



---

**Intended for**

- All Ministers
- All Chief Executives
- Speaker of the House
- Controller and Auditor-General
- All Senior Private Secretaries
- All Private Secretaries

---

## Proposals with Financial Implications and Financial Authorities

### Introduction

- 1 This circular sets out the guidelines and requirements for Ministers and departments seeking approval of proposals with financial implications, changes to appropriations, and the authority to incur expenses.
- 2 The circular replaces Cabinet Office Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* and takes effect from the date of issue. The key changes in this circular are:
  - 2.1 capturing the amendments made in 2013 to the Public Finance Act 1989 (PFA), which among other things:
    - 2.1.1 provide Ministers and departments with increased flexibility to allocate resources to where they are needed most while retaining appropriate Cabinet scrutiny (e.g. through the use of Multi-category appropriations (MCA));
    - 2.1.2 make clear the delegations given to departments (through chief executives and their delegates);
  - 2.2 capturing process and rule changes agreed by Cabinet since CO (11) 6 came into force (e.g. around the role of Four Year Plans, capital charge).
- 3 Ministers and chief executives should ensure that:
  - 3.1 the material in this circular is conveyed to all departments, departmental agencies, Crown entities, PFA Schedule 4 organisations, PFA Schedule 4A companies and State-Owned Enterprises for which a Minister is responsible;
  - 3.2 all staff handling submissions to Cabinet, Cabinet committees, or joint Ministers are familiar with the guidelines and requirements set out in Sections A and B of this circular.

- 4 Sections A and B of this circular cover the types of financial changes and associated mechanisms listed in the table below.

Section	Types of financial change	Mechanisms
Section A: Proposed changes that must be approved by Cabinet	All proposals that meet the criteria set out in paragraphs 5.11 and 5.12 of the Cabinet Manual (includes all requests for additional funding)	Budget initiatives process
		Cabinet paper
Section B: Proposed changes that can be approved by joint Ministers	Transfers between appropriations and/or departmental capital injections within a financial year	Fiscally neutral adjustments
	Transfers within an appropriation or departmental capital injection across financial years	Expense and capital transfers In-principle expense and capital transfers
	Transfers of departmental underspends to the next financial year	Retention of underspends
	Bringing forward of departmental spending from future financial years	Front-loading of spending
	Technical adjustments and approvals	
	Forecasting adjustments	

- 5 Section C of this circular describes the ways in which departments have authority to use departmental and non-departmental appropriations and sets out some restrictions on that authority.
- 6 Section D sets out where to go for further information.

### Other areas of guidance that should be considered alongside this circular

- 7 The guidance outlined in this circular should be viewed alongside the following other areas of guidance (where applicable):
- 7.1 The [CabGuide](#);
- 7.2 Other [Cabinet Office Circulars](#),<sup>1</sup> in particular *Investment Management and Asset Performance in the State Services* (CO (15) 5 to be published shortly);

<sup>1</sup> Cabinet Office Circulars complement the Cabinet Manual and CabGuide and provide detailed guidance on central government processes.

- 7.3 [Treasury Circulars](#),<sup>2</sup> including the annual Treasury Budget Circular (normally issued in December or January each year) and annual Guidance for the Four Year Plan Process;
- 7.4 [Treasury Instructions](#).<sup>3</sup>

## Terms and definitions

- 8 Terms used in this circular are defined or explained in the Annex.

## Section A: Proposed financial changes that must be approved by Cabinet

- 9 Proposals with financial implications should be submitted to Cabinet where they:
- 9.1 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
- 9.2 meet the general rule set out in paragraph 5.11 of the Cabinet Manual, which states that Ministers should put before their colleagues the sorts of issues on which they themselves would wish to be consulted.
- 10 Proposals with financial implications that do not warrant Cabinet consideration, such as those outlined in Section B below, can be submitted for agreement by joint Ministers.
- 11 If there is any doubt as to whether a matter warrants Cabinet consideration as per the criteria described in paragraph 9 above, Ministers and officials should err on the side of caution and assume that it does.
- 12 For the avoidance of doubt, any proposal with financial implications (e.g. requesting additional funding) must be submitted to Cabinet,<sup>4</sup> unless it meets the criteria for approval by joint Ministers as set out in Section B of this circular, or is covered by a delegation as set out in Section C of this circular, or Cabinet has otherwise provided a prior delegation to joint Ministers to take a decision on a particular matter (e.g. drawing down tagged contingency funding).
- 13 Ideally all proposals with financial implications that require Cabinet approval should be submitted through the Budget initiatives process. This allows Cabinet to rank all proposals, in terms of fit with government priorities and affordability within available allocations, and develop a Budget package.
- 14 Once Cabinet decisions on the Budget have been made, the resulting proposed changes to appropriations will be included in the Estimates and the Appropriation (Estimates) Bill.

