

A Day in the Life of Government Decisions: Impact on Net Worth

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Los Angeles, April 2016

Net Worth

Assets – Liabilities = Net Worth

- Net Worth shows whether you are better off or worse off
- Net worth results from the accrual basis of measurement, which..
- .. underpins all international systems of accounting and national income measurement (IFRS, IPSAS, SNA, GFS)

Illustrative Examples of Net Worth Impact

Transaction(s)	Impact on Cash Position	Impact on Net Worth
Borrow \$1bn and hold proceeds in bank account	Improves by \$1b	No change
Invest \$1bn in financial assets (bank stocks?)	Declines by \$1b	No change
Financial assets acquired for \$1b lose 50% of their value	No change	Declines by \$500m
Borrow \$1bn and spend proceeds on government services	No change	Declines by \$1b
Remunerate staff with \$500m in salary payments and \$250m in pension rights	Declines by \$500m	Declines by \$750m

Decisions? What decisions?

- Investment and divestment decisions
- Financing decisions
- Risk management decisions
- Production management decisions
- Asset management decisions, including cash management

Without Net Worth Information...

- Some decisions never addressed e.g. structure of balance sheet
- Some decisions made poorly e.g. (ironically) cash management
- Incentives are very different e.g. when to pay creditors

Real Examples of Decision Impact (1)

ISSUE	CASH TREATMENT	ACCRUAL TREATMENT	RESULT
Ownership of commercial forests	Received dividends from New Zealand Forest Products	Significant volatility in value of assets, impacting net worth.	Sale of most of the forests to remove exposure to commercial risk
Settlement of Treaty claims	Costs recognized as payments made over multi-year period	Recognized as liability and impacts net worth immediately when settlement reached.	Greater focus in negotiating as full cost recognized immediately.
Maintenance program for huts and tracks	Cash outlays on track and hut construction and maintenance in the year they occur.	Construction costs capitalized (recognized as assets) and depreciated; maintenance costs scheduled and charged to the year in which the work is carried out.	More rational asset management– some facilities closed or not maintained, others invested in more heavily.
Payment of invoices for services received	Cost recognized when invoice paid.	Cost recognized and reduction in net worth when the service is received.	Reduced scope for end of year manipulation.

Real Examples of Decision Impact (2)

ISSUE	CASH TREATMENT	ACCRUAL TREATMENT	RESULT
Use of capital charge	Treasury incurs interest costs	Cost of capital levied on net worth of organization	Rationalization of asset holdings – fine art to helicopters
Asset replacement	Cash appropriation required	Flexibility within net worth constraint	Asset replacement more systematic

Martin Wolf Sums It Up....

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April 15, 2016 5:42 am

Public sector needs to do a better job with assets

 Martin Wolf

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Professional management might raise an annually



What is not measured does not count. This is dramatically true in discussion of the public sector. A few numbers — the annual financial deficit and the stock of debt — dominate the debate. The result is chronic mismanagement. The current UK debate, for example, largely ignores assets and makes little distinction between current and capital spending. The present focus also ignores many liabilities and pays little attention to management of assets.

In the US Context, at an Aggregate Level..

APRIL 29, 2011

TIME

DEAR READER

You owe

\$42,998.12

That's what every American man, woman and child would need to pay to erase the **\$13.9 trillion** U.S. debt

Make America Solvent Again
By James Grant

TIME.COM

Stewardship land and heritage assets (Note 25)


Liabilities:

Accounts payable (Note 10).....	68.3	69.0
Federal debt securities held by the public and accrued interest (Note 11).....	13,172.5	12,833.6
Federal employee and veteran benefits payable (Note 12).....	6,719.3	6,672.6
Environmental and disposal liabilities (Note 13).....	411.6	369.1
Benefits due and payable (Note 14).....	213.9	191.6
Insurance and guarantee program liabilities (Note 15).....	177.5	168.2
Loan guarantee liabilities (Note 4).....	36.3	52.8
Other liabilities (Note 16).....	652.3	409.1
Total liabilities.....	<u>21,451.7</u>	<u>20,766.0</u>
Contingencies (Note 19) and Commitments (Note 20)		
Net Position:	-----	-----

Net Worth makes a Difference...

