

The Treasury

Budget 2011 Information Release

Release Document

June 2011

www.treasury.govt.nz/publications/informationreleases/budget/2011

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Process for Budget 2011

Date:	10 September 2010	Report No:	T2010/1700
--------------	-------------------	-------------------	------------

Action Sought

	Action Sought	Deadline
Prime Minister (Hon John Key)	Note the contents of this report.	16 September
Minister of Finance (Hon Bill English)	Agree to the proposed budget process.	16 September
Associate Minister of Finance (Hon Simon Power)	Note the contents of this report.	16 September
Associate Minister of Finance (Hon Steven Joyce)	Note the contents of this report.	16 September

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[1]			✓
Colin Hall	Manager, Fiscal Management	917 6277 (wk) 566 5650 029 917 6227	

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Process for Budget 2011

Executive Summary

This paper proposes a process for Budget 2011 to help you achieve your strategic fiscal and economic goals.

The process we propose is broadly similar to Budget 2010, with the following features:

- early signalling of strategy, savings targets, and indicative allocations;
- placing the onus on Ministers and Chief Executives to work together to align their expenditure with government priorities, find efficiencies and manage their costs;
- using the Senior Executives Group (SEG) to strengthen Treasury advice and test the assumptions and advice provided in Baseline Alignment Proposals (BAPs);
- BAPs that clearly set out a multi-year vote strategy to manage within operating and capital baselines and offer real options for the Government to make policy and program changes and/or reduce spending; and
- opportunities for Cabinet to scrutinise major policy proposals and collectively make the necessary trade-offs.

To achieve this we recommend the following changes to the approach taken in Budget 2010:

- BAP submission be in early December rather than March;
- Budget Ministers review BAPs, make initial decisions on what policy proposals to accept or decline, and identify major proposals to be considered by Cabinet; and
- Cabinet considers major policy changes in early 2011 to finalise the Budget package by late April.

There are some risks associated with this approach, particularly the limited timeframe to produce high quality BAPs. To manage these risks it is important that the process is committed to as soon as practical, and ideally, no later than 1 October.

You have received, or will shortly receive, a suite of advice that will assist in the consideration of an appropriate fiscal strategy for Budget 2011 and we will bring this together in advice on a possible Budget strategy in time for the first Budget Ministers' meeting on 21 September.

Recommended Action

We recommend that you:

- a **note** that the process we propose for Budget 2011 is broadly similar to the Budget 2010 process;
- b **agree** to the following proposed key changes to the process for Budget 2011:
 - i) BAP submissions are required from Vote Ministers in early December;
Agree/disagree
 - ii) Cabinet considers major policy proposals in early 2011;
Agree/disagree
 - iii) BAP submissions will cover both capital and operating spending;
Agree/disagree
- c **agree** that the Senior Executives Group be invited to moderate Treasury advice and test the assumptions and advice provided in Baseline Alignment Proposals;
Agree/disagree
- d **note** that we will provide advice on a possible fiscal strategy for Budget 2011 before the first Budget Ministers meeting on 21 September;
- e **note** that an early decision on the budget process will help mitigate the risk that the goals of the Budget 2011 are not achieved; and
- f **indicate** whether you wish to discuss the proposed process for Budget 2011 further at Fiscal Issues on Thursday 16 September.

Yes / No

Colin Hall
**Manager, Fiscal Management
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Treasury Report: Budget 2011 Process

