

Chair
CABINET

2007 BUDGET STRATEGY

Proposal

1. This paper seeks Cabinet's agreement to a strategy and process for Budget 2007, including total funding allowances for operating and capital, and allocations for priority areas within those allowances.
2. The proposed strategy, which will be reflected in the 2007 Budget Policy Statement, takes into account latest macroeconomic and fiscal information, which shows growing fiscal headroom but a need for constraint on macroeconomic grounds given the risks coming from current imbalances.

Executive Summary

3. Through Budget 2007 we will continue to advance our three priority areas of economic transformation, families – young and old, and national identity, building on the significant increases in spending in our last three budgets. The three theme groups have worked in recent months to determine priorities to progress through Budget 2007, which will help us to prioritise during what will be a tight initiatives phase.
4. The long period of strong growth the New Zealand economy has experienced since we came into office has seen the emergence of macroeconomic imbalances – a rise in inflation pressures and a large current account deficit. The corollary of these imbalances has been tighter monetary policy and a high exchange rate that has seen the export and import-competing sectors come under pressure.
5. While economic growth has slowed, at this stage there are few indications of a sustained decline in the imbalances. Most forecasters do however see inflation and the current account being at their peak, with declines expected as a result of slow growth over the year ahead. These reductions are not assured however. The Government needs to play its part in seeing these imbalances unwind by not unduly increasing fiscal stimulus into the economy. To do so risks an interest rate response from the Reserve Bank, the exchange rate staying higher for longer and a more pronounced economic slow-down. Given this, we must stay as close as we can to our Budget 2007 allowances.

6. We have already committed to significant spending items that take up around 70% of our allowance for Budget 2007. Funding available for remaining priority items is therefore modest. We will all have to be realistic about the scale of initiatives we seek to progress through Budget 2007.
7. Further out, I am hopeful we will have more macroeconomic headroom. Updated fiscal forecasts show that, in terms of achieving our medium-term fiscal objectives, we have fiscal headroom over and above existing budget allowances. With the expected decline in macroeconomic imbalances, we could allocate this fiscal headroom to priority areas. Accordingly I propose increasing the allowance for Budget 2008 by \$1 billion per annum, with this increase helping to meet the costs of the business tax package.

Comment

Macroeconomic pressures mean we must avoid any significant fiscal expansion in the near term...

8. Through the term of this Labour-led Government, New Zealand has experienced very strong economic growth. We have seen strong household income growth, rising real incomes, and very low levels of unemployment.

Figure 1 – Real GDP growth

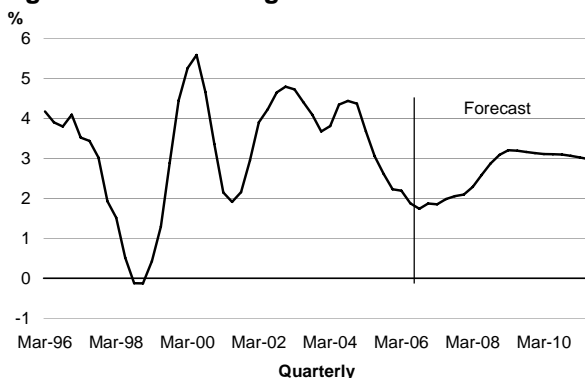
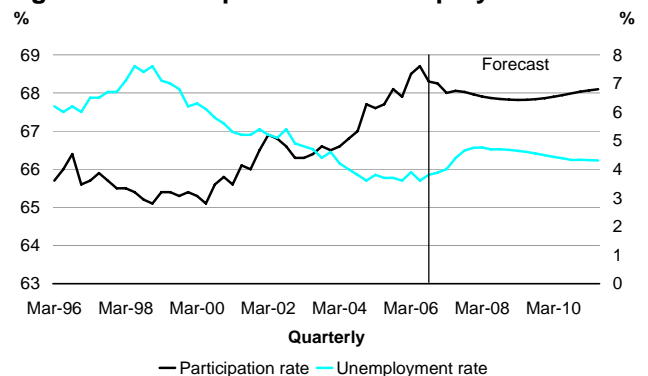


Figure 2 – Participation and unemployment



9. Growth, driven by strength in domestic demand, has been such that most if not all spare labour and capital has been used up. This has led to higher inflation, a rise in wage growth and more domestic spending being met from imports. The current account deficit has reached historically high levels as imports have grown and exports have been weak.

