A Guide to Appropriations

November 2013
What’s New?


The document has been updated to reflect the changes made by the Public Finance Amendment Act 2013, the overall aims of which are:

- to bring about more meaningful performance reporting so as to tell an integrated performance story, and
- to increase financial flexibility while maintaining transparency and accountability.

Changes to this document include:

- clarifying responsibility for, and administration of, appropriations
- clarifying the circumstances in which one department can use an appropriation administered by another department (and that the provision for department-to-department appropriations no longer exists)
- the introduction of multi-category appropriations (MCAs) as an additional type of appropriation (and that the provision for multi-class output appropriations no longer exists), and
- shifting Parliament’s control over departmental capital from the net assets schedule to authorising capital injections to departments.

Appendix 1 provides some examples of transactions and events and indicates the type of appropriation required, if any.
Introduction

- Appropriations are the basis on which Parliament authorises the executive government to incur expenses and capital expenditure. Without parliamentary authority, the government has no authorisation to incur expenses and capital expenditure and spend public money and therefore cannot govern. As such, appropriations are an important aspect of both the constitutional framework of New Zealand and the state sector management system.

- This guide focuses on those rules for appropriations outlined in the Public Finance Act 1989 (the PFA 1989). The PFA 1989 requires each appropriation to be the responsibility of one Minister (or the Speaker) and to be administered by one department (or an Office of Parliament). Pages 3-4 outline what responsibility for, and administration of, an appropriation entail.

- The PFA 1989 prescribes that each appropriation must have four dimensions - type, amount, scope and period. Pages 5-13 discuss each dimension and provide departments with information to make sure appropriations they administer are legally robust and achieve the intended approvals.

- This guide does not cover the additional administrative requirements governing appropriations, such as when an item of capital expenditure should be referred to a Minister or Cabinet for approval. These requirements are set out in Cabinet Office Circulars, currently CO (10) 2 and CO (11) 6.

- Appropriations must be approved by an Act of Parliament and are subject to a process of parliamentary scrutiny. Pages 14-16 detail the parliamentary process for approving appropriations.

- Some provision is available to Ministers and departments to amend appropriations to adapt to changing circumstances. This is done through the granting of Imprest Supply, the baseline update process and also provisions to incur expenditure without appropriation in emergency situations. Page 17 discusses these provisions.

- If a situation exists where expenditure is incurred without an appropriation, or not in accordance with the approved dimensions of an appropriation, a situation of unappropriated expenditure exists. Unappropriated expenditure is unlawful and needs to be remedied. Pages 18-20 discuss unappropriated expenditure and the available remedies.

- The Auditor-General’s controller function to ensure expenditure is lawful is outlined on page 21.

- Appendix 1 (pages 22-23) provides some examples of transactions and events and indicates the type of appropriation required, if any.
Responsibility for, and Administration of, Appropriations

Each appropriation made to the Crown (s7C(2) PFA 1989):

- is the responsibility of a Minister (the **appropriation Minister**), and
- must be administered by one department (the **appropriation administrator**) on behalf of the appropriation Minister.

If an appropriation to the Crown is an appropriation for departmental expenses or a multi-category appropriation, any other department may incur expenses against the appropriation (s7C(2)(c) PFA 1989):

- at the direction of the appropriation Minister (eg, to provide specified services), or
- with the agreement of the appropriation administrator (eg, shared services, secondments).

The Speaker is responsible for appropriations to the Crown that are administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service (s7C(3) PFA 1989).

Each appropriation made to an Office of Parliament (s7C(4) PFA1989):

- is the responsibility of the Speaker, and
- must be administered by that Office of Parliament (the appropriation administrator).

The main responsibilities of the chief executive of a department that is an appropriation administrator are:

- To ensure expenses or capital expenditure incurred against each appropriation administered by the department remain within the amount, scope and period of that appropriation (s8, s9, s10 PFA 1989).
- To be responsible to the appropriation Minister for what is achieved with departmental expenses and departmental capital expenditure under appropriations administered by the department (s34(2)(a) PFA 1989) (unless an appropriation is used by another department or by a departmental agency at the direction of the appropriation Minister, in which case the other department or the departmental agency is responsible to the appropriation Minister for what is achieved (s34(3) PFA 1989)).
- To advise the appropriation Minister on the efficiency and effectiveness of expenditure under appropriations administered by the department (s34(2)(b) and s35(b) PFA 1989).
- To be responsible to the department’s responsible Minister for the financial management, financial performance and financial sustainability of the department (s34(1) PFA 1989). This includes financial management of, and reporting on, departmental appropriations administered by the department (s36(1) and s45A PFA 1989).
• The financial management of, and financial reporting on, appropriations for non-
departmental expenses and non-departmental capital expenditure administered by
the department (s35(a) and s45A PFA 1989).
Dimensions of Appropriations

