



**BUDGET
2024**

Budget Speech

**Hon Nicola Willis Minister
of Finance**

30 May 2024

Embargo: Contents not for communication in any form
before 2:00 pm on Thursday 30 May 2024

Te Kāwanatanga o Aotearoa
New Zealand Government

Budget Speech

Mr Speaker,

I move that the Appropriation (2024/25 Estimates) Bill be now read a second time.

Tēnā koutou katoa.

E mihi ana ki a Ahumairangi, ki a Tangi-te-keo, ki te Whanganui-a-Tara.

Tāne whakapiripiri e tū nei, e ngā tāngata whenua o te rohe, e ngā mema o te whare pāremata, kia ora.

Nōku te hōnore, ki te whakarewa i te Tahua mō te tau nei, rarau mai.

As I said in te reo Māori, it is an honour to announce this year's Budget.

The Budget delivers on key commitments.

For the first time in 14 years, hard-working New Zealanders will get to keep more of their own money through our Government's tax relief.

We are shifting resources out of the back office of government into the front line.

We are investing in healthcare, schools and Police.

We are putting New Zealanders' money where it can make the biggest difference.

What's more, our commitments are delivered within an operating allowance that is the lowest, in real terms, since Steven Joyce's Budget in 2017.

In other words, this is a fiscally responsible Budget – the most fiscally responsible in seven years.

Mr Speaker,

On Budget Day, it's easy to get caught up in the analysis, the commentary and the voices in the lobby.

Actually, that's not what this Budget is about.

This Budget is for everyday people getting on with their lives – the Mums and Dads rushing the kids to kōhanga, working hard, waiting in traffic and watching the petrol light flash again.

This Budget is for the people whose doors I knocked on in the election campaign, who said \$20 a week would be the difference between staying on top of the bills and being in overdraft.

It's for the man who told me he picked up a second job driving an Uber to pay the rent.

It's for every New Zealander, from every walk of life, who gives their best and wants a fair deal in return.

This is a Budget for the squeezed middle of New Zealand – the shift-workers, the people working two jobs, the families making sacrifices for their kids.

Parliament's focus today, and every day, should be the results we deliver for people like them.

Because the right measure of success is whether government is making a positive difference to the lives of New Zealanders and their families, not how many times it claims to care and not how much money it spends.

Mr Speaker,

The creation and passage of a Budget each year is at the heart of stable government.

This Budget is a team effort.

In particular, I want to acknowledge and thank the Associate Ministers of Finance – David Seymour, Shane Jones and Chris Bishop – who were heavily involved in putting this Budget together.

It has benefitted considerably from their ideas, advice and input.

The other Budget Minister in this process was the Prime Minister. I am grateful for his leadership, support and wise counsel.

Mr Speaker,

I want to acknowledge how challenging economic conditions are for many Kiwis right now.

New Zealand is experiencing a very difficult downturn. It suffered an acute cost-of-living crisis in 2022 and 2023. The Reserve Bank responded by raising interest rates. The Official Cash Rate went from 0.25 per cent to 5.5 per cent and has remained there for a year. That hurts.

I get regular updates from the Treasury about the state of the economy. What is apparent *now*, compared to six months ago, is that the current downturn started earlier, has been deeper, and is expected to last for longer, than previously thought.

In this environment, I feel for families and businesses across the country who are doing it tough.

What I can say to them is that better times lie ahead. The economy is robust, and it will recover.

Forecasts in the Budget Update indicate that current weakness in the economy will reduce inflation pressures, and lead to a gradual easing of interest rates.

The Treasury expects the unemployment rate to peak at the end of 2024 and start of 2025, before beginning to fall. As interest rates ease, economic growth is forecast to pick up over the second half of 2024 and continue in 2025.

The Government's job is to help that recovery, not hinder it.

In recent years, big government spending has fuelled inflation. It has also caused a significant deterioration in New Zealand's fiscal position.

The OBEGAL operating balance – the difference between government revenue and spending (before gains and losses) – has been in deficit since 2019/20. For the most part, this is a result of continued spending increases. Some of these increases were temporary – in response to COVID-19, for example – but others were not.

After stripping out large one-off expenses, and adjusting for the economic cycle, the Treasury estimates a structural operating deficit of around 1.5 per cent of GDP this financial year.

“Structural deficit” is a technical term. To put it less formally, New Zealand has been borrowing to pay for the groceries.

This borrowing has contributed to rapidly rising debt. In 2017/18, net core Crown debt was under 20 per cent of GDP. It is now over 43 per cent of GDP.

The solution is clear. Revenue and expenses must be brought back into balance. Debt must come down.

