NZCTU Te Kauae Kaimahi

A Working People's Analysis of the 2021 Budget

Budget Report 2021

21 May 2021

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Contents

Overview

Budget 21 provided New Zealand both with spending surprises and with fiscal control – the 'balance' that Minister Robertson had been touting for the past few weeks. The question the Budget asks in delivering that goal, is has the Government got the balance right in delivering a more productive, sustainable, and inclusive economy? Are we as the Minister of Finance said in his Budget Speech "well positioned, and ready to take on those long-standing challenges"?

New operating spending was increased significantly from the levels indicated previously- up from $2.6bn to $3.8bn. There were increases in capital spending – with extra investments in rail, education, and health. The largest increase was a $3.3bn increase in main benefits, with increases to come next year and the year after. The Minister of Finance indicated that this was necessary[1] to "right the wrongs" of the changes made 30 years ago. We welcome these changes to both welfare and the fiscal strategy.

However, this still led to the accusations from some quarters[2] that the government "has delivered a fiscally conservative budget". Others went as far as to say[3] that "I think that we should be doing more to tackle those long-term issues today". The fiscal indicators all suggest that the Finance Minister has chosen to be very prudent with his expenditure, and the level of net core Crown debt ends below 40% of GDP on some measures. OBEGAL (Operating Balance before Gains and Losses) is due to come back into surplus by 2026/27. These are all significant improvements on the position that we anticipated at the Budget last year. They also indicate the space that remains should the government need to make additional support available to the economy in the near term.

These improvements also extend to the economic forecasts of the government. GDP growth is due to be robust, peaking at 4.4% in 2023. Unemployment is due to fall to 4.2%, whilst inflation and interest rates are forecast to remain low. Business investment is buoyed, and wage rises are consistently ahead of inflation. Among all this, house prices are forecast to remain essentially static after growing 17.3% this year – despite net migration returning to 43,000 in 2025. If these numbers are delivered, then the government will truly have delivered a COVID-19 recovery to be proud of.

While many people will concentrate upon the new flashy spending announcements and the new policy initiatives, some Budget decisions seemed to go under the radar. Funding to support early childcare education was less than inflation – meaning a cut in real terms. Funding to support the day-to-day activities of health service appear to be running well behind the estimated cost pressures. Universities and the Ministry of Justice also appear to have missed out on necessary spending. Worksafe and Vote Labour received no additional funding except to finalise the Government's Whakaari Response – which in turn is expected to be funded through levy charges.

There were also some areas where the government seemed to be making interesting choices in its spending. We are likely to see more spending on the revamped Scott Antarctic Base than we are on new Maori houses. We saw the government spend near identical sums of money[4] on reforming the RMA and on family violence and sexual violence funding. The amount of funding going to the New Zealand Symphony Orchestra next year ($1.6m) is nearly the same as the Ministry of Women receives as a core funding increase for the next four years ($1.7m).

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[1] Henry Cooke – Stuff, 20th May 2020
[2] Brian Fallow- NZ Herald, 20th May 2020
[3] Jarrod Kerr – The Spinoff, 20th May 2020
[4] $131.8m vs $131.9m respectively

The additional funding set out in Budget 21 is welcome and will benefit many of the poorest and most vulnerable communities in New Zealand. The announcement on social unemployment insurance is also welcome. However, the Budget still lacks a clear sense of how we as a country will 'build back better'[5] from COVID-19. There is still an opportunity for the government to invest in a long-term plan for the delivery of a more productive, sustainable, and inclusive economy. This needs to include major investment in the physical and social infrastructure needed for a Just Transition to a low-emissions economy. This budget leaves many of the biggest challenges for future years but starts to make moves in the right direction. The CTU looks forward to working together with the Government to meet the challenges of Building Back Better.

[5] https://www.beehive.govt.nz/release/government-remains-focused-building-back-better

Macroeconomic Indicators

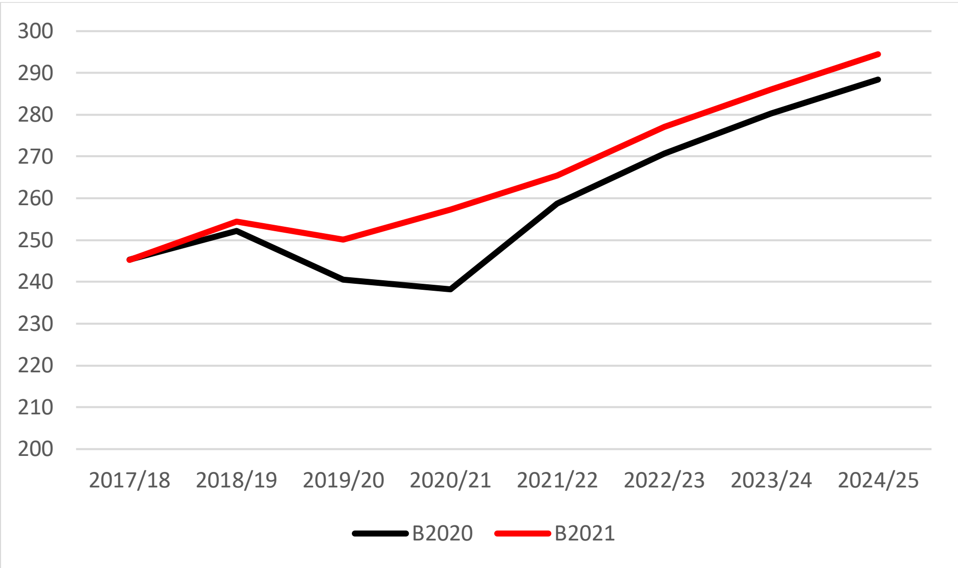
Introduction

The economy appears to be on the bounce back from COVID-19. The Minister of Finance said in his Budget speech that we were going to "secure our recovery"[6]. The Treasury forecasts certainly looked good – with improvements across all the major economic indicators.

GDP Growth

GDP Growth was much improved from the picture just a year ago. GDP was due to decline by 4.8% in 2019/20 – and instead only declined by 1.7%. At Budget 20 growth was also expected to be in decline in 2020/21, but instead saw respectable growth of 2.9% pencilled in. Over the rest of the forecast period growth is expected to continue, with it reaching a peak of 4.4% annual growth in 2022/23.

Real GDP (production measure, in 2009/10 dollars) $bn



To demonstrate the strength of the recovery, if you go back to the forecasts for the 2019 Budget, Real Annual GDP was forecast to be $278.5bn in 2022/23. In the latest budget it is now forecast to be $277bn in that same year. On these forecasts COVID-19 is now a blip in growth rather than a longer-term issue.

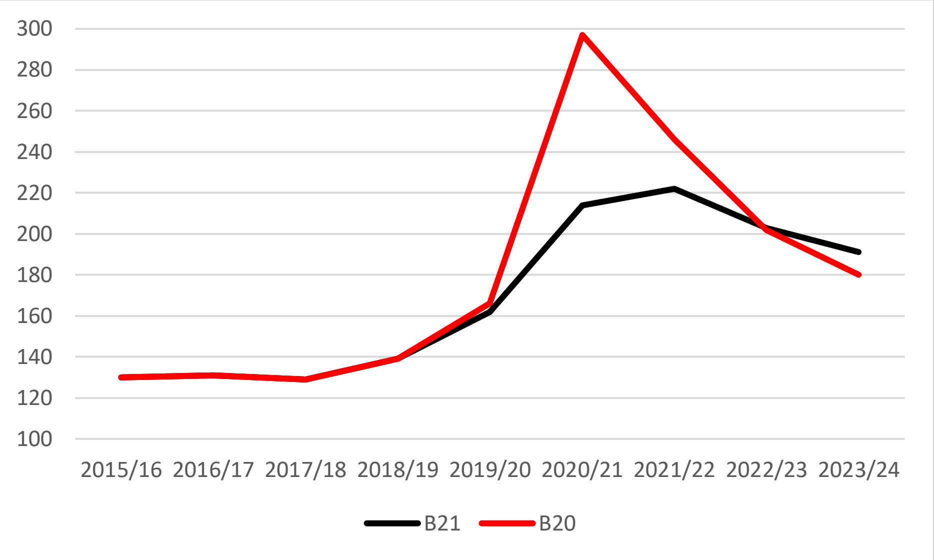
Unemployment

During the height of the COVID-19 crisis one of the biggest fears that the government had was the looming spectre of mass unemployment. This was due to peak at a little under 10% in the June 2021 quarter, with rates still at 5% by the end of the forecast period. Thankfully this did not occur – due in large part to the elimination of COVID-19 from the community in New Zealand, and to the rapid deployment of the COVIID-19 wage subsidy.

[6] Budget Speech, P.2

Just how improved the figures are can be seen from the predictions for the number of people who were expected to be in receipt of Jobseeker Support and Emergency Benefit. The figure for 2021 was 297,000 in Budget 2020. By this budget that figure had fallen by around a quarter to 214,000.

