



Recalculating the route

Budget 2018 – Deloitte's perspective

17 May 2018

Budget 2018 has been as much about recalibrating the national trajectory and intended direction of travel as it has been about any of the specific funding announcements.

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The gift that keeps on giving – our economy



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The rivers of gold may have started to run in Australia, but New Zealand isn't looking too shabby either.

Crown tax revenue is forecast to increase by \$3.9 billion, from \$75.6 billion in 2017 to \$79.5 billion in 2018 – and is projected to grow to \$99 billion by 2022; a \$23.4 billion increase over five years. Treasury predictions are that in four years the Government will have \$23 billion more to spend each year than what it had. A whopping 31% increase.

Dealing with its remaining income and already committed expenditure, we are still talking about the Government having approximately \$12 billion a year extra to allocate in 2022 than what was forecast it would have in 2018, even after factoring all its currently announced initiatives and the existing base line.

Traditionally this type of detail would be front and centre of a Budget, and it no doubt would have been had the previous

Government remained on the Treasury benches. But there is no point dwelling on the economy that the Government inherited, but rather on the journey to wellbeing that the new Government has more than visibly pivoted to. This is not a surprise, and similarly not a criticism, as the economy is projected to be the gift that keeps on giving with growth rates ahead of many of our trading partners.

From a global perspective, our Government has truly landed on their feet and would be the envy of many. This is not to say that there isn't a lot of unfinished business as highlighted by Government in its 2018 Budget, but rather that they are presented with considerably more options than if the favourable fiscal projections were not there. It's easier to give than to take away.

Now the thing with the golden goose that is our economy, and accepting that it could always shine more brightly and from more angles, is that it can't be taken for granted. Revenue projections don't factor a shock, not that they can, but some form of economic shock will occur at some stage. Clear examples in the previous Government's term were the global financial crisis and the Canterbury earthquakes. Shocks have a dampening effect that limits options and clouds public sentiment.





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The revenue projections also don't factor the implications from any tax policy changes that could flow from the Tax Working Group (TWG). In particular broadening the tax base to more comprehensively tax capital gains, which feels like will be taken to the next election.

Now, recognising that what's projected will always flex with time, the outlook is generally pretty healthy. It provides the Government with choices including headroom to deal with a shock. While the Government has kept its powder dry in terms of some of the key destinations, it has signalled a material pivot to how it will measure success (being wellbeing)

which includes addressing what it has coined social and infrastructure deficits.

Little is said about taxation, a traditional budget topic. The ongoing TWG deliberations allow the Government to avoid questions around tax cuts noting that they have been clearly signalled as not being a Government priority. So much so that no one even asked a question on this topic at the Budget lockup. Outside of R&D credits, the expectation is that the tax base will be broadened, not contracted, post the TWG deliberations.

The third leg of the revenue and expenditure trifecta is of course the balance sheet, and in particular the destination around core crown net debt. Other than signalling the planned reduction to 19.1%, slightly lower than what was foreshadowed as the 2022 target, there is no real clarity as to what the destination on this topic will be. None of this is a surprise. Why would the Government look to limit its options going forward when it doesn't have to?

It's an enviable and in some respects unprecedented position for a new Government. Having money to spend and

