Putting It Together

An Explanatory Guide to New Zealand’s State Sector Financial Management System

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Contents

Purpose ................................................................................................................. 1
What's New? ......................................................................................................... 1
Introduction by the Secretary to the Treasury ....................................................... 3

1 Introducing State Sector Financial Management ............................................ 4
2 Explaining Key Concepts .............................................................................. 11
3 Planning and Budgeting ............................................................................... 22
4 Authority from Parliament ............................................................................. 30
5 Efficient, Effective Management ................................................................. 44
6 Managing Money .......................................................................................... 57
7 The Wider Crown Estate .............................................................................. 64
8 Reporting on Expected and Actual Performance ......................................... 73
9 Parliamentary Review ................................................................................... 80
10 Putting It Together ....................................................................................... 85

Appendix A: The Public Finance Act 1989 .......................................................... 87
Appendix B: Reporting on Fiscal Responsibility .................................................. 88
Appendix C: Relationship between the Types of Appropriation in the Estimates and the Information Supporting the Estimates, Statements of Intent, and Annual Reports ........................................................................ 90
Appendix D: Further Reading ........................................................................... 92
Appendix E: Abbreviations .................................................................................. 95
Index .................................................................................................................... 96
Purpose

This *Explanatory Guide* introduces New Zealand’s state sector financial management system. The state sector includes the offices of Parliament, departments, Crown entities, state-owned enterprises (SOEs) and their subsidiaries. It excludes territorial local authorities (regional and local councils), all of which operate under separate legislation. The system includes the role and information needs of Parliament in approving and scrutinising government expenditure, the tools available to Ministers to focus public resources on the government’s priorities and to set expectations of departments and other government agencies, and the role of departments in ensuring taxpayer’s money is used appropriately (whether by the department in providing services itself or by the Crown entities and other organisations funded through departments).

The *Explanatory Guide* sets out how different aspects of the financial management and performance reporting systems work together to support the Government’s aims, promote flexibility within constraints imposed by principles of fiscal responsibility and accountability, and ensure that public expenditures deliver the expected benefits to New Zealanders.

This document also shows how the financial management system ensures full and transparent reporting on the financial situation of the New Zealand Government. It is written for:

- staff in Parliament, departments, Crown entities and SOEs
- professionals and students who want an overview
- interested members of the public
- people from overseas who are interested in how the system works.

What’s New?

This document replaces the original version of ‘*Putting It Together*’, which was published in August 1996. This new release covers:

- the increased emphasis on outcomes as the primary rationale for funding
- further extension of the planning horizon to take into account the long-run effects of demographic and other pressures on the sustainability of current policy settings
- purchase advice, performance monitoring, and managing money
- new divisions of responsibility between agencies
- modified appropriation (authorisation), budget and reporting practices
- administrative changes that encourage fiscal prudence, give Ministers policy and service-level choices, and help to ensure that spending delivers against the Government’s priorities and the expectations of New Zealanders.

This document is current as at August 2011.
Questions and Feedback
General enquiries about the information contained in this guide, issues not addressed in this guide and comments on how this guide can be improved should be sent to: guidance@treasury.govt.nz

Further Information
References to sources of additional information are listed in Appendix D.
Introduction by the Secretary to the Treasury

Financial management systems provide the government of the day with tools that focus resources on its policy and service delivery priorities, and ensure that public servants use taxpayers’ money appropriately.

Our financial management system has served governments of different persuasion, met rising expectations of the public and brought the nation through fiscal and economic crises without faltering. It has done this not by forcing compliance but by giving users the flexibility they need to deliver a myriad of services to the public and to respond to unexpected demands. In return for flexibility, transparent reporting ensures that Ministers, boards and chief executives are accountable to Parliament, taxpayers and the public.

The financial management system has evolved and continues to evolve to respond to new challenges, to lift performance and to help Ministers deliver results. The system works to ensure:

- government can deliver on its priorities and help us to improve our quality of life
- policy settings remain affordable and sustainable, well into the future
- financial and other resources are governed well and used responsibly
- goods and services are produced economically and are fit for purpose
- democracy is supported by transparent, comprehensible reporting.

The legislative and administrative requirements of the financial management system set minimum expectations for fiscal responsibility, appropriation, resource management, and reporting. It is of course Ministers and public servants who must provide drive and ambition, who must innovate and cull and who continuously improve the quality, cost and effectiveness of everything the Government does for New Zealanders.

Ultimately, people have to make the financial management system deliver results for the Government, Parliament and the people of New Zealand.

Gabriel Makhlouf
Secretary to the Treasury

August 2011
1 Introducing State Sector Financial Management

The purpose of New Zealand’s financial management and performance reporting system and the governance structures within which it operates

The Purpose of State Sector Financial Management

New Zealand’s state sector financial management system aims to:

- help the government of the day translate its strategy into action
- focus spending on outcomes sought by the Government
- promote informed decision-making and accountability
- identify and actively manage fiscal and non-fiscal risks
- encourage a responsive, prudent, efficient and effective state sector.

The aims are achieved through the planning, decision-making and scrutiny processes that culminate in the delivery of the Government’s Budget, incentives for managing efficiently, and reporting and feedback processes. These processes run in parallel for the whole government reporting entity (outer cycle, below) and for individual agencies (inner cycle).

Figure 1: Key Documents in the Financial Management Cycle
Chapters Three, Five and Eight will describe each process, and the role and content of the key documents, in more detail.

Understanding the financial management and reporting system requires knowledge of the constitutional environment in which it operates.

The financial management system supports the Government’s accountability to Parliament, in particular, through the appropriation system\(^1\) and parliamentary scrutiny of the Government’s performance. Chapters Four and Nine outline how these practices work.

The state sector comprises a range of organisations and organisational types, with different governance and accountability arrangements. Chapter Six explains financial decision-making and accountability structures employed for organisations in the state sector\(^2\). This chapter and the next will introduce some key concepts underpinning the financial management system. First, we look at the environment in which the system operates.

**Constitutional Structure of the State Sector**

The state sector includes:

- the Sovereign in right of New Zealand, which includes Ministers of the Crown and all departments (section 2 of the Public Finance Act 1989)
- offices of Parliament
- Crown entities
- state-owned enterprises
- organisations named or described in Schedule 4 of the Public Finance Act 1989.

State sector financial management operates in the context of New Zealand’s constitutional and administrative structures. New Zealand is a constitutional monarchy and a parliamentary democracy. New Zealand’s constitutional arrangements are framed by legal documents such as the Constitution Act 1986, decisions of the courts, and in convention. The Treaty of Waitangi is regarded as a founding document of government in New Zealand.\(^3\)

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\(^1\) Appropriation is the process through which Parliament authorises the government of the day to spend public money and incur expenses and capital expenditure. Chapter Four discusses appropriation in some detail.

\(^2\) Local authorities are largely autonomous and not part of the state sector. They have limited revenues, are financially independent from the central government, run their own financial management systems, and are not part of the Government reporting entity.

New Zealand is a constitutional monarchy. It has a parliamentary system of government and is a democracy. The Governor-General is the Sovereign’s representative in New Zealand.

Parliament is elected every three years and makes laws and controls public finances.

Cabinet makes government policy decisions, which are then implemented by Ministers, departments and other government agencies.

Parliament’s Finance and Expenditure Committee (FEC) is the main select committee overseeing state sector financial management.

The Controller and Auditor-General checks government agencies’ financial reports and assures Parliament that these reports are complete and accurate, and that public money has been spent in accordance with the intention and authority of Parliament.

The Constitution Act 1986 recognises the Sovereign as the Head of State of New Zealand and that the Governor-General is appointed as the Sovereign’s representative in New Zealand.

Parliament (the legislature) is the supreme law-making authority in New Zealand. It consists of a single House of Representatives (the House) whose members are elected by the people of New Zealand, and the Governor-General as representative of the Head of State.

Parliament has full power to make laws and a Bill passed by Parliament becomes law when the Sovereign or the Governor-General assents to it. Parliament controls the public finances. The Constitution Act 1986 states that the Crown may not levy taxes, raise loans or spend public money except by or under an act of Parliament.

Each Parliament has a term of three years, unless it is dissolved earlier.

The leader of the party, or of the largest party in a coalition that has the confidence of the House, is Prime Minister and head of the executive branch of the Government.

The Executive Council is the institution through which the Government formally advises the Governor-General. Members are appointed by the Governor-General on the advice of the Prime Minister. All Ministers of the Crown are members of the Executive Council. Only Members of Parliament may be appointed as Ministers of the Crown.

The Prime Minister assigns one or more portfolios to each Minister, who will then lead the development of policy within the portfolio(s). Portfolio responsibilities also include control of public financial resources (under terms set by Parliament in the appropriation process), oversight of state sector organisations and duties under relevant legislation. Individual Ministers are supported in their portfolios by one or more departments. The more senior Ministers are in Cabinet, which is chaired by the Prime Minister. Cabinet makes all significant government policy decisions.

Select committees are groups of Members of Parliament appointed by the House to consider and report on specific areas of government activity. On behalf of Parliament, select committees also scrutinise and hear public submissions on Bills (draft legislation), scrutinise proposed appropriations for each portfolio (Vote) and review the performance of state sector agencies. The Finance and Expenditure Committee (FEC) is most directly involved in the financial management system.

**Agencies Maintaining the Financial Management System**

The Office of the Controller and Auditor-General (C&AG) is an Office of Parliament that carries out its functions under the authority of, and for the benefit and support of, Parliament. The C&AG provides Parliament with independent assurance that state sector agencies are operating and accounting for their performance in line with Parliament’s intentions.
Key functions of the C&AG include:

- examination of government spending to ensure it is lawful and has been properly authorised
- mandatory audits of the financial reports of state sector agencies
- discretionary performance audits and inquiries.

Three departments, known as central agencies, are also concerned with coordinating and monitoring state sector performance. They are the Department of the Prime Minister and Cabinet, the State Services Commission and the Treasury.

The Department of the Prime Minister and Cabinet:

- provides advice to the Prime Minister on policy, administrative and constitutional issues
- provides executive support to Cabinet
- helps coordinate the work of the Government across departments.

The State Services Commission is the Government’s principal advisor on the state sector management system. The Commission:

- advises on performance management and organisational structures
- recommends departmental chief executive appointments
- reviews chief executive performance
- provides guidance on the integrity and conduct of state servants
- helps develop people capability in the state services.

The Treasury is the principal economic and financial advisor to the Government. It works to promote economic growth, macroeconomic stability and state sector performance. The last two are particularly relevant to the financial management system, within which the Treasury:

- helps the Minister of Finance to improve the value-for-money delivered from existing, planned and proposed expenditure
- advises on sustainable and predictable levels of expenditure
- prepares budget documents for scrutiny by Parliament
- manages the public debt
- has a significant role in tax policy advice
- helps improve the management of, and reporting on, Crown assets
- participates in reviews of significant policy issues that affect resources
- provides consolidated reports and forecasts on the Government’s finances, including the independently audited Financial Statements of the Government of New Zealand.
Legislative Structure for the Financial Management System

Five major statutes establish the legislative framework for the financial management system.4

State Sector Act 1988

The State Sector Act 1988 establishes the departmental Chief Executive’s accountability to the appropriate Minister for the conduct, management, duties and functions of the department, including the provision of advice to Ministers. Chief executives are appointed by the independent State Services Commissioner, with the approval of the Executive Council, for a fixed term.

The State Sector Act effectively devolves responsibility to departmental chief executives for running their departments and for managing the resources allocated to those departments, with minimal input control from central agencies. While a department must obey lawful instructions from the Minister responsible for the agency, the Cabinet Manual strongly advises Ministers not to get involved in a department’s day-to-day operations.

Public Finance Act 1989

The Public Finance Act 1989 governs the use of financial resources by the Government (see Appendix A) and, in particular:

- provides a framework for Parliamentary scrutiny of the Government’s expenditure plans and proposals and the Government’s management of its assets and liabilities
- specifies principles of responsible fiscal management and requires regular reporting on the extent to which the Government’s fiscal policy is consistent with those principles (see Appendix B)
- lays out minimum financial and non-financial reporting obligations for Ministers, departments, offices of Parliament and some other state sector organisations
- provides statutory authority for, and control of, borrowing, investment, bank accounts and use of derivatives, indemnities and guarantees.

Fiscal responsibility provisions included in the Public Finance Act:

- require the Government to be explicit about its fiscal objectives and to explain any changes to them
- ensure the provision of comprehensive, aggregate financial information to inform and focus debate on fiscal policy
- require the Government to specify its intentions for fiscal management for ten or more years, starting from the current year.

4 Additional statutes cover Crown research institutes, establish Crown entities, etc.
Public Audit Act 2001

The Public Audit Act ensures Parliament gets independent assurance about how public resources are being used by the state sector. It establishes the C&AG as an independent Officer of Parliament and appoints the C&AG as the auditor of all public entities. The Public Audit Act gives the C&AG powers to:

- audit the financial statements of all public entities (including the Government reporting entity and all state sector organisations)
- by agreement, provide additional audit services to those entities
- conduct performance audits or inquiries on the use of resources by those entities.

Crown Entities Act 2004

The Crown Entities Act provides a consistent framework for establishing, governing and operating Crown entities, which are legal entities separate from the Crown but nonetheless subject to varying degrees of substantive control by the Crown. The Crown Entities Act defines different categories and types of Crown entity, clarifies the roles of the Minister responsible for the agency and the powers and duties of board members, and sets out reporting requirements. The five categories and three types of Crown entity provide a graduated range of options for separating delivery and regulatory functions from the political domain.

Independence is promoted in several ways. Crown entities are established and disestablished by Parliament, have a board as a primary governance structure, and Ministers have varying abilities to direct them. Boards appoint, direct and review the actions of their chief executives. The Crown Entities Act may also reinforce or limit independence in critical areas, such as the ability of Ministers to demand dividends or the repayment of surpluses.

State-Owned Enterprises Act 1986

Where government services can be run as commercial operations, the State-Owned Enterprises Act allows the Government to provide them in an organisational form equivalent to that used by private sector companies. SOEs are established as Crown companies, expected to deliver a commercial return on the Government’s equity investment, and compete on a level playing field with the private sector.

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5 These are ‘statutory entities’ of three types (Crown agents, autonomous Crown entities and independent Crown entities), Crown entity companies, Crown entity subsidiaries, school boards of trustees, and tertiary education institutions.

6 In most circumstances, boards set dividends. This provision is seldom used.
Standing Orders of the House of Representatives

The Standing Orders set out rules governing the operation of the House that are particularly relevant to the operation of the financial management system. These include:

- the Government’s power of financial veto (Chapter Nine)
- rules for the scrutiny and passing of the Government’s budget proposals for the use of public financial resources (Chapter Four)
- rules for the conduct of financial reviews of government agencies (Chapter Nine).

Conclusion

This chapter outlines the purpose of the financial management system, the context in which it operates and its legislative framework.

Chapter Two explains key concepts that underpin the system.
2 Explaining Key Concepts

Key ideas behind the design of the financial management system and explanations of some of the terms used

Introduction

The financial management system focuses on performance and value-for-money to help the Government translate its strategy into action, promote informed decision-making and accountability, encourage a responsive and efficient state sector, and deliver benefits to the public.

Aspects of performance the state sector must focus on include:

- coordinating what the Government does and ensuring it achieves its policy goals (which may or may not require collective action)
- improving outcomes and value for money
- cost-effective delivery against performance expectations
- ethical behaviour, including the fair treatment of all New Zealanders
- improving efficiency (and avoidance of waste)
- compliance with legal obligations, rules and budgets
- proper supervision, maintenance and use of the State’s assets
- awareness of the operating environment, what is working, what is not working and the need to shift priorities, spending and practices.

All these perspectives are embedded in the financial management system.

This chapter introduces the terms necessary for an understanding of the system as it operates in New Zealand and explains some key concepts.

State Sector Accountability Framework

As illustrated in the following diagram, the financial management system pursues performance by assigning roles and responsibilities for the use of public sector resources to different parties, setting clear performance expectations, and then assessing performance against those expectations.

Key to the effective operation of the system are the delegation of authority to parties, with the information and skills needed to make good decisions, and ensuring that reporting, monitoring and accountability arrangements, and rewards and sanctions incentivise appropriate behaviours.

Chapter Five discusses some ways to reinforce incentives in the system.
Performance management requires performance measurement, reporting and review, both by the agencies themselves and by monitoring supporting the Minister. Effective measurement systems help ensure that relevant and reliable performance information is reported and advise on how performance can be improved. Appropriate incentives must be in place to ensure Ministers are informed about both performance risks and opportunities for improvement.

Key concepts used to measure and control expenditure and asset values, and to manage the production of goods and services, are discussed below.

**Accrual and Cash Accounting**

New Zealand uses accrual accounting. Accrual accounting records and reports on financial results more accurately than cash accounting alone.

Accrual accounting measures expenses when incurred and revenue when earned. As accrual accounting captures the full cost of resources used to produce outputs, it provides better information to support costing, purchase and ownership decisions than cash accounting provides.

Cash-flow information remains important and available. The Government publishes cash-flow information along with accrual reports on operations and its overall financial position.

Accrual accounting helps government agencies, and the Government as a whole, to present their financial positions in a balance sheet that sets out assets and liabilities of each reporting entity. The result is a clear picture of financial capacity at the reporting date.
Generally Accepted Accounting Practice (GAAP)

‘Generally accepted accounting practice’ refers to the rules and assumptions used to prepare and present financial statements. GAAP is an independent and objective set of rules that governs the recognition and measurement of financial elements, such as assets, liabilities, revenues and expenses.

In New Zealand, the Financial Reporting Act 1993 requires most reporting entities in both the private and state sectors to comply with GAAP. The Public Finance and Crown Entities Acts reinforce this requirement.

The Public Finance Act defines GAAP as:

- approved financial reporting standards (within the meaning of section 2 of the Financial Reporting Act 1993) so far as they apply to the Crown, department, Office of Parliament or Crown entity, and
- where no provision is made in the above standards; accounting policies that:
  - are appropriate to the Crown, department, Office of Parliament or Crown entity, and
  - have authoritative support within the accounting profession in New Zealand.

The Financial Reporting Act 1993 establishes an independent Crown entity to set financial reporting standards as regulations that the Government, departments, offices of Parliament, Crown entities and SOEs must comply with. The accounting rules for the Government’s reporting are therefore established at arm’s length from the Government itself and are based on internationally accepted standards.

The approval of New Zealand equivalents to International Financial Reporting Standards (IFRS) has led to even greater harmonisation of New Zealand’s financial reporting standards with best international practice.

Appropriations

Appropriations are legal authorities granted by Parliament to the Crown or an Office of Parliament to use public resources. Most appropriations are set out in Appropriation Acts presented as part of the Government’s budget package. They satisfy a requirement in the Constitution Act that the Crown cannot spend public money except by or under an Act of Parliament.

Appropriations are limited to a maximum level of spending, to a particular period, and to uses set by the scope statement (see Chapter Four). Appropriations are required for all expenses and capital expenditure.
Inputs, Outputs, Outcomes and Impact

Throughout this Explanatory Guide the terms ‘inputs’, ‘outputs’ and ‘outcomes’ are used. Impact refers to how much outputs contribute to outcomes.

Inputs are the resources (such as capital, personnel, accommodation, equipment, information and time) used to produce goods and services. For example, the time spent by a police officer or doctor, and the purchase and maintenance of motor vehicles, are ‘inputs’ into the production of ‘outputs’. Price ultimately depends on how economically inputs are used.

