

Agency Carry Forwards

Agencies may carry forward Budget Control Limits subject to meeting certain conditions and the approval of the Treasurer. This circular outlines agency requirements and replaces the carry forward parameters in Treasury Circulars NSW TC12/08 and NSW TC12/20.

Application of the Circular:

This circular applies to the Budget Control Limits of all general government agencies. The circular is effective from 20 March 2015. However, transitional arrangements outlined in **Attachment A**, are in effect for the 2014-15 year to enable agencies to adapt current reporting processes to the conditions outlined in this circular.

Objectives:

- Encourage improved budget forecasting by agencies
- Manage potential risks to budget aggregates from carry forwards over time.

Summary:

The principal elements of the revised policy in this circular are:

- Clear categorisation of carry forwards
- Examination of the use of the carry forwards requested by agencies
- Streamlined approval for carry forwards that are clearly outside of agency control
- Incentivising agencies to declare carry forwards at an earlier stage.

Background:

The carry forwards policy established in 2011–12 (under NSW TC12/08 and NSW TC 12/20) allowed agencies to carry forward Budget Control Limits to a future financial year.

This circular revises the policy to balance managing carry forwards at an aggregate level, providing sufficient operational flexibility for agencies and incentivising agencies to provide Treasury with both high quality and timely estimates.

Process

Treasury will formally seek requests for carry forward adjustments from agencies as part of their Period 4, Period 8, Period 10 and Period 13 data returns. Agencies may submit to Treasury requests for carry forwards during the year. However, they will not be formally considered until the next round.

Agencies will be required to complete a template containing all requested information for each carry forward proposal.

Guidance

Guidance in the following attachments detail operation of the new circular:

- **Attachment A** - guidelines to agencies on carry forward request
- **Attachment B** - worked examples of an agency carry forward calculations
- **Attachment C** - a shortlist of agencies with total expenses of both above and below \$3 billion
- **Attachment D** - spreadsheet template for the carry forward request

Philip Gaetjens
Secretary

Further Information: **Budget Strategy Division. Phone: 02 9228 5252**
 email: contact@treasury.nsw.gov.au (include details in the email subject line)

NSW Treasury website: www.treasury.nsw.gov.au

Agency Guidelines

Definition

Agencies are permitted to carry forward Budget Control Limits to a future financial year subject to the request meeting certain conditions and the approval of the Treasurer.

Agencies will be required to classify carry forward requests into one of three categories.

- A. Commonwealth adjustments
- B. Timing adjustments
- C. Other adjustments

Carry forwards are approved through an adjustment to an agency's Net Cost of Services or Capital Authorisation Limits.

Criteria for carrying forward expenditure

Carry forward requests must be submitted to Treasury in the template (Refer spreadsheet at **Attachment D**). The request is required to:

- detail the proposed carry forward and the proposed years into which the Budget Control Limits (Net Cost of Services, Capital Authorisation Limit and Labour Expense Cap Limit) are to be moved and detail any Net Cost of Services impacts of proposed capital carry forwards.
- clearly describe and provide information to support classification into Category A, B or C
- explain why other expenditure cannot be reprioritised from within existing baselines to mitigate the expenditure underspend (i.e. why other programs cannot be accelerated to offset the underspend)
- explain the 'root cause' of the carry forward and any mitigating action the agency can take to prevent underspends of a similar nature
- provide details that support the use of the carry forward that meet the criteria below
- identify whether the agency requires additional future recurrent or capital appropriation if the requested carry forward is approved.

The criteria for any approved carry forward are that it must be used for:

- the purpose for which it was originally provided (i.e. the expenditure is a timing adjustment) or
- a core service need of the agency or
- an expenditure which will provide an ongoing benefit to the operations of an agency.

Carry forwards must not be for activities that will lead to additional ongoing future costs over and above the agency's budgeted baseline forward estimates (for example, spending on employing any additional permanent staff).

Capital proposals are still subject to the standard approvals for capital projects.

The following types of variances cannot be carried forward:

- 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. a non-cash revenue variation).

Process for assessing and approving carry forward proposals

The following describes the process for accessing and approving each category of carry forward.

1. Category A: Commonwealth Adjustments

Category A adjustments result from an adjustment in Commonwealth funding, expenditure of Commonwealth funding or matching expenditure by the state e.g. an early or a delayed payment for a National Partnership Agreement, or changes in the quantum of Commonwealth funding.

Carry forwards from agencies that are deemed to be a 'Category A' will be recommended by Treasury for approval by the Treasurer.

