

Guidance and Requirements for Crown Entities



Preparing the Statement of Intent

October 2009

New Zealand Government

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ISBN 978-0-478-30385-8 (HTML)
ISBN 978-0-478-30384-1 (PDF)

Internet

This document is available on the State Services Commission's internet site.
The URL for this site is <http://www.ssc.govt.nz/crown-entities>



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Preparing the Statement of Intent

What's New?

This document replaces *Guidance and Requirements for Crown entities: Preparing the Statement of Intent* published in December 2008.

There are no major changes to this guidance this year. Minor changes are the addition of the 'What's new?' and Overview sections.

The main changes to the guidance made in 2008 were:

- reflecting changes following the review of accountability documents
- advising of the strong government interest in value for money
- ensuring that the guidance is very clear about central agencies' concerns on the quality of SOIs and the Auditor-General's updated AG-4. Included a reference to the document *Performance Measurement: Advice and examples on how to develop effective frameworks* <http://www.ssc.govt.nz/performance-measurement>
- enhancing the "managing organisational health" section to include information on capital asset management.

About this guidance

This guidance provides advice to Boards and chief executives of statutory Crown entities (Crown Agents, Autonomous Crown Entities, and Independent Crown Entities) on preparing the Statement of Intent (SOI).¹ It has been developed by the Treasury in consultation with the State Services Commission and Department of the Prime Minister and Cabinet as part of an integrated set of advice to support Responsible Ministers, their departments and Crown entities.

This guidance sets out what is expected or required of Crown entities in terms of content and process for SOIs in accordance with the Act, and provides discussion and explanation of the main provisions and any associated expectations.

Expectations and requirements for Crown Research Institutes, Crown entity companies, schools and tertiary education institutions are different and therefore not covered here. Advice for these entities is provided by CCMAU/Treasury², the Ministry of Education, and the Tertiary Education Commission.

¹ Throughout this guidance references to "Crown entity" should be read as applying to "statutory Crown entities"; and references to the "Board" of a Crown entity should be read as also applying to the "member of a corporation sole".

² On 23rd November, all current Treasury and CCMAU ownership monitoring, appointments and governance functions are to be consolidated into the Crown Ownership Monitoring Unit inside the Treasury

This guidance should be read in the context of the companion *Guidance for Crown entities: Planning and Managing for Results* prepared for Crown entities and available from <http://www.ssc.govt.nz/crown-entities>.

It is not anticipated that this guidance will change every year. The Treasury and the State Services Commission will keep the guidance under review and amend it as required. We plan to review and update this guidance in 2011 for the 2012 Statements of Intent. Crown entities will be advised when amendments are made. Suggestions for revisions or improvements are welcome and can be sent to guidance@treasury.govt.nz.

For assistance in ongoing development of robust performance measurement refer to *Performance Measurement: Advice and examples on how to develop effective frameworks*³. The State Services Commission and Treasury, with the support of the Office of the Auditor-General, have developed the performance measurement guide to help and encourage state sector agencies to critically assess their progress to date and to map out a clear path forward. The Auditor General also published a report on performance reporting in June 2008, which may also be useful, particularly Appendix II⁴.

Overview

The Statement of Intent should clearly detail the entity's outcomes and priorities and explain which outputs of the entity assist in achieving these outcomes and priorities.

The focus for improvement in the SOI is on the quality of the performance information.

Crown entity boards and senior leaders of organisations need to understand the purpose and overall content requirements of the SOI. In particular, the board needs to confirm that they are meeting those requirements when they sign their statement of responsibility. Those working on the documents need to read all of the attached guidance to ensure they understand the requirements and the expected standards of reporting.

Assistance from monitoring departments

In the first instance Crown entities should seek assistance in relation to results-focused planning and the preparation of the SOI from their monitoring departments.

The Statement of Intent

The SOI is the entity's document, and is a public document which is tabled in Parliament. There must always be a current SOI; and it must be updated and amended as required to ensure its currency.

The Crown Entities Act 2004 (the Act) provides a clear underpinning for the preparation and presentation of a SOI for every statutory Crown entity (s139).

³ <http://www.ssc.govt.nz/performance-measurement>

⁴ <http://www.oag.govt.nz/2008/performance-reporting/appendix2.htm>

The purpose of the Statement of Intent

The Purpose of the SOI

All Crown entities are required to have an SOI. The SOI's purpose as set out in s138 of the Act is to "promote the public accountability of a Crown entity by:

- *enabling the Crown to participate in the process of setting the Crown entity's medium-term intentions and undertakings;*
- *setting out for the House of Representatives those intentions and undertakings;*
- *providing a base against which the Crown entity's actual performance can be assessed."*

The primary role of the Statement of Intent is to act as a vehicle through which accountability information is provided to Parliament and Ministers and the public. The Statement of Intent enables Ministers and Members of Parliament to scrutinise the performance of agencies and sectors and to hold them to account for the use of resources and powers, as well as their delivery of outputs and contribution to outcomes.

It provides a high-level description and explanation of an entity's operating intentions and performance expectations over the medium-term – usually a 3-5 year period. It provides the base against which the entity will later report in its Annual Report (s150 and s151).

