



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

Copies to All Senior Private Secretaries
All Private Secretaries

Guidelines for Changes to Baselines

Introduction

- 1 This circular sets out the processes agreed by Cabinet for making changes to baselines. Further guidance will be provided each year in Treasury Circulars for particular events, such as the Budget process or October baseline update.¹
- 2 This circular replaces Cabinet Office Circular CO (02) 17 (*Guidelines for Changes to Baselines*) and also replaces the sections of Cabinet Office Circular CO (99) 7 (*Financial Delegations*) that cover the delegation of financial authority and delegation limits for publicity expenses, payment of compensation and damages, and ex gratia expenses. The rest of the latter circular will be updated shortly.
- 3 The key changes in this circular from CO (02) 17 are:
 - 3.1 to strengthen the discretion of joint Ministers to determine whether a proposed technical change should go to Cabinet, or whether it is a technical matter that can be approved by joint Ministers; and
 - 3.2 to ensure that the fiscal impact of baseline updates is visible and that Ministers are able to make changes to policy settings or offsetting reductions where necessary.
- 4 This circular is in four sections:
 - 4.1 [Section A](#) provides an overview of this circular;
 - 4.2 [Section B](#) outlines the process for Cabinet papers with financial implications;
 - 4.3 [Section C](#) sets out the requirements for making technical changes to baselines;

¹ These can be found under “Circulars” on the Treasury’s CFISnet website available to departments.

4.4 [Section D](#) concerns delegation of financial powers and the limits of financial authority for publicity expenses, payment of compensation and damages, and *ex gratia* expenses.

5 Ministers and chief executives should ensure that:

5.1 all staff handling submissions for Cabinet, Cabinet committees and baseline updates are familiar with the advice in this circular;

5.2 the material in this circular is conveyed to all Crown entities and State Owned Enterprises (SOEs) for which a Minister is responsible; and

5.3 all appropriate people are aware of the limits of financial authority within Section D.

Section A – Overview

6 The purpose of this circular is to set out Cabinet’s expectations when considering changes to baselines.

7 Where reprioritisation of resources or other changes can be managed within an appropriation, those changes should be referred to the relevant Vote Minister when they affect what the Minister expects the appropriation to deliver (for example, as set out in an output plan).

8 Where reprioritisation of resources or other changes *cannot* be managed within an appropriation, Cabinet has delegated authority to the Minister of Finance and the relevant Vote Minister(s) (joint Ministers) to approve certain technical changes to appropriations. The types of technical change that can be approved by joint Ministers are set out in Section C of this circular.

9 Where any reprioritisation of resources or technical change raises significant policy issues (defined in paragraph 19), the proposed change should be referred to Cabinet (through the relevant Cabinet committee) regardless of whether the change can be managed within appropriations or as a technical change.

10 The annual Budget process is Cabinet’s primary vehicle for considering how best to allocate resources. The more significant any proposed change to baselines, the stronger the case that it should be considered as part of the Budget process. This principle helps to ensure the best use of resources, and to preserve appropriate Parliamentary scrutiny of public expenditure and the integrity of the Budget.

Section B – Process for Cabinet papers with financial implications

11 There will be circumstances when Cabinet will consider providing new funding between Budgets.² Examples include non-discretionary items such as policy responses to natural disasters or civil emergencies.

12 Proposals requesting new funding between Budgets should demonstrate that the initiative *cannot be funded through reprioritisation of lower value activities* **and** *cannot be deferred* until the next Budget.

² Where Cabinet has set aside funding for a specific purpose in the Budget (a tagged contingency), the criteria in paragraphs 12 and 13 do not apply.

- 13 Proposals requesting new funding between Budgets should *not* be submitted for consideration between Budgets if the initiative *could reasonably have been considered* in a previous Budget **or** *was previously considered and declined*.
- 14 The procedures for Cabinet papers with financial implications are as follows:³

Consultation with the Minister of Finance and Treasury⁴

- 14.1 Vote Ministers must personally consult the Minister of Finance before submitting Cabinet or Cabinet committee papers seeking new funding.⁵ 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.
- 14.2 Departments must consult Treasury **at least** two weeks before the deadline for submission to Cabinet Office on all papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. Papers should include (if requested by Treasury and without amendment) a Treasury comment (and alternative recommendations if required).

