
Executive Summary

This report includes:

- our audit opinions on the 2004-05 Total State Sector Accounts and the Statement of Budget Result
- recommendations for more meaningful financial and non-financial reporting
- comments on the Statement of Budget Result.

AUDIT OPINIONS

We issued a qualified audit opinion on the Total State Sector Accounts because the WorkCover Scheme Statutory Funds and Crown reserves should have been included. A similar qualification was made last year. Our Independent Audit Report on the Statement of Budget Result was unqualified.

THE STATE'S FINANCIAL POSITION

The State is in a strong financial position but it is currently facing some cyclical and structural fiscal pressures.

In earlier years' Reports to Parliament, we have included an analysis of the State's financial position, but have not done so this year. As we have previously acknowledged, the Treasurer's Report on State Finances and the Budget Papers already provide a high level of disclosure of the State's finances. We see little value in simply duplicating that information. Rather, we want to highlight the need for better non-financial information about the State's performance.

THE STATE'S PERFORMANCE

The State's fundamental role is to provide services rather than make a profit. That does not mean the State and its agencies should not operate in a business-like manner, nor adopt relevant private sector financial management disciplines. It does mean that assessing the State's performance calls for information about the nature, quality and quantity of services as well as its finances. Currently, only the latter information is available in any comprehensive way.

Whole-of-government performance reporting would fill this gap. It would help the Government and central agencies in managing the State, in prioritising resources between agencies, and in delivering better services. It would also be a sign of a healthy democracy, helping citizens to understand and assess the performance of their elected government.

Performance reporting at the State level would be a simple extension of the concept that agencies must report on their performance. It would also strengthen the discipline of resource decisions when government finances are strong, and help the sector to weather times of financial pressure.

Recommendations

We recommend that the Government build on existing agency performance systems by:

- identifying the key outcomes (social, economic, environmental) that the Government is seeking to achieve
- developing a suite of performance indicators that best measure progress towards those outcomes
- reporting on these annually, either in conjunction with the Treasurer's Report on State Finances or shortly thereafter.

Audit Opinions: Total State Sector Accounts and the Statement of Budget Result

TOTAL STATE SECTOR ACCOUNTS

Under the *Public Finance and Audit Act 1983* (the Act), the Treasurer must prepare consolidated financial statements for the Total State Sector every year. After the Auditor-General audits the statements, the Treasurer presents them to Parliament. Under the Act, the Auditor-General also reports to Parliament on the results of the audit.

We issued our Independent Audit Report on the 2004-05 Total State Sector Accounts on 29 September 2005.

Audit Opinion with Repeat Qualification

We qualified our opinion this year for the same two reasons as last year.

Firstly, the Treasurer excluded the WorkCover Scheme Statutory Funds. We continue to disagree with the Treasurer over control and ownership of the Scheme and hence its exclusion from the Accounts. This is the sixth time we have qualified the Accounts for the omission.

Secondly, we qualified the Accounts because they omitted the value of Crown land that is dedicated or reserved under the *Crown Lands Act 1989*. In our opinion, the fair values of the reserves should be included because the State has the capacity to benefit from their use and can regulate the access of others to that benefit.

Treasury advises that the likely value of the reserves controlled by the NSW Government cannot yet be estimated with any certainty. Treasury estimates are that the total value of these reserves may be between \$1 billion and \$7 billion, or even outside this range.

We reported last year that the Government has started a project to identify and value the Crown reserves it controls. The Department of Lands' initial scoping of the task is that it is a major project, both in terms of skilled human resources and funds required. Little progress has been made during the year.

STATEMENT OF BUDGET RESULT

The Statement of Budget Result covers only the General Government Sector. It is prepared using Government Finance Statistics (GFS) data classification principles. GFS is a set of statistical standards for presenting public sector expenses, revenues and financing transactions on an accrual basis. It is based on standards developed by the International Monetary Fund and is similar in most (but not all) respects to the system advocated by the United Nations. In Australia, the GFS is used by the Australian Bureau of Statistics in classifying public sector finances.

We issued an unqualified Independent Audit Report on the 2004-05 Statement of Budget Result on 29 September 2005.

Reporting of the State's Performance

Maintaining and reporting robust information on the State's performance has two benefits. Firstly, healthy democracy requires reporting to citizens so that they are well informed. Secondly, it assists a government in reviewing whether it has achieved its objectives and in deciding on the allocation of its available resources.

The primary role of government is to provide services and to make and enforce laws and policies that enhance or maintain the well being of its citizens. In New South Wales (as in most developed jurisdictions), the government has an extensive impact on the community and uses significant resources in doing so. It is the major provider of critical services such as health, education, welfare, emergency services, law enforcement, judicial administration, public transportation, electricity, water and sewerage. It regulates commerce and the environment.