In broad terms the SOI will describe:

- the nature and scope of the Crown entity's functions
- what the entity is trying to achieve and why - and how it will go about doing this
- the main financial and non-financial measures and standards that the entity intends to use to assess progress.

A Crown entity's SOI must also:

- be consistent with any formal directions from Ministers where appropriate
- be consistent with Government policy where appropriate
- contain any particular information agreed with the Responsible Minister.

The SOI sets out the thinking behind the Crown entity's planning, and outlines the key elements of the plans themselves. It describes the main outcomes, impacts and/or objectives which the entity is focused on, the goods and services (outputs) to be supplied, and plans for managing key aspects of capability. It 'tells the story' of how the entity has determined the results identified, its analysis of the environment in which it operates and is likely to operate, and a succinct explanation of the rationale where choices of outputs from a range of possible alternatives have been made. Providing a pen-picture of important recent events and achievements will help the reader understand the thinking about the results sought and the operating environment for the entity.

To assist Parliament and other readers, Crown entities may wish to make reference to supporting information from audits, evaluative activity, research or reviews to demonstrate the basis of confidence the entity has in the information presented – and as necessary to alert readers to any uncertainty or other limitations in the information. Hyperlinks to online documents are encouraged where appropriate.

Responsibility of the Crown Entity Board

Under section 146 of the Act, the obligation to prepare an SOI is on the Crown entity, which in practice means the Board. This is reflected in the Board's collective duties, owed to the Responsible Minister.

The Board's collective duties and the SOI

"The Board of a statutory entity must ensure that the entity acts in a manner consistent with its objectives, functions, **current statement of intent**, and output agreement (if any) under Part 4" (s49, emphasis added)

"A SOI must ... be signed on behalf of the board by two members of the entity or, in the case of a corporation sole, by the sole member" (s141(3))

Boards are expected to be involved in the strategy setting process and they should ensure that their meeting timetable, or procedures to agree the SOI, fit with the timetable for engagement with their responsible Minister and the framework for the tabling of an entity's SOI in the House of Representatives.

The expectation that Boards are involved in the SOI process is reflected by the requirement that the SOI must be dated, and be signed by members of the board

Engagement on the Statement of Intent with the Responsible Minister (and the monitoring department)

The Act's reporting requirements are intended to support the development of effective working relationships between Crown entities, their Ministers, and the monitoring departments. The companion *Guidance for Crown entities: Planning and Managing for Results*⁵ advises early, and ongoing if necessary, strategic engagement between the Responsible Minister, the monitoring department, and the entity, and discusses the use of an annual Letter of Expectations⁶ to support and reflect the results of that engagement.

The expectation for Ministerial engagement is mirrored by the purposes of the SOI in the Act, which includes to "*enable the Crown to participate in the process of setting the Crown entity's medium term intentions and undertakings*" [s138(a)].

⁵ This can be found at <http://www.ssc.govt.nz/planning-for-results-crownentities>

⁶ A Letter of Expectations, which is usually sent annually at the beginning of an entity's planning process, sets out the Minister's expectations for entity's strategic direction, and their specific priorities for the planning period.

It is expected that there will be substantive engagement between Crown entities, Ministers and monitoring department before the draft SOI is sent to the Minister for comment. In particular, Crown entities may want to consider giving their Minister specific opportunities to:

- confirm or change the medium-term strategic goals for the entity, and determine the priority areas for attention in pursuit of those goals
- set or agree appropriate performance expectations for at least the priority areas of the entity's activity.

Engagement between the Responsible Minister and the Crown entity around the entity's strategic direction and targets may result in the Minister proposing a Budget initiative for new funding. This may mean a period of uncertainty while decisions on the initiatives are made, and could raise the possibility of alternative versions of the draft SOI being developed. The entity's timeline for preparing the SOI – including the timing and frequency of Board meetings for final decisions – will need to accommodate this. Budget decisions affecting Crown entities will be communicated through a standard recommendation at the discretion of Ministers.

In practice, much of the process of consultation with the Responsible Minister is likely to be delegated to the monitoring department, and will be an easier process where:

- the Minister, entity and monitoring department have engaged early during the planning process and the entity and the monitoring department continue to engage at key times, involving the Minister as necessary
- the monitoring department has a well developed understanding of the entity's operating environment, any sector wide or joint arrangements for delivering outcomes and the entity's thinking about its results and activities.

Entities should discuss with monitoring departments what assistance can be provided and agree on dates for review and contributions. These dates may need to take into account the timeline for the development of the monitoring department's own SOI - particularly where the monitoring department and Crown entities are contributing to the same sector strategy.

The delegation to monitoring departments does not negate the statutory requirements to provide the Minister with draft and final copies of the SOI.

For information on the presentation of statements of intent to the House and the publication timetable refer to page 23.

