

RESPONSE TO WRITTEN QUESTION - Question No.1

Mr Elferink to Treasurer – Transfer of expenditure from forward financial years

Background

This issue was raised during the briefing on 26 August and again on 8 September 2008. At the time, a copy of the quote from Mr McInnes was not available and it was presumed that the comment was in reference to a statement regarding housing specific purpose payment (SPP) expenditure variations that occurred subsequent to the Budget being handed down in May 2008 and before 30 June 2008.

In answering the questions raised, it is useful to provide some background information regarding the management of budget variations during a financial year.

Variations to agency budgets occur on an ongoing basis throughout the financial year. These can be related to new and expanded programs, revenue variations, including SPPs, or changes in timing of particular projects. Every variation to appropriation is approved either by Cabinet or by the Treasurer. However, given the number of variations that occur during each year, for administrative efficiency, all variations up to a point in time are incorporated into the agency budgets for either the Mid-Year Report or the Budget, depending on timing of the decision. Subsequent to this, the Treasurer then approves a net movement in an agency's appropriation, taking into account all previously approved variations. This approval is done under Section 20 of the *Financial Management Act (FMA)* and tabled in Parliament within six sitting days.

However, variations that occur after the Estimate has been published in the Budget (May 2008 in this instance) and before 30 June, are actioned as they arise under the appropriate section of the FMA. Therefore, if there was a need to use Section 22 of the FMA, it would only be due to a transfer of Appropriation occurring subsequent to the publication of the Budget and prior to the end of financial year.

As Mr. Elferink was advised on 26 August, this section of the FMA has not been used since 1999. Section 22 can only be used prior to 30 June and requires an accurate estimate of the end of financial year position. Due to the difficulty in precisely estimating an end of year outcome, when Section 22 was utilised, further adjustments were required in the following financial year in order to align the actual borrow forward/carryover requirement with the actual outcome.

In regards to the particular transaction in question, funding was approved over two financial years initially, with the agency to determine the actual timing of payments as Local Government Reform progressed. The agency had determined that the full funding would be required in 2007-08 prior to the finalisation of the 2008 May Budget and therefore, a variation was approved and incorporated in the Section 20 process described above. A corresponding adjustment was made to the 2008-09 Budget and incorporated in the 2008-09 Appropriation Act.

In response to the specific questions:

- (a) The amount of \$4.95 million referred to in this instance was provided via Output Appropriation.
- (b) As described above, given this requirement was identified prior to the May Budget being finalised, it was done as a Budget variation, approved by the Treasurer and incorporated into the Section 20 transfer tabled on 12 June 2008.