A Workers' Analysis of

BUDGET 2024

NZCTU

Te Kauae Kaimahi

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Introduction

Successive governments have taken Aotearoa down a path which is bad for workers, whānau, and our communities. We have too many unsafe, insecure, and unfair workplaces in which workers' lack voice. There is growing inequality and division in our society as a good life gets further from reach for many. And there are major challenges that we are failing to address, from housing shortages to climate change.

Budget 2024 deepens the problems we have been facing for generations now and will make life more difficult and insecure for many New Zealanders. Workers deserve better. It is time for an aspirational change.

A better Aotearoa is possible. One where there is safe, secure, and well-paid work for all, and in which workers and unions have voice. Where Te Tiriti o Waitangi is respected, and inequality and discrimination are things of the past. Where we have high-quality and environmentally sustainable infrastructure both in terms of buildings and roads, but also essential public and community services. And where all New Zealanders can look forward to a secure and vibrant future.

This is why we've established Reimagining Aotearoa Together, to build a new vision for our country. The union movement, and our allies, will set out an alternative path in the months ahead.

Richard Wagstaff

President

New Zealand Council of Trade Unions

Budget 2024 fails the most important tests

Joe Biden famously said, "don't tell me what you value, show me your budget and I'll tell you what you value". This Budget demonstrates the values of this Government. It is a Budget that places ideological wants before real needs. The Government wants to cut taxes. It wants to cut spending. But it doesn't deliver the investment that New Zealanders need. In short, this Budget fails the most important test going – will it help deliver a better Aotearoa?

Nicola Willis had her own tests in opposition. She said that her tax cut programme would not "require any additional borrowing". On this metric, the government is failing its own test. According to the Treasury, the government will borrow an additional $17.1bn by June 2028. Tax cuts will cost nearly $10bn. Without the cuts, borrowing would be much lower. Future taxpayers are going to pay for tax cuts today.

Willis also claimed that she would be able to deliver on all National's election promises "regardless of the state that Labour leaves the books in". Yet the tax cut programme doesn't include the Working for Families changes promised by National in opposition. The gambling tax changes were supposed to bring in $716m over the next four years. They now bring in $190m. It's now clear that the tax package isn't being delivered as promised.

The Budget also fails the test of not cutting the front-line, as the Government calls it. It is cutting 240 lines of expenditure in total. The Minister of Finance has made it clear that there will be further rounds of cuts, noting in her speech that ongoing cuts "will be a feature of future Budgets". Real terms cuts are made to operating grants to education. Vote Customs sees only cuts, no investment at all. The same is true for Agriculture, Biosecurity, Fisheries, and Food Safety; it is also true for Māori Development and Pacific Peoples.

Much was made by this Government during the election campaign that funding would be made available to health, enough to meet inflation and population needs. In March, the Ministry of Health told the Health Select Committee that the funding now being provided wouldn't be enough. Funding was also promised for new cancer drugs. Funding would be provided for a new medical school at the University of Waikato. However, there is no money available for cancer drugs, or for a new school – only a cost benefit study.

The Budget fails the test of helping to end child poverty. Officials now forecast the targets on child poverty will be missed significantly. These are targets that had been the subject of bipartisan agreement until now. The government states that, "A key driver of child poverty is living in a benefit-dependent household". In reality, the key driver of living in poverty is being poor – something that is not helped by real terms cuts to the minimum wage and cuts to welfare payments. If the Government really believed in social investment, it wouldn't be failing this test.

This Budget fails the test of preparing New Zealand for the future. Investment to support business, science, and innovation is cut by $1.4bn – and only $700m is returned. This includes cutting large elements of the Warmer Kiwi Homes programme, which improves the energy efficiency and health of New Zealand's ageing housing stock. Tackling climate change is no longer a concern, with $180m cut from the Energy Efficiency and Conservation Authority. The National Resilience Plan, established to help with future natural disasters, is ended. A common theme across the baseline cuts to public services is the reduction in research and data capacities. This will only make it harder for us to plan for the future.

