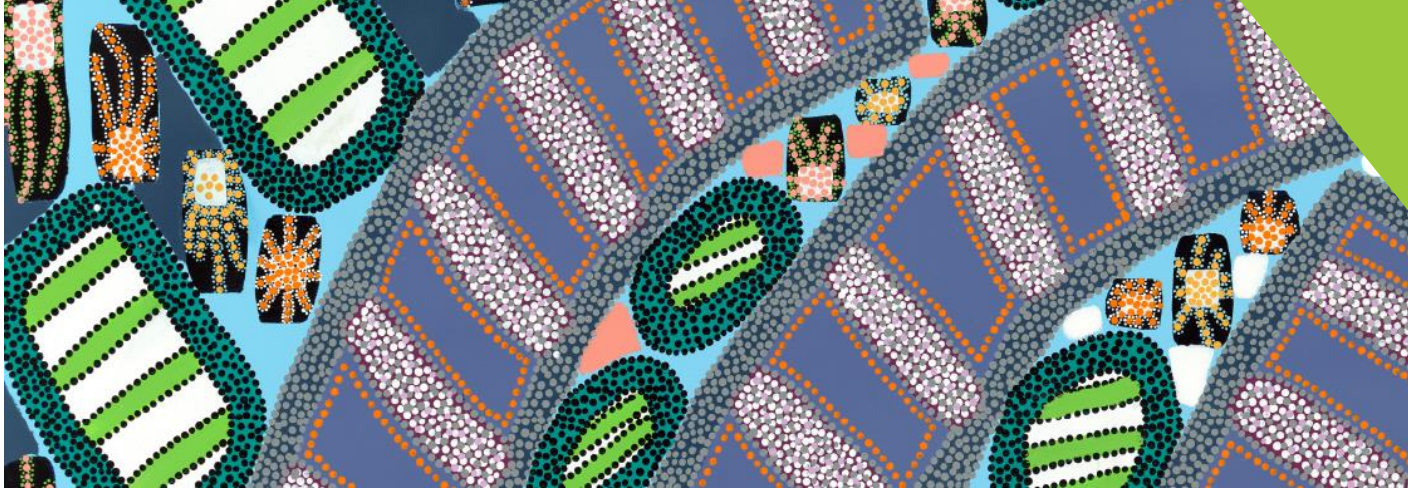


NSW Treasury Policy and Guidelines: Carry Forwards Policy



Acknowledgement of Country

NSW Treasury acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork: 'Regeneration' by Josie Rose 2020

Key information

Treasury Policy and Guidelines (TPG) is relevant to General Government Sector	<input type="checkbox"/> Government Sector Finance Agencies <input checked="" type="checkbox"/> General Government Sector <input type="checkbox"/> Public non-financial corporation <input type="checkbox"/> Public financial corporation <input type="checkbox"/> State Owned Corporations <input type="checkbox"/> Other
	<input type="checkbox"/> Executive agencies related to Departments
	<input type="checkbox"/> Subsidiaries of the NSW Government established under the Corporations Act 2001
Date issued	2/03/2022
Review date	1/03/2027 <i>[The review date should be no more than five years from the date of publication]</i>
<input checked="" type="checkbox"/> Replaces <input type="checkbox"/> Replaced by	TC 15/08
Issuing/Publishing entity	NSW Treasury
Related instrument(s)	N/A
Document approver	
Contact	Budget Division

Document contains

- MANDATORY POLICY** compliance set out by NSW Treasury.
- RECOMMENDED POLICY** reflecting best practice standards.
- GUIDANCE/ADDITIONAL INFORMATION** to provide clarity or explain requirements in detail.

Revision history

Document version number	Approval Date	Author	Approver	Description
1	Mar 2022			Updates and replaces TC 15/08. This version reduces the number of times agencies can submit carry forwards each year to two, as well as tightening the carry forward categories. This update also reflects an updated template.

