



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Budget 2016 - Key Point Summary

Health

Health needed to increase by \$690m just to keep up with the increase in population and costs.

The government put \$565m into the health budget but also want more out of it in terms of new services.

Once all of this is accounted for, our health system has \$300m less to work with in real terms in the next twelve months than it had in the last. That's going to mean more pressure on health workers and on an already strained health system.

Education

\$43m has been put into a "social investment" experiment to target funding to "at risk" students. The bad news is that some of this comes at the expense of other students - most schools have had their operational funding frozen which means less money for support staff, many teachers, and school operations. Last year the same increase in this funding was spread around all schools.

Our concern is that the result of this funding cut is that students just off the "at risk" designation will pay the price.

There is funding for school builds which are important because our classrooms have been bursting at the seams for several years now, but many are through PPPs.

There have been a number of tertiary education initiatives but overall spending remains the same which means either funding will have to be reallocated, or tertiary providers will have to do more with less.

Housing

There has been \$22m put into social housing - however the majority of this is going into accommodation subsidies rather than new housing. This is likely to have an inflationary effect on rents which means it may actually make the housing crisis worse if more houses aren't built.

On the supply side of the housing crisis the Government is freeing up more land for development. In a best case scenario this will mean a few hundred more houses, but the current shortfall of builds is in the order of thousands of houses per year in Auckland alone. It's fair to say the government is effectively doing nothing that will address the massive housing problem we and our economy face.

Economy

Forecasts from Treasury show:

- Unemployment still at 5.6% in June 2017 – 146,000, still above 5% in 2018

- Real wages (i.e. after inflation) fall over the next two years, down 0.1% each year
- Wages share of the nation's income falling over the next 4 years
- Weak productivity growth and growth in the nation's income per person

Ultimately the costs of providing the services and infrastructure needed for improving future living standards are growing substantially more than the Government is willing to commit. At an all-of-economy level this is likely to mean New Zealand's will continue to be a low wage economy with poor growth prospects.

At a fiscal level, the excessive focus of this Government on "return to surplus" and lowering debt faster than is needed has resulted in underfunding resulting in many public services, housing and families being under excessive stress.



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CTU Report on Budget 2016

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Introduction

This is a report on some of the Budget highlights. There has not yet been an opportunity to analyse all aspects of the Budget so this report does not attempt to provide a full commentary. You will see that funding increases are often stated as over four years and we also need to factor in demographic changes as well as an inflation adjustment before real increases can be assessed.

Key Points

- Weak GDP growth per person forecast – 0.5 percent in 2016 and 0.9 percent in 2017
- Unemployment forecast at 5.6 percent or 146,000 people in 2017, 5.1 percent in 2018
- Wages after inflation forecast to fall by 0.1 percent in 2017 and 2018
- Fall forecast in share of the country's income going to wage and salary earners
- Weak productivity growth forecast – 0.8 percent in 2016, 1.0 percent in 2017
- \$1.6 billion in Budget for “new” funding this year, \$1.5 billion each year 2018-2020
- No payments to the New Zealand Super Fund until 2021
- New capital spending of \$1.4 billion plus “reprioritising” giving total of \$2.6 billion
- Continuing sale of state houses and Crown land
- \$0.9 billion new capital spending in future years
- We estimate DHBs are \$131 million short of what is needed to fund new services, population and cost increases, and the whole Health Vote is \$304 million short
- Despite expectations of many commentators, there is no comprehensive housing plan
- \$55m for science and innovation spending in 2016-17; \$410m over the next four years
- No new provisions targeted to reduce child poverty
- Changes in education funding determined by changes in roll growth
- Increase in school operations grant all used to target students who have spent significant times in benefit-dependent households
- Tertiary education initiatives strongly targeted to science, engineering, agriculture and trades
- \$882.5 million over four years for increases in school property many delivered via PPPs
- Social investment model heavily promoted as tool to address long term risks of benefit dependency
- By 2019 the “two for one” subsidy of the Emissions Trading Scheme will be phased out
- No new provision for pay equity or In Between Travel
- Small fall in Worksafe core funding at critical time for new health and safety legislation

Economic forecasts and outlook

A general note about forecasts: except as noted, the Treasury forecasts have a reasonable record to about 18 months out. As they get further into the future, they tend to a long term average or theoretical value (for example, Treasury considers that unemployment shouldn't fall below 4.5 percent or it will create inflation) and have less and less reliability.

