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Treasury Circular 2009/08

Unrestricted Distribution

Chief Executives  
Directors of Finance/Chief Accountants

Contact for Enquiries:           Vote Analyst

## **TREASURY INSTRUCTIONS 2009**

Treasury Instructions as they apply to the 2009/10 financial year have been updated and are now available on the Treasury web-site at:

<http://www.treasury.govt.nz/publications/guidance/instructions>.

### **Calculation of Repayment of Surplus**

The most significant change in this year's update relates to the calculation of the return of departmental operating surpluses. Although s.22(2) of the Public Finance Act provides that "the reported net asset holding may increase as a result of a remeasurement without further authority", the current Treasury Instructions only apply this rule to remeasurements of property plant and equipment. A consequence of this has been that unrealised foreign exchange gains on transactions have required separate Ministerial authority to be retained and unrealised foreign exchange losses inappropriately lower the surplus repayable.

Treasury Instructions have therefore been amended to more closely align with the Public Finance Act requirements. As a result, when calculating the surplus repayable, departments should now make an adjustment for unrealised foreign exchange gains/losses.

The significant impact of this change is that departments will no longer need to seek Ministerial authority to retain foreign exchange gains on forward contracts earned to hedge expected future losses. This change was discussed with key departments affected during the year.

## **Cost Accounting Parameters**

Treasury Instructions have for some time required that Chief Executives must ensure that cost accounting practices are sufficiently detailed to enable him or her to satisfy his or her obligations under the State Sector Act 1988 and the Public Finance Act 1989 and to satisfy the management information requirements of Chief Executives and departmental managers. This instruction has not changed.

However, in the current fiscal environment, Treasury and Ministers have signalled a much greater emphasis on knowing whether the price of services/outputs is appropriate and what the cost would be if provided differently.

Such information is of most relevance where the services/outputs are standardised and are regularly produced, and we would expect that in such cases cost accounting practices should be able to provide cost-per-unit information. The opportunity has therefore been taken to clarify this expectation in Treasury Instructions.

## **Other amendments**

Treasury Instructions have also been updated for minor changes i.e. extra guidance, further clarification of an existing instruction or aligning with an existing Treasury Circular, as follows:

- Section 3.5.5 Foreign-currency: Extra guidance provided.
- Section 3.5.13 Employee benefits: Extra guidance provided, given the recent introduction of a new model for calculating long service and retirement leave in TC2009/06.
- Section 4.3.1.2 Revenue offsetting: The question of how discounts received for early repayment has been raised during the year. Treasury Instructions have been amended to clarify that expenses can be reported net of any discounts received.
- Section 4.5.1 General forecasting policies: Reinforcing the importance of appropriate quality analysis of forecasts.
- Section 6.2.3 Provision of reports to the Treasury: Aligning this section with variance reporting requirements in Treasury Circular 2007/12.
- Section 6.3.6 Memorandum accounts: Clarifying disclosure requirements.
- Section 6.4.5 Management of Crown assets: Reinforcing the importance of appropriate asset management standards.
- Section 6.5.8 Cash payment schedule: Further clarification around cash payment requirements in CFISnet, given the recent upgrade of the CFISnet cash module.
- Section 6.7.5 Power to give guarantees: Extra guidance and slight wording changes to more accurately reflect Treasury Circular 2007/11.

During the year, we received no significant requests for changes. Therefore we have not consulted on these minor amendments. However, Departments that have concerns with the current Treasury Instructions should note that there is an annual process to update them and should feed any suggested changes during the year to the CFISnet helpdesk, [cfisnet@treasury.govt.nz](mailto:cfisnet@treasury.govt.nz)

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