Table of Contents

Carry Forward Policy	2
Purpose	2
Overview	2
Summary of Requirements	2
Carry forward criteria	3
Items that cannot be carried forward	3
Categories of carry forward request	4
Periods when carry forwards will be sought	5
Definitions	7

Carry Forward Policy

Purpose

The Carry Forward Policy sets out the circumstances in which agencies may be permitted to transfer Budget Control Limits from the current financial year to future financial years, subject to meeting certain conditions and the approval of the Treasurer.

Overview

The objectives of the carry forward policy are to:

- support effective resource allocation
- avoid inefficient expenditure to meet year-end timeframes
- encourage improved budget forecasting by agencies
- supports forecasting accuracy targets in Outcome Budgeting, including Treasury's Outcome Business Plan
- manage potential risks to budget aggregates from accumulating carry forwards over time.

Once an investment decision is made, unforeseen events may impact the delivery timing of a program or project, with flow on impacts on agency budget controls. International best practice¹ shows that a well-designed carry forward policy encourages value for money and improves resource allocation.

The carry forward policy complements (and is not an alternative to):

- robust investment planning, including business case and assurance processes
- Budget processes, to allocate resources to New Policy Proposals and Parameter and Technical Adjustments
- an appropriate accountability framework for budget management and control high quality and timely monthly financial reporting.

Summary of Requirements

Agencies are permitted to seek carry forwards in a limited set of circumstances, subject to Treasury assessment of appropriate justification and Treasurer approval. These circumstances are set out below.

Agencies may seek approval at certain points in the year:

- Period 9 is the principal window for seeking carry forward approvals.
- carry forwards may also be sought following the end of the year (Period 13), under certain criteria.

NSW Treasury reserves the discretion to request carry forwards at other times in the year (ie. Period 4) on an exception basis. While the default position is Treasury is unlikely to seek requests outside Period 9, Treasury may request approvals in limited situations.

¹ See HM Treasury, *Consolidated Budgeting Guidance: 2019 to 2020*

The majority of carry forward requests will relate to Category A and Category B. Category C requests are expected to be low and more likely in Period 13 and will need to demonstrate a direct link to an existing Outcome and Business Plan. Requests under this category can only be carried forward once, with future underspends not supported for a further carry forward.

All carry forward requests must comply with all relevant Treasury policies and guidelines.

Carry forward criteria

Mandatory

Carry forward of budget controls may be sought at certain times of year, limited to specific categories.

Carry forwards should be sought and used for the purpose in which the original funding was provided. Carry forward requests must not be used to fund new policy proposals, or for activities that will lead to additional ongoing future costs over and above budgeted forward estimates.

Treasury will consider agencies' carry forward requests and entitlement against the level of expenditure in the current year. Agencies with a net overspend over and above their approved Budget in the current year are unlikely to be entitled to carry forward items.

Carry forward requests must include:

- information and evidence to support each request (ie. the relevant Category)
- detail on why other expenditure cannot be reprioritised from within existing funding
- information on any mitigating action to prevent similar underspends in the future.

Items that cannot be carried forward

Guidance

The following cannot be carried forward by an agency:

- protected items that are demand driven
- a gain / loss on sale of assets that impacts on the operating statement
- depreciation expenses
- non-cash long service leave expenses
- other specific non-cash items (e.g. non-cash revenue variation).

In principle, recurrent items that are “reverse carry forwards” (that is to say bringing forward funding from outer years) or wholesale reprofiling will not be accommodated through the carry forward process. Instead, such requests will need to be through the annual Parameter and Technical (PTA) process. Capital reverse capital forwards may be allowed in exceptional circumstances, but are subject to Treasury discretion.

Categories of carry forward request

Guidance

The categories of carry forward requests permitted by agencies are outlined below:

Category A: Commonwealth Adjustments

These adjustments result from a change in Commonwealth funding, expenditure of Commonwealth funding or matching expenditure by the State. See the Box below for examples.

