

3.7 Supplementary Estimates for 1999-2000

The Minister of Finance did not present the Supplementary Estimates for 1999-2000 to the House until 15 June 2000. Effectively, that gave the House two weeks to consider them before the end of the financial year. We believe that two weeks was too short a time for adequate parliamentary scrutiny – particularly because of the scale of new expenditure initiatives that the Supplementary Estimates included. This timing issue brought the system – and its constitutional values – under pressure.

- 3.701 *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 used¹*
- 3.702 General elections in New Zealand are traditionally held near to the end of a calendar year. If there is a change of government, the new administration takes up office almost at the middle of the financial year (which runs from 1 July to 30 June). The new administration also inherits the budgetary settings determined by the previous government, together with their actual fiscal consequences.
- 3.703 The government that took office in late-1999 inherited a larger than forecast fiscal surplus. It decided to spend a significant amount of that surplus on new initiatives, and to bring the expenses to charge in the 1999-2000 financial year. That decision had implications for the accounting treatment of the new expenditure initiatives.

¹ *Putting It Together*, the Treasury, page 29 (ISBN 0-478-10609-2).

- 3.704 The transactions and arrangements for some of the initiatives were designed carefully (in terms of established legal and accounting frameworks) to enable the expenses to come to charge in the 1999-2000 year. The effect was to establish liabilities that were properly recognised in terms of generally accepted accounting practice, without benefits remaining in the control of the Crown at 30 June 2000. This allowed the new expenditure initiatives to be recognised as expenses in the 1999-2000 financial year even though the benefits and outcomes of the expenditure related to future periods.
- 3.705 The Government also had to obtain appropriation from Parliament for the new expenditure initiatives before 30 June 2000. But there was a timing difficulty because the main *Estimates of Appropriations* for the year – in which major new expenditure initiatives are usually introduced – had been passed some months earlier, before the general election. The only means of obtaining appropriations for the new expenditure was through the *Supplementary Estimates*.
- 3.706 The Government did not present the *Supplementary Estimates of Appropriations* for the year ended 30 June 2000² to the House until 15 June 2000 – the same day on which it presented the main *Estimates of Appropriations* for the year ending 30 June 2001.³ Under Standing Orders, *Supplementary Estimates* stand referred to the Finance and Expenditure Committee (FEC), which may examine a Vote itself or refer it to any subject select committee for examination.⁴
- 3.707 Consequently, the FEC had to examine and report on the *Supplementary Estimates*, and the House had to pass the Appropriation (*Supplementary Estimates*) Bill, within two weeks. Otherwise, the expenditure incurred in anticipation of Parliament agreeing to the appropriations covered by the *Supplementary Estimates* would have been unlawful. Therefore, the FEC had a limited opportunity to conduct and report on its examination.

2 Parliamentary paper B.7, 2000.

3 Parliamentary paper B.5, 2000.

4 S.O. 327.

- 3.708 Ordinarily, examination of Supplementary Estimates is not a particularly onerous exercise because:
- the FEC or subject select committee has more time to look at the individual Votes;
 - most of the supplementary appropriations being sought are technical in nature – that is, accounting adjustments with a fiscally neutral impact; and
 - when appropriation is sought for a new expenditure initiative the overall fiscal impact is not significant in relation to total expenditure for the year.
- 3.709 Examination of the *Supplementary Estimates* for 1999-2000 was different, not only because of the shortage of time but also because there were appropriations for new expenditure initiatives with a significant fiscal impact. We illustrate the range of supplementary appropriations sought at the end of this article. (Even after accounting for the new expenditure initiatives, the Government had an operating balance for 1999-2000 of a net surplus of \$1,449 million – which compared to a deficit of \$36 million forecast in the 1999-2000 Budget.)
- 3.710 In our view the course adopted meant that some of the transparency contemplated by the Fiscal Responsibility Act 1994 was lost. An important principle of this Act is that new expenditure initiatives with a significant fiscal impact will be included in the Budget Policy Statement and, accordingly, that there will be adequate parliamentary time to consider and debate them.
- 3.711 The Government's actions ensured that the expenditure on its new initiatives was properly accounted for and was lawful. But the limitation of time for parliamentary scrutiny to two weeks brought the system – and its constitutional values – under pressure. It would have been preferable, from a constitutional standpoint, for the Government to have introduced the *Supplementary Estimates* into the House earlier, so as to have allowed time for adequate parliamentary scrutiny. Alternatively, the Government could have sought appropriations for the new expenditure initiatives through the *Estimates of Appropriations* for 2000-01.

