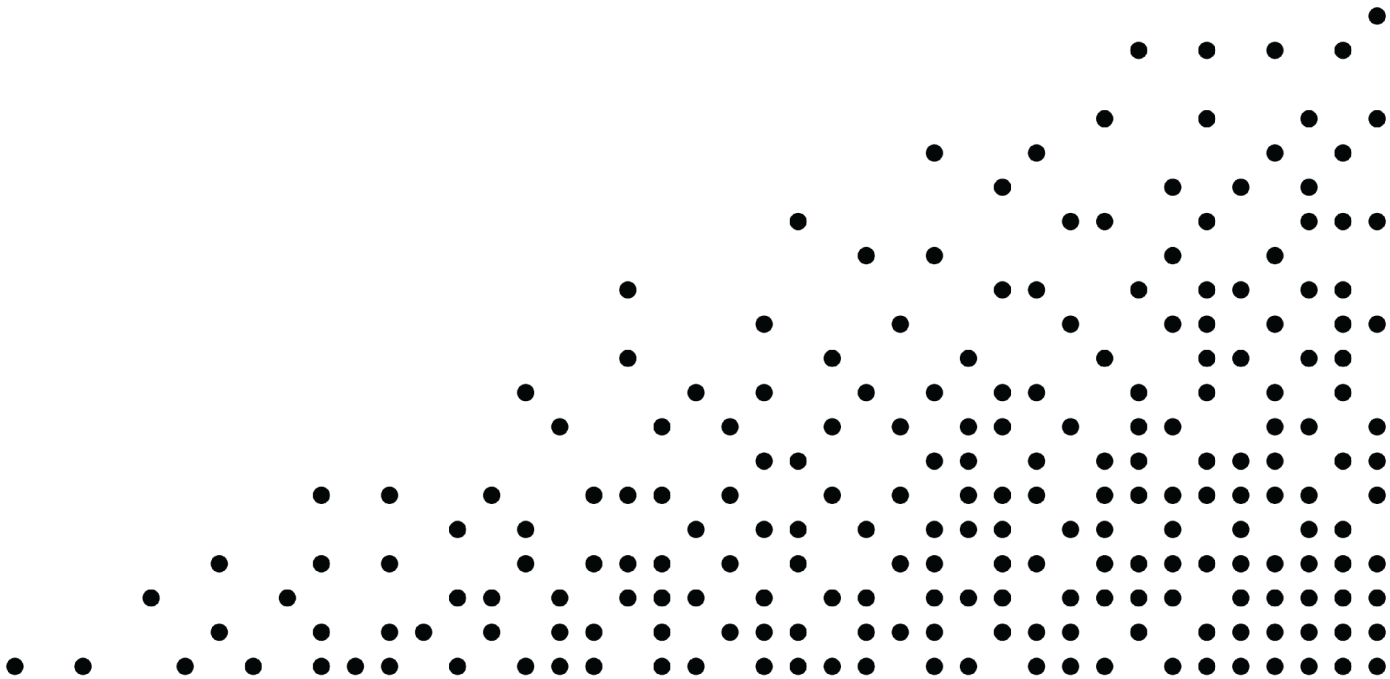
Australian Government
Department of Finance

BUDGET PROCESS OPERATIONAL RULES

Effective 18 December 2023



INTRODUCTION

The Budget Process Operational Rules (BPORs) are standing rules endorsed by the Cabinet that outline the major administrative and operational arrangements for managing the Australian Government Budget (the Budget) and its related processes.

The BPORs are designed to support implementation of the Government's priorities in a way that is consistent with the Economic and Fiscal Strategy (Fiscal Strategy). The BPORs are supported by guidance provided in the Cabinet Handbook (particularly around timeframes for lodging Cabinet submissions). They are also supported by Estimates Memoranda issued by the Department of Finance (Finance) that provide instruction, guidance and advice to entities on Budget matters, including those requirements specified in the BPORs.

Adherence to the BPORs is mandatory, unless otherwise agreed to by the Prime Minister or the Cabinet. Adherence to Estimates Memoranda issued by Finance is also mandatory.

The BPORs will be effective from the Cabinet agreement date until revised (unless otherwise specified by Cabinet).

The BPORs are classified 'OFFICIAL: Sensitive' to facilitate distribution within the General Government Sector and to promote an understanding of the Government's Fiscal Strategy and policy-making requirements.

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PART 1: BUDGET POLICY OBJECTIVES

The policy development processes and requirements outlined in the BPORs guide the development of the Budget and support delivery of the Government's priorities alongside the overarching Fiscal Strategy.

- The Fiscal Strategy is focused on the objectives of strong, inclusive, and sustainable economic growth, full employment, growing real wages, ensuring women's economic participation and equality, and improving living standards and wellbeing for all Australians.
- The Fiscal Strategy aims to deliver the Government's commitment to achieve measured improvements in the budget position and reduce gross debt as a share of the economy over time. The Government's Fiscal Strategy aims to be responsive to economic conditions and support macroeconomic stability, including in times of high inflation.

In developing their portfolio priorities and managing their budget estimates, Ministers and entities are to be cognisant of the Government's Fiscal Strategy as well as the requirements outlined in the BPORs. Broadly, the BPORs encompass an expectation that all budget-related decision-making is underpinned by core budget and policy development objectives that include:

- ensuring quality spending and responsible budget management.
- evaluating expenditure.
- advancing gender equality.
- realising a better future for First Nations peoples.
- measuring what matters.

ENSURING QUALITY SPENDING AND RESPONSIBLE BUDGET MANAGEMENT

To help meet its fiscal objectives and manage challenges such as higher inflationary outcomes, the Government seeks to carefully direct expenditure towards priority initiatives and ensure that expenditure decisions reflect Australia's economic conditions, while building capability and expanding the productive capacity of the economy. Budget repair, including reprioritising expenditure to deliver better quality spending, will continue to be a priority in order to address significant fiscal pressures.

The Government expects entities to:

- uphold the principle that all expenditure should constitute a proper use and management of public resources, and the most efficient, effective, economical and ethical way to achieve maximum economic benefit for Australians.
- ensure that new policy proposals (NPPs) target areas of genuine need, and repurpose, consolidate or reform existing programs and expenditure wherever possible.
- design and implement initiatives which do not duplicate or overlap with existing funding, which are well-targeted to deliver on intended outcomes, and which are supported by a clear need (and/or business case) for Commonwealth investment.
- provide a clear policy implementation plan, framed in terms of the tangible outcomes and with clear identification of implementation risks and mitigation strategies.
- assess and explain the impact of potential programs on the economy and output, and related individual, community wellbeing, and gender equality impacts.
- commit to restore public trust in government and strengthen the integrity of our institutions, especially through developing and running transparent grant programs, and ensuring that programs are designed to minimise fraud risk.

- plan for and pursue ICT solutions and digital and ICT-enabled policy proposals in an organised and collaborative manner through the Digital and ICT Investment Oversight Framework. This includes the requirement that entities engage with the Digital Transformation Agency (DTA) and provide all necessary information before digital and ICT-enabled investment policy proposals are brought forward for consideration by Government, and continue their engagement with the DTA throughout the Budget process.

EVALUATING EXPENDITURE

The Government recognises that evaluation of government programs is key to ensuring the effective and efficient use of government funding (Rule 1.13). The Government expects entities to:

- draw on evidence and use the findings of previous program evaluations to inform development of future NPPs.
- clearly articulate program objectives, and detail what outcomes and impact a policy proposal is expected to deliver over the short-, medium-, and long-term.
- identify the steps the portfolio will take to monitor a program's success, alter the program parameters to improve its success and identify how the lessons learned from that policy proposal will be applied to future NPPs.
- consider risks, mitigations and potential impacts beyond the portfolio responsible for implementation, including potential adverse impacts on disadvantaged cohorts or perverse incentives.



See **Part 3: Matters to Consider when Developing New Policy Proposals** for further information on the resources available to assist with policy evaluation planning.

ADVANCING GENDER EQUALITY

The Government is committed to advancing gender equality and recognises that the Budget process is a critical enabler to realise this goal.

Gender Responsive Budgeting embeds gender equality as a key consideration in the Budget process.

- Gender analysis provides a foundation for ensuring policies address the needs of all people, so that they support an equitable and inclusive society. Gender analysis helps determine whether a proposal has a differentiated impact based on gender and what that impact may be. Gender analysis should be targeted and proportional, ensuring that the effort in conducting an analysis is proportional to the potential impact, value and scope of the policy. All proposals require a preliminary level of gender analysis to help inform whether they should undertake further analysis, and complete a Gender Impact Assessment.
- A Gender Impact Assessment requires more comprehensive analysis and sets out a detailed understanding of the gender impacts of the policy proposal and the impact on gender equality. It also outlines where gender analysis has been used to inform the policy design to deliver better gender equality outcomes.

The Government expects Ministers and entities to consider the gender impacts of the policy throughout the policy development process.



See **Part 3: Matters to Consider when Developing New Policy Proposals** for further information on the resources available to assist with Gender Responsive Budgeting.

REALISING A BETTER FUTURE FOR FIRST NATIONS PEOPLES

The Government is committed to further progress the wellbeing of First Nations peoples by prioritising equal opportunity, removing barriers to seek and retain jobs and access essential services and improving social outcomes. The Government is also committed to greater strategic leadership to support accelerated action to consistently embed the four Priority Reforms of the National Agreement on Closing the Gap (National Agreement) throughout the Australian Public Service.

In developing NPPs, the Government expects entities to:

- identify the likely impacts of the proposal on First Nations peoples, including any impacts beyond the scope of the National Agreement. Where there is an impact on First Nations peoples, NPPs are to identify pathways for working in partnership with First Nations communities and stakeholders throughout the policy life cycle.
- engage with the National Indigenous Australians Agency as early as possible in the policy development process.
- identify how their NPP could support the Government to meet its obligations under the National Agreement, including the Priority Reforms, socioeconomic targets and cross-cutting policy areas.
- demonstrate how they will work in partnership with the community-controlled sector and peak organisations to:
  - strengthen and build capability within the community-controlled sector consistent with Clause 45, 71(d) and 72(d) of the National Agreement; and
  - allocate a meaningful proportion of funding to community controlled First Nations organisations to leverage their unique expertise to deliver culturally safe essential services, consistent with Clause 55b of the National Agreement.



See **Part 3: Matters to Consider when Developing New Policy Proposals** for further information relating to NPPs that progress the wellbeing of First Nations peoples.

MEASURING WHAT MATTERS

In July 2023, the Government released its first wellbeing framework: *The Measuring What Matters Statement and Framework* (the Framework). The Framework reports on 12 dimensions of wellbeing under five themes (Healthy, Secure, Sustainable, Cohesive and Prosperous) to bring attention to, and track progress on, the factors important to individuals and community wellbeing and longer-term prosperity.

The Framework can be used by entities to support the development of more informed policies, through analysis of the potential policy impacts on the economy, society and the environment. Entities can use the Framework to:

- consider the dimensions of the Framework as a guide to measuring wellbeing during policy development.
- use both qualitative and quantitative data to identify potential wellbeing impacts.
- collaborate across agencies and different levels of government to better understand the impacts of their NPPs on the wellbeing of Australians.

As the Framework matures, the Government will look to develop a set of wellbeing goals that guide Departments when developing new policies, and support Cabinet to better consider Australia's longer-term prosperity as part of decision-making.

PART 2: RULES - POLICY PROPOSAL DEVELOPMENT

The following section sets out requirements for new policy proposals (NPPs). This section should be read in conjunction with ***Part 3: Matters to Consider when Developing New Policy Proposals***, which sets out a range of frameworks and requirements that may be relevant to different policies as well as sources of additional guidance.

Entities should also consider these frameworks and requirements and ensure that their NPPs are developed to meet them wherever possible. This includes ensuring that the NPP clearly articulates the problem it is seeking to address, how the solution will address this and all risks and sensitivities associated with the NPP.

Entities should also consult widely when developing an NPP and must consult with other affected entities and central agencies. Early and full consultation can help ensure that all relevant considerations are addressed and reduce the chance of unexpected delays later in the NPP development and agreement process. In particular, entities should ensure other entities (such as service delivery entities) who will share responsibility for implementation have input in the design phase of the policy proposal.

1. NEW POLICY PROPOSALS

All NPPs must have authority from the Cabinet or the Prime Minister[1] to come forward for consideration.

