

Chair  
CABINET

## **BUDGET 2010: ALLOCATION OF THE OPERATING ALLOWANCE**

### **Proposal**

1. This paper seeks approval of the proposed allocation of the Budget 2010 operating allowance.

### **Executive Summary**

2. The operating allowance for Budget 2010 was set at a maximum of \$1.1 billion and provisionally allocated by Cabinet on 2 November 2009. Cabinet invited Vote Ministers who could not deliver priorities and cater for cost pressures from within their baseline and indicative funding allocation to write to the Minister of Finance by 30 November 2009. Submissions were required to set out a detailed examination of their baseline increases since 2005 and provide justification for why any increase is needed.
3. Submissions for further funding were received from Votes Arts, Culture and Heritage, Climate Change, Defence Force, Maori Affairs, National Archives, Revenue, Tourism, Treaty Negotiations and the justice sector.
4. Based on an assessment of submissions against the terms of reference agreed by Cabinet on 2 November and the Government's priorities, Budget Ministers recommend that:
  - The following requests be resubmitted as requests for Capital funding:
    - Vote Arts Culture and Heritage: Memorial Park
    - Vote National Archives: Digital Archive Information System
  - The following submissions be candidates for the "Rolling Maul" fund:
    - Vote Maori Affairs: Ex-gratia payment to Ngati Rarua and Atiawa Iwi Trust
    - *[deleted – confidentiality of advice]*
    - Vote Maori Affairs: Maori Economic Development
    - Vote Tourism: Priority Delivery Pressures
  - The submission for additional funding in Vote Climate Change for implementation of the Emissions Trading Scheme be accepted and funded from savings in Vote Environment.

- The submission for additional funding for depreciation in Vote Defence Force be accepted and scaled to \$35 million per annum.
  - The proposals [*deleted – confidentiality of advice*] for increased audits of tax debt collection, property speculation and the hidden economy should be accepted as they result in savings or revenue over time.
  - The following submissions be declined for additional funding from the 2010 operating allowance and Vote Ministers invited to consider alternative sources of funding:
    - Vote Arts Culture and Heritage: Digital television
    - Vote Treaty Negotiations: OTS Negotiation Capacity
5. The submission from the Minister of Health identified pressures of \$515 million in Vote Health. Budget Ministers propose that Vote Health be allocated \$375 million in additional operating funding, with no less than \$300 million to go to District Health Boards (DHBs) to meet demographic and cost pressures through the population-based funding system. The Minister of Health is to manage all pressures, risks and new initiatives in Vote Health including DHB deficits, within the balance of the Health allocation and baselines. The Minister of Health will provide a report to Budget Ministers by 28 January 2010 on progress in finalising the savings and reprioritisation options that will enable the balance of pressures and policy priorities in Budget 2010 to be funded within the agreed allocation.
  6. The Minister of Education indicated that she will not seek any funding in addition to the \$250 million allocation. [*information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials*]. Given the difference between the indicative pressures and the \$250 million allocation, Budget Ministers recommend providing an additional \$75 million to assist the management of this differential. The finalised examination of the Vote Education baseline is due on 21 December 2009 and it is anticipated that this will provide the Minister of Education's preferred option for managing the trade-offs between pressures and potential savings, so that Vote Education can be managed within an allocation of \$325 million.
  7. The submission from justice sector Ministers identified pressures of \$242 million in the justice sector Votes and requested additional funding of \$99 million. The most substantial part of the request was for additional funding to meet forecast growth in volumes for legal aid, and funding to maintain nominal funding rates for legal aid and community law centres. Given the significant uncertainty around legal aid at this stage, Budget Ministers recommend providing sufficient funding to meet estimated cost pressures in legal aid until early in 2011. This will give the Minister of Justice sufficient time to develop policy options to establish an affordable baseline for legal aid and community law centres that can be considered by Cabinet in the context of Budget 2011. In Budget 2010 we recommend an allocation of \$151.5 million across the years 2009/10 to 2013/14 (to not exceed \$38 million in 2013/14) to meet the most urgent and unavoidable costs in the justice sector.
  8. Budget Ministers propose that the \$1.1 billion Budget 2010 operating allowance be allocated as follows:

