

# **Public Sector Financial Management in New Zealand Central Government: The role of Public Sector Accountants.**

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## **Abstract**

### **Purpose**

This paper examines the actions of public sector accountants in New Zealand government departments as they respond to the demands of the Central Treasury.

### **Design/Methodology/ Approach**

The analysis is developed through an understanding of the secondary literature and practical experience of the first author who worked in the New Zealand public sector as a public sector accountant from 1972 to 1998. Both authors have remained active in the public sector through research and practice. The first author's last three placements were being Director Financial Management in the Ministry of Energy, Assistant Secretary in the Department of Maori Affairs and finally as CFO at the Ministry of Education. The first author has been a close observer of the Budget and was a participant at the departmental level for over 20 years.

### **Findings**

The public sector reforms have posed challenges for public sector accountants. The arrival of accrual output based budgeting shaped a reconfiguration of accountants' identities. The politicians made public sector accountants the central entity of accrual output based budgeting and thus responsible for increasing public sector efficiency.

### **Originality**

This is a descriptive piece on the role of public sector accountants and contributes to our understanding of how financial accountability works within the New Zealand Central Government.

### **Key Words**

Public sector accountant, cash accounting, Budget; accrual accounting, New Zealand

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### **Introduction**

New Zealand's public financial management system is predicated on the principles of responsible fiscal management contained in the Public Finance Act 1989, through the development of budget strategy and policy, the documents supporting the budget, the apportionment, budget execution and monitoring, monthly and end-of-year financial reporting and audit, which is based on accrual accounting (Ball, 2021). Other associated features of the New Zealand public financial management system are the high levels of accountability and transparency and the use of independently established financial standards, based on the International Public Sector standards which the public sector accountants need to follow.

Many public sector managers, and even public sector accountants, take the Budget too lightly, as if it is a matter of form, political theatre. However, the Budget is a political process that can be infused with power and self-interest both within the organization and its external relations (Covaleski and Dirsmith, 1988). For example, in New Zealand the Muldoon Government went for a disastrous early election in 1984 because the Prime Minister was not confident he could get his Budget through the House.

Public sector accountants' play an important role in the best use of public money (Becker et al., 2014). According to Miah (1991) and Hay (1992), public sector accountants in New Zealand public sector entities have always been required to produce audited accounts. Over time more external reporting is required by public accountants (Hay, 1992).

This paper examines the actions of public sector accountants in New Zealand government departments as they respond to the demands of the Central Treasury. The paper mainly focuses from the period of 1972-1998. The paper is a historical and contemporary reflection of the role of public sector accountants.

## **Public Sector Accountants**

Public sector accountants are central to the transformation of public sector accounting and budgeting from a cash to accrual basis (Becker et al., 2014; Jalali and Abdollahzade, 2022). Public sector accountants make decisions that ensure the best use of public money and have an immediate, positive impact on society. The paper focuses on the changed identities of public sector accountants with the transformation from cash accounting to accrual output-based budgeting. Public sector accountants tend to work for government ministries headed by certain politicians.

The paper focuses on the period from 1972 to 1998. The Prime Ministers during that period were from the leading parties of Labour and National. These included names such as Norman Kirk (Labour), Robert Muldoon (National), David Lange (Labour), Geoffery Palmer (Labour), Michael Moore (Labour), James Bolger (National) and Jenifer Shipley (National).

The mid 1970s are remembered for spiraling inflation, oil shock and growing unemployment (New Zealand Government, 2013). The incoming Muldoon administration of 1975 imposed a freeze on new staff. By the early 1980s, the Public Service acknowledged a Maori resurgence that had accelerated after the 1975 Land March and passage of the law setting up the Waitangi Tribunal, giving the Treaty explicit legal recognition. When the Labour won the election in 1984, that the radical reform of the state sector was about to unfold, as part of Labour's far reaching reshaping of the state. Significant state owned enterprises were privatized during this period. The 1988 State Sector Act made government heads directly accountable to their ministers through a system of annual 'purchase agreements' delivering outputs. The election of Bolger administration in 1990 saw continuation, even extension of Labours reforms.