Outputs are the goods and services commissioned by Ministers from public, non-governmental and private sector producers. Outputs may include the supply of policy advice, enforcement of regulations (such as speed limits in transport), provision of a range of services (in health, education, etc), negotiation and management of contracts, and administration of benefits. For the purpose of measuring and reporting performance, government agencies and other providers must be able to define their outputs in terms of quantity, quality, delivery time and cost.

As far as possible, appropriations in New Zealand are defined in output terms (rather than in terms of inputs or outcomes). This supports accurate costing of goods and services, and constrains unauthorised activity while still allowing agencies freedom to produce goods and services efficiently.

Case Study: Separating base expenses from ‘discretionary’ expenses in the New Zealand Defence Force

In peace time, military forces operate at modest tempo and cost. But at any given time several forces are still deployed to an ever-changing mix of United Nations peacekeeping operations and deployments, creating activity and price spikes that mask the normal cost of maintaining defence forces.

The extra costs (output expenses) of deployments are met from a different appropriation from those used to maintain individual military forces, such as the Maritime Patrol or Land Combat Forces. This allows Ministers and Parliament to differentiate the costs of running a capable, deployable force, from the ‘extra’ costs of the deployments themselves. It also allows marginal costing of every deployment and reporting of their costs.
Individual outputs are combined into groups or classes of outputs that form a common set of goods or services. Output classes7 are the level at which Parliament authorises output purchase through the appropriation process. An output class is a grouping of similar outputs or a grouping of dissimilar outputs that contribute to one or more outcomes. For each output:

- the performance dimensions (quality, quantity, time and cost) associated with each grouping must provide adequate information for government decision-making and Parliamentary scrutiny
- the level of detail must be sufficient to make the activities of a department or other supplier properly accountable
- expenses must be linked to the social, economic, environmental or administrative outcomes they are designed to achieve.

Careful specification of output classes allows expenses to be limited to a maximum level, and delivery and value for money to be reported on.

Outcomes are a state or condition of society, the economy or the environment, or a change in that state or condition. Outcomes, such as unemployment, can change without any action by the Government. Impact has a more specific meaning: impact is the change made to an outcome by a set of outputs, actions or both (section 2 of the Public Finance Act). Impact is a change in outcome attributed to government activity.

The Government decides what outcomes and impacts it wants to foster and achieve through its own endeavours. Information on these decisions is currently published in Statements of Intent. Ministers purchase outputs that they expect to deliver desired benefits (‘impact’) to the community. Departmental chief executives and other suppliers allocate resources (‘inputs’) to produce those outputs, and monitor delivery and impact.

The Government may decide that an outcome can be improved by purchasing outputs from several different suppliers or by better targeting of the outputs the Government already purchases. For example, to achieve the outcome ‘a lowered rate of crime’, the Government purchases outputs from Police, the Ministries of Justice and Social Development, the Department of Corrections, as well as other suppliers. The Government also decides who will benefit most from receiving services, and targets delivery or eligibility for services at those groups or individuals.

While attribution can be challenging, outputs are funded to achieve impact. When impacts are less than expected, agencies are expected to consider whether intervention is appropriate, a different approach is needed, and/or more selective targeting can be used to improve impact and lower cost.

Alternatively, the Government may use transfer payments (such as welfare benefits), regulation or legislation to achieve the desired impact. Welfare benefits, tax concessions, regulation and outputs all come with

7 Or groups of output classes in the case of Multi-Class Output Appropriations (MCOA).
significant costs. While expensive intervention is needed on occasion, interventions that deliver the required impact at the lowest cost are always sought.

Purchase and Ownership Interests

The government has two different interests in the activities of departments and Crown entities – purchase and ownership interests. These purchase and ownership interests of the Government drive different approaches to managing performance.

The Government, as a purchaser of outputs (goods and services), is likely to require information along the lines of a private sector sales/services contract: provider, quantity, quality, time and place of delivery and cost.

To specify intended performance adequately, departments and Crown entities and other providers must be able to define (and report on) their outputs in terms of these performance indicators.

The Government ultimately owns the resources of departments and Crown entities. As owner, the Government wants to ensure that capital assets are used efficiently and that agencies maintain the capability to provide services efficiently and effectively in future years, in accordance with the Government’s objectives. As owner, the Government requires the same kind of financial reporting that constitutes generally accepted accounting practice in the private sector.

Both as owner and purchaser, Ministers want to procure quality goods and services at the right cost, now and into the future. Pursuit of better outputs at lower cost drives the re-examination of how they are procured and, when procured from government agencies, how they are produced.

The financial management system allows Ministers to procure goods and services from public or private sector providers and to use fully competitive procurement processes. Open and competitive tenders, if used, provide assurance that price, quantity and delivery standards are appropriate.

Responsible Ministers

Prior to the Public Finance Amendment Act 2004, a single Minister was responsible for a Vote. Following the amendments more than one Minister may be responsible for an appropriation or appropriations within a Vote. As a result, it is no longer appropriate to use the term ‘Vote Minister’; instead, the term ‘Minister responsible for an appropriation’ is used.
Ministers may be responsible for purchase and/or ownership interests. A Minister responsible for an appropriation has sought an appropriation from Parliament to purchase outputs, or to incur other expenses (eg, benefit expenses) or capital expenditure, and is accountable for the proper use of those resources. The Minister seeks Parliament’s authority to allow the use of resources and reports back on their use.

A Minister responsible for an ownership interest and the performance of a department or Crown entity is known as a ‘Minister responsible for an agency’[^8]. These Ministers agree specific ownership priorities with the Chief Executive of a department or board of a Crown entity. A Minister responsible for an agency represents the owner of the resources invested in Crown-owned agencies on behalf of the Government and the people of New Zealand. They are concerned with ownership performance and ensure that capital expenditure is necessary and appropriate and that the return derived from capital invested is optimised.

A Minister responsible for an agency focuses on the agency’s governance, policy-setting and purchase roles, is not involved in its day-to-day management, and is accountable to Parliament for their agency’s overall performance.

**Votes**

When Parliament considers legislation relating to appropriations, the appropriations are grouped within ‘Votes’. Generally, a Vote groups similar or related appropriations together. When the Appropriation Act is passed, Parliament is said to ‘vote’ resources to Ministers. All the appropriations in a Vote are administered by one department.

There is typically one Vote for each ministerial portfolio but sometimes a portfolio relates to more than one department (eg, the Attorney-General portfolio relates to the Crown Law Office and the Parliamentary Counsel Office). In other cases, a portfolio may not have its own Vote (eg, Ethnic Affairs) with the relevant Minister responsible for an appropriation within a wider Vote. Further, there are departments administering multiple Votes providing outputs to more than one minister (eg, the Ministry of Justice).

**The Crown and Departments**

The Crown and its departments are legally indistinguishable, as a department is part of the Crown. Despite this, departments are treated as distinct entities for management purposes.

Distinguishing between the Crown and departments enables departmental chief executives to be held accountable for things over which they have direct responsibility and reasonable control. Chief executives have both stewardship and delivery responsibilities, ie, they build the capability and effectiveness of the department as well as deliver goods and services.

[^8]: The Public Finance Act uses ‘Responsible Minister’ in respect of a department; the Crown Entities Act uses ‘Responsible Minister’ in respect of a Crown entity.
In New Zealand, chief executives are accountable for producing outputs because departments are provided resources to produce outputs and control their production. As chief executives cannot control outcomes, the primary responsibility for outcomes still sits with the Crown. However chief executives are responsible for knowing what their outcomes are, knowing how well their outputs improve those outcomes, and taking sensible steps to improve both their output mix and outcomes.9

Similarly, a department’s Chief Executive is accountable for managing a contract for non-departmental outputs10, ensuring the contract’s terms are clear and verifiable, and monitoring performance against them. They are not responsible for the delivery of the services being contracted for.

The distinction between departments and the Crown also recognises that primary financial accountability and responsibility for certain types of income and expenses, such as taxes and benefit payments, remains with Ministers. After Ministers or Parliament set policy, a department’s responsibility may be limited to managing collection or payment, monitoring the effectiveness of that policy, and advising on areas of possible change.

While the Ministry of Social Development pays unemployment benefits, its Chief Executive has limited control of the total amount of that expense. Parliament has set the amount of, and decides who will be entitled to receive, benefits. Unemployment benefit payments are therefore recorded as an expense of the Crown rather than an expense of the Ministry. This separation of departmental and Crown activities results in different appropriations, bank accounts, and financial reporting for Crown, departmental and non-departmental expenses.

The Crown and Other State Sector Organisations

Crown entities and SOEs are separate from the Crown and are established with varying levels of independence from ministerial direction. Their chief executives are usually accountable to boards.

Crown entities are run at arm’s length from the Crown but are funded by the Crown to deliver core services. Ministers appoint boards and engage with the boards on strategic direction, purchase interests and performance issues. Crown entities have greater independence from policy direction than departments but the boards’ responsibilities for stewardship, delivery of Crown-funded services and financial responsibility are in many ways analogous to the responsibilities of a department’s Chief Executive.

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9 Similar expectations apply eg. to the boards of Crown entities.
10 Non-departmental outputs are outputs (goods and services) purchased from a provider other than the department administering the Vote. The provider may be a government agency, a non-governmental organisation or a private sector organisation.
The principal role of SOEs is to operate as a successful business. Interactions with Ministers thus focus on ownership issues.

**Decision-making and Accountability**

The Government decides:

- its outcome priorities and which outputs it purchases to achieve them
- the level of investment to be made in state sector organisations
- what departments and Crown entities distribute or deliver on its behalf.

**How does the financial management system help the Government discharge these responsibilities?**

1. **Resources are allocated to Ministers to purchase specified outputs**

   Chief executives in the state sector agree to produce certain outputs and have control over the resources required to produce those outputs. The chief executives therefore have a clear idea of what is expected of them and can be held responsible if agreed performance standards are not met.

   A desirable social outcome is often accomplished by a mixture of outputs from several suppliers. Good or bad performance will encourage the Government, where options exist, to change the output mix and buy more from one provider and less from another. The government may seek outputs from more than one source. For example, the Minister of Social Development purchases services from a range of iwi- and community-based providers and from voluntary organisations.

   Much of the policy advice received by Ministers represents information on the costs and benefits of output mix proposals to assist in specifying desired performance and making purchase decisions. Increasingly, this includes analysis of real prices for goods and services, and information linking expenditure to benefits (impacts) experienced by the community.

2. **Accurate and complete financial reports are crucial to the system**

   Chief executives and managers require accurate and timely information to run their departments efficiently and effectively. In turn, the Government and the public need regular reports to allow departmental performance to be assessed. Reporting is examined in more detail in Chapter Eight.

   Performance assessment requires performance measurement. Effective measurement systems ensure that relevant and reliable information is provided. As the delivery agency is usually in the best position to assess spending and results, the onus is on boards and chief executives to show prudent use of funds, efficiency and delivery against output agreements.

   The Government can offer rewards and apply sanctions in its roles of purchaser and owner. Incentives built into the system are discussed in Chapters Five to Nine.
Working Across Agencies and Sectors

Many issues of seminal interest to the public can be dealt with by individual agencies or a single Vote. Others require action across government. There are many ways of providing funding and taking action across agencies and portfolios. Some common approaches include:

- lead Ministers coordinating action across a sector (eg, Justice) or shaping infrastructure investment across the whole government
- creating a Vote, output, pool or ‘club fund’ to resource cooperative, joint or competing initiatives across different groups
- agency-to-agency transfers of funding for specific projects, eg, to develop more efficient and better integrated support services
- seed funding (supporting start-up businesses/agencies)
- joint working groups or delivery coordination mechanisms
- evidence-informed approaches, where a lead agency synthesises the information and uses this to influence agencies’ purchase decisions
- chief executives or boards leading other agencies and focusing joint resources on common issues and opportunities (eg, road safety)
- professional networks promoting professional standards, developing skills and providing leadership on important issues
- central agency leadership, eg, Managing for Outcomes, sector reviews and recent work to increase the efficiency of ‘back office’ functions
- agreeing priorities with the Prime Minister.

Occasionally, structural solutions are required.

Working in these ways, the state sector management system provides structures and funding processes that help people get on with the job.

Case Study: Users Pay ‘Whole-of-Government’ Procurement Costs

Buying cars, computers, etc through whole-of-government contracts saves agencies $165 million per year but costs $5.7 million. The proposal is clearly cost-beneficial but savings are kept by individual agencies. So why would Parliament appropriate extra funding to meet administration costs?

Administration costs are met by a 1.5% charge collected by commercial suppliers which, when returned to the Ministry of Economic Development, fully funds the Procurement Reform Agenda. This avoids any requirement for additional funding, and transfers costs to the agencies making the savings.

Percentage charges will fall as more goods and services are brought into the Reform Agenda (savings will rise but costs will stay the same or fall). Charges levied as a percentage of sales allow the Crown to confirm that aggregate purchasing expectations are met and to take action if they are not.

Agencies make savings. Monitoring occurs. The reform is fiscally neutral.
Conclusion

Performance specification, reporting and review underpin accountability. Resources are allocated, and reallocated over time, to mixes of outputs that are expected to deliver high impact (relative to their cost). Separation of purchase and ownership roles ensures effective outputs are purchased at reasonable cost, resources get used well, and Ministers and agencies develop more cost-effective ways of improving outcomes into the future.

The use of GAAP ensures forecasts and reports of financial performance are comprehensive, accurate and comprehensible.

The budget process is the mechanism the Government uses to lay out financial and non-financial performance expectations for the coming year. The next chapter outlines the budget cycle.
3 Planning and Budgeting

Negotiating and decision-making processes that comprise the budget cycle

Introduction

Budgeting and performance planning is a multi-year process that projects revenues and expenses, establishes priorities and performance goals, gives government agencies and financial institutions some certainty about expenditure, and authorises spending for the coming financial year.

The budget process allows the Government to:

- plan for the years ahead
- refresh policy priorities and set spending tracks
- allocate resources in line with priorities, and reallocate spending that is under-delivering against priorities and performance expectations
- set performance expectations for the period ahead
- seek authority from Parliament for spending.

The Government’s financial year begins on 1 July. The Budget is usually presented to Parliament in May, allowing Ministers to advise agencies of their budget allocations well before the beginning of the financial year. Allocations to Votes are contained in ‘The Estimates’ (see box below).

The Estimates

The Government’s request for appropriations is presented to Parliament in a formal document known as the main Estimates (the ‘Estimates of Annual Appropriations for the Government of New Zealand’).

The Estimates detail appropriations sought from Parliament by Ministers for expenses and capital expenditure for a number of purposes, including classes of outputs. Information on the price, quantity and standards of, eg, outputs, is laid out in the Information Supporting the Estimates. The Information Supporting the Estimates also set out how appropriations are linked to the Government’s priorities and intended outcomes.
Appropriation

An appropriation is a Parliamentary authorisation allowing a Minister to use resources for a specified purpose. Appropriations are limited by scope, by timeframe and to a maximum level of spending.

There are six appropriation types. The Government requests an appropriation for classes of outputs, capital expenditure (investment in agencies, and the purchase or development of Crown capital assets) and borrowing expenses. The other three types of appropriation are for benefits or other unrequited expenses, ‘other expenses’, and the expenditures of intelligence and security departments.

The annual budget process progresses through a number of steps:

- the strategic phase, when government priorities, intentions and spending limits are decided
- the budget decisions phase, which starts with Ministers submitting budget plans to deliver on the Government’s priorities and intentions to live within spending limits over the coming years
- production and presentation of budget documents on Budget Day
- passing the Appropriation Bill.

A group of Budget Ministers, usually including the Prime Minister, and the Minister and Associate Ministers of Finance, meet through the budget process to make decisions and take their recommendations to Cabinet.

Figure 3: Phases of the Budget Cycle
Throughout the Budget process, departments advise their Ministers on:

- outcomes the Government may want to pursue in the medium term and their relative priority under the budget strategy
- how to make output mixes more efficient and effective
- whether the right capabilities are in place to deliver outputs
- the main risks facing the Vote and how these will be managed.

1 **Strategic Phase (usually August to November)**

During the strategic phase, Cabinet considers its overall approach to the Budget, including priorities and intentions, key themes and the economic and fiscal situation. Aggregate budget allowances are set for capital and operating spending, parts of which may be allocated or ring-fenced for specific purposes or sectors.

Ministers look at the economic situation, the long-run costs of policy settings, likely revenues and expenses, and how these shape the Government’s fiscal and budget strategy. In the Budget Policy Statement, the Government sets out its broad strategic priorities for the Budget.

Ministers work to identify priorities for their Votes in line with the Government’s priorities. Since 2009 this has been done through an exchange of letters with the Prime Minister. These priorities drive planning in the relevant department and shape planning and budgeting across the wider state sector. The results from the strategic phase feed into the development of agencies’ Statements of Intent and budget submissions.
The Half-year Economic and Fiscal Update (HYEFU)

An economic and fiscal update is required by the Public Finance Act\textsuperscript{12} to be published in November or December. This includes economic and fiscal forecasts for the current and following three years, updated with new information received since the main budget forecasts were prepared. (Similar updates are required with the Budget and 20-30 working days prior to an election.)

Decisions taken by Cabinet on budget priorities during the strategic phase are the basis for the content of the Budget Policy Statement. The Budget Policy Statement also reports against the short-term intentions

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\textsuperscript{11} Minimum requirements in the Public Finance Act are often bettered in practice, resulting in earlier publication or longer reporting timeframes.

\textsuperscript{12} See Appendix B.
expressed in the Fiscal Strategy Report, which sets out the Government’s fiscal strategy (eg, intentions around operating expenses, operating revenue, operating balance, net debt and net worth). The Budget Policy Statement is informed by the most recent economic forecasts and the results of the strategic phase.

The Budget Policy Statement

- includes information about the Government’s short-term fiscal intentions, long-term fiscal objectives and priorities for the coming Budget
- identifies and explains any inconsistencies with the Fiscal Strategy Report and the principles of fiscal responsibility
- is reviewed by Parliament’s Finance and Expenditure Committee (FEC), whose report is debated in Parliament before final budget decisions are taken.

The Budget Policy Statement must be published no later than 31 March each year. Usual practice is to publish it with the HYEFU in December.

2 Budget Submissions Phase (usually October to December)

During this phase of the process, known as the budget submissions phase, departments advise their Ministers on:

- priorities for a Vote over the medium term (including non-departmental priorities) and how they align with broader government priorities
- lowest priority activities
- options to start, enhance, reduce or stop programmes
- how to make operations more efficient and effective
- the main risks facing the Vote and how these will be managed.

Ministers then make submissions, or refer a department’s submission, to the Minister of Finance explaining how the medium-term priorities identified for the department will be delivered within the funding allocated to his or her Vote(s).

If proposals require new funding, above any budget allocation, then offsetting savings are expected to be identified. Budget Ministers then have options of rejecting new proposals, accepting them and recommending additional funding, or asking a Minister to fund them by reprioritisation.

Agencies that have significant capital stock report their capital intentions for at least ten years. The Treasury’s analysis of their aggregate intentions is used to inform both the budget and planning processes.
At the same time as budget submissions for the coming years are prepared and reviewed, Ministers and departments identify changes to appropriations in the current year from Cabinet decisions and forecast changes that have happened since the previous Budget. These are authorised by Parliament through the Supplementary Estimates.

**Supplementary Estimates** are prepared for the current year and seek parliamentary approval for changes to:

- appropriation type
- planned expenditure
- scope or volume (eg, new outputs to be produced)
- the timing of expenditure (eg, arising from delays in implementation).

