Unwrapping the Wellbeing Budget
Getting to the core of what’s different

Budget 2019: Deloitte’s perspective
30 May 2019
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Unwrapping the Wellbeing Budget: Budget 2019

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There is nothing particularly new in saying that economic measures alone don't fully reflect national success. Non financial narratives always accompany a Budget, noting that the ‘wellbeing approach’ flows from the Treasury’s Living Standards Framework work that started in 2011. It also manifested in the phrase ‘social investment’ used by the previous Government.

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Putting the wellbeing wrapping to the side then, what's really different from previous budgets other than a look and feel that showcases certain expenditure and outcomes in a modified way? Quite a lot it turns out.

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Is a Budget always a Budget?

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It has been amusing watching the palpable anticipation surrounding the ‘Wellbeing Budget’.

Many have tried to get their heads around how a budget’s focus could pivot from financial to something else. In some cases also looking or hoping for a ‘magic wand’ to do something that hasn't been done before, including at the extreme, being able to access an unlimited and constant supply of money.

And if that wasn't enough, the last few days have further deflected from the purpose of the day which was to announce the Budget – which as the name ‘budget’ suggests, is about ‘rationing and prioritising’ through a short, medium and long term lens – as there is no unlimited supply of money.

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However, budgets are meant to be multidimensional. They are meant to tell a balanced revenue and expenditure story. They are also meant to provide a narrative that looks to bring those numbers to life.

Budget ’19 was quite different on this front. It tells a story but that story is skewed towards spending, projected as being more palatable by being badged ‘wellbeing’. It’s very clever. The Government has sought to distance itself from traditional criticisms faced by centre left governments while still doing what centre left governments generally do.

Would it have been materially different under a different government? Yes.

There would still have been myriad additional spending. In some respects this is similar but clearly there would have been differences. The look and feel would have also been different. But the most substantive difference is likely to have been how much was left in the tank for the journey ahead.

So while this was the second of three budgets that will take the current Government into the 2020 election, it probably feels more like an election budget. It will certainly be interesting to see what will happen next year when surpluses are thin and the future outlook feels like we are in autumn not spring.

The Government will be acutely aware of balancing their desire to make their mark and differentiate themselves without spoeking the population, while leaving those programmes. Downplayed in a noticeable way was the traditional overall financial context and its trajectory.

With global economic sentiment being cautious, will voters place the same weighting on wellbeing if economic fortunes start to turn? Time will tell as a lot can happen in a year; much of which is outside of New Zealand’s control.

As a consequence Budget ’19 was one that promised much and in many respects delivered on its ‘wellbeing’ promise, effectively spending everything and then some as operating balance before gains and losses (OBEAGL) is projected to drop and we plan to run cash deficits.

All good as long as the music is still playing. Not so good when it stops or slows more than projected.

Moving the net crown debt targets may therefore be more than just a nice to have. And of course other than ruling out capital gains tax, the spectre of higher taxes (on a narrow base) may also loom on the horizon.

After all, every Government places different weightings on competing priorities.

It was a mid-term budget by a centre left government, it was written in black ink and somewhat optimistic, notwithstanding being written during an economic autumn enough for next year. Also, while those with extreme positions often make the most noise, the majority of the voting public who sit at the centre are considerably less vocal and economic wellbeing weighs heavily, it’s more so when it’s not there. The recent Australian election highlights this. At the end of the day, views around the economy held by the quiet majority enabled the incumbents to cross the line first.

The great truth in democracies therefore is that economic issues resonate highly with voters; even more so when the economy is viewed as fragile as was the case in Australia. It represents their wellbeing.

The unsung hero of Budget ’19 therefore is once again the New Zealand economy. For now, it’s the gift that keeps on giving.

Wellbeing needs to be delivered in that context, a context where the voting public’s comfort to it correlates to the economy’s overall financial wellbeing.

