

# Writing Financial Recommendations for Cabinet and Joint Minister Papers

## Technical Guide for Departments

June 2010



**THE TREASURY**  
Kaitohutohu Kaupapa Rawa

New Zealand Government

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# What's New?

This document replaces the previous guidance update, titled *Writing Financial Recommendations for Cabinet and Joint Minister Papers* and released in October 2008.

The changes since the last previous version include:

- Updating the document to reflect changes in Cabinet Office Circular CO (09) 6, titled *Guidelines for Changes to Baselines*, which has superseded the previous Cabinet Office Circular on these matters [CO (02) 17]
- Including information and a worked example on capital to operating and operating to capital swaps
- Including information and a worked example on retention of departmental surplus.

Edits to the text and worked examples, where necessary, to provide greater clarity.

# Introduction

## About this Guide

This Technical Guide is intended as an aid for departments preparing papers containing financial recommendations. It has been prepared to help ensure that departments meet Cabinet Office requirements requiring information to follow a consistent style and format (as set out in the *CabGuide* at <http://cabguide.cabinetoffice.govt.nz/>).

The requirements and guidance outlined in this document are to apply until it is updated or replaced. This document is scheduled for review towards the end of calendar 2011.

This document has been written by Treasury's State Sector Management team.

## Why have Financial Recommendations?

Financial recommendations are used to record decisions by Cabinet or Joint Ministers that affect baselines. These decisions provide the necessary authority for the use of Imprest Supply, as well as the contents of Appropriation Acts. They also enable Government to monitor the impact of its spending decisions on its overall fiscal intentions. For these reasons, financial recommendations need to be error-free, complete and unambiguous.

Financial recommendations are used by Cabinet Ministers and their staff, as well as departmental staff, who must implement decisions. Employing a standard format helps users deal quickly and accurately with what would otherwise be complex technical information.

## How to Use this Guide

The sample recommendations contained in the Word version of this guide have been formatted to allow readers simply to copy and paste the tables and other information into their own documents. To copy and paste from a sample recommendation, highlight and select the desired text and/or tables within the blue-framed box surrounding the sample. [Note that copying from the PDF version of the document may result in the loss of preset formats.]

If you insert additional rows into a table, you may need to adjust the table formats. Generally speaking there should be vertical lines between each column in a table. In addition, horizontal lines should appear:

Between header information and line item information

Between respective votes' line information where there are multiple votes.

For illustrations of these, please refer to the 'anatomy' information and the worked examples in Annex A.

The examples provided in this guide are formatted in Times New Roman – 12 point for text and 10 point for tables. Use of 10 point font in tables balances the need for sufficient legibility with the volume of information requiring to be shown.

## Financial Recommendations Module in CFISnet

The CFISnet financial recommendations module is designed to improve the quality of the recommendations in the Cabinet Budget paper.

The financial recommendations module in CFISnet automatically outputs financial recommendations relating to Budget initiatives entered into CFISnet. The majority of these system-generated recommendations will be consistent with this guide. However, in some instances, eg, multi-year appropriations and multi-class output expense appropriations, the recommendations will require further off-line editing to comply with the required format. The guidance on how to use the financial recommendations module in CFISnet can be found in CFISnet Help [Choose 'Baselines', then 'Recommendations'.]

# Essential Elements for Financial Recommendations

To ensure clarity and completeness, the following information should always be incorporated into financial recommendations, where relevant:

<b>Action to be taken</b>	<p>State what actions Ministers are being asked to take:</p> <ul style="list-style-type: none"><li>• <b>agree</b> – should (for example) be used for recommendations that put in place policy decisions.</li><li>• <b>approve</b> – should be used for recommendations that authorise expenditure or authorise actions. This is preferred terminology for baseline change recommendations.</li></ul>
<b>Purpose of the baseline change</b>	<p>Explain specifically what the baseline change is for</p> <p>eg, “to provide for the implementation and subsequent evaluations of the XYZ service for all women aged over 50”.</p> <p>[Note that if the substance of a policy decision is too lengthy or complex to encapsulate in a pithy, plain-English manner in a financial recommendation, then the purpose should reference those earlier recommendation(s) where Ministers are asked to agree to the policy decision</p> <p>eg, “to give effect to the policy decision in recommendation 1 above”.]</p>
<b>Title(s) of the Vote(s) affected</b>	<p>Include all Votes affected by the proposed baseline changes, with the name(s) of the Vote(s) shown above the line items affected.</p>
<b>Appropriation type</b>	<p>The appropriation type must be shown in all instances, eg, Departmental Output Expense.</p> <p>Where more than one line item for each type of appropriation in any given Vote is affected, items of the same type should be grouped.</p> <p>For information on different appropriation types and their uses, refer to <i>A Guide to the Public Finance Act</i> on the Treasury website at <a href="http://www.treasury.govt.nz/publications/guidance/publicfinance">http://www.treasury.govt.nz/publications/guidance/publicfinance</a></p>
<b>Appropriation name</b>	<p>Individual appropriations should be listed in alphabetical order and grouped by Vote (when more than one Vote is affected).</p>
<b>Portfolio Minister</b>	<p>The Minister responsible for each appropriation needs to be identified, because a single Vote can now contain appropriations for which different Ministers are responsible.</p> <p>References to the Minister responsible should cite the relevant portfolio, eg, “Minister of Justice”.</p>
<b>Monetary amounts</b>	<p>These must be expressed in \$ million and rounded to three decimal places (eg, \$0.050 million).</p> <p>The amounts must reflect expenses and capital expenditure measured and reported in accrual terms, in accordance with relevant accounting standards, and therefore excluding GST.</p>

<b>Changes to appropriations</b>	<p>Both direction (ie, increase/decrease) and amount must be shown.</p> <p>Increases in appropriations or revenue items should be shown as positive numbers, with decreases shown as negatives in brackets</p> <p>eg,    increase in baseline or revenue: 1.234              decrease in baseline or revenue: (1.234)</p>
<b>Revenue source for departmental output expense appropriations</b>	<p>All recommendations relating to departmental output expense appropriations must either explicitly state the source whence the additional expenditure will be funded, or note that no funding is sought or required.</p> <p>Departmental outputs are usually funded either from revenue Crown, revenue department, revenue other, or a mixture of these. On occasions, departmental outputs may also be funded from a department's retained surplus.</p> <p><i>Revenue Crown</i> represents revenue earned by departments from the Crown in exchange for outputs to be supplied to Vote Ministers.</p> <p><i>Revenue department</i> refers to revenue earned by departments from other departments in exchange for goods or services provided to those departments.</p> <p><i>Revenue other</i> refers to revenue earned by departments from the public or other organisations (ie, third parties) in exchange for goods or services provided to those parties.</p> <p>For all other appropriation types there is no requirement to state the revenue or funding source.</p>
<b>GST status</b>	<p>All baseline changes are presented on a GST-exclusive basis, so there is no need to indicate whether any appropriation is GST inclusive or not. For further guidance on GST matters, refer to <i>A Guide to the Public Finance Act</i> on the Treasury website at <a href="http://www.treasury.govt.nz/publications/guidance/publicfinance">http://www.treasury.govt.nz/publications/guidance/publicfinance</a> and in Treasury circular T2005/11 at <a href="http://www.treasury.govt.nz/publications/guidance/circulars">http://www.treasury.govt.nz/publications/guidance/circulars</a>.</p>
<b>Year(s) affected by the baseline changes</b>	<p>Typically tables contain financial information for five years, the first of which should be the current financial year. The next four years should be shown individually (even where the amounts are the same in all years), unless the baseline change is for a multi-year appropriation (refer Annex C).</p> <p>This five-year span is sometimes referred to as the "(current) forecast period".</p> <p>If a baseline change is to have an indefinite duration, this must be stated. Otherwise the change in appropriation will expire in the last financial year for which the increase or decrease is shown in the table.</p> <p>For changes with an indefinite duration, the final year column in the table should state '20xx/yy &amp; Outyears'.</p>

**Scope statement**

Any financial recommendation establishing a new appropriation must be accompanied by a recommendation that seeks agreement to the proposed scope of that appropriation.

The statement of scope both describes and constrains the range of activities, actions or functions that the appropriation may be used for. To reinforce the latter point, the scope statement for any new appropriation must begin with the stem “This appropriation is limited to ...”.

On the passing of an Appropriation Bill, the scope statements in the associated Estimates or Supplementary Estimates become legally binding. It is therefore very important to get the wording right so it clearly defines/delineates the boundary of what the appropriation can be used for.

Once an appropriation has been agreed, substantive changes that widen or narrow the scope should not be sought in-year, as such changes would compromise audit scrutiny. However, minor in-year technical changes to scope statements (eg, to correct spelling mistakes or to provide additional, clarifying detail) are permissible.

Refer to guidance at:

<http://www.treasury.govt.nz/publications/guidance/planning/appropriations/guide>

**Impact**

The impact of each initiative on the Government’s operating balance and/or debt needs to be clearly stated.

Similarly, if there is no impact on the operating balance or debt then this also needs to be clearly stated. Most changes to baselines (except for items such as changes to capital charge, fiscally neutral adjustments and third-party funded spending) will impact.

**Supplementary Estimates and Imprest Supply**

Where a proposed change to an appropriation affects the current year’s baseline and the spending is not already covered by a permanent legislative authority (refer Annex E), then a recommendation is required agreeing to:

- include the proposed change in expenditure in the Supplementary Estimates, and
- ensure parliamentary financial authority for any additional expenditure, for that expenditure to be incurred under the authority of an Imprest Supply Act until the Appropriation (Supplementary Estimates) Bill is passed.

In most instances a text recommendation combining both of these should be used, as shown in Annex B, Example 1.

# How to Write Financial Recommendations

## Nine Steps in Writing Financial Recommendations

The best way to ensure that a set of financial recommendations achieves the desired result is to approach the drafting process in a methodical fashion. Financial recommendations are usually part of a larger suite of recommendations in a paper and should logically follow the recommendations that seek agreement or approval to relevant overall policies. As well as helping ensure that the resulting minute represents a stand-alone document, this is consistent with the good-practice principle that policy and funding decisions should be taken together.

A set of recommendations should be presented in the nine-step order set out below. [Though note that not all of these steps will necessarily be required in all instances.]

