THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: 20160389

22 December 2016

Thank you for your Official Information Act request, received on 9 November 2016. You requested the following:

> *"• A copy of any draft versions of Cabinet Circular CO (15) 4, that were drafted prior to 28 May 2015;*
> *• A copy of any reports, briefings and advice prepared by Treasury regarding Cabinet Circular CO (11) 6, since 1 January 2015*
> *• A copy of any communications, including emails, between Treasury and Ministerial offices regarding the contents of Cabinet Circular CO (11) 6, between 20 May 2015 and 8 June 2015;*
> *• A copy of any communications, including emails, between Treasury and Ministerial offices regarding the proposed contents of Cabinet Circular CO (15) 4, between 20 May 2015 and 8 June 2015;*
> *• A copy of any internal communications, including emails, regarding the proposed contents of Cabinet Circular CO (15) 4, between 20 May 2015 and 8 June 2015."*

On 1 December 2016 I extended the time limit for deciding on your request by an additional 15 working days. On 7 December I extended the time limit by a further 5 working days.

I am responding to each point of the request in turn.

Point 1: A copy of any draft versions of Cabinet Circular CO (15) 4, that were drafted prior to 28 May 2015

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	2 September 2014	CO(11)6 Mockup of possible amendments, version 1	Release in full

1 The Terrace
PO Box 3724
Wellington
New Zealand

tel. 64-4-472 2733
fax. 64-4-473 0982
www.treasury.govt.nz

2.	13 October 2014	CO(11)6 Mockup of possible amendments, version 2	Release in full
3.	16 October 2014	CO(11)6 Mockup of possible amendments, version 3	Release in part
4.	24 October 2014	CO(11)6 Mockup of possible amendments, version 4	Release in part
5.	3 November 2014	CO(11)6 Mockup of possible amendments, version 5	Release in full
6.	16 December 2014	CO(15) XX: CO(11)6 refresh sent to CFOs for comment 21 December	Release in full
7.	19 December 2014	CO(15) XX: CO (11) 6 refresh as sent to CFOs for comment on 21 Dec, with comments from Treasury Legal	Release in part
8.	13 February 2015	CO (15) XX: CO (11) 6 refresh: working draft incorporating comments back from CFOs and others post 21 Dec	Release in full
9.	18 February 2015	CO(15) XX: CO (11) 6 refresh: FINAL draft following CAB100 consultation	Release in full
10.	20 February 2015	Tsy Legal comments on CO (11) 6 update – draft terms and definitions	Release in full
11.	27 February 2015	CO(15) XX: Draft Cabinet Office Circular – Refresh of CO(11)6	Release in full
12.	9 March 2015	CO(15) XX: Tsy Legal comments on New Cabinet expectations for investment and asset management, delegations and appropriations – CAB100 process	Release in full
13.	17 April 2015	CO(15) ?: Marked-up version of CO(11)6 update circular for Cabinet Office	Release in full

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- advice subject to legal privilege, under section 9(2)(h) - to maintain legal professional privilege.

Point 2: A copy of any reports, briefings and advice prepared by Treasury regarding Cabinet Circular CO (11) 6, since 1 January 2015

Information to be Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
14.	17 March 2015	Treasury Report: New Cabinet Expectations: Investment and Asset Management and Financial Authorities	Release in part. Attached Cabinet paper publicly available.
15.	20 March 2015	Aide Memoire: Investment and Asset Management and Financial Authorities	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people.

Information Publicly Available

The following information is also covered by your request and is available on the Treasury website. Accordingly, we propose to decline the request for this information under section 18(d) of the Official Information Act – the information requested is publicly available.

Item	Date	Document Description	Website Address
16.	8 April 2015	Cabinet Paper: Investment and Asset Management and Financial Authorities	http://www.treasury.govt.nz/statesector/investmentmanagement/investment-asset-management-cab-paper.pdf

In particular, please refer to paragraphs 70-74 of this paper.

Point 3: A copy of any communications, including emails, between Treasury and Ministerial offices regarding the contents of Cabinet Circular CO (11) 6, between 20 May 2015 and 8 June 2015

There were no communications between the Treasury and Ministers' offices regarding the contents of the Cabinet circular CO (11) 6 over this period. Consequently, I have decided to decline your request under section 18(e) of the Official Information Act – the document alleged to contain the information requested does not exist or, despite reasonable efforts to locate it, cannot be found.

***Point 4**: A copy of any communications, including emails, between Treasury and Ministerial offices regarding the proposed contents of Cabinet Circular CO (15) 4, between 20 May 2015 and 8 June 2015*

There were no communications between the Treasury and Ministers' offices regarding the proposed contents of the Cabinet circular CO (15) 4 over this period. Consequently, I am declining this part of your request under section 18(e) of the Official Information Act – the document alleged to contain the information requested does not exist or, despite reasonable efforts to locate it, cannot be found.

***Point 5**: A copy of any internal communications, including emails, regarding the proposed contents of Cabinet Circular CO (15) 4, between 20 May 2015 and 8 June 2015*

There were no internal communications regarding the proposed contents of the Cabinet circular CO (15) 4 over this period. Consequently, I am declining this part of your request under section 18(e) of the Official Information Act – the document alleged to contain the information requested does not exist or, despite reasonable efforts to locate it, cannot be found.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Warwick White
Team Leader, Fiscal & State Sector Management

Information for Release
TOIA 20160389

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Intended for:

- All Ministers
- All Chief Executives
- Speaker of the House
- Controller and Auditor-General

Copies to:

- All Senior Private Secretaries
- All Private Secretaries

Guidelines and Requirements for Proposals with Financial Implications

Introduction

1 This circular

a. describes the guidelines and requirements for Ministers and departments seeking approval of proposals with financial implications[1] and

b. describes chief executives' authority to incur expenses.

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2 This circular replaces Cabinet Office Circular CO (~~09~~11) 6 (*Guidelines for Changes to Baselines*) and takes effect from the date of issue. The key changes in this circular from CO (11~~09~~) 6 are to reflect Cabinet's intention to increase flexibility of financial management for Ministers and departments by:

~~2.1 making Four-year Budget Plans and the Budget process the main opportunity for Ministers and departments to seek approval of proposals with financial implications; and~~

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2.1~~2~~ increas~~ing~~e the authority of joint Ministers ~~to approve proposals with financial implications~~to approve technical non controversial changes to baselines during the Budget process~~.~~

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2.2 revise the delegations given to Chief Executives (and his or her delegates) following revisions to the Public Finance Act in 2014

3 This circular covers the following types of financial change and associated mechanisms:

Section	Types of financial change	Mechanisms	Who has authority?
Section A: Making changes through the Budget process	Any proposal and any type of change	~~Four-year Budget Plan~~Budget initiatives process	Cabinet (for significant budget initiatives). The Minister of Finance and the Minister(s) responsible for the appropriation(s) ("joint Ministers") for technical budget initiatives
Section B: Changes made outside the Budget process that must be submitted to Cabinet	All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the *Cabinet Manual* (includes all requests for additional funding)	Cabinet paper	Cabinet
Section C: Changes outside the Budget process that may be approved by joint Ministers	Transferring funding between appropriations within a financial year	Fiscally neutral adjustments (FNAs)	The Minister of Finance and the Minister(s) responsible for the appropriation(s) ("joint Ministers")
	Transferring funding within an appropriation across financial years	Expense and capital transfers (ECTs) In-principle expense and capital transfers	
	Transferring underspends to the next financial year	Retention of underspends (RoU)	
	Bringing forward spending for a specific investment purpose	Front-loading of spending (FLoS)	

	from subsequent financial years		
	Technical adjustments		
	Forecasting adjustments		
Section D: Chief executives' authority to approve expenditure	Authority for (and limits on) incurring certain expenses and capital expenditure	Authority to incur expenses	Specified authority

4 Ministers and chief executives should ensure that:

4.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular;

4.2 the material in this circular is conveyed to all Crown entities, organisations listed in Schedule 4 of the Public Finance Act 1989 and State Owned Enterprises (SOEs) for which a Minister is responsible; and

4.3 all appropriate people are aware of the limits of financial authority within section D.

Section A: Making financial changes through the Budget process

5 Proposals that request additional funding or that make changes to policy settings that have financial implications need to be submitted to Cabinet. The main mechanism for progressing these is through the Budget process.

5a. Requests for funding or changes to policy settings during the Budget process are made as part of the Budget initiatives process. Four-year Plans meanwhile are used as a means to provide an understanding of an agency or sector's medium term strategy. As such Four-year Plans are a valuable input into determining how current resources are aligned with Government priorities, and as a result help inform judgements on Budget initiatives.

5b. Many of the requests that are submitted during the budget process are of technical nature, do not involve new funding, and are non controversial. Such technical matters are typically only of interest to the portfolio minister and the Minister of Finance. Others meanwhile are matters that involve significant decisions on resource allocations that are of interest to Cabinet as a whole.

5c. In order to ensure MChanges to baselines as result of the Budget process are progressed through two parallel initiatives processes:

i. Significant budget initiatives

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5a Significant budget initiatives are considered firstly by Budget ministers and then by Cabinet.

5b The overriding principles that decide whether matters should be considered to significant or not, and warrant consideration by Cabinet, are provided by the Cabinet manual

- are within the criteria set out in paragraph 5.12 of the *Cabinet Manual*, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

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- meet the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*

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5c For the avoidance of doubt, paragraph 5 means that any proposal seeking new funding must be submitted to Cabinet. Where there is any doubt as to whether or not a matter is significant or not, officials should treat the initiative as a significant budget initiative.

~~All proposals that involve requests for additional funding, or that make significant changes to policy settings, must be submitted to Cabinet. These will normally be considered in the Four-year Budget Plans as part of the Budget process.~~

ii. Technical budget initiatives

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Technical budget initiatives are approved by joint Ministers (the Minister of Finance and the Minister(s) responsible for the appropriation(s)

Technical initiatives are those initiatives that do not seek new funding from the centre over the five year forecast period, and do not carry significant policy implications (for example, reprioritisation). Examples of technical budget initiatives include non controversial changes to the scope of appropriations, changes in the timing of expenditure across years for previously agreed initiatives.

Treasury is to be fully consulted on any technical budget initiatives that are proposed. For the avoidance of any doubt, if Treasury does not support a technical budget initiative that is proposed, then the initiative should be considered significant and considered as part of the significant budget initiatives process.

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~~6 Four-year Budget Plans are the key strategic planning vehicle for agencies to propose programme and policy changes that may also require changes to the structure of appropriations and/or Votes. Four-year Budget Plans are also the most efficient way for departments to seek approval for all types of funding changes.~~

~~7 Changes proposed through the Four-year Budget Plan process will be approved by Cabinet. The Four-year Budget Plans help to give Cabinet a medium-term perspective on expenditure, and allow Cabinet to consider all funding proposals and changes as a package~~.

8 Once ~~the Four-year Budget Plans~~Cabinet or joint Ministers decisions on the Budget are approved, the amounts allocated in the first year of the Plans become the appropriations to be included in the Estimates and the Appropriation (Estimates) Bill.

9 Guidance on ~~Four-year Budget Plans and~~ the Budget process and its timeframes will be provided by the Treasury.[2]

Section B: Proposals with financial implications outside of the Budget process that must be submitted to Cabinet

10 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in ~~:~~

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~~10.1 are within the criteria set out in~~ paragraph 5.12 of the *Cabinet Manual* (as summarised in para x above). Similarly the ~~, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or~~

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~~10.2 meet the~~ general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted* also applies. .

11 Again For the avoidance of doubt, paragraph 10~~.1~~ means that any proposal seeking new funding must be submitted to Cabinet.

Process

12 The Minister responsible for the appropriation must personally consult the Minister of Finance before submitting any papers seeking additional funding to Cabinet (this includes seeking funding from tagged contingencies). The Minister responsible for the appropriation should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

13 Departments must consult[3] the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.

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13a If the Treasury comments or alternative recommendations are amended without approval from the Treasury then the Cabinet Office should be informed as soon as possible. The Cabinet Office, where possible, would notify the respective chair of the applicable Cabinet committee of the amendments. The Chair would then be in a position to consider taking the paper off the Cabinet agenda until the Treasury recommendations and comments are inserted without amendment.

13b If the Treasury has not been consulted due to exceptional unavoidable reasons, then the reasons for why this consultation has not taken place must be outlined. This will include an explanation as to why the paper cannot be deferred to a later time period to allow consultation to take place. A noting recommendation may also be provided that state consultation has not taken place.

14 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:

14.1 cannot be funded through reprioritisation from within existing baselines; and

14.2 cannot be deferred until the next Budget.

15 All papers seeking decisions with financial implications must comply with the Treasury Guidance on Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments.[4]

15a Papers that seek 'approval in principle' decisions to funding proposals outside of the Budget process should where possible be avoided. If such recommendations are unavoidable then they must be accompanied by a recommendation that notes that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

16 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Expenditure Control Committee (ECC) for consideration (in addition to consideration by the relevant policy committee) to ensure consistency with the Government's overall fiscal objectives.

17 Any additional funding approved outside the Budget process will be met from the between Budget (general) contingency. This is a limited amount of funding set aside as part of the annual Budget package.

18 Alternatively, Cabinet may decide to set aside additional funding for specific items on which it is yet to make a final decision (a tagged contingency). All tagged contingencies cease to exist after 1 February of the following year[5], unless Cabinet agrees otherwise.

19 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day.

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ThisBudget Moratorium is necessary to ensure that the documents tabled on Budget Day accurately reflect all decisions taken by Ministers.

Section C: Proposals with financial implications outside the Budget process that may be approved by joint Ministers

20 ~~Cabinet has increased the range of changes that can be approved by t~~The Minister of Finance and the Minister responsible for an appropriation ("joint Ministers") can approve the following changes to baselines~~in order to give Ministers and departments greater flexibility in financial management. These include~~:[6]

20.1 transferring funding between appropriations within a financial year (fiscally neutral adjustments);

20.2 transferring funding within an appropriation across financial years (expense and capital transfers, and in-principle expense and capital transfers);

20.3 transferring underspends to the next financial year (retention of underspends);

20.4 bringing forward spending for a specific investment purpose from subsequent financial years (front-loading of spending);

20.5 technical adjustments; and

20.6 forecast adjustments.

21 For all changes outlined in this section, joint Ministers' approval is sought via a letter from the Minister(s) responsible for the appropriation(s) to the Minister of Finance outlining the proposal. Departments should consult and provide a copy of the letter to their Treasury Vote team so that the Treasury can advise the Minister of Finance and also ensure that the Controller and Auditor-General is aware of any changes to appropriations.

22 For the sake of efficiency and convenience, approval for funding changes should be sought either through the Budget process or the twice-yearly baseline update process. Making changes outside of these processes can lead to duplication of work for departments and the Treasury.

23 Where joint Ministers cannot agree on a proposal and one Minister still wants to proceed with it, the proposal should be referred to Cabinet through the appropriate committee.

24 The financial implications that arise from proposals must be included in the Estimates and/or the Supplementary Estimates for the relevant year, and in the interim (where necessary), the expenses, capital expenditure or increase in projected net assets in the current year are met from Imprest Supply. These changes should also flow

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through to accountability documents (such as output plans and Information Supporting the Estimates) as appropriate.

25 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations in the current fiscal year after Cabinet signs off the Budget package.[7]

Transferring funding between appropriations within a financial year - Fiscally neutral adjustments (FNA)

26 Fiscally neutral adjustments are used to transfer funding between appropriations within a single financial year. For example, a fiscally neutral adjustment may be needed to give effect to a Cabinet decision to shift funding from one programme to another. Fiscally neutral adjustments have no impact on the operating balance or debt.

27 Fiscally neutral adjustments can be:

27.1 made between any two annual appropriations, except ~~benefits and other unrequited expenses (BOUEs~~ benefits or related expenses)[8] and borrowing expenses; or

27.2 an increase to an appropriation that is fully offset by an increase in third party revenue.

27.3 made between two multiyear appropriations (MYAs), except for MYAs for Treaty settlements

27.4 made between a multiyear appropriation and an annual appropriation (or vice versa)

Need to clarify – an FNA between an MYA and an annual appropriation would be more than one year ie an MYA is for more than a year. Is this still OK?

28 Where a fiscally neutral adjustment is to be made between capital and operating appropriations, the resulting changes in depreciation and capital charge costs should be managed within baselines.

29 The following guidelines apply where the operating expenses are ongoing:

29.1 *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.

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29.2 *Operating to capital:* up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

29b In the circumstances outlined above the FNA may be approved by joint ministers. Where the proposal for an operating to capital swap (or vice versa) is for shorter periods of time eg for ICT initiatives, then such proposals should be considered by Cabinet.

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29c. The two guidelines above simply reflect the government's fiscal management approach for capital (ten-year horizon) and operating (four-year, or 'forecast period' horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transferring funding within an appropriation across financial years - Expense and capital transfers (ECTs)

30 Expense and capital transfers are used to transfer funding from the current year to the same appropriation in one or more of the next three years, where there is:

30.1 no change to the output or capital asset being purchased; and

30.2 no change to the total amount of expenditure across affected years.

31 Expense and capital transfers can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year to which the transfer is proposed.

32 The Minister's letter seeking approval for an expense and capital transfer must describe the reasons for the delay in expenditure. Funding should not be repeatedly transferred.

33 Expense and capital transfers can be made in any type of annual appropriation, except benefit and unrequited expenses or borrowing expenses.

In-principle expense and capital transfers

34 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount is confirmed once it is known, usually during the October baseline update process (after audited financial results for the previous financial year are available).

35 Approval for in-principle transfers is usually sought during the March baseline update process. Any later requests should be made after Budget Day and before the deadline specified in the annual Budget guidance (usually around 15 June). These

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requests are then compiled by the Treasury for the Minister of Finance to consider before the end of the financial year.

36 Expenses cannot be incurred against the amount transferred in-principle until the final amount has been confirmed by joint Ministers. In limited circumstances where expenses must be incurred before the audited financial results are available, Ministers can seek an early confirmation of a conservative amount, sufficient to cover necessary expenses, of that already agreed in-principle.[9] Any remaining amount can be confirmed in the October baseline update.

37 A key difference between actual and in-principle expense and capital transfers is in the recording of the change in the Estimates and Supplementary Estimates. For actual expense and capital transfers, the reduction in baselines is recorded in the current year's Supplementary Estimates and the corresponding increase recorded in the following year's Estimates. Whereas for in-principle expense and capital transfers, the reduction is not recorded in either this year's Supplementary Estimates or this year's Estimates with only the increase in baselines recorded in the following year's Supplementary Estimates. Due to this, actual expense transfers are preferred to those that are in-principle.

Transferring underspends to the next financial year - Retention of underspends (RoUs)

38 Underspends are defined as funding remaining at the end of the financial year as a result of:

38.1 savings made through gains in efficiency; and/or

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

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

40 To encourage departments to make savings by improving efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends within departmental expense appropriations. This funding can then be transferred to the next financial year, and also transferred to any other departmental appropriations.[10]

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

42 Where approval to retain underspends is sought after the March baseline update but before 30 June, half the amount[11] can be retained. Underspends must be confirmed

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on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.

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

44 Proposals to retain underspends must explain:

44.1 how underspends arose (as per paragraph 38); and

44.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward spending for a specific investment purpose from subsequent financial years - Front-loading of spending (FLoS)

45 Front-loading of spending can be used to bring forward funding in any departmental expense appropriation[12] within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears.

46 Proposals to front-load spending must explain:

46.1 how the investment or project will permanently and sustainably reduce expenditure in outyears;

46.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

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

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

48 All capital proposals must satisfy the requirements of Cabinet Office Circular CO (10) 2 (*Capital Asset Management in Departments and Crown Entities: Expectations*) where necessary and appropriate, and these prevail over the rules provided in this circular.

Technical adjustments

49 Technical adjustments include:

49.1 technical accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change

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in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);

49.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;

49.3 changing the indicative spending profile for a multi-year appropriation (MYA); and

49.4 establishing or amending the title and scope of appropriations (where the changes do not meet the criteria for submission to Cabinet).

Forecast adjustments

50 Forecast adjustments include:

50.1 changes to the amount to be incurred under a Permanent Legislative Authority (PLA);

50.2 changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense;[13] and

50.3 where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update. Approval of forecast changes in this circumstance is not automatic and consideration should be given to whether increased costs can be met from baselines.

51 Changes in forecast expenditure due to policy decisions cannot be approved as forecast changes, but must be considered as part of the change in policy.

~~**Section D: Expenditure that may be approved by the departmental Chief Executive**~~

~~52 A departmental chief executive's authority to incur expenses and capital expenditure applies to departmental appropriations only. Delegated authority for a departmental chief executive to incur expenses or capital expenditure under non-departmental appropriations must be obtained from the Minister responsible for each non-departmental appropriation.~~

~~53 Departmental chief executives may delegate authority to incur expenses or capital expenditure to one or more employees of the department. Delegations must be made in writing and specify when the delegation period ends. Chief executives may also delegate this power to delegate.~~

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~~**Limits on authority to incur certain departmental expenses and capital expenditure**~~

~~54 Within the bounds imposed by the specific terms of:~~

~~54.1 any appropriations granted by Parliament;[14]~~
~~54.2 any agreement to supply outputs negotiated with a Minister responsible for the appropriation or third party client; and~~
~~54.3 any direction given by the Minister of Finance or the Responsible Minister under section 34(b) of the Public Finance Act 1989;~~
~~departmental chief executives have full authority to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations except in relation to:~~
~~54.4 publicity expenses;~~
~~54.5 compensation or damages in settlement of claims;~~
~~54.6 ex gratia expenses; and~~
~~54.7 the purchase, development or lease of fixed assets.[15]~~

~~55 It is the government's policy that proposals to incur expenses in excess of the amounts set out in the table below should be referred to the Minister responsible for the appropriation or to Cabinet for approval:~~

~~**Expenses under departmental output expense or departmental other expense appropriations requiring approval by the Minister responsible for the appropriation or Cabinet[16]**~~

~~**Expense type**~~	~~**Minister responsible for the appropriation - in excess of:**~~	~~**Cabinet - in excess of:**~~
~~***Publicity Expenses[17]***~~	~~$150,000~~	~~Not applicable~~
~~***Expenses for compensation or damages in settlement of claims[18]***~~	~~$150,000~~	~~$750,000~~
~~***Ex gratia expenses[19]***~~	~~$30,000~~	~~$75,000~~

~~56~~

~~In exercising financial authority, the Minister responsible for the appropriation or departmental chief executive must ensure that all costs associated with a proposal have been included (including all sub-contracts or multiple payments relating to one instance).~~

Section D: Departmental Chief Executives' authority to incur expenses and capital expenditure

General position

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All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether:

a. the appropriation is for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure,
b. the appropriation is a multi-category appropriation, and
c. the appropriation is administered by the department incurring the expense or by another department.

The general position is summarised in this table:

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator.[1]
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister.[2]	No authority.
Multi-category appropriations[3]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator.

Commented [PL1]: Limits in this circular on delegated authority to incur expenses would still apply.

Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

[1] Section 2 of the Public Finance Act defines the appropriation administrator as: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.

[2] Section 2 of the Public Finance Act defines the appropriation Minister as: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and(c) in relation to any other appropriation, means the Minister responsible for that appropriation.

[3] A multi-category appropriation is not itself a departmental or non-departmental appropriation. Rather, an MCA may include categories of departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.

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a. the Public Finance Act 1989, including ensuring that all expenditure is within the scope of the appropriation,[4]
b. any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and
c. all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer

Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations, on behalf of the Crown in accordance with the terms, and subject to the restrictions, set out in this circular.

Commented [PL2]: Currently in CO (10) 2 and unless rewrites of CO (10) 2 and CO (11) 6 are merged into single circular, may continue to be in separate circular.

Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

a. to supply outputs negotiated with the appropriation Minister or third party client, or
b. with another department, under which that other department may use the appropriation.

The terms of a direction from the appropriation Minister to another department regarding the use of the appropriation may also impact on the appropriation administrator's use of the appropriation.

Notwithstanding any other authority, proposals to incur expenses[5] in relation to publicity; compensation or damages in settlement of claims; or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table at paragraph [x] below.

In determining whether the expenses fall under the approval thresholds set out in the table, the appropriation Minister or the departmental chief executive must ensure that all associated costs have been included (e.g. all sub-contracts or multiple payments relating to one overall transaction).

Type of expense	Amount[6]	Approval required	Comment
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government
	More than $150,000	Appropriation Minister responsible for the	

[4] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided that there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from the known, future baselines for the Vote.
[5] Such expenses would be incurred under a departmental output expense or other expense appropriation.
[6] All amounts are GST exclusive.

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		appropriation	advertising set out in Appendix B of the Cabinet Manual.
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office.
	More than $150,000 - $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement.
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation.
	More than $30,000 - $75,000	Appropriation Minister	
	More than $75,000	Cabinet	
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (10) 2.		

Further information on the administration and use appropriations is contained in the Technical guide to the Administration and Use of appropriations: http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

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Or alternatively we could provide more extensive material on how admin and use operates direct into the text of this circular

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Section E: Further information

57 If you require further advice or information please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

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58 Further information on writing Cabinet papers can be found on the Cabinet Office's CabGuide website at http://cabguide.cabinetoffice.govt.nz/. Further information on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.

Rebecca Kitteridge
Secretary of the Cabinet

Enquiries:
Your Treasury Vote Team

1 Financial implications include any changes to appropriations or net assets and any impact or likely impact on any part of the Crown's balance sheet or fiscal position (including revenue changes, contingent liabilities or specific fiscal risks).

2 See Treasury website for the guidance documents and CFISnet for the Treasury circulars that relate to the Budget process.

3 All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

4 Guidance on Financial Recommendations is available on the Treasury website.

5 For example, a tagged contingency created in Budget 2011 will cease to exist on 1 February 2012.

6 A summary of these changes is attached in the Annex to this circular.

7 Alternative mechanisms for unappropriated expenditure are provided in sections 26A and 26B of the Public Finance Act 1989.

8 Fiscally neutral adjustments can be made for very limited number of "capped" ~~BOUEs~~benefits and related expenses.

9 Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

10 Cabinet has agreed that underspends cannot be transferred from or to a non-departmental expense appropriation.

11 The distinction between the amount of underspends that can be retained (full or half the amount) depending on the timing of the request (by or after the March baseline update) is made because the government's borrowing requirements for the current fiscal

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year are determined on the basis of the baselines as they stand at March baseline update. In addition, it also provides an incentive for agencies to manage baselines effectively and identify underspends early.

12 Cabinet has agreed that front-loading of spending cannot be carried out for any non-departmental expense appropriation.

13 Where there is a change in the revenue and a corresponding change in the expenses, these are considered to be fiscally neutral adjustments and discussed under paragraph 27.2.

14 To the extent that property and other long-term operating agreements are required to be entered into, that extend beyond any appropriations granted by Parliament, this may be done provided these costs can reasonably be expected to be met from the known, future baselines for the Vote.

15 The process for this is set out in Cabinet Office Circular CO (10) 2.

16 All amounts are GST exclusive.

17 Advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.

18 Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement. Claims under $75,000 need not be referred to the Crown Law Office if a departmental solicitor certifies that such claims are in order.

19 Ex gratia expenses are those made in respect of claims that are not actionable at law, but for which there exists a moral obligation and payment should be made.

Annex - Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of Four-year Budget Plans and the Budget process, joint Ministers can approve proposals with financial implications unless they are within: • the criteria set out in paragraph 5.12 of the *Cabinet Manual;* or • the general rule in paragraph 5.11 of the *Cabinet Manual* in which case they must go to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally Neutral	Any annual appropriations except BOUEs and Borrowing

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Adjustments (FNAs) and Expense and/or Capital Transfers (ECTs)	Expenses ECTs and FNAs cannot be combined.
In-principle ECTs	Requests for in-principle ECTs should be made through the March baseline update or after Budget Day and before a deadline to be specified each year in the annual Budget guidance. Requests will be compiled by the Treasury for consideration by the Minister of Finance.
Retention of Underspends (RoUs)	Applies only to departmental expense appropriations
Front-loading of Spending (FLoS)	Front loading of spending can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.
Technical adjustments	• Accounting adjustments (such as asset revaluation) • Changes to capital charge • Changes to the profile of MYA • Establishing and amending the title and scope of appropriations
Forecast changes	• Changes to the amount of a PLA • Changes in Crown revenue • Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis Forecasting changes are not automatic and increases in costs should be met from baselines where possible.

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CO XX(XX)XX~~(11) 06~~

~~18 October 2011~~

Intended for:

- All Ministers
- All Chief Executives
- Speaker of the House
- Controller and Auditor-General

Copies to:

- All Senior Private Secretaries
- All Private Secretaries

Guidelines and Requirements for Proposals with Financial Implications

Introduction

1 This circular describes

a. ~~describes~~ the guidelines and requirements for Ministers and departments seeking approval of proposals with financial implications[1] and

b. departments' authority to incur expenses.

2 This circular replaces Cabinet Office Circular CO (~~09~~11) 6 (*Guidelines and Requirements for Proposals with Financial Implications~~for Changes to Baselines~~*) and takes effect from the date of issue. The key changes in this circular from CO (11~~09~~) 6 are to reflect Cabinet's intention to increase flexibility of financial management for Ministers and departments by:

~~2.1 making Four-year Budget Plans and the Budget process the main opportunity for Ministers and departments to seek approval of proposals with financial implications; and~~

2.1~~2~~ increas~~ing~~ing the authority of joint Ministers ~~to approve proposals with financial implications~~to approve technical non controversial changes to baselines during the Budget process~~.~~

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2.2 revising the delegations given to Chief Executives (and his or her delegates) following revisions to the Public Finance Act in 2014

3 This circular covers the following types of financial change and associated mechanisms:

Section	Types of financial change	Mechanisms	Who has authority?
Section A: Making changes through the Budget process	Any proposal and any type of change	~~Four-year Budget Plan~~Budget initiatives process	Cabinet (for significant budget initiatives). The Minister of Finance and the Minister(s) responsible for the appropriation(s) ("joint Ministers") for technical budget initiatives
Section B: Changes made outside the Budget process that must be submitted to Cabinet	All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the *Cabinet Manual* (includes all requests for additional funding)	Cabinet paper	Cabinet
Section C: Changes outside the Budget process that may be approved by joint Ministers	Transferring funding between appropriations within a financial year	Fiscally neutral adjustments (FNAs)	The Minister of Finance and the Minister(s) responsible for the appropriation(s) ("joint Ministers")
	Transferring funding within an appropriation across financial years	Expense and capital transfers (ECTs) In-principle expense and capital transfers	
	Transferring underspends to the next financial year	Retention of underspends (RoU)	
	Bringing forward spending for a specific investment purpose	Front-loading of spending (FLoS)	

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	from subsequent financial years		
	Technical adjustments		
	Forecasting adjustments		
Section D: Chief executives' authority to approve expenditure	Authority for (and limits on) incurring certain expenses and capital expenditure	Authority to incur expenses	Specified authority

4 Ministers and chief executives should ensure that:

4.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular;

4.2 the material in this circular is conveyed to all Crown entities, organisations listed in Schedule 4 of the Public Finance Act 1989 and State Owned Enterprises (SOEs) for which a Minister is responsible; and

4.3 all appropriate people are aware of the limits of financial authority within section D.

Section A: Making financial changes through the Budget process

5 Proposals that request additional funding or that make changes to policy settings that have financial implications need to be submitted to Cabinet. The main mechanism for progressing these is through the Budget process.

5a. Requests for funding or changes to policy settings during the Budget process are made as part of the Budget initiatives process. Four-year Plans meanwhile are used as a means to provide an understanding of an agency or sector's medium term strategy. As such Four-year Plans are a valuable input into determining how current resources are aligned with Government priorities, and as a result help inform judgements on Budget initiatives.

5b. Many of the requests that are submitted during the budget process are of technical nature, do not involve new funding, and are non controversial. Such technical matters are typically only of interest to the portfolio minister and the Minister of Finance. Others meanwhile are matters that involve significant decisions on resource allocations that are of interest to Cabinet as a whole.

5c. In order to ensure MChanges to baselines as result of the Budget process are progressed through two parallel initiatives processes:

i. Significant budget initiatives

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5a Significant budget initiatives are considered firstly by Budget ministers and then by Cabinet.

5b The overriding principles that decide whether matters should be considered to significant or not, and warrant consideration by Cabinet, are provided by the Cabinet manual

- are within the criteria set out in paragraph 5.12 of the *Cabinet Manual*, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

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- meet the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*

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5c For the avoidance of doubt, paragraph 5 means that any proposal seeking new funding must be submitted to Cabinet. Where there is any doubt as to whether or not a matter is significant or not, officials should treat the initiative as a significant budget initiative.

~~All proposals that involve requests for additional funding, or that make significant changes to policy settings, must be submitted to Cabinet. These will normally be considered in the Four year Budget Plans as part of the Budget process.~~

ii. Technical budget initiatives

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Technical budget initiatives are approved by joint Ministers (the Minister of Finance and the Minister(s) responsible for the appropriation(s)

Technical initiatives are those initiatives that do not seek new funding from the centre over the five year forecast period, and do not carry significant policy implications (for example, reprioritisation). Examples of technical budget initiatives include non controversial changes to the scope of appropriations, changes in the timing of expenditure across years for previously agreed initiatives.

Treasury is to be fully consulted on any technical budget initiatives that are proposed. For the avoidance of any doubt, if Treasury does not support a technical budget initiative that is proposed, then the initiative should be considered significant and considered as part of the significant budget initiatives process.

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~~6 Four-year Budget Plans are the key strategic planning vehicle for agencies to propose programme and policy changes that may also require changes to the structure of appropriations and/or Votes. Four-year Budget Plans are also the most efficient way for departments to seek approval for all types of funding changes.~~

~~7 Changes proposed through the Four-year Budget Plan process will be approved by Cabinet. The Four-year Budget Plans help to give Cabinet a medium-term perspective on expenditure, and allow Cabinet to consider all funding proposals and changes as a package~~.

8 Once ~~the Four-year Budget Plans~~Cabinet or joint Ministers decisions on the Budget are approved, the amounts allocated in the first year of the Plans become the appropriations to be included in the Estimates and the Appropriation (Estimates) Bill.

9 Guidance on ~~Four-year Budget Plans and~~ the Budget process and its timeframes will be provided by the Treasury.[2]

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Section B: Proposals with financial implications outside of the Budget process that must be submitted to Cabinet

10 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in ~~:~~

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~~10.1 are within the criteria set out in~~ paragraph 5.12 of the *Cabinet Manual* (as summarised in para x above). Similarly the ~~, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or~~

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~~10.2 meet the~~ general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted* also applies. .

11 ~~Again~~For the avoidance of doubt, paragraph 10~~.1~~ means that any proposal seeking new funding must be submitted to Cabinet.

Process

12 The Minister responsible for the appropriation must personally consult the Minister of Finance before submitting any papers seeking additional funding to Cabinet (this includes seeking funding from tagged contingencies). The Minister responsible for the appropriation should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

13 Departments must consult[3] the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.

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13a If the Treasury comments or alternative recommendations are amended without approval from the Treasury then the Cabinet Office should be informed as soon as possible. The Cabinet Office, where possible, would notify the respective chair of the applicable Cabinet committee of the amendments. The Chair would then be in a position to consider taking the paper off the Cabinet agenda until the Treasury recommendations and comments are inserted without amendment.

13b If the Treasury has not been consulted due to exceptional unavoidable reasons, then the reasons for why this consultation has not taken place must be outlined. This will include an explanation as to why the paper cannot be deferred to a later time period to allow consultation to take place. A noting recommendation may also be provided that state consultation has not taken place.

14 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:

14.1 cannot be funded through reprioritisation from within existing baselines; and

14.2 cannot be deferred until the next Budget.

15 All papers seeking decisions with financial implications must comply with the Treasury Guidance on Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments.[4]

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15a Papers that seek 'approval in principle' decisions to funding proposals outside of the Budget process should where possible be avoided. If such recommendations are unavoidable then they must be accompanied by a recommendation that notes that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

16 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Expenditure Control Committee (ECC) for consideration (in addition to consideration by the relevant policy committee) to ensure consistency with the Government's overall fiscal objectives.

17 Any additional funding approved outside the Budget process will be met from the between Budget (general) contingency. This is a limited amount of funding set aside as part of the annual Budget package.

18 Alternatively, Cabinet may decide to set aside additional funding for specific items on which it is yet to make a final decision (a tagged contingency). All tagged contingencies cease to exist after 1 February of the following year[5], unless Cabinet agrees otherwise.

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19 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day.

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This *Budget Moratorium* is necessary to ensure that the documents tabled on Budget Day accurately reflect all decisions taken by Ministers.

Section C: Proposals with financial implications outside the Budget process that may be approved by joint Ministers

20 ~~Cabinet has increased the range of changes that can be approved by t~~The Minister of Finance and the Minister responsible for an appropriation ("joint Ministers") can approve the following changes to baselines~~in order to give Ministers and departments greater flexibility in financial management. These include~~:[6]

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20.1 transferring funding between appropriations within a financial year (fiscally neutral adjustments);

20.2 transferring funding within an appropriation across financial years (expense and capital transfers, and in-principle expense and capital transfers);

20.3 transferring underspends to the next financial year (retention of underspends);

20.4 bringing forward spending for a specific investment purpose from subsequent financial years (front-loading of spending);

20.5 technical adjustments; and

20.6 forecast adjustments.

21 For all changes outlined in this section, joint Ministers' approval is sought via a letter from the Minister(s) responsible for the appropriation(s) to the Minister of Finance outlining the proposal. Departments should consult and provide a copy of the letter to their Treasury Vote team so that the Treasury can advise the Minister of Finance and also ensure that the Controller and Auditor-General is aware of any changes to appropriations.

22 For the sake of efficiency and convenience, approval for funding changes should be sought either through the Budget process or the twice-yearly baseline update process. Making changes outside of these processes can lead to duplication of work for departments and the Treasury.

23 Where joint Ministers cannot agree on a proposal and one Minister still wants to proceed with it, the proposal should be referred to Cabinet through the appropriate committee.

24 The financial implications that arise from proposals must be included in the Estimates and/or the Supplementary Estimates for the relevant year, and in the interim (where necessary), the expenses, capital expenditure or increase in projected net assets in the current year are met from Imprest Supply. These changes should also flow

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through to accountability documents (such as output plans and Information Supporting the Estimates) as appropriate.

