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Australian Government
Department of Finance

BUDGET PROCESS OPERATIONAL RULES

EFFECTIVE JUNE 2022

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Budget Process Operational Rules
Effective June 2022

INTRODUCTION

The Budget Process Operational Rules (the BPORs) are standing rules endorsed by the Cabinet. The BPORs outline the major administrative and operational arrangements for managing the Australian Government Budget process. The principles underpin the development of proposals and management of estimates and help to ensure that proposals coming forward from Ministers support the Government's Economic and Fiscal Strategy and priorities.

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.

Adherence to the BPORs is mandatory unless otherwise agreed to by the Prime Minister or the Cabinet.

The BPORs should be read in conjunction with the *Charter of Budget Honesty Act 1998*, the *Charter of Budget Honesty Policy Costing Guidelines*, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the Cabinet Handbook and all Estimates Memoranda.

The BPORs will be effective from the Cabinet agreement date and continue until revised.

ESTIMATES MEMORANDA

Estimates Memoranda (EM) provide guidance, advice and instruction to entities on Budget matters, including those requirements specified in the BPORs. EMs are periodically revised and reissued by the Department of Finance (Finance). Adherence to EMs is mandatory.

PRINCIPLES

The BPORs are underpinned by a set of principles that are designed to ensure that the development of new policy proposals (NPPs) align with the Government's key strategic priorities and objectives.

All policy proposals and budget estimates must be prepared with consideration of the principles and in accordance with the rules and related EMs.

PRINCIPLE 1: FISCAL RESPONSIBILITY

- Policy proposals should support the Government's fiscal strategy.
- Proposed expenditure should prioritise spending in areas that will improve productivity, including by promoting employment, generating new business investment and business and consumer confidence.
- Budget estimates should be clear, credible and predictable to support fiscal responsibility.

PRINCIPLE 2: ENSURING THE QUALITY OF SPENDING

- Spending should be based on quality (not just quantity) of investment to ensure policies are the most efficient ways to achieve maximum economic benefit.
- Spending should expand the capacity of the economy so that it can grow faster than debt.
- When designing proposals, entities should preference options which:
 - Create jobs and boost participation.
 - Invest in lifting productivity, especially through investment in human capital.
 - Generate new business investment.
 - Increase wages and grow incomes.
- Policy proposals recommended by Ministers should offer the greatest net benefit and put forward the most cost-effective delivery mechanism.
- All expenditure should constitute a proper use and management of public resources.
- Where relevant, policy proposals should seek to improve efficiency and reduce duplication through use of existing systems and structures.
 - Government decisions should be open and transparent, and reported clearly in Budget Papers.

PRINCIPLE 3: IMPLEMENTATION, MEASUREMENT AND EVALUATION

- Policy proposals should clearly consider how policies will be implemented, including the metrics and milestones against which progress should be tracked. This should be framed in terms of the tangible outcomes and key steps that need to occur to deliver the overarching policy objectives.
- Policy objectives should be clear and focus on the outcomes for the Australian people, including where they support the Government's plan for economic recovery.
Implementation should consider risks, mitigations and potential impacts beyond the portfolio responsible for implementation, including potential adverse impacts on disadvantaged cohorts or perverse incentives.

CONTENTS

| | |
|--|-----------|
| POLICY PROPOSAL DEVELOPMENT | 5 |
| 1. POLICY PROPOSALS | 5 |
| 2. FINANCIAL OFFSET REQUIREMENTS | 11 |
| 3. COSTING POLICY PROPOSALS | 13 |
| 4. CONSULTATION AND CROSS-PORTFOLIO POLICY PROPOSALS | 15 |
| DECISION-MAKING PROCESS | 16 |
| 5. CONSIDERATION OF POLICY PROPOSALS | 16 |
| 6. ANNOUNCEMENT OF DECISIONS | 18 |
| BUDGET ESTIMATES UPDATES | 19 |
| 7. ESTIMATES MODELS AND VARIATIONS | 19 |
| 8. REALLOCATIONS AND RECLASSIFICATIONS | 19 |
| 9. MOVEMENT OF FUNDS | 20 |
| 10. PROPOSED MAJOR COMMITMENTS OF RELEVANT MONEY | 21 |
| 11. OPERATING LOSSES | 22 |
| 12. OUTCOMES AND PROGRAM LISTS | 23 |
| GLOSSARY | 24 |
| ATTACHMENT 1 – MATTERS TO CONSIDER WHEN DEVELOPING POLICY PROPOSALS | 30 |
| ATTACHMENT 2 – NON-GENUINE OFFSETS | 34 |
| ATTACHMENT 3 – REALLOCATIONS AND RECLASSIFICATIONS | 35 |
| ATTACHMENT 4 – MOVEMENT OF FUNDS | 37 |
| ATTACHMENT 5 – DEFENCE REQUIREMENTS | 39 |

POLICY PROPOSAL DEVELOPMENT

The following section sets out requirements for new policy proposals. This section should be read in conjunction with *Attachment 1 – Matters to consider when developing 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 the Principles unpinning the BPORs (detailed on page 3) and ensure that their proposals are developed to meet these wherever possible. This includes ensuring that the policy proposal clearly articulates the problem it is seeking to address, how the solution will address this and all risks and sensitivities associated with the proposal.

Entities should also consult widely when developing a new policy proposal 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 proposal 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 proposal. This includes early consultation with the Office for Women in line with the Government's commitment to implement gender responsive budgeting.

1. POLICY PROPOSALS

All policy proposals must have authority from the Cabinet or the Prime Minister¹ to come forward for consideration.

1.1 The BPORs apply to policy proposals (decisions sought by Ministers) that have a certain or potential financial impact within the forward estimates period or beyond. These include proposals 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 and conclude a Free Trade Agreement (FTA).

