

Bulletin Aotearoa 2012 Budget Special

Some Terms & Definitions, and Useful Links

There are some terms that come up frequently in Budget discussion (more are at <http://www.treasury.govt.nz/budget/2012/estimates/est12intro.pdf>). Here are some of the more common and what they mean:

- **appropriation** - an appropriation is a parliamentary authorisation for the Crown or an Office of Parliament to spend money, either as expenses or capital expenditure;
- **vote** - a grouping of one or more appropriations that are the responsibility of one or more Ministers of the Crown and are administered by one department;
- **capital expenditure** - spending on acquiring or developing assets (assets may be physical things, like buildings, or could be non-physical assets, e.g., any ownership interest in bodies - like the Government's shareholding in Air NZ);
- **revenue** - income the Government collects from various sources (e.g., GST, corporate taxes, personal taxes);
- **excise** - a tax levied on certain goods and commodities produced or sold within a country and on licenses granted for certain activities;
- **outputs** - goods or services supplied by departments and other government bodies to others (these come in a variety of shapes, including policy advice, administration of contracts and grants, and providing specific services); and
- **responsible Minister** - the Minister responsible for the financial performance of a department or Crown entity (for the functioning of Parliament, the responsible Minister is deemed to be the Speaker of the House).

Useful Links

The suite of Budget 2012 documents is in the Budgets section of the Treasury website at www.treasury.govt.nz/budget/2012

The Beehive website has all the Ministerial press releases around the Budget, at <http://www.beehive.govt.nz/feature/budget-2012>

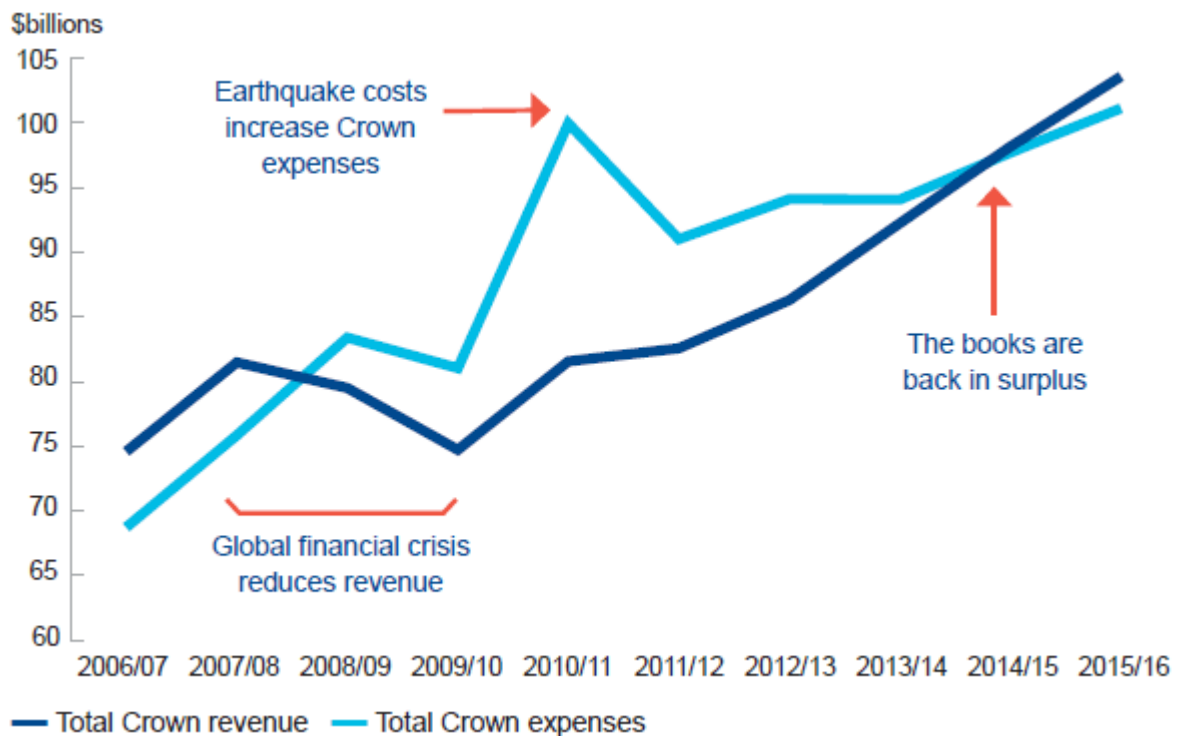
The Scoop website has a big collection of press releases and other responses to the Budget at <http://www.scoop.co.nz/stories/HL1205/S00181/budget-2012-scoop-full-coverage-comment-reports-reaction.htm>

