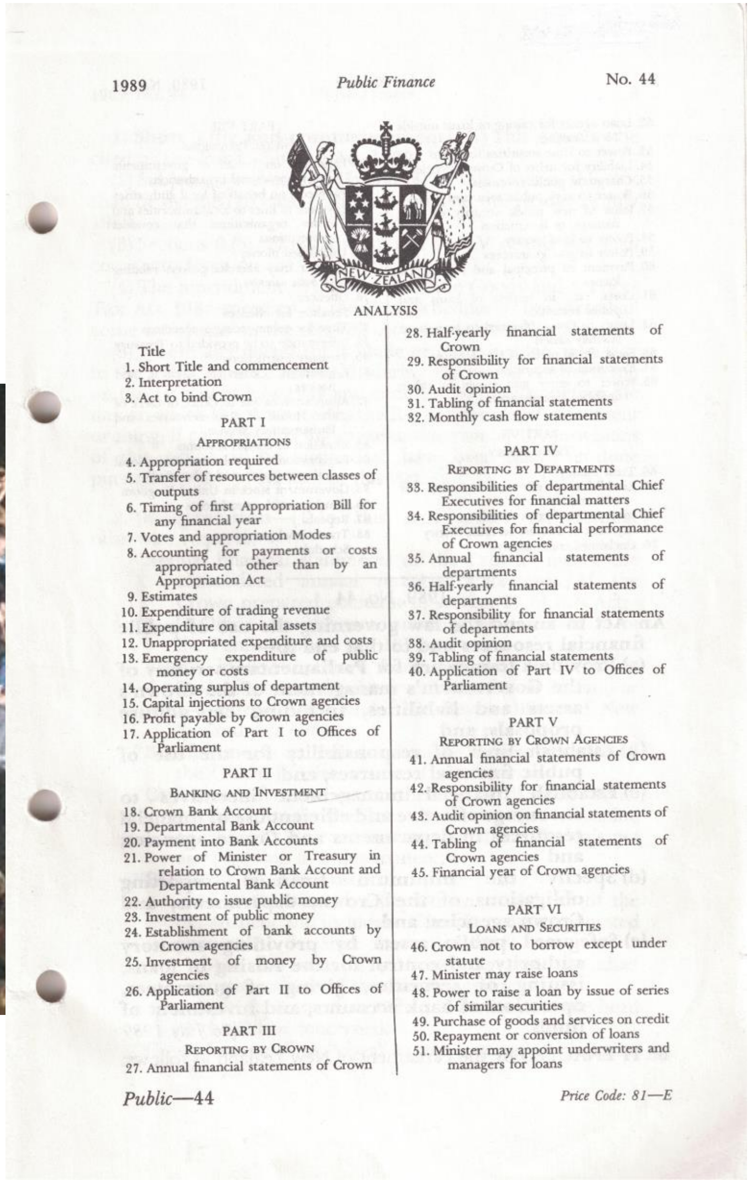
Public Sector Accounting – Boring to the Power of Two?

Ian Ball

Professor of Public Financial Management

1989

Sir Tim Berners-Lee invented the World Wide Web in 1989.



1989 Public Finance No. 44

ANALYSIS

Title
1. Short Title and commencement
2. Interpretation
3. Act to bind Crown

PART I
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4. Appropriation required
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6. Timing of first Appropriation Bill for any financial year
7. Votes and appropriation Modes
8. Accounting for payments or costs appropriated other than by an Appropriation Act
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11. Expenditure on capital assets
12. Unappropriated expenditure and costs
13. Emergency expenditure of public money or costs
14. Operating surplus of department
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16. Profit payable by Crown agencies
17. Application of Part I to Offices of Parliament

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20. Payment into Bank Accounts
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22. Authority to issue public money
23. Investment of public money
24. Establishment of bank accounts by Crown agencies
25. Investment of money by Crown agencies
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50. Repayment or conversion of loans
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Public—44 Price Code: 81—E