Figure 3 – CPI Inflation

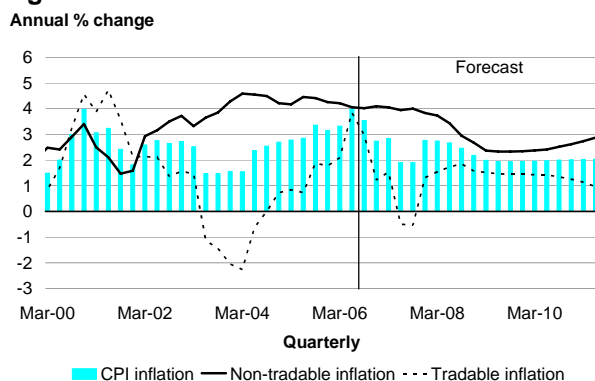
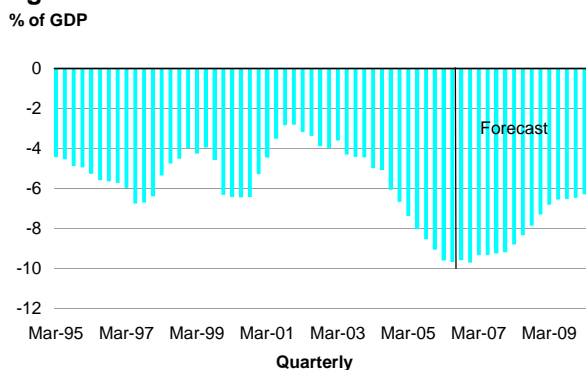


Figure 4 – Current account balance



10. While in the past year economic growth has eased, and there are early signs of a reorientation of the drivers of growth, there are as yet few indications of sustained reductions in macroeconomic imbalances. Indeed, as recently as October 26 the Reserve Bank said it saw the balance of inflation risks as skewed to the upside. It said further monetary policy tightening cannot be ruled out, and any easing of policy remains a considerable way away.
11. Treasury's latest economic forecasts see a gradual reduction in the imbalances. In the short-term, the impact of recent declines in oil prices and the higher exchange rate sees headline CPI inflation fall quite sharply, however underlying inflation pressures remain strong, with inflation expected to be near 3% by the end of 2007. The current account deficit is forecast to improve slowly, with significant reductions due to an export recovery and weak import growth not expected until the 2008/09 year.
12. Any further significant fiscal expansion by the government over the short-term risks pushing these reductions out or even exacerbating the imbalances. It would also increase the prospect of tighter monetary policy. Higher interest rates would place additional upwards pressure on the exchange rate, which in turn would place more pressure on the export and import-competing sectors and work against the increase in export growth we want to see.
13. Because of this, we need to stay as close as we can to our existing funding allowances for Budget 2007 of \$1.9 billion per annum for operating and \$858 million for capital.

... though once these pressures have eased, we have more fiscal flexibility that we can use to advance our priorities.

14. Treasury's latest forecasts show an increased level of nominal GDP through the forecast period, which is forecast to flow through into higher tax revenue. From the perspective of meeting our long-term fiscal objectives (i.e. running operating surpluses sufficient to meet the contributions to the NZS Fund and keeping gross debt broadly stable around 20% of GDP), we have extra "fiscal headroom" of around \$1 billion per annum, which gives us scope to increase future budget allowances.
15. Macroeconomic pressures mean that we cannot use all of this fiscal headroom in Budget 2007. Instead, I propose that we increase the allowance for Budget 2008

by \$1 billion per annum, taking it to \$3 billion per annum. As I discuss below, I propose that we dedicate this extra funding to the business tax package. Hopefully, macroeconomic and fiscal conditions will allow us to increase the allowance further.

