CTU Report on Budget 2019

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Introduction
This is a report on some of the Budget highlights. The Government describes it as a Wellbeing Budget and has taken a different approach to the way funding has been prioritised, including stating five Budget Priorities last December. We have therefore not only assessed it in the usual way by each of the main Budget areas (by ‘Vote’) but include an assessment as to what it has achieved for ‘wellbeing’.
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. Years end in June so 2019/20 means the year to June 2020.

Key Points

General
- A Wellbeing Budget, but greatly underfunded to achieve what is needed.
- Steady economic growth forecast and stronger wage growth, but slowing employment growth and 4 percent unemployment forecast.
- Government had room to stimulate the economy more had it been willing.
- Contingency for wage negotiations etc $264 million in coming year.

Health and Disability – including Mental Health
- $18.2 billion in operational funding for Health is just enough to cover increase in costs and population over the year, but initiatives may have additional costs
- But DHBs received $300 million less than needed.
- Large allocation for capital: $1.7 billion.
- $10 million per year for addition pharmaceuticals.
- $9 million for further rollout of the national bowel screening programme.
- $1.9 billion overall to mental health over four years and better access to services for those with moderate mental illness
- Minimal real increases for DHB services for severe mental health needs.

Education and Training
- 1.8 per cent increase in Early Childhood Education subsidy rates
- A 1.8 percent increase in school operations grants
- $1.2 billion ten-year building plan for new schools and classrooms
- $265.6 million for schools that agree to stop parental donations
- The removal of NCEA fees
- $141 million increase for 2019/20 in tertiary ‘student achievement’ funding
- $346 million in 2019/20 for fees-free tertiary education, down $8.6 million

Incomes and Wellbeing
- Indexation of all main benefits to average wage growth from 2020
- $321 million over 4 years to address family and sexual violence
- $1.2 billion over 4 years to improve outcomes for children in state care

Housing
- $410 million increase for public housing, to $1.15 billion in 2019/20
- Kiwibuild funding increases to $474 million in 2019/20
- $197 million over four years for Housing First programme

Climate Change
- $7 million in 2019/20, with $43 million over four years, to set up the Climate Change Commission

Just transition
- $9 million over four years for policy work on the Future of Work and Just Transition

Regional development
- Provincial growth fund has achieved 560 jobs created from only 250 projects
• $1.2 billion for Kiwirail with $300 million regional rail initiatives, $473 million to develop national freight network, and $406 million for Auckland City Rail Link
• Productive and Sustainable Land Use receives $229 million for transitions to low emissions in freshwater and agriculture and climate change commission.

Employment
• Several pay equity and other wage settlements
• $13 million operating/$3 million capital over 4 years to establish compliant payroll systems
• MSD to get $76 million for front line staff and $26 million for disabled people to improve employment outcomes
• $50 million over 4 years for Mana in Mahi programme to support young people on benefits into employment

Health and Safety
• $3.5 million on hazardous substances to raise classification and labelling to international standard and create a substances database

Immigration
• $139 million over 4 years to increase the refugee quota with $7.8 million in 2019/20

Māori Development
• $107 million in 2019/20 for promotion of Māori language and culture
• $38 million in 2019/20 to improve Māori housing outcomes
• Whānau Ora gets a $20 million annual increase to $91 million in 2019/20

Pasifika
• $20 million over four years to promote Pasifika languages

Science Innovation and Research
• $151 in new spending focused on stimulating and facilitating private investment in innovation and also climate change and reducing emissions.

Justice, Corrections and Police
• $76 million to allow enrolment on election day from 2020
• $13 million for the cannabis legalisation referendum
• 17 year olds to move from adult to youth justice system, $122 million allocated
• $305 million to Corrections including mental health and addiction support, improved community based sentencing and a kaupapa rehabilitation pathway
• $38 million to Police over 2 years to improve responses to family violence.
Is a Wellbeing Budget better?

Was the “Wellbeing Budget” much different from any other Budget? Was it better? It is of course the first one, so we need to allow the Government some room to develop its ideas and processes.

Quick answer: Yes it was a Wellbeing Budget in that it was built around the idea of focusing on many of the things in life that improve wellbeing, and that is praiseworthy. But it was greatly underfunded to achieve what we know is needed.

While there can be lots of debate over whether the way the Government has defined “wellbeing” and put it to work is the right one, in practical terms there are at least two ways to answer to these questions. One is the way it was put together, which the Government says should give us more confidence in the standard of decision-making. The other is by looking at results. In addition the new part of the Budget reporting on progress on reducing child poverty certainly raises the profile of the issue, undoubtedly one of wellbeing – though poverty will only be reduced when resources are allocated to it.

But before assessing these, we can’t overlook the elephant in the room. We can have the best decision making in the world, and the best intentions to produce good results but if there is not enough money to pay for them then vital priorities will go unaddressed. We will always live in an environment where we have limited resources. But we know that nine years of running public services at the current level of resourcing has created huge gaps in health, education, housing, welfare (and poverty), conservation, attracting and retaining good staff, and the list goes on. It was sensible to cancel National’s tax cuts, but unfortunately the $2 billion that it saved is far from enough to address the scale of needs the Government faces.