Budget ’19 was then deliberately focussed on showcasing aspects of expenditure around wellbeing and aligning the current Government with
Budget at a glance
Getting to the core of wellbeing

$98m investment to reduce Māori reoffending rates
$197m to support vocation education
$1bn+ investment in the rail network
$27m to establish a clean energy centre in Taranaki
$346m investment to help over 1000 people into permanent homes
$56.1m over four years towards implementing the Whenua Māori Programme
$535m to support a fairer welfare system
$1.9bn mental health package including improving frontline services
$320m over four years for family and sexual violence package
$1.2bn towards breaking the cycle for children in state care
$153.7m over four years to Oranga Tamariki to build new service for young people transitioning from care or youth justice systems
$81m boost to Whānau Ora to expand integrated service model
$106m to support R&D for innovative businesses
$80m capital spending on climate change research and new energy technologies
$300m to establish a new fund for investing in venture capital markets
$95m to support and train additional teachers over four years
$58m extra funding for One Billion Trees programme
$1bn+ capital spending on climate change research and new energy technologies
$49m to fund removal of NCEA fees for students
$2480 additional teacher training places
$300m to establish a new fund for investing in venture capital markets
$535m to support a fairer welfare system
$1bn+ investment in the rail network

The Four Capitals
The Wellbeing Budget focuses on maintaining, nourishing and growing these four capitals for intergenerational wellbeing.

Natural Capital
Human Capital
Social Capital
Financial Capital
$98m investment to reduce Māori reoffending rates

Social security & welfare, superannuation

Law and order

Finance costs

Transport

Individual’s tax

Other expenses

GST

Corporate tax

Other tax revenue

Core Crown services

Education

Core Govt services

Healthcare

Other tax revenue

Other Crown revenue

Healthcare

Core Govt services

Finance costs

Transport

Law and order

Income

$96.4bn

Expense

$93.2bn

Approx $3.8bn New operating expenditure

$1.3bn surplus forecast in 2019/20

$6.1bn surplus forecast in 2023

$15.2bn net new operational spending over four years

2.6% GDP growth on average over the next four years

Operating balance before gains and losses

Net core Crown debt

Source: Treasury

Year ended 30 June
Public sector

Wellbeing – Shifting the Budget process toward wellbeing

In today’s world-first wellbeing budget, Government focus was on a set of five priorities announced earlier this year:

- Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy
- Supporting a thriving nation in the digital age through innovation, social and economic opportunities
- Lifting Maori and Pacific incomes, skills and opportunities
- Reducing child poverty and improving child wellbeing, including addressing family violence
- Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds.

Having priorities is not new. Neither is having New Zealand’s wellbeing at heart. What is new is how these have played out in the public sector across the process leading up to today’s Budget, and some of the announced budget expenditure is also a bit different to past years.

First a little perspective. This Budget commits around $400b across four years. A proportion ($15.2bn) of this covers new spending over that period, covering growth in demand for government services, the impact of population growth, and ageing on health and social services, and cost of living including wage rises for government employees like police, nurses, and public servants.

This year the Minister has added $759m (over four years) by running a kind of reverse-auction for low priority otherwise-committed budget amounts that will have the least impact. In future years this will include more formal “baseline reviews” that consider the large majority of year-on-year spend that isn’t considered through the budget process each year.

It is clear that when we’re allocating a little money across a lot of spend areas that it doesn’t go far. So what is a government to do if it wants to have an impact on a few key priorities?

One way is to get parts of government to collectively agree on a few key investments that will provide disproportionately large impacts. A few “big bets” that can drive real change by concentrating the investment and ensuring agencies’ activities are coordinated, support each other, and meet the biggest identified needs.

Another is to reshape the public sector so that agencies are compelled to work together, funded in ways that reward collaboration, measured on the impacts they are having, and tracked on progress through accountability documents such as annual reports.

A prime example of this approach from today’s Budget is the announced $320m over four years to address family and sexual violence, to be delivered across eight government portfolios. This initiative is grounded in the wellbeing approach and represents a tangible departure from Budget announcements of the past.

