



Budget 2022:

Enough Impact?



Alongside ensuring a strong, vibrant economy, New Zealanders expect governments will spend and invest to support our most vulnerable communities and protect the environment that sustains us.

This year's Budget promised to straddle two worlds – addressing the here and now created by the impacts of the Covid-19 pandemic and other economic drivers, and the longer-reaching goal of supporting and resourcing an equitable and prosperous future for all New Zealanders.

Does the 2022 Budget support the impact needed to make a difference in these key areas? Is it enough? And what does it mean for New Zealanders and New Zealand businesses?

This Budget was touted as a Health and Climate Change Budget and signalled a shift to longer term fiscal management. This is largely what was delivered on the day, with some recognition of the cost-of-living pressures facing all New Zealanders, and the need to support small and medium businesses.

The highlight was the whopping \$11.1b funding of the health system over the next four years, following on from the earlier announcements on climate change.

The minor surprise was a \$1b cost of living package to recognise the pressures on households. This features a \$350 payment to everyone earning less than \$70k per annum and a short extension of the fuel tax reduction and public transport subsidies.

The shift to longer term planning is to be congratulated, though could be considered brave or even naïve to commit to given the current environment and how households and businesses will be feeling. The Minister of Finance noted himself that 70% of this Budget has gone toward managing cost pressures, recognising that governments aren't immune to the same issues we are all experiencing.

Whether the Budget has enough impact will come down to execution and the public sector's capability and capacity to adapt.

Economic outlook

Inflation from global and domestic sources has surfaced as the principal economic challenge in New Zealand and abroad. Economic activity across 2022 is expected to be supported by the reopening of the international border, elevated terms of trade, and robust investment. Economic growth, however, is expected to slow over time due to rising interest rates and a reduction in government consumption as Covid-19 related expenditure unwinds. Key takeaways from the Budget include:

- A projected return to surplus by 2025
- Labour markets are likely to remain tight in the near term, with unemployment decreasing to 3.0% this year but growing to 4.8% by 2025 as domestic demand slows
- Net debt should peak by 2024 at 19.9% of GDP under the Government's new definition.

\$11.1 b

Funding of the health system over the next four years, following on from the earlier announcements on climate change.

Better resourced small businesses mean we'll all be better off

Budget 2022 has recognised business with a \$100m Business Growth Fund (BGF) to improve access to capital for small- to medium-sized enterprises. A further circa \$580m has been provided for other business growth initiatives, including \$54m for an innovation programme to support our tourism recovery.

However, this may not go far enough to support the many SMEs who are struggling with Covid recovery, cost increases and supply chain challenges. Many of these businesses are on the brink of collapse. It is unclear how the BGF will help businesses facing immediate challenges with inflation, skills shortages, and supply chain challenges. While in principle a fund of this nature is positive and similar schemes have had some success overseas, more detail will be required to determine whether such investments are an effective use of public funds, or the capital will find its way to New Zealand businesses that are capable of true growth and able to provide the fund a return. The administration required to access the funds will need to be thought through. Detail is also needed about the “wrap around support” the government has suggested is part of the investment.

We're a nation of small- to medium-sized enterprises with over 500k of these businesses in Aotearoa New Zealand. SMEs represent 97% of all businesses, account for 28% of employment and contribute over 25% of our nations GDP. This budget makes sense, but is it enough?

The latest global KPMG insights¹ show that the pandemic response resulted in a multitude of targeted and essential operational changes across SMEs — from the introduction of online sales channels for customers, to the successful transition to remote working for employees. SMEs were forced into ‘business transformation’ mode, taking the concept of change to a very different - and higher - level. Rather than executing a defined change, business leaders reinvented business models based on a clearly focused vision for the future.

During the height of the pandemic, Government provided support which allowed SMEs to make the necessary changes to pivot their operations and business models. Now we are (hopefully) at the other end, our SME clients are telling us they need more support, especially given the current environment of rising interest rates and its impact on access to capital. If Government can provide the right support for our SMEs, helping them to become more sustainable and resilient, we're all better off in the longer term.



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Health and disability impact expected from a stronger focus on equity

The structures of the new health and disability system come into effect from 1 July 2022 with Health NZ, Māori Health Authority, Public Health Agency, the Ministry for Disabled People and a policy and strategy focused Ministry of Health all being established. This represents a seismic shift and Budget 2022 has clearly demonstrated this Government's commitment to the reforms and addressing much needed funding gaps through \$13.2b over four years, with \$11b being directed to driving the new health system.

