TE TAI ŌHANGA
THE TREASURY

Writing Financial Recommendations for Cabinet and Joint Minister Papers

Technical Guide for Departments

December 2023 Update

Te Kāwanatanga o Aotearoa
New Zealand Government

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Contents

What’s New?

This December 2023 edition replaces the previous guidance document *Writing Financial Recommendations for Cabinet and Joint Minister Papers*, released in November 2021. The main changes are:

- Replacing references to ‘net core Crown debt’ with ‘net debt’ in Step 3 and worked examples, where relevant, in line with the Government’s decision to use this broader measure in communication of its fiscal strategy.
- Clarifying in Step 5 and worked examples, as necessary, that:
  - ‘Impact’ refers to impact on Budget allowances and contingencies.
  - Capital impacts are managed against the multi-year capital allowance (not against the next Budget’s capital allowance as previously stated).
- Clarifying that where policy changes have the effect of decreasing Crown revenue or capital receipts, the decrease generally needs to be charged against Budget allowances and contingencies (see Example 13).
- Updating the financial years in the worked examples to display the current (at the time of writing) forecast period 2023/24 – 2027/28.
- Including the following new worked example:
  - Example 15C – Spending decisions affecting the current financial year after Supplementary Estimates have closed.
- Making minor updates to the text to improve clarity and updating external hyperlinks, as necessary.

Introduction

About this Guide

This Technical Guide is intended as an aid for departmental officials when writing papers containing financial recommendations. It has been prepared to help ensure departments meet Cabinet Office requirements for information to follow a consistent style and format (as set out in the *CabGuide* at CabGuide | Department of the Prime Minister and Cabinet (DPMC).

The requirements and guidance outlined in this document are to apply until the document is updated or replaced.

For further advice on preparing financial recommendations, please contact your Vote analyst who can advise on specific judgements.

Why have financial recommendations?

Financial recommendations are used to record decisions by Cabinet or joint Ministers that affect baselines, and ensure the necessary financial authorities are in place. Financial recommendations are drawn on by Ministers and their staff, as well as by departmental officials, who must implement decisions. Employing a standard format helps users deal simply and accurately with what would otherwise be relatively complex technical information.

Financial recommendations are important as they provide:

- Authority for including amounts in the Estimates and/or Supplementary Estimates of Appropriations and for incurring expenses or capital expenditure under the authority of Imprest Supply.
- A record of the impact of decisions on the fiscal indicators (operating balance and/or net debt), and therefore the Government's fiscal strategy.
- Communicating how the fiscal impact of decisions is to be managed against available funding source(s), including tagged contingencies, the between-Budget contingency, future Budget operating allowances, and/or the multi-year capital allowance.

The following maxim is helpful to keep in mind when preparing financial recommendations: *"Always write the recommendations as you want the Cabinet minute to appear"*.

How to use this Guide

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

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

- Between header information and line-item information.
- Between respective Votes' line information, where there are multiple Votes.

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

Note that each table starts with the 2023/24 financial year (the 'current' financial year at the time of writing). If you are using this guidance after 1 July 2024, the first financial year will need to be changed to 2024/25 (or whatever financial year you are currently in).

The examples provided in this guide are formatted in the Arial font. The examples use 10.5-point for text and 9.5-point for tables. Use of the smaller 9.5-point in tables balances the need for sufficient legibility with the volume of information requiring to be shown therein.

Financial recommendations module in CFISnet

The CFISnet financial recommendations module automatically outputs, by Vote, financial recommendations relating to Budget initiatives that have previously been entered into CFISnet.

While these system-generated recommendations are largely consistent with this guide, in some respects there are formatting and layout differences (eg, inclusion of up-front 'omnibus' recommendations agreeing establishment of new appropriations, inclusion of current-year changes in Supplementary Estimates, and interim authority for expenses and capital expenditure to be incurred under Imprest Supply). This is because the CFISnet-generated format has been specially formulated, in consultation with Cabinet Office, to facilitate efficient production of the Cabinet Budget paper and associated documents detailing decisions by Vote; that is, balancing the need to include all essential information with the need to minimise sheer volume.

Guidance on how to use the financial recommendations module in CFISnet can be found in CFISnet Help [Choose 'Baselines', then 'Recommendations'].

Essential Elements for Financial Recommendations

The following information should always be incorporated into financial recommendations. Refer to Annex A for examples of how the information is reflected in a set of financial recommendations.

Action to be taken	State what actions Ministers are being asked to take: • **agree** – should (for example) be used for recommendations that put in place policy decisions, including establishing new appropriations • **approve** – should be used for recommendations that authorise changes in expenditure. This is the preferred terminology for baseline change recommendations • **note** – should (for example) be used for recommendations that provide context for substantive decisions (keep to a minimum) • **authorise –** should be used where Cabinet is delegating authority to nominated parties (usually joint Ministers) to take further decisions • **invite** – should be used where Cabinet or joint Ministers are requesting Minister(s) to undertake further action • **direct** – should be used where Cabinet or joint Ministers are requiring department(s) to undertake further action.
Purpose of the baseline change	Explain specifically what the baseline change is for eg, “to give effect to the policy decision in recommendation 1 above”, or “to provide for the write-down of assets described in recommendation 1 above”. It is generally desirable to reference the baseline change to an earlier, stand-alone, plain language recommendation that agrees the policy decision or notes the circumstance giving rise to the requirement for the baseline change. In limited situations it is permissible to encapsulate the purpose within the financial recommendation for the baseline change where this can be achieved in a pithy manner eg, “to provide for increased capacity for provision of policy advice on X”.
Title(s) of the Vote(s) affected	Include all Votes affected by the proposed baseline changes, with the name(s) of the Vote(s) shown above the line items affected.
Appropriation type	The appropriation type must be shown in all instances, eg, Departmental Output Expense. Where more than one line item for each type of appropriation in any given Vote is affected, items of the same type should be grouped. For information on different appropriation types and their uses, refer to *A Guide to Appropriations* on the Treasury website at https://www.treasury.govt.nz/sites/default/files/2013-11/guide-appropriations-2013.pdf.

Appropriation (or category) name	Individual appropriations within each appropriation type should be listed in alphabetical order and grouped by Vote (when more than one Vote is affected). Similarly, individual categories within each category type in multi-category appropriations should be listed in alphabetical order.
Appropriation Minister	The Minister responsible for each appropriation (known as the “appropriation Minister”) needs to be identified, because any single Vote may contain appropriations for which different Ministers are responsible. References to the appropriation Minister should cite the relevant portfolio or responsibility, eg, “Minister of Justice”, “Minister Responsible for the Earthquake Commission”, “Speaker of the House of Representatives”.
Appropriation Administrator	The appropriation administrator needs to be identified in a recommendation agreeing to establish a new appropriation (though not in a recommendation approving a change to an existing appropriation). While appropriation administrators are usually departments (or Offices of Parliament), they can also be interdepartmental executive boards, interdepartmental ventures, and, if authorised to manage assets and liabilities, departmental agencies.
Monetary amounts	These must be expressed in $ million and rounded to three decimal places (eg, $0.045 million). The amounts must reflect expenses and capital expenditure measured and reported in accrual terms, in accordance with relevant accounting standards, and therefore excluding GST.
Changes to appropriations	Both the direction (ie, increase/decrease) and amount must be shown. Increases in appropriations or revenue items should be shown as positive numbers, with decreases shown as negatives in brackets eg, increase in baseline or revenue: 1.234 decrease in baseline or revenue: (1.234)
Revenue source for departmental output expense appropriations	All recommendations relating to departmental output expense appropriations must either explicitly state the revenue source from which the additional spending will be funded or else note that no funding is sought or required. This reflects the fact the departments, being part of the Crown as defined in the Public Finance Act 1989, require an appropriation or other authority to incur expenses (or capital expenditure), irrespective of the revenue source. Departmental outputs are usually funded from revenue Crown, revenue department, revenue other, or a mixture of these. On occasions departmental outputs may also be funded from a department’s retained surplus. *Revenue Crown* represents revenue earned by departments from the Crown in exchange for outputs to be supplied to Ministers responsible for appropriations. *Revenue department* refers to revenue earned by departments from other departments in exchange for goods or services provided to those departments. *Revenue other* refers to revenue earned by departments from the public or other organisations in exchange for goods or services provided to those parties. For any other appropriation types there is no requirement to state the revenue or funding source.

GST status	All baseline changes are presented on a GST-exclusive basis, so there is no need to indicate whether any appropriation is GST inclusive or not. For further guidance on GST matters, refer Treasury circular T2005/11 at http://www.treasury.govt.nz/publications/guidance/circulars.
Year(s) affected by the baseline changes	Typically, tables contain financial information for five years, the first of which should be the current financial year. Information for each of the next four years should be shown individually (even where the amounts are the same in all years) unless the baseline change is for a multi-year appropriation (refer Annex C). This current plus four-year span is sometimes referred to as the "(current) forecast period". If a baseline change is to have an indefinite duration, this must be stated. Otherwise, the change in appropriation will expire in the last financial year for which the increase or decrease is shown in the table. [Refer Example 14]. For a baseline change with an indefinite duration, the final column in the table showing the baseline change should be headed "20XX/YY & Outyears", to indicate that the baseline change is ongoing. Where a baseline change is time-limited, relevant columns in the table, including a final column headed "20XX/YY & Outyears", should record zero ("-") in the relevant row(s) to indicate there is no change to baselines in those years. For any multi-year appropriation (MYA) there needs to be a column to the right of the period of the MYA, indicating either: where funding is intended to continue beyond the period of the MYA, the ongoing 'annual' baseline change; or, where funding is not intended to continue beyond the period of the MYA, that there is nil ongoing baseline change. In instances where a baseline change has a varying profile beyond the current forecast period, additional columns should be added to the table as necessary to make this clear.
Establishing new appropriations	Any financial recommendations proposing to establish a new appropriation must clearly set out the relevant Vote, appropriation Minister, appropriation administrator, title, type, and scope for that appropriation. Usually, this information is best presented in table format, especially where multiple new appropriations are being established. In the case of establishing a new or adding categories to an existing multi-category appropriation (MCA), the same information as above needs to be clearly set out (though the scopes would read "This category is limited to…"). Again, this information is usually best presented in a table, though it may be simpler to set out the relevant Vote, appropriation Minister and appropriation administrator information (which does not vary between categories) in a separate recommendation. Whatever the form, this information needs to be preceded by recommendations noting that the Minister of Finance has approved the establishment of the MCA and the agreed single overarching purpose.

Scope statement	The scope statement constrains the range of activities, actions, or functions that the appropriation or category can be used for. To reinforce this point, the scope statement for any new appropriation must begin with the stem "This appropriation is limited to ...", and for any new category with the stem "This category is limited to ...". On passage of an Appropriation Bill, the scope statement in the associated Estimates or Supplementary Estimates for each appropriation (which for a multi-category appropriation is defined as the scope of each of the individual categories of expenses or non-departmental capital expenditure included in that appropriation, refer Annex D) becomes legally binding. It is therefore vitally important that the wording of the scope statement should correctly and clearly define/delineate the boundary of what the appropriation or category can be used for. Once an appropriation has been agreed, substantive changes that widen or narrow the scope should not be sought in-year, as such changes would compromise audit scrutiny and amount to the creation of a new appropriation. However, minor in-year technical changes to scope statements (eg, to correct spelling mistakes or to provide additional, clarifying detail) are permissible. Refer to guidance at: https://www.treasury.govt.nz/sites/default/files/2013-11/guide-appropriations-2013.pdf.
Impact on operating balance and/or net debt	The impact of each initiative on the operating balance and/or net debt needs to be clearly stated. Similarly, if there is no impact on the operating balance and/or net debt then this also needs to be clearly stated. Most changes to baselines (with the exception of 'technical' changes that joint Ministers have delegated authority to approve, eg, fiscally neutral adjustments including operating and capital swaps and third party-funded spending, expense and capital transfers) will impact.
Impact on Budget allowances and contingencies	In addition, where there is spending that impacts on the operating balance and/or net debt, how this will be managed (eg, the impact is to be charged against the between-Budget contingency established in the most recent Budget, or charged as a pre-commitment against the next Budget's operating allowance, or charged against the 'multi-year capital allowance, or charged against a 'tagged' contingency, or not charged against any Budget allowance or contingency) needs to be clearly stated. There are judgements around how (and what) Budget allowances and contingencies are impacted. Please contact your Vote analyst for advice.
Supplementary Estimates and Imprest Supply	Where a proposed change to an appropriation or capital injection affects the current year's baseline and the spending is not already covered by a permanent legislative authority (refer Annex E), then a recommendation is required agreeing: • to include the proposed change in expense or capital expenditure or capital injection in the Supplementary Estimates, and • for any increase in expense or capital expenditure or capital injection to be incurred under the authority of an Imprest Supply Act. [This is to ensure Parliamentary financial authority for any additional expense or capital expenditure or capital injection, prior to passage of the Appropriation (Supplementary Estimates) Bill.] In most instances a text recommendation combining both of these should be used, as shown in Annex B, Example 1.

How to Write Financial Recommendations

Seven steps in writing financial recommendations

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

A set of recommendations should be presented in the seven-step order as set out below. [Note that not all of these steps will be required in every instance.]

Step	Format
1 Agree the policy decision (or note the circumstance) Describe in plain language what policy decision Ministers are being asked to agree to (or what circumstance Ministers are being asked to note).	Text
2 Agree to establish new appropriations, where necessary Agree establishment of any new Estimates items (including relevant Vote(s), appropriation Minister(s), appropriation administrator(s), title(s), type(s), and scope(s), and any changes to the scopes of existing appropriations. [Note: where a new multi-category appropriation (MCA) is being established, you will need to obtain the Minister of Finance's approval beforehand and include a recommendation noting that the Minister of Finance has approved the establishment of the new MCA. Administration of a Vote by an interdepartmental executive board, interdepartmental venture, or departmental agency also requires Minister of Finance approval.]	Text and table
3 Approve changes to appropriations and departmental capital injections necessary to give effect to the policy decision/provide for the circumstance, and corresponding impacts on the operating balance and/or net debt [Note: where there are multiple initiatives, or where changes do not fully impact on the operating balance and/or net debt, then an agree recommendation with a summary impact table should be included before the above.]	Text and Appropriation table(s) Summary Impact Table(s)
4 Agree inclusion in Supplementary Estimates and use of Imprest Supply (if required) Agree inclusion of proposed changes in the Supplementary Estimates and use of Imprest Supply, where current year baselines are affected and/or where a change involves additional expense or capital expenditure or capital injection in the current year.	Text

Step	Format
5 Agree, for changes to appropriations and departmental capital injections that impact on the operating balance and/or net debt, how this spending is to be managed against Budget allowances and contingencies For example, the impact is to be charged against the between-Budget contingency established in the most recent Budget, or charged as a pre-commitment against the next Budget's operating allowance, or charged against the multi-year capital allowance, or charged against a 'tagged' contingency, or not charged against any Budget allowance or contingency.	Text
6 Agree or note any other conditions, where necessary Agree or note any conditions, limitations, or restrictions on the appropriation changes (eg, where the changes are subject to a report-back on an outstanding issue). This includes authorising specified parties (eg, joint Ministers) to take further decisions within the context of the agreed policy (eg, agreeing to an additional increase in appropriations up to a specified maximum level, if necessary). Such authorising is sometimes referred to as "delegating".	Text
7 Direct (of officials) or invite (of Ministers) any further work, where necessary Agree any further decisions or report-backs (eg, the report-back referred to above).	Text

More detail on steps 3-5 is set out below.

Step 3: Impact on the operating balance and net debt

Financial recommendations must include a statement setting out the impact of the baseline changes on the **operating balance** and/or **net debt**. This is because the Crown is required, under the Public Finance Act 1989, to pursue its policy objectives in accordance with the principles of responsible fiscal management. These principles include managing the level of debt, revenue, and expenses. Therefore, it is important that Ministers understand the fiscal impact of decisions to ensure those decisions are consistent with responsible fiscal management.

The Government's headline fiscal indicators are the operating balance before gains and losses (OBEGAL) and net debt. These fiscal indicators are generally used by the Government to measure against its fiscal strategy objectives.

Operating balance and net debt defined

While OBEGAL is a key indicator for the Government's fiscal strategy, for the purposes of financial recommendations the focus is on the operating balance. The operating balance is the difference between total revenue and total expenses for the entire Crown, including gains and losses. This indicator shows whether the Government has generated enough revenue to cover its operating expenses in any given year.

Net debt represents core Crown and Crown entity borrowings less core Crown financial assets and provides an insight into the sustainability of the Government's finances. Following review, and with effect from May 2022, a new net debt indicator has been introduced. This is more comprehensive than its predecessor ("net core Crown debt") and includes core Crown advances, Crown entity borrowings, and the financial assets and borrowings of the New Zealand Superannuation Fund, bringing it closer to international norms. Further information about this change can be found on pages 38-39 of the Budget Economic and Fiscal Update 2022.

When do changes to baselines impact the operating balance and/or net debt?

Most changes to baselines will usually impact directly on the operating balance and/or net debt. As a general rule:

- Changes to expenses with a cash impact (ie, that the Crown needs to borrow money to pay for) impact directly on both the operating balance and net debt.