But an important test of this Budget’s wellbeing focus is how investments like this do not just raise the average wellbeing of New Zealanders but also decrease the gaps that exist between those who are doing well, and those who are not. The distribution of wellbeing is important and there are inequalities that need to be addressed in order to build a fair future for all Kiwis. Our State of the State New Zealand 2019 report, to be released next month, will look closely at this issue from a variety of perspectives.

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Unwrapping the Wellbeing Budget: Budget 2019

Explore our State of the State 2019 series, Building a fair future for all. Developed in partnership with Victoria University of Wellington’s School of Government, the series addresses reducing inequity in New Zealand:

www.deloitte.com/nz/stateofthestate
Social sector
Thanks for the Money, what about some other ‘M’s...

The social agenda stands the most to gain from the wellbeing Budget - and it does gain. Budget announcements (over four years) include:

- $455m for frontline mental health services
- $320m to break the cycle of family and sexual violence
- $287m for initiatives coming out of the Welfare Expert Advisory Group report
- $197m to place homeless into permanent homes, funding 1,044 new places in Housing First
- $98m to break the cycle of Māori reoffending

Wherever you sit in the conversation on how innovative this Budget is, there’s no doubt that significant, cross-agency allocations for issues like climate change, family violence, child wellbeing and reducing Māori offending are essential. One might even argue this could not have been termed a ‘wellbeing’ Budget without these. What is heartening is that these topics seem to resonate with New Zealanders, and youth in particular, and are receiving attention and financial commitment.

Without diminishing from this important commitment, there are five other ‘M’s we should now look to, both from government and as a society:

Momentum - In many of the budget commitments there is a delay before significant funding kicks in - and while this may be politically strategic, the real challenge is going to be creating on-the-ground momentum behind new services, policy settings and outcome delivery.

Mindset - Our sector research on family by family approaches showed the social sector lacks a unifying mindset to guide how investment is made across sub-sectors and agencies. We would argue that a prevention first, community / whānau first mindset is essential. Requiring a common set of design principles across the various reform programmes and investment cases the Budget allocations are tied to would give some assurance that the total package of investment will be spent in an aligned and cohesive way.

Multiplicity - Delivering on social outcomes is complex because the social domain is inextricably linked to the economic, environmental and cultural. This requires looking beyond investment in new social service provision and toward policy settings, advocacy, legislative change, income and wealth equity. The decision to put capital gains tax on the back burner, for example, must not only be seen as a tax policy setting but also a social policy setting. Without future focused prevention thinking, it would be easy for these social sector initiatives - substantive as they are - to barely hit the sides as the money is absorbed into a sector that needs so much.

Māori - Today’s budget resources areas that will directly benefit Māori – for example, investment in rehabilitating prisoners and their whānau (see Tamarapa Lloyd’s Budget 2019 article ‘Corrections: A Te Ao Māori approach to reduce offending and reoffending’) and breaking the cycle of family harm. However, greater awareness of the need for kaupapa Māori to be ingrained in how ministries and agencies act toward Māori will help to collectivise impact and realise greater wellbeing outcomes for Māori.

Measurement - The golden thread of any strategy through to execution are the measures of success and the ability to genuinely hold to account around delivery. The Minister of Finance has compared the wellbeing Budget to a corporate annual report - but the measures and accountabilities need strengthening. The baselines against the living standards framework are going to be important, but the contributing lead and lag measures that allow more granular tracking of progress need to move more so. Cross agency accountability must be linked to cross agency metrics - and regular scorecard reporting (confronting as this may be) should be a public requirement. This will also mean our media and public sentiment needs to mature - we can’t hang agencies out to dry for underperformance, but need to use measures as a diagnostic tool to inform improvements.

There is certainly much to celebrate in the wellbeing Budget from a social sector perspective. The priority of the wellbeing of children, whānau and communities must now be delivered on - and while that’s going to be a task as challenging as it ever was, the money will certainly help.
Infrastructure and capital projects

Investing in the building blocks of wellbeing

Budget 2019 sees the Government continuing to fund its previously outlined infrastructure priorities.