	<b>\$ millions, GST exclusive</b>				
	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14 &amp; outyears</b>
Vote Health	-	375	375	375	375
Vote Education	-	325	325	325	325
ACC non-earners account	86	42	-	-	-
2010/11 between-Budget contingency	-	141	141	141	141
“Rolling Maul” Fund	-	100	100	100	100
Operating impacts of capital expenditure decisions	-	50	50	50	50
Vote Defence Force	-	35	35	35	35
Justice sector Votes	-	38	38	38	38
Vote Revenue	-	15	-	-	-
<b>Total</b>	<b>86</b>	<b>1,121</b>	<b>1,064</b>	<b>1,064</b>	<b>1,064</b>

9. As specified in our Budget 2009 Fiscal Strategy Report (FSR) we committed to an operating allowance of a maximum of \$1.1 billion for Budget 2010. We have an opportunity to deliver the 2010 Budget without committing to the maximum amount of funding stated in the FSR. A Budget that contains new operating spending of less than \$1.1 billion will further assist in supporting a growing economy while maintaining core services and meeting priority commitments.
10. Any submission for additional funding outside of this allocation (that cannot be met from the funding remaining in the 2009 between-Budget contingency) will need offsetting savings or have to be funded from within the remaining allowance, and reduce the allocations outlined in paragraph 6 above.

## **Background**

11. The 2009 Fiscal Strategy Report (FSR) set the operating allowance at a maximum of \$1.1 billion for Budget 2010 and this will be reaffirmed in the 2010 Budget Policy Statement to be released on Tuesday, 15 December 2009. Retaining this allowance is an important component of the Government’s fiscal strategy, including the goal in the FSR to lower net debt to closer to 20% of GDP in order to provide a prudent environment in terms of future economic shocks and an aging population. The smaller allowances for additional spending in future Budgets will also help limit the growth in government spending and assist in the rebalancing of the economy. This is particularly important now, with signs that domestic demand growth is likely to be a major component of the emerging recovery in economic activity.
12. On 2 November 2009, Cabinet agreed that [CAB Min (09) 39/23 refers]:
- The following amounts are provisionally deducted from the \$1.1 billion Budget 2010 operating allowance, leaving \$550 million available for allocation to Votes:
    - \$128 million to cover the ACC non-earners account funding shortfall;
    - \$200 million to establish a between-Budget contingency for 2010/11;
    - \$122 million for a “rolling maul” of initiatives to be announced both in Budget 2010 and throughout 2010/11 for the Government’s key economic and social priorities; and
    - \$100 million for the operating impacts of capital expenditure decisions.
  - Vote Health be indicatively allocated \$300 million and Vote Education \$250 million as the maximum level of the additional funding available.

- At that time no other Vote was to be indicatively allocated additional funding through Budget 2010.
  - A detailed examination be undertaken by the respective Vote Minister and their departments, of the pressures and expenditure in each of the key areas of the Social Sector (Health, Education, Social Development and the Justice Votes<sup>1</sup>) to determine the adequacy of current funding levels in those Votes by 21 December (or 30 November if seeking additional funding).
  - The final amount to be allocated will be set in December 2009 and will be informed by the latest economic and fiscal forecasts, detailed examination of Social Sector Votes, Ministers' feedback and their progress in aligning their baselines with priorities
13. Cabinet also invited any Vote Ministers who could not deliver priorities and cater for cost pressures from within their baseline, to advise the Minister of Finance of this in writing by 30 November 2009, together with an examination of baselines increases since 2005, and a justification for why any increase is needed. The terms of Reference required Vote Ministers to [CAB Min (09) 39/24 refers]:
- 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 account.

### **Summary of Submissions**

14. The table below summarises Ministers' requests for additional operating funding in Budget 2010:

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<sup>1</sup> Justice Votes: Attorney-General, Courts, Corrections, Justice, Police, and Serious Fraud.

