Summit Report

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The Global Government Finance Summit brings together permanent secretary-level public officials from government treasury and finance ministries around the world to share governments’ domestic financial and regulatory challenges and appropriate solutions, providing a unique, informal and candid space for the sharing of experiences, concerns and opportunities.

Hosted in Singapore by the permanent secretary for its finance ministry in April 2015, the event was attended by senior officials from 14 countries, with representatives of CIPFA International and knowledge partner EY.

“This summit is timely, because more than ever, our finance ministries face common challenges. Today, eight years on from the start of the global financial crisis, we are still adjusting to a ‘new normal’ of slower growth. The fundamental challenge for finance ministries will be to enable our governments to do more, and lead transformations of our societies, even as we face greater resource constraints and our operating environments become more complex.”

Peter Ong, Head of Civil Service and Permanent Secretary, Ministry of Finance, Singapore
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Introduction: common challenges that finance ministries are facing

“This Summit is the beginning of continuous learning from one another, and the start of lasting friendships as we confront our challenges in the days ahead,” said Peter Ong, permanent secretary of Singapore’s Ministry of Finance and Head of Civil Service, at the event’s introductory session. “It is timely because more than ever, our finance ministries face common challenges.’ Describing the event as a “rare opportunity for all of us”, he said he hoped the discussions would “allow us to share with each other the best ways to achieve effectiveness and efficiency in our programmes, as well as to improve public sector productivity.”

To permit frank and candid discussions, the event was held under the Chatham House Rule. However, some speakers have permitted us to attribute quotes, enabling us to share the main discussion points with a wider audience.

Setting out the ever-rising spending demands on today’s societies in a global economy which has been “slow or even stagnant”, Ong named five common pressures finance ministries around the world are having to grapple with: Firstly, he said, “huge investments in infrastructure will need to be made going forward”. While “for developing countries, investing in infrastructure will be critical to improving their standards of living and enabling their economies to move up the value chain, in developed countries, it is also urgently needed as ageing infrastructure can affect public safety and economic competitiveness.”

Secondly, governments’ healthcare bills are bound to go up due to ageing populations. “There are also increasing fiscal pressures to ensure retirement adequacy for our elderly,” he said. “For many countries on defined benefit pension schemes, difficult decisions need to be made to either cut back on the future benefits of today’s working populations, or to raise taxes on those working, to shore up huge unfunded pension liabilities.”

Another pressure in many countries is rising unemployment – especially among the young:

“The stakes are high, because we risk a ‘lost generation’ in our labour forces,” Ong said.

Fourthly, he said, advances in technology mean “new investments are needed to ready our societies for an uncertain future as potential disruptive changes confront us.” Technology, he added, “offers both threats and opportunities.” It creates demand for “new skills, but also a hollowing out of mid-skill jobs that employed large swathes of the middle class.” However, this is also an opportunity to transform how we live and produce.”

The fifth challenge finance departments around the world have to address is to find ways to fund the eventual costs of environmental mitigation and adaptation arising from climate change, he said.

In the context of these pressures, Ong explained, countries face two “persistent fiscal policy conundrums that have now grown more acute”: maintaining fiscal sustainability amidst tighter resource constraints, and upholding fiscal accountability for government performance, amidst rising public expectations.

Countries, he said, will have to “find a happy balance in meeting our citizens’ expectations, while leaving flexibility for future programmes, and building up resilience against future economic shocks.”
Around the table

Peter Ong, Head of Civil Service and Permanent Secretary, Ministry of Finance, Singapore

Mohammed AlKhasawneh, Partner, EY

Walter Aires, National Director of Treasury, Angola

H.E. Nasser Khamis Al Jashmi, Under Secretary of Finance, Ministry of Finance, Oman

Guðmundur Árnason, Permanent Secretary, Ministry of Finance and Economic Affairs, Iceland

Ian Ball, Chairman, CIPFA International

Arnauld Bertrand, Advisory Partner – Framalux Government & Public Sector (GPS) Leader – Global Public Finance Management (PFM) Leader

Rana Faqhi, Assistant Undersecretary for Public Revenue Development, Ministry of Finance, Bahrain

Helmut Herres, Head of General Issues of Fiscal Policy, Federal Ministry of Finance, Germany

