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# Shaping our place in the world

Budget 2017 – Deloitte's perspective

25 May 2017

# The Government has unashamedly thrown an even larger blanket over middle New Zealand, where the election will be won and lost

# Surpluses fuel choices to shape our place in the world

At a pre-Budget speech, the Prime Minister noted his "pleasure to lead a country that's becoming more confident and sure of itself, and where we have so many positive choices."

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Putting aside the obvious self-serving nature of these comments, the sentiment struck a chord with business leaders as the narrative rings true. This is especially in the context of the current Budget, which also includes a number of themes that individually may not be headline news, but taken together paint a picture of quite a unique moment in time.

The first has to do with personnel. There is a new team at the helm. The new team's first Budget is also during an election year that could give National a remarkable fourth term in office and even reset the clock, breaking into a new paradigm for recent political tenure. A team that wants to project that they are in the detail and know what they are doing.

The second has to do with our local context. For the first time in a decade we have a government that has around $25-30 billion of headroom over the next few years which gives them options; with a reasonable amount of this now spent or allocated to capital expenditure or debt repayments.

The third has to do with our global context. Compared to other countries, like the US, Australia and the UK, we are at a different point in time. So much so, we can look to change our relative positioning on any number of matters.

To highlight how unique our position is, let's juxtapose NZ with the UK, where the British Labour Party has recently called for a 49 billion pound increase in taxes to fund their proposed increases in government spending as laid out in their pre-election policy manifesto. If implemented, taxes as a share of British GDP would rise to their highest level since 1949. And in the US, the recently floated "budget blueprint" is proposing to balance the federal budget over the next decade through hundreds of billions of dollars in cuts to social programmes.

Is it therefore possible that we can have our cake and eat it too, and that we find ourselves in this position despite the effects of the GFC, both Canterbury earthquakes, the Kaikoura earthquake and other natural disasters like the recent Edgecumbe flood. If we only had to address the GFC just imagine where we would be!

And while fiscal headroom is a nice problem to have, it still has to be solved with Budget 2017 starting the journey of redefining the destination to capture the hearts and minds of the voting public.

Consistent with this, and their well-worn path, the Government unashamedly threw an even larger blanket over middle New Zealand, where the election will be won and lost.

In many respects the Government has moved further left, with the right needing to be content with debt reduction and a plan to achieve greater social cohesion.

Measures aggregated under the headings of Family Income Package, Infrastructure, Social Investment, Public Services and Investing in a Growing Economy are part of setting a social and financial investment programme in recognition of the boat having come in; while at the same time looking to build greater resilience in the widest sense of the word.

It was about crowding out others, looking to provide material cash and services dividends to the masses, with equally material social cohesion and economic resilience dividends to businesses and those further up the food chain.

Questions around housing, inequality, regional economic development and the environment still lack the definition or the immediacy that many want, that will inevitably be raised. Also underplayed was the new global geopolitical context and our response to that.

In saying that, the Budget will continue to reset our relative global positioning in an evolutionary (rather than revolutionary) sense as our relative attractiveness gap with others is widening in our favour, given the diverging economic paths we and others are on.

It's also too early to tell whether (and by how much) what was released will be amplified before the election. The fiscal tank doesn't feel empty by a long shot. And even more in its infancy is the story that will be told before the election to capture the voting public. But in any event, the new team has come out strongly laying a foundation from which to grow and amplify their message. They are looking to occupy even more space across the traditional political spectrum including by looking to occupy even more of their non-traditional ground.

The reality of course is that all parties across the political spectrum will now be able to paint their nirvana and sell their dream, capture the imagination of everyday New Zealanders; which won't be lost on anyone.

New Zealand is in an enviable position globally that we can't afford to squander.

The fiscal tank doesn't feel empty by a long shot. And even more in its infancy is the story that will be told before the election to capture the voting public

