

The International Experience of PFM Reform

Ian Ball

Chair, CIPFA International

Chair, Audit Committee for Financial
Statements of the NZ Government,

Georgetown, 23 June, 2017



What We Will Cover

- PFM and IPSAS
- Development and Adoption of IPSAS
- Challenges and Strategies
- Economic Impact of PFM Reform

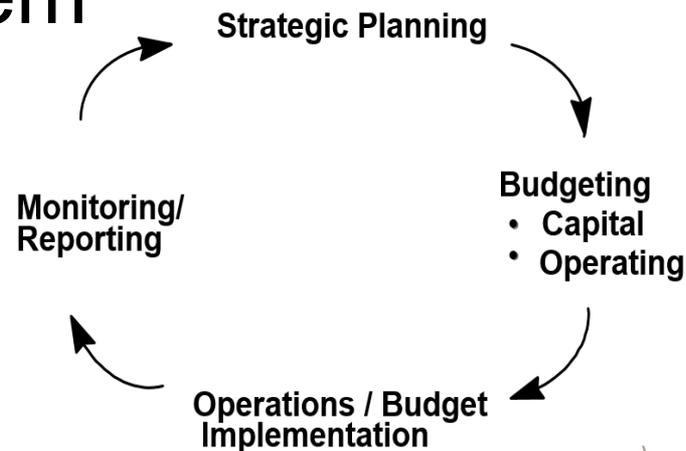
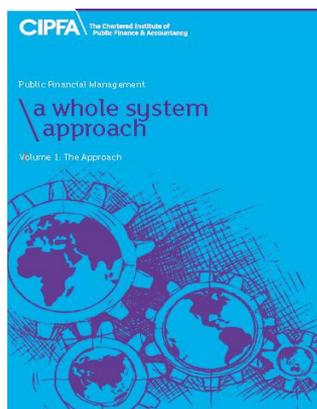
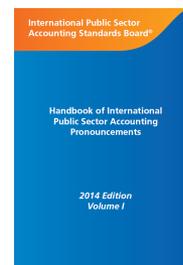
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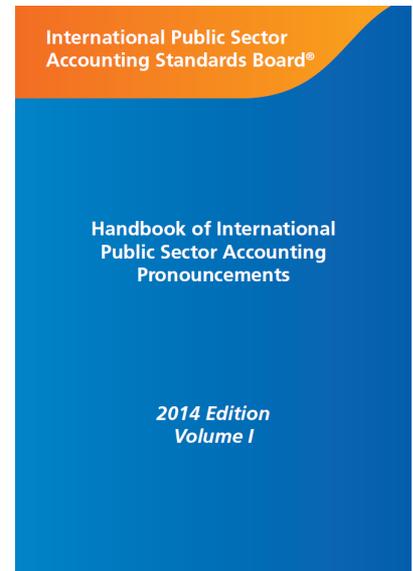
The Place of IPSAS in PFM

- IPSAS and accrual accounting
- Accrual accounting - one element of PFM
- A PFM system is a system



Accrual Accounting and IPSAS

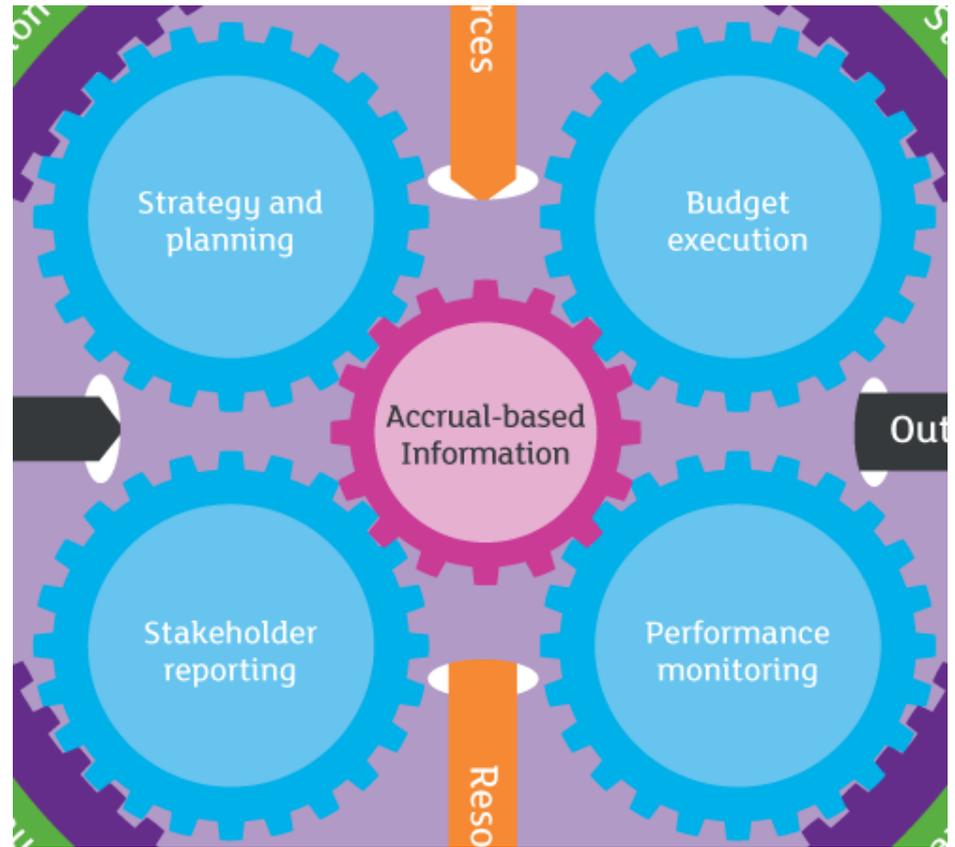
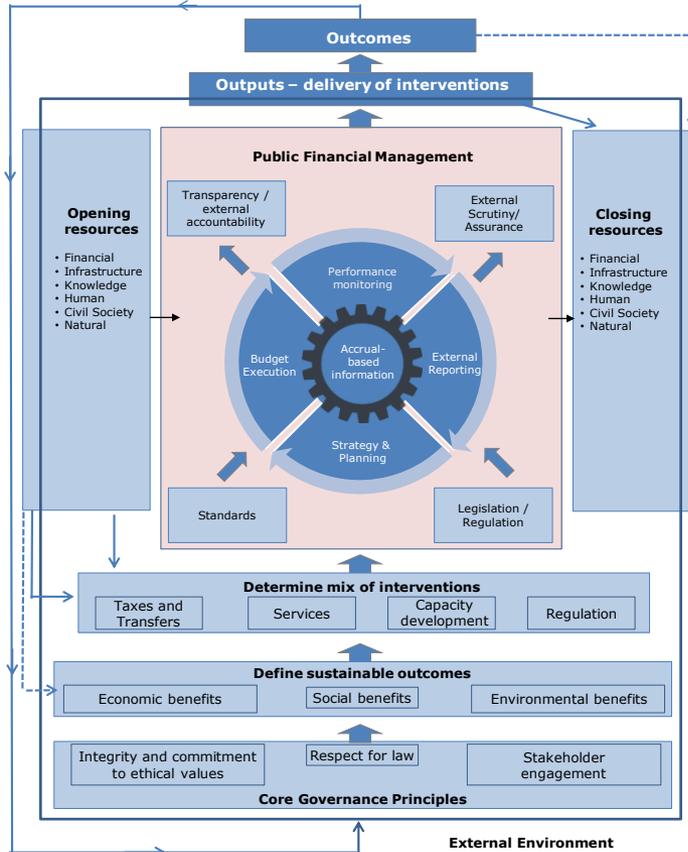
- Accrual accounting
 - the value of good information (cf. cash information)
- IPSAS:
 - the value of independent accounting policies
 - The value of comparable accounting information



