

Chair
CABINET

**BUDGET 2010: DETAILED EXAMINATION OF MAJOR SOCIAL SECTOR VOTES
AND OTHER VOTES SEEKING ADDITIONAL FUNDING**

Proposal

1. This seeks approval of:
 - the terms of reference and process for the detailed examination of Votes Health, Education, and Social Development and the Justice Sector Votes (Attorney-General, Courts, Corrections, Justice, Police, Serious Fraud); and
 - the terms of reference and process for the detailed examination of any other Vote whose Minister is proposing to submit a request for additional resources to the Minister of Finance by 30 November 2009.

Background

2. The accompanying paper under CAB (09) 617 entitled "Budget 2010: Indicative Shares of the Operating Allowance" recommends inter alia that Cabinet:
 - agree that \$300 million be indicatively allocated to Vote Health and \$250 million be indicatively allocated to Vote Education;
 - agree that detailed examinations of the baselines of Votes Health, Education, Social Development and the Justice Sector Votes (Attorney-General, Courts, Corrections, Justice, Police, Serious Fraud) be undertaken by the respective Vote Ministers and their departments, reporting to Budget Ministers by 21 December 2009, to assist in aligning their baselines to Government priorities and, where appropriate, identify where additional resources should be directed;
 - agree that if through their detailed examinations social sector Vote Ministers determine that additional funding over and above the indicative allocation is required, the reviews are to be completed by 30 November 2009 and are to include a reconciliation of where increases to baselines the Vote has received since 2005 have been applied and what value has been obtained;
 - agree that no other Vote be allocated additional funding at this time;

- invite the Minister of Finance to report back to Cabinet on 2 November 2009 proposing further details on the process and conduct of the detailed examination of the major social sector Votes; and
- invite Vote Ministers who consider that they are unable to deliver priorities and cater for cost pressures from within their existing baseline and indicative share, to submit to the Minister of Finance a request for additional resources, accompanied by a detailed examination of their Vote, consistent with that proposed for Health, Education, Social Development and Justice Sector Votes, by 30 November 2009.

Comment

3. Annexes 1 – 4 set out the proposed terms of reference for the detailed examinations of Votes Health, Education, Social Development and the Justice Sector Votes (Attorney-General, Courts, Corrections, Justice, Police, Serious Fraud). These detailed examinations will need to be completed and reported to Budget Ministers via the Minister of Finance:

- by 30 November 2009 if the Vote Minister concerned, or the Minister of Justice in the case of the Justice Sector Votes, is seeking additional resources (or more than an additional \$300 million for Vote Health or more than an additional \$250 million for Vote Education);
- by 21 December 2009 otherwise.

4. Annex 5 sets out the proposed terms of reference for the detailed examination of any other Vote whose Minister considers that they are unable to deliver priorities and cater for cost pressures from within their existing baseline and are seeking additional resources. These detailed examinations will need to be reported together with the Vote Minister's request for additional resources to the Minister of Finance by 30 November 2009.

5. Each detailed examination is to be conducted by the Vote Minister and department concerned. I am open to requests from Ministers for the Treasury to provide supplementary assistance to Ministers if this is wanted.

Consultation

6. I have consulted the Ministers of Health, Police, Corrections, and Education and the Minister for Social Development and Employment on the proposed terms of reference for the detailed examination of their respective Votes set out in Annexes 1-4.

Recommendations

7. I recommend that Cabinet:
 1. note that the paper under CAB (09) 617 entitled "Budget 2010: Indicative Shares of the Operating Allowance" recommends inter alia that Cabinet:
 - 1.1 agree that detailed examinations of the baselines of Votes Health, Education, Social Development and the Justice Sector Votes (Attorney-General, Courts, Corrections, Justice, Police, Serious Fraud) be undertaken by the respective Vote Ministers and their departments, reporting to Budget Ministers by 21 December 2009, to assist in aligning their baselines to Government priorities and, where appropriate, identify where additional resources should be directed;
 - 1.2 agree that if through their detailed examinations social sector Vote Ministers determine that additional funding over and above the indicative allocation is required, the reviews are to be completed by 30 November 2009 and are to include a reconciliation of where increases to baselines the Vote has received since 2005 have been applied and what value has been obtained;
 - 1.3 invite the Minister of Finance to report back to Cabinet on 2 November 2009 proposing further details on the process and conduct of the detailed examination of the major social sector Votes; and
 - 1.4 invite Vote Ministers who consider that they are unable to deliver priorities and cater for cost pressures from within their existing baseline and indicative share, to submit to the Minister of Finance a request for additional resources, accompanied by a detailed examination of their Vote, consistent with that proposed for Health, Education, Social Development and Justice Sector Votes, by 30 November 2009.
 2. approve the terms of reference for the detailed examinations of Vote Health, Vote Education, Vote Social Development and the Justice Sector Votes proposed in Annexes 1-4 respectively;
 3. agree that the Vote Ministers concerned (the Minister of Justice for the Justice Sector Votes) should report these detailed examinations to Budget Ministers via the Minister of Finance:
 - 3.1 by 30 November 2009 if they are seeking additional resources (or more than an additional \$300 million for Vote Health or more than an additional \$250 million for Vote Education);
 - 3.2 by 21 December 2009 otherwise;