1.1. The BPORs apply to NPPs (decisions sought by Ministers) that have a certain or potential financial impact within the forward estimates period or beyond. These include NPPs which:

a. entail changes to the underlying cash balance, fiscal balance, headline cash balance, gross debt, net debt or net worth (including moving expenditure from beyond the forward estimates into the current forward estimates).

b. have receipt, revenue, payment or expense implications.

c. have changes in expenses offset by changes in other expenses or user charges.

d. change the level of a financial cap or modify eligibility criteria for a program, including for a capped demand-driven program.

e. create a legal, financial, contingent or other commitment for the Commonwealth.

f. seek authority to launch, negotiate or conclude a Free Trade Agreement (FTA).

g. entail a change that the Minister has the authority to make under relevant legislation.

h. change the intent of a previous policy decision or position, including NPPs that are fully offset, absorbed within existing resources, or involve reallocations between or within outcomes.

i. terminate or close a program prior to the completion point or end date specified in legislation or in the initial policy authority provided by Government.

j. provide no-win, no-loss supplementary funding based on actual expenditure incurred.



See **Glossary** for definitions of ***Free Trade Agreement***, ***demand-driven program***, ***reallocations*** *and* ***underlying cash balance.***

[1] A delegate acting on behalf of the Prime Minister, such as the Cabinet Secretary, may provide or alter authority to bring forward policy proposals.

1.2. For expenditure and non-taxation revenue related matters, Finance will determine what constitutes an NPP. For taxation revenue related matters, Treasury will determine what constitutes an NPP.

a. Entities must consult with Treasury and Finance to determine whether a revenue policy proposal is taxation or non-taxation (including charging) in nature.

b. A material change in the accounting classification of financial transactions, such as reclassification from non-taxation to taxation revenue, can only occur after agreement is provided by Treasury and Finance.



See **Glossary** for definition of ***charging.***

1.3. NPPs must identify Average Staffing Level (ASL) increases required for implementation (consistent with the costs agreed by Finance).

a. NPPs should consider the existing and proposed balance of the agency workforce, how proposals will reduce reliance on consultants, contractors and labour hire over time, and build internal core capability.

1.4. To support Government oversight of the size and composition of the APS workforce, additional ASL can only be agreed by ERC or the Prime Minister as part of considering the NPP.

1.5. An entity can seek approval to increase the number of its Senior Executive Service (SES) officers in one of two ways:

a. by decision of Government through the Budget process – where an entity proposes to add SES positions and requires additional funding or ASL to do so, it can seek those additional SES positions through an NPP or a Cabinet submission.

b. approval from the Minister for the Public Service – where an entity needs to add SES positions, has sufficient funding, and is below its ASL estimate, it can seek approval from the Minister for the Public Service, through the Australian Public Service Commissioner.



See **Glossary** for definition of ***Average Staffing Level.***

1.6. All correspondence from Ministers to the Prime Minister, the Treasurer, the Minister for Finance or the Cabinet Secretary relating to NPPs must be copied to the Prime Minister, the Treasurer and the Minister for Finance. Such correspondence must be provided as early as possible, to allow adequate time for consideration.

REVENUE PROPOSALS

1.7. Further to the above, all taxation revenue/receipts (including tax expenditure/concessions) NPPs must also have the Treasurer's agreement that the NPP can be brought forward for consideration, unless authority is expressly provided by the Prime Minister or ERC. The NPP must be brought forward by the Treasurer, or jointly with the Treasurer, unless the Treasurer agrees otherwise. Agencies should consult with the Treasury early in the policy development process. NPPs considered consistent with Rules 5.1 (a) to (d) (agricultural levies and those related to the Indirect Tax Concession Scheme) are exempted from these requirements.

1.8. In seeking the Treasurer's agreement for a tax expenditure or concession, Ministers should note whether alternative methods of delivery were considered and why a tax expenditure or concession is the preferred approach. Upon receiving agreement from the Treasurer to bring forward the NPP for consideration, the NPP should include a justification of why a tax expenditure is preferable and address whether it should be self-assessed, uncapped, permanent or subject to review.



See **Glossary** for definition of ***revenue policy proposals.***

DIGITAL AND ICT PROPOSALS

1.9. Entities must consult with the Digital Transformation Agency (DTA) before seeking authority to come forward for ERC agreement to digital and ICT-enabled NPPs, to meet the requirements of the Digital and ICT Investment Oversight Framework. Entities must obtain the DTA's approval that the ICT elements of an NPP align with whole-of-government ICT policies before it can be brought forward for consideration. This includes agreeing an Assurance Plan with the DTA for the proposed investment.

1.10. Entities developing digital and ICT-enabled NPPs must also consult with the DTA to assist it to determine whether a proposal should be subject to the ICT Investment Approval Process.

1.11. Entities must provide requested information to the DTA on any digital and ICT-enabled NPP or project to the standards required by the DTA to exercise its oversight role. Where entities are providing information to Cabinet or a Cabinet committee on the progress of a digital and ICT-enabled priority, the DTA must declare that sufficient information has been provided to the DTA before entities provide their information to Cabinet or the Cabinet committee.



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information on requirements of the Digital and Information Communication Technology (ICT) Investment Oversight Framework.

RE-USE OF EXISTING SYSTEMS AND STRUCTURES

1.12. NPPs must canvass whether proposed activities could be implemented and managed through shared and common services or the use of existing entity structures, business processes, technology and infrastructure, including in other portfolios.

EVALUATION OF PROPOSALS

1.13. Entities are to develop evidence-based NPPs which articulate measurable outcome and impact objectives, considering the risks, mitigations and potential adverse impacts on any cohorts. Entities should provide sufficient detail to demonstrate that an evaluation plan will be established in the early stages of policy implementation, taking into account the Commonwealth Evaluation Principles (fit for purpose, useful, robust, ethical and culturally appropriate, credible and transparent where appropriate), to allow the effectiveness and efficiency of programs to be measured and assessed over time, consistent with the Commonwealth Evaluation Policy.



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information on the Commonwealth Evaluation Policy.

RISK ASSESSMENT AND ASSURANCE REVIEWS

1.14. Entities must comply with the Government's Risk Assessment and Assurance Reviews process for NPPs, including completion of a Risk Potential Assessment Tool for eligible NPPs.



See **Glossary** for definitions of ***Assurance Reviews*** and ***Risk Potential Assessment Tool.***



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information on risk management.

LEGAL RISK, CONSTITUTIONAL SUPPORT AND LEGISLATIVE AUTHORITY

1.15. All NPPs that involve expenditure, including combined expenditure and savings NPPs that produce net savings, must include the constitutional risk rating (i.e., 'high', 'medium' or 'low') for the expenditure as assessed by the Australian Government Solicitor (AGS) and the proposed legislative authority for the expenditure (if required), as informed by AGS advice.

a. NPPs with elements assessed by the AGS to be 'high risk – particularly vulnerable' cannot be brought forward for consideration.

b. NPPs with elements assessed by the AGS as 'high risk' may only be brought forward if they incorporate a strong case for not further mitigating constitutional risk and include an outline of the strengths and weaknesses of the options which would mitigate risk.

   i. Where a submission contains an NPP/NPPs with high constitutional risk, that is not proposed to be mitigated, the submission must outline the risk in the 'Key risks and sensitivities' section of the submission.

c. Where an NPP does not propose a material change to existing policy parameters (e.g., for an extension of existing program funding) the entity may rely on the constitutional and legislative authority risk assessment obtained from the AGS for the existing program expenditure.

d. Where the Government has agreed to an NPP which was not informed by (new or existing) AGS advice, the entity must seek a constitutional and legislative authority risk assessment from the AGS for the proposed expenditure. Where the expenditure is assessed by the AGS to be 'high constitutional risk' and the responsible Minister considers the risk can be reduced (as informed by the AGS advice), they must write to the Prime Minister advising the level of constitutional risk and options to lower the constitutional risk.

e. All new or materially changed spending activities, which are proposed to rely on the *Financial Framework (Supplementary Powers) Regulations 1997* (the FF(SP) Regulations), must be authorised either by a new Schedule 1AB item or an amendment to an existing Schedule 1AB item, unless an existing item in the FF(SP) Regulations was drafted expressly to cover the scope of the new or changed activity (as informed by the AGS advice).

1.16. All NPPs must include the following things in the form specified by the Cabinet Handbook and the NPP template:

a. A statement that:

i. the proposal or proposals in the NPP require or do not require legislative change to be lawfully implemented; or

ii. it has not been possible to determine if legislation will be required, and the reasons why.

b. When legal advice has been given to inform the statement in Rule 1.16(a):

i. a succinct summary of that legal advice, which includes a clear explanation as to why legislation is or is not required for lawful implementation; and

ii. the identity of the legal provider who gave the advice (such as the Australian Government Solicitor or, if permitted by the *Legal Services Direction 2017*, another legal practitioner).

c. A statement as to whether the Australian Government Solicitor has reviewed and agreed with any legal advice on whether legislative change is required.



Compliance with Rule 1.16 is distinct from compliance with Rule 1.15, which concerns the need for legislative change to authorise expenditure.



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to constitutional and legislative risks and issues.



See the Cabinet Handbook and the templates for Cabinet submissions and NPPs (published by the Department of the Prime Minister and Cabinet) for detailed information about the requirements for discussing legal, constitutional and legislative risks and issues in NPPs.

CHARGING

1.17. Entities must show charging as a funding option was considered and provide the rationale for charging, or not charging, when developing or altering a policy. NPPs that involve charging must apply and adhere to the Australian Government Charging Framework.

1.18. Where a Portfolio Charging Review (as required, on a rolling five-year basis) identifies an additional charging activity that requires Government agreement, NPPs may be brought forward as part of the relevant Portfolio Budget Submission for Cabinet consideration during the Budget process, without the Portfolio Minister being required to seek further policy authority.



See **Glossary** for definitions of ***charging*** and ***Portfolio Charging Review.***



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to the Australian Government Charging Framework.

GRANTS HUBS

1.19. In-scope entities must implement grant activities via the Government's nominated Grants Hubs using the ICT platforms and business processes available from their service catalogue. Portfolio Ministers may seek a temporary deferral or permanent exemption from using a Grants Hub from the decision maker (ERC or the Prime Minister) when seeking agreement to the NPP and must include justification of exceptional circumstances.

a. Finance may agree to extend a deferral previously granted.



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to the Commonwealth Grants Rules and Guidelines.

GENDER IMPACT ASSESSMENT

1.20. Entities must complete a Gender Analysis Summary for all NPPs and their covering Cabinet submission must outline the direct and indirect gender equality impacts of the proposal. The Gender Analysis Summary must be included in the submission and NPP consistent with current templates.

a. Entities must self-assess proposals against criteria in guidance documents provided by the Office for Women. Where a proposal meets any of the criteria, a Gender Impact Assessment Template is to be completed by the drafting entity in addition to the Gender Analysis Summary.

b. The completed Gender Impact Assessment Template must be included as an attachment to the NPP when it is circulated as an Exposure Draft and Coordination Final, and included in the submission when it is lodged as Final.



See **Glossary** for definitions of ***Gender Analysis Summary*** and ***Gender Impact Assessment.***



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to Gender Analysis and the Gender Impact Assessment Framework.

BALANCE SHEET PROPOSALS

1.21. Balance sheet NPPs are NPPs that involve investments in financial assets (commercial or concessional loans, equity investments, investment funds and derivatives created for interest earning (liquidity) purposes) and contingent liabilities (e.g., contractual or government guarantees, indemnities, warranties).

a. Balance sheet NPPs must be brought forward using the balance sheet NPP template.

1.22. Balance sheet NPPs which involve an investment or contingent liability of $100 million or more over the forward estimates, or $500 million or more over the life of the NPP, require:

a. agreement from the Treasurer and Minister for Finance that an NPP can be brought forward for consideration unless the Prime Minister or ERC has explicitly given authority for a balance sheet NPP to come forward.

b. first pass and second pass consideration by ERC for approval.

1.23. In bringing forward NPPs for first pass consideration under Rule 1.22, entities must comply with the requirements of the Commonwealth Investment Framework and must:

a. demonstrate that a range of investment and delivery options and potential funding sources have been considered, which should include consultation with Treasury and Finance.

b. include a preliminary assessment of the NPP including identification of:

i. the problem the NPP is seeking to address.

ii. the key benefits, costs and risks of the proposal.

iii. stakeholder, social and environmental impacts.

iv. potential delivery and governance arrangements.

1.24. In bringing forward NPPs for second pass consideration under Rule 1.22, entities must comply with the requirements of the Commonwealth Investment Framework and must:

a. assess the financial impacts, including on underlying cash and fiscal balance, net debt, gross debt, and Public Debt Interest (PDI) over the life of the NPP.

b. undertake an economic benefit analysis including the extent to which the NPP supports productivity-enhancing investments that build a stronger economy, support private investment and create jobs. The economic benefit analysis must identify key operational risks and provide a detailed assessment of the financial risks (including the risk of default, refinancing and interest rate risk) associated with the NPP.

c. assess the potential for innovative financing and funding including through private sector involvement or partnership and through engagement of Treasury and Finance at the business case development stage of the NPP (unless the NPP is for the creation of an investment fund).

d. provide an estimate for the commercial rate of return should the investment be undertaken in the private market.

e. when proposing the creation of an investment fund, be able to clearly justify the benefits of investing the principal and using the fund to meet ongoing spending.

f. offset any impact on underlying cash, including any PDI costs associated with an increase in gross debt over the forward estimates.

g. identify the appropriate entity to administer or manage the investment. Existing Commonwealth expertise and capability should be used and duplication avoided where, and to the fullest extent, possible.

