Chapter Four: Money Talk

In the past, the Government kept tight control on the spending of money, and held departments responsible for the way they used public funds. Invoices were passed to the Treasury for payment from the Public Account. Revenue was also poured into the one fund. There was no central method of recording assets and liabilities.

Cash management reform had several purposes:

- to provide a clear definition of responsibility and accountability for both departments and the central treasury function. This included the need to separate financial management from monetary policy.
- to centralise surplus funds in order for them to be managed more efficiently.
- to enable the decentralisation to departments of the responsibility for payments, cash forecasting and bank account reconciliations.

Public Money

The public purse consists of all revenue collected by the Government. This may be from taxes, interest on investments, the sale of goods and services, fees, fines, or other charges. This money, which belongs to the people of New Zealand, is used to fund the activities of the Government and its departments and agencies.

All public money must be held in either a Crown or a departmental bank account.

Banking

There will now be two types of bank account for public money.

A Crown Bank Account, the main operating account of the Crown, is a suite of accounts opened, maintained and operated by the Treasury.

Each department will run its own bank account(s). Departments will be responsible for:

- day to day liquidity

- making and accounting for payments
- bank reconciliations.

Departmental bank accounts may contain: the money disbursed to the department by the Treasury; receipts from departmental revenue; receipts from the disposal or sale of the department's assets. All other public money will be paid into the Crown Bank Account.

Departments will prepare detailed cash forecasts which show their expected cash requirements throughout the year. As part of its duties, the New Zealand Debt Management Office (NZDMO) of the Treasury is responsible for managing the consolidated balance—the total balance of all departmental bank accounts—and for managing the Government's investment and debt financing activities.

Trust Money

Trust money is defined as any money where a trustee relationship exists. Some examples are:

- when money is paid to the Crown for possible repayment to the payee or a third party.
- when money which may become payable to the depositor or another person is deposited with the Crown pending the settlement of a transaction or dispute.
- when unclaimed money belonging to any person is deposited with the Crown.

The Treasury has the responsibility of managing trust money, but may delegate this authority. Departments to which this authority has been delegated will be required to establish and maintain a Trust Bank Account to hold trust money separately from public funds. On repayment, any interest earned by trust money will be added to it.

Accrual Accounting

The adoption of accrual accounting means that departments and the Government as a whole can, for the first time, work out their real financial status. As well as the state of bank accounts, they know the value of property and equipment (with depreciation and in some

circumstances appreciation considered), and the amounts of money owed and owing.

With this information, Chief Executives and Managers can make informed decisions about future expenditure.

Loans and Securities

Borrowing is prohibited except by authority of an Act of Parliament. This does not include the purchase of goods or services, the obtaining of credit from a supplier or the use of a credit card (for up to 90 days credit).

The Crown is not liable for any debts or liabilities except as bound by the terms of any Act or by a guarantee or indemnity given by the Minister of Finance. Under the Public Finance Act, the Minister of Finance has the power to raise loans, to issue securities, to lend, to give guarantees and to enter into swaps or other financial arrangements.

Investments

Only the Treasury may invest public money.

What is Accrual Accounting?

In the past, the Government used cash accounting. It knew how much it had spent or received, but not the real cost of production or the real value of revenue and assets.

In accrual accounting, all financial activity is recorded. Accrual accounting matches the cost of resources consumed in the production of goods and services with the revenues or services produced. While somewhat more complicated to learn than cash accounting, it gives a much clearer picture of the organisation's financial performance and position.

Key Points

Cash Management

Departments will be responsible for:

- forecasting their own day-to-day cash needs
- managing their own bank accounts
- making and accounting for payments.

Key Points

Accrual Accounting

Departments are required to adopt accrual accounting. This will give them more complete financial information.

Chapter Five: Time, Tide and the Budget Cycle

Financial Management Reform impacts on the budget cycle in two significant ways:

- The Government's balance date changes from 31 March to 30 June.
- Departmental corporate plans, the performance agreements between Ministers and Chief Executives and the Estimates are required to be **consistent** in their contents.

The payment dates for taxes remains unchanged. The new financial year begins on 1 July, three months later than before, giving more time to gather information about projected tax revenue for the forthcoming financial year.

The new financial year means that the Government can make expenditure decisions based on better information and before the spending year has started. Ministers will normally be able to advise departments of their budget allocations prior to the beginning of the financial year.

These are the components of the new budget cycle. (They may vary for a particular year.)

Between September and December

1. Ministers and Chief Executives:

- Review performance for the past year.
- Develop plans and resource requirements for the coming year. They submit this **budget information** and their **fiscal projections** for the next three years to the Treasury.

2. Using the **fiscal projection** information from departments, Treasury prepares a "fiscal outlook paper" which includes forecasts and options for fiscal strategy.

3. Cabinet receives information from the Minister of Finance and advice from a number of sources and considers the relative importance of the outcomes which the Government wants to achieve.

By the end of December

4. The conclusion of Cabinet's consideration is agreement on the Government's priorities and fiscal strategies. The Prime Minister issues a statement to this effect to individual Ministers, together with indicative resource levels.

Between January and June

5. Chief Executives draft their corporate plans. These include suggested quantities of departmental outputs and the resource implications of producing them. Chief Executives may propose increases or decreases in particular outputs.

The process of budget preparation takes some time, with departments refining resource bids and Cabinet considering them.

Once Cabinet has decided on the level of outputs it wants from a department, the department will be advised. The department can then finalise its corporate plan and propose a draft Chief Executive's performance agreement. Departments produce the Estimates information required for publication in the Budget.

By 31 July

6. The Budget Documents and the first Appropriation Bill are tabled in Parliament.

January to February

7. Departments prepare supplementary Estimates for any further capital investment or where resources are required to fund a changing price in outputs or new outputs are to be produced.

March to April

8. Cabinet considers these supplementary Estimates and presents them to Parliament with a second Appropriation Bill.

May to June

9. A "wash-up" Appropriation Bill, with the final supplementary Estimates for the year, is tabled in Parliament.

Policy Advice

Before it can make Budget decisions, the Government needs policy advice. As "sellers" of outputs, departments have an interest in the policy advice they tender. The Government should seek advice from a number of different sources: policy ministries, producers of outputs and private sector advisers. These people will:

- evaluate the relationship between outputs and outcomes.
- assist in determining which outputs are most likely to produce the desired outcomes.
- recommend providers (and conditions and terms).
- recommend changes in output levels and mix.
- evaluate the efficiency of departments.

Departments will continue to need people in a policy advice role to "market" their proposals to Government.