

Labour's Fiscal Plan

POST PREFU REVISION





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Jacinda Ardern MP Leader of the Opposition

When it comes to the debate around the Government's accounts, you will find language like responsible, prudent and stable being used interchangeably by political parties. Labour is committed to these principles, and to building a strong economy. We are committed to lifting our productivity and wages, through investing in skills, research and development, innovation and opportunities in our regions.

But building a strong economy is not enough to declare success. Success for Labour means 'shared prosperity'. Success in our economy will only feel real when all New Zealanders benefit from the wealth that growth in the economy provides. It's why we will target child poverty – measuring our economic success against reducing its incidence in New Zealand. It's why we don't accept that having 70,000 young people without employment, education or training is normal or acceptable. It's why we won't rest while 40,000 people are homeless and children are doing their homework by torchlight in the back of a car. It's why we need to be an active partner for growth in all regions of New Zealand – ensuring that jobs and career opportunities exist right across the country.

I believe that when we hold ourselves to account, you can hold us to account. That is why we have worked so hard to establish our two key fiscal policy tools – the Budget Responsibility Rules, and this

Fiscal Plan. Taken together, they are the foundation on which we have built our wider programme of investment. They highlight our belief in the fact that 'shared prosperity' can only be delivered alongside sound fiscal management.

This Fiscal Plan sets out Labour's vision for an alternative government that will deliver the kinds of positive change that New Zealanders can really feel. By choosing to reject tax cuts, Labour can deliver \$8bn more for health, \$6bn more for education, and \$5bn more for our most vulnerable families. Delivering our Budget Responsibility Rules means we can reduce the housing and infrastructure deficits that have developed over the past nine years. By choosing to invest in New Zealanders and the regions of New Zealand we can deliver a more prosperous, productive, and positive future.

Let's do this.

A stylized, handwritten signature in black ink, which appears to be 'Jacinda', written in a fluid, cursive style.

Success in our economy will only feel real when all New Zealanders benefit from the wealth that growth in the economy provides.



Grant Robertson MP

Labour Finance Spokesperson

Our Fiscal Plan shows New Zealanders that we will make the investments required to re-build our core public services, reduce inequality and poverty and invest for the long term benefit of New Zealand, while also responsibly managing our country's finances.

The last nine years have seen a systematic under-funding of core public and social services by the National government. We need a fresh approach to put people first. The Fiscal Plan confirms that we have rejected National's Budget tax cuts. This is the right thing to do. Now is the time to give more support to families, build houses and fund health and education properly.

At the same time, we will restart contributions to the New Zealand Superannuation Fund. The National Government has not put a single cent into the Fund since 2009. By saving now, we spread the cost of the ageing population out over decades, rather than leaving it to future taxpayers.

Restarting contributions to the Super Fund is in keeping with our Budget Responsibility Rules. These five rules, jointly announced in March with the Green Party, create the fiscal framework within which we have made spending and revenue decisions. They ensure that a future Labour-led government will continue to post surpluses, allowing us to pay down the record debt built up by the current Government.

Labour is determined to build durable public services, and that means ensuring that the Government's fiscal position is robust and able to withstand future economic shocks.

Meeting our target under the Budget Responsibility Rules to ensure government spending as a ratio to GDP is around 30% will reverse the declining trend under National. It will mean that the health system, the education system, and the Police have the resources they need to do the jobs that New Zealanders expect of them.

Our Budget Responsibility Rules also require that we have a progressive, fair and balanced tax system. We will establish a tax working group in government with a mandate to get a better balance between how we tax assets, wealth, income and consumption. In the meantime we are proposing changes that move in that direction. We will also stop multinational corporations from free-loading on New Zealand — taking the benefits of the physical and legal infrastructure as well as our education and health systems without appropriately contributing to the taxes that pay for them.

In government we will ensure that the Budgets we produce are not just narrow fiscal documents. We will measure our success in how we improve the well-being of all New Zealanders, how we are reducing child poverty and improving sustainability. We will always remember that our fiscal plan is merely the means to the end of supporting New Zealanders to have lives of dignity, security and hope.

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BERL examination and analysis

BERL have examined, reviewed, and checked a range of calculations provided by the Labour Party concerning their policy plans.

These costings have now been benchmarked against the August 2017 Pre-election Economic and Fiscal Update (PREFU) and associated Fiscal Strategy Model (FSM) to determine the overall impact on the Government's fiscal situation.

Particular attention has been paid to whether the plans are consistent with the Budget Responsibility Rules (BRR) published by the Labour Party and the Green Party; namely

- Operating Balance before Gains and Losses (OBEGAL) in surplus across an economic cycle
- net core Crown debt reduced to 20% of GDP within 5 years
- core Crown spending is managed around a trend of 30% of GDP.