2. Category B: Timing Adjustments

Category B proposed adjustments must be clearly caused by a factor impacting timing of expenditure (other than changes to Commonwealth related payments and expenditures) which is outside an agency's control (e.g. the change in timing of a project due to poor weather conditions or the unexpected receipt of third party revenues that are better spent in a subsequent financial year). This would lead to reduction in an agency's Net Cost of Services or Capital Authorisation Limit with an offsetting adjustment in a future year.

Carry forwards from agencies that are deemed to be a 'Category B' adjustment will be recommended by Treasury for approval by the Treasurer.

3. Category C: Other Adjustments

Category C adjustments are those which are not regarded to be Category A or B adjustments.

Examples of these adjustments may include:

- unexpected program savings
- additional revenue caused by an external factor
- a capital project with under-expenditure due to over forecasting.

Category C proposed adjustments from agencies will be assessed by Treasury against the pre-defined criteria above. Carry forward requests will also be treated as identified in the table below, dependent on when the agency declares their requests. Treasury will make recommendations to the Treasurer based on both these factors.

As Category C adjustments are not highly predictable they carry a larger budget risk. To best manage this risk, agencies are incentivised to declare their carry forwards to Treasury by Period 8, with impacts included in allocation letters.

Where an agency declares a carry forward in either Period 9 or Period 10, the total value of these requests will be held in a centralised pool.

When an agency declares a carry forward after Period 10, different carry forward thresholds will be applied based on the size of the agency. These thresholds take into account that some agencies have larger scale programs and therefore require a larger carry forward provision. A cap based on a proportion of total expenses is also applied to better manage the budget risk. Carry forwards declared after period 10 will also be held in a centralised pool.

While, funds declared after Period 8 are held in a central pool, agencies retain their entitlement for these funds. Future releases of funds held centrally are at the discretion of the Treasurer, based on a Treasury recommendation. Treasury will consider agency requirements and the potential impact on the State's fiscal targets and strategy, when assessing the release of funds.

Table 1 following provides more details on how thresholds will be applied for agencies.

Table 1: Treatment for Category C adjustments

Timing	Treatment
Up to Period 8 reporting	100 percent of the amount to be carried forward and the amounts will be included in agency allocation letters, subject to meeting criteria.
In Period 9 or Period 10 reporting	100 percent of the amount to be held in central pool, subject to meeting criteria
After Period 10 reporting	<p>If an agency has total expenses^a of \$3 billion or below:</p> <ul style="list-style-type: none"> the full amount up to \$5 million (allowable amount), <u>plus</u> 60 per cent of the remaining amount will be centrally pooled. <p>If an agency has total expenses^a of over \$3 billion:</p> <ul style="list-style-type: none"> the full amount up to \$15 million (allowable amount), <u>plus</u> 60 per cent of the remaining amount requested will be centrally pooled. <p>The total category C adjustment to be centrally pooled after period 10 will be the higher of the allowable amount (refer above) or 0.5 per cent of the agency's total expenses.</p>

Carry Forwards Process

- Treasury will seek submissions from agencies for carry forward requests as part of their Period 4, Period 8, Period 10 and Period 13 data returns.
- Agencies will need to provide a completed template (see **Attachment D**) to their Treasury Analyst for each carry forward proposal.

Transitional arrangements

Transitional arrangements will be effective for the remainder of the 2014-15 financial year.

- For Category A and B proposals, agencies will be entitled to retain 100 per cent of the amount requested.

^aThese amounts will be either total recurrent expenses or total capital expenditure as published in Budget Paper 3 for the year from which the carry forward amount is being moved from i.e. Budget Paper 2014-15 for carry forwards to be moved from 2014-15 to future years. This does not apply to agencies where there have been Machinery of Government changes.

- For Category C proposals
 - **Up to and including Period 10 reporting:**
 - » 100 per cent of the amount to be carried forward and the amounts to be included in agency allocation letters.
 - **After Period 10 reporting:**
 - » Category C amounts approved for carry forward will be subject to the allowable amount limits in Table 1.
 - » There will be no use of a centralised pool for the 2014-15 financial year

From 1 July 2015, the use of the centralised pool will commence, and the treatment of Category C adjustments would be completely as per Table 1 above.