The Government’s Budget Responsibility Rules are inconsistent with meeting these needs. They put a particular view of fiscal prudence ahead of other needs that must be put in the balance if wellbeing is to mean anything practical. It is good that the Government has made a small start by announcing a more flexible approach to its debt management to aim to keep it in a 15 percent to 25 percent range rather than rigidly at 20 percent of GDP. However it has indicated that it doesn’t intend to move much from 20 percent unless there is some kind of ‘shock’ to the economy such as another recession, natural disaster or financial crash.

Most economists agree that 20 percent is an arbitrary figure that is already well within safe levels. More borrowing for our many infrastructure needs ($1.7 billion was allocated to Health alone in this Budget) would allow us to get to work on them sooner – if we have enough people to build them! – and would free up revenue for some of those other operational spending needs. But it is inescapable, even with better use of borrowing, that more revenue is needed. There is an urgent need for a progressive tax policy that carries out the dual role of raising needed revenue and reducing New Zealand’s high income and wealth inequality.

So how was the Budget put together? A new publication describes the rules and the process. The Government established five Budget Priorities for Budget 2019, announced in the Budget Policy Statement in December:

- Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy.

• Supporting a thriving nation in the digital age through innovation, social and economic opportunities.
• Lifting Māori and Pacific incomes, skills and opportunities.
• Reducing child poverty and improving child wellbeing, including addressing family violence.
• Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds.

Unless Budget bids for new funding were “aligned” with one or more of these priorities “and show cross-agency and cross-portfolio collaboration” they would be pushed down in priority. There was however room for special bids where there were growing costs over which government has little control. Presumably that would include growing school rolls and population pressures on services. Further, “for all new spending initiatives, Ministers will need to have first identified at least one percent of spending within baselines that is of low priority or does not align with the Government’s priorities”. So there had to be a saving of at least one percent from all departments. While this might be a useful discipline, it is an arbitrary way of dealing with the quality of programmes and comes after years of such requirements under the previous Government. Ministers and their departments then had to evaluate their bids using the wellbeing framework developed by Treasury, which looks at contributors to wellbeing such as civic engagement, environment, health, housing, income and consumption, jobs and earnings, safety and security and social connections. They also consider how it affects the distribution of income. The Ministers must show how their proposals would be implemented, explain what alternatives they considered, provide detailed costings and analyse any risk.

This has a mixture of the old (costings, risk assessment, requirements for savings and the process of approval through senior ministers) and the new in it. Setting priorities for the Budget should focus use of resources, though with time such processes get gamed (how creative can we be at reframing what we want to fit the priorities?). The much greater emphasis on inter-departmental cooperation is good: barriers between agencies are mostly artificial though necessary for administrative purposes. Health for example is dependent on good housing; successful education is dependent on good health, better support for workers when they lose their jobs would need collaboration between MBIE, MSD and education agencies, and so on. Explicitly requiring assessment under the wellbeing framework should force agencies to think beyond their own frame of reference and beyond the financial issues which come to dominate. They also encourage longer term thinking. Whether they succeed in this we will have to wait and see.

The new Wellbeing Budget document and the Budget website\(^2\) lays out what has been done for each objective. This approach focuses on the outcomes that are wanted, not on the details of spending which is the conventional approach. That is good – but funding still matters.

So what do the results look like? Of course, at this stage we can only look at what was announced, not whether it will work to improve wellbeing. The rest of this report lists many of these announcements that are particularly important for working people. There are some important developments.

\(^2\) [https://www.budget.govt.nz/](https://www.budget.govt.nz/)
Was the “Wellbeing Budget” much different from any other Budget? Yes, it has some important differences in the way it was put together that could lead to better decisions and choices. It will develop with time. Was it better? There are many good initiatives announced which will make a difference to people’s lives – but funding in many cases is still far from adequate. That in the end is the Budget’s silent but greatest weakness.

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 4.3 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):

<table>
<thead>
<tr>
<th>June Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.4</td>
<td>3.2</td>
<td>2.4</td>
<td>3.0</td>
<td>2.8</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>GDP per person</td>
<td>1.2</td>
<td>1.1</td>
<td>0.7</td>
<td>1.5</td>
<td>1.5</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>4.7</td>
<td>4.4</td>
<td>4.1</td>
<td>4.0</td>
<td>4.1</td>
<td>4.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Employment</td>
<td>5.2</td>
<td>3.7</td>
<td>2.3</td>
<td>1.9</td>
<td>1.7</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Wages (av. wage/hr)</td>
<td>1.6</td>
<td>3.0</td>
<td>3.3</td>
<td>3.2</td>
<td>3.5</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>CPI</td>
<td>1.7</td>
<td>1.5</td>
<td>1.8</td>
<td>2.0</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Real wages</td>
<td>-0.1</td>
<td>1.4</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Labour productivity</td>
<td>-1.6</td>
<td>-1.2</td>
<td>1.4</td>
<td>0.4</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Current account</td>
<td>-2.7</td>
<td>-3.4</td>
<td>-3.4</td>
<td>-3.4</td>
<td>-3.4</td>
<td>-3.3</td>
<td>-3.3</td>
</tr>
</tbody>
</table>

There is room in the economic and fiscal (government financial) position for further stimulation of the economy, which would be valuable. Employment growth is forecast to taper off from 2.3 percent in the year to June 2019 to 1.9 percent next year and 1.3 percent by 2023. The forecast unemployment rate bottoms out at 4.0 percent in 2020 and then rises to 4.3 percent in 2023 – probably reflecting Treasury’s view of the “natural rate” of unemployment.