Alongside funding of major urban transport initiatives such as the Auckland Transport Alignment Project and the Let’s Get Wellington Moving programme, there are significant projects and initiatives underway to deliver infrastructure in support of the Government’s regional and national growth agenda. Examples include Ultra-Fast Broadband, the Provincial Growth Fund, Regional Digital Hubs, regional State Highway safety improvements, Northland rail upgrade business case assessment and the ongoing Upper North Island Supply Chain Strategy review.

Significantly, Budget 2019 (in tandem with the Provincial Growth Fund (PGF)), also provides a significant boost to rail. The centrepiece is $1b to support the redevelopment of KiwiRail. This includes $375m for new wagons and locomotives, $331m to invest in track and other supporting infrastructure and $35m to begin the process of replacing current ferries that are nearing the end of their lives. There is also $405.5m to cover the Crown’s share of forecast cost increases to build the Auckland City Rail Link and $300m is being provided from the PGF for investment in regional rail initiatives.

The importance of the regions to the collective wellbeing of New Zealand has also been recognised by the wider infrastructure industry with this year’s Infrastructure New Zealand Building Nations Symposium focusing on ‘Building Regions’. Infrastructure represents “the basic physical and organisational structures and facilities (e.g. buildings, roads, power) needed for the operation of a society or enterprise” (Oxford Dictionaries) and as such plays a critical role in attracting and servicing businesses, housing developments or industrial facilities. It is these investments and developments that will create the regional opportunities the Government is seeking.

Infrastructure investment typically ‘leads’ other investment categories and therefore must be designed, delivered and maintained in a way that will meet future needs. As a country, we are currently facing several challenges in the delivery and maintenance of our infrastructure. New Zealand, like much of the western world, is experiencing a growing backlog of infrastructure investment and an associated number of infrastructure failures, for example water supply quality issues. New Zealand will require a level of infrastructure investment that is unprecedented, with Treasury estimating $129b to be spent on capital projects between 2019 and 2029.

In addition to the funding boost in Budget 2019, the Government has signalled its willingness to tackle key issues including:

**Lack of co-ordinated national planning**

- Historically infrastructure investment has been undertaken on a project-by-project and relatively uncoordinated basis. A more coordinated approach is required to capitalise on the network effect of infrastructure assets and capital projects and ensure benefits are fully realised. Initiatives such as the launch of the New Zealand Infrastructure Commission - Te Waihangawhaka Hapenga will perform much needed strategy and procurement functions, develop a broad consensus on long-term strategy, enable coordination of infrastructure planning, and provide advice and best practice support to infrastructure initiatives. In addition, Treasury’s first iteration of a national infrastructure project pipeline also recognises the importance of pipeline visibility to industry.

**Asset Management**

- Our ageing infrastructure base and a backlog of required investment requires careful management. The Treasury’s Investor Confidence Rating (ICR) aims to reward government agencies that manage their investments and assets effectively. The ICR is a three-yearly assessment of the performance of investment-intensive agencies in managing investments and assets that are critical to the delivery of government services.

**Alternative Funding**

- The current infrastructure pipeline cannot be funded solely by taxpayers and ratepayers - alternative sources of financing are required. The housing related bulk infrastructure financing pathfinder project underway via Crown Infrastructure Partners (CIP) at Milldale, and Treasury investigations into broader infrastructure funding and financing options, could provide a model that alleviates pressure on public funding of much needed infrastructure.

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$1bn+
Investment in the rail network

$129bn
estimated to be spent on capital projects between 2019 and 2029
Health

Searching for a concrete set of policy responses

Unlike previous governments, there have been few pre-announcements and orchestrated leaks around the specific initiatives and investments proposed by the coalition Government for healthcare. What we knew going into today's final Budget announcement was that:

- DHB deficits were on a trajectory towards a $327m deficit by June this year
- Mental Health investment was going to be a priority (and it has been)
- Primary Care was looking for a boost
- Labour activism and threats of strike action were continuing

So what is a Minister of Health to do when the machinery of government has not yet delivered a concrete set of policy responses?

