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Wellbeing Budget 2019

overview

New Zealand's inaugural "Wellbeing Budget" was delivered by Minister of Finance Grant Robertson today. Budget 2019 represents a significant change from how Budgets have previously been designed, developed and presented. It will be up to all New Zealanders to decide if the Government is focusing on areas they value the most.

To evaluate and understand the Budget and its associated priorities, it is important to understand the Government's definition of Wellbeing, which is "when people are able to lead fulfilling lives with purpose, balance and meaning to them". Few will argue that making the best choices for current and future generations requires looking beyond economic growth and considering social, environment and economic implications together. However, there is an inherent level of subjectivity which will allow New Zealanders with differing political views to form their own opinions on what has been presented today.

Economic outlook

The New Zealand economy continues to see solid economic growth. In the year ended 31 December 2018, New Zealand's GDP growth was up 2.8%, above the OECD average of 2.3% and similar to most of our trading partners. Looking ahead, GDP growth is forecast to average 2.6% until June 2023.

However, the pace of economic expansion has lost some momentum, largely reflecting slower business investment and continued easing in population growth.

The economy continues to operate near full capacity, with the unemployment rate at just above 4%, and labour force participation rates at historically high levels.

For Budget 2019, a multi-year capital allowance has been introduced to fund capital initiatives through to Budget 2022. Of the $14.8 billion set aside, $10.4 billion is allocated in this Budget which will underpin continued GDP growth in the short-term.

Priority Areas

The Wellbeing Budget focuses on five priorities as well as funding to maintain public services at the level New Zealanders expect. These priorities were identified using collaborative and evidence-based processes, including Treasury's Living Standards Frameworks:

1. **Taking Mental Health Seriously** – Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds.
2. **Improving Child Wellbeing** – Reducing child poverty and improving child wellbeing, including addressing family violence.
3. **Supporting Māori and Pasifika Aspirations** – Lifting Māori and Pacific incomes, skills and opportunities.
4. **Building a Productive Nation** – Supporting a thriving nation in the digital age through innovation, social and economic opportunities.
5. **Transforming the Economy** – Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy.

Highlights

- Record $1.9b total mental health package.
- A new frontline service for mental health with a $455m programme providing access for 325,000 people by 2023/24.
- Suicide prevention services receives a $40m boost.
- $200m extra for new and existing mental health and addiction facilities.
- Expanding the nurses in schools programme to decile 5 secondary schools.
- $197m to tackle homelessness through Housing First.
- New programmes and funding to break cycles of child poverty and family violence.
- A $1.1b investment to protect vulnerable children. This includes support for Oranga Tamariki to ensure young people do not fall through the cracks. Funding will transform the care and youth justice systems, meet new responsibilities to tamariki Māori, build a new Transition Support Service for young people leaving care and youth justice and pilot a new Intensive Intervention service to prevent children and young people from entering care in the first place.
- All decile 1-7 schools will be eligible to receive $150 per student annually from 2020 if they don't ask parents for school donations. NCEA fees will also be removed.
- From 1 April 2020, main benefits will be indexed to average wage increases, to ensure the incomes of people needing to access main benefits do not fall further behind.
- Abatement thresholds lifts for main benefits will allow people to work more hours before their benefit reduces.
- $320m to address domestic violence.
- A $47.6m programme to promote healthy eating and physical activity in schools.
- An $80m boost for Whanau Ora.
- Significant investment in culture and community-focused initiatives to promote a stronger sense of national identity. This includes restarting Te Kotahitanga, supporting the Maori Housing Network and revitalising marae.
- A $56m investment to unlock whenua Maori.
- A new $300m Venture Capital Fund will be established to invest in New Zealand's venture capital market to provide businesses with a sustainable path to grow and develop.
- $157m over four years to support innovative businesses to develop and commercialise products and adopt cutting -edge technologies. This includes initiatives to encourage the development of high value low-emissions products.
- Boost for Mana in Mahi with places for up to 2000 young people.
- $200m for Vocational Training reforms utilising the shortfall from the lower take up of "Fees Free".
- $1b boost for KiwiRail to support New Zealand's climate change goals and improve choices for freight and commuter transport.
- Funding for Auckland City Rail Link and beginning the process to replace the Interislander ferries.
- An $80m investment for research in the agricultural sector towards reducing greenhouse gas emissions.
- A $229m Sustainable Land Use Package to protect and restore at-risk waterways and wetlands while providing support for farmers and growers to use their land more sustainably.

Investing in New Zealand

Budget 2019 allocates $10.4b of a four-year capital allowance. This includes record investment in a 10-year school property modernisation programme, an investment plan to “fix” hospitals and mental health facilities, and investments in KiwiRail and the Provincial Growth Fund as discussed previously.