Earlier analyses comparing the Labour Party plans to the May Budget Economic and Fiscal Update (BEFU) have been updated. We note that the differences between the BEFU and PREFU accounts were not large. In particular, operating spending allowances in the PREFU over the 4 years 2017/18 to 2020/21 totalled \$470m more than in the BEFU; while the capital spending allowances totalled \$398m less than in the BEFU.

Incorporating the policy plans listed in this document – including additional and refined plans provided by the Labour Party since the PREFU release – and assuming the economic parameters incorporated in the August 2017 PREFU (and its associated FSM), results in the outcomes for these fiscal indicators as illustrated below. Summary and detailed tables are provided in the body of this report.

Incorporated into the figures for the 5 fiscal years (2017/18, 2018/19, 2019/20, 2020/21, and 2021/22) are

- allowances for new operating spending of \$0.9 billion, \$0.8 billion, \$0.9 billion, \$1.5 billion, and \$3.4 billion
- allowances for new capital spending of \$0.3 billion, \$1.4 billion, \$2.2 billion, \$2.6 billion, and \$3.6 billion.

Finance costs have been adjusted to account for the different debt tracks. The implied interest rate on Government gross debt – as per the FSM – were assumed to apply to the different debt tracks.

In addition, as noted above, we have not changed the economic growth parameters assumed in the PREFU.

Findings

We find that the Labour Party policy plans and costings are consistent with their stated Budget Responsibility Rules and, in particular

- **The OBEGAL remains in surplus throughout the period to 2022**
- **Net Core Crown debt is reduced to 20% of GDP by June 2022**
- **Core Crown expenses remain comfortably under 30% throughout the period to 2022.**



"We find that the Labour Party policy plans and costings are consistent with the stated Budget Responsibility Rules"

- BERL

Major first term outputs and goals

In its first term, Labour will introduce policies to make New Zealand an even better place to live...

Labour's plan will invest in making New Zealand a better place to live, work, visit, and do business. Our policies will see major investments in housing, health, education, police, and infrastructure, while creating more jobs and lifting the incomes of families. These investments will be made while running surpluses and paying down debt.

... by tackling the housing crisis and restoring the Kiwi Dream of homeownership...

In the first term, the Labour Government will:

- Ease the housing shortage by building affordable homes and selling them at cost to first home buyers, building state houses, and implementing modern rules around urban limits and density controls
- Crack down on speculators by banning overseas speculators from buying existing houses and tightening the tax rules speculators exploit
- Increase our building capacity by investing in our young people, encouraging them into building trades, and investing in modern manufacturing techniques
- Improve the quality of housing by requiring all rentals to be fit to live in, and invest in insulation and heating grants paid for by closing the speculators' tax loophole
- Increase Māori homeownership by establishing a Māori Housing unit, reforming the Kāinga Whenua and Welcome Home Loans schemes, and partnering with hapū, iwi and Māori organisations to develop affordable and social housing.

These policies will see thousands more homes being built while removing speculative demand from the market. Kiwi families will have a fair go at buying a place of their own. By the end of our first term, we expect to see more families owning their own home and a significant reduction in homelessness, on the path to our target of making sure every Kiwi has a warm, dry, safe place to live.

... addressing chronic underfunding of health, education, and police...

In the first term, the Labour Government will:

- Reverse National's health cuts and begin the process of making up for the years of underfunding that have occurred. This extra funding will allow us to invest in mental health services, reduce the cost of going to the doctor, carry out more operations, provide the latest medicines, invest in Māori health initiatives including supporting Whānau Ora, and start the rebuild of Dunedin Hospital. By the end of the four year forecast period, Labour will invest \$8 billion more in health than was proposed in PREFU 2017
- Work towards the goal of free education by making tertiary education more affordable and tackling school donations. We will fund schools and early childhood education centres properly, so they can deliver world class education to our children. We will introduce a School Leavers' Toolkit to equip young people for adult life. By the end of the four year forecast period Labour will invest \$6 billion more in education than was proposed in PREFU 2017
- Support Māori educational achievement through dedicated professional development programmes, and increased support for Te Reo Māori including dedicated scholarships to increase the number of Te Reo Māori teachers

By the end of our first term, we expect to see more families owning their own home and a significant reduction in homelessness.

Major first term outputs and goals

- Increase funding to Police to recruit 1,000 additional officers to make our communities safer.

These policies will mean our public services are able to give us the service we need, when we need it. By the end of our first term, we will have more doctors and nurses in our hospitals, more teachers in our schools, better educated young people, and more police keeping our streets safe.

... investing in infrastructure, our future, and jobs...

