



18 May 2006

# Budget

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# 2006

## Executive Summary

- MINISTER'S STATEMENT
- THE GOVERNMENT'S FINANCES AT A GLANCE
- NEW SPENDING IN BUDGET 2006

Hon Dr Michael Cullen  
MINISTER OF FINANCE

### EMBARGO

A rolling embargo applies to the content of these documents. Information relevant to any subject area discussed in the Budget Speech can be communicated once the Minister of Finance has completed discussing that area in the Speech. Areas not discussed in the Budget Speech are embargoed until the document is tabled in the House of Representatives by the Minister of Finance on Budget Day and must not be communicated in any form until that time.



# Minister's Statement

Budget 2006 builds on the investments the Labour-led Government made in its first two parliamentary terms. Our focus has been on increasing spending in key social areas, restoring funding in core public services while investing in the economy to lift our economic performance and being prudent fiscal managers. Budget 2006 advances these by prioritising new funding on policies to further enhance New Zealand's economic transformation while strengthening its families and its sense of national identity.

Our economic growth in the past two parliamentary terms has been very strong – above the OECD average. At the same time, the unemployment rate has fallen to be amongst the lowest rate in the OECD. Forecasters have been predicting for some time that the economy will go through a downturn as part of a normal business cycle. New Zealand entered this cycle in the second half of last year and forecasters are predicting an economy that will slow to around 1.0% annual average growth in the 12 months to March 2007 before picking up again.

Despite the adjustment in the economy, the Government expects to continue to run operating surpluses, consistent with our fiscal strategy, of \$8.5 billion in 2005/06 and \$5.8 billion in 2006/07. At the same time, however, our cash position will move from an expected surplus of \$1.8 billion in 2005/06 to a forecast deficit of \$1.5 billion in 2006/07 – some of which will need to be funded from increasing debt. Debt as a percentage of GDP, however, is forecast to remain at around current prudent levels over the next four years.

When we came into government in 1999 gross debt as a percentage of GDP was 35.0%. Over the last six years, consistent with the requirements in the Public Finance Act, we have been reducing debt to prudent levels with the level of debt forecast to be 23.0% by June 2006 and falling further over the forecast horizon. The *Fiscal Strategy Report* clarifies our intentions going forward, which are to ensure that debt remains at prudent levels over the next decade. Our overall fiscal strategy of building net worth is unchanged. We will now achieve this primarily through the accumulation of assets in the NZS Fund.

Budget 2006 has been compiled taking account of the economic situation and is consistent with the Government's long-term fiscal objectives. This has been achieved by ensuring capital expenditure is planned so as to avoid placing undue pressure on inflation and ensuring that total new operating spending is consistent with the intentions signalled in the *Budget Policy Statement*.

Budget 2006 advances key policies in the following themes.

Our *Economic Transformation* agenda builds on the investments we have made in this area over the past six years by committing a further \$2.1 billion of new operating funding and \$1.5 billion of new capital funding over four years in this area. This Government is committed to raising productivity levels and increasing the value of our exports. Budget 2006 invests new funding in upskilling the workforce, encouraging new business and exports, increasing research and development, and investing further in the infrastructure of New Zealand.

Transport has a key role to play in contributing to the achievement of the Government priority of *Economic Transformation*. This Government is committed to investing in transport infrastructure because it recognises the growth benefits of moving towards building a world-class land transport system which moves people and goods safely and efficiently. Transport funding is a cornerstone of Budget 2006.

Advancing key social areas has always been a focus of this Government. Our *Families – Young and Old* theme continues this focus by devoting \$5.8 billion of new operating funding and \$460 million of new capital funding over four years predominantly in the key areas of health, education and the justice sector.

New Zealand has a unique identity, whether it is through the successes we see on the sporting field, how we express ourselves through our arts and culture or how we are perceived through the roles we play internationally. Budget 2006 continues to invest in this area through the *National Identity* theme by increasing funding by \$535 million of new operating funding and \$348 million of new capital funding over four years.

