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Budget 2010: a guide. Part 1: Overview of the financial cycle and published reports

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Parliamentary Library Research Paper

SUMMARY

- ▶ This paper outlines the financial cycle and the published reports that make up the annual financial process of the Government of New Zealand.
- ▶ Part 2 is a guide to finding information in the budget documents.

The role of Parliament

The Crown cannot spend public money, levy taxes, or raise loans without the authority of Parliament. Public expenditure is authorised through a variety of annual Acts which mostly lapse at the end of the specified financial year. The Treasury and Controller and Auditor-General check for this Parliamentary approval before allowing money to be paid from the Crown Bank Account.

Parliament's role in scrutinising proposed and past Government expenditure and the annual performance of Crown agencies is led by the **Finance and Expenditure Committee (FEC)**. This Committee allocates tasks such as the review of individual Vote estimates and annual performance of departments to other select committees as it sees fit.

Financial reporting requirements

Authorised expenditure must be linked to measurable outputs, or goods and services, to be provided by departments or third parties, or to transfer payments, other expenses or capital expenditure. These outputs are designed to contribute to outcomes, the impacts on the community of the outputs or activities of the Government. Regular reporting on the cost and

delivery of outputs is required in the Budget documents by statute. Reporting is not required on whether the related outcomes are being achieved.

Departments and other Crown entities report their financial results using accrual accounting techniques which are comparable to company reporting.¹ This provides more detail on the economic impact of decisions and the full cost of output production than did the previous method of cash accounting.² A financial year for Government expenditure is termed a fiscal year, and begins on the 1st July and runs through to the end of the following June.

The Public Finance Act 1989 sets out the latest tabling date for the Budget, minimum financial reporting requirements for the Crown, departments, and Offices of Parliament, and a number of management requirements for public funds. It also ensures accountability and transparency for the Budget through a number of required financial reports.³

Early warning of the Budget policy framework is required in the form of a Budget Policy Statement (BPS) to be published before the end of March each year. Current and medium-term (three yearly) budget information is contained in regular Economic and Fiscal Updates (EFU). Long-range forecasts (at least ten years) and comparisons of consistency between the BPS and the EFU are contained in the Fiscal Strategy Report (FSR). At least every four years, the Treasury has to produce a statement on the Long-Term Fiscal Position (looking ahead 40 years or more), based on their “best professional judgements about the risks and the outlook”. The initial statement was tabled in Parliament on 27 June 2006, while the latest statement was tabled on 29 October 2009.⁴

¹ Accrual accounting is an accounting method which is based on measuring the full cost of resources consumed in the production of outputs during the reporting period. It measures expenses when incurred and revenue when earned. Assets such as debtors, and liabilities such as creditors, are also measured.

² The accrual basis of accounting relates all financial activity to the period in which the activity occurs, regardless of whether money changes hands. It keeps track of assets and liabilities and records changes in their values. Assets and liabilities that can be accounted for more accurately with accrual accounting include debtors, creditors, non-financial assets (e.g. roads, buildings), and non-cash liabilities (e.g. unfunded pensions), and effects from exchange rate movements.

³ The Fiscal Responsibility Act 1994 was integrated into the Public Finance Act 1989 with the passing of the Public Finance Amendment Act 2004. This Act also repealed the Fiscal Responsibility Act 1994.

⁴ The Treasury. *New Zealand's Long-Term Fiscal Position*. 27 June 2006. <http://www.treasury.govt.nz/government/longterm/fiscalposition/2006>

The Treasury. *Challenges and Choices: New Zealand's Long-Term Fiscal Statement*. 29 October 2009. <http://www.treasury.govt.nz/government/longterm/fiscalposition/2009>

Public documents relating to the Budget

Appropriations are for specific purposes, and are grouped into **Votes**. Each Vote is usually administered by one department, but can be under the responsibility of more than one Minister.⁵ The Votes are arranged alphabetically in the **Estimates of Appropriations** and are often dealt with separately by the select committees and in the main Budget debate in the House. In the **Information Supporting the Estimates of Appropriations**, further Vote details are provided. There are ten volumes arranged by sector (groupings of related Votes). Each sector publication is broadly associated with an individual Select Committee (along subject area lines). The ten sectors are as follows:

- Vol.1 Economic Development and Infrastructure Sector
- Vol.2 Education and Science Sector
- Vol.3 Environment Sector
- Vol.4 External Sector
- Vol.5 Finance and Government Administration Sector
- Vol.6 Health Sector
- Vol.7 Justice Sector
- Vol.8 Māori, Other Populations and Cultural Sector
- Vol.9 Primary Sector
- Vol.10 Social Development and Housing Sector

