

PUBLIC NET WORTH

Accounting, Government and Democracy

November 14-16, 2023
Vienna, Austria

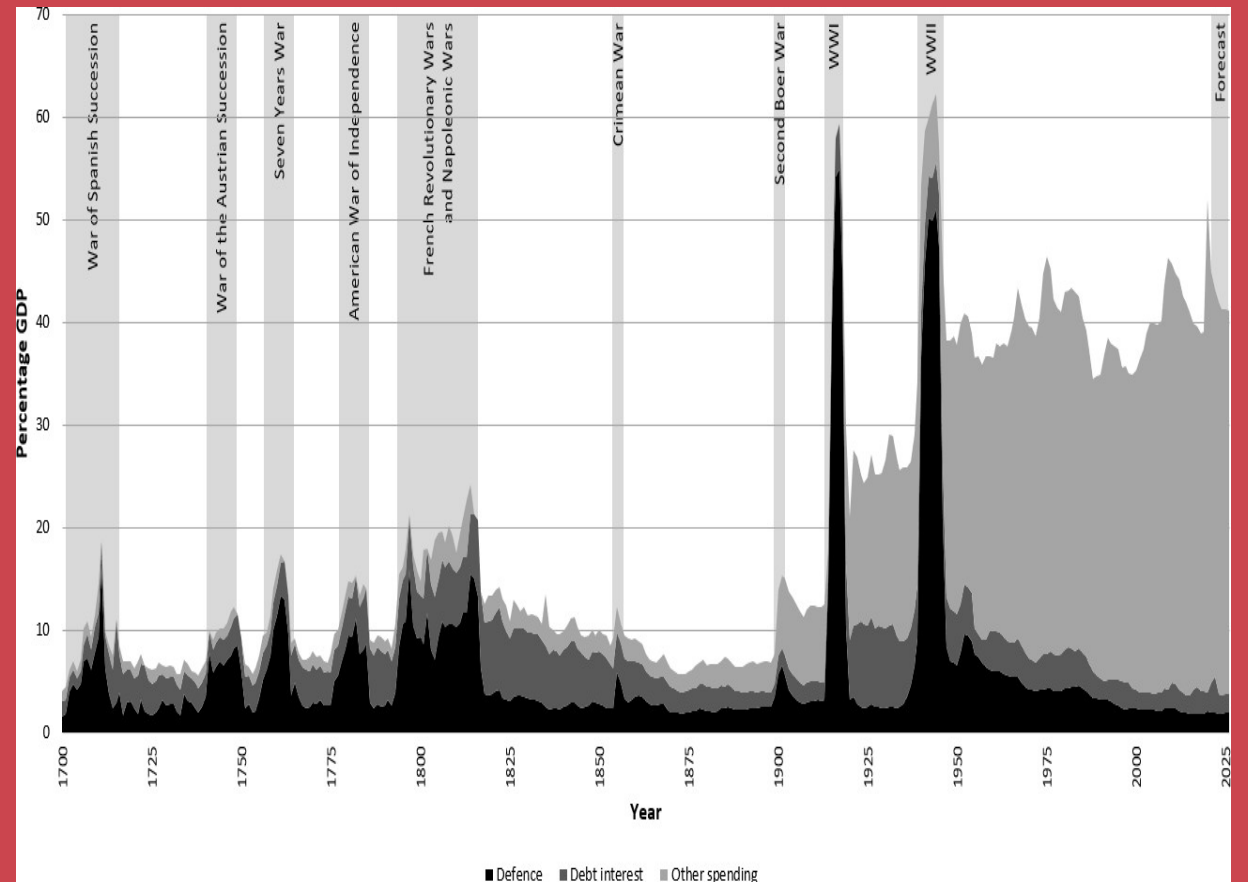
PULSAR 

New tools for new challenges

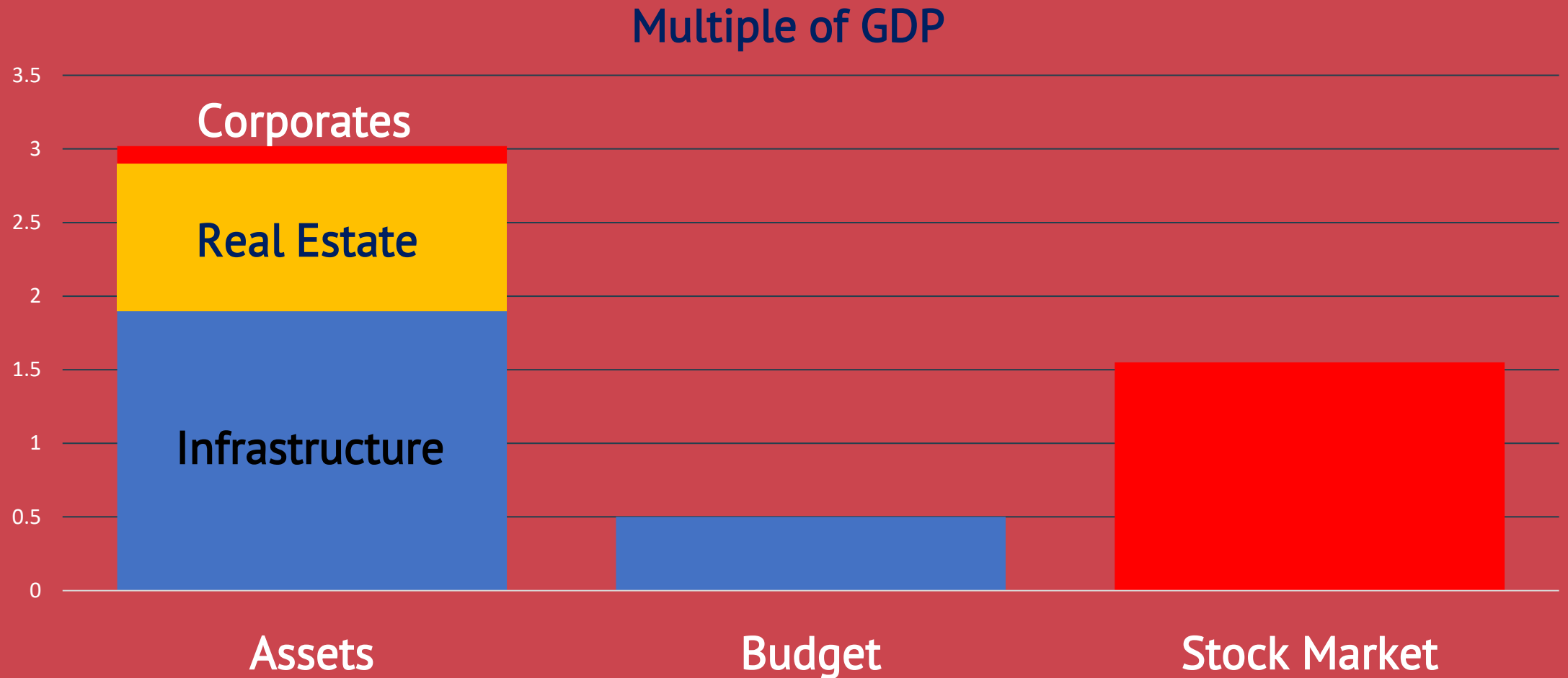
Large and complex institution

- Development of the welfare state since the late 19th century
- Expanded the scale and complexity of government
- Nature and amount of financial information required to manage a conglomerate with this range of roles, functions and services
- Changed demands on its finances and financial management.