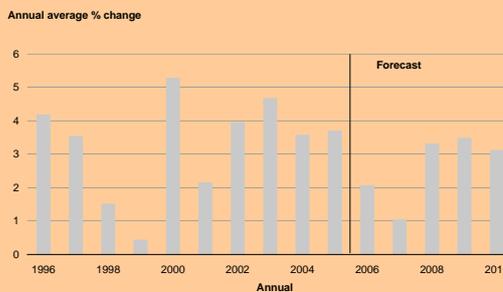
A handwritten signature in black ink, appearing to read 'M. Cullen', with a long horizontal stroke extending to the right.

Hon Dr Michael Cullen  
Minister of Finance

10 May 2006

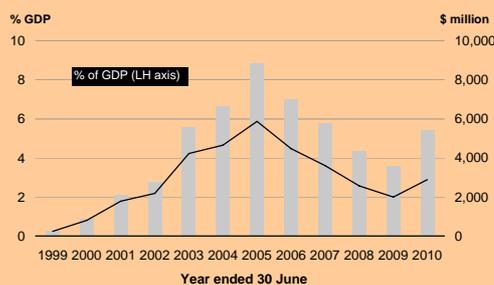
# The Government's Finances at a Glance

## Real GDP growth



Sources: Statistics New Zealand, The Treasury

## OBERAC



Source: The Treasury

## OBERAC (excl NZS Fund returns)



Source: The Treasury

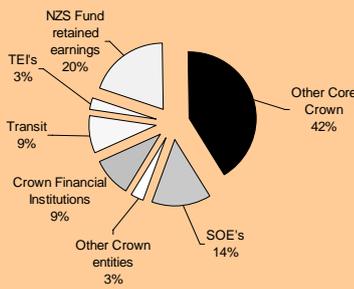
## New Zealand's Economy

- The economy has entered a period of slower growth after six years of economic buoyancy that saw strong growth in household and business incomes and the unemployment rate fall to be amongst the lowest in the OECD.
- Real GDP growth is estimated to have eased to 2.1% in the year to March 2006 and is forecast to ease further to around 1.0% in the March 2007 year.
- Higher interest rates, the very high exchange rate, lower net immigration and expected falls in the terms of trade and house price growth are amongst the factors leading to the slowdown.
- The pace of economic growth is expected to accelerate to 3% to 3.5% in the year to March 2008 and the years following. An assumed fall in the exchange rate, coupled with a robust outlook for trading partner growth, are expected to play a key part in the rebound.
- Underlying inflation pressures are expected to ease and the current account deficit to narrow from current levels with the period of slower growth and a switching in the drivers of growth.

## The Government's Fiscal Position

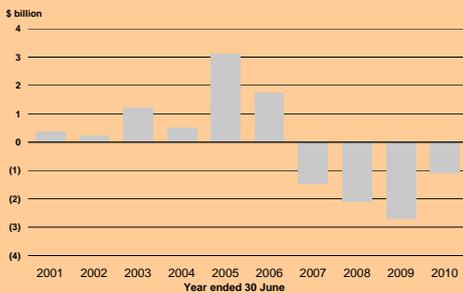
- The Government's measure of underlying fiscal performance, the OBERAC, is forecast to be \$7.0 billion (4.5% of GDP) in 2005/06, down from \$8.9 billion (5.9%) last year.
- The OBERAC is forecast to decline further over the next three years to \$3.6 billion (2.0% of GDP) in 2008/09.
- The forecast decline in the OBERAC reflects a combination of the spending decisions taken in this Budget and those in 2004 and 2005, and an expected slowdown in revenue growth associated with slower economic growth.
- The OBERAC excluding NZS Fund returns, which are retained by the NZS Fund, is forecast to fall from \$6.6 billion in 2005/06 to \$2.5 billion (1.4% of GDP) by 2008/09.