25 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations in the current fiscal year after Cabinet signs off the Budget package.[7]

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Transferring funding between appropriations within a financial year - Fiscally neutral adjustments (FNA)

26 Fiscally neutral adjustments are used to transfer funding between appropriations within a single financial year. For example, a fiscally neutral adjustment may be needed to give effect to a Cabinet decision to shift funding from one programme to another. Fiscally neutral adjustments have no impact on the operating balance or debt.

27 Fiscally neutral adjustments can be:

27.1 made between any two annual appropriations, except ~~benefits and other unrequited expenses (BOUEs~~ benefits or related expenses)[8] and borrowing expenses; or

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27.2 an increase to an appropriation that is fully offset by an increase in third party revenue.

27.3 made between two multiyear appropriations (MYAs), except for MYAs for Treaty settlements

27.4 made between a multiyear appropriation and an annual appropriation (or vice versa)

Need to clarify – an FNA between an MYA and an annual appropriation would be more than one year ie an MYA is for more than a year. Is this still OK?

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28 Where a fiscally neutral adjustment is to be made between capital and operating appropriations, the resulting changes in depreciation and capital charge costs should be managed within baselines.

29 The following guidelines apply where the operating expenses are ongoing:

29.1 *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.

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29.2 *Operating to capital:* up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

29b In the circumstances outlined above the FNA may be approved by joint ministers. Where the proposal for an operating to capital swap (or vice versa) is for shorter periods of time eg for ICT initiatives, then such proposals should be considered by Cabinet.

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29c. The two guidelines above simply reflect the government's fiscal management approach for capital (ten-year horizon) and operating (four-year, or 'forecast period' horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transferring funding within an appropriation across financial years - Expense and capital transfers (ECTs)

30 Expense and capital transfers are used to transfer funding from the current year to the same appropriation in one or more of the next three years, where there is:

30.1 no change to the output or capital asset being purchased; and

30.2 no change to the total amount of expenditure across affected years.

31 Expense and capital transfers can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year to which the transfer is proposed.

32 The Minister's letter seeking approval for an expense and capital transfer must describe the reasons for the delay in expenditure. Funding should not be repeatedly transferred.

33 Expense and capital transfers can be made in any type of annual appropriation, except benefit and unrequited expenses or borrowing expenses.

In-principle expense and capital transfers

34 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount is confirmed once it is known, usually during the October baseline update process (after audited financial results for the previous financial year are available).

35 Approval for in-principle transfers is usually sought during the March baseline update process. Any later requests should be made after Budget Day and before the deadline specified in the annual Budget guidance (usually around 15 June). These

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requests are then compiled by the Treasury for the Minister of Finance to consider before the end of the financial year.

36 Expenses cannot be incurred against the amount transferred in-principle until the final amount has been confirmed by joint Ministers. In limited circumstances where expenses must be incurred before the audited financial results are available, Ministers can seek an early confirmation of a conservative amount, sufficient to cover necessary expenses, of that already agreed in-principle.[9] Any remaining amount can be confirmed in the October baseline update.

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37 A key difference between actual and in-principle expense and capital transfers is in the recording of the change in the Estimates and Supplementary Estimates. For actual expense and capital transfers, the reduction in baselines is recorded in the current year's Supplementary Estimates and the corresponding increase recorded in the following year's Estimates. Whereas for in-principle expense and capital transfers, the reduction is not recorded in either this year's Supplementary Estimates or this year's Estimates with only the increase in baselines recorded in the following year's Supplementary Estimates. Due to this, actual expense transfers are preferred to those that are in-principle.

Transferring underspends to the next financial year - Retention of underspends (RoUs)

38 Underspends are defined as funding remaining at the end of the financial year as a result of:

38.1 savings made through gains in efficiency; and/or

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

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

40 To encourage departments to make savings by improving efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends within departmental expense appropriations. This funding can then be transferred to the next financial year, and also transferred to any other departmental appropriations.[10]

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

42 Where approval to retain underspends is sought after the March baseline update but before 30 June, half the amount[11] can be retained. Underspends must be confirmed

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on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.

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

44 Proposals to retain underspends must explain:

44.1 how underspends arose (as per paragraph 38); and

44.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward spending for a specific investment purpose from subsequent financial years - Front-loading of spending (FLoS)

45 Front-loading of spending can be used to bring forward funding in any departmental expense appropriation[12] within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears.

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46 Proposals to front-load spending must explain:

46.1 how the investment or project will permanently and sustainably reduce expenditure in outyears;

46.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

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

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

48 All capital proposals must satisfy the requirements of Cabinet Office Circular CO (10) 2 (*Capital Asset Management in Departments and Crown Entities: Expectations*) where necessary and appropriate, and these prevail over the rules provided in this circular.

Technical adjustments

49 Technical adjustments include:

49.1 technical accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change

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in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);

49.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;

49.3 changing the indicative spending profile for a multi-year appropriation (MYA); and

49.4 establishing or amending the title and scope of appropriations (where the changes do not meet the criteria for submission to Cabinet).

Forecast adjustments

50 Forecast adjustments include:

50.1 changes to the amount to be incurred under a Permanent Legislative Authority (PLA);

50.2 changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense;[13] and

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50.3 where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update. Approval of forecast changes in this circumstance is not automatic and consideration should be given to whether increased costs can be met from baselines.

51 Changes in forecast expenditure due to policy decisions cannot be approved as forecast changes, but must be considered as part of the change in policy.

~~**Section D: Expenditure that may be approved by the departmental Chief Executive**~~

~~52 A departmental chief executive's authority to incur expenses and capital expenditure applies to departmental appropriations only. Delegated authority for a departmental chief executive to incur expenses or capital expenditure under non-departmental appropriations must be obtained from the Minister responsible for each non-departmental appropriation.~~

~~53 Departmental chief executives may delegate authority to incur expenses or capital expenditure to one or more employees of the department. Delegations must be made in writing and specify when the delegation period ends. Chief executives may also delegate this power to delegate.~~

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~~**Limits on authority to incur certain departmental expenses and capital expenditure**~~

~~54 Within the bounds imposed by the specific terms of:~~

~~54.1 any appropriations granted by Parliament;[14]~~
~~54.2 any agreement to supply outputs negotiated with a Minister responsible for the appropriation or third party client; and~~
~~54.3 any direction given by the Minister of Finance or the Responsible Minister under section 34(b) of the Public Finance Act 1989;~~
~~departmental chief executives have full authority to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations except in relation to:~~
~~54.4 publicity expenses;~~
~~54.5 compensation or damages in settlement of claims;~~
~~54.6 ex gratia expenses; and~~
~~54.7 the purchase, development or lease of fixed assets.[15]~~

~~55 It is the government's policy that proposals to incur expenses in excess of the amounts set out in the table below should be referred to the Minister responsible for the appropriation or to Cabinet for approval:~~

~~**Expenses under departmental output expense or departmental other expense appropriations requiring approval by the Minister responsible for the appropriation or Cabinet[16]**~~

~~Expense type~~	~~Minister responsible for the appropriation - in excess of:~~	~~Cabinet - in excess of:~~
~~*Publicity Expenses*[17]~~	~~$150,000~~	~~Not applicable~~
~~*Expenses for compensation or damages in settlement of claims*[18]~~	~~$150,000~~	~~$750,000~~
~~*Ex gratia expenses*[19]~~	~~$30,000~~	~~$75,000~~

~~56~~

~~In exercising financial authority, the Minister responsible for the appropriation or departmental chief executive must ensure that all costs associated with a proposal have been included (including all sub-contracts or multiple payments relating to one instance).~~

Section D: Departmental Chief Executives' authority to incur expenses and capital expenditure

General position

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All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether:

a. the appropriation is for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure,
b. the appropriation is a multi-category appropriation, and
c. the appropriation is administered by the department incurring the expense or by another department.

The general position is summarised in this table:

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator.[1]
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister.[2]	No authority.
Multi-category appropriations[3]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator.

Commented [PL1]: Limits in this circular on delegated authority to incur expenses would still apply.

Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

[1] Section 2 of the Public Finance Act defines the appropriation administrator as: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.
[2] Section 2 of the Public Finance Act defines the appropriation Minister as: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and(c) in relation to any other appropriation, means the Minister responsible for that appropriation.
[3] A multi-category appropriation is not itself a departmental or non-departmental appropriation. Rather, an MCA may include categories of departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.

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a. the Public Finance Act 1989, including ensuring that all expenditure is within the scope of the appropriation,[4]
b. any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and
c. all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer

Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations, on behalf of the Crown in accordance with the terms, and subject to the restrictions, set out in this circular.

Commented [PL2]: Currently in CO (10) 2 and unless rewrites of CO (10) 2 and CO (11) 6 are merged into single circular, may continue to be in separate circular.

Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

a. to supply outputs negotiated with the appropriation Minister or third party client, or
b. with another department, under which that other department may use the appropriation.

The terms of a direction from the appropriation Minister to another department regarding the use of the appropriation may also impact on the appropriation administrator's use of the appropriation.

Notwithstanding any other authority, proposals to incur expenses[5] in relation to publicity; compensation or damages in settlement of claims; or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table at paragraph [x] below.

In determining whether the expenses fall under the approval thresholds set out in the table, the appropriation Minister or the departmental chief executive must ensure that all associated costs have been included (e.g. all sub-contracts or multiple payments relating to one overall transaction).

Type of expense	**Amount**[6]	**Approval required**	**Comment**
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government
	More than $150,000	Appropriation Minister responsible for the	

[4] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided that there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from the known, future baselines for the Vote.
[5] Such expenses would be incurred under a departmental output expense or other expense appropriation.
[6] All amounts are GST exclusive.

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		appropriation	advertising set out in Appendix B of the Cabinet Manual.
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office.
	More than $150,000 - $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement.
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation.
	More than $30,000 - $75,000	Appropriation Minister	
	More than $75,000	Cabinet	
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (10) 2.		

Further information on the administration and use appropriations is contained in the Technical guide to the Administration and Use of appropriations: http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

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Or alternatively we could provide more extensive material on how admin and use operates direct into the text of this circular

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Section E: Further information

57 If you require further advice or information please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

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58 Further information on writing Cabinet papers can be found on the Cabinet Office's CabGuide website at http://cabguide.cabinetoffice.govt.nz/. Further information on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.

Rebecca Kitteridge
Secretary of the Cabinet

Enquiries:
Your Treasury Vote Team

1 Financial implications include any changes to appropriations or net assets and any impact or likely impact on any part of the Crown's balance sheet or fiscal position (including revenue changes, contingent liabilities or specific fiscal risks).

2 See Treasury website for the guidance documents and CFISnet for the Treasury circulars that relate to the Budget process.

3 All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

4 Guidance on Financial Recommendations is available on the Treasury website.

5 For example, a tagged contingency created in Budget 2011 will cease to exist on 1 February 2012.

6 A summary of these changes is attached in the Annex to this circular.

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7 Alternative mechanisms for unappropriated expenditure are provided in sections 26A and 26B of the Public Finance Act 1989.

8 Fiscally neutral adjustments can be made for very limited number of "capped" ~~BOUEs~~benefits and related expenses.

9 Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

10 Cabinet has agreed that underspends cannot be transferred from or to a non-departmental expense appropriation.

11 The distinction between the amount of underspends that can be retained (full or half the amount) depending on the timing of the request (by or after the March baseline update) is made because the government's borrowing requirements for the current fiscal

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year are determined on the basis of the baselines as they stand at March baseline update. In addition, it also provides an incentive for agencies to manage baselines effectively and identify underspends early.

12 Cabinet has agreed that front-loading of spending cannot be carried out for any non-departmental expense appropriation.

13 Where there is a change in the revenue and a corresponding change in the expenses, these are considered to be fiscally neutral adjustments and discussed under paragraph 27.2.

14 To the extent that property and other long-term operating agreements are required to be entered into, that extend beyond any appropriations granted by Parliament, this may be done provided these costs can reasonably be expected to be met from the known, future baselines for the Vote.

15 The process for this is set out in Cabinet Office Circular CO (10) 2.

16 All amounts are GST exclusive.

17 Advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.

18 Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement. Claims under $75,000 need not be referred to the Crown Law Office if a departmental solicitor certifies that such claims are in order.

19 Ex gratia expenses are those made in respect of claims that are not actionable at law, but for which there exists a moral obligation and payment should be made.

Annex - Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of Four-year Budget Plans and the Budget process, joint Ministers can approve proposals with financial implications unless they are within: • the criteria set out in paragraph 5.12 of the *Cabinet Manual;* or • the general rule in paragraph 5.11 of the *Cabinet Manual* in which case they must go to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally Neutral	Any annual appropriations except BOUEs and Borrowing

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Adjustments (FNAs) and Expense and/or Capital Transfers (ECTs)	Expenses ECTs and FNAs cannot be combined.
In-principle ECTs	Requests for in-principle ECTs should be made through the March baseline update or after Budget Day and before a deadline to be specified each year in the annual Budget guidance. Requests will be compiled by the Treasury for consideration by the Minister of Finance.
Retention of Underspends (RoUs)	Applies only to departmental expense appropriations
Front-loading of Spending (FLoS)	Front loading of spending can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.
Technical adjustments	• Accounting adjustments (such as asset revaluation) • Changes to capital charge • Changes to the profile of MYA • Establishing and amending the title and scope of appropriations
Forecast changes	• Changes to the amount of a PLA • Changes in Crown revenue • Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis Forecasting changes are not automatic and increases in costs should be met from baselines where possible.

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Intended for:

- All Ministers
- All Chief Executives
- Speaker of the House
- Controller and Auditor-General

Copies to:

- All Senior Private Secretaries
- All Private Secretaries

Guidelines and Requirements for Proposals with Financial Implications

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 (*Guidelines for requirements for proposals with financial implications*) and takes effect from the date of issue. The key changes in this circular from CO (11) 6 are to reflect Cabinet's intention to increase flexibility of financial management for Ministers and departments by:

2.1 increasing the authority of joint Ministers to approve technical non-controversial changes to baselines during the Budget process

2.2 clarifying the delegations given to departments (through chief executives and their delegates) following amendments to the Public Finance Act in 2013.

2 Sections A-C of this circular covers the following types of financial change and associated mechanisms. All proposals with financial implications should be informed by an agency's medium term strategy as reported in their Four-year plans.

Section	Types of financial change	Mechanisms	Who has authority?
Section A: Making	Any proposal and any type of change	Budget initiatives	Cabinet (for significant budget initiatives). The

changes through the Budget process		process	Minister of Finance and the appropriation Minister[1] ("joint Ministers") for technical Budget initiatives
Section B: Changes made outside the Budget process that must be submitted to Cabinet	All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the *Cabinet Manual* (includes all requests for additional funding)	Cabinet paper	Cabinet
Section C: Changes outside the Budget process that may be approved by joint Ministers	Transferring funding between appropriations within a financial year	Fiscally neutral adjustments (FNAs)	Joint Ministers
	Transferring funding within an appropriation across financial years	Expense and capital transfers (ECTs) In-principle expense and capital transfers	
	Transferring underspends to the next financial year	Retention of underspends (RoU)	
	Bringing forward spending for a specific investment purpose from subsequent financial years	Front-loading of spending (FLoS)	
	Technical adjustments		
	Forecasting adjustments		

[1] Section 2 of the Public Finance Act defines the appropriation Minister as: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and(c) in relation to any other appropriation, means the Minister responsible for that appropriation

3 Section D of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

4 Ministers and chief executives should ensure that:

4.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular; and

4.2 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, Public Finance Act 1989 Schedule 4 organisations, Public Finance Act 1989, Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible.

Section A: Making financial changes through the Budget process

5 Proposals that request additional funding or that make changes to policy settings that have financial implications need to be submitted to Ministers or Cabinet for their consideration depending on the significance of the initiative that is being progressed.. The main mechanism for progressing these is through the Budget process.

5a. Requests for funding or changes to policy settings during the Budget process are made as part of the Budget initiatives process.

5b. Many of the requests that are submitted during the Budget process are of technical nature, do not involve new funding, and are non controversial. Such technical matters are typically only of interest to the portfolio minister and the Minister of Finance. Others meanwhile are matters that involve significant decisions on resource allocations that are of interest to Cabinet as a whole.

5c. Recognising that are differences in the significance and interest of the wider Cabinet on initiatives that are being progressed in the Budget there are two parallel Budget initiatives processes:

i. Significant Budget initiatives

5a Significant Budget initiatives are considered firstly by Budget ministers and then by Cabinet.

5b The overriding principles that decide whether matters should be considered to significant or not, and warrant consideration by Cabinet, are provided by the Cabinet manual

- are within the criteria set out in paragraph 5.12 of the *Cabinet Manual*, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

- meet the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*

5c For the avoidance of doubt, paragraph 5 means that any proposal seeking new funding must be submitted to Cabinet. Where there is any doubt as to whether or not a matter is significant or not, officials should treat the initiative as a significant Budget initiative.

ii. Technical Budget initiatives

6. Technical Budget initiatives are approved by joint Ministers (the Minister of Finance and the appropriation Minister(s)

7 Technical initiatives are those initiatives that do not seek new funding from the centre over the five year forecast period, and do not carry significant policy implications (for example, reprioritisation). Examples of technical Budget initiatives include non controversial changes to the scope of appropriations, changes in the timing of expenditure across years for previously agreed initiatives.

7a. Treasury is to be fully consulted on any technical Budget initiatives that are proposed. For the avoidance of any doubt, if Treasury does not support a technical Budget initiative that is proposed, then the initiative should be considered significant and considered as part of the significant Budget initiatives process.

7b. Should the Minister of Finance decide for whatever reason that a technical initiative(s) should be considered further by other Ministers, then the initiative(s) would be considered during the significant budget initiatives process.

.8 Once Cabinet or joint Ministers' decisions on the Budget have been made, the resulting appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

9 Guidance on the Budget process and its timeframes will be provided by the Treasury.[2]

Section B: Proposals with financial implications outside of the Budget process that must be submitted to Cabinet

10 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in paragraph 5.12 of the *Cabinet Manual* (as summarised in para x above). Similarly the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that

Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted also applies. .

11 Again For the avoidance of doubt, paragraph 10 means that any proposal seeking new funding must be submitted to Cabinet.

Process

12 The appropriation Minister must personally consult the Minister of Finance before submitting any papers seeking additional funding to Cabinet (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

13 Departments must consult[3] the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.

13a If the Treasury comments or alternative recommendations are amended without approval from the Treasury then the Cabinet Office should be informed as soon as possible. The Cabinet Office, where possible, would notify the chair of the applicable Cabinet committee of the amendments. The Chair would then be in a position to consider taking the paper off the Cabinet committee agenda until the Treasury recommendations and comments are inserted without amendment.

13b If the Treasury has not been consulted due to exceptional unavoidable reasons, then the reasons for why this consultation has not taken place must be outlined. This will include an explanation as to why the paper cannot be deferred to a later time period to allow consultation to take place. A noting recommendation may also be provided that states consultation has not taken place.

14 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:

14.1 cannot be funded through reprioritisation from within existing baselines; and

14.2 cannot be deferred until the next Budget.

15 All papers seeking decisions with financial implications must comply with the Treasury Guidance on Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments.[4]

15a Papers that seek 'approval in principle' decisions to funding proposals outside of the Budget process should be avoided wherever possible. If such recommendations are unavoidable then they must be accompanied by a recommendation that notes that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

16 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the State Sector Reform and Expenditure Control Committee (SEC) for consideration (in addition to consideration by the relevant policy committee) to ensure consistency with the Government's overall fiscal objectives.

17 Any additional funding approved outside the Budget process will be met from the between Budget(general) contingency. This is a limited amount of funding set aside as part of the annual Budge package.

18 Alternatively, Cabinet may decide to set aside additional funding for specific items on which it is yet to make a final decision (a tagged contingency). All tagged contingencies cease to exist after 1 February of the following year[5], unless Cabinet agrees otherwise.

19 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget Moratorium* is necessary to ensure that the documents tabled on Budget Day accurately reflect all decisions taken by Ministers.

Commented [PL1]: Is a similar moratorium needed prior to publication of HYEFUs and PREFUs?

Section C: Proposals with financial implications outside the Budget process that may be approved by joint Ministers

20 The Minister of Finance and the appropriation Minister ("joint Ministers") can approve the following changes to baselines:[6]

20.1 transferring funding between appropriations within a financial year (fiscally neutral adjustments);

20.2 transferring funding within an appropriation across financial years (expense and capital transfers, and in-principle expense and capital transfers);

20.3 transferring underspends to the next financial year (retention of underspends);

20.4 bringing forward spending for a specific investment purpose from subsequent financial years (front-loading of spending);

20.5 technical adjustments; and

20.6 forecast adjustments.

21 For all changes outlined in this section, joint Ministers' approval is sought via a letter from the appropriation Minister(s) to the Minister of Finance outlining the proposal. Departments should consult and provide a copy of the letter to their Treasury Vote team so that the Treasury can advise the Minister of Finance and also ensure that the Controller and Auditor-General is aware of any changes to appropriations.

22 For the sake of efficiency and convenience, approval for funding changes should be sought either through the Budget process or the twice-yearly baseline update process. Making changes outside of these processes can lead to duplication of work for departments and the Treasury.

23 Where joint Ministers cannot agree on a proposal and one Minister still wants to proceed with it, the proposal should be referred to Cabinet through the appropriate committee.

24 The financial implications that arise from proposals must be included in the Estimates and/or the Supplementary Estimates for the relevant year, and in the interim (where necessary), the expenses, capital expenditure or increase in projected net assets in the current year are met from Imprest Supply. These changes should also flow through to accountability documents (such as output plans and Information Supporting the Estimates) as appropriate.

25 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations in the current fiscal year after Cabinet signs off the Budget package except in very rare situations where it has been agreed that there are to be Additional Supplementary Estimated and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[7]

Transferring funding between appropriations within a financial year - Fiscally neutral adjustments (FNA)

26 Fiscally neutral adjustments are used to transfer funding between appropriations within a single financial year. For example, a fiscally neutral adjustment may be needed to give effect to a Cabinet decision to shift funding from one programme to another.

26a. The overriding principle is that fiscally neutral adjustments have no impact on the operating balance or debt.

27 Fiscally neutral adjustments can be:

27.1 made between any two annual appropriations, except benefits or related expenses)[8] and borrowing expenses; or

27.2 an increase to an appropriation that is fully offset by an increase in third party revenue.

27.3 made between two multi-year appropriations (MYAs), except for MYAs for historical Treaty of Waitangi settlements

27.4 made between a multi-year appropriation and an annual appropriation (or vice versa) over the life of the MYA.

Commented [PL2]: Both of these would be fiscally neutral over the period of the MYAs but not necessarily fiscally neutral for any particular financial year.

27a. Third party fees are only meant to recover costs, not to generate a surplus as this could be viewed as a tax and Parliament's explicit approval is needed to impose a tax. For multiclass appropriations (MCAs), any increase in revenue should only be used to recover costs within the specific category that the third revenue is generated, rather than other categories within the MCAs. [need to check that we agree on this – alternatively we could allow third party to be used in other categories within an MCA and only restrict if there are specific provisions preventing this when MCA established]

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28 Where a fiscally neutral adjustment is to be made between capital and operating appropriations, the resulting changes in depreciation and capital charge costs should be managed within baselines.

29 The following guidelines apply where the operating expenses are ongoing:

29.1 *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.

29.2 *Operating to capital:* up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

29b In the circumstances outlined above the FNA may be approved by joint ministers. Where the proposal for an operating to capital swap (or vice versa) is for shorter periods of time eg for ICT initiatives, then such proposals should be considered by Cabinet.

29c. The two guidelines above simply reflect the government's fiscal management approach for capital (ten-year horizon) and operating (four-year, or 'forecast period' horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transferring funding within an appropriation across financial years - Expense and capital transfers (ECTs)

30 Expense and capital transfers are used to transfer funding from the current year to the same appropriation, *including multi-category appropriations*, in one or more of the next three years, where there is:

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30.1 no change to the output or capital asset being purchased; and

30.2 no change to the total amount of expenditure across affected years. (check that we want ECTs to also apply to MCAs – have added MCAs to para 30 above)

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31 Expense and capital transfers can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year to which the transfer is proposed.

32 The Minister's letter seeking approval for an expense and capital transfer must describe the reasons for the delay in expenditure. Funding should not be repeatedly transferred.

33 Expense and capital transfers can be made in any type of annual appropriation, except benefit and unrequited expenses or borrowing expenses. They also do not apply to other non annual appropriations such as revenue dependent appropriations, permanent legislative authority appropriations, and multi year appropriations.

In-principle expense and capital transfers

34 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount is confirmed once it is known, usually during the October baseline update process (after audited financial results for the previous financial year are available).

35 Approval for in-principle transfers is usually sought during the March baseline update process. Any later requests should be made after Budget Day and before the deadline specified in the annual Budget guidance (usually around 15 June). These requests are then compiled by the Treasury for the Minister of Finance to consider before the end of the financial year.

36 Expenses cannot be incurred against the amount transferred in-principle until the final amount has been confirmed by joint Ministers. In limited circumstances where expenses must be incurred before the audited financial results are available, Ministers can seek an early confirmation of a conservative amount, sufficient to cover necessary expenses, of that already agreed in-principle.[9] Any remaining amount can be confirmed in the October baseline update.

37 A key difference between actual and in-principle expense and capital transfers is in the recording of the change in the Estimates and Supplementary Estimates. For actual expense and capital transfers, the reduction in baselines is recorded in the current year's Supplementary Estimates and the corresponding increase recorded in the following year's Estimates. Whereas for in-principle expense and capital transfers, the reduction is not recorded in either this year's Supplementary Estimates or this year's Estimates with only the increase in baselines recorded in the following year's Supplementary Estimates. Due to this, actual expense transfers are preferred to those that are in-principle.

Transferring underspends to the next financial year - Retention of underspends (RoUs)

38 Underspends are defined as funding remaining at the end of the financial year as a result of:

38.1 savings made through gains in efficiency; and/or

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

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

40 To encourage departments to make savings by improving efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends within departmental expense appropriations *and multiclass appropriations*. This funding can then be transferred to the next financial year, and also transferred to any other departmental appropriations.[10][check remove footnote 10 and allow MCAs to have RoUs]

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

42 Where approval to retain underspends is sought after the March baseline update but before 30 June, half the amount[11] can be retained. Underspends must be confirmed on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.

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

44 Proposals to retain underspends must explain:

44.1 how underspends arose (as per paragraph 38); and

44.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward spending for a specific investment purpose from subsequent financial years - Front-loading of spending (FLoS)

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45 Front-loading of spending can be used to bring forward funding in any departmental expense appropriation[12] within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears. For multi-category appropriations FLoS can only be used for departmental categories within an MCA. [check that this is Tsy position – ie reflects Cabinet position but Cabinet position was reached prior to creation of MCAs]

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46 Proposals to front-load spending must explain:

46.1 how the investment or project will permanently and sustainably reduce expenditure in outyears;

46.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

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

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

48 All capital proposals must satisfy the requirements of Cabinet Office Circular XXXX (*Capital Asset Management in Departments and Crown Entities: Expectations*) where necessary and appropriate, and these prevail over the rules provided in this circular.

Technical adjustments

49 Technical adjustments include:

49.1 technical accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);

49.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;

49.3 any technical approvals (e.g., to the establishment of appropriations and their scopes) needed to give effect to a policy decision already made by Cabinet;

49.4 changing the indicative spending profile for a multi-year appropriation (MYA);

49.5 establishing or amending the title and scope of appropriations (where the changes do not meet the criteria for submission to Cabinet); and

49.6 write off of Crown assets either in full or part that do not involve significant policy decisions.

49a. Chief Executives are delegated the authority to progress the write offs of Crown assets as required. These write-offs are to be undertaken as soon as practically possible. [Geoff/Tim/Peter – does this proposed text adequately provide for the more timely asset writeoffs you have proposed?]

Forecast adjustments

50 Forecast adjustments include:

50.1 changes to the amount to be incurred under a Permanent Legislative Authority (PLA);

50.2 changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense;[13] and

50.3 where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update. Approval of forecast changes in this circumstance is not automatic and consideration should be given to whether increased costs can be met from baselines.

51 Changes in forecast expenditure due to policy decisions cannot be approved as forecast changes, but must be considered as part of the change in policy.

Section D: Department' authority to incur expenses and capital expenditure

General position

All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether:

a. the appropriation is for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure,
b. the appropriation is a multi-category appropriation, and
c. the appropriation is administered by the department incurring the expense or by another department.

The general position is summarised in this table:

	Appropriation is administered by the department incurring the expense	Appropriation is administered by another department
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator.[2] s9(2)(h)
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister.[3]	No authority.
Multi-category appropriations (MCAs)[4]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator. s9(2)(h)

Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

a. the Public Finance Act 1989, including ensuring that all expenditure is within the scope of the appropriation,[5]
b. any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and
c. all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer (including MCAs)

[2] Section 2 of the Public Finance Act defines the appropriation administrator as: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.

[3] .

[4] A multi-category appropriation is not itself a departmental or non-departmental appropriation. Rather, an MCA may include categories of departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.

[5] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided that there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from the known, future baselines for the Vote.

Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations[6], on behalf of the Crown in accordance with the terms, and subject to the restrictions, set out in this circular.

Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

a. to supply outputs [or is to achieve certain outcomes] negotiated with the appropriation Minister or third party client, or
b. with another department, under which that other department may use the appropriation.

The terms of a direction from the appropriation Minister to another department regarding the use of the appropriation may also impact on the appropriation administrator's use of the appropriation.

Notwithstanding any other authority, proposals to incur expenses[7] in relation to publicity; compensation or damages in settlement of claims; or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table at paragraph [x] below.

In determining whether the expenses fall under the approval thresholds set out in the table, the appropriation Minister or the departmental chief executive must ensure that all associated costs have been included (e.g. all sub-contracts or multiple payments relating to one overall transaction).

Type of expense	**Amount[8]**	**Approval required**	**Comment**
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.
	More than $150,000	Appropriation Minister responsible for the appropriation	
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the

[6] Refer to CO (10) 2.
[7] Such expenses would be incurred under a departmental output expense or other expense appropriation.
[8] All amounts are GST exclusive.

			Crown Law Office.
	More than $150,000 - $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement.
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation, the payment is made out of goodwill or a sense of moral obligation.
	More than $30,000 - $75,000	Appropriation Minister	
	More than $75,000	Cabinet	
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (10) 2.		

Departments' authority to use non-departmental appropriations and appropriations administered by another department (including MCAs)

Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the Minister (and any sub-delegation from the chief executive). Departments have no authority to use non-departmental appropriations administered by another department.

For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another departments at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

Further information on the administration and use appropriations is contained in the Technical guide to the Administration and Use of appropriations: http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

Commented [GB3]: For the completeness and clarity of this circular, I still think it would be good to include some context about the source of the authority (which I don't quite thing the Tsy publication covers in the same way, although I haven't read it in detail yet) – otherwise we are only covering off the first row of the table.

Section E: Further information

57 If you require further advice or information please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

58 Further information on writing Cabinet papers can be found on the Cabinet Office's CabGuide website at http://cabguide.cabinetoffice.govt.nz/. Further information on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.

XXX
Secretary of the Cabinet

Enquiries:
Your Treasury Vote Team

Footnotes:

1 Financial implications include any changes to appropriations or net assets and any impact or likely impact on any part of the Crown's balance sheet or fiscal position (including revenue changes, contingent liabilities or specific fiscal risks).

2 See Treasury website for the guidance documents and CFISnet for the Treasury circulars that relate to the Budget process.

3 All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

4 Guidance on Financial Recommendations is available on the Treasury website.

5 For example, a tagged contingency created in Budget2011 will cease to exist on 1 February 2012.

6 A summary of these changes is attached in the Annex to this circular.

7 Alternative mechanisms for unappropriated expenditure are provided in sections 26A and 26B of the Public Finance Act 1989.

8 Fiscally neutral adjustments can be made for very limited number of "capped" benefits and related expenses.

9 Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

10 Cabinet has agreed that underspends cannot be transferred from or to a non-departmental expense appropriation.

11 The distinction between the amount of underspends that can be retained (full or half the amount) depending on the timing of the request (by or after the March baseline update) is made because the government's borrowing requirements for the current fiscal year are determined on the basis of the baselines as they stand at March baseline update. In addition, it also provides an incentive for agencies to manage baselines effectively and identify underspends early.

12 Cabinet has agreed that front-loading of spending cannot be carried out for any non-departmental expense appropriation.

13 Where there is a change in the revenue and a corresponding change in the expenses, these are considered to be fiscally neutral adjustments and discussed under paragraph 27.2.

14 To the extent that property and other long-term operating agreements are required to be entered into, that extend beyond any appropriations granted by Parliament, this may be done provided these costs can reasonably be expected to be met from the known, future baselines for the Vote.

Annex - Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of Four-year BudgetPlans and the Budgetprocess, joint Ministers can approve proposals with financial implications unless they are within: • the criteria set out in paragraph 5.12 of the *Cabinet Manual*; or • the general rule in paragraph 5.11 of the *Cabinet Manual* in which case they must go to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally Neutral Adjustments (FNAs) - and - Expense and/or Capital Transfers (ECTs)	Any annual appropriations except BOREs and Borrowing Expenses ECTs and FNAs cannot be combined.
In-principle ECTs	Requests for in-principle ECTs should be made through the March baseline update or after BudgetDay and before a deadline to be specified each year in the annual Budgetguidance. Requests will be compiled by the Treasury for consideration by the Minister of Finance.
Retention of Underspends (RoUs)	Applies only to departmental expense appropriations
Front-loading of Spending (FLoS)	Front loading of spending can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.
Technical adjustments	• Accounting adjustments (such as asset revaluation) • Changes to capital charge • Changes to the profile of MYA

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	• Establishing and amending the title and scope of appropriations
Forecast changes	• Changes to the amount of a PLA • Changes in Crown revenue • Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis Forecasting changes are not automatic and increases in costs should be met from baselines where possible.

