NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Budget 2020 – Rebuilding Together?

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Will we have an equitable post – Covid-19 future?

Because we certainly didn't have an equitable pre-Covid past.

And this was heavily acknowledged by Grant Robertson in his pre-Budget address. His concerns of child poverty, expensive housing, people working hard and not getting ahead, rising emissions and dirty waterways are also the concerns of the CTU.

We have been concerned for some time about the inequality inherent in our economy demonstrated by low wages, low productivity, high rents, and high emissions.

All alongside a severely under-funded health system and run-down public services.

This is particularly important as all the updated Treasury scenarios show unemployment peaking at 9.8%. Based on the December 19 figures this means 275,000 people without any paid work, 225,000 people who want more paid work and 200,000 people who want paid work but are discouraged or have other obligations.

These numbers are also not gender neutral.

Unemployment and underutilisation pre -Covid-19 were structurally higher for women than men – 132,000 men were underutilised compared to 167,000 women in December 19. So that gap of 35,000 could now increase to almost 90,0000 more women 'underutilised' if all the other indicators followed in the same way as the unemployment possibilities.

Covid-19 has also shown the key role women play in the essential economy with over two thirds of its workers – often in minimum wage roles – being women.

So, with the pre-Budget announcements which included:

- $202.2 million over next 4 years for the support of survivors and help for perpetrators of family violence
- $980 million per year for the District Health Boards; one off funding of $282.5 million for the health backlog as well as
- pay parity for early childhood teachers -

It was all a step in the right direction. Budget 2020 then delivered:

- Continued wage subsidy to targeted industries including high growth firms
- Free Trades training
- Investment in conservation jobs
- Further investment in the rail network
- Increased funding for social services and
- Further funding of research and development

While 'jobs' is a constant theme of this Budget – good jobs and higher wages doesn't get the same focus in the media material. I asked the Minister at the Budget Lockup how he saw this Budget helping the people who were working hard and not getting ahead.

He pointed to the items in the above list.

And it is all a good start. But there is still much to do if we are truly to become the country 'we want it to be'. In particular:

- Greater clarity on industry transformation plans and worker involvement
- Continued focus on the importance of social infrastructure
- Benefits need to rise and be individualised plus go to migrant workers
- Tax system needs loopholes closed, increased taxation of capital and become more progressive
- Focus on affordable rentals alongside the increase in public housing and support for homeownership

Health and Mental Health have received significant extra funding which is very welcome after many years of underfunding. This is discussed in much more detail further in the report.

The key question with this Budget is whether unemployment could be held lower and we could have a quicker recovery in employment by a larger stimulus, or one much more directed at household spending rather than at firms.

For example, there is nothing offered to increase unemployment benefits other than the marginal $25/week increase in March, let alone a decent income replacement scheme such as an ACC-like social insurance could provide. Wage subsidies (themselves problematic as a longer-term measure) continue for only some firms.

There remains $20 billion allocated from the Covid-19 Response and Recovery package. We will be very interested in how it is rolled out.

The rest of the commentary is in two parts:

In the first section we have analysed the Budget under the thematic headings of Future of Work, Social Infrastructure and Physical infrastructure – pages 4 to 7 – as well as specific topic or Vote heading – pages 8 to 23. There will be some overlap in the analysis.

In the second section Bill Rosenberg makes a cameo appearance as the author of the Economic Forecasts and Outlook section – from page 24.

We also note that this analysis was completed quite quickly and so there may be errors and omissions. In particular this analysis is deficient as it lacks any form of Māori or Pasifika lens.

Andrea Black
14 May 2020

Links

Budget documents can be downloaded from
https://budget.govt.nz/
and
https://treasury.govt.nz/publications/budgets/budget-2020

Future of Work

The Future of Work arrived on 26 March 2020 when the Prime Minister shut down the 'non-essential' economy.

The CTU had hoped to see:

- More and improved skills matching and retraining (active labour market programmes) – for example pilots becoming physics teachers rather than supermarket workers,
- Education and training accessible to people throughout their working lives,
- Industry transformation plans to move to higher value with good, well-paid jobs, and
- Much improved income support for people who lose their jobs – social insurance.

What we got was:

- Further funding for MSD's employment support services. But there is a long way to go before there is support that suits skilled people who need high quality advice, support, and training,
- $1.6 billion in a Trades and Apprentices Package to provide opportunities for New Zealanders of all ages to receive trades training, including free apprenticeships and training in targeted critical industries. This will keep apprentices from losing their apprenticeships and allow "people who have lost their jobs to retrain and also allow new employees in some essential services to train on the job". For more details, see under Tertiary Education and Training. It is a useful step towards increasing access to training, but not yet "lifelong learning",
- A $400 million targeted Tourism Recovery Fund was the closest we got to an industry transformation plan being funded. But the programme it is funding had no input from people represented by unions in the sector, and there is no sign of higher value with good, well-paid jobs. Unions have not been invited to join a New Zealand Futures Tourism Taskforce which "will lead the thinking on the future of tourism in New Zealand", and
- There are no improvements in income support for people who lose their jobs other than what was announced in March.