Step	Format
1 Describe in plain English what policy decision Ministers are being asked to agree to.	Text
2 Agree, where relevant, the expected results and how these will be determined.	Text
3 Summarise the operating balance and debt impacts (for multiple initiatives).	Summary table(s).
4 Approve the creation of any new Estimates items (including Votes, individual line items and appropriation scopes) and any changes to the scopes of existing appropriations.	Generally text. Tables may be used where a number of Votes or line items are involved.
5 Agree any impacts on the operating balance and/or debt.	Text and Impact table.
6 Approve any baseline changes.	Text and Appropriation table(s).
7 Agree inclusion of proposed changes in the Supplementary Estimates and Imprest Supply, where current year baselines are affected and/or where a change involves additional expenditure prior to an Appropriation Act being passed.	Text
8 Agree or Note any conditions, limitations or restrictions on the appropriation changes.	Text
9 Agree any further decisions or report-backs.	Text

## Impact on the Operating Balance and/or Debt

Financial recommendations must include a statement setting out the impact of the baseline changes on the Government's operating balance and/or debt. Most changes to baselines will usually impact on the operating balance and/or debt. Examples of changes that do not impact include capital charges, fiscally neutral adjustments and third party-funded spending initiatives.

In most simple cases, the impact of a proposal can be included as part of the approval of the baseline changes by use of text in a combined recommendation, eg,

“..., with a corresponding impact on the operating balance” (operating initiatives)

“..., with a corresponding impact on debt” (capital initiatives)

“..., with a corresponding impact on the operating balance and debt” (initiatives with both operating and capital impacts), or

“..., with no impact on the operating balance or debt” (initiatives that are neutral from an operating balance and debt perspective, even if they involve changes to operating or capital appropriations – eg, fiscally neutral adjustments).

## Numbering of Recommendations

All text recommendations should be numbered consecutively, starting from 1. If a paper contains split recommendations, the alternative sets of recommendations should be included as *EITHER* and *OR* subsets of the relevant recommendation number (eg, *EITHER* 5.1 ... *OR* 5.2 ...). Cabinet Office will remove the subset(s) of recommendations that are not adopted.

Numbering should be applied to text preceding Impact and Appropriation tables, but not to the tables themselves (as these combine with the preceding text to form the recommendation).

Numbering should not be applied to Summary tables, as these are for information only.

# Four Common Scenarios

The following table provides guidance for determining the most appropriate ‘set’ of text and table recommendations to use in four typical scenarios. The numbered examples are listed in Annex B.

	<b>Changes either ALL fully impact or have no impact on the operating balance and/or debt</b>	<b>Changes PARTIALLY impact on the operating balance and/or debt</b>
<b>Single Baseline Change (ie, only one line item affected)</b>	<p>You will need:</p> <ul style="list-style-type: none"> <li>• a text recommendation for approval of initiative and impact on operating balance and/or debt (combined), and</li> <li>• an appropriation table.</li> </ul> <p><a href="#">See Example 1</a></p>	<p>You will need:</p> <ul style="list-style-type: none"> <li>• a text recommendation for approval of initiative</li> <li>• in impact table, and</li> <li>• an appropriation table, including:</li> <li>• separate lines for different funding sources, and</li> <li>• totals summarising effect on baselines.</li> </ul> <p><a href="#">See Example 3</a></p>
<b>Multiple Baseline Changes (ie, more than one line item affected)</b>	<p>You will need:</p> <ul style="list-style-type: none"> <li>• a text recommendation for approval of initiative and impact on operating balance and/or debt (combined)</li> <li>• separate summary tables for operating balance and debt impacts (ONLY IF multiple initiatives), and</li> <li>• an appropriation table(s).</li> </ul> <p><a href="#">See Example 2</a></p>	<p>You will need:</p> <p>a text recommendation for approval of initiative</p> <p>separate summary tables for operating balance and debt impacts</p> <p>an impact table, and</p> <p>an appropriation table(s), including:</p> <p>separate lines for different funding sources, and</p> <p>totals summarising effect on baselines.</p> <p><a href="#">See Example 4</a></p>

## Supplementary Estimates and Imprest Supply

A (combined) Supplementary Estimates and Imprest Supply recommendation is generally required for baseline changes that involve changes to appropriations and/or departmental net assets for the current year.

Where the change(s) affect only appropriations, ie, there is no change to the net asset schedule of a department, then the text “and/or projected balances of net assets” should be deleted.

Similarly, where the change(s) affect only the net asset schedule of a department, ie, there is no change to appropriations, then the text “appropriations and/or” should be deleted.

Where the changes affect both appropriations and the net asset schedule of a department, then “and/or” should be collapsed to “and”.

## Forecasting Changes

The standard text and tabular format for baseline changes should be used to record the impact of forecasting changes, including forecast changes to amounts incurred under permanent legislative authority (PLA). Refer to [Examples 1 to 4](#) for further guidance.

Forecasting changes impact on the Government’s operating balance and/or debt. Under Cabinet Office Circular CO (09) 6, the aggregate fiscal impact of forecasting changes in each Baseline Update is considered by the Cabinet Expenditure Control Committee against the fiscal objectives.

## Recognition of Crown Liabilities (eg, Legal Liabilities)

Crown liabilities must be recognised when they arise. Typically the expense created on recognition of the liability will impact on the Government’s operating balance, and the settlement of the liability will impact on debt. The standard text and tabular format for appropriation changes should be used. Refer to [Examples 1 to 4](#) for further guidance.

## Baseline Reductions

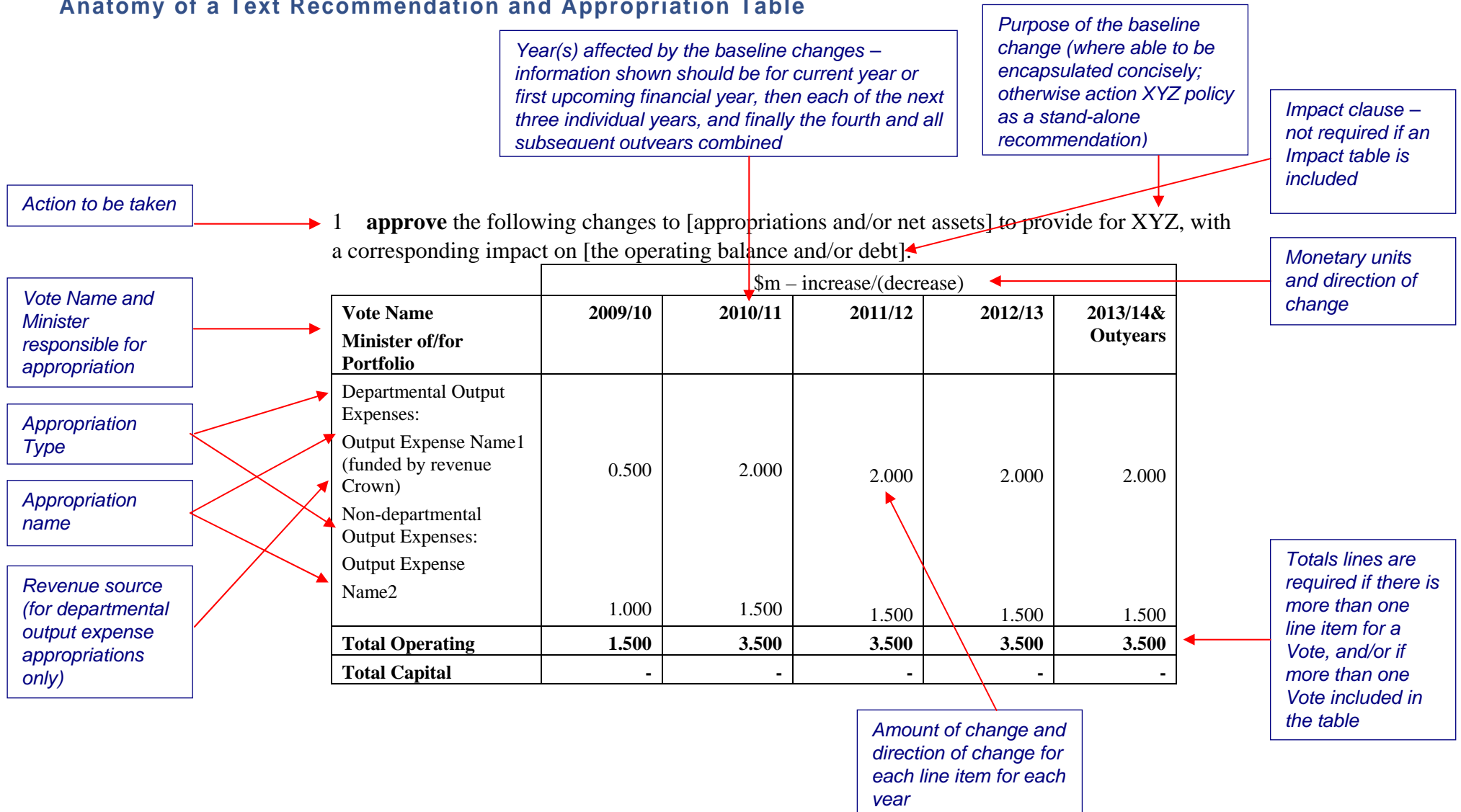
The format for financial recommendations used to effect baseline reductions (eg, the return of cost savings to the Crown) is the same as for increases to appropriations. The major change is that all numbers should be shown as negatives, to indicate a reduction in baselines. Refer to [Examples 1 to 4](#) for the formats to use.

## Technical Accounting Adjustments

Technical accounting adjustments will normally be submitted as part of a baseline update for agreement by Joint Ministers. Where it is necessary or desirable to obtain agreement for a technical accounting adjustment at other times (either from Joint Ministers under delegation per CO (09) 6 or incidentally in a Cabinet paper), supporting information should clearly outline the reasons for the adjustment. Financial recommendations should follow the formats outlined in [Examples 1 to 4](#).

