Negotiating and decision-making processes that comprise the Budget cycle.
Introduction
The Budget process allows the Government to:
• plan for the period ahead
• allocate resources in line with policy priorities
• seek authority from Parliament for spending.

The Crown’s financial year begins on 1 July. Ministers are normally able to advise departments of their proposed budget allocations before the beginning of the financial year. These proposed allocations are contained in the “Estimates of Appropriations.”

The Estimates
The Government’s request for appropriations, and supporting information, is presented to the House of Representatives at Budget time in a formal document known as the main Estimates (the full title is Estimates of Annual Appropriations for the Government of New Zealand).

The Estimates detail appropriations sought from Parliament by Vote Ministers for expenses, expenditure and liabilities, for all purposes including classes of outputs. The Estimates also state how output classes are linked to the outcomes the Government is seeking.

Appropriation
An appropriation is a Parliamentary authorisation for the allocation of resources to a Minister for a specified purpose. In the Estimates, Ministers specify how much they need to purchase particular outputs. The Government requests an appropriation for each class of outputs (whether to be supplied by a department or other organisation), capital investment (capital contributions to departments, investments in other organisations and purchase or development of Crown capital assets), and other expenses. Appropriations are also made for benefits or other unrequited expenses, borrowing expenses and the repayment of debt. In all, there are seven appropriation types (see Chapter Four).

During the strategic phase of the Budget cycle, Ministers determine their Budget strategy for the coming three years.
The budget process consists of a number of elements:

- strategic phase
- preparation of Vote budgets
- development of budget initiatives
- review of budget baselines
- consideration of proposed budget initiatives
- production and presentation of budget documents
- passing the Appropriation Bill.

1 Strategic Phase (normally August to November)

During the strategic phase of the Budget cycle, Ministers determine their Budget strategy objectives for the coming three years.

To this end Cabinet receives information and advice from the Minister of Finance and other Ministers. It considers the relative importance of the outcomes the Government wants to achieve, and agrees the key themes for the coming Budget.

Ministers identify priorities for departmental chief executives to guide preparation of Budget submissions.
### Main Products of the Budget Cycle

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‡Date of published document
The December (Half-year) Economic and Fiscal Update (DEFU)

An economic and fiscal update, specified by the Fiscal Responsibility Act\(^2\), is published each December. This includes economic and fiscal forecasts for the current and following three years, updated with new information received since the main Budget forecasts were prepared.

Decisions taken during the strategic phase are the basis for the content of the Budget Policy Statement. This contains Ministers’ decisions on budget priorities. The target levels of aggregate spending, revenue, net debt and net worth are important elements of the Budget Policy Statement. This statement is informed by the information in the DEFU and the results of the strategic phase.

The Budget Policy Statement:

- includes information about the Government’s short-term fiscal intentions, long-term fiscal objectives and priorities for the coming Budget
- sets the stage for an informed debate in the House on the parameters and priorities for the coming Budget
- is reviewed by the FEC whose report is debated in the House before final Budget decisions are taken.

The Budget Policy Statement is required to be published no later than 31 March each year.

2 Preparation of Vote Budgets (normally November to February)

Ministers and chief executives prepare draft budgets and purchase agreements for the coming year. The purchase agreements, while not part of Budget submissions, include proposed departmental outputs, associated performance indicators and the expected costs of producing the outputs.

As well as the coming year, draft outputs and departmental budgets are prepared for the two subsequent years. Preparation begins on the main Estimates for the coming year.

\(^2\) See Appendix B.
3 Development of Budget Initiatives (normally November to February)

Ministers and their departments develop budget initiatives which will have an impact on revenue and expense levels. These policy proposals are required to be consistent with the Budget priorities and fiscal parameters agreed during the strategic phase.

4 Review of Budget Baselines (normally February to April)

Ministers are expected to keep total expenses for each Vote within approved levels. These levels, called baselines, contain amounts for the coming year and the following two years. However, the mix of outputs purchased may be changed so long as total expenses do not exceed approved baselines. This baseline system avoids small incremental increases in costs adding up to significant additional spending, which may undermine the Government’s agreed fiscal and policy objectives. The baseline system also provides greater certainty for medium-term planning by departments.