Obligations of the Crown entity and the rights of the Responsible Minister

The balance between the obligations of the Crown entity and the rights of the Responsible Minister is carefully drawn in the Act. In particular:

- the entity must consider the Minister's comments on a draft SOI, but does not have to change the SOI once it is finalised following consultation unless directed to do so by the Minister (s146)
- a Responsible Minister can direct on some of the content of an SOI [(s147(1)). The areas on which s/he can direct are the nature and scope of the entity's functions and intended operations, the results the entity seeks to achieve, how the entity intends to perform its

functions, the measures and standards by which the performance of the entity will be judged, the matters on which the entity will consult/notify the Minister, the kind and frequency of reporting, processes in relation to acquisition, and about its statement of financial performance

- the Responsible Minister must consult a Crown entity before directing it, and any direction must be tabled in the House of Representatives and gazetted [s147(2)(b)]
- if the entity has been directed to give effect to or have regard to government policy directions, it must say how the objectives set out in the SOI might relate to any outcomes or objectives referred to in the direction [s141(1)(c)].the entity and the Minister may agree on additional information being included in the SOI [s145].

The Responsible Minister cannot give directions in relation to a statutorily independent function, nor direct a Crown entity to bring about a certain result in respect of a particular person [s147(2)(b), s 113]. More generally, the Act recognises levels of independence in the way that it categorises Crown entities [s7] and the Act does not provide a power for Ministers to direct ICEs on Government policy [s105].

Organisational coverage of the Statement of Intent

The SOI is focussed on explaining the Crown entity's operating intentions and performance expectations. It encompasses the whole of the entity's business, including interests in other entities.

Subsidiaries

Where a Crown entity has a controlling interest⁷ in a subsidiary, the parent includes reporting on the subsidiary in its own SOI, and the subsidiary is not required to prepare a separate SOI or a separate annual report.

A parent and its subsidiaries are defined as a Crown entity group. The Crown entity group includes both Crown entity subsidiaries (as defined in s7(1)(c) of the Act) and any other entity that is a subsidiary for the purpose of any applicable financial reporting standard. For example, if a Crown entity has established a charitable trust which is controlled by the parent the trust will be part of the Crown entity group for the purposes of the SOI.

Multi-parent subsidiaries

Where several Crown entities jointly have a controlling interest in a company, but none of the parent Crown entities has a controlling interest in its own right, the "multi-parent subsidiary" is required to produce its own SOI.

If the Minister of Finance is satisfied that it would be unduly onerous for a multi-parent subsidiary to produce an SOI or Annual Report, s157 of the Act allows him/her to exempt such a multi-parent subsidiary from the requirement to do so⁸. Such a circumstance might arise, for example, if several Crown entities jointly owned a company that provided them laundry services, or a company that did not actually trade.

⁷ As defined in s5-8 of the Companies Act 1993

⁸ But not from the requirement to produce audited financial statements

The Minister of Finance may set conditions as part of any such exemption, for example that one or more of the parent Crown entities includes information in its own SOI about the subsidiary.

Where a Crown entity jointly controlling a company believes that it may qualify for an exemption, it should contact its monitoring department in the first instance.

Structure and key components

The Act specifies the kind of information that Crown entities must provide, but not the form in which it must be provided.⁹ Within the one document format, the structure of the SOI is the responsibility of each entity, as the document needs to reflect the nature and complexity of each entity's particular functions.

Reporting on 'what matters'

The SOI is an important vehicle for telling a Crown entity's 'performance story'. To do this, Crown entities should focus their SOI (and particularly performance information in the SOI) on their key performance messages. Rather than reporting on everything to everyone (which will overload readers with information that is not relevant to them), the SOI should only include the key measures that are necessary to demonstrate the performance of the Crown entity.

This will allow a Crown entity's SOI to be relatively concise, while still containing important information.

Demonstrable progress in performance information and reporting

Ministers and Parliament expect to see demonstrable progress in the quality of public sector performance information. There is a strong government interest in value for money. By its nature, the SOI provides a public window on a Crown entity's efforts in measuring and reporting on its progress. Progress should therefore show up clearly in the quality of the information provided in the SOI. To reflect this priority central agencies are providing guidance and assistance to Crown entities. The Auditor-General will be grading performance information in the forecast statement of service performance from 2009. Information about the grading approach used by the OAG can be found in *Central Government: results of the 2006/07 audits* <http://www.oag.govt.nz/central-govt/2006-07/part3.htm>

Improving performance information is ultimately about improving results for New Zealanders. A good measure of progress is the extent to which a Crown entity can demonstrate it has delivered improved results in a manner that is consistent with public expectations.

The period covered

The SOI must cover a minimum of three financial years [s139(1)]. Some Crown entities will have longer planning horizons and can consider reflecting that in their SOI.

Where an entity is to be disestablished or significantly restructured within the three year planning horizon, it may not be possible to sensibly plan beyond that restructuring date. In

⁹ Note there is scope in the Act for the Responsible Minister to specify the form in which information in the SOI is disclosed [s145(b)].

this situation, the Responsible Minister can agree to an entity providing an SOI for a period of less than three financial years. In this situation the Responsible Minister must present an explanation to Parliament [s149(2)].

The information required

The content requirements are divided into two broad sets of information.

A medium-term set of information (s141)

This set looks a minimum of three financial years into the future – longer if it suits an entity's planning requirements - and provides a succinct, strategically-oriented description and explanation of what the Crown entity is trying to achieve in that period, how it intends to achieve this and measure the progress made, the challenges it will face and the implications for its capability. More detail about the information required is provided below.