Category A carry forward requests will be recommended by Treasury for approval.

Category B: Timing Adjustments

These adjustments must clearly be caused by a factor impacting the timing of expenditure.

Agencies will need to demonstrate a clear benefit to agency services, activities or programs and link to an existing State Outcome. To support Treasury's assessment, agencies will need to include an explanation of whether the factor is:

- within or outside the agency's control
- a new item or repeat carry forward.

Category B adjustments exclude changes related to Commonwealth payments and expenditures which are captured under Category A. See the Box below for examples.

Level of agency control

Where a carry forward request is the result of factors outside an agencies control, Treasury will generally recommend these requests for approval. Factors considered to be outside an agency's control include natural disasters, adverse weather conditions, protracted legal cases, delays in sourcing raw materials.

Timing adjustments caused by factors within agency control, such as recruitment challenges, changes to project scope or delays in establishing project capabilities, will be assessed on merit and may not be supported.

New or repeated carry forwards

New carry forward requests that meet the definition of a Category B request will typically be supported, subject to Treasury assessment of their merits. However, repeated carry forward requests for the same funding will not be supported. Repeated carry forwards are those where an agency has submitted a request for two or more consecutive years.

For the avoidance of doubt, a carry forward request relating to an election commitment or Premier's priority will not be automatically approved and will be evaluated on its merit.

Category C: Other Adjustments

These adjustments are more likely to be Period 13 carry forwards and will apply where the proposed expenditure improves services or programs directly linked to an existing Cluster Outcome and Business Plan.

In limited circumstances, Treasury may consider:

- additional, unforeseen revenues at year-end which is requested to be carried forward
- savings / under expenditures against **non-protected items** (capital and recurrent) requested to be carried forward to support other cluster priorities.

Also in limited circumstances, Category C adjustments may also occur at Period 9, but are expected to be rare.

Proposed carry forwards under this category should be submitted to Treasury with supporting information outlining their impact on agency services and Cluster outcomes. Such proposals will be considered on their merits having regard to the strength of supporting evidence and other Cluster cost pressures. This needs to include clear details on how proposed expenditure relates to existing service areas and links to a State Outcome.

Items proposed under Category C, if supported, can only be carried forward once – future underspends will not be supported for a further carry forward.

Other adjustments not related to carrying forward under expenditures will not be considered in this process and should not be submitted as carry forwards. Agencies should defer such items to the annual PTA process (See: *TPG21-11 Parameter and Technical Adjustments and new Policy Proposals (Measures)*) or discuss these with your Treasury Relationship Lead to determine the appropriate approach for their consideration.

Periods when carry forwards will be sought

Recommendations

- Period 9 is the principal carry forward round. Requests outside this period should be limited and agency finance teams are strongly encouraged to work with their Treasury analyst to work towards meeting the Period 9 timeframe.
- Agency finance teams should ensure all carry forward requests, regardless of timing and category, should be accompanied by strong evidence as to why they are being brought forward.
- Agency finance teams should become familiar with the examples outlined below to understand what category the carry forward relates to.

Guidance

Carry forward requests will be formally sought at the following periods²:

- Period 9 – is the principal carry forward round for all general government agencies
- Period 13 – should mainly be late material changes in Commonwealth funding arrangements and unexpected timing adjustments outside agencies control.

² Carry forwards may also be requested at Period 4 as needed. If required, this will generally be limited to significant agencies by exception and typically for material underspends for capital projects. Significant agencies are defined as the largest 15 agencies as a share of total budget result impact, and where the proposed carry forward is greater than \$10 million. Significant agencies will be contacted directly by Treasury if a carry forward request is required at Period 4.

Accurate and timely forecasting of agency’s in-year forecasts impact the Government’s decision making and the efficient management of the Government’s cash and borrowing program. Significant variations between agency forecasts and year-end results increase the need for carry forwards (and adjustments to control limits) and affect the ability to return the Budget to surplus.