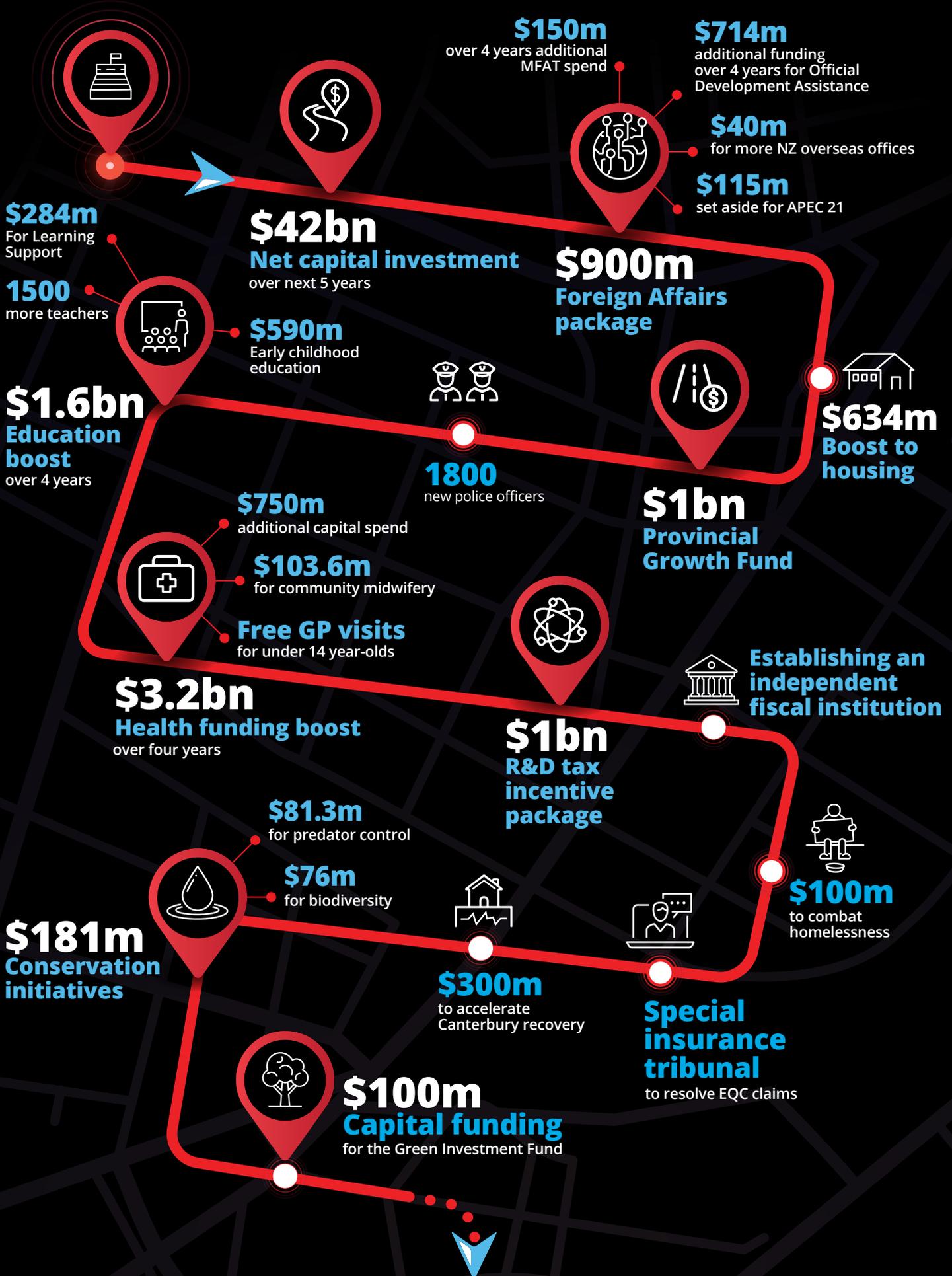
popular things to spend it on. The hardest decisions were around who should get what. And the greatest disappointments were generally that those that got, didn't get enough or what they wanted.

For taxpayers generally, they started receiving the first of many social and services dividends proposed by the current Government, including those intended to secure greater social cohesion; not necessarily a bad thing, including for business. Cash dividends by way of wide scale tax cuts are not expected to feature too prominently or be part of the current Government's vernacular; consistent with Budget 2018. Putting this in a positive light, the Government doesn't need to raise taxes to fund its initiatives, albeit that there is a clear expectation that visible tax changes will be taken to the next election.

As budgets go, the Minister had a much easier run than many of his global colleagues facing their first budget. He looked comfortable in his current role and there was no reason not to.

Budget at a glance

Recalculating the route



Core Crown expenses 2018/19

\$14.5bn

NZ Superannuation

\$2.6bn

Transport & Communication

\$2.3bn

Defence

\$3.4bn

Finance costs

\$4.4bn

Law and order

\$5.0bn

Core Government services

\$7.1bn

Other

\$14.4bn

Social security & welfare

\$18.0bn

Healthcare

\$14.7bn

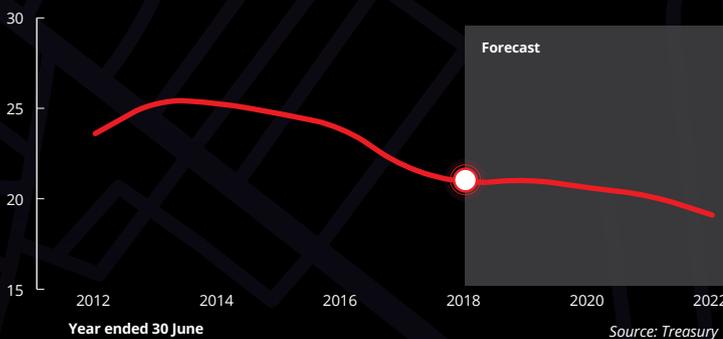
Education

\$86.7bn

Forecast for Crown expenditure
(28.5% of GDP)