**Table 1: Submissions for new operating funding in Budget 2010**

Vote	Description	\$ millions, GST exclusive				
		09/10	10/11	11/12	12/13	13/14
Arts Culture and Heritage	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					
Arts Culture and Heritage	To improve the setting and expand the scope of the National War Memorial at Buckle St [this is a capital bid].	-	-	-	-	-
Climate Change	To meet higher than expected costs associated with the ETS, including costs during delay while ETS was reviewed and underestimation of costs in 2007.	-	2.8	2.0	-	-
Defence Force <sup>2</sup>	To address depreciation legacy problems. Past procurement decisions are resulting in major unfunded depreciation costs related to the purchase of helicopters, refurbishment of aircrafts and Project Protector ships.	-	58.0	105.0	103.0	113.0
Justice Sector	Various Justice Sector policy initiatives and pressures.	32.9	99.7	106.2	98.6	98.5
Maori Affairs	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					
Maori Affairs	To grow Maori assets and take the assets to the world, increasing skills and training, strengthening the Maori tourism sector and supporting Maori innovation and science.	-	10.0	10.0	10.0	10.0
Maori Affairs	For an ex-gratia payment to address the historical rental losses of the Ngati Rahua and Atiawa Iwi Trust related to their leased land in Motueka.	-	6.0	-	-	-
National Archives	For the development of a government digital archive management system to improve the current system for public sector information. There is also capital of \$5.6 million sought across the 4 year period.	-	1.2	1.7	2.6	2.5
Revenue	To put more resources into pursuing tax debt collection, property speculation and the hidden economy, <i>[deleted – confidentiality of advice]</i> . The new spending is expected to generate revenue of around \$730 million over 4 years.	-	16.0	21.2	21.0	17.7
Revenue	<i>[deleted – confidentiality of advice]</i>	-	15.0	-	-	-
Tourism	For an additional \$10m for a joint venture marketing programme and \$20m to be spent on destination marketing. A report is due with the Minister of Tourism by 31 March detailing the strategy.	-	30.0	-	-	-
Treaty Negotiations	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					

<sup>2</sup> The operating costs (including depreciation) associated with previous acquisitions were covered under the Defence Funding Package. When it cancelled the DFP in Budget 2009, the Government honoured the Budget 2009 DFP commitment to allow time for the Defence Review to be completed. Delays in the Defence Review mean the outcome cannot be fed into Budget 2010.

Vote	Description	\$ millions, GST exclusive				
		09/10	10/11	11/12	12/13	13/14
<b>Total</b>		<b>32.9</b>	<b>250.7</b>	<b>260.1</b>	<b>252.9</b>	<b>258.4</b>

### Assessment of Submissions

15. Budget Ministers met on Monday, 7 December 2009 and considered Ministers' requests for additional operating funding against the following criteria, which are based on the Terms of Reference for detailed baseline reviews set by Cabinet [CAB Min (09) 39/24 refers]:
- Whether 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,
    - demonstrating an inability to handle the pressures facing the Vote from within the funding available to the Vote.
  - Whether the submission meets other elements of the terms of reference for detailed baseline submissions.
  - Whether the proposed pressures and priorities match Government priorities.

### Recommended Decisions on Requests

16. Budget Ministers have determined that a number of the requests should not receive additional funding in Budget 2010. In reaching this view Budget Ministers have not made a judgement that the particular initiatives for which additional funding was requested are declined at this stage. A Vote Minister may still propose in his or her Baseline Alignment Proposal due on 8 March 2010 that an initiative be funded by reprioritisation from within the total funding available to the Vote.
17. Budget Ministers consider that the following requests for additional funding should be resubmitted as requests for capital funding, through the capital bids process, with submissions due on 5 February 2010:
- Vote Arts Culture and Heritage: Memorial Park
  - Vote National Archives: Digital Archive Information System
18. Budget Ministers consider that the following submissions are candidates for funding from within the "Rolling Maul" fund of initiatives to be announced both in Budget 2010 and throughout 2010/11 for the Government's key economic and social priorities:
- Vote Maori Affairs: Ex-gratia payment to Ngati Rarua and Atiawa Iwi Trust
  - *[deleted – confidentiality of advice]*
  - Vote Maori Affairs: Maori Economic Development
  - Vote Tourism: Priority Delivery Pressures