A Whole Systems Approach

CIPFA's Whole System Approach to PFM:

Achieving intended outcomes while acting in the public interest at all times



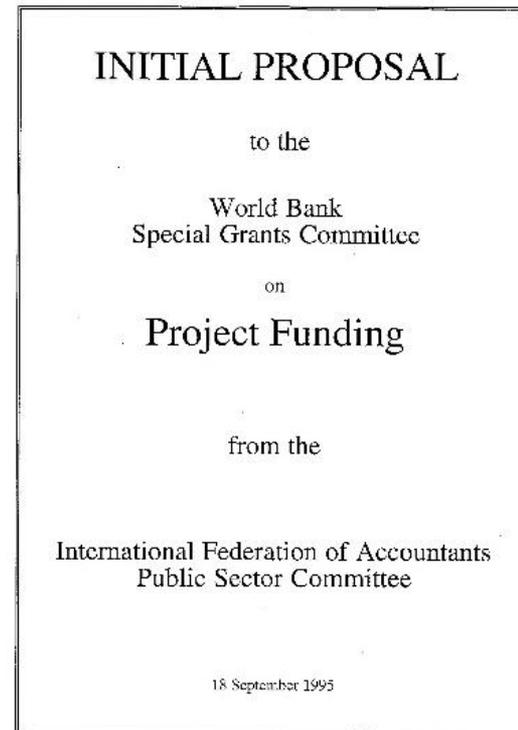
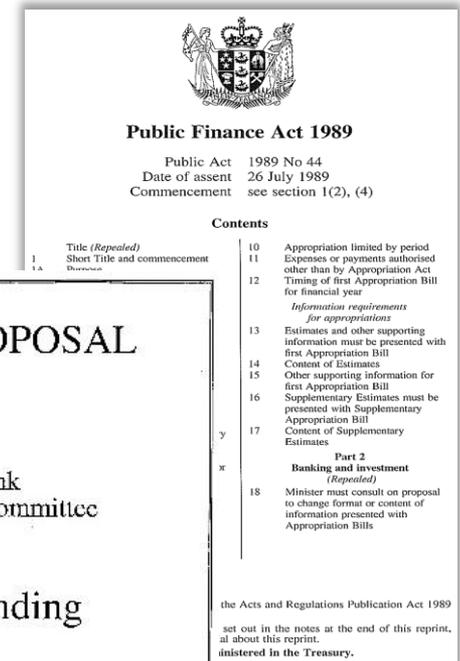
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- **Development and Adoption of IPSAS**
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Development and Adoption of IPSAS

- New Zealand origin of accrual based PFM
- Demonstration effect
- Application elsewhere?
- IPSAS program within IFAC



The Economist's View:

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.

New Zealand Inc

Governments insist that publicly-quoted companies prepare financial accounts in line with accepted accounting practices. But governments themselves ignore those rules. The one exception is New Zealand

AS THE world turns, New Zealand is the first industrial country to see the light each day. Perhaps that is one small reason why New Zealand has become the first country to publish a rational set of government accounts which includes a balance sheet of its assets and liabilities and an accrual-based operating statement of income and expenses—ie, similar to the accounts of a public company.

Under the crude cash-based method of accounting which governments have traditionally used to measure their bud-

ECONOMICS FOCUS

bankrupt. That is hardly surprising given the government's persistent deficits over the past two decades. But negative net worth does not have quite the same meaning for a government as for a private firm. Governments have the power to tax and so eliminate a financing gap rapidly. A negative net worth for a government means not bankruptcy, but that tomorrow's taxpayers face a heavier tax burden.

As at December 1991, which accounts have government had an NZ\$3.7 billion. Its old set of this difference .6 billion foreign-exchange currency boosted government's assets was valued at the current market prices at current market depreciated replacement value to the expected life

has included among employees, but for the aged the pension and social-security will increase as they age. These changes. Whatever the size it make the government shakier.

A single snapshot of a government's net worth has little value because economic theory offers no advice on what is the optimal level. But over time this new reporting system will provide a clearer picture of whether the government's policies are sustainable and whether it is maintaining or running down its assets, such as roads.

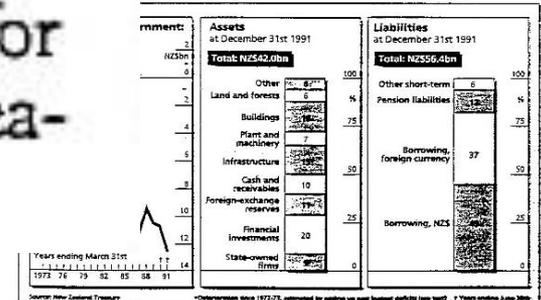
Past fiscal data makes it possible to glean some clues about how the New Zealand government's net worth has changed. If all the country's budget deficits since 1972 are added together, excluding capital spending but including the impact of a declining currency on the value of foreign debt, then the net worth of the government has deteriorated by \$12 billion over the past 20 years.

This new system of financial reporting is part of a much wider public-sector reform in New Zealand. Heads of government departments are now called "chief executives". Instead of permanent tenure they now have contracts for up to five years. They also have greater control over the hiring of staff and wages, and are expected to meet specific targets.

Since July 1989 departments have had to prepare balance sheets and operating statements which include depreciation. The aim is to make departmental managers more conscious of costs and the value of their assets. From April of this year accounts for the whole government must be published twice a year. The government will, however, continue to publish its old cash-based accounts to provide a consistent series.

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.

GOVERNMENT'S NET WORTH IS \$7.8 billion (\$7.8 billion) bigger than the estimated value of its assets. In other words, if it were a company, it would probably be



Original Objectives

BENEFITS OF THE PROJECTS

40. By setting guidelines of best financial reporting practice for each accounting basis and by establishing a core of accounting standards applicable under each accounting bases the PSC believes that it will contribute to:
- (a) improving the quality and reliability of accounting and financial reporting by governments;
 - (b) improved financial and economic performance;
 - (c) improved financial management and financial discipline;
 - (d) harmonisation between economic and financial reporting requirements;
 - (e) harmonisation between jurisdictions using the same accounting basis.

INITIAL PROPOSAL

to the

World Bank
Special Grants Committee

on

Project Funding

from the

International Federation of Accountants
Public Sector Committee

18 September 1995

IFAC PSC Strategic Plan – 1996

1. STANDARD SETTING

Strategic Objective:

To establish a body of generally accepted accounting and auditing standards for the public sector.

2. PROMOTION

Strategic Objective:

To promote the PSC as the authoritative international source in public sector accounting and financial reporting and, in conjunction with IFAC's International Auditing Practices Committee, as an authoritative international source in public sector auditing, thereby also promoting the PSC's authoritative recommended standards.

3. HARMONIZATION

Strategic Objective:

To harmonise accounting, financial reporting and auditing across jurisdictions and, where appropriate, between the public and private sectors, and to harmonise financial reporting between accounting and economic bases.

C.97/86

APPENDIX II

INTERNATIONAL FEDERATION OF ACCOUNTANTS PUBLIC SECTOR COMMITTEE

STRATEGIC PLAN DECEMBER 1996

The purpose of this plan is to set the direction and priorities for activities of the Public Sector Committee (PSC).

