NSW Treasury

Budget Control Framework

TPG24-35

October 2024

NSW GOVERNMENT

Acknowledgement of Country

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

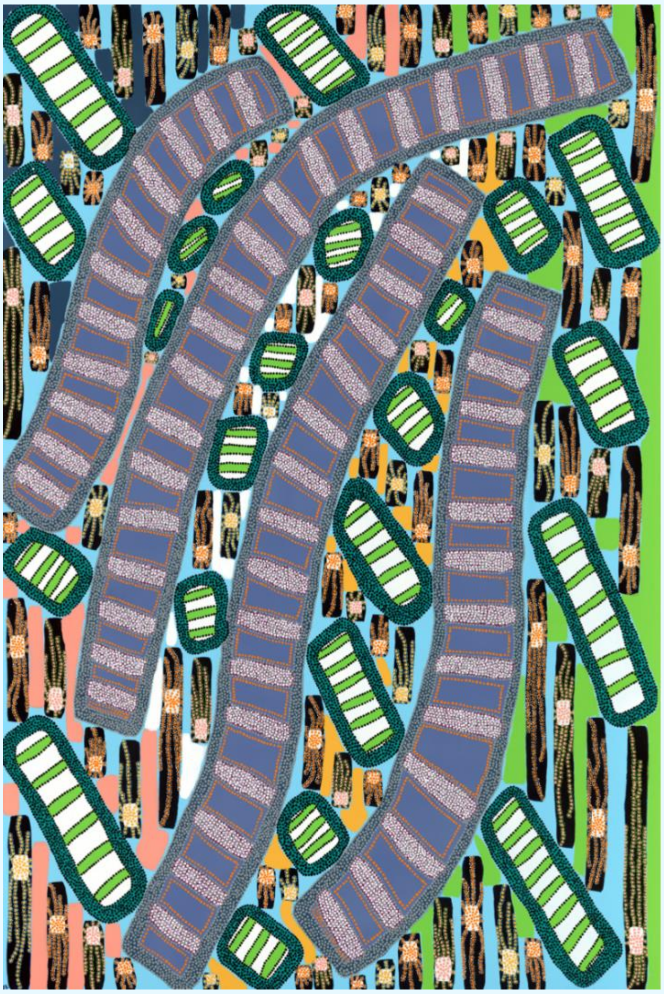
We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

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

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

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

Artwork:
Regeneration by Josie Rose



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Key information	
Treasury Policy and Guidelines (TPG) is relevant to?	☐ GSF Agencies ☒ General Government Sector ☐ Public non-financial corporation ☐ Public financial corporation ☐ State Owned Corporations ☐ Other
	☐ Executive agencies related to Departments
	☐ Subsidiaries of the NSW Government established under the Corporations Act 2001
Date issued	October 2024
Review date	2029
☒ Replaces ☐ Replaced by	NSW TC12/08 – Budget Controls – Net Cost of Services NSW TC13/03 – Budget Controls – Labour Expense Cap NSW TC12/20 – Budget Controls – Capital Expenditure Authorisation Limits
Issuing/Publishing entity	NSW Treasury
Related instrument(s)	
Document approver	Michael Coutts-Trotter, Secretary, NSW Treasury
Contact	Budget Division agencyinfo@treasury.nsw.gov.au

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

Revision history				
Document version number	Approval Date	Author	Approver	Description

Budget Control Framework

Purpose

This Treasury Policy and Guidelines ("TPG") outlines the NSW Government budget control framework, including detail on how the controls apply to agency budgets, delegations for approving adjustments, and reporting arrangements.

This TPG supersedes the following Treasury Circulars:

- NSW TC12/08 – Budget Controls – Net Cost of Services
- NSW TC13/03 – Budget Controls – Labour Expense Cap
- NSW TC12/20 – Budget Controls – Capital Expenditure Authorisation Limits.

Overview

Budget controls have been put in place to support strong budget and financial management across the sector. The controls apply to general government sector agencies and limit the amount of expenditure that can be incurred in each financial year within approved budgets.

Budget controls do not confer the legal authority to spend. Appropriations are a legal limit on the Coordinating Minister's authority to spend and cannot be exceeded. In addition to the appropriation limit, budget controls are an effective tool to control how funds are used in line with approved budgets, including targeting specific types of expenditure.

