

OTHER AUDIT OBSERVATIONS

18.

ADDITIONAL APPROPRIATIONS

BACKGROUND

18.1 Every year the *Estimates*, representing the government's spending plans, are presented to the House of Assembly for review and approval. The *Estimates* are summarized in the Appropriations Act, which authorizes spending amounts (or votes) for the coming year.

18.2 The Provincial Finance Act allows adjustments to these spending plans in the form of additional appropriations. The Provincial Finance Act also permits the Executive Council to approve special warrants when an expenditure, which was not provided for in the original *Estimates*, is urgently and immediately required.

18.3 The Expenditure Control Act Section 12(2) provides “*Notwithstanding subsection (1), an amount may be expended in a fiscal year for net capital expenditures and net program operating expenditures that is no more than one percent more than the amount appropriated by the Legislature for those expenditures.*” Section 13 of the Expenditure Control Act requires that expenditures in excess of the one percent threshold “*may only be made after a resolution has been passed by the House of Assembly authorizing the expenditure.*” For purposes of this chapter, the additional amounts approved by resolution of the House under Section 13 of the Expenditure Control Act are included as additional appropriations.

18.4 Exhibit 18.1 on page 201 includes sections of the Provincial Finance Act relating to additional appropriations and special warrants. Exhibit 18.2 on page 202 includes sections of the Expenditure Control Act which are applicable to the 1996-97 fiscal year.

18.5 Finance’s current practice is that, when forecasting indicates an expenditure vote may be exceeded, it works with the affected department to identify alternatives and opportunities to avoid the overexpenditure situation. Depending on the circumstances, an additional appropriation may be necessary. Further, it was indicated by Finance that they wait to obtain an additional appropriation until they know with a high degree of certainty the amount of an additional appropriation. This avoids seeking further appropriations for minor amounts.

18.6 Finance also indicated that they are reluctant to seek spending approvals greater than the original budget estimate when there is a good probability that departmental spending pressures can be managed down to the original budgetary limit.

18.7 Section 9(2)(e) of the Provincial Finance Act requires that the *Public Accounts* include a summary listing of additional appropriations and special warrants for the fiscal year authorized under Sections 28 and 29 of that Act. Under Section 9(1) of the Auditor General Act, we are required to call attention to every case in which an appropriation was exceeded, and every case in which a special warrant was made pursuant to the provisions of the Provincial Finance Act.

RESULTS IN BRIEF

18.8 The following are the principal results from our 1997 review of additional appropriations and special warrants.

- The timing of approvals of additional appropriations continues to be a concern. All additional appropriations for the 1996-97 fiscal year were approved by either the Executive Council or the House of Assembly. However, most of the related expenditures had been incurred before the approvals were received.
- There were additional appropriations totalling \$164,284,181 for the fiscal year ended March 31, 1997. Of these, additional appropriations totalling \$164,156,181 were approved subsequent to March 31, 1997, after the overexpenditures had been incurred.
- There were no special warrants approved for the 1996-97 fiscal year.

SCOPE OF REVIEW

18.9 The objective of our annual review of additional appropriations and special warrants is to determine if they were properly authorized in accordance with the provisions of the Provincial Finance Act and where appropriate, the Expenditure Control Act.

18.10 In addition to reviewing the supporting information obtained from Finance, we also performed a search of Orders in Council and resolutions of the House of Assembly to verify completeness of the listing of additional appropriations and special warrants to be published in the *Public Accounts*.

PRINCIPAL FINDINGS

Additional Appropriations

18.11 The Appropriations Act, 1996 contained 37 votes for expenditures totalling \$4,515 million (including sinking fund instalments and serial retirements of \$217.4 million).

18.12 All additional appropriations for the 1996-97 fiscal year were approved by either the Executive Council or the House of Assembly. However, most of the related expenditures had been incurred before the approvals were received, which in our view may be contrary to the Provincial Finance Act and the Expenditure Control Act.

18.13 Additional appropriations were approved by the Executive Council under the provisions of Sections 27A and 28 of the Provincial Finance Act on February 25, 1997, April 22, 1997 and September 17, 1997. Further, a resolution in the House of Assembly, under the provisions of the Expenditure Control Act, was submitted to the House on April 22, 1997 and approved on April 28, 1997.

18.14 There were additional appropriations totalling \$164,284,181 approved for the fiscal year ended March 31, 1997. Of these, additional appropriations totalling \$164,156,181 were approved subsequent to the year-end, after the overexpenditures had been incurred.

