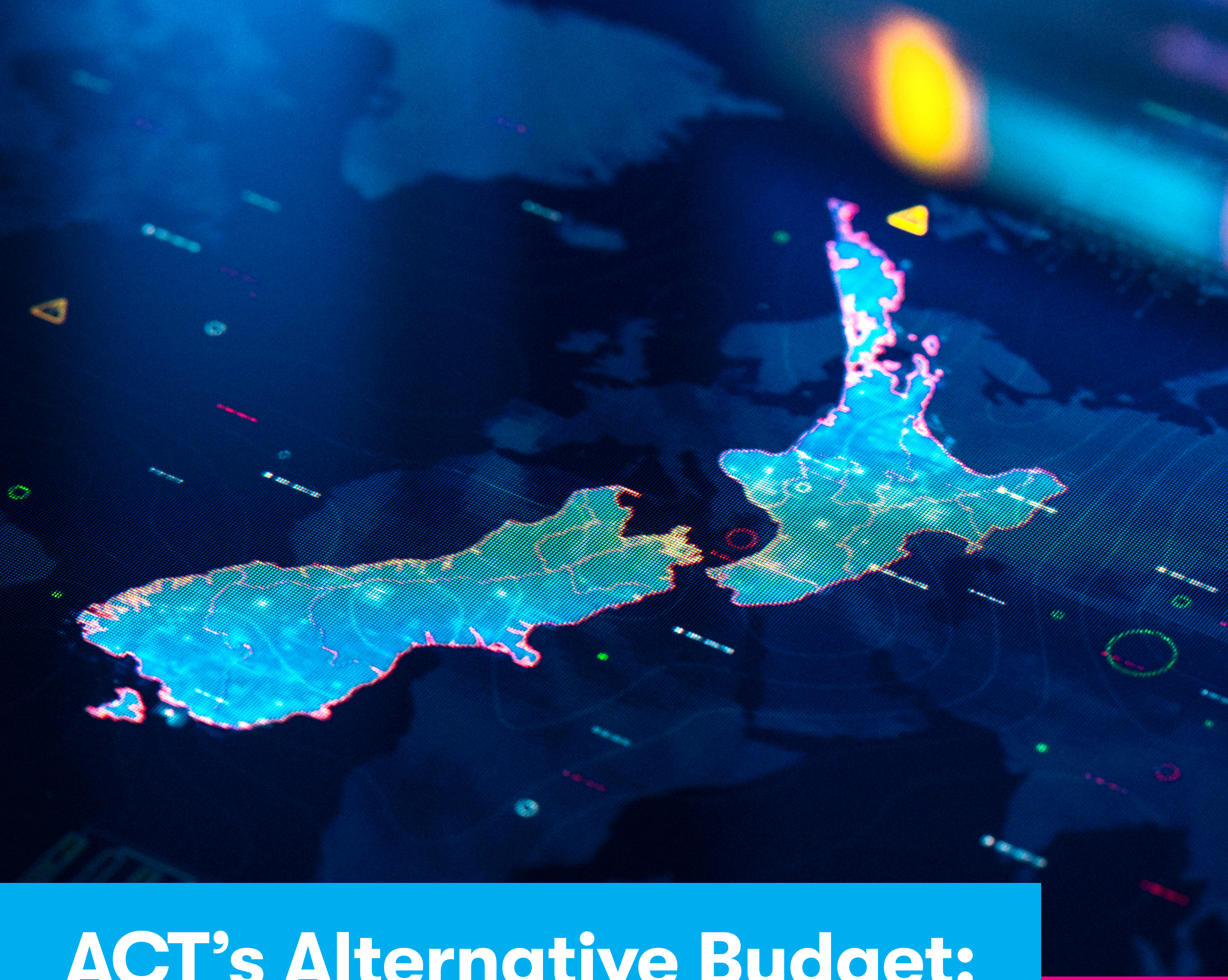

ACT's Alternative Budget:

End the waste, fix the economy

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Introduction

New Zealand is in deep economic trouble. Economic growth has all but stalled, the government's books are in deep red for the foreseeable future, there is deep dissatisfaction with public services, while the cost of living is the number one concern of households. This is on top of a long term problem of weak productivity growth.

Grant Robertson has left the cupboard bare. He has gone from spending $80 billion a year to spending $139 billion a year. Spending by 2026 is forecast to be $11 billion higher than was forecast just last year. Despite this, he has not achieved the required results.

