Public Sector Accounting –
Boring to the Power of Two?

Ian Ball
Professor of Public Financial Management
1989

Financial Management Pre-reform

• Program budgeting
• Treasury-run accounting system (SIGMA)
• **Cash-based budgeting, appropriations and accounting**
• Fund accounting – Consolidated Revenue Fund et al
• Input oriented – people, dollars and materials
• Highly detailed rules – controls but not control
  – Treasury Instructions
  – (also Public Service Manual)
The Key Concepts

- Accountability
- Integration of management system
- Performance
  - Ownership and purchase
  - Inputs, outputs and outcomes
  - Crown and department
## Ownership

### Financial
- Maintenance of capital
- Financial performance
- Revenues
- Cash flows
- Capital expenditure

### Non-financial
- Governance
- Strategy
- Risk management
- Human capital
- Legal compliance
Performance: Inputs, Outputs, Outcomes

OUTCOMES

INTERVENTIONS
Mix of actions to achieve desired outcomes

Outputs | Regulations | Transfers | Taxation | Ownership
The Economist’s View

New Zealand Inc

Governments insist that publicly quoted companies prepare financial ac- counts in such a way as to reflect the company rather than the public sector. But governments themselves ignore those rules. The one exception is New Zealand

ECONOMICS FOCUS

An ownership? That is hardly surprising given the government’s persistent efforts to make the New Zealand government’s capital account. A negative net worth for a government is a bad thing, but some governments seem to have fared worse than others. The New Zealand government has a capital account deficit of NZ$3.2 billion, while the United States government has a capital account deficit of $1.7 trillion. While both governments have net worths of negative numbers, the New Zealand government has a much smaller deficit than the United States government.

Better financial information ought to make it harder for the New Zealand government to ignore the future consequences of short-sighted policies. Time will tell. It could be good news for tomorrow’s taxpayers. It is even better news for all the accountants whom the New Zealand government has had to hire.
Implementation

1989  Passage of the Public Finance Act
Departments move to accrual accounting, budgeting & appropriations within two years

1992  First half-year and annual Crown Financial Statements (CFS) on accrual basis

1993  First full consolidation of CFS
Financial Reporting Act

1994  Fiscal Responsibility Act
First whole of government budget on accrual basis
Monthly financial statements

1995  First CFS with full budget/actual comparison
Fiscal Position

Advantages of Net Worth over debt as the measure:

• More comprehensive
• Better reflects resilience
• Takes account of non-debt liabilities
• Takes account of assets
• Defined by GAAP
NZ Government Financial Statements

Financial Statements of the Government of New Zealand
for the year ended 30 June 2019

$136.3b Opening net worth

$146.3b Closing net worth

$119.3b TOTAL REVENUE

$111.4b TOTAL EXPENSES

$7.9b Operating balance

$365.8b Assets

$219.4b Liabilities

Numbers may not add due to rounding.
Crown Balance Sheet

The balance sheet is a point in time snapshot of all assets the Government holds and how these are funded.

What the Treasury says

On the Crown's balance sheet, assets have increased by $25.8 billion since June 2018 while the Crown's liabilities increased by $15.1 billion. This resulted in an increase in net worth of $10.7 billion.

Growth in assets was largely due to property, plant and equipment growth of $19.0 billion, with new assets being added and the value of existing assets increasing.

Growth in liabilities was primarily due to increases in the ACC insurance liability and the Government Superannuation Fund liability, with the largest factor being lower discount rates used in the valuation of these liabilities.

Sensitivities

The Crown's Balance sheet is particularly sensitive to changes in some key assumptions used to value assets and liabilities.

For example, the lower discount rates used in 2018/19 to value the future costs of existing accident claims in today's dollars added $10.8 billion to the ACC liability.

If discount rates reduce, the liability in today's dollar increases.
31A Monthly financial statements of Government

(1) The Treasury must, as soon as practicable after the end of each month (except the first 2 months and the last month) in each financial year, prepare consolidated financial statements for the Government reporting entity for the period of the financial year to the end of the month concerned.

(2) The monthly financial statements must—

(a) be prepared in accordance with generally accepted accounting practice; and

(b) include, in addition to those financial statements required by generally accepted accounting practice,—

(i) a statement of borrowings that reflects the borrowing activities for the period of the financial year to the end of the month concerned;

(ii) any additional information and explanations needed to fairly reflect the consolidated financial operations of the Government reporting entity for the period of the financial year to the end of the month concerned and the consolidated financial position at the end of that month;

(iii) in relation to the financial statements required by generally accepted accounting practice and the statement required by subparagraph (i),—

(A) budgeted figures for the period of the financial year to the end of the month concerned;

(B) comparative actual figures for the period of the previous financial year to the end of the corresponding month.
Achievements – Fiscal Position and ...
## Fiscal Resilience