### 3 Budget Decisions Phase (usually February to April)

Budget Ministers meet to consider Ministers’ budget submissions and identify any follow-up actions. These may include seeking further information about plans that do not seem strongly aligned with the Government’s priorities, revision of plans that exceed fiscal allowances, or further information on any proposal.

Budget Ministers recommend to Cabinet whether any savings identified are best reallocated within the Vote, or applied to other government priorities.

Budget Ministers seek Cabinet approval of key decisions through a Cabinet paper on the proposed Budget. Key decisions include final allocations for proposals that require new funding, and reprioritisation of spending within and between Votes and agencies.

### 4 Produce and Present Budget Documents

On Budget Day the Minister of Finance presents Parliament with the following documents for the next fiscal year beginning on 1 July:

- the Budget speech and Fiscal Strategy Report
- the Budget Economic and Fiscal Update
- the Estimates of Appropriations
- Information Supporting the Estimates
- Statements of Intent from departments

Together, the Budget speech and documents present the Government’s immediate, medium-term and long-term directions to Parliament and the public. The Budget speech is made by the Minister of Finance and focuses on the overall economic and fiscal position, the Government’s policy priorities, and how those priorities will be funded.

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13 Statements of Intent for Crown entities are tabled in the House from the following day.
The Fiscal Strategy Report sets out the Government’s fiscal strategy, and looks at progress against its overall goals, including revenue, expenses, the operating balance, debt and net worth. It must look forward at least 10 years. In practice, reports now cover ten years after the forecast period.

Budget Economic and Fiscal Updates include the Treasury’s overall forecasts for three or more years, statements of tax changes, borrowings, commitments and fiscal risks, and a statement of responsibility.

The Estimates outline expenses and capital expenditure the Government plans to incur in specified areas within each Vote for the financial year about to start (the ‘Budget year’).

Information Supporting the Estimates is organised by sector, and provides a statement of responsibility and performance information for each appropriation. Statements of forecast service performance, forecast financial statements and Statements of Intent are provided for departments in the sector. This document provides important details like the impact and outputs expected under each appropriation, and how performance will be reported.

While Statements of Intent are produced by departments, they are part of the Information Supporting the Estimates that gets tabled on Budget Day. Statements of Intent lay out the department’s expected contribution to the Government’s outcomes and priorities over the medium term (three to five years). They also lay out forecast performance information that can be used to assess the agency’s actual performance and contribution to outcomes.

Supplementary Estimates outline any additional expenses and capital expenditure required for the year about to end. Supporting information provides reasons for the changes to appropriations during the year and performance information for new or substantially revised appropriations.

Transparency and good reporting is encouraged by requirements to link documents, identify and explain inconsistencies between documents (past and present), declare changes made over the year (Supplementary Estimates), and apply the principles of fiscal responsibility. The Public Finance Act lays out minimum reporting requirements. More information on current practices is provided on the Treasury website (www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide).

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14 These are listed in the Public Finance Act and include reducing debt to prudent levels (and then maintaining at those levels), maintaining net worth as a buffer against unpredictable events, and maintaining reasonably predictable taxes.
5 Introduction and Passage of the Appropriation Bill

The first Appropriation Bill must be introduced in the House of Representatives no later than 31 July each year. In practice, the Budget and the first Appropriation Bill are usually presented in May. This gives agencies sufficient time to prepare for the coming year.

The first reading of the main Appropriation Bill takes place on Budget Day after the Bill is introduced in the House. The Minister of Finance delivers the Budget speech in moving the second reading of the main Appropriation Bill and tables15 the Budget documents in the House. The debate on the second reading of the Bill is the Budget debate.

The Fiscal Strategy Report, Budget Economic and Fiscal Update and the Estimates are then referred to the FEC. The FEC allocates Votes to appropriate select committees for the Estimates examination.

Acting under standing orders, the select committees question Ministers and departments about the appropriations requested. Each select committee is required to report back to the House within two months of the delivery of the Budget. In addition, the FEC questions the Minister of Finance on the Fiscal Strategy Report and the Budget Economic and Fiscal Update.

The Committee of the Whole House stage of the main Appropriation Bill is called the Estimates debate. During this debate, individual Votes are debated.

The debate on the third reading of the main Appropriation Bill must be completed within three months of the delivery of the Budget. The debate on the third reading may include reference to the content of the Fiscal Strategy Report, the Budget Economic and Fiscal Update and FEC’s report on these documents. When the Bill has been read a third time, it is passed by the House and becomes law with the assent of the Governor-General.

Chapter Four explains the appropriation system in more detail.

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15 The current Statutes Amendment Bill is amending the Public Finance Act 1989 to allow the documents to be presented before the Budget speech in future.
4 Authority from Parliament

Appropriation is the constitutional process whereby Parliament authorises the Government to use public resources for specified purposes.

Introduction


The requirement for appropriation ensures that Parliament, on behalf of taxpayers, scrutinises how public resources are to be used and ensures that the Government is held accountable for how resources entrusted to it are used. Appropriation limits what Ministers can spend on, limits how much can be spent, and is supported by information on the performance expected in return for the resources appropriated.

The Estimates of Appropriations lay out for each Vote or appropriation the:
- purpose for which each appropriation can be used (type and scope)
- maximum amount of expenses or capital expenditure to be incurred
- period in which resources remain available to a Minister
- net assets of each department at the start and end of the year.

Information Supporting the Estimates is laid out by sector and gives information on expected performance to support Parliament's review of spending intentions and, in retrospect, its review of actual performance. It includes Ministers’ and chief executives’ statements of responsibility.

The Information Supporting the Estimates include Statements of Intent, forecast service performance and forecast financial statements for each department.

The Supplementary Estimates information relates to the financial year about to end, not the upcoming Budget year. They outline the additional expenses and capital expenditure sought, ie, over and above the amounts Parliament had appropriated after the last Budget was presented.
Appropriation Acts

An Appropriation Act is the means by which Parliament approves funding for the Government for the coming year. The Government’s proposals are submitted in the Estimates presented to Parliament at the time the Minister of Finance delivers the Budget.

Key features of New Zealand’s appropriation process are that:

- each appropriation is made to a specific Minister and is in a Vote administered by a specified department
- each appropriation must be one of six types and have a clear type, scope, maximum amount and period
- all appropriations are accrual-based, that is they specify the full cost of resources required to produce outputs, make transfer payments, etc (not just the cash outlays), and count expenditure in the period the activity occurred/will occur
- appropriation and statutory authority from Parliament gives a government authority to spend public money.

Without authority from Parliament to spend, the Government cannot continue to govern. It is for this reason that votes on Appropriation and Imprest Supply Bills are votes of confidence.

Types of Appropriation

The Public Finance Act lists six types of appropriation:

<table>
<thead>
<tr>
<th>Types of Appropriation</th>
<th>eg,</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Output expenses (including Multi-Class Output Appropriations)</td>
<td>policy advice; management of contracts; police, health or educational services; revenue-dependent expenses; department-to-department transfers</td>
</tr>
<tr>
<td>2 Benefits or other unrequired expenses</td>
<td>unemployment benefit; pensions; tax credits; housing assistance; student allowances</td>
</tr>
<tr>
<td>3 Borrowing expenses</td>
<td>debt servicing costs; interest on (tax) equalisation and reserve accounts</td>
</tr>
<tr>
<td>4 Other expenses</td>
<td>restructuring costs; litigation costs; loss on sale of fixed assets; overseas development assistance; grants; remuneration for statutory officers</td>
</tr>
<tr>
<td>5 Capital expenditure</td>
<td>increase in investment in a department, Crown entity or SOE (eg, to increase its output capacity or improve its efficiency); purchase or development of assets</td>
</tr>
<tr>
<td>6 Expenses and capital expenditure incurred by intelligence and security departments</td>
<td>total expenses and capital expenditure of intelligence and security departments</td>
</tr>
</tbody>
</table>
Appropriations are further divided into departmental and non-departmental appropriations, limiting who receives payment. Output expenses are typically for a single ‘class’ (a grouping of similar outputs). Multi-class output expenses (MCOA) can, however, be used to group dissimilar outputs (eg, that contribute to particular outcomes).

Ensuring Money Gets to Parliament’s Intended Recipient

Careful appropriation ensures funding is spent as Parliament, Cabinet and the Minister intended. Clarity protects agencies against claims of misuse.

- **Crown Entities:** The Ministry of Culture and Heritage is paid to monitor Crown entities under a departmental Output Expense. Crown entities are funded under a non-departmental Output Expense. Funding for sportspeople is ‘ring-fenced’ in a non-departmental Other Expense.

- **Science:** Policy and purchase advice is procured as a departmental Multi-Class Output Appropriation (MCOA). Funding destined for research institutions is protected in non-departmental Output Expenses.

- **Welfare Payments:** The Ministry of Social Development disburses benefits to entitled persons. Benefit payments themselves are funded separately as Benefits and Other Unrequited Expenses.

The Introduction section of the main Estimates and the Treasury’s ‘Guide to Appropriations’ provide more detailed information on the appropriation framework, including departmental and non-departmental appropriations, multi-class output appropriations (MCOA), department-to-department appropriations (DDA), multi-year appropriations (MYA), revenue-dependent appropriations (RDA) and permanent legislative authority (PLA).

Scope Statements

Scope statements limit what an appropriation of any type can be used for. Scope statements are more specific about what is being funded and, by contrast, what cannot be funded under the appropriation.

Scope statements must stand alone as clear statements of what expenses or capital expenditure can be incurred on. Legally, they are read without reference to appropriation titles or other material in the estimates. In practice, however, good organisation and clear titles help readers to make sense of the complex information being presented.

A good scope statement constrains what expenditure can be authorised, without restricting use of funding for its intended purposes. Careful drafting is required to achieve this balance.
A few examples of scope statements from the Estimates:

<table>
<thead>
<tr>
<th>Output Expense</th>
<th>Audit &amp; Assurance Services (M78)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute for smaller entities such as reserve boards.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multi-class Output Appropriation (MCOA)</th>
<th>Domestic Biosecurity Risk Management MCOA (M7)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Biosecurity Incursion response and long-term pest management: This output class is limited to the assessment, containment and eradication of suspected risk organisms within New Zealand.</td>
</tr>
<tr>
<td></td>
<td>Domestic Biosecurity Surveillance: This output class is limited to domestic biosecurity surveillance activities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits &amp; Other Unrequited Expenses</th>
<th>Invalid's Benefit (M63)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Provision of means-tested income support for people who are totally blind, or permanently and severely restricted in their ability to work, and paid in accordance with criteria set out in the Social Security Act 1964.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Expenditure</th>
<th>Acquisition and Development of Properties under the Housing Act 1955 (M37)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This appropriation is limited to acquiring, developing and modernising properties under the Housing Act 1955.</td>
</tr>
</tbody>
</table>

Further specificity on what is being funded is provided in the 'Information Supporting the Estimates'. Supporting information includes specific output measures and standards for each appropriation, against which performance is assessed in retrospect.

Output measures for prisons, for example, include mean and maximum numbers of inmates, number of escapes, assaults and self-harm (etc), and numbers of health assessments, drug tests and prisoners escorted to court. Intermediate outcomes, such as number of assaults, are used as quality indicators to measure trends.

**Amount of Expenditure**

Appropriation authorises expenditure up to a maximum level. Less is spent when a government’s objectives can be achieved at lower cost. All types of appropriations can be changed in the Supplementary Estimates. Transfers and any increases in appropriations are usually made in an Appropriation (Supplementary Estimates) Bill. However, in addition, section 26A of the Public Finance Act allows a ‘once a year’ increase in an output appropriation by up to five percent. Such financial transfers can only occur if the total amount appropriated for all output expense appropriations in the Vote is not exceeded and it must be authorised by the Governor-General by Order in Council.

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16 Each output class within an MCOA must have its own scope statement.
Most appropriations are limited to dollar amounts. Revenue Dependent Appropriations for departmental output expenses can, however, be incurred *up to* the level of revenue earned from parties other than the Crown.

During a civil defence, health or public safety emergency, expenses can be incurred without appropriation under section 25 (2) of the Public Finance Act. Imprest supply is normally used to respond to emergencies.

When Parliament gives authority for resources to be used for a particular purpose, Parliament must have confidence that those resources will be used only for that purpose. Ministers need Parliament’s authority to transfer resources between different appropriations.

**Periods of Appropriation**

**Annual Appropriations**

Most appropriations are limited to one year, consistent with the annual Budget cycle. In these cases, a Minister must request an appropriation for proposed expenditure each year. The sums to be appropriated are included in the Estimates and, when passed by Parliament, are specified in an Appropriation Act.

**Multi-year Appropriations (MYA)**

Multi-year appropriations allow Parliament to authorise spending over periods longer than one year. The maximum term specified in legislation for a multi-year appropriation is five years. Multi-year appropriations (MYAs) are commonly used to fund long-term projects, such as the Census of Population and Dwellings or Crown contributions to joint ventures at airports. MYAs can also be used for contestable funds and the provision of overseas development assistance.

MYAs are a valuable tool where the costs of projects are certain but the spread of costs across years is not.

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17 In 2011, section 25(2) was invoked to respond to the Christchurch earthquake. Section 25 spending was limited by requiring all departments to use existing appropriations where possible (spending was within the scope statement, etc), and limiting the use of section 25 to cover action ‘required as part of the immediate response’ or ‘incurred automatically’ (eg, reimbursement of 60% of the cost to local authorities of re-establishing critical underground infrastructure). As needs became clearer over time, section 25 expenditure and capital expenses were limited to particular agencies and purposes. Section 25 expenditure was reported to the Treasury so it could be controlled, budgeted for, and Gazetted. Later on, it was reported in financial statements and included in an Appropriation Bill for confirmation by Parliament.
Permanent Legislative Authority (PLA)

Permanent legislative authority is authorised by legislation other than an Appropriation Act and continues in effect until revoked by Parliament. Generally, the authorising legislation will impose limits on the scope of the appropriation and not its amount. For those appropriations with limits set in cash terms, section 11(2) of the Public Finance Act requires that they be reported on an accrual basis. The usual legislative wording allows for expenses to be incurred for the purpose specified in the legislation “without further appropriation than this section”. Details of permanent appropriations are included in ‘Details of Annual and Permanent Appropriations’ in the Estimates and Supplementary Estimates for each Vote for completeness, though the dollar amount specified is a forecast rather than a limit.

Examples of how PLAs have been used in practice include:

- where a measure of constitutional independence from government control is required, eg, to pay judges’ salaries
- to ensure continuity of supply for ‘essential’ services or transactions, such as debt servicing
- to settle liabilities created under legislation, such as repayment of government debts, tax credits and payment of tax refunds
- to assure overseas lenders that they will be repaid.

PLAs are also used to authorise the development or replacement of departmental assets, funded from a department’s balance sheet.

The Estimates

The Estimates are presented to the House by the Minister of Finance on Budget Day. The Estimates authorise expenditure by Ministers, so they focus primarily on detailing appropriations and setting expenditure limits.

The Estimates start with Summary Tables showing total expenditure by expense and revenue type, the amount appropriated to each Vote in each appropriation type, and net assets by Vote. Summary Tables also lay out revenue sources.

Individual Votes are then presented in alphabetical order. For each Vote, the main Estimates include the following sections:

- **Overview of the Vote**: This summarises maximum expenditure levels in aggregate, and what elements of the Vote can be spent on.
- **Details of Appropriations**: This gives the type, title, scope and amount of each annual appropriation and (separately) multi-year appropriation.
- **Projected Movements in Net Assets**: Information on the opening and closing balances of each department included in the Vote.
Looking through citizen-centric and value-for-money lenses, some of the more interesting information coming out of the Budget is laid out in the Information Supporting the Estimates.

**Information Supporting the Estimates**

The Information Supporting the Estimates is laid out in ten volumes covering different sectors. As noted previously, these provide information on the future operating intentions of departments that are administering Votes, the rationale for expenditure, performance measures and delivery expectations.

Each volume provides supporting information in six parts. Part 1 gives a Summary of the Vote, including linkage of high level objectives (priorities, outcomes and impacts) to appropriations, spending trends and information allowing funding to be traced across changes in output structure.

Parts 2 to 6 give details and performance expectations for appropriations of each type (Output expenses, Benefits, Borrowing expenses, etc). They lay out expected outcomes, impacts and objectives, identify recent policy initiatives, detail performance measures and standards, and lay out conditions that limit the use of appropriations (eg, targeting criteria).

The expenses and capital expenditures of security agencies are not published. This information is supplied on a ‘need to know’ basis to specific Ministers and to the statutory Intelligence and Security Committee.

**Examples of Appropriations from the Main Estimates**

This section presents extracts from appropriations for multiple Votes, with brief commentary on points of interest. Examples are representative. No attempt is made to cover the full range of uses of each appropriation type. Examples from the current Budget can be found at: [www.treasury.govt.nz](http://www.treasury.govt.nz).
Scope statements in the left hand column limit what expenses can be incurred.\(^{18}\) This is followed by the current year’s Budget and expected actual expenses. Next year’s Budget is proposed on the far right column.

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budgeted $000</td>
<td>Estimated Actual $000</td>
</tr>
<tr>
<td><strong>Departmental Output Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information and Administrative Services to the Judiciary and New Zealand Parole Board (M18)</td>
<td>54,245</td>
<td>53,914</td>
</tr>
<tr>
<td>This appropriation is limited to the provision of information about offenders to victims of crime, the Judiciary and the New Zealand Parole Board, and the provision of administrative, financial and secretariat services to the New Zealand Parole Board.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management of Third Party Custodial Services (M18)</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>This appropriation is limited to preparing for and managing contracts for the provision of custodial services by third parties.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The first item funds a standard output expense (advice from the Judiciary and the Parole Board, respectively, on sentencing and release from prison). The second item funds advice on, and contract management of, outsourced prison services. The Information Supporting the Estimates provides more detailed information on the price, quantity and standards of departmental output classes.

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budgeted $000</td>
<td>Estimated Actual $000</td>
</tr>
<tr>
<td><strong>Departmental Output Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prison-based Custodial Services MCOA (M18)</td>
<td>702,973</td>
<td>693,491</td>
</tr>
<tr>
<td>Custody of Remand Prisoners</td>
<td>150,103</td>
<td>147,683</td>
</tr>
<tr>
<td>This output class is limited to the provision of custodial services for remand prisoners (people awaiting trial and offenders convicted but not yet sentenced).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custody of Sentenced Prisoners</td>
<td>552,870</td>
<td>545,808</td>
</tr>
<tr>
<td>This output class is limited to the provision of custodial services for offenders sentenced to imprisonment.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the above example, a departmental Multi-Class Output Appropriation (MCOA) is used to purchase custodial (prison) services from the Department of Corrections. MCOA includes dissimilar outputs that contribute to similar outcomes.

Purchase (contracting) and provider (prison) expenses are in separate appropriations giving Parliament information on where money is expected to be spent and helping delivery and purchase agents focus on

\(^{18}\) On a day-to-day basis the Controller confirms that spending conforms to appropriations. Further confirmation is provided by audit at the end of the financial year.
cost and value for money. As the ‘make or buy’ decision (even for private prisons) is with the Chief Executive of Corrections, outsourced prison costs are appropriated as departmental output expenses. The Information Supporting the Estimates for the relevant output class has separate performance measures for public and private prisons.

Each output class in an MCOA includes a scope statement and cost but the maximum expenditure limit is set by the total for the whole MCOA. Within the MCOA, Ministers can transfer funding between output classes.

