TE TAI ŌHANGA
THE TREASURY

A Guide to the Public Finance Act

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New Zealand Government

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Chapter 1 Introduction

Introduction

This Guide provides an overview of the requirements of the Public Finance Act 1989 as most recently substantively amended in 2013 (the Act). Its primary audience is likely to be staff in Government departments, Offices of Parliament and others who need a working understanding of the Act. In addition it should be a useful reference for Crown entities, Schedule 4 organisations, Schedule 4A companies, Members of Parliament and their staff, and interested members of the public, including students and readers from other jurisdictions with an interest in public financial management in New Zealand.

The Guide focuses on the legislative requirements of the Act in relation to departments, Offices of Parliament and the Government as a whole. The more detailed requirements and expectations associated with the Act's implementation are set out in more specific documents such as Treasury Instructions, Budget guidance or Cabinet and Treasury circulars, many of which can be found on the Treasury website.

The information in this Guide is provided for general information only and should not be treated or relied on as a substitute for proper legal or professional advice on the interpretation of particular legislative provisions or their application to particular circumstances or entities.

Using this guide

This introductory chapter explains some general points or ideas that are central to interpreting and understanding the Act, starting with the principle of parliamentary control over public finances, and including the roles played by accrual accounting and independent audits. It also includes a list of websites containing information on aspects of public financial management in New Zealand.

The remaining chapters of this Guide follow the structure of the Act.

Chapter 2 discusses the purpose of appropriations (parliamentary authorisation for the incurrence of expenses and capital expenditure), the nature of the appropriation system, and reporting on what is achieved with appropriations. It focuses on the requirements of Part 1 of the Act.

Chapter 3 outlines the principles of responsible fiscal management and describes the fiscal reports and statements prepared in accordance with Part 2 of the Act.

Chapter 4 outlines the requirements for consolidated financial statements of the Government reporting entity set out in Part 3 of the Act.

Chapter 5 describes a departmental chief executive's financial management responsibilities and explains the role of external departmental reports in giving an account of a department's projected and actual financial and non-financial performance. The requirements of the Act in relation to departmental reports are set out in Part 4 of the Act while Subpart 1 of Part 5 deals with special reporting requirements for newly established and disestablished departments.

Chapter 6 outlines the requirements of Parts 6 and 7 of the Act. These parts deal with the borrowing of money, issuing of securities, use of derivative transactions, investment of funds, operation of bank accounts, giving of guarantees and indemnities, and the management of trust money.

Charts are also provided to show how the key phases in the preparation of the budget by the Government relate to the parliamentary process, and to provide an indication of the timing of the budget.

The nature of parliamentary control of public finances

Parliament is the supreme law-making authority and ultimately provides authority for all governmental activity.

In New Zealand's system of government, Parliament is the supreme law-making authority and ultimately provides authority for all governmental activity.

One of the prime means by which it is able to scrutinise and control the Government is through the regular process of granting financial authority to the Government. Section 22 of the Constitution Act 1986 makes this point explicitly, stating that it is not lawful for the Crown (the legal person in whose name the Government acts) to levy a tax, borrow money, or spend public money except by or under an Act of Parliament.

The Public Finance Act provides the core legislative framework within which the Government can borrow money or spend public money. This framework provides for both the rights of Parliament to give informed authority for, and scrutiny of, government borrowing and activity, and the need for the Executive to have sufficient ability to effectively and responsively manage the affairs of the Government.

Legislation governing the use of public financial resources

The Public Finance Act exists to govern the use of public financial resources, notably to:

- provide a framework for parliamentary authorisation and scrutiny of the Government's expenditure proposals and the Government's management of its assets and liabilities
- establish lines of responsibility for effective and efficient management and use of public financial resources
- specify the principles for responsible fiscal management in the conduct of fiscal policy and require regular reporting on the extent to which the Government's fiscal policy is consistent with those principles
- specify the minimum financial and non-financial reporting obligations of Ministers, departments, Offices of Parliament and certain other agencies

- provide for the application of financial management incentives and for the accountability of specified central government organisations
- safeguard public assets by providing statutory authority and control for the borrowing of money, issuing of securities, use of derivative transactions, investment of funds, operation of bank accounts and giving of guarantees and indemnities
- place limits on the ownership of mixed ownership model companies, and
- name Schedule 4 organisations, Schedule 4A companies and identify the sections of the Crown Entities Act 2004 that apply to them.

There is no further information in this guide about mixed ownership model companies or Schedule 4 organisations and Schedule 4A companies. More information about Schedule 4A companies (and Machinery of Government more generally) can be found on the SSC website[1]. Further information about mixed ownership model companies (and the Crown's commercial portfolio) can be found on the Treasury website[2].

The Public Finance Act is not the only Act that establishes requirements for the use of public resources.

- The State Sector Act 1988 sets out the foundations for the state sector system, including the appointment, responsibilities, duties and powers of chief executives. In addition, it establishes the role, functions and powers of the State Services Commissioner, including their responsibility for developing senior leadership and management capability in the public service. The Act also provides for various workforce and personnel matters, including how the Employment Relations Act 2000 applies in relation to the Public Service and the education service.
- The Public Audit Act 2001 provides for the Controller and Auditor-General (the Auditor-General) to be an Officer of Parliament and sets out the law relating to the audit of public sector organisations. The Auditor-General provides independent assurance to Parliament and the public that public sector organisations are operating and accounting for their performance in accordance with Parliament's intentions.
- The Crown Entities Act 2004 provides a consistent framework for the establishment, governance, and operation of Crown entities and to clarify accountability relationships between Crown entities, their board members, their responsible Ministers on behalf of the Crown, and the House of Representatives. The Act provides for different categories of Crown entities with each category having its own framework for governance, clarifies the powers and duties of board members in respect of the governance and operation of Crown entities and sets out reporting and accountability requirements for Crown entities.

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1 http://www.ssc.govt.nz/reviewing-mog

2 https://treasury.govt.nz/information-and-services/commercial-portfolio-and-advice/commercial-portfolio/types-commercial-crown-entities

- The State-Owned Enterprises Act 1986 (SOE Act) outlines the principles governing the operation of state enterprises and establishes requirements for the accountability of state enterprises and the responsibility of Ministers.

Broad principles

Since the late 1980s, New Zealand's public sector management system has focussed on promoting public sector performance.

Since the late 1980s, New Zealand's public sector management system has focussed on promoting public sector performance. Details of New Zealand's reforms are well documented elsewhere[3]. This performance management approach emphasises, among other things, clear objectives and clear lines of responsibility, greater freedom to manage, and a corresponding expectation of greater accountability for results. Such a system requires good measures of performance that interested external parties can trust. In the areas of financial reporting, budgeting and budget controls, the Public Finance Act attempts to meet these objectives by requiring the Government and all public sector entities to prepare financial information that:

- uses accrual accounting concepts and statements
- is in accordance with financial reporting standards approved by an independent standard setter, and
- in the case of annual financial statements, complies with generally accepted accounting practice (GAAP) and is audited by an independent auditor.

These key principles, which are applied throughout the Public Finance Act, are explained in more detail below.

Accrual accounting concepts and statements

Each individual reporting entity (for example, a department) and the Government as a whole prepare financial forecasts and statements using the accrual basis of accounting.

The following table summarises the features of these reports.

	Departments and Offices of Parliament (Refer Chapter 5)	Whole of Government (Refer Chapter 4)
Financial Statements	Annual financial statements Accrual basis Comply with GAAP Audited	Monthly and annual consolidated financial statements Accrual basis Comply with GAAP Annual statements are audited
Financial Forecasts	Prepared on the same basis as the financial statements	Prepared on the same basis as the financial statements

[3] See for example NZ Treasury (1987), Scott et al (1997), Scott (2001), Boston et al (1996), Hughes (2012), Pollitt & Bouckaert (2011).

The accrual basis of accounting was adopted by the New Zealand Government because it provides a more comprehensive set of information than cash accounting.

The accrual basis of accounting was adopted by the New Zealand Government because it provides a more comprehensive set of information than cash accounting. It supports the Government's commitment to provide comprehensive and transparent financial reports.

For example, accrual financial statements provide information on:

- assets, including physical and intangible assets
- liabilities including amounts owed to suppliers, and long term obligations such as accumulated employee leave entitlement, outstanding insurance claims and unfunded pension liabilities
- the overall financial position of the individual entity or the Government
- the impact of exchange-rate, interest rate and other movements as a result of market conditions on the value of financial assets and liabilities
- the full cost of goods and services used or consumed within a given period, regardless of when ordered, received or paid for, and
- cash flows during the period are reported in a separate statement.

Accrual information is less subject to manipulation than cash information. Because the accrual basis recognises expenses when they are incurred rather than when they are paid, there are limited incentives to shift payments between periods inappropriately.

An accrual budgeting system focuses on costs to be incurred rather than funds to be obligated or spent. Accrual budgets provide a more comprehensive financial picture of proposed activities and the impact of those proposals on the operating costs of individual entities.

Parliamentary authority for budget (appropriations) is also expressed in accrual terms. Accrual appropriations mean that Parliament's control is effectively exerted at the point at which an obligation is incurred, which is usually prior to when the flow of cash occurs. Authorisation of total expenses ensures that the total level of Government activity is transparent to Parliament. Any incentive to favour activities with non-cash costs or delayed cash costs is avoided.

Some key dates associated with the adoption of accrual accounting are shown below.

Key dates

- 1989: The Public Finance Act 1989 specified requirements for accrual budgeting and financial reporting by departments. Government departments began to report in accordance with accrual accounting. Whole-of-government flows (for example, taxes and transfer payments) were still budgeted and forecast on a cash basis.
- December 1991: New Zealand became one of the first governments in the world to prepare consolidated financial statements on an accrual basis.
- 1994: The Fiscal Responsibility Act 1994 required accrual-based budgeted and actual information at the whole-of-government level. The government's first accrual-based fiscal forecasts based on GAAP were published in June 2004.

Independent accounting standards

GAAP is an objective and independent set of rules that governs the recognition and measurement of financial elements such as assets, liabilities, revenues and expenses.

The Act requires that the financial statements (and financial forecasts) of the Government and each individual department be prepared in accordance with generally accepted accounting practice (GAAP) in New Zealand. GAAP is an objective and independent set of rules that governs the recognition and measurement of financial elements such as assets, liabilities, revenues and expenses. For example, GAAP requires that expenses and revenue be shown separately except in the limited circumstances where GAAP permits offsets.

The financial reporting standards that are the core of GAAP in New Zealand are approved by the External Reporting Board (XRB) – an independent body established by the Government. The XRB approves financial reporting standards for application by both the public and private sectors.

The Government uses independently established rules for financial reporting in order to give users of reports a high level of confidence in the relevance and reliability of the information. The alternative, the Government setting its own standards, was rejected because of the credibility issues that this would raise.

Notwithstanding the special characteristics of Government, the Government applies similar financial reporting standards as applied by other reporting entities in New Zealand. This means that public sector financial statements can be more readily understood by a wide range of people. It has also allowed the Government to recruit accountants from the private sector and enhanced the ability of accountants to move from one sector to the other.

The approval of New Zealand equivalents to International Financial Reporting Standards by the Accounting Standards Review Board (the predecessor body of the XRB) in 2004 has led to even greater harmonisation of New Zealand's financial reporting standards with international standards.

What is GAAP?

Section 8 of the Financial Reporting Act 2013 states that financial statements, group financial statements, a report, or other information complies with generally accepted accounting practice (GAAP) only if the report, statements, or information comply with:

(a) applicable financial reporting standards (within the meaning of section 2 of the Act); and

(b) in relation to matters for which no provision is made in applicable financial reporting standards, an authoritative notice (within the meaning of section 2 of the Act).

Approved financial reporting standards are those financial reporting standards and interpretations approved by the External Reporting Board (XRB). The XRB has approved separate standards for profit, Public sector and not-for-profit entities. Where transactions and events are not covered by an approved standard, the Board may designate other standards and guidance as having authoritative support for the accounting profession in New Zealand.

Some key dates associated with the development of GAAP are shown below

Key dates

- 1993: The Financial Reporting Act established an independent body, the Accounting Standards Review Board (ASRB), to approve accounting standards in New Zealand, independently of the accounting profession, Ministers, the Treasury or the Audit office. A sector neutral approach was adopted.
- 2003: The new accounting standard for consolidated financial reporting (FRS 37) was adopted, requiring line-by-line consolidation of all controlled government entities.
- 2007: The basis of accounting standards in New Zealand moved to International Financial Reporting Standards (IFRS). The Government adopted New Zealand IFRS reporting.
- 2011: A new independent Crown entity, the External Reporting Board (XRB) was created with full authority to develop accounting standards independently of the accounting profession. At its first meeting it confirmed the proposals of its predecessor body, the ASRB, to adopt a multi sector standard setting approach.
- 2014: The basis of accounting standards in New Zealand moved to International Public Sector Accounting Standards (IPSAS). This was a move from a sector neutral approach to a multi-sector approach. The Government adopted Public Benefit Entity (PBE) IPSAS.

Comparability

The consistent application of the same accounting rules and policies between these sets of financial information permit direct comparisons between forecast and actual results and information over time

As discussed above, the accrual basis of accounting and the associated GAAP rules on recognition and measurement guide the preparation of financial statements, budgets and forecast financial statements, and the associated parliamentary authorisation of budgets. The consistent application of the same accounting rules and policies between these sets of financial information permit direct comparisons between forecast and actual results and information over time.

GAAP requires that entities disclose the accounting policies applied and details of any changes in policies from the previous reporting period. This enhances the comparability of information between entities.

Independent audit

Public sector organisations are accountable to Parliament for their use of public resources and the exercise of powers conferred by Parliament. As part of its accountability requirements, Parliament seeks independent assurance that public sector organisations are operating, and accounting for their performance, in accordance with Parliament's intentions.

The Auditor-General provides this independent assurance to both Parliament and the public.

Offices of Parliament

There are currently three Offices of Parliament as defined in the Public Finance Act (section 2(1)): the Office of the Controller and Auditor-General, the Parliamentary Commissioner for the Environment and the Office of the Ombudsmen.

The requirements of the Act in relation to departments are modified slightly to acknowledge that Offices of Parliament act on behalf of Parliament. For example, the Speaker of the House of Representatives is the responsible Minister in respect of an Office of Parliament[4].

The appropriations for Offices of Parliament are determined not by the Government, but by Parliament on the recommendation of the Officers of Parliament Committee. They are commended by way of an address by the House of Representatives to the Governor General (section 26E).

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[4] The Speaker is also the responsible Minister for the Office of the Clerk of the House of Representatives and the Parliamentary Service.

Intelligence and security departments

The requirements of the Act in relation to these departments are modified to address needs of national security. For example, intelligence and security departments each administer one aggregated appropriation for both expenses and capital expenditure.

There are currently two intelligence and security departments:

- the New Zealand Security Intelligence Service, and
- the Government Communications Security Bureau.

Chapter 2 Appropriations

Key Points

1. No expenses or capital expenditure may be incurred unless in accordance with an appropriation or other statutory authority.
2. Appropriations are limitations of amount, scope and period. These limits are legally binding. All expenses and capital expenditure may be incurred only in accordance with these specifications, except in the limited circumstances where the Act permits some variation to appropriations.
3. Appropriations are also specified by type of expense or capital expenditure. The types of appropriations are output expenses, benefits or related expenses, borrowing expenses, other expenses, capital expenditure, multi-category appropriations, and expenses and capital expenditure of an intelligence and security department.
4. The Auditor-General audits appropriations used and administered by departments and Offices of Parliament to ensure that expenses and capital expenditure have been incurred in accordance with appropriations.

Introduction

This Chapter:

- explains what an appropriation is and the purpose of appropriations
- describes the legislative process for appropriations and the link between appropriations and the budget process
- outlines the responsibilities of Ministers, departments and the Treasury in relation to appropriations
- describes the various types of appropriations, the requirements in relation to specifying and using these appropriations and the consequences of breaching the limits of an appropriation
- explains how the usual appropriation requirements are varied in respect of Offices of Parliament and intelligence and security departments, and
- explains how the controller function operates.

Constitutional role

Traditionally, in Westminster-based parliamentary systems, the Crown may tax, borrow or spend only as authorised by Parliament. Parliament's initial focus was on controlling the right to tax but it subsequently exerted control over spending as well. These constitutional principles developed over a number of centuries and were the subject of much conflict between Parliament and the Crown.[5]

It is unlawful for the Crown to spend any public money unless it has been authorised by an Act of Parliament

New Zealand has adopted these constitutional principles. Under section 22 of the Constitution Act 1986 it is unlawful for the Crown to spend any public money unless it has been authorised by an Act of Parliament. Annual Appropriation Acts which specify the nature and amount of appropriations are the main way in which Parliament authorises the use of resources by the Crown and Offices of Parliament.

Since 1989, appropriations have been accrual-based. This means that parliamentary control is exerted at the point at which a financial obligation is entered into, rather than at the point when that obligation is discharged or paid. This makes parliamentary control more effective. The appropriation constraint is applied at the point when the decision to incur a liability is actioned; the constraint doesn't act as a possible barrier to settling properly incurred liabilities.

- Section 4 states that expenses or capital expenditure must not be incurred unless authorised by an appropriation or other statutory authority.
- Section 5 states that public money must not be spent unless in accordance with statutory authority.
- Section 6 authorises the spending of public money to meet expenses or capital expenditure incurred in accordance with appropriations – that is, section 6 links the spending of public money to appropriations.

What is an appropriation?

An appropriation is the means by which Parliament gives legal authority to the Crown and Offices of Parliament to use resources

An appropriation is the means by which Parliament gives legal authority to the Crown and Offices of Parliament to use resources. Appropriation Acts are the primary mechanism by which Parliament authorises Ministers to incur (on the Crown's behalf) expenses and capital expenditure in the day-to-day administration of government.[6]

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[5] Readers interested in the development of the Westminster parliamentary system are referred to Parliamentary Practice in New Zealand (4th Ed.) found at https://www.parliament.nz/en/visit-and-learn/how-parliament-works/parliamentary-practice-in-new-zealand/

[6] There are other statutory authorities in existence. These are discussed later in the chapter. For example, imprest supply pg. 14 and pg. 26.

Appropriations are a constraining authority only – there is no obligation on the Crown to incur any expense as a result of being granted an appropriation.

Appropriations are a constraining authority only – there is no obligation on the Crown to incur any expense as a result of being granted an appropriation. On the other hand, overspending and transfers between appropriations are strictly governed by the requirements of the Public Finance Act.

An appropriation is a constraint not a promise of funding

Appropriations represent an authority to incur expenses or capital expenditures. They are a constraint rather than a promise to deliver funding for expenditure.

The amount of an appropriation is not necessarily the same as the cash disbursed to a department, nor is it necessarily the same as the revenue the department may earn. For example:

- Ministers may decide not to incur expenses or capital expenditure for which appropriations exist. In such cases revenue and funding may be withheld.
- An appropriation may be for an amount which includes a non-cash expense such as depreciation or the cost of goods and services purchased by a department but not yet paid for.
- Despite having cash available, a department may not incur an expense unless it has an appropriation or other statutory authority (for example, a department that has generated third party revenue in excess of forecasts is generally unable to use the additional revenue without further approval).

