

# *Introduction*

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## Purpose of the *Supplementary Estimates of Appropriations and Supporting Information*

The *Supplementary Estimates of Appropriations and Supporting Information* (the *Supplementary Estimates*) provides members of Parliament with details of the terms of changes to existing appropriations and of new appropriations proposed since the *Estimates* for 2007/08 were finalised. The *Supplementary Estimates* also shows proposed changes to departmental net asset balances.

While many of the appropriation and net asset balance changes will have already been given effect through the advance authority of Imprest Supply, they must still be specified in an Appropriation Act for the current financial year.

The *Supplementary Estimates* is presented to the House of Representatives at the same time as the Government introduces a second or subsequent Appropriation Bill for the current financial year.

## Transitional Format

The *Supplementary Estimates* for 2007/08 is presented in a transitional format. Changes to layout are generally consistent with changes to the *Estimates* for 2008/09, but the structure and content remain readily comparable with the *Estimates* for 2007/08. In particular, Votes are ordered alphabetically and supporting information is presented directly after the details of appropriations and departmental net asset balances, rather than being compiled separately or grouped by sector.

## Purpose and Nature of Appropriations

An appropriation is a statutory authority from Parliament allowing the Crown or an Office of Parliament to incur expenses or capital expenditure.

Neither the Crown nor an Office of Parliament can legally incur any expense or capital expenditure - as those terms are defined in the Public Finance Act 1989 (PFA) - unless it is expressly authorised by or under an Act of Parliament.

## Limits Created by Appropriations

Each appropriation is allocated to, and managed as, one of six **types** of appropriation.

Each appropriation also has a defined **scope** that limits the uses or activities for which the expenses or capital expenditure can be incurred. The scope should be sufficient on its own to establish the nature and extent of the authority to incur expenses or capital expenditure. The wording of the appropriation scope should achieve the balance between being sufficiently precise to act as an effective constraint against non-authorised activities and not so specific that it inadvertently limits activity intended to be authorised.

In most cases an appropriation also limits the **amount** of expenses or capital expenditure that can be incurred, and the time **period** within which those expenses or capital expenditure can be incurred.

Aside from the very limited exclusions provided for in the PFA, the amount of expense or capital expenditure authorised by an appropriation is measured in accordance with generally accepted accounting practice.

As generally accepted accounting practice does not normally treat GST as an expense, appropriation amounts usually exclude GST. Prior to 2005/06, however, appropriations included applicable GST. All prior-year appropriation data - such as in the Summary of Trends table in the *Estimates* and the Summary of Financial Activity table for each Vote in *Information Supporting the Estimates* - have been adjusted to exclude GST and allow appropriate comparison.

## Responsibility for Appropriations

Each appropriation is the responsibility of a designated Minister, who controls the right to use that appropriation within the limits authorised by Parliament. A department is also assigned to administer that appropriation in accordance with the Minister's wishes concerning its use.

A Vote is a group of appropriations (and can be a single appropriation) administered by a single department. Different appropriations within a Vote may be the responsibility of different Ministers.

## Types of Appropriation

The PFA provides for six types of appropriation. Four appropriation types authorise the incurring of expenses; one type authorises the incurring of capital expenditure; the remaining type authorises both.

These appropriation types can be further differentiated by whether the expenses or capital expenditure are departmental or non-departmental transactions.

