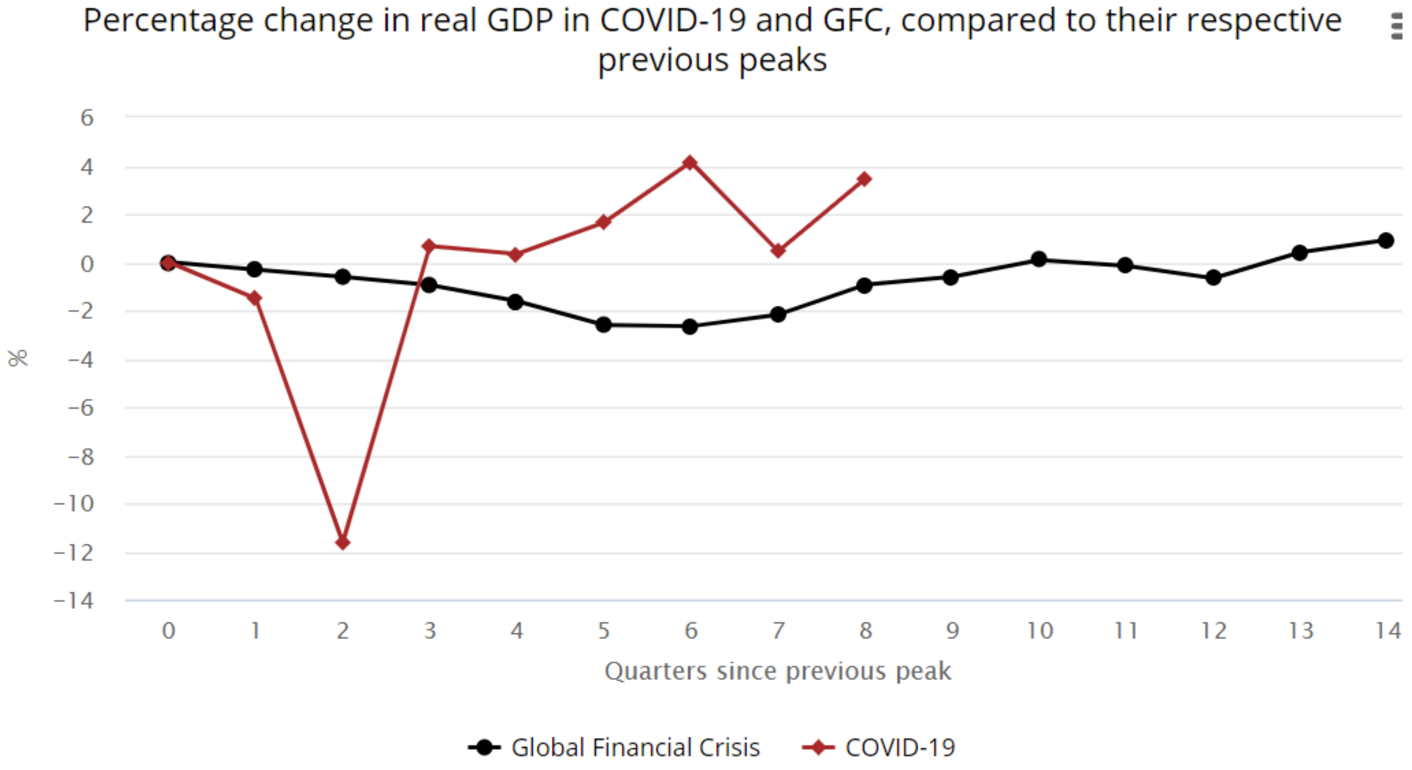
Review of Budget 2022

CHiLD POVERTY ACTION GROUP

PHOTO CREDIT NEW ZEALAND HERALD

What did we learn from our Covid response?