> Example: Cabinet is being asked to approve an increase in a departmental output expense appropriation, to provide for additional policy advice. This will have a corresponding impact on the operating balance (specifically, the operating balance will decrease, in line with the increased expenses). Further, to the extent the Crown will need to borrow to pay for the cash expense, this will also have a corresponding impact on net debt (specifically, net debt will increase).

- Changes to expenses with no cash impact (eg, impairments) impact directly on the operating balance only.

> Example: Cabinet is being asked to approve an increase in a non-departmental other expense appropriation, to provide for impairment of an asset. This will have a corresponding impact on the operating balance (specifically, the operating balance will decrease, in line with the increased expenses). However, as the expense is non-cash and so there is no need for the Crown to borrow to pay for it, there is no corresponding impact on net debt.

- Changes to non-departmental capital expenditure (excluding core Crown advances and contributions to the New Zealand Superannuation Fund) and departmental capital injections with a cash impact (ie, that the Crown needs to borrow money to pay for) impact directly on net debt only.

> Example: Cabinet is being asked to approve an increase in a non-departmental capital expenditure appropriation, to provide for purchase of a new asset. As the Crown will need to borrow to pay for the purchase, this will have a corresponding impact on net debt (specifically, net debt will increase).

If you are unsure whether an expense is cash or non-cash, please contact your Vote analyst for advice.

When do changes to baselines not impact the operating balance and/or net debt?

Some changes to baselines alter the level of appropriations or departmental capital injections within a financial year without altering the Crown's overall 'bottom line' operating balance or net debt position for that year. The main examples are fiscally neutral changes to appropriations (including increases fully offset by increases in third-party revenue) and adjustments to appropriations relating to capital charge (which is recovered by the Crown).

Changes to appropriations that result in changes either to third-party core Crown advances or to financial assets of the New Zealand Superannuation Fund also do not impact net debt. This is because both the asset and liability are included in the measure, so the impact of any such change is neutral. If you are unsure whether a change to baselines impacts the operating balance and/or net debt, please contact your Vote analyst for advice.

What text to include regarding the impact of a baseline change on the operating balance and/or net debt

Where the baseline change impacts the operating balance and/or net debt either fully or not at all, a statement explaining this full or nil impact should be included as part of the recommendation approving the change(s) as follows:

Situation	Text
Seeking approval to change departmental or non-departmental operating expenses with a cash impact	"..., with a corresponding impact on the operating balance and net debt"
Seeking approval to change departmental or non-departmental operating expenses with no cash impact	"…, with a corresponding impact on the operating balance"
Seeking agreement to change non-departmental capital expenditure or departmental capital injections	"..., with a corresponding impact on net debt"
Seeking agreement to a fiscally neutral change	"..., with no impact on the operating balance or net debt"

Where the baseline change only partially impacts (eg, because a portion is funded by third-party revenue, or there is offsetting Crown revenue), an **impact table** that summarises the impact on the operating balance and net debt is used in place of the above text. Refer to Example 3 and Example 4 in Annex B.

Step 4: Supplementary Estimates and Imprest Supply

Where proposed baseline changes involve changes (eg, an increase or decrease) to appropriations and/or departmental capital injections **affecting the financial year of the Estimates currently in force**, agreement also needs to be sought for the changes to be included in Supplementary Estimates and, in the interim, for any spending increases to be met from Imprest Supply.

Imprest Supply agreement is necessary to access interim Parliamentary authority for a government to incur expenses, capital expenditure and departmental capital injections in advance of passage of an Appropriation Act ("Mains" or "Supps"). There are usually two Imprest Supply Acts each year:

- The first is passed before the start of the financial year (normally when "Supps" for the previous year are passed, in June) and is the sole financial authority for up to the first two months of the new financial year.
- The second is passed when the first Appropriation Act ("Mains") for the new financial year is passed (no later than three months after Budget) and provides interim Parliamentary authority for spending not included in the Estimates and that will need to be included in the Supplementary Estimates.

If the proposed baseline change does not involve any increased spending in the current year, there is no requirement for an Imprest Supply recommendation. Note that in the case of fiscally neutral proposals with offsetting increases and decreases in spending, all changes involving increased spending in the current year require interim authority under Imprest Supply.

An agreement for inclusion in Supplementary Estimates recommendation is necessary to ensure that the change(s) gets incorporated in the Supplementary Estimates legislation and ultimately passed by Parliament.

Typically, both the Supplementary Estimates and Imprest Supply proposals are combined in a single recommendation as follows:

> **agree** that the proposed change(s) to appropriations and/or departmental capital injections for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase(s) be met from Imprest Supply;

The word "proposed" reflects the fact that Cabinet (or joint Ministers) do not change appropriations or departmental capital injections; rather, Parliament does.

Where the change(s) affect only appropriations, ie, there is no change to departmental capital injections, then the text "and/or departmental capital injections" should be deleted.

Similarly, where the change(s) affect only the level of departmental capital, ie, there is no change to appropriations, then the text "appropriations and/or" should be deleted.

Where the changes affect both appropriations and the level of departmental capital, then "and/or" should be collapsed to "and".

Step 5: Impact on Budget allowances and contingencies

Important note: Budget allowances and contingencies are a tool of the Fiscal Management Approach. Usually at Budget time the Government will set aside funding in contingencies to provide both for unanticipated out-of-cycle spending decisions as well as expected upcoming spending decisions in specific areas. If these contingencies are insufficient, then the Government has the choice to source funding through pre-committing future Budget allowances. Please talk to your Vote analyst to determine which approach is most appropriate.

As part of its overall approach to managing its fiscal position, the Government typically at Budget time sets aside limited amounts of funding to manage new spending decisions that may need to be taken ahead of the next Budget. These buffers, known as "contingencies", comprise:

- Between-Budget contingency – provides for new operating spending pressures that arise throughout the year between Budgets.
- Emerging Priorities contingency – works like the between-Budget contingency but is restricted to initiatives proposed by the Prime Minister.
- Tagged contingencies – where Cabinet sets aside and 'ring-fences' funding (operating and/or capital) for specific purposes, subject to further work being undertaken and funding subsequently being approved.
- Contingencies established in exceptional circumstances for specific purposes, eg, the COVID-19 Response and Recovery Fund.

It is important to note that there is no between-Budget contingency for new capital investments that arise throughout the year (between Budgets). Any between-Budget proposals that have capital implications are managed against the multi-year capital allowance. The Government adopted the multi-year capital allowance in place of single-year capital allowances with effect from Budget 2019, to provide it flexibility in meeting medium-term investment objectives while ensuring near-term fiscal strategy could be achieved. See page 25 of the Budget Policy Statement dated 13 December 2018 for further information.

In the event the between-Budget contingency has either already been exhausted or the impact is too large to charge against the between-Budget contingency, Ministers may choose to manage the operating impact of additional expenses as a pre-commitment against a future Budget operating allowance.

Financial recommendations associated with policy decisions that involve new spending should include a statement setting out how the proposed baseline changes impact on (ie, reduce) these Budget allowances and contingencies. As a rule, fiscally neutral changes to baselines and changes that result in increased revenue do not impact on Budget allowances or contingencies.

In most cases the impact on Budget allowances and contingencies of a proposal can be captured by adding an additional recommendation following the Supplementary Estimates/Imprest Supply recommendation (where applicable), as follows:

Where there is an operating impact to be managed against the between-Budget contingency:

> **agree** that the expenses incurred under recommendation X above be charged against the between-Budget contingency established as part of Budget 20[XX];

Where there is a capital impact to be managed against the multi-year capital allowance:

> **agree** that the capital expenditure and/or departmental capital injection incurred under recommendation X above be charged against the multi-year capital allowance;

Where there is both an operating impact to be managed against the between-Budget contingency and a capital impact to be managed against the multi-year capital allowance:

> **agree** that the expenses incurred under recommendation X above be charged against the between-Budget contingency established as part of Budget 20[XX], and that the capital expenditure/departmental capital injection incurred under recommendation X above be charged against the multi-year capital allowance.

Where there is an operating impact, but the between-Budget contingency has either already been exhausted or the impact is too large to charge against the between-Budget contingency:

> **note** that *EITHER* the between-Budget contingency established as part of Budget 20[XX] is exhausted *OR* the impact of the expenses incurred under recommendation X above is too large to be charged against the between-Budget contingency established as part of Budget 20[XX];
>
> **agree** that the expenses incurred under recommendation X above be charged as a pre-commitment against the Budget 20[YY] operating allowance;

Where the impact is to be managed against a ‘tagged’ contingency:

> **agree** that the expenses and/or capital expenditure and/or departmental capital injection incurred under recommendation X above be charged against the [name of ‘tagged’ contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers];

Where the impact is to be managed against a contingency that has been established in exceptional circumstances for a specific purpose, eg, the COVID-19 Response and Recovery Fund, please contact your Vote analyst for advice about the appropriate wording for the impact recommendation.

On occasions Ministers may take an explicit decision not to manage the impact of a spending decision against a Budget allowance or contingency. As a result, the relevant expenses or capital expenditure/departmental capital injection will directly impact the OBEGAL and/or net debt fiscal indicators rather than be managed against a buffer. In such instances the following recommendation should be used (please discuss with your Vote analyst to confirm that this is appropriate first):

agree that the [expenses and/or capital expenditure/departmental capital injection] incurred under recommendation X above are to be managed outside of Budget allowances and contingencies and will represent a decrease in the OBEGAL and/or an increase in net debt;

Note that, where a decision is taken to manage an operating impact outside of Budget allowances and contingencies, the term OBEGAL is used rather than operating balance. This emphasises that the decision will impact the OBEGAL key fiscal indicator and work against achieving the Government's fiscal strategy.

Note that a recommendation specifying impact on Budge allowances and contingencies is not required for 'technical' changes to baselines as set out in CO (18) 2 that joint Ministers have delegated authority from Cabinet to approve, as these by definition do not include policy decisions involving new spending.

Why do spending decisions impact on the operating balance and/or net debt when the Financial Statements of the Government already include future Budget allowances and contingencies?

The question is sometimes asked, why is it necessary to set out the impact (if any) of a new spending decision on the operating balance and/or net debt when, isn't all that happens is the relevant amount shifts from one category of the Government's forecast financial statements (namely, either forecast new operating or capital spending) to another, specific category, with no impact on the overall 'bottom line'?

The answer is to do with the counterfactual:

- In taking a policy decision involving new spending, Ministers are committing to a specific initiative funding that has previously been uncommitted.
- If the proposal does not go ahead, any uncommitted funding becomes available for other uses (eg, debt reduction, increasing future Budget allowances, funding other initiatives)
- Including a statement setting out the impact (if any) on the operating balance and/or net debt confirms the impact on the 'bottom line' and that the relevant amount now cannot be used for other purposes. It also serves as a reminder that funding set aside in Budget allowances and contingencies is not 'free money', but rather has opportunity cost.

Numbering of recommendations

All text recommendations should be numbered consecutively, starting from 1.

Split recommendations: If a paper contains split recommendations, the alternative sets of recommendations should be included as *EITHER: / OR:* subsets of the relevant recommendation number (eg, *EITHER:* 5.1 ... *OR:* 5.2 ...). When preparing the minute, Cabinet Office can then simply remove the subset(s) of recommendations that are not adopted, avoiding disruption to the numbering of the other recommendations.

Numbering should be applied to text preceding establishment of new appropriation (or category of multi-category appropriation), impact, and change to appropriation tables, but not to the tables themselves, as these link with the preceding text to form the recommendation.

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

Annex A: Anatomy of Financial Recommendation Tables

Anatomy of an appropriation table (for use where changes impact either fully or not at all)

Year(s) affected by the baseline changes – information shown should be for current year or first upcoming financial year, then each of the next three individual years, and finally the fourth and all subsequent outyears

Purpose of the baseline change (where able to be encapsulated concisely; otherwise, action X policy as a stand-alone recommendation)

Impact clause – not required if an Impact table is included

Action to be taken

Vote name and appropriation Minister

Appropriation Type

Appropriation Title

Revenue source (for departmental output

2 **approve** the following changes to [appropriations and/or departmental capital injections] to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expenses: Output Expense Title1 (funded by revenue Crown)	0.500	2.000	2.000	2.000	2.000
Non-departmental Output Expenses: Output Expense Title2	1.000	1.500	1.500	1.500	1.500
Total Operating	**1.500**	**3.500**	**3.500**	**3.500**	**3.500**
Total Capital	**-**	**-**	**-**	**-**	**-**

Monetary units and direction of change

Totals rows are required if there is more than one line item for a Vote, and/or if more than one Vote included in the table

Amount of change and direction of change for each line item for each year

Anatomy of an impact table (for use where changes partially impact)

Funding statement

Year(s) affected by the baseline changes – information shown should be for current year or first upcoming financial year, then each of the next three individual years, and finally the fourth and all subsequent outyears

Monetary units and direction of change

2 **agree** to increase spending to provide for costs associated with X policy agreed in recommendation 1 above, with the following impact(s) on the operating balance and/or net debt:

Vote name – ignore if the initiatives span more than one vote

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	0.750	3.600	3.350	3.350	3.350
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	0.100	0.150	0.150	-	-
No Impact	0.500	0.450	0.450	0.450	0.450
Total	**1.350**	**4.200**	**3.950**	**3.800**	**3.800**

Baseline changes that have no impact on either the operating balance or net debt, eg, third party-funded outputs, capital charge funding, income tax components on some benefits (all fiscally neutral for the Crown)

Total amount of changes – these figures usually correspond to the total baseline changes, but may differ (eg, where there are changes in Crown non-tax revenue)

Anatomy of a summary table (for use with multiple initiatives)

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

Year(s) affected by the baseline changes – information shown should be for current year or first upcoming financial year, then each of the next three individual years, and finally the fourth and all subsequent outyears

Header information

Summary of Initiatives

Operating Initiatives (Impact on Operating Balance)

Monetary units and direction of change

		$m – increase/(decrease)				
Ref.	**Initiative**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name 1]						
Minister of/for Portfolio1						
x	Initiative A	0.250	1.000	1.000	1.000	1.250
x	Initiative B	0.400	0.500	0.500	0.500	0.500
Vote [Name 2]						
Minister of/for Portfolio2						
x	Initiative B	-	0.500	0.500	0.500	0.500
Minister of/for Portfolio3						
x	Initiative B	-	0.100	0.100	0.100	0.100
Total Operating		**0.650**	**2.100**	**2.100**	**2.100**	**2.350**

Vote names and appropriation Ministers

Separating line where more than one vote

Fiscal impact of baseline changes for each initiative

"Approve" recommendation reference number

Initiative names

Total amount of impact of baseline changes on the operating balance. If changes partially impact, a separate impact table is required.

Annex B: Examples of Typical Financial Recommendations

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

Example 1 – Single baseline change to give effect to a policy decision, requiring establishment of a new appropriation

This example illustrates the provision of additional departmental operating funding for an initiative funded by revenue Crown in a new appropriation line item in Vote [Name].

A single recommendation combining approval of the baseline change and impact statement should be used where the impact from a single initiative or baseline change either fully impacts or does not impact on the operating balance and/or net debt.

New policy statement

1 **agree** to X policy;

Establish new line-item statement (text and table)

2 **agree** to establish the following new appropriation(s):

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Name	Minister of/for Portfolio	Department Name	Monitoring of Funded Agencies	Departmental Output Expense	This appropriation is limited to ...

Combined baseline change and impact statement

...followed by

Appropriation table

3 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Monitoring of Funded Agencies (funded by revenue Crown)	0.500	0.500	0.750	0.750	0.750

Supplementary Estimates and Imprest Supply statement

4 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

Impact on Budget allowances and contingencies statement

5 **agree** that that the expenses incurred under recommendation 3 above be charged against the between-Budget contingency established as part of Budget 2023.

Points to note:

- The “approve” recommendation contains a specific explanation of what the baseline change is for – in this case, to give effect to a new policy decision that is itself the subject of an earlier “agree” recommendation. It is generally tidiest to make any discrete policy decision the subject of a stand-alone, plain-language “agree” recommendation, rather than bundle it together into the “approve” recommendation.
- As this example involves a departmental output expense appropriation, the source of revenue (revenue Crown, revenue department, revenue other) is specified in the table. There is no requirement to state the revenue or funding source for any other appropriation type.
- No Total Operating row is required in this example, as there is only one line item involved.
- As the initiative affects only appropriations, “and/or departmental capital injections” has been deleted in the Supplementary Estimates and Imprest Supply recommendation.
- Similarly, as this example involves a baseline change that impacts on expenses only, the text “..., and/or capital expenditure/departmental capital injection” has been deleted in the impact on Budget allowances and contingencies recommendation.
- In this example it is assumed that the new policy decision involves spending that impacts on the between-Budget contingency. If the impact is on a ‘tagged’ contingency, then the text in the impact on Budget allowances and contingencies recommendation should be changed to read “…be charged against the [name of ‘tagged’ contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]”.
- This example assumes only one appropriation Minister. Where there are changes to appropriations affecting more than one appropriation Minister, the Appropriation table must include all the Ministers responsible for appropriations involved (ie, the title of the relevant appropriation Minister must precede each appropriation line).
- Since the passing of the Public Finance Amendment Act 2020 consequent on the Public Service Act 2020, “department” in the PFA includes departmental agency, interdepartmental executive board, and interdepartmental venture. This means an appropriation administrator can be either a conventional department or Office of Parliament, an interdepartmental board, an interdepartmental venture, or, if authorised to manage assets and liabilities, a departmental agency. Section 2(2) of the Public Finance Act 1989 provides that administration of a Vote by an interdepartmental executive board, interdepartmental venture, or departmental agency requires Minister of Finance approval.

