



Cabinet Office Circular

CO (02) 17

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References in this circular have been updated to reflect current Cabinet committees, contact details and information sources.

Guidelines for Changes to Baselines

Introduction

- 1 This circular sets out the process agreed to by Cabinet for changes to baselines. It emphasises the importance of the baseline management system and provides generic guidance on the system, and on authority to approve changes. More specific guidance will be provided each year in Treasury Circulars for particular events, e.g. the Budget initiatives process or October Baseline Update.
- 2 Cabinet has agreed to a number of changes to the baseline management system [POL Min (02) 21/3]. This circular revises and replaces the guidelines detailed in Cabinet Office Circulars CO (00) 7 and CO (00) 12. The key changes are:
 - 2.1 an update for changes to the fiscal management approach;¹
 - 2.2 update of advice on baseline increases between budgets;
 - 2.3 changes to allow Expense and Capital Transfers to more than one outyear;
 - 2.4 addition of guidelines on changes to vote structures;
 - 2.5 clarifying the information needed to support new policy proposals (replacing the capital-only “Strategic Business Plan” requirements in CO (00) 12).

¹ The high-level details of the fiscal management approach are set out in Treasury Circular TC2002/14, released in mid-December 2002.

- 3 This circular is in four sections:
- Section A explains the objectives of the fiscal management approach and baseline management system;
 - Section B sets out the key concepts for changes to baselines, and outlines the level at which decisions on changes to baselines can be made;
 - Section C sets out additional technical information for changes to baselines;
 - Section D provides guidelines on changes to vote structures, i.e. creating, merging or disestablishing votes.
- 4 Ministers and Chief Executives should ensure that:
- all staff handling submissions for Cabinet, Cabinet Committees and baseline updates are familiar with the advice in this circular; and
 - the material in this circular is conveyed to all Crown entities and State Owned Enterprises (SOEs) for which they are responsible.

Section A - Objectives

- 5 The Government's fiscal management approach recognises all spending/savings decisions, including forecasting changes that impact on the operating balance and debt. There is no distinction between spending that "counts" and does not count, as everything matters.
- 6 Many changes in baseline updates that did not previously impact on the provisions (e.g. forecasting changes) will now impact on the Government's spending intentions. This reinforces the need for timely and accurate forecasting of impacts, and careful scrutiny of technical changes.
- 7 The baseline management guidelines are a critical part of the financial management approach. These guidelines help Ministers maintain fiscal control and ease decision-making by:
- 7.1 providing guidelines that apply to all Votes and any potential impacts on the Government's financial position (including SOE and revenue changes);
 - 7.2 giving Vote Ministers a common process to have their proposals consistently and fairly considered;
 - 7.3 allowing Cabinet to make assessments and prioritise between a wide range of proposals with fiscal implications; and
 - 7.4 facilitating targeted and appropriate scrutiny of proposals for baseline changes, by splitting proposals into:
 - 7.4.1 substantive proposals that have significant policy implications; and
 - 7.4.2 technical changes.

- 8 This circular sets out the situations in which joint Ministers can approve technical changes to baselines. Once approved by joint Ministers, any technical baseline changes will be reflected in the Main and/or Supplementary Estimates for the relevant year and flow through to output plans and (for substantive changes) to Statements of Intent.