19. Budget Ministers are of the view that the submission for additional funding in Vote Climate Change for implementation of the Emissions Trading Scheme is consistent with the Government's priorities and accept that all pressures and priorities cannot be funded from within the existing baseline.

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

20. Budget Ministers support a scaled version of the proposal to provide additional funding for depreciation in Vote Defence Force by providing \$35 million per annum (totalling \$140 million over four years) as it is not possible to fund the depreciation from within existing baselines. This will address immediate risks, but leave the Defence Review to resolve funding pressures in subsequent years. This additional funding will be provided by reducing the Budget 2010 contingency by a commensurate amount.

21. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

22. Budget Ministers consider that the following submissions for additional funding should be declined as there is no clear evidence that these matters cannot be funded from within existing baselines and Vote Ministers should consider alternative sources of funding:

- *[deleted – confidentiality of advice]*
- Vote Treaty Negotiations: OTS Negotiation Capacity

23. Budget Ministers are of the view that the proposal for additional funding in Vote Revenue at an annual cost of up to \$21 million until 2014/15 for increased audits of tax debt collection, property speculation and the hidden economy should be accepted on the basis that it directly raises revenue and therefore assists the Government's fiscal strategy of reducing debt. Budget Ministers propose that this spending not be counted as part of the operating allowance for Budget 2010 as it would be more than offset by the increased revenue that the proposal is likely to generate each year.

### *Vote Health*

24. The detailed baseline examination for Vote Health identified pressures of \$515 million. This is made up of: \$403 million if a full demographic adjustment and “future funding track” price adjustment is applied to DHB’s funding; \$50 million for a scaled package of policy initiatives; and \$62 million for prioritised price and volume pressures in non-departmental health expenditure managed by the Ministry of Health.
25. The Ministry of Health’s report focuses on options to manage these pressures within a \$300 million indicative allocation by: driving efficiencies in DHB operations; managing industrial relations pressures; and making choices from a range of reprioritisation and policy change options to deliver savings.
26. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
27. Budget Ministers have agreed to recommend an increase in the Health allocation to \$375 million. Of this, no less than \$300 million is to be applied to DHB funding increases to meet demographic and cost pressures through the population-based funding system. The Minister of Health is to manage all pressures, risks and new initiatives in Vote Health including DHB deficits, within the balance of the Health allocation and baselines.
28. The Minister of Health intends to inform DHBs before Christmas of their likely level of funding for 2010/11. This will enable DHBs to prepare draft District Annual Plans for 2010/11 and submit them in March 2010 as required. We recommend that Cabinet delegate joint authority to the Minister of Finance and the Minister of Health to determine the amount and composition of the 2010/11 DHB funding signal (between \$300 million and \$375 million), and the appropriate planning assumption for funding increments in 2011/12.
29. The Minister of Health is invited to report back to Budget Ministers in January on progress in finalising the savings and reprioritisation options that will enable the balance of pressures and policy priorities in Budget 2010 to be funded within the agreed allocation.

### *Vote Education*

30. The Minister of Education indicated that she will not seek any funding in addition to the \$250 million allocation. While the examination of the Vote Education baseline has not yet been finalised, the Minister of Education has provided an indication of the scale and scope of pressures to be managed. *[deleted – confidentiality of advice]*

Significant pressures include the estimated costs of wage settlements, and CPI adjustments for early childhood education subsidies, school operating grants and tertiary tuition subsidies. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* The ongoing treatment of forecast changes in Vote Education in 2010/11 and beyond will be revisited in the New Year.
31. The Minister of Education has also provided an indication of possible savings options to allow Vote Education to be managed within a \$250 million allocation. Potential savings to a total of \$552 million in the outyears have been identified, although the trade-offs associated



with realising these savings become increasingly difficult. Potential savings include removing some capability funding from tertiary institutions, amending tertiary student support provisions and weakening incentives to increase the proportion of registered teachers in early childhood education services.