# Budget at a glance

## Are we creating a better future?

**Resilience underpins our wellbeing as a nation**


**$93m** to develop Māori tourism

**$185m** towards social housing

**$3.9bn** of extra funding towards health

**$2bn** Family Incomes Package

**$321m** Social Investment Package

**$373m** invested in Innovative New Zealand

**$60m** for Pharmac over four years

**$2bn** investment in law and order over four years

**$134m** for Trade Agenda 2030 to forge new trade opportunities

**$303.9m** for New Zealand Screen Grants

**$763m** investment in additional prison capacity

**$436m** for the Auckland City Rail Link

**$11bn** in new capital infrastructure over the next four years

**$982m** funding boost for defence over four years

**$1.5bn** new operating funding for schools over four years

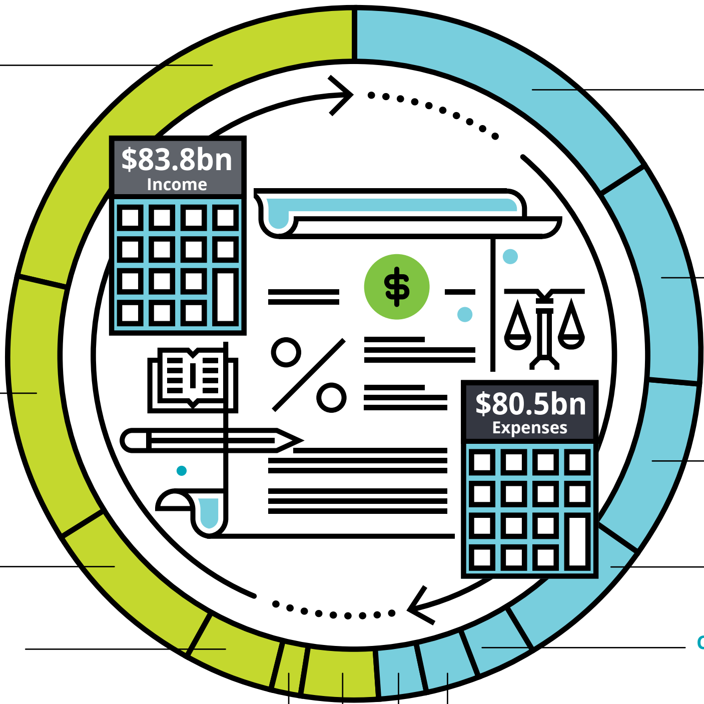
**$21m** towards the Battle for Our Birds

**$178m** for a tourism infrastructure package

**$81m** towards protecting our natural resources

**$812m** for earthquake damaged roading from Picton to Christchurch

## What we spend vs what we earn




**$34.9bn** Individual's tax

**$20.6bn** GST

**$13.1bn** Corporate tax

**$6.8bn** Other indirect tax

**$2.5bn** Indirect revenue & dividends

**$5.9bn** Other income

**$26.4bn** Social security & welfare, NZ Superannuation

**$17.1bn** Healthcare

**$14bn** Education

**$10.6bn** Other expenses

**$4.8bn** Core government services

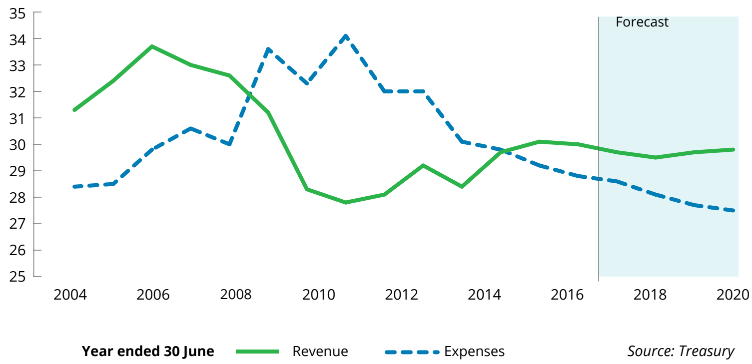
**$4.1bn** Law and order

**$3.5bn** Finance costs

**$2.9bn**
surplus forecast in 2017/18

### Core Crown revenue and expenses

**% of GDP**



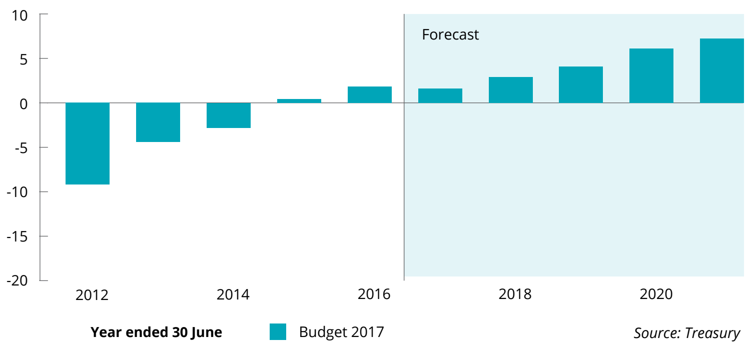

**$1.8bn**
net new operating average spending in Budget 2017

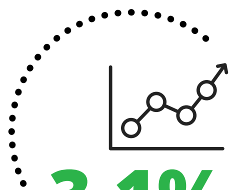
**Rising to ...**

**$7.2bn**
surplus forecast in 2020/21

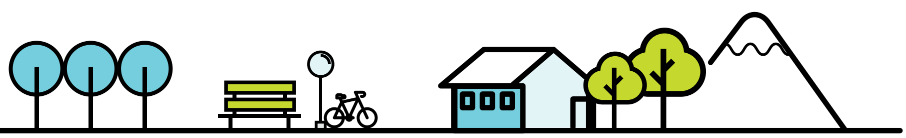
### Operating balance before gains and losses

**$billions**



**3.1%**
GDP growth on average over next 5 years



# Public sector

## Social investment supports resilience of Kiwi households

**We welcome the announcement of a substantive package for social investment.**

We welcome the announcement of a substantive package for social investment. The $321 million Social Investment Package is slated to fund 14 initiatives across seven portfolios to help our most vulnerable people, including:

- **$100m** for a mental health social investment fund
- **$68.8m** to support vulnerable children and their families, including $28.1m for national coverage for Family Start
- **$34.7m** for support services for children with behavioural difficulties

Social investment has been a continued theme for government and the focus on lifting the outcomes for vulnerable families and children is aligned with Kiwi values.

This is also a very necessary package - the implementation of the ambitious roadmap for vulnerable families through Oranga Tamariki and the social service sector will require material investment. The social return on investment for these cohorts is significant but long term - and early investment in prevention must be made ahead of immediate returns.