Section B - Changing Baselines: Key Concepts and Decision Process

Policy decisions

- 9 Cabinet should consider all significant policy issues and proposals that will affect the government's financial position.² Cabinet has delegated authority to joint Ministers to approve a limited number of technical changes to baselines.
- 10 Proposals seeking new funding are considered in the annual Budget initiatives process, generally during February to April. This enables Ministers to consider and prioritise proposals together to ensure these are consistent with the Government's overall fiscal and policy objectives. Detailed guidance on the Budget initiatives process is provided in the annual **Treasury Budget Circular**.³
- 11 There will be circumstances when Ministers will consider providing additional resources between Budget processes. These may include such non-discretionary items as policy reactions to natural disasters or civil emergencies, or other policy priorities that cannot wait until the next Budget. In general, proposals requesting additional resources between Budgets should demonstrate that the initiative *cannot be funded through reprioritisation* of baselines, **and cannot be deferred** to the next Budget.
- 12 If Ministers know that they are likely to seek funding between Budgets, they should inform the Minister of Finance of this as soon as possible, e.g. identify the issue during the Budget bilaterals process. If an initiative is considered and declined during the Budget process, it should not be resubmitted for consideration between Budgets.
- 13 The procedures for Cabinet papers with financial implications are as follows:
- 13.1 Vote Ministers must personally consult the Minister of Finance before submitting Cabinet or Cabinet committee papers seeking approval for additional resources. Vote Ministers should initiate this consultation by forwarding a copy of the draft paper to the Minister of Finance **at least** five working days before the deadline for submitting the paper to the Cabinet Office. This consultation should be indicated on the paper's CAB 100 consultation form;
- 13.2 Departments must consult the Treasury on all submissions that contain recommendations on expenditure or revenue, or that have financial, fiscal, or economic implications, and should include Treasury's comments and (if requested by the Treasury) any alternative recommendations in the submission;
- 13.3 The Minister of Finance, other Ministers, and Cabinet committees have the option of referring policy proposals with financial implications to the [Cabinet Expenditure Control Committee (ECC)] for consideration (in addition to consideration by the relevant policy committee);

² See the Cabinet Office [CabGuide](#) for more details on [issues that require Cabinet consideration](#)

³ Treasury Budget Circulars are usually issued near the end of the calendar year.

- 13.4 The Minister of Finance will refer papers seeking approval of additional resources to [ECC] for consideration (in addition to the relevant policy committee) where Finance Ministers are not satisfied that the fiscal implications have been appropriately considered and agreed. The Minister of Finance will advise Vote Ministers of this when consulted on the paper;
- 13.5 Ministers' offices and departments need to ensure that they have systems in place to provide advice and support to their Minister in meeting these requirements. [The Economic Advisors in the office of the Minister of Finance are the contacts for enquiries (817-9903 and 817-9425)].

Technical Changes to Existing Baselines

- 14 Most technical changes to baselines are made during the baseline update processes.⁴ A number of tools can be used to adjust existing baselines, generally in a fiscally neutral manner. The technical baseline changes are summarised in **Table 1** on page 5 and include:
- 14.1 Expense and/or Capital Transfers;
- 14.2 Fiscally Neutral Adjustments;
- 14.3 Forecasting Changes (with no policy implications);
- 14.4 Recognition of existing Crown liabilities;
- 14.5 Return of savings to the Crown;
- 14.6 Technical Adjustments.

Authority to Make Technical Decisions on Existing Baselines

- 15 The relevant Vote Minister(s) and the Minister of Finance (joint Ministers) can approve all technical changes to existing baselines, under authority delegated by Cabinet.⁵ However, joint Ministers are to refer changes to Cabinet where:
- 15.1 proposals raise significant policy issues (including any reprioritisation of baselines). A significant policy issue is any change that would have a noticeable impact on the quantity, quality or mix of what is funded by the appropriation;⁶ or
- 15.2 joint Ministers do not agree between themselves on the proposed change; or
- 15.3 transfers are made between different types of output class (e.g. from a non-departmental output class to a departmental output class).

⁴ There are usually two baseline update processes, in October and February. In addition, a small number of final technical changes can be progressed in April. Please refer to the relevant Treasury Budget Circular for details of these processes.

⁵ Where the Minister of Finance is also the Vote Minister, the Associate Minister of Finance will take on the role of Finance Minister for the purposes of approval.

⁶ Factors that joint Ministers should take into account when considering if a change is "noticeable" include the nature of the spending, the size of the change as a proportion of the total output and vote, and the general test for whether a proposal should go to Cabinet – "Ministers should put before Cabinet the sorts of issues on which they themselves would wish to be consulted."

