

Chair
Cabinet State Sector Reform and Expenditure Control Committee

BETTER PUBLIC SERVICES PAPER 5: AMENDMENTS TO THE PUBLIC FINANCE ACT 1989

Proposal

1. This is paper 5 in a suite of 7 Cabinet papers setting out the policy and legislative changes needed to implement recommendations in the report of the Better Public Services (BPS) Advisory Group. Paper 5 deals with amendments to the Public Finance Act 1989 (PFA). In addition to supporting the direction in the BPS report, the Treasury has reviewed the PFA to address known issues with, and generally improve, the legislation.

Executive Summary

2. The proposed package of changes to the PFA will support the goals of the BPS programme and improve the legislation by reducing compliance costs, introducing greater flexibility, clarifying certain responsibilities and removing prescriptive reporting requirements that have proven problematic in practice.

Greater flexibility in appropriations to focus on results

3. We propose introducing greater flexibility in how appropriations are designed to support a focus on results. To make it easier to group together appropriations that contribute to the same result, and to shift resources between them, we propose introducing a new 'multi-component purpose-based appropriation' (MPA). An MPA would allow the Government to create appropriations made up of several components, which could be different expenditure types, that all contribute towards the same result. Parliament would be asked to approve the MPA at the level of the result to be achieved, rather than approving each component part separately. Ministers would then have delegated authority to move resources between the component parts of an MPA depending on what activities or interventions were most effective in delivering the overall result.

4. To reduce compliance costs, increase flexibility and improve the operation of the appropriation system, we also propose that:

- administrative restrictions put in place by a previous Cabinet decision (EXG Min (07) 1/1) on the use of multi-class output appropriations (MCOAs) be removed;
- to facilitate collaboration between departments, changes to the PFA be made to clarify that a department that administers an appropriation is not the only department that can have the right to spend against the appropriation; and
- to improve Parliament's and Ministers' ability to scrutinise and control departmental capital expenditure, and to reduce compliance costs for departments, the net asset rules regarding departmental capital be replaced with a requirement for Parliamentary approval for capital injections made to departments. Accompanying changes would be required in the Estimates and enhanced transparency provided in the Information Supporting the Estimates.

Reporting to Parliament

5. We propose the following package of changes to the information that departments are required to report to Parliament, to increase the meaningfulness of performance information while reducing compliance costs:

- Ex-ante and ex-post reporting on appropriations (this is the core information Parliament needs to authorise and scrutinise Government expenditure):
 - Remove the one-size-fits-all approach to how performance against appropriations must be reported and replace with a system that allows departments more flexibility to select the most appropriate method of measuring and reporting on performance for each appropriation. The PFA would require the Estimates to state, for each appropriation: what is to be achieved; how this will be assessed; which entity will report; and where the information will be reported.
- Reporting on departmental strategic intentions and performance (this information provides context to support Parliament's role in approving expenditure and scrutinising performance):
 - Replace the requirement that departments produce a Statement of Intent (SOI) each year with a requirement that departments provide a more meaningful set of strategic information at least once every three years (unless the department's circumstances change significantly).
 - Provide more flexibility in the way departments provide Annual Reports, allowing for the development of sector based reports.

Clarifying Chief Executives' financial management and stewardship responsibilities

6. We propose several changes to the specification in the PFA of chief executives' responsibilities for the financial management of their departments and of non-departmental transactions, assets and liabilities managed by their departments. On the departmental side, the changes would make it clear that chief executives are responsible for the financial sustainability of their departments into the future and for what is achieved with departmental appropriations. On the non-departmental side, the changes would make it clear that chief executives are responsible for financial management and reporting on, and for advising the appropriate Minister on the performance of, non-departmental appropriations, revenue, assets and liabilities managed by the department on behalf of the Crown.

