

Public Accounts Committee
Parliament of New South Wales

**Report on Payments Without
Parliamentary Appropriation**

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**Public Accounts Committee of the
Forty-ninth Parliament**

Forty-third Report

Inquiry pursuant to Section 57 (1) (g) of the Public Finance and Audit Act 1983, concerning Payments Without Parliamentary Appropriation during the 1986-87 and 1987-88 Financial Years.

(Transcripts of Proceedings are printed in a separate volume to this Report,)

February 1989

MEMBERS OF THE PUBLIC ACCOUNTS COMMITTEE

The members of the Public Accounts Committee are:

Mr Phillip Smiles, LL.B., B.Ec., M.B.A., Dip. Ed., M.P., Chairman

Mr Phillip Smiles was elected Member for Mosman in March, 1984. A management and marketing consultant since 1974, Phillip Smiles has been involved with entrepreneurial business activities since his teens. Since entering Parliament he has been actively interested in the areas of small business, emergency services, welfare and financial analysis. He was appointed a Member of the Public Accounts Committee in 1984 and was elected Chairman in 1988.

Ms Wendy Machin, B.A., M.P.

Wendy Machin was elected Member for Gloucester in 1985. Following completion of a Bachelor of Arts (Communications) Degree she worked in public relations for the National Party and later established her own public relations consultancy business specialising in the rural sector. She also served as an independent alderman on North Sydney Council prior to becoming a Member of Parliament. In 1988, following a redistribution she became Member for Manning.

Mr John Murray, B.A., M.P.

John Murray, formerly a teacher, was elected Member for Drummoyne in April, 1982. An alderman on Drummoyne Council for three terms, John Murray was Mayor of the Council for five years and served four years as Councillor on Sydney County Council. He has served as a member of the Prostitution Committee and the House Committee and is a former Chairman of the Public Accounts Committee.

Mr Allan Walsh, B.A.(Hons), Dip. Ed., M.P.

Allan Walsh was elected Member for Maitland in September, 1981. Following eight years as a Mirage fighter pilot with the RAAF, he was involved in business management. Allan Walsh has also taught industrial relations, management and history at technical colleges.

Mr Terence Allan Griffiths, M.P.

Terry Griffiths was elected Member for Georges River in 1988. Prior to being elected to Parliament he was the Chief Executive of the Scout Association of Australia. Before this he was an Army Officer. He is a graduate of the Officer Cadet School, Portsea, a graduate of the School of Military Engineering and a Fellow of the Australian Institute of Management. He has been actively involved in Lions, Rotary and other community organisations.



Committee Members. From left Wendy Machin. Allan Walsh Phillip Smiles (Chairman) Terry Griffiths John Murray

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REPORT ON PAYMENTS WITHOUT PARLIAMENTARY APPROPRIATION

(under Section 22 of the Public Finance and Audit Act)

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CHAIRMAN'S FOREWORD

The Public Accounts Committee is committed to assisting in the continued improvement of public sector accountability. Accordingly, it is appropriate for the Committee to review this most fundamental accountability issue, namely Parliament's control over the public purse.

The Inquiry fulfils the Committee's statutory function under Section 57(1) of the Public Finance and Audit Act to review Payments Without Parliamentary Appropriation. This and other reviews by the Committee are undertaken without political bias due to the bipartisan nature of the Public Accounts Committee.

The Inquiry details payments made without Parliamentary Appropriation for the financial years 1986/87 and 1987/88. The payments were made under the Ministerial responsibility of State Treasurers from opposing political philosophies.

The PAC was very concerned to discover during its inquiry that the Treasury in its endeavours to build up the State's cash reserves has adopted a "*most liberal*" view of the "*emergency*" powers conferred by Section 22 of the Public Finance and Audit Act, to make transfers to various Special Deposits Accounts.

Most of these transfers were made beyond any reasonable interpretation of the "*exigencies*" or emergency provisions of the Act. While the letter of the law was observed the spirit of full and frank disclosure of the financial operations of Government was obscured by an intricate web of reserves.

The Committee was disturbed to note that even after amendment to the legislation which established a Revenue Equalisation Account to even out revenue fluctuations, the Treasury continued to make substantial transfers under the guise of emergency payments contrary to the intention of Parliament. It is important to note that the legislation was supported by both the Government and the Opposition.

The tax-paying public and their Parliamentary representatives should have the right to review and debate the spending or otherwise, of the State's revenues, BEFORE the event.

The Committee believes there is no justification for the financial fiction revealed by this Inquiry. It is not necessary to override open government and *parliamentary* debate in order to achieve economic and financial efficiency.

I wish to acknowledge the kind assistance of Professor Bob Walker, School of Accountancy, University of New South Wales and the Australian Society of Accountants, New South Wales Division on various complex technical issues associated with government finances.

Finally, I would like to thank my Committee colleagues for their support and tireless efforts during the inquiry and the Committee staff for their professional dedication. In particular, I thank Mr John Lynas for his very valuable contribution to this report.

Phillip Smiles, LL.B., B.Ec., M.B.A., Dip. Ed., M.P.,
CHAIRMAN.

EXECUTIVE SUMMARY

The Public Accounts Committee's role is to undertake a number of statutory functions relating to the accounts of statutory bodies, including government departments operating on the Consolidated Fund and self-funding statutory bodies. In particular, under Section 57(1)g of the Public Finance Audit Act, the PAC has the statutory function to inquire into expenditure by a Minister of the Crown without Parliamentary Sanction or Appropriation. This Report arises from such inquiries.

Payments from the Consolidated Fund are usually made on the basis of Parliamentary Appropriation. This takes the form of the annual Appropriation Bill which is debated in the Parliament and widely covered in the media. The Budget process includes the Budget debates in the Parliament resulting in the funding of the central or inner budget group activities of the public sector.

Financial reforms introduced in New South Wales in 1983 included provision for payments to be made in excess of the amounts 'appropriated by Parliament in circumstances described as *exigencies of government so*

The Auditor-General in his 1986 and 1987 Reports to the Parliament expressed concern at the weakening of Parliamentary control over the public purse by the use of Section 22 payments. The Parliament was being asked to give approval after the event, to spending decisions made elsewhere.

The PAC found that many of the "payments" made on the authority of Section 22 were, in fact, transfers to Special Deposits Accounts within the Treasury books. They often remained "unspent" some 12 months after the transfer. Payments were often made with a view to balancing the budget and not to meet some urgent or pressing need.

Although, the PAC found that the payments satisfied, in a legal sense, the procedural requirements of the Public Finance and Audit Act, they did not always exemplify appropriate uses of the Act to provide essential services.

It is recommended that the Section 22 provision be retained but that its use be limited strictly to urgent and essential works and services as appears to have been the original intention.

To allow the Government of the day to have some flexibility in matters of financial and economic management, the PAC favours a second or subsequent appropriation bill being presented to the Parliament later in the financial year. This procedure would be similar to the concept of mini-budgets late in the financial year.

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RECOMMENDATIONS

A full list of the Committee's recommendations follows. The recommendations are listed consecutively and should be considered in light of the discussion in the relevant chapters.

CHAPTER 2

Recommendation 1

The PAC recommends that the budget result for the year be related to the amounts appropriated by the Parliament.

CHAPTER 3

Recommendation 2

That the adoption of accrual accounting by budget sector authorities commence immediately.

CHAPTER 4

Recommendation 3

The PAC recommends that the Parliament be presented with a second or subsequent Appropriation Bill in the second half of the financial year to enable the Treasury to adjust the budget with Parliamentary consent.

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CHAPTER 5

Recommendation 4

The PAC recommends that Treasury introduce forward estimates to allow the Education Department and Public Works Department to undertake longer term planning and enter into longer term contracts.

Recommendation 5

The PAC recommends that for major works programs like school maintenance that control of the funds in Special Deposits Account at Treasury be transferred to the user department. The Education Department should control both funds allocated and work priorities.

CHAPTER 6

Recommendation 6

The PAC recommends that no further transfers under Section 22 be made to the Fire Risks Account until:

1. the overall Risk Management review by Treasury has been completed; and
2. Treasury self-insurance activities are on a commercially cost effective basis.

Recommendation 7

The PAC recommends that funds provided to acquire public sector assets including computers should be included in the normal Parliamentary appropriation process (see also Recommendation 8).

CHAPTER 8

Recommendation 8

The PAC recommends that the Section 22 facility be retained, to be used only for urgent and pressing necessities that require immediate action by government in the public interest, for example, relief from natural disasters.

Public Accounts Committee

1. INTRODUCTION

1.1 AS stated in its Supplementary Report for 1987 (No. 34) the Public Accounts Committee (PAC) reviews Payments without Parliamentary Appropriation each year.

1.2 To date, the PAC has reported that this expenditure has been satisfactory. However, the PAC noted the increasing level of this expenditure and gave notice that it would

investigate mechanisms which would augment
-the
Parliament's control over the appropriation process.

1.3 In addition, the PAC was aware of similar concerns expressed by the Auditor-General in his 1986 and 1987 Reports to Parliament.

AUDITOR-GENERAL'S CONCERN

1.4 In his 1986 and 1987 Report to Parliament the Auditor General reflected his increasing concern at the use of Section 22 to authorise payments from the Consolidated Fund.

1.5 In part, the Auditor General stated:

"The present system leaves Parliament little scope for anything more than formal endorsement of funding decisions made elsewhere".

1.6 The full text of the Auditor General's comment is included at Appendix 4 of this report.

Auditor-General's Report to Parliament 1986/87, Page 31

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TREASURY RESPONSE

1.7 In response to the comments by the Auditor General the **former Treasurer, the late**The Hon. **Mr K. Booth**, forwarded **the following reply:**

"It must be remembered that the budget is not a document set in Concrete. During any given year both circumstances and priorities may change. It is only prudent management for the Government to be flexible in its approach and where additional funds have become available to make provision for known future emerging liabilities."

