PACs and public finance

New Zealand’s FEC

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Consider European governments in financial difficulties

- Media commentary:
  - Criticised Greece's use of derivative financial instruments to conceal the level of government debt.
    - The "creative accounting" techniques Greece used were widely practiced in other European countries, including the UK. Other such techniques still are practiced.
- What is happening in governments in our region?
- To what extent does a PAC scrutinise the government's finance-related activities?

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Early and pre-reform concerns about parliamentary control of public finance

W.E Gladstone (1891) (UK)

› The finance of the country is ultimately associated with the liberties of the country. ... If the House of Commons by any possibility lose the power of control of the grants of public money, depend upon it, your liberty will be worth very little in comparison.

Geoffrey Palmer (NZ)

› Public Finance Act 1977 allowed NZ's government to "borrow unlimited amounts of money on whatever terms the Minister of Finance desired, from whomsoever he chose, for whatever period and to pledge the credit of New Zealand indefinitely, unfettered by any process or criteria at all" (Roberts, 2010, p. 173, citing Geoffrey Palmer).

New Zealand Reforms

Initially seemed would impose US-style strong separation of powers

- Constitution Act 1986
  - Requires parliamentary approval for all taxation, borrowing and expenditure. (s.22).

  But Public Finance Act 1989 seems to ignore that.

Public Finance Act 1989 (current today)

authorises the Minister [of Finance], **without parliamentary appropriations**:

- to borrow on behalf of the Crown (s.47);
- to appoint agents to conduct borrowing activities, who may in turn delegate their borrowing powers (s.50, 53) and those borrowing agents' activities are deemed lawful (s. 52);
- to determine the terms and conditions of such loans (s54, 55);
- to issue and vary securities for money borrowed by the Crown (63, 64);
- to enter into derivative transactions (s65G);
- to lend money to others (s65L); and
- to give guarantees or indemnities up to $10 million (s65ZD).
- All such payments to be paid from public money (s55); and payments in relation to securities, derivatives, guarantees and indemnities must be paid without requiring further authorisation (s65).

When FEC receives budget for Vote Finance?

that budget **excludes** those financing activities

› Further, much of the Vote Finance budget is for financial activities undertaken via permanent legislated authority
  - For example,
  - Vote Finance budget for 2013 was for $4,781 Million appropriations
  - Of that $4,655 Million (97%) was already authorised under permanent legislated authority, most of that being debt servicing costs (such as interest).

- How much notice is taken of permanent legislated appropriations?
- And consider the other financial activity that occurs without the need for appropriations

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During 2012, we know that:

- Money raised included:
  - Sale of shares and other securities $61,477 M
  - Issue of government stock Treasury bills $15,155 M
  - Issue of other borrowings $15,200 M
  - $91,832 M
- Money paid out included:
  - Purchase of shares and other securities $61,053 M
  - Repay government stock Treasury bills $7,601 M
  - Repay other borrowings $11,269 M
  - $79, 923 M
  - Comparators:
    - Total Vote Finance Appropriations $4,781 M
    - GDP $202,054 M)

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Fiscal responsibility rules and fiscal strategy targets

- IMF and World Bank (2001) suggested that parliaments could **indirectly** control the level of government debt by limiting budgets.
- Various fiscal responsibility rules/ fiscal policy targets suggest such limits.
  - reduce “total debt … by ensuring that… total operating expenses in each financial year are less than total operating revenues in the same financial year”; and
  - maintain “those levels [of debt] by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues”.
  - Validity in an accrual accounting environment?
- Fiscal strategy targets, typically net debt as a percentage of GDP
  - eg, “ensure net debt remains consistently below 35% of GDP”
- A government can borrow money and invest it in financial markets.
  - Net debt stays the same, but taxpayer risks increased.

NZ governments: growing financial market activities

	2004 $M	% GDP	2007 (1) $M	% GDP	2007 (2) $M	% GDP	2012 $M	% GDP
GDP	140,019		166,590		166,590		202,054	
Fin assets (on bal sheet)	46,377	33%	79,953	48%	73,718	44%	116,178	57%
Fin liabs (on bal sheet)	52,320	37%	61,094	37%	53,419	32%	116,595	58%
Derivatives (**Off balance sheet)**	35,927	26%	85,959	52%	58,183	35%	122,191	60%

PACs and public finance

- Back to questions:
- What is happening in governments in our region?
- To what extent does a PAC scrutinise the government’s finance-related activities?
- Can PAC scrutiny be improved?