

# INTRODUCTION

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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 noncurrent 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, 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 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).

## **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 Attorney General's Department).
- Program Area: grouping of programs with common goals (e.g. Justice Services).
- Program: individual program within a program area (e.g. Human Rights Services).

*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 PERFORMANCE INFORMATION

In 2004-05 all Budget-funded general government agencies prepared a Results and Services Plan (RSP). The RSP sets out the main outcomes and outputs for an agency and focusses on its core activities and how resources will be brought to bear to achieve these outcomes and outputs. The RSP is designed to support decision making by the agency and the Budget Committee of Cabinet.

The RSP thus demonstrates the relationship between the services that an agency delivers and the results that it is working towards. It requires agencies to articulate their key results and services, and the links between them. The RSP provides the means for identifying focussed performance indicators as well as the key risks associated with achieving planned performance.

The plans should improve resource allocation and management by linking the Government's planned results with the resources available and allocated to agencies, both recurrent and capital. Importantly, the RSP will also serve as a focal point for improving performance management in agencies.

Good performance management requires Government priorities, objectives and performance expectations to be aligned at all levels in an agency. The RSP process supports this in a number of ways. It helps to clarify the performance expectations that Ministers agree with the Budget Committee of Cabinet. It also improves integration between planning and reporting by encouraging agencies to develop a core set of performance information that is useful for decision-making and meets their performance reporting needs.

Improved performance management is also reinforced through the RSP's focus on service delivery. The Government's Total Asset Management policy requires agencies to manage assets for optimal service delivery over the long term, and through the RSP encourages agencies to align their asset planning and management practices with their service delivery priorities and strategies. Chapter 4 of Budget Paper No. 4 explains in more detail how Treasury is moving to integrate asset management with the budget process.

Treasury is examining how the range and quality of financial and non-financial performance reported in budget papers can be aligned with the RSP. As the RSP process is bedded down, information on agencies' contribution to results as well as their service delivery performance will begin to supplement program statement information. Improving the consistency of performance reporting will allow readers to gauge more readily:

- ◆ the results towards which agencies work;
- ◆ the strategies which agencies employ in pursuit of results;
- ◆ the quality and efficiency of service delivery, in addition to the numbers of key services produced;

- ◆ the effectiveness of agency services in contributing towards results; and
- ◆ the “resource effort” in terms of agency expenses, asset utilisation and staffing.

## **AGENCY RISK MANAGEMENT**

Effective agency-level risk management helps reduce aggregate, sectoral and program/service/project level risk. In respect of good risk management practices, Treasury’s main function is to establish incentives and maintain processes that encourage agencies to manage their risks appropriately.

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

- ◆ the Results and Services Plan approach for all 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*;
- ◆ the *Total Asset Management Manual*, which incorporates assessment and decision making tools on risk management, economic and financial appraisal and value management;
- ◆ *Working with Government: Guidelines for Privately Financed Projects* (November 2001), which provides a framework in which the private sector may provide public infrastructure and certain supporting services; and
- ◆ the policy on procurement reform to be introduced on 1 July 2004 that involves new monitoring procedures to manage procurement risks.