Financial Statements of the Government of New Zealand

For the Eight Months Ended
29 February 2016



Public Finance Act 1989

Public Act 1989 No 44
Date of assent 26 July 1989
Commencement see section 1(2), (4)

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6	Authority to spend public money		Minister must consult on proposal to change format or content of information presented with Appropriation Bills
7	Separate appropriations required for types of expenses and capital expenditure		
8	Appropriation limited by amount		
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9A	Supplementary Estimates		
9B	(<i>Repealed</i>)		
	Power of Secretary to obtain information (<i>Repealed</i>)		

Note
Changes authorised by section 17C of the Acts and Regulations Publication Act 1989 have been made in this reprint.
A general outline of these changes is set out in the notes at the end of this reprint, together with other explanatory material about this reprint.
The Public Finance Act 1989 is administered in the Treasury.



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8 April 2016

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New Zealand Government

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performance
in public services

The Big Picture: (for those who are short of time....)

At a Glance

Table 1 – Key indicators for the eight months ended 29 February 2016 compared to HYEFU

\$ million	Year to date				Full Year
	February 2016	February 2016	Variance	Variance	June 2016
	Actual ¹	HYEFU 15 Forecast ¹	to HYEFU 15 \$m	to HYEFU 15 %	HYEFU 15 Forecast ²
Core Crown					
Core Crown tax revenue	44,678	43,850	828	1.9	68,414
Core Crown revenue	48,109	47,503	606	1.3	74,338
Core Crown expenses	48,433	48,546	113	0.2	74,911
Core Crown residual cash	(1,499)	(3,137)	1,638	52.2	(5,398)
Gross debt ³	84,855	86,523	1,668	1.9	87,123
<i>as a percentage of GDP</i>	34.5%	35.2%			35.6%
Net debt ⁴	62,381	63,906	1,525	2.4	65,890
<i>as a percentage of GDP</i>	25.3%	26.0%			26.9%
Total Crown					
Operating balance before gains and losses	398	(332)	730	219.9	(401)
Operating balance	(5,054)	(463)	(4,591)	-	298
Net worth attributable to the Crown	81,190	86,002	(4,812)	(5.6)	86,862

1 Using the most recently published GDP (for the year ended 31 Dec 2015) of \$246,080 million (Source: Statistics New Zealand).

2 Using forecast GDP for the year ending 30 June 2016 of \$244,923 million (Source: Treasury).

3 Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills.

4 Net core Crown debt excluding student loans and other advances. Net debt may fluctuate during the year largely reflecting the timing of tax receipts.

Net Worth

- A different view of the fiscal position

STATEMENT OF FINANCIAL POSITION

as at 29 February 2016

As at 30 Jun 2015 Actual \$m	As at 28 Feb 2015 Actual \$m	Note	Current Year Actual vs Forecast			Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	
Assets						
11,982	12,527		15,172	14,195	977	6.9
17,602	15,964		13,893	15,476	(1,583)	(10.2)
Cash and cash equivalents						
Receivables						
Marketable securities, deposits and derivatives in gain						
54,298	49,619	13	50,001	50,570	(569)	(1.1)
25,408	24,048	13	23,807	25,818	(2,011)	(7.8)
Share investments						
26,497	26,323	13	27,540	27,719	(179)	(0.6)
Advances						
995	1,090		1,010	982	28	2.9
Inventory						
2,389	2,626		2,447	2,129	318	14.9
Other assets						
124,558	117,652	14	126,285	126,947	(662)	(0.5)
Property, plant and equipment						
11,918	10,652		12,094	12,965	(871)	(6.7)
Equity accounted investments ¹						
3,056	2,966	15	3,053	3,352	(299)	(9.1)
Intangible assets and goodwill						
-	-		-	-	-	-
Forecast for new capital spending						
-	-		-	-	-	-
Top-down capital adjustment						
-	-		-	(278)	278	100.0
Total assets						
278,703	263,467		275,302	278,875	(3,573)	(1.3)
Liabilities						
5,336	5,415		5,790	5,578	(212)	(3.8)
Issued currency						
11,953	10,419	17	10,994	12,046	(1,052)	(8.7)
Payables						
2,112	2,077		2,157	2,232	(75)	(3.4)
Deferred revenue						
112,580	109,272		113,288	115,585	(2,297)	(2.0)
Borrowings						
36,431	37,316	18	37,564	33,915	(3,649)	(10.8)
Insurance liabilities						
10,834	12,673		11,424	10,903	(521)	(4.8)
Retirement plan liabilities						
7,221	6,491	19	7,101	6,761	(340)	(5.0)
Provisions						
186,467	183,663		188,318	187,020	(1,298)	(0.7)
Total liabilities						
92,236	79,804		86,984	91,855	(4,871)	(5.3)
Total assets less total liabilities						
19,354	12,431	20	14,312	18,914	(4,602)	(24.3)
Taxpayers' funds						
Property, plant and equipment revaluation						

