

**PARLIAMENTARY APPROPRIATIONS:
BULK FUNDING
A DISCUSSION DOCUMENT**

FINAL DRAFT

February 2008

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INTRODUCTION

BACKGROUND

In October 2007 the Speaker of the House of Representatives requested that an “issues paper” be prepared on the subject of “bulk funding” parliamentary parties and/or individual members of Parliament through the parliamentary appropriations.

Bulk funding has been examined on a number of occasions in the past, and particularly within the following reports or reviews:

- the Parliamentary Appropriations Reviews of 2002, 2004 and 2007;
- an independent “Review of the Parliamentary Service Act” dated February 1999 (chaired by Hon Stan Rodger); and
- a report entitled “Funding Support Services for Members of Parliament” prepared by Treasury at the request of the Parliamentary Service Commission dated January 1998.

None of these previous reports has definitively recommended that bulk funding be adopted as the prime means of providing support funding for members of Parliament.

The nearest any formal consideration of the adoption of bulk funding has been entertained in the past was within the 2002 Appropriations Review which promoted the idea of undertaking a formal trial administered by one of the smaller parliamentary parties. For various reasons this trial did not proceed.

The 2004 Appropriations Review which followed suggested that, as interest in the subject at the time appeared to have waned, bulk funding no longer be considered as a potential funding alternative.

The 2007 Appropriations Review however noted a renewed interest in the subject and recommended “An external organisation with financial management expertise and analytical skills be employed to determine the details of the mechanisms and support systems that would be required, along with the associated costs, to introduce bulk funding as a primary tool for supporting all political parties and members thereof”.

The 1998 and 1999 reports noted above concluded, separately, that in essence bulk funding was probably a viable alternate funding mechanism to the systems in place at the time – but that further work would be required prior to confirming that any specific bulk funding system be considered.

THIS REPORT

Given that the subject of bulk funding is again of current interest, the Speaker has commissioned this report to aid further consideration and discussion on the subject by the Parliamentary Service Commission.

The report takes the form of a discussion paper. The Speaker was not called for specific recommendations, nor an outcome which is either for or against bulk funding – rather that the paper canvasses the issues that would or could arise, thus allowing

a better understanding of the implications of introducing bulk funding, if proceeded with.

DEFINING BULK FUNDING

The existing system of funding support is somewhat of a hybrid in that it already encompasses elements of bulk funding in the form of aggregated budgets for parliamentary party activities and support for individual MPs.

For the purpose of this report, therefore, the question that must be asked is “what do we mean by bulk funding” over and above, or different to the present system?

Do we mean bulk funding in totality whereby a parliamentary party, or member of Parliament, is given a dollar amount to cover every potential requirement they may have for doing the job, and to be administered in such a way as they decide. Do we mean just having certain additional elements of normal parliamentary-related activity being funded through a bulk fund appropriation, with the administrative role being retained by a separate entity, such as the present Parliamentary Service?

There are many variations on these themes.

The 1998 Treasury Report identified two features associated with bulk funding (paragraph 4.2):

1. “Aggregating sums of money that are currently accounted for in separate categories and distributed within Vote Parliamentary Service across several appropriations, and allocating them to party groups and/or individual members. (This enables recipients of that funding to decide their own spending priorities, subject to any conditions that may be specified by the funding provider.)
2. The presumption that those receiving funding will accept the obligation to become publicly accountable for expenditure incurred and be prepared to meet others’ expectations of what constitutes good value for money.”

In Parts One and Three of this report we elaborate on these general features by setting out what could be included a bulk fund approach. Given that there are already considerable elements of bulk funding within the present system, discussion quickly focuses on the areas of funding that stand out as currently not “bulk funded”, namely expenditure on members’ travel and communications. This indeed was the case, generally, among those we interviewed.

THE RATIONALE FOR CONSIDERING BULK FUNDING

Given that some degree of bulk funding is already built into the present system for party and member support, it could well be asked “what is the base rationale for replacing the existing system with a more complete form of bulk funding?”

One way of answering this question is to ask “what is it about the current system that causes the subject of bulk funding to be one of continual debate?”

In the context of today’s renewed interest in the subject, it can be said that there is little obvious concern as to the current quantum of funding. The recommendations for inflation adjustments made in the 2007 Appropriations Review Report were

adopted with effect from 1 July 2007 and have, in the main, dispensed with previous criticism of the outdated levels of funding. (Having said this, the subject of out-of-Parliament office rents continues to attract comment because of widely varying rents across geographic locations. The discussion in Part Four on the Australian approach to member support and office accommodation also provides comment on this issue.)

It is generally agreed that the primary benefits of bulk funding are those associated with greater flexibility and self management in the use of allocated funding by parliamentary parties and MPs; the ability to determine how they configure their support services; and the ability to “trade” services and funding across different outputs, e.g. more out-of-Parliament office support in exchange for less travel. It can be argued that this kind of flexibility creates the potential for achieving overall better outcomes for the money – and is consistent with the shift over time to a more party-based system.

The 1998 Treasury report also identified bulk funding as potentially addressing the fiscal risk of the current uncapped funding allocations (travel and communications), which have the MPs effectively determining the amount of spending although it is the Speaker, as Responsible Minister, who purchases the services and is finally accountable.

Against such a rationale for bulk funding however, the question remains as to how a fair allocation of funding to both parties and members could be determined, given wide differences in each party’s mix of list and constituency MPs and geographical location. A further factor is the extent of administrative and legislative change required to implement bulk funding fully, and the requirement for parties to maintain administrative capacity to manage bulk funded budget systems – matters we discuss in Part Five.

ACHIEVING BULK FUNDING

Obviously there are many ways of achieving complete or partial forms of bulk funding.

It is our understanding that the German system is the closest to “pure” bulk funding, wherein the party receives a total funding amount which it then administers and manages across all facets of its operations. (We have not independently studied the German system, nor for that matter any other funding system.)

Closer to home the Australian Federal system has a number of similarities to our own, but with some significant differences, particularly on the “supply” side. Notably, all out-of-Parliament offices are provided by their equivalent of the Parliamentary Service, and in essence are a constant. This means a significant component of member support is provider-based rather than being based on funding the member, as occurs in New Zealand. A similar approach for New Zealand has been discussed in previous Appropriations Reviews but has never gained any great degree of support. Within the context of bulk funding the Australian approach to providing out-of-Parliament offices could well be further debated. We comment further on this subject in Part Four.

The supply or non-supply of offices to MPs is well within the scope of what could be included or excluded in further discussions on bulk funding.

Bulk funding is a subject to which many ideas and nuances can be applied. For example:

- Should funding be allocated on an annual basis? Is there greater equity in allocating funding for the term of a parliament – with “overs and unders” being carried forward to subsequent years within the parliamentary term? Such an approach may well provide greater scope for efficiency.
- The need for transparency and accountability. The current system has the Parliamentary Service providing significant elements of the audit and reporting function. To what extent would parliamentary parties accept an audit process potentially impacting on matters that may be operational in the main, but that are also connected to private or strategic party matters?
- The current system provides some direct funding support to the MP who receives the support in the first instance. The MP may be encouraged (or volunteer) to share this support with the party, in some manner or other. Variations of a bulk funded system could see this situation reversed, with the party as “initial receiver”, and the MP “second receiver” – a matter of direct, and one could also say personal, relevance to the MP, whether constituent or list.

The considerations to be applied are quite different dependent on whether the party, or the individual MP, is the prime focus of the funding regime.

WORKING WITHIN THE CURRENT SYSTEM

The current system of administering payments for party and member support has been subject to considerable review of late. Numerous improvements have been, and continue to be, made. These have addressed a number of perceived shortcomings in the system and have gone some way towards addressing some of the issues that have prompted a call for bulk funding.

A consistent point which came through from those interviewed for this report was a call for a more “flexible” system, in particular a desire for the MP to be able to make more effective and efficient decisions relative to travel, communications and staff. “The current system would be fine if we had more flexibility in these areas” was a common statement in the course of our interviews.

The question therefore arises whether there is a way of providing such an outcome within the current system. We discuss this on page 30 (Part Three) and make a suggestion as to how an enhanced degree of flexibility could possibly be achieved.

As the 1998 Treasury Report noted, one area of concern under any funding regime is that it “maintain and enhance Members’ effectiveness as legislators and elected representatives”. This objective presumably must continue to prevail regardless of the detail of the funding mechanism provided.

REPORT SCOPE AND STRUCTURE

Scope

The focus of this report is to provide in a platform from which detailed technical work might be further undertaken, should there be confirmed interest in proceeding with formalised bulk funding.

We have approached this report on the basis that:

- Our consideration of bulk funding applies only to elected political parties – not political parties per se.
- We are concerned only with public funding allocated for parliamentary business – that is, the funding currently allocated through the parliamentary appropriations.
- Also, we have assumed that the amount of resource that would be available for a move to pure bulk funding is the same as currently allocated to supporting parliamentary parties and members, i.e. we have not at this stage contemplated any greater amount being available.

Structure

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|------------|--|
| Part One | Describes the features of the present system of party and member support funding and its administration and provides a calculation of the quantum that could potentially be aggregated into a bulk fund quantum for parties and/or members. |
| Part Two | Describes the present system for administering support services to parties and members in order to highlight the broader responsibilities and functions that would need to be considered, and in some way provided for, in a move to formalised bulk funding.
We also identify the areas of legislation that have a bearing on any consideration of bulk funding. |
| Part Three | Sets out a possible bulk funding regime that potentially involves around 70% of current appropriations for support to parties and members.
This approach is essentially an extension of the present system to include travel and communications, the two items causing the greatest level of interest at present, plus an option to include a proportion of out-of-Parliament office support. |
| Part Four | Describes the Australian Federal system of entitlements, highlighting the way in which out-of-Parliament office support is provided to members, as a comparison with any bulk funding approach. |
| Part Five | Provides our assessment of the issues that would arise in a move towards bulk funding in terms of financial management, administrative, legislative and constitutional implications. |
| Part Six | Presents a brief summary of what we see as key points. |

At various points in the report we identify and highlight a number of what we have termed “issues”. These are not recommendations as such; they are factors that need careful consideration and further discussion relative to determining the funding direction that might be taken.

PART ONE: PRESENT FUNDING FOR PARTY AND MEMBER SUPPORT

Our terms of reference assume that bulk funding would occur within the existing parameters of funding for party and member support and within the same quantum managed under the current administrative system.

Our report therefore begins by identifying all expenditure pertaining to party and members' entitlements covering the appropriations for party and member support which includes funding for out-of-Parliament offices, travel including taxis, rental cars, mileage, plus Wellington and non-Wellington accommodation and communications.

We believe we have identified all components of support provided to parliamentary parties and members that might be pertinent to bulk funding, and also the total sum on which a bulk funding approach could potentially impact.

PARTY AND MEMBERS SUPPORT APPROPRIATIONS

In recording the amounts and/or allowances involved, two approaches have been taken:

- a) first, that which is pertinent to each participant (party and member) nominated individually; and
- b) second, the combined party quantum which are the end calculations of a) times the number of (non-executive) members per party.

The use of these two options immediately provides insight into the varying impacts of any bulk funding approach on the different parliamentary parties. Although the per member amounts are in effect "the same for all", when these are multiplied according to the size of the parties, significant differences are immediately obvious. A small party of say two or three members may have sums adding up to thousands; a very large party will have equivalent sums adding up to millions.

The possibilities, therefore, for a small party of leveraging the benefits of a bulk funding model are less than within a large party.

Does one therefore ignore these differences and only bulk fund those with the potential to provide "benefits of scale" or agree that as our current system of government is one that is fashioned by Mixed Member Proportional (MMP) – then only entertain systems that are equitable to all?

Having posed the question, it is interesting to note that in effect all of the smaller parties today, enact varying degrees of what might be termed bulk funding practices to ensure they are creating the maximum outputs possible, for the dollars they receive.

We also identify within all components of support provided to members.

Current allocations from Party and Members Support Appropriations are as follows.

- 1. Party Leaders allocation**
 - a) Base allocation \$100,000 pa
 - b) Per member allocation (per non-executive Member of Parliament) \$ 64,320 pa

- 2. Whips/Research allocation**
 - Per Member of Parliament \$ 22,000 pa

- 3. Members' Support allocation**
 - a) Constituent MP \$ 64,260 pa
 - b) List MP \$ 40,932 pa

Separate to, but directly associated with, the above is the funding provided for other components of support, covered within Vote: Parliamentary Service, Other Expenses to be incurred by the Crown.

Included here are the components of travel and communications. These expenses are managed by the Parliamentary Service and, as with Party and Member support, can be looked at as pertaining to an individual member, or, potentially, to a party - or on a general, across the board basis.

For this exercise, as well as showing total expenditures, where available we have included expenditures on an average cost per member basis, providing comparisons of actual usage as a reference point for considering the expenditure implications of any change from the current funding system.

All figures shown are the actuals incurred in the 2006/07 financial year.

- 4. Members' Domestic Air Travel**

Total amount spent	\$ 3.322m
Average cost per member	\$31,900
Highest member cost	\$80,300
Lowest member cost	\$170

77% of all members incurred air travel costs below \$40,000 in the year 2006/07.

- 5. Spouses' Domestic Air Travel**

Total amount spent	\$984,000
Highest user cost	\$58,900

93% of all users incurred travel costs below \$20,000 in the year 2006/07.

6. Members' and Spouses' International Air Travel

Total amount spent	\$1.186m
Average cost per user	\$16,700
Maximum user cost	\$81,290
Minimum user cost	\$0

69% of all users incurred travel costs below \$20,000 in the year 2006/07.

7. Dependents' Domestic Air Travel

Total amount spent	\$168,000
Average cost per user	\$4,800
Highest user cost	\$21,900
Lowest user cost	\$560

71% of all users incurred travel costs below \$5,000 in the year 2006/07.

8. Retired Members' and Spouses' Domestic and/or International Travel

Given that retired members play no part in the ongoing business of Parliament, the concept of bulk funding is not relevant to this item within the appropriations. Such entitlements are legacy in nature and would not necessarily be the business of any party (or member) going forward.

The amount expended in the 2006/07 financial year was \$1.395m.

9. Home phone and cell phone

Average cost for a member's home phone (including FBT on 50% of the cost)	\$3,450
Average cost for member's cell phone (no FBT applicable)	\$4,515

10. Home security

Cost to the Vote (including FBT)	\$22,500
Average (for each of the 37 members who claim)	\$608

11. Wellington accommodation allowance and out of Wellington overnight allowances

a) Accommodation allowance for each member, for attendance at Parliament and responsibilities in Wellington	\$24,000 pa
Total expended in 2006/07	\$1.422m
b) Allowance per night away from home:	
- in Auckland	\$180 per night
- other parts of the country	\$160 per night
Total expended in 2006/07	\$252,000

It is difficult to conclude a case for incorporating the accommodation allowances in a bulk fund, since:

- acceptable benefits are unlikely to be achieved from any change in the system of funding in respect of a) above without a direct impact on the quality of supply
- in respect of b), the amount expended in 2006/07 was \$252,000. Given that the major accommodation providers are now charging at least the current overnight allowance levels, including this item in a bulk fund may also only be associated with a lesser degree of quality.