"In New South Wales there has been a long history of what used to be known as expenditure un-authorized in suspense. There has never been an occasion when such expenditure has not been subsequently authorised by Parliament. The revision of the Public Finance and Audit Act in 1983 introduced a new control measure whereby such expenditure requires the Governor's approval and then subsequent authorisation by Parliament".²

1.8 Accordingly, the Committee resolved to undertake a formal **inquiry into this**matter under Section 51(g) of the Public **Finance and Audit**Act, 1983.

² The late The Hon. K. Booth, MP, Treasurer, response to Auditor-General's **Report**, letter to Public Accounts Committee.

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TERMS OF REFERENCE

1.9 The Committee's Terms of Reference for this Inquiry were to examine and report

i) Payments made under Section 22 of the Public Finance and Audit Act, 1983, during the 1986-87 Financial Year;

ii) The appropriateness of the payments made;

iii) The accountability and other issues involved in the payment process;

iv) To examine the Report of the Auditor-General in relation to those payments; and

v) Any other matters arising out of the Committee's inquiries which impinge on the accountability of the NSW Public Sector.

EXPANDED TERMS OF REFERENCE

1.10 In September 1988, the Committee resolved to expand the Terms of Reference to include payments made during the 1987-88 Financial Year under Section 22. These payments amounted to \$412M and are detailed at Appendix 3.

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BACKGROUND

PREVIOUS PAC INQUIRIES AND COMMENTS

- 1.11 The PAC has on a number of previous occasions reviewed payments made without Parliamentary Appropriation. These were on the basis of reviewing the individual payments.
- 1.12 In this Inquiry, the Committee has reviewed the effect of such payments on the overall budget result for the year.

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2. PARLIAMENTARY CONTROL OVER THE BUDGET

- 2.1 One of the fundamental controls within the Westminster system of government is Parliamentary control over the public purse.
- 2.2 This control has taken the form of annual appropriations by the Parliament for the running costs of government.
- 2.3 In New South Wales the budget process includes the Parliament debating the Appropriation Act, usually in September for the financial year ending the following June 30.
- 2.4 A consistent policy of very tight Treasury control over departmental expenditure estimates has resulted in very little "fat" being available to fund new government initiatives or substantial increases in existing programs.
- 2.5 The PAC acknowledges that both the current and previous governments have imposed tight 'budgetary constraints on departmental expenditures.
- 2.6 If a decision is made to fund new initiatives or expand existing services, payments have tended to be made above the amount appropriated by Parliament. This reduces the effectiveness of Parliamentary control over the public purse. Accountability to the Parliament is diminished to a mere "*rubber stamp*" approval after the event.

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1902 AUDIT ACT

2.7 Under the 1902 Audit Act (repealed in 1983) payments without Parliamentary Appropriation were classified 'as being "unauthorised in Suspense" and were reported to Parliament with the public accounts for the year. Many of the early reports of previous Public Accounts Committees covered a review of these payments.

2.8 It is significant to note that the late The Hon. Ken Booth, MP, then State Treasurer, at the Second Reading Speech for the Public Finance bills said:

"There is a long history in New South Wales of government spending in anticipation of parliamentary appropriation. This goes back as far as the early days of self-government. Since the financial reports reflected in the Audit Act of 1902, All such expenditures have been subject to report by the Public Accounts Committee. The principal cause of the excess

been the effect of inflation on costs and the need to provide relief for victims of natural disasters.

2.9 It is obvious from this review by the PAC that in the years 1983/84 to 1987/88 the Section 22 facility was used **for** purposes other than "inflation on costs" or "relief for victims of natural disasters".

I Hansard, Mr K. Booth, M.P., - 10 November, 1983, Page 2955

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PUBLIC FINANCE AND AUDIT ACT, 1983

2.10 Significant financial reforms were introduced in the 1983 Act. included in the Public Finance and Audit Act, at Section 22 is a provision to allow for "exigencies of government " to be met by payments above the amounts appropriated by Parliament. These payments, generally referred to as "Section 22 payments", are formally appropriated by Parliament in the following year's Appropriation Bill .

2.11 The relevant section of the Act is as follows:

Expenditure for certain services or works.

22(1) Notwithstanding section 21, where, after an Act is passed in respect of a financial year appropriating money out of the Consolidated Fund to meet the requirements of that financial year, exigencies of Government so require, the Treasurer may, with the approval of the Governor, determine that there shall be paid from the Consolidated Fund, in anticipation of appropriation Parliament, such additional sums as may be necessary in the public interest to provide for expenditure of a recurrent nature or for capital works and services.

2.12 When the legislation was drafted a control mechanism was included in the Act. This involved the Public Accounts Committee, constituted under Part IV of the Act being charged under Section 57 with the function of "inquiry into expenditure .o. without Parliamentary sanction or appropriation " .

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2.13 The PAC noted that in 1983 at the time the new legislation was introduced, the then Attorney-General, the late The Hon. Paul Landa, said in the Second Reading Speech in the Legislative Council:

"The main causes of expenditure being incurred in excess of parliamentary appropriation have been the effect of inflation costs and the need to provide for unpredictable requirements such as relief measures associated with natural disasters, Under longstanding practice such expenditure has been submitted for parliamentary sanction in the following year's Appropriation Bill,

2.14 The Committee's review of the payments made in the 1986-87 and 1987-88 financial years have shown that the purposes for which payments and or transfers were made goes beyond the rather limited scope as mentioned by the late Mr Ken Booth, M.P., and the late Mr Paul Landa, M.P.

2.15 The PAC was concerned to note that the majority of the "payments" were, in fact, *transfers* between Treasury Ledger Accounts and did not represent actual payments for goods or services delivered.

2.16 The PAC noted, in a review of Section 22 payments for the two financial years 1986/87 and 1987/88, more than half the funds involved were transfers held in Special Deposits to be spent at a later date. That is, they were not urgent or pressing payments requiring immediate funding but rather funds reserved for future expenditures.

2 Hansard, The Hon. D. P. Landa, MP, Attorney-General - 28
November, 1983, Page 3530

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TABLE 2.1

Section 22 Transfers to Treasury, Special Deposits Account

1987 Financial Year	\$M
Bicentennial Programs	25.0
Arrears of Maintenance	55.1
Telecommunications Network	10.0
Computer Acquisition	30.0
Public Liability	30.0
Fire Risks	<u>25.0</u>
175.1	

1988 Financial Year	\$M
Computer Acquisition	75.8
Employment Compensation	10.0
Debt - principal repayment	51.8
Arrears of Maintenance	<u>72.0</u>
209.6	

2.17 The PAC notes that the Treasury Secretary, Mr Percy Allan, when asked to respond to the concerns of the Auditor-General, **said:**

"My understanding is that the Auditor-General's concern is that many of those appropriations, while they may have been legitimate, were not absolutely necessary, and I would have to say that I could not prove the absolute necessity and urgency of each of those payments, but I could demonstrate their legitimacy ". 3

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2.18 The PAC agrees with Mr Allan's statement to the effect that the "absolute necessity" and "urgency" of the payments appears difficult to prove.

2.19 The PAC is of the **opinion that the** use of the Section 22 **provision** by ALL GOVERNMENTS HAS BEEN USED to achieve a balancing of the budget **for the** purpose of demonstrating superficial efficiency in achieving that balance.

2.20 This view by the PAC is reinforced by evidence given by a senior Treasury officer:

"Quite frankly, Mr Chairman, the Fire Risks Account and the Public Liability Fund ..o have been used of often as a balancing item for the budget".

2.21 It should be noted that the PAC is of the opinion that until the public sector, including the inner budget sector, adopt full accrual accounting, then the management of the budget is not of itself a truly effective measure of economic or financial efficiency by government.

2.22 The Auditor-General, Mr Ken Robson, in evidence to the PAC said:

CHAIRMAN: *"Would you regard this practice as acceptable from an auditor's point of view?"*

AUDITOR-GENERAL: *No. If I were in a position to apply Australian Accounting Standard AAS1 to the Treasurer's public accounts, I believe a fairer representation would be to declare an operating surplus. For last year, for instance, 1986-87, I believe an operating surplus should have been around the \$300 million to \$350*

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million mark, If AAS1 was used, the operating surplus could have been

adjusted by appropriation to the reserves totalling the same figures. This is what happens in private industry. Organisations strike a result and then transfer their retained profits.

Recommendation 1

2.23 The PAC recommends that the budget result for the year be related to the amounts appropriated by the Parliament.

EXTENT OF SECTION 22 PAYMENTS

2.24 Section 22 was introduced in 1983. The following table shows payments for the years 1983/84 to 1987/88 inclusive.

TABLE 2.2

FINANCIAL YEARS	\$M	1983/84 = 100
1983/84	119.4	100.0
1984/85	154.5	129.3
1985/86	281.5	235.6
1986/87	326.1	273.1
1987/88	<u>413.6</u>	346.4

5 Transcript of Evidence - 14 June, 1988, Mr K. Robson, Page 41

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2.25 It is noted that the increase in Section 22 payments roughly corresponds with the economic upturn in the economy over these years, generating substantial and unexpected increases in government revenue.

2.26 The Secretary of the Treasury, Mr Percy Allan, in evidence said:

"Our revenues are becoming increasingly difficult to predict ... Stamp duty is an extremely volatile revenue ... Our ability to project revenues had diminished. In these circumstances, I believe it is important to have mechanism such as a revenue equalisation account to enable the government to smooth out its revenues over a long period ..."