The Budget is usually presented to the House in May or June at 2 p.m. on a Thursday. The date is announced in advance, with the 2010 Budget taking place on Thursday 20th May. Section 12 of the Public Finance Act 1989 requires that the Estimates have to be tabled by 31 July at the latest (one month after the beginning of the financial year). Appendix 1 provides the dates of each Budget Day from 1970 to 2009, along with the Minister who presented the Budget to the House. The following documents are presented together, and collectively form the Budget for the coming fiscal year. The shoulder numbers are noted in italics.⁶

- Appropriation (Estimates) Bill
- Budget Executive Summary
- Financial Statement (the Budget speech) (*B.2*)
- Fiscal Strategy Report (FSR) (usually combined with Financial Statement, *B.2*)
- Budget Economic and Fiscal Update (BEFU) (*B.3*)
- Estimates of Appropriations (“the Estimates”) (*B.5*)
- Information Supporting the Estimates of Appropriations (*B.5A Vols 1-10*)
- Statements of Intent (SOI) (*various shoulder numbers*)
- And for the current fiscal year
- Supplementary Estimates of Appropriations (the “Supplementary Estimates”) (*B.7*)
- Appropriation (Supplementary Estimates) Bill

A number of other documents are published before the Budget, as interim updates or end of year summaries. The major documents and an indication of the type of data they contain are

⁵ With the passing of the Public Finance Amendment Act 2004, from 1 July 2005 more than one Minister is able to hold responsibilities within a Vote. However it is clear in the Estimates of Appropriations which Minister is answerable to Parliament for each appropriation.

⁶ All Parliamentary Papers (which are papers that must be printed and tabled in the House) have a shoulder number which consists of a classification (a letter and a number, e.g. B.7). These shoulder numbers are located in the top right hand corner of the publication's pages.

summarised in Table 1. Part 2 of this Research Paper provides a guide to reading these documents.

Table 1: The main documents relating to the Budget, and the type of information they contain

	Overview data		Detail to output level	Historic data			Forecast data		
	whole economy	total for the Crown		five year trend	past year	this year	next year	3 yrs	10 yrs
<i>Pre-Budget</i> Budget Policy Statement		✓				✓	✓	✓	
<i>Budget package</i> Fiscal Strategy Report		✓				✓	✓	✓	✓
Budget Economic and Fiscal Update	✓	✓			✓	✓	✓	✓	
Estimates of Appropriations			<i>by Vote</i>			✓	✓		
Information Supporting the Estimates of Appropriations (arranged by Sector)			<i>By Vote</i>	✓	✓	✓	✓	✓	
Supplementary Estimates of Appropriations			<i>by Vote</i>			✓			
Forecast financial statements			<i>by Dep't</i>			✓	✓		
Appropriation (Supplementary Estimates) Bill			<i>by Vote</i>			✓			
Appropriation (Estimates) Bill			<i>by Vote</i>				✓		
<i>Mid-year updates</i>									
Half Year Economic and Fiscal Update	✓	✓			✓	✓	✓	✓	
<i>End of year reports</i>									
Annual Financial Statements of the Government		✓			✓	✓			
Annual reports from departments			<i>by Dep't</i>		✓	✓			
Other documents	✓	✓			✓	✓	✓	✓	
Pre-election Economic and Fiscal Update									
Monthly Financial Statements of the Government (except for the first two months and the last month of the fiscal year)		✓			✓	✓			

The annual Budget cycle

Appendix 2 summarises the annual Budget cycle, and related activities in the House. At any given time there can be concurrent activities relating to the previous, current, and future financial years.

The feature of the May to July period is the introduction of the Budget for the coming year and the tidying up of supplementary appropriations for the current year.

In the May to August period, detailed analysis and passage of the Budget takes place in the House, annual reports of the previous financial year are starting to be tabled and allocated to select committees for scrutiny, and strategic decisions are being taken for the next financial year.

During November to January, select committee reviews of the previous financial year are being completed, the Budget Policy Statement and the Half Year Economic and Fiscal Update is published for the current year, and the Budget for the next fiscal year is in preparation.⁷

In the February to April period, the financial review debate of the previous fiscal year's expenditure takes place; early warning of the new Budget contents arrives in the Budget Policy Statement (now usually released with the Half Year Economic and Fiscal Update in either November or December) and is reviewed and debated in the House. The new Budget is prepared for tabling by 31 July, which starts the cycle again.