The legislative process

The Public Finance Act specifies the appropriation-related documents that are required to be presented to the House of Representatives at the time the Government's budget is presented to the House on Budget day.[7] These documents include:

- an Appropriation Bill (section 7), and
- the Estimates and any other supporting information (sections 13-15F).

Appropriation Bills

An Appropriation Bill sets out the details of each annual and multi-year appropriation in accordance with the Public Finance Act. In addition to the main Appropriation Bill introduced in conjunction with the Budget, there may be additional Appropriation Bills during the financial year (a financial year runs from 1 July to 30 June).

- Authorisations for changes to appropriations are outlined in an Appropriation (Supplementary Estimates) Bill that is introduced and generally passed towards the end of the financial year. There may be more than one Supplementary Estimates Bill but this is very rare.

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7 It has become customary for Budget day to be in May and unless the House of Representatives agrees otherwise, the Appropriation Bill must be introduced before the end of July each year (i.e. no later than one month after the start of the financial year).

- Subsequent authorisation for spending that has occurred without proper authority is sought by way of the Appropriation (Confirmation and Validation) Bill. This Bill is introduced to the House in the following financial year.
- The Minister of Finance must present a report alongside the Appropriation (Confirmation and Validation) Bill that sets out, for each item where confirmation and validation is sought, the amount of each category of expenses or capital expenditure incurred and/or capital injections made, and an explanation from the relevant Minister for the expenses, capital expenditure or capital injection.

A diagram outlining the possible timing of various Appropriation Bills and Imprest Supply Bills in a typical year is shown at the end of this guide.

Estimates

The Estimates is a document that provides information on each appropriation in an Appropriation Bill.

The Estimates is a document that provides information on each appropriation in an Appropriation Bill. For each appropriation the Estimates include details of the Vote, appropriation Minister, appropriation administrator and appropriation type, amount, scope and period. In the case of a multi-category appropriation, the Estimates states the single over-arching purpose of the appropriation. The Estimates also identifies the responsible Minister for each department and the amount of capital injections authorised to be made to the department for the financial year (section 14). The Crown must not make a capital injection to a department (other than an intelligence and security department) unless authorised under an Appropriation Act"?

Supporting information must also be provided to the House. This supporting information includes:

- explanations of what is intended to be achieved with each appropriation
- explanations of how performance against each appropriation will be assessed
- where and by whom performance will be reported
- comparative budgeted and estimated actual expenses or capital expenditure for the previous financial year, and
- information on appropriations authorised by a permanent legislative authority in an Act other than an Appropriation Act (section 15A).

For multi-category appropriations, in addition to providing this information about the appropriation as a whole, this other supporting information includes explanations of what each category is intended to achieve, projected expenses or non-departmental capital-expenditure for each category, and comparative projected and estimated actual expenses or non-departmental capital expenditure for each category for the previous financial year (section 15A(3).

For capital injections, the supporting information must identify the department to which the capital injection is to be made, what the capital injection is intended to be used for, and the amount of the capital injection (section15E).

This supporting information is intended to provide both a clear description of what the appropriation Minister intends to achieve with appropriated expenditure for the year, and a measure against which Parliament and the wider public can assess performance at the end of the year.

Although previously this supporting information could be presented in a separate document, the 2013 amendments to the Act require that it must now be included in the same document as the Estimates.

A Supplementary Estimates document is also presented with each Appropriation (Supplementary Estimates) Bill (section 16). Information on all changes to the information provided in the main Estimates as a consequence of the Appropriation (Supplementary Estimates) Bill must be provided. That is, full information on appropriations that were not in the main Estimates, and additional or changed information on appropriations that were in the main Estimates (section 17).

Supporting information relating to child poverty

From Budget 2019 onwards, a report on Child Poverty must accompany the main appropriation bill (section 15EA). This report must:

- discuss any progress made, in the most recent completed financial year, in reducing child poverty consistent with the targets under the Child Poverty Reduction Act 2018, and
- indicate whether and, if so, to what extent, measures in or related to the main appropriation bill will affect child poverty.

Imprest supply legislation

Imprest supply is a statutory mechanism that allows Parliament to provide the Government with the authority to incur expenses or capital expenditure in advance of appropriation by way of an Appropriation Act.

Imprest supply is a statutory mechanism that allows Parliament to provide the Government with the authority to incur expenses or capital expenditure, or make capital injections, in advance of appropriation or authorisation by way of an Appropriation Act.[8] Imprest supply is required for two reasons:

- the main Appropriation Bill for the year is not normally passed until September, the third month of the new financial year, and
- the changing nature of Government activities and unexpected demands means it is impossible to adequately foresee all future expenses and capital expenditure by the time the main Appropriation Bill is finalised for introduction.

[8] The authority given by Parliament to Ministers by way of appropriations is sometimes called supply. One of the ways Parliament expresses its confidence in the Government is through granting supply.

The first Imprest Supply Bill is introduced and passed prior to the beginning of the financial year. It provides the sole financial authority from the start of the financial year until the Appropriation (Estimates) Bill for that year is passed (normally within four months of the Budget being presented).

The second Imprest Supply Bill seeks financial authority additional to that provided in the Appropriation (Estimates) Act. It is introduced on the day of the third reading of the Appropriation (Estimates) Bill and is debated simultaneously with that third reading debate. The second Imprest Supply Bill ensures that the Government has sufficient supply to implement decisions taken after the Main Estimates were finalised and to meet any increases in demand-driven expenses or other risks or contingencies in excess of the amounts appropriated in the Appropriation (Estimates) Act. Appropriations for expenses and capital expenditure incurred, and authorisations for any capital injections made, under the authority of the second Imprest Supply Bill are sought in the Appropriation (Supplementary Estimates) Bill.

Budget process

As well as being an instrument of parliamentary control, appropriations are also one of the most important levers of control Ministers have to implement their policies. Appropriation limits cannot be exceeded without appropriate approval and subsequent ratification, and appropriations may be used only in accordance with their specified scope. By agreeing the appropriations to be submitted to Parliament, Ministers are determining both the extent and nature of government activity in the year ahead.

The requirements of the Act influence many aspects of the Budget process. For example:

- the expenditure baselines that project government expenditure forward into future years are framed by current appropriation specifications, and
- when considering proposals for changes to expenditure baselines for items such as new budget initiatives, departments will make financial recommendations and Ministers will record decisions on those recommendations.

Role and responsibility of Ministers

Ministers are responsible to Parliament for the use of appropriations as designated in the Estimates.

Ministers are responsible to Parliament for the use of appropriations as designated in the Estimates. They retain this responsibility, although they may delegate the authority given by those appropriations to departmental chief executives. This is illustrated by the requirement for Ministers to provide an explanation for any unauthorised spending.

Appropriations are grouped together in Votes. Parliament authorises the Minister or Ministers responsible for appropriations (the appropriation Minister/s) within a Vote to incur the expenses or capital expenditure outlined in the appropriations. Although different Ministers may be responsible for different appropriations within a Vote, each Vote is administered by one department (the appropriation administrator).

Distinct from the appropriation Minister, the Act states that the "responsible Minister" is:

- in relation to an Office of Parliament, to the Office of the Clerk of the House of Representatives, or to the Parliamentary Service, the Speaker
- in relation to any other department, the Minister responsible for the financial performance of the department
- in relation to a Schedule 4 organisation, the Minister responsible for the financial performance of the organisation, or
- in relation to a Schedule 4A company, the Minister of Finance and the other shareholding Minister(s) (section 2).

Departments' role in managing appropriations

Prior to the start of the financial year, departments are responsible for providing to the Treasury information necessary to prepare the Estimates and Supplementary Estimates (section 19).

During the financial year, they are responsible for carrying out their activities in accordance with appropriations. As well as appropriations covering the expenses and capital expenditure of the department, they may also be responsible for administering appropriations for expenses or capital expenditure to be incurred directly by the Crown, for example, appropriations for outputs provided by entities other than departments or Offices of Parliament, or for benefits or related expenses.

Departments must ensure that all expenses and capital expenditure (both departmental and non-departmental) is in accordance with the authority provided.

Departments must ensure that all expenses and capital expenditure (both departmental and non-departmental) are in accordance with the authority provided. They therefore need to be vigilant to ensure that:

- appropriations are not exceeded unless the overspending is explicitly approved under another provision, and
- spending against an appropriation is within the scope (legal boundary) of the appropriation.

Regular exception reporting is required to highlight potential breaches of appropriations and to allow either corrective action to be taken or appropriate authority to be sought prior to any overspending occurring. Departments must report monthly (from September) to Treasury on the use of appropriations.

After the end of the financial year, departments' annual reports must contain a statement of budgeted and actual expenses and capital expenditure incurred against each appropriation they administer, and against each category of expenses or non-departmental capital expenditure included in any multi-category appropriations they administer. Departments' annual reports must also contain a statement of any unappropriated expenses and capital expenditure, together with an explanation of the reasons for the unappropriated expenditure (section 45A).

The appropriation process represents an external control exerted on the executive by the legislature. In addition to this statutory authority process, there is an internal authorisation process whereby Cabinet delegates financial reporting standards to appropriation Ministers and departmental chief executives. Chief executives have authority to spend within the limits defined by Cabinet. There are specific limits for defined areas of financial commitment, expense or expenditure that Cabinet considers present a high level of risk for the Government (details of these authorities and limits are determined and promulgated by Cabinet).

Role and responsibility of Treasury

The Treasury is responsible for:

- preparing budget documents, including the Appropriation Bills, Estimates and Imprest Supply Bills
- monitoring the need for and the use of imprest supply
- preparing the monthly monitoring report on appropriations for the Auditor-General, and
- obtaining assurance that there is an adequate system of internal control designed to provide reasonable assurance that transactions are within statutory authority and reporting on that to Parliament.

The Treasury may request information

In order for the Treasury to prepare budget documents the Act provides for the Treasury to request, from departments and specified entities, information that is necessary for the preparation of the Appropriation Bills, Estimates and supporting information.

End-of-year performance information on appropriations

Departments are primarily responsible for reporting on what was achieved with expenditure. Departments also report progress on achieving their strategic intentions in an annual report.

The information supporting the Estimates must include descriptions of “what is intended to be achieved” and “how performance will be assessed” for each appropriation. These descriptions provide the basis for end-of-year performance reporting on what was achieved with appropriations.

End-of-year performance information must include:

- an assessment of what has been achieved with each appropriation in the financial year, and
- a comparison of the actual expenses or capital expenditure incurred with the expenses or capital expenditure that were forecast to be incurred (section 19C).

For multi-category appropriations, the above information must also be provided for each category of expenses or capital expenditure within that appropriation (section 19C(2)).

The information supporting the Estimates must also identify who will report on the performance of appropriations and in which document end-of-year performance information for each appropriation will be provided. The performance reporter could be an appropriation Minister, department, departmental agency, Office of Parliament, Crown entity, Schedule 4 organisation (but not including a Reserves Board) or a Schedule 4A company. Performance information may be provided in an annual report, a sector report, a report to the House covering the performance of a particular initiative, or any other appropriate report which provides clear and meaningful performance information.

Where the appropriation Minister has been identified as the performance reporter, end-of-year performance information must be prepared and presented to the House within 4 months of the end of the financial year (section 19B(2)). The Act does not require a Minister's performance report to be audited.

Where a department, departmental agency, Office of Parliament, Crown entity, Schedule 4 organisation (but not including a Reserves Board) or a Schedule 4A company has been identified as the performance reporter, performance information must be prepared as soon as practicable after the end of the financial year (section 19A(2)).

End-of-year performance information must be prepared in accordance with GAAP, to the extent that the information is of a form or nature for which provision is made in financial reporting standards that form part of GAAP (section 19C(3)). The XRB has issued the financial reporting standard PBE FRS 48 "Service Performance Reporting" for this purpose.

Parliamentary scrutiny and reporting

Parliament scrutinises the Executive's spending proposals by way of debate and select committee examination in accordance with the procedures set out in the Standing Orders of the House of Representatives.

Following the delivery of the Budget Speech, there is an immediate debate on the Budget. The Estimates are allocated by the Finance and Expenditure Select Committee among the various subject select committees for examination. Select committees can examine documents and require the attendance of individuals, including Ministers and officials.

Each select committee to which a Vote or part of a Vote is referred requires the appropriation Minister concerned to answer a detailed questionnaire about plans for the coming financial year. The select committee hears evidence from senior officers of the department and, often, from the appropriation Minister before reporting back to the House. Standing Orders require select committees to report back on the Estimates within ten weeks of the delivery of the Budget. The reports of select committees on Estimates are then considered by the House in a series of debates known as the Estimates debate.

Although Parliament authorises appropriations, it is the Government's role to initiate the appropriations process. Also, under the financial veto rule (contained in Standing Orders) the Government can veto proposed amendments to the Estimates that, in its view, would have more than a minor impact on the composition of a Vote.

After the end of the financial year select committees also conduct annual reviews of public entities, such as departments, departmental agencies, Crown entities, and state-owned enterprises. Select committees examine entities' annual reports and assess what has been achieved with expenditure from appropriations. Annual reports are discussed in full in Chapter 5.

Supplementary Estimates are also examined by select committee, usually the Finance and Expenditure Select Committee. Standing Orders provide that only the second reading of the Appropriation (Supplementary Estimates) Bill is debated unless the Minister of Finance proposes an amendment or a select committee which examined the Supplementary Estimates recommended a change to a Vote. The Appropriation (Confirmation and Validation) Bill, which seeks retrospective approval for overspending, is also debated only once, in committee of the whole House. This is known as the annual review debate.

Select Committee review of departmental documents is discussed in Chapter 5.

Dimensions of appropriations

Appropriations are specified using the following four dimensions:

- amount
- scope
- type, and
- period.

Amount

Appropriations are limited by amount (section 8). Appropriations are generally for a fixed amount (one exception being revenue dependent appropriations described later in this chapter in the section on Flexibilities in appropriations) and specified in New Zealand dollars.

Appropriation amounts generally exclude goods and services tax (GST) – this reflects the fact that GST is not generally an expense to the Crown and is consistent with the basis on which fiscal forecasts and financial statements are presented. Section 6 provides authority for the actual payment of GST.

Because the Crown has no control over movements in the market price of assets it would be inappropriate to require losses caused by changes in the market value of assets or liabilities (termed remeasurements in the Act) to require appropriation by Parliament before being incurred. Such expenses are therefore exempted from the requirement for appropriation.

However, appropriations are required where:

- ministerial decisions or actions cause unfavourable changes in the carrying amounts of assets or liabilities. Such changes require an appropriation (the section 2(1) definition of a remeasurement excludes such changes), and
- the Government, or a department acting on the Government's wishes, disposes of an asset at less than fair value. The difference between fair value and the consideration received is essentially a grant or a gift and, as such, requires authorisation.

Scope

Appropriation limited by scope

(1) The authority to incur expenses or capital expenditure provided by an appropriation—

(a) is limited to the scope of the appropriation; and

(b) may not be used for any other purpose.

(2) For the purposes of subsection (1),—

(a) the scope of a multi-category appropriation is the scope of each of the individual categories

of expenses or non-departmental capital expenditure included in that appropriation; and

(b) any variation made by the Minister of the terms and conditions of a capital injection to any entity referred to in section 27(3)(a) to (f) does not change the scope or purpose of that capital injection.

All appropriations are limited by scope (section 9). The scope of an appropriation determines the permitted uses to which that appropriation can be put, and any conditions on that use.

Although not specified in the legislation there are a number of expectations about scope in practice. The scope sets the legal boundary for what an appropriation can be spent on. Accordingly, any statement of scope for an appropriation needs to be sufficiently specific about the range of activities, actions or functions covered to allow an external judgement to be made about whether the Crown has complied with its terms. It also needs to reflect the type of appropriation to which it is allocated. It should be sufficiently specific to act as an effective constraint against non-authorised activity, but not to inappropriately constrain activity that is intended to be authorised by the appropriation.

Type

Any statement of scope for an appropriation needs to be sufficiently specific about the range of activities, actions or functions covered to allow an external judgement to be made about whether the Crown has complied with its terms.

Different types of expenditure have different features when being scrutinised for effectiveness and efficiency. Therefore, each appropriation must be allocated to specified types of expense or capital expenditure. The types of appropriation are:

- output expenses
- benefits or related expenses
- borrowing expenses
- other expenses
- capital expenditure
- multi-category appropriations (MCAs), and
- expenses and capital expenditure of an intelligence and security department.

Each type of appropriation is discussed below.

Output expenses

Output expense appropriations encourage the Government and Parliament to focus on the goods and services to be delivered by an entity. They permit attention to be directed to the value obtained from government expenditure as much as how that expenditure was made.

Output expense appropriations authorise expenses to be incurred by departments or other entities in supplying outputs to parties external to the entity. The expenses authorised include both direct expenses and indirect expenses allocated to those outputs.

Output expense appropriations encourage the Government and Parliament to focus on the goods and services to be delivered by an entity in respect of the appropriations. They permit attention to be directed to the value obtained from government expenditure as much as how that expenditure was made. They also provide departments with autonomy in determining the appropriate input mix, and where necessary, to alter that input mix during the period.

What are outputs?

Outputs, as defined by the Act:

(a) means goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body; and

(b) includes goods or services that a department, Crown entity, Office of Parliament, or other person or body has agreed or contracted to supply on a contingent basis, but that have not been supplied.

Examples of outputs include delivery of services (such as health and disability services), administration of benefits, and policy advice.

An output class can either be supplied by a department (ie, a departmental output expense) or to, or on behalf of, the Crown (ie, a non-departmental output expense).

A department’s chief executive is responsible for what is achieved with departmental output expense appropriations and can decide whether to make the required outputs in-house or buy them in.

Non-departmental output expense appropriations are where a Minister has decided to use a supplier other than a department to provide an output. Most commonly these appropriations fund Crown entities and non-governmental organisations (NGOs).

Output scope statements are required for each output expense. The Treasury provides guidance to assist in determining the scope of output expenses. In general terms the scope of an output expense should:

- have an external focus
- cover goods or services that are similar in nature
- not cover goods or services covered by other output expense scopes
- be comprehensive
- be verifiable
- be controllable by the agency, and
- be informative.

Output expense appropriations are for the expenses to be incurred by the Crown and Offices of Parliament. In the case of departments, which are not separate legal entities from the Crown, the expense to be incurred by the Crown is the same as the expense to be incurred by the department.

In the case of external entities, the expense to be incurred by the Crown is the amount the Crown has agreed to pay the entity for the outputs or to reimburse the expenses to be incurred by the entity in supplying the outputs. The scope of an output expense appropriation should specify whether the appropriation is authorising the reimbursement of expenses or whether it is authorising the price to be paid for goods and services. The distinction is important as the cost may not equal the price and this affects the accountabilities between the two cases.