In the first term, the Labour Government will:

- Restart contributions to the New Zealand Superannuation Fund, as part of maintaining the superannuation age at 65
- Begin the construction of a light rail network in Auckland, invest in passenger rail for Hamilton and Tauranga, and restart commuter rail in Christchurch as part of a nationwide increase in investment in modern transport
- Introduce a clean water royalty on major commercial users of water to fund making our rivers and lakes swimmable again
- Boost growth and jobs through our Regional Development Fund and R&D tax credits
- Establish a Tourism and Conservation Infrastructure Fund
- Target reducing New Zealand's unemployment to 4% by backing apprenticeships, getting young people off the dole and Ready for Work, investing in regional development opportunities that will create jobs, and creating employment through KiwiBuild and our infrastructure programme.

By the end of our first term, we expect to see unemployment in New Zealand among the lowest in the OECD, from the current position of 13th. The New Zealand Superannuation Fund will be growing rapidly again and worth around \$63 billion. The infrastructure projects to get our cities moving will be underway. We will be making progress in cleaning up our water.

While these investments are being made, we will take a breather on immigration until our cities can keep up with rapid population growth.

... and boosting incomes to families while helping those in need.

In the first term, the Labour Government will:

- Boost wages by introducing Fair Pay Agreements, increasing the minimum wage on the path to making it two-thirds of the average wage, and paying the living wage to core government employees, and — over time — contractors to government agencies
- Increase family incomes with higher Working For Families payments and a Best Start payment to families with babies and toddlers
- Help older New Zealanders and low-income families stay warm and healthy in winter with a new Winter Energy Payment
- Reinstate the Independent Earner Tax Credit for single low-income people.

By the end of our first term, we expect to see a significant increase in incomes, especially for working families and those in need. This will help to reduce inequality and poverty and create a New Zealand where everyone shares in prosperity. Over the four year forecast period Labour will spend an additional \$5 billion lifting the incomes of middle-income families and those in need.

By the end of our first term, we expect to see unemployment in New Zealand among the lowest in the OECD.

Budget Responsibility Rules

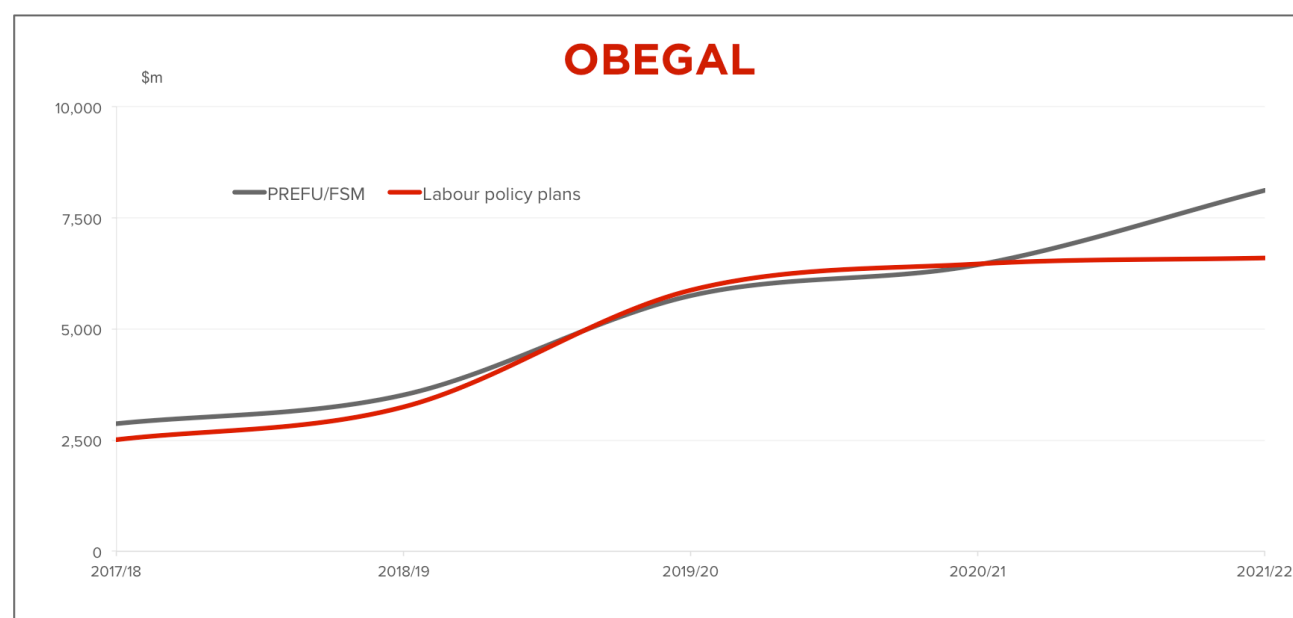
Labour's Fiscal Plan meets all of our Budget Responsibility Rules.

Rule 1: The Government will deliver a sustainable operating surplus across an economic cycle.