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.


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Budget Process Operational Rules
Effective June 2022


- (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 proposals that are fully offset, absorbed within existing resources, or involve reallocations between or within outcomes.

 See Glossary for definitions of **Free Trade Agreement** (item 16), **demand-driven program** (item 10), **reallocations** (item 29) and **underlying cash balance** (item 36).

- 1.2 For expenditure and non-taxation revenue related matters, Finance will determine what constitutes a policy proposal. For taxation revenue related matters, Treasury will determine what constitutes a policy proposal.
- (a) Entities must consult with Treasury and Finance to determine whether a revenue proposal is general 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 definitions of **charging** (item 7).

- 1.3 Proposals must identify additional ASL required for implementation (consistent with the costs agreed by Finance).
- 1.4 For the October 2022 Budget process, and while the Audit of Employment is underway, additional ASL can only be agreed by ERC or the Prime Minister as part of considering the policy proposal. This rule will be revised following Government consideration of the outcomes of the Audit of Employment.

 See Glossary for definitions of **ASL** (item 5).


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

REVENUE PROPOSALS

- 1.6 Further to the above, all taxation revenue/receipts (including tax expenditure/concessions) policy proposals must also have the Treasurer's agreement that the proposal can be brought forward for consideration, unless authority is expressly provided by the Prime Minister or the Expenditure Review Committee (ERC). The proposal must be brought forward by the Treasurer, or jointly with the Treasurer, unless the Treasurer agrees otherwise. Proposals 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.
- (a) 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 policy proposal for consideration, the new policy proposal 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.

ICT PROPOSALS

- 1.7 Entities must consult with the Digital Transformation Agency (DTA) early in the development of ICT-enabled proposals and must obtain the DTA's approval that the ICT elements of a proposal align with whole-of-government ICT policies, before it can be brought forward for consideration.
- 1.8 Entities developing ICT-enabled proposals must also consult with the DTA to assist it to determine whether a proposal should be subject to the ICT Investment Approval Process (IIAP).
- 1.9 Entities must provide requested information to the DTA on any ICT-enabled project to the standards required by the DTA to support its role in overseeing projects throughout the project's life cycle. Where entities are providing information to Cabinet or a Cabinet committee on the progress of an ICT-enabled priorities, the DTA must declare that sufficient information has been provided to the DTA before entities provide their information to Cabinet or the Cabinet Committee.


 Attachment 1 provides additional information on requirements for ICT proposals.


REUSE OF EXISTING SYSTEMS AND STRUCTURES

- 1.10 Policy proposals must canvas 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.

RISK ASSESSMENT AND ASSURANCE REVIEWS

- 1.11 Entities must comply with the Government's Risk Assessment and Assurance Reviews process for new policy proposals, including completion of a Risk Potential Assessment Tool (RPAT) for eligible proposals.

 See Glossary for definitions of: **Assurance Reviews** (item 4) and **RPAT** (item 31).

 Attachment 1 provides additional information on risk management.


CONSTITUTIONAL SUPPORT AND LEGISLATIVE AUTHORITY

- 1.12 All policy proposals that involve expenditure, including combined expenditure and savings proposals 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) Policy proposals with elements assessed by the AGS to be 'high risk – particularly vulnerable' cannot be brought forward for consideration.
 - (b) Policy proposals 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 a proposal/s 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.

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
Budget Process Operational Rules
Effective June 2022

- (c) Where a policy proposal 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 a proposal 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).

 Attachment 1 provides additional information relating to constitutional risk and legislative authority.

CHARGING


1.13 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. Policy proposals that involve charging must apply and adhere to the Australian Government Charging Framework.

 See Glossary for a definition of **Charging** (item 7).

 Attachment 1 provides additional information relating to the Australian Government Charging Framework.

GRANTS HUBS

1.14 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 the Finance Minister from using a Grants Hub in exceptional circumstances.

 Attachment 1 provides additional information relating to the Commonwealth Grant Rules and Guidelines.

BALANCE SHEET PROPOSALS

1.15 Balance sheet proposals are proposals 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. government guarantees, indemnities, warranties).


- (a) Balance sheet proposals must be brought forward using the balance sheet New Policy Proposal template.


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Budget Process Operational Rules
Effective June 2022

- 1.16 Balance sheet proposals 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 proposal, require:
- (a) agreement from the Treasurer and Finance Minister that a proposal can be brought forward for consideration unless the Prime Minister or ERC has explicitly given authority for a balance sheet proposal to come forward; and
 - (b) first-pass and second-pass consideration for approval.
- 1.17 In bringing forward proposals for second pass consideration under Rule 1.16, 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 proposal;
 - (b) undertake an economic benefit analysis including the extent to which the proposal 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 proposal;
 - (c) assess the potential for innovative financing and funding including through private sector involvement or partnership and through engagement of the Infrastructure and Commercial Advisory Office (ICAO) at the business case development stage of the proposal (unless the proposal 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; and
 - (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.

- 1.18 Balance sheet proposals which involve an investment or contingent liability below the thresholds in Rule 1.16 must be developed consistent with the requirements of the Commonwealth Investment Framework.

 See Glossary for definitions of **investment fund** (item 18), **financial risk** (item 14) and **fiscal balance** (item 15).

 [Attachment 1](#) provides additional information relating to the Commonwealth Investment Framework.

MAJOR INFRASTRUCTURE PROPOSALS


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

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

- (a) seek an assessment from the ICAO in respect of financing options prior to first pass consideration;
- (b) ensure that Infrastructure Australia has positively assessed the business case prior to second pass consideration of the proposal for investment; and
- (c) comply with the requirements of the Commonwealth Investment Framework.

