



Cabinet Office

CO (11) 6

Circular

18 October 2011

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

Copies to All Senior Private Secretaries
 All Private Secretaries

Guidelines and Requirements for Proposals with Financial Implications

Introduction

- 1 This circular describes the guidelines and requirements for Ministers and departments seeking approval of proposals with financial implications¹.
- 2 This circular replaces Cabinet Office Circular CO (09) 6 (*Guidelines for Changes to Baselines*) and takes effect from the date of issue. The key changes in this circular from CO (09) 6 are to reflect Cabinet's intention to increase flexibility of financial management for Ministers and departments by:
 - 2.1 making Four-year Budget Plans and the Budget process the main opportunity for Ministers and departments to seek approval of proposals with financial implications; and
 - 2.2 increasing the authority of joint Ministers to approve proposals with financial implications.

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

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

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

4 Ministers and chief executives should ensure that:

- 4.1 all staff handling submissions to Cabinet, Cabinet committees, joint Ministers and for baseline updates are familiar with the guidelines and requirements in this circular;
- 4.2 the material in this circular is conveyed to all Crown entities, organisations listed in Schedule 4 of the Public Finance Act 1989 and State Owned Enterprises (SOEs) for which a Minister is responsible; and
- 4.3 all appropriate people are aware of the limits of financial authority within section D.

Section A: Making financial changes through the Budget process

- 5 All proposals that involve requests for additional funding, or that make significant changes to policy settings, must be submitted to Cabinet. These will normally be considered in the Four-year Budget Plans as part of the Budget process.
- 6 Four-year Budget Plans are the key strategic planning vehicle for agencies to propose programme and policy changes that may also require changes to the structure of appropriations and/or Votes. Four-year Budget Plans are also the most efficient way for departments to seek approval for all types of funding changes.
- 7 Changes proposed through the Four-year Budget Plan process will be approved by Cabinet. The Four-year Budget Plans help to give Cabinet a medium-term perspective on expenditure, and allow Cabinet to consider all funding proposals and changes as a package.
- 8 Once the Four-year Budget Plans are approved, the amounts allocated in the first year of the Plans become the appropriations to be included in the Estimates and the Appropriation (Estimates) Bill.
- 9 Guidance on Four-year Budget Plans and the Budget process will be provided by the Treasury.²

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

- 10 Proposals with financial implications that are considered outside of the Budget process must be submitted to Cabinet where they:
 - 10.1 are within the criteria set out in [paragraph 5.12](#) of the *Cabinet Manual*, which include significant policy issues, controversial matters, proposals that affect the Government's financial position, or important financial commitments; or
 - 10.2 meet the general rule set out in [paragraph 5.11](#) of the *Cabinet Manual*, that *Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.*
- 11 For the avoidance of doubt, paragraph 10.1 means that any proposal seeking new funding must be submitted to Cabinet.

Process

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

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

- 13 Departments must consult³ the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment.
- 14 Any funding proposal submitted to Cabinet outside the Budget process must not have been previously considered and declined. The proposal must also demonstrate that it:
 - 14.1 cannot be funded through reprioritisation from within existing baselines; and
 - 14.2 cannot be deferred until the next Budget.
- 15 All papers seeking decisions with financial implications must comply with the Treasury Guidance on Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments.⁴
- 16 The Minister of Finance, other Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Expenditure Control Committee (ECC) for consideration (in addition to consideration by the relevant policy committee) to ensure consistency with the Government's overall fiscal objectives.
- 17 Any additional funding approved outside the Budget process will be met from the between Budget (general) contingency. This is a limited amount of funding set aside as part of the annual Budget package.
- 18 Alternatively, Cabinet may decide to set aside additional funding for specific items on which it is yet to make a final decision (a tagged contingency). All tagged contingencies cease to exist after 1 February of the following year⁵, unless Cabinet agrees otherwise.
- 19 Proposals for changes to appropriations cannot be submitted for consideration between the day on which Cabinet approves the Budget package and Budget Day. This *Budget Moratorium* is necessary to ensure that the documents tabled on Budget Day accurately reflect all decisions taken by Ministers.