1.25. Balance sheet NPPs which involve an investment or contingent liability below the thresholds in Rule 1.22 must be developed consistent with the requirements of the Commonwealth Investment Framework.

1.26. The Green Bonds team at Treasury must be consulted on all climate change, energy transition and environmental NPPs (including balance sheet proposals), which involve a new commitment of $250 million or more to determine whether the NPP is suitable for financing through green bonds.



See **Glossary** for definitions of ***investment funds, financial risk*** and ***Fiscal Balance.***



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to the Commonwealth Investment Framework.

MAJOR INFRASTRUCTURE PROPOSALS

1.27. Major infrastructure policy or project proposals (that are not balance sheet NPPs), which involve a Commonwealth contribution of $250 million or more must come forward through a two-pass consideration process. In bringing forward such policy or project proposals entities must:

a. demonstrate that a range of financing options have been considered prior to first pass consideration, including consultation with Treasury and Finance.

b. ensure that Infrastructure Australia has positively assessed the business case prior to second pass consideration of the NPP for investment.

c. comply with the requirements of the Commonwealth Investment Framework.



See **Glossary** for definition of ***Major Infrastructure NPPs.***



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to the Commonwealth Investment Framework.

CAPITAL EXPENDITURE

1.28. All capital expenditure NPPs that entail purchase (including finance leases) of new assets, capital expenditure on existing assets or replacement of existing assets of more than $15 million in any one financial year, or $45 million in total over the Budget and forward years, that are funded from within existing capital expenditure estimates (including where this entails the drawdown of prior year appropriations), require an NPP and a business case as part of the costing.

a. For Defence requirements see Rule 5.12 and *Attachment 4 – Defence Requirements*.

b. For digital and ICT-enabled policies, see *Part 3: Matters to Consider when Developing New Policy Proposals*.

PROPERTY PROPOSALS

1.29. Property policy proposals (including remediation and rehabilitation of land NPPs) from non-corporate Commonwealth entities and corporate Commonwealth entities which are estimated to have a total cost of $30 million or more (excluding fit outs) must comply with the Two Stage Capital Works Approval Process.



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to property NPPs and the Two Stage Capital Works Approval Process.

JOB CREATION PROPOSALS

1.30. Entities must consult with Treasury when making claims in an NPP about the number of jobs supported or jobs created through an NPP.

a. Rule 1.30 does not relate to explanations of the direct staffing required to implement the NPP (such as ASL or contractors) or where direct employment effects have been costed by Finance (such as for employment NPPs).

2. FINANCIAL OFFSET REQUIREMENTS

Rule 2 details the financial offsets requirements – that NPPs that have a negative impact on the Budget must be fully offset.

This rule should be read in conjunction with *Attachment 1* – *Non-Genuine Offsets* which sets out NPPs which are not considered genuine offsets. Savings from such NPPs cannot be used to offset new expenditure.

2.1. All NPPs that have a negative impact on the Budget (the underlying cash balance) must be fully offset, unless:

a. the NPP is to implement a costed election commitment included in the Government's *Plan for a Better Future: Better Budget, Better Economy* and the costs align with the costs in that document. Any additional costs must be offset.

b. explicit permission has been granted by the Prime Minister, ERC or the Cabinet Secretary (following consultation with the Treasurer and the Minister for Finance) for the NPP to be brought forward without full or partial offsets.

2.2. NPPs that are brought forward expressly as an offset for an expenditure NPP (which must be offset) have authority to be brought forward.

2.3. Where the Prime Minister, ERC or the Cabinet Secretary has provided authority for an expenditure NPP to come forward on the basis that it will be offset, the responsible Minister may elect not to bring forward the NPP should the Minister be unable to identify lower priority existing expenditure to offset the NPP.

a. Where a Minister elects to not bring forward an NPP, this should be noted in the relevant Cabinet submission or the Minister may advise the Cabinet Secretary in writing.

b. This rule only applies to expenditure proposals that have been initiated by the responsible Minister.

2.4. Offsetting savings NPPs should be brought forward in the same submission as the associated spending NPP. Where this is not possible, the Minister may bring forward the offsetting savings NPP:

a. in a separate submission to be considered at the same meeting.

b. in a submission to be considered at a future meeting provided that submission has been scheduled for consideration by the Cabinet Secretary and costs for the offsetting savings NPP have been provided to Finance or Treasury.

2.5. The impact on underlying cash over the forward estimates of PDI costs associated with an increase in gross debt, must be offset for all NPPs that involve transactions in financial assets for policy purposes (such as loans and equity investments).

a. Interest repayments associated with a transaction in financial assets for policy purposes may be brought forward as genuine offsets for PDI costs associated with the same transaction.

b. As part of the decision-making process, the ERC may decide that offsets are required for impacts beyond the forward estimates.

2.6. All offsets must be genuine expenditure or non-taxation revenue offsets, unless the Treasurer agrees that taxation revenue offsets can be brought forward. Genuine offsets are deliberate policy decisions which improve the underlying cash and fiscal balance, resulting from:

a. a reduction in expenditure (including capital expenditure) below the level of expenditure currently included in the budget estimates.

b. a discretionary reprioritisation of priorities by a Minister.

c. a quantifiable increase in revenue (either taxation and/or non-taxation) from a decision to change policy settings which results in an increase of revenue above that currently included in the budget estimates.



For a list of non-genuine offsets see ***Attachment 1* – *Non-Genuine Offsets*.**

2.7. Where proposed new expenditure is ongoing, the duration of the proposed offset must also be ongoing and of the same or greater magnitude. The NPP must describe any financial impact created where a difference between the expenditure and offset profiles exists beyond the forward estimates.

a. Offsets are required for the full costs of NPPs that terminate beyond the forward estimates.



See **Glossary** for definitions of ***ongoing NPPs*** and ***terminating NPPs/measures.***

2.8. The total impact over the Budget year and forward estimates must be at least budget neutral. Entities are strongly encouraged to align the profile of the offset with that of the proposed expenditure.

2.9. Where there is a difference between the impact on the fiscal balance and underlying cash balance in an expenditure NPP, the offsetting NPP must offset the impact on the underlying cash balance.

2.10. Offsets are not required for the modelled revenue components of FTAs. However, a provision for the estimated financial impact on receipts will be included in the Heads of Revenue as an estimates variation following Government approval of negotiating mandates where negotiations are nearing finalisation as identified in Cabinet submissions. The Treasurer may consider the suitability of existing FTA provisions ahead of each budget round. FTAs will be considered as measures upon signature of the agreements, as with other treaties.



See **Glossary** for definitions of ***Estimates Variation/Material Estimates Variation***, ***Free Trade Agreement***, ***Heads of Revenue*** and ***measure.***

2.11. Proceeds from the sale of a non-financial asset may be considered as offsets for capital expenditure NPPs, scoping studies and similarly defined, time-limited projects relating to the sale of non-financial assets.

2.12. Expenditure reductions achieved from a Government decision to impose a new cap on spending below the demand-driven program estimate, reduce a cap already in place, or to change eligibility requirements of the program may be used as offsets for NPPs.



See **Glossary** for definition of ***demand-driven program.***



For a list of non-genuine offsets see ***Attachment 1* – *Non-Genuine Offsets*.**

3. COSTING POLICY PROPOSALS

Rule 3 outlines the process for costing NPPs including the consultation process between respective stakeholders. Costings must provide an impartial, independent and reliable assessment of the financial cost of an NPP.

Costings underpin informed consideration of NPPs by Government and facilitate the inclusion of accurate estimates within Budget documentation. Prior to bringing NPPs forward, entities must engage in dialogue with Finance and the Treasury as early as possible.

3.1. Entities should provide all necessary costing information to Finance and/or Treasury for agreement at least six working days prior to:

a. the circulation of exposure drafts of Cabinet submissions (including Cabinet memoranda), noting that exposure drafts are due 16 working days prior to ERC consideration; or

b. an NPP being submitted to the Prime Minister for consideration.

3.2. Prior to being lodged for Government consideration, all payment/expense, capital and non-taxation revenue/receipt NPPs (including financial assets and guarantees) must have had costs agreed by Finance. All NPPs involving taxation revenue/receipts must have had costs agreed by Treasury. Costings agreed by Finance or Treasury do not indicate agreement to the policy proposal.

a. NPPs that include costs that are being met from existing resources must also have costs agreed by Finance.

b. PDI is not to be included in NPP costings, except where:

i. an NPP involves transactions in financial assets for policy purposes (such as loans and equity investments); or

ii. the policy has the objective of affecting the level of PDI payments.

c. For NPPs that involve the indexation of government expenditure, details of the proposed indexation arrangements must be agreed by Finance when costs are agreed and noted in the NPP.

3.3. All NPPs which have expected costs in the medium-term beyond the forward estimates[2]:

a. due to the NPP commencing later in the forward estimates or beyond the forward estimates; or

b. have material changes in costs beyond the forward estimates,

are required to be costed over the lesser of ten years or the duration of the NPP, with all costs to be agreed by Finance (for expense/payment, capital and non-taxation revenue/receipts components) and Treasury (for tax revenue/receipt components).

3.4. All NPPs involving financial risk (through the use of such financial instruments as loans including concessional loans and guarantees) must include an explicit assessment of the financial and other risks in the policy proposal, that has been agreed with Finance (further detail on the requirements for NPPs involving financial instruments is at Rules 1.22 to 1.27).



See **Glossary** for definition of ***financial risk.***

3.5. In almost all cases, only first round effects will be considered in costings.

[2] The Medium-term is defined as the seven years following the forward years published at Budget or MYEFO.

a. Consistent with the Charter of Budget Honesty Policy Costing Guidelines, discussion of any identifiable and material second round effects may be appropriate for inclusion in NPPs and Cabinet submissions. However, these broad second round effects and their underpinning assumptions should be considered by Finance and/or Treasury before they are included by the drafting entity and sponsoring Minister(s).



See the **Charter of Budget Honesty Policy Costing Guidelines** for further information on first round and second round effects in costing new policy proposals.

3.6. If the Cabinet agrees to a policy proposal for which costs are to be settled by Finance or the Treasury, the costs will be agreed with Finance for expense/payment, capital and non-taxation revenue/receipt NPPs. In the case of taxation revenue/receipt NPPs, the costs of such NPPs are to be agreed with the Treasury.

SHARED ACCESS TO ESTIMATES AND COSTING MODELS

3.7. Entities are required, as requested, to provide Finance and the Treasury with ongoing access to up to date working estimates and costing models, including de-identified data sources, working sheets and any supporting data and underlying assumptions held by entities, for the purposes of enhancing the quality and maintaining the integrity of Budget estimates and costings.

a. Entities are to ensure data access is facilitated in a timely manner to enable full and proper consideration of data sources and models.

b. Estimates models for certain programs may be jointly owned and operated by entities and Finance or the Treasury.

4. CONSULTATION AND CROSS-PORTFOLIO NEW POLICY PROPOSALS

Rule 4 details requirements for the development and costing of cross-portfolio NPPs. It recognises the importance of full and early consultation between all entities affected by an NPP and that lead entities have an obligation to ensure other affected entities contribute to policy development.

Consultation, including with the Office for Women, the National Indigenous Australians Agency, Services Australia, and the Digital Transformation Agency, is key to the achievement of many of the Government's objectives, as outlined in *Part 1: Budget Policy Objectives* of the BPORs.

4.1. The lead entity developing NPPs that have implications for other entities, including ASL implications, must share the draft NPPs with those entities (including service delivery entities, Grant Hubs and the Australian Taxation Office) early in the development process and before the exposure draft of the relevant submission is lodged.

a. Each affected entity must have the financial implications of the NPPs agreed by Finance (expense and non-taxation elements) or the Treasury (taxation elements) prior to the lodgement of the submission.

b. Lead entities that propose to offset NPPs through a cost sharing arrangement from entities outside their portfolio who may benefit from the NPP must consult with all entities that are included in the proposed cost sharing arrangement.

c. Where the lead entity proposes that the policy be delivered by an agency outside their Minister's portfolio, the delivery mechanism needs to be agreed by the Minister responsible for the delivery agency and this must be reflected in the NPP.