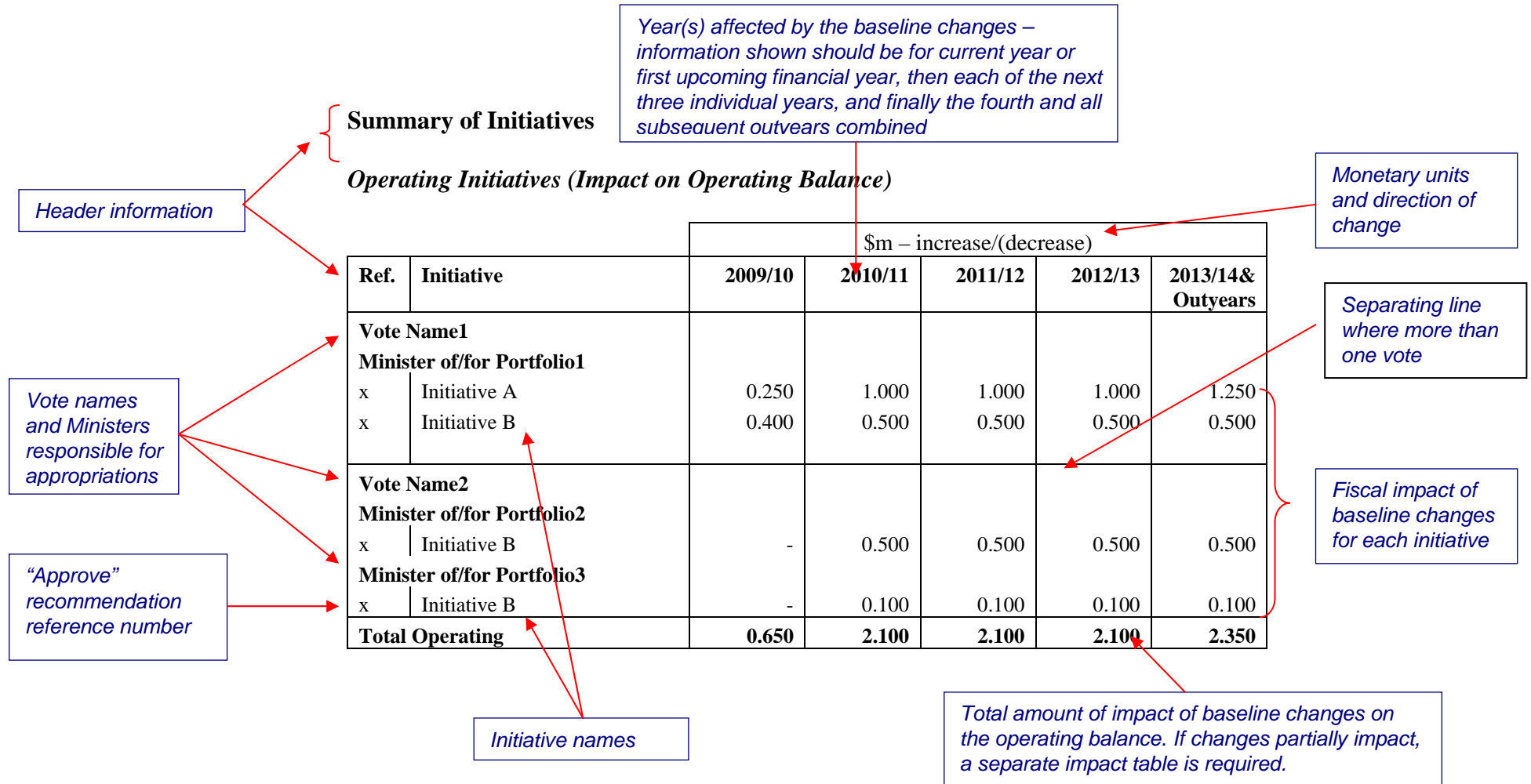
# Annex A: Anatomy of Financial Recommendations

## Anatomy of a Text Recommendation and Appropriation Table

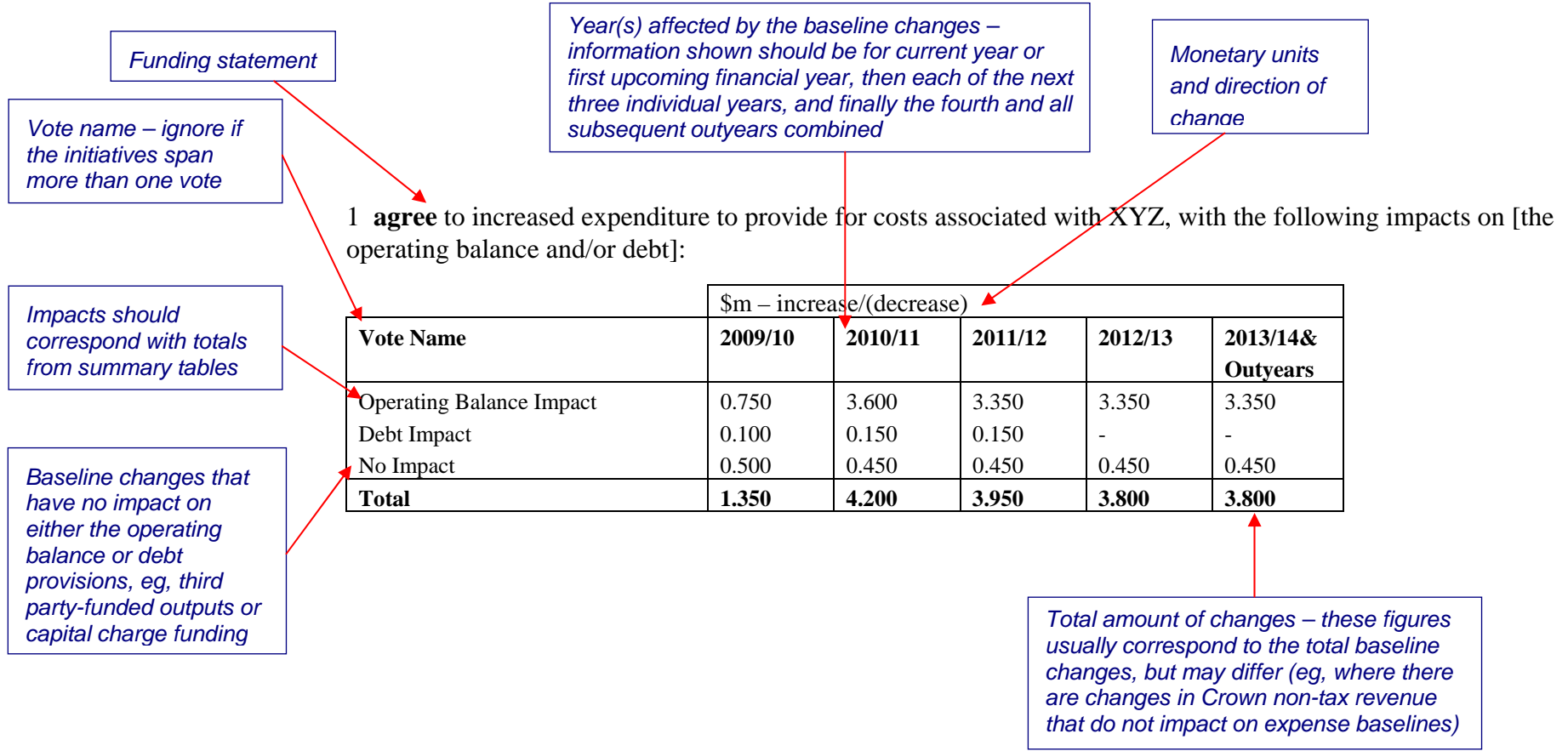


## Anatomy of a Summary Table (for Use with Multiple Initiatives)

This example shows a summary table for operating expenditure. The same format should also be used for a capital summary table. If a proposal includes both operating and capital expenditure, the capital table should follow the operating example and state “Capital Initiatives (Impact on Debt)” in the header information. No text statement is required in either case.



## Anatomy of an Impact Table (for Use where Changes Partially Impact)



## Annex B: Examples of Typical Financial Recommendations

The following examples contain explanatory wording relevant for each example. Actual wordings should be tailored to each case and should comply with Cabinet Office guidance.

### Example 1 – Combined Approval and Impact Statement for a Single Baseline Change

This example illustrates the provision of departmental operating funding for an initiative funded by revenue Crown in a new line item in Vote Name. A text statement combining the approval of a baseline change and impact statement should be used where the impact from a single initiative or baseline change either fully impacts or does not impact on the Government’s operating balance and/or debt.

#### *Combined approval and impact statement:*

... followed by:

#### *Appropriation table:*

... and

#### *Supplementary Estimates and Imprest Supply recommendation*

- 1 **agree** to establish a new Departmental Output Expense appropriation “Policy Advice” in Vote Name;
- 2 **agree** that the scope of this appropriation be “This appropriation is limited to ...”;
- 3 **approve** the following changes to [appropriations and/or net assets] to provide for XYZ, with a corresponding impact on [the operating balance and/or debt]:

	\$m – increase/(decrease)				
<b>Vote Name</b> <b>Minister of/for Portfolio</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14&amp; Outyears</b>
Departmental Output Expense: Policy Advice (funded by revenue Crown)	0.500	0.500	0.750	0.750	0.750

- 4 **agree** that the proposed change to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

## Points to Note:

- The “approve” statement should contain a specific explanation of what the expense is for – eg, “to fund implementation of XYZ”. If necessary for presentational purposes (eg, the recommendation would otherwise be too lengthy or clumsy), the purpose should be conveyed in a separate, preceding, stand-alone recommendation.
- This example demonstrates a baseline change that is expected to impact on the operating balance only. If the change is expected to impact on debt only, the text “... a corresponding impact on the operating balance” should be changed to “a corresponding impact on debt”. If the change is expected to have no impact (positive or negative) on either the operating balance or debt, then the wording should be changed to “... no impact on the operating balance or debt”.
- In this example, the new appropriation is assumed to be a single-class departmental output expense appropriation. For presentation of multi-class output expense appropriations, refer to Annex D.
- As this example involves a departmental output expense appropriation, the source of revenue (revenue Crown, revenue department, revenue other) is specified. There is no requirement to state the revenue or funding source for any other appropriation type.
- As the initiative affects appropriations but not the net asset schedule of a department, the text “...and/or projected balances of net assets...” should be deleted in the Supplementary Estimates and Imprest Supply Recommendation. However, as Example 1 is for very common occurrences (single changes with corresponding impact), the full suite of options has been included within the square brackets to alert authors to the need to collapse this section, as necessary, depending on the nature of the change.
- This example assumes only one Portfolio Minister. Where there are changes to appropriations affecting more than one Portfolio Minister, the Appropriation table must include all the Ministers responsible for appropriations involved (ie, the title of the relevant Portfolio Minister must precede each appropriation line).

## Example 2 – Combined Approval and Impact Statement for Multiple Baseline Changes All Impacting on Operating Balance and/or Debt

This example provides for operating and capital funding for an initiative funded through two Votes, and assumes the line items already exist in the Estimates. A combined approval and impact text statement should be used where the impacts from multiple initiatives or baseline changes either fully impact (as shown in the wording) or have no impact on the operating balance and/or debt.

