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Unrestricted Distribution

Chief Executives  
Chief Financial Officers

Baseline/Fiscal Risks Enquiries: Vote Analysts and Managers

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### **October Baseline Update 2021 and Specific Fiscal Risk Requirements for HYEFU 2021**

1. This circular presents the requirements and timelines for the 2021 October Baseline Update (OBU) and submission of specific fiscal risks (SFRs). These processes provide information necessary for the Treasury's *Half Year Economic and Fiscal Update* (HYEFU), as well as providing an opportunity for departments to seek Joint Ministers' approval for a range of changes.
2. Given that baseline updates are technical processes, no policy changes can or should be made at OBU. Similarly, any contentious changes that cannot be resolved between departments and Treasury Vote teams should be removed from this baseline update.
3. As usual, departments should proactively manage any changes required to appropriations to ensure spending is incurred with the appropriate authority (e.g., through earlier confirmation of in-principle expense transfers), if changes cannot wait until the confirmation of this baseline update.
4. Narratives for SFRs that were published in the last EFU (i.e. BEFU) should be the starting point for any updates to the wording of risk descriptions in CFISnet, not the narratives originally submitted by departments. SFR narratives should be concise and suitable for publication in a public document, rather than providing a lengthy description of the risk.
5. Please refer to the additional guidance below and attached to this circular for detailed explanations of the OBU and SFR processes and the deadlines involved for departmental finance teams.

### **October Baseline Update**

6. There are two baseline updates during each financial year:
  - a. the October Baseline Update (OBU), which occurs before and informs the *Half Year Economic and Fiscal Update* (HYEFU); and
  - b. the March Baseline Update (MBU), which occurs before and informs the *Budget Economic and Fiscal Update* (BEFU).
7. Baseline Updates are important because they enable the Treasury to make the correct in-year revisions and ensure that the Economic and Fiscal Updates are as accurate as possible.
8. The October Baseline Update provides an opportunity for departments to:
  - a. update CFISnet to reflect Cabinet and Joint Ministers' decisions affecting baselines that have been made since the previous exercise;
  - b. seek Joint Ministers'<sup>1</sup> agreement to:
    - i. changes to baselines that Joint Ministers are able to approve under CO (18) 2 and updates to CFISnet to reflect the agreed changes;
    - ii. confirm expense and capital transfers from 2020/21 to 2021/22 and/or outyears; and
    - iii. adjust the future spending profile of multi-year appropriations (MYAs) to ensure the remaining profile of the MYA is the difference between the total amount of the MYA and the total actual expenditure to the end of the previous year.
  - c. request their appropriation Minister seek the Minister of Finance's authority for:
    - i. performance-reporting exemptions; and
    - ii. the establishment of multi-category appropriations (MCAs).
9. Additionally, at OBU, baselines are rolled out to the new last outyear.
10. The OBU is a technical update, with its contents designed to require no approval by Cabinet. Any changes that require Cabinet approval should be considered as part of the Budget process or, if urgent, considered separately by Cabinet. Departments should discuss the appropriate approach with their Treasury Vote team.

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<sup>1</sup> The Minister of Finance and the appropriation Minister.

11. Departments should discuss any potentially contentious issues with their Treasury Vote team as early as possible, so that these can be resolved in advance of the appropriation Minister's submission for OBU.
12. Any disputes should be resolved, if possible, between the department and the Treasury Vote team. If disputes can be resolved, CFISnet should be updated to reflect the agreed position. If disputes cannot be resolved, the disputed items are to be deferred to the Budget 2022 process, or separately considered by Cabinet, and removed from CFISnet.
13. Departments should pay particular attention to the scope and amount of appropriations, as these are the authority for incurring operating expenses and capital expenditure. Explanatory information can be found on the Treasury's website below. Please ensure you are familiar with this guidance:  
<http://www.treasury.govt.nz/publications/guidance/planning/appropriations>

