

23 May 2022

Budget 2022 highlights

Tax concerns take a back seat in Budget 2022 as the Government focuses instead on the rising cost of living, health and climate change measures.

Core Government expenditure now amounts to 35.3% of the total economy. When Jacinda Ardern became Prime Minister, the figure was 27.3%.

A better-than-expected economy means record Government revenues, but Grant Robertson's pushed back the return to surplus

The economic forecasts are better than they were in December's half-year update. But the Government's forecast debt will now peak \$10 billion higher, and a return to surplus now isn't expected until 2024/25. This is incredible when economic growth is forecast to hit 4.2% over the next year, and unemployment is forecast to drop from the current 3.2% (which is already the lowest in recorded history) to 3.0%.

Spiking inflation is a short-term windfall gain for the Government coffers – it drives up GST revenue and PAYE and taxpayers are driven into higher tax brackets. Payroll costs for Governments tend to lag behind.

For the first time since the Fiscal Responsibility Act came into force in 1994 a Minister of Finance is projecting a deficit in “an overheated economy”. Despite the record tax take, and one-off COVID expenditure winding down, Budget 2022 forecasts a deficit of \$6.6 billion.

Put another way, Grant Robertson will borrow \$3,528 for every Kiwi household to pay for non-capital spending (i.e. he's still borrowing for day-to-day expenses) over the next 12 months.

Cost of living

Front and centre is a short-term “cost of living payment” targeted at those aged 18 and over who earned less than \$70,000 pa in the past tax year. (Anyone receiving the Winter Energy Payment will not be eligible for the cost of living payment.)

The \$350 payment will be paid in 3 instalments over 3 months, beginning 1 August 2022.

The other elements of the cost of living package include a time-limited extension to measures previously announced: fuel excise cuts, half-price public transport and a reduction in road user charges.

There may be considerable pressure for extensions to be granted if fuel prices remain elevated when the reliefs expire.

Business-friendly announcements

Changes of specific interest to business include:

- the introduction of legislation removing the use of restrictive covenants on land that effectively prevent new entrants from entering the grocery retailing market
- \$100 million in capital funding for a Business Growth Fund aimed at SMEs in partnership with New Zealand’s major banks to improve SMEs’ access to finance
- \$653 million to fund further decarbonisation, including supporting businesses to shift to low-carbon energy sources, and
- \$60 million to improve broadband infrastructure in the badly-served areas of the country.

Climate Change Initiatives

Budget 2022 allocates \$2.9 billion of funding to investments to be made by the Climate Emergency Response Fund (CERF). The Minister’s speech comments that the climate investments announced in Budget 2022 are funded by those who pollute, not from increasing debt or other revenue. This is a reference to CERF’s funding being sourced from cash proceeds from the Emissions Trading Scheme.

The CERF investments mentioned in Budget 2022 include the following transport-related initiatives:

- \$569 million of funding to implement and operate a vehicle “scrap and replace” scheme that provides funding and “in-kind support” to low-income households to shift to low emission alternatives, upon scrapping their vehicle
- \$375 million of funding for what is termed in the Budget papers a “Mode Shift and [reduction of] Light Vehicle Kilometres Travelled”, with the funding to be committed to 4 indicative investment areas: the rapid rollout of urban cycle networks, the creation of walkable neighbourhoods, support for safer, greener, and healthier school travel, and provisions for more reliable and user-friendly public transport, and
- \$41 million of funding to decarbonise the public transport bus fleet. The Budget 2022 papers explain that the initiatives to be funded would include deploying zero-emission buses or investing in associated infrastructure.

Further funding is set aside for forestry and agriculture climate investments.

Health

Budget 2022 provides what the Finance Minister describes as “the largest investment ever in our health system” with \$11.1 billion total operating and \$1.3 billion capital funding.

Pharmac receives an injection of \$191 million extra over the next 2 years, taking its total funding to \$1.2 billion and a focus on better cancer treatments.

Other items earmarked for spending include:

- improved access to mental health and addiction services (\$202 million)
- hospitals and health infrastructure (\$1.3 billion) 6 2022 Budget Report
- primary and community care (\$488 million)
- Maori health services (\$299 million)
- New Zealand’s air ambulance services (\$90.7 million over 4 years), covering emergency helicopters and crew.

Housing

One housing-related item in Budget 2022 is funding to adjust the First Home Loan and First Home Grant settings to expand those initiatives to more first home buyers. This includes increasing the price caps on houses eligible for First Home Grants. The Budget papers reveal that the funding for this initiative will be a total of \$148 million in operating expenditure over the period 2022/23 to 2025/26.