### Net Worth of National Government
(billions, local currency)

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>67</td>
<td>-418</td>
</tr>
<tr>
<td>Canada</td>
<td>-457</td>
<td>-671</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-1,200</td>
<td>-2,565</td>
</tr>
<tr>
<td>United States</td>
<td>-10,200</td>
<td>-21,520</td>
</tr>
<tr>
<td>New Zealand</td>
<td>105</td>
<td>136</td>
</tr>
</tbody>
</table>
Achievements – Social Progress

- Comparatively high levels of social performance
Progress Internationally
And 2023?
Basis for qualified opinion on financial statements

Qualification arising from disagreements on the definition and application of the accounting boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the accounts should present a true and fair view and conform to generally accepted accounting practice, subject to such adaptations as are necessary. HM Treasury has adopted a framework for the accounts which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.3 to the accounts, HM Treasury defines the accounting boundary with reference to those bodies classified as being in the public sector by the Office for National Statistics. I consider that it would be more appropriate to assess the accounting boundary with reference to the accounting standards.

I also consider that HM Treasury’s accounting policy has not been applied consistently in 2017-18. A number of significant bodies, including the Royal Bank of Scotland, have not been included in the accounts, even though they are classified by the Office for National Statistics as being in the public sector, which I also consider should be included in the accounts in line with applicable accounting standards.
Although I cannot quantify the effect of these omissions on the accounts with certainty, as I do not have the information needed to identify the transactions that would have to be eliminated to provide a consolidated view, the most significant impact would be on the Statement of Financial Position. The exclusion of the following categories of bodies could affect this Statement, which illustrates the potential impact:

- Royal Bank of Scotland which, as at 31 December 2017, had gross assets of £738.1 billion and gross liabilities of £689.0 billion; and

- other bodies which have estimated gross assets of £20.1 billion and gross liabilities of £7.9 billion.
### United States Government

**Balance Sheets**

as of September 30, 2018, and 2017

(In billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>Restated 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and other monetary assets (Note 2)</td>
<td>507.5</td>
<td>271.2</td>
</tr>
<tr>
<td>Accounts and taxes receivable, net (Note 3)</td>
<td>144.9</td>
<td>143.3</td>
</tr>
<tr>
<td>Loans receivable, net (Note 4)</td>
<td>1,410.1</td>
<td>1,350.2</td>
</tr>
<tr>
<td>Inventories and related property, net (Note 5)</td>
<td>337.5</td>
<td>326.7</td>
</tr>
<tr>
<td>Property, plant and equipment, net (Note 6)</td>
<td>1,090.5</td>
<td>1,087.0</td>
</tr>
<tr>
<td>Debt and equity securities (Note 7)</td>
<td>110.3</td>
<td>116.2</td>
</tr>
<tr>
<td>Investments in government-sponsored enterprises (Note 8)</td>
<td>113.2</td>
<td>92.6</td>
</tr>
<tr>
<td>Other assets (Note 9)</td>
<td>113.7</td>
<td>147.7</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>3,836.7</td>
<td>3,534.9</td>
</tr>
<tr>
<td>Stewardship land and heritage assets (Note 24)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable (Note 10)</td>
<td>86.7</td>
<td>70.8</td>
</tr>
<tr>
<td>Federal debt securities held by the public and accrued interest (Note 11)</td>
<td>15,812.7</td>
<td>14,724.1</td>
</tr>
<tr>
<td>Federal employee and veteran benefits payable (Note 12)</td>
<td>7,982.3</td>
<td>7,700.1</td>
</tr>
<tr>
<td>Environmental and disposal liabilities (Note 13)</td>
<td>577.3</td>
<td>464.5</td>
</tr>
<tr>
<td>Benefits due and payable (Note 14)</td>
<td>211.1</td>
<td>218.8</td>
</tr>
<tr>
<td>Insurance and guarantee program liabilities (Note 15)</td>
<td>170.2</td>
<td>202.4</td>
</tr>
<tr>
<td>Loan guarantee liabilities (Note 4)</td>
<td>38.2</td>
<td>42.9</td>
</tr>
<tr>
<td>Other liabilities (Note 16)</td>
<td>479.9</td>
<td>473.1</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>26,397.5</td>
<td>23,896.8</td>
</tr>
<tr>
<td>Contingencies (Note 18) and Commitments (Note 19)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds from Dedicated Collections (Note 20)</td>
<td>3,482.0</td>
<td>3,419.5</td>
</tr>
<tr>
<td>Funds other than those from Dedicated Collections</td>
<td>(24,982.9)</td>
<td>(23,781.4)</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>(21,500.9)</td>
<td>(20,361.9)</td>
</tr>
<tr>
<td><strong>Total liabilities and net position</strong></td>
<td>3,836.7</td>
<td>3,534.9</td>
</tr>
</tbody>
</table>
March 28, 2019

The President
The President of the Senate
The Speaker of the House of Representatives

To operate as effectively and efficiently as possible, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and for the federal government as a whole. Our report on the U.S. government’s consolidated financial statements for fiscal years 2018 and 2017 underscores that much work remains to improve federal financial management and that the federal government continues to face an unsustainable long-term fiscal path.