This task is challenging. It has become even more challenging as the economic forecasts have deteriorated.

Compared to the Half Year Update, the Budget Update expects core Crown tax revenue to be lower by around \$18.5 billion across the forecast period as a result of lower GDP and lower business income tax. That is a significant revenue downgrade, leading to a lower operating balance and higher debt.

To bring revenue and expenses back into balance, the Government has a choice. It can manage its spending, or it can raise additional revenue.

Given that choice, the Government's focus is squarely on managing spending. The key top-down tool for this is operating allowances – the amount set aside for discretionary new spending in each Budget. We are setting tight but realistic operating allowances in this Budget and in future Budgets. We intend to stick to them.

I said in the Budget Policy Statement that the final operating allowance for Budget 2024 would be less than \$3.5 billion, which was the allowance set by the previous Government.

The final allowance in this year's Budget is in fact \$3.2 billion. This is the lowest allowance in nominal terms since Budget 2018 and the lowest in real terms (that is, adjusting for inflation) since Budget 2017.

Operating allowances for Budgets 2025 to 2027 will be even lower, at \$2.4 billion per Budget. These are considerably lower than the allowances presented in the Half Year Update, which were set by the previous Government, and lower than those set out in National's fiscal plan.

By comparison, the final operating allowances for the last two Labour Budgets were \$5.9 billion in 2022 and \$4.8 billion in 2023.

Managing within future allowances of \$2.4 billion will be challenging. Savings and reprioritisation will be a feature of future Budgets, just as they are in Budget 2024. They will be a business-as-usual activity.

Mr Speaker,

The Fiscal Strategy Report sets out the Government's fiscal intentions and objectives. These remain as they were in the Budget Policy Statement, with one addition – the Government intends to get back to surplus in 2027/28.

This is one year later than forecast in the Half Year Update, which showed a microscopic surplus of \$140 million in 2026/27. As I have mentioned, a weaker outlook for tax revenue has flowed through into lower OBEGAL balances and a higher debt track. The Budget Update now shows a \$3.1 billion deficit in 2026/27 and a \$1.5 billion surplus in 2027/28.

Projections in the Fiscal Strategy Report show the Government is also on track to meet its other key objectives – to reduce net core Crown debt to between 20 per cent and 40 per cent of GDP, and to reduce core Crown expenses towards 30 per cent of GDP.

I would like to achieve those goals faster than the projections currently show.

But the Government is not planning an aggressive fiscal consolidation. We are taking a deliberate, medium-term approach and will not over-react to movements up or down in the forecasts.

We will be making difficult decisions and trade-offs to turn the fiscal situation around, get back to surplus and reduce debt, because that is what is required. But New Zealanders should know this – we will look after them along the way.

Mr Speaker,

When analysing changes in the fiscal forecasts, it is important to distinguish between economic forces beyond the Government's immediate control, and Budget decisions that clearly *are* in its control.

Downgrades to the GDP and revenue forecasts fall into the first group. As I said, the weaker outlook for revenue – all else being equal – reduces the operating balance, and increases debt, across the forecast period.

Also, because the economy is smaller, government spending makes up a larger proportion of the economy. Consequently, the fiscal stance has been making, and will continue to make, a greater contribution to inflationary pressures than previously assessed.

Those are facts. They would apply no matter which parties made up the government.

Then there are the Government's fiscal policy decisions. This Government has sliced the operating allowance in Budget 2024 and taken a scythe to it in the next three Budgets.

Overall, these lower allowances result in a cumulative total improvement in OBEGAL of approximately \$5.5 billion across the forecast period compared to the allowances in the Half Year Update. That lower spending will improve the debt track and reduce inflationary pressure over the forecast period, compared to what otherwise would be the case.

In addition, modelling from the Treasury suggests that the impact of tax reductions offset by spending is also likely to modestly reduce pressure on interest rates.

So yes, the fiscal forecasts have deteriorated since the Half Year Update, but not as much as they otherwise would have, in the absence of the Government's Budget decisions.

The best illustration is this. If the Government had retained the operating allowances from the Half Year Update – those that were set by the previous Government – the operating balance would not return to surplus until at least 2031.

Mr Speaker,

The Budget allowances I talked about are a net concept. They encompass spending, saving and revenue measures.

The \$3.2 billion allowance in this year's Budget – as I said, the lowest allowance in real terms since Budget 2017 – includes the cost of tax relief.

This tax relief is long overdue.

A visitor from the year 2010 would recognise the current personal income tax rates and thresholds. Apart from a new top rate, they are exactly the same.