As part of agency forecasting accuracy, agencies should continually review their year-end projections on a rolling basis throughout the year. Projections should be based on expected yearly trends, including any assumptions of under expenditure, with efforts made to manage risks where possible within existing budgets.

And by Period 9, agencies forecasts are expected to build to an accurate view of full year spending and revenue. This timing for approvals provides a clearer picture of the fiscal position and ensures a more stable base for the Government to make informed Budget decisions.

Period 13 carry forward requests fall after the annual appropriation bill. Agencies will therefore need to manage these approvals within existing appropriations (mainly through under expenditure in other areas of appropriation) and cash balances (but not so as to diminish working cash levels below requirements calculated as part of their annual cash buffer). In addition, Secretaries and Chief Financial Officers will need to justify why Period 13 carry forwards were not foreseeable at Period 9.

Carry forward category examples		
<p>Category A – Commonwealth Adjustments:</p> <ul style="list-style-type: none"> • An early or delayed payment for a National Partnership Agreement • Changes in the quantum of Commonwealth funding <p>Examples of supporting evidence / information:</p> <ul style="list-style-type: none"> • Updated Commonwealth agreement • Revised funding profile from Commonwealth Government 	<p>Category B – Timing Adjustments:</p> <ul style="list-style-type: none"> • Change in timing of a capital project due to poor weather conditions • Unexpected receipt of third-party revenues which may be better utilised in subsequent year • Counterparty issues such as protracted negotiation with suppliers or delays with government or non-government partners • Legislative requirements <p>Examples of supporting evidence / information:</p> <ul style="list-style-type: none"> • Legal advice • Contract revisions 	<p>Category C – (more likely at Period 13) Other Adjustments:</p> <ul style="list-style-type: none"> • Unexpected program savings • Late additional revenue, resulting from an external factor <p>Examples of supporting evidence / information:</p> <ul style="list-style-type: none"> • Clear details on how proposed expenditure relates to existing service areas and links to a State Outcome.

Helpful tips:

How to submit a carry forward in Prime

Carry forward requests must be submitted in Prime using the Final Budget Proposal (FBP) functionality.

FBPs must include the correct account codes, program information and internal counter party and external counter party details. The financial impacts should be entered on an unescalated basis, with the amount seeking to be carried forward equal to the underspend in the current year.

All **recurrent** carry forward requests should be classified as *Parameter and Technical Adjustments – Carry Forward (for recurrent)*.

All **capital** carry forward requests should be classified as:
P9: *Parameter and Technical Adjustments – Carry Forward*
P13: *P13 Carry Forward – Capital*

Naming

Each carry forward request should be titled as follows:

1. *Period [insert relevant period, i.e. 4, 9 or 13] Carry Forward – [insert name of request].*

Agency rationale

Agencies should clearly explain what the carry forward is required for, the category of carry forward being sought (i.e. Category A, B or C) and how it links to a state Outcome. The information outlined in the agency rationale will be used as the basis of advice provided to ERC, so agencies should ensure the rationale is written in plain English and limits the amount of technical jargon. This level of information outlined in the rationale is critical for the assessment of the request and for providing advice to the Treasurer.

Capital projects

If requests are seeking to carry forward amounts for capital projects, please ensure the FBP is linked to an existing capital project ID. If this does not occur, the FBP will create a new capital project.

To link the FBP to an existing capital project, use the following steps:

2. *Create new FBP > Create new FBP from existing capital project > Find capital project ID*

When entering Period13 carry forwards, agencies will need to ensure that actuals (at the project level) for the financial year have been entered before creating the carry forward.

Projections

Agency projections data submitted in Prime alongside carry forward requests at Periods 9 and 13 needs to incorporate any net underspend associated with carry forward requests.

Definitions

Term	Definition
Budget Control Limits	Include Net Cost of Services (NCOS) and Capital Expenditure Authorisation Limit (CEAL).