---

<sup>2</sup> Treasury Circulars are intended primarily for departments (though sometimes apply to Crown entities, State-Owned Enterprises, PFA Schedule 4 organisations and PFA Schedule 4A companies) and are usually addressed to Chief Executives and Chief Financial Officers.

<sup>3</sup> Treasury Instructions are issued to departments under section 80(1) of the PFA.

<sup>4</sup> This includes proposals that meet criteria specified in Annex 1 of the Cabinet Office Circular *Investment Management and Asset Performance in the State Services* (CO (15) 5 to be published shortly).

15 Guidance on the Budget process and timeframes will be provided by the Treasury.<sup>5</sup>

### **Process for submitting funding proposals to Cabinet outside of the Budget process**

16 From time to time Ministers will find it necessary to submit papers with funding implications to Cabinet outside of the Budget process, e.g. to address urgent matters that have arisen.

17 Any funding proposal submitted to Cabinet outside of the Budget process must not have been previously considered and declined by Cabinet. The submission must also demonstrate that the proposal cannot be:

17.1 funded through reprioritisation from within existing baselines; or

17.2 deferred until the next Budget.

18 Proposals for new or changes to existing appropriations or departmental capital injections cannot be submitted for consideration during the Budget moratorium. This is necessary to ensure that documents tabled in the House on Budget Day accurately reflect all decisions taken by Cabinet.

19 The [CabGuide](#) provides that:

19.1 the appropriation Minister must personally consult the Minister of Finance before submitting a paper seeking additional funding to Cabinet or a Cabinet committee (this includes seeking funding from tagged contingencies). The appropriation Minister 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.<sup>6</sup>

19.2 departments must consult the Treasury<sup>7</sup> at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations that affect levels of expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. Treasury's views must be reflected accurately in the paper. If requested by the Treasury, the Cabinet paper should include Treasury comments and/or alternative recommendations without amendment. The Cabinet Office may reject papers where it appears the necessary consultation has not taken place.

20 All papers seeking decisions with financial implications must include recommendations that comply with relevant Treasury guidance.<sup>8</sup>

---

<sup>5</sup> See the [Treasury website](#) for guidance documents, and [CFISnet](#) for Treasury Circulars that relate to the Budget process.

<sup>6</sup> See also <http://www.dPMC.govt.nz/cabinet/cabinet/advice> for information on requirements for Cabinet papers.

<sup>7</sup> All consultation should be indicated in the Cabinet paper and on the [CAB 100 consultation form](#).

<sup>8</sup> Refer [Writing Financial Recommendations for Cabinet and Joint Minister Papers: Technical Guide for Departments](#).

- 21 Recommendations seeking ‘approval-in-principle’ decisions to fund proposals outside of the Budget process should be avoided, wherever possible. If such recommendations are unavoidable, then they must be accompanied by a recommendation noting that consideration of whether or not to fund the initiative will be considered as part of the Budget process alongside other expenditure priorities (i.e. funding is not guaranteed and cannot be accessed until explicit approval has been obtained).
- 22 The Minister of Finance, appropriation Ministers and Cabinet committees have the option of referring papers with financial implications to the Cabinet Committee on State Sector Reform and Expenditure Control for consideration (in addition to consideration by the relevant policy committee), to ensure consistency with the government’s overall fiscal objectives.
- 23 Any additional funding approved outside of the Budget process will be met from the between-Budget contingency.
- 24 On occasions Cabinet may establish and set aside additional funding in a tagged contingency for a specific proposal, pending further information before a final decision is taken on whether to proceed. Though tagged, the funding cannot be accessed until final Cabinet approval has been obtained.<sup>9</sup> All tagged contingencies cease to exist on 1 February of the following year,<sup>10</sup> unless Cabinet agrees otherwise.