Yet since 2010, inflation has pushed up wages in nominal terms. As a result, people pay more of their income in tax. The median full-time wage and salary earner now earns \$73,000 a year and is in one of the highest tax brackets. A minimum wage worker can face a marginal tax rate of 30 per cent.

Fortunately, the parties in this coalition Government are the parties of the worker.

We want working people to keep more of the money they earn.

We want to ease the cost-of-living pressures people have been under for so long.

From 31 July, personal income tax thresholds will rise.

They will rise from \$14,000 to \$15,600; from \$48,000 to \$53,500; and from \$70,000 to \$78,100. This reduces income tax for anyone earning over \$14,000.

From 31 July, eligibility for the independent earner tax credit will be extended from \$48,000 a year to \$70,000 a year of income. This will help an estimated 420,000 additional people, most of whom will get the full \$20 a fortnight.

And, from 31 July, the in-work tax credit – which helps support low-to-middle income working families with children – will be increased by \$50 a fortnight. Families will get up to \$50 a fortnight extra, depending on their family size and income.

Families with young children will also benefit from the new FamilyBoost childcare payment I announced in March. From 1 July 2024, parents and caregivers can get back up to 25 per cent of their early childhood education fees, to a maximum fortnightly amount of \$150. This maximum amount reduces for family incomes over \$140,000 a year, and families with an income of \$180,000 or more are not eligible.

This package of tax relief is identical in most respects to that set out in National's election tax plan. The implementation date for the changes, other than for FamilyBoost, has been pushed out by around four weeks, after advice from Inland Revenue that payroll providers required more time to make the necessary changes.

We did test this package. In particular, I engaged closely and constructively with my colleague David Seymour on the ACT Party's idea of flattening the tax scale. This has a lot of merit but was not possible to achieve in a way that benefitted people as the National plan did. It remains, however, an idea for the future.

In total, what will people get from tax relief? The Budget material contains various scenarios. For example, a couple earning an average household income of \$125,000 a year will benefit by up to \$102 a fortnight. If they have four or more children, they could actually get slightly more than that, as they would still be eligible for Working for Families. And if they have children in early childhood education, they could get up to \$150 a fortnight from FamilyBoost.

These are "up to" examples. People's individual and family circumstances differ widely, so I encourage people to look at the tax calculator on the Budget website and enter their details.

Analysis from the Treasury shows that an estimated 727,000 households will benefit by at least \$75 a fortnight, and 187,000 will benefit by at least \$100 a fortnight. On average, households will benefit by \$60 a fortnight, and households with children by \$78 a fortnight.

I have occasionally heard people say that tax relief only benefits the well-off.

That is not true of this tax package. Our changes to the in-work tax credit, and introduction of FamilyBoost, tilt the benefits of the tax package to low-to-middle income working families with children.

Mr Speaker,

Tax relief in this Budget puts \$3.7 billion a year back into the pockets of New Zealanders.

This tax relief is fully funded. Some of the funding is from revenue measures, but mostly it comes from savings.

The funding is broadly as set out in the National Party fiscal plan, with a handful of changes to reflect coalition commitments. These include, for example, a greater investment in tax compliance – an initiative proposed by New Zealand First.

There are other savings in the Budget. They go well beyond the funding of tax relief. The Government has chosen to stop some areas of spending and redeploy resources to public services where they will have a bigger impact.

Ministers and their departments have gone line by line through the spending areas they are responsible for. This scrutiny has resulted in more than 240 savings initiatives. Some amount to a few hundred thousand dollars a year, while others save tens of millions. Some reduce the amount of funding available for a particular activity, while others stop things completely.

Mr Speaker,

The biggest part of this Budget is not, in fact, tax relief. It is investment in public services.

I am proud to tell the House that this Budget increases funding for hospitals and it increases funding for primary care.

This Budget increases funding for schools.

And this Budget increases funding for law and order, to keep our communities safe.

Two-thirds of the new spending in Budget 2024 goes to these three areas – health, education and law and order.

This is a very targeted Budget. There is no money hose spraying cash around.

Other targeted areas of investment include transport, defence and disability services.

But across the board, whether they have received additional investment or not, the Government has a clear expectation that public agencies must strengthen their focus on delivering results. We have set clear targets to improve results in health, education, law and order, employment, housing and the environment, and we are focused on delivering them.

Mr Speaker,

I want to take Members through some of these areas of new investment.

First, let me clarify that when I talk about additional funding, I am referring to operating funding over the next four years, plus capital funding.

I will start with healthcare.

In Budget 2024, the Government is investing an additional \$8.2 billion in the health system, including \$665 million of reprioritisation.