Referral to Cabinet Expenditure Control Committee

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

Other matters

- 14.4 All papers which seek decisions with financial implications should include the necessary financial recommendations and tables to reflect those decisions;⁶
- 14.5 No papers with financial and/or appropriation implications may be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day (the *Budget Moratorium*);⁷ and
- 14.6 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 or Treasury Vote Analysts are the contacts for enquiries.

Between Budget contingency

- 15 The cost of decisions with financial implications that are taken outside the Budget will be met from the between Budget (general) contingency. This is a limited amount of funding set aside as part of the annual Budget package. Cabinet may also decide to set aside

³ Financial implications include any changes to appropriations or net assets and any impact or likely impact on any part of the Crown's balance sheet or fiscal position (including revenue changes, contingent liabilities or specific fiscal risks).

⁴ This consultation should be indicated on the paper's CAB 100 consultation form.

⁵ This includes proposals for which Cabinet has set aside funding for a specific purpose in the Budget (a tagged contingency).

⁶ Guidance on Financial Recommendations is available on the Treasury website.

⁷ The *Budget Moratorium* is necessary to ensure that the documents tabled on Budget Day accurately reflect the decisions taken by Ministers.

additional funding for specific items on which it is yet to make a final decision and agree appropriations (a tagged contingency). Contingencies operate as follows:

- 15.1 Staying within Budget means the total cost over the forecast period does not exceed the total amount of the contingency **and** the outyear cost does not exceed the amount set aside in the contingency for outyears.
- 15.2 Overspends on individual tagged contingencies count against the general contingency. Underspends on tagged contingencies are added to the general contingency once an item is agreed.
- 15.3 When the general contingency is exhausted, if any further increases are agreed, *the Budget is overspent* and the Budget for the following year will be reduced by a corresponding amount. Any unspent general contingency funding will also be added to the following Budget no later than 1 February, after which time all bids should be against the upcoming Budget.
- 15.4 All tagged contingencies cease to exist no later than 1 February of the following year.⁸

Multi-year appropriations (MYAs)

- 16 The establishment of a new MYA (or rollover of an existing MYA) in the Budget process will be considered in a compilation paper prepared by the Minister of Finance for ECC shortly before Cabinet finalises the Budget Package. MYAs that are established during the year will also be considered in this paper. MYAs are designed to be used where a specific project extends over more than one financial year and it is unclear in which year the expenses will be incurred. MYAs should not be established where it is possible to get the same outcomes from annual appropriations.

Section C – Technical changes to baselines

- 17 The types of technical changes that joint Ministers have the authority to agree are set out in this section and summarised in the [Annex](#) on page 10.
- 18 The intention of Cabinet is to strengthen the discretion of joint Ministers in determining whether a proposed change to baselines should be taken to Cabinet.⁹

- 19 In determining whether a proposed change should go to Cabinet, joint Ministers should give careful consideration to the following criterion:

*Joint Ministers are to refer all changes (including any reprioritisation of baselines) to Cabinet where the proposals raise **significant policy issues**.*

- 20 A significant policy issue in this context is any *noticeable* change in the price, quantity or standard of what is purchased through the appropriation. Factors that joint Ministers should consider include the size of the change and its proportion of the total output and Vote.

⁸ For example, a tagged contingency created in Budget 2010 will cease to exist on 1 February 2011.

⁹ The general rule for whether a proposal should go to Cabinet is set out in [paragraph 5.11 of the Cabinet Manual](#), “Ministers should put before Cabinet the sorts of issues on which they themselves would wish to be consulted.” (including proposals that affect the government’s financial position, or important financial commitments.)

- 21 Where joint Ministers cannot agree on a proposed change and one Minister still wants to proceed with it, they should refer the proposed change to Cabinet for decision, through the relevant committee.
- 22 Technical changes to baselines or projected net assets agreed by joint Ministers under the delegated authority in this circular should be included in the Main or Supplementary Estimates for the relevant year. In the interim, expenses, capital expenditure or an increase in projected net assets in the current year will be met from Imprest Supply. Changes should also flow through to accountability documents (such as output plans or Supporting Information) as appropriate.
- 23 Proposals to create ongoing arrangements that are different to the expectations in this circular (such as different rules for what may be approved by joint Ministers in a specific Vote) should be considered as part of the Budget process. Consideration should be given as to whether the proposal should also be submitted to ECC. The presumption is that any such arrangements would be on a case-by-case basis, time-limited, and with appropriate accountability measures.
- 24 Most technical changes to baselines are made during the twice-yearly baseline update processes. Joint Ministers should agree changes outside of this process only where there are strong grounds for doing so and these changes *cannot be delayed* until the next baseline update.
- 25 Departmental officials should consult with their Treasury Vote Analyst on all technical changes and any agreement by joint Ministers should be copied to Treasury so that Treasury can ensure the Controller and Auditor-General is aware of the changes in appropriations.

