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SCRUTINY BY PARLIAMENT

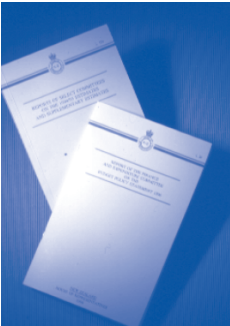
Parliamentary scrutiny
of the Government's
performance and the way it
updates the authority
Parliament provides the
Government during the year.

Introduction

Members of the House of Representatives are informed in the Budget documentation, Statements of Corporate Intent, Statements of Objectives and period-end financial reports about:

- what the Government is aiming to achieve (outcomes)
- the goods and services that the Government purchases to achieve these aims (outputs)
- the cost of producing these outputs
- the financial performance expected from government departments, SOEs and Crown entities
- the actual service and financial performance achieved.

There are several mechanisms by which Parliament scrutinises this information.



The Budget provides information on what the Government aims to achieve, how it intends to go about it and how much it will cost. Parliament uses the select committee process to establish more detailed information. The select committees then report back to the House.

Select Committee Review

Select committees of the House of Representatives carry out the following reviews.

- **Estimates examinations:** the Estimates (see Chapter Four) are presented at the time of the Budget. The Finance and Expenditure Committee (FEC) may then itself elect to examine any Vote, or refer it to another select committee for examination. Select committees must report back to the House on their examinations of votes within two months of the presentation of the Budget. Each Vote Minister is asked to respond to a standard Estimates questionnaire.
- **Examinations of Supplementary Estimates:** Following the introduction of an Appropriation (Supplementary Estimates) Bill, the Supplementary Estimates (see Chapter Three) stand referred to the FEC. The FEC itself generally elects to examine votes contained in the Supplementary Estimates, but it may refer them to another select committee for examination.
- **Financial reviews of the performance and current operations of government departments:** Select committees review each department's annual report and responses to a financial review questionnaire which may be based on a standard questionnaire produced by the FEC. Each select committee is required to report back to the House on or before the first sitting day in each calendar year.
- **Financial reviews of the performance and current operations of Crown entities, State-owned enterprises and certain other public organisations:** Each select committee is required to report back to the House on a financial and operational review of Crown entities and/or SOEs allocated to that committee, within six months of the relevant annual report having been presented to the House.

Unappropriated Expenditure, Expenses and Liabilities

Earlier chapters outlined how Parliament makes appropriations to Ministers for purposes such as output class purchases or paying welfare benefits. Unappropriated expenditure occurs when expenditure against an individual appropriation exceeds the maximum level set in the Appropriation Acts for that financial year.

An objective of the financial management system is to forecast appropriations accurately and allow these to be exceeded only where the excess is outside the control of a department. Section 12 of the Public Finance Act 1989 allows the Minister of Finance to approve unappropriated expenditure, expenses or liabilities incurred up to an amount not exceeding one percent of the total amount appropriated in a Vote for any year. A statement relating to this unappropriated expenditure must subsequently be included in the Crown and departmental financial statements and in the Appropriation (Financial Review) Bill relating to that financial year.

The Minister of Finance can approve unappropriated expenditure, expenses or liabilities within the limit set by section 12 of the Public Finance Act. Unappropriated expenditure, expenses or liabilities exceeding the limit set by section 12 of the Public Finance Act require validation by Parliament.

Unappropriated expenses or liabilities might also potentially occur when costs are incurred for a purpose not specified in the Appropriation Act.

Unappropriated expenditure occurs when expenditure against an individual appropriation exceeds the maximum level set in the Appropriation Acts for that financial year.

Imprest Supply

“Imprest Supply” is the term used to describe Parliamentary authority for a government to spend public money and incur expenses or liabilities in advance of receiving an appropriation.

“Imprest supply”:

- authorises the Crown to spend public money and incur expenses and liabilities for the day-to-day business of government before the passing of the first Appropriation Act for the year or additional to the amounts appropriated in that Act.
- authorises the Government to spend money or incur expenses or liabilities for any purpose up to a specified limit so long as this is subsequently sanctioned by an Appropriation Act.

Every Imprest Supply Act contains a provision requiring all public money spent and all expenses and liabilities incurred under its authority to be charged in the manner specified in an Appropriation Act for the same year.

