

# Rural Bulletin

Rural Women New Zealand - informing New Zealand each month



[www.ruralwomen.org.nz](http://www.ruralwomen.org.nz)

## Budget 2010

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This special edition Rural Bulletin contains an overview of all the main points of the 2010 Budget.

The June issue will be published as normal.

Please feel free to forward this on to others you think would find it useful.

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# NZ's 2010 Budget: the Big Picture

The main points in this year's Budget are:

- total core Crown expenses are forecast to increase by \$5.9 billion to \$70.7 billion in 2010/11 - including adjustments to welfare benefits, NZ Superannuation, and Government interest costs on its rising debt;
- the Government says the Budget has "freed up another \$1.8 billion over the next four years to put into high priority areas such as healthcare, education, law and order and scientific innovation;"
- the money is in addition to the \$1.1 billion annual operating allowance for new spending - effectively pushing spending on new Budget initiatives to \$1.55 billion a year over the next four years;
- Unemployment – is 6.2%, trending down to 4.6% in 2014;
- Inflation – is 5.9% next year but then averaging 2.4% over next three years;
- GDP growth – will be 3.2% next year, with an average of 3% over the next four years;
- Budget deficit – is \$8.6 billion, or 4.2% of GDP, dropping to \$3 billion in 2014 and back into surplus (three years ahead of last year's forecast) by 2015-16;
- Net government debt - \$40 billion, or 19.6% of GDP, forecast to peak at 27% of GDP in 2014/15 before trending down to 14% by 2024; and
- Balance of payments - \$8.9 billion in 2011, or 4.4% of GDP, rising to \$17.2 billion in 2014, or 7.3% of GDP.

Note: there is an emphasis in this budget in re-prioritising of services and programmes, but, as yet, not so much information on the services currently in place that will be affected. We will bring you more about this side of things in coming Rural Bulletins as the information comes to hand.

## Where the Budget Money Comes From (in billions) ...

Individual's tax	23.5
GST	14.4
Corporate tax	8.9
Other indirect taxes	5.4
Other revenue	3.9
Interest revenue & dividends	2.5
Other direct taxes	1.7
<b>Total Income</b>	<b>60.3</b>

## ...& Where the Money Goes (in billions)

Social security & welfare	21.2
Health	14
Education	12
Core government services	4.0
Law & order	3.5
Transport & communications	2.4
Finance Costs	3.2
Other	10.4
<b>Total Spend</b>	<b>70.7</b>

## Tax Changes

### Personal Income Tax

All personal income tax rates will be cut from 1 October 2010. Individuals and families can work out how the tax changes personally affect them at [www.taxguide.govt.nz](http://www.taxguide.govt.nz) but the following table summarises the main changes:

Income	Current rates	New rates
\$0 - \$14,000	12.5%	10.5%
\$14,001 - \$48,000	21.0%	17.5%
\$48,001 - \$70,000	33.0%	30.0%
Over \$70,000	38.0%	33.0%

Secondary tax and resident withholding tax rates will be reduced from 1 October 2010, so they line up with the new personal tax rates.

### GST Changes and Compensation for Changes

GST will be increased from 12.5% to 15% from 1 October 2010.

However, there will be compensation for some people. From 1 October 2010 payments will rise by 2.02% for all those receiving:

- NZ Superannuation or a Veterans Pension;
- all main benefits, such as the Unemployment Benefit, the Sickness Benefit, the Invalid's Benefit, and the Domestic Purposes Benefit;

- the maximum rates of the Disability Allowance, Child Disability Allowance, and Childcare subsidies paid through Work and Income;
- the Family Tax Credit and Minimum Family Tax Credit, which are part of the Working for Families scheme;
- student Allowances; and
- CPI-adjusted payments from the Government Superannuation Fund or National Provident Fund.

For example, NZ Superannuation and Veterans Pension payments will rise (per fortnight), by the amounts shown in the table below:

	Current rate	New rate	Increase
Single living alone	\$636.24	\$667.50	\$31.26
Single sharing	\$587.30	\$615.34	\$28.04
Married couple (each)	\$489.42	\$511.06	21.64

People on NZ Superannuation and Veterans Pension can work out how Budget 2010 tax changes personally affect them at [www.taxguide.govt.nz](http://www.taxguide.govt.nz) and a complete schedule of new NZ Super and Veterans Pension rates, along with other relevant information, can also be viewed on the Ministry of Social Development's website at [www.msd.govt.nz](http://www.msd.govt.nz)

