Session Outline

• Fiscal Strategy and Accrual Budgeting
• Why NZ went to Accrual Budgeting
• Did it work?
• What are the Challenges?
  – Presenting the fiscal strategy
  – Appropriations management
  – Capital Management
Roles of fiscal policy

- **Fiscal stabilisation** – tends to be a short-term role, what’s been happening to the economy recently and in the next few years. (Likely to be stabilisation issues in the future but deal with them when they happen).

- **Fiscal sustainability** – tends to be a medium- to long-term issue except that big shocks or big policies can occur in the short-term that have on-going effects.

- **Fiscal structure** – tends to be a medium- to long-term issue because tax and spending programmes are typically adjusted at the margins in each Budget. But have to start somewhere.
Roles of budgeting

- **Aggregate Fiscal discipline** – Effective control of budget totals to ensure fiscal objectives. Necessary to ensure that goals of stabilisation, sustainability and desired financial structure are met.

- **Allocative Efficiency** – Maximise effectiveness of comparative initiatives. Ensure strong aggregate fiscal discipline doesn’t freeze lower quality old activity in and new higher quality activity out.

- **Productive efficiency** – Maximise the relationship of budget resources to purposes.

- **Accountability** - Establish expectations for holding democratic governments to account
Accrual and Cash

• **Accrual Budgeting** – Forecasting, for the government entity, revenues when they will be earned and received, expenses when they will be incurred and settled, and the resulting balances of assets and liabilities

• **Cash Budgeting** – Forecasting receipts and payments into designated government bank accounts. Memorandum information on supplementary items
## Accrual and Cash Accounting

<table>
<thead>
<tr>
<th>Aim:</th>
<th>Assessment:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
<td>Balance Sheet information provides more complete information on rights and obligations, useful when considering sustainability.</td>
</tr>
<tr>
<td>Structure</td>
<td>Balance sheet information facilitates analysis of fiscal structure</td>
</tr>
<tr>
<td>Aggregate Control</td>
<td>Control being exercised when obligations are occurred more likely to be more effective</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Accrual approach facilitates matching of costs to outputs,</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Accrual information on costs useful, ensures financing costs separately and fully considered. Integrated system efficiencies.</td>
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<tr>
<td>Accountability</td>
<td>Accrual provides richer suite of information to assess performance, and compare against actual,</td>
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</table>
Did it work? – Fiscal Aggregates

Accrual budgeting introduced

Gross Debt as % of GDP
Net Debt as % of GDP
Operating Balance

Operating Balance to GDP

% GDP

Historical Years
Forecast Years
Projected Years

Fiscal Year

93/94 95/96 97/98 99/00 01/02 03/04 05/06 07/08 09/10 11/12 13/14 15/16 17/18 19/20 21/22

© The Treasury
Debt

Gross Debt to GDP

% GDP

Historical Years

Forecast Years

Projected Years

Fiscal Year

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Demographics

Ratio of those aged 65+ to 15-64

Source: Statistics New Zealand
Will accrual budgeting help?

• Maybe?
  – Requires more complete recognition of costs
  – Integrated system = simpler system to operate
  – Compliance with GAAP, and a single (but comprehensive) forecasting/reporting template reduces concern over form and focuses on content
“If you step back and look at the system it’s really fine. The level of disclosure is something to be proud of”

“What’s required of the Government under the Fiscal Responsibility Act and what we’ve got is great. It goes far beyond other countries in terms of accessibility.”

“Over the 34 years I’ve been looking at this 35 perhaps, they’ve got a lot better”

“Other than looking at the headline stuff I don’t do any analysis at all ... I just use Treasury’s figures. There’s no reason to do any more”

“We trust their data and its 99.9% reliable”
Challenges

- Presenting the fiscal strategy
- Appropriations management
- Capital Management
Presenting the Fiscal Strategy

• **Accrual Financial Statements** do not present the fiscal strategy:

• **Fiscal Strategy** communication is critical to Government,
  – Focuses on important, desire for a compelling narrative
### NZ Solution: Fiscal Reconciliation

<table>
<thead>
<tr>
<th>Amounts in $ millions</th>
<th>Year to date</th>
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<tbody>
<tr>
<td><strong>Fiscal Strategy</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Financial Statements</strong></td>
<td><strong>December 2008</strong></td>
</tr>
<tr>
<td>Taxation as a % of GDP</td>
<td>30.0%</td>
</tr>
<tr>
<td>Taxation</td>
<td>26,917</td>
</tr>
<tr>
<td>Core Crown other revenue</td>
<td>(344)</td>
</tr>
<tr>
<td>Core Crown expenses</td>
<td>(30,044)</td>
</tr>
<tr>
<td>Net surpluses/(deficits) of SOEs and Crown entities</td>
<td>(2,753)</td>
</tr>
<tr>
<td>Operating balance</td>
<td>(6,224)</td>
</tr>
<tr>
<td>Other (gains)/losses</td>
<td>6,322</td>
</tr>
<tr>
<td>OBE/GAL</td>
<td>98</td>
</tr>
<tr>
<td>Net return on NZS Fund (excl. gains and losses)</td>
<td>(186)</td>
</tr>
<tr>
<td>Net retained surpluses of SOEs and Crown entities</td>
<td>(561)</td>
</tr>
<tr>
<td>Non-cash items and working capital movements</td>
<td>(3,273)</td>
</tr>
<tr>
<td>Core Crown Cash flow from Operations</td>
<td>(3,922)</td>
</tr>
<tr>
<td>Contribution to NZS Fund</td>
<td>(1,123)</td>
</tr>
<tr>
<td>Purchase of physical assets</td>
<td>(793)</td>
</tr>
<tr>
<td>Advances and Capital injections</td>
<td>(2,423)</td>
</tr>
<tr>
<td>Residual Cash</td>
<td>(8,261)</td>
</tr>
<tr>
<td>... and as a percentage of GDP</td>
<td>-4.6%</td>
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</tbody>
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Appropriations Management

• Accrual appropriations:
  – Provide authorisation to incur expenses and capital expenditure
  – Require focus on internal control systems
  – Integrate with forecasts and reports
  – Legislature may grant flexibility

• Cash disbursements:
  – Integrated with but separate from appropriations
Capital Management

• Different processes for approving Capital Expenditure between Core Crown, Crown Agencies and SOES (only 27% of the Government’s property plant and equipment is held by the Core Crown)

• Imperfect transmission of capital items from the Crown to Crown entities (e.g. An investment made by the Crown to a Crown entity for Capital Expenditure purposes will not always equal the capital the Capital Expenditure that entity makes)

• Budget processes can be affected by different methods of funding the capital expenditure (e.g. from pre-funded depreciation, from a capital budgeting allowance, from hypothecated revenue, from commercial revenue, from borrowing, and perhaps from PPPs)
Capital Management cont.

- Some capital items from an national economic perspective, are not capital items from a Government perspective, as they are not reported as assets on the Government balance sheet (e.g. local government infrastructure)

- The lack of a “bright line” between capital and operating, particularly between maintenance expenses and capital improvements

- The different timeframes between large capital developments which may span up to twenty years and the annual budget allocation and process which just forecasts four years ahead.
Key Messages

- Accrual information can facilitate fiscal decisions, fiscal policy and accountability.
- Fiscal policy is currently critical, accounting is a support player.
- Accrual budgeting, being more complete, can direct attention (and discipline) to important areas that might not otherwise receive attention.
• Any clarifications?