The New South Wales Government has budgeted to spend \$40.6 billion on general government services and \$8.2 billion on supporting infrastructure across the sector during 2005-06. The sheer size of government activity and the magnitude of its financial affairs mean that good information is crucial to both sound management of the State and its accountability to its citizens.

In private sector entities the most important information for management and accountability comes from the entities' financial reports. That is because the main purpose of a for-profit entity is to increase the wealth of its shareholders. A government's purpose, by contrast, is the well being of its citizens, rather than the profit it might make. A government's financial report provides only part of the information that is important for its management and accountability.

A financial report does not show, for example, whether the government's services contributed to citizens' well-being and, if they did, to what extent. Nor does it show how efficiently and effectively the government delivered its services. The financial report does not provide enough information for the government or citizens to determine whether the government succeeded in its primary purpose of maintaining or enhancing the well-being of its citizens. Only performance reporting can provide this information.

We have recommended for several years now that the New South Wales Government report on its performance to address questions such as:

- what outcomes is the government seeking?
- how will resources be applied to key social and economic programs?
- what performance indicators will be used for measuring the result?

These questions become more apparent at times of financial pressure but they are always relevant. Indeed, managing them well in times of relative abundance helps government to weather financial downturns. When money is plentiful, governments have more scope to solve problems, but that does not guarantee they have spent well. They always need performance information to make effective decisions about prioritising spending.

The Government has already progressively implemented systematic processes designed to improve performance at the individual agency level. It has linked:

- agencies' planned outputs through their Results and Services Plan
- agencies' financing through the Budget Papers
- agencies' financial outcomes and some service key performance indicators through their annual reports.

This may be an effective structure for each agency to manage its individual resources. But it is also vital to have information on the performance of the government as a whole. This will help the government to understand the interdependencies of agencies, to assess their performance and to act on any issues it identifies.

What is needed is a systematic process that provides state level performance information that central agencies and government can use, alongside existing financial and agency performance reporting, to improve overall government performance. This might for example, help to determine expenditure priorities between agencies, or to ensure agencies efforts do not overlap or leave gaps, or to eliminate activities that make no positive contribution to the well being of citizens.

Other jurisdictions are already developing this kind of performance information. NSW citizens can only benefit from their Government adopting a similar approach.

Recommendations

To improve the performance of the State, and to better inform citizens, we recommend that the Government build on existing agency performance systems by:

- identifying the key outcomes (social, economic, environmental) that the Government is seeking to achieve
- developing a suite of performance indicators that best measure progress towards those outcomes
- reporting on these annually, either in conjunction with the Treasurer's Report on State Finances or shortly thereafter.

What Other Jurisdictions are Doing

In Volume Three of the Auditor-General's 2004 Report to Parliament, we provided some brief coverage of what other jurisdictions are already doing. We referred to performance reporting in the United Kingdom, Canada, United States, New Zealand, Australia, Victoria, South Australia and Tasmania. Since then there has been increasing discussion and activity taking place around the world. For example in November 2004, the Organisation for Economic Co-operation and Development sponsored a World Forum on Key Indicators to "promote research and information-sharing among countries, allowing them to compare strategies intended to measure and assess the overall 'position' and 'progress' of a certain political entity (country, region, etc.) vis-à-vis other similar entities".

The Canadian province of Alberta uses performance reporting to measure progress on achieving the goals set out in its Government Business Plan. The excerpt below is from the Alberta Government's eleventh annual 'Measuring Up' report. It is presented here as an example of what another jurisdiction is doing, not to suggest that each of the measures is necessarily appropriate for New South Wales. Because it is presented as an example, we have removed some details.

Measuring Up

2004-05 Measuring Up reports on progress made towards achieving the 12 goals and 76 performance measures established in the *2004-07 Government of Alberta Business Plan*, published as part of *Budget 2004 - On Route, On Course: Heading Toward Alberta's Second Century*.

Goals 1 to 11 focus on measuring the government's performance with respect to its programs and services, while Goal 12 focuses on performance with respect to government-owned and supported infrastructure.

Factors Affecting Results

The extent to which a measure meets its target is a function of government strategies, the actions of all Albertans, and external events. For example, the GDP measure depends on the policies of the government to foster economic growth. However, economic growth also depends on the actions of Alberta households and businesses and on the strength of the world economy, as Alberta is an open, trade-based economy.