Example 2 – Operating and capital funding in two different Votes to give effect to a policy decision

This example provides for operating and capital funding for an initiative funded through two Votes and assumes the relevant appropriation line items already exist in the Estimates.

A combined approval and impact text statement should be used where the impacts from multiple initiatives or baseline changes either fully impact (as shown in the wording) or do not impact on the operating balance and/or net debt.

New policy statement

1 **agree** to X policy;

Combined baseline change and impact statement

2 **approve** the following changes to appropriations and departmental capital injections to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and net debt:

... followed by

Appropriation table

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name1] **Minister of/for Portfolio1** Departmental Output Expense: Monitoring of Funded Agencies (funded by revenue Crown)	0.500	0.750	0.750	0.750	0.750
[Department Name]: Capital Injection	1.000	2.000	0.500	-	-
Vote [Name2] **Minister of/for Portfolio2** Departmental Output Expense: Ministerial Services (funded by revenue Crown)	(0.250)	0.500	0.250	0.250	0.250
Total Operating	**0.250**	**1.250**	**1.000**	**1.000**	**1.000**
Total Capital	**1.000**	**2.000**	**0.500**	**-**	**-**

Supplementary Estimates and Imprest Supply statement

3 **agree** that the proposed changes to appropriations and departmental capital injections for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

Impact on Budget allowances and contingencies statement

4 **agree** that the expenses incurred under recommendation 2 above be charged against the between-Budget contingency established as part of Budget 2023, and that the departmental capital injections incurred under recommendation 2 above be charged against the multi-year capital allowance.

Points to note:

- As there is only one initiative, no summary table is required.
- The "approve" recommendation contains a specific explanation of what the baseline change is for – in this case, to give effect to a new policy decision that is itself the subject of an earlier "agree" recommendation. It is generally preferable to make any discrete policy decision the subject of a stand-alone, plain-language "agree" recommendation, rather than bundle it together into the "approve" recommendation.
- Where a new appropriation line item needs to be established, an agree recommendation with table establishing the new appropriation (specifying the Vote, appropriation Minister, appropriation administrator, title, type, and scope) should precede the "approve" recommendation (refer to Example 1 above).
- The "Totals" lines in the table show the respective operating and capital totals across all affected Votes – in this example, these totals correspond to the respective impacts on the operating balance and net debt. A summary table is not needed as there are no partial (eg, fiscally neutral) impacts.
- A reduction in the Crown's investment in a department would be labelled "Capital Withdrawal", and the amount would be shown as a negative (ie, in brackets).
- As the initiative affects both appropriations and the level of capital of a department, "and/or" has been collapsed to "and" in the Supplementary Estimates and Imprest Supply recommendation.
- In this example it is assumed that the new policy decision involves operating spending that impacts on the between-Budget contingency and capital spending that impacts the multi-year capital allowance [see Step 5 above for more guidance on which Budget allowance or contingency funding should be sought from]. If the operating and capital spending impacts on 'tagged' contingencies, then the text in the impact on Budget allowance and contingencies recommendation should be changed to read "**agree** that the expenses incurred under recommendation 2 above be charged against the [name of 'tagged' operating contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers], and that the departmental capital injection incurred under recommendation 2 above be charged against the [name of 'tagged' capital contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]".

Example 3 – Policy decision involving partial cost recovery

This example illustrates the provision of departmental operating funding for an initiative where costs are intended to be 75 percent cost-recovered – ie, funded 25 percent from revenue Crown and 75 percent from revenue other.

Although only one appropriation line item in the Estimates is affected, two entries are required in the appropriation table to illustrate the different revenue sources. An impact table is also required in this instance to illustrate how much impacts/does not impact on the operating balance and net debt (ie, part of the impact is fiscally neutral).

New policy statement

Funding Statement

...followed by

Impact table

1 **agree** to X policy;

2 **agree** to increase spending to provide for costs associated with the policy decision in recommendation 1 above, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	0.250	0.300	0.300	0.300	0.400
Operating Balance Impact Only	-	-	-	-	-
Net Debt Impact Only	-	-	-	-	-
No Impact	0.750	0.900	0.900	0.900	1.200
Total	**1.000**	**1.200**	**1.200**	**1.200**	**1.600**

Approval statement

...followed by

Appropriation table

3 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expenses: Output Expense Title1 (funded by revenue Crown)	0.250	0.300	0.300	0.300	0.400
Output Expense Title1 (funded by revenue other)	0.750	0.900	0.900	0.900	1.200
Total Operating	**1.000**	**1.200**	**1.200**	**1.200**	**1.600**

Supplementary Estimates and Imprest Supply statement

4 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

Impact on Budget allowances and contingencies statement

5 **agree** that the operating balance and net debt impact in recommendation 2 above of expenses incurred under recommendation 3 above be charged against the between-Budget contingency established as part of Budget 2023.

Points to note:

- Recommendation 2 is used to agree the overall effects of the changes and how these will impact on the operating balance and/or net debt. The "Total" row in the impact table represents total changes to the baseline. This total typically matches the total of changes in the appropriation table, though some changes can impact on the operating balance and/or net debt and not result in changes to appropriation – refer to Example 13.
- The approval statement still contains an explanation of why the changes are being made ("...to give effect to the policy decision in recommendation 1 above"), but in this instance does not include an impact statement (as this aspect is covered by the preceding, separate impact table).
- Separate entries are required in the appropriation table to illustrate the different revenue sources.
- Where a new appropriation line item needs to be established, an agree recommendation with table establishing the new appropriation (specifying the Vote, appropriation Minister, appropriation administrator, title, type, and scope) should precede the "approve" recommendation (refer to Example 1 above).
- As the initiative in this example affects appropriations but not the level of departmental capital, the text "...and/or departmental capital injections..." has been deleted in the Supplementary Estimates and Imprest Supply recommendation.
- In this example it is assumed that the new policy decision involves spending that impacts on the between-Budget contingency [see Step 5 above for more guidance on which Budget allowance or contingency funding should be sought from]. If the impact is on a 'tagged' contingency, then the text in the impact on Budget allowances and contingencies statement recommendation should be changed to read "…be charged against the [name of 'tagged' contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]".

Example 4 – Operating and capital funding for two initiatives that affect two Votes

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

New policy statements

1 **agree** to X policy (Initiative A);

2 **agree** to Y policy (Initiative B);

Summary tables

Separate tables for operating …

Summary of Initiatives

Operating Initiatives (Impact on Operating Balance)

		$m – increase/(decrease)				
Ref.	**Initiative**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name1]						
4	Initiative A	1.000	1.000	1.000	1.000	1.000
4	Initiative B	0.500	0.500	0.500	0.500	0.500
Vote [Name2]						
4	Initiative B	-	0.750	0.750	0.750	0.750
Total Operating		**1.500**	**2.250**	**2.250**	**2.250**	**2.250**

and capital components

Capital Initiatives (Impact on Net Debt)

		$m – increase/(decrease)				
Ref.	**Initiative**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name1]						
4	Initiative B	2.000	1.500	-	-	-
Vote [Name2]						
4	Initiative A	-	0.100	0.100	-	-
Total Capital		**2.000**	**1.600**	**0.100**	**-**	**-**

Funding statement

...followed by

Impact table

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

3 **agree** to increase spending to provide for initiatives A and B, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	1.500	2.250	2.250	2.250	2.250
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	2.000	1.600	0.100	-	-
No Impact	3.000	3.000	3.000	3.000	3.000
Total	**6.500**	**6.850**	**5.350**	**5.250**	**5.250**

Approval statement

...followed by

Appropriation tables

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

4 **approve** the following changes to appropriations and departmental capital injections to give effect to the policy decisions in recommendations 1 and 2 above:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name1] **Minister of/for Portfolio** Departmental Output Expenses: Output Expense Title1 (funded by revenue Crown)	1.500	1.500	1.500	1.500	1.500
Output Expense Title1 (funded by revenue other)	3.000	3.000	3.000	3.000	3.000
[Department Name1]: Capital Injection	2.000	1.500	-	-	-
Vote [Name2] **Minister of/for Portfolio**					
Departmental Output Expense: Output Expense Title2 (funded by revenue Crown)	-	0.750	0.750	0.750	0.750
[Department Name2]: Capital Injection	-	0.100	0.100	-	-
Total Operating	**4.500**	**5.250**	**5.250**	**5.250**	**5.250**
Total Capital	**2.000**	**1.600**	**0.100**	**-**	**-**

Supplementary Estimates and Imprest Supply statement	5 **agree** that the proposed changes to appropriations and departmental capital injections for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
Impact on Budget allowances and contingencies statement	6 **agree** that the operating balance and net debt impact in recommendation 3 above of expenses incurred under recommendation 4 above be charged against the between-Budget contingency established as part of Budget 2023, and that the net debt only impact in recommendation 3 above of departmental capital injections incurred under recommendation 4 above be charged against the multi-year capital allowance.

Points to note:

- Summary tables are used to provide the initiative-by-initiative analysis of impacts on the operating balance and/or net debt (the numbers in the “Ref.” column should match the recommendation numbers for individual initiatives).
- The impact recommendation (recommendation 3 above) is used to agree the overall effects of the changes. The table shows the impacts on the operating balance and/or net debt and the total changes to baselines.
- The “approve” recommendation statement contains a specific explanation of the reason for the baseline change – in this case, to give effect to the policy decisions X and Y, themselves the subject of earlier “agree” recommendations. However, in this instance it does not include an impact statement, as this aspect is covered by the preceding, separate impact table.
- Where a new line item needs to be established, an agree recommendation with table establishing the new appropriation (specifying the Vote, appropriation Minister, appropriation administrator, title, type, and scope) should precede the “approve” recommendation (refer to Example 1 above).
- The totals lines in the summary, impact and appropriation tables should typically correspond. Note that there may be rare instances where the totals do not match, eg, where there are revenue changes that affect baselines but do not result in changes to appropriations.
- In this example it is assumed that the new policy decision involves operating spending that impacts on the between-Budget contingency and capital spending that impacts the multi-year capital allowance. If the operating and capital spending impacts on ‘tagged’ contingencies, then the text in the impact on Budget allowances and contingencies recommendation should be changed to read “agree that the operating balance and net debt impact in recommendation 3 above of expenses incurred under recommendation 4 above be charged against the [name of ‘tagged’ operating contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers], and that the net debt only impact in recommendation 3 above of departmental capital injections incurred under recommendation 4 above be charged against the [name of ‘tagged’ capital contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]”.

Example 5 – Expense and/or capital transfers within an appropriation across financial years (ECTs)

An ECT is a technical change through which baseline funding is transferred from the current year to one or more of the next three financial years, necessitated by external factors resulting in the delay or deferral of the specific project to which the funding applies. Refer to CO (18) 2 for further details about ECTs.

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

Consider an expense transfer of $0.500 million within a departmental output expense line item from 2023/24 to 2024/25. Where the amount to be transferred from one year to the next is known, the standard format wording and appropriation table for recommendations should be used. The appropriation changes will decrease available resources for the current year and increase resources for the following year by a commensurate amount.

1 **approve** the following changes to appropriations and/or departmental capital injections, to reflect delays in the implementation of XYZ, with no impact on the operating balance and/or net debt across the forecast period:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	(0.500)	0.500	-	-	-

2 **agree** that the proposed changes to appropriations and/or departmental capital injections for 2023/24 above be included in the 2023/24 Supplementary Estimates.

Points to note:

- While the transfer of funding between financial years will have corresponding impacts on the operating balance and/or net debt for each of the affected financial years, these impacts offset each other across the forecast period.
- As decreases to line items (ie, reductions in appropriations or departmental capital withdrawals) for the current year need to be included in the Supplementary Estimates, a Supplementary Estimates recommendation is required. However, as there is no increased spending in the current year, there is no requirement for an Imprest Supply recommendation.
- No Total Operating (or Total Capital) row is required in this example, as there is only one line item involved.
- 'Technical' changes to baselines such as ECTs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

- ECTs do not apply to third party revenue-funded amounts of departmental appropriations.
- The example shown is a simple transfer of department output expense appropriation from the current financial year to the next. Any other appropriation type would be essentially similar, though with no revenue source stated.
- A transfer of departmental capital would follow the format for capital withdrawals from / injections to a department. Whether or not a department's baselines should also be adjusted downwards to reflect associated reduced capital charge obligations would depend on factors such as materiality and length of delay or deferral of the relevant specific project and be at the discretion of Ministers. Departments should discuss with their Vote analyst whether it would be appropriate for departmental baselines to be adjusted downwards or not.
- It is possible to spread resources from the current financial year to one or more of the next three financial years. An example of where this might occur would be a delay to a multi-year project resulting in a change to the original spending profile.

Example 6A – In-principle expense and/or capital transfers within an appropriation across financial years (IPECTs)

There will be occasions where the exact amount of operating or capital resource needing to be transferred to the subsequent financial year cannot be quantified with any certainty until relatively late in the current financial year (eg, because of uncertainty as to whether a planned delivery of outputs or purchase of an asset will be delayed or not). In such instances there is a risk that any 'early' ECT submission (eg, made in the final baseline update process for the current year) might under- or over-estimate the amount actually requiring to be transferred, neither of which is desirable.

Where such uncertainty exists, an appropriation Minister (or the responsible Minister for a department in respect of capital injections to that department) may seek approval for an *in-principle* expense or capital transfer (IPECT). Typically (and desirably), such requests should be submitted through the final baseline update process for the financial year (usually in March), though requests may be actioned up until the time that final Budget decisions are taken (usually early April) and then, following the Budget 'moratorium', from the day after Budget Day up until a final deadline. This deadline will be notified each year by the Treasury but is usually around the middle of June. Any requests for IPECTs not received by the Minister of Finance sufficiently before 30 June to enable the Minister to approve them by that date will be declined.

On occasions it may also make sense to 'build in' approval for an IPECT to a set of financial recommendations agreeing new funding for a specific activity, particularly where funding is time-limited and there is a risk of delay (eg, for establishing an Inquiry that will run over two financial years).

Unlike for ECTs, no adjustments are being made to appropriations or departmental capital for either the current year (2023/24) or following year(s) (2024/25 – 2026/27) at the time IPECTs are sought. To reflect this, a noting recommendation is used.

Before any operating or capital relating to the in-principle transfer may be incurred in the subsequent financial year, the final amount needs to be confirmed by the appropriation or responsible Minister, as applicable, and jointly agreed with the Minister of Finance (along with agreement for inclusion in the Supplementary Estimates and interim use of Imprest Supply), once the audited financial results for the previous financial year have been completed. This process usually takes place through the October Baseline Update (OBU). If the operating or capital expenditure needs to be incurred prior to the completion of the OBU process then, in order to avoid incurring unappropriated expenditure, the relevant Minister should write to the

Minister of Finance seeking early confirmation of the final amount for transfer (including inclusion in the Supplementary Estimates and interim use of Imprest Supply) – see Example 6B for the necessary financial recommendations format. Refer to CO (18) 2 for further details about IPECTs.

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

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

Consider the previous example. Assume that only $0.300 million of appropriation changes can be made in relation to the $0.500 million of departmental output expense, as there is uncertainty about whether the $0.200 million balance will be delayed. An IPECT in relation to the latter is likely to be appropriate in this situation, using the following format.

1 **note** that potential delays in the implementation of XYZ require the in-principle transfer of up to the following maximum amount[s] of operating and/or capital from 2023/24 to 2024/25:

	$m – increase/(decrease)				
Vote [Name] Minister of/for Portfolio	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	(0.200)	0.200	-	-	-

2 **authorise** the Minister of Finance and the [Minister of/for Portfolio] jointly to agree the final amount to be transferred, following completion of the 2023/24 audited financial statements, with no impact on the operating balance and/or net debt across the forecast period.

Points to note:

- While the transfer of funding between financial years will have corresponding impacts on the operating balance and/or net debt for each of the affected financial years, these impacts offset each other across the forecast period.
- A Supplementary Estimates and Imprest Supply recommendation is not required for an IPECT – though is required at the time the transfer is agreed, usually in the following OBU process (unless the expenditure needs to occur before then, in which case the appropriation or responsible Minister, as applicable, would need to write to the Minister of Finance requesting early confirmation of the IPECT – see Example 6B below).
- No Total Operating (or Total Capital) row is required in this example, as there is only one line item involved.

- ‘Technical’ changes to baselines such as IPECTs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies (either at this stage or later in the process when they are confirmed), as by definition they are not associated with policy decisions involving new spending.
- Any spending in the following financial year of operating or capital approved for IPECT but not yet agreed (and therefore lacking the necessary Supplementary Estimates and Imprest Supply agreement) would potentially be unappropriated.
- It is possible to spread resources from the current financial year to one or more of the next three financial years. An example of where this may occur is a delay to a multi-year project resulting in a change to the original spending profile.
- When updating forecast information for the current financial year (eg, forecast tracks, estimated actuals), departments should use their best estimate of anticipated spending (ie, account for any IPECTs).