BACKGROUND

The PSC is a standing committee of the Council of the International Federation of Accountants (IFAC) formed to address, on a coordinated worldwide basis, the needs of those involved in public sector financial accounting, reporting and auditing. In this regard, the term "public sector" refers to national governments, regional (e.g. state, provincial, territorial) governments, local (e.g. city, town) governments and related governmental entities (e.g. agencies, boards, commissions and enterprises). The PSC has been given the authority on behalf of IFAC Council to issue IFAC pronouncements on accounting, reporting and auditing.

MISSION

The mission of the PSC is to enhance the performance of the public sector by contributing to better decision making, financial management and accountability by governments. This is achieved through the development and promotion of best practice in:

- accounting and financial reporting;
- auditing; and
- financial management.

The public sector is undergoing profound and rapid changes in many countries and the PSC has a vital role to play in influencing change and raising awareness regarding best practice.

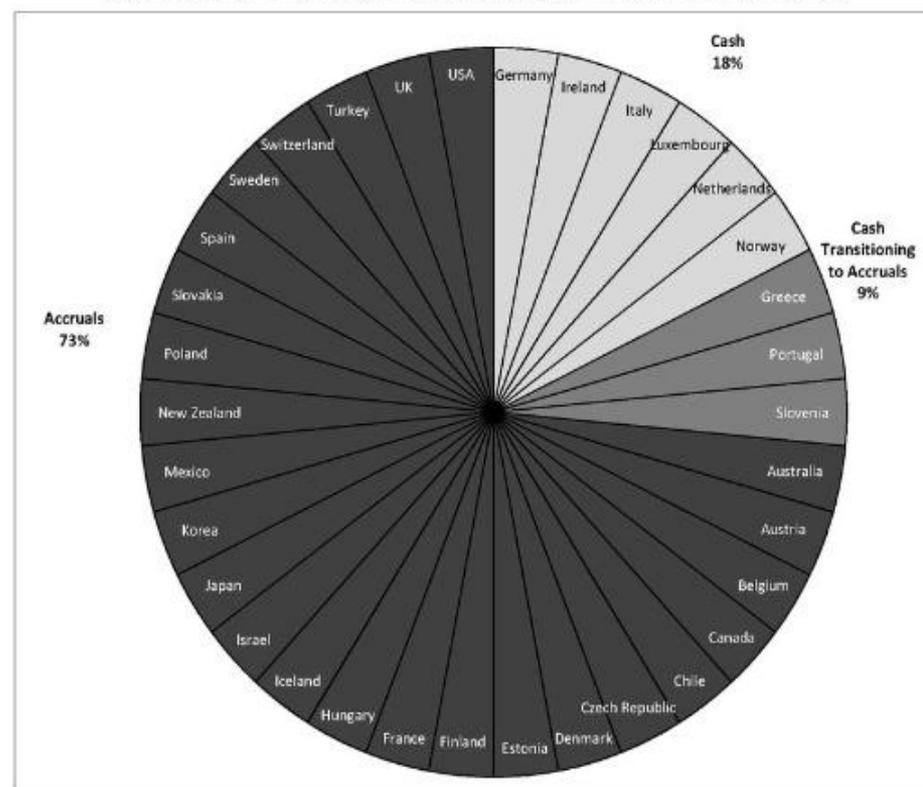
The strategic focus of the PSC is to be on the development of authoritative statements of accounting and financial reporting practice. This is seen as the manner in which PSC can best contribute to its mission. In adopting this stance, the PSC can both draw on its own strengths, capacity and international role, and also leverage effectively off the work of other bodies, such as the International Accounting Standards Committee.

2017 OECD Accrual Survey

In 15 years, from 24% to 73% of OECD Countries use accrual accounting.

Another 9% are transitioning.

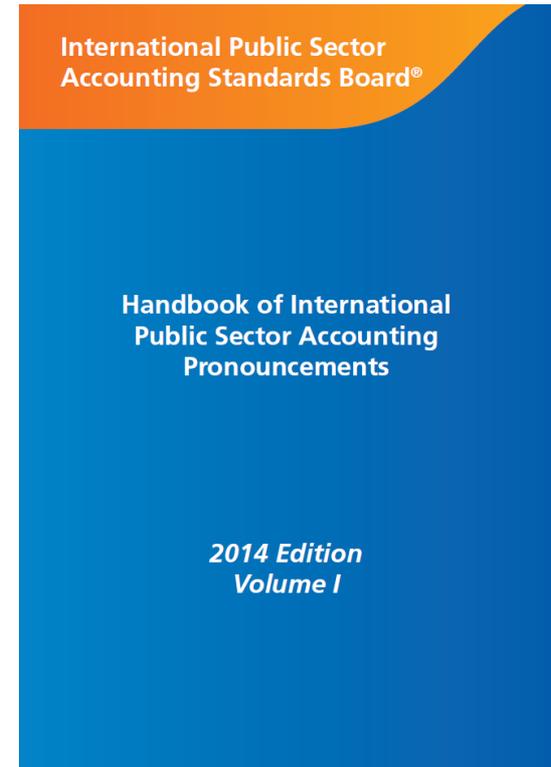
Figure 1. OECD Countries: Accounting basis for Annual Financial Reports



Notes: The figure above (and the following figures) reflects the answers provided by countries unless stated otherwise.

IPSAS – the benchmark

IMF	<i>IPSAS are the only international accounting standards designed for the public sector (2014)</i>
EC	<i>IPSAS is currently the only internationally recognized set of public sector accounting standards (2013)</i>
World Bank	<i>As the only available international financial reporting standards for governments that are based on generally accepted accounting principles, IPSAS can contribute to greater quality, consistency, and comparability of government financial information within and between jurisdictions. (2004)</i>
FEE	<i>International standards (IPSAS) already exist. They are the only recognized set of international standards. (2014)</i>
IFAC	<i>High-quality and timely accrual-based financial reporting in the public sector can be achieved through the adoption of globally-accepted, high quality reporting standards developed specifically for the public sector, i.e., IPSASs. (2014)</i>
IIF	<i>The IIF supports the implementation of international public sector accounting standards (IPSAS) for governments due to their importance for global growth and stability. (2013)</i>



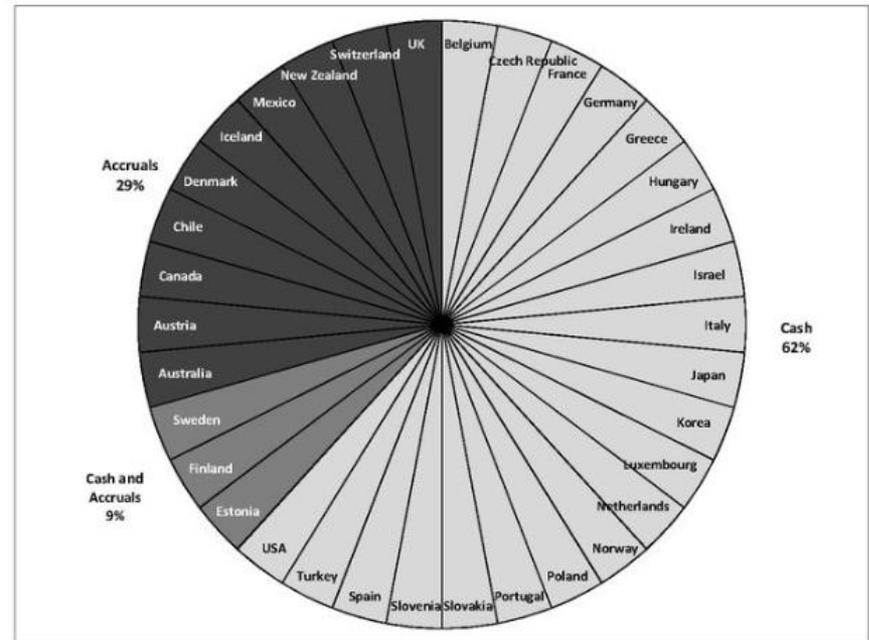
However...