### Accumulated operating balance breakdown



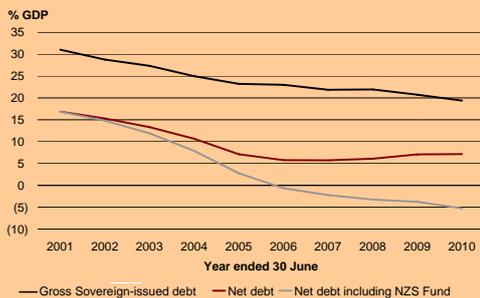
Source: The Treasury

### Core Crown cash position



Source: The Treasury

### Debt position



Source: The Treasury

- Capital investment, including the legislated contributions to the NZS Fund, is expected to be \$21.0 billion over the four years 2006/07 through 2009/10.
- After taking account of the retained earnings of ring-fenced funds (including NZS Fund), the core Crown is left with only 42% of the operating balance that can be used to fund this investing, over the four years 2006/07 through 2009/10.
- The Government has \$1.8 billion cash available for debt repayment in 2005/06, after allowing for operating and investment decisions.
- Beyond 2005/06 the Government is forecast to record cash deficits, averaging \$1.8 billion per annum for the next four years.
- These deficits will be met from a combination of borrowing and the drawdown of short-term financial assets built up over recent years. Borrowing is spread relatively evenly over the forecast period, with a domestic debt programme of around \$2.5 billion per year.
- Gross sovereign-issued debt is forecast to remain relatively flat in dollar terms and to decline as a percentage of GDP from 23.0% in 2005/06 to 19.4% in 2009/10.
- The Crown has moved into a net financial asset position (if the NZS Fund is included) during 2005/06 and is expected to have net financial assets of \$9.7 billion by 2009/10.
- The accumulated assets of the NZS Fund are projected to rise from 6.4% of GDP in 2005/06 to 12.4% of GDP by 2009/10.
- After increasing in 2005/06, core Crown expenses are expected to remain broadly stable around current levels over the forecast period.
- Core Crown revenues, relative to GDP, are forecast to reduce as tax revenue growth declines and recent strong investment returns are not repeated.
- The operating funding allowances for the next three Budgets are unchanged at \$1.9 billion in Budget 2007 increasing by inflation thereafter, while the capital allowances are \$858 million, \$570 million and \$640 million respectively.

## Revision to the Fiscal Objectives

### What is the Fiscal Strategy?

The Public Finance Act requires the Government to act in accordance with the principles of responsible fiscal management. These principles include reducing, and then maintaining, total debt at prudent levels and maintaining levels of total net worth that provide a buffer against future shocks.

As set out by the Minister of Finance in the *Fiscal Strategy Report*, the fiscal strategy is to strengthen the fiscal position to help manage future spending pressures, particularly those arising from an ageing population. This has been done by building up net financial assets (and consequently net worth) through the accumulation of financial assets in the New Zealand Superannuation (NZS) Fund and by reducing debt to prudent levels. This fiscal strategy means that future governments will have more choices about how and when they respond to demographic pressures.

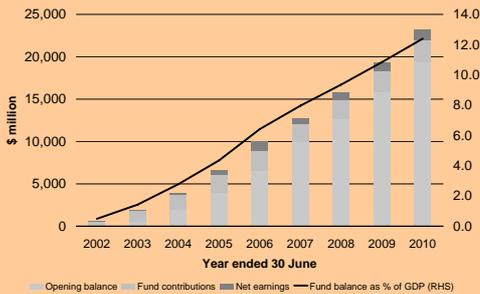
### Why has the Government altered the debt objective?

Other the last six years the economy has been among the best-performing in the OECD, which has enabled debt to be reduced markedly. In 1999 the level of gross sovereign-issued debt was 35.0% of Gross Domestic Product (GDP) and this is forecast to fall to 23.0% by June 2006 and to around 20% over the next four years. With debt at prudent levels, the Government is shifting the focus of its debt objective away from reducing debt further and instead towards ensuring that debt remains stable as a proportion of GDP at around 20% over the long term.

### Fiscal Strategy moving forward

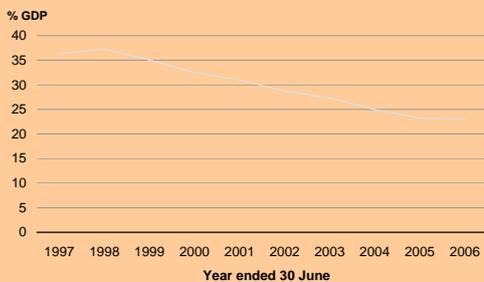
Moving forward, the fiscal strategy will now be implemented primarily by building up financial assets in the New Zealand Superannuation (NZS) Fund and maintaining gross debt at around 20% of GDP. To achieve this strategy the Government intends to continue to run operating surpluses that are sufficient to meet the contributions to the NZS Fund and some capital expenditure.