Net Worth						
19,354	12,431	20	14,312	18,914	(4,602)	(24.3)
Taxpayers' funds						
Property, plant and equipment revaluation						
67,107	62,167	20	67,010	67,050	(40)	(0.1)
reserve						
(7)	(28)	20	(132)	38	(170)	(447.4)
Other reserves						
86,454	74,570		81,190	86,002	(4,812)	(5.6)
Total net worth attributable to the Crown						
Net worth attributable to minority interest						
5,782	5,234	20	5,794	5,853	(59)	(1.0)
92,236	79,804		86,984	91,855	(4,871)	(5.3)
Total net worth						

1. Tertiary education institutions constitute most equity accounted investments.

Why Are We Worse Off?

Not in the operating cash flows, but in the value of some assets and liabilities

STATEMENT OF CASH FLOWS
for the eight months ended 29 February 2016

Year to 30 Jun 2015	8 months to 28 Feb 2015	Current Year Actual vs Forecast				Annual Forecast \$m
		Actual \$m	Forecast \$m	Variance \$m	%	
Cash Flows from Operations						
Cash was provided from						
64,945	40,520	44,870	43,125	1,745	4.0	66,505
4,731	3,481	3,448	3,170	278	8.8	4,453
17,232	11,231	11,354	11,646	(292)	(2.5)	17,219
3,364	2,096	2,171	2,331	(160)	(6.9)	3,517
3,823	2,036	2,618	2,577	41	1.6	4,001
94,095	69,384	64,461	62,849	1,612	2.6	95,695
Cash was disbursed to						
23,896	15,733	15,900	15,857	(43)	(0.3)	24,489
60,009	40,607	41,034	41,849	815	1.9	62,893
4,598	2,471	2,356	2,342	(14)	(0.6)	4,385
-	-	-	-	-	-	271
-	-	-	(513)	(513)	(100.0)	(1,025)
88,503	58,811	59,290	59,535	245	0.4	91,013
5,592	1,223	5,171	3,314	1,857	56.0	4,682
Cash Flows from Investing Activities						
Cash was provided from/(disbursed to)						
(6,177)	(3,745)	(4,340)	(4,673)	333	7.1	(7,619)
(4,812)	(1,672)	2,508	1,505	1,403	93.2	2,842
(631)	(353)	(305)	(482)	177	36.7	(793)
(1,485)	(1,196)	(1,145)	(1,029)	(120)	(11.7)	(1,987)
153	84	68	(23)	91	395.7	(13)
-	-	-	-	-	-	(451)
-	-	-	278	(278)	(100.0)	555
(13,253)	(6,882)	(2,818)	(4,424)	1,606	36.3	(7,466)
(7,661)	(5,659)	2,353	(1,110)	8,463	812.0	(2,784)
Cash Flows from Financing Activities						
Cash was provided from/(disbursed to)						
372	451	453	242	211	87.2	214
579	-	-	-	-	-	-
1,144	1,807	1,115	4,570	(1,455)	(31.8)	6,613
654	(795)	1,449	1,449	382.3	(1,067)	383
383	(898)	(898)	(2,485)	(276.7)	(796)	(300)
520	2,834	2,834	(2,295)	(81.0)	(4,470)	892
582	11,982	11,982	-	-	-	11,982
298	489	489	(191)	(39.1)	(490)	172
1,172	14,195	977	977	6.9	14,158	

414	(269)	Operating balance before gains/(losses) (excluding minority interests)	398	(332)	730	219.9	(401)
5,978	4,829	Net gains/(losses) on financial instruments	10	(1,492)	(63)	(1,429)	534
(1,649)	(6,037)	Net gains/(losses) on non-financial instruments	11	(4,129)	(240)	(3,889)	(101)
4,329	(1,208)	Total gains/(losses)	(5,621)	(303)	(5,318)	-	433
1,028	525	Net surplus/(deficit) from associates and joint ventures	169	172	(3)	(1.7)	266
5,771	(952)	Operating balance (excluding minority interests)	(5,054)	(463)	(4,591)	-	298

What's the REAL Position?