~~**CO (11) 06**~~

~~18 October 2011~~

~~**Intended for:**~~

- ~~All Ministers~~
- ~~All Chief Executives~~
- ~~Speaker of the House~~
- ~~Controller and Auditor-General~~

~~**Copies to:**~~

- ~~All Senior Private Secretaries~~
- ~~All Private Secretaries~~

~~**Guidelines and Requirements for Proposals with Financial Implications**~~

~~**Introduction**~~

~~1 This circular describes the guidelines and requirements for Ministers and departments seeking approval of proposals with financial implications[1].~~

~~2 This circular replaces Cabinet Office Circular CO (09) 6 (*Guidelines for Changes to Baselines*) and takes effect from the date of issue. The key changes in this circular from CO (09) 6 are to reflect Cabinet's intention to increase flexibility of financial management for Ministers and departments by:~~

~~2.1 making Four-year Budget Plans and the Budget process the main opportunity for Ministers and departments to seek approval of proposals with financial implications; and~~

~~2.2 increasing the authority of joint Ministers to approve proposals with financial implications.~~

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~~3 This circular covers the following types of financial change and associated mechanisms:~~

~~**Section**~~	~~**Types of financial change**~~	~~**Mechanisms**~~	~~**Who has authority?**~~
~~**Section A: Making changes through the Budget process**~~	~~Any proposal and any type of change~~	~~Four-year Budget Plan~~	~~Cabinet~~
~~**Section B: Changes made outside the Budget process that must be submitted to Cabinet**~~	~~All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the *Cabinet Manual* (includes all requests for additional funding)~~	~~Cabinet paper~~	
~~**Section C: Changes outside the Budget process that may be approved by joint Ministers**~~	~~Transferring funding between appropriations within a financial year~~	~~Fiscally neutral adjustments (FNAs)~~	~~The Minister of Finance and the Minister(s) responsible for the appropriation(s) ("joint Ministers")~~
	~~Transferring funding within an appropriation across financial years~~	~~Expense and capital transfers (ECTs)~~ ~~In-principle expense and capital transfers~~	
	~~Transferring underspends to the next financial year~~	~~Retention of underspends (RoU)~~	
	~~Bringing forward spending for a specific investment purpose from subsequent financial years~~	~~Front-loading of spending (FLoS)~~	
	~~Technical adjustments~~		
	~~Forecasting adjustments~~		
~~**Section D: Chief executives' authority to approve expenditure**~~	~~Authority for (and limits on) incurring certain expenses and capital expenditure~~	~~Authority to incur expenses~~	~~Specified authority~~

~~4 Ministers and chief executives should ensure that:~~

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~~4.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular;~~
~~4.2 the material in this circular is conveyed to all Crown entities, organisations listed in Schedule 4 of the Public Finance Act 1989 and State Owned Enterprises (SOEs) for which a Minister is responsible; and~~

~~4.3 all appropriate people are aware of the limits of financial authority within section D.~~

~~Section A: Making financial changes through the Budget process~~

~~5 All proposals that involve requests for additional funding, or that make significant changes to policy settings, must be submitted to Cabinet. These will normally be considered in the Four-year Budget Plans as part of the Budget process.~~

~~6 Four-year Budget Plans are the key strategic planning vehicle for agencies to propose programme and policy changes that may also require changes to the structure of appropriations and/or Votes. Four-year Budget Plans are also the most efficient way for departments to seek approval for all types of funding changes.~~

~~7 Changes proposed through the Four-year Budget Plan process will be approved by Cabinet. The Four-year Budget Plans help to give Cabinet a medium-term perspective on expenditure, and allow Cabinet to consider all funding proposals and changes as a package.~~

~~8 Once the Four-year Budget Plans are approved, the amounts allocated in the first year of the Plans become the appropriations to be included in the Estimates and the Appropriation (Estimates) Bill.~~

~~9 Guidance on Four-year Budget Plans and the Budget process will be provided by the Treasury.~~[2]

~~Section B: Proposals with financial implications outside of the Budget process that must be submitted to Cabinet~~

~~10 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they:~~

~~10.1 are within the criteria set out in paragraph 5.12 of the *Cabinet Manual*, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or~~

~~10.2 meet the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*~~

~~11 For the avoidance of doubt, paragraph 10.1 means that any proposal seeking new funding must be submitted to Cabinet.~~

Process

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~~12 The Minister responsible for the appropriation must personally consult the Minister of Finance before submitting any papers seeking additional funding to Cabinet (this includes seeking funding from tagged contingencies). The Minister responsible for the appropriation should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.~~

~~13 Departments must consult[3] the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.~~

~~14 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:~~

~~14.1 cannot be funded through reprioritisation from within existing baselines; and~~

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~~14.2 cannot be deferred until the next Budget.~~

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~~15 All papers seeking decisions with financial implications must comply with the Treasury Guidance on Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments.[4]~~

~~16 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Expenditure Control Committee (ECC) for consideration (in addition to consideration by the relevant policy committee) to ensure consistency with the Government's overall fiscal objectives.~~

~~17 Any additional funding approved outside the Budget process will be met from the between Budget (general) contingency. This is a limited amount of funding set aside as part of the annual Budget package.~~

~~18 Alternatively, Cabinet may decide to set aside additional funding for specific items on which it is yet to make a final decision (a tagged contingency). All tagged contingencies cease to exist after 1 February of the following year[5], unless Cabinet agrees otherwise.~~

~~19 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget Moratorium* is necessary to ensure that the documents tabled on Budget Day accurately reflect all decisions taken by Ministers.~~

~~**Section C: Proposals with financial implications outside the Budget process that may be approved by joint Ministers**~~

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~~20 Cabinet has increased the range of changes that can be approved by the Minister of Finance and the Minister responsible for an appropriation ("joint Ministers") in order to give Ministers and departments greater flexibility in financial management. These include:[6]~~

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~~20.1 transferring funding between appropriations within a financial year (fiscally neutral adjustments);~~

~~20.2 transferring funding within an appropriation across financial years (expense and capital transfers, and in principle expense and capital transfers);~~

~~20.3 transferring underspends to the next financial year (retention of underspends);~~

~~20.4 bringing forward spending for a specific investment purpose from subsequent financial years (front-loading of spending);~~

~~20.5 technical adjustments; and~~

~~20.6 forecast adjustments.~~

~~21 For all changes outlined in this section, joint Ministers' approval is sought via a letter from the Minister(s) responsible for the appropriation(s) to the Minister of Finance outlining the proposal. Departments should consult and provide a copy of the letter to their Treasury Vote team so that the Treasury can advise the Minister of Finance and also ensure that the Controller and Auditor General is aware of any changes to appropriations.~~

~~22 For the sake of efficiency and convenience, approval for funding changes should be sought either through the Budget process or the twice yearly baseline update process. Making changes outside of these processes can lead to duplication of work for departments and the Treasury.~~

~~23 Where joint Ministers cannot agree on a proposal and one Minister still wants to proceed with it, the proposal should be referred to Cabinet through the appropriate committee.~~

~~24 The financial implications that arise from proposals must be included in the Estimates and/or the Supplementary Estimates for the relevant year, and in the interim (where necessary), the expenses, capital expenditure or increase in projected net assets in the current year are met from Imprest Supply. These changes should also flow through to accountability documents (such as output plans and Information Supporting the Estimates) as appropriate.~~

~~25 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations in the current fiscal year after Cabinet signs off the Budget package.[7]~~

~~**Transferring funding between appropriations within a financial year – Fiscally neutral adjustments (FNA)**~~

~~26 Fiscally neutral adjustments are used to transfer funding between appropriations within a single financial year. For example, a fiscally neutral adjustment may be needed~~

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~~to give effect to a Cabinet decision to shift funding from one programme to another. Fiscally neutral adjustments have no impact on the operating balance or debt.~~

~~27 Fiscally neutral adjustments can be:~~

~~27.1 made between any two annual appropriations, except benefits and other unrequited expenses (BOUEs)[8] and borrowing expenses; or~~

~~27.2 an increase to an appropriation that is fully offset by an increase in third party revenue.~~

~~28 Where a fiscally neutral adjustment is to be made between capital and operating appropriations, the resulting changes in depreciation and capital charge costs should be managed within baselines.~~

~~29 The following guidelines apply where the operating expenses are ongoing:~~

~~29.1 *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.~~

~~29.2 *Operating to capital:* up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.~~

~~**Transferring funding within an appropriation across financial years - Expense and capital transfers (ECTs)**~~

~~30 Expense and capital transfers are used to transfer funding from the current year to the same appropriation in one or more of the next three years, where there is:~~

~~30.1 no change to the output or capital asset being purchased; and~~

~~30.2 no change to the total amount of expenditure across affected years.~~

~~31 Expense and capital transfers can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year to which the transfer is proposed.~~

~~32 The Minister's letter seeking approval for an expense and capital transfer must describe the reasons for the delay in expenditure. Funding should not be repeatedly transferred.~~

~~33 Expense and capital transfers can be made in any type of annual appropriation, except benefit and unrequited expenses or borrowing expenses.~~

~~**In-principle expense and capital transfers**~~

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~~34 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount is confirmed once it is known, usually during the October baseline update process (after audited financial results for the previous financial year are available).~~

~~35 Approval for in principle transfers is usually sought during the March baseline update process. Any later requests should be made after Budget Day and before the deadline specified in the annual Budget guidance (usually around 15 June). These requests are then compiled by the Treasury for the Minister of Finance to consider before the end of the financial year.~~

~~36 Expenses cannot be incurred against the amount transferred in principle until the final amount has been confirmed by joint Ministers. In limited circumstances where expenses must be incurred before the audited financial results are available, Ministers can seek an early confirmation of a conservative amount, sufficient to cover necessary expenses, of that already agreed in principle.[9] Any remaining amount can be confirmed in the October baseline update.~~

~~37 A key difference between actual and in-principle expense and capital transfers is in the recording of the change in the Estimates and Supplementary Estimates. For actual expense and capital transfers, the reduction in baselines is recorded in the current year's Supplementary Estimates and the corresponding increase recorded in the following year's Estimates. Whereas for in principle expense and capital transfers, the reduction is not recorded in either this year's Supplementary Estimates or this year's Estimates with only the increase in baselines recorded in the following year's Supplementary Estimates. Due to this, actual expense transfers are preferred to those that are in-principle.~~

~~Transferring underspends to the next financial year - Retention of underspends (RoUs)~~

~~38 Underspends are defined as funding remaining at the end of the financial year as a result of:~~

~~38.1 savings made through gains in efficiency; and/or~~

~~38.2 other savings initiatives, where the output or service has been delivered in full (in contrast, an expense and capital transfer can be used when the output or service has not been fully delivered due to circumstances outside the department's control).~~

~~39 Underspends do not include, for example, funding left over as a result of lower than expected demand for a service, or because the amount required was originally over-estimated.~~

~~40 To encourage departments to make savings by improving efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends within departmental expense appropriations. This funding can then be transferred to the next financial year, and also transferred to any other departmental appropriations.[10]~~

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~~41 Where approval to retain underspends is sought before or in the March baseline update, the full amount can be retained. Underspends must be confirmed during the March baseline update by showing a decrease in the Supplementary Estimates and the corresponding increase in the following year's Estimates.~~

~~42 Where approval to retain underspends is sought after the March baseline update but before 30 June, half the amount[11] can be retained. Underspends must be confirmed on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.~~

~~43 Any proposal to retain underspends made after 30 June will be declined.~~

~~44 Proposals to retain underspends must explain:~~

~~44.1 how underspends arose (as per paragraph 38); and~~

~~44.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.~~

~~Bringing forward spending for a specific investment purpose from subsequent financial years - Front-loading of spending (FLoS)~~

~~45 Front-loading of spending can be used to bring forward funding in any departmental expense appropriation[12] within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears.~~

~~46 Proposals to front load spending must explain:~~

~~46.1 how the investment or project will permanently and sustainably reduce expenditure in outyears;~~

~~46.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and~~

~~46.3 what other funding options were considered and why the front-loading of spending is the preferred option.~~

~~47 The amount of detail required for any proposal to front load spending is proportional to the amount requested. Proposals to front load significant amounts of funding may need to be submitted to Cabinet, according to the criteria in paragraph 10.~~

~~48 All capital proposals must satisfy the requirements of Cabinet Office Circular CO (10) 2 (*Capital Asset Management in Departments and Crown Entities: Expectations*) where necessary and appropriate, and these prevail over the rules provided in this circular.~~

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~~**Technical adjustments**~~

~~49 Technical adjustments include:~~

~~49.1 technical accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);~~

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~~49.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;~~

~~49.3 changing the indicative spending profile for a multi-year appropriation (MYA); and~~

~~49.4 establishing or amending the title and scope of appropriations (where the changes do not meet the criteria for submission to Cabinet).~~

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~~**Forecast adjustments**~~

~~50 Forecast adjustments include:~~

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~~50.1 changes to the amount to be incurred under a Permanent Legislative Authority (PLA);~~

~~50.2 changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense;[13] and~~

~~50.3 where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update. Approval of forecast changes in this circumstance is not automatic and consideration should be given to whether increased costs can be met from baselines.~~

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~~51 Changes in forecast expenditure due to policy decisions cannot be approved as forecast changes, but must be considered as part of the change in policy.~~

~~**Section D: Expenditure that may be approved by the departmental Chief Executive**~~

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~~52 A departmental chief executive's authority to incur expenses and capital expenditure applies to departmental appropriations only. Delegated authority for a departmental chief executive to incur expenses or capital expenditure under non-departmental appropriations must be obtained from the Minister responsible for each non-departmental appropriation.~~

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~~53 Departmental chief executives may delegate authority to incur expenses or capital expenditure to one or more employees of the department. Delegations must be~~

~~made in writing and specify when the delegation period ends. Chief executives may also delegate this power to delegate.~~

~~Limits on authority to incur certain departmental expenses and capital expenditure~~

~~54 Within the bounds imposed by the specific terms of:~~

~~54.1 any appropriations granted by Parliament;[14]~~
~~54.2 any agreement to supply outputs negotiated with a Minister responsible for the appropriation or third party client; and~~
~~54.3 any direction given by the Minister of Finance or the Responsible Minister under section 34(b) of the Public Finance Act 1989;~~
~~departmental chief executives have full authority to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations except in relation to:~~
~~54.4 publicity expenses;~~
~~54.5 compensation or damages in settlement of claims;~~
~~54.6 ex gratia expenses; and~~
~~54.7 the purchase, development or lease of fixed assets.[15]~~

~~55 It is the government's policy that proposals to incur expenses in excess of the amounts set out in the table below should be referred to the Minister responsible for the appropriation or to Cabinet for approval:~~
~~Expenses under departmental output expense or departmental other expense appropriations requiring approval by the Minister responsible for the appropriation or Cabinet[16]~~

~~**Expense type**~~	~~**Minister responsible for the appropriation - in excess of:**~~	~~**Cabinet - in excess of:**~~
~~*Publicity Expenses*[17]~~	~~$150,000~~	~~Not applicable~~
~~*Expenses for compensation or damages in settlement of claims*[18]~~	~~$150,000~~	~~$750,000~~
~~*Ex gratia expenses*[19]~~	~~$30,000~~	~~$75,000~~

~~56~~
~~In exercising financial authority, the Minister responsible for the appropriation or departmental chief executive must ensure that all costs associated with a proposal have been included (including all sub-contracts or multiple payments relating to one instance).~~

~~Section E: Further information~~

~~57 If you require further advice or information please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.~~

~~58 Further information on writing Cabinet papers can be found on the Cabinet Office's CabGuide website at http://cabguide.cabinetoffice.govt.nz/. Further information~~

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~~on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.~~
~~Rebecca Kitteridge~~
~~Secretary of the Cabinet~~

~~Enquiries:~~
~~Your Treasury Vote Team~~

~~1 Financial implications include any changes to appropriations or net assets and any impact or likely impact on any part of the Crown's balance sheet or fiscal position (including revenue changes, contingent liabilities or specific fiscal risks).~~
~~2 See Treasury website for the guidance documents and CFISnet for the Treasury circulars that relate to the Budget process.~~
~~3 All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.~~
~~4 Guidance on Financial Recommendations is available on the Treasury website.~~
~~5 For example, a tagged contingency created in Budget 2011 will cease to exist on 1 February 2012.~~
~~6 A summary of these changes is attached in the Annex to this circular.~~
~~7 Alternative mechanisms for unappropriated expenditure are provided in sections 26A and 26B of the Public Finance Act 1989.~~
~~8 Fiscally neutral adjustments can be made for very limited number of "capped" BOUEs.~~
~~9 Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.~~
~~10 Cabinet has agreed that underspends cannot be transferred from or to a non-departmental expense appropriation.~~
~~11 The distinction between the amount of underspends that can be retained (full or half the amount) depending on the timing of the request (by or after the March baseline update) is made because the government's borrowing requirements for the current fiscal year are determined on the basis of the baselines as they stand at March baseline update. In addition, it also provides an incentive for agencies to manage baselines effectively and identify underspends early.~~
~~12 Cabinet has agreed that front loading of spending cannot be carried out for any non-departmental expense appropriation.~~
~~13 Where there is a change in the revenue and a corresponding change in the expenses, these are considered to be fiscally neutral adjustments and discussed under paragraph 27.2.~~
~~14 To the extent that property and other long-term operating agreements are required to be entered into, that extend beyond any appropriations granted by Parliament, this may be done provided these costs can reasonably be expected to be met from the known, future baselines for the Vote.~~
~~15 The process for this is set out in Cabinet Office Circular CO (10) 2.~~
~~16 All amounts are GST exclusive.~~
~~17 Advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.~~

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~~18 Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement. Claims under $75,000 need not be referred to the Crown Law Office if a departmental solicitor certifies that such claims are in order.~~

~~19 Ex gratia expenses are those made in respect of claims that are not actionable at law, but for which there exists a moral obligation and payment should be made.~~

~~Annex – Financial management outside the Budget process~~

~~Types of financial changes that can be approved by joint Ministers~~	~~Outside of Four-year Budget Plans and the Budget process, joint Ministers can approve proposals with financial implications unless they are within:~~ • ~~the criteria set out in paragraph 5.12 of the *Cabinet Manual*; or~~ • ~~the general rule in paragraph 5.11 of the *Cabinet Manual*~~ ~~in which case they must go to Cabinet for approval.~~ ~~Any proposal seeking new funding is a matter that must be submitted to Cabinet.~~
~~Fiscally Neutral Adjustments (FNAs)~~ ~~-~~ ~~and~~ ~~-~~ ~~Expense and/or Capital Transfers (ECTs)~~	~~Any annual appropriations except BOUEs and Borrowing Expenses~~ ~~ECTs and FNAs cannot be combined.~~
~~In-principle ECTs~~	~~Requests for in-principle ECTs should be made through the March baseline update or after Budget Day and before a deadline to be specified each year in the annual Budget guidance. Requests will be compiled by the Treasury for consideration by the Minister of Finance.~~
~~Retention of Underspends (RoUs)~~	~~Applies only to departmental expense appropriations~~
~~Front loading of Spending (FLoS)~~	~~Front loading of spending can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.~~
~~Technical adjustments~~	• ~~Accounting adjustments (such as asset revaluation)~~ • ~~Changes to capital charge~~ • ~~Changes to the profile of MYA~~ • ~~Establishing and amending the title and scope of appropriations~~
~~Forecast changes~~	• ~~Changes to the amount of a PLA~~

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	• ~~Changes in Crown revenue~~ • ~~Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis~~ ~~Forecasting changes are not automatic and increases in costs should be met from baselines where possible.~~

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Intended for:

- All Ministers
- All Chief Executives
- Speaker of the House
- Controller and Auditor-General

Copies to:

- All Senior Private Secretaries
- All Private Secretaries

Guidelines and Requirements for Proposals with Financial Implications

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 (*Guidelines for requirements for proposals with financial implications*) and takes effect from the date of issue. The key changes in this circular from CO (11) 6 are to reflect Cabinet's intention to increase flexibility of financial management for Ministers and departments by:

2.1 increasing the authority of joint Ministers to approve technical non-controversial changes to baselines during the Budget process

2.2 clarifying the delegations given to departments (through chief executives and their delegates) following amendments to the Public Finance Act in 2013.

2 Sections A-C of this circular covers the following types of financial change and associated mechanisms. All proposals with financial implications should be informed by an agency's medium term strategy as reported in their Four-year plans.

Section	Types of financial change	Mechanisms	Who has authority?
Section A: Making	Any proposal and any type of change	Budget initiatives	Cabinet (for significant budget initiatives). The

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changes through the Budget process		process	Minister of Finance and the appropriation Minister[1] ("joint Ministers") for technical Budget initiatives
Section B: Changes made outside the Budget process that must be submitted to Cabinet	All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the *Cabinet Manual* (includes all requests for additional funding)	Cabinet paper	Cabinet
Section C: Changes outside the Budget process that may be approved by joint Ministers	Transferring funding between appropriations within a financial year	Fiscally neutral adjustments (FNAs)	Joint Ministers
	Transferring funding within an appropriation across financial years	Expense and capital transfers (ECTs)	
		In-principle expense and capital transfers	
	Transferring underspends to the next financial year	Retention of underspends (RoU)	
	Bringing forward spending for a specific investment purpose from subsequent financial years	Front-loading of spending (FLoS)	
	Technical adjustments		
	Forecasting adjustments		

[1] Section 2 of the Public Finance Act defines the appropriation Minister as: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and(c) in relation to any other appropriation, means the Minister responsible for that appropriation

3 Section D of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

4 Ministers and chief executives should ensure that:

4.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular; and

4.2 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, Public Finance Act 1989 Schedule 4 organisations, Public Finance Act 1989, Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible.

Section A: Making financial changes through the Budget process

5 Proposals that request additional funding or that make changes to policy settings that have financial implications need to be submitted to Ministers or Cabinet for their consideration depending on the significance of the initiative that is being progressed.. The main mechanism for progressing these is through the Budget process.

5a. Requests for funding or changes to policy settings during the Budget process are made as part of the Budget initiatives process.

5b. Many of the requests that are submitted during the Budget process are of technical nature, do not involve new funding, and are non controversial. Such technical matters are typically only of interest to the portfolio minister and the Minister of Finance. Others meanwhile are matters that involve significant decisions on resource allocations that are of interest to Cabinet as a whole.

5c. Recognising that are differences in the significance and interest of the wider Cabinet on initiatives that are being progressed in the Budget there are two parallel Budget initiatives processes:

i. Significant Budget initiatives

5a Significant Budget initiatives are considered firstly by Budget ministers and then by Cabinet.

5b The overriding principles that decide whether matters should be considered to significant or not, and warrant consideration by Cabinet, are provided by the Cabinet manual

- are within the criteria set out in paragraph 5.12 of the *Cabinet Manual*, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

- meet the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*

5c For the avoidance of doubt, paragraph 5 means that any proposal seeking new funding must be submitted to Cabinet. Where there is any doubt as to whether or not a matter is significant or not, officials should treat the initiative as a significant Budget initiative.

ii. Technical Budget initiatives

6. Technical Budget initiatives are approved by joint Ministers (the Minister of Finance and the appropriation Minister(s)

7 Technical initiatives are those initiatives that do not seek new funding from the centre over the five year forecast period, and do not carry significant policy implications (for example, reprioritisation). Examples of technical Budget initiatives include non controversial changes to the scope of appropriations, changes in the timing of expenditure across years for previously agreed initiatives.

7a. Treasury is to be fully consulted on any technical Budget initiatives that are proposed. For the avoidance of any doubt, if Treasury does not support a technical Budget initiative that is proposed, then the initiative should be considered significant and considered as part of the significant Budget initiatives process.

7b. Should the Minister of Finance decide for whatever reason that a technical initiative(s) should be considered further by other Ministers, then the initiative(s) would be considered during the significant budget initiatives process.

.8 Once Cabinet or joint Ministers' decisions on the Budget have been made, the resulting appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

9 Guidance on the Budget process and its timeframes will be provided by the Treasury.[2]

Section B: Proposals with financial implications outside of the Budget process that must be submitted to Cabinet

10 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in paragraph 5.12 of the *Cabinet Manual* (as summarised in para x above). Similarly the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that

Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted also applies. .

11 Again For the avoidance of doubt, paragraph 10 means that any proposal seeking new funding must be submitted to Cabinet.

Process

12 The appropriation Minister must personally consult the Minister of Finance before submitting any papers seeking additional funding to Cabinet (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

13 Departments must consult[3] the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.

13a If the Treasury comments or alternative recommendations are amended without approval from the Treasury then the Cabinet Office should be informed as soon as possible. The Cabinet Office, where possible, would notify the chair of the applicable Cabinet committee of the amendments. The Chair would then be in a position to consider taking the paper off the Cabinet committee agenda until the Treasury recommendations and comments are inserted without amendment.

13b If the Treasury has not been consulted due to exceptional unavoidable reasons, then the reasons for why this consultation has not taken place must be outlined. This will include an explanation as to why the paper cannot be deferred to a later time period to allow consultation to take place. A noting recommendation may also be provided that states consultation has not taken place.

14 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:

14.1 cannot be funded through reprioritisation from within existing baselines; and

14.2 cannot be deferred until the next Budget.

15 All papers seeking decisions with financial implications must comply with the Treasury Guidance on Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments.[4]

15a Papers that seek 'approval in principle' decisions to funding proposals outside of the Budget process should be avoided wherever possible. If such recommendations are unavoidable then they must be accompanied by a recommendation that notes that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

16 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the State Sector Reform and Expenditure Control Committee (SEC) for consideration (in addition to consideration by the relevant policy committee) to ensure consistency with the Government's overall fiscal objectives.

17 Any additional funding approved outside the Budget process will be met from the between Budget(general) contingency. This is a limited amount of funding set aside as part of the annual Budge package.

18 Alternatively, Cabinet may decide to set aside additional funding for specific items on which it is yet to make a final decision (a tagged contingency). All tagged contingencies cease to exist after 1 February of the following year[5], unless Cabinet agrees otherwise.

19 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget Moratorium* is necessary to ensure that the documents tabled on Budget Day accurately reflect all decisions taken by Ministers.

Commented [PL1]: Is a similar moratorium needed prior to publication of HYEFUs and PREFUs?

Section C: Proposals with financial implications outside the Budget process that may be approved by joint Ministers

20 The Minister of Finance and the appropriation Minister ("joint Ministers") can approve the following changes to baselines:[6]

20.1 transferring funding between appropriations within a financial year (fiscally neutral adjustments);

20.2 transferring funding within an appropriation across financial years (expense and capital transfers, and in-principle expense and capital transfers);

20.3 transferring underspends to the next financial year (retention of underspends);

20.4 bringing forward spending for a specific investment purpose from subsequent financial years (front-loading of spending);

20.5 technical adjustments; and

20.6 forecast adjustments.

21 For all changes outlined in this section, joint Ministers' approval is sought via a letter from the appropriation Minister(s) to the Minister of Finance outlining the proposal. Departments should consult and provide a copy of the letter to their Treasury Vote team so that the Treasury can advise the Minister of Finance and also ensure that the Controller and Auditor-General is aware of any changes to appropriations.

22 For the sake of efficiency and convenience, approval for funding changes should be sought either through the Budget process or the twice-yearly baseline update process. Making changes outside of these processes can lead to duplication of work for departments and the Treasury.

23 Where joint Ministers cannot agree on a proposal and one Minister still wants to proceed with it, the proposal should be referred to Cabinet through the appropriate committee.

24 The financial implications that arise from proposals must be included in the Estimates and/or the Supplementary Estimates for the relevant year, and in the interim (where necessary), the expenses, capital expenditure or increase in projected net assets in the current year are met from Imprest Supply. These changes should also flow through to accountability documents (such as output plans and Information Supporting the Estimates) as appropriate.

25 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations in the current fiscal year after Cabinet signs off the Budget package except in very rare situations where it has been agreed that there are to be Additional Supplementary Estimated and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[7]

Transferring funding between appropriations within a financial year - Fiscally neutral adjustments (FNA)

26 Fiscally neutral adjustments are used to transfer funding between appropriations within a single financial year. For example, a fiscally neutral adjustment may be needed to give effect to a Cabinet decision to shift funding from one programme to another.

26a. The overriding principle is that fiscally neutral adjustments have no impact on the operating balance or debt.

27 Fiscally neutral adjustments can be:

27.1 made between any two annual appropriations, except benefits or related expenses)[8] and borrowing expenses; or

27.2 an increase to an appropriation that is fully offset by an increase in third party revenue, or revenue from other departments [check – is this FNA just for revenue other or is it also revenue dept? – previously only 3rd party revenue]

27.3 made between two multi-year appropriations (MYAs), except for MYAs for historical Treaty of Waitangi settlements

27.4 made between a multi-year appropriation and an annual appropriation (or vice versa) over the life of the MYA.

27a, Where the fiscally neutral adjustment involves an MYA (27.3 and 27.4 above) the adjustment must be fiscally neutral over the period of the MYA, but necessarily fiscally neutral in any particular financial year.

27b. Third party fees are only meant to recover costs, not to generate a surplus as this could be viewed as a tax and Parliament's explicit approval is needed to impose a tax. For multiclass appropriations (MCAs), any increase in revenue should only be used to recover costs within the specific category that the third revenue is generated, rather than other categories within the MCAs. [need to check that we agree on this – alternatively we could allow third party to be used in other categories within an MCA and only restrict if there are specific provisions preventing this when MCA established]

28 Where a fiscally neutral adjustment is to be made between capital and operating appropriations, the resulting changes in depreciation and capital charge costs should be managed within baselines.

29 The following guidelines apply where the operating expenses are ongoing:

29.1 *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.

29.2 *Operating to capital:* up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

29b In the circumstances outlined above the FNA may be approved by joint ministers. Where the proposal for an operating to capital swap (or vice versa) is for shorter periods of time eg for ICT initiatives, then such proposals should be considered by Cabinet.

29c. The two guidelines above simply reflect the government's fiscal management approach for capital (ten-year horizon) and operating (four-year, or 'forecast period' horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transferring funding within an appropriation across financial years - Expense and capital transfers (ECTs)

30 Expense and capital transfers are used to transfer funding from the current year to the same appropriation, *including multi-category appropriations*, in one or more of the next three years, where there is:

30.1 no change to the output or capital asset being purchased; and

30.2 no change to the total amount of expenditure across affected years.
(check that we want ECTs to also apply to MCAs – have added MCAs to para 30 above. Also do we care want ECT to be limited to specific categories within the MCA. I think we would want ECTs to apply to MCAs and the conditions in 30.1 and 30.2 are sufficient for the MCAs)

31 Expense and capital transfers can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year to which the transfer is proposed.

32 The Minister's letter seeking approval for an expense and capital transfer must describe the reasons for the delay in expenditure. Funding should not be repeatedly transferred.

33 Expense and capital transfers can be made in any type of annual appropriation, except benefit and unrequited expenses or borrowing expenses. They also do not apply to other non annual appropriations such as revenue dependent appropriations, permanent legislative authority appropriations, and multi year appropriations.

In-principle expense and capital transfers

34 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount is confirmed once it is known, usually during the October baseline update process (after audited financial results for the previous financial year are available).

35 Approval for in-principle transfers is usually sought during the March baseline update process. Any later requests should be made after Budget Day and before the deadline specified in the annual Budget guidance (usually around 15 June). These requests are then compiled by the Treasury for the Minister of Finance to consider before the end of the financial year.

36 Expenses cannot be incurred against the amount transferred in-principle until the final amount has been confirmed by joint Ministers. In limited circumstances where expenses must be incurred before the audited financial results are available, Ministers can seek an early confirmation of a conservative amount, sufficient to cover necessary expenses, of that already agreed in-principle.[9] Any remaining amount can be confirmed in the October baseline update.

37 A key difference between actual and in-principle expense and capital transfers is in the recording of the change in the Estimates and Supplementary Estimates. For actual expense and capital transfers, the reduction in baselines is recorded in the current year's

Supplementary Estimates and the corresponding increase recorded in the following year's Estimates. Whereas for in-principle expense and capital transfers, the reduction is not recorded in either this year's Supplementary Estimates or this year's Estimates with only the increase in baselines recorded in the following year's Supplementary Estimates. Due to this, actual expense transfers are preferred to those that are in-principle.

Transferring underspends to the next financial year - Retention of underspends (RoUs)

38 Underspends are defined as funding remaining at the end of the financial year as a result of:

38.1 savings made through gains in efficiency; and/or

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

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

40 To encourage departments to make savings by improving efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends within departmental expense appropriations *and multiclass appropriations*. This funding can then be transferred to the next financial year, and also transferred to any other departmental appropriations.[10][check remove footnote 10 and allow MCAs to have RoUs]

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

42 Where approval to retain underspends is sought after the March baseline update but before 30 June, half the amount[11] can be retained. Underspends must be confirmed on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.

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

44 Proposals to retain underspends must explain:

44.1 how underspends arose (as per paragraph 38); and

44.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward spending for a specific investment purpose from subsequent financial years - Front-loading of spending (FLoS)

45 Front-loading of spending can be used to bring forward funding in any departmental expense appropriation[12] within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears. For multi-category appropriations FLoS can only be used for departmental categories within an MCA. [check that this is Tsy position – ie reflects Cabinet position but Cabinet position was reached prior to creation of MCAs]

46 Proposals to front-load spending must explain:

46.1 how the investment or project will permanently and sustainably reduce expenditure in outyears;

46.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

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

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

48 All capital proposals must satisfy the requirements of Cabinet Office Circular XXXX (*Capital Asset Management in Departments and Crown Entities: Expectations*) where necessary and appropriate, and these prevail over the rules provided in this circular.

Technical adjustments

49 Technical adjustments include:

49.1 technical accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);

49.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;

49,3 any technical approvals (e.g., to the establishment of appropriations and their scopes) needed to give effect to a policy decision already made by Cabinet;

49.4 changing the indicative spending profile for a multi-year appropriation (MYA);

49.5 establishing or amending the title and scope of appropriations (where the changes do not meet the criteria for submission to Cabinet); and
49.6 write off of Crown assets either in full or part that do not involve significant policy decisions.

49a. Chief Executives are delegated the authority to progress the write offs of Crown assets as required. These write-offs are to be undertaken as soon as practically possible. [Geoff/Tim/Peter – does this proposed text adequately provide for the more timely asset writeoffs you have proposed?]

Forecast adjustments

50 Forecast adjustments include:

50.1 changes to the amount to be incurred under a Permanent Legislative Authority (PLA);

50.2 changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense;[13] and

50.3 where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update. Approval of forecast changes in this circumstance is not automatic and consideration should be given to whether increased costs can be met from baselines.

51 Changes in forecast expenditure due to policy decisions cannot be approved as forecast changes, but must be considered as part of the change in policy.

Section D: Department' authority to incur expenses and capital expenditure

General position

All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether:

a. the appropriation is for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure,
b. the appropriation is a multi-category appropriation, and
c. the appropriation is administered by the department incurring the expense or by another department.

The general position is summarised in this table:

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator.[2] s9(2)(h)
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister.[3]	No authority.
Multi-category appropriations (MCAs)[4]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator s9(2)(h)

Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

a. the Public Finance Act 1989, including ensuring that all expenditure is within the scope of the appropriation,[5]

[2] Section 2 of the Public Finance Act defines the appropriation administrator as: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.

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[4] A multi-category appropriation is not itself a departmental or non-departmental appropriation. Rather, an MCA may include categories of departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.

[5] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided that there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from the known, future baselines for the Vote.

b. any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and
c. all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer (including MCAs)

Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations[6], on behalf of the Crown in accordance with the terms, and subject to the restrictions, set out in this circular.

Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

a. to supply outputs [or is to achieve certain outcomes] negotiated with the appropriation Minister or third party client, or
b. with another department, under which that other department may use the appropriation.

The terms of a direction from the appropriation Minister to another department regarding the use of the appropriation may also impact on the appropriation administrator's use of the appropriation.

Notwithstanding any other authority, proposals to incur expenses[7] in relation to publicity; compensation or damages in settlement of claims; or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table at paragraph [x] below.

In determining whether the expenses fall under the approval thresholds set out in the table, the appropriation Minister or the departmental chief executive must ensure that all associated costs have been included (e.g. all sub-contracts or multiple payments relating to one overall transaction).

Type of expense	Amount[8]	Approval required	Comment
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.
	More than $150,000	Appropriation Minister responsible for the appropriation	
Compensation or	$150,000 or less	Chief executive (or	Claims under

[6] Refer to CO (10) 2.
[7] Such expenses would be incurred under a departmental output expense or other expense appropriation.
[8] All amounts are GST exclusive.

damages in settlement of claims		his or her delegate)	$75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office.
	More than $150,000 - $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement.
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation.
	More than $30,000 - $75,000	Appropriation Minister	
	More than $75,000	Cabinet	
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (10) 2.		

Departments' authority to use non-departmental appropriations and appropriations administered by another department (including MCAs)

Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the Minister (and any sub-delegation from the chief executive). Departments have no authority to use non-departmental appropriations administered by another department.

For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another departments at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

Further information on the administration and use appropriations is contained in the Technical guide to the Administration and Use of appropriations: http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

Commented [GB2]: For the completeness and clarity of this circular, I still think it would be good to include some context about the source of the authority (which I don't quite thing the Tsy publication covers in the same way, although I haven't read it in detail yet) – otherwise we are only covering off the first row of the table.

Section E: Further information

57 If you require further advice or information please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

58 Further information on writing Cabinet papers can be found on the Cabinet Office's CabGuide website at http://cabguide.cabinetoffice.govt.nz/. Further information on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.

XXX
Secretary of the Cabinet

Enquiries:
Your Treasury Vote Team

Footnotes:

1 Financial implications include any changes to appropriations or net assets and any impact or likely impact on any part of the Crown's balance sheet or fiscal position (including revenue changes, contingent liabilities or specific fiscal risks).

2 See Treasury website for the guidance documents and CFISnet for the Treasury circulars that relate to the Budget process.

3 All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

4 Guidance on Financial Recommendations is available on the Treasury website.

5 For example, a tagged contingency created in Budget2011 will cease to exist on 1 February 2012.

6 A summary of these changes is attached in the Annex to this circular.

7 Alternative mechanisms for unappropriated expenditure are provided in sections 26A and 26B of the Public Finance Act 1989.

8 Fiscally neutral adjustments can be made for very limited number of “capped” benefits and related expenses.

9 Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

10 Cabinet has agreed that underspends cannot be transferred from or to a non-departmental expense appropriation.

11 The distinction between the amount of underspends that can be retained (full or half the amount) depending on the timing of the request (by or after the March baseline update) is made because the government's borrowing requirements for the current fiscal year are determined on the basis of the baselines as they stand at March baseline update. In addition, it also provides an incentive for agencies to manage baselines effectively and identify underspends early.

12 Cabinet has agreed that front-loading of spending cannot be carried out for any non-departmental expense appropriation.

13 Where there is a change in the revenue and a corresponding change in the expenses, these are considered to be fiscally neutral adjustments and discussed under paragraph 27.2.

14 To the extent that property and other long-term operating agreements are required to be entered into, that extend beyond any appropriations granted by Parliament, this may be done provided these costs can reasonably be expected to be met from the known, future baselines for the Vote.

Annex - Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of Four-year BudgetPlans and the Budgetprocess, joint Ministers can approve proposals with financial implications unless they are within: • the criteria set out in paragraph 5.12 of the *Cabinet Manual;* or • the general rule in paragraph 5.11 of the *Cabinet Manual* in which case they must go to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally Neutral Adjustments (FNAs) and Expense and/or Capital Transfers (ECTs)	Any annual appropriations except BOREs and Borrowing Expenses ECTs and FNAs cannot be combined.
In-principle ECTs	Requests for in-principle ECTs should be made through the March baseline update or after BudgetDay and before a deadline to be specified each year in the annual Budgetguidance. Requests will be compiled by the Treasury for consideration by the Minister of Finance.
Retention of Underspends (RoUs)	Applies only to departmental expense appropriations
Front-loading of Spending (FLoS)	Front loading of spending can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.
Technical adjustments	• Accounting adjustments (such as asset revaluation) • Changes to capital charge • Changes to the profile of MYA

	• Establishing and amending the title and scope of appropriations
Forecast changes	• Changes to the amount of a PLA • Changes in Crown revenue • Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis Forecasting changes are not automatic and increases in costs should be met from baselines where possible.

CO XXX

Intended for:

- All Ministers
- All Chief Executives
- Speaker of the House
- Controller and Auditor-General

Copies to:

- All Senior Private Secretaries
- All Private Secretaries

Guidelines and Requirements for Proposals with Financial Implications

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 (*Guidelines for requirements for proposals with financial implications*) and takes effect from the date of issue. The key changes in this circular from CO (11) 6 are to reflect Cabinet's intention to increase flexibility of financial management for Ministers and departments by:

- providing flexibility around funding to multi-category appropriations
- changes to the approval authority from Cabinet to joint Ministers for some financial requests
- updating the circular to refer to the current role of Four-year Plans
- clarifying the delegations given to departments (through chief executives and their delegates) following amendments to the Public Finance Act in 2013.

2 Sections A-C of this circular covers the following types of financial change and associated mechanisms. All proposals with financial implications should be informed by an agency's medium term strategy as reported in their Four-year plans.

<table>
<tr><th>Section</th><th>Types of financial change</th><th>Mechanisms</th><th>Who has authority?</th></tr>
<tr><td>Section A: Making changes through the Budget process</td><td>Any proposal and any type of change</td><td>Budget initiatives process</td><td>Cabinet</td></tr>
<tr><td>Section B: Changes made outside the Budget process that must be submitted to Cabinet</td><td>All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)</td><td>Cabinet paper</td><td>Cabinet</td></tr>
<tr><td rowspan="6">Section C: Changes outside the Budget process that may be approved by joint Ministers</td><td>Transferring funding between appropriations within a financial year</td><td>Fiscally neutral adjustments (FNAs)</td><td rowspan="6">The Minister of Finance and the appropriation Minister[1] (“Joint Ministers”)</td></tr>
<tr><td>Transferring funding within an appropriation across financial years</td><td>Expense and capital transfers (ECTs)

In-principle expense and capital transfers (IPECTs)</td></tr>
<tr><td>Transferring underspends to the next financial year</td><td>Retention of underspends (RoUs)</td></tr>
<tr><td>Bringing forward spending for a specific investment purpose from subsequent financial years</td><td>Front-loading of spending (FLoSs)</td></tr>
<tr><td colspan="2">Technical adjustments and approvals</td></tr>
<tr><td colspan="2">Forecasting adjustments</td></tr>
</table>

3 Section D of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

[1] Section 2 of the Public Finance Act defines the appropriation Minister as: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and(c) in relation to any other appropriation, means the Minister responsible for that appropriation

4 Ministers and chief executives should ensure that:

all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular; and

the material in this circular is conveyed to all departments, departmental agencies, Crown entities, Public Finance Act 1989 Schedule 4 organisations, Public Finance Act 1989 Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible.