Martti Hetemäki, Permanent Secretary, Ministry of Finance, Finland

Puah Kok Keong, Director (Fiscal Policy), Fiscal Policy Directorate, Ministry of Finance, Singapore

Liga Klavina, Deputy State Secretary on Financial Policy Issues, Ministry of Finance, Latvia

Dr Dini Kusumawati, Strategic Planning Advisor of the Secretariat General, Ministry of Finance, Indonesia

Lim Soo Hoon, Permanent Secretary (Performance) Ministry of Finance, Singapore

Sir Nicholas MacPherson, Permanent Secretary, HM Treasury, United Kingdom

Gabriel Makhlouf, Secretary and Chief Executive, The Treasury, New Zealand

Zaqy Mohamad, Director, EY

Wael F. Al Mutawa, Director of Planning & Pursuance Department, Ministry of Finance, Kuwait

Mikhail Pryadilnikov, Deputy Director, Analytic Center for the Russian Government, Russia

João Quipipa, Head of International Relations Cabinet, Ministry of Finance, Angola

Iain Rennie, State Services Commissioner, New Zealand

Saleh A. Al-Sarawi, Assistant Undersecretary for Public Budget Affairs, Ministry of Finance, Kuwait

Mildred Tan, Partner, EY

Taşkin Temiz, Director-General for Public Finance, Undersecretariat of Treasury, Turkey

Gemma Williams, Director, EY

Sam Wong, Partner, EY

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Kevin Sorkin, Director, Global Government Forum

Chris Punch, Global Research Director, Global Government Forum

Winnie Agbonlahor, Editor www.globalgovernmentforum.com
Improving effectiveness and efficiency of public expenditure

The summit started with a presentation by Arnauld Bertrand, partner in EY’s France and Maghreb Government and Public Sector practice, and global lead on public finance management directives. His presentation focused on challenges governments are facing as well as ways in which they can innovate and become more efficient.

Governments around the world are under intense pressure to improve their fiscal positions, Bertrand said. Debt levels in advanced and emerging economies average at above 100%, he said, adding that most advanced economies will need to reduce deficits by 4% of GDP by 2020 to meet their long-term targets for public debt, and for emerging economies, reductions of 12.8% of GDP are needed.

To this end, overarching spending reduction programmes will be important, but Bertrand warned that each programme has to be tailored to specific countries’ needs. “On the revenue side, the challenge seems different from country to country,” he said. While some countries, such as France and Italy have to "urgently decrease taxes that have a negative impact on the economy gross", others, including those in the Middle East have to “diversify revenue to meet dependency on oil or raw materials for energies.”

When reducing cost and undertaking transformation programmes, he said, governments must always keep in mind “the potential impact on economic growth” and thus “combine a strategic approach with operational change.”

Enablers of transformation

To be able to do “more with less”, he said, governments around the world have some difficult choices to make about how they run their own operations and deliver their services. They need “to choose between outsourcing either to public agencies like in Canada or in the Nordics, or to the private sector; or eventually offshoring – some administrations have tried to offshor the power of their ‘super function’ for example.” He added that they also need to adapt and improve organisational efficiency – “we are speaking about process re-engineering, lean organisations, optimizing ‘super functions’ and shared services.”

To innovate and implement change successfully, Bertrand identified three “key success factors”: one is strong political support and leadership. “I see in many European countries that if you don’t have the clear political speech that gives sense to the reform you want to act, it won’t succeed,” he said.

Secondly, he said, governments need a “strong project management and robust performance management system to measure and optimise reserves.” Ong later added that “political power of
fiscal policy is related to structural reforms.” But the problem with fiscal policy and structural reform, he said, is that in order to “get us back on the path to financial growth, we need some investment.” This initial investment will mean that “immediately the fiscal balance will deteriorate”, so “in the first five years you take a hit, but then you hope that in the outer years, the rebalance will come in for the fiscal position.” He referred to this cycle as the “J-curve”.

The third key success factor, Bertrand said, is communication to get both fellow civil servants, as well as the general public on side, or, in his words, “to assure internal and external endorsement.”

The power of communication

His last point resonated strongly with the rest of delegates who used many examples to highlight the importance of government communications. Gabriel Makhlouf, who heads up New Zealand’s finance department, said that for citizens, “understanding politicians and trust in leaders is crucial.” He added that “a good narrative, good leadership and good institutions make what is a hard job less hard” and help explaining to the public “why we’re doing what we’re doing.” But, Mikhail Pryadilnikov, deputy director of the Analytic Center for the Russian government, raised the concern that getting citizens engaged in budgeting is a difficult task, because more often than not “budget is a boring thing for the public to read and understand.”