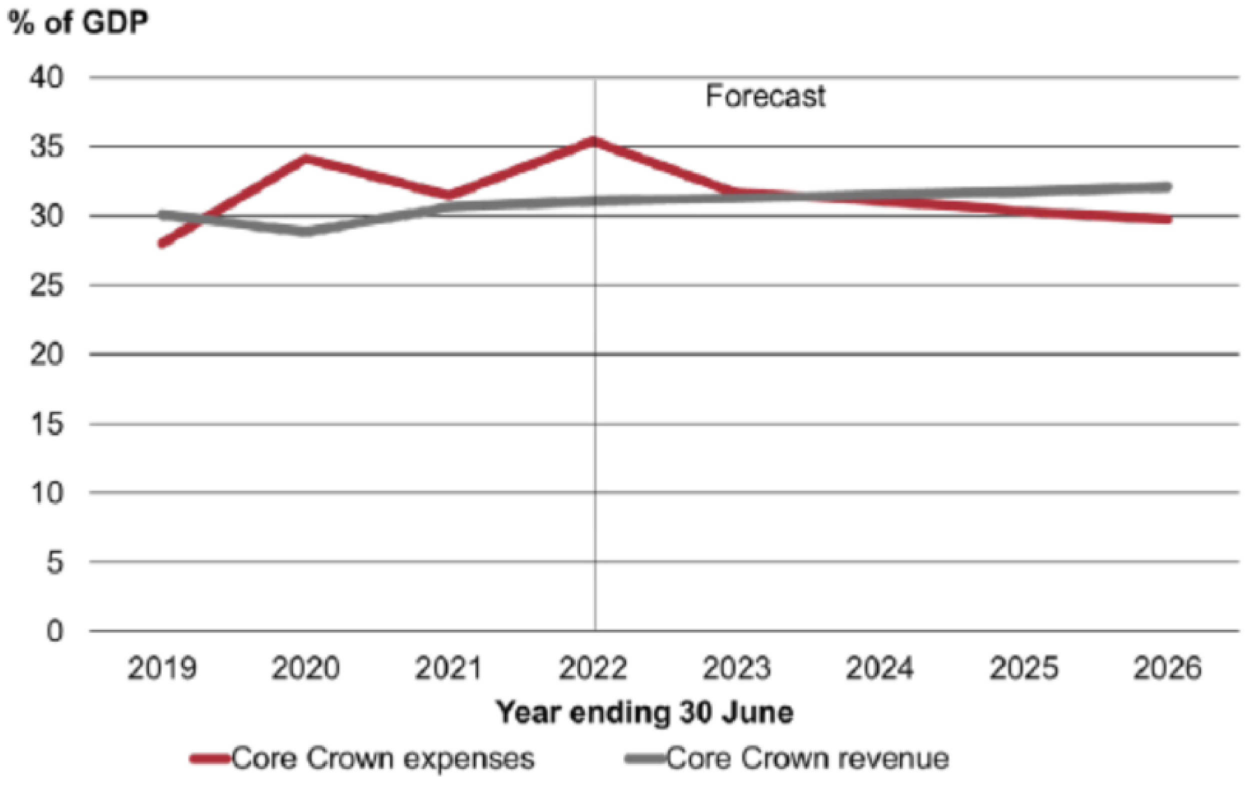


The anticipated recession was not as severe as expected on account of high levels of Government spending and associated deficits. These kept people in jobs and avoided business insolvencies

In other words an expansive fiscal policy made the recovery faster and the recession less damaging

But we have gone back to business as usual

Core Crown revenue and expenditure 2019 to 2026



Budget 2022 is back to BAU with a conservative fiscal stance which rushes to get the Government's accounts back to surplus and sets revenue and tax settings within so-called fiscally responsible parameters of 30-35% of GDP

