A different kind of 'balanced' budget

Grant Robertson promised, and has delivered, a balanced budget. We're getting used to 'balanced' having a different meaning than it used to from Finance Ministers on Budget day. Balance, these days, means a wider focus than spending on hard infrastructure like "shovel-ready projects", and a recognition that investments in people, social and natural capital are necessary, good for New Zealand and (by the way) good for business.

So has the Government delivered on these objectives? Some of the key challenges facing Government are "how transformative?" and "can we execute effectively?".

Balance

Business has long understood that investment in public roads and bridges is important. Most are also awake to the risks to business, communities and regional and national economies if we neglect those other forms of capital, underinvest in them, and allow them to crumble. Society increasingly expects that Government investment supports the most vulnerable and protects the environment in which we live.

The Treasury's "Living Standards Framework" informs the Government's investment priorities and funding decisions for this year's budget. And the four capitals of the Framework – natural, social, human, and financial/physical capital – are central to our success.

The COVID pandemic has had an uneven impact on health, education and other social outcomes and exposed the impact of social inequalities that exist within our society. Those long-term deficits are bad not just for individuals and communities, but for business. They are barriers to fuelling New Zealand's prosperity, if not all New Zealanders are able to participate in society and benefit from the economy.

A landslide election victory in 2020, off the back of effectively managing COVID, has given the Government a broad mandate. The Budget looks to dial up investment to where the Government believes it is needed the most – in health, housing affordability, climate change and child wellbeing.

However, the key questions remain – is it enough, appropriately targeted and, most importantly, how will it be delivered?

Some of the key challenges facing Government are "how transformative?" and "can we execute effectively?"

Human Capital

Inequality and child poverty

The Government initiative saved for Budget day is an increase in benefit levels to those recommended in last year's Welfare Expert Advisory Group review. The Budget commits to implementing those recommendations in two stages – 1 July 2021 and 1 April 2022 so that weekly main benefit rates increase by between $32 and $55 per adult.

This will have immediate effects for those receiving the benefits and their families. It is also intended to be an economic stimulatory measure to help the recovery. For business, the expected effect is greater spending in their local communities.

There will always be those who consider the increases either not enough or too much. By targeting the Advisory Group recommendations, the Government is following an expert lead while balancing competing demands to address other gaps in the four capitals.

> KPMG supports and welcomes the recently announced health sector reform - it is transformative and ambitious.

Focusing on health

The budget has announced an extra $4.7 billion for health. The pandemic has repositioned the role of the health sector at the forefront of the Government's priorities for investment. Without a strong public health sector to keep us safe and healthy, the economy would not have been in the strong position it is now to recover and rebuild from COVID.

Of course, the COVID vaccine roll out features. $1.5 billion has been set aside to purchase and deliver vaccines. This has both a health and economic focus and will help enable New Zealand to open up to the rest of the world.

The Government is also taking on the challenge of a much-needed reform of the health sector. The newly formed Health NZ, a streamlined Ministry of Health and a new Māori Health Authority should lead to more agile and efficient services.

We welcome the emphasis on enabling greater access and pathways to care in the community and in primary care, to provide better and earlier care to all, hopefully reducing the need for expensive hospital treatment.

KPMG supports and welcomes the recently announced health sector reform - it is transformative and ambitious. The enormous challenge post-budget is the execution skills and disciplines needed to transition, if this system is to be in place by July 2022.

Education

The Budget is very much business as usual with some further investment. A notable change is the extension of the Training Incentive Allowance to cover levels 4 to 7. However, by comparison with other areas, the measures are less eye catching.

Social Capital

Part of the Government's immediate response to the Covid-19 pandemic was an investment in shovel-ready physical infrastructure. This Budget includes elements of that same kind of investment in social capital.

We've seen a clear endorsement of 'by Māori for Māori services' with the creation of a Māori Health Authority. Its sole focus is to drive hauora Māori, with the necessary mana and commissioning power, to help provide the much-needed uplift in Māori Health outcomes.

According to the World Health Organisation, the health outcomes of an entire society are adversely affected by the level of inequality.

Data shows us that a large proportion of Māori and Pasifika are falling further behind due to social inequities across our systems which have been further exacerbated by the pandemic. This budget aims to address this with targeted spending that enables design and delivery of programmes for Māori by Māori.