Other housing-related initiatives in Budget 2022 include:

- \$1 billion in funding for public and transitional housing over the period 2022/23 to 2025/26
- \$355 million funding for emergency housing over the period 2022/23 to 2023/24
- \$75 million funding to progress a homelessness action plan over the period 2022/23 to 2025/26, and
- \$221 million funding for the Affordable Housing Fund over the period 2021/22 to 2023/24.

Education

Ministerial statement “The Budget 2022 package includes a total of \$2 billion in operating funding and \$855 million capital for the education system, including investments in infrastructure, new initiatives, and funding to address critical cost pressures.”

The Government’s reform of the education system receives some attention in Budget 2022, with the implementation of a new “equity index” to replace the current decile system of funding (allocation of \$300 million).

The commitment to pay parity between early childhood educators and kindergarten teachers is continued, with the allocation of a further \$266 million in operating funding over 4 years.

The Government maintains its focus on supporting apprenticeships for business with the extension of the “Apprentice Boost” initiative (which involves financial support paid to employers to retain and take on new apprentices) until the end of December 2023.

The role of te reo Maori is recognised, with a \$75 million allocation to support providers of te reo Maori, immersion and kaupapa Maori learning throughout the education system.

Business and the Economy

Budget 2022 includes a number of initiatives that are grouped together in the Budget speech under the heading “Providing economic security in good times and bad”.

Those initiatives include the following:

„ Funding for the “Industry Transformation Plans” (ITPs) operated by the Ministry of Business, Innovation and Employment (MBIE), which have been described by MBIE as plans created in partnership by business, workers, Maori, and Government, and which set a long-term vision for transformative change and identifying near-term 8 2022 Budget Report actions that will shift a particular sector toward realising that vision. Budget 2022’s allocations for ITPs include \$37 million for the Construction Sector Accord Transformation Plan, \$30 million for the Advanced Manufacturing Plan, an additional \$5 million for the Agritech ITP, and \$20 million for the Digital ITP.

„ Support for small businesses in the form of \$100 million of capital funding for a “Business Growth Fund” (BGF). The Budget papers explain that the purpose of the BGF is to help improve small- and medium-sized enterprises’ (SMEs) access to finance, and that the BGF would involve investing alongside private New Zealand banks. The Budget papers elaborate that the BGF would provide a source of long-term, patient minority capital to SMEs.

□ Funding to fulfil 2 manifesto commitments with a focus on New Zealand’s regions. These are \$200 million of funding allocated to the Regional Strategic Partnership Fund to invest in regional projects and \$60 million of funding to improve broadband infrastructure in the worst-served regions such as Gisborne, Manawatu-Wanganui, Hawke’s Bay, West Coast and Southland, with a view to improving productivity in those areas.

Infrastructure Investments

The Minister of Finance also holds the Infrastructure portfolio, and the infrastructure initiatives of Budget 2022 are of course mentioned in the Budget speech. In that speech, the Finance Minister comments that underinvestment in

infrastructure will be one of New Zealand's greatest long-term economic challenges.

New infrastructure initiatives included in Budget 2022 and directed at overcoming the challenge highlighted by the Minister include:

- ❖ \$349 million of capital funding to replace and modernise rail assets. The Budget papers explain that the funding would be for the final tranche of KiwiRail's rolling stock investment programme to replace life-expired assets with modern, energy efficient units
- ❖ \$1.3 billion of capital funding for upgrading health infrastructure, including priority capital projects such as Whangarei Hospital and Nelson Hospital
- ❖ \$385 million of capital funding and \$50 million operating funding for building and refurbishing classrooms
- ❖ \$200 million of funding to progress the delivery of the Auckland Light Rail project, and
- ❖ a range of digital technology related initiatives, including:
 - \$220 million operating funding and \$100 million capital funding for investments in data and digital infrastructure and capabilities relating to the health system
 - \$25 million operating funding and \$5 million capital funding for the Computer Emergency Response Team New Zealand (CERTNZ) to provide "cyber resilience" support to private sector organisations and individuals
 - funding for a new digital case management system to increase efficiency of the courts, and
 - investment in critical satellite capability to improve the accuracy of GPS.

Other Measures

In addition to the initiatives summarised above, Budget 2022 contains a number of other initiatives, including the following:

- ✚ a \$943 million package to establish a new Ministry for Disabled People, enable disability system providers to meet demand, and invest in the regional-based rollout of the Enabling Good Lives approach to Disability Support Services
- ✚ over \$1 billion in investments to support Maori health, education and economic outcomes, and
- ✚ direct and indirect investments in child poverty and wellbeing.

Also watch out for:

The tax principles bill.

New fiscal rules re Govt debt, surplus etc.

In relation to interest rates, the budget papers forecast that the 90-day interest rate will reach 3.6% in 2023. This is from a base of around 1.8% in April 2022. An obvious flow-on effect will be higher mortgage rates, leading to reduced house prices and diminished demand for housing purchases.