Background

7. The PFA has been reviewed to ensure that the legislation supports the goals of the BPS programme, and to generally improve the legislation. The BPS Advisory Group report identified that improvements to the PFA were needed:

- “More financial flexibility to support the focus on results and some of the new organisational arrangements... Changes to both the letter and current practice of the Public Finance Act 1989 are needed.”
- The PFA “...creates barriers to inter-agency collaboration... hinders flexibility and innovation in management... high compliance costs in reporting low-value information that does not tell a performance story... provides little direction on more strategic aspects of financial performance.”

8. Following the meeting between the Auditor-General and the Cabinet Expenditure Control Committee (ECC) in August 2011, the Treasury, State Services Commission (SSC), and the Office of the Controller and Auditor General (OAG) have been working together on ways in which the legislation could be changed to support more effective collective management of government resources, while preserving appropriate parliamentary control of government spending and accountability.

9. The objectives of the PFA review are:

- to make changes to the PFA in line with the work of the BPS Advisory Group;
- to generate better quality information that meets the needs of Parliament while reducing the compliance costs involved in producing that information;
- to remove unnecessary barriers to different ways of working and innovation within the executive branch of government;
- to improve clarity around departmental chief executives' responsibilities for strategic financial management and stewardship; and
- to protect the principles of parliamentary authority and accountability to Parliament.

10. It is arguable that much of the change we are seeking could be possible within the current legislation. However, we regard legislative change as necessary to clarify what is required and to make it clear that changes are expected, as well as to avoid the need for awkward work-arounds.

Greater flexibility in appropriations to focus on results

11. We propose introducing greater flexibility in how appropriations are designed, to support a focus on results. Our view is that the current output-based appropriations system and the principles behind the dimensions of appropriations (type, scope, amount and period) achieve an appropriate balance between Parliamentary control and the efficient operation of Government. However, we have identified a number of non-legislative and legislative changes that would support agencies to focus on results, make cross-agency collaboration easier, and provide increased flexibility; while still providing Parliament with an appropriate level of scrutiny and control.

Introducing a new 'multi-component purpose-based appropriation'

12. The current appropriation system could be enhanced by making it easier to group appropriations together and move resources between them where these appropriations contribute to the same end result. This would help to focus attention on the result to be achieved and facilitate reprioritisation towards the most effective initiatives. Grouping together appropriations that all contribute to the same result would also facilitate Parliamentary scrutiny of these appropriations.

13. To achieve this, we propose introducing a new 'multi-component purpose-based appropriation' (MPA). An MPA would be a single appropriation made up of multiple components, each with their own scope statements, that all contribute to the same result. An MPA would have an overarching purpose statement explaining the purpose of the appropriation and what the appropriation involves. The component parts of an MPA could be different types of expenditure¹. Ministers would have delegated authority to shift resources between the components of an MPA. This is similar to the existing multi-class output appropriation (MCOA) instrument, but is more flexible as it is not limited to output expenses.

14. Parliamentary approval would be granted at the level of the appropriation as a whole, rather than at the level of each component part. This means that Parliament would be focused on approving what is to be achieved with a certain amount of funding, rather than approving the individual outputs to be delivered. MPAs would therefore provide a mechanism to help lift Parliament's focus to a more appropriate level, ultimately improving Parliament's ability to scrutinise government expenditure.

15. MPAs would contain enough information on how resources are allocated to allow appropriate Parliamentary scrutiny over the appropriation. The scope of an MPA would be the sum of the scope statements of each component part. Parliament would receive information on the performance at the level of the appropriation as a whole, where performance against the purpose statement can be meaningfully measured, and against each component of the MPA.

¹ Including output expenses, non-departmental capital expenditure and other expenses, but excluding Benefits and Other Unrequited Expenses (BOUEs) and departmental capital expenditure.

16. For example, to achieve the result of increasing participation in early childhood education, the Government could create an MPA that brings together departmental funding for targeted interventions (output expenses), grants to early childhood teachers (other expenses), and/or funding to purchase assets for early childhood centres (non-departmental capital expenditure). Ministers and departments would then have flexibility to shift resources between the component parts of the MPA, or to add components where new interventions or activities were identified.