What we think of it is:

- This is still essentially about recovery rather rebuilding. Far more needs to be done to realise the rhetoric of rebuilding a better NZ and it needs to start ASAP. While some aspects of the retraining programme have the potential for the Future of Work, it is barely a start.

Social Infrastructure

Social infrastructure is the bedrock which physical infrastructure and financial activity rests on. Its focus is keeping us healthy, nurtured, and able to reach our potential as human beings. It maintains and enhances our human and social capital.

The essential workers of Level 4 – the supermarket workers; nurses; doctors; care and disability workers – with the teachers, social workers and public servants are all critical parts of New Zealand's social infrastructure.

Covid has exposed that our social infrastructure is as undervalued and in as poor repair as our physical infrastructure.

To maintain (or expand) the wellbeing of the people in New Zealand - **the CTU had hoped to see:**

- Supermarket workers, cleaners, security guards and bus/courier drivers earn at least the living wage and have a fair pay agreement **(Labour)**
- The $2.5 billion health deficit before Covid addressed **(Health)**
- Contact tracing fully funded and staffed **(Health)**
- Health backlog addressed **(Health)**
- Mental health provision expanded given the blow to mental health of expected increased unemployment and poverty **(Mental Health)**
- Immediate steps to address teacher shortages **(Education)**
- Greater resilience in funding of early childhood education so that children have secure relationships and parents have the security needed to undertake paid work. **(Education)**
- Fully funded schools and tertiary sector with export education not part of core funding **(Education)**
- Teacher aides, early child education workers, education administration workers, DHB administrative staff, DHB nurses, DHB midwives, DHB allied health staff, local government library assistants, social workers, workers in the social service sector and public service admin/clerical workers achieving pay equity. **(Pay Equity)**
- Social service NGOs' lost philanthropic funding replaced **(Health)**
- Benefits raised to liveable levels and based on individual income – not household income **(Social Security)**
- Social insurance for adequate income replacement for people who lose their jobs **(Future of Work, Social Security)**
- Financial support available and liveable for all undertaking training and retraining (i.e. in the tertiary sector) and not tied to unrealistic parental or partner income thresholds **(Social Security/Health)**

Many of these roles are traditionally performed by women. There is, on average, an 11% pay gap in the average full time between men and women. To rebuild together, the subsidy provided by women in many of these roles needs to be narrowed and ultimately eliminated.

It also key to further expand female participation in the traditionally male – and well paid – sectors such as STEM, as well as the trades and professions that will be needed for any expansion of the physical infrastructure of New Zealand

What we got included:

- $79 million boost to social service providers
- $36 million in grants for community groups
- $22 million for family violence services
- $20 million to ease impacts of COVID-19 on rural and fishing communities
- $20 million tertiary student hardship fund for 2020
- $15 million boost to Fruit in Schools and digital sales platforms for food producers
- $1.6 billion Trades and Apprenticeships Training Package
- $400 million in MSD Employment Support
- $121 million for He Poutama Rangatahi
- $19.3 million to place 10,000 people into primary sector jobs
- Record investment in DHBs of an extra $3.92 billion ($980 million per year)
- One-off boost of $282.5 million (operating and capital) over three years for a planned care (including elective surgery) catch-up campaign following COVID-19 disruption
- Ongoing funding of $31.350 million per annum ($125.4 million over four years) to manage planned care in line with demographic changes and increasing price levels
- $151.1 million funding for pay parity for teachers in early childhood education centres

What we think of it is:

Pleasing indeed, particularly the Health Spending. The CTU has been critical in the past of underfunding of this sector but the extra funding is very welcome and should make start to rebuild the sector and make some headway with the backlog due to lockdown. This is analysed in more detail in the Health section

We would be hopeful that a gender as well as a Māori and Pasifika lens was put on the Trades training to ensure under-represented groups also have the opportunity to benefit from this investment.

The issues of a living wage for Essential workers and a Fair Pay agreement, while not mentioned in the Budget as it doesn’t have a direct link to an appropriation, is one that the union movement will continue to focus on.

There is still the issue that benefits have not been individualised, increased or apply to migrant workers. This is all very disappointing given that unemployment is set to peak at 9.8%.