The single biggest portion of this is for Health New Zealand, with \$3.4 billion earmarked for hospital and specialist services, and \$2.1 billion for primary care, community and public health.

Budget 2024 also provides \$1.77 billion to Pharmac – as my colleague David Seymour has previously announced – to ensure New Zealanders can access the medicines they rely on.

It staggers me that the previous Government funded a bunch of medicines until 30 June this year only. It staggers me more that filling this fiscal hole does not cost \$700 million as signalled in publicly available documents last year, but in fact costs \$1 billion more than that. Thankfully, this Government has fixed that appalling problem.

The Budget provides \$31 million to gradually extend free breast screening to 60,000 women aged 70 to 74.

And, as the Deputy Prime Minister and the Minister for Mental Health announced last week, it provides \$24 million to provide young people with free mental health counselling through the Gumboot Friday initiative. It's my view, and the view of our Government, that counselling will change many young lives for the better.

Funding in Budget 2024 will support hospitals and specialist services. It will also support community health providers, GPs, Māori health services, mental health services and aged care services. It will ensure our health system continues to be there for New Zealanders of all stages and walks of life.

In addition to funding in Budget 2024, the Government has pre-committed a total of \$5.5 billion of new health funding against the Budget 2025 operating allowance and another \$5.5 billion against the Budget 2026 allowance. We have done this to give the health sector confidence to plan for the future, to ensure New Zealanders can get the healthcare they need.

Mr Speaker,

Education is the great liberator, the great equaliser and the most enduring gift we can bestow on our children.

To my mind, improving the results we get from our education system is the single most important thing we can do to improve the future productivity of New Zealand.

Our Government will improve educational achievement, not through growing the Ministry of Education, but by focusing our efforts on the classroom.

In Budget 2024, the Government is investing \$2.9 billion in schools and early childhood education, including \$441 million of reprioritisation. This includes funding for kōhanga reo, playcentres, kindergartens, kura kaupapa Māori, special schools, intermediate schools, secondary schools, charter schools and the work that goes on in classrooms across the country.

This investment includes \$1.5 billion to build new schools and classrooms and to maintain and upgrade existing ones.

As announced previously by David Seymour, the Associate Minister of Education, the Budget provides \$478 million to continue the Healthy School Lunches Programme for two more years, including \$8 million to introduce a targeted programme for two-to-five-year-olds.

There is \$516 million in the Budget to support schools and early childhood education providers, \$153 million to establish charter schools – as championed by ACT – and \$67 million to implement structured literacy in all state primary schools.

In tertiary education, we are ending the failed policy that was first-year fees free. That policy failed its goal of lifting participation, and it failed to support students to complete their studies.

In line with the National-New Zealand First coalition agreement, our Budget sets out a new approach of funding final-year fees free to encourage the successful completion of qualifications.

We have also recognised the vital role of on-the-job training by ensuring there is funding in place to keep key elements of the Apprenticeship Boost scheme going, supporting a range of employers to take on new apprentices.

Mr Speaker,

This Government is committed to cracking down on crime and keeping communities safe so people can go about their lives in peace.

In Budget 2024, we are investing \$2.9 billion in restoring law and order, including \$497 million of reprioritisation, other savings and revenue.

This Budget delivers on the commitment made in the National-New Zealand First coalition agreement to add 500 additional frontline police officers. Investment of \$226 million will fund their recruitment and retention, and ensure they are properly equipped to do their jobs.

A further \$425 million will support frontline policing, including boosting police and purchasing vehicles.

Our Government will always back the Police.

The Government's commitment to restoring law and order means ensuring there are serious consequences for serious offenders.

As previously announced, Budget 2024 will invest \$1.9 billion in more frontline Corrections officers, more support for offenders to turn away from crime, and more prison capacity, including an expansion of Waikeria prison.

The Budget also invests \$69 million to address serious youth offending, including a military-style academy pilot, and continuing the Fast Track Youth Offending Programme run by Oranga Tamariki and Police.

Mr Speaker,

Budget 2024 provides \$1.1 billion to address demand and cost pressures on the services funded by the Ministry of Disabled People – Whaikaha. This investment will ensure that disabled people can access the services, equipment and support they need. An independent review already underway into the disability support system will help improve its long-term financial sustainability.

The Budget also provides \$140 million to fund 1,500 new social housing places, delivered by community housing providers. We do not subscribe to the one-size-fits-all approach and want to see a range of different providers delivering housing for those in need.

Mr Speaker,

On coming into office, our Government was faced with a number of fiscal holes, with only short-term funding in place for what were valuable programmes.

The Te Matatini regional model faced a funding shortfall of this sort.