16. Accordingly, I recommend that we confirm the following operating and capital 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

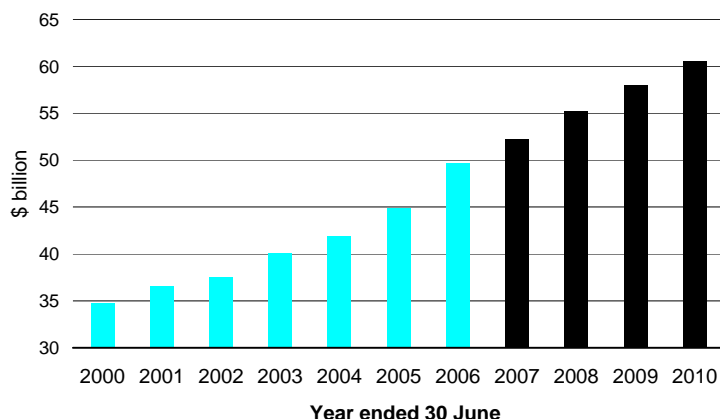
Capital allowances	Gross debt impact (\$ millions)						Total
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	
Budget 2007	20	362	193	283	-	-	858
Budget 2008	-	20	200	200	150	-	570
Budget 2009	-	-	20	200	220	200	640

17. The Financial Statements of the Government for 2005/06 showed a cash surplus of \$3.0 billion, which was \$1.2 billion higher than Treasury had forecast in the Budget. We are already making good progress towards achieving our medium-term fiscal objective of keeping gross debt broadly stable around 20% of GDP. Rather than using this extra cash to reduce debt further, we could consider options such as making an investment in the ACC non-earners' account, which would not exacerbate current macroeconomic pressures and would further strengthen our financial position. We can take decisions as part of the budget process, as our cash position and requirements become clearer.

Budget 2007 will continue the theme approach, building on past investment...

18. As Figure 5 shows, government spending has been increasing at a rapid rate. Through Budgets 2004 and 2005 in particular we committed to large-scale increases in priority areas (e.g. Working for Families). The roll-out of these increases continues in future years, with considerable increases in spending over and above our future budget allowances already factored into departmental baselines.

Figure 5 – Core Crown Expenses excluding GSF valuations



19. Building on this past investment, Budget 2006 signalled a new direction for this Labour-led Government. The three priority themes of economic transformation, families – young and old and national identity provided a renewed focus for government activity. Under the theme approach we delivered on key promises, such as removing interest on student loans and extending the Working for Families package, as well as dedicating significant resource into health care and transport infrastructure.
20. In July this year, Cabinet made changes to the budget process to better align it with the theme approach [POL Min (06) 14/3 refers]. Under the new approach we have had a longer strategic phase of the budget, with a much stronger focus on the results that the government wants to achieve within each theme.
21. With this in mind, each of the three theme groups has been working over recent months to consider existing baseline activities and identify the objectives that the themes will focus on advancing through Budget 2007.

... and we have a set of theme objectives for Budget 2007 ...

22. The proposed theme objectives for Budget 2007 for **Economic Transformation** are:
 - a. Increasing international connections of firms to overcome constraints of size and distance, particularly those associated with knowledge diffusion by (in order of importance):
 - i. Focusing on exports;
 - ii. Supporting the immigration of skilled migrants; and
 - iii. Improving our ICT infrastructure and uptake in business.
 - b. Lifting firms' innovative and absorptive capacity to improve knowledge creation and knowledge diffusion within firms and between firms by (in order of importance):
 - i. 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;