2.27 The PAC was concerned that although legislation was passed in May 1988 setting up a Revenue Equalisation Account within Treasury Special Deposits Account, funds were still being transferred using Section 22 amounting to \$413.5 for the 1987/88 financial year.

2.28 It would appear that during the PAC Inquiry at least one Section 22 payment was reversed to reduce adverse comment. This payment related to a \$50M transfer to arrears in school maintenance. The Treasurer approved a transfer of \$50M on 26/4/88, at a later date this transfer was reduced to \$25M.

6 Transcript of Evidence - 14 June, 1988, Mr P. Allan, Page 3

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3. "SECTION 22" AS A FINANCIAL MANAGEMENT TOOL

3.1 The PAC has no doubt that "Section 22" gives the Treasury a very useful tool that can be used effectively to achieve the stated budget objective.

3.2 Recent State budgets have been framed for a balanced budget, that is, the cash receipts through the Consolidated Fund from Commonwealth payments and State revenues would be about equal to the payments from the Consolidated Fund.

3.3 The PAC notes that if the Public Accounts of the State - were to be prepared on an accrual accounting basis the results for the year would be substantially different from a simple statement of cash receipts, cash payments and cash holdings.

3.4 The issues involved in the adoption of accrual accounting in government were addressed at a seminar conducted by the

PAC at Parliament House on 5 February 1988.

The

proceedings of the seminar were issued as the PAC's 38th report.¹

¹ Report of the proceedings of the Accrual Accounting Seminar 5 February 1988. Report No 38, Public Accounts Committee May 1988.

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3.5 Several quotes from the papers presented at the Seminar **are** of interest.

"There is no doubt that accrual accounting would provide much information which would be very useful in the decision making process.

"Quite obviously there would be a substantial difference between Budget results prepared on a cash basis and results prepared on an accrual basis.

"The overall thrust of my remarks is that in principle, the adoption of some form of accrual accounting seems unnecessary to ensure that the interested parties are better informed about the activities of public sector departments or authorities. But the adoption of these accounting techniques will not be sufficient to ensure that financial reporting conveys relevant information, that governments or public service managers are made aware of the financial consequences of the decisions, or that those same parties may be held accountable to parliament or the community at large.

3.6 The PAC notes that the accounting profession has recognised the need for improved financial disclosure by the various levels of government within Australia. The PAC endorses the work being undertaken by the Public Sector Accounting Standards Board.

2 Mr P. Allan, Secretary, Treasury Page 36 - Report on proceedings of the Accrual Accounting Seminar Feb. '88 Report 38 PAC May 1988.

3 Mr P. Allan, Secretary, Treasury Page 37 - Report on proceedings of the Accrual Accounting Seminar Feb. '88 Report 38 PAC May 1988.

4 Professor Bob Walker, Page 32 - Report on proceedings of the Accrual Accounting Seminar Feb. '88, Report 38 PAC May 1988.

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Recommendation 2

- 3.7 That the adoption of accrual accounting by budget sector authorities commence immediately.

STATE REVENUES OVER BUDGET

- 3.8 State revenues for both the 1986/87 and 1987/88 financial years were above budget. The following table compares the actual receipts with the budget estimates.

TABLE 3.1

State Revenues Compared to Budget

	BUDGET	ACTUAL	INCREASE
	\$'000	\$'000	\$'000
1986/87	11,868	12,165	297
1987/88	13',136	13,763	627

- 3.9 Treasury (and the Government) can be placed in a quandary when State revenues are up. Credit can be taken for good economic management resulting in increased tax revenue. On the other hand, a large surplus by a government can result in criticism that the State is a "big taxpayer" that is, building up cash reserves and at the same time having tax rates that, it is argued, could act as a disincentive for growth.

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3.10 However, this can be no excuse for a practice which the general public could, quite rightly, regard as an attempt at deception in the management of State Government finances.

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4. OTHER PARLIAMENTS

- 4.1 A comparison has been made with the existing arrangements by other Parliaments in Australia.
- 4.2 Under Commonwealth legislation no equivalent provision to Section 22 exists. The Commonwealth has a system of second or third Appropriation Bills debated and passed by the Parliament progressively throughout the year.
- 4.3 The Committee sees great merit in the process which allows for full public disclosure and Parliamentary debate of the budget process .
- 4.4 The Victorian Parliament retains greater control over the public purse in that no equivalent facility to Section 22 is available.
- 4.5 To provide for urgent claims, a \$30M facility is available to the Treasurer "*subject to Parliamentary sanction*". This effectively places a limit on the amount that can be paid without parliamentary appropriation.
- 4.6 The accountability of the public sector to the Parliament is maintained and the Parliament is not placed in a position of rubber stamp ing spending decisions made elsewhere, at an earlier time.

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4.7 In a visit to Victoria the PAC was able to discuss this important issue of public sector accountability with Mr R Humphry, then Auditor General for Victoria and now Director General of the Premier's Department New South Wales.

4.8 In discussion the PAC agreed with the view expressed by Mr Humphry that not declaring surplus revenue is contrary to public accountability.

South Australia

4.9 In South Australia, government has used Supplementary estimates to obtain parliamentary appropriation of additional revenues.

4.10 The South Australian Legislation provides a facility for urgent projects. This facility is limited to three per cent of the budget as appropriated by the Parliament.

4.11 The PAC is in favour of supplementary appropriations so as to facilitate Parliamentary debate and full public disclosure.

Recommendation 3

4.12 The PAC recommends that the Parliament be presented with a second or subsequent Appropriation Bill in the second half of the financial year to enable the Treasury to adjust the budget with Parliamentary consent.

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5. REVIEW OF PAYMENTS/TRANSFERS 1986/87 & 1987/88 FINANCIAL YEARS

- 5.1 Payments are not unsubstantial, in 1986/87 \$326M was paid out or transferred and in 1987/88 a total of \$413M was involved.
- 5.2 A detailed listing of the amounts involved is included at Appendix 1 and 3 to this report.
- 5.3 The Parliament, after the event, formally approved these payments totalling \$739M for the two years when the annual appropriation bills were debated in the Parliament in 1987 and 1988.

SCHOOL MAINTENANCE - GENERAL OBSERVATIONS

- 5.4 The PAC is concerned at the methodology used in regard to School Maintenance. The Committee noted that in the two years under review substantial sums were transferred within the Treasury accounting system as maintenance of School Buildings. In considering this amount the significant size of the allocation under Section 22 facility is detailed in the following Table. The **PAC** noted that about 40% of total funds provided for School maintenance was by Section 22 transfer.
- 5.5 In the two years under review a total of \$153.4M was available for school maintenance.

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TABLE 5.1

School Maintenance Funding Provided

	\$M
1986/87 Budget Appropriation	32.5
1986/87 Section 22 Transfer	<u>30.0</u>
TOTAL 1986/87	62.5
1987/88 Budget Appropriation	40.9
1987/88 Section 22 Transfer	<u>50.0</u>
TOTAL 1987/88	90.9.
TOTAL 2 YEARS	\$153.4

5.6 In a prepared statement to the PAC, senior officers from the Education Department **said:**

"There is no doubt that the issue of school building maintenance has been vexed question for many years. There is no doubt that the community has had the view that the provision of funds for school maintenance is totally inadequate

"At December 1987, prices the arrears figure is \$162M and the recurrent needs per annum \$77M".

Transcript of Evidence - 26 July, 1988, Page 5

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5.7 The PAC is concerned at this situation and notes that the Annual Report of the Department for the year ended 31 December 1987 refers only in general terms to the arrears of schools maintenance. The dollar terms referred to in evidence to the PAC were not quoted in the Annual Report.

5.8 The Education Department annual report for the year ending 31 December 1987 under the heading " *Maintenance of Schools*" reports:

"Full implementation of state-wide cyclic maintenance programs involves the allocation of significant additional resources."

5.9 The PAC finds this understatement to be unacceptable.

5.10 The PAC noted that considerable funds have accumulated in the Treasury Special Deposits account. The build-up of cash allocations available was significantly in excess of the rate of actual expenditure.

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TABLE 5.2

Arrears of Maintenance

Schools, TAFE, Other Public Buildings

	OPENING			CREDIT
	BALANCE	RECEIPTS	PAYMENTS	BALANCE
	\$'000	\$'000	\$'000	\$'000
1983	190		68	122
1984	122	20,000	8	20,114
1985	20,114	20,061	14,110	26,065
1986	26,065	31,264	20,958	36,371
1987	36,371	55,672	38,211	53,832
1988	53,832	<u>72,589</u>	<u>49,668</u>	76,753
		199,586	123,023	

This table shows that over the past five years \$199.6M was paid into the Arrears of Maintenance Account while \$123.0M was paid out. The balance at 30th June, 1988 was \$76.8M.

5.11 The PAC notes that the Education Department in planning its Maintenance programs for funds held in Treasury Special Deposits Account, is concerned about completing works by June 30 each year. In evidence to the PAC, senior officers stated:

"We work up our program on the basis of the information that we are provided and we make sure that it is spent by 30 June of the following year".²

2 Transcript of Evidence - 26 July, 1988, Page 8

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5.12 Treasury officers, however, gave a different view of the restrictions, if any, imposed on spending from the Special Deposits Accounts:

"There is really no prohibition on a department spending the monies earlier if they are able ".3

Recommendation 4

5.13 The PAC recommends that Treasury introduce forward estimates to allow the Education Department and Public Works Department to undertake longer term planning and enter into longer term contracts.

5.14 The PAC was perplexed to discover that the responsibility for school maintenance is under the control of three government departments. There was no overall control by one department.