Expense and capital transfers (ECTs)

- 26 Expense and capital transfers are a transfer from the current year *to the same appropriation* in one or more of the next three financial years with:
- 26.1 no change in *total* expenses or capital expenditure across the affected financial years; and
- 26.2 no change in the output or capital asset purchased.
- 27 There is a general expectation that transfers are to be used only where an external factor causes the deferral of a specific and discrete project that cannot be met from the baselines of the financial year to which the transfer is being proposed. The process does not allow for under-expenditure to be carried forward.
- 28 Transfers will be considered in any type of annual appropriation with the exception of benefits and other unrequited expenses and borrowing expenses.
- 29 Full information should be provided detailing reasons for the delay in spending and funding should not be repeatedly transferred.
- 30 To ensure that the Supplementary Estimates are correct, no changes may be made to appropriations in the current fiscal year (including ECTs) *after* Cabinet signs off the Budget package.¹⁰

¹⁰ Exceptions for unappropriated expenditure are provided in sections 26A and 26B of the Public Finance Act 1989.

Approval in principle of expense and capital transfers

- 31 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 the transfer. The Vote Minister should include the best estimate of the maximum amount to be transferred.
- 32 Transfers in principle should be considered against the same criteria as expense and capital transfers as well as the significant policy issues criterion set out in paragraph 19.
- 33 Requests from Vote Ministers for transfers in principle may be made as part of the March baseline update. Any later requests for transfers in principle should be made *after* Budget Day and *before* a deadline (expected to be around 15 June) to be specified each year in the annual Budget guidance. These will then be compiled by Treasury for the Minister of Finance to consider prior to the expiry of annual appropriations at the end of the financial year.
- 34 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). Expenses cannot be incurred against the amount transferred until this confirmation.
- 35 Note that in principle transfers are not reflected in the current year's Supplementary Estimates or upcoming year's Main Estimates. This means the only parliamentary record of the change is in the upcoming year's Supplementary Estimates. For this reason Ministers should limit the size of in principle expense or capital transfers as much as possible, for example, by actually transferring the proportion of funding of which they are sure in the March baseline update and using an in principle transfer only for the remainder. When updating forecast information, departments should use their best estimate of the actual spending patterns.

Fiscally neutral adjustments¹¹

- 36 Fiscally neutral adjustments are a reallocation of funding *within a single financial year* with no impact on the operating balance or debt, and will be considered when they are:
- 36.1 between any two annual appropriations, with the exception of benefits and other unrequited expenses and borrowing expenses; or
- 36.2 fully offset by directly related changes in third party revenue.
- 37 Fiscally neutral adjustments *cannot* be combined with expense and capital transfers, as this would breach the criteria for the latter.
- 38 Fiscally neutral adjustments may be made between capital and operating appropriations (or net asset schedules). Resulting changes in depreciation costs and capital charge should also be managed within baselines. The following guidelines apply where the operating expenses are *ongoing*:

¹¹ For transfers between output classes within a Multi-Class Output Appropriation (MCOA) and less than the agreed threshold for the MCOA, the Vote Minister should *inform* the Minister of Finance in the next baseline update. Transfers of amounts greater than the agreed threshold should be treated as FNA requests.

- 38.1 *Capital to operating*: the total sum of capital must cover ten years of the proposed operating expenses in order for the operating increase to continue into outyears; or
- 38.2 *Operating to capital*: up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing outyears operating is removed.

Technical adjustments

- 39 Technical adjustments primarily relate to technical accounting adjustments with no cash impact, e.g. a downward asset revaluation. Where an adjustment is agreed, there is no associated change in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise. Technical adjustments are also used to transfer funding in an MYA.
- 40 Changes to appropriations for technical adjustments are not automatic. It is necessary to demonstrate that the additional expenses cannot be met within existing appropriations.
- 41 Joint Ministers may approve other changes to baselines which they determine to be technical in nature, subject to the significant policy issues criterion set out in paragraph 19. For example, Cabinet has delegated authority to joint Ministers to establish and amend appropriations to give effect to Cabinet policy decisions. Such proposals will be subject to close scrutiny by Treasury to ensure they are appropriate.