See **Glossary** for definition of ***lead entity.***

4.2. Where policy and implementation are divided between different entities, the NPP must:

a. identify the impact on each affected entity.

b. identify all service delivery costs and ASL impacts associated with the implementation of the NPP as agreed by all relevant entities.

c. contain agreed costs for all affected entities.

d. identify the source of the financial offsets, which must be agreed between the relevant entities.

4.3. The cross-portfolio governance arrangements for implementing the NPP must also be documented and agreed by the relevant entities.

RULES - DECISION-MAKING PROCESS

The section provides rules relating to the decision-making process for NPPs as well as guidance for NPPs considered outside the Budget process and the method to announce these Government decisions.

5. CONSIDERATION OF NEW POLICY PROPOSALS

Rule 5 outlines the decision-making process for NPPs of different sizes during the Budget process as well as outside the Budget process.

5.1. All NPPs that have actual or potential financial implications as defined in Rule 1.1 including material risks, must be considered by ERC prior to consideration by the Cabinet, unless the Prime Minister agrees otherwise.

a. NPPs to alter the levies on agricultural sectors can be agreed by the Minister for Agriculture, Fisheries and Forestry, while it remains within the Government levy setting policy, providing there is no net impact on the underlying cash and fiscal balance in any financial year. Costs of the levies must be agreed with Finance and Treasury prior to any decision. The Minister for Agriculture, Fisheries and Forestry must write to the Minister for Finance, with the Prime Minister and the Treasurer copied into that correspondence.

b. NPPs to alter the levies on agricultural sectors where the impact is less than $5 million in net terms over the forward estimates must have costs agreed with Treasury and Finance, and may be settled by the Treasurer, where there is a net revenue impact, or the Minister for Finance, where there is a net expenditure impact, through correspondence between the Minister for Agriculture, Fisheries and Forestry, copied to the Prime Minister and the Treasurer and/or Minister for Finance.

c. NPPs to alter the Indirect Tax Concession Scheme, where the impact on the underlying cash balance is nil or negligible (not zero but rounded to zero), must have costs agreed with the Treasury and may be settled by correspondence between the Foreign Affairs Minister and a Treasury Minister.

d. NPPs to alter the Indirect Tax Concession Scheme, where the impact on the underlying cash balance is larger than negligible, must have costs agreed with the Treasury and may be settled by correspondence between the Foreign Affairs Minister and a Treasury Minister, copied to the Prime Minister and the Minister for Finance.

MINOR NEW POLICY PROPOSALS

5.2. Minor policy proposals are those NPPs with total financial implications of $20 million or less over the Budget and forward years, including those with nil financial implications, provided they are fully offset for expenditure or an offset exemption has been granted. The following process will apply for the consideration of minor policy proposals brought forward in Cabinet submissions:

a. The Minister for Finance may consider minor policy proposals (unless Rule 5.2(b) applies), with decisions on these policy proposals to be forwarded to ERC for endorsement, including where:

i. a minor policy proposal is directly related to a recommendation without a policy proposal or financial implications — the minor policy proposal and related recommendation will both be considered by the Minister for Finance.

ii. a minor savings policy proposal is offsetting a minor spending proposal, they will be considered together unless Rule 5.2(a)(iii) applies (related minor spending and savings policy proposals must cross-reference each other before they can be considered).

iii. the associated offset is scheduled for consideration by ERC at a future meeting, or if the policy proposal has been granted authority to be brought forward without offsets.

b. The ERC will consider minor policy proposals in the following circumstances:

i. ERC agree through the Budget prioritisation process that minor policy proposals regardless of financial impact will be considered by ERC.

ii. the minor policy proposal is an integral part of a wider package being considered by the ERC.

iii. the Minister for Finance, or the Cabinet Secretary, may refer minor proposals, regardless of financial impact, to ERC for consideration. In referring matters to the ERC, the Minister for Finance and the Cabinet Secretary will have regard to whether proposals are part of an integrated package and should therefore be considered together, or are predominately regulatory rather than financial, or sensitive in nature.



See **Glossary** for definition of ***minor policy proposal.***

MAJOR POLICY PROPOSALS

5.3. Major policy proposals are considered by ERC and are those policy proposals with total financial implications over $20 million over the Budget and forward years or with a tax revenue component (including changes to tax concessions).

NEW POLICY PROPOSALS OUTSIDE THE BUDGET PRIORITISATION PROCESS

5.4. NPPs will only receive authority to come forward for consideration outside of the Budget prioritisation process where it can be demonstrated the policy need is significant, and the proposal is urgent, unavoidable and was genuinely unforeseen when the Budget prioritisation process took place.

NATIONAL AGREEMENTS AND FEDERATION FUNDING AGREEMENTS

5.5. All NPPs for new payments to the States brought to Cabinet are to identify the relevant Minister's negotiating mandate including proposed deliverables and payment design.

a. Entities are to consider how NPPs for new payments to the States will meet the obligations under the National Agreement on Closing the Gap, including how Priority Reforms and relevant socio-economic targets can be embedded within National Agreements and Federation Funding Agreements and reflected in the relevant Minister's negotiating mandate where appropriate.

5.6. The Council on Federal Financial Relations is responsible for overseeing the financial relationship between the Commonwealth and the States and should be notified of all proposed agreements, once policy authority has been agreed by the Prime Minister or ERC, to ensure they are consistent with the Federation Funding Agreements Framework.

5.7. National Agreements and Federation Funding Agreements should include stretch targets where appropriate, avoid provisions to renegotiate performance requirements where the original requirements are not met, only fund outcomes that are not otherwise funded by the Commonwealth, and avoid payments in advance of States demonstrating achievement of performance requirements.

5.8. National Agreements and Federation Funding Agreements should be designed to ensure final performance requirements are due before an Agreement expires to avoid final payments being made in advance of completion (e.g., finalise activity by 31 December and payment cycle by 30 June).

5.9. NPPs for expiring National Agreements and Federation Funding Agreements that provide funding for service delivery should be brought forward for consideration no later than:

a. in the MYEFO in the year preceding their expiry where the expiry date is the end of the financial year.

b. in the Budget preceding their expiry where the expiry date is the end of the calendar year.

5.10. No further policy authority is required to bring forward policy proposals for expiring National Agreements and Federation Funding Agreements under these arrangements.



Part 3: Matters to Consider when Developing New Policy Proposals provides additional information relating to Payments to States and Territories.

UNLEGISLATED MEASURES

5.11. If an agreed measure which requires legislation to be implemented has not passed through the Parliament and received Royal Assent within two years of its originally scheduled commencement date, Ministers are required to seek authority to bring forward an NPP outlining the pathway to passing the legislation, including any legislative changes and associated financial implications.

DEFENCE BUDGET MANAGEMENT ARRANGEMENTS

5.12. Defence budget management arrangements must also comply with the Defence specific requirements set out in *Attachment 4 – Defence Requirements*. This Attachment sets out requirements relating to the Defence Portfolio Budget Submission, the Defence Integrated Investment Program (DIIP) and Major Capital Investment Projects not in the DIIP.

6. ANNOUNCEMENT OF DECISIONS

Rule 6 details the process for seeking agreement to announce a decision prior to the release of the Budget or MYEFO. It is aimed at ensuring an orderly release of information and preserving the principle that Budget decisions should be announced in the Budget.

6.1. The Treasurer or the Minister for Finance, in consultation with the Prime Minister, Treasurer and/or Minister for Finance, may agree for a measure to be presented as a Decision Taken But Not Yet Announced in the next economic update and included in the Heads of Revenue or Contingency Reserve, respectively, unless otherwise indicated.



See **Glossary** for definitions of ***Contingency Reserve*** and ***Heads of Revenue.***

6.2. If there are exceptional circumstances where a Minister may want to make an announcement before Budget night or the release of a MYEFO, the Minister should seek agreement by outlining the reasons in the relevant Portfolio Budget Submission, or other standalone Budget submission. If a need subsequently arises, the Minister should seek written approval from the Treasurer, copied to the Prime Minister and the Minister for Finance.

a. Entities are to engage with the Treasury as soon as possible upon becoming aware that their Minister will seek agreement to an early announcement.

RULES: BUDGET ESTIMATES UPDATES

Budget estimates are updated to ensure that in the published Budget statements, program expenditure data is accurate. The following section covers the processes for updating program estimates, moving funding between years and reallocations.

7. ESTIMATES MODELS AND VARIATIONS

Rule 7 details the process for updating estimates, including the consultation required between entities and Finance, to ensure accuracy of estimates used in Government decision-making and published in the Budget papers.

7.1. Entities are required to provide accurate program level data of actuals (cash, expenditure and accrual expenses) to Finance on a monthly basis. Finance will, where necessary, seek further detailed information and initiate discussions on entity estimates.

7.2. Entities are required to enter all expected material estimates variations and approved changes to outcome and program structures into the Central Budget Management System (CBMS) by the close of the pre-ERC estimates update.



See **Glossary** for definition of ***Pre-ERC.***

a. Should there be a dispute regarding an estimate at program or entity level, Finance has the authority to enter, or direct an entity to enter, an estimate in cases where the adjustment is material and Finance considers that the risk to the accuracy and timeliness of the estimates is high.

b. Chief Financial Officers will be required to sign off that their entity has entered the Finance adjustment, but may choose to indicate that they do not take responsibility for the accuracy of that component of the entity's estimates. Finance will be responsible for the accuracy of the adjustment that is entered in these circumstances.



See **Glossary** for definitions of ***Estimates Variation/Material Estimates Variation.***

7.3. Entities are required to provide Finance with information on expected material variations within timeframes identified by Finance and/or the Cabinet. The information required must include an indication of the likely timing and financial impact of the variation.

7.4. Where an entity wishes to enter non-measure related material estimate variations as part of the Budget estimates update (that is, post Pre-ERC update), and have not previously provided information to Finance on the likely timing and financial impact, the Portfolio Department Secretary must write to the Secretary of Finance (or the Secretary of the Treasury for material tax revenue) copied to the Secretary of the Department of the Prime Minister and Cabinet.

a. The correspondence should advise of the need for the estimates adjustment and provide reasons why the adjustment was not included in the Pre-ERC update.



See **Glossary** for definition of ***measure.***

8. REALLOCATIONS AND RECLASSIFICATIONS

Rule 8 details the requirements and authority required for reallocations and reclassifications of funding including between different programs, outcomes and funding types. The reallocations and reclassifications rule should be read in conjunction with *Attachment 2 – Reallocations and Reclassifications*.

8.1. Unless a different threshold or process is identified in Attachment 2 to the BPORs, reallocations and reclassifications will be subject to the agreement of the Minister for Finance or Finance.

a. The Minister for Finance will consider reallocations or reclassifications valued at $20 million or greater. The Minister for Finance may refer requested reallocations and reclassifications to ERC, Cabinet or the Prime Minister for consideration.

b. Finance will consider reallocations or reclassifications valued below $20 million. Finance may refer requested reallocations or reclassifications below this threshold to the Minister for Finance for consideration.

Financial thresholds are determined at the CBMS Program level.

8.2. Reallocations/reclassifications of expenses or cash flows are limited to activities with existing policy authority.

a. Reallocations/reclassifications must not be used to fund new policy or to change the intent or position of a Government decision. These are NPPs and are to be dealt with in accordance with the rules for NPPs.

b. Reallocations/reclassifications must not have an impact to the budget bottom line in any single financial year or across the forward estimates. Reallocations with financial impacts between years are either movement of funds/expenditure or NPPs.



See **Glossary** for definition of ***Movement of Funds.***

8.3. Reallocations of departmental expenditure between programs or outcomes are at the discretion of the entity.

a. This discretion does not extend to reclassifications between operating and capital, or reclassifications between appropriation types – see Reclassifications in Attachment 2.

8.4. Underspends from demand-driven programs (including sub-programs) are not available for reallocation/reclassification to other programs (including sub-programs).



See **Glossary** for definitions of ***demand-driven program*** and ***sub-program.***

8.5. All requests for reallocation/reclassification of expenses or cash flows must identify the relevant outcomes, programs, appropriation acts (including the year) and amounts.

8.6. Portfolio Ministers may request that the impact of the efficiency dividend be reallocated between entities within their portfolio where there is no net financial impact in any financial year at a portfolio level. Request for such reallocations must be approved by the Minister for Finance and copied to the Prime Minister and the Treasurer.

9. MOVEMENT OF FUNDS

Rule 9 details the rules entities are required to adhere to when seeking to move funding between years. Outside of the two formal rounds leading up to the Budget and MYEFO, movement of funds requests should only be brought forward if they are urgent and unavoidable, and a decision is required prior to the next formal round.