12. Taxis and Rental Cars

Amount accounted for by taxis	\$1.112m
Amount accounted for by rental cars	\$375,000
Overall amount expended on taxis and rental cars	\$1.487m

13. Mileage Reimbursement

Overall amount reimbursed to members for the use of private motor vehicles on parliamentary business	\$836,000
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On the basis of 93 participants, this is an average of \$8,889 per member claiming through the reimbursement process only. Logically there are large individual variations in the mileage claimed according to the particular vehicle and the size and nature of the electorate or area.

14. Members' Communications

The communications appropriation includes "Funding for Members Communications (voice and data) entitlements, and members' use of standard office products and stationery supplies as allowed under directions by the Speaker".

Actual expenditure for the year ending 2006/07 \$2.215m

The items that make up this total include broadband for all members' homes and out-of-Parliament offices, phones, cell phones, car kits, use of stationery etc. in Parliament, landlines to out-of-Parliament offices and direct dial lines in Parliament.

This is a cost which is not really able to be apportioned per member or party. It is a composite sum resulting from preferential purchase arrangements as negotiated by the Parliamentary Service. It is doubtful whether any further purchase improvements could be made. Hence if it was reapportioned directly to parties via bulk funding "improvements" would probably arise only from scope changes, i.e. the party reducing spending on communications in order to spend more on another activity, e.g. less cell phone usage in favour of more travel.

Such scope changes may however not be feasible if preferential supply prices are to be retained. Disaggregating certain services may actually end up with higher unit costs being applied.

Some of the procurement issues which may arise are discussed in Part Three.

15. Services to Members

The further area of potential interest relative to a bulk funding approach is that of staff costs pertaining to Executive Secretaries and out-of-Parliament office support which includes staff costs.

Staff costs include not only wages and salaries but all associated costs including ACC levies, retirement contributions, holiday coverage and the like.

The costs involved are quite significant, being noted as follows for 2006/07.

Executive Secretaries	\$4.56 m
Out-of-Parliament Support	\$8.83 m

In total, some 325 staff are employed in these two categories, and one area of interest, expressed by most members we spoke to, was a strong desire for significantly more flexibility (for the party and/or member) as to employment numbers, functionality and remuneration.

It should also be noted that the Parliamentary Service is technically the employer for a further 80 staff (approximately) employed within the party political offices.

Such desire obviously leads to consideration of office accommodation, specifically out-of-Parliament offices. We comment on this issue in Part Three.

16. GST

It is to be noted that the figures quoted within paragraphs 4 to 8 above include GST.

All other figures exclude GST.

17. Other

In any given year some relatively minor amounts, including rail travel, self drive cars, Young Leaders' Political Exchange visits etc. are incurred as costs. These are included in the Travel total of the Potential Scope table and commentary which follows.

POTENTIAL SCOPE FOR BULK FUNDING

Using the expenditure breakdown set out above, we have calculated a total amount that could, potentially, make up the ultimate scope for bulk funding the activities of members of Parliament and/or parliamentary parties.

Explanatory notes following the table below explain the method we used to convert the various categories of party and member support, described in paragraphs 1-17 above, into a possible bulk fund structure.

The table leaves out the cost of management associated with the infrastructure of Parliament (repairs and maintenance, security, central ICT, space usage within Parliament Buildings; messengers, running costs etc), and expenditure on members' salaries.

Assumed potential scope for bulk funding*

Item	2006/07 Actual Expenditure
A. Combined Party and Members Support:	
ACT	\$300,000
Green	\$727,000
Labour	\$4,927,000
Maori	\$597,000
National	\$6,244,000
NZ First	\$798,000
Progressive	\$130,000
United Future	\$331,000
Independent	\$27,000
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Sub total	\$14,081,000
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B. Travel	\$10,515,000
Communications	\$1,875,000
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Sub total	\$12,390,000
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C. Executive Secretaries	\$4,559,000
Out-of-Parliament Support	\$8,829,000
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Sub total	\$13,388,000
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Grand total	\$39,859,000
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In these calculations the Party and Members' Support figures (Section A above), are the actuals for the financial year ending 30 June 2007.

It should be noted these have since been increased with effect from 1 July 2007.

Taking the schedule on page 79 of the 2007 Appropriations Review as a guide, a further sum of \$1.792m has been provided to accommodate these increases.

This in turn gives an all up figure of **\$41.65m** for 2007/08.

* *Explanatory notes:*

- *Within the overall Travel total are the sums in paragraphs 4, 5, 6, 7, 8 and 11, 12 and 13.*
- *Paragraphs 9 and 10 are included within Communications.*

- *Paragraphs 1, 2 and 3 are extrapolated into the overall Party and Members' Support figures.*

BULK FUNDING WITHIN THE PRESENT SYSTEM

We have referred to the fact that the current system of funding support for parties and members already employs elements of bulk funding. The basis for this suggestion is the form of the appropriations under Vote item "Other Expenses to be Incurred by the Crown". These appropriations allocate amounts for party and member support, aggregated to reflect the numbers of MPs within each parliamentary party.

Speaker's Directions specify how funding entitlements are calculated and allocated to each of the various funding categories: leadership funding; party and group funding; and individual members' support funding. These categories are described in broad terms, as follows:

- Leadership funding – "to fund the leader's office"
- Party and group funding – "to fund the Whip's office and research operations"
- Individual members' support funding – not separately described, but used primarily to meet the costs of running an out-of-Parliament office and for local activities. From these funds members provide their own offices and can choose how the office is administered (with certain common conditions such as security arrangements). Members do not directly employ the staff within their local office, but they have the ability to direct the outcomes of the staff's endeavours.

Members are also able to transfer and reallocate their funding entitlements to another member or to their party, and parties may then pool and reallocate these funds. The practice varies among parties, from no pooling at all, to operating systems based on regular pooling.

Thus, subject to funding being spent in accordance with Speaker's Directions (see extracts from Speaker's Directions page 18 below), parties and members already have considerable scope to determine their own priorities.

Based on the expenditure figures quoted above (page 11) we suggest that the amount appropriated for Party and Members' Support – \$14.1 million in 2006/07 – can genuinely be regarded as a bulk funded amount. This sum accounted for 35% of the total of \$39.9 million, as follows.

Combined Party and Member Support	\$14.1m	35.3%
Travel and Communication	\$12.4m	31.1%
Executive Secretaries and out-of-Parliament Support	\$13.4m	33.6%
Grand Total	\$39.9m	100%

As the Party and Member Support appropriations have increased with effect from 1 July 2007, assuming that the other two sub-categories of expenditure in the above chart have gone up by the level of inflation, (say 3%) then the actual quantum of present bulk funding could be as high as 37.5%.

In our numerous interviews on the subject of bulk funding, the most common suggestion has been that travel and communications should be bulk funded – either by aggregating these items with Party and Member Support or by separately bulk funding each of them so that they are administered directly by members. Regardless of the practicality or otherwise of such a suggestion, the addition of these items would bring the amount “bulk funded” to 66%, or possibly 67.5% if calculated on the inflation-adjusted basis used in the previous paragraph.

PART TWO: THE PRESENT SYSTEM OF ADMINISTRATION

Any significant change to the present system for funding party and member support will require investigation of both legislative and administrative implications.

In this part of our report we describe the present governance and administrative systems, thus providing a foundation for assessing what might need to change.

We begin with an outline of the relevant statutory provisions and then provide some detail on the structure for administering members' entitlements and the various associated roles and responsibilities.

OVERVIEW

The present system for administering Parliament is governed by the Parliamentary Service Act which lays out the administrative responsibilities of the Parliamentary Service, and which would be affected by any material shift in the way funding is allocated and services are provided. Speaker's Directions govern the administration of member and party funding entitlements and support. These, between them, provide the framework for policy and management responsibility with respect to the parliamentary appropriations.

Arrangements for the operations of Parliament recognise the constitutional separation of Parliament and Executive Government. Nevertheless, similar standards apply with respect to accountability and levels of control in the use of public money.

In terms of understanding the implications of a possible move to more inclusive bulk funding, the main issues to consider are:

- where responsibility and accountability lies for managing the parliamentary appropriations;
- how existing processes and procedures function to support these responsibilities – across the range of financial management, employment of parliamentary staff and the “umbrella” functions that support the operation of Parliament, such as information and communications technology, security, procurement and campus development.

THE STATUTORY FRAMEWORK

Along with the Parliamentary Service Act, key pieces of legislation are the Public Finance Act, the annual Appropriation Acts, the Civil List Act and, in terms of the Parliamentary Service as an agency, the State Sector and Employment Relations Acts. A more recent addition is the Appropriation (Continuation of Interim Meaning of Funding for Parliamentary Purposes) Act 2007 which defines the term “funding entitlements for parliamentary purposes”.

Embedded within public finance legislation are principles of authority, responsibility and accountability that are basic to our system of government.

Core principles which apply to any system of funding are that:

- public money may be expended only under parliamentary authority (a principle that arises from the Bill of Rights 1688, re-stated in the Constitution Act 1986 and in the Public Finance Act 1989)
- public money must be spent consistent with the appropriation and with the lawful authority provided to the spending entity to engage in the activity concerned
- in the case of funding entitlements for parliamentary parties and members, spending must be for a “parliamentary purpose”.

Explicitly, those who administer public funding are required to have an accountability regime to give effect to these principles, and to have systems and controls to ensure that the money is spent responsibly and for its lawful purpose.

In addition:

- there must always be a Responsible Minister;
- there must be an entity or agent “responsible” for incurring the expenditure and responsible to Parliament for the appropriation.

Current legislation

A detailed description of relevant current legislation is contained in Appendix 4 to this report. In summary:

Parliamentary Service Act 2000

Establishes the mechanisms for providing services and funding entitlements for parliamentary purposes, and the governance arrangements of the Parliamentary Service.

Public Finance Act 1989

Permits public money to be expended only under parliamentary authority and establishes lines of responsibility for effective and efficient management of public financial resources.

Section 2 of the Act makes the Speaker the Responsible Minister in terms of the financial accountability of the Service.

Annual Appropriation Acts

These cover the annual estimates of expenditure, supplementary estimates and financial review.

The Parliamentary Service appropriations include expenditure under the category “Other expenses incurred by the Crown”, allocating funding for members and parliamentary parties.

The Estimates specify the scope of expenditure for each line item of the appropriations. All expenditure must fit within the scope as defined.

Appropriation (Continuation of Interim Meaning of Funding for Parliamentary Purposes) Act 2007

Defines the term “funding entitlements for parliamentary purposes”.

“Funding entitlements for parliamentary purposes” includes: funding for the purposes of a member of Parliament performing his or her role and functions as a member of Parliament; a recognised party performing its role and functions as a recognised party; and providing travel, accommodation, communications and attendance services in accordance with Speaker’s determinations.

Civil List Act 1979

Provides for Speaker’s Determinations on the provision of services to members.

State Sector Act 1988

The Parliamentary Service is not included as a public service department under the Act but the Parliamentary Service Act applies provisions in the State Sector Act to employment within the Parliamentary Service as if the Service was a department. Employment provisions include the “good employer” requirement, equal employment opportunities and negotiation of conditions of employment.

Employment Relations Act 2000

The Parliamentary Service, as employer, is subject to this Act and the full range of employment-related legislation such as the Holidays Act and health and safety legislation.

Income Tax Act 2004

Provisions relating to private remuneration and allowances.

Speaker’s Directions

A new element in the overall framework is the recently issued “Speaker’s Directions”¹ which fulfils two prevailing legislative requirements:

- first, as required by the Civil List Act, Speaker’s Directions specify services for members (and also former members and families of current and former members)
- second, the document gives direction to the Parliamentary Service to provide these services, and to administer funding entitlements for members, under the Parliamentary Service Act

Speaker’s Directions offer, for the first time, a complete set of directions incorporating all existing services and entitlements, and how they are to be administered. They include the rationale for providing financial resources and support services to members, the principles to be used in use of public funds by members and parties, definitions of parliamentary purposes and parliamentary business and a detailed

¹ Directions and Specifications for Services and Funding Entitlements for the House of Representatives, its Members, and Former Members. First Issued 1 December 2007.

description of the funding and service entitlements available to members and parties for their parliamentary work.

Also covered in the Directions is the budget and reporting process.

A more detailed description of the administrative processes for managing member and party funding and support is provided below.

Issues

The extension of bulk funding to encompass a broader base of the Parliamentary Appropriations would necessitate an examination of each statutory component to ascertain what change would be required, and the practicality of making such change. Relationships among the various pieces of legislation are quite complex.

A move to a pure bulk funded model could require significant change, while a relatively small adjustment to the current funding and service system may not require any legislative consideration at all.

Criteria that would need to be applied to expenditure based on a formal bulk fund would, as a minimum, include:

- consistency with the principles of appropriation (the requirement for parliamentary authority for expenditure of public money before it is spent)
- lawfulness of purpose (the requirement that the money is spent in accordance with the particular purpose for which it was appropriated).

Other key aspects of legislation that would need to be examined include:

- the responsibilities of the Speaker for making determinations and issuing directions
- the responsibilities of the General Manager for administering the payment of funding entitlements in accordance with directions given by the Speaker
- the statutory employment responsibilities which currently sit with the General Manager
- tax law, in terms of the relationship between remuneration and reimbursement.

In Part Five below we discuss the nature of legislative change that might be involved.

ADMINISTRATIVE AND FINANCIAL ROLES AND RESPONSIBILITIES

Responsibilities and accountabilities

The formal tiers of ministerial and 'departmental' responsibility in respect of the parliamentary appropriations and the functions of the Parliamentary Service, under present legislation, are:

The Speaker, as Responsible Minister

The Speaker is responsible to Parliament for the Parliamentary Service appropriations, in the same way as is a Minister in relation to a department. This entails responsibility for the financial performance of the Parliamentary Service.

The Speaker prescribes and approves policies and procedures for the administration of member and party funding entitlements, and receives (and may act on) reports about the monitoring and assurance process.

The General Manager, as Chief Executive

The General Manager is responsible to the Speaker for:

- the financial management and performance of the Service including the administration of the payment of funding entitlements for members and parties
- the efficient, effective, and economical management of the Service
- giving advice to the Speaker as Minister
- employment of parliamentary staff (except for staff in the party leaders' offices), which includes the "good employer" requirement, equal employment opportunities and negotiation of conditions of employment as well as a duty to act independently in all matters relating to decisions on individual employees
- other statutory responsibilities.