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

- 20 Cabinet has increased the range of changes that can be approved by the Minister of Finance and the Minister responsible for an appropriation ("joint Ministers") in order to give Ministers and departments greater flexibility in financial management. These include:⁶
 - 20.1 transferring funding between appropriations within a financial year (fiscally neutral adjustments);
 - 20.2 transferring funding within an appropriation across financial years (expense and capital transfers, and in-principle expense and capital transfers);
 - 20.3 transferring underspends to the next financial year (retention of underspends);

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

⁴ Guidance on Financial Recommendations is available on the [Treasury website](#).

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

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

- 20.4 bringing forward spending for a specific investment purpose from subsequent financial years (front-loading of spending);
- 20.5 technical adjustments; and
- 20.6 forecast adjustments.
- 21 For all changes outlined in this section, joint Ministers' approval is sought via a letter from the Minister(s) responsible for the appropriation(s) to the Minister of Finance outlining the proposal. Departments should consult and provide a copy of the letter to their Treasury Vote team so that the Treasury can advise the Minister of Finance and also ensure that the Controller and Auditor-General is aware of any changes to appropriations.
- 22 For the sake of efficiency and convenience, approval for funding changes should be sought either through the Budget process or the twice-yearly baseline update process. Making changes outside of these processes can lead to duplication of work for departments and the Treasury.
- 23 Where joint Ministers cannot agree on a proposal and one Minister still wants to proceed with it, the proposal should be referred to Cabinet through the appropriate committee.
- 24 The financial implications that arise from proposals must be included in the Estimates and/or the Supplementary Estimates for the relevant year, and in the interim (where necessary), the expenses, capital expenditure or increase in projected net assets in the current year are met from Imprest Supply. These changes should also flow through to accountability documents (such as output plans and Information Supporting the Estimates) as appropriate.
- 25 To ensure that the Supplementary Estimates are correct, changes must not be made to appropriations in the current fiscal year after Cabinet signs off the Budget package.⁷

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

- 26 Fiscally neutral adjustments are used to transfer funding between appropriations within a single financial year. For example, a fiscally neutral adjustment may be needed to give effect to a Cabinet decision to shift funding from one programme to another. Fiscally neutral adjustments have no impact on the operating balance or debt.
- 27 Fiscally neutral adjustments can be:
- 27.1 made between any two annual appropriations, except benefits and other unrequited expenses (BOUEs)⁸ and borrowing expenses; or
- 27.2 an increase to an appropriation that is fully offset by an increase in third party revenue.
- 28 Where a fiscally neutral adjustment is to be made between capital and operating appropriations, the resulting changes in depreciation and capital charge costs should be managed within baselines.

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

⁸ Fiscally neutral adjustments can be made for very limited number of "capped" BOUEs.

- 29 The following guidelines apply where the operating expenses are ongoing:
- 29.1 *Capital to operating*: the total sum of capital must cover ten years of the proposed operating expenses in order for the operating increase to continue into outyears.
- 29.2 *Operating to capital*: up to four years of operating expenses (the forecast period) may be converted into a single lump sum of capital, but the ongoing operating funding for outyears is removed.

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

- 30 Expense and capital transfers are used to transfer funding from the current year to the same appropriation in one or more of the next three years, where there is:
- 30.1 no change to the output or capital asset being purchased; and
- 30.2 no change to the total amount of expenditure across affected years.
- 31 Expense and capital transfers can be used only where a factor outside of the agency's control has caused a delay in a specific and discrete project, and the costs cannot be met from the baseline of the year to which the transfer is proposed.
- 32 The Minister's letter seeking approval for an expense and capital transfer must describe the reasons for the delay in expenditure. Funding should not be repeatedly transferred.
- 33 Expense and capital transfers can be made in any type of annual appropriation, except benefit and unrequited expenses or borrowing expenses.