5.15 The Education Department as the user or owner has identified a major maintenance problem exists. In the Annual Report for the year ended 31 December 1987 the Department notes that the recommendations of an Efficiency Audit into school maintenance conducted by the Public Service Board in 1986.

5.16 The Committee notes that Efficiency Audit reports are not public documents and the detailed findings of the efficiency audit are not consequently available for PAC Review. The PAC noted that in evidence, senior officers of the Education Department stated that planning and evaluation processes have been introduced.

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"o o o as part of our computerisation program, which has now been running for some three to four years, counting this year, we are doing quite substantial work in the properties area, we have a property management and finance system virtually in place, and we have our sites data base as a first step in the total assets register.

5.17 In relation to the maintenance arrears in schools the Department has detailed estimates for the current year and the planning processes are underway for the subsequent year.

"Those estimates are normally requested in October.

*The time scale is October the preceding financial year, so that we could consolidate the estimates in February which is the time that we would submit the estimates to the Treasury. At the same time, we develop a program of this order which identifies the projects on a priority basis."*⁵

5.18 The PAC considers this approach to be reasonable given' the traditional allocation of funds on a yearly appropriation basis.

5.19 The Treasury has an important role to provide funds in accordance with the government's budgetary priorities.

5.20 The PAC noted that the Treasury's role is to allocate funds in the context of the overall budget not in accordance with detailed costing of specific projects.

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5.21 In evidence to the PAC the Chief Budget Officer of the Treasury stated, when relating the budget **process:**

*"... We don't get a detailed costing on a project by project basis, we are addressing the overall question of the maintenance effort ..."*⁶

5.22 The public Works Department (PWD) is involved in undertaking the maintenance work on schools by day labour or contract.

5.23 The PWD does not determine priorities and does not **allocate** funds. The PAC finds that the "stop start" delays due to annual allocations of funds is an impediment to long term maintenance work being undertaken.

5.24 The issue of being constrained by annual appropriation was **further** explored by the PAC with the Education Department:

" . Could you clarify for me just what sort of' communication goes on between Treasury and the Department of Education with regard to moneys that may or may not be available in

DEPART: "... the timetable for preparation of the maintenance program, and that timetable for preparation does fit in very closely with Treasury's timetable for preparation of the budget estimates and the annual budget process.

It is around the period of January each year that departments are required to prepare, collate, their budget estimates for submission to the Treasury normally in about February. Because the program is developed in the latter part of the preceding calendar year, we are able to incorporate our needs for maintenance in our budget Did.

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5.25 Inherent in this annual appropriation concept is a "lapsing mentality". This is regarded by the PAC as a matter of concern. Treasury officers indicated that the "Section 22" provision is used to give the Public Works and Education Departments time to implement a work program as a means of avoiding the end of year cut off.

5.26 Further, the Committee's concern reinforced by evidence on the costing of the Education Department 's draft maintenance program:

"And it would be guestimates for a subsequent period

EDUCATION

*DEPARTMENT: It would be combinations of detailed estimates, snap estimates and guestimates, even in the current program. But at the bottom end of the program it would appear to be snap estimates and the guestimates."*⁸

Recommendation 5

5.27 The PAC recommends that for major works programs like school maintenance that control of the funds in Special Deposits Account at Treasury be transferred to the user department. The Education Department should control both funds allocated and work priorities.

5.28 The PAC noted with concern the apparent inconsistency between the obvious need for maintenance and the build up of funds available within the Treasury Special Deposits Account.

5.29 The following Table shows the balance of funds available at 30 June each year over the past 5 years for Arrears of Maintenance for Schools, TAFE, and other public buildings.

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TABLE 5.3

Balance of Funds Available - Arrears of Maintenance Schools, TAFE and Other Public Buildings,

	\$M
30/6/88	76.8
30/6/87	53.8
30/6/86	36.4
30/6/85	26.0
30/6/84	20.1

DEBT RETIREMENT ACCOUNT

5.30 Towards the end of the 1987/88 Financial Year a "*Debt Retirement Account*" was opened within Treasury Special Deposits Accounts.

5.31 The purpose of the account is to receive contributions from the Consolidated Fund for the purpose of eliminating outstanding Consolidated Fund debt.

5.32 This early retirement of debt is in line with the recommendations of the NSW Commission of Audit "*o.. reduction of debt should be a high priority*"⁹

⁹ Report on the State Finances, Executive Summary Page 42, NSW Commission of Audit, July 1988.

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- 5.33 A Section 22 Transfer \$51.8M was made to fund the account. The repayments were made in early September 1989, that is, three weeks prior to the budget being presented to the Parliament and two months after the close of the financial year.
- 5.34 The PAC considers that notwithstanding the good financial management in early retirement of debt the use of Section 22 as an "exigency of government" was not demonstrated in this case.

STAFF REDUNDANCY ACCOUNT

- 5.35 The above named account was opened by direction of the Treasurer to record redundancy payments made to excess staff in public sector organisations.
- 5.36 The account was opened in by a transfer of \$10.0M using the Section 22 provision as an "exigency " of government.
- 5.37 Further enquiries by the PAC have disclosed that by late November 1988 payments of only \$133,448 had been made leaving a balance in excess of \$9.0M in the account.
- 5.38 This clearly demonstrates that the transfer of \$10M did not constitute a payment of urgent or pressing need and was obviously used in part to balance the budget.

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6. SECTION 22 PAYMENTS AND THE STATE'S CASH BALANCES

- 6.1 The PAC noted that the Treasury accounts show substantial funds are held for various projects within the Special Deposits.
- 6.2 The balance of funds held is substantially in excess of the average usage of the accounts.
- 6.3 The PAC found that the holding of cash reserves is of itself not a matter deserving adverse comment. The PAC was concerned that the form and structure of the Public Accounts and the supporting tables do not provide meaningful disclosure for other than an informed reader.
- 6.4 The use of Section 22 to transfer funds at the close of the financial year on the pretext of expenditure on specific program or activities is viewed with disquiet as a high proportion of these funds was held in Treasury Special Deposits to be spent at a later date.
- 6.5 This is a matter of concern. For example, Public Works provided the PAC with the following table showing the monthly balance of "Arrears of Maintenance" funds unspent during the year ended 30/6/88.

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TABLE 6.1

Arrears of Maintenance: Funds Available

MONTH	SCHOOLS \$M	TAFE \$M	OTHER \$M	TOTAL \$M
Jul 87	26.1	5 0	20 7	51 8
Aug 87	25.9	5 0	20 2	51 2
Sep 87	25.5	5 0	19 7	50 2
Oct 87	25.3	5 0	19 2	49 5
Nov 87	22.6	4 9	18 9	46 4
Dec 87	22.0	4 8	18 5	45 3
Jan 88	10.5	4 8	17 8	33 1
Feb 88	7.2	4 6	16 8	28 6
Mar 88	26.5	4 1	31 0	61 6
Apr 88	43.5	10 9	30.4	84 8
May 88	41.5	10 2	26.8	78 5
Jun 88	50.0	7 8	16.9	74 7

source: PUBLIC WORKS DEPARTMENT,
Letter to PAC

Note: Small difference exist between Public Works records and Treasury records due to timing differences and year end adjustments.

6.6 This is not an isolated example. The PAC found in the course of its Inquiry that the Treasury has held funds in Special Deposits Accounts substantially in excess of average monthly usage.

6.7 These included:

BALANCE \$M

	JUNE '86 \$M	JUNE '87 \$M	JUNE '88 \$M
<i>Computer Account</i>	36.7	80.8	98.6
<i>Treasury Fire Risks Account</i>	60.1	88.6	78.1
<i>Bicentennial Fund Account</i>	66.4	97.6	48.7

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6.8 The PAC is of the view that the holding of cash reserves can be efficient financial management. However, the level held should reflect planned foreseeable expenditure. Cash reserves above short term requirements should be disclosed as part of the State's general cash reserves.

6.9 The current practice is to record Section 22 transactions as payments when a major proportion are in fact internal transfers within the Treasury books. This leads to confusion as to the actual expenditure on high public profile projects and contributes to Departments being unaware of their true costs.

REVENUE EQUALISATION ACCOUNT

6.10 In May 1988, legislation was passed by the Parliament amending the Public Finance and Audit Act by establishing a Revenue Equalisation Account. The purpose of this account is to transfer surplus funds in years of buoyant receipts and support the budget in years when revenue receipts fall below estimates.

6.11 The legislation had the support of both the Government and the Opposition. In the Second Reading Speech in the

Legislative Assembly, Mr J. Longley, M.P., for the Government said: "*...This particular*

measure will go a long way to removing the temptation faced by governments to spend up in good years and raise taxes in bad years .

I Hansard - 1 June 1988, Page 1229

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6.12 The Labor Opposition supported the legislation. The Opposition speaker, Mr J. Murray, M.P., a former Chairman of the PAC said:

"The Opposition believes that it would be in the interests of accountability of public finances, which both sides of the House have always supported".

6.13 The PAC notes with great concern that notwithstanding the

stated position of the Parliament towards greater
accountability and the provision of the new Revenue
Equalisation Account to even out fluctuations in the

State' s Revenue, the annual "Section 22 fudge "
continues.

6.14 The PAC formed the view that Treasury mandarins continued the balancing act even after the Parliament had been warned o

"... there is concern that the budget result will be meaningless as an instrument indicative of efficiency or otherwise ".

6.15 An examination of the Public Accounts show that notwithstanding a change of government significant monies were transferred under Section 22 of the Public Finance and Audit Act.