An OBEGAL surplus indicates the Government is financially disciplined and building resilience to withstand and adapt to unforeseen events. We expect to be in surplus every year unless there is a significant natural event or a major economic shock or crisis. Our surpluses will exist once our policy objectives have been met, and we will not artificially generate surpluses by underfunding key public services.

Labour's Fiscal Plan projects OBEGAL surpluses throughout the forecast period. Higher investment in operating expenditure in health, education, and police is offset by higher revenue from cancelling National's tax cuts, closing the speculators' tax loophole, and reducing multinational tax avoidance. By running consistent surpluses, as the previous Labour Government did, the Government will be able to reduce debt to sustainable levels.

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2021/22
OBEGAL (\$m)					
PREFU	2,869	3,515	5,746	6,440	8,114
% of GDP	1.0	1.2	1.9	2.0	2.4
Labour policy plans	2,506	3,245	5,870	6,460	6,594
% of GDP	0.9	1.1	1.9	2.0	2.0



We will not artificially generate surpluses by underfunding key public services.

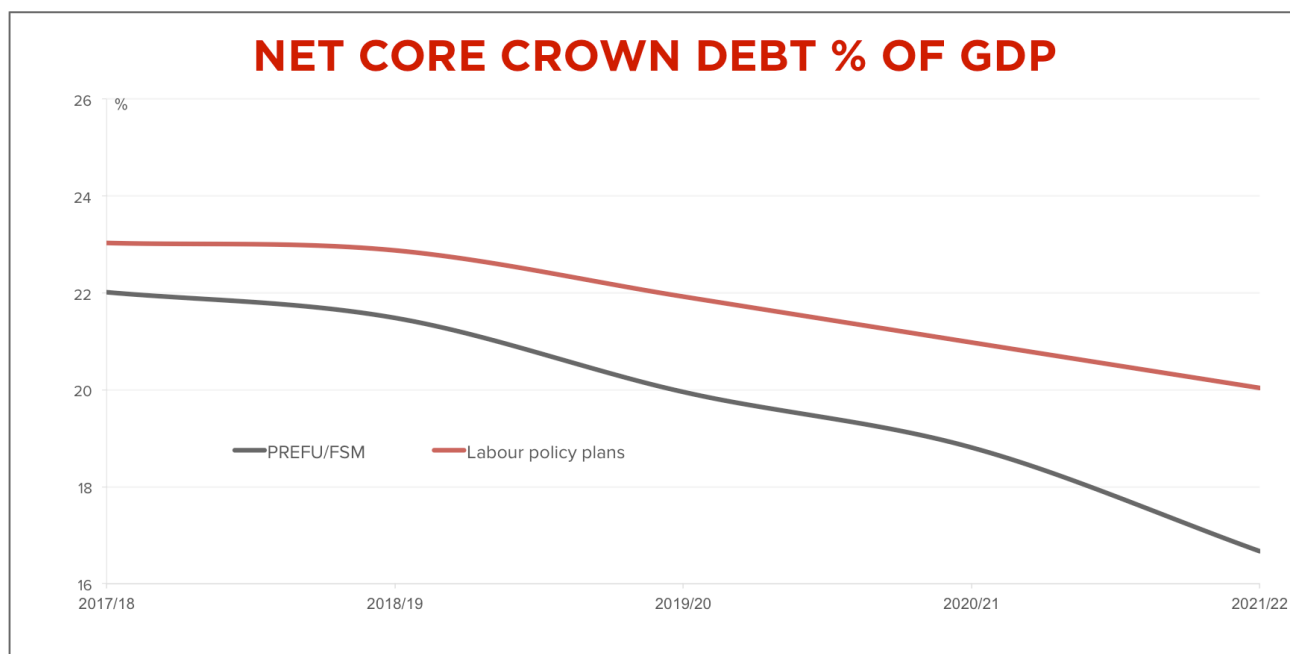
Budget Responsibility Rules

Rule 2: The Government will reduce the level of Net Core Crown Debt to 20% of GDP within five years of taking office.

To give future generations more options, reducing government debt has to be a priority. By setting a target, provided that economic conditions allow, we will be able to make responsible debt reductions and invest in housing and infrastructure that strengthen our country and prepare us for future challenges.

Labour's Fiscal Plan projects that, by running continued surpluses and not undertaking irresponsible tax cuts, Net Core Crown debt will be 20% of GDP in 2021/22, five years after the 2017 election. This will give the Government the fiscal space it needs to make much-needed investments in housing, health, education, and infrastructure. Getting debt down will control the Crown's interest costs of \$10m a day, help to insulate New Zealand against economic shocks, and make greater public service investment sustainable.

