

# The Role of Strategy in the NZ Public Financial Management Framework

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## Why it is important...



# Fiscal and economic performance...

COUNTRY RANKING	OUTLOOK	REVIEW	OUTLOOK	REVIEW	OUTLOOK	REVIEW	SCORE
Mozambique	CCC	Negative Watch	Caa3	Negative	CC	N/A	30
Namibia			Baa3	Stable	BBB-	Stable	55
Netherlands	AAA	Stable	Aaa	Stable	AAA	Stable	100
New Zealand	AA	Stable	Aaa	Stable	AA	Stable	90
Nicaragua	B+	Stable	B2	Stable	B+	Stable	33
				Stable			28
				Stable			99

## IMF Finds New Zealand in Good Shape

15/06/2015

The IMF paper considers "optimal public debt and investment policy in the aftermath of the global financial crisis." High levels of public debt are an important legacy of the global financial crisis, with a reduction in public debt important with regards to risk management and economic growth. The report looked at economic health in terms of fiscal space, a concept defined as the difference between the debt limit and the actual debt-to-GDP ratio.



In an analysis of 30 countries, only two, Norway and South Korea, were found to have a higher level of fiscal space than New Zealand. 246 percent, followed by South Korea with 242.1 percent, New

### Ease of Doing Business in New Zealand

This page summarizes *Doing Business 2016* data for New Zealand. The first section presents the Ease of Doing Business rank (out of 189 economies) and the distance to frontier (DTF)\*\* measure, overall and by topic. The second section summarizes the key indicators for each topic benchmarked against regional averages.

#### ECONOMY OVERVIEW

<b>REGION</b>	OECD high income	<b>DOING BUSINESS 2016 RANK</b>	DOING BUSINESS 2016 RANK (D)	<b>CHANGE IN RANK</b>
<b>INCOME CATEGORY</b>	High income	2	2	0
<b>POPULATION</b>	4,509,700	<b>DOING BUSINESS 2016 RANK (D)</b>	DOING BUSINESS 2015 RANK (D)	<b>CHANGE IN DTF (%)</b>
<b>GNI PER CAPITA (US\$)</b>	43,837			



# ...but at what cost?



COUNTRY	SCORE	GLOBAL RANKING	COUNTRY
Denmark	0.87	1	Croatia
Norway	0.87	2	South Africa
Sweden	0.85	8	Hungary
Finland	0.85	4	Senegal
Netherlands	0.83	5	Malaysia
New Zealand	0.83	6	Bosnia
Austria	0.82	7	Jordan
Germany	0.81	8	Jamaica
Singapore	0.81	9	Tunisia
Australia	0.80	10	Macedonia
Republic of Korea	0.79	11	Bulgaria
United Kingdom	0.78	12	Brazil

National NZ Herald Focus Crime Politics Opinion Employment Health Insights Education

**Simon Collins** Simon Collins is the Herald's social issues reporter.

## New Zealand slips to 10th on Social Progress Index

1:23 PM Wednesday Jun 29, 2015



New Zealand ranked first out of 133 countries on the "Social Progress Index" in 2014 but dropped to fifth last year and 10th-equal with Iceland this year. Photo / iStock

New Zealand has dropped from first to 10th most "socially progressive" nation in a new global index - dragged down by our soaring house prices and bulging waistlines.