Underpinning these responsibilities is a regime of accountability for members' entitlements involving both the Parliamentary Service and the parliamentary parties and individual members, laid out in Speaker's Directions.

Speaker's Directions

The purpose of the Speaker's Directions is three-fold, to specify: the services and funding entitlements to be provided to members; how the Parliamentary Service must act when administering these; and the principles to be applied by members and parties in their use of the associated publicly funded resources.

The Directions assign specific responsibilities to members and party office-holders as well as to the Parliamentary Service.

The key provisions applying to member and party funding entitlements and services are as follows (abbreviated), with locus of responsibility for each provision highlighted:

Members	<p><i>Principles to be applied by members and parties (clause 1.5)</i></p> <ul style="list-style-type: none">• Members are, ultimately, personally responsible for the way they and the parties use their publicly funded resources regardless of delegations.• Records of resources used must be kept to facilitate scrutiny.• Expenditure must be only for parliamentary purposes.• Members and parties must seek appropriate value for money and use the most cost-effective alternative available.
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Whips	<p><i>Monitoring of expenditure relating to funding entitlements</i></p> <p>The Whips are responsible for monitoring the aggregate expenditure by members on travel, accommodation and communications and for managing excessive costs incurred by the party (clause 3.4).</p>
Members, Parliamentary Service	<p><i>What party and member support funding may and may not be used for (clause 4.12)</i></p> <p>Party and member support funding may be used to provide services and resources for the purpose of: supporting parties and members in their legislative and elected representative roles; developing and communicating policy; communicating with constituents and other communities of interest; and meeting the operational needs of the party in fulfilling its parliamentary responsibilities.</p> <p>Such funding may not be used for: anything that is not a parliamentary purpose; for ministerial business; or where provision has already been made by way of members' remuneration.</p>
Members and Parties	<p><i>Expenditure: responsibilities of Members and Parties</i></p> <p>Members and parties have distinct roles in the management of funding entitlements.</p> <ul style="list-style-type: none"> • Parties and members are able to decide how funds allocated to them are spent, provided all fixed charges are met, the allocation is not exceeded in any one financial year and spending complies with proper uses. (Clause 5.6) • Members decide on spending under their funding entitlements within parliamentary purposes. They nominate Parliamentary Service support staff to undertake financial activities on their behalf, with appropriate delegations. Members are also responsible for verifying compliance with Speaker's Directions. (Clause 5.4(2)) • Similar responsibilities apply to parties for party funding entitlements. (Clause 5.4(3))
General Manager	<p><i>Expenditure: responsibilities of the General Manager (Clauses 5.4(4) and (5))</i></p> <p>The General Manager is accountable for control of expenditure under funding provided to members, and is responsible for payments and for the management of the associated control and reporting systems.</p> <p>Parliamentary Service staff approve party and member support expenditure under financial delegations from the General Manager, and provide support and information to parties and members on the processing of payments.</p> <p>The Service has the general role of providing budgeting and financial planning support to members and parties.</p>
Members and Parties	<p><i>Planning (clause 5.7)</i></p> <p>Members and parties prepare budgets at the beginning of the financial year for fixed-item expenditure they will incur, and allocate the necessary funds.</p> <p>The Parliamentary Service provides the templates and tools for this.</p> <p>Remaining funding may be used by members and parties for discretionary spending within proper parliamentary purposes (listed in clause 4.12).</p>

Parliamentary Service	<p><i>Reporting (clause 5.8)</i></p> <p>Speaker's Directions set out the reporting required in respect of the use of funding entitlements and other services.²</p> <p>The Parliamentary Service provides routine monthly reports to individual members and party leaders on expenditure against support allocations. These allow members and parties to track progress against budget and carry out their own expenditure analysis. They also provide the basis for accounting for recorded expenditure.</p> <p>Monthly reports to members cover:</p> <ul style="list-style-type: none"> • actual and budgeted monthly and year-to-date expenditure for each budget item, and hours used and remaining from staff support • actual monthly and year-to-date expenditure for travel and communications. <p>Monthly reports to party leaders cover:</p> <ul style="list-style-type: none"> • the party's actual monthly and year-to-date expenditure for travel and communications • actual and budgeted monthly and year-to-date expenditure for their party from their leadership, party and group and individual members' support funding allocations. <p>The Parliamentary Service this year has re-cast the way these reports are presented to make them more useable and relevant to members and parties, and to help them track and manage their budgets more effectively. Information can be extracted in a variety of forms. The reports can be accessed on line, making them a much better tool for budget management.</p>
Parliamentary Service	<p><i>Monitoring and risk assurance (clause 5.9)</i></p> <p>The Speaker prescribes policies and procedures for monitoring and risk assurance to ensure that:</p> <ul style="list-style-type: none"> • the appropriate reports are generated on members' and parties' expenditure • service and funding entitlements are reviewed • any issues that arise from applying the Speaker's Directions and prescribed policies and procedures are resolved in accordance with a 'client service and escalation' process which is set out in Speaker's Directions.
Members and Parliamentary Service	<p><i>Certification (clause 5.11)</i></p> <p>All expenditure incurred by members and parties from their financial allocations must be certified to formally verify that it has been spent in accordance with parliamentary purposes. This covers Party and Member support, members' communications and travel by members and their families.³</p>

² The Parliamentary Service this year has re-cast the way these reports are presented to make them more useable and relevant to members and parties, and to help them track and manage their budgets more effectively. Information can be extracted in a variety of forms. The reports can be accessed on line, making them a much better tool for budget management.

³ This new provision came into effect on 1 December 2007 in response to matters raised in a report in October 2006 by the Controller and Auditor-General on payments relating to advertising and publicity for parliamentary purposes. Certification is undertaken from within the members' office and provided to the Parliamentary Service

Issues

With the guidance now provided by Speaker's directions, and the near-completion of actions arising from a major review of administrative procedures within the Parliamentary Service⁴, the administrative infrastructure for existing funding and services for members and parties appears to be working satisfactorily:

- Members are provided with timely information to allow them to monitor and manage their allocated funds
- The Parliamentary Service works to clear directions on its administration of the system including approving and monitoring payments incurred by members and parties
- Members submit monthly transaction reports to the Parliamentary Service which, if it identifies any items outside the scope of parliamentary business, returns these to the member for payment or recovery of the cost.
- The Speaker receives monthly reports from the Parliamentary Service showing the month's expenditure, and year to date, from the departmental and non-departmental appropriations, the former including expenditure on services to members (which includes Executive Secretaries and out-of-Parliament support) and the latter expenditure from the appropriations for Party and Member support, members' travel and communications and members' travel.

In essence, current accountability for ensuring that expenditure is incurred for parliamentary purposes rests with both members and the Parliamentary Service.

A move to extend and formalise bulk funding would require new systems to be devised to reflect the shift of responsibility and accountability to members and/or parties (according to where funding was allocated). Beyond the re-assignment of responsibility itself, the extent of actual system change would depend on whether the Parliamentary Service retained a role in providing budget management and/or accounting support to members and parties.

THE PARLIAMENTARY SERVICE: OBJECTIVES AND FUNCTIONS

A move to formalised bulk funding would undoubtedly impact in the first instance on the Parliamentary Service.

Accordingly we restate below the Nature and Scope of the Parliamentary Service's Objectives and Functions. An abridged version of these Objectives and Functions taken from the 2007/08 Parliamentary Service Statement of Intent follows.

One particular function of the Parliamentary Service which must be highlighted is its employment responsibility and duties thereof.

The Parliamentary Service has sole responsibility for the employment of:

⁴ The review, the "Administrative Procedures Design and Delivery Project", was undertaken during 2007 by Deloitte. Its purpose was to assist the Parliamentary Service re-establish robust processes and procedures for administering areas of expenditure covered by Crown appropriations (members' communications, Party and Member support, travel and payments for advertising and publicity for parliamentary purposes). The work also included broader financial management practices and controls within the Parliamentary Service.

- parliamentary staff employed on the campus, i.e. party and members' office staff (e.g. Executive Assistants and research and other support staff) and staff employed in the provision of infrastructure and common services
- staff employed in members' out-of-Parliament offices.

The Service has all the usual responsibilities of a state sector employer. These are wide-ranging and (except for the Leaders' offices, research operations and Whips' offices) include:

- recruitment and induction
- payroll matters and superannuation payments
- all leave matters (annual and sick leave)
- staff training and development
- health and safety requirements
- ACC.

Leaders' offices operate as a "mixed model", managing remuneration, recruitment and training and development themselves. The Parliamentary Service, as the employer, acts in effect as an agency on behalf of the Leaders' offices, providing advice and managing compliance matters, contractual arrangements and payroll including superannuation payments.

The Parliamentary Service also handles changes in staffing arising from parliamentary elections and other political changes, consulting closely with Ministerial Services in respect of affected staff.

Some moves have been made towards building a common employment environment across the five agencies on the parliamentary campus.

Statement of Intent 2007/08

The *Parliamentary Service Act 2000* states in Section 7 that the principal duties of the Parliamentary Service are:

- (a) to provide administrative and support services to the House of Representatives and to members of Parliament; and
- (b) to administer, in accordance with directions given by the Speaker, the payment of funding entitlements for parliamentary purposes.

The Parliamentary Service is largely an administrative organisation where outputs are an important part of its rationale of providing support services. As well, the scope of operations is limited to the parliamentary complex and members' out-of-Parliament offices. Parliamentary Service activities fall under the category of "objectives" rather than "outcomes" in terms of the *Public Finance Act 1989*.

Members have several roles they fulfil as legislators and representatives in a parliamentary democracy including: playing a part in making the law; providing a government; scrutinising

the activities of government and holding it to account; voting supply; developing policy; debating public issues and helping constituents. The Parliamentary Service, with other agencies such as the Office of the Clerk of the House of Representatives and Executive Government Support, part of the Department of Internal Affairs, work to give members the tools and working spaces they need to fulfil all their roles as effectively as possible.

At the same time, members have entitlements designed to fund the work that they do, which must be spent in a lawful way. One of the Parliamentary Service roles is to ensure that all spending is within the prescribed framework and to make sure that members understand the financial consequences of their spending decisions.

The key objective follows the principal duties as stated in the *Parliamentary Service Act 2000* and is that:

Members have confidence that they will be provided with the advice and support required to achieve their roles of legislators and representatives.

The output classes through which the Service delivers its functions are:

- Services to Members
- Operations, Information and Advisory Services
 - Parliamentary Information Services
 - Buildings and Operations Management
 - Policy Advice
 - Personnel and Accounting Services to Members and Other Agencies and Travel Office Services

Although the Parliamentary Service operates in a political environment, the Service must be neutral in its outlook and service provision. The statutory framework for the Parliamentary Service, contained in the *Parliamentary Service Act 2000*, clearly separates the Service from the government of the day stating: “The Parliamentary Service is not an instrument of the executive government.” This ensures that the Parliamentary Service remains focused on support for Parliament itself and members of Parliament, rather than on any particular government with its own goals and objectives.

Management of operating activities

The Parliamentary Service provides the infrastructure needs of members and staff in the parliamentary complex and provides staff and funding for members’ out-of-Parliament offices. The Service works with the other agencies housed in the complex to ensure the smooth running of the services necessary for the running of Parliament.

Staffing

The Parliamentary Service must balance the transitional nature of political life for members of Parliament, who are the major users of Parliamentary Service services, with the need to build capability into the Service. Members have input into staff selection for those staff working for members in their political role, such as in the Leaders’ Offices and support staff in and out of Parliament. The Parliamentary Service uses “events based” collective or individual employment agreements for these staff, that is, agreements that end when a member changes their status due to an election, move to the executive or other, generally political, event. This provides the flexibility that is a necessary feature of the political environment.

While funding for staff that provide secretarial support to members is appropriated as a departmental appropriation, funding for staff employed to support Leaders' offices, research operations and Whips' offices is appropriated as the Party and Member Support Appropriation, part of Other Expenses to be Incurred by the Crown rather than as a Departmental Appropriation. For these staff, therefore, the Parliamentary Service provides advice but does not have direct control over recruitment and remuneration.

Other staff who are involved in the administrative areas of the Parliamentary Service ("core staff"), such as librarians working in the Parliamentary Library and security staff responsible for parliamentary complex security, are apolitical appointees.

Expenditure controls

In October 2006 the Controller and Auditor-General issued the report *Advertising expenditure incurred by the Parliamentary Service in the three months before the 2005 general election*. The report recommended that the Parliamentary Service move from a financial "support" function to a financial "control" function. The report identified a need for improvements in the accountability structures and the systems, policies, procedures and practices applying to advertising expenditure. The Service has been working with the Speaker and the Parliamentary Service Commission to address the Controller and Auditor-General's recommendations and to develop best-practice administrative procedures for expenditure. The Service is also reviewing the authorisation, approval and administrative processes that apply to all other areas of expenditure on support services to members of Parliament.

The introduction of Mixed Member Proportional representation has markedly changed the business of Parliament. The environment within which the Parliamentary Service operates continues to change and evolve and there are increasing expectations on the Parliamentary Service to deliver more services more effectively.

Issues

1. If all funding elements as are carried out today by the Parliamentary Service were removed from them (via the introduction of another funding model), a restructured version of the Parliamentary Service would still be required regardless. Management and administration functions for the following would still be required.
 - the management of the infrastructure, the site, the maintenance and all operational services for buildings within the parliamentary complex
 - the provision of messenger, cleaning, catering, reception, health and safety, purchasing and general services within the parliamentary complex
 - the management of security (security group numbers are currently 102)
 - the management of the Parliamentary Library and electronic information services (77 staff)
 - the management of the onsite Business Continuity Plan
 - the provision of computing facilities at Parliament
 - the management of telecommunications
 - the provision of payroll services for members

- provision of services to the Speaker’s office and the Parliamentary Service Commission
 - the administration of certain residual elements of former members travel etc.
 - the consideration of future accommodation needs for members and their staff
 - the provision of HR services and the like, and
 - there are others.
2. The aforementioned functions are considerable in themselves and do not include any responsibility for out-of-Parliament offices, out-of-Parliament office staff or executive assistants.

In a pure bulk funding model it is assumed all such staff would be directly employed by the particular parliamentary party.

3. Consideration therefore needs to be given to the various employment issues that arise should the management and payment of the Executive Secretaries and out-of-Parliament staff be removed from under the umbrella of the Parliamentary Service.

In fact at one extreme you could end up with 8 or 9 paymasters and associated payroll systems as opposed to the current central system.

4. In considering the above list of ongoing functions still needing to be attended to, it has also been assumed that all travel components as well as communications have been transferred to the direct responsibility of the parliamentary parties.
5. There would remain a need for a Parliamentary Service or equivalent regardless of certain functions as above being transferred to the parliamentary parties or members. As noted certain functions remain and require ongoing management and administration. To this end a brief schedule of staff numbers within the Parliamentary Service is given below. Ongoing function requirements are fairly obvious.