We should be much more ambitious. At 4 percent unemployment there are still over 100,000 people unemployed, plus others wanting work or part-time and wanting full time employment.

Treasury evaluations of the current fiscal settings shows that the government surpluses are structural and therefore could be used for ongoing spending such as extending health and education services, hiring more teachers and health workers, or raising welfare benefits from their poverty levels. All of these would stimulate more employment. The Government’s forecast spending makes a negative impact on activity in the economy from 2021 onwards, again a reason for the government to be more active in its infrastructure and housing development and provision of services.

Economic growth forecast in the Budget is somewhat weaker than in the previous Treasury forecast (in the December Half Year Economic and Fiscal Update – HYEFU). GDP growth in the year to June 2020 is now forecast to be 2.4 percent compared to the previous forecast of 2.9 percent but it is slightly stronger in future years. However given the still strong population growth, GDP per person is more meaningful. Per capita growth is still well below

\(^3\) Current account deficit as a proportion of GDP, not percentage change.
the 2000s average of 2.3 percent at 0.7 percent for 2020, though stronger than previously forecast in future years. This is in part due to net immigration which Treasury forecasts (as usual) to fall off gradually from an estimated 42,000 in the year to June 2019 (though in fact Statistics New Zealand estimates 56,100 in the year to March 2019) to 34,000 next year, and 25,000 in 2023 – still considerably higher than New Zealand’s historical average. It seems unlikely net immigration will fall off that fast. The result may be faster GDP growth and slower per capita growth than forecast.

There is some good news in slightly faster wage growth than previously forecast – the average hourly wage rising 3.2 percent in the year to June 2020 and 3.5 to 3.6 percent in the remaining forecast years (previous forecasts were 3.3 to 3.5 percent). Factors Treasury probably had in mind included the strong rises in the minimum wage at least to 2021, some strong pressure from both the state and private sector union campaigns, and continuing labour shortages. Falling immigration (if it happens, and new policy in the pipeline might do that) might also help, as would better employment legislation such as Fair Pay Agreements. However it does only a little to their forecasts of the share wage and salary earners get of the country’s income: it is forecast to rise from 49.5 percent in 2018 to 50.3 percent in 2019, but fall again, ending up at 49.8 percent in 2023.

Treasury forecasts price inflation (CPI) rising more quickly, at 1.8 percent in the year to June 2020 and then rising (as their forecasts always do) to 2.0 percent in 2021 where it stays. That means real wages grow at about the same rate as in the previous forecast, at around 1.4 percent per year dropping to 1.2 percent in the year to June 2019 and 1.3 percent in the coming year.

Labour productivity is forecast to grow somewhat more strongly than previously (after falling last year according to Treasury) but peaks at 1.2 percent, below Treasury’s view of its long term average of 1.5 percent.

The current account deficit is forecast to be stable at around 3.4 percent, a relatively healthy state (for New Zealand), and is driven largely by income on overseas investment and debt in New Zealand.

**Government spending and fiscal outlook**

*Forecasts in red, actuals in black*

<table>
<thead>
<tr>
<th>June Year</th>
<th>2017 $m</th>
<th>2018 $m</th>
<th>2019 $m</th>
<th>2020 $m</th>
<th>2021 $m</th>
<th>2022 $m</th>
<th>2023 $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Crown Expenses</td>
<td>76,339</td>
<td>80,576</td>
<td>87,300</td>
<td>93,262</td>
<td>98,891</td>
<td>101,686</td>
<td>105,733</td>
</tr>
<tr>
<td>Core Crown Revenue</td>
<td>81,782</td>
<td>86,778</td>
<td>91,599</td>
<td>96,427</td>
<td>102,926</td>
<td>108,123</td>
<td>113,827</td>
</tr>
<tr>
<td>OBEAGL</td>
<td>4,069</td>
<td>5,534</td>
<td>3,465</td>
<td>1,313</td>
<td>2,131</td>
<td>4,683</td>
<td>6,146</td>
</tr>
<tr>
<td>Operating Balance</td>
<td>12,317</td>
<td>8,396</td>
<td>-0.284</td>
<td>4,680</td>
<td>5,916</td>
<td>8,972</td>
<td>10,890</td>
</tr>
<tr>
<td>Net debt (incl NZSF)</td>
<td>23,619</td>
<td>19,460</td>
<td>18,356</td>
<td>18,684</td>
<td>17,365</td>
<td>11,444</td>
<td>3,087</td>
</tr>
<tr>
<td>Net debt (excl NZSF)</td>
<td>59,480</td>
<td>57,495</td>
<td>60,299</td>
<td>64,695</td>
<td>69,226</td>
<td>69,861</td>
<td>68,455</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percent of GDP</th>
<th>Percent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Crown Expenses</td>
<td>27.9</td>
</tr>
<tr>
<td>Core Crown Revenue</td>
<td>29.9</td>
</tr>
<tr>
<td>OBEAGL</td>
<td>1.5</td>
</tr>
<tr>
<td>Operating Balance</td>
<td>4.5</td>
</tr>
<tr>
<td>Net debt (incl NZSF)</td>
<td>8.6</td>
</tr>
<tr>
<td>Net debt (excl NZSF)</td>
<td>21.8</td>
</tr>
</tbody>
</table>

NZSF = New Zealand Superannuation Fund
While this is in essence a conservative Budget there are some small but welcome signs of the Government making use of what flexibility there is in its Budget Responsibility Rules (BRR). That does not change our conclusion though that the BRR are inconsistent with its wellbeing approach.