An annual set of information (s142)

An annual set of information for the first financial year of the SOI period that provides more detailed performance information including forecast financial statements, a statement of forecast service performance, and other necessary measures or standards. More detail about the information required is provided below.

Separating and linking the two sets of information

Crown entities should keep these two components separate so that the medium-term focus and coherence of the SOI is maintained and not dominated by the more detailed financial and non-financial information required for the first year of the period covered by the SOI. In addition, this separation will clearly distinguish the information that will be audited when reported against in the Annual Report at the end of the year.

At the same time clear linkages are needed between the two to assure readers that the entity's annual and medium-term plans are properly aligned, and that progress is being made in year one towards meeting the Crown entity's medium-term objectives.

Medium-term Information

In accordance with s141 of the Act, the SOI must set out and explain the following information for the full period to which it relates:

The operating environment

"key background information about the Crown entity and its operating environment [s141(1)(a)]"

This sets the scene for the 'story' that the SOI tells and describes important and relevant features of the operational and wider environment within which it operates. Information about trends in key indicators may be included.

Overall, the background information provides the context which helps the reader to understand the Crown entity's intentions, and in particular why and how the results that the entity is planning for have been selected.

What the entity does

“the nature and scope of the entity’s functions and intended operations [s141(1)(b)]”

This section gives the reader a clear sense of the role and functions of the entity, the scope of its operations, and any limits or constraints established or agreed.

Statutory entities must operate within the scope of the functions and powers conferred on them by Parliament. This means they may face some constraints in terms of choices about changes to the mix of interventions that they make. Nevertheless, many Crown entities have considerable discretion in what interventions they give priority to and how they go about their business. Some have the ability to undertake additional functions, typically if directed to do so by their Minister.

Impacts, outcomes and objectives

“the specific impacts, outcome, or objectives that the entity seeks to achieve or contribute to and, if the entity is directed to give effect to or have regard to government policy directions, how the objectives referred to in the direction will be achieved [s141(1)(c)]”

The Act seeks information on impacts, outcomes or objectives in specific terms. Very general, high-level and all-inclusive goals may make useful vision statements, but are not sufficient to meet this requirement. A good SOI should be clear about the nature of the impacts, outcomes, and/or objectives over which it has most direct influence, and will specify how it and others will be able to judge success within the chosen planning period (including a sense of relative priorities)¹⁰.

Where the strategic plan reflected in the SOI reflects the entity’s intention to contribute to results across a sector, the agencies involved will need to discuss how best to align their SOIs so that they read as an integrated set. This might, for example, involve ensuring that the specification of the results driving the agencies’ plans are consistent with one another, and that the measures used to track progress fit together well.

Entities’ operating intentions

“how the entity intends to perform its functions and conduct its operations to achieve those impacts, outcomes, or objectives [s141(1)(d)]”

This section provides information on how the Crown entity intends to deliver on its results and effectively manage its operations including:

¹⁰ “Outcomes” and “impacts” are defined in the Act and these definitions along with a definition of “objectives” are included in the Glossary. Further discussion of the concepts of outcomes, impacts and objectives is found in *Guidance for Crown Entities: Planning and Managing for Results* on <http://www.ssc.govt.nz/planning-for-results-crownentities>

- an explanation of the rationale for the results expected from the entity's main interventions (including goods and services), as well as the risks the entity needs to manage and how it will manage these
- any major evaluative activities planned to test the efficiency and effectiveness of the entity's interventions
- where relevant, an explanation of how the entity will work with other organisations to help achieve the desired results, including other agencies with common outcomes or similar clients for service delivery, and the plans or activities which are in place to manage or coordinate these shared interests
- how the entity intends to respond to the main characteristics (including risks) of the environment in which it operates.

Managing organisational health

“how the entity proposes to manage the organisational health and the capability of the entity [s141(1)e]”

Capability refers to the resources an organisation needs to efficiently deliver the outputs required to achieve or impact the Government's objectives. These resources include access to leadership, people, culture, relationships, processes and technology, physical assets, and structures.

This section provides a straightforward description and discussion of the Crown entity's organisational health and the management of key elements of the Crown entity's capability (now and in the future) within the available resources, including plans to develop or change any specific type of capability.

The description will benefit from the inclusion of measures to add to the reader's understanding of the entity's capability. These might include for example trends in recruitment, retention of key staff, good employer policy, plans and targets for efficiency changes arising from new ways of doing things and from technology investments.

The discussion should consider any capability limitations and their impact on the Crown entity's ability to perform its functions and conduct its operations effectively to deliver the outputs and enhance results.

An important part of an entity's capability is its management of capital assets. Cabinet has expectations in this area with regard to Capital Asset Management. These particularly apply to capital intensive agencies. Regardless of whether an agency is capital intensive, we expect good asset management.

If a Crown entity has capital assets, it is recommended that they be covered in this section of the Sol. This section should link with the rest of the Sol in telling the performance story.

The three main areas for coverage for a capital intensive entity are:

Asset management capability – This information would explain how the entity's asset management practices will evolve and be maintained at a level appropriate to the scale and

criticality of assets under management. The Capital Asset Management (CAM) regime describes three levels of asset management practices – core, moderate and advanced¹¹.

