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AUTHORITY FROM PARLIAMENT

Appropriation, the constitutional process whereby Parliament authorises the Government to use public resources for specified purposes.

Introduction

A long-standing principle under the Westminster style of government is that no expenditure of public money can take place without the prior approval of Parliament. In New Zealand, both the Constitution Act 1986 and the Public Finance Act 1989 continue this historical requirement.

Appropriation ensures that Parliament, on behalf of the taxpayer, has adequate scrutiny of how public resources are to be used and that the Government is held accountable for how it has used the public resources entrusted. The Estimates specify for each appropriation:

- a maximum amount of resources that can be consumed
- the purpose for which the appropriation can be used.

Appropriation Acts

An Appropriation Act is the means by which Parliament approves funding for the Government for the coming year. The Government’s proposals are submitted in the Estimates document presented in the House of Representatives at the time the Minister of Finance delivers the Budget.

Features of the New Zealand appropriation process are:

- most appropriations are accrual-based, that is, they specify the full cost of resources required, not the cash outlays for producing outputs or making transfer and other payments³
- appropriations are specified as to their purpose
- appropriations may be increased without recourse to Parliament only in certain circumstances provided for by the Public Finance Act 1989
- in certain cases, for example Judges’ salaries, permanent appropriations are used.

No expenditure of public money can take place without the prior approval of Parliament.

“Appropriation” authorises Ministers to consume public resources, and ensures that Parliament knows how money will be spent and that Government is held accountable for the spending.

Through the Budget process Ministers determine the nature and extent of “appropriations” that the Government will seek.

The Government’s requests for appropriations are contained in a document called the “Estimates of Appropriations.”

Final funding is approved through an “Appropriation Act.”

In passing this Act, Parliament establishes the maximum expense, liability or expenditure that can be incurred for each specific purpose.

Types of Appropriation

The Public Finance Act 1989 lists seven separate types of appropriation as follows:

Types of Appropriation	
Output classes	eg policy advice, management of contracts, policing, custodial services
Benefits	eg Unemployment, Domestic Purposes, scholarships,
Borrowing expenses	eg interest expenses, premiums, borrowing, other finance costs
Other expenses	eg restructuring costs, litigation costs, loss on sale of fixed assets, overseas development aid
Capital contributions	eg increase in investment in a department or SOE to increase its output capacity or improve its efficiency
Purchase or development of capital assets	eg state highways, national parks, Parliament Buildings
Repayment of debt	eg foreign currency debt repayment

³ Appropriations for departmental capital contributions and repayment of debt are cash-based.

When Parliament gives authority for resources to be used for a particular purpose, Parliament must have confidence that those resources will be used only for that purpose. Therefore, Ministers do not have the authority to transfer resources between the types of appropriation without the consent of Parliament.

However, section 5 of the Public Finance Act allows for an output class appropriation to be increased by up to five percent by transfer from other output class appropriations. Such transfers can take place only within a Vote and must be authorised by the Governor-General by Order in Council.

Modes of Appropriation for Output Classes

Appropriation for departmental output classes is authorised in different ways, called “Modes” in the Public Finance Act.

Mode B⁴

Mode B is the usual mode of appropriation for departmental output classes.

The appropriation is for the full cost (including depreciation and the capital charge) of the resources departments use to produce the outputs sought by Vote Ministers.

Mode B (Net) is used for output classes where departments earn trading revenue in competition with other suppliers (contestable outputs). Departments may use the amounts expected to be earned from the sale of contestable outputs to fund the production of those outputs. For example, if a department expects to earn \$10,000 from sales to third parties, it will be authorised to incur costs up to \$10,000 without further Parliamentary approval. The balance of costs (if any) for the output class requires annual appropriation.

For example, Vote Police receives a Mode B (Net) appropriation for the output class “*Training services for third parties at the Royal New Zealand Police College*”.

Most output classes are not associated with earning trading revenue and the total cost of producing those output classes is appropriated annually. This is known as *Mode B (Gross)*.

Examples of Mode B (Gross) appropriations are for output classes such as providing policing support to the community in Vote Police and assessment of applications for New Zealand citizenship in Vote Internal Affairs.

A Vote may contain a mixture of Mode B (Gross) and Mode B (Net) output classes, for example, Vote Police.

Periods of Appropriation

Annual Appropriations

Most appropriations are limited to one year, consistent with the annual Budget cycle. In these cases, a Minister must request an appropriation for proposed expenditure each year. The sums to be appropriated are included in the Estimates and, when passed by Parliament, are specified in an Appropriation Act.