Net core Crown debt

% of GDP



\$3.7bn

surplus forecast
in 2018/19

\$7.3bn

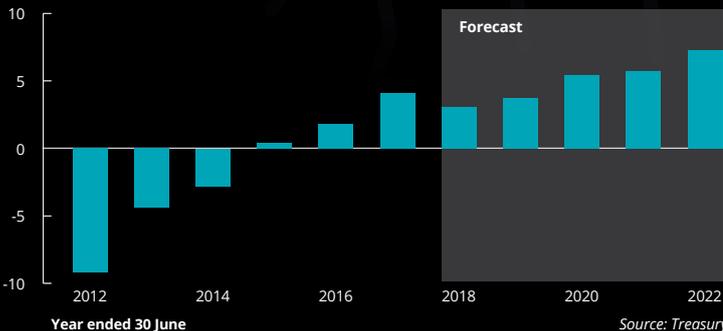
surplus forecast
in 2021/22

\$11.4bn

net new operating
spending
over four years

Operating balance before gains and losses

\$billions



3.0%

GDP growth
on average over
next 4 years

Infrastructure

Clear direction of travel signalled for Auckland transport priorities

Budget 2018 contains no surprises for transport and infrastructure in the City of Sails. And nor should it. Government has clearly signalled its direction of travel through its draft Government Policy Statement (GPS) on transport and a refresh of the Auckland Transport Alignment Project (ATAP).

The ATAP headline is a \$28 billion 10-year transport investment package for Auckland (ATAP Package). It strikes a balance across all modes with more weight than its predecessor on public transport, active mobility and improving safety and environmental outcomes, consistent with the GPS. But roads are not forgotten.

Funding has been broadly allocated and will see Government tap into the National Land Transport Plan (NLTP) to meet its two-thirds share of the ATAP Package. The Regional Fuel Tax will help Auckland Council meet its share.

ATAP keeps its original purpose as a joint-government urban plan, integrating urban development, housing and transport. It also continues to take a supply and demand perspective, retaining transport pricing as a priority.

The refreshed ATAP adopts an integrated network or system approach to transport planning, similar to other major cities. A key focus is on developing existing and new rapid transit corridors as the network backbone to do the heavy lifting, while also creating urban and housing development opportunities as more people want to live in close proximity to frequent and reliable transport.

Budget 2018 does not specifically call out Auckland's transport problems over and above what had previously been announced. However there is recognition of the need for investment in infrastructure to address faster than expected growth and to make sure congestion doesn't erode productivity. Key Budget 2018 commitments are in line with the GPS and ATAP, and not surprisingly, include the Government's investment in the Auckland City Rail Link.

Deloitte research supports the importance placed on building the economic prosperity of Auckland, as urban centres across the world continue to account for a greater share of population growth. We have developed a picture of what transportation could look like in a smart, liveable and economically vibrant city and identified three key themes:

- **Performance and resilience:** Transport systems need to be efficient and integrated, with multiple transport modes for resilience.
- **Vision and leadership:** Urban mobility requires innovation, coordination amongst stakeholders and direction.
- **Service and inclusion:** Urban mobility should be affordable and accessible with widespread coverage.

We have studied how 40 cities perform against these themes and recently published the Deloitte City Mobility Index (DCMI) for 18 cities across a range of geographies, sizes and levels of economic development. City leaders can use the DCMI to identify areas that require greater focus, informed by the performance of other similar cities in the Index.



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The health of any city's transport system is a function of countless choices made over time and an embedded car culture. Having said that, cities can remake their mobility landscape when leaders come together to make decisions, often around innovation, technology and integration, rather than sheer investment. In other words, history plays a role but it is not destiny.

We expect to include Auckland in our next release of the DCMI planned for later this year. Early results rate Auckland well in terms of its regulatory environment and vision and leadership, as well as the progress made on integrating the city's public transport network.

However, the social, environmental and economic costs of the city's worsening congestion and poor safety record are impacting the liveability and economic prosperity of Auckland.

With the direction of travel mapped out in ATAP and the GPS, Auckland has the potential to be one of those cities that can remake its mobility landscape. But execution will be critical for delivering on the vision.