In New Zealand, the Treasury runs a tight operation, setting the rules for each Budget round and force-feeding Departmental aspirations through a mincer of reviews to fit the desired political agenda of the government. The public sector accountants play an instrumental role in the budgeting exercise.

The reforms have posed challenges for public sector accountants. The arrival of accrual output based budgeting shaped a reconfiguration of accountants' identities. Public

sector accountants' occupational identity is substantially influenced by the change from the rather simple cash-based budgeting to the more complex accrual output based budgeting, which became the new main principle public sector accountants work on a daily basis.

The public sector accountants' identity was influenced more by cash-based accounting prior to 1984 when financial management reform was introduced in New Zealand (Sharma, 2021; Ball, 2021). The cash basis accounting was public sector accountants' central instrument of their workplace for a long time. In the cash-based accounting and budgeting, the public sector accountants' main responsibility was ensuring that the budgets approved by parliament were set up properly, and that variance analysis were complete and accurate. The public sector accountants' core role in the traditional set up were centred on documenting the budget before approval and reporting actuals. In setting up the budget, the public sector accountants' main task was to collect all the positions and ensure that they were correctly entered into the budget.

The Financial management reform was carried out in 1984 with the initiation of accrual output based budgeting. The tasks that public sector accountants are to perform under the accrual output based budget regime differ significantly from the traditional cash-based ones. Using accrual output-based budgeting, public sector accountants have, for example, to maintain asset and depreciation tables or link the inputs to administrative outputs. While the reader is referred to basic accounting literature for more details, we would like to amplify here that the operational processes have changed in many ways.

### **The different demands on public sector accountants**

The government's introduction of accrual output based budgeting was proposed as major motivation for the introduction of new public management in New Zealand (Ball, 2021). Increasingly, due to new public management, public sector are run as businesses (Hood, 1991; Douglas and Overmans, 2020; Sharma, 2012, 2021; Sharma and Hoque, 2002; Ahrens and Ferry, 2015; Ferry and Eckersley, 2011, 2012, 2015, 2019; Ferry and Murphy, 2015; Ferry, Honeysett and Midgley, 2021; Sharma and Lawrence, 2009; An and Sharma, 2015).

The basic resources built up in annual appropriations over many years, justified by precedent and continuing positive results, tends to be assumed on the basis of incremental budgeting (Dormer, 2019). Public sector accountants could bid high, but without a strong clientele and support (from Ministers, the Treasury and other department officials) is unlikely to be successful. A reputation for bidding high tends to undermine long-term stability (Dormer, 2019).

The politicians made public sector accountants the central entity of accrual output-based budgeting and thus responsible for increasing public sector efficiency. The Treasury and the Minister for Finance were the key players in this (Northcott and France, 2005). The politicians problematized the initial cash-based accounting as inefficient and emphasized that accrual outcome-based budgeting would make public sector more efficient.

More external reporting is now required by the government from public sector accountants. There is an expectation for government entities to publish an annual plan, setting out their objectives for the year (Hay, 1992). The public sector accountants are also required by the government to prepare additional statements of Contingent Liabilities and Unappropriated Expenditure, together with other statements that are necessary to fairly reflect the financial operations and financial position. The New Zealand requirements have resulted since 1980s for public sector accountants to prepare financial statements on the same accrual basis as is used in the private sector. Fixed assets are included and depreciation is calculated; loans and other assets are included in the statement of financial position, and so are liabilities (Hay, 1992). These requirements have been enforced in the Public Finance Act 1989 and other legislation with the abandonment of the Statement of Resources and the related concept of 'Community assets'.

### **The Pressures on the role of the Public Sector Accountants**

Pre-Covid at the macro budgeting level, the New Zealand Government books have been balanced, for most of the last twenty years by delaying or denying fundamental problems in society such as poor housing stock, lack of investment in roads, maintaining and improving schools and hospital buildings (Ball, 2021). Infrastructure neglect has balanced the books. The Minister of Finance has noted that the strong

financial position is due to the balanced books. This has enabled Government and its public sector accountants to 'go early, go hard' in its COVID- 19 response (Ball, 2021).