Jobseeker Support and Emergency Benefit Numbers (000's)



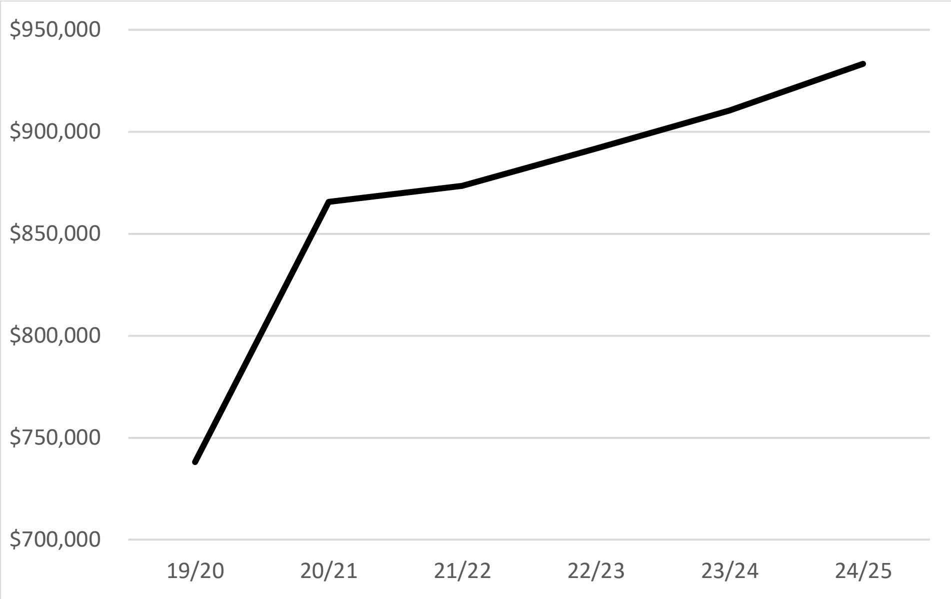
In 2020/21 alone this change was expected to save the Crown $1.25bn in spending on Jobseeker Support and Emergency Benefit. This is almost exactly the figure that the Crown paid out in that year in the wage subsidy scheme. Another benefit of a tighter labour market has been wage growth. Average weekly ordinary hours wages for 2021/22 are forecast to be $1,352 – an increase of $87 from the forecast for the same period a year ago.

House Prices

Economists have argued since the start of unconventional monetary policy operations about how asset prices – and the housing market in particular – have responded. A growing consensus appears to agree that the introduction of quantitative easing has some role to play in the rapidly rising housing markets seen in New Zealand and elsewhere. The tax treatment of housing, their low level of risk, and their ability to borrow to enter the market has seen a significant rise in the number of investors in New Zealand. The data in the Budget sees average house price growth come to a rapid halt because of government policy – in particular the removal interest deductibility on rental investment properties. Without government policy changes house prices are forecast to have 16% higher than the predictions in the Budget

Average House Price Forecast using Budget Data – National House Price[7]

[7] Calculated using QV national price from https://www.corelogic.co.nz/sites/default/files/2020-07/FINAL_Q2_A4_NZ%20Quarterly%20Economic_Report.pdf House prices increased each year using forecasts from table 1.1 of BEFU 2021 (p.6)



The average house price is due to increase from $738,018 in 2019/20 to $933,321 in 2024/25. Without the government changes this would forecast to be over $1m ($1.08m). To give you some notion of the scale of change – average ordinary weekly wages are forecast just to increase by $216 a week over the same period. Even with the slowdown in the expected increase in house prices foreseen by the budget, New Zealanders have some catching up to do if they want to see them become more affordable.

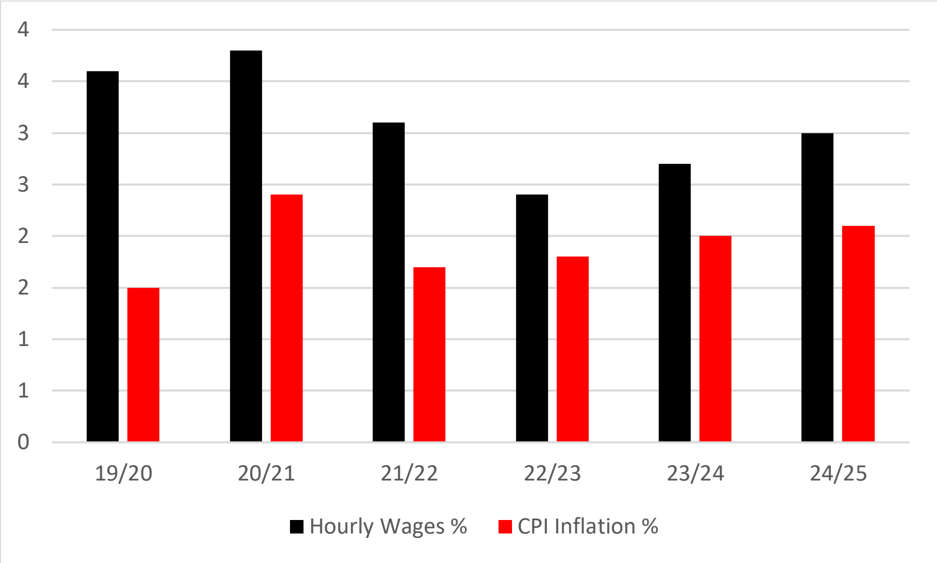
These figures are also being suggested while immigration is likely to return to some sort of 'normal' level. Treasury forecast that by 2024/25 net migration will be 43,000 people per year – up from 8,100 now. It is somewhat difficult to reconcile that level of migration not adding further fire to the housing market without significant additional housing supply – particularly in areas with very constrained housing markets such as Auckland and Wellington. Additional housing supply measures such as RMA reform will be necessary to make sure that this occurs.

Consumer Price Index (Inflation) and Wages

Rapidly rising house prices do not have an impact on the official measure of inflation (CPI) because they are not counted as consumer purchase. As the CTU has described elsewhere inflation also has a very different impact depending upon the nature of your household, how poor or wealthy you are, and the extent to which you are on a fixed income.

CPI is expected to rise to 2.4% in September this year, before starting to fall again to towards the end of the year. Despite this increase in inflation wages are forecast to grow at a faster rate than the cost of living in each year of the forecast period. This has not always been the case, with inflation outstripping wage growth in 2016/17.

CPI (Inflation) and Ordinary Time Wage Growth Forecasts



Despite this faster than anticipated wage growth and CPI, the RBNZ is not expected to react with higher interest rates by the Treasury. It forecasts that interest rates do not start to rise until the end of 2024. Other forecasters such as ANZ[8] are forecasting that the Official Cash Rate will be 1.25% by the end of 2023.

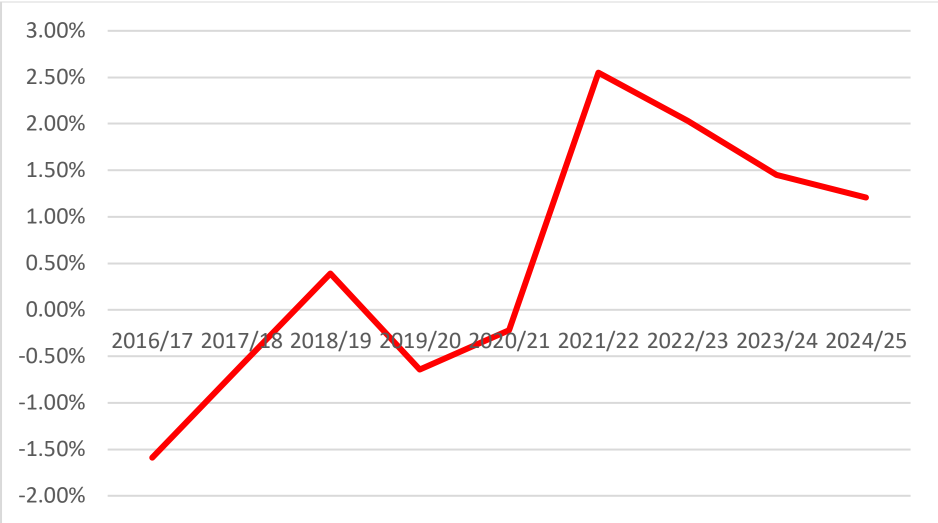
Productivity

One of the ever-present issues in the New Zealand economy is productivity. Labour productivity is forecast to increase significantly as growth returns to the economy. It is not clear what is driving this labour productivity change from the Budget documents. Growth of more than two percentage points a year is unusual, and 2 years of that growth is highly unusual.

Some of this growth may be due to 'catch-up' factors after COVID-19. Some of this may also be due to systematic bias in the Treasury forecasts. Looking back over forecasts from 2018, 2019, 2020, and 2021 there is a consistent pattern of labour productivity being estimated to be higher in the future, only for it is be reduced when observed data is produced. This suggests that we may need to be careful in interpreting the data as presented by Treasury at this Budget.

Labour Productivity Annual Growth – Hours Worked Calculation

[8] https://www.interest.co.nz/news/110438/economists-countrys-largest-bank-now-see-official-cash-rate-125-end-2023-compared-just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Fiscal Indicators

Overview

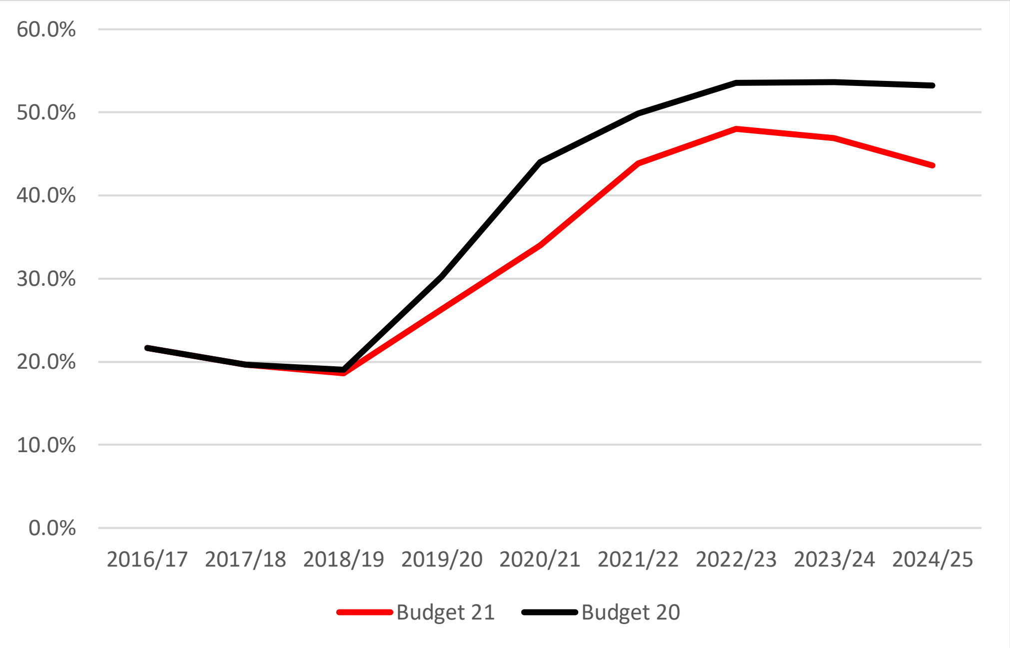
For the Government, the good news from this Budget just keeps on coming. A growing economy and lower than expected expenditure on COVID-19 mean that the Crown has much better than anticipated fiscal indicators. These better numbers were signalled well in advance by the Crown accounts leading up to the Budget. The Minister of Finance said at a pre-budget event that "There is a bit more space in our operating and capital allowances to support the recovery". The scale of the increases in spending however took many people by surprise (including the Author) who were expecting a more steady and fiscally conservative approach.

