Public Accounts Committee

Parliament of New South Wales

Report of Proceedings of the Seminar to Review Progress of Financial Reform in the New South Wales Public Sector

1992 Seminar

Report No. 63

June 1992

The New South Wales Public Accounts Committee is composed of five members of the Legislative Assembly of the New South Wales Parliament. Its functions and powers are defined in the Public Finance and Audit Act and its role generally is to serve as a Parliamentary watchdog of government expenditure to ensure that government organisations are implementing government policy as efficiently and effectively as possible.

1991 - 92

Parliament of New South Wales

Public Accounts Committee

of the

Fiftieth Parliament

Report on the

Proceedings of the Seminar

to Review Progress of

Financial Reform in

the New South Wales Public Sector

Sixty-Third Report

June 1992

From left:

Geoff Irwin, Jim Longley (Chairman), Ray Chappell (Vice-Chairman), Terry Rumble, Michael Photios.

Members of the Public Accounts Committee

Members of the Public Accounts Committee of the Fiftieth Parliament are:

Mr Jim Longley, B.Ec., M.Ec., F.C.P.A., Th.C., M.P., Chairman

Jim Longley was elected Liberal Member for Pittwater in May, 1986. Prior to entering Parliament he worked in the banking industry; he was a corporate analyst in Westpac's London office and Group Planning Manager in their Sydney head office. He served as a member of the Regulation Review Committee, the N.S.W. Parliamentary Library Committee and has chaired three Government Committees, including the Treasury Advisory Committee.

Mr Ray Chappell, M.P.

Ray Chappell was elected National Party Member for Northern Tablelands in May 1987. He has worked in university administration and in the building and retail industries and he served four terms as an alderman on Armidale City Council. Ray Chappell was a member of the Regulation Review Committee and is the Legislative Assembly representative on the Board of Governors of the University of New England.

Mr Geoff Irwin, Prod.Eng.Cert., Dip.Tech., Dip.Ed., M.P.

Geoff Irwin was elected as a Labor Member to Parliament in March 1984. He is currently the Member for Fairfield. Before entering Parliament he worked in industry as a Planning and Supply Manager and taught Business Studies at T.A.F.E. He served as a member of the Select Committee upon Small Business and as Shadow Minister for Business and Consumer Affairs.

Mr Terry Rumble, A.A.S.A., M.P.

Terry Rumble was elected Labor Member for Illawarra in March 1988. Before entering Parliament he qualified as an accountant and was employed in public practice and in the coal mining industry. He has served as a member of the Regulation Review Committee and as the Secretary of the Opposition Committee on Employment and Industry.

Mr Michael Photios, M.P.

Michael Photios was elected as a Liberal Member to Parliament in March 1988. He is currently the Member for Ermington. Prior to entering Parliament he was Marketing Manager of an importing company. Michael Photios is a Trustee of the Ethnic Communities Council of N.S.W. He served as a member of the House Committee, is a member of four Government Committees and chairs its Environment Committee.

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CHAIRMAN'S FOREWORD

This is the first of two cognate reports, nos. 63 and 64. Both deal with the issue of the progress made to date in financial reforms in the public sector in New South Wales.

This report, no. 63, contains the proceedings of a daylong seminar organised by the Committee jointly with the Treasury on 1 May 1992. The purpose of the seminar was to outline and review the progress made to date in implementing what is generally held to be the most thoroughgoing series of financial reforms yet undertaken by any jurisdiction in Australia.

Until the seminar was held there had been no general overview, for members of Parliament or the general public, of the substance and effect of the reforms on financial administration in New South Wales.

The seminar was addressed by the Secretary of the Treasury, who outlined the scope and substance of the reforms; by the Executive Director, Finance and Administration, Health Department, who spoke as a representative of one of the largest implementing departments and who dealt with some of the successes and problems experienced by the department in carrying out the reforms; by the former Deputy Secretary of the Treasury, who provided an informed outsider's view; by a partner of a large consulting firm dealing frequently with public sector finance, and by myself as Chairman of the Committee.

The seminar was a considerable success: it was attended by over 100 participants, from Parliament, government departments and authorities and the general public, who generally agreed that in a timely fashion the seminar filled a gap in general understanding of the nature and influence of the financial reforms developed in New South Wales.

The seminar also highlighted some problems which still remain in the implementation of the reforms. For this reason, it was decided to prepare a companion report to this one. That report, no. 64, was intended to meet several objectives: first, to provide a historical overview of financial reforms in New South Wales since the days of colonial administration so as to put the current refroms in their historical context; second, to identify some of the problems still to be addressed in the implementation of the current financial reforms and to illustrate them by way of actual case examples; and third, to make recommendations aimed at improving the way the reforms have been carried out.

The two reports, then, should be taken as a pair. Considered jointly, they illustrate how wide-ranging the present financial reforms have been in New South Wales, particularly the introduction of accrual accounting, where New South Wales has been a pioneer, as well as the distance that still has to be travelled.

Jim Longley, B.Ec., M. Ec., FCPA, Th. C., M.P.
Chairman

Progress on Financial Reforms in NSW

NSW TREASURY
AND
NSW PUBLIC ACCOUNTS COMMITTEE

1 MAY 1992

PROGRESS ON FINANCIAL REFORM

IN THE NEW SOUTH WALES

PUBLIC SECTOR

PUBLIC ACCOUNTS COMMITTEE

NEW SOUTH WALES TREASURY

JOINT SEMINAR - 1 MAY 1992

PARLIAMENT HOUSE SYDNEY

OPENING ADDRESS

MR J LONGLEY MP CHAIRMAN

NEW SOUTH WALES PUBLIC ACCOUNTS COMMITTEE

As Chairman of the Public Accounts Committee, it is my pleasure to welcome you all to today's seminar on "Progress in Financial Reforms in NSW".

It is indeed appropriate for the Parliament, through the Public Accounts Committee, to be host for this seminar. The role of the PAC as the investigative arm of the Parliament is fundamental to the review process over the State's finances, the PAC stands at the peak of the accountability mechanisms that are a fundamental safeguard built into the Westminster system as practised in New South Wales.

Treasury have joined with the PAC as joint organisers of today's seminar. We welcome the assistance and co-operation of Treasury in facilitating our review today. Treasury's role in providing support and advice to the Treasurer who has ministerial responsibility for the Public Finance and Audit Act and the Annual Reporting Legislation for both government departments and statutory bodies is a most important function in the financial reform process. In Australia, the NSW Treasury, under the leadership of Percy Allan, has since 1985 been a leader in introducing financial reforms within the public sector.

The past decade -- the 1980's -- will go down on record as the decade of change. If we look back to the 1970's and earlier the financial reporting and disclosure practices of the public sector were, comparatively speaking, in the "dark ages". Managers were generally not under any time constraints to report on their stewardship of public funds.

The growing size and financial complexity of the ever increasing number of Statutory Authorities resulted in the Parliament having, at best, only a limited opportunity to exercise control or even be aware of the financial implications of policies or activities undertaken.

In his 1977 report, Professor Peter Wilenski referred to the *"inadequacy of the existing system of data collection and reporting about government activity"* (Wilenski p. 40). Peter Wilenski was not alone in his opinion of New South Wales Public Sector finances.

In a 1980 report a Joint Committee of the Legislative Council and the Legislative Assembly upon the Public Accounts and the Financial Accounts of Statutory Authorities reported as having *"....evidence of great confusion resulting from the form in which information relating to public finance in New South Wales is presented".*

It is against this background that today we will discuss and review the progress on financial reform in New South Wales.

We might start by mentioning the major players in the reform process that we are to review today. The NSW public sector has been fortunate in that we have had, for the past decade at the political level, State Treasurers who have actively championed the cause of public sector financial reform. I speak, of course, of Nick Greiner and the late Ken Booth. Both of these men will be recorded in history as having adopted a bi-partisan political approach to financial reform.

