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Unrestricted Distribution

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MARCH BASELINE UPDATE 2012

Summary of the March Baseline Update

1. The March Baseline Update (MBU) process allows departments to update baselines to reflect the outcomes of Cabinet and joint Ministerial decisions and to make technical and forecast adjustments.
2. The MBU is a technical update, with its contents designed to require no review by Cabinet. Joint Ministers will sign-off on all changes agreed between departments and Treasury, within the criteria set out in the Cabinet Office Circular CO (11) 6, '*Guidelines and Requirements for Proposals with Financial Implications*'. Please note that this circular replaces Cabinet Office Circular CO (09) 6 '*Guidelines for Changes to Baselines*' and can be accessed at:

<http://www.dpmc.govt.nz/cabinet/circulars/co11/6>
3. Changes not agreed by Joint Ministers during the MBU, because they fall outside the criteria set in CO (11) 6, may be considered as part of Budget 2012 or through a separate Cabinet process, if they are consistent with Government priorities.
4. As part of the MBU process, departments are required to update their forecast fiscal statements to reflect changes to their baselines. These fiscal forecasts will form the base for preparing preliminary fiscal forecasts for the whole of government which will feed into the advice for the Minister on Budget 2012. So it is critical the forecast fiscal statements are prepared on a basis of best professional judgement, reflecting information and circumstances at the date the forecasts are provided.

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5. When preparing their MBU submissions, it is important that departments pay close attention to the correct classification of any Vote changes sought as part of the baseline update. Further, if departments seek Fiscally Neutral Adjustments (FNAs) between Votes as part of MBU, they should specify all other Votes affected by the FNA in the title of the FNA.

6. There are two new types of baseline changes available for departments in MBU: Retention of Underspends (RoU) and Front-loading of Spending (FLoS). Respective categories will be available in CFISnet before 1 March 2012.

7. The full Budget 2012 process timetable will be circulated to departments in January 2012.

Colin Hall
Manager, Fiscal Management
for Secretary to the Treasury

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March Baseline Update – Requirements for all departments

Timeline

Dates	Baseline Update
Monday 30 January to Wednesday 29 February	Treasury Vote teams discuss specific requirements for MBU with their departments.
Wednesday 15 February	(1pm) Last date for coredata changes to be submitted to CFISnet for MBU.
Thursday 1 March	(1pm) Final date for departments to update and lock CFISnet for MBU changes. This includes both Vote specific and common schedules.
Friday 2 March	(1pm) Date of Vote Minister submission to Minister of Finance. Please provide 2 copies of the Vote Minister’s letter to the Minister of Finance.
Thursday 8 March	(1pm) Final date for Treasury Vote teams to advise departments of status of updates. Department to update CFISnet to reflect any required changes by 1pm.
Week beginning 12 March	Minister of Finance notifies Vote Ministers of the outcome of the MBU.

8. The MBU process presents an opportunity to update baselines reflecting the outcomes of Cabinet and joint ministerial decisions that have affected baselines since the October Baseline Update. The MBU is intended to:

- allow technical post-Budget adjustment of baselines (further details can be found in CO (11) 6);
- allow an opportunity to make changes to baselines approved by Cabinet since the October Baseline Update; and
- provide information to contribute to the preparation of the Budget Economic and Fiscal Update.

9. The MBU process allows for timely updating of baselines prior to the production of the Budget. The MBU will update baselines for the following items:

Cabinet decisions	All decisions made between the 2011 October Baseline Update and 1 March 2012.
Technical adjustments	Any technical adjustments.
Fiscally neutral adjustments (FNA)	Any fiscally neutral adjustments required.
Expense or Capital Transfers¹	Joint Ministers can agree to in-principle expense or capital transfers from 2011/12 to 2012/13, so long as they are consistent with CO (11) 6.

¹ Expense transfers must be fiscally neutral. With this in mind, an underspend in a 2011/12 appropriation that is matched by a shortfall in third party revenue in 2011/12 cannot be expense transferred to 2012/13, if it would need to be matched by revenue Crown (rather than third party revenue) in 2011/12.