However, Helmut Herres, head of general issues of fiscal policy at Germany’s Ministry of Finance, agreed that “credible communication to the wider public” is key to successful reform. He added that governments may find it much easier to get public support for any reform if they can point to an external and politically independent organization of high reputation that has recommended the change.

Citing the common challenge of an ageing population, he said that the OECD “came up with its sustainability calculations”, which were taken up by the EU countries, and led to “an organized process” whereby “we update sustainability calculations every several years.” The fact that these calculations had been put out by the OECD - a “credible external institution” - contributed strongly to “convincing the most populous majorities in European countries that you have to reform: you have to reform the benefits, you have to bring the elderly into labour market participation, you have to increase qualified immigration, you have to increase female labour participation.” To ensure long-term success, he added, “it’s important that you have an institutional framework in which credible external recommendations tell you what you have to do.”

Participants also agreed that the task of communicating particularly radical reforms to the wider population is generally made easier if the reforms are preceded by a crisis. Everyone accepts that “when there is a crisis, change is needed,” Bertrand said. And Ong added that a “crisis is sometimes a very good occasion to make fundamental changes that we need, but we can never do in good times.” Martti Hetemäki, permanent secretary of the Finnish finance ministry, said that “you often need a crisis in order to get the momentum behind the policy changes.”

He recalled a previous finance minister in the 1990s who “implemented major expenditure cuts in Finland, and a very successful fiscal consolidation” said to him “it was easy when it was difficult’ but ‘it’s very difficult when you have easy times.” He added that as soon as the economy picked up, “it became very difficult to maintain the fiscal prudence and we had a recession.”

However, Makhlouf championed a different approach. “You don’t want big shocks – you don’t want global financial crises to actually drive change,” he said. “You want change to happen all the time – it’s easier to manage.” He refers to this approach as ‘radical incrementalism’.
Challenges of public finance management

In his presentation, Martti Hetemäki, permanent secretary of Finland’s finance ministry, started off by revealing to delegates “some easy and some difficult steps” to improve fiscal risk management.

In order to manage fiscal risk, governments need reliable fiscal projections. But, when forecasts are carried out by organisations linked to the current administration, they can often be over-optimistic and be itself the subject of intense debate. So one step towards good risk management, Hetemäki said, is to hand forecasts and projections to a body independent from government. The UK has done this with the creation of the Office for Budget Responsibility in May 2010. These steps, Hetemäki added, “of course, do not guarantee that you would get unbiased fiscal projections, but they help.”

Hetemäki also urged policy-makers to focus on the right thing by quoting the late organisational theorist Russell Ackoff, who said: “The righter we do the wrong thing, the wronger we become. When we make a mistake doing the wrong thing and correct it, we become wronger. When we make a mistake doing the right thing and correct it, we become righter. Therefore, it is better to do the right thing wrong than the wrong thing right. This is very significant because almost every problem confronting our society is a result of the fact that our public policy-makers are doing the wrong things and are trying to do them righter.”

Focusing on the right risks

Ahead of both the global financial crisis and the Europe crisis, policy-makers “were focused on the wrong risks, which made us ill-prepared for the risks that materialized,” Hetemäki said. The lesson from both crises, he said, has been that governments should prepare for “the known risks – fiscal sustainability risks”, but also “be aware of the known unknowns - even if you cannot think of the unknown unknowns of fiscal risk.”

Some examples of the ‘known unknowns’, he said, are the “reasons for and consequences of very low long-term government bond yields.” U.S. 10-year benchmark Treasury yields were at their lowest earlier this year since May 2013, and have since rebounded modestly. Rates on European government bonds, as well as Japanese debt, are even lower as central banks in both places undertake aggressive monetary stimulus programs to fend off deflation, a vicious cycle of falling prices and wages across the economy.

Some experts have argued that low government bond yields in wealthy nations are worrisome because they suggest that investors lack confidence in the ability of central banks to hit their inflation targets. If the rates stay low, Hetemäki explained, “there is less of a concern in terms of fiscal sustainability, but if rates increase, then there will be financial stability concerns, and obviously there will be fiscal concerns more than today.”

