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Speech: Finance Minister Grant Robertson to the Auckland Chamber of Commerce

Thank you to the Chamber for inviting me to speak here today.

This morning I'd like to talk to you about the Government's key priorities and policies for the economy and businesses, give an update on the Budget 2018 process, and more specifically discuss our approach to supporting this city and region.

We have an ambitious plan for transitioning New Zealand to fairer and more sustainable economic growth, while responsibly managing the Government's books.

In forming a Government, Labour, New Zealand First, and the Greens have committed to a shared purpose – that of working towards a fairer and better New Zealand.

In both the Coalition Agreement between Labour and New Zealand First, and the Confidence and Supply Agreement between Labour and the Greens, there is a common mission statement that reads:

“Together, we will work to provide New Zealand with a transformational Government, committed to resolving the greatest long-term challenges for the country, including sustainable economic development, increased exports and decent jobs paying higher wages, a healthy environment, a fair society and good Government. We will reduce inequality and poverty and improve the wellbeing of all New Zealanders and the environment we live in.”

I am very conscious that we as a Government set a positive tone for the future of the New Zealand economy and its people. And there is every reason to be optimistic.

We have a strong economic base: Our wonderful environment that is the backbone of our primary industries and tourism; innovative and creative people who work hard – harder, in fact, than in almost any other country in the world; and we have global and progressive outlook on the world.

But it is important that as the Government moves forward, we are open and transparent about where the country is at.

Internationally competitive rates of GDP growth are a good start - but in New Zealand our GDP numbers are masked by an over-reliance on population growth and an overheated housing market as predominant drivers for headline economic activity.

Per person GDP has been under one percent and compares far less favourably with our OECD counterparts. We have had almost zero labour productivity growth for five years. Put simply, more people are working longer hours, but our output is not improving in proportion to that extra work.

By far the biggest issue is that too many people have missed out on a share in prosperity. This was the message I got in boardrooms and smoko rooms around the country during the election campaign.

No one wanted to stop economic progress, but almost everyone was uncomfortable with a New Zealand where our rates of homelessness and inequality were growing, while our rates of home ownership and social mobility were declining.

Last week, the advice from officials to the incoming Government was released, and I think it is timely to mention a couple of things that were highlighted, which will help explain this Government's priorities over the next few years.

In housing the message was clear. The failing housing market is leading to inequality between the old and young, and the rich and the poor. It is harming our productivity. And this is affecting the overall economy. Housing officials have told us we are 45,000 houses short in Auckland alone, and nearer to 70,000 around the country.

That is why we have put such a premium on fixing the housing crisis.

We have already begun work on addressing demand side pressures with the introduction of the ban on overseas speculators buying residential property, and we will shortly move to extend the bright line test to five years and crack down on the use of negative gearing.

On the supply side we will be building more state houses and tackling homelessness. If the previous Government had built extra state houses each year instead of selling the stock down by 5,000, we simply wouldn't have the homelessness problem we do now.

And, we are establishing our KiwiBuild programme to build 100,000 affordable homes exclusively for first home buyers over the next ten years. To do this, we will be slowing down our overall debt reduction programme a little to give us the capital to get on with this work which New Zealand desperately needs.

The Acting Reserve Bank Governor recently acknowledged that our programme of work had in part already given him the confidence to start relaxing Loan-to-Value Ratio restrictions.

It is a sad thing to say – but the previous Government had effectively outsourced its responsibility to create the conditions for a stable and affordable housing market to the Reserve Bank. We understand our responsibilities. We need to do this work to fix the housing crisis.

I will give one other example of what we are facing in Government – an example of the need to invest in public services. That is in the health sector. The briefing to the incoming Health Minister said that the health system urgently needs to find new ways to meet demand and reduce inequalities.

Officials are concerned that many of the most vulnerable New Zealanders are missing out on the primary healthcare they need. Nearly half a million Kiwis did not go to the doctor last year because of the cost. Not only is this bad for these people but it actually adds to the bill for taxpayers because more Kiwis will end up needing more expensive, hospital-based treatment as a result.

Fixing this is not just about putting in more money. It is also about a more effective and efficient healthcare system. After nine years of not being funded properly to keep up with the changing nature of our population or even inflation, New Zealand's health system can no longer cope.

This is a basic breakdown in one of the building blocks of a decent society – that there is a health system that will look after you if you get sick and will help you stay healthy. The Government cannot just be an ambulance at the bottom of the cliff trying to deal with an ever-bigger bill. This is why we

are redirecting money that had been promised by the previous Government in across-the-board tax cuts to more targeted spending – on health, education, and for families with children.