UK gov't spending over three centuries



Unaccounted Asset Manager

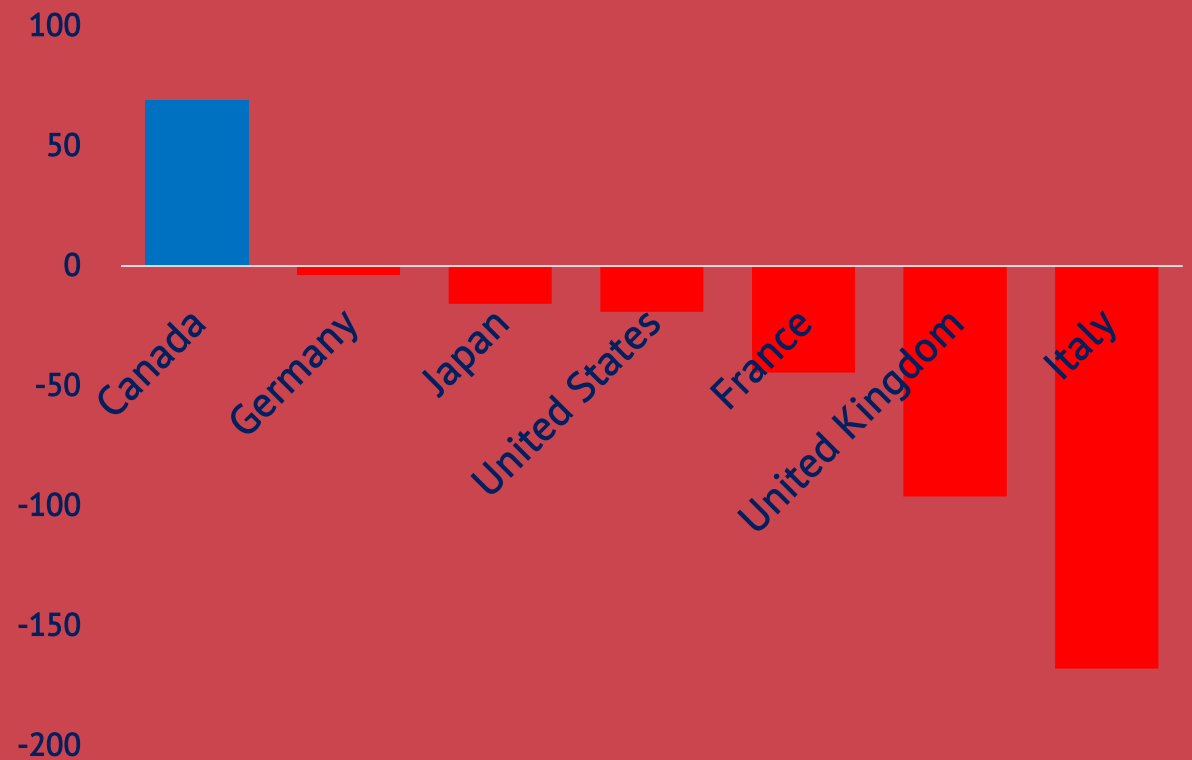


Rich government - poor government

Peace and Prosperity?

- Despite three generations of relative peace for G7 nations ...
- The financial position is weak and deteriorating, with major challenges to come
- Threat to political and economic stability at a national and global level

G7: Net Worth as % of GDP 2021



Source: IMF Data

What adjustments are required? What should be the goal?

Need for change

Current situation

- Accounting is not well embedded and is largely unused as a budgetary tool – e.g. no forecast financial statements.
- Focus on cash measures
 - annual deficits/ surpluses
 - borrowing and debt
- Slowness of financial statements points to them being of little relevance

Consequences

- Distorts decision-making
- Provides a misleading picture of financial health
- Long-term consequences of policy decisions get little attention
- Consequences for financial stability or intergenerational fairness are lost

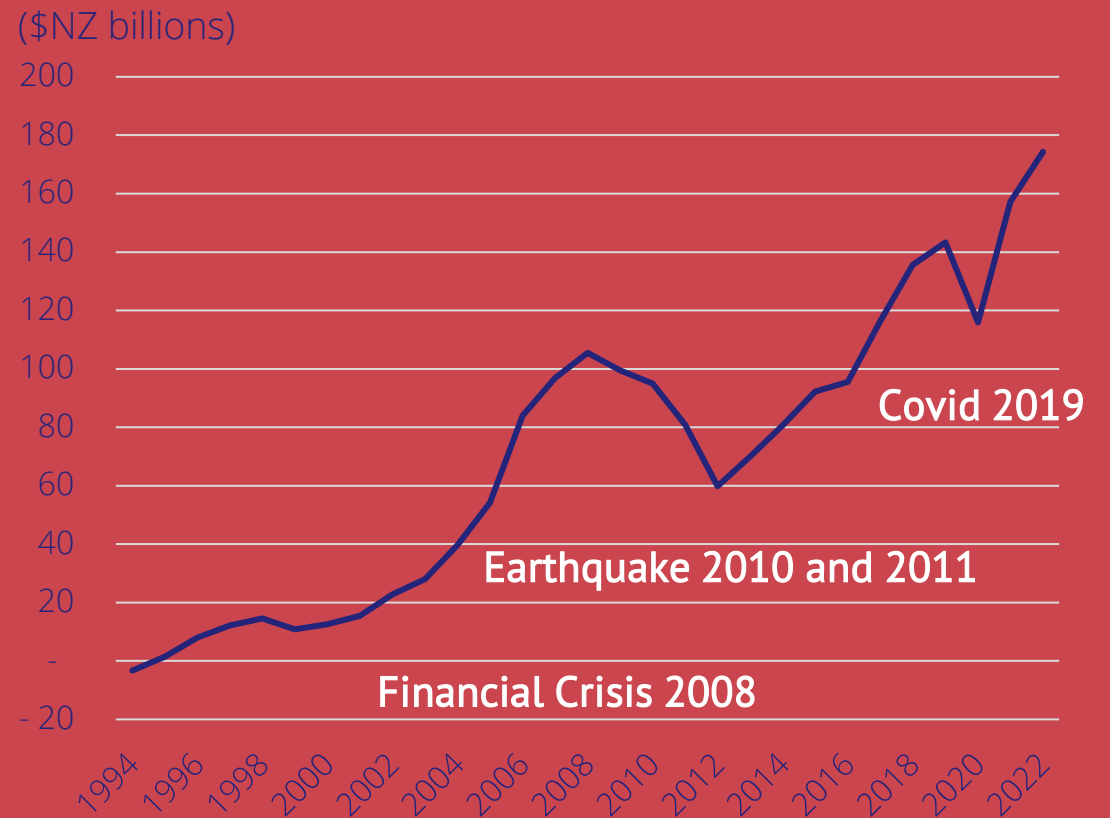
Modern accounting in the private sector helped create the wealth we enjoy