In 1983 Ken Booth introduced the Public Finance and Audit Act which brought about the first major overhaul of public sector finances in 80 years. In 1984, the Annual Reports Legislation for statutory bodies and in 1985 legislation requiring government departments to produce Annual Reports were a major breakthrough in the external reporting by the public sector.

Prior to this legislation being introduced departments were under no obligation to prepare annual reports. Statutory authorities, on the other hand, prepared annual reports in accordance with inconsistent and variable requirements of numerous Acts. The adoption of standard requirements for Annual Reports removed the inconsistencies that had developed and were noted by Peter Wilenski in his 1977 report "Directions for Change".

Nick Greiner, Treasurer since 1988, maintained the thrust of the reforms begun under his predecessor. Legislative changes were proposed as necessary to give the force of law to the reform process for example,

At the moment the Treasurer has legislation before the House in the form of the Public Finance and Audit Amendment Bill 1992 which provides for some very significant reforms to be accomplished. These are:

1. A new system of decentralised bank accounts is to be kept by users of the Treasury banking system. This will allow for greater efficiency in cash management practices.

2. A statutory requirement is proposed that budget sector departments prepare annual financial statements on an accrual basis. This will put into law the Government's policy of implementing accrual accounting. This was a major recommendation of the PAC's report, Report No. 43 "Payments without Parliamentary Appropriation", that accrual accounting be implemented immediately.

3. A general discretion is given to the Treasurer to adapt the financial reporting requirements under the Act to the circumstances of particular authorities. This provision will allow a general discretion to the Treasurer to ensure that meaningful and timely reporting is achieved without mindless compliance with irrelevant details.

4. A significant inclusion in this Bill is to change the concept of a "subsidiary organisation" of a statutory body to bring it into line with the "controlled entity" concept in the new Corporations Law.

5. The Bill also reinforces the Parliament's place in the accountability processes in the public sector by requiring both departments and

statutory bodies to report to both the Auditor-General and the Treasurer the creation of entities they control. This provision will ensure those entities are audited by the Auditor-General and that appropriate external reporting requirements are met. The Bill removes a three year phase-in requirement under the existing legislation. This provision adopts a major recommendation of the PAC's 47th Report "The Challenge of Accountability".

6. The Bill permits draft financial statements to be submitted to Ministers and the Auditor-General instead of signed statements as is presently the case. This provision is again in line with the PAC recommendation from the Report on the Challenge of Accountability and responds to concerns by some members of governing boards that they were required to sign and adopt unaudited financial statements.

7. Another major reform in this Bill relates to changes in the external reporting requirements by the Treasury on the budget sector. Monthly, quarterly and annual information will continue to be published and will now follow the "Total Funds Basis" of budget presentation. The Treasury will adopt principles of the Australian Bureau of Statistics in compiling Government Finance Statistics. Percy Allan will no doubt give us details of these reforms in his address. From the PAC's perspective, however, we welcome

these changes as I am told they will remove two matters that have been of concern to the PAC over many years. These areas of concern are year-end spending in government departments and payments without parliamentary appropriation which have been the subject to previous PAC reports.

The Treasury is a major player and I must record the most important role that Percy Allan, Secretary of the Treasury since 1985, has played in the financial reform process. New South Wales , as I said earlier, has been a leader in introducing financial reforms within the public sector in Australia.

Treasury's role, as a central agency of government, has been as the major facilitator of the financial reform process.

Under Percy Allan, the Treasury has finalised the implementation of Accrual Accounting. Target budgets or forward estimates have been introduced. These allow a medium term perspective of expenditure estimates and budget planning. The PAC in its 1989 Report on Payments without Parliamentary Appropriation recommended forward estimates be introduced by budget sector departments.

Without any doubt, the major achievement of financial reform in the past decade would be the preparation, audit and presentation to Parliament of Consolidated Financial Statements for the whole of Government.

It is my understanding that the New South Wales Government is a world leader in this reform. No other Government among the developed countries of the world has been able to provide this information.

As accountants to the Government, Treasury can rightly claim a majority of the credit for this achievement.

Two other major players in the reform process are not with us today. I feel, however, that when we review the reforms of the past decade we must record the role taken by the late Jack O'Donnell and by Ken Robson, who retired last week. Both men played a key role.

Jack O'Donnell - Auditor General from 1980 - 1985 - was most probably ahead of his time in the early 1980's when he advocated financial reform. In his 1981 Report to Parliament, Jack O'Donnell reported on the inconsistency in accounting practices and of the difficulties in making meaningful comparisons of financial data between public sector agencies and between public and private sector businesses.

Jack O'Donnell also recommended that the annual reporting requirements of authorities be formalised in an Annual Reports Act, a recommendation that was adopted by the government some years later.

Ken Robson, Jack O'Donnell's successor, Auditor-General from 1985 until his retirement last week, was a great advocate of accrual accounting and for the preparation of "Whole of Government" consolidated financial statements. At the 1988 Accrual Accounting seminar, Ken Robson spoke on the need to implement accrual accounting throughout the NSW public sector together with a consolidated financial statement.

We all know that auditors are not the most popular people in the world, however, Ken Robson has certainly left his mark as one of the forthright Auditor's-General in Australia in the 1980's and as an agent of change.

In 1987 Ken Robson's office undertook a review over the public sector's Annual Reporting and suggested in a special report to the Treasurer that consolidated financial statements be prepared for both government departments and statutory bodies. Ken Robson's report was reviewed and acknowledged by the 1988 Commission of Audit in its review over New South Wales finances. Included in the Commission's report was a consolidated statement for the year ended 30 June 1987. The Commission recommended that future consolidated financial statements for the whole of Government be prepared by Treasury as the accountants for Governments. This indeed is the most significant financial reform in the past decade.

In conclusion, I would like to ask the Question, *"What do all these reforms mean?? ...."*

As a result of the reforms that are to be reviewed today, we have timely annual reports that include financial statements that comply with accounting standards. In addition, non-financial performance indicators are required.

The improved quality of information available to the decision-makers should enable better decisions to be made.

"Is this the case?"

To ensure that the efforts of the reformers over the past decade have not been wasted I see the need for specific guidelines to be developed for a "Financial Management Improvement Program" for the NSW public sector.
Such a program , I am sure will go a long way towards providing the level of skill and develop the competencies of accounting officers in government departments and statutory Authorities.They will need these skills and competencies if they are to address the challenges that will face in the 1990's as we move towards the year 2000.
perhaps later we could canvass the audience's reaction to a proposal like this.

But now it is time for me to hand over to the rest of the panel.
Our first speaker is Percy Allan.

Introduction of Speakers

The first speaker is Percy Allan, Secretary of the NSW Treasury. Treasury, as one of the central agencies of government, has a primary role implementing financial reforms.

Percy Allan was educated in Sydney and holds Bachelor of Economics and Master of Economics degrees from Sydney University.

Percy's previous positions include Tudor in Economics at Sydney University; Staff Economist Westpac Bank in Sydney, Port Moresby and London; Officer in Charge of Industrial Projects Branch of the Department of Labour and Industry, Papua New Guinea.

Percy's career highlights in the NSW Treasury include Senior Economist and Assistant Chief Economist, Senior Policy Adviser to the Treasurer and Financial Adviser to the Premier of New South Wales.

In 1985 Percy was appointed Secretary to the Treasury.

In addition to his duties as Treasury Secretary, Percy is a member of the Premier and Treasurer's Management Council, is Chairman of the New South Wales Treasury Corporation and is a Director of FANMAC Ltd.

Don Nicholls, our second speaker, as former deputy secretary of NSW Treasury has spent a working life at the centre stage of public sector finances.

Don is perhaps best known for being the Executive Director and member of the 1988 NSW Commission of Audit which examined the State's finances.

Don's career highlights include various positions in the NSW Treasury dealing with Budget, Financial Accounting, Economist and head of Economics branch, Head of Special Projects Unit, Assistant Secretary for Budget and Financial Policy. Don was Deputy Secretary up to the time of his recent retirement.