9.1. The movement of funds process applies primarily to Administered and Departmental Capital funding. This rule should be read in conjunction with *Attachment 3* – *Movement of Funds*. Unless a different threshold or process is identified in Attachment 3 to the BPORs, movements of funds will be subject to the agreement of Finance or the Minister for Finance.

a. The Minister for Finance will consider movements of funds valued at $20 million or greater. The Minister for Finance may refer requested movements of funds to ERC, Cabinet or the Prime Minister for consideration.

b. Finance will consider movements of funds valued below $20 million. Finance may refer requested movements of funds below this threshold to the Minister for Finance for agreement.

Financial thresholds are determined at the CBMS sub-program level, unless they pertain to a Special Purpose Payment (SPP) jointly administered by the Treasury in which case they will operate at the SPP level.

9.2. For the purpose of Rule 9.1, the value of a movement of funds will be the total sum of funding being moved into an alternative year or years.

9.3. Movement of funds should be brought forward during the update periods in the lead up to the Budget and the MYEFO/Final Budget Outcome. Outside of the two formal rounds, requests for movement of funds should only be brought forward if they are urgent and unavoidable, or required to facilitate a payment to a State or negotiation of a Federation Funding Agreement in a timely manner, and a decision is required prior to the next formal round.

9.4. Movement of funds are limited to activities with existing policy authority. Movement of funds/expenditure from beyond the forward estimates into the forward estimates are NPPs.

a. The Minister for Finance or the Department of Finance may agree to movements of funds beyond the terminating date (thereby extending the terminating date) for a program or measure according to the thresholds at Rule 9.1, provided the movement is clearly within the original policy authority.



See **Glossary** for definition of ***Movement of Funds.***

10. OPERATING LOSSES

Rule 10 details the processes that entities are required to follow to budget for an operating loss in any financial year.

10.1. Excluding losses outlined in Rule 10.3, entities may not budget for an operating loss in any financial year, without the prior approval of the Minister for Finance. If an actual loss is greater than approved or exceeds the relevant threshold, the relevant Minister must report the loss to the Minister for Finance as soon as it becomes apparent.

a. The Minister for Finance may refer requests to budget for operating losses to ERC or the Prime Minister for consideration and in some cases may recommend to ERC that the Minister bring forward offsets.

10.2. For the purposes of determining if approval is required from the Minister for Finance for a planned or actual operating loss, entities are to exclude the impacts associated with AASB 16 *Leases*.

10.3. Entities may budget for the following operating losses and are to report these losses to Finance as soon as it becomes apparent, including a declaration that the loss does not impact the entity's financial sustainability. Finance will assess the proposed loss and may request that an entity obtain the Minister for Finance's approval.

a. An entity may budget for a technical operating loss (accounting and timing issues) outside the entity's control in the current or next financial year or across the forward estimates if the loss does not impact the entity's financial sustainability.

b. A charging entity[3] may budget for an operating loss (technical or other) in any financial year, if the loss does not exceed $10 million in any given year and does not impact the entity's financial sustainability.

c. Entities in the Agriculture, Fisheries and Forestry Portfolio which fund activities from levy revenue and Commonwealth matching funding may budget for a technical operating loss outside the entity's control in any financial year if the loss relates to these activities and does not impact the entity's financial sustainability.

d. Entities which already have an operating loss approved by the Minister for Finance over the forward estimates, may budget for a new operating loss for the new forward estimate year when it is created, where the reason for the operating loss remains unchanged, is outside the entity's control and does not impact the entity's financial sustainability.



See **Glossary** for definition of ***Operating Loss.***

11. OUTCOMES AND PROGRAM LISTS

Rule 11 outlines the process for commencing new outcomes or changes to existing outcomes.

11.1. The Minister for Finance must agree to any proposed new outcomes or changes to the wording of existing Outcome Statements before they can be presented in new appropriations bills (and consequently, Portfolio Budget Statements/Portfolio Additional Estimates Statements/ Portfolio Supplementary Additional Estimates Statements). Any changes to programs in the CBMS must be approved by Finance.

a. Requests to change program structures following Machinery of Government changes should be made at the same time as Outcome Statement changes.

b. Changes to existing Outcome Statements and programs should take effect from 1 July (beginning of each new financial period), unless otherwise required, for example, due to a Machinery of Government change.

[3] A charging entity is defined as an entity that has revenue from external sources in excess of 70 per cent of total revenue including cost recovery, user charging and own source revenue.

c. Entities must obtain the in-principle approval of Finance on any proposed outcome changes prior to receiving final sign-off on proposed outcome structures from their relevant Minister.



See **Glossary** for definition of ***Machinery of Government.***

12. ANNUAL APPROPRIATIONS

12.1. NPP and reclassification requests must give proper consideration to the correct classification of expenditure and requested appropriation type.

a. For example, funding for cloud computing arrangements (i.e. software as a service) and shared service arrangements are usually provided as operating funding. See RMG 109 Accounting for internally developed software and cloud computing arrangements and RMG 124 Capital budgeting by Commonwealth entities in the general government sector.

12.2. If required, entities must receive a reclassification decision and re-appropriation of actual funding prior to making any proposed payment(s) unless they are able to cash manage in the interim period. However, if an entity does not have an appropriate appropriation available, the payment(s) should be deferred until reclassification has been agreed and re-appropriation received in the next set of appropriation bills.

12.3. Using the principle of 'appropriation follows expenditure,' entities should consider on a case-by-case basis whether it is necessary to request re-appropriation when expenditure is moved or reclassified, particularly if the original appropriation remains valid.



See **Glossary** for definition of ***Annual Appropriation Act***.

PART 3: MATTERS TO CONSIDER WHEN DEVELOPING NEW POLICY PROPOSALS

Part 3 outlines various Government policies and frameworks which may be applicable to an NPP under development. In some cases, the policies and frameworks will assist entities to develop the NPP with rigour or may set out requirements that need to be fulfilled by entities for certain types of NPPs prior to Government consideration.

Entities are encouraged to consider these issues early in the development process to help ensure the policy is developed to the highest quality standards, thereby maximising its chances of being agreed by Government, and to minimise any significant hurdles late in the development or consideration process.

Note: a checklist of all requirements for NPPs is included in the NPP template.

Item	Consideration
Advertising Campaign Proposals	NPPs that involve advertising campaigns with budgets of $250,000 (GST inclusive) or more are subject to campaign advertising guidance. The Communications Advice Branch (CAB) in Finance can provide advice to support preparation. In preparing NPPs, where practicable, entities may wish to consult with the Master Media Agency to inform the media budget component. Once the Budget has been agreed by the Government, entities must consult with CAB to ensure compliance with campaign advertising governance and the Australian Government Guidelines on Information and Advertising Campaign by non-corporate Commonwealth entities. **Further information:** Advertising | Department of Finance
Australian Government Charging Framework	For each NPP that involves charging the non-government sector for government goods services or regulation, entities must apply the Australian Government Charging Framework*. This includes ensuring that all regulatory charging activities: • have policy authority from Government to charge. • have statutory authority to charge. • align revenue and expenses over time. • have up to date publicly available documentation and reporting (e.g., Cost Recovery Implementation Statement updated at least annually). • are examined as part of the five-yearly rolling Portfolio Charging Reviews. The rationale for charging, or not charging, must be included in the NPP. *Note: entities proposing charging as an approach or potential approach must ensure they are familiar with the Australian Government Charging Framework. Implementation of an NPP consistent with the AGCF will rely on the specific elements of the Government's decision and entities should consider this when developing and recommending charging NPPs. **Further information:** Implementing the Charging Framework (RMG 302) | Department of Finance
Commonwealth Evaluation Policy	In developing NPPs entities must ensure they consider how the policy will be evaluated consistent with the Commonwealth Evaluation Policy. The Commonwealth Evaluation Policy aims to embed a culture of evaluation and learning from experience to underpin evidence-based policy and delivery. It applies to all Commonwealth entities and companies subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In accordance with the Commonwealth Evaluation Policy, it is important to:

Item	Consideration
	• establish baseline data and robust performance monitoring early in the policy cycle, so changes can be measured and assessed over time. • ensure credible data and evidence is collected throughout implementation to support future evaluations, reviews and performance assessments. • use strategic, risk-based approaches to identify, prioritise and schedule evaluation activities. • ensure evaluation activities are conducted in accordance with the Commonwealth Evaluation Principles – fit for purpose; useful; robust, ethical and culturally appropriate, credible and transparent where appropriate. See guidance: RMG 130 – Commonwealth Evaluation Toolkit RMG 131 – Developing performance measures RMG 132 – Corporate plans for Commonwealth entities RMG 133 – Corporate plans for Commonwealth companies RMG 134 – Annual performance statements for Commonwealth entities **Further information:** Commonwealth Evaluation Policy | Australian Centre for Evaluation
Commonwealth Grants Rules and Guidelines	For NPPs that involve grants to grantees other than the Commonwealth, non-corporate Commonwealth entities must apply the *Commonwealth Grants Rules and Guidelines* 2017. When developing NPPs involving grants, entities must ensure that the NPP will comply with the *Commonwealth Grants Rules and Guidelines* 2017 if agreed by Government. **Further information:** Commonwealth Grants Rules and Guidelines 2017 (legislation.gov.au)
Commonwealth Investment Framework	All NPPs above $100 million should apply the Commonwealth Investment Framework to assess if there are any opportunities for innovative financing methods. **Further information:** RMG 308 – Commonwealth Investment Framework
Digital and ICT Investment Oversight Framework	Entities must consult with the Digital Transformation Agency (DTA) early in the development of all digital and ICT-enabled NPPs. The DTA works with entities to assess whether their proposals align with whole-of-government digital ICT policies before they are brought forward for Expenditure Review Committee consideration. **Further information:** Digital and ICT Investment Oversight Framework (IOF) | Digital Transformation Agency (dta.gov.au) ***Digital and ICT investment prioritisation process*** Entities expecting to bring forward major digital and ICT proposals are required to participate in the DTA's investment prioritisation process ahead of each Budget and MYEFO process. Proposals in-scope of this requirement are: • Digital and ICT investments with an initial ICT capital cost of $10+ million or total initiative costs of $30+ million; and • Pilot proposals of lower value, where the cost of the full project would reach this threshold. The DTA's advice will assist to inform decisions on whether major digital and ICT proposals are given authority to come forward. Failing to participate in the investment prioritisation process may result in proposals not being given authority. **Further information:** Prioritisation | Digital Transformation Agency (dta.gov.au) ***ICT Investment Approval Process (IIAP)*** The DTA administers the Government's ICT Investment Approval Process for NPPs, including internally funded proposals, that:

Item	Consideration
	• are ICT and/or digital-enabled (that is, the policy or service delivery outcomes are highly dependent on an underpinning ICT system). • have a total whole-of-life cost of $30 million or more, including total ICT costs of $10 million or more. • are high risk. The DTA will consider the risk rating for an NPP based on the entity's application of the Risk Potential Assessment Tool (RPAT), but it may reach a different rating based on applying its experience with previous NPPs of a similar or related nature. The rationale for a different RPAT rating will be set out. **Further information:** ICT Investment Approval Process | Digital Transformation Agency (dta.gov.au)
First Nations' people	NPPs are to consider potential intended and unintended impacts (positive and negative) on First Nations people – including but not limited to: location or place-based impacts and impacted demographics (e.g. age, gender, and socioeconomic status). NPPs are to identify how they support the Government's Closing the Gap commitments, including the Priority Reforms to: • work in partnership with First Nations peoples and community-controlled organisations in shared decision-making, ensuring voices are diverse and hold equal weight. • ensure transparency of decisions and that they are well understood. • support self-determination. • share access to data and information and provide adequate funding to support First Nations peoples to partner with government. To meet the requirements of Clause 55(b), NPPs are to identify opportunities for a "meaningful proportion" of funding to be allocated to Aboriginal and Torres Strait Islander organisations with relevant expertise, particularly community-controlled organisations. The National Indigenous Australians Agency (NIAA) manages the First Nations Impacts Framework. Entities are to engage with the NIAA as early as possible in the policy development process. **Further information:** FirstNationsImpacts@niaa.gov.au, National Agreement on Closing the Gap.
Gender Analysis and Gender Impact Assessment	All Cabinet submissions and NPPs must be informed by a gender analysis and include a Gender Analysis Summary. The Gender Analysis Summary is included in Cabinet submission and NPP templates. The level of detail and depth of gender analysis should be proportional to the potential impact, value and scope of the policy. Drafting entities are required to self-assess against the Gender Impact Assessment criteria and, if required, complete the Gender Impact Assessment Template. The completed Gender Impact Assessment Template must be included as an attachment with the New Policy Proposal when it is circulated for consultation (Exposure Draft, Coordination Final and Final). All gender analysis should consider how intersectional factors may compound gendered impacts. An intersectional approach recognises that a person's experience of inequality or disadvantage is shaped by the interaction of multiple circumstances and characteristics including age, disability, race, socioeconomic status or sexual orientation. **Further Information:** Including Gender: An APS Guide to Gender Analysis and Gender Impact Assessment | PM&C (pmc.gov.au)