Explore the Deloitte City Mobility Index at:

www.deloitte.com/nz/future-of-mobility



Funding
to Crown Infrastructure
Partners



Funding
for the Auckland
City Rail Link



Health

Making the most of new capital investment crucial

Health is a tricky portfolio, and the previous Government did well to keep health mostly out of the spotlight. However, this came at a cost. Treasury estimates a backlog of \$14 billion of capital asset replacement and refurbishment is required over the next 10 years. District Health Boards have been unable to accrue sufficient funds for on-going building maintenance and asset replenishment and they all struggle to make ends meet.

Adding insult to injury, many of the large buildings in the sector appear to be plagued by poor construction quality – whether it be copper pipes turning to mush in Wellington or sewage leaks in South Auckland.

In that context, the health portfolio is a big winner in Budget 2018. There is an extra \$750 million in additional capital spending allocated in Budget 2018. An additional \$100 million will be available if necessary in 2018/19 to strengthen DHB balance sheets. It is unlikely to be enough to clear up projected deficits overnight, but will certainly help if the money is well targeted.

More importantly, this signals a strong up-lift to capital intentions. Many building-related projects have been queueing up for additional capital funding. However, officials would be well advised to heed lessons learnt from how poorly past hospital design and construction projects have fared, and hopefully ensure that we get better value for money this time round. Deloitte research indicates that *Digital Hospitals* and *Hospitals without Walls* can be serious game changers around how healthcare is delivered, so let's make the most of these investments. With regard to digital hospitals, government may also want to look at how ICT and digital technology projects could make better use of money across the sector.

Of course extra capital spend is only part of the equation. We have nurses signaling

industrial action and many other registered and allied health professionals clamoring for higher wages. To deal with rising demand and an increasing population, the government has allocated an additional \$3.2 billion in operational funding into the health budget over the next four years.

Again, we hope this money will be spent differently from how it's been spent in the past. The government wants to lift New Zealand's productivity, and it is about time we did so in healthcare. Sadly, MBIE estimates that our workforce of around 210,000 health and social workers is less productive than the national average across all industries, generating only \$39 GDP per hour worked (compared to a national average of \$48). Even worse, MBIE figures show a steadily declining average in health sector productivity over a number of years.

What international bench-marks such as the Mirror report¹ quoted by Treasury show us, is that healthcare in New Zealand is *cheap* for what we get. It is easy to be 'efficient' when you underpay your staff. Digging deeper into the Mirror report, we do well on aggregate cost and administrative efficiency, but poorly in the specific areas that count:

- 18% of our population reports that the cost of healthcare creates access issues for them, only the US and Switzerland have higher barriers to access
- We are the worst ranked country with regard to access to after-hours care
- We have the second highest mortality rate amenable to healthcare (i.e. avoidable deaths) among the studied countries

Treasury also notes that we have significant equity challenges. Our ambulatory sensitive hospitalisations (ASH), meaning people being admitted to hospital when they should have been taken care of better in primary care, are far too high. And Māori children are 1.3 times, and Pasifika children 2.3 times,



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more likely to fall through the cracks in primary care and end up in hospital.

So at a system level, we are clearly not operating as we should. By recognising the value of the professionals who make an invaluable contribution to our society, we will hopefully draw health system planners' attentions to the fact that we need to reengineer the way our system works. When squeezing salary and wage bills has run its course, one is forced to contemplate more difficult and fundamental change in any health system.

We need to ensure that our workforce operates at the peak of their professional capacity. Why should health professionals lose countless hours of patient contact time to tasks like manually completing paperwork, chasing up diagnostic results or dealing with appointment bookings and care coordination? Why should they work in hospitals that are designed like rabbit warrens with poor patient flow, stove-pipe clinical service departments and disconnected systems and processes?

It is high time that New Zealand paid its health workforce what our professional and allied health workers are worth *and* made fundamental revisions to our healthcare infrastructure. However it is also high time that we looked at how we deploy these highly skilled professionals and reengineer the way we operate and how we ensure that our capital investments are fit for the future of healthcare.

¹ <http://www.commonwealthfund.org/interactives/2017/july/mirror-mirror/>



Regional development

Supporting digital innovation in provincial New Zealand

The Government's \$1 billion Provincial Growth Fund (PGF), announced in February, is a significant investment in regional economic development. Along with the reintroduction of R&D tax credits as a mechanism to encourage greater research and development by Kiwi firms, the PGF is a key pillar in support of the stated goal of lifting the productivity potential of the regions.