It's in this environment that the next Government, whomever it is, will need to operate. There is very little room for any future Finance Minister to move, and tough decisions will be required.

More spending means far more borrowing. Net debt is forecast to reach $100 billion by 2025 under the new measure, and $190 billion under the old measure (which excludes the NZ Super Fund). More debt means more interest. The interest bill is forecast to be $9.2 billion by 2026. The Government will spend more to pay the interest on its debt than on primary and secondary school education, and twice as much as on the police, courts and corrections combined.

In the past 18 months, 2026 forecasts for Crown debt have worsened by $34 billion. OBEGAL is around $10 billion per year worse off than it was forecast at the 2022 Budget. We make that comparison because the past 18 months can hardly be blamed on COVID-19 when the borders were open and first booster program were complete at that time.

Spending per person, after inflation, is up 30 per cent. But no one is getting 30 per cent more value from government services.

Meanwhile, productivity and economic growth are dire. Total GDP growth might be just in positive territory, but that's not what matters for individual wellbeing. Real GDP per capita growth (i.e. economic output per person, adjusted for inflation) is what matters. It is the best measure of whether output, incomes, and wellbeing per person are growing.

If total GDP is growing at just over 1% and population growth is 2% then GDP per capita is declining. At an individual level, we are in recession. Indeed, Treasury forecasts that in 2024 real GDP per capita will be -0.7% and in 2025 just 0.6%. New Zealanders are literally getting poorer.

Now is not the time for big spending promises or significant tax cuts. It *is* time to end the waste and fix the economy.

ACT's Alternative Budget is the most realistic and responsible economic plan. There won't be any frills or fireworks.

This Alternative Budget cuts wasteful spending on corporate and middle class welfare. It abolishes government departments that cater to only one kind of identity, whether sex or race, and returns the size of the public service to 2017 levels. It puts superannuation on a more sustainable path by gradually increasing the age of entitlement starting in 2025. In total, it cuts $25.5 billion in spending over four years.

The benefits are directed into new spending of $12.2 billion on frontline services - including for teachers, doctors, prison capacity, council infrastructure for new homes, and defence - and debt reduction. ACT's Alternative Budget maintains real per capita spending on health and education at current levels.

ACT delivers modest income tax cuts of $16 billion over four years beginning with $2.9 billion in year one, rising to $5 billion in 2027. Under ACT's alternative budget, every earner would be at least a few hundred dollars per year better off. These very modest changes, where nobody is worse off, reflect the challenging circumstances Grant Robertson has left New Zealand in. We immediately reintroduce the ability for residential landlords to deduct interest and abolish the bright line test.

David Seymour
ACT Leader

Headline Figures

Under ACT's Alternative Budget, the operating deficits in 2023/24, 2024/25 and 2025/26 are smaller, and the surplus in 2026/27 is larger, than expected under Labour's plans. This stronger negative fiscal impulse will help to bring inflation down. Savings due to reductions in spending can be returned to taxpayers in the form of modest tax cuts. Some money is also available to fund new spending in areas that are the core responsibilities of government: healthcare, education, infrastructure, law and order, and defence. Net core Crown debt (under the preferable old definition) will be lower under ACT in each year in the forecast period.

Tax Changes

A More Competitive Income Tax System

ACT's Alternative Budget would move New Zealand to a more competitive tax system that encourages work, savings, and investment. By 2026/27, we will have flattened and simplified the income tax system, with three rates instead of five, and a top rate of a 33%.

<table>
<tr><th>Up to</th><th>Labour</th><th>2023/24</th><th>2024/25</th><th>2025/26</th><th>2026/27</th></tr>
<tr><td>14,000</td><td>10.50%</td><td colspan="4" rowspan="3">17.5%</td></tr>
<tr><td>48,000</td><td>17.50%</td></tr>
<tr><td>60,000</td><td rowspan="2">30%</td></tr>
<tr><td>70,000</td><td colspan="4">30%</td></tr>
<tr><td>180,000</td><td>33%</td><td colspan="2">33%</td><td colspan="2">30%</td></tr>
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Carbon Tax Refund

ACT's Alternative Budget will return the Government's revenues from the Emissions Trading Scheme to New Zealanders through a simple per-person tax refund. This will allow Kiwi families to adapt to higher carbon prices and enhance the credibility of the Emissions Trading Scheme. Based on Treasury's forecasts for ETS revenues, per-person tax refunds would be as follows. Note that the annual Refund amount reduces over four years on current forecasts, if these forecasts turn out to be correct, then people will be paying less than half as much on their energy and other needs. Either way, they will be better off by roughly the initial amount each year.