Example 1: Agency with total expenses of \$2.5 billion

Type of Adjustment	Budget \$mill	Actual \$mill	Variance \$mill	Potential Carry Forward \$mill
Commonwealth National Partnership linked expenditure (Category A)	500	400	(100)	100
Expenditure underspend as a result of a delay in a capital project (Category B)	100	80	(20)	20
Expenditure underspend due to other factors (Category C)	70	40	(30)	30 ^b
Demand driven protected program	100	60	(40)	0
Gain/loss on sale of assets	0	(4)	(4)	0
Depreciation expense	6	5	(1)	0

In this example an agency has total expenses of \$2.5 billion. The total potential carry forward which can be assessed is \$150 million, as the other items (demand driven program, gain/loss on sale of assets, and depreciation expense) are excluded items.

The treatment of this carry forward application will be assessed by Treasury (assuming that all requested rollovers were for the purpose they were provided) as follows:

- The \$100 million amount as a result of Commonwealth National Partnership re-profiling (Category A) would be recommended to the Treasurer for approval in full.
- The \$20 million amount will be recommended to the Treasurer for approval, subject to an assessment by Treasury as to whether it is genuinely as a result of a timing issue, outside of the control of the agency (Category B).
- The \$30 million expenditure underspend due to other factors (Category C) will be recommended for approval depending on when it is declared:
 - If declared by Period 8:
 - 100 per cent of the amount will be recommended to be carried forward.
 - If declared in Period 9 or Period 10:
 - 100 per cent of the amount will be recommended to be centrally pooled.
 - If declared after Period 10
 - \$5 million, plus 60 per cent of the remainder (\$25 million x 60%= \$15 million), i.e. \$20 million is eligible to be centrally pooled.
 - This amount is then subject to a cap of 0.5 per cent of the agency's total expenditure (\$2,500 million x 0.5% = \$12.5 million). Given this, only \$12.5 million is eligible for carry forward and is to be centrally pooled, from the original \$30 million requested.
 - This results in a net cost of services reduction of \$17.5 million to this agency should the carry forward be declared late.

^b Carry forward amount is dependent on the period when it is declared

Example 2: Agency with total expenses of \$4.5 billion

Type of Adjustment	Budget \$mill	Actual \$mill	Variance \$mill	Potential Carry Forward \$mill
Commonwealth National Partnership linked expenditure (Category A)	500	400	(100)	100
Expenditure underspend as a result of a delay in a capital project (Category B)	100	80	(20)	20
Expenditure underspend due to other factors (Category C)	70	40	(30)	30 ^c
Demand driven protected program	100	60	(40)	0
Gain/loss on sale of assets	0	(4)	(4)	0
Depreciation expense	6	5	(1)	0

In this example an agency has total expenses of \$4.5 billion. The total potential carry forward which can be assessed is \$150 million, as the other items (demand driven program, gain/loss on sale of assets, and depreciation expense) are excluded items.

The treatment of this carry forward application will be assessed by Treasury (assuming that all requested rollovers were for the purpose they were provided) as follows:

- The \$100 million amount as a result of Commonwealth National Partnership re-profiling (Category A) would be recommended to the Treasurer for approval in full.
- The \$20 million amount will be recommended to the Treasurer for approval, subject to an assessment by Treasury as to whether it is genuinely as a result of a timing issue, outside of the control of the agency (Category B).
- The \$30 million expenditure underspend due to other factors (Category C) will be recommended for approval depending on when it is declared:
 - If declared by Period 8:
 - 100 per cent of the amount will be recommended to be carried forward.
 - If declared in Period 9 or Period 10:
 - 100 per cent of the amount will be recommended to be centrally pooled.
 - If declared after Period 10
 - \$15 million, plus 60 per cent of the remainder (\$15 million x 60%= \$9 million), i.e. \$24 million is eligible to be centrally pooled.
 - This amount is then subject to a cap of 0.5 per cent of the agency's total expenditure (\$4,500 million x 0.5% = \$22.5 million). Given this, \$22.5 million is eligible for carry forward and is to be centrally pooled, from the original \$30 million requested.
 - This results in a net cost of services reduction of \$7.5 million to this agency should the carry forward be declared late.

^c Carry forward amount is dependent on the period when it is declared

Agencies with total expenses over \$3 billion (based on 2014–15 Budget Paper 3):

- Department of Police and Justice
- Department of Education and Communities
- Department of Family and Community Services
- Ministry of Health
- Transport for NSW
- Roads and Maritime Services
- Crown Finance Entity

Carry Forward Agency template

This attachment is spreadsheet template for the carry forward request.

Click here to access the spreadsheet.