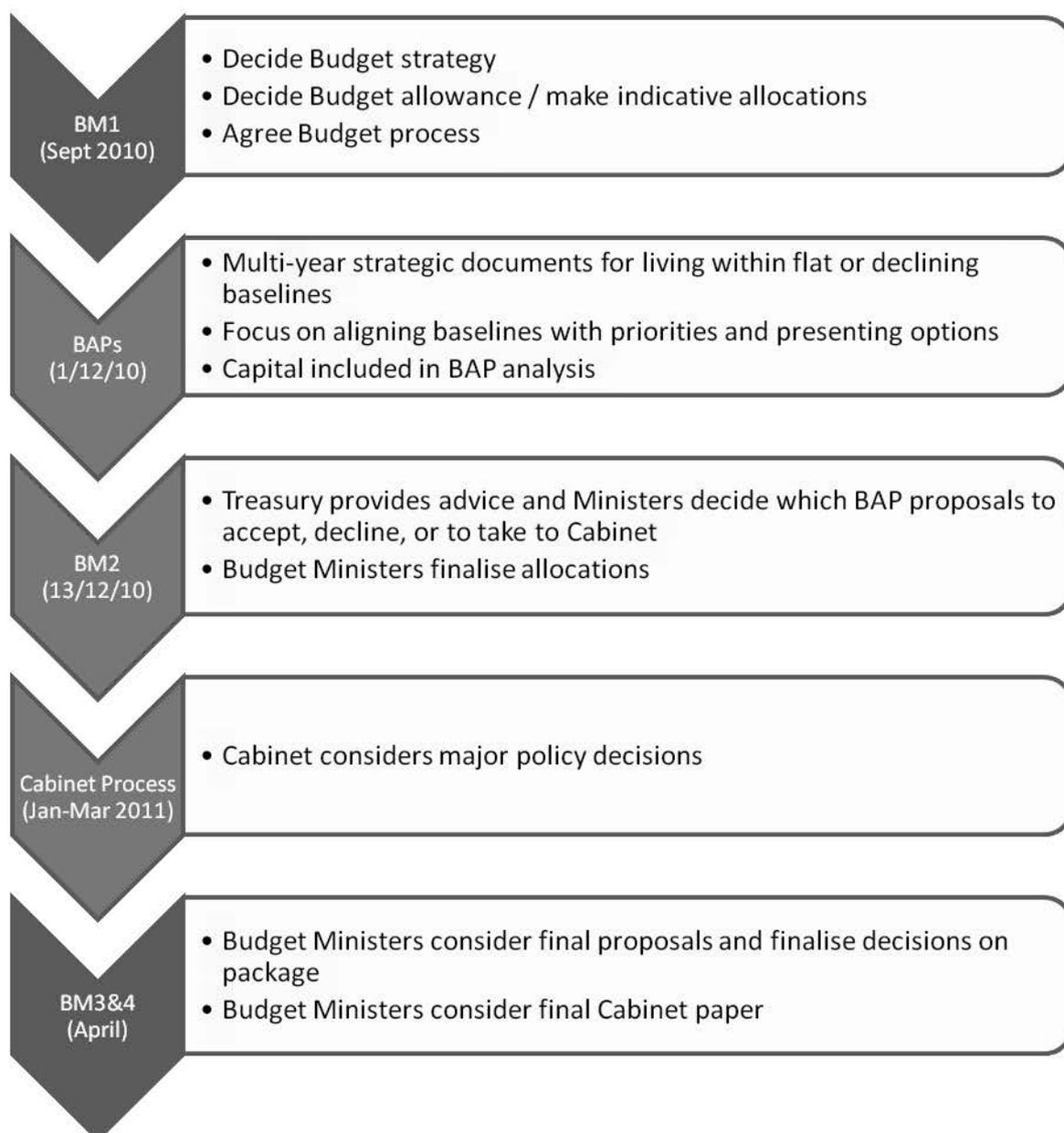
Purpose of Report

1. The purpose of this report is to seek your agreement to the core elements and timing of a proposed process for Budget 2011 in preparation for your first Budget Ministers' meeting on 21 September. A separate report on budget strategy (covering options for returning to surplus earlier) will follow in time for this meeting.