38% of OECD countries implementing accrual budgeting.

About 50% of OECD countries budget on a cash basis and report on an accrual basis.

Figure 3. OECD Countries: Selected budgeting practices

a. Preparation basis for budgets

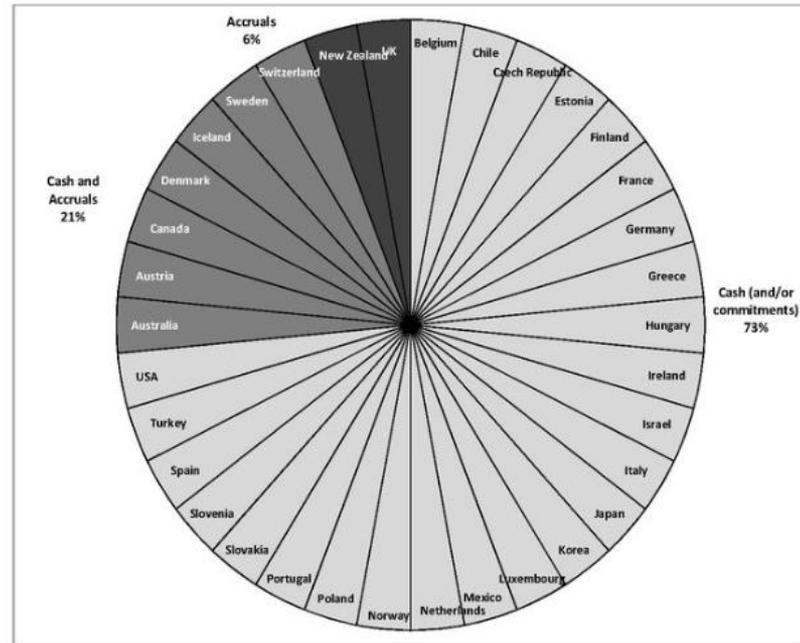


And Further...

Only 2 OECD countries appropriate fully on an accrual basis.

The result is very mixed incentives.

b. Nature of appropriations



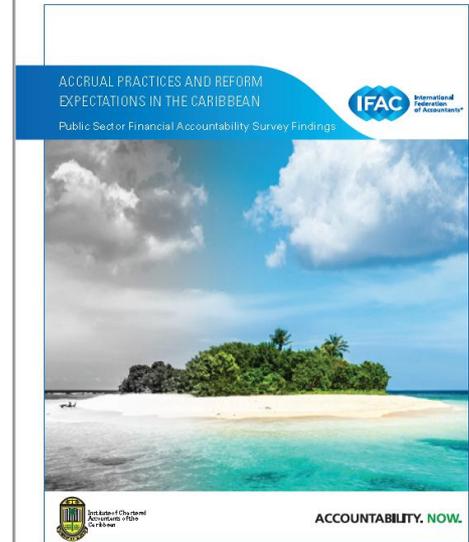
Note: Sweden and Finland are presented (Figure 3.a) in the “Cash and Accruals” category as the budget includes both accrual and cash elements, Estonia is planning a transition to accrual accounting to be completed by 2017.

Source: OECD Accruals Survey (2016).

A Problem Recognized...

POTENTIAL RECOGNITION BASIS DISPARITIES AFTER REFORM

Countries	After Reform	
	Accounting Basis (FS)	Recognition Basis (Budget)
Anguilla	Cash	Cash
Antigua & Barbuda	Cash to Accrual	Cash to Accrual
Aruba	Accrual	Cash
Bahamas	Accrual	Cash
Barbados	Accrual	Accrual
Belize	Cash to Accrual	Cash to Accrual
British Virgin Islands	Cash	Cash
Cayman Islands	Accrual	Accrual
Guyana	Cash	Cash
Jamaica	Cash	Cash
Montserrat	Cash	Cash
Saint Lucia	Accrual	Cash to Accrual
St. Vincent & the Grenadines	Accrual	Cash to Accrual
Trinidad & Tobago	Accrual	Cash
Turks & Caicos Islands	Cash to Accrual	Cash to Accrual



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OECD – Challenges and Strategies

Table 3. OECD countries: Strategies and measures to address the reform challenges

Major Challenges	Strategies and Measures
Adapting existing laws and regulations	<ul style="list-style-type: none"> Working collaboratively with the political level, and obtaining cross-party support for legislative changes. Establishing special units to deal with the legal and regulatory issues
Design, development, and implementation of IT systems	<ul style="list-style-type: none"> Strong project management Using consultants/experts with specialist skills and technical knowledge Developing requirements (e.g., conceptual design and functional requirements) of the system at an early stage. Leveraging off corporate systems and practices
Identification and valuation of assets and liabilities as part of the opening balance sheet	<ul style="list-style-type: none"> Consultation with, and engagement of, the appropriate departments early in the process. Development of a model for costing capital assets where no records exist for actual historical cost. Adopting a phased approach and allowing more time to ministries and departments Coordinated effort by preparers and auditors.
Developing guidance and training materials and delivering training	<ul style="list-style-type: none"> Establishing dedicated team(s) Training existing staff and hiring people with subject matter skills and experience Training existing staff Quality assurance of training materials
Preparing consolidated financial statements	<ul style="list-style-type: none"> Role of experienced and qualified staff critical Effective coordination with entities to be consolidated Adopting a phased approach—starting with a few eliminations
Preparing financial statements in a timely manner	<ul style="list-style-type: none"> Strong project management and coordination Role of experienced and qualified staff critical
Preparing for audit requirements and addressing audit qualifications	<ul style="list-style-type: none"> Auditor relationship management and communication
Estimating, monitoring, and controlling the costs of the reforms	<ul style="list-style-type: none"> Effective project management



Accrual Practices and Reform Experiences in OECD Countries

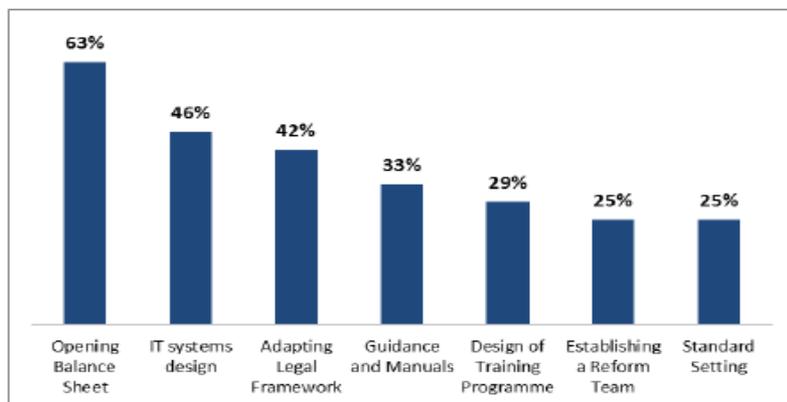


ACCOUNTABILITY. NOW.