17. As with any appropriation, each MPA would have one Minister with overall responsibility for the appropriation. Where the component parts of the MPA relate to other portfolios, the Minister responsible for the MPA would need to reach agreement with the Ministers responsible for those portfolios on matters such as the initial allocation of the amount of the MPA among its component parts and any subsequent transfers between component parts of the MPA. This arrangement already operates for some MCOAs.

18. In designing MPAs, our intention is to make the legislation permissive and flexible. However, our expectation is that when implementing these new instruments due attention will be paid to areas where careful judgement is required, such as the boundary between departmental and non-departmental expenditure or the inclusion of forecast appropriations.

19. MPAs would be subject to the following rules governing their use:

- MPAs must have a purpose statement linking together the component parts. This purpose statement would be in addition to the scope statement for each component of the appropriation. The purpose statement constrains what additional components can be included in the MPA.
- Departmental and non-departmental expenditure could be included in an MPA, but must be kept separate, i.e. a single component part of an MPA cannot contain both departmental and non-departmental expenditure.
- Departmental capital expenditure would not be able to be included as a component due to the fact that departmental capital expenditure is authorised under a permanent legislative authority (PLA).
- Benefits or Other Unrequited Expenses (BOUEs) would not be able to be included as a component of MPAs as these are almost all forecast appropriations, and therefore not suitable for this type of arrangement.
- For each type of expense or non-departmental capital expenditure that makes up an MPA, audit requirements and performance measurement standards (including generally accepted accounting practice – GAAP) for that type of expense or non-departmental capital expenditure would apply.

- MPAs would be annual appropriations. Allowing MPAs to span multiple years (in the way multi-year appropriations do) would reduce Parliamentary control, and we consider that sufficient mechanisms already exist to give Ministers flexibility to manage resources across years (including Four-year Budget Plans and the authority to transfer money between years in certain circumstances²).
- The amount of the MPA would be the sum of the amounts of the component parts.
- The approval of the Minister of Finance would be required to establish an MPA, and the Minister of Finance would be able to impose conditions on the transfer of funding between the component parts of an MPA.
- Additional components that fit within the purpose statement could be added during the year using Imprest supply; these changes would be reflected in the Supplementary Estimates.

20. We propose that MPAs would be available for use in Budget 2014, subject to the passage of the necessary legislation.

21. We have considered the possibility of allowing output expense appropriations to be based solely on results (a 'purpose-based appropriation'). The key problem with purpose-based appropriations is the difficulty in clearly defining a 'result' and the activities that contribute to achieving it. We feel that the risks to appropriate Parliamentary control outweigh any potential benefits in terms of flexibility for the Executive, and therefore recommend that this approach not be pursued.

Increasing flexibility in the use of multi-class output appropriations (MCOAs)

22. MCOAs are an existing instrument that allow appropriations to be created from several different output classes, limited to output expenses, that all contribute to the same result or function. The proposal to introduce MPAs essentially supercedes MCOAs. MCOAs would be retained, but essentially become a type of MPA.

23. Ministers' ability to shift resources within MCOAs is currently limited by a previous Cabinet decision that the creation of MCOAs in excess of \$50 million must be referred to Cabinet, and that a Minister can only transfer up to 10% of an output class within a MCOA without the approval of the Minister of Finance³.

24. We propose that these limits be removed from 1 July 2012, and that Cabinet delegate to joint Ministers the ability to approve the establishment of all MCOAs and, if necessary, to set specific limits on a case by case basis on the amount that can be transferred between output classes⁴.

² See CO (11) 6.

³ EXG Min (07) 1/1

⁴ This proposal is consistent with this Cabinet's recent decision to provide greater financial management flexibility for Ministers and departments (see CAB Min (11) 24/5A and Cabinet Office Circular CO (11) 6).

More flexible use of departmental appropriations to facilitate cross-departmental collaboration

25. We propose that the PFA, including section 20, be amended to clarify that a department that administers an appropriation is not the only department that can have the right to spend against the appropriation. This would make it clear that departments can use departmental appropriations to 'sub contract' for services or activities from another department, and remove a perceived barrier to cross-departmental collaboration.