Sometimes costs are higher than originally anticipated. If this happens, the Minister of Finance can approve more money (up to a specified limit), called “unappropriated expenditure”.

Where expenditure is needed before the Appropriation Act approving it is passed. “Imprest Supply” legislation allows the Crown to spend the money in advance.

Controller Function

The supply of public money is a two-stage process consisting of the appropriation by Parliament and the issue of money from the Crown bank account.

Once an Appropriation or Imprest Supply Act has been passed, expenditure by the Executive is subject to daily control of the Crown bank accounts, the “controller function”. Public money can be withheld in the Crown bank account at any time if the terms of the appropriation are not being complied with.

The controller function limits the possibility of expenditure being incurred in amounts or for purposes outside those specified in the Appropriation Act. The Controller (that is, the Controller and Auditor-General) must establish that the Crown and the department actually have legal authority to incur the expenses.

Cash payments from the Crown bank account to departments and other organisations are authorised by:

- the Governor-General issuing a warrant (countersigned by the Audit Office) for an aggregate amount of money that can be paid out. This is issued after each Imprest Supply and Appropriation Act is passed.
- the Treasury providing the Audit Office with a daily statement of all the amounts proposed to be paid. The Audit Office countersigns this account when it is satisfied that:
 - the proposed payments are covered by a warrant
 - there are adequate appropriations or other authority
 - the amounts involved will be applied for the purposes appropriated.

Money is then transferred from the Crown bank account to departmental and other bank accounts.

Public money can be withheld in the Crown bank account at any time if the terms of the appropriation are not being complied with.

Once the Appropriation or Imprest Supply Act has been passed, money can be issued from the Crown bank account. The “Controller” function is a daily control system which ensures the money is being spent as it should.



The Financial Veto

Since February 1996, the New Zealand House of Representatives has operated under new Standing Orders (rules that set out how the House conducts its business). These allow Members of the House to propose changes that would affect Votes, and the Government to exercise a “financial veto” over such proposed changes. Where the Government considers that a spending proposal will affect the Crown’s overall financial position, it may veto that proposal.

The spending proposal might be contained in:

- a new bill
- an amendment to an existing bill
- a motion before the House that if passed would become law
- a proposed change to a Vote in the Estimates.

A “financial veto certificate” can be presented to the House when it is considered that a

proposal contained in a bill, amendment to a bill, or motion before the House would have more than a minor impact upon the Crown’s fiscal aggregates, that is, the:

- total operating expenses
- total operating revenues
- the balance between the Crown’s total operating expenses and the Crown’s total operating revenues
- the level of the Crown’s total debt
- the level of the Crown’s net worth.

In the case of a proposed change to a Vote in the Estimates a financial veto certificate can be presented where the proposal is considered to have more than a minor impact on the composition of the Vote.

The financial veto certificate must be presented to the

Standing Orders allow Members of the House to propose changes that would affect Votes, and the Government to exercise a “financial veto” over such proposed changes.

The Government can “veto” a spending proposal that it considers will affect the Crown’s overall financial position. The veto cannot be voted on or overturned by the House.

House before the proposal is voted on.

The impact on the Crown's financial position may result either from the particular proposal or from the cumulative effect of a series of proposals. It is up to the Government to determine what it considers to be "more than a minor impact" and to defend its view when a veto is debated in the House.

The financial veto certificate must set out:

- the nature of the impact on the Crown's fiscal aggregates or the composition of the affected Vote
- the reason(s) why the Government does not agree with the proposed change(s) and has exercised the veto.

Once a financial veto has been exercised and the certificate issued, the veto cannot be overturned by the House. The proposal that is the subject of the veto cannot proceed to a vote in the House. However, the reasons for exercising the veto may be debated when next the House is debating the bill, amendment, motion or Vote for which the veto was exercised.

The financial veto procedure applies to both:

- initiatives affecting expenses or revenue
- initiatives that may affect the Crown balance sheet by affecting the value of an asset or liability, for example the value of the Crown's investment in an SOE.

Conclusion

As noted in Chapter One, Parliament controls the public finances. This chapter has described its scrutiny of proposed appropriations (the Estimates and Supplementary Estimates) and the final results reported in the annual reports government organisations provide to Parliament. The chapter has also considered Parliament's power to grant Imprest Supply in advance of appropriations and the use of the Controller function to monitor payments against supply and appropriations. Finally, the Government's right of veto over new spending proposals was explained.