2 Mr J. Murray, MP - Hansard, 1 June 1988, Page 1228 3 Mr J. Murray, MP - Hansard, 1 June 1988, Page 1228

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TABLE 6.2

Section 22 Transfers, 1987/88 Financial Year

ACCOUNT	BALANCE 31/3/88 \$M	SECTION 22* TRANSFER \$M	BALANCE 30/6/88 \$M
<i>Purchase of Computers</i>	94.5	75.8	98.6
<i>Arrears of Maintenance</i>	63.4	72.0	76.8

* Section 22 Transfer as included in the 1988 Appropriation Act.

6.16 This reinforces the PAC view that only the practitioners with "inside knowledge" can interpret the Public Accounts in a meaningful manner.

TREASURY FIRE RISKS ACCOUNT

6.17 The Treasury Fire Risks Account received a transfer of \$25M using the Section 22 facility during 1986/87 Financial Year.

6.18 The following table shows the balance of the account over the last four years.

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TABLE 6.3

Treasury Fire Risks Account Balance

30/6/85	30/6/86	30/6/87	30/6/88	31/11/88
32.9	60.1	88.6	78.1	70.9

- 6.19 A more detailed review of the activities of the Treasury Fire Risks Account has been undertaken in the recent PAC Inquiry "*The Management of Arson in the Public Sector*", PAC Report No. 42.
- 6.20 In this review , th e PAC reports on the transfers into the account in particular a \$25M transfer in June 1987, for no apparent reason other than to help balance the budget.
- 6.21 The PAC was concerned that, no premiums are payable for insurance cover, no actuarial assessment has been undertaken on the operations of the account and no financial incentive exists for public sector management to reduce risk exposure.
- 6.22 The following extracts from evidence at PAC hearings are illustrative of the PAC's concern:

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"... there is no premium." ⁴

"... Other than the normal restraints of good management there is no incentive to reduce it. (Risk). ⁵

"... As far as I know that no comprehensive actuarial advice has not been used in the past in determining the level of funding for that account. ⁵

"... Quite frankly, Mr Chairman, the Fire Risks Account have been used often as a balancing item for the budget. There has not been a comprehensive evaluation of those funds. "

6.23 The PAC noted that an overall review of Risk Management within the State Government ⁸ was underway at the time of drafting this report.

6.24 The PAC found that the payment of \$25M to the Fire Risks Account was in accordance with the strict legal interpretation of Section 22 of the Public Finance and Audit Act.

6.25 However, in the interests of full and complete public disclosure, this "payment" was more in the nature of a transfer to balance the budget.

6.26 The PAC was informed that a s part of the Treasury study into Risk Management all government departments and the ten largest statutory authorities were surveyed as to their current assets and claims experience. The PAC was

4 Transcript of Evidence - 14 June 1988, Page 22 5 Transcript of Evidence - 26 July 1988, Page 22 6 Transcript of Evidence - 26 July 1988, Page 98 7 Transcript of Evidence - 26 July 1988, Page 111 8 Transcript of Evidence - 26 July 1988, Page 99

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informed that "1 28 billion dollars in assets at replacement value"⁹ had been identified and insurance claims of about \$44M are made each year.

Recommendation 6

6.27 The PAC recommends that no further transfers under Section 22 be made to the Fire Risks Account until:

1. the overall Risk Management review by Treasury has been completed; and
2. Treasury self-insurance activities are on a commercially cost effective basis.

COMPUTER FUNDING

6.28 The NSW Public Sector has a significant commitment towards the provision of funds for the purchase of computers.

6.29 The PAC notes that in 1986/87 and 1987/88 the Section 22 facility was used to transfer substantial funds to Special Deposits Account for the purchase of computers.

⁹ Transcript of Evidence - 26 July 1988, Page 93

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TABLE 6.4

Section 22 Transfers for Purchase of Computers

	<u>SM</u>
1986/87	30.0
1987/88	<u>75.8</u>

6.30 The PAC notes the Auditor-General's comment in his report to Parliament 1986/87:

"... Funds could have been transferred as necessary under full Parliamentary control".10

6.31 The following table shows that substantial funds have been held, unspent, in the computer acquisition account within Treasury Special Deposits.

Auditor-General's Report to Parliament 1986/87, Page 31

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TABLE 6.5

Treasury Special Deposits

Computer Acquisition Account Balances

30/6/85	30/6/86	30/6/87	30/6/88
10.0	36.7	80.8	98.5

6.32 The PAC noted the comment by a senior Treasury officer that funds for computer acquisition are closely controlled by Treasury.

"The government wished to control closely the development of computer systems, and chose to use this mechanism of a separate committee which does its own budgeting limited strictly to computer acquisition. "11

6.33 The PAC accepted that the acquisition of new computer systems including the development of computer software and graff costs are essentially long term projects.

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6.34 In evidence, the PAC was advised:

*"Computer projects are often very long term projects, and they are notorious for not coming in on time. It has been a matter of concern, particularly in the past two years, that projects have tended to run late and expenditure has not been made along the anticipated time scale."*¹²

6.35 The PAC accepted this explanation for the build up of funds within the account.

6.36 The PAC, however, believes that the allocation of cash to this account via Section 22, was outside the intention of the legislation and was unreasonable in the context of Parliamentary control of public funds.

Recommendation 7

6.37 The PAC recommends that funds provided to acquire public sector assets including computers should be included in the usual Parliamentary appropriation process (see also Recommendation 8).

12 Transcript of Evidence - 14 June 1988, Page 17

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7. THE BUDGET CYCLE

7.1 The Annual Budget Cycle has a long lead time and Treasury (and the Government) do not have flexibility to quickly respond to sudden and unexpected upturns in the economy and, therefore, growth in State tax revenues.

7.2 In New South Wales, we are fortunate from the point of view of economic growth, that Sydney is developing from the major Australian financial centre to the leading financial centre in the Pacific Region. The Stock Market boom" (up to October 1987) and the property 'boom" have caused significant increases in State revenues.

7.3 In evidence before the Committee, the Secretary to the Treasury referred to the difficulties in forecasting State Revenues.

"... Our revenues are becoming increasingly difficult to predict. Already stamp duty has overtaken payroll tax as our most important tax, That happened a few months ago. Stamp duty is an extremely volatile revenue. This year stamp duty is likely to be up by 47 per cent on last year, and I think the budget projected only about 14 per cent

7.4 Government accounting is complicated, the reports are difficult to interpret. Notwithstanding the changes introduced by reforming legislation over recent years, it is difficult for even a learned reader to readily find a concise report on Government Financial Administration.

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7.5 In New South Wales, these reforms are ahead of the rest of Australia. The Auditor-General's Report which includes the Public Accounts as prepared by the Treasury is widely regarded as a leader in its field.

7.6 During the course of this Inquiry, the Committee received advice from a number of leading accounting academics. Professor Bob Walker, Professor of Accounting at the University of New South Wales and an acknowledged leader in the study of public sector finances said:

government's financial statements

The Public Accounts prepared by Australian Governments are all difficult to interpret - even by qualified accountants. In my opinion, New South Wales has been having Auditors-General who have seen their role as including the highlight significant items in those financial statements. The Auditor-General's Report which summarises the Public Accounts, departmental accounts and the financial statements of statutory authorities is an extremely useful and informative document".

1987

7.7 An analysis of Section 22 Payments for 1986/87 and 1987/88 has been prepared on the following basis:

- 1) Transfers to Special Deposits Account in Treasury
- 2) Payments to transport authorities. These payments have the effect of reducing the State's revenue surplus on one side and then reducing the operating deficit of the Transport authorities.

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- 3) Bicentennial projects - major capital works

TRANSFERS TO SPECIAL DEPOSITS

- 7.8 A significant number of the "Payments" authorised under Section 22 during the 1987 Financial Year were Transfers between various Treasury accounts and not cash payments.
- 7.9 The rationale behind these transfers is that Consolidated Fund appropriations lapse if not "spent" by 30th June.
- 7.10 Funds held in a Special Deposits Account at Treasury do not lapse at financial year end.
- 7.11 A Consolidated Fund appropriation can be fully expended during the year, by payment for goods or services supplied. If moneys remain in an allocation at year end, this money can be "saved" from reverting to Treasury as an unspent allocation by "payment ", i.e. transfer from the Consolidated Fund to Special Deposits Account.
- 7.12 Rules and Guidelines apply to prevent widespread open abuse of this system in that Special Deposits Accounts are opened by direction of the Treasurer under the Public Finance Audit Act or by other enabling legislation.
- 7.13 Public disclosure of the accounts opened is provided by Table 17 to the Public Accounts which is included with the Auditor-General's statutory Report to Parliament and is a public document. In 1986-87, some nine accounts were opened. Two examples being the 'New South Wales Public Sector Telecommunications Network Account' and the "Public Liability Fund". Both were opened at the direction of the Treasurer under the Public Finance and Audit Act.

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PUBLIC SECTOR TELECOMMUNICATIONS NETWORK ACCOUNT

- 7.14 This account was opened for the purpose of recording the capital costs of development of a public sector telecommunications network. An amount of \$10M was provided using the Section 22 facility.
- 7.15 The PAC rejects the argument put to it by a number of departments that the Section 22 provision overcame the problem of funds lapsing if unspent at June 30 each year. While this may have been a problem in the past the use of the "*commitments outstanding*", "*Revenue Equalisation*" and "*Section 22*" provisions have broken down the artificial barriers of the June 30 year end.
- 7.16 The PAC is concerned that this "*lapsing mentality*" may impinge on the efficient delivery of services due to the use of artificial barriers of June 30 to restrict the use of long term contracts.
- 7.17 The PAC was concerned to learn that the Communications Network project was only at the conceptual stage when the funds were transferred using the Section 22 facility as "*an exigency, of Government*"
- 7.18 The PAC endorses the research and feasibility studies in to this project. In evidence, the PAC was advised that considerable cost will be involved in establishing this network if the feasibility study shows the proposal to be cost effective.
- 7.19 The PAC considers it likely that the Section 22 provision was used as a guise to authorise the transfer of the \$10M involved and was not a transfer for the "*exigency of government*".