Health
- Full funding for the new Dunedin Hospital
- $1.7b for the building and redevelopment of hospitals
- $190m for DHB deficit support

Education
- $1.2b for a 10-year school property programme

Defence
- $1.7b to purchase new Maritime Patrol Aircraft

Health and Education – the balancing act

While Budget 2019 does commit a substantial amount of capital investment to arguably the two areas New Zealanders feel most strongly about, the jury is out as to whether it goes far enough to appease those who work in the health and education sectors. A neutral commentator would rightly point out that there is a natural tension between spending on infrastructure and salaries, but there is no point in having new schools and hospitals in a decade if we do not have the teachers, doctors, nurses and midwives to work in them. Only time will tell how this Budget is received by those vocations currently committed to ongoing industrial action. After all, it is their “wellbeing” the Government by its own assertions today, is trying to improve.

What about tax?

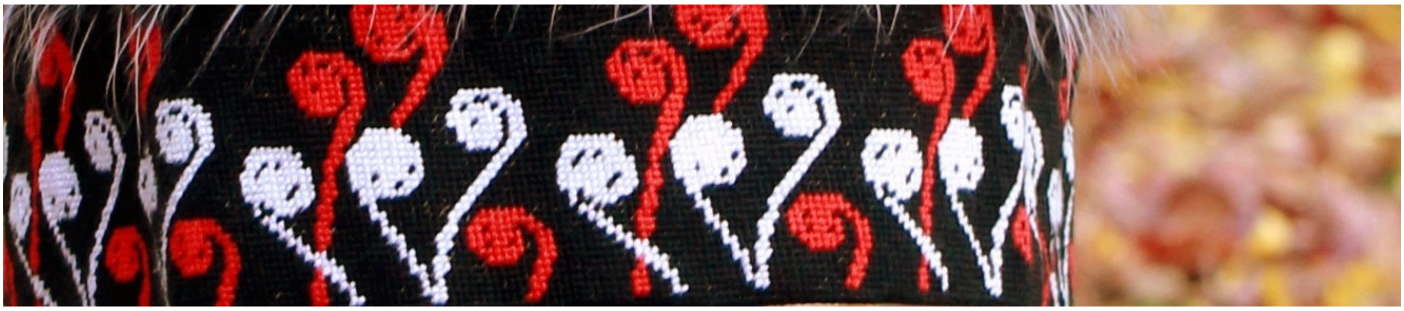
Despite the time and resources the Government dedicated to the recently concluded Tax Working Group, it would seem that separate from their surprise dismissal of any form of Capital Gains Tax, any future changes to the tax system are yet to be announced or are non-existent.

As Budgets go, there is an obvious lack of any tax-related announcements or even commentary with the Government simply re-outlining their objectives for the tax system:

- A system that is efficient, fair, simple, coherent and collects the tax that is due, on time and in full.
- A progressive tax and transfer system for individuals and families.
- A system that promotes long-term sustainability and productivity for the economy.
- A system that supports a sustainable revenue base to fund Government operating expenditure around its historical level of 30% of GDP.
- A system that treats all income and assets in a fair, balanced and efficient manner.

Many tax experts would challenge whether or not these objectives are actually being achieved, with New Zealand relying so heavily on the collection of tax from individuals when compared to the rest of the OECD. The observations and concerns outlined by the Tax Working Group remain and will need to be addressed in some form, sooner rather than later if New Zealand's tax system is to be fair, efficient and not impede economic growth.

Some previously announced tax changes such as the ring-fencing of residential property tax losses are still working their way through Parliament. In the meantime, it is certainly a case of "watch this space" to see what other options the Government may include in the tax policy work programme to further improve the tax system. However, today was not the day.



Impact on business

As the Wellbeing Budget has arguably moved the dial from a pure economic focus towards more intangible social measures, it is more of a challenge at first glance to identify the immediate impact on New Zealand business.

There are obvious initiatives that will have a positive impact, such as the $300m boost to the New Zealand Venture Investment Fund.

There is evidence of a gap in domestic capital markets, which may be slowing the growth of New Zealand firms – this gap is not being filled by foreign venture capital. The Government has therefore asked the managers of one of New Zealand's sovereign wealth funds to support its goal to strengthen and deepen this market.

Economic Development Minister David Parker says the fund will help keep more start-ups in New Zealand for longer and support the proportion of New Zealand ownership.

"New start-ups are well served but mid-sized ones, between about $2 million and $15 million in size, are not well supported.

"The world is in the middle of a technological revolution and we need to chase down as many of these commercial opportunities as possible. We also want to increase the amount of technology that gets commercialised and to lift the level of innovation in New Zealand," David Parker says.

Transitioning to a high-productivity, low-emissions economy means a change in behaviour, and an understanding about the sustainable use of resources and the promotion of investment and innovation.

Budget 2019 allocates $157 million over four years into innovation, with initiatives to support businesses to become more productive and develop high value low-emissions products. This includes $26 million over four years to help support, incubate and grow start-ups.

The Research, Science and Innovation Minister Megan Woods says start-ups are the way New Zealand will continue to develop unique, world-first and ground-breaking ideas. "Having sustained support will mean that innovators can more effectively commercialise science and research and turn ideas into products and services that can then be successfully brought to market."

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