Zealand Treasury's Internet site at <http://www.treasury.govt.nz>

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