$12b Infrastructure Package

Transport was the big winner in the Government's $12b infrastructure package. It has resurrected and reshaped four of the projects identified by the previous National Government. By far the lion's share ($6.8b) will go to New Zealand's six main population growth areas – Auckland ($2.2b), Waikato, Bay of Plenty, Wellington, Canterbury and Queenstown.

Other components are:

- $1.1b for rail
- $400m for school upgrades and repairs
- $300m for health, and
- $200m to begin 'decarbonising' the public sector (primarily by switching from coal to biomass boilers in eight schools and one hospital).

Transport Rail Schools Health
Decarbonisation

Emissions trading scheme to be recast

The Emissions Trading Scheme (*ETS*) would be substantially recast through the Climate Change Response (Emissions Trading Reform) Amendment Bill, which is now before the Environment Committee to be reported back to the House on 2 April 2020. Key changes to the ETS will:

- set unit supply settings over a five year rolling horizon
- limit emissions unit volumes to align the ETS with the five year budgets provided for under the Zero Carbon Amendment Act
- provide for New Zealand Units (*NZUs*) to be auctioned, and remove the fixed price option (often considered a NZU price ceiling) from the start of auctioning
- start the phase-down of industrial allocations, and
- provide for a 'cost containment reserve' to control high prices, whereby extra units can be fed into the market to control prices if a trigger price is reached.

The Bill does not set specific volumes or prices. The settings for these will be determined by regulations, with submissions due by 28 February 2020. Proposals include:

- a provisional emissions reduction budget under the ETS of 354 Mt CO_2–e for 2021 to 2025 (which would require emissions reductions above what would be achieved under current policy settings of around 13 Mt CO_2–e). This will only apply to emissions that are regulated by the ETS
- limiting the number of NZUs available for auction, which is intended to force those ETS participants who have stockpiled NZUs to draw on that stockpile to meet their obligations
- raising the effective ceiling set by the fixed price option from $25 to $35 (for 2020 emissions liabilities) and removing it thereafter in favour of a cost containment reserve trigger price of $50, and
- imposing an auction reserve of $20 per NZU (this would not directly impact the secondary market but may impact price expectations on the secondary market).

Bill Discussion document

FMA levies to increase

The Ministry of Business, Innovation and Employment (*MBIE*) has put out for consultation three future funding paths for the Financial Markets Authority (*FMA*), based on an MBIE-commissioned review by PwC.

The three options are for a funding increase of $9.2m; $20.1m, and $24.8m. MBIE is seeking feedback on which is the most appropriate but says it prefers Option 3 as this would provide the FMA with "the ability to build considerable sector and regulatory expertise".

It also wants comment on whether:

- the increase should be fully levy funded or whether the current 75% levy/25% Crown split should be retained, and
- the single levy rate should be replaced by calibrated rates according to the degree of benefit received from participating in "a well-regulated environment" – a system which MBIE considers would mean higher contributions from banks, non-bank deposit takers, licensed insurers and registered or incorporated persons.

Submissions are due by 28 February 2020.

Consultation document

Kiwisaver changes recommended

The Commission for Financial Capability (*CFFC*) has recommended changes to KiwiSaver in its 2019 Review of Retirement Income Policies. Key among these are that:

- new KiwiSaver members who contribute at 3% of salary or wages for one year should have that rate rise automatically in small steps of 0.5% each 1 July until it reaches 10%, or until they opt out of the "Small Steps" programme
- this option should also be available by choice to existing employee members
- the government contribution (now 50c on the dollar to $521.43 a year) should increase to create a stronger savings incentive (say, $2 for every $1 up to $2000 a year) but be available only for the first (say) 12 years, and no longer payable on employee contributions through payroll
- employer contributions should be required beyond age 65, and
- the inclusion of KiwiSaver in total remuneration packages should be phased out.

It also recommends that New Zealand Superannuation should continue to be universally available from age 65 because "while expensive", it "delivers good value for money" and "is affordable on current settings and projections for at least the medium term".

Summary of recommendations