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Treasury Circular 2016/14

Unrestricted Distribution

Chief Executives
Chief Financial Officers

Baseline Enquiries: Vote Analysts and Managers

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MARCH BASELINE UPDATE 2017

Summary of the March Baseline Update (MBU)

1. The March Baseline Update provides an opportunity for departments to:
 - Seek Joint Ministers¹ agreement to:
 - i. changes to baselines that Joint Ministers are able to approve under CO (15) 4 and update CFISnet to reflect the agreed changes
 - ii. In-principle expense and capital transfers from 2016/17 to 2017/18 and/or outyears
 - iii. Retention of 2016/17 surpluses, where known at this time
 - Update CFISnet to reflect Cabinet decisions and other Joint Ministers' decisions affecting baselines that have been made since the October Baseline Update.
 - Request their appropriation Minister seek the Minister of Finance's agreement to:
 - i. Performance reporting exemptions
 - ii. The establishment of Multi-Category Appropriations (MCAs)
2. The MBU is a technical update, with its contents designed to require no review by Cabinet. Any changes that require Cabinet approval should be considered as part of the Budget process. Significant changes in policy are likely to be better suited to separate consideration by Cabinet, rather than the omnibus Budget 2017 Cabinet paper. Departments should discuss the appropriate approach with their Treasury Vote Analyst.

¹ The Minister of Finance and the appropriation Minister

3. Departments should discuss any potentially contentious issues with their Treasury Vote team as early as possible, so these can be resolved in advance of the appropriation Minister's submission for the MBU and incorporated into the Budget process if appropriate.
4. Any disputes should be resolved, if possible, between the department and the Treasury Vote team. Where disputes can be resolved, CFISnet should be updated to reflect the agreed position. Where disputes cannot be resolved, the disputed items are to be deferred to the Budget 2017 process, or separately considered by Cabinet, and removed from CFISnet.
5. Departments should ensure records of MBU approval letters are maintained to ensure an appropriate audit trail is in place to verify charges to spending authorities.
6. Budget day for 2017 has not yet been determined.
7. 5-year fiscal forecasts will also need to be completed at the same time that the baseline update is submitted into CFISnet (20 February). The 5-year forecasts will need to capture the changes from the baseline update. We will be issuing a Treasury Circular in the new year with more details on timetable and requirements for the 5-year fiscal forecasts information for Budget 2017. Note the data for both the 5-year fiscal forecasts and the MBU are uploaded at the same time to the same exercise in CFISnet.
8. The full Budget 2017 process timetable is also now available and has been circulated to departments. [refer Treasury circular 2016/15].

The remainder of this circular covers:

- Timeline – page 3
- Updating CFISnet to reflect Cabinet decisions – page 6
- Financial changes to baselines that can be agreed under CO(15) 4 – page 7
- Changes that can be agreed by the Minister of Finance – page 11
- Annex 1: March Baseline Update template for appropriation Minister submission – page 13

Kamlesh Patel
Fiscal and State Sector Management
for Secretary to the Treasury

Timeline

9. All requirements are due by **1pm** on given dates.

Latest Dates	Baseline Update
From date circular is released, to Friday 10 February	Departments discuss their specific requirements for the MBU with Treasury Vote teams.
From date circular is released, to Friday 10 February	Coredata changes to be submitted to CFISnet for MBU.
Monday 20 February	Final date for departments to update and lock CFISnet for changes.
Tuesday 21 February	Appropriation Minister submission to Minister of Finance. Please provide 2 copies of the appropriation Minister's letter to the Minister of Finance.
Friday 24 February	Treasury Vote teams to advise departments of status of updates. Department to update CFISnet to reflect all changes advised by Treasury.
Week beginning Monday 13 March	Minister of Finance notifies appropriation Ministers of the outcome of the MBU.

Coredata Changes

10. Coredata changes are required for all new appropriations agreed to by Cabinet and to amend existing details such as title, scope and the Minister responsible for the appropriation. To allow departments to enter information against the new appropriations in CFISnet a line is created by Treasury to accept the data. Until a new line is created, no data can be stored against the appropriations. Coredata requests should be notified to Treasury through CFISnet by **1pm Friday 10 February 2017**. Coredata changes after this date should be for changes resulting from the Budget initiatives process only.