32. Given the difference between the indicative pressures and the \$250 million allocation, Budget Ministers recommend providing an additional \$75 million to assist the management of this differential.
33. The finalised examination of the Vote Education baseline is due on 21 December 2009 and it is anticipated that this will provide the Minister of Education's preferred option for managing the trade-offs between pressures and potential savings, so that Vote Education can be managed within an allocation of \$325 million.

#### *Justice Sector Votes*

34. The submission from Justice sector Ministers identified pressures of \$242 million in the Justice sector Votes and requested additional funding of \$99 million.
35. The most substantial part of the request was for additional funding to meet forecast growth in volumes for legal aid, and funding to maintain nominal funding rates for legal aid and community law centres.
36. As Cabinet will be aware, the Minister of Justice is about to bring proposals to Cabinet in response to Dame Margaret Bazley's review of legal aid that was published on 27 November 2009. Given the significant uncertainty around legal aid at this stage, Budget Ministers recommend providing sufficient funding to meet estimated cost pressures in legal aid until early in 2011. This will give the Minister of Justice sufficient time to develop policy options to establish an affordable baseline for legal aid and community law centres that can be considered by Cabinet in the context of Budget 2011.
37. In Budget 2010 we recommend an allocation of \$151.5 million across the years 2009/10 to 2013/14 (to not exceed \$38 million in 2013/14) to meet the most urgent and unavoidable costs in the justice sector.
38. Details on the allocation of this funding will be submitted by Justice sector Ministers in their baseline alignment proposals which are due on 8 March 2010.

#### **Proposed Allocation of the Budget 2010 Operating Allowance**

39. In summary, Budget Ministers propose that the \$1.1 billion Budget 2010 operating allowance be allocated to:
  - \$375 million to Vote Health to address pressures and priorities.
  - \$325 million to Vote Education to address pressures and priorities.
  - \$141 million to establish a between-Budget contingency.
  - \$128 million in total across the forecast period (reducing to zero by 2011/12) to Vote ACC to cover the ACC non-earners account funding shortfall.
  - \$100 million for a "rolling maul" of initiatives to be announced both in Budget 2010 and throughout 2010/11 for the Government's key economic and social priorities.

- \$50 million for the operating impacts of capital expenditure decisions.
  - \$150 million in total to supplement Votes Health and Education with the split across the forecast period (and not more than \$38 million in 2013/14) to meet the most urgent, unavoidable costs in the sector.
  - \$35 million to Vote Defence Force for unfunded depreciation.
  - \$15 million to Vote Revenue in 2010/11 only [*deleted – confidentiality of advice*].
40. As specified in our Budget 2009 FSR we committed to an operating allowance of a maximum of \$1.1 billion for Budget 2010. We have an opportunity to deliver the 2010 Budget without committing to the maximum amount of funding stated in the FSR. Lower spending growth will also enable us to make a little more progress towards reducing the structural fiscal deficit, and to reversing the rapid run-up in the size of government that occurred under the previous government. And the more that fiscal policy can do in limiting spending growth, the less the Reserve Bank will need to increase interest rates next year as the recovery gathers momentum. This connection was highlighted in the latest Reserve Bank Monetary Policy Statement last week. All in all, such expenditure restraint will assist in the reinforcing the overall direction of our growth agenda, rebalancing the economy towards private sector led growth, focused in the tradables sector.
41. However, as evidenced in the Risks chapter in the Half Year Economic and Fiscal Update, (due for release on 15 December), we are exposed to a number of risks which, should they eventuate, could place considerable pressure on the Government's financial position. We intend to explore tagging part of the between-Budget contingency to a number of these risks to assist us with affording the implications should they arise and, if they do not eventuate, enabling us to deliver the 2010 budget for less than \$1.1 billion.
42. Any submission for additional funding outside of this allocation (that cannot be met from the funding remaining in the 2009 between-Budget contingency) will need offsetting savings or have to be funded from within the allowance, and reduce the allocations outlined in paragraph 39 above.

