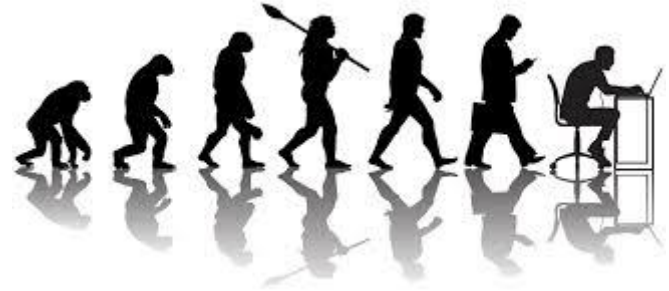


# The Public Finance Act and the evolution of government financial management and reporting?

Ian Ball

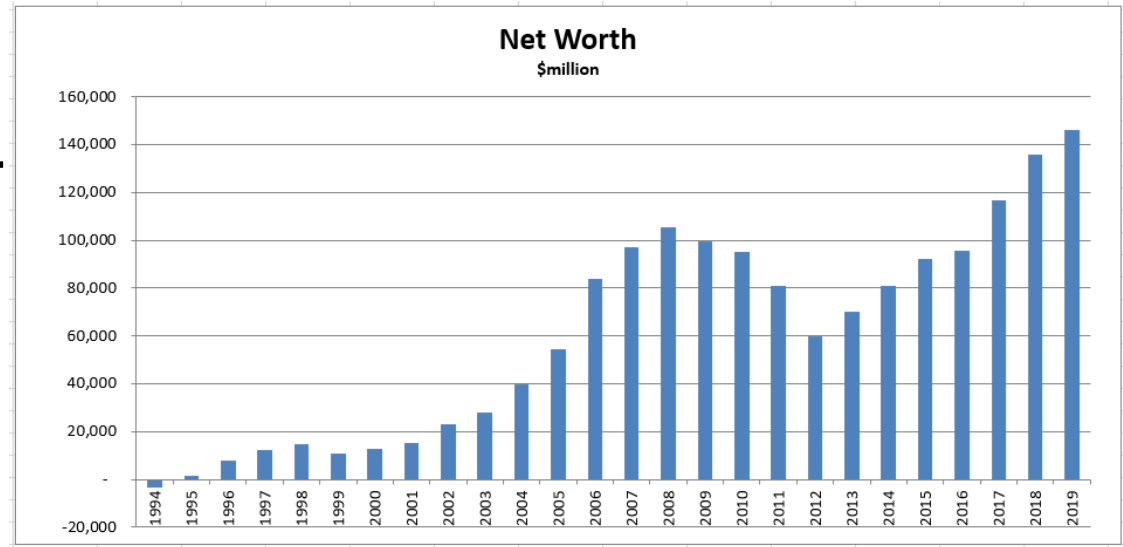
Professor of Public Financial Management





# What Is the Current Fiscal Position?

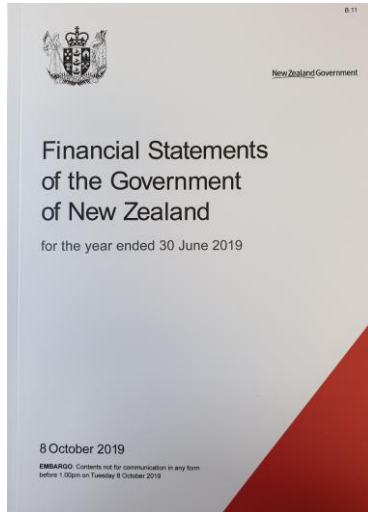
- After previous two decades of deficits...
- Increasing net worth since 1994
- Net worth or debt as the measure?



# Comparative Fiscal Resilience

Net Worth of National Government (billions, local currency)		
Country	2008	2018
Australia	67	-418
Canada	-457	-671
United Kingdom	-1,200	-2,565
United States	-10,200	-21,520
New Zealand	105	136

# Impact of COVID-19 on NZ Government Finances



- 30 June 2019 is a world away
- Evolution of PFM will be impacted by COVID-19 shock
- What, and how big will the impact be?

# COVID-19

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Politics & Policy  
**The Virus Should Wake Up the West**

The job of government is to protect its citizens. The pandemic reveals that key institutions in Europe and the U.S. are no longer up to the job.