## Working for Families Changes

A number of the Budget announcements relate specifically to the Working for Families (WFF) scheme:

- well-off families will no longer be able to use investment losses, including losses from rental properties, to reduce their income and therefore become eligible for Working for Families (WFF) payments, from 1 April 2011;
- the Government will be changing the rules relating to income for the purposes of WFF, student allowances, and the community services card. The changes include making sure trust income is counted as part of a family's total income for the purposes of WFF. These changes will apply from 1 April 2011; and
- the Family Tax Credit (part of WFF) will continue to be automatically adjusted for inflation, but the level of the abatement threshold (the point after which WFF payments start decreasing as the family earns more) will no longer be adjusted automatically, although, for now, it will remain at the current level of \$36,827.

A special report explaining the amendments to investment losses and the abatement threshold will be available on Inland Revenue's Policy Advice Division website at [www.taxpolicy.ird.govt.nz](http://www.taxpolicy.ird.govt.nz) after Budget day legislation is introduced

# Business

## Company Tax Cuts

The main changes are:

the company tax rate will fall from 30% to 28% from the 2011/12 income year (for most companies, this will apply from 1 April 2011); and

the Government will allow dividends issued after the new company rate takes effect to be imputed (to give a notional value to goods or services when the real value is unknown) at the existing 30% rate for two years if company tax has been paid at the 30% rate.

A special report explaining the changes will be available on Inland Revenue's Policy Advice Division website at [www.taxpolicy.ird.govt.nz](http://www.taxpolicy.ird.govt.nz) after Budget day legislation is introduced.

## Other Changes for Business

These include:

- the top tax rate for most portfolio investment entities (PIEs) will fall from 30% to 28%, while the other PIE rates drop to fit with the new personal tax rates, from 1 October 2010;

Portfolio investment entities (PIEs) include KiwiSaver schemes, unit trusts, and other superannuation funds. The change will kick in for KiwiSaver schemes from 1 October 2010 and for other investment vehicles from April next year.

- the tax rate for life insurance policy holders and other popular savings schemes, like unit trusts and superannuation funds, will fall from 30% to 28% from the 2011/12 income year; and
- depreciation deductions will no longer be allowed for buildings with an estimated useful life of 50 years or more (such as rental housing and office buildings) from the 2011/12 income year.

These changes will affect landlords, property investors, property investment companies and some business owners, who can currently claim depreciation at 3% (by the diminishing value method) or 2% (by the straight line method) of the purchase price of their building.

Building owners will still be able to claim deductions for repairs and maintenance, to maintain the condition and value of their properties. They will also still be able to claim depreciation deductions for "fit outs" not considered part of the building. The Government intends to review the treatment of commercial "fit out" and, if necessary, amend the rules before 1 April 2011 to address any uncertainty in this area.

Building owners will be able to apply to Inland Revenue for a provisional depreciation rate if they consider a class of buildings, has an estimated useful life of less than 50 years.

A special report explaining the relevant amendments will be available on Inland Revenue's Policy Advice Division website at [www.taxpolicy.ird.govt.nz](http://www.taxpolicy.ird.govt.nz) after Budget day legislation is introduced.

As well:

- the current 20% depreciation loading on new plant and equipment will be removed, for purchases made after Budget day;
- Inland Revenue will get a \$119.3 million funding boost over four years, starting in 2010/11, to increase auditing and compliance activity around debt collection, the hidden economy (economic activity not declared for tax purposes e.g., "working under the table" for cash) and property transactions;
- stricter tax rules for foreign multinationals to reduce their ability to minimise tax payments in this country: tax rules will change from the 2011/12 income year to reduce the interest deductions foreign multinationals can take by having high levels of debt allocated to their NZ subsidiaries; and
- loss attributing qualifying company (LAQC) and qualifying company (QC) rules will be tightened from income years starting on or after 1 April 2011 to prevent people choosing to have a) losses deducted at their marginal personal tax rate, but also b) profits taxed at the lower company tax rate. Note: an issues paper on making changes to the QC and LAQC rules is to be available on Inland Revenue's Policy Advice Division website at [www.taxpolicy.ird.govt.nz](http://www.taxpolicy.ird.govt.nz)

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## Health & Welfare

The Budget includes an extra \$2.1 billion investment in health priorities – including an extra \$512 million in 2010/11 (note: this rise is only marginally above the level that officials calculate is needed to keep up with inflation and population growth). A total of \$186million was reprioritised from within Vote Health (most of that will be coming from cuts in administration services).