Economic forecasts include (annual percentage changes unless otherwise stated; forecasts in red, actuals in black):

June Year	2015	2016	2017	2018	2019	2020
GDP	3.3	2.6	2.9	3.2	2.8	2.5
GDP per person	1.5	0.5	0.9	1.9	1.9	1.6
Unemployment rate	5.9	5.6	5.6	5.1	4.6	4.6
Wages (av. wage/hr)	2.8	1.7	1.4	1.9	2.3	2.9
CPI	0.4	0.1	1.5	2.0	1.9	2.1
Real wages	2.4	1.6	-0.1	-0.1	0.4	0.8
Labour productivity	0.7	0.8	1.0	1.5	0.8	1.0
Current account ^[1]	-3.5	-3.5	-4.6	-4.1	-4.3	-4.8

The economic forecasts do not promise strongly rising living standards. While on the surface, GDP growth rising to 3.2 percent in 2018 looks strong, strong population growth means that it is weak when considering per person. The forecast is for only 0.5 percent growth in GDP per person in the year to June 2016, only a little stronger at 0.9 percent in the following year, and maxing out at 1.9 percent in 2018 and 2019. Yet the average GDP growth per person between 1999 and 2008 was 2.5 percent, and at or above 1.9 percent for 6 of those 9 years. The weak growth is reflected in unemployment forecast to remain high at 5.6 percent or 146,000 people in a year's time (June 2017), and still above 5 percent (at 5.1 percent in June 2018). This is much too high this far into a 'recovery'.

Labour productivity is also forecast to rise weakly – only 0.8 percent in 2016, 1.0 percent in 2017, peaking at 1.5 percent in 2018. That is a weak basis for future wage growth, even if it were fairly shared.

Wage growth, after taking account of inflation, is also forecast to be weak. While there have been two years of relatively strong growth in the average wage (the average ordinary time hourly wage) at 2.4 in 2015 and 1.6 percent forecast for June 2016, it is forecast to be -0.1 percent in 2017 and 2018. From an employer's point of view that means that real unit labour costs – the cost of the labour required for every unit of goods and services produced – are forecast to fall 3.0 percent from 2016 to 2020.

The result is that working people will be receiving a falling share of the income their work produces. The share of wages is forecast to fall from 50.5 percent of income in June 2015 (according to Treasury) to 49.2 percent in 2020. While a 1.3 percentage point difference may not seem much it means each wage or salary earner will be paid approximately \$400 less per year by 2020 than if the wages share of income hadn't fallen.

There is a mixed story regarding the current account deficit – how much more the country spends abroad (on imports and income going to overseas investors) than what it earns (from exports and investment overseas). It is forecast to rise from 3.5 percent to 4.6 percent of GDP next year and fall the following two years before rising again to 4.8 percent of GDP by

^[1] Current account deficit as a proportion of GDP, not percentage change.

2020. That is getting close to ringing alarm bells again, as in the 2000s. It means New Zealand's overseas liabilities will continue to rise.