Improving Parliament's and Ministers' ability to scrutinise and control departmental capital expenditure

26. The existing requirements around the scrutiny and control of departmental capital expenditure are problematic. In summary, these problems are:

- The requirement for Parliament to confirm a department's net assets, which imposes significant compliance costs on departments where technical breaches inevitably occur, while not providing Parliament or Ministers with any effective scrutiny and control over departmental capital expenditure;
- Parliament's inability to effectively scrutinise and control departmental capital expenditure that is funded using capital injections to the department (and not from the department's existing balance sheet); and
- the use of a permanent legislative authority (PLA), without also requiring sufficient transparency for Parliament about what the departmental capital expenditure will be for, and the extent to which a department will partly or wholly fund assets through its own balance sheet or through capital injections from the Crown.

27. We propose that:

- the requirement for Parliament to confirm net assets be replaced with a requirement for Parliamentary approval for capital injections to departments;
- the PLA for departmental capital expenditure be retained; and
- the Information Supporting the Estimates include a 'capital injections schedule' describing the nature and amount of these capital injections.

28. Treasury will continue to work with departments to improve the management of capital; further transparency requirements in relation to departmental capital expenditure could be placed on departments via Treasury Instructions or Cabinet Circulars as necessary.

Reporting to Parliament

29. We propose a package of changes to the information that departments must report to Parliament on appropriations and on departmental intentions and performance. This package is underpinned by the judgement that the PFA should focus on the information needs of Parliament, rather than management within the Executive (the information needs of the Executive to manage financial and non-financial performance are better specified in non-legislative instruments).

30. The current requirements mean the compliance costs for providing this information are too high, the information is often of poor quality, and the one-size-fits-all approach is too rigid. Inflexibility in how information can be reported to Parliament has worked against the development of a coherent articulation of performance across government, while at the same time leading to duplication. SOIs have not always had their intended effect of improving strategic planning. These problems can be traced to a combination of weaknesses in the legislation and the associated guidance, and in how GAAP has evolved in response to the legislation along with associated practice by both agencies and auditors.

31. The changes described below aim to ensure Parliament gets the meaningful information it needs to scrutinise government expenditure and agency performance, while ensuring that the value of the information outweighs the compliance costs. Information reported to Parliament should be comprehensive in coverage, but selective in depth. There should be flexibility in how performance is assessed to enable the most meaningful information to be provided, and flexibility in how the information is organised and presented.

Reporting on appropriations

32. The current requirements for reporting against appropriations have led to a large volume of information being provided that is not meaningful to Parliament or the public. We propose introducing significantly more flexibility into how performance against appropriations is reported to help address this problem while also reducing compliance costs.

33. The changes proposed will mean the performance information reported to Parliament has a stronger focus on appropriations. They will ensure that Parliament receives an explanation of what has been achieved and at what cost for each appropriation, and that 'what has been achieved' is specified in a way that is meaningful given the nature of the activity funded with that appropriation.

34. If Cabinet agrees, the following package of changes will be made to the PFA requirements for reporting on appropriations:

- Non-financial performance for appropriations would be specified in terms of ‘what the appropriation is intended to achieve’. This would replace the current requirement that the Information Supporting the Estimates contain an explanation of the intended impacts, outcomes or objectives for each appropriation⁵. What an appropriation is intended to achieve could relate, for example, to service delivery (e.g. the legislative drafting services of the Parliamentary Counsel Office), the maintenance of capability (e.g. some Vote Defence Force appropriations), immediate impacts (e.g. immunisation rates), or progress towards achieving longer term results (e.g. reducing the criminal reoffending rate). We expect that information on impacts and outcomes would be retained where it is currently working well.
- To create more flexibility, and to create a clear line of sight for Parliament between *ex ante* and *ex post* information, the PFA would require that, for each appropriation (including non-departmental appropriations where performance information is not currently specified *ex ante*), the Estimates state:
 - what the appropriation is intended to achieve;
 - how this is to be assessed (departments would be able to select in consultation with Treasury and the agreement of the relevant Minister, the most meaningful performance measures for each appropriation);
 - which entity will report the information; and
 - where the information will be reported (for example, it could be provided in the Annual Report of a department, or in a sector report).
- Given the new information to be provided in the Estimates, departments would no longer be required to prepare a separate Statement of Forecast Service Performance. Similarly, departments would no longer be required to submit a Statement of Service Performance at the end of the year. This would be replaced with a requirement to provide end-of-year information on what was achieved (this information would still be audited).
- The Minister of Finance would be given the power to grant exemptions for departmental output expenses funded by other departments from the requirement to provide performance information (the department providing the funding already provides performance information).
- Where exemptions from providing performance information are granted, the reasons for the exemption would be set out in the Estimates (this would also apply to non-departmental appropriations that fall under section 32A).