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7.20 The PAC believes that the Parliament should have the opportunity to consider and debate this and similar projects. The failure to include this matter on the public record is a lost opportunity for good and open government.

7.21 The PAC noted that the \$10M transfer was made in the closing months of the 1986-87 financial year. At 30 November, 1988, that is during the 1988-89 financial year an amount of \$6,000 had been spent from the account leaving a balance of \$9.994M.

PUBLIC LIABILITY FUND

7.22 Included in the 1986-87 financial year "Section 22" payments is an amount of \$30.0M to establish a "public liability" fund within Treasury Special Deposits account. The government self insures for public liability of the inner budget sector. Funds had not previously been set aside to provide for any contingent liability.

7.23 The PAC found that the Treasury was conducting its self insurance on the following basis.

PAC: "What is the fund for?"

TREASURY: The government acts as a self-insurer for public liability. In the past it has never set aside any funds to meet emergent claims. It has dealt with claims on a totally ad hoc basis. To improve the aspect of risk management, the government reached a decision that funds would be set aside as funds that bear interest, and the interest earnings would be used to meet such claims as they arise. It is a difficult area to forecast.

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Was that forecasting assisted by actuarial advice?

TREASURY: *I cannot answer that. , , 2*

7.24 In evidence, Treasury officers stated that a review of the Treasury's risk management practices was underway. The transfer of \$30M was made on internal Treasury recommendation without actuarial advice.

7.25 In answer to the question:

"Could I ask you, are you acting on actuarial advice to show that this \$31M is an appropriate figure?"

TREASURY: *No detailed actuarial advice has been obtained ". 3*

7.26 This led the PAC to the view that the transfer of the amount was more in line with balancing the budget. To resolve this issue a further question was asked:

"... But it would have helped to balance the budget as well, wouldn't it?"

TREASURY: *It seems to have. that consequential effect, yes ". 4*

7.27 The PAC finds in the case of this \$30M transfer, the absence of actuarial advice and before the internal Treasury risk examination was complete that the "exigency of Government" had not been established. Accordingly,

2 Transcript of Evidence - 14 June 1988, Page 20 3 Transcript of Evidence - 26 July 1988, Page 83 4 Transcript of Evidence - 26 July 1988, Page 83

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this \$30M was seemingly used in part to balance the budget.

7.28 The view was endorsed in evidence given by a senior officer of Treasury to the PAC when inquiring into the "*Management of Arson in the Public Sector*" to the effect that the Public Liability Fund has been used "... as a *balancing item for the budget*".⁵

PAYMENT TO TRANSPORT AUTHORITIES

7.29 Payments totalling \$72 .7M were made under Section 22, that is, above the amount appropriated by the Parliament, for the following purposes:

TABLE 7.1

Financial Year 1986/87

	\$M
MINISTRY OF TRANSPORT	
<i>"Payments to Transport Authorities for concessions granted by the Government - further sum"</i>	3
2.7	
<i>towards superannuation costs - further sum"</i>	<u>40.0</u>
TOTAL	72.7

5 Transcript of Evidence - 26 July 1988, Page 111

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7.30 The PAC notes that the operating losses of various transport authorities are well known and were the subject of detailed review by the New South Wales Commission of Audit.

7.31 The PAC noted that the use of the Section 22 provision to pay funds to the transport authorities has the effect of delaying the opportunity for public and Parliamentary scrutiny over the payment. The Parliament can do little more than rubber stamp such a significant commitment of public funds.

BICENTENNIAL PROJECTS

7.32 The PAC noted that during the 1986/87 Financial year, an amount of \$25M was transferred as a Section 22 payment, to the Premier's Department "State Bicentennial Program Account" held within Special Deposits Account at Treasury.

7.33 The PAC noted that the Public Accounts show an accumulation of funds within this account over the years prior to the Bicentennial year.

TABLE 7.2

State Bicentennial Program , Premier's Department Funds held in Treasury - Special Deposits

	\$'000
30/6/84	10,000
30/6/85	29,893
30/6/86	66,356
30/6/87	97,649
30/6/88	48,682

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7.34 The PAC was concerned that the Section 22 provision was used to accumulate cash reserves for future projects.

7.35 In evidence the PAC found that Section 22 transfers had been used to build up reserves years before expenditure **was anticipated.**

"... I am a little intrigued you have mentioned that some of the moneys allocated by Section 22 might be spent ... over the next 18' months ... up to two years hence. Is that common and expected that moneys allocated in one financial year might take 18 months to two years for total exhaustion?"

TREASURY.' I don't think it is common. I think normally speaking the moneys would be expended in the following year ... in certain cases the money . won't be spent for some time ... it applies to the Bicentennial Fund where we started putting moneys away for the Bicentennial in 1983 and we knew that the bulk wouldn't be spent for five years hence.

7.36 The PAC finds that the use of the Section 22 facility to transfer \$25M to the Bicentennial Fund in 1986/87 could not be justified as an "exigency of government" and was used partly to balance the budget. This purpose is beyond the Parliament's intention for "Section 22" payments.

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8. PAC CONCERN WITH THE PARLIAMENTARY CONTROL OVER PUBLIC SECTOR FINANCES

PARLIAMENTARY CONTROL

- 8.1 Section 22 effectively reduces the overall opportunity of the Parliament to consider and debate the receipts and payments of the budget sector.
- 8.2 Surplus revenues can be spent without the Parliament being effectively involved or aware of the actual collections of State revenues.
- 8.3 Additional payments can be made without the Parliament being able to consider and debate the areas to be funded.

Recommendation 8

- 8.4 The PAC recommends that the Section 22 facility be retained, to be used only for urgent and pressing necessities that require immediate action by government in the public interest, for example, relief from natural disasters.
- 8.5 The PAC concludes that on the balance of evidence presented the Section 22 payments have been repeatedly used to authorise Transfers without Parliamentary Appropriation for the purposes of balancing the budget and not for any pressing urgency. This is considered, by the PAC, to be outside the original intent of the legislation.
- 8.6 The PAC regards this practice as undermining the necessary Parliamentary control over public sector finances.

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- 9.6 A simple balancing of the cash book is and should not be regarded as a measure of the financial efficiency of the government.
- 9.7 The electorate is now sensitive to the issue of taxes and government charges. The NSW Treasury in its financial management role must ensure that the government strategy of a balanced budget is achieved. This aim can be seen to be in conflict with the primary objective of the State Treasury Office of State Revenue which is to optimise Tax Revenue. An upturn in the economic activity of the State leads to an increase in the collection of revenue from State taxes and charges.
- 9.8 Any government that ends the financial year with a surplus runs the risk of criticism by uninformed taxpayers that the government is a high taxing government.
- 9.9 In both years, the Section 22 provision was used to make additional payments and transfers from the Consolidated Fund.
- 9.10 The Committee noted that at 30th June, 1988, the fine tuning of the Public Accounts by Treasury resulted in the Consolidated Fund overdraft being repaid and the account balance being Nil at 30th June, 1988.
- 9.11 The Committee further noted that this overdraft had been carried forward since the early 1960's.
- 9.12 The Committee finds difficulty in understanding the answer of the Treasury Secretary, to the PAC's question:

"Do you consider that a modest budget surplus of \$767, 000 as detailed in Table 2 to the 1986-87 Public Accounts was a fair disclosure of the actual results for that year?"

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I think it was a fair disclosure after the Government had decided to put money aside for particular purposes ...

9.13 The Auditor General in evidence to the PAC indicated that in his professional opinion:

"If I were in a position to apply Australian Accounting Standard AAS1 to the Treasurer's public accounts, I believe a fairer representation would be to declare an operating surplus. For last year, for instance, 1986-87, I believe an operating surplus should have been around the \$300 million to \$350 million mark. If AAS1 was used, the operating surplus could have been adjusted by appropriation to the reserves totalling the same figures.

industry. Organisations strike a result and then transfer their retained profits

9.14 The PAC notes that this is in line with the recommendation of the Australian Society of Accountants in their submission to the Inquiry.

"That after determining the result following matching of actual receipts and expenditure for the State each year, transfers to special deposit accounts be disclosed as transfers rather than as payments made. While adopting this recommendation would improve on the current situation, the Society strongly supports further extension of accrual accounting concepts in the accounts of the public sector to more effectively reflect the financial position of the State. , ,3

1 Transcript of Evidence, June 1988, Page 1

2 Transcript of Evidence June 1988 Page 41

3 Australian Society of Accountants, NSW Division, Submission to the PAC.

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9.15 The PAC further considered the generally accepted accounting concept of differentiating between provisions and reserves. The following question was asked of the Auditor-General:

PACt "When you mention appropriation of reserves, is that the only alternative that might have been available to Treasury for those years about which you adversely commented in your reports?"

AUDITOR-GENERAL: The other alternative of course is to have a surplus. There could have been a surplus of \$300 million. interesting to note that if the additional consolidated fund receipts for 1986-87 had not been allocated to the chosen areas, there would have been sufficient cash to wipe out the consolidated fund overdraft, or to discharge the high-cost finance budget sector, deferred payments scheme. The consolidated fund overdraft at loth June 1987 deferred payment of the budget sector works totalled \$278 million.

9.16 The PAC is of the opinion that in the interests of full disclosure the results of inner budget sector i.e. the consolidated fund be on a basis similar to the private sector in that transfers to reserves be made "below the line" after the Operating result for the year has been declared.