Item	Consideration
Legislative authority – changes required for lawful implementation of a proposal	Entities and Ministers must consider whether proposals require legislative change in order to be lawfully implemented, as distinct from legislative change to authorise expenditure. This is to ensure that entities and Ministers have: • appropriately considered the legal and legislative basis for an NPP; • properly considered the legislative changes required to implement a proposal lawfully, if applicable; and • clearly identified the need for the legislative changes required for lawful implementation of the NPP. The Cabinet Handbook and NPP template outline the requirements for the sourcing, attachment, and description of legal advices obtained by agencies. **Further information:** Cabinet Handbook – current version available at PM&C website
Legislative authority – *Financial Framework (Supplementary Powers) Regulations 1997* (the FF(SP) Regulations)	For NPPs that involve new or materially changed expenditure and propose to rely on the FF(SP) Regulations, entities must work with Finance (FFSPRegs@finance.gov.au) to authorise the expenditure either by a new Schedule 1AB item or an amendment to an existing Schedule 1AB item, unless an existing item in the FF(SP) Regulations was drafted with the intention of covering the scope of the new or changed expenditure (as informed by the Australian Government Solicitor (AGS) advice). Section 32B of the *Financial Framework (Supplementary Powers) Act 1997* confers power on the Commonwealth to make, vary or administer an arrangement or grant, where relevantly specified in the FFSP Regulations, in circumstances where 'apart from this subsection, the Commonwealth does not have power to make, vary or administer' the arrangement or grant. The FF(SP) Regulations provide legislative authority for Commonwealth expenditure on a range of arrangements, grants and programs across all portfolios as specified in Schedules 1AA and 1AB to the FF(SP) Regulations. Commonwealth expenditure requires constitutional support and express legislative authority, with limited exceptions, in addition to an appropriation. If either of these requirements are not met, expenditure is likely to be unlawful. **Further information:** Financial Framework (Supplementary Powers) Regulations 1997 (legislation.gov.au)
Official Development Assistance	Entities are required to consult with the Department of Foreign Affairs and Trade when developing policy proposals that involves Official Development Assistance. **Further information:** Official Development Assistance (ODA) – OECD Homepage | Australian Government Department of Foreign Affairs and Trade (dfat.gov.au)
Payments to States and Territories	Entities are required to inform and consult the relevant Finance AAU, Commonwealth-State Relations Division in Treasury and the Commonwealth-State Relations Branch in the Department of the Prime Minister and Cabinet on all payments to States matters. Entities must comply with the design principles of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) and the Federation Funding Agreements (FFA) Framework when drafting agreements that facilitate payments to the States, and follow established processes for progressing those agreements. The IGA FFR, FFA Framework and circulars that provide guidance on the principles and process are available on the Federal Financial Relations website. See RMG 419 – Classification of Payments to other levels of government for specific purposes and Commonwealth Own-Purpose Expenses to determine whether a policy

Item	Consideration
	proposal includes a payment to the States (as opposed to a Commonwealth-Own Purpose Expense).
Policy Impact Analysis	All NPPs must be accompanied by a policy Impact Analysis (IA). The IA must be developed in accordance with the Australian Government Guide to Policy Impact Analysis. The IA must consider the impacts (costs and benefits) of proposals, including broad economic, social and distributional impacts, in addition to changes to red tape burdens which can often be only a small component of total impacts. The Office of Impact Analysis should be consulted early in the policy development process. In accordance with Government IA requirements, an IA for proposals with more than minor impacts must be finalised before a final policy decision is made, and published after a final policy decision announcement. **Further information:** Australian Government Guide to Policy Impact Analysis | The Office of Impact Analysis (pmc.gov.au)
Property new policy proposals	All property NPPs (including remediation and rehabilitation of land NPPs) from non-corporate entities and corporate Commonwealth entities which are estimated to have a total cost of $30 million or more (excluding fit-outs) are subject to the Two Stage Capital Works Approval Process (RMG 500). NPPs with property options must comply with the Commonwealth Property Management Framework. This includes works undertaken in Australia, its external territories and overseas. When developing NPP for capital works projects, entities should consider whether the project will need to be considered by the Parliamentary Standing Committee on Public Works (PWC). The PWC Procedure Manual provides entities with information regarding the Committee's role, the definition of a public work, the approval process (including estimated timeframes) and outlines the information required to be included in a submission. **Further information:** RMG 500 – Commonwealth Property Management Framework and Public Works Committee | Department of Finance
Proposals – multiple passes	Complex NPPs may need to go to the Expenditure Review Committee (ERC) through a two-pass (first and second pass), combined pass or staged approval process. The level of complexity of an NPP should be assessed during the development process. This may apply to NPPs with a significant degree of complexity around: • policy (including proposals seeking to undertake an activity where the Government has limited past experience). • proposed funding arrangements (such as complex loans, equity or guarantees). • risk. • state or international negotiations. • major Infrastructure proposals captured by Rule 1.22. • broad public consultation. First pass for complex NPPs will generally be seeking an indication of support and/or guidance on the broad parameters for an NPP from the Government. First pass for an NPP may also seek funding to support the development of a fully-costed second pass NPP, for purposes such as proof of concept work, research or consultation. Some NPPs will be required to go through the two pass, or staged approval process, should they meet certain thresholds and may have additional requirements. Examples of these include: • balance sheet proposals captured by Rule 1.22. • capital works projects with whole-of-life costs exceeding $45 million dollars. • digital or ICT enabled NPPs that are likely to have financial implications exceeding $30 million.

Item	Consideration
	The Government may also consider tailoring the approval pathway to a combined pass, such as for some Defence NPPs. NPPs that do not have the indicators above may still be returned by ERC for a second pass if they are considered to be underdeveloped, taking into account key factors and articulating the benefits of proceeding. Second pass in such cases may be MYEFO or the following Budget.
Proposals relating to the net zero economic transition	The Net Zero Economy Authority supports coordination and coherence across policies and programs directed at the net zero economic transition. This includes proposals relating to: • investment facilitation. • worker transition. • regional transformation. Entities progressing proposals relating to the net zero economic transition should consult early with the Net Zero Economy Authority.
Proposals to create new or change existing government bodies	NPPs to create a new primary or secondary statutory body, or to change the governance structure of an existing primary or secondary statuary body, must be assessed against the requirements of the Commonwealth Governance Structures policy. **Further information:** Commonwealth Governance Structures Policy (Governance Policy) | Department of Finance
Risk Management	Entities are required to comply with the Commonwealth Risk Management Policy in the development of policy and planning of program delivery. All NPPs must identify risks associated with the NPP as well as how these will be managed. These issues should be detailed in the NPP to facilitate informed decision-making. Where an NPP is being developed or implemented across multiple portfolios or entities, it is appropriate for each portfolio or entity to undertake an assessment of the risks and for this to contribute to the policy development. Comcover has resources on approaches to identifying and assessing the likelihood and consequence of risks and how best to manage them. **Further information:** Risk Management Services | Department of Finance RMG 107 – Risk Potential Assessment Tool RMG 211 – Implementing the Commonwealth Risk Management Policy

GLOSSARY

Accountable Authority	A Secretary of the Department (for Departments of State or Parliamentary Departments). The person or group of persons prescribed by the rules as the accountable authority of the entity (for listed entities). The governing body of the entity, unless otherwise prescribed by the rules (for bodies corporate established by a law of the Commonwealth). **Further information**: *Public Governance, Performance and Accountability Act 2013* and the PGPA Act List of Commonwealth entities and companies.
Administered Appropriations	Administered appropriation items are those administered by an entity on behalf of the Government. They are amounts required to meet the total estimated expenses/ expenditure for administered activities that are expected to be incurred in the budget year. They are normally related to activities governed by eligibility rules and conditions established by the Government or the Parliament such as grants, subsidies and benefit payments. Entities therefore have less discretion over how administered operating costs are incurred. Administered amounts are appropriated separately for each outcome (i.e., the split across outcomes is not notional). In limited circumstances, non-operating costs as discussed above are funded via the Administered Capital Budget for the replacement and maintenance of minor assets, make-good costs and costs eligible for capitalisation valued at $10 million or less. **Further information:** RMG 100 – Guide to Appropriations
Annual Appropriation Act	Annual appropriations are contained in annual Appropriation Acts. Since 2014-15, annual Appropriation Acts cease after three years. Acts 1/3/5: provide appropriations for the ordinary annual services of the Government. These Acts set out amounts according to whether they are departmental or administered. Departmental appropriations are single amounts notionally split between outcomes. Administered amounts are appropriated separately for each outcome. Acts 2/4/6: provide appropriations for purposes other than the ordinary annual services of the Government. These Acts set out amounts for new administered outcomes which have not previously been approved by the Parliament, capital costs, loans, and payments to state, territory and local governments. **Further information**: RMG 100 – Guide to Appropriations
Assurance Reviews	Assurance Reviews are short, intensive reviews conducted by independent reviewers sourced from both the public and private sector. Assurance Reviews are designed to strengthen governance and assurance practices and play an important role in assisting entities to successfully deliver major programs and projects. **Further information:** RMG 106 – Guidance on the Assurance Reviews Process
Average Staffing Level	The average number of employees receiving wages or salaries over the financial year, with adjustments for casual and part-time staff to show the average full-time equivalent. Average Staffing Level (ASL) does not include workers paid through a third party (contractors) or employees on unpaid leave.
Capital Management Plan	A document which summarises an entity's planned capital expenditure across the budget and forward years, and how it plans to fund the expenditure. This document must be consistent with capital expenditure estimates in the CBMS and supports proposed capital expenditure, estimates variations (including movement of funds) and reclassification/reallocation requests.

	The template is available on CBMS and must be completed and sent to both AAUs and the CMP-PCEF mailbox (CMP-PCEF@finance.gov.au) in October and February every year. **Further information:** RMG 124 – Capital Budgeting by Commonwealth entities in the general government sector
Charging	An activity that is charged for can be regulatory, resource or commercial as defined by the Australian Government Charging Framework. Regulatory activities are generally those where the government wishes to control or influence behaviour, manage risk and/or protect the community. Resource activities are generally those where the government provides specific rights, privileges, or access to public resources, infrastructure and/or equipment. Commercial activities are generally those where the Government is involved in an actual or potential competitive market for provision of goods or services. **Further information:** Commonwealth Investment Framework (RMG 308) | Department of Finance.
Commonwealth entity	Commonwealth entities include: • a Department of State. • a Parliamentary Department. • a listed entity. • a body corporate established by a law of the Commonwealth. **Further information:** *Public Governance, Performance and Accountability Act 2013*
Contingency Reserve	The Contingency Reserve (CR) is an allowance, included in aggregate expenses, principally to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Budget estimates. The CR is used to ensure that the estimates are based on the best information available at the time of the publication. It is not a general policy reserve and ASL cannot be provisioned in the CR. Items in the CR are not appropriated and they must be removed and allocated to agency estimates for appropriation before the funds can be spent Expenditure, capital and non-taxation revenue Decisions Taken But Not Yet Announced are to be included in the CR. The CR may also include commercial in confidence and national security in confidence items that cannot be disclosed separately in entities' estimates and decisions made too late for inclusion against individual entity estimates. CR estimates are maintained by Finance.
Demand-driven program	Demand-driven programs can have capped or uncapped funding, as determined by the Cabinet authority that created the program. The expenditure estimates for demand-driven programs can increase or decrease due to changes in the level of claimant demand and this would be treated as an estimates variation. Where the demand-driven program is capped, the increase or decrease would be treated as an estimates variation provided that the changes remain within the cap. Demand driven programs can be funded both by annual appropriation acts or special appropriations.
Departmental appropriations	Departmental appropriations are provided to meet costs over which an entity has control. They are the ordinary operating costs of entities. Expenditure typically covered by departmental appropriations include: • employee expenses. • supplier expenses. • other operational expenses (for example, interest and finance expenses). • amounts collected as retained receipts under s74 of the *Public Governance, Performance and Accountability Act 2013* which offset costs.