Net Core Crown Debt

The ability to spend more money at this budget came from the fact that net core Crown borrowing was much lower than expected. By the end of the forecast period the Crown will have borrowed nearly $30bn less than it anticipated at Budget 20, with borrowing falling from $209bn to $180bn by 2024/25. This means that the government also has $25bn of headroom for new debt that it could borrow and still not be in breach of the 'debt figure' that it was elected last year.

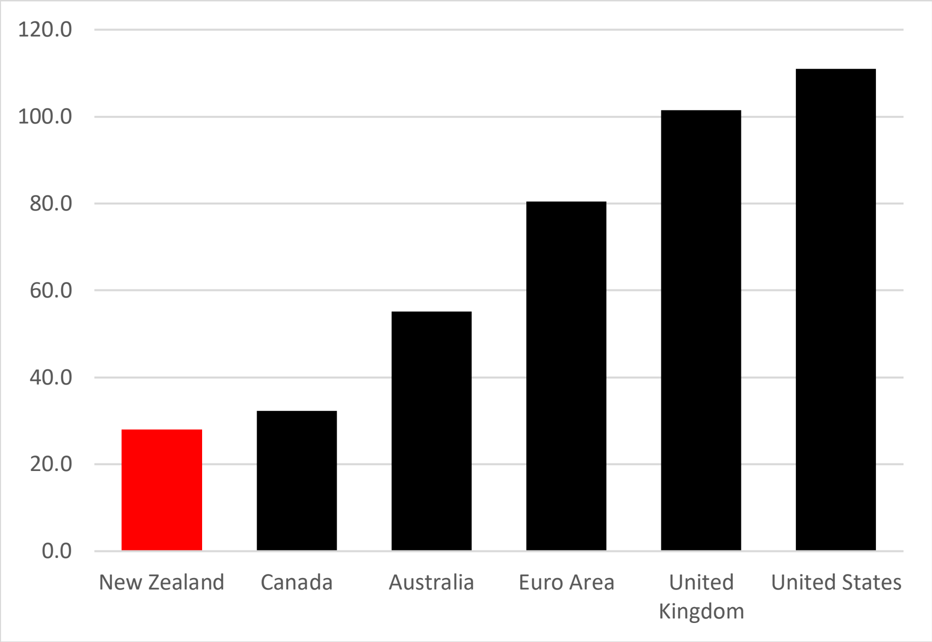
It could be argued that this also means that the government has chosen to leave some investment opportunities behind to deliver lower debt levels.

Net Core Crown Debt – Budget 20 and Budget 21 Comparison



To put the impact of COVID-19 into context, the 2019 Budget saw net core Crown Debt peak at 18.8% of GDP. COVID-19 has more than doubled the level of Crown debt in New Zealand. However, we should consider ourselves fortunate – with other countries facing far higher levels of debt on an internationally comparable basis.

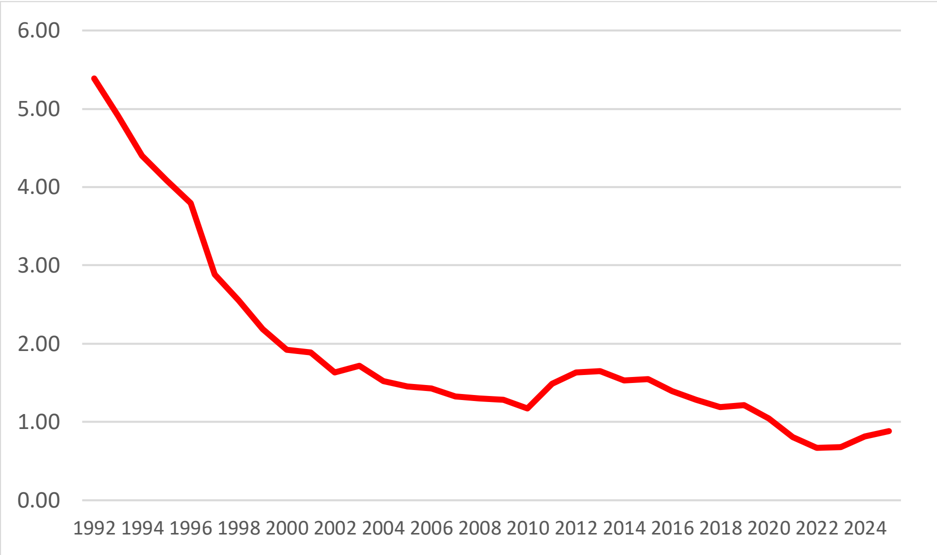
IMF General Government Debt Calculation



Finance Costs

As an additional bonus for the Minister of Finance, not only did the quantity of borrowing decline, but the expected cost of that borrowing also fell – with interest rates expected to remain low for longer. The costs of managing the current debt of the government, known as the finance cost, has fallen to historic lows. To give some sense of how historic this is, the chart[9] goes back to 1992.

Net core Crown debt finance costs (% of GDP)



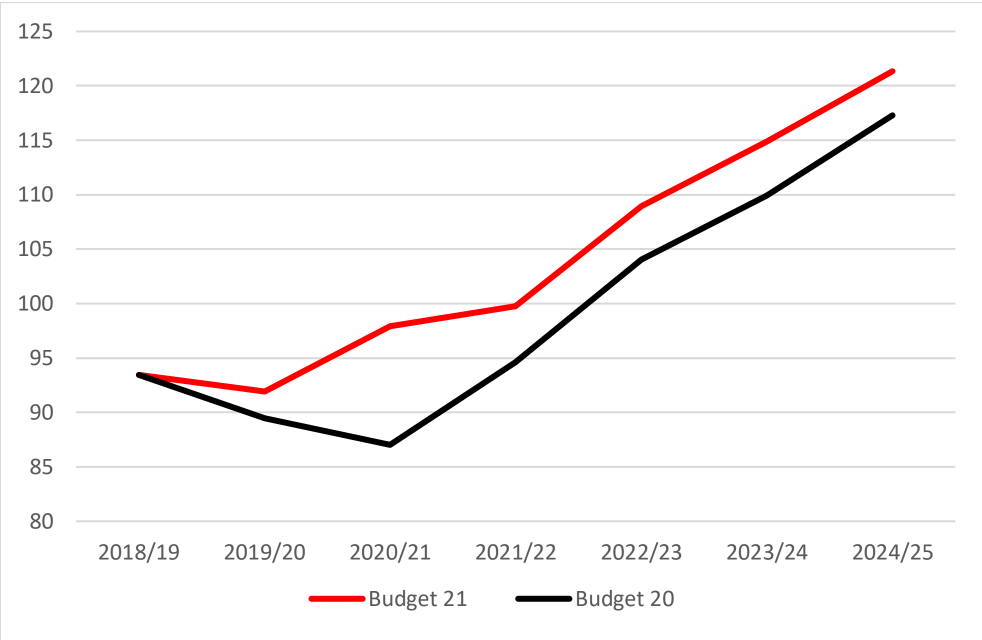
[9] Treasury – BEFU 2021 Website

Next year the Crown will pay 0.61% of GDP in financing costs – whilst borrowing more money than ever before. The average ten-year bond rate for NZ government debt in 2020/21 is expected to be 1.16% - whilst the inflation rate for that year is expected to be 2.4%. This means that investors were expecting to lose money in real terms on our debt.

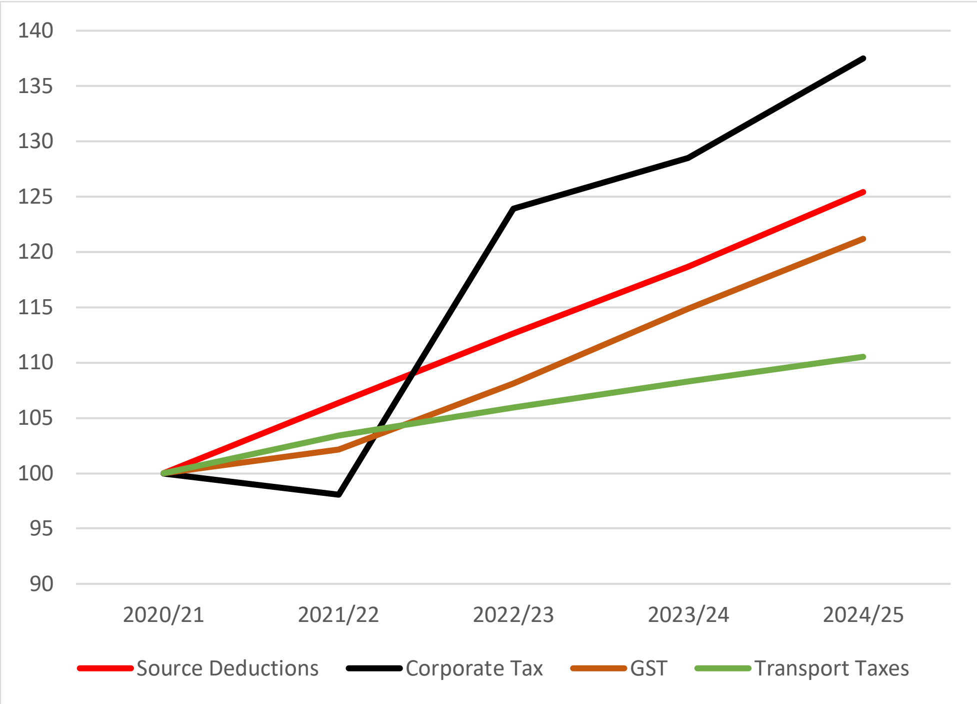
Core Crown Revenue

The money that the government gets to pay for that interest comes from a range of sources – PAYE, company taxation, GST, and other 'sovereign' revenue. Because the economy has done better than expected, this has driven revenue higher as well. Across the forecast period, revenue has increased by $32bn from the position envisaged at Budget 20. The figure for 20/21 is particularly large at $10.9bn, or 3% of GDP. The other item to note is that the biggest increase by far during this period comes from company taxation – which rises by 37% over the forecast period, against 25% for source deductions. This suggests that the growth in taxable incomes over the next period is heavily skewed towards profits rather than wages.