Example 6B – Early confirmation of in-principle expense and/or capital transfers (IPECTs)

On occasions, expenses or capital expenditure/departmental capital injections for which an in-principle expense or capital transfer into the next financial year has previously been approved will unavoidably be incurred prior to completion of the OBU process. In such instances it will be necessary for joint Ministers to provide early confirmation of some or all of the available expense or capital transfer, to avoid the occurrence of unappropriated expenditure (especially where an appropriation has no amount in the Estimates for the new financial year).

Consider a scenario where joint Ministers have been authorised to agree the final amount of an in-principle expense transfer of up to $1.000 million from 2022/23 to 2023/24 following completion of the 2022/23 audited financial statements, but it is necessary to seek early confirmation of the full amount ahead of the OBU process.

1 **note** that joint Ministers have previously approved an in-principle expense or capital transfer of up to $1.000 million from 2022/23 to 2023/24 to provide for potential delays in the implementation of XYZ;

2 **note** that early confirmation of the full amount of the available expense or capital transfer is required to avoid risk of unappropriated expenditure;

3 **agree** an expense or capital transfer of $1.000 million from 2022/23 to 2023/24;

4 **approve** the following changes to appropriations and/or departmental capital injections to provide for decision in recommendation 3 above, with no impact on the operating balance and/or net debt across the forecast period:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	1.000	-	-	-	-

5 **agree** that the proposed change to appropriations and/or departmental capital injections for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- See relevant Points to note for Examples 5 and 6A above.
- In this case the full amount of the available expense or capital transfer is confirmed and agreed. Where there is uncertainty about the level of expenses or capital expenditure that is available to be transferred into the next financial year (bearing in mind that audited year-end audited actuals may not have been completed and so it may not be clear how much is available to transfer), joint Ministers should be asked to agree early confirmation of only a conservative amount sufficient to ensure no unappropriated expenditure occurs, leaving the balance to be confirmed through the OBU process.
- While the transfer of funding between financial years will have corresponding impacts on the operating balance and/or net debt for each of the affected financial years, these impacts offset each other across the forecast period.
- 'Technical' changes to baselines such as ECTs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

Example 7 – Retention of underspends (RoUs) where approval is sought prior to or at March Baseline Update

A RoU is a technical change through which underspends within departmental output expense appropriations resulting from efficiency gains or other savings initiatives may be transferred to any departmental output expense appropriations within the same department in the following financial year. Refer to CO (18) 2 for further details about RoUs, including definition of underspends.

Where approval to retain underspends is sought prior to or at the March Baseline Update (MBU), the full amount requested can be retained. Underspends must be confirmed by showing a decrease in the Supplementary Estimates and corresponding increase(s) in the Estimates for the following year for the relevant appropriation(s).

Consider a request for RoU of $0.300 million within a single departmental output expense appropriation in 2023/24 to be applied equally across two other departmental output expense appropriations within the department in 2024/25. The appropriation table will show the departmental output expense appropriation in which there is an underspend reducing in the current year (2023/24), and the two departmental output expense appropriations to which that underspend is being applied increasing commensurately in the following year (2024/25).

1 **approve** the following changes to appropriations reflecting retention of departmental output expense underspends in 2023/24, with no impact on the operating balance and net debt across the forecast period:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown) Output Expense Title2 (funded by revenue Crown) Output Expense Title 3 (funded by revenue Crown)	(0.300) - -	- 0.150 0.150	- - -	- - -	- - -
Total Operating	**(0.300)**	**0.300**	**-**	**-**	**-**

2 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates.

Points to note:

- While the transfer of funding between financial years will have corresponding impacts on the operating balance and net debt for each of the affected financial years, these impacts offset each other across the forecast period.
- A Supplementary Estimates recommendation is required to provide for the reduction in the departmental output expense appropriation for the current year being included in the Supplementary Estimates. However, as no additional spending is being incurred in the current year, there is no requirement for an Imprest Supply recommendation.
- As RoUs relate to departmental output expenses only, references to appropriations and/or capital injections and to operating balance and/or net debt have been collapsed, respectively, to appropriations and to operating balance and net debt in the recommendation containing the combined approval/impact statement, and reference to departmental capital injections collapsed in the recommendation relating to Supplementary Estimates.
- ‘Technical’ changes to baselines such as ROUs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

Example 8 – Retention of underspends (RoUs) where approval is sought after March Baseline Update

Where approval to retain underspends is sought after the March Baseline Update (MBU), **only half** of the full amount requested can be retained. The reasons for this are (i) to support the accuracy of the government’s borrowing requirement forecasts, (ii) a desire to incentivise departments to manage baselines proactively, and (iii) to reflect the greater likelihood that any underspends identified towards the end of a financial year will be the result of factors besides efficiency gains or other savings initiatives by departments.

As for IPECTs, requests for RoUs may be actioned up until a final deadline to be notified each year by the Treasury, but usually around the middle of June. Any requests for ROUs not received by the Minister of Finance sufficiently before 30 June to enable the Minister to approve them by that date will be declined.

Consider the same request for RoU as in the previous example but sought after MBU and before 30 June. In this instance, instead of a recommendation seeking approval for the appropriations for the current year (2023/24) to be reduced and for the following year (2024/25) to be increased, a noting recommendation should be used. This means that, similar to the treatment for IPECTs, there is no adjustment to either the current year appropriations in the Supplementary Estimates or the following year appropriations in the Estimates.

Also, before any departmental operating expense relating to RoU may be incurred in the following financial year, the underspend is required to have been confirmed by the Minister responsible for the appropriation and retention thereof jointly agreed with the Minister of Finance (along with agreement for inclusion in the Supplementary Estimates and interim use of Imprest Supply) once the audited financial results for the previous financial year have been completed. Again, this is similar to the treatment for IPECTs.

1 **note** that [Department Name] is anticipating departmental output expense underspends in 2023/24 as follows:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	(0.300)	-	-	-	-

2 **authorise** the Minister of Finance and relevant appropriation Minister(s) jointly to increase departmental output expense appropriations for 2024/25 in Votes administered by [Department Name] by up to a maximum of half of the above amount, following completion of the 2023/24 audited financial statements, with no impact on the operating balance and net debt across the forecast period.

Points to note:

- While the transfer of funding between financial years will have corresponding impacts on the operating balance and net debt for each of the affected financial years, these impacts offset each other across the forecast period.
- A Supplementary Estimates and Imprest Supply recommendation is not required in this instance, as appropriations are not being adjusted for the current year. However, a Supplementary Estimates and Imprest Supply recommendation will be required at the time the RoU is confirmed (usually in the following OBU process, unless spending is required before then, in which case the relevant Minister(s) responsible for the appropriation(s) would need to write to the Minister of Finance confirming the underspend and seeking agreement to the RoU, though not before completion of year-end audited financial results for the department).
- No Total Operating row is required in this example, as there is only one line item involved.

- ‘Technical’ changes to baselines such as RoUs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies (either at this stage or later in the process when they are confirmed), as by definition they are not associated with policy decisions involving new spending.
- Any incurring of departmental operating expenses in the new financial year (2024/25) relating to, but prior to confirmation of, underspends in the previous financial year (and therefore lacking the necessary Supplementary Estimates and Imprest Supply agreement) would potentially be unappropriated.

Example 9 – Front-loading of spending (FLoS)

FLoS is a technical change in which any departmental output expense appropriation can be brought forward within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears. Refer to CO (18) 2 for further details about FLoS.

1 **approve** the following front-loading of spending to provide for X as described in recommendation x above, with no impact on the operating balance and net debt across the forecast period:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name] **Minister of/for Portfolio** Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	0.600	(0.200)	(0.200)	(0.100)	(0.100)

2 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- While the transfer of funding between financial years will have corresponding impacts on the operating balance and net debt for each of the affected financial years, these impacts offset each other across the forecast period.
- The transaction is fiscally neutral across the forecast period, but fiscally positive into outyears.
- As FLoS relates to departmental output expenses only, references to appropriations and/or capital injections and to operating balance and/or net debt have been collapsed, respectively, to appropriations and to operating balance and net debt in the recommendation containing the combined approval/impact statement, and reference to departmental capital injections collapsed in the recommendation relating to Supplementary Estimates.
- No Total Operating row is required in this example, as there is only one line item involved.
- ‘Technical’ changes to baselines such as FLoS that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

Example 10A – Fiscally neutral adjustments (FNAs) within a Vote

An FNA is a technical change to existing baselines involving a reallocation of funding within a financial year. Requests for FNAs would typically be made as part of a baseline update process. Refer to CO (18) 2 for a full description of rules applying to FNAs.

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

1 **approve** the following fiscally neutral adjustment(s) to provide for X, with no impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expenses: Output Expense Title1 (funded by revenue Crown)	(0.500)	-	-	-	-
Output Expense Title2 (funded by revenue Crown)	0.500	-	-	-	-

2 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- No Total Operating (or Total Capital) row is required for FNAs between line items where the changes sum to zero.
- Technical changes to baselines such as FNAs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

Example 10B – Fiscally neutral adjustments (FNAs) within a Vote, funded from third-party revenue (departmental)

An FNA can be an increase (or decrease) to an appropriation within a financial year fully offset by an increase (or decrease) in third-party revenue.

Consider an increase in a departmental output expense appropriation where this is fully funded by an increase in revenue department (eg, to reflect a department being compensated for the secondment of a staff member to another department). As it does not involve additional revenue Crown, the increase in appropriation is fiscally neutral.

1 **approve** the following fiscally neutral adjustment(s) to provide for X, with no impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Output Expense Title1 (funded by revenue department)	0.300	-	-	-	-

2 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- No Total Operating (or Total Capital) row is required in this example, as there is only one line item involved.
- In this example the third-party revenue is “revenue department”. The same form would apply for an FNA to a departmental appropriation funded by “revenue other” (eg, to reflect the sale of a service by the department to a third party other than another department).
- A fiscally neutral increase (decrease) to a non-departmental appropriation fully offset by an increase (decrease) in third-party revenue would need to include a recommendation noting the corresponding increase (decrease) in Crown revenue or capital receipts. Refer to Examples 10C and 13.
- Technical changes to baselines such as FNAs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

Example 10C – Fiscally neutral adjustments (FNAs) within a Vote, funded from third-party revenue (non-departmental)

As stated in the Example 10B, an FNA can be an increase (or decrease) to an appropriation within a financial year fully offset by an increase (or decrease) in third-party revenue. Third-party revenue includes revenue that accrues to the Crown, ie, non-departmental revenue, as well as revenue that accrues to a department, as in Example 10B.

Consider an increase in a non-departmental output expense appropriation where this is fully funded by an increase in non-departmental non-tax revenue (eg, to reflect the Crown directly purchasing training services from a private provider and being reimbursed by a Crown entity that used to but no longer funds these services). As it does not involve additional revenue Crown, the increase in appropriation is fiscally neutral.

1 **agree** to X policy;

2 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, fully offset by the changes described in recommendation 3 below and so fiscally neutral with no impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] Minister of/for Portfolio	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental Output Expense: Title1	1.000	1.000	-	-	-

3 **note** the following changes as a result of the decision in recommendation 1 above:

	$m – increase/(decrease)				
Vote [Name] Minister of/for Portfolio	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-Tax Revenue: Title2	1.000	1.000	-	-	-

4 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- No Total Operating (or Total Capital) row is required in this example, as there is only one line item involved.
- “Noting” is sufficient in recommendation 3, as the changes do not involve appropriations or departmental capital injections and so do not require inclusion in Supplementary Estimates or interim use of Imprest Supply.
- Similarly, there is no need for Cabinet / joint Ministers to agree the establishment of the relevant non-departmental revenue line item (in this case the Non-Tax Revenue item “Title2”) to be used for reporting purposes, where this does not already exist.
- Technical changes to baselines such as FNAs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.
- An FNA could similarly involve an increase in a departmental appropriation funded by an increase in non-departmental revenue, eg, an increase in the Immigration Levy or in the Proceeds of Crime Fund being used to fund increases in departmental output expense appropriations in several Votes.

Example 11 – Fiscally neutral adjustments (FNAs) between Votes

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

1 **approve** the following fiscally neutral adjustment(s) to provide for X, with no impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name1] **Minister of/for Portfolio** Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	(0.500)	-	-	-	-
Vote [Name2] **Minister of/for Portfolio** Departmental Output Expense: Output Expense Title2 (funded by revenue Crown)	0.500	-	-	-	-

2 **agree** that the proposed changes to appropriations and/or departmental capital injections for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- Note use of the separating line to distinguish between separate Votes.
- Joint Ministerial agreement (as opposed to Cabinet agreement) in the above example would involve three Ministers – namely the Minister of Finance and both appropriation Ministers.

- No Total Operating (or Total Capital) row is required for FNAs between line items where the changes sum to zero.
- 'Technical' changes to baselines such as FNAs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

Example 12 – Changes in revenue source for a departmental output

From time to time it may be necessary to change the revenue source for a departmental output, eg, as a result of a decision to change the way it is funded (cost recovery versus taxpayer funding). For example, consider an increase in third-party funding for a departmental output expense with a corresponding decrease in revenue Crown, and therefore a positive impact on the operating balance and net debt. In this instance an impact table is required.

1 **agree** to a decrease/increase in revenue Crown and a corresponding increase/decrease in third-party revenue to provide for X, with the following impact on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	-	-	-	-	-
No Impact	0.500	0.500	0.500	0.500	0.500
Total	**-**	**-**	**-**	**-**	**-**

2 **approve** the following changes to baselines to reflect the revenue changes in recommendation 1 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Output Expense Title1 (funded by revenue other)	0.500	0.500	0.500	0.500	0.500

Points to note:

- Although there is a 'positive' impact on the operating balance and net debt as a result of the reduced Crown funding (ie, the Crown's spending and borrowing requirements reduce), there is no overall change in baselines.
- Even though the changes to baselines sum to nil in each year, the "approve" recommendation and table is required to provide clarity for Ministers and to approve the changes in funding source.
- As there are no changes to appropriations or additional expenses being incurred, there is no requirement for a Supplementary Estimates and Imprest Supply recommendation.

- No Total Operating row is required in this example, as the changes sum to zero.
- Changes to baselines associated with a policy decision to change the revenue source for a departmental output typically do not require a separate recommendation specifying impact on Budget allowances and contingencies, as there is no net new spending occurring. However, Cabinet may agree by exception that the reduced (as in this example) or additional revenue Crown should be used to increase or decrease, respectively, an available Budget allowance or contingency. If so, there should be recommendation explicitly stating this.
- Note that where the amount of third-party revenue received can be expected to differ from the full cost of delivering the service in any year, the department will need to operate a memorandum account to inform timing and extent of any necessary changes to fees. Further information about memorandum accounts is available in Section 6 of the Treasury Instructions.

Example 13 – Changes to Crown revenue or capital receipts

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

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

Consider a policy decision that decreases Crown non-tax revenue by $0.500 million per annum from 2023/24.

1 **agree** to initiative X;

2 **note** the following changes as a result of the decision in recommendation 1 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-Tax Revenue: Infringements	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Total Operating	**0.500**	**0.500**	**0.500**	**0.500**	**0.500**

3 **agree** that the reduction in Crown non-tax revenue in recommendation 2 above be charged against the between-Budget contingency established as part of Budget 20[XX].

Points to note:

- This example refers to non-tax revenue. Other types of Crown revenue and receipts are tax revenue and capital receipts.
- If the change is to capital receipts, choose only the "net debt" option in recommendation 2.
- The fact that recommendation 2 is a "noting" rather than an "agree" recommendation signals that the amounts are indicative only.

- As there are no changes in appropriations, there is no need for an appropriation statement, appropriation table, or recommendation covering Supplementary Estimates and Imprest Supply.
- Policy decisions that decrease Crown revenue or capital receipts (ie, worsen the Government's fiscal position) require a separate recommendation specifying impact on Budget allowances and contingencies. In this example it is assumed that the decrease in non-tax revenue is to be charged against the between-Budget contingency established as part of Budget 20[XX]. If the proposal is to charge the decrease as a pre-commitment against the Budget 20[YY] operating allowance (or to manage the decrease outside of Budget allowances and contingencies), then the text of recommendation 3 needs to be changed accordingly (refer to Step 5 above for more guidance on the appropriate wording to use).
- Policy decisions that increase Crown revenue or capital receipts (ie, improve the Government's fiscal position) typically do not require a separate recommendation specifying impact on Budget allowances and contingencies. However, Cabinet may agree by exception that additional Crown revenue or capital receipts should be used to increase an available Budget allowance or contingency. If so, there needs to be a recommendation explicitly stating this.
- In this example there is an 'adverse' impact on the operating balance and net debt as a result of the decrease in non-tax revenue. [Conversely, an increase in non-tax revenue would impact 'favourably' on the operating balance and net debt.]
- The adverse impacts on the operating balance and/or net debt of increased expenses and capital expenditure / departmental capital injections, respectively, are represented as positive figures in financial recommendations (and the favourable impacts represented as negatives). To ensure consistency, it is necessary also to represent the adverse operating and/or net debt impacts of decreased Crown revenue/capital receipts as positives (and the favourable operating and/or net debt impacts of increased Crown revenue/capital receipts as negatives) in the "Total" row. In other words, for Crown revenue/capital receipts the signs of the line item are reversed for the "Total" row.
- This fact can present problems when changes to Crown revenue or capital receipts are included with changes to appropriations and departmental capital injections in summary tables – ie, totals will not appear to reflect the sum of line items. One way around this would be to show subtotals of expenses/revenue and/or capital expenditure/departmental capital injections/capital receipts, with the signs of revenue and/or receipts reversed, immediately before the operating and/or capital totals.