The Government has clearly signalled its values with this Budget. Short-term benefits for some in the form of tax cuts will come at the cost of long-term borrowing, rising child poverty, and increasing insecurity in the face of climate change and rising unemployment. According to the Treasury, forecast new spending in the future is "unlikely to be sufficient to cover future cost pressures on existing services". That means future cuts are baked in.

It would be easy to blame this programme on malice – to frame the Government as being indifferent to the needs of New Zealanders. That would be the wrong approach. Rather, what this Budget demonstrates is that the current Government has placed its political survival over the very real investment needs of the country. Government is squeezing the cost of school meals while giving landlords $3bn in tax reductions. This is despite the Minister of Finance admitting that this won't do anything to tackle rising rents. Everything in this Budget is a choice. The Government has chosen the wrong approach for New Zealand.

Craig Renney

Economist and Director of Policy

New Zealand Council of Trade Unions

Budget at a glance

Budget 2024 makes significant cuts across many areas of government spending. Education operating grants are set to fall in real terms. Health expenditure is unlikely to match cost pressures and keep the lights on. Critical areas such as customs and biosecurity are getting their funding cut back overall.

The Minister of Finance has set wafer-thin operating allowances of only $2.4 billion for the next three Budgets. As Nicola Willis noted in her Budget speech, managing within these allowances "will be challenging" and further rounds of spending cuts "will be a feature of future Budgets". Treasury, meanwhile, noted that "the future budget allowances are unlikely to be sufficient to cover future cost pressures on existing services". The clear conclusion: New Zealanders are looking at three years of cutbacks under this Government. This will worsen the crises that many working people face today, from a lack of affordable housing to under-resourced hospitals to intergenerational poverty.

This Budget builds upon the "Mini Budget" delivered in December 2023, which cut Fair Pay Agreements, indexed benefits to consumer inflation instead of wage growth – meaning an estimated $676 million taken out of welfare recipients pockets over the next four years – cut the Industry Transformation Plans, cut the Income Insurance programme, raided the Climate Emergency Response Fund to the tune of $1.4bn, ended the free prescriptions policy, and removed half-price public transport.

Below, we highlight major features of this Budget, including the tax package, and outline what they mean for working New Zealanders.

The tax package is not fully funded

The Budget 2024 tax plan will cost the government $14.7 billion. The tax policy changes include:

- Rejigging the income tax brackets, as shown in Table 1.
- The reinstatement of interest deductibility for landlords, who will collectively earn $3 billion over the next four years as a result.
- The extension of the eligibility cap for the Independent Earner Tax Credit from $48,000 to $70,000 per annum.
- An increase to the in-work tax credit.
- A change in support for ECE costs, shifting away from 20hr free for 2-year-olds, and instead providing a tax credit for some parents with children in ECE.

Overall, the tax plan is weighted towards those with above-average incomes. For example, a couple who each earn the healthy salary of $150,000 per annum will get an extra $2,085 per year. However, a minimum wage earner working 40 hours per week will get an extra $651 per year, with $131 of this coming from the tax bracket adjustment and $520 coming from the extension of the Independent Earner Tax Credit.

Meanwhile, a retired couple receiving NZ Superannuation will only get $224 more per year. It now transpires that the numbers of families who will receive the famed $250 per fortnight amount was less than the 3,000 households uncovered by the CTU before the election. Reporting by *Stuff* now shows that number to be even smaller – demonstrating the lack of honesty by the Government in its reporting on the issue.

Table 1: Summary of tax bracket changes.

