NZCTU
Te Kauae Kaimahi

Submission to the Finance and Expenditure Committee on the:

Budget Policy Statement 2024

Submitted by the New Zealand Council of Trade Unions Te Kauae Kaimahi

23 April 2024

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This submission is made on behalf of the 31 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With over 340,000 union members, the CTU is one of the largest democratic organisations in New Zealand.

The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga), the Māori arm of Te Kauae Kaimahi (CTU), which represents approximately 60,000 Māori workers.

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1. Introduction

1.1. The New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU) welcomes the opportunity to submit on the Minister of Finance's Budget Policy Statement (BPS), which was released on 27 March 2024.

1.2. The BPS is an important document. Under the Public Finance Act 1989 it is meant to set out the government's fiscal strategy, its fiscal objectives, its wellbeing objectives for New Zealanders, and how the forthcoming Budget will accord with these intentions. The CTU's view is that the 2024 BPS fails to sufficiently meet some of these objectives.

2. Allowances

2.1. Although not required by law, it has been a long-standing convention for the BPS to clearly outline the government's operating allowances over the forecast period.

2.2. The 2024 BPS broke with this convention. It was noted only that "Budget 2024 will have an operating allowance of less than $3.5 billion, with the exact number to be confirmed in the Budget". No details were provided for the 2025 to 2027 operating allowances.

2.3. The Minister provided no explanation for why she has decided to break with convention here. We find this particularly puzzling given the late date at which the BPS was released. While the BPS is traditionally released alongside the HYEFU in December, the 2024 BPS was released at the end of March.

2.4. This gives the impression that the Minister does not yet know how the government will be funding its policy agenda. Given that the Budget is on 30 May, this is a cause for concern. Usually, during the Budget process, initial spending and revenue decisions will have been made, and economic forecasting undertaken to provide an operating allowance structure for the next four years.

2.5. This is also a concern because, without an operating allowance structure for the future, we do not know how the government's fiscal strategy will be delivered. We also have no sense of government's likely ability to deliver the necessary funding for essential public services in the future, such as for health, education, and housing.

2.6. We recommend that the Minister uses the next available opportunity to clarify the operating allowance she is setting out for Budget 2024 and is forecasting for Budgets 2025–2027. This should be at a date before the Budget on 30 May.

3. Government expenditure targets

3.1. The BPS states that "the Government's intention is to reduce core Crown expenditure as a proportion of the overall economy. In the longer term, the Government's objective is to reduce core Crown expenses towards 30 per cent of GDP".

3.2. We encourage the Minister to provide some clarity on why 30 percent has been chosen as an appropriate level of core Crown expenditure.

3.3. Internationally, there is wide variance in the level of government expenditure as a percentage of GDP. Many of the countries that we like to compare ourselves to – and which generate superior social and economic outcomes – have higher levels of government expenditure.

3.4. The Minister therefore needs to substantiate why 30 percent of GDP is a meaningful target to aim for, and how reducing the overall level of government expenditure will improve social and economic outcomes in New Zealand.

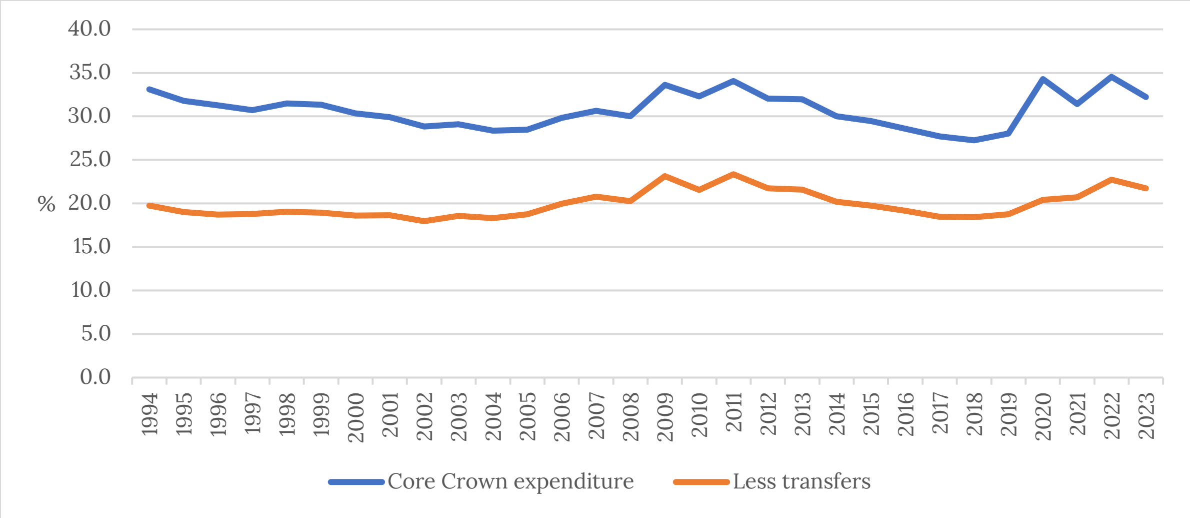
3.5. We understand that, at least until the early part of this year, the Minister has not been provided with any analysis that shows the impact that reducing Crown expenditure will have on inflation, the cost of living for low- and middle-income groups, unemployment, or economic growth.[1] In other words, the Minister's stated intention to reduce overall government expenditure does not appear to be backed by any analysis on the potential effects of this fiscal consolidation.

