Delivering for New Zealanders

The outlook for the economy is positive and the Crown’s books are steadily improving.

- Real GDP growth of 3.1 per cent on average over the next five years.
- Over 200,000 more jobs created over the last three years and another 215,000 expected by 2021.
- Rising surpluses and net debt falls to 19.3 per cent of GDP by 2020/21.
- The average wage is expected to rise to $64,300 a year by 2021.

New spending in Budget 2017

Net new operating spending in Budget 2017 averages

$1.8b
A YEAR

Net new capital expenditure in Budget 2017 totals

$4b

The Government’s Fiscal Priorities

1. Maintain rising OBEGAL surpluses over the forecast period so that cash surpluses are generated and net debt begins to reduce in dollar terms.
2. Reduce net debt to around 20 per cent of GDP in 2020, and to between 10 and 15 per cent of GDP by 2025.
3. Invest in the public services and infrastructure needed for a growing country.
4. As fiscal conditions allow, adjust tax and transfer settings to improve family incomes and simplify the tax and transfer system.
Public Services for a Growing Country

$7b
To deliver better public services for a growing country.

Health
$3.9 billion for District Health Boards, care and support workers, Disability Support Services, ambulance services, pharmaceuticals, elective surgery, bowel screening, mental health services and primary health care.

Education
$1.1 billion for schools and early childhood centres, roll growth and demand, and an increase in operational grant funding for schools.

Vulnerable Children, Oranga Tamariki
$424 million investment in the new Ministry and new model for working with vulnerable children, plus funding for caregiver support, Children's teams, Family Start and Youth Justice.

Justice Sector
$1.2 billion for a 10 per cent increase in police staff numbers, meeting increased demand for justice, courts and corrections services, initiatives in burglary prevention, reducing family violence, reducing youth reoffending, and supporting at-risk prisoners.

Social Development
$194 million for Social Development initiatives including $64 million to support people into employment and $38 million for development of the new Social Investment Agency.

Social Housing
$185 million for more emergency housing, to expand the Housing First programme and to provide a pathway into housing for people with a Corrections history.
Social Investment

$321m
To improve the lives of our most vulnerable people.

Mental health
$116 million to test different approaches to how we engage with those people who have mild-moderate and severe mental health needs to help build a better picture of client needs and service gaps.

Helping kids to have a better start in life
$73 million to support children who are most at-risk of poor life outcomes by providing them services at an earlier age.

Reducing reoffending and improving long-term outcomes
$79 million to support those at-risk (outside and within the prison environment) and helping them onto alternative pathways. Including $14 million to reduce youth offending and $33 million for burglary prevention.

Addressing barriers to employment and independence
$54 million to provide more intensive support and improve access to services. Includes $18 million to increase contraceptive access for women on low incomes.

In May the Prime Minister outlined a new set of 10 Better Public Services targets. The new targets include:

• Improving the literacy and numeracy of children – focusing on higher achievement of students in year 8.
• Reducing the number of hospitalisations for children 12 and under with preventable conditions.
• Having 90 per cent of pregnant women register with a Lead Maternity Carer in their first trimester.

Infrastructure for a Growing Economy

$4b
To help build the public infrastructure needed to support growth.

Kaikōura roading
$812 million capital investment to reinstate the earthquake damaged sections of State Highway 1 from Picton to Christchurch.

Rail around New Zealand
$548 million investment in the rail network with KiwiRail, including $98 million for the Wellington Commuter Rail Network.

Auckland City Rail Link
$436 million investment for the first part of the Crown’s share for the Auckland City Rail Link project.

New schools and classrooms
$392 million additional investment in school property with six new schools, 11 special education satellite units, and 305 new classrooms.

Defence
$576 million investment in Defence for new capability and the modernisation of defence bases.

Justice sector
$763 million investment in additional prison capacity.

Health
$150 million more for the District Health Boards’ capital plans.

The Government’s total investment in new infrastructure over the next four years is $32.5 billion. This includes $9.2 billion in new State Highways and $2.7 billion in housing, including the Auckland Housing Programme.
**Family Incomes Package**

To provide better rewards for hard work, help lower-income families with young children meet their living costs, and improve incomes for those with high housing costs.

**Tax thresholds**
Increases the $14,000 income tax threshold to $22,000, and the $48,000 threshold to $52,000. This provides a tax reduction of $11 a week to people earning $22,000 or more rising to $20 per week for anyone earning $52,000 or more.

**Independent Earner Tax Credit**
Independent Earner Tax Credit will be discontinued. Those claiming it are fully compensated by the tax threshold adjustments.