Firstly and most remarkably it increased the “operating allowance” – the allowance for “new spending” – from the $2.4 billion stated in its Budget Policy Statement in December to $3.8 billion. That is the largest operating allowance since the last Labour-led Government.

Partly as a result, the budget surplus (taking either the Operating Balance or the Operating Balance before Gains and Losses (OBEGAL)), grows more slowly than previously forecast. The two measures are forecast to be at 1.7 percent and 3.0 percent of GDP respectively instead of the 2.3 percent and 3.6 percent in forecast in December.

The Government has announced before the Budget a move from a hard target of 20 percent of GDP for its net debt to a range from 15 to 25 percent. As a result of the above change in spending, net debt is forecast to fall more slowly than in the December forecast. It ends up in 2023 at 18.7 percent of GDP on its target measure (just 0.8 percent if you count the assets in the New Zealand Superannuation Fund) instead of 17.4 percent. This is sensible, but as noted above, even 20 percent is too low given the infrastructure needs we have and any likely risk to the economy such as financial crisis or major natural disaster.

Core crown expenses are forecast to be lower in the current year (ended June 2019) than previously forecast – 29.1 percent of GDP instead of 29.5 percent, or about $700 million, but higher in future years, rising to 28.8 percent in 2023 rather than 28.3 percent. This is still well below the “around 30 percent” limit it has imposed on itself in the BRR. Again, however these represent very low spending relative to needs and to other developed countries, and little different from the previous Government.

On capital spending, it has moved to a rolling multi-year capital “envelope” instead of the previous one-year capital allowance, reflecting the fact that many capital projects are multi-year and have long lead-ins. The capital allowance for years 2019 to 2022 is $14.8 billion, up from the $13.1 billion announced in December. It includes the Boeing P-8A Poseidon maritime patrol aircraft, the Provincial Growth Fund and City Rail Link funding.

It has slightly backed off on its contributions to the New Zealand Superannuation Fund, though it is still well ahead of the previous Government which contributed nothing for most of its term in office. In Budget 2018 it said the contribution would be $2.2 billion; it is now $2.1 billion, the following year was $2.5 billion, and is now $2.4 billion. Instead it is going to invest $300 million into a new venture capital fund administered by the Guardians of New Zealand Superannuation (who oversee the New Zealand Super Fund). Of the this $240 million will be “redirected” from the Super Fund contributions and $60 million will come from the government-owned New Zealand Venture Investment Fund (NZVIF). After 15 years the funds and any returns will be used to fund superannuation. This is an interesting way to in effect use Superannuation Fund contributions to help innovative start-up companies (with the prospect of a return to the public purse) without directly putting the whole Superannuation Fund at risk. Perhaps the Guardians of the Fund would only do it in this way.

It is worth observing that none of the recommendations of the Tax Working Group appear to be in the Budget. Given what they found about the weak progressivity (inequality-reducing
power) of our tax system, and its imbalances, this means that the BRR rule, “The Government will ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy” has not been met.

**Taxation**
The only taxation announcement was about GST on Telecommunication Services. This will “generally align the GST treatment for telecommunication services with current rules for taxing remote services. In particular, international roaming services for New Zealanders travelling overseas will be subject to GST.” It is forecast to raise $19.5 million in the year to June 2021 and $26 million in each of the following two years.

**Contingencies**
Contingency funding is set aside. It is described in this way: “Often initiatives set aside in contingency are commercially sensitive or relate to negotiations that have yet to take place, such as wage negotiations.” There is $264 million for this in operational funding in the year to June 2020, $315 million for 2021, $405 million in 2022 and $340 million in 2023. In addition $1.7 billion has been provided, mainly for Dunedin Hospital.

**Housing**
Funding for public housing gets $1.15 billion in Budget 2019, a $410 million increase on the previous year. A further $11 million in 2019/20 will fund initiatives to support housing services run by Housing NZ, including home ownership and healthy housing initiatives.

There is also significant funding for a Housing First programme to end homelessness, with $197 million allocated over four years, starting with $34 million in 2019/20. This funding includes specific funding for public housing places, as well as services for people with housing needs.

Funding for Kiwibuild gets off the ground in this budget with $474 million for new building, increasing from $56 million in the previous budget. $255 million is also allocated for interest-free loans to local authorities for infrastructure needed for residential development.

**Social Development**

**Social Security System**
There is new funding to address remuneration pressures ($25 million over the four years to June 2023), safety and security for clients and staff ($12 million over the four years to June 2023) and increasing case management at the frontline for administering income support and improving employment outcomes ($8 million over the four years to June 2023).

Community service providers will be additionally funded for $25 million over the four years to June 2023.

**Benefits and Assistance**
Funding for indexing main benefits, removing deductions and changing abatement thresholds is $26 million for the year to June 2020 and $530 million over the four years to June 2023. As a result main benefit rates will progressively rise and are forecast to increase by $26-$46 per week by 1 April 2023.