He added: “I would maintain that given the apparent success of quantitative easing, investors suspect that it will also be used in the future if needs be, and that future bond prices and liquidity is ensured so that it is safe to invest into long-term government bonds.”

Sir Nicholas Macpherson, permanent secretary of the UK’s HM Treasury, later added that low interest rates are a big concern to him: “Once rates become low and stay low, the whole system becomes increasingly dependent on them. I think we must all continue to constantly reassess how robust our public finance systems are to sudden change in the interest environment.”

The art of influencing politics

Moving forward, Hetemäki said he wanted to address the question of ‘what to do?’ and returned to the point of communication with the general public. But besides ensuring that citizens are engaged and understand the government’s decision-making process, he said communication should also be used to “put pressure on politicians via a public debate. There has to be awareness among the public at large about fiscal risks.”

Sustainability, he said, is “very important”, but it may not always get the attention it deserves in the world of politics. But, by consistently referring to the topic over the past 10 years, the Ministry of...
Finance has managed to turn ‘sustainability gap’ into “a household term.” Open debate “about risks and policies”, he added, “is key to better policies”.

To improve policy-making, the Ministry of Finance set up a working group. The working group was chaired by the prime minister’s state secretary, and senior members from the four biggest political parties participated in the group.

One of the proposals of the working group was to have a “strategic government programme with only three to five” priorities, instead of, as has traditionally been the case, “a long list of [priorities] and therefore, in effect, no priorities at all”. This programme “should outline all the difficult economic policy decisions” right from the start, he said and further stressed the importance of making “all the difficult decisions up front.” He added that he has “even gone into meetings and said to politicians that you should not deliver ministerial posts before you have spelt out the difficult decisions.”

The strategic programme should then serve as the basis for an action plan and later a more detailed fiscal plan once in government. Further along the line, he said, it should be updated annually. All four main parties bought into these and other proposals during their election campaign. For, having a strategic plan in place, Hetemäki said, “is just the sort of simple working method that leads to success.” He added that “without such a plan, it will be very difficult to prepare and implement the required policies.”
Based on a presentation by Sir Nicholas Macpherson, permanent secretary of the UK Treasury

1. Separating capital from current budget

Macpherson, who has been in his post since 2005 and a senior Treasury official since 1997, said that “looking back on all the reforms which have been introduced in Britain, separating out the capital budget from the current budget was the one which has had the biggest effect.” Before the change was introduced in 1998, he said, politicians often took “the easy option and cut back on capital spending”, for doing so can go unnoticed for many years. Britain’s capital spending sharply declined in the mid-1970s, but, he said, “it wasn’t until the mid-1990s that you saw the difference.” He added that there is today “a high degree of consensus across the UK that infrastructure capital should be protected.”

2. Multi-year spending reviews

Over the last 10 years, Britain has moved from having a spending review every year to having it “once every three or four years”, Macpherson said. Before the change, “all government departments were focused on how you could get money out of the Treasury” in the short term. Now, departments have started “thinking through how they could plan with the money they have” for a longer term. And, he added, “we have managed to ensure that that works.”

3. Reforming capital budget allocations

In Britain, Macpherson explained, capital spending has traditionally “tended to be handed out on the basis of political interests.” But since the last big spending review in 2010, much of the capital budget was allocated on the basis of the economic return of individual projects. Macpherson said he counts this shift as one of his biggest achievements, adding that he “thought it would never happen.” While, he added, there were some technical problems with individual departments struggling to determine those economic return calculations – he said that “we did have some success, and increasingly capital spending is allocated in a way which maximises the economic return.”
4. Capping welfare spending

Governments’ spending on welfare has traditionally been “difficult to control because they are entitlements,” Macpherson said. But, the government in Britain legislated two years ago to cap this spending at a certain amount, excluding, however, pension payments. For the year 2015-16, the government set the limit at £119.5bn. If, Macpherson added, projections reveal that the government is likely to exceed the cap, “policy measures have to be taken.”