### New Zealand Superannuation Fund



Source: The Treasury

### Gross sovereign-issued debt



Source: The Treasury

# New Spending in Budget 2006

**Budget 2006 advances three key themes...**

Budget 2006 directs new funding to the three priorities of the third-term Labour led Government. These priorities are:

- *Economic Transformation* – raising productivity, building a skilled workforce, raising research capability and investing in our infrastructure
- *Families – Young and Old* – building stronger families which are healthier, better educated and feel safer in their communities
- *National Identity* – building a unique national identity through New Zealanders' connections with arts, culture, sporting success and our presence on the international stage through defence and development assistance.

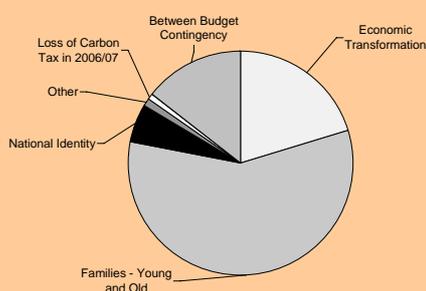
## Overview of New Expenditure

Budget 2006 commits:

- new operating spending of \$2.2 billion in 2006/07, rising to \$2.5 billion in 2009/10
- \$2.7 billion of new capital spending over the next four years with \$1.3 billion delivered in 2006/07
- a \$2.0 billion contribution to the NZS Fund in the 2006/07 year. The value of the NZS Fund is expected to rise from \$12.7 billion in 2006/07 to \$23.3 billion over the forecast horizon to 2009/10.

## New operating spending in Budget 2006

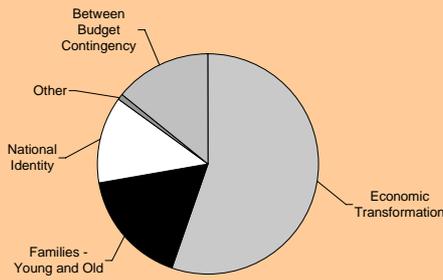
**New operating spending (% over four years)**



Source: The Treasury

\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
<i>Economic Transformation</i>	35.6	427.6	525.4	563.3	559.8	2,111.6
<i>Families – Young and Old</i>	89.5	1,278.5	1,478.9	1,514.5	1,517.3	5,878.6
<i>National Identity</i>	3.6	133.4	132.6	134.7	133.9	538.3
Other	3.7	28.6	33.9	27.2	22.8	116.3
Loss of Carbon Tax in 2006/07		89.0				89.0
Between Budget Contingency	7.7	365.1	352.8	355.8	365.9	1,447.4
Unspent Budget 2005 Contingencies	50.6	(109.6)	(109.3)	(116.1)	(124.3)	(408.7)
<b>Total Budget 2006 Operating</b>	<b>190.7</b>	<b>2,212.6</b>	<b>2,414.3</b>	<b>2,479.3</b>	<b>2,475.5</b>	<b>9,772.5</b>

### New capital spending (% over four years)



Source: The Treasury

**Budget 2006 continues funding for Economic Transformation...**

**... investing in our transport infrastructure to enhance economic growth ...**

### New capital spending in Budget 2006

\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
<i>Economic Transformation</i>	135.2	488.9	356.2	355.6	290.2	1,626.2
<i>Families – Young and Old</i>	31.4	302.3	124.3	7.8	25.0	490.9
<i>National Identity</i>	(2.1)	316.9	30.2	0.8	0.3	346.1
Other	(14.5)	1.8	28.2	9.4	(21.0)	3.9
Between Budget Contingency	0.0	236.1	73.8	57.2	17.0	384.1
<b>Total Budget 2006 Capital</b>	<b>150.0</b>	<b>1,346.0</b>	<b>612.7</b>	<b>430.8</b>	<b>311.5</b>	<b>2,851.1</b>

Note: the numbers in this document may not add due to rounding.