 See Glossary for a definition of **major infrastructure proposals** (item 21).

 Attachment 1 provides additional information relating to the Commonwealth Investment Framework.


CAPITAL EXPENDITURE

1.20 All capital proposals that entail purchase (including finance leases) of new assets, capital expenditure on existing assets or replacement of existing assets of more than \$10 million in any one financial year, or \$30 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 a policy proposal and a business case as part of the costing.

- (a) For Defence requirements see Rule 5.12.

PROPERTY PROPOSALS

1.21 Property proposals (including remediation and rehabilitation of land proposals) from non-corporate 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.

 Attachment 1 provides additional information relating to property proposals and the Two Stage Capital Works Approval Process.

JOB CREATION PROPOSALS

1.22 Entities must consult with Treasury when making claims in a policy proposal about the number of jobs supported or jobs created through a policy proposal.

- (a) Rule 1.22 does not relate to explanations of the direct staffing required to implement the proposal (such as ASL or contractors) or where direct employment effects have been costed by Finance (such as for employment proposals).

2. FINANCIAL OFFSET REQUIREMENTS


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

This rule should be read in conjunction with Attachment 2 – Non-Genuine Offsets which sets out proposals which are not considered genuine offsets. Savings from such proposals cannot be used to offset new expenditure.

- 2.1 All policy proposals that have a negative impact on the Budget (the underlying cash balance) must be fully offset, unless the proposal is to implement a costed election commitment included in *Labor'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.
 - (a) Proposals may only be brought forward without offsets (or only partial offsets) if explicit permission has been granted by the Prime Minister or ERC.
 - (b) Proposals that are brought forward expressly as an offset for an expenditure proposal (which must be offset) have authority to be brought forward.
- 2.2 Offsetting savings proposals should be brought forward in the same submission as the associated spending proposal. Where this is not possible, the Minister may bring forward the offsetting savings proposal:
 - (a) in a separate submission to be considered at the same meeting; or
 - (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 proposal have been provided to Finance or Treasury.
- 2.3 The impact on underlying cash over the forward estimates of PDI costs associated with an increase in gross debt, must be offset for all new policy proposals 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.
- 2.4 All offsets must be genuine expenditure 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 reordering of priorities by a Minister; or
 - (c) a quantifiable increase in revenue (both 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.


OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

 For a list of non-genuine offsets see [Attachment 2 – Non-Genuine Offsets](#).

2.5 Where proposed new expenditure is ongoing, the duration of the proposed offset must also be ongoing and of the same or greater magnitude. The policy proposal 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 proposals that terminate beyond the forward estimates.

 See Glossary for definitions of [ongoing proposals \(item 26\)](#) and [terminating proposals \(item 35\)](#).

2.6 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.


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

2.8 Offsets are not required for the modelled revenue components of Free Trade Agreements (FTA). However, a provision for the estimated financial impact of revenue 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, with any changes subject to ERC endorsement. FTAs will be included as a measure once the agreement has been signed as with other treaties.

 See Glossary for definitions of [estimates variation \(item 13\)](#), [Free Trade Agreement \(item 16\)](#), [Heads of Revenue \(item 17\)](#) and [measure \(item 23\)](#).

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

2.10 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 policy proposals.

 See Glossary for a definition of [demand driven program \(item 10\)](#).

3. COSTING POLICY PROPOSALS

Rule 3 outlines the process for costing policy proposals including the consultation process between respective stakeholders. Costings must provide an impartial, independent and reliable assessment of the financial cost of a proposal. Costings underpin informed consideration of proposals by Government and facilitate the inclusion of accurate estimates within Budget documentation. Prior to bringing policy proposals forward, entities must engage in dialogue with Finance and the Treasury as early as possible.

- 3.1 Costings for policy proposals for election commitments must be provided to Finance and Treasury in accordance with the Budget timetable. For all other policy proposals, entities should provide all necessary costing information to Finance and 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) a proposal 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 policy proposals (including financial assets and guarantees) must have had costs agreed by Finance. All policy proposals involving taxation revenue/receipts must have had costs agreed by Treasury. Costings agreed by Finance or Treasury do not indicate agreement to the proposal.
- (a) Policy proposals 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 policy proposal costings, except where:
 - (i) a proposal 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 policy proposals 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 policy proposal.
- 3.3 All policy proposals which have expected costs beyond the forward estimates²:
- (a) due to the proposal commencing later in the forward estimates or beyond the forward estimates; or
 - (b) that are in excess of \$75 million in any given year;


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

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Budget Process Operational Rules
Effective June 2022

are required to be costed over the lesser of ten years³ or the duration of the policy proposal, 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 policy proposals involving financial risk (through the use of such 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 proposals involving financial instruments is at Rules 1.15 to 1.18).

 See Glossary for a definition of **financial risk** (item 14).

- 3.5 Only first round effects will be considered in costings; however, any identifiable second round effects should be included in policy proposals and Cabinet submissions.
- 3.6 If the Cabinet agrees to a 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 proposals. In the case of taxation revenue/receipt, the costs of such policy proposals 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.

³ At the Budget update, ten years is defined as the Budget year plus the next ten years. At the MYEFO, ten years is defined as Revised Budget year, plus the next ten years.

4. CONSULTATION AND CROSS-PORTFOLIO POLICY PROPOSALS

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

- 4.1 The lead entity developing policy proposals that have implications for other entities, including ASL implications, must share the draft NPP 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 proposal 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 proposals through a cost sharing arrangement from entities outside their portfolio who may benefit from the proposal 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 a definition of **lead entity** (item 19).