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

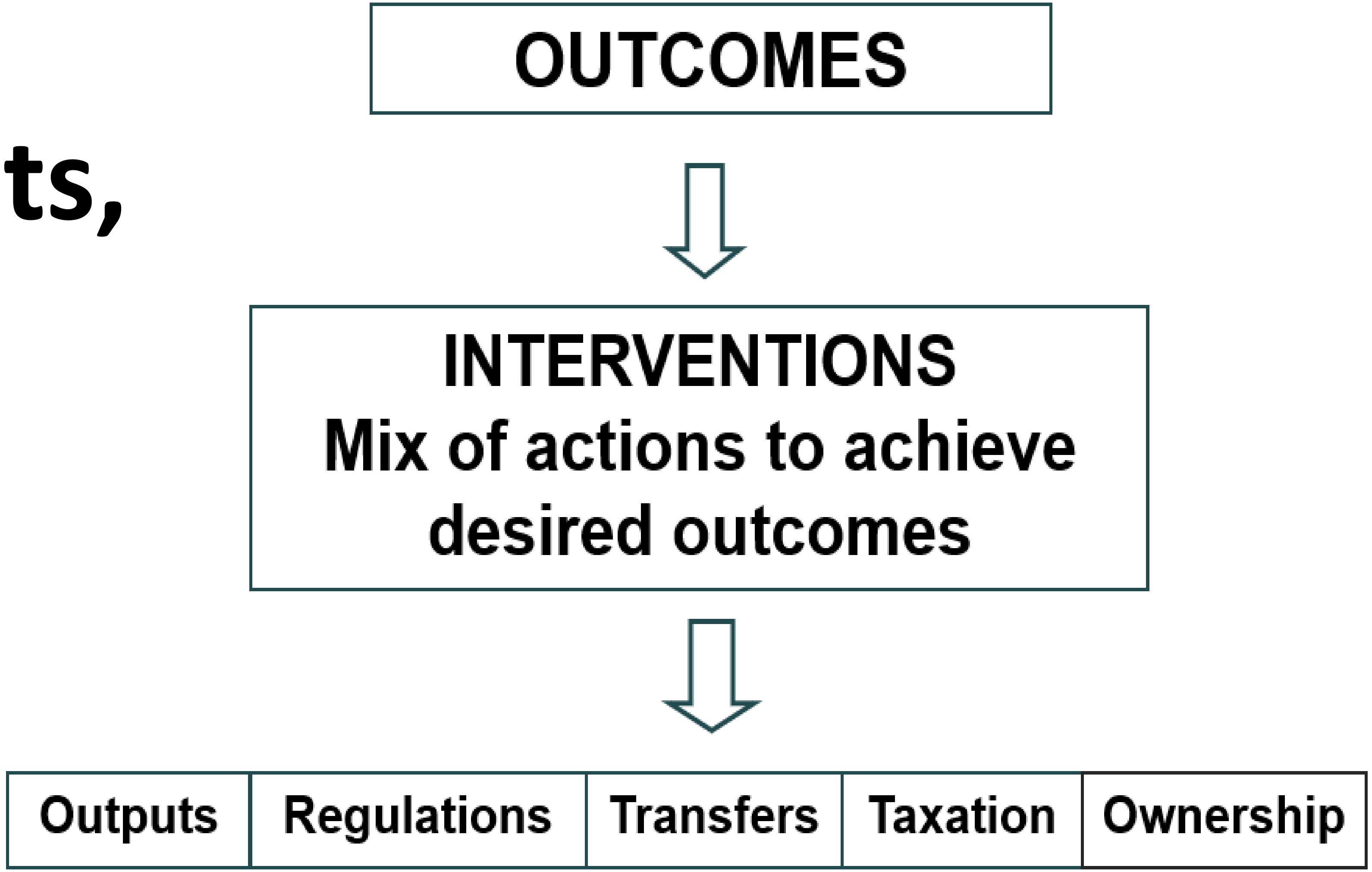
Financial

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

Non-financial

- Governance
- Strategy
- Risk management
- Human capital
- Legal compliance

Performance: Inputs, Outputs, Outcomes



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

ECONOMICS FOCUS

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 budget deficits, revenue and expenditure are recorded when the cash is received or paid out. Accrual accounting, by contrast, records spending and taxes when they are incurred, regardless of when the money actually changes hands.

Cash-based accounting gives a false sense of security about the sustainability of government policies. It does not distinguish between current and capital expenditure and it takes no account of the cost to future generations of current policies, eg, failing to maintain roads, or the growing unfunded pension liabilities which accrue for every week that workers belong to a state pension scheme.

Accrual accounting should provide a more accurate picture of a government's financial position because it keeps track of the changing value of assets and liabilities. Capital investment would be depreciated over the life of the asset rather than all being written off in the year when the money is spent, as is done under cash accounting. Likewise, future pension obligations would count as a liability.

So if governments kept their accounts more like companies do, it should give them the information they need to make better long-term decisions. But inconveniently for shifty politicians, it would also expose all the financial tricks in conventional budget accounts, such as using asset sales to reduce a budget deficit, which is one reason, perhaps, why such accounting has not been adopted by governments. The privatisation of state firms reduces assets and debts by roughly the same amount, leaving net worth and the operating balance unchanged.

What do the accounts of New Zealand show? At the end of December 1991 the government's liabilities were NZ$14.4 billion ($7.8 billion) bigger than the estimated value of its assets. In other words, if it were a company, it would probably be 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.

In the six months to December 1991, the first period for which accounts have been prepared, the government had an operating loss of NZ$3.7 billion. Its old cash-based accounts showed a deficit of only NZ$500m. Most of this difference was due to a NZ$2.6 billion foreign-exchange loss: a fall in the currency boosted the government's foreign debt.

Valuing the government's assets was no easy task. State firms were valued at the lower of historic cost or current market value; land and buildings at current market value; roads at depreciated replacement costs, according to the expected life left in them.

The government has included among its liabilities the future pensions of past and current public employees, but for the moment it has excluded the capitalised value of national pension and social-security obligations which will increase as the country's population ages. These could easily be added. Whatever the size of the figure, it would make the government's finances look even shakier.

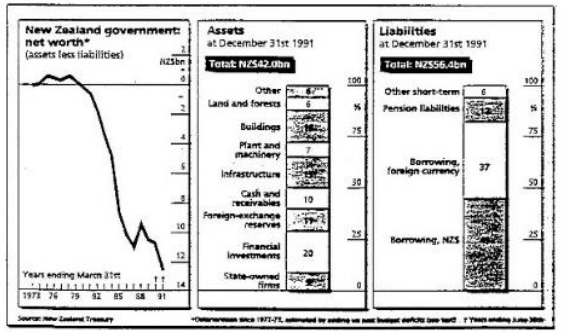
A single snapshot of a government's net worth has little value because economic theory offers no advice on what is the optimal level. But over time this new reporting system will provide a clearer picture of whether the government's policies are sustainable and whether it is maintaining or running down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