Both.

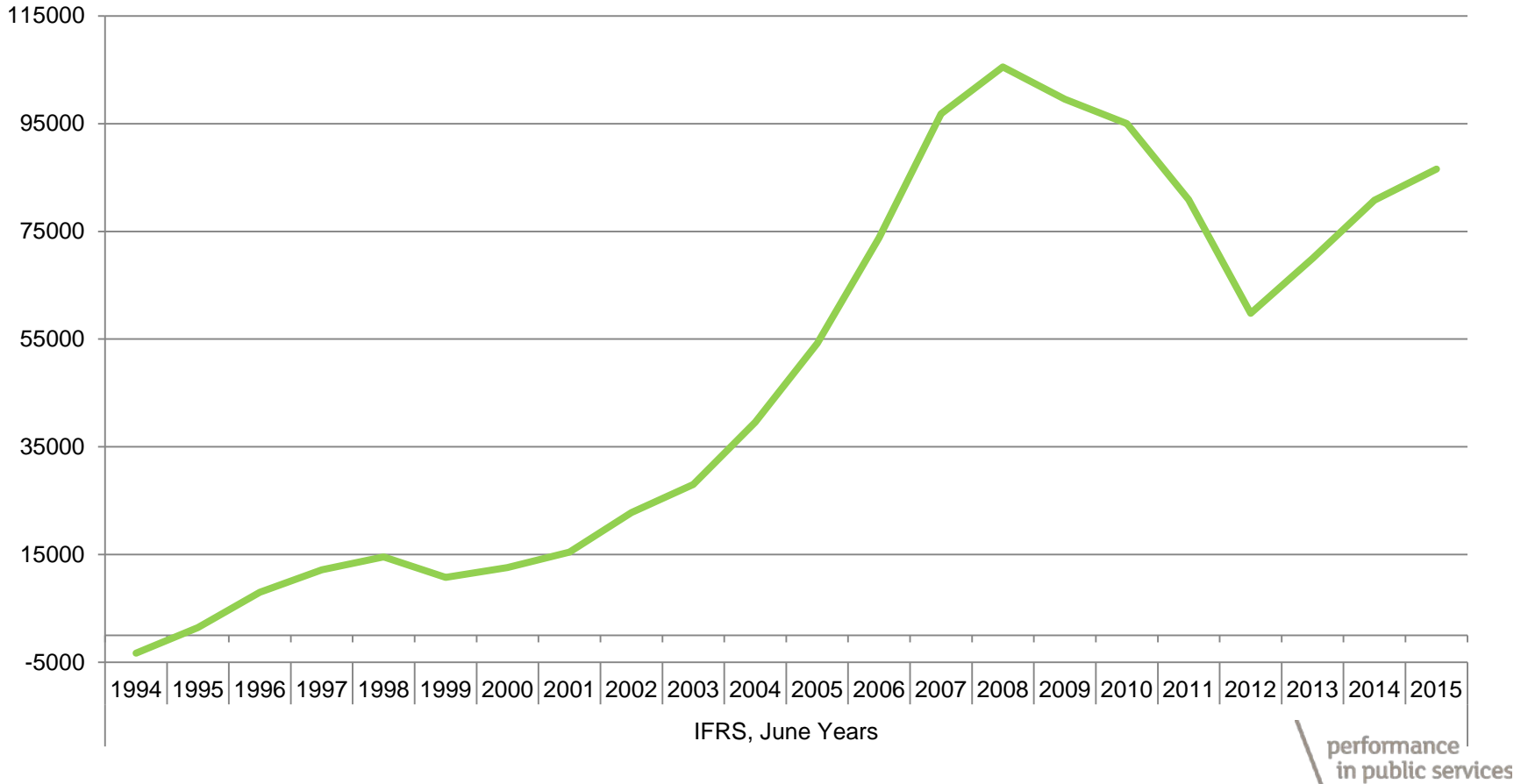
The cash number reports cash result

The net worth number reports overall position

STATEMENT OF CASH FLOWS (CONTINUED)
for the eight months ended 29 February 2016

Year to 30 Jun 2015	8 months to 28 Feb 2015		Current Year Actual vs Forecast				
	Actual \$m	Actual \$m	Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
5,592	1,223		5,171	3,314	1,857	56.0	4,682
<i>Net Cash Flows from Operations</i>							
<i>Items included in the operating balance but not in net cash flows from operations</i>							
Gains/(losses)							
5,978	4,829		(1,492)	(63)	(1,429)	-	534
<i>Net gains/(losses) on financial instruments</i>							
(1,649)	(6,037)		(4,129)	(240)	(3,889)	-	(101)
<i>Net gains/(losses) on non-financial instruments</i>							
4,329	(1,208)		(5,621)	(903)	(5,318)	-	433
Total gains/(losses)							
Other Non-cash Items in Operating Balance							
(4,842)	(3,153)		(3,102)	(3,091)	(11)	(0.4)	(4,936)
<i>Depreciation and amortisation</i>							
(696)	(474)		(494)	(501)	7	1.4	(775)
<i>Cost of concessionary lending</i>							
(305)	(27)		(173)	(13)	(160)	-	(120)
<i>Impairment of financial assets (excluding receivables)</i>							
373	261		308	301	7	2.3	463
<i>Decrease/(increase) in defined benefit retirement plan liabilities</i>							
746	2,319		1,815	2,347	(532)	(22.7)	925
<i>Decrease/(increase) in insurance liabilities</i>							
699	344		(161)	(134)	(27)	(20.1)	(214)
<i>Other</i>							
(4,025)	(730)		(1,807)	(1,091)	(716)	(65.6)	(4,657)
Total other non-cash items							
Movements in Working Capital							
141	(1,608)		(3,771)	(2,732)	(1,039)	(38.0)	28
<i>Increase/(decrease) in receivables</i>							
196	(414)		(429)	(171)	(258)	(150.9)	513
