

CAB Min (06) 44/6

2007 Budget Strategy

On 27 November 2006 Cabinet:

**Macroeconomic Environment**

- 1 noted that the macroeconomic environment, in particular high inflation and a large current account deficit, means there is a need to constrain any new spending in the short-term or risk interest rate increases, a higher exchange rate and a more prolonged economic slowdown;
- 2 noted that once these macroeconomic constraints have eased, we can dedicate increased funding towards advancing our priorities;

**Operating and Capital Allowances**

- 3 agreed to increase the operating allowance for Budget 2008 by \$1 billion per annum, with this extra funding to be dedicated to the business tax package;
- 4 confirmed the following allowances for Budgets 2007 to 2009:

Operating allowances	Operating balance impact (\$ millions)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
Budget 2007	23	1,904	1,887	1,950	1,979
Budget 2008	-	-	2,977	2,977	2,977
Budget 2009	-	-	-	2,016	2,016

Capital allowances	Gross debt impact (\$ millions)						Total
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	
Budget 2007	20	362	193	283	-	-	858
Budget 2008	-	20	200	200	150	-	570
Budget 2009	-	-	20	200	220	200	640

5 agreed to the following operating allocations for the 2007 Budget:

Operating allocations	Operating balance impact (\$ millions)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
<b>Families - Young and Old</b>					
Health pre-commitment	-	750	750	750	750
Remaining FYO allocation	14	320	320	320	320
<b>Total Families - Young and Old</b>	14	1,070	1,070	1,070	1,070
<b>Economic Transformation</b>					
Tertiary Component Funding Rate Changes	-	29	57	57	57
Remaining ET allocation	5	100	100	100	100
<b>Total Economic Transformation</b>	5	129	157	157	157
<b>National Identity</b>					
Defence Funding Package	-	58	58	58	58
Official Development Assistance	-	38	38	38	38
Remaining NI allocation	-	25	25	25	25
<b>Total National Identity</b>	-	121	121	121	121
<b>Other</b>					
Removal of Carbon Charge	-	347	344	349	349
SSCWT Exemption for KiwiSaver	-	35	71	104	133
Overspend of the Budget 2006 contingency	4	83	4	29	29
Remaining Other allocation	-	20	20	20	20
<b>Total Other</b>	4	485	439	502	531
2007/08 between-budget contingency	-	100	100	100	100
<b>Total Budget 2007 new operating funding</b>	23	1,904	1,887	1,950	1,979

6 agreed to the following capital allocations for Budget 2007, which include modest capital allocations for themes to fund the small (less than \$5 million) capital components of predominantly operating initiatives:

Capital allocations	Gross debt impact (\$ millions)				Total
	2006/07	2007/08	2008/09	2009/10	
Families - Young and Old	-	20	-	-	20
Economic Transformation	-	20	-	-	20
National Identity	-	5	-	-	5
Remainder to be managed centrally	20	317	193	283	813
<b>Total Budget 2007 new capital funding</b>	<b>20</b>	<b>362</b>	<b>193</b>	<b>283</b>	<b>858</b>

## Theme Objectives for Budget 2007

7 agreed to the following theme objectives for Budget 2007:

### 7.1 Economic Transformation:

7.1.1 increasing international connections of firms to overcome constraints of size and distance, particularly those associated with knowledge diffusion by (in order of importance):

7.1.1.1 focusing on exports;

7.1.1.2 supporting the immigration of skilled migrants;

7.1.1.3 improving our ICT infrastructure and uptake in business;

7.1.2 lifting firms' innovative and absorptive capacity to improve knowledge creation and knowledge diffusion within firms and between firms by (in order of importance):

7.1.2.1 continuing to align tertiary level student skills more closely with the needs of businesses by raising high-end skills such as management capability and research and technical skills;

7.1.2.2 lifting investment in innovation and research and development particularly by firms;

7.1.2.3 improving research linkages between firms, Crown Research Institutes and Tertiary Education Institutes;

7.1.3 create a world-class Auckland, including by leveraging off the Rugby World Cup 2011, to (in order of importance):

