DENTONS KENSINGTON SWAN

Is there such a thing as a moral budget?


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As the country stands at that crossroads, today's budget doesn't give an entirely clear direction as to which way we're travelling. Blame Finance Minister Grant Robertson's instincts. Robertson is a refreshingly emotional politician, unafraid to show his heartfelt empathy for anyone facing tough times. But he is also coolly pragmatic. As fast as he wants to go, he has no appetite for scaring middle voters back to National which means he's keeping his foot only lightly on the pedal.

> **"New Zealand is fast approaching a crossroads. We can either take a road that costs the country more but eventually leads to better outcomes and the fast lane, or we can push our spluttering car further with no maintenance into the slow lane."**
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> ***Economist Brad Olsen, commenting ahead of today's budget***

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So from the Minister who brought you the pay freeze that wasn't, we now have the debt target that isn't. Finance Minister Grant Robertson was today at pains to emphasise he had no target for the net debt to GDP ratio – given the prevailing economic uncertainties, aiming at a particular percentage was meaningless, he said.

And yet … that net debt is now expected to peak below 50 percent was highlighted both in the Minister's Budget speech and in his earlier briefing at the media and analysts lock-up. That the government's operating balance would return to surplus by 2026/27, well in advance of what was forecast even six months ago, was another statistic the Minister was happy to emphasise.

So while he may not have a target, Robertson clearly has an objective: to maintain his carefully cultivated image of fiscal prudence. While a budget is full of numbers, graphs, financial projections and economic data, it is first and foremost a political document. And this year's version was written with more than one eye on those former National voters who jumped left at the last election and gave

Labour the historic (and possibly not to be repeated) opportunity to govern alone.

Fairly or unfairly, National is traditionally regarded by many median voters as a safer bet to handle the nation's finances. Despite that party's current state of disarray, Robertson seems determined to establish Labour's credentials as a responsible steward.

At the same time, Robertson has armed himself against accusations of austerity; no more so than in addressing benefit levels.

In 1991 National's Ruth Richardson presented what she proudly proclaimed was the 'Mother of all Budgets'. It was the first budget to be prepared by a woman finance minister, the first budget to be televised and – most famously – it slashed benefits, imposed market rents on state houses and introduced user charges for health care and other social services. The objective was to slash $1.27b from welfare spending. It was a brutal shock to the poorest New Zealand households and some never recovered. At the time and in the decades since Labour has railed loudly against that 1991 budget but been timid to address its legacy.

Then in the first term of the Ardern Government the Welfare Expert Advisory Group set out the case for urgent action. Calling on the Government to urgently increase benefit levels and address systemic low pay, the WEAG said bluntly that the welfare system was no longer fit for purpose.

> *Evidence is overwhelming that incomes are inadequate for many people, both those receiving a benefit and those in low-paid work. Current levels of support fail to cover even basic costs for many people, let alone allowing them to meaningfully participate in their communities.*

At the time, that report and those calls for urgent action went unheeded. But more than a year, an election and an increased mandate later Grant Robertson has completed the double.

Last week the Government announced a new fair pay agreements system designed to strengthen union influence in workplaces and set minimum industry pay and conditions. Today's budget restores benefit levels (in two stages – July 2021 and April 2022), lifting benefits in two stages – in July this year and then in April next year. The increase – between $32 and $55 per adult - will cost $3.3 billion over the coming four years, with the Government forecasting the changes would lift up to 33,000 children out of poverty by 2022/23.

No question the increase will make an immediate difference to individuals and the extra cash will all be spent in local communities. But this won't 'fix' the poverty problem or the increasing equality gap. Thirty years on from 'Ruthanasia' (as it was then called) there are many other complex societal factors embedding disadvantage and isolation. For evidence, look no further than one major area of increased welfare spending that the Government didn't highlight - the almost half a billion-dollar increase in annual accommodation assistance projected for 2021/22. Every dollar spent is evidence of disadvantage, increasing accommodation costs and a dysfunctioning housing market.

Nonetheless, Robertson framed the move on benefits as a moral issue. 'We have an obligation as a relatively wealthy nation not to accept the levels of inequality that are present in our society,' he told Parliament. But it also a credibility issue. Prime Minister Jacinda Ardern has made reducing inequality, and child poverty in particular, a personal crusade and left of centre voters are watching closely.

The benefit changes will attract the biggest headlines. But while they may give the impression of boldness, the overall budget is a cautious and conservative start.

For weeks now Robertson has emphasised the need for a balanced approach, an approach that 'protects New Zealand's strong position by keeping a lid on debt and tracking a responsible return towards surplus, while giving us the ability to make targeted investments where they are needed most to secure our recovery'.

