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Budget 2008: a guide. Part 2: Reading the Budget documents

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Parliamentary Library Research Paper

SUMMARY

- ▶ Part 1 gave an overview of the Government's financial cycle and resulting published reports. This paper gives detailed consideration of the documents released at Budget time.

Introduction

The following documents are released at the time of the Budget:

- Appropriation (Estimates) Bill
- Budget Executive Summary
- Budget Speech and Fiscal Strategy Report (B.2) (normally combined in a single document with B.3)
- Budget Economic and Fiscal Update (B.3) (normally combined in a single document with B.2)
- Estimates of Appropriations for the Government of New Zealand (B.5)
- Information Supporting the Estimates of Appropriations (B.5A Vols 1 – 10)
- Statements of Intent
- Press statements.

This paper begins with an overview of these documents, with three of them being described in more detail (the *Budget Economic and Fiscal Update*, the *Estimates of Appropriations*, and *Information Supporting the Estimates of Appropriations*). Practical guidelines are then given on where to look for particular kinds of information, such as the details of new policy. A glossary of key words is attached as an appendix.

Their purpose

The purpose of the Budget is to obtain Parliamentary approval for the Government's main annual request for money in order to achieve its desired outcomes within its fiscal policy objectives. The Budget documents provide the information required for informed consideration of the Budget by Parliament. Between them, these documents:

- formally introduce the Appropriation (Estimates) Bill to Parliament, and give the Government of the day an opportunity to outline the overall thrust and rationale of its policies and to highlight its achievements (Budget Speech, also referred to as the Financial Statement)¹
- provide economic and fiscal projections for the next three years, along with details of Government decisions and other circumstances likely to have a material effect on the projections (Budget Economic and Fiscal Update)
- state the long-term fiscal objectives along with the short-term fiscal intentions, and to assess the consistency of these short-term intentions with the long-term objectives (Fiscal Strategy Report)
- provide details of the appropriations that Parliament is being asked to approve for all expenses, and capital expenditure (Estimates of Appropriations, and Information Supporting the Estimates of Appropriations)
- establish each departments medium term strategy, capability and capital asset management (Statements of Intent).

Most of the documents are legal requirements, with much of what they contain being prescribed in the Public Finance Act 1989.

The Budget Economic and Fiscal Update, the Estimates of Appropriations, and Information Supporting the Estimates of Appropriations are now examined in more detail.

The Budget Economic & Fiscal Update

The *Estimates* and the *Statements of Intent* focus on individual Votes and departments. In contrast the *Budget Economic and Fiscal Update* focuses on Government as a consolidated whole. It gives a picture of Government's overall fiscal policy; thereby also enabling a comparison with the fiscal intentions of the *Budget Policy Statement* and setting the basis for assessing the eventual fiscal out-turn as recorded in the *Financial Statements of the Government of New Zealand*. In doing so, the *Budget Economic and Fiscal Update* provides a large amount of useful financial information.

The *Budget Economic and Fiscal Update* consists of the following parts.

Statement of Responsibility

Signed statements of the Secretary to the Treasury and the Minister of Finance formally verifying the integrity of the document.

Economic and Tax Outlook

Text and tables giving a forecast of the economy. These must include forecasts on New Zealand's gross domestic product, consumer prices, employment and unemployment, and the current account balance position over the

¹ More specifically, this is the speech made by the Minister of Finance when moving the second reading of the Appropriation (Estimates) Bill.

financial year to which the update relates, and the following two financial years. It also includes the annual amount of capital contribution required for the New Zealand Superannuation Fund.

Fiscal Outlook

Text and tables giving a forecast of public finances. Sub-sections separately examine core Crown tax revenue, expenses, State-Owned Enterprises (SOEs) and Crown entities, and the balance sheet. The Fiscal Outlook also explains changes to the fiscal outlook since the forecasts made in the *Half Year Economic and Fiscal Update*.

Following the Public Finance Amendment Act 2004, it is now a requirement that an annual statement of tax policy changes that materially affect the tax revenue forecast be shown. This statement must detail the effects of tax policy changes on the tax forecast over the financial year to which the update relates, and the following two financial years.