By John Micklethwait and Adrian Wooldridge  
13 April 2020, 2:00 pm NZST



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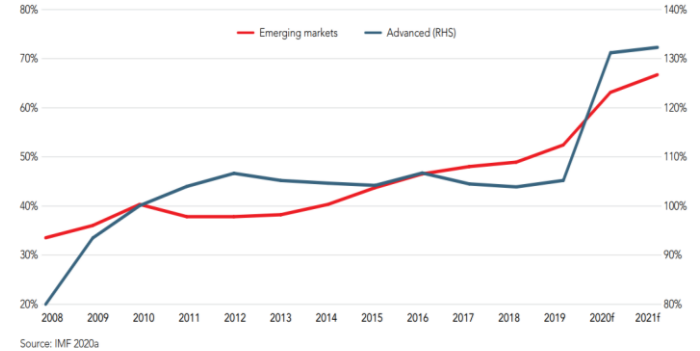
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*It matters enormously whether your country has a good health service, competent bureaucrats and sound finances. Good government is the difference between living and dying.*

# COVID-19

- COVID-19 will further weaken government balance sheets
- Financial crisis recovery good
- PFA requirement for “buffer”
- Reasons to restore buffer

FIGURE 1.2: Gross government debt as a percentage of GDP



**Budget must plan to restore its buffer**

The Government is legislatively required to maintain a financial buffer in case of crises like the current one. To maintain that advantage, this Budget has to give a clear direction over which that buffer will be restored.

# What are the “buffers”?

## 26G Principles of responsible fiscal management

- (1) The Government must pursue its policy objectives in accordance with the following principles (the **principles of responsible fiscal management**):
- (a) reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year; and
  - (b) once prudent levels of total debt have been achieved, maintaining those levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues; and
  - (c) achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future; and
  - (d) managing prudently the fiscal risks facing the Government; and
  - (e) when formulating revenue strategy, having regard to efficiency and fairness, including the predictability and stability of tax rates; and
  - (f) when formulating fiscal strategy, having regard to the interaction between fiscal policy and monetary policy; and
  - (g) when formulating fiscal strategy, having regard to its likely impact on present and future generations; and
  - (h) ensuring that the Crown's resources are managed effectively and efficiently.

The Government must pursue its policy objectives in accordance with the following principles (the **principles of responsible fiscal management**):

(a) reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future...

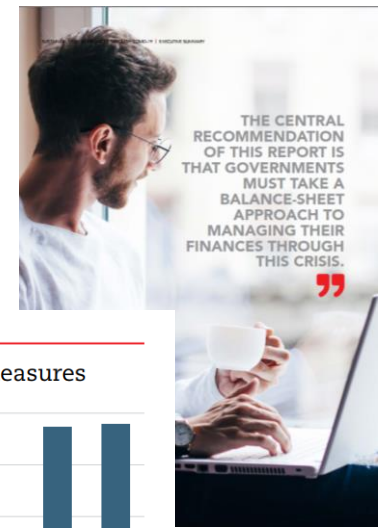
(c) achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future ...



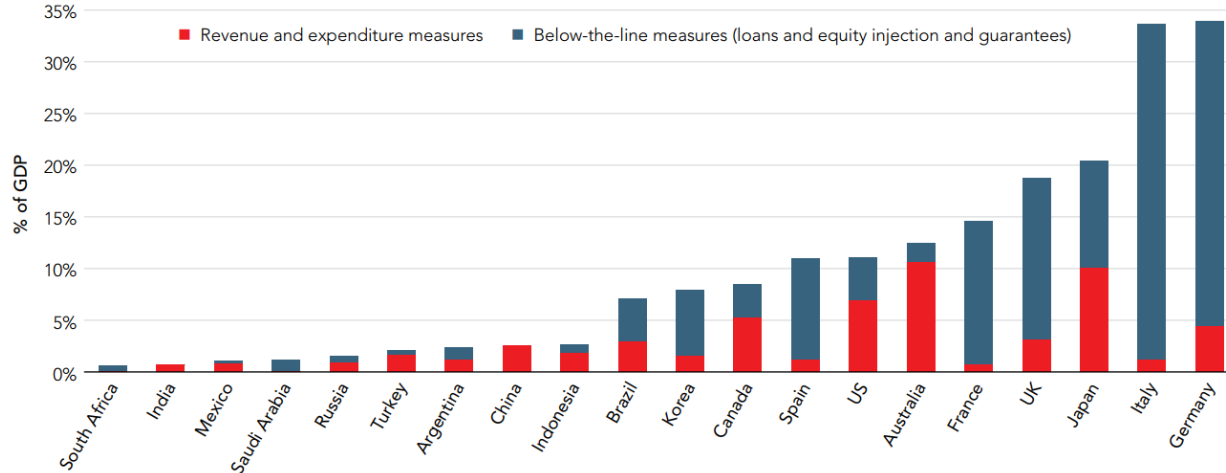
# COVID-19: Impact on Government Balance Sheets

