

Budget Report: Process for Assessing 30 November Submissions
Seeking Additional Operating Funding for Budget
2010

Date:	27 November 2009	Report No:	BR2010/6
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>Note that Treasury will report to Budget Ministers on Friday, 4 December with an initial assessment of detailed baseline examinations and proposals for new funding based on the criteria in this Treasury Report.</p> <p>Advise Treasury if there are other criteria or factors that you would like us to include in the assessment of Vote Minister submissions.</p>	Tuesday, 1 December
Prime Minister (Hon John Key)	None	None
Associate Minister of Finance (Hon Simon Power)	None	None
Associate Minister of Finance (Hon Steven Joyce)	None	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[withheld - privacy]	Senior Analyst, Fiscal Management	[withheld - privacy]	[withheld - privacy]	✓
Chris Bunny	Manager, Fiscal Management	[withheld - privacy]	[withheld - privacy]	

Minister of Finance's Office Actions (if required)

Advise Treasury by Tuesday 1 December if there are other factors that the Minister of Finance would like to include in the assessment of submissions.

Enclosure: No

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Executive Summary

On Monday 7 December Budget Ministers will meet to consider submissions from Vote Ministers for new funding. These submissions will be supported by detailed baseline examinations. The objective of the meeting is to consider final allocations of new spending for consideration at Cabinet on Monday 14 December. These final allocations establish the baseline for Vote Ministers to utilise when preparing Baseline Alignment Proposals early in 2010. We are aware that justice sector material will not be available until Monday, 7 December. It is important that all other submissions arrive on time so Budget Ministers have all the necessary information when proposing final allocations to Cabinet on 14 December.

Preliminary indications suggest that submissions from Vote Ministers are likely to be in excess of what can be managed within the \$1.1 billion allocation for new operating funding in Budget 2010. The allocation is critical for managing debt and maintaining confidence in the fiscal strategy published in Budget 2009, and to help the rebalancing of the economy by limiting growth in government spending. We intend to apply the following criteria to analysing the submissions:

- **Does the submission meet the critical elements of the terms of reference for detailed baseline submissions?** This requires a review of all areas of expenditure within the Vote and identifying any that are not consistent with the Government's priorities and demonstrating an inability to handle the pressures facing the Vote from within the funding available to the Vote.
- **Does the submission meet other elements of the terms of reference for detailed baseline submissions?** This includes detailing how all increases to the Vote since 2005 have been applied and reviewing the number and cost of policy advisors.
- **How do the proposed pressures and priorities match with Government priorities?**

Please advise us if there are other factors that you would like us to include in the assessment of submissions. We will prepare advice for Budget Ministers setting out options for managing the submissions that stay within the allowance, including options to:

- Make offsetting savings within the Vote;
- Consider some proposals as candidates for the "Rolling Maul" fund or to be funded by reducing the contingency for between Budget spending; and
- Fill any funding gap from submissions for new funding by making savings in other Votes or making an across the board reduction to all Votes.

Treasury's assessments of submissions for Budget Ministers on 7 December will be restricted by the limited time available. It is likely that some of the information provided in

the detailed baseline examinations will require further reporting to Ministers on a slower timetable.

Recommended Action

We recommend that you:

- a **note** that Budget Ministers are meeting on Monday 7 December 2009 to set final allocations of the \$1.1 billion allowance for new operating spending in Budget 2010, including considering any submissions from Vote Ministers for new funding;
- b **note** that justice sector submissions will not be available until Monday 7 December and will be provided at the meeting on 7 December;
- c **note** that we will report to Budget Ministers on Friday 4 December 2009 with an analysis of submissions from Vote Ministers;
- d **note** that Treasury will assess submissions from Vote Ministers by applying the following criteria:
 - Does the submission meet the critical elements of the terms of reference for detailed baseline submissions? This requires a review of all areas of expenditure within the Vote and identifying any that are not consistent with the Government's priorities, and demonstrating an inability to handle the pressures facing the Vote from within the funding available to the Vote.
 - Does the submission meet other elements of the terms of reference for detailed baseline submissions?
 - How do the proposed pressures and priorities match with Government priorities?
- e **advise** Treasury if there are other criteria or factors that you would like us to include in the assessment of Vote Minister submissions; and
- f **note** that once the submissions have been assessed, Treasury will prepare possible packages for Budget Ministers to consider.

Chris Bunny
**Manager, Fiscal Management
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Budget Report: Process for Assessing 30 November Submissions Seeking Additional Operating Funding for Budget 2010

Purpose of Report

1. This report outlines our approach for assessing submissions from Vote Ministers for new funding, supported by detailed baseline examinations, on 30 November 2009 in relation to pressures and priorities that cannot be funded from within baselines.