Risks and Scenarios

An outline of other likely economic scenarios, besides the one used in the forecasts, and their likely impact on Government finances.

Specific Fiscal Risks

A list and, where possible, quantification of contingent liabilities and specific fiscal risks faced by the Crown. Included in this chapter are details of charges against future Budgets from previous Government funding decisions, along with details of any time-limited funding (multi year appropriations).

GAAP Series Tables

The current and forecast consolidated financial statements of the Government of New Zealand. The chapter includes some useful "Expense Tables" giving a breakdown of expenses under the various function categories (such as health or education).

The GAAP Series Tables and the NZ IFRS

The GAAP Series Tables are financial statements produced in conformity with Generally Accepted Accounting Practice, and are on an accrual and cash basis. In many respects, they are similar to the financial statements of public companies.

In 2002 the Accounting Standards Review Board decided that reporting entities in New Zealand should use the New Zealand International Financial Reporting Standards (NZ IFRS) for periods commencing after 1 January 2007. From the 2007 Budget (the 2007/08 fiscal year) the particular accounting standards underpinning GAAP changed to NZ IFRS for the Crown accounts. New Zealand's adoption of the International Financial Reporting Standards follows that of other countries (including Australia).

Another major change to the Crown accounts was the move to full line-by-line consolidation (the inclusion of SOEs and Crown entities) from 1 July 2002. Previously the accounts only consolidated the net surplus in the operating balance and net investment/net worth in the balance sheet. In addition there were some adjustments to the treatment of GST on Crown spending and the treatment of the Government Superannuation Fund (GSF). The current presentation of the financial statements includes the following three segments:

- "Core Crown" – Includes Crown revenues and expenses less GST on Crown expenses, plus the inclusion of full GSF figures. This is different from the previous presentation owing to the removal of GST on Crown expenses and the inclusion of the full accounts of the GSF.
- SOE revenue, expenses, assets, and liabilities

- Crown entity revenues, expenses, assets, and liabilities

The sum of the above segments, less any internal transactions is classified as “total Crown”.

The GAAP Series Tables section of the *Budget Economic and Fiscal Update* is organised into the following sub-sections:

- An introduction.
- A summary of the general accounting policies and forecast assumptions used in the preparation of the Forecast Financial Statements. Detailed information on accounting policies is on the Treasury website.
- Details of the departments, State-Owned Enterprises, Crown entities, Offices of Parliament, the Reserve Bank and other organisations that, along with Ministers of the Crown, are included in the Crown reporting entity.
- The Forecast Financial Statements, which give the main figures.
- Notes to the Forecast Financial Statements, containing further details.
- Core Crown expenses tables.

There are eight Forecast Financial Statements, four of which are described below.

Forecast Statement of Financial Performance:

This shows the Government’s operating revenue and expenses and its operating balance, the operating balance being the difference between operating revenue and expenses. This is what is referred to as the fiscal surplus or deficit. Non-operating items, such as the sale or purchase of capital items like frigates, are not included in this statement. As well as giving data on the key aggregates, this Statement gives a useful breakdown of revenue and expenses. The Notes to the Statement contain further useful information, e.g. data is given on the different types of tax and on the main types of welfare benefits.

A table showing a breakdown of both total Crown and core Crown expenses is also included. Total Crown expense figures include core Crown expenses plus those of SOEs and Crown entities, less internal transactions. Expenses are categorised according to broad functional classifications such as health or education.

Forecast Statement of Cash Flows:

This records the flows of cash into and out of the Government’s accounts. Flows are broken down into flows from operations, from investing activities and from financing activities, with further breakdowns within each category.

This statement is useful because (i) it gives a picture of the total size of the Government’s finances (not just the operating activities as the Forecast Statement of Financial Performance does) and (ii) it is in cash rather than accrual terms. This means that it captures all cash flows (operating, investing and financing) and provides an indication of the Government’s likely impact on the economy that year. To see the impact of the core Crown (excluding SOEs and Crown entities), a useful table in the notes is the *Reconciliation of core Crown operating cash flows to residual core Crown cash*, which compares forecast net cash flows from operations with forecast net cash proceeds from domestic bonds.