	2023/24	2024/25	2025/26	2026/27
Per-person refund	$243	$140	$119	$98

Low and Middle Income Tax Credit

To offset the costs of a higher bottom rate for low-and-middle income households, ACT's Alternative Budget would introduce a new tax credit for those on low and middle incomes. This tax offset, together with the Carbon Tax Refund, ensures that no household pays more tax.

Abolish the Bright-Line Test

ACT's Alternative Budget will abolish the bright-line test on profits from the sale of residential properties. The bright-line test is a cross-party stealth capital gains tax. It makes it harder for houses to go to those who value them most and makes it more difficult for people to plan their lives. ACT would abolish not just the Government's increases to the test, but the test itself. The IRD will continue to tax profits on land speculation through its traditional tests.

Reverse the Government's Interest Deductibility Changes

ACT's Alternative Budget will reverse the distortion introduced by the Government's changes to interest deductibility for residential landlords. This will ease the pressure on rents and simplify the tax code.

Abolish the NZ Income Insurance Scheme

We will reverse the introduction of an unnecessary Income Insurance Scheme and abolish the resulting tax on employment.

New Operating Expenditure

Prison Capacity Increase

ACT's Alternative Budget will invest in increasing the capacity of the adult prison system back to its 2017 levels. Each year, the Department of Corrections will be resourced to incarcerate a further 524 prisoners up to a total capacity increase of 2094 by 2026/27. Offsetting the cost of these new prisoners will be a slight reduction in spending on community-based sentences as the relevant offenders will now be in prison.

Young Offenders Initiative

Under ACT's Young Offenders Initiative, the management of young offenders will be moved to the Department of Corrections, who will be resourced to provide 200 youth justice beds. The existing c.160 beds provided by Oranga Tamariki for youth offenders, as well as approximately $25 million a year in funding, will be freed up for the care and protection of children in state care.

GP Capitation Boost

Following a report commissioned by the Health Transition Unit which found that the GP sector was losing more than $100 million a year in aggregate, ACT's Alternative Budget will increase the capitation grants paid to GPs for every patient under their care by approximately 13%. This will allow GPs to continue to offer high-quality care to their local communities and relieve pressure on state hospitals providing secondary and tertiary care.

Teaching Excellence Reward Fund

ACT's long-standing policy to spend $250 million a year on rewarding and incentivising New Zealand's very best teachers is provided for in this Alternative Budget. Principals will be permitted to distribute these rewards as they see fit to those teachers who make the greatest contribution to their students' education.

50% GST Sharing for Construction of New Homes

ACT's Alternative Budget provides for a significant increase in local government funding, based on sharing half of the GST revenue from the construction of new residential dwellings with the local government that consented them. This will allow councils to invest in the necessary infrastructure to absorb this growth and incentivise them to approve the construction of more housing. This will be partially funded out of the existing appropriation for the Housing Acceleration Fund, with the remainder coming as new spending.

Increase in Operating Defence Spending

ACT would ensure that New Zealand did its part in defending our allies, our values, and ourselves in today's increasingly volatile strategic environment. Under the ACT Alternative Budget, defence operating and capital spending will increase until, according to the NATO definition of military spending, we reach the 1.5% of GDP benchmark. ACT's long-term target for defence spending is 2% of GDP in 2030. This is the target to which all of our traditional allies (including Australia) are committed and would demonstrate the seriousness with which we take our defence obligations. Early operating spending increases will be focused on improving the pay and conditions of NZDF personnel to assist with recruitment and retention.

Operating Savings

Return Public Service to 2017 Headcount and Index Pay to Inflation

ACT would shrink the core Public Service back to its 2017 headcount. This does not include the Department of Corrections and Oranga Tamariki.

Public Transport

Public transport fares are increased back to their target of 50% farebox recovery ratio, as was the practice under the last government.

Healthy Schools Lunch Programme

ACT would abolish the Healthy Schools Lunch Programme. Treasury has found that up to 10,000 lunches are wasted each day. It also found no evidence the programme was improving attendance or benefiting Māori, who make up half students in the programme.

Gradually Increase Superannuation Age

ACT would gradually increase the NZ Super age to 67, at a rate of 3 months per year from fiscal year 2024/25. Once the age reached 67, it would be indexed to life expectancy, ensuring that each generation was entitled to the same proportion of their life on the pension as previous generations.