GOAL 1: Albertans will be healthy

Life Expectancy at Birth - Female and male life expectancies at birth were ranked 8th and 9th respectively among countries (target: among the top 10 in the world).

- **Participation in Healthy Behaviour** - 77% of Albertans did not smoke (target: 75%); 56% exercised regularly (target: 55%); and 47% had an acceptable weight (target: 50%).
- **Self-Reported Health Status** - 89% of Albertans aged 18 to 64 (target: 90%), and 78% of Albertans aged 65 years and over (target: 80%), rated their health as "excellent", "very good" or "good".
- **Overall Quality of Health Care Received** - 86% of Albertans rated their overall quality of care received as "excellent" or "good" (target: 85%).
- **Ease of Access to Physician and Hospital Services** - 86% of Albertans had "easy" or "very easy" access to physician services (target: 86%), while 72% of Albertans had "easy" or "very easy" access to hospital services (target: 72%).

GOAL 2: Albertans will be well prepared for lifelong learning and work

- **Literacy and Numeracy Levels Grade 9** - The percentage of students that achieved the acceptable standard on provincial achievement tests was 78% for language arts (target: 80%) and 66% for mathematics (target: 68%).
- **Educational Attainment of Albertans Ages 25-34** - High school completion rate for Albertans ages 25-34 was 90% (target: 90%).
- **Post-secondary completion rate for Albertans ages 25-34** was 57% (target: 60%).
- **Lifelong Learning** - 69% of the public were satisfied that adult Albertans have access to lifelong learning (target: 73%).
- **Adult Participation in Learning** - 29% of Albertans participated in credit and non-credit courses (target: 32%).
- **Participants Employed Post-Intervention** - 81% of participants were employed as a result of Work Foundations and Training for Work programs and services (target: 70%).

GOAL 3: Alberta's children and youth will be supported in reaching their potential

- **Social and Emotional Development** - 85.9% of Alberta children (national average: 84%) demonstrated healthy social development, while 85% (national average: 82.2%) demonstrated healthy emotional development (target: maintain or improve Alberta's results relative to the national average).

- **Parenting Skills** - 88.4% of Alberta children aged 0-5 (national average: 83.9%), received positive interaction with their parents (target: maintain or improve Alberta's result relative to the national average).

GOAL 4: Albertans will be self-reliant and those unable to provide for their basic needs will receive help

- **Persons with Developmental Disabilities (PDD) Funded Services** - 85.8% of families/guardians of persons with developmental disabilities were satisfied with PDD-funded services (target: 91%).

GOAL 5: Aboriginal communities and people in Alberta will have improved social and economic circumstances

- **Source of Income** - There was a 5 percentage point difference in the proportion of income received from government transfers by Aboriginal people compared to non-Aboriginal people (target: reduce the difference to 4% by 2006).
- **Participation in the Economy** - There was a 5.3 percentage point difference in the participation rates of Aboriginal people and non-Aboriginal people (target: reduce the difference to 4% by 2006).
- **Aboriginal Affairs** - Public approval rating on Aboriginal issues was 9 percentage points higher than the average of the four nearest provinces (target: have the public approval rating higher than the average of the four nearest provinces).

GOAL 6: Alberta will have an effective, responsive and well-managed local government sector

- **Municipal Financial Accountability** - 99% of municipalities met the criteria of financial accountability (target: 97%).
- **Albertans' Satisfaction with their Local Governments** - 79% of Albertans were satisfied with their local governments (target: 75%).

GOAL 7: Alberta will have a prosperous economy

- **Gross Domestic Product (GDP)** - Three-year average annual GDP growth was 7.6% (target: 4%).
- **Job Growth** - 215,700 net jobs were created over the five year period ending in 2004 (target: 240,000 for the six years ending in 2005).
- **Labour Force Participation Rate** - Alberta had the highest labour force participation rate among provinces (target: highest among the provinces).
- **Labour Productivity** - Alberta's labour productivity was highest among the provinces (target: highest among the provinces).
- **Personal Disposable Income** - Alberta had the highest personal disposable income among the provinces (target: among the top two provinces).
- **Value-Added Industries** - 30.5% of real GDP was contributed by the province's manufacturing and knowledge-intensive industries (target: greater than 30.6%).
- **Export Trade** - International value-added exports measured in current dollars, including manufactured goods, tourism and other services, were \$25 billion (target: \$22.7 billion).
- **Tourism Industry Revenue** - \$4.6 billion in tourism expenditures were made in Alberta by Alberta residents, and visitors from overseas, the United States and other provinces (target: \$5.3 billion).