There is an approximately $10 million increase in the year ending June 2020 for services to support people to access accommodation. A housing support package increases from $2 million in the year to June 2019 period to $7 million in June 2020 year. Repayments related
to income related rents reassessment increases from $3 million in the June 2019 year to $4 million in the June 2020 year. Funding for better access to discounts and concessions through the SuperGold Card will be $3 million to June 2020 year with an $8 million operating allocation over the four years to June 2023.

An increase in funding from $53 million in the June 2019 year to $80 million in June 2020 year sounds a lot like the social investment approach. The budget states:

The single overarching purpose of this appropriation is to operate the benefit system and associated interventions in such a way as to improve client outcomes (employment and social) by moving them closer to independence, with a focus on those at risk of long term benefit receipt.

There is also a $50 million increase in the June 2020 year for improving employment outcomes for eligible people to help them move into and retain sustainable employment.

Disability
There is a new $9 million allocation in June 2020 year for improving employment and other outcomes for disabled people and people with health conditions, with $26 million over the four years to June 2023.

Social Services for Children and Young People
There are a range of new initiatives for supporting social services for children and improving outcomes within the Oranga Tamariki system. Recent announcements include funding for a transition support service to improve the wellbeing outcomes of young people leaving care or youth justice to provide a more gradual and supported transition into adulthood. This is funded with a total operating cost over the four years to June 2023 of $137 million operating funding and $3 million capital.

Oranga Tamariki
There is a range of funding to meet cost pressures in Orange Tamariki including a $53 million operating allocation over the four years to June 2023 years to address remuneration Cost Pressures.

There is a big jump in funding for the permanent appropriation of establishing an independent monitor of the Oranga Tamariki System from June 2020 year of $1.2 million to $5.6 million in the June 2020 year, and then continuing this monitoring with $1 million in the year June 2020.

Other
There are multiple items of new funding initiatives in the June to 2020 year as follows:

- resolving historical abuses while in state care claims ($27 million in June to 2020 year);
- funding for registration for social workers ($1 million in June to 2020 year); and,
- money for increasing the levels of teacher supply for the future ($2 million in June to 2020 year).

Improving Child Wellbeing
Improving child poverty and tackling persistent child poverty are Government priority areas in Budget 2019. The priorities have been targeted to:

- Improve incomes and address the cost of living with $535 million allocated in operating budget over four years
• Break the cycle for children in state care with $1.1 billion allocated in operating budget and $187 million in capital budget over four years
• Address family and sexual violence with $311 million operating budget and $10 million capital budget allocated over four years.

The removal of deductions to the benefit rates when sole parents do not identify the other parent and an increase to what beneficiaries can earn before their benefit reduces (abatement rate) are also announced as part of Budget 2019.

$1.1 billion in operating budget and $187 million in capital over four years is allocated to improve services for children who are in State Care. This funding covers a range of initiatives and includes an extra 350 frontline roles, early intervention and many support services including a focus on tamariki Māori.

$321 million over four years is targeted to address family violence and sexual violence (FVSV). There are 18 new initiatives in Budget 2019 to address FVSV including new investment in prevention services, more specialist services and more effective community responses.

NGOs were allocated $26 million over four years to provide early intervention services for child poverty reduction. Kids Start and Kids Can were directly allocated $3.2 million to provide breakfasts in schools and food and essential clothing to children in 700 low-decile schools.

Budget 2019 announced that further work to reduce child poverty includes the response to the Welfare Expert Advisory Group (WEAG) and the development of the first Child and Youth Wellbeing Strategy later in 2019.

**Health**
The Health Vote received $18.2 billion in operational funding and $1.7 billion in capital funding. While the capital funding is very large, our provisional analysis of the operational funding raises concerns.

The overall increase in operational funding is $1,185 million more than it received in Budget 2018. We calculated in our pre-Budget analysis that it required $1,303 million to cover rises in costs (including the significant pay settlements over the last year), population growth and aging over the previous year. The difference, $117 million, is within the margins of error of our calculations. It therefore at least marginally meets need, although this is before taking account of any genuinely new services that add costs to the system. For example, there is significant new funding in mental health and while that could well be regarded as a catch-up, it may also have come at the cost of other services. We will analyse this in our post-Budget report on Health.

The greatest concern is with DHBs. They received a total of $13,980 million, an increase of $745 million over Budget 2018. We calculated that they needed $1,046 million to cover costs, population growth and aging. They are therefore $302 million below what is needed. On the face of it, that will add significantly to their already stressed state. On the other hand, the remainder of the Vote received more than we calculated was needed to cover costs and population growth, allowing the expansion of services. For example, national services such as Child Health, Public Health and Disability Support Services, together received $158 million more than costs and population growth required. The biggest advance was for National
Mental Health Services which received $141 million, an increase of $73 million over Budget 2018 – more than doubling its funding. It may be that some of these new funds will fund services in DHBs. Again, we need to analyse the changes that have occurred in the Vote.