Rate	Current bracket	New bracket
10.5%	$0 – $14,000	$0 – $15,600
17.5%	$14,001 – $48,000	$15,601 – $53,500
30%	$48,001 – $70,000	$53,501 – $78,100
33%	$70,001 – $180,000	$78,101 – $180,000
39%	$180,001+	No change

The Minister of Finance claims that, "The tax plan is fully offset by reprioritisation, savings and new revenue". But this is smoke and mirrors. As the Treasury's Budget Economic and Fiscal Update makes clear, the cash shortfall over the forecast period is to be covered by increased debt issuance. This is partly why the operating balance is forecast to blow out (see Figure 2 below). Despite what the Minister says, if the Government wasn't pushing through these tax cuts, it wouldn't be needing to cover this revenue shortfall with additional debt.

Investment in health will be barely enough to keep the lights on

The Government has allocated $1.43 billion for health sector cost pressures in 2024/2025. However, Te Whatu Ora officials informed the Health Select Committee in March that this figure would not be enough to meet cost pressures.

Budget 2024 also underdelivers on the Government's promises to increases the health workforce. Despite a campaign pledge from National to increase medical student numbers by 50 places per year, this Budget only allows for 25. In a situation where we have more than one third of Kiwi adults with unmet health care needs, hundreds-of-thousands go without necessary mental health support, and hospital wait times are growing, this Budget simply doesn't do enough to support the delivery of health care.

Campaign pledges to deliver new cancer drugs have also been broken, as has the funding to deliver a new medical school at the University of Waikato. Overall, there is a cut in the amount of capital investment on health of $13m. Given our growing population and higher needs, it's astonishing to think that New Zealand is actively pulling money out of health infrastructure.

Despite lots of big talk, the Government has failed to invest in education this year

The Government is providing $780m over four years to maintain New Zealand's ageing school property portfolio. But beyond this, Budget 2024 underdelivered on the Government's claim that it would be focused on improving education outcomes. Schools' operational grants will only increase 2.5%, which is well under the forecast inflation of 3.4% for the year ending June 2024 (a forecast we think is optimistic). Tertiary education funding has also only received 2.5%. This means real terms cuts to frontline services, which may impact the ability of schools to pay non-teaching and support staff.

Similarly, the early childhood education subsidy only gets a 2% increase, making this the fifth year in a row that the subsidy has failed to keep up with inflation. This will put further pressure on ECE centres. Budget 2024 will also leave educators scratching their heads wondering why the sizable investment of $153m in the failed charter school policy hasn't been spent on learning support instead.

The big news in tertiary education is the switch of fees free from the first year to the last year. This will save approximately $893 million over forecast period. This change hasn't been delivered to improve access to education, nor has it been introduced to lower education costs for students. It has simply been done to save the Government money.

There is no economic development strategy evident

This Budget does nothing to help assist New Zealand onto a more sustainable economic development path. Indeed, there is an absence of any economic strategy contained within the Budget documents.

An example of this is the reduction in funding for Business, Science, and Innovation. $1.4bn is cut with only $700m returned. This includes funding cut from programmes such as tourism, wood processing, and energy support. One significant programme that will suffer is the Warmer Kiwi Homes programme, which helps to improve the warmth and energy efficiency of older houses; this is having $179 million in funding cut over the forecast period.

A lack of climate change action is evident in the Budget. $10 million is being cut from an initiative aimed at accelerating the development of agricultural greenhouse gas mitigations. $37 million is being cut in funding for Mātauranga Māori approaches to agricultural emissions reduction.

There is nothing in the Budget to help address New Zealand's uncompetitive markets in areas such as energy and banking. For example, $13.7 million is being cut from the Commerce Commission's funding, which will lead to "a slowing of activities on the fuel and retail payment regulatory regimes as well as competition studies". This is despite recent reports from the IMF and the OECD that New Zealand has a number of uncompetitive markets, and that competition would help improve our overall productivity.

Workforce planning and development will be hamstrung

The Government has cut funding for the Workforce Development Councils, which had been tasked with identifying workforce training needs and the means to deliver them. This completes its dismantling of the vocational education system established by the previous government. The Public Transport Workforce Sustainability and Skill Improvement Programme is also having $46.9 million cut from its funding.