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departmental Output Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Support and Assistance to Seniors (M63)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>This appropriation is limited to paying New Zealand Superannuation and social security entitlements (including administering related international social security agreements) and providing advice to help older people maintain independence and social participation; and administering international social security agreements relating to non-superannuitants.</td>
<td>34,439</td>
<td>34,439</td>
</tr>
<tr>
<td>Benefits and Unrequited Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Zealand Superannuation (M63)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision of an income for people who have reached the qualifying age of 65 years and fulfil the residency requirements, as provided for in the New Zealand Superannuation and Retirement Income Act 2001.</td>
<td>8,306,504</td>
<td>8,287,230</td>
</tr>
</tbody>
</table>

While the costs of managing the distribution of pensions is a (departmental) output expense, appropriation of superannuation payments as Benefits and other Unrequited Expenses indicate the total payments to be made to superannuitants.

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departmental Output Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Collection, Accounting and Debt Management (M21)</td>
<td>3,620</td>
<td>3,620</td>
</tr>
<tr>
<td>The provision of services relating to receipt and processing of revenues owing from import tariffs, goods and services tax and excise-equivalent duties on imported goods and excise duty on domestically manufactured fuel, tobacco and alcohol products.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Departmental Other Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Doubtful Debt Provision (M21)</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Provisioning of Doubtful Debts on Customs Crown Revenue.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Many agencies collect money owed to the Crown. This includes duties, fees, fines, levies and taxes. As discussed already, money collected on behalf of the Crown is Crown revenue, not departmental revenue. Appropriation to departments covers only revenue management and collection services.

Bad debts and impairment under GAAP (IFRS) in relation to Customs revenue relate to the Crown and are therefore covered above by *Non-Departmental* Other Expenses.

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>部门输出费用</td>
<td>预算</td>
<td>实际</td>
</tr>
<tr>
<td>提供新西兰保释委员会服务（M18）</td>
<td>6,464</td>
<td>5,938</td>
</tr>
</tbody>
</table>

The Parole Board has statutory independence in its decision-making but is not a separate legal entity from the Crown. The Department of Corrections hosts the Parole Board and provides administrative services, so support services to it are a departmental expense. Had the Parole Board’s quasi-judicial functions been established instead in an Independent Crown Entity, output expenses would be appropriated as *Non-Departmental Output Expenses*.

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>非部门输出费用</td>
<td>预算</td>
<td>实际</td>
</tr>
<tr>
<td>国家陆运计划 - 需求管理及社区计划PLA（M72）</td>
<td>1,792,653</td>
<td></td>
</tr>
</tbody>
</table>

Expenses of meeting statutory obligations are funded under Permanent Legislative Authority (PLA). PLAs continue in effect until revoked by Parliament. Parliament is reminded it has mandated the activities and is given an updated forecast of expenditure. Scope statements therefore refer to the relevant section of the authorising legislation.

The above PLA is one of two in Vote Transport that are authorised under sections 9 (3) and (4) of the Land Transport Management Act 2003.
Departmental capital expenditure is also appropriated as a PLA (second example below).

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>Budgeted $000</th>
<th>Estimated Actual $000</th>
<th>Budget $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Departmental Borrowing Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Servicing PLA (M31)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This appropriation is limited to the payment of borrowing expenses for the Crown’s New Zealand-dollar and foreign-currency debt, authorised by section 60(1)(b) of the Public Finance Act 1989.</td>
<td>2,288,836</td>
<td>2,288,836</td>
<td>3,058,421</td>
</tr>
<tr>
<td><strong>Total Non-Departmental Borrowing Expenses</strong></td>
<td>2,288,836</td>
<td>2,288,836</td>
<td>3,058,421</td>
</tr>
</tbody>
</table>

Debt is managed centrally and departments cannot raise debt. So a major non-departmental appropriation to Vote Finance covers interest expenses.

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>Budgeted $000</th>
<th>Estimated Actual $000</th>
<th>Budget $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Departmental Capital Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Corrections - Capital Expenditure PLA (M18)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This appropriation is limited to the purchase or development of assets by and for the use of the Department of Corrections, as authorised by section 24(1) of the Public Finance Act 1989.</td>
<td>268,129</td>
<td>268,129</td>
<td>250,937</td>
</tr>
<tr>
<td><strong>Total Departmental Capital Expenditure</strong></td>
<td>268,129</td>
<td>268,129</td>
<td>250,937</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Titles and Scopes of Appropriations by Appropriation Type</th>
<th>Budgeted $000</th>
<th>Estimated Actual $000</th>
<th>Budget $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Departmental Capital Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asian Development Bank PLA (M31)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This appropriation is limited to capital expenditure by New Zealand as a member of the Asian Development Bank Agreement, authorised by section 3 of the International Finance Agreements Amendment Act 1966.</td>
<td>-</td>
<td>-</td>
<td>71,000</td>
</tr>
</tbody>
</table>

Departmental capital expenditure is appropriated as PLA, as departments can use depreciation funding held on their balance sheets and the proceeds of the sale or disposal of assets to purchase or develop assets (section 24(1) of the Public Finance Act). Capital injections may also be made eg, to fund new facilities (below).
Capital expenditure is also appropriated to meet international obligations.

<table>
<thead>
<tr>
<th>Details of Net Asset Schedule</th>
<th>2009/10 Estimated $000</th>
<th>2010/11 Projected $000</th>
<th>Explanation of Projected Movements in 2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td>2,029,498</td>
<td>2,140,709</td>
<td>2009/10 Supplementary Estimates opening balance reflects the audited results as at 30 June 2009.</td>
</tr>
<tr>
<td>Capital Injections</td>
<td>281,082</td>
<td>100,876</td>
<td>The Department received additional funding for two new drug treatment units, implementation of double bunking phase two (Northland and Auckland Women) and Mt Eden phase one, meeting higher demand in Community Probation and Psychological Services and capital transferred from 2009/10. In addition, the Department also received new funding for the establishment of Whare Oranga Ake and Mt Eden Phase Two (Stage Two), as part of decisions made under Budget 2010.</td>
</tr>
<tr>
<td>Capital Withdrawals</td>
<td>(169,871)</td>
<td>(22,840)</td>
<td>The Department is partially self-funding capital expenditure previously received for decisions made as part of the Mt Eden - Redevelopment Project and returned some funding received for the implementation of double bunking at five prisons.</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>2,140,709</td>
<td>2,218,745</td>
<td></td>
</tr>
</tbody>
</table>

As the amount of a department’s net assets is not permitted to exceed the most recent projected balance of net assets at the end of the financial year (as set out in an Appropriation Act), Parliament exercises a level of control over the size of a department’s balance sheet.

Net movements in assets also get declared. This example shows much of FY 2009/10’s new capital requirements being offset by the return of capital to the Crown, resulting in lower capital charges being levied on the agency.

New Zealand’s output-based appropriation and spending controls allowed successive governments to more than halve debt as a proportion of Gross Domestic Product and maintain debt at low levels until the 2008 recession.
Specifying the Performance Expected in Return for Funding

Linking funding to outputs and outcomes in the Information Supporting the Estimates allows Parliament to look at the value of the goods and services it is asked to appropriate funding for. In retrospect, linkage should ensure the reporting of information that shows – or can be used to show – value for money.

The Information Supporting the Estimates starts the process of laying out how outcomes sought by the Government are linked to specific outputs and costs. Reporting obligations are created by measures and standards for each output. Obligations are reinforced by declaring appropriate performance measures and standards in Statements of Intent and output plans or output agreements.

Since 1989, output reporting has focused on price, quantity and standards. Ten years of results-based management has also brought outcome-based measures into performance expectations and reporting for major outputs.

The end state sought is detailed information on outcomes and how these relate (or are unrelated) to outputs and inputs. While agencies are accountable for delivering outputs, they are expected to help Ministers purchase outputs based on how they will impact (improve) outcomes.

The increased emphasis on reporting outcomes is nicely illustrated in Vote Corrections, where in addition to output-based information on prisoner numbers, funding, etc, targets are also set in the Information Supporting the Estimates for a range of intermediate outcomes. This includes targets for:

- unnatural deaths and self-harm (per prisoner)
- assaults on inmates and staff
- drug use
- escapes.

These measures reflect what is needed from a prison service and, just as importantly, allow Parliament and the public to gauge the quality of delivery.

A key outcome of prison services is, of course, reduced reoffending after release. Reducing reoffending is part of the rationale for selecting outputs but is not something the department is accountable for.

Rather, Statements of Intent commit agencies to reporting on progress towards outcomes. Corrections, for example, reports detailed information of reoffending rates and impact measures for rehabilitative programmes.

Appropriation and reporting systems are most useful when they produce the value-for-money information the Government needs to channel the funding for services that under-delivered into services that improve the lives of citizens (ie, improve outcomes) in more cost-effective ways.
Conclusion

Appropriation is a key mechanism allowing Ministers and government agencies to be held accountable to Parliament for their use of public resources. Appropriation links outcomes to the outputs and resources used.

The appropriation system works with Statements of Intent to ensure the right outputs are purchased, funding is spent as intended, and that the data needed to inform future purchasing decisions will get reported.

New Zealand’s most successful value-for-money initiatives focused on cost, output and outcome trends over a decade, and helped redirect expenditure that showed limited results. A well-run appropriation system creates requirements for consistent reporting over time, supports critical analysis by spending agencies and monitoring agents alike, and ensures good flows of information to Ministers making purchase decisions.
5 Efficient, Effective Management

Financial management tools that improve performance in the state sector

Introduction

This chapter outlines how the financial management system can be tuned to boost efficiency and value-for-money. While not specified in legislation, the mechanisms described below are important features of the system that help governments manage efficiently and deliver results to the public.

The chapter is structured around three core principles:

- priorities drive performance expectations and spending decisions
- expectations of fiscal prudence and value-for-money
- agencies and assets are managed strategically to ensure that value is delivered over the long term and across the state sector as a whole.

The Government expects the state sector to deliver better results from the funding made available and to make those gains visible to the public.

This is especially important for agencies that received additional funding. Outputs that grow in cost are expected to show matching increases in quantity and quality. Increased quantity or quality should, after a lag, also be seen in improved outcomes. If this does not happen, funding levels and/or the mix of goods and services should be reviewed and revised.

Ministers receive independent advice on cost, productivity, risk and value-for-money through monitoring agents, benchmarking studies and reviews.

Priorities Drive Performance Expectations and Spending

Priority Areas and Outcome Objectives

Every government has a set of key results it expects the state sector to deliver on. The process of developing and defining government-wide priorities is coordinated by the Department of the Prime Minister and Cabinet. Outcome objectives are laid out in Statements of Intent.

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19 Compared to results achieved using funding received in previous years.
Outcome objectives and delivery priorities are used to link the budgets and actions of Ministers and government agencies, and performance expectations of boards and chief executives, to the Government’s goals.

To realign existing expenditure to priorities and outcome objectives, Ministers review their baseline expenditure against government priorities. Ministers generally look for initiatives that no longer fit priorities (e.g., initiatives of previous governments) and programmes that have under-delivered against what was expected at the time they were funded.

Ministers are normally supported in this work by departmental chief executives and boards. During a budget round, the Minister of Finance may ask the Treasury to identify options for savings.

Business cases seeking additional funding must make good contributions to the Government’s outcome objectives and delivery priorities. Robust business cases are submitted in support of significant capital proposals and significant changes in policy or operational practice. Monitoring agents and the Treasury review these, and advise Ministers.

Once priorities are set, and funding has been made available, departmental chief executives and Crown entity boards are responsible for delivering on priorities in their area, prudent use of resources and long-run stewardship.

Ministers set policy and allocate funding. Boards and chief executives have the freedom to manage operational issues, and to control the production of outputs and performance information. They are expected to deliver on priorities, lift efficiency and demonstrate tangible results.

Chief Executive Performance Expectations

The State Services Commissioner sets performance expectations with departmental chief executives, and reviews progress throughout the year. Departmental chief executives are employed on fixed term contracts, which can be renewed. The State Services Commissioner recommends departmental chief executive appointments (and reappointments) and is responsible for their employment and performance assessment where the department is listed in the First Schedule to the State Sector Act.

For Crown entities and SOEs, boards appoint the Chief Executive, set expectations and review his or her performance. Ministers appoint boards, set expectations and review boards’ performance.

In all cases, renewal of contracts is dependent on performance.

20 The Minister responsible for the agency is consulted during the process.
21 There are a few exceptions, e.g., the Police Commissioner, the Chief of New Zealand Defence Force and the Solicitor-General, where special circumstances apply.
22 Subject to limitations stated in the Crown Entity Act or State-Owned Enterprises Act.
Expectations of Fiscal Prudence and Value-for-Money

Agreed Performance Expectations, Standards and Output Costs

Outputs supplied by agencies must be clearly specified with a description of the goods and services to be produced, including information about quality, quantity, cost, and time and place of delivery. Specifications and costs are agreed with the relevant Minister and included in the Information Supporting the Estimates (for departments) and agencies’ output plans or agreements.

These agreements are central to the state sector management system. Agencies often argue they need to increase the quality (and cost) of goods and services. The best proof that quality did increase is that intermediate outcomes improve notably. When improvement does not occur within a reasonable period, risk exists that money was poorly spent. Time-limited funding allows Ministers to test the quality of output, and for impacts on outcomes, before locking more expensive business models into baselines.

Governments need comparative cost information to know the goods and services it purchases are of reasonable price and quality. Realistic pricing – and assurance of value-for-money – is particularly important when having a dominant supplier limits Ministers’ ability to compare products and costs.

Advisors and Monitoring Agents

Advisors support Ministers by helping them understand and tackle complex issues, and putting together the analysis and briefings that give Ministers choices in purchase negotiations. They also advise on value-for-money (ex ante) and help Ministers purchase outputs that are consistent with a government’s strategy.

Unless directed otherwise, Departments act as purchase advisors where a Minister is purchasing outputs from a Crown entity or other non-departmental supplier.

Regardless of who provides purchase and monitoring advice, the Minister’s agent is expected to provide an independent view on:

- the fit between the budget proposed by an agency and the Government’s outcome objectives and delivery priorities
- the mix of outputs likely to be most cost-effective, taking into account the extent to which services purchased in the past are aligned to priorities and have been shown to be cost-effective
- how much specific goods and services should cost.
Costing is relatively simple where a similar good or service is produced in the private sector and a pricing benchmark is available. Costing is more complex for unique or heterogeneous outputs, such as policy advice.

Common approaches used to establish fair prices include:

- competitive tendering from private and state sector producers
- competition between, or benchmarking of, state sector providers
- analysis of historical trends in price, quantity and standards
- analysis of input costs and overheads (e.g., if price rises are sought)
- more sophisticated analysis of value-for-money (below).

Monitoring agents have a broader role in advising on governance issues and Statements of Intent, tracking progress against output agreements, and advising the Minister on investments, performance and value-for-money.

**Output Plans and Agreements for Individual Agencies**

Early drafts of output plans and agreements help give Ministers:

- information on the price, quantity and standards of outputs offered by departmental chief executives and Crown entity boards
- sufficient information to compare proposed outputs to similar outputs produced in the past and, if feasible, by other providers
- choice about what is to be delivered, by whom, and at what cost
- information to assess delivery and value-for-money in retrospect.

After the Budget is agreed, output plans (or output agreements for Crown entities) are signed by chief executives (or boards) and the relevant Ministers. They are cross-referenced in chief executives’ job descriptions.

Output plans of departments (or output agreements with selected Crown entities) specify individual outputs in terms that help Ministers assess delivery in retrospect, and manage interactions with the agency. Output plans must be consistent with information presented to Parliament during the Budget process (Chapters Three and Four).

While output plans and agreements are not required under legislation, and are not primarily intended to support the Executive’s accountability to Parliament, they can be requested and used by the C&AG to inform the assurance and advice the C&AG gives to the House and by Parliamentary select committees as part of their Estimates examination or their agency financial reviews.
### Output plans:

- provide external stakeholders and internal managers with a clear description of outputs to be delivered, together with applicable performance measures and standards, and resource limits
- provide a vehicle for discussion and agreement between a department and its Minister about: a) what particular outputs the department should deliver; b) what performance standards the department should meet, and what resources should be provided to support that; c) how these outputs will contribute to desired outcomes; and d) output priorities and trade-offs
- set out the amount and basis on which the department is to be paid or earn revenue for the delivery of these outputs
- support the ability to hold the department to account for their output delivery performance.

Output plans generally include the following information:

- the purpose and scope of the plan
- monitoring, reporting and assessment arrangements
- payment and charging arrangements
- procedures for amendment
- a comprehensive schedule of outputs and their attendant priority, performance measures and expected costs
- the signatures of relevant Ministers and the departmental Chief Executive.

Ministers can choose between outputs and providers, and trade-offs can be made between the price, quantity and standards of outputs. Ministers can also specify the content and form of reporting they require against output plans. Regular reporting against output plans allows Ministers to evaluate performance and take corrective action where necessary. As the year progresses and circumstances change, Ministers and chief executives (or boards) may negotiate changes to output plans without recourse to Parliament, unless appropriation changes are needed.

### Purchasing from Non-Departmental Providers

Individual Ministers also have output agreements with Crown entities and other non-departmental providers. Usually, the management of these is undertaken by departments on behalf of Ministers and this management function becomes an output supplied by the department.

Non-departmental expenses dominate spending in some sectors. District Health Boards, for instance, are largely funded through non-departmental output expenses. School boards of trustees are funded from non-departmental other expenses. In other areas, non-departmental outputs deliver low cost but still crucial functions, such as tuberculosis control in livestock and the management of the New Zealand Superannuation Fund.
Managing these arrangements involves negotiation, monitoring, review and payment for outputs purchased from third parties. Departments managing delivery arrangements with other suppliers must provide their Ministers with timely advice on cost, performance and emerging risks.

Purchasing from non-governmental providers is also used to access the unique skills and capabilities of the private sector and non-governmental institutions. Significant purchases are typically preceded by competitive tendering processes that provide Ministers with valuable information on alternative ways to deliver good quality outputs, and the quality and cost of comparable services offered by government agencies.

**Periodic Review of Costs and Value-for-Money**

Boards and chief executives are expected to be fiscally prudent, providing the first line of defence against cost escalation. They are also expected to deliver better, faster and smarter services, and report on results.

**Figure 5: Value-for-Money**

Fixed nominal baselines, where budgets do not rise at the rate of inflation, incentivise agencies to become more efficient, eg, by reducing overheads or implementing more cost-effective production methods. Enforcing fixed nominal baselines helps ensure that additional (new) funding is used to purchase additional goods and services, which in turn improve outcomes.

When agencies argue they cannot become more efficient, some form of baseline review should be triggered. (A review of the New Zealand Defence Force in 2010, for example, identified savings of $300-400 million.)

Self-reviews and external reviews often start from similar issues but the emphasis and direction of reviews varies with the purpose of a review, information available and what reviewers find as work proceeds. Focusing on price, quantity and standards, reviews generally look at:

- government priorities and levels of demand for services
- the extent to which policy settings remain sensible and sustainable
› real trends in agencies’ budgets, wages and staffing levels
› benchmarking results, back-office costs and output costs
› real trends in output prices (in total and per unit produced)
› scope to reduce volume through better targeting
› whether evidence supports any claim that output quality increased
› whether past increases in spending, etc, had an impact on outcomes
› how different outputs or business models might deliver better results.

Output Costs

Accurate costing is needed, regardless of who delivers goods and services. Good cost allocation systems provide information needed to assess value-for-money, inform purchase decisions, and alert managers to the need to take action when input and output costs rise rapidly or unexpectedly.

Output costs reflect the full accrual cost of specified outputs (including capital charges and depreciation), not just the cash required for inputs. Cost allocation establishes what direct and overhead costs are charged to each output, and allows agencies to control input and output costs.