This investment has the potential to make a real impact, but with the caution that more funding doesn't automatically translate to better health outcomes, more services, easier access or improved equity for everyone. The level of impact from this Budget will depend on how it is applied, and the capacity in the system to change and meet the ambitions of the reforms.

The Budget doesn't offer a breakdown of how the \$11b will be prioritised or distributed. Similarly, it is encouraging that there is \$1.3b allocated in capital funding for hospitals, including Whangarei, but this will need to be triaged and prioritised across the health system based on level of need and areas of growth.

There is a risk that this could get caught up in convoluted planning processes or conversely pushed out to regions for quick fix solutions.

There is also no detail on the restructure and change management costs of establishing the Māori Health Authority and Health New Zealand although \$91m has been allocated to restructure the Ministry of Health and \$61m to establish the Public Health Agency.

Having the right data infrastructure and platforms will be important to support the change and drive the right behaviours and around \$330m (\$230m operating and \$100m capital) has been allocated for this. There will be a lot to untangle in bringing together the data of 20 DHBs.

Restructures can improve decision making and accountabilities, and these changes introduce clear mandates and priorities to be delivered on. But a restructure of this scale also has the potential to destabilise and add more complexity in the short term. There will be a lot of people impacted and many systems to unravel. The opportunity of the investment could be lost in the mechanics without an unwavering focus on the long-term impact it seeks.

Impact will come from better integration at the system level, connecting policy, strategy, commissioning and partnering across the new health agencies and the broader social sector. How the new Ministry of Health navigates its role as the 'steward of the system', how the Māori Health Authority delivers on its equity

\$1.3 b

Allocated in capital funding for hospitals, including Whangarei, but this will need to be triaged and prioritised across the health system based on level of need and areas of growth.

and partnership role, and how Health New Zealand drives innovation will be critical.

The Māori Health Authority has been allocated services directly and a further \$20.1m has been allocated to support the Iwi-Māori Partnership Boards to ensure whānau and iwi voices are heard within the health system. Impact will also come from partnering with iwi and communities, empowering them to innovate and create new models of care that work for them. Impact is about being meaningful to people, their family, whānau and aiga - in their lives and in their worlds. It will be important to form genuine and enduring partnerships with communities, where people believe they can influence and shape a health system that reflects who they are.

Better life outcomes

Government has also made an explicit commitment to disabled people and their whānau through \$100m to establish the new Ministry for Disabled People and \$100m for a national expansion of a new disability support funding model, Enabling Good Lives and an additional \$176m per year for existing cost pressures

More funding in core disability support services will enable people to participate more in their communities, but equally the system needs to be better equipped to enable more people to access transport, housing, education and employment.

It is noticeable that there are no other initiatives specifically to address the inequity of unemployment, health, education and housing outcomes for disabled people. There is a risk that the new Ministry becomes the sole point of responsibility rather than part of a wider system response.

Overall, KPMG welcomes the focus on equitable access to community care. If executed well, this will benefit our communities that have been underserved by the current system. Māori, Pacific and rural communities, alongside those with disabilities, will see barriers to care being removed, therefore achieving better health outcomes.

Social stability can follow on

Budget 2022 has allocated funding to initiatives that address home ownership and homelessness. \$221m has been allocated to the Affordable Housing Fund; \$1b towards the delivery of public and transitional housing; \$355m to redesign the emergency housing system and \$75m allocated to the Homelessness Action Plan.

Investing into growing the stock of housing, plus the necessary support systems to ensure that those most impacted by the current increases in living costs and

the housing crisis is vital. Poor housing conditions result in wider health and social impacts, so addressing the housing challenge in New Zealand is important.

Given the flow on effects of social housing, appropriate wrap around services are imperative to support the confidence, belief and hope of families and whānau living in these circumstances.



Rachel Scott
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James Poskitt
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Māori leading their own solutions

Māori best deliver success for themselves and the nation when given the resource and authority to shape their own solutions.

Transforming outcomes for Māori means addressing existing inequity across the board while empowering Māori to participate in developing solutions that work for them. Budget 2022 invests into these key themes through the following: \$580m for Māori health and whānau ora, \$354m allocated towards language and cultural revitalisation initiatives, including Māori language education and Māori media, \$155m for Māori economy initiatives, and \$162m for Māori adaption to climate change.

