

The highlights of the Budget were clearly in health and housing, and the Families Package to reduce poverty and inequality announced in advance, although we've heard the concerns raised by the Child Poverty Action Group on the adequacy of that this morning.

I, more recently with Lyndon Keene of the Association of Salaried Medical Specialists, have been assessing Health Budgets since 2010. We'll be double checking our numbers and publishing more extensive analysis later, but this is the first Budget I have attended since 2010 where funding has been adequate to meet the rising costs and population pressures, as well as paying for politicians' promises, from year to year. The capital allocation was exceptional. Over that time, those shortfalls accumulate and we calculated that if this year's health funding was to be restored in real terms to the 2010 levels it would need an additional \$2.7 billion instead of the \$800 million it received. Of course that was never going to happen in one Budget, but if we are going to meet the health needs of New Zealanders, which are growing due to an aging population, poor housing, poverty, poor diets and new and better ways to treat people, that has to be restored, and more. We have not only documented the funding needs but also the human needs that require more funding, such as the need for mental health services that has grown three times faster than funding, the increasing seriousness of the state of people turning up at emergency departments, the staff burnout, the unmet needs.

That is similar to the story throughout this Budget. The reaction from our sector based affiliates strongly reflects this and there's many of them here for comment today too.

The increased funding to Early Childhood Education is after years without any increases, and so is very welcome, but we still will have teachers trying to look after up to 5 under-twos at a time, and unqualified staff being allowed to look after our small children.

There is more operational funding in the school sector, but well recognised problems in recruiting and retaining staff, for many reasons including their pay levels, which are unaddressed.

In tertiary it is visionary in a time of major changes to the nature of work to be working towards free tertiary education but they too have been the subject of years of underfunding.

We strongly support Kiwibuild. We applaud the start made on expanding the stock of Housing New Zealand houses, but even over 4 years it will fall well short of the waiting lists.

Bizarrely, Housing NZ is borrowing to build these houses on the more expensive private financial markets rather than using cheaper government debt, presumably to side step its own Budget Responsibility Rules, a matter which I will come to.

The direction of the Budget is good, but it is much too timid in addressing the evident problems throughout our public services, not only the big ones I have mentioned. Conservation, our response to climate change, protection of our borders from plant and animal diseases and pests, and many other areas are either not working or showing signs of great stress.

Health, education, housing and social welfare fall into the human, social and physical capital parts of the Living Standards framework which the Government intends to use to create “wellbeing Budgets” starting next year. That will be a major step forward for public policy. Other public services in stress cover natural capital and physical capital.

The Budget showed growing surpluses which are largely structural, not cyclical. The main immediate barrier then to doing more about these huge and growing pressures is the willingness to make use of the available revenue. The barrier is expressed in the Budget Responsibility Rules. This pincer leaves little room to move between requiring operating expenses to be below 30 percent of GDP; lowering net debt (excluding the New Zealand Superannuation Fund) to below 20 percent of GDP by 2022, and a promise not to introduce new taxes in this term of office.

Throughout the forecast period, operational spending is well below 30 percent of GDP: 28.5 percent in the year to June 2019 and falling over the next three years. Revenue, even without new taxes, is rising from 29.9 percent of GDP to 30.4 percent over the same period.

So why can't the Government increase spending to 30 percent of GDP?

Because it is, understandably and justifiably, spending on capital projects such as hospitals, schools, housing and transport infrastructure. That pressure would be released if more could be borrowed, as it can be at interest rates available to the government averaging just 3.6 percent.

This point is important-core crown net debt target of 20 percent of GDP prevents it from doing so.

Yet New Zealand's public net debt is strikingly low by international standards – 7th lowest in the OECD in 2017. International agencies like the IMF and OECD use a different net debt measure: they include the New Zealand Superannuation Fund which is growing much faster than GDP. Our Auditor General agrees.

Our net debt including the Super Fund is forecast to be only 7.2 percent of GDP in June 2019, and just 2.3 percent in 2022. Our net

debt levels are far from our greatest worry. If we applied a wellbeing framework to the matter, I have no doubt that the dangers to our wellbeing – our social, human and natural capital inherent in dysfunctional public services would far outweigh the risks in say a net debt target of 10 percent of GDP including the Super Fund.

That would allow prudent borrowing to free up sufficient revenue to fund the difference between current government operational spending and 30 percent of GDP and allow attention to be paid much more quickly and adequately to our failing services.

It would give the Government time to reframe its Budget Responsibility Rules into policies that took full account, not only of fiscal and financial considerations but all dimensions of the wellbeing of New Zealanders. It would give the Government time to get a mandate from New Zealanders to raise the revenue needed through new taxes to fund the public services they want. The UMR poll we commissioned recently showed 92 percent of New Zealanders agreed that our public services needed more government funding, and that almost two-thirds of them (65 percent) supported raising taxes to pay for them.

The Government is heading in the right direction. It now needs to demonstrate the urgency that the situation demands.