Forecasting changes

- 42 Forecasting changes are used to record changes in an appropriation with Permanent Legislative Authority (PLA) *and* changes in revenue which are caused by an external factor and are not directly related to an expense (in the latter case, a Fiscally Neutral Adjustment (FNA) is used).
- 43 Forecasting changes are also used in specific instances where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) *and* agreed that there are strong policy grounds for **not** considering changes in costs at each baseline update.¹² Factors to consider when determining whether forecasting changes should be used for an item could include the ability to manage the expected changes within baselines and whether the costs relate to a statutory entitlement.
- 44 For example, Cabinet does not reconsider the policy settings for benefits whenever the costs of those benefits change, so these changes in costs are appropriately approved through baseline updates as forecasting changes. If, however, Cabinet did agree to a policy change to benefits (for example, by expanding eligibility) then the resulting increase in costs would be considered by Cabinet along with the policy change, rather than being approved through the baseline update process.
- 45 The types of forecasting changes described in paragraph 43 are not automatic and increases in costs should be met from baselines where possible. In assessing whether the proposed forecasting change raises significant policy issues and so should be considered by Cabinet, particular attention should be given to whether the changes are the result of a policy change and the size of the change.

¹² In assessing whether changes in costs currently treated as forecast changes should continue to be categorised in this way, departments should consult their Treasury Vote Analyst.

Impact of baseline updates on the Budget

- 46 The net impact of technical changes in baseline updates has always flowed through to the government's fiscal position but the intention of these guidelines is to make sure that the fiscal impact of technical changes is firstly more visible, and secondly that Ministers are able to make changes to policy settings or offsetting reductions where necessary.
- 47 The net fiscal impact of baseline updates will be reported to ECC to allow Ministers to manage the impact within the government's fiscal objectives. This will include any implications for the government's Budget which will be considered by the Minister of Finance.

Section D – Delegation

- 48 The authority of a departmental chief executive to incur expenses or capital expenditure whether under departmental appropriations or as authorised by the Minister responsible for a non-departmental appropriation may be delegated to one or more employees of the department. Any such delegation by a chief executive is to be made in writing and is to be specific as to the end of the period of the delegation. A chief executive may delegate this power to delegate.
- 49 A departmental chief executive's authority to incur expenses and capital expenditure applies to departmental appropriations only. Delegated authority for a departmental chief executive to incur expenses or capital expenditure under non-departmental appropriations must be (or have been) obtained from the Minister responsible for each non-departmental appropriation.

Limits on authority to incur certain expenses and capital expenditure

- 50 Within the bounds imposed by the specific terms of:
- 50.1 any appropriations granted by Parliament;¹³
 - 50.2 any agreement to supply outputs negotiated with a Vote Minister or third party client; and
 - 50.3 any direction given by the Minister of Finance or the Responsible Minister under section 34(b) of the Public Finance Act 1989;

departmental chief executives have full authority to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations except in relation to:

- 50.4 publicity expenses;
- 50.5 compensation or damages in settlement of claims;
- 50.6 ex gratia expenses; and
- 50.7 the purchase, development or lease of fixed assets.

¹³ To the extent property and other long term operating agreements are required to be entered into, that extend beyond any appropriations granted by Parliament, this may be done provided these costs can reasonably be expected to be met from the known, future baselines for the Vote.

- 51 It is the government's policy that proposals to incur expenses in excess of the amounts set out in the table below for the first three of these items should be referred to the Responsible Minister or to Cabinet for approval:

Expenses under departmental output expense or departmental other expense appropriations requiring approval by Responsible Minister or Cabinet¹⁴

	Responsible Minister in excess of:	Cabinet in excess of:
<i>Publicity Expenses¹⁵</i>	\$150,000	Not applicable
<i>Expenses for compensation or damages in settlement of claims¹⁶</i>	\$150,000	\$750,000
<i>Ex gratia expenses¹⁷</i>	\$30,000	\$75,000

- 52 In exercising financial authority, Responsible Ministers or departmental chief executives are to ensure that all associated costs of a proposal have been included. Requests for approvals must include the total cost of a proposal (including all sub-contracts or multiple payments relating to one instance).
- 53 The current limits, in excess of which the approval of the Responsible Minister or Cabinet is required, to incurring capital expenditure on purchase, development and lease of fixed assets, set out in [CO \(99\) 7](#), still apply and will be revised in a forthcoming circular on capital asset management.¹⁸

Further information

- 54 If you require further advice or information on fiscal management please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant [Cabinet committee secretary](#).
- 55 Further information on writing Cabinet papers can be found on the Cabinet Office's CabGuide website at <http://cabguide.cabinetoffice.govt.nz/>. Further information on financial recommendations can be found on the Treasury website at www.treasury.govt.nz.