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Retention of underspends (RoU)	Joint Ministers can agree to the retention of underspends transferring underspends from 2011/12 to 2012/13, so long as they are consistent with CO (11) 6.
Front-loading of spending (FLoS)	Joint Ministers can agree to front-load spending for a specific investment purpose bringing it forward from years subsequent to 2012/13, so long as the front-loads are consistent with CO (11) 6.
Forecast items	Departments whose baselines contain forecast items with significant fiscal implications are to update their forecasts for input into the BEFU.
Return of savings to the Crown	Savings are any existing funding that would impact positively on the government's operating balance and/or debt position if they were returned to the Crown. Vote Ministers may offer up savings at any time throughout the year, including during the MBU.

Features of March Baseline Update process for 2012

10. Ministers and departments should ensure that the proposed technical changes in MBU can be approved by Joint Ministers under their delegated authority outlined in Cabinet Office Circular CO (11) 6.

11. Any changes that cannot be agreed under CO (11) 6 will need to be considered separately by Cabinet. You can discuss these particular cases with your Vote Analyst. Changes that cannot be agreed under CO (11) 6, including those that require additional funding, should be considered as part of the Budget process, and in many cases, may be able to be considered alongside the financial recommendations in the Budget Cabinet paper in early April. Any changes that cannot be agreed under CO (11) 6 will be recorded in the Minister of Finance's response letter to Vote Ministers.

12. Significant changes in policy are likely to be better suited to separate consideration by Cabinet, rather than the omnibus Budget 2012 Cabinet paper. Departments should discuss the appropriate approach with their Treasury Vote Analyst.

13. Departments should discuss any potentially contentious issues with their Treasury Vote team as early as possible, so these can be resolved in advance of the Vote Minister submission for the MBU and incorporated into the Budget Process if appropriate.

Expense and Capital Transfers - Approval in principle

14. In-principle Expense and Capital Transfers can be sought where the final amount of ECTs cannot be finalised until after the due date for MBU submissions (i.e. amounts will only be known when accounts are audited). In-principle ECTs should be included in your Minister's letter, but not as a vote change in CFISnet.

15. In order for the fiscal forecasts to be as accurate as possible, and as noted in CO (11) 6, Ministers should limit the scope of in-principle ECTs as much as possible. This means that they should transfer the proportion of funding they are sure of and only use an in-principle transfer for the remainder. When updating forecast information, departments should use their best estimate of the actual spending patterns.

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16. Departments are encouraged to seek Expense and Capital Transfers in the MBU if required. There will be a further window for later transfers after Budget Day and before a set-date, likely to be in June. Further information about the timing of this window will be available once the Budget Day for 2012 has been set.

17. In-principle ECTs do not constitute sufficient authority to incur expenses until the actual quantum is confirmed and agreed by Joint Ministers, normally in the following October Baseline Update. The level of parliamentary authority is monitored on a monthly basis by the Controller and Auditor General. Any expenditure incurred without authority (in this case, any expenditure incurred in relation to these transfers prior to obtaining confirmation of the quantum approved) will be reported as unappropriated and will require validation by Parliament. For more information see Treasury Circular 2006/4 Unappropriated Expenditure - Avoiding Unintended Breaches.

18. Please note, confirmations of in-principle transfers are limited by the level of remaining appropriation, as well as the revenue associated with the output.

Departmental Capital Contribution Transfers and Cabinet Approved Departmental Capital Contributions

19. Departmental capital contributions are now detailed in departments' net asset schedules. Departments still need to apply the criteria and process stipulated in CO (11) 6 for transferring departmental capital contributions between financial years, as such changes alter the composition of the movements in net assets that will be reported to Parliament.

20. Specific lines for Net Assets are contained in CFISnet schedule 0:9:0 and explanations of movements to these lines are reported in Table 2. CFISnet validation rules ensure consistency between the 0:9:0 schedule and Taxpayers Funds reported in the Statement of Financial position. Please refer to Treasury Circular 2010/12 for more details.

21. Other changes that affect net assets but do not require joint Ministerial or Cabinet approval at this stage can be reflected in departments' updated financial statements submitted via CFISnet. Such changes may encompass capital withdrawals, revaluations and revisions of surpluses or deficits. They do not need to be identified in the Vote Minister's submission.

Retention of underspends (RoUs)

22. Retention of underspends provide a new type of baseline change that departments can seek as part of MBU 2012. Underspends are defined as funding remaining at the end of the financial year as a result of:

- savings made through gains in efficiency; and/or
- other savings initiatives,

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where the output or service has been delivered in full (in contrast, an expense and capital transfer can be used when the output or service has not been fully delivered due to circumstances outside the department's control).