Type

There are seven types of appropriation set out in s7A(1) of the PFA 1989. Every expense or item of capital expenditure incurred by the Crown (other than a loss as a result of a measurement or an operating loss by a body owned by the Crown) must be allocated to one of these appropriation types.

Output Expenses

- Output expenses are the most common type of appropriation. Each appropriation must contain a category (class) of outputs (goods and services) that is to be supplied.
- Output expense appropriations can be departmental or non-departmental. Departmental output expense appropriations can be revenue dependent.
- Most departments will administer multiple departmental output expenses and therefore it is important to think of these appropriations working together as a set of appropriations as well as individual appropriations in their own right.

Establishing and Maintaining Output Classes

When creating, amalgamating or reviewing an output class, or a set of output classes, thought should be given to the following principles for good output classes:

1. An output class should have an external focus. The scope statement must relate to the final goods and services that are produced, not intermediate goods and services, a performance specification, or a description of the process used to create them.

2. Aggregation should be at a level that conveys a meaningful understanding of the outputs being reported, that is, not at a level so high as to cover or obscure the key outputs or at a level so low as to result in listings of outputs that are too detailed.

3. It should cover goods and services that are similar in nature. Dissimilar goods and services should NOT be included in the same output class even if they contribute to the same outcome, are used by the same people, produced in the same location or represent an organisation’s structure. Aggregation of outputs based on the outcomes to which they relate could lead to dissimilar outputs being grouped and could reduce the understandability of reporting information to the reader.

4. Output class appropriations must be mutually exclusive from all other appropriations so that expenditure can fall into only one output class. If flexibility between output classes is desired then a multi-category appropriation (MCA) can be used (however, each category of outputs within the MCA must be mutually exclusive).

5. The outputs covered by the scope statement must be controllable by the agency or at least include only actions that the agency has reasonable influence over.

6. Appropriations must be comprehensive to include all of the goods and services that will be supplied or met by the department. Any costs incurred on outputs that are
not within a scope statement will not have been authorised by Parliament and will therefore be unlawful.

7. A scope statement must be verifiable so that an auditor and Parliament can be sure that a department has not exceeded its authority.

8. To assist readers a scope statement of an output class appropriation should be informative.

A discussion of scope in general follows on page 11.

**Departmental v Non-departmental**

- A category (class) of outputs can either be supplied by a department (in which case it is labelled a departmental output expense) or to, or on behalf of, the Crown (in which case it is labelled a non-departmental output expense) (definitions of “departmental” and “non-departmental” in s2 PFA 1989).

- The department’s chief executive is responsible for what is achieved with departmental appropriations and can decide whether to make the required outputs in-house or buy them in.

- Non-departmental output expense appropriations are where Ministers have decided to use a supplier other than a department to provide an output. Most commonly these appropriations fund Crown entities and non-governmental organisations (NGOs).

**Revenue Dependent Appropriations (RDA)**

- Revenue dependent appropriations (RDAs) allow departments or Offices of Parliament to incur expenses in supplying a specified class of outputs that are not paid for directly by the Crown (s21 PFA 1989).

- Expenses incurred under RDAs are limited to the amount of revenue that is earned by a department or Office of Parliament from other departments or entities other than the Crown during the period of the appropriation.

- A proposed revenue dependent appropriation must be approved by the Minister of Finance prior to being presented in the Estimates.

- All titles of this type of appropriation must include RDA at the end to inform readers that the appropriation is an RDA.

**Benefits or Related Expenses**

- This appropriation type is used when the Crown wishes to transfer resources (usually to individuals) and does not expect anything directly in return.

- Scope statements for these appropriations should reference the relevant authority or source of eligibility (whether it is legislation, government policy, or an approvals process) if this source of authority is enduring throughout the year (ie, the scope statement should not reference a policy that is likely to change as this could cause a problem with expenditure falling outside scope, unless restricting scope in this way is the intention).
Examples of this appropriation type include social security benefits, student allowances, and education scholarship payments.