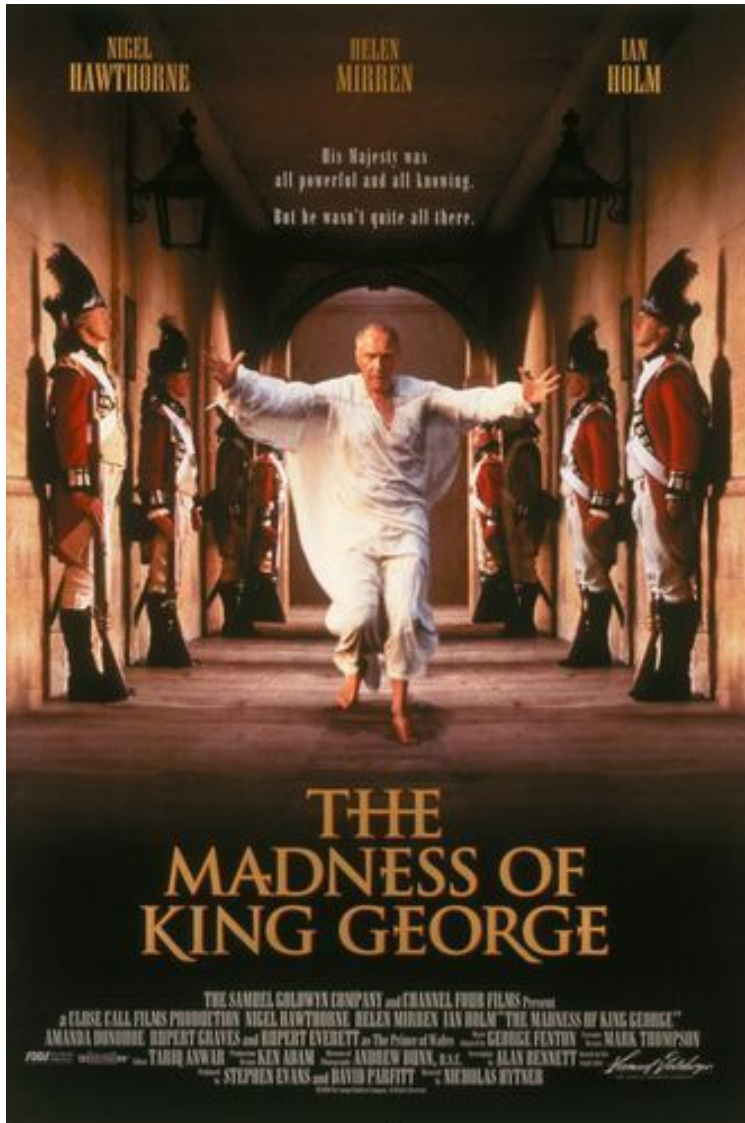
This country came first out of 133 countries on the "Social Progress Index" in 2014 but dropped to fifth last year and 10th-equal with Iceland this year. Australia improved its ranking from 10th to fourth.

New Zealand still ranks first for mobile phones per person, personal rights, religious tolerance and tolerance for immigrants.

### Top 10 overall rankings 2015

- 1 Norway 
- 2 Switzerland 
- 3 Denmark 
- 4 New Zealand 
- 5 Sweden 
- 6 Canada 
- 7 Australia 
- 8 Netherlands 
- 9 Finland 
- 10 Ireland 

[View full ranking list](#)



*"Do you enjoy all this flummery,  
Mr Pitt?"*

*"No, Mr Fox."*

*"Do you enjoy anything, Mr  
Pitt?"*

*"A balance-sheet, Mr Fox. I  
enjoy a good balance sheet"*

# Hindsight: Key concepts in the financial management framework...

- Performance
- Accountability
- Integrated management system

# Performance Defined

- “Owner” / “purchaser” distinction
- Inputs / outputs / outcomes
- “Crown” / department distinction

# “Ownership”

- Objectives and scope of business
- **Strategy – especially products/outputs**
- Financial performance
- Capital maintenance
- Risk management

APPROPRIATION MINISTER(S): Minister for Disability Issues (M23), Minister of Finance (M31), Minister for Social Housing (M37), Minister of Revenue (M57), Minister for Seniors (M61), Minister for Social Development (M63), Minister of State Services (M66), Minister of Veterans' Affairs (M75), Minister for Youth (M77)

APPROPRIATION ADMINISTRATOR: Ministry of Social Development

RESPONSIBLE MINISTER FOR MINISTRY OF SOCIAL DEVELOPMENT: Minister for Social Development



# “Purchase” Framework

Input	Output	Outcome
Cost	Revenue	Social Benefit

**INPUTS****OUTPUTS****OUTCOMES****Direct costs**

- Personnel
- Travel
- Stores

**Indirect costs**

- Overheads

**Driver training****Road traffic research****Vehicle inspections****Reduction in  
road deaths****Speed of  
transport****Pollution**