- Direct impact
  - Tax measures
  - Expense measures
  - Investments
  - Guarantees
- Indirect impact
  - Interest rate changes
  - Asset value changes
  - Regulatory relief

# An aside on balance sheet management...



**FIGURE 2.1:** G20 fiscal response to the COVID-19 pandemic, above-the-line and below-the-line measures



Source: IMF 2020a

# Impact on NZ Government Finances

## Interim Financial Statements of the Government of New Zealand

For the Eleven Months Ended  
31 May 2020



Prepared by the Treasury  
10 July 2020

This document is available on the New Zealand Treasury's website at  
www.treasury.govt.nz/publications/financial-statements/government

New Zealand Government

ISSN 2793-2963 (Print)  
ISSN 2793-2972 (Online)

## STATEMENT OF FINANCIAL PERFORMANCE

For the eleven months ended 31 May 2020

	Year 11 months		Current Year Actual vs Forecast					
	to 30 Jun 2019 Actual \$m	to 31 May 2019 Actual \$m	Note	Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
7,429	7,025	<b>Operating balance before gains/(losses) (excluding minority interests)</b>		(15,965)	(17,544)	1,579	9.0	(28,293)
4,396	1,410	Net gains/(losses) on financial instruments		(1,887)	(7,854)	5,967	76.0	(7,718)
(11,575)	(9,844)	Net gains/(losses) on non-financial instruments	8	(9,442)	(824)	(8,618)	-	(1,297)
(115)	(88)	Minority interests share of total (gains)/losses		78	99	(21)	(21.2)	50
<b>(7,294)</b>	<b>(8,522)</b>	<b>Total gains/(losses)</b>		<b>(11,251)</b>	<b>(8,579)</b>	<b>(2,672)</b>	<b>(31.1)</b>	<b>(8,965)</b>
253	82	Net surplus/(deficit) from associates and joint ventures		113	126	(13)	(10.3)	143
388	(1,415)	<b>Operating balance (excluding minority interests)</b>		<b>(27,103)</b>	<b>(25,997)</b>	<b>(1,106)</b>	<b>(4.3)</b>	<b>(37,115)</b>

# Impact on NZ Government Finances

## Interim Financial Statements of the Government of New Zealand

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New Zealand Government

ISSN 2793-2963 (Print)  
ISSN 2793-2972 (Online)

## STATEMENT OF FINANCIAL POSITION

As at 31 May 2020

	As at 30 Jun 2019 Actual \$m	As at 31 May 2019 Actual \$m	Current Year Actual vs Forecast					
			Note	Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
<b>Liabilities</b>								
6,813	6,873	Issued currency		8,169	8,014	(155)	(1.9)	7,151
16,742	13,243	Payables	12	17,014	15,160	(1,854)	(12.2)	17,203
2,523	2,446	Deferred revenue		2,572	2,550	(22)	(0.9)	2,778
110,248	111,559	<b>Borrowings</b>		<b>149,207</b>	<b>151,908</b>	<b>2,701</b>	<b>1.8</b>	<b>164,799</b>
58,216	55,881	Insurance liabilities	13	69,607	60,796	(8,811)	(14.5)	60,533
13,179	11,448	Retirement plan liabilities		13,021	12,989	(32)	(0.2)	12,972
13,592	12,542	Provisions	14	14,353	14,509	156	1.1	15,201
<b>221,313</b>	<b>213,992</b>	<b>Total liabilities</b>		<b>273,943</b>	<b>265,926</b>	<b>(8,017)</b>	<b>(3.0)</b>	<b>280,637</b>
<b>143,339</b>	<b>130,673</b>	<b>Total assets less total liabilities</b>		<b>116,015</b>	<b>116,944</b>	<b>(929)</b>	<b>(0.8)</b>	<b>106,018</b>

# Impact on NZ Government Finances



## Budget Economic and Fiscal Update 2020

14 May 2020

Responsible Accounting Officer: The Hon. Christopher Luxon, Minister of Finance  
Budgetary Control Officer: The Hon. Christopher Luxon, Minister of Finance