CFISnet Submissions

11. As the appropriation Minister provides CFISnet tables as part of their submission, departments must lock-off the MBU exercise before **1pm Monday 20 February 2017**.

Appropriation Minister Submission

12. Appropriation Ministers are to submit two hard copies of their MBU returns to the Minister of Finance no later than **1pm Tuesday 21 February 2017**.
13. The format for appropriation Ministers' submissions is attached as Annex 1 to this Circular. A word version of the template is available on CFISnet in the Treasury Circulars section. The submission to the Minister of Finance should be accompanied by the following Tables:

- Table 1 – Summary Table of Baseline Numbers (CFISnet table)
- Table 2 – Baseline Changes Report (CFISnet table).

14. Proposed changes should be explained in the appropriation Minister’s submission as follows:

Change type	Explanation to be contained in appropriation Minister Submission
Fiscally neutral adjustments	One short paragraph for each change that shows why an FNA is proposed.
Expense or Capital transfers	One short paragraph for each change that proves that a factor outside of the agency’s control is the primary cause of delay.
Retention of underspends	One short paragraph for each change that proves that underspends are a result of savings made through gains in efficiency or other savings initiatives.
Front-loading of spending	One short paragraph for each change.
Technical adjustments	One short paragraph for each change.
Forecasts	A short paragraph outlining the key factors/drivers in the forecast change.

15. To assist in subsequent analysis of MBU changes, the explanations should include a clear description of the drivers of change and, where there are multiple changes affecting an appropriation, present each individual change rather than aggregating multiple changes.
16. Updates to CFISnet to reflect Cabinet decisions do not require an explanation, but the relevant Cabinet Minute must be recorded in the “authority for change” field of the Table 2 attachment.
17. Appropriation Ministers will also be asked to certify that none of the proposed changes requires a Cabinet decision.

Treasury Assessment

18. As the focus of the MBU is to action a variety of technical changes, it is not expected that substantive policy discussions will be required. However, Treasury Vote teams will still check submissions for such implications. The other area of focus in the Treasury assessment will be whether the submission meets the guidelines for changes to baselines as set out in Cabinet Office Circular CO (15) 4, including whether Joint Ministers have delegated authority to approve the proposed change.
19. Parts of the submission that fall outside the delegated authority will need to be considered as part of the Budget 2017 process, or through other Cabinet processes. Significant changes in policy are likely to be better suited to separate consideration by Cabinet, rather than the omnibus Budget 2017 Cabinet paper.

Departments should discuss the appropriate approach with their Treasury Vote Analyst.

Notification of Outcome

20. Updated baselines will be confirmed via a letter from the Minister of Finance to the appropriation Minister after **13 March 2017**. The letter will confirm all agreed changes, and list any disputed changes to be addressed in Budget 2017, or through other Cabinet processes.

Updating CFISnet to reflect Cabinet decisions

21. The MBU process also allows for the updating of CFISnet to reflect the outcomes of Cabinet decisions that affect baselines, made since the October Baseline Update. This includes decisions by Joint Ministers made under delegation from Cabinet.

Cabinet policy decisions

Cabinet policy decisions	All decisions made since, and not captured by, the October Baseline Update and before 20 February 2017.
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22. All updates entered into CFISnet to reflect the outcome of a Cabinet decision (including decisions made by Joint Ministers under delegation from Cabinet) must include the classification “Cabinet Policy Decision” and include the Cabinet Minute reference as an authority. Where applicable, the joint Ministerial letter reference should also be included, if Joint Ministers have made the decision under delegation from Cabinet.
23. When using the classification “Cabinet Policy Decision” to update CFISnet to reflect the outcome of a Cabinet decision, a contingency category must also be selected to identify the between budget contingency that the Cabinet policy decision affects.

