

Special Alert: The 2011 Budget

Big deficit, hard cuts, bright future?

With the highest deficit on record at 16.7 billion dollars, unemployment is high and economic recovery slow. Gulp. Probably the biggest positive is our renewed ability to save. And now the government is practising what they preach as they look to save \$5.2 billion over the next four years, with \$1.2 billion banked to reduce the need to borrow. The goal is to rebound to a surplus by 2014/2015.

Boiling it down... focus has moved from last year's major tax reform to extreme government saving, with restricted spending. Partial privatisation of government owned assets under the 'mixed ownership model' is another key feature. Undoubtedly the biggest strikes hit KiwiSaver, Working for Families and the Student Loans scheme with over 60% of projected Government savings to come from cutbacks and changes to these schemes.

The Winners

There are a few - \$1.7 billion to Health, \$1.3 billion to Education and \$157 million to the Justice system as well as \$58 million to Statistics NZ for improved systems. Some money will trickle down to establish the Financial Markets Authority, kick-start irrigation initiatives, tourism and improved online government services.

The Canterbury Earthquake Recovery Fund

Wheels are in motion to start the rebuild of Canterbury. The government has estimated the direct cost of rebuilding Christchurch at \$8.8 billion - with \$3.3 billion of that coming from EQC and ACC. \$5.5 billion (the difference) has been set aside to cover the costs associated with the rebuild.

KiwiSaver

Less government participation

The government wants more real saving by New Zealanders and less input from the government coffers. Changes should save the country \$2.6 billion in 4 years, money that would have been borrowed...

1. The Member Tax Credit (a government subsidy) will be halved to a maximum of \$10 per week - **effective 1 July 2011.**
2. Employer contributions will no longer be tax-free from **1 April 2012.** Employer Superannuation Contribution Tax will apply at the employers' marginal tax rate.
3. On **1 April 2013** minimum contributions from both employer and employee will rise from 2% to 3% (employees/members can still opt to contribute 4% or 8%).

Please note that that Kick-Start payments will remain unchanged.



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'It's clearly a budget. It's got a lot of numbers in it.'

George W. Bush

Student Loans

Tighter lending criteria

Mild changes to the Student Loan system will be implemented in the next 2 years:

- Students with overdue payments of \$500 or more, and who are in default for over a year will have restricted eligibility for further loans
- Students aged 55 and over will be eligible to borrow for tuition fees only
- Part time students will no longer be eligible to borrow for course related costs
- The repayment holiday for borrowers offshore will be reduced from three years to one, and borrowers will be required to apply for the holiday, providing a NZ based contact before they leave

The repayment threshold will remain at \$19,084 until 31 March 2015 and there has been no change to the general interest-free treatment of loans.



Working for Families

Small reductions targeted at higher earners

An increase in eligibility has caused a Working for Families blow out and the government is making minor changes to curb the escalating costs of the scheme. These new changes will be applied in conjunction with those heralded in the 2010 budget as part of a four stage programme.

Stage one came into effect 1 April this year with changes to the definition of 'family income' to include 9 extra types of income, restricting families from using investment losses to reduce their income for higher tax credits.

One by one further changes will be implemented with each new inflation adjustment - roughly every two years until 1 April, 2018. These changes are:

- A reduction in the income level at which tax credits start to decrease, from \$36,827 to \$35,000
- An increase in the rate of reduction, from 20 cents in the dollar to 25 cents
- The amount paid in respect of children aged 16 and over will be aligned with that paid for children aged 13 - 15

Those with lower incomes will be largely unaffected - the majority getting an increase in their payments from 1 April next year. Some higher earning families will receive a little less than they currently do and a small portion (approx. 7,000) will no longer qualify.

State Assets - 'mixed ownership model'

The government intends to apply the mixed ownership model (MOM) to five state owned companies: Mighty River Power, Meridian, Genesis, Solid Energy as well as further offerings of Air New Zealand. This is expected to raise \$5 - \$7 billion to reduce crown debt.

Features of the MOM for partial sale of these assets:

- The Government will retain over 51% of each company, a controlling stake
- New Zealand investors are guaranteed a spot at the front of the queue
- The companies involved present good opportunities for investors
- Freed up capital will be used to fund new public assets, reducing the need to borrow
- New Zealand consumers are protected by appropriate regulatory regimes

Obvious intended investors are likely to be KiwiSaver schemes and iwi. We'll know more about the proposed asset partial sell-off come the 2011 election campaign.



ACC - a swift turnaround

Perhaps an inspiration and rare success story in current budget times is ACC, having made a miraculous turnaround from near bankruptcy to delivering better results with less spending.

It's this attitude that the government is emulating in the 2011 budget and one that they're encouraging us to follow.

'A billion here, a billion there - sooner or later it adds up to real money.'

Senator Everett Dirksen

Disclaimer

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