



19 May 2005

Budget

2005

Executive Summary

- MINISTER'S STATEMENT
- THE GOVERNMENT'S FINANCES AT A GLANCE
- NEW SPENDING IN BUDGET 2005

Hon Dr Michael Cullen
MINISTER OF FINANCE

EMBARGO

A rolling embargo applies to the content of these documents. Information relevant to any subject area discussed in the Budget Speech can be communicated once the Minister of Finance has completed discussing that area in the Speech. Areas not discussed in the Budget Speech are embargoed until the document is tabled in the House of Representatives by the Minister of Finance on Budget Day and must not be communicated in any form until that time.

Minister's Statement

Budget 2005 demonstrates the Government's commitment to achieving a more secure future for New Zealand. It continues our investment in social priorities and delivers significant new packages to support business and encourage savings.

Our approach to fiscal management is unchanged: to strengthen public finances to prepare for the future costs associated with an ageing population. This provides a solid fiscal foundation to support economic growth and from which we can deliver on our policy priorities.

The economy has continued to perform strongly, growing 4.8% in 2004. But growth slowed towards the end of 2004 and is forecast to slow further on the back of weaker net migration, recent interest rate increases, the higher exchange rate, and a forecast decline in the terms of trade. As is always the case, there are inherent risks around forecasts.

The fiscal position remains solid. Net worth is expected to increase over the forecast period as a result of the Government running operating surpluses, consistent with our fiscal strategy. Gross debt falls as a percentage of GDP over the forecast period to 20.2%. In nominal terms gross debt will rise towards the end of the forecast period as the Government will still need to borrow to finance all of its intentions (run a cash deficit).

In Budget 2005 we are able to advance significant new policy initiatives.

To encourage New Zealanders to save we are introducing *KiwiSaver*, a work-based savings scheme to help people save for their retirement, and a package of measures that will support people into their first home. This represents \$588.6 million of spending over the forecast period. In addition, we will index personal income tax thresholds to adjust for inflation from 1 April 2008, at a cost of \$428.0 million over the forecast period. These initiatives will help provide people with a more secure financial environment in which to plan.

To support business and economic growth, Budget 2005 provides \$1.9 billion of funding over four years net of carbon charge revenue. This includes a Business Package of tax measures that will improve New Zealand's access to worldwide capital and labour, improve the efficiency of business investment and reduce compliance costs. Further funding to programmes that support the Growth and Innovation Framework and investment in infrastructure will also help boost productivity.

We are continuing to emphasise the key social sectors in Budget 2005, including \$1.4 billion of new funding for the education sector and \$4.3 billion for the health sector over the forecast period. And to contribute to a safer New Zealand we will spend \$1,314.1 million of operating and \$782.3 million of capital to help rebuild the New Zealand Defence Force and strengthen justice and policing. We will also provide \$312.9 million to help protect New Zealand's unique environment and heritage.

Budget 2005 is about securing a future for New Zealanders. To help achieve that objective, the Government is very aware of the need to ensure its own spending path is sustainable. For this reason the growth in spending in future Budgets will need to be slower than that seen in Budgets 2004 and 2005.

This Government's policies will help provide a stable and fair future for all New Zealanders; a future where individuals and businesses can plan, and a future that provides everyone with opportunities to participate.

A handwritten signature in black ink, appearing to read 'M. Cullen', with a long horizontal stroke extending to the right.

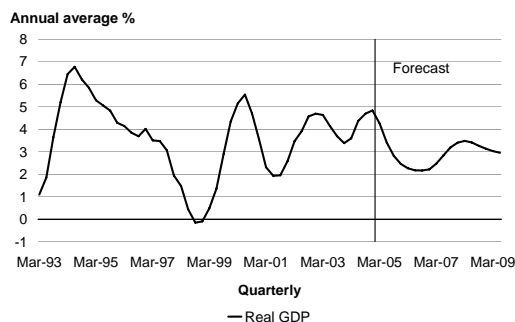
Hon Dr Michael Cullen
Minister of Finance

12 May 2005

The Government's Finances at a Glance

New Zealand's Economy

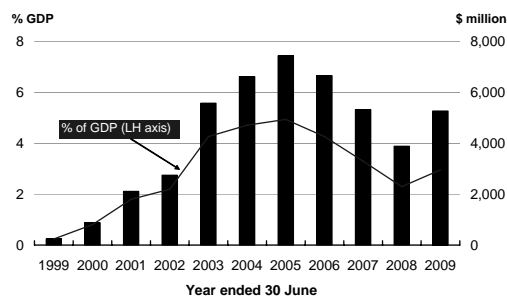
Real GDP growth



Sources: Statistics New Zealand, The Treasury

- The New Zealand economy grew 4.8% in the year to December 2004, and the unemployment rate fell to 3.6%.
- Growth slowed towards the end of 2004 and is forecast to slow further to 2.3% in the year to March 2006 and 2.5% in the year to March 2007. Growth is forecast to then rebound to 3.5% in the March 2008 year.
- A high exchange rate is expected to constrain export growth, while recent interest rate increases and easing net migration see domestic activity slow.
- Subdued export growth together with a forecast decline in the terms of trade sees the current account approach 7% of GDP in 2006/07 before declining over the rest of the forecast period.