Physical Infrastructure

The CTU had hoped to see increased funding to:

- improve the physical structure of dilapidated hospitals and schools, **(Health)**
- increased focus on public transport, **(Transport)**
- greater levels of investment in renewable electricity **(Environment)**
- improved waterways and "3 waters" (drinking water, wastewater and stormwater) **(Environment)** and
- increased levels of building of affordable houses – both to rent and own. **(Housing)**

All of which done in a way which responds to climate change including reducing carbon emissions and building resilience to rising sea levels.

What we got included:

- $433 million for new jobs in regional environmental projects
- $315 million biosecurity, including weed and pest control.
- $200 million for DOCs Jobs for Nature Fund
- $154 million for new jobs enhancing biodiversity on public and private land
- 8,000 new public and transitional homes
- $246 million to support investment in the track and supporting infrastructure.
- $400 million to help replace the Interislander ferries and associated portside infrastructure.
- $421 million for new locomotives.
- $755 million in health capital investment for priority capital projects facilities, infrastructure and technology that can appropriately meet current and future demand.

What we think of that is:

While what is planned is useful, we are disappointed that everything on our list – except to the extent hospitals are part of the funding increase for DHBs and schools are already catered for – doesn't seem to be included.

Affordable rentals continue to be an oversight as many – even low wage workers – are ineligible for a social house but are still paying very high rents compared to their incomes.

Health

Health is a complex and financially demanding vote in Budget 2020. Covid-19 has put immense strain on our already underfunded health services (as we have documented since 2010) to respond to the pandemic. Now, there is a huge backlog of operations and specialist appointments along with new, increased, and anticipated pressures in primary health and mental health from the lockdown.

$500 million was allocated in March 2020 to Covid-19 needs: contact tracing, housing people who needed isolating, ramping up ventilator capacity, primary health care funding and Covid-19 campaigns. But more is needed for:

- The health backlog from Covid-19 elective services and hospitals shutdown – estimated to be 153,000 surgeries and procedures, radiology scans and specialist appointments,
- Boosting public health services including adequate PPE, public workforce capacity for contact tracing, training of staff and digital technology to track Covid-19,
- Medicine and equipment cost increases which are likely to be higher than normal because of worldwide demand and shortages,
- ICU capacity and acute hospital capacity to meet any Covid-19 outbreaks,
- The retention of a trained, and properly remunerated workforce inclusive of the protection of health workers from Covid-19,
- Changed ways of delivery in primary health e.g. telehealth, video conferencing without the funding formula/ streams to deliver these new services, and
- Increased health needs and dental health needs from people who face greater financial hardship due to Covid-19 impacts.

The CTU was looking to see:

- How the existing health gaps in funding for DHBs and National Services, which we estimated last year to require $2.5 billion in this Budget, were to be met,
- Funding for retention, recruitment and sufficient health professional and health workers and response to the risks that health workers face from Covid-19,
- Capital funding and planning for physical infrastructure replacement of run-down health service facilities, equipment and hospitals, and poorly maintained buildings,
- Pay equity settlements for DHB admin/clerical workers, nurses, midwives, allied health, and fair wage settlements for all health workers, and
- That the social determinants of health - reducing poverty, ensuring adequate income security and the provision of safe and healthy housing for all – are central in Budget 2020.

What we got was:

A pre-budget announcement of $3.92 billion over the next four years for DHBs. Additional is a $282.5 million boost over three years for a one-off surgery catchup due to Covid-19 disruption and $125.4 million over four years to meet rising costs and increases in and aging of the population in planned care.

Most national health services –those funded through the Ministry of Health - got real increases with a 16.7 percent increase overall. Disability Support Services got a funding boost of $832.5 million over four years.

Funding of $5.6 million yearly for four years to meet the impact of minimum wage increases on the cost of in-between travel for home and community support workers.

$755 million in capital investment for priority capital projects: facilities, infrastructure and technology that can appropriately meet current and future demand.

$20 million for the 2020/2021 year for the measles immunisation campaign to increase immunisation rates

Covid-19 related funds were a $10 million pre-budget announcement made on 12 May International Nurses Day, for accommodation costs for frontline health workers, a phone counselling services for front line workers and a Covid-19 support and advice line.

Budget added an additional $37 million to health sector services dealing with Covid-19 for laboratory testing capacity and ambulance, aged care, disability, and hospice services.

A pre-budget announcement of $160 million over four years in the Pharmaceutical Budget for DHB purchasing of medicines, vaccines, medical devices, and other treatments.