- 4.2 Where policy and implementation are divided between different entities, the policy proposal must:
- (a) identify the impact on each affected entity;
 - (b) identify all service delivery costs and ASL impacts associated with the implementation of the proposal as agreed by all relevant entities;
 - (c) contain agreed costs for all affected entities; and
 - (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 policy proposals must also be documented and agreed by the relevant entities.

DECISION-MAKING PROCESS

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

5. CONSIDERATION OF POLICY PROPOSALS

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

- 5.1 All policy proposals 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) Proposals to alter the levies on agricultural sectors can be agreed by the Minister for Agriculture, 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 must write to the Finance Minister, with the Prime Minister and the Treasurer copied into that correspondence.
 - (b) Proposals to alter the levies on agricultural sectors where the impact is less than \$5 million in net terms over the forward estimates, having costs agreed with Treasury and Finance, may be settled by the Treasurer, where there is a net revenue impact, or the Finance Minister, where there is a net expenditure impact, through correspondence between the Minister for Agriculture, copied to the Prime Minister and the Treasurer and/or Finance Minister.
 - (c) Proposals 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 Treasury and may be settled by correspondence between the Foreign Affairs Minister and a Treasury Minister.
 - (d) Proposals to alter the Indirect Tax Concession Scheme, where the impact on the underlying cash balance is larger than negligible, must have costs agreed with Treasury and may be settled by correspondence between the Foreign Affairs Minister, a Treasury Minister and the Prime Minister.


MINOR POLICY PROPOSALS

- 5.2 Minor policy proposals are those proposals 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 (unless explicit authority has been obtained for the proposal to come forward without an offset). The following process will apply for the consideration of minor proposals:
- (a) The Finance Minister will consider minor proposals (unless Rule 5.2(b) applies), with decisions on these proposals to be forwarded to ERC for endorsement, including where:

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Budget Process Operational Rules
Effective June 2022

- (i) a minor proposal is directly related to a recommendation without a NPP or financial implications — the minor proposal and related recommendation will both be considered by the Finance Minister.
 - (ii) a minor savings proposal is offsetting a minor spending proposal, they will be considered together unless Rule 5.2 (a)(iii) applies (related minor spending and savings 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 proposal has been granted authority to be brought forward without offsets.
- (b) The ERC will consider minor proposals in the following circumstances:
- (i) ERC agree through the Budget prioritisation process that minor proposals regardless of financial impact will be considered by ERC.
 - (ii) the minor proposal is an integral part of a wider package being considered by the ERC.
 - (iii) the Finance Minister, or the Cabinet Secretary, may refer minor proposals, regardless of financial impact, to ERC for consideration. In referring matters to the ERC, the Finance Minister 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 a definition of **Minor policy proposal** (item 24)

MAJOR POLICY PROPOSALS

5.3 Major policy proposals are considered by ERC and are those 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).

PROPOSALS OUTSIDE THE BUDGET PROCESS

5.4 Policy proposals will only be considered outside the Budget process where it can be demonstrated the policy need is significant and urgent, and was genuinely unforeseen when the previous Budget was formulated.

NATIONAL AGREEMENTS AND FEDERATION FUNDING AGREEMENTS

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

5.6 The Council on Federal Financial Relations (CFFR) 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

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Budget Process Operational Rules
Effective June 2022

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 Proposals 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; or
 - (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 proposals for expiring National Agreements and Federation Funding Agreements under these arrangements.

 Attachment 1 provides additional information relating to Payments to States and Territories.

UNLEGISLATED MEASURES

- 5.11 At each Budget and MYEFO, Ministers are required to report on the implementation of all outstanding measures from previous budget rounds and their strategies to achieve passage.

DEFENCE BUDGET MANAGEMENT ARRANGEMENTS

- 5.12 Defence budget management arrangements must also comply with the Defence specific requirements set out in *Attachment 5 – 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 Finance Minister, in consultation with the Prime Minister, Treasurer and/or Finance Minister, 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** (item 9) and **Heads of Revenue** (item 17).

- 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 Budget proposal. If a need subsequently arises, the Minister should seek written approval from the Treasurer, copied to the Prime Minister and the Finance Minister.

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 CBMS by the close of the Pre-ERC estimates update.

 See Glossary for a definition of **Pre-ERC** (item 28).

- (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 a definition of **estimates variation/material estimates variation** (item 13).

- 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 a definition of **measure** (item 23).

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 3 – Reallocations and Reclassifications*.

- 8.1 Unless a different threshold or process is identified in Attachment 3 to the BPORs, reallocations and reclassifications will be subject to the agreement of the Department of Finance or Finance Minister:
- (a) The Finance Minister will consider reallocations or reclassifications valued at \$20 million or greater. The Finance Minister may refer requested reallocations and reclassifications to ERC, Cabinet or the Prime Minister for consideration.
 - (b) The Department of Finance will consider reallocations or reclassifications valued below \$20 million. The Department of Finance may refer requested reallocations or reclassifications below this threshold to the Finance Minister 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 policy proposals and are to be dealt with in accordance with the rules for new policy proposals.
 - (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 policy proposals.

 See Glossary for a definition of **movement of funds** (item 25).

- 8.3 Reallocations of departmental operating expenditure between programs or outcomes is at the discretion of the entity.

- 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** (item 10) and **sub-program** (item 34).

- 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 Finance Minister 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 (MoF) requests should only be brought forward if they are urgent and unavoidable, and a decision is required prior to the next formal round.


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Budget Process Operational Rules
Effective June 2022

- 9.1 The movement of funds process applies primarily to Administered and Departmental Capital funding. This rule should be read in conjunction with [Attachment 4 – Movement of Funds](#). Unless a different threshold or process is identified in Attachment 4 to the BPORs, movements of funds will be subject to the agreement of Finance or Finance Minister.
- (a) The Finance Minister will consider Movements of Funds valued at \$20 million or greater. The Finance Minister 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 Finance Minister for agreement.