Other areas of Guidance that should be considered alongside this circular

5 The guidance outlined in this Cabinet Office circular should be viewed alongside other areas of guidance (if applicable):

- Other Cabinet Office circulars (http://www.dpmc.govt.nz/cabinet/circulars) and in particular the Cabinet Office Circular XXXX (Capital Asset Management in Departments and Crown Entities: Expectations)
- Treasury circulars (http://www.treasury.govt.nz/publications/guidance/circulars) including the annual Treasury Budget circular (normally issued in December or January each year) and annual Guidance for the Four-year Plan process
- Treasury Instructions http://www.treasury.govt.nz/publications/guidance/instructions

Relationship between Cabinet Office Circulars, Treasury Instructions and Treasury Circulars

Cabinet Office circulars are issued on matters which are of general interest to Ministers and departments. Cabinet Office circulars complement the *Cabinet Manual* and *CabGuide*. *The Cabinet Office circulars* issued provide detailed guidance on central government processes. Circulars are incorporated into the *Cabinet Manual* or the *CabGuide* when the publications are updated.

Treasury Instructions generally specify what the Chief Executive of a department of the Government must do. Treasury Instructions are signed on behalf of the Secretary to the Treasury and all Chief Executives are required to comply with them to the extent that they apply to the relevant department.

The main purpose of **Treasury Circulars** is to provide guidance and information, and to request financial information. Treasury Circulars may cover matters that are outside the scope of Treasury Instructions, such as the budget timetable. Since Treasury Instructions are updated annually, Treasury Circulars may also cover matters that are to take effect immediately (but may later be incorporated within Treasury Instructions as part of an annual update).

Treasury Circulars are intended principally for departmental (and sometimes Crown Entities and State-owned enterprises) use and they are usually addressed to Chief Executives/Chief Financial Officers (CEs/CFOs).

Section A: Making financial changes through the Budget process

6 Proposals that request additional funding or that make significant changes to policy settings that have financial implications need to be submitted to Cabinet for their consideration through the Budget initiatives process.

7 The overriding principles that decide whether matters should be considered to significant or not, and warrant consideration by Cabinet, are provided by the Cabinet manual

- are within the criteria set out in paragraph 5.12 of the *Cabinet Manual*, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

- meet the general rule set out in paragraph 5.11 of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*

8 Where there is any doubt as to whether or not a matter is significant or not, officials should treat the initiative as a significant Budget initiative.

9 Once Cabinet decisions on the Budget have been made, the resulting appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

10 Guidance on the Budget process and its timeframes will be provided by the Treasury.[2]

Section B: Proposals with financial implications outside of the Budget process that must be submitted to Cabinet

11 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in paragraph 5.12 of the *Cabinet Manual* (as summarised in para 7 above).

[2] See Treasury website for the guidance documents and CFISnet for the Treasury circulars that relate to the Budget process

12 Again for the avoidance of doubt, that means that any proposal seeking additional funding must be submitted to Cabinet.

13. Matters that are not significant, such as those outlined in section C below can be submitted for joint Ministers (being The Minister of Finance and the appropriation Minister).

Process

14 The appropriation Minister must personally consult the Minister of Finance before submitting any papers seeking additional funding to Cabinet (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

15 Departments must consult[3] the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.

16 If the Treasury comments or alternative recommendations are amended without approval from the Treasury then the Cabinet Office should be informed as soon as possible. The Cabinet Office, where possible, would notify the chair of the relevant Cabinet committee of the amendments. The Chair would then be in a position to consider taking the paper off the Cabinet committee agenda until the Treasury recommendations and comments are inserted without amendment.

17 If the Treasury has not been consulted due to exceptional, and/or unavoidable reasons, then the reasons for why this consultation has not taken place must be outlined. This will include an explanation as to why the paper cannot be deferred to a later time period to allow consultation to take place. A noting recommendation should also be provided that states consultation has not taken place.

18 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:

- cannot be funded through reprioritisation from within existing baselines; and
- cannot be deferred until the next Budget.

[3] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form

19 All papers seeking decisions with financial implications must comply with the Treasury Guidance on Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments.[4]

20 Papers that seek 'approval in principle' decisions to funding proposals outside of the Budget process should be avoided wherever possible. If such recommendations are unavoidable then they must be accompanied by a recommendation that notes that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

21 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the State Sector Reform and Expenditure Control Committee (SEC) for consideration (in addition to consideration by the relevant policy committee) to ensure consistency with the Government's overall fiscal objectives.

22 Any additional funding approved outside the Budget process will be met from the between Budget (general) contingency. This is a limited amount of funding set aside as part of the annual Budget package.

23 Alternatively, a tagged contingency may be established by Cabinet to set aside additional funding for specific items. While tagged funding is provided in this contingency it cannot be accessed until final approval is obtained. All tagged contingencies cease to exist after 1 February of the following year[5], unless Cabinet agrees otherwise.

24 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget Moratorium* is necessary to ensure that the documents tabled on Budget Day accurately reflect all decisions taken by Ministers.

Section C: Proposals with financial implications outside the Budget process that may be approved by joint Ministers

25 The Minister of Finance and the appropriation Minister ("joint Ministers") can approve the following changes to baselines provided there are no significant policy matters that warrant consideration by Cabinet:[6]

- transferring funding between appropriations and/or between departmental capital injections within a financial year (fiscally neutral adjustments);

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[4] Guidance on Financial Recommendations is available on the Treasury website.
[5] For example, a tagged contingency created in Budget2015 will cease to exist on 1 February 2016
[6] A summary of these changes is attached in the Annex to this circular.

- transferring funding within appropriations across and/or between departmental capital injections across financial years (expense and capital transfers, and in-principle expense and capital transfers);
- transferring underspends to the next financial year (retention of underspends);
- bringing forward spending for a specific investment purpose from subsequent financial years (front-loading of spending);
- technical adjustments;
- forecast adjustments; and
- a combination of the above changes.

26 For all changes outlined in this section, joint Ministers' approval is sought via a letter from the appropriation Minister(s) to the Minister of Finance outlining the proposal. Departments should consult and provide a copy of the letter to their Treasury Vote team so that the Treasury can advise the Minister of Finance and also ensure that the Controller and Auditor-General is aware of any changes to appropriations.

27 For the sake of efficiency and convenience, approval for funding changes should be sought either through the Budget process or the twice-yearly baseline update process. Making changes outside of these processes can lead to duplication of work for departments and the Treasury.

28 Where joint Ministers cannot agree on a proposal and one Minister still wants to proceed with it, the proposal should be referred to Cabinet through the appropriate committee.

29 The financial implications that arise from proposals must be included in the Estimates and/or the Supplementary Estimates for the relevant year, and in the interim (where necessary), the proposed expenses, capital expenditure or increase in capital injection authorisations in the current year are met from Imprest Supply. These changes should also flow through to accountability documents (such as output plans and supporting information in the Estimates) as appropriate.

30 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations in the current fiscal year after Cabinet signs off the Budget package except in very rare and exceptional situations where it has been agreed that there are to be Additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[7]

[7] Alternative mechanisms for unappropriated expenditure are provided in sections 26A and 26B of the Public Finance Act 1989.

Transferring funding between appropriations and/or departmental capital injections within a financial year - Fiscally neutral adjustments (FNA)

31 Fiscally neutral adjustments are used to transfer funding between appropriations and/or departmental capital injections within a single financial year. For example, a fiscally neutral adjustment may be needed to give effect to a Cabinet decision to shift funding from one programme to another.

32. The overriding principle is that fiscally neutral adjustments must have no impact on the operating balance or debt.

33 Fiscally neutral adjustments can be:

- made between any two annual appropriations, except benefits or related expenses)[8] and borrowing expenses; or
- made between two multi-year appropriations (MYAs), except for MYAs for historical Treaty of Waitangi settlements; or made between a multi-year appropriation and an annual appropriation (or vice versa)[9]
- departmental capital injections fully offset by departmental capital withdrawals
- departmental capital injections or withdrawals fully offset by decreases or increases, respectively, in non departmental capital expenditure appropriations
- an increase to an appropriation that is fully offset by an increase in third party revenue (either departmental or Crown).[10] For multi-category appropriations (MCAs), any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated, rather than other categories within the MCAs.

34 Where a fiscally neutral adjustment affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.

35 The following guidelines apply in order for a transfer between operating and capital (or vice versa) to classified as a fiscally neutral transfer which can be approved by joint ministers:

[8] Fiscally neutral adjustments can be made for very limited number of "capped" benefits and related expenses.
[9] Where the fiscally neutral adjustment involves an MYA the adjustment must be fiscally neutral over the period of the MYA, but not necessarily fiscally neutral in any particular financial year.
[10] Third party fees are meant only to recover costs, not to generate a surplus as this could be viewed as a tax and Parliament's explicit approval is needed to impose a tax.

- *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.

- *Operating to capital:* up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

36 Where the proposal is for the sum of capital to cover fewer than 10 years of the proposed operating expenses but the operating increase is to continue into outyears, the proposal should be submitted to Cabinet for consideration.

37. The two guidelines above simply reflect the government's fiscal management approach for capital (ten-year horizon) and operating (four-year, or 'forecast period' horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transferring funding within an appropriation across financial years - Expense and capital transfers (ECTs)

38 Expense and capital transfers are used to transfer funding from the current year to the same appropriation, including multi-category appropriations, in one or more of the next three years, where there is:

- no change to the output or capital asset being purchased; and

- no change to the total amount of expenditure across affected years.

39 Expense and capital transfers can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year to which the transfer is proposed.

40 The Minister's letter seeking approval for an expense and capital transfer must describe the reasons for the delay in expenditure. Funding for a specific and discrete project should not be repeatedly transferred.

41 Expense and capital transfers (ECTs) can be made in relation to any type of annual appropriation, except benefits or related expenses or borrowing expenses. They do not apply to non standard annual appropriations, such as revenue dependent appropriations, permanent legislative authority appropriations, and multiyear appropriations.

42. ECTs can also be made in relation to departmental capital injections. Operating baselines should not be adjusted for resulting changes in depreciation and capital charge in the case of a departmental capital transfer.

In-principle expense and capital transfers

43 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount is confirmed once it is known, usually during the October baseline update process (after audited financial results for the previous financial year are available).

44 Approval for in-principle transfers is usually sought during the March baseline update process. Approvals cannot be sought between the time final Cabinet decisions on the Budget and Budget Day (ie during the Budget moratorium) Any later requests should be made after Budget Day and before the deadline specified in the annual Budget guidance (usually around 15 June). These requests are then compiled by the Treasury for the Minister of Finance to consider before the end of the financial year.

45 Expenses cannot be incurred against the amount transferred in-principle until the final amount has been confirmed by joint Ministers. In limited circumstances where expenses must be incurred before the audited financial results are available, Ministers can seek an early confirmation of a conservative amount, sufficient to cover necessary expenses, of that already agreed in-principle.[11] Any remaining amount can be confirmed in the October baseline update.

46 A key difference between actual and in-principle expense and capital transfers is in the recording of the change in the Estimates and Supplementary Estimates. For actual expense and capital transfers, the reduction in baselines is recorded in the current year's Supplementary Estimates and the corresponding increase recorded in the following year's Estimates. However for in-principle expense and capital transfers, the reduction is recorded in neither this year's Supplementary Estimates nor the following year’s Estimates. The increase in baselines from the in principle expense and capital transfer is recorded only in the following year's Supplementary Estimates. Due to this difference in level of transparency, actual expense transfers are preferred to those that are in-principle.

Transferring underspends to the next financial year - Retention of underspends (RoUs)

47 Underspends are defined as funding remaining at the end of the financial year as a result of:

- savings made through gains in efficiency; and/or

[11] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

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

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

49 To encourage departments to make savings by improving efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends within departmental and non departmental output expense appropriations and department and non departmental output expense categories of multiclass appropriations. This funding can then be transferred to the next financial year, and also transferred to any other departmental or non-departmental output expense appropriations.

50 RoUs cannot be used for departmental capital injections.

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

52 Where approval to retain underspends is sought after the March baseline update but before 30 June, half the amount[12] can be retained. Underspends must be confirmed on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.

53 Any proposal to retain underspends received after 30 June will be declined.

54 Proposals to retain underspends must explain:

- how underspends arose (as per paragraph 47); and
- what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward spending for a specific investment purpose from subsequent financial years - Front-loading of spending (FLoS)

[12] The distinction between the amount of underspends that can be retained (full or half the amount) depending on the timing of the request (by or after the March baseline update) is made because the government's borrowing requirements for the current fiscal year are determined on the basis of the baselines as they stand at March baseline update. In addition, it also provides an incentive for agencies to manage baselines effectively and identify underspends early.

55 Front-loading of spending can be used to bring forward funding in any departmental or non departmental output expense appropriation within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears. For multi-category appropriations, FLoS can only be used for departmental or non departmental output expense categories within the MCA.

56. FLoS cannot be used for any other type of appropriation/categories, or for departmental capital injections.

57 Proposals to front-load spending must explain:

- how the investment or project will permanently and sustainably reduce expenditure in outyears;
- any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and
- what other funding options were considered and why the front-loading of spending is the preferred option.

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

Technical adjustments and approvals

59 Technical adjustments include:

technical accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);

automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;

changing the indicative spending profile for a multi-year appropriation (MYA);

shifting the indicative spending profile between categories of an multiclass appropriation (subject to any limits agreed by Ministers in advance when the MCA was established)

establishing or amending the title and scope of appropriations (where the changes do not meet the criteria for submission to Cabinet);

60. Technical approvals are those needed to give effect to a policy and funding decision already made by Cabinet. These include the subsequent establishment of appropriations and their scopes.

Write-off of Crown Assets

61 The responsible Minister for a department and the Minister of Finance have the authority to delegate to a chief executive the writing-off Crown Assets. This delegation may be given following a request by a chief executive and is considered on a case by case basis.

62 The delegation will stipulate the regularity of reporting that a chief executive must make to ministers on the write-off of Crown Assets that has been approved under delegation.

63 A non-departmental other expense appropriation is required to cover the expense of any write-off of a Crown asset that is approved.

Forecast adjustments

64 Forecast adjustments include:

- changes to the amount to be incurred under a Permanent Legislative Authority (PLA);
- changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense;[13] and
- where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update. Approval of forecast changes in this circumstance is not automatic and consideration should be given to whether increased costs can be met from baselines.

65 Changes in forecast expenditure due to policy decisions cannot be approved as forecast changes, but must be considered as part of the change in policy.

Section D: Departmental' authority to incur expenses and capital expenditure

General position

[13] Where there is a change in the revenue and a corresponding change in the expenses, these are considered to be fiscally neutral adjustments and discussed under paragraph 27.

66 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

67 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether:

a. the appropriation is for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure,
b. the appropriation is a multi-category appropriation, and
c. the appropriation is administered by the department incurring the expense or by another department.

68 The general position is summarised in this table:

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[14] s9(2)(h)
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister.[15]	No authority.
Multi-category appropriations (MCAs)[16]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular.	At the direction of the appropriation Minister or with the agreement of the appropriation administrator. s9(2)(h)

[14] Section 2 of the Public Finance Act defines the appropriation administrator as: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.

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[16] A multi-category appropriation is not itself a departmental or non-departmental appropriation. Rather, an MCA may include categories of departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.

69 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

a. the Public Finance Act 1989, including ensuring that all expenditure is within the scope of the appropriation;[17]
b. any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and
c. all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer (including MCAs)

70 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations[18], on behalf of the Crown in accordance with the terms, and subject to the restrictions, set out in this circular.

71 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

a. to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client, or
b. with another department, under which that other department may use the appropriation.

72. The terms of a direction from the appropriation Minister to another department regarding the use of the appropriation may also impact on the appropriation administrator's use of the appropriation.

73 Notwithstanding any other authority, proposals to incur expenses[19] in relation to publicity; compensation or damages in settlement of claims; or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table at paragraph [x] below.

74 In determining whether the expenses fall under the approval thresholds set out in the table, the appropriation Minister or the departmental chief executive must ensure that all associated costs have been included (e.g. all sub-contracts or multiple payments relating to one overall transaction).

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[17] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided that there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from the known, future baselines for the Vote.
[18] Refer to CO (10) 2.
[19] Such expenses would be incurred under a departmental output expense or other expense appropriation.

Type of expense	Amount[20]	Approval required	Comment
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.
	More than $150,000	Appropriation Minister responsible for the appropriation	
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office.
	More than $150,000 - $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement.
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation.
	More than $30,000 - $75,000	Appropriation Minister	
	More than $75,000	Cabinet	
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (10) 2.		

[20] All amounts are GST exclusive.

Departments' authority to use non-departmental appropriations and appropriations administered by another department (including MCAs)[21]

75 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the Minister (and any sub-delegation from the chief executive). Departments have no authority to use non-departmental appropriations administered by another department.

76 For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

77 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to delegate to other persons.

Section E: Further information

78 If you require further advice or information please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

79 Further information on writing Cabinet papers can be found on the Cabinet Office's CabGuide website at http://cabguide.cabinetoffice.govt.nz/. Further information on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.

XXX
Secretary of the Cabinet

Enquiries:
Your Treasury Vote Team

[21] Further information on the administration and use appropriations is contained in the Technical guide to the Administration and Use of appropriations: http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

Annex - Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of the Budget process, joint Ministers can approve proposals with financial implications unless they are within: • the criteria set out in paragraph 5.12 of the *Cabinet Manual;* or • the general rule in paragraph 5.11 of the *Cabinet Manual* in which case they must go to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally Neutral Adjustments (FNAs)	Any annual appropriations except BOREs and Borrowing Expenses
In-principle ECTs	Requests for in-principle ECTs should be made through the March baseline update or after Budget Day and before a deadline to be specified each year in the annual Budget guidance. Requests will be compiled by the Treasury for consideration by the Minister of Finance.
Retention of Underspends (RoUs)	Applies only to departmental expense appropriations and departmental and non departmental expense categories of an MCA
Front-loading of Spending (FLoSs)	Front loading of spending can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.
Technical adjustments	• Accounting adjustments (such as asset revaluation) • Changes to capital charge • Changes to the profile of MYA • Establishing and amending the title and scope of appropriations
Forecast changes	• Changes to the amount of a PLA • Changes in Crown revenue • Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis Forecasting changes are not automatic and increases in costs should be met from baselines where possible.

Cabinet Office

CO (15) XX

Circular

XX March 2015

Intended for All Ministers
All Chief Executives
Speaker of the House
Controller and Auditor-General

Copies to All Senior Private Secretaries
All Private Secretaries

Note: this document is not Government policy. It is a working draft for consultation purposes that has been written in anticipation of potential Cabinet decisions in March 2015.

Guidelines and Requirements for Proposals with Financial Implications

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from XX March 2015. The main changes in this circular are:

1.1 capturing amendments to the Public Finance Act 1989 in 2013, which among other things:

- provide Ministers and departments increased flexibility to allocate resources to where they are needed most while retaining appropriate Cabinet scrutiny (e.g. through the use of multi-category appropriations);
- make clear the delegations given to departments (through chief executives and their delegates);

1.2 extending the types of changes to baselines that joint Ministers have delegated authority to approve (e.g. to retention of non-departmental output expense appropriation underspends);

1.3 capturing process and rule changes agreed by Cabinet since the date of the last circular (e.g. around the role of Four Year Plans, capital charge).

2 Sections A-C of this circular cover the following types of financial changes and associated mechanisms.

Section	Types of financial change	Mechanisms	Who has authority?
Section A: Making changes through the Budget process	Any type of change	Budget initiatives process	Cabinet
Section B: Proposed changes outside the Budget process that must be submitted to Cabinet	All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Cabinet paper	Cabinet
Section C: Proposed changes outside the Budget process that can be approved by joint Ministers	Transferring authority for incurring expenses or capital expenditure between appropriations, and/or making swaps between expense appropriations and departmental capital injections, within a financial year	Fiscally neutral adjustments (FNAs)	The Minister of Finance and the appropriation Minister[1] ('joint Ministers')
	Transferring authority for incurring expenses or capital expenditure from an appropriation, or authority for a departmental capital injection, in one financial year to one or more of the next three financial years	Expense and capital transfers (ECTs) In-principle expense and capital transfers (IPECTs)	
	Transferring output expense appropriation underspends to the next financial year	Retention of underspends (RoUs)	

[1] Section 2 of the Public Finance Act 1989 provides that the appropriation Minister: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; and (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and (c) in relation to any other appropriation, means the Minister responsible for that appropriation.

	Bringing forward authority to incur output expenses from subsequent financial years for a specific investment purpose	Front-loading of spending (FLoS)	
	Technical adjustments and approvals		
	Forecasting adjustments		

3 Section D of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

4 Ministers and chief executives should ensure that:

4.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular; and

4.2 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, Public Finance Act 1989 Schedule 4 organisations, Public Finance Act 1989 Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible.

Other areas of Guidance that should be considered alongside this circular

5 The guidance outlined in this Cabinet Office Circular should be viewed alongside the following other areas of guidance (if applicable):

5.1 Other Cabinet Office Circulars,[2] in particular Cabinet Office Circular CO (15) YY *Investment Management and Asset Performance*;

5.2 Treasury Circulars,[3] including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process; and

5.3 Treasury Instructions.[4]

[2] Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.
[3] Treasury Circulars are intended primarily for departments (though sometimes apply to Crown Entities, State-owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies), and are usually addressed to Chief Executives and Chief Financial Officers.
[4] Treasury Instructions are issued to departments under section 80(1) of the Public Finance Act 1989.

Section A: Making changes through the Budget process

6 Proposals that make significant changes to policy settings or have financial implications (e.g. request new funding) need to be submitted for Cabinet consideration through the Budget initiatives process.

7 The overarching principles that decide whether matters should be considered significant, and so warrant consideration by Cabinet, or not are set out in the Cabinet Manual. Specifically, matters should be submitted to Cabinet where they:

7.1 are within the criteria set out in paragraph 5.12 of the Cabinet Manual, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

7.2 meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.

8 Where there is any doubt as to whether a matter is significant or not per paragraph 7.1 above, officials should treat the proposal as a Budget initiative.

9 Once Cabinet decisions on the Budget have been made, the resulting changes to appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

10 Guidance on the Budget process and its timeframes will be provided by the Treasury.[5]

Section B: Proposed changes outside the Budget process that must be submitted to Cabinet

11 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in paragraph 5.12 of the Cabinet Manual (as summarised in paragraph 7.1 above).

12 Again, for the avoidance of doubt, this means any proposal seeking additional funding must be submitted to Cabinet.

13. Matters which are not significant, such as those outlined in section C below, can be submitted for agreement joint Ministers (being The Minister of Finance and the relevant appropriation Minister).

[55] See the Treasury website for guidance documents, and CFISnet for Treasury Circulars that relate to the Budget process.

Process

14 As provided in the CabGuide, the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

15 As also provided in the CabGuide, departments must consult the Treasury[6] at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.

16 If any Treasury comments or alternative recommendations are amended without approval from the Treasury, then the Cabinet Office needs to be informed as soon as possible. The Cabinet Office, where possible, will notify the Chair of the relevant Cabinet committee of the amendments. The Chair will then be in a position to consider removing the paper from the Cabinet committee agenda until the Treasury recommendations and comments have been re-inserted without amendment.

17 If the Treasury has not been consulted due to exceptional and/or unavoidable reasons, then the reason why this consultation has not taken place must be outlined. This will include an explanation as to why it is not possible for the paper to be deferred to a later time, to allow consultation to take place. A noting recommendation should also be provided stating that consultation has not taken place.

18 Any funding proposal submitted to Cabinet outside of the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it cannot:

18.1 be funded through reprioritisation from within existing baselines; and

18.2 be deferred until the next Budget.

19 All papers seeking decisions with financial implications must comply with the relevant Treasury guidance document *Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments*.

20 Recommendations seeking 'approval in principle' decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation noting that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

[6] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

21 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control (SEC) for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the Government's overall fiscal objectives.

22 Any additional funding approved outside of the Budget process will be met from the between-Budget contingency. This is a limited amount of funding set aside as part of the annual Budget package.

23 Alternatively, a tagged contingency may be established by Cabinet to set aside additional funding for a specific item. While tagged funding is set aside in this contingency, it cannot be accessed until final approval is obtained. All tagged contingencies cease to exist after 1 February of the following year,[7] unless Cabinet agrees otherwise.

24 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget Moratorium* is necessary to ensure that documents tabled in the House on Budget Day accurately reflect all decisions taken by Ministers.

Section C: Proposed changes outside the Budget process that can be approved by joint Ministers

25 The Minister of Finance and the appropriation Minister ('joint Ministers') can approve the following changes to baselines, provided there are no significant policy matters that warrant consideration by Cabinet:[8]

25.1 transfers between appropriations and/or departmental capital injections within a financial year (fiscally neutral adjustments);

25.2 transfers within appropriations or departmental capital injections across financial years (expense and capital transfers, and in-principle expense and capital transfers);

25.3 transfers of output expense appropriation underspends to the next financial year (retention of underspends);

25.4 bringing forward output expense appropriations from future financial years for a specific investment purpose (front-loading of spending);

[7] For example, a tagged contingency created in Budget 2015 will cease to exist on 1 February 2016.
[8] A summary of these changes is attached in the Annex to this circular.

25.5 technical adjustments; and

25.6 forecast adjustments.

26 For all changes outlined in this section, joint Ministers' approval is sought via a written submission from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with and provide a copy of the submission to their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.

27 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget process or twice-yearly Baseline Update processes.[9] Requesting changes outside of these processes can result in duplication of work for departments and the Treasury.

28 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.

29 Changes to appropriations and/or departmental capital injections arsing from proposed baseline changes must be included in the Estimates and/or the Supplementary Estimates, as necessary, and any increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. The changes should also flow through to relevant accountability documents (e.g. output plans and supporting information in the Estimates), as appropriate.

30 To ensure that the Supplementary Estimates are accurate, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package, except in very rare and exceptional situations where it has been agreed that there are to be Additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[10]

Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments

31 Fiscally neutral adjustments (FNAs) are used to transfer the authority for incurring expenses or capital expenditure between appropriations, and/or to make swaps between expense appropriations and departmental capital injections, both within a single financial year.

32. The overriding principle is that FNAs must have no impact on the operating balance or debt (except in the case of operating and capital 'swaps', where there are equal and offsetting impacts on the operating balance and debt).

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[9] Usually these are in March and October.
[10] Alternative mechanisms for unappropriated expenditure are provided for in sections 26A and 26B of the Public Finance Act 1989.

33 FNAs can be:

33.1 made between any two annual appropriations, except benefits or related expenses[11] and borrowing expenses; or

33.2 made between any two multi-year appropriations (MYAs), or between a MYA appropriation and an annual appropriation;[12][13] or

33.3 departmental capital injections fully offset by departmental capital withdrawals; or

33.4 departmental capital injections or withdrawals fully offset by decreases or increases, respectively, in non departmental capital expenditure appropriations; or

33.5 increases to appropriations fully offset by increases in third party revenue (either departmental or Crown).[14][15]

34 Where an FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.[16]

35 The following conditions apply in order for a transfer between operating and capital (or 'swap') to be classified as an FNA that can be approved by joint Ministers:

35.1 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;

35.2 Operating to capital: up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

36 Where the proposal is for the sum of capital to cover fewer than ten years of the proposed operating expenses but the operating increase is to continue into outyears, the proposal should be submitted to Cabinet for consideration.

37. The conditions in paragraph 35 simply reflect the Government's fiscal management approaches for capital (ten-year horizon) and operating (four-year horizon,

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[11] FNAs can be made for very limited number of 'capped' benefits and related expenses.

[12] Except for MYAs relating to historical Treaty of Waitangi settlements, which cannot be part of an FNA.

[13] Where the FNA involves an MYA, the adjustment must be fiscally neutral over the period of the MYA, but need not be fiscally neutral in any particular financial year.

[14] Third party fees are meant only to recover costs, not to generate a surplus, as this could be viewed as a tax, and Parliament's explicit approval is needed to impose a tax.

[15] For multi-category appropriations, any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.

[16] Refer also to CAB Min (10) 41/9 *Capital Charge Rules for Departments and Statutory Crown Entities*.

or 'forecast period'), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transfers within appropriations or departmental capital injections across financial years – expense and capital transfers

38 Expense and capital transfers (ECTs) are used to transfer the authority for incurring expenses or capital expenditure from the relevant appropriation, or the authority for a departmental capital injection, in one financial year to one or more of the next three financial years, where there is:

38.1 no change to the output or capital asset being purchased; and

38.2 no change to the total amount of spending across the affected years.

39 ECTs can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.

40 The Minister's submission seeking approval for an expense and capital transfer must describe the reason for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.

41 ECTs can be made in relation to any type of annual appropriation,[17] except for benefits or related expenses and borrowing expenses. ECTs do not apply to revenue dependent appropriations, permanent legislative authority appropriations, or multi-year appropriations.

42. Where the ECT relates to transfer of the authority for a departmental capital injection, departmental operating baselines should not be adjusted for consequential delays in depreciation and capital charge expenses.

In-principle expense and capital transfers

43 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount for transfer is then confirmed once known, usually as part of the October Baseline Update process (after audited financial results for the previous financial year have become available).

44 Approval for in-principle expense and capital transfers (IPECTs) is usually sought during the March Baseline Update process. Approval cannot be sought between the date of final Cabinet Budget decisions and Budget Day (the *Budget moratorium*). Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are

[17] This includes multi-category appropriations.

then compiled by the Treasury for Minister of Finance consideration before the end of the financial year.

45 Where the authority has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle,[18] sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October Baseline Update.

46 For an ECT, the reduction in baseline is included in the Supplementary Estimates for the current year, and the corresponding increase in the Estimates for the following year, both of which are tabled on Budget day. For an IPECT, however, neither the reduction nor increase in baseline is picked up in these documents; rather, (only) the increase in baselines is reflected in the Supplementary Estimates for the following year. As appropriation and departmental capital injection changes relating to ECTs are suitably transparent, they are preferred to IPECTs.

Transfers of output expense appropriation underspends to the next financial year – retention of underspends

47 Underspends are defined as funding remaining at the end of the financial year as a result of:

47.1 savings made through gains in efficiency; and/or

47.2 other savings initiatives, where the output or service has been delivered in full (in contrast, an ECT can apply when the output or service has not been fully delivered, due to circumstances outside the agency's control).

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

49 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends (RoUs) within departmental and non-departmental output expense appropriations and department and non-departmental output expense categories of multi-category appropriations. This funding can then be transferred to the next financial year, to any other departmental or non-departmental output expense appropriations and/or department or non-departmental output expense categories of multi-category appropriations.

[18] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

50 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.

51 Where approval to retain an underspend is sought prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting increase(s) in the relevant appropriation(s) for the following year. The changes will then be included in the Supplementary Estimates and Estimates.

52 Where approval to retain an underspend is sought after the March Baseline Update but before 30 June, half of the amount[19] can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which retention of the underspend was sought, and the increase included in the following year's Supplementary Estimates. Note that this is similar reporting treatment in the Estimates and Supplementary Estimates as for IPECTs.

53 Any proposal to retain underspends received after 30 June will be declined.

54 Proposals to retain underspends must explain:

54.1 how the underspends arose (as per paragraph 47); and

54.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward output expense appropriation spending from future financial years for a specific investment purpose – front-loading of spending

55 Front-loading of spending (FLoS) can be used to bring forward the authority to incur expenses from any departmental or non departmental output expense appropriation or department or non-departmental output expense category of a multi-category appropriation within the forecast period, for specific investments or projects that will permanently and sustainably reduce spending in outyears.

56. FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.

57 Proposals to front-load spending must explain:

57.1 how the investment or project will permanently and sustainably reduce spending in outyears;

[19] The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of baselines as they stand at the March Baseline Update. In addition, it provides an incentive for agencies to manage baselines effectively and identify underspends early.

57.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

57.3 what other funding options were considered, and why FLoS is the preferred option.

58 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, per the criteria described in paragraph 11.

Technical adjustments and approvals

59 Technical adjustments include:

59.1 accounting adjustments with no cash impact, such as asset revaluations;[20]

59.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;

59.3 shifting the indicative spending profile between financial years for a multi-year appropriation;

59.4 shifting the indicative spending profile between categories of a multi-category appropriation (subject to any prior limits on transfers agreed by joint Ministers); and

59.5 voluntary departmental capital withdrawals.

60. Technical approvals by joint Ministers are sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek Minister of Finance agreement to matters that are technical in nature, subject to the significant policy issues criterion described in paragraph 11. These include establishing and amending appropriations (including their titles and scope statements)[21], or adding categories to existing multi-category appropriations, to give effect to Cabinet policy and funding decisions. Such proposals will be subject to close scrutiny by the Treasury.

Write-off of Crown Assets

61 The responsible Minister for a department and the Minister of Finance can delegate to the Chief Executive of the department authority to write off Crown Assets.

[20] Where such adjustments are agreed there is no associated change in revenue Crown, and any increase in appropriation cannot be used for other purposes if the forecast expenses do not arise.
[21] Though note that Section 7B of the Public Finance Act 1989 provides that Minister of Finance approval is required to establish or amend a multi-category appropriation, including its overarching purpose statement.

This delegation may be given following a request by a Chief Executive and is considered on a case-by-case basis.

62 The delegation will stipulate the regularity of reporting that a Chief Executive must provide to Ministers on the write-off of Crown Assets that has been approved under delegation.

63 A non-departmental other expense appropriation is required to cover the expenses associated with any write-off of a Crown asset that has been approved.

Forecast adjustments

64 Forecast adjustments include:

64.1 changes to the amount to be incurred under a permanent legislative authority (PLA) appropriation;

64.2 changes in revenue (mainly Crown revenue) that are the result of an external factor and are not directly related to an expense;[22] and

64.3 necessary changes to appropriations where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update.[23]

65 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

Section D: Departmental authority to incur expenses and capital expenditure

General position

66 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the Chief Executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

[22] Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 31-37.
[23] Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.

67 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:[24]

67.1 for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;

67.2 a multi-category appropriation; or

67.3 administered by the department incurring the expense or by another department.

68 The general position is summarised in the following table:

	Appropriation is administered by the department incurring the expense	Appropriation is administered by another department
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[25]
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister	No authority
Multi-category appropriations[26]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[27]

69 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

69.1 the Public Finance Act 1989, including ensuring that all expenditure is within scope of the appropriation;[28]

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[24] Refer to section 7C(2)(c) of the Public Finance Act 1989.

[25] Section 2 of the Public Finance Act 1989 provides that the appropriation administrator: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.

[26] A multi-category appropriation may include categories of: departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.

[27] While section 7C(2)(c) does not provide that a department can only use departmental categories of a multi-category appropriation administered by another department, this is how the Treasury is interpreting the provision (it also flows from the fact that a department cannot use a non-departmental appropriation administered by another department).

[28] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a

69.2 any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and

69.3 all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer

70 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations[29] on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

71 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

71.1 to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or

71.2 with another department, under which that other department may use the appropriation.

72. The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

73 Notwithstanding any other authority, proposals to incur expenses[30] in relation to publicity; compensation or damages in settlement of claims; or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental Chief Executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

Type of expense	Amount[31]	Approval required	Comment
Publicity expenses	$150,000 or less	Chief Executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out
	More than $150,000	Appropriation Minister responsible for the appropriation	

reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines.

[29] Refer also to CO (15) YY *Investment Management and Asset Performance*.

[30] Such expenses would be incurred under a departmental output expense or other expense appropriation.

[31] All amounts are GST exclusive.

			in Appendix B of the Cabinet Manual
Compensation or damages in settlement of claims	$150,000 or less	Chief Executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than $150,000 and up to $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief Executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation
	More than $30,000 and up to $75,000	Appropriation Minister	
	More than $75,000	Cabinet	
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (15) YY *Investment Management and Asset Performance*		

Departments' authority to use non-departmental appropriations and appropriations administered by another department

75 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any sub-delegation from the Chief Executive).[32] Departments have no authority to use non-departmental appropriations administered by another department.

[32] Further information on the administration and use appropriations can be found at http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

76 For multi-category appropriations that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use multi-category appropriations administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

77 The direction or agreement must be in writing. An agreement between departments should be signed by the Chief Executives (or persons with delegated authority). The authority to incur expenses should be given to the Chief Executive, with the ability for the Chief Executive to delegate to other persons.

Section E: Further information

78 If you require further advice or information please contact your Treasury Vote team. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

79 Further information on writing Cabinet papers can be found on the Cabinet Office's website at http://cabguide.cabinetoffice.govt.nz/. Further information on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.

Michael Webster
Secretary of the Cabinet

Annex – Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of the Budget process, joint Ministers can approve proposals with financial implications in accordance with: ○ the criteria set out in paragraph 5.12 of the Cabinet Manual; or ○ the general rule in paragraph 5.11 of the Cabinet Manual Otherwise, proposals must be submitted to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally neutral adjustments (FNAs) Expense and capital transfers (ETCs)	Apply to any annual appropriations except benefits or related expenses and borrowing expenses. FNAs and ECTs cannot be combined.
In-principle ECTs (IPECTs)	Requests should be made through the March Baseline Update, or after Budget Day and before a deadline to be specified each year in the Budget guidance document (in which case requests will be compiled by the Treasury for consideration by the Minister of Finance).
Retention of underspends (RoUs)	Applies only to output expense appropriations and output expense categories of multi-category appropriations.
Front-loading of spending (FLoS)	Applies only to output expense appropriations and output expense categories of multi-category appropriations, and can be considered only in circumstances where the proposal will permanently and sustainably reduce expenses in outyears.
Technical adjustments	These include: ○ accounting adjustments with no cash impact (e.g. asset revaluations) ○ automatic adjustments relating to capital charge (e.g. as a result of rate changes) ○ shifting the indicative spending profile between financial years for multi-year appropriations or between categories of multi-category appropriations ○ voluntary capital withdrawals ○ establishing and amending the titles and scopes of appropriations or categories of multi-category appropriations.