9.17 In the September 1988 Report of the Auditor-General the results of the Consolidated Fund for th e year ended 30 June 1988 have been recast in line with Australian Accounting Standards which apply to the private sector and are progressively being applied to the public sector.

Public Accounts Committee

TABLE 9.1

**CONSOLIDATED FUND RESULTS FOR 1987-88 AS RECAST BY AUDITOR-
GENERAL**

CONSOLIDATED FUND TRANSACTIONS - 1987-88

	\$M	\$M
Total Receipts		13,763.0
Total Payments		<u>13,049.8</u>
Operating Surplus		713.2
Less - <i>Transfers to "Reserves" (a)</i> <i>within Special Deposits Account for:</i>		
CASH ADVANCES:		
State Rail Account	60.0	
Darling Harbour Account	81.7	
OTHER PURPOSES:		
Health Working Account	25.6	
Various Natural Disaster Accts 18.5 (b)		
Provision for Purchase of		
Computers Account	83.1	
Arrears of Maintenance Acct	72.0	
Debt Retirement Account	51.8	
Staff Redundancy Account	10.0	
Advances to be Recovered Acct	<u>10.0</u>	<u>412.7</u>
		300.5
Less - Transfer to Revenue		
Equalisation Account (S22A)		<u>55.8</u>
Declared Surplus, 1987 - 88		244.7
Amount Applied to Eliminate		
Consolidated Fund Overdraft		<u>244.7</u>

KEY

- (a) No Budget allocation in 1987 - 88
- (b) Represents amounts in excess of Budget allocation.

Report on Payments Without Parliamentary Appropriation

10. OTHER ISSUES

10.1 During the course of the Inquiry, it was brought to the PAC's notice that the use of the "Section 22 facility" to transfer over budget State revenues might have an economic impact on Federal/State financial arrangements.

10.2A view was put to the PAC that the use of the Section 22 facility in the present manner might disguise the extent of State expenditures on specific items and disguise the nature of the State's cash reserves.

10.3 Expenditure on specific goods and services could be overstated when substantial sums are transferred to Special Deposit Accounts. In subsequent years expenditure from these accounts could result in double counting in these future years. School maintenance and computer acquisitions are two accounts where this could occur.

10.4 The PAC has no objection to the Treasury holding cash reserves to meet commitments of the State as they emerge.

10.5 The PAC noted that the Corporate Plan of the Treasury Office of Financial Management had identified the following aim:

"To serve the Treasurer in the performance of his responsibilities, including the prudent management of the Government's finances.

1 Treasury: Office of Financial Management, Corporate Plan
June '88 - June '89, Page 2.

Public Accounts Committee

10.6 The PAC considers, however, that a clear distinction should be made between provisions and reserves.

Provisions cover identified commitments specifically provided for prior to the operating result being declared,

that is "above the line", for example employee entitlements and depreciation. Reserves on the other

hand, are an appropriation of the operating surplus and are shown "below the line", examples being asset replacement' reserve and loan repayment reserve. This would be in accordance with generally accepted accounting principles.

Report on Payments Without Parliamentary Appropriation

APPENDIX 1

SECTION 22 PAYMENTS 1986/87

ITEM

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PAYMENTS FOR RECURRENT SERVICES

PREMIER' S DEPARTMENT

*2.4 Co-ordination of State Government Bicentennial
Activities and Australia Day Celebrations*

- State Bicentennial Program - further sum 25,000,000

TOTAL, PREMIER' S DEPARTMENT

25,000,000

PUBLIC WORKS DEPARTMENTS

2.6 Maintenance of School Buildings

Other Services

- Arrear s of Maintenance 30,000,000

2.7 Maintenance of Tertiary Education Buildings

Other Services

- Arrear s of Maintenance 5,000,000

2.9 Maintenance of Public and Other Buildings

Other Services

- Arrear s of Maintenance 20,120,000

TOTAL, PUBLIC WORKS DEPARTMENT

55,120,000

Public Accounts Committee

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PAYMENTS FOR RECURRENT SERVICES *continued*

MINISTRY OF TRANSPORT

1.1 *Payments for providing Travel Concessions, Drivers Licence Concessions and Other Minor Concessions*

Grants and Subsidies

- Payments to transport authorities for concessions granted by the Government
- further sum

32,715, -855

1.3 *Contributions towards Government Railways Superannuation*

- Payments to transport authorities towards superannuation costs - further sum

40,000,000

TOTAL - MINISTER FOR TRANSPORT

72,715,855

TREASURY

1.2 *Financial Accounting and Funds Management*

- Establishment costs of Public Sector Telecommunications Network
- Provision for new computer facilities, including staff and associated costs - carried to Special Deposits Accounts

10,000,000

30,000,000

3.2 *Insurance and Compensation Payments*

- Contribution to Public Liability Fund
- Contribution to Treasury Fire Risks Account

30,000,000

25,000,000

Report on Payments Without Parliamentary Appropriation

ITEM

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PAYMENTS FOR RECURRENT SERVICES *continued*

4.1 *Assistance to Authorities and Other Bodies*

Other Services

- Advances to Department and undertakings
for working capital - further sum

27,336,468

TOTAL - TREASURY

122,336,468

TOTAL - PAYMENTS FOR RECURRENT SERVICES

275,172,323

PAYMENTS FOR CAPITAL WORKS

DEPARTMENT OF HEALTH

2.3 *Support for Area Health Services and Public Hospitals*

Acquisitions of sites, new buildings,
improvements, additions and associated
facilities, capital grants and staff
accommodation

806,915

DEPARTMENT OF ENVIRONMENT AND PLANNING

2.1 *State Library and Support of Library Services*

State Library - new wing

6,801,096

2.2 *The Australian Museum*

General Works and Services

2,751,933

Public Accounts Committee

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PAYMENTS FOR CAPITAL WORKS- *continued*

2.3 Museum of Applied Arts and Sciences

Power House Museum

19,092,744

TOTAL - DEPARTMENT OF ENVIRONMENT AND PLANNING

28,645,773

PUBLIC WORKS DEPARTMENT

1.2 Country Towns Water Supply and Sewerage Schemes

Survey, investigation, design and supervision costs and construction payments for eligible works

15,349,444

1.6 Flood Plain Management

Rivers and foreshore improvements, including grants to councils, etc, for such works

61,000

1.9 Fishing and Government Facilities

Harbour and rivers generally - miscellaneous

753,000

2.4 Other Public Buildings

Public Buildings generally

5,351,773

TOTAL - PUBLIC WORKS DEPARTMENT

21,515,217

TOTAL - PAYMENTS FOR CAPITAL WORKS AND SERVICES

50,967,905

TOTAL - CONSOLIDATED FUND

326,140,228

Report on Payments Without Parliamentary Appropriation

APPENDIX 2

1987 PUBLIC ACCOUNTS

CONSOLIDATED FUND - RECEIPTS IN DETAIL

LAST YEAR	HEAD OF RECEIPT	AMOUNT	TOTAL
1985/86			1986/87
STATE TAX RECEIPTS			
STATE TAXATION			
		\$000	\$000
			Actual
	STAMP DUTIES		
360,565	Contracts and Conveyances	520,673	
118,745	Insurance	150,610	
60,503	Loan Securities	55,341	
85,351	Share Transfers	168,374	
114,567	Motor Vehicle Registration Certificates	130,530	
25,590	Cheques	25,174	
137,250	Financial Institutions Duty	165,551	
103,046	Other	<u>91,377</u>	
1,005,617		1,306,630	
3,618	Probate and Death Duties	<u>1,860</u>	
<u>1,009,235</u>			1,308,490
1,579,145	PAY-ROLL TAX		1,723,826
295,976	LAND TAX		345,577
34,875	HEALTH INSURANCE LEVIES		37,003
	RACING		
120	Bookmakers	113	
	Racing Taxation (Betting Tax) Act, 1952	16,625	
14,578	Totalizator Tax	48,491	
45,739	Totalizator (Off-Course Betting) Act, 1964	<u>140,050</u>	
126,960			
187,397	---		205,279
			POKER MACHINE TAXATION
191,819			

Public Accounts Committee

	LICENCES	
	Auctioneers, Stock and	
	Station, Real Estate and	
734	Business Agents	693
	Business Franchise Licences	
27	(Petroleum) Arrears	12
	Business Franchise Licences	
	(Petroleum Pr oducts)	
247,234	Act, 1982	225,422
	Business Franchise Licences	
113,379	(Tobacco)	157,066
464	Consumer Credit	767
	Fermented and	
138,198	Spirituos Liquors	149,423
	Liquor (Amusement Devices)	
8,210	Amendment Act	12,341
1,395	Soccer Football Pools	3,571
108,122	Lotto	113,804
707	Motor Dealers	868
769	Dangerous Goods	705
	Firearms and Dangerous	
1,214	Weapons	2,020
1,815	Other Licences	<u>2.107</u>
622.268		<u>668.799</u>
<u>3,728,896</u>	TOTAL - STATE TAXATION	<u>4,480,793</u>

Report on Payments Without Parliamentary Appropriation

APPENDIX 3

SECTION 22 PAYMENTS 1987/88

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PAYMENTS FOR RECURRENT SERVICES

TREASURY

Plant and Equipment

- Purchase of computers and related payments
- further sum

75,823,593

3.1 Superannuation Costs

Other Services

- Employer's liability to non-contributory superannuation (basic benefit)

2,669,004

3.2 Insurance and Compensation Payments

- Employment and compensation payments

10,000,000

5.4 Liability for Debts Assumed from Various Authorities

Other Services

- Principal repayments

51,800,000

TOTAL, TREASURY

140,292,597

DEPARTMENT OF HEALTH

2.3 Support for Area Health Services and Public Hospitals Other Services

- Payments towards area health services and public hospitals' operating costs
- further sum