The between Budget capital contingency includes \$100 million in 2006/07 for climate change policy initiatives.

This document provides more detail on the above spending and revenue commitments. All figures are four-year totals (2006/07 to 2009/10) unless otherwise stated.

### Economic Transformation

#### Economic Transformation: New funding in Budget 2006

##### Operating

\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Tertiary Education	16.9	262.9	349.0	386.8	366.5	1,382.2
Revenue	(2.2)	80.3	94.1	106.0	124.2	402.5
Research, Science and Technology	1.0	26.6	24.8	24.5	24.1	101.1
Other <i>Economic Transformation</i> Initiatives	19.7	57.8	57.3	45.9	45.0	225.7
<b>Total Operating</b>	<b>35.6</b>	<b>427.6</b>	<b>525.4</b>	<b>563.3</b>	<b>559.8</b>	<b>2,111.6</b>

##### Capital

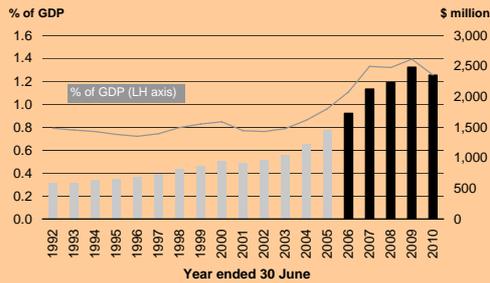
\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Transport	0.5	268.9	251.2	294.6	282.6	1,097.9
Tertiary Education	139.0	74.6	86.2	52.8	7.4	360.0
Finance	(14.0)	113.3	0.0	0.0	0.0	99.3
Economic, Industry and Regional Development	0.0	20.0	15.0	5.0	0.0	40.0
Revenue	9.1	5.6	3.0	2.5	0.0	20.2
Research, Science and Technology	0.0	5.3	0.3	0.5	0.0	6.1
Other <i>Economic Transformation</i> Initiatives	0.5	1.2	0.5	0.2	0.2	2.7
<b>Total Capital</b>	<b>135.2</b>	<b>488.9</b>	<b>356.2</b>	<b>355.6</b>	<b>290.2</b>	<b>1,626.2</b>

Key elements in the *Economic Transformation* area include:

##### Transport and Infrastructure

The 2006 Budget continues the significant capital investment in Transport infrastructure seen over the past six years.

## Land Transport Spending



Source: The Treasury

Key Budget 2006 policies are:

- \$1,287.0 million of capital investment over the next five years (from 2006/07 through 2010/11). Of this, \$862.0 million eliminates the projected shortfall in state highway funding and the whole National Land Transport Programme. A further \$425.0 million will accelerate major projects. Key projects to be accelerated are:
  - Warkworth Improvements Stage 1
  - Manakau Harbour Crossing (Auckland Western Ring Route)
  - Tauranga Eastern Motorway
  - Investigation of Transmission Gully (Wellington Western Corridor)
  - Christchurch Southern Motorway
  - Arahura Bridge replacement
- the provision of capital rather than debt funding for the Tauranga Harbour Link project, which will no longer be a toll road
- a transfer of \$600 million (including \$25 million in 2005/06) from Vote Transport to Vote Finance to provide dedicated funding to ONTRACK for renewals and upgrades of the Auckland rail network “below track” infrastructure
- loans of \$45.9 million in 2006/07 to fund renewal work on the rail network. Under the National Rail Access Agreement, additional funding of this nature would generally be recovered through track access fees
- a \$20 million equity injection for ONTRACK to purchase the Wellington Railway Station. This is fiscally neutral as the Station will be purchased from the Crown
- loans of \$42.4 million and an equity injection of \$10.6 million in 2006/07 to ONTRACK to meet obligations under the Agreement for Sale and Purchase of the Rail Network and Associated Assets between the Crown and Toll. The agreement provides for Toll to reconfigure their operations to enable the release of land they occupy to the Crown (ONTRACK) for other uses. The Crown funds the reconfiguration costs and pays Toll a portion of the net value of the land after these costs are deducted.