Our Government is proud to have found funding of \$49 million to support Te Matatini and bring kapa haka to life in the regions. This will help all New Zealanders join in the ongoing revitalisation of te reo Māori and Māori culture. Tihei mauriora!

As previously announced, the Budget also provides \$571 million for Defence Force pay and projects, including \$99 million of reprioritisation. A portion of this additional funding will increase remuneration for New Zealand Defence Force personnel and the rest will go towards upgrading equipment and infrastructure.

Mr Speaker,

I am determined to push forward with the social investment approach – using hard evidence to invest in what works to improve outcomes for vulnerable New Zealanders.

Budget 2024 creates a tagged contingency of \$51 million to accelerate social investment. Part of this is to establish a social investment fund to directly commission outcomes for vulnerable New Zealanders, and work with communities, non-government organisations and iwi providers. Another portion will be used to support the standalone Social Investment Agency, which will be in place from 1 July this year.

It is part of the Kiwi character to want more for those whose lives are most difficult. Our Government understands that it is not enough to simply open our hearts to those in need. Truly solving the complex challenges of our most vulnerable requires that we apply our heads as well.

The social investment approach will allow the Government to match good intentions with effective results. It will shift resources to the grassroots and drive innovation to more effectively help those in need.

Mr Speaker,

Budget 2024 lays the foundations for a better performing infrastructure system. The Government is determined to address New Zealand's infrastructure deficit, while also being a careful manager of public finances.

In 2024, the Government is overseeing a record level of capital investment to deliver the infrastructure on which New Zealand's growth depends. More than \$68 billion is forecast to be spent on infrastructure by the Crown, Crown entities and KiwiRail over the next five years.

I have already mentioned some of the infrastructure investment in this Budget – school property, Waikeria prison, and Defence equipment and infrastructure.

In addition, Budget 2024 invests \$1 billion to accelerate land transport projects including Roads of National Significance. This is on top of the \$3.1 billion Budget 2024 commitment already signalled in the Government Policy Statement.

Other transport investments include \$939 million to repair roads damaged by last year's severe weather events in the North Island, and \$200 million for maintenance and renewals on the national rail network.

Budget 2024 also invests \$1.2 billion over three years in the new Regional Infrastructure Fund, as championed by New Zealand First. The Fund will invest in resilience infrastructure and regional projects that support economic growth. Among the first projects to be funded and get underway will be flood protection and resilience projects across the country.

We are also providing funding to establish a National Infrastructure Agency to act as New Zealand's "front door" to connect domestic and offshore capital to New Zealand's infrastructure opportunities.

What's more, we're fixing the Resource Management Act, so that instead of spending months and millions in court, those who want to build nation-changing projects can get on and build them.

The Government has ensured it has fiscal headroom to fund infrastructure needs. In Budget 2024 it has topped up the Multi-Year Capital Allowance by \$7 billion. As a result, \$7.5 billion remains in the allowance to be allocated to future projects, so New Zealanders can have confidence that where capital investment is needed from the Government, we can fund it.

Mr Speaker,

The Government will invest responsibly to support New Zealand's transition to a low-emissions economy and climate-resilient future.

I have mentioned, for example, climate resilience projects funded from the Regional Infrastructure Fund. Around \$2.6 billion of climate initiatives funded from the previous Government's Climate Emergency Response Fund will also continue because we have judged they represent good value for money.

New Zealand remains on track to reach the emission reduction goals of our first emission reduction period. Later this year the Government will consult on plans to deliver emissions reductions over the second emissions budget period.

Looking ahead, we expect the Emissions Trading Scheme to play a vital role in reducing emissions. We will also consider future climate and resilience investment proposals through the normal Budget process, and manage them against Budget operating and capital allowances.

Mr Speaker,

This year's Budget is the clean-up job New Zealand needs after six years of economic mismanagement.

We are welcoming in a new era of careful government spending, lower taxes for hard-working New Zealanders, and a strong focus on rebuilding the economy.

Almost all the challenges New Zealand faces will be made easier if the economy grows faster.

It's how we give New Zealanders the improved choices, the better public services and the higher incomes they deserve.

Economic growth is what will give all our children a reason to stay here in New Zealand.

In this Budget we are getting the country's finances under control and establishing foundations for growth.

But there is much work ahead. Lifting productivity will be our Government's focus, whether that be through raising educational achievement, delivering better infrastructure, enabling investment, or any of the multitude of areas that need addressing.

This Budget shows what is possible with care and with discipline.

Our approach means New Zealanders can look forward with confidence, knowing the Government backs them.

Mr Speaker,

I commend this Budget to the House.