This TPG provides detail on each of the budget control limits, which cover both an agency's recurrent expenditure and capital expenditure. These are:

1. Net Cost of Services, which limits an agency's net recurrent expenditure (recurrent expenses less own-source revenues).
2. Labour Expense Cap, which limits an agency's total recurrent expenditure on employees and contractors.
3. Capital Expenditure Authorisation Limit, which limits an agency's total capital expenditure on major and minor works.

Related legal obligations

This policy assists the Government in meeting objectives under the *Government Sector Finance Act 2018* (GSF Act), including to:

- promote and support sound financial management, budgeting, performance, financial risk management, transparency and accountability in the government sector and by GSF agencies and government officers
- require the efficient, effective and economical use and management of government resources and related money in accordance with the principles of sound financial management.

1 Budget Control Limits

1.1 Net Cost of Services

Net Cost of Services (NCOS) is a budget management tool to control agencies' overall recurrent expenditure to within approved budget limits.

Agencies must adhere to the approved NCOS limit in each financial year. This represents the maximum net expenditure (recurrent expenses less own-source revenues) that an agency is permitted to incur to deliver its core operations and approved policies or programs of the Government.

NCOS is calculated as expenditure less own-source revenue, i.e. an increase in expenses will reduce the remaining spending capacity while an increase in revenue will increase the remaining spending capacity.

NCOS comprises:

- Expenses
- Less: Revenues*
  - Sale of goods and services
  - Investment revenue
  - Retained taxes, fees & fines
  - Grants and subsidies revenue
  - Other revenue
- Less: Gain/(loss) on discontinuing operations
- Less: Gains/(losses) on other economic flows

* Excludes annual appropriations allocated from the Government and revenue assumed by The Crown in the right of the State of New South Wales (Crown).

1.2 Labour Expense Cap

Labour Expense Cap (LEC) is a budget management tool to control the Government's overall recurrent expenditure on labour related expenses, including employees, contractors, workers compensation and associated costs. It complements the NCOS control limit by focusing on the labour related expense components of NCOS. This additional control is intended to provide further certainty and stability over labour related expenses, as this expenditure typically makes up the largest share of an agency's total expenses and can have limited flexibility.

Agencies must adhere to the approved LEC in each financial year. This represents the maximum expenditure that an agency is permitted to incur on labour and associated costs to deliver its core operations and approved policies or programs of the Government.

LEC is calculated as the sum of:

- recurrent employee related expenses (including superannuation, workers' compensation, long service leave and all other employee related costs)
- recurrent contractor expenses (including contractors, temporary labour hire and contingent workforces).

1.3 Capital Expenditure Authorisation Limit

Capital Expenditure Authorisation Limit (CEAL) is a budget management tool to control the Government's overall capital expenditure.

Agencies must adhere to the approved CEAL in each financial year. This represents the maximum capital expenditure (including capitalised information and communications technology) that an agency is permitted to incur to deliver its core operations and approved policies or programs of the Government.

CEAL is calculated as the sum of:

- minor works (projects with an estimated total cost (ETC) of less than $1 million)
- major works (projects with an ETC of $1 million or more)
- leases.

While agencies are expected to manage their annual capital expenditure within their approved CEAL, further criteria exists in relation to:

- approvals of new major works projects with an ETC of less than $5 million
- adjustments to existing major works projects
- adjustments to minor works.

This criteria is outlined in section *2.2 Capital Expenditure Delegations*.

2 Governance and Accountability

Mandatory
• Agencies must operate within their approved budget control limits each year. • Agencies must inform Treasury and their responsible Minister as soon as possible if they are at risk of breaching any of their budget control limits. • Breaches in controls must be proactively reported in writing to the Treasurer by the responsible Minister, including steps being undertaken to mitigate future risks. • Transfers of budget controls between affiliated entities[1] within the current financial year must have approval from responsible Ministers and be notified to Treasury. • Carry forwards are not to result in a breach of budget controls at the end of the year. • New major capital projects with an ETC of $5 million or more must be considered in the Budget process or approved by the Treasurer in exceptional circumstances. • Agencies must consult with Treasury prior to the Minister approving new major capital projects with an ETC less than $5 million.

2.1 Setting and amending budget controls

It is expected that risks and pressures are managed within an agency's original budget allocation. Where an adjustment to an agency's budget control limit is required, this must be approved by the Expenditure Review Committee or the Treasurer or Treasury via delegation.