**Borrowing Expenses**

- Borrowing expense appropriations are used to authorise the payment of interest, other financing expenses on loans, or public securities issued by the Crown.
- Borrowing expense appropriations can be either departmental or non-departmental, but in practice only Offices of Parliament could have a departmental borrowing expense appropriation due to departments being unable to borrow.
- The scope statement for a borrowing expense appropriation should reference the purpose of the borrowing.
- Most borrowing expense appropriations appear in Vote Finance and Vote Revenue.

**Other Expenses**

- Other expenses are a residual type of expense appropriation that covers expenditure that is not readily classified as one of the other three expense appropriation types. It should not be used if an appropriation could be classified as one of the other types.
- Other expenses can be both departmental and non-departmental.
- Departmental other expense appropriations are rare and primarily used for permanent legislative authorities (PLAs) authorising the payment of salaries for Officers of Parliament, such as the Auditor General and the Ombudsmen.
- Non-departmental other expenses are more common and include subscriptions for memberships of international organisations and remuneration of statutory office-holders, such as judges, coroners and Public Service chief executives.
- The requirements for scope statements for other expenses depend on the nature of the expense.
- If the expense is similar in nature to an output then the principles for output class scope statements should apply.
- If the expense resembles more of an input, then the scope statement should detail the type of expense and make reference to any entitlement criteria.

**Capital Expenditure**

**Departmental**

- Departmental capital expenditure funded from a department’s balance sheet is authorised by a permanent legislative authority (PLA) under s24(1) of the PFA 1989. Like all other PLAs this appropriation needs to be included in the Estimates.
- The amount of the appropriation should be the forecast amount to be spent for the budget year rather than an approved amount (as the appropriation is a PLA). This amount is gross (not netted off with reductions in the value of other assets held or disposed of) and must not exceed a department’s expected working capital and the proceeds of the sale or disposal of its assets during the year.
• Should a department require an increase in its working capital, the appropriate mechanism is not to increase the capital expenditure PLA, but to have the necessary capital injection authorised by Parliament in an Appropriation Act (s12A 1989 PFA).

Non-departmental

• Non-departmental capital expenditure appropriations take a more conventional form than departmental capital expenditure appropriations.

• Appropriations of this type are used to authorise capital expenditure incurred by the Crown (excluding departments) to acquire or develop Crown assets, including the purchase of equity, or making a loan to a person or organisation that is not a department.

• A scope statement for capital expenditure should provide a description of the asset to be acquired or developed.

• Common examples of non-departmental capital expenditure appropriations include equity injections for Crown entities, loans to Crown entities, SOEs or parties outside the Crown, and development of physical assets.

Intelligence and Security Departments

• Due to the sensitive nature of their work the intelligence and security departments have a special type of appropriation (s7(A)(1)(f) PFA 1989).

• This appropriation type authorises in a single appropriation both expenses and capital expenditure for the New Zealand Security Intelligence Service or the Government Communications Security Bureau.

Multi-Category Appropriations (MCAs)

• MCAs can be used to provide increased financial flexibility across a number of categories of expenses and non-departmental capital expenditure that all contribute to a single overarching purpose, while preserving transparency about what is achieved with each category of an MCA.

• An MCA (s7A(1)(g) PFA 1989) consists of two or more categories of:
  - Departmental or non-departmental output expenses.
  - Departmental or non-departmental other expenses.
  - Non-departmental capital expenditure.

• An MCA must (s7B PFA 1989):
  - be approved by the Minister of Finance, who in conjunction with the appropriation Minister can impose conditions on the transfer of resources between categories of an MCA, and
  - include only categories of expenses or non-departmental capital expenditure that contribute to a single overarching purpose.
• The amount of an MCA is for the MCA as a whole (the amount of each category of the MCA is a forecast of expenditure).