Financial changes to baselines that can be agreed under CO (15) 4

24. The MBU process allows for timely updating of baselines prior to the production of the Budget. The criteria under which Joint Ministers can approve changes with financial implications are set out in the Cabinet Office Circular CO (15) 4, '*Proposals with Financial Implications and Financial Authorities*' and can be accessed at:
- http://www.dpmc.govt.nz/sites/all/files/circulars/coc_15_04.pdf
25. Baseline updates or Forecasting adjustments unable to be agreed by Joint Ministers during the MBU, because they fall outside the criteria set in CO (15) 4, may be considered as part of Budget 2017 or through a separate Cabinet process, if they are consistent with Government priorities.
26. You can discuss these particular cases with your Vote Analyst. Changes that cannot be agreed under CO (15) 4, including those that require additional funding, should be considered as part of the Budget process. They may be able to be considered alongside the financial recommendations in the Budget Cabinet paper in April. Any changes that cannot be agreed under CO (15) 4 will be recorded in the Minister of Finance's response letter to appropriation Ministers.
27. When preparing MBU submissions, it is important that departments:
- Pay close attention to the correct classification of any Vote changes sought as part of the baseline update, as this information is directly used in the production of the Crown's fiscal forecasts.
 - If seeking Fiscally Neutral Adjustments (FNAs) between Votes as part of MBU, specify all other Votes affected by the FNA in the description of the FNA to enable cross-checking by Treasury Vote teams.
 - Note that Expense Transfers (including In-principle) will only be approved where agencies prove that a factor outside of their control is the primary cause of delay.
 - Note that Retention of Underspends will only be approved where agencies prove that underspends remain as a result of savings made through gains in efficiency or other savings initiatives.
 - Note that forecast adjustments should reflect a best estimate prepared on the basis of best professional judgement reflecting information and circumstances at the date they are prepared.

Expense and Capital Transfers

28. Expense transfers will only be approved where agencies prove that a factor outside of their control is the primary cause of delay.

Expense and Capital Transfers - Approval in principle

29. In-principle Expense and Capital Transfers (ECTs) may be sought where the final amount of ECTs cannot be finalised until after the due date for MBU submissions (i.e. amounts will only be known when accounts are audited). In-principle ECTs should be included in your Minister's letter, but not as a vote change in CFISnet.
30. In order for the fiscal forecasts to be as accurate as possible, and as noted in CO (15) 4, Ministers should limit the scope of in-principle ECTs as much as possible. This means that they should transfer the proportion of funding they are sure of and only use an in-principle transfer for the remainder. When updating forecast information (common schedules beginning with a "1"), departments should use their best estimate of the actual spending patterns. Appropriations and Funding limits should be separated from Revenue and Expense forecasts using the reconciliation schedules (1:53:0, 1:53:1 and 1:73:0).
31. Departments are encouraged to seek Expense and Capital Transfers in the MBU if required. There will be a further window for later transfers after Budget Day and before a set date, likely to be in June. Further information about the timing of this window will be available once the Budget day has been determined.
32. In-principle ECTs do not constitute sufficient authority to incur expenses until the actual quantum is confirmed and agreed by Joint Ministers, normally in the following October Baseline Update. The level of parliamentary authority is monitored on a monthly basis by the Controller and Auditor General. Any expenditure incurred without authority (in this case, any expenditure incurred in relation to these transfers prior to obtaining confirmation of the quantum of transfer, up to the level earlier approved in principle) will be reported as unappropriated and will require validation by Parliament. For more information see *Treasury Circular 2012/03 Unappropriated Expenditure - Avoiding Unintended Breaches*.
33. Please note, confirmations of in-principle transfers are limited by the level of the remaining appropriation, as well as the revenue associated with any output.