The challenge that now faces the sector is maximising the value of this investment, by ensuring the money is spent on the right things and in the right way. Evidence-based programmes in New Zealand are few, and there is a new set of capabilities required to shift towards these.

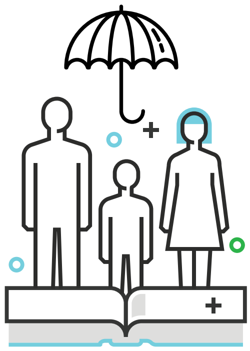
Spending in the right way is an even bigger challenge. While we have new vehicles such as the Social Investment Boards in selected locations and the Social Investment Unit, the majority of social spend is still managed within traditional agency lines. We know that vulnerable families, and indeed any client centred approach, must be truly multidisciplinary, allowing for the service mix to be managed across health, education, mental health, child care and social supports.

In Denmark, a model that is achieving remarkable results has established an infrastructure of common assessment tools, a skilled senior practitioner for each family, and a commitment across social and employment services to reprioritise to match the family's needs. This means listening to families on the support they need, reducing the number of conflicting and expensive programmes they must attend, and working with them to stabilise their lives and build independence. The investment in a structured approach and tools to make this way of working a reality has paid off. New Zealand needs to look to models like this.

While Deloitte's State of the State New Zealand 2016 report looked at how a social investment approach can improve the long term wellbeing of the most vulnerable Kiwis, our current *State of the State New Zealand 2017*[1] widens the lens to look at household resilience and wellbeing. This latest report finds that social investment must be complemented by approaches that reduce income instability. This may take the form of a universal childhood benefit or trials of targeted guaranteed income schemes for vulnerable families.

While social investment tends to be allocated to specific interventions or programmes, a broader income related approach may have reduced overheads to administer and tackle a fundamental driver of resilience, which is having income stability to plan ahead, create security and put away a buffer for a rainy day.

Allocating social investment to some of these bolder approaches, and taking the time to build new infrastructure for collaboration, should see us maximise the return on this significant investment.



**$100m**
**for mental health social investment fund**

**$68.8m**
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**$34.7m**
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# Tax

## Tax and families package – signs of a resilient economy

**Budget 2017 delivers the expected tweaks to tax thresholds, but goes further to support families through targeted transfers.**

Personal tax reductions have not been a feature of the Budget since 2010. Rather the focus of successive budgets has been on returning to surplus, with the occasional hint that the government would consider tax rate reductions when conditions allow.

As the economy has continued to grow, and the much vaunted surplus was eventually reached, personal tax reductions are once again back on the table - seven years after the last adjustment.

Over the last seven years average wages have increased, and individual taxpayers have found themselves subject to higher marginal taxes. Because marginal tax brackets are not pegged to inflation, workers can find themselves paying more in income tax, without a proportionate increase in their real (inflation adjusted) income. This phenomenon is known as "bracket creep" or "fiscal drag".

Fiscal drag can perhaps best be illustrated by the increased number of taxpayers that are currently subject to the highest marginal tax rate of 33 percent. In 2010 the government estimated that 12 percent of individual taxpayers would earn taxable income of more than $70,000. In Budget 2017, this has increased to 19 percent.

The changes announced in Budget 2017 are in some way a response to fiscal drag, as the focus is on increasing tax thresholds, rather than reducing rates. But they are only possible because of the resilience shown by the economy in responding to some significant domestic and internationally induced shocks over an extended period.

As part of the package, the Independent Earner Tax Credit will be discontinued. Those earning between $24,000 and $48,000 who are eligible for this credit currently (around $10 a week up until $44,000 and then fully abated by $48,000) will lose that entitlement, but are fully compensated through the threshold changes – noting that only 32 percent of eligible recipients have actually been claiming the credit, so this change is a welcome simplification of the system.

The threshold changes will take effect from 1 April 2018, and are set out in the table below.

| New Zealand | | | |
|---|---|---|---|
| Current tax thresholds income range | | New tax thresholds from 1 April 2018 | |
| 0 – 14,000 | 10.5% | 0 – 22,000 | 10.5% |
| 14,001 – 48,000 | 17.5% | 22,001 – 52,000 | 17.5% |
| 48,001 – 70,000 | 30% | 52,001 – 70,000 | 30% |
| 70,000 + | 33% | 70,000+ | 33% |

| Annual income | Weekly tax (current) | Weekly tax (1 April 18) | Weekly saving | Annual saving |
|---|---|---|---|---|
| 20,000 | 48.46 | 40.38 | 8.08 | 420 |
| 30,000 | 72.12* | 71.35 | 0.77 | 40 |
| 40,000 | 105.77* | 105.00 | 0.77 | 40 |
| 50,000 | 154.23 | 138.65 | 15.58 | 810 |
| 60,000 | 211.91 | 191.54 | 20.38 | 1,060 |
| 70,000 | 269.61 | 249.23 | 20.38 | 1,060 |
| 100,000 | 459.98 | 439.62 | 20.38 | 1,060 |
| 150,000 | 777.29 | 756.92 | 20.38 | 1,060 |
| 200,000 | 1,094.60 | 1,074.23 | 20.38 | 1,060 |

*Assumes that the individual already benefits from the existing Independent Earner Tax Credit.

### What does this mean for me?

- If you earn the average wage of approximately $57,000, you will receive an extra $20.38 a week ($1,060 annually).