In previous positions, Don was with the Department of Education as Assistant Director General (Administration) and at the University of Sydney Don was Accountant and head of Financial Administration.

Now in retirement, Don has maintained his interest in public sector finance as the author of a well researched and well written book on the topic "Managing State Finances - The New South Wales Experience".

Don has also been active since retirement in a "hands on" approach to public sector financial reform. In 1991 Don reported to the NSW government on the progress to date on implementing the recommendations of the 1988 Curran Commission of Audit's report on New South Wales finances.

In 1982, the Tasmanian Government commissioned Don to undertake a "Commission of Audit" Inquiry into that state's public sector finances.

We are indeed privileged that Don can spare the time to be with us today to share his experiences.

Michael Sharpe

"A Private Sector View"

Our next speaker, Michael Sharpe, brings to this seminar a private sector view.

As a senior partner with the international firm of Coopers & Lybrand, Michael Sharpe is well qualified to comment on matters of finance and on the process of financial reform.

Mr Sharpe has public sector experience as independent auditor, appointed under the Commonwealth Audit Act to undertake efficiency audits of the Australian Audit Office.

Michael Sharpe's role is important and is a major component of the reforms that have occurred within the Commonwealth area. In Michael's most recent report on efficiency audit of the Australian National Audit Office he made specific recommendation on follow up reviews. I wholeheartedly agree with Michael's view:

> "...If no follow-up is performed..... Parliament has no independent means of ascertaining whether or not the recommendations have been acted upon."

As far as the NSW PAC is concerned, the Committee in 1990 adopted a program of follow-up reviews aimed at assessing the current situation on implementation or otherwise of the PAC's recommendations.

Michael Sharpe has experience in the NSW public sector. In 1989 the Government appointed him to the "3x3" Committee whose task is to ensure that the 3 cents fuel levy is spent in accordance with legislation.

Michael is also a member of the Premier's Accounting Advisory Panel and also serves as a member of Committee's relating to the finance industry and the Roads and Traffic Authority.

Since 1986 Michael has been Consulting Auditor to the University of Sydney. The Australian National University him to the University's Commerce Research Centre committee in 1991.

In his professional life, Michael has been with the firm of Coopers & Lybrand since 1955 and was admitted to the partnership in 1968. He was National Audit Partner from 1983-1988.

Michael was President of the Institute of Chartered Accountants in Australia in 1982-1983.

Michael can give us a private sector practitioner's view of public sector financial reform with the knowledge he has gained from his public sector appointment.

Ken Barker

Department of Health

Ken Barker is Executive Director, Finance and Administration for the New South Wales Department of Health.

Ken's current position includes responsibility for:

- Controlling and monitoring recurrent expenditure ($4.3 billion, 1990/91), revenue ($1.9 billion 1990/91) and Capital Works ($350 million, 1990/91)
- Establishing NSW Health financial management policy and strategy
- Department's Information Centre comprising records, management of Health Statistics, the latter including the largest annual Australian statistical collection (NSW Marketing Data Collection)
- Department's Central Office Computer Data Centre
- Asset Management including the Health property disposal program
- Purchasing and accounting services

Mr Barker is the Department of Health's nominee as a Director of the Hospital Contributions Fund of Australia (a private health insurance company).

He has worked for the Health Department for six years and prior to the present appointment, was involved in the financial and accounting area of the Department.

Mr Barker has 23½ years in New South Wales Government, previously working for the Police Department, Public Works and Corrective Services.

"FINANCIAL MANAGEMENT AND ACCOUNTING REFORMS IN NSW"

address

by

PERCY ALLAN
SECRETARY OF NSW TREASURY

to

NSW TREASURY /
NSW PUBLIC ACCOUNTS COMMITTEE
SEMINAR

1 May 1992

Parliament House
Sydney

CONTENTS

1 INTRODUCTION

I am pleased to be addressing you today on the progress that has been made in financial management and accounting reforms in New South Wales.

Public sector financial reform has been a continuing theme of NSW Governments during the last decade. The 1980's saw a number of important reforms: the introduction of a single Consolidated Fund; the publication of monthly Financial Statements; the implementation of program budgeting; a new Public Finance and Audit Act; Annual Reports legislation; and more informative and user friendly Budget Papers, to name a few.

The Treasury's program of financial management reforms, started under the previous Treasurer, Mr Booth have been broadened and accelerated under the present Treasurer, Mr Greiner.

CHART 1

The financial reforms of the Government are based upon the five principles of good management:

- the setting of clear objectives;
- giving management the responsibility and autonomy to undertake the necessary actions to achieve the objectives;
- independent performance monitoring and assessment to ensure proper accountability;
- provision of proper rewards and sanctions commensurate with performance results;
- establishment of competitive neutrality wherever appropriate.

I will attempt here to give you a brief sketch of some of the major reforms of recent years.

2 THE GOVERNMENT'S FINANCIAL REFORMS

2.1 Clear Objectives

CHART 2

- Classification Review

The State Public Sector encompasses a wide range of organisations. A consistent framework for categorising State organisations is needed so that the appropriate governmental controls can be developed, keeping in mind the financial and market status of each organisation.

In recognition of this need the Government endorsed in June 1989 a policy document on the Classification and Control of State Organisations. The classification scheme developed applies to the entire New South Wales public sector.

Government organisations can be classified by two criteria: -

* financial status - the extent to which they are financially self sufficient through charging their customers on a fee for service basis;
* market status - the degree to which they compete on price in providing goods and services to their clients.

The financial status of an organisation refers to the funding of the organisation's inputs. The philosophy underlying the policy is that the less an organisation depends on the public purse (ie Budget) for financing its recurrent operations, the more autonomy it should be given in the use of resources such as funding, staff and other inputs. The public purse consists of taxes, Commonwealth payments, regulatory fees, fines and GTE dividends, but not user charges.

User charges are defined as payments for the voluntary acquisition of goods or services which are of direct benefit to the individual payee. Taxes, by contrast, are compulsory and the revenues raised are not necessarily spent on the purposes taxed.

Broadly, organisations which depend for less than half of their operating income on the public purse are regarded as non Budget Sector organisations while others are classified as Budget Sector organisations.

The second criterion, the market status of an organisation, refers to the market environment in which the organisation produces, prices and distributes its outputs. The more price competition an organisation faces, the more autonomy it should enjoy in its output decisions.

The level of Government control of funding, staffing and operations are tighter on those bodies classified as Budget than those classified as non Budget. For corporatised government enterprises there are no staffing or budgetary controls, but rather the emphasis is on debt/equity ratios, the rate of return on assets and the dividend payment to the Government.

. Expenditure Review Committee

A Ministerial Expenditure Review Committee was established in 1988 to develop and review broad Budget strategy and identify future issues with major budgetary implications for the State.

The Committee, the first such Committee in the State's history, is not concerned with detailed expenditure review like the Commonwealth Government model, but rather with broad Budget strategy and direction. It examines each area of government to keep abreast of changing demands on the public sector. It then determines how funds should be allocated to accommodate those changes.

In this way, the Committee can provide a framework for rational decision making in resource allocation.

- Target Budgeting

Target budgeting refers to the system of forward estimates introduced in New South Wales to replace the previous "bid and review" process of budget determination.

Target budgeting provides each Department with a rolling three year expenditure ceiling with considerable freedom to adjust spending between programs, line items and years within that ceiling.

The philosophy behind target budgeting is to assist the Government in achieving more macro control of the overall outlays of the Budget. As well, target budgeting should improve the allocative efficiency of resources while providing both the incentive and flexibility for Ministers and Departments to improve effectiveness and efficiency.

Target budgeting involves a number of new initiatives. Previously, forward estimates were provided by Treasury to Departments for the year ahead for their information. Now the forward estimates relate to the Budget year plus two forward years.

The forward estimates provide a medium term perspective for the Government in limiting overall Budget spending, allocating funds between different expenditure priorities and assisting Departments in forward financial planning.