Table 1 - Technical Changes to Existing Baselines - Definitions and Criteria

Technical Changes to Existing Baselines	
Authority for joint Ministers to Approve Technical Changes unless there are Significant Policy Issues	<p>The Minister of Finance and the relevant Vote Minister(s) (joint Ministers) may approve all technical changes to baselines (outlined in the remainder of this table) as long as the changes do not raise significant policy issues. A significant policy issue is any change to a baseline that has a noticeable impact on output quantity, quality or mix.</p> <p>If either Minister believes a proposed change raises significant policy issues, then it cannot be approved as a technical change, and must be considered by Cabinet.</p>
Expense and/or Capital Transfers (ECTs)	<p>ECTs are transfers of resources from the current financial year to future financial year(s), with no change in the output purchased or the operating balance or debt over time.</p> <p>Transfers are considered where outputs or capital projects agreed between the Vote Minister and the department cannot be achieved within the annual appropriation timeframe or are explicitly deferred (for example, to take advantage of better contracting opportunities). The process <i>does not</i> allow for under-expenditure to be carried forward or for funding to be transferred from future financial years to the current financial year.</p> <p>In most cases, ECTs should be from the current financial year to the next, but it may be appropriate to spread resources from the current financial year to one or more of the next three outyears, e.g. if a project that was due to be completed in 2002/03 is delayed and split into sub-projects for 2003/04 and 2004/05.</p>
Fiscally Neutral Adjustments (FNAs)	<p>Fiscally neutral adjustments are a reallocation of resources within a single financial year, with no impact on the operating balance or debt.</p> <p>Fiscally neutral adjustments can be used either to meet changes in costs across the entire baseline (e.g. an efficiency in one area can be used to offset an increased cost in another), or to reprioritise resources from low priority areas to high priority areas.</p>
Forecasting Changes	<p>Forecasting changes are revenues or costs/expenses resulting from forecasting assumptions without any change being made to the underlying policy.</p> <p>Examples of forecasting changes include welfare benefits indexed to the CPI and changes in debt servicing costs resulting from changes to interest rates. Such changes are likely to impact on the Government's spending intentions, which reinforces the need for timely and accurate forecasting of impacts, and careful scrutiny of technical changes.</p>
Recognition of Crown Liabilities (e.g. Legal Liabilities)	<p>In the case of recognition of existing Crown liabilities, the Crown has no option but to recognise its obligations <i>when they arise</i>. However, meeting such obligations would <i>not</i> automatically result in an increase in baselines for any year. In assessing each proposal, Ministers will consider when the liability is likely to arise and whether offsetting reductions can be found.</p>
Return of Savings to the Crown	<p>Savings are any existing funding that would impact positively on the operating balance or debt if they were returned to the Crown. Vote Ministers may offer up savings at any time throughout the year, but it is administratively easiest to do so during baseline updates. Such savings can be for a single year or ongoing.</p>
Technical Adjustments (TAs)	<p>Technical adjustments primarily relate to technical accounting adjustments to departmental other expense, output class appropriations and/or capital contributions, and have no cash impact, e.g. a downward asset revaluation.</p> <p>Changes to appropriations for technical adjustments are not automatic. It is necessary to demonstrate that the additional expenses cannot be met within existing appropriations. Where a change to an appropriation is agreed, there is no associated increase in revenue Crown. In addition, technical adjustments to appropriations are "tagged" and cannot be used for alternative output expenses if the forecast expenses do not arise.</p> <p>In rare circumstances, Joint Ministers may consider other TA proposals that involve technical, rather than policy, changes. Such proposals will be subject to close scrutiny by the Treasury to ensure they are appropriate, with the presumption that most proposals will be referred to Cabinet.</p>

- 16 Most technical changes to baselines are made during the baseline update and Final Technical Changes processes.⁷ Changes should only be made outside of this process where there are strong policy grounds for doing so, *and these changes require Cabinet scrutiny*. The one exception is that the Minister of Finance has authority to approve technical changes associated with the end of the financial year under the Public Finance Act (e.g. section 12 expenditure).
- 17 **Table 1** on page 5 summarises the ways existing baselines can be changed through approval by joint Ministers.