5. Creation of an independent forecasting body

In May 2010, the Office for Budget Responsibility (OBR) was created to provide independent analysis of the UK’s public finances. One of a growing number of official independent fiscal watchdogs around the world, the OBR’s main tasks include producing five-year forecasts for the economy and public finances twice a year, and using them to judge the government’s performance against its fiscal targets, as well as assessing the long-term sustainability of the public finances. The “really good thing about the OBR,” Macpherson said, “is that it means that the discussions we have each year in the run-up to a budget are no longer about the forecast.” Instead of debating what the correct prognoses are, he added, his conversations with the prime minister and finance minister now “take the forecast as given” and focus on the question: “What are we going to do about it?” The OBR’s creation has, he added, “resulted in a step change in the quality of policy discussion.”

6. Introducing Whole of Government Accounts

In 2010, the government started publishing consolidated audited accounts of around 5,400 organisations across the public sector, including schools, hospitals and the Bank of England. It was, Macpherson said, a “monumental project”. Using International Financial Reporting Standards (IFRS), the Whole of Government Accounts are published by the Treasury within 18 months of each financial year, although this year, they were put out within 12. The Treasury is “required to set out both provisions and contingent liabilities, and having that in one document really improves accountability,” he said. Asked why the government used IFRS in the discussion following Macpherson’s presentation, he responded: “because we wanted to get as close to international private sector best practice as we could.”

7. ‘Professionalising’ the finance function

“The charge against the British Treasury has always been that there are too many economists in it and not enough accountants,” Macpherson said. One aim of strengthening the finance profession has been to ensure that the right people are in the right places. So, Julian Kelly, the government’s director-general of public spending and finance, introduced succession plans for all director general finance roles and is launching a finance academy. What is happening, he explained, is “a stronger professional control, on a functional basis, of finance professionals across government, and alongside that, we’re trying to really strengthen management information because if we can achieve a better understanding of how inputs translate into outputs, we can get better decision-making.”
How Iceland recovered from its global financial crisis

After many years of prosperous growth and expansion, the Icelandic economy was shaken to the core when the 2008 global financial crisis hit. Its onset, Guðmundur Árnason, permanent secretary of Iceland’s Ministry of Finance and Economic Affairs, said, “changed everything”. The Krona (Iceland’s national currency) exchange rate depreciated drastically; inflation rose sharply and debt shot up; the country’s three major banks went bankrupt; and currency reserves had been largely depleted by the end of October 2008. It was an “unprecedented collapse of the financial system,” Árnason said, adding that nothing had prepared the government for this. The prime minister at the time said that “there is no handbook”, and Árnason said that all the government could do was “improvise and try to prepare our decisions as well as we could.”

Today, Iceland is in good shape. Its output levels will soon surpass those predating the crisis, debt ratios are on a downward path, balance sheets have broadly been restored, the financial sector is back on track and the country is experiencing a tourism boom. While many advanced economies are still working to stabilise and rebuild themselves, Árnason said, “that is a phase we see as being behind us now.”

Iceland’s response to the crisis

So how did Iceland do it? The biggest difference between Iceland’s approach and that of other Western economies has been its decision not to bail out its banks. What many economists regard as a wise move was taken out of necessity: “It was not our decision not to bail out the banks. We could not afford to. We had no choice but to privatise,” Árnason said.

Soon after the crash hit, the Icelandic Financial Supervisory Authority appointed resolution committees to manage and liquidate what the old banks were left with: the overseas borrowing and lending that fueled a sevenfold increase in assets from 2000 to 2008. “The government of the
day decided to allow the resolution committees to keep the ownerships, and they still hold them,” Árnason said. “But we have made stringent demands on financial institutions, which are currently very, very well-financed and they have more or less finished the work and worked their way through the repercussions of the crisis.”

Due to large Krona assets in the country which had the potential to “threaten the economic stability” had they been moved abroad, Árnason explained, the country had “no option but to impose capital controls: and we still have them in place, although they are somewhat modified.” Since the controls were enforced the exchange rate has been stable and inflation has come down. (See Financial Times ‘Iceland plans to phase out capital controls’ 8 June 2015).

Another step Iceland took was to reform existing, and introduce new, taxes. In order to maintain a steady stream of revenue, Árnason said, “we had to resort to a number of unconventional means: we increased VAT, and for a number of years we had the highest VAT bracket in the world – 25.5%, now it is down to 24%. The government also raised its corporate income tax rates – although they are “still relatively modest by European standards,” Árnason said, and it “invented and imposed a wealth tax on people which we then abolished last year.” And it introduced a new energy tax payable by both, households and the corporate sector, which is still in use. All these measures, Árnason said, “meant that we managed to secure an overall surplus on our budget much earlier than we otherwise could have done, and we accumulated much less debt than we otherwise would have done.”