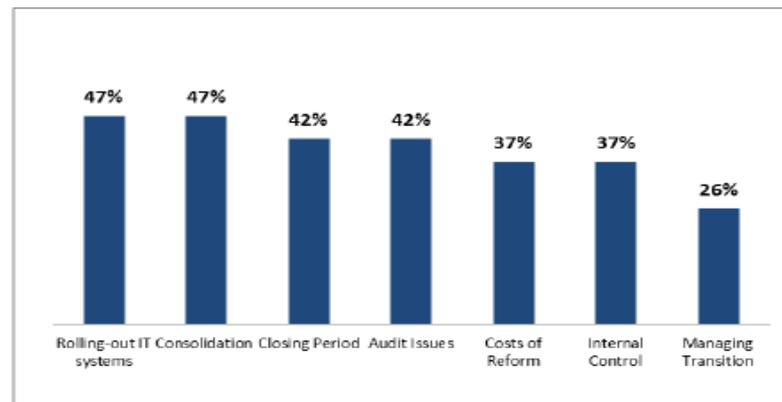


Preparation and Implementation Challenges

Preparation Phase



Implementation Phase



- Similarities in challenges pointed out by countries.
- Most countries underline the importance of :
 - Allowing sufficient time to preparers (ministries/departments and agencies) and providing guidance/assistance.
 - Human resources management (training and/or recruitment).
 - Collaboration with external auditor.

“Reforms gone Wrong” (1)

- Inattention to authorizing environment
- Ambitions beyond capability
- Lack of MoF commitment
- Impatience and lack of persistence
- Key person risk
- Capability shortages

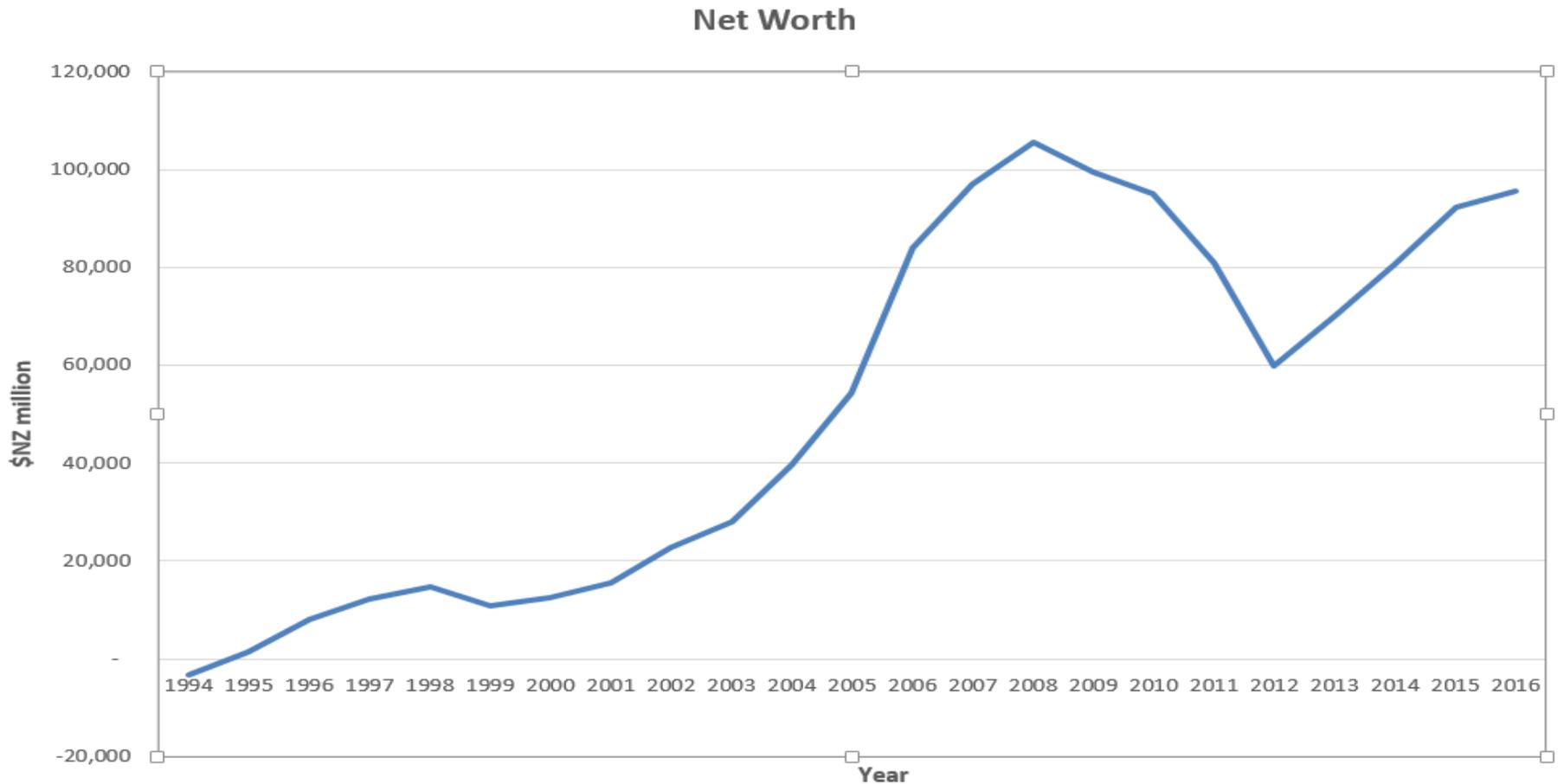
“Reforms gone Wrong” (2)

- Central-local financial relationships
- Inattention to public enterprises et al.
- Large scale ICT projects
- Inflated expectations of PFM
- Donor relationships
- Project planning and management capability