	• replacement and maintenance of minor assets (valued at $10 million or less), make good costs and costs eligible for capitalisation (funded via Departmental Capital Budget). • acquisition and construction costs associated with new departmental assets, for example, the construction of a new building that will facilitate departmental activities. • replacement of major departmental assets (valued at more than $10 million). Departmental appropriations can also include supplementation for work that entities were directed by government to undertake in the previous financial year, but after the last date for the inclusion in the Additional Estimates Bills. Entities are expected to meet the cost of these activities from their existing appropriations, which may then be replenished by a departmental appropriation in the following financial year. **Further information:** RMG 100 – Guide to Appropriations
Digital and ICT-enabled proposal	A digital and ICT-enabled investment is an investment which uses technology as the primary lever for achieving expected outcomes and benefits. This includes investments which are: transforming the way people and businesses interact with the Australian Government; and improving the efficiency and effectiveness of Australian Government operations, including through automation.
Estimates Memorandum (EM)	Guidance, advice and instructions provided to entities on Budget matters, including those requirements specified in the BPORs that must be complied with.
Estimates Variation/Material Estimates Variation	Adjustments made to the Budget estimates that are not classified as measures. Estimates variations include changes to economic parameters (such as forecasts of inflation or wage growth), and program specific parameters (such as changes in forecast customer numbers, rates of payment, utilisation of a service). Increases or decreases in estimated expenditure for uncapped demand-driven programs are estimates variations. Increases or decreases in estimated expenditure for capped demand driven programs are estimates variations, as long as the program estimates remain within the cap. Material estimates variations are variations that have an impact on either payments or non-tax receipts that either exceeds $100 million over the forward estimates or $50 million (excluding GST estimates) in any year within the forward estimates.
Financial risk	The potential loss of the financial instrument. Refer to the Financial Risk Estimates Memorandum for more information.
Fiscal Balance	Fiscal Balance is an accrual measure that shows whether the Government has to borrow from financial markets to cover its operating activities and net investments in non-financial assets used in the provision of goods and services. **Further information:** RMG 117 – General Principles for the recognition of expenditure in the budget aggregates
Free Trade Agreement	An international treaty which removes barriers to trade and facilitates stronger trade and commercial ties, contributing to increased economic integration between participating countries. Free Trade Agreements can cover entire regions with multiple participants or link just two economies.
Gender Analysis Summary	A short description of the gender analysis in the NPP Template and the Cabinet submission Template. The Gender Analysis Summary aims to highlight gender analysis and make the potential gendered impact to decision makers. A Gender Analysis Summary is a requirement for all NPPs regardless of whether a Gender Impact Assessment has been completed.
Gender Impact Assessment	Provides a more detailed summary of the gendered impacts and policy responses arising from a gender analysis. A Gender Impact Assessment ensures that policy makers have detail on gender impacts, as well as policy responses and commitments

	to improve gender equality outcomes. Required as an additional attachment for proposals that meet certain criteria.
Heads of Revenue	The aggregate revenue estimates incorporating all variations, measures and provisions. All provisions for tax revenue items are included in the Heads of Revenue rather than the Contingency Reserve.
Investment funds	Investment funds involve the purchase and management of financial assets to fund a particular policy objective by subsequently drawing on earnings and/or capital.
Lead entity	In an NPP which will affect multiple Commonwealth entities, the lead entity is the entity whose Minister will present the relevant submission to Government for consideration. For joint submissions, the lead entity is the entity that is primarily responsible for drafting the submission.
Machinery of Government	An organisational or functional change affecting the Commonwealth. A Machinery of Government change can occur as a result of a change to the Administrative Arrangements Order or the movement of responsibilities and functions between entities. **Further information:** Machinery of Government changes: A Guide for Entities
Major Infrastructure new policy proposals	Major infrastructure NPPs include (but are not limited to) transport, energy, communications, water, other nationally significant infrastructure projects, and proposals for other infrastructure determined by the responsible minister. For further information contact: Assessments@ica.gov.au
Material entity	Government entities are classified based on the extent to which their financial information has a material impact on the whole-of-government financial statements. The breakdown is determined by aggregating the total income, expenses, assets and liabilities of all entities. Entities whose total falls within the top 99 per cent of the total General Government Sector are classified as 'material' entities. Exceptions apply to entities that are considered material by nature, such as departments of state. Material entities are identified in the PGPA Act Flipchart and List | Department of Finance
Measure	Decisions of the Government that have a real or potential impact on the fiscal and/or underlying cash balances or balance sheet in the current year, forward estimates, or beyond. Measures can comprise new policy decisions, changes to, or extension of, existing policy and alterations to eligibility criteria or assistance rates. Measures are classified as payment or receipt and can include decisions with nil financial impact. Measures can include both spending and saving components, and are published in economic and fiscal updates. Decisions of the Treasurer made pursuant to Schedule 1 Section 12-439 of the *Tax Administration Act 1953* to grant a tax concession for new or improvements to nationally significant economic infrastructure projects will be published as a measure and be reported in the next Budget update and do not require offsets.
Minor policy proposal	A policy proposal with total financial implications of $20 million or less over the Budget and forward years, including those with nil financial implications. If a policy proposal is not fully offset for expenditure, then the policy proposal will be considered a major policy proposal and go to ERC for consideration. Policy proposals with tax revenue components (including proposed changes to tax concessions) are not minor policy proposals and go to ERC for consideration. All minor policy proposals must be brought forward using the NPP template. Recommendations in a submission without an accompanying NPP are not considered minor policy proposals.

Movement of Funds	The formal re-profiling of expected expenditure between years. Movement of funds can occur from the previous financial years into the current budget year or forward estimates.
Offset	An offset is a proposal which reduces the impact of a spending proposal on the Underlying Cash Balance. This can be either a savings proposal or a reprioritisation of funding to repurpose expenditure within a portfolio to achieve higher-quality spending on current and emerging pressures, while reducing spending on programs that may no longer be required or fit-for-purpose.
Ongoing new policy proposals	Ongoing policies continue indefinitely (until a decision is made to cease or alter the program).
Operating Loss	Operating losses/surpluses are calculated by deducting total expenses from total revenue for the period. Prior to seeking operating loss approval, entities which receive a Departmental Capital Budget or Collection Development Acquisition Budget will need to adjust their operating loss for depreciation/amortisation expenses (as appropriate). Refer to latest Operating Loss Estimates Memorandum for more information.
Portfolio Charging Review	Entities must review charging activities and identify reforms (including additional charging opportunities) on a portfolio basis. The Portfolio Charging Reviews are required on a rolling five-year basis, in accordance with the published schedule or at other times agreed by the Minister for Finance, to ensure adherence with the Australian Government Charging Framework. The review report must be submitted to the responsible Minister and copied to the Minister for Finance.
Pre-ERC	The time when estimates are updated to establish a baseline for the upcoming Budget. Expected to occur in mid-February each year.
Public-Private Partnerships	Public-Private Partnerships (PPPs) are an infrastructure procurement method involving the use of private sector capital to wholly or partly fund an asset (that would otherwise have been purchased directly by the Government) which is used to deliver government objectives. Entities seeking funding for new investments, should consider whether a PPP may offer better value for money over traditional procurement options. All potential expenditure NPPs via a PPP must be developed and approved in accordance with the National Public Private Partnership policy framework. The impact on budget aggregates of a PPP need to be determined on a case by case basis following consultation with Finance during the costing process.
Reallocations	Reallocations are the reassignment of expenses / expenditure within an existing appropriation, either between outcomes, or within the expenditure's current outcome.
Reclassifications	Reclassifications are the reassignment of expenses between appropriation types (e.g., Administered, Departmental Capital, Departmental Operating).
Revenue Policy Proposal	A taxation revenue/receipts policy proposal is one seeking a decision to introduce, abolish, or modify the operation of a tax collected by the Commonwealth (including a tax expenditure or concession). An expenditure policy proposal that has a purely flow-on effect to tax revenue / receipts (i.e., without changing any rules governing the tax) is not a tax revenue / receipts policy proposal. Treasury is responsible for determining what constitutes a taxation revenue / receipts policy proposal.
Risk Potential Assessment Tool	A process to assist entities to determine and communicate the potential risk of an NPP to Ministers before seeking the Cabinet's agreement.

	The Risk Potential Assessment Tool is a Excel template which can be downloaded from: Risk Potential Assessment Tool. **Further information:** RMG 106 – Guidance on the Assurance Reviews Process and RMG 107 – Risk Potential Assessment Tool
Special Account	An appropriation mechanism that sets aside an amount within the Consolidated Revenue Fund for specific expenditure purposes. **Further information:** RMG 100 – Guide to Appropriations
Special Appropriation	An appropriation contained in an Act other than an annual Appropriation Act. An example of expenditure that is met using a special appropriation is aged pensions paid under the *Social Security (Administration) Act 1999*. **Further information:** RMG 100 – Guide to Appropriations
Sub-program	Program or component within a Central Budget Management System Program.
Terminating new policy proposals / measures	NPPs or measures which the Cabinet has agreed will have an end date (i.e., terminating date). A terminating NPP or measure would have no provision for funding or ASL in the estimates for any year beyond its end date. The determination of whether a program is terminating is made by the Cabinet when the program is established.
Underlying Cash Balance	Underlying cash balance is a cash measure that shows whether the Government has to borrow from financial markets to cover its operating activities and net investments in non-financial assets used in the provision of goods and services. **Further information:** RMG 117 – General Principles for the recognition of expenditure in the budget aggregates

ATTACHMENT 1 – NON-GENUINE OFFSETS

The following are not considered genuine offsets:

General revenue increases	A fortuitous increase in revenue is one that will occur, or has already occurred, regardless of any consideration by Cabinet or a decision/action taken by the Minister or portfolio.
Fortuitous underspends	A fortuitous underspend is one that will occur, or has already occurred, regardless of any consideration by the Cabinet or a decision/action taken by the Minister or portfolio. For example, where actual expenditure in a demand-driven program is below the estimate in CBMS or where estimates are revised down to reflect changing demand.
Deferral of existing expenses	Resourcing NPPs that simply defer existing expenses to later in the forward estimates period (with no advantage to the Budget) and make no contribution to medium term fiscal targets.
Senate delay or rejection of legislation	Savings requiring the passage of legislation, for which the Senate has either already refused or are unlikely to agree if reintroduced, and the financial impact results in an estimates variation due to the delay of implementation, or a negative financial impact on the budget bottom-line if the measure is withdrawn.
Second round effects	Economic and behavioural effects that are not quantifiable and/or measurable over the forward estimates, i.e., the direct budgetary consequences of policies.
Public Debt Interest (PDI)	PDI savings resulting from changes in Budget outcomes are beyond the control of Ministers and are therefore not considered genuine except where the NPP involves transactions in financial assets for policy purposes (such as loan schemes). PDI costings should assume no change to the debt management strategy.
Interest repayments	Interest repayments that are in excess of any impact on underlying cash, including any PDI costs associated with an increase in gross debt, are not considered to be a genuine offset.
Return or use of excess cash reserves	The return or use of excess cash reserves by entities cannot be used to offset NPPs. This is because the use of cash reserves impacts on the cash and fiscal balances. Similarly, proceeds from the sale of financial assets will not be available to offset NPPs, except where defined in these rules.
Savings beyond the forward estimates period	Any savings beyond the forward estimates period to offset new policy from within the forward estimates period.

ATTACHMENT 2 – REALLOCATIONS AND RECLASSIFICATIONS

1. REALLOCATIONS BETWEEN CBMS PROGRAMS WITHIN AN OUTCOME

a. **Of $20 million or more**: Ministers must write to the Minister for Finance advising of the details of reallocations of administered expenses or cash flows, which are funded through annual appropriation acts, that cumulatively increase or decrease a program by $20 million or more in the current financial year.

b. **Of less than $20 million**: Entities must seek approval from the relevant Agency Advice Unit (AAU) in Finance of reallocations of administered expenses or cash flows, which are funded through annual appropriation acts, that cumulatively increase or decrease a program by less than $20 million in the current financial year.

c. Ongoing reallocation of administered expenses or cash flows, regardless of the appropriation type, are NPPs.

2. REALLOCATIONS BETWEEN OUTCOMES (INCLUDING BETWEEN ENTITIES)

a. Reallocations of administered expenses or cash flows between outcomes, are NPPs.

b. This does not apply to reallocations of administered expenses or cash flows between outcomes related to Machinery of Government changes, or with existing policy authority. Such reallocations will be implemented in accordance with the directive provided in the relevant policy authority.

c. Reallocations of expenses between entities which share policy responsibility, where there is no other change in the previous policy decision, are subject to the agreement of Finance (if the value of the reallocation is less than $20 million) or the Minister for Finance (if the value is $20 million or more).

3. REALLOCATIONS WITHIN A CBMS PROGRAM (I.E., REALLOCATIONS BETWEEN SUB-PROGRAMS OF A CBMS PROGRAM)

a. Reallocations of administered expenses or cash flows within a financial year, which are funded through annual appropriations acts are at the discretion of the relevant Minister. Such reallocations should be reported to the relevant Finance AAU before the reallocation can proceed.

b. Ongoing reallocation of administered expenses or cash flows are NPPs.