• The scope of an MCA is the scope of each of the individual categories of expenses or non-departmental capital expenditure included in the MCA (s9(2)(a) PFA 1989).
Amount

- Amount is the most obvious constraint placed on an appropriation (s8 PFA 1989).
- The amount is the upper limit of the financial authority that Parliament has granted to the Crown to incur expenses or capital expenditure within the scope of the appropriation.
- The notion of upper limit is important – the amount provides a Minister (and therefore departments acting on the Minister’s behalf) authority to spend up to, and not beyond, the specified figure.
- The amount of an appropriation does not provide the Crown with an obligation to incur any expenses. If it is possible to achieve the purpose of the appropriation for less than the amount attributed to the appropriation then departments should obviously do that.
- If the amount is exceeded then the excess expenditure is unlawful.
- Remedies for unappropriated expenditure are discussed on pages 18-20.
Scope

A further dimension of an appropriation is its scope (s9 PFA 1989). Scope establishes the legal boundary of what an appropriation can be used for and, by omission, what it cannot.

What is Scope?

- The scope establishes the limits of what an appropriation can be used for; its legal boundary.
- The scope is specified in a short statement.
- The purpose of a scope statement is to provide an effective constraint against unauthorised activity while not inappropriately constraining activity intended to be authorised.
- A scope statement is not a performance measure and should not express the results desired from the appropriation. However, a scope statement should always be consistent with the performance information that relates to the same appropriation in the Information Supporting the Estimates and other accountability documents.
- The scope of an appropriation is limited to the words used in the scope statement and does not include the appropriation title or any other explanations included in the wider budget documentation (further information on title is on page 13).

What Makes a Good Scope Statement?

- A good scope statement should be clear, meaning that it should be well written, informative and jargon-free.
- It must be comprehensive, covering all uses for the expenses or capital expenditure intended to be within its boundary.
- It should also be balanced to ensure that it is not so restrictive that it excludes intended purposes unnecessarily.
- It should provide a defined boundary and, as such, we recommend that new or significantly modified scope statements include a stem (common starting statement) of “This appropriation is limited to” or, for a category of expenses or capital expenditure within an MCA, “This category is limited to”.

For advice on requirements of scope statements driven by an appropriation type (especially in relation to output expense appropriations) refer to the type section on pages 5-9.

Maintaining Scope Statements

- It is recommended that departments review scope statements annually at the beginning of the budget cycle (October–December) to ensure that they are up to date (eg, do not reference out-of-date legislation) and present no significant legal risks to the Crown (for example, by not being comprehensive).
Period

The further dimension of an appropriation is the period for which it is valid (s10 PFA 1989). There are three different periods that an appropriation can be granted for:

Annual

- The vast majority of all appropriations are annual appropriations.
- Annual appropriations are granted for one financial year from 1 July to 30 June and lapse at the end of the year.
- Annual appropriations are approved by Parliament through the Appropriation Acts.
- Governments may determine rules for transferring expenses or capital expenditure between financial years and seeking re-appropriation.

Multi-year

- Multi-year appropriations (MYAs) give authority to Ministers to incur expenses and capital expenditure for a maximum of 5 financial years (s10(2) and (3) PFA 1989).
- Like annual appropriations, MYAs are specified in the Appropriation Act. However, unlike annual appropriations and PLAs, MYAs appear in their own table in the respective Estimates vote chapters (although they are included in the summary tables based on an estimate of annual expenditure).
- MYAs are generally used in situations where well defined and self contained outputs or capital expenditure fall across two or more financial years but the timing of those outputs or capital expenditure between the years is uncertain.
- The Vote Statistics appropriation for the 5-yearly census is a good example of an appropriate use of an MYA.

Permanent

- PLAs (defined in s2 PFA 1989) are appropriations granted in Acts other than an Appropriation Act. PLAs are generally provided in three particular circumstances. These are where:
  - approval is needed for spending of a technical nature (for example, the departmental capital PLA and the GST PLA)
  - the Government needs to give assurance about its ability to make payments (for example, debt repayments in Vote Finance), or
  - Parliament wishes to signal a commitment not to interfere in certain transactions (for example, the PLA in Vote Courts for salaries of the judiciary).
- PLAs must still be managed and accounted for in the same manner as all other appropriations (s11(2) PFA 1989) and therefore must appear in the Estimates.
- Scope statements of PLAs must cite the legislative authority (the Act and the section of that Act) that created the appropriation.
**Title**

The final component of an appropriation is its title.

- Unlike amount, scope and period, the title does not form part of the legal boundary of the appropriation and is not considered a formal dimension of an appropriation. The title is included for information purposes only.

- Good titles should be short, descriptive and jargon free. Acronyms should not be used unless well known by the public (eg, District Health Boards).