Annual legislation

There are four main types of legislation related to appropriations. The central one is the **Appropriation (Estimates) Act** which authorises the detailed Estimates for each financial year. The Public Finance Act 1989 requires this Bill to be introduced by 31 July (the end of the first month after the start of the fiscal year), and the associated Estimates are subject to select committee review. The third debate of the Bill must be completed within three months of its introduction. This process provides an opportunity to scrutinise the outputs proposed to be purchased and other types of Government expenditure.

It is not usually possible to complete Parliamentary scrutiny and approval of expenditure for the new financial year before the year starts, so provision is made for interim spending authority through one or more **Imprest Supply Acts**. The authority conferred by these Acts is superseded by the related Appropriation Act.

As some expenses change during the year (e.g. benefit numbers) the Government usually introduces a bill for an **Appropriation (Supplementary Estimates) Act** to update appropriations for events during the year. This must be passed before the end of the fiscal year to which it relates (by 30 June).

The **Appropriation (Financial Review) Act** follows after a fiscal year has been completed and the performance of departments has been reviewed by select committees. This bill must be passed by 31 March. The Appropriation (Financial Review) Act approves authority exercised by Ministers for variations in expenditure. Four hours in total is allocated to the financial review debate. It provides an opportunity to debate the results of investigations conducted by the Financial and Expenditure Committee and other select committees into the performance and current operations of departments and Offices of Parliament for the last fiscal year.

⁷ If a Pre-election Economic and Fiscal Update (associated with an election year) is published within the last three months of a calendar year, then a Half Year Economic and Fiscal Update is not required to be produced.

Changes in Baselines (the March and October baseline updates)

Baselines are the level of funding that is approved for any given spending area (e.g. health). These are updated twice a year (March and October) in addition to being updated at Budget time when the Estimates are being prepared. The baseline update is a technical update for issues that do not require a significant policy change. Any such changes are normally done in accordance with the guideline set out in Cabinet Office Circular CO (09) 6. Technical changes to baselines can be made in the following areas (which are generally fiscally neutral in manner):

- A transfer of resources from the current fiscal year to one or more of the next three fiscal years with no change in the output purchased, or on the operating balance or debt over time
- A reallocation of resources within a single fiscal year, with no impact on the operating balance or debt, and no change to policy
- Revenues or cost expenses resulting from forecasting assumptions without any changes being made to the underlying policy
- Recognition of existing Crown liabilities, returns of savings to the Crown, and other technical adjustments.

The relevant Vote Minister or Ministers, along with the Minister of Finance, have delegated authority from the Cabinet to approve technical changes to baselines. Some baseline changes need to be referred back to Cabinet for approval, such as in cases of disagreement between Ministers, when the proposals raise significant policy issues, and when transfers are made between different types of output class.

Order in Council under Section 26A of the Public Finance Act 1989

A further legislative instrument available to the Government regarding appropriations is an **Order in Council**. Under section 26A of the Public Finance Act 1989, the Governor-General by Order in Council, has the power to direct an amount appropriated in a Vote for a specified output expense to another output expense within that Vote, providing that:

- The amount transferred does not increase that appropriation for a financial year by more than 5%, and
- no other transfer under that section to that appropriation has occurred during that financial year, and
- the total amount appropriated in that Vote is unaltered.

This provides a mechanism through which unappropriated expenses can be avoided, given the timing differences between the tabling of the Supplementary Estimates and the end of the financial year.

For the financial year ended 30 June 2009, the Public Finance (Transfers Between Outputs) Order 2009 transferred funding between output expenses within six Votes (Corrections; Defence Force; Education; Police; Revenue; and Social Development) with a total of \$23.155 million transferred.⁸ Such Orders in Council need to be confirmed in an Appropriation Act covering that financial year, in this case, by section five of the Appropriation (2008/09 Financial Review) Act 2010.

⁸ Public Finance (Transfers Between Outputs) Order 2009. 2009/174.

Approval by the Minister of Finance under Section 26B

The Public Finance Act 1989 also allows for the Minister of Finance to approve expenses or capital expenditure in excess of appropriations. This can occur up to three months after the end of a financial year, providing that:

- Expenditure is within the scope of an existing appropriation⁹, and
- the expenditure in excess of the appropriation must be incurred in the last three months of the fiscal year (April through to June), 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.

For the financial year ended 30 June 2009, the Minister of Finance approved expenses and capital expenditure worth \$19.27 million over six separate Votes (Attorney-General, Commerce, Education, Fisheries, Defence Force, and Social Development).¹⁰ Any approved expenses or capital expenditure made by the Minister of Finance under section 26B of the Act needs to be confirmed in an Appropriation Act covering that financial year. In this case, by section six of the Appropriation (2008/09 Financial Review) Act 2010.