**OUTCOMES**



**INTERVENTIONS**  
Mix of actions to achieve  
desired outcomes **(Strategy?)**



**Outputs**

**Regulations**

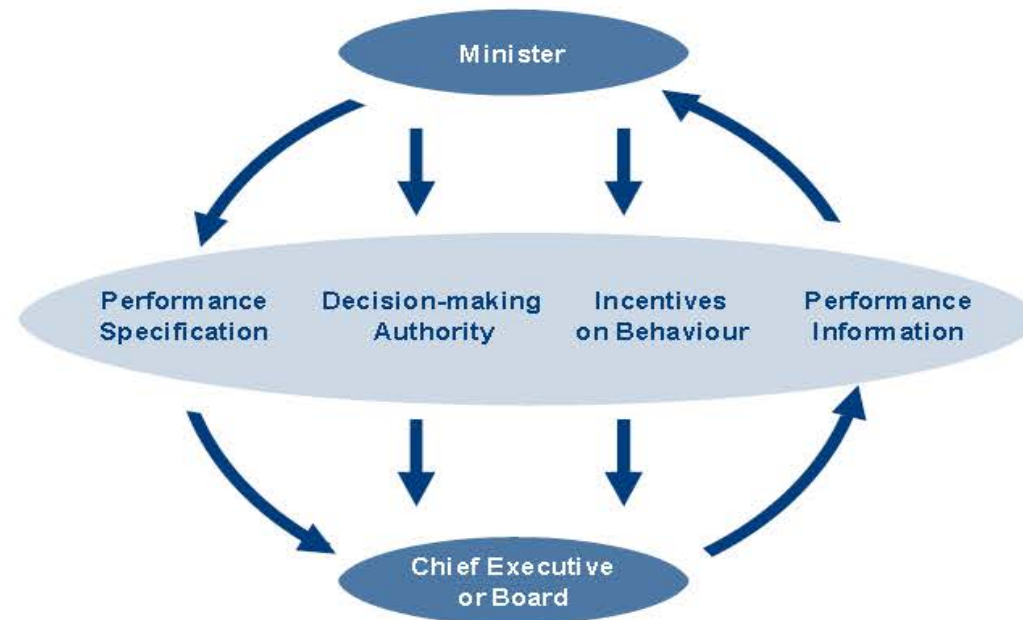
**Transfers**

**Taxation**

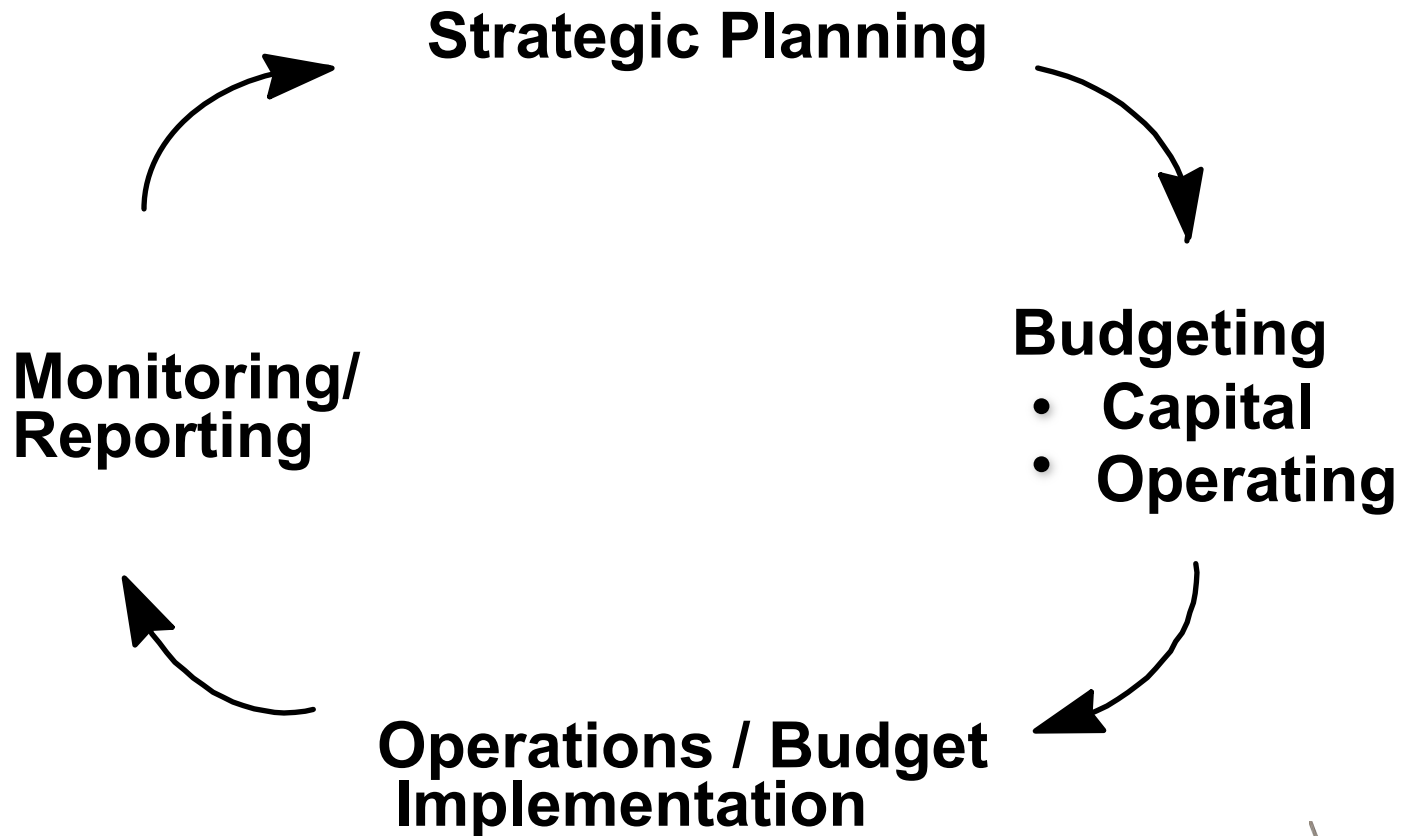
**Ownership**

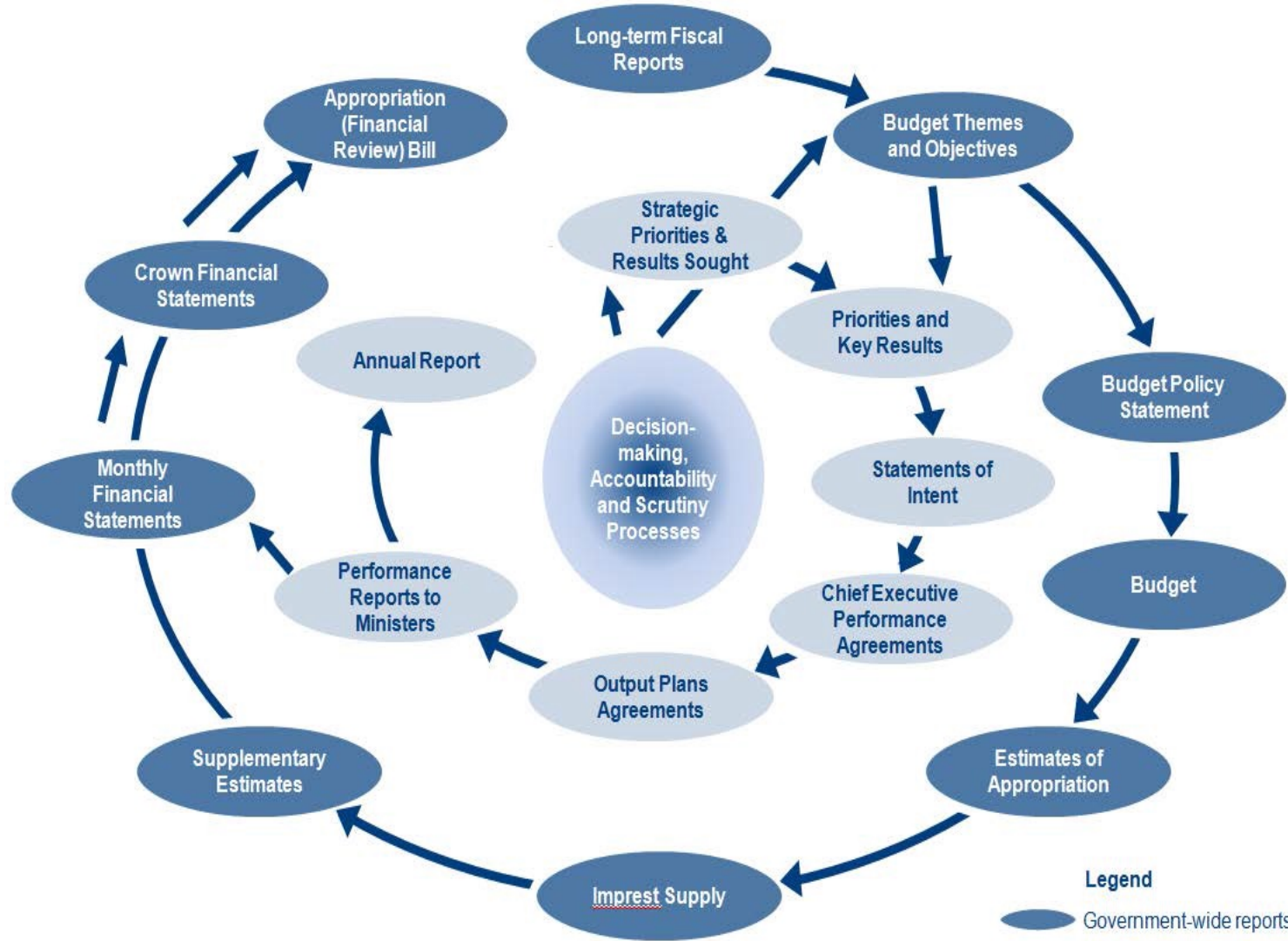
# Accountability Framework

Figure 2: State Sector Accountability Framework



# Integrated Management System





Legend

- Government-wide reports
- Department-specific reports

performance in public services

# Performance Specification Documents - Government

- Statement on Long-term Fiscal Position
- Fiscal Strategy Report
- Economic and Fiscal Update
- **Budget Policy Statement**
- Budget
- Forecast Financial Statements
- Estimates of Appropriation
- Investment Statement

## Budget Policy Statement

The Public Finance Act provides for publication of a Budget Policy Statement no later than 31 March each year. This is required to set out the Government's:

- ▶ broad strategic priorities for the coming financial year
- ▶ overarching policy goals and policy areas for the coming year
- ▶ how the Budget fits with short-term intentions in the most recent Fiscal Strategy Report (inconsistencies must be explained).