Benefits or related expenses

Benefits or related expenses are transfers incurred by a Minister on behalf of the Crown generally to other parties for their benefit. The Crown receives nothing directly in return for making this type of payment. Examples include social security benefits and student allowances.

Borrowing expenses

Borrowing expenses include interest and other financing expenses for loans or public securities. Borrowing expenses are managed by the Treasury on behalf of the Minister of Finance.

The scope statement for a borrowing expense appropriation should identify the borrowing to which the expenses relate.

Other expenses

"Other expenses" is a residual type of appropriation intended to provide authority for expenses that are not covered by one of the previous expense appropriation types.

What are other expenses?

Other expenses, as defined by the Act, means any expenses incurred by the Crown, a department, or an Office of Parliament that are other than:

(a) output expenses; or

(b) benefits or related expenses; or

(c) borrowing expenses (section 2(1)).

Most "other expenses" appropriations are non-departmental, such as subscriptions for memberships of international organisations. However, a department may incur non-output related expenses such as costs associated with a restructuring that would be authorised by way of an "other expenses" appropriation.

The scope statement for "other expenses" will vary depending upon the nature of the expense. As with other types of appropriations, the scope for other expenses should be specific enough to act as an effective constraint against non-authorised activity, but not to inappropriately constrain activity that is intended to be authorised by the appropriation.

Capital expenditure

Capital expenditure is defined by the Act as the cost of assets acquired or developed.

Departments are authorised to incur capital expenditure by using the proceeds of the sale or disposal of any of its assets, together with any working capital held

Departments are authorised to incur capital expenditure by using the proceeds of the sale or disposal of any of its assets, together with any working capital held (section 24). Essentially this allows a department to maintain its capability and "manage its own balance sheet".

The effective constraint on capital expenditure without further appropriation by departments (other than intelligence and security departments) is therefore the total amount of its net worth or net assets and its working capital. Any capital injection intended to increase a department's working capital must, except in emergencies (see pg. 28), be authorised by Parliament in an Appropriation Act (section 12A).

Capital expenditure that requires approval by way of annual appropriation includes:

- the cost of the acquisition of any ownership interest in other entities (for example, the purchase of shares in a State-owned enterprise or other entity)
- the cost of the purchase or construction of a tangible asset, such as land for a national park, by the Government

- the cost of the purchase of an intangible asset, such as fishing quotas, by the Government, and
- the cost of the purchase or creation of a financial asset (for example, by making an advance to a Crown entity) but not including the investment of public money by the Treasury on deposit in a bank or in public securities[9].

The scope for non-departmental capital expenditure appropriations must be explicit about the capital item being purchased or developed.

Multi-category appropriations

The 2013 amendments to the Act included a new provision for multi-category appropriations (MCAs). MCAs allow greater flexibility to the Crown to allocate resources to where they can best contribute to a purpose, while retaining transparency of both what has been delivered and the level of expenditure at the category level. MCAs support a focus on a common purpose, and in doing so, reduce compliance and transaction costs of related fiscally neutral transfers.

MCAs consist of two or more categories of:

- departmental or non-departmental output expenses
- departmental or non-departmental other expenses
- non-departmental capital expenditure (section 7A(1)(g)).

MCAs must only include categories of expenses or non-departmental capital expenditure that contribute to a single overarching purpose (section 7B). The establishment of an MCA must be approved by the Minister of Finance, who, in conjunction with the appropriation Minister, can impose conditions on the transfer of resources between categories of an MCA.

The scope of an MCA is the scope of each of the individual categories of expenses or non-departmental capital expenditure included within it (section 9(2)(a)). These individual scope statements should feature the same information as described in the relevant sections above.

Intelligence and security departments

As discussed in Chapter 1, the requirements of the Act in relation to intelligence and security departments have been modified to take into account issues of national security.

These departments receive a single appropriation for all their expenses and capital expenditure (section 7A (1)(f)). The scope of these appropriations is determined by the legislation establishing the functions of the intelligence and security department and should be referenced to this legislation.

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9 Section 65I provides the Treasury with authority to make such investments without further appropriation.

Offices of Parliament

As discussed in Chapter 1, the requirements of the Act in relation to Offices of Parliament have been modified to reflect their direct accountability to Parliament. Offices of Parliament seek authorisation for their activities using the same appropriation types as departments. Their appropriations are determined by the House on the recommendation of the Officers of Parliament Committee (not by the Government) and are presented to the Governor-General for inclusion in an Appropriation Bill (section 26E).

Period

Appropriations are also limited by period (section 10). They may be annual, multi-year or permanent.

Annual

Most appropriations are annual appropriations. If an annual appropriation is not used in the financial year, it lapses.

Most appropriations are annual appropriations – that is, they are authorised for one financial year. Annual appropriations are approved by Parliament through Appropriation Acts. If an annual appropriation is not used in the financial year, it lapses.

Governments may determine administrative rules for “transferring expenses or capital expenditure” into the next year but such decisions will need to be reflected in amendments to appropriations in the following year.

Multi-year

Multi-year appropriations give authority to Ministers to incur expenses or liabilities for a maximum period of five years (section 10(3)). Multi-year appropriations must be specified as such in an Appropriation Act.

Multi-year appropriations may be appropriate in situations that are well-defined and self-contained, where the total cost is clear, costs fall across two or more financial years, but there is considerable uncertainty about the distribution of costs across financial years. Examples of appropriate uses of multi-year appropriations include the Vote Statistics appropriation for the 5-yearly census, and the former Vote Prime Minister and Cabinet 3-year appropriation for the refurbishment of Government House.

Permanent

The statutory authority for some expenses and capital expenditure is provided in Acts other than an Appropriation Act. Such authorisations are termed permanent appropriations, or permanent legislative authorities (PLAs) (section 2).

In many cases the other authorising legislation simply provides that public money may be spent without further appropriation than that section and does not authorise the initiating expense or capital expenditure. To cover such cases, the Public Finance Act provides that any expense or capital expenditure incurred that gives rise to the need for those payments may be incurred without further appropriation (section 11(1)).

PLAs are generally provided when:

- the Government needs to give an assurance about its ability to make payments (for example, debt repayment), and/or
- Parliament wishes to signal a commitment not to interfere in certain transactions (for example, the salaries of the judiciary).

Expenses or capital expenditure authorised by way of permanent appropriation are required to be managed and accounted for by departments in the same manner as annual and multi-year appropriations (section 11(2)). Information on PLAs, including explanations of what the appropriation is intended to achieve, comparisons of budgeted and estimated actual expenses and capital expenditure for the previous financial year, and end-of-year performance information, is provided to Parliament each year in the supporting information for the first Appropriation Bill (section 15A).

Flexibilities in appropriations

The New Zealand system puts in place a large number of detailed individual appropriations. Therefore the Public Finance Act and some other legislation provide for some flexibility for Governments operating within appropriations. For example, Ministers need to have some ability to respond to changing circumstances by reallocating resources during the financial year. The rules governing appropriations have to be flexible enough to respond to those changing circumstances, while still providing Parliament with control of the public finances. The legislative flexibilities available within the appropriation system are described below.

Imprest supply authority

As noted previously, imprest supply is a statutory mechanism that allows Parliament to provide the Government with the authority to incur expenses or capital expenditure in advance of appropriation by way of an Appropriation Act.

Imprest supply is required as the main Appropriation Bill for the year is not normally passed before the beginning of the financial year; and because the changing nature of Government activities and unexpected demands means it is impossible to adequately foresee all future expenses and capital expenditures by the time the main Appropriation Bill is finalised for introduction.

Imprest supply is subject to certain internal controls. Cabinet approval is required to authorise the use of imprest supply and to agree its inclusion in a subsequent Appropriation (Supplementary Estimates) Bill before it can be used. The use of imprest supply is also monitored by the Controller and Auditor-General.

Administration and use of Appropriation

Prior to the 2013 amendments to the Public Finance Act, the administrator of an appropriation was the only department able to use that appropriation. The 2013 amendments included a provision allowing for more flexible funding by permitting any department to incur expenses against a departmental or multi-category appropriation administered by another department.

A department may “use” (that is, incur expenses against) a departmental appropriation or departmental category of a MCA administered by another department, or incur expenses or capital expenditure on behalf of the Crown against a non-departmental category of a MCA, either at the direction of the appropriation Minister, or with the agreement of the department that is the appropriation administrator (section 7C(2)(c)).

The appropriation administrator is responsible for:

- ensuring expenditure remains within the amount, scope, and period of the appropriation
- monitoring compliance with the agreement between the user and the appropriation Minister/administrator
- reporting actual expenditure, and
- ensuring that all start- and end-of-year financial and non-financial reporting on the appropriation is completed.

The appropriation user:

- must comply with the terms of the agreement between the user and the appropriation Minister/administrator
- is directly accountable to the appropriation Minister for what is achieved with the appropriation (if use is at the direction of the appropriation Minister)
- is directly responsible to the appropriation administrator for what is achieved with the appropriation (if use is by agreement with the appropriation administrator).

Examples of situations where this may apply include a temporary transfer of functions from one department to another, or a joint work programme requiring collaboration between two departments.

Revenue dependent appropriations

Subject to the prior authorisation of the Minister of Finance, departments may, without further appropriation, incur output expenses up to the amount of expected revenue to be received from parties other than the Crown in consideration for the outputs being delivered (section 21). Effectively the constraint is variable, depending on the amount of revenue earned, rather than being a fixed amount. As such, revenue dependent appropriations are the main exception to the general rule that the amount of an appropriation is fixed.

The Minister of Finance approves each output expense to which the provision is to apply. This approval is likely to be limited to circumstances where there is external pressure which limits price increases for the outputs.

Transfers between output expense appropriations

The scope limitation on output expenses means that unused output expense appropriations cannot be diverted for another purpose.

In addition to the flexibility provided by imprest supply, the Governor-General can authorise transfers between output expense appropriations and multi-category appropriations that includes only categories of output expenses (section 26A). This provision can only be used when:

- the amount transferred does not increase any appropriation for output expenses by more than 5%
- no other transfer under this mechanism to that appropriation has occurred during that financial year, and
- the total amount appropriated for output expenses in that Vote is unaltered.

This mechanism is usually used only late in June.

Emergencies

When there is a national disaster or civil emergency the Government may need to act quickly. Sometimes the Government may want to use resources in a declared emergency for which there is no appropriation or other authority. In these cases the Government is able to incur expenses or capital expenditure, or approve capital injections, without a prior appropriation (sections 25 and 25A).

No limit applies to such transactions, but the amounts must be included in the Government's annual financial statements and a subsequent Appropriation Bill so that Parliament can debate and confirm them. This mechanism was used during the Government's response to the Canterbury earthquakes. In the case of a smaller-scale disaster, the associated expenses, capital expenditures and capital injections can be accommodated through imprest supply and subsequent inclusion in in the Supplementary Estimates.

Expenses or capital expenditure in excess of existing appropriations

Unauthorised expenses or capital expenditure requires subsequent validation by Parliament in an Appropriation Act

The Minister of Finance also has a limited authority to approve expenses or capital expenditure outside existing appropriation limits that have been incurred within the last three months of the financial year (section 26B). Such items must be within the scope of an existing appropriation. For each appropriation the Minister of Finance can approve an amount up to the greater of $10,000 or 2 percent of the total amount appropriated for that appropriation. Such amounts must be included in a subsequent Appropriation Bill, usually the Appropriation (Confirmation and Validation) Bill for confirmation by Parliament.

Unauthorised amounts

Unauthorised spending must also be reported in the annual financial statements of the Government and the annual report of the relevant department.

Unauthorised expenses or capital expenditure, and unauthorised capital injections require subsequent validation by Parliament in an Appropriation Act (sections 26C and 26CA). The Minister of Finance must present a report on expenses or capital expenditure incurred, or capital injections made, without appropriation which sets out the amount of each category of expense or capital expenditure and an explanation by the relevant Minister.

Unauthorised spending must also be reported in the annual financial statements of the Government and the annual report of the relevant department.

Ensuring compliance with appropriation terms

The Public Audit Act 2001 (section 15(2)) requires that the Auditor-General audit the appropriations administered by departments or Offices of Parliament. Appointed auditors check compliance with appropriations in conjunction with their annual audits of government departments. The audit of appropriations involves:

- determining whether transactions and events are appropriately authorised and within relevant appropriations
- testing whether an expense and or capital expenditure charged against an appropriation has been incurred for the purpose for which it was appropriated, and
- ensuring that expenses incurred are for lawful purposes.

This audit is an ex-post or “after the fact” audit and the assurance on this audit is provided to the House after the end of the financial year.

The Public Finance Act also contains measures to provide assurance that the Crown and Offices of Parliament are complying with appropriation terms on a timely basis during the year. These measures are known as the Controller function. The Controller function supports the constitutional principle that the Government cannot spend without the consent of Parliament. Under this function, the Auditor-General exercises the Controller function under sections 65Y to 65ZA of the Public Finance Act. The Controller and Auditor-General monitors the incurrence of expenses and capital expenditure against appropriations on a regular basis throughout the year and has powers to act if a breach has occurred or if there is reason to believe a breach will occur. The Act ensures that the Auditor-General has access to information and the power to exercise this responsibility.

The Act requires that the Treasury supply monthly statements from September of each year to the Auditor-General, to enable the Auditor-General to examine whether expenses and capital expenditure have been incurred in accordance with an appropriation or other authority such as imprest supply. The Auditor-General can also request information under the Public Audit Act 2001.

If the Auditor-General has reason to believe that expenses or capital expenditure have been incurred for a purpose that is not lawful or is not properly authorised, the Auditor-General can require that the relevant Minister report to the House of Representatives on the alleged breach (section 65Z).

The Auditor-General also has the power to stop payments from a Crown Bank Account or a Departmental Bank Account (section 65ZA).

The requirement for the Treasury to provide monthly reports on appropriations, and the Auditor-General's power to require a Minister to report on appropriation breaches were introduced in 2005. They replaced the previous Controller arrangements which involved a daily check on disbursements from a Crown bank account and a periodic Governor-General's warrant. The changes retain the constitutional principle of an independent check on spending on Parliament's behalf and the right to prevent payments from bank accounts, but now focuses more attention on obligations as they are incurred rather than as they are being settled.

Departments, in their role of administering appropriations, are responsible for ensuring and monitoring that sufficient authority exists before incurring expenses or capital expenditure.

Departmental chief executives are responsible for establishing and maintaining a system of internal control, designed to provide reasonable assurance that transactions entered into are within the department's legal capacity or statutory authority and are recorded to properly reflect the use of all public resources by the Crown.

Appendix 1 Examples

This appendix provides some examples of transactions and events and indicates the type of appropriation required, if any.

Transaction or event	Appropriation required? Yes/No	Explanation
Payment of GST on purchases	No	GST is not an expense and therefore does not require appropriation. Authority to pay GST is provided by section 6(b).
Purchase of a departmental asset	Yes – but refer s24(1)	The purchase of a departmental asset is capital expenditure. Capital expenditure must not be incurred unless it is in accordance with appropriation or statutory authority. The purchase or development of assets does not require annual appropriation, if the expenditure is funded by the proceeds of sale or disposal of the department's assets or from working capital (section 24(1)).
Cash settlement of an existing liability	No	Cash settlement of a liability does not involve the creation of an expense – this occurs when a liability is created or increased. Hence, an appropriation is required when a liability is established or increased but no appropriation is required when a liability is settled. Authority to settle existing liabilities is provided by sections 6(d) and 24(2).
Capital injection to a department (other than an intelligence and security department)	No, but an authorisation in an Appropriation Act is required	A capital injection to a department does not result in the incurrence of an expense or a capital expenditure. However, capital injections to departments (other than intelligence and security department) are required to be authorised by Parliament in an Appropriation Bill (section 12A).

Transaction or event	Appropriation required? Yes/No	Explanation
Departmental provision for restructuring	Yes	Departmental other expenses where the expense relates to a decision to cease production of certain outputs. Departmental output expenses where no such decision.
SOE or Crown entity makes loss for year	No	Excluded from the definition of an expense (section 4(2)).
Depreciation of departmental asset	Yes	Departmental output expenses.
Depreciation of non-departmental asset	Yes	Generally non-departmental other expenses.
Loss on revaluation of asset (departmental and non-departmental)	No	As long as the loss met the criteria for being a remeasurement (that is, it was not the result of a government decision), no appropriation would be required.
Foreign exchange loss – departmental	No	Remeasurement.
Foreign exchange loss – non-departmental	No	Remeasurement.
Crown land with a market value of $10m and a carrying value of $5m sold for $7m	Yes	Crown assets are to be revalued to fair value prior to sale. Therefore an appropriation for $3m would be required (other expense).
Crown land with a market value of $10m and a carrying value of $5m sold for $2m	Yes	Crown assets are to be revalued to fair value prior to sale. Therefore an appropriation for $8m would be required (other expense).
Crown land with a market value of $4m and a carrying value of $5m sold for $2m	Yes	Crown assets are to be revalued to fair value prior to sale. The change to $4m would not require appropriation because it is a remeasurement. The $2m loss on sale would require an appropriation (other expense).
Forgive a Crown debt	Yes	Non-departmental other expense.
Reduce a Crown debt to its recoverable amount	No	Remeasurement.

Chapter 3 Fiscal Responsibility

Key Points

1. Each Government is required to act in accordance with the principles of responsible fiscal management specified in the Act. These principles promote sound fiscal policy.

2. The Act requires regular fiscal reporting including fiscal strategy reports, budget policy statements and economic and fiscal updates. The reporting requirements promote fiscal transparency.

Introduction

This Chapter:

- outlines the principles of responsible fiscal management in Part 2 of the Act and the intention of those requirements
- notes international developments in fiscal management
- describes the reports and statements prepared in accordance with the fiscal reporting requirements of Part 2 of the Act
- describes the responsibilities of the Treasury and Ministers in relation to fiscal reporting, and
- summarises, in an Appendix, the background to the Fiscal Responsibility Act 1994, the subsequent incorporation of that Act into the Public Finance Act 1989 and the Public Finance (Fiscal Responsibility) Amendment Act 2013.

Part 2 of the Public Finance Act 1989 is founded on two key planks: transparency and accountability. It seeks to achieve this by requiring:

- regular public reporting by each Government on their long-term fiscal objectives and short-term fiscal intentions and the extent to which these objectives and intentions are consistent with the principles of responsible fiscal management, and
- reporting on a wide range of economic and fiscal information.

More specifically Part 2 promotes sound fiscal policy and fiscal transparency by:

- requiring that each Government pursue its policy objectives in accordance with the principles of responsible fiscal management set out in the Act
- imposing regular fiscal reporting obligations on the Treasury and the Minister of Finance. The reports and statements required to be presented to the House of Representatives include:
  - an annual fiscal strategy report

- an annual budget policy statement
- a periodic statement on the long-term fiscal position
- a periodic investment statement on the Crown's assets and liabilities
- regular economic and fiscal updates at least twice each year, and
- an annual statement of tax policy changes in the Budget economic and fiscal update.