What we think of it is:

$3.92 billion dollars into DHBs over the next four years, $980 million dollars per year, a 9 percent funding increase, is a record funding increase and desperately needed. This recognises the chronic underinvestment over a decade in our DHBs, hospitals and health services. But the Government will need to make similar progress in its next term on closing the $2.5 billion health deficit before Covid-19.

It is encouraging to see the significantly funding increases for disability services which will enable some of the cost pressures and demands in this sector to be met. Mental health was expected to go up this year and has and maternity services get some boosts. Public health vote seems strangely low, but this may be accounted for by Covid-19 costs being additional to the public health national services budget.

The capital spending allocation of $755 million seems unexpectedly low given the physical state of many of our hospitals.

In summary, the DHB funding boost with the one-off surgery catch-up were the two big-ticket items in this Budget. But we note that the Finance Minister stated in his speech that he expects further support to be provided to the health sector in the coming months.

We expect that too – and expect that as Covid-19 unravels there will be big questions to answer about the adequacy and need for increased funding and support for public health to avoid and manage public health crises and pandemics.

Mental Health

The flag ship of the 2019 Budget was for mental health funding to respond to the recommendations of the Mental Health Inquiry report, He Ara Oranga with the largest allocation being the rollout of a model to enable timely access to mental health services in the community. The key to this happening successfully was a sufficient and trained workforce.

Covid-19 puts major pressure on the mental health system. Primary health care is reporting in moving to Alert level 2 a significant increase in patients seeking help with their mental health. There will be emerging mental health impacts from increases in unemployment and hardship.

The CTU was looking to see:

- Recognition of the additional pressures on mental health services from Covid-19

- The continuation of the investment and focus on mental health and rollout of the Mental Health Inquiry report, He Ara Oranga recommendations.[1]

- Targeted funding for DHB patients with severe mental health needs

What we got was:

- A pre-budget announcement of $40 million for mental health and addiction support services in 100 health practices.
- Funding for national mental health services increases as indicated in Budget 2019

What we think is:

The substantial increase in DHB funding can respond to the demands on our DHB mental health services. There are concerning pressure of workloads, safety, and service in our mental health units.

But in the wake of reports today of more pressure being experienced by primary health care providers due to Covid-19 impacts – anxiety and depression – there will be additional pressures.

It is disappointing but inevitable that the focus came off mental health in Budget 2020 given the substantial work that has been done, the state of our mental health services before Covid-19 and now the likely increased demand. The demands will be influenced by how well New Zealand recovers economically and socially from Covid-19.

[1] In last year's Budget, $267 million of new Mental Health funding was provided for the current year (to June 2020), and a further $329 million for next year (to June 2021).

Social Services

Community organisations are anticipating many more months of increased demand for food and other services, with the sharp expected rise in unemployment.
Social service organisations play a critical role for in supporting and nurturing healthy people, families, whānau and communities.

Covid-19 has placed huge pressures on social service organisations and now there are fears for many about their funding sources just as more people need help.

What the CTU was looking for:

- Support for services to meet the ongoing needs in the community sector,
- Support for community sector organisations for their own sustainability, and
- Support for iwi/Māori organisations to respond to increased demand in their communities.

What we got included:

- An allocation of $203 million for family violence to end domestic and sexual abuse,
- The establishment of a $36 million fund to support community groups to respond directly to Covid-19 with a focus on Māori, Pasifika, refugee and migrant communities,
- $32 million to increase support for food banks, food rescue and other community food services to leverage surplus donated food that may otherwise go to landfill, and
- A $58 million over four years initiative to sustain the current level of partnered service delivery, addressing both general cost increases and significant pressures that are impacting on sustaining and retaining their workforces.

What we think:

The needs that the social and community sector will face in the coming months will be chilling.

Whether there is enough in Budget 2020 to respond to the needs in the community sector remains to be seen. But there are good signals in Budget 2020 of responding to the needs facing the community sector and for partnership between Government and community groups in facing the challenges that will have been exacerbated by Covid-19.

Pay Equity

The essential value of women's work could not have been more evident than in the last several weeks with women working in essential industries in health, disability support and essential services such as food supplies/supermarkets. Many thousands of public sector women workers also continued to work from home providing essential public services.

Pay equity claims covering thousands of women workers in the public sector, the education and health sectors are either near completion or are progressing. [2]

The CTU had hoped to see:

- Recognition in Budget 2020 for the costs and accounting for pay equity settlements in sector votes, and
- Support systems within government to assist workers and unions advance pay equity claims – including training.

What we got was:

- The Budget Fiscal and Economic Update reports pay equity claims as fiscal risks and that there are several claims in the social sectors (including health, education, and welfare),
- The earmarking of funding for a teacher aide pay equity settlement, and
- The announcement of a pay rise of up to 9.6 percent for the lowest-paid qualified teachers, bringing pay parity at entry level for ECE teachers with kindergarten teachers' starting pay.