Range of Supplementary Appropriations 1999-2000

Vote Finance \$123 million

This was for:

a once-only cash payment of \$120 million to the West Coast Region (for the “West Coast Package”) to an entity to be established; and

funding to enable a once-only capital injection of \$3 million into New Zealand Symphony Orchestra Limited (as part of the arts package).

Vote Culture and Heritage \$108 million

This was for a package of new measures in the arts and culture sector, branded collectively as *building cultural identity*. The package included:

\$20 million for Creative New Zealand

\$6.5 million for the Christchurch Art Gallery

\$0.3 million for the Edwin Fox Society

\$2 million for a newly established Music Commission

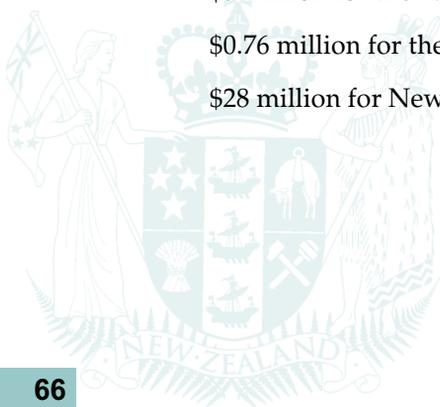
\$1 million for the New Zealand Film Archive

\$22 million for another new entity – New Zealand Film Production Fund Trust

\$3 million for the New Zealand Historic Places Trust

\$0.76 million for the Royal New Zealand Ballet

\$28 million for New Zealand On Air.



Vote Police \$95 million

This amount included:

\$6 million for new sworn staff

\$15 million to compensate for over-optimistic savings forecasts

\$7 million for loss on sale of assets relating to the Ngai Tahu settlement

\$66 million for writing down the value of the INCIS computer system.

Vote Defence \$73 million

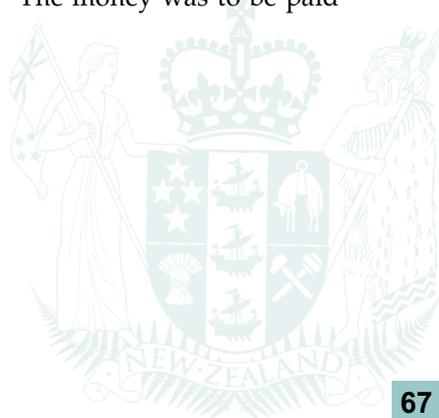
This was predominantly for new defence equipment purchases (see also the comments on this subject in paragraphs 3.501-3.507 on pages 56-58).

Vote Sport, Fitness and Leisure \$17 million

This was to provide new funding for the Sydney 2000 Olympics team (\$1 million) and to support high-performance sports people competing in key international sporting events (\$16 million).

Vote Maori Affairs \$15 million

This was for once-only funding for Maori development through language and culture. The money was to be paid to a trust to be established.



Vote Tourism \$10 million

The principal components were an expense transfer from the previous financial year of \$4.5 million for marketing New Zealand as a visitor destination, and a once-only grant of \$5.6 million for trade and tourism opportunities arising from the defence of the America's Cup in 2003.

Vote Business Development \$3 million

This was for the establishment costs and interim policy advice costs associated with the new Vote Economic Development and Vote Industry and Regional Development portfolios.

