



## **Appendix E - Ratios for Comparisons of Performance**

### **Introduction**

The information contained in accrual-based financial reports is presented in such a way as to facilitate comparisons between reporting periods and between different entities. This means it is comparatively easy to monitor trends and identify performance benchmarks. A comparison of ratios over time could be an important way of highlighting best practice and monitoring any deficiencies in performance.

An example of a ratios-based comparison was provided by the then Department of Finance (DoF) as part of its evidence to the Committee's inquiry into accrual accounting in 1995. The information on average employee support costs for various agencies is shown in the following chart. The information was calculated from the audited financial statements published by departments participating in the accrual reporting pilot program. In this program 26 agencies trialled the preparation of accrual reports for the 1993-94 financial year.

DoF advised that the figures for four departments were not comparable because they operated trust account businesses, hence they were not included in the chart. Also some departments may have varied in their recognition of part time and temporary employees.

After the chart there is information concerning a series of ratios that can be used to measure financial management. The ratios have been taken from the DoF publication, *The New Financial Reports of Agencies* published in 1995.



## Financial performance

The following table provides examples of ratios that may assist in making assessments of financial performance, including the efficiency of administration. The ratios marked \* can be adapted for other programs.

<p><b>SELF-SUFFICIENCY</b></p> $\frac{\text{Revenues from independent sources} \times 100}{\text{Total operating expenses}}$	Shows the reduction in budget dependency resulting from user charges and asset sales.
<p><b>GOVERNMENT FUNDING</b></p> $\frac{\text{Revenues from government} \times 100}{\text{Net cost of services}}$	Shows the extent to which the net cost of producing goods and services is funded by government.
<p><b>TAX ADMINISTRATION COSTS *</b></p> $\frac{\text{Net cost of services}}{\text{Number of tax returns}}$	Shows the net annual administration cost for each tax return.
<p><b>BENEFITS ADMINISTRATION COSTS *</b></p> $\frac{\text{Net cost of services}}{\text{Number of benefit payments}}$	Shows the net annual administration cost for each benefit payment (e.g. payments for pensions, unemployment, etc.)
<p><b>AVERAGE EMPLOYEE COSTS</b></p> $\frac{\text{Employee expenses}}{\text{Average number of employees}}$	Show the average annual employee cost (including accrued entitlements).
<p><b>EMPLOYMENT SUPPORT COSTS</b></p> $\frac{\text{Administration expenses}}{\text{Average number of employees}}$	Shows the annual administration cost for each employee (e.g. rent, power, depreciation of plant and equipment etc.)
<p><b>RATE OF CHANGE</b></p> $\frac{\text{Change in item or total} \times 100}{\text{Previous year item or total}}$	Highlights material changes in the amounts of items that may warrant further inquiry (e.g above a particular threshold).
<p><b>CHANGE IN COMPOSITION</b></p> $\text{Change in \% item to total}$	Highlights material changes in the composition of revenues and expenses that may warrant further inquiry.

## Financial position

The following ratios are based on information that may be derived from the Statement of Assets and Liabilities. They may be especially useful in assessing the extent to which excessive resources may be locked into receivables and inventories because of poor asset management practices. The items marked \* may require unpublished information.

<p><b>TRADE DEBTORS</b></p> $\frac{\text{Average trade debtors} \times 365}{\text{Total credit sales}^*}$	Shows the average number of days that trade debtors are outstanding during the year.
<p><b>DAYS INVENTORIES HELD</b></p> $\frac{\text{Average inventories} \times 365}{\text{Inventories sold or used}^*}$	Shows the average number of days that inventories are held prior to sale or use.
<p><b>PROGRAM RECEIVABLES</b></p> $\frac{\text{Average program receivables} \times 365}{\text{Program revenues}^*}$	Shows the average number of days that program receivables are outstanding during the year (e.g. tax receivables).
<p><b>OVERPAYMENTS</b></p> $\frac{\text{Average overpayments receivable} \times 365}{\text{Overpayments identified}^*}$	Shows the average number of days that receivables for overpayments are outstanding during the year.
<p><b>EMPLOYEE ENTITLEMENTS</b></p> $\frac{\text{Employee benefits payable}}{\text{Number of employees}}$	Shows the average liability for employee benefits per employee at the end of the financial period.
<p><b>RATE OF CHANGE</b></p> $\frac{\text{Change in item or total} \times 100}{\text{Previous year item or total}}$	Highlights material changes in the amounts of items that may warrant further inquiry (e.g. above a particular threshold).
<p><b>CHANGE IN COMPOSITION</b></p> $\text{Change in \% item to total}$	Highlights changes in the composition of assets and liabilities that may warrant further inquiry.

## Cash flow ratios

The following ratios can be used to make detailed assessments of the way an agency has used its cash during a financial year.

<p><b>FUNDING OF SERVICES</b></p> $\frac{\text{Cash provided by Government}}{\text{Net cost of services}}$	Shows the extent to which cash is provided for net agency costs.
<p><b>REINVESTMENT</b></p> $\frac{\text{Purchase of assets}}{\text{Net cash from operations}}$	Shows the proportion of net cash from operations reinvested in assets.
<p><b>DEPRECIATION IMPACT</b></p> $\frac{\text{Depreciation}}{\text{Net cash from operations}}$	Shows the proportion of net cash from operations that may need to be reinvested in assets over time.
<p><b>REINVESTMENT SUFFICIENCY</b></p> $\frac{\text{Reinvestment ratio}}{\text{Depression impact ratio}}$	Shows sufficiency of reinvestment and maintenance of asset base (generally a ratio in excess of one would be desirable).
<p><b>RATE OF CHANGE</b></p> $\frac{\text{Change in item or total} \times 100}{\text{Previous year item or total}}$	Highlights material changes in the amounts of items that may warrant further inquiry (e.g. above a particular threshold).
<p><b>CHANGE IN COMPOSITION</b></p> $\text{Change in \% item to total}$	Highlights changes in the composition of cash inflows and outflows that may warrant further inquiry.