In-principle expense and capital transfers

- 34 If the final amount to be transferred is not known before the end of the financial year, Ministers may seek approval in-principle for a maximum amount to transfer. The actual amount is confirmed once it is known, usually during the October baseline update process (after audited financial results for the previous financial year are available).
- 35 Approval for in-principle transfers is usually sought during the March baseline update process. Any later requests should be made after Budget Day and before the deadline specified in the annual Budget guidance (usually around 15 June). These requests are then compiled by the Treasury for the Minister of Finance to consider before the end of the financial year.
- 36 Expenses cannot be incurred against the amount transferred in-principle until the final amount has been confirmed by joint Ministers. In limited circumstances where expenses must be incurred before the audited financial results are available, Ministers can seek an early confirmation of a conservative amount, sufficient to cover necessary expenses, of that already agreed in-principle.⁹ Any remaining amount can be confirmed in the October baseline update.

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

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

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

- 38 Underspends are defined as funding remaining at the end of the financial year as a result of:
- 38.1 savings made through gains in efficiency; and/or
 - 38.2 other savings initiatives,
- where the output or service has been delivered in full (in contrast, an expense and capital transfer can be used when the output or service has not been fully delivered due to circumstances outside the department's control).
- 39 Underspends do not include, for example, funding left over as a result of lower-than-expected demand for a service, or because the amount required was originally over-estimated.
- 40 To encourage departments to make savings by improving efficiency, Cabinet has authorised joint Ministers to approve the retention of underspends within departmental expense appropriations. This funding can then be transferred to the next financial year, and also transferred to any other departmental appropriations.¹⁰
- 41 Where approval to retain underspends is sought before or in the March baseline update, the full amount can be retained. Underspends must be confirmed during the March baseline update by showing a decrease in the Supplementary Estimates and the corresponding increase in the following year's Estimates.
- 42 Where approval to retain underspends is sought after the March baseline update but before 30 June, half the amount¹¹ can be retained. Underspends must be confirmed on the basis of the audited financial results for the financial year in which underspends occurred, and the increase reflected in the following year's Supplementary Estimates. Note that this has similar reporting treatment in the Estimates and Supplementary Estimates as in-principle expense and capital transfers.
- 43 Any proposal to retain underspends made after 30 June will be declined.

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

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

- 44 Proposals to retain underspends must explain:
- 44.1 how underspends arose (as per paragraph 38); and
 - 44.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

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

- 45 Front-loading of spending can be used to bring forward funding in any departmental expense appropriation¹² within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears.
- 46 Proposals to front-load spending must explain:
- 46.1 how the investment or project will permanently and sustainably reduce expenditure in outyears;
 - 46.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated; and
 - 46.3 what other funding options were considered and why the front-loading of spending is the preferred option.
- 47 The amount of detail required for any proposal to front-load spending is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, according to the criteria in paragraph 10.
- 48 All capital proposals must satisfy the requirements of Cabinet Office Circular [CO \(10\) 2](#) (*Capital Asset Management in Departments and Crown Entities: Expectations*) where necessary and appropriate, and these prevail over the rules provided in this circular.

Technical adjustments

- 49 Technical adjustments include:
- 49.1 technical accounting adjustments with no cash impact, such as asset revaluations (where such adjustments are agreed, there is no associated change in revenue Crown and any increase cannot be used for alternative output expenses if the forecast expenses do not arise);
 - 49.2 automatic adjustments (both upwards and downwards) to departmental baselines for rate changes, asset revaluations, and accounting policy changes related to capital charge;
 - 49.3 changing the indicative spending profile for a multi-year appropriation (MYA); and
 - 49.4 establishing or amending the title and scope of appropriations (where the changes do not meet the criteria for submission to Cabinet).

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

Forecast adjustments

- 50 Forecast adjustments include:
- 50.1 changes to the amount to be incurred under a Permanent Legislative Authority (PLA);
 - 50.2 changes in revenue (mainly Crown revenue) that are caused by an external factor and are not directly related to an expense;¹³ and
 - 50.3 where Cabinet has agreed to a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for not considering changes in costs at each baseline update. Approval of forecast changes in this circumstance is not automatic and consideration should be given to whether increased costs can be met from baselines.
- 51 Changes in forecast expenditure due to policy decisions cannot be approved as forecast changes, but must be considered as part of the change in policy.