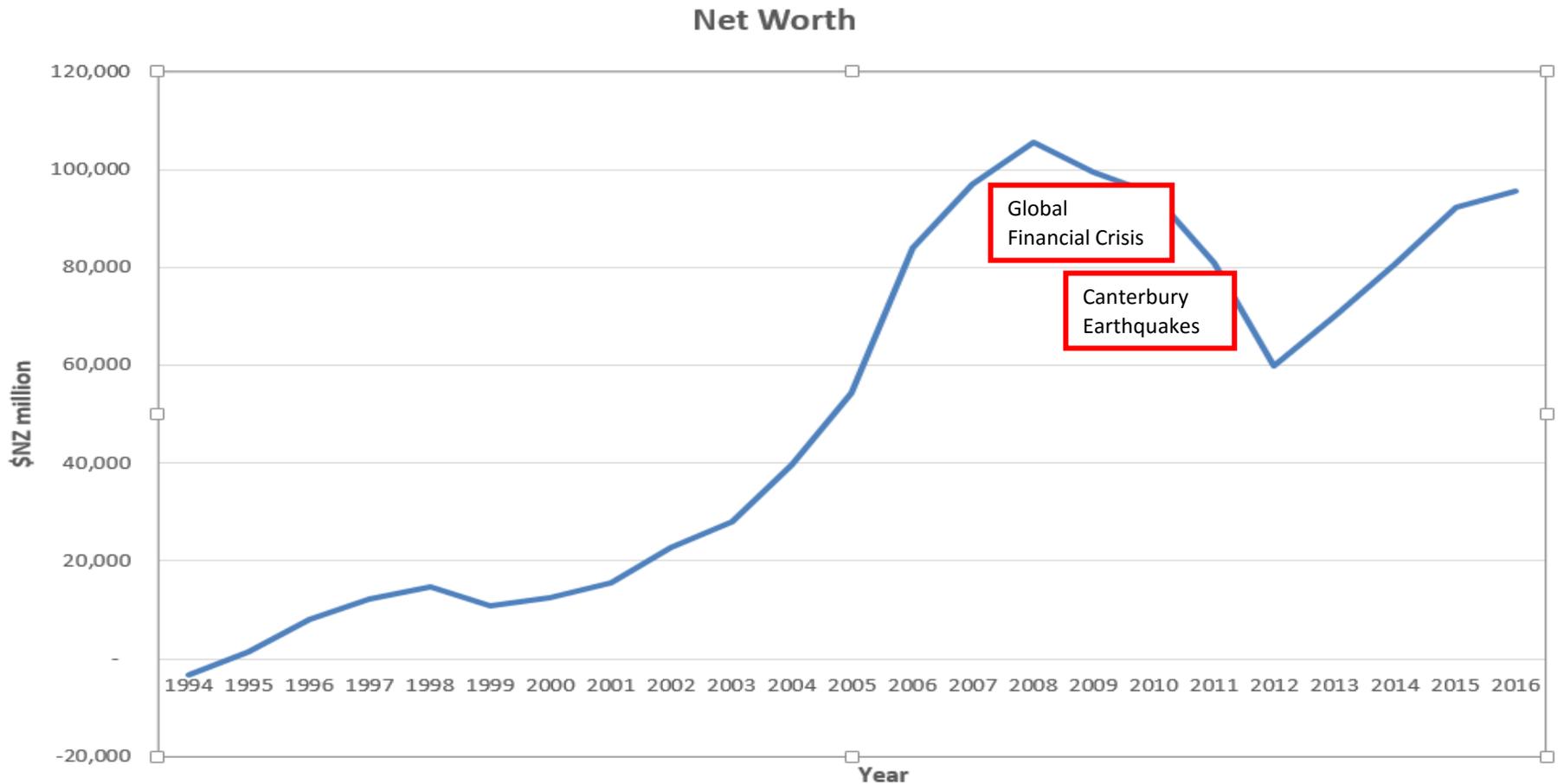
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- **Economic Impact of PFM Reform**

So How Is It Going in NZ?



So How Is It Going in NZ?



And comparatively?

Governments Have A Net Worth

	Australia, Commonwealth of	Canada, Government of	France, Republic of	Israel, Government of the State of
Total Assets	\$532	\$411	€ 982	₪ 503
Total Debts	\$841	\$1,024	€ 3,820	₪ 2,229
	-\$309	-\$612	-€ 2,838	-₪ 1,727
	Net Worth	Accumulated Deficit	Net Worth	Equity
GDP	\$1,637	\$1,975	€ 2,184	₪ 1,094
Net Worth / GDP	-19%	-31%	-130%	-158%
	New Zealand, Government of	Swiss Confederation	United Kingdom (Whole of Government)	United States Government
Total Assets	\$279	CHF 106	£1,699	\$3,230
Total Debts	\$187	CHF 144	£3,559	\$21,452
	\$92	-CHF 38	-£1,859	-\$18,222
	Net Worth	Equity	Taxpayers' Equity	Net Position
GDP	\$241	CHF 640	£1,817	\$17,968
Net Worth / GDP	38%	-6%	-102%	-101%

Opportunities for Knowledge and
Management of Government Balance Sheets
to Improve Financial Performance and Risk

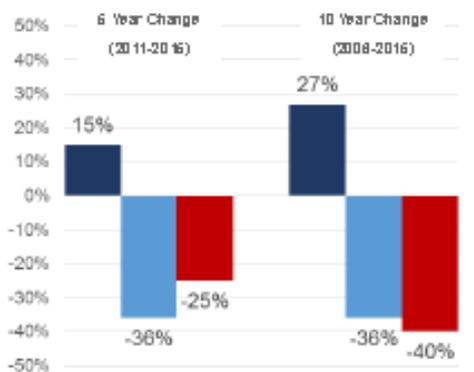


Balance Sheet Task Force
Improving Fiscal Performance: Assessment & Transparency
How Better Managing Governments' Balance Sheets
Can Enhance Productivity and Growth
Centre for European Policy Studies
July 2016
Brussels

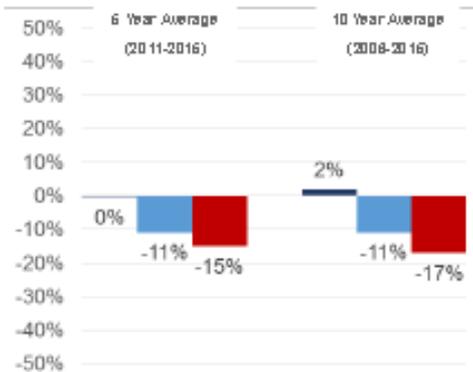
New Zealand's Successful Implementation of Public Financial Management (PFM) Has Without Doubt Contributed To Extraordinary Financial Performance Compared to Peers

(2006 - 2015 as available)

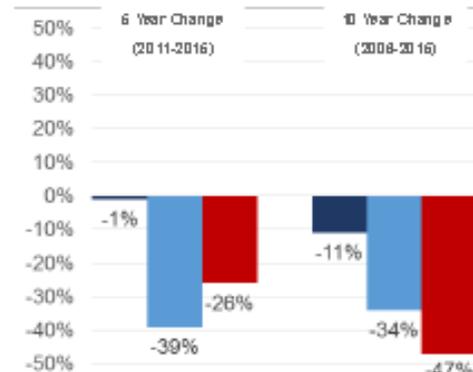
GDP Value Created/Lost Ratio



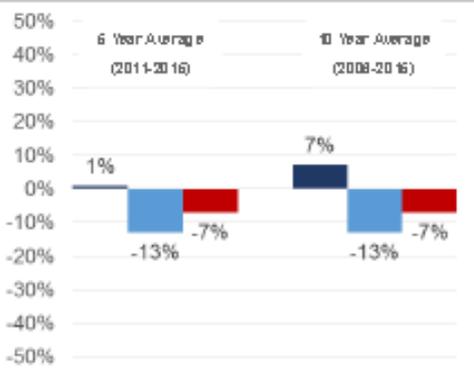
Return on Assets



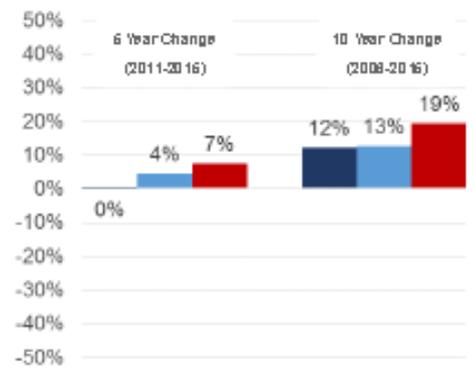
Net Worth % of GDP



Net Worth Annual % Change



Net Debt % of GDP



Legend



Notes: United Kingdom balance sheet data available beginning in 2010.
Base Year: NZ: 2005, UK: 2010, F.R: 2006