DHB deficits – For a starter, reducing the accrued deficits in the DHBs is a no-brainer. A large portion of these deficits comes from capital investments made in infrastructure and building over the last few years. Where these were financed via central government, they incur a 'capital charge' and effectively force the DHBs to pay interest on this debt – further accruing to the deficits. However paying these deficits down also creates a perverse incentive. DHBs are not necessarily encouraged to live within their fiscal envelopes and there is little to encourage them to apply proper asset maintenance programmes and adequately provision for on-going maintenance and care of their assets. As it is, today's announced deficit support for DHBs of $190m in capital funding is a somewhat paltry contribution towards closing the gap – and will not cover much of the necessary adjustments resulting from the wage round increases.

Mental health – Our mental health system has become institutionally locked into a vicious cycle of 'assess – treat – repeat'. We disregard the social determinants of health and too often fail to take a holistic perspective of patients. We do not connect the dots across the different agencies and people fall through the cracks. However we cannot just pump more money into the existing system. Firstly we do not have a ready-made workforce to hire to deliver more services. Secondly, our services are wrongly configured or fail to address the real needs of our targeted populations. By accepting 38 out of 40 He Ara Oranga recommendations, the Government is setting a course towards increased spending on mental health and addiction services for people with moderate needs. In Budget 2019 the Government announces a new frontline service for mental health, with a $455m programme providing access for 325,000 people by 2023/24. This is a centrepiece of Budget 2019, and an area where the Government is clearly looking to do much more. Suicide prevention also gets a $40m boost. Increasing the choice and broadening the nature of services that are available is fundamental to intervening earlier and preventing the high risk, acute issues that we currently face. Mental health is an area where we have an opportunity to re-invent our ways of working and adopt new models of care. But this can only be done if we confront workforce, cultural, organisational and technology barriers. Hopefully, the adoption of He Ara Oranga's recommendations, especially those around governance and collaboration across different institutions, will begin to address these barriers.

Primary care – Cost is a huge barrier to accessing primary care in our society. Too often those who need help cannot afford to see their GP, cannot get transport to their GP, cannot take the time off work or cannot even get enrolled with a GP because many practices are over-subscribed. This is an area where digital design thinking can help – whether it be consultation via 'virtual consults', or by digitally enabling out-reach programmes that could become more automated and delivered through devices in the home for those suffering from chronic diseases. We would expect Primary Care to play a significant role in boosting mental health and wellness support. How exactly that will materialise, is yet to be seen.

Labour activism – Labour costs are rising and this is actually a good thing. It is appropriate that highly trained and dedicated professionals are paid what they are worth, especially given a highly challenging work climate that makes it difficult to stay in one’s chosen career for long. Positively, rising workforce costs can force management and the funders and planners of our health systems to confront the real challenge – namely our low productivity. Over the last two decades, our health system has increasingly relied on adding people to the system and working them harder, but we have seen little change in throughput or output on a per capita basis. Some have estimated that we are adding 544 people per year to our workforce at a cost of $27m per annum, just to stand still. Government has an opportunity to bend the cost curve when making significant investments into new hospitals and infrastructure, but too often we just treat these investments as ‘construction’ project and not as a catalyst for change. The difference between a modern digital hospital and our current 80’s model of healthcare is startling – far better productivity, higher quality models of care, vastly improved patient experience and most importantly more human dignity of care.

There is still a policy and strategy vacuum in healthcare and concrete investment proposals are yet to emerge. Therefore, it will be interesting to see what emerges out of the broader Health and Disability Systems review. Much work still needs to be done to inspire confidence that additional taxpayer money will be well-spent and contribute to the overall health and wellbeing of New Zealanders.
Primary sector
Getting the balance right for a lower emissions future

Fundamentally, the Budget process has always been about priorities and trade-offs and a wellbeing approach brings another lens to this. This first Wellbeing Budget offers a glimpse of how a re-balancing of investment in the four capitals of the Living Standards Framework might play out. And for the primary sector this is still decidedly murky.