23. Underspends do not include, for example, funding left over as a result of lower-than-expected demand for a service, or because the amount required was originally over-estimated.

24. Joint Ministers can approve the retention of underspends within departmental expense appropriations. This funding can then be transferred to the next financial year, and also transferred to any other departmental appropriations.

25. Where approval to retain underspends is sought before or in the MBU, the full amount can be retained. Underspends must be confirmed during the MBU by showing a decrease in the Supplementary Estimates and the corresponding increase in the following year's Estimates.

26. Where approval to retain underspends is sought after the MBU but before 30 June, half the amount can be retained. Underspends must be confirmed on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.

27. Any proposal to retain underspends made after 30 June will be declined.

28. Proposals to retain underspends must explain:

- how underspends arose (as per paragraph 38 in CO (11) 6); and
- what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Front-loading of spending (FLoS)

29. Front-loading of spending provides a new type of baseline change that departments can seek as part of their MBU submission. It can be used to bring forward funding in any departmental expense appropriation within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears.

30. Proposals to front-load spending must explain:

- how the investment or project will permanently and sustainably reduce expenditure in outyears;
- any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

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- what other funding options were considered and why the front-loading of spending is the preferred option.

31. The amount of detail required for any proposal to front-load spending is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, according to the criteria in paragraph 10 of CO (11) 6.

Forecasting changes

32. CO (11) 6 describes the process around forecast changes in more detail. Not all forecast changes are agreed automatically and departments should consider whether it is appropriate to absorb the cost changes from within baselines. The circumstances outlining whether forecasting changes should be met from within baselines is described in CO (11) 6.

CoreData Changes

33. Coredata changes are required for all new appropriations agreed to by Cabinet and to amend existing details such as name, scope and responsible Minister. To allow departments to enter information against the new appropriations in CFISnet a line is created by Treasury to accept the data. Until a new line is created, no data can be stored against the appropriations. Coredata requests relating to new appropriations should be notified to Treasury through CFISnet by **1pm Wednesday 15 February 2012**.

CFISnet Submissions

34. The deadline for entering information into CFISnet is **1pm Thursday 1 March 2012**.

35. As the Vote Minister provides CFISnet tables as part of their submission, departments must lock-off the MBU exercise before 1pm Thursday 1 March 2012.

Vote Minister Submission

36. Vote Ministers are to submit two hard copies of their MBU returns to the Minister of Finance no later than **1pm Friday 2 March 2012**.

37. The format for Vote Ministers' submissions is attached as Annex 1 to this Circular. The submission to the Minister of Finance should be accompanied by the following Tables:

- Table 1 – Summary Table of Baseline Numbers (CFISnet table).
- Table 2 – Baseline Changes Report (CFISnet table).

38. A template of the Vote Minister's submission can be found on CFISnet as an attachment to this circular.

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39. Proposed changes should be explained in the Vote Minister's submission as follows:

Change type	Explanation to be contained in Vote Minister Submission
Cabinet decisions	No explanation required, but the relevant Cabinet Minute must be recorded in the 'authority for change' field of the Table 2 attachment.
Technical adjustments	One short paragraph for each change.
Fiscally neutral adjustments	One short paragraph for each change.
Retention of underspends	Statement confirming final amount from the change covered by the relevant joint Ministers' or Cabinet decision.
Front-loading of spending	Statement confirming final amount from the change covered by the relevant joint Ministers' or Cabinet decision.
Expense or Capital Transfers	Statement confirming final amount from the change covered by the relevant joint Ministers' or Cabinet decision.
Forecasts	A short paragraph outlining the key factors/drivers in the forecast change.

40. Vote Ministers will also be asked to certify that none of the proposed changes require a Cabinet decision after 1 March 2012.

41. To assist in subsequent analysis of MBU changes, the explanations should include a clear description of the drivers of change and where possible individual changes should be included, rather than aggregated items.

Treasury Assessment

42. As the focus of the MBU is to action a variety of technical changes, it is not expected that substantive policy discussions will be required. However, Treasury Vote teams will still check submissions for such implications. The other area of focus in the Treasury assessment will be whether the submission meets the guidelines for changes to baselines as set out in Cabinet Office Circular CO (11) 6, including whether joint Ministers have delegated authority to approve the proposed change.

43. Parts of the submission that fall outside the delegated authority will need to be considered as part of the Budget 2012 process, or through other Cabinet processes. Significant changes in policy are likely to be better suited to separate consideration by Cabinet, rather than the omnibus Budget 2012 Cabinet paper. Departments should discuss the appropriate approach with their Treasury Vote Analyst.