Many Health initiatives were part of the Budget mental health priority (see below). Additional ones of interest are:

- In addition to the usual increase in DHB funding to meet additional costs and population growth, there is $24 million per year “for initiatives to improve the financial sustainability and performance of DHBs”.
- $190 million is provided for DHB deficit support.
- $99 million in the current financial year, $116 million in the year to June 2020 and $112 million in each of the following two years for “for health collective bargaining commitments which are negotiated between unions and DHBs, including the nurses pay settlement agreed in August 2018.”
- $4.6 million per year for health workforce training and development to benefit rural and regional areas.
- Funding for National Disability Support Services is $7 million less than was spent this year.
- As notified before the Budget, there are two streams of additional funding for emergency services (ambulances) comprising $21 million over two years and $17.2 million over four years in total. These work out at $4.3 million per year plus an additional $13.4 million in the year to June 2020 and an additional $7.6 million the following year.
- An additional $10 million per year for pharmaceuticals (through PHARMAC).
- $748,000 a year for “delivering transgender health care. This will be done through funding an increase in the number of gender affirming surgeries, responding to a 50-year waiting list for surgery and growing demand”.
- $9 million per year for a further rollout of the national bowel screening programme to a further four DHBs.

The Ministry of Health has received $221 million, $8 million more than required by cost pressures, which is justified in an organisation that was substantially and repeatedly cut over the nine years of the previous Government and showed signs of that.

As noted, a total of $1.7 billion is budgeted for capital, $460 million more than in Budget 2018, and $1.9 billion is projected over 10 years. As we commented last year, this is a very large increase, and while desperately needed, the problem will be bringing the resources together in time to spend it. Relevant to this is an initiative beginning at $3 million per year, increasing to $7 million in the fourth year for “Infrastructure Support for District Health Boards’ Capital Projects”:

This initiative will improve the effectiveness and efficiency of health capital expenditure. This will be done through enhancing the capability and capacity of the Ministry of Health to support DHBs’ capital investments, including the establishment of a health infrastructure unit.

Under the capital charge regime, DHBs will be paying a 6 percent charge to the government for all assets they gain from this – another pressure on their operational budgets.

Note that this is provisional. A full report on Health funding will be published in the next few weeks.
**Mental Health**

Mental Health was a Budget 2019 priority and this is the official response to the Mental Health Inquiry, He Ara Oranga. $1.9 billion is allocated to mental health over four years. There are 27 new initiatives that cover four main areas of target:

- Strengthening and improving front line mental health services is allocated $823 million operating budget (inclusive of DHB funding) over four years
- Treating Drug and Alcohol addiction of $58 million operating budget allocated over four years
- Housing First and Transitional Housing of $346 million operating budget and $134 million capital budget allocated over four years
- Hāpaitia te Oranga Tangata is a joint initiative for people who interact with the justice system and has $135 million allocated over four years.

The overall increase to the National Mental Health Services budget for 2019/20 is $61 million and includes:

- $29 million for expanding access to primary mental health and addiction services
- $10.5 million to specialist alcohol and drug services
- $10.1 million to suicide prevention
- $5.2 million to telehealth services
- $4.2 million to forensic mental health services
- $2 million to primary addiction services
- $2 million to mental health crisis support
- $5.5 million to support for community mental health in Christchurch
- $5 million to expanding school based services.

A modest $2 million is allocated to establish a new Mental Health Commission – one of the major recommendations of the Mental Health Inquiry, He Ara Oranga.

The bulk of mental health funding which is ring-fenced and allocated to DHBs to cover services for people with the most severe needs has increased from $1,478 million in 2018/19 to $1,531 million. This is just a 3.6 percent increase which amounts in real terms to being a nil increase.

**Pay Equity and Equal Pay**

There are a number of funding allocations for pay equity processes as follows:

- $115 million over the four years to June 2023 allocated for Oranga Tamariki Social Workers Pay Equity Claim Settlement;
- Funding will increase from $10 million in the year to June 2019, to $11 million in the year to June 2020 to cover additional costs of worker hours resulting from the Care and Support Workers Pay Equity Settlement Act 2017;
- $14.8 million operating funds allocated over the four years to June 2022/23 for pay equity settlement and programme costs said to be for assessing current claims, funding litigation costs, oversight and coordination of potential future pay-equity claims in the education sector.
- $1 million over the four years to June 2022/23 for tools and resources to support the effective implementation of the new pay equity regime and $0.1 million capital. Minister Iain Lees-Galloway said an investment of $1 million will be made in the Wellbeing Budget to assist the claims process, and reduce barriers previously
experienced by people making pay equity claims, including funding for the Ministry of Business, Innovation and Employment to develop online tools and resources which will improve peoples’ understanding of the pay equity claims process, by providing guidance and data for their claims. This is to help reduce disputes, improve bargaining processes and have enduring pay equity settlements.

**Education**

The total Vote Education Budget increases to $14.3 billion. There are 45 new initiatives in Budget 2019 for education. Though the pre-Budget announcement of funds for an additional 3,280 teachers is welcome, the major concern of education unions is where these teachers will be found and how they will be retained.

**Early Childhood Education**

Early childhood education (ECE) has a 1.8 per cent increase in their subsidy rates to cover for inflation over the past year and this is budgeted to cost $131 million in operating funding over a four year period. There was no announcement of a much wanted higher subsidy rate in ECE services where all teachers are registered and qualified.

There is also a cost adjustment increase for ECE Operational Grants totalling $236 million over four years.