Key Features of Budget 2011 Process

2. You will soon need to make decisions on the size of capital and operating allowances and any savings targets for Budget 2011 (your budget strategy). Whatever specific decisions you make on the strategy, we anticipate that the broad goals of Budget 2011 will:
 - build on the approach taken in the last two budgets by:
 - meeting pressures through further reprioritisation and productivity improvements;
 - having a fiscal strategy that enables you to manage net debt at prudent levels; and
 - continuing to focus on the whole of government spending, rather than marginal changes;
 - be consistent with your recent discussion with Chief Executives, placing the onus on them to:
 - plan how to manage pressures over the next four years, in most cases without any increase to baselines; and
 - strongly focus on reducing back office costs and identifying inefficiencies in front line services;
 - create greater linkages between capital and operating expenditure; and
 - emphasise Ministers working collectively, aligning government, ministerial and chief executive incentives.
3. At Fiscal Issues on 18 August we discussed running a largely similar process to Budget 2010, although we understand that you would like to see these improvements for Budget 2011:
 - BAPs that are four year strategic documents showing how priorities and pressures will be managed, in most cases within baselines;
 - more time for analysis and consideration of BAPs by Budget Ministers, Cabinet and Treasury; and
 - more timely and greater scrutiny by Cabinet of major policy changes, avoiding a late rush to consider proposals before finalising the Budget.
4. To meet these objectives we recommend a process that:
 - provides early signalling of strategy, any savings targets, and indicative allocations in early October;

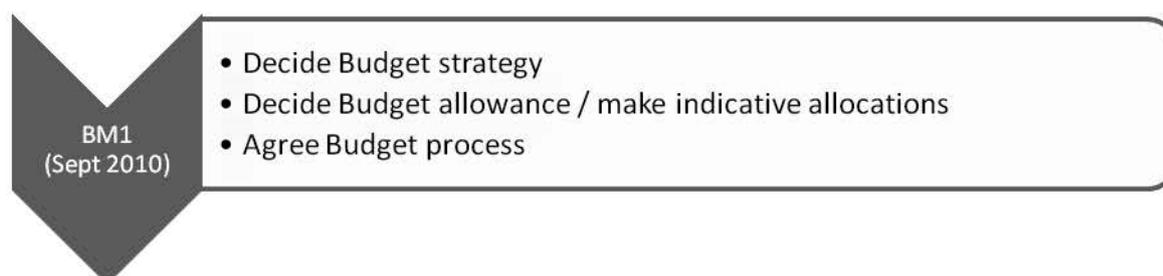
- through October and November Ministers and Chief Executives work together to align their expenditure with government priorities, find efficiencies and manage their costs with results presented in Baseline Alignment Proposals that:
 - cover both capital and operating;
 - clearly set out a multi-year vote strategy to manage within baselines;
 - offer real options for the Government to make policy and program changes and/or reduce spending; and
- in December Budget Ministers meet to make initial decisions on what policy proposals to agree, decline or invite the responsible Minister to make a submission to Cabinet. In early 2011 there will be time for Cabinet to scrutinise major policy proposals and make the necessary trade-offs.



5. The following is a comparison of how the Budget 2011 process will differ from Budget 2010:

Budget 2010	Budget 2011	Rationale for change
Early November: process confirmed and guidance issued	Early October: process confirmed, including savings target, and guidance issued	Allow time for BAP development given earlier submission date
Ministers required to take major policy proposals to Cabinet <i>prior</i> to BAP submission	Cabinet considers major policy proposals in early 2011 <i>after</i> BAP submission. Ministers and Chief Executives develop BAPs for submission in early December	The Cabinet process was not used by many departments, by bringing BAPs forward Budget Ministers have more time to consider BAP proposals
30 November report backs for votes that could not manage their pressures within baselines	No report back, this information is expected as part of the BAPs	The change in timing makes it sensible to combine these two reports
February submission of capital bids	Capital requirements are included in BAPs, building off existing capital intention information, with business case submission in February/March	To give a more complete picture of capital and operating proposals and enable Cabinet more in depth consideration of proposals
Baseline Alignment Proposals submitted in March	BAPs submitted in early December. Budget Ministers can invite portfolio Ministers to bring major policy proposals to Cabinet for further consideration in early 2011	To give Budget Ministers more time to make collective decisions and help prevent late runs to Cabinet
April confirmation of Budget package in time for May Budget	April confirmation of Budget package in time for May Budget	The timing for production was tight but manageable

