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Treasury Circular 2007/12

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Directors of Finance/Chief Accountants

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MONTHLY VARIANCE REPORTING TO TREASURY

1. We signalled in May 2007 that we would be introducing a more systematic process for collecting monthly explanations of material variances between actual results and forecasts. Annexed to this circular are further details and a template to be completed by entities with material variances. This template is available on CFISnet's Homepage.
2. The key action from this circular is that entities with material variances (materiality is defined in the annex) are to provide explanations of these variances for all monthly and annual reporting from, and including, 30 September 2007. Timing for providing explanations is the same as that required for DataLoad schedules (refer Treasury Circular 2007/08 for deadlines for September to November 2007).
3. To a large extent this revised process streamlines and codifies existing practice for obtaining variance explanations. In doing so, it is seeking to also clarify expectations of when explanations should be provided and the quality of such explanations (e.g. explanations should be of sufficient quality that they can be published). While all entities need to be aware of the requirements of this circular, we expect that for any given month-end relatively few entities will have material variances.
4. These changes are part of a broader focus on improving the quality of fiscal reporting; both the initial forecasts and explanations of variances against these forecasts. Forecasts have significant implications for fiscal decision-making and borrowing requirements. It is therefore not surprising that there is considerable interest from Ministers, media and analysts in this information and we expect this interest will only increase over time.

If you have any queries or feedback regarding the information in this circular please contact the Fiscal Reporting or CFISnet teams (contact details are above).

Hugh Packer
for Secretary to the Treasury

ANNEX: INSTRUCTIONS FOR REPORTING MATERIAL VARIANCES

Entities are required to provide explanations of material variances (defined below) between actual results and their most recent forecast. As a number of fiscal indicators focus on core Crown results, and this is primarily the area of interest to most users, materiality thresholds for departmental and Crown flows have been set lower than for other entities.

A variance is material if the following thresholds for the DataLoad line are exceeded:

A. For departmental and Crown activity

The following applies to all departmental and Crown activity except:

- NZ Debt Management Office (NZ DMO);
- Reserve Bank; and
- Tax revenues and receipts reported by IRD and Customs¹.

	<i>Operating statement (schedules 1:50:0 and 1:70:0)</i>	<i>Cash flow statement (schedules 1:52:0 and 1:72:0)</i>	<i>Balance sheet (schedules 1:51:0 and 1:71:0)</i>
<i>DataLoad lines</i>	<ul style="list-style-type: none"> ▪ Total income ▪ Total expenses 	<ul style="list-style-type: none"> ▪ Net cash flow from operations, ▪ Net cash flow from investing activities ▪ Net financing activities 	<ul style="list-style-type: none"> ▪ Total assets ▪ Total liabilities
<i>Materiality threshold</i>	Variances (+/-) >\$20m	Variances (+/-) >\$20m	Variances (+/-) >\$200m

B. For SOEs, Crown entities, NZDMO, Reserve Bank and NZ Superannuation Fund

	<i>Operating statement (schedules 1:50:0)</i>	<i>Cash flow statement (1:52:0)</i>	<i>Balance sheet (schedules 1:51:0)</i>
<i>DataLoad lines</i>	<ul style="list-style-type: none"> ▪ Total income ▪ Total expenses 	<ul style="list-style-type: none"> ▪ Net cash flow from operations ▪ Net cash flow from investing activities ▪ Net financing activities 	<ul style="list-style-type: none"> ▪ Total assets ▪ Total liabilities
<i>Materiality threshold</i>	Variances (+/-) >\$100m	Variances (+/-) >\$100m	Variances (+/-) >\$200m

As part of the redevelopment of CFISnet's reports module, the CFISnet team has introduced a "Headline Numbers" report that compares actual results against forecasts. Entities may find this report useful to check whether they exceed the above thresholds and therefore need to explain variances to Treasury. This report is available in CFISnet; go to "Reports" then "Monthly Actuals". Note that the Headline Numbers report can only generate variances once the data is locked.

¹ For IRD Crown and Customs, these thresholds should be applied to variances in non-tax activities only

Explanations should:

- Be concise;
- Explain the drivers behind the variance. Where possible, drivers due to price changes and quantity changes should be quantified. If a “timing difference”, identify when it is expected to reverse;
- Be appropriate for the size of the entity’s activities i.e. would expect an explanation of a \$40m variance on total expenses of \$500 million to be more comprehensive than if total expenses were \$5 billion;
- Differentiate between variances on inter-Crown entity activities from those with 3rd parties;
- Identify the impact on year-end results (a nil impact if a timing difference is expected to reverse during the year); and
- Identify relevant DataLoad lines.

Deadlines for sending explanations to Treasury

Entities with material variances are to complete the template at the end of this note and upload it to CFISnet by the deadline for your monthly CFISnet submission (to upload the template go to CFISnet, “Info” then “Upload a file to CFISnet”). This template is available on CFISnet’s Homepage. Please use the comment field in the upload function to name each upload as “Variance report for [insert month and year]”.

EXAMPLE OF COMPLETED TEMPLATE

THIS EXAMPLE WAS REMOVED FROM THIS TREASURY CIRCULAR IN DECEMBER 2011 BECAUSE THE TEMPLATE WAS UPDATED AND REPLACED