This ensures the sustainability of the pension over time, as New Zealanders live longer and healthier lives.

In tandem with this change, ACT would also de-link the KiwiSaver withdrawal age from the Superannuation age. Thus, KiwiSaver participants would still be entitled to withdraw their funds at 65, no matter what changes were made to NZ Super.

The cost savings from this change are expressed net of the expected increase in benefit spending.

Abolish the NZ Income Insurance Scheme

See above.

Abolish Wasteful Environmental Expenditure

The following programmes will be abolished:

- Climate Emergency Response Fund spending
- Energy Efficiency and Conservation Authority
- Climate Change Commission
- Clean Car Discount

• Climate Change Chief Executives Board
• Industrial energy efficiency and fuel switching
• Forestry Programme.

Many of these line items achieve zero environmental benefits, because any CO_2 emissions they prevent merely frees up ETS units for use by other emitters. Even those items which do achieve environmental benefits often do so at extraordinary cost.

Abolish Middle-Class Welfare Spending

These line items are largely 'tax churn', where taxes raised from upper and middle income New Zealanders are returned to them in the form of poorly-targeted social spending, in the process undermining the incentive to work and distorting spending decisions. Better, in ACT's view, to cut taxes and allow New Zealanders to spend their money in the way they see fit. Specific programmes altered are as follows:

• Fees-Free
• Target Kiw isaver Subsidies
• Target the Winter Energy Payment
• Retain prescription charges
• Return to 50% farebox collection for public transport.

Fees-Free

This programme has had a minor impact on tertiary enrolments at best. Most of the benefits go to the children of middle or upper-income New Zealanders attending expensive university courses. The student loan scheme provides sufficient support to cover already-subsidised university fees.

KiwiSaver Subsidies

Members of KiwiSaver will be eligible for a subsidy of up to $521.43, based on the same 0.5:1 match ratio used now. However, the subsidy will be capped at 5% of a participant's taxable income. The maximum subsidy amount will reduce by 3% per dollar of income above $48,000, reducing to zero by around $65,000.

Target the Winter Energy Payment

ACT would ensure that the Winter Energy Payment went to those who needed it. It would be restricted to over-65s who hold Community Services Cards and recipients of main benefits.

Abolish Ineffective Housing Policies

ACT would abolish both the Progressive Home Ownership Scheme and the First Home Grant scheme. Because of the dysfunctional state of New Zealand's housing market, the only beneficiaries of these policies are those who are already relatively well-off. Moreover, because these policies fail to increase the housing supply, they essentially just throw fuel on the fire of rising house prices.

Abolish Corporate Welfare

ACT would abolish the following schemes:

• Provincial Growth Fund
• Miscellaneous R&D-related Grants
• Callaghan Innovation
• Domestic film subsidies
• New Market Ops Spending
• International film subsidies
• Growth and Development Spending
• Workforce Development Councils
• Innovation Development Grant
• Industry Transformation Plans
• R&D Tax Credit

These various schemes represent attempts by ministers to 'pick winners'. They undermine market incentives and favour glamorous projects over those which can generate real economic growth. ACT would return these funds to New Zealanders to spend how they see fit, allowing the businesses which best serve New Zealanders' needs to thrive. ACT would also significantly reform the regulatory barriers facing many of the firms who receive these subsidies. Such reforms are likely to generate much better outcomes for these firms than limited government funding.

Abolish Demographic Ministries

ACT's Alternative Budget would abolish the following demographic ministries:

• Ministry for Women
• Ministry for Pacific Peoples
• Ministry of Māori Development
• Ministry for Ethnic Communities
• Office for Crown-Māori Relations
• Human Rights Commission

The abolition of the Ministry of Māori Development and the Office for Crown-Māori Relations would not impact the Whanau Ora or Treaty Settlements programmes. Both are appropriated separately and would be administered by the Ministry of Health and a re-established Office of Treaty Settlements respectively. Most of these ministries replicate work which should already be done in policy ministries or the Ministry of Culture and Heritage. Any additional influence they do have over Government policy is likely to be in the damaging direction of undermining the unity of New Zealand as a modern multicultural society.

Non-Operating Changes

Halt Contributions to the NZ Super Fund

Contributions to the Super Fund while debt is outstanding represent a leveraged bet by the Government on the stock market with taxpayers' money. This is inappropriate. If taxpayers wish to invest in the stock market, they are allowed to do so. The Government should not force them to do so via proxy.