The Māori health and whānau ora investments represent an important drive towards re-empowering whānau and iwi to lead their own solutions. It also provides space to develop and innovate, to establish fit for purpose responses to what are long term systemic inequities for Māori. The Māori Health Authority could be transformative, provided they are resourced well to meet the expectation. Investing into Iwi-Māori partnership boards is a significant step in reorientating the system towards Māori models of operation.

There will be significant opportunities for Māori communities and businesses off the back of a number of these initiatives. Specifically, the Climate Emergency Fund, Māori Health Authority, public sector procurement opportunities for Māori, Māori Trade Training and cadetships will ensure we're able to realise the fullest benefits of Government's social procurement policy in the form of capital and capability development and well thought through execution.

Māori enterprises tend to employ more indigenous people, invest more in their communities, invest more in training their people and have higher social return on investment ratios than those working in mainstream industries, while in turn building resilience and agility at a local level.

It's worth noting that research has shown that for every \$1 spent through an indigenous procurement programme in Australia, \$4.41 of economic and social value is created².

Lifting employment and income levels for whānau has a positive and direct impact to the country through increased engagement, better long term whānau outcomes and reduced pressure on the nation's social services.

Going forward, we hope to see an agile government which continues the theme of empowering more decision making closer to the front line – Māori leading solutions focused on Māori.



Riria Te Kanawa
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Infrastructure will rely on coordination – and cooperation

The Government has committed to \$4.7b in new capital expenditure in this Budget, as part of an overall commitment \$61.9b in infrastructure over the next five years. Highlights included:

- **\$1.8b** in housing capital expenditure
- **\$1.3b** in health capital expenditure
- **\$0.9b** in education capital expenditure
- **\$0.3b** in new rolling stock.

The additional \$1.8b allocated for new housing initiatives, following the previously announced \$1.4b for Large Scale Projects (LSPs) in Auckland and last year's Housing Acceleration Fund, is encouraging to see. These projects are critical for providing both public and private housing and growing New Zealand's urban areas. There is an opportunity for infrastructure innovation and sustainable infrastructure practices to come to the fore. The continued investment in the Construction Sector Accord will support the construction ecosystem, strengthening capability and productivity across

small-to-medium enterprises and reducing carbon emissions.

From an infrastructure perspective, the ERP highlighted exactly what will help create a real and positive impact for Aotearoa: cross-government planning and alignment. Infrastructure requires coordination and cooperation across numerous sectors to deliver actual social and economic benefit. For initiatives to start addressing issues like the housing crisis, we need to see master planning that pre-empts growth and prioritises equity.



Mair Brooks
Partner
Infrastructure Advisory

\$61.9 b

Investment in infrastructure over the next five years.

Global talent contest

The current talent shortage is a significant barrier to the business growth and innovation needed to support stronger GDP growth for our country. Businesses have expressed frustration at what they see as a narrow focus on domestic wages and skill development in an environment of record low unemployment and critical skill shortages.

People with the skills and experience needed to drive the transformation currently occurring in both the private and public sectors in New Zealand want interesting, purposeful opportunities and welcoming conditions – and will take roles overseas or, increasingly, embrace international employment (and salaries and benefits) via remote working. In turn, if we are to replace this brain drain, we too need to offer interesting, purposeful opportunities and welcoming conditions – including forward-thinking immigration requirements.

Two years ago, our Budget commentary focused on the opportunity to “Reset” our face to the world and send a message inviting highly skilled people to come to New Zealand, bringing their skills and their families with them. Two years on, the recently announced immigration policy settings are a small step in that direction, but the business response is that the combination of a narrow focus,

the new requirements (including making it harder to bring your partner with you), and the extra costs and obligations imposed are creating unnecessary hurdles. We need to do more if we’re going to win what is a global contest to attract the people who can help lift productivity, living standards and prosperity for all New Zealanders.



Matt Prichard
Executive Chair
KPMG New Zealand





**New Zealand won't be left
behind in the global transition
to a low-emissions, climate-
resilient economy.**

Charles Ehrhart
Partner | Climate Change, Decarbonisation & Sustainability Lead

Funding – and accelerating – the transition

The 2022 Budget, alongside the release of Government's ERP earlier this week, sends a clear message that New Zealand won't be left behind in the global transition to a low-emissions, climate-resilient economy.