- For output expenses, titles should focus on the nature of the service provided. For other expenses titles should focus on the purpose or use of the appropriation.

- Titles need to be informative – generic titles like sector leadership and support, and contestable services should be avoided.

- Appropriations that have a distinguishing feature (PLA and RDA) must include the appropriate abbreviation at the end of the title to inform readers that the appropriation has that characteristic.

- No two appropriations within a vote should have the same title. If the same project is funded by two appropriations (for example a departmental output class and a non-departmental output class) titles may be similar, but there must be some distinguishing feature between the two.

- Categories within an MCA, PLA and RDA, must not have a title that is same as any other appropriation or category within the vote. Having the abbreviation PLA or RDA at the end of the title is not sufficient difference.

- All appropriation titles must include the code for the appropriation Minister (eg, M1) in brackets at the end of the title.

- Titles should be free of spelling mistakes.
How Parliamentary Authority is Provided

First Imprest Supply Act

- The Imprest Supply (First for [financial year x]) Act provides the sole parliamentary financial authority (other than PLAs and MYAs already in force) from the start of a financial year on 1 July until the date the Appropriation ([financial year x] Estimates) Act comes into force (usually in August).
- The Imprest Supply (First for [financial year x]) Bill is introduced on the same day in June as the second reading of the Appropriation ([financial year x-1] Supplementary Estimates) Bill is to take place, and the second readings of both Bills are debated together. All stages of an Imprest Supply Bill may be taken on the same day.

Appropriation (Estimates) Act and the Main Estimates

- The Appropriation ([financial year x] Estimates) Bill is introduced on Budget day (and must be introduced by 31 July unless the House resolves otherwise). The Minister of Finance delivers the Budget statement in moving the second reading of this Bill, and the Budget debate is the second reading debate on this Bill.
- The Estimates stand referred to the Finance and Expenditure Committee and may be referred to other select committees, but Appropriation Bills themselves are not referred to select committee.
- Select committees have 2 months from Budget day to report to the House on their examination of the Estimates. Standing Orders require the Estimates debate (the committee of the whole House stage of the Appropriation ([financial year x] Estimates) Bill) and the third reading debate on that Bill to be completed between 2 and 3 months after Budget day.

......plus Second Imprest Supply Act

- The third reading of the Appropriation ([financial year x] Estimates) Bill is customarily debated with the second reading of the Imprest Supply (Second for [financial year x]) Bill. The latter Bill provides parliamentary financial authority for expenses or capital expenditure approved by Cabinet or under authority from Cabinet since the Estimates were finalised.
- From the date the Appropriation ([financial year x] Estimates) Act and the Imprest Supply (Second for [financial year x]) Act come into force, these 2 Acts between them provide parliamentary financial authority through to the end of the financial year.
Appropriation (Supplementary Estimates) Act and Supplementary Estimates

- Expenses or capital expenditure that were not in the Estimates and thus not appropriated in the Appropriation ([financial year x] Estimates) Act and are incurred under imprest supply need to be included in the Supplementary Estimates for financial year x.

- In recent years, the Appropriation ([financial year x] Supplementary Estimates) Bill has been introduced on Budget day. The Supplementary Estimates stand referred to the Finance and Expenditure Committee which typically reports back to the House on them about mid-June to enable the Appropriation ([financial year x] Supplementary Estimates) Bill to be debated and passed before the end of the financial year.

- From the date the Appropriation ([financial year x] Supplementary Estimates) Act comes into force, it alters the parliamentary financial authority provided by the Appropriation ([financial year x] Estimates) Act.

- The Imprest Supply (Second for [financial year x]) Act remains in force until the end of financial year x to provide interim parliamentary authority for any expenses or capital expenditure approved for that financial year since the Supplementary Estimates were finalised.

Financial Review

- After the financial statements of the government for financial year x have been published and presented to the House, an Appropriation ([financial year x] Financial Review) Bill is introduced.

- The purpose of this Bill is to seek:
  - Parliamentary confirmation of any Orders in Council transferring resources between output expense appropriations made under s26A PFA 1989.
  - Parliamentary confirmation of any approvals to expenses or capital expenditure in excess of appropriation given by the Minister of Finance under s26B PFA 1989.
  - Parliamentary validation of any other unappropriated expenses or capital expenditure for financial year x or any previous financial year.