Inexperience of the Workplace Relations and Safety Minister on display

Miserly savings have been gained from axing some important pieces of work and policy support in the Workplace Relations and Safety portfolio. Ending support for the Industrial Relations Foundation, the Equal Employment Opportunities Trust, and support for the Screen Industry Occupational Bargaining has netted the government a $4.1 million over four years at the expense of support, education, and resources for many workers, businesses, and the public.

Housing needs go unmet

The expenditure allocated for Housing and Urban Development will be cut by $1.5bn overall. Given the challenges facing New Zealand in housing, it might have been expected to be an area in which additional resourcing was made available. Instead, the Budget highlights cuts to:

- Contracted Emergency Housing ($20m)
- Kāinga Ora-Led Large-Scale Projects ($200m opex and $235m capex)
- Kāinga Ora Reduced Asset Maintenace and Personnel Expenditure ($1.04bn)
- New Supply and Capability of Māori Housing ($40m)
- Progressive Home Ownership ($17m)
- Rangatahi Youth Transitional Housing ($20m)
- First Home Grant Scheme ($245m)

Cuts to these programmes is being delivered at the same time as rents are rising at their fastest rate on record, and while the Government is spending more than $4bn on rental support. Cuts in this area seems particularly short-sighted when we know that the construction market is facing a downturn, and we might lose skilled workers to markets such as Australia.

Māori Development and Pacific Peoples see reductions

Initiatives for Māori development saw cuts overall of $96.7 million over the forecast period, with no new spending. The thousands of tangata whenua and tangata Tiriti that turned out for the nationwide day of action were proven right in regard to the Government's assault on tangata whenua and Te Tiriti of Waitangi.

For Pacific Peoples, the issues are essentially the same. The Budget does not add any new spending, rather it takes away $25.6m over the next four years. Both Pacific Peoples and

Māori communities are growing part of New Zealand society, with their own unique needs. Reducing funding for these areas make it more likely that they won't be able to access the services they need.

Customs, biosecurity, and conservation also see cuts

Multiple front-line services are seeing their funding cut. Agriculture, biosecurity, fisheries, and food safety have $400 million cut over the forecast period, a risky strategy for an economy that is heavily reliant on agricultural exports. Customs is also having its funding slashed, as is maritime security.

Conservation is set for a $128 million reduction in funding over the forecast period. The Kermadec ocean sanctuary project has been ended to provide $19 million in savings over the forecast period; freshwater programmes have been cut back to the tune of $23.6 million over the forecast period; and capacity for legal, regulatory services, and strategic partnerships at the Department of Conservation have been reduced by $1.6m per annum.

The Government's analytical capabilities will be eroded by this Budget

A common theme in the Budget are cuts to "evidence and data" functions across the public sector. This includes cutting $65m in funding to Statistics NZ, the country's main provider of data on New Zealand's population and economy. It also includes discontinuing the Living in Aotearoa Survey, which tracks the development of young New Zealanders as they grow up. This will undermine the Government's ability to track child poverty. All of this appears to be at odds with the Government's stated commitment to "evidence-based policy".

One of the few areas where spending will increase is law and order

Corrections will see a $615 million increase in funding, with $205 million going to staff remuneration and recruitment. Police get $527m over forecast period, part of which is to fund 500 further police. Corrections sees very significant increases to funding of $800m for more prison places across the next four years. However, there are cuts of $440m from Corrections coming from asset management and prisoner services such as health.

While increases to the pay of corrections officers and police is important, it will do nothing to address the root causes of crime in the country – which are poverty, economic insecurity, and intergenerational disadvantage. The Government's approach in this Budget is to throw money at the symptoms, rather than the causes, of crime.

Rounding out the picture, while the courts are being forced to implement tougher approaches to sentencing, the support for lifting cultural capability within the Ministry of Justice has been slashed in half.