Implementation

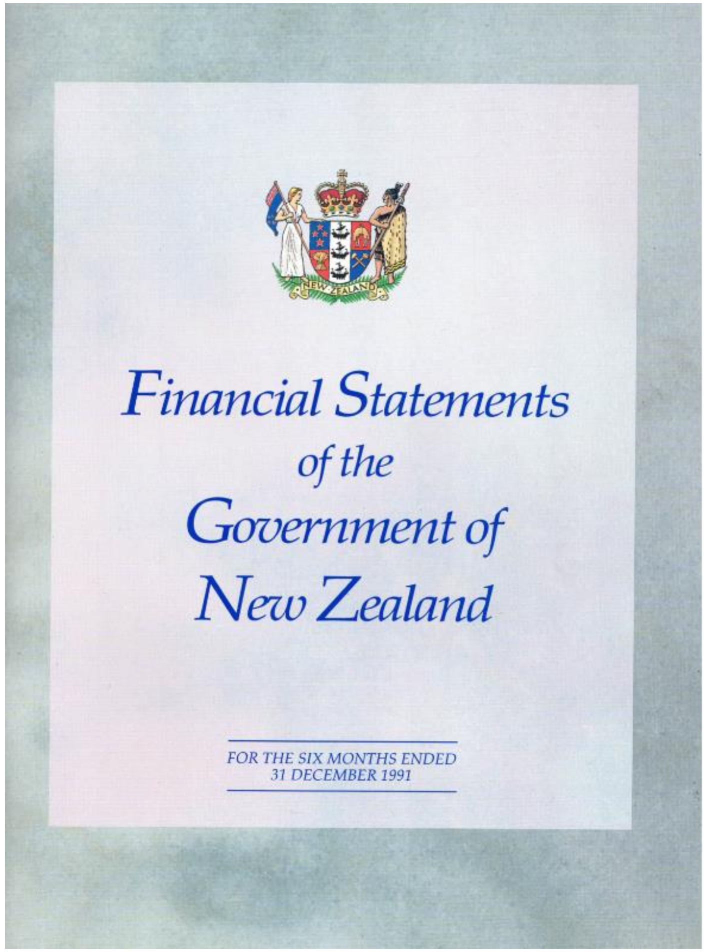
1989 Passage of the Public Finance Act
Departments move to accrual accounting, budgeting & appropriations within two years

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


B.11

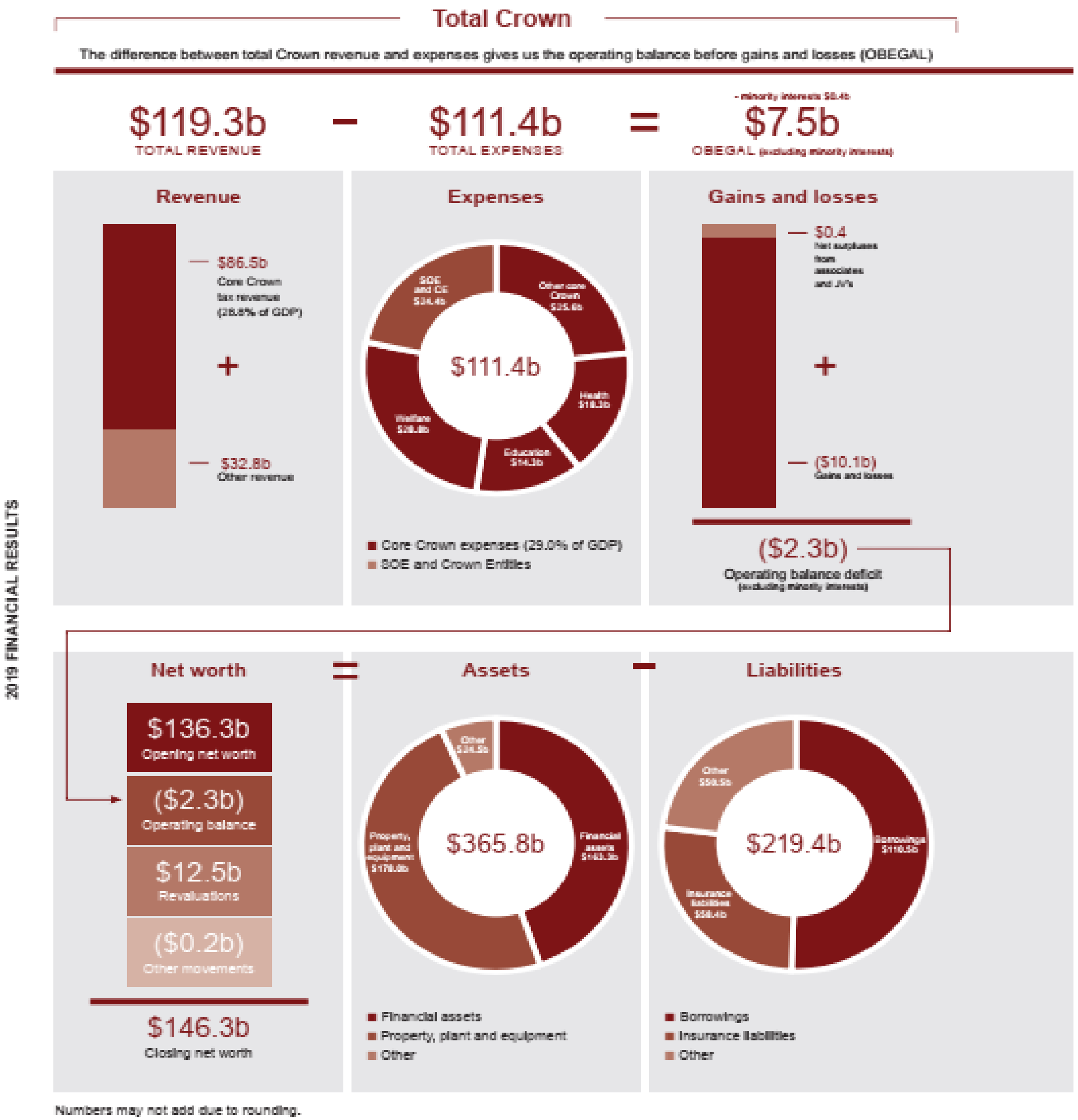
New Zealand Government

Financial Statements of the Government of New Zealand

for the year ended 30 June 2019

8 October 2019

EMBARGO: Contents not for communication in any form before 1.00pm on Tuesday 8 October 2019




8 OCTOBER 2019

FSG BASICS

The financial statements of the Government (FSG) provide a record of the Government's financial performance and its financial position

TE TAI ŌHANGA
THE TREASURY

https://treasury.govt.nz/publications/information-release/fsg-basics-2019

New Zealand Government

TREASURY BASICS –
Making sense of New Zealand's economic and fiscal landscape

Crown Balance Sheet

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

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.