*Combined approval and impact statement:*

... followed by:

*Appropriation table:*

... and

*Supplementary Estimates and Imprest Supply statement*

1 **approve** the following changes to [appropriations and net assets] to provide for XYZ, with a corresponding impact on [the operating balance and/or debt]:

	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Vote Name1</b>					
<b>Minister of/for Portfolio1</b>					
Departmental Output Expense: Policy Advice (funded by revenue Crown)	0.500	0.750	0.750	0.750	0.750
Net Asset Schedule of the [Department name]:					
Capital Injection	1.000	2.000	0.500	-	-
<b>Vote Name2</b>					
<b>Minister of/for Portfolio2</b>					
Departmental Output Expense: Ministerial Services (funded by revenue Crown)	(0.250)	0.500	0.250	0.250	0.250
<b>Total Operating</b>	<b>0.250</b>	<b>1.250</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>
<b>Total Capital</b>	<b>1.000</b>	<b>2.000</b>	<b>0.500</b>	<b>-</b>	<b>-</b>

2 **agree** that the proposed changes to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

## Points to Note:

- As there is only one initiative, no summary table is required.
- The “approve” statement should contain a brief explanation of why the changes are being made – eg, “to fund implementation of XYZ” or “to transfer XYZ functions from Department1 to Department2”.
- Where a new line item needs to be established, text recommendations agreeing to the new appropriation (type and title) and scope statement should precede the financial recommendations. Where multiple new line items need to be established, it may be simpler to include a summary table setting out for each new line item the appropriation type, appropriation title and scope statement.
- The “Totals” lines in the table show the respective operating and capital totals across all affected Votes – in this example, these totals correspond to the respective impacts on the operating balance and debt.
- A reduction in the Crown’s investment in an entity would be labelled “capital withdrawal”, and the amount would be shown as a negative (ie, in brackets).
- As the initiative affects both appropriations and the net asset schedule of a department, “and/or” has been collapsed to “and” in the Supplementary Estimates and Imprest Supply Recommendation.

## Example 3 – Separate Impact Table where a Single Baseline Change Partially Impacts on the Operating Balance and/or Debt

This example illustrates the provision of departmental operating funding for an initiative where costs are intended to be 75% cost-recovered – ie, funded by 25% revenue Crown and 75% revenue other. Although only one line item in the Estimates is affected, two entries are required in the appropriation table to reflect the different funding sources. An impact table is also required in this instance, to illustrate how much impacts/does not impact on the operating balance.

### *Funding Statement:*

and

### *Impact table:*

followed by ...

### *Approval statement:*

... and then:

### *Appropriation table:*

... followed by:

### *Supplementary Estimates and Imprest Supply statement*

1 **agree** to increase expenditure to provide for costs associated with XYZ, with the following impact on [the operating balance and/or debt]:

Vote Name	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Operating Balance Impact	0.250	0.300	0.300	0.300	0.400
No Impact	0.750	0.900	0.900	0.900	1.200
<b>Total</b>	<b>1.000</b>	<b>1.200</b>	<b>1.200</b>	<b>1.200</b>	<b>1.600</b>

2 **approve** the following changes to [appropriations and or/net assets] to provide for XYZ:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense:					
Line Item Name (funded by revenue Crown)	0.250	0.300	0.300	0.300	0.400
Line Item Name (funded by revenue other)	0.750	0.900	0.900	0.900	1.200
<b>Total Operating</b>	<b>1.000</b>	<b>1.200</b>	<b>1.200</b>	<b>1.200</b>	<b>1.600</b>

3 **agree** that the proposed changes to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

## Points to Note:

- The impact recommendation is used to agree the overall effects of the changes and how these will impact on the operating balance and/or debt. The “Total” row in the impact table represents total changes to the baseline. This total typically matches the total of the changes in the appropriation table, although some changes can impact on the operating balance and not result in changes to appropriation – refer to [example 10](#).
- This example demonstrates a baseline change that impacts on the operating balance. If the change also impacted on debt, then an additional line in the impact table would be required below “Operating Balance Impact”, labelled “Debt Impact”. Refer to [anatomy of an impact table](#). Also, the preceding text of the recommendation would need to be amended to read “..., with the following impacts on the operating balance and debt:”
- The approval statement should still contain a brief explanation of why the changes are being made – eg, “...to provide for XYZ”, but in this instance should not include an impact statement (as this aspect is covered by the preceding impact table).
- Separate lines are required in the appropriation table to illustrate the different revenue sources.
- Where a new line item is required, text recommendations agreeing to establish the line item (type and title) and agreeing to the scope should precede the financial recommendations.
- As the initiative in this example affects appropriations but not the net asset schedule of the department, the text “...and/or projected balances of net assets...” should be deleted in the Supplementary Estimates and Imprest Supply Recommendation. However, the full suite of options has been included within the square brackets to alert authors to the need to collapse this section, as necessary, depending on the nature of the change.

## Example 4 – Separate Impact and Summary Tables where Multiple Baseline Changes Partially Impact on the Operating Balance and/or Debt

This example shows two initiatives (A and B), each with operating and capital appropriations that affect two Votes (Name1 and Name2). It further assumes that 75% of operating costs for Initiative A in Vote Name1 are cost-recovered and so funded by revenue other. A summary table for all initiatives is therefore required, as well as separate impact and appropriation tables.

### Summary tables:

Separate tables for operating ...

#### Summary of Initiatives

##### Operating Initiatives (Impact on Operating Balance)

Ref.	Initiative	\$m – increase/(decrease)				
		2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Vote Name1</b>						
2	Initiative A	1.000	1.000	1.000	1.000	1.000
2	Initiative B	0.500	0.500	0.500	0.500	0.500
<b>Vote Name2</b>						
2	Initiative B	-	0.750	0.750	0.750	0.750
<b>Total Operating</b>		<b>1.500</b>	<b>2.250</b>	<b>2.250</b>	<b>2.250</b>	<b>2.250</b>

and capital components

##### Capital Initiatives (Impact on Debt)

Ref.	Initiative	\$m – increase/(decrease)				
		2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Vote Name1</b>						
2	Initiative B	2.000	1.500	-	-	-
<b>Vote Name2</b>						
2	Initiative A	-	0.100	0.100	-	-
<b>Total Capital</b>		<b>2.000</b>	<b>1.600</b>	<b>0.100</b>	<b>-</b>	<b>-</b>

**Funding statement:**

**Impact table:**

(shows the total cost of all initiatives, including any changes that impact / do not impact on the operating balance and/or debt)

**Approval statement:**

and then ...

**Appropriation tables:**

( check that all initiatives are correctly accounted for by testing whether Total Operating and Total Capital sum to the "Total" line in the impact table)

followed by ...

1 **agree** to increase expenditure to provide for costs associated with initiatives A and B, with the following impacts on [the operating balance and/or debt]:

	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Operating Balance Impact	1.500	2.250	2.250	2.250	2.250
Debt Impact	2.000	1.600	0.100	-	-
No Impact	3.000	3.000	3.000	3.000	3.000
<b>Total</b>	<b>6.500</b>	<b>6.850</b>	<b>5.350</b>	<b>5.250</b>	<b>5.250</b>

2 **approve** the following changes to [appropriations and/or net assets] to provide for initiatives A and B:

	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Vote Name1</b>					
<b>Minister of/for Portfolio</b>					
Departmental Output Expense: Line Item Name (funded by revenue Crown)	1.500	1.500	1.500	1.500	1.500
Departmental Output Expense: Line Item Name (funded by revenue other)	3.000	3.000	3.000	3.000	3.000
Net Asset Schedule of the [Department name]: Capital Injection	2.000	1.500	-	-	-
<b>Vote Name2</b>					
<b>Minister of/for Portfolio</b>					
Departmental Output Expense: Line Item Name (funded by revenue Crown)	-	0.750	0.750	0.750	0.750
Net Asset Schedule of the [Department name]: Capital Injection	-	0.100	0.100	-	-
<b>Total Operating</b>	<b>4.500</b>	<b>5.250</b>	<b>5.250</b>	<b>5.250</b>	<b>5.250</b>
<b>Total Capital</b>	<b>2.000</b>	<b>1.600</b>	<b>0.100</b>	<b>-</b>	<b>-</b>

### *Supplementary Estimates and Imprest Supply statement*

3 **agree** that the proposed changes to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

#### **Points to Note:**

- Summary tables are used to provide the initiative-by-initiative analysis of impacts on the operating balance or debt (the numbers in the “Ref.” column should match the recommendation numbers for individual initiatives).
- The impact recommendation is used to agree the overall effects of the changes. The table shows the impacts on the operating balance and/or debt and the total changes to baselines.
- The approval statement should contain a brief explanation as to why the changes are being made – eg, “...to provide for initiatives A and B”, but in this instance should not include an impact statement (as this aspect is covered by the preceding impact tables).
- Where new line items are proposed, text recommendations agreeing to establish the line items (types and titles) and agreeing to the scopes should precede the financial recommendations (ie, after the impact table, but before the appropriation statements and tables).
- The total lines in the summary, impact and appropriation tables should typically correspond. Note that there may be rare instances where the totals do not match, eg, where there are revenue changes that affect baselines but do not result in changes to appropriations.
- As the initiatives in this example affect both appropriations and the net asset schedules of departments, “and/or” has been collapsed to “and” in the Supplementary Estimates and Imprest Supply Recommendation.

# Example 5 – Expense and/or Capital Transfers (ECTs)

An ECT is a technical change through which baseline funding is transferred from the current year to one of more of the next three financial years, necessitated by external factors resulting in the deferral of the specific project to which the funding applies. Refer to Cabinet Office Circular CO (09) 6 *Guidelines for Changes to Baselines* at <http://www.dpmc.govt.nz/cabinet/circulars/co09/6.html> for further details about ECTs.

While most changes to baselines that are technical in nature may be approved by Joint Ministers and do not require Cabinet approval (typically ECTs are made as part of a baseline update process), the same format for financial recommendations should be used for changes submitted to Joint Ministers as applies for Cabinet papers. This is to ensure consistency of presentation for all types of baseline changes, irrespective of the level of approval required.

Consider an expense transfer of \$0.500 million within a departmental output expense from 2009/10 to 2010/11. Where the amount to be transferred from one year to the next is known, the standard format wording and appropriation table for recommendations may be used. The appropriation changes will decrease available resources for the current year and increase resources for the following year by a corresponding amount.