But as Robertson also said today, 'there were no costless decisions in [developing a response to] Covid-19', and the cost of maintaining Labour's image of fiscal prudence remains open to question.

A capital allowance of $12 billion over four years (with $3.9 billion earmarked for spending this year) is not a significant increase on previous years and previous governments – governments who are now criticised for having under-invested in all manner of infrastructure. Likewise government expenditure, while set to increase slightly in nominal terms over the next four years, is expected to decrease as a percentage of GDP, forecast to fall to 29.2 percent in 2024/25.

These assumptions don't quite square with the Minister's talk of 'record infrastructure investment' or his and his colleagues' ambitious goals to decarbonise the economy, reform the health sector, and create a three waters regime that is fit for the 21st century. They also call into question some of the other assumptions made in compiling the Budget – notably Treasury's heroic suggestion that the Government's policy changes will see house-price inflation stall at a somewhat improbable 0.9 percent.

Other things to note:

Health

With significant health reforms on the way, including the abolition of DHBs, the Government has set aside almost half a billion dollars ($486 million over four years) to establish the new health entities, Health NZ and the Maori Health Authority. Serious money, with no guarantee that it will lead to improved outcomes for patients.

The Budget has also allocated $2.7 billion additional support over four years for District Health Boards, which includes $700 million for capital projects.

Patient advocacy groups will no doubt b e disappointed by the increased funding for PHARMAC. The medicines buying agency receives an additional $200 million over four years, enough to keep up with population growth and inflation, but well short of the $400 million a year that is needed to fund all medicines that PHARMAC has approved but does not currently fund.

Māori

Key to Labour's electoral success in 2020 was the strong support from Maori voters. That, along with the pressure imposed by a resurgent Te Paati Māori, has helped Māori ministers (who make up 25 percent of the Cabinet) win significant money for Maori initiatives.

There is $380 million to deliver 1,000 new homes for Māori including papakāinga housing, as well as repairs to about 700 Māori-owned homes and expanded support services. $350 million of the $3.8 billion Housing Acceleration Fund will be ring-fenced for Māori housing infrastructure.

Pre-Budget speculation was that Housing Minister Megan Woods turned down the initial bid for Māori housing initiatives, leading to strong push back from Labour's Māori caucus. While suggestions of a stoush were denied by all sides, today's Budget suggests the Housing Minister had to back down.

Elsewhere the Government allocated $242.8 million for Māori health initiatives, including setting up the new Māori Health Authority; $150 million in Māori Education to support Māori boarding schools and lift kōhanga reo teachers' pay; $42 million to build a sustainable Māori media sector and invest in programme content; $15 million for Māori tourism; and $14.8 million for the implementation of the Māori language strategy.

This Budget and the work Labour's Maori caucus are putting in generally shows that Labour is determined to hold on to Māori votes and fend off the challenge from Te Paati Māori.

Trainspotting

KiwiRail will receive

- an $87 million capital injection to maintain core freight, tourism, property and ICT assets pending the commissioning of new replacement assets
- a $450 million investment in the rail network
- a $723 million investment in new locomotives and rolling stock and in the development of maintenance facilities

Climate change

Not given much fanfare, given the Government continues to stand by the Prime Minister's statement that climate change is this generation's 'nuclear free moment'.

- $19.7m for responding to the Climate Change Commission's final report
- $3b revenue generated by the ETS will be spent on green investment and climate change responses

Opening the border

While this Budget turns the focus on the usual business of Government, it is still clear that managing Covid remains a challenge and a potential drain on the economy. There is still $5.1b left in the $62b Covid response and recovery fund. But we now know Treasury is planning for a 'significant opening of the border' on 1 January next year. Like its housing price forecast that may be too optimistic.

What it will cost to

Extend the Warmer Kiwi Homes Programme
2021/22 $47.7 million; 2022/23 $72.4 million

Support the New Zealand Screen Production Grant - International
2021/22 $162 million

Provide Small Business Digital Training, Advisory and Support Programmes
2021/22 $22 million; 2022/23 $22 million

Meet increased operational costs for state and state-integrated schools and for Early Childhood Education services
2021/22 $27 million; 2021 – 2025 $191 million

Redevelop Scott Base
2021-2025 Capital investment $306 million; operating costs $43 million

Implement and deliver Assisted Dying Services
2021/22 $12 million

Build new homes and repair existing homes for Māori
2021/22 $127 million; 2021-2025 $380 million

Establish multi-regional water service entities
2021/22 $114 million; 2022/23 $182 million

Reinstate the Training Incentive Allowance for NZQA Levels 4-7
2021/22 $44 million; 2021 – 2025 $153 million

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