Parliamentary Service – Staff numbers – December 2007

Human Resources Group	–	26
Finance Group	–	10
Travel Office	–	7
IST Group	–	3
Library and Knowledge Group	–	77
Buildings and Operations Group	–	11
Tour Guides, Visitor Services etc.	–	14
Messengers and Distribution	–	19
Security Group	–	102
General Manager’s Office	–	14
		283

There are also 96 Executive Assistants and 234 out-of-Parliament support staff plus approximately 80 within the party political offices, providing an all-up head count total in excess of 680 persons. As has been noted elsewhere this is a very large incidence of staff in a New Zealand context.

6. We do comment elsewhere as to whether the Parliamentary Service, following a move to a pure bulk funding system, could be restructured within the ambit of the Parliamentary Corporation. However this would be another subject requiring in depth study.

PART THREE: A POSSIBLE BASIS FOR BULK FUNDING

In this part of our report we suggest a possible basis for formalised bulk funding and discuss the rationale for what could be included.

In order to present the spectrum of possibilities, we begin with a description of what we have termed “pure” bulk funding. We regard this as an extreme option, and one which is difficult to analyse because of the extent of change and complex issues it involves.

We then go on to discuss an approach based on extending the present system by adding additional components to the “hybrid” bulk funding model that already exists. It is premised on the scope for staged options, none of which involves the wholesale change associated with pure bulk funding.

In line with our terms of reference, we have assumed that bulk funding would occur within existing entitlements (except for the possibility of providing additional resources to the bulk funded entities to cover decentralised administration – which may or may not add to the overall cost of providing support services to parties and members).

The current system is presently providing bulk funding to the extent of some 35% of the assumed potential scope for bulk funding, as delineated on page 12.

The question then arises as to what percentage (if not all) of the total funding associated with support to parties and member could be converted to bulk funds.

“PURE” BULK FUNDING

In a pure model potentially all funding associated with supporting parties and members in respect of their parliamentary functions and activities would be bulk funded. This requires determining what would be a sensible and acceptable level or spread of activity to include.

At one extreme we could envisage all current Parliamentary Service managed activity – other than “Buildings and Operations Management” – being transferred to the parliamentary parties, and the demise of the Parliamentary Service as such. Centralised “Buildings and Operations Management” would continue, possibly transferred to the jurisdiction of the existing Parliamentary Corporation. Regardless, an entity – either different or new, or a revamped Parliamentary Service – would be responsible for the ongoing management of: Buildings Maintenance Services; Chamber and Gallery Staff; Messenger Distribution and Support Services; Security; Visitor and Education Services, and Catering Services (Bellamy’s). Output expenses for these foregoing items are budgeted at \$23.1 for 2007/08.

All other functions of the Parliamentary Service would be transferred to the parties, or groups of parties to provide a ‘mass’, which could support the services that would still be needed within each party entity.

- A. This would include human resources, travel services, payroll services, accounting and possibly policy advice.

- B. It could potentially include “Operations, Information and Advisory Services” which covers the provision of library and electronic information services, computing facilities and computing and telecommunication advisory services associated with these.

The output expenses associated with A and B above total \$5.8m for A and \$10.9m for B (2007/08).

The theory associated with pure bulk funding is that the requirement to provide human resources, policy advice, travel services and accounting (the \$5.8m) would be picked up by the parties, or in the case of the smaller entities, possibly groups thereof. These services which would all still be needed in some shape or form could potentially continue to be provided by the Parliamentary Service – on a competitive basis – but, unless one could reasonably pre-guess the overall level of activity for each period, it is not likely to produce an efficient outcome. (We assume service provision on a competitive basis because fulfilment of a pure bulk funding model rests on users being able to choose their own supplier for any product or service with the presumption that the most competitive would be chosen.)

Some of the issues that arise in a pure bulk funding scenario are:

- Parliamentary Information Services. Would the library be retained, or restructured to provide services only on demand, ie in response to desired use by parties and members on a “user pays” basis. The major parties would probably restructure their research units in some other way than at present. Smaller parties may continue with the library as their main research resource.
- Staff capability. Within the Output Expense budgeted in 2007/08 for “Buildings and Operations Management” (Output Expense \$23.1m) there were 145 persons employed. There were 43 persons employed within the functions described in A above (Output Expense \$5.8m); and 79 persons employed within the functions described in B above (Output Expense \$10.9m).
- Members’ offices. Another critical component of any bulk funding model is that of members’ support staff. As previously noted a total of 234 persons is employed within the out-of-Parliament offices and 96 Executive Secretaries on the parliamentary campus, with a combined Output Expense of \$13.5m budgeted in 2007/08. The pure approach would have all these staff transferred to the various parties and/or members’ offices and reporting either to a party office executive or to the individual member of Parliament. The practicality of such a transfer, and the shift of attendant responsibilities for hiring and firing, health and safety, remuneration etc, is a major topic in respect of both continuity and ongoing employment arrangements. (We discuss this further in Part Five.)
- Management and administration. Would the costs that would arise from parties and/or members taking on new responsibilities be more or less than the actual costs of today? What systems would be deployed – different ones in different parties or groups of parties – or the same throughout?
- Transparency and accountability. These are icons of commercial and public sector governance, and matters of considerable public interests. We would expect public interest to turn to public scrutiny with a consequent need for transparency in respect of all amounts and patterns of expenditure. A total re-think would be required to determine how these essential principles would be

enacted across all functions, including accounting, finance, internal audit and audited annual reporting.

- Long-term planning and strategy. Pure bulk funding would result in a restructured Parliamentary Service, one of considerably lesser size and importance. A question then arises as to who would be looking out for the total best interests of Parliament in the longer term and who would be responsible for long-term planning and associated strategy.

We believe that pure bulk funding, whereby the parties and/or members are allocated funding to source all of their requirements from wherever they choose – along with restructuring certain common services back to a “Buildings and Operations Management” entity only – is a potential prospect, but could carry substantial costs in monetary and non-monetary terms. There may still be up to 160 staff involved.⁵ These costs include the potential loss of the library as a knowledge centre and the disestablishment of various resources within the Parliamentary Service.

There are indeed more questions associated with pure bulk funding than we are able to provide answers for. There is no doubt that in purist terms a logical and respectable answer could be provided for each question. A restructure of this nature would however be of such consequence and magnitude that very detailed work would need to be done to identify potential present and future benefits or dis-benefits. Such work would be both significant and substantial. It is certainly beyond the scope of this report.

We do however feel that the incentives to move to a pure bulk funding system are indeed tenuous at best.

“INTERMEDIATE” BULK FUNDING

We are in no doubt that the current system for channelling support services to parties and members could be enhanced to provide greater flexibility to members, and potentially achieved within the present framework of administration and management.

In looking to the future it would appear to us that the basis of a bulk funding model going forward could well be that of the existing system plus travel and communications funding added into the appropriations that are passed to the parties and members to manage.

A further element in this approach could well be associated with the out-of-Parliament offices. As noted elsewhere, a desire to have greater flexibility in respect of employment within the out-of-Parliament offices was expressed to us across all parties.

We consider each of these components in turn, as possible extensions to the present party and member support provisions.

⁵ These common services are assumed to be Building and Operations – 11 staff; Tour Guides, Visitor Services – 14 staff; Messengers and Distribution – 19 staff; Security Group – 102 staff; and GM’s office – currently 14 staff.

Including travel and communications

There is a reasonable degree of consistency relative to the cost of travel by all parties and members in terms of their usage of domestic travel options. Accordingly, a basis for providing an amount to parties for their particular members' travel should be able to be calculated. A contingency could also be determined and added to the sum for use within the first year of adoption – giving some scope for possible “outages” in year one.

Existing communications output expenses could also be added to a bulk fund (\$1.9m in 2007/08). Again, there is enough history of usage to be able to arrive at a per party and/or per member allocation, and a contingency added to provide some margin for error in respect of year one.

With the addition of the quantum for travel and communications as set out on page 11 above, the collective amount that could then be described as being bulk funded increases from the present 35% to some 66% of the assumed potential scope for an extended (but still hybrid) approach associated with the current system.

Including out-of-Parliament office assistance

With regard to staff employed in the out-of-Parliament offices, and/or Executive Secretaries, we believe greater flexibility could be achieved without radical change.

The out-of-Parliament offices are already “bulk funded” in respect of rent which is covered by the appropriations for Party and Members' Support.

A question arises as to whether the recommendation in the 2004 Appropriations Review should be revisited: that responsibility for out-of-Parliament offices should be transferred to the Parliamentary Service.

In our view there remains a credible logic to this recommendation, but, because it points in the opposite direction to bulk funding, we have not factored it into any of the bulk funding scenarios we describe.

Nor have we suggested the alternative of transferring all out-of-Parliament staff to employment by a party or member. We believe there are easier ways to provide the flexibility that is sought than the significant restructuring which would need to occur within the Parliamentary Service, and also the parties, to accommodate the parties' direct employment of the staff involved.

The suggestion we make is: given that an out-of-Parliament office is budgeted in a staff sense for two employees, with a gross cost of \$'x', it could be designated that provided 80% of \$'x' was indeed expensed on staff costs (and as administered by the Parliamentary Service) then 20% would be available still either for staff costs or for some other category of cost directly related to the running of that particular office.

Staff would continue to be employed by the Parliamentary Service, but there would be scope for the member to influence the basis of remuneration and the quantum hours of staff resource. The Parliamentary Service's new system of monthly reporting to members should be able to be adopted to monitor the flexibility we are suggesting.

(We do not see any particular scope for the introduction of salary bands as is the Australian practice. The problems we are looking to address more involve the ability to have flexibility, than just addressing levels of payment.)

There may still be many reasons as to why such an approach is not feasible. The adoption of such a move could however clearly demonstrate a more flexible approach to the support available to members of Parliament in carrying out of their parliamentary duties and responsibilities.

A basis for bulk funding, as an enhancement of the present hybrid scheme, could thus include:

- A. Party and Members' Support (combining the allocations for leaders' offices, research, Whips' offices and member support which is already a single appropriation per party)
- B. Travel
- C. Communications
- D. Assistance for the running of out-of-Parliament offices, by allowing the conversion of up to 20% of the office staff costs to other office expenditure.

Such a move, in total, could take the incidence of bulk funding to approximately 72% as calculated from the schedule on page 11 above.

Any further development of D above to include Executive Secretaries would, we suggest, be after a review of the success or otherwise of this approach, say after a two year period.

Issues

1. The suggested basis for bulk funding as noted immediately above is only one of the numerous options that could be adopted. It does appear to us however to be a logical choice should a greater incidence of bulk funding be pursued.
2. It is our belief that there is limited – if any – scope to effect any further purchasing improvements related to domestic air travel. The two airlines involved no longer provide price incentives relative to volume of business.

Accordingly in respect of a bulk funding approach to travel, the only efficiency element – or for that matter flexibility – available is through a reduction in journeys as may be determined by a party or member.

This particular point is highlighted as an issue because, should it be decided that travel as an expense category is already operating in an optimal mode, it would presumably be removed from the basis outlined above (A – D).

“BASIC” BULK FUNDING

We have noted elsewhere that the 2002 Appropriation Review promoted the idea of a formal bulk funding trial being undertaken by one of the smaller parliamentary parties; a trial which did not proceed.

One could assume had this trial have proceeded it would have been via a fairly rudimentary or basic approach, probably a somewhat tentative and simplistic approach.

Accordingly we have given some consideration to what we see is a minimalistic or basic approach to the subject.

This version of bulk funding would see the items currently funded via specific appropriations (travel and communications), and managed by the Parliamentary Service, assigned directly to the parties and/or members to manage themselves. The amounts would remain as “buckets” allocated to travel and communications, but the party or member would be responsible for managing the said quantum.

Effectively this approach entails capping these budgets which are currently driven by the actual level of travel and communications activity. It assumes that there would be benefit in the form of efficiency and effectiveness gains to the party or member, with, in theory, scope to achieve better value for money and more control over service provision. It may also offer scope to allow unspent funds to be carried over between financial years, hence providing more flexibility in travel and communications activity.

The ability to add to this basic approach, the 20% out-of-Parliament office assistance option could either be included or excluded – the very basic approach probably having it excluded.

FACTORS IN EXTENDING THE PRESENT SYSTEM

To enable reasoned discussion to flow from this document it was felt it could be helpful to elaborate on the basis on which the present system, with its hybrid element of bulk funding, could be extended. This brings out numerous questions that would need to be addressed. (In Part Five we discuss these implications in more substance.)

It is not our purpose here to comment directly and in detail on the management structure and process needed for an extended system – rather, we highlight the fact that any next step would involve a lot of work on a range of matters.

For the reasons set out above, primarily to do with practicality, we put aside the idea of a pure bulk funding approach and concentrate on what we have termed an intermediate form of bulk funding which is based on the following premises, using the categories of funding outlined on page 11 above:

- We assume that the current approach to the funding of Party and Members Support (aggregated into a single appropriation for each parliamentary party) continues unchanged, reflecting the generally accepted merits of this hybrid system.
- For this exercise we treat Travel and Communications as appropriations that could in practice be added into any bulk fund.
- We assume that providing some flexibility with regard to staff employment within the out-of-Parliament offices is feasible.

On this basis, the staged options for extending the present system towards greater bulk funding are to add travel, and/or communications and/or a portion of out-of-

Parliament office assistance. We discuss the factors that arise for each of these, in turn.

i. Travel (\$10.5m 2006/07)

Factors to consider are:

- How to determine what amounts should be associated with bulk funded travel. Options include: the simple approach of taking, say, the past two years' actual expenditures – per member and consequently per party – adding a contingency factor and allocating accordingly; or alternatively calling for budget proposals from the parties on their anticipated travel, on an annual or “election term” basis.
- Whether any weight is given to the fact that different parties will have different travel patterns partly influenced by their size, geographic focus and the distribution of List and Constituent MPs in determining the quantum.
- Should funding be in advance, or after the event, and either a weekly, monthly, quarterly or other basis?
- Whether to start with a “fund float” and reimburse on a period basis, or to pre-fund the period.
- Given that bulk funding is also effectively a form of capped funding, what are the consequences of over- or under-spending in any financial year? In the case of under-spending, would the ‘surplus’ be able to be carried forward for use on some other item of expenditure? In the case of over-spending an absolute approach could mean “grounding” the party or member if they exceeded their allocations. Maintaining a contingency fund to offset occasions of “grounding” could well undermine the whole point of bulk funding. We discuss the question of ‘surpluses’ in Part Five
- Who is the funding provided to (party, member or other entity)? The budget holder will need to be appropriately structured to receive the funding. Does the budget holder need to be or become a legal entity? (Also discussed in Part Five.)
- The travel office of the Parliamentary Service may potentially no longer be needed or viable. The various parliamentary parties may wish to continue to purchase services from the travel office. Would they be required to do so, or be allowed to shop around in line with the theory of bulk funding? Would a core staff complement be retained in the domestic travel office regardless?
- Air New Zealand employs up to three staff in a designated office managing the majority of international travel for Parliament. Would this facility continue?
- Would the requirements and guidelines associated with government purchasing policies and practices apply to the parties, or would they be able to determine their own purchasing guidelines, practices and policies?