## **Section B: Proposed financial changes that can be approved by joint Ministers**

- 25 Joint Ministers can approve the following changes to baselines, subject to the “significant policy issues” criterion outlined in paragraph 9.1 above:
- 25.1 *Fiscally neutral adjustments (FNAs):*
- 25.1.1 transfers between appropriations or between appropriations and departmental capital;
- 25.1.2 departmental capital injections fully offset by departmental capital withdrawals;
- 25.1.3 increases to appropriations fully offset by increases in third party funding, within a single financial year;
- 25.2 *Expense and capital transfers (ECTs) and In-principle expense and capital transfers (IPECTs)*
- transfers from an appropriation or departmental capital injection across financial years;
- 25.3 *Retention of underspends (RoUs):*
- transfers of departmental output expense appropriation underspends to the next financial year;

<sup>9</sup> Cabinet may delegate final approval to joint Ministers.

<sup>10</sup> For example, a tagged contingency created in Budget 2016 will cease to exist on 1 February 2017.

25.4 *Front-loading of spending (FLoS):*

bringing forward of departmental output expense appropriations from future financial years;

25.5 technical adjustments and technical approvals;

25.6 forecast adjustments.

- 26 For all changes outlined in this section, joint Ministers' approval is sought via a written submission from the appropriation Minister to the Minister of Finance outlining the proposal. Departments should consult with and provide a copy of the submission to their Treasury Vote team, so that the Treasury can advise the Minister of Finance and ensure the Controller and Auditor-General is aware of any changes to appropriations and/or departmental capital injections.
- 27 For the sake of efficiency and convenience, approval for baseline changes should be sought through either the annual Budget process or one of the Baseline update processes.
- 28 Where joint Ministers cannot agree on a proposal and one Minister still wishes to proceed with it, the proposal should be referred to Cabinet through the appropriate Cabinet committee.
- 29 Changes to appropriations, departmental capital injections and departmental capital withdrawals arising from proposed baseline changes must be included in the Estimates or the Supplementary Estimates, as necessary, and any increased expenses, capital expenditure or departmental capital injections met in the interim from Imprest Supply. Where applicable, changes should also be reflected in relevant accountability documents.
- 30 To ensure the Supplementary Estimates are accurate, changes must not be made to appropriations relating to the current fiscal year after Cabinet has signed off the Budget package,<sup>11</sup> except in very rare and exceptional situations where it has been agreed that there are to be additional Supplementary Estimates and a Supplementary Order Paper to the Appropriation (Supplementary Estimates) Bill.<sup>12</sup>

**Transfers between appropriations and/or departmental capital injections within a financial year – fiscally neutral adjustments**

- 31 FNAs are used to transfer funding between appropriations and/or departmental capital within a single financial year.
- 32 The overriding principle is that FNAs must have no impact on the operating balance or debt (except in the case of operating and capital 'swaps', where there are equal and offsetting impacts on the operating balance and debt).

---

<sup>11</sup> Except for transfers between output expense appropriations as provided for in section 26A of the PFA.

<sup>12</sup> Alternative mechanisms for unappropriated expenditure are provided for in section 26B of the PFA.

- 33 FNAs can be:
- 33.1 made between any two annual appropriations, except benefits or related expenses<sup>13</sup> and borrowing expenses; or
  - 33.2 made between any two Multi-year appropriations (MYA), or between a MYA and an annual appropriation;<sup>14,15</sup> or
  - 33.3 departmental capital injections fully offset by departmental capital withdrawals; or
  - 33.4 capital and operating ‘swaps’, i.e. departmental capital injections or withdrawals, or increases or decreases in non-departmental capital expenditure appropriations, fully offset by decreases or increases, respectively, in expense appropriations (see paragraphs 35-36 below); or
  - 33.5 increases to appropriations fully offset by increases in third party revenue.<sup>16,17</sup>
- 34 Where a FNA affects the level of departmental capital, the resulting changes in depreciation and capital charge costs should be managed within baselines.<sup>18</sup>
- 35 Where a swap falls entirely within the baseline horizon, to be fiscally neutral the corresponding increases and decreases in operating and capital must offset each other.
- 36 Where a swap is to be ongoing, i.e. extend beyond the baseline horizon, to be fiscally neutral the following conditions apply:
- 36.1 capital to operating: the total sum of capital must cover ten years of the proposed operating expenses;
  - 36.2 operating to capital: up to four years of operating expenses may be converted into a single lump sum of capital, but ongoing operating funding is removed.
- 37 The conditions in paragraph 36 above simply reflect the government’s fiscal management approaches for capital (ten-year horizon) and operating (baseline horizon), respectively. They are not based on any assessment of the average useful life of any particular assets or classes of assets. Where these conditions are not met, any proposal should be submitted to Cabinet for consideration.