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2021/22
Net core Crown debt (\$m)					
PREFU	62,239	63,714	61,978	60,807	56,197
% of GDP	22.0	21.5	20.0	18.8	16.7
Labour policy plans	65,102	67,846	68,087	67,812	67,552
% of GDP	23.0	22.9	21.9	21.0	20.0



To give future generations more options, reducing government debt has to be a priority.

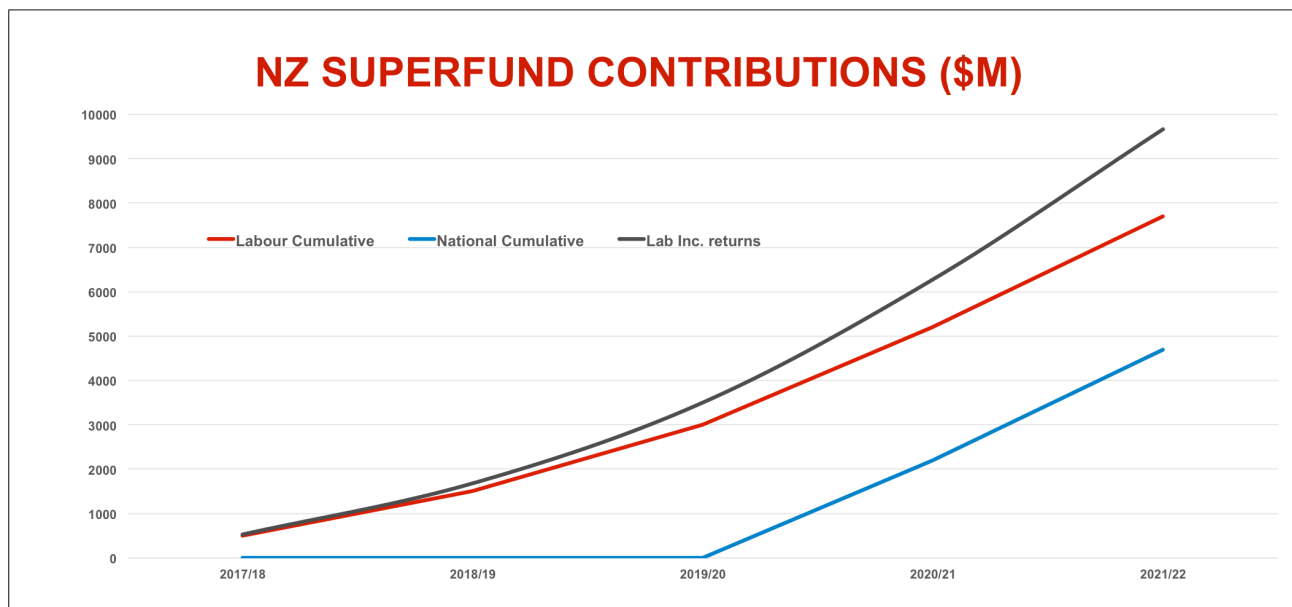
Rule 3: The Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.

The Government will prioritise responsible investments that enhance the long term wellbeing of New Zealanders - such as restarting contributions to the Super Fund. In addition we will invest in infrastructure to support our growing population, and reduce the long term fiscal and economic risks of climate change.

Labour’s Fiscal Plan projects that, by making measured increases to investment in housing, health, education, and infrastructure, while not undertaking irresponsible tax cuts, enough fiscal headroom will be created to restart contributions to the New Zealand Super Fund without compromising on the debt target. Restarting investment in the NZ Super Fund will increase the size of the fund to over \$63bn by 2022/23 and will help to keep superannuation at 65 sustainable.

Labour is also committed to delivering an all gasses, all sectors emissions trading scheme. Any positive revenues generated by this scheme will be used to deliver a just transition to a low carbon economy.

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2022/23
NZS Fund Contributions (\$m)	500	1,000	1,500	2,200	2,500



The Government will prioritise responsible investments that enhance the long term wellbeing of New Zealanders.

