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The dirty trick at the core of all Budgets

Let's make a big mistake.

Flip to the back of the Budget Economic and Fiscal Update and you'll find a small section on the "core Crown expense tables".

These purport to show forecast spending on public services out to 2030. Look closer and the numbers start to appear a little odd. According to these tables, annual health spending in 2030 will be $100 million more than it is now, an increase of 0.2% – well below the rate of inflation. Education spending is set to go backwards by about $700m, and spending on law and order is roughly flat – a big cut in inflation-adjusted terms.

The numbers are staggering, implying no extra funding to increase services for our growing and ageing population and not a cent to compensate for the effects of inflation.

The truth, however, is these particular figures are sort of rubbish.

They don't say what you think they say. They certainly don't give you any idea how much the Government will spend on most (not all) services in any year bar the coming one.

At almost every Budget, some bright spark will skim the spending tables and claim the Government has grand plans to slowly strangle the state. In 2024, a bunch of frontbench Labour MPs even made this error, thinking that year's Budget showed dramatic reductions in departmental spending over the course of the Parliament. Of course, that's literally what the table does show (if you don't read the literal fine print below).

The problem is it showed the same thing under Labour's Budgets too. All Budgets look like this.

The reason for this wonderful little quirk, which has tripped up so many across the years, goes back, as does almost everything regarding the infrastructure of state, to the 1980s and 1990s.

In the 1990s, Governments began publishing Budgets according to the principles of the Public Finance Act.

Under these principles, some lines of spending could be forecast into the future with great accuracy, because these spending lines were, barring major reform, outside the purview of politicians. We know, roughly, how much we'll spend on superannuation in 2030 by estimating the number of eligible people and then using wage inflation figures to work out how much they're entitled to. Ditto benefits and things such as Working for Families.

For everything else, though, we assume essentially zero. The figures you get in Budget documents fluctuate from year to year, reflecting some approved spending in the current Budget that may only take effect in two or three years. Likewise, the figures may show temporary spending from previous Budgets coming off, reducing figures.

Under the old pre-Public Finance Act system, the Budget was for a single year, and setting departmental budgets involved making regular changes to personnel costs based on bargaining rounds with unions. Other departmental budgets were adjusted upwards annually to accommodate the inflation expected that year.

In the early 1990s, this changed in favour of a new system adopted with the Public Finance Act, which was built around three words that are somewhat feared in the public service: "fixed nominal baselines".

This means each department's baseline funding, the money used to pay for staff, IT, rent, power and the rest of it, does not move year to year. That means despite the fact we can expect a fair amount of inflation every year, government departments have no automatic right for base funding to increase by as much as a cent to compensate.

If those departments want to pay their staff more, then they have to find the money by cutting something else, or by asking the Finance Minister for an increase to their baselines.

Over time, this developed into the fiscal provisions framework, which was Treasury's way of anticipating spending that hadn't happened yet. This is something like a pool of money ministers could use to increase departmental baselines if they wished.

This system evolved during the Michael Cullen years into the "allowances" system we have today. The Government sets itself an "allowance" of new money it will spend in the next four Budgets. A Government is free to make these as big or as small as it wishes, knowing big allowances may test the patience of our creditors and small ones may test the will of voters.

All, or mostly all (there are always workarounds) "new" discretionary spending needs to come from this pot of money.

In practice, this means a great deal of trading off. Funding something somewhere often means cutting spending somewhere else to pay for it.

This means the cost of all the new stuff in a Budget is often met with a combination of "new" money, which comes through the allowance, plus any money the Finance Minister can free up elsewhere.

The coalition Government has turned this into a bit of an art form. This week, Treasury's release of Budget documents showed that in every Budget since 2013, about 0.1-0.2% of GDP was cut from spending to be redeployed elsewhere.

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Under the coalition, however, these cuts have been lifted to about 1% of GDP in the last two Budgets and about 0.3% this year.