New Zealand Government

## Forecast Statement of Financial Position

as at 30 June

	2019	2020	2020	2021	2022	2023	2024
	Actual <sup>1</sup>	Previous Budget <sup>1</sup>	Forecast	Forecast	Forecast	Forecast	Forecast
Note	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net Worth</b>							
Taxpayers' funds	36,409	41,259	(519)	(29,724)	(53,819)	(66,729)	(67,676)
Property, plant and equipment revaluation reserve	106,495	94,603	106,941	106,857	106,753	106,682	106,608
Defined benefit plan revaluation reserve	(2,615)	(872)	(2,872)	(2,691)	(2,509)	(2,328)	(2,152)
Veterans' disability entitlements reserve	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)
Other reserves	(112)	84	43	77	101	74	99
<b>Total net worth attributable to the Crown</b>	<b>136,677</b>	<b>131,574</b>	<b>100,093</b>	<b>71,019</b>	<b>47,026</b>	<b>34,199</b>	<b>33,379</b>
Net worth attributable to minority interest	6,390	5,834	5,925	5,471	5,355	5,218	5,137
<b>Total net worth</b>	<b>15 143,067</b>	<b>137,408</b>	<b>106,018</b>	<b>76,490</b>	<b>52,381</b>	<b>39,417</b>	<b>38,516</b>

- The '2019 Actual' and '2020 Previous Budget' numbers were restated to reflect the adoption of new accounting standards from 1 July 2019. Refer to note 17 for details of the impact of these changes.
- Equity accounted investments include tertiary education institutions and City Rail Link Limited.

# Impact on NZ Government Finances



Table 9 – Summary of fiscal projections

Year ending 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	...	2034
<b>% of GDP</b>	<b>Forecasts</b>					<b>Projections</b>							
Core Crown revenue	30.4	29.6	28.8	29.5	29.4	29.9	30.2	30.4	30.6	30.7	30.8	...	31.0
Core Crown expenses	38.7	38.6	36.5	33.7	30.2	30.0	29.9	29.9	29.9	30.0	30.0	...	30.0
Total Crown revenue	38.9	37.4	36.9	37.3	36.9	37.6	38.0	38.2	38.4	38.5	38.6	...	38.8
Total Crown expenses	48.5	47.4	45.1	41.8	38.1	38.2	38.1	38.1	38.2	38.3	38.4	...	38.5
Total Crown OBEGAL	-9.6	-10.1	-8.3	-4.7	-1.3	-0.7	-0.2	-0.1	0.1	0.1	0.1	...	0.2
Total Crown operating balance <sup>1</sup>	-12.6	-10.0	-7.4	-3.7	-0.3	0.4	0.8	1.0	1.2	1.3	1.3	...	1.5
Gross sovereign-issued debt	45.6	69.2	74.3	74.4	74.0	73.9	73.4	72.6	71.5	70.3	68.9	...	63.2
Net core Crown debt <sup>2</sup>	30.2	44.0	49.8	53.6	53.6	53.2	52.3	51.3	50.1	48.8	47.5	...	42.0
<b>Total Crown net worth</b>	<b>36.0</b>	<b>26.0</b>	<b>16.0</b>	<b>11.2</b>	<b>10.3</b>	<b>10.2</b>	<b>10.5</b>	<b>11.1</b>	<b>11.8</b>	<b>12.6</b>	<b>13.4</b>	<b>...</b>	<b>16.8</b>
Net worth attributable to the Crown	34.0	24.1	14.3	9.7	8.9	8.8	9.2	9.7	10.5	11.3	12.2	...	15.6

# Where to from here?

- PREFU 20 August, Election 19 September
- PFA reform process – on hold, or more radical reform to come?
- Restore the buffer or a “new normal” of low net worth?