Budget 2019 includes a “productive and sustainable land use package”. The $229.2 million package invests in projects to protect and restore at-risk waterways and wetlands and provides support for farmers and growers to use their land more sustainably – although details in the Budget are scant. There was not a lot else for the primary sector.

Alongside the above initiative, the Government is also making considerable changes to regulation to drive the outcomes it is seeking. In particular, the Zero Carbon Bill sets out a “split gases approach”, meaning carbon dioxide and nitrous oxide (long-lived gases) and methane (short-lived gases) are treated differently. It sets a target for 10% reduction in methane emissions by 2030, and “aims for a provisional reduction ranging from 24% to 47% by 2050”.

Environmental groups have labelled the Bill ‘toothless’ while farming interests have called it ‘cruel.’ The layperson might think this means the Bill strikes the balance of sitting firmly in the middle. But does it?

In some cases, like electricity generation, less emissions-intensive alternatives exist. Coal-fired generation can be replaced by hydro, for example. But for livestock farmers, there are very few alternatives available if we want to maintain current productive capacity. In the current environment, the ability to mitigate methane from their animals to the levels proposed in the Bill is difficult and would likely mean the end of the livestock sector in New Zealand.

We have a pastoral-based, free-range farming system that is quite different from many of those in the Northern Hemisphere. Over the last 30 years, emissions per kilo of milk and meat have trended steadily down. Greenhouse gases emissions per kilogram of saleable product have dropped by 40% for the beef and lamb sector since 1990. And for dairy, emissions per kilo of milk have dropped 1% a year since 1990. These are positive trends that ought to be applauded.

These drops are mostly due to advances in agricultural science. Science – much of it home grown – has enabled farmers to access technology to improve their herds through things like improved feed management and greater control over the amount of fertilisers used. In fact, there are a growing number of inventions from local AgriTech that help farmers stay competitive while minimising their environmental footprint.

But while the demand for farmers to mitigate methane in herds grows, at the same time the ability to access new science is becoming more difficult. The ban on genetic modification has already been raised as a concern. For example, gene editing can remove undesirable traits from an organism, or add better ones. But current legislation makes it very difficult to access this technology.

Our farmers have a good track record of adopting new technology as it comes to hand. But it is unrealistic to place expectations on them that cannot be met at the present time. Science and on-farm management techniques have enabled much progress. If more innovation is expected from farmers, there needs to be greater investment into new solutions and farmers need to be able to access the right tools to ensure that their wellbeing, and the wellbeing of the communities in which they operate, is addressed.

New Zealand has never suffered the privations of food shortages. Yet the Zero Carbon Bill, as it stands, hampers the ability to tell a story we can be proud of around our locally grown and raised produce, risks driving our productive sector offshore and creates very real risks to our food security.

There is no doubt that finding an equitable balance between carbon reduction, ensuring a productive and sustainable livestock sector and food security is a complex juggling act. But the Budget 2019 trade-offs could leave us more out of kilter.

The trade off: The Zero Carbon Bill may be a good investment in our Environmental Capital but could have a negative impact on Financial Capital in the primary sector. Is the balance right?
Tax

Keeping the powder dry on tax reform

The spectre of the Tax Working Group (TWG) was always going to overshadow the tax aspects of Budget 2019.

During the course of 2018 and early 2019, resource that would have in the normal course of business been directed towards ongoing tax policy development, was redirected towards TWG support. The upshot is that tax initiatives in today’s Budget are few and far between, which to a large degree reflects the fact that very little policy development or thinking has taken place outside of the TWG forum.