7.1.3.1 catalyse and support changes in Auckland's leadership and strategic vision;

7.1.3.2 address inefficiencies and underinvestment in infrastructure to correct bottlenecks and failures, in particular in transport and energy;

7.1.3.3 lift New Zealand's profile internationally to create new business opportunities;

- 7.1.4 improving the value derived from the sustainable use and management of natural resources by (in order of importance):
  - 7.1.4.1 moving to a low greenhouse gas (OHO) emissions economy through improved energy efficiency and greater technology uptake and development;
  - 7.1.4.2 improving land and water management;
  - 7.1.4.3 minimising economic risk associated with environmental impacts;
- 7.1.5 improving foundation skills and boosting labour participation with a focus on under-represented groups in the workforce;
- 7.1.6 improving security of energy supply, transmission and investment in energy efficiency; ensuring efficient use of existing transport infrastructure and high quality investment in transport;
- 7.1.7 increasing private savings and continuing other efforts to deepen capital markets;
- 7.2 Families — Young and Old:
  - 7.2.1 giving our children the best start in life;
  - 7.2.2 effective interventions in the Justice sector;
  - 7.2.3 eliminating family violence;
  - 7.2.4 establishing foundations for life long learning;
  - 7.2.5 improving quality and affordability of housing;
  - 7.2.6 positive choices for older New Zealanders;
  - 7.2.7 reducing obesity;
- 7.3 National Identity:
  - 7.3.1 celebrating and developing our arts and culture;
  - 7.3.2 connecting with, understanding and celebrating our heritage;
  - 7.3.3 encouraging participation and achievement in sport;
  - 7.3.4 New Zealand in the world;
  - 7.3.5 recreation, conservation and the environment;
  - 7.3.6 reconciliation;

7.3.7 building a cohesive society;

7.3.8 reinforcing community;

- 8 noted that as part of advancing these theme objectives, climate change issues are likely to be a significant priority;
- 9 agreed that in preparing a theme package, theme groups may choose to focus on a sub-set of these theme objectives, rather than feeling that they must allocate some funding to all of the objectives;

### **Reprioritisation and Savings**

- 10 agreed that where savings are identified by Vote Ministers through the initiatives phase of the Budget:
- 10.1 savings of less than \$10 million per annum can automatically be kept for use within the vote;
- 10.2 for savings of more than \$10 million per annum:
- 10.2.1 80% can automatically be kept for use within the vote;
- 10.2.2 the remaining 20% may either be kept for use within the vote or applied elsewhere, which will be determined by the Vote Minister, the theme co-ordinating Minister and the Minister of Finance;

### **Business Tax Package**

- 11 agreed to charge the costs of the business tax package to the Budget 2008 allowance;
- 12 noted that an implementation date for the business tax package of 1 April 2008 means that three months of costs fall in the 2007/08 year, which will impact on Budget 2007;
- 13 noted that the costs referred to in paragraph 12 above will be in excess of the \$1.9 billion allowance for Budget 2007, so we must strive to keep all other spending within the allowance to avoid placing further pressure on interest rates;

### **Next Steps**

- 14 noted that the key dates for the 2007 Budget process are as follows:

Event	Date
Proposals for savings and reprioritisation identified through the TOBA process due with Treasury	30 November
Budget initiatives due	15 December
Capital bilaterals	February
Bilaterals for the "Other" theme	March
March Baseline Update submissions due	5 March
Decision-making within themes	December-March
Senior Ministers' meeting on themes	Mid-late-March
Cabinet decisions on Budget Package	Mid-April
Budget Day	May

- 15 noted that the Minister of Finance will write to theme coordinating Ministers prior to 15 December 2006 setting out details around the initiatives phase and the operation of allocations;
- 16 noted that systematic ex-post reporting of the implementation of Budget 2007 new spending decisions will be required;
- 17 noted that the Minister of Finance indicates that consultation with the government caucuses and other parties represented in Parliament is not required.

Secretary

Reference: CAB (06) 514