The main points are:

- District Health Boards (DHBs) receive an extra \$1.4 billion (some of this is included in the amounts below);
- \$109 million goes to primary care services (some of these services have been reprioritised);
- there is an extra \$51.5 million for additional elective surgery, plus an extra \$8 million for breast reconstruction surgery;
- \$46 million goes to health screening services;
- mental health services funding rises by \$40 million;
- a national bowel cancer screening pilot programme gets \$24 million
- an extra \$10.2 million is committed in the current 2009/10 year for electives including cardiac surgery;
- 20 new medical training places are available in 2010/11; and
- funding for medicines increases by \$80 million.

## Teenage Parents and Children

A total of \$14.9 million over the next four years has been set aside for services for teenage parents. These will include seven supported homes with trained staff providing 24 hour supervision. The role of teen parent coordinators will be expanded, and staff numbers will be boosted from

nine to 19 to help teens stay in work or education, get antenatal care, budgeting and parenting advice. There will be services for teen fathers as well.

In terms of preventing the abuse and neglect of children, there will be a funding boost of \$6.6 million over the next four years, including increasing in the number of Social Workers in hospitals from six to 16.

## Disability Support Services

The next four years see an extra \$93 million for disability support services (this is reprioritised money from DHBs). Of this, \$72 million over the next four years will improve access to disability support services. It includes:

- \$25.5 million for home and community support services;
- \$3.4 million for other disability support services;
- \$21 million for residential services for people with intellectual disabilities;
- \$7.9 million for supported independent living; and
- \$2.7 million for respite care.

## People With Disabilities

\$6.8 million over the next three years will be spent on:

- helping promote design standards for homes that are accessible over a person's lifetime (\$1.5 million);
- to helping promote, protect and monitor the rights of people with disabilities in line with the UN Convention on the Rights of Persons with Disabilities (\$2.34 million); and
- a public awareness campaign to change attitudes and behaviours that limit opportunities of disabled people (\$3 million).

## ACC

The Department of Labour will get \$2 million in new funding in 2010/11 so it can "provide more robust ACC policy advice."

## Whanau Ora

Whanau Ora will receive \$134.3 million in funding over the next four years (announced 6 May). Whanau Ora will be available to all families in need. The funding over four years will enable Te Puni Kokiri, the Ministry of Social Development and the Ministry of Health to jointly implement an approach "which will see families empowered to take control of their future."

The money will be invested in whanau capacity and capability. It will also be used to help providers change their business models, train Whanau Ora practitioners and improve their IT systems.

Up to \$20 million over four years will be spent on researching, evaluating and monitoring the implementation and results of Whanau Ora.

In addition to this new funding, existing contracts will be integrated and reorganised into Whanau Ora contracts, allowing providers to focus more on the whanau that they

work with, rather than on the compliance issues that come from having multiple government contracts.

The Whanau Ora programme aims to build on the strengths of the entire whanau/family. It will work with whanau and families as a whole (rather than having different agencies working with individual family members). A whanau Ora Trust would be set up to govern, coordinate and implement the programme, and report to a dedicated Minister of Whanau Ora.

The programme will be "financially neutral", i.e., funded by reprioritising existing funding in votes Health, Social Development and Maori Affairs.

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## Education

A total of \$1.9 billion is being spent to fund new education initiatives over the next four years. Of the \$1.9 billion, \$1 billion has been reprioritised and \$900 million is new money.

The reprioritised money comes largely from changes to the student loan scheme, cuts in tertiary education capability funding which helps institutions develop their roles and deliver quality, and aligning early childhood education funding rates with teacher registration targets.

### Early Childhood Education and Schools

An extra \$1.4 billion will be injected into better schooling and early childhood education – including an extra \$417 million in 2010/11. Main points are:

- total funding for Early Childhood Education (ECE) will be \$1.3 billion in 2010/11 – up \$107 million on the previous year – and continued funding for 20 hours' ECE (note: a change in the funding formula to place more emphasis on access for areas of greatest need means centres where most or all staff are fully qualified will get reduced funding);

It's estimated that the highest-quality early childhood centres have seen \$449 million cut from their budgets – or to put it another way – about 2000 centres, with 93,000 children enrolled, with lose funding (a further 2300 centres are unaffected). The Kindergarten Association will be hardest hit, as its centres use 100% qualified staff.

