

INTRODUCTION

Budget Paper No. 3 provides an analysis of the financial and non-financial performance of general government agencies.

Under each Minister's portfolio, commentary is provided on agency expenditure trends, recent developments and strategic directions. Overviews of expenses and asset acquisitions are also provided.

Financial statements on an accrual basis are presented for each agency. These include the Operating Statement, Cash Flow Statement and Statement of Financial Position.

The Operating Statement details the major categories of expenses and revenues of agencies. The key aggregate is the Net Cost of Services, which is the difference between expenses, retained revenue and the gain/loss on disposal of non-current assets. For those agencies which receive a direct appropriation from Parliament, the Net Cost of Services is funded by revenue (mainly taxation) raised from the community as a whole.

For those agencies, which receive a direct appropriation from Parliament, the difference between expenses and revenues is the net cost of services which is funded by revenue (mainly taxation) raised from the community as a whole.

For those agencies, which do not receive direct appropriations, the difference between revenues and expenses is the surplus (deficit) available to further the objectives of the agency or be distributed to the Consolidated Fund to support core government services to the community.

The Government incurs expenditure as a result of providing services to the community. Under accrual accounting the operating statement of an agency records expenses when they occur. This varies from cash accounting which records expenditure when the payment is made. The major categories of expenses shown on this statement include employee related costs, operating costs, maintenance of assets, depreciation and amortisation of assets, grants and subsidies provided to other entities, and other expenses.

Similarly, revenues are shown when the agency is entitled to receive the funds although the cash may be received in a different period. Revenues are dissected into sales of goods and services, investment income, grants and contributions and other revenue.

The Cash Flow Statement details the cash impacts of agency activities including the cash appropriations sourced from taxation. The movement in cash disclosed in the statement equates to the difference between the opening and closing cash balances in the Statement of Financial Position. In addition, the net cash flow from operating activities shown on the cash flow statement is reconciled to the net cost of services (or surplus/deficit) in the operating statement.

The Statement of Financial Position details the assets and liabilities of the agency together with the net investment by the community in the form of equity in that agency. Assets and liabilities are dissected into current (convertible into cash or paid/received within the next 12 months), or non current (paid/received after 12 months).

PROGRAM STATEMENTS

Where agencies receive direct Budget support these activities are grouped into programs. Programs in turn are grouped into program areas. The underlying structure for these agencies is:

- Minister: highest level at which funds are appropriated.
- Agency: department or authority (e.g. the Department of Agriculture).
- Program Area: grouping of programs with common goals (e.g. Agricultural Services).
- Program: individual program within a program area (e.g. Animal and Plant Protection).

Program Statements - The format of the statement varies depending on whether information is published on outputs and outcomes or activities for the program. Each program statement includes narrative material - program objectives and program description – as well as staffing and a detailed operating statement.

The *program title* is relatively concise, the intention being that it convey sufficient information to enable an interested reader to grasp in general terms what government functions or responsibilities are subsumed under the program.

Program objectives are statements of the broad aims of the program and indicate why the State is involved in the area.

The *program description* explains the activities which are grouped together within the program. The program description differs from the program objectives in that it indicates *how* the program is undertaken, rather than *why*.

From this point on the content of the program statements varies, depending upon whether information on outputs (and in selected cases, outcomes) is being published.

For those programs where information on outputs and outcomes is being published, the program statement is presented on the following basis:

- ◆ *outcomes* – the intended effects or impacts on the community, environment or economy which the Government is trying to influence through agency activities. Outcomes may be stated qualitatively or quantitatively and the information published is usually an *indicator* of the actual effect or impact on the community and reflects the degree of influence achieved. For example, a road safety outcome could be described quantitatively as *road deaths not exceeding x number per 100,000 of population*. In this case, the outcome indicator would be the actual number of road deaths per 100,000 of population.
- ◆ *outputs* – programs, goods and services or a response capacity produced by agencies to contribute to achieving the Government’s desired outcomes. Outputs can be described very specifically (individual outputs) or more collectively (output groups). The output information published usually indicates the *number* of *key* outputs produced. In the road safety example cited above, one group of outputs could be *driver and vehicle licensing services*, with key outputs including *driving tests conducted* and *motor vehicles registered*.
- ◆ total average staffing for the program which represents the number of staff engaged on outputs produced by the program. These staff figures represent an estimate of annual average staffing, including temporary and short term “casual staffing”, expressed on an equivalent full-time (EFT) basis. They are a guide to the *average number* of staff who might be employed during the year on a particular program based on the funds intended to be spent on the program. The figures include staff charged both to recurrent services and to capital works and services. Where program costs consist of contributions to other bodies (e.g. transport authorities), staff figures for these bodies are not included.

Where outcome/output information is not published, the total average staffing is dissected into major *activities* undertaken and the level of EFT staff involved in these activities. The activities have concise titles which follow logically from the program description. The full range of activities within the program is covered although relatively minor activities may not be discretely specified.