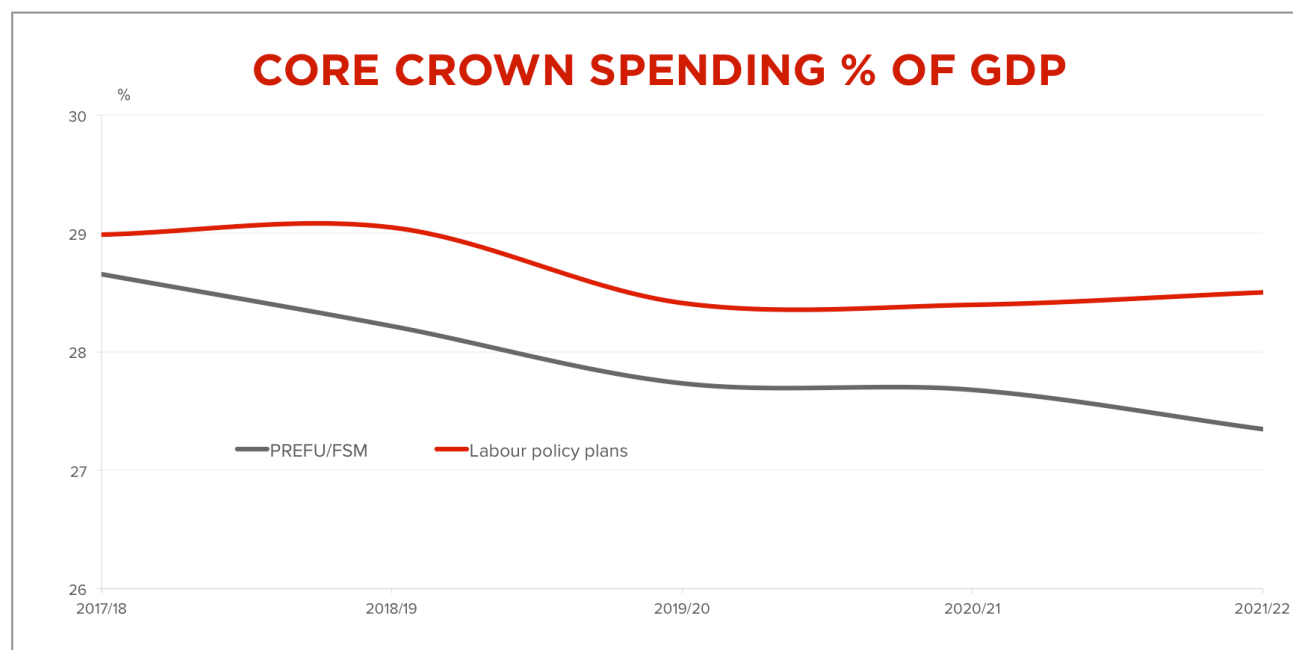
Budget Responsibility Rules

Rule 4: The Government will take a prudent approach to ensure expenditure is phased, controlled, and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio.

During the global financial crisis Core Crown spending rose to 34% of GDP. However, for the last 20 years, Core Crown spending has been around 30% of GDP and we will manage our expenditure carefully to continue this trend.

Labour's Fiscal Plan projects that government spending as a share of the economy will remain stable throughout the forecast period at around 29%. This level of investment is higher than forecast in Budget 2017 and is made possible by not cutting taxes, a slower debt repayment track and some additional revenue measures. Over the forecast period Labour will invest \$8bn more in health, \$6bn more in education, and \$5bn more in income assistance for families (through Working for Families, Best Start, and the Winter Energy Payment) than projected in Budget 2017.

Fiscal year ended June	2017/18	2018/19	2019/20	2020/21	2021/22
Core Crown expenses (\$m)					
PREFU	80,985	83,673	86,121	89,464	92,178
% of GDP	28.7	28.2	27.7	27.7	27.3
Labour policy plans	81,934	86,144	88,227	91,785	96,071
% of GDP	29.0	29.0	28.4	28.4	28.5



For the last 20 years, Core Crown spending has been around 30% of GDP. We will manage our expenditure carefully to continue this trend.

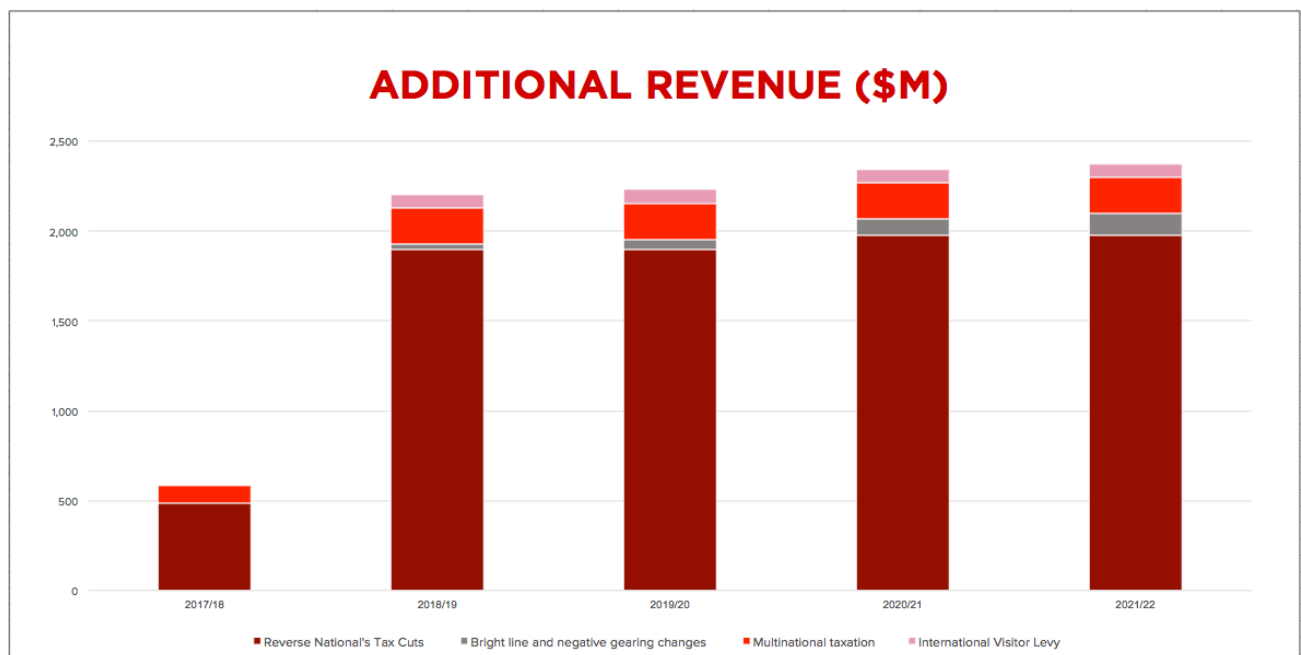
Rule 5: The Government will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