Public Finance International
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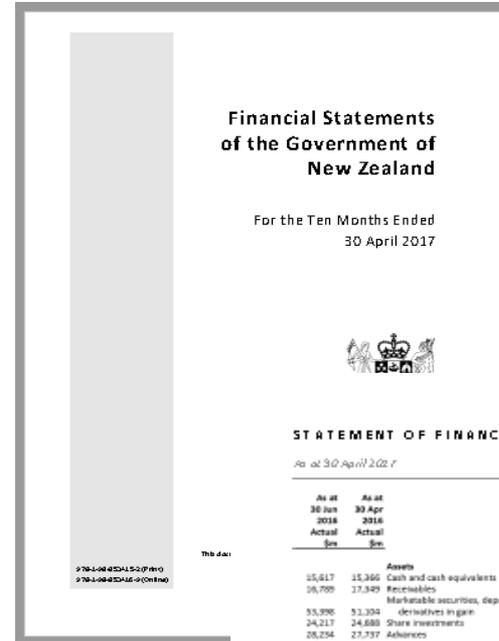
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New Zealand spends its surplus

By: Patrick Nolan | 26 May 17

In its 2017 budget, New Zealand unveiled public finance forecasts likely to be envied the world over. Set for a significant, and growing, cash surplus, the government can tackle some long-standing challenges



Financial Statements of the Government of New Zealand

For the Ten Months Ended
30 April 2017



STATEMENT OF FINANCIAL POSITION

As at 30 April 2017

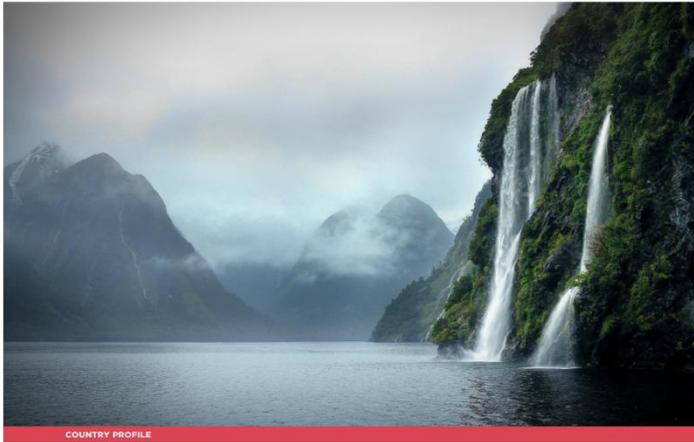
As at 30 Jun 2016 Actual \$m	As at 30 Apr 2016 Actual \$m	Current Year Actual vs Forecast				Annual Forecast \$m
		Actual \$m	Forecast \$m	Variance \$m	%	
Assets						
15,017	15,365	17,341	18,071	(730)	(4.8)	17,495
16,700	17,340	20,296	18,735	1,561	8.2	16,940
53,398	51,324	50,372	49,414	958	2.9	50,770
24,217	24,688	30,352	28,248	2,104	7.5	28,511
28,234	27,737	28,507	28,832	(325)	(0.3)	28,993
1,110	1,850	1,076	1,033	43	4.2	981
2,914	2,824	2,989	2,868	121	8.8	2,990
134,469	136,324	136,422	137,127	(705)	(0.2)	138,172
12,705	12,340	14,056	14,034	22	0.2	14,866
3,196	3,398	3,291	3,348	(57)	(1.7)	3,419
-	-	-	-	-	-	170
-	-	-	105	105	100.0	(115)
292,679	281,358	304,962	301,495	3,467	1.1	301,282
Liabilities						
5,715	5,786	6,071	5,761	(284)	(5.4)	5,761
12,029	11,491	13,318	12,994	(324)	(2.3)	12,735
2,178	2,127	2,128	2,170	(42)	(2.8)	2,066
113,936	114,390	114,207	114,735	(528)	(0.4)	114,997
42,126	40,281	42,178	40,871	(1,307)	(2.8)	41,364
12,441	11,385	10,537	10,529	(8)	(0.1)	10,905
8,712	7,524	7,857	8,076	(219)	(2.5)	8,276
197,456	193,060	196,456	195,236	(1,220)	(0.4)	195,359
95,521	88,298	108,506	106,259	2,247	2.1	105,923
Net Worth						
13,932	15,892	25,846	22,770	2,067	8.7	23,527
75,626	64,822	76,761	76,649	112	0.1	76,627
(1,972)	(1,852)	(251)	(1,020)	80	(48.3)	(1,110)
86,586	82,862	98,356	98,389	(33)	0.0	98,044
Net worth attributable to the Crown						
8,155	8,729	8,851	8,825	26	0.1	8,879
95,521	88,298	108,506	106,259	2,247	2.1	105,923

1. Tertiary education fee credits have contributed most equity accounted bonds issues.

The accompanying notes are an integral part of these financial statements.

New Zealand

Ranked 1st



COUNTRY PROFILE

THE LEGATUM PROSPERITY INDEX™ 2016 *Bringing Prosperity to Life*

AT A GLANCE COMMENTARY DATA SPECIAL ANALYSIS

Ranks 1st on the Legatum Prosperity Index™



SUB-INDEX RANKINGS

In the Prosperity Sub-Index rankings, New Zealand performs best on **Economic Quality** and **Social Capital** and scores lowest on the **Safety & Security** sub-index.

Visit our [Rankings](#) table to see how New Zealand compares to other countries.

SOCIAL PROGRESS IMPERATIVE

Social Progress Index

OVERVIEW BY COUNTRY FINDINGS METHODOLOGY DATA DEFINITIONS

NEW ZEALAND

In the Basic Human Needs Dimension, New Zealand performs best on **Water and Sanitation** and has most opportunity to improve on the **Shelter** component. In the Foundations of Wellbeing Dimension, New Zealand scores highest on **Access to Basic Knowledge** but lags on the **Health and Wellness** component. In the Opportunity Dimension, New Zealand is strongest on **Personal Rights** and has the most room to improve on **Access to Advanced Education**.

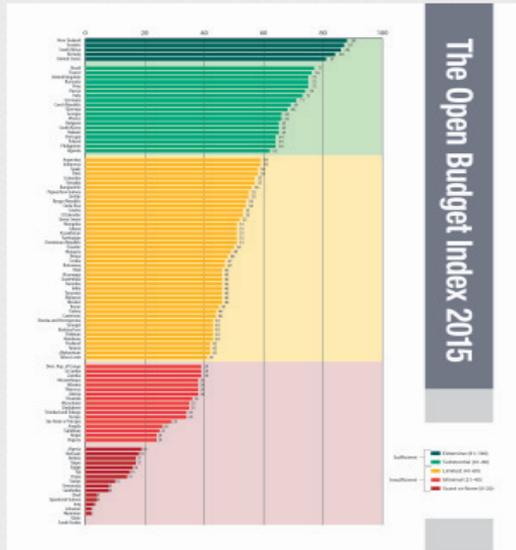
Performance in Comparison	Other Data
Social Progress Index: 88.45 (10th)	Population (2015): 4,509,700 (105th)
Basic Human Needs: 93.52 (10th)	GDP per capita (PPP) \$ (2015): 33,360 (22nd)
Foundations of Wellbeing: 85.33 (10th)	
Opportunity: 86.51 (4th)	

OPEN BUDGET INDEX RANKINGS

The Open Budget Index (OBI) is the world's only independent, comparative measure of central government budget transparency. The OBI assigns countries covered by the Open Budget Survey a transparency score on a 100-point scale using 109 of the 140 questions on the Survey. These questions focus specifically on whether the government provides the public with timely access to comprehensive information contained in eight key budget documents in accordance with international good practice standards.