Following the crash, Iceland’s GDP contracted. But, Árnason said, at 6.5%, the rate was still lower than in other European countries, such as Latvia where it was 18%, or Estonia where it was 14.1%. The reason the country’s GDP did not shrink further, Árnason said, was that “we are a resource-rich country, and the real economy came in very strongly, so even if we had a currency crisis and the financial system had more or less evaporated, we did have strong real sectors which kept the entire economy going and kicked in very strongly immediately after the collapse, due partly to adjustments in the currency rate.” Sectors, which kept doing well, were energy, fishery and tourism. So many tourists have been flocking to Iceland over the years, he added, “we find it difficult to understand and difficult to handle: February saw an increase of almost 30% year-on-year of our annual tourist numbers – Icelanders are no longer the most common nationality at the airport, the UK have more passengers there than we do.”

**Further reforms**

Far from being complacent, however, Iceland has embarked on a “revision of our entire legislative framework around budgeting and budgeting issues.” The changes are enshrined in a “new bill on organic budget law which is now in its final phase in Parliament.” The bill’s aim is to promote “five values on which the budget and financial planning of the government has to be based: sustainability, stability, caution, predictability and transparency,”
Árnason said. These five values, he added, “in essence constitute our fiscal rules.”

In detail, Árnason said, the bill seeks to “put greater emphasis on long-term fiscal policy-making; on ensuring our fiscal policy-making applies both to the municipal sector as it does to the central government; and ensuring that we do take notice of monetary outlook when determining fiscal policy.”

The bill also introduces the so-called ‘statement of fiscal policy’: every incoming government has to put before Parliament one such statement which should “describe the fiscal projections for five years into the future, and where budget frameworks for individual spending will be determined.” If a new government fails to produce this statement at the start of its term, it “is not operative,” Árnason said.

He added that “we also wrote into the bill a whole new chapter on the responsibilities of ministers in formulating policies, and in financial planning, and we will be requiring experienced ministers to be much more alert and deliver a yearly report to Parliament.”

The bill also calls for any government to be held to account for its fiscal performance by requiring the submission of more comprehensive and timely financial reports that are prepared according to international accounting standards.

It also stipulates some concrete monetary targets: The net lending balance over a five-year period shall always be positive according to the bill; the debt ratio should always be lower than 30% of GDP; there should be a continuous reduction of debt by at least 5%; and the annual deficit should always be below 2.5% of GDP.

But, as Herres, from the German finance ministry, noted, there must be some flexibility in setting limits of this kind. “When you make a policy,” Árnason replied, “you have to assume that there may be circumstances where you are not able to deliver, and that goes for every company that operates in a fiscal mode.”

Asked by the UK Treasury’s Macpherson, why Iceland has been so successful, Árnason said: “What helped us is that we have a very strong resource base, the economy has been opened up, and somehow that translates into a strength.” He said that it helped that Iceland could not afford to bail out its banks and added that the country benefits from a “new generation of a labour force who are very IT-skilled.”
Performance budgeting in New Zealand

New Zealand has a reputation of good governance and as one of the world’s most transparent governments. In a presentation by Ian Ball, chair of CIPFA International and former director of financial management policy at the New Zealand Treasury, delegates learnt that New Zealand’s advanced accounting practices and transparent approach have long been engrained in the system. And a presentation by Gabriel Makhlouf, secretary and chief executive at the New Zealand Treasury, revealed how the country budgets for performance today.

On 11 May this year, the New Zealand government published its Whole of Government financial statements for the nine months until 31 March 2015. New Zealand is the world’s pioneer of this practice, which originated two decades ago when it ditched the crude cash-in, cash-out approach, which is still the bedrock of most public sector accounting worldwide, and adopted an accrual system instead. Ian Ball was part of the Treasury team, which drafted the legislation enabling this change.

The year 1989

A lot of big things happened in 1989, Ball said: “the Berlin Wall fell; the first commercial internet service provider was created; the first conviction for developing and distributing a computer virus was made; and the Tiananmen Square riots in China happened.” In New Zealand, it was the year the Public Finance Act was passed. This piece of legislation, Ball said, “really encapsulated the financial management reforms” which laid the groundwork for New Zealand’s high levels of transparency today.