- ii. Lifting investment in innovation and R&D particularly by firms; and
 - iii. Improving research linkages between firms, CRIs and TEIs.
 - c. Create a world-class Auckland by leveraging off the Rugby World Cup 2011 to (in order of importance):
 - i. Catalyse and supporting changes in Auckland's leadership and strategic vision;
 - ii. Address inefficiencies and underinvestment in infrastructure to correct bottlenecks and failures, in particular in transport and energy; and
 - iii. Lift New Zealand's profile internationally to create new business opportunities.
 - d. Improving the value derived from the sustainable use and management of natural resources by (in order of importance):
 - i. Moving to a low GHG emissions economy through improved energy efficiency and greater technology uptake and development;
 - ii. Improving land and water management; and
 - iii. Minimising economic risk associated with environmental impacts.
 - e. Improving foundation skills and boosting labour participation with a focus on under-represented groups in the workforce;
 - f. Improving security of energy supply, transmission and investment in energy efficiency; ensuring efficient use of existing transport infrastructure and high quality investment in transport; and
 - g. Increasing private savings and continuing other efforts to deepen capital markets.
23. The proposed theme objectives for Budget 2007 for **Families – Young and Old** are:
- a. Giving our children the best start in life;
 - b. Effective interventions in the Justice Sector;
 - c. Eliminating family violence;
 - d. Establishing foundations for life long learning;
 - e. Improving quality and affordability of housing;
 - f. Positive choices for older New Zealanders; and
 - g. Reducing obesity.
24. The proposed theme objectives for Budget 2007 for **National Identity** are:
- a. Celebrating and developing our arts and culture;
 - b. Connecting with, understanding and celebrating our heritage;

- c. Encouraging participation and achievement in sport;
 - d. New Zealand in the world;
 - e. Recreation, conservation and the environment;
 - f. Reconciliation;
 - g. Building a cohesive society; and
 - h. Reinforcing community.
25. As part of advancing these theme objectives, climate change issues are likely to be a significant priority for this budget.

... which will help to guide prioritisation discussions within themes.

26. These theme objectives will be helpful in aiding prioritisation across new funding proposals in Budget 2007. When making these prioritisation decisions 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.

We have already committed to significant spending against our Budget 2007 allowance...

27. As the table below demonstrates, formal pre-commitments against the Budget 2007 operating allowance account for \$1.3 billion (69%) of the \$1.9 billion available in 2007/08. These pre-commitments grow to \$1.4 billion (73%). This means that we only have between \$500 million and \$600 million per annum to allocate to other items in the 2007 Budget.

Formal pre-commitments against the Budget 2007 operating allowance	Operating balance impact (\$ millions)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
Budget 2007 Operating Allowance	-	1,938	1,938	1,938	1,938
Pre-commitments					
Families - Young and Old					
Health pre-commitment	-	750	750	750	750
Economic Transformation					
Tertiary Component Funding Rate Changes	-	29	57	57	57
National Identity					
Defence Funding Package	-	58	58	58	58
Official Development Assistance	-	38	38	38	38
Other					
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
Total pre-commitments	4	1,339	1,322	1,385	1,414
Funding remaining after pre-commitments	(4)	599	616	553	524

28. The table above includes a line “overspend of the Budget 2006 contingency”. This is because the \$200 million per annum we set aside for items that needed funding between budgets has not proven to be sufficient, and the overspend must be met from the Budget 2007 operating allowance.

... and we will need to make trade-offs to address our remaining priorities.

29. The table below shows the proposed split of remaining funding into priority areas for Budget 2007:

Allocating remaining funding to themes	Operating balance impact (\$ millions)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
Families - Young and Old	14	320	320	320	320
Economic Transformation	5	100	100	100	100
National Identity	-	25	25	25	25
Other	-	20	20	20	20
2007/08 between-budget contingency	-	100	100	100	100
Total	19	565	565	565	565