Government spending and fiscal outlook

Forecasts in red, actuals in black

June Years \$m	2015	2016	2017	2018	2019	2020
Expenses	72,363	74,382	77,388	79,719	82,047	84,818
OBEGAL	414	668	719	2,455	4,972	6,681
Operating Balance	5,771	-2,565	3,058	4,957	7,606	9,599
Net debt (incl NZSF)	30,862	33,373	35,497	35,412	31,182	24,889
% GDP						
Expenses	30.0	29.7	29.9	29.1	28.5	28.3
OBEGAL	0.2	0.3	0.3	0.9	1.7	2.2
Operating Balance	2.4	-1.0	1.2	1.8	2.6	3.2
Net debt (incl NZSF)	12.8	13.3	13.7	12.9	10.8	8.3

The Government has rescheduled the money it makes available for 'new spending', out of which must come not only genuinely new services but also the funding necessary to keep up with inflation and population (including school and tertiary education roll) growth. This Government has a record of only partially funding increasing costs and population pressures but still call it 'more funding' and dignifying it as an 'initiative'. The 'operating allowance' for the coming financial year (year ended June 2017, or 2016/17) has been set at \$1.6 billion, up from \$1.0 billion in the current financial year and from what was announced for 2016/17. For the following years out to 2020 it is set down as \$1.5 billion a year, but Governments reallocate these every year so the pattern has little meaning. What is meaningful however is that there is more available than the \$1.0 billion allocated in recent years. However Bill English says that by doing this they have reduced anticipated spending by \$1.2 billion over the next 5 years.

The Government's central focus on debt is as much about continuing political pressure against new expenditure as a genuine need to get down debt, which is very low by international standards, especially when the New Zealand Superannuation Fund is taken into account (see the table above). The government could well afford to repay debt more slowly, or to simply maintain its nominal value and let the growing economy reduce its significance. There will be no resumption of payments to the New Zealand Super Fund until 2020/21 when Crown net debt falls below 20 percent of GDP.

New capital spending of \$1.4 billion is lower than promised in December's Budget Policy Statement, but there will be additional spending from "reprioritising capital with the Crown's balance sheet", bringing the total to \$2.6 billion. It will fall to \$0.9 billion in following years. It is not clear what "reprioritising capital" means but in answer to a question Bill English mentioned remaining funds from the partial privatisations, the "Kiwibank transaction" where New Zealand Post sold 25 per cent of Kiwibank to the New Zealand Super Fund and 20 per cent to ACC; Auckland City Council refinancing borrowing from the government for its rail development (taking it off the Crown's books), and sale of state houses and land. In addition the Budget documents feature Public Private Partnerships in roading, prisons and new schools. Their impact on debt is spread across the period of construction of the assets, totalling \$0.8 billion in net debt over five years out of a total \$1.8 billion cost.

The impact of the government's spending and revenue on the economy is forecast to be positive for 2016/17, but negative from 2017/18 on. Given concerns about the economy and the international situation it would have been wise to be more expansionary to bring down unemployment.

The Government is still talking of tax cuts in future years, but its main public objective is to get down debt which, if serious, means meaningful tax cuts will be difficult to fund. That is just as well because the need is for more funding rather than less.

Housing

Despite the expectations of many commentators, the Government had not announced any comprehensive housing plan. Alongside the pre-budget announcement of \$9 million in 2016-17 (and a total of \$41 million over four years) to fund NGO provision of 3,000 emergency housing places per annum, \$22 million is added in 2016-17 (as part of a \$200 million spend over four years) to eventually create 750 places on the social housing register (which currently supports 4,500 households) and to increase the subsidy for social housing rents. Many of the 3,000 emergency housing places funded are pre-existing ones.

In Auckland, there will be \$100 million of additional capital spending over the next four years to develop surplus crown land for housing. But there is no clear picture about how many houses that could eventually deliver. Less than a year ago Westpac identified that Auckland needed 10,800 new houses per year. Using similar smaller capital spending in Christchurch as a benchmark, the Auckland initiative would – at best – create land for 1,150 homes a year.

There is \$18 million over the next two years to carry on the Warm Up subsidy for ceiling and underfloor insulation to try to reach the initial 46,000 home target – but there remain an estimated 600,000 uninsulated homes across the country.