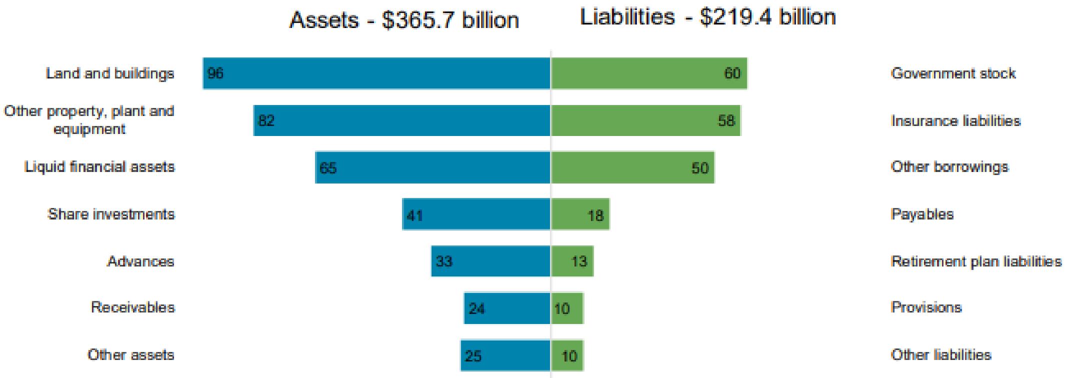
If discount rates reduce, the liability in today's dollar increases.

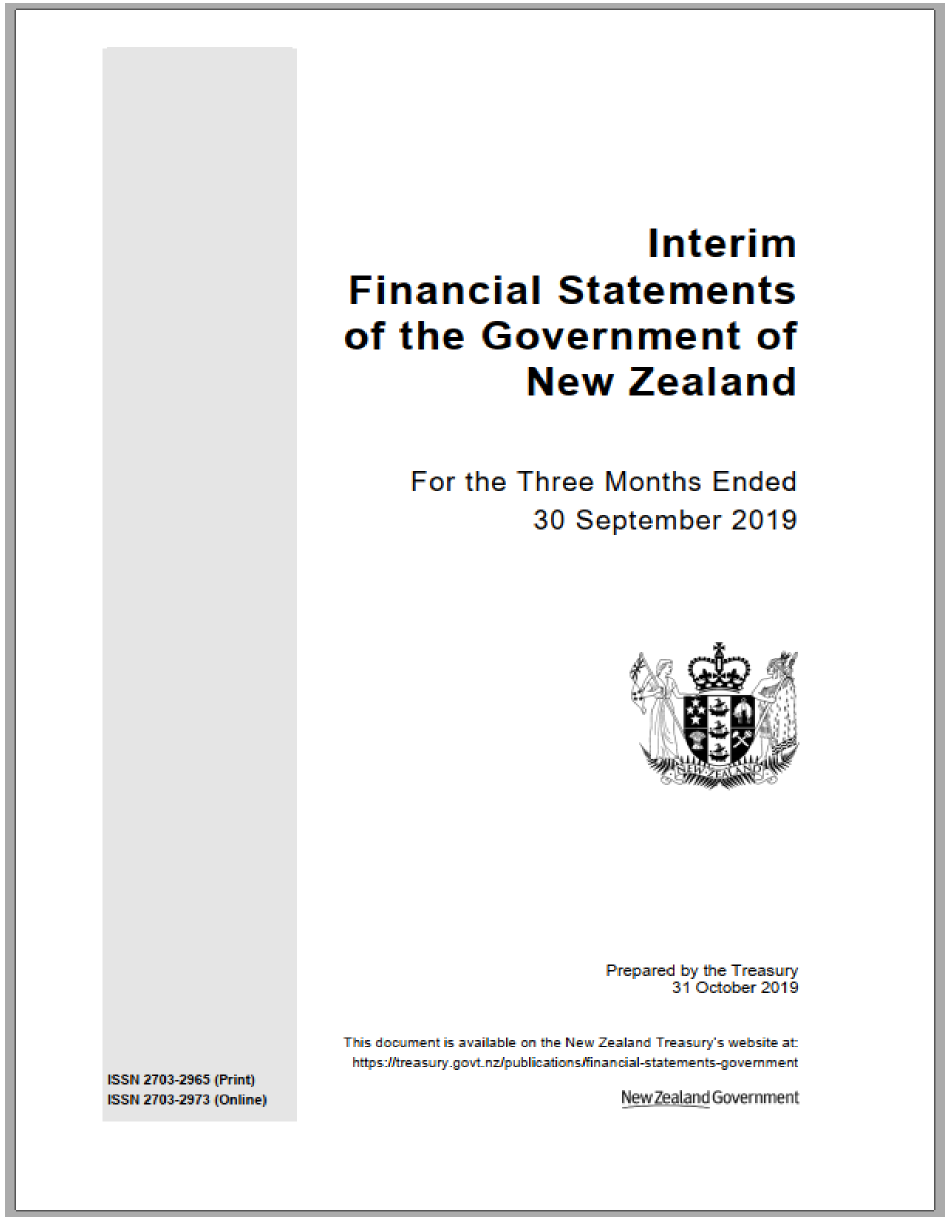
What the Treasury says

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.





Interim
Financial Statements
of the Government of
New Zealand

For the Three Months Ended
30 September 2019

Prepared by the Treasury
31 October 2019

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

ISSN 2703-2965 (Print)
ISSN 2703-2973 (Online)