Increase in Capital Defence Spending (Less New Depreciation)

As noted above, ACT's Alternative Budget will increase defence spending to 1.5% of GDP over the next four years. Much of this new spending will be the purchase of new equipment for the Defence Force, e.g., new aircraft and ships. Most of this spending is concentrated in the later years of the Budget to give the Defence Force sufficient time to decide what to purchase and to allow for delays (e.g., in receiving permission from the US Government to purchase certain American-made equipment).

Halt Contributions to the Venture Capital Fund

The same arguments which apply to the Super Fund apply to an even greater extent to the speculative bets made by the Venture Capital Fund.

Receipts from Mixed-Ownership Model Extension

The Mixed Ownership Model has significantly increased the profitability and performance of New Zealand's electricity companies. ACT proposes to extend this successful model to more SOEs. In particular, we would list 49% of the shares in AsureQuality, New Zealand Post, KiwiRail (and the Railways Corporation), Transpower, Kordia, and Kiwi Group Holdings (i.e., KiwiBank and its subsidiaries).

A programme of limited asset sales makes good economic sense. At present, these firms in aggregate fail to cover their cost of capital: The Government is effectively borrowing money on taxpayers' behalf to fund its investments in these firms, and the returns being earnt from those investments are not sufficient to justify their risk. Continuing to hold these assets on the Government's balance sheet without significantly increasing their profitability is a waste of resources. By selling a good chunk of the firms, we would subject them to commercial accountability, improving their long-run profitability. The Government would also realise a large amount of money from the sales, allowing us to pay down a portion of the COVID-19 debt. Furthermore, it would deepen New Zealand's capital markets, making them a more attractive destination for investment, and could improve the service received by customers.

The Mixed Ownership Model has many protections built in to protect New Zealand's interests. In particular, no non-government shareholder can control more than 10% of the shares in a MOM company. Where Treaty of Waitangi concerns precluded the sale of particular pieces of land, we would retain them in Crown ownership and provide long-term leases to the SOE.

The sale price of these SOEs is assumed to equal their commercial valuations. This is likely to be an overestimate for some SOEs and an underestimate for others. We have also assumed the sale process would take three years, starting in FY 2024.

Landcorp Sale Programme

ACT's Alternative Budget would also sell 100% of LandCorp — likely in chunks, rather than wholesale — and use the proceeds to fund conservation on private land.

Youth Offender Initiative Capex

ACT's Alternative Budget provides for $500m in capital expenditure to build 200 specialised youth justice beds under the control of the Department of Corrections.

Prison Expansion Capex

After first utilising the spare beds available in the existing prison estate, ACT's Alternative Budget provides for the construction of 500 new adult prison beds.

Fiscal Year (ended 30 June)	2023/24	2024/25	2025/26	2026/27
Under Labour				
Total Crown OBEGAL	-11.38	-6.229	-1.542	2.07
Core Crown Residual Cash Surplus	-25.442	-3.596	-0.393	-4.98
Net core Crown debt excl. NZSF	163.424	175.955	185.633	190.621
Tax Changes	**-2.993**	**-2.987**	**-4.369**	**-5.690**
Income tax changes	1.704	1.468	0.016	-1.363
Carbon tax refund	-1.282	-0.751	-0.644	-0.536
Low and Middle Income Tax Offset	-2.875	-3.095	-3.321	-3.472
Abolish the bright-line test	-0.060	-0.060	-0.060	-0.060
Reverse the Government's interest deductibility changes	-0.480	-0.650	-0.760	-0.760
Reverse VLNC rules and collect higher cigarette tax revenue		0.100	0.400	0.500
New Operating Expenditure	**-2.241**	**-2.760**	**-3.313**	**-3.911**
Prison Capacity Increase (incl. depreciation)	-0.102	-0.210	-0.331	-0.457
Young Offenders Initiative (incl. depreciation)	-0.048	-0.054	-0.055	-0.056
GP Capitation Boost	-0.167	-0.177	-0.187	-0.195
Teaching Excellence Reward Fund	-0.250	-0.250	-0.250	-0.250
50% GST sharing for construction of new homes	-1.174	-1.003	-1.291	-1.370
Increase in operating defence spending (incl. depreciation)	-0.500	-1.067	-1.200	-1.583
Operating Savings	**5.662**	**6.424**	**6.789**	**6.656**
Return Public Service personnel levels to 2017 levels	0.915	1.236	1.233	1.232
Gradually increase superannuation age (3 months a year from FY25)	0.000	0.335	0.715	1.141
Abolish wasteful environmental expenditure				
Allocated CERF spending	0.804	0.795	0.879	0.252
Climate Change Commission	0.018	0.018	0.018	0.018
Climate Change Chief Executives Board	0.004	0.004	0.004	0.004
Forestry grants	0.024	0.024	0.024	0.024
Energy Efficiency and Conservation Authority	0.079	0.079	0.079	0.079
Industrial energy efficiency and fuel switching	0.149	0.201	0.201	0.201
Abolish middle-class welfare spending				
Fees-Free	0.331	0.340	0.330	0.321
Target Kiwisaver Subsidies	0.358	0.377	0.393	0.409
Target the Winter Energy Payment	0.369	0.379	0.391	0.404
Retain prescription charges	0.157	0.149	0.154	0.158
Return to 50% farebox collection for PT	0.123	0.123	0.123	0.123
Abolish ineffective housing policies				
Progressive Home Ownership Scheme	0.454	0.454	0.454	0.454
First Home Grants	0.145	0.145	0.145	0.145
Abolish corporate welfare				
Callaghan Innovation	0.086	0.086	0.086	0.086
Growth and Dev Spending	0.208	0.208	0.208	0.208
International growth fund	0.056	0.056	0.056	0.056
Innovation Development Grant	0.006	0.015	0.013	0.013
R&D Tax Credit	0.535	0.573	0.624	0.674
Miscellaneous R&D-related Grants	0.027	0.027	0.027	0.027