The Big Picture

Budget 2012 is meant to return the country to surplus in 2014/15 (current forecasts predict a small surplus of \$197 million). So, this means running a zero budget (which is when revenue and spending match) for the second consecutive year.

Therefore, a word you will see often in this Budget is “reprioritisation” – which means moving money already being spent from one area to another.

The Government says revenue is expected to grow strongly over coming years, as the economy and therefore the tax revenue pick up, while expense growth will be restrained. The following graph shows what they hope will happen.



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Saving Money & Getting More Revenue

In total, Budget 2012 includes new spending worth \$4.42 billion in the current year and over the next four years, paid for by \$4.39 billion in savings and new revenue schemes. Savings and revenue schemes include:

- tax and excise changes that net an extra \$1.36 billion over four years (see later in this document);
- reprioritising \$1.28 billion to new spending projects within budget votes;
- reprioritising \$982 million of savings from across budget votes into new spending in areas like health, education, welfare reform, and science and innovation; and
- \$772 million from contingencies (contingencies is a government fund in effect “kept aside for a rainy day”).

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Where The Savings Will Come From – At A Glance

Revenue Schemes

Extra revenue of \$1.36 billion over four years, from, for instance (all figures over 4 years):

- increasing tobacco taxes - \$528 million;
- sharpening up IRD's compliance powers by giving them more resources for enforcement - \$423.8 million;
- tightening the tax deductibility rules for mixed-use assets (for example, renting out a bach or boat for a few weeks a year) - \$109 million;
- tightening livestock valuation rules - \$184 million; and
- removing three tax credits - \$117.1 million.

Student Loans

Savings (over 4 years) from:

- increasing the student loan repayment rate from 10% to 12% - \$184.2 million;
- repealing the student loan voluntary repayment scheme - \$43.5 million;
- holding the student allowance parental income limit at its current level for four years - \$12.7 million; and
- removing student allowance eligibility for more than four years of study - \$33 million.

Welfare reform

Reprioritising \$193.5 million in Vote Social Development to help fund the Welfare Reform package. Projected savings include:

- reprioritising the Youth Transition Services for Youth Services - \$58.8 million; and
- changes to Work and Income employment assistance - \$96.4 million.

Education

Savings (over 4 years) from:

- using contingency (emergency) funding from previous budgets - \$274.9 million; and
- bigger classes - \$173.9 million.