The objective the law was based on was to extract better performance from all parts of the economy, including the public sector, which led to three core concepts behind the Public Finance Act. Firstly, Ball said, he and his team had to determine what was meant by performance. Secondly, “we had to get effective accountability”; and thirdly, “we needed to create a system which was internally coherent and self-reinforcing.”

The difficulty in identifying performance of public sector organisations was that they had two levels on which they had to perform: “You can deliver services by running down your capital, but you can also increase your capital by not delivering services. So in a world where the two dimensions can be traded off against one another but you’re interested in both, you really need to know how...
well you’re doing on both dimensions.”

In order to better measure government performance, New Zealand introduced accrual accounting – something New Zealand is known for around the world today. Accrual is seen as a better, more accurate and more transparent accounting system than cash. But, Ball explained that improving accounting standards was not the primary reason for this change: “We didn’t particularly introduce it because it was better for fiscal management; we introduced it because we couldn’t measure performance on either ownership or purchase dimensions without accrual accounting.”

New Zealand also changed the way it listed assets on its balance sheets. National parks, for example, were no longer counted as the Department of Conservation’s assets, but the crown’s, for the department was merely providing a property management service in relation to those assets.

To strengthen accountability, the Public Finance Act gave departments significant freedoms to deliver certain outputs: Departments’ chief executives would have to specify to their ministers at the start of the year the performance and output they would achieve. To do this, Ball said, they “had to have the requisite decision authority to deliver what was expected of them, so there had to be the delegation of the appropriate authority.” They were, Ball added, “given a huge amount of discretion over the selection and consumption of inputs.” And at the end of the year, “you needed performance information which exposed what the situation was that you projected so you could do a bunch of comparisons.”

To address the third core concept of the act, the government had to create the framework for an integrated management cycle. The point was, Ball explained, “that we wanted to run the system as a
system." Citing the example of operating budgets, he added, that you “would expect them to reflect what services the department is producing, and as the measure of resource they were allowed to pursue - an accrual-based measure of resource.”

Today, Ball said, there is a general acceptance that governments need accrual information to manage its affairs properly. In the New Zealand government, he added, “a manager could not conceive of doing their job properly unless they had that set of information.”

**Working towards better outcomes today**

Over the last decade, besides the global economic crisis in 2008, New Zealand has also had to deal with the impact of a major earthquake. Four years ago, an earthquake destroyed much of New Zealand’s second-largest city of Christchurch and killed 185 people. Some economists have estimated that it would take the New Zealand economy 50 to 100 years to completely recover. However, the Treasury’s Makhlouf paints a different picture: “Basically the economy is going pretty well,” he told delegates. The Treasury is forecasting that over the next four years growth is going to be at around 2.4%, averaging at 3.5% and unemployment to fall.

The global crisis and the earthquake pushed up the country’s net debt from 5% in 2008 to around 26% now. So the government’s objective now is to return it to 20% by 2020, and then to below between 10% and 20% in the 10 years after that. Its strategy to achieve these targets, Makhlouf described as “radical incrementalism”: Over the last six years, he added, the government “has been adopting a policy of reforming the public sector to improve productivity.”

A lot of the public sector’s focus has been on “making sure we’re getting value from the investments that we’re making,” he said, adding that “we haven’t done the sort of fiscal consolidation that’s been done elsewhere, but we have been managing our finances incredibly tightly.” The government, Makhlouf said, has started to invest “huge in information, data and analytics to better understand the effectiveness of our spending.”

One of the reforms introduced by the Treasury has been the publication of an ‘investment statement’ which provides a deeper analysis of
the balance sheet and the assets and liabilities than the whole of government accounts. Makhlouf explained: “We’re putting a much, much bigger focus than we have done in previous years on really understanding what value we can get from investment propositions, and how we’re using capital.” This process involves both civil servants and politicians, and puts “greater obligations on agencies to explain how they use their assets.”

The government has also moved to a four-year planning process. This does not mean that at the end of each four-year term departments re-negotiate their cash allocation with the Treasury, but serves more as a way for them to “explain to the Treasury and the minister how they’re going to use the resources they’ve got and how they’re going to manage the pressures of it.”

Another reform the government introduced to increase productivity and effectiveness was “the ‘results approach’”. This means that the prime minister commits the government to achieving 10 targets over five years. In the current term, these targets included improving the connectivity between citizens and the business of government, reducing crime and welfare spending. This measure, Makhlouf said, influences “hugely how the public sector is working, because all these targets by definition require agencies to work together to actually deliver.”