Fiscal rules

Reinforcing a principle-based approach

- Monthly financial statements
- Pre-election economic and fiscal update
- Net worth measure based on audited accrual numbers
- Incentivise investments
- Intergeneration fairness

NZ Net Worth 1994-2022

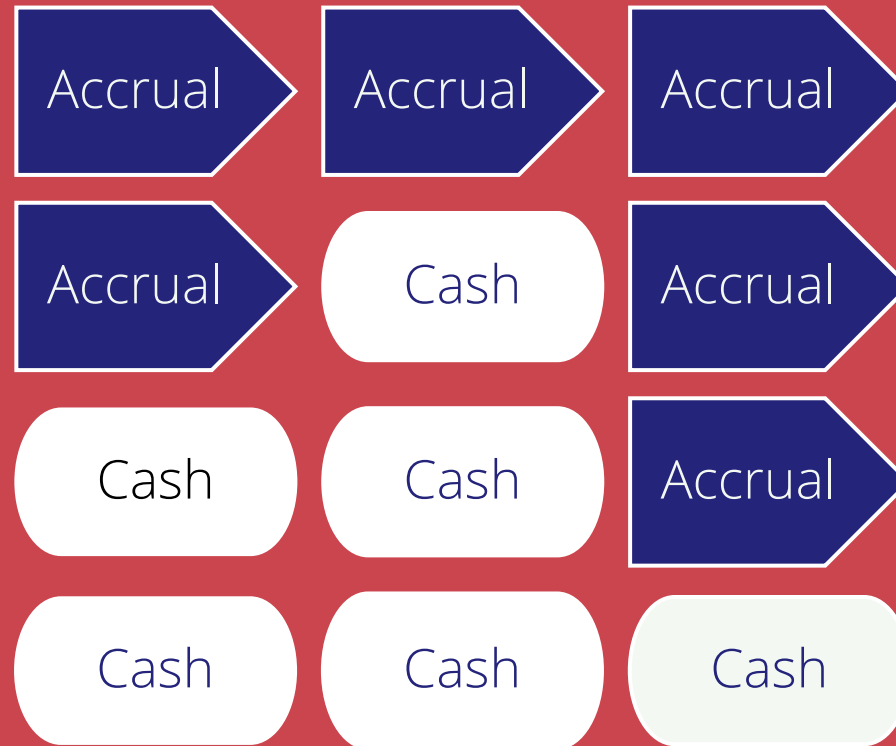


Positive role in creating a culture of fiscal responsibility

Degree of integration

Budgeting/ Appropriating/ Reporting

Degree of integration



Full integration is required

Modern accounting is critical

Improve

- Asset/ Liability Management
- Fiscal Space
- Investments
- Productivity
- Growth

Reduce

- Waste/ Corruption
- Fiscal Risks



Paper or Google Maps?