- If you are on a lower salary, say, $35,000, and claiming the Independent Earner Tax Credit, there will be a negligible net change to your after-tax income – the $10 credit is replaced by a $10.77 saving through the threshold adjustments – equivalent to $40 a year.

- Those earning above average wages don't see a considerable benefit over and above other taxpayers, as the $70,000 threshold for the top tax rate remains unmoved – as demonstrated by the previous table.

Tax reductions of course allow individuals choices. What are you going to do with the extra cash in your take-home pay? Some will spend it, and that is of course no bad thing to help keep the economy humming. But others will pay down debt, or save that little bit extra – being more prepared and resilient for the next economic cycle.

### Providing relief to families through transfers

A significant part of the package is the support being provided to low and middle income earning families through other measures. These include:

- Working for Families adjustments - changes to the Family Tax Credit rates for children aged 0 to 15, so that these align with the rates for children aged 16 to 18 years. This will increase the maximum credit for the first child under 16 by $9 a week, and for each subsequent child under 16 by between $18 and $27 a week.

- Increases to the Accommodation Supplement – payments will increase to reflect the cost of housing, benefiting around 136,000 households by an average of $36 a week, with the maximum payment rates for a two person household increasing by between $25 and $75.

- Accommodation Benefit rates for Student Allowance recipients will increase by up to $20 a week to reflect the cost of housing for students – benefiting approximately 41,000 students.

These changes, in addition to the tax threshold adjustments, will make for a meaningful increase to after tax income for many families.

To illustrate, a couple with a household income of $85,000 and 3 children, who qualify for the in-work tax credit, would have a $2,133 increase in after-tax income, made up of the following:


The focus of these measures are deliberately targeted at middle New Zealand

| | |
|---|---|
| Weekly tax deduction | $26.35 |
| Weekly Independent Earner Tax Credit change | $0.00 |
| Weekly Working for Families change | $14.68 |
| Total **weekly** change to my family income | $41.02 |
| Total **annual** change to my family income | $2,133.00 |

The focus of these measures are deliberately targeted at middle New Zealand, as the Government continues to seek to demonstrate to voters that it isn't just out to look after the top-earners.

However as more and more taxpayers are pushed into the top tax bracket, the demographics of who are subject to the 33 percent rate are changing. The average wage is now close to $60,000. There will be considerable pressure to increase the band for the existing $70,000 threshold, noting that the 19 percent of taxpayers in that bracket pay 62 percent of all personal income tax.

Watch this space.

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# Tax

## Business Tax – standing on the edge...

**Budget 2017 was unsurprisingly light on business tax announcements.**

| | OECD Country | Corporate Tax Rate |
|---|---|---|
| 1 | Switzerland | 8.50 |
| 2 | Hungary | 9.00 |
| 3 | Ireland | 12.50 |
| 4 | Canada | 15.00 |
| 5 | Latvia | 15.00 |
| 6 | Poland | 15.00 |
| 7 | Germany | 15.83 |
| 8 | Czech Republic | 19.00 |
| 9 | Slovenia | 19.00 |
| 10 | United Kingdom | 19.00 |
| 11 | Estonia | 20.00 |
| 12 | Finland | 20.00 |
| 13 | Iceland | 20.00 |
| 14 | Turkey | 20.00 |
| 15 | Luxembourg | 20.33 |
| 16 | Slovak Republic | 21.00 |
| 17 | Denmark | 22.00 |
| 18 | Korea | 22.00 |
| 19 | Sweden | 22.00 |
| 20 | Japan | 23.40 |
| 21 | Israel | 24.00 |
| 22 | Italy | 24.00 |
| 23 | Norway | 24.00 |
| 24 | Austria | 25.00 |
| 25 | Chile | 25.00 |
| 26 | Netherlands | 25.00 |
| 27 | Spain | 25.00 |
| **28** | **New Zealand** | **28.00** |
| 29 | Portugal | 28.00 |
| 30 | Greece | 29.00 |
| 31 | Australia | 30.00 |
| 32 | Mexico | 30.00 |
| 33 | Belgium | 33.00 |
| 34 | France | 34.43 |
| 35 | United States | 35.00 |
| **OECD average** | | **22.23** |

Budget 2017 was unsurprisingly light on business tax announcements. The small adjustment to tax bands for individuals is of little consolation to companies who will continue to pay tax at 28 percent for the foreseeable future; the Government having chosen to leave our corporate tax rate as one of the highest in the region and the 7th highest in the OECD (before the recent Australian and US announcements).

It is interesting to contrast this to what we saw two weeks ago in the Australian budget, which saw Australia set a destination to reduce its corporate tax rate from 30 to 25 percent over a ten year period. Against a backdrop of an OECD average corporate tax rate of 22 percent, an Australian destination of 25 percent, and the flow-on impacts of the US proposals to reduce its corporate tax rate to 15 percent, providing some signal on the future direction for corporate tax would have been welcome to New Zealand business. Ensuring that our corporate tax rate is competitive helps our companies to compete on the world stage and invest in their business to adapt to changing market conditions.

On the positive side, alongside the Budget we have seen the release of a Discussion Document on "*Black hole and feasibility expenditure*" proposing changes to claw back the negative consequences for business from the Supreme Court decision in *Trustpower*[1] last year.