We can make these investments while not having to increase taxes. We do this by having different priorities to the previous Government – reversing the proposed tax cuts and giving ourselves two extra years to meet the Government's debt reduction target.

We are also pursuing the multinationals and tax evaders who do not pay their fair share. This week, a bill to implement changes to rules around base erosion and profit shifting will have its first reading in Parliament.

My colleague Stuart Nash is also working with IRD on further steps to push multinationals to pay their fair share, and is building on the previous Government's work on the taxation of on-line purchases to ensure a level playing field when it comes to GST.

We can provide the public services that New Zealanders want and deserve, and build a strong economy. This will mean doing some things differently and investing more now to get the payoff for New Zealand over the long term.

We can pay for the plans we have made and the policies in the agreements we have signed. But there are still other cost pressures to meet and programmes to deliver. I have asked my Ministerial colleagues to re-assess current programmes to ensure they match this Government's priorities and are value for money. Any such re-prioritisations will be reinvested to meet the cost pressures we face.

This twin approach of investing to deliver social justice while being responsible with our finances very much mirrors who I am and my background. I grew up in the cloak of a Presbyterian family in Dunedin. Today I still try to live by the values that my mother taught me – we are our brother's and sister's keepers; treat others as you wish to be treated; and that if you work hard you will achieve your goals.

I have also taken the extra precaution of having two Associate Finance Ministers steeped in the background of parsimonious southern Presbyterianism in David Parker and David Clark. The latter being an ordained Minister for good measure.

I also worked in the Fifth Labour Government as an advisor to Helen Clark. I saw first-hand how she and Michael Cullen were able to lead a Government that was fiscally disciplined, ran surpluses, paid down debt, and had the lowest unemployment rates in the OECD, while also delivering progressive social programmes like Working for Families, 20 hours free early childhood education, interest free student loans, Kiwisaver and more.

We have done this before – and we will do it again.

Economic Strategy

This time around we also know we need to transition our economy to the 21st Century. This does mean doing things differently. The aim of our economic strategy is to improve the living standards of New Zealanders through sustainable and inclusive growth.

Success cannot be measured by GDP alone, although this remains an important measure of headline economic activity. Rather, we must take a different view of what constitutes a successful economy, along with broader measures of what success looks like.

We have committed to working on new sustainable development indicators. In addition to this work I have instructed the Treasury to accelerate its work on the Living Standards Framework. This Framework focuses on measuring our success in developing four capitals – financial, natural, human, and social capital. By assessing our performance across a wider range of measures we will see a much clearer picture of the effectiveness of our policies and how they benefit New Zealanders' wellbeing.

In Opposition I led a major project for the Labour Party on the Future of Work. I am very grateful that Michael Barnett helped us as we developed that work. The core conclusion was that, while we cannot predict exactly what the future holds, we can prepare ourselves.

We are seeking a resilient, adaptable and inclusive approach to transition to a world where technology and changing patterns of work offer both huge challenges and opportunities. This has informed our policy in areas such as education, research and innovation, the labour market and social policy.

We are also going to put a fresh set of eyes on core aspects of our economy, including through a review of the Reserve Bank Act. You can be assured that this will maintain a focus on price stability. But we will widen the Bank's objectives so that it gives due consideration to maximising employment when it makes monetary policy decisions.

We are also setting up a Tax Working Group under the leadership of Sir Michael Cullen to develop recommendations to get a better balance across our tax system to support the productive sector rather than speculation.

Budget Responsibility Rules

For us to keep being able to afford the policies necessary to achieve higher living standards we must remain fiscally responsible. It goes without saying that a Government that presides over high deficits, increasing debt, or a shrinking economy could not provide the quality public services that New Zealanders want and deserve. That is why we have developed and committed to our Budget Responsibility Rules.

Firstly, we will deliver a sustainable operating surplus across an economic cycle. We will not generate artificial surpluses by underfunding key areas such as health, education, and infrastructure. Our surpluses will exist after we have funded our policy objectives - this is what we mean by a 'sustainable surplus'.

Secondly, we will reduce the level of net core Crown debt to 20 percent of GDP within five years of taking office. While New Zealand already has low levels of Government debt relative to many of our overseas peers, we remain vulnerable to shocks such as earthquakes and other natural disasters. We have made our commitment to debt reduction to ensure that future generations of New Zealanders are in a position to be able to respond effectively to any such shock.

Thirdly, this Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand, such as restarting contributions to the New Zealand Superannuation Fund, which will happen in our first 100 days. We will also invest in the infrastructure required to support our growing population and reduce the risks posed by climate change.