Section C - Additional Technical Information for Changes to Baselines

- 18 The definitions above provide guidance for changes to baselines, which should meet most requirements associated with any change Vote Ministers wish to make. However, there are some additional technical criteria that apply to a number of changes in baselines.
- 19 These technical criteria are designed to ensure that resources are used for the purpose for which they are provided, and to clarify some changes.

Expense and Capital Transfers

- 20 Expense and capital transfers will be considered only where these relate to:
- 20.1 departmental output classes; or
 - 20.2 non-departmental output classes; or
 - 20.3 non-departmental other expenses; or
 - 20.4 departmental or non-departmental capital contributions; or
 - 20.5 purchase or development of capital assets;
- and where:
- 20.6 Vote Ministers seek to transfer, from the current year to one or more of the next three financial years, specific one-off departmental or non-departmental output purchases, or the incurring of non-departmental other expenses, or capital contributions, or the purchase or development of capital assets; and
 - 20.7 total expenses or capital contributions between the affected financial years are unchanged; and
 - 20.8 adequate evidence is provided that these expenses or capital requirements cannot be met from existing baselines.

⁷ In practice, the majority of technical changes should occur in FBU, with only a limited number in OBU or the FTC round.

Approval in Principle of Expense and Capital Transfers

- 21 There will be some occasions where the final amount of an expense or capital transfer is not known before the end of the financial year. In these cases, Vote Ministers may seek approval *in principle* for an expense or capital transfer before the end of the year (i.e. during the FBU or FTC process). The Vote Minister should include the best estimate of the maximum amount to be transferred.
- 22 Where approval in principle is given for expense or capital transfers, the Vote Minister is to confirm the amount, in consultation with the Minister of Finance, as soon as the final amount is known (e.g. in the October baseline update after audited financial results for the previous financial year are available).
- 23 Note that in principle transfers are not reflected in the current year's Supplementary Estimates or upcoming year's Main Estimates, i.e. the only parliamentary record of the change is in the upcoming year's Supplementary Estimates. For this reason Ministers should limit the scope of in principle ECTs as much as possible, e.g. by actually transferring the proportion of funding they are sure of and only using an in principle transfer for the remainder. When updating forecast information, departments should use their best estimate of the *actual* spending patterns.

Fiscally Neutral Adjustments

- 24 Fiscally neutral adjustments will be considered only when they are:
- 25 within a single fiscal year;
- and are:
- 25.1 between departmental output classes within or between Votes; or
- 25.2 between non-departmental output classes within or between Votes; or
- 25.3 between non-departmental other expenses within or between Votes; or
- 25.4 in departmental operating expenses, provided this change is offset by changes in revenue from other departments and/or third parties as purchasers or beneficiaries of those outputs, and is fiscally neutral for the Crown as a whole; or
- 25.5 Crown expenses, provided these are offset by a change to directly related Crown revenue; and have no overall impact on the Crown's operating balance, debt, Crown Balance (net worth) or net cashflows from operating and investing; and
- 25.6 are not from a forecast item (e.g. benefits).
- 26 Joint Ministers *do not* have the authority to agree to FNAs between different appropriation or revenue types, e.g. between departmental output classes and non-departmental output classes or between revenue Crown and revenue other, as these are likely to involve significant policy issues that require Cabinet consideration. Joint Ministers also do not have the authority to agree to a combination of FNAs and ECTs to shift funding *both* between outputs and years.

Forecasting Changes

- 27 Forecasting changes impact on the operating balance and debt tracks, but are considered to be technical changes when they do not involve policy decisions, e.g. adjusting appropriations because demographic changes result in more people being eligible for a specific benefit would be a forecasting change, but making a decision to widen the scope of a benefit to cover more people would involve a policy decision and thus require Cabinet scrutiny.

Output Price Increases

- 28 Vote Ministers may seek the Minister of Finance's approval for a review of the baseline provision for existing departmental outputs, where the cost of the output can no longer be managed from within baselines.
- 29 The onus is on the department to prove that a baseline increase is warranted, and that the cost cannot be met from within baselines. After the Treasury (and the State Services Commission (SSC), where the proposal affects the Government's ownership interest) have assessed the case, any resulting proposal for increases in funding to the department can be considered as part of the Budget initiatives process.