⁵ Section 15(1)(a).

35. Performance information for appropriations must be prepared in accordance with GAAP. GAAP is an externally set standard and provides discipline for reporting and a basis for audit, but can be problematic if it leads to rigidity in how performance is specified. We recommend that GAAP continue to apply to performance information because of the rigour that this external standard imposes. GAAP is an evolving standard, and we expect that it will continue to evolve in light of the new approach to reporting proposed in this paper and active support from the Office of the Controller and Auditor-General and Treasury.

Information on departmental strategic intentions

36. We propose changes to the way departments report information on their future intentions to Parliament to reduce compliance costs and increase flexibility to enable departments to provide more meaningful information.

37. We propose that the requirement for departments to submit a Statement of Intent (SOI) each year be replaced with a requirement to submit information on strategic intentions at least once every three years (more often if a department's circumstances change materially), covering a four year time horizon. The purpose of this approach would be to inform Parliament of a department's strategic intentions. This information will provide contextual information for Parliament when assessing a department's performance. Departments would have flexibility in how this information is organised and presented.

38. We propose that this information would be tabled in conjunction with (or at least no later than) a department's Annual Report. The change from Budget Day in the timing for the presentation of this information may be seen as significant by Parliament. However, Parliament would still receive the information it needs in time to review agency performance following the end of the financial year, and this change in timing would reduce the sheer quantity of information presented on Budget Day. The following table shows how the current information on departmental future operating intentions would be dealt with under this proposal:

<i>Section</i>	<i>Current requirements</i>	<i>Proposals</i>
40(a)	<p>The following information is currently presented each year as part of a department's SOI:</p> <ul style="list-style-type: none"> Information on the nature and scope of a department's functions and intended operations. 	<p>Rather than an annual SOI, departments would be required to submit the following information, at least once <u>every three years</u>:</p> <ul style="list-style-type: none"> Information on strategic intentions.
40(b)	<ul style="list-style-type: none"> Information on the specific impacts and/or outcomes the department is seeking to achieve. 	<ul style="list-style-type: none"> Departments would be required to outline what they are <u>intending to achieve</u> – this could include the impacts and/or outcomes to be achieved where this is meaningful/appropriate.

40(c)	<ul style="list-style-type: none"> Information on the department's strategy, including how it will manage organisational health and capability. 	<ul style="list-style-type: none"> This information would be included with the information on strategic intentions.
40(d)(i)	Departmental measures of impacts and outcomes.	Impact and outcome measures will be specified against appropriations in the Estimates, where appropriate and meaningful.
40(d)(ii)	Departmental measures of cost effectiveness.	This requirement has proven complex and problematic in practice and has generated very little useful information. We propose that it be removed.
40(d)(iii)	Departmental measures of organisational health and capability.	Specific measures would not be required, but departments would report on the status of organisational health and capability in their Annual Report.
41(1)	Projected financial statements for the forthcoming year (currently provided in the Information Supporting the Estimates).	Provide in the Annual Report, consistent with the change to provide information on strategic intentions at the same time as the Annual Report, rather than with Budget documents.