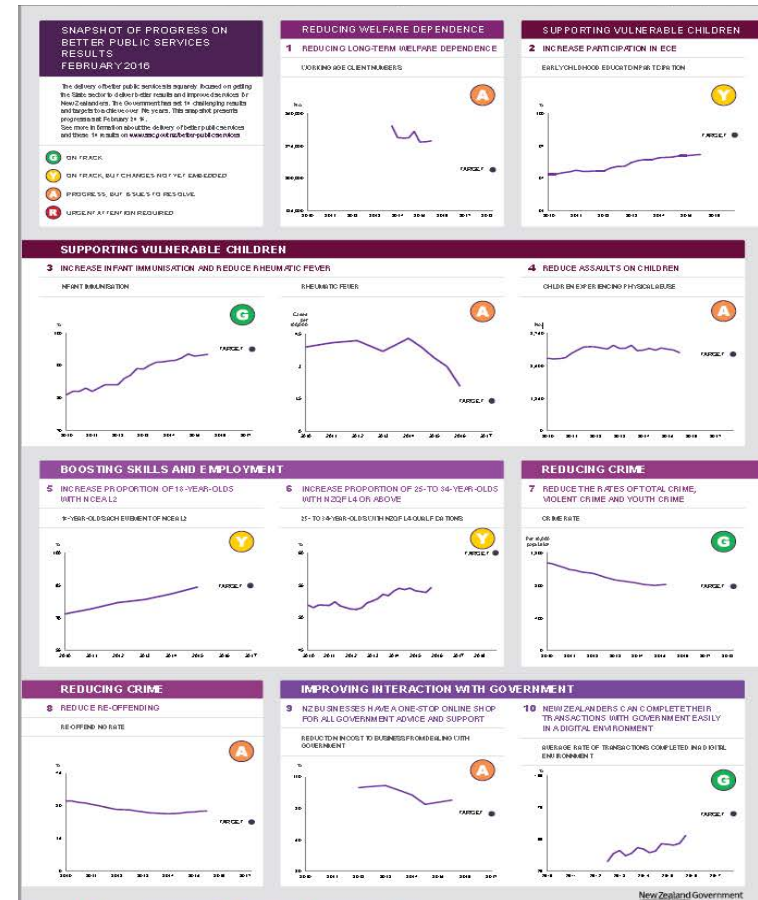
## Budget reflects strategy...

- (2) The budget policy statement must, for the financial year commencing on 1 July after the statement is presented, state the broad strategic priorities by which the Government will be guided in preparing the Budget for that financial year, including—
  - (a) the overarching policy goals that will guide the Government's Budget decisions; and
  - (b) the policy areas that the Government will focus on in that year; and
  - (c) how the Budget for that year accords with the short-term intentions referred to in the most recent fiscal strategy report or the amended short-term intentions under subsection (3).



# Reporting by the Government

- Financial statements
  - Annual
  - Monthly
- Snapshot of the Financial Statements
- Better Public Services results



# Performance Specification Documents – Departments (as was...)

- Departmental Forecast Report
- Corporate/Strategic Plan
- CE Performance Agreement

After the Budget is agreed, output plans (or output agreements for Crown entities) are signed by chief executives (or boards) and the relevant Ministers. They are **cross-referenced in chief executives' job descriptions**.

- Purchase Agreement

## Purchase Agreements

The goods and services to be supplied by a department to a Minister are set out in a *purchase agreement*. These agreements specify the quality, quantity, price and timeliness of each output to be supplied. The arrangement allows a Minister to make considered and deliberate decisions as to what he or she wishes to purchase each year, and, where there is scope for competition, to select the best supplier. Questions of quality and price will clearly be very important in these considerations. The sorts of information included in purchase agreements is shown below.

### Items in Purchase Agreement

- term of agreement
- description of outputs
- cost of outputs
- performance measures and standards
- procedures for assessing performance
- reporting requirements
- rewards and sanctions
- procedures for amendment of the agreement
- procedures for resolving disputes

As part of the support services it provides for its Minister a department may administer purchase agreements with other non-departmental suppliers.

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# But the Owner's interest in strategy remains central...

Chief executives and boards are responsible for identifying issues likely to be important to the owner and taking action in line with:

- ▶ the Government's overall strategy and long-run interests
- ▶ the Responsible Minister's view of the agency's direction
- ▶ issues specific to the agency, its clients, or the business sector it operates in, that need a response or contingency plan
- ▶ demand to reshape policy, responsibilities and operational capacity
- ▶ risks and threats to the ongoing provision of affordable services.