An important benefit of the new forward estimates system is that Budgets for any given year are based on the Budget of the previous year, rather than actual expenditure. This means that, in contrast to the past, over expenditure is not rewarded.

New procedures have been introduced in respect of the submission and review of enhancement proposals by Ministers. In order to be considered for possible funding, proposals must exceed 1 per cent of the operating budget of the Department.

For enhancement proposals to be eligible for additional funding Treasury demands two pieces of information. First, what are the benefits to be generated by the proposals, including the results of any cost benefit study undertaken and alternatives evaluated, and, secondly, a financial impact statement capturing not only the direct expenditure impact of the proposal but flow on costs as well.

2.2 Managerial Autonomy

CHART 3

. Global Budgeting

Parallel with the introduction of target budgeting, greater flexibility has been provided to Ministers to manage within their level of allocated resources.

Instead of providing a budget allocation with detailed specification of how it should be spent on inputs and programs, global budgeting provides the flexibility to move funds between different programs and types of expenditure.

In the past, global budgeting enabled Departments to move funds between line items (postal, travel, etc). These detailed items have been replaced with three broad expenditure categories:

* operating costs, comprising employee related payments and maintenance and working expenses;

* grants and subsidies; and

* other services.

The Department can generally, within each of the three broad expenditure categories, transfer funds across programs.

By providing greater flexibility to Departments and Ministers in the allocation and distribution of resources, it should be possible for them to achieve greater effectiveness in the management of their programs.

In addition, Ministers have been given the facility to transfer funds between years. Ministers facing temporary funding shortfalls in a year can apply to the Treasurer to borrow up to two per cent of operating expenditure against next year's allocation. The borrowing is required to be repaid within an agreed time frame.

Similarly, Ministers are able to apply to carry forward savings of up to two percent of their operating expenditure to the following year to be spent on non recurring items. This facility rewards sound financial management and should avoid the past practice of end of year spend ups.

2.3 Performance Evaluation and Improved Financial Information

CHART 4

. National Accounts Presentation of NSW Public Sector

New South Wales was the first State to provide a comprehensive presentation of the full State public sector on a standard ABS Government Financial Statistics basis.

This was first provided in 1988-89 and has been provided in subsequent years.

The GFS presentation measures total outlays, revenue and financing (as distinct from borrowing) requirements for the whole of the State public sector and enables an informed assessment to be made of the impact of the State Public sector on the economy and financial markets.

. Consolidated Financial Statements

One of the recommendations of the Commission of Audit was for the production of Consolidated Financial Statements showing the income and expenditure, and assets and liabilities of the Budget Sector, non Budget sector and the two sectors combined. The objective of these statements is to indicate the State's overall financial position in the same manner that a private holding company would present its group's accounts.

As a time series is built up, it will show movements in assets and liabilities, income and expenditure and source and application of funds thereby highlighting trends through which we are passing and giving a broad measure of government performance.

The Commission of Audit produced a set of statements in its report, and Treasury, in December 1989, released a set of statements for the financial years ended 30 June 1988 and 1989. Subsequent Statements have been provided on an annual basis.Consolidation, while a large scale exercise is not particularly difficult, except in one area. Identifying and eliminating inter-entity transactions needs considerable refinement.

Nevertheless, the NSW Government is believed to be the first Government in the world to have audited comprehensive Consolidated Financial Statements, putting it on a similar accounting basis to any large holding company owning several subsidiaries.

. Accrual Accounting

The introduction of accrual accounting for the inner Budget sector was recommended by the Commission of Audit.

Under cash accounting the Budget result has no meaning from a modern accounting viewpoint and is little more than the difference between cheques drawn from the bank and cash deposited in the bank. It has been called "tennis-club" accounting by one of my recently retired colleagues. He always maintained his Saturday afternoon tennis club had the same accounting system as the State.

Cash accounting creates some serious problems of cost control. While it tells us what we've spent in a year-

1) It does not reveal our committments

2) It does not tell us what other resources we are consuming, especially our major assets.

Cash accounting simply does not provide adequate information on which to base decisions.

The implementation of accrual accounting has been undertaken by an inter-departmental committee comprising representatives of Treasury, the Office of Public Management, the Department of Corrective Services and Soil Conservation and the Auditor General's Office.

With the assistance of consultants a "Reporting Code" has been prepared. Drafts of this document have been issued fairly widely and the response has been positive.

It is important to note that this document is entirely consitent with the requirements of accrual budgeting.

The Code requires the preparation of three key financial statements:

*Operating Statement
*Statement of Financial Position
*Cash Flow Statement

Initially a five year implementation period was outlined by the Premier. But, after discussion with those organisations scheduled towards the end, all departments will now be converted by 1992-93. This shortening of the implementation timetable is not so much from anything Treasury has done, but more from the enthusiasm demonstrated by Directors of Finance and Financial Controllers.

The move to accrual accounting will involve more than simply the proper timing and recognition of expenditure and income. It means the implementation of appropriate valuation practices for assets and liabilities and budgetary arrangements.

Accrual accounting will mean better asset management. A clear distinction will be made between expenditure for current consumption, that is, expenses, and those outlays which provide future service potential and ongoing economic benefits. Accrual accounting requires that long-life physical assets be accounted for, controlled and managed by the agencies.

Accrual accounting will allow a more effective management of liabilities. The Audit Commission highlighted $1.5 billion in unfunded liabilities for which cash will have to be found. Now, all the liabilities of an agency will have to be recognised and managed.

More generally, the adoption of accrual accounting will ensure a clear presentation of the State's overall financial position.

. Economic Appraisal of Capital Works

Since the beginning of 1989-90 economic appraisal techniques have to be applied to all major capital works proposals. This ensures that the expected benefits of a proposal exceed its estimated cost.

An economic appraisal is a way of systematically analysing all the costs and benefits associated with the various ways of meeting an objective.

An economic appraisal differs from a financial appraisal in that it considers a wider range of costs and benefits. Whereas a financial appraisal concentrates on benefits and costs accruing to the agency, an economic appraisal considers wider effects such as those accruing to other parts of the public sector, to private sector companies or to individuals.

In general, an economic appraisal has to be undertaken for all individual projects with a total cost in excess of $500,000, while more general procedures are required for smaller works.

In addition, all Members of State Parliament are given the opportunity to liaise with the Local Councils and community groups and to submit a list of public works that will best serve their electorate. The Government will no longer have to second-guess the local needs in capital works.

. Insurance and Risk Management

Following a comprehensive review of current risk management and insurance practices in the public sector, a self insurer managed fund scheme for the inner Budget sector came into effect on 1 July 1989.

Premiums for the scheme have been established on a fully funded basis. Financial incentives are provided to reward good risk and claims management and penalise poor performance.

The new scheme encourages the members towards self insurance with the opportunity of attractive financial gains through the adoption of Risk Management practices. The scheme has emphasised the need for members to identify their specific areas of risk and implement effective methods to minimise its financial exposure to loss. Each member is financially accountable for its own claims experience through an incentive scheme.

The incentive scheme operates such that surpluses in each client's self insurance account is available to use as they so determine providing it is of a non recurring nature.

The projected savings from the incentive scheme in year one were in the order of $42 million. Of this, $21 million has been retained by Departments.

. GTE Monitoring Unit

CHART 5

The Government is committed to a program of corporatisation of appropriate government trading enterprises (GTEs). Critical to the performance of corporatised government entities as well as non-corporatised state owned enterprises (SOCs) is adequate performance monitoring.

Adequate performance monitoring of Government trading enterprises is an essential part of the Government's financial reforms. It is only through monitoring that the shareholding Ministers are able to ensure that the performance of the SOC/GTE is in line with previously agreed objectives and any problems or non-performance can be detected early.

With this in mind a GTE Monitoring Unit was set up within NSW Treasury which published a set of performance monitoring guidelines for directors, managers and monitors.