Investing in our regions will be welcomed by communities throughout the country. Each is dealing with its own unique issues and trying to capitalise on its strengths, while fighting the trend of urbanisation and the loss of skilled people. The PGF has so far committed \$130.2 million to the regions for projects across various sectors.

Increasing regional productivity means thinking about what we want our regions to look like in the future. As a country, do we want to invest in low-skill, low-wage jobs, or create highly-skilled, well-paid ones?

The answer might be a no-brainer – but it will take more than a large pot of money and getting the settings around tax credits right.

The Finance Minister has been driving thinking around the future of work since 2014. He wants to develop policies to ensure New Zealanders are ready for the changes technology is heralding, so we face a future of high-wage jobs for skilled, adaptable and resilient workers.

Evidence shows technological progress and the digital innovation that underpins it are crucial. According to a Deloitte Switzerland report¹ on digital innovation capacity, New Zealand performs fairly well as a country ranked 12th in their Digital Innovation Capacity Index, above Australia (13th), Ireland (14th) and Germany (15th).

According to the report, digital innovation capacity is based in equal measures on three core elements: talent, start-ups, and investments and patents. Access to talent is perhaps the most critical of these, as it is linked to start-up businesses. While New Zealand scores well on start-ups (third in the top 20 on the Index after the US and Canada), there is room to lift our game in the areas of talent, investment into innovation, and patents.

For the Government to ensure hubs of innovation in the regions can compete with the lure of the cities, it needs a concerted, targeted approach.

Deloitte Germany reports² that, despite companies growing their innovation spend by 2.7% on average annually, and with the German innovation spend expected to total 175 billion euros by 2019, only 30% of German companies felt well prepared for changes in their markets arising from digital innovation.

Given the New Zealand economy is about 1/20th the size of Germany's, how likely is it that Kiwi companies will spend around \$15 billion collectively on innovation in 2019?

In Germany most of the surveyed companies were investing in big data analytics, cloud computing, internet of things and machine learning but reported struggling to find ways to implement the



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latter two areas in their businesses today. The companies identified as “doing well”, invested in strategies around incubation and ideation.

We know that not all companies in New Zealand have equal and immediate access to the collaborative networks, incubation communities, and tertiary and research institutions that support greater innovation. But most will have access to something, which will vary region by region. To re-set the trajectory for innovation, and the boost in productivity this would support in our regions, we would do well to identify the respective strengths and foundational IP that exists in each city and region, around which talent, start-up businesses and university researchers can flock.

A more coordinated “within New Zealand” approach in this area would help ensure that as a country we don't get left behind on the world stage, and that equally each region has the opportunity to share and benefit from investments and growth.



¹<https://www2.deloitte.com/ch/en/pages/innovation/articles/digital-innovation-capacity-switzerland.html>

²<https://www2.deloitte.com/content/dam/Deloitte/de/Documents/Innovation/Datenland-Deutschland-Studie-Renaissance-Innovation-Executive-Summary-English-Deloitte-2017.pdf>

Tax

Reconfiguring the incentives for R&D

In the lead up to Budget 2018, the Government released its proposals to lift research and development (R&D) spending from the current 1.3% of gross domestic product (GDP) to a target of 2% of GDP. The solution put forward is to reintroduce an R&D tax credit regime with effect from 1 April 2019.

The bones of the proposed regime are similar to what we had under the previous Labour government, prior to the regime being repealed and replaced with the Growth Grant scheme administered by Callaghan Innovation. It comes at an estimated cost of \$1.0 billion of operating expenditure over four years.

Whether the proposed regime will be viewed positively depends on who you are. The Callaghan Growth Grants have been very well received and have been highly valued by those who have received them. The benefit of the grants is that they are known upfront and can be counted on as a regular cash injection to help incentivise R&D and reduce the financial risk of innovation. The grants are internationally competitive and they recognise the spill-over benefits

to New Zealand of having smart people doing smart stuff in New Zealand.

In comparison, R&D tax credits will be available to any business undertaking the requisite type of activity, without needing to jump through all the hoops to get a grant. The average business will appreciate getting a tax "reward" for good behaviour.

That said, the R&D tax credit regime proposed is restricted in what can qualify and it is highly likely that many of the current grant recipients will be ineligible to receive anywhere near the level of benefits they currently receive. The problem with the proposed regime is an inherent disconnect between the objective of increasing R&D and attracting large R&D firms to New Zealand and the requirement that the firm claiming the credit must effectively own the results of the R&D. It is this requirement that will not incentivise global businesses to use New Zealand as an R&D base; while a global business might be happy to base R&D here it will want the ownership of the intellectual property (IP) closer to the markets where the IP will be exploited / the sales of the resulting product will be made.