Chief executives and boards are expected to control costs. To do this they manage inputs and identify the full cost of each output. The full cost of an output is the sum of the labour and materials required plus the appropriate share of overhead costs (including depreciation and capital charges).

Departments must document cost accounting policies and disclose them in their financial statements. Accurate costing:
› ensures output costs and user charges are accurate and fair
› helps chief executives and boards understand and control costs, and identify opportunities for making efficiency gains
› allows benchmarking against other producers
› improves decision-makers’ information about value-for-money.

Cost allocation is critical to the purchasing process. Under-estimation of costs means that the cost of one output gets subsidised by others (an ‘implicit cross-subsidy’). Accurate costing ensures that:
› taxpayers and third parties are charged appropriately for services (see Chapter Six for the perils of over-charging)
› outputs compete on equal terms during competitive tenders
› appropriations reflect the true cost of goods and services, including depreciation and capital charges.

23 Particularly whether changes in intermediate outcomes reflected the expected results, and the timing and scale of price increases.
**Capital Charge**

Capital charges are applied by all departments and selected Crown entities. Departments pay a capital charge calculated on their net assets. The Public Sector Discount Rate is usually used as the capital charge rate and reflects the cost of the Crown’s investment in an agency.

The cost of the Crown’s capital investment may be a significant driver of the cost of goods and services, and an important element of the cost allocation process. Many agencies supply goods and services to third parties. If the prices charged for these do not at least equal production costs (including costs of capital), a government is subsidising those goods and services.

If fees are payable, however, full costs can be recovered (Chapter Six).

Capital charges do not increase the overall cost of government services to the taxpayer. They just help cost outputs accurately, encourage agencies to sell under-used or non-essential assets, and free up surplus capital. In turn, this reduces capital charge expenses and the total cost of production.

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The capital charge:

- helps ensure that prices for goods and services produced by government agencies reflect full production costs
- allows comparison of the costs of output production with those of other producers (whether in the public or private sector)
- makes explicit the cost to the Crown of maintaining its capital investment and creates an incentive for agencies to make proper use of working capital and to dispose of surplus fixed assets
- helps (as part of a full cost model) maintain a ‘level playing field’ between public and private sector bids for competitive tenders.

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24 A department’s capital charge base does not include assets managed by the department on behalf of the Crown. It would be inappropriate to levy a department on assets over which the Chief Executive does not have direct control.

25 A percentage figure reflecting the cost of capital to the Crown, taking account of both the cost of debt and relevant risk factors.
Agencies and Assets are Managed Strategically

Ownership Requirements

Ministers are responsible for making major ownership decisions and setting broad strategic direction. They expect to receive well-informed advice on such matters from chief executives and boards. Good advice is based on a thorough analysis of the ownership issues at stake, from both a governmental and agency perspective. Strategic exchanges among agencies are a useful way of identifying key ownership issues and generating advice for Ministers.

Ownership typically means taking a long-term view of Crown agencies’ purpose, structure, capability and outputs, and the alignment of these elements with the goals and requirements of the Government as a whole. Ownership requirements include:

- alignment of action and resources with Government’s priorities
- integrity of action and behaviour across the public service
- assurance of future capability
- improving cost-effectiveness over the long run
- assurance that agencies are well governed and performing well.

The Government and central agencies work across agencies to ensure that:

- appropriate structures and systems are in place to meet likely demand, both now and well into the future
- public resources are used effectively to achieve objectives required
- priorities are applied consistently across the state sector
- financial and performance risks are managed actively and promptly
- agencies work well collectively, when this can deliver superior results.

The Government also works to ensure that capital expenditure is planned and controlled, assets are maintained, managed and used efficiently, essential capabilities are in place, and block obsolescence\(^{26}\) is avoided.

Chief executives and boards are responsible for identifying issues likely to be important to the owner and taking action in line with:

- the Government’s overall strategy and long-run interests
- the Responsible Minister’s view of the agency’s direction
- issues specific to the agency, its clients, or the business sector it operates in, that need a response or contingency plan

\(^{26}\) That is, a large proportion of assets reaching the end of their economic life in a short period. This may reveal undue deferral of replacements and poor asset management.
demand to reshape policy, responsibilities and operational capacity
risks and threats to the ongoing provision of affordable services.

Such actions may be represented in:

- expectations stated in the Chief Executive’s performance agreement
- the agency’s strategic business plan or Statement of Intent
- policy reviews and cost management exercises
- capability development plans (eg, for human resources)
- separation of purchase, delivery and monitoring responsibilities
- outsourcing of, or competitive tendering for, goods and services.

Managing Assets

The Crown manages assets valued at over $570 billion. Around $120 billion of this is invested in physical assets. A well managed asset base plays a valuable role in the economy. It:

- boosts New Zealand’s financial, economic and operational ability to respond to adverse events in a timely manner
- protects New Zealand’s credit rating and lowers the cost of capital
- keeps capital and operating costs balanced, and at appropriate levels
- builds and maintains long-term value for taxpayers
- allows ongoing supply of high quality economic and social services.

Financial assets are managed only by a small number of agencies with the required skills and management practices. Most of these agencies are monitored by the Treasury (see ‘Investments’ in the next chapter).

Recent governments have placed growing emphasis on ensuring that physical assets are also managed well, delivering appropriate financial and/or social returns, and ensuring that capital investment is aligned with objectives and priorities.

All departments and Crown entities are expected to manage infrastructure assets effectively over the whole of their expected lifespans. In particular, capital-intensive agencies must demonstrate levels of asset management practice and performance appropriate to the high value of the assets being managed, and how critical the assets are in delivering key public services.

Chief executives and boards have primary responsibility for managing assets as part of their overall responsibility to provide sound governance and financial management. They are responsible for preparing business

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27 Eg, putting delivery, purchase and monitoring functions into different business units.
cases, capital budgeting, risk management, asset maintenance, reporting, and compliance with Cabinet’s expectations28.

All capital proposals requiring additional capital, and disposals that have significant policy implications, must be approved by Cabinet. These two requirements apply to both departmental and Crown entity transactions. All proposals considered by Cabinet must comply with the Treasury’s business case guidance. Unless otherwise agreed by the Treasury29, projects assessed as high risk go through a two-step approval process involving indicative and detailed business cases.

Departmental chief executives and Ministers can authorise the sale of departmental assets with a fair value below limits stated in their delegation. Limits also apply to the whole-of-life-costs of capital purchases and leases. Proposals of higher value must be considered by Cabinet. The Cabinet Office Circular CO (10) 2 lays out requirements of departments and Crown entities in more detail.

Agencies may use working capital and any proceeds from selling agency controlled assets to buy or develop a new capital asset, provided the agency’s total net asset value is not increased as a result and purchases fit within its delegated authority.

All proposals requiring new funding, and any disposals that noticeably change the price, quantity or standards of output production (departments and all Crown entities) must be approved by Cabinet.

Typically, only assets controlled by agencies and used in the production of their outputs are included on an agency’s balance sheet. An agency may also manage ‘Crown assets’ that are not on its own balance sheet.

Crown assets tend to be physical assets that could not readily be sold or otherwise converted into cash, or assets in respect of which the Crown wants to retain control of ownership decisions. A chief executive or board managing a Crown asset has no authority to sell or otherwise dispose of that asset.

Examples of Crown assets are conservation and heritage assets, such as national parks, the National Archives collections, and forests set aside to meet Treaty settlements.

Devolved control of most assets is balanced by transparency requirements that help ensure assets are managed well and allow the Minister of Finance to manage aggregate demand for capital within the Budget.

28 See Cabinet Office Circular CO (10) 02 for more information.

29 And, in the case of Crown entities, the Minister’s monitoring agent.
Ministers can request additional capital from the Crown if, for example, depreciation funding will not meet their perceived needs to replace or purchase assets. There is, however, a high threshold for Crown funding. Most agencies should not expect any new capital injections and all are expected to make better use of existing assets and capital funding.

Capital injections require Cabinet approval and appropriation by Parliament. When a Minister seeks a capital injection, the relevant agency must show how the request supports its overall strategy and submit a solid business case. Evaluation processes normally focus on the business case itself and how proposals sit with government priorities, the Vote’s multi-year budget plan and the relevant agency’s strategy.

This helps governments determine the appropriate level of investment.

The Government may also withdraw capital from an agency if it has more resources than it needs into the future or because the Government wants to use under-performing capital in an area of higher priority. An agency may voluntarily return surplus capital to reduce its capital charge.30

The Government has processes in place that look across its many functions and agencies to assess demand for, and get best use of, capital. Major capital decisions are made looking across government and informed by:

- the business case itself, including why the Crown must own an asset
- policy and service priorities
- long-term (10 year) intentions and aggregate demand for capital
- fiscal constraints and appropriation limits
- a national plan for infrastructure development (over 10 - 20 years)
- an Investment Statement. For example, the 2010 Investment Statement of the Government of New Zealand provides an overview of the significant assets and liabilities on the Crown’s balance sheet, how they have changed over time, and how what the Crown owns and owes is forecast to change over the next five years. The main objective of the new report is to enable greater scrutiny of the Government’s management of its assets and liabilities to strengthen the current financial reporting framework. A second objective is to provide a regular statement of the Government’s investment intentions over the medium term.

30 Levied on the value of taxpayers’ funds of departments and selected Crown entities. The charge allows full costing of outputs and cost comparisons with private providers.
**Conclusion**

All expenditure should be aligned to deliver on the Government’s priorities and outcome expectations.

Chief executives’ performance expectations and departmental output plans reinforce delivery expectations in the Information Supporting the Estimates. Year-end and interim reporting against plans and expectations provides information against which performance can be assessed.

Retrospective performance reviews, periodic reviews of value-for-money, and the ongoing work of the State Services Commissioner and monitoring agents provide independent views of performance.

Ministers are expected to take a long-run view of purchasing and ownership requirements, chief executives and boards have primary responsibility for ensuring agencies are well managed and will perform well in the long-run.

All departments and Crown entities are expected to manage infrastructure assets well over their expected lifespans. High-value assets are managed by agencies with the requisite levels of skill. Government-wide systems help to prioritise capital expenditure and ensure assets are managed well.
6 Managing Money

The receipt, management and disbursement of public and trust money

Introduction

Careful management of money is a key part of ensuring a responsive and efficient public sector. This chapter outlines how the financial management system manages the receipt of cash and other liquid assets, how these are managed or invested, and how money is disbursed. The chapter also considers how trust money is managed by the Government.

To limit potential fiscal risk to the Crown and Crown entities, cash and other financial instruments are generally managed centrally. The public sector financial management system therefore restricts the natural person powers in relation to borrowing and investing, including the power to contract, which are conferred on departments and Crown entities by other legislation. At the same time, flexibility exists under sections to operate bank accounts and undertake transactions to meet justified business needs.

Sources of Funds

The Government’s main sources of cash are:

- taxes and other sovereign receipts
- sale of goods and services
- investment income and the realisation of investments
- receipts from Crown entities and SOEs
- borrowing.

Taxes and other sovereign receipts

Taxes and other receipts, such as levies, fines, duties and child support payments, are gathered using the Crown’s sovereign power. Under the Constitution Act 1986 it is not lawful for the Crown to levy a tax except by or under an Act of Parliament.

All taxes collected by the Crown are public money and must be lodged in a Crown bank account.

Sale of goods and services

The goods and services of departments and Crown entities are costed to ensure the appropriate parties are charged full costs. In some cases, fees are set to recover less than full costs due to other policy considerations.
Three principles guide agencies setting fees for goods and services:31

Authority: A public entity must have legal authority to charge a fee for the goods or services it is legally obliged to provide. A public entity is usually funded to provide goods or services it has an obligation to provide, and needs specific legal authority to collect fees.

Fees must not be set at more than the amount necessary to recover costs, unless the entity is authorised by Parliament to set a higher fee. Setting a fee that recovers more than the costs of providing the goods or services can be viewed as a tax, so authority given to a public entity to charge a fee usually has an implicit cap set at the level of full cost recovery.

Efficiency: Public entities have a responsibility to understand, monitor and manage their costs to ensure they are operating efficiently. An ‘efficient’ operation is one that produces as many goods or services as possible at the desired level of quality from a given quantity of resources, thereby minimising costs to the Crown and users.

Accountability: Because public entities are accountable to Parliament and the public, they need to ensure their processes for identifying costs and setting fees are transparent, comprehensible and defensible.

All receipts collected by the Crown or departments from the sale of goods and services are public money and must be lodged in a Crown or departmental bank account. Departments are expected to maintain a management, accounting and information system that:
- recognises revenue when it is earned
- accounts for all debtors
- accounts for all receipts relating to revenue.

This requires departments to operate adequate systems of internal control for such debtors and revenue, to use appropriate procedures for collecting debt, and to provide forecasts to the Treasury of revenue and the resulting cash flows.

Investment income and the realisation of investments

All money received by the Crown or a department from investment income or the realisation of investments must be lodged in a Crown or departmental bank account.

Receipts of Crown entities and SOEs

SOEs and Crown entities are separate legal entities. They receive money from a variety of sources, including from the Crown itself. The money they hold is managed by those entities and is not public money as defined in the Public Finance Act. Operating in a competitive market, SOEs do not have the same constraints on charging and

31 Criteria for deciding when it is appropriate to set fees are laid out in ‘Charging fees for public sector goods and services’. 
retaining payment as departments and Crown entities. But if a SOE or Crown entity makes payments to the Crown (eg, as dividends or repayments of capital), then the Crown will treat those receipts as public money and deposit them into a Crown bank account.

Borrowing

Borrowing by the Crown is prohibited except by authority of an Act of Parliament. This prohibition does not include the use of short-term credit from a supplier or the use of credit cards (for up to 90 days’ credit).

Under the Public Finance Act, the Minister of Finance has powers to raise loans in the public interest. Total debt is maintained at prudent levels set by the government of the day. The budget process sets the level of taxes and spending, and hence the net level of borrowing or debt repayment.

The New Zealand Debt Management Office (NZDMO) arranges and manages loans to meet the Crown’s gross borrowing requirement, and manages New Zealand dollar and foreign-currency assets.

The proceeds from borrowing by the Crown are public money and must be lodged in a Crown or departmental bank account.

Management of cash and other financial instruments

Public money

Public money consists of all revenue earned or collected by the Crown, proceeds of asset sales and money borrowed by the Crown. This money is used to fund the activities of government, its departments and agencies. Public money does not include money held by Crown entities or SOEs.

Banking

All public money must be held in a Crown or departmental bank account.

Crown bank accounts: These are the main operating accounts of the Crown and refer to a suite of accounts opened, maintained and operated by the Treasury or by departments operating as an agent of the Crown, under a delegation from the Treasury.

Departmental bank accounts

Departmental bank accounts contain the money disbursed to the department by the Treasury, receipts for services provided by the department, and receipts from the disposal or sale of departmental assets. All other public money is paid into the Crown bank account.

32 Where departments and Crown entities have already been paid by the Crown to deliver outputs, costs recovered are generally paid into a Crown bank account. Constraints on charging were covered earlier in this chapter (see ‘Sale of goods and services’).
Departments are responsible for:

- liquidity (ensuring they have enough cash to meet payments). A positive balance must be maintained at all times in New Zealand dollar departmental bank accounts, and Crown bank accounts departments have delegated authority to administer

- making and accounting for payments. Departmental receipts and payments are paid into, and out of, departmental bank accounts. Crown bank accounts are used for Crown receipts and payments

- bank reconciliations and other internal controls over their cash management processes.

Each department forecasts its expected cash requirements for the coming year. This forecast is combined with information on output delivery and used to agree cash payments schedules with the Treasury. Schedules may be revised during the year but total payments must remain within approved budgets. During the year the Treasury makes disbursements to departments in accordance with those agreed cash payments schedules. Departments then pay non-departmental providers, such as Crown entities.

The Government uses the Westpac Banking Corporation as its banker for most departmental and Crown activities. The amounts held in all of the Crown and departmental bank accounts are ‘swept’ into the Crown Settlement Account with the Reserve Bank of New Zealand each night. This permits the centralised management of the Crown’s cash position by the NZDMO. NZDMO manages Crown bank accounts, the relationship with Westpac, and the Government’s investment and debt-financing activities.

Crown entities can use any bank and type of account approved by the Minister of Finance, or by regulations made under Part 4 of the Crown Entities Act.

**Investments**

To maximise return and best manage financial risks, surplus funds are generally held in marketable securities and deposits.

Except in very limited circumstances, only the Treasury, selected Crown entities\(^{33}\) and SOEs (most of which are monitored by the Treasury) may borrow or invest public money in securities.

These restrictions protect the Crown from liabilities or losses that may otherwise occur and ensure trading is managed by competent parties.

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\(^{33}\) Crown entities do not typically hold securities, borrow, give guarantees or indemnities, or use derivatives, unless exempted in Schedule 1 of the Crown Entities Act.
Most public sector entities that hold substantial securities do so to cover future costs or financial risks of government policies they are responsible for. These include superannuation schemes, accident compensation schemes and earthquake response funds.

**Borrowing**

The NZDMO issues a range of domestic and foreign-currency debt securities. At present, New Zealand dollar securities are preferred. Domestic-currency securities managed by the NZDMO include:

- **Government Bonds**: Wholesale fixed-term debt securities the Crown issues to, and repurchases from, registered tender counterparties in periodic tenders. Bonds have an initial maturity of one year or more.

- **Treasury Bills**: These are wholesale, fixed-term debt securities issued by the Crown to registered tender counterparties in weekly tenders. Treasury bills have an original maturity of one year or less. Most bills are issued to mature in three months, six months or one year.

- **Inflation-indexed bonds**: Inflation-Indexed Bonds are a wholesale debt instrument with an inflation-indexed component. Inflation-indexed Bonds were introduced in 1996. Issuance was suspended in 1999, and no further Bonds have been issued since.

- **Infrastructure Bonds**: In 2006, part of the Government's borrowing programme was designated for infrastructure development. This is declared as ‘Infrastructure Bonds’ in its financial reporting. They are issued in similar ways, and on similar terms and conditions, to other government bonds.

- **Kiwi Bonds**: New Zealand Government Kiwi Bonds are retail stock offered directly to the public. They are available only to New Zealand residents. Kiwi Bonds are denominated in New Zealand dollars with a fixed interest rate paid quarterly in arrears. The bonds are redeemable on maturity or at the option of the bondholder.

Under the authority of the Minister of Finance, the NZDMO maintains a portfolio and risk management framework within which it operates. That includes NZDMO’s strategic objective, objectives for New Zealand dollar and foreign-currency debts, the instruments in which NZDMO may transact, limits in respect of market and credit risk, composition requirements for the liquidity asset portfolio, and maturity profile requirements.

**Cash Disbursements**

Under the Constitution Act the Crown can only spend public money by or under an Act of Parliament. The Public Finance Act reinforces this by stipulating that the Crown or an Office of Parliament must not spend public money, except as expressly authorised by or under an Act.
The Public Finance Act does, however, authorise public money to be disbursed for:

- meeting expenses or capital expenditure incurred in accordance with an appropriation or other authority by or under an Act
- the payment of goods and services tax in relation to those expenses or capital expenditure
- the repayment of debt of the Crown or an Office of Parliament
- the settlement of liabilities of the Crown or an Office of Parliament.

Departmental payments are paid out of departmental bank accounts, while Crown payments are paid out of Crown bank accounts.