This meant that despite announcing new spending of more than 1% of GDP, the net impact of the initiatives was about 0.2% of GDP. It's an impressive record, reflecting the extent to which the Government has been able to fund new spending by metabolising old spending.

Which brings us back to that chart at the back of the Budget. The reason those funding forecasts don't show increases is the money hasn't been given to those departments yet. It is sitting in a different line (forecast new operating spending, for those following along at home) waiting for those departments to make the case to the Beehive that it should be given to them.

All of this is a roundabout way of saying that if you're one of the many thousands of people telling pollsters you're concerned about the state of public services, then that little funding line is important, because it is what decides whether departments get the money they need to keep the proverbial lights on over the next Parliament.

Which is why it's good to see political parties acting sensibly to protect it.

Just kidding.

The money is also allowed to be spent on "new" things, not just keeping the old stuff afloat.

This is meant to force ministers to make trade-offs between sustaining existing services and funding innovative new ones.

In practice, especially in an election year, it means political parties fund their election bribes by silently siphoning money away from future claims for public services.

When parties claim their policies are "fully funded" this is often what they mean – a policy funded by turning a blind eye to the atrophying of existing public services.

This is true even of Labour, which is campaigning on a pledge to create quality public services. In reality, the party has racked up close to a billion dollars of claims against increasing funding for government departments to do their jobs.

Labour's $525m (all costs over four years) promise to guarantee a job for graduate nurses, its $226m promise to expand Apprenticeship Boost, an $84m promise to improve Māori trades training, about $64m for free cervical screening, $12m for trainee sonographers, family doctor loan scheme administration costs, and the new office of AI are all set to be paid for out of the future operating allowance or departmental baselines.

That's money Labour has decided not to spend on funnelling into the increased cost of delivering the public services we already have – a real-terms cut.

If you think that's bad, National is doing this to a much greater degree.

Its $1.1 billion expansion of KiwiSaver, $356m paid parental leave expansion, $372.6m student loan relief and $12m subsidised loans for first-home buyers all pull the same funding trick.

The problem for all of this is the looming cost-pressure requirements of health.

Health gets battered not just by inflation, but by the cost of our ageing population, which means you essentially need to grow to stand still. Treasury thinks maintaining current service quality in health will require spending to grow from about 7.1% of GDP today up to 10% of GDP by 2065 – an increase of about $13.5b in today's dollars.

For the past three years, Labour and National have been sheltered by the accidentally bipartisan decision in 2023 to accept Treasury's cost pressure increase recommendation of about $1.37b a year for the next three years.

The last of those three years will end next June. The next finance and health ministers will decide, for the first time in three years, what health's cost pressure adjustment will be.

The pressure on the system is enormous.

Health New Zealand's annual report said its personnel costs were about $11.9b in the 2024/25 year ($12.3b if you included outsourced work).

Increasing these costs by 3% (below the current rate of inflation) would cost about $357.8m over a single year.

If you were to include all of these and increase Health NZ's total Crown funding ($24.2b) by 3%, it would set you back $728m. That figure doesn't include funding for the ageing population, Pharmac, or incentives to stop staff crossing the ditch.

Over at education, Budget estimates put aside $6.13b for teacher salaries (a slightly different figure that does not include other costs of employing people) in 2025/26. Increasing these by the same 3% would cost $184m.

All of these cost pressures must be funded from a tiny pot of money worth $2.4b a year, which is currently being raided by every political candidate from Bluff to Kaitāia.

Politicians should promise new things. They should innovate. Some of today's public services should be cut to make way for the new and better services of tomorrow. No organisation has an automatic right to increased funding and scarcity often drives innovation – finding new ways of doing more with less.

But it's a pity our political and public finance systems haven't come up with a way of grappling with the quiet dignity of standing still: knowing you have an ED full of decently paid staff and a school with small classes and decently paid teachers.

If we're going to Fix the Basics, we'd Better Start Now.