In fact, there were no major tax announcements in today’s budget. The only tax measure, which has previously been announced, is to align the GST treatment for telecommunication services with the current rule for taxing remote services. In reality what does this mean – adding GST to international roaming charges. That is expected to raise $71.5m, however our view is this seems to be very much a stretch target needing further analysis to support.

That said, tax is to some extent the hidden hero in Budget 2019, simply because revenues are going in the right direction for a government looking to spend an additional $15.2b (new operational spending) over the next four years. Total tax revenue in 2018 was $79.5b – this is forecast to grow to $88.5b in the year to 30 June 2020. Interestingly, over this 2 year period corporate tax is only forecast to grow by approximately $1b - but source deductions (i.e. those who vote) by around $4b.

There are no wellbeing-specific initiatives from a tax policy perspective. Politically, the Government could not get a capital gains tax over the line, and ironically, if any tax reform could fall within the wellbeing narrative, the Government would likely have included a CGT at number one on the list. Talk of new taxes on voters is largely off the table, as the Government seeks to forget about the CGT debate and move the public along at the same time.

With that context, it is worth mentioning a one-liner buried in the fiscal strategy section of the Budget; “people and businesses should pay their fair share of tax, and this includes multinational companies and those in the digital services field”.

While there is no “Budget announcement” the Government has shifted its sights once again to multinational companies, and is considering the introduction of a Digital Services Tax (“DST”). The Budget document notes that the Government will release a discussion document exploring options to taxing the digital economy shortly.

Essentially, the DST will place a tariff based on turnover onto large digital multinationals who are making money from access to a New Zealand customer base. While a number of countries are evaluating DSTs, none seem to have successfully implemented one yet (Australia thought about it and decided against). If New Zealand goes ahead with the proposals, it will be world leading. Whether that is a good thing or not depends on your perspective.

There is certainly a question mark over why New Zealand needs to lead the pack on this issue. The OECD is in the midst of considering a digital tax as a matter of urgency, with the goal of developing a solution that will get buy-in from all member states. There is also always the very real likelihood that extra taxes imposed on multinational businesses are just passed onto their New Zealand customers. It will be interesting to see to what extent these issues are canvassed in the discussion document when it is released.

More broadly, with the TWG process now over, Inland Revenue will be busy over the next 12-24 months assessing a bunch of TWG recommendations that didn’t get the same level of attention as the CGT. Many of these are likely to be positive – such as whether some form of deduction should be allowed for seismic strengthening work.

In that regard, expect the Government to largely keep its powder dry on tax until Budget 2020, when it could make a number of positive tax announcements to coincide with an election year.

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Regional development

Wellbeing approach can help regions move forward

Growth in regional New Zealand is a significant factor in driving the overall success of the national economy. This in turn can support efforts to improve greater wellbeing for all Kiwis.

The current Government is focused on improving regional wellbeing, reinforcing the view that not all regions have been enjoying the same levels of growth and progress. And this has led to some parts of the country being considered ‘deprived’ due to things like higher unemployment rates and numbers of young people not in education, employment or training (NEET), inadequate housing, education and transportation challenges, and generally featuring poorly in many social and economic measures. To mark today’s ‘wellbeing Budget’, we highlight some initiatives aimed at unlocking the potential of regional New Zealand.

Central government has allocated $3b over 3-years to invest in provincial New Zealand through the Provincial Growth Fund (PGF). This is a targeted intervention into regions of deprivation, where government believes normal market forces have failed to deliver equitable improvements in economic and social progress. Budget 2019 announced that $300m of PGF funding will be allocated to investment in regional rail initiatives. Overall, $855m has been allocated to the PGF from the multi-year capital allowance.

Significant investment is going into building new or upgraded digital connectivity networks and establishing Regional Digital Hubs - place-based facilities where communities can utilise digital services.

And government has announced $58m in this year’s Budget to transform the forestry sector in association with government’s One Billion Trees programme. This includes a focus on developing a sustainable domestic forestry workforce, strengthening the domestic market for wood products, improving water quality and reducing carbon emissions.