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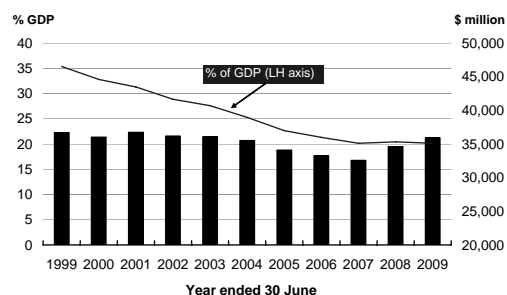


Source: The Treasury

The Government's Fiscal Position

- After allowing for operating and investing decisions, the Government has \$2.4 billion cash available for debt repayment in 2004/05 and \$0.03 billion in 2005/06. The following three years show an average cash deficit of \$1.9 billion per annum.
- The Government's OBERAC is forecast to be \$7.4 billion in 2004/05. It is expected to average around \$5.3 billion over the period 2005/06 to 2008/09.
- The Government's net worth is forecast to be \$42 billion in 2004/05 and is expected to increase to \$63.1 billion by 2008/09.
- Gross sovereign-issued debt as a percentage of GDP is forecast to reduce slowly from 22.6% in 2004/05 to 20.2% by 2008/09.
- In nominal terms gross sovereign-issued debt rises near the end of the forecast period, partially reflecting the cash requirement.
- Over the next three Budgets the allowances for new spending are \$1.9 billion grown by inflation. Remaining capital spending has been set at \$646 million in 2006/07, and \$750 million in each of 2007/08 and 2008/09.

Gross sovereign-issued debt



Source: The Treasury

FAQ: Do we think about Fiscal Position?

What is the Fiscal Strategy?

The Public Finance Act requires the Government to act in accordance with the principles of responsible fiscal management. These principles include reducing and maintaining debt at prudent levels; and maintaining levels of net worth sufficient to provide a buffer against future shocks.

This Government's fiscal strategy is to strengthen public finances over the longer term to prepare for the future fiscal costs associated with an ageing population. It does this by:

- accumulating financial assets through contributions to the New Zealand Superannuation (NZS) Fund
- managing debt at prudent levels with gross sovereign-issued debt as a percentage of GDP slowly reducing over the longer term, passing through 20% by 2015.

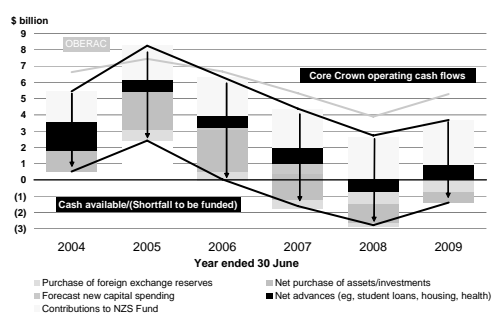
This strategy requires us to limit growth in spending over the next couple of decades so we can avoid entering the period of more marked demographic change in a poor fiscal position. To give effect to this, we choose to run operating surpluses over the economic cycle sufficient to meet the NZS Fund contributions and most of the Government's other capital spending needs, rather than borrowing for this purpose.

Why Look at Different Measures of the Fiscal Position?

Different indicators provide important information on the Government's activity and its progress against its fiscal strategy. No one indicator can explain everything so it is important to look at a range of indicators. For example:

- the operating balance reflects the difference between current revenues (tax revenue, investment income etc) and current expenses (salaries, benefit payments etc). The operating balance is the key influence on net worth (total assets less total liabilities of the Crown). Net worth shows whether the Government has been able to strengthen its fiscal position, which is its overall fiscal strategy
- the cash flow from operating and investing activities provides an indication of the net effect of the Government's operating (cash equivalent of the operating balance) and investing activities (contributions to the NZS Fund, purchases of physical assets etc). The residual is sometimes referred to as the cash surplus/(deficit). Where there is a cash deficit the Government needs to finance its activities by increasing borrowings or selling surplus financial assets. The cash surplus/(deficit) influences gross sovereign-issued debt, a key fiscal objective in the Government's fiscal strategy.