1 **approve** the following changes to [appropriations and/or net assets], to reflect delays in the implementation of XYZ, with no impact on [the operating balance and/or debt]:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense: Output Expense Name (funded by revenue Crown)	(0.500)	0.500	-	-	-

2 **agree** that the proposed change to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates.

### Points to Note:

- As the decreases to expenditure line items (ie, reductions in appropriations or capital withdrawals reducing departmental net assets) for the current year need to be included in the Supplementary Estimates, a Supplementary Estimates recommendation is required. However, as there is no increased expenditure in the current year, there is no requirement for an Imprest Supply recommendation.
- The example shown is a simple transfer of department output expense appropriation from the current financial year to the next. Any other appropriation type would be essentially similar, though with no revenue source stated. A transfer of departmental capital would follow the format for changes to the net asset schedule of a department.
- The text “the operating balance or debt” should be collapsed, as necessary, depending on whether the ECT involves operating or capital, respectively.
- It is possible to spread resources from the current financial year to one or more of the next three outyears. An example of where this might occur would be a delay to a multi-year project resulting in a change to the original spending profile.

## Example 6 – In-Principle Expense and/or Capital Transfers (IPECTs)

There will be some occasions where the exact amount of operating or capital resource needing to be transferred to the subsequent financial year cannot be quantified with any certainty until relatively late in the current financial year (eg, because of uncertainty as to whether a planned delivery of outputs or purchase of an asset will be delayed or not). In these instances there is a risk that any 'early' ECT submission (eg, made in the final baseline update process for the current year) would under- or over-estimate the amount actually requiring to be transferred, neither of which is desirable: an under-estimate would result in insufficient resources and authority to incur the operating or capital expenditure in the subsequent year; while an over-estimate would result in resources being unnecessarily tied up and therefore unavailable for Ministers to apply to other, potentially higher-priority activities.

Where such uncertainty exists, a Vote Minister may seek approval for an *in-principle* expense or capital transfer. Typically (and desirably) such requests are submitted through the final baseline update process for the financial year (usually in March), though requests may be auctioned up until the time that final Budget decisions are taken (usually early April) and then, following the subsequent 'moratorium', from the day after Budget Day up until a final deadline of around mid June.

Before any operating or capital expenditure previously approved in-principle for transfer into the subsequent financial year may be incurred, the final amount needs to have been confirmed by the Vote Minister and agreed by the Minister of Finance, once the audited financial results for the previous financial year have been completed. This confirmation/agreement process usually takes place through the October baseline update. If the operating or capital expenditure needs to be incurred prior to the completion of the OBU process, then in order to avoid incurring unappropriated expenditure the Vote Minister should write to the Minister of Finance confirming and seeking agreement to the final amount for transfer. Refer to Cabinet Office Circular CO (09) 6 *Guidelines for Changes to Baselines* at <http://www.dpmc.govt.nz/cabinet/circulars/co09/6.html> for further details about IPECTs.

In-principle transfers are not able to be reflected in relevant appropriation lines or net asset schedules in the Estimates documents until the amounts been confirmed and agreed. This means that the earliest (and only) Parliamentary record of the changes to appropriations or net assets is the following year in the Supplementary Estimates, following confirmation and agreement. Therefore, in order to preserve the integrity of the Estimates documents as accurate records of Government spending decisions, it is desirable that the magnitude of in-principle expense or capital transfers be kept to a minimum wherever possible. Ideally Ministers should look to submit for ECT through the baseline update process that proportion of funding where it is almost certain that the incurring of expenditure will be delayed (so as to enable the associated changes to baselines to be reflected in the Estimates documents), and seek agreement for IPECT only that portion of funding where there is uncertainty.

Given the inherent uncertainty surrounding IPECTs, the financial recommendations need to allow some flexibility in determining the actual amount of operating or capital expenditure that will eventually transfer. This is achieved by establishing an upper limit, based on the best estimate of the maximum amount of operating or capital expenditure that may need to be transferred.

Consider the previous example, but now assume that of the \$0.500 million of departmental output expense, \$0.300 million of spending is certain to be delayed (and so a candidate for ECT) but there is uncertainty about whether the \$0.200 million balance will be incurred in the current year or not. The latter should appropriately be dealt with as an IPECT, using the following format:

1 **approve** in-principle a transfer of [appropriations and/or net assets] from 2009/10 to 2010/11 up to a maximum as follows, to reflect potential delays in the implementation of XYZ, with no impact on [the operating balance and/or debt]:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense: Output Expense Name (funded by revenue Crown)	(0.200)	0.200	-	-	-

2 **authorise** the Minister of Finance and the Minister of Portfolio jointly to determine the final amount to be transferred, following completion of the 2009/10 audited financial statements.

**Points to Note:**

- The Portfolio Minister is not necessarily the Vote Minister.
- The word “potential” has been included in the action recommendation, to emphasise the ex ante uncertainty around whether the spending will be incurred in the current financial year or not.
- A Supplementary Estimates and Imprest Supply recommendation is not required for an IPECT – though is required at the time they are confirmed (usually in the following OBU process, unless the expenditure needs to occur before then, in which case the Portfolio Minister needs to write to the Minister of Finance requesting confirmation of the IPECT).
- Any expenditure of operating or capital expenditure approved for IPECT but not yet confirmed (and therefore lacking the necessary Supplementary Estimates and Imprest Supply agreement) would be unappropriated.
- The example shown is a simple transfer of department output expense appropriation from the current financial year to the next. Any other appropriation type would be essentially similar, though with no revenue source stated. A transfer of departmental capital would follow the format for changes to the net asset schedule of a department.
- The text “the operating balance or debt” should be collapsed, as necessary, depending on whether the ECT involves operating or capital, respectively.
- It is possible to spread resources from the current financial year to one or more of the next three outyears. An example of where this may occur is a delay to a multi-year project resulting in a change to the original spending profile.
- When updating forecast information for the current financial year, departments should use their best estimate of anticipated spending (ie, account for any IPECTs).

## Example 7 – Fiscally Neutral Adjustments (FNAs) Within a Vote

An FNA is a technical change to existing baselines involving a reallocation of funding within a single financial year, and is typically made as part of a baseline update process. Refer to Cabinet Office Circular CO (09) 6 *Guidelines for Changes to Baselines* at <http://www.dPMC.govt.nz/cabinet/circulars/co09/6.html> for a full description of rules applying to FNAs.

Consider an FNA of \$0.500 million between two departmental output expense appropriations within a single Vote:

1 **approve** the following fiscally neutral adjustments to provide for XYZ, with no impact on [the operating balance and/or debt]:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense:					
Output Expense Name1 (funded by revenue Crown)	(0.500)	-	-	-	-
Output Expense Name2 (funded by revenue Crown)	0.500	-	-	-	-

2 **agree** that the proposed changes to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

# Example 8 – Fiscally Neutral Adjustments (FNAs) Between Votes

Consider an FNA of \$0.500 million between two departmental output expense appropriations in separate Votes:

1 **approve** the following fiscally neutral adjustments to provide for XYZ, with no impact on [the operating balance and/or debt]:

	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Vote Name1</b>					
<b>Minister of/for Portfolio</b>					
Departmental Output Expense:					
Output Expense Name1 (funded by revenue Crown)	(0.500)	-	-	-	-
<b>Vote Name2</b>					
<b>Minister of/for Portfolio</b>					
Output Expense Name2 (funded by revenue Crown)	0.500	-	-	-	-

2 **agree** that the proposed changes to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

### Points to Note:

- Joint Ministerial agreement (as opposed to Cabinet agreement) in the above example would involve three Ministers – namely the Minister of Finance and both Ministers responsible for their respective appropriations.
- The text “the operating balance and/or debt” should be collapsed, as necessary, depending on whether the ECT involves operating, capital, or both.

## Example 9 – Capital to Operating and Operating to Capital Swaps

Cabinet Office Circular CO (09) 6 *Guidelines for Changes to Baselines* at <http://www.dpmc.govt.nz/cabinet/circulars/co09/6.html> provides that “‘fiscally neutral adjustments’ may be made between capital and operating appropriations (or net asset schedules)”.

Strictly speaking, such swaps are not fiscally neutral, as neither the operating nor debt impacts are nil (one is impacted positively, the other adversely), but they are essentially cash neutral for the Crown.

Departments should generally discuss any potential capital to operating or operating to capital swaps with their Treasury Vote Team in advance, as there may be associated policy issues (eg, a change in the mix of activities) that will be of interest to Joint Ministers or Cabinet.

The following rules apply:

- Any resulting changes in depreciation costs and capital charge are to be managed within existing baselines. This suggests that any operating to capital swaps in particular can realistically only be for relatively small amounts.
- For capital to operating, the total sum of capital must cover ten years’ of the proposed operating expenses in order for the operating increase to continue into outyears.
- For operating to capital, up to four years of operating expenses may be converted into a single lump sum of capital, but the ongoing outyears’ operating is removed.

Consider an operating to capital swap of \$0.400 million within a single Vote/department and within a single financial year:

**1 agree** to the following operating to capital swap to provide for XYZ, with the following impact on the operating balance and debt:

Vote Name	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Operating Balance Impact	(0.400)	-	-	-	-
Debt Impact	0.400	-	-	-	-
No Impact	-	-	-	-	-
<b>Total</b>	-	-	-	-	-

**2 approve** the following changes to baselines to reflect the funding adjustment in paragraph 1 above:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	(0.400)	-	-	-	-
Net Asset Schedule of the [Department name]: Capital Injection	0.400	-	-	-	-
<b>Total Operating</b>	<b>(0.400)</b>	-	-	-	-
<b>Total Capital</b>	<b>0.400</b>	-	-	-	-

**3 note** that as a result, the projected net asset position of the [Department name] will increase by the amount of capital injection;

**4 agree** that the proposed changes to appropriations and projected balances of net assets for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

#### Points to Note:

- In this example, capital charge and any depreciation expenses will have to be absorbed within existing Vote baselines.
- While neither the operating nor debt impacts are nil, they offset each other meaning that (in cash terms) the overall, or total impact is nil.

## Example 10 – Changes in Funding Source

From time to time it may be necessary to switch funding sources for an output. For example, consider an increase in third-party funding for a departmental output expense with a corresponding decrease in revenue Crown, and therefore a positive impact on the operating balance. In this instance an impact table is required.

