

# The Treasury

## Public Finance System Modernisation – Implementing Step 1 of Financial Management and Accountability Changes

October 2019

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### Cabinet Document Details

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Date: **2 Sep 2019**

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### Information Withheld

No Information has been withheld.

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# Cabinet

## Minute of Decision

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### Public Finance System Modernisation: Implementing Step 1 of Financial Management and Accountability Changes

**Portfolio**                      **Finance**

On 2 September 2019, following reference from the Cabinet Economic Development Committee, Cabinet:

#### Background

- 1        **noted** that in May 2019, Cabinet agreed that the public finance system should be modernised over two steps, and invited the Minister of Finance to report to the Cabinet Government Administration and Expenditure Review Committee (GOV) by August 2019 with initial proposals for:
  - 1.1     piloting a fundamentally different approach to strategic planning and reporting;
  - 1.2     potential changes to increase financial flexibility and reduce compliance costs for agencies reporting to the Treasury;
  - 1.3     options to support innovation and collaboration;[CAB-19-MIN-0214]
- 2        **noted** that:
  - 2.1     the proposals set out below form step 1 of the public finance system modernisation work;
  - 2.2     the purpose of the proposals is to enable more strategic oversight of the value of public spending and whether it is helping to achieve the government's objectives and priorities;
- 3        **noted** that the proposal outlined in paragraph 1.3 above will be covered in step 2 of modernising the public finance system, as it is better aligned with that work;

## **Proposal 1 – piloting a different approach to strategic planning and reporting**

- 4 **noted** that in July 2018, GOV noted that the Treasury would pause its Four Year Plan (4YP) processes during 2018 in order to streamline its planning requirements to ensure they support a wellbeing focus [GOV-18-MIN-0050];
- 5 **noted** that the Treasury considers that 4YPs have outlasted their usefulness and are no longer fit for purpose;
- 6 **noted** that in June 2011, the previous government agreed that 4YPs should be a key determinant of departmental annual planning, and that departments should prepare four-year Budget Plans in October/November each year, accompanied and supported by organisational development plans [EEC Min (11) 8/1];
- 7 **rescinded** the requirement that all departments need to produce a 4YP, described in paragraph 6 above; and instead
- 8 **agreed** to pilot a new approach to strategic planning and reporting with a small number of agencies, systems, or sectors over the next 12 months to help drive a sustained focus on intergenerational outcomes, real choices, and collective effort;
- 9 **noted** that the Minister of Finance and Minister of State Services intend to work with a small group of Ministers to oversee the initial strategic planning and reporting pilots;
- 10 **noted** that Ministers should expect agency strategic planning and reporting processes to reveal the potential impacts of strategic options, a pathway forward, and a reliable basis for tracking performance over time;
- 11 **invited** the Minister of Finance to report back to GOV in August 2020 on the initial pilots and proposed next steps;

## **Proposal 2 – moving smaller agencies to a single departmental output expense appropriation**

- 12 **agreed** that the 20 smallest agencies (by departmental spend) move to a single departmental output expense appropriation;
- 13 **noted** that the scope of this proposal covers departmental output expense appropriations and categories within a multi-category appropriation (MCA);

14 **directed** the following agencies to move to a single departmental output expense appropriation, with effect from 1 July 2020:

- Crown Law Office;
- Department of the Prime Minister and Cabinet;
- Education Review Office;
- Ministry for the Environment;
- Ministry for Women;
- Ministry of Housing and Urban Development;
- Ministry of Transport;
- Parliamentary Counsel Office;
- Parliamentary Service;
- State Services Commission; and
- Te Puni Kōkiri.

15 **noted** that while the following agencies fall within the scope of proposal 2, they will not be required to consolidate their departmental output expense appropriations for the reasons outlined below:

15.1 the Office of the Clerk, Office of the Ombudsman, Parliamentary Commissioner for the Environment, Serious Fraud Office, and Te Kāhui Whakamana Rua Tekau mā Iwa — Pike River Recovery Agency cannot consolidate their departmental output expense appropriations any further;

15.2 the Office of the Auditor-General is an Office of Parliament and therefore cannot be directed to undertake this work;

15.3 the Ministry for Pacific Peoples and the Ministry for Culture and Heritage are currently piloting multi-year multi-category appropriations for their departmental funding;

15.4 the Ministry of Defence is part of the Defence Sector baseline review for Budget 2020;

16 **authorised** portfolio Ministers to exercise their discretion to implementing the directive referred to in paragraph 14 above, provided they outline their reason(s) for doing so in their March Baseline Update (MBU) letter to the Minister of Finance;

17 **noted** that Permanent Legislative Appropriations (PLAs), Revenue Dependent Appropriations (RDAs) and Multi-year Appropriations (MYAs) will not be part of the consolidation exercise;

### **Proposal 3 – consolidating annual appropriations of less than \$10 million for all agencies**

18 **agreed** that appropriations of less than \$10 million be consolidated for all agencies, and that implementation be phased over two financial years;