The primary process for setting and amending budget controls is in the Budget process, with adjustments typically falling into one of the following categories:

- new policy proposals (recurrent and capital expenditure, revenue and savings measures)
- parameter and technical adjustments
- carry forwards
- machinery of government changes
- other changes (such as Commonwealth Budget amendments).

Related TPGs and Treasury Circulars can be found on the Treasury website.

To enable risks and pressures to be proactively managed, net neutral transfers of budget controls between affiliated entities may occur during the current financial year. A transfer is only permitted where:

- there is no transfer of appropriation between departments and / or directly appropriated agencies; and
- there is alignment with a single Minister's policy responsibility, or impacted Ministers agree.

[1] Affiliated entities are NSW Government entities aligned with a department, including through Administrative Arrangement Orders and the Allocation of the Administration of Acts. See the *Guide to the NSW Public Sector* for further detail on NSW public sector governance.

Treasury must be notified in writing that this discretion has been exercised. Following notification, final budget proposals must be submitted in Prime to adjust agency budgets. Where a transfer is required but impacted Ministers do not agree, the matter may be escalated to the Treasurer for consideration.

A net neutral transfer of CEAL must also satisfy the capital expenditure delegations outlined in section 2.2.

2.2 Capital expenditure delegations

Approval of new major works projects with an ETC of less than $5 million within CEAL

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

- Treasury is consulted prior to the Minister's approval to ensure offsetting savings are available within the capital program
- the project is required due to circumstances that were unforeseen during the previous Budget process
- the ETC of the project can be met within the existing aggregate CEAL in each year
- associated recurrent costs can be met from the existing NCOS limit in each year
- no major project is delayed by more than one year.

Approval of new major works projects with an ETC of $5 million or more within CEAL

The responsible Minister cannot approve new major capital projects with an ETC of $5 million or more. These projects are to be considered in the Budget process, or approved by the Treasurer in exceptional circumstances. The submission must comply with the relevant gateway assurance requirements and business case guidelines.

Adjustments to existing major capital projects within CEAL

The responsible Minister may vary the ETC, timing or cash flows of an approved major capital project, subject to the following conditions:

- The project is not a Tier 1 project[2]
- The ETC of the individual major capital project does not vary by more than +/-10 per cent from the originally approved estimated total cost
- Any additional operating and/or capital costs will be met within existing budget control limits (NCOS, LEC, and CEAL) so that there is no change in the overall expenditure profile for the agency in each year
- No major capital project is delayed by more than one financial year.

For Tier 1 projects, agencies must seek changes to projects via the Budget process or seek approval of the Treasurer in exceptional circumstances.

Where an agency has identified project savings and reduced the ETC by up to the 10 per cent limit, and circumstances emerge that the anticipated savings can no longer be delivered, the agency must identify savings on another project/projects to ensure the full original savings are realised.

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[2] Tier 1 projects are those deemed as being high risk and high profile, as defined by Infrastructure NSW's *Infrastructure Investor Assurance Framework*.

Agencies are expected to have a high confidence level that the savings will be achieved prior to nominating savings to offset cost overruns on other projects.

Adjustments to minor works within capital expenditure authorisation limits

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

The responsible Minister can approve a change 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 CEAL is not exceeded in any financial year, and any additional expenses are met from within existing budget control limits (NCOS and LEC).

2.3 Reporting

The responsible Minister and Accountable Authority of an agency (typically the Secretary or Chief Executive) is responsible for ensuring their agency operates within its approved budget control limits.

Agencies should actively manage and monitor their own-source revenues and expenditure throughout the year to ensure they operate within, and are not at risk of breaching their approved budget control limits. There is no tolerance level for breaches of any of the budget controls.

All budget controls will be subject to financial performance reporting by Treasury throughout the year. This reporting will provide transparency and oversight of agency budget management and risks. The Treasurer or the Minister for Finance may request mitigating actions be undertaken to manage an emerging risk.

In the event that an agency breaches any of their budget control limits at the end of the year, the responsible Minister must advise the Treasurer in writing of the breach.

Correspondence must include detail regarding the driver of the breach and the actions that are being undertaken to mitigate the risk moving forward.

If the breach is material or at risk of becoming structural, additional mitigating actions may be requested. Ministers and agencies may also be required to report back to the Expenditure Review Committee on these mitigating actions to ensure compliance with budget controls in future years.

52 Martin Place
Sydney NSW 2000

GPO Box 5469
Sydney NSW 2001

W: treasury.nsw.gov.au