



Minute of Decision

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Design of the 2010 Budget Process

Portfolio: Finance

On 21 September 2009, following reference from the Cabinet Expenditure Control Committee (ECC), Cabinet:

Background

- 1 **noted** that the economic and fiscal background to the 2010 Budget process includes:
 - 1.1 the world economy experiencing its deepest and most synchronised recession since at least World War II, on top of a recession in New Zealand that began in the first half of 2008;
 - 1.2 the government's decision as part of Budget 2009 to set the operating allowance for future budgets at a maximum of \$1.1 billion a year from Budget 2010, and the capital allowance at \$1.45 billion a year from Budget 2010 to Budget 2012 inclusive;
 - 1.3 that, since the Budget 2009 Economic and Fiscal Update forecasts were finalised, most major domestic economic data have been close to expectations and the international economic outlook has stabilised, but that underlying tax revenue is currently running below forecast, and hence stronger Gross Domestic Product forecasts may not result in stronger revenue forecasts than in Budget 2009;
 - 1.4 that fiscal deficits are likely to continue for a prolonged period, and that the persistent imbalances in the economy pose a significant risk to the sustainability of the recovery;

2010 Budget process

- 2 **agreed** that, given the economic and fiscal background, the government will, as a minimum, follow a constrained fiscal path in Budget 2010;
- 3 **noted** that as part of the overall strategy, the Minister of Finance will bring specific options to Cabinet that will identify savings to offset the impact on spending of the operating allowance;
- 4 **noted** that the ability to deliver the government's priorities and to have a meaningful programme of initiatives to advance in Budget 2010 is dependent on reprioritising expenditure between areas of lower and higher value;

- 5 **noted** that the budget process used in recent years has been overly focussed on marginal expenditure and funding, has suffered from the government's priorities being inadequately articulated at the start of the process, and has not supported collective ownership of the process and decisions;
- 6 **agreed** to adopt a new process for Budget 2010 with the following broad features:
- 6.1 an initial strategic phase in which the government collectively sets priorities and allocates shares of the operating allowance to relevant Votes;
 - 6.2 Ministers and Chief Executives working together, either in pairs or in groups, to align baselines with priorities and to report to the Prime Minister, the Minister of Finance, and the Associate Ministers of Finance (the Budget Ministers) on how they propose delivering the government's priorities from within available funding;
 - 6.3 a multi-year ECC work programme to establish appropriate relativities between areas of expenditure, and to update baselines to reflect these;
- 7 *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions];*
- 8 **noted** that the Prime Minister will convene a meeting at Premier House on 12 October 2009 to discuss the government's priorities for the forthcoming year, which will provide the focus for Budget 2010;
- 9 **invited** the Budget Ministers to report to Cabinet on 19 October 2009 with:
- 9.1 an indicative sharing across relevant Votes of new operating funding for Budget 2010;
 - 9.2 any grouping of Ministers and Votes for the remainder of the budget process;
- 10 **agreed** that any new initiatives to deliver priorities and any cost pressures are expected to be funded from within the total operating funding available to each Vote or group of Votes, and that there will therefore be no separate bidding process for operating funding in Budget 2010;
- 11 **noted** that, although prime responsibility for realigning baselines with priorities is with Ministers and their chief executives and departments, Ministers may request supplementary assistance from the Treasury and the State Services Commission;
- 12 **noted** that there will be no bilateral meetings between Vote Ministers and the Minister of Finance;
- 13 **invited** Ministers who consider that they will be unable to deliver priorities and manage cost pressures from within the indicative share and the baseline available within their Votes to advise the Minister of Finance of this by 16 November 2009;
- 14 **invited** Budget Ministers to report to Cabinet on 14 December 2009 with the final sharing across relevant Votes of any new operating funding for Budget 2010;
- 15 **agreed** that capital bids be submitted in late January 2010, supported by business cases as appropriate;

- 16 **invited** Ministers to provide reports to the Minister of Finance by 8 March 2010 setting out how they intend to align the baselines of their Votes to give effect to the priorities discussed at Premier House on 12 October 2009;
- 17 **noted** that regulatory and tax reform, and other processes and reviews are operating in parallel to the budget process, and that Budget Ministers will integrate the results of these processes and other reviews into the final budget package;

Next steps

- 18 **noted** the following key steps in the remainder of the budget process:
- 18.1 the Budget Policy Statement setting the government's economic and fiscal strategies, priorities, and net new spending for Budget 2010 will be published on 17 December 2009;
- 18.2 Budget Ministers will meet several times in March and April 2010 to consider Ministers' reports, and to develop a consolidated budget package for Cabinet's consideration;
- 19 19.1 **noted** that the Minister of Finance proposes a multi-year rolling ECC work programme to establish and update relativities between areas of government expenditure;
- 19.2 **invited** the Minister of Finance to report to ECC in due course with details of the process of updating relativities between areas of government expenditure;
- 20 **noted** that:
- 20.1 the Minister of Finance will convey the decisions on the 2010 Budget process to Ministers outside Cabinet and to Support Party Ministers;
- 20.2 the Prime Minister is likely to convey to Ministers outside Cabinet and to Support Party Ministers the results of the 12 October 2009 Premier House meeting.

Secretary of the Cabinet

Reference: CAB (09) 542; ECC Min (09) 16/3
