



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Report on Budget 2010

Introduction

This is a brief 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 4 years and we also need to factor in demographic changes as well as an inflation adjustment before we can assess real increases.

Key Points

- Forecast of 5.9 percent inflation for March 2011, considerably higher than expected, even taking the GST increase into account.
- Tax cuts were as expected the feature of the budget. The outcome is fundamentally unfair as the table below shows. Someone on the minimum wage of \$26,520 gets an extra \$4.13 a week but someone on four times the minimum wage or \$106,080 gets an extra \$43.08 a week. Their tax cut is 10 times more than the worker on the minimum wage.
- While strong constraints on government spending are still the order of the day, the government has failed to meet its self-imposed \$1.1 billion cap on new spending – it has new spending of \$1.225 billion in 2010/11.
- Overall the lid is being kept on the public service and more redundancies and restructurings are expected.
- Funding for the services District Heath Boards provide (hospitals and other local services) has not risen nearly enough to keep up with costs.
- Education funding has not risen fast enough to keep up with inflation. Tertiary Education appears to have a net cut in funding.
- The removal of ECE funding to the top two early childhood education funding bands for services with 80-100 percent qualified teachers and the target changed to 80 percent of registered teachers by 2012.
- \$26.7 million for the Job Ops programme to extend the programme into next year. This will double the number of placements on this programme.
- ERE - The Employment Relations Education Contestable Fund has been cut by almost 56 percent or \$1.2 million – from \$2.05 million to \$889,000.

Economic Outlook

Forecast growth is higher than previously expected, resulting in recessionary conditions dying more quickly. GDP growth per capita is forecast at 2.0 to 2.1 percent from 2011 to 2014. As the table below shows, average ordinary-time hourly wages are forecast to rise by 3.3% in the year to March 2010, fall to 2.6% next year, but then rise by 3.5% in the year to March 2012, 3.7% in 2013, and 3.9% in 2014. Notable is the inflation figure for March 2011 which at 5.9 percent is considerably higher than had been predicted by banks and other forecasters. Unemployment will

fall more quickly than previously forecast, but is still expected to be at 5.1 percent in March 2013, and down to 4.6 percent in March 2014.

External (overwhelmingly private) debt remains a big worry, fed by an increasing current account deficit rising from 2.6% this year to 7.3% in March 2014.

Forecasts used for the Budget include the following percentage changes.

March Year	2011	2012	2013	2014
GDP	3.2	3.1	2.9	3.0
Unemployment	6.2	5.5	5.1	4.6
Wages	2.6	3.5	3.7	3.9
CPI	5.9	2.4	2.4	2.4
Current A/c^[1]	-4.4	-6.1	-7.0	-7.3

Fiscal Outlook

Operating deficits and cash deficits continue across the forecasted period.

June Years	2010	2011	2012	2013	2014
Operating Balance	-3,179	-7,067	-3,579	-2,402	-828
OBEGAL	-6,927	-8,632	-5,406	-4,394	-3,038
Cash Balance	-9,069	-13,327	-9,666	-7,499	-5,983

The outlook for government finances has improved significantly since both the half-year economic and fiscal update in December and the 2009 Budget. The Operating Balance before Gains and Losses (OBEGAL) is now forecast to return to surplus in 2015/2016, compared to 2016/17 in the December forecast and 2020/21 forecast in May 2009. The deficit in 2010/11 is greater than forecast however, due to \$460 million from the tax package and one-off expenses delayed from 2009/10 to 2009/10. However in the medium term, deficits considerably are lower than previously forecast.

Net core Crown debt (not including the NZ Superannuation Fund) is now forecast to peak at 27% of GDP in 2014/15 (17.9% including the Super Fund), reducing to 14% at the end of the Government's projection period. The Government say they want it down quickly because of the risk of further economic shocks and to reduce vulnerability to foreign lenders (in large part through the private sector debt). The capital allowance for the next four years has been reduced to \$1.39 billion, reduced from the \$1.45 billion promised in the 2009 budget.