Forecast adjustments	These include: ○ changes to the amount incurred under a permanent legislative authority appropriation ○ changes in Crown revenue caused by an external factor and not directly related to an expense ○ changes to appropriations where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis. Forecasting changes are not automatic, and increases in costs should be met from baselines where possible.

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Cabinet Office

CO (15) XX

Circular

xx March 2015

Intended for All Ministers
All Chief Executives
Speaker of the House
Controller and Auditor-General

Copies to All Senior Private Secretaries
All Private Sectretaries

This document is not Government policy. It is a working draft for consultation purposes that has been written in anticipation of potential Cabinet decisions in March 2015.

Guidelines and Requirements for Proposals with Financial Implications

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from the date of issue. Changes in this circular largely capture the increased flexibility for Ministers and departments to allocate resources to where they are needed most as provided for in the Public Finance Act 1989 (as amended in 2013) and various subsequent Cabinet-agreed process changes, while retaining appropriate Cabinet scrutiny:

- providing flexibility around funding within multi-category appropriations
- changes to the approval authority from Cabinet to joint Ministers for some financial requests
- updating the circular to refer to the current role of Four Year Plans
- making clear the delegations given to departments (through c~~C~~hief e~~E~~xecutives and their delegates) following amendments to the Public Finance Act in 2013 ~~clarifying that all appropriations are made to the Crown or to an Office of Parliament~~.

Comment [GB1]: Would be clearer just to link this to the date above (or make clear that the date above is the date of issue).

Comment [GB2]: This sentence doesn't flow, especially with the bullet points.

Comment [GB3]: Tense doesn't fit with other bullet points.

Comment [GB4]: The circular is inconsistent re whether this is capitalised or not.

Comment [GB5]: Including this here means the sentence no longer makes sense. It is not necessary to include this point in the summary. It is dealt with at paragraph 66.

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2 Sections A-C of this circular cover the following types of financial changes and associated mechanisms:~~.~~ ~~All proposals with financial implications should be informed by an agency's medium-term strategy as reported in its Four Year Plan.~~

Section	Types of financial change	Mechanisms	Who has authority?
Section A: Making changes through the Budget process~~**Section A: Making changes through the Budget process**~~	~~Any proposal and a~~Any type of change	Budget initiatives process	Cabinet
Section B: Proposed changes outside the Budget process that must be submitted to Cabinet~~**Section B: Proposed changes outside the Budget process that must be submitted to Cabinet**~~	All proposals that must be submitted to Cabinet pursuant to paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Cabinet paper	Cabinet
Section C: Proposed changes outside the Budget process that can be approved by joint Ministers~~**Section C: Proposed changes outside the Budget process that can be approved by joint Ministers**~~	Transferring funding between appropriations within a financial year	Fiscally neutral adjustments (FNAs)	The Minister of Finance and the appropriation Minister[1] ("joint Ministers")
	Transferring funding within an appropriation to subsequent financial years	Expense and capital transfers (ECTs) In-principle expense and capital transfers (IPECTs)	
	Transferring output expense appropriation underspends to the next financial year	Retention of underspends (RoUs)	

[1] Section 2 of the Public Finance Act 1989 defines the appropriation Minister as: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; and (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and (c) in relation to any other appropriation, means the Minister responsible for that appropriation.

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Comment [GB6]: This sentence is out of place/interrupts the flow of this paragraph.

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Comment [GB7]: What does this add?

Comment [GB8]: This is quite broad. Does it include or exclude the changes in the table below?

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	Bringing forward spending from subsequent financial years for a specific investment purpose	Front-loading of spending (FLoSs)	
	Technical adjustments and approvals		
	Forecasting adjustments		

3 Section D of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

4 Ministers and chief executives should ensure that:

- all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular; and
- the material in this circular is conveyed to all departments, departmental agencies, Crown entities, Public Finance Act 1989 Schedule 4 organisations, Public Finance Act 1989 Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible.

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Other areas of Guidance that should be considered alongside this circular

5 The guidance outlined in this Cabinet Office Circular should be viewed alongside the following other areas of guidance (if applicable):

- Other Cabinet Office Circulars, in particular Cabinet Office Circular CO (15) YY *Investment Management and Asset Performance*
- Treasury Circulars, including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process
- Treasury Instructions

Relationship between Cabinet Office Circulars, Treasury Instructions and Treasury Circulars

Cabinet Office Circulars are issued on matters that are of general interest to Ministers and departments. Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.

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Comment [GB10]: I think this could be written more clearly/accurately.

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Treasury Instructions, which are issued to departments under s.80(1) of the Public Finance Act 1989, generally specify what Chief Executives of government departments must do. ~~Treasury Instructions are signed on behalf of the Secretary to the Treasury, and a~~All Chief Executives of departments and departmental agencies are required to comply with the Treasury Instructions~~m to the extent that they apply to the relevant department~~.

Comment [GB11]: So does lots of legislation; be more specific.

Comment [GB12]: This doesn't add anything and isn't actually true.

The main purpose of **Treasury Circulars** is to provide guidance and information about...?, and to request financial information from departments.... Treasury Circulars may cover matters that are outside the scope of Treasury Instructions, such as the Budget timetable. Since Treasury Instructions are updated annually, Treasury Circulars may also cover matters that are to take effect immediately (but may later be incorporated within Treasury Instructions as part of an annual update).

Treasury Circulars are intended principally for departments (though sometimes Treasury Circulars apply to Crown Entities, State-owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies), and are usually addressed to Chief Executives and Chief Financial Officers.

Section A: Making changes through the Budget process

Comment [GB13]: I haven't looked at Sections A – C.

6 Proposals that make significant changes to policy settings or have financial implications (e.g. request new funding) need to be submitted to Cabinet for their consideration through the Budget initiatives process.

7 The overriding principles that decide whether matters should be considered significant, and warrant consideration by Cabinet, or not are provided by the Cabinet manual. Specifically, matters should be submitted to Cabinet where they:

- are within the criteria set out in paragraph 5.12 of the Cabinet Manual, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or
- meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*

8 Where there is any doubt as to whether a matter is significant or not, officials should treat the initiative as a significant Budget initiative. Note that matters which impinge on CO (15) YY may be a trigger for significant Kerry and Grant anything to include here e.g. capital?.

9 Once Cabinet decisions on the Budget have been made, the resulting appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

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10 Guidance on the Budget process and its timeframes will be provided by the Treasury[2].

Section B: Proposed changes outside the Budget process that must be submitted to Cabinet

11 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in paragraph 5.12 of the *Cabinet Manual* (as summarised in para 7 above).

12 Again, for the avoidance of doubt, this means that any proposal seeking additional funding must be submitted to Cabinet.

13. Matters which are not significant, such as those outlined in section C below, can be submitted for agreement joint Ministers (being The Minister of Finance and the relevant appropriation Minister).

Process

14 As provided in the CabGuide, the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

15 As also provided in the CabGuide, departments must consult the Treasury[3] at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.

16 If any Treasury comments or alternative recommendations are amended without approval from the Treasury, then the Cabinet Office needs to be informed as soon as possible. The Cabinet Office, where possible, will notify the Chair of the relevant Cabinet committee of the amendments. The Chair will then be in a position to consider removing the paper from the Cabinet committee agenda until the Treasury recommendations and comments have been re-inserted without amendment.

[2] See the Treasury website for guidance documents, and CFISnet for Treasury Circulars that relate to the Budget process.
[3] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

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17 If the Treasury has not been consulted due to exceptional and/or unavoidable reasons, then the reasons for why this consultation has not taken place must be outlined. This will include an explanation as to why it is not possible for the paper to be deferred to a later time period, to allow consultation to take place. A noting recommendation should also be provided which states that consultation has not taken place.

18 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:

- cannot be funded through reprioritisation from within existing baselines; and
- cannot be deferred until the next Budget.

19 All papers seeking decisions with financial implications must comply with the relevant Treasury guidance document Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments.

20 Recommendations seeking 'approval in principle' decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation which notes that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

21 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control (SEC) for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the Government's overall fiscal objectives.

22 Any additional funding approved outside the Budget process will be met from the between-Budget contingency. This is a limited amount of funding set aside as part of the annual Budget package.

23 Alternatively, a tagged contingency may be established by Cabinet to set aside additional funding for a specific item. While tagged funding is set aside in this contingency, it cannot be accessed until final approval is obtained. All tagged contingencies cease to exist after 1 February of the following year[4], unless Cabinet agrees otherwise.

24 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget Moratorium* is necessary to ensure that the documents tabled in the House on Budget Day accurately reflect all decisions taken by Ministers.

[4] For example, a tagged contingency created in Budget 2015 will cease to exist on 1 February 2016.

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Section C: Proposed changes outside the Budget process that can be approved by joint Ministers

25 The Minister of Finance and the appropriation Minister ("joint Ministers") can approve the following changes to baselines, provided there are no significant policy matters that warrant consideration by Cabinet[5]:

- transfers between appropriations and/or departmental capital injections within a financial year (fiscally neutral adjustments);
- transfers within appropriations or departmental capital injections across financial years (expense and capital transfers, and in-principle expense and capital transfers);
- transfers of output expense appropriation underspends to the next financial year (retention of underspends);
- bringing forward output expense appropriation spending from future financial years for a specific investment purpose (front-loading of spending);
- technical adjustments; and
- forecast adjustments.

26 For all changes outlined in this section, joint Ministers' approval is sought via a submission in writing from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with and provide a copy of the submission to their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure that the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.

27 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget or the twice-yearly[6] Baseline Update processes. Requesting changes outside of these processes can lead to duplication of work for departments and the Treasury.

28 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.

29 Changes to appropriations and/or departmental capital injections arsing from proposed baseline changes must be included in the Estimates and/or the Supplementary

[5] A summary of these changes is attached in the Annex to this circular.
[6] Usually these are in March and October.

Estimates, as necessary, and increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. These changes should also flow through to relevant accountability documents (e.g. output plans and supporting information in the Estimates), as appropriate.

30 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package, except in very rare and exceptional situations where it has been agreed that there are to be Additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill[7].

Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments

31 Fiscally neutral adjustments (FNAs) are used to transfer the authority for incurring expenses or capital expenditure between appropriations and/or to make swaps between expense appropriations and departmental capital injections, both within a single financial year.

32. The overriding principle is that FNAs must have no impact on the operating balance or debt. [Except in the case of 'swaps', where there are equal and offsetting impacts on the operating balance and debt.]

33 FNAs can be:

- made between any two annual appropriations, except benefits or related expenses)[8] and borrowing expenses; or
- made between two multi-year appropriations (MYAs), except for MYAs for historical Treaty of Waitangi settlements; or between a MYA appropriation and an annual appropriation[9]; or
- departmental capital injections fully offset by departmental capital withdrawals; or
- departmental capital injections or withdrawals fully offset by decreases or increases, respectively, in non departmental capital expenditure appropriations; or
- an increase to an appropriation that is fully offset by an increase in third party revenue (either departmental or Crown)[10][11].

[7] Alternative mechanisms for unappropriated expenditure are provided for in sections 26A and 26B of the Public Finance Act 1989.
[8] FNAs can be made for very limited number of "capped" benefits and related expenses.
[9] Where the FNA involves an MYA, the adjustment must be fiscally neutral over the period of the MYA, but not necessarily fiscally neutral in any particular financial year.
[10] Third party fees are meant only to recover costs, not to generate a surplus, as this could be viewed as a tax, and Parliament's explicit approval is needed to impose a tax.

34 Where an FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.

35 The following conditions apply in order for a transfer between operating and capital to be classified as an FNA which can be approved by joint Ministers:

- *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.
- *Operating to capital:* up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

36 Where the proposal is for the sum of capital to cover fewer than 10 years of the proposed operating expenses but the operating increase is to continue into outyears, the proposal should be submitted to Cabinet for consideration.

37. The conditions in paragraph 35 simply reflect the government's fiscal management approach for capital (ten-year horizon) and operating (four-year horizon, or 'forecast period'), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transfers within appropriations or departmental capital injections across financial years – expense and capital transfers

38 Expense and capital transfers (ECTs) are used to transfer the authority for incurring expenses or capital expenditure from the relevant appropriation or the authority for a departmental capital injection in one financial year to one or more of the next three financial years, where there is:

- no change to the output or capital asset being purchased; and
- no change to the total amount of spending across affected years.

39 ECTs can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.

40 The Minister's submission seeking approval for an expense and capital transfer must describe the reasons for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.

[11] For multi-category appropriations, any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.

41 ECTs can be made in relation to any type of annual appropriation[12], except for benefits or related expenses or borrowing expenses. ECTs do not apply to revenue dependent appropriations, permanent legislative authority appropriations, or multi-year appropriations.

42. Where the ECT relates to the transfer of the authority for a departmental capital injection, departmental operating baselines should not be adjusted for resulting delays in depreciation and capital charge expenses.

In-principle expense and capital transfers

43 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount for transfer is then confirmed once known, usually as part of the October Baseline Update process (after audited financial results for the previous financial year have become available).

44 Approval for in-principle expense and capital transfers (IPECTs) is usually sought during the March Baseline Update process. Approval cannot be sought between the date of final Cabinet Budget decisions and Budget Day (the “Budget moratorium”). Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are then compiled by the Treasury for Minister of Finance consideration before the end of the financial year.

45 Where the authority has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle[13], sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October baseline update.

46 A key difference between ECTs and IPECTs is in the recording of the changes in the Estimates and Supplementary Estimates. For an ECT, the reduction in baseline is reflected in the current year's Supplementary Estimates and the corresponding increase is reflected in the following year's Estimates. For an IPECT, however, the reduction is picked up neither in the current year's Supplementary Estimates nor in the following year’s Estimates; rather, only the increase in baselines is reflected, and then only in the following year's Supplementary Estimates. Due to their greater degree of transparency, ECTs are preferred to IPECTs.

[12] This includes multi-category appropriations.

[13] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

Transfers of output expense appropriation underspends to the next financial year - retention of underspends

47 Underspends are defined as funding remaining at the end of the financial year as a result of:

- savings made through gains in efficiency; and/or
- other savings initiatives, where the output or service has been delivered in full (in contrast, an ECT can be used when the output or service has not been fully delivered due to circumstances outside the agency's control).

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

49 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends (RoUs) within departmental and non-departmental output expense appropriations and department and non-departmental output expense categories of multi-category appropriations. This funding can then be transferred to the next financial year, to any other departmental or non-departmental output expense appropriations or department and or non-departmental output expense categories of multi-category appropriations.

50 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.

51 Where approval to retain an underspend is sought prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting increase(s) in the relevant appropriation(s) for the following year. The changes will then be reflected in the Supplementary Estimates and Estimates.

52 Where approval to retain an underspend is sought after the March Baseline Update but before 30 June, half of the amount[14] can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which retention of the underspend was sought, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as IPECTs.

53 Any proposal to retain underspends received after 30 June will be declined.

[14] The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of the baselines as they stand at March Baseline Update. In addition it provides an incentive for agencies to manage baselines effectively and identify underspends early.

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54 Proposals to retain underspends must explain:

- how underspends arose (as per paragraph 47); and
- what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward output expense appropriation spending from future financial years for a specific investment purpose – front-loading of spending

55 Front-loading of spending (FLoS) can be used to bring forward the authority to incur expenses from any departmental or non departmental output expense appropriation or department or non-departmental output expense category of a multi-category appropriation within the forecast period, for specific investments or projects that will permanently and sustainably reduce spending in outyears.

56. FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.

57 Proposals to front-load spending must explain:

- how the investment or project will permanently and sustainably reduce spending in outyears;
- any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and
- what other funding options were considered, and why FLoS is the preferred option.

58 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, per the criteria in paragraph 11.

Technical adjustments and approvals

59 Technical adjustments include:

- accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);
- automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;

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- shifting the indicative spending profile for a multi-year appropriation;
- shifting the indicative spending profile between categories of a multi-category appropriation (subject to any prior limits on transfers agreed by joint Ministers); and
- voluntary departmental capital withdrawals.

60. Technical approvals by joint Ministers are sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek Minister of Finance agreement to matters that are technical in nature, subject to the significant policy issues criterion set out in paragraph 11. These include establishing and amending appropriations (including their titles and scope statements[15]) to give effect to Cabinet policy decisions. Such proposals will be subject to close scrutiny by the Treasury.

Write-off of Crown Assets

61 The responsible Minister for a department and the Minister of Finance can delegate to the Chief Executive of the department authority to write off Crown Assets. This delegation may be given following a request by a Chief Executive and is considered on a case-by-case basis.

62 The delegation will stipulate the regularity of reporting that a Chief Executive must provide to Ministers on the write-off of Crown Assets that has been approved under delegation.

63 A non-departmental other expense appropriation is required to cover the expense associated with any write-off of a Crown asset that has been approved.

Forecast adjustments

64 Forecast adjustments include:

- changes to the amount to be incurred under a permanent legislative authority (PLA);
- changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense[16]; and
- necessary changes to appropriations where Cabinet has agreed a specific metric for determining costs based on an external variable (such as

[15] Section 7B of the Public Finance Act 1989 provides that Minister of Finance approval is required to establish or amend a multi-category appropriation, including its overarching purpose statement.

[16] Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 31-37.

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demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update[17].

65 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

Section D: Departmental authority to incur expenses and capital expenditure

General position

66 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the Chief Executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

67 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:[18]

- for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;
- a multi-category appropriation; and
- administered by the department incurring the expense or by another department.

68 The general position is summarised in this table:

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[19] s9(2)(h)

[17] Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.
[18] Refer to section 7C(2)(c) of the Public Finance Act.
[19] Section 2 of the Public Finance Act defines the appropriation administrator as: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.

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Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister	No authority
Multi-category appropriations[20]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator s9(2)(h)

s9(2)(h)

69 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

- the Public Finance Act 1989, including ensuring that all expenditure is within scope of the appropriation,[21] ~~;~~
- any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and
- all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer

70 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations[22] on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

71 Departmental Chief Executives' authority to spend under departmental appropriations is subject to any agreement:

- to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or
- with another department, under which that other department may use the appropriation.

[20] A multi-category appropriation (MCA) may include categories of: departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.

[21] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines.

[22] Refer to CO (10) 2.

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72. The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

73 Notwithstanding any other authority, proposals to incur expenses[23] in relation to publicity; compensation or damages in settlement of claims; or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental Chief Executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

Type of expense	**Amount[24]**	**Approval required**	**Comment**
Publicity expenses	$150,000 or less	Chief Executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in [Appendix B of the Cabinet Manual]
	More than $150,000	Appropriation Minister responsible for the appropriation	
Compensation or damages in settlement of claims	$150,000 or less	Chief Executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than $150,000 and less than $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief Executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the
	More than $30,000 and less than $75,000	Appropriation Minister	
	More than $75,000	Cabinet	

[23] Such expenses would be incurred under a departmental output expense or other expense appropriation.
[24] All amounts are GST exclusive.

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			payment is made out of goodwill or a sense of moral obligation
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (10) 2		

Departments' authority to use non-departmental appropriations and appropriations administered by another department

75 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any sub-delegation from the Chief Executive).[25]. Departments have no authority to use non-departmental appropriations administered by another department.

76 For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

77 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to delegate to other persons.

Section E: Further information

78 If you require further advice or information about...? please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

79 Further information on writing Cabinet papers can be found on the Cabinet Office's website at http://cabguide.cabinetoffice.govt.nz/. Further information on financial recommendations can be found on the Treasury's website at www.treasury.govt.nz.

[25] Further information on the administration and use appropriations is contained in the Technical guide to the Administration and Use of appropriations: http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf.

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Michael Webster
Secretary of the Cabinet

~~**Enquiries:**~~
~~Your Treasury Vote Team~~

Comment [GB18]: This seems redundant in light of paragraph 78.

Comment [GB19]: I haven't reviewed this Annex.

Annex - Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of the Budget process, joint Ministers can approve proposals with financial implications in accordance with: • the criteria set out in paragraph 5.12 of the Cabinet Manual; or • the general rule in paragraph 5.11 of the Cabinet Manual Otherwise, proposals must be submitted to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally neutral adjustments (FNAs)	Any annual appropriations except benefits or related expenses and borrowing expenses.
Expense and capital transfers (ECTs)	Words to come...
In-principle ECTs (IPECTs)	Requests should be made through the March Baseline Update, or after Budget Day and before a deadline to be specified each year in the Budget guidance document (in which case requests will be compiled by the Treasury for consideration by the Minister of Finance).
Retention of underspends (RoUs)	Applies only to departmental output expense and non-departmental out expense appropriations and departmental output expense and non-departmental output expense categories of multi-category appropriations.
Front-loading of spending (FLoSs)	Applies only to output expense appropriation or categories of multi-category appropriations and can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.

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Technical adjustments	• Accounting adjustments (such as asset revaluation) • Changes to capital charge • Shifting the spending profile of multi-year appropriations of between categories of a multi-category appropriation • Voluntary capital withdrawals • Establishing and amending the titles and scopes of appropriations
Forecast adjustments	• Changes to the amount of a permanent legislative authority • Changes in Crown revenue • Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis Forecasting changes are not automatic, and increases in costs should be met from baselines where possible.

Cabinet Office

CO (15) XX

Circular

XX March 2015

Intended for All Ministers
All Chief Executives
Speaker of the House
Controller and Auditor-General

Copies to All Senior Private Secretaries
All Private Secretaries

Note: this document is not Government policy. It is a working draft for consultation purposes that has been written in anticipation of potential Cabinet decisions in March 2015.

Baseline and Financial Management by Departments: Expectations

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from XX March 2015. The main changes in this circular are:

1.1 capturing amendments to the Public Finance Act 1989 in 2013, which among other things:

- provide Ministers and departments increased with flexibility to allocate resources to where they are needed most while retaining appropriate Cabinet scrutiny (e.g. through the use of multi-category appropriations);
- make clear the delegations given to departments (through chief executives and their delegates);

1.2 extending the types of changes to baselines that joint Ministers have delegated authority to approve (e.g. to retention of non-departmental output expense appropriation underspends);

1.3 capturing process and rule changes agreed by Cabinet since CO (11) 6 came into force (e.g. around the role of Four Year Plans, capital charge).

2 Ministers and chief executives should ensure that:

2.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular; and

2.2 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, Public Finance Act 1989 Schedule 4 organisations, Public Finance Act 1989 Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible.

3 Sections A-C of this circular cover the types of financial changes and associated mechanisms listed in the table below.

Section	**Types of financial change**	**Mechanisms**	**Who has authority?**
Section A: Making changes through the Budget process	Any type of change	Budget initiatives process	Cabinet
Section B: Proposed changes outside the Budget process that must be submitted to Cabinet	All proposals that meet the criteria set out in paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Cabinet paper	Cabinet
Section C: Proposed changes outside the Budget process that can be approved by joint Ministers	Transferring authority for incurring expenses or capital expenditure between appropriations and/or departmental capital injections within a financial year	Fiscally neutral adjustments (FNAs)	The Minister of Finance and the appropriation Minister[1] ('joint Ministers')
	Transferring authority for incurring expenses or capital expenditure from an appropriation, or authority for a departmental capital injection, in one financial year to one or more of the next	Expense and capital transfers (ECTs) In-principle expense and	

[1] Section 2 of the Public Finance Act 1989 provides that the appropriation Minister: (a) in relation to an appropriation made to an Office of Parliament, means the Speaker; and (b) in relation to an appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service, means the Speaker; and (c) in relation to any other appropriation, means the Minister responsible for that appropriation.

	three financial years	capital transfers (IPECTs)	
	Transferring output expense appropriation underspends to the next financial year	Retention of underspends (RoUs)	
	Bringing forward authority to incur output expenses from subsequent financial years for a specific investment purpose	Front-loading of spending (FLoS)	
	Technical adjustments and approvals		
	Forecasting adjustments		

4 Section D of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

5 Section E sets out where to go for further information.

Other areas of Guidance that should be considered alongside this circular

6 The guidance outlined in this circular should be viewed alongside the following other areas of guidance (where applicable):

6.1 Other Cabinet Office Circulars,[2] in particular Cabinet Office Circular CO (15) YY *Investment Management and Asset Performance in the State Services: Expectations*;

6.2 Treasury Circulars,[3] including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process; and

6.3 Treasury Instructions.[4]

Terms and definitions

7 Terms and definitions used in this circular are listed in the table below.

[2] Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.
[3] Treasury Circulars are intended primarily for departments (though sometimes apply to Crown Entities, State-owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies) and are usually addressed to Chief Executives and Chief Financial Officers.
[4] Treasury Instructions are issued to departments under section 80(1) of the Public Finance Act 1989.

Term	Definition
Annual appropriation	An appropriation (see separate definition) for a period of one financial year 1 July to 30 June and lapsing at the end of that year
Appropriation	The basis on which Parliament authorises the Crown and Offices of Parliament to incur expenses and capital expenditure ○ Is defined by amount, type, scope and period ○ Is the responsibility of a Minister, namely the appropriation Minister (see separate definition) ○ Must be administered by one department, namely the appropriation administrator (see separate definition), on behalf of the appropriation Minister, or by one Office of Parliament See Treasury's Guide to Appropriations for further information
Appropriation administrator	○ Where an appropriation is made to the Crown: the department that administers that appropriation on behalf of the appropriation Minister ○ Where an appropriation is made to an Office of Parliament: the Office of Parliament
Appropriation Minister	○ Where an appropriation is made to an Office of Parliament, or administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service: the Speaker ○ Any other appropriation: the Minister responsible for the appropriation
Baseline Update	The twice-yearly process through which joint Ministers agree changes to baselines as provided for in this circular and other matters that Cabinet has authorised joint Ministers to approve, usually occurring in March (March Baseline Update, or MBU) and October (October Baseline Update, or OBU)
Between-Budget contingency	Funding set aside as part of the annual Budget package to provide for decisions made between one Budget and the next
Budget moratorium	The period between the day on which Cabinet approves the Budget package and Budget Day, during which proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration
Departmental	○ In relation to expenses: expenses incurred by a department or an Office of Parliament; in relation to outputs, outputs that the department or Office of Parliament is responsible for providing ○ In relation to capital expenditure: capital expenditure incurred by a department or an Office of Parliament, and affecting the department or Office of Parliament's cash flow and balance

	sheet
Departmental capital injection	An injection of capital, usually cash but can be other assets, made by the Crown to a department or Office of Parliament to increase the Crown's net asset holding in the department or Office of Parliament
Estimates	A document presented to the House of Representatives specifying the Vote, amount, type, scope and period of each appropriation being sought in the main Appropriation Bill for a financial year, and containing the information required by section 14 of the PFA
Expense and capital transfer (ECT)	A transfer from an appropriation or departmental capital injection across financial years (actual or in-principle), as provided for in paragraphs 39-47 of this circular
Fiscally neutral adjustment (FNA)	A transfer between appropriations and/or departmental capital injections within a financial year, as provided for in paragraphs 32-38 of this circular
Forecast adjustment	o A change to the amount to be incurred under a PLA o A change in revenue resulting from an external factor and not directly related to an expense o A necessary change to an appropriation where Cabinet has agreed a specific metric for determining cost based on an external variable and agreed that there are strong policy grounds for not considering changes in cost at each baseline update
Front-loading of spending (FLoS)	The bringing forward of output expense appropriations from future financial years for a specific investment purpose that will reduce expenses in those future financial years, as provided for in paragraphs 56-59 of this circular
Joint Ministers	The Minister of Finance and the appropriation Minister (or, where the proposal involves a departmental capital injection, the responsible Minister for the department)
Multi-category appropriation	An appropriation (see separate definition) containing two or more categories of one or more of the following, where these contribute to a single overarching purpose: o Departmental output expenses o Non-departmental output expenses o Departmental other expenses o Non-departmental other expenses o Non-departmental capital expenditure
Multi-year appropriation	An appropriation (see separate definition) giving authority to the Crown or an Office of Parliament to incur expenses and capital expenditure for more than one financial years but a maximum of five financial years

Non-departmental	○ In relation to expenses: expenses incurred on behalf of the Crown, other than by a department or an Office of Parliament; in relation to outputs, outputs that a party other than the department or Office of Parliament is responsible for providing ○ In relation to capital expenditure: capital expenditure incurred on behalf of the Crown, other than by a department or an Office of Parliament, but affecting the portion of the Crown's balance sheet that the department or Office of Parliament manages on behalf of the Crown
Permanent legislative authority	Express authority given by or under an Act other than an Appropriation Act to incur expenses or capital expenditure without further appropriation
PFA	Public Finance Act 1989
Responsible Minister	○ In relation to an Office of Parliament, the Office of the Clerk of the House of Representatives, or the Parliamentary Service: the Speaker ○ In relation to any other department: the Minister responsible for the financial performance of the department
Retention of underspend (RoU)	A transfer of an output expense appropriation underspend to the next financial year, as provided for in paragraphs 48-55 of this circular
Supplementary Estimates	A document presented to the House of Representatives specifying the Vote, amount, type, scope and period of each appropriation or change to appropriation being sought in a supplementary Appropriation Bill, and containing the information required by section 17 of the PFA
Supporting information to the main or supplementary Appropriation Bill	Information supporting the appropriations being sought in the main Appropriation Bill or the appropriations or changes to appropriations being sought in a supplementary Appropriation Bill, and containing the information required by sections 15-15F of the PFA (main Appropriation Bill) or sections 17A and 17B of the PFA (supplementary Appropriation Bill)
Swap	A fiscally neutral adjustment where the transfer is between operating and capital, as provided for in paragraphs 36-38 of this circular
Tagged contingency	Funding set aside as part of the annual Budget package to provide for specific items on which Cabinet is yet to make a final decision
Technical adjustment	○ An accounting adjustment with no cash impact ○ An automatic adjustment to a department's baseline associated with a change in capital charge ○ A shift in the indicative spending profile for a multi-year appropriation or between categories of a multi-category

	appropriation ○ The necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal
Technical approval	An approval by joint Ministers to give effect to policy and funding decisions already taken by Cabinet, where the matter is sufficiently trivial not to warrant the original policy and funding decision being re-considered by Cabinet

Section A: Making changes through the Budget process

8 Proposals that make non-trivial changes to policy settings or have financial implications (e.g. request new funding) need to be submitted to Cabinet for consideration through the Budget initiatives process.

9 The overarching principles that decide whether matters warrant consideration by Cabinet, or not are set out in the Cabinet Manual. Specifically, matters should be submitted to Cabinet where they:

9.1 are within the criteria set out in paragraph 5.12 of the Cabinet Manual, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

9.2 meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.

10 If there is any doubt as to whether a matter warrants Cabinet consideration or not per the criteria described in paragraph 9.1 above, officials should err on the side of caution and assume that it does.

11 Once Cabinet decisions on the Budget have been made, the resulting changes to appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

12 Guidance on the Budget process and timeframes will be provided by the Treasury.[5]

[55] See the Treasury website for guidance documents, and CFISnet for Treasury Circulars that relate to the Budget process.

Section B: Proposed changes outside the Budget process that must be submitted to Cabinet

13 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they meet the criteria outlined in paragraph 5.12 of the Cabinet Manual (as summarised in paragraph 9.1 above)[6].

14 Again, for the avoidance of doubt, this means any proposal seeking additional funding must be submitted to Cabinet, unless Cabinet has provided a prior delegation to Joint Ministers to consider a particular matter (e.g. drawing down contingency funding).

15 Matters that do not warrant Cabinet consideration, such as those outlined in section C below, can be submitted for agreement joint Ministers.

Process

16 As provided in the CabGuide:

16.1 the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.

16.2 departments must consult the Treasury[7] at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper must include Treasury comments and/or alternative recommendations without amendment.

17 If any Treasury comments or alternative recommendations are amended without approval from the Treasury, then the department must inform the Cabinet Office as soon as possible. The Cabinet Office, where possible, will notify the Chair of the relevant Cabinet committee of the amendments. The Chair will then be in a position to consider removing the paper from the Cabinet committee agenda until the Treasury recommendations and comments have been re-inserted without amendment.

18 If the Treasury has not been consulted due to exceptional or unavoidable reasons, then the Cabinet paper must include an explanation of why consultation has not taken place and why it is not possible for consideration of the paper to be deferred to a

[6] See the CabGuide and http://www.dpmc.govt.nz/cabinet/cabinet/advice for information on requirements for Cabinet papers.
[7] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

later time to allow consultation to take place. A noting recommendation should also be provided stating that consultation with the Treasury has not taken place.

19 Any funding proposal submitted to Cabinet outside of the Budget process must not have been previously considered and declined. The submission must also demonstrate that the proposal cannot be:

19.1 funded through reprioritisation from within existing baselines; or

19.2 deferred until the next Budget.

20 All papers seeking decisions with financial implications must comply with the relevant Treasury guidance document *Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments*.

21 Recommendations seeking 'approval in principle' decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation noting that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities.

22 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control (SEC) for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the Government's overall fiscal objectives.

23 Any additional funding approved outside of the Budget process will be met from the between-Budget contingency. This is a limited amount of funding set aside as part of the annual Budget package.

24 Alternatively, a tagged contingency may be established by Cabinet to set aside additional funding for a specific item. While tagged funding is set aside in this contingency, it cannot be accessed until final approval is obtained. All tagged contingencies cease to exist after 1 February of the following year,[8] unless Cabinet agrees otherwise.

25 Proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget moratorium* is necessary to ensure that documents tabled in the House on Budget Day accurately reflect all decisions taken by Ministers.

[8] For example, a tagged contingency created in Budget 2015 will cease to exist on 1 February 2016.

Section C: Proposed changes outside the Budget process that can be approved by joint Ministers

26 The Minister of Finance and the appropriation Minister ('joint Ministers') can approve the following changes to baselines, subject to the "significant policy issues" criterion outlined in paragraph 11:[9]

26.1 transfers between appropriations and/or departmental capital injections within a financial year (fiscally neutral adjustments);

26.2 transfers within appropriations or departmental capital injections across financial years (expense and capital transfers, and in-principle expense and capital transfers);

26.3 transfers of output expense appropriation underspends to the next financial year (retention of underspends);

26.4 bringing forward of output expense appropriations from future financial years for a specific investment purpose (front-loading of spending);

26.5 technical adjustments; and

26.6 forecast adjustments.

27 For all changes outlined in this section, joint Ministers' approval is sought via a written submission from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with, and provide a copy of the submission to, their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.

28 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget process or twice-yearly Baseline Update processes.[10] Requesting changes outside of these processes can result in duplication of work for departments and the Treasury.

29 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.

30 Changes to appropriations or departmental capital injections arising from proposed baseline changes must be included in the Estimates or the Supplementary Estimates, as necessary, and any increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. The changes

[9] The Annex to this circular provides more detail about the changes to baselines that can be made by joint Ministers.
[10] Usually these are in March and October.

should also flow through to relevant accountability documents (e.g. output plans and supporting information in the Estimates), as appropriate.

31 To ensure that the Supplementary Estimates are accurate, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package, except in very rare and exceptional situations where it has been agreed that there are to be additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[11]

Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments

32 Fiscally neutral adjustments (FNAs) are used to transfer the authority for incurring expenses or capital expenditure between appropriations, and/or to make swaps between expense appropriations and departmental capital injections, both within a single financial year.

33 The overriding principle is that FNAs must have no impact on the operating balance or debt (except in the case of operating and capital 'swaps', where there are equal and offsetting impacts on the operating balance and debt).

34 FNAs can be:

34.1 made between any two annual appropriations, except benefits or related expenses[12] and borrowing expenses; or

34.2 made between any two multi-year appropriations (MYAs), or between a MYA appropriation and an annual appropriation;[13][14] or

34.3 departmental capital injections fully offset by departmental capital withdrawals; or

34.4 departmental capital injections or withdrawals fully offset by decreases or increases, respectively, in non departmental capital expenditure appropriations; or

34.5 increases to appropriations fully offset by increases in third party revenue (either departmental or Crown).[15][16]

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[11] Alternative mechanisms for unappropriated expenditure are provided for in sections 26A and 26B of the Public Finance Act 1989.
[12] FNAs can be made for very limited number of 'capped' benefits and related expenses.
[13] Except for MYAs relating to historical Treaty of Waitangi settlements, which cannot be part of an FNA.
[14] Where the FNA involves an MYA, the adjustment must be fiscally neutral over the period of the MYA, but need not be fiscally neutral in any particular financial year.
[15] Third party fees are meant only to recover costs, not to generate a surplus, as this could be viewed as a tax, and Parliament's explicit approval is needed to impose a tax.
[16] For multi-category appropriations, any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.

35 Where an FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.[17]

36 The following conditions apply in order for a transfer between operating and capital (or 'swap') to be classified as an FNA that can be approved by joint Ministers:

36.1 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;

36.2 Operating to capital: up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

37 Where the proposal is for the sum of capital to cover fewer than ten years of the proposed operating expenses but the operating increase is to continue into outyears, the proposal should be submitted to Cabinet for consideration.

38 The conditions in paragraph 36 simply reflect the Government's fiscal management approaches for capital (ten-year horizon) and operating (four-year horizon, or 'forecast period'), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets.

Transfers within appropriations or departmental capital injections across financial years – expense and capital transfers

39 Expense and capital transfers (ECTs) are used to transfer the authority for incurring expenses or capital expenditure from the relevant appropriation, or the authority for a departmental capital injection, in one financial year to one or more of the next three financial years, where there is:

39.1 no change to the output or capital asset being purchased; and

39.2 no change to the total amount of spending across the affected years.

40 ECTs can be used only where a factor outside of the department's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.

41 The Minister's submission seeking approval for an ECT must describe the reason for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.

42 ECTs can be made in relation to any type of annual appropriation,[18] except for benefits or related expenses, borrowing expenses, and revenue dependent

[17] Refer also to CAB Min (10) 41/9 *Capital Charge Rules for Departments and Statutory Crown Entities*.

appropriations. ECTs do not apply to multi-year appropriations, or permanent legislative authorities.

43 Where the ECT relates to transfer of the authority for a departmental capital injection, departmental operating baselines need not be adjusted for consequential delays in depreciation and capital charge expenses.