### **Next Steps**

43. The Minister of Finance will write to Ministers who submitted requests for additional funding advising them of Cabinet's decisions.
44. On 21 September 2009, Cabinet invited all Vote Ministers to provide reports to the Minister of Finance by 8 March 2010 setting out how they intend to align their baselines to give effect to the priorities discussed at Premier House on 12 October 2009 [CAB Min (09) 34/12 refers].
45. Vote Ministers who wish to submit capital bids for funding consideration in Budget 2010 need to do so by 5 February 2010, supported by business cases as appropriate.

### **Other Matters**

46. As of 11 December 2009 the 2009/10 general between-Budget contingency is overcommitted and there is \$141 million remaining in as yet unspent tagged contingencies over the forecast period.

47. In addition to the Departmental Funding that the Minister Responsible for Treaty Negotiations sought, as included in Table 1 above, the Vote Minister's submission on 30 November also sought funding for two Treaty settlements. There have been further developments regarding these proposals since the 30 November submission:

*[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

48. A further issue (in Vote Environment) relates to Cabinet's agreement to re-phase the co-management payments to several Waikato River Iwi [paragraphs 22-28 of CAB Min (09) 42/19 refer]. However, the way in which the recommendations are worded makes them inoperable as it makes it subject to the Ministry for the Environment and Treasury confirming the availability of funding, which is not possible. It is, however, clear that Cabinet's intent was to fund this re-phasing and it has been included as a charge against the 2009 between-Budget contingency. Amended financial recommendations have been included in this paper to give effect to Cabinet's intent.

### **Consultation**

49. This paper reflects what was agreed by Budget Ministers at their meeting on 7 December 2009. DPMC were consulted in the preparation of this paper.

### **Recommendations**

50. Budget Ministers recommend that Cabinet:

#### *Previous Decisions*

1. **note** that on 2 November 2009, Cabinet:
  - 1.1 **invited** 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;

[CAB Min (09) 39/23 refers]

#### *Requests for Additional Operating Funding*

2. **note** that submissions for further funding were received from Votes Arts, Culture and Heritage, Climate Change, Defence Force, Justice sector, Maori Affairs, National Archives, Revenue, Tourism and Treaty Negotiations;

3. **note** that Budget Ministers met on 7 December 2009 and considered the requests for additional operating funding;

*Recommended Decisions on Requests*

4. **agree** that the following submissions for additional funding be declined and invite relevant Ministers to resubmit proposals for funding through the capital process, with submissions due by 5 February 2010:

4.1 Vote Arts Culture and Heritage: Memorial Park; and

4.2 Vote National Archives: Digital Archive Information System;

5. **note that** the following submissions are to be considered as candidates for funding from the “Rolling Maul” fund:

5.1 Vote Maori Affairs: Ex-gratia payment to Ngati Rarua and Atiawa Iwi Trust;

5.2 *[deleted – confidentiality of advice]*;

5.3 Vote Maori Affairs: Maori Economic Development; and

5.4 Vote Tourism: Priority Delivery Pressures;

6. **agree** that the submission for additional funding in Vote Climate Change be accepted and the Minister for the Environment be invited to consider options to fund the submission from savings in Vote Environment;

7. **agree** that the following submissions for additional funding be accepted and funded by reducing the Budget 2010 contingency for between-Budget spending:

7.1 a scaled version of the submission for additional funding in Vote Defence Force: Depreciation Funding:

	\$ millions, GST exclusive			
	2010/11	2011/12	2012/13	2013/14 & outyears
Vote Defence Force	35	35	35	35