As mentioned, the Government has failed to meet its self-imposed Operating Allowance cap – it has new spending of \$1.225 billion in new spending in 2010/11, \$1.124 billion in 2011/12, only saved by an apparent under spend for 2009/10 of \$119 million. In addition, "Demand-driven items such as benefit and NZ Superannuation payments and finance costs are not subject to the spending allowance" according to the Budget documents. These additional items include Emission Trading (\$0.9 billion). There is consequently a total \$5.86 billion increase in spending.

Government spending is forecast to fall from 34.2% of GDP forecast in the year to June 2010, to 32.4% in the year to June 2014, though it is forecast to rise just in

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

2011 to 34.7% of GDP. The operating deficits (before gains and losses) are expected to peak at 4.2% of GDP or \$8.6 billion in the June 2011 year, after being \$6.9 billion (3.7% of GDP) this year.

Tax

The main rationale for the tax changes is to shift behaviour away from borrowing and consumption towards saving and productive investment, and affect decisions to stay in New Zealand or work abroad. We doubt whether the moves are strong enough. Changes in taxation on property do not appear to have included ring-fencing losses: property losses can still be used to reduce other taxable income.

From 1 October 2010 GST will rise from 12.5% to 15% and the new personal income tax rates will be

- 10.5% on income to \$14,000 (was 12%)
- 17.5% on income between \$14,001 and \$48,000 (was 21%)
- 30% on income between \$48,001 and \$70,000 (was 33%)
- 33% on income above \$70,000 (was 38%)

Our calculations after accounting for GST give the following examples:

Annual income	26,520	53,040	79,560	106,080	300,000	393,000	7,000,000
					Average CEO of large company	Prime Minister	CEO of Telecom
Per Week:							
Income Tax cut	13.81	31.18	50.15	75.65	262.12	351.54	6,704.42
GST increase	9.68	18.15	25.54	32.57	83.94	108.58	1,858.98
Total tax cut	4.13	13.03	24.61	43.08	178.18	242.96	4,845.44
% of income	0.8%	1.3%	1.6%	2.1%	3.1%	3.2%	3.6%

There is an official tax calculator at www.taxguide.govt.nz that gives these figures.

Other measures are being taken to compensate New Zealand Superannuitants, Veterans Pensions, main working age benefits, student allowances, some Working for Families, some Government Superannuation and NPF payments, and some of the main supplementary benefits for the GST increase

The company tax rate will be reduced to 28% from 30% from 2011/12. PIEs, superannuation funds and similar will be similarly affected. The trust income tax rate stays at 33% (now the highest tax rate).

Eligibility to Working for Families will be reduced: investment losses will be added back into income to determine eligibility. Further changes are to follow.

In property taxation, the 20% depreciation loading for new assets is abolished and depreciation for buildings with expected lives of over 50 years is no longer tax deductible. There are other changes to the treatment of tax losses from property, but not the full ring fencing that was expected. Losses can still be used to reduce personal income tax.

The thin capitalisation threshold which affects the tax treatment of high debt loadings overseas owners put on their New Zealand subsidiaries is reduced to 60%, increasing tax liabilities for those owners.

The total effect of the tax changes on the government's balance is negative \$465 million in 2010/11, \$115 million in 2011/12, \$245 million 2012/13, \$260 million in 2013/14 – over \$1 billion over four years. Positive macroeconomic effects total \$670 million – leaving a net negative effect over four years, but positive \$175 million in the last year (2013/14).

English says there are unlikely to be further changes to the balance between income and consumption taxes over the next 4 years. There may be changes to taxes on saving however.

Employment Related Education

The Employment Relations Education Contestable Fund has been cut by almost 56 percent or \$1.2 million – from \$2.05 million to \$889,000

Social Sector Funding

The Government has allocated \$90.5 million over the next four years into a “transformational fund” for NGOs to deliver services. Social sector NGOs will be able to access funds in a New Quality Services Fund aimed to address gaps in service delivery, encourage collaboration and support new high quality innovative services. Teenage parent services have been targeted with \$14.9 million funding over the next four years.