The Unit has also compiled performance indicators for the last seven years and shown targets for the next three years for the State's top fifteen economic agencies. These results, which were collected with the co-operation and assistance of the agencies involved, were released in a special publication in 1991 and 1992 by the Premier and Treasurer.

The indicators show that total employment in all NSW GTE's fell by 31 per cent between 1984-85 and 1990-91. In particular, employment in the seven largest GTE's, fell by over 22 per cent from 1987-88 to1990-91 (or a reduction of almost 18,000 employees). This is projected to fall a further 10 per cent by 1993-94. Over the same period, productivity gains have been 35 per cent (to 1990-91) and are projected to be 67 per cent by 1993-94.

Dividend and tax equivalent payments from NSW Government enterprises were around $150 million in 1987-88. These will reach about $850 million in 1991-92, despite the adverse impact on revenues of the recession.

This improved financial performance has been achieved while debt levels have generally been reduced. In fact, non Budget Sector debt has fallen from about 8.5 per cent of Gross State Product in the mid 1980's to less than 5 per cent at present. At the same time, Government charges have on average been held below the increase in the Sydney CPI.

Through Government enterprises earning an economic rate of return on assets and selling surplus assets, funds have become available to assist in the achievement of the Government's social objectives such as funding schools, hospitals, courts and other social infrastructure services.

In the private sector, a variety of private market devices exist for monitoring that do not exist in the public sector. For example, SOCs and GTEs do not face equity market disciplines simply because they are not listed. Incentives to monitor debt are weaker than is the case in the private sector because of the quasi-government backed nature of most SOC/GTE debt.

The role of the Monitoring Unit is to act as an advisor to the shareholding Ministers in their capacity as shareholders in the SOCs/GTEs. The role is therefore identical to that of the private sector analyst in say a stockbroking firm advising a client about securities investments.

Performance indicators are the summary statistics by which the Monitoring Unit tracks the firm. To be effective, performance indicators have to fulfil for the monitors those functions which share prices perform in the private sector.

Financial performance indicators include liquidity ratios such as the current ratio (which measures current assets over current liabilities) and acid ratio (which shows current assets less inventories over current liabilities); asset management ratios such as inventory turnover, fixed asset turnover, returns on cash and other financial assets; and debt management ratios like the debt to assets ratio, the interest cover and cash flow coverage.

Other financial performance indicators include the common profitability ratios - return on assets, profit margin on sales and return on equity.

These financial performance indicators provide a common ground for comparison and are important in the sense that it is the financial performance which ultimately determines the size of dividends and, therefore, the return to shareholding Ministers.

However, given that some GTEs are the sole operators in certain markets, financial efficiency indicators do not give the whole picture. For this reason we also need a specific set of operational performance indicators for each GTE and SOC simply because each business is different.

In general terms, operational indicators should seek to establish how well the business is performing in tems of the revenue received compared to potential revenue, costs relative to earnings and various other comparative indicators.

Comparative indicators can be used where it is difficult to compare performance with other industries. These might include a comparison of the cost increase profile with changes in the CPI, or the size of market to net return. Grain Corp uses a number of comparative indicators to gauge performance.

2.4 Rewards and Sanctions

CHART 6

- The Senior Executive Service

An important part of ensuring the optimum management of the State's financial resources is the need for remuneration and tenure to be related to performance. The Government's Chief Executive and Senior Executive Service assists in this regard, covering as it does the Government's top 1400 public sector managers.

They will ensure that the public sector has sufficient flexibility with respect to pay and conditions to compete with the private sector for the best managers. Public sector managers have to be just as competent as their private sector counterparts to hold their tenure, receive market rates of pay and have prospects of promotion.

New South Wales is the first Government in the world to put its senior management on commercial contracts with genuine commercial pay and conditions.

It is the Government's intention to extend this concept to officers in Grades 9-12 when budgetary circumstances permit.

2.5 Competition and Competitive Neutrality

CHART 7

- User Charges

Following a Treasury review of service wide payments and services, it was decided to move to full implementation of the provision of user charges for services provided between Departments. All Government agencies are now directly charged for the services provided by the Valuer General's Office, the Auditor General's Office, the Department of Administrative Services and other central service agencies.

Individual Departments must now make their own provision for on costs such as superannuation, payroll tax and debt charges which were previously borne on their behalf by various central agencies.

This allows a more accurate costing of individual programs in order to improve decision making and encourage a more economical use of resources.

. Commercial Activities

Departments are now permitted to operate commercial activities separately from their Budget funded programs. Earnings from these self-funding activities are retained in a departmental working account and not paid into the Consolidated Fund. The activities are subject to full accrual accounting procedures and the payment of dividends on profits achieved.

The Public Finance and the Audit Act has been amended to authorise and encourage Departments to establish new commercial activities and expand user charges in existing operations, where appropriate.

. Corporatisation

I have already mentioned the Government's commitment to the corporatisation of selected government trading enterprises. Already the NSW Grain Corporation Limited, the Hunter Water Board and the State Bank of New South Wales Limited have been corporatised.

Corporatisation will mean that SOCs receive no special advantage or disadvantage by virtue of Government ownership: in other words, no cheap finance through Treasury Corporation nor captive market of consumers.

Only in this way will the right mix of goods and services be provided in the least costly fashion. Studies are underway in several other organisations to evaluate their suitability for corporatisation. These include Pacific Power, the State Transit Authority, Forestry Commission, Waste Management Authority and the Public Trustee.

. Net Appropriations

Since 1 July 1991, agencies have been able to retain monies earned from user charges. The amount appropriated to an agency is its gross needs less the retained user charges - that is, a net appropriation. This has helped to purify the Budget so that it represents only social subsidies and not commercial income.

Where agencies run discrete profit oriented activities, these are treated as off-Budget. Such activities will be expected to pay normal taxes and dividends, putting them on a similar footing to the Government trading enterprises.

Commercial activities will be quarantined from social activities. In other words, Departments can not use discrete commercial activities to cross subsidise social activities without first passing the profits (by way of tax and dividends) through the Consolidated Fund.

The reforms do not stop there. We are presently in the process of designing how accrual budgeting will operate and mesh with accrual accounting.

Treasury is also developing a Financial Management Model for the inner Budget sector.

The intention of the model is to:

- establish among Chief Executives and Senior Financial Executives an awareness of and commitment to excellent financial and resource management;
- provide to financial officers in agencies an appreciation of the approaches to achieve effective financial resource management; and
- relate the financial and resource management model to the broader model of an Integrated Management System.

3 CONCLUSION

In conclusion, you will note that I have only just touched on some of the Treasury's financial and accounting reforms. Though they seem very technical in nature they will have a profound effect on the way the State is managed. By generating and disclosing more meaningful information they will hopefully make for better Government decisions.

By providing clearer policy directions, greater operational autonomy, closer performance scrutiny and appropriate rewards and scantions they should also make for more efficient and effective administration.

Government finances are likely to remain tight in the 1990's which is why we need to reform our financial practices if we are to do better with less.