Appropriation Type	Transaction Status	Description
Output Expenses	Departmental	Authorises expenses to be incurred by a department or an Office of Parliament in supplying a specified category of outputs (goods and services).
	Non-Departmental	Authorises expenses to be incurred by the Crown (excluding departments) in purchasing a specified category of outputs (goods and services) from Crown entities or other third parties.
Benefits and Other Unrequited Expenses	Non-Departmental	Authorises expenses to be incurred by the Crown (excluding departments) in transferring resources (generally to individuals for their personal benefit) for which the Crown receives nothing directly in return.  Examples include the Unemployment Benefit, student allowances and various scholarships and awards.
Borrowing Expenses	Departmental	Authorises the incurring of interest or other financing expenses for loans made to a department or an Office of Parliament, or public securities (undertakings that represent part of the public debt) issued by a department or an Office of Parliament.  In practice, limitations on the rights of departments to borrow or issue securities mean that these are likely to be incurred only by Offices of Parliament.
	Non-Departmental	Authorises the incurring of interest or other financing expenses for loans made to the Crown (excluding departments), or public securities (undertakings that represent part of the public debt) issued by the Crown.  Crown debt management is centralised, which means that most debt-servicing expenses appear in Vote Finance.
Other Expenses	Departmental	Authorises expenses to be incurred by a department or an Office of Parliament that are not either output expenses or borrowing expenses.  Other expenses should be used only for events that cannot be related back to output production, such as redundancy costs arising from a government decision to cease purchasing certain types of outputs, or a loss on sale of assets made surplus by departmental restructuring.
	Non-Departmental	Authorises expenses to be incurred by the Crown (excluding departments) that are not structured or managed as output expenses, benefits or other unrequited expenses, or borrowing expenses.  Other expenses is the residual expense appropriation type, which should not be used where an appropriation could be better classified or managed as one of the other appropriation types (eg, as output expenses).  Examples include disposal of an asset for less than market value, grants to community organisations, subscriptions for membership of international bodies and remuneration of independent statutory officers.
Capital Expenditure	Departmental	Authorises capital expenditure to be incurred by a department or an Office of Parliament to acquire or develop assets for the use of the department.
	Non-Departmental	Authorises capital expenditure to be incurred by the Crown (excluding departments) to acquire or develop Crown assets, including the purchase of equity, or making a loan to a person or organisation that is not a department.
Expenses or Capital Expenditure Incurred by an Intelligence and Security Department	Departmental	Authorises both expenses and capital expenditure to be incurred by the New Zealand Security Intelligence Service or the Government Communications Security Bureau.

## Types of Output Expense Appropriations

A number of variations are possible for output expense appropriations. In particular, the constraint on the amount of expense that can be incurred is not always a fixed sum; and an output expense appropriation can cover more than one class of outputs.

Output Expense Appropriation Type and Authority	Description, Constraints on Form and Typical Application
Standard Output Expense Appropriation (section 7(1)(a), Public Finance Act 1989)	<p><b>Departmental or non-departmental:</b> Authorises a department or an Office of Parliament to incur expenses in supplying a specified class of outputs (goods and services), or the Crown (excluding departments) to incur expenses to purchase a specified class of outputs.</p> <p><b>Annual or multi-year:</b> The authority lapses at the end of the financial year or multi-year period specified.</p> <p><b>Single output class only:</b> The scope is limited to a single class of outputs (defined as a grouping of similar outputs).</p> <p><b>Amount limited by Appropriation Act:</b> The amount of a standard output expense appropriation is limited to a set amount of New Zealand dollars specified in an Appropriation Act.</p> <p><b>Typical application:</b> The normal or default form for an output expense appropriation, used for a wide range of outputs for which the flexibility offered by the other types of output expense appropriation is not required.</p>
Multi-Class Output Expense Appropriation (MCOA) (section 7(3)(b), Public Finance Act 1989)	<p><b>Departmental or non-departmental:</b> Authorises a department or an Office of Parliament to incur expenses in supplying more than one specified class of outputs (goods and services), or the Crown (excluding departments) to incur expenses to purchase more than one specified class of outputs.</p> <p>A proposed MCOA must be approved by the Minister of Finance before it is presented in the <i>Estimates</i>. The information supporting the <i>Estimates</i> must explain why the Minister has allowed those classes of outputs to be grouped in one appropriation.</p> <p><b>Annual or multi-year:</b> The authority lapses at the end of the financial year or multi-year period specified.</p> <p><b>Multiple output classes:</b> The scope of an MCOA is determined by the combined scope of each of the output classes included in that appropriation.</p> <p><b>Amount limited by Appropriation Act:</b> The amount of an MCOA is limited to a set amount of New Zealand dollars specified in an Appropriation Act. The amount of expense that can be incurred in relation to each component output class is flexible within the total amount of the MCOA, although expenses must be separately forecast and reported for each individual class in the <i>Estimates</i>, <i>Information Supporting the Estimates</i>, <i>Supplementary Estimates</i> and the department's annual report.</p> <p><b>Typical application:</b> An MCOA is used where it is appropriate to give the responsible Minister or department ongoing discretion over the output mix across two or more classes of outputs. Such discretion will most commonly be sought where the output classes contribute to a common outcome, or use a common or closely related set of inputs or processes, and the circumstances that determine the appropriate output choice or mix are likely to vary during the appropriation period.</p>
Revenue-Dependent Appropriation (RDA) (section 21(1), Public Finance Act 1989)	<p><b>Departmental only:</b> Authorises a department or an Office of Parliament to incur expenses in supplying a specified class of outputs (goods and services) that are not paid for directly by the Crown.</p> <p>A proposed RDA must be approved by the Minister of Finance before it is presented in the <i>Estimates</i>. Each class of outputs for which an RDA is approved is listed in an Appropriation Act for the relevant financial year.</p> <p><b>Annual only:</b> The authority lapses at the end of the financial year specified.</p> <p><b>Single output class only:</b> The scope of an RDA is limited to a single class of outputs (defined as a grouping of similar outputs).</p> <p><b>Amount limited by amount of revenue earned:</b> The amount of an RDA is limited to the amount of revenue earned by a department or an Office of Parliament from other departments or from parties other than the Crown during a financial year. The Minister of Finance can further direct a department to incur expenses to a level lower than the amount of revenue earned, though such directions have been rare.</p> <p><b>Typical application:</b> An RDA provides flexibility to respond to unanticipated changes in the level of external demand for a class of outputs, where the full cost of the outputs is met by external parties and not the Crown.</p>