- 19 **noted** that the scope of this proposal covers the following appropriation types:
- 19.1 departmental output expense appropriations and categories within an MCA;
- 19.2 non-departmental output and other expense appropriations and categories within an MCA;
- 20 **noted** that PLAs, RDAs and MYAs will not be part of the consolidation exercise, and that consolidation will not happen between different appropriation types unless it is determined that, as a result of reviewing appropriations, some funding within an existing appropriation should be reclassified;
- 21 **noted** that, where appropriate, agencies could also undertake consolidation within non-departmental capital expenses and benefit or related expenses appropriations;
- 22 **directed** the following agencies to consolidate appropriations of less than \$10 million within the Votes they administer, with effect from 1 July 2020:

- Crown Law Office;
- Department of the Prime Minister and Cabinet;
- Education Review Office;
- Ministry for Culture and Heritage;
- Ministry for the Environment;
- Ministry for Pacific Peoples;
- Ministry for Women;
- Ministry of Housing and Urban Development;
- Ministry of Transport;
- New Zealand Customs Service;
- Parliamentary Counsel Office;
- Parliamentary Service;
- State Services Commission; and
- Te Puni Kōkiri.

23 **directed** the Treasury to work with the following agencies to determine the best way to implement changes for the Votes they administer over Budgets 2020 and 2021:

- Department of Conservation;
- Department of Corrections;
- Department of Internal Affairs;
- Land Information New Zealand;
- Ministry for Primary Industries;
- Ministry of Business, Innovation and Employment;
- Ministry of Defence;
- Ministry of Education;
- Ministry of Foreign Affairs and Trade;
- Ministry of Health;
- Ministry of Justice;
- Ministry of Social Development;
- New Zealand Defence Force;
- New Zealand Police;
- Oranga Tamariki; and
- The Treasury.

24 **noted** that appropriations for the following agencies cannot be consolidated any further, and therefore they will not be required to undertake work for proposal 3:

- Government Communications Security Bureau;
- Inland Revenue Department;
- New Zealand Security Intelligence Service;
- Office of the Auditor-General;
- Office of the Clerk;
- Office of the Ombudsman;
- Parliamentary Commissioner for the Environment;
- Serious Fraud Office;
- Statistics New Zealand; and
- Te Kāhui Whakamana Rua Tekau mā Iwa — Pike River Recovery Agency.

25 **authorised** portfolio Ministers to exercise their discretion to implementing the directive under paragraphs 22 and 23 above, provided they outline their reason(s) for doing so in their MBU letter to the Minister of Finance;

#### **Proposal 4 – exempting agencies from reporting against shared services appropriations**

26 **noted** that under section 15D(1) of the Public Finance Act (PFA) 1989, the Minister of Finance may exempt departmental output expenses, or a category of departmental output expenses within an MCA from end-of-year performance reporting, if the funding relates exclusively to outputs supplied by a department to one or more other departments;

27 **noted** that there are several appropriations across government that fund the delivery of shared services provided by a department to one or more other departments, and that agencies currently report performance against these appropriations;

28 **noted** that the Minister of Finance intends to exempt shared services appropriations from performance reporting under section 15D(1) of the PFA with effect from the 2019/20 Supplementary Estimates of Appropriations;

## Consolidation of policy advice appropriations

- 29 **noted** that in April 2011, Cabinet directed that funding for policy advice must be in a separate appropriation from related outputs such as Ministerial servicing or Crown entity monitoring [CAB Min (11) 16/16];
- 30 **noted** that in order for the smallest 20 agencies to move to a single departmental output expense appropriation, and for agencies to consolidate appropriations less than \$10 million, the Cabinet directive outlined in paragraph 29 above will need to be rescinded;
- 31 **rescinded** the decision referred to in paragraph 29 above for all agencies with policy advice functions; and instead
- 32 **agreed** that agencies still be required to include the policy advice performance measures developed by the Treasury and Department Prime Minister and Cabinet (DPMC) Policy Project under the relevant appropriation, and report performance in their annual report, while enabling the Treasury and DPMC the flexibility to change or refine the measures over time;

## Non-financial information

- 33 **noted** that as part of consolidating appropriations, agencies will need to review the following non-financial information required for each appropriation under the PFA, including where there is currently an exemption from performance reporting under section 15D(2)(b)(iii) of the PFA:
- 33.1 a concise explanation of what the appropriation is intended to achieve; and
- 33.2 a concise explanation of how performance against the appropriation will be assessed;

## Implementation of proposals 2 and 3

- 34 **agreed** that the Minister of Finance and relevant appropriation Ministers approve the necessary changes to appropriations, including fiscally neutral adjustments, to implement proposals 2 and 3 outlined above via the MBU.

Michael Webster  
Secretary of the Cabinet

### **Secretary's Note:**

1. *This minute replaces DEV-19-MIN-0231. Cabinet agreed to rescind the decisions referred to in paragraphs 7 and 31.*
2. *The revised minute corrects the paragraph cross-references in paragraphs 16 and 30.*

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### **Hard-copy distribution:**

Prime Minister  
Deputy Prime Minister  
Minister of Finance