Thank you

GOVERNMENT'S FINANCIAL REFORMS

CLEAR OBJECTIVES

- Classification Review
- Expenditure Review Committee
- Target Budgeting

MANAGERIAL AUTONOMY

- Global Budgeting

PERFORMANCE EVALUATION AND IMPROVED FINANCIAL INFORMATION

- National Accounts Presentation of NSW Public Sector
- Consolidated Financial Statements
- Accrual Accounting
- Economic Appraisal of Capital Works
- Insurance and Risk Management
- GTE Monitoring Unit

REWARDS AND SANCTIONS

- Senior Executive Service

COMPETITION AND COMPETITIVE NEUTRALITY

- User Charges
- Commercial Activities
- Corporatisation
- Net Appropriations

CLEAR OBJECTIVES

- CLASSIFICATION AND REVIEW: - Financial Status
  - Market Status
- EXPENDITURE REVIEW COMMITTEE
- TARGET BUDGETING

MANAGERIAL AUTONOMY

GLOBAL BUDGETING

Three broad expenditure categories:

* Operating Costs
* Grants and Subsidies
* Other Services

PERFORMANCE EVALUATION AND IMPROVED FINANCIAL INFORMATION

- NATIONAL ACCOUNTS PRESENTATION
- CONSOLIDATED FINANCIAL STATEMENTS
- ACCRUAL ACCOUNTING
- ECONOMIC APPRAISAL OF CAPITAL WORKS
- INSURANCE AND RISK MANAGEMENT
- GTE MONITORING UNIT

GTE MONITORING UNIT

FINANCIAL PERFORMANCE INDICATORS

* Liquidity Ratios
* Asset Management Ratios
* Debt Management Ratios
* Profitability Ratios

OPERATIONAL PERFORMANCE INDICATORS

* Revenue Related to Potential
* Costs
* General Measures of Profitability
* Comparative Indicators

REWARDS AND SANCTIONS

SENIOR EXECUTIVE SERVICE

COMPETITION AND COMPETITIVE NEUTRALITY

- USER CHARGES
- COMMERCIAL ACTIVITES
- CORPORATISATION
- NET APPROPRIATIONS

"AN INSIDE - OUTSIDER'S VIEW"

address

by

DON NICHOLLS

Former deputy Secretary of NSW Treasury

to

**NSW TREASURY/
NSW PUBLIC ACCOUNTS COMMITTEE
SEMINAR**

1 May 1992

Parliament House
Sydney

Percy Allan has sketched out reforms that have been introduced into the NSW public sector over the past decade. My topic has been chosen for me because I was part of the team that was engaged in implementing the reforms that is an insider but that is in the past - I am now a spectator - an outsider. I suppose it is thought that I can don the gown of a critic. But I would be uncomfortable with that role even though in my retirement I have been commissioned to undertake two reviews of government financial performance.

In a way it is too early to adopt the role of critic of the reforms that have been introduced in NSW. After all the finances of government were reported and accounted for under procedures that existed for over 100 years. The fundamental changes in reporting government financial results in accounting for resources used by government and in assessing the total liabilities and assets of government are only recent introductions.

My paper is in three sections. The first section deals with the changes that have occurred, the second section with the present situation and the third section with what further changes I would like to see in my present status as a private citizen. I intend to be a friendly critic as Mark Twain said "I like criticism, but it must be my way" as I believe NSW has a fine track record in leading reform in many areas of government finance.

Firstly the past or should I say the near past. There is a very fine book recently published called Managing State Finance by an author called Don Nicholls which attempts in a shorthand way to sketch developments in accounting and budgeting over that period. As you may be aware I was the executive member of the 1988 report on the State's finances entitled "Focus on Reform" chaired by Mr Charles Curran.

For NSW departments and authorities which had only just adjusted to the cultural changes brought about as a result of the Wilenski inquiries into public administration and the budgetary procedural reforms such as program budgeting, the Audit Commission was probably akin to a second shock wave.

While it is not sure whether the authors of the Wilenski report and the Commission of Audit would see eye-to-eye on all matters there were a number of common themes running through these reports:

- devolution of powers to managers

- reduction of control of detail by central agencies

- more and clearer information about performance

However whereas the Wilenski reports ("Directions for Change" 1977 and "Unfinished Agenda") were largely concerned with improving the quality (and equality) of staff in the public service, the Commission of Audit report emphasised the paramount importance of the public service customers and probably a bleaker view about public servants - staff morale was higher in an efficient and well managed organisation which knew where it was going (clear objectives) and how to get there (plans and strategies).

In relation to the new buzz words TQM or total quality management, that Commision would probably have said that "efficiency" assumes a defined quality of service but "quality" does not justify unreasonable and uneconomic services such as running empty trains and buses.

The message from the Commission of Audit was that the public service would be "leaner" and "meaner" (less staff and more user-pays), concentrate more on policy advice and quality control of services and move out of non-core government service delivery.

In respect of improved reporting it did of course, recommend accrual accounting and the preparation of balance sheets for the Budget Sector.

It is now four years since the Commission reported. There have been changes in the modes of thought of our political masters and in the public service itself. Speaking of the shortfalls in financial management identified by the Commission seems old news now, and "we have heard it all before". But at the time it seemed to be saying something new even revolutionary in the NSW environment even if some of its suggestions appeared to be borrowed from reports prepared by other Australian governments and from policies in other countries such as elements of "Thatcherism", so called "rational" economics". Rational now seems to be a pejorative term. But what is irrational economics? Nevertheless is probably better to be an irrational economist than an irrational accountant as the latter is likely to end up in gaol.

Perhaps what was new was the government virtually accepted the whole package of reforms which fundamentally changed the approach to running public service agencies. It is suggested that the Commission of Audit Report marked a new era in NSW public service management.

Is it likely that further Governments of any persuasion will turn the clock back and, say

- re-establish government businesses such as the Government Printing Office, the Government Clothing Factory, State Lottery branches, State Brickworks and Homebush Abattoirs?

- re-constitute the NSW Investment Corporation

- expand the staff levels in public trading enterprises by about 20% - 20,000 staff at a cost of $600m and without increasing overall services?

- repurchase assets totalling $2.0 billion including such items as the Port Kembla Coal loader?

- restore workers compensation benefits to higher levels than the general work force once enjoyed by some public servants?

- reduce the need for authorities to earn respectable profits related to their portfolio of assets and pay commercial levels of dividend to Treasury.

- re-instate multi-levels of management in authorities?

- dispense with defining public sector agencies role, distinguishing between commercial service provision and community service obligations?

- eliminate the need to cost community service obligations?

- reduce the emphasis on planning to achieve objectives?

- abandon fully funding compulsory third party motor vehicle insurance?

However one reform very much at risk if there were to be a change in government is the arrangements for the senior executive service. The present rewards, risks and sanctions policy may not survive in full a change of government; while the last two aspects may be safe the "rewards" element is certainly under threat. Market related salaries would probably be replaced with remuneration packages related to interstate public service salary comparisons.

Return to traditional arrangements for senior public servants to be paid substantially less than their private sector counterparts will rely on the traditional arguments of the public service being a vocation a training ground for the private sector, a standard setter, etc. Nevertheless it is interesting to note that the previous governments turned a blind eye to certain salaries being paid in the State's financial institutions and consulting or contractual arrangements for staff in specialised areas.

A Post Commission of Audit Review of the NSW Government

The Commission of Audit report was "successful" if judged by the proposals accepted and implemented by government. I might add that the concept of an independent review of the government's financial management has had some apparent appeal for other Australian governments.

The Western Australian government established in effect an accountability commission but with limited terms of reference. The ACT government established a Priorities Review Board which had some objectives similar to those of the Commission of Audit.

Queensland, which is a special case, has established a number of standing commissions which appear to have nearly executive power but none have quite the same wide-ranging review functions as the Commission of Audit. They arose out of an enquiry into corruption rather than an enquiry into financial management.

In Tasmania the new government appointed a Commission to enquire into Tasmania's Finances. Some opposition parties in other States have expressed an interest in establishing a review body along the lines of the Commission of Audit, if achieving government.

The second part of my paper is concerned with the present.

In October 1991 the Premier commissioned another review of the government's finances. This Commission of Audit mark 2 model had terms of reference directed more towards the financial performance of government.

It did not have the wide-ranging terms of reference of the Commission of Audit and was to be more a study of government financial aggregates.

The review was completed at the end of November 1991. What did the reviewer find? Well there are 42 findings but the most interesting were:

- Nearly all the Commission of Audit's suggestions have been adopted and implemented.

- In the past three years the Financial management of the State had been transformed with debt abating and the improvement in the Financial operations of government trading enterprises benefiting the budget to the tune of about $1 billion per annum.

- The State with Queensland has triple A rating status.

- Accrual accounting has been accepted and progress in implementation ahead of the Commission of Audit's suggested timetable.