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

- 52 A departmental chief executive's authority to incur expenses and capital expenditure applies to departmental appropriations only. Delegated authority for a departmental chief executive to incur expenses or capital expenditure under non-departmental appropriations must be obtained from the Minister responsible for each non-departmental appropriation.
- 53 Departmental chief executives may delegate authority to incur expenses or capital expenditure to one or more employees of the department. Delegations must be made in writing and specify when the delegation period ends. Chief executives may also delegate this power to delegate.

Limits on authority to incur certain departmental expenses and capital expenditure

- 54 Within the bounds imposed by the specific terms of:
- 54.1 any appropriations granted by Parliament;¹⁴
 - 54.2 any agreement to supply outputs negotiated with a Minister responsible for the appropriation or third party client; and
 - 54.3 any direction given by the Minister of Finance or the Responsible Minister under section 34(b) of the Public Finance Act 1989;

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

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

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

- 54.4 publicity expenses;
- 54.5 compensation or damages in settlement of claims;
- 54.6 ex gratia expenses; and
- 54.7 the purchase, development or lease of fixed assets.¹⁵

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

Expenses under departmental output expense or departmental other expense appropriations requiring approval by the Minister responsible for the appropriation or Cabinet¹⁶

Expense type	Minister responsible for the appropriation – in excess of:	Cabinet – in excess of:
<i>Publicity Expenses¹⁷</i>	\$150,000	Not applicable
<i>Expenses for compensation or damages in settlement of claims¹⁸</i>	\$150,000	\$750,000
<i>Ex gratia expenses¹⁹</i>	\$30,000	\$75,000

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

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

¹⁶ All amounts are GST exclusive.

¹⁷ Advertising expenses must comply with the guidelines for government advertising set out in [Appendix B](#) of the *Cabinet Manual*.

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

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

Section E: Further information

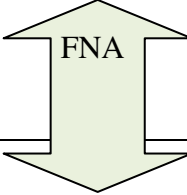
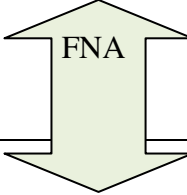
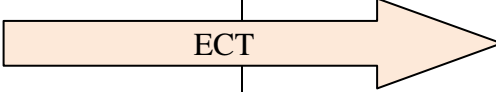
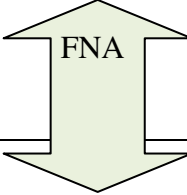
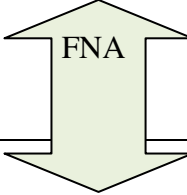
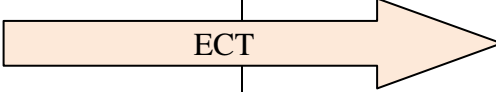
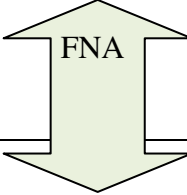
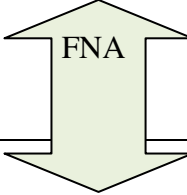
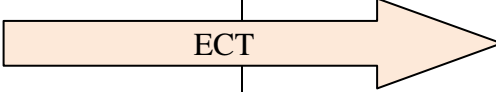

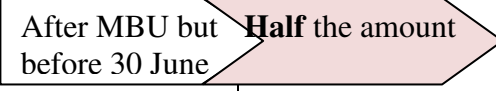
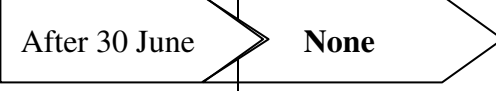

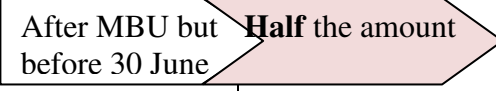
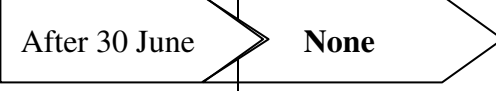

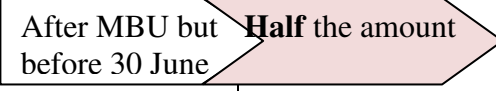
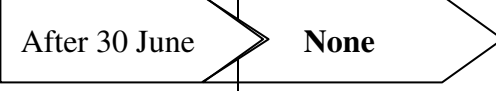
- 57 If you require further advice or information please contact your Treasury Vote Analyst. If you require further advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.
- 58 Further information on writing Cabinet papers can be found on the Cabinet Office's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