3.6. Additionally, we note that the measure of core Crown expenditure used by government includes welfare and social security expenditure, such as for the pension and the unemployment benefit. These are transfers of income from one part of the private sector to another, rather than government consumption. When stripping out transfer payments, government consumption – i.e., the government's actual economic footprint – is far lower than 30 percent of GDP, as shown in Figure 1 overleaf.

3.7. By committing to reducing core Crown expenses towards 30 percent of GDP, government increases the risk that, in periods in which transfer payments have to significantly increase (due to rising unemployment, for example), the government will be forced to further cut back on expenditure in other areas if it is to meet its 30 percent target. Doing so, however, would only serve to undermine the capacity of our public services to deliver essential goods and services to New Zealanders.

[1] Tova O'Brien, "What the Finance Minister didn't ask about the public service cuts", *Stuff*, 18 April 2024.

Figure 1: Government expenditure as a percentage of GDP, 1994-2023



Source: Treasury.

4. How the tax cuts will be financed

4.1. In the BPS, the Minister notes that:

> Operating expenses should be funded out of operating revenue over time, with debt being used for three purposes:
>
> - as a smoothing device, to allow automatic fiscal stabilisers such as tax revenue and unemployment benefit spending to operate across the economic cycle
> - as a buffer in the event of an economic shock such as a natural disaster or financial crisis, and
> - to fund high quality investments that provide benefits to New Zealand over time, including those that increase the productive capacity of the economy.

4.2. We broadly agree with the Minister's approach. However, we note that the government's policy programme appears to be out of step with the above statement. As analysis published by Westpac Bank outlines,[2] the GPS indicates that the government will need to borrow up to an additional $15 billion over the next four years. This is close to the publicised cost of the tax cut programme outlined by the National party ahead of the election.

[2] Westpac Bank, "Weekly Economic Commentary", 2 April 2024.

4.3. If the Government wishes to balance the books, it could choose to not make the tax cuts while still making the cuts to spending. There would be $15 billion more in the Crown's account, meaning no need to borrow. If the government chooses to go ahead with the tax cuts, it needs a further $15 billion of cuts on top of the savings already made. That would be impossible – services are already struggling to deliver the cuts required to date.

4.4. Any claim that the government is not borrowing to pay for tax cuts should be questioned. If the tax cuts weren't being made, then the government would not need $15 billion in new borrowing.

5. Government debt

5.1. The BPS shows the government moving back to the 2009 measure of net core Crown debt. The reason given is that the "Government is concerned that the inclusion of NZSF assets introduces too much volatility to a headline measure".

5.2. However, there is no analysis presented within the BPS (or, indeed, elsewhere) that shows that the "volatility" in the data is an issue for the Treasury, for market participants, or for the public.

5.3. Indeed, the removal of the New Zealand Superannuation Fund from the measure of net debt is a cause for concern. Removing these assets means that the benefit of any growth in the fund is not reflected in the debt position of government. The reversion back to the 2009 measure will also make it more difficult to compare New Zealand's public debt position to other OECD countries.

5.4. We welcome the fact that the BPS shows there is no public debt crisis in New Zealand. The BPS states that "the Government accepts that 50 per cent of GDP can be considered the upper bound of prudence on debt sustainability grounds – based on Treasury modelling". We note that the government bond issuance in February 2024 attracted $20 billion of bids for only $4 billion of bonds, showing there remains a healthy appetite for New Zealand government debt.

5.5. Given that New Zealand's debt position is within the "bound[s] of prudence", the government maintains a AA+ credit rating – putting it in the top 20 countries in the world – and the last bond issuance was five times oversubscribed, the Minister should ensure that government is using debt to help close our infrastructure gap. According to the Infrastructure Commission, New Zealand has accumulated an infrastructure shortfall of $106 billion, which will rise to $210 billion on current financial projections over the next

30 years.[3] Tackling this should be a priority ahead of other expenditure for debt, such as its use to finance tax cuts.