Ministers may request changes to baselines, and Cabinet considers proposals during the review of the baselines prior to the Budget. The circumstances in which baseline changes are agreed are tightly defined. These include changes arising from Cabinet decisions since the previous fiscal update and forecast revisions to demand-driven expenses, such as changes in the numbers projected to receive welfare benefits.

At the same time as the preparation and review of the budget baselines for the coming years, Ministers and chief executives agree any Supplementary Estimates proposals for the current year, including any planned changes to outputs. Supplementary Estimates proposals bring together Cabinet decisions and forecasting changes for the current year which have been made since the last Budget.

Ministers are expected to keep total expenses for each vote within approved levels. These levels, called baselines, contain amounts for the coming year and the following two years.

Supplementary Estimates are prepared for the current year to seek parliamentary approval for:

- changes to any appropriation type
- any further capital investment
- changes in output prices
- new outputs to be produced
- changes relating to other expenses and benefits.
**5 Consideration of Proposed Budget Initiatives (normally February to April)**

During this period, Cabinet reviews Ministers’ policy proposals which will have an impact (either increasing or decreasing) on expenditure and revenue levels. Cabinet assesses the consistency of these proposals with the Government’s overall strategy, in particular with the Budget priorities and fiscal intentions set out in the Budget Policy Statement. After the House has debated the FEC’s report on the Budget Policy Statement, Cabinet makes final Budget decisions.

**6 Production and Presentation of Budget Documents**

On Budget day the Minister of Finance presents to the House of Representatives the following documents covering the fiscal year beginning on 1 July:

- the first Appropriation (Estimates) Bill for the new fiscal year
- Budget speech and Fiscal Strategy Report
- the Budget Economic and Fiscal Update
- the main (Budget) Estimates
- departmental forecast reports.

**Fiscal Strategy Report**

This report is required to be tabled in the House of Representatives at the time the Budget is presented, and must include:

- a comparison of the fiscal forecasts in the Budget economic and fiscal update with the Government’s objectives and intentions set out earlier in the Budget Policy Statement;
- progress outlooks with projections of fiscal trends covering at least the next ten years; and
- a comparison of the progress outlooks with the long term fiscal objectives set out in the Budget Policy Statement.

Inconsistencies between the Fiscal Strategy Report and the Budget Policy Statement and the immediately preceding Fiscal Strategy Report must be explained and justified by the Government.

The Budget must be presented in the House of Representatives no later than 31 July each year. In practice, the Budget can be presented in May or June.

The first reading of the main Appropriation Bill takes place on Budget day when the Bill is presented in the House. The Minister of Finance delivers the Budget speech, moving the second reading of the main Appropriation Bill, and tables the Budget documents in the House. The second reading of the Bill is then debated in the Budget debate.
7 Passing the Appropriation Bill

The Fiscal Strategy Report, Budget Economic and Fiscal Update and the Estimates stand referred to the FEC. The FEC allocates Votes to appropriate select committees for the Estimates examination.

The select committees examine Ministers and departments about the appropriations requested. Each select committee is required to report back to the House within two months of the delivery of the Budget. In addition the FEC examines the Minister on the Fiscal Strategy Report and the Budget Economic and Fiscal Update.

The “committee stage” of the main Appropriation Bill is called the Estimates debate. During this debate, individual Votes are debated. This is referred to as consideration by the committee of the whole House.

The debate on the third reading of the main Appropriation Bill must be completed within three months of the delivery of the Budget. The debate on the third reading may include reference to the content of the Fiscal Strategy Report, the Budget Economic and Fiscal Update and FEC’s report on these documents. When the Bill has been read a third time, it is passed by the House and becomes law with the assent of the Governor-General.

In this way the Government’s annual Budget becomes law through an Appropriation Act. Chapter Four explains the appropriation system in more detail.