What is fiscal policy?

Fiscal policy comprises decisions about government spending and taxation. Resilient government finances are a precondition to improving long-term living standards. They reduce the risks and effects associated with economic, social, and/or environmental shocks, and provide current and future generations with the opportunities to participate in society.

What is fiscal transparency?

Fiscal transparency is the full disclosure of all relevant fiscal information in a timely and systematic manner.

It has been described as "… openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities … so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications." (Kopits and Symansky, 1998)

Principles of responsible fiscal management

At the core of the Act's fiscal responsibility provisions are a set of principles of responsible fiscal management. These principles aim to capture dimensions of good fiscal policy:

Principles of responsible fiscal management

The Government must pursue its policy objectives in accordance with the following principles of responsible fiscal management:

a. reducing total debt to prudent levels, so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until prudent levels of debt have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year; and

b. once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues; and

c. achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future;

d. managing prudently the fiscal risks facing the Government; and

e. when formulating revenue strategy, having regard to efficiency and fairness, including the predictability and stability of tax rates; and

f. when formulating fiscal strategy, having regard to the interaction between fiscal policy and monetary policy; and

g. when formulating fiscal strategy, having regards to its likely impact on present and future generations; and

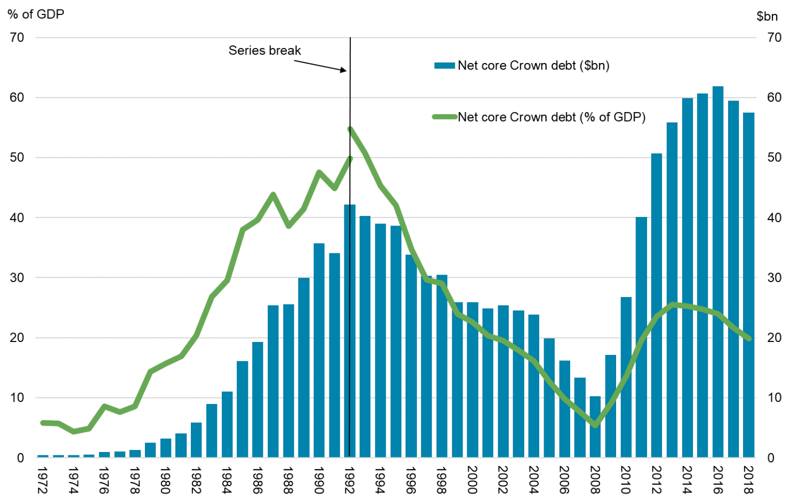
h. ensuring that the Crown's resources are managed effectively and efficiently.

Each principle is discussed in turn.

Debt and fiscal balance

For many years prior to the introduction of the Fiscal Responsibility Act 1994 New Zealand had a high level of public debt which made the economy vulnerable to the impact of adverse events. The first principle is intended to reduce this vulnerability and sustain the resulting improved position. It requires that debt must be reduced and that this reduction must be achieved by running operating surpluses. The focus on operating surpluses is, in part, intended to prevent governments from achieving prudent debt levels simply by selling assets.

Figure 1: Net Public Debt



Note: the measure of core Crown net debt changed in 1992.

The second principle requires that each Government maintain debt at prudent levels. In order to achieve this objective a government will need to ensure that operating revenues are greater than operating expenses, on average, over a reasonable period of time. That is, a government cannot borrow to finance operating expenses over time.

What is a "prudent" level of debt?

The Public Finance Act does not define the term "prudent". Each Government is therefore required to interpret this term and to justify its interpretation to Parliament and the public.

There is no one level of debt, for example, that could be considered prudent at all times. What may be considered prudent at any given time is influenced by the prevailing structure of the economy and its vulnerability to shocks, demographic changes, the cost of debt servicing in relation to total government spending and the structure of the Crown's balance sheet. These and other relevant factors are likely to change over time.

Net worth

The third principle requires that each Government maintains a level of net worth that provides a buffer against adverse future events such as economic shocks and demographic changes. Each Government needs to consider what level and composition of net worth will allow it to take action to meet these events.

Fiscal risks

The fourth principle requires that each Government identifies and manages prudently the fiscal risks facing the Government. Fiscal risks can arise in relation to:

- financial position, for example, changes in the value of assets and liabilities and the potential for off-balance sheet items such as guarantees to give rise to liabilities, or
- operating flows, for example, changes in the tax base and the risk of certain expenditures exceeding budget.

By ensuring that fiscal risks are monitored and managed, this principle helps to reduce the level of uncertainty associated with the Government's future financial performance and position.

Revenue

The fifth principle reflects the importance of stability in tax rates for private sector planning and decision making. This principle also requires Government to have regard to efficiency and fairness, which acknowledges that there are important and desirable features of tax systems such as minimising behavioural distortions and administrative and compliance costs, and sharing the tax burden in a way that is perceived to be fair.

Interaction between fiscal and monetary policy

The sixth principle requires each Government to have regard to the interaction between monetary and fiscal policy. When setting the Official Cash Rate, the Reserve Bank takes into account a number of factors including fiscal policy. This principle requires each Government to be explicit about the interactions between monetary and fiscal policy at different stages of the economic cycle, facilitating greater transparency in policy making and encouraging greater focus on, and discussion of, the cyclical factors impacting the economy's performance at any given time.

Present and future generations

The seventh principle requires each Government to formulate fiscal strategy with regard to the impact on present and future generations. The other fiscal responsibility provisions have a focus on the next 10–15 years, but many decisions have longer-term effects. This principle requires governments to be transparent about any intergenerational trade-offs their policies imply.

Managing resources

The eighth principle requires the Crown's resources to be managed effectively and efficiently. This recognises that it is not just aggregate amounts that matter—total spending, total assets, total debt, or total tax revenue—but also the allocation of resources within those aggregate amounts. This principle also aims to facilitate a greater level of public scrutiny of the Crown's management of its balance sheet.

Departures from principles

Governments are allowed to depart temporarily from the principles of responsible fiscal management. The Act requires, however, that a government specify its reasons for departure from the principles, how it expects to return to the principles and when. The Act recognises the need for some short-term policy flexibility, but it also requires that departures are transparent and temporary.

Targets

Although the Act does not specify targets, it provides a framework within which each Government is required to set long-term fiscal objectives. In order to demonstrate that it has acted in accordance with the principles of responsible fiscal management a government will need to explain these fiscal objectives and review them on a regular basis.

Factors influencing the development of the principles

The requirements of Part 2 of the Public Finance Act are based on the requirements of the Fiscal Responsibility Act of 1994 and the 2013 amendments to the Public Finance Act 1989. The 1994 Act was intended to require transparent reporting of a Government's fiscal intentions and to encourage Governments to consider the long-term consequences of policy decisions (see Appendix 2). The principles established in 1994 can also be seen as a response to concerns about New Zealand's fiscal performance at that time (refer Figure 1).

The 2013 amendments introduced three new principles of responsible fiscal management and amended the fifth principle. These additions broadened the definition of good fiscal policy from a predominant focus on sustainability to include economic stability and fiscal structure.

Although New Zealand's fiscal performance has improved since the principles were first established, the principles continue to provide a useful framework for Ministers to consider the long-term consequences of policy decisions.

International developments

New Zealand was one of the first countries to legislate principles of responsible fiscal management and require a comprehensive suite of fiscal reports on a government's short- and long-term fiscal outlook.

New Zealand was one of the first countries to legislate principles of responsible fiscal management and require a comprehensive suite of fiscal reports on a government's short- and long-term fiscal outlook.

Since the passage of the 1994 Act, two international agencies, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) have developed guidelines for jurisdictions attempting to improve fiscal transparency.

Alongside these developments many countries have adopted legislated fiscal rules. A legislated rule specifies in the law a numerical limit or goal in respect of one or more budget aggregates. Fiscal rules are often expressed as limits on spending, revenue, budget balances, or debt.

Fiscal rules have become more popular over the last decade or so. In 2015, of the 189 member countries of the International Monetary Fund (IMF), 92 had some sort of fiscal rule, up from only 7 in 1990. In general, fiscal rules tend to be associated with improved fiscal performance relative to how well a particular country was performing prior to adopting a fiscal rule.

From time to time, the question arises as to whether New Zealand should adopt a legislated fiscal rule. Successive governments have rejected any change to the status quo. This position reflects the judgement that:

- Political commitment to a particular fiscal path is a key factor that influences whether a government actually sticks to it. By requiring governments to come up with their own assessment of what constitutes good fiscal policy, New Zealand's fiscal responsibility provisions increase the likelihood that governments will stick to the path they have set themselves.
- A legislated fiscal rule will not necessarily reflect the government of the day's assessment of what constitutes good fiscal policy and, accordingly, is more likely to be breached when it does not align with the government of the day's fiscal priorities.
- A transparency-based framework will usually be more flexible than a legislated fiscal rule. For example, a limit of Crown borrowing could require a government to cut spending even if the evidence suggests that doing so would have negative consequences for economic growth or living standards more generally.
- There is a concern that allowing governments to set their own targets could lead to the adoption of weak fiscal targets. The current framework addresses this by imposing a high degree of reporting and transparency requirements. This allows both fiscal targets and measures to achieve those targets to be scrutinised by Parliament and the public.

International agencies

The IMF Code of Good Practices on Fiscal Transparency (adopted 1998, revised 2007) contains the following general principles:

- clarity of roles and responsibilities
- public availability of information
- open budget preparation, execution and reporting, and
- independent assurances of integrity.

The IMF measures country performance against the Code and publishes this information.

The OECD *Best Practices for Budget Transparency* are designed as a reference tool for member and non-member countries to use in order to increase the degree of budget transparency in their respective countries.

Two other jurisdictions, Australia and the United Kingdom, have also used similar approaches to New Zealand in developing legislation that establishes principles and requires Governments to operate in accordance with those principles.

Australia

The Charter of Budget Honesty Act 1998 (the Charter) aims to improve the Commonwealth Government's accountability for fiscal policy formulation. The Charter requires that governments release annual fiscal strategy statements (usually with each budget) based on principles of sound fiscal management. Australia's fiscal framework is consistent with the key features of the IMF Code.

United Kingdom

The framework within which the United Kingdom Government formulates and implements fiscal policy is set out in the Budget Responsibility and National Audit Act 2011. Under the Act the Government must prepare a Charter for Budget Responsibility presenting their approach to operating fiscal policy, which the Treasury must lay before Parliament. The Charter sets out the Government's fiscal targets. The Charter has been updated a number of times in recent years to reflect changes in targets.

The Act also sets out the duty of the Office for Budget Responsibility (OBR) to independently examine and report on the sustainability of the public finances. The Charter sets out further detail on the OBR's remit, how it should perform its duties, the required content of its key publications and the arrangements for determining the timing of its forecasts and other key publications.

Publishing fiscal policy intentions

The Public Finance Act requires the Government to set out its fiscal policy and to describe the relationship between this policy and the principles of responsible fiscal management.

Part 2 of the Public Finance Act requires each Government to set out its fiscal policy and to describe the relationship between this policy and the principles of responsible fiscal management. The Government presents this information in two key documents:

- the fiscal strategy report, on Budget day, and
- the budget policy statement, well in advance of Budget day and no later than 31 March.

Fiscal strategy report

The fiscal strategy report sets out each Government's high-level fiscal strategy.

Key requirements – fiscal strategy report

When

- Tabled in the House of Representatives by the Minister of Finance at the time of the Budget (customarily in May for a 1 July fiscal year).

Long-term objectives (10 or more years)

- State long-term objectives for fiscal policy and for the following key variables:
  - total operating expenses;
  - total operating revenues;
  - the balance between total operating expenses and total operating revenues;
  - the level of total debt; and
  - the level of total net worth.
- Explain how the long-term objectives accord with the principles of responsible fiscal management.
- Disclose the timeframe to which the long-term objectives contained in the fiscal strategy report relate.
- Assess consistency of long-term objectives with most recently published long-term objectives and explain any departures.

Short-term intentions (3 or more years)

- Indicate short-term intentions for key variables.
- Assess consistency of short-term intentions with the principles of responsible fiscal management and long-term objectives. Explain, if any, the reasons for departure from the principles or long-term objectives, how the Government expects to return to the principles or objectives, and when.
- Assess consistency with most recently published short-term intentions and explain any departures.

Managing the Crown's resources

- Detail the Government's strategy for managing expenditure, assets and liabilities over the next three financial years.

Other

- Assess consistency of economic and fiscal update with short-term intentions.
- An assessment of the extent to which the fiscal performance of the Government, since it came into power, is consistent with the Government's fiscal strategy report for that period.
- Provide projections of likely progress against long-term fiscal objectives under stated significant assumptions.

The fiscal strategy report:

- encourages consistency in fiscal policy over time
- requires that each Government focus on the long-term implications of fiscal policy, and
- allows users to assess the sustainability of the fiscal position and its sensitivity to changes in policy.

Budget policy statement

The budget policy statement focuses on the detailed priorities for the upcoming Budget.

Key requirements – budget policy statement

When

- Customarily published by the Minister of Finance in December (in conjunction with the Half Year Economic and Fiscal Update). It must be provided by 31 March.

Broad strategic priorities

- State the broad strategic priorities for the forthcoming Budget including overarching policy goals, policy areas and consistency with the most recent short-term fiscal intentions.
- Explain any changes in the long-term fiscal objectives and their relationship to the principles of responsible fiscal management.
- Explain any changes in short-term fiscal intentions and their relationship to the principles of responsible fiscal management and long-term fiscal objectives.
- Explain any changes in the Government's strategy for managing expenditure, assets and liabilities.

The budget policy statement:

- contributes to fiscal transparency. It requires government to explain any changes in short-term intentions and long-term objectives
- encourages consistency in fiscal policy over time, and
- provides a key opportunity for debate on the content of the forthcoming budget.

Long-term fiscal reporting

The Act requires the Treasury to prepare, at least once every four years, a statement on the long-term fiscal position, covering a period of at least 40 years. The requirement for this statement was introduced in 2004.

This statement is intended to lead to more comprehensive reporting of the issues that could adversely impact on fiscal sustainability and in this way to assist the Government in making decisions that are consistent with the principles of responsible fiscal management. For example, this statement can provide information on the fiscal consequences of projected demographic changes such as population ageing.

The Act does not specify the contents of the statement. It simply requires:

- a statement of responsibility asserting that the Treasury has used its best professional judgements about the risks and the outlook, and
- disclosure of significant assumptions.

The flexibility in the requirements is intentional. The Act does not require a specific analytical tool (for example, intergenerational accounts) to be used because best practice in this area is still developing and there is no single analytical indicator in widespread use. The Act permits tools and projections spanning a range of issues (for example, retirement income, health, education and the aggregate fiscal position) to be considered.

Investment statement

The Act requires the Treasury to prepare an investment statement once every four years. The requirement for this statement was introduced in 2013.

This statement is intended to lead to more comprehensive reporting of the Crown's balance sheet. Like the Long-term Fiscal Statement, the Act allows for flexibility in the requirements.

The investment statement must:

- describe the state and value of the Crown's significant assets and liabilities
- state how those assets and liabilities have changed in value over time
- forecast how those assets and liabilities are expected to change in value in each of at least the next two financial years, and
- identify any significant differences between the current state of assets and liabilities and their forecast values, and the equivalent information reported in the most recent previous investment statement.

Economic and fiscal updates

In addition to requiring each Government to report on its policy intentions the Act requires the Treasury to publish economic and fiscal updates.

In addition to requiring each Government to report on its policy intentions (by way of the fiscal strategy report and budget policy statement), the Act requires the Treasury to publish economic and fiscal updates. Each economic and fiscal update must contain economic and fiscal forecasts for the year to which the update relates and the subsequent two years. The Treasury publishes economic and fiscal forecasts for the subsequent three years. The following economic and fiscal updates are required:

- an economic and fiscal update, including a statement of tax policy changes, to be tabled with the Budget
- a half-year economic and fiscal update to be published between 1 November and 31 December[10], and

[10] Unless a pre-election economic and fiscal update has been published since 1 October or is required to be published before 31 December (section 26S(4))

- a pre-election economic and fiscal update, between 20 and 30 working days before the date of any general election.

The economic outlook has a significant influence on the fiscal outlook. For example, if strong economic growth is forecasted, forecast tax receipts will normally be higher and the cost of Jobseeker Support and Emergency benefit payments lower.

To enhance the transparency and credibility of the fiscal forecasts the Act requires, at a minimum, disclosure of underlying economic forecasts of New Zealand's GDP, consumer prices, employment and the current account of the balance of payments. The legislation also requires a statement of the significant assumptions underlying the economic forecasts, which allows users to form their own views on the reasonableness and reliability of the forecasts.

To ensure governments publish a comprehensive set of fiscal information, the fiscal forecasts are to include:

- forecast financial statements (including a forecast statement of financial performance, a forecast statement of financial position, a forecast statement of cash flows and any other forecast financial statement required by GAAP) for each of the three years
- a statement of forecast borrowings for each of the three years
- anything else that is necessary to fairly reflect the financial operations for each of those financial years or the financial position at the end of each of those financial years (a financial year runs from 1 July to 30 June)
- a statement of commitments
- a statement of the specific fiscal risks of the Government in relation to government decisions and any other contingent liabilities, including a description of the rules used to identify fiscal risks
- a statement of all significant accounting policies
- comparative budgeted and actual figures
- a statement of all significant assumptions underlying the fiscal forecasts, and
- a statement that shows the sensitivity of the fiscal aggregates to changes in economic conditions.

Reporting on tax policy changes

The Act requires that the economic and fiscal update presented with the Budget include a statement of tax policy changes. This statement sets out new government tax policy decisions that have resulted in a material change to the tax revenue forecasts for the financial year to which the update relates and for at least the next two financial years. The statement must also disclose the basis for determining whether a tax policy change is included in the statement.

The requirement for this statement was introduced in 2004. The intention was to make proposed tax changes more transparent by providing information on both expected increases and reductions in tax revenue.

The statement requires a summary of new tax decisions – it does not require a comprehensive statement of tax expenditures as produced by some jurisdictions. The reasons for this are:

- the difficulties with the preparation of a tax expenditure statement (for example, defining the boundaries of tax expenditure, and in obtaining reliable data on the cost and extent of a tax expenditure), and
- the cost of current tax expenditures in New Zealand is relatively low. There would therefore be limited benefit from focusing on historical tax expenditures.

What are tax expenditures?

Tax expenditures may reduce actual or potential tax revenue or create preferential taxation treatment for specific activities. Tax expenditures arise as a result of specific decisions to provide exemptions, allowances, tax credits, tax relief or deferrals.

Why do some governments report on tax expenditures?

Tax expenditures can be used to achieve an equivalent policy outcome to spending decisions. Reporting on tax expenditures ensures that there is a transparent budget process for all policy decisions whether they be given effect through spending decisions or tax policy decisions.

Disclosure of specific fiscal risks

Every economic and fiscal update must incorporate to the fullest extent possible all government decisions and other circumstances that may have a material effect on the fiscal and economic outlook.