Departmental Annual Reports

39. The requirements in the PFA regarding the content of departmental Annual Reports need to be amended to reflect the proposed changes to reporting against appropriations and departmental intentions above. We propose that Annual Reports be required to include information necessary to allow an informed assessment of the department's performance for the year, including the stewardship of resources it controls and its organisational health and capability.

40. We propose that departments be given more flexibility in how their Annual Report is provided to Parliament, to allow departments to provide their Annual Report in a combined form, for example as part of a sector based report.

41. We also propose that the definition of departmental financial statements no longer include the two statements relating to appropriations⁶. These statements will still be required as part of the Annual Report of the administering department. This change allows a more direct link between those appropriation statements and what is spent under an appropriation and what is achieved with that spending.

⁶ The statement of actual expenses and capital expenditure against each appropriation administered by the department and each class of outputs included in each output expense appropriation; and the statement of unappropriated expenses and capital expenditure.

Electronic tabling of information

42. The performance information discussed above is currently provided to Parliament as printed documents. We propose including a specific provision in the PFA allowing this information to be tabled electronically, following consultation with the House (the Minister of Finance would initiate this consultation by sending a proposal to the Speaker of the House). Electronic tabling would likely reduce costs and facilitate navigation between related documents. While this is not currently specifically excluded, we believe including this provision would be helpful in signalling change.

Clarifying Chief Executives' financial management and stewardship responsibilities

43. Currently the PFA specifies that the financial responsibilities of a departmental chief executive in respect of the department include responsibility for financial management, financial performance, and financial reporting (sections 34 and 35). The PFA is in essence silent on what a chief executive's responsibilities are in respect of the non-departmental transactions, assets and liabilities that a department is responsible for managing on behalf of the Crown. The PFA is explicit in section 36 on what chief executives are not responsible for in regard of these non-departmental transactions, assets and liabilities.

44. It is proposed that three additions be made to a chief executive's financial responsibilities in respect of the department:

- Add "financial sustainability" to make it clear that a department must be capable of continuing to deliver in the future as well as at present.
- Add that the chief executive is responsible for what is achieved with each departmental appropriation administered by the department, to make clear that managing a department's finances includes what is achieved with them, except where the Estimates indicate that all of an appropriation is to be used by departmental agencies or other departments.
- Add that the chief executive is responsible for advising the appropriate Minister on the performance of those departmental appropriations administered by the department which the Estimates indicate are to be used entirely by departmental agencies or other departments.

45. In respect of non-departmental expenditure, revenue, assets and liabilities managed by a department on behalf of the Crown, it is proposed that:

- what a departmental chief executive's financial responsibilities are in respect of these be expressed positively, rather than in the negative as they are at present; and
- a departmental chief executive be responsible for:
 - the financial management of, and financial reporting on, the non-departmental appropriations administered by the department and the assets, liabilities and revenue managed by the department on behalf of the Crown; and

- advising the appropriate Minister on the performance of those appropriations, assets, liabilities and revenue.

46. This would continue the current situation where departmental chief executives are not responsible for what is achieved with non-departmental appropriations; the Crown entities or non-government organisations funded through a non-departmental appropriation would remain responsible to the Minister responsible for that appropriation for the services they provide and what is achieved with that funding. The departmental chief executive would be responsible for advising the Minister responsible for the appropriation on whether the government was getting value for money from non-departmental appropriations administered by the department.

47. The financial responsibilities set out in the PFA can be elaborated on where necessary, in Treasury Instructions, guidance and/or the State Services Commissioner's expectations of departmental chief executives.

Implementation and Central Agency support

48. The changes proposed in this paper provide for significantly more discretion in how performance is reported. There is a risk that this discretion could result in poorer quality information. Mitigating this risk will require greater commitment and involvement from Central Agencies, working alongside the OAG. Central agencies would need to invest in their own capability, in developing quality guidance, and in leading changes in practice (including regarding the application of GAAP to performance reporting).

Consultation

49. Public sector chief financial officers and chief executives were consulted during the development of the policy proposals in this paper. Proposed next steps for consultation are addressed in the accompanying paper *BPS Paper 1: Overview of legislative policy proposals*.