Output Expense Appropriation Type and Authority	Description, Constraints on Form and Typical Application
Department-to-Department Appropriation (DDA)  (section 20(2), Public Finance Act 1989)	<p><b>Departmental only:</b> Authorises a department or an Office of Parliament to incur expenses in supplying specified outputs (goods and services) paid for by another department.</p> <p>Creation of a DDA requires an agreement between two departments. Implicitly, it also requires the approval of the Minister who will become responsible for the appropriation - namely, the Minister responsible for the supplying department - as the agreement has implications for the scope and risk of that department's operations.</p> <p><b>Annual or multi-year:</b> The period of a DDA will depend on the negotiated terms of the agreement.</p> <p><b>Single or multiple output class(es):</b> The scope of a DDA (and hence whether it covers one or more classes of outputs) will depend on the way in which the agreement defines what is to be delivered. In most cases, an agreement that provides for a range of different outputs is better treated as creating several single-class DDAs.</p> <p><b>Amount limited by departmental agreement:</b> The amount of a DDA is limited to either the amount of revenue earned from the commissioning department, or the cost incurred by the supplying department in providing those outputs (if that cost is less than the amount of revenue earned under the agreement).</p> <p><b>Typical application:</b> DDAs are intended to make collaboration between departments easier by reducing the time and effort otherwise required to obtain or adjust the relevant appropriations, while also allowing a commissioning department to retain full control over the resources it provides.</p> <p>The use of a DDA is not confined to bilateral agreements. A set of related DDAs could be used to enable one department to co-ordinate and manage the work of several departments that must together contribute to providing an integrated service to third parties, or to pool contributions from several departments to enable another department to provide a specific service to or on behalf of those departments.</p>

## Appropriation Period

The length of the appropriation period affects how appropriations are presented in the *Estimates* and *Supplementary Estimates*. Three kinds of appropriation can be distinguished on the basis of period - annual and multi-year (as referred to in the above table on output expense appropriations), and permanent:

- **Annual Appropriations** - Most appropriations listed in the *Estimates* and *Supplementary Estimates* allow expenses or capital expenditure to be incurred only during a particular financial year. The annual amounts for which parliamentary authority is sought are shown in **bold type** in Details of Annual and Permanent Appropriations in the *Estimates* and *Supplementary Estimates* for each Vote. The amounts for RDAs and annual DDAs are forecasts only, and so are not shown in bold type.
- **Multi-Year Appropriations (MYAs)** - The PFA also permits appropriations that allow expenses or capital expenditure to be incurred during a specified period that spans the whole or parts of more than one financial year, but no more than five financial years. The details of each MYA, including its commencement date and expiry date, are specified in Details of Multi-Year Appropriations in the *Estimates* and *Supplementary Estimates* for relevant Votes.
- **Permanent Appropriations** (sometimes referred to as permanent legislative authorities or PLAs) - Permanent appropriations are authorised by legislation other than an Appropriation Act and continue in effect until revoked by Parliament. Generally the authorising legislation will impose limits on the scope of the appropriation and not its amount. The usual legislative wording allows for expenses or capital expenditure to be incurred for the purpose specified in the legislation “without further appropriation than this section”. Details of permanent appropriations are included in Details of Annual and Permanent Appropriations in the *Estimates* and *Supplementary Estimates* for each Vote for completeness, though the amount specified is a forecast rather than a limit. The amounts of permanent appropriations are therefore not shown in bold type. The scope of a permanent appropriation will reference the relevant section of the authorising legislation.