Performance of physical assets (plant, property and equipment) – This information compares actual and planned performance of the entity’s asset portfolio in relation to the services they are designed to support. Both financial and non-financial measures can be used to demonstrate how the entity intends to maintain an oversight on its ongoing capability. Non-financial performance will typically be expressed in terms of four main dimensions: availability, utilisation, functionality and condition. Other agency or sector-specific performance metrics may be used for example, compliance with seismic standards.

Capital expenditure intentions – The information provided in this section should give an overview of the forecast capital expenditure and forecast maintenance intentions for the full period covered by the SOI (using standard asset categories), any significant capital pressures facing the entity under current policy settings, proposed mitigation actions and the scope for these to be funded from baselines¹². For capital-intensive entities the information should be consistent with that provided in the most recent Capital Intentions report submitted to Treasury.

Entities will need to exercise judgement about whether this capital information is most appropriately included in the “Operating Intentions” section and/or best included in this section. The location of the information should be informed by what assists the entity in telling the best performance story overall. In addition, the location should reflect, for a capital intensive entity, how important it is that the three areas of coverage above are in terms of the delivery of outputs and/or services in relation to expected performance.

Financial and non-financial measures

“the main financial and non-financial measures and standards by which the future performance of the Crown entity may be judged [s141(1)f]”

A Crown entity must report on how it intends to measure important aspects of its performance, and the standards – the intended level of performance within a stated timeframe – that it seeks to achieve in relation to those measures. These measures and standards should cover the outcomes, impacts or objectives¹³ sought by the entity, the goods and services (the outputs) that the entity will deliver – as well as any associated financial measures. These measures should tell the high level performance story, which provides the background for the annual information. Good measures and standards reveal the value for

¹¹ For more information on CAM please go to: <https://psi.govt.nz/cam/default.aspx>

¹² For more detailed information, refer to TC 2008/12: Capital Intentions of Capital-Intensive Agencies and Sectors - 2008 Profile, available at <http://www.treasury.govt.nz/publications/guidance/circulars/pdfs/tc-2008-12.pdf>

¹³ Unlike impacts and outcomes, objectives are not defined. *Objectives* apply where no impacts or outcomes are readily identifiable. As this situation is not likely to be common and is most likely to arise with output expense appropriations for administrative and support services internal to the Crown (intra-government activities) and with some other appropriation types, particularly capital expenditure, we generally expect to see frameworks featuring outcomes and impacts and main measures of these.

money of the entity's activities and provide the basis for Parliament and other users of the SOI to appreciate the efficiency and effectiveness of the entity's operations.

The *Performance Measurement: Advice and examples on how to develop effective frameworks guide* can assist Crown entities to develop robust performance measurement and reporting frameworks¹⁴. See also the Auditor General's comments

<http://www.oag.govt.nz/2008/performance-reporting/appendix2.htm>.

Consultation and reporting to the Responsible Minister

“the matters on which the Crown entity will consult or notify its responsible Minister before making a decision, the matters on which it will report to the responsible Minister, and the frequency of reporting [s141(1)g]”

This section of the SOI provides a vehicle for the entity to summarise agreements about the nature and frequency of regular reporting to the Responsible Minister (and his/her monitoring department).

The SOI will include information here on matters about which the entity will consult or notify the Responsible Minister before making a decision. Possible examples include areas that are closely aligned with the government's objectives or major capital investments or proposals for major changes to the scope of business (bearing in mind that any major change in scope may require amendment to the SOI).

Processes in relation to acquisitions

“any process to be followed for the purpose of s100 [s141(1)h]”

This is a description of any process to be followed for proposed acquisition of shares or of interests in companies, trusts and partnerships. The process will be consistent with any expectations or conditions set by the Responsible Minister, and as a minimum will require notice to the Minister. Any proposed acquisition will need to be consistent with the entity's nature and scope. For information on restrictions with regard to acquisition of subsidiaries and securities refer to ss 96,161.

Other matters

“other matters the entity is required to include in the statement of intent under this Act or another Act [s141(1)i], and

any other matters that are reasonably necessary to achieve an understanding of the entity's intentions and direction [s141(1)j]”

There are a few entities required by their legislation to include additional information in their SOIs.

¹⁴ Performance Measurement: Advice and examples on how to develop effective frameworks
<http://www.ssc.govt.nz/performance-measurement>

Other matters could include anything the entity is required to include by regulations issued under s173(1)(a) of the Act. Currently there are no such regulations.

Annual information

The Act requires the SOI to contain more detailed information about the entity's operations for the first financial year of the SOI period. Both sets of information in the SOI (the medium-term and the annual) need to be clearly consistent with, and related to, one another.

S142 of the Act requires the following information to be included in the SOI for the first financial year of the SOI period:

Forecast financial statements

*"forecast financial statements for the entity prepared in accordance with generally accepted accounting practice [s142(1)(a)]"*¹⁵

The definition of "forecast financial statements" is set out in s2(1) of the Public Finance Act 1989 and consists of:

- a forecast statement of financial performance
- a forecast statement of financial position
- a forecast statement of cash-flows
- any other forecast financial statement required by generally accepted accounting practice (GAAP)¹⁶
- any other forecast financial statement required by any regulations made, or instructions issued, under this or any other Act.¹⁷

These statements provide the basis for end-of-year reporting in the financial statements contained in the Annual Report and the basis on which those statements are audited.