#### *Macrons in Appropriation Names and Scopes*

14. Appropriation names and scopes should now be amended via Coredata where these contain Māori words requiring macrons over certain vowels. This is required so these appropriations are correctly published for Budget 2022. Up to Budget 2021, departments advised Treasury on the letters to have macrons and these were added in the production process. From Budget 2022 Treasury will no longer be adding these macrons; **departments will be solely responsible** for these being correctly applied.
15. Departments will need to compare the appropriation as published in the current year Main Estimates against the same appropriation in the CFISnet Coredata 'Amend Existing Appropriation' list page and raise a Coredata amendment where macrons should be applied. If these are present on the Coredata amendment list page, no action is required for that appropriation.
16. Where these are missing from CFISnet, Coredata only allows these to be updated for Budget 2022. Where these need to match the published Budget 2021 Main Estimates, the Supplementary Estimates fields in Coredata also need to be updated – but these fields are not editable by departments. In these cases, please enter the following into the additional instructions "Māori macrons are required in the Supplementary Estimates name and scope fields to match the details in the Main Estimates fields". Provided that these match the published 2021 Estimates, the CFISnet Team will update these fields when processing the Coredata amendments.
17. Where Māori macrons are missing from multi-year appropriations (MYA) in CFISnet, these can only be updated where the legislated name and scope contains these macrons. If the legislated MYA does not contain macrons, then the name will not be updated in CFISnet. For assistance on how to apply the macrons in Coredata, please contact the CFISnet Helpdesk.

### **Specific Fiscal Risks**

18. Specific fiscal risks (SFRs) are published in the *Half Year Economic and Fiscal Update*. They supplement the fiscal forecasts by highlighting where there are risks with financial implications that cannot be attributed to any particular year(s), or which cannot be costed with sufficient certainty to be included in the fiscal forecasts.
19. The publication of SFRs is required by section 26U of the Public Finance Act 1989, which refers to the public disclosure of policy decisions and other circumstances that have material fiscal implications.
20. The role of departments is to advise their Treasury Vote Team (through the HYEFU exercise of the CFISnet risks module) by **1pm on Thursday 21 October** of:
  - a. all **changes** to the status of the fiscal risks provided to the Treasury for the *2021 Budget Economic and Fiscal Update* (BEFU);<sup>2</sup> and
  - b. any **new matters** of which they are aware that may have a material effect on the economic and fiscal outlook, provided
    - i. the matter will have a fiscal impact of more than **\$100 million** over the forecast period; and
    - ii. there is a **reasonable likelihood** that the matter will be approved or occur. *Reasonable likelihood* is to be taken to mean that, in the judgment of the department, the event has 20%-50% chance of being approved or occurring during the forecast period. A greater-than-50% chance of a matter occurring or being approved would mean consideration for inclusion in the fiscal forecasts, as opposed to publication as an SFR.
21. For further guidance on what to disclose as a specific fiscal risk, please refer to the *Specific Fiscal Risks: Submission for Economic and Fiscal Updates* guidance distributed with this circular.
22. The criteria for the initial collection of information are necessarily broad. The Treasury's Fiscal Risks Committee applies narrower criteria to decide what is eventually published as a specific fiscal risk.
23. This means that some of the matters departments identify may be excluded from disclosure by the Committee. However, their disclosure to the Treasury remains important for record keeping and information sharing. The bar for the use of section 26V to preclude disclosure of a risk is very high and final judgement on whether to use this section of the Public Finance Act 1989 rests with the Minister of Finance.

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<sup>2</sup> SFR narratives that were published in the **last EFU** (i.e. BEFU) should be the **starting point for updates** to the wording of SFR descriptions. SFR narratives also need to be concise and of publishable quality.

Tom Hall  
Manager, Budget Management

## Timetable

All requirements are to be completed by **1pm** on the due date.

Requirement	October Baseline Update	Specific Fiscal Risks
Departments discuss their specific requirements for the October Baseline Update (OBU) with Treasury Vote teams.	From date of circular to submission deadline	
Coredata changes to be submitted to CFISnet for OBU.	Monday 11 October	
Final date for departments to update and lock CFISnet for OBU Vote changes.  Departments are encouraged to share final, unsigned OBU letters with their Treasury Vote team.	Friday 15 October	
<b>Final</b> date of Appropriation Minister submission to Minister of Finance. Please provide <b>1 soft copy</b> of the Appropriation Minister's letter to the Minister of Finance.	Monday 18 October	
Departments provide specific fiscal risk information in CFISnet, updating risks disclosed for BEFU and submitting details of any new risks, including those which should be withheld under section 26V of the Public Finance Act 1989 (PFA).		Thursday 21 October
Final date for Treasury Vote teams to advise departments of status of updates.	Friday 29 October	
Minister of Finance notifies Ministers of the outcome of the update. Departments to update CFISnet to reflect all changes advised by Treasury.	By Tuesday 9 November	