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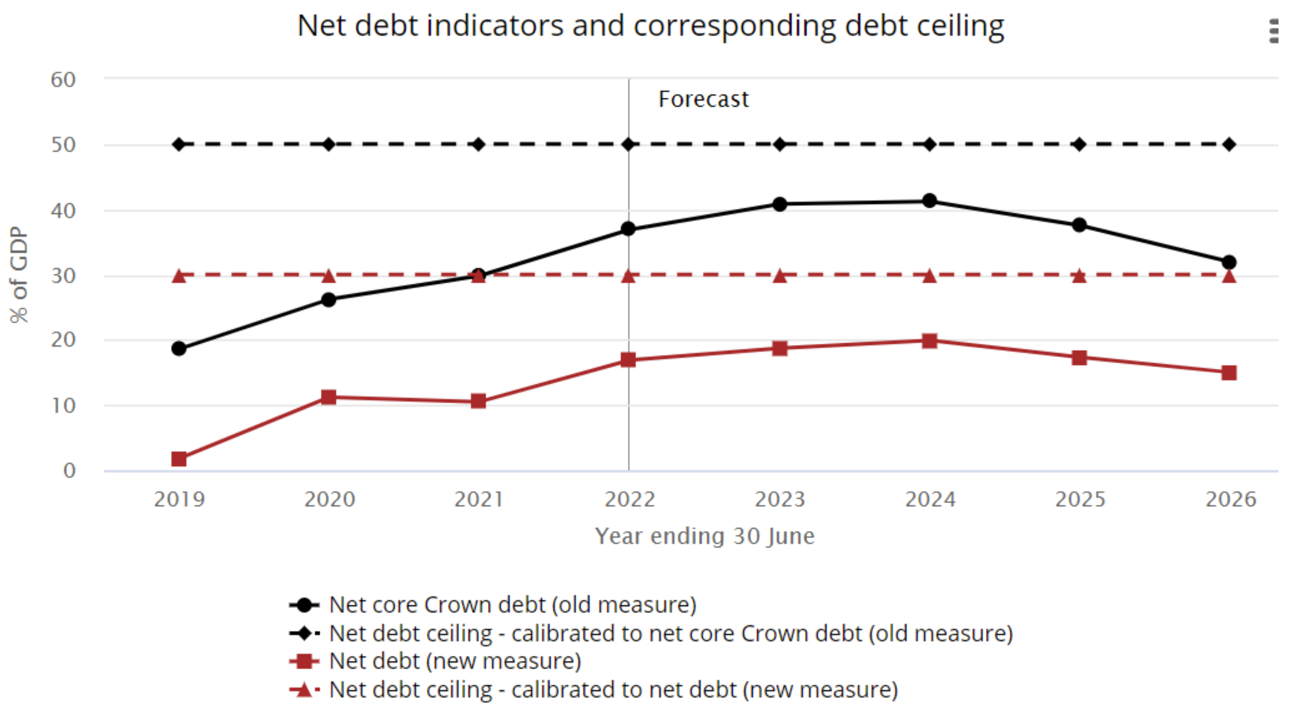
But we have gone back to business as usual



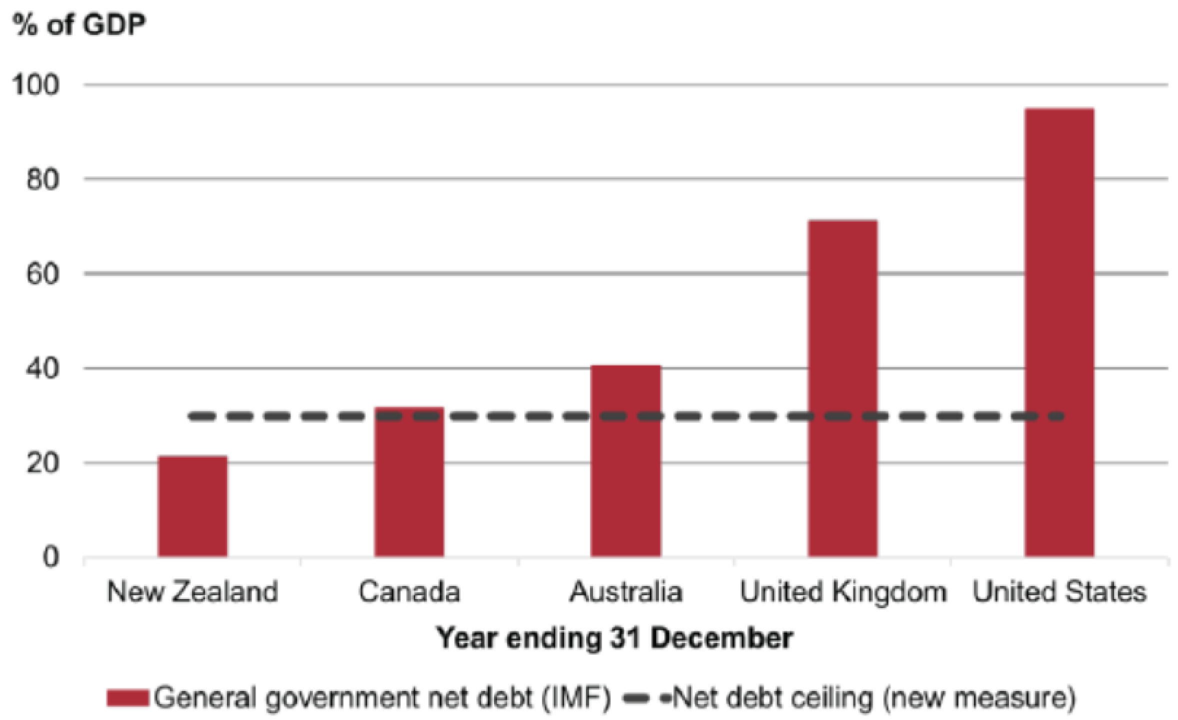
Core Crown revenue and expenditure 2019 to 2026

