

Chair
Cabinet

2009 Budget Policy Statement

Proposal

1. This paper summarises the structure of the attached draft 2009 Budget Policy Statement (BPS) and asks Cabinet to agree to the content of the statement. The statement is planned to be released on 18 December 2008, together with an updated set of economic and fiscal forecasts.

Executive Summary

2. Today I bring to Cabinet a draft of the 2009 Budget Policy Statement for its consideration. The statement sets out the fiscal outlook we have inherited, the economic situation facing New Zealand and the world, and the challenges we will overcome as we set out to grow and strengthen New Zealand's economy.
3. Due to downturns in the international economic situation of which you will be aware, we have inherited a fiscal situation that is weaker than when the previous Minister of Finance presented his last budget to Parliament.
4. To ensure that the long term projections set out in this statement do not become reality we will have to hold fast to our commitments to manage expenditure in a financially responsible manner and to get New Zealand growing again.
5. New Zealand's long term success depends on both improving and stabilising Government expenditure as well as making policy changes that will improve our levels of economic growth.
6. We can achieve our goals of security and growth for all New Zealanders, and the details of how we will do this will be set out in the Fiscal Strategy Report (FSR) that I will bring to Cabinet later in the budget process.

Contents of the Budget Policy Statement

7. The BPS sets out the broad strategic priorities for the 2009 Budget and is divided into three sections:
 1. **Economic Strategy**
 2. **Fiscal Strategy**
 3. **Budget 2009**

8. The FSR that we will consider later in the budget process will set out our fiscal strategy in more detail and explain how that strategy lines up with the principles of responsible fiscal management.

Areas of Focus

9. I would draw your attention to the following areas of the BPS, as these are the areas where we will need to have broad agreement as we address the challenges ahead of us:
- The Economic Strategy and specifically the areas that are identified as central to achieving our long term plan to lift growth, improve the value for money of Government spending and constrain expenditure (pages 3 – 6 of the attached BPS);
 - The Fiscal Strategy, and in particular the deteriorated fiscal outlook (pages 6 – 8 of the attached BPS). This section has been put together by the Treasury based on its best professional judgement. I believe it is a measured judgement of the economic outlook and the best information we have upon which to make decisions; and
 - The priorities for Budget 2009 (pages 9 – 10 of the attached BPS). This is where we set out our priorities for Budget 2009 and how much we will spend. As discussed in our pre-election statements, this Budget is about delivering on our promises.

Areas of the Budget Policy Statement yet to be completed and other necessary changes

10. Due to the timeframes in which this BPS has been put together there are some technical areas in the attached document that have not yet been finalised, including the final fiscal forecasts.
11. The Budget Policy Statement will be published alongside and make reference to an updated set of economic and fiscal forecasts. These forecasts are not currently attached to the document. Treasury has not finalised the commentary around these forecasts, which will include updated economic and fiscal forecasts and a discussion of the most significant risks to the forecasts. Given the significant uncertainty, the Treasury has prepared three scenarios for inclusion in the forecasts.
12. Outstanding issues in the forecasts include:
- Inclusion of any additional ACC costs;
 - The impact of any changes to the Emissions Trading Scheme and any associated economic impacts;
 - [deleted – negotiate without prejudice]; and
 - The finance cost implications of any of these issues.
13. Although these risks are still to be incorporated, any final changes will not alter the overall fiscal picture.
14. I ask that Cabinet agree to delegate authority to the Prime Minister and I to finalise these sections and to make any other changes to the BPS that may be necessary following our discussion today.

Consultation

15. This paper required no consultation.

Financial Implications

16. This paper seeks Cabinet's agreement to publish the Budget Policy Statement which contains overall funding allowances for Budget 2009. Final funding decisions, including changes to appropriations, will be sought from Cabinet during the production of the 2009 Budget.

Human Rights

17. This paper has no human rights implications

Legislative Implications

18. The draft Budget Policy Statement attached is consistent with the Public Finance Act 1989.

Regulatory Impact Analysis

19. This paper does not require a regulatory impact analysis.

Gender Implications

20. This paper does not require a gender implications analysis.

Disability Perspective

21. This paper does not require a disability perspective analysis.

Publicity

22. The Budget Policy Statement will be publicly released on 18 December 2008

Recommendations

I recommend that Cabinet:

1. **Agree** to the fiscal and economic strategy and priorities for Budget 2009 in the attached draft Budget Policy Statement
2. **Agree** to delegate authority to the Minister of Finance and the Prime Minister to make any changes to the Budget Policy Statement that may be necessary before publication

Hon Bill English
Minister of Finance
___/ December 2008