From this point onwards the format of the program statements converges, with an operating statement being presented in the same format as the agency presentation except that “grants and subsidies”, “other services” and “retained revenues” categories are further dissected to provide insight into the nature of the payment or receipt.

Also shown is the amount to be spent on asset acquisitions for each program, which details the total level of purchases of property, plant and equipment, being planned by the agency.

BUDGET OUTCOME INFORMATION

Under the General Government Financial Management Framework, Service and Resource Allocation Agreements (SRAAs) are being developed on an agency basis as part of the Budget process. SRAAs are ‘outcomes-focussed’ agreements, signed by the Treasurer, on behalf of Budget Committee, and the portfolio Minister. The aim of the agreements is to improve resource allocation and management by linking the Government’s desired outcomes with the resources allocated to agencies to pursue those desired outcomes, and to provide information on the efficiency and effectiveness with which programs and services are delivered.

Outcome statements are a key component of each agency’s SRAA, with one statement for each of the outcomes to which the agency’s outputs contribute. Each outcome statement includes information on the strategy or strategies the agency plans to employ to contribute to the outcome; the associated outputs and their cost; the risks associated with contributions to outcomes and output delivery; and the measures or indicators by which the agency plans to assess its performance in terms of both outcomes and outputs.

Treasury is working towards introducing SRAAs for all general government sector agencies. As the SRAA process is bedded down, outcome statement information will replace program statement information. In Volume 3 of Budget Paper No. 3, Treasury’s program statements will be replaced by outcome statements.

The format of Treasury’s outcome statements, compared to the program statements, is as follows:

Budget Outcome Statement		Program Statement	
Functional area:	grouping of organisational units working towards common outcomes	Program area:	grouping of programs with common goals
Outcome:	intended effects or impacts on the community, environment or economy	Program:	individual program within a program area
Outcome objective:	elaboration of outcome	Program objective:	broad aims of the program
Strategies:	planned series of actions required for contribution to outcomes	Program description:	activities which are grouped together within the program
Outcomes:	indicators of progress towards desired outcomes (with estimates for the Budget Year)	Outcomes:	usually indicators of progress towards desired outcomes (with estimates for the Budget Year)

Budget Outcome Statement		Program Statement	
Outputs:	number of key outputs produced and measures of output quality/ efficiency (with estimates for the Budget Year)	Outputs:	usually number of key outputs produced (with estimates for the Budget Year)
Inputs:	number of staff engaged in producing outputs	Average staffing:	number of staff engaged on outputs produced by the program

Reporting outcome statement information will enhance the range and quality of information provided in Budget Paper No. 3. In particular, readers will be able to gauge more readily:

- ◆ the outcomes towards which agencies are working;
- ◆ the strategies which agencies are employing in pursuit of those outcomes;
- ◆ the quality of, and efficiency with which, outputs are delivered, in addition to the numbers of key outputs produced;
- ◆ the effectiveness of agency outputs in contributing towards outcomes; and
- ◆ the “resource effort” in terms of agency expenses, asset acquisitions and staffing devoted towards pursuit of individual outcomes.

AGENCY RISK MANAGEMENT

Effective agency-level risk management helps reduce aggregate, sectoral and program/service/project level risk. The Treasury’s main function in regard to risk management is to put in place the incentives and processes to encourage agencies to manage their risks appropriately.

This approach is fundamental to the Financial Management and Commercial Policy Frameworks, and is incorporated in:

- ◆ Service and Resource Allocation Agreements for key general government agencies;
- ◆ Statements of Business Intent for non-corporatised Public Trading Enterprises and Statements of Corporate Intent for State Owned Corporations;
- ◆ risk management reviews of agencies covered by the *Public Authorities (Financial Arrangements) Act 1987*;
- ◆ *Risk Management and Internal Control Toolkit* and the *Statement of Best Practice for Internal Control and Audit*; and

- ◆ the Department of Commerce's *Total Asset Management Manual* which provides guidelines on risk management, financial and economic appraisal and value management. *Guidelines for Privately Financed Projects* (November 2001), which deals with private sector participation in the provision of public infrastructure, now forms part of the Total Asset Management Manual.

RESTRUCTURED AGENCIES

As a result of the March 2003 State election Ministerial portfolios and the agencies within those portfolios have been altered. The changes were gazetted in April 2003.

Budget Paper No. 3 Volumes 1 and 2 do not include detailed financial statements for agencies that have been affected by restructures. Only high level financial aggregates have been produced for these agencies and details of the restructures.

More detailed information for these agencies will be included in Budget Paper No. 3 Volume 3 to be issued on 26 August 2003. The agencies concerned are:

- ◆ Environment Protection Authority,
- ◆ National Parks and Wildlife Service,
- ◆ Ministry of Energy and Utilities,
- ◆ Department of Lands,
- ◆ Department of Infrastructure, Planning and Natural Resources,
- ◆ Department of Commerce,
- ◆ Office of Government Business,
- ◆ Office of Government Procurement,
- ◆ Department of Sport and Recreation,
- ◆ Ministry of Transport,
- ◆ Treasury, and
- ◆ Department of State and Regional Development.