**Family Tax Credit**
Increases the maximum credit for the first child under 16 by $9 a week, and for each subsequent child under 16 by between $18 and $27 a week. Also increases the abatement rate to 25 per cent, and reduces the abatement threshold to $35,000.

**Accommodation Supplement**
Increases the maximum payment rates for a two person household by between $25 and $75 a week, and for larger households by between $40 and $80 a week. Changes to Accommodation Supplement areas will provide further gains for some families.

**Accommodation Benefit**
Increases weekly payments by up to $20 for students to reflect increasing housing costs for students.

The Family Incomes Package will benefit 1,340,000 families in New Zealand by, on average, $26 per week from 1 April 2018. Around 750,000 superannuitants and around 41,000 students will also benefit from the Family Incomes Package.

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**Economic Outlook**

**The outlook for the economy is positive**

The Treasury forecasts economic growth of around 3.1 per cent per annum over the next five years, supported by investment, private consumption and growth in exports. Inflation is expected to be at 1-2 per cent in the near-term, but rise above 2 per cent in 2019.

Employment growth continues to be strong with 215,000 additional jobs expected to be created over the next four years, and the unemployment rate dropping to 4.3 per cent by 2020. New Zealand is expected to continue to grow at a faster rate than many other OECD countries.

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*Source: Statistics New Zealand, The Treasury*
**Fiscal Outlook**

**Increases to the operating allowances remain moderate**

Net new operating spending in Budget 2017 averages $1.8 billion a year. Spending continues to be much smaller than under the previous Government. Core Crown expenses are forecast to fall to 28.6 per cent of GDP in 2017/18.

**The fiscal position continues to improve**

Modest operating balance before gains and losses (OBEGAL) surpluses are expected in 2016/17 and 2017/18, increasing to a forecast $7.2 billion by 2020/21. Net core Crown debt is expected to fall to 19.3 per cent by 2020/21.

**There is high levels of capital investment**

The Government is investing $11 billion in new capital over Budgets 2017-2020 on top of the already committed spending, which is the biggest increase in decades.

**New Zealand’s fiscal performances is among the strongest in the developed world**

- **General Government Gross Debt % of GDP**
- **General Government Fiscal Balance % of GDP**

Source: International Monetary Fund Fiscal Monitor April 2017. These are internationally comparable definitions and differ slightly from fiscal indicators generally used in New Zealand.

The above graphs do not incorporate any decisions announced in Budget 2017.
Who pays income tax... and how much?*

<table>
<thead>
<tr>
<th>Annual individual taxable income ($)</th>
<th>Number of people (000)</th>
<th>%</th>
<th>Tax paid ($m)</th>
<th>%</th>
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<tr>
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<td>319</td>
<td>9</td>
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<tr>
<td>1-10,000</td>
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<td>10</td>
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</tr>
</tbody>
</table>

Personal income tax scale*

- 10.5c per $1 on income up to $14,000
- 17.5c per $1 on income between $14,001 and $48,000
- 30c per $1 on income between $48,001 and $70,000
- 33c per $1 on income over $70,000

* from 1 April 2018, the lowest tax threshold is due to increase from $14,000 to $22,000, and the second threshold from $48,000 to $52,000.

How does a 1% point change affect tax?

Estimated effect on revenue in 2017/18 of a one-percentage point change in the growth of:

- wages and salaries: $335
- taxable business profits: $165
- spending by households: $190

What is the full-year cost of...? $m

- $1 a week increase (in the hand) in NZ Super: 37
- $1 a week increase (in the hand) in other benefits: 15
- $1 billion increase in government debt: 34

Revenue effect of changes to key tax rates, bases and thresholds for 2016/17: www.treasury.govt.nz/government/revenue/estimatesrevenueeffects

Crown Balance Sheet – what we own and we owe

Assets 2017/18: $302.8b

- Liquid Financial Assets $61.5b
- Other financial assets $39.4b
- Corporate tax $13.1b
- Other tax paid $20.6b
- GST $20.6b

Liabilities 2017/18: $191.3b

- Government bonds $59.6b
- State-owned enterprise borrowing $40.7b
- Other borrowing $25.5b
- Retirement plan liabilities $12.3b
- Other $5.6b

What we earn

Core Crown Revenue 2017/18: $83.8b

- GST revenue $20.6b
- Corporate tax $13.1b
- Other tax $20.6b

What we spend

Core Crown Expenses 2017/18: $80.5b

- Social security and welfare (excl NZS) $12.7b
- Education $14b
- Health $17.1b
- Other $10.6b

ISBN: 978-0-947519-75-9 (print)
978-0-947519-76-6 (online)

Permanent URL:
www.treasury.govt.nz/budget/2017/at-a-glance

Budget 2017 website URL:
www.budget.govt.nz/ budget/2017/at-a-glance

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