Example 14 – Specifying baselines beyond the forecast period

On occasions Cabinet agreement may need to be sought for initiatives with baseline implications that cease or vary beyond the current forecast period – eg, a long-duration non-departmental capital expenditure project. In such instances it is essential to provide clarity as to exactly when baselines are expected to cease or vary. This can be achieved by extending the appropriation table to show the required number of additional financial years.

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

The following example assumes a 12-year expenditure programme for a new policy initiative funded by revenue Crown, where expenditure increases, stabilises, reduces, and then ceases at the end of the agreed period.

1 **agree** to X policy;

2 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	1.000	1.300	1.600	1.600	1.600
	2028/29	**2029/30**	**2030/31**	**2031/32**	**2032/33**
	1.600	1.200	1.200	1.200	1.200
	2033/34	**2034/35**	**2035/36 & Outyears**		
	1.200	0.800	-		

3 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

4 **agree** that that the expenses incurred under recommendation 2 above be charged against the between-Budget contingency established as part of Budget 2023.

Points to note:

- The customised table format makes Cabinet's intentions very clear.
- Unlike in 'standard' tables, the figure showing in the fourth (and typically final) outyear is the figure for that financial year only – indicated by the removal of the usual "& Outyears" suffix from the header information.
- For added clarity, the final year to be shown in the table (which includes the suffix "& Outyears") should be the first year in which funding either permanently ceases or outyear funding becomes constant.
- No Total Operating row is required in this example, as there is only one line item involved.
- In this example it is assumed that the new policy decision involves spending that impacts on the between-Budget contingency. If the impact is on a 'tagged' contingency, then the text in the impact on Budget allowances and contingencies recommendation should be changed to read "…be charged against the [name of 'tagged' contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers].".

Example 15A – Amending a title and/or scope statement before an appropriation has been spent from

On occasions the title and/or scope of an appropriation that has already been agreed by Cabinet needs to be amended. This may be because the documentation for the original decision was prepared in haste, and before the full appropriation implications could properly be worked through. Ideally in such a situation Cabinet would set aside a tagged contingency, thereby allowing the appropriation details to be worked through and agreed at a later date (see Example 29A). Where the appropriation details have already been agreed but need amending (usually this applies to the title and/or scope, but sometimes the type), the form of the necessary recommendations depends on whether any expenses/capital expenditure have been incurred against the appropriation in question.

Consider a situation where Cabinet has recently agreed to establish a new departmental output expense appropriation of $1.000 million for 2023/24, no expenses have yet been incurred against the appropriation, and there is now a realisation that the title and scope need to be amended. The following form of recommendation should be used.

1 **note** that on X date Cabinet agreed to establish [Title] as a [Type] appropriation in Vote [Name], and to incur expenses/capital expenditure under Imprest Supply [CAB-XX-MIN-XXXX refers];

2 **note** that since that date it has become apparent that the title and/or scope of this appropriation needs to be amended in order to reflect [X reason];

3 **note** that no expenses/capital expenditure have/has yet been incurred against this appropriation;

4 **agree** to amend the title and/or scope previously approved as follows:

Existing Title	Existing Scope	Amended Title	Amended Scope
TitleOld	This appropriation is limited to …	TitleNew	This appropriation is limited to …

5 **note** that the proposed appropriation with amended title and/or scope as described above will be included in the 2023/24 Supplementary Estimates.

Points to note:

- There is no need to agree that the proposed change to appropriations be included in the 2023/24 Supplementary Estimates, as this has already been agreed. Rather, it is sufficient simply to note that the appropriation will be included in the 2023/24 Supplementary Estimates with the amended title and/or scope.
- Similarly, there is no need to agree that the expenses/capital expenditure will, in the interim, be met from Imprest Supply, as this has already been agreed.
- Where recommendation 1 relates to a joint Ministerial decision under delegation, replace “Cabinet” with “joint Ministers, under delegation from Cabinet”, and include the relevant minute reference.
- “X reason” in recommendation 2 should be succinct (eg, “a wider-than-anticipated potential recipient group”).
- In most cases the above can be agreed by joint Ministers as a technical change under CO (18) 2. The only reason it would need to go back to Cabinet would be if the amendment(s) represented a significant policy change.

Example 15B – Amending a title and/or scope statement after an appropriation has been spent from

Consider a situation where Cabinet has recently agreed to establish a new departmental output expense appropriation of $1.000 million for 2023/24, $0.300 million of expenses have already been incurred against the appropriation, and there is now a realisation that the title and scope need to be amended. The following form of recommendation should be used.

1 **note** that on X date Cabinet agreed to establish [Title] as a new [Type] appropriation in Vote [Name], and to incur expenses / capital expenditure under Imprest Supply [CAB-XX-MIN-XXXX refers];

2 **note** that since that date it has become apparent that the title and/or scope of this appropriation needs to be amended in order to reflect [X reason];

3 **note** that as expenses/capital expenditure have/has to date been incurred against this appropriation, amending the title and/or scope will require establishment of a new appropriation and the fiscally neutral transfer of the balance from the existing to the new appropriation;

4 **agree** to establish the following new appropriation:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Name	Minister of/for Portfolio	Department Name	TitleNew	Departmental Output Expense	This appropriation is limited to ...

5 **approve** the following fiscally neutral adjustment(s) to provide for partial transfer of the unspent balance of the existing appropriation to the new appropriation, with no impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] Minister of/for Portfolio	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expenses: Output Expense TitleOld (funded by revenue Crown)	(0.500)	-	-	-	-
Output Expense TitleNew (funded by revenue Crown)	0.500	-	-	-	-

6 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

7 **authorise** the Minister of Finance and the [Minister of/for Portfolio] jointly to agree the remainder of the transfer, once this amount is known following completion of relevant monthly accounts, with no impact on the operating balance and/or net debt.

Points to note:

- The title and/or scope of an existing appropriation (or existing category of an MCA) cannot be changed during a financial year if expenditure has already been incurred against that appropriation (or category) during that financial year.
- In such circumstances where it is necessary to amend the title and/or scope, a new appropriation needs to be established and the remaining amount in the existing appropriation transferred to the new appropriation – potentially in two steps if this remaining amount has yet to be finally determined.
- Where the final amount of expenses/capital expenditure incurred against the existing appropriation will not be known until after actuals for the current month (or current quarter if in the first three months of the financial year) have been finalised, to avoid risk of unappropriated spending it is advisable to transfer the remaining amount to the new appropriation in two steps: an immediate transfer (Fiscally Neutral Adjustment) of a conservative amount, leaving sufficient authority in the existing appropriation to cover any expenses/capital expenditure that may have been incurred but not yet captured in reporting for the current month (or current quarter); and then a 'wash-up' transfer of the balance at a later date. The above example reflects this scenario: $0.500 million of the remaining amount is transferred immediately, leaving $0.200 million in the appropriation until the final balance available for 'wash-up' transfer is determined.

  [Note: establishing the new appropriation does not provide a 'fix' for any spending incurred outside the scope of the existing appropriation that may have been unappropriated.]
- Where the agency is certain of the amount of expenses/capital expenditure that have been incurred to date and doesn't need to wait until after actuals for the current month (or current quarter) have been finalised, the full available balance can be transferred in a single step. In such a situation the word "partial" should be deleted in recommendation 5, and recommendation 7 deleted entirely. In the above example under this scenario the transfer amount would be $0.700 million.
- "X reason" in recommendation 2 should be succinct (eg, "a wider-than-anticipated potential recipient group").
- In most cases the above can be agreed by joint Ministers as a technical change under CO (18) 2. The only reason it would need to go back to Cabinet would be if the amendment(s) represented a significant policy change.

Example 15C – Spending decisions affecting the current financial year after Supplementary Estimates have closed

Consider a situation where Cabinet proposes to take a decision involving the incurring of additional expenses in the current financial year, but this is after the Supplementary Estimates for the current financial year have already closed.

1 **agree** to X policy;

2 **agree** to establish the following new appropriation:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Name	Minister of/for Portfolio	Department Name	Other Expense Title1	Non-departmental Other Expense	This appropriation is limited to ...

3 **approve** the following change to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental Other Expense: Other Expense Title1	5.000	-	-	-	-

4 **note** that the proposed change to appropriations for 2023/24 above cannot be included in the 2023/24 Supplementary Estimates, as these have now closed;

5 **note** that, as a result, any expenses incurred for 2023/24 under recommendation 3 above will become unappropriated expenditure at the close of 30 June 2024, as the increase in expenses will not have been included in the Appropriation (2023/24 Supplementary Estimates) Act;

6 **agree** that any unappropriated expenditure against the proposed increase in appropriations for 2023/24 above will require validation under section 26C of the Public Finance Act 1989 by inclusion in the Appropriation (2023/24 Confirmation and Validation) Bill;

7 **agree** that, in the interim, the proposed increase for 2023/24 in recommendation 3 above be met from Imprest Supply;

8 **agree** that the expenses incurred under recommendation 3 above be charged against the between-Budget contingency established as part of Budget 2024.

Points to note:

- The reference in recommendation 4 to the 2023/24 Supplementary Estimates having now "closed" signifies that it is consequently too late to make any changes to the 2023/24 Supplementary Estimates and other Budget documents due to be tabled in Parliament on Budget Day.

- Generally Supplementary Estimates are "closed" effective from the date on which Cabinet takes its final Budget decisions, typically around mid-April. [In exceptional circumstances Cabinet may agree to hold Supplementary Estimates open for a brief, extended period to allow anticipated late spending decisions to be incorporated (as happened in 2011 following the February 22 Canterbury earthquake), or alternatively agree late spending decisions through an Addition to the Supplementary Estimates for incorporation into the Supplementary Estimates legislation by way of a Supplementary Order Paper (as happened in 2023 following the North Island severe weather events).]

- In this example it is assumed the proposed new spending decision is being taken after Budget Day (typically around mid-May). This is because it is standard practice for Cabinet to agree to impose a Budget moratorium when it takes its final Budget decisions, with effect from that date until Budget Day and during which no papers with fiscal and/or appropriation implications can be agreed, to ensure the integrity of the documents to be tabled in the House on Budget Day. If, instead, the proposed new spending decision is being made during the Budget moratorium, then a recommendation should be added after recommendation 8 along the lines “**note** that the proposed new spending in recommendation 3 above will breach the Budget moratorium.”.
- Any expenses or capital expenditure that are incurred without an appropriation or other authority (such as an Imprest Supply Act) or that are incurred under imprest supply but not included in an Appropriation (Supplementary Estimates) Act or approved by Order in Council by the end of the financial year are classed as “unappropriated expenditure” and remain so until subsequently confirmed or validated by Parliament.
- The wording of recommendation 6 is intended to make clear that only the amount of expenses that are ultimately incurred against the new appropriation established and funded at recommendations 2 and 3, respectively (or, in the case where an appropriation already exists and so recommendation 2 is not necessary, ultimately exceed the “Total Budget” figure for that appropriation as set out in the Appropriation (2023/24 Supplementary Estimates) Act, recognising that there may be underspends elsewhere against that appropriation), need to be confirmed or validated by Parliament.
- Agreement to use of imprest supply in recommendation 7 means that any expenses incurred will at least be “expressly authorised by an … other authority, by or under an Act” (namely the Imprest Supply Act currently in force), as required under section 4 of the Public Finance Act 1989, and so not be unlawful, despite constituting unappropriated expenditure and so requiring confirmation or validation by Parliament.
- The reference in recommendation 8 is to the “between-Budget contingency established as part of Budget 2024”, reflecting the fact that this is now the prevailing between-Budget contingency at the time the proposed new spending decision is being taken.
- In this example it is assumed that the new policy decision involves spending that impacts on the between-Budget contingency. If the impact is on a ‘tagged’ contingency, then the text in the impact on Budget allowances and contingencies statement recommendation should be changed to read “…be charged against the [name of ‘tagged’ contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]”.

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

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

MYAs are intended for specific, time-bound (ie, **not ongoing**) activities where total costs are well-defined but timing of spending is uncertain. An MYA provides the appropriation Minister with greater flexibility around timing of incurring of expenses or capital expenditure, up to the total level of the appropriation, without the need to seek an ECT or IPECT (as would be required in the case of an annual appropriation where there were actual or potential delays).

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

Examples of MYAs are the departmental output expense "2023 Census of Population and Dwellings" in Vote Statistics, and the non-departmental other expense "Regional Culture and Heritage Fund" in Vote Arts, Culture and Heritage.

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

- Establishing a new MYA
- Converting an existing annual appropriation into an MYA.

Example 16 – Establishing a new MYA

1 **agree** to X policy;

2 **agree** to establish the following new multi-year appropriation, to run from 1 December 2023 to 30 June 2027:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Name	Minister of/for Portfolio	Department Name	Title1	Departmental Output Expense	This appropriation is limited to ...

3 **approve** the following change to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and net debt:

	$m – increase/(decrease)	
Vote [Name] **Minister of/for Portfolio**	**2023/24 to 2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Title1 (funded by revenue Crown)	1.500	-

4 **note** that the indicative spending profile for the new multi-year appropriation described in recommendation 3 above is as follows:

	$m – increase/(decrease)				
Indicative annual spending profile	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
	0.300	0.400	0.400	0.400	-

5 **agree** that the proposed change to appropriations above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

6 **agree** that that the expenses incurred under recommendation 3 above be charged against the between-Budget contingency established as part of Budget 2023.

Points to note:

- The start or end of an MYA need not coincide with the start or end of a financial year. Where the period of a proposed MYA does not correspond with the start or end of the relevant financial years, this needs to be stated explicitly in the recommendations (as in recommendation 2 of the above example).
- However, an MYA may not span more than five financial years. So, an MYA established on 1 December 2023, as in the above example, could not run beyond 30 June 2028, even though any timeframe up to 30 November 2028 would still be less than or equal to 60 months after it was established.
- Most MYAs will not continue beyond their term (ie, are for time-limited, and usually new activities), and so the outyears number will be blank as in the example above. However, some MYAs will continue after their term as annual appropriations, in which case an amount will be needed in the "& Outyears" column.
- An indicative spending profile table also needs to be included. Departments should take into account any potential front-loading or delayed spending and adjust the funding profile accordingly. In many cases involving operating (though not necessarily capital), the funding profile will simply be an equal division of the total MYA amount across the number of years.

- The indicative spending profile is solely for the purposes of the Government's fiscal reporting. The appropriation Minister is free to spend any amount in any year so long as the total amount of the MYA is not exceeded. Any changes to the indicative spending profile should be advised to Treasury through the next available baseline update process (classified as a "technical change").
- No Total Operating row is required in this example, as there is only one line item involved.
- The Supplementary Estimates recommendation omits the words "for 2023/24" following "...proposed change to appropriations", as in this case the MYA for the whole of its duration will be appropriated in the Appropriation (2023/24 Supplementary Estimates) Act, not just the portion estimated to be spent in 2023/24.
- In this example it is assumed that the new policy decision involves spending that impacts on the between-Budget contingency. If the impact is on a 'tagged' contingency, then the text in the impact on the Budget allowances and contingencies statement recommendation should be changed to read "…be charged against the [name of 'tagged' contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]".

Example 17 – Converting an existing annual appropriation into an MYA

1 **agree** to X policy;

2 **agree** to establish the following new multi-year appropriation, to run from 1 July 2024 to 30 June 2027:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Name	Minister of/for Portfolio	Department Name	Title1	Departmental Output Expense	This appropriation is limited to ...

3 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, with no impact on the operating balance and/or net debt over the forecast period:

	$m – increase/(decrease)				
Vote [Name] Minister of/for Portfolio	**2023/24**	**2024/25 to 2026/27**			**2027/28 & Outyears**
Departmental Output Expense: Title1 (funded by revenue Crown)	-	1.500			-
Departmental Output Expense: Title2 (funded by revenue Crown)	-	(0.500)	(0.500)	(0.500)	-

4 **note** that the indicative funding profile for the new multi-year appropriation described in recommendation 3 above is as follows:

	$m – increase/(decrease)				
Indicative annual spending profile	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
	-	0.300	0.700	0.500	-

Points to note:

- See relevant Points to note for Example 16 above.

- Where the existing annual appropriation is set to continue beyond the term of the MYA, the outyear figures in the table should be left blank (as in this example); otherwise, if the existing annual appropriation is to be discontinued, then the outyear figures will need to ‘back out’ the relevant amounts. Note that in the latter case this implies a positive impact on the operating balance and/or net debt, so the table in recommendation 3 will need to have added at the bottom either a Total Operating or Total Capital row, and the appendage to recommendation 3 altered to read “...with a corresponding impact on the operating balance and/or net debt”.
- Transfers into and out of MYAs during the term of the MYA are not encouraged, because these potentially undermine controls on annual appropriations. Such movements also call into question the applicability of the MYA, especially the criterion regarding total costs being well-defined and unlikely to alter over time.
- In this example there is no need for a Supplementary Estimates and Imprest Supply recommendation, as there is no impact on the current financial year.
- As in this example the new policy decision essentially involves the fiscally neutral transfer of three years’ annual appropriation into a new three-year multi-year appropriation, a separate recommendation specifying impact on Budget allowances and contingencies is not required.

