

Letter to the Officers of Parliament Committee about accountability concerns

14 November 2022

Rt Hon Adrian Rurawhe
Chairperson
Officers of Parliament Committee
Parliament Buildings
WELLINGTON

Tēnā koe Mr Speaker

(Ryan, J. 2022)

P On 27 October when I appeared in front of the Committee, some members expressed concerns about a lack of transparency and accountability over the spending of public money on new initiatives. I share these concerns and I offered to write to the Committee summarising my views on this.

Also discussed were the transparency of reporting requirements for interdepartmental executive boards and ventures established under the Public Service Act 2020. I have taken the opportunity to also provide a summary of the concerns my Office has raised about these joint working arrangements, and an update on progress by the Treasury to address them.

Overall comments

P Overall, I think that reporting on new initiatives is not currently adequate in providing Parliament and the public with the information needed to hold the Government to account for the spending of public money. There are some limited signs of increased voluntary reporting (for example, the Climate Emergency Response Fund (CERF)). However, in my view, comprehensive financial and performance reporting on matters of most interest to Parliament and the public will not happen consistently without legislative change.

These concerns sit within a broader context of reporting by public organisations and the government as a whole. I have previously expressed concerns about how well current reporting by public organisations and the government as a whole is enabling effective public accountability. In my view, enhanced reporting is needed more generally about government spending and what is being achieved with that spending. Parliament and the public need better visibility of the outcomes that the Government is seeking to achieve and the progress it is making.

I further explain my concerns on these matters below.

It is difficult, and often not possible, to track spending and what is being achieved

P In my report on the 2020/21 central government audits (<https://oag.parliament.nz/2021/central-government>), I noted that it can be difficult (even with new initiatives) to track how and where some government spending is directed. Reporting is often fragmented and spread between different organisations. It is left to Parliament and the public to piece together both what has been spent and what has been achieved. In many instances, this is not possible from information

reported publicly. My Office's work on the Provincial Growth Fund (<https://oag.parliament.nz/2020/managing-pgf>) and Covid-19 spending also highlighted these concerns.

P More broadly in relation to all government spending, Parliament and the public need visibility of how decisions relate to the long-term outcomes that the Government is pursuing. But the links between spending of public money and the difference being made through that spending are too often tenuous, lack transparency, and are focused on the short term.

The Parliamentary Commissioner for the Environment's recent report, *Environmental reporting, research and investment – Do we know if we're making a difference?* (<https://www.pce.parliament.nz/publications/environmental-reporting-research-and-investment>) provides further evidence of these concerns. In my view, a comprehensive review is needed of the arrangements that enable Parliament and the public to understand what governments are seeking to achieve, what is being spent, and what progress is being made.

These shortcomings are systemic, and they raise questions about how governments can improve their transparency about, and accountability for, spending of public money, including on the more significant public spending initiatives.

There are system constraints that contribute to the issue

It is possible to determine the actual expenditure incurred for a particular initiative when there is a "one-to-one" relationship between the initiative and the authorising appropriation. This sometimes happens, as with some of the Covid-19 response initiatives (such as the Wage Subsidy Scheme and the Small Business Cashflow Scheme), but it is not the norm.

As with the information on expenditure, performance information in public organisations' annual reports is also organised appropriation by appropriation. This means that performance information on large and significant "initiatives", "funds", "programmes", and "packages" will often be fragmented. Performance is reported across the various appropriations through which the expenditure has been authorised, but it is not brought together to provide a cohesive picture of how much public money has been spent and what has been achieved as a result.

Legislative change to the Public Finance Act is needed

P The current statutory reporting requirements for public organisations and the process for approving and authorising initiatives through the Budget often do not enable sufficient meaningful reporting to Parliament and the public. Central government organisations are required to report on progress against their strategic intentions and their annual service performance expectations (such as end-of-year appropriations for departments, and Statement of Performance Expectations for Crown entities). However, there is no statutory requirement to report on the spending associated with major initiatives or the impacts of these initiatives approved through the Budget.

I therefore welcome the recent announcement that the Government is imposing tighter monitoring of spending from the CERF. However, it does highlight that this additional reporting, to provide more public accountability and transparency over CERF spending, is not currently required by legislation. Some public organisations will also report voluntarily on their contribution to major initiatives in their annual report but, again, this reporting is not required by legislation, nor is it widely available.

This reporting also provides only a limited picture. Given that the Government spends about \$150 billion a year and typically announces \$2-4 billion in new spending each year, which includes spending for new initiatives as well as increased spending due to cost pressures, this is an important public accountability issue.

P Put simply, although there are some limited signs of increased voluntary reporting, in my view comprehensive financial and performance reporting on matters of most interest to Parliament and the public will not occur on a consistent basis without legislative change.

New joint public service agency reporting requirements need to be clarified

The Public Service Act 2020 established two new organisational forms to better enable joint working across public service agencies, which were designed to achieve better outcomes for New Zealanders. In our submission on the Public Service Bill, we noted that consequential amendments to the Public Finance Act 1989 set out a menu of planning, reporting, and accountability obligations based on the characteristics of the new organisational forms. We noted that this approach would require working through the applicable provisions in the Public Finance Act to determine which obligations apply to the new organisational form.

We submitted that it would be preferable if the Order-in-Council establishing any new public service organisation or joint arrangement clearly set out what type of entity or joint arrangement it is and what its accountability obligations are under the Public Finance Act. We felt this would have the benefit of setting out in one place, at the time a public organisation or joint arrangement is created, what its accountability obligations are.

At the time that submissions were being considered, the Treasury agreed with us that transparency in the reporting requirements is important. However, it considered that the accountability requirements would be clear in the primary legislation through proposed amendments to the Public Finance Act. The Treasury considered that a more appropriate and accessible mechanism for achieving transparency in the reporting requirements would be through publication on the Treasury website and, more generally, through guidance.

I am concerned by the slow progress in providing this clarity in the reporting requirements. The Public Service Act has been in place since 2020, and five interdepartmental executive boards (IEBs) have been established under the Act. I understand that the Treasury is currently working on publishing the reporting requirements that apply. The Treasury is also drafting guidance that covers the functions and accountability considerations for the interdepartmental executive boards and joint ventures. We understand that the guidance will be published next year.

In the meantime, the IEBs are still in the early stages of reporting on their performance. Three of the IEBs will be reporting on their performance for the first time this year. Although it is too early to assess the overall quality of the reporting by the IEBs, there are some indications that several of the IEBs are developing frameworks and approaches that are intended to show how entities across the public sector are making a difference on cross-cutting issues.

I will watch these developments with interest.

I have also copied the Chairpersons of the Finance and Expenditure Committee and the Governance and Administration Committee, given these matters are also of interest to those committees.

Nāku noa, nā

John Ryan
Controller and Auditor-General

cc

- Barbara Edmonds MP, Chairperson, Finance and Expenditure Committee
- Ian McKelvie MP, Chairperson, Governance and Administration Committee