I do not wish to say any more about this report which deals with the present. I am not aware of any public announcement responding to the 35 suggestions in that report but I appreciate that the Government has a few other minor problems on its collective mind at present.

I now wish to put myself in the role of the outsider of reasonable intelligence and some interest in public affairs. How would I like the finances of government to be reported to me in the future given the reforms that have been introduced.

The most important government financial statement of the year, the budget speech, should tell me the result for last year and why it was different from the budget estimates.

The result will be on an accrual basis distinguishing between recurrent and capital. The results would be supported by a cash flow statement prepared using Australian Bureau of Statistics Government Financial Estimates (GFEs) concepts which should be reconcilable with GFE statistics published subsequently by ABS. These figures, being the results for the year, should be audited - last year's result was not. The only audited figure was the balance in the Consolidated Fund. Thus the announced unaudited budget result for 1990-91 was a financing requirement of $1 billion. The only audit result was that of the Consolidated Fund which showed a surplus of $34 million. As a concerned citizen I would like to think the announced result for NSW Inc. had been subject to audit. (We may need to have an Auditor-General who is not only a rational accountant but also a rational economist and is prepared to accept statements prepared on a GFE basis.

The Treasurer would then give some detail about movements in the budget sector balance sheet aggregates indicating whether liabilities have grown, whether the asset base has increased, whether assets have been maintained or maintenance arrears increased.

Having dealt with the year past I would then expect the Treasurer to tell me in similar terms what he is proposing for revenues, expenditures assets and liabilities in the forthcoming year. I would want answers to the questions:

Does the budget provide for an increase or decrease in real terms in the State's liabilities?

Will these changes in liabilities impact on the State's credit rating - will the current rating be put at risk?

Are the proposed new assets replacing or adding to the States capital base?

What is expected to be earned from the States equity in its business undertakings? This should be supported by a comparison with the previous year and market averages.

I would also like the Treasurer to inform me about the performance of the main subsidiaries of the major business undertakings. Did they achieve their targets? What is expected next year?

The speech would also include as at present details of the governments expenditure program and any tax changes.

I would also like to know how NSW fares in comparison with other States. This is vital as it is the only criteria available to assess whether as a taxpayer I am being taxed more or less and more or less is being spent on government programs. Because of the Commonwealth government's principle of fiscal equalisation the Treasurer will inform me that Commonwealth funding discriminates between the States rewarding those States that have lower capacity to raise taxes and because of various disabilities greater cost to provide services.

Acknowledging this principle, I would still want to know whether NSW is raising relatively more or less and spending relatively more or less than other States or the average of other States. As stated in the recently published report "Tasmania in the 90's"........

The main source for this information is the Commonwealth Grants Commission Reports. Unfortunately its revenue assessments do not include all taxes for example motor vehicle taxes and States petrol taxes diverted to road expenditure. It is worth spending a few minutes examining some of these comparisons in respect of the major State revenues which are applied in meeting the costs of general government services. The analysis shows that NSW was about average, Queensland well below and Tasmania well above average.

If raw ABS data were used the picture would be quite different. NSW and Victoria would be shown as high taxing because the ABS data does not allow per fiscal equalisation and the higher taxing capacity of these two states. Any reporter, politician or commentator who uses ABS figures to prove a point other than the higher taxable capacity of the larger States should be immediately taken out and shot. In fact none of this group should even attempt interstate performance comparisons without at least a kindergarten course in fiscal equalisation and Commonwealth Grants Commission methodology.

On the expenditure side there are also wide divergencies between the States after allowing per cost differences between States in providing a common level of services.

Other improvements I would like to see in the future are:

- full reporting of the costs of transport operations including capital investment

- substantial improvement in ABS reporting of State information; it seems to me a reflection on ABS that for example rating agency figures for State debt appear to be sounder based than ABS figures.

In my comments in the past present and future I have been dealing with a sophisticated and advanced system of public sector financial management. Our problems with financial accounting and reporting shrink to insignificance when compared with some other countries. We tend to forget how far advanced we are. I will conclude with an extract from the Public Accounts Committee Report to the Parliament of Grenada in the West Indies. You may find this interesting.

FOCUS ON REFORM

REPORT ON THE STATE'S FINANCES

NEW SOUTH WALES
COMMISSION OF AUDIT

Commission of Audit
Major Recommendations

- Corporatisation
- Better Asset Management
  - sale of non core assets
  - improved returns
- Better Liabilities Management
- Improved Financial Disclosure through
  - accrual accounting
  - consolidated financial statements
- "Leaner" and "Meaner" Public Sector (less staff and more user pays)
- Public Sector to concentrate more on policy advice and quality control of services rather than service delivery

How the Government has performed

AN INDEPENDENT REVIEW
OF THE
FINANCIAL PERFORMANCE
OF THE
NSW GOVERNMENT
1988-1991

Review Findings

- Debt growth brought under control
- High cost structure of Public Trading Enterprises (GTE) addressed.
- Little progress made in GTE pricing restructure
- Expenditure on general government services increased
- Slow progress with corporatisation
- Excellent progress with accounting reforms

Budget Speech

- Audited results
- Clear distinction between recurrent and capital
- Recurrent result on an accrual basis
- Recognition that the GFS result referred to as "deficit" is a financing concept
- Balance sheet aggregates
- Performance of main government trading enterprises
- Comparison with other states

ALL REVENUES[a] OF GENERAL GOVERNMENT 1990-91

	Population '000	Above/Below Average[b] Revenue per captia $
NSW	5864	+21
Vic	4406	+95
QLD	2939	-223
WA	1650	+91
SA	1448	+67
TAS	458	+152

(a) excludes interest earnings which distorts comparisons particularly for South Australia.

(b) (+) means revenue is above assessed requirement for average revenue effort, (-) means revenue is less than assessed requirement, for average revenue effort.

Source: Commonwealth Grants Commission 1992 update.

Selected Government Expenditure Programs Above on below Average Expenditure per capita[a]

	Population '000	Education $	Health $	Debt Charges[b] $
NSW	5864	+14	+15	+6
Vic	4406	+53	+80	+28
QLD	2939	-154	-205	-41
WA	1650	-61	+70	+22
SA	1448	+63	-	-19
TAS	458	+37	-16	+111

(a) (+) means expenditure is above assessed requirement for average level of service; (-) means expenditure is less than requirement for the average level of service.

(b) net of interest earnings

PUPIL-TEACHER RATIOS

STATE	1988	1989	1990	1991
New South Wales	16.0	16.3	16.3	16.4
Victoria	13.3	12.8	13.2	13.5
Queensland	16.1	15.8	16.0	15.8
South Australia	13.6	13.8	13.6	14.3
Western Australia	16.7	15.9	15.8	15.9
Tasmania	13.7	13.6	14.4	15.7
Northern Territory	13.3	12.9	13.2	13.7
Aust. Capital Territory	14.4	14.4	15.0	15.2
Australia	15.0	14.8	15.0	15.2

NET DEBT TO GSP: COMPARATIVE MEASUREMENT

Face Value, June 1990

	Aust Ratings	Aust Bureau of Stats
New South Wales	18.4	16.1
Victoria	26.4	26.7
Queensland	17.2	6.1
South Australia	25.6	16.9
Western Australia	19.1	21.3
Tasmania	40.9	36.8

PROGRESS ON FINANCIAL REFORMS IN NSW

"A PRIVATE SECTOR VIEW"

Paper presented by Mr Michael Sharpe, Partner,
Coopers & Lybrand, Sydney at a Joint Seminar
of the NSW Treasury and the NSW Public Accounts
Committee on Friday, 1 May 1992

INTRODUCTION

The present New South Wales government clearly established its financial reform agenda upon taking office in 1988. Its financial management achievements since then have been commendable. It is unfortunate that many of the government's initiatives have been overlooked by political commentators due to their unexciting, non-controversial nature. A brief look at several of the accounting related reforms highlights the vast improvements in information available for economic decision making. However, the government cannot afford to be complacent as it leads Australia in public sector financial reporting. There is still much to be done.