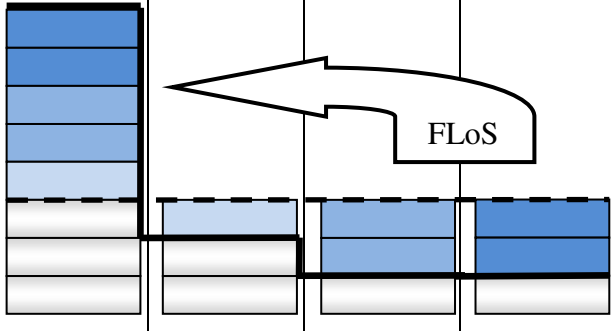
Rebecca Kitteridge
Secretary of the Cabinet

Enquiries:

Your Treasury Vote Team

Annex – Financial management outside the Budget process

<p>Types of financial changes that can be approved by joint Ministers</p>	<p>Outside of Four-year Budget Plans and the Budget process, joint Ministers can approve proposals with financial implications unless they are within:</p> <ul style="list-style-type: none"> the criteria set out in paragraph 5.12 of the <i>Cabinet Manual</i>; or the general rule in paragraph 5.11 of the <i>Cabinet Manual</i> in which case they must go to Cabinet for approval. <p>Any proposal seeking new funding is a matter that must be submitted to Cabinet.</p>										
<p>Fiscally Neutral Adjustments (FNAs) and Expense and/or Capital Transfers (ECTs)</p>	<p>Any annual appropriations except BOUEs and Borrowing Expenses</p> <table border="1" data-bbox="443 745 1278 1155"> <thead> <tr> <th></th> <th>Year 1</th> <th>Year 2</th> </tr> </thead> <tbody> <tr> <td>Appropriation I</td> <td style="text-align: center;">  </td> <td style="text-align: center;">  </td> </tr> <tr> <td>Appropriation II</td> <td colspan="2" style="text-align: center;">  </td> </tr> </tbody> </table> <p>ECTs and FNAs cannot be combined.</p>		Year 1	Year 2	Appropriation I			Appropriation II			
	Year 1	Year 2									
Appropriation I											
Appropriation II											
<p>In-principle ECTs</p>	<p>Requests for in-principle ECTs should be made through the March baseline update or after Budget Day and before a deadline to be specified each year in the annual Budget guidance. Requests will be compiled by the Treasury for consideration by the Minister of Finance.</p>										
<p>Retention of Underspend (RoUs)</p>	<p>Applies only to departmental expense appropriations</p> <table border="1" data-bbox="443 1563 1278 1966"> <thead> <tr> <th></th> <th>Year 1</th> <th>Year 2</th> </tr> </thead> <tbody> <tr> <td rowspan="3">All departmental Appropriations</td> <td colspan="2" style="text-align: center;">  </td> </tr> <tr> <td colspan="2" style="text-align: center;">  </td> </tr> <tr> <td colspan="2" style="text-align: center;">  </td> </tr> </tbody> </table>		Year 1	Year 2	All departmental Appropriations						
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Front-loading of Spending (FLoS)		Year 1	Year 2	Year 3	Year 4 & Outyears
	Appropriation				
	<p>Front loading of spending can be considered only in circumstances where the proposal will permanently and sustainably reduce expenditure in outyears.</p>				
Technical adjustments	<ul style="list-style-type: none"> • Accounting adjustments (such as asset revaluation) • Changes to capital charge • Changes to the profile of MYA • Establishing and amending the title and scope of appropriations 				
Forecast changes	<ul style="list-style-type: none"> • Changes to the amount of a PLA • Changes in Crown revenue • Where Cabinet has agreed a specific metric for determining costs based on an external variable (such as demand) and agreed that there are strong policy grounds for considering changes in costs only on an intermittent basis <p>Forecasting changes are not automatic and increases in costs should be met from baselines where possible.</p>				