The examples below are experiences from the first author who worked as a public sector accountant. These are examples of typical problems the public sector accountants may come across. For example, in 1992 one of first author's best staff was still a student at Waikato University and approaching his accounting undergraduate research assignment on intensive scrutiny of the budget routine. It was agreed with the university that the student could use route planning of school transport as his case study. Route mapping technology was still in its infancy, so the student measured the distance by following the school bus routes in his car. He found on his sample routes that the schools and the drivers had 'optimized'. The routes were shorter than we had realized. We were paying more than we needed to. As bus routes were retendered, we re-measured the routes and saved \$2-\$3 million per year. In this example, the student went into the field to test, and then create the data rather than relying on official out of date information. This data has been helpful to the public sector accountants in making decisions for the management.

Another micro assignment was in 1982 with vehicle testing at the Ministry of Transport where the first author's experience lie. This business unit had many testing stations across the county and had always been viewed as a network. Instead, the business was split in various locations with distributed salaries, operating expenses, depreciation and overheads to each location.

The work was monetized by applying the commercial price of warrants of fitness for cars and certificates of fitness for trucks to our volume of work to approximate income. It was found that several were chronically overstaffed. This branch or cost centre exercise was repeated as a one off, several times since. This facilitates the public sector accountants to reduce costs for the department.

A third example, also in the Ministry of Transport was that of the Lighthouse Service operated on behalf of the ship owners, who were paying the cost. The automation and de-manning of most of the lighthouses was underpinned by an investment analysis (DCF) that showed that for modest capital sums e.g. \$20,000 spent on technology that

recurring savings of \$10,000 to \$50,000 a year could be achieved. Again public sector accountants helped to accomplish this outcome.

At the Ministry of Energy in 1984 were struggling under the weight of a debtors' ledger with thousands of doubtful and bad debtors to the Alternative Fuels Vehicle Conversion Loans Scheme (AFVCLS). This was a scheme in which the staff lent \$500 to \$2,000 to each vehicle owner to convert to LPG or CNG. The vehicle owners did not like to pay off their loans.

The first author, who then worked for the Ministry of Energy, took this AFVCLS problem to a short course at UNSW Graduate School in Sydney. They had many suggestions such as a credit check, requiring a deposit, charging a market interest rate, and using commercial debt collectors. It all helped, but more than that was the question of why the state did AFVCLS at all. The state were not good at that, and the petrol price had fallen to an affordable level. The government had just changed after the Muldoon fiasco. The scheme was closed.

Finally, we provide a current example from the Department of Internal Affairs in 2022 which is a 'catch-all agency' for activities that do not fit reasonably with other departments such as issuing passports, and issuing birth, death and marriage certificates. The Department of Internal Affairs does a lot more, but those activities generate a significant fees from the public and the department tracks these fees, the surplus, deficits and any cash injections to the department. The innovation carried out by the Department of Internal Affairs is to report these costs in Estimates. When members of Parliament debate the department spending proposals, they have before them the Estimates and actuals of those important Citizenship activities. This gives context to fees and renders confidence to the public that the fees are cost recovery for services and not a tax. In 2022, the major issue disclosed are the decrease in volume of passports processed as a result of the COVID, and the reduction in demand for passport renewal as a result of moving from a five-year renewal of passports to a ten-year cycle. This has impacted on the revenue for the department. This is a typical problem that the public sector accountant is faced with at the Department of Internal Affairs, particularly, in relation to a declining revenue.

### **The development of the role of public sector accountants**

The public sector accountants' role changed from the long-time cash basis emphasis to accrual output-based budgeting in 1984. According to Miah (1991), public sector accountants in New Zealand public sector entities have always been required to produce audited accounts. Over the years, deficiencies in public sector reporting have been highlighted in various studies and official reports (Hay, 1992; Miah, 1991). Sidebotham (1966), for example, also noted the absence of a conceptual framework for local authority accounting in his article as far back as 1966 (p.25). While Sidebotham (1966) made this comment on local authority accounting, it seems to apply equally to public sector accounting in general. The benefits that a conceptual framework can offer to the improvement of public sector accounting practices had gone unrecognized by the accounting profession until April 1984, when a pre-exposure draft on public sector concepts was published.