Financial Implications, Human Rights, Legislative Implications, Regulatory Impact Analysis

50. Financial, human rights, Regulatory Impact Analysis and legislative implications are addressed in the accompanying paper *BPS Paper 1: Overview of legislative policy proposals*.

Publicity

51. Publicity for the Better Public Services suite of papers is addressed in the accompanying paper *BPS Paper 1: Overview of legislative policy proposals*.

Recommendations

52. We recommend that the Cabinet Committee on State Sector Reform and Expenditure Control:

- 1 **note** this is the fifth of a suite of seven papers provided in response to Cabinet's invitation in January 2012 to the Deputy Prime Minister and the Minister of State Services to submit further papers to Cabinet by 30 April on substantive policies or decisions arising from the Better Public Services work programme, including legislative amendments needed to give full effect to these policies [CAB Min (12) 1/1 refers]

Greater flexibility in appropriations to focus on results

- 2 **agree** that the PFA be amended to replace the current provisions on multi-class output appropriations with a new general provision allowing for appropriations to be created by grouping together output expenses, other expenses and/or non-departmental capital expenditure where these components all contribute to the same purpose, to be known as a multi-component purpose-based appropriation (MPA)
- 3 **note** that MPAs would not be able to include departmental capital expenditure (because this is authorised under a Permanent Legislative Authority) or Benefits or Other Unrequited Expenses (BOUEs) (because they are almost all forecast appropriations)
- 4 **note** that multi-class output appropriations (MCOAs) will still be available for use, as they are essentially a type of MPA
- 5 **agree** that MPAs will be subject to the following rules governing their use:
 - a. an MPA must have a purpose statement, that shows how the component parts contribute to the same purpose;
 - b. any additional components to be included in the MPA must be consistent with the purpose statement;
 - c. each component of an MPA would have its own scope statement, and the scope of the MPA would be the sum of the scopes of the component parts;
 - d. for each type of expense that makes up an MPA, the audit requirements and performance measurement standards for that type of expense will apply;
 - e. departmental and non-departmental expenses and non-departmental capital expenditure could be included in an MPA, but must be kept separate, i.e. a single component part of an MPA cannot contain both departmental and non-departmental expenses;
 - f. the amount of the MPA would be the sum of the amounts of the component parts;

- g. the approval of the Minister of Finance would be required to establish an MPA, and the Minister of Finance jointly with the Minister responsible for the appropriation, would be able to set conditions on the transfer of funding between the component parts of an MPA;
 - h. additional components that are within the purpose statement could be added during the year using Imprest supply; these changes would be reflected in the Supplementary Estimates; and
 - i. MPAs will be annual appropriations
- 6 **note** that the design of MPAs is intended to be permissive but in implementing this new mechanism due attention will be paid to areas where careful judgement is required, such as the boundary between non-departmental and departmental expenditure and the inclusion of forecast appropriations
- 7 **agree** that, from 1 July 2012, the following requirements set out in EXG Min (07) 1/1 be rescinded:
- a. establishing MCOAs in excess of \$50 million must be referred to the relevant Cabinet committee for approval; and
 - b. only 10% of the output class can be transferred between output classes without joint Ministerial approval
- 8 **agree** that, from 1 July 2012, the Minister of Finance, jointly with the Minister responsible for the appropriation, will be able to set, on a case by case basis, specific limits on the amount that can be transferred between the output classes of an MCOA
- 9 **agree** that, to facilitate cross-agency collaboration, the PFA be amended to clarify what is meant by the “administration of an appropriation”, making it clear that a department that administers an appropriation is not the only department that can spend against the appropriation
- 10 **agree** that the requirement in the PFA that Parliament confirm net assets for each department be replaced with a requirement that Parliament authorise capital injections to departments (meaning the net assets provisions in the PFA would be repealed with an associated removal of the net assets schedule from the Estimates of Appropriations)
- 11 **agree** that the PLA for departmental capital expenditure in section 24 of the PFA be retained
- 12 **agree** that to maintain Parliament’s ability to scrutinise and control capital injections to departments, the Information Supporting the Estimates for each Vote set out in detail the nature and amount of capital injections through a ‘capital injections schedule’