# More radical reform?

- Continuation of trend to make appropriations more flexible?
- More citizen-focussed decision-making, or a two-track system

## Multi-Year Multi-Category Appropriations

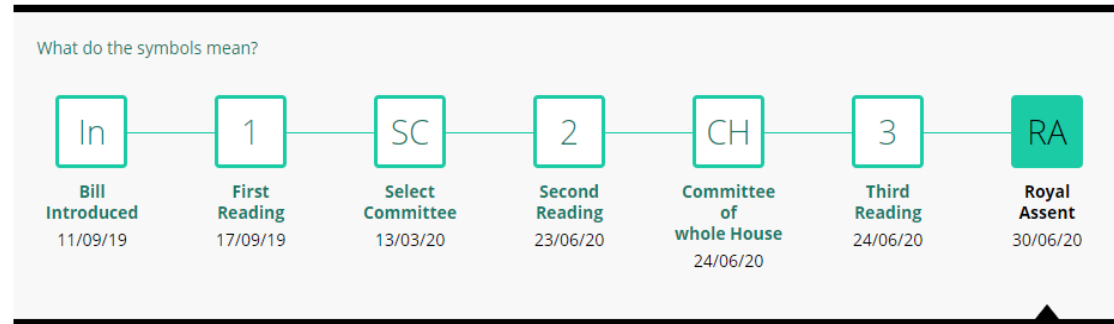
Title, Overarching Purpose and Period of Appropriations and Type and Scope of Categories	Appropriations, Adjustments and Use	\$000
Policy Advice and Financial Services (M31) The single overarching purpose of this appropriation is to provide the government with high quality policy and financial advice and to deliver financial services.	Original Appropriation	347,949
	Adjustments to 2017/18	-
Commences: 01 July 2019	Adjustments for 2018/19	-
	Adjusted Appropriation	347,949
Expires: 30 June 2024	Actual to 2017/18 Year End	-
	Estimated Actual for 2018/19	-
	Estimate for 2019/20	71,013
	Estimated Appropriation Remaining	276,936



# Evolutionary reform in reporting?

- Public Finance (Wellbeing) Amendment Bill

## Progress of the bill



# Wellbeing reporting

## 26KB Contents of fiscal strategy report: wellbeing objectives

The fiscal strategy report must—

- (a) explain how wellbeing objectives have guided the Government's Budget decisions; and
- (b) if the wellbeing objectives that guided the Government's Budget decisions differ from those indicated in the budget policy statement most recently prepared under section 26M, indicate the differences.

## 6 Section 26M amended (Budget policy statement)

- (1) After ~~section 26M(2)(b)~~ section 26M(2)(a), insert:  
~~(ba)~~ (aa) the wellbeing objectives that will guide the Government's Budget decisions; and
- (2) After section 26M(3), insert:
- (4) The wellbeing objectives referred to in ~~subsection (2)(ba)~~ subsection (2)(aa) must relate to social, economic, environmental, and cultural wellbeing and to any other matters that the Government considers support long-term wellbeing in New Zealand.
- (5) The budget policy statement must explain how the wellbeing objectives are intended to support long-term wellbeing in New Zealand.

# Wellbeing reporting

## *Wellbeing report*

### **26NB Wellbeing report**

- (1) The Minister must, before the end of 2022 and then at intervals not exceeding 4 years, present to the House of Representatives a report on wellbeing prepared by the Treasury.
- (2) Using appropriate indicators, the report must describe—
  - (a) the state of wellbeing in New Zealand; and
  - (b) how the state of wellbeing in New Zealand has changed over time; and
  - (c) the sustainability of, and any risk to, the state of wellbeing in New Zealand.
- (3) The report must be accompanied by a statement of responsibility signed by the Secretary.
- (4) The statement of responsibility must state that the indicators have been selected, and the report prepared, by the Treasury using its best professional judgements.

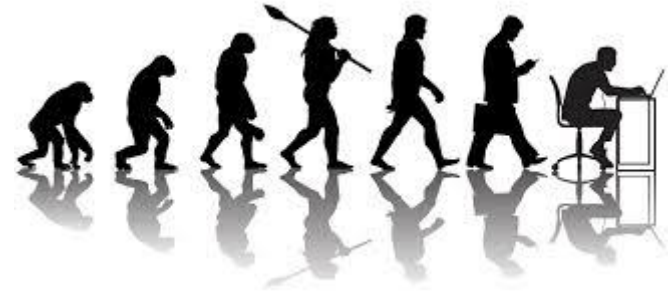
# Further reform desirable?

- More/better reporting of wellbeing
  - Whole of government, rather than departmental
  - Alongside FSG, therefore annual reporting
- Consistent with Integrated Reporting
- Independent standard setting by XRB?

# Hunkering down

- More restrictive environment in future
- More reprioritization – review “baseline” concept
- More emphasis on accountability, efficiency and cost control
- More analysis of source of supply of services?
- Reversion to more transactional than relational contracting

# The Public Finance Act and the evolution of government financial management and reporting?



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