Multi-year Appropriations

Multi-year appropriations are provided for in the Public Finance Act. Such an appropriation would be where Parliament wishes to signal a commitment that requires authorisation over a period longer than one year. The maximum term specified in legislation for a multi-year appropriation is five years.

At the time of writing, the first and only multi-year appropriation is one covering five years under the Vote Treaty Negotiations, for historical Treaty of Waitangi settlements.

The purposes of the appropriations are specified when funding is sought, and Ministers have to spend the money in accordance with these purposes.

Appropriations are grouped into “Votes” with one or more Votes for each Minister, for example, Vote Agriculture and Vote Customs. Parliament “votes” authority to Ministers.

If a department earns revenue in a specific output class in competition with other suppliers, Mode B (Net) is used to authorise expenses paid for by trading revenue. For example, Vote Police offers training programmes for outside organisations at the Royal New Zealand Police College.

Most output classes do not earn trading revenue, and the total cost of producing those output classes is appropriated. This is known as Mode B (Gross). Some Votes contain a mixture of Mode B (Net) and Mode B (Gross).

⁴Mode A was a mode of appropriation which operated under the Public Finance Act 1989 for a transitional period up to 1991.

Permanent Legislative Authority: Non-Annual Appropriations

Non-annual appropriations operating under permanent legislative authority in an Act other than an Appropriation Act are used in four circumstances:

- where a measure of constitutional independence from Government control is desirable, for example, Judges' salaries
- to commit to the continuity of supply for "essential" services or transactions such as debt servicing
- to provide a commitment to the settlement of liabilities, such as repayment of debt and payment of tax refunds
- for provision of Mode B (Net) output classes on the open market (to parties other than Ministers) in competition with other potential suppliers.

The Estimates

The main Estimates are presented to the House by the Minister of Finance on the day of the Budget. They set out the purpose and other details of appropriations sought by Ministers.

The **Estimates** contain up to seven parts for each vote. These are:

Part A: Statement of Objectives and Trends. This part includes information about the outcomes that Vote Ministers intend to contribute to with the appropriations sought from Parliament, together with information about significant changes in the Vote over the past five years and the coming year. The Estimates link the appropriations requested to outcomes sought and to the Government's strategic objectives.

Part B: Statement of Appropriations. This part sets out the amounts required for each appropriation type (departmental and non-departmental) and briefly describes the purpose of each appropriation.

Part C: Explanation of Appropriations for Output Classes. This part:

- details the descriptions of the purposes of appropriations for departmental and non-departmental output classes
- specifies output performance dimensions, quality, quantity, cost and time information.

Part D: Explanation of Appropriations for other Operating Flows. This part provides supporting detail about appropriations for benefits or other unrequited expenses, borrowing expenses, and other expenses.

Part E: Explanation of Appropriations for Capital Flows. This part has fuller details of appropriations for capital contributions, the purchase or development of capital assets, and repayment of debt and details of the Crown's ownership in each body for which the Vote Minister is responsible.

Part F: Crown Revenue and Receipts. This part sets out details and an explanation of expected Crown revenue, such as taxation.

Part G: Statement of Reconciliations. This part explains any restructuring of output classes, or reclassification of Crown revenue, from previous years.

Most appropriations are for one year only. Multi-year appropriations are possible for long-term projects, with a maximum of five years. Some appropriations are permanent (and are usually contained in Acts other than the Appropriation Act) - for example, paying Judges' salaries.

The Estimates of Appropriations are the published record of the authority sought for the upcoming financial year. They include how the appropriations will be spent, significant changes that have happened in the Vote, how performance will be measured and differences from previous years. They are presented to Parliament with the Budget.

Mode B is the usual mode of appropriation for departmental output classes.