Expectations for settling accounts with creditors include the following:

- departments and Crown agencies should clearly communicate their standard terms, so suppliers know in advance where they stand on payment terms
- departments and Crown agencies should (as a minimum) pay valid invoices in accordance with their posted terms and conditions no later than the 20th of the month following receipt
- agencies and suppliers are encouraged to negotiate quicker payments whenever that suits both parties
- any disputes should be identified and communicated within ten working days of receipt of an invoice
- departments and Crown agencies should build and maintain sound relationships with their suppliers.

**Trust Money**

In some situations, the Crown holds money in trust for a third party. This money does not belong to the Crown and is kept separately in trust accounts. These accounts are managed by agencies, through delegations from the Treasury, and cannot be used for the benefit of the trustee.

Examples of trust money are unclaimed money (such as bank account balances where the named account holder cannot be located) and funds from estates where the beneficiaries cannot be found. Trust money unclaimed after a year (or more) may be paid into the Crown account but this does not limit the rights of beneficiaries to full payment by the Crown.

The Treasury is responsible for managing trust money. The Treasury can delegate responsibility for managing trust money and establishing trust bank accounts but retains statutory responsibility and is responsible for ensuring its agents meet certain standards.

Treasury instructions establish general rules applying to the management of trust money. A written Notice of Appointment to Manage and Invest Trust Money will be issued by the Treasury to departments.
acting as trust money agents. The Notice will state exactly what type of trust money a department (or other agent) is authorised to manage and any relevant conditions. Only those departments holding such a Notice are authorised to manage and invest trust money and operate trust bank accounts.

Chief executives with delegated authority to manage trust money are responsible for:

- maintaining appropriate records in respect of the trust money
- ensuring that trust money is banked into a separate bank account for each trust
- investing trust money only in accordance with a ‘Notice of appointment to manage and invest trust money’
- ensuring that appropriate internal control systems are in place
- providing information on trust money to allow the Treasury to meet its reporting requirements\(^{34}\).

**Conclusion**

Careful management of public money ensures it is used appropriately, and limits risk at portfolio and aggregate levels. To maximise benefit and limit risk, specialist financial functions (eg, investment or debt management) are either run centrally or delegated to agencies with the appropriate skills.

All public money must be held in Crown or departmental bank accounts. Payments to departments are based on schedules reflecting appropriations and delivery expectations. Departments then pay Crown entities and other non-departmental providers. Debts to suppliers are paid promptly.

All agencies are expected to have robust financial systems in place.

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\(^{34}\) The financial statements of the Government reporting entity must include a statement of trust money administered by departments and Offices of Parliament (section 27(2)(c)).
The default organisational forms are departments (for delivering 'public good' services) and SOEs (for delivering commercial services). Compared with departments, Crown entities have more independence from ministerial direction.

SOEs are owned by the Government but operate as commercial businesses. They have boards of directors who are accountable for their results. Each year the SOE board prepares a Statement of Corporate Intent for the next three years, and submits an Annual Report on financial and non-financial results.

# 7 The Wider Crown Estate

## SOEs and Crown entities

### Introduction

The last three chapters have focused quite strongly on Ministers and departments, the ‘core’ Crown. This chapter outlines the accountability requirements for the numerous government organisations outside the ‘core’ Crown, such as SOEs and Crown entities. Collectively, SOEs and Crown entities are responsible for substantial financial transactions, and employ more staff than departments.

### State-Owned Enterprises (SOEs)

The State-Owned Enterprises Act established SOEs\(^{35}\) to improve the efficiency of government trading operations, such as meteorological and postal services, railways, and electricity generation and transmission. A list of SOEs is presented in the Government’s financial statements, along with summary information on financial results, assets and liabilities.

SOEs have the principal objective of operating as successful businesses. Accountability arrangements for SOEs focus on the Government’s role as owner. All SOEs are registered as public companies and are bound by the provisions of the Companies Act 1993. Their chief executives are accountable to governing boards and the directors exercise their duties in the same way as the directors of public companies.

The board of directors of an SOE is accountable to the Shareholding Ministers for the performance of that SOE. The Ministers are shareholders, not the managers of the SOE. The boards have full responsibility for decisions on resource use, and for pricing and marketing the goods and services they produce. Most SOEs operate in deregulated markets and trade on equal terms with their counterparts in the private sector.

State ownership of SOEs itself provides no competitive advantages over private sector production. SOEs get no subsidies, pay dividends and cost products in the same way as their private sector counterparts. Statutory barriers to competition have been removed over the last two decades.

SOEs have the same powers as private sector companies to borrow. SOE borrowing does not have a government guarantee.

Any new capital investment by the Government in an SOE requires an appropriation by Parliament.

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\(^{35}\) SOEs are listed in the First Schedule to the State-Owned Enterprises Act.
The role of Ministers is prescribed in the State-Owned Enterprises Act. Each SOE has two shareholding Ministers, the Minister of Finance and one other who is generally the Minister for SOEs. Having a Minister for SOEs with a separate portfolio helps the Government ensure SOE policy is applied consistently across sectors. The shareholding Ministers are responsible to Parliament. Their powers include:

- appointing directors
- commenting on SOEs’ statements of corporate intent
- tabling in Parliament SOEs’ statements of corporate intent, half-yearly reports, and annual reports
- ability to require dividends (but dividends are usually set by boards)\(^{36}\)
- monitoring performance (with the support of monitoring agents).

The Crown Ownership Monitoring Unit (located in the Treasury) provides advice that enables the shareholding Ministers to hold boards of SOEs and other Crown entity companies accountable for their performances in maintaining and enhancing shareholder value, and to meet the other objectives and requirements of the empowering Acts.

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**Statements of Corporate Intent (SCI)**

The SCI is prepared by the board of directors who must supply it in draft form to the shareholding Ministers no later than one month before the start of each financial year. The Responsible Minister for the SOE can comment on the SCI and is required to present it to the House. The SCI covers a three-year period and includes the:

- SOE’s objectives
- nature and scope of activities to be undertaken
- ratio of shareholders’ funds to total assets
- accounting policies
- performance targets
- dividend policy and proposed distributions
- the board’s estimate of the commercial value of the Crown’s investment.

**Annual and Half-yearly Reports**

Annual and half-yearly reports are prepared in accordance with the requirements of the Companies Act. The annual report and audited consolidated financial statements of an SOE must be delivered to the shareholding Ministers within three months of balance date. The Minister responsible for an SOE is required to present the half-yearly report, annual report and audited financial statements to Parliament.

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\(^{36}\) Under legislation, Ministers can set dividends. This rarely happens. Boards normally set dividend levels.
Crown entities (eg, schools, district health boards and Crown research institutes) are legally separate from the Crown and responsible for their own debts.

Crown entities submit Statements of Intent (for at least the next three years) at the start of a year and Annual Reports after the year ends.

Most Crown entities are governed by boards, which have been appointed by the Minister. Ministers have limitations on their powers. These vary markedly with the category and type of Crown entity.

**Crown Entities**

Crown entities are bodies established by law in which the Government has a controlling interest through ownership mechanisms. Crown entities form part of the Government reporting entity but are not part of the ‘core’ Crown.

Crown entities dominate delivery in several areas of service delivery (eg, education, fire services, health, social housing, and public good research). Others administer and disburse billion dollar funds (eg, superannuation, accident compensation and earthquake contingency funds). Some small Crown entities play roles in the economy and society that are disproportionate to their size and cost. These include the autonomous and independent agencies that regulate commerce, guard public rights and freedoms, and protect the welfare of vulnerable groups.

While Crown entities provide core services on behalf of the Government, they are run at arm’s length from the Government. Crown entities are typically established where a greater or lesser degree of independence is required (eg, to protect regulatory and quasi-judicial functions) or desired (eg, where Crown agents are performing delivery functions). The Crown Entities Act constrains how Ministers can direct a Crown entity.

Crown entities fall into five statutory categories37.

1. **Statutory entities**, which fall into one of three types:
   - Crown agents (eg, the District Health Boards)
   - Autonomous Crown Entities (ACE, eg, the Standards Council)
   - Independent Crown Entities (ICE, eg, the Law Commission).

2. **Crown entity companies** (trading entities such as the Crown Research Institutes and Television New Zealand).

3. **Crown entity subsidiaries**, which are companies incorporated under the Companies Act and owned by Crown entities.


5. **Tertiary Education Institutions** again formed under the Education Act.

Many of the accountability and funding arrangements for Crown entities reflect arrangements already discussed with regard to departments.

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37 See section 7 of the Crown Entities Act.
### Crown Entity Reporting Requirements

Crown entities in which the Crown has a purchase, as well as an ownership interest, in addition to financial statements, are required to prepare a Statement of Intent specifying the impacts, outcomes, or objectives that the entity seeks to achieve or contribute to, including a Statement of Forecast Service Performance.

The responsible Minister of a Crown entity is required to present the SOI to Parliament.

Ministers may also require a Crown entity to have an output agreement for any or all outputs funded by the Crown. Output agreements\(^{38}\) last at least one year. They lay out price, quantity and delivery standards for outputs, and terms and conditions for delivery and payment.

Crown entities must prepare annual financial statements in accordance with GAAP. They forward a complete set of financial statements to the C&AG within 90 days of the end of each financial year. The actual outputs produced are set out in the statement of service performance in the annual report.

There are, however, important differences. Most Crown entities have a board structure to provide governance, appoint chief executives and set direction. Ministers appoint and reappoint board members but boards govern Crown entities.

Ministers participate in the process of setting and monitoring strategic direction and targets, review operations, and can request information pursuant to section 27 of the Crown Entities Act. Ministers can give policy direction to some Crown entities\(^{39}\) but directions are published and tabled in Parliament. Thus, Ministers’ main influences over Crown entities are in appointing competent boards, setting expectations, commenting on strategic direction, purchase and funding decisions (outputs, etc), and effective monitoring.

Parliament appropriates money to Ministers to purchase services from, or invest capital in, Crown entities. Because they are not legally part of the Crown, Crown entities do not need an appropriation to incur expenses or capital expenditure.

Crown entities can incur expenses in excess of their budget but, because they are not legally part of the Crown, bear any losses incurred. Thus, a District Health Board that overspends must manage debt in future years.

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\(^{38}\) Functionally, this is the equivalent of a department's output plan.

\(^{39}\) For example, Ministers can direct a Crown agent to give effect to a government policy, but Ministers cannot direct Independent Crown Entities on policy matters. Ministers can also issue whole-of-government directions (section 107 of the Crown Entities Act) to a number of Crown entities. For full coverage of the limitations on Ministers, refer to the Crown Entities Act.
The Crown is not liable for debts incurred by Crown entities, except where specified by legislation (eg, in the case of an earthquake under the Earthquake Commission Act 1993).

While a Crown entity and its monitoring agent usually report to the same Minister, central agencies can advise their own Ministers independently.

The health and education sector Crown entities comprise a significant portion of all Crown entities in terms of budget, numbers of institutions (particularly schools) and numbers employed. Accountability arrangements described below highlight generic arrangements (discussed above) and how arrangements are adapted to meet the specific needs of each sector.

**Health Sector Crown Entities**

A variety of Crown entities purchase, provide and monitor health services. Delivery is dominated by Crown entities and taxpayer-funded practitioners.

Most of the day-to-day business is administered by District Health Boards (DHBs). There are 20 DHBs in New Zealand. DHBs are responsible for providing, or funding the provision of, government-funded health care services for the population of a specific geographical area. In addition to services delivered from DHB-owned hospitals, their responsibilities include providing funding for primary care, public health services, aged care and for services provided by other non-government health providers.

The New Zealand Public Health and Disability Act 2000 defines the statutory objectives of DHBs. These include improving, promoting and protecting the health of communities, promoting the integration of health services, especially primary and secondary care services, and promoting effective care or support of those in need of personal health services or disability support.

Other objectives include promoting the inclusion and participation in society and independence of people with disabilities, reducing health disparities by improving health outcomes for Māori and other population groups, and to reduce health outcome disparities between various population groups.

DHBs are expected to show a sense of social responsibility, foster community participation in health improvement, and display the ethics and standards expected of service providers and state sector organisations.

The Ministry of Health oversees the health and disability system and acts as the Government’s primary agent. The Ministry has overall responsibility for the management and development of that system. It also acts as the Minister’s principal advisor on health policy, and acts as a purchaser, monitoring agent and regulator of health and disability services.
Education Sector Crown Entities

Schools

The New Zealand state school sector is made up of almost 2,700 state and integrated schools. Schools are run by boards of trustees, which are Crown entities.

Each school has a written charter setting out its aims, objectives and purposes. The charter links school, community and government goals.

State schools are managed by boards of trustees elected by parents of students enrolled at the school. Boards of trustees are formally the employers of teachers and other school employees. In practice, the Ministry of Education allocates teacher staffing entitlements to schools and pays these salaries. However, boards can employ additional staff using funding from their operating grants. Boards are also responsible for operating expenses.

Most land and buildings used by state schools are departmental assets of the Ministry of Education. Individual boards of trustees have occupancy agreements with the Ministry of Education.

The Ministry of Education is a government department that manages school funding on behalf of the Crown and manages contracts (the charters) with individual schools on behalf of the Minister of Education. The amount allocated to each board is based on a formula using factors such as roll size, and the social and economic needs of the local community.

The Ministry of Education:

- manages contracts with service providers on behalf of the Government
- provides policy advice on all aspects of education
- coordinates implementation of education policy
- advises on optimum use of resources allocated to education
- owns and manages school property
- develops guidelines on all aspects of education, including national curriculum requirements.

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40 Integrated schools are private schools that have integrated into the state school system but retain their private ownership, for example, church schools.
Other bodies in the education sector provide specialised services to the Government.

The Education Review Office (ERO) is a government department that reviews the quality of education in all schools, including private schools, and early childhood education centres. ERO also comments on the performance of overall aspects of the primary and secondary education sectors.

The New Zealand Qualifications Authority is a Crown agent responsible for:

- developing and maintaining a framework for national qualifications
- setting and reviewing standards relating to qualifications
- ensuring New Zealand qualifications meet overseas standards
- administering national secondary and some tertiary qualifications.

Tertiary Education Sector

Crown entities shape both funding and delivery decisions across the sector.

Under section 203 of the Education Act and section 7 of the Crown Entities Act, tertiary education institutions, such as universities, polytechnics and wānanga, are Crown entities. As with the health sector, Crown entities, dominate the delivery of tertiary education services. A Crown entity of a different type (the Tertiary Education Commission, a Crown agent subject to direction) is responsible for the purchase and monitoring of tertiary education services.

Each tertiary education institution is governed by a Council that includes members appointed by the Minister for Tertiary Education, and other members appointed in accordance with the Education Act.

The Tertiary Education Commission (TEC) allocates funding, monitors performance and advises the Minister on ownership issues.

Tertiary education organisations submit ‘Investment Plans’, which TEC may approve in whole or in part. Plans include student numbers, courses to be provided, and medium-term intentions.

41 Wānanga are Māori tertiary education institutions defined under section 162 of the Education Act. They are characterised by teaching and research that maintains, advances and disseminates knowledge, develops intellectual independence, and assists in the application of knowledge, regarding āhuatanga Māori (Māori tradition) according to tikanga Māori (Māori custom).

42 University and wānanga councils can have between 12 to 20 members, including four ministerial appointees. Polytechnic councils must have eight members, four of which are appointed by the Minister for Tertiary Education.
for Tertiary Education. The Minister sets broad parameters for funding but cannot set funding levels for individual providers.

TEC implements the Minister's determinations and allocates a range of funds for tuition, research and other related services.

Most funding is allocated on the basis of Investment Plans. Tertiary education organisations submit Investment Plans to TEC. A plan sets out how an organisation will give effect to the Government's current and medium-term priorities in the tertiary education strategy. This includes describing how it will respond to the needs of its stakeholders, its mission and role, and all programmes and activities for which funding is sought from TEC. TEC then assesses the Plan and may approve it (in whole or in part) for funding for up to three years.

Tertiary education institutions report to the Minister for Tertiary Education and the House after the end of each academic year. TEC helps the Minister assess delivery against Plans and expectations.

TEC also monitors the Crown’s ownership interest in tertiary education institutions. Currently, TEC monitors the financial performance of institutions to identify potential risk areas. It operates a graduated framework of interventions (from more intensive monitoring and engagement to statutory interventions43) to respond proactively to identified risks. Good performance is rewarded by lighter approaches to monitoring.

Organisations Named or Described in Schedule 4 of the Public Finance Act 1989

There are currently 32 organisations listed in Schedule 4 of the Public Finance Act (‘Schedule 4 organisation’), including 12 Fish and Game Councils.

A number of provisions of the Crown Entities Act apply to these organisations as if they were Crown entities under the Crown Entities Act. The provisions mainly relate to reporting requirements. For example, the board of a Schedule 4 organisation must supply any information relating to the operations and performance of the organisation that the Minister responsible for the agency requests.

The historical reason for the existence of Schedule 4 organisations is that, at the time when the Crown Entities Act came into force, there were a number of entities that didn’t fit under the new Act. Consequently, these entities were listed in Schedule 4 of the Public Finance Act.

43 See sections 195A to 195F and sections 222A to 222F of the Education Act.
Conclusion

The wider Crown estate is dominated by agencies designed to operate at arm’s length from the Government and governed by boards.

- Ministers’ main influences over these agencies often come through the appointment of good boards, comment on (and agreement to) Statements of Intent, funding levers (Crown entities), and performance monitoring and review. Ministers can only direct Crown agents on policy matters.

- While administrative arrangements vary markedly by sector and business function, all agencies publish Statements of Intent and report performance.

The departments, Crown entities and SOEs covered in this chapter, together with other agencies named in section 27(3) of the Public Finance Act, and Schedule 4 entities, are all parts of the Government reporting entity – the whole estate for which the Government’s financial statements are prepared.

Chapter Eight explains these reporting requirements.
8 Reporting on Expected and Actual Performance

Reporting by agencies and by the Government of New Zealand

Introduction

This chapter outlines financial reporting requirements for departments, SOEs, Crown entities and the Government as a whole. All financial reports are prepared in accordance with GAAP and on an accrual basis. Period-end financial statements allow comparison of what the Government sought to do in fiscal terms with what it achieved. Thus in financial reporting of past results, as in budgeting for the future, the emphasis remains on measuring performance and accountability.

While New Zealand continues to emphasise the accountability of chief executives and boards for output delivery, increasing emphasis is placed on reporting other non-financial results (impacts and outcomes). The focus is on linking financial to non-financial results and demonstrating economy, efficiency and cost-effectiveness. Ways to do this include comparing costs to results (eg, cost-outcome trends) and benchmarking.

Figure 6: Reporting Requirements for Agencies

Guidance on reporting expectations is published at: www.treasury.govt.nz.
Statement of Intent (SOI)

Statements of Intent (SOIs) establish expected performance as a basis for assessing actual performance. Departmental SOIs must include a statement of future operating intentions that specifies:

- specific impacts, outcomes or objectives sought by the agency
- what the agency will do to achieve them (and how it will manage within a variable operating environment)
- the main measures that will be used to report on performance, including impacts, outcomes or objectives achieved, and institutional health.

The SOI is best considered with cost, output and other information from the Information Supporting the Estimates. Historically, SOIs included detailed specifications for each class of outputs. This resulted in repetition between SOIs and the Estimates. Most output information is now published in the Information Supporting the Estimates to save unproductive paperwork. Of particular interest from a value-for-money perspective is the information on appropriations, and output performance measures and standards.

SOIs and the Information Supporting the Estimates include a statement of responsibility from the Chief Executive and Chief Financial Officer of each department that the information is consistent with existing appropriations, financial authorities and the proposed appropriations set out in the Appropriation Bill.