6. Wellbeing targets

6.1. The Minister outlines five overarching policy goals that will guide the government's 2024 Budget decisions (as required by subsection 26M(2a) of the PFA).

6.2. The BPS states that these same five goals are also the wellbeing objectives required under subsection 26M(2aa), "as meeting these objectives is the most important contribution the Government can make to the long-term social, economic, environmental and cultural wellbeing of New Zealanders". Beyond this unsubstantiated statement, no further detail is provided as to how these five goals will support long-term wellbeing.

6.3. In our view, the 2024 BPS therefore fails to fulfil the requirements of subsections 26M(4) and 26M(5) of the Public Finance Act 1989. These subsections state that:

> The wellbeing objectives referred to in subsection (2)(aa) must relate to social, economic, environmental, and cultural wellbeing and to any other matters that the Government considers support long-term wellbeing in New Zealand.
>
> The budget policy statement must explain how the wellbeing objectives are intended to support long-term wellbeing in New Zealand.

6.4. Regarding subsection 26M(4), it is far from self-evident that the "wellbeing objectives" outlined by the Minister relate to social, economic, environmental, or cultural wellbeing. It is particularly difficult to see how "Identifying enduring savings across government departments and agencies" (objective 2) will support any of the above, given that these savings are coming at the cost of thousands of jobs and will significantly undermine the government's ability to deliver high-quality public services.

6.5. In turn, these cuts to public sector expenditure will make it difficult for the Minister to meet objective 3: "Improving public services by shifting spending to higher-value areas and focusing on results". The cuts programme currently underway across the public sector is reducing the ability of government agencies to perform the research and analysis required to determine where high-value areas of expenditure are and whether government intervention is producing results or not.

[3] Sense Partners, "New Zealand's Infrastructure Challenge: Quantifying the Gap and Path to Close It", Report for the Infrastructure Commission, 2021.

6.6. For example, the change proposal announced at Oranga Tamariki will significantly reduce the capacity of the evidence and research teams there. This will in turn undermine the government's ability to understand the issues facing children that may require government intervention as well as whether these interventions are successful or not. In this respect, the government's objectives are inconsistent with one another.

6.7. We note here the contrast with the previous BPS (published in December 2022), which outlined a set of concrete wellbeing objectives that could be tracked over time – for example, physical and mental wellbeing (see Table 1). These objectives were based on substantive analysis of wellbeing in New Zealand and incorporated advice from experts.

6.8. We recommend that the BPS is revised to clearly outline how the "wellbeing objectives" identified by government will actually support social, economic, environmental, and cultural wellbeing in New Zealand.

Table 1: BPS Wellbeing Objectives, 2023 and 2024.

BPS 2023	BPS 2024
1. Just Transition: supporting New Zealanders to transition to a climate-resilient, sustainable, and low-emissions economy. 2. Physical and Mental Wellbeing: supporting improved health outcomes for all New Zealanders, particularly the mental wellbeing of our young people. 3. Future of Work: equipping New Zealanders and enabling New Zealand businesses to benefit from new technologies, and lift productivity and wages through innovation. 4. Māori and Pacific Peoples: lifting Māori and Pacific peoples' incomes, skills, and opportunities, including through access to affordable, safe, and stable housing. 5. Child Wellbeing: reducing child poverty and improving child wellbeing, including through access to affordable, safe, and stable housing.	1. Delivering meaningful tax reductions to provide cost of living relief to New Zealanders, who have seen no change in personal income tax rates and thresholds since 2010. Tax reductions will be funded by reprioritisation, savings and new revenue measures, and this package will not add to debt. 2. Identifying enduring savings across government departments and agencies. 3. Improving public services by shifting spending to higher-value areas and focusing on results. 4. Keeping tight control of government spending while funding a limited number of high priority Government policy commitments and urgent cost pressures that cannot be funded through reprioritisation. 5. Developing a long-term, sustainable pipeline of infrastructure investments.

Source: New Zealand Government.

7. Conclusion

7.1. The Budget Policy Statement is usually an opportunity for the government of the day to provide clarity around its fiscal and economic policies, and to show, at a macro-level, how its policies will be financed. The 2024 BPS does not provide readers any clarity on these issues.

7.2. Readers have no more insight as to how the government's tax plan will be paid for, how cuts to programmes such as free school meals will be managed, or how the government is ensuring value for money rather than pursuing arbitrary targets. This is crucial detail that New Zealanders should have by this point in the Budget cycle.

7.3. The CTU thanks the Finance and Expenditure Committee for the opportunity to submit on this work. We would welcome the opportunity to make an oral submission to the Committee.

For further information about this submission please contact:

Craig Renney

Economist and Policy Director

craigr@nzctu.org.nz