

# INTRODUCTION

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Budget Paper No. 3 *Budget Estimates* provides information on the financial and operating performance of general government agencies.

An overview at the start of each Minister's portfolio sets out the total expenses and capital expenditure for agencies within the portfolio.

Details of agency performance and its 2008-09 Budget are outlined in the individual agency commentary and financial statements. In addition, service group statements are provided for those agencies classified as budget dependent general government agencies.

## REPORTING OF RESULTS AND SERVICES

This year Budget Paper No. 3 is presented on a results and services format. This requires a performance focus in agency commentary and replaces program statements with service group statements.

This is part of the Government's strategy to improve service delivery through increased disclosure of agency performance indicators and is part of an overall plan to improve performance management and budgeting practices within the NSW Public Sector. In November 2006 the Government released the *State Plan: A New Direction for NSW* which:

- ◆ sets clear priorities and targets for Government action and
- ◆ articulates a new performance management and budgeting system to be implemented for the 2008-09 Budget to support the delivery of State Plan priorities and targets.

The key elements of the performance management and budgeting system have now been implemented in the 2008-09 Budget process, including:

- ◆ using the State Plan to determine priorities for the 2008-09 Budget
- ◆ funding new policy initiatives in priority areas through reprioritisation of expenditure from lower priority activities

- ◆ using agencies' Results and Services Plans to negotiate the expected level of performance to be achieved with the agreed level of budget funding. This performance is articulated through result indicators and service measures and
- ◆ externally communicating that agreed level of performance in Budget Paper No. 3.

The key changes to the format of agency reporting in budget papers, compared with previous years, are:

- ◆ addition of an Agency Result Indicators table in the commentary of all budget-dependent general government agencies. This will report on the intended impacts of an agency's services on the community, the environment or the economy
- ◆ replacement of program statements by service group statements. Service groups represent the "end products" that an agency delivers to clients or recipients, the broader community or another government agency and
- ◆ service group statements which focus on key measures of service delivery performance such as the quality, quantity and costs of services. Unlike program statements, the service group statements do not disaggregate service group costs by line items (employee related expenses, depreciation etc). Rather they include, where relevant, the costs of specific activities which are considered to be matters of particular interest to users of the budget papers. The reduction in line item detail is consistent with a number of other States and the Commonwealth and helps focus attention on the results and service measures and away from the specific inputs used by agencies to deliver services.

## COMMENTARY

The commentary section includes an overview of the agency's results and services, recent achievements, strategic directions and 2008-09 budget initiatives.

The *Results and Services* section provides a summary of the results, or community outcomes, that the agency is working towards and the key services the agency delivers to contribute to those results.

The *Recent Achievements* section provides information on how the agency has used its funding to deliver services, and how these are making an effective contribution to achieving the Government priorities.

The *Strategic Directions* section explains the high level strategies the agency is pursuing over the medium to long term and how these strategies ensure that services provided are achieving results.

The *2008-09 Budget Initiatives* section summarises the agency's expenses and capital expenditure for the Budget year. This section provides information on important areas of expenditure or major initiatives that will support the agency in its delivery of services as well as the expected contribution these services will make to results for the community.

The *Result Indicators* section is new to this year's budget paper. It provides information on the extent to which improvements in outcomes and progress towards an agency's results are being achieved. Indicators may not be exact measures of the agency's performance but provide evidence the agency is changing or improving, the service it delivers.

## **SERVICE GROUP STATEMENTS**

Where agencies receive direct Budget support their activities are grouped into service groups. The underlying structure for these agencies is:

Minister:	highest level at which funds are appropriated (e.g. the Minister for Police).
Agency:	department or authority (e.g. the NSW Police Force).
Service Group:	grouping of services on a consistent basis, for example the results they contribute to, the client group they serve, common cost drivers or other common elements (e.g. Community Support).

*Service Group Statements* – Each service group statement includes narrative material – service description and linkage to results – as well as service measures, expense, net cost of service and capital expenditure information. Agencies also show employee numbers and matters of public interest, where appropriate.

The *service group title* conveys sufficient information to enable an interested reader to understand in general terms what government functions or responsibilities are included.

The *service description* describes and explains the services and activities that are linked together under the service group.

The *linkage to results* section describes a range of intermediate results that are to be achieved by the agency in the shorter term in order for the agency to contribute to higher level results to be achieved in the longer term. The high level results are those shown in the Results and Services section of the commentary.

*Service Measures* are indicators of how efficiently the agency delivers its services, as well as the quality, access and timeliness of the service delivery. Agencies which provide personnel services to other agencies will show employee EFT information in this section.

From this point program statements vary, depending upon whether information on Employees and Matters of Public Interest are being shown.

*Employees* is the number of staff engaged on services provided by the service group. 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 service group based on the funds intended to be spent on the service group. The figures include staff charged both to recurrent services and to capital works and services. Where service group costs consist of contributions to other bodies (e.g. transport authorities), staff figures for these bodies are not included.

*Total Expenses Excluding Losses* is the expenses incurred in providing the services in the group. It includes employee, operating, maintenance, grant payment and financing costs.

Some service group statements show additional detail below Total Expenses excluding Losses. This detail is collectively known as *Matters of Public Interest*. It will vary from service group to service group and from agency to agency as it covers those matters that are of specific interest to members of Parliament, interest groups or the community more generally.

*Net Cost of Services* measures the net cost of providing the services in the group. It equals Total Expenses excluding Losses less operating revenues.

Also shown is the *capital expenditure* for each service group, which details the total level of purchases of property, plant and equipment being planned by the agency.

## **FINANCIAL STATEMENTS**

Financial statements are presented for each agency on an accrual basis. These include an operating statement, balance sheet and cash flow statement. Budget dependent general government agencies also present a Recurrent Funding Statement and a Capital Expenditure Statement shown immediately after the Operating Statement.

The *Operating Statement* details the major categories of expenses and revenues of agencies. A key aggregate is the Net Cost of Services, which is the difference between expenses, retained revenue and gains/losses arising from revaluations or disposal of 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 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. A deficit would need to be funded from the agency's cash holdings or through borrowings.

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, 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 *Recurrent Funding Statement* illustrates the government funding support, as shown in the Appropriation Bill, towards meeting the Net Cost of Services.

The *Capital Expenditure Statement* illustrates the government funding support, as shown in the Appropriation Bill, towards capital expenditure.

The *Balance Sheet* details the assets and liabilities of the agency with the difference being 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).

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 amounts in the Balance Sheet. 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.