Forecast Statement of Financial Position:

This lists and values the asset and liability categories of the Government, as well as showing the difference between them – the Crown’s net worth. This statement is useful for assessing how the total Crown activities are financed, the size and nature of the Crown liabilities and, similarly, the size and type of assets the Crown has

invested in. Again the notes to this Statement provide further useful information, including the value of student loans and the value of SOEs and Crown entities.

Forecast Statement of Borrowing:

This shows the level of borrowing for both core Crown and total Crown. It also provides a breakdown of borrowing into its component parts (i.e. Government stock, Treasury bills, settlement cash with the Reserve Bank, etc). The level of gross sovereign-issued debt is also shown. The Government's current debt objective measure uses the gross sovereign-issued debt figure minus Reserve Bank settlement cash. The level of settlement cash is deducted as unlike other core Crown borrowing, it is a liability that is matched by financial assets. The level of settlement cash has increased markedly over recent years as a result of the change in the liquidity management regime, therefore for gross debt comparative purposes it is deducted.

The other statements are:

- the Forecast Statement of Recognised Income and Expense
- the Statement of Actual Commitments
- the Statement of Actual Contingent Liabilities and Assets
- Forecast Statement of Segments

The Review of Accountability Documents

The Treasury, in consultation with Members of Parliament, Ministers, ministerial offices, central agencies, government departments and external stakeholders has completed a review of the *Estimates* and *Statements of Intent*. The aim of this review was to address concerns that the previous range of documentation did not meet the information needs of Members of Parliament or Ministers. As a result, there have been a number of changes that have taken place in Budget 2008 to the documents, both in terms of style and presentation.

Essentially, the new *Estimates* document is equivalent to the previous Part B, plus the schedules of each department's net asset balances (Part E1) of previous years' *Estimates*. The other sections of the previous years' *Estimates* (parts A, C, D, E2 and G) along with the in-year performance information previously located within each department's *Statements of Intent* are now in a new ten-volume publication entitled *Information Supporting the Estimates*. As a result, the *Statements of Intent* are now slimmer versions of the former editions.

The Estimates

As a result of the review mentioned above, the *Estimates* for Budget 2008 is a single-volume document, containing core Vote information. It is supported by a ten-volume *Information Supporting the Estimates* publication (see below for details).

The *Estimates* provide the core details of the appropriations that Parliament is being asked to approve. Most appropriations made within the *Estimates* are for the upcoming fiscal year (they are annual appropriations). However there are also permanent and multi-year appropriations. Permanent appropriations are for an indefinite period of time, and are made under their own legislation (rather than being included within an Appropriation Act).

Multi-Year Appropriations (MYAs) are appropriations that allow the Crown to spend the appropriated funds over a period of up to five years. As such, it does not matter which fiscal year the funds are expended, as long as the total appropriated amount is not exceeded over the whole period specified. It is worth noting that multi-year appropriations in existence prior to 1 July 2005 are presented on a GST inclusive basis (where applicable), as they

were enacted under a previous Appropriations Act that required GST inclusive figures. These are the only possible GST inclusive figures in the *Estimates* (and *Information Supporting the Estimates*) for 2008/09.

Appropriations by period type are separated out in this year's *Estimates*, in order to provide greater clarity of the total value of appropriations for each Vote. The *Estimates* are presented on a Vote by Vote basis. Within each Vote, there may be up to six different types of appropriations, with the *Estimates* (and *Information Supporting the Estimates*) providing details on each:

Operating Flows:

- Output Expenses – costs and expenses related to the provision of goods and services, including departmental advice
- Benefits and Other Unrequited Expenses – payments by the Crown (generally made to individuals for their benefit) for which no direct exchange of value is expected in return
- Borrowing Expenses – interest and other financing expenses for loans, guarantees or indemnities
- Other Expenses – for example, departmental restructuring expenses or grants to other organisations.

Capital flows:

- Capital Expenditure – the purchase, acquisition or development of assets, including equity assets, or the making of a loan to a person or organisation.

Combined flows:

- Expenses and capital expenditure incurred by an intelligence and security department – costs or expenses incurred by the New Zealand Security Intelligence Service, or the Government Communications Security Bureau.

