The Treasury

Treasury Circular

NSW TC 12/20
11 October 2012

Budget Controls – Capital Expenditure Authorisation Limits

All general government agencies are required to manage their capital expenditure program within an approved capital expenditure authorisation limit. This Treasury Circular replaces the previous NSWTC 12/09 and applies to all general government agencies.

Summary:

This Treasury Circular updates and replaces Treasury Circular NSWTC12/09. The content of the previous Circular remains the same with one exception that the Coordinating Minister must now seek approval for new Major Works projects within capital expenditure authorisation limits over $5 million rather than $1 million. This makes the process consistent and brings the circular in line with NSW TC 12/19 which requires submission of Business Cases for projects with an estimated total cost of $5 million, rather than $1 million previously. The Circular applies to all general government agencies irrespective of how an agency is funded.

The principal elements of the policy are that capital expenditure authorisation limits apply to:

- all general government agencies
- the current year, budget year and each forward estimate year.

The Coordinating Minister of the cluster, supported by the Director-General of the principal department, is required to:

- ensure that the capital expenditure program for each agency within a cluster is managed within the approved capital expenditure authorisation limits for that agency
- meet any additional expenditure needs by reprioritising capital expenditure authorisation limits between agencies in a cluster
- approve variations within capital expenditure authorisation limits of individual agencies in the cluster, subject to conditions set out in this circular.

The primary means by which authorisation limits can be adjusted is through the Budget process. This means approval must be sought for:

- any proposed increase in capital expenditure authorisation limits for the cluster in aggregate
- the carry forward of unspent capital expenditure authorisation limits from the current financial year to a future financial year.

Mark Ronsisvalle
For Secretary

Further Information: **Please contact your Agency's Treasury Analyst**
NSW Treasury website: **www.treasury.nsw.gov.au**

Capital Expenditure Authorisation Limits

1. Background

The Circular supports the implementation of financial management improvements which aim to strengthen Budget control. It is consistent with the Government's commitment to devolve financial management responsibilities for clusters to Coordinating Ministers and the Directors-General of principal departments.

2. Capital Expenditure Authorisation Limits

All general government agencies (including principal departments and all other departments and statutory bodies in Budget Paper No. 3) must operate within an approved Capital Expenditure Authorisation control limit for the current year, Budget year and three forward years.

These authorisation limits are determined and approved during the annual Budget process and are measured on an accrual basis. The authorisation limits apply irrespective of the source of funding for the capital projects.

The Coordinating Minister of the cluster, supported by the Director-General of the principal department, must ensure that the capital expenditure program for each agency within the cluster is managed within the approved authorisation limits for that agency.

The Coordinating Minister has the flexibility to meet any additional capital expenditure needs by reprioritising authorisation limits within a cluster.

Coordinating Ministers can exercise this flexibility by increasing the capital expenditure authorisation limit of one agency in the cluster with an offsetting reduction in the capital expenditure authorisation limit in another cluster entity. The principal department must write to Treasury, concurrently with the submission of monthly monitoring data, to formally update the approved capital authorisation limits for the cluster agencies impacted by the re-allocation. The justification for any reallocation of capital expenditure authorisation limits should also be provided at that time.

Approval for additional funding and increases in the approved capital expenditure authorisation limits for the cluster as a whole will be considered in exceptional circumstances only. Such changes to agency capital expenditure authorisation limits for the current and forward estimate years require approval by either the Treasurer (in consultation where necessary with the Expenditure Review Committee of Cabinet) or Treasury.

3. Approvals to change capital expenditure within authorisation limits

The Coordinating Minister of the cluster may approve variances within capital expenditure authorisation limits for the following:

- initiating new major capital works projects with an Estimated Total Cost (ETC) of less than $5 million
- adjustments to existing major works projects
- adjustments to minor works.

The conditions under which such approvals can be made are set out below.

The Coordinating Minister must seek the approval of the Treasurer before initiating any new major works with an ETC of $5 million or more.

Approval for new major works projects below $5 million within capital expenditure authorisation limits

Major works are classified as projects with an ETC of $250,000 or more.

Generally funding decisions for new capital proposals should be considered in the Budget process. However, Coordinating Ministers can approve the addition of new major capital projects with an ETC of less than $5 million on condition that:

- the ETC of the project can be met within existing aggregate capital expenditure authorisation limits for each of the budget and three forward estimate years
- associated recurrent costs in future years can be met from existing net cost services limits
- no major project is delayed by more than one year, and
- Treasury is advised of the project and the source of offsetting savings within the capital program.

Approval for new major capital projects of $5 million or more within capital expenditure authorisation limits

The Coordinating Minister must seek approval from the Treasurer to add a new major capital project with an ETC of $5 million or more. The submission must include:

- an economic appraisal/business case
- a Gateway Review report if the proposed project has undergone a review. The table below details the threshold and Treasury Circular NSWTC10/13, *Gateway Review Systems* provides more information on Gateway requirements.

In general, the following approval guidelines must be followed for major new capital projects (for detailed information, refer to Treasury Circular NSWTC12/19, *Submissions of Business Cases*).

	Estimated Total Cost (ETC)			
	<$5M	**$5-10M**	**$10-50M**	**Over $50M**
Business case	No	Yes	Yes	Yes
Gateway Review	No - unless classified as high risk or requested by Treasury		Yes - unless assessed as low risk and not requested by Treasury	

Adjustments to existing major capital projects within capital expenditure authorisation limits

The Coordinating Minister of a cluster may vary the timing, ETC or cash flows of an approved major capital project (i.e. a project with an ETC of $250,000 or more), subject to the following conditions:

- ETC of the individual major capital project in question does not vary by more than 10 per cent from the originally approved limit as per Budget Paper 4, and any additional cost being within existing aggregate capital expenditure authorisation limits and existing net cost of services limits
- Total authorisation limits for the Budget year and the three forward estimates years is not exceeded in any one year (the Coordinating Minister may need to approve offsetting changes in the timing or cost of other projects to accommodate the variation), and
- No major capital project of the agency in question is delayed by more than one year.

Adjustments to minor works within capital expenditure authorisation limits

The Coordinating Minister has substantial flexibility to vary allocations between minor works projects of individual agencies.

The Coordinating Minister can approve an increase to the minor works program of an agency by up to 10 per cent. This is subject to the constraint that the agency's overall capital expenditure authorisation limits are not exceeded in either the Budget year or any of the three forward estimates years, and any additional expenses are met from within existing net cost of services limits.

For example, if an agency increases its minor works program by 10 per cent (say $2 million) in the Budget year, there must be a $2 million reduction in the major works program also in the Budget year.

4. Carrying forward capital expenditure at the end of the financial year

Coordinating Ministers can seek the Treasurer's approval to carry forward capital expenditure authorisation limits from the current financial year to a future financial year.

5. Capital Expenditure Authorisation Limits and Consolidated Fund

The capital expenditure authorisation limits are an accrual-based measure to ensure that agency-based controls are broadly consistent with the accrual based Net Lending Result.

The Consolidated Fund (directly or indirectly) is the principal source of funding for capital expenditure and the Government is accountable to Parliament for the use of those funds. Treasury's normal controls relating to appropriations and the processes determining the Liability to Consolidated Fund continue to apply. Agencies that receive a capital appropriation will need to calculate a liability to Consolidated Fund at year end, if relevant.

6. Further information

Should you have any queries on this Circular, please contact your agency Treasury analyst.