Our audit report on the U.S. government’s consolidated financial statements is enclosed. In summary, we found the following:

- Certain material weaknesses in internal control over financial reporting and other limitations resulted in conditions that prevented us from expressing an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2018, and 2017. About 31 percent of the federal government’s reported total assets as of September 30, 2018, and approximately 17 percent of the federal government’s reported net cost for fiscal year 2018 relate to significant federal entities that received disclaimers of opinion on their fiscal year 2018 financial statements or whose fiscal year 2018 financial information was unaudited.

Disclaimer
However, since the federal government began preparing consolidated financial statements over 20 years ago, three major impediments have continued to prevent us from rendering an opinion on the federal government’s accrual-based consolidated financial statements over this period: (1) serious financial management problems at the Department of Defense (DOD) that have prevented its financial statements from being auditable, (2) the federal government’s inability to adequately account for intragovernmental activity and balances between federal entities, and (3) the federal government’s ineffective process for preparing the consolidated financial statements.

Greek Debt
**C26. Progression of Maastricht Gross Debt to IPSAS Net Debt**

(Euros, Billions; as of 31 December 2013)

<table>
<thead>
<tr>
<th>Maastricht Debt (Face Value)</th>
<th>IPSAS Adjustments (Includes Accretion)</th>
<th>IPSAS Net Debt (Fair Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Debt/Asset</strong></td>
<td><strong>OSI #1: Loans</strong></td>
<td><strong>OSI #1: Loan Modification</strong></td>
</tr>
<tr>
<td>1. Modified Securities</td>
<td>€ 11.0</td>
<td>€ 5.7</td>
</tr>
<tr>
<td>2. Modified/Concessionary Loans</td>
<td>€ 11.0</td>
<td>€ 5.7</td>
</tr>
<tr>
<td>3. Non-Revalued Debt</td>
<td>€ 11.0</td>
<td>€ 5.7</td>
</tr>
<tr>
<td>4. Adjustments</td>
<td>€ 0.0</td>
<td>€ 0.0</td>
</tr>
<tr>
<td>5. Total Gross Debt</td>
<td>€ 318.7</td>
<td>€ 302.0</td>
</tr>
<tr>
<td>6. GDP</td>
<td>€ 182.0</td>
<td>€ 182.0</td>
</tr>
<tr>
<td>7. Debt/GDP</td>
<td>175%</td>
<td>175%</td>
</tr>
</tbody>
</table>

**Concessionary Terms and Modifications: Highlights**

- **EU Loans**: 3M Euribor plus 300-400 bps. Maturities: 5 yrs. Grace period: 1.5 yrs.
- **EU Loans cut to 3M Euribor plus 200-300 bps. Maturities up to 10 yrs. Grace period up to 4.5 yrs.**
- **EU Loans cut to 3M Euribor plus 150bps. Maturities up to 15 yrs. Grace period up to 10 yrs.**
- **EU Loans cut to 3M Euribor plus 50bps. Maturities extended to 30 yrs.**
- **EFSSF Loans**: Cost-of-funding plus 200-300bps. Maturities: 30 yrs.
- **EFSSF Loans cut to cost-of-funding. Interest deferred for 10 yrs. Maturities extended to maximum 45 yrs.**
- ANFA bonds issued on

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http://www.mostimportantreform.info/CESifo_Government_Accounting_Reform.pdf
Wellbeing
Budget

The Treasury’s Living Standards Framework

To help us achieve our vision of working towards higher living standards for New Zealanders, we developed the Living Standards Framework. Our Living Standards Framework provides us with a shared understanding of what helps achieve higher living standards to support intergenerational wellbeing.

Our work is focussed on promoting higher living standards and greater intergenerational wellbeing for New Zealanders. These require the country’s Four Capitals – human, social, natural and financial/physical – to be strong in their own right and to work well together.

The Four Capitals (natural, human, social, and financial and physical) are the assets that generate wellbeing now and into the future.

Looking after intergenerational wellbeing means maintaining, nourishing, and growing the capitals.

1. Natural Capital
   - All aspects of the natural environment that support life and human activity. Includes land, soil, water, plants and animals, minerals and energy resources.

2. Human Capital
   - The capabilities and capacities of people to engage in work, study, recreation, and social activities. Includes skills, knowledge, physical and mental health.

3. Social Capital
   - The norms, rules, and institutions that influence the way in which people live and work together and experience a sense of belonging. Includes trust, reciprocity, the rule of law, cultural and community identity, traditions and customs, common values and interests.

4. Financial and Physical Capital
   - Financial and human-made (produced) physical assets, usually closely associated with supporting material living conditions. Includes factories, equipment, houses, roads, buildings, hospitals, financial securities.

The 12 Domains of current wellbeing reflect our current understanding of the things that contribute to how New Zealanders experience wellbeing:

- Civic engagement and governance
- Cultural identity
- Environment
- Health
- Housing
- Income and consumption
- Jobs and earnings
- Knowledge and skills
- Time use
- Safety and security
- Social connections
- Subjective wellbeing

Resilience

promotes us to consider how resilient the Four Capitals are in the face of change, shocks, and unexpected events

Wellbeing in PFA