- The only debate on the Appropriation ([financial year x] Financial Review) Bill is the financial review debate (the committee of the whole House stage of the Bill). The financial review debate considers:
  - the financial position as reflected in the report of the Finance and Expenditure Committee on the annual financial statements of the government for financial year x
  - the financial reviews by select committees of the performance in financial year x and the current operations of individual departments and Offices of Parliament, and
- reviews of reports on non-departmental appropriations.

- Standing Orders require the financial review debate to be held no later than 31 March.

- Standing Orders also require the House each year to hold a separate debate on select committees’ financial reviews of Crown entities, public organisations, and State enterprises.

The diagram below shows how the cycle of bills fit together.

<table>
<thead>
<tr>
<th>Before Start of Financial Year</th>
<th>During the Financial Year</th>
<th>After the Financial Year</th>
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</thead>
<tbody>
<tr>
<td>May</td>
<td>Appropriation (200X/XY Estimates) Bill introduced</td>
<td>Provides parliamentary authority for individual appropriations of expenditure.</td>
</tr>
<tr>
<td>June</td>
<td>Imprest Supply (First for 200X/XY) Bill introduced and passed</td>
<td>Provides parliamentary authority to spend in advance of the Appropriation Act being passed.</td>
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<td></td>
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</tr>
<tr>
<td>August</td>
<td>Appropriation (200X/XY Estimates) Bill passed</td>
<td>At the same time the first Imprest Supply Act is repealed.</td>
</tr>
<tr>
<td></td>
<td>Imprest Supply (Second for 200X/XY) Bill introduced and passed</td>
<td>Provides parliamentary authority to spend amounts over those in the Estimates and in advance of the Supplementary Estimates Act being passed.</td>
</tr>
<tr>
<td></td>
<td>Appropriation (200X/XY Supplementary Estimates) Bill introduced</td>
<td>Provides parliamentary authority for changes to individual appropriations of expenditure.</td>
</tr>
<tr>
<td></td>
<td>Appropriation (200X/XY Supplementary Estimates) Bill passed</td>
<td>Makes fiscally neutral transfers between output expense appropriations by Order in Council to avoid exceeding amounts.</td>
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<tr>
<td></td>
<td>Public Finance (200X/XY Transfers Between Outputs) Order made (See page 18)</td>
<td></td>
</tr>
<tr>
<td>October/ November</td>
<td>Appropriation (200X/XY Financial Review) Bill introduced</td>
<td>Validates and confirms all spending not previously appropriated.</td>
</tr>
<tr>
<td>March</td>
<td>Appropriation (200X/XY Financial Review) Bill passed</td>
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Adaptability to Changing Circumstances

Appropriations are set at a fixed point in time and need to be able to respond to unanticipated changes in Ministers' priorities, the economy, or within departments. Therefore a certain amount of flexibility has been built into the system to respond to changing circumstances while still maintaining Parliament's control of public finances.

Imprest Supply

- When additional or increased appropriations are required, imprest supply (as described in the previous section of this guidance) can be used by Ministers to provide the necessary authority.

- All increases in appropriations (other than via Minister of Finance approval under s26B PFA 1989) that are approved outside the budget process need to have a specific Cabinet decision that they are met from imprest supply until they can be appropriated.

Authority to Use Resources in an Emergency

- In the event of a national disaster or civil emergency, the government may need to act quickly and use resources for which it does not have an appropriation.

- In such situations the government has the ability to incur emergency expenses or capital expenditure without an appropriation (s25 PFA 1989) or to make emergency capital injections to departments without parliamentary authority (s25A PFA 1989).

- No limits apply in this situation but a statement about any amounts incurred or injections made must appear in the Financial Statements of the Government and an Appropriation (Financial Review) Bill for confirmation.

- These provisions are seldom used as imprest supply is usually sufficient to respond to most natural disaster or civil emergency situations. They were used in relation to the February 2011 Canterbury Earthquakes.

Transfers between Appropriations

- It is also possible to transfer amounts between appropriations during a financial year or from one year to another. The rules that guide this process are currently set out in Cabinet Office Circular CO (11) 6.

- If a transfer between appropriations (or periods) is deemed not to represent a significant policy change it can be approved by joint Ministers. Transfers of this nature are usually completed through the two baseline update processes in March and October of each year and are given parliamentary approval through the Appropriation (Supplementary Estimates) Bill.