7.2 Vote Revenue: *[deleted – confidentiality of advice]*:

	\$ millions, GST exclusive			
	2010/11	2011/12	2012/13	2013/14 & outyears
Vote Revenue	15	-	-	-

8. **agree** that the following submissions for additional funding be declined and invite relevant Vote Ministers (Arts Culture and Heritage, Communications and Information Technology and Maori Affairs for digital television, and Treaty negotiations for OTS negotiation capacity) to consider alternative sources of funding:

8.1 Vote Arts Culture and Heritage: Digital Television; and

8.2 Vote Treaty Negotiations: OTS Negotiation Capacity;

9. **note** that declining a Vote Minister's request for additional operating funding does not mean the particular initiative for which the additional funding was requested is declined at this stage, as it is still open to the Vote Minister to propose in his or her Baseline Alignment Proposal due on 8 March 2010 that the initiative be funded by reprioritisation from within the total funding available to the Vote;
10. **agree** that the following submission for additional funding be accepted on the basis that it directly raises revenue and therefore assists the Government's fiscal strategy of reducing debt:
  - 10.1 Vote Revenue: Increased audits of tax debt collection, property speculation and the hidden economy at an annual cost of up to \$21 million until 2014/15;
11. **note** the Minister of Health's submission identified pressures of \$515 million in Vote Health for 2010/11;
12. **agree** that Vote Health is allocated \$375 million in additional operating funding;
13. **agree** that all Health risks, pressures and policy initiatives are to be managed within this number, including any increase in District Health Board (DHB) deficits above the current forecast track;
14. **agree** no less than \$300 million is to be applied to increase funding to DHBs through demographic and price changes in DHB appropriations;
15. **note** that the Minister of Health intends to inform DHBs of their likely 2010/11 funding before Christmas 2009 to allow them to prepare draft District Annual Plans;
16. **delegate** joint authority to the Minister of Finance and Minister of Health to determine the final amount and composition of the 2010/11 DHB funding signal within the range of \$300 million to \$375 million and to determine the appropriate planning assumption for DHB funding increments in 2011/12;
17. **note** the detailed baseline examination of Vote Health identified a range of potential savings options and policy choices that offer scope to meet other priorities and pressures through reprioritisation;
18. **invite** the Minister of Health to provide a report to Budget Ministers by 28 January 2010 on progress in finalising savings and reprioritisation options to manage the balance of Health pressures and policy priorities in Budget 2010;
19. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials];*
20. **note** that the use of forecast changes in Vote Education in 2010/11 and beyond will be revisited in the New Year;
21. **agree** that Vote Education is to be allocated \$325 million in additional operating funding;
22. **note** that in the Detailed Baseline Examination of Vote Education to be submitted to the Minister of Finance by 21 December 2009, the Minister of Education has been invited

by Cabinet to demonstrate how pressures facing the Vote will be handled within the funding available to the Vote [CAB Min (09) 39/24 refers];

23. **note** that the submission from the Minister of Justice identified pressures of \$242 million in the justice sector votes (Attorney General, Courts, Corrections, Justice, Police, Serious Fraud) and requested additional funding of \$99 million;
24. **agree** to a maximum allocation of additional operating funding for the justice sector votes of \$151.5 million over the forecast period (and not more than \$38 million in 2013/14) to meet the most urgent, unavoidable costs in the sector;
25. **note** that the funding for legal aid and community law centres of \$55 million from 2011/12 remains unresolved;
26. **agree** that funding for legal aid and community law centres from 2011/12 will be addressed in Budget 2011;
27. **invite** the Minister of Justice to report to Budget Ministers by 30 November 2011 with options (including reprioritisation options) to establish a sustainable and affordable baseline for legal aid and community law centres, for consideration in Budget 2011;
28. **invite** the Minister of Justice, the Minister of Corrections, the Minister of Police, the Attorney General and the Minister for Courts to include any changes to appropriations required to give effect to the decision in paragraph 24 above in their Baseline Alignment Proposals due on 8 March 2011;
29. **agree** that the new capital funding sought in the justice sector submission should be submitted by 5 February 2010 for consideration in the capital initiatives stage of Budget 2010;

