

It's Budget time!

It's time to put on your budget socks. We are one month into the new financial year (August 2024) so now is the time to start thinking about your plans for the 25-26 Budget.

I'm writing this piece to help demystify some things that go on 'inside government.' From the outside it can be hard to see in. Hopefully this short note can act like a viewing hole in construction site hoardings. It won't let you see everything, but a quick peak in will give you some idea about what is going on.

Cycles in government

Government work is built around cycles. The two big ones are election cycles and budget cycles. And the two are closely related. In a standard (non-crisis) setting, there are three types of budgets – a pre-election, a post-election and a 'not pre- or post-election' budget. Each has their own characteristic which I can touch on another time.

This note will illustrate a generic annual budget process and offer examples of what happens at each stage. Specifics may vary across jurisdictions. And I won't touch on the accountability side of the Budget process, which is a whole separate story.

The financial year sets the timing

Budgets can occur at any time, but for obvious reasons the cycles tend to align with financial years. This means most jurisdictions release their budgets in May (WA, Vic, Australia and usually Tasmania) or June (Qld, NSW, SA, ACT).

This gives an anchor point for a 12-month cycle. Financial management teams get little rest over the July and August period as they finalise the previous year's accounts and ready those for the incoming year. The year starts with 'building' departmental budgets for business units and funded agencies (which can take a couple of months). And finalising annual reports for release in September and October.

From inside government, this means the process and guidance for the forthcoming budget cycle is unlikely to arrive in August. However, it doesn't mean policy areas aren't priming for what is coming in the year ahead.

The next Budget is going to be tight!

The Budget process uses a forecast of revenues and expenditures to develop an envelope for future investments. Then a series of bids are developed to compete for a portion of that envelope.

The 'new' investment in any single budget is always a marginal allocation of funds. The bulk of the budget is already set aside to fund existing commitments and services.

This budget envelope may or may not be disclosed to departments. But rumours of a tight budget ahead will usually circulate early in the cycle.

To be clear, it is almost always 'a tight budget ahead.' The art of communication among bureaucrats includes the tone, adjectives, and facial expressions that accompany the message. From this you determine whether it will be regular-tight – that is, you might get a couple of high priority initiatives funded; or super-tight – that is, you will get almost nothing at all.

The exception to this is if it is 'your year' or if your area is a 'budget priority' (like an election commitment). This means that the political cycle has deemed your portfolio or issue is one that needs to be supported. If so, then an expanded stream of funding may be heading your way. At this point, you may be surprised to learn that you are suddenly wearing coattails (another story for another time).

Ideas and business cases

If the 2025-26 Budgets are almost a year away, why is now the time to start thinking about them?

Well, chief among many reasons is that Treasuries won't fund 'undercooked' ideas. Bids need a convincing narrative about how they address a critical need, are

well-costed and have supporting evidence to show they will be successful.

Therefore, ideas hoping to be successful need to be in active development early in the cycle. They need to be ready for a strategy or filtering process which will happen towards the end of the calendar year or early in the new year. (And yes – ‘strategy’ can often come after the planning work on a bid has commenced).

Ideas will typically be presented as a ‘business case’ for investment. A business case takes a somewhat standardised structure and may be developed in short form or long form. Short form business cases sketch out the general story and can be used to filter ideas before more extensive work is undertaken. Long form business cases are required for larger investments and draw together more evidence about design and costs.

Treasury will pay close attention to these documents and look to validate or question the assumptions used in generating ‘the numbers.’

It should be noted, however, that a business case is not an implementation plan. And once funded, an initiative may not be the exact replica of the story told about the need to fund it. It’s open to debate as to whether this is a good or bad thing. I have an opinion.

Filtering and packaging

Hopefully, your idea of a budget year is starting to come together. Because things are going to get hectic. At some point, usually around the time people are thinking about easing back for summer break, there will be a need to start bringing the story together at a departmental level and involving ministers and central agencies more deeply in the process.

This starts off lightly, with the sharing of draft ideas. And progressively increases in seriousness as the totality of the ‘ask’ starts to come together. Some level of filtering will start to take place at this point. Either locally (within the portfolio and with the minister), at a department level (looking at overall departmental ask) or with input or direction from central agencies (first ministers’ departments and treasuries). This may be formalised through a Cabinet process or occur as a series of less formal ‘conversations.’

A final package of bids will then start to come together and become something the minister ‘owns’ and must be ready to present to the Cabinet committee responsible for budget decisions.

Decisions

Decision-making for budgets is a massive undertaking. It involves all departments, all senior leaders, and all ministers in the development of bids. And then a heavily planned process of review and decision-making by central agencies and the budget review committee of Cabinet.

Bids will be assessed in some kind of grouping. This will most likely be by department and portfolio, capital (infrastructure) and operating (services), and by demand (growth in normal service requirements) or new/reform bids (changes to service offerings).

The review committee will include the treasurer, the first minister and a small or larger number of senior ministers. Together they will review the final bids and make decisions to fund (approve) a bid, not fund, partially fund, or fund through reprioritisation.

This last decision means the idea is supported but no ‘new funds’ are offered. Departments must therefore ‘find’ the money for it from their existing budget allocation.

A final decision-type is contingent funding of a proposal. In this case funding is put aside for an initiative, but a further approval process is needed before the funds are ‘released.’

The budget committee will also review ‘revenue’ measures (changes to taxes, fees and levies) as part of bringing the Budget in to land on its target level of deficit, balance or surplus as guided by the envelope.

Decision-making will often go down to the wire. Some marginal decisions earlier in the process may be ‘deferred’ until the scale of the whole budget is known and then a final decision is made.

As this happens, policy and communication teams right across government will be preparing highly sensitive presentations and FAQs about the final package. And the numbers will be checked and double checked by the small number of people who know the final outcomes.

Finally comes budget day... aaand... then it all starts again.

The upshot of this is that now is the time to be thinking about the context, needs and opportunities for your sector. If your ideas don’t take shape soon, they will have to wait for 2026-27!