Where the fiscal implications of government decisions and other circumstances can be quantified for particular years with reasonable certainty, that quantified fiscal impact is to be included in forecast financial statements. Decisions that are not quantifiable must be disclosed in the statement of specific fiscal risks which forms part of the fiscal forecasts in an economic and fiscal update.

The Act allows for decisions, circumstances or statements to be withheld from disclosure if that disclosure is likely to:

- prejudice the substantial economic interests of New Zealand
- prejudice the security or defence of New Zealand or the international relationships of the New Zealand Government
- compromise the Crown in a material way in negotiation, litigation or commercial activity, or
- result in material loss of value to the Crown.

However, such non-disclosure is allowed only where there is no reasonable or prudent way the Government can avoid this prejudice, compromise or material loss such as by disclosing the nature of the decision but not the fiscal impact. For example, the Government may disclose that it has decided to sell an asset but may withhold the expected selling price on the grounds that this could compromise negotiations over the sale of the asset.

By requiring disclosure of decisions, circumstances or statements except as expressly exempted by the Act, the legislation shifts the bias toward full disclosure. This exposes risks that are material to the fiscal position and encourages governments to focus on and manage those risks. Active risk management should help reduce the volatility in fiscal flows and enhance stability in policy settings.

Accounting and reporting responsibilities

Generally accepted accounting practice

Forecast financial statements prepared under the Act are prepared in accordance with generally accepted accounting practice.

As discussed in Chapter 1, all financial statements and forecast financial statements prepared under the Act are prepared in accordance with generally accepted accounting practice (GAAP).

Treasury and ministerial responsibilities

Preparation and presentation

Part 2 of the Act imposes obligations on the Treasury and the Minister of Finance. In relation to each of the reports and statements required by Part 2 of the Act, the Treasury is responsible for the preparation of the economic and fiscal updates, the investment statement and the statement on the long-term fiscal position. The Minister is responsible for presenting these to the House of Representatives. The Minister is responsible for preparing and presenting to the House of Representatives the fiscal strategy report and the budget policy statement.

In some cases, because Parliament may not be in session when a report or statement is produced, the Minister may arrange publication of the report or statement prior to its presentation to the House of Representatives (for example, the budget policy statement and the half-year and pre-election economic and fiscal updates).

The Treasury may request information

In meeting its obligations to prepare the fiscal information required by the Act, the Treasury relies heavily on the information supplied by departments and other entities. Without this information the Treasury would be unable to meet its requirements under the Act. The Act provides that the Treasury may request information from departments and other specified entities to prepare the information required by the Act.

Statements of responsibility

The statement of responsibility produced as part of the economic and fiscal updates highlights the respective responsibilities of the Minister of Finance and the Secretary to the Treasury as follows.

The Secretary to the Treasury relies on the Minister to provide information on all the relevant decisions and circumstances to enable the Treasury to produce credible economic and fiscal updates.

The Minister is responsible for:

- communicating all policy decisions and circumstances with material fiscal or economic implications to the Treasury, and
- asserting responsibility for the integrity of the disclosures in the update, for their consistency with Part 2 of the Act, and for the omission of any decisions, circumstances or statements that have been withheld under the provisions of the Act.

In preparing the update the Treasury must:

- include all information communicated by the Minister
- exclude information withheld by the Minister under the provisions of the Act, and
- use its best professional judgement.

The statement on long-term fiscal position is also required to include a statement of responsibility which notes that in preparing the statement the Treasury has used its best professional judgements about the risks and the outlook and which includes a statement of all significant assumptions.

Parliamentary scrutiny

Once reports and statements have been presented to the House of Representatives, Standing Orders provide for the fiscal strategy reports, economic and fiscal updates, statements of long-term fiscal position and investment statements to stand referred to the Finance and Expenditure Committee (FEC). The FEC is required to report back on the fiscal strategy report and Budget economic and fiscal update within 2 months after Budget day. These reports and the FEC's report on them can be referred to during the third reading debate on the main Appropriation Bill. The FEC is required to:

- report back on the budget policy statement within 40 working days after it is presented to the House, and
- report back on the long-term fiscal statement within 6 months after it is presented to the House and report back on an investment statement within 2 months after it is presented to the House.

The House debates each of these statements in place of the first general debate after the FEC's report on the statement is presented.

As part of their review of documents select committees have the opportunity to examine the Minister of Finance and officials, call in witnesses and obtain expert opinions. They may also obtain independent assessments of reports and statements.

This type of review is an important element in determining the credibility of any government's fiscal strategy. In addition, the review and parliamentary debate of reports and statements allows more open and transparent budget processes and increases the accountability to Parliament of the Government's fiscal management.

Public availability

The reports and statements produced under Part 2 of the Act are required to be made publicly available on the Treasury's website for at least 5 financial years after the financial year to which they relate. They can be accessed at https://treasury.govt.nz/publications/budgets

Appendix 2 Fiscal Responsibility Act

Fiscal Responsibility Act 1994

The Fiscal Responsibly Act 1994 introduced the principles of responsible fiscal management and aimed to improve fiscal transparency by requiring the presentation of a number of fiscal reports.

In many respects the Fiscal Responsibility Act reinforced recently developed reporting practices and provided assurance that these practices would continue (for example, the practice of preparing economic and fiscal updates for a three-year period). It also extended existing reporting practices (for example, by requiring fiscal forecasting on the basis of generally accepted accounting practice (GAAP)).

As noted earlier in this Chapter, the requirements of the Act were partly prompted by New Zealand's poor fiscal performance in the late 1980s and early 1990s.

The 1994 Act aimed to address these problems and achieve better fiscal outcomes by:

- strengthening the incentives on Ministers to co-operate in setting priorities and to follow an agreed fiscal strategy, and
- providing more regular information to the public on the medium-term fiscal outlook and the decisions that underpinned that outlook.

The principles of responsible fiscal management in action

The legislation has provided a framework for Ministers to make responsible fiscal decisions and helped Ministers to focus on the medium- and long-term impacts of current policies.

The legislation has provided a framework for Ministers to make responsible fiscal decisions and helped Ministers to focus on the medium- and long-term impacts of current policies.

Although New Zealand's fiscal position is affected by many factors outside the Government's control, the principles of responsible fiscal management encourage Ministers to constantly review the likely impact of the economic outlook on the fiscal position and take appropriate action. Examples of the actions that Ministers have taken in order to manage New Zealand's fiscal position include:

- reorganising the set of government rights and obligations that make up the balance sheet (for example, by fully hedging foreign currency debt and reconfiguring assets and liabilities)
- exerting greater fiscal control over levels of spending, and
- engaging in high-level prioritisation of spending (Warren and Barnes, 2003).

2004 Incorporation into the Public Finance Act

In 2004 the Fiscal Responsibility Act was incorporated into the Public Finance Act. The fundamental principles of the 1994 Act were retained. The intention of the merger was to consolidate legislation regarding public finance and make it more accessible. The merger also provided the opportunity to make some amendments to the Fiscal Responsibility Act.

The changes were introduced to align New Zealand's fiscal reporting with best international practice after assessing legislation in the United Kingdom and Australia, reviewing the best practice guidelines issued by the IMF and OECD, and drawing on experience with the legislation since its introduction.

The 2004 changes are consistent with the overall requirements of the 1994 legislation. However these changes did include a number of enhancements as set out below.

Summary of 2004 amendments

Key amendments included:

- a change in the focus of the budget policy statement from high-level fiscal strategy to budget strategy;
- a requirement in the fiscal strategy report to disclose the time period to which the long-term fiscal objectives relate – being a minimum of 10 years;
- a requirement for Treasury to produce periodic assessments of long-term fiscal issues – over a minimum 40 year period;
- annual disclosure of changes in tax policies which will lead to material changes in revenue forecasts;
- a requirement to disclose the methodology used to identify specific fiscal risks;
- changes in economic conditions; and
- removal of the requirement for a current year fiscal update as it is customary practice for the Supplementary Estimates for the current fiscal year to be presented on Budget day.

Summary of 2013 amendments

Key amendments included:

- three new principles of responsible fiscal management were introduced, broadening the definition of good fiscal policy to include economic stability and fiscal structure;
- amending the fifth principle of responsible fiscal management regarding revenue to incorporate a focus on efficiency and fairness;
- a requirement for the Treasury to provide a four-yearly investment statement.

Chapter 4 Whole-of-Government Financial Statements

Key Points

1. The Government is required to produce monthly and annual consolidated financial statements for the Government reporting entity.
2. These financial statements provide information on the Government's assets and liabilities, revenue and expenses and cash flows.
3. In common with appropriations and financial forecasts, the financial statements are prepared using the accrual basis of accounting and in accordance with generally accepted accounting practice (GAAP).
4. Many of the items reported in the financial statements of the Government are similar to the items reported in the financial statements of other entities. However, the Government also reports on some rights and obligations and transactions that are unique to governments including taxes obtained from the use of sovereign powers and non-exchange transactions such as welfare benefits.
5. The Auditor-General is responsible for expressing an independent opinion on the annual financial statements of the Government.

Introduction

This Chapter:

- explains the purpose of producing consolidated financial statements for the Government reporting entity
- describes the contents of the consolidated financial statements of the Government reporting entity, and
- outlines who has responsibility for producing, presenting, auditing and scrutinising the consolidated financial statements of the Government reporting entity.

Before reading this Chapter, readers are encouraged to read Chapter 1 which provides information on relevant features of New Zealand's public financial management system including the adoption of accrual accounting and the nature of the financial reporting standards applied by the New Zealand Government.

The Act requires that the Government prepare monthly and annual consolidated financial statements for the Government reporting entity (commonly referred to as the financial statements of the Government).

The Act requires that the Government prepare monthly (from September) and annual consolidated financial statements for the Government reporting entity (commonly referred to as the financial statements of the Government). The Government's financial year runs from 1 July to 30 June.

These financial statements provide information that is critical to the accountability process and that informs Government decision-making. The Government uses these statements to give a comprehensive account of its use of resources and its assets and liabilities.

To understand these financial statements it is necessary to understand which entities are included in the financial statements of the Government.

Entities included in the consolidated financial statements of the Government reporting entity

The Government of New Zealand has three branches: the legislative, executive and judicial branches. The executive branch includes around 35 departments and Ministries. In order to ensure that the activities of all three branches are appropriately reported the concept of the Government reporting entity was developed. The Government reporting entity, as defined in the Act, consists of these three branches and the Sovereign in right of New Zealand (section 2(1)). The Government reporting entity concept is similar to the parent entity in a private sector context.

The financial statements of the Government report on the whole-of-government – they are sometimes referred to as group accounts. The Act (section 27(3)) requires that the annual consolidated financial statements for the Government reporting entity must include the Government reporting entity's interests in:

- all Crown entities named or described in the Crown Entities Act 2004. These include:
  - statutory entities which are further classified as Crown agents, autonomous Crown entities and independent Crown entities (around 80)
  - Crown entity companies (11 as at 30 June 2019)
  - Crown entity subsidiaries (around 150)
  - school boards of trustees (over 2,400), and
  - tertiary education institutions (around 30)
- all organisations named or described in Schedule 4 (a range of small or unusual entities that do not have Crown entity status but which nevertheless are required to comply with various sections of the Crown Entities Act 2004) (around 50)
- all companies named or described in Schedule 4A (non-listed companies in which the Crown is majority or sole shareholder) (currently 9)
- all mixed-ownership model companies listed in Schedule 5 (currently 4)

- all legal entities described in Schedule 6 (legal entities created by Treaty of Waitangi settlement Acts) (currently 1)
- all State-owned enterprises named in the first Schedule of the State-Owned Enterprises Act (around 13)
- all Offices of Parliament (currently 3)
- the Reserve Bank of New Zealand, and
- any other entity whose financial statements must be consolidated into the financial statements of the Government reporting entity to comply with GAAP (for example, where the Government holds a controlling interest in a company).

Local authorities are not included in the financial statements of the Government because they are not controlled by the Government.

A list of entities included in the financial statements of the Government is available in the financial statements. The statements can be accessed from Treasury's web site at https://treasury.govt.nz/publications/financial-statements-government/.

A list of entities within the state sector is available on the State Services Commission's website at http://www.ssc.govt.nz/state_sector_organisations.

The financial statements of the Government must present information on the Government's interests in a large number of entities. The financial statements could present information on these interests by disclosing the Government's net investment in such entities (measured at cost or fair value). Although disclosure of the net investment is useful, it does not provide readers with any indication of the revenues and expenses, assets and liabilities or cash flows of the entities concerned. Information on each individual entity is provided by way of their separate financial statements, but it is difficult for users to assimilate this information and use it to assess the overall financial operations and financial position of the Government.

The Act therefore requires that the Government prepare consolidated financial statements (section 27(1)). In accordance with financial reporting standards, the concept of control is used to determine which investments are consolidated. Entities that are jointly controlled are also combined into the whole-of-government financial statements in accordance with the relevant financial reporting standards.

The consolidated financial statements of the Government reporting entity are created by combining the financial statements of all the entities described above on a line-by-line basis. For example, the assets and liabilities of all controlled entities are treated as assets and liabilities of the Government. Transactions between the entities within the consolidated group are eliminated to ensure they are not double counted.

There are instances where entities may be listed as a Government reporting entity but are not consolidated on an equity rather than line-by-line basis where GAAP requires a different accounting treatment (eg, equity accounting).

Comparison of projected performance and actual results

The financial statements of the Government are used by the Government to demonstrate its accountability for its actual financial performance against forecasts. The Act requires that the Government produce both forecast financial statements (Part 2) and monthly and annual financial statements (Part 3).

The Act's requirements in relation to forecast financial statements are discussed in Chapter 3.

The monthly statements provide timely information for external users to monitor the Government's progress in relation to forecasts throughout the year.

The monthly statements provide timely information for external users to monitor the Government's progress in relation to forecasts throughout the year.

In common with appropriations and financial forecasts, the financial statements are prepared using the accrual basis of accounting and in accordance with generally accepted accounting practice (GAAP). As discussed in Chapter 1, consistent application of accounting policies enhances the comparability of information.

User needs

The financial statements of the Government are intended to meet the needs of a range of external users. Such reports are commonly referred to as general purpose financial reports.

Although each group of users will have specific needs, users of the financial statements of the Government are frequently interested in the state of the Government's overall financial health (referred to as financial condition) and whether this financial condition has improved or deteriorated. The financial statements of the Government can provide information on aspects of financial condition including:

- resilience, or the government's ability to absorb financial or economic shocks or adapt its structure in response
- sustainability, or a government's ability to meet existing operational commitments and the creditor requirements brought on by past borrowing, without abrupt or large increases in debt or taxes, and
- flexibility, or the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.

The financial statements provide users with the basis for analysing the Government's financial condition, at a point in time, against these criteria. However, the Government's financial statements do not provide information on the effectiveness of government spending and revenue decisions or actions as this requires separate evaluation of the impact of these decisions or actions.

Use of GAAP

The Government's financial statements are prepared in accordance with Public Benefit Entity (PBE) Accounting Standards. While these can be different to the accounting standards applied by private sector companies, to reflect distinguishing characteristics of the public sector, in most cases the Government applies the same measurement and recognition rules as other entities and presents the same types of financial statements.

The use of GAAP makes it easier for external users to understand the Government's financial statements. However, the Government has some special characteristics that have an impact on the financial statements and that need to be considered when using the financial statements of the Government, for example, the power to tax. These special characteristics are noted below in the discussion of each of the main financial statements.

Contents of the financial statements

The annual financial statements of the Government are required to include those statements required by GAAP (section 27(2)(a)). Currently these statements are:

- a statement of financial performance (also referred to as an operating statement or an income statement)
- a statement of financial position (also referred to as a balance sheet)
- a cash flow statement
- a statement of changes in equity, and
- notes to the financial statements, comprising significant accounting policies and other explanatory notes including information on contingent liabilities and commitments.

In addition to the financial statements required by GAAP, the annual financial statements of the Government include additional statements that reflect the nature of the environment in which Government operates (section 27(2)(c)). Non-GAAP statements required are:

- a statement of borrowings
- a statement of unappropriated expenses and capital expenditure, and unauthorised capital injections
- a statement of emergency expenses and capital expenditure, and emergency capital injections
- a statement of trust money, and
- any additional information and explanations needed to fairly reflect the financial operations and position of the Government reporting entity.

The annual financial statements must include forecast and the previous year's actual comparative information for the period (section 27(2)(b)).

The contents of the monthly financial statements are similar to the annual financial statements (section 31A). However, some statements are prepared only annually (for example, statement of unappropriated expenses and capital expenditure, statement of emergency expenses and capital expenditure and statement of trust money). The monthly financial statements contain less detail than the annual financial statements.[11]

The monthly financial statements are required to include the following two comparatives to the actual year-to date figures:

- budgeted year to date figures, and
- actual year to date figures for the previous financial year (section 31A(2)).

Further information on the three main financial statements follows.

Statement of financial performance (or operating statement)

The statement of financial performance reports the Government's income (revenue and gains) and expenses.

The statement of financial performance reports the Government's income (revenue and gains) and expenses.

The Government's main source of revenue is income tax and other taxes obtained from the use of sovereign powers. Other sources of revenue are investment income and revenue from the sale of goods and services.

A significant amount of the Government's expenses is in respect of non-exchange transactions, such as welfare benefits. Complementary to the statement of financial performance the financial statements also includes an analysis of expenses by functional classification which provides a breakdown of the Government's expenses by function, for example, health, education and social security and welfare.

Because there is no direct link between the resources that the Government receives and the services it provides, the overall surplus or deficit (also referred to as the operating balance) is not a measure of financial efficiency. [12] It is rather a measure of the extent that operating revenues levied or earned in the year have been sufficient to cover the operating expenses incurred during the year.

In addition to the level of the surplus or deficit, users are often interested in the ability of the Government to continue to provide existing services and meet the demand for new services in the medium to long-term. Financial forecasts are more useful for providing this type of information than the annual financial statements. However, the annual financial statements do

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[11] The disclosure of less detail in interim financial statements is consistent with GAAP.

[12] A related fiscal indicator is the operating balance before gains and losses (OBEGAL). This indicator represents total Crown revenue less total Crown expenses excluding minority interest share. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

provide information on the cost of current services and the current infrastructure in place for the provision of services.

The statement of financial performance helps users considering the following questions:

- Is the government operating at a sustainable level (for example, are the costs of government being met by revenue or are they being deferred to the future)?
- How has the government allocated resources to various policy areas (for example, health, education or transport)?
- What budgetary measures might be needed to achieve the government's fiscal objectives?

In analysing revenue and expenses a number of factors, such as volatility, controllability and duration need to be considered as explained below.

- Volatility: Some revenues may be more volatile than others (for example, company tax revenues are linked to changes in corporate profitability and are likely to fluctuate more than source deductions that are linked to salaries and wages).
- Controllability: Some factors that determine the level of government expenses may be largely outside the control of the Government (for example, exchange rate movements).
- Duration: Expenses or revenue may have a one-off or a continuing effect. For example, a change in a tax rate is likely to have a continuing effect on revenue, whilst an organisational restructuring may have a one-off effect on costs.