This pre-occupation with a quick return to surplus is not justified against any economic fundamentals – it is just a policy preference of Government

We have ample scope to borrow more money to finance things like housing and infrastructure

But we have gone back to business as usual

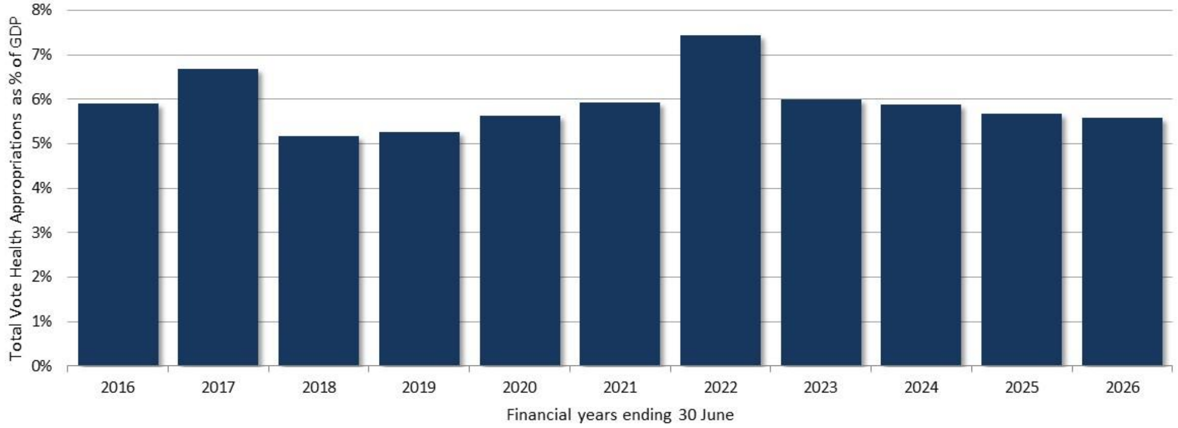
Core Crown revenue and expenditure 2019 to 2026



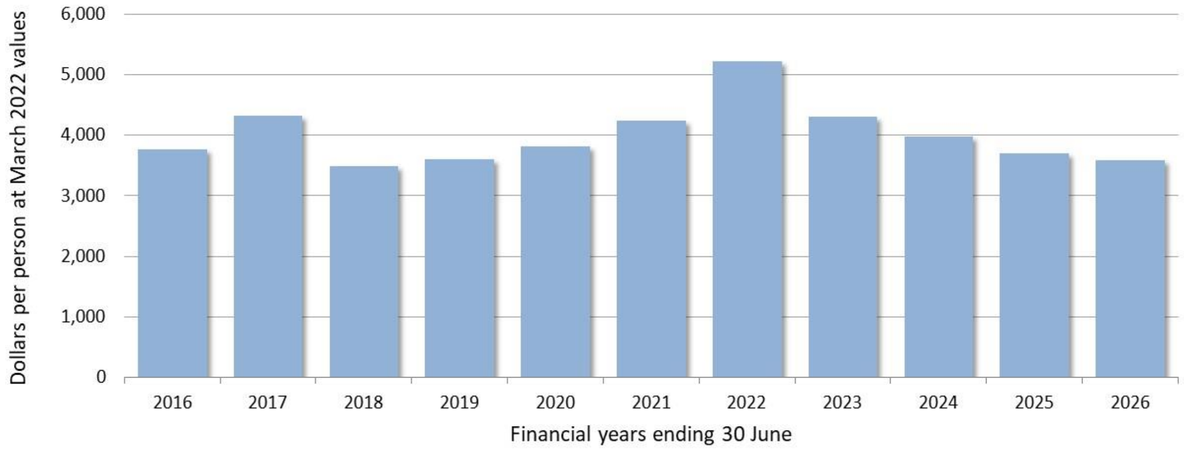
New Zealand's public debt position is one of the best in the OECD and a great deal better than most of the countries we like to compare ourselves with .

So what does this mean for Budget priorities?