Annex D: Financial Recommendations for Multi-Category Appropriations (MCAs)

Sections 7A(1)(g) and 7B of the Public Finance Act 1989 provide for multi-category appropriations (MCAs). MCAs may contain two or more categories of one or more of the following, where these contribute to a single overarching purpose:

- Departmental output expenses
- Non-departmental output expenses
- Departmental other expenses
- Non-departmental other expenses
- Non-departmental capital expenditure.

By implication, MCAs may not contain benefits or related expenses, borrowing expenses, departmental capital expenditure, or expenses and capital expenditure to be incurred by an intelligence and security department.

This allows for greater focus towards achieving outcomes/results and facilitates the movement of resources by the Crown towards effective initiatives, while preserving Parliamentary control and scrutiny. Full transparency is maintained by providing Parliament with information on each of the individual categories as well as on the MCA as a whole, both in the Estimates and supporting information and after the end of the financial year when reporting actual results against authorisations.

Like other appropriations, each MCA has one Minister (the “appropriation Minister”) and one administering department (the “appropriation administrator”).

Minister of Finance (MoF) approval is required to establish an MCA. Requests for this approval need to identify the single overarching purpose statement as well as the two or more categories within the MCA.

MoF approval to establish an MCA both precedes and is separate from any resourcing approvals for the MCA (eg, from new or re-prioritised funding sources). In practice this means:

- In the case of Cabinet papers, MoF approval of the establishment of the MCA, including its single overarching purpose statement and the two or more categories within the MCA, needs to have been obtained prior to seeking authority and agreement from Cabinet regarding funding (refer recommendations 1, 2 and 3 in Example 18 below). [This prior approval can be sought by the appropriation Minister in a covering letter accompanying the copy of the Cabinet paper that is required to be provided to the MoF for consultation at least five days before the Cabinet Office deadline for submission of the paper.]

- In the case of joint Ministerial papers, a separate paper seeking prior approval may not be necessary; the necessary recommendations seeking MoF approval of the establishment of the MCA and its single overarching purpose statement and the two or more categories within the MCA can be in the same paper as recommendations seeking joint Ministerial authority and agreement regarding funding (but should precede those recommendations and be marked for MoF approval only).

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

- establishing a new MCA
- changes to amount of an existing category of an MCA
- adding a category to an MCA, funded from new funding
- adding a category to an MCA, funded from existing amount of the MCA.

Cabinet has agreed that MCAs can be for more than one financial year but not for more than five financial years (ie, there can be multi-year multi-category appropriations, or MYMCAs), to provide agencies with greater flexibility to manage their expenditure to achieve outcomes [CAB-18-MIN-0352 refers]. Currently a small number of MYMCAs are being trialled. Information about the form that financial recommendations for MYMCAs should take, along with a worked example, will be included in a future update of this guidance.

Example 18 – Establishing a new MCA

This example demonstrates the requirements for establishing an MCA with four categories – funded through a mix of re-prioritised and new funding.

1 **note** that the Minister of Finance has approved the establishment of a new multi-category appropriation “Mainland Poverty Reduction” in Vote [Name], to be administered by [Department Name] and with Minister of/for Portfolio as appropriation Minister, to facilitate a co-ordinated approach to achieving a sustainable reduction in the level of poverty in Mainland New Zealand, as measured by official statistics;

2 **note** that the Minister of Finance has agreed that the single overarching purpose of this appropriation is to achieve the outcome of a sustainable reduction in poverty in Mainland New Zealand, as measured by the official Regional Deprivation Index;

3 **note** that the Minister of Finance and the Minister of/for Portfolio have agreed that the categories for this appropriation be as follows:

Title	Type	Scope
Administration of Funding	Departmental Output Expense	This category is limited to ...
Monitoring of Agencies	Departmental Output Expense	This category is limited to ...
Wellbeing Services	Non-departmental Output Expense	This category is limited to ...
Wellbeing Services Provider Loans	Non-departmental Capital Expenditure	This category is limited to ...

4 **agree** to increase expenditure to provide for costs associated with the new multi-category appropriation described in recommendations 1, 2 and 3 above, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	5.400	5.400	5.400	5.400	5.400
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	2.000	1.500	1.000	-	-
No Impact	4.000	4.000	4.000	4.000	4.000
Total	**11.400**	**10.900**	**10.400**	**9.400**	**9.400**

5 **approve** the following changes to appropriations to provide for the new multi-category appropriation described in recommendations 1, 2 and 3 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Multi-Category Expenses and Capital Expenditure: Mainland Poverty Reduction MCA					
Departmental Output Expenses: Administration of Funding (funded by revenue Crown)	1.200	1.200	1.200	1.200	1.200
Monitoring of Agencies (funded by revenue Crown)	1.400	1.400	1.400	1.400	1.400
Non-departmental Output Expense: Mainland Wellbeing Services	6.800	6.800	6.800	6.800	6.800
Non-departmental Capital Expenditure: Mainland Wellbeing Service Provider Loans	2.000	1.500	1.000	-	-
Total Multi-Category Expenses and Capital Expenditure: Mainland Poverty Reduction MCA	11.400	10.900	10.400	9.400	9.400
Departmental Output Expenses: Policy Advice (funded by revenue Crown)	(0.550)	(0.550)	(0.550)	(0.550)	(0.550)
Ministerial Servicing (funded by revenue Crown)	(0.450)	(0.450)	(0.450)	(0.450)	(0.450)
Non-departmental Output Expense: Contracted Wellbeing Services	(3.000)	(3.000)	(3.000)	(3.000)	(3.000)
Total Operating	**5.400**	**5.400**	**5.400**	**5.400**	**5.400**
Total Capital	**2.000**	**1.500**	**1.000**	**-**	**-**

6 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

7 **agree** that the operating balance impact in recommendation 4 above of expenses incurred under recommendation 5 above be charged against the between-Budget contingency established as part of Budget 2023, and that the net debt impact in recommendation 4 above of capital expenditure incurred under recommendation 5 above be charged against the multi-year capital allowance;

8 **note** that the appropriation Minister and the Minister of Finance have agreed that any movement of amounts between categories in the above multi-category appropriation must [specify condition(s), if any].

Points to note:

- The suffix "MCA" is included after the title of the multi-category appropriation (in this case "Mainland Poverty Reduction") to signify that it is this type of appropriation.
- In the table in recommendation 5 the category types and titles have all been slightly indented, to emphasise the fact that these are categories of an MCA.
- Section 9(2)(a) of the Public Finance Act 1989 provides that the scope of a multi-category appropriation is the scope of each of the individual categories of expenses or non-departmental capital expenditure included in that appropriation. Hence recommendation 3 notes that the Minister of Finance has agreed to the individual categories (including their scopes).
- Recommendation 8 is required only where the appropriation Minister and Minister of Finance jointly set conditions or limits on the amount that can be transferred between the categories of the MCA. Situations where joint Ministers may wish to set (or amend) conditions include:
  - Where the MCA includes important categories that need to be protected from full reprioritisation
  - Where the MCA involves expense categories corresponding to various portfolios, and thus the appropriation Minister needs to consult and coordinate with the other relevant portfolio Ministers.
- Subject to any jointly agreed conditions or limits on the amount that can be transferred between the categories of the MCA, the appropriation Minister is free to shift resources between categories so long as the total amount of the MCA is not exceeded. Any such shifts between categories should be advised to Treasury through the next available baseline update process (classified as "technical changes").
- In this example it is assumed that the new policy decision involves operating spending that impacts on the between-Budget contingency and capital spending that impacts the multi-year capital allowance. If the operating and capital spending impacts on 'tagged' contingencies, then the text in the impact on Budget allowance and contingencies recommendation should be changed to read "**agree** that the operating balance impact in recommendation 4 above of expenses incurred under recommendation 5 above be charged against the [name of 'tagged' operating contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers], and that the net debt impact in recommendation 4 above of capital expenditure incurred under recommendation 5 above be charged against the [name of 'tagged' capital contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]". Please talk to your Vote analyst to determine which contingency is appropriate.
- Where all other decisions around the MCA are being taken by joint Ministers, Minister of Finance agreement to establish the MCA can be built into the financial recommendations, thus avoiding the need for a two-step process. In the above example this could be facilitated by changing recommendations 1 and 2 to "agree / disagree" recommendations for the Minister of Finance's sole signature. Note that in such instances it would be useful to include a preceding, noting recommendation explaining why establishing a multi-category appropriation makes sense.

Example 19 – Changes to amount of an existing category of an MCA

The following form of recommendation should be used where there is an increase or decrease to an existing category of an MCA (and so the overall MCA). The example below assumes an increase in operating funding for a category, offset by a decrease elsewhere within the same Vote. [For a decrease in funding for a category of an MCA, this form of recommendation would simply be reversed.]

1 **approve** the following fiscally neutral adjustment to provide for X, with no impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Multi-Category Expenses and Capital Expenditure: Mainland Poverty Reduction MCA Departmental Output Expense: Administration of Funding (funded by revenue Crown)	0.500	-	-	-	-
Departmental Output Expense: Output Class Title1 (funded by revenue Crown)	(0.500)	-	-	-	-

2 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- See relevant Points to note for Example 18 above.
- Only the affected category of the MCA needs to be referenced in the table.
- No Total Operating (or Total Capital) row is required for FNAs between line items where the changes sum to zero.
- 'Technical' changes to baselines such as FNAs that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.

Example 20A – Adding a category to an MCA, funded from new funding

The following form of recommendation should be used where an additional category (including through changing the scope of an existing category) is being added to an existing MCA, funded from new funding.

1 **note** that the Minister of Finance and the Minister of/for Portfolio have agreed to add the following category to the multi-category appropriation "Mainland Poverty Reduction":

Title	Type	Scope
Poverty Amelioration Grants	Non-departmental Other Expense	This category is limited to ...

2 **approve** the following changes to appropriations to provide for X, with a corresponding impact on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Multi-Category Expenses and Capital Expenditure: Mainland Poverty Reduction MCA Non-departmental Other Expense: Poverty Amelioration Grants	0.050	0.100	0.100	0.100	0.100

3 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase and any expenses incurred against the new category be met from Imprest Supply;

4 **agree** that that the expenses incurred under recommendation 2 above be charged against the between-Budget contingency established as part of Budget 2023;

5 **note** that the appropriation Minister and the Minister of Finance have agreed that any movement of amounts between categories in the above multi-category appropriation must [specify condition(s), if any].

Points to note:

- See relevant Points to note for Example 18 above.
- Any additional category needs to contribute to the single overarching purpose statement of the multi-category appropriation.
- Only the affected (additional) category of the MCA needs to be referenced in the table.
- No Total Operating (or Total Capital) row is required in this example, as there is only one line item involved.
- Section 9(2)(a) of the Public Finance Act 1989 provides that the scope of a multi-category appropriation is the scope of each of the individual categories of expenses or non-departmental capital expenditure included in that appropriation. Hence recommendation 1 notes that Minister of Finance approval has been given to the additional category including its scope.
- The non-standard Supplementary Estimates and Imprest Supply recommendation reflects the fact that the scope of the new category will not have been included in the 2023/24 Main Estimates and thus not legislated in the Appropriation (2023/24 Estimates) Act 2023. This means that, for audit and controller purposes, both the increase in the appropriation and the amount of expenses forecast to be incurred against the new category need to be charged against Imprest Supply.

- In this instance, where the change affects the current year, performance information relating to the new category of the MCA will need to be included in the Supplementary Estimates.
- In this example it is assumed that the new spending impacts on the between-Budget contingency. If the impact is on a 'tagged' contingency, then the text in the impact on Budget allowances and contingencies statement recommendation should be changed to read "…be charged against the [name of 'tagged' contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]".
- Note that the scope of an existing category of an MCA cannot be changed during a financial year if expenditure has already been incurred against that category during that financial year.

Example 20B – Adding a category to an MCA, funded from existing amount of the MCA

The following form of recommendation should be used where an additional category is being added to an existing MCA, funded through re-prioritisation of the existing amount of the MCA.

1 **note** that the Minister of Finance and the Minister of/for Portfolio have agreed to add the following category to the multi-category appropriation "Mainland Poverty Reduction":

Title	Type	Scope
Poverty Amelioration Grants	Non-departmental Other Expense	This category is limited to ...

2 **note** that expenses associated with the new category will be met in a fiscally neutral manner from within the existing amount of the MCA;

3 **note** the following indicative spending profile for the new category and changes to indicative spending profiles for existing categories, with corresponding impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Multi-Category Expenses and Capital Expenditure: Mainland Poverty Reduction MCA Non-departmental Output Expense:					
Mainland Wellbeing Services	-	(0.050)	(0.050)	(0.100)	(0.100)
Non-departmental Other Expense:					
Poverty Amelioration Grants	0.050	0.100	0.100	0.100	0.100
Non-departmental Capital Expenditure:					
Mainland Wellbeing Service Provider Loans	(0.050)	(0.050)	(0.050)	-	-
Total Operating	**0.050**	**0.050**	**0.050**	**-**	**-**
Total Capital	**(0.050)**	**(0.050)**	**(0.050)**	**-**	**-**

4 **agree** that the new category be included in the 2023/24 Supplementary Estimates and that, in the interim, expenses may be incurred against it under Imprest Supply;

5 **note** that the appropriation Minister and the Minister of Finance have agreed that any movement of amounts between categories in the above multi-category appropriation must [specify condition(s), if any].

Points to note:

- See relevant Points to note for Examples 18 and 20A above.
- Only the affected categories of the MCA need to be referenced in the table.
- If the new category type is non-departmental capital expenditure, then in each of recommendations 2 and 4 “expenses” should be replaced by “capital expenditure”, and in recommendation 3 “the operating balance and net debt” collapsed to “net debt”.
- While neither the operating balance nor net debt impacts are nil in this example, they offset each other so (in cash terms) the overall impact is fiscally neutral. If the increase in the new category were being met entirely by a decrease in one or more of the expense categories of the MCA, then the “Total Operating” row would show zeros, the “Total Capital” row would not be required, and in recommendation 3 “with corresponding impacts on the operating balance and net debt” would be replaced by “with no impact on the operating balance and net debt”.
- Even though there is no increase in the level of the overall appropriation, a (non-standard) Supplementary Estimates and Imprest Supply recommendation is still required. This is because the new category needs to be included in the Supplementary Estimates and, for audit and controller purposes, the amount of expenses forecast to be incurred against the new category need to be charged against Imprest Supply, as the scope of the new category will not have been included in the 2023/24 Main Estimates and thus not legislated in the Appropriation (2023/24 Estimates) Act 2023.
- In this instance, where the change affects the current year, performance information relating to the new category of the MCA will need to be included in the Supplementary Estimates.
- As the fiscally neutral addition of the new category in this example is not associated with a policy decision involving new spending, a separate recommendation specifying impact on Budget allowances and contingencies is not required.

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

Some expenses and capital expenditure have permanent authority under legislation (ie, do not require further Parliamentary authority through the Imprest Supply and Appropriation legislative process). Such expenses and capital expenditure are referred to as permanent legislative authorities, or PLAs.

Well-known examples of PLAs include payment of remuneration to members of the judiciary (authorised under the Senior Courts Act 2016 and the District Court Act 2016), remuneration to officers of Parliament (authorised under various Acts), and Transport non-departmental expenditure dependent on transport revenue (authorised under the Land Transport Management Act 2003). The Public Finance Act 1989 contains a number of PLAs, including expenses incurred in relation to a guarantee or indemnity given by the Minister of Finance (authorised under section 65ZG).

There is no requirement for joint Ministers or Cabinet to approve changes in an appropriation where that appropriation already has permanent authority under legislation.

In some instances, changes to appropriations that are covered under PLA relate to a factor outside of Ministers' control, eg, a determination by an independent authority to increase judges' salaries. Example 21A below sets out the form that the recommendations should follow in these instances.

In others there may be a discretionary policy decision for which the consequential changes to appropriations are covered under PLA, eg, a decision to subscribe to New Zealand's allocated shares in an international financial institution. Example 21B below sets out the form that the recommendations should follow in these instances.

Example 21A – Changes in appropriation relating to factors outside of Ministers' control and where permanent legislative authority exists

1 **note** that expenses and/or capital expenditure in Area X are expected to increase/decrease as a result of Factor Y;

2 **note** the following changes to appropriations in accordance with [state relevant section and title of legislative authority], reflecting the changed expenses and/or capital expenditure described in recommendation 1 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental Output Expense: Output Expense Title1 PLA	0.500	0.500	0.500	0.500	0.500

3 **note** that the above changes to appropriations for 2023/24 will be reported and disclosed in the 2023/24 Supplementary Estimates.

Points to note:

- The use of "note" in recommendations 1 and 2 signals that the changes to appropriations are being made under PLA (ie, do not require further approval).
- The suffix "PLA" is included after the title of the appropriation (in this case "Output Expense Title1") to signify that it is this type of appropriation.
- No Total Operating (or Total Capital) row is required in this example, as there is only one line item involved.
- Separate appropriation tables should be used to distinguish between financial recommendations relating to appropriations under PLA and annual or other (non-PLA) appropriations, even where these relate to the same initiative.
- Given appropriations under PLA tend to increase simply due to forecast changes, any forecast reductions in PLAs may not be used to justify an increase in another appropriation as constituting a fiscally neutral transfer.
- As the expense or capital expenditure does not require passage of an Appropriation Bill, there is no requirement for agreement that funding increases for the current financial year be met from Imprest Supply.
- Similarly, there is no requirement for agreement that changes for the current financial year be included in the Supplementary Estimates, though it is appropriate for Cabinet to note that any such change will be reported and disclosed in the Supplementary Estimates.
- Financial recommendations noting changes to appropriations under PLA relating to factors outside of Ministers' control, as in this example, do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition these are outside Ministers' control (ie, there is no policy decision involving new spending).
- Even though joint Ministerial/Cabinet approval is not required, the changes to baseline still need to be advised to Treasury (usually through the next baseline update process, classified as "forecast changes").