The proposals are also unclear as to how the rules will apply to software. Under the previous regime there was a cap on the level of tax credit available for expenditure on software. Officials have kicked this for touch and are still working on these proposals. In this day and age much R&D will have some type of software component and therefore the rules need to embrace and encourage software R&D.



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➤ **The R&D tax incentive is a 12.5% non-refundable tax credit. It applies to businesses with eligible R&D spend of over \$100,000 per annum (up to a maximum of \$120 million). The rule will apply to expenditure incurred from 1 April 2019.**

More work is being done on how the rules will apply to software and what benefits can be obtained by businesses in a tax loss position.




Boost R&D spend to 2% of GDP

Tax

Recalculation... in progress

Budget 2018 won't be remembered as a memorable one from a tax perspective. Initiatives were few and far between, including:

- The introduction of the R&D tax incentive - at an estimated cost of \$1.0 billion over four years.
- Additional funding for Inland Revenue over the next four years to ensure outstanding company tax returns are filed and to analyse the potential to improve tax compliance.
- Changes to the bloodstock tax rules for the New Zealand racing industry.

This isn't a surprise, given the Government's decision to effectively outsource deliberations on any structural changes to the tax system to the Tax Working Group (TWG), who won't be reporting back until early 2019.

The TWG has been tasked by the Government with considering "the future of tax". That's no small task as we enter the fourth industrial revolution – the age of digital.

The many and varied tax issues that are to be considered are ultimately to be simmered down to a suite of recommendations "that would improve the fairness, balance and structure of the tax system over the next 10 years".

It's no secret that the introduction of a comprehensive capital gains tax is in the mix and being debated by the TWG. Those in favour will argue that an extension of the current more limited taxes on capital tick all of the three boxes above – fairness, balance and structure. It's also no secret that the Labour members of the Labour-NZ First Government are sympathetic to this, and in particular that a CGT is at its heart all about fairness.

Those against point to the additional complexity that a capital gains tax would introduce into the tax system, and the design issues that will need to be very carefully considered.

At a more holistic level, it's also important to step back and ensure that a capital gains tax is not simply a solution looking for a problem. Yes capital is under-taxed, and in particular property. But the Government is already taking steps to curb tax preferences towards property investment, including:

- Extending the existing bright-line test for residential property investment, so that if a property is acquired and sold within 5 years and is not the taxpayers' residence, any gain made is subject to tax. This is intended to bring property speculators within the tax net more than may have previously been occurring.
- Ring-fencing rental property tax losses so that they are unable to be offset against other taxable income (i.e. to reduce net tax paid).

Also likely to be relevant, at least politically, is that the Auckland property market - which was at least part of the catalyst for the Labour Party calling for a review of the tax system to include a capital gains tax - has slowed considerably in recent times.

From a "design" perspective, there are also likely to be exemptions from any capital gains tax regime that limit its application and arguably further undermine the problem that it is seeking to solve – that is the tax bias towards capital investment. The Government has already categorically ruled out the application of any capital gains tax regime applying to owner-occupied housing. There is a real probability that, in order to be politically acceptable, other exemptions would similarly need to be introduced.



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The risk is that any capital gains tax regime ends up introducing material complexity into the tax system in an environment where capital assets are at best plateauing, whilst also carving out certain asset classes for political purposes that materially undermine its original purpose.

Of course if you subscribe to the view that a capital gains tax is just about bringing fairness, balance and structure to the tax system – which is a credible perspective to take – then from a principled perspective the points noted above are unlikely to alter your underlying support for a CGT. This is likely to be true of the Government, given the not so subtle messages from the Prime Minister and Minister of Finance. What is less clear is how NZ First will deal with support for reform when it inevitably arises.

The TWG is therefore to some extent dancing on the head of a pin trying to balance the above, and a myriad of far more complex policy and design issues. This is not a job to be envied, particularly because no matter what other good work they do, their work on a capital gains tax will likely be the group's defining legacy.

In September 2018 the TWG will release an interim report. The overall direction of our tax system is set to become clearer with its release, as they move towards a final set of recommendations in early 2019. Watch this space.