SOIs and the Information Supporting the Estimates also contain a statement of responsibility from the relevant Ministers that they are satisfied that the information on future operating intentions contained therein is in accordance with the Public Finance Act and consistent with the policies and performance expectations of the Government.

SOIs for all departments are presented to Parliament by the Minister of Finance, on behalf of all responsible Ministers, along with other budget documents.

Similar arrangements exist for Crown entities. As non-departmental information in the Information Supporting the Estimates does not cover the outputs of individual agencies, Crown entity SOIs still include budget and output information.
In-year Reporting

Performance during the year is monitored by regular reports produced from departmental information systems. Each department and Crown entity is responsible for its own financial management and is therefore responsible for developing and operating its own financial information system.

Because the range of outputs government agencies supply varies widely, reporting and costing systems also vary widely. Particular attention is paid to how expensive, routinely produced outputs (such as defence outputs, schools and prisons) are priced and reported on. In such cases, mature reporting systems provide consistent cost and output information that are used to monitor cost and performance over protracted periods.

Because agencies must specify the quality, quantity, cost and delivery timeframes of their outputs in detail, management systems and in-year reports can integrate financial and non-financial information. Increasingly, independent benchmarking processes are being used to compare efficiency across agencies. Effective agencies and monitoring agents analyse and report on efficiency and assess cost-effectiveness, and use the results to help improve value-for-money.

Chief executives provide regular information on their financial performance to the Treasury through CFISnet. Reports are tailored to an individual Minister’s needs but should:

- warn the Minister in advance of any significant issues
- reflect the Minister’s policy, purchase and ownership priorities
- contain an appropriate level of detail
- be forward-looking and identify areas where the Minister may need to make decisions or take remedial action
- focus on areas where performance has departed, or is expected to depart, from agreed performance measures.

Departmental performance reports may be copied to the State Services Commission, so they are available for use in chief executives’ performance assessments.

Crown entities’ quarterly reports, together with the monitoring departments’ reports on the performance of Crown entities, allow their Ministers to track delivery and expenditure against expectations, and to manage risks. For certain Crown entities, quarterly and monitoring reports are copied to the Ministers of State Services and Finance who receive advice from officials if any significant performance issues or risks are identified.

Throughout the year, departments report financial information on CFISnet. This covers departmental and non-departmental expenditure.
The Treasury uses trend and aggregated financial information from departments to identify differences between forecast and actual performance, to reconcile inter-agency transactions, and monitor financial performance.

Aggregated information from CFISnet is used to compile periodic reports on the financial performance of the (whole of) government reporting entity.

The information is also used in the Supplementary Estimates process outlined in Chapter Three.

### Reporting, Transparency and External Scrutiny

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and Fiscal Updates</td>
<td>• GAAP Financial Statements</td>
</tr>
<tr>
<td>Tax Expenditure Statement</td>
<td>• Borrowings Statement</td>
</tr>
<tr>
<td>Estimates &amp; Information Supporting the Estimates</td>
<td>• Unappropriated Expenditure</td>
</tr>
<tr>
<td>Statements of Intent</td>
<td>• Trust Money</td>
</tr>
<tr>
<td>Annual Reports (Departments, Crown entities and SOEs)</td>
<td>• Emergency Expenditure</td>
</tr>
<tr>
<td>• Statements of Service Performance</td>
<td>Monthly Financial Statements (for most months of the year)</td>
</tr>
<tr>
<td>• GAAP Financial Statements</td>
<td>Investment Statement of the Government</td>
</tr>
<tr>
<td>Statement on Long-term Fiscal Position (at least every four years)</td>
<td></td>
</tr>
</tbody>
</table>

For example, departments usually report:

- monthly to the Treasury on financial performance via CFISnet
- quarterly to their relevant Ministers against output plans
- half-yearly to their Responsible Minister against chief executive performance expectations.

Except for the first two months of the year, information provided monthly to the Treasury is consolidated into the monthly financial statements of the Government. These statements are published and allow Ministers, members of Parliament, financial markets and the public to see how the Government is tracking financially compared with its forecasts.

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44 Reporting arrangements for SOEs are outlined in the Owner’s Expectations Manual for SOEs.
Annual Reporting

Annual reports are a key accountability document. Annual reports are used by select committees to scrutinise performance. Annual reports bring together financial and non-financial information. The reports provide a broad range of information to a diverse group of users, including staff, monitoring agents, the media, financial markets and academic researchers.

Each department, Crown entity, SOE and Schedule 4 organisations must produce an annual report containing audited financial statements. Financial statements are based on GAAP and audited by the C&AG.

Departmental annual financial statements for the year ended 30 June must be completed and forwarded to the C&AG by the end of August. By the end of September, the C&AG must issue an audit opinion.

Annual reports, including audited financial statements, are also required from Crown entities and SOEs. Crown entity reports must be audited within four months from the end of the financial year and then presented to Parliament. The reports of state owned enterprises must be audited and submitted within three months.

Government departments, and those Crown entities from which the Government purchases a significant quantity of goods and services, are required to include a statement of service performance with their financial statements. These statements report, through a set of appropriate and reliable performance measures, whether the organisation has met its service objectives for the year.

Parliament has also extended the requirements for performance reporting to ensure that it receives adequate information on non-departmental appropriations used to fund entities that are not already tabling statements of service performance in Parliament. Where an Appropriation Act states that the appropriation is subject to section 32A of the Public Finance Act, the Minister responsible for that appropriation is required to present a statement of service performance no more than three months after the end of the financial year. If a statement of service performance is inappropriate, a statement of results is required that compares intended and actual results.

Reporting under section 32A currently covers appropriations for output and other expenses over $5 million and capital expenditure over $15 million (Treasury Circular 2010/03 refers). Section 32A reporting is not, however, required if another entity is reporting on results achieved under the appropriation or if reporting would provide little useful information.45

45 Eg, some appropriations covering equity injections or additional depreciation expenses.
Relationship between the Types of Appropriation in the Estimates and the Information Supporting the Estimates, Statements of Intent, and Annual Reports

Appendix C shows how the documents presented to the House prior to the start of the financial year relate to each other and to annual reports presented after the end of the financial year.

Financial Statements of the Government

The Government’s financial statements are prepared for the Government as a whole. They combine detailed information from sub-entities, as well as items relating to the ‘core’ Crown.

Government reporting entity

Government financial statements are prepared for the consolidated government reporting entity as defined in section 27 of the Public Finance Act. This reporting entity includes: Ministers of the Crown; departments; Offices of Parliament; Schedule 4 organisations; SOEs; Crown entities; and The Reserve Bank of New Zealand.

The Government’s financial statements are presented to the C&AG no later than two months after the end of the financial year, who must provide an audit report within 30 days. The financial statements are then presented to Parliament with the audit report.

The Government’s year-end financial statements are prepared in accordance with GAAP and include (among other things) information on:

- financial performance (operating statement)
- comprehensive income
- financial position (balance sheet)
- cash flows
- borrowings
- analysis of expenses by functional classification
- changes in net worth
- unappropriated expenditure, expenses or liabilities
- emergency expenditure
- trust money held by the Crown
- accounting policies
- fiscal indicators
- all agencies comprising the Government reporting entity.

Year-end statements are accompanied by a statement of responsibility signed by the Minister of Finance and the Secretary to the Treasury.

After presentation to Parliament, the Government's financial statements 'stand referred' to the FEC for examination. The FEC reports back to the House, where its report is debated in the Committee of the Whole House stage of the Appropriation (Financial Review) Bill. This Bill is a vehicle for the financial review debate in which the House considers the FEC's report on the financial statements of the Government, the performance in the previous financial year, and the current operations of departments and Offices of Parliament and select committees' reviews of reports on non-departmental appropriations.

The Appropriation (Financial Review) Act also confirms limited changes to appropriations under sections 26A and 26B of the Public Finance Act, which validates expenses and capital expenditure in excess of (or without) appropriation, and validates breaches of projected net asset maxima.

**Conclusion**

Parliamentary scrutiny of forecasts, estimates of appropriation and performance reporting are key features of the financial management system. Some specific parliamentary controls are explained in Chapter Nine.
9 Parliamentary Review

Parliamentary scrutiny of the Government's performance and the way it updates over the year the authority it gave the Government

Introduction

Members of Parliament are informed in the Budget documentation, SOIs and period-end financial reports about:

- what the Government is aiming to achieve (outcomes)
- the goods and services the Government purchases to achieve these aims (outputs)
- the cost of producing these outputs
- the financial performance expected from departments, SOEs and Crown entities
- the actual service and financial performance achieved.

There are several mechanisms by which Parliament scrutinises this information and authorises the use of public resources.

Select Committee Review

Parliamentary select committees carry out the following reviews:

- Estimates examinations: the Estimates (see Chapter Four) are presented at the time of the Budget. The FEC may elect to examine any Vote or refer it to another select committee for examination. Select committees must report to the House on their examinations of Votes within two months of the presentation of the Budget. Each Minister responsible for an appropriation is asked to respond to a standard Estimates questionnaire

- Examinations of Supplementary Estimates: Following the introduction of an Appropriation (Supplementary Estimates) Bill, the Supplementary Estimates (see Chapter Three) stand referred to the FEC. The FEC itself generally elects to examine Votes contained in the Supplementary Estimates but it may refer them to another select committee for examination

- Financial reviews of the performance and current operations of departments and Offices of Parliament: Select committees review each department's annual report and responses to a financial review questionnaire that may be based on a standard questionnaire produced by the FEC. Each select committee is required to report to the House within one week of the first sitting day in each calendar year.
Financial reviews of the performance and current operations of Crown entities, SOEs and certain other public organisations: Each select committee is required to report back to the House on a financial and operational review of Crown entities and/or SOEs allocated to that committee, within six months of the relevant annual report having been presented to the House.

**Unappropriated Expenses and Capital Expenditure**

Earlier chapters have outlined how Parliament makes appropriations to Ministers to purchase outputs or pay welfare benefits. Unappropriated expenditure occurs when expenditure against an individual appropriation exceeds the maximum level set in the Appropriation Acts for that financial year, or is outside the scope of an appropriation.

One goal of the financial management system is to forecast appropriations accurately, allowing these to be exceeded only where any excess is reasonable and outside the control of a department.

Section 26A of the Public Finance Act empowers the Governor-General to direct the transfer of resources between output expense appropriations in a Vote once a year, provided this increases no appropriation by more than 5%, and the total amount appropriated for all output expenses for that year is not exceeded.

Section 26B allows the Minister of Finance to approve unappropriated expenses or capital expenditure, provided that it is within the scope of an existing appropriation, and does not exceed $10,000 or two percent of the total amount appropriated (whichever is greater).

Orders in Council under section 26A and approvals under section 26B must then be included within an Appropriation Bill that applies to that financial year for confirmation by Parliament.

Unappropriated expenses and capital expenditure beyond the section 26B limits, or outside the scope of any appropriation in an Appropriation Act, require validation by Parliament.

Statements of all excess or unappropriated expenditure must be included in the Government and departmental financial statements.

**Imprest Supply**

Imprest Supply provides interim Parliamentary authority for a government to incur expenses and capital expenditure for any purpose, in advance of receiving an appropriation, so long as this is later appropriated by an Appropriation Act. Every Imprest Supply Act therefore contains a provision requiring all expenses and capital expenditure incurred under its authority to be charged in the manner specified in an Appropriation Act for the same year.
The first Imprest Supply Act for a financial year is passed before the start of that year, normally when Supplementary Estimates for the previous year are passed. The second is passed when the first Appropriation Act for the new financial year is passed.

The main provisions of the first Imprest Supply Act are repealed when the first Appropriation Act comes into force. The second is repealed on the close of the financial year (30 June).

**Controller Function**

**Parliamentary Authority for Public Expenditure**

Public expenditure occurs within a framework dominated by two important principles, the principle of appropriation and the principle of lawfulness of purpose. The Public Finance Act expresses the principles in the language of accrual accounting:

- The Crown or an Office of Parliament must not incur expenses or capital expenditure, except as expressly authorised by an appropriation, or other authority, by or under an Act [section 4(1)].
- The Crown or an Office of Parliament must not spend public money, except as expressly authorised by or under an Act … [section 5].

The principle of lawfulness of purpose includes but is wider than, the principle of appropriation.

**Control**

The two principles discussed above come together in the exercise of a vital constitutional check on public expenditure – the Controller function.

The Office of Controller originated centuries ago in the United Kingdom. The original purpose of the office was to receive and hold public revenues until they were issued, under the authority of Parliament, for the service of the State. The role later evolved into one of verifying that any release of public money to the Executive branch of government was lawful and in keeping with an appropriation by Parliament.

The C&AG exercises the Controller function under the authority of the Public Finance Act. The main features of the function are:

- the Treasury must report monthly to the C&AG on all expenses and capital expenditure incurred with or without appropriation or other authority (section 65Y)
- the C&AG can direct a Minister to report to the House if the C&AG has reason to believe that any expenditure incurred is unlawful or used for a purpose not within the scope, amount, or period of an appropriation or other authority (section 65Z)

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46 Sections 65Y to 65ZA.
the C&AG can stop payments from a Crown bank account or a departmental bank account, to prevent money being paid out of the account that may be applied for a purpose not lawful or is not within the scope, amount or period of an appropriation or other authority (section 65ZA)

public money can be withheld at any time if the terms of an appropriation are not complied with.

The Financial Veto

Under Standing Orders47, Members of the House can initiate proposals that affect revenue or expenditure. The Government can exercise a ‘financial veto’ over such proposals if it considers they would have more than a minor impact on the fiscal aggregates48 or the composition of a Vote.

The spending proposal might be contained in:

- a new Bill
- an amendment to an existing Bill
- a motion that, if passed, would have the force of law49
- a proposed change to a Vote in the Estimates.

A financial veto is exercised by presenting a Financial Veto Certificate in the House, signed by the Minister of Finance or the Minister in charge of a Bill. A veto certificate in respect of a Bill may be given only when the Bill is awaiting its third reading. If any member proposes an amendment that may have fiscal implications, the Clerk must be provided with the amendment at least 24 hours before the House meets on the day on which the amendment is to be proposed or the amendment may be ruled out of order. This rule does not apply when the House is considering a Bill in the Committee of the Whole House immediately after its second reading (usually when Urgency has been taken).

Procedures for considering and issuing a financial veto are laid out in CO (07) 2. Departments and Ministers’ offices monitor developments in Parliament that may impact on the fiscal aggregates, advise their Minister and the Treasury of proposals that may have fiscal implications, and provide their Ministers with prompt advice on those implications. The Treasury will normally coordinate advice on fiscal implications and draft the certificate.

47 Rules that lay out how Parliament conducts its business.
48 Namely the total operating expenses, total operating revenues, balance between total operating expenses and total operating revenues, total level of debt, and the total level of net worth.
49 In particular, some motions under the Regulations (Disallowance) Act 1989.
In the case of a Bill, amendment to a Bill or a motion, the certificate lays out the impact of the proposal on the fiscal aggregates and why the Government does not concur with the proposal, and it may state the cumulative impact of all such proposals during the year.

Impact on the Crown’s financial position may result from the particular proposal or from the cumulative effect of a series of proposals. It is up to the Government to determine what it considers to be ‘more than a minor impact’ and to defend its view when a veto is debated in the House.

In the case of a proposed change to a Vote in the Estimates, a financial veto certificate can be presented where the proposal is considered to have more than a minor impact on the composition of the Vote. The certificate must state the impact of the proposal on the composition of the Vote and why the Government does not concur with the change.

The financial veto certificate must be presented to the House before the proposal is voted on.

Once a financial veto has been exercised and the certificate issued, the veto cannot be overturned by the House. The proposal that is the subject of the veto cannot proceed to a vote in the House. However, the reasons for exercising the veto may be debated when next the House is debating the Bill, amendment, motion or Vote for which the veto was exercised.

The financial veto procedure applies to both initiatives:

- affecting expenses or revenue
- that may affect the Government’s balance sheet by affecting the value of an asset or liability, for example, the value of the Crown’s investment in an SOE.

**Conclusion**

As noted in Chapter One and throughout this *Explanatory Guide*, Parliament controls the public finances. This chapter has described its scrutiny of proposed appropriations (the Estimates and Supplementary Estimates) and the final results reported in the annual reports government organisations provide to Parliament. The chapter has also considered Parliament’s power to grant Imprest Supply in advance of appropriations and the use of the Controller function to monitor payments against supply and appropriations. Finally, the Government’s right of veto over proposals with fiscal implications made by members of Parliament was explained.
10 Putting It Together

Summing up the financial management system and how it is evolving

The state sector financial management system allows the Government to translate its strategy into action, inform decision-making and accountability, and encourage a responsive and efficient state sector.


The financial management system differentiates between purchase and ownership perspectives of performance. The differentiation between inputs, outputs and outcomes promotes clear specification of performance, and provides ratios and other information needed to assess performance.

Central to the system is the recognition that government agencies should be judged on their ability to deliver goods and services as specified and agreed with the Government. An agency must manage the Government’s investment in their organisation in a prudent, effective and efficient manner. This means specifying and monitoring results, and taking corrective action when costs rise without a commensurate rise in output and improvement in outcomes (or ‘service improvements’ otherwise fail to live up to expectations).

Improved financial and non-financial information supports scrutiny and control by Parliament and decision-making by the Government. Technology now allows financial and non-financial information to be brought together, and there are increasing expectations that agencies will report direct comparisons of funding and results (eg, efficiency measures).

The Public Finance Act requires the Government to set out its fiscal objectives and demonstrate the progress made towards achieving them. This encourages a longer-term view of fiscal management and consistency of government policy with stated objectives.

The accounting practices of GAAP underpin the financial management system. GAAP requires not only cash flow information but also information on revenue and expenses, assets and liabilities, and commitments and contingencies. Comprehensive disclosure limits the risk that off-budget and off-balance sheet items will be poorly managed.

The value of the financial management system lies in its responsiveness to the needs of the Government. To be responsive, the system must meet new needs and encourage the improvement of goods, services and prices.
The system’s key structural elements were rolled out in the late 1980s. This put the basic framework in place. The proliferation of digital information in the 1990s (and beyond) has strengthened our ability to tell a richer story about efficiency and effectiveness. Since 2000, there has been a growing focus on what benefits (outcomes) the public got from the spending of successive governments.

The Public Finance Act requires fiscal projections of at least ten years at each Budget and half-year economic and fiscal update. Long-term projections of at least 40 years are required at least every four years. With fiscal strategy looking forward ten to fifteen years, and the long-term fiscal position looking out forty years, there is high visibility of the future costs of current policy settings. These advances have been consolidated by improved ten-year capital intentions and fiscal models that reflect the long-run impacts of demographic change.

The system is continually being refined and updated to meet current needs. The bottom line is that good, committed people make good governance systems work.

The financial management system aims to ensure a disciplined and transparent approach to planning, confirms delivery and reports results, and retains the flexibility that governments need to meet future demands.

In turn, planning, reporting and transparency provide Parliament, state servants, the public and financial markets with confidence that successive governments are progressing along a responsible, fiscally sustainable and reasonably predictable path.
Appendix A: The Public Finance Act 1989

The Public Finance Act sets the legal framework for the financial management system. It controls the financial activity of the Government and the manner in which Parliament oversees the Executive’s expenditure. It provides the basis for appropriation, managing financial resources, and reporting by the Government.

The Public Finance Act consists of eight parts.

**Appropriations**

Part 1 outlines the appropriation mechanism and the degree of management flexibility that will be allowed. In most instances, Parliament must pass an Appropriation Act before public resources can be consumed. The first Appropriation Bill for each year must be introduced before 31 July.