“Social Investment” package

As expected the ‘social investment’ model is writ large in this Budget. \$652 million has been allocated to programmes over the next four years that will target “at risk” New Zealanders. While the social investment approach has been implemented in the Ministry of Social Development, this Budget sees the rollout in other social sectors especially in education.

The 2016 Budget contained eight announcements relating to social investment, some of which appear in other Votes:

- \$199.9 million over four years to implement a system wide reform of services and support for vulnerable children and young people
- \$61.2 million to the Youth Service to 18 and 19 year-olds who are identified as at risk of long term benefit dependency
- \$50.3 million to reduce barriers to employment for people with complex health conditions
- \$43 million for children in schools targeted of at risk of not achieving in education
- \$20 million for prison Out-of-Gate reintegration services to support offenders leaving prison and returning to communities
- \$30 million operating and \$10 million capital of data and infrastructure in contingency for data quality and secure data distribution
- \$18 million over two years to extend the Warm Up New Zealand programme
- 18 million over four years to expand the Healthy Homes Initiative

The social investment approach is targeted to those in need using data that will identify people at risk of not achieving. But it does not address why there are poorer education outcomes which come from low incomes, poor housing intergenerational deprivation. The approach is limiting social welfare to a targeted and smaller group rather than strengthening the social security system for all New Zealanders.

Child Poverty

Child poverty advocates will be less than underwhelmed by this Budget. While there are funding initiatives, they are symptomatic responses and the approach doesn't bear any resemblance to a comprehensive approach to address child poverty. Initiatives include investment in social housing but given the growing homeless numbers the provisions are far from sufficient.

Health

Our pre-Budget analysis is available at <http://union.org.nz/health-working-papers>. There we estimated that the Health Vote required \$691 million in operating funding (that is, not including capital funding) just to meet the needs of the increasing and ageing population and cost rises. District Health Boards (DHBs) required \$551 million of that.

The headline figures for Vote Health are that there is an additional \$568 million in operating funding this year and \$2.2 billion over four years. However this \$568 million is a mixture of meeting population and cost pressures and new or extended services and programmes. While a better understanding of this will need to wait for our post-Budget analysis, our estimate is that about \$450 million of the \$568 million is to meet population and cost pressures. In addition there are new costs placed on the DHBs that are not part of the additional \$568 million: for example \$11 million towards the new funding of medicines that was announced before the Budget (on top of \$39 million additional funding), and DHBs will have to fund 2,000 additional elective surgery operations as a condition for \$24 million becoming available for a further 2,000 operations.

Our estimate is that DHBs are \$131 million short of what is required to meet population pressures, increased costs and the new services that are required of them, while the whole Health Vote is \$304 million short.

DHBs receive \$12.2 billion in 2016/17 and the Health Vote \$15.3 billion in operational funding. The Vote is budgeted to receive \$818 million in capital, up from \$601 million estimated actual this year – but in the 2015 Budget they were to receive \$1.1 billion in capital, so the capital budget bears little relation to the actual outcome.

Pay equity and In Between Travel

The “In Between Travel” case which addresses working conditions for low-paid carers of people with disabilities and elderly people in their own homes was partly funded in last year's budget, but there is a remaining government commitment to regularise work in the sector. There is no provision for this in the Budget.

Pay equity is not addressed in the Budget but the following “fiscal risk” (i.e. possible call on government funding) is noted:

Pay Equity and Caregiver Employment Conditions

Several cases and funding claims in the disability support and aged care sectors relating to interpretation of the Minimum Wage Act 1983, the Equal Pay Act 1972 and the

Government's policy of paying certain family members through its Funded Care Policy may involve significant costs to the Crown. The Government has announced it will be entering negotiations over pay rates for care and support workers which will cover around 50,000 workers. A Joint Working Group has been established to develop principles for dealing with claims of pay equity under the Equal Pay Act. The group will recommend to Ministers agreed principles on pay equity that could be applied in all sectors in the economy. The result of both of these and of any related litigation could require additional funding.