Core Crown Revenue ($bn)



Core Crown Revenue Growth by Type across the Forecast Period ($bn)



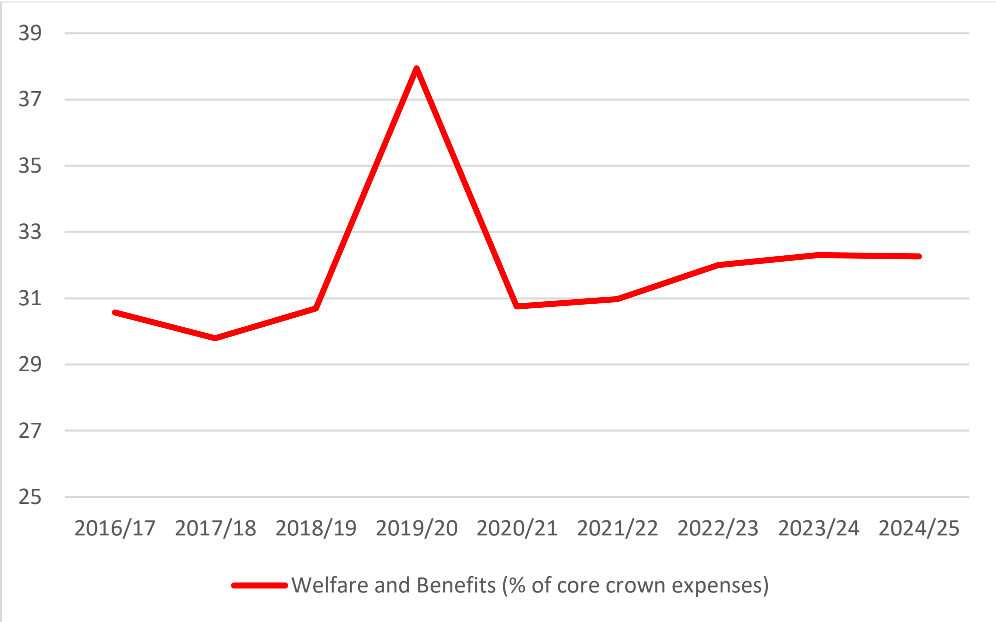
Core Crown Expenditure and Investment

Crown *expenditure broke decisively through the $100bn barrier during 2019/20, expenses due to increase by $11bn across the forecast period. This is less than half the increase in revenue over the same period. Indeed, as a percentage of GDP expenditure falls from a high of 33.1% to 29.2%. That is a level below that of Rt Hon. Bill English in 2015, when the government was spending 29.5%.*

However, *it's not as if the Minister of Finance has not been spending money, with operating allowances lifted from $2.625bn to $3.8bn. Allowances in future years have been lifted to $2.7bn. New capital expenditure increased from $57.8bn in 2020/21 to $65.2bn in 21/22. However, we should be careful about celebrating this number too much. The actual purchase of physical assets has only increased slightly, and the biggest lift in spending come from 'net advances'. This includes a line for the cost of the governments funding for lending programme, which costs $9.3bn across the forecast period. The capital allowance has increased by only $1.7bn across the forecast period.*

Finally, *we should examine the track for welfare and benefits expenditure as a proportion of all expenditure. There is a common misconception that welfare and benefits (including superannuation) eat more and more of the budget each year. The evidence however in recent history is that it is pretty flat – with the only notable spike as a consequence of the COVID-19 wage subsidy.*

Welfare and Benefits Spending across the forecast period.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2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Welfare and Benefits (% of core crown expenses)

Wellbeing, Child Poverty and Social Development

What is the Government promising?

The Government is promising10 to increase main benefits "to tackle inequality and child poverty by lifting weekly main benefit rates by between $32 and $55 per adult to bring these in line with a key recommendation of the Welfare Expert Advisory Group (WEAG)".

The increases will be implemented in two stages. A $20 per adult per week increase on 1 July 2021, followed by a second increase on 1 April 2022. For families with children, main benefit rates will rise by a further $15 per adult per week promised in order to continue to make progress towards child poverty targets. The government estimates that a total of 109,000 families with children will be on average $175 per week better off because of changes made since late 2017. This would include the changes from the Families Package and the changes associated with the COVID-19 increase to welfare payments.

The Government is maintaining the same level of provision for the Ka Ora, Ka Ako Healthy School Lunches programme. This currently caters to approximately 144,000 young people in 660 schools nationwide. Furthermore Budget 2021 extends the Training Incentive Allowance to level four to seven qualifications. This will provide support for an estimated 16,000 sole parents, disabled people, and carers to get degree-level qualifications.

The Budget provides for 3,300 places for children in Out of School Care and Recreation Services, supporting their parents or caregivers to transition into employment, education, or training.

What is the evidence?

Minister Robertson stated that 'recessions typically see already marginalised groups made even worse off, and there is evidence that this has occurred in Aotearoa/New Zealand in the wake of COVID-19'[11].

The Government's boost to main benefits is aimed at reducing inequality whilst providing further stimulus to the economy. Those on benefits tend to spend any additional monies they are provided, with the stimulus being felt in local businesses in the communities in which they reside.

The Minister of Finance also stated that he saw these increases in main benefits as a moral issue. He referenced the 'Mother of All Budgets' of 30 years ago and saw this as an opportunity to "right the wrongs" that Budget brought. Since that change levels of deprivation and hardship have grown in New Zealand, and that the intergenerational effect on wellbeing has been enormous.

As with the past two Budgets, the Finance Minister also presented a Child Poverty Report. This is as mandated by the Public Finance Act. This report showed that the Government's actions to date have reduced child poverty rates, using the after-housing cost measure, to the extent that there are 43,000 fewer children in low-income households and 18,000 fewer children experiencing material hardship.

Is this the real problem in the sector?

The short answer is yes. Increases in welfare payments and restoring the Training Incentive Allowance for degree-level qualifications is a positive development. The increases in payments have welcomed by many

[10] Budget 21 Press Release - Rt Hon. Ardern and Hon. Sepuloni.
[11] Budget Speech, 20 May 2021

and take us closer to the goals as set out in the Welfare Expert Advisory Group. The low level of welfare payments has long been recognised in New Zealand as delivering poor outcomes. More detail is needed on exactly how the new payments will interact with existing welfare regimes. Those who receive Temporary Additional Support will lose $1 of support for every $1 of new income from elsewhere. Many may lose some that increase through Accommodation Supplement abatement or through other welfare regime abatement reform.

The increase to the Training Incentive Allowance which will especially help enable disabled people to undertake higher education. However, this also highlights the gaps in support for good employment outcomes for disabled people. Many disabled people desperately want to work, and indeed having a job contributes to a persons' wellbeing, but this is something that most disabled people in New Zealand are missing out on.

More needs to be done in the areas of inclusive workplaces, provision of reasonable accommodations, and ensuring that disabled people are given the same opportunities for work as their non-disabled counterparts. Increasing the provision of cochlear implants (see health section) is a positive step for those who wish to have them. However, for those who do not, New Zealand Sign Language should be more widely used and taught.

Finally, we should also recognise that for many of the poorest households the biggest outgoing that they have is rent, and that this has been increasing much faster than inflation. Unless the market for low—price rentals is improved it is possible that much of that increase may end up in increased rental payments. Tackling poverty requires a multi-pronged approach, but this is a very welcome step in the right direction.

Progress

It is predicted that up to another 33,000 children on the after-housing measure are projected to be lifted out of poverty because of these changes. However, more needs to be done to lift children out of poverty – according to Child Poverty Action Group analysis[12] of Treasury data the percentage of children living in poverty will fall by 1.4% by 2023. This still leaves 190,000 children in poverty. On the second measure of child poverty[13] the government is very likely to miss its short-term target to reduce poverty.

It is also clear from the evidence provided in the Child Poverty Report that without continuing new initiatives it will likely miss its targets on the three key measures. These figures also do not include any impact of COVID-19, as the survey of child poverty had to stop early in March 2020 due to the pandemic. All estimates of child poverty come with some uncertainty, but perhaps these figures should be treated with even more caution at this point.

Finally, we should examine the Healthy School Lunches programme, and ask why the scheme has not been expanded to other schools? Widening the ability of schools to access the scheme would tackle disadvantage, promote healthy eating, and create more jobs in communities across the country.