Public health spending as a % of GDP – 2016 to 2026



Inflation adjusted per capita public health spending – 2016 to 2026



PUBLIC HEALTH

Following the surge in Covid related spending in the public health system health budgets are expected to decline both as a share of GDP in and inflation adjusted per capita terms

No account is being taken of existing deficits especially in disability services and aged care

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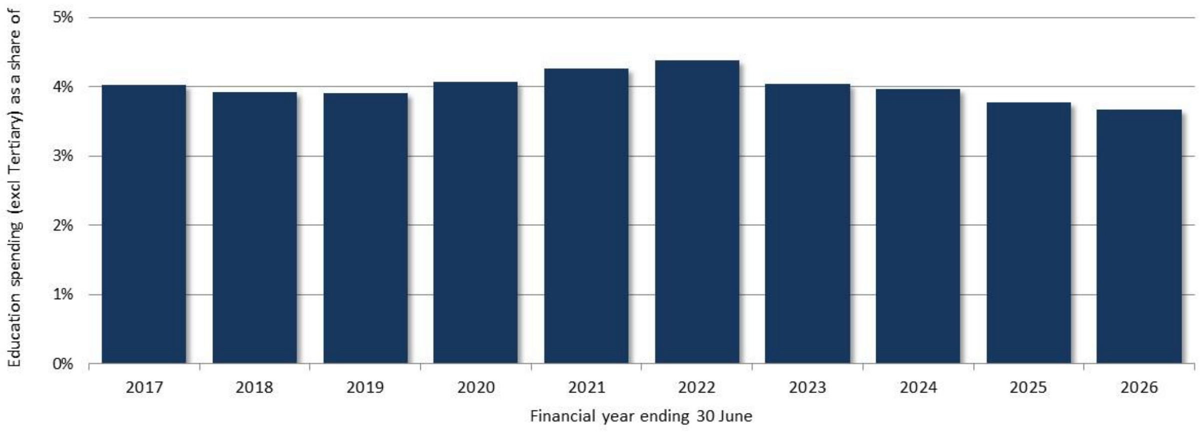
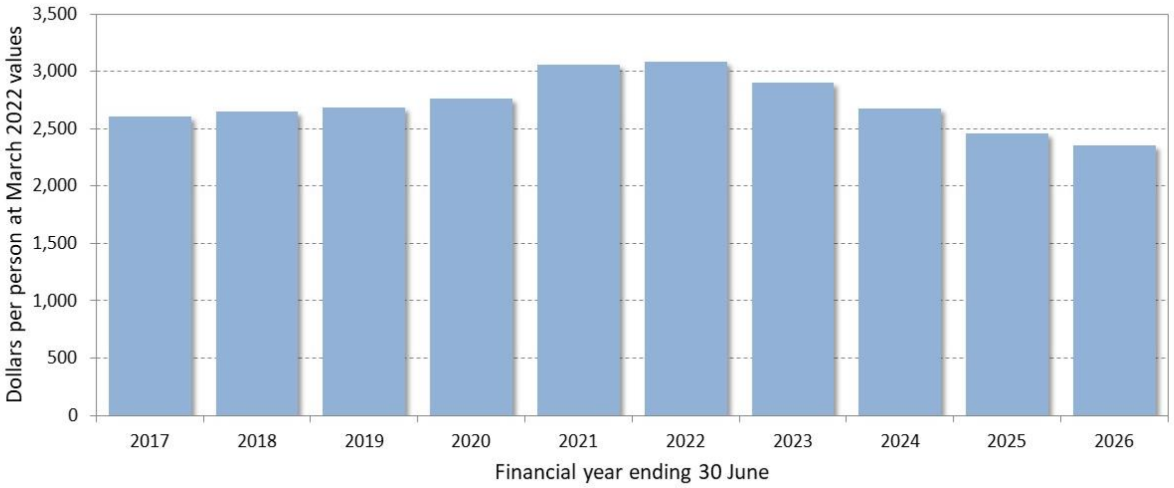
So what does this mean for Budget priorities?

