A Future Strategy for Public Financial Management in New Zealand
At that time, we were grappling with
- fiscal sustainability issues—net debt was 55% of GDP in 1992
- little transparency around public spending
- public sector was generally not responsive to Ministers

What was put in place…
- a ‘technocratic’, output, and performance-focused model, replacing the 'input-focused' approach
- based on principles of devolution, accountability, and transparency
- change to accrual-based accounting
- supplemented with a focus on fiscal responsibility
The reforms were successful...

Transparency

Perceived corruption in OECD countries

Fiscal control

Core Crown net debt, % of GDP (1972 to 2018)

1994 Fiscal Responsibility Act

...and provided agencies with flexibility to deliver outputs.
But we now face different issues and challenges…

- Not serving Parliament well
  - focus on detail instead of strategy and value of spending

- Struggle to respond to complex, longer-term issues/opportunities
  - disadvantaged groups with complex needs, technological advances, globalisation, climate change, future of work

- Stemming in part from how we operate the public finance system
  - Budget, annual appropriations and 4-year fixed nominal baselines incentivise **focus on short-term** with the risk that longer-term planning and capability building are deferred
  - financial/vertical accountability structures incentivise **silos**
  - appropriation structures and accountability settings drive **inflexibility, focus on detail, fiscal control, compliance**
Where we need to go…

**Vision** – A public finance system and legislation that enables the public service to improve the intergenerational wellbeing of New Zealanders

*Will the current public finance system and PFA allow us to achieve this vision?*

A focus on key shifts at a system level and a ….. shift to a ‘stewardship’ approach

- Creating and safeguarding value, alongside fiscal responsibility
- Supporting collaboration
- Greater emphasis on the long-term to support innovation, asset management and capability-building
- Retaining our existing strengths
- Taking a system approach and supporting partnerships
- Smarter regulation using a more differentiated, proportional approach to support greater flexibility and more strategic focus
Where we’re at…

• Initial PFA work
  – embed wellbeing into the PFA, alongside IFI, child poverty amendments
  – enriching the overarching framework for fiscal policy, the budget cycle, and whole of government reporting

• Next step – other core parts of the public finance system
  – financial management system (Budget and asset management)
  – appropriations and accountability framework

• Approach
  – Systemic approach – aligning with other work by SSC, OAG, Office of the Clerk,..
  – Starting with the public finance system (not legislation) but looking at where legislative change is needed or would be useful
  – Focus on incentives
## Work programme...

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<th>Area</th>
<th>Desired state</th>
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| Budget Design and Baseline reviews        | • Taking a more strategic view on the Budget  
• Understanding how baseline expenditure creates value                                                                                   |
| Strategic Asset Management                | • Greater emphasis on the long-term to support innovation, asset management and capability-building                                          |
| Appropriations and accountability         | • Appropriation structures and accountability settings that enable a strategic focus and support collaboration                                 |
| Strategic planning and reporting          | • Strategic planning which is integrated with decision-making and delivery.  
• Reporting that applies a wellbeing approach and supports a strategic focus  
• Reduced compliance burden.                                                                                                               |
Budget Design and Baseline Reviews
New spending vs baselines

- Focus is on a relatively small slice of funding
- Cost pressures dominate the process
- Recent budgets have added new analytical requirements with high costs for agencies
- Ministers have little visibility of what is funded through baselines and how to fund new things through stopping what’s not working
Process for new spending

- Changes to the Budget process over time have reflected government objectives
  - more or less emphasis on individual bids
  - top-down vs bottom-up approach to building the budget package
  - different ways of engaging with portfolio Ministers

- Exploring changes to the budget process to support a sharper focus on the key strategic decisions
Process for baseline reviews

Objectives
• Understand the value of baseline services and where cost pressures are likely to be unavoidable
• New expenditure traded off against changes to baseline services, as well as other new expenditure options
• Sustainable funding paths for high-value services
• Strategic options for managing and reprioritising lower-value spend

Step 1: Budget 19 review of MSD

Step 2: More baseline reviews
• Doing another one (Defence sector) this year. Leading to B20 decisions
• Looking to move to a regular cycle of reviews, covering the larger agencies:
  – ~80% of spend: 8 per four-year cycle (two a year)
  – ~90% of spend: 12 per four-year cycle (three a year)
Strategic Asset Management
What we know...

• Big balance sheet with assets that need to be appropriately managed

• There is an infrastructure deficit and Government agencies “sweating” assets but limited evidence of:
  – Condition
  – Utilisation; and
  – Functionality of assets supporting service delivery

• The focus has been on $ and output/outcome reporting. Specific analysis on “criticality” (of services and assets) has not been consistently undertaken across the public sector
Our work in strategic asset management

• ICR (in place for five years) provides an incentive for investment-intensive agencies to improve investment performance

• Leading the establishment of an independent Infrastructure Commission to improve how New Zealand coordinates and plans our infrastructure

• Treasury is increasing its emphasis and resourcing into strategic asset management:
  – Develop an evidence base of asset management practices, risk and resilience levels for critical Government services
  – Asset management is being integrated into other Treasury products such as the baseline reviews and strategic planning initiatives

• Our work aligns with international research and best practice identified by the OAG that there should be more focus on “critical” government services in relation to risk and resilience
Appropriations and accountability
• 840 appropriations - more than 1,000 counting the components of MCAs
• More than 50% of the money is in 2% of the appropriations.
• 45% of appropriations have less than $5m in each appropriation (less than 1% of the money).
Disproportionate levels of reporting

- Compared to UK and Australia, New Zealand does significantly more reporting for the $
- Lots (and lots) of detailed financial information
- Disjointed departmental planning and reporting requirements
- Overall story is hard to follow and lacks strategic focus
- Appropriation structures and accountability settings that support a more strategic focus and reduce transaction costs
Strategic Planning and Reporting
Numerous requirements
- SOI
- 4YP
- LTIP
- Regulatory stewardship reporting

Yet we still struggle to focus on the medium – long-term.

200 state servants discussed their experiences with strategic planning and reporting

Strategic planning and reporting

Generally focussed on the agency (as opposed to outcome, theme, or sector)
No governance or stewardship at the centre
Hard to do high quality strategic planning and performance reporting
Regime doesn’t work well in a changing environment
Requirements are too rigid
Capability is in short supply or not used as well as it could be
Audience, purposes, and uses of strategic plans and performance reports are unclear
Too many requirements and demands from the centre
No whole-of-system approach
Mixed appetite for strategic planning and performance reporting amongst agency leaders and Ministers

Compliance
Ministers and agency leaders may have overlapping interests that aren’t reconciled
Capability and interest varies
Minister and agency leader interactions are not always easy

Insufficient support
Systematically deprioritised, and undervalued
Timeframes don't work for us
One size fits none
Piloting a new approach

Documents
Focus on submitting lengthy plans to the TSY

Siloed
Agencies creating plans in isolation

Standardised
Prescriptive requirements
Standardised deadlines

Unclear authorising environment
Ministers and CEs not always driving plans

Delivery focus
Focus on delivery of plans over multiple years

Collaborative
Agencies asked to involve at least a small number of peers and partners in their work

Non-standardised
Flexible, negotiated approach

Clear authorising Environment
Supporting better conversations between Ministers and CEs