As a general rule, trends over a period of time provide better information than information based on a single point in time. The financial statements of the Government contain a five-year trend analysis for major items. The disclosure of expenses by functional classification (for example, health or education) is useful for readers seeking to analyse trends in government spending.

Statement of financial position

The statement of financial position presents information on the Government's assets and liabilities, recognised in accordance with GAAP. The difference between total assets and total liabilities is the Government's net worth.

The statement of financial position presents information on the Government's assets and liabilities, recognised in accordance with GAAP. The difference between total assets and total liabilities is the Government's net worth.

GAAP recognition criteria for assets and liabilities

- Assets are resources controlled by the government as a result of a past event. They are recognised when the definition is satisfied and they can be measured in a way that achieves specified qualitative characteristics particularly reliability, and takes account of constraints on information in the financial statements.
- Liabilities are present obligations of the government that result from a past event. They are recognised when the definition is satisfied and they can be measured in a way that achieves specified qualitative characteristics particularly reliability, and takes account of constraints on information in the financial statements.

Many of the assets and liabilities reported in the financial statements of the Government are similar to the assets and liabilities reported in the financial statements of other entities. The Government also reports on some rights and obligations and transactions that are unique to governments. The Government's statement of financial position includes:

- heritage assets such as national parks and other conservation areas
- the State highway network
- the National Archives and National Library collections
- the Accident Compensation Corporation claims liability, and
- the liability in respect of currency issued by the Reserve Bank of New Zealand.

Not all potential assets meet the GAAP criteria for recognition. For example, the power to tax is not included in the statement of financial position because the power to tax does not meet the definition of an asset and its value cannot be measured with sufficient reliability.

Similarly, not all potential obligations are recorded as liabilities. For example, amounts which the Government may pay in the future in respect of public pensions (such as New Zealand Superannuation) and social welfare benefits are not recorded as liabilities in the financial statements.

The government net worth changes each year as a result of:

- the impact of that year's financial performance (surplus or deficit), and
- changes in the value of assets and liabilities which are not recognised as income or expenses in the statement of financial performance (for example, some asset revaluations).

Listed company shareholders

A number of government reporting entities (eg, Air New Zealand) are listed on the New Zealand Stock Exchange, with a portion of the companies owned by shareholders other than the government. These investors hold a "minority interest" in these companies, while the government retains the majority interest.

Because the government controls these companies, under GAAP it must continue to report 100% of their assets, liabilities, revenue and expenses of these companies in its consolidated financial statements. However, now that minority interests have an ownership interest in these items, the government needs to show the portion that can be attributed to the Crown and reflect that the residual is attributable to minority interests. In the financial statements this is presented through separate lines (in each of the operating statement and balance sheet) to reflect the operating balance and net worth amounts that are attributable to minority interests.

The Government has the ability to influence the level of net worth and has a responsibility to monitor and manage downside risks. However, a number of factors leading to changes in net worth are outside the Government's control.

The optimal level of government net worth is a matter of judgement and involves consideration of inter-generational equity issues. The extent to which governments should have regard to intergenerational-equity issues in determining fiscal policy is subjective.

The power to tax needs to be acknowledged when considering levels of debt and net worth – the power to tax means that a government may be solvent even if it has a negative net worth. In determining appropriate levels of debt and net worth the Government is constrained by the principles of responsible fiscal management (refer Chapter 3).

The statement of financial position helps users consider the following questions:

- Has the financial strength of the Government improved or deteriorated? For example, have net assets increased, decreased or changed in composition?
- What is the extent of public sector saving or borrowing and its impact on the economy?
- To what extent could deficits from past years impact on future generations of taxpayers? How have funds been obtained and used over time?

In analysing the statement of financial position users should bear in mind the nature of the Government's objectives and operations and the possible impact of these factors on the Government's decisions to hold certain assets and liabilities. For example:

- the Government's investment in education and health assets is linked more to its social objectives than the likelihood of future cash flows from such assets, and
- the values that are ascribed to assets and liabilities in accordance with GAAP are not the only values that such assets and liabilities may have. For example, a scenic reserve or national park will also have a conservation value.

The statement of financial position helps the Government manage its finances by providing:

- details of assets and liabilities. This permits analysis of the Crown's asset and liability portfolios by class (physical, financial, etc.), denomination (domestic versus foreign currency), and liquidity (short- versus long-term)
- assets and liabilities in order of liquidity; that is, how readily the item may be converted into cash or how soon the item needs to be settled
- any restrictions on the use or sale of assets
- information that is useful for the management of liabilities. It provides an insight into the extent to which borrowing is matched by assets of appropriate type, maturity and value
- some indication of intergenerational transfers resulting from policy decisions. For instance, the Crown's Government Superannuation Fund (GSF) liability is a measure of the past employment costs being passed on to future generations, and
- information about the financial impact of past decisions. For example, if the proceeds from asset sales are used to repay debt, both debt and assets are reduced.

Statement of cash flows

The statement of cash flows reports cash flows through the bank accounts of entities included in the consolidated financial statements of the Government.

The statement of cash flows reports cash flows through the bank accounts of entities included in the consolidated financial statements of the Government. The statement can provide answers to questions such as:

- Are operating activities self-sustaining or do they require support from borrowing?
- Are operating cash flows sufficient to cover ongoing replacement of assets?
- How did cash flows impact on debt?

Cash flows are classified and presented in the following three categories:

- Cash flows from operations – These represent all cash flows other than those associated with investing and financing activities, and include taxation and operating receipts and payments.
- Cash flows from investing activities – These include the sale and purchase of physical assets and advances such as student loans and investments.
- Cash flows from financing activities – These include the raising and repayment of New Zealand-dollar and foreign-currency debt.

The balance of cash flows from operations is reconciled to the operating balance.

Notes

The notes to the financial statements provide more detailed information in respect of the items included in the financial statements. They include a description of the significant accounting policies used in preparing the financial statements. They also include information on items that have not been recognised in the financial statements but which may have an impact on the financial statements in future periods – for example, commitments, contingent liabilities and contingent assets.

Presentation and publication

Monthly year-to-date financial statements are required each month from September to May (section 31A(1)). Monthly statements are not required for July or August due to the limited information value to external users of variances for these first two months of the financial year. Monthly statements are not required for June as this information is provided by way of the annual audited financial statements. The monthly statements are generally required to be published within six weeks of month end (section 31A(4)).

The annual financial statements of the Government for the financial year ending on 30 June must be prepared within two months, and audited within three months, of the end of the financial year (section 30). They are presented to the House of Representatives, within 10 working days of receipt of the audit report, and published online. The annual financial statements, the audit report, and the statement of responsibility must remain publicly available online for at least the following five financial years (section 31). The statements can be accessed from Treasury's web site at https://treasury.govt.nz/publications/financial-statements-government/.

Preparers and users

The Treasury

As the Government's principal economic and financial adviser, one of the Treasury's key tasks is to prepare the financial statements of the Government.

The annual financial statements must be accompanied by a statement of responsibility signed by the Minister of Finance (or another Minister designated by the Prime Minister) and the Secretary to the Treasury. This statement must include:

- a statement of the responsibility of the Minister for the integrity of the financial statements
- a statement that, in the opinion of the Minister, the financial statements fairly reflect the consolidated financial position and operations of the Government reporting entity for the reporting period (section 29)

- a statement of the Treasury's responsibility to establish and maintain a system of internal control designed to provide reasonable assurance that the transactions recorded are within statutory authority and properly record the use of all public financial resources by the Government, and
- a statement by the Secretary that the Treasury has prepared the financial statements in accordance with GAAP.

In order to prepare the financial statements of the Government the Treasury needs reliable financial information prepared using consistent accounting policies from all entities whose financial statements are consolidated in the financial statements of the Government. The Act therefore gives the Secretary to the Treasury the power to:

- request information required by the Treasury or the Minister for the preparation of the financial statements (section 29A), and
- issue Treasury Instructions regarding matters such as accounting policies, financial statement representations, and the form in which information is to be provided (section 80).

Minister of Finance

The Minister of Finance is responsible for ensuring that the financial statements fairly reflect the financial position and operations of the Government for a given year. In the statement of responsibility the Minister of Finance acknowledges responsibility for the integrity of the financial statements and states that the financial statements fairly reflect the consolidated financial position and operations of the Government reporting entity for the reporting period.

Auditor-General

The Auditor-General is responsible for expressing an independent opinion on the annual financial statements and reporting that opinion to Parliament and other users of the financial statements. The independence of the Auditor-General, as an Officer of Parliament, enhances the integrity of the financial statements.

The auditor forms an opinion as to whether the financial statements:

- comply with generally accepted accounting practice in New Zealand, in accordance with Public Sector Public Benefit Entity Accounting Standards
- present fairly, in all material respects, the financial position and borrowings of the reporting entity as at the balance date, and
- present fairly, in all material respects, the financial performance and cash flows, unappropriated expenditure, emergency expenses and capital expenditure, and trust money administered by departments for the year ended on that date.

The auditor plans and performs the audit to obtain reasonable assurance that the financial statements do not have material misstatements, whether caused by fraud or error. Key audit matters that were significant during the audit process are reported.

House of Representatives

Each year, as part of its annual review process, the Finance and Expenditure Committee scrutinises the financial statements of the Government and reports back to the House of Representatives on those statements. The allocation of the annual reviews of individual public sector entities to select committees is made by the Finance and Expenditure Committee in accordance with the Standing Orders of the House of Representatives.

Parliament grants authority to the Government to use resources (refer Chapter 2) and to tax. It is therefore important that the Government reports to Parliament on its expenses and revenue during the period, on whether it has achieved its financial objectives, and on how assets and liabilities have been administered.

Other users: Media, economists and rating agencies

The financial media, economists and rating agencies analyse and spread information to other users that are interested in New Zealand's economic and fiscal performance.

The Government obtains finance from national and international capital markets by issuing financial instruments such as Government Stock and Treasury Bills. Rating agencies assess the Government's creditworthiness for the capital markets. Rating agencies are primarily concerned with a government's ability to service debt and to repay that debt when it falls due.

Chapter 5 Departmental Financial Management and Reporting

Key Points

1. Chief executives are responsible for the financial management, financial performance, and financial sustainability of departments and for ensuring that departments comply with legislative reporting requirements.

Financial management and financial performance

2. A chief executive's key financial management responsibilities are to establish a system of internal control and to ensure that the department's end-of-year performance information is accurate.

3. A range of other financial management responsibilities exist. These responsibilities are established in a variety of ways including the Act itself, delegations, Treasury Instructions, Minister of Finance Instructions, Regulations, and decisions made by, or under the authority of, Cabinet. These responsibilities include responding to Treasury requests for information, risk management, complying with financial delegations, trust money and the operation of bank accounts.

Reporting requirements

4. Departments are required to produce financial statements and other supporting information at the beginning and end of each financial year. Currently this information is provided in annual reports. Chief executives are required, in an explicit statement of responsibility, to acknowledge their responsibility for the financial information in the financial statements.

5. Departments are also required to produce information on their strategic intentions at least once every three years. Alongside this, the responsible Minister must provide a signed statement confirming that the information is consistent with the policies and performance expectations of the Government. A department's strategic intentions may also be updated at any time by request of the responsible Minister.

6. Modified reporting requirements apply to security and intelligence agencies, Offices of Parliament and newly established, disestablished or restructured agencies.

7. In common with appropriations and whole-of-government financial statements, departmental financial statements are prepared using the accrual basis of accounting and in accordance with generally accepted accounting practice (GAAP).

8. The Auditor-General is responsible for providing an independent opinion on the annual financial statements and statements of expenses and capital expenditure.

Responsibilities beyond the departmental boundary

9. A departmental chief executive may also have financial management and reporting responsibilities that extend beyond the departmental boundary. If a department administers non-departmental appropriations, revenue, assets and/or liabilities, then the chief executive has the responsibilities set out in section 35 of the Act.

Introduction

This Chapter covers departmental financial management and reporting obligations, which are found primarily in Part 4 and Subpart 1 of Part 5 of the Public Finance Act. It includes discussion of:

- the chief executive's responsibility for the financial management and reporting obligations of a department
- the nature of those obligations, including the key requirements to report publicly at the start and end of each financial year on a department's intended and actual performance
- determining the boundaries of the departmental reporting entity, and
- how these obligations have been modified for application to Offices of Parliament, intelligence and security departments, and for entities being established, disestablished or restructured.

Responsibility for financial management and reporting

The Act states that the chief executive of a department is responsible to:

- the responsible Minister for:
  - the financial management, financial performance, and financial sustainability of the department, and
  - ensuring that the department complies with any legislative reporting requirements (section 36).
- the appropriation Minister for:
  - what is achieved with appropriations administered by the department, and
  - advising the appropriation Minister on the efficiency and effectiveness of any departmental expenses or capital expenditure under those appropriations (section 34).

In addition to its own activities, a department may also be delegated responsibility to administer or manage specific non-departmental revenues, expenses, assets and/or liabilities on behalf of the Government. They represent revenues and assets that the department is not entitled to use or dispose of for its own benefit, and expenses and liabilities that the department is not expected to incur or settle at its own cost.

Regarding non-departmental matters, the chief executive of a department is responsible to:

- the responsible Minister for:
  - the financial management of, and reporting on, any appropriations for non-departmental expenses or non-departmental capital expenditure administered by the department, and
  - the financial management of, and financial reporting on, assets, liabilities, and revenue managed by the department on behalf of the Crown (Section 35).
- the appropriation Minister for:
  - advising the appropriation Minister on the efficiency and effectiveness of expenditure under non-departmental appropriations (Section 35).
- the appropriate Minister for:
  - advising the Minister responsible for those assets, liabilities, and revenue managed by the department on behalf of the Crown on their performance (section 35).

Further, the chief executive must comply with any lawful financial actions required by the responsible Minister or the Minister of Finance (section 34). Sections 34, 35 and 36 thus help give effect to one of the objectives of the Act, which is to establish lines of responsibility for effective and efficient management of public financial resources (section 1A(2)(b)).

The Act requires that departments produce financial statements and other supporting information at the beginning and end of each financial year (information supporting the estimates (sections 15-15F) and in annual reports (section 45(3)).

Departments must also produce information on their strategic intentions at least once every three years (section 38).

The Act further reinforces the chief executive's responsibility by requiring the chief executive to sign an explicit statement of responsibility that must be included in the department's annual report (section 45C).

The statement of responsibility for a department's annual report must state the chief executive's responsibility for:

- the preparation of the financial statements and statements of expenses and capital expenditure, and for the judgements expressed in them (section 45C(1)(a))

- having a system of internal control in place, designed to provide reasonable assurance as to the integrity and reliability of financial reporting (section 45C(1)(b)). A system of internal control is intended to safeguard departmental assets and ensure that all financial resources are used in accordance with legislation, appropriation and financial delegations. Departmental policies and procedures in relation to items such as travel and capital expenditure should form part of the system of internal control
- ensuring that the department's end-of-year performance information on each appropriation is accurate (section 45C(1)(d)) and provided in accordance with the Act, whether or not that information is included in the annual report (section 45C(1)(c)), and
- ensuring that the financial statements and forecast financial statements fairly reflect the current and forecast financial position and operations of the department, respectively (section 45C(1)(e)).

The statement of responsibility for a departmental agency's annual report must include:

- a statement that, in the chief executive's opinion, the annual report fairly reflects the operations, progress, and organisational health and capability of the departmental agency, and
- a statement of the chief executive's responsibility for the accuracy of any end-of-year performance information, whether or not that information is included in the annual report (section 45C(2)(a) and (b)).

The Act focuses on external reporting. Treasury Instructions also note that chief executives have a responsibility to provide regular financial and performance information to the appropriate Ministers (the responsible Minister and the appropriation Ministers) (Treasury Instruction 6.2.2, 2018). They are also required to provide information to the Treasury. These reports are used to monitor performance against plans throughout the year.

Other, more specific responsibilities in relation to departmental financial management, performance and reporting are set out elsewhere in the Act, or may be imposed by instruments allowed by the Act, or other Acts. These include:

- delegations by the Secretary to the Treasury under section 71AA or delegations under the State Sector Act 1988
- Treasury requests for information (under sections 19, 26Z, 29A, and 79)
- Treasury Instructions (under section 80)
- Minister of Finance Instructions (under section 80A), and
- Regulations (under section 81).

Departmental chief executives are also expected to ensure their departments comply with financial management or reporting decisions made by or under the authority of Cabinet, which are usually set out in Cabinet minutes, Cabinet Office circulars, or Treasury circulars. For example, periodic Treasury Circulars specify the information required by the Treasury to meet its reporting obligations under the Act. Chief executives must also ensure they comply with any Treasury information requests (sections 19, 26Z, 29A, and 79).

Certain sensitive or significant types of transactions may require separate and specific Ministerial or Cabinet authorisation even if those expenses may be incurred under existing appropriations. Cabinet Office circulars set out authorisations and financial limits that may be exercised by departments for these types of expenses and capital expenditure.

Two examples of specific financial management responsibilities which have arisen from decisions made by Cabinet include expectations for the management of investments in both physical and intangible assets and management of foreign exchange exposures. The nature of these responsibilities are set out in the table below.

Responsibility	Explanation
Investment Management and Asset Performance in the State Services	CO(15) 5 sets out Cabinet's expectations for the management of investments in both physical and intangible assets by departments (including departmental agencies) and other specified entities. Among other requirements, this circular: • Specifies the requirements for Long Term Investment Plans and investor confidence ratings, • Sets expectations relating to reporting on investment performance, and • Sets Cabinet, minister and chief executiveapproval thresholds for investments.
Foreign exchange exposure management	Chief executives are responsible for managing a department's foreign exchange exposure in accordance with its Departmental Foreign Exchange Exposure Management Policy. The Treasury has produced guidelines for the management of such exposure (available on Treasury's website). https://treasury.govt.nz/publications/guide/guidelines-management-crown-and-departmental-foreign-exchange-exposure-html

Treasury Instructions and Circulars are available on the Treasury's website at https://treasury.govt.nz/publications/guidance/treasury-instructions and https://treasury.govt.nz/publications/guidance/treasury-circulars.

Cabinet Office Circulars are available on the Cabinet Office's website at http://www.dpmc.govt.nz/cabinet/circulars/index.html.

The department as a reporting entity

For the purposes of Part 4 of the Act, any activities, bodies or statutory offices that are funded by way of appropriation administered by a department (and that are not natural persons or separate legal entities), must be taken to be part of that department (section 33).

This means that a departmental chief executive is responsible for the financial management of any semi-autonomous bodies, statutory committees or independent statutory positions that operate under the umbrella of the department and for the inclusion of information on their activities in the department's external reports. The Act gives the chief executive power to require information from these bodies or individuals to discharge these responsibilities (section 37).

Reporting on a department's strategic intentions

The Act requires that a department provide information on its strategic intentions at least once every three years, rather than every year (section 38(4)).