Fourthly, we will maintain Government expenditure within the recent historical range of spending to GDP, which has averaged around 30 percent over the last 20 years. While the quantity of public

spending is important, it is the quality of that spending that is a major determinant in whether our policies achieve their outcomes.

We have accounted for all of our policy programme. As you will see in this week's Budget Policy Statement and the Treasury's Half Year Economic and Fiscal Update, this Government will meet its 100 Day Plan commitments by reversing the previous Government's tax cuts. And, through our operating and capital allowances we can deliver the remainder of our programme while meeting the Budget Responsibility Rules.

However, we will continue to look closely at all Government expenditure to make sure that it is being directed effectively – towards improving all New Zealanders' wellbeing.

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. As noted, Sir Michael's group will be making their recommendations to us about this by early 2019. This review isn't a revenue-grab – one option is that the recommendations are fiscally neutral. It is a responsible review of New Zealand's tax system to ensure it is appropriate for the 21st Century.

100 Day Plan/HYEFU and Budget Policy Statement

The new Government was sworn in on the 26th of October, less than two months ago. Since then, the main focus has been the implementation of our 100 Day Plan. We are making excellent progress.

We have seen:

- The passing of the Paid Parental Leave Bill to extend this to 26 weeks
- The passing of the Healthy Homes Guarantee Bill to improve the minimum standards for rental housing
- Confirming the details of our fees free post-secondary school education and training policy commencing on 1 January 2018, along with an increase of \$50 per week for student allowances and living cost component of student loans.

And much more besides. The next big step is the introduction of our Families Package. This will be one of the major initiatives of this Government.

We are committed to lifting children out of poverty at a faster rate than the previous Government, and supporting low- and middle-income families, particularly in the critical early years of their children's lives.

We will boost Working for Families, introduce the Best Start payment for children in the first three years of life, put in place a Winter Energy Payment for superannuitants and those receiving a main benefit, restore the Independent Earner Tax Credit the previous Government cancelled and commit to boosting the Accommodation Supplement.

More details will be provided in the near future, but this is a substantial initiative paid for, as I said earlier, by reversing the across-the-board tax cuts, which were promised by the previous Government but have not yet begun.

The 100 Day Plan, along with Labour's remaining policies in the pre-election Fiscal Plan; the Coalition Agreement between Labour and the New Zealand First Party; and the Confidence and Supply Agreement between Labour and the Green Party of Aotearoa New Zealand, lay out the agenda of the new Government.

This means a different approach to the way we will shape Budget 2018. There will not be a slew of new initiatives released in the weeks heading into that Budget. The plan is already out there.

The first steps towards Budget 2018 will come this Thursday.

This is when Treasury announces its regular Half Year Economic and Fiscal Update, or the HYEPU, where it details its latest forecasts for the economy and the Government's fiscal track. Alongside this, we are announcing a Budget Policy Statement, setting out our economic strategy and kicking off the Budget 2018 process.

I'll just give an overview of how this will all play out.

The Government was formed early enough during the Treasury's forecasting and HYEPU cycle – just – that we were able to include officials' work on our 100 Day Plan costs into the Half Year Update.

So the likes of our Families Package, Fees-Free Post-Secondary Education and Training, Paid Parental Leave, the \$2 billion capital injection for KiwiBuild, and our plan to restart contributions to the New Zealand Super Fund, are all included in the 'base' projections we're starting from.

These policies have been costed using Treasury's normal process ahead of Budget announcements. Because of where the election fell, and the ambition of our 100 Day Plan, we were able to incorporate them into the accounts and the Budget process in December, rather than waiting for May to roll around.

That's not to say we'll have nothing to talk about at Budget 2018, or 2019. A second document on Thursday will be our Budget Policy Statement. This will set out the operating and capital allowances we have set for the next few Budgets.

These allowances provide the room for the rest of this Government's policy agenda beyond the 100 Day Plan. Detailed work has already begun on these policies as we head towards Budget 2018. They are now being put through the Budget process to get final costings and design as officials work towards May.

I will leave the detailed announcements for Thursday but, suffice to say, I am confident we can meet our Budget Responsibility Rules while advancing our comprehensive programme.

Auckland Infrastructure

I want to spend some time now talking about infrastructure, particularly as it relates to Auckland.

It is stating the obvious that Auckland faces significant infrastructure challenges. The gridlock on Auckland's roads is costing \$1.3 billion a year. The housing crisis is dragging down productivity and speculation has also sucked vast amounts of the country's wealth into buying and selling houses instead of investing in productive firms that generate jobs and exports.

We will not shy away from these challenges. Our Government recognises the failure to manage urban growth is a huge drag on the economy.