30. When combined with pre-commitments, this gives total allocations as follows:

Operating allocations	Operating balance impact (\$ millions)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
Families - Young and Old					
Health pre-commitment	-	750	750	750	750
Remaining FYO allocation	14	320	320	320	320
Total Families - Young and Old	14	1,070	1,070	1,070	1,070
Economic Transformation					
Tertiary Component Funding Rate Changes	-	29	57	57	57
Remaining ET allocation	5	100	100	100	100
Total Economic Transformation	5	129	157	157	157
National Identity					
Defence Funding Package	-	58	58	58	58
Official Development Assistance	-	38	38	38	38
Remaining NI allocation	-	25	25	25	25
Total National Identity	-	121	121	121	121
Other					
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
Total Other	4	485	439	502	531
2007/08 between-budget contingency	-	100	100	100	100
Total Budget 2007 new operating funding	23	1,904	1,887	1,950	1,979

31. Managing within these allocations will require some tough trade-offs to be made within theme groups, and within the *Other* allocation. Funding for a number of high priority items, such as the second tranche of the extra 1000 police and increasing NZ Super to 66%, will need to be found from within these allocations. Clearly, we will not be able to progress all of the proposals that Vote Ministers are envisaging at present.

32. I encourage all Vote Ministers to ask their departments to identify reprioritisation options to fund priorities that otherwise will not receive funding. Savings below a threshold of \$10 million per annum can automatically be kept for use within the vote. For savings of more than \$10 million per annum:
- 80% can automatically be kept for use within the vote; and
 - 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 coordinating Minister and the Minister of Finance.
33. Savings to be retained must be genuine savings, and not forecasting changes or technical adjustments that must instead be returned to the Crown through the baseline update process (see Cabinet Office Circular CO(02)17 for more details).

Capital is also tight and will require restraint.

34. The capital allowance for Budget 2007 is \$858 million. This is considerably smaller than Budget 2006, when we committed \$2.9 billion of new capital funding across the forecast period, including \$1.1 billion for Transport.
35. When we considered changes to the budget process in July this year, we noted that capital decisions will be more closely integrated into the finalisation of the theme packages, with major capital expenditure co-ordinated by the Minister of Finance [POL Min (06) 14/3 refers].
36. Accordingly, for Budget 2007 I propose giving modest capital allocations to each of the theme groups, within which they would manage the small capital costs of predominantly operating initiatives. These allocations are set out below. I would continue to hold bilaterals with individual Vote Ministers to discuss all large capital initiatives (i.e. those larger than \$5 million), and smaller initiatives that are predominantly capital in nature.

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
Total Budget 2007 new capital funding	20	362	193	283	858

37. This will allow a strategic approach to prioritising major capital initiatives, while giving themes the flexibility to manage the small capital costs of operating initiatives.

The business tax package is the other key component of the Budget.

38. The other significant priority to be announced through Budget 2007 stems from the Business Tax Review. The objective of the Business Tax Review is to provide better incentives for productivity gains and improved competitiveness with Australia. Following the review we will introduce a package of tax reforms, which will aim to:

- a. Encourage innovation;
 - b. Support business investment;
 - c. Encourage exporters to break into new markets; and
 - d. Build a more skilled workforce.
39. The scope of the business tax package will be:
- a. Business tax changes;
 - b. International tax changes; and
 - c. Addressing the consequences for the personal income tax system of business tax reforms.
40. The business tax package will make tangible contributions to what we are trying to achieve through the themes, in particular economic transformation and families – young and old.
41. The business tax package will be implemented progressively from 1 April 2008, with decisions announced as part of Budget 2007. As the full-year costs of this package will not be felt until the 2008/09 fiscal year, I propose to charge the costs of the package to the increased Budget 2008 allowance.
42. However, there will be a three month cost of the package in the 2007/08 year (for the period 1 April to 30 June 2008). This cost will need to be charged against Budget 2007. I do not propose that we try to fit this cost within the \$1.9 billion allowance, as the pressure this would place on other spending would be simply unmanageable. Instead, this cost will be in excess of the Budget 2007 allowance, so we must strive to keep all other spending within the allowance to avoid placing further pressure on interest rates.

