



# Cabinet

CAB Min (07) 43/9

## Minute of Decision

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Minister of Finance

### Copies to:

Prime Minister  
Deputy Prime Minister  
Hon Jim Anderton  
All other Ministers in Cabinet  
Hon Judith Tizard  
Hon Harry Duynhoven  
Hon Mita Rininui  
Hon Luamanuvao Winnie Laban  
Hon Mahara Okeroa  
Hon Darren Hughes  
Chief Executive, DPMC  
Secretary to the Treasury  
Secretary of the Cabinet  
Chief of Staff, Prime Minister's Office

## 2008 Budget Strategy

On 3 December 2007, Cabinet:

### Overall funding allowances for Budget 2008

- 1 **noted** that updated fiscal forecasts show that the government's fiscal position is stronger than in Budget 2007 documents;
- 2 **noted** that there are significant uncertainties associated with Treasury's forecasts, particularly around the magnitude and sustainability of the current rise in the terms of trade, which implies an extra element of uncertainty around revenue forecasts, particularly in the medium-term;
- 3 **noted** that the government should take uncertainties around the economic and fiscal forecasts into account when setting budget allowances;
- 4 **noted** that inflation pressures in the economy remain high and the Reserve Bank's interpretation is likely to be that any further material addition to aggregate demand, regardless of the source, will add to these pressures;

- 5 **noted** that initiatives that positively impact on labour participation, investment and productivity would help to reduce inflationary pressures over the medium-term;

***Current expenditure***

- 6 **confirmed** the following operating allowances for Budgets 2008-2010:

***Operating allowances for Budgets 2008-2010***

Operating allowances (\$ millions)	2008/09	2009/10	2010/11	2011/12 & Outyears
Budget 2008	3,033	3,112	3,107	3,107
Budget 2009	-	2,016	2,016	2,016
Budget 2010	-	-	2,057	2,057

- 7 **noted** that:

- 7.1 Treasury's Half Year Economic and Fiscal forecasts from 2008/09 will incorporate a 'revenue reduction contingency' of \$1.5 billion;
- 7.2 the working assumption is that this allowance will be used for personal tax cuts starting on 1 April 2009;
- 7.3 together, the existing operating allowance and revenue reduction contingency have a total operating balance impact of \$4.6 billion per annum in outyears;

***Capital expenditure***

- 8 **agreed** to increase the Budget 2008 capital allowance by \$900 million over the forecast period to enable the government to better meet a number of capital priorities it will need to fund;

- 9 **confirmed** the following capital allowances for Budgets 2008-2010:

***Capital allowances for Budgets 2008-2010***

Capital allowances (\$ millions)	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Total
Budget 2008	48	992	330	200	230	-	<b>1,800</b>
Budget 2009	-	20	480	250	150	-	<b>900</b>
Budget 2010	-	-	20	480	250	150	<b>900</b>

- 10 **agreed** that the Minister of Finance hold bilaterals with Vote Ministers on all capital initiatives;

**Helping themes to manage wage and capital pressures**

- 11 **noted** that the Ministerial Reference Group on public sector wages agreed to provide advice to Ministers and departments to reinforce expectations around general capability initiatives being met from baselines and establish criteria to define the exceptions;

- 12 **noted** that Treasury will provide advice to theme co-ordinating Ministers, to the Minister of Finance and to Senior Ministers on the implications on staffing numbers of individual and total capability bids, as part of the consideration of capability initiatives;
- 13 **noted** that Treasury will provide the Minister of Finance with options for easing pressures on the capital allowance and on the construction sector by either scaling or deferring selected upcoming capital projects being funded from departments' balance sheets;

### Theme priorities and allocations for Budget 2008

- 14 **noted** that pre-commitments against the Budget 2008 operating allowance account for around \$2.1 billion, or 68 percent, of the available funding:

#### *Pre-commitments against the Budget 2008 operating allowance*

\$ millions, GST exclusive	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Budget 2008 operating allowance</b>	-	<b>3,033</b>	<b>3,112</b>	<b>3,107</b>	<b>3,107</b>
<i>Pre-commitments:</i>					
<i>Economic Transformation</i>					
Business Tax Reform	-	1,056	1,135	1,130	1,130
<i>Families – Young and Old</i>					
Health	-	750	750	750	750
<i>National Identity</i>					
Defence Funding Package	-	69	69	69	69
<i>Other</i>					
Overspend of Budget 2007 Between-Budget Contingency as at 26-Nov-07	43	(12)	(14)	(16)	(16)
Ministry of Foreign Affairs and Trade	-	25	63	107	146
<b>Funding remaining for other priorities</b>	<b>(43)</b>	<b>1,144</b>	<b>1,108</b>	<b>1,067</b>	<b>1,028</b>

- 15 **confirmed** the priorities for Economic Transformation as outlined in Annex 1 attached to this minute;
- 16 **agreed** to the priorities for Families – Young and Old as outlined in Annex 2 attached to this minute;
- 17 **noted** that in preparing a theme package, theme groups may choose to focus on a sub-set of these theme objectives, rather than considering that they must allocate some funding to all of the objectives;
- 18 **authorised** the Prime Minister and the Minister of Finance to determine theme allocations;

## Next steps for Budget 2008

19 **noted** the following broad timetable for the remainder of Budget 2008:

<b>Event</b>	<b>Date</b>
Budget initiatives due	14 December 2007
Capital bilaterals	February 2008
Bilaterals for the 'Other' theme	March 2008
March Baseline Update submissions due	Early March 2008
Decision-making within themes	December 2007-March 2008
Senior Ministers' meeting on themes	Mid-late March 2008
Cabinet decisions on the Budget package	Mid-April 2008
Budget Day	May 2008

20 **noted** that the Minister of Finance will write to theme coordinating Ministers before 14 December 2007 setting out details around the initiatives phase and the operation of allocations.

Secretary of the Cabinet

Reference: CAB (07) 616