In-principle expense and capital transfers

44 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount for transfer is then confirmed once known, usually as part of the October Baseline Update process (after audited financial results for the previous financial year have become available).

45 Approval for in-principle expense and capital transfers (IPECTs) is usually sought during the March Baseline Update process. Approval cannot be sought between the date of final Cabinet Budget decisions and Budget Day (the *Budget moratorium*). Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are then compiled by the Treasury for the Minister of Finance's consideration before the end of the financial year.

46 Where the authority has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle,[19] sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October Baseline Update.

47 Whereas for an ECT the reduction in baseline is included in the Supplementary Estimates for the current year and the corresponding increase in the Estimates for the following year, both of which are tabled on Budget day, for an IPECT neither the reduction nor increase in baseline is picked up in these documents; rather, (only) the increase in baselines is reflected in the Supplementary Estimates for the following year. Thus, as their associated appropriation and departmental capital injection changes are more transparent, ECTs are preferred to IPECTs.

Transfers of output expense appropriation underspends to the next financial year – retention of underspends

[18] This includes multi-category appropriations.
[19] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought is greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

48 Underspends are defined as funding remaining at the end of the financial year as a result of:

48.1 savings made through gains in efficiency; or

48.2 other savings initiatives, where the output or service has been delivered in full (in contrast, an ECT can apply when the output or service has not been fully delivered, due to circumstances outside the agency's control).

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

50 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends (RoUs) within departmental and non-departmental output expense appropriations and departmental and non-departmental output expense categories of multi-category appropriations. This funding can then be transferred to the next financial year, to any other departmental or non-departmental output expense appropriations and/or departmental or non-departmental output expense categories of multi-category appropriations.

51 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.

52 Where retention of underspend is sought and agreed prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting increase(s) in the relevant appropriation(s) for the following year. The changes will then be included in the Supplementary Estimates and Estimates.

53 Where retention of underspend is sought and agreed after the March Baseline Update and before 30 June, up to half of the amount[20] can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which retention of the underspend was sought, and the increase included in the following year's Supplementary Estimates. Note that this is similar reporting treatment in the Estimates and Supplementary Estimates as for IPECTs.

54 Any proposal to retain underspends received after 30 June will be declined.

55 Proposals to retain underspends must explain:

55.1 how the underspends arose (as per paragraph 48); and

[20] The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of baselines as they stand at the March Baseline Update. In addition, it provides an incentive for agencies to manage baselines effectively and identify underspends early.

55.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward output expense appropriation spending from future financial years for a specific investment purpose – front-loading of spending

56 Front-loading of spending (FLoS) can be used to bring forward the authority to incur expenses from any departmental or non departmental output expense appropriation or departmental or non-departmental output expense category of a multi-category appropriation within the forecast period, for specific investments or projects that will permanently and sustainably reduce spending in outyears.

57 FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.

58 Proposals to front-load spending must explain:

58.1 how the investment or project will permanently and sustainably reduce spending in outyears;

58.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

58.3 what other funding options were considered, and why FLoS is the preferred option.

59 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load non-trivial amounts of funding may need to be submitted to Cabinet, per the criteria described in paragraph 13.

Technical adjustments and approvals

60 Technical adjustments include:

60.1 accounting adjustments with no cash impact, such as asset revaluations and impairments;[21]

60.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations and accounting policy changes related to capital charge;

60.3 shifting the indicative spending profile between financial years for a multi-year appropriation;

[21] Where such adjustments are agreed there is no associated change in revenue Crown, and any increase in appropriation cannot be used for other purposes if the forecast expenses do not arise.

60.4 shifting the indicative spending profile between categories of a multi-category appropriation; and

60.5 the necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal.

61 Technical approvals by joint Ministers are sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek Minister of Finance agreement to matters that are technical in nature, subject to the "significant policy issues" criterion described in paragraph 13. These include establishing and amending appropriations (including their titles and scope statements),[22] or adding categories to existing multi-category appropriations, to give effect to Cabinet policy and funding decisions. Such proposals will be subject to close scrutiny by the Treasury.

Forecast adjustments

62 Forecast adjustments include:

62.1 changes to the amount to be incurred under a permanent legislative authority (PLA)[23];

62.2 changes in revenue (mainly Crown revenue) that are the result of an external factor and are not directly related to an expense;[24] and

62.3 necessary changes to appropriations where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update.[25]

63 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

Section D: Departmental authority to incur expenses and capital expenditure

General position

[22] Though note that section 7B of the Public Finance Act 1989 provides that Minister of Finance approval (as opposed to joint Ministerial agreement) is required to establish or amend a multi-category appropriation, including its overarching purpose statement.
[23] This includes changes to departmental capital expenditure (refer section 24(1) of the PFA).
[24] Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 32-38.
[25] Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.

64 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

65 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:[26]

65.1 for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;

65.2 a multi-category appropriation; or

65.3 administered by the department incurring the expense or by another department.

66 The general position is summarised in the table below.

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[27]
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister	No authority
Multi-category appropriations[28]	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[29]

67 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

[26] Refer to section 7C(2)(c) of the Public Finance Act 1989.
[27] Section 2 of the Public Finance Act 1989 provides that the appropriation administrator: (a) in relation to an appropriation made to the Crown, means the department that administers the appropriation on behalf of the appropriation Minister; and (b) in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.
[28] A multi-category appropriation may include categories of: departmental and non-departmental output expenses; departmental and non-departmental other expenses; and non-departmental capital expenditure.
[29] While section 7C(2)(c) does not provide that a department can only use departmental categories of a multi-category appropriation administered by another department, this is how the Treasury is interpreting the provision (it also flows from the fact that a department cannot use a non-departmental appropriation administered by another department).

67.1 the Public Finance Act 1989, including ensuring that all expenditure is within scope, amount and period of the appropriation;[30]

67.2 any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the Public Finance Act 1989; and

67.3 all applicable requirements set out in this circular.

Departments' authority to use departmental appropriations that they administer

68 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations[31] on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

69 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

69.1 to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or

69.2 with another department, under which that other department may use the appropriation.

70 The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

71 Notwithstanding any other authority, proposals to incur expenses[32] in relation to publicity, compensation or damages in settlement of claims, or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental chief executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

Type of expense	Amount[33]	Approval required	Comment
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must

[30] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines.
[31] Refer also to CO (15) YY *Investment Management and Asset Performance in the State Services: Expectations.*
[32] Such expenses would be incurred under a departmental output expense or other expense appropriation.
[33] All amounts are GST exclusive.

	More than $150,000	Appropriation Minister	comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than $150,000 and up to $750,000	Appropriation Minister	Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation
	More than $30,000 and up to $75,000	Appropriation Minister	
	More than $75,000	Cabinet	
The purchase, development and lease of fixed assets	Refer to Cabinet Office Circular CO (15) YY *Investment Management and Asset Performance in the State Services: Expectations*		

Departments' authority to use non-departmental appropriations and appropriations administered by another department

72 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any

sub-delegation from the chief executive).[34] Departments have no authority to use non-departmental appropriations administered by another department.

73 For multi-category appropriations that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use multi-category appropriations administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

74 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to sub-delegate to other persons.

Section E: Further information

75 If you require further advice or information on these guidelines and requirements for proposals with financial implications, please contact your Treasury Vote team. Guidance on writing financial recommendations can be found on the Treasury's website at http://www.treasury.govt.nz/publications/guidance/planning/finrecs.

76 Information on writing Cabinet papers can be found on the Cabinet Office's website at http://cabguide.cabinetoffice.govt.nz/. If you require advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

Michael Webster
Secretary of the Cabinet

[34] Further information on the administration and use appropriations can be found at http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

Annex – Financial management outside the Budget process

Types of financial changes that can be approved by joint Ministers	Outside of the Budget process, joint Ministers can approve proposals with financial implications in accordance with: ○ the criteria set out in paragraph 5.12 of the Cabinet Manual; or ○ the general rule in paragraph 5.11 of the Cabinet Manual Otherwise, proposals must be submitted to Cabinet for approval. Any proposal seeking new funding is a matter that must be submitted to Cabinet.
Fiscally neutral adjustments (FNAs) Expense and capital transfers (ETCs)	Apply to any annual appropriations except benefits or related expenses and borrowing expenses. FNAs and ECTs cannot be combined.
In-principle ECTs (IPECTs)	Requests should be made through the March Baseline Update, or after Budget Day and before a deadline to be specified each year in the Budget guidance document (in which case requests will be compiled by the Treasury for consideration by the Minister of Finance).
Retention of underspends (RoUs)	Applies only to output expense appropriations and output expense categories of multi-category appropriations.
Front-loading of spending (FLoS)	Applies only to output expense appropriations and output expense categories of multi-category appropriations, and can be considered only in circumstances where the proposal will permanently and sustainably reduce expenses in outyears.
Technical adjustments	These include: ○ accounting adjustments with no cash impact (e.g. asset revaluations) ○ automatic adjustments relating to capital charge (e.g. as a result of rate changes) ○ shifting the indicative spending profile between financial years for multi-year appropriations or between categories of multi-category appropriations ○ voluntary capital withdrawals ○ establishing and amending the titles and scopes of appropriations or categories of multi-category appropriations.

Forecast adjustments	These include: ○ changes to the amount incurred under a permanent legislative authority appropriation ○ changes in Crown revenue caused by an external factor and not directly related to an expense ○ changes to appropriations where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis. Forecasting changes are not automatic, and increases in costs should be met from baselines where possible.

Cabinet Office

CO (15) YY

Circular

Intended for All Ministers
Speaker of the House
All Chief Executives
Controller and Auditor-General

Copies to All Senior Private Secretaries
All Private Secretaries

This document is not Government policy. It is subject to Cabinet decisions in March 2015.

Proposals with Financial Implications and Financial Authorities

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from the date of issue. The key changes in this circular are:

1.1 capturing the amendments made in 2013 to the Public Finance Act, which among other things:

1.1.1 provide Ministers and departments with increased flexibility to allocate resources to where they are needed most while retaining appropriate Cabinet scrutiny (e.g. through the use of multi-category appropriations);

1.1.2 make clear the delegations given to departments (through chief executives and their delegates);

1.2 capturing process and rule changes agreed by Cabinet since CO (11) 6 came into force (e.g. around the role of Four Year Plans, capital charge).

2 Ministers and chief executives should ensure that:

2.1 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, PFA Schedule 4 organisations, PFA Schedule 4A companies and State-Owned Enterprises (SOEs) for which a Minister is responsible; and

2.2 all staff handling submissions to Cabinet, Cabinet committees, or joint Ministers are familiar with the guidelines and requirements set out in Sections A and B of this circular.

3 Sections A and B of this circular cover the types of financial changes and associated mechanisms listed in the table below.

Section	Types of financial change	Mechanisms
Section A: Proposed changes that must be approved by Cabinet	All proposals that meet the criteria set out in paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Budget initiatives process
		Cabinet paper
Section B: Proposed changes that can be approved by joint Ministers	Transfers between appropriations and/or departmental capital injections within a financial year	Fiscally neutral adjustments
	Transfers within an appropriation or departmental capital injection across financial years	Expense and capital transfers In-principle expense and capital transfers
	Transfers of departmental underspends to the next financial year	Retention of underspends
	Bringing forward of departmental spending from future financial years	Front-loading of spending
	Technical adjustments and approvals	
	Forecasting adjustments	

4 Section C of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations and sets out some restrictions on that authority.

5 Section D sets out where to go for further information.

Other areas of Guidance that should be considered alongside this circular

6 The guidance outlined in this circular should be viewed alongside the following other areas of guidance (where applicable):

6.1 The CabGuide;

6.2 Other Cabinet Office Circulars[1] in particular *Investment Management and Asset Performance in the State Services*;

[1] Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.

6.3 Treasury Circulars,[2] including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process; and

6.4 Treasury Instructions.[3]

Terms and definitions

7 Terms used in this circular are defined or explained in the annex.

Section A: Proposed changes that must be approved by Cabinet

8 The overarching principles that decide whether matters warrant consideration by Cabinet are set out in the Cabinet Manual. Specifically, matters should be submitted to Cabinet where they:

8.1 are within the criteria set out in paragraph 5.12 of the Cabinet Manual, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

8.2 meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.

9 Matters that do not warrant Cabinet consideration, such as those outlined in Section B below, can be submitted for agreement by joint Ministers.

10 If there is any doubt as to whether a matter warrants Cabinet consideration as per the criteria described in paragraph 8 above, Ministers and officials should err on the side of caution and assume that it does.

11 For the avoidance of doubt, any proposal with financial implications (e.g. requesting additional funding) must be submitted to Cabinet,[4] unless it meets the criteria for approval by joint Ministers as set out in Section B of this circular, or is covered by a delegation as set out in Section C of this circular, or Cabinet has otherwise provided a prior delegation to joint Ministers to take a decision on a particular matter (e.g. drawing down tagged contingency funding).

12 Ideally all proposals with financial implications requiring to be submitted to Cabinet should be submitted through the Budget initiatives process. This allows Cabinet to rank all proposals, in terms of fit with government priorities and affordability within available allocations, and develop a Budget package.

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[2] Treasury Circulars are intended primarily for departments (though sometimes apply to Crown Entities, State-Owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies) and are usually addressed to Chief Executives and Chief Financial Officers.
[3] Treasury Instructions are issued to departments under section 80(1) of the PFA.
[4] This includes proposals that meet criteria specified in Annex 1 of the Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.

13 Once Cabinet decisions on the Budget have been made, the resulting proposed changes to appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

14 Guidance on the Budget process and timeframes will be provided by the Treasury.[5]

Process for funding proposals to Cabinet outside of the Budget process

15 From time to time Ministers will find it necessary to submit papers with funding implications to Cabinet outside of the Budget process, e.g. to address urgent matters that have arisen.

16 Any funding proposal submitted to Cabinet outside of the Budget process must not have been previously considered and declined by Cabinet. The submission must also demonstrate that the proposal cannot be:

16.1 funded through reprioritisation from within existing baselines; or

16.2 deferred until the next Budget.

17 Proposals for new or changes to existing appropriations or departmental capital injections cannot be submitted for consideration during the Budget moratorium. This is necessary to ensure that documents tabled in the House on Budget Day accurately reflect all decisions taken by Cabinet.

18 The CabGuide provides that:

18.1 the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.[6]

18.2 departments must consult the Treasury[7] at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper must include Treasury comments and/or alternative recommendations without amendment.

19 If any Treasury comments or alternative recommendations are amended without approval from the Treasury, then the department must inform the Cabinet Office as soon as possible. The Cabinet Office, where possible, will notify the Chair of the relevant Cabinet committee of the amendments. The Chair will then be in a position to consider whether to progress the paper or remove it until the Treasury recommendations and comments have been re-inserted without amendment.

[5] See the Treasury website for guidance documents, and CFISnet for Treasury Circulars that relate to the Budget process.
[6] See also http://www.dpmc.govt.nz/cabinet/cabinet/advice for information on requirements for Cabinet papers.
[7] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.

20 If the Treasury has not been consulted due to exceptional or unavoidable reasons, then the Cabinet paper must include an explanation of why consultation has not taken place and why it is not possible for consideration of the paper to be deferred to a later time to allow consultation to take place. A noting recommendation should also be provided stating that consultation with the Treasury has not taken place.

21 All papers seeking decisions with financial implications must include recommendations that comply with relevant Treasury guidance.[8]

22 Recommendations seeking 'approval-in-principle' decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation noting that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities (i.e. funding is not guaranteed and cannot be accessed until explicit approval has been obtained).

23 The Minister of Finance, appropriation Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the government's overall fiscal objectives.

24 Any additional funding approved outside of the Budget process will be met from the between-Budget contingency.

25 On occasions Cabinet may establish and set aside additional funding in a tagged contingency for a specific proposal, pending further information before a final decision is taken on whether to proceed. Though tagged, the funding cannot be accessed until final Cabinet approval has been obtained.[9] All tagged contingencies cease to exist on 1 February of the following year,[10] unless Cabinet agrees otherwise.

Section B: Proposed changes that can be approved by joint Ministers

26 Joint Ministers can approve the following changes to baselines, subject to the "significant policy issues" criterion outlined in paragraph 8.1 above:

26.1 *Fiscally neutral adjustments (FNAs):*

26.1.1 transfers between appropriations or between appropriations and departmental capital

26.1.2 departmental capital injections fully offset by departmental capital withdrawals, and

[8] Refer Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments.
[9] Cabinet may delegate final approval to joint Ministers.
[10] For example, a tagged contingency created in Budget 2016 will cease to exist on 1 February 2017.

26.1.3 increases to appropriations fully offset by increases in third party funding, within a single financial year;

26.2 *Expense and capital transfers (ECTs) and In-principle expense and capital transfers (IPECTs):*

transfers from an appropriation or departmental capital injection across financial years;

26.3 *Retention of underspends (RoUs):*

transfers of departmental output expense appropriation underspends to the next financial year;

26.4 *Front-loading of spending (FLoS):*

bringing forward of departmental output expense appropriations from future financial years;

26.5 technical adjustments and technical approvals; and

26.6 forecast adjustments.

27 For all changes outlined in this section, joint Ministers' approval is sought via a written submission from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with and provide a copy of the submission to their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.

28 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget process or one of the Baseline update processes.

29 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.

30 Changes to appropriations, departmental capital injections and departmental capital withdrawals arising from proposed baseline changes must be included in the Estimates or the Supplementary Estimates, as necessary, and any increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. Where applicable, changes should also be reflected in relevant accountability documents.

31 To ensure the Supplementary Estimates are accurate, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package,[11] except in very rare and exceptional situations where it has been agreed that there are to be additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[12]

[11] Except for transfers between output expense appropriations as provided for in section 26A of the PFA.
[12] Alternative mechanisms for unappropriated expenditure are provided for in section 26B of the PFA.

Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments

32 FNAs are used to transfer funding between appropriations and/or departmental capital within a single financial year.

33 The overriding principle is that FNAs must have no impact on the operating balance or debt (except in the case of operating and capital ‘swaps’, where there are equal and offsetting impacts on the operating balance and debt).

34 FNAs can be:

34.1 made between any two annual appropriations, except benefits or related expenses[13] and borrowing expenses; or

34.2 made between any two MYAs, or between an MYA and an annual appropriation;[14][15] or

34.3 departmental capital injections fully offset by departmental capital withdrawals; or

34.4 capital and operating ‘swaps’, i.e. departmental capital injections or withdrawals, or increases or decreases in non-departmental capital expenditure appropriations, fully offset by decreases or increases, respectively, in expense appropriations (see paragraphs 36-37 below); or

34.5 increases to appropriations fully offset by increases in third party revenue.[16][17]

35 Where an FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.[18]

36 Where a swap falls entirely within the baseline horizon, to be fiscally neutral the corresponding increases and decreases in operating and capital must offset each other.

37 Where a swap is to be ongoing, i.e. extend beyond the baseline horizon, to be fiscally neutral the following conditions apply:

37.1 capital to operating: the total sum of capital must cover ten years of the proposed operating expenses;

37.2 operating to capital: up to four years of operating expenses may be converted into a single lump sum of capital, but ongoing operating funding is removed.

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[13] FNAs can be made for a very limited number of ‘capped’ benefits and related expenses.
[14] Except for MYAs relating to historical Treaty of Waitangi settlements, which cannot be part of an FNA.
[15] Where the FNA involves an MYA, the adjustment must be fiscally neutral over the period of the MYA, but need not be fiscally neutral in any particular financial year.
[16] Third party fees are meant only to recover costs and not to generate a surplus, as this could be viewed as a tax; Parliament’s explicit approval is needed to impose a tax.
[17] For MCAs any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.
[18] Refer also to CAB Min (10) 41/9 *Capital Charge Rules for Departments and Statutory Crown Entities*.

38 The conditions in paragraph 37 above simply reflect the Government's fiscal management approaches for capital (ten-year horizon) and operating (baseline horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets. Where these conditions are not met, any proposal should be submitted to Cabinet for consideration.

Transfers from an appropriation or departmental capital injection across financial years – expense and capital transfers

39 ECTs are used to transfer funding from an appropriation or departmental capital injection in one financial year to the same appropriation or departmental capital injection in one or more of the next three financial years, where there is no change to the:

39.1 output or capital asset being purchased; and

39.2 total amount of spending across the affected years.

40 ECTs can be used only where a factor outside of the department's control has caused a delay in a specific and discrete project and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.

41 The appropriation or responsible Minister's submission seeking approval for an ECT must describe the reason for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.

42 ECTs can be made in relation to any type of annual appropriation,[19] except for benefits or related expenses, borrowing expenses, and revenue dependent appropriations.[20] ECTs do not apply to MYAs or PLAs.

43 Where the ECT relates to transfer of funding from a departmental capital injection, departmental output expense appropriations may need to be adjusted to reflect any related operating expenses (and funding) provided for as part of the decision that will no longer be incurred (or required) in that year.

44 ECTs and FNAs cannot be combined.

In-principle expense and capital transfers

45 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount for transfer is then confirmed once known, usually as part of the October Baseline Update (after audited financial results for the previous financial year have become available).

46 Approval for IPECTs is usually sought through the March Baseline Update process. Approval cannot be sought during the Budget moratorium. Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are then compiled by the Treasury for the Minister of Finance's consideration before the end of the financial year.

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[19] This includes MCAs.
[20] Refer section 21 of the PFA.

47 Where funding has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle,[21] sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October Baseline Update.

48 On the basis of their greater transparency, ECTs are preferred to IPECTs. In the case of an ECT, the reduction in baseline is included in the Supplementary Estimates for the current year and the corresponding increase in the Estimates for the following year, both of which are tabled on Budget day. However, for an IPECT, neither the reduction nor increase in baseline is picked up in these documents; rather, (only) the increase in baselines is reflected in the Supplementary Estimates for the following year.

Transfers of departmental underspends to the next financial year – retention of underspends

49 Underspends are defined as funding remaining at the end of the financial year as a result of:

49.1 savings made by the department through gains in efficiency; or

49.2 other savings initiatives, where the department has delivered the output or service in full (in contrast, an ECT can apply when the output or service has not been fully delivered due to circumstances outside of the department's control).

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

51 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve RoUs within departmental output expense appropriations and departmental output expense categories of multi-category appropriations. If approved, this funding can then be transferred to the next financial year to any departmental output expense appropriations and/or departmental output expense categories of MCAs.

52 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.

[21] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought were greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

53 Where retention of underspend is sought and agreed prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting increase(s) in the relevant appropriation(s) for the following year. The changes will then be included in the Supplementary Estimates and Estimates.

54 Where retention of underspend is sought and agreed after the March Baseline Update and before 30 June, up to half of the amount[22] can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which the RoU was sought, and the increase included in the following year's Supplementary Estimates. Note that this is similar reporting treatment in the Estimates and Supplementary Estimates as for IPECTs.

55 Joint Ministers cannot approve any proposal to retain underspends received after 30 June.

56 RoU proposals must explain:

56.1 how the underspends arose (as per paragraph 49 above); and

56.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward departmental spending from future financial years – front-loading of spending

57 FLoS can be used to bring forward funding from any departmental output expense appropriation or departmental output expense category of an MCA within the forecast period, for specific activities that will permanently and sustainably reduce spending in outyears.

58 FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.

59 FLoS proposals must explain:

59.1 how the activity will permanently and sustainably reduce spending in outyears;

59.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

59.3 what other funding options were considered, and why FLoS is the preferred option.

60 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, as per the criteria described in paragraph 8 above.

[22] The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of baselines as they stand at the March Baseline Update. In addition, it provides an incentive for agencies to manage baselines effectively and identify underspends early.

Technical adjustments and approvals

61 Technical adjustments include:

61.1 accounting adjustments with no cash impact, such as asset revaluations and impairments;[23]

61.2 automatic adjustments (both upwards and downwards) to departmental baselines related to capital charge (i.e. for rate changes, asset revaluations and accounting policy changes);

61.3 shifting the indicative spending profile between financial years for an MYA, with no change to the overall appropriation;

61.4 shifting the indicative spending profile between categories of an MCA, with no change to the overall appropriation;[24] and

61.5 the necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal.

62 Technical approvals by joint Ministers are also sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek Minister of Finance agreement to matters that are technical in nature, subject to the "significant policy issues" criterion described in paragraph 8.1 above. These include establishing and amending appropriations (including their titles and scope statements),[25] or adding categories to existing MCAs, to give effect to Cabinet policy and funding decisions.

Forecast adjustments

63 Forecast adjustments include:

63.1 changes to the amount to be incurred under a PLA;[26]

63.2 changes in revenue (mainly Crown revenue) that are the result of an external factor and are not directly related to an expense;[27] and

63.3 where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update.[28]

64 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

[23] Where such adjustments are agreed, there is no associated change in revenue Crown and any increase in appropriation cannot be used for other purposes if the forecast expenses do not eventuate.
[24] Where there are changes affecting the overall appropriation (e.g. FNAs or ECTs), other rules in the circular apply as appropriate.
[25] Note that section 7B of the PFA provides that establishing an MCA requires the Minister of Finance's approval.
[26] These include changes to departmental capital expenditure (refer section 24(1) of the PFA).
[27] Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 32-38 above.
[28] Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.

Section C: Departmental authority to incur expenses and capital expenditure

General position

65 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

66 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:[29]

66.1 for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;

66.2 an MCA; or

66.3 administered by the department incurring the expense or by another department.

67 The general position for when a department has authority to incur expenses and capital expenditure is summarised in the table below.

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister	No authority
MCAs	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[30]

[29] Refer to section 7C(2)(c) of the PFA.

[30] While section 7C(2)(c) of the PFA does not provide that a department can only use departmental categories of an MCA administered by another department, this is how the Treasury is interpreting the provision. (It also flows from the fact that a department cannot use a non-departmental appropriation administered by another department.)

68 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

68.1 the PFA, including ensuring that all expenditure is within the scope, amount and period of the appropriation;[31]

68.2 any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the PFA;

68.3 all applicable requirements set out in this circular; and

68.4 where the expenses or capital expenditure relate to an investment, Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.

Departments' authority to use departmental appropriations that they administer

69 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

70 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

70.1 to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or

70.2 with another department, under which that other department may use the appropriation.

71 The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

72 Proposals to incur expenses[32] in relation to publicity, compensation or damages in settlement of claims, or ex gratia payments must be referred to the chief executive, appropriation Minister or Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental chief executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

[31] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines. The department still has to make sure that there are appropriations in place every year to cover the agreement.

[32] Such expenses would be incurred under a departmental output expense or departmental other expense appropriation.

Type of expense	Amount (GST excl.)	Approval required	Comment
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in [Appendix B of the Cabinet Manual]
	More than $150,000	Appropriation Minister	
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than $150,000 and up to $750,000	Appropriation Minister	Expenses for compensation or damages in settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation
	More than $30,000 and up to $75,000	Appropriation Minister	
	More than $75,000	Cabinet	

Departments' authority to use non-departmental appropriations and appropriations administered by another department

73 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any sub-delegation from the chief executive).[33] Departments have no authority to use non-departmental appropriations administered by another department.

74 For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

75 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with express delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to sub-delegate to other persons.

76 Departments should review delegations for non-departmental appropriations at the start of each financial year with appropriation Ministers, to ensure they remain up to date and that approvals are documented.

Section D: Further information

77 If you require further advice or information on expectations of departments around proposals with financial implications and financial authorities, please contact your Treasury Vote team. Guidance on writing financial recommendations can be found on the Treasury's website at http://www.treasury.govt.nz/publications/guidance/planning/finrecs.

78 Information on writing Cabinet papers can be found on the Cabinet Office's website at http://cabguide.cabinetoffice.govt.nz/. If you require advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

Michael Webster
Secretary of the Cabinet

[33] Further information on administration and use appropriations can be found at http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

Annex – terms and definitions

Annual appropriation	An appropriation for a period of one financial year (1 July to 30 June) and lapsing at the end of that year
Appropriation	○ The basis on which Parliament authorises the Crown and Offices of Parliament to incur expenses and capital expenditure ○ Is defined by amount, type, scope and period ○ Is the responsibility of the appropriation Minister ○ Is administered by the appropriation administrator, on behalf of the appropriation Minister ○ See Treasury's Guide to Appropriations for further information
Appropriation administrator	Refer section 2 of the Public Finance Act 1989
Appropriation Minister	Refer section 2 of the Public Finance Act 1989
Baseline horizon	The approved level of departmental and non-departmental resources for the current and four subsequent financial years
Baseline update	The process through which Cabinet spending decisions since the previous update are captured and joint Ministers agree changes to baselines, usually occurring twice-yearly in March (March Baseline Update) and October (October Baseline Update)
Between-Budget contingency	A limited amount of funding set aside as part of the annual Budget package to provide for decisions made between one Budget and the next
Budget moratorium	The period beginning on the day Cabinet approves the Budget package and ending after the Minister of Finance has delivered the Budget, during which proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration
Departmental	Refer section 2 of the Public Finance Act 1989
Departmental capital injection	An injection of capital, usually cash but can be other assets, made by the Crown to a department or Office of Parliament to increase the Crown's net asset holding in the department or Office of Parliament

Estimates	Refer section 2 of the Public Finance Act 1989
Expense and capital transfer (ECT)	A transfer from an appropriation or departmental capital injection across financial years, as provided for in paragraphs 39-44 of this circular
Fiscally neutral adjustment (FNA)	The following types of change within a single financial year, as provided for in paragraphs 32-38 of this circular: o A transfer between appropriations o A transfer between an appropriation and departmental capital o A departmental capital injection fully offset by a departmental capital withdrawal o An increase to an appropriation fully offset by an increase in third party revenue
Forecast adjustment	The following types of change, as provided for in paragraphs 63-64 of this circular: o A change to the amount to be incurred under a permanent legislative authority (see separate definition) o A change in revenue resulting from an external factor and not directly related to an expense o Where Cabinet has agreed a specific metric for determining cost based on an external variable and agreed that there are strong policy grounds for not considering changes in cost at each baseline update
Front-loading of spending (FLoS)	The bringing forward of funding from future financial years, as provided for in paragraphs 57-60 of this circular
In-principle expense and capital transfer (IPECT)	A transfer from an appropriation or departmental capital injection across financial years requiring confirmation after year-end accounts have been finalised before it can proceed, as provided for in paragraphs 45-48 of this circular
Investment	As per the meaning in Cabinet Office Circular *Investment Management and Asset Performance in the State Services*
Joint Ministers	The Minister of Finance and the appropriation Minister (or, where the proposal involves a departmental capital injection, the responsible Minister for the department)
Multi-category appropriation	Refer section 2 of the Public Finance Act 1989

(MCA)	
Multi-year appropriation (MYA)	An appropriation giving authority to the Crown or an Office of Parliament to incur expenses and capital expenditure for more than one financial year but a maximum of five financial years
Non-departmental	Refer section 2 of the Public Finance Act 1989
Permanent legislative authority (PLA	Refer section 2 of the Public Finance Act 1989
PFA	Public Finance Act 1989
Responsible Minister	Refer section 2 of the Public Finance Act 1989
Retention of underspend (RoU)	A transfer of a departmental output expense appropriation underspend to the next financial year, as provided for in paragraphs 49-56 of this circular
Supporting information to the main or supplementary Appropriation Bill	Information supporting the appropriations being sought in the main Appropriation Bill or the appropriations or changes to appropriations being sought in a supplementary Appropriation Bill. The information required is set out in sections 15-15F of the PFA (main Appropriation Bill) or sections 17A and 17B of the PFA (supplementary Appropriation Bill)
Supplementary Estimates	Refer section 2 of the Public Finance Act 1989
Swap	A fiscally neutral adjustment where the transfer is between an operating appropriation and capital (appropriation or injection) and meets the conditions set out in paragraphs 36- 37 of this circular
Tagged contingency	Funding set aside as part of the annual Budget package to provide for specific items on which Cabinet is yet to make a final decision
Technical adjustment	The following types of change, as provided for in paragraph 61 of this circular: o An accounting adjustment with no cash impact o An automatic adjustment to a department's baseline associated with a change in capital charge o A shift in the indicative spending profile for an MYA or between categories of an MCA, with no change to the overall

	appropriation o The necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal
Technical approval	An approval by joint Ministers to give effect to policy and funding decisions already taken by Cabinet, where the matter is sufficiently trivial not to warrant the original policy and funding decision being re-considered by Cabinet

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Terms and definitions

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This will avoid the risk of accidentally creating a new meaning or confusing the meaning. It would also reduce the length of this table/circular.

7 Terms and definitions used in this circular are listed in the table below.

Term	Definition
Annual appropriation	An appropriation (see separate definition) for a period of one financial year (1 July to 30 June) and lapsing at the end of that year
Appropriation	The basis on which Parliament authorises the Crown and Offices of Parliament to incur expenses and capital expenditure ○ Is defined by amount, type, scope and period ○ Is the responsibility ~~of a Minister, namely~~ the appropriation Minister (see separate definition) ~~○~~ Is administered by ~~Must be administered by one department, namely~~ the appropriation administrator (see separate definition), on behalf of the appropriation Minister~~, or by one Office of Parliament~~ ○ See Treasury's Guide to Appropriations for further information
Appropriation administrator	○ Where an appropriation is made to the Crown: the department that administers that appropriation on behalf of the appropriation Minister ○ Where an appropriation is made to an Office of Parliament: the Office of Parliament
Appropriation Minister	○ Where an appropriation is made to an Office of Parliament, or administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service: the Speaker ○ Any other appropriation: the Minister responsible for the appropriation
Baseline Update	The twice-yearly process through which joint Ministers agree changes to baselines ~~as provided for in this circular and other matters that Cabinet has authorised joint Ministers to approve~~, usually occurring in March (March Baseline Update, or MBU) and October (October Baseline Update, or OBU)
Between-Budget contingency	Funding set aside as part of the annual Budget package to provide for decisions made between one Budget and the next
Budget moratorium	The period ~~between~~ beginning on the day ~~on which~~ Cabinet approves the Budget package and ending after the Minister of Finance has delivered the Budget ~~Day~~, during which proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration
Departmental	○ In relation to expenses: expenses incurred by a department or an

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	Office of Parliament; in relation to outputs, outputs that the department or Office of Parliament is responsible for providing o In relation to capital expenditure: capital expenditure incurred by a department or an Office of Parliament, and affecting the department or Office of Parliament's cash flow and balance sheet
Departmental capital injection	An injection of capital, usually cash but can be other assets, made by the Crown to a department or Office of Parliament to increase the Crown's net asset holding in the department or Office of Parliament
Estimates	A document presented to the House of Representatives specifying the Vote, amount, type, scope and period of each appropriation being sought in the main Appropriation Bill for a financial year, and containing the information required by section 14 of the PFA
Expense and capital transfer (ECT)	A transfer from an appropriation or departmental capital injection across financial years (actual or in-principle), as provided for in paragraphs 39-47 of this circular
Fiscally neutral adjustment (FNA)	A transfer between appropriations and/or departmental capital injections within a financial year, as provided for in paragraphs 32-38 of this circular
Forecast adjustment	o A change to the amount to be incurred under a permanent legislative authority~~PLA~~ o A change in revenue resulting from an external factor and not directly related to an expense o A necessary change to an appropriation where Cabinet has agreed a specific metric for determining cost based on an external variable and agreed that there are strong policy grounds for not considering changes in cost at each baseline update
Front-loading of spending (FLoS)	The bringing forward of output expense appropriations from future financial years for a specific investment purpose that will reduce expenses in those future financial years, as provided for in paragraphs 56-59 of this circular
Joint Ministers	The Minister of Finance and the appropriation Minister (or, where the proposal involves a departmental capital injection, the ~~responsible~~ Minister responsible for the department)
Multi-category appropriation	An appropriation (see separate definition) containing two or more categories of one or more of the following, where these contribute to a single overarching purpose: o Departmental output expenses o Non-departmental output expenses o Departmental other expenses o Non-departmental other expenses

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Commented [GB5]: This goes beyond the PFA definition.

Is this definition really needed or is it self-explanatory?

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	○ Non-departmental capital expenditure
Multi-year appropriation	An appropriation (see separate definition) giving authority to the Crown or an Office of Parliament to incur expenses and capital expenditure for more than one financial year~~s~~ but a maximum of five financial years
Non-departmental	○ In relation to expenses: expenses incurred on behalf of the Crown, other than by a department or an Office of Parliament; in relation to outputs, outputs that a party other than the department or Office of Parliament is responsible for providing ○ In relation to capital expenditure: capital expenditure incurred on behalf of the Crown, other than by a department or an Office of Parliament, but affecting the portion of the Crown's balance sheet that the department or Office of Parliament manages on behalf of the Crown
Permanent legislative authority	Express authority given by or under an Act other than an Appropriation Act to incur expenses or capital expenditure without further appropriation
PFA	Public Finance Act 1989
Responsible Minister	○ In relation to an Office of Parliament, the Office of the Clerk of the House of Representatives, or the Parliamentary Service: the Speaker ○ In relation to any other department: the Minister responsible for the financial performance of the department
Retention of underspend (RoU)	A transfer of an output expense appropriation underspend to the next financial year, as provided for in paragraphs 48-55 of this circular
Supplementary Estimates	A document presented to the House of Representatives specifying the Vote, amount, type, scope and period of each appropriation or change to appropriation being sought in a supplementary Appropriation Bill, and containing the information required by section 17 of the PFA
Supporting information to the main or supplementary Appropriation Bill	Information supporting the appropriations being sought in the main Appropriation Bill or the appropriations or changes to appropriations being sought in a supplementary Appropriation Bill, and containing the information required by sections 15-15F of the PFA (main Appropriation Bill) or sections 17A and 17B of the PFA (supplementary Appropriation Bill)
Swap	A fiscally neutral adjustment where the transfer is between operating and capital, as provided for in paragraphs 36-38 of this circular
Tagged	Funding set aside as part of the annual Budget package to provide

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contingency	for specific items on which Cabinet is yet to make a final decision
Technical adjustment	o An accounting adjustment with no cash impact o An automatic adjustment to a department's baseline associated with a change in capital charge o A shift in the indicative spending profile for a multi-year appropriation or between categories of a multi-category appropriation o The necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal
Technical approval	An approval by joint Ministers to give effect to policy and funding decisions already taken by Cabinet, where the matter is sufficiently trivial not to warrant the original policy and funding decision being re-considered by Cabinet

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Cabinet Office

CO (15) XX

Circular

XX March 2015

Intended for All Ministers
All Chief Executives
Speaker of the House
Controller and Auditor-General

Copies to All Senior Private Secretaries
All Private Secretaries

This document is not Government policy. It is subject to change as a result of a CAB100 consultation process in March 2015.