\$1bn
cost to the
R&D Tax Credit



\$31.3m
new operating
spending for IRD



\$4.8m
allowance for tax deductions
in the bloodstock industry

Public sector

Recalibrating the Budget for wellbeing

Budget 2018 is the last of its kind. The Minister of Finance has said 2019 will see the first “wellbeing Budget”, perhaps a world first for New Zealand, and definitely a significant departure from current Budget orthodoxy.

It isn't clear at this stage exactly how a wellbeing Budget would be different from all the ones that have gone before, but it will have to be really different otherwise we won't have moved far from the starting line. At this stage, the Government has signalled in Budget 2018 that Budget 2019 will broaden the focus beyond economic and fiscal policy by using the Treasury's Living Standards Framework to inform the Government's investment priorities and funding decisions. Details of the wellbeing Budget will be announced later in the year.

We're starting from a position where the received wisdom – that creating economic wealth makes everyone better off by creating bigger and better businesses, higher employment, more savings and spending, an increased tax take, and a greater ability for government to support those who are vulnerable or in poverty, ill

health or deprivation – is no longer seen as a guaranteed ticket to a better place. Far from being the means to an inclusive set of social outcomes, economic growth has become the end, and a measure by which the race between nations is decided.

With the announcement of next year's wellbeing Budget, the Government has signalled its commitment to a more holistic approach – recalibrating the Budget process to encompass a broader definition of success.

In the meantime, the work by Treasury and Statistics NZ progressing the Living Standards Framework and measures of wellbeing signals an increasing role for the “other” capitals – social, natural and human – to balance out the traditional dominance of the financial/physical capital. That's easy to say but hard to do – how exactly does a Budget need to change to pay appropriate respect to all four capitals? How do policy, regulation and legislation need to adapt in a world where growth is not measured purely in terms of gross domestic product (GDP), but rather by enhancing wellbeing? And how should

government agencies make decisions on the programmes and services they offer, or investments they should make, if economic and commercial results don't now rule the roost, but need to be balanced with social, natural and human outcomes instead?

Government faces some challenges in getting traction on these changes. Social and economic systems can be resistant to change, and you can't just go reallocating substantial quantities of public dollars without causing a lot of disruption to people, organisations and businesses that operate in the affected sectors.

Imagine, for example, that the Government decides to boost natural capital in our fisheries, and social capital through recreational fishing, by reducing financial capital in the form of commercial fishing quotas. This is the kind of trade-off that could result from applying a wellbeing, four-capital perspective in the new Fisheries New Zealand business unit of the Ministry for Primary Industries. If the change were substantial, it might boost our overall measure of wellbeing, but could also cause disruption to participants



in the commercial fishing value chain. That may sound far-fetched, but it isn't too far removed from the decisions that led to the suspension of new offshore block exploration permits for oil and gas – think of that as a trade-off involving natural, social, human and financial capital and you'll see what we mean.

Of course there need to be checks and balances on the Government's ability to make these changes. That's part of the process agencies go through when drafting new policy, regulation or legislation, or developing new programmes, where business cases are written and impact assessments made. These processes exist today but most agencies don't have experience making the complex trade-offs between the four capitals, or handling substantial reallocations of resources in the short-term across their portfolios, programmes or services. Complicated

decisions like these that may affect many stakeholders will require extensive engagement and consultation at an unprecedented level, while at the same time Government is making substantial change in sectors like education and setting out its initial marker-posts for the journey to a low-emissions economy.

Most if not all New Zealanders would support a more prosperous New Zealand with wellbeing in abundance. But the road there remains uncharted while Government lacks the vehicle to take us there. The Living Standards Framework and wellbeing measures provide a compass to guide us, but the real work lies in the future when government decisions reallocate between New Zealand's four capitals of wellbeing.

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- Explore our State of the State 2018 series, *Wellbeing in abundance: looking after our own backyard*. Developed in partnership with Victoria University of Wellington's School of Government, the series addresses wellbeing in New Zealand:

www.deloitte.com/nz/stateofthestate

Deloitte. State of the State
New Zealand 2018



Article 1
Wellbeing in abundance
Looking after our own backyard

Wellbeing – what is it, why should we care and what does measuring it and trying to implement it mean for New Zealand?

Attention is increasingly being focused on wellbeing as a way to determine a country's economic success – most obviously signalled by our Government's January announcement that it will introduce a wellbeing Budget in 2019.

Deloitte has been exploring the issues, perspectives and frameworks around wellbeing and the potential impacts on New Zealanders. Wellbeing is the focus of our State of the State 2018 report, which this year takes the form of a series of articles.