What we think of that is:

It is not unusual to not see pay equity funding allocations clearly identified in Budget documents. As is usual, the Budget documents identify pay equity settlements as fiscal risks. This is to do with the unknown nature of the pay gaps and that they are subject to negotiation. The earmarking of the teacher aides pay equity claim in Budget 2020 reflects that this is close to settlement.

There is no funding allocation for pay equity infrastructure in the 2020/2021 Labour Vote, which is disappointing given the resourcing that pay equity claims need.

The funding for the pay rise for the lowest-paid qualified ECE teachers and parity at entry level is a welcome step towards pay parity.

[2] There are pay equity claims near completion and progressing for teacher aides, early child education workers, education administration workers, DHB administrative staff, DHB nurses, DHB midwives, DHB allied health staff, local government library assistants, social workers, workers in the social service sector and public service admin/clerical workers.

Education

Education plays a crucial and central part in the social and economic wellbeing for Aotearoa New Zealand's citizens and in recovery from Covid-19. The issues that are of primary importance to the CTU and education unions are the public provision of quality education and learning, valuing the workforce, a sustainable teaching workforce and an equity-focussed education sector. These issues and needs have intensified in this Covid-19 period with greater pressure on teachers and the education workforce.

In Early Childhood Education (ECE), the CTU was looking to see:

A response to the call by NZEI Te Riu Roa to provide certainty, equity, opportunity, and quality in the coming months and beyond:

- Certainty: that ECE centres are open can support learning, equity,
- Equity: pay parity for ECE teachers and an increase in equity funding to community based ECE services to meet the needs of Māori, Pasifika and low-income whanau,
- Opportunity: fee-frees training for teachers in training and new opportunities for people who have lost employment due to Covid-19, and
- Quality: acceleration of funding incentives for services to employ 100 percent qualified teachers.

In Compulsory Education: Primary and Secondary, the CTU was looking to see:

- Strong support for public provision of education away from a *privatised, profit-focused education system,*
- *The valuing of t*he education workforce and measures to recruit and retain teachers, manageable workloads and meet the professional needs of teachers,
- A focus on an equitable and accessible education system for all children and young people and that schools in the poorest areas are resourced to meet the needs of all children and young people,
- Increased learning support opportunities to ensure inclusive, accessible learning support to students with learning difficulties, an increase in ORS and early intervention funding,
- Recognition of the important role that school play as community hubs in supporting students' places of living and their communities, and
- Pay equity for the education workforce and delivery on all education sector pay equity claims.

What we got was:

- A $151.1 million funding boost over four years for early learning services to increase the pay of up to 17,000 qualified teachers working in education and care services,
- A pre-budget announcement of $160 million property improvement programme, for upgrading remote or small schools, expansion and redevelopment projects including a sustainability fund projects and a schools Investment Package funding,
- A cost adjustment of 1.6 per cent for schools' operational grant funding,
- Earmarked funding for the upcoming teacher aide pay equity settlement, and
- Support of $93 million over four years for Kōhanga Reo cost pressures.

What we think of it:

The announcement of a pay rise of up to 9.6 percent for the lowest-paid qualified teachers working is a welcome step towards pay parity in ECE. It will achieve pay parity at entry level and bring ECE teachers' minimum salary in line with kindergartens teachers starting pay. But full pay parity for ECE teachers with kindergarten teachers will require funding over several years.

The 1.6 percent increase in Operations Grant is unexpectedly low and will be tough for schools struggling now.

Consistent with what they have hoped to see, the PPTA welcomes the Government's commitment to rebuilding and strengthening communities and were pleased to see significant new spending on job creation in the social and infrastructure sectors. NZEI in their press release welcomed the Budget's focus on people, jobs and reducing child poverty.

Not surprisingly the Finance Minister mentioned in his speech that there will be further announcements for the education sector in the near future. They will be welcomed.

Tertiary Education and Skills

The CTU had hoped to see:

Funding to maintain and extend access to lifelong learning through quality public tertiary education and in-work training.

What we got was:

Tertiary Education gets an annual top-up to tuition funding to meet rising costs in the sector. $20 million in additional funding is allocated for the financial year from

June 2020, set to increase by an additional $40 million in each of the next three years.

The budget includes a $1.6 billion package of initiatives over four years to support trades training, including apprenticeships. Highlights include $320 million over four years for tuition-free trades training in key industries with skills shortages, $412 million over four years to support employers to retain apprentices, and $50 million over four years to support apprenticeships with Māori organisations.