New Zealand Government

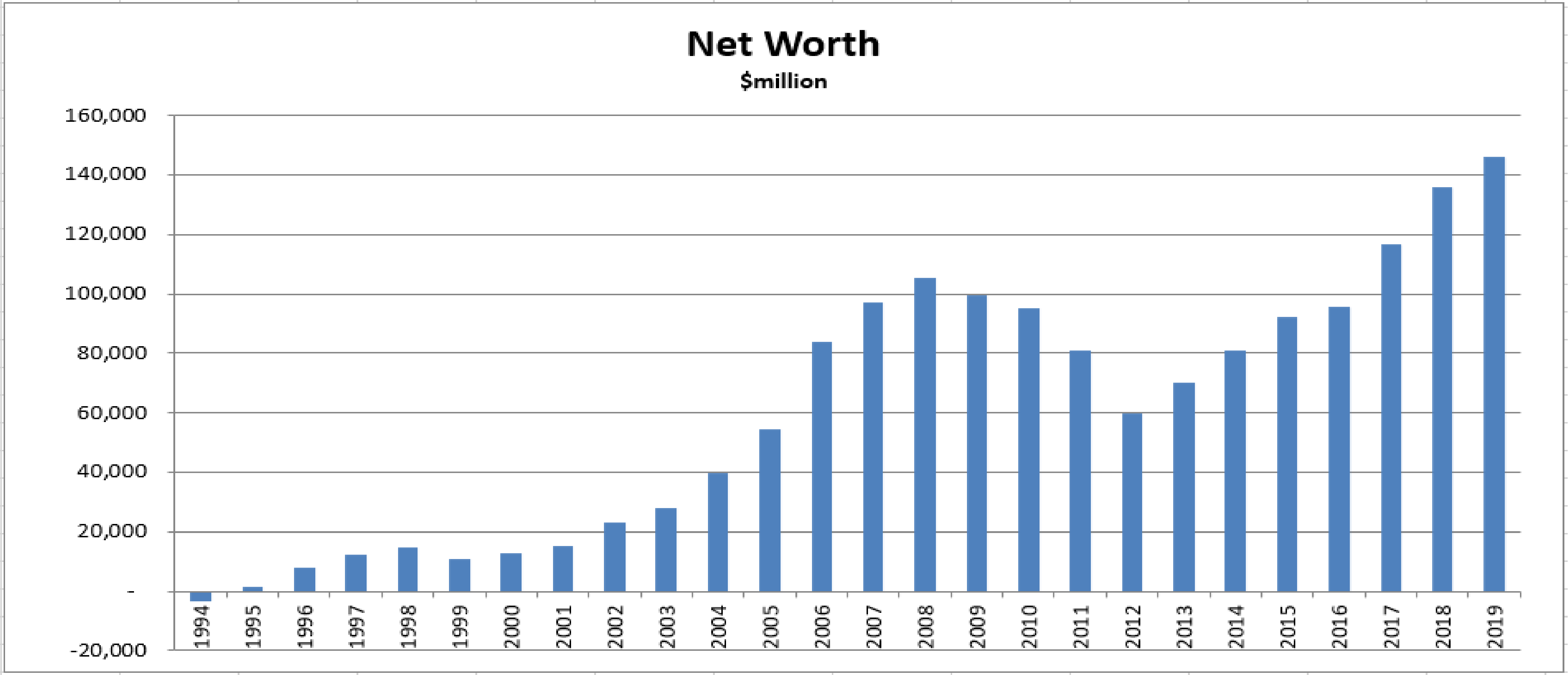
31A Monthly financial statements of Government

(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

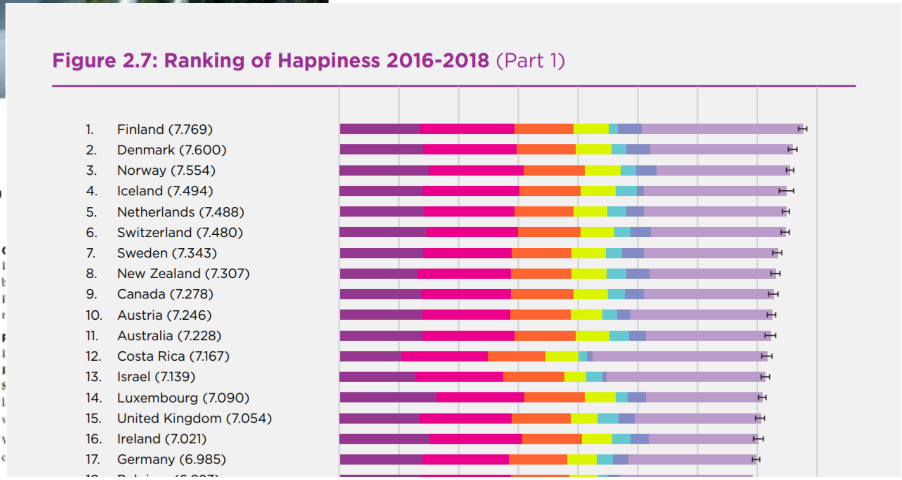
Net Worth of National Government (billions, local currency)		
Country	2008	2018
Australia	67	-418
Canada	-457	-671
United Kingdom	-1,200	-2,565
United States	-10,200	-21,520
New Zealand	105	136