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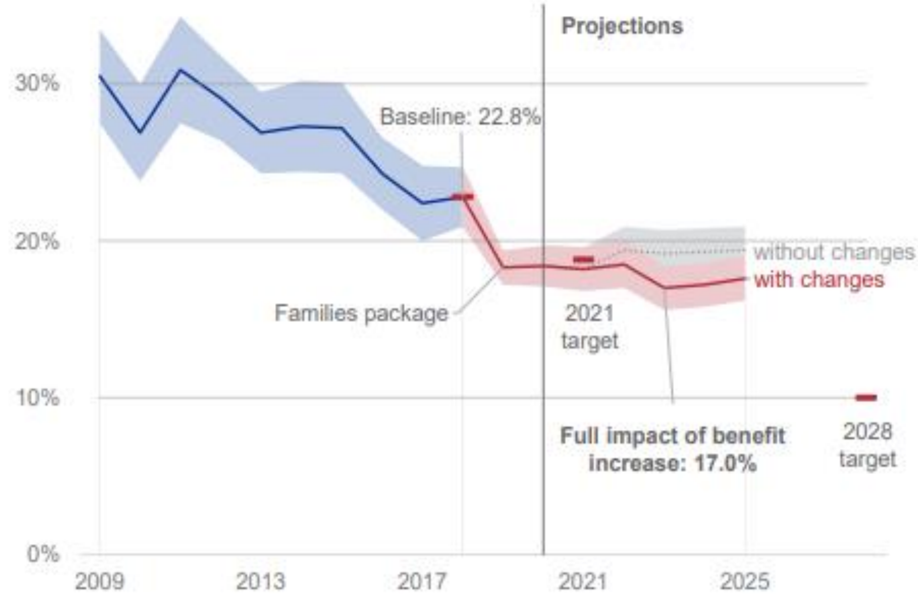
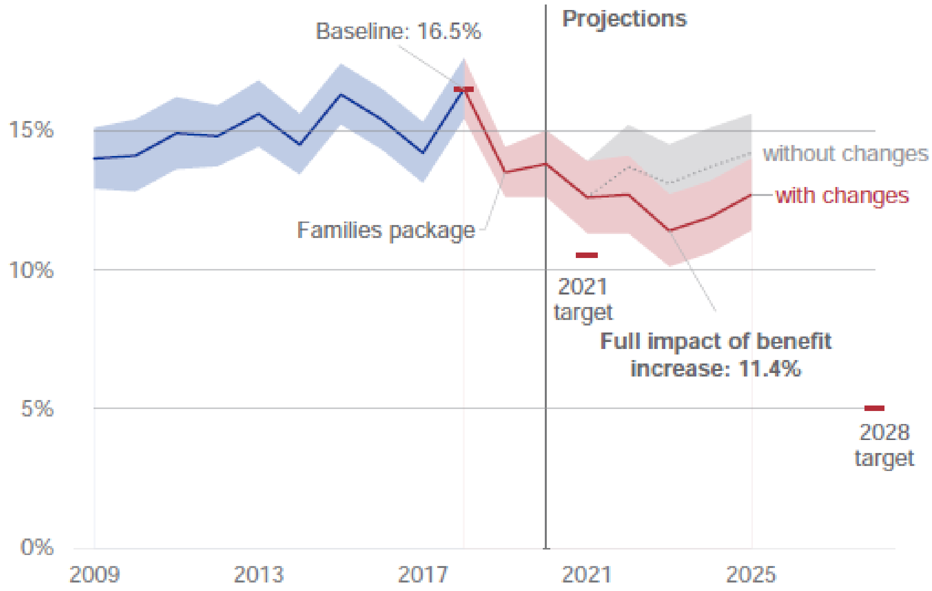
[12] https://thespinoff.co.nz/money/20-05-2021/budget-2021-the-great-spinoff-hot-take-roundtable/

[13] Before Housing Costs – Moving Line Measure – BHC50. See P.32 2021 Wellbeing Budget

After Housing Cost, Fixed Line Measure, AHC50



Before Housing Cost, Fixed Line Measure, BHC50



The real question is…

Is the increase in benefits going to make a real difference in wellbeing and child poverty measures once its impact is played out in the real world? Is the Training Incentive Allowance going to lead to more people from disadvantaged groups gaining qualifications? Will there be jobs for these people when they have qualified?

Health

What is the Government promising?

With this budget, the Government promises to boost funding for hospitals and primary care so that "all New Zealanders can get high-quality healthcare when they need it". In addition to funding major reform of the health system, including establishment of a new Māori Health Authority, the budget promises to fully fund continuity of care through District Health Boards, as well as increasing access to medicines through a boost to funding for Pharmac. This Budget promises to almost double the number of cochlear implants available to adults,

What is the evidence?

The biggest area of new health spending since the last budget is the COVID-19 Vaccination programme, announced earlier this year. Funding for this $1.4 billion programme began with $673 million allocated in the current year to June 2021, with a further $714 million budgeted in the new fiscal year. There is also substantial funding for other COVID-19 related measures: $2.2 billion over two years, including more support for PPE, MIQ facilities, surveillance, and testing.

There is also $486 million provided for the Health System restructuring, spread over 4 years, including setting up Health New Zealand, the Māori Health Authority, Hauora Māori and locality networks for primary and community healthcare.

There are welcome increases for cancer screening services, including $13 million to complete the rollout of the National Bowel Screening Programme to the remaining six DHBs that have not yet implemented it. Also promised pre-Budget was $53 million for cervical cancer and breast cancer screening. $28.2 million is provided for cervical cancer over four years, plus $3.7 million for implementation. $10 million is provided over four years for additional breast cancer screening plus $2.1 million in implementation costs. Together there is also $4.2 million of capital funding in the year to June 2022 for "infrastructure" for these programs – presumably largely IT systems. These add up to $48.2 million.

An additional $200 million was promised for additional pharmaceutical funding. This is provided over four years, increasing from an additional $40 million in 2021/22 to $60 million in 2024/25. In addition, $140 million was provided over this and next year for "continuity of supply of medicines and medical devices". PHARMAC received an additional $8.9 million in operational funding over five years.

Is this addressing the real problems in the sector?

As in every year, a big concern is that there is sufficient funding just to cover rising costs including wages and other requirements, population growth, and demographic change (mainly the aging population). Treasury's forecasts for rising non-wage costs (if we accept the Consumer Price Index as a reasonable guide, which may not be the case due to huge pressures on medical supplies and logistics throughout the world) has gone up from a 1.2% rise in the year to June 2022 forecast just in December, to 1.7%. In addition, its forecasts for the increase in the average wage have risen from 2.2% in December to 3.0%. Based on these cost pressures[14], we conservatively estimate the increase needed for the entire operational budget for

[14] In the absence of a Treasury estimate for wage increases in the public sector, we have conservatively provided only for a 1.7% CPI increase in our modelling. In fact, signficantly higher wage increases are likely and overdue for health workforces.

Health (that is, not including capital expenditure needs) has therefore risen to $778.6 million over Budget 2020. DHBs alone require $609.7 million.

There is guarded good news here. Overall, we estimate that $949 million has been provided for such pressures (including the DHBs) in 2021/22. It is difficult to tell from Budget descriptions just what the increases are intended to cover. As part of that, $675 million has been provided for each year for an increase in the DHBs' budgets. Indeed, on paper, their budgets have increased $914 million over last year, but a significant part of that is in special provisions related to COVID-19.

However, further funding for the DHBs is needed. They are running deficits across virtually all DHBs and over multiple years, indicating a structural funding shortfall. The shortfall this financial year is estimated to be $653 million, and the Budget provides $315 million in the current financial year to cover some of that. We have proposed that their funding should be increased by $653 million in addition to increases to meet rising costs, population and demographic changes and new initiatives. That would bring the total annual operational funding increase necessary to $1.43 billion. That has not occurred, making it likely that they will again run deficits in the new financial year because their level of funding remains chronically inadequate.

We are also concerned how funding of the continuing roll-out of the Care and Support Workers pay equity settlement (including Mental Health care and support workers) is provided for. On previously published estimates from the settlement of the Terranova case and Budget documents, we estimate the additional need in 2021/22 to be $124 million funded from DHBs and National Disability Support Services. If it is not explicitly funded, they will have to find it from the increases given to them. In addition, the funding of additional nurses from the Safer Staffing initiative are not explicitly provided for. Both will have to come from the existing budgets for the DHBs and National Disability Support Services, which received a $122 million increase on last year's budget, or 7.2% (and $171 million more than it is estimated to spend in the current year).

In all, the operational funding of health is budgeted to rise a remarkable $3.1 billion to $22.8 billion between the current year and next year. Of course, a large part of that is in one-off COVID-19 funding, but there are also other significant initiatives which appear to be fully funded.

Capital is mainly provided through five-year multi-year funding allocation. $5.0 billion is provided for the years 2020-2025 of which $1.0 billion is estimated to have been spent this financial year, and a $1.5 billion is estimated to be spent next year, leaving $2.5 billion for the remaining years.

There is barely any part of the health and disability system that does not need additional funding over and above cost/wage and demographic increases after many years of under-funding. Key areas that urgently need much more attention include:

- Workforce shortages across a wide range of occupations
- Nationally administered public health services, which have just 2.1% of Vote Health, yet New Zealand is facing some significant public health issues. A major aim of the restructuring is to take pressure off hospital services. Effective public health services will be vital for that.
- Mental health services remain in difficulty despite additional funding for mostly community-based services (much of which is under-spent). Specialist mental health services continue to be funded to cover 3% of the population when there is long-standing evidence that it needs to be 5%.

Finally, the Budget does not provide any real change in the funding of the national ambulance system, with cost and volume pressures being funded. This year some union members which will suffer a pay cut due to a deal done with St John. Ambulances are a public service – yet only 70% of their funding comes from government. With the HealthNZ merger being rolled out over the next twelve-month period, this service should be rolled into that entity

Progress

Recent budgets, including this one, have certainly been improvements on those of the previous 10 years or so. But even those recent budgets have not been sufficient to make much progress into addressing unmet health need and health inequities, or to enable DHBs to meet the immediate needs of their communities without running up huge operational deficits.