ACC

\$2 million in funding has been allocated for 2010/11 for the Department of Labour to provide policy advice to ACC. This has been identified for the Government's priority of a sustainable ACC scheme to be achieved and to explore funding options and models including further analysis of the benefits of competition and choice in the Work Account.

Whanau Ora

Prior to the Budget the Government announced \$134.3 million over the next 4 years for implementing Whanau Ora, including \$20 million over that time for researching, evaluating and monitoring the implementation and results of Whanau Ora.

Health

An extra \$2.1 billion in health spending is allocated and includes \$512 million in 2010/11. The CTU estimated that \$555 million was required in the operational budget of the Health Vote in 2010/11 just to maintain current levels of service. It is not yet clear where the \$512 million is allocated.

The \$2.1 billion includes \$1.77 billion of new operating funding, \$186 million from reprioritised operating spending and \$142 million for capital investment over four years.

DHBs will directly receive \$1.4 billion over four years. This provides an average of \$350 million per year. The CTU estimated that the DHBs need \$454 million in 2010/11 just to maintain current services. Not only do they face this shortfall but there will be much less available (\$95 million compared to up to \$240 million in the current

year, though this was removed in Supplementary estimates) to support their chronic deficits.

Over four years an allocation of \$40 million has been made to mental health services and DHBs are expected to allocate \$174 million to mental health from the \$1.4 billion that they already receive.

An allocation announced before Budget included \$24 million over four years for a national bowel screening programme. \$186 million of “low priority spending” over four years has been identified to shift to high priority and front line public health services. New priorities include 20 new medical training places in 2010/11; an increase in funding for medicines by \$80 million over four years, but \$40 million of this is to be met through DHBs budget.

Additional funding for elective spending includes:

- \$10.2 million in the current 2009/10 for elective including cardiac surgery
- \$51.5 for additional elective surgery
- \$8 million over next four years for breast reconstruction surgery.

Other health funding identified over the next four years is:

- \$109 million for primary health care with some reprioritisation within primary health care
- \$93 million for disability services and equipment
- \$46 million for health screening services.

Education

Early Childhood Education (ECE)

The Budget announces that it expects savings of almost \$280 million over four years to be made in ECE as a result of changes in funding rates and “additional funding for participation initiatives”.

The biggest impact to ECE is the removal of the top two early childhood education funding bands for services with 80-100 percent qualified teachers and the target changed to 80 percent of registered teachers by 2012. From February 2011 ECE centres will receive “financial incentives” to increase their proportion of staff with registered teachers to 80 per cent.

\$107 million has been allocated in early childhood education in 2010/11 targeted to families in need. This targeting is to increase access to ECE in communities where children are missing out. \$91.8 million over four years has been allocated to five intensive community led participation projects in high priority areas.

Funding will continue for 20 Hours ECE with a \$46.7 million cost adjustment over four years.

Primary and Secondary

\$1.6 billion for education over four years is allocated to fund a 4 percent increase in operational funding for schools in 2010/11.

Other Budget announcements for schools include:

- \$155.9 million over four years in operational grants for schools.

- \$349.3 million in new operating and capital funding over four years for school property. In 2010/11 \$82 million will go towards remedial work on leaky school buildings and \$40 million over four years to reduce surplus school property and remove buildings from vacant school properties.
- \$48.1 million for the Youth Guarantee Scheme over four years.
- \$15 million for a Positive Behaviours for Learning Action Plan to make more training available for parents and teachers in the Incredible Years training programme.
- \$14.7 million over four years to align staffing in area schools for years 7 & 8 students with other contributing and intermediate schools.

Tertiary – University and Polytechnic

Tertiary funding has been radically reorganised in accounting terms, but with an apparent overall loss of \$67 million in the 2010-11 Year. The Tertiary Education Student Achievement Component has risen by \$209.5 million. But at the same time the Tertiary Education Organisation Component – Capability Funding has been radically reduced from \$418.7 million to \$194.3 million. Tertiary Grants and Other Funding have also been cut from \$65.6 to \$21.2 million. Taken together these cuts total \$271.7 million, leaving an apparent shortfall of \$67.1 million.