## Types of Crown Revenue and Capital Receipts

An operating and capital split applies to Crown revenue and receipts. The following table outlines the three revenue/receipt types:

Crown Revenue/Receipt Type	Departmental Status	Description
Tax Revenue	Non-Departmental	Tax payable to the Crown, such as Income Tax, GST and Fringe Benefit Tax.
Non-Tax Revenue	Non-Departmental	Revenue earned by the Crown from its investing and other operating activities. Examples include interest income, capital charges and dividends from State-owned enterprises.
Capital Receipts	Non-Departmental	Capital received by the Crown: <ul style="list-style-type: none"> <li>when loans are raised (which appear in Vote Finance) or repayments of principal are made on debts owed to the Crown (for example, in Vote Social Development), or</li> <li>when capital assets are sold.</li> </ul>

## Types of Movements in Departmental Net Asset Balances

Information on types of movements in each department's net asset balance appears at the end of the Vote containing appropriations that belong to a department's Responsible Minister. The movements reconcile a department's estimated opening and projected closing net asset balances. The projected closing net asset balance sets an upper bound on the amount of the Crown's accumulated net investment in a department throughout the financial year.

Movement Type	Description
Capital Injections	Investment by the Crown in a department, which increases a department's closing net asset balance.
Capital Withdrawals	Returns of capital by a department to the Crown, which reduce a department's closing net asset balance.
Surplus to be Retained / (Deficit Incurred)	The net surplus forecast to be retained by a department from its operations for a financial year in accordance with section 22(1) of the PFA, or the forecast deficit for the department. A surplus or deficit will, respectively, increase or decrease a department's closing net asset balance.
Other Movements	Any other adjustment required to ensure that the amount of a department's authorised closing net asset balance is not a forecast but an upper bound within which the department must operate throughout the financial year. Such movements may include offsets to forecast deficits (if any), to ensure that net assets remain within approved limits should the deficit be less than forecast. Other movements may include offsets to forecast withdrawals, to ensure that net assets remain within approved limits until the capital is withdrawn.

# Guide to Reading the *Supplementary Estimates*

The *Supplementary Estimates* comprise this Introduction, a series of summary tables, details of appropriations in each Vote, schedules of departmental net asset balances, and certain performance information for appropriations in each Vote.

Votes that do not require any changes to the *Estimates* for the current financial year are not included in this document. However, their appropriation details are included in the Summary Tables.

## Summary Tables

The Summary Tables provide a high-level perspective and comparative 'ready reference' for all appropriations (annual, permanent and multi-year). They cover:

- aggregates for all Votes - showing totals for the Estimates and Supplementary Estimates for 2007/08 with respect to each type of appropriation and of Crown revenue and capital receipts
- each appropriation type and total appropriations for each Vote - showing totals of the Estimates and Supplementary Estimates for 2007/08
- current year revenue-dependent appropriations
- multi-year appropriations by Vote, appropriation type and period
- Crown revenue and Crown capital receipts for 2007/08 associated with each Vote, and
- net assets of each department - showing the closing balance for 2007/08.

For inclusion in the Summary tables, MYAs are converted into actual or forecast amounts for each financial year.

## Layout of Each Vote

### Supplementary Estimates

The *Supplementary Estimates* presents Votes in alphabetic order. The title page for each Vote specifies the Minister(s) responsible for existing and proposed appropriations in the Vote, the administering department for the Vote, and the Responsible Minister for that department. This is followed by:

- **Overview of the Vote** - A plain-language summary of the focus of appropriations.
- **Details of Appropriations** - Tables containing information on each appropriation referred to in the Appropriation (2007/08 Estimates) Act 2007 and Appropriation (2007/08 Supplementary Estimates) Bill, and on other current appropriations.
  - **Details of Annual and Permanent Appropriations** - The type, title, scope and amount of each annual and permanent appropriation. The annual amounts, for which parliamentary authorisation is sought in the Appropriation (2007/08 Supplementary Estimates) Bill, are shown in **bold type**.
  - **Details of Multi-Year Appropriations** - The type, title, scope, period and amount of each MYA, including any adjustments since originally appropriated, amounts incurred or estimated for particular years, and the estimated remaining balance.