Analysis

2. On Monday 7 December Budget Ministers (Prime Minister, Minister of Finance and Associate Ministers of Finance) are meeting to consider submissions from Vote Ministers for new funding. These submissions will be supported by detailed baseline examinations. The objective of the meeting is to consider final allocations of new spending for consideration at Cabinet on Monday 14 December. These final allocations will establish the total baseline for Vote Ministers to utilise when preparing Baseline Alignment Proposals early in 2010.
3. Cabinet invited Ministers to make a submission to you by 30 November where they believe that they are unable to meet priorities and pressures from within existing baselines and, in the cases of Votes Education and Health, the indicative allocation of new funding. The submissions will consist of a request for additional resources and a detailed examination of the Vote.
4. The 2009 Fiscal Strategy Report (FSR) set the operating allowance at \$1.1 billion for Budget 2010, a substantially smaller allowance than in recent Budgets. Retaining this allowance is an important component of the Government's fiscal strategy, including the goal in the FSR to have net debt closer to 20% of GDP in order to provide a prudent environment in terms of future economic shocks and an aging population.
5. The \$1.1 billion allowance is also important for the Government's wider economic strategy. Fast growth in government spending in recent years added to imbalances in the economy, and drew resources away from the exporting and import-competing sectors of the New Zealand economy. The smaller allowances for additional spending in future Budgets will help limit the growth in government spending and assist in the rebalancing of the economy. This is particularly important at the current conjuncture, with signs that domestic demand growth is likely to be a major component of the emerging recovery in economic activity.
6. Vote Minister submissions seeking additional resources on 30 November present some risks to the \$1.1 billion allowance for new operating spending. At the fiscal issues meeting on 25 November 2009, we provided you an aide memoire detailing the likely submissions from Vote Ministers that Treasury analysts had identified. While it is possible that some of these expected submissions will not eventuate we expect that the magnitude of submissions will be well above what can be managed from within the \$1.1 billion allowance.

7. We have developed the criteria set out below to assess the submissions and to assist Budget Ministers in taking a package of final allocations of the allowance to Cabinet on 14 December. We are aware that material for the justice sector will not be available until December 7 2009, and will be provided at the Budget Ministers meeting that day. It is important that all other submissions are provided to you on time so that Budget Ministers have all the necessary information available when suggesting final allocations to Cabinet on 14 December. If Ministers miss the 30 November deadline it may prevent a full consideration of final allocations on 14 December. In addition, any further submissions early in 2010 could undermine the final allocations and require Cabinet to revisit decisions made in December.

Does the submission meet the critical elements of the terms of reference for detailed baseline submissions?

8. The terms of reference for Baseline reviews [CAB Min (09) 39/24] included a requirement that Vote Ministers:
- “demonstrate that they have reviewed all areas of expenditure within the Vote and identified any that are not consistent with this government’s priorities” and
 - “demonstrate that they are unable to handle the pressures facing the Vote from within the funding available to the Vote”.
9. In your letter to Vote Ministers providing the details of the Budget process, you noted that there may be some instances of lower priority programmes that cannot be funded from baselines. The Senior Executives Group (SEG) has met to discuss the Budget process and suggested that officials should focus on providing Vote Ministers advice on how they can live within the respective indicative allocation and meet pressures and priorities. This expectation was communicated to public service Chief Executives via an email on Friday 13 November from John Whitehead as Chair of SEG. We expect such savings options to be identified in order to demonstrate that the second bullet point above from the Terms of Reference has been met.
10. Because of the likelihood of submissions substantially exceeding the available funding, we will look very closely at proposed options for funding priorities and pressures and provide advice to Budget Ministers regarding the feasibility of the options. In cases where Vote Ministers have not proposed any options for funding the priorities and pressures, and therefore have not fulfilled these two requirements of the Terms of Reference, Treasury will recommend declining the submission, and where possible will propose options for making savings within the Vote that could be used to fund the submission. Budget Ministers will then be able to consider these options alongside the proposed pressures and priorities.

Does the submission meet other elements of the terms of reference for detailed baseline submissions?

11. The terms of reference also require Vote Ministers to:
- detail how all increases to the Vote since 2005 have been applied and what value has been obtained from that additional expenditure;

- demonstrate that they have reviewed the number of policy advisors in, and cost of policy advice provided by, their department(s) and whether some reduction in that number or cost can be made; and
 - demonstrate that any fiscal savings expected as a result of the department implementing its performance improvement actions have been taken into account.
12. In addition, we will include any sector-specific elements of the Terms of Reference for the major social sector votes.
13. Ideally, these issues will be addressed in the submission from Vote Ministers. In some cases the short time frames involved may have limited Ministers' capacity to complete these components. Failure to complete this is not critical to the consideration of the submissions, however we propose following up with departments in cases where these have not been completed adequately.

How do the proposed pressures and priorities match with Government priorities?

14. Where there are pressures or priorities that cannot be funded from within baselines, we will analyse the proposals fit against Government priorities, particularly whether they advance the Government's desire to lift New Zealand's economic growth prospects. Proposals well aligned to these priorities may be suitable for consideration as part of the "Rolling Maul" fund.

Bringing together a package for Budget Ministers

15. Once the submissions have been assessed using the proposed criteria above, Treasury will prepare possible packages for Budget Ministers to consider. These packages will include:
- requests for new funding that Treasury recommends declining;
 - requests for new funding that Treasury recommends declining, on the basis that the funding gap can be filled from savings within the Vote not recommended by the Vote Minister;
 - requests for new funding that Treasury recommends declining, on the basis that the proposed programme(s) should be considered as a candidate for the "Rolling Maul" fund or considered as a candidate funded by reducing the Budget 2010 contingency for between Budget spending;
 - requests for new funding that Treasury recommends accepting, on the basis that the funding gap be filled by reducing specific areas of expenditure in other Votes; and
 - requests for new funding that Treasury recommends accepting, with the funding gap filled by across-the-board reductions to other Votes.
16. All of the approaches, discussed above, for developing options to respond to Vote Ministers' submissions would be consistent with staying within the allowance of \$1.1 billion in new spending.