*... upskilling the workforce...*

### Tertiary Education

Budget 2006 significantly increases the Government's funding in the tertiary education sector. Key initiatives include:

- \$32.0 million in 2005/06 and a further \$1,029 million over four years in operating funding to implement the Interest-free Student Loans policy from 1 April 2006

**... aligning tax rules and reducing compliance costs...**

- \$14.3 million to increase student allowance parental income thresholds, resulting in a further 620 students being eligible for a student allowance and 9,540 students receiving an increase in their current entitlement in 2007
- \$34.4 million to fund an additional 3,000 Modern Apprenticeships, taking the total number of places to 14,000 by December 2008
- \$23.7 million to better reward excellence in tertiary education through increased spending in the Performance Based Research Fund
- \$33.5 million to increase the literacy, language and numeracy skills of low-skilled employees as a first step towards upskilling the workforce and raising productivity.

*Revenue*

Budget 2006 brings changes to taxation rules and a reduction to employer payroll-related compliance costs through:

- measures to lift the New Zealand Racing Industry's economic performance by the alignment of the racing gaming duty with that paid by casinos and accelerated depreciation for bloodstock (\$136.5 million)
- a subsidy for the use of a payroll agent by employers, at a flat rate of \$2 per pay period per employee for up to five employees (\$79.4 million).

**... lifting performance in research and innovation.**

*Research, Science and Technology*

Budget 2006 commits \$100 million into Research, Science and Technology. Key elements include:

- supporting key industries, with further investment in pastoral, energy, biodiversity and biosecurity research, and research capability in New Zealand Crown Research Institutes (\$81.0 million)
- accelerating commercialisation of research (\$13.0 million operating, including \$9.0 million met from reprioritisation, and \$3.0 million capital in 2006/07)
- linking schools to research organisations through a new pilot programme providing ready access to authentic and contemporary New Zealand research to support students' learning in science and technology (\$4.0 million).

## Families – Young and Old

### Families – Young and Old: New funding in Budget 2006

#### Operating

\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Extension to Working For Families	85.0	360.0	485.0	500.0	500.0	1,930.0
Health	0.0	750.0	750.0	750.0	750.0	3,000.0
Early Childhood Education and Schooling	(8.0)	27.3	92.4	105.3	106.4	323.3
Police	11.5	48.8	49.6	50.7	49.4	210.0
Corrections	2.6	25.5	37.6	38.4	41.5	145.6
Child, Youth and Family Services	0.0	29.3	22.5	22.5	22.5	96.8
Justice	0.3	4.6	4.7	6.5	6.5	22.5
Other Families – Young and Old Initiatives	(1.9)	33.0	37.2	41.1	41.0	150.4
<b>Total Operating</b>	<b>89.5</b>	<b>1,278.5</b>	<b>1,478.9</b>	<b>1,514.5</b>	<b>1,517.3</b>	<b>5,878.6</b>

#### Capital

\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Early Childhood Education and Schooling	20.0	147.6	8.1	2.2	0.0	177.9
Health	0.0	30.0	28.0	65.0	23.0	146.0
Corrections	11.4	98.8	45.0	(72.8)	0.0	82.4
Police	0.0	22.4	21.9	12.9	2.0	59.1
Justice	0.0	3.2	21.4	0.6	0.0	25.2
Other Families – Young and Old Initiatives	0.0	0.3	0.0	0.0	0.0	0.3
<b>Total Capital</b>	<b>31.4</b>	<b>302.3</b>	<b>124.3</b>	<b>7.8</b>	<b>25.0</b>	<b>490.9</b>

Key elements in the *Families – Young and Old* theme include:

#### *Extension to Working for Families*

Budget 2006 commits a further \$85 million in 2005/06 and \$1,845 million over the next four years to support New Zealand families through the extension of the Working for Families package. Around 85,000 more families benefited from 1 April this year as a result of the combined family tax relief package – this means that 350,000 families will be receiving family tax relief in 2006.

The extension to Working for Families raises the threshold at which family income assistance begins to abate from \$27,500 to \$35,000 and reduces the abatement rate from 30% to 20%.

#### *Health*

Budget 2006 commits \$3 billion of new operating funding to the Health sector over the next four years.

