

## 3.1 Compliance with Cabinet Expenditure Delegations

*The limits determined by the Cabinet on who has authority to spend money are part of the regime of controls over public expenditure. As the administrators of that expenditure, departments must ensure compliance with the limits of the Cabinet's delegated authority. Mostly, departments are meeting that obligation, but there is some room for improvement.*

### Background

- 3.101 Under the current Cabinet delegation of financial authority to departmental chief executives and responsible ministers,<sup>1</sup> chief executives have full authority within the constraints of the Public Finance Act 1989 to expend departmental cash, or incur departmental expenses or liabilities, except in the following four areas:
- publicity expenses;
  - compensation or damages in settlement of claims;
  - ex gratia expenses; and
  - the purchase, development or lease of fixed assets.
- 3.102 The limits on financial delegations set by the Cabinet were revised with effect from 1 July 1999, and are as shown in Figure 3.1 on the next page.
- 3.103 All proposed expenses or financial commitments that exceed a financial delegation limit require specific Ministerial or Cabinet authorisation. This requirement extends to subsequent variations of authority, with an exception for operational simplicity.<sup>2</sup>

1 Promulgated in Cabinet Office Circular CO (99) 7, 30 June 1999.

2 Variations to the purchase, development or lease of fixed assets that do not exceed 10% of the value of the initial authorisation (and the new cost does not exceed the delegation limit of the issuer of the initial authorisation) are excluded.

Figure 3.1 – Limits on Delegated Financial Authorities<sup>1</sup>

|   | Departmental Chief Executives:<br>Authority not exceeding<br>(GST inclusive if applicable)  | Responsible Ministers:<br>Authority not exceeding<br>(GST inclusive if applicable)  |
|---|---|---|
| DEPARTMENTAL OPERATING EXPENSES   |   |   |
| Publicity expenses <sup>2</sup>   | \$100,000   | No limit  |
| Expenses for compensation or damages in settlement of claims <sup>3</sup>               | \$100,000   | \$500,000   |
| Ex gratia expenses <sup>4</sup>   | \$20,000  | \$50,000  |
| PURCHASE DEVELOPMENT OR LEASE <sup>5</sup><br>OF FIXED ASSETS <sup>6</sup>              |   |   |
| Initial Approval  | \$7 million   | \$15 million  |
| Subsequent Variations to Approval Given under Own Authority                             | Difference between total value of all prior approvals and \$7 million   | Difference between total value of all prior approvals and \$15 million  |
| Subsequent Variations to Approval Given under the Authority of the Responsible Minister | Difference between total value of all prior variations and 10% of initial approval given by the Responsible Minister, provided that the total project cost does not exceed \$15 million | N/A   |
| Subsequent Variations to Approval Given under the Authority of Cabinet                  | None  | Difference between total value of all prior variations and 10% of initial approval given by Cabinet, provided that the total variations do not exceed \$7 million |

1 Reproduced from the Schedule to Cabinet Office Circular CO (99) 7.

2 Advertising expenses must comply with the provisions set out in Appendix 2 of the Cabinet Office Manual.

3 Expenses for compensation or damages for settlement of claims should be endorsed either by the Crown Law Office or a court judgement. Claims under \$50,000 need not be referred to the Crown Law Office if a departmental solicitor certifies that such claims are in order.

4 Ex gratia expenses are those made in respect of claims that are not actionable at law, but for which there exists a moral obligation and payment should be made.

5 Leases covered by the delegation limits are operating leases of more than one year's duration. Note that departments cannot enter into finance leases in their own right (see Treasury Circular 1994/7).

6 See the Appendix to CO (99) 7 for more guidance on interpreting the delegation limits for fixed assets, and for seeking authorisation above those limits, particularly in relation to operating leases.

## Our Review

3.104 We wanted to establish whether chief executives were complying with the delegations in force since 1 July 1999. To do this our auditors undertook a survey of 43 government departments to find out whether:

- the departments had correctly updated their documentation on financial delegations to reflect the revised limits set by the Cabinet; and, if so
- the updated documentation had been satisfactorily communicated to relevant staff; and
- the departments were complying with the revised delegations.