Departmental Capital Contribution Transfers and Cabinet Approved Departmental Capital Contributions

34. Departmental capital contributions are detailed in departments' net asset schedules. Departments still need to apply the criteria and process stipulated in CO (15) 4 for transferring departmental capital contributions between financial years, as such changes alter the composition of the movements in net assets that will be reported to Parliament.
35. Specific lines for Departmental Net Assets are contained in CFISnet schedule 0:9:0, and explanations of movements to these lines are reported in Table 2. CFISnet validation rules ensure consistency between the 0:9:0 schedule and Taxpayers' Funds reported in the Statement of Financial Position.
36. Other changes that affect departmental net assets but do not require Joint Ministerial or Cabinet approval at this stage can be reflected in departments' updated financial statements submitted via CFISnet. Such changes may

encompass capital withdrawals, revaluations and revisions of surpluses or deficits. They do not need to be identified in the appropriation Minister's submission.

Retention of underspends (RoUs)

37. Underspends are defined as funding remaining at the end of the financial year as a result of:

- savings made through gains in efficiency; and/or
- 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.

38. 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.

39. Joint Ministers can 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.

40. Where approval to retain underspends is sought before or in the MBU, the full amount can be retained. Underspends must be confirmed during the MBU by showing a decrease in the current year's Supplementary Estimates and a corresponding increase in the following year's Estimates.

41. Where approval to retain underspends is sought after the MBU but before 30 June, half the amount 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.

42. Any proposal to retain underspends made after **30 June** will be declined.

43. Proposals to retain underspends must:

- explain how underspends arose (as per paragraph 48 in CO (15) 4)
- explain what the transferred funding will be used for, and why it should be retained rather than returned to the centre, and
- prove that underspends remain as a result of savings made through gains in efficiency or other savings initiatives.

Front-loading of spending (FLoS)

44. Front-loading of spending can be used to bring forward funding in any departmental expense appropriation within the forecast period for specific investments or projects that will permanently and sustainably reduce spending in outyears.
45. Proposals to front-load spending must explain:
 - how the investment or project will permanently and sustainably reduce expenditure in out-years
 - any risks that the proposal will not deliver the expected savings, and how these can be mitigated, and
 - what other funding options were considered, and why the front-loading of spending is the preferred option.
46. 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 9 of CO (15) 4.

Forecasting changes

47. CO (15) 4 describes the process around forecast changes in more detail. Not all forecast changes are agreed automatically, and departments should consider whether it is appropriate to absorb the cost changes from these within baselines. The circumstances outlining whether forecasting changes should be met from within baselines are described in CO (15) 4.

Change in capital charge rate from 7% to 6%

48. In October 2016 the default public sector discount rate (PSDR) was reduced from 7% to 6%. Cabinet has previously agreed that the PSDR is to be used as a capital charge rate for all departments, and that departments' baselines are to be fully and automatically adjusted both upwards and downwards for rate changes [para 4.3 of CAB Min (10) 41/9 refers].
49. In line with this, the capital charge rate has been reduced from 7% to 6% with effect from 1 January 2017. The overall impact for departments is fiscally neutral: both the amounts charged by and funded from the centre (i.e. both departmental expenses and revenue relating to capital charge) reduce by a commensurate amount.
50. To reflect this rate reduction and so give effect to the Cabinet decision referenced above, departments' MBU submissions need to reduce their departmental capital charge expense baselines (and related revenue) for each of 2016/17 and outyears. Capital charge should be calculated using the following rates for the 2016/17 fiscal year:
 - 1 July to 31 December: 7%

- 1 January to 30 June: 6%

51. Beyond 2016/17 a capital charge rate of 6% should be used.
52. For most departments, capital charge applies to their total Taxpayers Funds, and so this calculation is straight-forward. For some departments, however, adjustments need to be made to the calculation to account for items such as gifted assets and accumulated memorandum account balances [refer section 4.3.4 of Treasury Instructions 2016].
53. Any Crown funding to statutory Crown entities subject to capital charge is similarly fully adjusted for capital charge rate changes [para 6.5 of ECC Min (11) 4/1 REV 1 refers].
54. Departments administering appropriations that provide Crown funding to affected Crown entities need to reflect in their MBU submissions necessary adjustments for 2016/17 and outyears to provide for the revised capital charge rate effective from 1 July 2017.
55. Please contact your vote analyst if you have any queries regarding adjusting your MBU baselines to reflect the change to the capital charge rate.