A department's strategic intentions may also be updated at any time by request of the responsible Minister (section 38A).

In the case of a new department, or where significant changes have occurred in an existing department, new or updated information on strategic intentions must be provided as soon as practicable, but no later than 6 months after the establishment of, or changes to, the department (section 38(4)).

Information on strategic intentions is required to be provided to the department's responsible Minister, and, as soon as practicable thereafter, published on the department's website and presented by the responsible Minister to the House (section 39).

Departments have a choice about the document in which information on their strategic intentions is presented to the House of Representatives. When this information is published and presented on its own, the document is typically referred to as the "statement of intent". Other options include publishing and presenting a department's strategic intentions in the same document as its Annual Report, or any other document. The Treasury provides regular guidance on the content of this reporting, and the processes for its completion.

Purpose

Departmental strategic intentions provide a way for departments to explain what they intend to do and why. They also provide a base against which the department's actual performance can later be assessed. To ensure it captures all important dimensions of a department's performance, strategic intentions must look at issues beyond the forthcoming financial year.

The information presented in strategic intentions should reflect the key decisions made by a department through its internal planning processes, taking account of the department's functions, operating environment and all relevant Government decisions.

Strategic intentions are the public aspect of a department's overall strategic, planning, and reporting documentation, alongside documents such as strategic plans. A department's strategic plans should all be derived from the same strategic planning process.

The process of developing strategic intentions should involve discussions between a department, its responsible Minister, and the other Ministers and agencies with whom the department needs to collaborate. It should lead to understanding and buy-in to the department's plans, and ensure that the Government's interests and priorities are appropriately incorporated into those plans. From a department's perspective, the strategic intentions are one of the key external outputs of the planning cycle.

Contents

The information required for a department's strategic intentions should provide a platform from which it can then report progress against its Annual Report (section 45(2)). The information provided by the department should explain the thinking behind the key elements of the department's plans for the next financial year and the following three years (or longer), and must include:

- the strategic objectives that the department intends to achieve or contribute to (ie, its strategic intentions)
- the nature and scope of the department's functions and intended operations
- how the department intends to perform its functions and conduct its operations to meet its strategic intentions
- any departmental agencies hosted by the department, and
- any other relevant information needed to understand the department's strategic intentions (section 40).

The strategic intentions must also include a statement signed by the chief executive that the information provided is the responsibility of the chief executive (section 38(1)(b)).

To ensure the department's plans are appropriately aligned with the policies and performance expectations of the Government, the information must also be accompanied by a statement signed by the department's responsible Minister, stating that the information provided is consistent with such policies and performance expectations (section 39(7)(a) and (b)).

Annual reports

The Act requires a department to provide a report on its operations at the end of each financial year (section 43). The annual report must be completed and audited within three months of the end of the financial year (section 45D) and then presented to the House of Representatives and published (section 44).

The act also requires departmental agencies to provide annual reports (section 43A). The annual report must be presented to the Minister responsible for the departmental agency's performance, and to the Minister responsible for the departmental agency's host department. This should be done as soon as practicable after the end of the financial year, but no later than 15 working days after the audit date.

Purpose

Annual reports provide a way for departments to explain to a wider audience what they have done and how well they have performed during the year. This includes information on the financial and non-financial health of the department at the end of a financial year, and on the extent to which the department has achieved its financial and non-financial goals for that year.

Annual reports are a prime source of information for parliamentary select committees when conducting annual reviews of the performance and current operations of departments, as provided for in Standing Orders of the House of Representatives. The results of these annual reviews are reported back to the House.

Contents

A department's annual report must be dated and signed by the chief executive (section 45(5)) and include the following:

- general information to enable an informed assessment of the department's performance during the financial year, including how well the department is managing the resources it controls (section 45(1))
- an assessment of the department's operations (section 45(2)(a))
- an assessment of the department's progress in relation to its strategic intentions (section 45(2)(b))
- information about the department's management of its organisational health and capability (section 45(2)(c)
- statements of expenses and capital expenditure (section 45A)
- annual financial statements prepared in accordance with GAAP (section 45B)
- forecast financial statements for the department for the year following the financial year to which the annual report relates (section 45(3) and section 45BA)
- a statement of responsibility (section 45C)
- an audit report (section 45D), and
- end-of-year performance information on appropriations (where the department has been identified as the end-of-year performance reporter, and where the annual report has been specified as the reporting document) (section 19A).

A department's annual report should also identify any departmental agencies hosted by that department.

A departmental agency's annual report must be dated and signed by the chief executive (section 45AA(3)) and include the following:

- an assessment of the departmental agency's operations
- an assessment of the departmental agency's progress in relation to any relevant strategic intentions of its host department
- information about the departmental agency's management of its organisational health and capability, and
- any other matters related to the departmental agency's operations that it wishes to report on.

The Treasury provides regular guidance on the content of the department's annual report.

Statements of expenses and capital expenditure

The Act requires departments to prepare statements of expenses and capital expenditure as a separate element of their annual report, rather than as part of the department's annual financial statements.

Statements of expenses and capital expenditure should include:

- a statement of the budgeted and actual expenses and capital expenditure incurred against each appropriation administered by the department, and against each category of expenditure included in a multi-category appropriation administered by the department
- for each appropriation, details of the document in which the end-of-year performance information is presented to the House of Representatives
- a statement of unappropriated expenses and capital expenditure, together with an explanation of the reasons for the unappropriated spending
- a statement of authorised and actual capital injections made to the department, and
- a statement of any unauthorised capital injections made to the department, together with an explanation of the reasons for this (section 45A).

The Statement of expenses and capital expenditure brings together financial and non-financial reporting on appropriations by indicating against the amount spent from each appropriation the document in which the end-of-year performance information for that appropriation can be found. By including details of the document in which each appropriation's end-of-year performance information can be found, the statement of expenses and capital expenditure can act as a "road sign" for those interested in the non-financial performance information for a particular appropriation.

Where expenses in the statement differ to those reported in the department's statement of comprehensive revenue and expenses (eg, because of remeasurements which do not require appropriation), a reconciliation should be provided.

Departmental financial statements

As discussed in Chapter 1, departments are required to report in accordance with generally accepted accounting practice (GAAP). Departments are therefore required to prepare similar types of financial statements as other reporting entities in New Zealand. The key financial statements are:

- a statement of financial performance (sometimes called an operating statement or an income statement)
- a statement of financial position (sometimes called a balance sheet), and
- a statement of cash flows.

In addition GAAP requires disclosure of accounting policies and additional note disclosures, including information on contingent liabilities.

As discussed in Chapter 1, the use of GAAP ensures that the information in departmental financial statements is comparable with other financial statements.

Audit report

Departments are public entities, and hence the Auditor-General is their auditor. The Act requires a department to provide the Auditor-General with its annual financial statements and statements of expenses and capital expenditure within two months after the end of the financial year. A department or departmental agency most recently identified in the information supporting the Estimates as the performance reporter for an appropriation must provide that performance information to the Auditor-General within 2 months after the end of the financial year. The Auditor-General must then audit those statements or that information (as applicable) and provide an audit report on them within three months after the end of the financial year (section 45D(1) and (1A)). The Auditor-General has the right to appoint other auditors to carry out this work.

See chapter 2 for full information on end-of-year performance information reporting requirements.

The auditor forms an opinion as to whether the financial statements and specified supplementary schedules comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects:

- the financial position of the reporting entity as at the balance date
- the reporting entity's financial performance and cash flows for the year ended on that date
- what has been achieved with each appropriation administered by the department

- the budgeted and actual expenses or capital expenditure incurred by the department
- any assets, liabilities etc managed by the department on behalf of the Crown, and
- statements of expenses and capital expenditure of the department.

The auditor plans and performs the audit in order to obtain reasonable assurance that the financial statements do not have material misstatements, whether caused by fraud or error.

The audit procedures include determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data.

Within 15 days of receiving an audit report in respect of end-of-year performance information, the performance reporter must provide the information and audit report to the appropriation administrator (unless the performance reporter is the appropriation administrator). The appropriation administrator must then provide the information and audit report to the appropriation Minister, who is responsible for presenting these to the House.

Within 15 days of a department receiving an audit report in respect of the annual financial statements and statements of expenses and capital expenditure, the department's responsible Minister must present the annual report (including the audit report) to the House[13].

Parliamentary scrutiny

Departmental strategic intentions, end-of-year performance information on appropriations, and annual reports are tabled in Parliament. In accordance with Standing Orders, select committees examine annual reports and report back to the House with any findings. In reviewing these documents select committees may examine departments:

- over the performance in the previous financial year and current operations of each entity being reviewed, and
- on what has been achieved with expenditure from appropriations administered by each department or Office of Parliament.

Parliament has the right to seek further information and explanation from a range of individuals including officials and Ministers.

Non-departmental reporting obligations

A departmental chief executive may have financial management and reporting responsibilities that extend beyond the departmental boundary. If a department administers non-departmental appropriations, revenue, assets, and/or liabilities, then the chief executive has the responsibilities set out in section 35 of the Act.

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[13] If Parliament is not in session then presentation must occur as soon as possible after the commencement of the next session of Parliament (section 44 (2)(b)).

Non-departmental revenue, expenses, assets and liabilities

In addition to its own activities, a department may also be delegated responsibility to administer or manage specific non-departmental revenues, expenses, assets and/or liabilities on behalf of the Government. Examples include:

- revenues from taxes, fines and excise duties
- expenses such as subsidies, grants and benefits provided to other organisations or private individuals
- liabilities relating to public debt and employee superannuation, and
- assets such as national parks, loans to other governments and investments in controlled entities.

The level of delegation and responsibility in respect of non-departmental activities is determined by Ministers and varies between activities. The decision as to whether an item is departmental or non-departmental may require professional judgment. Where there is uncertainty, the department would be expected to consult with the Treasury, and where there is a dispute, the matter may need to be resolved by Ministers.

The management or oversight activity is a departmental output but the non-departmental revenue, expenses assets and/or liabilities are not included in the department's financial statements, and the associated cash flows are managed through separate, subsidiary Crown Bank accounts established by the Treasury.

A department's chief executive is responsible for the financial management of, and reporting on, non-departmental expense and capital expenditure appropriations administered by that department, and for advising the appropriation Minister on the efficiency and effectiveness of expenditure under those appropriations.

The chief executive is also responsible for the financial management of, and reporting on, assets, liabilities, and revenue managed by the department on behalf of the Crown, and for advising the Minister responsible for those assets, liabilities, and revenue on their performance.

In order to meet its whole-of-government reporting obligations, the Treasury requires regular information from departments regarding all non-departmental revenues, expenses, assets, liabilities and cash flows. Departments are expected to disclose some of this information in the departmental annual report. General guidance on some of the operational aspects of managing non-departmental transactions or balances is found in Treasury Instructions. In addition, where the Treasury establishes a Crown Bank Account for use by a department, the formal Notice of Delegation will specify the requirements in relation to that bank account.

Non-departmental appropriations

Where an expense or capital expenditure relates to non-departmental activities of the Government the related appropriation is referred to as a non-departmental appropriation. The majority of the expenses covered by non-departmental appropriations are for benefit payments to individual New Zealanders. Other significant non-departmental appropriations cover the cost to the Government of outputs to be produced by entities other than departments or Offices of Parliament, such as Crown entities and non-governmental organisations.

The chief executive of a department that administers appropriations is responsible for ensuring that end-of-year performance information on each appropriation administered by the department is provided in accordance with the Act.

The department's annual report must include a statement of actual expenses or capital expenditure incurred against each appropriation, and a statement of unappropriated expenses and capital expenditure in respect of both departmental and non-departmental activities administered by the department (section 45A).

Modification of reporting requirements in certain circumstances

The Act modifies the reporting requirements applicable to most departments for Offices of Parliament and intelligence and security departments, to reflect their particular circumstances. It also requires or allows some changes in the annual reporting requirements for entities that exist for less than the full financial year.

Offices of Parliament

Offices of Parliament are required to prepare and publish strategic intentions and annual reports in a similar manner as departments. The modified reporting requirements applying to Offices of Parliament are set out in section 45F, and generally reflect the fact that Offices of Parliament are primarily accountable to the House of Representatives, not the Government.

Intelligence and security and departments

Like other departments, intelligence and security departments are required to provide information on their strategic intentions. This information, however, is not tabled or published (sections 39 and 45E) but goes to the Intelligence and Security Committee.

Intelligence and security departments are also required to prepare and present annual reports. These obligations are found in the department's own enabling legislation, and provide for the removal of sensitive information prior to public release. However, a statement of total expenses and capital expenditure incurred by the department against the department's appropriation is required (section 45E(1)(c)(i)).

Entities created, restructured or disestablished during the reporting period

Entities that are established in the last four months of the financial year may be exempted, by the Minister of Finance, from the requirement to prepare and present an annual report for that year (section 45I).[14] However the entity is still required to report on appropriations administered during that period which is required shortly after the end of that period, and to report on its activities, from the date of establishment, in its next annual report.

Entities that are disestablished during the financial year are required to produce a final report for the period up until disestablishment, as if it were an annual report (section 45J). In general, the entity must start work on the final report as soon as it is disestablished, and not wait until the end of the financial year. To facilitate the completion of the final report, the Minister of Finance can allow responsibility for its completion to be passed to another party.[15]

Where an entity is disestablished during a financial year and some or all of its operations are transferred to another entity, the Minister of Finance can, subject to certain criteria, give approval for that other entity to include full-year information on those operations in its own annual report (section 45L).

Schedule 4 Organisations and Schedule 4A Companies

The Act specifies which sections of the Crown Entities Act 2004 (CEA) (including reporting obligations where appropriate) apply to Schedule 4 organisations (Subpart 2 of Part 5) and Schedule 4A companies (Part 5AAA). The schedules themselves also show additional sections of the CEA applicable to each organisation or company.

[14] This provision is also available to entities that become subject to the requirement to produce an annual report.

[15] This provision is also available to entities that cease to be required to produce an annual report.

Chapter 6 Financial Powers

Key Points

1. It is important that departments understand the limits of their powers. If a department takes an action or makes a decision that it is not authorised to (ie, an action that is ultra vires), a Court may hold that such an action or decision is invalid or illegal.
2. Under the Act, departments are prohibited from borrowing (except from, or within, the Crown), issuing securities, entering derivatives transactions and lending. However, the Minister of Finance may perform these activities on behalf of departments, subject to certain restrictions.
3. Departments may operate their own bank accounts.
4. Treasury may invest money held in departmental bank accounts on behalf of departments.
5. Departments have limited authority to give guarantees and indemnities for transactions in the ordinary course of their operations.

Introduction

This Chapter outlines the key provisions of Parts 6 and 7 of the Act and the implications of these provisions for departments. Topics addressed include borrowing, the issuing of securities, derivative transactions, lending, guarantees and indemnities, trust money, unclaimed money and banking.

Application of general principle of acting ultra vires

The principle of ultra vires refers to decisions or actions outside the lawful powers of a person or body.

Ministers' powers arise from legislation and the common law (including the Royal prerogative[16]). Departments are not separate legal entities – therefore their powers come by way of delegation from Ministers or directly from statute. Statutes contain a number of delegation provisions. For example, the State Sector Act 1988 deals with the delegation by a Minister of all or any of the Minister's functions and powers to a chief executive of a department (section 28). In addition, statutes can limit the powers of Ministers and departments. Actions or decisions that are ultra vires may be deemed invalid by the Courts.

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[16] The Royal prerogative is the discretionary power possessed by the Sovereign under common law.

Part 6 of the Act restricts departments and chief executives from exercising powers in regard to borrowing, investing and banking.

Part 6 of the Act restricts departments and chief executives from exercising powers in regard to borrowing, investing and banking.

Therefore, while a decentralised approach to operational financial management is mandated elsewhere in the Act, the treasury functions of government are managed centrally. New Zealand Debt Management (NZDM) is responsible for managing the operational aspects of the Crown's borrowing, investing and derivative activities, with a goal of managing debt in a way that minimises costs while keeping risk at an appropriate level. It does this within a risk management framework consistent with international best practice to limit the financial risks faced by the Crown.

Borrowing powers and limits

Traditionally, in Westminster-based systems, the Crown may tax or borrow or spend only as authorised by Parliament. In New Zealand, the Constitution Act (section 22) expresses this principle of public finance. Part 6 of the Act builds on this principle by stipulating that the Minister of Finance is authorised to borrow only if it appears to the Minister to be necessary or expedient in the public interest to do so (section 47).

What is borrowing?

In section 2(1) of the Act, **borrow money –**

(a) includes –

- (i) entering into hire purchase agreements or agreements that are of the same or a substantially similar nature; and
- (ii) entering into finance lease arrangements or arrangements that are of the same or a substantially similar nature; and
- (iii) accepting debt on assignment from other persons; but

(b) does not include the purchase of goods or services on credit, or the obtaining of an advance, through the use of a credit card or by a supplier supplying credit for the purchase of goods or services, for a period of 90 days or less from the date the credit card is used or the credit is supplied.

Departments are prohibited from borrowing – refer also to Treasury Instructions.

Departments are prohibited from borrowing – refer also to Treasury Instructions. The Act states that the Crown must not borrow except under statute (section 46) and the Act provides this authority solely to the Minister of Finance (sections 47 and 48). The Minister may not delegate this power in the same way that other powers are delegated under the State Sector Act (section 48).

As only the Minister of Finance has the power to borrow on behalf of the Crown, the Minister must approve all borrowing. That includes specific borrowings or programmes of borrowing. The Minister, on behalf of the Crown, may appoint borrowing agents to borrow and issue securities.

Issuing Securities

The Act establishes requirements in relation to public securities including their issue, variation, terms and conditions and the making of payments in relation to securities. The issuing of securities by the Crown is tightly controlled – the Minister may issue securities for money borrowed by the Crown (sections 62 and 63).

What is a security?

"Security" is defined in the Financial Markets Conduct Act as an arrangement or a facility that has, or is intended to have, the effect of a person making an investment or managing a financial risk. Two common categories are equity securities (for example, shares) and debt securities (for example, bonds, notes and bills).

Securities commonly issued by the New Zealand Government include:

- Treasury Bills – These are denominated in New Zealand dollars and are sold at a discount to face value and carry no interest coupon. The Bills are redeemable at face value on maturity.
- Government Bonds – Denominated in New Zealand dollars with a fixed coupon paid semi-annually in arrears. The Bonds are redeemable at face value on maturity.
- Inflation-Indexed Bonds – Denominated in New Zealand dollars whose value is adjusted in line with movements in the Consumer Price Index. Coupon Interest is payable quarterly in arrears on the Capital Value of the Bonds.
- Kiwi Bonds – Denominated in New Zealand dollars with a fixed interest rate paid quarterly in arrears. The Bonds are redeemable on maturity or at the option of the bondholder.

In order to give lenders assurance as to repayment, the Act provides permanent authority for the payment of principal under a public security and a permanent legislative authority for borrowing expenses, including interest, incurred under a public security (section 65ZH). Thus, repayment of debt is not subject to annual budget approval by Parliament.