### **Transfers from an appropriation or departmental capital injection across financial years – expense and capital transfers**

- 38 ECTs are used to transfer funding from an appropriation or departmental capital injection in one financial year to the same appropriation or departmental capital injection in one or more of the next three financial years, where there is no change to the:

<sup>13</sup> FNAs can be made for a very limited number of ‘capped’ benefits and related expenses.

<sup>14</sup> Except for MYAs relating to historical Treaty of Waitangi settlements, which cannot be part of a FNA.

<sup>15</sup> Where the FNA involves a MYA, the adjustment must be fiscally neutral over the period of the MYA, but need not be fiscally neutral in any particular financial year.

<sup>16</sup> Third party fees are meant only to recover costs and not to generate a surplus, as this could be viewed as a tax; Parliament’s explicit approval is needed to impose a tax.

<sup>17</sup> For MCAs any increase in revenue should only be used to recover costs within the specific category for which the third party revenue is generated.

<sup>18</sup> Refer also to CAB Min (10) 41/9 *Capital Charge Rules for Departments and Statutory Crown Entities*.

38.1 output or capital asset being purchased;

38.2 total amount of spending across the affected years.

- 39 ECTs can be used only where a factor outside of the department's control has caused a delay in a specific and discrete project and the costs cannot be met from the baseline of the year(s) to which the transfer is proposed.
- 40 The appropriation or responsible Minister's submission seeking approval for an ECT must describe the reason for the delay in spending. Funding for a specific and discrete project should not be repeatedly transferred.
- 41 ECTs can be made in relation to any type of annual appropriation,<sup>19</sup> except for benefits or related expenses, borrowing expenses, and revenue dependent appropriations.<sup>20</sup> ECTs do not apply to MYAs or Permanent Legislative Authorities (PLA).
- 42 Where the ECT relates to transfer of funding from a departmental capital injection, departmental output expense appropriations may need to be adjusted to reflect any related operating expenses (and funding) provided for as part of the decision that will no longer be incurred (or required) in that year.
- 43 ECTs and FNAs cannot be combined.

### **In-principle expense and capital transfers**

- 44 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 for transfer is then confirmed once known, usually as part of the October Baseline Update (after audited financial results for the previous financial year have become available).
- 45 Approval for IPECTs is usually sought through the March Baseline Update process. Approval cannot be sought during the Budget moratorium. Any later requests should be made after Budget Day and before the deadline specified in the Budget guidance document (this is usually around 15 June). These later requests are then compiled by the Treasury for the Minister of Finance's consideration before the end of the financial year.
- 46 Where funding has been transferred to the next financial year in-principle, incurring of expenses or capital expenditure or capital injections cannot occur until the final amount for transfer has been confirmed by joint Ministers. In limited circumstances where expenses or capital expenditure or capital injections need to be incurred before the audited financial results have become available, Ministers can seek early confirmation of a conservative portion of the amount agreed in-principle,<sup>21</sup> sufficient to cover necessary expenses or capital expenditure or capital injection. The balance can subsequently be confirmed in the October Baseline Update.

---

<sup>19</sup> This includes MCAs.

<sup>20</sup> Refer [section 21 of the PFA](#).

<sup>21</sup> 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 were greater than the audited underspend, the transfer would have a fiscal impact rather than be fiscally neutral across the two financial years.