Education

Early Childhood, Primary and Secondary

Schools and teaching staff are facing a standstill in operations funding in this Budget. While a few schools will have an increase, most won't. The effect of no increases in operations funding could be layoffs of often low-paid support staff, and teachers paid out of this funding (about 900 in secondary schools).

Overall secondary education has had a 1 percent cut which the government justifies by roll reductions. Primary education has a 1.4 percent increase in appropriations.

The big change in education is an allocation of funding for a 'social investment' initiative. An increase of \$43.2 million over four years has been allocated to students identified as "at most risk of education failure". Students fit these "at risk" criteria by having either spent three quarters of their life in a benefit-dependent household if they are under 5 years old, or three quarters of the most recent five years in a benefit dependent household. How this is going to be operationalized is unknown and does not address the needs of children in low-income wage-dependent households.

Education funding has increased to \$11 billion with \$1.44 billion in additional funding over the next four years.

- \$396.9 million over four years plus \$39.2 million for access for 14,000 children to Early Childhood Education
- \$43.2 million to schools educating "at risk" children
- \$42.1 million for students with high and special education needs
- Announced pre budget were 7 new charter schools and \$500,000 to establish an entity to promote and support charter schools
- Another pre-budget announcement was \$15.3 million for more teacher aides.

The Budget provides \$882.5 million in school property over the next four years (of which \$727 million is capital and \$155 million operating funding): 480 new classrooms, nine new schools, relocation of three school and a Kura. Some of these will be through Public-Private partnerships which will cost \$328.9 million in capital funding and \$20.2 million in operating funding.

Tertiary Education

The annual maximum fee movement amount by which tertiary education organisations can increase their domestic fees is proposed to be reduced to 2 percent.

An additional \$256.5 million is allocated for tertiary education over the next four years. It covers:

- \$86 million over four years for tuition subsidies focused in science subjects: agriculture veterinary science and undergraduate medicine

- \$36.9 million over four years to increase tuition subsidies for sub degree provision at Level 3 and above by 2 percent
- A pre-budget announcement of \$14.4 million over four years to apprenticeships as well as a pre-budget announcement of \$9.6 million to Māori and Pasifika trades training
- \$43.5 million over four years for initiatives to develop international linkages and connections
- \$14.6 million over four years for foundational education at Levels 1 and 2 to be free from 2017
- \$11 million to fund 600 more places in the Workplace Literacy and Numeracy programme
- \$2.3 million over four years for the Refugee English Fund to provide fees-free study for refugees to progress higher level study or employment
- \$1.6 million over four years for engineering graduates to transition from education to employment
- \$35 million in contingency funding for innovation initiatives in the university sector

The overall picture is one of tight spending, a focus on the government priority areas of science and technology subjects and more apprenticeships in construction and infrastructure.

ACC

ACC will receive funding of \$26.4 million in 2016/17 to provide services and support for people who are not in paid employment for injury prevention and to recover from injury. This increases ACC's funding to \$1.23 billion for non-earners in 2016/17.

Canterbury

With the expiry of the Canterbury Earthquake Recovery Act, Canterbury Earthquake Recovery is no longer a separate vote in the Budget. Reflecting this in his speech, the Minister of Finance stated that the Government will, "progressively step back from its leadership role in Christchurch".

Conservation and Environment

As foreshadowed, the Government will phase out its "two for one" subsidy of the Emissions Trading Scheme by 2019. Introduced in 2009, the deal halved the cost of every tonne of pollution from the liquid fossil fuels, industrial processes, stationary energy and waste sectors. The cap for the price of carbon remains \$25 a tonne remains, with a price before the Budget announcement of around \$15.

There is also \$100 million allocated over 10 years to improve water quality (\$10 million per year – although starting with only \$2.5 million in 2016-17). But, as the Minister's press release identifies, this compares with \$354 million spent since 2000 (approximately \$22 million per year). The new Freshwater Improvement Fund is a contestable fund and will give priority to applications with co-funding from the private sector.

