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MULTI-YEAR, REVENUE DEPENDENT AND DEPARTMENT TO DEPARTMENT APPROPRIATIONS

1. This Circular provides an overview of three appropriation options that give greater financial management flexibility:

- multi-year appropriations (s.10 of the PFA) – Part A;
- revenue dependent appropriations (s.21 of the PFA) – Part B; and
- department to department appropriations (s.20 of the PFA) – Part C.

2. Further guidance on each of these appropriation options will be made available shortly on CFISnet under the Info>Circulars menu. This guidance can also be obtained by contacting SSMHelp@treasury.govt.nz, or through your Vote Analyst.

A. MULTI-YEAR APPROPRIATIONS

What is a MYA?

3. A multi-year appropriation (MYA) is an appropriation with a term of more than one financial year and up to five financial years.

4. MYAs can encourage better value for money by allowing flexibility in the timing of spending. MYAs can also reduce administration costs, for example by removing the need for expense and capital transfers (ECTs).

When can a MYA be used?

5. MYAs should be used where there is uncertainty about the timing of expenses between fiscal years. Cabinet has agreed that MYAs are suitable for situations where the:

- broad parameters of the policy or purpose for which the appropriation is sought are well-defined and self-contained;
- total costs for the multi-year period are well defined and are unlikely to alter over the course of the MYA;
- costs fall across two or more financial years, and there is sufficient uncertainty about the distribution of costs across financial years;
- uneven distribution of the costs over the multi-year period would not adversely affect the delivery of an activity; and
- application of a MYA would provide Ministers and departments with some flexibility over the delivery of an activity (when this is an explicit policy choice) and would offer administrative benefits over a set of annual appropriations designed to achieve similar goals.

6. All appropriation types (e.g. output expenses, other expenses etc) can have a multi-year period.

Setting up a MYA

7. Consistent with most other forms of appropriation, Cabinet approval is required to establish a MYA. Ministers are able to propose a MYA as part of any initiative put forward to Cabinet, provided that the MYA meets the criteria noted above. Departments will need to consult Treasury on whether what is being proposed is suitable for a MYA.

Duration of a MYA

8. Legislation allows a MYA to be appropriated for no more than five *financial* years. MYAs can also be for any fraction of two or more financial years - for example, it is

possible to have a MYA of 18 month duration if that suits the specific situation being funded. It is also possible to have a MYA of less than 12 months if it spans more than one financial year. Further issues to consider when determining the duration of a MYA is contained in guidance.

What happens when a MYA expires?

9. Where ongoing funding is required, the default position is that a MYA will be replaced by an annual appropriation after its expiry unless Cabinet approval is sought for another MYA. The amount of any subsequent annual appropriation will require Cabinet agreement, either at the end of the MYA or when it is first set up.

10. There may be a need to add an annual appropriation to the end of a MYA if time frames for delivery have slipped out (in which case approval to transfer some of the unspent amount from the expiring MYA into the annual could be sought). An alternative approach in this situation would be to extend the length of the MYA.

11. Cabinet have indicated that their preference is for any additional MYAs to start once the original has ended (back-to-back MYAs), and that "rolling" MYAs should only be used sparingly. Rolling MYAs are where the next MYA is started before the previous has run its full-course, and the previous MYA is repealed.

Transfers into and out of MYAs

12. MYAs are intended to be for self-contained activities, and remove the need for expense transfers between financial years. As such, there should be little need to move funding in and out of MYAs. There is a high risk that such transfers would be used to, in essence, shift resources from annual appropriations between financial years. Given this, Cabinet has agreed that such transfers will continue to require Cabinet approval.

13. Transfers between MYAs within a single Vote will require Cabinet approval unless the relevant Minister and the Minister of Finance have been delegated responsibility by Cabinet for approving transfers when the MYA(s) are first established.

Increasing the amount or duration of a MYA

14. Increasing the amount of a MYA with new money will require Cabinet approval (generally through the Budget process). If the increase is significant, and depending on the circumstances, it may be preferable to repeal the existing MYA and start a new one that includes the increased amount.

15. Increasing the duration of a MYA, even without increasing the amount, will require Cabinet approval.

Imprest supply issues

16. Imprest supply considerations must be taken into account when starting, or changing, MYAs during the financial year. Determining the appropriate amount to charge to imprest is discussed in guidance.

Reporting against MYAs

17. Departments are required to report against MYAs (and the output classes they cover) in Statements of Intent and Annual Reports as they are with annual appropriations.