- 47 On the basis of their greater transparency, ECTs are preferred to IPECTs. In the case of an ECT, the reduction in baseline is included in the Supplementary Estimates for the current year and the corresponding increase in the Estimates for the following year, both of which are tabled on Budget day. However, for an IPECT, neither the reduction nor increase in baseline is picked up in these documents; rather, (only) the increase in baselines is reflected in the Supplementary Estimates for the following year.

### **Transfers of departmental underspends to the next financial year – retention of underspends**

- 48 Underspends are defined as funding remaining at the end of the financial year as a result of:
- 48.1 savings made by the department through gains in efficiency; or
  - 48.2 other savings initiatives, where the department has delivered the output or service in full (in contrast, an ECT can apply when the output or service has not been fully delivered due to circumstances outside of the department's control).
- 49 Underspends do not include funding left over as a result of lower-than-expected demand for a service, or because the amount required was originally over-estimated.
- 50 To encourage the making of savings through efficiency, Cabinet has authorised joint Ministers to approve RoUs within departmental output expense appropriations and departmental output expense categories of MCAs. If approved, this funding can then be transferred to the next financial year to any departmental output expense appropriations and/or departmental output expense categories of MCAs.
- 51 RoUs cannot be used in relation to any other appropriation types or departmental capital injections.
- 52 Where a RoU is sought and agreed prior to or as part of the March Baseline Update, the full amount can be retained. The March Baseline Update must show a reduction in the appropriation for the current year and an offsetting increase(s) in the relevant appropriation(s) for the following year. The changes will then be included in the Supplementary Estimates and Estimates.
- 53 Where a RoU is sought and agreed after the March Baseline Update and before 30 June, up to half of the amount<sup>22</sup> can be retained. The underspend must be confirmed on the basis of audited financial results for the financial year in which the RoU was sought, and the increase included in the following year's Supplementary Estimates. Note that this is similar reporting treatment in the Estimates and Supplementary Estimates as for IPECTs.
- 54 Joint Ministers cannot approve any proposal to retain underspends received after 30 June.
- 55 RoU proposals must explain:
- 55.1 how the underspends arose (as per paragraph 48 above);

---

<sup>22</sup> The distinction between the amount of underspend that can be retained depending on the timing of the request largely reflects the fact that the government's borrowing requirements for the current fiscal year are calculated on the basis of baselines as they stand at the March Baseline Update. In addition, it provides an incentive for agencies to manage baselines effectively and identify underspends early.

- 55.2 what the transferred funding will be used for, and why it should be retained rather than returned to the centre.

### **Bringing forward departmental spending from future financial years – front-loading of spending**

- 56 FLoS can be used to bring forward funding from any departmental output expense appropriation or departmental output expense category of a MCA within the forecast period, for specific activities that will permanently and sustainably reduce spending in outyears.
- 57 FLoS cannot be used in relation to any other appropriation or category types or departmental capital injections.
- 58 FLoS proposals must explain:
- 58.1 how the activity will permanently and sustainably reduce spending in outyears;
- 58.2 any risks that the proposal will not deliver the expected savings, and how these can be mitigated;
- 58.3 what other funding options were considered, and why FLoS is the preferred option.
- 59 The amount of detail required for any FLoS proposal is proportional to the amount requested. Proposals to front-load significant amounts of funding may need to be submitted to Cabinet, as per the criteria described in paragraph 9 above.

### **Technical adjustments and approvals**

- 60 Technical adjustments include:
- 60.1 accounting adjustments with no cash impact, such as asset revaluations and impairments;<sup>23</sup>
- 60.2 automatic adjustments (both upwards and downwards) to departmental baselines related to capital charge (i.e. for rate changes, asset revaluations and accounting policy changes);
- 60.3 shifting the indicative spending profile between financial years for a MYA, with no change to the overall appropriation;
- 60.4 shifting the indicative spending profile between categories of a MCA, with no change to the overall appropriation;<sup>24</sup>
- 60.5 the necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal;

<sup>23</sup> Where such adjustments are agreed, there is no associated change in revenue Crown and any increase in appropriation cannot be used for other purposes if the forecast expenses do not eventuate.

<sup>24</sup> Where there are changes affecting the overall appropriation (e.g. FNAs or ECTs), other rules in the circular apply as appropriate.