The Budget also funds the establishment of Workforce Development Councils and Regionals Skills Leadership Groups as part of Reform of Vocational Education.

What we think of that is:

While the Budget maintains funding for tertiary education, this is unlikely to be sufficient to meet working people’s increasing needs for lifelong learning, especially at a time of economic disruption when many people will be looking to return to education and training.

The trades training package combines initiatives from across Government and includes positive moves to support entry to trades for school students, apprentices, and job seekers.

Beyond the initiatives announced in this budget, further work will be needed on supporting access to in-work training, including as part of the Covid-19 response and recovery package.

Labour

The CTU had hoped to see:

The Government continue to make improvements, built off the building blocks of improving the labour inspectorate as set out in last year's budget.

With many facing an uncertain future in the workplace, now is the time to invest in ensuring working New Zealanders are protected at work.

What we got was:

- Addressing cost pressures:
    - Employment Policy Advice: funding to increase MBIE capacity to deliver skills and employment policy advice,
    - Employment standards: funding to maintain current service levels for frontline employment services and support for the ERA.
- Funding set out in the 19/20 Budget for increasing the number of labour inspectors.

What we think of that is:

It is disappointing to see no increase bar what was set out in last years' budget to improve the labour inspectorate. Unions have seen a multitude of workplace industrial issues which would have indicated a necessary boost to the labour inspectorate was needed beyond what had been allocated.

Given that that the labour and employment portfolio is expansive enough to justify its own Ministry, it would have been exciting to have seen more support for initiatives focused on improving work conditions and holding bad employers to account.

Health and Safety

The CTU had hoped to see:

A focus on establishing better workplace health and safety through the post Covid-19 workplace and economy rebuild including:

- Increased capacity for WorkSafe to operate its enforcement functions through both the inspectorate and its legal services,
- Specific funding to address stagnating fatality figures, and
- Initiatives to decrease the amount of harm caused by work related diseases.

What we got was:

- WorkSafe's budget saw an increase of $2.6 million – an increase that was set out in the 19/20 budget and carried over,
- Funding to increase WorkSafe capacity to implement and operate a licencing regime for refrigeration technicians,
- Funding of an initiative to expand the EPA's chemical reassessment programme to respond to emerging issues and undertake reassessments, and
- Continued funding for Maritime NZ as the maritime sector health and safety regulator.

What we think of that is:

It is an indication of maintaining the status quo of health and safety in New Zealand which is somewhat disappointing given the tracking of workplace fatality statistics remaining stagnant in recent years. The post Covid-19 rebuild provided an excellent opportunity for better health and safety performance in New Zealand and for WorkSafe to lead this.

With New Zealand's health and safety legislation up for review in the near future this would have been the perfect opportunity for a significant capacity increase for WorkSafe to operate more effectively in their enforcement and legal services. As we call for necessary increases to their legislative capabilities, increased capacity will be needed to fully utilise that.

Unions have been calling for more presence in their workplaces by WorkSafe, and without the required capacity increase, it is difficult to see how WorkSafe will be able to keep tabs on a multitude of workplace issues.

It is good to see recognition of the biggest workplace killer – work-related disease - being recognised through the funding of the EPA chemical reassessment processes as well as setting up WorkSafe's licensing regime for refrigeration technicians. We are glad to see that both of these initiatives are taking a lead indicator approach to preventing future harm.

Social Security

The CTU had hoped to see:

- Benefits rise as per the Welfare Expert Advisory Group's recommendations
- Benefits assessed on individual income not households
- Working for Families thresholds rise
- Working for Families abatement reduce
- In work tax credit folded into Family Tax Credit or apply to searching for paid work as well as being in paid work

What we got was:

None of the above

What we think of that is

This truly has to be the most disappointing aspect of this Budget. Unemployment is due to peak at 9.8% and benefits – if they can be accessed – are between $100 and $350 per week too low to avoid hardship.

It is all the more galling when the Government has chosen to fund the Super Fund by $2 billion a year – well in excess of what is required by the formula.

Housing

The CTU had hoped to see:

- Continued building of public/social housing
- Development of affordable rentals
- Commitment to housing costs being equivalent of 12 hours paid work – 'living rent'

What we got was:

6000 additional public housing places and 2000 transitional housing places over 4-5 years.

What we think of that is:

This is welcome as is the initiative to further insulate housing. However, the gap that is affordable rentals continues to be not addressed. This is particularly important for people who earn too much to get a social house and high rents continue to reduce their disposable income.

Environment

The CTU had hoped to see:

- Funding for good jobs in conservation programmes.