Housing

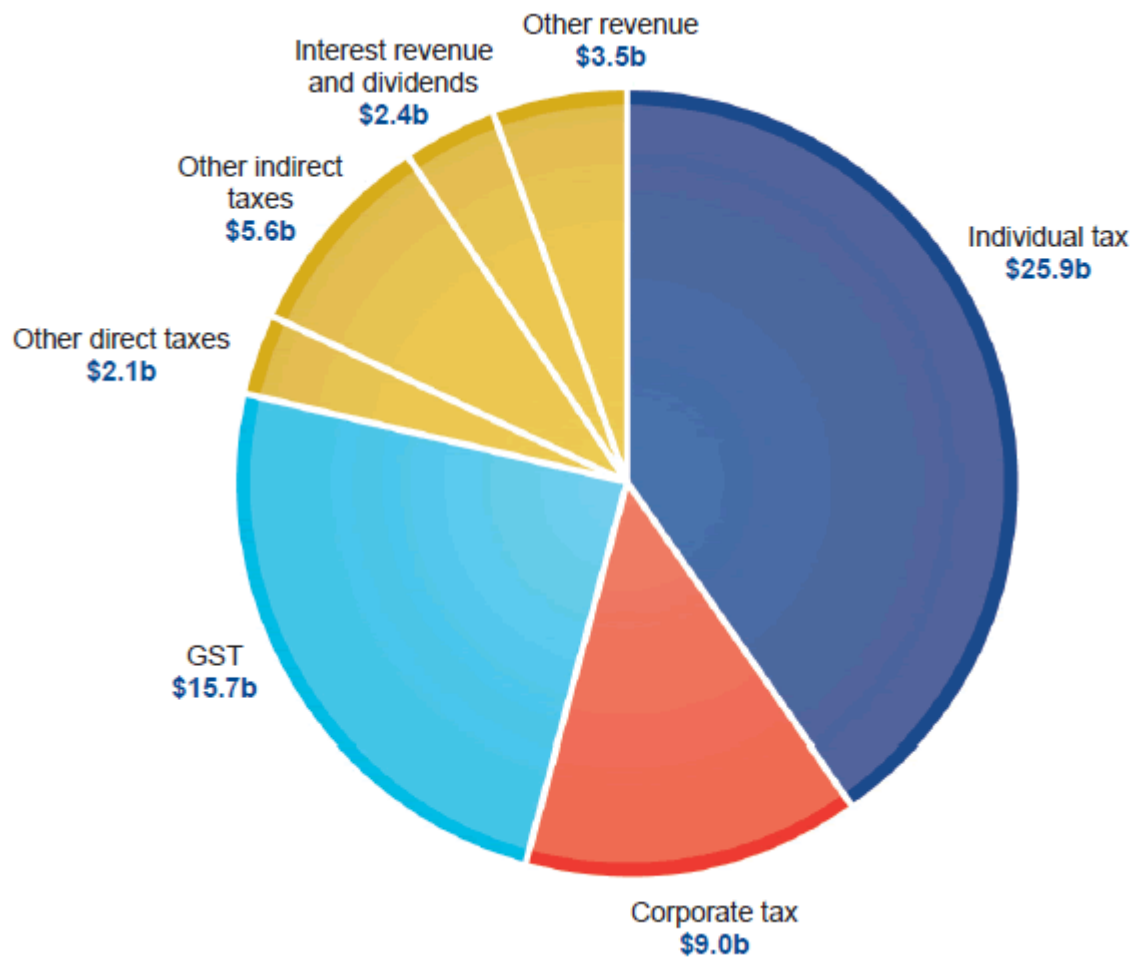
Reprioritising \$123.1 million funding into other priorities within Housing. Savings expected to come from:

- Housing NZ efficiency savings (\$70 million over five years);
- Weathertight Services under-spending (\$34 million in the current year); and
- changes to the Welcome Home Loans Mortgage Insurance Scheme (\$19.1 million over five years).