Proposals with Financial Implications and Financial Authorities

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from the date of issue. The key changes in this circular are:

1.1 capturing the amendments made in 2013 to the Public Finance Act, which among other things:

- provide Ministers and departments with increased flexibility to allocate resources to where they are needed most while retaining appropriate Cabinet scrutiny (e.g. through the use of multi-category appropriations);
- make clear the delegations given to departments (through chief executives and their delegates);

1.2 capturing process and rule changes agreed by Cabinet since CO (11) 6 came into force (e.g. around the role of Four Year Plans, capital charge).

2 Ministers and chief executives should ensure that:

2.1 all staff handling submissions to Cabinet, Cabinet committees, or joint Ministers are familiar with the guidelines and requirements set out in Sections A and B of this circular; and

2.2 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, PFA Schedule 4 organisations, PFA Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible.

3 Sections A and B of this circular cover the types of financial changes and associated mechanisms listed in the table below.

Section	**Types of financial change**	**Mechanisms**	**Who has authority?**
Section A: Proposed changes that must be approved by Cabinet	All proposals that meet the criteria set out in paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Budget initiatives process	Cabinet
		Cabinet paper	
Section B: Proposed changes that can be approved by joint Ministers	Transfers between appropriations and/or departmental capital injections within a financial year	Fiscally neutral adjustments	Joint Ministers
	Transfers within an appropriation or departmental capital injection across financial years	Expense and capital transfers In-principle expense and capital transfers	
	Transfers of departmental underspends to the next financial year	Retention of underspends	
	Bringing forward of departmental spending from future financial years	Front-loading of spending	
	Technical adjustments and approvals		
	Forecasting adjustments		

4 Section C of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

5 Section D sets out where to go for further information.

Other areas of Guidance that should be considered alongside this circular

6 The guidance outlined in this circular should be viewed alongside the following other areas of guidance (where applicable):

6.1 Other Cabinet Office Circulars,[1] in particular *Investment Management and Asset Performance in the State Services*;

6.2 Treasury Circulars,[2] including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process; and

6.3 Treasury Instructions.[3]

Terms and definitions

7 Terms used in this circular are defined or explained in the annex.

Section A: Proposed changes that must be approved by Cabinet

8 The overarching principles that decide whether matters warrant consideration by Cabinet are set out in the Cabinet Manual. Specifically, matters should be submitted to Cabinet where they:

8.1 are within the criteria set out in paragraph 5.12 of the Cabinet Manual, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

8.2 meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.

9 Matters that do not warrant Cabinet consideration, such as those outlined in Section B below, can be submitted for agreement joint Ministers.

10 If there is any doubt as to whether a matter warrants Cabinet consideration or not per the criteria described in paragraph 8 above, Ministers and officials should err on the side of caution and assume that it does.

[1] Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.
[2] Treasury Circulars are intended primarily for departments (though sometimes apply to Crown Entities, State-owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies) and are usually addressed to Chief Executives and Chief Financial Officers.
[3] Treasury Instructions are issued to departments under section 80(1) of the PFA.

11 For the avoidance of doubt, any proposal with financial implications (e.g. requesting additional funding) must be submitted to Cabinet,[4] unless it is covered by a delegation as set out in Section C of this circular or Cabinet has otherwise provided a prior delegation to joint Ministers to take a decision on a particular matter (e.g. drawing down tagged contingency funding).

12 Ideally all proposals with financial implications should be submitted to Cabinet through the Budget initiatives process. This allows Cabinet to rank all proposals in terms of fit with government priorities and affordability within available allocations, and develop a Budget package.

13 Once Cabinet decisions on the Budget have been made, the resulting proposed changes to appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

14 Guidance on the Budget process and timeframes will be provided by the Treasury.[5]

Process for funding proposals to Cabinet outside of the Budget process

15 From time to time Ministers will find it necessary to submit papers with funding implications to Cabinet outside of the Budget process, e.g. to address urgent matters that have arisen.

16 Any funding proposal submitted to Cabinet outside of the Budget process must not have been previously considered and declined. The submission must also demonstrate that the proposal cannot:

16.1 be funded through reprioritisation from within existing baselines; or

16.2 be deferred until the next Budget.

17 Proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration during the Budget moratorium. This is necessary to ensure that documents tabled in the House on Budget Day accurately reflect all decisions taken by Ministers.

18 The CabGuide provides that:

18.1 the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of

[4] This includes proposals that meet criteria specified in Annex 1 of the Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.
[5] See the Treasury website for guidance documents, and CFISnet for Treasury Circulars that relate to the Budget process.

Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.[6]

18.2 departments must consult the Treasury[7] at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper must include Treasury comments and/or alternative recommendations without amendment.

19 If any Treasury comments or alternative recommendations are amended without approval from the Treasury, then the department must inform the Cabinet Office as soon as possible. The Cabinet Office, where possible, will notify the Chair of the relevant Cabinet committee of the amendments. The Chair will then be in a position to consider whether to progress the paper or remove it until the Treasury recommendations and comments have been re-inserted without amendment.

20 If the Treasury has not been consulted due to exceptional or unavoidable reasons, then the Cabinet paper must include an explanation of why consultation has not taken place and why it is not possible for consideration of the paper to be deferred to a later time to allow consultation to take place. A noting recommendation should also be provided stating that consultation with the Treasury has not taken place.

21 All papers seeking decisions with financial implications must include recommendations that comply with relevant Treasury guidance.[8]

22 Recommendations seeking 'approval-in-principle' decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation noting that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities (i.e. funding is not guaranteed and cannot be accessed until explicit approval has been obtained).

23 The Minister of Finance, appropriation Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the government's overall fiscal objectives.

24 Any additional funding approved outside of the Budget process will be met from the between-Budget contingency.

[6] See also http://www.dpmc.govt.nz/cabinet/cabinet/advice for information on requirements for Cabinet papers.
[7] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.
[8] Refer Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments.

25 On occasions Cabinet may establish and set aside additional funding in a tagged contingency for a specific proposal, pending further information before a final decision is taken on whether to proceed. Though tagged, the funding cannot be accessed until final Cabinet approval has been obtained.[9] All tagged contingencies cease to exist after 1 February of the following year,[10] unless Cabinet agrees otherwise.

Section B: Proposed changes that can be approved by joint Ministers

26 Joint Ministers can approve the following changes to baselines, subject to the "significant policy issues" criterion outlined in paragraph 8.1 above:

26.1 (i) transfers between appropriations or between appropriations and departmental capital, (ii) departmental capital injections fully offset by departmental capital withdrawals, and (iii) increases to appropriations fully offset by increases in third party funding, within a single financial year (FNAs);

26.2 transfers from an appropriation or departmental capital injection across financial years (ECTs and IPECTs);

26.3 transfers of departmental output expense appropriation underspends to the next financial year (RoUs);

26.4 bringing forward of departmental output expense appropriations from future financial years (FLoS);

26.5 technical adjustments and technical approvals; and

26.6 forecast adjustments.

27 For all changes outlined in this section, joint Ministers' approval is sought via a written submission from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with and provide a copy of the submission to their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.

28 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget process or one of the Baseline update processes.

[9] Cabinet may delegate final approval to joint Ministers.
[10] For example, a tagged contingency created in Budget 2016 will cease to exist on 1 February 2017.

29 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.

30 Changes to appropriations, departmental capital injections and departmental capital withdrawals arising from proposed baseline changes must be included in the Estimates or the Supplementary Estimates, as necessary, and any increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. Where applicable, changes should also be reflected in relevant accountability documents.

31 To ensure the Supplementary Estimates are accurate, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package,[11] except in very rare and exceptional situations where it has been agreed that there are to be additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[12]

Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments

32 FNAs are used to transfer funding between appropriations and/or departmental capital within a single financial year.

33 The overriding principle is that FNAs must have no impact on the operating balance or debt (except in the case of operating and capital ‘swaps’, where there are equal and offsetting impacts on the operating balance and debt).

34 FNAs can be:

34.1 made between any two annual appropriations, except benefits or related expenses[13] and borrowing expenses; or

34.2 made between any two MYAs, or between an MYA and an annual appropriation;[14][15] or

34.3 departmental capital injections fully offset by departmental capital withdrawals; or

34.4 capital and operating ‘swaps’, i.e. departmental capital injections or withdrawals, or increases or decreases in non-departmental capital

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[11] Except for transfers between output expense appropriations as provided for in section 26A of the PFA.
[12] Alternative mechanisms for unappropriated expenditure are provided for in section 26B of the PFA.
[13] FNAs can be made for a very limited number of ‘capped’ benefits and related expenses.
[14] Except for MYAs relating to historical Treaty of Waitangi settlements, which cannot be part of an FNA.
[15] Where the FNA involves an MYA, the adjustment must be fiscally neutral over the period of the MYA, but need not be fiscally neutral in any particular financial year.

expenditure appropriations, fully offset by decreases or increases, respectively, in expense appropriations (see paragraphs 36-37 below); or

34.5 increases to appropriations fully offset by increases in third party revenue.[16][17]

35 Where an FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.[18]

36 Where a swap falls entirely within the baseline horizon, to be fiscally neutral the corresponding increases and decreases in operating and capital must offset each other.

37 Where a swap is to be ongoing, i.e. extend beyond the baseline horizon, to be fiscally neutral the following conditions apply:

37.1 capital to operating: the total sum of capital must cover ten years of the proposed operating expenses;

37.2 operating to capital: up to four years of operating expenses may be converted into a single lump sum of capital, but ongoing operating funding is removed.

38 The conditions in paragraph 37 above simply reflect the Government's fiscal management approaches for capital (ten-year horizon) and operating (baseline horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets. Where these conditions are not met, any proposal should be submitted to Cabinet for consideration.

Transfers from an appropriation or departmental capital injection across financial years – expense and capital transfers

39 ECTs are used to transfer funding from an appropriation or departmental capital injection in one financial year to the same appropriation or departmental capital injection in one or more of the next three financial years, where there is:

39.1 no change to the output or capital asset being purchased; and

39.2 no change to the total amount of spending across the affected years.

40 ECTs can be used only where a factor outside of the department's control has caused a delay in a specific and discrete project and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.

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[16] Third party fees are meant only to recover costs and not to generate a surplus, as this could be viewed as a tax; Parliament's explicit approval is needed to impose a tax.
[17] For MCAs any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.
[18] Refer also to CAB Min (10) 41/9 *Capital Charge Rules for Departments and Statutory Crown Entities*.

41 The Minister's submission seeking approval for an ECT must describe the reason for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.

42 ECTs can be made in relation to any type of annual appropriation,[19] except for benefits or related expenses, borrowing expenses, and revenue dependent appropriations.[20] ECTs do not apply to MYAs or PLAs.

43 Where the ECT relates to transfer of funding from a departmental capital injection, departmental output expense appropriations may need to be adjusted to reflect any related operating expenses (and funding) provided for as part of the decision that will no longer be incurred (or required) in that year.

44 ECTs and FNAs cannot be combined.

In-principle expense and capital transfers

45 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount for transfer is then confirmed once known, usually as part of the October Baseline Update (after audited financial results for the previous financial year have become available).

46 Approval for IPECTs is usually sought through the March Baseline Update process. Approval cannot be sought during the Budget moratorium. Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are then compiled by the Treasury for the Minister of Finance’s consideration before the end of the financial year.

47 Where funding has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle,[21] sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October Baseline Update.

48 On the basis of their greater transparency, ECTs are preferred to IPECTs. In the case of an ECT the reduction in baseline is included in the Supplementary Estimates for

[19] This includes MCAs.
[20] Refer section 21 of the PFA.
[21] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought were greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

the current year and the corresponding increase in the Estimates for the following year, both of which are tabled on Budget day. However, for an IPECT neither the reduction nor increase in baseline is picked up in these documents; rather, (only) the increase in baselines is reflected in the Supplementary Estimates for the following year.

Transfers of departmental underspends to the next financial year – retention of underspends

49 Underspends are defined as funding remaining at the end of the financial year as a result of:

49.1 savings made by the department through gains in efficiency; or

49.2 other savings initiatives, where the department has delivered the output or service in full (in contrast, an ECT can apply when the output or service has not been fully delivered due to circumstances outside the department's control).

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

51 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve RoUs within departmental output expense appropriations and departmental output expense categories of multi-category appropriations. If approved, this funding can then be transferred to the next financial year to any departmental output expense appropriations and/or departmental output expense categories of MCAs.

52 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.

53 Where retention of underspend is sought and agreed prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting increase(s) in the relevant appropriation(s) for the following year. The changes will then be included in the Supplementary Estimates and Estimates.

54 Where retention of underspend is sought and agreed after the March Baseline Update and before 30 June, up to half of the amount[22] can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which the RoU was sought, and the increase included in the following year's Supplementary Estimates. Note that this is similar reporting treatment in the Estimates and Supplementary Estimates as for IPECTs.

[22] The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of baselines as they stand at the March Baseline Update. In addition, it provides an incentive for agencies to manage baselines effectively and identify underspends early.

55 Joint Ministers cannot approve any proposal to retain underspends received after 30 June.

56 RoU proposals must explain:

56.1 how the underspends arose (as per paragraph 49 above); and

56.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward departmental spending from future financial years – front-loading of spending

57 FLoS can be used to bring forward funding from any departmental output expense appropriation or departmental category of an MCA within the forecast period, for specific activities that will permanently and sustainably reduce spending in outyears.

58 FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.

59 FLoS proposals must explain:

59.1 how the activity will permanently and sustainably reduce spending in outyears;

59.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

59.3 what other funding options were considered, and why FLoS is the preferred option.

60 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, per the criteria described in paragraph 8 above.

Technical adjustments and approvals

61 Technical adjustments include:

61.1 accounting adjustments with no cash impact, such as asset revaluations and impairments;[23]

61.2 automatic adjustments (both upwards and downwards) to departmental baselines related to capital charge (i.e. for rate changes, asset revaluations and accounting policy changes);

[23] Where such adjustments are agreed there is no associated change in revenue Crown, and any increase in appropriation cannot be used for other purposes if the forecast expenses do not eventuate.

61.3 shifting the indicative spending profile between financial years for an MYA;

61.4 shifting the indicative spending profile between categories of an MCA; and

61.5 the necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal.

62 Technical approvals by joint Ministers are also sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek Minister of Finance agreement to matters that are technical in nature, subject to the "significant policy issues" criterion described in paragraph 8.1 above. These include establishing and amending appropriations (including their titles and scope statements),[24] or adding categories to existing MCAs, to give effect to Cabinet policy and funding decisions.

Forecast adjustments

63 Forecast adjustments include:

63.1 changes to the amount to be incurred under a PLA;[25]

63.2 changes in revenue (mainly Crown revenue) that are the result of an external factor and are not directly related to an expense;[26] and

63.3 where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update.[27]

64 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

[24] Note that section 7B of the PFA provides that establishing an MCA requires the Minister of Finance's approval.
[25] This includes changes to departmental capital expenditure (refer section 24(1) of the PFA).
[26] Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 32-38 above.
[27] Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.

Section C: Departmental authority to incur expenses and capital expenditure

General position

65 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

66 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:[28]

66.1 for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;

66.2 an MCA; or

66.3 administered by the department incurring the expense or by another department.

67 The general position for when a department has authority to incur expenses and capital expenditure is summarised in the table below.

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister	No authority
MCAs	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[29]

68 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

[28] Refer to section 7C(2)(c) of the PFA.
[29] While section 7C(2)(c) of the PFA does not provide that a department can only use departmental categories of an MCA administered by another department, this is how the Treasury is interpreting the provision (it also flows from the fact that a department cannot use a non-departmental appropriation administered by another department).

68.1 the PFA, including ensuring that all expenditure is within scope, amount and period of the appropriation;[30]

68.2 any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the PFA;

68.3 all applicable requirements set out in this circular; and

68.4 where the expenses or capital expenditure relate to an investment, Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.

Departments' authority to use departmental appropriations that they administer

69 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations[31] on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

70 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

70.1 to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or

70.2 with another department, under which that other department may use the appropriation.

71 The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

72 Notwithstanding any other authority, proposals to incur expenses[32] in relation to publicity, compensation or damages in settlement of claims, or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental chief executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

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[30] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines.

[31] Refer also to the Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.

[32] Such expenses would be incurred under a departmental output expense or departmental other expense appropriation.

Type of expense	Amount (GST excl.)	Approval required	Comment
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in [Appendix B of the Cabinet Manual]
	More than $150,000	Appropriation Minister	
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than $150,000 and up to $750,000	Appropriation Minister	Expenses for compensation or damages in settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation
	More than $30,000 and up to $75,000	Appropriation Minister	
	More than $75,000	Cabinet	

Departments' authority to use non-departmental appropriations and appropriations administered by another department

73 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any sub-delegation from the chief executive).[33] Departments have no authority to use non-departmental appropriations administered by another department.

33 Further information on administration and use appropriations can be found at http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

74 For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

75 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to sub-delegate to other persons.

76 Departments should review delegations for non-departmental appropriations at the start of each financial year with appropriation Ministers, to ensure they remain up to date and that approvals are documented.

Section D: Further information

77 If you require further advice or information on expectations of departments around proposals with financial implications and financial authorities, please contact your Treasury Vote team. Guidance on writing financial recommendations can be found on the Treasury's website at http://www.treasury.govt.nz/publications/guidance/planning/finrecs.

78 Information on writing Cabinet papers can be found on the Cabinet Office's website at http://cabguide.cabinetoffice.govt.nz/. If you require advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

Michael Webster
Secretary of the Cabinet

Annex – terms and definitions

Annual appropriation	An appropriation for a period of one financial year (1 July to 30 June) and lapsing at the end of that year
Appropriation	○ The basis on which Parliament authorises the Crown and Offices of Parliament to incur expenses and capital expenditure ○ Is defined by amount, type, scope and period ○ Is the responsibility of the appropriation Minister ○ Is administered by the appropriation administrator, on behalf of the appropriation Minister ○ See Treasury's Guide to Appropriations for further information
Appropriation administrator	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Appropriation Minister	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Baseline horizon	The approved level of departmental and non-departmental resources for the current and four subsequent financial years
Baseline update	The process through which Cabinet spending decisions since the previous update are captured and joint Ministers agree changes to baselines, usually occurring twice-yearly in March (March Baseline Update) and October (October Baseline Update)
Between-Budget contingency	A limited amount of funding set aside as part of the annual Budget package to provide for decisions made between one Budget and the next
Budget moratorium	The period beginning on the day Cabinet approves the Budget package and ending after the Minister of Finance has delivered the Budget, during which proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration
Departmental	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Departmental capital injection	An injection of capital, usually cash but can be other assets, made by the Crown to a department or Office of Parliament to increase the Crown's net asset holding in the department or Office of Parliament
Estimates	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Expense and capital transfer (ECT)	A transfer from an appropriation or departmental capital injection across financial years, as provided for in paragraphs 39-44 of this circular

Fiscally neutral adjustment (FNA)	The following types of change within a single financial year, as provided for in paragraphs 32-38 of this circular: o A transfer between appropriations o A transfer between an appropriation and departmental capital o A departmental capital injection fully offset by a departmental capital withdrawal o An increase to an appropriation fully offset by an increase in third party revenue
Forecast adjustment	The following types of change, as provided for in paragraphs 63-64 of this circular: o A change to the amount to be incurred under a permanent legislative authority (see separate definition) o A change in revenue resulting from an external factor and not directly related to an expense o Where Cabinet has agreed a specific metric for determining cost based on an external variable and agreed that there are strong policy grounds for not considering changes in cost at each baseline update
Front-loading of spending (FLoS)	The bringing forward of funding from future financial years, as provided for in paragraphs 57-60 of this circular
In-principle expense and capital transfer (IPECT)	A transfer from an appropriation or departmental capital injection across financial years requiring confirmation after year-end accounts have been finalised before it can proceed, as provided for in paragraphs 45-48 of this circular
Investment	As per the meaning in Cabinet Office Circular *Investment Management and Asset Performance in the State Services*
Joint Ministers	The Minister of Finance and the appropriation Minister (or, where the proposal involves a departmental capital injection, the responsible Minister for the department)
Multi-category appropriation (MCA)	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Multi-year appropriation (MYA)	An appropriation giving authority to the Crown or an Office of Parliament to incur expenses and capital expenditure for more than one financial year but a maximum of five financial years
Non-departmental	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Permanent legislative authority (PLA	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
PFA	Public Finance Act 1989

Responsible Minister	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Retention of underspend (RoU)	A transfer of a departmental output expense appropriation underspend to the next financial year, as provided for in paragraphs 49-56 of this circular
Supporting information to the main or supplementary Appropriation Bill	Information supporting the appropriations being sought in the main Appropriation Bill or the appropriations or changes to appropriations being sought in a supplementary Appropriation Bill. The information required is set out in sections 15-15F of the PFA (main Appropriation Bill) or sections 17A and 17B of the PFA (supplementary Appropriation Bill)
Supplementary Estimates	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Swap	A fiscally neutral adjustment where the transfer is between an operating appropriation and capital (appropriation or injection) and meets the conditions set out in paragraphs 36- 37 of this circular
Tagged contingency	Funding set aside as part of the annual Budget package to provide for specific items on which Cabinet is yet to make a final decision
Technical adjustment	The following types of change, as provided for in paragraph 61 of this circular: o An accounting adjustment with no cash impact o An automatic adjustment to a department's baseline associated with a change in capital charge o A shift in the indicative spending profile for an MYA or between categories of an MCA o The necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal
Technical approval	An approval by joint Ministers to give effect to policy and funding decisions already taken by Cabinet, where the matter is sufficiently trivial not to warrant the original policy and funding decision being re-considered by Cabinet

Cabinet Office

CO (15) XX

Circular

XX March 2015

Intended for All Ministers
All Chief Executives
Speaker of the House
Controller and Auditor-General

Copies to All Senior Private Secretaries
All Private Secretaries

This document is not Government policy. It is subject to change as a result of a CAB100 consultation process in March 2015.

Proposals with Financial Implications and Financial Authorities

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from the date of issue. The key changes in this circular are:

1.1 capturing the amendments made in 2013 to the Public Finance Act, which among other things:

- provide Ministers and departments with increased flexibility to allocate resources to where they are needed most while retaining appropriate Cabinet scrutiny (e.g. through the use of multi-category appropriations);
- make clear the delegations given to departments (through chief executives and their delegates);

1.2 capturing process and rule changes agreed by Cabinet since CO (11) 6 came into force (e.g. around the role of Four Year Plans, capital charge).

2 Ministers and chief executives should ensure that:

~~2.1 all staff handling submissions to Cabinet, Cabinet committees, or joint Ministers are familiar with the guidelines and requirements set out in Sections A and B of this circular; and~~

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2.1~~2~~ the material in this circular is conveyed to all departments, departmental agencies, Crown entities, PFA Schedule 4 organisations, PFA Schedule 4A companies, and State Owned Enterprises (SOEs) for which a Minister is responsible; and~~.~~

2.2 all staff handling submissions to Cabinet, Cabinet committees, or joint Ministers are familiar with the guidelines and requirements set out in Sections A and B of this circular.

3 Sections A and B of this circular cover the types of financial changes and associated mechanisms listed in the table below.

Section	Types of financial change	Mechanisms	~~Who has authority?~~
Section A: Proposed changes that must be approved by Cabinet~~Section A: Proposed changes that must be approved by CabinetSection A: Proposed changes that must be approved by CabinetSection A: Proposed changes that must be approved by Cabinet~~	All proposals that meet the criteria set out in paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Budget initiatives process	~~Cabinet~~
		Cabinet paper	
Section B: Proposed changes that can be approved by joint Ministers~~Section B: Proposed changes that can be approved by joint MinistersSection B: Proposed changes that can be approved by joint Ministers~~	Transfers between appropriations and/or departmental capital injections within a financial year	Fiscally neutral adjustments	~~Joint Ministers~~
	Transfers within an appropriation or departmental capital injection across financial years	Expense and capital transfers	
		In-principle expense and capital transfers	
	Transfers of departmental underspends to the next financial year	Retention of underspends	
	Bringing forward of departmental spending from	Front-loading of spending	

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	future financial years		
	Technical adjustments and approvals		
	Forecasting adjustments		

4 Section C of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations, and sets out some restrictions on that authority.

5 Section D sets out where to go for further information.

Other areas of Guidance that should be considered alongside this circular

6 The guidance outlined in this circular should be viewed alongside the following other areas of guidance (where applicable):

6.1 Other Cabinet Office Circulars,[1] in particular *Investment Management and Asset Performance in the State Services;*

6.2 Treasury Circulars,[2] including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process; and

6.3 Treasury Instructions.[3]

Terms and definitions

7 Terms used in this circular are defined or explained in the annex.

Section A: Proposed changes that must be approved by Cabinet

8 The overarching principles that decide whether matters warrant consideration by Cabinet are set out in the Cabinet Manual. Specifically, matters should be submitted to Cabinet where they:

8.1 are within the criteria set out in paragraph 5.12 of the Cabinet Manual, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or

[1] Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.
[2] Treasury Circulars are intended primarily for departments (though sometimes apply to Crown Entities, State-owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies) and are usually addressed to Chief Executives and Chief Financial Officers.
[3] Treasury Instructions are issued to departments under section 80(1) of the PFA.

Commented [GB2]: What about the Cab Guide? Since it is referenced at para 18 of this circular.

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8.2 meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.

9 Matters that do not warrant Cabinet consideration, such as those outlined in Section B below, can be submitted for agreement by joint Ministers.

10 If there is any doubt as to whether a matter warrants Cabinet consideration ~~or not~~ per the criteria described in paragraph 8 above, Ministers and officials should err on the side of caution and assume that it does.

11 For the avoidance of doubt, any proposal with financial implications (e.g. requesting additional funding) must be submitted to Cabinet,[4] unless it is covered by a delegation as set out in Section C of this circular or Cabinet has otherwise provided a prior delegation to joint Ministers to take a decision on a particular matter (e.g. drawing down tagged contingency funding).

12 Ideally all proposals with financial implications should be submitted to Cabinet through the Budget initiatives process. This allows Cabinet to rank all proposals in terms of fit with government priorities and affordability within available allocations, and develop a Budget package.

13 Once Cabinet decisions on the Budget have been made, the resulting proposed changes to appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

14 Guidance on the Budget process and timeframes will be provided by the Treasury.[5]

Process for funding proposals to Cabinet outside of the Budget process

15 From time to time Ministers will find it necessary to submit papers with funding implications to Cabinet outside of the Budget process, e.g. to address urgent matters that have arisen.

16 Any funding proposal submitted to Cabinet outside of the Budget process must not have been previously considered and declined by Cabinet. The submission must ~~also~~ demonstrate that the proposal cannot:

16.1 be funded through reprioritisation from within existing baselines; or

16.2 be deferred until the next Budget.

[4] This includes proposals that meet criteria specified in Annex 1 of the Cabinet Office Circular *Investment Management and Asset Performance in the State Services.*
[5] See the Treasury website for guidance documents, and CFISnet for Treasury Circulars that relate to the Budget process.

Commented [GB3]: This is confusing – the whole COC is about proposals with financial implications, yet Section B is all about things that don't have to be submitted to Cabinet.

Commented [GB4]: As above, this is confusing. Is this trying to say that ideally all proposals should be submitted to Cabinet, but the circular recognises that it won't always be practicable to do so, so Section B provides a process for when it is not possible (and Section C sets out delegations)?

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17 Proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration during the Budget moratorium. This is necessary to ensure that documents tabled in the House on Budget Day accurately reflect all decisions taken by Ministers.

Commented [GB5]: What about proposals for new appropriations and capital injections?

Commented [GB6]: Ministers or Cabinet?

18 The CabGuide provides that:

18.1 the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.[6]

18.2 departments must consult the Treasury[7] at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper must include Treasury comments and/or alternative recommendations without amendment.

19 If any Treasury comments or alternative recommendations are amended without approval from the Treasury, then the department must inform the Cabinet Office as soon as possible. The Cabinet Office, where possible, will notify the Chair of the relevant Cabinet committee of the amendments. The Chair will then be in a position to consider whether to progress the paper or remove it until the Treasury recommendations and comments have been re-inserted without amendment.

20 If the Treasury has not been consulted due to exceptional or unavoidable reasons, then the Cabinet paper must include an explanation of why consultation has not taken place and why it is not possible for consideration of the paper to be deferred to a later time to allow consultation to take place. A noting recommendation should also be provided stating that consultation with the Treasury has not taken place.

21 All papers seeking decisions with financial implications must include recommendations that comply with relevant Treasury guidance.[8]

22 Recommendations seeking ‘approval-in-principle’ decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation noting that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities (i.e.

[6] See also http://www.dpmc.govt.nz/cabinet/cabinet/advice for information on requirements for Cabinet papers.
[7] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.
[8] Refer Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments.

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funding is not guaranteed and cannot be accessed until explicit approval has been obtained).

23 The Minister of Finance, appropriation Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the government's overall fiscal objectives.

24 Any additional funding approved outside of the Budget process will be met from the between-Budget contingency.

25 On occasion~~s~~ Cabinet may establish and set aside additional funding in a tagged contingency for a specific proposal, pending further information before a final decision is taken on whether to proceed. Though tagged, the funding cannot be accessed until final Cabinet approval has been obtained.[9] All tagged contingencies cease to exist after 1 February of the following year,[10] unless Cabinet agrees otherwise.

Commented [GB7]: Para 25 and footnote 10 are inconsistent – do tagged contingencies cease to exist ON or AFTER 1 Feb?

Section B: Proposed changes that can be approved by joint Ministers

26 Joint Ministers can approve the following changes to baselines, subject to the "significant policy issues" criterion outlined in paragraph 8.1 above:

26.1 *Fiscally neutral adjustments (FNAs):*
(i) transfers between appropriations or between appropriations and departmental capital,
(ii) departmental capital injections fully offset by departmental capital withdrawals, and
(iii) increases to appropriations fully offset by increases in third party funding, within a single financial year ~~(FNAs)~~;

Commented [GB8]: These terms haven't been introduced in the circular yet, so suggest making them clear here.

Commented [GB9]: only if fiscally neutral.

26.2 *Expense and capital transfers (ECTs) and In-principle expense and capital transfers (IPECTs):* transfers from an appropriation or departmental capital injection across financial years ~~(ECTs and IPECTs)~~;

26.3 *Retention of underspends (RoUs):* transfers of departmental output expense appropriation underspends to the next financial year ~~(RoUs)~~;

26.4 *Front-loading of spending (FLos):* bringing forward of departmental output expense appropriations from future financial years ~~(FLoS)~~;

26.5 technical adjustments and technical approvals; and

[9] Cabinet may delegate final approval to joint Ministers.
[10] For example, a tagged contingency created in Budget 2016 will cease to exist on 1 February 2017.

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26.6 forecast adjustments.

27 For all changes outlined in this section, joint Ministers' approval is sought via a written submission from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with and provide a copy of the submission to their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.

28 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget process or one of the Baseline update processes.

29 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.

30 Changes to appropriations, departmental capital injections and departmental capital withdrawals arising from proposed baseline changes must be included in the Estimates or the Supplementary Estimates, as necessary, and any increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. Where applicable, changes should also be reflected in relevant accountability documents.

31 To ensure the Supplementary Estimates are accurate, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package,[11] except in very rare and exceptional situations where it has been agreed that there are to be additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[12]

Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments

32 FNAs are used to transfer funding between appropriations and/or departmental capital within a single financial year.

33 The overriding principle is that FNAs must have no impact on the operating balance or debt (except in the case of operating and capital 'swaps', where there are equal and offsetting impacts on the operating balance and debt).

34 FNAs can be:

[11] Except for transfers between output expense appropriations as provided for in section 26A of the PFA.
[12] Alternative mechanisms for unappropriated expenditure are provided for in section 26B of the PFA.

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34.1 made between any two annual appropriations, except benefits or related expenses[13] and borrowing expenses; or

34.2 made between any two MYAs, or between an MYA and an annual appropriation;[14][15] or

34.3 departmental capital injections fully offset by departmental capital withdrawals; or

34.4 capital and operating 'swaps', i.e. departmental capital injections or withdrawals, or increases or decreases in non-departmental capital expenditure appropriations, fully offset by decreases or increases, respectively, in expense appropriations (see paragraphs 36-37 below); or

34.5 increases to appropriations fully offset by increases in third party revenue.[16][17]

35 Where an FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.[18]

36 Where a swap falls entirely within the baseline horizon, to be fiscally neutral the corresponding increases and decreases in operating and capital must offset each other.

37 Where a swap is to be ongoing, i.e. extend beyond the baseline horizon, to be fiscally neutral the following conditions apply:

37.1 capital to operating: the total sum of capital must cover ten years of the proposed operating expenses;

37.2 operating to capital: up to four years of operating expenses may be converted into a single lump sum of capital, but ongoing operating funding is removed.

38 The conditions in paragraph 37 above simply reflect the Government's fiscal management approaches for capital (ten-year horizon) and operating (baseline horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets. Where these conditions are not met, any proposal should be submitted to Cabinet for consideration.

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[13] FNAs can be made for a very limited number of 'capped' benefits and related expenses.
[14] Except for MYAs relating to historical Treaty of Waitangi settlements, which cannot be part of an FNA.
[15] Where the FNA involves an MYA, the adjustment must be fiscally neutral over the period of the MYA, but need not be fiscally neutral in any particular financial year.
[16] Third party fees are meant only to recover costs and not to generate a surplus, as this could be viewed as a tax; Parliament's explicit approval is needed to impose a tax.
[17] For MCAs any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.
[18] Refer also to CAB Min (10) 41/9 *Capital Charge Rules for Departments and Statutory Crown Entities*.

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Transfers from an appropriation or departmental capital injection across financial years – expense and capital transfers

39 ECTs are used to transfer funding from an appropriation or departmental capital injection in one financial year to the same appropriation or departmental capital injection in one or more of the next three financial years, where there is:

39.1 no change to the output or capital asset being purchased; and

39.2 no change to the total amount of spending across the affected years.

40 ECTs can be used only where a factor outside of the department's control has caused a delay in a specific and discrete project and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.

41 The Minister's submission seeking approval for an ECT must describe the reason for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.

Commented [GB10]: Responsible Minister or appropriation Minister?

42 ECTs can be made in relation to any type of annual appropriation,[19] except for benefits or related expenses, borrowing expenses, and revenue dependent appropriations.[20] ECTs do not apply to MYAs or PLAs.

43 Where the ECT relates to transfer of funding from a departmental capital injection, departmental output expense appropriations may need to be adjusted to reflect any related operating expenses (and funding) provided for as part of the decision that will no longer be incurred (or required) in that year.

44 ECTs and FNAs cannot be combined.

In-principle expense and capital transfers

45 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount for transfer is then confirmed once known, usually as part of the October Baseline Update (after audited financial results for the previous financial year have become available).

46 Approval for IPECTs is usually sought through the March Baseline Update process. Approval cannot be sought during the Budget moratorium. Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are then compiled by the Treasury for the Minister of Finance’s consideration before the end of the financial year.

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[19] This includes MCAs.

[20] Refer section 21 of the PFA.

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47 Where funding has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle,[21] sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October Baseline Update.

48 On the basis of their greater transparency, ECTs are preferred to IPECTs. In the case of an ECT the reduction in baseline is included in the Supplementary Estimates for the current year and the corresponding increase in the Estimates for the following year, both of which are tabled on Budget day. However, for an IPECT neither the reduction nor increase in baseline is picked up in these documents; rather, (only) the increase in baselines is reflected in the Supplementary Estimates for the following year.

Transfers of departmental underspends to the next financial year – retention of underspends

49 Underspends are defined as funding remaining at the end of the financial year as a result of:

49.1 savings made by the department through gains in efficiency; or

49.2 other savings initiatives, where the department has delivered the output or service in full (in contrast, an ECT can apply when the output or service has not been fully delivered due to circumstances outside the department's control).

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

51 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve RoUs within departmental output expense appropriations and departmental output expense categories of multi-category appropriations. If approved, this funding can then be transferred to the next financial year to any departmental output expense appropriations and/or departmental output expense categories of MCAs.

52 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.

53 Where retention of underspend is sought and agreed prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting

[21] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought were greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

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increase(s) in the relevant appropriation(s) for the following year. The changes will then be included in the Supplementary Estimates and Estimates.

54 Where retention of underspend is sought and agreed after the March Baseline Update and before 30 June, up to half of the amount[22] can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which the RoU was sought, and the increase included in the following year's Supplementary Estimates. Note that this is similar reporting treatment in the Estimates and Supplementary Estimates as for IPECTs.

55 Joint Ministers cannot approve any proposal to retain underspends received after 30 June.

56 RoU proposals must explain:

56.1 how the underspends arose (as per paragraph 49 above); and

56.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward departmental spending from future financial years – front-loading of spending

57 FLoS can be used to bring forward funding from any departmental output expense appropriation or departmental category of an MCA within the forecast period, for specific activities that will permanently and sustainably reduce spending in outyears.

Commented [GB11]: Any departmental category or only departmental output expense categories?

58 FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.

59 FLoS proposals must explain:

59.1 how the activity will permanently and sustainably reduce spending in outyears;

59.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and

59.3 what other funding options were considered, and why FLoS is the preferred option.

[22] The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of baselines as they stand at the March Baseline Update. In addition, it provides an incentive for agencies to manage baselines effectively and identify underspends early.

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60 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, per the criteria described in paragraph 8 above.

Technical adjustments and approvals

61 Technical adjustments include:

61.1 accounting adjustments with no cash impact, such as asset revaluations and impairments;[23]

61.2 automatic adjustments (both upwards and downwards) to departmental baselines related to capital charge (i.e. for rate changes, asset revaluations and accounting policy changes);

61.3 shifting the indicative spending profile between financial years for an MYA;

61.4 shifting the indicative spending profile between categories of an MCA; and

61.5 the necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal.