The introduction of over-arching targets three years ago is part of an overall drive in the New Zealand government to encourage greater collaboration between agencies. Moving slightly away from the fragmentation caused by the high levels of departmental autonomy, the government is now trying to work more “across the system, eventually focusing on how the public sector supports its citizens as opposed to how individual agencies are doing their work – without actually giving up the sort of accountability framework and the principles around it which Ian set out.”
How Singapore is harnessing the wonders of technology

As asked to reflect on the summit’s presentations, a lot of delegates agreed that Singapore’s technological developments were especially striking. The country has, the UK’s Macpherson said, “been at the cutting edge of digital delivery of public services.” And Finland’s Hetemäki said he was determined to report to his staff on “what has been done in Singapore in terms of digitalisation of public services.”

Puah Kok Keong, Director of Fiscal Policy in the Fiscal Policy Directorate of Singapore’s Ministry of Finance, said Singapore started its journey “towards a digital government” in the early 1980s. At the beginning the initiative was called a Civil Service computerisation programme. But the real push towards e-services came in the 2000s with Singapore’s e-Government Action Plans.

Since then, the amount of public services Singaporeans can access online has increased significantly. A recent example of the country’s new e-services can be found in the way the Singaporean government operates its 1m car parks. Traditionally, it has used paper parking coupons, which motorists would have to display on their dashboards. But, the system is impractical to operate for drivers, often inconvenient, and naturally a lot of people will be caught for parking offences. While the majority of offenders would dutifully pay their parking offences, there remains a significant amount of appeals that requires officers’ intervention and assessments, taking up a lot of time.

To eliminate all this bureaucracy, the government has recently begun “to put in an electronic parking system: every car has got this little meter with this little cash card that contains a certain value.” Electronic parking has thus far been installed at around a third of the government-operated car parks, and Puah said, “we have already seen a big drop in parking offences and appeals.”

Another example of e-services is licence
applications: People who want to open a pub or music venue have been able to apply for an entertainment license online. This process used to be done over the counter and took two months to complete, but now this has been reduced to just two weeks. And anyone wanting to start a new business and register a company can do so online within 15 minutes – instead of the 15 days it took previously. Due to the reduction of time and resources, Puah said, “we also managed to reduce the fees that we charged companies, and this really helped them a lot.”

One case of Singapore’s digitisation agenda Puah is particularly proud of is passports applications. In the past, he said, citizens had to go to the immigration authority to apply for a passport and return after seven days to collect it. But today, Singaporeans can apply and pay for it online. “To encourage people to use the new online service, the government has made this option slightly cheaper. Puah added that, in line with the latest developments, Singaporeans have the option of using a biometric machine with your identity card to receive the passport. “So you may not actually need to show up at a counter to speak to an immigration officer in order to retrieve a passport.”

But what about those parts of the society who are less technology-savvy, such as a lot of elderly people? To help them, the government set up a number of Citizen Connect Centres where people without internet access at home or on their phones can go to seek assistance. Each centre has staff to guide visitors through the e-services or answer any questions.

Delegates were on the whole impressed with the amount of e-services and also how fast they operate. Pryadilnikov said: “What an impressive presentation! I was really impressed with the 15-minute permit approval for businesses.”

Automation, Puah said, “does not just come about because we move a form online, as it is neither the exact same form, nor is it the exact same process.” Moving services online, he added, has required a lot of business process re-engineering behind the scenes, and also involved different public sector agencies working together to rationalise their data requirements of businesses and individuals.

Besides reforming institutions and processes, Keong added, governments have many more issues to think about: “How do we create a culture of excellence, where officers take pride in their work, engage and are productive in an
organisation that is efficient and effective within the public sector? How do we encourage working as one public service? How can we have better teamwork? And so the fundamental work we’re trying to do in Singapore is to strengthen this culture in the public service, and continue to encourage our officers to work towards common outcomes.”
The Singaporean public sector in numbers:

- 16 ministries
- 67 statutory bodies
- 141,000 people work as public servants
- 7% of Singapore’s 2.2m-strong labour force work for the public sector
- 18% of Singapore’s GDP is used for public spending
- 1m car parks are owned and operated by the Singaporean government
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