Unappropriated expenditure

Expenses or capital expenditure undertaken without authority (otherwise called unappropriated expenditure) are unlawful. This includes expenditure in excess of the amount appropriated, expenditure outside the scope of an appropriation, or expenditure undertaken without appropriation or any other authority (such as under a permanent legislative authority).

For the financial year ended 30 June 2009, such unappropriated expenditure totalled more than \$927 million.¹¹ This unauthorised expenditure has to be separately reported and validated in the Appropriations (Financial Review) Act that is passed after each financial year. In this case, by section seven of the Appropriation (2008/09 Financial Review) Act 2010.

⁹ An appropriation's scope establishes the legal boundary of what an appropriation can be applied to.

¹⁰ Appropriation (2008/09 Financial Review) Act 2010. Schedule 1.

¹¹ Appropriation (2008/09 Financial Review) Act 2010. Schedules 2 and 3.

Suggestions for further reading/links

McGee, David, 2005, *Parliamentary Practice in New Zealand*, Dunmore Publishing, Wellington.

The Treasury, November 2008, *A Guide to Appropriations*, The Treasury, Wellington.

<http://www.treasury.govt.nz/publications/guidance/planning/appropriations/guide/guide-appropriations-2008.pdf>

The Treasury, August 2005, *A Guide to the Public Finance Act*, The Treasury, Wellington.

<http://www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide/guide-pfa.pdf>

The Treasury, 1996, *Putting it Together: an explanatory guide to the New Zealand public sector financial management system*, The Treasury, Wellington

<http://www.treasury.govt.nz/publications/guidance/publicfinance/pit/>

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APPENDIX 1: Budget Day dates and Ministers, 1970 to 2009

Budget	Budget Day	Minister
1970	25 th June 1970	Minister of Finance, Hon. R. D. Muldoon
1971	10 th June 1971	Minister of Finance, Hon. R. D. Muldoon
1972	22 nd June 1972	Minister of Finance, Hon. R. D. Muldoon
1973	14 th June 1973	Minister of Finance, Hon. W. E. Rowling
1974	30 th May 1974	Minister of Finance, Hon. W. E. Rowling
1975	22 nd May 1975	Minister of Finance, Hon. R. J. Tizard
1976	29 th July 1976	Minister of Finance, Rt. Hon. R. D. Muldoon
1977	21 st July 1977	Minister of Finance, Rt. Hon. R. D. Muldoon
1978	1 st June 1978	Minister of Finance, Rt. Hon. R. D. Muldoon.
1979	21 st June 1979	Minister of Finance, Rt. Hon. R. D. Muldoon.
1980	3 rd July 1980	Minister of Finance, Rt. Hon. R. D. Muldoon, CH.
1981	9 th July 1981	Minister of Finance, Rt. Hon. R. D. Muldoon, CH.
1982	5 th August 1982	Minister of Finance, Rt. Hon. R. D. Muldoon, CH.
1983	28 th July 1983	Minister of Finance, Rt. Hon. R. D. Muldoon, CH.
1984	8 th November 1984	Minister of Finance, Hon. R. O. Douglas.
1985	13 th June 1985	Minister of Finance, Hon. R. O. Douglas.
1986	31 st July 1986	Minister of Finance, Hon. R. O. Douglas.
1987	18 th June 1987	Minister of Finance, Hon. R. O. Douglas.
1988	28 th July 1988	Minister of Finance, Hon. R. O. Douglas
1989	27 th July 1989	Minister of Finance, Hon. David Caygill.
1990	24 th July 1990 (Tuesday)	Minister of Finance, Hon. David Caygill
1991	30 th July 1991 (Tuesday)	Minister of Finance, Hon. Ruth Richardson.
1992	2 nd July 1992	Minister of Finance, Hon Ruth Richardson.
1993	1 st July 1993	Minister of Finance, Hon Ruth Richardson
1994	30 th June 1994	Minister of Finance, Rt. Hon. Bill Birch
1995	1 st June 1995	Minister of Finance, Rt. Hon. Bill Birch
1996	23 rd May 1996	Minister of Finance, Rt. Hon Bill Birch
1997	26 th June 1997	Treasurer, Hon Winston Peters
1998	14 th May 1998	Treasurer, Hon Winston Peters
1999	20 th May 1999	Treasurer, Rt. Hon Bill Birch
2000	15 th June 2000	Treasurer / Minister of Finance, Hon. Dr Michael Cullen
2001	24 th May 2001	Treasurer / Minister of Finance, Hon. Dr Michael Cullen
2002	23 rd May 2002	Treasurer / Minister of Finance, Hon. Dr Michael Cullen
2003	15 th May 2003	Minister of Finance, Hon. Dr Michael Cullen
2004	27 th May 2004	Minister of Finance, Hon. Dr Michael Cullen
2005	19 th May 2005	Minister of Finance, Hon. Dr Michael Cullen
2006	18 th May 2006	Minister of Finance, Hon. Dr Michael Cullen
2007	17 th May 2007	Minister of Finance, Hon. Dr Michael Cullen
2008	22 nd May 2008	Minister of Finance, Hon. Dr Michael Cullen
2009	28 th May 2009	Minister of Finance, Hon. Bill English