Example 21B – Changes in appropriation in response to a discretionary policy decision and where permanent legislative authority exists

1 **agree** to X Policy, with a consequential increase/decrease in expenses and/or capital expenditure;

2 **note** the following changes to appropriations in accordance with [state relevant section and title of legislative authority], reflecting the changed expenses and/or capital expenditure described in recommendation 1 above, with a corresponding impact on the operating balance and/or net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental Output Expense: Output Expense Title1 PLA	0.500	0.500	0.500	0.500	0.500

3 **note** that the above changes to appropriations for 2023/24 will be reported and disclosed in the 2023/24 Supplementary Estimates;

4 **agree** that the expenses incurred under recommendation 2 above be charged against the between-Budget contingency established as part of Budget 2023.

Points to note:

- See relevant Points to Note for Example 21A above.
- The use of “note” in recommendation 2 signals that the changes to appropriations are being made under PLA (ie, do not require further approval).
- However, the use of “agree” in the preceding recommendation 1 signals that the change in appropriations is occurring in response to a discretionary policy decision.
- Financial recommendations noting changes to appropriations under PLA in response to a discretionary policy decision, as in this example, require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition these are within Ministers’ control (ie, there is a policy decision involving new spending).
- In this example it is assumed that the new policy decision involves spending that impacts on the between-Budget contingency. If the impact is on a ‘tagged’ contingency, then the text in the impact on Budget allowances and contingencies statement recommendation should be changed to read “…be charged against the [name of ‘tagged’ contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]”.

Annex F: Financial Recommendations for Revenue Dependent Appropriations (RDAs)

Section 21 of the Public Finance Act 1989 provides for revenue dependent appropriations (RDAs), under which expenses may in certain circumstances be incurred up to the level of revenue earned from parties other than the Crown rather than up to a set amount.

RDAs can be useful in situations where services are purchased solely or predominantly by third parties (including other departments), and where demand for those services may fluctuate between years.

RDAs must be single-category departmental output expense appropriations. It follows that departmental output expense categories of MCAs cannot be RDAs.

Minister of Finance approval is required for a departmental output expense appropriation to be an RDA. The process for obtaining separate, prior approval from the Minister of Finance is discussed in Annex D.

Example 22 – Establishing a new RDA

1 **agree** to X policy;

2 **agree** to establish the following new appropriation:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Name	Minister of/for Portfolio	Department Name	Output Expense Title1	Departmental Output Expense	This appropriation is limited to ...

3 **note** that the Minister of Finance has agreed under section 21 of the Public Finance Act 1989 to the above being a revenue dependent appropriation;

4 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, with no impact on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 RDA (funded by revenue other)	0.500	0.500	0.500	0.500	0.500

5 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- The suffix “RDA” is included after the title of the departmental output expense appropriation (in this case “Output Expense Title1”) to signify that it is this type of appropriation.
- Where all other decisions around the RDA are being taken by joint Ministers, Minister of Finance agreement for a departmental output expense appropriation to be an RDA can be built into the financial recommendations, to avoid the need for a two-step process. In the above example this could be facilitated by changing recommendation 3 to read “**agree** under section 21 of the Public Finance Act 1989 that the above be a revenue dependent appropriation;”, for the Minister of Finance’s sole signature in the “agree / disagree” block.

- As RDAs are fiscally neutral, the combined approval and impact recommendation (recommendation 4) specifies “with no impact on the operating balance and net debt”.
- The revenue source(s) described in recommendation 4 will always be revenue other and/or revenue department in the case of RDAs.
- As RDAs are annual appropriations (ie, not permanent), the standard Supplementary Estimates and Imprest Supply recommendation applies.
- Financial recommendations establishing new RDAs do not require a separate recommendation specifying impact on Budget allowances and contingencies, as no spending of Crown revenue is involved.
- While subsequent changes to RDAs reflecting changes in the amount of revenue earned do not require joint Ministerial/Cabinet agreement, these should be picked up through the next baseline update process (classified as “fiscally neutral adjustments”) and reflected as necessary in the Supplementary Estimates.

Annex G: Financial Recommendations for Capital

Departmental capital injections (formerly referred to as departmental capital contributions) need to be authorised by Parliament, not appropriated. They appear in the Estimates (in a table entitled "Capital Injection Authorisations" in the primary Vote administered by the department) and are authorised through a clause and associated Schedule of authorisations for capital injections in the Appropriation Act.

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

Spending by a department of its working capital (ie, departmental capital expenditure) is authorised under permanent legislative authority (section 24(1) of the Public Finance Act 1989).

Non-departmental capital expenditure requires appropriation (annual or multi-year).

There is a ten-year horizon for capital under the Government's current Fiscal Management Approach. This means that, to the extent a portion of departmental capital injection or non-departmental capital expenditure is repaid within ten years, that portion is considered fiscally neutral.

Cabinet Office Circular CO (23) 9 sets out rules and expectations for the management of investments and both physical and intangible assets.

Example 23A – Capital injections to departments with no associated operating implications

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

1 **agree** to X policy;

2 **approve** the following capital injections to the [Department Name] to give effect to the policy decision in recommendation 1 above, with a corresponding impact on net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
[Department Name]: Capital Injection	10.000	2.000	-	-	-

3 **agree** that the proposed departmental capital injection for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the capital injection be met from Imprest Supply;

4 **agree** that the capital expenditure incurred under recommendation 2 above be charged against the multi-year capital allowance.

Points to note:

- While capital injections to departments are not appropriations and do not form part of a Vote, they still require authorisation by Parliament. They appear in the primary Vote administered by the department.
- There is no need to show the funding source for a departmental capital injection, because only the Crown can supply capital to a department.
- No Total Capital row is required in this example, as there is only one line item involved.
- Cabinet has agreed that departments will be **presumed to fund additional capital charge** expenses due to new capital contributions **from existing revenue** [CAB Min (10) 41/9 paragraph 4.1.2 refers].
- In this example it is assumed that the impact of the new capital spending decision is being managed against the multi-year capital allowance. If the impact is being managed against a 'tagged' (capital) contingency, then the text in the impact on Budget allowances and contingencies recommendation should be changed to read "…be charged against the [name of 'tagged' contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]".
- There is another fiscal impact not recorded here, namely the 'positive' impact of the Crown now receiving capital charge from the department in respect of the latter's increased total taxpayer funds, amounting to $0.600 million per annum (assuming the current capital charge rate of 5 percent) once the full impact is realised, which the Crown has not separately funded the department for. This 'positive' impact will be picked up by Treasury as part of its in-year revisions to the Crown's fiscal forecasts.

Example 23B – Capital injections to departments with associated operating implications

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

- Ongoing depreciation (on all fixed assets)
- Allowances for repairs and maintenance (eg, as a result of expanding a vehicle fleet)
- Consumables (eg, computer supplies)
- Capital charge (this will occur whenever the Crown's net investment in a department increases – but note that Cabinet has agreed that additional funding for additional capital charge due to new capital contributions will only be granted on a case-by-case basis, and that **the presumption is that departments will fund additional capital charge expenses from existing revenue** [CAB Min (10) 41/9 paragraph 4.1 refers]).

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

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

1 **agree** to X policy;

2 **agree** to increase expenditure to provide for costs associated with the policy decision in recommendation 1 above, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	-	-	-	-	-
Operating Balance Only Impact	-	0.833	1.000	1.000	1.000
Net Debt Only Impact	10.000	2.000	-	-	-
No Impact	0.250	0.550	0.600	0.600	0.600
Total	**10.250**	**3.383**	**1.600**	**1.600**	**1.600**

3 **approve** the following changes to appropriations and capital injections to the [Department Name] to give effect to the policy decision in recommendation 1 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	0.250	1.383	1.600	1.600	1.600
[Department Name]: Capital Injection	10.000	2.000	-	-	-
Total Operating	**0.250**	**1.383**	**1.600**	**1.600**	**1.600**
Total Capital	**10.000**	**2.000**	**-**	**-**	**-**

4 **agree** that the proposed change to appropriations and departmental capital injection for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

5 **agree** that both the operating balance only impact and no impact elements relating to capital charge in recommendation 2 above of expenses incurred under recommendation 3 above be charged against the between-Budget contingency established as part of Budget 2023, and that the net debt only impact in recommendation 2 above of departmental capital injections incurred under recommendation 3 above be charged against the multi-year capital allowance.

Points to note:

- See relevant Points to note for Example 23A above.
- In this example the department is funded for (i) the additional capital charge at 5 percent of the expected increase in total taxpayers' funds (5 percent being the prevailing rate at the time of preparing this guidance update), and (ii) ongoing depreciation on the new asset at 8.33 percent (on the assumption that the asset fully depreciates over 12 years).
- As capital charge is fiscally neutral (departments return capital charge to the centre), the capital charge portion is listed in the "No Impact" row of the table in recommendation 2.
- The depreciation portion is listed in the "Operating Balance Only Impact" row, reflecting the fact that depreciation has no cash impact.

- Any operating associated with allowances for repairs and maintenance, etc., would be listed in the "Operating Balance and Net Debt Impact" row.
- In this example it is assumed that the new policy decision involves operating spending that impacts on the between-Budget contingency and capital spending that impacts the multi-year capital allowance. If the operating and capital spending impacts on 'tagged' contingencies, then the text in the impact on Budget allowances and contingencies recommendation should be changed to read "**agree** that the operating balance impact in recommendation 2 above of expenses incurred under recommendation 3 above be charged against the [name of 'tagged' operating contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers], and that the net debt impact in recommendation 2 above of departmental capital injections incurred under recommendation 3 above be charged against the [name of 'tagged' capital contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]".
- Despite the fact that the capital charge portion is fiscally neutral, under the current Fiscal Management Approach any new Crown funding for capital charge is considered to impact Budget allowances and contingencies. This treatment reflects the opportunity cost associated with the Crown choosing to fund these manageable expenses (noting that **the expectation is that departments will absorb capital charge expenses due to new capital contributions** [CAB Min (10) 41/9 paragraph 4.1.2 refers]). Hence in recommendation 5 of the above example the expenses related to capital charge in the "No Impact" row of the table in recommendation 2 are charged against the between-Budget contingency, along with the expenses in the "Operating Balance Only Impact" row.
- In this example the capital charge-related increases in operating expenses for the financial years in which the two separate capital injections occur (2023/24 and 2024/25 respectively) are shown as half of their full-year (ongoing) impacts. Each year departments are invoiced in arrears for capital charge, in two instalments: the first based on total taxpayers' funds as at the close of the previous financial year; and the second based on total taxpayers' funds as at 31 December of the current financial year. In this example it is assumed that the department draws down the capital in the first half of the current financial year, the capital injection duly gets incorporated into the department's mid-year accounts, and associated capital charge is incorporated in the invoice relating to the second capital charge instalment for that year, though not the first. It follows that, if the department does not draw down the capital until after 31 December, no capital charge relating to the authorised capital injection is incurred in the current financial year.
- It is assumed in this example that the new asset is capitalised at the end of the second month and starts depreciating from the beginning of the third month of 2024/25 – hence the depreciation expense is ten-twelfths of the full-year amount for that year.

Example 24 – Non-departmental capital expenditure

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

In the case of loans from the Crown, section 65L of the Public Finance Act 1989 provides that the Minister of Finance may lend money to persons or organisations if it appears to the Minister to be necessary or expedient in the public interest to do so, and section 65P provides that any lending under section 65L must be made from a capital expenditure appropriation approved by Parliament for this purpose.

Similarly, in the case of any loan from the Crown with a concessionary element, the expenses associated with the concessionary element require appropriation (non-departmental other expense).

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

1 **agree** to X policy;

2 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on net debt:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Non-departmental Capital Expenditure: Capital Expenditure Title1	0.500	0.500	-	-	-

3 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

4 **agree** that the capital expenditure incurred under recommendation 2 above be charged against the multi-year capital allowance.

Points to note:

- Unlike departmental capital injections, which are not appropriated and do not form part of a Vote, non-departmental capital expenditure is appropriated.
- Even though capital expenditure generally results in the Crown acquiring an asset, it is usually counted as impacting on net debt as the Crown needs to borrow in order to fund the activity (refer to Step 3 above for discussion on when there is no net debt impact).
- The title of the individual line item is usually simply the name of the recipient organisation or type of payment being made (eg, “Canterbury Earthquake National Memorial”, “Tāmaki Regeneration Company Limited – Equity Injection”).
- No Total Capital row is required in this example, as there is only one line item involved.
- In this example it is assumed that the new policy decision involves capital spending that impacts the multi-year capital allowance spending. If the capital spending impacts on a ‘tagged’ (capital) contingency, then the text in the impact on Budget allowances and contingencies recommendation should be changed to read “…be charged against the [name of ‘tagged’ contingency] previously established by Cabinet [CAB-XX-MIN-XXXX refers]”.

Annex H: Capital and Operating Swaps and Voluntary Capital Withdrawals

CO (18) 2 provides for fiscally neutral adjustments (or 'swaps') between capital and operating appropriations.

Swaps between capital and operating are used to reflect a particular business decision by a department (eg, leasing rather than owning an asset, or vice-versa, for the purposes of producing an output) or an accounting requirement (eg, to expense or capitalise a particular item).

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

The following rules apply:

- Any resulting changes in depreciation and capital charge costs should be managed within baselines.
- For capital to operating, the total sum of capital must cover ten years of the proposed operating expenses for the operating increase to continue into outyears.
- For 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.

The latter two rules 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.

While in the case of swaps between capital and operating neither the operating balance nor net debt impacts are nil, they offset each other so (in cash terms) the overall impact is fiscally neutral.

Cabinet has agreed that departments' baselines are not adjusted downwards if they voluntarily decrease their total taxpayers' funds (eg, by returning surplus cash to the centre) unless the decrease is due to a capital to operating swap [CAB Min (10) 41/9 paragraph 4.2 refers].

Whereas capital to operating swaps are used to reflect a particular business decision by a department (eg, leasing rather than owning an asset for the purposes of producing an output) or an accounting requirement (eg, to expense a particular item), voluntary capital withdrawals are used in situations where a department has surplus capital that is not employed in the production of an output. If the department were not able to get to 'keep' the associated capital charge, there would be no incentive for it to return (and so free up) the capital.

Example 25A – Operating to capital swaps within a single financial year

Consider an operating to capital swap of $1 million within a single Vote/department and within a single financial year.

9 **agree** to a fiscally neutral operating to capital swap to provide for X, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	(1.000)	-	-	-	-
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	1.000	-	-	-	-
No Impact	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

10 **approve** the following changes to appropriations and departmental capital injections to give effect to the swap in recommendation 1 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	(1.000)	-	-	-	-
[Department Name]: Capital Injection	1.000	-	-	-	-
Total Operating	**(1.000)**	**-**	**-**	**-**	**-**
Total Capital	**1.000**	**-**	**-**	**-**	**-**

11 **agree** that the proposed changes to appropriations and departmental capital injection for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- For operating to capital swaps, consequential capital charge and any depreciation expenses will have to be absorbed within existing Vote baselines. In practice this suggests that, realistically, any operating to capital swaps will only be for relatively small amounts.
- ‘Technical’ changes to baselines such as capital and operating swaps that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.
- The positive and negative impacts of the swap on net debt cancel each other out, with the overall result that net debt remains unchanged.
- There is another fiscal impact not recorded here, namely the ‘positive’ impact of the Crown now receiving capital charge from the department in respect of its increased total taxpayers’ funds, amounting to up to $0.025 million in the initial year and $0.050 million per annum thereafter (assuming a capital charge rate of 5 percent). This ‘positive’ impact will be picked up by Treasury as part of its in-year revisions to the Government’s fiscal forecasts.

Example 25B – Operating to capital swaps where reductions in operating expenses are ongoing

Consider an operating to capital swap of $1 million within a single Vote/department where the total sum of capital is sourced by reducing operating over four years.

1 **agree** to a fiscally neutral operating to capital swap to provide for X, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	(0.250)	(0.250)	(0.250)	(0.250)	(0.250)
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	1.000	-	-	-	-
No Impact	-	-	-	-	-
Total	**0.750**	**(0.250)**	**(0.250)**	**(0.250)**	**(0.250)**

2 **approve** the following changes to appropriations and departmental capital injections to give effect to the swap in recommendation 1 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	(0.250)	(0.250)	(0.250)	(0.250)	(0.250)
[Department Name]: Capital Injection	1.000	-	-	-	-
Total Operating	**(0.250)**	**(0.250)**	**(0.250)**	**(0.250)**	**(0.250)**
Total Capital	**1.000**	**-**	**-**	**-**	**-**

3 **agree** that the proposed changes to appropriations and departmental capital injection for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- See relevant Points to note for Example 25A above.
- In this example the departmental output expense is decreased by $0.250 million per annum across the four years of the forecast period, and operating funding into outyears is also reduced by this amount (refer the third of the rules described above).