3.105 The survey also sought to establish whether the term “ex gratia” was understood in departments.

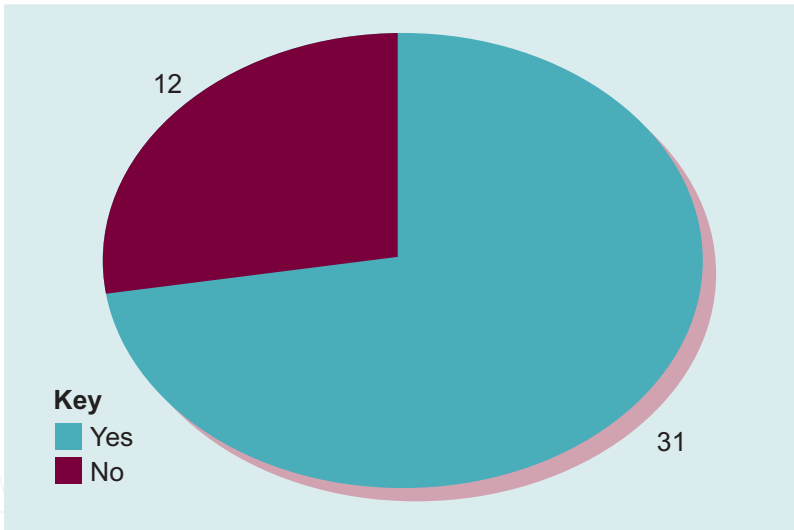


## The Results of Our Review

### *Financial Delegations Documentation Correctly Updated*

- 3.106 Of the 43 departments, 31 had updated their documentation on financial delegations to reflect the revised limits set by the Cabinet. For the remaining 12:
- 7 had an update in progress;
  - 1 had told relevant staff of the changes by memo;
  - 2 had annual budgets well within the revised delegation limits and the departments therefore thought it unnecessary to update their documentation; and
  - 2 had yet to update their documentation.

*Figure 3.2  
Financial Delegations Documentation  
Correctly Updated*

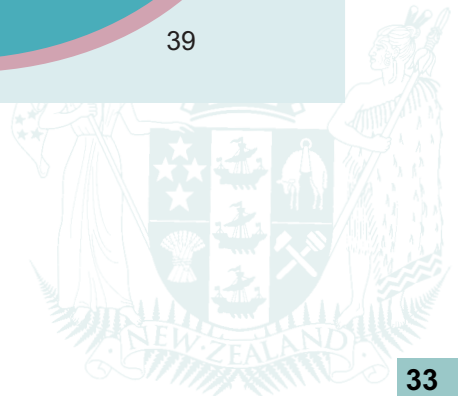
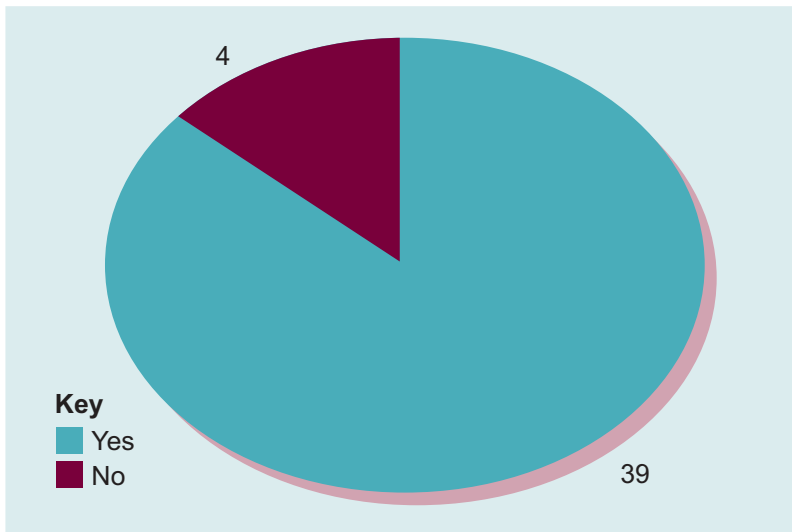


## Relevant Staff Satisfactorily Informed

3.107 Of the 43 departments, 39 had satisfactorily communicated the revised limits on financial delegations to relevant staff. For the remaining 4:

- 1 had not done so because it had not updated its documentation;
- 1 was in the process of sending to relevant staff a copy of the Cabinet Office Circular setting out the revised delegations;
- 1 planned to distribute the updated documentation to staff once it had completed the update; and
- 1 was made aware of the need to inform staff by the auditor at the conclusion of the audit.