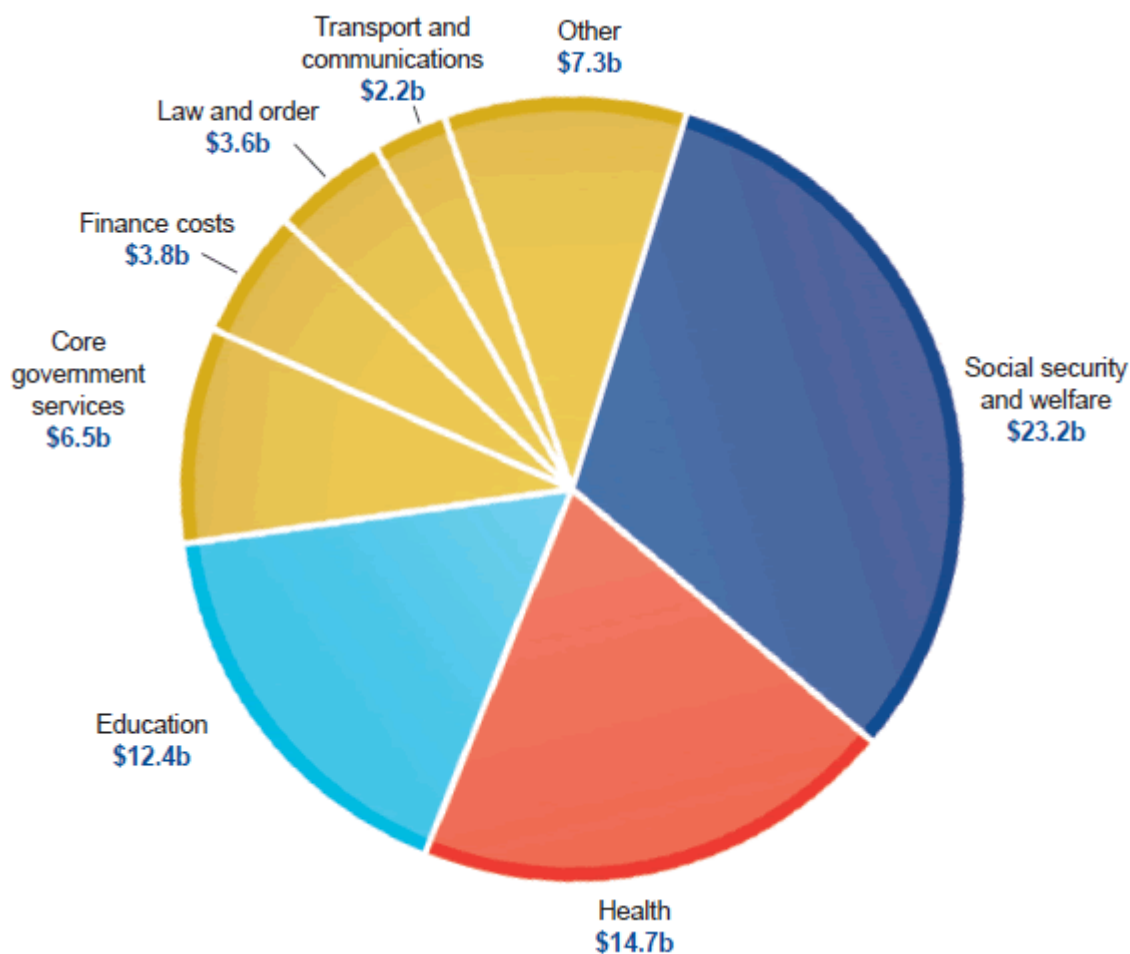
More is at <http://www.beehive.govt.nz/release/budget-frees-44-billion-higher-priorities>

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Where the Money Comes From: Core Crown revenue, 2012/13 (\$64.2 billion)



Where The Money Will Go: Core Crown expenses, 2012/13 (\$73.7 billion)



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Key Points

Boost for Science & Innovation

The science and innovation sector gets a funding boost of \$326 million over 4 years. The main points:

- an extra \$166 million extra over four years (operating and capital) to turn Wellington's Industrial Research Crown Research Institute (CRI) into a business-facing "Advanced Technology Institute" (ATI) – which will also have expanded branches in Auckland and Christchurch;
- \$60 million extra over four years for National Science Challenges, to find new solutions to some of the most basic issues NZ faces (operated through the Ministry of Science and Innovation);
- \$100 million extra over four years to increase the Performance-Based Research Fund, to support research in this country's universities (of that only \$6.3 million is earmarked for the upcoming fiscal year); and
- \$59 million extra over four years to boost funding for science and engineering tertiary courses.

More is at <http://www.beehive.govt.nz/release/326m-boost-science-innovation-and-research>

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Future Investment Fund

A new Future Investment Fund is being set up. This will invest proceeds from the partial sale of shares in four SOEs and Air NZ in new taxpayer assets (see below) over the next few Budgets. In the 2012/2013 year proceeds from the part-sale of MightyRiverPower later on in the year (about \$560 million) will be spent on the following main items:

- \$88.1 million for the health sector, most of which will go towards hospital redevelopments;
- \$250 million for the third year of KiwiRail's turnaround plan;
- \$76 million for the capital costs of setting up the Advanced Technology Institute (AIT) – a multi-campus facility made from the Industrial Research crown research institute (AIT will also get operational funding of \$90 million over the next 4 years); and
- \$34 million to fit out schools for ultrafast broadband – more is at <http://www.beehive.govt.nz/release/first-investment-develop-21st-century-schools>