62 Technical approvals by joint Ministers are also sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek Minister of Finance agreement to matters that are technical in nature, subject to the "significant policy issues" criterion described in paragraph 8.1 above. These include establishing and amending appropriations (including their titles and scope statements),[24] or adding categories to existing MCAs, to give effect to Cabinet policy and funding decisions.

Forecast adjustments

63 Forecast adjustments include:

63.1 changes to the amount to be incurred under a PLA;[25]

63.2 changes in revenue (mainly Crown revenue) that are the result of an external factor and are not directly related to an expense;[26] and

[23] Where such adjustments are agreed there is no associated change in revenue Crown, and any increase in appropriation cannot be used for other purposes if the forecast expenses do not eventuate.
[24] Note that section 7B of the PFA provides that establishing an MCA requires the Minister of Finance's approval.
[25] This includes changes to departmental capital expenditure (refer section 24(1) of the PFA).
[26] Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 32-38 above.

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63.3 where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update.[27]

64 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

Section C: Departmental authority to incur expenses and capital expenditure

General position

65 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

66 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:[28]

66.1 for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;

66.2 an MCA; or

66.3 administered by the department incurring the expense or by another department.

67 The general position for when a department has authority to incur expenses and capital expenditure is summarised in the table below.

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator
Non-departmental	In accordance with the terms of the delegation from the	No authority

[27] Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.
[28] Refer to section 7C(2)(c) of the PFA.

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appropriations	appropriation Minister	
MCAs	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[29]

68 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

68.1 the PFA, including ensuring that all expenditure is within the scope, amount and period of the appropriation;[30]

68.2 any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the PFA;

68.3 all applicable requirements set out in this circular; and

68.4 where the expenses or capital expenditure relate to an investment, Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.

Departments' authority to use departmental appropriations that they administer

69 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations~~[31]~~ on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

70 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

70.1 to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or

70.2 with another department, under which that other department may use the appropriation.

[29] While section 7C(2)(c) of the PFA does not provide that a department can only use departmental categories of an MCA administered by another department, this is how the Treasury is interpreting the provision (it also flows from the fact that a department cannot use a non-departmental appropriation administered by another department).

[30] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines.

~~[31] Refer also to the Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.~~

Commented [GB12]: Footnote should make it clear that departments still have to make sure that there are appropriations in place every year to cover the agreement.

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71 The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

72 Notwithstanding any other authority, proposals to incur expenses[32] in relation to publicity, compensation or damages in settlement of claims, or ex gratia payments must be referred to the appropriation Minister or to Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental chief executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

Type of expense	Amount (GST excl.)	Approval required	Comment
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual
	More than $150,000	Appropriation Minister	
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than $150,000 and up to $750,000	Appropriation Minister	Expenses for compensation or damages in settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the
	More than $30,000 and up to $75,000	Appropriation Minister	
	More than $75,000	Cabinet	

[32] Such expenses would be incurred under a departmental output expense or departmental other expense appropriation.

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			payment is made out of goodwill or a sense of moral obligation

Departments' authority to use non-departmental appropriations and appropriations administered by another department

73 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any sub-delegation from the chief executive).[33] Departments have no authority to use non-departmental appropriations administered by another department.

74 For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

75 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with express delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to sub-delegate to other persons.

76 Departments should review delegations for non-departmental appropriations at the start of each financial year with appropriation Ministers, to ensure they remain up to date and that approvals are documented.

Section D: Further information

77 If you require further advice or information on expectations of departments around proposals with financial implications and financial authorities, please contact your Treasury Vote team. Guidance on writing financial recommendations can be found on the Treasury's website at http://www.treasury.govt.nz/publications/guidance/planning/finrecs.

78 Information on writing Cabinet papers can be found on the Cabinet Office's website at http://cabguide.cabinetoffice.govt.nz/. If you require advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

[33] Further information on administration and use appropriations can be found at http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

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Michael Webster
Secretary of the Cabinet

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Annex – terms and definitions

Annual appropriation	An appropriation for a period of one financial year (1 July to 30 June) and lapsing at the end of that year
Appropriation	○ The basis on which Parliament authorises the Crown and Offices of Parliament to incur expenses and capital expenditure ○ Is defined by amount, type, scope and period ○ Is the responsibility of the appropriation Minister ○ Is administered by the appropriation administrator, on behalf of the appropriation Minister ○ See Treasury's Guide to Appropriations for further information
Appropriation administrator	~~As per the meaning in the Public Finance Act.~~ Refer section 2 of the Public Finance Act 1989
Appropriation Minister	~~As per the meaning in the Public Finance Act.~~ Refer section 2 of the Public Finance Act 1989
Baseline horizon	The approved level of departmental and non-departmental resources for the current and four subsequent financial years
Baseline update	The process through which Cabinet spending decisions since the previous update are captured and joint Ministers agree changes to baselines, usually occurring twice-yearly in March (March Baseline Update) and October (October Baseline Update)
Between-Budget contingency	A limited amount of funding set aside as part of the annual Budget package to provide for decisions made between one Budget and the next
Budget moratorium	The period beginning on the day Cabinet approves the Budget package and ending after the Minister of Finance has delivered the Budget, during which proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration
Departmental	~~As per the meaning in the Public Finance Act.~~ Refer section 2 of the Public Finance Act 1989
Departmental capital injection	An injection of capital, usually cash but can be other assets, made by the Crown to a department or Office of Parliament to increase the Crown's net asset holding in the department or Office of Parliament
Estimates	~~As per the meaning in the Public Finance Act.~~ Refer section 2 of the Public Finance Act 1989
Expense and capital transfer (ECT)	A transfer from an appropriation or departmental capital injection across financial years, as provided for in paragraphs 39-44 of this circular

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Fiscally neutral adjustment (FNA)	The following types of change within a single financial year, as provided for in paragraphs 32-38 of this circular: ○ A transfer between appropriations ○ A transfer between an appropriation and departmental capital ○ A departmental capital injection fully offset by a departmental capital withdrawal ○ An increase to an appropriation fully offset by an increase in third party revenue
Forecast adjustment	The following types of change, as provided for in paragraphs 63-64 of this circular: ○ A change to the amount to be incurred under a permanent legislative authority (see separate definition) ○ A change in revenue resulting from an external factor and not directly related to an expense ○ Where Cabinet has agreed a specific metric for determining cost based on an external variable and agreed that there are strong policy grounds for not considering changes in cost at each baseline update
Front-loading of spending (FLoS)	The bringing forward of funding from future financial years, as provided for in paragraphs 57-60 of this circular
In-principle expense and capital transfer (IPECT)	A transfer from an appropriation or departmental capital injection across financial years requiring confirmation after year-end accounts have been finalised before it can proceed, as provided for in paragraphs 45-48 of this circular
Investment	As per the meaning in Cabinet Office Circular *Investment Management and Asset Performance in the State Services*
Joint Ministers	The Minister of Finance and the appropriation Minister (or, where the proposal involves a departmental capital injection, the responsible Minister for the department)
Multi-category appropriation (MCA)	~~As per the meaning in the Public Finance Act.~~ Refer sections 2 and 7A(1)(g) of the Public Finance Act 1989
Multi-year appropriation (MYA)	An appropriation giving authority to the Crown or an Office of Parliament to incur expenses and capital expenditure for more than one financial year but a maximum of five financial years
Non-departmental	As per the meaning in the Public Finance Act. Refer section 2 of the Public Finance Act 1989
Permanent legislative authority (PLA)	~~As per the meaning in the Public Finance Act.~~ Refer section 2 of the Public Finance Act 1989
PFA	Public Finance Act 1989

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Responsible Minister	~~As per the meaning in the Public Finance Act.~~ Refer section 2 of the Public Finance Act 1989
Retention of underspend (RoU)	A transfer of a departmental output expense appropriation underspend to the next financial year, as provided for in paragraphs 49-56 of this circular
Supporting information to the main or supplementary Appropriation Bill	Information supporting the appropriations being sought in the main Appropriation Bill or the appropriations or changes to appropriations being sought in a supplementary Appropriation Bill. The information required is set out in sections 15-15F of the PFA (main Appropriation Bill) or sections 17A and 17B of the PFA (supplementary Appropriation Bill)
Supplementary Estimates	~~As per the meaning in the Public Finance Act.~~ Refer section 2 of the Public Finance Act 1989
Swap	A fiscally neutral adjustment where the transfer is between an operating appropriation and capital (appropriation or injection) and meets the conditions set out in paragraphs 36- 37 of this circular
Tagged contingency	Funding set aside as part of the annual Budget package to provide for specific items on which Cabinet is yet to make a final decision
Technical adjustment	The following types of change, as provided for in paragraph 61 of this circular: o An accounting adjustment with no cash impact o An automatic adjustment to a department's baseline associated with a change in capital charge o A shift in the indicative spending profile for an MYA or between categories of an MCA o The necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal
Technical approval	An approval by joint Ministers to give effect to policy and funding decisions already taken by Cabinet, where the matter is sufficiently trivial not to warrant the original policy and funding decision being re-considered by Cabinet

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Cabinet Office

CO (15) ?

Circular

?? April 2015

Intended for All Ministers
All Chief Executives
Speaker of the House
Controller and Auditor-General
All Senior Private Secretaries
All Office Solicitors

Proposals with Financial Implications and Financial Authorities

Introduction

1 This circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from the date of issue. The key changes in this circular are:

1.1 capturing the amendments made in 2013 to the Public Finance Act 1989 (PFA), which among other things:

1.1.1 provide Ministers and departments with increased flexibility to allocate resources to where they are needed most while retaining appropriate Cabinet scrutiny (e.g. through the use of MCAs~~multi-category appropriations~~);

1.1.2 make clear the delegations given to departments (through chief executives and their delegates);

1.2 capturing process and rule changes agreed by Cabinet since CO (11) 6 came into force (e.g. around the role of Four Year Plans, capital charge).

2 Ministers and chief executives should ensure that:

2.1 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, PFA Schedule 4 organisations, PFA Schedule 4A companies and State-Owned Enterprises for which a Minister is responsible;

2.2 all staff handling submissions to Cabinet, Cabinet committees, or joint Ministers are familiar with the guidelines and requirements set out in Sections A and B of this circular.

3 Sections A and B of this circular cover the types of financial changes and associated mechanisms listed in the table below.

Section	**Types of financial change**	**Mechanisms**
Section A: Proposed changes that must be approved by Cabinet	All proposals that meet the criteria set out in paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Budget initiatives process
		Cabinet paper
Section B: Proposed changes that can be approved by joint Ministers	Transfers between appropriations and/or departmental capital injections within a financial year	Fiscally neutral adjustments
	Transfers within an appropriation or departmental capital injection across financial years	Expense and capital transfers In-principle expense and capital transfers
	Transfers of departmental underspends to the next financial year	Retention of underspends
	Bringing forward of departmental spending from future financial years	Front-loading of spending
	Technical adjustments and approvals	
	Forecasting adjustments	

4 Section C of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations and sets out some restrictions on that authority.

5 Section D sets out where to go for further information.

Other areas of guidance that should be considered alongside this circular

6 The guidance outlined in this circular should be viewed alongside the following other areas of guidance (where applicable):

6.1 The CabGuide;

6.2 Other Cabinet Office Circulars[1], in particular *Investment Management and Asset Performance in the State Services*;

[1] Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.

6.3 Treasury Circulars,[2] including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process;

6.4 Treasury Instructions.[3]

Terms and definitions

7 Terms used in this circular are defined or explained in the Annex.

Section A: Proposed changes that must be approved by Cabinet

8 The overarching principles that decide whether matters warrant consideration by Cabinet are set out in the Cabinet Manual. Specifically, matters should be submitted to Cabinet where they:

8.1 are within the criteria set out in paragraph 5.12 of the Cabinet Manual, which include significant policy issues, controversial matters, proposals that affect the government's financial position, or important financial commitments; or

8.2 meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.

9 Matters that do not warrant Cabinet consideration, such as those outlined in Section B below, can be submitted for agreement by joint Ministers.

10 If there is any doubt as to whether a matter warrants Cabinet consideration as per the criteria described in paragraph 8 above, Ministers and officials should err on the side of caution and assume that it does.

11 For the avoidance of doubt, any proposal with financial implications (e.g. requesting additional funding) must be submitted to Cabinet,[4] unless it meets the criteria for approval by joint Ministers as set out in Section B of this circular, or is covered by a delegation as set out in Section C of this circular, or Cabinet has otherwise provided a prior delegation to joint Ministers to take a decision on a particular matter (e.g. drawing down tagged contingency funding).

12 Ideally all proposals with financial implications requiring to be submitted to Cabinet should be submitted through the Budget initiatives process. This allows Cabinet to rank all proposals, in terms of fit with government priorities and affordability within available allocations, and develop a Budget package.

13 Once Cabinet decisions on the Budget have been made, the resulting proposed changes to appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

14 Guidance on the Budget process and timeframes will be provided by the Treasury.[5]

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[2] Treasury Circulars are intended primarily for departments (though sometimes apply to Crown entities, State-Owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies) and are usually addressed to Chief Executives and Chief Financial Officers.

[3] Treasury Instructions are issued to departments under section 80(1) of the PFA.

[4] This includes proposals that meet criteria specified in Annex 1 of the Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.

[5] See the Treasury website for guidance documents, and CFISnet for Treasury Circulars that relate to the Budget process.

Process for funding proposals to Cabinet outside of the Budget process

15 From time to time Ministers will find it necessary to submit papers with funding implications to Cabinet outside of the Budget process, e.g. to address urgent matters that have arisen.

16 Any funding proposal submitted to Cabinet outside of the Budget process must not have been previously considered and declined by Cabinet. The submission must also demonstrate that the proposal cannot be:

16.1 funded through reprioritisation from within existing baselines; or

16.2 deferred until the next Budget.

17 Proposals for new or changes to existing appropriations or departmental capital injections cannot be submitted for consideration during the Budget moratorium. This is necessary to ensure that documents tabled in the House on Budget Day accurately reflect all decisions taken by Cabinet.

18 The CabGuide provides that:

18.1 the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance at least five working days before the deadline for submitting the paper to the Cabinet Office.[6]

18.2 departments must consult the Treasury[7] at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper must include Treasury comments and/or alternative recommendations without amendment.

19 If any Treasury comments or alternative recommendations are amended without approval from the Treasury, then the department must inform the Cabinet Office as soon as possible. The Cabinet Office, where possible, will notify the Chair of the relevant Cabinet committee of the amendments. The Chair will then be in a position to consider whether to progress the paper or remove it until the Treasury recommendations and comments have been re-inserted without amendment.

20 If the Treasury has not been consulted due to exceptional or unavoidable reasons, then the Cabinet paper must include an explanation of why consultation has not taken place and why it is not possible for consideration of the paper to be deferred to a later time to allow consultation to take place. A noting recommendation should also be provided stating that consultation with the Treasury has not taken place.

21 All papers seeking decisions with financial implications must include recommendations that comply with relevant Treasury guidance.[8]

[6] See also http://www.dpmc.govt.nz/cabinet/cabinet/advice for information on requirements for Cabinet papers.
[7] All consultation should be indicated on the Cabinet paper's CAB 100 consultation form.
[8] Refer Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments.

22 Recommendations seeking 'approval-in-principle' decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation noting that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities (i.e. funding is not guaranteed and cannot be accessed until explicit approval has been obtained).

23 The Minister of Finance, appropriation Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the government's overall fiscal objectives.

24 Any additional funding approved outside of the Budget process will be met from the between-Budget contingency.

25 On occasions Cabinet may establish and set aside additional funding in a tagged contingency for a specific proposal, pending further information before a final decision is taken on whether to proceed. Though tagged, the funding cannot be accessed until final Cabinet approval has been obtained.[9] All tagged contingencies cease to exist on 1 February of the following year,[10] unless Cabinet agrees otherwise.

Section B: Proposed changes that can be approved by joint Ministers

26 Joint Ministers can approve the following changes to baselines, subject to the "significant policy issues" criterion outlined in paragraph 8.1 above:

26.1 *Fiscally neutral adjustments (FNAs):*

26.1.1 transfers between appropriations or between appropriations and departmental capital;

26.1.2 departmental capital injections fully offset by departmental capital withdrawals;

26.1.3 increases to appropriations fully offset by increases in third party funding, within a single financial year;

26.2 *Expense and capital transfers (ECTs) and In-principle expense and capital transfers (IPECTs)*

transfers from an appropriation or departmental capital injection across financial years;

26.3 *Retention of underspends (RoUs):*

transfers of departmental output expense appropriation underspends to the next financial year;

26.4 *Front-loading of spending (FLoS):*

bringing forward of departmental output expense appropriations from future financial years;

26.5 technical adjustments and technical approvals;

26.6 forecast adjustments.

[9] Cabinet may delegate final approval to joint Ministers.
[10] For example, a tagged contingency created in Budget 2016 will cease to exist on 1 February 2017.

27 For all changes outlined in this section, joint Ministers' approval is sought via a written submission from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with and provide a copy of the submission to their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.

28 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget process or one of the Baseline update processes.

29 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.

30 Changes to appropriations, departmental capital injections and departmental capital withdrawals arising from proposed baseline changes must be included in the Estimates or the Supplementary Estimates, as necessary, and any increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. Where applicable, changes should also be reflected in relevant accountability documents.

31 To ensure the Supplementary Estimates are accurate, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package,[11] except in very rare and exceptional situations where it has been agreed that there are to be additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.[12]

Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments

32 FNAs are used to transfer funding between appropriations and/or departmental capital within a single financial year.

33 The overriding principle is that FNAs must have no impact on the operating balance or debt (except in the case of operating and capital ‘swaps’, where there are equal and offsetting impacts on the operating balance and debt).

34 FNAs can be:

34.1 made between any two annual appropriations, except benefits or related expenses[13] and borrowing expenses; or

34.2 made between any two ~~Multi-year appropriations (MYA)~~MYAs, or between a MYA and an annual appropriation;[14,15] or

34.3 departmental capital injections fully offset by departmental capital withdrawals; or

34.4 capital and operating ‘swaps’, i.e. departmental capital injections or withdrawals, or increases or decreases in non-departmental capital expenditure appropriations, fully offset by decreases or increases, respectively, in expense appropriations (see paragraphs 36-37 below); or

34.5 increases to appropriations fully offset by increases in third party revenue.[16,17]

[11] Except for transfers between output expense appropriations as provided for in section 26A of the PFA.
[12] Alternative mechanisms for unappropriated expenditure are provided for in section 26B of the PFA.
[13] FNAs can be made for a very limited number of ‘capped’ benefits and related expenses.
[14] Except for MYAs relating to historical Treaty of Waitangi settlements, which cannot be part of an FNA.
[15] Where the FNA involves an MYA, the adjustment must be fiscally neutral over the period of the MYA, but need not be fiscally neutral in any particular financial year.

35 Where a FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.[18]

36 Where a swap falls entirely within the baseline horizon, to be fiscally neutral the corresponding increases and decreases in operating and capital must offset each other.

37 Where a swap is to be ongoing, i.e. extend beyond the baseline horizon, to be fiscally neutral the following conditions apply:

37.1 capital to operating: the total sum of capital must cover ten years of the proposed operating expenses;

37.2 operating to capital: up to four years of operating expenses may be converted into a single lump sum of capital, but ongoing operating funding is removed.

38 The conditions in paragraph 37 above simply reflect the government's fiscal management approaches for capital (ten-year horizon) and operating (baseline horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets. Where these conditions are not met, any proposal should be submitted to Cabinet for consideration.

Transfers from an appropriation or departmental capital injection across financial years – expense and capital transfers

39 ECTs are used to transfer funding from an appropriation or departmental capital injection in one financial year to the same appropriation or departmental capital injection in one or more of the next three financial years, where there is no change to the:

39.1 output or capital asset being purchased;

39.2 total amount of spending across the affected years.

40 ECTs can be used only where a factor outside of the department's control has caused a delay in a specific and discrete project and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.

41 The appropriation or responsible Minister's submission seeking approval for an ECT must describe the reason for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.

42 ECTs ~~Expense and Capital Transfers (ECT)~~ can be made in relation to any type of annual appropriation,[19] except for benefits or related expenses, borrowing expenses, and revenue dependent appropriations.[20] ECTs do not apply to MYAs or PLAs~~Permanent Legislative Authorities (PLA)~~.

43 Where the ECT relates to transfer of funding from a departmental capital injection, departmental output expense appropriations may need to be adjusted to reflect any related operating expenses (and funding) provided for as part of the decision that will no longer be incurred (or required) in that year.

44 ECTs and FNAs cannot be combined.

[16] Third party fees are meant only to recover costs and not to generate a surplus, as this could be viewed as a tax; Parliament's explicit approval is needed to impose a tax.
[17] For MCAs any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.
[18] Refer also to CAB Min (10) 41/9 *Capital Charge Rules for Departments and Statutory Crown Entities*.
[19] This includes MCAs.
[20] Refer section 21 of the PFA.

In-principle expense and capital transfers

45 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount for transfer is then confirmed once known, usually as part of the October Baseline Update (after audited financial results for the previous financial year have become available).

46 Approval for IPECTs is usually sought through the March Baseline Update process. Approval cannot be sought during the Budget moratorium. Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are then compiled by the Treasury for the Minister of Finance's consideration before the end of the financial year.

47 Where funding has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle,[21] sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October Baseline Update.

48 On the basis of their greater transparency, ECTs are preferred to IPECTs. In the case of an ECT, the reduction in baseline is included in the Supplementary Estimates for the current year and the corresponding increase in the Estimates for the following year, both of which are tabled on Budget day. However, for an IPECT, neither the reduction nor increase in baseline is picked up in these documents; rather, (only) the increase in baselines is reflected in the Supplementary Estimates for the following year.

Transfers of departmental underspends to the next financial year – retention of underspends

49 Underspends are defined as funding remaining at the end of the financial year as a result of:

49.1 savings made by the department through gains in efficiency; or

49.2 other savings initiatives, where the department has delivered the output or service in full (in contrast, an ECT can apply when the output or service has not been fully delivered due to circumstances outside of the department's control).

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

51 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve RoUs within departmental output expense appropriations and departmental output expense categories of MCAs~~Multi-category appropriations (MCA)~~. If approved, this funding can then be transferred to the next financial year to any departmental output expense appropriations and/or departmental output expense categories of MCAs.

52 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.

[21] Confirmation of a conservative amount is to guard against the total amount available for transfer following the final audit being less than initially sought. If the amount sought were greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.

53 Where retention of underspend is sought and agreed prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting increase(s) in the relevant appropriation(s) for the following year. The changes will then be included in the Supplementary Estimates and Estimates.

54 Where retention of underspend is sought and agreed after the March Baseline Update and before 30 June, up to half of the amount[22] can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which the RoU was sought, and the increase included in the following year's Supplementary Estimates. Note that this is similar reporting treatment in the Estimates and Supplementary Estimates as for IPECTs.

55 Joint Ministers cannot approve any proposal to retain underspends received after 30 June.

56 RoU proposals must explain:

56.1 how the underspends arose (as per paragraph 49 above);

56.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

Bringing forward departmental spending from future financial years – front-loading of spending

57 FLoS can be used to bring forward funding from any departmental output expense appropriation or departmental output expense category of an MCA within the forecast period, for specific activities that will permanently and sustainably reduce spending in outyears.

58 FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.

59 FLoS proposals must explain:

59.1 how the activity will permanently and sustainably reduce spending in outyears;

59.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated;

59.3 what other funding options were considered, and why FLoS is the preferred option.

60 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, as per the criteria described in paragraph 8 above.

Technical adjustments and approvals

61 Technical adjustments include:

61.1 accounting adjustments with no cash impact, such as asset revaluations and impairments;[23]

61.2 automatic adjustments (both upwards and downwards) to departmental baselines related to capital charge (i.e. for rate changes, asset revaluations and accounting policy changes);

[22] The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of baselines as they stand at the March Baseline Update. In addition, it provides an incentive for agencies to manage baselines effectively and identify underspends early.

[23] Where such adjustments are agreed, there is no associated change in revenue Crown and any increase in appropriation cannot be used for other purposes if the forecast expenses do not eventuate.

61.3 shifting the indicative spending profile between financial years for an MYA, with no change to the overall appropriation;

61.4 shifting the indicative spending profile between categories of an MCA, with no change to the overall appropriation;[24]

61.5 the necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal.

62 Technical approvals by joint Ministers are also sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek Minister of Finance agreement to matters that are technical in nature, subject to the "significant policy issues" criterion described in paragraph 8.1 above. These include establishing and amending appropriations (including their titles and scope statements),[25] or adding categories to existing MCAs, to give effect to Cabinet policy and funding decisions.

Forecast adjustments

63 Forecast adjustments include:

63.1 changes to the amount to be incurred under a PLA;[26]

63.2 changes in revenue (mainly Crown revenue) that are the result of an external factor and are not directly related to an expense;[27]

63.3 where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update.[28]

64 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

Section C: Departmental authority to incur expenses and capital expenditure

General position

65 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

66 The source of a department's authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:[29]

66.1 for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;

66.2 an MCA; or

66.3 administered by the department incurring the expense or by another department.

[24] Where there are changes affecting the overall appropriation (e.g. FNAs or ECTs), other rules in the circular apply as appropriate.
[25] Note that section 7B of the PFA provides that establishing an MCA requires the Minister of Finance's approval.
[26] These include changes to departmental capital expenditure (refer section 24(1) of the PFA).
[27] Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 32-38 above.
[28] Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.
[29] Refer to section 7C(2)(c) of the PFA.

67 The general position for when a department has authority to incur expenses and capital expenditure is summarised in the table below.

	Appropriation is administered by the department incurring the expense	**Appropriation is administered by another department**
Departmental appropriations	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator
Non-departmental appropriations	In accordance with the terms of the delegation from the appropriation Minister	No authority
MCAs	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator[30]

68 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

68.1 the PFA, including ensuring that all expenditure is within the scope, amount and period of the appropriation;[31]

68.2 any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the PFA;

68.3 all applicable requirements set out in this circular;

68.4 where the expenses or capital expenditure relate to an investment, Cabinet Office Circular *Investment Management and Asset Performance in the State Services*.

Departments' authority to use departmental appropriations that they administer

69 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

70 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

70.1 to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or

70.2 with another department, under which that other department may use the appropriation.

71 The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

[30] While section 7C(2)(c) of the PFA does not provide that a department can only use departmental categories of an MCA administered by another department, this is how the Treasury is interpreting the provision. (It also flows from the fact that a department cannot use a non-departmental appropriation administered by another department.)

[31] It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines. The department still has to make sure that there are appropriations in place every year to cover the agreement.

72 Proposals to incur expenses[32] in relation to publicity, compensation or damages in settlement of claims, or ex gratia payments must be referred to the chief executive, appropriation Minister or Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental chief executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

Type of expense	**Amount (GST excl.)**	**Approval required**	**Comment**
Publicity expenses	$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in [Appendix B of the Cabinet Manual]
	More than $150,000	Appropriation Minister	
Compensation or damages in settlement of claims	$150,000 or less	Chief executive (or his or her delegate)	Claims under $75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than $150,000 and up to $750,000	Appropriation Minister	Expenses for compensation or damages in settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than $750,000	Cabinet	
Ex gratia expenses	$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation
	More than $30,000 and up to $75,000	Appropriation Minister	
	More than $75,000	Cabinet	

[32] Such expenses would be incurred under a departmental output expense or departmental other expense appropriation.

Departments' authority to use non-departmental appropriations and appropriations administered by another department

73 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any sub-delegation from the chief executive).[33] Departments have no authority to use non-departmental appropriations administered by another department.

74 For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.

75 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with express delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to sub-delegate to other persons.

76 Departments should review delegations for non-departmental appropriations at the start of each financial year with appropriation Ministers, to ensure they remain up to date and that approvals are documented.

Section D: Further information

77 If you require further advice or information on expectations of departments around proposals with financial implications and financial authorities, please contact your Treasury Vote team. Guidance on writing financial recommendations can be found on the Treasury's website at http://www.treasury.govt.nz/publications/guidance/planning/finrecs.

78 Information on writing Cabinet papers can be found on the Cabinet Office's website at http://cabguide.cabinetoffice.govt.nz/. If you require advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

Michael Webster
Secretary of the Cabinet

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[33] Further information on administration and use appropriations can be found at http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf

Annex – terms and definitions

Annual appropriation	An appropriation for a period of one financial year (1 July to 30 June) and lapsing at the end of that year
Appropriation	• The basis on which Parliament authorises the Crown and Offices of Parliament to incur expenses and capital expenditure • Is defined by amount, type, scope and period • Is the responsibility of the appropriation Minister • Is administered by the appropriation administrator, on behalf of the appropriation Minister • See Treasury's Guide to Appropriations for further information
Appropriation administrator	Refer section 2 of the Public Finance Act 1989
Appropriation Minister	Refer section 2 of the Public Finance Act 1989
Baseline horizon	The approved level of departmental and non-departmental resources for the current and four subsequent financial years
Baseline update	The process through which Cabinet spending decisions since the previous update are captured and joint Ministers agree changes to baselines, usually occurring twice-yearly in March (March Baseline Update) and October (October Baseline Update)
Between-Budget contingency	A limited amount of funding set aside as part of the annual Budget package to provide for decisions made between one Budget and the next
Budget moratorium	The period beginning on the day Cabinet approves the Budget package and ending after the Minister of Finance has delivered the Budget, during which proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration
Departmental	Refer section 2 of the Public Finance Act 1989
Departmental capital injection	An injection of capital, usually cash but can be other assets, made by the Crown to a department or Office of Parliament to increase the Crown's net asset holding in the department or Office of Parliament
Estimates	Refer section 2 of the Public Finance Act 1989
Expense and capital transfer (ECT)	A transfer from an appropriation or departmental capital injection across financial years, as provided for in paragraphs 39-44 of this circular
Fiscally neutral adjustment	The following types of change within a single financial year, as provided for in paragraphs 32-38 of this circular:

(FNA)	• A transfer between appropriations • A transfer between an appropriation and departmental capital • A departmental capital injection fully offset by a departmental capital withdrawal • An increase to an appropriation fully offset by an increase in third party revenue
Forecast adjustment	The following types of change, as provided for in paragraphs 63-64 of this circular: • A change to the amount to be incurred under a permanent legislative authority (see separate definition) • A change in revenue resulting from an external factor and not directly related to an expense • Where Cabinet has agreed a specific metric for determining cost based on an external variable and agreed that there are strong policy grounds for not considering changes in cost at each baseline update
Front-loading of spending (FLoS)	The bringing forward of funding from future financial years, as provided for in paragraphs 57-60 of this circular
In-principle expense and capital transfer (IPECT)	A transfer from an appropriation or departmental capital injection across financial years requiring confirmation after year-end accounts have been finalised before it can proceed, as provided for in paragraphs 45-48 of this circular
Investment	As per the meaning in Cabinet Office Circular *Investment Management and Asset Performance in the State Services*
Joint Ministers	The Minister of Finance and the appropriation Minister (or, where the proposal involves a departmental capital injection, the responsible Minister for the department)
Multi-category appropriation (MCA)	Refer section 2 of the Public Finance Act 1989
Multi-year appropriation (MYA)	An appropriation giving authority to the Crown or an Office of Parliament to incur expenses and capital expenditure for more than one financial year but a maximum of five financial years
Non-departmental	Refer section 2 of the Public Finance Act 1989
Permanent legislative authority (PLA)	Refer section 2 of the Public Finance Act 1989
PFA	Public Finance Act 1989
Responsible Minister	Refer section 2 of the Public Finance Act 1989
Retention of underspend	A transfer of a departmental output expense appropriation underspend to the next financial year, as provided for in paragraphs

(RoU)	49-56 of this circular
Supporting information to the main or supplementary Appropriation Bill	Information supporting the appropriations being sought in the main Appropriation Bill or the appropriations or changes to appropriations being sought in a supplementary Appropriation Bill. The information required is set out in sections 15-15F of the PFA (main Appropriation Bill) or sections 17A and 17B of the PFA (supplementary Appropriation Bill)
Supplementary Estimates	Refer section 2 of the Public Finance Act 1989
Swap	A fiscally neutral adjustment where the transfer is between an operating appropriation and capital (appropriation or injection) and meets the conditions set out in paragraphs 36-37 of this circular
Tagged contingency	Funding set aside as part of the annual Budget package to provide for specific items on which Cabinet is yet to make a final decision
Technical adjustment	The following types of change, as provided for in paragraph 61 of this circular: • An accounting adjustment with no cash impact • An automatic adjustment to a department's baseline associated with a change in capital charge • A shift in the indicative spending profile for an MYA or between categories of an MCA, with no change to the overall appropriation • The necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal
Technical approval	An approval by joint Ministers to give effect to policy and funding decisions already taken by Cabinet, where the matter is sufficiently trivial not to warrant the original policy and funding decision being re-considered by Cabinet

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: New Cabinet Expectations: Investment and Asset Management and Financial Authorities

Date:	17 March 2015	**Report No:**	T2015/428
		File Number:	ST-4-8-7

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Sign out** the Cabinet paper and new circulars for submission to the 25 March 2015 Cabinet committee (SEC) **Support** the Cabinet paper and circulars through Cabinet committee and Cabinet meetings **Refer** a copy of this report and its enclosures to the Minister for State-owned Enterprises, Hon Todd McClay and the Minister of Internal Affairs, Hon Peter Dunne	Thursday 19 March 2015
Associate Minister of Finance (Hon Steven Joyce)	**Read** the Cabinet paper and draft circulars in preparation for Cabinet committee and Cabinet **Support** the Cabinet paper and circulars through Cabinet committee and Cabinet meetings	Wednesday 25 March 2015
Associate Minister of Finance (Hon Paula Bennett)	**Read** the Cabinet paper and draft circulars in preparation for Cabinet committee and Cabinet **Support** the Cabinet paper and circulars through Cabinet committee and Cabinet meetings	Wednesday 25 March 2015

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Kerry Hollingsworth	Principal Advisor	04 917 6153 (wk)	s9(2)(a)	✓
Ricky Utting	Manager	04 890 7200 (wk)		

Actions for the Minister's Office Staff

Return the signed report to Treasury and submit to the 25 March 2015 Cabinet committee (SEC)

Refer a copy to: Minister for State-owned Enterprises, Hon Todd McClay and the Minister of Internal Affairs, Hon Peter Dunne

Enclosures: New Cabinet expectations for investment and asset management, and financial authorities (Treasury:3134066v2)
CO(10)2 replacement circular: FINAL draft following CAB 100 consultation (Treasury:3134268v3)
CO (11) 6 refresh: FINAL draft following CAB100 consultation (Treasury:3125367v1)

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Treasury Report: New Cabinet Expectations: Investment and Asset Management and Financial Authorities

Executive Summary

As discussed with you on 10 March 2015, the Treasury has led a process to replace two related Cabinet Office circulars, being:

- CO(10)2 *Capital Asset Management in Departments and Crown Entities: Expectations.*
- CO(11)6 *Guidelines and Requirements for Proposals with Financial Implications.*

On Friday 27 February 2015, we distributed to all affected State services agencies (for CAB 100 consultation purposes) the draft Cabinet paper and drafts of the two new circulars. Attached to this report is the final form of these documents reflecting our 10 March 2015 meeting, and CAB 100 feedback, for your approval and consideration by Cabinet Committee (SEC) on 25 March 2015.

*not relevant to the request

The Treasury also conducted a single consultation process around changes to CO(11)6 as agencies are already familiar with the operational requirements set out in the new financial authorities circular.

There was very little feedback received from agencies during the CAB 100 consultation process, with the majority of comments coming from parties in the corporate centre.

not relevant to request

The feedback obtained and changes to the circulars following the CAB 100 process are outlined below:

*not relevant to the request

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*not relevant to the request

Deleted - Not Relevant to Request

New circular: Proposals with Financial Implications and Financial Authorities (replace CO(11)6)

There was little feedback received via the CAB 100 process, and this was mainly technical in nature from within the Treasury, to improve definitions and structure.

Recommended Action

We recommend that you:

a. **sign out** the Cabinet paper and new circulars for submission to the 25 March 2015 Cabinet committee (SEC)

b. **support** the Cabinet paper and circulars through Cabinet committee and Cabinet meetings

c. **refer** a copy of this report and the enclosed material to the other two Investment Ministers, the Minister for State-owned Enterprises, Hon Todd McClay and the Minister of Internal Affairs, Hon Peter Dunne for their information.

Refer/not refer
Minister for State-owned Enterprises

Refer/not refer
Minister of Internal Affairs

Ricky Utting
Manager, Government Investment Portfolio

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Paula Bennett
Associate Minister of Finance

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: T2015/543 ST-4-8-7

Date: 20 March 2015

To: Minister of Finance
(Hon Bill English)

Associate Minister of Finance
(Hon Steven Joyce)

Associate Minister of Finance
(Hon Paula Bennett)

Deadline: Monday 23 March 2015 (Pre Cabinet)

Aide Memoire: Investment and Asset Management and Financial Authorities

Context

On Wednesday 25 March, SEC is due to consider a paper from the Minister of Finance entitled *New Cabinet Expectations: Investment and Asset Management, and Financial Authorities.* This aide-memoire provides key messages for the Associate Ministers of Finance to use in the Cabinet Committee meeting, as the Minister of Finance is not attending SEC.

Purpose of the paper

The paper sets out the rationale for changes in two aspects of government financial management policy. It seeks the Committee's agreement to publish those policy changes in the form of two Cabinet Office circulars, as shown below.

Title of proposed new circular	Supersedes existing CO circular
1. Investment Management and Asset Performance in the State Services	CO(10)2 *Capital Asset Management in Departments and Crown Entities: Expectations*
2. Proposals with Financial Implications and Financial Authorities	CO(11)6 *Guidelines and Requirements for Proposals with Financial Implications*

The second circular above simply reflects decisions already taken by Cabinet. Departments are already familiar with these requirements and as a result we anticipate the SEC discussion will centre on aspects of the first circular.

Questions and answers

*not relevant to the request

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*not relevant to the request

*not relevant to the request

Kerry Hollingsworth, Principal Advisor, IMAP (Investment Management & Asset Performance), 04 917 6153
Ricky Utting, Manager, IMAP (Investment Management & Asset Performance), 04 890 7200