Putting it Simply

— an explanatory guide to Financial Management Reform

THE TREASURY

This booklet is a brief introduction to the processes, purposes and benefits of Financial Management Reform. It is intended for

- members of the public who wish to understand the changes
- those staff in Government departments who are not expected to implement the changes but want to know more about them
- students who want an overview of the reform
- enquirers from overseas

If you would like more information on any aspect of the reform, the list of other resources at the end of the book may help you to find what you need.

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Chapter One: What's the Point?

This booklet is about a quiet revolution. It affects the financial management of every government department, of every crown agency, of the Government as a whole. And so, ultimately it affects every New Zealander. It's your money they're talking about.

> A quiet revolution? "I've heard that claim before," you think. Yet a saying might be overused, and still be true in a particular situation. Don't take our word for it. Read this book. Think about the possibilities. Then make your own judgement.

In our kind of Parliamentary democracy, the Government is custodian of the public purse, responsible for the way the public sector uses resources paid for by the people of the country. In the past, this responsibility has been served by keeping a close watch on spending. Departments have been given budgets—so much for salaries, so much for printing, so much for building a new office in Purakanui. Seems reasonable? Think about these imaginary, but possible, scenarios.

- Mr Brown, manager of a branch office in a large New Zealand town, has to consult with his colleague, Ms Quinn, who manages the office in a city 500 kilometres away. By letter, they confirm that both have spent to the limits of their telephone tolls budget. But both have money left in their car hire budget. So they hire vehicles, and both drive 250 kilometres to meet for half an hour's discussion.
- Miss Jones realises that 31 March is approaching and she still has $7,500 in her printing budget. "Help," she thinks. "If I don't spend that, my budget will be cut next year." So she orders printing to the value of $7,500. "I don't want it done until November," she tells the printers, "but I need the invoice by the end of March."

Ridiculous? Yes, but everyone in the state sector has stories like these. Generally, the old system ensured that public resources were not used for a purpose other than that intended. But the problems were implicit in the method of control: end-of-year spending; unreasonable constraints on moving money from one area of the budget to another; policies of staff management that encouraged caution and lack of initiative.

There was little or no incentive to be efficient. A manager who achieved departmental goals without spending all of the budget might well see that budget reduced in the following year. And one who overspent was likely to be "rewarded" with an increased budget.

And who was to blame? Who could be hauled over the coals if a department failed to produce? Nobody. Departments were told what they had to spend. They were given goals (like "a reduction in crime") that were beyond their power to control. What could they do, except follow the parameters they had been given, wading uphill through treacle, attempting to give service to the people of New Zealand.

Financial Management Reform is one of a number of reforms which aim to achieve a more sensible system; one in which departments, Crown agencies and the Government as a whole can be held accountable for success or failure; one that concentrates on results rather than on how many dollars are spent on each resource consumed.

Later chapters examine how Financial Management Reform works, and the appendix looks at its legislative "muscle"—The Public Finance Act. The remainder of this chapter considers the principles and benefits of the changes and briefly summarises the other legal instruments of state sector reform.

Financial Management Reform is based on three fundamental principles:

Parliamentary Scrutiny The Government receives money (primarily from taxes) with which it is required to take a range of economic and social actions for the greater good of the people of New Zealand. Parliament must ensure that the tax take is sufficient, but not excessive. Money should not be spent unless it is necessary and resources should be used to best effect.

Accountability Departments have to report to Ministers and the Government to Parliament to show that these standards are being met. The Public Finance Act updates and enhances the standards of information required.

Improved Managerial Performance Departments and Crown agencies need incentives that encourage good financial management practices so that resources are used efficiently. The new system gives departments greater flexibility in the management of resources.

Benefits will be:

- to the taxpayer, who will receive better value for money.
- to Parliament (as the agent of the electorate) who will receive better information with which to monitor the performance of Government.
- to the Ministers of the Crown, who will also receive better information from their departments.
- to the departments themselves. Public servants will have a clearer idea of their roles and responsibilities and of the resources at their disposal.

The Background to Reform

In recent years the Government has sought to improve the efficiency of the New Zealand economy. Inefficiency in the state sector has a constraining effect on the economy as a whole. Reforms of the private sector could not fully succeed without improvements in the efficiency of the public sector.

There have been three major pieces of legislation which relate to public sector management reform.

The State-Owned Enterprises Act 1986

Government departments and services which were essentially commercial operations were placed on the same footing as private sector enterprises.

The State Sector Act 1988

The purposes of the State Sector Act were twofold. It established a framework for a new relationship between the heads of departments and their Ministers. It created a new industrial relations and employment regime, giving Chief Executives the power to hire and fire staff, and (within certain limits) to fix salaries within their departments.

The Public Finance Act 1989

This Act gave legislative effect to the financial management reforms which are the subject of this booklet.