Fair market value - shows options

Opportunities

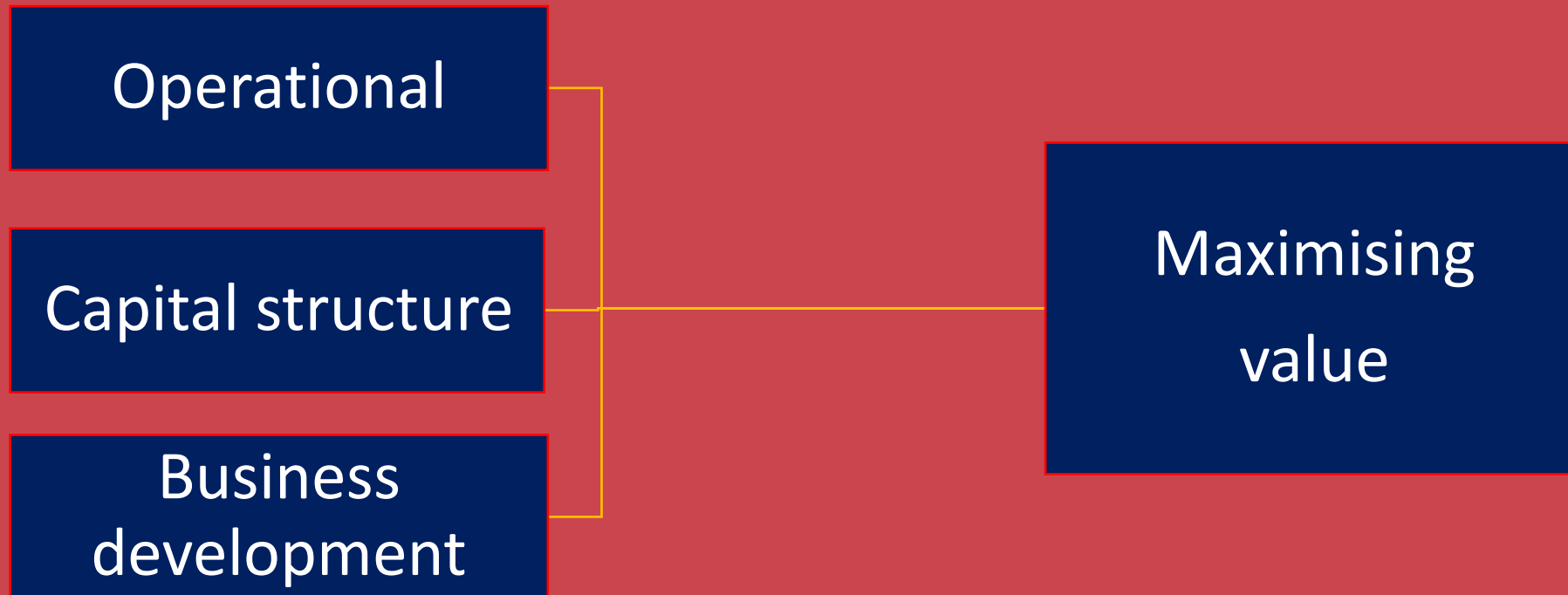
- Maintenance
- Investments
- Best use
- Ownership
- Level playing field

Risks

- Insurance value
- Rating
- Leverage

Tool for decision making

Management strategies



Lower cost of capital is not enough

Liabilities

Not visible - not managed

- Essential to include non-debt liabilities in fiscal rules
- Value of the public service pension obligations understated?
- What discount rate to be used?
- What about “implicit liabilities”?

Professional management

- Can governments manage non-debt liabilities better?
- Borrowing to invest, to meet future costs
- Dedicated vehicle for professional management

Net worth as a key fiscal measure critical

Implementing change - New framework

Near-term

- All government financial decisions are to be made with a view to their impact on net worth.
- Goals and timetable for implementation
- Interim estimate of balance sheet data, where the reported balance sheet information is incorrect (TfL)

Long-term

- Monthly financial information at every level of administration.
- Fully integrated accrual-based accounting as primary financial management tool at all levels of decision-making.
- Focus on efficient management of assets as well as provision of services

New financial management framework based on net worth

Implementing change - Institutionalising

Near-term

- Independent budget oversight with statutory powers to evaluate policy
- Evaluate commercial assets and institutionalise within holding vehicles at a central and local level
- Assess non-debt financial liabilities and future anticipated policy costs (“implicit liabilities”)

Long-term

- Resist temptation to reduce authority of independent bodies
- Evaluate commercial assets
- Establish appropriate holding vehicles
- Continuing oversight of asset management at every level of administration
- Establish funding mechanisms to minimise the cost of liabilities.

Accrual-based accounting as primary financial management tool

Conclusion

Good accounting will mean.....

- Better government
- Greater prosperity
- More stable democracies
- Fairer society

Unlock resources that can help governments address the long-term financial challenges, improve service provisions or reduce taxation.