51,632,444

TOTAL, DEPARTMENT OF HEALTH

51,632,444

Public Accounts Committee

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PAYMENTS FOR RECURRENT SERVICES *continued*

DEPARTMENT OF PLANNING

1.5 *Administrative Support Services*

Other Services

- First State 88 operating costs 7,100,000

TOTAL, DEPARTMENT OF PLANNING

7,100,000

PUBLIC WORKS DEPARTMENT

2.6 *Maintenance of School Buildings*

Other Services

- Arrears of maintenance 50,000,000

2.7 *Maintenance of Tertiary Education Buildings*

Other Services

- Arrears of Maintenance 7,000,000

2.9 *Maintenance Public and Other Buildings*

Other Services

- Arrears of Maintenance 15,000,000

TOTAL, PUBLIC WORKS DEPARTMENT

72,000,000

POLICE DEPARTMENT

1.1 *General Police Services*

Salaries and Other Employee Payments - further sum 10,682,956

Other Services

- Fire-arms compensation 1,742,317

TOTAL, POLICE DEPARTMENT

12,425,273

TOTAL - PAYMENTS FOR RECURRENT SERVICES

283,450,314

Report on Payments Without Parliamentary Appropriation

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ITEM	\$
 PAYMENTS FOR CAPITAL WORKS & SERVICES	
DEPARTMENT OF PLANNING	
 <i>1.5 Administrative Support Services</i>	
Darling Harbour Authority - repayment of promissory notes	74,531,928
TOTAL, DEPARTMENT OF PLANNING	74,531,928
MINISTRY OF TRANSPORT	
 <i>1.2 Contributions towards the Cost of Leasing and Purchasing Rolling Stock, Buses & Ferries</i>	
Repayable advance to the State Rail Authority	55,581,340
TOTAL, MINISTRY OF TRANSPORT	55,581,340
TOTAL - PAYMENTS FOR CAPITAL WORKS AND SERVICES	130,113,268
TOTAL - CONSOLIDATED FUND	413,563,582

Public Accounts Committee

APPENDIX 4

AUDITOR-GENERAL'S CONCERN

Extract Page 30 - Auditor-General's Report to Parliament 1987 EXPENDITURE

Total expenditure for 1986-87 was \$12,165M, of which \$10,634M related to recurrent expenditure and \$1,531M to capital expenditure. Both areas were greater than budget estimates, by \$236M and \$52M, respectively. Expenditure under Parliamentary Appropriation, together with the full use of \$125M contingency budget provision, the Treasurer's Advance, accounted for \$11,838M of total expenditure. The balance, \$326M of over-budget payments was made in accordance with the Treasury's interpretation of Section 22 of the Public Finance and Audit Act. The bulk of this consists of the additional transfers to Special Deposits listed earlier in this review.

the passage of another 12 months has increased my concern at the weakening of Parliamentary control of the purse by the use of Section 22 of the Public Finance and Audit Act. If feel, therefore, that it is necessary to reproduce the comments I made in my 1985-86 Report on this type of expenditure.

"The Advance to Treasurer is a contingency sum appropriated ' to meet supplementary charges and expenditures of an unforeseen nature '. Section 22 enables additional payments from Consolidated Fund 'as may be necessary in the public interest'. In anticipation of Parliamentary appropriation in the following year,

Report on Payments Without Parliamentary Appropriation

"A weakness of these mechanisms in allowing budget overruns is that they do not differentiate between essential expenditure and funds that may be needed in a subsequent year. The present systems leaves Parliament little scope for anything more than formal endorsement of funding decisions made elsewhere. This is not suggesting action taken is not prudent management! but simply that Parliamentary control of the purse is somewhat undermined."

By way of an example, the table below traces the activities of five accounts within Special Deposits Account mentioned by me last year. Column (1) lists the 1985-86 transfers which were deemed to be necessary "to meet supplementary charges and expenditures of an unforeseen nature" or "in the public interest",

Public Accounts Committee

	(1) Transfer Late 85-86	(2) Balance 30.6.86	(3) Balance Without Transfer	(4) Usage 86-87	(5) Usage 1st Quarter 86-87	(6) Balance 30.6.87
SPECIAL DEPOSITS ACCOUNT	\$M	\$M	\$M	\$M	\$M	\$M
Bicentennial Fund Account	40.0	66.4	26.4	16.8	1.7	97.6
Coal Compensation Fund Account	30.0	77.5	47.5	23.6	1.3	74.0
Treasury Fire Risks Account	25.0	60.1	35.1	3.7	0.1	88.6
Computer Account	30.0	36.7	6.7	30.4	3.5	80.8
Arrears of Maintenance Account	30.0	36.4	6.4	38.2	3.4	53.8

In respect of the first three accounts the ~"Balance Without Transfer" (Column 3) was sufficient to cater for expenditure for the whole of 1986-87. In the other two accounts, the revised balance was not large enough to support a full year's activity, but it was sufficient to meet expenditure in the first quarter. (Computer Account, \$3.5M; Arrears of Maintenance Account, \$3.4M). By that time the 1986-87 budget was delivered and funds could have been transferred as necessary under full Parliamentary control.

Report on Payments Without Parliamentary Appropriation

APPENDIX 5

AUDITOR-GENERAL'S CONCERN

Extract Page 128 - Auditor-General's Report to Parliament 1988 EXPENDITURE

Total expenditure for 1987/88 was \$13,519M, of which \$11,871M related to recurrent expenditure, \$1,592M to capital expenditure, while \$56M was transferred under Section 22A of the Public Finance and Audit Act to the Revenue Equalisation Account in Special Deposits. Recurrent expenditure was \$195M and capital expenditure \$131M above Budget forecasts. The Section 22A transfer is not a Budget item, the amount determined to be transferred depends on the result for the year and other factors.

Expenditure under Parliamentary Appropriation, together with the full use of the \$134M contingency Budget provision, the Treasurer's Advance, account for \$13,049M. The balance, \$414M of over-budget payments was made in accordance with the Treasury's interpretation of Section 22 of the Public Finance and Audit Act. The bulk of this consists of the additional transfers to Special Deposits listed earlier in this review. The Section 22A payment mentioned above accounts for the balance.

The table below reveals how, in the decade since 1977/78, payments purporting to meet the definitions of Treasurer's Advance or Section 22 have risen steadily. The comparison with the total Consolidated Fund expenditure is to some extent distorted by the large increase in total expenditure, in 1986/87, when funds previously accounted for outside the inner Budget, were included. The increase in the usage of the Treasurer's Advance or Section 22 before 1986/87 was steady and this year the trend has recommenced.

Public Accounts Committee

	(1) Section 22 Expenditure \$M	(2) Treasurer's Advance \$M	(3) Total \$M	(4) Total Consolidated Fund \$M	% (3) of (4)
1987/88	413,563	134,000	547,563	13,518,518	4 0
1986/87	326,139	125,000	451,139	12,164,584	3 7
1985/86	281,525	123,000	404,525	8,878,672	4 6
1984/85	154,473	77,000	231,473	8,001,749	2 9
1983'/84	119,390	70,000	189,390	7,441,370	2 5
1977/78'	20,208	50,000	70,208	3,755,636	1 9

* Under previous Audit Act 1902 titled "Payments Unauthorised in

Suspense". For comparative purposes total expenditure includes

previous General Loan Account.

The data above clearly demonstrates why the escalating growth of payments made under Section 22 of the Public Finance and Audit Act is again my major concern when reviewing the activities of the Consolidated Fund.

In ten years to 1987/88, these payments have increased from \$20.2M to \$413.6M. It is apparent that the Treasury has continued to ignore my criticisms, but it is pleasing that my warnings to Parliament that control of a portion of the public purse is moving from Parliament to the bureaucracy has produced some action. Perhaps now that there has been some concern expressed by Parliament itself, through the actions of a Public Accounts Committee inquiry, at which I was pleased to attend and appear as a witness, steps will be taken to stem the snowballing use of Section 22 so that it is limited to payments "as may be necessary in the public interest".

Report on Payments Without Parliamentary Appropriation

My optimism is tempered, however, by the fact that many of the transfers from Consolidated Fund to Special Deposits Account, which make up the bulk of the Section 22 payments, were made after Treasury officers had appeared before the Committee during its review of the equivalent 1986/87 payments.

A step towards better and more meaningful public disclosure of the Section 22 payments would be to include a detailed make-up in the Public Accounts each year. Such disclosure should ideally contain a full description of the item, together with an explanation as to why the payment/transfer was considered necessary and could not await Parliamentary appropriation in the following year's Budget. The table I included in my Report last year (P 31 Vol 1) showed clearly that the funds, having been transferred to meet the exigencies of Government, generally remain unused for up to a year before being required.

I am also concerned as to the apparent arbitrary manner in which over-expenditures as classified as Treasurer's Advance or Section 22. The former has Parliamentary appropriation and is therefore not reviewed separately by Parliament as to its appropriateness to be included within the definition of "*supplementary charges and expenditures of an unforeseen nature*". The table earlier shows how this appropriation from Parliament which is limited by dollar amount, but unspecified as to how it can be applied has increased by 168% in ten years and by \$57M or 74% in the last three years. I feel it desirable that the individual items making up these payments should also be disclosed in the Public Accounts.

While Parliament has the opportunity to review the items making up both Section 22 payments and Treasurer's Advance as part of the debate on the following year's Appropriation Bill, I feel that their inclusion in the Public Accounts would allow for more public scrutiny of them and also allow me to consider their appropriateness as part of my annual certificate to the Public Accounts.