The proposal is to align the tax treatment with that adopted for accounting – so if there is no "asset" on the balance sheet, feasibility expenditure will be deductible. In addition, capitalised feasibility expenditure on an abandoned asset would be deductible if expensed under IFRS. The devil will be in the detail of the proposals, but overall this is a positive move and a relief to businesses – although some may say it is too little too late, and there is are still remaining areas of black hole expenditure that require a resolution.

As expected, Budget 2017 does not include any further measures in relation to base erosion and profit shifting (BEPS) as how this will happen is still subject to consultation. Officials are still digesting submissions received last month on a suite of consultation papers. While we appreciate the need to act on BEPS, our response needs to be measured and relevant to the issues here in New Zealand. It is important that any response does not undermine the world's view of New Zealand as an investment destination. As the changes in Australia show, tax competition is alive and well and New Zealand needs to ensure that while acting against BEPS it signals that it is open for business.

In this respect it is important to note that the New Zealand tax system is currently viewed favourably. The recent Deloitte Asia Pacific Tax Complexity Survey[2] revealed that predictability is now the key factor in today's business decision-making. Interestingly, over 90 percent of survey respondents indicated that reputational risk is an important consideration in their businesses' tax strategy. This self-policing may negate the need to implement harsh BEPS measures, with 75 percent of respondents stating they would not enter into a planning strategy if it is perceived by some to be aggressive, even if the strategy is legal or the tax law did not specifically consider it illegal.

While New Zealand is the centre of our world, we should remember that we lack the critical mass to be an essential sales destination for many. If measures are too severe then multinationals may choose to take their business elsewhere.

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[1] Trustpower Ltd v Commissioner of Inland Revenue [2016] NZSC 91
[2] www.deloitte.com/nz/asia-pac-tax-survey

# Trade

## Digital a great opportunity for exporters

**Budget 2017 includes $134 million over four years to support the Government's Trade Agenda 2030 (including the World Expo funding).**

This updated trade strategy has a stated goal to have free trade agreements (FTAs) cover 90 percent of New Zealand's goods exports by 2030, up from 53 percent today.

The Government can pave the way for New Zealand's exporters through better market access. However, there are a number of challenges that businesses need to overcome to grab this opportunity with both hands and run with it. We have identified two key challenges that businesses need to tackle to make good on government investment in trade.

- Export mindset – as the Government reduces the hurdles to trade, do our businesses have the export mindset to make good on the opportunity?
- Digital savvy – do our businesses have the digital savvy to participate in emerging digital trading platforms, particularly those in Asia?

Increased government support for trade interestingly comes at a time when there has been growing economic nationalism and protectionist rhetoric from some of our important trading partners – most notably the United Kingdom with Brexit and the "America first" agenda articulated by President Donald Trump.

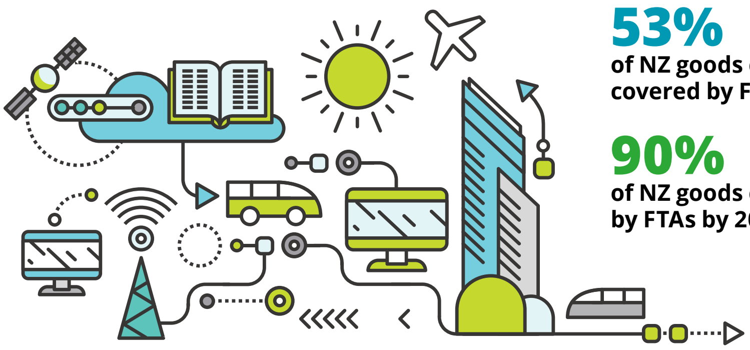
The scepticism around the benefits of free trade also exists here in Aotearoa. A recent survey conducted by Chartered Accountants Australia New Zealand (CAANZ) found that 72 percent of New Zealand business respondents thought FTAs had little impact on their business (rated in the survey as having no impact, neutral impact or were not sure of the impact). This result begs the question whether we have the wrong agreements in place, the wrong mindset or a lack of capability to take advantage of these agreements. The establishment of a Ministerial Advisory Group to "ensure the public is better informed on trade issues" is a good step forward to shift the mindset with respect to the opportunities for trade based growth.

In addition to a shift in mindset, what are some of the new capabilities we will need to take advantage of the Government initiatives? Emerging technologies and online platforms for trade can even the playing field for Kiwi companies. The growth of ecommerce platforms, like Alibaba and WeChat in China, means there is ample opportunity for New Zealand exporters who are digitally savvy.

In Deloitte's first Voice of Asia report published earlier in the year we predicted that global growth would in part be underpinned by the consumer booms taking place in China and India. This is where technology could be a game changer. We know that Asian countries are more digitally engaged relative to global peers, and Singapore and Hong Kong are clear world leaders. In countries with large unbanked populations, individuals have turned to digital solutions to allow them to participate more in the economy. Digital means a bank account or cash is no longer a pre-requisite, enabling individuals to participate in an otherwise inaccessible financial system. In China, online payments through the likes of Alipay and WeChat Pay, with hundreds of millions of users each, are fuelling digital ecommerce.

On one hand, the use of online marketplaces fuelled by digital payments is a great opportunity for us. But the potential rewards also carry risk and a successful Kiwi company could become a victim of its own success. In a market the size of China, for example, one order could clean an aspiring exporter out of product in one go.