Fiscal outlook

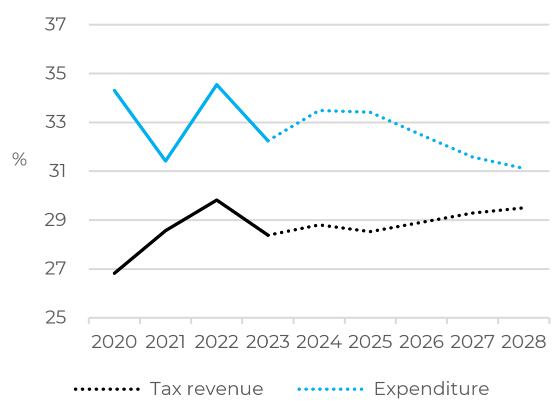
The fiscal outlook has become more challenging since Treasury's Half-Year Economic and Fiscal Update (HYEFU) in December 2023. This is largely the result of declining tax revenue as the economy slows under high interest rates. The Government's debt-funded tax cuts will reduce revenue further and will push the "return to surplus" out by another year, compared to HYEFU. It is difficult to square these numbers with the Minister of Finance's claim, in her Budget speech, that "Fiscal discipline is long overdue".

Table 2: Fiscal outlook, year ending 30 June.

	Actual	*Forecast*				
% of GDP	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Core Crown tax revenue	28.4%	28.8%	28.5%	28.9%	29.3%	29.5%
Core Crown revenue	31.2%	32.0%	31.6%	31.7%	32.0%	32.2%
Core Crown expenses	32.3%	33.5%	33.4%	32.5%	31.6%	31.1%
Net debt	34.4%	38.9%	41.3%	42.7%	42.9%	41.3%
OBEGAL	-2.4%	-2.7%	-3.1%	-1.9%	-0.6%	0.3%

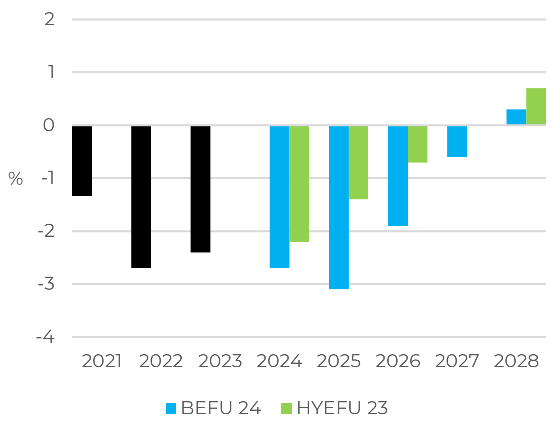
Importantly, while the Treasury notes that the fiscal position is expected to improve over the forecast period, it also notes that this is contingent upon government sticking to its very tight operating allowances. The Minister of Finance has set operating allowances at only $2.4 billion for 2025/26, 2026/27, and 2027/28.

Figure 1: Core Crown expenditure and tax revenue.



Source: Treasury.

Figure 2: OBEGAL forecast.

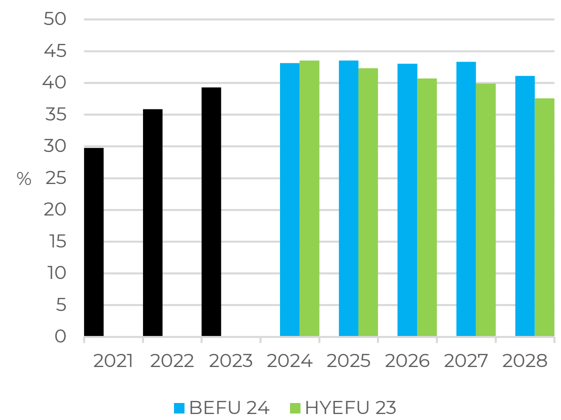


Source: Treasury.