<i>Increase/(decrease) in accrued interest</i>							
(105)	(10)		15	(13)	28	215.4	(27)
<i>Increase/(decrease) in inventories</i>							
(12)	152		108	(71)	179	252.1	(50)
<i>Increase/(decrease) in prepayments</i>							
(149)	(115)		(45)	(120)	75	62.5	(57)
<i>Decrease/(increase) in deferred revenue</i>							
(196)	1,758		1,325	724	601	83.0	(567)
<i>Decrease/(increase) in payables/provisions</i>							
(125)	(237)		(2,797)	(2,383)	(414)	(17.4)	(160)
Total movements in working capital							
5,771	(952)		(5,054)	(463)	(4,591)	-	298
Operating balance (excluding minority interests)							

So How Is It Going Then?



Key Net Worth Metrics

- Net worth per capita \$NZ20,453
- Net worth percentage of GDP 37.48%
- Change in net worth (2014-15) +14.30%
- Average during 3 periods:
 - 2000 – 2008 29.67%
 - 2009 – 2012 -12.80%
 - 2013 – 2015 15.56%

Good Fiscal Management at What Cost?



Ease of Doing Business

Economy	Doing Business Rank ▲	Starting a Business	Dealing With Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	10	1	6	17	19	1	5	41	1	27
New Zealand	2	1	3	31	1	1	1	22	55	15	31
Denmark	3	29	5	12	9	28	20	12	1	37	9
Korea, Rep.	4	23	28	1	40	42	8	29	31	2	4

Social Progress



Fiscal Space



Corruption

Rank	Country/territory	2015 Score
1	Denmark	91
2	Finland	90
3	Sweden	89
4	New Zealand	88
5	Netherlands	87
5	Norway	87

Rule of Law

COUNTRY	SCORE	GLOBAL RANKING	COUNTRY
Denmark	0.87	1	Croatia
Finland	0.87	2	South Africa
Sweden	0.85	3	Hungary
Finland	0.85	4	Senegal
Netherlands	0.83	5	Malaysia
New Zealand	0.83	6	Bosnia and Herzegovina
Austria	0.82	7	Jordan
Germany	0.81	8	Jamaica

performance in public services

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Los Angeles, April 2016