Rebecca Kitteridge
Secretary of the Cabinet

Enquiries:

Your Treasury Vote Team

Website reference:

This circular can be found on the internet at <http://www.dpmc.govt.nz/cabinet/circulars/index.html>.

¹⁴ All amounts are GST exclusive.

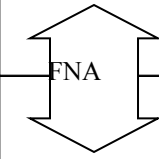
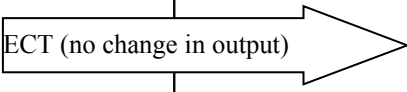
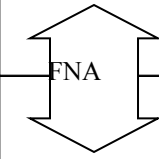
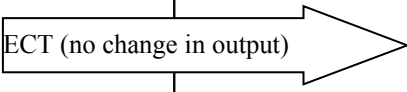
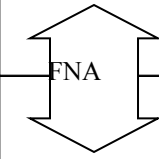
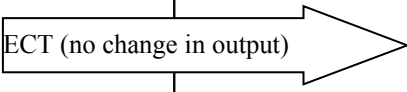
¹⁵ Advertising expenses must comply with the guidelines for government advertising set out in [Appendix B of the Cabinet Manual](#).

¹⁶ Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement. Claims under \$75,000 need not be referred to the Crown Law Office if a departmental solicitor certifies that such claims are in order.

¹⁷ Ex gratia expenses are those made in respect of claims that are not actionable at law, but for which there exists a moral obligation and payment should be made.

¹⁸ CAB Min (07) 44/11, setting out capital asset management procedures also applies.

Annex – Technical Changes to Baselines

Authority for joint Ministers to approve technical changes	<p>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 in this context is any <i>noticeable</i> change in the price, quantity or standard of what is purchased through the appropriation.</p> <p>All technical changes require agreement between joint Ministers to be approved, but proposals may be taken to Cabinet where joint Ministers do not agree.</p>							
Technical Changes to Baselines								
Expense and/or Capital Transfers (ECTs) <i>and</i> Fiscally Neutral Adjustments (FNAs)	<p>Both are fiscally neutral over the forecast period and apply to any annual appropriation except BOUEs and Borrowing Expenses.</p> <table border="1" data-bbox="395 640 1437 882"> <thead> <tr> <th></th> <th>Year 1</th> <th>Year 2</th> </tr> </thead> <tbody> <tr> <td>Appropriation A</td> <td rowspan="2" style="text-align: center;">  </td> <td rowspan="2" style="text-align: center;">  </td> </tr> <tr> <td>Appropriation B</td> </tr> </tbody> </table> <p>ECTs and FNAs cannot be combined. FNAs can shift funding within <i>each</i> year (not just Year 1).</p>		Year 1	Year 2	Appropriation A			Appropriation B
	Year 1	Year 2						
Appropriation A								
Appropriation B								
In Principle ECTs	<p>Use should be limited. Requests for transfers <i>in principle</i> should be made <i>after</i> Budget Day and <i>before</i> a deadline to be specified each year in the annual Budget guidance (expected to be around 15 June). Requests will be compiled by Treasury for consideration by the Minister of Finance.</p>							
Forecasting Changes	<p>Forecasting changes should be used where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis. Forecasting changes are not automatic and increases in costs should be met from baselines where possible.</p> <p>In assessing whether the proposed forecasting change raises significant policy issues and so should be considered by Cabinet, particular attention should be given to whether the changes are the result of a policy change and the size of the change.</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 when they arise. However, meeting such obligations would not 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>							
Technical Adjustments	<p>Technical adjustments primarily relate to technical accounting adjustments to appropriations which have no cash impact (for example, a downward asset revaluation). 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.</p> <p>Joint Ministers may consider other TA proposals that do not contain significant policy issues. For example, joint Ministers may establish or amend appropriations to give effect to Cabinet decisions.</p>							