Financial thresholds are determined at the CBMS Program 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 alternate 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 under a Federation Funding Agreement, 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 policy proposals.

 See Glossary for a definition of movement of funds (item 25).


10. PROPOSED MAJOR COMMITMENTS OF RELEVANT MONEY

- 10.1 The Finance Minister's written authorisation is required if an accountable authority proposes to enter into a commitment of relevant money, that exceed the following thresholds:

| | Material non-corporate Commonwealth entities | Non-material non-corporate Commonwealth entities |
|-------------------------|---|--|
| Administered resourcing | \$100 million | \$10 million |
| Departmental resourcing | \$50 million (\$100 million in departmental resourcing for the Department of Defence) | \$5 million |

- 10.2 For the purposes of Rule 10.1, a proposed commitment of relevant money does not require the Finance Minister's separate authorisation if that commitment has been supported by, or is required to be supported by, an explicit decision of the Cabinet. The Finance Minister's authorisation for a commitment of relevant money over the life of the arrangement under these rules does not constitute policy authority.

10.3 The Finance Minister may recommend to the Prime Minister that a proposed commitment of relevant money be referred to the Cabinet for decision.

 See Glossary for definitions of: **accountable authority** (item 1), **Commonwealth entity** (item 8) and **Material entity** (item 22).

11. OPERATING LOSSES

Rule 11 details the processes that entities are required to follow to budget for an operating loss in any financial year.


11.1 Excluding losses outlined in rule 11.3, entities may not budget for an operating loss in any financial year, without the prior approval of the Finance Minister. If an actual loss is greater than approved or exceeds the relevant threshold, the relevant Minister must report the loss to the Finance Minister as soon as it becomes apparent.

- (a) The Finance Minister 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.

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

11.3 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 Finance Minister'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; or
- (b) A charging entity⁴ 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; or
- (c) Entities in the Agriculture 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; or
- (d) Entities which already have an operating loss approved by the Finance Minister 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 a definition of **operating loss** (item 27).

⁴ 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.

12. OUTCOMES AND PROGRAM LISTS

Rule 12 outlines the process for commencing new outcomes or changes to existing outcomes.

12.1 The Finance Minister 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). Any changes to programs in the CBMS must be approved by Finance.

- (a) Requests to change program structures following Machinery of Government (MoG) changes should be made at the same time as Outcome Statement changes.
- (b) Changes to existing Outcome Statements should take effect from 1 July (beginning of each new financial period), unless otherwise required, for example, due to a MoG change.

 See Glossary for a definition of **Machinery of Government** (item 20).

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

12.3 Ministers must identify, in their correspondence to the Finance Minister, any reallocations of expenses or cash flows that would result from the proposed outcome change at the time of seeking approval for any change to their outcome framework.

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Budget Process Operational Rules
Effective June 2022

GLOSSARY

| | | |
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| 1 | Accountable Authority | <p>A Secretary of the Department (for Departments of State or Parliamentary Departments).</p> <p>The person or group of persons prescribed by the rules as the accountable authority of the entity (for listed entities).</p> <p>The governing body of the entity, unless otherwise prescribed by the rules (for bodies corporate established by a law of the Commonwealth).</p> |
| 2 | Administered Appropriations | <p>Administered appropriation items are those administered by the entity on behalf of the government. They are amounts required to meet the total estimated expenses 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 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 outcomes (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 of existing administered assets valued at \$10 million or less, and maintenance costs that are eligible to be capitalised.</p> |
| 3 | Annual Appropriation Act | <p>Annual appropriations are contained in annual Appropriation Acts. Since 2014-15, annual Appropriation Acts cease after three years.</p> <p>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.</p> <p>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, non-operating (capital) costs, and payments to state, territory and local governments.</p> |
| 4 | Assurance Reviews | <p>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.</p> <p>See Resource Management Guide RMG 106 – <i>Guidance on the Assurance Reviews Process</i>.</p> |
| 5 | Average Staffing Level (ASL) | <p>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. ASL does not include workers paid through a third party (contractors) or employees on unpaid leave.</p> |

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Budget Process Operational Rules
Effective June 2022

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| 6 | Capital Management Plan (CMP) | <p>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.</p> <p>CMPs must be sent to both AAUs and the CMP-PCEF mailbox (CMP-PCEF@finance.gov.au) in October and February of each year.</p> |
| 7 | Charging | <p>An activity that is charged for can be regulatory, resource or commercial as defined by the Australian Government Charging Framework.</p> <p>Regulatory activities are generally those where the government wishes to control or influence behaviour, manage risk and/or protect the community.</p> <p>Resource activities are generally those where the government provides specific rights, privileges, or access to public resources, infrastructure and/or equipment.</p> <p>Commercial activities are generally those where the Government is involved in an actual or potential competitive market for provision of goods or services.</p> <p>See Resource Management Guide RMG 302 – <i>Australian Government Charging Framework</i>.</p> |
| 8 | Commonwealth entity | <p>(a) a Department of State; or</p> <p>(b) a Parliamentary Department; or</p> <p>(c) a listed entity; or</p> <p>(d) a body corporate established by a law of the Commonwealth.</p> |
| 9 | Contingency Reserve | <p>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 Australian Government 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. As per Rule 6.1, 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 the Department of Finance.</p> |
| 10 | Demand-Driven Program | <p>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</p> |

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Budget Process Operational Rules
Effective June 2022