The Treasury also states that "high-level analysis indicates that the future budget allowances are unlikely to be sufficient to cover future cost pressures on existing services". This points us to the following conclusion: if government does stick to its operating allowances of $2.4 billion over the forecast period, then we will see consistent real terms declines in public investment. And if the economy fails to recover as quickly as Treasury's forecasts anticipate, then the Government will find itself with even less fiscal headroom, which will require even deeper real terms cuts to public investment.

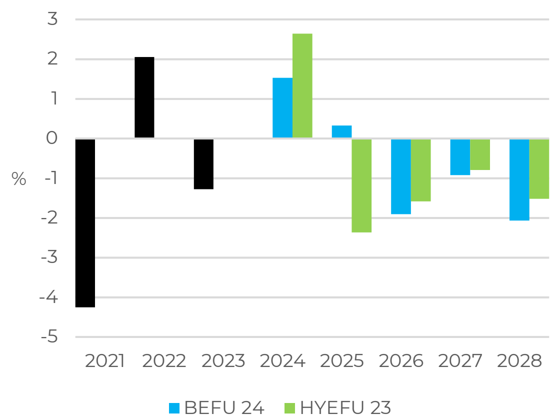
Both core Crown expenditure and core Crown revenue are forecast to fall over the next four years. In the Budget Policy Statement released in March, the Minister of Finance announced an intention to reduce core Crown expenditure to 30% of GDP over the coming years. It is worth noting that there is no economic logic to back this target up – it is an arbitrary number plucked from thin air.

Figure 3: Core Crown net debt.



Source: Treasury.

Figure 4: Fiscal impulse.



Source: Treasury.

As Figure 2 shows, the OBEGAL deficit forecast has blown out compared to the HYEFU. This is in large part because tax revenue is forecast to be lower due to the Government's tax cuts and a slowing economy.

The forecast track for core Crown net debt has also increased, compared to HYEFU. As we discussed above, if government wasn't implementing ideologically driven tax cuts, then this borrowing wouldn't be necessary. As Figure 4 shows, these tax cuts may also have an inflationary impact, as they will add to aggregate demand over the next fiscal year.

Economic outlook

The economic outlook has deteriorated since the HYEFU 2023. Broadly, economic activity is expected to remain subdued through the rest of 2024 but begin to pick up pace in 2025. The per capita figures are particularly grim. Treasury forecasts that the economy will shrink 2.8% in the year to June 2024, and then contract a further 0.1% in the year to June 2025. This poor per capita performance is the result of slowing economic growth combined with record-high migration-driven population growth.

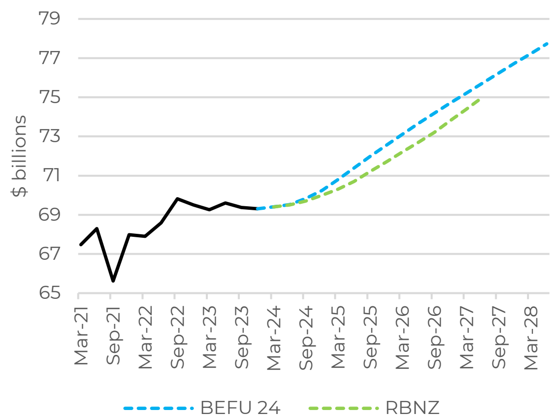
The Treasury is forecasting quite a rapid decline in inflation, which we think is optimistic, given the ongoing increases in the cost of rentals, council rates, and insurance, which do not respond to higher interest rates. The Treasury forecasts that inflation will fall to 2.7% by the September 2024 quarter, which is within the Reserve Bank's target range.

Table 3: Economic outlook, year ending 30 June.

