

# Memo

**To:** BusinessNZ Membership  
**From:** John Pask/Steve Summers  
**Date:** 26 May 2016  
**Subject:** Budget Summary 2016  
**Action Required:** For information

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## ***Budget 2016 – Investing in a Growing Economy***

### *Background*

The Budget 2016 largely lived up to expectations – once again, it's steady as she goes. Many key initiatives were pre-announced in the weeks and days leading up to the Budget event itself, including the Government's decision to bring forward some expenditure and delay tax cuts. The days of 'big bang' Budget announcements are gone, a positive given issues demand much more mature discussion not the ad hoc announcements of the past which can have unintended consequences.

The Budget reflected both New Zealand's domestic and international economic realities and – as has become a feature of Finance Minister Bill English's budgets – continues with an investment focus in respect to both business and social policy issues which will pay dividends down the track.

At the centre of the Budget is the key theme of "Investing in a growing economy".

### *Fiscal Priorities*

The Government has stated four fiscal priorities:

- Maintaining rising operating surpluses.
- Reducing net debt to around 20% of GDP by 2020.
- If economic and fiscal conditions allow, beginning to reduce income taxes.
- Using any further fiscal headroom to reduce debt faster.

While there were numerous announcements covering diverse areas, below, outlined in greater detail are the key announcements relevant to business, including BusinessNZ's thoughts and reactions, and key economic and fiscal indicators.

### *Taxation Policy*

As previously announced, further support for small businesses is provided through a \$187m SME-friendly tax package. This includes provisional tax compliance, use-of-money interest reforms eliminating or reducing these for most taxpayers, with the ongoing 1% monthly penalty to be scrapped from 1 April 2017 for new debt. Overall, BusinessNZ supports these measures as pragmatic steps to assist SMEs with tax compliance.

In addition, the Government has signalled that future income tax reductions from 2017 are now on hold while pressing expenditure on health and education, driven in

part from population growth, has been brought forward. Clearly with next year being election year, future tax cuts may be back on the table but with the expected caveat, as fiscal conditions permit.

While clearly signalling tax cuts will whet voters' appetite, tax policy needs to be designed with the future in mind. Ad hoc changes to appease particular interest groups must be avoided if business and the public are to have confidence in the integrity of the tax system. The need to remain globally competitive both in respect to tax (fiscal) and regulatory policies is paramount.

### *Housing*

As expected, the Government is clearly focused on Auckland's housing problems with a \$100m boost for development of Crown land. The Government has made it clear that land supply is the key issue, along with the need to develop more affordable housing faster, and that it will soon produce a National Policy Statement on Urban Development, directing councils to allow more housing development.

### *Education/Skills*

Over the next four years, an additional \$256.5m will be allocated across the tertiary education sector. Key announcements of interest to the business community include:

- \$14.4m allocated over the next four years for more apprenticeship training, which should fund around 5,500 more apprentices by 2020 and reflects the growing need to create high quality apprenticeship opportunities.
- \$10m more over four years to improve the education and skills of Maori and Pasifika New Zealanders and for Maori and Pasifika Trades Training. The number of training places will increase to 3,400, up from 1,200 in 2014. In addition, an extra \$6m over the next four years for other Pacific peoples' initiatives, such as helping Pacific youth in Auckland find work, education or training opportunities. Overall, these are positive steps, responding to the demand for workplace training created by a growing economy.
- \$11m to fund 600 more places in the 2016 Workplace Literacy and Numeracy programme, and around 900 places from 2017 onwards. BusinessNZ supports this move given a large proportion of the existing workforce lacks the literacy and numeracy skills workplaces require. As a result, firms are less competitive and productive. However, there is also a need to expand the literacy and numeracy conversation to include digital literacy. Overall, the need to improve students' and workers' reading, writing, and maths skills remains as basic and urgent as ever.
- Increased investment in areas of science, engineering and agriculture courses to address some of the perverse outcomes created by their relatively high cost.
- Increased investment in foundation education for second chance learners (adult learners that the school system has failed). This is positive but there needs to be an ongoing focus so these learners gain the basic foundation skills required for further learning and work.
- \$43m to support the most at risk students. It is good to see the Government using data and being prepared to target those most at risk. It is not clear how this will interplay with the recently-commenced Decile Funding System review.

### *Infrastructure/Natural Resources*

A \$2.1b infrastructure package has been announced with key areas of expenditure in Education (building-related activity), Transport (accelerated Regional Roothing projects in Gisborne, Marlborough and Taranaki), as well as \$190m to support KiwiRail. Additional funding will boost tourism infrastructure.

The Emissions Trading Scheme (ETS) subsidy that allowed business to pay one emission unit for every two emitted is to be phased out as it was a temporary measure to help moderate the initial costs of the ETS. The current 50% unit obligation will increase to 67% from 1 January 2017 and to 83% from 1 January 2018. All businesses with surrender obligations under the ETS will meet their full obligation from 1 January 2019.

A \$100m Freshwater Improvement Fund will help clean up rivers, lakes and aquifers of national significance over the next decade.

### *Regional Development*

The Budget will provide \$94.4m of new funding over the next four years for regional development. \$44m will come from the Government's Regional Growth Programme with a further \$40m to develop more regional research institutes across the country. The Ministry of Business, Innovation and Employment is currently working on the business case, with three proposed regional research institutes in Marlborough, Central Otago and Southland.

### *Other Policies*

#### Science & Innovation

The Government will provide a further \$410.5m over the next four years to increase its investment in science and innovation. Part of this increased investment is to support the Business Growth Agenda goal of seeking to grow business investment in R&D to over 1% of GDP. The main announcements include:

- \$113.8m over four years for the new Endeavour Fund, previously known as the Ministry of Business Innovation and Employment Contestable Fund.
- \$66m over the next four years for the Marsden Fund, supporting excellence in science, engineering, maths, social services and humanities.
- A \$12m increase over four years for the Pre-Seed Accelerator Fund, supporting the commercialisation of publicly-funded research. In addition, funding for the development of new Accelerator programmes will be extended following the scheme's initial three-year pilot, with new investment of \$3m over the next four years.

#### Cyber Security – Creation of a national CERT

\$20m will be invested over the next four years on a new national Computer Emergency Response Team (CERT) to combat cyber-attacks and cybercrime, with an additional \$2.2m of capital for set up.

A national CERT will be a central place for businesses and organisations to go for help and information when experiencing cyber-attacks. BusinessNZ strongly supports these steps as it is currently very difficult for businesses to know who to turn to when a cyber-attack occurs.

### *Concluding Thoughts*

Notwithstanding the above positives, the jury is out whether a slowly slowly approach is ideal. But given the nature of the political process, large scale reforms are probably a thing of the past. The Government is trying to take the public with them through the reform process but there is a danger with a gradualist approach that the world will move on before substantial reforms can be implemented. Government then is in danger of being in catch-up mode.

### **Budget 2016 – The Economic and Fiscal Outlook**

The Economic and Fiscal Outlook is reasonably sound with key economic indicators heading in the right direction over the forecast period.

#### *Key Points*

- **Economic activity** is expected to be modest over the forecast period averaging 2.8% over the five years to June 2020.
- **Inflationary pressures** are expected to remain relatively subdued over the forecast period averaging around 1.8% annum out to 2020.
- **Unemployment** is expected to drift lower to reach 4.6% by 2020.
- The current small budget surplus (before gains and losses) is expected to increase to \$6.7b by 2020.
- **Core Crown expenses** are currently 29.7% of GDP and are expected to remain under 30% for the future.
- **Net debt** is expected to peak at 25.6% of GDP next year and fall to 19.3% in 2020.