- **Details of Projected Movements in Departmental Net Assets** - Information on the opening and closing balances of, and movements in, the net assets of each department is included in the Vote that contains appropriations belonging to a department's Responsible Minister.

## Supporting Information

Information supporting changes in existing appropriations and new appropriations in each Vote is organised as follows:

- **Part 1 - Summary of the Vote** - a Summary of Financial Activity and a reconciliation of any changes in the structure or classification of appropriations
- **Part 2 - Details and Expected Performance for Output Expenses**
- **Part 3 - Details for Benefits and Other Unrequited Expenses**
- **Part 4 - Details for Borrowing Expenses**
- **Part 5 - Details and Expected Results for Other Expenses**
- **Part 6 - Details and Expected Results for Capital Expenditure**

Parts 2 to 6 contain sub-parts for performance information for appropriations related to departmental and non-departmental transactions. This information includes:

- for existing appropriations that are materially increased or decreased - the reasons for that change
- for new appropriations -
  - intended impacts, outcomes or objectives
  - details of expenses and revenue for departmental output expense appropriations, and of expenses or expenditure for other appropriations
  - reasons for material changes, and
  - output performance measures and standards for output expense appropriations.

If particular information is not applicable to a Vote or a specific appropriation or type, or is otherwise unavailable, the relevant heading is not included.

## Terms and Definitions

The table below contains terms that are used in the *Estimates* and the *Information Supporting the Estimates*.

Appropriation	An appropriation is a parliamentary authorisation for the Crown or an Office of Parliament to incur expenses or capital expenditure.
Appropriation scope	One of the defining terms of an appropriation that establishes limits on the activities for which the Crown or an Office of Parliament is authorised to incur expenses or capital expenditure under that appropriation.
Capital expenditure	The cost of assets acquired or developed including any ownership interest in entities, but excluding inventory.
Crown revenue and capital receipts	Flows accounted for as revenue and capital receipts on behalf of the Crown rather than as departmental revenue.
DDA	Department-to-department appropriation - as authorised by section 20(2) of the PFA.
Expenses	Amounts consumed or losses of service potential or future economic benefits, other than those relating to capital withdrawals, in a financial year. Expenses are an accrual concept measured in accordance with generally accepted accounting practice.
GST	Goods and services tax. Appropriations are stated GST-exclusive.
MCOA	Multi-class output expense appropriation.
MYA	Multi-year appropriation.
N/A	Not applicable.
Outcomes	States or conditions of society, the economy or the environment, including changes in those states or conditions.
Outputs	Goods or services supplied by departments and other entities to external parties. Outputs are a variety of types, including policy advice, administration of contracts and grants, and the provision of specific services.
PFA	Public Finance Act 1989
PLA	Permanent legislative authority - a traditional term for a permanent appropriation, ie, one that is authorised for an indefinite period by legislation other than an Appropriation Act.
Minister	The Minister responsible for specific appropriations being sought within a Vote. As several Ministers may hold appropriations within a single Vote, each appropriation has a tag (M1, M2, etc) identifying the Minister responsible for that line item.
RDA	Revenue-dependent appropriation - as authorised by section 21(1) of the PFA 1989.
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.
Revenue from the Crown	Revenue earned by a department from the Crown for the provision of outputs to or on behalf of the Crown. These flows are accounted for as departmental revenue. Revenue from the Crown is eliminated for purposes of reporting the Crown's overall financial performance and position.
Revenue from Others	Revenue earned by a department from other departments and from third parties. Revenue from other departments is eliminated for purposes of reporting the Crown's overall financial performance and position.
Vote	A grouping of one or more appropriations that are the responsibility of one or more Ministers of the Crown and are administered by one department.

## Useful Links

The suite of Budget 2008 documents can be accessed in the Budgets section of the website: [www.treasury.govt.nz/budget/2008](http://www.treasury.govt.nz/budget/2008). Documents that provide a guide to the PFA and the public sector financial management system can be accessed in the Publications section of the Treasury's website: [www.treasury.govt.nz/publications/guidance/publicfinance](http://www.treasury.govt.nz/publications/guidance/publicfinance).