GOAL 8: Alberta will have a financially stable, open and accountable government and a strong intergovernmental position in Canada

- **Intergovernmental Relations** - Alberta's public approval rating for federal-provincial relations was below average (target: average or above average approval rating).
- **Provincial Credit Rating** - Alberta maintained a AAA credit rating for domestic debt from all three major credit rating agencies, the highest possible rating (target: AAA credit rating).
- **Accumulated Debt** - Alberta's accumulated debt less funds locked into the Debt Retirement Account for future debt repayment is zero (target: \$3.0 billion).
- **Tax Load** - Alberta had the lowest total provincial and municipal tax load among the provinces (target: lowest among the provinces).
- **Government Financial Accountability** - 55% of Albertans think they get enough information on the government's financial performance (target: 75%).

GOAL 9: Alberta will be a fair and safe place to work, live and raise families

- **Effectiveness of Human Rights Protection** - 87.6% of adult Albertans felt human rights were well protected in Alberta (target: 86%).
- **Violent Crime Rate** - Alberta had the lowest violent crime rate, per 100,000 population, among the four western provinces (target: lowest among four western provinces).
- **Property Crime Rate** - Alberta had the lowest property crime rate, per 100,000 population, among the four western provinces (target: lowest among four western provinces).
- **Perception of Safety in the Neighbourhood** - 77% of Albertans felt "reasonably safe" to "very safe" walking alone in their neighbourhoods at night (target: 82%).
- **Workplace Lost-Time Claim Rate** - There were 2.6 lost-time claims per 100 person-years worked (target: 2.0).
- **Involvement of Drinking Drivers in Fatal Collisions** - 19.1% of fatal collisions involved drinking drivers (target: below 20%).

GOAL 10: The high quality of Alberta's environment will be sustained

- **Greenhouse Gas Emissions Intensity** - Alberta Greenhouse Gas Emissions Intensity was 85% of 1990 levels (target: 50% of 1990 levels by 2020).
- **Municipal Solid Waste to Landfills** - Alberta's municipal solid waste to landfills totalled 800 kg per capita (target: 500 kg per capita).
- **River Water Quality Index** - 5 out of 6 river systems had "good" or "excellent" water quality, same as the previous year (target: maintain river water quality).
- **Air Quality Index** - Alberta air quality was rated as "good" 98% of the time with no "poor" days (target: 97% "good" days with no "poor" days).

GOAL 11: Albertans will have the opportunity to participate in community and cultural activities and enjoy the province's historical resources and parks and protected areas

- **Participation in Arts and Cultural Activities** - 87.2% of adult Albertans participated in arts and cultural activities (target: 90%).
- **Sport and Recreation Participation** - 83.4% of adult Albertans participated in sport and recreational activities (target: 85%).
- **Visitor Satisfaction with Provincial Historic Sites, Museums and Interpretive Centres** - 97.7% of visitors were satisfied with their experiences at provincial historic sites, museums and interpretive centres (target: 99%).

GOAL 12: Alberta will have effective and sustainable government-owned and supported infrastructure

- **Physical Condition of Health Facilities** - 96% of health facilities were in acceptable ("fair" or "good") physical condition (target: 94%).
- **Physical Condition of Learning Facilities** - 97% of schools (target 95%) and 88% of post-secondary institutions (target: 91%) were in acceptable ("fair" or "good") physical condition.
- **Physical Condition of Government Owned and Operated Buildings** - 97% of government-owned and operated buildings were in acceptable ("fair" or "good") physical condition (target: 97%)
- **Physical Condition of Provincial Highways** - 88.8% of provincial highways were in acceptable ("fair" or "good") physical condition (target: 86%).
- **Utilization of Provincial Highways** - 99.8% of provincial highways were at Level of Service C (traffic flow not severely restricted) or better (target: 99%).
- **Physical Condition of Water Management Infrastructure (headworks, dams and irrigation canals)** - 99.5% of water management infrastructure was in "fair", "good" or "excellent" physical condition (target: 96%)

The full report and links to further information is at:

<http://www.finance.gov.ab.ca/publications/measuring/measup05/intro.html>.

Comments on the Statement of Budget Result

Last year we noted a number of large payments made on 30 June 2004. Although made legally, if these payments (in isolation) had not been made until they were due, the reported result for 2004-05 would be \$172 million worse. That is, the reported surplus of \$695 million would have been \$523 million.

The Statement of Budget Result for 2004-05 is measured on a Net Operating Result basis. Previously the focus was on the Net Lending Result. The two measures are discussed at pages 1-4 and 1-5 of 2005-06 Budget Paper No. 2. A reconciliation between the two measures is in the Treasurer's Report on State Finances 2004-05.