18. For reporting in the Statement of Service Performance (where it is done on the basis of output class), legislation requires that annual expenses relating to the output classes be disclosed (see s.45A(c)(ii) of the PFA). It is not necessary to report on expenditure for the full multi-year period of any MYAs relating to the output classes (though this may be included where desired).

19. Reporting actual total expenditure for a MYA is required in the Statement of Expenditure and Appropriations (see s.45B(c) of the PFA). A picture of expenditure against the full multi-year period is needed rather than just the current year's expenses. It is likely that the standard annual focus of the Statement of Expenditure and Appropriations will be insufficient for MYA reporting purposes, and therefore a separate statement may be required to cover the multi-year period.

20. Details of a MYA are reported in Part B2 of the Main and Supplementary Estimates for the relevant Vote. Technical guidance on the information required for this reporting is available on CFISnet Help. Information on the output expenses covered by a MYA may also be necessary in Part C of the Estimates, and relevant information should be included in the Overview and Part A of the Estimates.

B. REVENUE DEPENDENT APPROPRIATIONS

What is a RDA?

21. Revenue Dependent Appropriations (RDAs) provide the authority to incur expenses up to the level of revenue received from sources other than the Crown.[1] They are authorised under s.21 of the PFA.

22. RDAs give greater flexibility in the production of outputs than annual appropriations. They allow suitably authorised departments to respond to unanticipated changes in the level of external demand for their outputs without their Minister having to get Cabinet and Parliamentary approval to incur extra expenses, including risk margins in their baselines, or incurring unappropriated expenses.

23. For example, revenue may be earned through the provision of information to the public. If revenue increased (e.g. because of increased demand for information), a RDA would allow more expenses to be incurred (and hence more information could be provided) without needing further authority to do so.

When can a RDA be used?

24. RDAs can only be used where there is cost recovery of outputs from third parties (or other departments). Further guidance on the use of cost recovery can be found in "Guidelines for Setting Charges in the Public Sector".[2]

25. Section 21 of the PFA prescribes a number of key rules around RDAs. These can be summarised as:

- a RDA cannot be a multi-year appropriation;
- RDAs can only be used for *outputs* delivered by *departments*;
- each RDA cannot be applied to more than one output class; and
- the Minister of Finance's approval is required to use a RDA. This requirement is discussed in detail below.

26. The Minister of Finance has agreed that the following minimum standards need to be met before a RDA can be used. These requirements ensure that the risks that occur as a result of the increased flexibility offered by RDAs (for example, that there is a lack of transparency about how fees are set, or that revenue could be used to subsidise other departmental activities) are appropriately mitigated.

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1 For the purposes of RDAs, revenue from other departments is not considered to be from the Crown. Therefore, outputs which are cost recovered from other departments can be covered by a RDA.

2 www.treasury.govt.nz/publicsector/charges

Figure 1: Minimum standards for RDAs

In a competitive environment…	In the absence of competition…
…a department must: - provide the Minister of Finance with assurance that their systems for cost allocation are accurate Note: This is equivalent to the assurance required to get Minister of Finance approval for old Mode B Net appropriations, which RDAs replaced.	…a department must: - operate a Memorandum Account - have adequate measures in place to ensure appropriate price/cost management - provide the Minister of Finance with assurance that their costing systems are accurate.

27. In addition, all departments with RDAs are expected to adhere to "Guidelines for Setting Charges in the Public Sector".

Setting up a RDA

28. To establish a RDA, the Minister that will be responsible for the appropriation must obtain the Minister of Finance's approval through the Budget process (preferred), a Baseline Update or through a separate paper if the issue cannot be deferred until a Baseline Update. Departments must consult with Treasury as to the suitability of a RDA, before the Minister seeks approval from the Minister of Finance.

29. The PFA requires that RDAs be recorded in at least one Appropriation Act in a year. RDAs therefore need be approved in time to be included in the Supplementary Estimates. Expenses cannot be incurred against the appropriation until the Minister of Finance's approval is given. Ideally, an RDA should be included in the Main Estimates and operate for the full fiscal year.

Figure 2: Information required for new RDA proposals

Information required	
a	Assurance around the minimum standards (paragraph 27)
b	Assurance that the rules in paragraph 26 are being adhered to
c	Rationale for using a RDA
d	Vote analyst's comments on (a), (b) and (c)
e	Title for new RDA (i.e. name that will appear in Estimates)
f	Forecast amount of the new appropriation (i.e. amount of revenue forecast)
g	Forecast level of expenditure[3]
h	Scope of the RDA

30. As well as the one-off initial application for a RDA, departments with a RDA must fill in the relevant template and upload this to CFISnet each Budget. This template can be found in the relevant Budget Circular, which is available on CFISnet.