While online platforms and digital offer a brave new world, exporters still need to have a firm grasp of business basics like supply chain, forecasting and cash flow. Budget 2017's boost for Ministry of Foreign Affairs and Trade (MFAT) resources, which includes money to help more New Zealand businesses succeed internationally, is there to help our exporters negotiate these potential pitfalls. However, the challenge sits with our business leaders and their desire to make good on this investment.



**53%**
**of NZ goods currently covered by FTAs**

**90%**
**of NZ goods covered by FTAs by 2030**

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# Infrastructure

## Customer and technology driven change challenge transport momentum

**New Zealand's central and local government transport agencies should take a well-deserved bow. But they can't rest for long in the face of dual challenges from increasing customer expectations and digital disruption.**

Over the last decade we have seen real momentum in dealing with the supply side of our transport infrastructure in the fight against congestion and its impact on productivity, liveability and social standards in our major cities.

Wellington and Auckland have new and larger fleets of passenger trains. Double decker buses are becoming more commonplace on our urban roads. Ticketing systems are smarter. And our largest transport project ever, the $3 billion City Rail Link (CRL) in Auckland's CBD, is underway. When completed, the CRL will deliver much needed capacity for the rail network as well as a massive boost for development in the areas of the city it will serve.

Let's not forget our roads that do the heavy lifting in terms of urban mobility. The Government's Roads of National Significance (RoNS) programme is in full implementation. The 2.4 km ($1.4 billion) Waterview Tunnel, a key piece of Auckland's Western Ring Route, is set to open this year, connecting Pt Chevalier and Mt Roskill. The Kapiti Expressway has recently opened north of Wellington and Transmission Gully is underway. These are two of the eight projects that make up the Wellington Northern Corridor.

Both the Western Ring Route and Wellington Northern Corridor are among the seven RoNS projects, already completed or under construction, around Auckland, Hamilton, Tauranga, Wellington and Christchurch. When completed these projects will provide much needed transport resilience to New Zealand's five largest population centres.

Central and local government agencies are now much more joined up in their planning and aware of the need to consult with key stakeholders. Last year's report from the Auckland Transport Alignment Project (ATAP) shows how planners across the levels of government can work towards a common goal. Similarly, the Let's Get Wellington Moving initiative is aimed at building consensus around the future transportation system for the nation's capital.

The $4 billion more ($11 billion over four years) of infrastructure spend in Budget 2017 continues to build on this demand-side momentum.

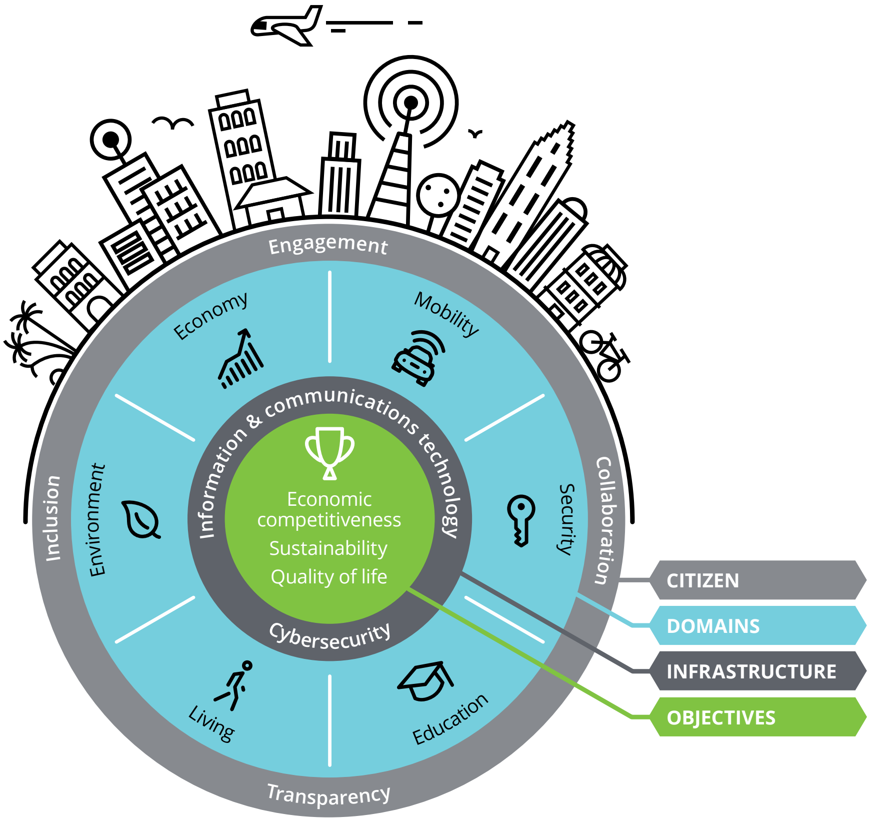
As part of Budget 2017, the government has announced that it will invest $9.17 billion in capital into the state highway network over the next four years, including $4.4 billion from the National Land Transport Fund. This funding will progress a number of transport projects over the next four years including:

- The completion of Auckland's Western Ring Route
- Northern and Southern Corridor State Highway 1 improvements in Auckland
- The Transmission Gully and Puhoi to Warkworth Public Private Partnerships
- The State Highway 1 Peka Peka to Otaki Expressway

In addition, the government has allocated $812 million toward repairing State Highway 1 north and south of Kaikoura and $436 million of new capital for Auckland's City Rail Link (as the first tranche of funding). It will also invest $548 million of new capital funding to maintain and upgrade the rail network, including $450 million for Kiwirail over the next two years.