Achievements – Social Progress

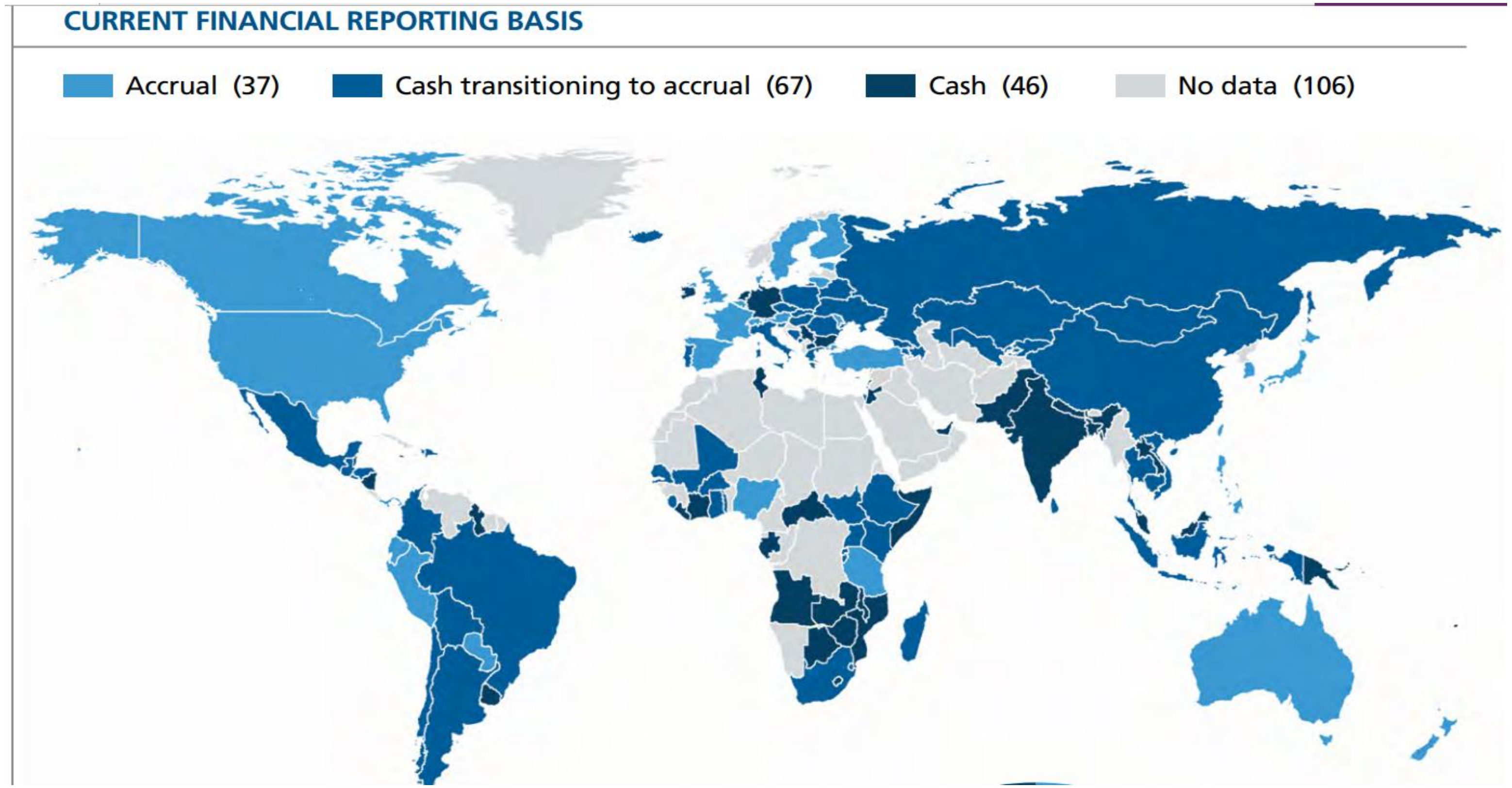
- Comparatively high levels of social performance

RANKING	COUNTRY	SPI
1	Norway	90.95
2	Denmark	90.09
3	Switzerland	89.89
4	Finland	89.56
5	Sweden	89.45
6	Iceland	89.29
7	New Zealand	88.93
8	Germany	88.84
9	Canada	88.81
10	Japan	88.34
11	Netherlands	88.31
12	Australia	88.02
13	United Kingdom	87.98
14	Ireland	87.97
Tier 1 15	France	87.79

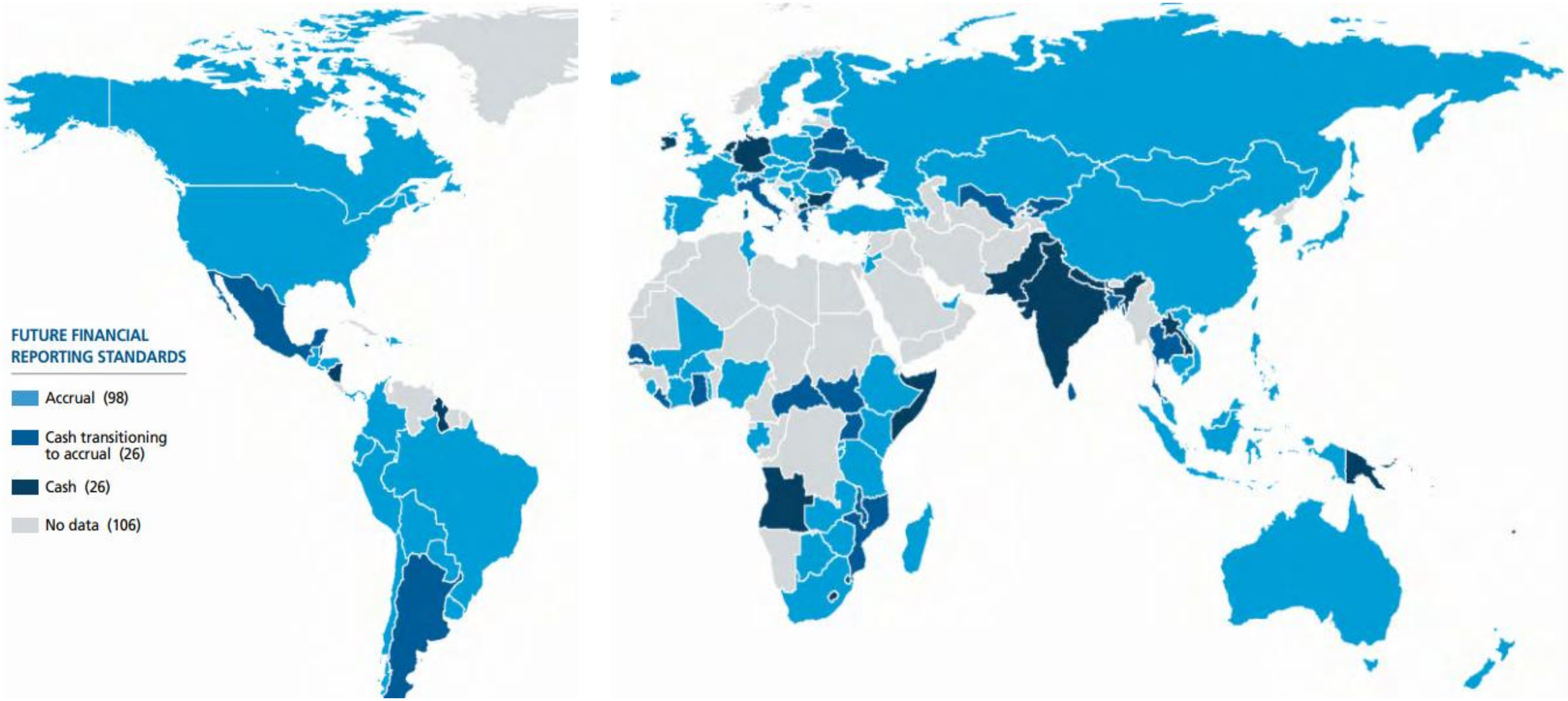
Tier 1		
1.	Norway	90.26
2.	Iceland	90.24
3.	Switzerland	89.97
4.	Denmark	89.96
5.	Finland	89.77
6.	Japan	89.74
7.	Netherlands	89.34
8.	Luxembourg	89.27
9.	Germany	89.21
10.	New Zealand	89.12
11.	Sweden	88.99
12.	Ireland	88.82
13.	United Kingdom	88.74
14.	Canada	88.62
Tier 2		
15.	Australia	88.32
16.	France	87.88