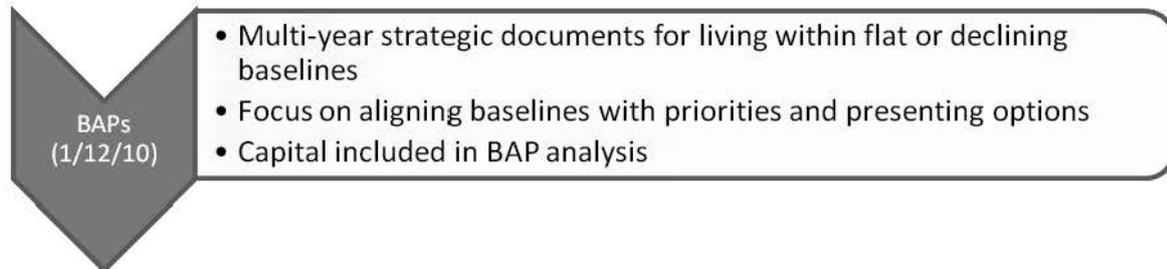
Strategic Phase



6. In order to deliver Government priorities, Budget 2011 will require Ministers and Chief Executives to identify areas of higher and lower value expenditure and make the necessary trade-offs. Continuing to 'bend the curve' of government debt will mean at least staying within the \$1.1 billion operating allowance or reducing it further.
7. Budget allowances, indicative allocations and a potential savings process will be decided as part of the Budget strategy. We have already provided advice on Better Aligning Expenditure with Priorities (BAEP), which provides a starting point for deciding indicative allocations. We have also recently provided other advice to inform your Budget strategy (e.g. the economic growth agenda, balance sheet strategy, revised fiscal management approach).
8. For the first Budget Ministers' meeting scheduled for 21 September, we will provide advice on a possible Budget Strategy based on the above work. It is likely that in order to achieve your Budget strategy, savings will need to be found and this will form part of upcoming discussions with Budget Ministers.

9. Once you have set your strategy, we recommend that you take a paper to Cabinet to confirm the strategy and process for Budget 2011. Once the strategy and process are agreed, we will publish Budget guidance at the start of October. Any substantial slippage from this timeline may require some amendment to the Budget process.

BAP Submission

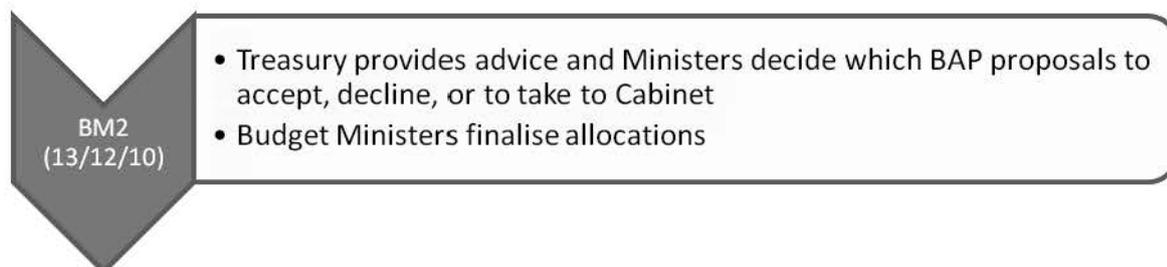


10. Baseline Alignment Proposals will be an opportunity for Ministers to propose changes to the programs and activities in their votes to better align their expenditure with Government priorities. BAPs should be high level, strategic documents that set out how the vote will live within their indicative allocation or baseline funding track over the forecast period (four years). There should be a clear expectation that reprioritisation and real tradeoffs will be made. In order to be a comprehensive picture, BAPs will include capital spending and capital proposals.
11. Most BAPs were not well done in Budget 2010. However, given departments already have a starting position we anticipate a more rigorous set of BAPs this year. We recommend using BAPs to take forward the Government's "more for less" objectives in a sustainable way over the next four years.
12. In order to improve the quality of BAPs and the information provided in them, we anticipate that BAPs will provide information such as:
 - how service delivery would need to change to meet any agreed savings target;
 - a summary of pressures facing each sector;
 - a list of key variables influencing cost pressures;
 - when cost pressures become critical;
 - an overall commentary on sector performance; and
 - an overview of sector spending priorities categorised as critical/effective/marginal.
13. We are considering options to focus on larger and more important votes and improve their quality. This could be achieved by requiring less information in BAPs from small votes that do not require major changes to maintain or reduce spending. We make a recommendation on this based on your Budget strategy.
14. It is also possible that some votes may seek additional funding. Options for managing these pressures without funding will be required in the BAPs. In December, Budget Ministers will determine whether any of these options will be considered further by Cabinet.
15. The planned process will enable capital bids to be considered alongside operating proposals and enable Ministers to better manage capital pressures as capital

information will be available earlier in the Budget process. Ministers will also get an early view of the capital picture as capital intensive agencies will be submitting their capital intentions to Treasury at the end of September, with Treasury reporting to ECC on aggregate information in mid-November. We propose:

- that capital bids only be considered in subsequent phases of the 2011 Budget if they have been identified as part of each Vote's BAP and are accompanied by a business case;
- requiring operating funding associated with capital expenditure to be managed within baselines; and
- setting aside a small amount of the operating allowance for capital expenditure related operating costs that cannot meet this requirement.

Consideration of BAPs



16. As in Budget 2010, we recommend that a group of senior departmental Chief Executives, the Senior Executives Group (SEG), is used to strengthen Treasury advice and test the assumptions and advice in the BAPs. We envisage that SEG be asked to meet at the beginning of the Budget process, after draft BAP submission and early in 2011 prior to Cabinet consideration of major policy proposals.
17. We recommend that draft BAPs be required for submission to Vote teams in mid-November for consideration by the SEG. The SEG will be asked to test the assumptions and advice in the BAPs and provide feedback to both Treasury and Chief Executives. The SEG's advice will be used to inform Treasury advice.
18. At the second Budget Ministers' meeting in mid-December we will bring initial advice on BAPs and present a view on the shape of the Budget package. We will advise on the merits of the BAPs, including whether individual proposals should be accepted, declined or taken to Cabinet for further consideration.
19. The meeting will be an opportunity for Budget Ministers to decline and accept some policy proposals early and signal which proposals they would like to see brought before Cabinet for consideration. The relevant Ministers can be notified by letter with an indicative timeframe of when would be appropriate for them to go to Cabinet with a full proposal. Budget Ministers may want to ask for more options or make suggestions about what further detail might be brought to Cabinet.

Major Policy Decisions

Cabinet Process
(Jan-Mar 2011)

- Cabinet considers major policy decisions

20. We propose that Budget Ministers be able to decide which policy proposals in BAPs should have greater scrutiny by Cabinet. We expect that this will include any votes receiving an allocation of the Budget allowance. Cabinet can then agree the proposals or decline them. The proposals will then be confirmed through the Budget Cabinet paper in April.
21. There should be a very clear expectation that during the period after BAP submission and before Budget, Ministers will not take policy proposals to Cabinet that require new funding or changes to existing funding, that have not been proposed in the relevant Vote's BAP.
22. Major policy proposals include those that:
 - stop or start significant programs; and
 - considerably change existing programs.

Finalisation of Budget Package

BM3&4
(April)

- Budget Ministers consider final proposals and finalise decisions on package
- Budget Ministers consider final Cabinet paper

23. The third Budget Ministers' meeting in late March will be an opportunity to assess Cabinet decisions and identify any outstanding issues for Cabinet to consider. As much as possible, final decisions on Capital and BAP submissions will be made so that Treasury can draft the final Budget Cabinet paper.
24. At the fourth Budget Ministers' meeting in early April, the final Budget 2011 paper will be considered and any last minute changes made before submission to Cabinet.

Risks

25. The main risks around the changes to the Budget 2011 process are that:
 - Cabinet or Ministers may not accept the need for BAPs to take a medium term view;
 - BAPs will not give sufficiently useful information for Ministers to make informed decisions and real trade offs; and

- Ministers and Chief Executives will not be able to meet the December BAP deadline and that the post-BAP Cabinet process might not work.
26. To mitigate this we propose informing Departments as soon as possible about the process and timing. The SEG could be used to set expectations and ensure BAPs are prepared on time.

Next Steps

27. You will receive a Budget strategy paper in time for your first Budget Ministers meeting on 21 September. We will then draft a Cabinet paper that reflects your strategy and process for Budget 2011 for submission in late September and publish Budget guidance in early October.