**Budget 2006 continues the additional spending previously made to ensure New Zealand families are well supported, healthier, better educated and feel safer...**

**... deliver the extension to working New Zealand families ...**

**... continuing substantial funding in the health system ...**

A significant proportion of the new funding (\$1.6 billion over four years) is devoted to maintaining the real purchasing power of Health spending over time. This adjustment manages the cost pressures the health sector faces, including an increasing and ageing population, inflation, and the advance of medical technologies (these often increase costs).

Other key initiatives to be funded include:

- improvements in residential care and home-based support services for older New Zealanders (\$126 million)
- the extension of the Primary Health Care Strategy to people aged 45-64 years from 1 July 2006, reducing first contact fees and pharmaceutical co-payments (\$280 million)
- the implementation of the Healthy Eating Healthy Action Implementation Plan with a particular focus on prevention of obesity in children by improving nutrition and increasing physical activity (\$76 million)
- an initial contribution to a strengthened child and adolescent oral health service to create a seamless service for all under 18 year olds (\$41 million)
- “School Ready” checks and expanded Well Child checks for pre-school children to support their development and enable improvements in their health status (\$24 million)
- a universal hearing screening programme to identify congenital hearing loss and enable earlier intervention (\$16 million)
- the continuation for a further three years of the group B meningococcal vaccine immunisation programme to ensure that children will remain protected while the epidemic strain bacterium is still in circulation (\$22 million over the next three years).

Budget 2006 also provides \$146 million in new capital funding over four years. This will support the implementation of the strengthened child and adolescent oral health service, enable improvements to the health information technology infrastructure, and provide for some further public hospital building projects.

#### *Early Childhood Education and Schooling*

Budget 2006 provides additional funding in early childhood education and schooling. Significant initiatives include:

- \$128.2 million to extend the 20 hours per week of free early childhood education policy to three and four year olds in all teacher-led services from 1 July 2007
- \$9.5 million to more effectively address disruptive behaviour in schools

**... ensure young  
New Zealanders realise their  
potential through educational  
attainment.**

**Police numbers are being boosted and additional funding to the justice sector to ensure New Zealanders feel safe in their communities**

- \$89.3 million to provide an extra 455 full-time teachers in primary and special schools from the start of the 2007 school year
- \$95.6 million to increase schools' operational funding by 3% from the beginning of 2007.

#### *Justice Sector*

Key funding in the Justice Sector in Budget 2006 includes:

- \$11.5 million in 2005/06 and \$198.5 million over the next four years to Police, which includes:
  - \$130.3 million in operating funding, plus \$33.9 million from the National Land Transport Fund dedicated to road policing, and \$48.9 million in capital funding to boost police numbers by 406 staff (325 sworn and 81 non-sworn) – the first tranche of the Government's commitment to increase the number of police staff by 1,250 over the parliamentary term
  - \$14.0 million in operating funding and \$2.6 million in capital funding, for a new centralised National Assistance Centre to manage non-emergency calls
- \$143.0 million in operating funding to the Department of Corrections, the majority of which is to fund the ongoing operating costs of the new Otago Region Corrections Facility (\$121.1 million)
- \$35.3 million in operating funding to the Ministry of Social Development to reduce violence within families and to continue to provide best practice information to parents and caregivers on raising children
- \$10.8 million in operating funding to Victim Support to, for example, implement improvements in the quality and consistency of services to victims
- \$15.0 million in operating funding and \$1.5 million in capital funding, to implement the Criminal Proceeds and Instruments Bill which aims to reduce the attractiveness of crime by, for example, allowing for the seizure of assets obtained through criminal activity.

#### *Child, Youth and Family Services*

Additional funding to Child, Youth and Family Services to maintain the 2005/06 care and protection baseline into outyears and provide a small increase in 2006/07 to cover the forecast increase in notifications while work is undertaken on demand management strategies (\$88.6 million).