18.15 Our review noted that the four departments listed below accounted for approximately 99.6% of the total additional appropriations for 1996-97.

	(\$ millions)
Community Services	\$ 5.5
Education and Culture	15.3
Health	124.1
Housing and Municipal Affairs	3.1
Justice	15.4
	<u>\$163.4</u>

18.16 More specific details of additional appropriations for three of the four departments are as follows.

- **Education** - Additional funds were required by Education and Culture mainly because of the decision to record advances made to private sector consortia building public-private partnership schools as part of the capital assets of the Province (see page 78). The additional appropriation was approved by OIC on April 22, 1997.
- **Justice** - Additional funding required by Justice was primarily due to increases in the Compensation for Victims of Institutional Abuse Program. The additional appropriation was approved by resolution in the House of Assembly on April 28, 1997.
- **Health** - The Department of Health required additional funding in the areas of Acute Care, Out-of-Province Claims, Medical Society increase in Medical Payments and uncollectible accounts receivable. The additional appropriations were approved by resolution in the House of Assembly on April 28, 1997.

18.17 The following is a summary of additional appropriations for the last ten years.

**Additional Appropriations
(\$ millions)**

Year	Current	% of Estimate	Capital	% of Estimate	Total
1996-97	\$ 142.3	3.2%	\$ 22.0	13.8%	\$164.3
1995-96	140.6	3.4%	1.5	0.5%	142.1
1994-95	51.2	1.2%	1.6	0.5%	52.8
1993-94	33.5	0.7%	8.0	2.4%	41.4
1992-93	118.5	2.7%	26.0	8.8%	144.5
1991-92	86.3	2.0%	3.2	1.2%	89.5
1990-91	77.0	1.9%	3.3	1.1%	80.3
1989-90	126.3	3.3%	32.6	9.3%	158.9
1988-89	87.6	2.5%	16.8	12.2%	104.4
1987-88	50.4	1.5%	8.4	5.4%	58.8

18.18 The following is a list of additional appropriations of \$50,000 or greater, representing 99.9% of the \$164,284,181 approved for the year ended March 31, 1997. A complete listing is included in Volume I of the Province's *Public Accounts*.

**Additional Appropriations
\$50,000 or Greater**

Department	Date Approved	Authorized
Approved by OIC		
Agriculture and Marketing	Feb. 25, 1997	\$ (91,000)
Business and Consumer Services	Feb. 25, 1997	(546,000)
Community Services	Apr. 22, 1997	5,503,000
Education and Culture	Apr. 22, 1997	15,336,000
Finance	Feb. 25, 1997	243,000
Fisheries	Feb. 25, 1997	(86,000)
Housing and Municipal Affairs	Feb. 25, 1997	308,000
Housing and Municipal Affairs	Apr. 22, 1997	2,867,000
Natural Resources	Feb. 25, 1997	220,000
Public Service		
Human Rights Commission	Sept. 17, 1997	202,317
Public Inquiry, Westray Mine	Apr. 22, 1997	750,000
The Nova Scotia Economic Renewal Agency	Feb. 25, 1997	371,000
Transportation and Public Works	Feb. 25, 1997	(276,000)
Approved by Resolution in the House		
Health	Apr. 28, 1997	124,115,000
Justice	Apr. 28, 1997	<u>15,364,000</u>
		164,280,317
Additional appropriations less than \$50,000 (net)		<u>3,864</u>
		<u><u>\$164,284,181</u></u>

Special Warrants

18.19 We are required under Section 9(1)(f) of the Auditor General Act to call attention to every case in which "a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money." The Provincial Finance Act allows the Governor in Council to approve a special warrant, when the Legislature is not in session, which authorizes "an expenditure which was not provided for by the Legislature" and "is urgently and immediately required for the public good."

18.20 There were no special warrants approved for the 1996-97 fiscal year.

CONCLUDING REMARKS

18.21 Expenditure of funds beyond the votes or appropriations approved by the House of Assembly continues to occur prior to the Governor in Council approval required under the Provincial Finance Act or the passing of a resolution by the House of Assembly under the Expenditure Control Act.

18.22 Current legislation and administrative practices raise questions as to the effectiveness of the House of Assembly's control over expenditure of public funds. The practice of obtaining after-the-fact approval for additional appropriations, while possibly more efficient, does not necessarily constitute *effective control* and, we believe, contravenes the intent of the requirements of the Provincial Finance Act and the Expenditure Control Act.