- What format and/or process would be employed within a party to provide an appropriate approval process for costs to be incurred? This could be done within the party or “bundled” for some other agent or agency to process (e.g. the Parliamentary Service or even an outside agency). A related question is whether the parties or members are likely to have the ability and staff support internally to provide the correct accountability processes and the matching ability to provide transparent audit functions and outputs. Is it worth their while to gear up to accommodate such administrative functions?

In giving thought to all of the above, we suggest the most practical assumption to make in respect of travel is that a quantum would be determined based simply on recent actual annual expenditure, aggregated for each party, and grossed up by say 10% (our “guesstimate” only) to cover potential and unplanned eventualities. This would be provided as a capped amount per party, and we would suggest, continue to operate under the present system administered by the Parliamentary Service.

If there was an under-spend at the end of the financial year, as audited, this amount could then be carried forward to be expensed on any other item directly related to a genuine parliamentary purpose. No ‘surplus’ could be carried forward beyond the end of an electoral cycle.

With this approach parties/members would be able to “shop around” for services, but still enjoy the security of the Parliamentary Service processing their purchases and maintaining the necessary financial records and reports. Parties/members (according to who was the budget holder) would be responsible and accountable for proper use of the funding and managing their resource use within budget.

ii. *Communications (\$1.9m 2006/07)*

Although a considerably lesser sum than travel, communications is without doubt a more complex subject requiring much greater thought in determining the amount to allocate in bulk funds.

First, the present supply contracts as negotiated by the Parliamentary Service are based on the “demand mass” that is created by the totality of the parliamentary campus and out-of-Parliament offices. Disaggregation of the communications budget into bulk funds would certainly allow for choice in respect of supply – whether indeed it be for landlines, mobile phones, internet provision and the like – but not without an impact on overall provision for the institution.

Second, within this category is a range of distinct communications services: home phones; out-of-Parliament office phones; cell phones; DDI lines within Parliament (Member and Executive Secretary); DDI lines for Leaders, Research, Whips, Ministers’ offices; internet services in Members’ homes and out-of-Parliament offices; stationery used within Parliament and communal fax facilities including photocopy paper and House of Representatives letterhead and envelopes; fixed costs of running and maintaining the telephone system; newspapers provided within Parliament; and the cost of inwards unstamped mail.

Apart from the \$1.9m noted above, a further amount of some \$850,000 is currently funded by the Parliamentary Service to effect the total provision of the above services.

The \$1.9m covers costs directly attributable to members of Parliament and to parliamentary parties and the separate sum noted (i.e. the \$850k) is funded by the Parliamentary Service; is a balance pertaining to infrastructural and other non-attributable costs.

In essence an allocation exercise to accommodate this \$850k balance would not necessarily be a totally cost efficient exercise.

As with travel, a cost history can be identified, but a more arbitrary approach to party/member allocation would need to occur. Costs attributed to members, whether Constituent or List, are reasonably identifiable. Costs associated with the parliamentary campus are more difficult to separate out and specifically allocate.

Disaggregating the communications budget to parties and members gives rise to a number of issues relative to the supply of communications products and services. Everything from the original selection of equipment to ongoing maintenance, across a wide range of products and services, would require input and ongoing management.

A policy decision may well be required here prior to any bulk funding decision. If bulk funding allows for choice – as indeed is a key premise – very careful consideration will need to be given to the impact of potential expressions of choice, if exercised by parties and members, on the longer term development of directly associated services utilised on the parliamentary campus.

Otherwise, the questions posed above relating to travel apply to communications.

iii. Out-of-Parliament office assistance.

We have noted elsewhere in this report the wish expressed for relaxing some of the constraints around the operation of members' out-of-Parliament offices – a view also put forward during consultation for the 2007 Appropriations Review.

Recent times have seen the evolution of different forms of office, introduced to achieve greater degrees of flexibility, economy and efficiency. Shared offices catering for up to 4 members, sometimes designated as hubs, are becoming more common.

What is a frustration to members is their inability to have the management system for that office, apportion costs other than to one "tenant".

While our suggestion for providing for some staffing flexibility does not necessarily cover this aspect, it should offer a degree of positive change.

We have proposed that of the total staff salary cost for an out-of-Parliament office, 80% must continue to be expensed on staff remuneration, but up to 20% of the balance may be used for other genuine parliamentary purpose within that office. This gives scope for some flexibility in the use of resources while preserving a minimum level of staff support – which we believe is consistent with the important role out-of-Parliament offices play in the interface between Parliament and the public.

For example, a member may not need to have two full-time persons in the office. One experienced senior could possibly be employed at a higher rate of remuneration, along with a part-time person and at a lower rate. The resulting total overall staff cost might therefore be quite different to the cost under the present staffing provisions.

We would see this opportunity being introduced as an option. The member in effect would be able to advise the Parliamentary Service that he/she wished to exercise the option to reformat his/her office staff costs within the 20% margin.

No change of employer would occur. The Parliamentary Service would remain the employer of out-of-Parliament staff, and be responsible for managing and monitoring this “exercise of the option”.

We are not envisaging any increase in staff cost budgets, rather that these could be deployed in slightly different ways.

We believe there is scope to trial this approach, but have not discussed it in any wider forum.

Having touched on a number of questions arising from all three forms of bulk funding we identify, we return in Part Five to a more detailed discussion of the various dimensions needing to be considered in taking any steps towards a formalised bulk funding regime.

PART FOUR: THE AUSTRALIAN SYSTEM

Our brief included giving some thought to possible alternate systems, pure or other possible forms of bulk funding as opposed to the present system. Thought here was relatively constrained given that the current system does indeed work; that there was little logic if any at this stage of trying to dream up a new system; and that there were obviously numerous systems worldwide in use as of now, albeit one would need to have time and the ability to travel extensively to become familiar with such possible alternatives.

In discussion however one system or possible alternate that did crop up a number of times was that which might be built around the Australian system.

In effect the Australian system is one whereby a series of “allowances” is designated for virtually every aspect of the responsibility of a Senator or member of Parliament.

Within the Australian system entitlements are grouped thematically as follows:

- Electorate office accommodation and the equipment and facilities they contain;
- Telecommunication, postal and other delivery services, printing and newsletters;
- Travel, both within Australia and overseas by a Senator or Member and by related persons (spouse, nominee, designated person or dependent child);
- Electorate staff;
- Salary and electorate allowance;
- Other matters such as the photographic services provided at Parliament House, the Constituents Request programme and special provisions for large electorates; and
- Entitlements following retirement including superannuation.

Within each of the above items detail is provided relative to the scope and or directions associated with the entitlement.

The following extracts from the Australian Parliament Guide to Entitlements (a – d) of Senators and Members provides a good summary of the entitlements and the operation of same for Electorate Staff. This extract is given only as an example and does not by any means cover the complete descriptive commentary on “Entitlements”, or system thereof.

a) Electorate Staff

Senators and Members may employ staff on behalf of the Commonwealth within the framework of arrangements approved by the Prime Minister.

The conditions which apply to staff are set by the *Commonwealth Members of Parliament Staff Collective Agreement 2006 – 2009*. Further information is provided in the Guidelines issued under the agreement, as amended from time to time.

a. i) Legislation

Part IV of the Members of Parliament (Staff) Act 1984.

b) Number of Staff

Senators and Members may employ up to four full-time staff or the equivalent of four full-time staff.

- The Senator or Member decides the structure of his or her office and the allocation of duties within it. The office structure may not exceed the following combinations:
 - one x Electorate Officer Band C (\$55,388 – \$61,076 per annum)
 - one x Electorate Officer Band B (\$49,681 – \$56,948 per annum)
 - two x Electorate Officer Band A (\$37,928 – \$50,974 per annum)

Or

- three x Electorate Officer Band B (\$49,681 – \$56,948 per annum)
- one x Electorate Officer Band A (\$37,928 – \$50,974 per annum)
- Three full-time staff members are employed in the electorate office; the fourth full-time staff member may work in the electorate office or the Parliament House office of the Senator or Member.
- An electorate employee may only be employed by a Senator or Member at a single classification and a single salary regardless of whether that employment is against a position or positions and/or the Relief Budget.

b. i) Legislation

Section 20 of the *Members of Parliament (Staff) Act 1984* provides:

- (1) *A Senator or Member of the House of Representatives may, on behalf of the Commonwealth, employ, under an agreement in writing, a person as a member of the staff of the Senator or Member.*
- (2) *The power conferred on a Senator or Member of the House of Representatives by subsection (1) is not exercisable otherwise than in accordance with arrangements approved by the Prime Minister, and the exercise of that power is subject to such conditions as are determined by the Prime Minister.*

c) Management

Within the arrangements outlined in the previous section Senators and Members shall exercise the following responsibilities:

- Decide the organisational structure of the office and the allocation of duties.
- Recruit staff and determine the appropriate basis of employment, i.e. ongoing, non-ongoing or casual.
- Determine the appropriate salary on engagement or appointment of employees based on demonstrated relevant skills and experience of the employee, within the following parameters:
 - Electorate Officer Band A may commence at any of the lowest seven salary points;

- Electorate Officer Band B may commence at any of the lowest three salary points; and
- Electorate Officer Band C may commence at any of the lowest three salary points.
- Approve staff training, travel and absences on leave for staff within entitlement.
- Allocate an appropriate level of Electorate Staff Allowance to each electorate officer position.
- Ensure good employment practices are followed (e.g. occupational health and safety, freedom from discrimination and harassment, support for staff to attend training).
- Ensure a genuine attempt is made to resolve any employment related disputes at the workplace level.
- Terminate the employment of staff (in accordance with relevant laws).
- Authorise another person to exercise their powers under the *Members of Parliament (Staff) Act 1984*.
- Manage the staff travel and relief staff budgets.

Ministerial and Parliamentary Services exercises the following responsibilities on behalf of the Australian Government:

- Arranges the payment of salary, electorate staff allowance, travelling allowance and other allowances.
- Maintains personnel and other records associated with staff employment.
- Provides staff training programs, including the Professional Development Program sponsored by the Special Minister of State.
- Provides advice to Senators and Members on staff matters (including performance management and termination of employment).
- Supplies forms for the making of:
 - written employment contracts and variations to employment contracts;
 - Travelling Allowance claims; and
 - Electorate Staff Allowance allocations.

c. i) Legislation

Section 20 of the *Members of Parliament (Staff) Act 1984* sets out the authority for a Senator or Member to employ staff. (The provisions are quoted on page 91).

Section 23 of the *Members of Parliament (Staff) Act 1984* deals with termination of employment.

Section 32 of the *Members of Parliament (Staff) Act 1984* provides that a Senator or Member may authorise another person to exercise his or her powers.

The terms and conditions of staff are set out in the *Commonwealth Members of Parliament Staff Collective Agreement 2006 – 2009* and the associated Guidelines.

These are available at <http://mops>

d) Electorate Staff Travel

Staff may travel at the direction of their employing Senator or Member on official business.

- Travel may be:
 - between the electorate and Canberra;
 - between the electorate and the capital city of the relevant state or territory; and
 - within the electorate.
- Employees must travel by the most efficient and/or direct route available.
- Travel by air is at economy class only.
- Employees have no entitlement to 'offset' a fare outside entitlement against a fare within entitlement.
- Travelling Allowance is payable to an employee who is required to stay away from home on official business.
- The conditions for staff claiming Travelling Allowance are similar to the conditions for Senators and Members, however the rates of Travelling Allowance payable may differ.
- Motor Vehicle Allowance is available to employees in certain restricted circumstances.

d. i) Legislation

Guideline 5 of the *Commonwealth Members of Parliament Staff Collective Agreement 2006-2009* deals with Travelling and Motor Vehicle Allowance

Guideline 6 of the *Commonwealth Members of Parliament Staff Collective Agreement 2006-2009* sets out the conditions associated with domestic travel

In looking at the above the first point to keep in mind is that in Australia the equivalent of the Parliamentary Service provides all of the out-of-Parliament offices. Therefore there is a consistent standard to which the entitlements apply.

Of further direct interest to members here no doubt is the fact that office staff can be employed on remuneration rates that are within a band.

As noted there are clear and specific entitlements for virtually all aspects of the members' activities.

Whether such a system would find favour in New Zealand is a moot point. We would need to allow for categorisation of electorates in the first instance. Entitlements would need to vary for a city, urban, rural and or large electorate. A separate category would possibly also need to be tabulated for a List MP.

Entitlements could however be provided for all aspects including landlines, mobile phone, computers, home security, travel, communications etc. etc. with all members

having very clear advice as to in effect what they are allowed to spend. The stated objective of the Australian system is to provide the same characteristics that are of interest here viz flexibility, accountability, cost effectiveness, transparency and simplicity.

An entitlement system of this nature however would remove the current elements of bulk funding which are within our present system; particularly that associated with the Leaders' office, the Whips office and research funding. Formulae would need to be established to accommodate and define entitlements for these areas.

Such an overall system is also quite descriptive in respect of what you can do and in essence are expected to do. Certain outputs that you as an elected representative must fulfil are in some instances virtually prescribed. A further point – accountability is generally enhanced via a system of this type.

The Australian system of government, a bicameral parliament (a two chamber house) possibly lends itself more to this system, than does our own unicameral (single chamber) parliament.

With any alternative system there are obviously numerous points and factors to consider, ranging from policy issues to operational issues. Total consideration of any alternate system is a subject of magnitude in its own right and has not been included herein on this particular prospect.

Issues

1. Should it be determined that the current New Zealand funding system is not practical in the long term, for whatever reason, the most obvious parallels for further investigation would appear to be Australia, Germany, Canada, and Scotland.
2. Should an interest in moving from our current system prevail it would appear logical at some stage in the future to visit one or more of the aforementioned parliaments, prior to any move to replace our current system.

PART FIVE: IMPLICATIONS OF CHANGE

In this section we examine the implications of introducing bulk funding into the support appropriations for parliamentary parties and/or members, in order to provide a broad feel for the nature and scale of change that would be involved and to highlight the key matters we believe would need to be considered.