Requesting retention of surpluses

56. Section 22(1) of the Public Finance Act 1989 states that “Except as agreed between the Minister and the responsible Minister for a department, the department must not retain any operating surplus that results from its activities”.
57. Section 4.4.3 of the Treasury Instructions 2016 sets out the methodology for calculation of surpluses and states that requests to retain surpluses should be sought from the responsible Minister and forwarded to the Minister of Finance as soon as the amount to be retained is known. Requests are to be made no later than two months after year-end (i.e. 31 August).
58. It is therefore not necessary to request retention of surplus at MBU, but departments are requested to make a request as soon as the amount is known.
59. Departments seeking approval to retain surpluses need to explain why this approach is more appropriate than seeking a capital injection.

Other changes that can be agreed by the Minister of Finance

60. The Minister of Finance can agree exemptions to performance reporting requirements and the establishment of multi-category appropriations.

Exemptions from end-of-year performance reporting

61. The criteria under which the Minister of Finance will approve exemptions from end-of-year performance information requirements for certain categories of expenses and capital expenditure are set out in Section 15D of the Public Finance Act 1989.

Establishing multi-category appropriations

62. Requirements for the establishment of a multi-category appropriation are set out in Section 7B of the Public Finance Act 1989. A multi-category appropriation must be approved by the Minister of Finance and must include only categories of expenses or non-departmental capital expenditure that contribute to a single stated overarching purpose.

ANNEX 1: MARCH BASELINE UPDATE TEMPLATE FOR APPROPRIATION MINISTER SUBMISSION

XX February 2017

Hon Steven Joyce
Minister of Finance
Parliament Buildings
WELLINGTON

2017 MARCH BASELINE UPDATE SUBMISSION FOR VOTE XXX

Introduction

This report covers those items affecting the baseline for Vote <XXX> for the March Baseline Update.

I confirm that none of the changes contained in this update requires Cabinet decisions at this time.

The proposed changes to baselines are as follows:

Cabinet decisions *[use where applicable]*

All Cabinet decisions relating to this Vote made after the October Baseline Update up to 20 February 2017 have been included in this update. These are listed in detail in Table 2 attached to this letter.

Changes requiring approval of Joint Ministers *[use where applicable]*

Expense or Capital Transfers *[use where applicable]*

An explanation of each proposed transfer is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of expense or capital transfer or title of in-principle expense or capital transfer *[repeat as necessary]*

<A paragraph description of the ECT or in-principle ECT.>

Fiscally Neutral Adjustments *[use where applicable]*

An explanation of each proposed adjustment is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of fiscally neutral adjustment *[repeat as necessary]*

<A paragraph description of the FNA.>

Retention of Underspends *[use where applicable]*

An explanation of each proposed retention of underspend is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of retention of underspends *[repeat as necessary]*

<A paragraph description of the RoU.>

Front-loading of Spending *[use where applicable]*

An explanation of each proposed front-loading of spending is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of front-loading of spending *[repeat as necessary]*

<A paragraph description of the FLoS.>

Forecasting Changes *[optional for most departments - use where applicable]*

An explanation of each proposed forecasting change is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of forecast change *[repeat as necessary]*

<A paragraph description of the amount of the change, and the main reasons behind the change.>

Other Technical Changes *[use where applicable]*

An explanation of each proposed technical change is listed below, and the amounts are specified in Table 2 attached to this letter.

Title of technical change *[repeat as necessary]*

<A paragraph description of the amount of the change, and the main reasons behind the change.>

Retention of surplus *[use where applicable]*

I am seeking approval to [Department Name] retaining the surplus as follows:

<Specify details of surplus to be retained and reason why surplus should be retained rather than seeking a capital injection.>

Changes requiring Minister of Finance agreement *[use where applicable]*

Request for performance reporting exemptions for 2016/17 onwards for Vote <XXXX> *[use where applicable]*

I am seeking your approval for the exemption from end-of-year performance reporting for those appropriations listed in the Annex. The Annex provides reasons for why these exemptions are sought. Any exemptions and the reason for the exemption are disclosed in the Estimates. For those appropriations subject to Budget decisions, your approval would be subject to the reason for granting the exemption still being applicable once these decisions are taken.