- \$155.9 million in new operational funding for schools;
- \$349.3 million in new operating and capital funding for school property, including \$82 million in 2010/11 to fix leaky school buildings;
- \$48.1 million for the Youth Guarantee, increasing the number of places available from 2000 to 2500 next year;
- \$48.3 million to build ultra-fast broadband support for schools;
- \$15 million over two years to allow more parents and teachers to take part in the highly successful Incredible Years programme as part of the Positive Behaviour for Learning Action Plan; and
- \$4.7 million over four years to ensure staff in rural schools with students' years seven and eight receive the correct level of funding.

## Tertiary Education

Savings across the tertiary sector allow for the purchase of 1735 additional full time places at universities and 3173 extra full-time places at Polytechs and Institutes of Technology than previously budgeted, to respond to demand. This will mean the number of places in universities will be 765 greater than this year's record number and the number of places at Polytechs and Institutes of Technology will be 455 greater than this year.

Changes are being made to student loans will:

- require students to pass more than 50% of their full-time courses over two years to be able to keep borrowing from the scheme;
- introduce a lifetime limit on access to student loans - being seven years for an undergraduate degree (seven equivalent full time study units);
- prevent permanent residents and Australians from accessing a student loan until they have lived in NZ for at least two years;
- Increase the StudyLink student loan administration fee from \$50 to \$60 and introducing a new \$40 annual account fee which applies once study is completed to cover more of the actual costs of administration over the life of the loan; and
- replace the fee maxima with an Annual Maximum Fee Movement, which caps fee increases for all courses at 4% in 2011.

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## Employment

Main points are:

- \$26.7 million in 2010/11 goes to expand the Job Ops programme (which means the number of placements for 16-24 year olds with low or no qualifications will double from 6000 to 12,000); and
- extra funding of \$12.6 million in 2011/12 is allocated for Employment Assistance.

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## Housing/Building

Main points are:

- \$20 million to extend the Housing Innovation Fund for another year, and other measures continuing: \$16 million for grants and loans to support social and affordable housing, and a further \$4 million to cover loan impairments; and
- the Welcome Home Loan limit extended from \$280,000 to \$350,000 for first home buyers in higher priced areas.

### Leaky Homes Package

There are between 22,000 and 89,000 leaky homes around the country. Only a minority - around 3,500 - have been repaired to date. Financial assistance in this area will see:

- the Government meeting 25% of homeowners' agreed repair costs;
- local authorities contributing 25%; and

- homeowners funding the remaining 50%, with a loan guarantee underwritten by the Government, provided applicants can meet bank lending criteria.

Local authorities have been invited to participate and asked to respond to the Government's offer by 31 May 2010. If the local authorities accept the Government's offer, the Government will begin working through the details with the parties involved. It's aimed to have the new package up and running by early 2011.

There will be a more about this package in the June Rural Bulletin

## Science/Technology

A total of \$321 million over the next four years, aims to research and attracting scientific talent to drive economic growth. Of that, \$225 million is new funding and \$96 million is being re-allocated from under-performing areas of the \$750 million science, research and technology vote.

The main part of the funding increase is a \$234 million boost for support for business research and development over four years. This includes (unless otherwise stated, all figures are for the next four years):

- \$189.5 million for technology development grants to support R&D in businesses that already do significant amounts of R&D;
- \$20 million to trial technology transfer vouchers, to connect firms that have little R&D expertise with public research bodies;
- \$11 million to establish a network of commercialisation centres; and
- 13.7 million in contingency funding for initiatives to improve the transfer of technology from research organisations to the private sector.

The other major new initiatives are:

- \$25 million for the Rutherford Discovery Fellowships which will support early to mid-career researchers;
- \$9 million (over three years, starting in 2011/12) to attract top science entrepreneurial talent to NZ; and
- \$44.3 million in contingency funding for proposed large-scale science infrastructure, subject to Cabinet approval.

A backgrounder, including Q&A, is available at: [www.morst.govt.nz](http://www.morst.govt.nz)

## Environment

### Greenhouse Gas Research

Funding of \$45 million over four years will support the Global Research Alliance on Agricultural Greenhouse Gases. This alliance has been set up to enable countries to work collaboratively on producing more food with fewer emissions.

## Conservation

Vote Conservation gets \$424 million. Of that, more than \$5 million will go on developing new or improved campgrounds and three separate cycle trails over the next year, comprising:

- about \$2 million to improve the range of accessible, low cost camp sites as holiday destinations for visitors in the North and South islands; and
- \$3.3 million of funding for three cycle trails (prioritised DoC funding).