4. approve the terms of reference proposed in Annex 5 for the detailed examination of any other Vote whose Minister considers that they are unable to deliver priorities and cater for cost pressures from within their existing baseline and are seeking additional resources;
5. agree that any Vote Ministers to whom recommendation 4 relates should report their detailed examination together with their request for additional resources to the Minister of Finance by 30 November 2009;
6. agree that the detailed examinations are to be conducted by the Vote Minister and department concerned, but that Vote Ministers may ask the Minister of Finance for supplementary assistance from the Treasury.

Hon Bill English
Minister of Finance

October 2009

Proposed Terms of Reference for Detailed Examination of Vote Health

Cabinet has agreed to an indicative Health allocation for Budget 2010 of \$300 million per year as the maximum level of the additional funding available in addition to existing annual baselines.

In managing to this allocation:

- All costs that will impact on the Crown's Operating Balance need to be managed within the value of existing annual baselines and the allocation;
- The indicative allocation is the maximum for average annual net increases in operating baselines within the 4-year forecast period for Budget 2010, and the upper limit for net baseline increases beyond the 4-year forecast period.

The Ministry of Health is to undertake a detailed examination of the priorities, pressures and existing expenditure in Vote Health to assist in aligning baselines to Government priorities and, where appropriate, identify where additional resource should be directed.

The Minister of Health is to submit this review to Budget Ministers via the Minister of Finance:

- By **21 December 2009**; or
- If he wishes to make a case that additional funding over and above the indicative allocation of \$300m per year is required, by **30 November 2009**.

This earlier date applies if the Minister of Health wishes to request any additional funding that impacts on the Crown's operating balance or debt, including any request to carry forward any underspends from 2009/10 in a manner other than the expense and capital transfers (ECTs) provided for in the new guidance for changes to baselines approved by Cabinet in September [CO (09) 6].

Given the expectation that a DHB funding signal will be agreed by Cabinet and communicated to the sector in December for planning purposes, the Health review may need to be completed by 30 November in any case.

Terms of Reference:

The following terms of reference apply for all Ministers conducting reviews of their Votes including Vote Health:

- 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 all areas of expenditure within the Vote and identified any that are not consistent with this government's priorities;
- Demonstrate how pressures facing the Vote will be handled within the funding available to the Vote (or demonstrate that they cannot be handled within the funding available);
- Demonstrate that they have reviewed the number of policy advisors in and the 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.

Specific implications and issues for Vote Health

In delivering on these terms of reference, the Health review should focus on the trade-offs and options to ensure that the pressures of DHB funding and deficits, and any new initiatives can be managed with the funding available to Vote Health in 2010, and how this can be sustained under a lower funding growth path for the foreseeable future.

The information required for this review will build on work undertaken for the Ministerial Review Group and for the Ministry's ongoing work programmes including the Budget 2009 line-by-line review and ongoing line-by-line reviews, the *Living Within our Means* project, in-depth spending reviews of non-departmental expenses managed by the Ministry, and the *Hospital Productivity Roadmap*.

The key budget priority in Vote Health will be DHB funding and deficits. Decisions about funding increases for DHBs need to be informed by analysis on the adjustments DHBs can reasonably take to manage pressures and about what change can be achieved to provide bankable gains for Budget 2010.

Before any new funding or savings from reprioritisation are applied to other pressures or new initiatives, this review should describe a strategy to ensure that the overall operating impact of DHB funding (FFT and Demo, less any "efficiency adjusters") and DHB deficits will be contained within the amount of funding available to Vote Health. This may involve a mix of up-front DHB funding increases and an appropriation to manage DHB deficits. It will also require a mix of pressure and flexibility for DHBs to operate within their available funding.

While meeting the requirement for historical analysis of expenditure patterns and outcomes, the Ministry of Health should focus its effort for this review predominantly on forward looking issues such as strategies to manage within a significantly lower future growth path rather than on undertaking any extensive new analysis of historical trends.