More is at <http://www.beehive.govt.nz/release/future-investment-fund-modern-infrastructure>

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KiwiSaver

Last year's Budget saw several changes to KiwiSaver with aimed at lifting national savings, including raising the minimum level of employee/employer contributions to 3% from 1 April 2013. Measures outlined in the 2012 Budget include:

- new rules requiring all KiwiSaver fund managers to report their performance and returns, fees and costs, and other key information in a standardised layout on their websites, enabling investors to make direct performance comparisons between different funds;
- the Government is reviewing the rules and arrangements of KiwiSaver default providers (there are currently six default providers and investors are assigned to one of them if they do not choose a fund). Terms of reference for the KiwiSaver default provider review have just been issued, and a discussion paper will come out later this year; and
- deferring automatic enrolment of all workers who are not already in KiwiSaver (this was originally planned for 2014/15), along with consultation on the change. The Government has said this will go ahead when there is enough surplus to meet the forecast cost of up to \$514 million over four years.

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IRD Tax Compliance: More Resources for Enforcement

Inland Revenue will get an extra \$78.4 million over the next four years to bolster its successful tax compliance work, to make sure it gets all the tax it is owed (in Budget 2010 IRD got \$119.3 million to strengthen its compliance and debt activities).

More is at <http://www.beehive.govt.nz/release/more-money-successful-tax-compliance>

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Excise Taxes Increasing

Increases are:

- **tobacco excise** - this will increase by 10% on 1 January each year for the next four years - taking the average price of a pack of 20 cigarettes to more than \$20. This increase comes on top of the existing yearly inflation-indexed tobacco tax increases. More is at <http://www.beehive.govt.nz/release/tobacco-excise-rise-part-wider-programme>;
- **petrol excise rate** - the petrol excise and excise-equivalent rates will increase by two cents per litre on 1 August 2012; and
- **road user charges** - road user charges will increase on 1 August 2012 in line with the increase in the fuel excise rate.

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Livestock Valuation Rules

Changes have been made to livestock valuation rules to prevent farmers who change valuation schemes from receiving an unintended tax break. In March, the Government announced farmers would not be allowed to move from the "herd scheme" to the alternative "national standard cost scheme", except in narrow circumstances, effective from 18 August 2011. Budget legislation will put that into law.

More is at <http://www.beehive.govt.nz/release/budget-changes-raise-revenue-increase-fairness>

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Wages Earned by Children: Tax Credit Gone

School-aged children will no longer get a tax refund for wages earned for part-time work. Under the changes, young people who earned cash-in-hand, e.g., for babysitting or lawn-mowing, will not have to file a tax return at the end of the year. But children earning under \$2340 who paid tax to their employers can no longer claim it back at the end of the year. The changes to children's tax credits will take place in the 2012/13 tax year (earnings during the 2011/13 tax year are not affected).

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Rented Assets: Tax Deductions & Changes

The Budget closes loopholes that allow costs of holiday homes, boats and even aircraft to be deducted from tax if they are also rented out for income. Changes mean that, for example, if a bach is rented out for 30 days and the owner uses it for 30 days in a year, just 50% of the costs can be deducted from tax - rather than the current 90%.

More is at <http://www.beehive.govt.nz/release/budget-changes-raise-revenue-increase-fairness>

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Income Under \$9,880: Tax Credit Removed

The income-under-\$9,880 tax credit was introduced as part of a 1986 tax reform package to ensure that low-paid, fulltime workers were not made worse off due to the tax reforms. The Government says it is no longer needed.

More is at <http://www.beehive.govt.nz/release/budget-changes-raise-revenue-increase-fairness>

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Childcare and Housekeeper Tax Credit Removed

The tax credit for childcare and housekeepers expenses has existed in some form since 1933. The amount of the credit was last updated for the 1984-85 tax year. The Government says it has largely been superseded by other policies.