The pre-exposure draft was a comprehensive document covering, *inter alia*, several broad accounting and reporting accountability and reporting entity, community assets, cost of services and types of financial statements. The draft did provide a foundation for the development of the first formal exposure draft, which public sector accountants need to use.

It was in July 1987, the New Zealand Society of Accountants issued a Conceptual Framework entitled 'Statement of Public Sector Accounting Concepts' (SPSAC). In the SPSAC, emphasis is given for the public sector accountants to the requirements of the general-purpose external financial reports to meet the information needs of people interested in public sector activities. Public sector accountants are accountable to the stewardship function (Miah, 1991). The public sector accountants need to use both financial and non-financial information in their reporting. The financial reports need to provide information that exhibit qualities of understandability, reliability, relevance, timeliness, consistency, and comparability (Miah, 1991).

Over time, more external reporting is required by public accountants (Hay, 1992). For example, public sector accountants in government entities are required to help publish an annual plan, setting out their objectives for the year. Government departments must publish audited half-year reports in addition to annual plans and annual reports.



The New Zealand requirements have resulted in public sector accountant preparing financial statements on the same accrual basis as is used in the private sector. Fixed assets are included and depreciation is calculated; loans and other assets are included in the statement of financial position, and so are liabilities.

### **The Capability of the Public Accountants role to achieve change**

It is essential that public accountants attend conferences to keep abreast with the changes. At an accounting conference in 1983, the first author and his line manager had taken along and presented to other public sector accountants a briefing on some of the pilot and trails they were running in the Ministry of transport. These were met with challenges as the academic professors at the conference commented that it was clever stuff that the Ministry of Transport were doing, but had no underpinning intellectual framework. They claimed that the Ministry of Transport were loose cannons, using tools without being entirely clear what problems they were trying to solve.

The following year at another conference, the first author met Aaron Wildavsky, a budget operator with experience in both the USA and UK. Wildavsky (1964) emphasise that the budget process which determines who gets what from the Government is not economic, but political. Wildavsky's description on the characteristics of the Treasury Man apply equally to departmental CFOs':

- Decide by reacting
- Let others do the technical work
- Read the file, and assume you know as much as anybody and more than most
- Be skeptical of enthusiasts
- Probe, delay and question
- As a rule, cut by bargaining rather than an absolute number
- Be tough, a reputation for toughness inhibits would-be spenders
- Be on guard against hidden and built-in escalators (Heclo and Wildavsky, 1981).

These eight pragmatic strategies should get the new public sector CFO through his or her first two Budget rounds. After that, experience kicks in.

There are four immutable laws for operating successfully in the public sector:

- Find and build a clientele
- Build confidence with the CEO and Minister
- Perform at Select Committee and at Cabinet Committees
- Display accountability

(Wildavsky, 1964; Heclo and Wildavsky, 1981).

This takes a lot of effort and is not well covered in accountancy courses. To achieve it the CFO needs to be a direct report to the CEO and have access to the minister.

## **Conclusion**

This paper examines the action of public accountants in government departments as they respond to the demands of the Central Treasury working towards the annual budget to be presented to Parliament in New Zealand. The paper is a historical and contemporary reflection of the actions of public accountants in government. The public managers have to engage in the business of their departments and improve them (Covaleski and Dirsmith, 1988).

Public sector accountants are central to the transformation of public sector accounting and budgeting from a cash to accrual basis (Becker et al., 2014). The reforms have posed challenges for the New Zealand public sector accountants. The arrival of accrual output based budgeting shaped a reconfiguration of accountants' identities. Public sector accountants' occupational identity is substantially influenced by the changes from the rather simple cash-based budgeting to the more complex accrual output-based budgeting, which became the new main principle. It is also recommended that public accountants attend conferences to keep abreast with the changes in the accounting environment.

This paper would be useful for both researchers and practitioners. The administrative history, in particular, by senior officers is often unwritten for the public sector offices.

The study would be of use to practitioners interested in the pressures and opportunities which arise out of a particular constellation of administrative roles.

This study is a descriptive piece on formal process of public sector accountants' role in budgeting and contributes to our understanding of how financial accountability works within New Zealand government with a historical and a contemporary reflection of the public sector accountants' role.

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