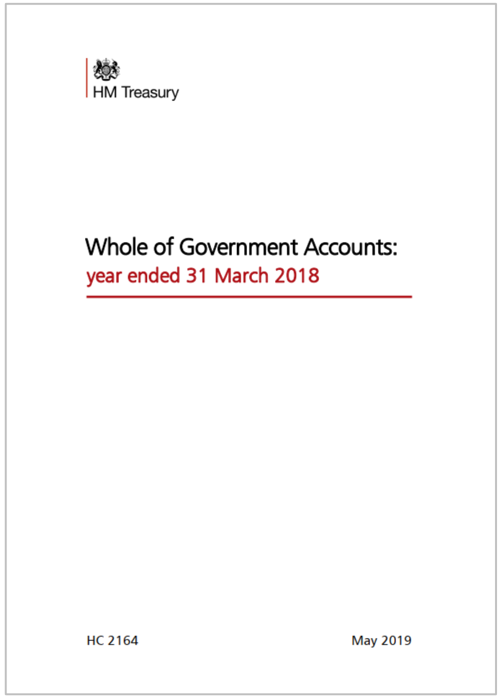
Progress Internationally



And 2023?


FUTURE FINANCIAL
REPORTING STANDARDS
Accrual (98)
Cash transitioning to accrual (26)
Cash (26)
No data (106)

U.K. Government


HM Treasury

Whole of Government Accounts:
year ended 31 March 2018

HC 2164

May 2019

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.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803751/WGA_2017-18_WEB_1.pdf

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.

U.S.A.

United States Government
Balance Sheets
as of September 30, 2018, and 2017

(In billions of dollars)	2018	Restated 2017
Assets:		
Cash and other monetary assets (Note 2)	507.5	271.2
Accounts and taxes receivable, net (Note 3)	144.9	143.3
Loans receivable, net (Note 4)	1,419.1	1,350.2
Inventories and related property, net (Note 5)	337.5	326.7
Property, plant and equipment, net (Note 6)	1,090.5	1,087.0
Debt and equity securities (Note 7)	110.3	116.2
Investments in government-sponsored enterprises (Note 8)	113.2	92.6
Other assets (Note 9)	113.7	147.7
Total assets	3,836.7	3,534.9
Stewardship land and heritage assets (Note 24)		
Liabilities:		
Accounts payable (Note 10)	86.7	70.8
Federal debt securities held by the public and accrued interest (Note 11)	15,812.7	14,724.1
Federal employee and veteran benefits payable (Note 12)	7,982.3	7,700.1
Environmental and disposal liabilities (Note 13)	577.3	464.5
Benefits due and payable (Note 14)	211.1	218.8
Insurance and guarantee program liabilities (Note 15)	170.2	202.5
Loan guarantee liabilities (Note 4)	38.2	42.9
Other liabilities (Note 16)	479.0	473.1
Total liabilities	25,357.5	23,896.8
Contingencies (Note 18) and Commitments (Note 19)		
Net Position:		
Funds from Dedicated Collections (Note 20)	3,462.0	3,419.5
Funds other than those from Dedicated Collections	(24,982.8)	(23,781.4)
Total net position	(21,520.8)	(20,361.9)
Total liabilities and net position	3,836.7	3,534.9

Disclaimer

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Comptroller General
of the United States

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[1] 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.[2] 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[3] on their fiscal year 2018 financial statements or whose fiscal year 2018 financial information was unaudited.[4]