More is at <http://www.beehive.govt.nz/release/budget-changes-raise-revenue-increase-fairness>

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Specific Sectors

Note: more details on education, health and social welfare reform are to be found in the pre-Budget Announcements section below.

Education

New Stuff

New projects in Vote Education gets \$235.6 million over the next four years include:

- \$59.8 million to support the development of teachers and principals;
- \$82.6 million to increase schools' operations grants;
- \$33.8 million capital funding in 2012/13 and \$16.8 million operating funding over the next four years to expand schools' internal ICT infrastructure;
- \$59.4 million over the next four years for operational funding which includes:
 - \$4.2 million for assistive technology for learners with special education needs;
 - \$15 million to put in place Positive Behaviour for Learning in 2012/13;
 - \$4 million for more parenting programmes and relationship education in schools;
 - \$15.4 million operating funding for the Prime Minister's youth mental health projects;
 - \$8.5 million to fit achievement standards to Te Marautanga o Aotearoa (the curriculum for Maori medium schools); and
 - \$3.1 million for extra staffing for composite schools (these combine different years and education levels).

More is at <http://www.beehive.govt.nz/release/5119m-more-deliver-better-results-students>

Early Childhood Education (ECE)

There will be no increase in current subsidies for most child care centres (in past years, the subsidy has gone up in line with inflation). However, a total of \$110.9 million over four years is to be spent in the following ways:

- \$47.9 million for centres that support children and communities where participation is low,
- \$43.9 million for extra subsidies for solo parents affected by welfare reforms, and
- \$19.1 million for Maori immersion such as kohanga reo.

More is at <http://www.beehive.govt.nz/release/1109m-increase-early-childhood-participation>

Broadband for Schools

Some \$8 million in 2012/13 is being spent to help schools connect to the ultra-fast broadband (UFB) network. Total funding for this project is \$17.8 million over the next three years and \$11.5 million in 2011/12.

More is at <http://www.beehive.govt.nz/release/hundreds-schools-benefit-broadband>

Maori Cadets Scheme

A total of \$10 million is allocated to the Maori cadetship programme over the next four years for 250 young Maori cadets a year to get paid jobs and training opportunities for at least six months.

More is at <http://www.beehive.govt.nz/release/cadetships-focus-m%C4%81ori-affairs>

Te Reo Schools Keep Small Classes

Kura kaupapa and wharekura (Maori immersion schools) will not be subject to the cap on teacher numbers that will increase class sizes for other schools.

More is at http://www.nzherald.co.nz/budget-2012/news/article.cfm?c_id=1503257&objectid=10808336

Education Programme

Education gets \$7.6 million over the next four years for an education programme that gives schools and children a hands-on approach to looking after the environment. Enviroschools and Te Aho Tu Roa (the Maori immersion approach) encourage children, their schools and their families to think and act sustainably – at school, at home and in everyday life.

More is at <http://www.beehive.govt.nz/release/budget-2012-environmental-programme-benefits-schools>

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Health

Budget 2012 provides an extra \$1.5 billion for public health services over the next four years. This includes \$435 million for new projects and increasing costs in 2012/13 - made up of \$358 million in new money for health, \$47 million of savings and under-spends, and \$30 million by using generic drugs instead of patented drugs.

The extra funding over four years includes:

- \$33 million for cancer treatment, including dedicated cancer nurses to support patients through the course of their treatment – more is at <http://www.beehive.govt.nz/release/33m-more-improved-cancer-services>;
- \$16 million to speed up diagnostic tests for patients – more is at <http://www.beehive.govt.nz/release/68m-more-operations-scans-and-tests>;
- \$48 million for more and faster elective surgery – more is at <http://www.beehive.govt.nz/release/68m-more-operations-scans-and-tests>;
- \$20.5 million for maternity services and to boost PlunketLine and WellChild services;
- \$133 million to improve services and access for people with disabilities;
- \$28 million to provide free after-hours doctors' visits for under-sixes;
- \$12 million to provide more support services for older people;
- \$40 million for increased dementia services; and
- \$6 million for a new Pacific Innovation Fund to support Pasifika models of care. More is at <http://www.beehive.govt.nz/release/fund-improve-health-pasifika-communities>.