Reporting to Parliament

- 13 **agree** that non-financial performance for appropriations be specified in the general terms of 'what is intended to be achieved', to enable performance information to be specified at the most appropriate level, which could include outputs, impacts, outcomes or other measures
- 14 **agree** that:
 - a. for each appropriation for which performance is required to be reported at the end of the year, the Estimates must state:
 - i. what is intended to be achieved;
 - ii. how this will be assessed;
 - iii. who will report this information; and
 - iv. where the information will be reported (for example in a departmental Annual Report or another report)
 - b. this replace the requirement that departments must prepare a Statement of Forecast Service Performance
- 15 **agree** that the requirement that departments prepare a Statement of Service Performance be replaced with a requirement for year-end reporting on what was achieved with each appropriation, which would be subject to audit
- 16 **agree** that the Estimates specify the reason when performance is not to be reported for an appropriation
- 17 **agree** that the Minister of Finance be given the power to grant exemptions for departmental output expenses funded by revenue department from the requirement to provide performance information
- 18 **agree** that the requirement that departments provide each year information on future operating intentions, currently reported as a Statement of Intent, be replaced with a requirement that departments provide information to Parliament on their strategic intentions in the following way:
 - a. departments be required to report to Parliament forward-looking information on their strategic purpose, strategy to achieve this purpose, the rationale for these choices and their plans to manage their capability
 - b. this information be provided at least once every three years but updated more frequently if the department's situation materially changes
 - c. the information cover at least a four year time horizon

- d. in those years when information is provided, it is tabled no later than, but can be tabled in conjunction with, the department's Annual Report
- 19 **agree** that a department's Annual Report be required to include the information necessary to enable an informed assessment of its performance during the financial year including the stewardship of the resources the department controls and management of organisational health and capability
- 20 **agree** that a department's Annual Report can be provided as a component of a report covering more than one agency
- 21 **agree** that the statement of expenses or expenditure against appropriations and statement of unappropriated expenses and capital expenditure be removed from the definition of a department's financial statements, allowing these statements to be provided as a separate component of the Annual Report
- 22 **agree** that a department's projected financial statements for the current year be tabled in Parliament as part of the Annual Report for the previous year
- 23 **agree** that, following consultation with the House of Representatives (initiated by the Minister of Finance sending a proposal to the Speaker of the House), the information required to be reported to Parliament to satisfy the requirements of the Public Finance Act 1989 can be presented in electronic form

Clarifying Chief Executives' financial management and stewardship responsibilities

- 24 **agree** that the financial responsibilities of a departmental chief executive for financial management, financial performance of the department, and financial reporting specified in the Public Finance Act 1989 be augmented by adding responsibility for:
- a. "financial sustainability" to make clear that a department must be capable of continuing to deliver in the future as well as at present;
 - b. what is achieved with each departmental appropriation administered by the department, except where the Estimates indicate that all of an appropriation is to be used by Departmental Agencies or other departments; and
 - c. advising the appropriate Minister on the performance of those departmental appropriations administered by the department which the Estimates indicate are to be used entirely by Departmental Agencies or other departments;

25 **agree** that a departmental chief executive's financial responsibilities in respect of non-departmental expenditure, revenue, assets and liabilities managed by the department on behalf of the Crown:

a. be expressed positively in the Public Finance Act 1989 rather than in the negative as currently; and

b. be:

i. the financial management of, and financial reporting on, non-departmental appropriations administered by the department, and assets, liabilities and revenue managed by the department on behalf of the Crown; and

ii. advising the appropriate Minister on the performance of those appropriations, assets, liabilities and revenue.

Hon Bill English
Deputy Prime Minister

Date: ____ / ____ / _____

Hon Dr Jonathan Coleman
Minister of State Services

Date: ____ / ____ / _____