These appropriations are, in turn, categorised according to whether they are appropriated to departments or to others (non-departmental appropriations). Also within each Vote, revenue and receipts are categorised in the following ways:

- Tax Revenue – tax paid to the Crown, such as income tax
- Non-Tax Revenue – revenue received by the Crown from its investing and other operating activities, such as SOE dividends, interest income and capital charges
- Capital Receipts – capital received by the Crown (i) when it raises loans or receives principal repayments on debts owed to it and (ii) when capital assets are sold.

The *Estimates* document begins with a useful Introduction, and a set of Summary Tables.

- The Introduction contains, among other things, definitions of (i) the different appropriation types, (ii) the types of movements in departmental net asset balances, and (iii) the types of Crown revenue and capital receipts. There is also a helpful guide to reading the *Estimates* (including definitions of key terms).

- The Summary Tables provide the total amounts spent on each appropriation type, revenue and Crown receipts, and then, for each of these, the totals for each Vote. The appropriation figures within the Summary Tables include permanent appropriations and multi-year appropriations. One of the summary tables shows all multi-year appropriations currently appropriated by Vote and period. Another table shows the net asset balance of each Department. While the tables are useful for quickly identifying totals for individual Votes, caution should be exercised when using the Summary of Trends table as a source of total Crown expenditure as this could involve double counting.²

Within the Estimates, the Votes are listed in alphabetical order. The chapter on each Vote consists of the following sections:

Overview

The Overview contains details of which Minister (or in some cases Ministers) is responsible for the appropriations made under the Vote. It also provides a brief plain language explanation of what the appropriations in the Vote will be spent on.

Details of Appropriations

The first table under this section provides details of all annual and permanent appropriations under the Vote, arranged by appropriation type, title, amount, and scope. Estimated actual figures are provided for the year ended 30 June 2008, and the amounts appropriated for 2008/09 are shown.

The second table provides details of multi-year appropriations made under the specific Vote. This includes the original appropriated amount (and any adjustments), the actual and estimated actual amounts spent to date. The estimated amount for the upcoming fiscal year is also shown, along with any residual amount to cover the remainder of the multi-year appropriation period.

Details of projected movements in Departmental net assets

For each department (except for an Intelligence and Security Department) a schedule of the projected balance of net assets as at the end of the upcoming fiscal year is included under that department's lead Vote. This schedule also shows the opening balance, amount of any capital injections or withdrawals, and other movements, along with the net surplus (or deficit) of the department during the fiscal year. In Budget 2008, estimated actual figures will be displayed for the year ended 30 June 2008, while projected figures will be shown for the 2008/09 fiscal year. Any department's net assets schedule only appears in that department's lead Vote.

Information Supporting the Estimates

The *Information Supporting the Estimates* publication is a new publication commencing with this year's Budget, and consists of ten volumes. The information within it supports the material located within the *Estimates*. The publication provides additional Vote details (some of which used to be included within previous years' *Estimates*) along with financial performance information for each Vote (which used to be included within the appropriate department's *Statements of Intent*). The *Statements of Intent* for the departments administering the Votes within the sector are also included within the publication. In the *Information Supporting the Estimates*, there are ten volumes arranged by sector (groupings of related Votes). Each sector publication is broadly associated with an individual Select Committee (along subject lines). The ten sectors are as follows:

- Vol.1 Economic Development and Infrastructure Sector
- Vol.2 Education and Science Sector

² For example, appropriation amounts in the *Estimates* include inter-departmental transactions and capital charges. The financial statements contained in the Economic and Fiscal Update reflect total expenses of the Government in accrual terms (in accordance with GAAP) and so excludes all double counting and internal changes.