New Policy Initiatives

- 30 All new policy proposals (operating and capital) should be considered where possible as part of the annual Budget process. All proposals should be supported by a business case that is tailored to the size and risks of the proposal.
- 31 The business case must show that the proposal is consistent with the department's strategic planning, and with the Government's outcomes (i.e. it should link to departments' other planning documents, including Statements of Intent). Capital initiatives should be supported by the same information as operating initiatives, plus additional information on how the proposal fits with the department's capability (including asset management) planning.
- 32 The annex to this circular sets out some guidance on the types of supporting information that should be included in a business case.
- 33 Additional capital from the Crown as owner should be the last resort source of funding. The entity should show that other financing options such as accumulated cash are not available.
- 34 The Treasury will assess all proposals for resources to provide guidance to Ministers. The Treasury may seek further information or recommend monitoring and project planning criteria before supporting any proposal.

Requirements for Major Information Technology (IT) Projects

- 35 Proposals for IT projects requiring additional capital funding need to meet the criteria established for all capital projects. Departments seeking funding for projects with a major IT component will also be expected to meet the guidelines on principles and practices established by SSC and the Treasury in accordance with the monitoring regime for major IT projects agreed by Cabinet. These guidelines can be found in "*Guidelines for Managing and Monitoring Major IT Projects*" available from SSC (<http://www.ssc.govt.nz/display/document.asp?docid=6418>). Proposals for e-

Government initiatives should be discussed with the SSC to ensure these are aligned with the e-government strategy (<http://www.e.govt.nz/about-egovt/strategy>).

- 36 Projects with a major IT component will also be expected to follow the more rigorous approval process set out in SSC Chief Executive Circular CE 2000/10 (<http://www.ssc.govt.nz/display/document.asp?docid=2303>). This process includes two-stage Cabinet approval, the use of quantitative risk analysis and breaking large projects into smaller modules.

Section D – Creating, Merging and Disestablishing Votes

Aims of this guidance

- 37 This guidance aims to provide information and direction to Ministers considering changing current vote structures (either by creating a new vote, merging existing votes, or disestablishing a vote). It can be used as a general guide when considering changes to vote structures. Any change will be dependent on a particular set of circumstances, and will be considered on its own merits. The principles below are guidance only, and are not exhaustive.
- 38 In general changes to vote structures should be considered in light of changes to portfolio responsibilities. Because Votes are a way of logically grouping appropriations, Ministers should actively look to improve linkages across government spending by pursuing rationalisation of Votes, as changes in portfolio responsibilities allow. Creating additional votes should be considered only where there is a significant increase in the priority of the appropriations concerned, and that this increase in priority cannot be signalled in any other way.

Underlying issues and rationale

- 39 Votes serve multiple purposes in the public management system. Votes are:
- 39.1 the basis for groupings of homogenous appropriations;
 - 39.2 a support for achieving Government's outcomes (by ensuring resources are in the right place to highlight the Government's policy priorities); and
 - 39.3 a basis for accountability (allowing Parliament to track and scrutinise spending in manageable bundles).

A flexible approach is key

- 40 The guidance is intended to be flexible – providing some general principles and issues to consider. Any change to vote structures will be considered by Cabinet on its individual merits, and will be made:
- 40.1 at Budget time as part of the annual Budget process;
 - 40.2 to take effect from the start of a financial year (i.e. 1 July).
- 41 Treasury Vote Teams can provide further guidance.

Principles for Vote Changes

Principles to consider when creating a new vote

- 42 *New votes should only be considered when a new portfolio or Ministerial responsibility or department is created.* Changes made outside of these events would serve to highlight a particular policy issue or focus within an existing Vote. Creating a new vote is not the only way to highlight a particular policy issue. For example, the vote could be renamed to reflect the change in focus.
- 43 Even where a new portfolio or department is created, careful consideration should be given to whether a new vote is necessary, given the following:
- *Votes should be of a substantive size.* Generally, creating very small votes (e.g. less than five appropriations and/or less than \$100 million) should be avoided. Collectively, a large number of small votes can cause fragmentation, duplication, and high transaction costs.
 - *Votes should take a cross-government perspective.* New votes should be consistent with existing structures (e.g. should not duplicate existing votes).