- 61 Technical approvals by joint Ministers are also sometimes necessary to give effect to policy and funding decisions already taken by Cabinet. As a general rule, Ministers can seek the Minister of Finance’s agreement to matters that are technical in nature, subject to the “significant policy issues” criterion described in paragraph 9.1 above. These include establishing and amending appropriations (including their titles and scope statements),<sup>25</sup> or adding categories to existing MCAs, to give effect to Cabinet policy and funding decisions.

### Forecast adjustments

- 62 Forecast adjustments include:
- 62.1 changes to the amount to be incurred under a PLA;<sup>26</sup>
  - 62.2 changes in revenue (mainly Crown revenue) that are the result of an external factor and are not directly related to an expense;<sup>27</sup>
  - 62.3 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.<sup>28</sup>
- 63 Forecast adjustments relate to existing policy settings. Any changes in forecast spending that are the result of a policy decision are considered and agreed as part of that policy decision.

## Section C: Departmental authority to incur expenses and capital expenditure

### General position

- 64 All appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.
- 65 The source of a department’s authority to incur expenses and capital expenditure under an appropriation on behalf of the Crown differs depending on whether the appropriation is:<sup>29</sup>
- 65.1 for departmental expenses or capital expenditure, or for non-departmental expenses or capital expenditure;
  - 65.2 a MCA; or
  - 65.3 administered by the department incurring the expense or by another department.

<sup>25</sup> Note that section 7B of the PFA provides that establishing a MCA requires the Minister of Finance’s approval.

<sup>26</sup> These include changes to departmental capital expenditure (refer section 24(1) of the PFA).

<sup>27</sup> Changes in revenue with corresponding changes in expenses are considered FNAs, as discussed in paragraphs 31-37 above.

<sup>28</sup> Approval of forecast changes in this circumstance is not automatic, and consideration should be given to whether increased costs can be met from within baselines.

<sup>29</sup> Refer to section 7C(2)(c) of the PFA.

66 The general position for when a department has authority to incur expenses and capital expenditure is summarised in the table below.

	<b>Appropriation is administered by the department incurring the expense</b>	<b>Appropriation is administered by another department</b>
<b>Departmental appropriations</b>	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator
<b>Non-departmental appropriations</b>	In accordance with the terms of the delegation from the appropriation Minister	No authority
<b>MCAs</b>	Authority from Cabinet to incur expenses and capital expenditure, in accordance with this circular	At the direction of the appropriation Minister or with the agreement of the appropriation administrator <sup>30</sup>

67 Regardless of the source of the authority, for all appropriations under which they are authorised to incur expenses and capital expenditure, departments must comply with:

- 67.1 the PFA, including ensuring that all expenditure is within the scope, amount and period of the appropriation;<sup>31</sup>
- 67.2 any direction given by the Minister of Finance or the responsible Minister under section 34(1)(b) of the PFA;
- 67.3 all applicable requirements set out in this circular;
- 67.4 where the expenses or capital expenditure relate to an investment, Cabinet Office Circular *Investment Management and Asset Performance in the State Services* (CO (15) 5 to be published shortly).

### **Departments' authority to use departmental appropriations that they administer**

68 Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular.

69 Departmental chief executives' authority to spend under departmental appropriations is subject to any agreement:

- 69.1 to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third party client; or

<sup>30</sup> While section 7C(2)(c) of the PFA does not provide that a department can only use departmental categories of a MCA administered by another department, this is how the Treasury is interpreting the provision. (It also flows from the fact that a department cannot use a non-departmental appropriation administered by another department.)

<sup>31</sup> It is permissible for a department to enter into property and other long-term operating agreements that extend beyond any appropriations granted by Parliament, provided there is a reasonable need to do so and the costs associated with the transaction can reasonably be expected to be met from known, future departmental baselines. The department still has to make sure that there are appropriations in place every year to cover the agreement.

69.2 with another department, under which that other department may use the appropriation.

70 The terms of a direction from the appropriation Minister to another department regarding the use of an appropriation may also impact on the appropriation administrator's use of that appropriation.