Example 26A – Capital to operating swaps within a single financial year

Consider a capital to operating swap of $1 million within a single Vote/department and within a single financial year.

1 **agree** to a fiscally neutral capital to operating swap to provide for X, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	1.000	-	-	-	-
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	(1.000)	-	-	-	-
No Impact	(0.025)	(0.050)	(0.050)	(0.050)	(0.050)
Total	**(0.025)**	**(0.050)**	**(0.050)**	**(0.050)**	**(0.050)**

2 **note** that Cabinet has agreed that, where a decrease in total taxpayers' funds is due to a capital to operating swap, departments' baselines are to be adjusted downwards by the amount of the associated capital charge [CAB Min (10) 41/9 refers];

3 **approve** the following changes to appropriations and departmental capital injections to give effect to the swap in recommendation 1 above, reflecting the baseline adjustment in recommendation 2 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	0.975	(0.050)	(0.050)	(0.050)	(0.050)
[Department Name]: Capital Withdrawal	(1.000)	-	-	-	-
Total Operating	**0.975**	**(0.050)**	**(0.050)**	**(0.050)**	**(0.050)**
Total Capital	**(1.000)**	**-**	**-**	**-**	**-**

4 **agree** that the proposed changes to appropriations and departmental capital withdrawal for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- Cabinet has agreed that departments' baselines are to be adjusted downwards for associated capital charge where a decrease in total taxpayers' funds is due to a capital to operating swap [CAB Min (10) 41/9 paragraph 4.2 refers].
- In this example the departmental output expense is increased by $0.975 million in 2023/24, which is less than the $1 million of capital the department has 'swapped'. Further, the departmental output expense is reduced by $0.050 million in each of 2024/25 and outyears. This reflects associated capital charge (which, at the current rate of 5 percent, equates to $0.050 million for a full year and $0.025 million for a half year) having been backed out, consistent with Cabinet policy described above. The impact of backing out capital charge is fiscally neutral, as revenue for the centre reduces by a commensurate amount (ie, the department will from now on be invoiced for a lower amount of capital charge).

[Note: departments are invoiced for capital charge half-yearly, and in arrears. This example assumes that the swap occurs in the first half of the fiscal year, for which the calculation for the first instalment of capital charge is based on the department's total taxpayers' funds as at 30 June – so the department will be required to pay $0.025 million. This is the reason only half of the $0.050 million has been backed out for 2023/24. If the swap were to occur in the second half of the fiscal year, for which the second instalment of capital charge is based on total taxpayers' funds as at 31 December – so the department would be invoiced a further $0.025 million – none of the $0.050 million would be backed out, ie, the department's output expense appropriation would be increased by the full $1 million for 2023/24.]

- However, given the department's capital charge bill is now $0.025 million less (or nil less – see note above) for 2023/24 following the reduction in total taxpayers' funds, in practice it has an additional $1 million available within the departmental output expense appropriation in 2023/24 to spend on other operating activities.
- 'Technical' changes to baselines such as capital and operating swaps that joint Ministers have delegated authority from Cabinet under CO (18) 2 to approve do not require a separate recommendation specifying impact on Budget allowances and contingencies, as by definition they are not associated with policy decisions involving new spending.
- The positive and negative impacts of the swap on net debt cancel each other out, with the overall result that net debt remains unchanged.
- Departmental capital withdrawals appear only in section 2.3 of the Supporting Information of the Estimates documents, and not in the Capital Injection Authorisations table.

Example 26B – Capital to operating swaps where increases in operating expenses are ongoing

Consider a capital to operating swap of $1 million within a single Vote/department and where the increase in operating is to be ongoing.

1 **agree** to a fiscally neutral capital to operating swap to provide for X, with the following impacts on the operating balance and net debt:

	$m – increase/(decrease)				
Vote [Name]	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Operating Balance and Net Debt Impact	0.100	0.100	0.100	0.100	0.100
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	(1.000)	-	-	-	-
No Impact	(0.025)	(0.050)	(0.050)	(0.050)	(0.050)
Total	**(0.925)**	**0.050**	**0.050**	**0.050**	**0.050**

2 **note** that Cabinet has agreed that, where a decrease in total taxpayers' funds is due to a capital to operating swap, departments' baselines are to be adjusted downwards by the amount of the associated capital charge [CAB Min (10) 41/9 refers];

3 **approve** the following changes to appropriations and departmental capital injections to give effect to the swap in recommendation 1 above, reflecting the baseline adjustment in recommendation 2 above:

	$m – increase/(decrease)				
Vote [Name] **Minister of/for Portfolio**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	0.075	0.050	0.050	0.050	0.050
[Department Name]: Capital Withdrawal	(1.000)	-	-	-	-
Total Operating	**0.075**	**0.050**	**0.050**	**0.050**	**0.050**
Total Capital	**(1.000)**	**-**	**-**	**-**	**-**

4 **agree** that the proposed changes to appropriations and departmental capital withdrawal for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Points to note:

- See relevant Points to note for Example 26A above.
- In this example the departmental output expense is increased by $0.075 million in 2023/24, which is less than one tenth of the $1 million of capital the department has 'swapped' (refer to the second of the rules above). Further, the departmental output expense is only increased by $0.050 million in each of 2024/25 and outyears. This reflects associated capital charge (which, at the current rate of 5 percent, equates to $0.050 million for a full year and $0.025 million for a half year) having been backed out, consistent with Cabinet policy described above. The impact of backing out capital charge is fiscally neutral, as revenue for the centre reduces by a commensurate amount (ie, the department will from now on be invoiced for a lower amount of capital charge).

  [Note: departments are invoiced for capital charge half-yearly, and in arrears. This example assumes that the swap occurs in the first half of the fiscal year, for which the calculation for the first instalment of capital charge is based on the department's total taxpayers' funds as at 30 June – so the department will be required to pay $0.025 million. This is the reason only half of the $0.050 million has been backed out for 2023/24. If the swap were to occur in the second half of the fiscal year, for which the second instalment of capital charge is based on total taxpayers' funds as at 31 December – so the department would be invoiced a further $0.025 million – none of the $0.050 million would be backed out, ie, the department's output expense appropriation would be increased by the full $0.100 million for 2023/24.]
- However, given the department's capital charge bill is now $0.025 million less (or nil less – see note above) for 2023/24 and $0.050 million less in 2024/25 and outyears following the reduction in total taxpayers' funds, in practice it has an additional $0.100 million per annum (ie, the full one-tenth) available within the departmental output expense appropriation in each of 2023/24 and outyears to spend on other operating activities.

Example 27 – Voluntary capital withdrawals

Consider a request for a department to make a one-off voluntary capital withdrawal of $1 million.

1 **note** that [Department Name] has surplus capital arising from X circumstance;

2 **approve** the following capital withdrawal from the [Department Name], reflecting the circumstance described in recommendation 1 above, with a corresponding impact on net debt:

	$m – increase/(decrease)				
Vote [Name] Minister of/for Portfolio	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
[Department Name]: Capital Withdrawal	(1.000)	-	-	-	-

3 **agree** that the proposed departmental capital withdrawal for 2023/24 above be included in the 2023/24 Supplementary Estimates.

Points to note:

- Unlike in Example 26A above (capital to operating swaps within a single financial year), the department's baselines are not adjusted downwards for associated capital charge [CAB Min (10) 41/9 paragraph 4.2 refers].
- Given the department's capital charge bill, assuming a rate of 5 percent, is now up to $0.025 million less in 2023/24 (depending on when the voluntary capital withdrawal is effective from: if effective from the first half of 2023/24, $0.025 million; if the second half, nil) and $0.050 million less in each of 2024/25 and outyears as a result of the reduction in total taxpayers' funds, in practice it has commensurate additional resources available within the departmental output expense appropriation to spend on other operating activities. This ability to 'free up' operating spending acts as an incentive for departments to manage their balance sheets effectively.
- No Total Capital row is required in this example, as there is only one line item involved.
- As there is no additional capital expenditure being incurred, there is no requirement for an Imprest Supply recommendation.
- There is another fiscal impact not recorded here, namely the 'adverse' impact of the Crown now no longer receiving capital charge from the department in respect of the latter's reduced total taxpayers' funds, amounting to up to $0.025 million in the initial year and $0.050 million per annum thereafter. This 'adverse' impact will be picked up by Treasury as part of its in-year revisions to the Government's fiscal forecasts.
- Departmental capital withdrawals appear only in section 2.3 of the Supporting Information of the Estimates documents, and not in the Capital Injection Authorisations table.

Annex I: Financial Recommendations for Retention of Departmental Operating Surplus

Section 22(1) of the Public Finance Act 1989 provides that “except as agreed between the Minister [of Finance] and the responsible Minister for a department, the department must not retain any operating surplus that results from its activities”.

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

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

Requests to retain surpluses should be made in writing by the responsible Minister for the department to the Minister of Finance.

More information on the process for return of, or request for retention of operating surplus can be found in the Section 4.4.3 of the Treasury Instructions.

Example 28 – Requests for retention of surplus

The following financial recommendation format should be used for requests for retention of operating surpluses by a department.

1 **agree** to [Department Name] retaining operating surplus for X purpose as follows, with no impact on net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
[Department Name]: Surplus to be retained by the [Department Name]	0.400	-	-	-	-

2 **agree** that the retention of surplus for 2023/24 above be included in the 2023/24 Supplementary Estimates.

Points to note:

- Unlike a capital injection to a department, retention of surplus by a department does not impact on net debt. This is because there is no change to the core Crown’s overall cash position.
- Surplus to be retained by a department appears only in section 2.3 of the Supporting Information of the Estimates documents, and not in the Capital Injection Authorisations table. That is, departmental retention of surplus does not require authorisation by Parliament. It follows that there is no requirement for reference to Imprest Supply or inclusion of the word “proposed” in recommendation 2.

Annex J: Financial Recommendations for Tagged Contingencies

Ideally policy and funding decisions are taken together by Cabinet. However, on occasions further work may be required on aspects of the policy before a final decision is taken on whether to proceed or not. In such instances it may be appropriate for Cabinet to set aside the associated funding in a “tagged contingency”, pending the outcome of that further work. Cabinet may wish either to delegate authority to joint Ministers to take the final decision, or to take the final decision itself.

Example 29A – Establishing a tagged contingency

The following financial recommendation format should be used for requests to establish a tagged contingency.

1 **agree** to X Policy, subject to further work on [list conditions, eg, completion of a business case, finalisation of costs, finalisation of ownership / operational arrangements, stakeholder consultation];

2 **agree** to establish tagged operating and/or capital contingencies associated with the [Name] portfolio of up to the following amounts to provide for X Policy:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Policy X – Tagged Operating Contingency	0.500	1.000	1.000	1.000	1.000
Policy X – Tagged Capital Contingency	2.000	-	-	-	-

EITHER:

3 **authorise** the Minister of/for Portfolio and the Minister of Finance jointly to draw down the tagged operating and/or capital contingency funding in recommendation 2 above (establishing any new appropriations as necessary), subject to their satisfaction with the outcome of the further work described in recommendation 1 above;

OR:

3 **invite** the Minister of/for Portfolio to report back to Cabinet by X date on the outcome of the further work described in recommendation 1 above;

4 **agree** that the tagged operating contingency in recommendation 2 above be charged against the between-Budget contingency established as part of Budget 2023, and/or the tagged capital contingency in recommendation 2 above be charged against the multi-year capital allowance;

5 **agree** that the expiry date for the tagged operating and/or capital contingencies in recommendation 2 above will be [date].

Points to note:

- The wording “**agree** to X Policy, subject to…” in recommendation 1 signifies that the decision is conditional only, and a final decision is still to be taken.
- The wording “associated with the [Name] portfolio” is used in recommendation 2, reflecting the fact that tagged contingencies do not form part of a Vote and, until drawn down, are held at the centre.
- The wording “of up to” in recommendation 2 signifies that the tagged operating and/or capital contingency figures are maximum amounts. It may be that not all this funding is ultimately required when a final decision is taken following completion of the necessary further work. Any amount not required and so ultimately not appropriated remains at the centre.
- Depending on whether either joint Ministers or Cabinet take the final decision, delete the relevant recommendation 3 option that does not apply.
- Even though funding is not yet being appropriated (this occurs later when a final decision is taken), the amounts associated with the tagged contingency are still required to be managed against the Government’s spending allowances, as reflected in the impact on Budget allowances and contingencies statement (recommendation 4). Essentially what happens is that the relevant amounts are shifted from one ‘buffer’ (eg, the between-Budget contingency, or a future Budget operating allowance, or the multi-year capital allowance) to another, ‘tagged’ one.
- The default expiry date for the tagged operating and/or capital contingencies in recommendation 5 will be 1 February of the following financial year (eg, if the tagged contingency is established in December 2023, it will expire on 1 February 2025). However, a different expiry date may be stipulated. Regardless, joint Ministers may agree to extend the expiry date for a tagged contingency [refer CO (18) 2]. Joint Ministers’ approval to such an extension should be obtained before the tagged contingency has expired.

Example 29B – Drawing down a tagged contingency

The following financial recommendation format should be used for requests to draw down a tagged contingency.

1 **note** that on X date Cabinet [CAB-XX-MIN-XXXX refers]:

1.1 **agreed** to X Policy, subject to further work on [list conditions, eg, completion of a business case, finalisation of costs, finalisation of ownership / operational arrangements, stakeholder consultation];

1.2 **agreed** to establish tagged operating and/or capital contingencies associated with the [Name] portfolio of up to the following amounts to provide for X Policy:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Policy X – Tagged Operating Contingency	0.500	1.000	1.000	1.000	1.000
Policy X – Tagged Capital Contingency	2.000	-	-	-	-

EITHER:

1.3 authorised the Minister of/for Portfolio and Minister of Finance jointly to draw down the tagged operating and/or capital contingency funding in recommendation 1.2 above (establishing any new appropriations as necessary), subject to their satisfaction with the outcome of the further work described in recommendation 1.1 above;

OR:

1.3 invited the Minister of/for Portfolio to report back to Cabinet by X date on the outcome of the further work described in recommendation 1.1 above;

2 **agree** that, as the further work described in recommendation 1 above has been satisfactorily completed, X Policy can now proceed;

3 **approve** the following changes to appropriations to provide for the decision in recommendation 2 above, with a corresponding impact on the operating balance and net debt:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Vote [Name] **Minister of/for Portfolio** Departmental Output Expense: Output Expense Title1 (funded by revenue Crown)	0.500	1.000	1.000	1.000	1.000
Non-Departmental Capital Expenditure: Capital Expenditure Title1	2.000	-	-	-	-
Total Operating	**0.500**	**1.000**	**1.000**	**1.000**	**1.000**
Total Capital	**2.000**	**-**	**-**	**-**	**-**

4 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

5 **agree** that the expenses incurred under recommendation 3 above be charged against the [Policy X – Tagged Operating Contingency] described in recommendation 1 above, and/or that the capital expenditure incurred under recommendation 3 above be charged against the [Policy X – Tagged Capital Contingency] described in recommendation 1 above;

EITHER:

6 **note** that, following the adjustment(s) detailed in recommendation 5 above [as well as previous adjustment(s) agreed in <*references to previous drawdowns or changes to the tagged contingency agreed by Ministers*>], the remaining balances and indicative phasing of the tagged operating and/or capital contingencies described in recommendation 1 above will be:

	$m				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Policy X – Tagged Operating Contingency	X.XXX	X.XXX	X.XXX	X.XXX	X.XXX
Policy X – Tagged Capital Contingency	X.XXX	X.XXX	X.XXX	X.XXX	X.XXX

7 **note** that the tagged operating and/or capital contingencies described in recommendation 1 above will expire on [date];

OR:

6 **note** that, following the adjustment(s) detailed in recommendation 5 above [as well as previous adjustment(s) agreed in <*references to previous drawdowns or changes to the tagged contingency agreed by Ministers*>], the tagged operating and/or capital contingencies described in recommendation 1 above are now exhausted and therefore closed.

Points to note:

- See relevant Points to note for Example 29A above.
- Depending on whether Cabinet earlier agreed that either joint Ministers or Cabinet would take the final decision, delete the relevant recommendation 1.3 option that does not apply.
- In the impact on Budget allowances and contingencies statement (recommendation 5) the expenses and/or capital expenditure are now charged against the relevant tagged operating and/or capital contingency that was earlier established.
- New appropriations may need to be established to give effect to the decision. If so, refer to Example 1 for the necessary recommendation format that would need to precede the above recommendation 3.
- While Ministerial approval is not required to rephase the indicative profile of a tagged contingency across years, the new profile and balance of a tagged contingency following any partial drawdown should be noted (first option recommendation 6). Where a tagged contingency is drawn down in full and therefore closed, this should also be noted (second option recommendation 6).
- If no funding has previously been drawn down, then the text "[as well as earlier adjustment(s) agreed in <*references to previous drawdowns or changes to the tagged contingency agreed by Ministers*>]" should be deleted (first or second option recommendation 6).
- If no alternative expiry date has been agreed, the default expiry of a tagged contingency is 1 February of the financial year following its establishment [refer CO (18) 2]. This date should be noted if a contingency is drawn down but not closed (recommendation 7).
- If Ministers wish to extend the expiry date of a tagged contingency that has not yet been fully drawn down, then recommendation 7 should be converted to an "agree" recommendation specifying the new expiry date.