A key component of regional growth is the development of labour market strategies that facilitate strong connections between social, economic, and business development opportunities in a region. They ensure that industry has access to the skills and experience required, and enable individuals to meaningfully participate in a regional labour market. For example, earlier this year government announced $82.4 million to create ‘employment hubs’ in strategic locations.

Finally, continued development of the Māori economy plays an integral part in regional growth. For example, Māori currently own around 1.5m hectares of freehold land, of which 80% is considered to be unproductive. Gaining access to capital funding has historically been a challenge for Māori landowners. But central government, through announcements like the forestry initiative highlighted above, can help provide support to help landowners progress their projects. This support can in turn drive economic growth, achieve greater levels of prosperity and make a difference for entire communities.

Our recent report, ‘Regions of opportunity’, sets out how export growth in key industries can provide significant economic benefits for our diverse regions. Government’s wellbeing focus can provide the coordinated and connected initiatives to enhance economic benefits through investment in improved social and environmental outcomes. Now is the time for regional New Zealand to seize the opportunity to invest in moving forward on all fronts – there is nothing to be gained by standing still.

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The trade off:
Investment in both the Provincial Growth Fund and developing a more sustainable forestry industry would seem to be a good balance between Environmental and Financial Capital
Corrections
A Te Ao Māori approach to reduce offending and reoffending

While in opposition, Minister of Corrections Kelvin Davis was effective in highlighting the ineffective justice strategies of the previous Government. Now in power for over 18 months, the wellbeing Budget, and in particular the announcement of $98 million over four years to break the cycle of Māori reoffending, supports his programme of reform to improve outcomes for the prison population.

Government has already made fundamental changes that signal their intent to find better approaches to deal with our high rates of incarceration and the high cost that comes with it. In March 2018 the Government supported calls toward an evidence-based approach to New Zealand’s prison system that would improve outcomes in New Zealand’s “complex” justice system. By June 2018 Minister Davis had chosen not to invest in the Waikeria mega prison, opting instead for a new approach that would include a mental health facility to address the high rate of mental health issues prevalent in the prison population.

Budget 2019’s wellbeing approach further develops this notion that complex issues like criminal justice cannot be addressed in isolation. They are intertwined with a number of other social issues and require multi-party and co-designed cross-cutting initiatives if we are going to make a meaningful impact (see Adithi Pandit’s article on Budget 2019’s impact on the wider social sector).

Today, the Minister of Corrections has secured funding to continue his ambition of reforming the way prisons operate. Clearly the prison system the Minister inherited is failing, and has historically failed, Māori. The next step in the cycle of improvement needs to address how prisons operate and how they treat prisoners with a greater focus and investment on rehabilitating the prisoner and their whānau.

Solutions that work for Māori need to be based on kaupapa Māori principles. Such approaches should also assist, support and grow the whānau together with the prisoner. By adopting a whānau by whānau approach, inmates and whānau develop a shared wellbeing plan with directed support from across wider Government agencies, including Te Puni Kōkiri and the Ministry for Social Development. Why? Because we must act collectively to make the greatest impact. We need to move away from looking at punishment and rehabilitation as an individual prisoner issue but rather one that involves whānau, hapū, iwi, Māori entities and communities.

The move to increase the number of Māori partnership relationships in these efforts is also an important step. From a kaupapa Māori perspective these iwi entities, Māori land trusts and incorporations are culturally aligned with Māori inmates and can provide connections, assistance and support to inmates and their whānau to achieve social outcomes that benefit everyone.

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Finally, the big question that lies at the heart of today’s Budget announcement is how Te Ao Māori approaches can change how the Department of Corrections and prisons operate for the greater wellbeing for all prisoners in support of the Government’s stated goal to reduce the prison population by 30 percent.
Justice - Tamapara Lloyd
to Oranga Tamariki to build
new service for young people
transitioning from care or
youth justice systems
over 4 years
$153m
to break the cycle of
Māori reoffending
over 4 years
$98m