The Government will ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.

Labour’s Fiscal Plan shows that the tax system will become more progressive and favourable to the productive economy. By rejecting tax cuts that would give as much to the top 10% of income earners as the bottom 60%, we have stopped the tax system becoming more regressive. Cracking down on property speculation makes the housing market fairer and moves the incentives towards productive investments. Improving taxation of multinational corporations ensures that they are paying their fair share for the public investments they benefit from.

We will establish a Tax Working Group in government. It will have a mandate to create a better balanced tax system, including between assets, wealth, income and consumption. Labour is committed to delivering a tax system that is fair, simple, and collected.

The figure below sets out the additional sources of revenue that the Labour Government intends to use over the forecast period.



Labour is committed to delivering a tax system that is fair, simple, and collected.

Labour's new investments

Labour Party policy plans (\$m) - additional to PREFU

Fiscal year ending June	2017/18	2018/19	2019/20	2020/21	2021/22
Families Package		1,155	1,156	1,204	1,255
Double refugee quota		25	50	50	52
Other welfare changes		56	56	56	58
Social security and welfare		1,236	1,262	1,310	1,365
Paying back National's underfunding	21	293	293	293	293
Delivering a Modern Health System		554	1,243	2,069	2,864
Health	21	846	1,535	2,361	3,157
Additional student financial support	139	273	274	275	275
Reforms to tertiary education	170	344	353	544	743
Increased funds for 100% qualified ECE centres		33	74	86	86
Careers advisory services		10	20	26	27
Delivering a Modern Education System		95	360	475	843
School Leavers ToolKit		25	50	50	50
Other education changes		106	144	129	134
Education	309	887	1,275	1,585	2,158
Extra police		40	41	42	43
Law and order		40	41	42	43
Extra IRD investigation staff	15	30	31	32	33
Core Government services	15	30	31	32	33
R & D tax credits		100	200	250	300
Regional investment		50	75	75	0
Ready for Work		60	60	60	60
Other changes		20	25	28	28
Economic and industrial services		230	360	413	388
Affordable Housing Authority set up	100	0	0	0	0
Tourism and Conservation Infrastructure Fund		75	75	75	75
Insulation Grants		30	60	90	120
Housing and community development*	100	105	135	165	195
Smaller expenditure commitments	50	150	150	150	150
Additional spending commitments	505	3,418	4,646	5,929	7,354
Additional contribution to NZS Fund	500	1,000	1,500	16	330
KiwiBuild	2,000	0	0	0	0
Additional capital spending commitments	2,500	1,000	1,500	16	330
Additional finance costs	33	146	181	285	470
Reverse National's Tax Cuts	486	1,896	1,895	1,976	1,976
Bright line and negative gearing changes		30	60	90	120
Multinational taxation	100	200	200	200	202
International Visitor Levy		75	75	75	75
Additional revenue	586	2,201	2,230	2,341	2,373
Operating allowance	913	835	879	1,472	3,429

* Not including expenditure delivered by Housing New Zealand Corporation for the delivery of new social housing.