Use of the operating surplus



Source: The Treasury

New Spending in Budget 2005

The Government continues to progress its key economic and social priorities...

In Budget 2005 the Government continues its investment in key economic and social priorities, while maintaining its fiscal strategy to prepare for the future costs of an ageing population.

The economy has continued to perform well over the past year and while growth is expected to slow, it is expected to remain above 2%. The strong economy and sound fiscal management flow through to a strong fiscal position.

In Budget 2004 the Government delivered a social dividend to low- and middle-income families in the form of Working for Families.

Budget 2005 builds on our previous social investment as well as delivering a strong economic focus by:

- encouraging a savings culture in New Zealand, primarily through a work-based savings scheme
- supporting business through a range of tax measures and other initiatives that will boost productivity
- indexing personal tax thresholds to maintain purchasing power.

In taking decisions about Budget 2005 we have been mindful of the current state of the economy and spread capital spending to avoid adding undue inflationary pressure to the economy.

Overview of Expenditure

Spending on core Crown expenses is around \$45.3 billion in 2004/05. Decisions taken in previous Budgets will add to this in coming years. In addition to these base increases, Budget 2005 will deliver:

- *new* operating spending of \$2.0 billion in 2005/06, rising to \$2.7 billion in 2008/09
- \$1.8 billion *new* capital spending over the next four years (with \$866.1 million delivered in 2005/06)
- a \$2.3 billion *contribution* to the NZS Fund in the 2005/06 year. The value of the NZS Fund is expected to rise from \$6.5 billion at 30 June 2005 to \$19.4 billion over the next four years.

What does new spending cover?

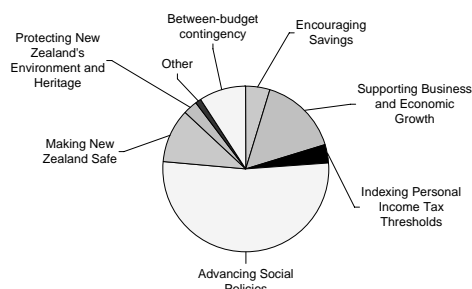
The “new” funding provided for in a Budget is required to cover a number of demands:

- the rising cost of existing policies (from rising prices, wages, or demographics)
- the rollout of some existing policies
- legislative requirements
- new initiatives.

Consequently, a significant portion of funding in a given Budget will be needed to maintain existing policy, rather than being devoted to new initiatives.

New operating spending in Budget 2005

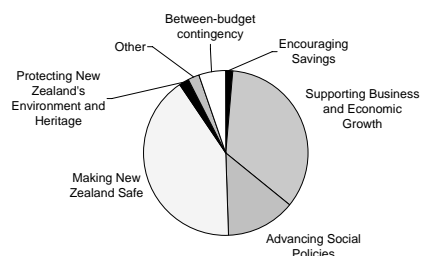
New operating spending (% over four years)



Source: The Treasury

(\$ million) GST excl	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Encouraging Savings	0.3	14.5	105.7	300.9	167.2	588.6
Supporting Business and Economic Growth	6.7	334.7	348.3	1,017.6	205.4	1,912.7
Indexing Personal Income Tax Thresholds	-	-	-	68.0	360.0	428.0
Advancing Social Policies	126.6	1,326.3	1,643.1	1,688.2	1,682.9	6,467.1
Making New Zealand Safe	73.4	253.1	286.4	341.0	360.3	1,314.1
Protecting New Zealand's Environment and Heritage	15.5	77.0	77.0	74.0	69.4	312.9
Other	35.9	41.8	34.1	25.2	24.3	161.4
Between-Budget Contingency	31.1	270.8	282.9	270.8	262.3	1,117.8
Thin capitalisation changes	-	(240.0)	(360.0)	(360.0)	(360.0)	(1,320.0)
Forecast movements and unspent 2004 Budget contingencies	(38.6)	(84.7)	(93.2)	(91.8)	(80.6)	(388.9)
Total Budget 2005 Operating	251.0	1,993.5	2,324.3	3,333.9	2,691.2	10,593.8

New capital spending (% over four years)



