



Sensitive expenditure

The basics

The most fundamental fact that applies to all spending by a public organisation is that it is spending public money. The spending has to be able to withstand scrutiny, from Parliament and from the public.

What is “sensitive expenditure”?

Sensitive expenditure is any spending by an organisation that could be seen to be giving private benefit to staff additional to the business benefit to the organisation.

Taking a principles-based approach

Public organisations should take a principles-based approach to making sensitive expenditure decisions. Although a principles-based approach requires careful judgement, it is also flexible and more enduring and practical to administer than a large number of rules.

There are principles that underpin decision-making about sensitive expenditure. Expenditure decisions should:

- **have a justifiable business purpose** that is consistent with the public organisation's objectives. A justifiable business purpose means a reason that would make clear sense, supported by evidence of the need for the spending and evidence that a range of options have been considered;
- **preserve impartiality**. Impartiality means decisions based on objective criteria, rather than based on any sort of bias, preference, or improper reason;
- **be made with integrity**. Integrity is about exercising power in a way that is true to the values, purposes, and duties for which that power is entrusted to, or held by, someone. It is about consistently behaving in keeping with agreed or accepted moral and ethical principles;
- **be moderate and conservative** when viewed from the standpoint of the public and given the circumstances of the spending. It includes considering whether the justifiable business purpose could be achieved at a lower cost;



- **be made transparently.** Transparency in this context means being open about the spending, and willing to explain any spending decisions or have them reviewed; and
- **be made with proper authority.** This means that the person approving the spending has the appropriate financial delegation to do so, for the type and amount of spending and follows correct procedures.

These principles should be applied together. None should be applied alone, and no principle should be treated as more important than any other.

Setting the tone at the top

In our view, responsibility rests with those “at the top” – that is, board members, chief executives, and senior management. They need to set the highest standard for what is and is not acceptable sensitive expenditure.

All leaders should actively promote ethical behaviours, through role modelling, reinforcement, and communication. They need to have clear policies and processes that apply to all staff, including the chief executive, senior management, and the board, and to actively model their own and others compliance with those policies.

For more information, see Part 2 of our good practice guide on controlling sensitive expenditure.

Policies and procedures

Leaders and senior managers can make sensitive expenditure decisions that Parliament and the public respect by dealing with sensitive expenditure properly and prudently.

Sensitive expenditure policies

Sensitive expenditure policies need to:

- make clear what types of expenditure are and are not allowed;
- outline clear approval processes that are specific about who approves what (including that expenditure should generally be approved before it is incurred) and any exceptions to that;
- set spending limits or boundaries and specify dollar limits and defined boundaries, where

practicable. Otherwise, the policies need to be clear about when people are expected to exercise careful judgement as to what is actual and reasonable;

- allow a manager discretion to grant an exception (management override) to a policy or procedure only in exceptional circumstances;
- specify the monitoring and reporting regime (including when exceptions to policies have been granted) and, where applicable, controls or checks that may be applied; and
- specify the requirements for review of the policies and procedures.

Procedures for approving sensitive expenditure

Sensitive expenditure should be approved only when:

- the person approving the expenditure is satisfied that it is for a justifiable business purpose that is consistent with the public organisation’s objectives, and all of the principles have been adequately met;
- approval is given before the expenditure is incurred, unless it is for small amounts (for example, taxi fares) and allowed in the organisation’s policies;
- the expenditure will be within budget and where delegated authority exists; and
- approval is given by a person who is senior to the person who will benefit (or might be perceived to benefit) from the sensitive expenditure. Where that is not possible, this should be recorded, and any such expenditure should be subject to some form of monitoring.

For more detailed information on preparing suitable policies and procedures for sensitive expenditure, please see Part 3 of our good practice guide on controlling sensitive expenditure.

Types of sensitive expenditure

Public organisations, and individuals making sensitive expenditure decisions, should consider the types of sensitive expenditure outlined in this section. These types of sensitive expenditure are not an exclusive list or a set of rules. Rather, they list issues in the main types of sensitive expenditure as we see them.

Expenses when travelling

Issues about expenditure on travel and accommodation, especially by governors, chief executives, and managers, are often brought to our attention.

Travel and accommodation expenditure should be economical and efficient, having regard to purpose, distance, time, urgency, and personal health, security, and safety considerations.

Public organisations should have travel policies and procedures that:

- consider technology-enabled solutions as opposed to travel in person;
- cover domestic and international travel;
- require written approval before travel;
- provide guidance on taking annual leave, staying away over weekends, stopovers, travelling with spouses or partners, and class of travel; and
- outline the monitoring and reporting arrangements.

For more information and guidance about expenses when travelling, please see Part 5 of our good practice guide.

Entertainment and hospitality expenditure

Expenditure on entertainment and hospitality is sensitive because of the range of purposes it can serve, the opportunities for private benefit, and the uncertainty as to what is appropriate.

We expect entertainment and hospitality expenditure to be:

- subject to policies that provide clear guidance about what is an acceptable level and type of expenditure and appropriate venues (for example, on seasonal occasions, such as a Christmas function);
- provided only when it is cost-effective and appropriate for the occasion;
- subject to policies that include a general prohibition on organisations paying for alcohol, except in specific circumstances and within prescribed limits; and

- supported by appropriate documentation that includes receipts, names of parties entertained, and the reasons for the entertainment and hospitality.

Part 6 of our good practice guide has more on the issues and principles about entertainment and hospitality expenditure.

Goods and services expenditure

This relates to obtaining, disposing of, or using goods and services that are not covered by terms and conditions of employment. For more information about the different types of good and services expenditure, please see Part 7 of our good practice guide.

Staff support and well-being expenditure

Public organisations can provide for staff support and well-being in various ways. The resulting benefits should be to both the organisation and the staff.

However, a public organisation also needs to be aware that payments for staff support and well-being could be seen as paying for what are ordinarily a staff member's personal and private expenses. This could be seen as additional remuneration for the staff member. In those circumstances, the organisation needs to consider the implications for such matters as tax liability and relevant employment agreements.

For more detailed information and guidance, including the different types of staff support and well-being expenditure, please see Part 8 of our good practice guide.

Other types of expenditure

For principles and guidance on expenditure for donations, gifts, and information communications technology, please see Part 9 of our good practice guide.