Principles to consider when merging two or more existing votes into one

- 44 *Why merge Votes?* Votes might be merged to provide a better focus on the Government's desired policy results. Merging votes can allow resources to be transferred between output classes in related areas more easily (for example in multi-vote departments).
- 45 Legally, votes are a grouping of appropriations that are the responsibility of one Minister and one department. Serious consideration should be given to merging votes within a department, where the Minister is the same.

Principles to consider when disestablishing a vote:

- 46 Disestablishing a vote does not necessarily entail disestablishing the appropriation.
- 47 *Small votes are the most likely candidates for disestablishment.* Small votes are those that are less than five appropriations and/or less than \$100 million.
- 48 Disestablishment is useful when Ministerial portfolios change, or to reflect shifts in Government priorities.

Process

- 49 The process for creating, merging or disestablishing votes is for the Minister of Finance and relevant Vote Minister(s) to provide a briefing for Cabinet that details the name of the vote(s), the rationale for the changes, and when these come into effect (generally the start of the next financial year). Where a vote is being disestablished, the paper should explain where resources and functions being carried out within that vote are to be continued, if at all (i.e. are they being transferred to another vote?).

Further Information

- 50 If you require further advice or information on changes to baselines, please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures for the consideration of proposals with financial implications, please contact the [[relevant Cabinet committee secretary](#)] in the first instance.
- 51 Changes to the fiscal management framework have also resulted in minor changes to the Treasury Circular and Technical Guide on financial recommendations, available on the Treasury website (<http://www.treasury.govt.nz/publications/guidance/circulars> and <http://www.treasury.govt.nz/publications/guidance/budget/finrecs>).

Secretary of the Cabinet

Information to support proposals for new initiatives

This annex sets out the information requirements expected in business cases to support any new policy proposal seeking additional funding (operating and capital). All business cases should be tailored to the relative size and risks of the project⁸.

Generic requirements for all initiatives

All proposals for new funding should:

- Include analysis of the economic and social costs and benefits (including non-tangibles), with underlying assumptions and discount rate clearly stated
- Identify alternative courses of action that could achieve the desired results, and justification for the proposed project (including the rationale for operating versus capital expenditure, or vice versa)
- Make links to the Government's *outcomes*
- Be *consistent* with, and make links to, the agency's strategic planning and capability (including the Statement of Intent)
- Outline the *merits* of the project, and the *risks* associated with not going ahead
- Clarify the proposal's *impact* on the agency's structure and operations, plus any impact on other entities
- In the case of proposed *diversification* of activities, identify the links between the proposed activities, current activities and the Government's outcomes; and provide evidence that the benefits outweigh the risks of diversification
- Identify and explain potential *risks* (including both internal and external risks to the organisation such as project design, implementation and ex-post review)
- Include a risk management strategy, including sensitivity analysis and any associated unquantified risks
- Outline a proposed *project management* framework and monitoring mechanisms
- Identify any impacts on existing business processes, customers and staff, plus the proposed *change management* process to manage these impacts
- Propose review, reporting and monitoring processes.

Additional requirements for capital initiatives

Capital initiatives should be supported by the same information as operating initiatives (as above). However, given Ministers' need for improved information on capital spending, capital initiatives should also include the following additional information:

- Links to capability, including asset management for the department and/or sector
- The expected life of the investment, and likely demand over the life of the asset
- Associated financial flows (including asset sales, cash accumulated from non-cash expenses), with underlying assumptions clearly stated
- Financial return to the Crown in terms of the net tangible benefits from reduced output prices, increased capital charge receipts or capital withdrawals

This information may be provided either in documents developed specifically to support the initiative, or by way of links to agencies' broader planning documents or processes. Further guidance is available via Treasury Vote Teams.

⁸ This annex replaces guidance in CO (00) 12 related to business cases for capital initiatives.