What we got was:

- The budget allocates significant continuing funding to conservation programmes, with a focus on creating jobs. While Government announced this spending as a $1.1 billion investment, this is spread over five years and is primarily composed of initiatives that were previously announced in Budget 2019.

What we think of that is:

- Budget 2020 continues the significant investment in conservation jobs that was announced in previous budgets. It is good to see Government continuing these commitments, which support ongoing employment.

Transport

The CTU had hoped to see:

- Major investment to maintain and extend rail infrastructure, including full funding to electrify the passenger network, extension of freight lines and renewal of the interisland ferries,
- Funding to maintain employment and capacity in air transport. This could include Government taking a greater equity stake in Air New Zealand, and
- Funding for road safety upgrades and active transport infrastructure for walking and cycling.

What we got was:

Budget 2020 provides significant capital investment for rail, with a $246 million investment in track and infrastructure, $400 million to replace the Interislander ferries and portside infrastructure, and $421 million for new wagons and locomotives.

What we think of that is:

The budget continues significant investment in rail by this Government. Just as important for the long-term future of rail transport is the commitment this Government has made to funding rail out of the National Land Transport Fund. This year's budget anticipates that change and allocates an additional $148 million to the Fund for investments in rail.

Tax

The CTU had hoped to see:

- greater increase in the taxation of capital
- loopholes closed
- greater progressivity
- spreading treatment of redundancy payment
- greater focus on collection of tax debt
- increased funding and greater priority given to tax investigations by Inland Revenue

What we got was:

None of the above.

What we think of that is

This is disappointing particularly since a number of the business-friendly recommendations of the Tax Working Group have been implemented.

At a minimum it would have been good to see an initiative so that the people are not taxed at a high rate on redundancy payments in the year they receive them but subsequently earn much less in subsequent years.

This would have been consistent with the loss carry back scheme for businesses.

Economic forecasts and outlook

In these times, forecasts incorporate even larger amounts of judgement than usual. They should be regarded as indicating directions rather than precise numbers.

Treasury forecasts (completed April)

June Year	2018	2019	2020	2021	2022	2023	2024
GDP	3.2	2.8	-4.6	-1.0	8.6	4.6	3.6
GDP per person	1.4	1.3	-5.9	-2.0	7.6	3.5	2.3
Unemployment rate	4.5	4.0	8.3	7.6	5.7	5.2	4.8
Employment	3.1	1.8	-1.0	-2.4	5.0	2.8	2.2
CPI	1.5	1.7	1.3	0.8	1.5	1.8	1.9
Current account[3]	-3.3	-3.4	-2.0	-5.7	-4.2	-3.8	-3.6

Reserve Bank forecasts (May Monetary Policy Statement)

June Year	2018	2019	2020	2021	2022	2023	2024
GDP	3.2	2.8	-4.9	2.8	4.5	3.0	3.0
Output gap	0.8	0.5	-7.8	-3.0	-0.4	1.2	1.2
Unemployment rate	4.5	4.0	7.0	7.1	5.8	5.4	5.4
Employment	3.2	1.4	-3.6	1.1	2.9	2.1	2.1
Wages (av. wage/hr)	3.3	4.7	-2.9	0.8	0.0	2.6	2.6
CPI	1.5	1.7	1.3	0.5	1.0	2.0	2.0
Real wages	1.8	3.0	-4.1	0.3	-1.0	0.6	0.6
Current account[1]	-3.3	-3.4	-2.0	-4.5	-2.8	-2.0	-2.0

Forecasting is in a bit of a mess because of the big unknowns in this environment and rapidly changing circumstances. Treasury's forecast was finished in April and already looks out of date. It does not include $27 billion of the full $61.2 billion stimulus: $12.1 billion announced in March plus a $50 billion Covid-19 Response and Recovery Fund (CRRF) in the Budget. It has three scenarios with big differences between them and error margins within them. The above is their preferred scenario. It assumes one month at level 4, and one month at level 3, followed by the remainder of the year to March 2021 at levels 1 or 2. We appear to be moving more quickly than that. It also assumes that by 1 April 2021, all restrictions will have been lifted, including border restrictions – which seems highly over-optimistic. Global economic forecasts also seem over-optimistic.

The Treasury forecasts also omit wages.

I have therefore also shown as an additional view the more up to date Reserve Bank (RBNZ) forecasts published just yesterday, but they assume only a total $50 billion stimulus spread over three years.

[3] Current account deficit as a proportion of GDP, not percentage change.