3 This will generally only differ from (f) when a memorandum account is in operation.

Interaction between a RDA and a Memorandum Account

31. Using a memorandum account allows a department to give assurance to the public that it is matching revenue and expenses over the medium term. In some years it is likely that revenue will be greater than expenses, while in others expenses will be greater.

32. Because a RDA only gives the authority to incur expenses up to the level of revenue received in a given fiscal year, an additional annual appropriation will be required for those years where expenses are greater than revenue.

C. DEPARTMENT TO DEPARTMENT APPROPRIATIONS

33. Department to Department appropriations (D2Ds) provide permanent legislative authority to incur expenses up to the level of revenue a department receives for the provision of outputs for, or on behalf of, another department. They are authorised under s.20 of the PFA.

34. D2Ds give greater flexibility in the production of outputs than annual appropriations. They allow departments to respond to unanticipated changes in the level of demand from other departments for their outputs without having to get Cabinet and Parliamentary approval to incur extra expenses, transfer resources from another appropriation, include risk margins in their baselines, or incur unappropriated expenses.

35. D2Ds do this while maintaining fiscal control, as the amount spent is limited by the amount of the appropriation used by the commissioning department to meet the costs of the supplying department.

36. For example, consider a situation where department A wanted department B to provide it with information. If department B did not have an appropriation to produce this output, the D2D provision in the PFA means it can incur expenses up to the level of revenue to be received from department A without having to seek the approval of Cabinet or joint Ministers.

37. D2Ds were designed to support collaboration between multiple agencies, and their use is not limited to purely bilateral contracting arrangements. They are likely to be useful in situations where one agency holds the budget and coordinates the work of a number of departments who must work together to provide an integrated or tailored service to external clients. Similarly, they could be used to pool contributions from several departments for the provision of a service from another department.

38. For example, consider a situation where Cabinet had requested the Department of the Prime Minister and Cabinet (DPMC) to undertake a study that is expected to ultimately benefit all central agencies, and that the cost of the study be met out of existing central agency baselines. D2Ds in Vote PM&C could be used to support payments from Treasury and the State Services Commission for their share of the costs of the study – provided the study is something that could have been legitimately funded out of their existing baselines. If D2Ds were not used, formal transfers from Votes Finance and State Services to Vote PM&C would be needed (which require Ministerial approval and imprest supply).

When can a D2D be used?

39. The PFA prescribes a number of key rules for the use of D2Ds. These can be summarised as:

- each D2D must be between two departments. Therefore, if a department is providing services for multiple departments, it will need a separate D2D appropriation for each department;

- there must be an agreement between the two departments over the output to be supplied;
- D2Ds can only be used for the provision of *outputs;* and
- if department A is utilising a D2D to provide an output to department B, A must return to B any revenue that is not utilised toward the cost of the output (i.e. if B pays more than cost, A must return the excess revenue).

40. The Minister responsible for any D2D is the Minister responsible for the supplying department, although clearly the department will need to account for the outputs delivered under it to the commissioning department.

Setting up a D2D

41. Minister of Finance or Cabinet approval is not required for departments to incur expenses under this appropriation.

42. However, the contracted departments will need to consult with both their Responsible Minister and Treasury before utilising a D2D. This will ensure that any potential ownership issues or associated policy issues are appropriately considered (for example, that the Responsible Minister considers that it is appropriate for the department to produce this output). It will also allow Treasury to record the baseline changes and provide ongoing assurance to the Auditor-General that all Crown expenditure is appropriately authorised.

43. A D2D should be recorded in at least one Appropriation Act in a year. They therefore need to be organised in time to be included in the Supplementary Estimates – although they should be included in Mains if this is possible. When first reporting a D2D in the Estimates, departments will need to provide the following information:

Figure 3: Information required for new D2D proposals

Information required	
a	Title for new D2D (i.e. name that will appear in Estimates)[4]
b	Forecast amount of the new appropriation (i.e. amount of revenue forecast)
c	Forecast level of expenditure[5]
d	Scope of the D2D

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4 If the D2D is simply delivering outputs in a currently existing output class this should be noted. A coredata change in CFISnet will still be required as it is setting up a new appropriation.

5 This will generally only differ from (b) when a memorandum account is in operation.