- Vol.3 Environment Sector
- Vol.4 External Sector
- Vol.5 Finance and Government Administration Sector
- Vol.6 Health Sector
- Vol.7 Justice Sector
- Vol.8 National Identity Sector
- Vol.9 Primary Sector
- Vol.10 Social Development Sector

Each sector may commence with a **Sector Overview Statement**. This optional statement provides an overview of the sector (which encompasses all the Votes within it) along with a high-level summary of the Government's expectations and priorities for that particular sector. The overview statement is signed off by all Ministers responsible for Votes within the sector. Each sector includes **Statements of Responsibility** detailing which Votes and departments are included in the sector and confirms that the information provided meets the requirements of the Public Finance Act 1989. These are signed off by the responsible Ministers and departmental chief executives. Within each sector, the chapter on each Vote commences with which Minister (or in some cases Ministers) is seeking the appropriations in the Vote, the department that is responsible for administering the Vote, and which Minister is responsible for the department. The chapter on each Vote then includes the following parts:

Part 1. Summary of the Vote

The Summary of the Vote includes a plain-language explanation on what the appropriations in the Vote will be spent on (Part 1.1). This is then tied into the Government's priorities and desired outcomes, with links made to specific Government strategies. Where available, information on measures of outcomes and any short-term impacts is included in Part 1.2. An analysis of trends in the Vote is included in Part 1.3, showing the last five years (actual and estimated actual), the current year (budgeted), and the following three years (estimated). A further table of new policy initiatives by appropriation follows, making it possible to reconcile new spending to where the funding is being appropriated. An analysis of significant trends in the Vote is also located in Part 1.3, and includes graphical presentations and explanations of the most significant changes in the Vote over recent years. Where there has been a change in the structure or classification of appropriations made under the Vote, these are included as Part 1.4.

Part 2. Details and Expected Performance for Output Expenses

A more detailed description of each output expense is included in this Part. Part 2.1 provides the scope of each departmental output expense appropriation, along with expenses revenue and cost information. Performance measures and standards for the significant aspects of expected performance are also provided for each appropriation. Part 2.2 provides similar information for non-departmental output expenses, plus a summary of the non-departmental output providers and their funding.

Part 3. Details for Benefits and Other Unrequited Expenses

Similar information to that provided in Part 2, but for the different types of benefits and unrequited expenses. Information is included on the intended impacts and outcomes of the appropriations, and the scope of the appropriation.

Part 4. Details for Borrowing Expenses

This Part provides further details about appropriations for borrowing expenses, and includes the impacts and outcomes intended to be achieved, the scope of each appropriation, the associated policy initiatives, and the expected results. These appropriations tend to be non-departmental in nature.

Part 5. Details and Expected Results for Other Expenses

This Part provides further details regarding any appropriations made for other expenses not covered elsewhere. The details included are much the same as those identified in the above appropriation categories, with the addition of any expected results being included in the case of non-departmental output expenses.

Part 6. Details and Expected Results for Capital Expenditure

This Part provides details in regards to appropriations made for capital expenditure. Capital expenditure includes tangible, intangible or financial assets, and any ownership interest in entities, excluding inventories. For departmental capital expenditures, the appropriation appears under the primary Vote for the Department. In regards to non-departmental capital expenditure, a brief description on the nature of the appropriation is also included.

Statements of Forecast Service Performance of Departments

This Part of the *Information Supporting the Estimates* presents a Statement of Forecast Service Performance of each department that administers a Vote within the sector. It provides a cross-reference between the department and the material provided in Part 2.1 (Departmental output expenses) of the Votes administered by the department.

Forecast Financial Statements of Departments

Previously included in each department's *Statement of Intent*, this part of the *Information Supporting the Estimates*, includes the following financial statements for the departments covered by each sector:

- Statement of Forecast Financial Performance
- Statement of Forecast Movements in Taxpayers' Funds
- Statement of Forecast Financial Position
- Statement of Forecast Cash Flows
- Statement of Appropriations
- Statement of Significant Assumptions

Statement of Intent of Departments

Departmental *Statements of Intent* are also located at the end of the *Information Supporting the Estimates* for each sector, for those departments that administer Votes within the sector publication. These focus on the medium term (generally the next three to five years), and include a Foreword from the Minister responsible for the Department and an Introduction from the chief executive. The *Statement of Intent* covers the nature and scope of the department's functions, the strategic direction in which the department is going, along with its operating intentions. Further information can be found on the organisational health and capability of the department, along with any additional information that has been deemed to be required.

Differences between the documents

The *Budget Economic and Fiscal Update*, *Estimates of Appropriation*, *Information Supporting the Estimates* and *Statements of Intent* are the four Budget documents containing the most financial and other detail. As was described above, all have different purposes.