71 Proposals to incur expenses<sup>32</sup> in relation to publicity, compensation or damages in settlement of claims, or ex gratia payments must be referred to the chief executive, appropriation Minister or Cabinet for approval, as set out in the table below. In determining whether the expenses fall within the approval thresholds, the appropriation Minister or the departmental chief executive must ensure that all associated costs (e.g. sub-contracts or multiple payments relating to one overall transaction) have been included.

Type of expense	Amount (GST excl.)	Approval required	Comment
Publicity expenses	\$150,000 or less	Chief executive (or his or her delegate)	Advertising expenses must comply with the guidelines for government advertising set out in <a href="#">Appendix B of the Cabinet Manual</a>
	More than \$150,000	Appropriation Minister	
Compensation or damages in settlement of claims	\$150,000 or less	Chief executive (or his or her delegate)	Claims under \$75,000 should be certified by the department's Chief Legal Advisor as being in order, or should otherwise be endorsed by the Crown Law Office
	More than \$150,000 and up to \$750,000	Appropriation Minister	Expenses for compensation or damages in settlement of claims should be endorsed either by the Crown Law Office or a court judgement
	More than \$750,000	Cabinet	
Ex gratia expenses	\$30,000 or less	Chief executive (or his or her delegate)	An ex gratia payment is a payment made without the giver recognising any liability or legal obligation; the payment is made out of goodwill or a sense of moral obligation
	More than \$30,000 and up to \$75,000	Appropriation Minister	
	More than \$75,000	Cabinet	

<sup>32</sup> Such expenses would be incurred under a departmental output expense or departmental other expense appropriation.

## Departments' authority to use non-departmental appropriations and appropriations administered by another department

- 72 Departments can only use non-departmental appropriations that they administer in accordance with the terms of the delegation from the appropriation Minister (and any sub-delegation from the chief executive).<sup>33</sup> Departments have no authority to use non-departmental appropriations administered by another department.
- 73 For MCAs that a department administers, Cabinet has given authority to departments (through their chief executives) to incur expenses and capital expenditure in accordance with this circular. Departments may only use MCAs administered by another department at the direction of the appropriation Minister or with the agreement of the appropriation administrator.
- 74 The direction or agreement must be in writing. An agreement between departments should be signed by the chief executives (or persons with express delegated authority). The authority to incur expenses should be given to the chief executive, with the ability for the chief executive to sub-delegate to other persons.
- 75 Departments should review delegations for non-departmental appropriations at the start of each financial year with appropriation Ministers, to ensure they remain up to date and that approvals are documented.

## Section D: Further information

- 76 If you require further advice or information on expectations of departments around proposals with financial implications and financial authorities, please contact your Treasury Vote team. Guidance on writing financial recommendations can be found on the Treasury's website at <http://www.treasury.govt.nz/publications/guidance/planning/finrecs>.
- 77 Information on writing Cabinet papers can be found on the Cabinet Office's website at <http://cabguide.cabinetoffice.govt.nz/>. If you require advice or information about Cabinet procedures, please contact the relevant Cabinet committee secretary.

Michael Webster  
Secretary of the Cabinet

---

Enquiries: your Treasury Vote team.

<sup>33</sup> Further information on the administration and use of appropriations can be found at <http://www.treasury.govt.nz/statesector/2013reform/pdfs/sspfr-admin-guidance.pdf>

## Annex – terms and definitions

Annual appropriation	An appropriation for a period of one financial year (1 July to 30 June) and lapsing at the end of that year
Appropriation	<ul style="list-style-type: none"> <li>· The basis on which Parliament authorises the Crown and Offices of Parliament to incur expenses and capital expenditure</li> <li>· Is defined by amount, type, scope and period</li> <li>· Is the responsibility of the appropriation Minister</li> <li>· Is administered by the appropriation administrator, on behalf of the appropriation Minister</li> <li>· See Treasury’s <a href="#">Guide to Appropriations</a> for further information</li> </ul>
Appropriation administrator	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Appropriation Minister	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Baseline horizon	The approved level of departmental and non-departmental resources for the current and four subsequent financial years
Baseline update	The process through which Cabinet spending decisions since the previous update are captured and joint Ministers agree changes to baselines, usually occurring twice-yearly in March (March Baseline Update) and October (October Baseline Update)
Between-Budget contingency	A limited amount of funding set aside as part of the annual Budget package to provide for decisions made between one Budget and the next
Budget moratorium	The period beginning on the day Cabinet approves the Budget package and ending after the Minister of Finance has delivered the Budget, during which proposals for changes to appropriations or departmental capital injections cannot be submitted for consideration
Departmental	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Departmental capital injection	An injection of capital, usually cash but can be other assets, made by the Crown to a department or Office of Parliament to increase the Crown’s net asset holding in the department or Office of Parliament
Estimates	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Expense and capital transfer (ECT)	A transfer from an appropriation or departmental capital injection across financial years, as provided for in paragraphs 38-43 of this circular