Source: The Treasury

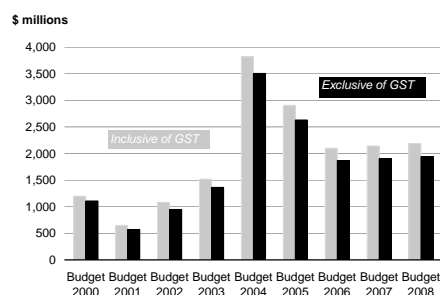
New capital spending in Budget 2005

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Encouraging Savings	-	12.8	14.8	-	-	27.6
Supporting Business and Economic Growth	79.0	29.5	117.9	240.7	193.5	660.6
Advancing Social Policies	19.5	35.0	100.6	116.1	(10.4)	260.8
Making New Zealand Safe	56.3	617.2	108.2	(9.0)	9.5	782.3
Protecting New Zealand's Environment and Heritage	(22.1)	45.6	11.9	1.2	1.2	37.8
Other	1.5	26.0	12.9	3.4	1.5	45.3
Between-Budget Contingency	-	100.0	-	-	-	100.0
Total Budget 2005 Capital	134.1	866.1	366.3	352.5	195.3	1,914.3

Note: the numbers in this document may not add due to rounding.

This document provides more detail on the above spending. All figures are four year totals (2005/06 to 2008/09) unless otherwise stated.

Budget Comparison



Source: The Treasury

Why is the Budget now presented GST-exclusive?

The Public Finance Amendment Act passed in December 2004 requires expenditure items in the 2005/06 Estimates to be shown on a GST-exclusive basis (except existing multi-year appropriations). Spending was previously appropriated as GST inclusive, where applicable.

Although the Government pays out GST on appropriations, it then receives it back through the tax system. It is a neutral transfer. Removing GST from appropriations better reflects net government spending in a particular area. This change does not affect the fiscal forecasts in the *Economic and Fiscal Update* as these have always been presented GST-exclusive.

In comparing past funding levels with current funding levels, please keep in mind the removal of GST from 2005/06.

Encouraging Savings

Budget 2005 aims to encourage a savings culture in New Zealand...

Encouraging Savings: Where are the dollars going?

Operating

(\$ million) GST excl	2004/05	2005/06	2006/07	2007/08	2008/09	Total
KiwiSaver	0.3	6.5	89.9	279.9	142.9	519.4
Home Ownership Assistance	-	8.0	15.8	21.0	24.3	69.2
Total Operating	0.3	14.5	105.7	300.9	167.2	588.6

Capital

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Total Capital	-	12.8	14.8	-	-	27.6

Encouraging Savings: What are the benefits?

A key theme of Budget 2005 is encouraging New Zealanders to save for their retirement and helping them into their first home.

The key feature is the creation and administration of a work-based savings scheme, *KiwiSaver*. Individuals can make contributions from their wages and salary (via Inland Revenue) to private fund providers to save for their retirement, with a one-off draw-down available for first home ownership.

Employers may also contribute. The scheme includes:

- a \$1,000 upfront contribution to those who open a *KiwiSaver* account and an ongoing fee subsidy (to be negotiated with providers) (\$384.0 million over the forecast period)
- funding to implement and then operate the *KiwiSaver* scheme, including provision for a generic financial literacy programme (operating \$135.2 million, capital \$27.6 million).

The *KiwiSaver* draw down complements other *home ownership assistance*:

- expanding the existing Mortgage Insurance Scheme (MIS) to assist 16,000 households able to service a mortgage but lacking a sufficient deposit to access one (\$60.9 million)
- a home ownership education programme to improve the knowledge of 16,000 people, primarily first home buyers, as to what home ownership involves (\$8.4 million)
- additionally, from April 2010, a deposit subsidy to assist first home buyers who have participated in *KiwiSaver* for at least three years (funded at up to \$35.0 million per annum).

The Government is also seeking expressions of interest from interested providers to offer a dedicated tertiary education savings scheme.

... providing mechanisms to help people save for their retirement...

... and supporting them into their first home.

Supporting Business and Economic Growth

Budget 2005 continues the Government's commitment to increase New Zealand's growth potential.

Supporting Business and Economic Growth: Where are the dollars going?

Operating

(\$ million) GST excl	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Business Package of Tax Measures	-	229.1	239.1	145.0	96.4	709.6
deferral of tax payment June to July	-	-	-	760.0	-	760.0
Growth and Innovation	0.1	88.2	96.5	100.5	96.9	382.2
Transport	-	8.7	5.9	5.8	5.8	26.2
Other Support to Business	6.6	8.6	6.8	6.3	6.3	34.7
Total Operating	6.7	334.7	348.3	1,017.6	205.4	1,912.7

Capital

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Growth and Innovation	(1.0)	6.5	1.9	0.7	0.5	8.6
Transport	80.0	22.9	115.0	240.0	193.0	650.9
Other Support to Business	-	0.1	1.0	-	-	1.1
Total Capital	79.0	29.5	117.9	240.7	193.5	660.6

The Business Package of tax measures aims to improve the efficiency of business investment and reduce compliance costs.