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| | | variation provided that the changes remains within the cap. Demand-driven programs can be funded both by annual appropriation acts or special appropriations. |
| 11 | Departmental Appropriations | <p>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:</p> <ul style="list-style-type: none"> • employee expenses • supplier expenses • other operational expenses (for example, interest and finance expenses) • non-operating costs (for example, replacement and capitalised maintenance of existing departmental assets valued at \$10 million or less). <p>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.</p> |
| 12 | 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. |
| 13 | Estimates variation/Material estimates variation | <p>Adjustments made to the budget estimates that are not classified as measures.</p> <p>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.</p> <p>Material estimates variations are variations that have an impact on the underlying cash balance that either exceed \$100 million over the forward estimates or \$50 million (excluding GST estimates) in any year within the forward estimates.</p> |
| 14 | Financial risk | The potential loss of the financial instrument. Refer to the Financial Risk Estimates Memorandum for more information. |
| 15 | 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. |

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Budget Process Operational Rules
Effective June 2022

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| 16 | Free Trade Agreement (FTA) | An international treaty which removes barriers to trade and facilitates stronger trade and commercial ties, contributing to increased economic integration between participating countries. FTAs can cover entire regions with multiple participants or link just two economies. |
| 17 | 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. |
| 18 | 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. |
| 19 | Lead entity | In a policy proposal 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. |
| 20 | Machinery of Government (MoG) | An organisational or functional change affecting the Commonwealth. A MoG change can occur as a result of a change to the Administrative Arrangements Order or the movement of responsibilities and functions between entities. |
| 21 | Major Infrastructure proposals | Major infrastructure proposals include (but are not limited to) transport, energy, communications, water, social, and other nationally significant infrastructure projects. |
| 22 | 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 <u>Public Governance, Performance and Accountability flipchart of Commonwealth entities and companies.</u> |
| 23 | 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 expense, capital or revenue 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 <i>Tax Administration Act 1953</i> to grant a tax concession for new or improvements to nationally significant economic infrastructure projects |

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Budget Process Operational Rules
Effective June 2022

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| | | will be published as a measure and be reported in the next Budget update and do not require offsets. |
| 24 | Minor policy proposal | <p>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 proposal is not fully offset for expenditure, then the proposal will be considered a major proposal and go to ERC for consideration.</p> <p>Policy proposals with tax revenue components (including proposed changes to tax concessions) are not minor policy proposals and go to ERC for consideration.</p> <p>All minor proposals must be brought forward using an NPP template. Recommendations in a submission without an accompanying NPP are not considered minor proposals.</p> |
| 25 | Movement of funds | Movement of funds are 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. |
| 26 | Ongoing proposals | Ongoing policies continue indefinitely (until a decision is made to cease or alter the program). |
| 27 | 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 EM for more information. |
| 28 | Pre-ERC | The time when estimates are updated to establish a baseline for the upcoming Budget. Expected to occur in mid-February each year. |
| 29 | Reallocations | Reallocations are the reassignment of expenses within an existing appropriation, either between outcomes, or within the expenditure's current outcome. |
| 30 | Reclassifications | Reclassifications are the reassignment of expenses between appropriation types (e.g. Administered, Departmental Capital, Departmental Operating). |
| 31 | Risk Potential Assessment Tool (RPAT) | <p>A process to assist entities to determine and communicate the potential risk of a proposal to Ministers before seeking the Cabinet's agreement.</p> <p>The RPAT is a Microsoft Word template which can be downloaded from: https://www.finance.gov.au/sites/default/files/2019-10/RPAT-Entity.doc</p> <p>See also Resource Management Guides:</p> <p>RMG 106 – <i>Guidance on the Assurance Reviews Process</i> RMG 107 – <i>Risk Potential Assessment Tool General Guidance</i></p> |

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Budget Process Operational Rules
Effective June 2022

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| 32 | Special Account | An appropriation mechanism that sets aside an amount within the Consolidated Revenue Fund for specific expenditure purposes. |
| 33 | 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 <i>Social Security (Administration) Act 1999</i> . |
| 34 | Sub-program | Program or component within a Central Budget Management System Program. |
| 35 | Terminating proposals/ measures | Proposals or measures which the Cabinet has agreed will have an end date (i.e. terminating date). A terminating measure or proposal 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. |
| 36 | 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. |

ATTACHMENT 1 – MATTERS TO CONSIDER WHEN DEVELOPING POLICY PROPOSALS

This Attachment outlines a number of Government policies and frameworks which may be applicable depending on the nature of the policy proposal under development. In some cases, the frameworks will assist entities in developing policy proposals or may set out requirements that need to be fulfilled by entities for certain types of policy proposals prior to Government consideration.

Entities are encouraged to consider these issues early. In addition to providing advice that may assist in developing a high quality proposal more likely to be agreed by Government, it will help remove what may be significant hurdles late in the policy development process. In many cases, the areas responsible for providing advice below have assisted in the development of many proposals and may also be able to suggest improvements, strategies or approaches that have assisted prior policy development.

Note: a checklist of all requirements for new policy proposals (NPP) is included in the NPP template.

| Item | Consideration |
|---|--|
| Property proposals | <p>All property proposals (including remediation and rehabilitation of land proposals) from non-corporate 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 (Resource Management Guide No 500).</p> <p>Policy proposals with property options must comply with the Commonwealth Property Management Framework. This includes works undertaken in Australia, its external territories and overseas.</p> <p>Further information: Commonwealth Property Management Framework Department of Finance</p> |
| Information and Communication Technology (ICT) Enabled Proposals | <p>The Digital Transformation Agency (DTA) makes determinations to apply the Government's ICT Investment Approval Process to ICT and/or digital-enabled policy proposals, including internally funded proposals, that:</p> <ul style="list-style-type: none"> (a) are ICT and/or digital-enabled, (that is, the policy or service delivery outcomes are highly dependent on an underpinning ICT system); (b) have a total whole-of-life cost of \$30 million or more, including total ICT costs of \$10 million or more; and (c) are high risk. <p>The DTA will consider the risk rating for a proposal 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 proposals of a similar or related nature. The rationale for a different RPAT rating will be set out.</p> <p>Further information: www.dta.gov.au</p> |
| Advertising Campaign Proposals | <p>Policy proposals that involve advertising campaigns with budgets of \$250,000 or more are subject to review by the Committee of Cabinet with responsibility for oversight of government advertising.</p> <p>Entities must consult with the Communication Advice Branch in the Department of Finance to ensure compliance with the Government Communications Campaigns - Development Process and Requirements and the Australian Government Guidelines on Information and Advertising Campaign by non-corporate Commonwealth entities.</p> <p>Further information: https://www.finance.gov.au/government/advertising</p> |