- If a transfer between appropriations represents a significant policy change then the change requires Cabinet approval. The process is the same as for a new initiative and requires explicit authorisation for the increase in appropriation to be charged against imprest supply in the interim.
Unappropriated Expenses and Capital Expenditure and Unauthorised Capital Injections

- Expenses and capital expenditure that exceed the appropriated amount, fall outside the scope of the appropriation, are not in the prescribed period or are not covered by an appropriation at all have not been appropriated by Parliament and are therefore unappropriated.

- Capital injections made without authority under an Appropriation Act (or approval under s25A PFA 1989) are unlawful unless validated by Parliament in an Appropriation (Financial Review) Act.

- Several remedies exist under the PFA 1989 for a situation of unappropriated expenditure or unauthorised capital injections.

- Treasury releases a circular each year detailing the deadlines that departments need to meet for each of these remedies.

- The Auditor-General also exercises a controller function (see page 21) to monitor the compliance of departments with appropriations.

Order in Council (s26A PFA 1989)

- Ideally, unappropriated expenditure should be met from existing resources within the vote.

- Under s26A of the PFA an Order in Council may transfer resources between output expense appropriations within a single vote, so long as the transfer does not increase the recipient output expense appropriation by more than 5% and the Order in Council is made prior to 30 June.

- A department must still obtain authority to incur expenses in advance of the Order in Council. As the Order in Council is unlikely to be made until near the end of June, departments need to seek interim authority under Imprest Supply.

- Only one transfer can be made to an appropriation each year.

- Transfers cannot be made from MYAs, PLAs and RDAs.

Minister of Finance Approval (s26B PFA 1989)

- The Minister of Finance may approve expenses or capital expenditure in excess of appropriations within the following limits:
  - expenditure must be within the scope of an existing appropriation
  - the expenditure in excess of the appropriation must be incurred in the last three months of the fiscal year, and
  - the cumulative total of such approvals for a single appropriation may only be up to the greater of $10,000 or 2% of the appropriation.
• Where possible, departments should seek approval before the expenditure is incurred.

• If adequate justification exists, it is possible to gain a retrospective approval from the Minister of Finance. This should be avoided though as the expenditure will be illegal at the time that it is incurred. If the justification is not adequate, validating legislation under s 26C will be required.

• Unlike an approval under s26A this approval is only a 1 step process. Therefore Imprest Supply is not required as the Minister of Finance’s approval is final.

• This approval cannot apply to breaches of capital injection authorities.

**Interim Authority under Imprest Supply**

• If a potential breach of appropriation is identified in advance and does not meet the criteria for approval under s26A or s26B, then a department should seek interim authority under Imprest Supply in advance of the expenditure being incurred.

• Anticipated breaches in the following areas should seek interim authority under Imprest Supply:
  - Capital injections that have not been authorised in an Appropriation Act or that are in excess of such authority.
  - Expenses or capital expenditure outside the scope of an appropriation (ie, where no appropriation exists).
  - Expenses or capital expenditure in excess of the amount of an appropriation where the use of s26A or s26B is not appropriate.

• Interim authority under Imprest Supply usually requires Cabinet approval unless it falls within an authority joint Ministers have from Cabinet.

**Validating Legislation (s26C PFA 1989)**

• Validating legislation is the most serious remedy for unappropriated expenditure and should be used only when none of the other options is available.

• Validation provides retrospective approval for:
  - exceeding capital injection authorities
  - expenses or capital expenditure outside the scope of appropriation (ie, where no appropriation exists), or
  - expenses or capital expenditure in excess of the amount of an appropriation that is not able to be addressed through the other remedies.
- It is important to note that, if an appropriation has been exceeded during the year (either in respect of amount or scope), and a department has subsequently sought a change in the appropriation, this change only applies for the appropriation going forward. The initial breach must be validated (usual course of action) or approval obtained from the Minister of Finance under s26B PFA 1989.
Controller Function

- In addition to identification by departments of unappropriated expenditure, the Auditor-General exercises a controller function to ensure that appropriations are being incurred for purposes that are lawful and within the agreed scope, amount and period.

- The Auditor-General can direct a Minister to report to the House of Representatives if the Auditor-General has reason to believe that any expenditure that has been incurred is applied for a purpose that is not within scope, amount, or period or is for any other reason unlawful (s65Z PFA 1989).