The improvements to resource planning, low-emissions infrastructure and renewable energy announced with cross-party support, provide much needed certainty for business and mean that New Zealand businesses will be well positioned to compete in the economy of our future. Proposed strategies for the circular economy and bioeconomy, amongst others, promise to open the door to new opportunities and more sustainable ways of doing business.

The Budget allocates \$765m to help small, medium, and large businesses cut energy costs and shift to cleaner source of energy and an additional \$380m to help farmers and growers innovate and implement low-emissions on-farm practices. These commitments to co-invest with business will be especially welcome amongst small and medium enterprises hard hit by the financial impacts of Covid.

The way forward will require more than helping New Zealand businesses adopt existing technologies. We also need to encourage innovation. Experts have long recognised the critical role of governments to support the journey of niche technologies along the innovation chain – from research and development to demonstration and commercialisation, then deployment in the market.

The ERP only proposes minor tweaks to the innovation system but does float the idea of 'climate innovation platforms', funded through a range of initiatives and pilot funds – the most significant of which are the existing agriculture programmes, community-based renewables, forestry and biodiversity as well as the ongoing freight strategy development. If the Government makes a genuine commitment to the co-development of climate solutions, these platforms could significantly enhance the sustainability and competitiveness of New Zealand business.

Climate change is about capturing opportunities, as well as managing risks

The Budget provides the springboard for the ERP's actions to become reality. It gives clarity and confidence for strategic decision making. While never enough to satisfy everyone, it is still a substantial commitment to the goal of net-zero. and should be welcomed by small, medium and large businesses.

Climate action has conventionally been understood as a cost, as a burden that economies must bear in penance for past pollution. It's now time to shift our focus to the future. Businesses should be thinking about how they will capture opportunities to participate and win in the economy of tomorrow. The climate race is not only about redistributing costs, but also about redistributing opportunities. We are joining a global race to be trusted providers of goods and services that enable countries to decarbonise – whether as suppliers of renewable energy technology or agricultural products that nourish the planet as well as people. This competition isn't only among businesses, but also nations.

Planning is necessary. Adaptive planning is best

The ERP is an action plan, but it is also a plan of plans. On close inspection, many actions are actually pledges to explore and investigate real action, instead of committing to investments and regulations now. While this may raise uncertainties over whether some actions will ever materialise, it may be an inevitable consequence of developing a landmark plan within the context of a global pandemic. We acknowledge that Covid-19 both redirected government resources and complicated cross-agency collaboration. Regardless, the hard lessons of the pandemic underscore that while plans are critical, in the context of climate change, adaptive plans are best - accompanied by early, strategic investments in priority areas.

We know that New Zealand needs to electrify most of what we do. We know we need on-demand power sources like green-hydrogen – and pumped-hydro to complement wind and solar. This Budget makes these strategic long-term choices possible – and early investment initiates the process of learning that will make the transition smoother and more efficient over the long run.

¹ KPMG International (2022), Relaunch, recalibrate, renew: Sustaining a culture of continuous transformation in family business.

Finance is critical

What needs to be done, needs to be paid for. Government and business need to focus on making investment decisions that power resilience and agility - not only about short-term costs and benefits, but also long- and medium-term risks and opportunities.

Government and business also need to get better at working across conventional boundaries, and this Budget is a good start. Private capital can do the heavy lifting, but it needs direction by government, through the pricing of social and environmental benefits, or the commitment of patient capital that only government can do at scale. By bringing the public good into financing arrangements, through rules and incentives, government can funnel private capital toward the promise of long-term value creation.

² Burton, R. & Tomkinson, E. (2015), The Sleeping Giant: A Social Return on Investment Report on Supply Nation Certified Suppliers, Supply Nation.



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Sustainable Value

Making real IMPACT

KPMG IMPACT is our platform for helping New Zealand's organisations become sustainable, resilient, inclusive and focused on their impact. We partner with Māori, public, and private sector organisations to drive positive social and environmental outcomes for Aotearoa and all New Zealanders, in line with the UN's Sustainable Development Goals.

Find out more:



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Partnering with organisations to create an inclusive, prosperous and resilient New Zealand.



Climate Change and Decarbonisation

Supporting New Zealand organisations accelerate their transition to a net zero, climate-resilient future.



Economic and Social Development

Partnering to improve social outcomes for New Zealanders.



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