**Primary and Secondary Schools**

The Budget allocates a 1.8 percent increase in school operations grants.

The Budget contains an announcement of a $1.2 billion ten-year building plan for new schools and classrooms with $268 million in capital allocated for the first wave of investments in 2019/20. This includes three new schools, four new school expansions and 150 new classrooms. The Christchurch Schools rebuild programme is allocated $84 million to improve educational infrastructure after the 2011 earthquakes.

There is new funding for schools of $266 million in the four financial years from 2019/20 through 2022/23 if they agree to stop parental donations. The initiative will take effect from the start of the 2020 school year.

Budget 2019 announced the removal of the $76.70 NCEA fee that families pay every year for around 168,000 secondary students.

**Tertiary Education and Skills**

Funding for Tertiary Education based on ‘student achievement’, the main component of funding to Tertiary Institutions, is budgeted $2.1 billion for 2019/20, an increase of $141 million from the previous year. $8 million of this increase comes out of a reduction in the research funding component to $319 million for 2018/19.

$346 million is allocated for Fees-free provision of first-year tertiary education in 2019/20, which is $8.6 million less than projected in the last Budget, but still an increase on the actual spend for 2018/19 of $300 million. As previously announced, the underspend on the Fees-free programme has been re-allocated to implementing government plans for Reform of Vocational Education, adding up to $197 million over four years.

Lincoln University is singled out with $65 million to rebuild their Science facilities. Unitec also gets a further loan of $15 million to extend the $35 million of credit allocated in the last budget.
Conservation and Environment
Funding for Conservation continues programmes announced in Budget 2018 and adds a new initiative for Improving the Safety and Security of Conservation Workers and Volunteers, which gets $2.8 million in the 2019 Budget and a total of $10.7 million over four years.

Vote Environment has $143 million over four years in new initiatives. There is $7 million in 2019/20 to set up the Climate Change Commission, with a total of $42.7 million spread over four years. An announcement of $64 million over four years for “Freshwater and Transition to a Sustainable and Low Emissions Economy” includes $28.2 million for policy advice, but also has funding for Fresh Water Improvement, which gets $1.5 million in 2019/20 and $12 million over four years, and Water Management Implementation with $3.5 million in 2019/20 and $24 million over four years.

Economic Development and Regional Development
The Provincial Growth Fund has been allocated an additional $945 million, with $90 million operational in 2019 and $855 million in capital over 10 years taking it towards $3 billion in 2020. Minister Shane Jones announced that 250 projects have been supported so far resulting in 560 jobs being created, or 2.25 jobs per project.

Whenua Maori allocates $54 million over four years and $2 million in capital to develop underdeveloped Maori land.

Productive and Sustainable Land Use comprises three projects: enabling a transition to low emissions in agriculture which receives $122 million over 4 years, freshwater and transition to low emissions receives $64 million over four years and the Climate Change Commission and government response receives $43 million over four years.

Transforming New Zealand Forestry promises a modern forestry strategy and is allocated $42 million over four years (but only $2 million in 2019) as well as $7 million in capital. The question remains though whether it will focus on adding more value through processing or just improve our exporting of raw logs.

Employment
Funding for MSD frontline staff is boosted by $76 million over 4 years ($11 million in 2019) to improve people’s much needed access to social services and also $26 million over four years (heavily weighted to 2019 and 2020) to improve employment outcomes for disabled people.

This is complemented by the new Mana in Mahi programme which aims to support young people on benefits into employment through benefit subsidies to employers and training opportunities. Mana in Mahi will be funded for $50 million over four years.

Labour
There are new funding allocations to address wage pressures, collective bargaining and for payroll and Holidays Act compliance as follows, but there is not additional funding for labour inspectors:

- $118 million over the four years to June 2023 to fund the growth in in-between travel for home and community support;
$23 million over the four years to June 2023 to meet minimum wage obligations under the Home and Community Support (Payment for Travel Between Clients) Settlement Act 2016;

$79 million over the four years to June 2023 to improve the base rate of pay for Ministry of Justice employees;

$4 million over the four years to June 2023 to improve remuneration for artists and art practitioners;

$3 million over the four years to June 2023 to address regulated wage pressures in early learning;

$7 million over the four years to June 2023 to address regulated wage pressures in schools;

$127 million over the four years to June 2023 for police collective bargaining;

$551 million over the four years to June 2023 for health workforce collective bargaining, including the nurses pay settlement agreement agreed in August 2018;

$13 million operating/$3 million capital over the four years to June 2023 for MBIE to establish a new compliant payroll system;

$3 million over the four years to June 2023 to ensure schools payroll systems are compliant with the Holidays Act, and $63.5 million over the four years to June 2022/23 for backpay for current and former school staff; and,

$2 million over the four years to June 2023 going to improving government payroll systems overall.

$9 million is allocated over four years for policy work on the Future of Work and a Just Transition to a Low-emissions Economy. This includes a $608,000 annual increase for MBIE’s Labour Market Policy work and $1.6 million annually for Economic Development Policy development.

**Immigration**

The major new spending in the Immigration portfolio is $139 million over the next four years to increase the annual refugee quota from 1,000 to 1,500 places, and to ensure successful refugee settlement outcomes, starting with $7.8 million in the first year and increasing in later years, with $37.7 million allocated for 2020/21. In addition $7.7 million capital is allocated over the four years to June 2023.