	Actual	*Forecast*				
% of GDP	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
GDP real	3.0%	-0.2%	1.7%	3.2%	2.9%	2.7%
GDP per capita	1.9%	-2.8%	-0.1%	1.8%	1.7%	1.5%
Inflation	6.0%	3.4%	2.2%	2.0%	2.0%	2.0%
Unemployment	3.6%	4.9%	5.2%	4.8%	4.5%	4.4%
Wage growth	6.9%	5.9%	3.8%	3.1%	3.0%	2.9%
90-day interest rate	5.6%	5.7%	4.5%	3.5%	2.9%	2.5%

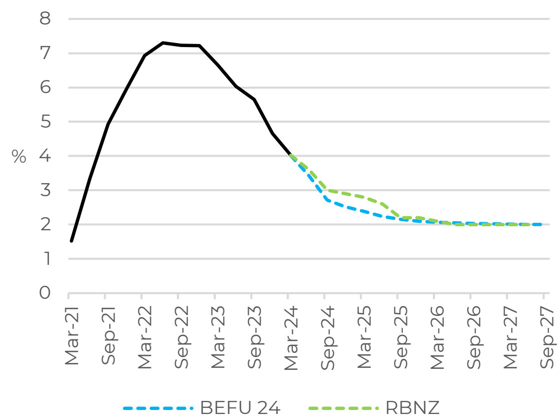
Due to the forecast decline in inflation, Treasury expects interest rates to drop in the second half of this year. This conflicts with the Reserve Bank's recent forecasts (see Figure 8) which see the Official Cash Rate remaining at or above 5.5% until the second half of 2025.

Figure 5: Real GDP, production measure.



Source: Treasury; RBNZ.

Figure 6: Annual consumer inflation.

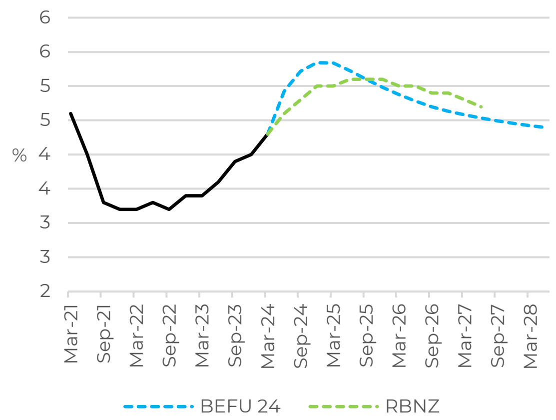


Source: Treasury; RBNZ.

The unemployment rate is set to continue to rise, and to rise more quickly than expected in HYEFU. It is set to peak at 5.3% by the end of 2024, which will mean 166,000 New Zealanders out of work – 47,000 more than when the coalition government took power in 2023. As a result, wage growth is expected to slow through 2024 and 2025.

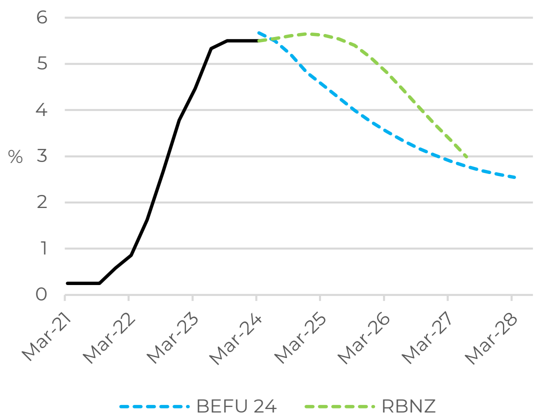
In this challenging economic picture, government should be looking to invest in helping New Zealanders into good work and building out the infrastructure we need to enable sustainable and productive economic development. Unfortunately, Budget 2024 offers no such plan.

Figure 7: Unemployment rate.



Source: Treasury; RBNZ.

Figure 8: OCR/90-day interest rate forecast.



Source: Treasury; RBNZ.

Further analysis on the way

This is our "Budget at a Glance", providing an immediate working peoples' analysis of Budget 2024. We'll be following this work up with more detailed analysis and commentary throughout the next couple of weeks. We're keen to hear from working people what this Budget will mean for them, and what the impacts of these cuts are likely to be for them, their whānau, and their communities.