## Border Security

A new joint border management system (JBMS) receives \$75.9 million of capital funding over the next four years (\$69.2 million from Vote Customs and \$6.7 million from Vote Biosecurity). The JBMS will replace current border clearance systems run by MAF and the NZ Customs Service

## Tourism

The tourism industry gets \$30 million in new funding for 2010/11. Of that, \$25 million will be used to increase the marketing of NZ as a tourism destination internationally. The other \$5 million will be allocated to joint venture initiatives.

## Transport

### Pensioners' Travel

Pensioners can count on at least another four years of free off-peak public transport, according to Budget projections. These show a commitment to the SuperGold Card travel scheme until 2013-14, at an estimated cost of \$18 million a year.

### Rail

Some \$500 million has been allocated for electrification of Auckland rail lines, as well as \$250 million for the wider rail network and rolling stock.

A total of \$250 million being spent on supporting the KiwiRail Turnaround Plan\*, This money is the first round of Government support (the Government has committed in principle to a total package of \$750 million over the next three years). \*The KiwiRail Turnaround is designed to see the rail freight business become sustainable within a decade by getting it to a point where it funds its costs solely from customer revenue. The plan is expected to cost about \$4.6 billion in total – mostly from business).

Questions and answers are available on the Ministry of Transport website: [www.transport.govt.nz](http://www.transport.govt.nz)

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# Justice/The Law

## More Prison Beds

\$69.3 million over the next four years for more prison beds, including:

- \$24.0 million to progress planning for a new prison in South Auckland; and
- \$45.3 million for 245 more beds and associated infrastructure at Mt Eden Prison.

## Whare Oranga Ake

Some \$19.8 million over four years (operational and capital funding) has been allocated for building and operating two Whare Oranga Ake - reintegration units for prisoners - by 2011/12.

## Community Law Centres

A further \$5.9 million in operating funding over the next two years goes to top up the community law centre funding to the same level as last year (when 7.2 million was spent).

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# Intelligence Services

The Government Communications Security Bureau (GCSB) budget goes up \$11 million to \$70.4 million (most of which is tied to the building of a new HQ), while the Security Intelligence Services budget has been trimmed by \$1.8 million to \$36.3 million.

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# N-F-P Sector

## New Fund for “Social Transformation”

A total \$90.5 million over the next four years into a transformation fund for Non-Government Organisations (NGOs) to deliver extra high-quality services. The first part of the two-stage fund will, says the Government, “provide money for social sector NGOs to move towards integrated service delivery, remove duplication, merge back room functions, improve skills training and share best practice.”

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# Internet/ICT

## Broadband

The Budget includes a further \$248 million for rolling out broadband nationwide, including:

- \$200 million of capital funding in 2010/11 building ultra-fast broadband infrastructure by Crown investment company Crown Fibre Holdings (this is in addition to the \$200 million allocated last year)\*; and
- \$48.3 million so schools can harness the benefits of ultra-fast broadband.

Note: Crown Fibre Holdings now has \$400 million of the \$1.5 billion to be allocated to run fibre optic networks out to homes, schools, hospitals, and businesses over the next 10 years.

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# Maori

Main points are:

- an extra \$6.5 million over the next three years goes to settle all historical Treaty of Waitangi claims by 2014 (to provide resources for the Crown chief negotiators, employing more staff to support negotiations, and speeding up the drafting of deeds of settlement);
- \$4.5 million of new money has been allocated to grow Maori productivity and export growth, and to support Maori innovation (including \$1.5 million for Iwi/Maori partnerships with the Government to identify priorities in science); and
- a further \$4.5 million has been set aside for initiatives currently being developed to strengthen and promote Maori tourism.

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# Pacific Peoples

Operating funding of \$4.8 million over the next four years goes to the Pacific Economic Development Agency (PEDA), to improve the economic wellbeing of Pacific people in Auckland.

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# Defence

Defence receives an extra \$35 million a year to fund increased costs and new equipment for the NZ Defence Force. Much of this will go to offset depreciation on the Air Force's new helicopters and the Navy's new Protector fleet.

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# Rugby World Cup

An extra \$12 million has been budgeted for the Government to hold state functions and accommodate official guests for the Rugby World Cup 2011.

Ministerial Services usually budgets about \$4.5 million to host official guests of the Government, including receptions, ministerial functions and national anniversaries, but expects to host more functions during RWC 2011.