Education spending as a % of GDP – 2016 to 2026



Inflation adjusted per capita education spending – 2016 to 2026



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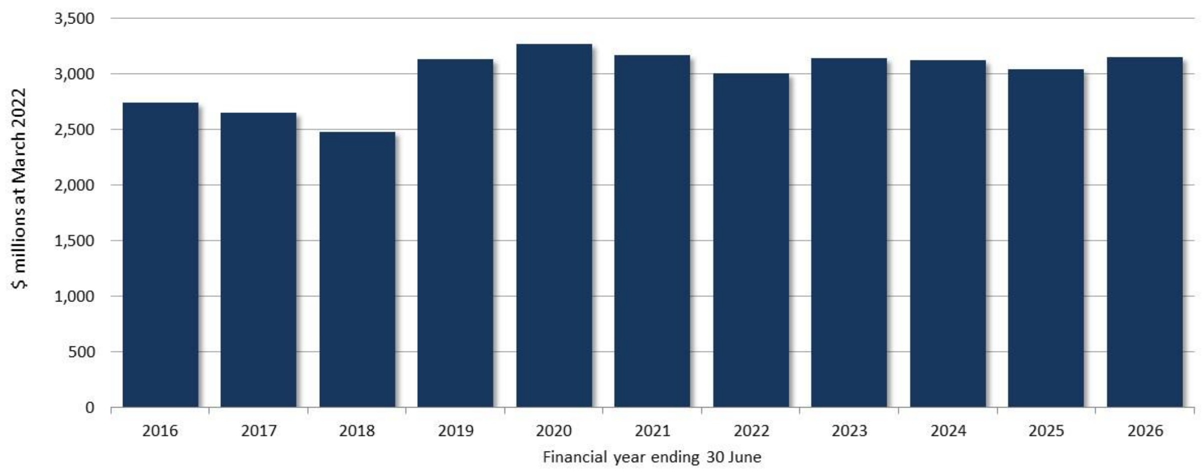
EDUCATION – excl tertiary

As a proportion of GDP and in an inflation adjusted per-capita basis spending on public education is budgeted to decline between 2022 and 2026.

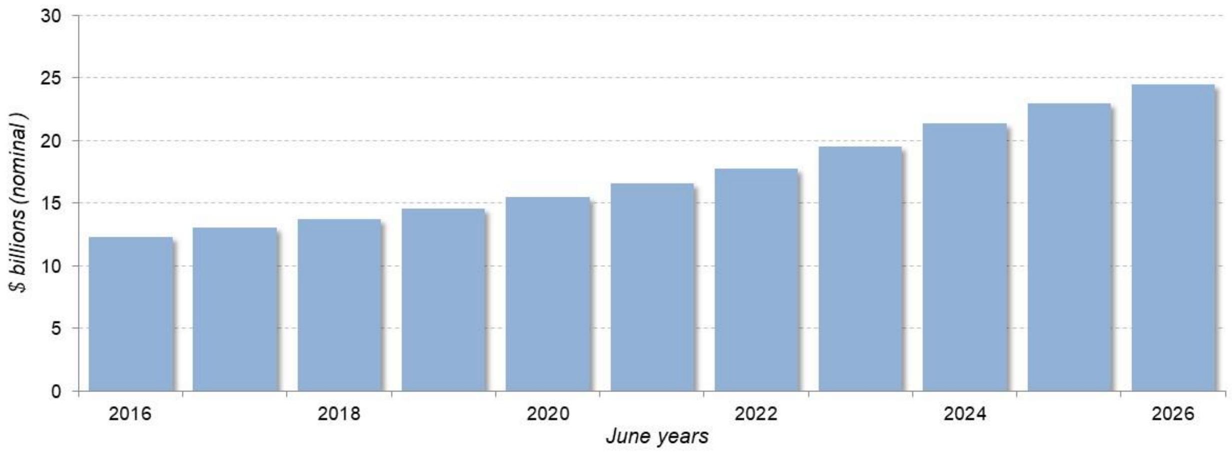
The move to equity based funding is welcomed and an additional $75 million (above the current decile funding) to facilitate this shift is notable. A further budget increase of around $190 million is required to match international equity based funding practice.

So what does this mean for Budget priorities?

Inflation adjusted spending on Working for Families– 2016 to 2026



Nominal spending NZ Superannuation – 2016 to 2026



INCOME SUPPORT

The real value of Working for Families budgets rise about 3% next year and in 2026 will be at the same level as they were in 2020

The relentless rise of the cost of NZ Super is never mentioned in Budget commentary. Almost 45% of all new Government spending between 2022 and 2026 will go to maintaining pension entitlements.