Assumptions underlying the forecast financial statements

"a statement of all significant assumptions underlying the forecast financial statements [s142(1)(d)]"

¹⁵ Generally accepted accounting practice" (GAAP) is defined in s136 of the Act. The relevant accounting standard under GAAP is FRS-42. This standard is likely to be amended and details are available from www.nzica.com.

¹⁶ For the financial year ending 30 June 2008 and onward, New Zealand's generally accepted accounting standards (GAAP) were changed to reflect the new International Financial Reporting Standards (IFRS).

¹⁷ There are currently no regulations or instructions related to reporting issued under this Act. As and when they are made, they will be posted on <http://www.treasury.govt.nz/statesector/crownentities>

In providing this information, entities must comply with the standard of information stipulated by FRS 42: *Prospective Financial Information*.¹⁸ As noted in FRS 42, the quality of prospective financial information is largely dependent on the completeness and reliability of the assumptions underlying that prospective financial information.

Users require information on the assumptions underlying prospective financial information so they can make an informed judgement on the quality and reliability of the forecasts. Users also require information which assists them in assessing the sensitivity of prospective financial information to changes in assumptions which are subject to a high degree of uncertainty. Therefore the assumptions which are provided should be based on best available information and estimates, consistent among themselves, and consistent with the plans of the entity. The assumptions should be applied consistently.

Additional information

“any additional information and explanations needed to fairly reflect the entity’s forecast financial operations and financial position” [s142(1)(e)]

By way of example NZ IAS 1 requires entities to provide qualitative information about its objectives, policies and processes for managing capital. Appropriate additional information to be included in a SOI could include any constraints or limitations over the use of its capital, the entity’s objectives with respect to its financial capability and how this might fit with any reserves policy or proposals to make capital repayments back to the Crown.

Forecast service performance

“a statement of forecast service performance [s142(1)(b)]”

S142 of the Act requires the SOI to include a statement of forecast service performance for the first financial year of the SOI period. This information is intended to provide Parliament and others readers with more detail about the first year of the medium-term plan outlined in the SOI.

The statement of forecast service performance must:

- describe each class of outputs¹⁹ the Crown entity proposes to supply during the financial year
- provide forecast measures and standards of output delivery for each class of outputs
- identify the expected revenue to be earned and the proposed output expenses to be incurred for each class of outputs
- be prepared in accordance with generally accepted accounting practice.

¹⁸ More information is available at www.nzica.com.

¹⁹ See *Exemption from Forecast Service Statement Requirement* below.

The forecast measures and standards in the SOI for each output class should be meaningful in describing the nature of the goods and services to be provided, and should meet the technical specifications of goods and services supplied that can be used for audit purposes. Performance measures and standards should also relate to impact and outcome information as part of the overall performance information framework.

Information on expected revenue should distinguish between revenue from the Crown and from other sources. Entities should also state the expected surplus or deficit for each output class.

Linking Medium-term and Annual information

Clear linkages are needed between the two sets of information to assure Parliament that the entity's annual and medium-term plans are aligned and that the outputs described are well-aligned with the results described in the medium-term component of the SOI.

In preparing SOIs, Crown entities should review their medium term intentions and align their annual performance intentions. Within the SOI, Crown entities should ensure that:

- the performance story and the overall performance framework within the SOI is clear and reflects actual governance and management intentions
- the line of sight between the outputs and the impacts and outcomes sought is clear
- outcomes, impacts, objectives and outputs are clearly and properly identified
- outcomes, impacts and outputs are logically aggregated with appropriate measures, and
- performance measures and targets are clear with supporting contextual information that makes the relevance of the measures and targets evident.

Entities should pay particular attention to the performance information (for example: quality, quantity, timeliness, and cost). These factors enable an entity to demonstrate the quality and impact of output performance, value for money, and improved performance over time.

From 2009 the auditor will be grading Service Performance Information and Associated Systems and Controls within its Ministerial and Select Committee Reporting. To do this the auditor will review the forecast SOI performance information:

- to assess the extent to which the SOI provides a reasonable framework for subsequent annual reporting, and
- for consistency with the internal performance management arrangements.

Aligning SOI Information with the Estimates of Appropriation

Where a Crown entity receives funding from the Crown, the description of output classes in the statement of forecast service performance needs to be aligned with the way in which the corresponding output class appropriations in the Estimates of Appropriation are described.

This facilitates reporting and accountability to Parliament for public money – it allows Parliament to be confident that the scope of the appropriation it has made and the amount appropriated are reflected in the outputs supplied to the Crown by the entity. In addition, where consistency between the entity's statement and the Estimates can not be shown, the

Minister responsible for the appropriation and the department administering the Vote run the consequent risk of breaching appropriations.

Any output agreement made with the Responsible Minister under s170 should be consistent with the statement of forecast service performance.

The New Zealand Institute of Chartered Accountants has a Technical Practice Aid 9 on Service Performance Reporting, which entities may find helpful when preparing their statement of forecast service performance (the NZICA website, www.nzica.com, has information on how to purchase this Technical Practice Aid).²⁰

Reporting in the forecast statement of service performance should be consistent with the output appropriation specification in the Estimates, to enable readers of these documents to make comparisons between them.