Expenditure trend information should be provided at the level of appropriations (not a detailed analysis of the 21 individual DHBs' expenditure), supplemented by an analysis of expenditure and performance trends for key categories of health expenditure cut across multiple appropriations in Vote Health (e.g., primary health care).

Proposed Terms of Reference for Detailed Examination of Vote Education

Cabinet has agreed to an indicative allocation to Vote Education for Budget 2010 of \$250 million per year as the maximum level of the additional funding available in addition to existing annual baselines.

In managing to this allocation:

- All costs that will impact on the Crown's Operating Balance need to be managed within the value of existing annual baselines and the allocation;
- The indicative allocation is the maximum for average annual net increases in operating baselines within the 4-year forecast period for Budget 2010, and the upper limit for net baseline increases beyond the 4-year forecast period.

The Minister of Education and the Ministry of Education are to undertake a detailed examination of the priorities, pressures and existing expenditure in Vote Education to assist in aligning baselines to Government priorities, provide Ministers with assurance of the department's ability to manage within baselines, and identify where additional resource should be directed.

The review is to be submitted to Budget Ministers via the Minister of Finance by **21 December 2009**, unless the Minister of Education wishes to make a case that more than an additional \$250 million is required for Vote Education, in which case the review is to be submitted by **30 November 2009**.

Terms of Reference:

The following are the terms of reference for the review of Vote Education:

- 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 all areas of expenditure within the Vote and identified any that are not consistent with this government's priorities;
- Demonstrate how pressures facing the Vote will be handled within the funding available to the Vote (or demonstrate that they cannot be handled within the funding available);
- Demonstrate that they have reviewed the number of policy advisors in and the 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.

Proposed Terms of Reference for Detailed Examination of Vote Social Development

The Minister for Social Development and Employment and the Ministry of Social Development are to undertake a detailed examination of the priorities, pressures and existing expenditure in Vote Social Development to assist in aligning baselines to Government priorities, provide ministers with assurance of the department's ability to manage within baselines, and – where necessary – identify where additional resource should be directed.

The review is to be submitted to Budget Ministers via the Minister of Finance by **21 December 2009**, unless the Minister for Social Development and Employment wishes to make a case that additional funding for Vote Social Development is required, in which case the review is to be submitted by **30 November 2009**.

Terms of Reference:

The following are the terms of reference for the review of Vote Social Development:

- 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 all areas of expenditure within the Vote and identified any that are not consistent with this government's priorities;
- Demonstrate how pressures facing the Vote will be handled within the funding available to the Vote, including cash reserves held on the departmental balance sheet;
- Demonstrate that they have reviewed the number of policy advisors in and the 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.

**Proposed Terms of Reference for Detailed Examination of Justice Sector Votes
(Votes Attorney-General, Corrections, Courts, Justice, Police, Serious Fraud)**

Cabinet has agreed that for Votes Health, Education, Social Development and the Justice sector Votes (Attorney-General, Courts, Corrections, Justice, Police, Serious Fraud), Ministers and their departments are to undertake a detailed examination of the priorities, pressures and existing expenditure to assist in aligning baselines to Government priorities and, where appropriate, identify where additional resource should be directed.

Reviews are to be submitted to Budget Ministers via the Minister of Finance by **21 December 2009**, unless Ministers wish to make a case that additional funding is required, in which case the review is to be submitted by **30 November 2009**.

Terms of Reference:

In the Justice Sector, the Minister of Justice – in consultation with the Minister of Police, the Minister of Corrections, the Minister for Courts, and the Attorney-General - is invited to:

- Demonstrate that they have reviewed all areas of expenditure within the sector (Votes Attorney-General, Courts, Corrections, Justice, Police, Serious Fraud) and identified any that are not consistent with this government's priorities;
- 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;
- Demonstrate that any fiscal savings expected as a result of the sector implementing its performance improvement actions have been taken into account;
- Detail how all increases to Votes in the Justice sector since 2005 have been applied and what value has been obtained from that additional expenditure; and
- Demonstrate why they are unable to handle the pressures facing the sector from within the funding currently available to the sector.

Much of the historical information required to undertake this review will already be available from work undertaken for the 2009 line by line review and from ongoing work programmes across the sector. Efforts over the next 4-6 weeks should focus predominantly on forward looking issues – strategies and policy choices to manage within a significantly lower future growth path – rather than on undertaking any extensive new analysis of historical trends.

Proposed Terms of Reference for Detailed Examination of any Other Vote for which Additional Funding is being Sought

The Vote Minister will need 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 all areas of expenditure within the Vote and identified any that are not consistent with this government's priorities;
- Demonstrate that they are unable to handle the pressures facing the Vote from within the funding available to the Vote;
- 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