Economic Development

The government has continued funding for regional economic development for the next four years, at \$11m a year.

Employment

Despite the Budget saying that this will help people into jobs, there is very little money targeted into employment overall. What is allocated is directed to government priority areas and into tertiary education where government wants to see job growth. We refer to that in the section on tertiary education

Over four years, \$111.5 million is allocated for getting people off benefits and is targeted to getting young people off benefits and into “sustainable employment”. Other funding is allocated to:

- \$61.2 million, of which \$19.8 million is reprioritized, for the Youth Service to be extended to 19 year old parents and 18 and 19 year old job seekers who are termed at high risk of long term welfare dependency
- \$26 million is allocated for targeted case management to 120,000 Work and Income clients
- \$9 million to bring together agencies for initiatives for people with complex health conditions
- \$15.3 million over three years to support a trial aimed at increasing the employment prospects of released prisoners.

Health and Safety

WorkSafe’s core baseline funding is \$85.6 million for 2016/17, which is a slight decrease from \$85.9 million, and does not recognise any increase in costs. WorkSafe is in the midst of an intensive and increasing programme to implement the new Health and Safety at Work Act and the large programme of work required for guidance development and inspection by WorkSafe, which require increasing resources. There is a further \$9.5 million in capital allocated for ICT capability, motor vehicle and equipment costs, an increase of \$3.7 million.

Science, Innovation and Research

Innovative New Zealand is one of four Government’s four “significant measures” to grow the economy. As part of that, \$55 million has been added to science and innovation spending in 2016-17 as part of a \$410 million package over the next four years. Of that, \$97m for the Health Research Council, was pre-announced and comes under the Health vote. The MBIE Contestable Fund, renamed the Endeavour Fund, is the biggest winner with an additional \$114 million over four years.

While the overall spend will represent a 25 per cent increase over the next four years, New Zealand remains well below the OECD average for research and development spending as a proportion of GDP (approximately 1 per cent of GDP vs 2 per cent). Equally, these measures do not address New Zealand’s dependence on state funded research – for example over 60 per cent of research and development funding in Australia comes from the private sector, compared to less than 40 per cent here.

Justice

Corrections has been allocated funding of \$355.6 million over the next four years for a prison population that has increased faster than expected. Of this, \$290.6 million is allocated to address prison population growth. Other funding is:

- \$20 million for Out-of-Gate reintegration services
- \$12 million to manage offenders returning from overseas
- \$8.8 million for GPS monitoring for high risk offenders.

Māori Development

Two pre-Budget announcements were made relating to Māori Development:

- \$12.6 million for the Māori Housing Network over the next four years
- \$9.6 Million for Māori and Pasifika Trades Training

Other announcements were:

- \$49 million over the next four years for Whānau Ora
- \$34.6 million funding over four years for te reo Māori
- \$14.2 million for a Māori Land Service
- \$4 million to provide microfinance to whanau
- \$5 million to go to increase Māori electoral participation

Pacific Peoples

While the total appropriation for Vote Pacific People's has reached \$9.9 million, in real terms this means it has only recovered to the same level as when National took office in 2008. The major block of announced spending in this budget is \$4.6 million over four years to continue the Pacific Employment Support Services project, which was previously funded for five years and came to an end in 2015-16. There's also a quarter of million dollars to "investigate options for helping Pacific families who want to live and work outside Auckland". At its weakest the Minister's release highlights \$64,000 of operating spending over four years to oversee new IT and property modifications.

Police

\$299.2 million has been allocated to the Police – primarily for pay increases. The whole allocation is:

- \$279.9 million for Police pay increases
- \$8.2 million for a child protection offender register development and operating costs
- \$6.4 million for compliance with provisions of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009
- \$4.7 Million for the Christchurch Justice and Emergency Services precinct.

Links

Pre-Budget announcements from the government can be downloaded from

<https://www.beehive.govt.nz/feature/budget-2016>

Budget documents can be downloaded from

<http://www.budget.govt.nz/>