There is funding for 1,735 additional full time places in universities and 3,173 extra full time places in polytechnics. Higher tuition subsidies per student are to be provided and the fee maxima is replaced with an annual fee movement which caps fee increases for all courses at 4 per cent in 2011.

Other measures announced are requiring students to pass more than 50 percent of their full time courses over two years to be able to keep borrowing from the student loan scheme; introducing a lifetime limit on access to student loans; preventing permanent residents and Australians from accessing a student loan until they have lived in New Zealand for at least two years; increasing the Study Link student loan administration fee from \$ 50 to \$60 and introducing a new \$40 annual account fee.

Housing

Muddled by accounting reallocation between Budget 2009 and 2010, there has been an extremely limited \$30.7 million increase for purchase of housing and related services (including tenants paying income related rent) in Budget 2010. Prior to the Budget the Government announced its financial assistance package to help people get leaky homes fixed. Government and local authorities will each contribute 25 per cent of agreed repair costs and affected homeowners will fund the remaining 50 per cent backed by a government loan guarantee. The cost to Government is estimated at \$1 billion over the next 5 years.

Prisons

Funding has been set aside to increase prison capacity for a rising prison population to be delivered through Public Private Partnership (PPP) procurement arrangements.

Funding of \$69.3 over the next four years is allocated for the increase in prison beds. Funding of \$24.0 million over four years is to progress a new prison at Wiri in South Auckland to be designed, built and operated under a PPP. \$45.3 million is for an additional 245 beds and infrastructure at Mt Eden prison.

Youth

\$26.7 million has been allocated to the Job Ops programme to extend the programme into next year. This will double the number of placements on this programme. Funding of \$412.6 million for employment assistance has been allocated for programmes such as Straight to Work and Taskforce Green to create jobs and training places for beneficiaries.

Economic Development

Infrastructure Spend

Infrastructure spending for 2010 will total \$1.45 billion and fits within the Government's 2009 commitment to spend \$7.5 billion over 5 years. Having spent \$1.48 billion in 2009 – including \$484 million committed for economic stimulus – this averages out to just over \$1.5 billion per annum for the remainder of the 2011-13 period. Major items for expenditure announced over the next four years are \$750 million for rail, including electrification in Auckland, \$337.4 million on new prisons and \$200 million on broadband rollout.

Research, Science and Technology

Prior to the Budget the Government announced spending of \$321 million for over the next four years. This included \$96 million of reprioritised spending. Particular initiatives include technology development grants to support R&D in businesses with revenues of at least \$3 million that spend 5 per cent of revenue on R&D for 20 percent of cost (\$189.5 million), contingency funding for proposed large-scale science infrastructure (\$44.3 million), initiatives to support technology transfer from public to private sector (\$43.7 million) and supporting recruitment of overseas scientists and science fellowships (\$34 million). \$225 million is new funding and \$96 million is reprioritised funding.

Contingencies

- Prison Construction is identified as \$475 million unquantified risk (\$412 million in capital and \$63 million in operating expenses), “depending on the procurement methods chosen by the government.
- Caregiver employment conditions (payment for sleepovers) continue to be identified as an unquantified risk.
- State sector employment agreements are identified as an unquantified risk, noting “The Government has signalled an expectation for restraint given the current economic environment and conditions in the private sector”.

Links

Budget documents can be downloaded from <http://www.treasury.govt.nz/budget/2010>
Budget announcements from the government can be downloaded from <http://www.beehive.govt.nz/feature/budget2010>.

Conclusion

This is an unfair Budget that favours high incomes, and whose only real new contributions to economic development are the changes in tax on property (which we will need to see how easy it is to avoid) and to commercial research. Education, Health and other social services will be fighting to stand still. There will be continuing job losses and restructuring in the public sector. This is in the context of an improving economic environment – though still with risks – which would have allowed the government to be both more generous and build investment, skills and capability for the future while addressing inequality rather than adding to it. We were pleased though to see the continued funding of Job Ops.