Example from Main Estimates

An extract (Part B1 and two output classes from Part C1) from the Estimates of Appropriations 1996/97 for Vote Foreign Affairs and Trade is set out below:

Part B1 - Details of 1996/97 Appropriations						
Appropriations	1995/96				1996/97	
	Vote		Estimated Actual		Vote	
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000
Departmental Output Classes						
D1 Policy Advice and Representation: Other Countries	110,374	181	110,374	181	113,080	181
D2 Policy Advice and Representation: International Institutions	23,607	-	23,607	-	24,044	-
D3 Management of New Zealand Official Development Assistance	12,103	-	12,103	-	12,059	-
D4 Consular Services	4,002	-	4,002	-	3,969	-

Part B1 - Details of 1996/97 Appropriations (Continued)						
Appropriations	1995/96				1996/97	
	Vote		Estimated Actual		Vote	
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000
Non-Departmental Output Classes						
O1 Antarctic Research and Support	-	-	-	-	6,026	-
O2 Export Capability Development	8,320	-	8,320	-	8,320	-
O3 Export Promotion	7,113	-	7,113	-	7,067	-
O4 International Business Development	40,762	-	40,762	-	40,355	-

Part B1 - Details of 1996/97 Appropriations (Continued)						
Appropriations	1995/96				1996/97	
	Vote		Estimated Actual		Vote	
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000
Other Expenses to be Incurred by the Crown						
Disbursements Made, Exemptions from Taxation, etc	-	1,011	-	1,011	-	1,011
Official Development Assistance	164,670	-	164,670	-	184,465	-

Purpose of 1996/97 Appropriations
Departmental Output Classes
The purchase of policy advice and representation activities directed towards the management of New Zealand's foreign and trade relations with other countries, bilaterally and in regional organisations.
The purchase of policy advice and representation activities related to the management of New Zealand's membership of, and foreign and trade interests in, international institutions.
The purchase of the management of the resources allocated to New Zealand ODA.
The purchase of consular services for New Zealanders abroad.

Purpose of 1996/97 Appropriations
Non-Departmental Output Classes
Provision of management and logistic support for New Zealand activities in the Antarctic.
Fostering of increased international business competitiveness.
Promotion of exports and the provision of support for promotional activities.
Provision of market access support to exports.

Purpose of 1996/97 Appropriations
Other Expenses to be Incurred by the Crown
Refund of New Zealand local body rates for offices and residential premises of overseas diplomatic missions and consular posts.
Grants bilateral programme assistance, and contributions to international aid institutions.

PART C - EXPLANATION OF APPROPRIATIONS FOR OUTPUT CLASSES

Part CI - Departmental Output Classes

Output Class DI - Policy Advice and Representation: Other Countries

Description

This class of outputs involves the purchase of policy advice and representation activities directed towards the management of New Zealand's foreign affairs and trade relations with other countries, both bilaterally and in regional organisations.

They are focused on individual country relationships and regional organisations of significance to New Zealand.

Policy advice and representation involves researching, monitoring, evaluating and analysing information and developments, and providing advice to Ministers on events, specific issues, legal obligations or comments on proposals from other departments which affect New Zealand's foreign affairs and trade interests with individual countries. It includes organising visits and meetings and liaising and consulting with affected interests. It also involves advocacy and

representation of the Government’s positions and views, in the Ministry’s capacity as the internationally accepted channel of communication with other governments, including the negotiation of agreements.

Quantity, Quality and Timeliness

Quantity

- The Minister will agree on overall priorities for the Ministry, and priorities and requirements for each international relationship.
- The Minister will agree on the appropriate levels of representation and effort for each relationship in accordance with the agreed priorities above.
- The Minister will expect that agreed work priorities will be translated into work programmes for each unit in the Ministry incorporating objectives, activities, performance measures and deadlines where appropriate.
- The Minister will receive relevant briefings for visits and meetings.

Quality

- The Minister will expect the following elements to be present in good quality advice: a clear statement of the aim of the advice; a logical argument and

explicitly stated assumptions; accuracy and completeness of information; an adequate range of options and their cost and benefits; adequate consultation undertaken; consideration of implementation issues; the material is effectively presented.

Timeliness

- The Minister will expect all advice to be delivered in the timeframe agreed.

Cost

This output class will be provided within the appropriated sum of \$113,261,000 (inclusive of GST). The GST-exclusive amount of \$110,259,000 will be funded by revenue Crown of \$109,939,000 and revenue from third parties estimated at \$320,000.

The 1995/96 final appropriated sum for this output class was \$110,555,000.

	1995/96	1996/97
	\$000	\$000
Subclasses: (GST-inclusive)		
Asia	49,528	50,080
Europe	23,165	23,327
Middle East and Africa	6,345	7,931
The Americas	13,872	14,174
Pacific including Australia	17,645	17,749
Total	110,555	113,261

Conclusion

Appropriation is a key mechanism by which Ministers and government agencies are held accountable to Parliament for their use of public resources. The New Zealand public sector financial management system employs additional tools to enhance efficient resource use. These are covered in Chapter Five.