1 **agree** to adjust the proportion of Crown: third-party funding for XYZ, with the following impact on the operating balance:

Vote Name	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Operating Balance Impact	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
No Impact	0.500	0.500	0.500	0.500	0.500
<b>Total</b>	-	-	-	-	-

2 **approve** the following changes to baselines to reflect the funding adjustment in paragraph 1 above:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Output Expense Name1 (funded by revenue other)	0.500	0.500	0.500	0.500	0.500

### Points to Note:

- Although there is an improvement on the operating balance resulting from reduced Crown funding, there is no overall change in baselines.
- The appropriation table and text is required to provide clarity for Ministers and to approve the changes in funding source. As there are no changes to appropriations, there is no requirement for a Supplementary Estimates / Imprest Supply recommendation.
- Note that where the amount of third-party revenue received can be expected to differ from the full cost of delivering the service in any year, the department will need to operate a memorandum account to inform timing and level of any necessary changes to fees.

# Example 11 – Changes to Crown Revenue or Capital Receipts

Policy and regulatory changes that affect taxes, duty and other sums payable to the Crown can directly impact the expected level of revenue or receipts from these sources. Changes in the level of enforcement activity undertaken by departments can have a similar effect, with increased enforcement usually resulting in additional Crown revenue or receipts.

Given that it is generally not possible to ascertain *ex ante* what the exact impact of an initiative affecting Crown revenue/receipts will be in terms of the amount collected, recommendations need to signal that the amounts shown are indicative only and based on officials’ best estimates of gains or losses.

- 1 **agree** to initiative XYZ;
- 2 **note** the following changes as a result of the decision in paragraph 1, with a corresponding impact on the [operating balance or debt]:

	\$m – increase/(decrease)				
Vote Name Minister of/for Portfolio	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Non-Tax Revenue: Infringements	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
<b>Total Operating</b>	0.500	0.500	0.500	0.500	0.500

### Points to Note:

- This example refers to Non-Tax revenue. Other types of Crown revenue are Tax Revenue and Capital Receipts.
- If the change is to Capital Receipts, choose the “debt” option in recommendation 2.
- The fact that recommendation 2 is a ‘noting’ rather than an ‘action’ recommendation signals that the amounts are indicative only.
- As there are no changes in appropriations, there is no need for an appropriation statement, appropriation table or a recommendation covering Supplementary Estimates / Imprest Supply.
- In this example there is a worsening in the operating balance as a result of the decreased Crown Non-Tax revenue. [Conversely, an increase in Crown non-tax revenue would improve the operating balance.]
- As the negative impacts on the operating balance and debt of increased expenses and capital expenditure, respectively, are shown as positive figures in financial recommendations (and the positive impacts on the operating balance and debt of reduced expenses and capital expenditure, respectively, are shown as negatives), in order to ensure consistency it is necessary also to show the negative operating/debt impacts of decreased Crown revenue/capital receipts as positives (and the positive operating/debt impacts of increased Crown revenue/capital receipts as negatives) in the “Total” row. In other words, for Crown revenue/capital receipts the signs of the line item are reversed for the “Total” row.

- This fact can present problems when changes to Crown revenue/receipts are included with changes to appropriations and net assets in summary tables (ie, totals will not appear to reflect the sum of line items). One way around this would be to show subtotals of expenses/revenue and/or net assets/receipts, with the signs of revenue and/or receipts reversed, immediately before the operating and/or capital totals.

# Example 12 – Specifying Baselines beyond the Forecast Period

While it is relatively uncommon for Cabinet agreement to be sought for initiatives with baselines that either cease or continue to vary beyond the current forecast period, where this does occur it is desirable from a financial management perspective to ensure that there is clarity around exactly when baselines are expected to cease or vary. This can be achieved relatively simply by extending the appropriation table to show the required number of additional financial years.

The use of long-lived, finite appropriations is not encouraged, particularly when the same result can be achieved by agreeing regular policy reviews as part of the original funding decision.

The following example assumes a twelve-year expenditure programme for a new initiative funded by revenue Crown, where expenditure increases, stabilises, reduces and then ceases at the end of the agreed period.

1 **approve** the following changes to appropriations to provide for XYZ, with a corresponding impact on [the operating balance and/or debt]:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	1.000	1.300	1.600	1.600	1.600
	2014/15	2015/16	2016/17	2017/18	2018/19
	1.600	1.200	1.200	1.200	1.200
	2019/20	2020/21	2021/22 & Outyears		
	1.200	0.800	-		

2 **agree** that the proposed change to [appropriations and/or projected balances of net assets] for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

### Points to Note:

- The tabular format makes Cabinet’s intentions very clear.
- Unlike in ‘standard’ tables, the figure shown in the fourth (and usually final) outyear is the figure for that financial year only – indicated by the removal of the usual “& Outyears” suffix from the header information.
- If a summary table is being used, the notation “detailed below” should be used in the text to draw attention to different outyear impacts. The “& Outyears” column should be amended to record the final year in which baseline spending is agreed to be changed. Judgment is required about the amount to be shown in the “& Outyears” column. A footnote to the summary table may be useful. The amount shown in the “& Outyears” column in the summary table should NOT be the cumulative amount of spending over the agreed period.
- For added clarity, the final year to be shown in the table (which includes the suffix “& Outyears”) should be the first year in which funding permanently ceases.

# Annex C: Financial Recommendations for Multi-year Appropriations (MYAs)

Section 10(3) of the Public Finance Act 1989 permits the use of appropriations with a life of more than one financial year, up to a maximum of five financial years.

MYAs are intended for specific, time-bound (ie, not ongoing) activities where timing of expenditure is uncertain. An MYA provides the Vote Minister with greater flexibility to incur expenditure, up to the total level of the appropriation, at the time the output is delivered or activity or capital item ready to be purchased, and without the need to seek an ECT or IPECT in the case of actual or potential delays.

As it is the total amount of an MYA that needs to be appropriated (not just the current or upcoming financial year's forecast share), MYAs tends to 'skew' upwards the quantum of the government's operating or capital requirement that requires Parliamentary approval. Also, MYAs are by their nature difficult to monitor and report and so less transparent for accountability purposes than single-year appropriations. For both these reasons MYAs should be used sparingly and not simply as a convenient substitute where use of usual single-year appropriations would be sufficient or indeed more appropriate.

Examples where MYAs have been appropriately used are for the 2011 five-yearly census of population and dwellings (Vote Statistics), the Auckland rail development project (Vote Transport) and the national cycleway fund (Vote Tourism).

This annex outlines the form of financial recommendations required to give effect to:

- Establishing a new MYA

- Converting an existing annual appropriation into an MYA.

## Example 13 – Establishing a New MYA

- 1 **agree** to establish a new Departmental Output Expense “Output Expense Name1” as a three-year multi-year appropriation in Vote Name;
- 2 **agree** that the scope of this appropriation be “This appropriation is limited to... ”;
- 3 **approve** the following changes to appropriations to provide for XYZ, with a corresponding impact on [the operating balance and/or debt]:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)		
	2009/10	2010/11 to 2012/13	2013/14& Outyears
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	-	1.500	-

- 4 **note** that the indicative spending profile for the new multi-year appropriation described above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
	-	0.200	0.800	0.500	-

### Points to Note:

- The start or end of an MYA need not coincide with the start or end of a financial year. However, an MYA may not span more than five financial years. If an MYA is, say, agreed by Cabinet to commence in December 2010 and exist for three years, then it technically ends on December 2013, not June 2014. Note though that MYAs may also specifically be created for parts of years (eg, 18 months, 22 months, etc.).
- Where the period of the proposed MYA does not correspond with the start or end of the relevant financial years, this needs to be stated explicitly in the recommendation. For example, “agree to establish a new Departmental Output Expense “Output Expense Name1” as a multi-year appropriation in Vote Example, commencing 1 January 2011 and expiring 30 June 2013”.
- Most MYAs will not continue beyond their term (ie, they are for time-limited, and usually new activities), and so the outyears number will be blank as in the example above.
- An indicative spending profile table (similar to a summary or impact table) should also be included. Departments should take into account any potential front-loading or delayed spending and adjust the funding profile accordingly. In many cases involving operating (though not necessarily capital), the funding profile will simply be an equal division of the total MYA amount across the number of years.
- In this example there is no need for a Supplementary Estimates and Imprest Supply recommendation, as there is no impact on the current financial year.

# Example 14 – Converting an Existing Annual Appropriation into an MYA

- 1 **agree** to establish a new Departmental Output Expense “Output Expense Name1” as a three-year multi-year appropriation in Vote Name;
- 2 **agree** that the scope of this appropriation be “This appropriation is limited to... ”;
- 3 **approve** the following changes to appropriations to provide for XYZ, with no impact on [the operating balance and/or debt]:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				2013/14& Outyears
	2009/10	2010/11 to 2012/13			
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	-	1.500			-
Departmental Output Expense: Output Expense Name2 (funded by revenue Crown)	-	(0.500)	(0.500)	(0.500)	-

- 4 **note** that the indicative funding profile for the new multi-year appropriation described above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
	-	0.200	0.800	0.500	-

### Points to Note:

- Where the existing appropriation is set to continue beyond the term of the MYA, then the outyear figures in the table should be left blank (as in this example); otherwise, if the existing appropriation is to be discontinued then the outyear figures will need to ‘back out’ the relevant amounts. Note that in this latter case this implies an impact (positive) on the operating balance or debt, so the table in recommendation 3 will need to have added at the bottom either a Total Operating or Total Capital row and text altered to read “...with a corresponding impact on [the operating balance or debt]”.
- Transfers into and out of MYAs during the term of the MYA are not encouraged because they potentially undermine controls on annual appropriations. Such movements also call into question the applicability of the MYA, especially the criteria regarding total costs being well-defined and unlikely to alter over time.
- As in the earlier example, an indicative spending profile table (similar to a summary or impact table) should also be included.
- In this example there is no need for a Supplementary Estimates and Imprest Supply recommendation, as there is no impact on the current financial year.

# Annex D: Financial Recommendations for Multi-class Output Expense Appropriations (MCOAs)

Section 7(3)(b) of the Public Finance Act 1989 permits multi-class output expense appropriations, ie, supplying more than one class of outputs. Any MCOAs must be approved by the Minister of Finance, and the information supporting the Estimates must include an explanation of why the various classes of outputs have been grouped under the one appropriation. MCOAs may be either departmental or non-departmental.