Labour's fiscal forecasts

Labour Party policy plans (\$m)

Fiscal year ending June	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
Revenue Including Labour's changes					
Taxation revenue	78,172	82,858	87,293	91,404	95,756
Other sovereign revenue	5,079	5,422	5,826	6,040	6,390
Total revenue levied through Sovereign power	83,251	88,280	93,119	97,444	102,146
Sales of goods and services	17,523	18,191	18,800	19,202	20,370
Interest revenue and dividends	3,772	3,921	4,142	4,361	4,207
Other revenue	3,780	3,871	3,926	3,975	4,269
Total revenue earned through operations	25,075	25,983	26,868	27,538	28,845
Total revenue (excluding gains)	108,326	114,263	119,987	124,982	130,992
Expenses including Labour's investments (see p.14)					
Social security and welfare	31,796	34,304	35,576	36,864	38,415
Health Expenditure	16,453	17,295	18,016	18,757	19,575
Education	15,093	15,797	16,230	16,757	17,243
Core government services*	5,358	4,685	4,508	4,352	4,486
Law and order	4,435	4,577	4,631	4,673	4,686
Transport and communications	9,778	10,083	10,191	11,120	11,422
Economic and industrial services	8,062	8,733	9,122	9,214	9,629
Defence	2,286	2,351	2,362	2,372	2,372
Heritage, culture and recreation	2,327	2,351	2,356	2,364	2,460
Primary services	1,994	1,987	1,992	2,043	2,105
Housing and community development	2,215	2,130	2,113	2,252	2,357
Environmental protection**	1,025	937	994	996	996
GSF pension expenses	167	213	240	256	247
Other	453	615	610	610	150
Finance costs	4,248	4,274	4,359	4,443	4,882
Operational allowance	913	835	879	1,472	3,429
Top-down expense adjustment	-1,175	-570	-525	-500	-520
Total Crown expenses excluding losses	105,428	110,597	113,657	118,046	123,934
Balances					
Minority interest share of OBEGAL	-392	-421	-460	-476	-463
OBEGAL (excluding minority interests)	2,506	3,245	5,870	6,460	6,594
Net gains/losses on financial instruments	2,770	2,935	3,187	3,440	3,055
Net gains/losses on non-financial instruments	-177	-78	-27	-32	0
Less minority interest share of net gains/losses	-48	-19	-9	-9	-13
Total gains/losses	2,545	2,838	3,151	3,399	3,043
Net surplus/deficit frm associates & joint ventures	206	245	281	299	298
Operating balance (excluding minority interests)	5,257	6,328	9,302	10,158	9,935

*This declines due to the impact of spending on Kaikoura and Canterbury earthquakes

** This declines due to changes in the revenue generated by the Emissions Trading Scheme

Labour Party policy plans (\$m)

Fiscal year ending June	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
Core Crown					
Core Crown revenue	85,139	89,962	94,663	99,001	103,627
Core Crown expenses	81,934	86,144	88,227	91,785	96,071
Net surplus SoEs and Ces	-699	-573	-566	-756	-962
OBE GAL (excluding minority interests)	2,506	3,245	5,870	6,460	6,594
Core Crown cash					
Retained surpluses SoEs, CE s and NZS Fund; and non-cash items and working capital movements	1,955	1,722	1,801	2,243	3,025
Net Core Crown operating cash flow	4,461	4,967	7,671	8,703	9,619
NZS Fund contribution	-500	-1,000	-1,500	-2,200	-2,500
Other capital items	-8,180	-6,602	-6,439	-6,325	-7,053
Net Core Crown capital cash flow	-8,680	-7,602	-7,939	-8,525	-9,553
Core Crown residual cash	-4,219	-2,635	-268	178	66
Core Crown debt					
Opening Core Crown net debt	60,560	65,102	67,846	68,087	67,812
Core Crown residual cash deficit	4,219	2,635	268	-178	-66
Valuation adjustments	323	110	-28	-97	-195
Closing Core Crown net debt	65,102	67,846	68,087	67,812	67,552
as a % of GDP					
Core Crown expenses	29.0	29.0	28.4	28.4	28.5
OBE GAL	0.9	1.1	1.9	2.0	2.0
Closing Core Crown net debt	23.0	22.9	21.9	21.0	20.0
<i>memo item: nominal GDP</i>	<i>282,626</i>	<i>296,548</i>	<i>310,543</i>	<i>323,240</i>	<i>337,085</i>
Net capital expenditure activity					
Net purchase of physical assets	3,676	2,648	2,313	1,980	2,181
Net advances	375	311	108	122	228
Net investments	2,773	2,440	2,073	1,588	1,310
Contribution to NZS Fund	500	1,000	1,500	2,200	2,500
KiwiBuild	2,000	0	0	0	0
Future new capital spending	346	1,353	2,185	2,635	3,612
Top-down capital adjustment	-990	-150	-240	0	-276
Net capital spending*	8,680	7,602	7,939	8,525	9,553

*This table includes \$10.1bn of unallocated capital expenditure over the period. This table also excludes any expenditure associated with any future infrastructure bond financing. The exact way in which this will be accounted for on the balance sheet has yet to be determined.