Our commentary is based on the three approaches outlined in Part Three:

- A pure bulk funding regime that could conceivably aggregate the totality of resources currently applied to supporting parties and members into quantum of funding which would then be allocated to the party and/or member to manage.
- An intermediate regime that would aggregate four of the existing support components into a bulk fund that would be managed by the party and/or member – the party and member support allocations, the travel and communications allocations and a portion (we suggest 20%) of the expenditure on out-of-Parliament office staff. This contrasts with present arrangements whereby travel and communications are administered by the Parliamentary Service, and funding for out-of-Parliament office staff is a departmental appropriation and output and therefore also administered by Parliamentary Service.
- A basic model that would involve formalising the Party and Member Support appropriations as bulk funds, converting the travel and communications appropriations into separate bulk funds, and adding the option for parties or members to deploy up to 20% of the allocation for out-of-Parliament office staff on office running costs, either staff or other. The difference between this and the intermediate approach is the each component remains as a separate appropriation rather than being “bundled” into one.

We note also a “least change” approach that would focus only on adapting some existing administrative procedures and prescriptions in Speaker’s Directions to provide enhanced outcomes for members, and particularly to provide a greater degree of flexibility to parties and members in the use of currently available resources.

What would need to change?

The extent of change required under any new funding system would obviously depend on the model adopted.

In all cases, we take as a given that the mechanisms necessary to ensure sound financial management and accountability will be in place. These will need to be at least akin to those governing the present appropriations, as set out in Speaker’s Directions and backed up by budget management in line with the normal principles and practices applying to the use of public money.

We note that the system of controls administered within the Parliamentary Service has recently been enhanced and updated, with assistance from an independent consulting firm (Deloitte). While the full benefits of these improvements have yet to be realised, they do set a benchmark for any future funding regime.

We note also that, because of the element of “bulk funding” implicit in the existing appropriations for party and member support, party leaders and managers within the parliamentary party offices already have some experience in the general stewardship of their resources.

The question of what change would occur under a formalised bulk funding regime is therefore best answered by looking at the particular prerequisites for bulk funding.

These fall into four categories: financial, administrative, legislative, and constitutional. We discuss each in turn.

FINANCIAL IMPLICATIONS

a) Funding quantum

A first requirement would be to re-define the appropriations according to the form of bulk funding chosen and to transfer funding into the new bulk funds.

In an intermediate bulk funding model this is in one sense a technical matter, involving grouping the line appropriations for party and member support in with the travel and communications appropriations, and a portion of the Parliamentary Service budget for members’ out-of-Parliament support staff, to create a single allocation for each parliamentary party and/or member. Under the basic model each quantum is provided as a separate appropriation.

This has two implications:

- It means in effect setting a cap for travel and communications. Intermediate bulk funding would allow the party/member to switch funding between these two activities and other priorities. In a basic bulk funding regime expenditure would be confined to the specific appropriated purpose.
- It assumes that it is feasible to calculate an acceptable quantum for each party, taking into account each party’s balance of List and Constituency MPs and their geographical locations. This in all probability would mean taking the existing overall relevant totals (our figure of \$41.6 million – see page 11 above), adding a contingency factor, and then apportioning a sum to the party and/or member.

These considerations would apply equally to a pure bulk funding model, with the additional matter of establishing the quantum of operational funding to re-assign from departmental output budgets to party/member bulk funds. While we believe this is “do-able”, it has its challenges. It would, for example, require determining the overhead and staffing that would have to be retained within the Parliamentary Service (or whatever agency remains as the administrative centre) funded from a departmental appropriation – and ensuring that there was an adequate apportionment of capacity at both the party and the central administrative levels.

b) Budget management

As is the case now, bulk funding will require clear stewardship of, and control over, all expenditure. This responsibility would shift to the party and/or member (whichever is the receiver of the funds), with a central administrative agency retaining some core functions.

Under an intermediate model it would be necessary to have a central agency continuing to operate core financial systems, since only some funding categories shift into the bulk funds.

Under pure bulk funding the party or member would operate their own internal budget management systems, although we would expect there would still be a need for an agency to deal with overall budget setting, ultimate external reporting and compliance with the Public Finance Act, either in an advisory role to the party/member, or, as now, having direct responsibility.

An agency would also be needed to fulfil the function of providing advice to the Speaker in his/her capacity as Responsible Minister and to see through the implementation of policy decisions – currently promulgated via Speaker's Directions in respect of party and member support.

In either case, the budget-holding entity will need the capability to handle a greater degree of financial management responsibility than at present. Necessary requirements that must be exercised at some level in the overall system are:

- the provision of information required annually as input to the Estimates (expenses and capital)
- applying principles of fiscal management set out in the Public Finance Act
- applying the necessary accounting practices
- financial reporting at the budget entity level (which includes reporting on future operating intentions as well as annual reports, possibly Statements of Intent, financial statements and statements of service performance).

Under the basic and intermediate models all of this may involve no more than enhancements to the systems the parties currently operate to prioritise and monitor expenditure. Pure bulk funding, with the greater autonomy that goes with it, would place specific onus on the budget-holding entity to establish robust management systems and to resource these appropriately, an added responsibility that in turn would need to be recognised in calculating the bulk fund allocation.

An important consideration, particularly in the case of pure bulk funding, is the potential for multiplication of systems for financial management and for undue compliance costs.

c) **Surplus funds**

The general consensus is that bulk funding is about greater flexibility and efficiency. In simplistic terms a fund is allocated to the party and/or member to cover the costs of activities that fall within the scope of parliamentary business. The bulk fund could be either a single sum to cover all parliamentary business-related activities, or a "series" of bulk funds allocated to specific categories of activity, e.g. party and member support, travel and communications. Having determined an appropriate amount, the allocation is assigned to be managed and administered by the party, the level of resource use being determined by the party (and/or the member).

Efficient management presumes all events are completed within the quantum of the allocated fund. Indeed, the interest in bulk funding often appears to be motivated by

the belief that activity can be managed so as to end up with a financial outturn below the allocated funding – thereby creating a saving, or surplus.

The question therefore becomes, what happens to the “surplus” between financial years, or, put another way, who owns the surplus in the sense of being able to use it and/or reassign it to the following financial year.

Normally unspent appropriations would be returned to the Crown. The general assumption among the party representatives we consulted was that bulk funding to them, was about any surplus being retained by the receiver, rather than forgone and returned to the Crown.

An option under bulk funding is to allow the receiver (the party and/or member) to retain any end-of-year surplus they have been able to generate, and to carry this over to the following year. This would be consistent with one of the key points about bulk funding – that it gives scope for greater flexibility in the use of funds.

In effect, the party/member would have a three year period within which to adjust levels of activity and the associated spending year-to-year. Under pure bulk funding they could technically reassign funding across the full range of bulk funded activity. Under intermediate bulk funding they could only reassign funding within the group of activities specified in the appropriation. If the basic model of bulk funding was adopted whereby party and member support, travel and communications were separately bulk funded, the party/member could carry over surpluses only in any one of these activities to spend more on that activity in the subsequent year/s.

In a sense, being able to carry surpluses forward is a logical consequence of bulk funding, since the rationale for bulk funding rests in large part on the idea that parties and members can potentially make better use of their funding if they are managing it directly. An incentive for good management is the ability to move unspent money into areas of greatest priority and for best effect. In considering any further extension to the practice of bulk funding, this assumption is a fundamental point.

Providing for annual carry-overs raises another option which is to bulk fund on the basis of three-year appropriations, giving the party/member a known amount to manage over the three years of a Parliament. Annual appropriations are still required, but these would in effect be instalments from a three-year allocation set at the beginning of a parliamentary term. A methodology would be required to allow for an early election, with a formula for determining the amount of funding to be returned.

The inability to roll over funds beyond any particular parliamentary term would also accommodate any occasion of a party being completely unsuccessful at an election and not carrying on in the new term.

A further question that arises in relation to surpluses is the timing of instalments under a bulk fund approach. After an initial start, one would need to determine whether the funding was provided before or after the event incurring the expenditure.

At various points, regardless, funds will no doubt be in credit. During our consultations we were asked whether any interest would be earned, and whether it would accrue to the receiver or be netted off the bulk fund provided. In this regard the larger parties would stand to gain much more than the smaller parties. And

would this be deemed to be “free” money, or would there be a cost for its use (as is usual in the commercial sector)?

Given however that the existing method of funding Parliament, as with government agencies generally, is based on draw-downs against budget, these questions are probably irrelevant. Claims are made against the appropriations, meaning that no surpluses actually sit in the hands of the “receiver” at any time. Further, interest is not accrued on crown bank accounts. Assuming this remains the ongoing system for expenditure under the parliamentary appropriations, discussion relative to interest earned or may be academic, but it was a subject of discussion.

Issue

It is generally accepted that a surplus, if it occurred, would be the result of better cost control and/or purchase negotiation or lesser usage of the activity covered by the original allocation.

Within a formalised bulk funding regime it may be necessary to establish a maximum percentage by which an allocation could be ‘under-spent’ and subsequently carried forward.

The assumption that nothing can be carried forward beyond a current parliamentary term provides an end control, but some mechanism may be required to stop a significant build-up of any surplus in years one and two of a parliamentary term, for expenditure in year three of that term.

An appropriate control could be to limit the overall sum able to be carried forward in either year one or year two, to not more than say 15% of the annual allocation.

d) Party Membership

One item that may prove to be of interest to some could be the process of “disentanglement” should a member of Parliament move from one party to another or leave the party to become an independent member. The existing system of funding, as a process, can adjust quite simply to such occasions.

In a bulk funding system it may well be a complex and cumbersome exercise to “balance the books” in these situations. Dependent on a number of factors including, when in the funding cycle such an occasion occurred, there could be considerable tension over what an individual may see as a credit versus what the party may see as a debit. Such difficulties would possibly be greater within a pure bulk funding regime – as opposed to the basic version.

In the normal course of events this subject may be seen as a minor point – however it could possibly prove troublesome when elements of accounting, transparency, reporting and auditing are considered.

e) Appropriations Review process

The Parliamentary Service Act 2000 requires that the Speaker of the House of Representatives “at least once during the term of each Parliament establish a review committee of up to 3 persons to review the amounts of money appropriated by Parliament for the following purposes:

- (i) administrative and support services provided to the House of Representatives and to Members of Parliament;
- (ii) funding entitlements for parliamentary purposes.”

It has been customary for previous Appropriations Review committees to review and comment on the amounts allocated to funding and support services for parties and members of Parliament.

Each of the three Appropriations Reviews to date have recommended increases to elements of support funding, selectively in the 2002 and 2004 reviews and more generally across the board in the 2007 review. The 2007 review addressed a “catch-up” inflation adjustment, noting that the impact of inflation had not been properly taken into account since 1996.

Issues

1. Regardless of what approach is taken to the application of bulk funding – or an extension of the status quo – we would envisage the Appropriation Review Committee continuing to be the body that independently reviews and recommends any changes to support and funding arrangements.
2. Such triennial reviews would also provide the pertinent time to address the impact of inflation on the funding levels.

ADMINISTRATIVE IMPLICATIONS

a) General

In Part Two we describe the main features of the present system of administration pertaining to party and member support. Having examined these in the context of bulk funding, we conclude that both the basic and the intermediate form of bulk funding would have distinct but not fundamental administrative implications. The essential change is that the management of travel and communications expenditure would shift to the party or member (whichever is the budget holder), along with the 20% portion of out-of-Parliament office assistance able to be re-assigned to other office running costs.

A key point is that under both basic and intermediate bulk funding employment matters remain with the Parliamentary Service, unless, as we note below, there was a specific decision to transfer these responsibilities to the party/member. (An additional role for the Service would be administering any individual requests from members to make use of the 20% option).

While on the face of it transfer of travel and communications into a bulk fund could offer parties and/or members the option of choosing their own providers, should they do so the result is likely to be an increase in the overall cost of administration because of the loss of purchasing efficiencies. Under intermediate bulk funding parties and/or members could continue to utilise the services of the Parliamentary Service in an agency capacity.

A move to pure bulk funding, in contrast, reverses the present presumption of a centralised administration of core functions (with certain responsibilities assigned to party leaders, Whips and members). It involves the transfer of responsibility for the

employment of all staff working in the party offices and members' support staff within and out-of-Parliament. The party and/or member would thus become responsible for determining staff requirements, recruiting, managing and paying staff, redundancy and other exit arrangements, complying with employment law and for being a good employer.

Taking on the employer role would require a suitable capacity within the party office (or member's office), either in-house or contracted in.

Under any of these bulk funding regimes, the Parliamentary Service could remain as an administrative agency, potentially the preferred provider for bulk funded services, given its experience, skills and purchasing capacity. The difference would be the introduction of a competitive element which would be greatest under pure bulk funding. In order to use competition effectively, party and/or members' offices would need to have good skills in contract management.

b) **Employment of staff**

Both the 2004 and 2007 Appropriations Reviews commented at some length on matters relating to out-of-Parliament offices and staff. Topics included health and safety, training, security, job titles, "Wellington" awareness, administration matters, salaries, communications; information and communications technology, workloads, office image and rentals – in fact virtually all aspects of the resourcing and staffing of the out-of-Parliament offices. Recommendations were made to enhance the support provided for out-of-Parliament offices.

A recurring issue has been out-of-Parliament office staffing. Without passing judgement or revisiting any of the recorded debates on the efficiency and effectiveness of the current employment arrangements and staff management, it has been accepted that having the Parliamentary Service as the direct employer of staff has been both workable and supported.

A move to bulk funding however always brings with it discussion on the prospect of all party and member staff being directly employed by the party or member.

One view is that members should be able to employ their own staff as part of managing their overall resources. How strongly this view is held is hard to measure, but it nevertheless becomes a valid consideration if bulk funding was to be adopted.

What therefore would have to change if the basis for employing the staff was to change, along with the basis of funding – specifically, if the role of employer transferred to the party or member, funded from a bulk fund?

In general terms the answer is: a lot. In effect it would be more a restructuring exercise than a simple transfer of staff. The changes required would be of some consequence.

We have not endeavoured to spell out all of the factors involved, but the following list is indicative.

- Each party would appear to have to become a legal entity in order to employ the staff concerned, particularly as in some instances the staff numbers are high if we look at the overall staff establishment supporting the parliamentary party. Responsibility would have to be reassigned for:

- providing the numerous personnel or human resource services needed – induction, training, direction, motivation etc.
 - health and safety and other compliance issues
 - security
 - providing payroll services.
- Decisions would also need to be made on:
 - Who determines the office image that should be portrayed: would this vary across parties.
 - Whether each party can select its own, different, ICT and other equipment, and whether criteria would be applied to maintain efficiency and effectiveness: for example, compatibility with campus ICT systems and efficient purchasing.
 - Whether individual MPs would retain the freedom to select an office.
 - Similarly in respect of selecting staff: member wishes v party wishes.
 - The role that the unions would play in such a restructure.
 - Whether such restructuring creates a vulnerability (per party) in a way not previously experienced (confidentiality, career prospects etc).
 - The provision of internal accounting systems and governance.
 - How staff would interlink with these systems in terms of inputting and extracting data.

There are many other employment-related questions that can be posed – it is a complex area.