Notes: The 1990 Budget was delivered on a Tuesday instead of the traditional Thursday because of Prime Minister Geoffrey Palmer's planned trip to Japan. The 1991 Budget was also delivered on a Tuesday (30th July) so that the Government could deliver it on the last possible day under the Public Finance Act 1989, with Wednesday 31st July being set aside for local and private members bills.

Sources: The Treasury, *Archive 2008 to 1997. Budgets of the Government of New Zealand.*

Parliamentary Papers. *Budget & Fiscal Strategy Report (1995 - 1996).* B.2.

Parliamentary Papers. *Budget (1989 – 1994) and Financial Statement (1965 – 1988).* B.6.

The Dominion. *Budget to outline next five years.* 1 June 1990. p.2.

The New Zealand Herald. *Govt picks last day possible for budget.* 15 June 1991. p.1.

APPENDIX 2: Outline of the annual Government financial cycle

	May - July	August - October	November - January	February - April
previous fiscal year	<p>Appropriation (Supplementary Estimates) Bill ; <i>(optional)</i>, must be passed by 30 June</p> <p>3rd Imprest Supply Bill for interim supply <i>(optional)</i> combined debate 3 hrs</p>	<p><i>FEC allocates departmental reviews</i></p> <p>AFS and annual reports of departments tabled (to C&A-G by 31 August, C&A-G has 30 days to review, and annual reports must be tabled 15 working days after that (10 working days for the AFS))</p>	<p>Appropriation (Financial Review) Bill introduced</p> <p>FEC reviews AFS; FEC and select committees review annual reports; reports to the House (within one week of the first sitting day in each year)</p>	<p>Financial review debate (4 hrs.) Appropriation (Financial Review) Bill passed by 31 March</p>
new fiscal year	<p>1st Imprest Supply Bill for interim supply – must be passed after 3 hrs debate <i>before 30 June</i></p>	<p>FEC reviews FSR and BEFU; FEC and select committees review the Estimates, report to House within 2 months of Budget (by 30 Sept. at the latest) <i>(1)</i></p>	<p>HYEFU published in November or December (referred to FEC)</p>	<p>Select committees review annual reports of SOEs and public organisations, report to the House within 6 months of annual report</p>
	<p>Budget introduced on or before 31 July <i>(see Table 1 for components)</i></p> <p>Appropriation (Estimates) Bill 2nd reading 14 hours (excluding the Minister's Budget statement which has an unlimited time limit).</p> <p>FEC allocates Estimates examination to Select Committees</p> <p>Questionnaires sent to departments</p>	<p>Estimates debate in Committee of the Whole House, may include reference to FSR and BEFU 8 hrs in 2nd reading + 3 hrs. in 3rd reading</p> <p>Appropriation (Estimates) Bill passed within 3 months of the Budget (by 31 October at the latest)</p> <p>2nd Imprest Supply Bill <i>(optional)</i> passed after 3 hrs debate, may be combined with the debate on 3rd reading of the Appropriation (Estimates) Bill</p>		
next fiscal year	<p>fiscal year change 30 June // 1 July</p>	<p>Ministers make strategic decisions for coming fiscal year and give guidance to departments</p>	<p>Ministers prepare new budget initiatives, departments prepare draft budgets and accountability documents</p>	<p>new Budget finalised</p> <p>BPS published before 31 March</p> <p>FEC examines BPS, reports to House (within 40 working days of the BPS being tabled in the House)</p> <p>House debate on BPS and FEC report (2 hrs.)</p>

(1) Standing Orders 325, 327 and 328

FEC = Finance and Expenditure Select Committee

FSR = Fiscal Strategy Report C&A-G = Controller and Auditor-General

BEFU = Budget Economic and Fiscal Update BPS = Budget Policy Statement

HYEFU = Half Year Economic and Fiscal Update AFS = Annual Financial Statements of the Government