The *Estimates of Appropriation and Information Supporting the Estimates* both contain the details for which appropriations are to be given, and are on a Vote-by-Vote basis (with the Votes divided into sectors in the *Information Supporting the Estimates* publication). The financial figures in the 2008/09 *Estimates* exclude GST, apart from existing multi-year appropriations (those that commenced prior to the 2005/06 financial year). The estimates also include capital charges and transactions with other departments.

The *Statements of Intent* establish the strategic direction and operating intentions of departments, and are on a department-by-department basis. Statements of Intent have replaced the relevant department's Departmental Forecast Report,

Unlike the other three documents, the *Budget Economic and Fiscal Update* is a consolidated statement of the whole Crown. Expense totals exclude double counting such as GST and other transactions between departments.

Where to look for what

Details of a specific new policy

Most new policies are broadly mentioned in the *Budget Speech*, along with some brief rationale. Often the accompanying *Press Statements* give extra details and explanation. The Executive Summary is a separate document that contains a Ministerial Statement, a snapshot of the Government's finances and details of Budget decisions.

If the policy has a major fiscal impact and is new since the *Half Year Economic and Fiscal Update*, it may be listed in the *Budget Economic and Fiscal Update*. Any new significant initiative should be included in Part 1.3 of the respective Vote in the *Information Supporting the Estimates* publication, within the table titled "Budget Policy Initiatives". Further detail is likely from press statements and other releases at the time of the new policy's announcement, or from the department concerned.

Details on other policies

The GAAP tables in the *Budget and Fiscal Update* show the cost of some broad expenditure categories, e.g. expenditure on primary school education.

The *Information Supporting the Estimates* publication shows the amount spent on each output expense and other types of Operating Flow appropriations. In some cases these may correspond to specific policies. The Vote details within the *Information Supporting the Estimates* also state what the appropriations are for, and report on the performance indicators for each output expense.

Totals such as total tax, expenditure, and debt

These are contained in the GAAP tables at the back of the *Budget Economic and Fiscal Update*. Mention is also made of them in the main text of that document and in the *Fiscal Strategy Report*.

The GAAP tables also provide more detailed breakdowns, such as revenue from the different main tax types or expenditure by functional classification.

As mentioned previously, the totals in the *Estimates* and *Information Supporting the Estimates* should be used with caution because they include capital charges and inter-departmental transactions. Vote totals should not be added up without taking these factors into account.

Changes to the figures over past years

The Budget documents contain figures for the current or past year. In addition, the *Estimates* and *Information Supporting the Estimates* documents provide totals of the main appropriation types in each Vote for the past five years. Within the *Information Supporting the Estimates* publication are explanations of what has been driving these trends. Care is needed in using this data as it might change purely for reasons such as an output expense being re-classified under another Vote.

The Expenses Tables in the *Budget Economic and Fiscal Update* also give totals over the last five years.

Historical data can always be obtained from previous years' documents, but again it is important to watch out for any reclassifications or for formatting and definitional changes that may have taken place.

Risks to the forecasts

There are two main types of risk:

Firstly, there is the risk that the economy may perform differently from the forecast. For example, a lower rate of economic growth may lead to higher welfare payments and a lower tax take. When preparing the Budget figures, the Treasury identifies more than one scenario likely for the economy. The main figures of the *Budget Economic and Fiscal Update* are prepared on the basis of the central and most likely economic scenario. The fiscal effects of the other scenarios are outlined in the "Risk and Scenarios" chapter of the Budget and Fiscal Update.

Secondly, the Government faces certain contingent liabilities and other types of risk. These are identified in one of the GAAP Tables and in the "Specific Fiscal Risks" chapter of the *Budget Economic and Fiscal Update*.

A list of what is included in the Government reporting entity

The introduction at the beginning of the GAAP Series Tables section of the *Budget Economic and Fiscal Update* lists the different Offices of Parliament, departments, State Owned Enterprises, Crown entities, the Reserve Bank, along with any other entities whose financial statements must be consolidated into the financial statements of the Government reporting entity to comply with generally accepted accounting practice (an example is Air New Zealand).