Such actions may be represented in:

- ▶ expectations stated in the Chief Executive's performance agreement
- ▶ the agency's strategic business plan or Statement of Intent
- ▶ policy reviews and cost management exercises
- ▶ capability development plans (eg, for human resources)
- ▶ separation of purchase, delivery and monitoring responsibilities<sup>27</sup>
- ▶ outsourcing of, or competitive tendering for, goods and services.

# Strategic Intentions

Reprinted as at  
4 March 2016

Public Finance Act 1989

Part 4 s 41A

## **40 Requirements for information on strategic intentions**

- (1) The information required under section 38 must, for the period to which it relates, set out the strategic objectives that the department intends to achieve or contribute to (**strategic intentions**).
- (2) The information must also, for the period to which it relates,—
  - (a) explain the nature and scope of the department's functions and intended operations; and
  - (b) identify any departmental agencies hosted by the department; and
  - (c) explain how the department intends to manage its functions and operations to meet its strategic intentions; and
  - (d) set out and explain any other matters that—
    - (i) are reasonably necessary to achieve an understanding of the department's strategic intentions and capability; or
    - (ii) may be specified by the Minister or the responsible Minister for the purposes of subparagraph (i).

Section 40: replaced, on 1 July 2014, by section 80 of the Public Finance Amendment Act 2013 (2013 No 50).

# Departmental Reporting

- Statement of Responsibility
- Statement of Accounting Policy
- Operating Statement
- Statement of Financial Position
- Statement of Cash Flows
- Statement of Contingent Liabilities
- Statement of Service Performance

# Reporting on Strategic Intentions

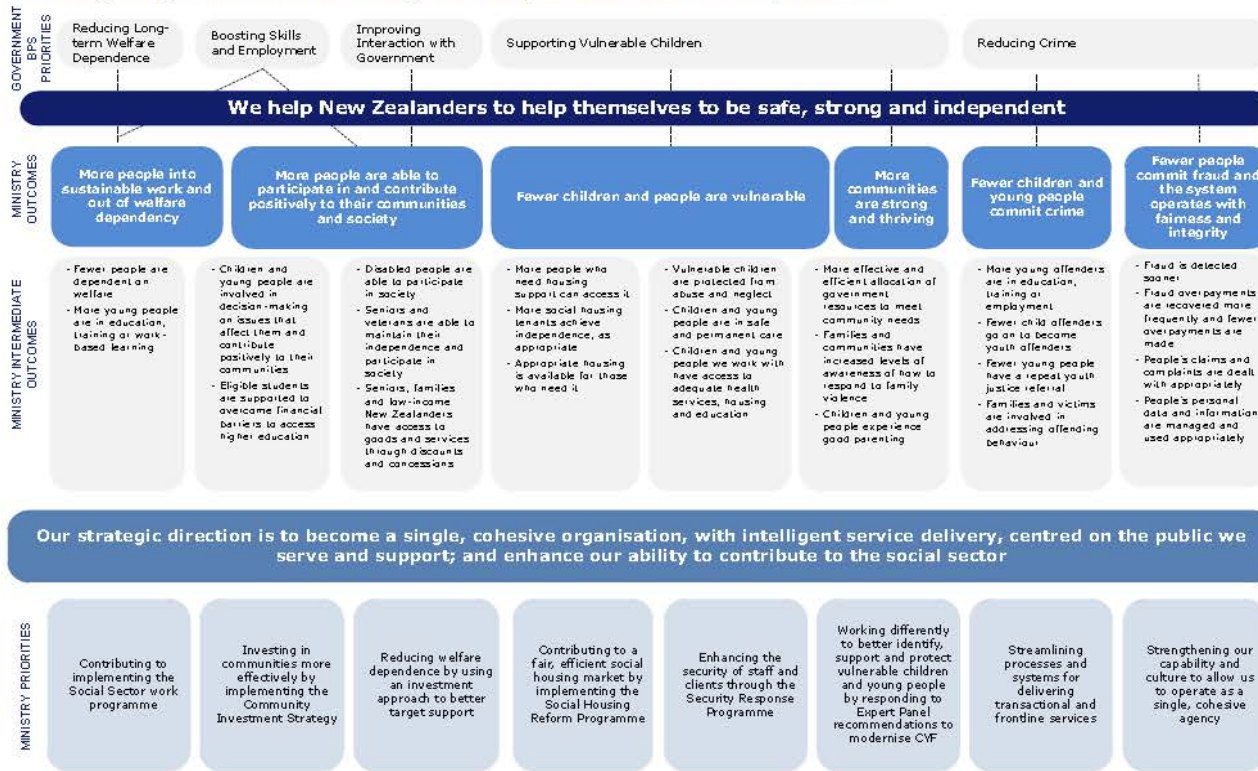
## **45 Contents of annual report of department**