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30. **agree** that \$128 million in total be allocated to Vote ACC across the forecast period (reducing to zero by 2011/12 to cover the ACC non-earners account funding shortfall);
31. **agree** to establish a 2010/11 between-Budget contingency of \$141 million, establish a \$100 million “rolling maul” fund, and provide \$50 million for the operating impacts of capital decisions;
32. **note** the following allocation of the \$1.1 billion Budget 2010 operating allowance:

	<b>\$ millions, GST exclusive</b>				
	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14 &amp; outyears</b>
Vote Health	-	375	375	375	375
Vote Education	-	325	325	325	325
ACC non-earners account	86	42	-	-	-
2010/11 between-Budget contingency	-	141	141	141	141
“Rolling Maul” Fund	-	100	100	100	100
Operating impacts of capital expenditure decisions	-	50	50	50	50
Vote Defence Force	-	35	35	35	35
Justice sector Votes	-	38	38	38	38
Vote Revenue	-	15	-	-	-
<b>Total</b>	<b>86</b>	<b>1,121</b>	<b>1,064</b>	<b>1,064</b>	<b>1,064</b>

33. **agree** that the 2010 between-Budget contingency may require further smoothing to reflect funding profiles finalised when Ministers align their baselines (see paragraph 37 below), and thereby ensure that total expenditure in each year does not exceed \$1.1 billion;
34. **invite** Budget Ministers to explore tagging part of the between-Budget contingency to a number of specific risks to assist in mitigating their implications and, if they do not eventuate, enable the government to deliver the 2010 Budget for less than \$1.1 billion;
35. **note** that any submissions for additional funding outside of this allocation that cannot be met from the funding remaining in the 2009 between-Budget contingency will need to be funded from within the \$1.1 billion allowance for new spending, or require offsetting savings;

#### *Next Steps*

36. **invite** the Minister of Finance to write to Ministers who submitted requests for additional funding advising them of Cabinet's decisions;
37. **note** that on 21 September 2009, Cabinet invited all Vote Ministers to provide reports to the Minister of Finance by 8 March 2010 setting out how they intend to align their baselines and any allocation of additional funding to give effect to the priorities discussed at Premier House on 12 October 2009;

[CAB Min (09) 34/12 refers]

38. **invite** Ministers to submit capital bids by 5 February 2010, supported by business cases as appropriate;

#### *Other Matters*

39. **note** that as of 11 December 2009 the 2009/10 general between-Budget contingency is overcommitted, and that there is \$141 million remaining in as yet unspent tagged contingencies over the forecast period;
40. **note** that:
  - 40.1 the Minister for Treaty of Waitangi Negotiations included a submission for additional funding for two Treaty of Waitangi Settlements in his submission on 30 November;

*[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

41. **note** Cabinet has previously agreed to up-front co-management payments of \$10 million each to Maniapoto and Ngati Tuwharetoa, as part payments of the \$30 million each co-management funding [CAB Min (09) 42/19 refers];
42. **note** that the decision in the paragraph 41 included:
  25. **approved** an up-front payment of \$10 million each to Maniapoto and Ngati Tuwharetoa, as part payments of the \$30 million each co-management funding, subject to the confirmation of the availability of funding referred to in paragraph 28 below;
  28. **noted** that the Treasury will work with the Ministry for the Environment to confirm the availability of the additional \$10 million required in 2009/10 in Vote Environment to provide for the payments to Maniapoto and Ngati Tuwharetoa referred to in paragraph 25 above;
43. **agree** to revoke paragraphs 25 and 28 of CAB Min (09) 42/19 and substitute paragraph 25 with:
  25. **agree** to an up-front payment of \$10 million each to Maniapoto and Ngati Tuwharetoa, as part payments of the \$30 million co-management funding, to be funded from the 2009/10 between-Budget contingency;

Hon Bill English  
**Minister of Finance**

December 2009