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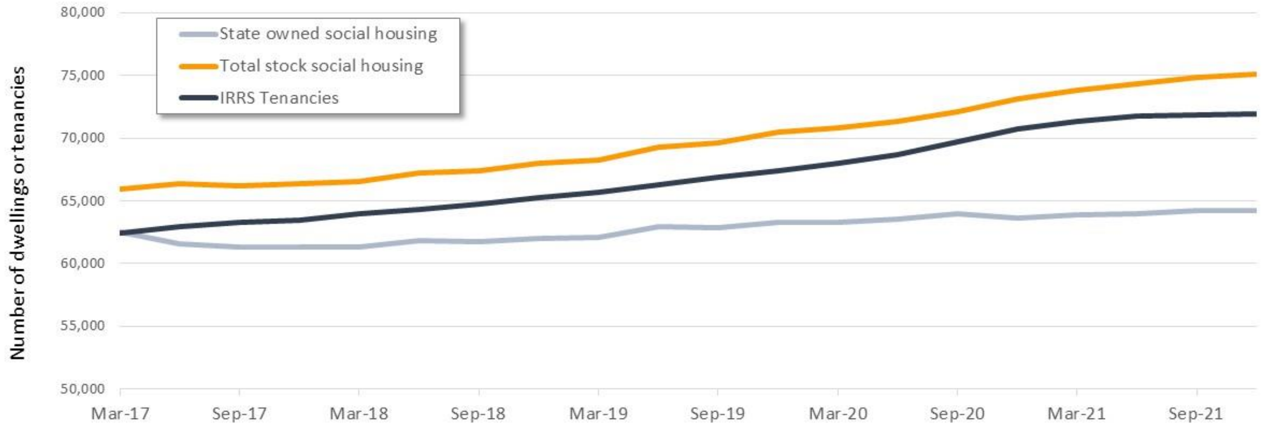
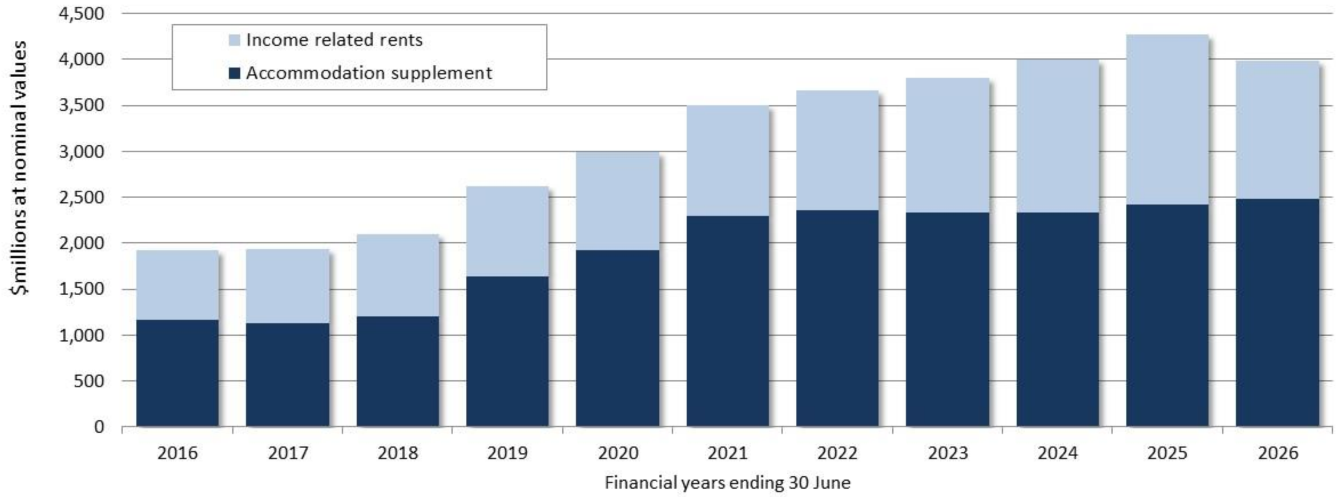
Missed opportunities in housing