Supporting Business and Economic Growth: What are the benefits?

The Business Package

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Carbon Tax	-	-	(79.9)	(321.9)	(319.2)	(721.0)
Financial Intermediaries	-	-	-	120.0	100.0	220.0
Depreciation	-	219.0	276.0	260.0	222.0	977.0
Fringe Benefit Tax	-	7.0	28.0	28.0	28.0	91.0
Provisional Tax Simplification	-	-	-	46.0	53.0	99.0
deferral of tax payment June to July	-	-	-	760.0	-	760.0
International Recruitment	-	-	11.5	11.5	11.5	34.5
Implementation	-	3.1	3.5	1.4	1.1	9.1
Total Operating	-	229.1	239.1	905.0	96.4	1,469.6

Budget 2005 includes a Business Package of tax measures to improve New Zealand's access to worldwide capital and labour, help ensure the more productive use of capital, and reduce compliance costs for businesses. These measures will:

- remove the over-taxation of portfolio investment through financial intermediaries relative to direct investments (\$220.0 million)

- remove the depreciation bias against investment in short-life assets, and reduce compliance costs by increasing the low-value asset threshold (\$977.0 million)
- streamline the fringe benefit tax regime and align GST and provisional tax payments (\$190.0 million); additionally, in deferring provisional tax payment dates in 2007/08 to 2008/09, there is a delay of \$760.0 million in tax revenues
- assist international recruitment through a temporary tax exemption on foreign income of new migrants (\$34.5 million).

The cost of these initiatives will be partly offset by the introduction of a carbon tax from 1 April 2007 (\$721.0 million revenue).

Other tax changes will reduce barriers to the development of a New Zealand securities lending market and improve the ability of growing companies to attract new equity investment for Research and Development (R&D).

The Growth and Innovation Framework

Budget 2005 focuses on building the skills and talent of our workforce, deepening our trade and knowledge links with other countries, and improving the ability of our firms to develop and exploit bright new ideas. Key elements include:

- increasing skill development through additional industry training places, modern apprenticeships, and workplace numeracy and literacy programmes (\$44.6 million)
- increasing the gains from international partnerships by investing in negotiation, implementation and trading partner relationships, and promoting New Zealand as a tourist destination (\$40.0 million)
- improving communities' access to and skills with information and communications technology (ICT), and boosting productivity from ICT investment (\$49.1 million operating and \$4.6 million capital)
- increasing funding for business R&D, streamlining access to business R&D support programmes, and further building the capability of the public science system to generate and apply ideas that benefit our businesses and environment (\$121.8 million)
- increasing funding for business R&D and streamlining access to business R&D support programmes (\$71.9 million)
- funding for the public science system to generate and apply ideas that benefit our business and improve New Zealander's health (\$118.0 million)

... building the skills and talent of our workforce...

... and investing in key infrastructure.

Transport

Budget 2005 provides significant funding to the transport sector. This includes:

- additional funding to improve land transport (\$300.0 million capital over three years)
- the construction of a toll road between Albany and Puhoi (ALPURT B2) (\$158.0 million of debt funding)
- funding to improve the capability and leadership of the Ministry of Transport (\$16.9 million).

This funding is in addition to the previously announced \$225.0 million over 10 years for the Wellington region as part of the Wellington Transport Package. These increases are on top of the recent increases in fuel excise duty and road user charges that will be used to improve land transport infrastructure.

Indexing Personal Income Tax Thresholds

Personal income tax thresholds will be adjusted for inflation.

Indexing Personal Income Tax Thresholds: Where are the dollars going?

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Total Operating	-	-	-	68.0	360.0	428.0

Indexing Personal Income Tax Thresholds: What are the benefits?

Most taxpayers on this marginal tax rate...	... will pay this much less tax a year...
21%	\$35
33%	\$314
39%	\$534

Budget 2005 introduces a policy of adjusting the low-income earner rebate and personal income tax thresholds for inflation every three years. The adjustments will be based on annual inflation of 2%, being the mid-point of the Reserve Bank's target inflation band. The first adjustment will come into effect on 1 April 2008, and will increase tax thresholds as shown below:

	Current level	New level as at 1 April 2008
Lower threshold	\$9,500	\$10,081
Middle threshold	\$38,000	\$40,324
Upper threshold	\$60,000	\$63,672

Marginal tax rates will remain unchanged.

Advancing Social Policies

Social policy continues to be a significant feature of Government spending...

Advancing Social Policies: Where are the dollars going?

