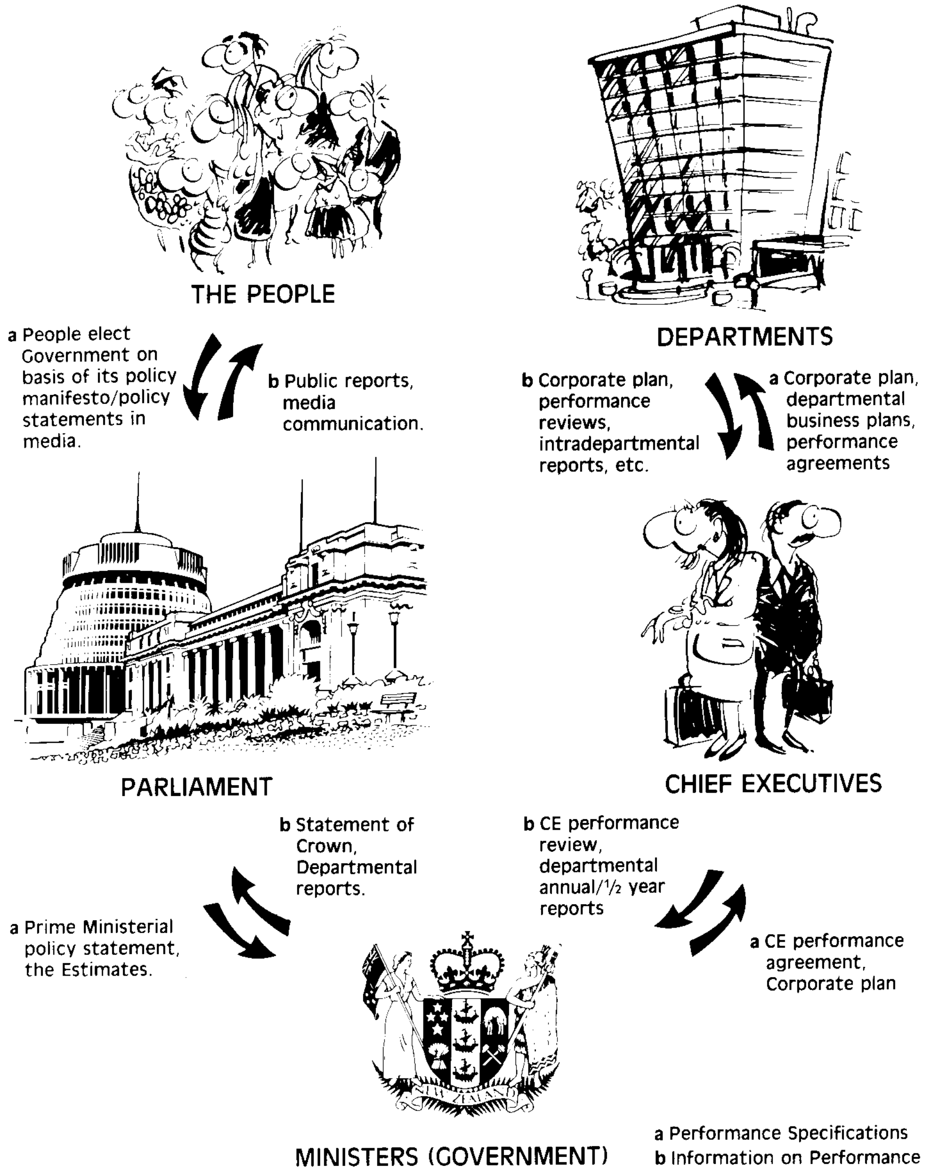
ACCOUNTABILITY



Chapter Seven: Conclusion

So, that is Financial Management Reform.

It aims for improved performance measurement, increased accountability and better information. At the heart of the changes is the recognition that Government departments and agencies should be judged on their ability to deliver, within agreed parameters, the goods and services that the Government wants from them. They should be held accountable for their management of the Government's investment in their organisation. The old financial management system made such performance difficult to achieve and almost impossible to assess.

Reforms to financial management have addressed deficiencies in the means of defining reasonable and achievable performance, in evaluating that performance, in gathering information and in methods of control.

The changes affect Parliament, Ministers, Chief Executives and departmental staff. They will ultimately change the way that the public sector interacts with members of the community, and thus they will affect every person in New Zealand.

The reforms are intended to increase the accountability of Government departments and to clarify expectations of performance. They also increase the efficiency of departments.

- Better reporting to Parliament allows greater scrutiny and control. It also increases the quality of information available to Government in its decision making.
- The separate and clear definition of outputs and outcomes clarifies the direction of departments and makes it possible to allocate responsibility.
- Departments have greater freedom and flexibility and access to better financial information. Consequently, those in management can be held accountable for the performance of their departments.

Many of the reforms are innovative and unprecedented elsewhere in the world. During the next few years, as the Government changes the way it manages its finances, every New Zealander will come to enjoy the long-term benefits of this quiet revolution.

Appendix: The Public Finance Act 1989

The Public Finance Act provides the legal framework for Financial Management Reform. It controls the financial activity of the Government and the manner in which Parliament keeps a watch on the Executive's expenditure of public money. It provides a new basis for the appropriation and management of public resources. It strengthens the reporting requirements for the Crown, departments and Crown agencies.

The purposes of the Public Finance Act are to:

- safeguard public assets.
- provide a structure for Parliament to monitor the Government's management of public resources.
- establish responsibility and accountability.
- specify minimum financial reporting obligations.
- encourage effective use of financial resources.

The Act consists of eight parts.

Appropriation

Part I outlines the appropriation mechanism and the degree of management flexibility that will be allowed. Before public resources can be consumed, Parliament must pass an Appropriation Act. The first Appropriation Bill for each year must be tabled before 31 July each year.

Banking and Investment

Part II contains the procedures and controls for the banking and investment of public funds.

The Act took effect from 1 July 1989. It repeals and replaces the Public Finance Act 1977 (That part of the 1977 Act which sets out the functions and powers of the Audit Office remains in force. These functions and powers will be the subject of a separate Bill relating to the Audit Office currently in preparation.).

The Public Finance Act is a companion to 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 respective 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.

After 1st July 1991, financial statements from State Owned Enterprises (SOEs) will be included in the consolidated financial statements of the Crown. Otherwise, SOEs are not affected by the Public Finance Act.

Reporting by the Crown

Reporting by Departments

Reporting by Crown Agencies

Parts III to V establish minimum financial reporting requirements from:

- the Crown (the Government as a whole)
- Departments
- Crown Agencies.

Loans and Securities

Part VI provides controls and procedures for raising loans, issuing securities and giving guarantees.

Trust Money

Part VII provides controls and procedures for managing money held by the Crown as trustee.

General Provisions

Part VIII contains miscellaneous provisions which don't come into any of the seven main categories.

> *Key Points*
>
> The Public Finance Act:
>
> - controls the financial activity of Government.
> - provides a basis for the management of public resources.
> - establishes financial reporting requirements.

Further Reading:

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