Everyone agrees that we can't build our way out of the congestion problem. Supply side action is also needed. Our hero needs to be transport pricing – a key recommendation in the final ATAP report and with options now being developed by transport planners. The other driver for changing the way we charge for using our roads is the impending wave of electric vehicles over the next 3-5 years that will begin to undermine traditional fuel based revenue collection systems.

Dynamic road pricing and real time traffic information, using the internet of things (IoT), is a key part of the mobility domain in Deloitte's Smart City framework. *Deloitte's 360° Smart City* looks across every aspect of a city's operations to use technology to improve outcomes. The result is an urban centre – underpinned by digital infrastructure – that not only leverages

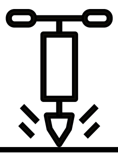



### What is a smart city?

**The convergence of technology and infrastructure provides a workable construct for smart cities that forms the basis of this discussion. This construct places the smart city at the center of traditional infrastructure. Its connection to and augmentation by IoT technology allows for process optimisation and automation to occur, thereby making it "smarter." Smart infrastructure can be segmented into six domains, governed by a nuanced framework, in which the city and its citizens are simultaneously users and enablers of the system, incorporating shared objectives. The figure above illustrates this schematic.**

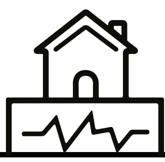
## $11bn

**over four years on infrastructure spend**



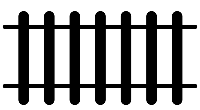
## $812m

**toward repairing State Highway 1 North and South of Kaikoura**



## $436m

**towards Auckland's City Rail link**



technology to improve its own operations, but connects with citizens, business, and non-profits in new ways.

Transport pricing is just one element of a broader trend towards mobility as a service (MaaS). MaaS is all about meeting the increasing customer demand for choice when it comes to mobility. Customers want to be able to plan their journeys by integrating travel across multiple modes (both privately and publicly managed) using a single platform and payment channel.

But with MaaS will come even more disruption to traditional business models and planning paradigms for urban transport. We have already seen how Uber has turned the point to point travel market on its head. Public and private players will need to collaborate and work together across multiple markets and sectors, including those outside of the traditional transport sector such as property, insurance, energy and telecommunications.

Deciding on where government plays in the future of mobility ecosystem and how it embraces collaboration and technology change will be critical decisions for our transport agencies in order to maintain the momentum of the last decade. While there might still be differing views about what the future will look like, we can be certain that the pace of change to be faster than we have seen in the past.

**You can explore Deloitte's Smart City framework and content across different domains – mobility, security, education, living, environment, and economy – using this link: http://smartcity.deloitte.com**

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# Regional development

## Developing our "within New Zealand" story

**For many years now New Zealand has been developing its "story"; how it projects itself to the world. Some might say that in doing so we have finally come of age as a country.**

The narrative presented by Budget 2017 – that New Zealand is a country growing in confidence able to make choices about its future – certainly supports this.

For many years, the United States has successfully projected itself as the land of opportunity and Australia has styled itself as the lucky country. Yet New Zealand did not project itself in a similarly positive way. But in the 1990s international tourism started to boom off the back of cheap airfares and Tourism NZ launched the "100% Pure" brand. The wine industry started to flourish and we started to think of ourselves as sophisticated. And as the Internet took off we found the tyranny of distance less problematic than in the past.

More recently, our political and economic stability has helped us weather the global financial crisis and survive three devastating earthquakes. While there are a number of challenges we still face, through an international lens, we are doing well and our global brand is on the rise. New Zealand has come a long way in a relatively short time.

A large part of our success has been buoyed by the success of Auckland on the global stage. Like other global cities, Auckland is viewed as a destination for domestic and international capital and labour. This is not by accident. It happened through the process of natural urbanisation that was facilitated by a number of deliberate policy settings, including the establishment of an integrated regional local government.

But in some respects Auckland has become the victim of its own success.

Auckland's growing pains have prompted important discussion around what the roles of other regions and cities should be as part of the New Zealand story.

What roles should our regions, including Auckland, play in concert to support our overall success? We refer to this as the "within New Zealand" story.

As any investment advisor will tell you, putting all your eggs in one basket is never a good idea. Luckily for New Zealand, the foundations provided by the agri-economy and the continuing exponential growth of tourism provide useful anchors for the economy. While ensuring Auckland's success continues to be of paramount importance, in our view there also needs to be consideration of how to actively support economic growth outside of Auckland.

As already noted, there has been much effort on developing the New Zealand story that we project to the world. What's less developed is the within New Zealand story.

This is the next stage of the conversation. What roles should Wellington and Christchurch, for example, play in New Zealand's success? How should they also be encouraged to outperform the market and be global cities in their own right – but different to Auckland?