This provision permits the Crown to reallocate resources between classes of outputs within an MCOA without the need to seek further Parliamentary approval. This in turn allows more flexibility in resource allocation decisions and, where a range of outputs contribute to an outcome, permits a greater focus on outcomes. Full transparency is maintained by providing Parliament with information on each of the individual output classes, both at the tabling of the Estimates and supporting information and when reporting actual results against *ex ante* authorisations.

Cabinet has agreed some application criteria for and limits for transfers within MCOAs. [Refer to CAB Min (07) 11/1 for further information.]

This annex outlines the form of financial recommendations required to give effect to:

- Establishing a new MCOA

- Adding or removing output expenses to/from an MCOA

- Fiscally Neutral Transfers to/from an MCOA

- Fiscally Neutral Transfers within an MCOA

# Example 15 – Establishing a New MCOA

This example demonstrates the requirements for establishing a departmental MCOA with three classes of outputs – two to be funded from transfers from existing departmental output expense appropriations and one requiring new funding. For simplicity, all of the line items are assumed to be the responsibility of a single Portfolio Minister and within the same Vote.

- 1 **note** that the Minister of Finance has agreed the establishment of a new Departmental Multi-class Output Expense appropriation “Name1” in Vote Name;
- 2 **agree** that the titles and scopes of the individual output classes within this appropriation, and by implication the scope of the appropriation itself, be as follows:

Departmental Output Class Name	Scope Statement
Output Class Name1	This output class is limited to ...
Output Class Name2	This output class is limited to ...
Output Class Name3	This output class is limited to ...

- 3 **approve** the following changes to appropriations to provide for the new Multi-class Output Expense appropriation, with a corresponding impact on the operating balance:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Multi-class Output Expense: Name1 MCOA					
Output Class Name1 (funded by revenue Crown)	0.500	0.500	0.750	0.750	0.750
Output Class Name 2 (funded by revenue Crown)	0.100	0.100	0.100	0.150	0.150
Output Class Name 3 (funded by revenue Crown)	0.050	0.100	0.150	0.200	0.200
Total Multi-class output expense appropriation: Name1	0.650	0.700	1.000	1.100	1.100
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	(0.500)	(0.500)	(0.750)	(0.750)	(0.750)
Departmental Output Expense: Output Expense Name 2 (funded by revenue Crown)	(0.100)	(0.100)	(0.100)	(0.150)	(0.150)
<b>Total Operating</b>	0.050	0.100	0.150	0.200	0.200

- 4 **agree** that the Minister of Portfolio and the Minister of Finance must approve any movement of funds between output classes in the above multi-class output expense appropriation if [specify condition(s)];
- 5 **agree** that the proposed changes to appropriations for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

## Points to Note:

- As there is no impact on debt (MCOAs relate to outputs), references to debt have been collapsed in both the recommendation containing the impact statement and the recommendation relating to Supplementary Estimates / Imprest Supply
- The suffix “MCOA” is included after the title of the multi-class output expense appropriation (in this case “Name1”) to signify that it is this type of appropriation.
- While recommendation 4 is not mandatory, it is useful to specify any relevant conditions pertaining to the MCOA (eg, an expectation that movements between output classes should not have the effect of increasing any individual output class by more than 10% in any one year, without further approval from Joint Ministers).
- The changes to appropriation table in recommendation 4 lists the relevant output classes of the new MCOA, followed by the existing output class appropriations that are being reduced to fund (in part) the MCOA. The effect of this is to disestablish the old output expense appropriations and then recreate them as output classes within the MCOA.
- This approach is consistent with the procedural steps required to create new lines for an MCOA in CFISnet.

## Example 16 – Fiscally Neutral Transfer to or from an MCOA

The following form of recommendation should be used where there is an increase to an existing MCOA provided for through a transfer of funding from elsewhere within the Vote or from a different Vote. [For a fiscally neutral transfer out of the MCOA, this form of recommendation should simply be reversed.]

1 **approve** the following fiscally neutral adjustments to fund Output Class Name 1 within Departmental Multi-class Output Expense appropriation “Name 1”, with no impact on the operating balance:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	(0.500)	-	-	-	-
Departmental Multi-class Output Expense: Name 1 MCOA Output Class Name 1 (funded by revenue Crown)	0.500	-	-	-	-

2 **agree** that the proposed changes to appropriations and/or projected balances of net assets for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

# Example 17 – Adding an Output Class to an Existing MCOA

The following form of recommendation should be used where an additional output class is being added to an existing MCOA. It is assumed that funding is provided from elsewhere within the Vote.

1 **note** that the Minister of Finance has agreed that a new Output Class “Output Class Name 4” be added to the Multi-class Output Expense appropriation “Name 1” in Vote Name, in order to [state rationale];

2 **agree** that the scope of the Multi-class Output Expense appropriation “Name1 be extended by the addition of the following scope statement for the new output class:

Departmental Output Class Name	Scope Statement
Output Class Name4	This output class is limited to ...

3 **approve** the following changes to appropriations, with no impact on the operating balance:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Multi-class Output Expense: Name 1 MCOA Output Class Name 4 (funded by revenue Crown)	0.050	0.100	0.100	0.100	0.100
Departmental Output Expense: Output Expense Name 2 (funded by revenue Crown)	(0.050)	(0.100)	(0.100)	(0.100)	(0.100)

4 **agree** that the Minister of Portfolio and the Minister of Finance must approve any movement of funds within the above multi-class output expense appropriation if [specify condition(s)];

5 **agree** that the proposed changes to appropriations for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

# Annex E: Financial Recommendations for Permanent Legislative Authorities (PLAs)

There is no requirement for Joint Ministers or Cabinet to approve changes in appropriations where the appropriation already has permanent authority under legislation.

Well-known examples of PLAs include payment of remuneration to members of the judiciary (authorised under the Judicature Act 1908), remuneration to officers of Parliament (authorised under various Acts) and Transport non-departmental expenditure dependent on transport revenue (authorised under the Land Transport Management Act 2003). The Public Finance Act 1989 also includes a number of PLAs, including GST (authorised under section 6) and interdepartmental purchase of outputs (authorised under section 20).

In such cases it is sufficient for Cabinet to note the impact of the change that is authorised in legislation, as in the following two examples.

## Example 18 – Changes in Appropriation where Permanent Legislative Authority Exists

1 **note** the following changes to appropriations in accordance with [state relevant section and name of legislative authority] to provide for XYZ, with a corresponding impact on [the operating balance and/or debt]:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Non-departmental Output Expense: Output Expense Name PLA	0.500	0.500	0.500	0.500	0.500

2 **note** that the above change to appropriations for 2009/10 will be reported and disclosed in the 2009/10 Supplementary Estimates.

### Points to Note:

- The use of the ‘noting’ recommendations signals that the changes to appropriations are being made under permanent legislative authority (ie, do not need further approval).
- The suffix “PLA” is included after the title of the appropriation (in this case “Output Expense Name”) to signify that it is this type of appropriation.
- Separate appropriation tables should be used to distinguish between financial recommendations relating to appropriations under PLA and annual or other (non-PLA) appropriations, even where these relate to the same initiative.
- Given appropriations under PLA have a tendency to increase simply as a result of forecast changes, any forecast reductions in PLAs should not be used to justify an increase in another appropriation as a fiscally neutral transfer.
- As the expense or capital expenditure does not require passage of an Appropriation Bill, there is no requirement for agreement that funding increases for the current financial year be met from Imprest Supply in the interim.

- Similarly there is no requirement for agreement that changes for the current financial year be included in the Supplementary Estimates, though it is appropriate for Cabinet to note that any such change will be reported and disclosed in the Supplementary Estimates.
- Note that even though Joint Ministerial/Cabinet approval is not required, the changes to baseline still need to be advised to Treasury (usually through the next baseline update process).

## Example 19 – Inter-departmental Purchase of Outputs

Previously, when a department was supplying services paid for by another department, the supplying department needed to have its own approval from Parliament to incur expenses.

Now the department supplying the services can operate under a permanent legislative authority under section 20 of the Public Finance Act 1989 to incur expenses up to the level of revenue earned from the other department. This provision reduces transaction costs where a number of departments are contributing to the production of the same output, by allowing a single department to contract with a third party on behalf of a number of departments.

The following form of financial recommendation should be used when changing the baselines for the supplying agency:

1 **note** the following Department-to-Department appropriation to provide for the supply of XYZ services from Department A to Department B, with no impact on the operating balance:

Vote Name (DeptA) Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Departmental Output Expense: Output Expense Name DDA (DeptA) (funded by revenue department)	0.250	0.250	0.250	0.250	0.250

2 **note** that the above change to appropriations for 2009/10 will be reported and disclosed in the 2009/10 Supplementary Estimates.

### Points to Note:

- The use of the ‘noting’ recommendations signals that the changes to appropriations are being made under permanent legislative authority (ie, do not need further approval).
- The suffix “DDA” is included after the title of the appropriation (in this case “Output Expense Name”) to signify that it is this type of appropriation.
- Reference to “DeptA” is included (italicised) in the above example to remind readers that it is DeptA whose appropriations are changing, not DeptB’s. This reference should be deleted from the appropriation table for the purposes of preparing actual financial recommendations.
- As the expense or capital expenditure does not require passage of an Appropriation Bill, there is no requirement for agreement that funding increases for the current financial year be met from Imprest Supply in the interim.

- Similarly there is no requirement for agreement that changes for the current financial year be included in the Supplementary Estimates, though it is appropriate for Cabinet to note that any such change will be reported and disclosed in the Supplementary Estimates.
- Note that even though joint ministerial/Cabinet approval is not required, the changes to baseline of the supplying department still need to be advised to Treasury (usually through the next baseline update process).

# Annex F: Financial Recommendations for Capital

Departmental capital contributions (injections) are not appropriated by Vote, but rather included in departments' net assets schedules. These are published in the Estimates and authorised through a Schedule of Net Assets in the Appropriation Bill.

A capital contribution to a department increases the Crown's net investment in that entity. Responsibility for departmental capital contributions rests with the Responsible Minister for the department, even where it is associated with operating funding that is the responsibility of a different Portfolio Minister.

## Example 20 – Capital Injections to Departments

The following simple example may be used if there are no associated operating funding implications:

1 **approve** the following capital injection to the [department name] to provide for XYZ, with a corresponding impact on debt:

	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Department Name</b> Net Asset Schedule of the [Department name]: Capital Injection	10.000	2.000	-	-	-

2 **note** that as a result, the projected net asset position of the [department name] will increase by a commensurate amount;

3 **agree** that the proposed changes to projected balances of net assets for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

## Example 21 – Capital Injections to Departments with Associated Operating Implications

In many instances a capital contribution to a department may involve associated operating expense increases for items associated with the use and maintenance of capital assets, such as:

- Ongoing depreciation (on all fixed assets)
- Allowances for repairs and maintenance (eg, as a result of increasing the size of a vehicle fleet)
- Consumables (eg, computer supplies)
- Capital charge (this will occur whenever the Crown's net investment in a department increases).