The Parliamentary Service currently employs and has overall responsibility for in excess of 680 staff, directly and technically. By any standard of employment within New Zealand, this is a large number. Whether the parties have a genuine desire to take direct responsibility for their component part of this number is a question that we have not sought to answer. Enquiries of this nature need to be handled in a sensitive manner, and, given that one must question whether transferring employment responsibility to parties and/or members in the context of bulk funding is other than a theoretical proposition, we leave this matter in abeyance.

While there has been some interest and enthusiasm expressed for doing so, this has not necessarily taken into account the reality of employing a large number of people – with all the attendant responsibilities.

Accordingly we have not developed a scenario on which to construct and cost an alternative employment structure to accompany a bulk funding regime. We see this as a matter for further and detailed work should bulk funding proceed in principle, and covering the full range of associated technical, legal and policy issues.

c) **A dual system**

We note that within the 1999 Report a “Review of the Parliamentary Service Act” chaired by Hon Stan Rodger, consideration was given to the fact that should a more extensive system of bulk funding occur; then parties should have the ability to “opt-in” (as it was described) to whatever level of involvement they felt comfortable with.

“In other words, not all members or party groups would necessarily choose to take on bulk funding to the same extent. Party groups could also have the options of bulk funds allocated to party groups; or full individual bulk funding. Under the last option, a member could assign the whole of their bulk funding to their party if desired.”

To our way of thinking a duality of systems simply adds to costs and would potentially have the Parliamentary Service retaining expertise to assist what would probably be only a minority of parties or members. We believe further complications would arise if those who did not elect to move to bulk funding nevertheless elected to use an external agency to provide accounting and/or other services.

The exercise of such choice could well provide for particularly confusing end results.

d) **The role of the manager**

The likely outcome of any significant move towards bulk funding would be a more direct role for parties in the management and administration of, and the accounting for, funding allocations. We assume in this respect that each party would have some function and form of management at least for the management of the bulk funding.

In all probability the manager of funding would also carry out other duties and responsibilities.

Just what this might entail would depend on the regime adopted. There will however be a need for a role that we call here for ease of reference the “funding manager”.

Aspects to consider within this function would include:

- Whether a party would automatically look to provide its own manager or consider contracting the role to the existing ‘funding manager’, i.e. the Parliamentary Service. We would expect at least some parties would wish to manage from within, and not look to an “outside” service provider other than the Parliamentary Service.
- Assuming all parties would not see the function in the same light, and that they adopted different methods of enacting the role of funding management, a means of dealing with any problems relative to audit and presentation of accounts would be required.
- Resolving any concerns relative to confidentiality and transparency, and the tension that often occurs between these, arising from audit and accounting processes.
- Larger parties obviously access greater quantum of funding than smaller parties. A funding management role for larger parties will create an overhead of much lesser impact than the same role adopted by a smaller party.
- A separate management allowance could be established to provide a more level playing field.

Whatever change might be made to the current system, a management system would quickly evolve and follow as part of the implementation of bulk funding.

A practical matter in this regard is that the “customers” of party and member support are all different, in numerous and specific ways. The parties range from big to small, comprise elected and list members, include vast to small electorates and so on.

The questions arising from bulk funding therefore quickly extend not only to the method of funding, but also the funding management system to be employed which, simplistically, could either remain centralised (as now) or be decentralised.

The pros and cons of these two approaches continue to be debated at length today within the world of commerce. There are many successful examples of both.

The question for processing bulk funding is what approach would be most logical and pertinent for the institution of Parliament – centralised or decentralised – given the characteristics of the parliamentary “marketplace” and of the “customers” it is serving.

Accepting the unique status of Parliament, and assuming it is indeed New Zealand’s most important institution it could be argued that a centralised system is the most appropriate.

While we have not detailed the practices presently utilised by the various parliamentary parties for managing support allocations, we have noted that parties have developed their own internal methods to suit the party-unique aspects of their current funding. To varying degrees, these methods may provide a foundation for parties to adopt more autonomous management under formalised bulk funding. We do however signal above that any major change to the funding regime will, without doubt, necessitate a major change to management responsibilities and functions.

e) **Purchasing and procurement**

In respect of a bulk funding regime coming to the fore, the functions of purchasing and procurement could in varying degrees transfer from the Parliamentary Service to an individual party.

Within the broad public sector – whether it be Parliament, government departments, state-owned entities or the like – are suites of policies that cover numerous operating and governance practices. Purchasing and procurement policies are generally well entrenched, and practice normally follows specific guidelines and/or policies. Such policies as a rule also cover the establishment of supply contracts and all capital works expenditure. Generally there are also delegated authorities (as approved by the Board or Head of Department) that nominate authority levels of expenditure for specific managers within the entity.

Over and above the usual governance aspects that come into play in most commercial organisations, the government will often promote further preferences which may be seen as appropriate at the time for whatever reason. Preferences may relate to a specific outcome such as with the current “buy New Zealand made” theme. Other considerations can include such aspects as sustainability, ethical considerations, contestability, transparency etc.

In addition, the government sector is able to negotiate particular purchasing benefits (often of scale) not necessarily available to the private sector. It would be important to ensure these benefits are not lost in any potential transfer of purchasing responsibility.

We would assume that with any transfer of purchasing and procurement, in association with any move to bulk funding, all of the practices and procedures normally associated with government would be adopted by the parliamentary parties concerned.

LEGISLATIVE IMPLICATIONS

a) Accommodation within existing legislation

Our terms of reference include a request to consider whether bulk funding can be accommodated within existing legislation. The statutory provisions relevant to bulk funding are set out on page 14 above, and more fully in Appendix 4.

The answer depends upon three factors: the form of bulk funding adopted; the manner in which funding is allocated; and what role is taken by the Parliamentary Service.

Responsibility and accountability

At present the Parliamentary Service acts as an agent for the Crown, with the General Manager accountable for the quality of services provided. Accountability for the use of the funds themselves rests with the Speaker.

We assume that under any future funding regime, the Speaker would remain the Minister responsible for the Vote, with the associated statutory responsibilities. These include issuing Speaker's Directions and Determinations which are legislated for in the Parliamentary Service Act and the Civil List Act. We see these remaining in place under any formalised form of bulk funding (although some provisions would need to be re-cast) since a mechanism will still be needed to:

- set out the principles to be applied by parties and members in their use of appropriated public money
- delineate the purposes for which funding may be used
- specify the various funding allocations (except that instead of specifying the particular components as shown in present Speaker's Directions – leadership, party and group and individual member allocations, and travel, communications and accommodation entitlements – the Directions could set out either the party/member bulk fund quantum aggregates, or the formula by which these are made up)
- state who is responsible for which aspects of administration.

Certainly one legislative requirement that would not change under bulk funding – and indeed may assume greater importance – is the need for a clear definition of 'parliamentary purpose' and 'parliamentary business' to guide parties and members in the use of the bulk fund appropriations.

Currently 'parliamentary purpose' is defined in the Appropriation (Continuation of Interim Meaning of Funding for Parliamentary Purposes) Act 2007⁶, and elaborated

⁶ See Appendix 4 of this report.

in Speaker's Directions (clause 4.12). We see these provisions remaining part of the legislative framework for determining use of the parliamentary appropriations.

The introduction of formal bulk funding would, however, affect another primary purpose of Speaker's Directions, which is to specify how the Parliamentary Service must act when administering party and member support services. Under bulk funding it is the party and/or member that decides both what services to purchase and how they wish these to be supplied.

In essence the Parliamentary Service would step back from some of its legislated roles – more so under pure bulk funding, less so under intermediate or basic bulk funding. Under each form:

- The budget-holding entity (party or member) would assume greater responsibility for meeting the requirements of the Public Finance Act in terms of financial management of, and accountability for, their appropriated funds and, presumably, for supplying information necessary for the Estimates process. This may entail designating a management position within the party office to be that of 'chief executive' for the purposes of the Public Finance Act (which would need to be amended accordingly). Alternatively a system of delegations could be used, formally identifying the recipients of the bulk fund, and making explicit the terms on which the funding is allocated. Ultimate compliance with the Public Finance Act would then remain with the Parliamentary Service.⁷
- Some of the administrative functions of the Parliamentary Service as set out in the Parliamentary Service Act and Speaker's Directions would transfer to the party and/or member, although the Parliamentary Service could provide these as an agency service to the party/member.

We were advised that bulk funding *per se* would not require changes to the Public Finance Act, although statutory authority for the party and/or member to spend would have to be provided in some manner. It would be necessary to determine the detail of where responsibility lay for complying with the extensive provisions of the Act, as discussed above under "financial implications".

It is however apparent that the Parliamentary Service Act would need to be amended to accommodate the transfer of service delivery responsibilities to the bulk funded entity. We believe this would be the case even in respect of the basic approach because of the way the Act specifies the duties of the General Manager.

Employment responsibility

We have discussed above the administrative implications of overall staffing in a bulk funding regime. Legislation relating to employment responsibilities would need to be reviewed to effect the party and/or member becoming the employer of support staff within their offices. As employer they would have power to decide upon their own organisational structures and staff deployment, and would have legal responsibility for the full range of employer obligations including recruitment, resourcing, leave, training and development, dispute management and termination, along with ensuring good employer practices are followed. The General Manager of the Parliamentary

⁷ Members of Parliament, not being part of the Crown, fall outside the Public Finance Act in terms of the authority to incur expenditure. Their ability to incur expenditure against entitlements is given by Speaker's Directions.

Service would cease to have these responsibilities for party and member support staff. This would apply not only to existing staff establishments, but also to any additional staff needing to be recruited for administrative support functions that are currently provided by the Parliamentary Service to all parties and members, but that may transfer (with funding) to the party/member. Examples are information technology support, reporting and accounting services and human resource management.

Under intermediate and basic bulk funding, party and member support staff could continue to be employed by the Parliamentary Service – although a separate decision could be made to shift the employer role to parties and/or members. (This possibility has been raised a number of times as a potential solution to the tensions inherent in the present system whereby out-of-Parliament staff are employed by the Parliamentary Service but work in offices funded from member support allocations and run by the member. That it hasn't eventuated is a reflection of the difficulties seen in giving members the direct responsibility of meeting employment obligations when their primary role is as legislators and representatives.)

The following table summarises the possible areas of legislative change, based on the outline of current legislation in Appendix 4.

Legislation	Possible change
<i>Public Finance Act</i>	<p>May require amendment if pure bulk funding was adopted to recognise the financial accountabilities of the parties/members, as budget holders.</p> <p>Pure bulk funding would fundamentally affect the responsibilities of the General Manager, which under the PFA are the same as those of departmental chief executives in terms of financial management and performance.</p>
<i>Annual Appropriation Acts</i>	<p>Technical changes to the Estimates to reflect the changed scope of appropriations under bulk funding.</p>
<i>Parliamentary Service Act</i>	<p>Duties of the Parliamentary Service change to some extent under intermediate bulk funding, and fundamentally under pure bulk funding.</p> <p>Provisions in the Act applying employer obligations in the State Sector Act to the Parliamentary Service would need to be reviewed if the form of bulk funding adopted was one that involved parties/members becoming the legal employers of office staff.</p> <p>Provisions relating to the issuing of Speaker's Directions to the Parliamentary Service may require amendment, although in this Act these are broadly expressed and may still stand, assuming the Parliamentary Service retains core administrative functions.</p>

<i>Civil List Act</i>	Possible re-wording in respect of the requirement for Speaker's determinations, depending on what procedure and method is used to set budget allocation quantum under bulk funding.
<i>Appropriation (Continuation of Interim Meaning of Funding for Parliamentary Purposes) Act</i>	Definition of the term "parliamentary purposes" may need to be examined to ensure it provides sufficiently robust guidance to parties/members responsible for bulk funds.

In addition, new purpose-designed legislation may be needed to implement pure bulk funding, if it eventuates that a different governance structure is necessary.

b) The budget-holding entity

Within this document we have consistently referred to a bulk fund being provided to the party or member, or potentially a mix of both.

The legal implications are different in each case, and different also as between the different forms bulk funding might take.

Pure bulk funding may require the recipient of the funds to have legal status (which we discuss below). This would seem relatively straightforward if the recipient was the parliamentary party.

A quite different scenario arises if the member of Parliament was deemed to be the budget-holder and received the funding, or a major element of it. Members of Parliament are unique in that although they are paid a salary and allowances, they are not employed by anyone.

The 1998 Treasury Report described their situation as follows:

"Their obligations in the course of their work are to their constituency, whether geographically determined, or generated by their party's work to gather support from the wider community. They have pre-eminently political accountabilities, but these are indirect and expressed through the ballot box once every three years or so. Their obligations and accountabilities do not fit the usual contractual model."

Accordingly it could well be that research would need to be undertaken, with a consequent need for legislation, to allow a member of Parliament to be the recipient of any major element of funding under a bulk funding approach.

c) Legal entity

We have not investigated in any detail the consequences of parties or members becoming legal entities. There are many matters to consider. The form of entity that may be appropriate to a party, for instance, may not be appropriate for those members of the party who may be the designated officers of the entity. Individual responsibilities, personal exposure in a fiduciary sense and liability insurance are but a few aspects relevant to consideration of the form of an appropriate legal vehicle.

Similarly we have not considered what, if any, element of taxation (including Fringe Benefit Tax) that might (or might not) might apply to such an entity or those within it.

We note that the Green Party has established an incorporated legal entity pertinent to their affairs. We have not sought from them the rationale behind their choice of vehicle as we considered this was their private business.

Another option for creating the necessary legal structure could be the Parliamentary Corporation. The Corporation is a distinct legal entity, in existence today. Consideration could be given to whether this entity could be better utilised to provide a more convenient collective approach to the overall management and administration of the functions and funding responsibilities of the Parliamentary Service.

Should a move to a pure form of bulk funding gather momentum and a consequent need to restructure the “remnants” of the Parliamentary Service occur, then a greatly expanded role for the Parliamentary Corporation could be a logical move. We have not explored this beyond noting the prospect.

As a different alternative the 1998 Treasury report discussed as a possible alternative to bulk funding parties and/or members having the Parliamentary Service Commission act as the funding agency, that is, becoming the sole receiver of funding appropriated for support to parties and members.

Responsibility for the operational support services would remain with the Parliamentary Service. The Parliamentary Service Commission would assume direct responsibility for all funding to parties and members.

It was suggested by Treasury that such an approach would require “significant institutional as well as some legislative change”. We agree, and believe the potential benefits or otherwise of such a change would need careful exploration prior to it being seriously considered.

We gave some thought to this idea given the possibility that setting up a procedure for bulk funding parties or members directly may be seen as too difficult. Administration by the Parliamentary Service Commission might be a way to address concerns about responsibility and accountability that arise in relation to bulk funding. The question however of “what quantum of what funding” would be bulk funded would remain.

CONSTITUTIONAL IMPLICATIONS

As with each of the other areas affected by bulk funding, the constitutional implications wholly depend on the form of bulk funding being considered for adoption.

