

# ACCELERATE

## BUDGET ALERT

Predictions for the budget centred on inflation, the cost-of-living crisis and climate change, narratives that the Government isn't doing enough to help the "squeezed middle", and business sectors signalling they are still trying to recover from blows dealt by the pandemic.

Wellbeing Budget 2022 – A Secure Future positions itself to acknowledge the difficult times we're living in while aiming to help move towards "a high wage, low emissions economy that provides greater economic security, while providing support to households affected by cost-of-living pressures."

### Housing

Housing affordability measures so far have been weakened by rising interest rates, increased lending regulation and the subsequent flight of first home buyers from the market. Budget 2022 increases price caps on eligible houses for First Home Grants and eliminates them for First Home Loans. Other initiatives fund public and transitional housing, emergency housing, the Affordable Housing Fund, and actions to combat homelessness.

### Health

The last two years have been about trying to keep the population and the economy as healthy as possible. Not surprisingly, the 2022 budget allocates a huge slice to health. A \$13b boost is planned over the next four years, for health reforms and infrastructure including hospitals, mental health, and Māori health services.

# Inflation and the cost of living

The irony of two years' trying to keep the economy as healthy as the population, is that the economy is currently running well enough but ordinary New Zealanders can't keep up. Soaring global inflation is predicted to ease from later this year. The Budget introduces measures designed to get New Zealanders through the meantime.

Reductions at the pump and on public transport extend for a further two months, till August.

A cost-of-living targeted payment of \$350 delivered across three monthly payments from August 1, is planned. It's a top up, it's temporary and it's tax-free for an estimated 2.1 million Kiwis who earned less than \$70,000 last year and are aged 18 or over. It works out at round \$27 per week and Inland Revenue will administer it. Nobody needs to apply. Inland Revenue will pay it directly into your bank account if you're eligible (check that your personal bank account details are correct in myIR). Those who already qualify for the Winter Energy Payment, or who qualify for Jobseeker support, superannuation or certain other benefits won't receive it.

To increase competitive pricing for groceries, the Government took on board Commerce Commission findings that restrictive covenants over land prevent new entrants from entering the grocery retail market. New legislation bans these, a move that may be business- as well as consumer- friendly.

## What's in it for business?

While some cost of living and climate initiatives may assist businesses, certain industry priorities are targeted specifically. Financial support for employers to retain and take on new apprentices is extended until end December 2023. Funding for Industry Transformation Plans (ITPs) includes allocations for the Construction Sector Accord Transformation Plan, the Advanced Manufacturing Plan, the AgriTech ITP, and the Digital ITP. Regional business support and tourism have received additional funding in a boost to the Regional Strategic Partnership Fund for investment into local projects.

## Broadband Infrastructure

\$60 million is allocated to improve broadband in under-served areas of the country. Given how many New Zealand businesses are small and how many start up and carry on in rural areas, this may be a welcome leg up to frustrated business owners trying to grow online presence and streamline access to online services and software.

It's long overdue. "Rural broadband is particularly critical to small businesses because it can enable major productivity improvements such as better access to information across supply chains." (Small and Medium Businesses in New Zealand, Report of the Small Business Development Group, 2016)

## Climate

Climate change initiatives in Budget 2022 follow the Government's recently released Emissions Reduction Plan, and several initiatives have already been announced in that plan. \$2.9 billion of funding (sourced from cash proceeds from the Emissions Trading Scheme) is allocated to investments to be made by the Climate Emergency Response Fund (CERF), such as:

- a vehicle "scrap and replace" scheme providing funding and "in-kind support" to low-income households to shift to low emission alternatives, upon scrapping their vehicle
- support for moves to shift away from motor vehicle reliance, like urban cycle networks, walkable neighbourhoods, safer, greener, healthier school travel, and more reliable and user-friendly public transport
- decarbonising the public transport bus fleet, with zero-emission buses and associated infrastructure

Forestry and agriculture sector investments include:

- reducing the use of coal and other carbon-intensive fuels and materials
- creating large-scale native forests as carbon sinks
- a Centre for Climate Action in Agriculture to support innovation and research
- an agricultural emissions pricing scheme

Notably absent are tax concessions which could assist here, such as FBT exemptions for employer-subsidised public transport or electric vehicles.

## Business Growth Fund

There's \$100 million in capital funding for the new Business Growth Fund for SME businesses needing money to grow. The Government will buy minority stakes in small businesses that want to expand, investing alongside banks. Banks will refer businesses "where equity finance would be more appropriate than debt finance", Minister for Small Business, Stuart Nash, said.

Nash, pointing out that private equity funds don't typically invest in SME businesses but push for control, aggressive growth, and short-term results, described the Business Growth Fund having "more modest return expectations and no hard exit deadlines allowing business owners to set their own growth targets and identify the most appropriate time and path to exit." The Government has discussed the fund with the Reserve Bank and private banks but has not yet selected banking sector investment partners.

The Minister indicated this investment model has been tried successfully in the UK, Canada, Ireland, and Australia. We don't have details yet, but we can perhaps draw on examples from the last two years' COVID-related business relief schemes. We expect eligibility criteria for the fund to require evidence of business viability and a New Zealand base, backed up by solid financial data and business plans outlining the kind of growth an applicant has in mind, such as expansion into new locations, new markets, or new products.

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