4. RECLASSIFICATIONS BETWEEN OPERATING AND CAPITAL APPROPRIATIONS

a. Reclassifications of expenditure:

   i. between departmental operating appropriations and departmental capital appropriations provided through Appropriation Act No.1/3/5.

   ii. between administered operating appropriations and administered capital appropriations, provided through Appropriation Act No.1/3/5.

   iii. from administered capital to administered operating (for new functions), both provided through Appropriation Act No.2/4/6.

b. can only occur within a financial year (i.e., not between years) and are subject to the written agreement of Finance prior to 30 June if reclassification is to be recognised within that financial year (if the value of the reclassification is less than $20 million) or the Minister for Finance (if the value is $20 million or more).

c. Reclassification of expenditure from administered operating appropriations to administered capital appropriations in Acts No. 2/4/6 are NPPs.

5. RECLASSIFICATIONS BETWEEN APPROPRIATION TYPES WITHIN THE SAME ENTITY

a. Reclassifications of expenses between Appropriation Act No.1/3/5 and Appropriation Act No.2/4/6 are subject to the agreement of Finance (if the value of the reclassification is less than $20 million) or the Minister for Finance (if the value is $20 million or more) and will only be approved in exceptional circumstances.

b. All other reclassifications, including reclassifications between annual appropriations and special appropriations are NPPs.

Note: Reclassifications of expenses between annual administered appropriations and special appropriations paid through the COAG Reform Fund Special Account, where there is no change in the previous policy decision and consistency with the payment Commonwealth own-purpose expenses (COPE)/specific purpose payment (SPP) classification, are subject to written agreement from the Treasury, Finance and Department of the Prime Minister and Cabinet.

6. RECLASSIFICATIONS BETWEEN ADMINISTERED AND DEPARTMENTAL APPROPRIATIONS

a. Reclassifications of expenses, cash flows or assets (in the case of capital) between:

   i. administered operating and departmental operating appropriations.

   ii. administered capital and departmental capital appropriations.

   are subject to the agreement of Finance (if the value of the reclassification is less than $20 million) or the Minister for Finance (if the value is $20 million or more) and will only be approved in exceptional circumstances.

Note: Other reallocations where an approach has been previously agreed by Government, such as the annual 12.5 per cent per program threshold for the Indigenous Advancement Strategy, should refer to relevant guidance and decisions.

ATTACHMENT 3 – MOVEMENT OF FUNDS

1. ADMINISTERED FUNDS (INCLUDING ADMINISTERED CAPITAL)

a. Movement of administered funds between years applies to administered expenditure, including movements in administered assets and liabilities, and the thresholds in Rule 9.1 guide consideration of these movements.

b. Consistent with Rule 9.1, the Minister for Finance will consider movements of funds valued at $20 million or more and Finance will consider movements valued at less than $20 million (but greater than the thresholds in Rule 9.1).

c. Requests to move funds beyond a measure's terminating date may be considered in accordance with these rules, where the movement is clearly within the original policy authority.

d. Proposed changes to agreed annual profiles for the Nation-Building Funds will be considered in parallel with movement of funds requests for annual administered appropriations as detailed above.

2. CAPITAL EXPENDITURE (INCLUDING DEPARTMENTAL CAPITAL BUDGET)

a. Movement of capital expenditure will be subject to agreement of Finance or the Minister for Finance's approval where the net accumulated amount per entity within a financial year (taking into account both the Budget and MYEFO updates), to be moved to or from any one year is more than:

   i. $2 million for 'Small' entities.

   ii. $5 million for 'Material' entities.

b. Entities are to advise of movements equal to or below these thresholds above and provide an updated Capital Management Plan to their Finance AAU.

c. Consistent with Rule 9.1, the Minister for Finance will consider movements of funds valued at $20 million or more and Finance will consider movements valued at less than $20 million (but greater than the thresholds in Rule 9.1).

3. PAYMENTS TO THE STATES (NATIONAL AGREEMENTS AND FEDERATION FUNDING AGREEMENT PAYMENTS)

a. Consistent with Rule 9.1, requests for a movement of payments to states may be considered by the Minister for Finance (movements of funds valued at $20 million or more) or Finance (movements valued at less than $20 million).

b. Where a proposed movement for a payment to the States involves a Commonwealth Own Purpose Expenses (COPE) component and/or change to the expenditure profiles for the COAG Reform Fund, requests for both the COPE and COAG Reform Fund components including the payment to States components should be brought forward together.

4. SPECIAL ACCOUNT EXPENDITURE

a. Movement of special account expenditure only applies to special accounts where the Government, at ministerial or entity level, has discretion over the level of expenditure to occur in any financial year.

b. These rules do not apply to special accounts that are entitlement or eligibility based where the Government, in the absence of policy change, has no discretion over the level of expenditure that may occur in any one year.

c. Movement of special account expenditure will be subject to agreement of the Department of Finance or the Minister for Finance approval where the net accumulated amount per account within a financial year (taking into account both the Budget and MYEFO updates), to be moved to or from any one year is more than:

i. $2 million per account for 'Small' entities.

ii. $5 million per account for 'Material' entities.

d. Consistent with Rule 9.1, the Minister for Finance will consider movement of funds valued at $20 million or more and Finance will consider movements valued at less than $20 million (but greater than the thresholds above).

Note: The movement of funds process does not apply to Special Appropriations. These are estimates variations or are subject to *Rule 1 - New Policy Proposals*.

Departmental operating expenditure is not subject to the movement of funds process (this entails the drawdown of prior year appropriations). Proposed operating losses resulting from a drawdown of prior year departmental appropriations will be assessed by Finance as per Rule 10.3.

ATTACHMENT 4 – DEFENCE REQUIREMENTS

This Attachment provides additional information on Budget processes for the Department of Defence (Defence) (Rule 5.12 refers). If there is a conflict between these provisions and other provisions within the BPORs, these Defence requirements will take precedence.

1. DEFENCE PORTFOLIO BUDGET SUBMISSIONS

Defence Portfolio Budget Submissions should:

a. seek agreement to the annual Defence Management and Financial Plan (DMFP), which updates the Internal Program Budget view of Defence. The supporting 20 year financial data underpinning the DMFP, including the Defence Integrated Investment Program (DIIP), must be provided to Finance to support Government consideration.

b. include a bi-annual update of the DIIP (to be considered in the Budget and MYEFO contexts):

   i. to update Government on the strategic environment, including geopolitical developments and influential events since the last bi-annual update, and implications of those developments on existing and planned Defence capabilities and on Defence's ability to deliver on the Government's strategic objectives.

   ii. to advise Government on how the current force structure, force posture and capability investments are aligned to deliver on the strategic settings agreed by Government and respond to identified strategic developments. This should include options to address emerging capability risks due to those developments and/or a comprehensive statement on risks that should/must be accepted. This should also include a summary portfolio update on delivery of the agreed capabilities and financial performance of the DIIP, emerging risks relating to schedule, funding and scope, and overall effectiveness of existing capability to respond to strategic risks.

   iii. to seek Government agreement to: early access to DIIP funding (with a value of above $75 million per project); project approval pathways and authority; amendments to DIIP funding provisions to align with changes to the strategic environment and the latest capability planning; milestone updates; and how these changes affect Defence capability and the achievement of the Government's strategic intent.

c. seek agreement to Budget adjustments for Defence Operations, including major operations that are funded on a no-win/no loss basis. This should include the net additional cost of each operation (including revenue forgone), and a concurrency statement for Government consideration.

   i. Defence Portfolio Budget Submissions may also seek agreement to extend or continue Defence operations.

2. DEFENCE INTEGRATED INVESTMENT PROGRAM

a. The National Security Committee of Cabinet (NSC) or the Prime Minister will determine the appropriate approach to Government for Defence investment projects (projects), informed by advice from the Defence Investment Committee.

b. A forward work plan, which reflects all proposed approaches to Government within the upcoming financial year, will be brought forward for Government consideration in the context of a bi-annual update of the DIIP. A truncated Smart Buyer risk assessment should be used when recommending approaches to Government (including tailored approval authority or approval pathway) for projects.

c. The default approval authority and pathway for a DIIP project is NSC two pass, with the following exceptions:

   i. DIIP Estate and Infrastructure mid-term refresh and redevelopment projects proceed through a two Minister combined pass approval authority and pathway by default, unless otherwise directed by the Defence Investment Committee at Gate 0.

   ii. release of funding from the PFAS Remediation DIIP provision up to a value of $75 million is approved by the Accountable Authority of Defence.

   iii. release of funding from the Medium Works DIIP provision up to a value of $75 million is approved by the Accountable Authority of Defence.

d. Consultation between Defence, Department of the Prime Minister and Cabinet (PM&C) and Finance must be undertaken to propose suitable approaches to Government (reflective of risks and mitigation strategies), through the forward work plan. If a consensus cannot be reached on a proposed approach to Government via this arrangement, the default approach will be the higher of the authority or pathway being proposed. Further, where a risk profile for a project significantly changes, the approach to Government should be reconsidered and agreed between Defence, PM&C and Finance.

e. Government may agree to tailor the approval authority and number of Government decision points. A qualitative risk assessment to support the approval authority proposed in the forward work plan is required, and lower risk projects may propose an alternative approval authority commensurate to the risk level. However, projects identified with one or more high risks in any one of the following key risk categories will be referred to the NSC for consideration:

   i. financial.

   ii. requirements.

   iii. technical and integration.

   iv. industrial and strategic.

f. Government may also consider tailoring the approval pathway for a project (e.g., direct to second pass Government consideration (combined pass) or other approval pathway). A qualitative assessment of all the following criteria will also be considered, to support the approval pathway recommended in the forward work plan:

   i. there is only one feasible supplier.

   ii. the project involves acquiring additional quantities of an existing capability.

   iii. there are mandatory interoperability requirements that dictate a certain platform choice.

   iv. rapid acquisition of a proven capability, technology, sovereign innovation or industry development is more important than optimising cost and capability trade-offs to address an urgent need or operational requirement.

   v. the project must accelerate to address a time critical gap or opportunity to meet Defence's preparedness requirements, and/or respond to rapid changes in the strategic environment.

g. Government agreement may be sought to combine projects into a program-level or capability domain submission, where it has been determined that projects share key interdependencies and relationships.

h. Any addition, variation or change to a project following first, second or combined pass agreement is required to be re-considered by the most recent project approval authority. Further, if the proposed addition/variation/change affects the Government's underlying cash balance, the project must also be referred to ERC for consideration.

3. MAJOR CAPITAL INVESTMENT PROJECTS

a. Major capital investments (with a capital acquisition cost of above $30 million) that are not included in the current DIIP, but are related to emerging risks identified through bi-annual updates of the DIIP and have identified offsets, can seek Government agreement to be included in the DIIP. These major capital investment NPPs will not be subject to NPP requirements.

b. Major capital investment projects coming forward for final Government consideration that are not included in the current DIIP, or have no identified offsets, are to be treated as NPPs, and are subject to NPP requirements. This includes the completion of a Risk Potential Assessment Tool and identifying whole of life costs.

c. Finance and the DTA, in consultation with Defence, will determine whether Defence Digital and ICT-enabled projects (including enterprise ICT projects) are to be subject to the Budget process for Digital and ICT-enabled NPPs and/or the Defence Investment Approval Process.

d. For Defence investment projects brought forward for Government consideration, whole-of-life cost estimates (i.e., capability development, acquisition, sustainment and disposal costs) for all options presented must be included in the recommendations of the submission, in the current price basis, and out-turned for price and exchange, unless otherwise outlined in the Defence Costing Estimates Memorandum. Costs being sought must be phased across the years in which the funding will be required.

   i. Defence is not required to update the price basis for a Defence investment project if new economic parameters are released after the Exposure Draft stage, unless it has been two months or more since the release of the Exposure Draft, or if the Cabinet submission is to be considered in parallel with another submission being presented in the latest price basis.

   ii. Any submission which does not use the current price basis must include a statement that the cost estimate does not reflect the current price basis due to the timing of the release of economic parameters, and caveat that estimates may be impacted by price basis changes.

e. The information requirements for DIIP projects will be set out in the Defence Costing Estimates Memorandum.

4. BUDGET ESTIMATE UPDATES

a. Reclassifications between operating and capital appropriations to facilitate the delivery of the Defence IIP is subject to the agreement of the Minister for Finance or Finance.

   i. Finance will consider reclassifications up to $500 million at each Budget and MYEFO update where it is required to facilitate the delivery of the Defence IIP. Finance may refer the requested reclassification to the Minister for Finance for consideration.

   ii. The Minister for Finance will consider reclassifications valued at $500 million or greater which are required to facilitate the delivery of the DIIP. The Minister for Finance may refer the requested reclassification to ERC, Cabinet or the Prime Minister for consideration.

   iii. All other reclassifications and reallocations must be made consistent with Rule 8 and *Attachment 2 – Reallocations and Reclassifications*.