There is also new funding for Immigration Enforcement, with $5.6 million in 2019/20 for ‘Addressing Non-compliance in the Immigration System’ and an annual budget of $5.8 million for ‘Maritime Mass Arrival Prevention’.

**Health and Safety**

WorkSafe will receive an extra $57 million over four years to increase capacity in the inspectorate and legal services and further guidance and support. While this is a welcome boost to their annual $92 million budget the additional $57 million over four years has come from a partnership with ACC and reflects ACC performing its obligation to injury prevention by funding WorkSafe. Some of this extra funding will go towards dealing with psychosocial hazards in the workplace in line with the government’s priority of taking mental health seriously.

$3.5 million ($1.1 million operating, $2.4 million capital) is allocated to bring New Zealand’s hazardous substances classification and labelling system in line with international practice
and also to create a hazardous substances database. As 800-1000 people die from work related diseases each year this will be a necessary step in reducing total workplace deaths.

The government’s $1.2 billion investment in rail will reduce the amount of freight on the roads which should have an impact on road fatalities – vehicle interactions are the leading cause of workplace fatalities across all sectors.

**ACC**

There is a $9 million over the four years to June 2023 allocation for superannuation to increase incomes for weekly Accident Compensation Corporation (ACC) claimants at or near superannuation. This initiative aims to raise the incomes of older workers who get injured by providing funding for additional costs arising from legislative changes that will mean more people will receive superannuation.

**Transport and Infrastructure**

The National Land Transport Programme is budgeted $3.7 billion for 2019/20, which includes $549 million for State highway improvements, $510 million for public transport, $157 million for “Transitional rail” improvements to tracks and rail infrastructure, and $55 million for walking and cycling.

The budget includes a further $1.2 billion of investment in Rail in 2019/20, including a $473 million capital investment in Kiwirail to enhance the national freight network and continuing funding for previously announced projects including $468 million for the Auckland City Rail Link, $44 million for metro rail projects in Wellington, and $13 million to maintain existing electric locomotives.

**Science, Innovation and Research**

An allocation of $151 million in new spending has been put towards science, innovation and research with a goal of increasing R&D to 2 percent of GDP by 2027. These programs are mostly to stimulate and facilitate private sector innovation and investment, such as $25 million over 4 years for the Commercialisation of Innovation. A strong theme coming through the targeting of these initiatives is the challenge of climate change and reducing emissions with $3 million over four years for the Agricultural Climate Change Research Platform and $20 million over four years (though only $1 million in 2019) for the Advanced Energy Technology Platform.

Outside the Science, Innovation and Research portfolio there is also $9 million for 2019/20 for the Global Research Alliance to Reduce Agricultural Emissions.

**Courts, Corrections and Police**

**Justice and Courts**

In a positive step for our democracy, $76 million has been allocated to provide for electoral enrolment on Election Day, naturally heavily weighted towards 2020. $51 million is going to the Courts over four years, the bulk of it ($32 million) going to Enhancing Court Security, which would be welcome news for the court staff and their safety except that in fact it only maintains the current level of court security.

The district courts will receive $70 million ($66 million operating over four years plus $4 million capital) to appoint more judges to improve access to courts and reduce wait times in addition to other smaller access to justice allocations:

- **$9 million for Community Law over 4 years**
$22 million for Legal Aid for 2019, up from $17 million 2018
An additional $7 million over four years to increase Human Rights Commission capacity
And $6 million over four years for the Human Right Review Tribunal to increase capacity

The referendum on cannabis has been budgeted $3 million in 2019 and $10 million for 2020. As 17 year olds move from adult to youth justice (in line with international convention), $140 million will be allocated over four years along with $72 million in capital.

**Corrections**

Corrections receives $305 million in new operational spending over four years and $7 million in capital. Three key initiatives are:
- Increasing access to mental health and addiction support: $124 million over four years
- Effective community based sentencing including increased electronic and intensive supervision: $78 million over 4 years
- A new kaupapa rehabilitation pathway funded for $98 million over 4 years.

These initiatives reflect the government’s goals of improving mental health and supporting Maori aspirations.

**Police**

The police receive $17 million in 2019 and $21 million in 2020 to ensure effective responses to family violence and $22 million over four years for communications infrastructure. The firearm buy-back was largely budgeted out of 2018 with an additional $23 million required for 2019.

**Māori Development**

The Māori development budget for 2019 includes $107 million for promotion of Māori language and culture. Of this, $66 million is for Māori broadcasting, an increase of $5.7 million from the previous year. Initiatives to improve Māori housing outcomes are allocated $38 million in 2019/20, including $3.8 million for a ‘Home Ownership Pathways’ programme. Whānau Ora gets a $20 million annual increase to $91 million in 2019/20. A further $1 million is allocated for whānau-based family violence intervention.

**Pacific Peoples**

There is $20 million over four years to ensure Pacific languages survive in New Zealand’s Pacific communities. $14.5 million over four years goes to the Pacific Employment Support Service to reduce the rate of Pasifika youth not in Employment, Education or Training. There is also $11 million over four years to support Pacific business development.

**Links**

Budget documents can be downloaded from
[https://www.budget.govt.nz/](https://www.budget.govt.nz/)
and

Pre-Budget releases can be found at