More is at <http://www.beehive.govt.nz/release/health-receives-largest-increase-spending>

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Housing

Key points include:

- **grants to non-government housing bodies** - these have been cut from \$37.4 million last year to \$34 million in the coming year and an average of \$35 million a year over the following two years. An extra \$37.6 million has been allocated for increased rental subsidies for state house tenants (fixed at 25% of tenants' income) reflecting a widening gap between market rents and Housing NZ rents. More is at http://www.nzherald.co.nz/budget-2012/news/article.cfm?c_id=1503257&objectid=10808330;
- **Welcome Home loan scheme** - funding for this scheme, which underwrites loans up to \$350,000 to borrowers on household incomes below \$85,000 a year, drops from \$7.8 million to \$4.3 million as rising house prices and incomes reduce the number of potential borrowers. More is at http://www.nzherald.co.nz/budget-2012/news/article.cfm?c_id=1503257&objectid=10808330;
- **more homes are to be insulated** - the Warm Up New Zealand: Heat Smart programme has been extended by 41,000 homes to a total of 230,000 homes. More is at <http://www.beehive.govt.nz/release/thousands-more-nz-homes-be-insulated>; and
- **new capital for Housing NZ to buy, build and modernise state houses** - this drops from \$12.6 million to \$10 million. More is at http://www.nzherald.co.nz/budget-2012/news/article.cfm?c_id=1503257&objectid=10808330.

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Justice

The total annual operating budget for the justice sector, covering Votes Attorney-General, Corrections, Courts, Justice, Police, and Serious Fraud Office, is \$3.8 billion. This is not a big difference over previous years.

What is changing is the ways in which that money can be spent. It's planned to set up a new cross-agency funding pool called the Justice Sector Fund. This "megafund" will allow money saved in one justice sector agency to be used in another. It also allows money to be transferred between Votes – up to now, allocated money could only be spent within one vote. As well as allowing savings to be transferred between agencies, the fund means savings can be moved across years. This is the first time a funding pool of this kind has been used in the public sector.

More is at <http://www.beehive.govt.nz/release/justice-sector-funding-pool-better-results>

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Other Announcements

These include:

- **bus concessions** - Supergold card holders will benefit with an extra \$3.7 million earmarked for public transport concessions;
- **changes to asset limit** - the yearly asset-limit increase for eligibility for an aged residential care entitlement is being slowed down. Currently the asset limit is \$210,000 and increases by \$10,000 each July. But the asset limit will now be indexed to inflation. More is at <http://www.scoop.co.nz/stories/PO1205/S00396/change-in-asset-threshold-necessary.htm>;
- **government spooks** - the Government Communication Security Bureau's budget has been increased by more than \$6 million to \$63.6 million, but the Security Intelligence service (SIS) will have to cut its budget by 4.3 million to \$36.8 million;
- **overseas aid cut** - overseas aid has been cut by \$133 million over the next 3 years;
- **visitor centre for Government House** - \$500,000 for a new Diamond Jubilee Visitor Centre at the House;

- **paperless Cabinet papers** - \$2.6 million for the setting up of a “secure shared electronic platform” for cabinet papers. The move comes after the leaking of several cabinet papers, including documents about restructuring plans at the Foreign Affairs Ministry;
- **SAS top-up** - the budget for special operations forces (which includes the SAS regiment) will rise from \$76.7 million to \$88.2 million; and
- **statistics boost** - the Department of Statistics was one department that got a big boost; rising almost 50 percent to \$163 million. That rise was done to \$53 million of funding for the 2013 Census.