It is no surprise that the economic outlook is awful, at least in the short term. The key questions though are how deep the cliff-like downturn will be and how long it will last. Treasury's projected scenarios are largely a deep fall and a quick recovery. The RBNZ has a similar view. The relatively quick step down to Alert Level 2 with very few new Covid-19 cases so far allows optimism that recovery will be relatively quick – at least as far as the domestic economy goes. The two big problems for New Zealand are that the international economy has much further to go on a downward track, affecting exports, and the need to seal our borders to visitors, possibly for a long time, means long-term damage to our tourism industry, and possibly to international student intakes. There may also be more lasting damage to the rest of the domestic economy from the readjustments required.

Treasury's projections (call them forecasts at your own risk) show unemployment rising to 9.8 per cent in the September quarter. The RBNZ has it peak at 9.0 per cent in the same quarter. At 10 per cent unemployment, there are approximately 280,000 people out of work – two and half times the number before Covid-19 hit.

In a way, that is a success: it could have been much worse, as some of the Treasury scenarios showed, and it is less than the 11.2 per cent created by the neoliberal reforms in the early 1990s after which it stayed above 6 per cent for the whole decade. The current projections have unemployment falling to 7.6 per cent (7.1 per cent RBNZ) by June next year, then 5.7 per cent (5.8 per cent RBNZ) a year later and only slowly falling after that to 4.8 per cent (5.4 per cent RBNZ) in 2024.

The big question is whether unemployment could be held lower and we could have a quicker recovery in employment by a larger stimulus, or one much more directed at household spending rather than at firms. For example, there is nothing offered to increase unemployment benefits other than the marginal $25/week increase in March, let alone a decent income replacement scheme such as an ACC-like social insurance model could provide. Wage subsidies (themselves problematic as a longer term measure) continue for only some firms.

The RBNZ projections show wages falling 4.8 per cent in the June quarter this year and 3.1 per cent in the next three months. They recover a little in the following 6 months but then real wage growth (i.e. after adjusted for the weak inflation) averages zero out to 2023. This will not help demand in the economy, suggesting firms will find it hard to sell their products. We risk a deflationary spiral. Debt will become a problem for some households, as Treasury notes.

Government spending and fiscal outlook

Forecasts in red, actuals in black

June Year	2018	2019	2020	2021	2022	2023	2024
	$m						
Core Crown Expenses	80,576	87,041	113,998	113,529	119,767	118,638	113,025
Core Crown Revenue	86,778	93,474	89,474	87,023	94,615	104,015	109,920
OBEGAL	5,534	7,370	-28,293	-29,599	-27,199	-16,454	-4,935
Operating Balance	8,396	329	-37,115	-29,326	-24,232	-13,009	-1,036
Net capital spending[4]	5,400	5,700	8,800	12,900	8,600	8,900	8,300
Net debt (incl NZSF)	19,460	14,060	47,598	82,764	111,699	131,688	138,220
Net debt (excl NZSF)	57,495	57,736	88,935	129,489	163,599	188,718	200,780
	Percent of GDP						
Core Crown Expenses	27.5	28.7	38.7	38.6	36.5	33.7	30.2
Core Crown Revenue	29.6	30.8	30.4	29.6	28.8	29.5	29.4
OBEGAL	1.9	2.4	-9.6	-10.1	-8.3	-4.7	-1.3
Operating Balance	2.9	0.1	-12.6	-10	-7.4	-3.7	-0.3
Net debt (incl NZSF)	6.6	4.6	16.2	28.1	34.0	37.4	36.9
Net debt (excl NZSF)	19.6	19.0	30.2	44.0	49.8	53.6	53.6

NZSF = New Zealand Superannuation Fund

Government spending is projected to be at levels which are a record over recent decades as a proportion of GDP – jumping from 28.7 per cent of GDP in the year to June 2019 to 38.7 per cent in the year to June 2020, staying near there the next year and then falling reasonably rapidly. Capital expenditure rises too. Revenue is far behind for obvious reasons – at pre-Covid-19 levels and below. Net debt rises to 54 per cent - modest by OECD standards, and even more modest (37 per cent) when the New Zealand Super Fund is included.

Even these debt figures exaggerate the position because they include what is owed to another part of government – the RBNZ – which should be netted out. Debt could be reduced if more use was made of Reserve Bank finance to "monetise" the deficits being created – completely appropriate in these highly deflationary times. In any case, there should be no panic in paying off the debt to other lenders: interest rates are very low and may well fall further, and the Government can easily roll over loans.

The Government has yet to announce the use of $20 billion of its new $50 billion Covid-19 Response and Recovery Fund. It should not hold back on using it and going beyond that to bring unemployment down much more rapidly and start rebuilding to the better New Zealand both Government and we want. We can afford to.

Bill Rosenberg
14 May 2020

[4] Excluding NZ Super Fund contributions