Derivative Transactions

The Act provides that the Crown must not enter into derivative transactions (section 65F) except as expressly authorised by any Act. However, the Minister, on behalf of the Crown may enter into a derivative transaction if it appears to the Minister to be necessary or expedient in the public interest to do so (section 65G). The Act also establishes a permanent legislative authority for money and expenses paid or incurred in relation to derivative transactions (section 65ZH).

Departments have no ability, in their own right, to enter into derivative transactions. However, pursuant to delegations from the Minister of Finance and the Secretary to the Treasury and subject to Treasury oversight via the *Guidelines for the Management of Crown and Departmental Foreign Exchange Exposure*, they are able to enter into derivatives in order to manage their foreign exchange risk. Refer also to Chapter 5.

What is a derivative?

The definition of a derivative in the Act (section 2(1)) is quite detailed and can include foreign exchange transactions, swaps and options, spot trades and forwards. This reflects the fact that financial markets are continually creating new types of financial instruments.

derivative means –

1) an agreement in relation to which the following conditions are satisfied:

    (a) under the agreement, a party to the agreement must, or may be required to, provide at some future time consideration of a particular kind or kinds to another person; and

    (b) that future time is not less than the time, prescribed for the purposes of this subparagraph, after the time at which the agreement is entered into; and

    (c) the amount of the consideration, or the value of the agreement, is ultimately determined, is derived from, or varies by reference to (wholly or in part) the value or amount of something else (of any nature whatsoever and whether or not deliverable), including, for example, 1 or more of the following:

        (i) an asset;

        (ii) a rate (including an interest rate or exchange rate);

        (iii) an index;

        (iv) a commodity; and

2) includes a transaction that is recurrently entered into in the financial markets in New Zealand or overseas and is commonly referred to in those markets as—

    (a) a futures contract or forward; or

    (b) an option (other than an option to acquire by way of issue an equity security, a debt security, or a managed investment product); or

    (c) a swap agreement; or

    (d) a contract for difference, margin contract, or rolling spot contract; or

    (e) a cap, collar, floor, or spread.

Derivatives are primarily used by the Crown as a tool to protect the Crown from currency and interest rate risk associated with its borrowing and investment activities.

The Minister approves derivative instruments to be transacted by the NZDM to manage risks associated with the balance sheet in the financial statements of the Government. These approvals are recorded in NZDM's portfolio management policy. The approved derivative instruments used by NZDM include:

- foreign exchange spot agreements
- forward foreign exchange agreements
- interest rate swaps, and
- cross-currency interest rate swaps.

The approved derivative instruments are subject to change.

Control and reporting

The derivatives used by departments are subject to administrative controls and reporting requirements. The financial statements of the Government are prepared in accordance with generally accepted accounting practice in New Zealand (GAAP) (refer Chapter 1 and the Glossary). GAAP sets out the measurement and recognition requirement for all derivatives, including how they should be reported in the financial statements.

Audit oversight

The derivative activity of the Crown, departments and Crown entities is subject to independent audit oversight through the operation of the Public Audit Act 2001 and the Public Finance Act.

Lending

The Act prohibits departments from lending, except as expressly authorised by statute (section 65K). However, the Minister may lend money to a person or organisation on behalf of departments if it is in the public interest (section 65L). Lending by the Minister is administered by NZDM.

What is lending?

In the Act, **lend money –**

(a) includes –

(i) deferring payment for any goods or services supplied or works constructed for any person, organisation, or government; and

(ii) entering into hire purchase agreements or agreements that are of the same or a substantially similar nature; and

(iii) entering into finance lease arrangements or arrangements that are of the same or a substantially similar nature; but

(b) does not include selling or supplying goods or services on credit for a period of 90 days or less from the date the credit is supplied.

The Minister may also lend to the government of another country to assist with the economic development or welfare of the inhabitants of that country (section 65M).

Any lending by the Minister may only be made after a capital expenditure appropriation for the lending has been approved by Parliament (section 65P).

Guarantees and indemnities

The Act restricts the ability of the Minister and departments to give guarantees and indemnities on behalf of the Crown. Because guarantees and indemnities can result in the creation of liabilities it is essential that guarantees and indemnities are strictly controlled and monitored. Guarantees and indemnities can be found in a range of standard contracts; including computer services contracts, consulting contracts, insurance contracts and lease agreements, and are not always identified as such.

The Act:

- prohibits anyone from giving a guarantee or indemnity on behalf of or in the name of the Crown, except as expressly authorised by any Act (section 65ZC)
- permits the Minister to give guarantees or indemnities on behalf of the Crown if it appears to the Minister to be necessary or expedient in the public interest to do so (section 65ZD), and
- gives departments limited authority to enter into guarantees or indemnities on behalf of the Crown if it appears to the department to be necessary or expedient in the public interest to do so. Departments are permitted to enter into guarantees or indemnities only of a type specified in regulations and must act in accordance with the terms and conditions of those regulations (section 65ZE).

If the resulting contingent liability exceeds $10,000,000, the Minister of Finance must present a statement to the House of Representatives that the guarantee or indemnity has been given.

The Public Finance (Departmental Guarantees and Indemnities) Regulations 2007 set out the types of guarantees and indemnities that can be given by departments.

Banking

The Act establishes three types of bank accounts:

- Crown Bank Accounts to be used for Crown revenue and Crown payments
- Departmental Bank Accounts to be used for departmental revenue and departmental payments, and
- Trust Bank Accounts to be used solely for trust money.

What is public money?

Public money means all money received by or on behalf of the Crown, including the proceeds of all loans raised on behalf of the Crown, and any other money that the Minister or the Secretary directs to be paid into a Crown Bank Account or Departmental Bank Account and any money held by an Office of Parliament; but does not include money held in trust as trust money.

The Act also permits the Treasury to issue instructions for matters such as regulating the collection, control and spending of public money or trust money.

Crown Bank Accounts

All Crown revenue (that is, revenue that is not departmental revenue) must be paid directly into a Crown Bank Account.

Under the Act all Crown revenue (that is, revenue that is not departmental revenue) must be paid directly into a Crown Bank Account (section 65U(3)). Each department collecting money on behalf of the Crown is therefore required to deposit this money in a specified Crown Bank Account.

Treasury Instructions govern the payment of money from Crown Bank Accounts. Amongst other things, departments making payments on behalf of the Crown (including refunds of Crown revenue) are to make such payments from a Crown Bank Account approved by the Treasury for that purpose and comply with any Notice of Delegation Regarding Crown Bank Accounts issued by the Treasury. Departments making payments from Crown Bank Accounts are required to maintain records of all such transactions and operate systems of internal control in respect of such payments.

All Crown Bank Accounts are the responsibility of the Treasury (section 65R). Where departments have delegated authority to operate Crown Bank Accounts they are required to observe the terms and conditions of the delegation.

The Treasury transfers funds into each Crown Bank Account in accordance with the cash payment schedule for that bank account. The timing of clearing those Crown Bank Accounts that receive Crown revenue to accounts operated by NZDM is determined on a case-by-case basis depending on the number and amount of receipts.

Departmental Bank Accounts

Departmental Bank Accounts are primarily the responsibility of departments. However, Departmental Bank Accounts may only be opened with the approval of the Treasury and may only be operated in accordance with terms and conditions set by the Treasury or the Minister.

The Act requires that the following money be paid into a Departmental Bank Account:

- disbursements from the Treasury – such disbursements represent the cash component of expenses and capital expenditure authorised by Parliament, and are disbursed in accordance with the cash payment schedule negotiated with the Treasury prior to the commencement of each financial year

- receipts relating to departmental revenue, and
- receipts from the sale or disposal of assets (section 65U(2)).

Treasury has entered into a banking contract with a commercial bank whereby all New Zealand currency denominated Crown and Departmental Bank Accounts are held with the one bank. Through a process known the daily sweep, a NZDM managed bank account is debited with an amount equivalent to the credits in all the other Crown and Departmental Bank Accounts. This enables the centralised management of the Crown's treasury operations while decentralising the processing of transactions with customers, suppliers and other third parties to individual departments.

Foreign Currency Bank Accounts

The Act does not refer to Foreign Currency Bank Accounts. However, as the Treasury is responsible for regulating the operation of bank accounts it is also responsible for granting approval to open a Foreign Currency Bank Account (departmental or Crown). Departments operating a Foreign Currency Bank Account must do so in accordance with any relevant notice of delegation.

If the Auditor-General has reason to believe that expenses or capital expenditure have been incurred for a purpose that is not lawful or is not properly authorised, the Auditor-General can require that the relevant Minister report to the House of Representatives on the alleged breach. The Auditor-General also has the power to stop payments from a Crown Bank Account or a Departmental Bank Account.

Monitoring spending

Money may not be paid out of a Departmental Bank Account or a Crown Bank Account except in accordance with an appropriation or other authority by or under an Act (section 5 and section 65V(1)). The Treasury is responsible for monitoring and reporting on any expenses or capital expenditure incurred without appropriation or statutory authority (section 65Y). Refer to Chapter 2 for further discussion of this responsibility.

As noted in Chapter 2, the Act requires that the Treasury supply monthly statements from September of each year to the Auditor-General, to enable the Auditor-General to examine whether expenses and capital expenditure have been incurred in accordance with an appropriation or other authority such as imprest supply. The Auditor-General can also request information under the Public Audit Act 2001.

If the Auditor-General has reason to believe that expenses or capital expenditure have been incurred for a purpose that is not lawful or is not properly authorised, the Auditor-General can require that the relevant Minister report to the House of Representatives on the alleged breach. The Auditor-General also has the power to stop payments from a Crown Bank Account or a Departmental Bank Account.

Managing trust money

The Treasury is responsible under Part 7 of the Act for the management of trust money as defined in section 66(1). Under sections 66(4) and 67(3) the Treasury can delegate responsibility for the management of trust money and establishment of trust bank accounts. Although the Treasury has the authority to delegate this function, it still has the statutory responsibility for this function and is responsible for ensuring that its agents meet certain standards. The Fiscal Reporting team organises delegations to be given while NZDM therefore authorises the establishment of bank accounts, including trust accounts.

What is Trust Money?

The following money is deemed to be trust money (section 66(1)):

(a) Money that is deposited with the Crown pending the completion of a transaction or dispute and which may become repayable to the depositor or payable to the Crown or any other person.

(b) All money that is paid into Court for possible repayment to the payee or a third party, by virtue of any Act, rule, or authority whatsoever.

(c) All money that is paid to the Crown in trust for any purpose.

(d) Money that belongs to or is due to any person and is collected by the Crown pursuant to any agreement between the Crown and that person.

(e) Unclaimed money that is due to or belongs to any person and is deposited with the Crown.

Trust money is not public money as it does not belong to the Crown. It is administered by the Crown on behalf of others.

Treasury Instructions establish general rules applying to the management of trust money. A written Notice of Appointment to Manage and Invest Trust Money will be issued by the Treasury to departments acting as trust money agents. The Notice will state exactly what type of trust money a department (or other agent) is authorised to manage and any relevant conditions. Only those departments holding such a Notice are authorised to manage and invest trust money and operate trust bank accounts.

Chief executives with delegated authority to manage trust money are responsible for:

- maintaining appropriate records in respect of the trust money
- ensuring that trust money is banked into a separate bank account for each trust
- investing trust money only in accordance with a Notice of Appointment to Manage and Invest Trust Money
- ensuring that the appropriate internal control systems are in place, and

- providing information on trust money to the Treasury to enable the Treasury to meet its reporting requirements. The financial statements of the Government reporting entity are required to include a statement of trust money administered by departments and Offices of Parliament (section 27(2)(c)).

Unclaimed money

The Act establishes requirements in respect of unclaimed money held by departments. Departments must deposit money that has been unclaimed for six or more years with the Treasury (section 74). The money is then treated as public money but is repaid if a person can establish a claim to it.

Regulations and instructions

The Act provides for instructions (by Treasury and the Minister of Finance) and regulations to be issued in respect of specified matters (sections 80, 80A and 81). Some of these matters have been highlighted in Chapter 5 and other Chapters. For example, the Treasury may issue instructions to ensure that entities within the Government reporting entity use consistent accounting policies (section 80(1)).

Regulations and instructions are used to limit the amount of detail in the legislation and to enable a more timely response when changes are required.

Treasury Instructions can be accessed on the Treasury's website https://treasury.govt.nz/publications/guidance/treasury-instructions.

Regulations are available online at www.legislation.govt.nz

Budgeting and Reporting Documents in a Typical Year

		Appropriations (Chapter 2)	Fiscal Responsibility (Chapter 3)	Whole of Government Financial Statements (Chapter 4)	Departmental Reporting (Chapter 5)
PRE FINANCIAL YEAR	December		Budget Policy Statement		
	January-April				
	May BUDGET DAY	Appropriation (Estimates) Bill introduced Estimates and supporting information tabled	Fiscal Strategy Report Economic and fiscal update		
	June	First Imprest Supply Bill introduced and passed			
FINANCIAL YEAR	July				
	August				
	September	Appropriation (Estimates) Act passed First Imprest Supply Act repealed Second Imprest Supply Bill introduced and passed			
	October			Monthly Statements (to 30 September)	
	November			Monthly Statements (to 31 October)	
	December		Half-year economic and fiscal update		
	January			Monthly Statements (to 30 November)	
	February			Monthly Statements (to 31 December) Monthly Statements (to 31 January)	
	March			Monthly Statements (to 28/29 February)	
	April			Monthly Statements (to 31 March)	
	May	Appropriation (Supplementary Estimates) Bill introduced		Monthly Statements (to 30 April)	
	June	Appropriation (Supplementary Estimates) Act passed		Monthly Statements (to 31 May)	

		Appropriations (Chapter 2)	Fiscal Responsibility (Chapter 3)	Whole of Government Financial Statements (Chapter 4)	Departmental Reporting (Chapter 5)
POST FINANCIAL YEAR	July				
	August				
	September				
	October	Performance information on what has been achieved with appropriations		Annual financial statements of the Government	Annual report
	November				
	December	Appropriation (Confirmation and Validation) Bill introduced and report containing appropriation Ministers' explanations for unappropriated expenditure.			
	January				
	February				
	March				
	April				
	May	Appropriation (Confirmation and Validation) Bill passed		Report on Child Poverty*	

*Whole of government report rather than whole of government financial statements

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Glossary

Term	Explanation
Annual review	Scrutiny by the House of all departments', Crown Entities and Schedule 4 companies performance in the previous financial year.
Appropriation	A parliamentary authorisation for the Crown or an Office of Parliament to incur expenses or capital expenditure.
Appropriation administrator	In relation to an appropriation to the Crown the Department that administers the appropriation(s) in a Vote on behalf of the appropriation Minister(s), and in relation to an appropriation made to an Office of Parliament, means that Office of Parliament.
Appropriation Bill	A bill seeking authority from Parliament for the Crown and Offices of Parliament to incur expenses or capital expenditure, or in the case of an Appropriation (Confirmation and Validation) Bill, a bill seeking Parliament's confirmation or validation of matters relating to the previous financial year.
Appropriation Minister	The Minister responsible for specific appropriations within a Vote. As several Ministers may hold appropriations within a single Vote, each appropriation in the Estimates has a tag (M1,M2 etc) identifying the Minister responsible for that appropriation.
Budget	The Minister of Finance's Budget statement in moving the second reading of the first Appropriation Bill for a financial year, also the name given to the documents and statements released by the Minister of Finance which outline the Government's proposed economic and financial measures.
Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.
Consolidated financial statements	The financial statements of a group presented as if they were those of a single economic entity.
Crown	Includes all Ministers of the Crown and all departments, but does not include Offices of Parliament, Crown entities or State enterprises.
Crown entities	Organisations listed in schedule 1 or 2 of the Crown Entities Act 2004; a subsidiary of an organisation listed there, a school board of trustees and tertiary education institutions. The term Crown entity covers a wide range of very different organisations that collectively undertake a range of different functions: regulatory, advisory, service delivery, devolved purchase and ownership. Most Crown entities exist under their own governing legislation. They form part of the government reporting entity, but are not part of the Crown.

Term	Explanation
Department	The Departments that comprise the Public Service are listed in the First Schedule to the State Sector Act 1988. In addition to those departments the Public Finance Act 1989 includes, the New Zealand Defence Force, New Zealand Police, Office of the Clerk, Parliamentary Service and the Parliamentary Counsel Office. The latter five departments are also referred to as "Non-State Sector Act departments" or Non-Public Service departments".
Estimates	A statement that describes and supports the appropriations being sought in an Appropriation Bill; and contains the information required by the Public Finance Act 1989
Executive	The Prime Minister and other Ministers and Parliamentary Under-Secretaries; the Government.
External Reporting Board (XRB)	An independent Crown Entity responsible for accounting and auditing & assurance standards in New Zealand. The XRB is also subject to the Crown Entities Act 2004.
GAAP (generally accepted accounting principles)	The collection of commonly-followed XRB approved applicable financial reporting standards and authoritative notices in relation to matters for which no provision is made in applicable financial reporting standards.
General purpose financial reports	Reports prepared for external users who do not have the ability to require or contract for the preparation of special reports to meet their specific information needs.
Government	The party or parties with a majority in the House that governs the country; also used more narrowly to mean the Executive.
House of Representatives	The elected Chamber of Parliament; made up of electorate members and members elected from a party list.
Imprest Supply Bill	A bill granting the Government interim authority to incur expenses and capital expenditure in advance of appropriations.
OBEGAL (operating balance before gains and losses)	A fiscal indicator that is the operating balance before gains and losses. This indicator represents total Crown revenue less total Crown expenses excluding minority interest share. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in this calculation.
Offices of Parliament	The primary function of an Office of Parliament is to be a check on the Executive, as part of Parliament's constitutional role of ensuring the accountability of the Executive. An Office of Parliament must discharge functions which the House itself might appropriately undertake. There are three Offices of Parliament: Office of the Controller and Auditor General; Parliamentary Commissioner for the Environment and Office of the Ombudsmen.

Term	Explanation
Parliament	The Sovereign and the House of Representatives.
Responsible Minister	The Minister responsible for the financial performance of a department or Crown entity. In relation to an Office of Parliament, the Office of the Clerk of the House of Representatives and the Parliamentary Service, the Speaker is the responsible Minister.
Special purpose financial reports	Financial reports tailored to meet the specific information needs of a particular user.
Speaker	The principal presiding officer of the House, elected by the members.
State-owned enterprise (SOE)	SOEs are businesses (typically companies) listed in the First Schedule to the State-Owned Enterprises Act 1986. SOEs operate as a commercial business but are owned by the State. They have boards of directors, appointed by the shareholding Ministers to take full responsibility for running the business.
Vote	An appropriation or a grouping of appropriations that is— (a) the responsibility of a designated Minister or Ministers and administered by 1 department, or (b) the responsibility of the Speaker and administered by— (i) an Office of Parliament, or (ii) the Office of the Clerk of the House of Representatives, or (iii) the Parliamentary Service.

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