Operating

(\$ million) GST excl	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Health	164.9	973.7	987.1	1,050.6	1,096.4	4,272.8
Education	(38.8)	188.7	427.3	401.5	358.4	1,337.1
Social Development & Housing	1.0	79.1	75.4	80.8	75.5	311.9
Justice	0.4	10.3	21.4	23.9	21.0	76.9
Other	(0.8)	74.3	132.0	131.4	131.6	468.4
Total Operating	126.6	1,326.3	1,643.1	1,688.2	1,682.9	6,467.1

Capital

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Health	-	(125.2)	37.0	112.2	-	24.0
Education	8.1	81.1	(4.0)	(14.4)	(24.5)	46.4
Social Development & Housing	0.5	76.3	63.6	18.0	13.7	172.0
Justice	-	0.5	-	-	-	0.5
Other	10.9	2.8	4.0	0.3	0.3	18.4
Total Capital	19.5	35.4	100.6	116.1	(10.4)	261.3

Advancing Social Policies: What are the benefits?

... with over a billion dollars additional spending each year in the health sector by 2008/09...

The Health Sector

Budget 2005 includes \$4.3 billion in new funding for the health sector over the forecast period. This is made up of the Health Funding Package (HFP) (\$1.9 billion) plus additional Government investment. A significant proportion of the HFP is spent on maintaining real, population adjusted funding for the health and disability sector. Key initiatives include:

- funding for the establishment of the Cancer Control Council and implementing the Cancer Control Action Plan, including further funding for the extension of free breast screening to women aged 45-49 and 65-69 (\$142.0 million)
- the rollout of the Primary Health Care Strategy to people aged 18 - 24, reducing first contact fees and pharmaceutical co-payments (\$74.4 million) and funding for the higher than anticipated uptake of the Strategy (\$196.4 million)
- doubling the number of hip and major joint replacements by 2007/08 (an additional \$73.8 million to funding announced in Budget 2004) and partially funding with District Health Boards (DHBs) a 50% increase in cataract interventions (\$23.9 million)

... and further investment in education to improve the opportunities available to New Zealanders to realise their potential...

- changes to asset testing from 1 July 2005, enabling older people in residential care to retain more of their assets (\$438.0 million)
- additional funding for disability support and aged care services (\$135.0 million)
- contributions to DHBs for the nurses' pay settlement (\$549.5 million).

The Education Sector

Budget 2005 delivers \$1.4 billion new spending over the forecast period to improve quality in our education system. This is in addition to spending decisions funded from 2004 Budget funds, totalling \$1.0 billion, and is offset by forecasting changes of \$0.1 billion over the forecast period. Key investments since Budget 2004 include:

- investment in early childhood education to further implement the Early Childhood Education Strategic Plan announced in 2002 (\$151.7 million)
- increasing school operations grants for all state schools by 2.4 percent from January 2006 (\$77.8 million)
- providing for an extra 421 full-time teachers in secondary, area and middle schools (\$91.3 million)
- efforts to better reward excellence in tertiary education, increasing investment in the Performance Based Research Fund (\$75.5 million)
- a student support package to improve access to tertiary education and reward our best performing students with bonded scholarships (57.5 million).

Social Development and Housing

Budget 2005 will deliver significant amounts of funding for social development and housing, including funding for:

Children

- early intervention for vulnerable children and families including support for children who witness family violence, expanding the Family Start scheme and piloting well-child and early childhood education initiatives (\$40.0 million)
- greater assistance for child care to increase the participation of women in the labour market (\$54.3 million)
- funding for the Department of Child, Youth and Family Services to address the costs of the increased number of notifications of abuse and neglect in at-risk children and young people (\$25.8 million over two years)

Changes in education funding ...

(\$ million) GST excl	Total
Explicit Decisions since Budget 2004	2,461.7
Less use of Budget 2004 Contingency funding	(1,022.8)
Budget 2005 New Initiatives Funding	1,438.9
Forecast Changes to Existing Base	(101.8)
Net New Funding in Budget 2005	1,337.1

There is extra support for social development and housing...

Housing

- capital funding for Housing New Zealand Corporation (HNZC) to meet state housing acquisition targets and acquire land for development (\$194.9 million)
- continuing the Healthy Housing, Community Renewal and Rural Housing programmes for another three years (\$32.6 million)
- strengthening the capability of the new Department of Building and Housing and the HNZC (\$24.5 million operating, \$4.4 million capital)

Social Assistance

- a new integrated service for sickness and invalid beneficiaries (\$27.7 million)
- helping long-term unemployed back into work (\$18.9 million)
- a single rate of superannuation for married couples when one partner is in permanent care (\$24.3 million).