## National Identity

### National Identity: New funding in Budget 2006

#### Operating

\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Defence	0.0	72.8	72.8	72.8	72.8	291.0
Official Development Assistance	0.0	21.0	21.0	21.0	21.0	84.0
Arts, Culture and Heritage	0.9	14.7	12.5	12.5	12.5	53.2
Foreign Affairs and Trade	1.5	11.9	14.0	14.4	14.6	56.4
Immigration	0.0	4.0	4.0	4.0	4.0	16.0
Other <i>National Identity</i> Initiatives	1.2	9.0	8.3	10.0	9.0	37.6
<b>Total Operating</b>	<b>3.6</b>	<b>133.4</b>	<b>132.6</b>	<b>134.7</b>	<b>133.9</b>	<b>538.3</b>

#### Capital

\$ millions, GST exclusive	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Defence	0.0	305.1	0.0	0.0	0.0	305.1
Foreign Affairs	0.0	8.5	17.0	0.8	0.3	26.6
National Library	(3.3)	2.2	5.3	0.0	0.0	4.2
Other <i>National Identity</i> Initiatives	1.2	1.1	7.9	0.0	0.0	10.2
<b>Total Capital</b>	<b>(2.1)</b>	<b>316.9</b>	<b>30.2</b>	<b>0.8</b>	<b>0.3</b>	<b>346.1</b>

#### Defence

The second-year injection of the 10-year Defence Sustainability Initiative is a commitment to raise the Defence baseline as a result of the issues identified in the Defence Capability and Resourcing Review (\$291.0 million).

A further investment of \$305.1 million of capital as part of the Long-Term Development Plan will provide for pre-commitments to existing Long-Term Development Plan projects, Defence Sustainability Initiative projects, the fit-out of the new Defence Headquarters building, and a deposit for the Defence Helicopter Capability Project.

#### Official Development Assistance

New Zealand's Official Development Assistance will be maintained at the GNI ratio of 0.27%, rising to achieve a target of 0.28% in 2007/08 (\$84.0 million).

#### Arts, Culture and Heritage

Budget 2006 commits \$52.3 million to increase funding to our Arts, Culture and Heritage sector. Key areas include:

- maintaining the quality and quantity of television programming funded by New Zealand On Air (\$20.0 million)
- maintaining capability in the New Zealand Historic Places Trust, the Royal New Zealand Ballet and the organisations funded on an ongoing basis by Creative New Zealand (\$23.8 million).

**Budget 2006 provides additional funding to promote New Zealand's unique national identity...**

**... through the role New Zealand plays on the international defence scene...**

**... and New Zealand's role in supporting developing nations...**

## Guide to the Budget Documents

A number of documents are released on Budget day. The intent of these documents is to provide information about the Government's spending intentions; its performance; and the wider fiscal and economic picture.

The Budget documents, ordered from widest to most specific coverage, are as follows:

### Executive Summary

The *Executive Summary* is the overview of all the Budget information and contains the key points for the media and general public. It summarises the Government's spending decisions and generally focuses on issues raised in the *Budget Speech*, the *Budget Economic and Fiscal Update* and the *Fiscal Strategy Report*.

### Budget Speech

The *Budget Speech* is the Minister of Finance's speech at the start of Parliament's Budget debate. The Speech generally focuses on the overall fiscal and economic position, and how the Government will fund its policy priorities.

### The Fiscal Strategy Report

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 balancing operating revenues and expenses, and achieving debt objectives. It includes

- fiscal trends covering at least the next 10 years, and
- a comparison with the long term fiscal objectives set out in the *Budget Policy Statement*.

The Government must explain inconsistencies between the *Fiscal Strategy Report*, the *Budget Policy Statement* and the previous year's *Fiscal Strategy Report*.

### Budget Economic and Fiscal Update

This document includes Treasury's overall economic forecasts and the forecast financial statements of the Government. The *Update* includes the implications of Government financial decisions and other information relevant to the fiscal and economic position.

### The Estimates of Appropriations

The *Estimates* outline the costs the Government plans to incur on each specified area within each "vote" for the coming year.

### The Supplementary Estimates of Appropriations

The *Supplementary Estimates* outline the additional money required to cover the current year's spending.

### Departmental Statements of Intent

The *Statement of Intent* provides information about how each government department intends to manage for outcomes over the next 3-5 years. The *Statement of Intent* also contains annual financial and output class information required under the Public Finance Act 1989.

### Internet

These documents will be made available on the New Zealand Treasury's Internet site.

The URL for this site is <http://www.treasury.govt.nz>