Annual Financial Statements

Although not part of the documents released on Budget Day, the annual *Financial Statements of the Government of New Zealand* provides additional useful information. Published following the completion of a fiscal year, the *Financial Statements* provide the actual figures for that year, along with the budgeted figures, and comparable figures for the previous fiscal year.³

Included in the *Financial Statements* is a table (Historical Information) which provides an historical overview of revenue, expenses, assets, liabilities, and net-worth, along with gross and net debt over the past decade.

At the back of the publication are helpful figures in regards to State-Owned Enterprises and Crown Entities. Figures are provided on total revenues, the attributable surplus (or deficit), and distributions to the Crown (dividends) for each SOE and Crown Entity. Further figures show the equity held by the Crown in each SOE and Crown Entity, along with asset and liability details.

³ The annual financial statements of the Government must be prepared and audited within three months of the end of a financial year. They must be presented to the House of Representatives, and published.

The annual *Financial Statements* includes a statement detailing all unappropriated expenditure undertaken through the financial year (Statement of Unappropriated Expenditure).⁴ A further statement provides the details of any emergency expenditure, expenses or liabilities undertaken during the fiscal year (Statement of Emergency Expenditure, Expenses or Liabilities).⁵

Economics and Industry Team

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Glossary

Accrual accounting

An accounting method which is based on measuring the full cost of resources consumed in the production of outputs during the reporting period. It measures expenses when incurred and revenue when earned. Assets such as debtors, and liabilities such as creditors, are also measured. (Cf. cash accounting)

Annual appropriations

The appropriation is limited to only one year. This is the case with most appropriations.

Appropriation

A Parliamentary authorisation for the allocation of resources to a Minister for a specified purpose.

Appropriation Scope

The limits on the activities for which the Crown or an Office of Parliament is authorised to incur expenses or capital expenditure under a specific appropriation.

Asset

Anything owned by a company, individual or other entity, that has a monetary value.

Budget

The Minister's statement in moving the second reading of the first Appropriation Bill for a financial year.

⁴ Unauthorised expenses or capital expenditure requires subsequent validation by Parliament in an Appropriation Act.

⁵ In the case of an emergency, the Minister of Finance may approve expenditure of public money or incurrence of expenses or liabilities to meet such emergency or disaster whether or not an appropriation is available for the purpose. Such expenditure needs to be validated through an Appropriation Act.

Capital

Equity or debt capital used to finance a business.

Capital assets

Fixed assets; that is, non-trading business assets of a relatively permanent nature, such as plant and fixtures.

Capital expenditure

The cost of assets acquired or developed (including tangible, intangible, or financial assets and any ownership in entities, but excluding inventories).

Capital charge

An expense derived from the capital cost of the Crown's investment in each department. Departments pay a capital charge calculated on their net worth.

Cash accounting

An accounting method which is based on measuring money transactions during the reporting period. That part of an output's costs which involve money transactions in another period are not included in the current reporting period. (Cf. accrual accounting)

Commitments

Non-cancellable contractual or statutory obligations. For the purpose of the "Statement of Actual Commitments" in the Budget Economic and Fiscal Update, interest commitments on debts and commitments relating to employment contracts are not included.

Contingent liabilities

Costs which the Crown will have to face if a particular event occurs.

Core Crown

The core Crown represents the revenues, expenses, assets and liabilities of the Ministers of the Crown, their departments, Offices of Parliament, the Reserve Bank, the Government Superannuation Fund (GSF), and the New Zealand Superannuation Fund.

Crown entities

Bodies established by law, in which the Government has a controlling interest through ownership mechanisms. There are five different categories of Crown Entities: Statutory entities, Crown entity companies, Crown entity subsidiaries, School board of trustees, and Tertiary education institutions.

Department

A department of the Government or any branch or division of Government; or the Office of the Clerk of the House of Representatives; or the Parliamentary Service; but does not include an Office of Parliament, or a body corporate or other legal entity that has the power to contract.

Equity

The net assets of a business (calculated by subtracting its liabilities from its assets), that is, the stake the owner has in the business.

Estimates

A statement that describes and supports the appropriations being sought in the first Appropriation Bill that relates to a financial year.