The Justice Sector

Budget 2005 delivers new funding to improve access to justice and support early intervention. This will:

- assist around 435,000 lower-income people who are unable to afford legal representation, but are not eligible for financial legal aid (\$57.4 million)
- enhance early intervention and youth justice, (\$20.1 million).

Other

We are also advancing other objectives including:

- revising the thresholds and entitlements of the Rates Rebate Scheme so that, from 1 July 2006, up to 300,000 low income ratepayers will be eligible for a rates rebate of up to \$500 per year (\$150.8 million)
- increasing New Zealand's Official Development Assistance to 0.27% of Gross National Income in 2005/06 (\$205.3 million)
- Kapohia Nga Rawa, providing community workers to work with whanau, giving information and advice to help facilitate better choices in education, career planning, financial management and housing (\$14.8 million).

Included in *Advancing Social Policy* funding are initiatives that particularly support Progressive Coalition policies relating to drug and alcohol abuse, and depression (\$13.6 million).

... and funding to contribute to a fairer, more credible and more effective justice system.

Making New Zealand Safe

Budget 2005 will continue our efforts to make New Zealand safe...

Making New Zealand Safe: Where are the dollars going?

Operating

(\$ million) GST excl	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Defence	1.5	87.1	99.0	128.0	135.8	451.4
Justice	71.2	124.7	140.6	172.8	184.7	693.9
Customs and Immigration	-	8.6	12.0	14.3	14.0	48.9
Other	0.8	32.6	34.8	25.9	25.8	119.9
Total Operating	73.4	253.1	286.4	341.0	360.3	1,314.1

Capital

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Defence	-	410.0	-	-	-	410.0
Justice	56.3	183.7	101.9	(9.0)	9.5	342.4
Customs and Immigration	-	4.2	0.9	-	-	5.1
Other	-	18.9	5.4	-	-	24.3
Total Capital	56.3	616.8	108.2	(9.0)	9.5	781.8

Making New Zealand Safe: What are the benefits?

Defence

Budget 2005 provides additional spending of \$451.4 million over the forecast period to support the Defence Sustainability Initiative (DSI). New funding and initiatives in 2005/06 include:

- beginning to address the issues identified in the Defence Capability and Resourcing Review (DCARR) (\$281.0 million)
- preparing for and bringing into service the seven new vessels that are to be acquired for the Navy under Project Protector (\$165.5 million)
- expanding the policy capability of the Ministry of Defence (\$3.4 million).

We are also investing \$410.0 million in capital as part of the Long-Term Development Plan, including upgrades of the P-3 Orion and the C-130 Hercules, and the purchase of maritime patrol vessels (Project Protector) and medium-range anti-armour weapons.

... demonstrating our commitment to shaping and rebuilding the New Zealand Defence Force...

What is the Defence Sustainability Initiative?

The DSI and Project Protector will increase the NZDF's baseline by \$4.6 billion (operating and capital) over the next 10 years, providing the NZDF with a high degree of funding assurance into the future. The DSI is designed to provide the NZDF with the funding required to address the deficiencies identified by the DCARR in the areas of:

- increasing personnel numbers, and enhanced training and retention
- aligning major weapons platforms with the Government's intentions and raising the standard of military equipment
- returning contingency reserve stocks to acceptable levels
- significantly reducing the backlog of maintenance and capital expenditure in the Defence estate
- strengthening administration and management systems.

The Justice Sector

Budget 2005 will help ensure safer communities by:

***... and ensuring
New Zealanders live
in safer communities.***

- providing additional sworn Police frontline officers and improved technology (\$41.3 million operating and \$16.5 million capital)
- improving the Police 111 emergency system (\$45.5 million operating and \$4.3 million capital)
- proceeding with the Ministry of Justice baseline review, which includes a focus on reducing backlogs and improving case disposal rates (\$125.7 million operating and \$30.8 million capital).

In addition, we are providing \$171.0 million of capital spending for the completion of two new corrections facilities.

Other

Budget 2005 devotes funds to improve the integrity of New Zealand's borders and immigration systems and the safety of New Zealand staff seconded overseas. This includes increasing staffing levels at international airports, investing in new technology and intelligence upgrades, and upgrading security at some offshore offices (\$34.9 million operating and \$4.6 million capital).

We have approved funding to achieve security and integrity requirements for identity data systems and documents, to help address international security and identify fraud issues (\$17.0 million operating and \$5.5 million capital).

Protecting New Zealand's Environment and Heritage

Budget 2005 delivers significant funding to protect New Zealand's unique environment and heritage...

