May 2011

DAA Bulletin

Budget 2011 Special

Budget Financial Results

- Record budget deficit of \$16.7 billion for year ended 30 June 2011. (UNBELIEVABLE)
- Returning to surplus of \$1.3 billion for year ended 30 June 2015.
- Forecasted growth of 4% for the next year and an additional 170,000 jobs.
- \$5.5 billion recovery fund for rebuilding of Christchurch.
- Operating savings of \$5.2 billion over five years.
- Core Crown spending to increase from \$73 billion in 2011/12 to \$77.1 billion in 2014/15.

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Budget 2011 – A Safe Budget

Bill English's 2011 budget could be viewed as a safe and no surprise budget. With most of the announcements signalled before the budget was delivered this budget was never going to be one that would make the country stop and listen. Could the Government have done more? Yes. Should the Government have done more? Quite possibly and there are differing opinions depending on which side of the political spectrum you are on.

"This budget continues to build a platform for a stronger, more ambitious New Zealand."
– **Bill English**

"This is the worst budget that I have seen in 27 years in this house. It's the least imaginative and the most lackluster."
– **Phil Goff**

KiwiSaver

- Currently has 1.7 million members and increasing by 20,000 members a month.
- Government currently contributing \$3.5 billion.
- Employer KiwiSaver contributions will be taxed as at from 1st April 2012.
- From 1st April 2013 member contributions will increase from 2% to 3%.
- From 1st April 2013 employer contributions will increase from 2% to 3%.
- For the year ended 30 June 2012 the Government contribution will be capped at \$521 being half of what the Government contributes now.

Tinkering with KiwiSaver does nothing to address New Zealand's need to save for retirement. However the current KiwiSaver model could not continue and changes had to be made especially the Government contribution as it was uneconomic to continue. Two areas of concern as the result of the changes are:

- Can people afford the increased contributions? With increasing cost of living many families could afford the 2% contribution. Whilst a 1% increase does not sound significant for some people it could mean the difference between contributing or taking a contributions holiday. It would not come as a surprise if we see an increase in the number of people taking a contributions holiday and delay saving for their retirement.
- Why should employers contribute more? Employers are telling us that the increase is a cost that they cannot afford and do not want. Furthermore employers are asking what benefit is it to them having to contribute more? Early indications are that some employers are going to treat the 1% increase as part of a wage increase for employees. Whilst an unexpected consequence of the increase it is a step that employers could take given the pressures they are facing in terms of business performance.

Mixed Ownership Model

- Government will partially sell assets to free up capital for expenditure elsewhere.
- Four stated owned power companies earmarked for mixed ownership model.
- Government stake in Air New Zealand to be reduced down to 51%.
- Using mixed ownership model reduces the pressure on the Government to borrow to funds it activities.

The partial sale of privatisation of key assets is a contentious issue and is already an election issue. Government has said they will only use the mixed ownership model if they receive a mandate from the November election. The question is what is considered a mandate? Is it being returned to power or a clear majority in Parliament? Come November 27 we will know the answer to this question and whether we have the same Government or a change. If National does receive a mandate Kiwi investors will be targeted as potential owners and it will be interesting to see how the Government restricts it to Kiwis only. With power companies generating good returns it can be expected that investors will be lining up.

Working for Families

- Abatement threshold will reduce from $36,827 to $35,000 over the next four adjustment periods.
- Abatement rates will rise from 20 cents in the dollar to 25 cents in the dollar, also in four even steps.
- Family Tax Credit (FTC) payments for children aged 13 to 15 will be aligned with the payment for children aged 16 and over.
- The first adjustment will be on 1 April 2012 and after that whenever FTC payments are adjusted for inflation (currently forecast to be every two years)
- Current payment rates will increase for all categories except children over 16 on 1 April 2012.
- It is estimated that about 280,000 families earning less than $70,000 a year will receive an increase in WFF payments while about 110,000 families – mostly earning over $60,000 a year will receive slightly less. Of this second group about 7,000 families will not longer be eligible for WFF from 1 April 2012.

Obviously it is impossible to calculate with certainty what any family will receive in any year as it is dependent on changes in family income, number of children and changes in family circumstances however most increases or decreases will amount to the same as a few cartons of milk or loaves of bread.

Mr English said "Working for Families is a broad and generous scheme and that will remain the case. But these changes will better target payments towards lower income families, ensuring the scheme is sustainable into the future".

Interestingly although the cost of Working for Families is currently about $2.8 billion these changes will only save $448 million over the next four years, at which time it is estimated that New Zealand will still be spending $2.6 billion a year on the scheme. Could Phil Goff be right when he said "Today New Zealand needed a budget that gave it a shot in the arm. It needed a vision for a better future and how to get there. We got neither." Time will tell.

Other Notable Announcements

- Student loan scheme tightened to target those who really need it.
- $980 million in savings expected to be made from public sector over next three years.
- Health sector to receive additional $1.7 billion over next four years.
- Education to receive $1.4 billion.
- Early childhood education to receive $550 million.
- $942 million for ultra fast broadband.
- Government to review livestock valuation schemes and ability to switch between schemes to get best tax result. Likely to restrict movement between schemes.
- Government contributions to New Zealand Superannuation Fund to resume from 2016/17.