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Assessing the economic and political environment in New Zealand

BUDGET EXTRA | May 20 2021 | Confidential to HUGO members

Govt pumps cash into benefits

The Labour government has unveiled an **increase in main benefits of $32-$55 a week in Budget 2021 at a cost of around $700m a year**, but has '**banked' about half the $20b of the projected improvement in tax receipts** via debt reduction because of stronger-than-expected economic growth seen since the election.

Grant Robertson says the benefit hikes right the wrongs of Ruth Richardson's benefit cuts of the 'Mother of All Budgets' in 1991, and deliver on one of the main the recommendations of its own Welfare Experts Advisory Group to reduce child poverty by simply increasing incomes for the poor.

It is **a traditional Labour budget** in that regard. It is fiscally feasible and **appeases an important part of Labour's base** that has found the Ardern administration timid rather than 'transformational'.

The budget does **very little specific for business interests**, beyond increasing beneficiaries' disposable incomes materially and committing a possibly unspendable $12b of capital for infrastructure over the next three years.

However, there are **$279.5m** of commitments to new funding for tertiary education over the next 4 years, **heavily weighted to RoVE/trades training,** where the intention is to **even up the imbalance in support for trades training vs degree education.**

KiwiRail is an early beneficiary, with a $1.3b package of capital commitments.

Employers should take an immediate interest in the proposed unemployment insurance scheme, which is likely to be **levy-funded, akin to EQC and ACC.**

Some low-paid working people will be disappointed to see beneficiaries catching their incomes up.

The government's answer to that is three-fold:

- the potential for further largesse in the next budget, if the trend for the Crown accounts to turn out healthier than forecast holds;
- the Fair Pay Agreements legislation, which will allow national collective bargaining by industry;
- new immigration restrictions targeting temporary migrants working in low and semi-skilled jobs may force NZ employers to pay locals more or invest in productivity enhancing technologies.

However, on benefits, the government has not gone as far as many child poverty campaigners asked for,

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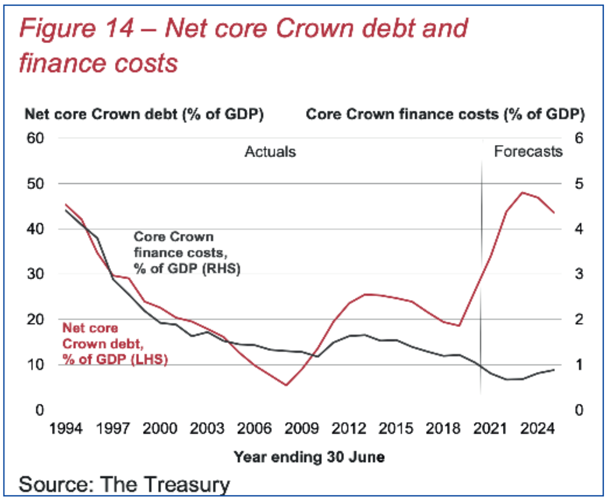
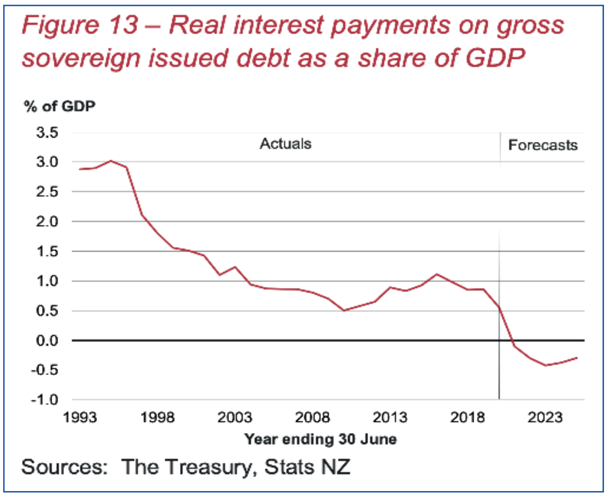
Debt levels off below 50% of GDP and interest costs fall



The real costs of borrowing go below zero



THE HUGO GROUP™

PO Box 25120, Wellington 6140 **P.** 04 385 6249 hugo@thehugogroup.com **www.thehugogroup.com**

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or the WEAG recommended, particularly on higher incomes for those receiving Working For Families and removing some of the punitive sanctions for beneficiaries.