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Pre-Budget Announcements

Education

Teachers: Recruitment and Training, Qualifications & Appraisal, Teacher-to-Student Ratios

Key points include:

- an extra \$511.9 million over the next four years is being spent on new schemes;
- an extra \$60 million over the next four years will be going to new teacher recruitment and training;
- a post-graduate qualification will be introduced as a minimum for all trainee teachers, and a new pre-principalship qualification will be introduced;
- an appraisal system is to be developed to improve teaching performance and quality professional leadership (performance pay is one of a number of options being considered); and
- the teacher/student ratios (a funding formula that sets how schools are funded) are to be changed in the mid-years of a child's education. Ratios will remain as they are for new entrants at 1:15, and for students sitting NCEA in years 11-13, will be standardised at 1:17.3. In the middle years, 2-10, the ratio will be standardised to 1:27.5.

More, including a paper called “Raising Achievement in Budget 2012” is at <http://www.beehive.govt.nz/release/budget-2012-extra-5119-million-education>

Student Loans

Graduates and ex-students will have to pay off their student loans faster. The repayment rate by 2c in the dollar will increase from 10c to 12c for each dollar of income above \$19,084 per annum. In addition, the voluntary repayment bonus is being cancelled.

The parental income limit is likely to be frozen for the next four years at its current rate. More effort will be put into ensuring the current limit of 200 weeks access to student allowances is consistently applied, and that the allowance will be paid in the early years of study. In practice this means removing access for Masters and PhD students and for long courses beyond the first 200 weeks of study (these students will continue to have access to interest-free loans).

The following shows the impact of the student loan repayment rate increasing to 12c in the dollar from 1 April 2013:

Gross annual income	Weekly repayments at 10 cents	Weekly repayments at 12 cents	Increase per week
\$25,000	\$11.38	\$13.65	\$2.27
\$38,000	\$36.37	\$43.65	\$7.28
\$48,000	\$55.60	\$66.72	\$11.12
\$70,000	\$97.91	\$117.49	\$19.58

Source: *Inland Revenue*, 22 May 2012

More is at <http://beehive.govt.nz/speech/speech-notes-investing-tertiary-education-budget-2012>

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Health

Rheumatic Fever Campaign

A \$24 million five-year campaign (\$12 million of additional funding), targets 35,000 at risk children in seven regions, to reduce rheumatic fever in NZ (a disease commonly found in developing countries).

More is at <http://beehive.govt.nz/release/budget-2012-taking-rheumatic-fever>

Higher Prescription Charges

The current \$3 prescription charge will rise to \$5 per item up to a maximum of 20 items (after which items will be free) from 1 January 2013. There will continue to be no charge for the under-sixes.

More is at <http://beehive.govt.nz/release/budget-2012-prescription-charges-help-fund-health>

Surgery, Cancer Services

\$101 million of extra funding over the next four years goes to fund more elective operations and scans, and improved cancer services.

More is at <http://beehive.govt.nz/release/budget-2012-101m-surgery-cancer-services>

Disability Support

Some \$143.7 million (\$132.7 million in new investment and \$11.0 million in savings) will be spent over the next four years to improve the lives of people with disabilities. Projects to be funded (all but one for the next 4 years) include:

- \$54.7 million for more home and community support services, such as help with showering, getting dressed, preparing a meal, and house work;
- \$20.7 million for more help with supports like hearing aids, hoists and wheelchair access;
- \$57.6 million for the increasing numbers of disabled people using residential support services;
- \$9.4 million to give more people greater choice and control of the services they receive; and
- \$1.3 million one-off funding for additional cochlear implants and follow-up services for adults and children in 2012/13.

More is at <http://www.beehive.govt.nz/release/budget-2012-144m-more-disability-support>

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Social Welfare

Welfare Reforms

These get \$287.5 million over the next four years for setting up the reforms, which are aimed at getting more NZers into work. This money includes \$81.5 million of additional up-front funding, with the remainder being reprioritised funding from within Social Development. Spending will include:

- \$80 million over four years for early childhood education childcare and the guaranteed childcare assistance payment;
- \$55.1 million over four years for 155 dedicated WINZ staff to support jobseekers and sole parents into work; and
- \$148.8 million* over four years for youth services including wrap-around support.

*This includes \$77.6 million to support 16- and 17-year olds, move into education or training, and 134.7 million for youth service providers.

More is at <http://beehive.govt.nz/release/budget-2012-extra-funding-welfare-reforms>

Cheers, Craig and Paddy

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