Where Ministers determine that associated increases in operating costs are unable to be absorbed fully within existing baselines, the financial recommendations will also need to address the operating baseline implications – see Example 2 for an illustration of the format used.

The following example demonstrates the recommendations required for an initiative that seeks both capital and operating funding:

**5 agree** to increase expenditure to provide for costs associated with [acquiring or developing] XYZ, with the following impact on the operating balance and debt:

Vote Name	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Operating Balance Impact	-	-	-	-	-
Debt Impact	10.000	2.000	-	-	-
No Impact	0.375	0.825	0.900	0.900	0.900
<b>Total</b>	<b>10.375</b>	<b>2.825</b>	<b>0.900</b>	<b>0.900</b>	<b>0.900</b>

**6 approve** the following changes to appropriations and net assets to provide for XYZ:

Vote Name	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Minister of Portfolio</b>					
Departmental Output Expense: Output Expense Name1 (funded by revenue Crown)	0.375	0.825	0.900	0.900	0.900
Net Asset Schedule of the [Department name]: Capital Injection	10.000	2.000	-	-	-
<b>Total Operating</b>	<b>0.375</b>	<b>0.825</b>	<b>0.900</b>	<b>0.900</b>	<b>0.900</b>
<b>Total Capital</b>	<b>10.000</b>	<b>2.000</b>	<b>-</b>	<b>-</b>	<b>-</b>

**7 note** that as a result, the projected net asset position of the [department name] will increase by the amount of capital injection;

**8 agree** that the proposed changes to appropriations and/or projected balances of net assets for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

## Points to Note:

- Capital injections to departments are not appropriations and do not form part of a Vote. Rather, they impact on the net asset schedule of the relevant administering department (or in other words on the net asset schedule of the Vote of the responsible Minister for the department).
- There is no need to show a funding source for a capital injection, because only the Crown can supply capital to a department.
- In this example the department is funded for the additional capital charge at 7.5% of the expected increase in Taxpayers' Funds (the prevailing rate as at the time of writing). The additional operating expense is treated as an output expense.
- Note that the operating impacts for the financial years in which the capital injections occur in the example above are only half of the full-year (ongoing) impact. This is because capital charge is paid in two instalments based on *ex post* financial data: the first on a department's accounts as at the close of the previous financial year; and the second on its mid-year (December) accounts for the current financial year. This means that even if a department receives a capital injection from the start of a financial year (1 July), it is not billed for a first instalment of capital charge, as the injection is not reflected in its accounts for the previous financial year (on which the calculation for the first instalment is based). However, by the time of the billing for the second instalment the injection will have been included in the department's mid-year (December) accounts.
- It follows that any departmental capital injections that are received after 31 December will not incur any capital charge for the current financial year.
- It is possible for the impact on debt to be less than the amount of the capital injection, eg, if the decision relates to transfers of functions between agencies and involves a partial (or full) offset.
- All bids for new capital resources must meet the standard set out in latest Treasury guidance on public sector business cases<sup>1</sup>. In addition, any bids for major information technology projects are subject to the additional requirements set out in Cabinet Office Circular CO (01) 4 *Monitoring Regime for Major Information Technology (IT) Projects* at <http://www.dpmc.govt.nz/cabinet/circulars/co01/4.html>, while any other bids involving potential significant and/or risky capital purchases should follow the process as set out in the Capital Asset Management (CAM) regime.

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<sup>1</sup> Treasury intends publishing new guidance effective from 1 August 2010.

## Example 22 – Non-departmental Capital Expenditure

Non-departmental capital contributions generally relate to investments or advances where the Crown has a subsequent equity interest or where the amount advanced is recoverable. These types of payments include equity injections into Crown entities and loans to support home ownership.

If the amount advanced is not recoverable (eg, a seeding grant to an organisation), then it is essentially a grant and should be treated as a non-departmental other expense.

The standard tabular format for financial recommendations is used.

1. **approve** the following changes to appropriations to provide for XYZ, with a corresponding impact on debt:

Vote Name Minister of/for Portfolio	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
Non-departmental Capital Expenditure: Capital Expenditure Name	0.500	0.500	-	-	-

2. **agree** that the proposed changes to appropriations for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

### Points to Note:

- Unlike non-departmental capital injections, which are not appropriated but rather impact on the net asset schedule of the relevant administering Department, non-departmental capital expenditure is appropriated.
- Even though capital expenditure usually results in the Crown acquiring an asset, it is counted as impacting on debt from a fiscal management perspective as the Crown has to borrow in order to fund the activity.
- The name of individual line item is usually simply the name of the recipient organisation or type of payment being made (eg, National War Memorial, Student Loans).

# Annex G: Financial Recommendations for Retention of Departmental Surplus

Section 22(1) of the Public Finance Act provides that “except as agreed between the Minister [of Finance] and the Responsible Minister for a department, the department must not retain any operating surplus that results from its activities”.

Payment of surpluses is to be made by 31 October following the end of the financial year.

On occasions a department may wish to seek approval to retain some or all any operating surplus that results from its activities, eg, in order to recognise a donated asset. Any departments seeking such approval will need to discuss this with their Vote Analyst and explain why this approach is more appropriate than seeking a capital injection.

Requests to retain surpluses should be sought from the Responsible Minister and forwarded to the Minister of Finance as soon as the amount to be retained is known. Requests are to be made no later than three weeks after the year-end.

More information on the process for return or request for retention of operating surplus can be found in the *Treasury Instructions* at <http://www.treasury.govt.nz/publications/guidance/instructions/2009/04.htm#4.4.3>

## Example 23 – Requests for Retention of Surplus

The following simple financial recommendation format should be used for requests for retention of operating surpluses:

4 **approve** the following increase in the [department name’s] net assets, to provide for XYZ, with no impact on debt:

	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14& Outyears
<b>Department Name</b>					
Net Asset Schedule of the [Department name]:					
Surplus to be retained	0.400	-	-	-	-

5 **agree** that the proposed changes to projected balances of net assets for 2009/10 above be included in the 2009/10 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

### Points to Note:

- Unlike a capital injection to a department, retention of surplus by a department does not impact on debt.

# Annex H: Departmental Other Expenses

Section 2 of the Public Finance Act 1989 defines other expenses as:

“ any expenses incurred by the Crown, a department, or an Office of Parliament that are other than–

- a output expenses, or
- b benefits or other unrequited expenses, or
- c borrowing expenses ”

Departmental other expenses are costs incurred by departments that are not related to the production of outputs. These are relatively uncommon: generally all costs that are incurred in the normal course of a department’s business, even where unusual, unexpected or large, are output costs.

Departmental other expenses may include:

- restructuring costs, where these relate to decisions to cease production of certain outputs
- loss on disposal of assets, where this arises from decisions by the Government to cease producing certain outputs, and
- asset devaluation expenses, where these relate to non-output assets.

While an appropriation for departmental other expenses provides the necessary authority for the department to incur the expense, it does not provide revenue to fund the cost. This normally gives rise to a deficit, resulting in a reduction in taxpayer’s funds.

Departmental other expenses are often technical in nature and not associated with cash flows, eg, losses on disposal of fixed assets, but there may be associated cash flows in some instances, eg, for payment of redundancy entitlements as a result of restructuring. While the issue of funding of the expense – that is to say reinstatement of taxpayer’s funds – is a separate issue that needs to be worked through, where applicable (eg, because insufficient balance sheet funding is available) it should be facilitated through a capital contribution to the department.

Any request for additional Crown funding needs to be assessed independently against the normal criteria as set out in Cabinet Office circulars and other guidance issued by Treasury from time to time for these types of requests. Note that there is no automatic presumption that the previous level of resources remains appropriate for any given department; for example, where assets are being written down to reflect decisions to cease production of some outputs, it may be quite acceptable for taxpayer’s funds to reduce to reflect a lower demand for balance sheet support of the remaining output functions.

More information on departmental other expenses can be found in the Treasury Instructions at <http://www.treasury.govt.nz/publications/guidance/instructions/2009/05.htm#5.6>

## **Restructuring costs**

Restructuring costs should be treated as departmental other expenses only where they relate to an explicit government decision for a department to cease producing (or being responsible for producing) certain outputs. Minor adjustments to staffing numbers or alterations to the resource mix used to produce an output (eg, contracting out versus in-house production) do not constitute sufficient grounds for treating associated costs as other expenses.

All restructuring costs, whether output costs, other expenses or both, must be recognised through a provision when a liability for the costs arises. In most cases this will be when a final decision to restructure is made. The provision should reflect the total costs of the restructuring, irrespective of when it is to take effect or actual payments are to be made. An appropriation for the expense will be required immediately upon recognition of the liability (ie, when it is provided for).

## **Loss on disposal of assets**

Losses arising from the disposal of standard fixed assets (eg, office equipment, fleet vehicles, etc.) would normally be treated as an output cost, to the extent the cost arises from the normal replacement or upgrade of fixed assets.

So for example, where assets become surplus because the manner in which existing outputs are produced changes (eg, due to relocation of offices, switching to leasing rather than buying computer equipment), any loss on disposal should be treated as an output cost; this is because the method of producing the outputs on an ongoing basis is an input mix decision by the department, and not a purchasing decision by the Minister or Ministers.

However, when the department ceases production of the outputs associated with those assets, eg, as a result of restructuring decision by government, then any losses arising from the disposal of the surplus assets should be treated as another expense.

## **Asset devaluation expenses**

Expenses related to the devaluation of departmental assets are generally regarded as output costs, because the assets are normally used for the production of outputs. Revaluation exercises should be undertaken by departments in sufficient time to allow final appropriations for the year to be determined.

Expenses arising from devaluation of assets where there are insufficient revaluation reserves should be treated as other expenses only where the assets concerned are not used in the production of outputs or where the valuation change is considered extraordinary.

The burden of proof for demonstrating that asset devaluation expenses relate to non-output assets – and should therefore be treated as other expenses – rests with departments. When addressing issues of revaluation or devaluation of assets, departments must have regard to the requirements of NZIFRS and other relevant accounting standards.