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

| Item | Consideration |
|---|--|
| Commonwealth Grants Rules and Guidelines | <p>For policy proposals that involve grants to grantees other than the Commonwealth, non-corporate Commonwealth entities must apply the Commonwealth Grants Rules and Guidelines 2017. When developing policy proposals involving grants, entities must ensure that the proposal will comply with the Commonwealth Grants Rules and Guidelines 2017 if agreed by Government.</p> <p>Further information: Commonwealth Grants Rules and Guidelines 2017 (legislation.gov.au)</p> |
| Commonwealth Investment Framework | <p>All policy proposals above \$100 million should apply the Commonwealth Investment Framework to assess if there are any opportunities for innovative financing methods.</p> <p>See RMG 308 – <i>Commonwealth Investments</i></p> <p>Further information: Commonwealth Investments (RMG 308) Department of Finance</p> |
| Australian Government Charging Framework | <p>For each policy proposal that involves charging the non-government sector for government goods services or regulation, entities must apply the Australian Government Charging Framework*.</p> <p>This includes ensuring that all regulatory charging activities:</p> <ul style="list-style-type: none"> (a) have policy authority from Government to charge; (b) have statutory authority to charge; (c) align revenue and expenses over time; (d) have up to date publicly available documentation and reporting (e.g. Cost Recovery Implementation Statement updated at least annually); and (e) are examined as part of the five-yearly rolling Portfolio Charging Reviews. <p>The rationale for charging, or not charging, must be included in the policy proposal.</p> <p>*Note: entities proposing charging as an approach or potential approach must ensure they are familiar with the Australian Government Charging Framework. Implementation of a proposal 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 proposals.</p> <p>Further information: Australian Government Charging Framework Department of Finance</p> |
| Financial Framework (Supplementary Powers) Regulations 1997 (the FF(SP) Regulations) | <p>For policy proposals that involve new or materially changed expenditure and propose to rely on the FF(SP) Regulations, entities must work with the Department of 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).</p> <p>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.</p> <p>Further information: Financial Framework (Supplementary Powers) Regulations 1997 (legislation.gov.au)</p> |

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

| Item | Consideration |
|---|---|
| Official Development Assistance | <p>Entities are required to consult with the Department of Foreign Affairs and Trade when developing policy proposals that involves official development assistance.</p> <p>Further information: Official Development Assistance (ODA) - OECD Homepage Australian Government Department of Foreign Affairs and Trade (dfat.gov.au)</p> |
| Payments to States and Territories | <p>Entities are required to inform and consult the relevant Finance AAU, Commonwealth-State Relations Division in Treasury and the Commonwealth–State Relations Branch in PM&C on all payments to States matters.</p> <p>Entities must comply with the design principles of the <i>Intergovernmental Agreement on Federal Financial Relations</i> (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.</p> <p>See RMG 419- <i>Classification of Payments to other levels of government for specific purposes and Commonwealth Own-Purpose Expenses</i> to determine whether a policy proposal includes a payment to the States (as opposed to a Commonwealth-Own Purpose Expense).</p> <p>Further information: Guide to classifying payments to other levels of government for specific purposes and Commonwealth own-purpose expenses (RMG 419) Department of Finance</p> |
| Public-Private Partnerships | <p>Entities seeking funding for new investments, should consider whether a Public-Private Partnership (PPP) may offer better value for money over traditional procurement options.</p> <p>All potential expenditure proposals via a PPP must be developed and approved in accordance with the National Public Private Partnership policy framework.</p> <p>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.</p> <p>Further information: Public private partnerships Department of Finance</p> |
| Regulation Impact Statement | <p>All policy proposals must be accompanied by a Regulation Impact Statement (RIS). The RIS must be developed in accordance with the Australian Government Guide to Regulatory Impact Analysis. Regulation Impact Statements 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 Best Practice Regulation should be consulted early in the policy development process. In accordance with Government RIS requirements, a RIS 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.</p> <p>Further information: 1. Guidance for Policymakers Department of the Prime Minister and Cabinet (pmc.gov.au) and Regulation Impact Statement Updates (pmc.gov.au)</p> |
| Risk Management | <p>Entities are required to comply with the Commonwealth Risk Management Policy in the development of policy and planning of program delivery. All policy proposals must</p> |