Expenditure

Cash spent by the Crown and departments for either operating or capital transactions

Expenses

Amounts consumed, or losses of service potential or future economic benefits (other than those relating to capital withdrawals), in a financial year. This is an accrual accounting concept.

Financing activities

Activities that involve funding the purchase of assets or covering the costs of expenses over and above that provided by revenue obtained from operating activities.

Fiscal

Relating to the finances of Government.

Fiscal intentions

The Government's short to medium term intentions in order to meet its fiscal objectives.

Fiscal objectives

Government's long-term objectives for fiscal policy, in particular for the variables specified in s 26(J) of the Public Finance Act 1989 (the Crown's total operating expenses and revenues and the balance between them, and the level of Crown's total debt and total net worth).

Gross Crown debt

Total borrowings (both sovereign-guaranteed and non-sovereign guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties.

Gross Sovereign-issued debt

Debt issued by the sovereign (i.e., core Crown) and includes Government stock held by NZS Fund, GSF, ACC, or EQC for example. The total sovereign-issued debt does not eliminate any internal cross-holdings, and does not include debt issued by SOEs and Crown entities. The Government's debt objective uses this measure of debt.

Inputs

The resources (such as capital, personnel and equipment) used to produce goods and services.

Investing activities

Activities that involve the purchase or sale of capital assets.

Liability

A financial obligation, such as a debt or amount payable.

Line-by-line consolidation

The term used to refer to the change required to the presentation of the Crown financial statements. It means that the revenues, expenses, assets and liabilities of all departments, the Reserve Bank, SOEs and Crown entities are included in the Crown financial statements.

Multi-Year Appropriation (MYA)

A multi-year appropriation is an appropriation that allows the Crown to incur expenses or capital expenditure over more than one fiscal year, for a period of up to five fiscal years. Expenses or capital expenditure may be undertaken at any time during the specified period, up to the limit appropriated.

Net Core Crown debt

Is a core Crown measure, which includes borrowings (financial liabilities) less cash and bank balances, marketable securities and deposits, and advances (financial assets). Net debt excludes the assets of the NZS Fund and GSF due to their restrictive nature.

New Zealand International Financial Reporting Standards (NZ IFRS)

New Zealand equivalents to International Financial Reporting Standards. These standards are approved by the Accounting Standards Review Board in New Zealand and are based on the requirements of the internal financial reporting standards issued by the International Accounting Standards Board. These are the new accounting standards underpinning Budget financial statements.

Non-annual appropriations

The appropriation operates under permanent legislative authority in an Act other than an Appropriation Act, or operates under a multi-year appropriation.

Operating activities

Activities that involve the usual activities of an organisation.

Operating balance

The operating balance is the residual of revenues less expenses plus surpluses from state-owned enterprises and Crown entities. It is the Government's profit or loss.

Outcomes

The impacts on the community of the outputs or activities of Government, for example a low rate of crime.

Outputs

Goods and services purchased by the Crown from departments and other entities, for example policing services.

Permanent appropriation

The appropriations are not limited to a particular period. Other Acts approve them, with expenditure being incurred under permanent legislative authority. About 10% to 20% of Government expenses are appropriated in this manner, including items such as judicial salaries.

Responsible Minister

The Minister or Ministers responsible for the financial performance of a department or Crown entity.

Revenue

The gross income of an entity; that is, the value of income earned, before subtracting the cost of earning it.

Specific fiscal risks

Government decisions or circumstances (excluding contingent liabilities) which may have a material impact on Government's finances. These risks are not included in the main forecasts because their fiscal impact cannot be reasonably quantified, the likelihood of realisation is uncertain, or the timing is uncertain.

State Owned Enterprises (SOEs)

Entities which are owned by the Government, but set up under the State Owned Enterprises Act 1986 to operate as commercial businesses.

Total Crown

The total Crown represents the revenues, expenses, assets and liabilities of all Ministers, their departments, the Reserve Bank, GSF, the NZS Fund, along with those from SOEs, and Crown entities, less internal transactions.

Vote

A grouping of one or more appropriations that are administered by one department and are the responsibility of one or more Ministers.

Vote Minister

The Minister responsible for the appropriations being sought for an output within a Vote.