Disputes

44. Any disputes should be resolved, if possible, between the department and the Treasury Vote Team. Where disputes can be resolved, CFISnet should be updated to reflect the agreed position. Where disputes cannot be resolved, the disputed items are to be deferred to the Budget 2012 process, or separately considered by Cabinet, and

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removed from CFISnet. CFISnet will need to be updated to reflect relevant changes by **1pm Thursday 8 March 2012**.

Notification of Outcome

45. Updated baselines will be confirmed via a letter from the Minister of Finance to the Vote Minister in the week beginning 12 March 2012. The letter will confirm all agreed changes, and list any disputed changes to be addressed in Budget 2012, or through other Cabinet processes.

Other Information

46. Annex 1 has a template for the Vote Minister's submission. A word version of the template is available on CFIS in the Treasury Circulars section.

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**ANNEX 1: MARCH BASELINE UPDATE TEMPLATE FOR VOTE MINISTER
SUBMISSION**

XX March 2012

Hon Bill English
Minister of Finance
Parliament Buildings
WELLINGTON

2012 MARCH BASELINE UPDATE SUBMISSION FOR VOTE VVVV

Introduction

This report covers those items affecting the baseline for Vote <VVVV> for the March Baseline Update.

I confirm that none of the changes contained in this update require Cabinet decisions at this time.

The proposed changes to baselines are as follows:

Cabinet decisions *[use where applicable]*

All Cabinet decisions relating to this Vote made after the October Baseline Update up to 1 March 2012 have been included in this update. These are listed in detail in Table 2 attached to this letter.

Expense or Capital Transfers *[use where applicable]*

An explanation of each transfer is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of expense or capital transfer or title of in-principle expense or capital transfer [repeat as necessary]

<A paragraph description of the ECT or in-principle ECT.>

Fiscally Neutral Adjustments *[use where applicable]*

An explanation of each adjustment is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of fiscally neutral adjustment [repeat as necessary]

<A paragraph description of the fiscally neutral adjustment.>

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Retention of Underspends *[use where applicable]*

An explanation of each retention of underspends is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of retention of underspends *[repeat as necessary]*

<A paragraph description of the RoU.>

Front-loading of Spending *[use where applicable]*

An explanation of each front-loading of spending is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of front-loading of spending *[repeat as necessary]*

<A paragraph description of the FLoS.>

Forecasting Changes *[optional for most departments - use where applicable]*

Title of forecast change *[repeat as necessary]*

<A one paragraph description of the amount of the change, and the main reasons behind the change.>

Other Technical Changes *[use where applicable]*

Title of technical change *[repeat as necessary]*

< A one paragraph description of the amount of the change, and the main reasons behind the change.>

Forecast Financial Statements

The baseline update also includes forecast financial statements, although approval for these is not sought from the Minister of Finance. The baseline changes sought in this letter have been incorporated in the forecast financial statements of the relevant department, together with the adjustments necessary to accurately reflect estimated operating expenditure, capital expenditure and cashflows.

Info for departments:

This section has been included to emphasize the importance of the financial statements included in your baseline update return to Treasury. At year-end, Treasury will be reporting back to departments on their forecasting performance for that year.

This box is for your information. Delete it before sending your MBU submission to your Minister.

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Recommendations

I recommend that you:

<The following standard recommendations should be included.>

1. **agree** the changes to the 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16 baselines as set out in Table 2 – Summary of baseline changes;
2. **agree** that changes to the 2011/12 baselines be incorporated into the 2011/12 Supplementary Estimates;
3. **agree** that until the 2011/12 Supplementary Estimates are enacted, any changes to the 2011/12 appropriations required under recommendation 1 be made under Imprest Supply.

[use the following recommendations only if there are changes to departmental capital contributions]

4. **agree** changes to capital contributions to **[insert name of department]** for the years 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16 as set out in Table 2 – Departmental Capital Contribution Changes;
5. **agree** that changes to departmental capital contributions in 2011/12 be incorporated into the 2011/12 Supplementary Estimates; and
6. **agree** that until the 2011/12 Supplementary Estimates are enacted, any changes to the 2011/12 net asset schedules required under paragraph (4) above be made under Imprest Supply.

Signed

Minister of/for [Portfolio of Vote Minister]