Political and other commentators lamenting a 'Māori budget' miss the point. If we were setting up agencies to change social outcomes for farmers, we would naturally involve that community to develop and implement solutions. Involving people from the Māori communities that the Government is trying to partner with in the design and management of those social agencies should make them more, not less, likely to succeed.

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Natural Capital

One of the five priority areas announced this year is 'Securing a Just Transition as we shift to a low-emissions economy'. Some climate initiatives feature in the Budget. A further $300m for the Green Investment Fund is one of those.

As we transition, investment in climate change education is required to ensure people are redeployed into the green economy, shifting them over time from jobs in oil and gas, to alternative sectors.

Significant spending is also required to decarbonise priority sectors (namely transport and process heat) and investing in climate-resilient infrastructure. Transport makes up over half of our country's carbon emissions.

There is clear support for immediate, co-beneficial ('win-win') solutions such as greater funding to improve energy efficiency, building warm and dry retrofit homes, establishing fuel efficiency standards that also limit air pollution, and supporting low-emission/climate-resilient innovation.

The Government is getting its own house in order with $67.4 million over four years to support their promise for a carbon neutral public sector by 2025, which includes leasing low-emission vehicles and replacing coal boilers in schools, hospitals and other government organisations.

However, a 'just transition' for businesses, jobs and communities will require cold, hard cash to avoid an uneven and unfair impact on affected households, communities and regions.Budget 2021 signals 2022 and 2023 as the key years. The Budget signals that, from next year, Emissions Trading Scheme revenue will be used for emissions reductions programmes. More broadly, a plan for how climate change goals will be financed through future Budgets is promised before next year's Budget process begins.

Physical Capital

Housing

The housing crisis isn't going away given spiralling house prices, rising housing insecurity and homelessness, unsustainable use of transitional housing, and lack of easy answers on supply. With crowded and cold houses being a key determinant of health issues, and housing insecurity disrupting education, employment and other outcomes, the impacts are far reaching.

A $3.8bn Housing Acceleration Fund, announced pre-budget, will help New Zealand build more houses quickly. It involves unlocking a mix of private sector- and government-led developments in locations facing the biggest housing supply and affordability challenges, including the Kainga Ora large scale projects.

A subset of the housing package is focused on Māori. Included in the Housing Acceleration Fund is some $350 million for infrastructure support. A further $380 million has been announced in the Budget to deliver new homes, repair existing homes and to strengthen Māori and Iwi Housing Innovation Framework delivery of more whenua-based housing and papakāinga.

Although the fund enables us to build on existing and emerging relationships with iwi, and other key stakeholders in our urban and regional areas, including councils, developers and housing providers, KPMG would also like to see support funnelled to grassroots Māori-owned businesses that are developing innovative Māori housing solutions, some of which leverage off existing Māori land assets across the regions.

On a broader note, Treasury forecasts that housing value growth will peak at 17% this year before dropping to 0.9%.

This has the potential to be a transformative 'reset'. The challenge here is the Government's track record of ambitious plans to tackle housing, and the realities of their effectiveness in delivery so far.

Infrastructure

The Budget sets aside a $57.3 billion total capital spend. This is stated to be an approximately $15 billion increase on capital investment over the next four years.

Further investments announced include $1.3 billion for rail initiatives, $200 million for tourism support and $44 million for small business digital training and advisory.

Covid

Almost as a minor note, the Budget retains $5.1 billion of the COVID Response and Recovery Fund as a contingency. It is there for any resurgence of the virus. It will also be available, if not used for direct responses, for the economic rebuild.

Ambition and execution

The OECD, the World Bank and the IMF are going out of their way to counsel governments against economic and fiscal policies that increase inequality. Today's budget attempts to walk this fine line by spreading investments across natural, social, human and financial/physical capital.

In some of the priority areas, the thinking and the spending is ambitious and transformational, and is designed to address areas of underinvestment or opportunity. In others, we believe there is further room to move away from a 'carry-us-through' mentality towards a more fundamental reset for the future.

What is absolutely clear is that the challenge to deliver is enormous, and complex to execute. History will judge the outcomes and prosperity actually generated by these investments. We are optimists.

Matthew Prichard
Executive Chair
KPMG New Zealand