--Sort by year--

2015



2017 INDEX OF ECONOMIC FREEDOM

Find Your Country

COUNTRY RANKINGS | GRAPH THE DATA | INTERACTIVE HEAT MAP | EXPLORE THE DATA | DOWNLOADS | ABOUT THE INDEX

New Zealand

Previous: #2 Singapore | Next: #4 Switzerland

OVERALL SCORE 83.7 | **WORLD RANK 3**

RULE OF LAW		GOVERNMENT SIZE	
Property Rights	96.1 ▲	Government Spending	46.5 ▲
Government Integrity	89.9 ▼	Tax Burden	70.8 ▼
Judicial Effectiveness	88.5 —	Fiscal Health	97.8 —

REGULATORY EFFICIENCY		OPEN MARKETS	
Business Freedom	91.8 ▲	Trade Freedom	87.4 ▲
Labor Freedom	86.2 ▲	Investment Freedom	80.0 —
Monetary Freedom	90.1 ▲	Financial Freedom	80.0 —

QUICK FACTS

- Population:** 4.6 million
- GDP (PPP):**
 - \$168.2 billion
 - 3.4% growth
 - 2.5% 5-year compound annual growth
 - \$36,172 per capita
- Unemployment:** 5.9%
- Inflation (CPI):** 0.3%

New Zealand's strong commitment to economic freedom has resulted in a policy framework that encourages impressive economic resilience. Openness to global trade and investment are firmly institutionalized. The financial system has remained stable, and prudent regulations allowed banks to withstand the past global financial turmoil with little disruption.

Other institutional strengths of the Kiwi economy include relatively sound management of public finance, a high degree of monetary stability, and strong protection of property rights. The government continues to maintain a tight rein on spending, keeping public debt under control.

Create a Comparison Chart

See how New Zealand compares to another country using any of the measures in the index.

New Zealand

vs

COMPARE

View Chart of Scores over Time

Regional Ranking

RANK	COUNTRY	OVERALL	CHANGE
1	Hong Kong	89.8	1.2 ▲
2	Singapore	88.6	0.8 ▲
3	New Zealand	83.7	2.1 ▲
4	Australia	81	0.7 ▲
5	Taiwan	76.5	1.8 ▲

New Zealand and Denmark deemed the 'least corrupt' countries in the world

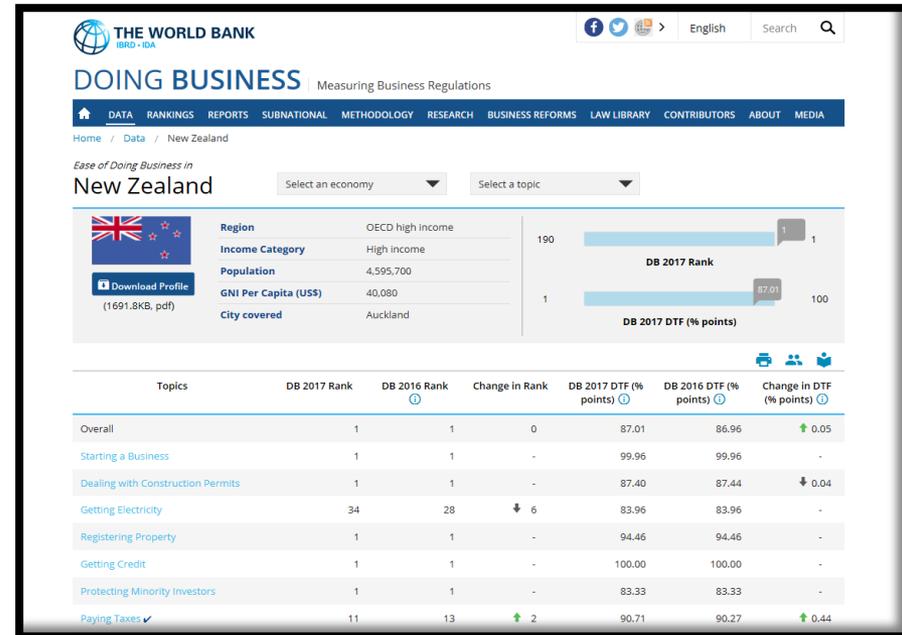
Last updated 19:07, January 25 2017



Martin de Ruyter

New Zealand has an international reputation as a corruption-free country.

New Zealand has regained its top spot in a global watchdog's rundown of the most corruption-free countries in the world

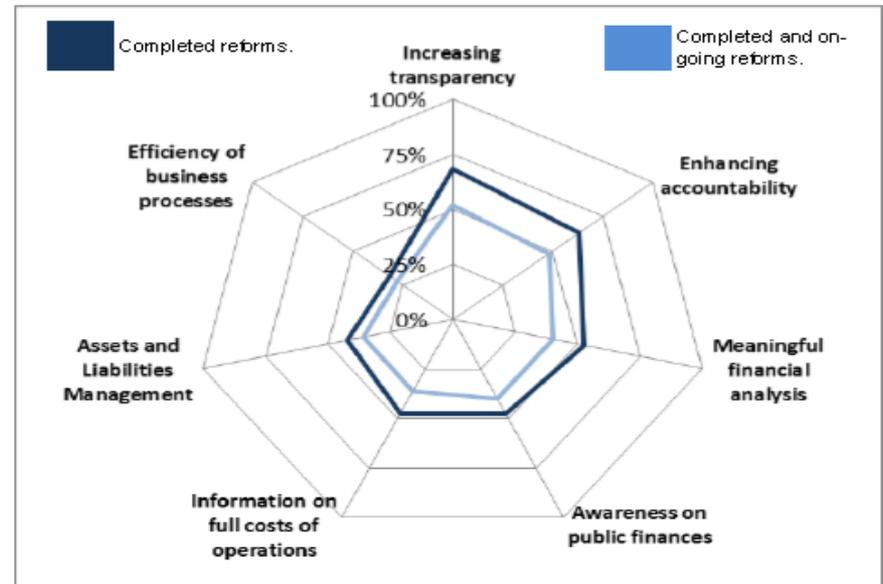




Reforms Outcomes

- Consensus on the benefits of accrual accounting with regards to transparency and accountability.
- But accrual reforms have limited readership and impact on fiscal policy decision making.

Satisfaction with Achievement of Accrual Reforms' Objective
(OECD 2016 Accruals Survey)



And then there are the excuses...

1. They cannot go bankrupt
2. They can always raise more taxes
3. Their debt is risk-free
4. Timely financial information is not required, because no decisions are based on it
5. It costs too much to implement a proper accounting system
6. Politicians are not intelligent enough to understand financial statements
7. Voters do not need to understand their government's financial position and performance
8. Voters are not intelligent enough to understand financial statements
9. Credit rating agencies do not need financial statements to assess credit risk
10. Governments do not have the staff resources needed to produce financial statements
11. Economic statistics do not need to be based on reliable accounting information
12. Economists do not understand accrual accounting
13. Public services can be delivered efficiently without knowing what they cost
14. Governments have always managed their finances well without proper accounting
15. Governments can always legislate to address financial difficulties
16. Investors in sovereign debt do not need protection
17. Government-owned assets are not for sale
18. Only cash matters, other assets and liabilities are not important
19. Large governments are too complex to account properly
20. Small governments do not have the resources to account properly
21. The current generation will be happy to pay the pensions of the old folk
22. Public servants will be happy to forgo their pensions if it is necessary to maintain public services
23. Financial systems that make corrupt behaviour more difficult are not needed as governments always act in the public interest
24. Events outside their control, for which they cannot be held accountable, can have an impact on a government's financial position

The International Experience of PFM Reform

Ian Ball

Chair, CIPFA International

Chair, Audit Committee for Financial
Statements of the NZ Government,

Georgetown, 23 June, 2017