Changes in social housing stock and IRRS - 2017 to 2021



Spending on main housing subsidies - 2016 to 2026

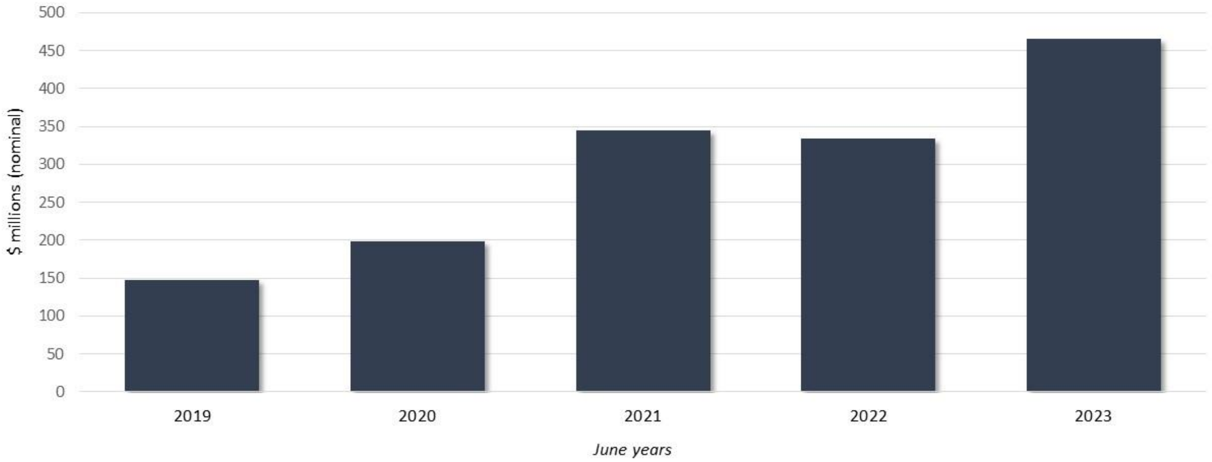


Budget 2022 provides for an additional 3,000 IRRS tenancies to 75,500. Overall IRRs places have grown from 62,000 in 2017 to 72,000 by the end of 2021

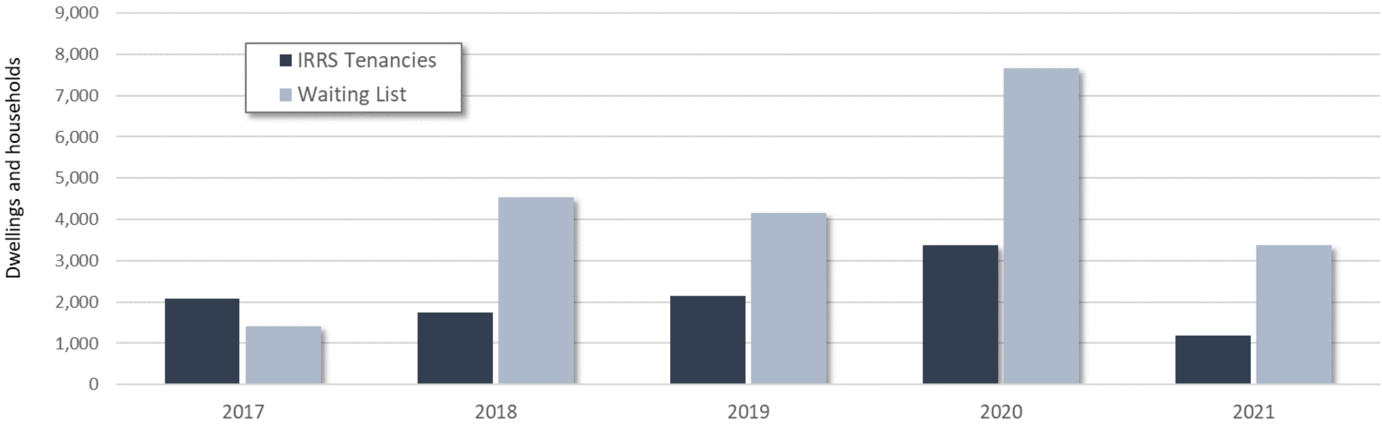
Spending on the AS and IRRS is forecast to increase from $3.7 million in 2022 to $4.2 billion in 2025 and this fall by $200 million

Missed opportunities in housing

Transitional housing budgets -2019 to 2023



Changes in social housing stock and waiting list -2017 to 2021



Spending on transitional housing is expected to grow three-fold between 2019 and 2023 to $466 million while transitional housing places will double to 5,100

Despite these efforts, the cumulative deficit in the provision of social housing has bee more than 10,000 over the past five years.

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Missed opportunities in housing

Megan Woods announcing $1.4 billion infrastructure spend in Auckland – April 2022

Government has contributed $1.4 billion to infrastructure rebuilds in state house suburbs in Auckland

Over the next 10-15 years 4,000 state houses will be demolished and replaced by 6,000 state rental units and 10,000 market units

Around two-thirds of the 181 hectares of Crown land involved will be sold to private developers

Budget 2022 provided $188 million to <u>pay</u> for the sale of state owned land and housing and $65 million in subsidies for deferred payment terms

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Complications and concessions

Government probably has around $40-50 billion freeboard on debt to spend on capital assets if it choose.

Borrowing and spending more should be seen as an alternative to privatization of assets and services.

Simply spending money on things like infrastructure and housing is vexed by the capacity of the economy to actually do the work. Much of this spending will be inflationary if we don't focus first on the skills, labour and the additional capital equipment required in the construction sectors.

In doing so we need to rethink the appropriate balance between the public, private and community sectors and not be fearful of some crowding out of private enterprise.