Establishing multi-category appropriations *[use where applicable]*

I am seeking your approval to create the multi-category appropriations and/or add new categories to existing multi-category appropriations, as set out in the Annex.

Forecast Financial Statements

The baseline update also includes forecast financial statements, although approval for these is not sought from the Minister of Finance. The baseline changes sought in this letter have been incorporated in the forecast financial statements of the relevant department, together with the adjustments necessary to accurately reflect estimated operating expenditure, capital expenditure and cashflows.

Info for departments:

This section has been included to emphasise the importance of the financial statements included in your baseline update return to Treasury. At year-end, Treasury will be reporting back to departments on their forecasting performance for that year.

This box is for your information. Delete it before sending your MBU submission to your Minister.

Recommendations

This section is for Joint Ministers to agree, subject to CO (15) 4.

I recommend that you:

<recommendations 1 and 2 are standard recommendations that should be included.>

1. **agree** the changes to 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 baselines as set out in Table 2;
2. **agree** that the proposed changes to appropriations and departmental capital injections for 2016/17, covered by recommendation one above, be included in the 2016/17 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.
3. **agree** to the retention of surpluses set out above. [Delete as appropriate]
4. **agree** that the proposed retention of surpluses for 2016/17 as covered by recommendation 9 above be included in the 2016/17 Supplementary Estimates. [delete as appropriate]

*This section is for other changes that only require Minister of Finance agreement:
[Delete as appropriate]*

I recommend that you:

5. **agree** the exemption from end-of-year performance reporting for those appropriations listed in the Annex.
6. **agree** the establishment of new multi-category appropriation(s) and/or the addition of categories to existing MCAs listed in the Annex.

Signed
Minister of/for [XXXX]

Annex:

Proposed exemptions from end-of-year performance reporting [delete tables or expand rows as necessary]

Criterion 1: An exemption is sought on the basis that the appropriation or category relates exclusively to outputs supplied by a department to one or more other departments

Vote	Appropriation/ category title	An exemption is sought under S.15D(1) of the PFA as the outputs for this appropriation are provided exclusively to...	2016/17 (\$000)

Criterion 2: An exemption is sought on the basis that key performance information relevant to the appropriation or category will be otherwise readily available to the House of Representatives

Vote	Appropriation/ category title	An exemption is sought under S.15D(2)(b)(i) of the PFA as the performance information for this appropriation is available to the House of Representatives in...	2016/17 (\$000)

Criterion 3: An exemption is sought on the basis that end-of-year performance information for the appropriation or category is not likely to be informative

Vote	Appropriation/ category title	An exemption is sought under S.15D(b)(ii) of the PFA as additional performance information is unlikely to be informative because...	2016/17 (\$000)

Criterion 4: An exemption is sought for the following appropriation(s) under S.15D(b)(iii) of the PFA as the amount (or annual average equivalent) of each of these non-departmental expense appropriations is less than \$5 million

Vote	Appropriation/ category title	2016/17 (\$000)

Criterion 5: An exemption is sought for the following appropriation(s) under S.15D(b)(iii) of the PFA as the amount (or annual average equivalent) of each of these non-departmental capital expenditure appropriations is less than \$15 million

Vote	Appropriation/ category title	2016/17 (\$000)

Proposed multi-category appropriations [Note: delete or add rows where necessary e.g. less than or more than 3 categories]

[Complete the tables below for each MCA to be established or each category to be added to an existing MCA]

Proposed MCA							
MCA Title	Vote Name	Department Name	Minister of/for Portfolio	Overarching purpose statement	Category title	Category type	Category scope

Additional category/ categories to be added to existing MCA							
Existing MCA title	Vote Name	Department Name	Minister of/for Portfolio	Overarching purpose statement	Additional category title	Category type	Category Scope