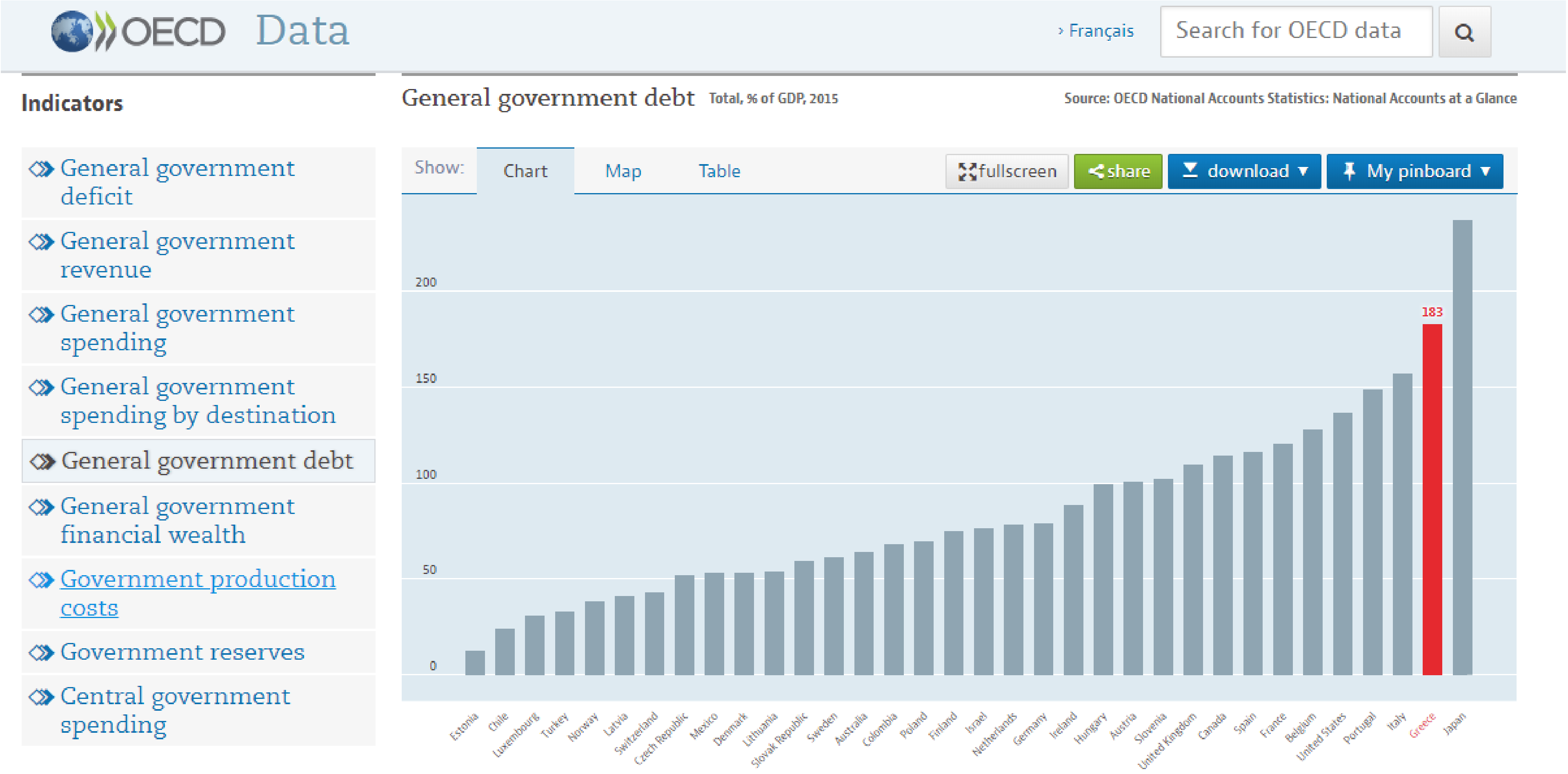
However, since the federal government began preparing consolidated financial statements over 20 years ago, three major impediments have continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements over this period: (1) serious financial 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.

https://fiscal.treasury.gov/files/reports-statements/financial-report/2018/03282019-FR(Final).pdf

Greek Debt


176.1% of GDP (2017)
200
150
100
50
0
1995
2000
2005
2010
2015
Greece
176.1%
Italy
131.2%
Germany
63.9%
Explore more
Sources include: Eurostat
Feedback

Greek Debt



OECD Data
› Français
Search for OECD data
Indicators
General government deficit
General government revenue
General government spending
General government spending by destination
General government debt
General government financial wealth
Government production costs
Government reserves
Central government spending
General government debt
Total, % of GDP, 2015
Source: OECD National Accounts Statistics: National Accounts at a Glance
Show:
Chart
Map
Table
fullscreen
share
download
My pinboard
200
150
100
50
0
183
Estonia
Chile
Luxembourg
Turkey
Norway
Latvia
Switzerland
Czech Republic
Mexico
Denmark
Lithuania
Slovak Republic
Sweden
Australia
Colombia
Poland
Finland
Israel
Netherlands
Germany
Ireland
Hungary
Austria
Slovenia
United Kingdom
Canada
Spain
France
Belgium
United States
Portugal
Italy
Greece
Japan

C26. Progression of Maastricht Gross Debt to IPSAS Net Debt

(Euros, Billions; as of 31 December 2013)

SN	Type of Debt/Asset	Maastricht Debt (Face Value) 31 Dec 2013	IPSAS Adjustments (Includes Accretion): OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012	Total Adjustments	IPSAS Net Debt (Fair Value) 31 Dec 2013	SN
1.	Modified Securities	€ 62.8	€ 0.0	€ 0.0	€ 36.7	€ 5.8	€ 42.5	€ 20.3	1.
2.	Modified/Concessionary Loans	€ 212.4	€ 11.0	€ 5.7	€ 84.9	€ 51.3	€ 152.9	€ 59.5	2.
3.	Non-Revalued Debt	€ 43.5	€ 0.0	€ 0.0	€ 0.0	€ 0.0	€ 0.0	€ 43.5	3.
4.	Adjustments		€ 11.0	€ 5.7	€ 121.6	€ 57.1	€ 195.4		4.
5.	Total Gross Debt	€ 318.7	€ 307.7	€ 302.0	€ 180.4	€ 123.3		€ 123.3	5.
6.	GDP	€ 182.0						€ 182.0	6.
7.	Debt/GDP	175%						68%	7.
8.	Financial Assets Funded w/ Loans							€ 33.6	8.
9.	Other Financial Assets							€ 57.1	9.
10.	Total Financial Assets							€ 90.7	10.
11.	Net Debt							€ 32.6	11.
12.	Net Debt/GDP							18%	12.

Concessionary Terms and Modifications: Highlights

OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012
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.
		EFSF Loans: Cost-of-funding plus 200-300bps. Maturities: 30 yrs.	**EFSF Loans** cut to cost-of-funding. Interest deferred for 10 yrs. Maturities extended to maximum 45 yrs.
		ANFA bonds issued on	

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

Wellbeing Budget

https://treasury.govt.nz/information-and-services/nz-economy/living-standards

Wellbeing in PFA

Hon Grant Robertson

Public Finance (Wellbeing) Amendment Bill

Government Bill
173—1

Contents

https://treasury.govt.nz/sites/default/files/2019-06/b19-wellbeing-budget.pdf