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

| Item | Consideration |
|---|--|
| | <p>identify risks associated with the proposal as well as how these will be managed. These issues should be detailed in the new policy proposal to facilitate informed decision-making.</p> <p>Further information on approaches to identifying and managing risks is available at https://www.finance.gov.au/government/comcover. This information will help in identifying risks for a range of policy proposals, and help assessing the likelihood and consequence of the risk eventuating.</p> <p>Where a proposal 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.</p> |
| Reviews, Evaluation and Performance Information | <p>All policy proposals should outline how the proposal's progress and success in delivering the proposed outcome will be measured, including any specific performance review arrangements.</p> <p>See guidance on the enhanced Commonwealth performance framework:</p> <p>RMG-130 <i>Evaluation in the Commonwealth</i> RMG-131 <i>Developing good performance information</i> RMG-132 <i>Corporate plan for Commonwealth entities</i> RMG-133 <i>Corporate plan for Commonwealth companies</i> RMG-134 <i>Annual performance statements for Commonwealth entities</i></p> <p>Further information: Developing good performance information (RMG 131) Department of Finance; Commonwealth Evaluation Policy</p> |
| Proposals to create new or change existing government bodies | <p>Policy proposals to create a new primary or secondary statutory body, or to change the governance structure of an existing primary or secondary statutory body, must be assessed against the requirements of the Commonwealth Governance Structures policy.</p> <p>Further information: Commonwealth Governance Structures Policy (Governance Policy) Department of Finance</p> |

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022**ATTACHMENT 2 – NON-GENUINE OFFSETS**

The following are not considered genuine offsets:

| | |
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| 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 proposals 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 proposal 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 policy proposals. 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 policy proposals, 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 3 – REALLOCATIONS AND RECLASSIFICATIONS

I want to reallocate or reclassify funds...

1. Between CBMS programs within an outcome

- (a) **Of \$20 million or more:** Ministers must write to the Finance Minister 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 inform the relevant Finance AAU 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 less than \$20 million in the current financial year.
- (c) Ongoing reallocation of administered expenses or cash flows, regardless of the appropriation type, are policy proposals.

2. Between outcomes (including between entities)

- (a) Reallocations of administered expenses or cash flows between outcomes, are policy proposals.
- (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 the Department of Finance (if the value of the reallocation is less than \$20 million) or the Finance Minister (if the value is \$20 million or more).

3. 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 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 policy proposals.

4. 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; and
 - (iii) from administered capital to administered operating, both provided through Appropriation Act No.2/4/6

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

- (b) can only occur within a financial year (i.e. not between years) and are subject to the agreement of the Department of Finance (if the value of the reclassification is less than \$20 million) or the Finance Minister (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 new policy proposals.

5. 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 the Department of Finance (if the value of the reclassification is less than \$20 million) or the Finance Minister (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 policy proposals.

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, are subject to the written approval of the Finance Minister. Such requests generally require a movement between entities to the Treasury and must be copied to the Treasurer.

6. 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; or
 - (ii) administered capital and departmental capital appropriations

are subject to the agreement of the Department of Finance (if the value of the reclassification is less than \$20 million) or the Finance Minister (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 4 – 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 11.1 guide consideration of these movements.
- (b) Consistent with Rule 9.1, the Finance Minister will consider movements of funds valued at \$20 million or more and the Department of Finance will consider movements valued at less than \$20 million (but greater than the thresholds above).
- (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 the Department of Finance or the Finance Minister'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 Finance Minister will consider movements of funds valued at \$20 million or more and the Department of Finance will consider movements valued at less than \$20 million (but greater than the thresholds above).

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 Finance Minister (movements of funds valued at \$20 million or more) or the Department of 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.

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

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 Finance Minister 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 Finance Minister will consider movement of funds valued at \$20 million or more and the Department of 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 – 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 operating expenditure will be assessed by Finance as per Rule 11.3.

ATTACHMENT 5 – DEFENCE REQUIREMENTS

This Attachment provides additional information on Budget processes for the Department of 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.

Defence Portfolio Budget Submissions

1. 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.
2. A Bi-annual update of the DIIP (to be considered in the Budget and MYEFO contexts):
 - to advise Government on how the current force structure, force posture and capability investment are aligned to deliver on the strategic settings agreed by Government. Information should also be included on emerging risks relating to schedule, funding, scope and overall effectiveness of existing capability to respond to strategic risks; and
 - to seek Government agreement to: early access to DIIP funding; amendments to DIIP funding provisions to align with changes to the strategic environment and the latest capability planning; milestone updates; project approval pathways and authority, how changes affect Defence capability; and how these changes affect Defence capability and the achievement of the Government's strategic intent.
3. Agreement to continue Defence Operations, including funding for major operations. This should include the net additional cost of each operation (including revenue forgone), and a concurrency statement for Government consideration.

Defence Integrated Investment Program

1. 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.
2. A forward work plan, which reflects all proposed approaches to Government within the upcoming financial year, will be brought 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.
3. Consultation between Defence, 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.
4. 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:
 - (a) financial;
 - (b) requirements;

OFFICIAL: Sensitive

Budget Process Operational Rules
Effective June 2022

- (c) technical and integration; and
 - (d) industrial and strategic.
5. 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:
 - (a) there is only one feasible supplier;
 - (b) the project involves acquiring additional quantities of an existing capability;
 - (c) there are mandatory interoperability requirements that dictate a certain platform choice;
 - (d) operational urgency is more important than optimising cost/capability trade-offs; and
 - (e) the project is simple and low risk and within existing operational policies.
 6. Government agreement may be sought to combine projects into a program-level submission, where it has been determined that projects share key interdependencies and relationships.
 7. 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.
 8. With the agreement of the Department of Finance, Defence is able to reclassify up to \$500 million at each Budget and MYEFO update between operating and capital appropriations to facilitate the delivery of the Defence Integrated Investment Program. All other reclassifications and reallocations must be made consistent with Rule 8 and [Attachment 3](#).

Major Capital Investment Projects

1. Major capital investments 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 proposals will not be subject to new policy proposal (NPP) requirements.
2. 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.
3. Finance, in consultation with Defence, will determine whether Defence ICT-enabled projects (including enterprise ICT projects) are to be subject to the Budget Process for ICT-enabled proposals and/or the Defence Investment Approval Process.
4. 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.
5. The information requirements for DIIP projects will be set out in the Defence Costing Estimates Memorandum.