The first tranche, a $20 increase, starts from July 1, with the second delivered from April 1 next year.

The government chose to increase its allowance for new operational spending from its December and February view by around $1.2b in 2021/22 to $3.8b, but only nudged it up by around $75m to $2.7b for the following three years - for now.

The **Crown accounts are in strong shape** in this budget, with net Crown debt never breaking 50% of GDP, the size of government falling back below 30% of GDP by 2025, unemployment very low and credible expectations of a fiscal surplus within five years. Under media questioning, **Robertson showed no appetite for relaxing that track.**

The plan for **new capital spending** was increased by around $4b to $12b for the next four years.

The **scale of the DHB reform**s is indicated by the allocation of **$486m** over four years to begin the transition. That's before $3.2b of new spending on health opex and infrastructure over the next four years.

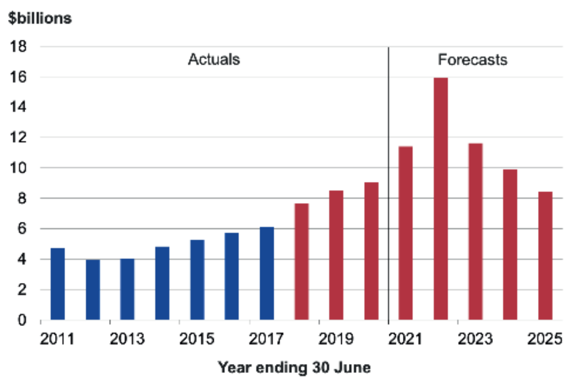
So, too, is the scale of RMA reforms, where allocation to implement and regulate the proposed new regime over the next four years totals $131.8m.

Key details include:

- **Main benefit increases** of $32-$55 a week at a cost of around $700m each year for the next four years;
- **Social insurance** tripartite working group (govt/BusinessNZ/CTU) to design social insurance to have 80% of income after job loss. Intended in part to improve fiscal resilience to economic shocks. **Will challenge Robertson's "no new taxes"** line. The **CTU is open-minded about whether the scheme could replace redundancy clauses** in current employment contracts.
- $110.7m across-the-board 1.2% increase in tertiary education tuition and training subsidies, **heavily weighted to RoVE/trades training.**
- Training incentive allowances reinstated for 16,000 retraining workers of up to $114/week for course costs at a cost of $127m over four years.
- Hypothecation of Emissions Trading Scheme revenue for Emissions Reduction Plan, creating a **$3b revenue stream over four years** at a NZ carbon price of $36/tonne for decarbonisation initiatives. **A higher carbon price will deliver more**.
- An extra $200m a year for Pharmac to $1.4b.
- $730m in Māori housing initiatives to deliver 3,700 new homes, including underground infrastructure, and repair another 700.
- All up, the govt was able to announce targeted investment for Māori topping $1b, including $42m for Māori TV, radio and other media.
- Indexation of child care assistance thresholds to wage inflation to fund an extra 3,300 places in out of school care for low income working parents.
- An extra $2.7b of spending for DHBs over four years as they transition to the new national system. Operational spending via DHBs to rise by $675m/year and capital spending increased by $700m over four years.
- An extra $516.6m for health infrastructure, including a national health information platform
- Extra 320 cochlear implants by 2025, almost double the current rate
- The resumption of rail wagon assembly at Hillsdale in Dunedin to build 1,500 wagons, creating 145 jobs there. Railways to receive 60 new trains and 1,900 new wagons.
- The creation of a new rail maintenance hub at Waltham, Christchurch, creating 300 jobs, plus 150 new jobs for IT, maintenance and renewals for NZ Rail
- $306m to refurbish NZ's Scott Base, on Antarctica. Such a substantial investment on the ice may indicate a commitment significant to allies, given that US-China tensions are playing out at the pole.

Infrastructure spending drops in the out years

Figure 19 – Net capital spending



Source: The Treasury