Protecting New Zealand's Environment and Heritage: Where are the dollars going?

Operating

(\$ million) GST excl	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Sustainability/Conservation	15.4	62.3	65.2	62.8	60.1	265.8
Arts, Culture and Heritage	0.1	14.7	11.8	11.2	9.3	47.1
Total Operating	15.5	77.0	77.0	74.0	69.4	312.9

Capital

(\$ million) GST N/A	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Sustainability/Conservation	(26.3)	41.3	5.4	0.2	0.2	20.8
Arts, Culture and Heritage	4.1	4.3	6.5	1.0	1.0	16.9
Total Capital	(22.1)	45.6	11.9	1.2	1.2	37.8

Protecting New Zealand's Environment and Heritage: What are the benefits?

... to sustain and improve our natural environment...

Sustainability/Conservation

Key investments in New Zealand's natural environment include:

- implementing the reforms in the Resource Management Act Review, the Maori Fisheries Act, the Aquaculture Reform legislation and the Foreshore and Seabed Act (\$60.4 million)
- progressing climate change outcomes through a range of initiatives to reduce greenhouse gas emissions and improve energy efficiency (\$29.6 million)
- improving the productivity and environmental performance of the primary sector through the continuation of the Sustainable Farming Fund (\$26.3 million)
- new funding to maintain the Department of Conservation's capacity to deliver its core functions (\$24.6 million)
- further investment in environmental research, including marine biodiversity and ecosystems research (\$17.8 million), and Envirolink: connecting science with management for environmental benefit (\$7.1 million)
- improving the detection of, and response to, biosecurity threats (\$12.4 million)
- helping to ensure the sustainable utilisation of our fisheries resources by targeting poaching and black market activities and improving engagement with the recreational sector (\$12.4 million)

- promoting sustainable business practices through reducing the production and impact of waste and encouraging recycling (\$12.4 million)
- enhancing New Zealanders' enjoyment of our natural resources through improved walking access (\$7.6 million).

... and ensure opportunities to enjoy our culture and heritage.

Arts, Culture and Heritage

Budget 2005 includes additional funding for culture and heritage:

- maintaining capability in New Zealand's leading arts and heritage organisations, including the New Zealand Symphony Orchestra, Te Papa, Creative New Zealand and the major performing arts companies supported by Creative New Zealand (\$18.3 million operating and \$12.8 million capital)
- protecting New Zealand's heritage through support for the Auckland War Memorial Museum, the New Zealand Film Archive and the Antarctic Heritage Trust, and commemorating New Zealand's contributions in World War One and the Korean War (\$5.9 million)
- advancing the Government's Public Broadcasting Programme of Action, including support for NZ On Air and Radio New Zealand (\$42.2 million operating and \$3.8 million capital).

Guide to the Budget Documents

A number of documents are released on Budget day. The intent of these documents is to provide information about the Government's spending intentions; its performance; and the wider fiscal and economic picture.

The Budget documents, ordered from widest to most specific coverage, are as follows:

Executive Summary

The *Executive Summary* is the overview of all the Budget information and contains the key points for the media and general public. It summarises the Government's spending decisions and generally focuses on issues raised in the Budget Speech, the *Budget Economic and Fiscal Update* and the *Fiscal Strategy Report*.

Budget Speech

The Budget Speech is the Minister of Finance's speech at the start of Parliament's debate about the Estimates. The Speech generally focuses on the overall fiscal and economic position, and how the Government will fund its policy priorities.

Fiscal Strategy Report

The *Fiscal Strategy Report* measures how the Government is going against its overall goals in areas such as achieving debt objectives. It includes:

- fiscal trends covering at least the next 10 years
- a comparison with the long-term fiscal objectives set out in the *Budget Policy Statement*.

The Government must explain any changes between the *Fiscal Strategy Report*, the *Budget Policy Statement* and the previous year's *Fiscal Strategy Report*.

Budget Economic and Fiscal Update

This document includes the Treasury's overall economic and fiscal forecasts. The *Budget Update* includes the implications of government financial decisions and other information relevant to the fiscal and economic position.

The Estimates of Appropriations

The *Estimates* outline how much money the Government plans to spend on each specified area or "Vote". The *Supplementary Estimates* outline the additional money required to cover the previous year's spending.

Departmental Statements of Intent

The *Statement of Intent* provides information about how each government department intends to manage for outcomes over the next three to five years. The *Statement of Intent* contains annual financial and output class information required under the Public Finance Act 1989.

Internet

These documents will be made available on the New Zealand Treasury's Internet site.

The URL for this site is www.treasury.govt.nz.