- The Auditor General can stop payments to a Crown bank account or a departmental bank account to prevent money being paid out of the account that may be applied for a purpose that is unlawful or that is inconsistent with any appropriation or other statutory authority or is for any other reason unlawful (s65ZA PFA 1989).
# Appendix 1: Examples

This appendix provides some examples of transactions and events and indicates the type of appropriation required, if any. The section references in the table refer to the PFA 1989.

<table>
<thead>
<tr>
<th>Transaction or event</th>
<th>Appropriation required?</th>
<th>Yes/No</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of GST on purchases</td>
<td>No</td>
<td></td>
<td>GST is not an expense and therefore does not require appropriation. Authority to pay GST is provided by s6(b).</td>
</tr>
<tr>
<td>Purchase of a departmental asset</td>
<td>Yes. but refer s24(1)</td>
<td></td>
<td>The purchase of a departmental asset is capital expenditure. Capital expenditure must not be incurred unless it is in accordance with appropriation or statutory authority. The purchase or development of assets does not require annual appropriation if the expenditure is funded by the proceeds of sale or disposal of the department’s assets or from working capital (s24(1)).</td>
</tr>
<tr>
<td>Cash settlement of an existing liability</td>
<td>No</td>
<td></td>
<td>Cash settlement of a liability does not involve the creation of an expense - this occurs when a liability is created or increased. Hence an appropriation is required when a liability is established or increased but no appropriation is required when a liability is settled. Authority to settle existing liabilities is provided by s6(d) and s24(2).</td>
</tr>
<tr>
<td>Capital contribution to a department (other than an intelligence and security department)</td>
<td>No, but an authorisation in an Appropriation Act is required</td>
<td></td>
<td>A capital contribution to a department does not result in the incurrence of an expense or a capital expenditure. However, capital injections to departments (other than an intelligence and security department) are required to be authorised by Parliament in an Appropriation Bill (s12A).</td>
</tr>
<tr>
<td>Departmental provision for restructuring</td>
<td>Yes</td>
<td></td>
<td>Departmental other expenses where the expense relates to a decision to cease production of certain outputs. Departmental output expenses where no such decision.</td>
</tr>
<tr>
<td>SOE or Crown entity makes loss for year</td>
<td>No</td>
<td></td>
<td>Excluded from the definition of an expense (s4(2)).</td>
</tr>
<tr>
<td>Depreciation of departmental asset</td>
<td>Yes</td>
<td></td>
<td>Departmental output expenses</td>
</tr>
<tr>
<td>Depreciation of non-departmental asset</td>
<td>Yes</td>
<td></td>
<td>Generally non-departmental other expenses.</td>
</tr>
<tr>
<td>Loss on revaluation of asset (departmental and non-departmental)</td>
<td>No</td>
<td></td>
<td>As long as the loss met the criteria for being a remeasurement (that is, it was not the result of a government decision), no appropriation would be required.</td>
</tr>
<tr>
<td>Foreign exchange loss - departmental</td>
<td>No</td>
<td></td>
<td>Remeasurement</td>
</tr>
<tr>
<td>Foreign exchange loss - non-departmental</td>
<td>No</td>
<td></td>
<td>Remeasurement</td>
</tr>
<tr>
<td>Crown land with a market value of $10m and a carrying value of $5m sold for $7m</td>
<td>Yes</td>
<td></td>
<td>Crown assets are to be revalued to fair value prior to sale. Therefore an appropriation for $3m (amount sale price is less than market value) would be required (other expense).</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Transaction or event</th>
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<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crown land with a market value of $10m and a carrying value of $5m sold for $2m</td>
<td>Yes</td>
<td>Crown assets are to be revalued to fair value prior to sale. Therefore an appropriation for $8m (amount sale price is less than market value) would be required (other expense).</td>
</tr>
<tr>
<td>Crown land with a market value of $4m and a carrying value of $5m sold for $2m</td>
<td>Yes</td>
<td>Crown assets are to be revalued to fair value prior to sale. The change to $4m would not require appropriation because it is a remeasurement. The $2m loss on sale would require an appropriation (other expense).</td>
</tr>
<tr>
<td>Write-off or forgive a Crown debt</td>
<td>Yes</td>
<td>Non-departmental other expense</td>
</tr>
<tr>
<td>Reduce a Crown debt to its recoverable amount</td>
<td>No</td>
<td>Remeasurement</td>
</tr>
</tbody>
</table>