- (1) The annual report of a department must provide the information that is necessary to enable an informed assessment to be made of the department's performance during the financial year, including how well the department is managing the resources it controls.
- (2) The annual report of a department must contain the following information in respect of the financial year to which it relates:
  - (a) an assessment of the department's operations (excluding operations on which any departmental agency hosted by the department is required to report under section 43A); and
  - (b) an assessment of the department's progress in relation to its strategic intentions; and
  - (c) information about the department's management of its organisational health and capability; and
  - (d) statements of expenses and capital expenditure for the department that comply with section 45A; and
  - (e) annual financial statements for the department that comply with section 45B; and
  - (f) a statement of responsibility that complies with section 45C; and

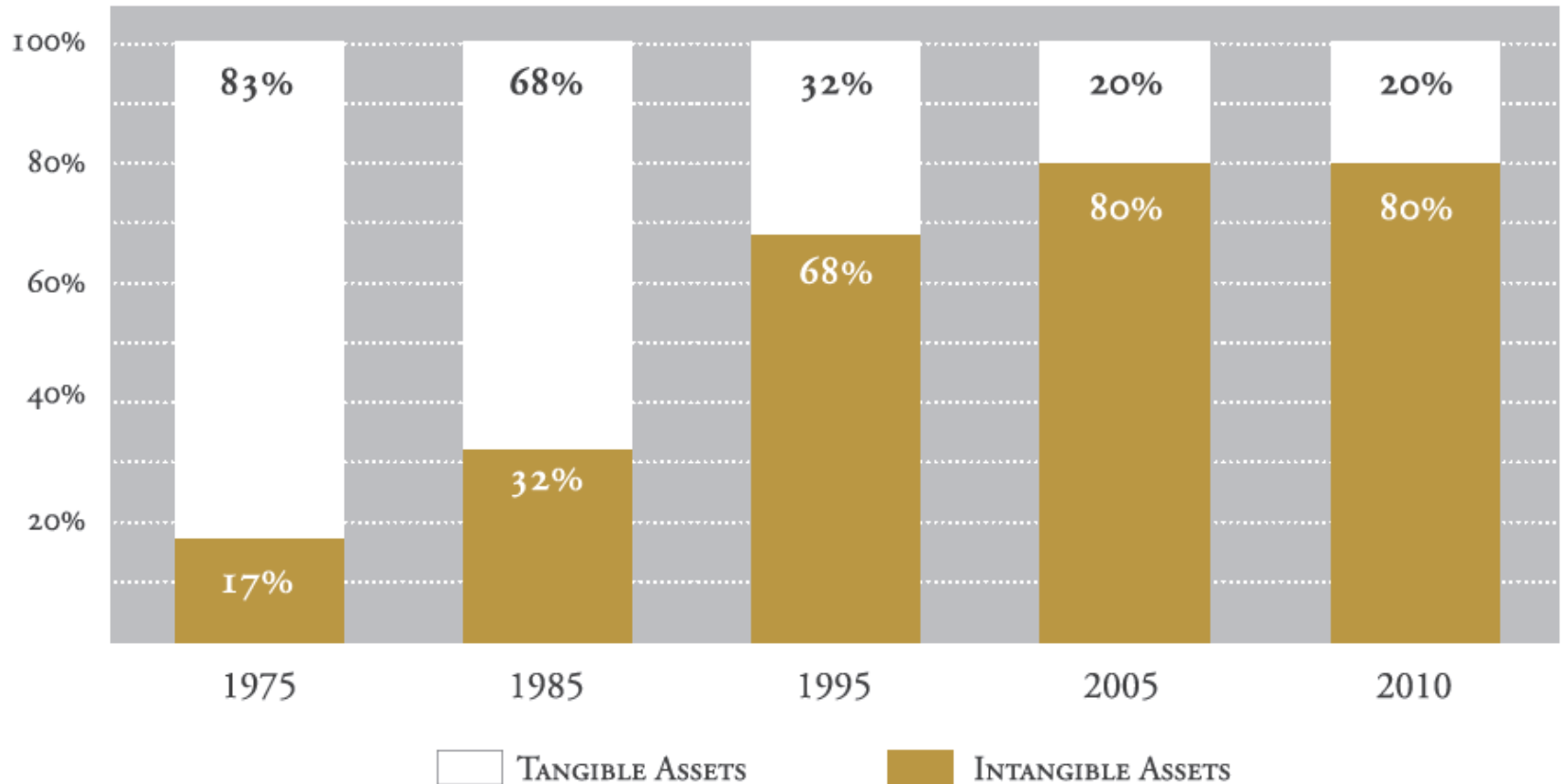
# But what is a strategy?