Exemption from the Statement of Forecast Service Performance Requirement

“exemption for certain outputs [s143]”

The Minister of Finance can exempt any class of outputs from being included in a statement of forecast service performance if the Minister is satisfied that it is:

- not directly funded by the Crown in accordance with an appropriation, or by levies, fees or charges prescribed by or under any Act, or
- to be adequately reported on to Parliament in that financial year by a Minister, department or another public entity.

An output class that the Minister exempts may include outputs that do not qualify under either of the two criteria above, as long as the non-complying outputs are of insignificant value.

The Crown entity need not prepare a statement of service performance (for its Annual Report) in respect of any output classes for which it has an exemption under s143.

The statement of forecast service performance must include a statement of any exemptions granted. If all of the output classes are exempted, the SOI only need include a statement to that effect.

Where a Crown entity believes that it may qualify for an exemption from including one or more output classes in its SOI, it should approach its monitoring department in the first instance.

²⁰ A wide range of other literature on the subject of reporting performance information is available, and entities are encouraged to access this material when developing their SOI.

Other measures and standards

“any other measures and standards necessary to assess the Crown entity’s performance at the end of the financial year [s142(1)(c)]”

Financial statements and statements of service performance are not the only measures of entity performance that may be sensibly reported on annually. If something is important to the ongoing success of the organisation, and actual progress or performance can be assessed on a regular basis, then it would be appropriate to include a measure and intended standard of performance for it in the SOI against which the entity would then report in its Annual Report.

Entities should monitor and report annual progress made towards outcomes, impacts and objectives. This allows the entity and stakeholders to make an informed assessment of the entity’s progress and performance.

These measures will also be covered by the formal audit opinion from 2009. This is an area where practice is evolving, and entities may wish to discuss their choices about what to include here with their auditor.

Confidentiality of information

Entities will be mindful of the care required in relation to the disclosure of sensitive information including that related to people’s privacy and to commercial transactions. Decisions about such information may benefit from discussion with the monitoring department.

Entities should note however that the Act does not specifically empower entities to withhold information from SOIs (and other accountability documents) as used to be the case under the former s45A of the Public Finance Act 1989.

Process and timing requirements

Presentation to the House

Statutory Crown entities are expected to prepare their SOIs in time to be presented to the House of Representatives on the day after Budget (usually mid-May). This aligns Crown entities with the departmental timeline, and encourages greater cross-sector planning and collaboration. It also provides Select Committees with more information when they consider the Estimates. If adherence to this timetable is not practicable, an entity may table later but must still comply with the statutory requirements, and it is expected that entities adjust their processes to meet the new timetable by the following year.

Expected timetable

Action	Date (no later than)
Crown entity provide a draft SOI to its responsible Minister	31 days before Budget
Responsible Minister provides comments on the draft	15 days before Budget day
Entity must consider comments on the draft, and provide the final SOI to its responsible Minister	The day before Budget Day
The responsible Minister provides the SOI to the Minister of Finance, who will present all SOIs to the House, the Constitution Act allows for one Minister to act for another	Day after Budget Day

Minimum timetable under the Crown Entities Act

Action	Date (no later than)
Crown entity provide a draft SOI to its responsible Minister [s146(2)(a)]	30 days before the start of the financial year
Responsible Minister provides comments on the draft [s146(2)(b)]	14 days before the start of the financial year
Entity must consider comments on the draft, and provide the final SOI to its responsible Minister [s146(2)(c)]	On or before the start of the financial year

Details for the process of presentation to the House can be found on the website of the Office of the Clerk.²¹

Style of the SOI

The SOI is a public and key accountability document designed to give Parliament a full and balanced view of the Crown entity's intentions regarding strategy, capability and performance. The information in the SOI should be set out in a way that is clear and accessible to these varied audiences.

Statements of Intent should be plain in style (more akin to current Budget documentation), concise, relevant, and accessible and focussed on meeting the needs of Ministers and Members of Parliament.

Developing concise and accessible SOIs is not solely about presenting them in a certain style. The document needs to convey the entity's performance intentions to Ministers and Members of Parliament without providing unnecessary material. Peripheral information not required by legislation or requested by Ministers from their SOIs should not be included e.g. lengthy forewords or introductions from Chief Executives, profiles of staff and case studies.

SOIs should only use a limited range of colours (two-tone is preferred), and should only include pictures where these add meaning to or aid understanding of the government's and entities' medium-term intentions being set out in the SOI. Graphs, tables and charts are still encouraged.

²¹ <http://www.parliament.nz/en-NZ/PB/Presented/Papers/e/1/c/00HOOCPBPresentedPapersPapers1-Presentation-of-papers-to-the-House.htm>

More detailed or additional information to meet the needs of a broader range of stakeholders could be provided through wider use of other, more tailored mechanisms rather than the SOI.

For further information relating to the style requirements please refer to the Office of the Clerk (the House of Representatives' secretariat) circular [Presentation of papers to the House](#).

Publication

If the House is in session, SOIs are not published until after the SOI has been presented to the House.