This year's budgets for DHBs at first appears a substantial boost ($914m more than last year's budget), but once cost/wage, demographic growth and the cost of new initiatives are considered, as well as additional funding to ensure DHBs can at least manage within their budgets (as required by Government), the funding provided falls short of that necessary just to stand still, let alone make progress to improve people's health and wellbeing.

The real question is…

We calculate that the budgeted increase to Health spending is insufficient to cover basic cost pressure increases without running up significant deficits. Almost all DHBs are running financial deficits, at the same time as waiting lists grow for essential care and wage increases are needed for healthcare workers. How will the Government ensure that DHBs remain financially able to deliver the healthcare that New Zealanders need?

ECE & Statutory Education

What is the Government promising?

In the week before Budget 2021 was released, the Government announced $170m spending for moving toward pay parity for teachers in Education and Care Early Learning Services. This was a welcome and long overdue next step towards Pay Parity for Early Childhood Education (ECE) teachers working in Education and Care services. However, being an opt-in model, this comes with several caveats which have possible impacts on the sector.

In addition, there were several welcome initiatives including extra funding to realign the minimum ECE attestation rate to keep up Step 1 of the Unified Base Salary Scale on July 1st 2021 (in line with commitments already made), an increase of 1.6% in operations grant funding for schools, a renewed commitment to continuing the reform of Tomorrow's Schools through the establishment of an Education Service Agency, and funding for the implementation of the Equity Index which was originally due for implementation this year. Total new operating funding of $1.07bn was set out across the forecast period, together with $730m of new capital funding. $684m of this new capital spending will be spent on new school buildings, including $77m to build and expand existing Maori Schools.

A significant disappointment in Budget 2021 is that no new spending has been announced toward increasing staffing in primary and intermediate schools. In fact, salary funding is set to decline slightly from 2020/21 to 2021/22, reflecting the decline in the population of primary school age children in Aotearoa. The current staffing entitlement system has remained essentially the same over the past 20 years, despite the sector experiencing profound demographic and pedagogical change, and teacher workloads have now reached critical levels.

What is the evidence?

From July 2022, there will be an additional attestation mechanism whereby employers can opt-in to receive additional funding if they pay their staff the first 6 steps of the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA)/Unified Base Scale. The new parity funding band offers a 2.57% increase on the standard funding. (To put this in perspective, the total percentage funding increase in the past 10 years was 6.2% because of a freeze in funding under the National Government.)[15]

This further step towards pay parity across the sector is welcomed. It represents a significant increase and sets the groundwork for addressing wider problems in ECE, notably a severe teacher shortage. There is still a long way to go, with further increases required in the future. The existing funding mechanism is certainly not fit for purpose.

As the new funding only applies to the first 6 steps of the 10 step KTCA scale, it is unlikely to reach the most experienced teachers in the sector. The rates of teachers leaving the sector may not be rectified, and many experienced teachers may feel left out.

The opt-in nature of the policy also has the potential to create a two-tier labour market of those employed in centres that opt-in and those that do not. While it is too soon to gauge how widely employers will opt-in to the scheme, one factor playing into this question is how well employers are already paying teachers. Employers that already recognise the experience of staff through higher pay rates are more likely to benefit

[15] https://www.education.govt.nz/early-childhood/employment/pay-parity-for-certificated-teachers-in-education-and-care-services

from the new funding band. Centres paying lower than average rates are less likely to see the benefit of opting-in, especially if the overall increase in staffing costs exceeds the potential overall increase in funding.

Is this addressing the real problems in the ECE sector?

There is currently no mechanism to ensure that any increases to the funding rates are passed on to teachers. Much like the COVID-19 wage subsidy, the new ECE funding band is delivered through a 'trust and audit' model. Any auditing or compliance measures are likely to be costly and time consuming, and the Government have recognised that this can only be a stopgap measure ahead of a comprehensive redesign of ECE funding system.

The Government has committed to undertake this work over the next two to three years, stating that this will involve 'considerable consultation and engagement with the sector'.

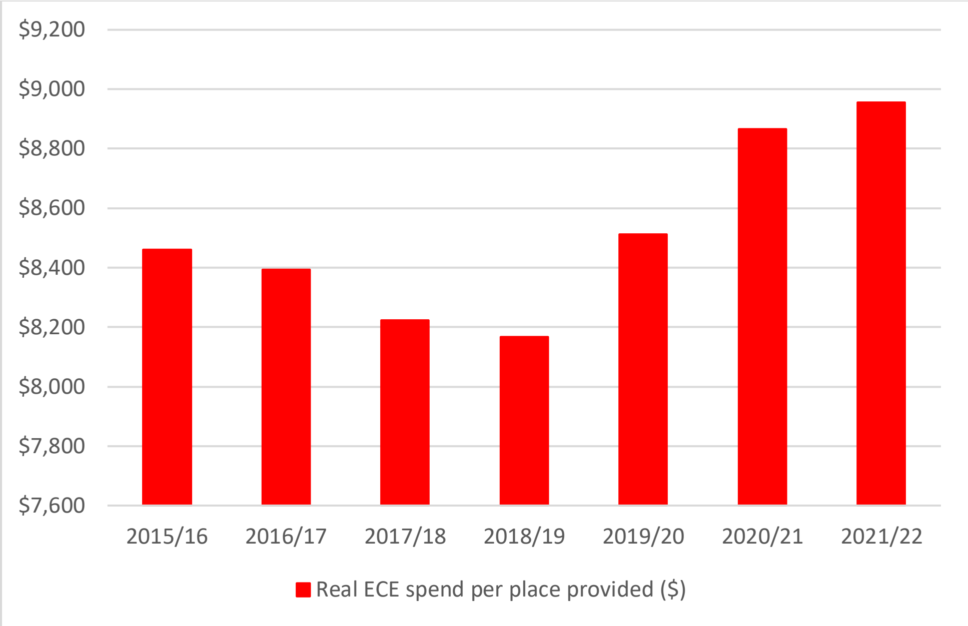
This decision to review and redesign the current and outdated funding model is welcomed. The sector has changed significantly since the current funding system's design and implementation some 30 years ago, and it is no longer fit for purpose. A newly designed system will have to grapple with the aftermath of decades of privatisation and funding neglect and will require considerable investment and dedication from the Government.

The new funding band will not address the disparity of working conditions across the sector. To take one example, teachers in ECE settings work significantly more hours per annum than their primary and secondary colleagues.[16] Addressing disparities in working conditions would require a significant overhaul of not only the ECE funding system, but of the entire Early Childhood Education sector.

Progress

New funding is making a difference. Using the data provided by the Treasury, the real levels of expenditure per child are starting to increase in a sustained fashion. However, since 2015/16 real ECE spending per place has increased by only 5.8%.

[16] See: OECD. (2020). Table D4.1, *Education at a Glance 2020*. Paris: OECD Publishing p.423. https://www.oecd.org/education/education-at-a-glance/



The real question is…

How does the Government respond to ECE providers who claim that funding increases are insufficient to allow for pay parity? How will Government ensure that Early Childhood Educators get pay parity?

Tertiary Education and Training

What is the Government promising in Tertiary Education and Training ?

New funding in Budget 2021 has been directed to Vocational Education and Training, touted as support for 'the largest and most complex change to our tertiary education and training system in a generation'. Additional support has been provided to Student allowances, with increases of $25 a week being provided. There does not appear to be any additional direct funding provided for the University sector in this Budget.

What is their evidence?

Budget 2021 promises $280 million additional funding over four years to Vocational Education and Training, including support for systematic reforms in the sector. However, increases are heavily backloaded, starting with an increase of only $18 million in 2021/22.

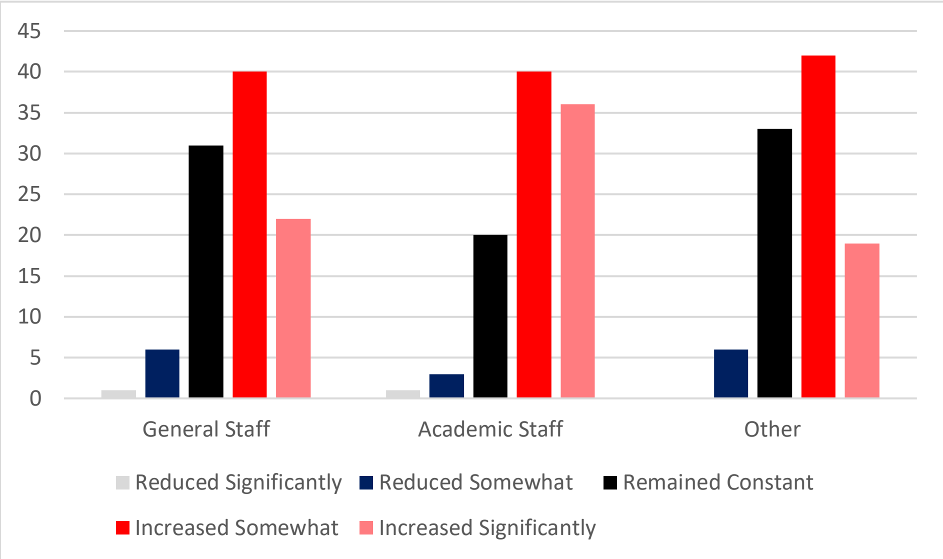
Overall, the Tertiary sector receives a 1.2% operational funding increase for tuition and training. With inflation forecast at 1.7%, this means a funding cut in real terms. The budget also does nothing to fill the gap in the budgets of tertiary organisations left by the sharp fall in international student enrolments due to COVID and border restrictions.

Is this addressing the real problems in the sector?