The key issues we identify and discuss below are:

- institutional and fiscal sustainability
- representation and defining parliamentary business, and
- budget holding and maintaining the principles of public accountability.

Collectively, these issues are central to the functionality of the institution of Parliament and must be considered very carefully. Our comments are merely introductory to the matters that would need to be examined at length should bulk funding proceed.

Institutional and fiscal sustainability

An important issue that arises in connection with bulk funding is ensuring the continuation of a well-functioning Parliament within a regime that is fiscally sustainable.

At present, funding under Vote: Parliamentary Service has two streams: one purchases departmental outputs whose focus is the business of providing a functional institution; the other stream funds activities directly linked to the work of individual members and parliamentary parties within the definition of “parliamentary purpose”.

A move towards the pure end of the bulk funding spectrum could fundamentally affect this balance. At the extreme, there could be little remaining as “central” activity, and instead extensive decentralisation of funding and functions impacting on services as core as security, information services, infrastructure etc. The question is whether this would be institutionally sustainable, and whether over time a new tier of centralised funding would be needed to fill gaps left in core services. This prospect becomes further compounded if parties and/or members determined vastly different priorities.

We do not see this extreme as at all a realistic option, but note that along the spectrum of bulk funding formats, there may be some level of decentralised funding and responsibility that potentially provides some risk to the institution of Parliament.

Representation and parliamentary business

As is frequently observed, support for parties and members over the period since the introduction of MMP has reflected a stronger party focus. One manifestation of this is the element of ‘bulk funding’ in the budgets allocated to the leaders and Whips, and the not totally uncommon practice of pooling members’ funding.

Formalised bulk funding would require consideration of whether to move further towards a party focus, or to maintain a specific focus on the individual MP.

The 2007 Appropriations Review report commented (page 75) that “channelling additional funding into Members’ Support allocations has a very real and beneficial impact on activities that are central to the democratic process. It generally means more resources going directly to Constituency MPs to support their roles as electorate representatives, and to both Constituency and List MPs to support their respective roles in the interface between Parliament and the public.”

The balance between resourcing individual MPs on the one hand, and parties on the other, within a bulk funding regime will we believe, require specific consideration.

Another potential impact on representation that is inherent in bulk funding is the expectation that parties and/or members would be able to utilise bulk funding to switch funding between activities, to reflect their priorities. While this gives parties/members the ability to make more effective and efficient decisions on resource use – as intended by bulk funding – it could, hypothetically, lead to a party or member deciding to reduce activities that are seen as supporting democracy (e.g.

getting out and about into constituencies and around the country, supplying information to the public etc) in favour of more “in-house” activities.

We do not believe this is a major risk, for two reasons:

- first, the ability to re-allocate funding is constrained by the fact that all spending must comply with the definition of parliamentary purpose which is itself designed to ensure spending is consistent with the roles of Parliament and its members in a democratic parliamentary system
- second, there would be obvious political constraints on how far a party or member might ‘cut back’ on interface with the public.

We do expect that bulk funding would lead to the evolution of different patterns of resource use over time and between parties/members. As we have suggested elsewhere in our report, clear guidelines on allowable uses of funding will be important in ensuring an appropriate balance is maintained in the way funding is deployed.

Budget-holding and principles of public accountability

We discuss above the legal matter of determining who might be the budget-holding entity under bulk funding, i.e. the entity to which the appropriated funds – and hence stewardship for them – are assigned.

We have also highlighted the shift in responsibility for financial management that would accompany formalised bulk funding.

We simply stress here the importance, constitutionally, of ensuring that in any form of bulk funding this responsibility is clearly and robustly assigned. The Public Finance Act is a fundamental part of New Zealand’s constitutional framework, to a large extent because of the principles of public accountability, and the careful construct of accountabilities, that underpin it. Applying these principles and accountabilities would be a fundamental component in the design of any bulk funding system.

PART SIX: SUMMARY

We believe we have given due consideration to each section of the Terms of Reference. The Terms of Reference preclude us from making any specific recommendations on the subject of bulk funding, however within this section we provide a brief summary of our thoughts.

1. The subject has been under consideration since at least 1997. Given that some 12 years have now passed, one could suggest it is possibly time to make a change or agree to leave the subject behind. The main purpose of this document is to assist in this regard.
2. Without doubt, a move to a pure form of bulk funding, would be an enormous task. There are major implications relative to virtually every aspect of the current system including legislation, management and operational and administrative functions. The interruption factor would also be of magnitude.

We believe however that it would not be a major exercise to modify the existing system to accommodate the parties assuming the responsibility for the funding of travel and communications (and out-of-Parliament office assistance) under either the intermediate or basic approaches we describe.

3. We noted particularly diverse views held by individual members and individual parties as to how a bulk fund would operate.
4. A key issue we needed to clarify was whether any surplus generated by the receiver of the fund/s could be retained for future use and/or present use across the range of support activity.

Within the pure approach the only issue relative to any surplus would be the authority to carry it forward to a subsequent year.

With the intermediate model the same applies but is only relevant to the components that make up the bulk fund (Party and Member Support, Travel, Communications and a portion of out-of-Parliament office assistance).

Under the basic model specific authorisation would be needed to transfer any surplus generated within one appropriation to another.

5. The mechanics of administering the current support services for parties and members of Parliament are performed within a well established system, albeit there are still improvements to achieve. The work done in 2007 by Deloitte and the Parliamentary Service to improve the way the existing system is administered is a case in point. It should be noted that the full benefits of this work have yet to flow through to members and parties.
6. Any significant move away from the current system of funding parties and members would undoubtedly impact on the Parliamentary Service. Dependent on the degree of bulk funding deemed as appropriate, the Parliamentary Service could be left administering and managing a quite disparate group of outputs at a sub-optimal level.

Of particular concern to us, should the Parliamentary Service not continue to operate along its present lines, would be where responsibility for the overall ongoing management, planning and development of the Parliamentary campus would lie.

7. The institution of Parliament is arguably the most important and critical institution within New Zealand. The “business” of Parliament in its many shapes and guises is, and will by its very nature continue to be, of great interest to many sectors of the community.

The Public Finance Act is a fundamental part of New Zealand’s constitutional framework, to a large extent because of the principles of public accountability and the careful construct of accountabilities that underpin it.

Applying these principles and accountabilities would be a fundamental component in the design of any change to the existing system.

8. While we have drawn attention to the financial and legislative implications of any move towards bulk funding we have not commented in any substantial manner on aspects of audit and accounting relative to the systems and transparency that would be associated with any particular approach.

This would include elements of both internal and external audit. It goes without saying that any changed approach would in its totality need to comply with all the characteristics that would confirm a “seal of good housekeeping” being able to be applied to a new approach.

The checks and balances, and procedures thereof, needed to confirm a more than satisfactory degree of compliance at all levels of a new process should not be underestimated.

9. It would appear logical at some stage to send a small taskforce of members and officials to at least Australia and Germany to gain in-depth knowledge as to how their systems actually work and whether they indeed do offer any practical benefits.
10. Regardless of whatever system is utilised in respect of funding Parliamentary parties or members of Parliament in whole or part, it will undoubtedly, at some point in time, fall short of expectations. The question today is what degree of bulk funding offers sufficient benefits over the present system to justify the work involved in making the change.

APPENDICES

**PARLIAMENTARY APPROPRIATIONS: BULK FUNDING
TERMS OF REFERENCE FOR ISSUES REPORT
October 2007**

The Parliamentary Service Commission has agreed to work being undertaken on the subject of bulk funding. The Speaker of the House has commissioned this document which is to comprise consideration of the issues that would arise if bulk funding was to go forward, and to elaborate on matters that would need detailed examination.

Matters to Address

1 Definition

A definition of the term bulk funding in the context of funding administered by the Parliamentary Service for supporting Members of Parliament and parliamentary parties.

This includes defining variations of bulk funding that would achieve similar objectives.

2 Existing budget provisions

A clear statement of present budget provisions for the support of parliamentary parties and Members, with a description of the purposes and activities these are intended to cover.

3 Operation of the present system

A description of the current basis on which support funding is allocated and distributed (as between parliamentary parties, individual Members and the Parliamentary Service), to include:

- (a) funding that may be (is) aggregated within parties versus funding that is specific to the individual Member
- (b) funding spent by the Parliamentary Service on direct support and services for parliamentary parties and Members
- (c) any other funding that may impact on a bulk funding approach.

4 Establishing the quantum basis for bulk funding

Consideration of:

- (a) An acceptable mechanism for establishing the quantum basis for bulk funding
- (b) The potential total quantum of a bulk fund, based on present expenditure, under alternative bulk funding models
- (c) Methods for reviewing and managing the quantum.

5 Areas of potential change to current structures under bulk funding

Identification of significant matters that would need to be resolved in a move to bulk funding, for example employment of parliamentary staff.

6 Changes required to current systems and practices under bulk funding

Identification, and preliminary assessment, of changes that would be required to existing budget systems and budget management practices to implement bulk funding, including the questions of:

- (a) Whether bulk funding could be accommodated within the existing overall budget process (and legislation) or would it require a different framework
- (b) Allocating funding for parliamentary parties versus funding for individual Members
- (c) How funding would be distributed, and to whom
- (d) What external accountability would be required of the parliamentary party or Member
- (e) What internal management controls would be required within the party, or by the Member, to support accountability and transparency, and would the systems for internal control be similar for all parties (or Members)
- (f) What would be needed to ensure a robust audit process
- (g) What guidelines would be needed on the appropriate use of bulk funds allocated to parties/Members, and to define areas of inappropriate expenditure
- (h) What forward planning and annual reporting systems and documentation would be required for public accountability.

7 Quality and standards of outputs

Consideration of how an acceptable quality and standard could be maintained across the outputs resulting from party/Member spending under bulk funding, for example to ensure public access to Parliament and Members, and the public image and standing of Parliament, are maintained.

8 Constitutional matters

- (a) Identification of what, if any, constitutional issues may arise from the introduction of bulk funding.
- (b) Preliminary identification of any areas of legislative change.

9 Other specific matters

Identification of any other specific matters that may arise.

10 Options

A brief concluding commentary on bulk funding in relation to possible alternative systems for funding parliamentary parties and Members, vis-à-vis the issues raised concerning bulk funding.

PEOPLE AND ORGANISATIONS CONSULTED

Political Parties

Labour
National
ACT
Green
NZ First
Maori
United Future

Members of the Crown

Hon Michael Cullen – Leader of the House

Parliamentary Service Commission

Hon Margaret Wilson – Speaker
John Carter MP – National

Members of Parliament

Gordon Copeland MP
Hon Paul Swain MP

Agencies and their Officials

Office of the Clerk
Office of the Controller and Auditor-General
Parliamentary Service
The Treasury

Other Organisations and persons

Deloitte

Sir Geoffrey Palmer
Peter Lorimer
John O’Sullivan

CURRENT LEGISLATION

Legislation	Relevant provisions
<p><i>Public Finance Act 1989</i> Permits public money to be expended only under parliamentary authority and establishes lines of responsibility for effective and efficient management of public financial resources.</p>	<p>The Act applies to the Parliamentary Service. The Parliamentary Service is included in the definition of a “department” (but under the Parliamentary Service Act is not an instrument of the executive government).</p> <p>Under Section 2 of the Act the Speaker comes under the definition of Responsible Minister in terms of the financial accountability of the Service.</p> <p>The General Manager has the same responsibilities as departmental chief executives regarding the financial management and financial performance of the Service.</p>
<p><i>Annual Appropriation Acts</i> These cover the annual estimates of expenditure, supplementary estimates and financial review.</p>	<p>The Parliamentary Service appropriations include expenditure under the category “Other expenses incurred by the Crown”, allocating funding for members and parliamentary parties in the areas of communication, travel and party and members’ support. These allocations are potential candidates for bulk funding.</p> <p>The Estimates specify the scope of expenditure for each line item of the appropriations. All expenditure must fit within the scope as defined (expenditure outside the scope is illegal).</p>
<p><i>Parliamentary Service Act 2000</i> Establishes the mechanisms for providing services and funding entitlements for parliamentary purposes, and the governance arrangements of the Parliamentary Service.</p>	<p>Section 7 sets out the principal duties of the Parliamentary Service in providing administrative and support services, and administering the payment of funding entitlements for parliamentary purposes in accordance with directions given by the Speaker.</p> <p>Speaker’s Directions are covered in sections 7 and 8. The Speaker gives the Parliamentary Service directions to administer the payment of funding entitlements for parliamentary purposes under S7(b). Annual directions are to be given in writing to the Parliamentary Service each financial year on the nature of services to be provided to the House and its members in the next financial year, and the objectives to be achieved by the Service.</p>

<p><i>Appropriation (Continuation of Interim Meaning of Funding for Parliamentary Purposes) Act 2007</i></p> <p>Defines the term “funding entitlements for parliamentary purposes”.</p>	<p>“Funding entitlements for parliamentary purposes” includes: funding for the purposes of a member of Parliament performing his or her role and functions as a member of Parliament; a recognised party performing its role and functions as a recognised party; and providing travel, accommodation, communications and attendance services in accordance with Speaker’s determinations and directions.</p>
<p><i>Civil List Act 1979</i></p> <p>Provides for Speaker’s Determinations on services to members.</p>	<p>Section 20A of the Act requires the Speaker to make determinations on members’ travel, accommodation and communications services, with the advice of the Parliamentary Service Commission.</p>
<p><i>State Sector Act 1988</i></p> <p>Employment provisions include the “good employer” requirement, equal employment opportunities and negotiation of conditions of employment.</p>	<p>The Parliamentary Service is not included as a public service department under the Act but provisions in the State Sector Act apply in respect of employment within the Parliamentary Service as if the Service were a department. This covers personnel (eg EEO, appointment on merit, notifying and reviewing appointments, and redundancy) and the application of the Employment Relations Act 2000.</p> <p>Also the Parliamentary Service Act (Schedule 1, Clause 7) places on the General Manager responsibilities similar to those of Chief Executives in the public service.</p>
<p><i>Employment Relations Act 2000</i></p> <p>Also all other employment-related legislation such as the Holidays Act and health and safety legislation.</p>	<p>The Parliamentary Service, as employer, is subject to the full range of employment-related legislation.</p> <p>The Service is subject to the Employment Relations Act (except as provided in the State Sector Act). This includes the General Manager’s responsibility for negotiating a collective employment agreement for staff, and the requirement to consult with the State Services Commissioner about the conditions to be included.</p>
<p><i>Income Tax Act 2004</i></p> <p>Provisions relating to private remuneration and allowances.</p>	<p>In making determinations under the Civil List Act on members’ entitlements the Speaker is required to consult the Commissioner of Inland Revenue to allow the tax consequences to be assessed and ensure payments are transparent, efficient and consistent with tax law.</p>

AUTHORSHIP

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