Crown entities must publish the SOI as soon as practicable after its presentation to Parliament, and in any case no later than 10 working days after the Minister has received it. Again, entities should note that there is no scope for delay. We recommend that as a minimum the entity publishes the Statement of Intent on its website²².

Previous SOIs should also be available to the public and other entities (e.g. on the internet via hyperlinks). The preceding year's SOI provides the crucial comparative context for the Annual Report. Previous SOIs also allow readers to identify changes in direction, operating environment and indicators.

Changes to a Crown entity's operations after the publication of the Statement of Intent

The SOI must be current and accurate because the collective duties of the Board include a duty to ensure that the entity acts consistently with its SOI (s49). The SOI should therefore be updated if it is inaccurate and in particular must be updated if the intentions and undertakings in the SOI are significantly changed by any of the following:

- information in the SOI being false or misleading in a material particular
- a direction given by a Responsible Minister
- a whole of government direction
- a change in the law
- any change in the Crown entity's operating environment (s148).

If the amendment is made late in the first financial year to which the SOI applies, the entity could decide to use the requirement for amendment as an opportunity for the early preparation of the SOI for the next medium term period.

The processes for consultation with the Responsible Minister over the tabling of the amendment and/or the amended SOI (as appropriate) in the House of Representatives follow those applying to the original SOI, and are set out in s148 and s149 of the Act.

²² Note that there is provision in the Act for the Minister of Finance [s174(1)] to prescribe minimum requirements for the publication of information, but to date none have been prescribed.

The changes will also need to be advised and explained in the related Annual Report. This may involve inserting additional text or providing additional disclosures in the financial statements and the statement of forecast service performance, supplemented with text explaining changes to the agreed intended performance.

If this approach is adopted, Parliamentarians will be able to track the forecast performance included in the SOI to the audited actual performance stated in the Annual Report.

Parts of the Statement of Intent that relate to auditable material

S156 of the Act requires a Crown entity's annual financial statements and statement of service performance to be audited by the Auditor-General (as well as any other information that the Auditor-General has agreed or is required to audit). These statements, which form part of the Annual Report, include the comparative information contained in the SOI prepared in accordance with s142(1) that relates to the reporting period, i.e. the forecast financial statements and statement of forecast service performance.

Central agencies and the Auditor-General continue to express concerns about the quality of non-financial performance information. The Auditor-General will be grading performance information on whether it complies with generally accepted accounting practice and fairly reflects the Crown entity's service performance for the year.

Once the draft SOI is reasonably well-developed, it is good practice for an entity to ask its auditor to review the SOI. There are aspects of the SOI, particularly the forecast measures and standards for the forthcoming year, that auditors take a keen interest in as they need to assess whether they are appropriate (i.e. relevant, complete and understandable) and whether the actual measures and standards are capable of being audited at the end of the reporting period.

OAG Advice to Select Committees

Select Committees conduct annual financial reviews of all Crown entities listed in Schedule 1 of the Crown Entities Act 2004. The OAG provides a briefing to the Select Committees to assist with their review, and may comment on any aspect of the entity's SOI in providing this briefing.

Glossary

Autonomous Crown entities (ACEs)	Those named in Part 2 of Schedule 1 of the Crown Entities Act. They must have regard to government policy when directed by the responsible Minister.
Capability	What an organisation needs in terms of access to leadership, people, culture, relationships, processes and technology, physical assets, and structures to efficiently deliver the goods and services required to achieve the results sought by the entity - whether those results are set by reference to Government policy or by statute.
Crown agents	Those named in Part 1 of Schedule 1 of the Crown Entities Act. They must give effect to government policy when directed by the responsible Minister.
Crown entity group	A Crown entity, its Crown entity subsidiaries, and any other entity which is subsidiary for the purpose of a relevant reporting standard [s136 of the Crown Entities Act 2004]
Impact	The contribution made to an outcome by a specified set of outputs, or actions, or both [s2(1) of the Public Finance Act].
Independent Crown entities (ICEs)	Those named in Part 3 of Schedule 1 of the Crown Entities Act. They are generally independent of government policy.
Letter of Expectations	A Minister's expectations for an entity's strategic direction, and their specific priorities for the planning period, may be reflected in an annual letter of expectation from the Minister to the board of an entity.
Monitoring department	A department that provides support to a Minister in carrying out his/her role and responsibilities in relation to Crown entities.
Objectives	These are not defined in the Public Finance Act so has its ordinary meaning of "goal" or "aim". Its inclusion in the Crown Entities Act 2004 alongside "impacts" and "outcomes" recognises that not all outputs and activities are intended to achieve "outcomes" as that term is defined below. Some outputs and activities do not target a direct societal, economic or environmental effect, and their effectiveness should not be judged on that basis. Nevertheless, they can be important in the context of Crown entities' performance, and objectives will feature in the shaping of some entities' results-focused planning.
Outcome	A state or condition of society, the economy or the environment and includes a change in that state or condition [s2(1) of the Public Finance Act].
Outputs	Outputs are final goods and services – that is, they are supplied to someone outside the entity. They should not be confused with goods and services produced entirely for consumption within the Crown entity group. Output classes are groups of similar outputs. ²³

²³ Also see s5(20) of the Public Finance Act 2004