**Fiscal Responsibility**

Part 2 establishes the principles of fiscal responsibility, and mandates transparent reporting of fiscal strategy, budget policy and fiscal outcomes extending out ten (Fiscal Strategy Report) to forty years into the future (Statement of Long-term Fiscal Position). See Appendix B.

**Reporting by the Government, Departments and Crown Entities**

Parts 3 to 5 establish minimum financial reporting requirements for departments and the Government as a whole. Reporting requirements for Crown entities are part of the Crown Entities Act.

**Loans and Securities**

Part 6 provides controls and procedures for raising loans, issuing securities and giving guarantees.

**Trust Money**

Part 7 provides controls and procedures for managing money held by the Crown as trustee.

**General Provisions**

Part 8 contains a number of miscellaneous provisions.
Appendix B: Reporting on Fiscal Responsibility

Fiscal responsibility provisions in the Public Finance Act help establish stable and predictable operating environments for businesses, financial markets and state services. They ensure the public and any incoming government understand the fiscal situation, and the impact of current policies and risks.

The Public Finance Act requires publication of specific fiscal indicators and forecasts over a three-year period. These forecasts get updated regularly. The Act also requires long-term projections. Governments must pursue their policy objectives within, and report to Parliament against, five statutory principles of fiscal responsibility (section 26G of the Public Finance Act):

1. reducing total government debt to prudent levels
2. maintaining prudent levels of debt
3. achieving and maintaining levels of net worth to protect against shocks
4. managing the Government’s fiscal risks in a prudent manner
5. pursuing consistent policies giving predictability to levels of taxation.

Collectively, statutory reporting against these principles ensures transparency about New Zealand’s expected fiscal position, and provides valuable protections against imbalanced spending and indebtedness.

Budget Policy Statement

The Public Finance Act provides for publication of a Budget Policy Statement no later than 31 March each year. This is required to set out the Government’s:

- broad strategic priorities for the coming financial year
- overarching policy goals and policy areas for the coming year
- how the Budget fits with short-term intentions in the most recent Fiscal Strategy Report (inconsistencies must be explained).

Fiscal Strategy Report

- Fiscal Strategy Reports (FSRs) must be presented to Parliament as part of the Budget package. They:
  - look out over at least ten years
  - state the Government’s long-term fiscal objectives, in particular for total operating expenses, revenues, total debt and net worth
  - show how short-term intentions (three years) meet long-term objectives
  - assess the consistency of expectations in the current FSR with the previous FSR and explain any differences
explain how short-term and long-term objectives fit with the principles of fiscal responsibility and explain (a) any differences between short-term and long-term objectives, and (b) how consistency will be restored.

**Economic and Fiscal Updates**

The Public Finance Act requires the Treasury to prepare economic and fiscal updates, which the Minister of Finance presents to Parliament at specified times:

- when the Budget is presented
- in November or December (the ‘Half-year Economic and Fiscal Update’)
- 20-30 working days before the day of each general election.

Updates contain forecasts for the financial year to which the update relates (the next year, for budget updates) and at least two consecutive years.

Economic information must include forecast movements in gross domestic product, consumer prices, unemployment and employment, the current account position of the balance of payments, and a statement of all significant underlying assumptions.

Fiscal information must reflect the forecast financial operations for the Government, including the forecast financial position, and statements of borrowings, commitments and specific fiscal risks. They must state all significant underlying assumptions and show how sensitive fiscal aggregates are to changing economic conditions.

**Statement on Long-Term Fiscal Position**

At intervals not exceeding four years, the Treasury must prepare a Statement on Long-term Fiscal Position, which the Minister of Finance must present to Parliament. This looks forward over at least 40 fiscal years at the likely aggregate costs and affordability of existing policies, allowing for demographic change and other reasonably predictable influences.

While the Public Finance Act does not prescribe the contents of this Statement in detail, the Secretary of the Treasury must sign a responsibility statement that the fiscal outlook (projections) and risk statements are based on best professional judgement, and all significant assumptions are clearly stated.

The responsibility statement itself requires the Secretary to disclose known trends or risks that may impact beyond the ten-year period of the Fiscal Strategy Report, and ensures transparency over an extended timeframe.
### Appendix C: Relationship between the Types of Appropriation in the Estimates and the Information Supporting the Estimates, Statements of Intent, and Annual Reports

<table>
<thead>
<tr>
<th></th>
<th>Departmental Output Expenses (DOE)</th>
<th>Non-Departmental Output Expenses (NDOE)</th>
<th>Benefits and Other Unrequited Expenses (BOUE)</th>
<th>Borrowing Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimates</strong></td>
<td>Amount, scope and period of appropriation(s) for services to be supplied by the department which administers the Vote – in every Vote except those administered by intelligence and security departments.</td>
<td>Amount, scope and period of appropriation(s) for services to be purchased by the Crown from Crown entities or other third parties – in less than half of all Votes.</td>
<td>Amount and scope of appropriations for benefits and other unrequited expenses – in only a small number of Votes.</td>
<td>Amount and scope of appropriations for borrowing expenses – usually only in Vote Finance and Vote Revenue.</td>
</tr>
<tr>
<td><strong>Information Supporting the Estimates</strong></td>
<td>Part 2.1 for each Vote provides information on the intended impacts, outcomes or objectives of, and the nature and standard of the services expected to be provided from, DOE appropriations.</td>
<td>Part 2.2 provides information on the intended impacts, outcomes or objectives of, and the nature and standard of the services expected to be purchased from, NDOE appropriations plus a summary of service providers.</td>
<td>Part 3.2 provides information on the intended impacts, outcomes or objectives of BOUE appropriations and the conditions on their use.</td>
<td>Part 4.2 provides information on the intended impacts, outcomes or objectives of departmental other expense appropriations.</td>
</tr>
<tr>
<td><strong>Agency’s Statement of Intent (Sol)</strong></td>
<td>Department’s Sol provides information on the functions, intended operations and objectives of the department providing the services funded by these DOE appropriations.</td>
<td>Where service provider is a Crown entity, its Sol provides information on its functions, intended operations and objectives.</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Annual Report</strong></td>
<td>Department’s annual report includes:</td>
<td>For other providers none</td>
<td>Annual report of department administering these appropriations reports actual expenditure incurred against each BOUE appropriation.</td>
<td>Annual report of department administering these appropriations reports actual expenditure incurred against each borrowing expense appropriation.</td>
</tr>
<tr>
<td></td>
<td>- Actual services provided from each DOE appropriation compared with what was forecast to be provided.</td>
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<td></td>
<td>- Actual expenditure incurred against each appropriation administered by the department.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental Other Expenses</td>
<td>Non-Departmental Other Expenses</td>
<td>Departmental Capital Expenditure</td>
<td>Non-Departmental Capital Expenditure</td>
<td>Expenses or Capital Expenditure incurred by an Intelligence and Security Department</td>
</tr>
<tr>
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</tr>
<tr>
<td>Amount and scope of appropriations for operating expenses incurred by a department that are not output expenses – rare.</td>
<td>Amount, scope and period of appropriations for non-departmental operating expenses that are not output, BOUE, or borrowing expenses – in many Votes.</td>
<td>Amount and scope of appropriation for capital expenditure to be incurred by a department – a PLA under section 24 of the Public Finance Act – in Vote of the Minister responsible for a department’s financial performance.</td>
<td>Amount, scope and period of appropriations for capital expenditure to be incurred on acquiring or developing a non-departmental asset or investing in a Crown entity or other third party – in less than half of all Votes.</td>
<td>Amount and scope of the single appropriation administered by an intelligence and security (I&amp;S) department.</td>
</tr>
<tr>
<td><strong>Part 6.1</strong> provides information on the intended impacts, outcomes or objectives of non-departmental other expense appropriations.</td>
<td><strong>Part 6.2</strong> provides information on the intended impacts, outcomes or objectives of non-departmental other expense appropriations, the results expected from them, and the conditions on their use.</td>
<td><strong>Part 6.1</strong> provides information on the intended impacts, outcomes or objectives of departmental capital expenditure.</td>
<td><strong>Part 6.2</strong> provides information on the intended impacts, outcomes or objectives of non-departmental capital expenditure appropriations and the results expected from them.</td>
<td><strong>Part 1.3</strong> only, which provides information on actual expenditure for previous financial years and forecast expenditure for future financial years.</td>
</tr>
<tr>
<td>Where departmental other expenses relate to major departmental restructuring, department’s Sol should provide information about this.</td>
<td>None</td>
<td>Department’s Sol provides information on the future operating intentions of the department, including on the department’s capability to perform its functions.</td>
<td>For capital investment in a Crown entity, its Sol provides information on expected results from that investment.</td>
<td>An I&amp;S department’s Sol is not required to include a statement of forecast service performance, nor to be presented to the House or published.</td>
</tr>
<tr>
<td>Annual report of department reports actual expenditure incurred against each departmental other expense appropriation.</td>
<td>Where expenditure by Crown entity, results achieved reported in Crown entity’s annual report.</td>
<td>In other cases where amount of non-departmental other expense is significant, results achieved reported by Minister responsible for appropriation in report under section 32A of PFA.</td>
<td>Where investment in Crown entity, results achieved reported in Crown entity’s annual report.</td>
<td>In other cases where amount of non-departmental capital expenditure is significant, results achieved reported by Minister responsible for appropriation in report under section 32A of PFA.</td>
</tr>
</tbody>
</table>
Appendix D: Further Reading

Better business cases for capital proposals
http://www.infrastructure.govt.nz/publications/betterbusinesscases

Budget documents – past and present www.treasury.govt.nz/budget

Cabinet Office circulars, on eg, vetoes, baselines and asset management
www.dpmc.govt.nz/cabinet/circulars/index.html

Cost benefit analysis primer
www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/primer

Crown Entities Act 2004

Crown entities and other bodies – guidance

Demonstrating performance: a primer for expenditure reviews
www.treasury.govt.nz/publications/guidance/reporting/demonstrating

Economic and Fiscal Updates www.treasury.govt.nz/government/budget/forecasts

Financial Reporting Act 1993

Financial statements of the Government of New Zealand
http://www.treasury.govt.nz/government/financialstatements


Getting better at managing for outcomes – a self-assessment tool

Guidance to departments in relation to [monitoring] Crown entities
www.treasury.govt.nz/statesector/crownentities/monitoring

Guide to appropriations
www.treasury.govt.nz/publications/guidance/planning/appropriations/guide

Guide to New Zealand’s state services

Guide to the Public Finance Act
www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide

Improving output costing: guidelines and examples (1994)
www.treasury.govt.nz/publications/guidance/reporting/outputcosting

Investment statements of the Government of New Zealand.
http://www.treasury.govt.nz/budget/2010/is


State-owned enterprises http://www.comu.govt.nz/portfolio-entities/


The Cabinet Office manual www.cabinetmanual.cabinetoffice.govt.nz/


Early Documents on New Zealand’s State Sector Reforms


Accounting in the context of public sector management reform, financial accountability and management, 8(1): McCulloch, BW, and Ball, Ian, Spring 1992 pp 7-12

Crown financial statements - breaking new ground, Accountants’ Journal: MacLeod, R, June 1992

Decision making in New Zealand government: Nethercote, JR, Galligan, Brian and Walsh, Cliff, editors, 1993


Reform of the core public sector: New Zealand experience, in ‘Governance’ Volume 3, Number 2: Scott, Graham; Bushnell, Peter; and Sallee, Nikitin; April 1990


## Appendix E: Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACE</td>
<td>Autonomous Crown Entity</td>
</tr>
<tr>
<td>CEA</td>
<td>Crown Entities Act 2004</td>
</tr>
<tr>
<td>CFISnet</td>
<td>Crown Financial Information System (internet based)</td>
</tr>
<tr>
<td>CO</td>
<td>Cabinet Office, often preceding a reference to a Circular</td>
</tr>
<tr>
<td>DDA</td>
<td>Department-to-Department Appropriation</td>
</tr>
<tr>
<td>DHB</td>
<td>District Health Board</td>
</tr>
<tr>
<td>DPMC</td>
<td>Department of the Prime Minister and Cabinet</td>
</tr>
<tr>
<td>EFU</td>
<td>Economic and Fiscal Update</td>
</tr>
<tr>
<td>FEC</td>
<td>Finance and Expenditure Committee (in Parliament)</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year, often preceding the start and end date</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Practice</td>
</tr>
<tr>
<td>HYEFU</td>
<td>Half-year Economic and Fiscal Update</td>
</tr>
<tr>
<td>ICE</td>
<td>Independent Crown Entity</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>ISE</td>
<td>Information Supporting the Estimates</td>
</tr>
<tr>
<td>MCOA</td>
<td>Multi-class Output Appropriation</td>
</tr>
<tr>
<td>MYA</td>
<td>Multi-year Appropriation</td>
</tr>
<tr>
<td>NZDMO</td>
<td>New Zealand Debt Management Office</td>
</tr>
<tr>
<td>OAG</td>
<td>Office of the Controller and Auditor-General</td>
</tr>
<tr>
<td>PFA</td>
<td>Public Finance Act</td>
</tr>
<tr>
<td>PLA</td>
<td>Permanent Legislative Authority</td>
</tr>
<tr>
<td>RDA</td>
<td>Revenue Dependent Appropriation</td>
</tr>
<tr>
<td>SOE</td>
<td>State-owned Enterprise</td>
</tr>
<tr>
<td>SOI</td>
<td>Statement of Intent</td>
</tr>
<tr>
<td>SSC</td>
<td>State Services Commission</td>
</tr>
<tr>
<td>Supps</td>
<td>The Supplementary Estimates</td>
</tr>
</tbody>
</table>
Index

Accountability
   Government
   Mechanisms for greater efficiency
   State sector accountability framework

Accounting
   Accrual accounting
   Accounting standards

Accrual Accounting – see Accounting

Annual Appropriations – see Appropriations

Annual Reports
   Government financial statements
   Crown entities
   Government departments
   State-owned enterprises

Appropriations
   Annual Appropriations
   Appropriation Act
   Appropriation Bill
   Appropriation (Financial Review) Bill
   Estimates Debate
   Estimates of Annual Appropriations for the Government of New Zealand (the
   Estimates)
   Example from Main Estimates
   Information Supporting the Estimates
   Modes of Appropriation
   Multi-class Output Appropriations (MCOA)
   Multi-year Appropriations (MYA)
   Non-annual Appropriations
   Supplementary Estimates of Appropriations
   Types of Appropriations
   Unappropriated Expenditure, expenses or liabilities

Asset Management – see Financial Management

Banking – see Financial Management: Cash Management

Borrowing – see Financial Management

Budget
   Appropriation Bill – see Appropriations
   Budget baselines
   Budget Economic and Fiscal Update
   Budget initiatives
   Budget Policy Statement
   Budget process
   Budget speech
   Estimates of Appropriations – see Appropriations
   Fiscal Strategy Report
   Products of the budget cycle
   Stages of the budget cycle
Statements of Intent
Supplementary Estimates of Appropriations

Cabinet
Capital Assets – see Financial Management
Capital Charge – see Financial Management
Capital Contributions – see Financial Management
Cash Management – see Financial Management
Chief Executives – see Government Departments
Contracting/Contract Management – see Financial Management
Controller Function
Cost Allocation – see Financial Management
Costing Systems – see Financial Management

Crown
Crown bank account
Crown revenue – see Financial Management
Definition and role
Investment in government departments (capital charge)
Distinction between government and departments

Crown Companies

Crown Entities
Annual reports
Education sector Crown entities
New Zealand Qualifications Authority
Reporting
Schools
Tertiary education
Health sector Crown entities
District Health Boards
Purchase agreements
Reporting requirements
Statements of objectives
Statements of service performance

Crown Financial Information System
Crown Ownership Monitoring Unit (COMU)
District Health Boards – see Crown Entities
Debt – see Financial Management
Department of the Prime Minister and Cabinet
Departmental Bank Accounts
Departmental Forecast Reports – see Budget
Departmental Outputs
Education Review Office
Education Sector Crown Entities – see Crown Entities
Estimates of Appropriations – see Appropriations
Executive Council
Expenses – see Financial Management
Finance and Expenditure Committee – see Select Committees

Financial Management
  Accounting methods - see Accounting
  Asset management
  Borrowing
  Capital assets
  Capital charge
  Capital contributions
  Cash management
  Contracting/contract management
  Cost allocation
  Costing systems
  Crown revenue
  Debt repayment
  Emergency expenditure
  Expenses
  Investments
  Key documents
  Loans and securities
  Principles of responsible financial management
  Trust money

Financial Reporting – see Government Departments

Financial Reporting Act 1993 – see Legislation

Financial Veto

Fiscal Responsibility

Fiscal Strategy Report - see Budget

Generally Accepted Accounting Practice (GAAP)

Government
  Ownership interests
  Purchase interests
  Reporting requirements
  Strategic results

Government Departments
  Chief executives
  Financial reporting
  Performance assessments
  Performance expectations
  Performance reporting
  Purchase agreements
  Role
  Strategic Business Plans

Government Administration Committee – see Select Committees

Government Financial Statements

Government Reporting Entity

Governor-General

Half-year Economic and Fiscal Update (HYEFU)

Health and Disability Commissioner
Health Research Council
Health Sector Crown Entities - see Crown Entities
House of Representatives
Impact (Outcome)
Imprest Supply
Inputs
Investments – see Financial Management
Legislation
  Appropriation Act – see Appropriations
  Companies Act 1993
  Constitution Act 1986
  Crown Entities Act 2004
  Financial Reporting Act 1993
  Health and Disability Services Act 1993
  Public Finance Act 1989
  State-Owned Enterprises Act 1986
  State Sector Act 1988
Loans and Securities – see Financial Management
Members of Parliament
Ministers of the Crown
  Budget preparation
  Financial responsibilities
  Minister of Finance
  Ministers and departments
  Responsible Ministers
  Role/Authorities
Ministry of Education
Ministry of Health
Modes of Appropriation – see Appropriations
Monthly Financial Statements of the Government
Multi-class Output Appropriations (MCOA) – see Appropriations
Multi-year Appropriations (MYA) – see Appropriations
New Zealand Debt Management Office (NZDMO)
New Zealand Qualifications Authority
Non-annual Appropriations – see Appropriations
Non-Departmental Outputs
Non-Departmental Providers
Outcomes
Output classes
Outputs
Ownership interests – see Government
Parliament
Performance Expectations – see Government Departments: Chief executives
Performance Reporting – see Government Departments
Prime Minister
Public Finance Act 1989 – see Legislation
Public money – see Financial Management: Cash Management
Purchase Agreements – see Government Departments and Crown Entities
Purchase Interests – see Government
Regional Health Authorities – see Crown Entities
Reserve Bank of New Zealand
Responsible Ministers – see Ministers of the Crown
Schedule 4 Organisations
Schools – see Crown Entities
Select Committees
  Finance and Expenditure Committee
  Government Administration Committee
Standing Orders
State-owned enterprises (SOEs)
  Annual reports
  Statement of Corporate Intent (SCI)
State-Owned Enterprises Act 1986 – see Legislation
State Sector Act 1988 – see Legislation
State Sector Financial Management System
  Aims and role
  Key documents
State Sector Performance
State Services Commission
Statements of Objectives
Statements of Service Performance
Strategic Business Plans – see Government Departments
Supplementary Estimates of Appropriations – see Budget
Tertiary Education – see Crown Entities
The Treasury
Treaty of Waitangi
Trust Money – see Financial Management
Unappropriated Expenditure – see Appropriations
Votes
Warrant
Westpac Banking Corporation