

Chair  
Cabinet

## **2009 Fiscal Strategy Report and Executive Summary to the 2009 Budget Economic and Fiscal Update**

### *Proposal*

1. This paper summarises the structure of the attached drafts of the 2009 Fiscal Strategy Report (FSR) and the Executive Summary to the 2009 Budget Economic and Fiscal Update and asks for Cabinet to agree to the content of both documents. The documents will be published with the Budget on 28 May.

### **Executive Summary**

2. Today I bring to Cabinet drafts of the 2009 Fiscal Strategy Report (FSR) and the Executive Summary to the 2009 Budget Economic and Fiscal Update for its consideration. The FSR follows sets out the fiscal strategy agreed at Cabinet at its April 20 2009 meeting (CAB Min (09) 12/9 refers). The Executive Summary covers the main features of the 2009 Budget, agreed at Cabinet (CAB Min (09) 13/7 refers) including the economic and fiscal outlook, the Government's economic and fiscal policy responses to the current challenges and the new initiatives contained in the Budget.
3. The Fiscal Strategy Report and Executive Summary to the 2009 Budget Economic and Fiscal Update set out the three main parts of Budget 2009:
  - improving public services and helping New Zealanders through the recession
  - lifting productivity and raising New Zealand's international competitiveness
  - taking steps to keep Government debt under control.
4. The FSR statement sets out the fiscal outlook we have inherited, the economic situation facing New Zealand and the world, our policy response to these challenges and details the much weaker fiscal situation that would exist without the policy response contained in the Budget.

### **Publication of Budget Documents**

5. The Fiscal Strategy Report and Executive Summary will be published as part of the Budget on May 28. The Budget is made up of the following documents:
  - The Executive Summary is the overview of all the Budget information and contains the main points for the media and general public.
  - The Budget Speech is the Minister of Finance's speech delivering the Budget Statement at the start of Parliament's Budget debate.

- The Fiscal Strategy Report sets out the Government's fiscal strategy and measures how the Government is going against its overall goals in areas such as the balance between operating revenues and expenses, and achieving debt objectives.
- The Budget Economic and Fiscal Update includes Treasury's overall economic forecasts and the forecast financial statements of the Government.
- The Estimates of Appropriations outline expenses and capital expenditure the Government plans to incur on specified areas within each Vote for the financial year about to start (the Budget year).
- The Information Supporting the Estimates of Appropriations is organised on the basis of sectors, with each Vote and its administering department allocated to one sector (a small number of departments are in more than one sector).
- The Supplementary Estimates of Appropriation outline the additional expenses and capital expenditure required for the financial year about to end.

### **Contents of the Fiscal Strategy Report and Executive Summary to the 2009 Budget Economic and Fiscal Update**

6. The Fiscal Strategy Report and Executive Summary to the 2009 Budget Economic and Fiscal Update set out the three main parts of Budget 2009:
  - Helping New Zealanders through the current crisis.
  - Putting in place longer-term initiatives to lift productivity, increase competitiveness and sharpen New Zealand's future economic performance.
  - Making the first steps towards fiscal consolidation and implementing changes in policy to ensure that growth in Government debt is minimised.
7. The FSR sets the wider context around Budget 2009. The FSR shows how the Government will balance the tasks of steering the economy through the recession, positioning New Zealand for recovery, delivering on our priorities and commitments, and over time improving the medium-term fiscal position. The main decisions reported in the FSR are to:
  - Re-specify the long-term debt objective in "net debt" terms, consistent with our intention to take a wider view of the Crown balance sheet. Gross debt will remain as a fiscal indicator.
  - Reformulate the long-term debt objective to recognise that in the current economic crisis it is appropriate to have a temporary lift in net debt to buffer the economy. However, the revised net debt objective will ensure that we begin to rebuild net worth to provide a buffer for future economic shocks and the consequences of demographic change.
  - Reduce the future operating allowances to a maximum of \$1.1 billion from Budget 2010.
  - Delay the second and third tranches of the planned tax cuts in 2010 and 2011 until economic and fiscal conditions allow reconsideration.
  - Suspend required contributions to the New Zealand Superannuation Fund for the period until the operating balance returns to surplus.
  - Make a contribution to the New Zealand Superannuation Fund of \$250 million in 2009/10.
  - Consider on an annual basis whether to make any further contributions to the New Zealand Superannuation Fund.

8. The Executive Summary covers the main features of the 2009 Budget, including the economic and fiscal outlook, the Government's economic and fiscal policy responses to the current challenges and the new initiatives contained in the Budget.

#### **Areas of the Fiscal Strategy Report and Executive Summary yet to be completed**

9. The FSR and Executive Summary both refer to an update set of economic and fiscal forecasts and longer term fiscal projections. Treasury has not finalised the production and commentary around these numbers and a discussion around the most significant risks.
10. I ask that Cabinet agree to delegate authority to me and the Prime Minister to finalise these sections and to make any other changes to the FSR and Executive Summary to the BEFU that may be necessary following our discussion today.

#### **Consultation**

11. This paper required no consultation.

#### **Financial Implications**

12. This paper itself has no fiscal implications. The FSR sets out the fiscal strategy agreed at Cabinet at its April 20 2009 meeting (CAB Min (09) 12/9 refers). The Executive Summary covers the main features of the 2009 Budget, agreed at Cabinet (CAB Min (09) 13/7 refers).

#### **Human Rights**

13. This paper has no human rights implications

#### **Legislative Implications**

14. The draft Fiscal Strategy Report attached to this paper is consistent with the Public Finance Act 1989.

#### **Regulatory Impact Analysis**

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

#### **Gender Implications**

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

#### **Disability Perspective**

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

#### **Publicity**

18. The Budget will be published on 28 May 2009.

## **Recommendations**

### **I recommend that Cabinet:**

1. **Note** that the attached Fiscal Strategy Report and Executive Summary to the 2009 Budget Economic and Fiscal Update will be published with the Budget on 28 May 2009
2. **Note** the long-term fiscal objectives in the attached draft Fiscal Strategy Report

Hon Bill English  
Minister of Finance  
\_\_\_/ May 2009