Systematic underfunding of the Tertiary Education sector for more than a decade has led to hiring freezes, job losses, and cuts to course provision at many tertiary institutions. Treasury figures analysed by the Tertiary Education Union (TEU) in 2019 showed that cumulative underfunding to the tertiary sector reached $3.7 billion since 2009. In the last year, TEU has documented job losses and course cuts happening at over half of all polytechnic campuses, while media reports noted 700 university jobs being cut.

The impact on workers has been unmanageable workloads. TEU has completed multiple surveys on staff working conditions since 2014. The latest pulse survey (of 940 members) shows that workloads for most had increased somewhat or significantly, with 62% of general staff and 76% of academic staff who participated reporting they were moderately or very stressed.

TEU Survey – Workload Pressures



Progress

Budget 2021 includes the largest single increase in funding to tertiary education in over a decade. However, we are still a long way from fully funding the learning needs of learners throughout Aotearoa New Zealand.

The real question is…

What is the Government doing to address the workloads and stress of staff in Tertiary Education, at a time when we need quality research and teaching to address pressing social, economic, and environmental issues? How are Universities supposed to make do with a funding cut in real terms, at the same time as losing income from international enrolments?

Justice Sector

What is the Government promising in the Justice Sector?

Although overall a good budget, Justice appears to be in contention for the tag of biggest loser in the 2021 Budget. This is surprising given the previous Government's focus on the Justice sector, with some reporters noting[17] "Justice reforms were an issue pursued by the prior Labour-coalition Government but appear to have fallen by the wayside since". Indeed, it might be a very modern indicator, but the justice sector (with the exception of family and sexual violence) did not appear to get a ministerial press release at this Budget.

That said, the Government is making a series of investments in the justice sector through Budget 21. These include initiatives related to whānau wellbeing, mental health, prisoner reintegration, and family violence:

- Through Justice - Providing additional legal aid funding to cover increasing costs and demand; and
- Through Police - supporting Te Pae Oranga iwi community panels by establishing 12 additional locations over four years; and
- Through Corrections improving Kaupapa Māori Services for Wāhine in the care and management of Corrections in Ōtautahi and across the wider Canterbury region; and
- Through the Courts safeguarding child wellbeing by enabling faster resolution of disputes in the Family Court by removing administrative burden.

Budget 2021's investment will also extend the capacity and capability of a number of successful violence prevention programmes.

What is the evidence?

In total, Vote Justice initiatives equated to $57.4m in the next fiscal year. Funding for legal aid (providing access to legal representation to those who could not otherwise afford it) accounted for 87% of this new spending. This left $7m a year for other initiatives. Given Vote Justice receives $622m in 2021/22 this means that it received around a 1% increase in funding for all items that were not related to legal aid.

Vote Courts saw a $78m increase in spending, Vote Corrections saw an increase of $158.7m, and Vote Police saw an increase of $145.6m.

Time limited funding continues for programmes to trial the new approaches aligned to the Government's stated intentions for reform in justice, corrections, and policing:

- Budget 2021/22 includes funding for the High Impact Innovation Programme that seeks to reform the criminal justice system by delivering operational improvements across the justice sector of $2.239 million, and community reintegration, safe and effective housing, and support services of $1.710 million.
- There is also a focus on increasing access to mental health and addiction services of $11.782 million and expense transfers of $2.441 million largely relating to mental health and Māori Pathways.

Is this addressing the real problems in the sector?

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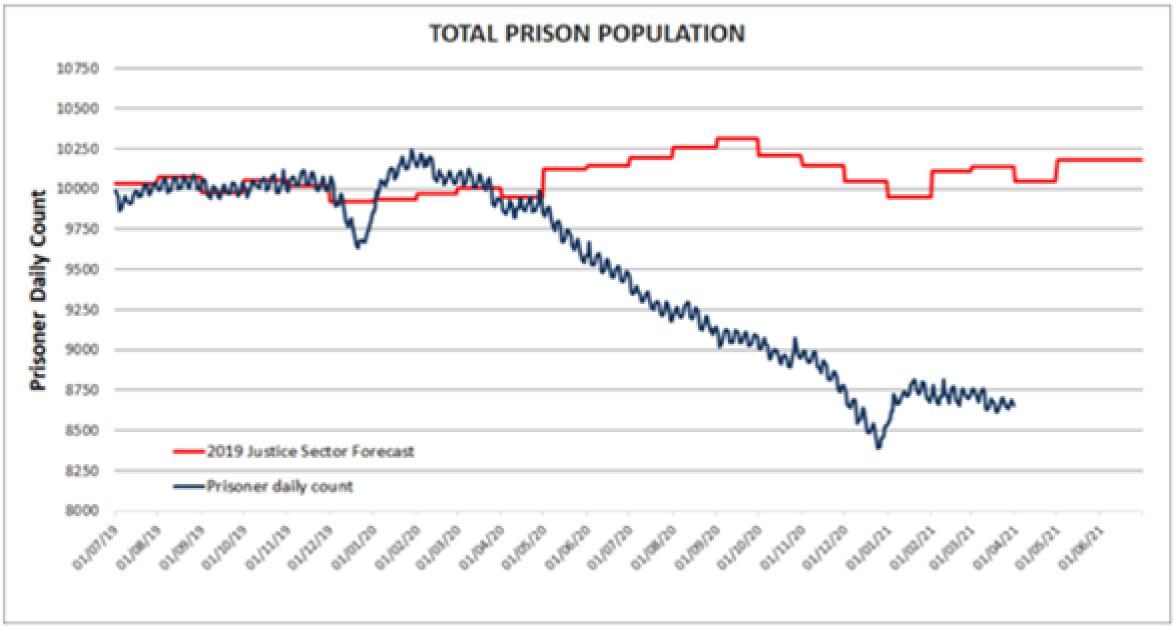
17 https://www.stuff.co.nz/national/politics/125190608/budget-2021-the-winners-and-losers-in-a-welfarefocused-budget

The Government's commitments are not yet tackling the real problems in the sector. For example, if Hōkai Rangi is to be transformational and to create lasting change, the approach needs to be incorporated into all prison services – not just the current pilot programmes. This would mean an increase in baseline funding for custodial services and requires more staff than simply locking people up. It also needs to be incorporated into Community Probation practice and baselined.

Progress

There are 8,655 people in prison in New Zealand, 52.7% of whom are Māori. The total prison population is falling but still remains at 85% of its highest point:[18]



The real question is…

Given that Hōkai Rangi is a wellbeing-based approach, is the Government willing to fund, through incorporation in baselines, the shift to Hōkai Rangi or will they just continue with old-style custodial services?

18 https://www.corrections.govt.nz/resources/statistics/quarterly_prison_statistics/prison_stats_march_2021

Future of Work & Just Transitions

What is the Government promising in this area?

The **government set out at the very start of Budget 21 that its goal was to support "the transition to a climate-resilient, sustainable and low emissions economy, while building back from COVID-19." Alongside this it would enable all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation and support into employment those most affected by COVID-19, including women and young people."**

What is the evidence?

Budget 2021 has allocated new capital into Green Investment Finance Ltd (an additional $300 million capital injection), which will help in supporting new economic activity to replace that from fossil fuel sectors. $66 million is set aside for the Regional Strategic Partnership Fund in year one ($33 million each for strategic initiatives, and capital spend) but no commitments at this stage beyond 2021/22 ($200 million over three years was signalled in pre-election announcements). This funding is recycled from the Provincial Growth Fund.

A small amount ($2.5 million initially per annum, excluding departmental policy work) has been set aside to support community participation in just transition planning. Additionally, the government also committed to examine how a 'social unemployment insurance' scheme could be implemented in New Zealand. This work would be undertaken on a tripartite basis, with Business New Zealand, the CTU and Government working together on the details. There is also an additional $99.5m for a two year roll-out of additional MSD employment services.

Is this the real problem in the sector?

A just transition for work*ers includes having a supported pathway into secure work with good wages, access to education and training, a social safety net to back up the transition, and a voice at work and in industry. The above initiatives together with support for vocational education and benefit increases, make a positive start.*

Spending in Budget 2021 on supporting regional economic activity is significantly down from previous budgets, especially when comparing the Regional Strategic Partnership Fund with the nearly $1 billion per annum in the Provincial Growth Fund (with the caveat that these funds need to have a stronger social procurement focus to ensure good jobs). This is especially important for regions like Taranaki, which will need much stronger support from government to transition away from oil and gas and keep living standards in the region high.

Workers also need support as they transition into new jobs, and spending on active labour market policies (beyond existing targeted commitments through initiatives such as He Poutama Rangatahi) will need to significantly increase, in line with WEAG recommendations. Finally, communities need to be resourced to co-design just transitions, involving workers, iwi and hapū. The small amount allocated this year should rapidly scale up in coming years to enable this.

Progress

Just *transition and future of work are long-burning issues but preparing well in advance will ensure the transition is managed in a smooth and equitable way. One of the biggest indicators of progress in Budget 21 was the announcement of a work to examine a social unemployment insurance scheme. This would provide workers with around 80% of their income for a period if they lost their job. Such a scheme could have transformational results for both the future of work and our efforts on delivering just transitions.*

The real question is…

What confidence can workers have that the transition to a low-emissions economy will be managed to ensure those with the fewest resources do not disproportionally carry the burden of the change? Do we have sufficient plans for investment, and the revenue base to support this, to ensure we can roll out measures to make the necessary transitions in a way that brings workers with us?

Transport

What is the Government promising?

At Budget 2021 Government has committed $7.9 billion to Vote Transport, a 20 percent increase on the previous year. Transport spending has risen 75% overall in the last decade. The is Government increasingly valuing public transport, with a 40% increase in funding, including $171 million to support new capital expenditure. 37% of spending ($3 billion) goes on roads, 22% on rail ($1.77 billion), 11% on public transport ($871 million, including super gold card subsidies) and only 1.2% on active transport ($95 million).