Fiscal Year (ended 30 June)	2023/24	2024/25	2025/26	2026/27
Operating Savings Contd.				
Domestic film subsidies	0.099	0.099	0.099	0.099
International film subsidies	0.093	0.093	0.093	0.093
Video game subsidies	0.040	0.040	0.040	0.040
Workforce Development Councils	0.065	0.065	0.065	0.065
Industry Transformation Plans	0.055	0.055	0.055	0.055
Abolish demographic ministries				
Ministry for Women	0.015	0.014	0.014	0.013
Ministry of Māori Development	0.159	0.159	0.159	0.159
Office for Crown-Māori Relations	0.012	0.012	0.012	0.012
Ministry for Pacific Peoples	0.083	0.064	0.061	0.056
Ministry for Ethnic Communities	0.019	0.019	0.019	0.019
Human Rights Commission	0.014	0.014	0.014	0.014
Abolish school lunch programme	0.158	0.165		
Consequential Changes to Operating Balance	-0.025	0.087	0.134	0.154
Change in financing costs		0.144	0.227	0.267
Change in tax revenue due to NZSF changes	-0.015	-0.044	-0.074	-0.106
Forgone profits from mixed-ownership model extension	-0.010	-0.014	-0.019	-0.007
Operating commitments				
Tax cuts	-2.993	-2.987	-4.369	-5.690
New spending	-2.241	-2.760	-3.313	-3.911
Maintaining existing real per-capita spending in health, schools, and law/order	0.000	-1.858	-1.724	-1.559
Funded out of				
Existing operating allowances	0.000	1.366	3.169	4.711
Return of CERF	0.000	0.300	0.300	0.300
Additional cost savings	5.662	6.424	6.789	6.656
Consequential changes to operating balance	-0.025	0.087	0.134	0.154
Change in Operating Balance	**0.403**	**0.572**	**0.986**	**0.660**
Changes in non-Operating Line Items	**2.669**	**1.365**	**0.199**	**-1.092**
Halt contributions to the NZ Super Fund	1.614	1.277	1.361	1.300
Increase in capital defence spending (less new depreciation)	0.000	-1.000	-2.000	-2.000
Cancel unallocated Climate Emergency Response Fund capex	0.000	0.033	0.033	0.033
Miscellaneous allocated CERF capex	0.095	0.095	0.095	0.075
Receipts from mixed-ownership model extension	1.210	1.210	1.210	
Youth offender initiative capex (less depreciation)	-0.250	-0.250		
Prison expansion capex (less depreciation)			-0.500	-0.500
ACT results	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Total Crown OBEGAL	-10.977	-5.657	-0.556	2.730
Change in OBEGAL	0.403	0.572	0.986	0.660
Core Crown Residual Cash Surplus	-22.370	-1.659	0.792	-5.412
Change in CCRCS	3.072	1.937	1.185	-0.432
Net core Crown debt (excl. NZSF)	160.352	170.946	179.439	184.859
Change in NCCD	-3.072	-5.009	-6.194	-5.762