So what could a within New Zealand story look like? Perhaps it might have some of these features:

- Wellington and Christchurch could agree a "city deal" with central government which encourages investment in specific initiatives to drive growth based on pre-existing strengths in those cities.
- Rationalisation of the broader transport sector to take a "system" view of roads, rail, ports and airports. For example, not all major cities need a port so long as there is an excellent and reliable rail link to another port and a resilience strategy in place in the event of a natural disaster.
- New local development authorities (LDAs) could be established, alongside special economic zones – perhaps with some targeted tax incentives such as R&D tax credits for medium sized companies. The LDAs could support delivery of affordable housing at scale while the economic zones would focus on local strengths to generate jobs – safe in the knowledge that workers would have access to decent quality and affordable housing.

To what extent did Budget 2017 help define this journey? At a level it did. It provided funding for important regional transport infrastructure, including $9.17 billion to be invested into the state highway network over the next four years, and $812 million for repairing State Highway 1 in and out of Kaikoura. And the Budget delivered $178 million for tourism infrastructure. But these haven't changed the existing paradigm of New Zealand's urbanisation story.

There are any number of ideas but ultimately our other cities and their surrounding regions need to attract global talent and capital and differentiate themselves from Auckland. Having at least three global, but different, cities is not an unrealistic goal. Done properly it would accelerate New Zealand's overall growth, increase our resilience and improve the relative competitiveness of our regions.

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# Health

## Shift the fundamentals to work smarter in the health system

**Health has done comparatively well and continues the trend of receiving net new funding on top of a substantial baseline.**

Budget 2017 includes an extra $3.9 billion over four years, taking the total health investment to $16.8 billion, including extra spending of $879 million in 2017/18 – the biggest increase in eleven years.

Specific initiatives announced by the government include the following:

- **$60 million** more over four years to Pharmac. Pharmac's budget for 2017/18 will be a record $870 million, an increase of $220 million since 2008. The majority of New Zealanders access only a small portion of this budget – and we benefit from relatively universal coverage. However, if overseas experience is anything to go by, more and more high cost and extensive treatments will be consuming the lion's share of this investment with a correspondingly smaller number of people requiring a larger share of the funds. This situation is unlikely to reverse soon.
- **$224 million** over four years for mental health services. This includes $100 million for a mental health social investment fund as part of the Social Investment Package. Interestingly, a sizeable portion of this funding is coming from the allocation for social investment. Our recent State of the State New Zealand 2017 report (www.deloitte.com/nz/stateofthestate) shows how ensuring household resilience preserves New Zealand's wellbeing in the face of uncertainty and shocks. Good mental health is a key factor in household resilience. Unfortunately, half of our population can expect to experience some form of mental health issue throughout their lifetime. Comparatively, we have appalling youth suicide statistics, a high incidence of domestic violence and our students fare poorly on the PISA Student Well-being league table, to name just a few. Addressing mental health issues through a social investment approach that is wellness-based and not just disease focused, has the potential to provide a material increases in resilience.
- **$205 million** for disability support services, which mirrors the increased investment in mental health and the government's commitment to social investment. Too often we ask parents and whānau to bear the full brunt of raising and looking after family members with disability. Respite care has been in the news a number of times and the sector can certainly do with sorely needed additional investment and resources.
- **$1.54 billion** for wage increases for 55,000 care and disability support workings as part of the TerraNova pay equity settlement. Our most significant cost pressure in New Zealand will continue to be salaries and wages. The pay equity settlement covers only 55,000 healthcare workers, while the total health workforce comprises at least 160,000 and the total health and social workforce is pegged at over 250,000. According to the OECD[1] league tables, with 55 care givers per 1,000 of population, we are right in the middle of the workforce range; slightly below the UK and United States. By contrast, Mediterranean countries such as Italy and Greece run on half that workforce ratio, while Scandinavian countries, with a higher tax take, have twice these numbers.

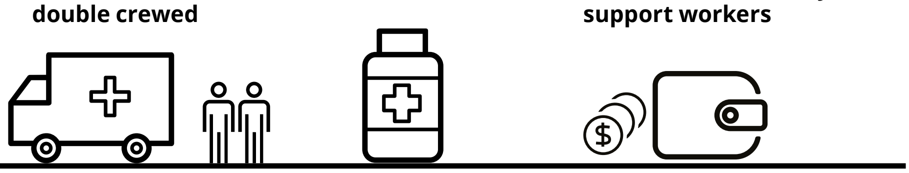
The bulk of our additional funding for healthcare is due to rising demand and cost pressures – and will ultimately be invested in the workforce. There is no doubt that our health and social workforce is working extremely hard and that its size reflects our ability to fund it based on the tax take. However could it work smarter?

The Ministry of Health launched its New Zealand Health Strategy last year but how will the implementation and execution of this strategy be funded? Based on the last Treasury update[2], only one of the health projects under the monitoring regime was "in the green". What resources will be required to deliver the current projects and any new projects successfully? How will these projects advance the Health Strategy and what are the opportunities to bend our cost curve? These questions remain mostly unanswered and this Budget is still about working harder and increasing workforce levels, rather than getting more value for money out of every hour spent.

**$59.2m**
**over four years to ensure all ambulance crews are double crewed**

**$60m**
**over four years for Pharmac**

**$1.4bn**
**for wage increases for care and disability support workers**



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[1] Latest (2014) figures available from http://stats.oecd.org/
[2] November 2016 Major Projects Performance report

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