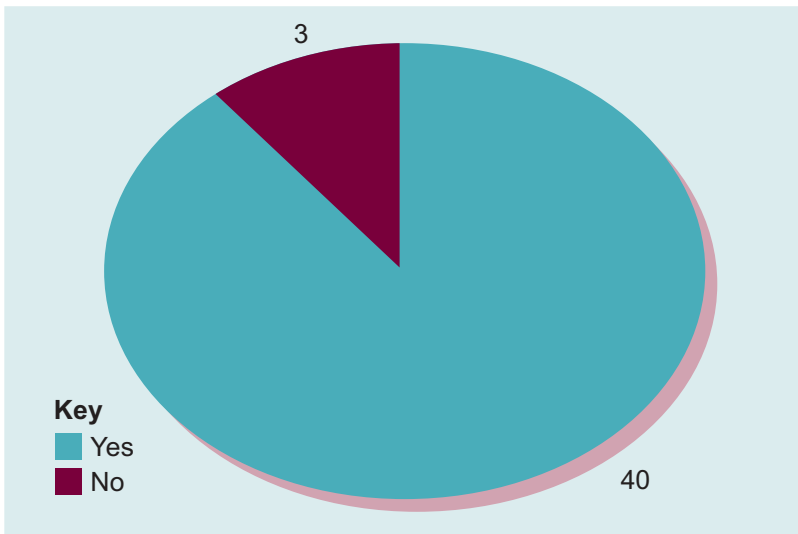
*Figure 3.3*  
*Relevant Staff Satisfactorily Informed*



*Departmental Compliance*

- 3.108 Of the 43 departments, 40 were reported to be complying with the revised delegations. For the remaining 3:
- each had instances of payments being authorised by persons not holding the authority to do so (including one department that on two occasions obtained retrospective approval from its minister); and
  - each had nevertheless updated its financial delegations documentation and communicated it to staff.

*Figure 3.4  
Departmental Compliance*



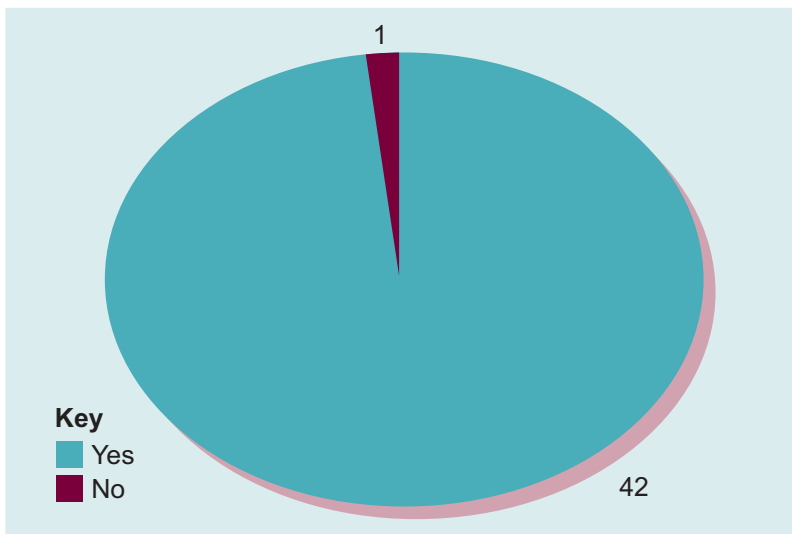
THREE



*Understanding the Term “Ex Gratia”*

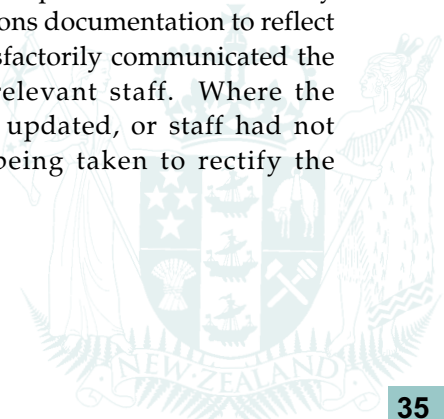
3.109 The term “ex gratia” (as defined in Note 4 in Figure 3.1 on page 30) was clearly understood in 42 departments. The one department in which the term was not clearly understood was reported as taking a conservative approach, to the extent that any payment likely to be within that category was referred to the chief executive.

*Figure 3.5  
Understanding the Term “Ex Gratia”*



**Conclusions**

3.110 We found that the majority of departments had correctly updated their financial delegations documentation to reflect the revised limits and had satisfactorily communicated the updated documentation to relevant staff. Where the documentation had not been updated, or staff had not been informed, action was being taken to rectify the failure.



- 3.111 Keeping the documentation up to date and informing relevant staff of the new position are essential measures in preventing non-compliance with the authority of the Cabinet. Nevertheless, the three departments that had not always complied (see paragraph 3.108) had updated their documentation and informed the staff. In those departments, at least, those measures were clearly not sufficient in themselves – suggesting that regular monitoring for compliance should also be undertaken.
- 3.112 Not all departments have an annual budget that is large enough to permit expenditure on fixed assets in excess of the delegated limits of a chief executive or responsible minister. Some departments may also be unlikely to spend money on the other types of restricted expenditure. Nevertheless, we recommend in those cases that, in the interests of good management practice, the departments should make sure that:
- their own documentation records what authorities the Cabinet has delegated; and
  - relevant staff are made aware of the limits of those authorities.