BUDGET SENSITIVE

## Linking it together: Government priorities, MSD outcomes and priorities



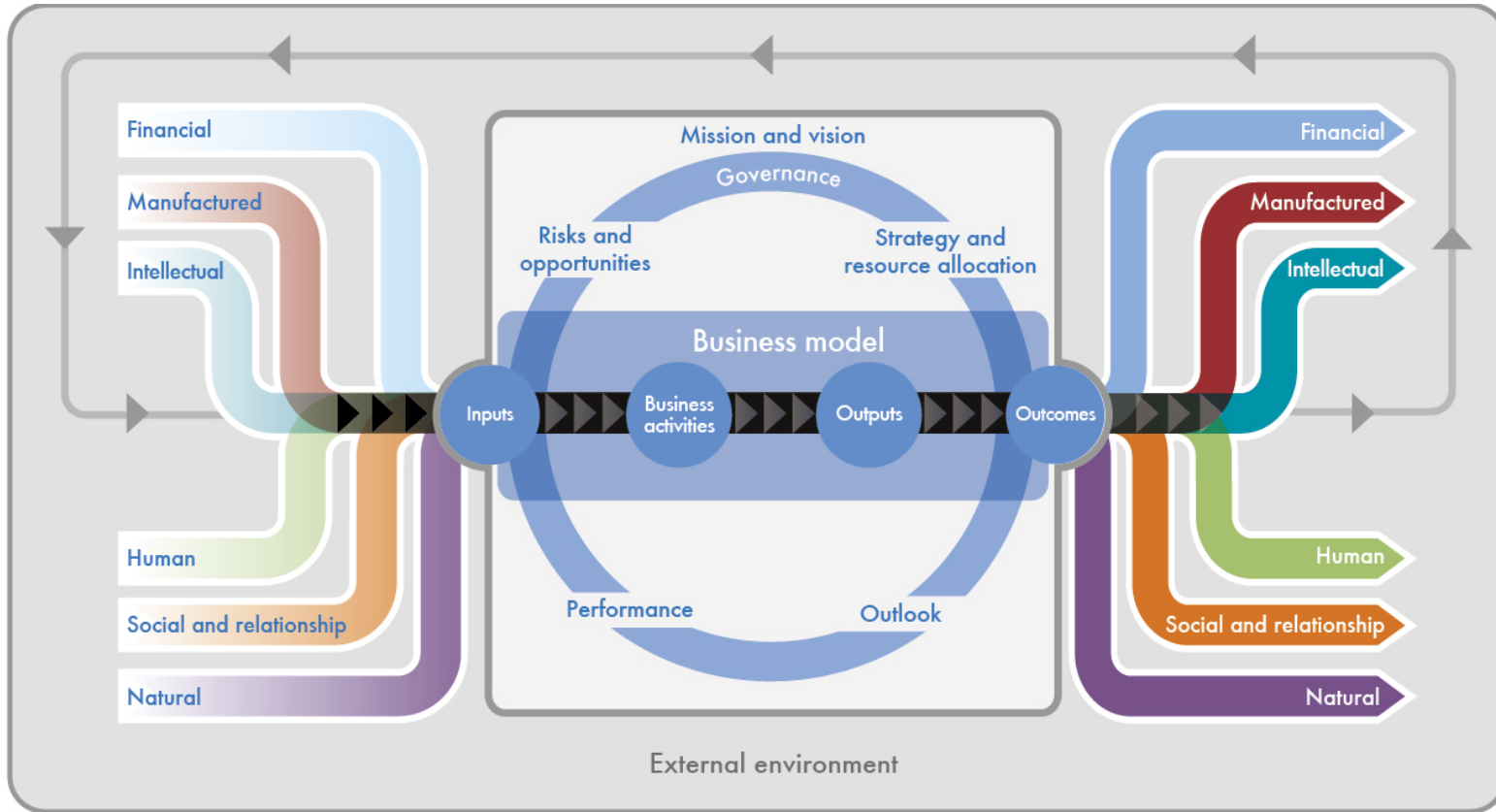
# Foresight: Integrated Reporting?



Source: Ocean Tomo



## Creating value...



# A new reporting framework for the public sector?

## 1A Integrated report defined

- 1.1 An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

## 4E Strategy and resource allocation

- 4.27 *An integrated report should answer the question: Where does the organization want to go and how does it intend to get there?*
- 4.28 An integrated report ordinarily identifies:
- The organization's short, medium and long term strategic objectives
  - The strategies it has in place, or intends to implement, to achieve those strategic objectives
  - The resource allocation plans it has to implement its strategy
  - How it will measure achievements and target outcomes for the short, medium and long term.

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