Next steps in the process...

43. The following table sets out the broad timetable for the remainder of Budget 2007:

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

44. The key change from previous years is that budget initiatives are due for submission prior to Christmas, on 15 December. This will allow theme groups more time for consideration of priorities in the New Year.
45. As we agreed in July, bids will be required to clearly specify what the additional funding will deliver, and the results to which they contribute, to allow monitoring and follow-up [POL Min (06) 14/3 refers]. Treasury has implemented some system changes to help with the capture and reporting of this information. These changes also allow initiatives to be linked back to theme objectives.
46. To take advantage of these changes in ensuring that value for money is realised from new spending, it is appropriate that we develop more systematic ex-post reporting on the implementation of budget decisions. Such reporting will appropriately be stratified to take into account the differing scale and nature of initiatives. I intend to provide Cabinet with details of the ex-post reporting arrangements when seeking agreement to Budget 2007 final decisions.
47. I will write to theme coordinating Ministers in the next two weeks to confirm details around the initiatives phase and the operation of allocations.

Financial Implications

48. The paper seeks Cabinet's agreement to a strategy for Budget 2007, including overall funding allowances for operating and capital, and allocations for priority areas within those funding allowances. Final funding decisions, including changes to appropriations, will be sought from Cabinet in April 2007.

Other Implications

49. There are no legislative, Treaty or Human Rights Act implications. A Regulatory Impact Statement is not required.

Publicity

50. The high-level decisions in this paper will be announced in the 2007 Budget Policy Statement, which I will table on 19 December 2006, with the Half Year Economic and Fiscal Update.

Consultation

51. Theme coordinating Ministers have been consulted on the budget strategy set out in this paper.

Recommendations

I recommend that Cabinet:

1. **note** that the macroeconomic environment, in particular high inflation and a large current account deficit, mean we 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. **note** that once these macroeconomic constraints have eased, we can dedicate increased funding towards advancing our priorities;
3. **agree** 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. **confirm** 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. **agree** 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	
Families - Young and Old						
Health pre-commitment		-	750	750	750	750
Remaining FYO allocation		14	320	320	320	320
Total Families - Young and Old		14	1,070	1,070	1,070	1,070
Economic Transformation						
Tertiary Component Funding Rate Changes		-	29	57	57	57
Remaining ET allocation		5	100	100	100	100
Total Economic Transformation		5	129	157	157	157
National Identity						
Defence Funding Package		-	58	58	58	58
Official Development Assistance		-	38	38	38	38
Remaining NI allocation		-	25	25	25	25
Total National Identity		-	121	121	121	121
Other						
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
Total Other		4	485	439	502	531
2007/08 between-budget contingency		-	100	100	100	100
Total Budget 2007 new operating funding		23	1,904	1,887	1,950	1,979

6. **agree** 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
Total Budget 2007 new capital funding	20	362	193	283	858

7. **agree** 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; and

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 R&D particularly by firms; and

7.1.2.3. Improving research linkages between firms, CRIs and TEIs;

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

7.1.3.1. Catalyse and supporting 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; and

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 GHG emissions economy through improved energy efficiency and greater technology uptake and development;
- 7.1.4.2. Improving land and water management; and
- 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; and
- 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; and
 - 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; and
 - 7.3.8. Reinforcing community;

8. **note** that as part of advancing these theme objectives, climate change issues are likely to be a significant priority;
9. **agree** 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;
10. **agree** 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 coordinating Minister and the Minister of Finance;
11. **agree** to charge the costs of the business tax package to the Budget 2008 allowance;
12. **note** 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. **note** that the costs referred to in recommendation 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;
14. **note** 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. **note** that I will write to theme coordinating Ministers prior to 15 December setting out details around the initiatives phase and the operation of allocations;

16. **note** that systematic ex-post reporting of the implementation of Budget 2007 new spending decisions will be required.

Hon Dr Michael Cullen
Minister of Finance