What is the evidence?

Workers' wages and conditions in much of the sector remain stagnant, so much so that labour confrontation is becoming a feature of the public bus sector. With an urgent need to create decent work in support of a post-covid economic recovery and to decarbonise transport, we see a major investment in public transport as a game-changer.

The Government will not be able to meet its Paris 2030 target – a 30 percent reduction of greenhouse gas emissions from 2005 levels – without reducing transport emissions, which have more than doubled since 1990. Transport funding needs to encourage "modal shift" wherever possible – getting people out of cars and into public and active transport. The significant investment in rail is a major development that should be applauded, particularly the commitment to reopen a manufacturing facility at Hillside. However, the freight industry will also be a major beneficiary of this, alongside public transport.

Good public transport is an investment in living standards: 2015 research shows that the average New Zealander who takes the bus or train rather than a car saves $9,000 a year on transport costs. Ensuring as many New Zealanders have access to regular and decent public transport puts thousands of dollars back into workers' pockets. With low interest rates, low public debt and an appetite from business and workers, there's never been a better time for spending to fund better universal public services and green job creation.

Is this addressing the real problems in the sector?

For now, we understand the need to maintain the road network, but we think it should balance with higher levels of investment in public transport spending. Government should be particularly investing more heavily in the urban bus network, that does the majority of public transport heavy lifting. Spending should go first into raising bus driver wages, guaranteeing breaks, and ending unpaid periods.

Addressing these issues will make it possible for the bus industry to begin recruiting new drivers. At the same time, there needs to be further investment in expanding the reach and regularity of public transport, the progressive increases to passenger subsidies towards fares-free transport, and the acquisition of a fleet of zero carbon buses.

Progress

Both Treasury and Waka Kotahi use the number of public transport trips as a progress measure for transport. Treasury's 2021/22 target is 119 million public transport trips. However, this is a major backward step on the target in (for example) 2019/20, which had targeted 164 million or greater. The target for 2021/22 should be at least at the level of the 2019/20 target, however we believe it should be even higher, increasing by 10 million boarding's on an annual basis. Making public transport cheaper is crucial to achieving mode shift, and the cost of using public transport is a key measure for this. Making public transport cheaper or more freely available would help deliver on this goal.

The real question is…

How is the government going to achieve the commitments that have been made to pay bus drivers a minimum of the living wage, given that it has been made clear by some operators that they will not cover the cost?

Housing

What is the Government promising?

The Government's commitments on housing in Budget 2021 were well signalled in advance. In addition to funding for housing infrastructure announced in March, this Budget promised to deliver 1000 new homes for Māori through partnerships with iwi and Māori organisations, plus repairs for a further 700 homes.

What is the evidence?

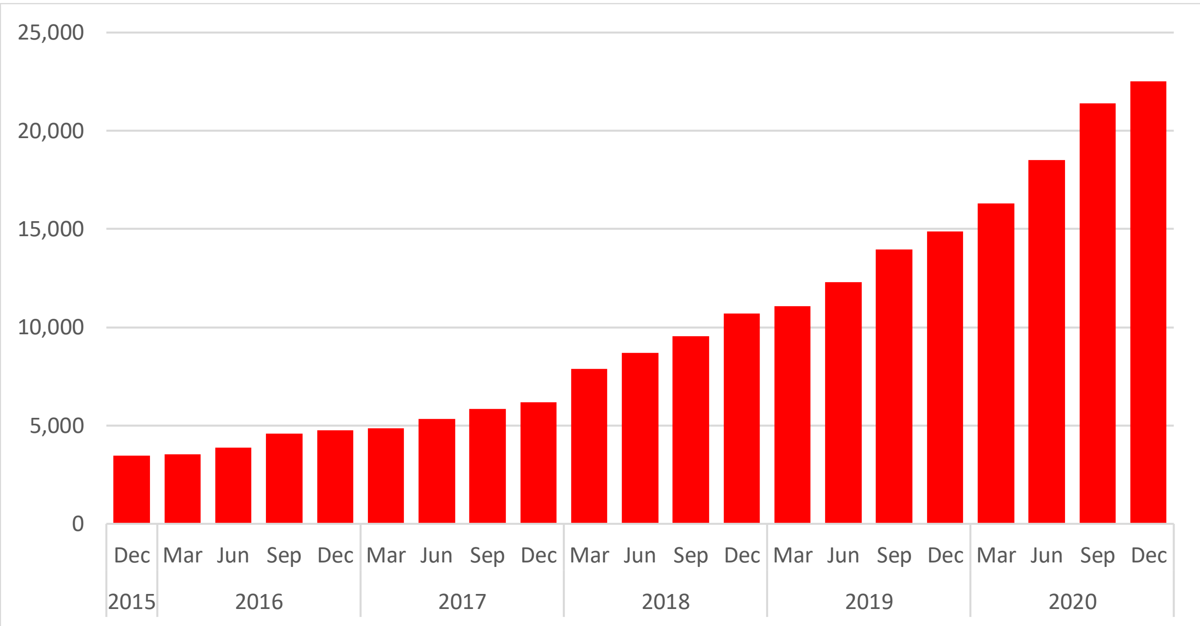
The Budget for 2021-22 delivers the first $1.01 billion of the $3.8 billion Housing Acceleration Fund announced in March this year. This funding will help to open up new sites for housing development by supporting local authorities to develop the necessary infrastructure.

Extra funding for Māori housing programmes contributes $380 million over four years to ramp up the Ministry of Housing and Urban Development's partnerships with iwi and Māori housing providers. The core of this spending is $211 million over four years for He Kūkū ki te Kainga – Increasing Māori Housing Supply, starting with $48 million in 2021-22, in addition to smaller amounts for capacity building in the sector.

Is this addressing the real problems in the sector?

At the last update of the State Housing Register[19] in December 2020, there were 22,521 applicants assessed as in immediate need of a state house. Around half of these applicants were Māori, with 11,171 on the waiting list. More broadly, there is a national shortage of 70,000 houses, according to a 2017 estimate by MBIE.

State Housing Waitlist



[19] *Source: State Housing Register - https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/index.html*

In 2019-20, Kainga Ora was set a target of increasing the total number of state houses by 1500 across all categories including transitional housing. But with construction impacted by COVID, state housing stock was only increased by 1229. Kainga Ora has larger ambitions to build 14,000 new units over the next five years, with 2,620 units currently under construction and 4,285 more planned to start this year.

To clear the waiting list of people already assessed as in need of state housing, and to add the spare capacity that would be needed to expand the criteria to include more working families in current need of affordable housing, the Government could afford to double the rate at which we are planning to build new state houses.

Progress

The promised 1000 new homes for Māori families will be delivered over four years. This will be welcome for whānau who are able to access these programmes. The focus on papakāinga development will also benefit hapū by strengthening connections to whenua. But even if the programmes meet their targets, they will hardly make a dent in the immediate need for housing of the 11,171 whānau Māori currently on the State Housing Register. These whānau, along with the 2,876 Fanau Pasifika among the 22,521 households on the register, will be relying on Kainga Ora being able to scale up their construction programme.

The significant funding boost for infrastructure provided by the Housing Acceleration Fund will help to support Kainga Ora's building programme, as well as private development to meet the broader housing shortage. But meeting the need for affordable housing will require further boosts to state housing construction, which in turn will require the Government to work with unions and employers to accelerate efforts that are already underway to increase capacity in the construction sector, including through better procurement planning and support for skills development.

The real question is…

If Kainga Ora meets their current targets they will build 14,000 units of state housing over five years, but with 22,521 households on the waiting list as of December 2020, including 11,171 whānau Māori, does the Government expect thousands of families who are in urgent need of affordable housing to wait years for their needs to be met? If not, what will the Government do to accelerate the pace of state house building?

Key Questions for Government

1. Is the increase in benefits going to make a real difference in wellbeing and child poverty measures?
2. Is the increase in benefits going to make a real difference in wellbeing and child poverty measures once its impact is played out in the real world? Is the Training Incentive Allowance going to lead to more people from disadvantaged groups gaining qualifications? Will there be jobs for these people when they have qualified?
3. We calculate that the budgeted increase to Health spending is insufficient to cover basic cost pressure increases without running up significant deficits. Almost all DHBs are running financial deficits, at the same time as waiting lists grow for essential care and wage increases are needed for healthcare workers. How will the Government ensure that DHBs remain financially able to deliver the healthcare that New Zealanders need?
4. How does the Government respond to ECE providers who claim that funding increases are insufficient to allow for pay parity? How will Government ensure that Early Childhood Educators get pay parity?
5. What is the Government doing to address the workloads and stress of staff in Tertiary Education, at a time when we need quality research and teaching to address pressing social, economic, and environmental issues? How are Universities supposed to make do with a funding cut in real terms, at the same time as losing income from international enrolments?
6. Given that Hōkai Rangi is a wellbeing-based approach, is the Government willing to fund, through incorporation in baselines, the shift to Hōkai Rangi or will they just continue with old-style custodial services?
7. What confidence can workers have that the transition to a low-emissions economy will be managed to ensure those with the fewest resources do not disproportionally carry the burden of the change? Do we have sufficient plans for investment, and the revenue base to support this, to ensure we can roll out measures to make the necessary transitions in a way that brings workers with us?
8. How is the government going to achieve the commitments that have been made to pay bus drivers a minimum of the living wage, given that it has been made clear by some operators that they will not cover the cost?
9. If Kainga Ora meets their current targets they will build 14,000 units of state housing over five years, but with 22,521 households on the waiting list as of December 2020, including 11,171 whānau Māori, does the Government expect thousands of families who are in urgent need of affordable housing to wait years for their needs to be met? If not, what will the Government do to accelerate the pace of state house building?

Many Thanks

The support of the following organisations who helped make this analysis possible…

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