18.23 It is the stated intention of the Department of Finance to identify opportunities to enhance efficiency in order to support effective control over appropriations. In this regard, there may be modifications to the Expenditure Control Act and the Provincial Finance Act that could be made to enhance efficiency, while maintaining effective control. We have agreed to participate with Finance in a review of the policies and practices in other jurisdictions for the use and control of additional appropriations.

Exhibit 18.1**EXTRACTS FROM THE PROVINCIAL FINANCE ACT*****Prerequisite to issue of money***

13(2) *The Deputy Minister [of Finance], or an officer designated by him, before the issue of public money out of the Consolidated Fund, shall ensure that there is sufficient balance available in the appropriation for the specified purpose.*

Consequence of exhausted appropriation

13(3) *When an appropriation is exhausted, the Deputy Minister shall forthwith notify the department to which the appropriation was granted and the Minister, and shall not sanction any further contractual obligations or commitments to be charged to the exhausted appropriation.*

Suspension of right to commit

27(A) *The Governor in Council, upon the recommendation of the Minister, may order the suspension for such a period as the Minister deems fit of the right to commit any appropriation or part thereof except the salaries, wages and expenses of members of the public service, including the civil service, or the indemnities and expenses of the members of the House of Assembly.*

Report of insufficient appropriation

28(1) *When it appears to the Minister or principal officer having charge of a service that the sum appropriated by the Legislature for an ordinary or usual service is insufficient to meet the requirements of that service during the year for which the appropriation has been made or that the sum appropriated by the Legislature to be expended on capital account is insufficient for the service for which it was appropriated, the Minister or principal officer shall make a report of that fact to the Minister of Finance and shall in such report estimate the additional sum required to carry out the service.*

Supplementary appropriation

28(2) *Upon the receipt of such report, the Minister of Finance may make a report to the Governor in Council showing the need of additional appropriation and thereupon the Governor in Council may order that such additional sums as are deemed necessary for the said service be appropriated accordingly, provided that the additional sums appropriated to be expended on capital account shall not exceed twenty-five per cent of the amount appropriated by the Legislature for the service.*

Report of urgently required expenditure

29(1) *When it appears that an expenditure which was not provided for by the Legislature is urgently and immediately required for the public good, the head of the department concerned shall make a report of that fact to the Minister of Finance and shall in such report estimate the amount of the proposed expenditure.*

Special warrant

29(2) *Upon receipt of such report, the Minister may make a report to the Governor in Council that the said expenditure is urgently and immediately required for the public good, and that there is no legislative provision therefor, and the Governor in Council may thereupon order a special warrant to be prepared to be signed by the Lieutenant Governor for the issue of the amount estimated to be required, and may order the amount to be charged to Capital Account or to Current Account, or partly in one way and partly in the other.*

Conditions for special warrant while house in session

29(3) *A special warrant pursuant to the provisions of this Section shall not be made when the Legislature is in session unless the House of Assembly has not sat for any of the five days immediately preceding the issue of the special warrant.*

EXTRACTS FROM EXPENDITURE CONTROL ACT**Application of Part II**

11 For greater certainty, this Part applies to the 1996-97 and subsequent fiscal years of the Province.

Expenditure reductions for 1996-97

12(1) In each and every fiscal year of the Province commencing with the 1996-97 fiscal year, the amount appropriated by the Legislature for net capital expenditures and net program operating expenditures shall not exceed the amount of revenue forecast to be received by the Minister for that fiscal year.

Expenditure exception

12(2) Notwithstanding subsection (1), an amount may be expended in a fiscal year for net capital expenditures and net program operating expenditures that is no more than one percent more than the amount appropriated by the Legislature for those expenditures.

Time limit for recovery of deficit

12(3) Where net capital expenditures and net program operating expenditures for a fiscal year exceed the total revenues for that year, the resulting deficit shall be recovered no later than the end of the second fiscal year following the fiscal year in which the deficit occurred by a reduction in expenditures or an increase in revenue, or both, over that period.

Use of surplus

12(4) Where the amount of revenue to be received by the Minister in a fiscal year exceeds the amount appropriated by the Legislature for net capital expenditures and net program operating expenditures for that year, the resulting surplus shall, after accounting for any recoveries required pursuant to subsection (3), be used to reduce the public debt of the Province or reduce taxes, or both.

Resolution of House

13 Where net capital expenditures and net program operating expenditures for a fiscal year exceed the amount authorized to be spent pursuant to Section 12, the expenditures in excess of the amount authorized by subsection 12(1) and (2) may only be made after a resolution has been passed by the House of Assembly authorizing the expenditure.