We have a comprehensive reform agenda. I have already mentioned the specific housing policies that will address the housing crisis. But more systemic change is needed.

We are going to establish a Housing Commission, an urban development authority to cut through the red tape and lead large urban development projects – building whole communities at scale and at pace.

All of this is underpinned by our Urban Growth Agenda – a set of reforms designed to get the market more responsive to demand. We need competitive urban land markets to bring down the very high cost of urban land that is at the heart of our problems. It's a five point plan:

1. Turning on the tap of infrastructure finance, for example, infrastructure bonds serviced by a targeted rate, building on the work done with Crown Infrastructure Partners;
2. Designing a more pro-growth planning system that allows the city to make room for growth instead of choking it off;
3. More robust spatial planning by central and local government;
4. Investigating a GPS-based network or transport pricing system. This will allow us to fully internalise transport costs so that roads and motorways aren't a disguised subsidy for sprawl; and
5. Possible legislative reform to support this new approach.

The Government is looking at alternatives for the East-West link. We will be making an investment in that corridor, but not the \$2 billion option proposed by the previous Government. While we obviously see the need for making large investments into Auckland's transport system, we do not believe paying \$327 million per kilometre is good value for money. I am not interested in setting the record for building the most expensive road in the world.

One of our major priorities is to roll out a 21st Century rapid transport system for Auckland.

We are committed to implementing a \$15 billion, 10-year programme to build this rapid transit system – including light rail from the CBD to the airport and out to West Auckland. We are also investigating third-tracking the main trunk rail line and electrifying the rail line to Pukekohe.

We have allowed the Auckland Council to charge an additional fuel tax to help with some of this funding. We are also investigating funding options such as infrastructure bonds, and we will be opening up use of the Land Transport Fund beyond just roading projects.

We cannot carry out an ambitious programme like this, or for other infrastructure, alone. We want to ensure that the Crown and Maori work together effectively as we move towards the end of the Treaty settlement process. We are committed to working with Iwi to achieve our infrastructure goals.

We also want to work with those in the private sector who are willing to be partners in building and modernising our infrastructure.

Yes, this can include Public-Private-Partnerships (PPPs). We don't believe PPPs have a place in schools and hospitals, but there is a potential for partnerships which can be used to drive productive and sustainable growth where they are appropriate.

Beyond Auckland

It is, of course, important to invest outside of Auckland too. While Auckland has been growing (at times beyond its means), many parts of regional New Zealand have been left behind.

The Provincial Growth Fund, developed in conjunction with New Zealand First, will help ensure inclusive growth across all of New Zealand. We will invest \$1 billion per year to provide infrastructure and investment to help our regions recognise their economic potential.

We will fund projects including the expansion of regional rail, the planting of 1 billion trees over the next 10 years, and other important capital projects. We also intend to commission a study into the future of the Upper North Island ports.

There isn't enough time today to go into the remainder of our programme, but I want to mention in closing two issues I know are important to the business community.

I want to re-affirm today our commitment to negotiating and signing quality trade agreements. Under this Government, New Zealand will remain open to the global economy through progressive trade policy.

We will pursue Free Trade Agreements that are beneficial to New Zealanders and our interests. We renegotiated the Comprehensive and Progressive Trans Pacific Partnership so that it is now in line with Kiwis' interests, and we will continue to look at similar high quality agreements.

However, we know that Kiwis do not want to be tenants in their own country. While we remain open to the world and welcome overseas investment that adds jobs, improves productivity, and adds to our housing stock, we are not open to overseas speculators who simply drive up our cost of living.

And so we will change the Overseas Investment Act to ban foreign overseas speculators from the existing housing market.

Likewise, in remaining open to the world we need to have immigration policies that support our goals. New Zealand will always need migrants who provide essential skills. We want to facilitate that, and I want to assure you that where you have a genuine skills gap that the settings will not change.

But, at the same time we cannot allow immigration settings to drive low quality international education that actually exploits the students who come here. Nor do we think that the huge rise in temporary work visas should continue in areas where there are and should be New Zealanders able to take up the work.

Conclusion

The Government has already made great progress on its 100 Day Plan. We are off to a running start. We have highlighted our priorities, and we will continue to implement the policies we campaigned on and agreed to with New Zealand First and the Green Party, looking towards Budget 2018 and beyond.

We will be there beside New Zealand businesses in building an economy that is fair and inclusive. We want to ensure that all Kiwis prosper from the benefits of economic growth. We want to partner with you to tackle the long-term challenges facing this country. It is in all of our interests to work toward creating shared prosperity in New Zealand.

Thank you