In our first State of the State report in 2016, we focused on social investment and last year we explored financial resilience, so wellbeing is the natural next topic for us. As the 2019 wellbeing Budget could mark a world first, it makes sense that all of us who work in, for and alongside the public sector come to grips with the potential impacts of wellbeing frameworks.

By David Lovatt



David Lovatt is Deloitte New Zealand's national leader for the public sector. His passions lie in helping public sector organisations be more successful in a rapidly changing and diverse environment, the ones that by focusing on strategy and transformation, citizen and government outcomes, innovative services and new ways of working, and the growth of new public sector capabilities.

In partnership with


Public sector

Social services at a crossroads

In the context of our Government's first Budget announcement, social services can be seen to be at a crossroads in New Zealand.

Our system works well for many New Zealanders – middle New Zealand and the wealthy require little from specialist social services – and by broad definition, our universal social services in general perform well. But for families who need additional support, who lack the financial resources to backfill for gaps in services, or who come from communities where there is systemic deprivation or bias, the system is fragmented, contradictory and frequently keeps families trapped in cycles of compliance and subsistence.

Our previous Government chose social investment as the overarching framework for serving these families better. Social investment, still in its early stages of development here, is intuitive in its reliance on early investment, progressive in its recognition of social (not just fiscal) returns, and very tangible as it connects with the corporate structures of agencies: business cases, investment planning cycles, and benefit monitoring.

The criticisms levelled at social investment are more philosophical, but nonetheless important. They include that hyper-targeting undervalues the need for community investment, and that while the 'most vulnerable' could be identified at any point in time, there is a much larger group who are at-risk, and these groups are fluid and fragile to shocks. In fact, Deloitte's *State of the State New Zealand 2017* report on household resilience identified this as the primary argument for more universal benefit structures and reduced compliance regimes.

The previous Government's focus on social investment provided a clear trajectory and guiderails for how services were to improve

– by targeting investments related to improving the lives of the most vulnerable.

The mandate of our (now) Government is both more aspirational and less clear, and the difficulty with visionary leadership is usually the translation into management action.

Leading up to the Budget, tangible examples were few and far between, with the majority of announcements both aspirational and rhetorical. The commitments of \$100 million in funding for homelessness and \$76 million for family violence services were notable exceptions.

The Budget announcements are more hopeful in their clear financial signals, including significant investments in health (including extending free doctors' visits and prescriptions to under-14-year olds), education, and from a housing perspective, a plan to increase public housing by 6,400 homes over the next four years.

Budget 2018 provides Oranga Tamariki \$269.9 million over the next four years to expand its services. This will be essential to follow through on the commitments made to children and youth in care from the 2015 Expert Advisory Panel and Office of the Children's Commissioner reports.

Two expert units, the Child Poverty Unit and the Child Wellbeing Unit, have been established within the Prime Minister's Department to develop the Government's strategy in these key areas. It will be of interest to see how these units work together and create more cross-sector collaboration to achieve outcomes that are family and whānau-centric and dependent, rather than solely child-centric.

The Government has set out a holistic and aspirational vision for social services. By focussing on hauora / wellbeing, the language of Budget announcements has been on universalism and achieving



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positive outcomes for "every New Zealander". The challenge now is translating this into tangible outcomes that the sector can put in motion, and equipping the sector with the necessary capabilities to do so.

While strengths-based language moves us away from the label 'vulnerable', the reality is there are immediate and pressing needs for relief for many families. Working groups, reforms, and national conversations don't put food in the pantry or shoes on children's feet. However, they are what is necessary if we are to shift the end goal of the social service, and set a new trajectory.

By setting clear ambitions with indications of financial backing, the Government has set the two most important levers in motion. The third lever of capacity and capability across NGOs, agencies and communities is slower to turn, but will not move without the first two. The biggest obstacle to achieving wellbeing Budget outcomes will be the ability of the sector to reorient its activities rather than relabel, and to form the necessary coalitions and collaborations to deliver differently.

This Budget was always going to be challenging, given the broad and sweeping campaign commitments from the (now) Government and the multitude of fronts for progress: social, environmental, infrastructural, fiscal and economic. In that context, not surprisingly, Budget 2018 has a clear emphasis on public services, child poverty, housing and homelessness and the protection of natural resources. It does have a very different look and feel to the Budgets delivered by the previous Government. Now we must wait and see how agile the sector can be in reorienting to and implementing the new vision cast, and the new fiscal incentives set.



\$100m
to combat
homelessness



\$76m
for family
violence
services



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