Fiscally neutral adjustment (FNA)	<p>The following types of change within a single financial year, as provided for in paragraphs 31-37 of this circular:</p> <ul style="list-style-type: none"> <li>· A transfer between appropriations</li> <li>· A transfer between an appropriation and departmental capital</li> <li>· A departmental capital injection fully offset by a departmental capital withdrawal</li> <li>· An increase to an appropriation fully offset by an increase in third party revenue</li> </ul>
Forecast adjustment	<p>The following types of change, as provided for in paragraphs 62-63 of this circular:</p> <ul style="list-style-type: none"> <li>· A change to the amount to be incurred under a permanent legislative authority (see separate definition)</li> <li>· A change in revenue resulting from an external factor and not directly related to an expense</li> <li>· Where Cabinet has agreed to a specific metric for determining cost based on an external variable and agreed that there are strong policy grounds for not considering changes in cost at each baseline update</li> </ul>
Front-loading of spending (FLoS)	The bringing forward of funding from future financial years, as provided for in paragraphs 56-59 of this circular
In-principle expense and capital transfer (IPECT)	A transfer from an appropriation or departmental capital injection across financial years requiring confirmation after year-end accounts have been finalised before it can proceed, as provided for in paragraphs 44-47 of this circular
Investment	As per the meaning in Cabinet Office Circular <i>Investment Management and Asset Performance in the State Services</i> (CO (15) 5 to be published shortly)
Joint Ministers	The Minister of Finance and the appropriation Minister (or, where the proposal involves a departmental capital injection, the responsible Minister for the department)
Multi-category appropriation (MCA)	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Multi-year appropriation (MYA)	An appropriation giving authority to the Crown or an Office of Parliament to incur expenses and capital expenditure for more than one financial year but a maximum of five financial years
Non-departmental	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Permanent legislative authority (PLA)	Refer <a href="#">section 2 of the Public Finance Act 1989</a>



PFA	Public Finance Act 1989
-----	-------------------------

Responsible Minister	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Retention of underspend (RoU)	A transfer of a departmental output expense appropriation underspend to the next financial year, as provided for in paragraphs 48-55 of this circular
Supporting information to the main or supplementary Appropriation Bill	Information supporting the appropriations being sought in the main Appropriation Bill or the appropriations or changes to appropriations being sought in a supplementary Appropriation Bill. The information required is set out in sections 15-15F of the PFA (main Appropriation Bill) or sections 17A and 17B of the PFA (supplementary Appropriation Bill)
Supplementary Estimates	Refer <a href="#">section 2 of the Public Finance Act 1989</a>
Swap	A fiscally neutral adjustment where the transfer is between an operating appropriation and capital (appropriation or injection) and meets the conditions set out in paragraphs 35-36 of this circular
Tagged contingency	Funding set aside as part of the annual Budget package to provide for specific items on which Cabinet is yet to make a final decision
Technical adjustment	<p>The following types of change, as provided for in paragraph 60 of this circular:</p> <ul style="list-style-type: none"> <li>· An accounting adjustment with no cash impact</li> <li>· An automatic adjustment to a department's baseline associated with a change in capital charge</li> <li>· A shift in the indicative spending profile for an MYA or between categories of an MCA, with no change to the overall appropriation</li> <li>· The necessary adjustment to a departmental balance sheet to reflect a voluntary capital withdrawal</li> </ul>
Technical approval	An approval by joint Ministers to give effect to policy and funding decisions already taken by Cabinet, where the matter is sufficiently trivial not to warrant the original policy and funding decision being re-considered by Cabinet