ACCRUAL ACCOUNTING

The government has responded to community needs for better management of economic resources and commitments. Its first task was to obtain a complete picture of the State's assets and liabilities and to provide a proper measure of the cost of the services provided to the community. Without better information for financial decision making, greater government accountability is not achievable. The phased implementation of accrual accounting and accrual budgeting throughout the State's public sector has been a necessary, revolutionary and ambitious reform to improve financial information.

There is general consensus that an accrual system of government accounting and reporting is superior to the traditional, cash based system. The process of "accrual accounting" might be more aptly described as "full financial reporting". It broadens the scope of reporting to reflect expenses, revenue, assets, liabilities and equity, as well as receipts and payments of cash. As a consequence, a much clearer, informative picture of the financial position and performance of individual public sector organisations, and the government as a whole, is available.

The introduction of accrual accounting has disoriented and stressed many accountants in government. They have experienced first hand their own "future shock", a term coined by Alvin Toffler in the mid 1960's which is as real today as it was then in describing the effects of the ever increasing pace of change in society. The government accountants have borne the brunt of the effort to improve the quality of financial information available for economic decision making.

The operational and line managers have been largely unaffected by the process to date. Similarly, the Parliamentarians, who have initiated the reforms, have yet to fully experience and benefit from the implementation of accrual accounting. This is a short term stage of the process. The politicians and non-financial bureaucrats are soon to be confronted with their own "future shock". They will need to come to terms with the financial information that will be available to them and hence become more responsible and more accountable for the financial consequences of their management of the State's resources.

The emphasis to date has been on implementing appropriate, accrual based accounting systems in individual budget sector organisations. A noticeable omission in the process is in the area of centralised controls over budgeting and monitoring of the financial management of the State's total resources. In other words, the central agencies and the Parliament have retained a focus on cash, albeit a broader "total payments" concept than merely Consolidated Fund was adopted for the first time in the 1991/92 budget papers. However, it must be acknowledged and appreciated that a comprehensive financial control regime is difficult to adopt whilst the State is in a period of transition from cash to accrual based accounting and reporting systems.

The emphasis on cash will and should remain. The failure to monitor and control cash flows has been the downfall of many businesses and individuals in this country. The Parliament and the central agencies are unlikely to lose their focus on controlling the cash flows of government organisations. What will prove difficult, however, is widening that focus to total resources and utilising the improved financial information available from the new accounting systems.

Whilst accounting concepts and standards have common application to both the private and public sectors, financial monitoring practices adopted in the private sector are not readily transferable to the public sector. For example, budget sector organisations are not profit oriented and there are debt and employee entitlement obligations beyond their control. In this environment, some accountability measures such as rate of return reporting are inappropriate. Alternative performance measures, such as costing of service outputs, must be adopted. The primary accrual based financial statements (balance sheet, operating statement and cash flow statement), together with appropriate notes and relevant financial/non financial performance ratios, can form the basis of an accountability regime.

The Parliament's role in this accountability regime needs to be addressed. Accrual accounting will provide Parliament with better financial information about the processes and activities of the government. Similarly, accrual budgeting will enable Parliament to assess financial performance and consider actual results against targets. Under the present budgetary process, Parliament approves the allocation of cash to fund the government's programs and receives reports about, and initiates reviews of, the spending of those cash resources. It is possible to contemplate the Parliament approving budgeted financial statements, both for individual organisations, and for the whole State. In other words, the Parliament would be provided with the opportunity to approve not only the cash allocations to the government's agencies (as contained in the statement of cash flows) but also the total projected financial performance of the government. The introduction of such a process of Parliament would entail amendments to the existing cash appropriation mechanism, not its replacement, and is worthy of further consideration in the process of enhancing the accountability and efficiency of government decision making.

A contentious and limiting factor in the usefulness of accrual accounting relates to the valuation of assets. The accounting profession has yet to finalise acceptable principles for the valuation of many government assets. In particular, heritage or community assets (for example, national parks, monuments etc) and land under infrastructure assets (for example, land under roads) have been the subject of much research and debate. An illustration of the accounting dilemma relates to land under the State's roads. The financial statements of the Roads and Traffic Authority ("RTA") include this land at a value of $21 billion. However, the State's public sector consolidated financial statements exclude this asset on the grounds that the RTA measurement basis may be unreliable. A difficult situation for the Auditor-General.

NSW should be applauded for its active involvement in the asset valuation debate. It is evident that the initiative of the government in issuing valuation guidelines for those organisations implementing accrual accounting has accelerated the accounting profession's process of addressing the vexed question of asset measurement. Indeed, the public sector is forcing a reassessment of the issue of current value accounting which was shelved by the private sector over a decade ago.

Another critical issue in the introduction of accrual accounting and budgeting is the skills deficiency evident within the ranks of the State's financial managers. The financial management reforms and the devolution of management responsibility place increased demands on the financial managers. Budget sector financial managers are quite competent in terms of government, cash based accounting requirements. However, these managers have little experience in conceptual understanding of accrual accounting or budgeting principles. Their ability to cope with and adapt to a changing environment cannot be overlooked. They must be encouraged to develop beyond the mechanical, compliance oriented approached of the past and focus on broader financial management issues. Training and skills enhancement cannot be over-emphasised. It is likely that many existing financial managers will need to be replaced with more suitable experienced, qualified and competent personnel. The government should acknowledge this fact and not be reticent in removing funding restrictions on the recruitment of replacement or additional financial personnel and the development of training programs.

There are numerous other accrual accounting issues faced by the government and individual government agencies including the Treasury. Without going into details, these include:

(a) the resolution of conflicts between Treasury developed accounting policies, legislative requirements and the standards and concepts (actual and proposed) promulgated by the accounting profession;

(b) the proper meshing of accounting and budgeting models and procedures (for example, consistent classification of capital and recurrent expenses);

(c) encouraging improved commitment from the senior non financial executives (for example the chief executive officer) to the financial reforms;

(d) replacement of the existing legislative framework, including Treasurer's Directions, to better address the revised financial reporting requirements;

(e) develop appropriate performance monitoring and control systems;

(f) defining the financial statement boundaries of a budget sector organisation and the reporting of transfer payments;

(g) more clearly defining the role of "the Crown entity" and the accountability regime to apply to it.

STATE'S CONSOLIDATED FINANCIAL STATEMENTS

One of the first acts of the present State government was to direct the New South Wales Commission of Audit to prepare a consolidated balance sheet for New South Wales. Each year since then, the quality of the State's consolidated financial statements and the financial information supporting their compilation has improved. This is a positive contribution to better government. Good quality financial reporting is fundamental to the proper management of the State's affairs and improved accountability of the government to both the Parliament and the people of the State. The New South Wales government is to be congratulated on the progress it has made in being one of the few governments in the world to prepare and publish such a statement.

The accounting profession is yet to develop an appropriate model for whole of government reporting. Whilst New South Wales may be leading Australia in public sector consolidation reporting, there are several matters which warrant further attention.

As mentioned earlier, the RTA valuation of land under roads is not accepted for the State's consolidation. Whilst it is not unusual commercial practice to have consolidation adjustments to bring various group entities accounting policies into agreement, the differences are generally not as significant in terms of amount or fundamental principles. The State must move to adopt broadly consistent accounting policies throughout the public sector.

The concept of "control' has been introduced into recent accounting pronouncements. In particular, it is of fundamental importance in determining which organisations should be consolidated. The State's consolidated financial statements presently exclude universities, marketing boards with no State borrowings, superannuation funds, the local government sector and the Public Trustee. The State Bank and the GIO are included on a "net equity basis" representing the government's investments in these organisations, rather than by a line by line consolidation of their assets and liabilities. The appropriateness of the practice adopted in respect of the above entities is questionable given the degree of control the government may exercise over their financial and operating decision making.

There was significant public debate over the 1990-91 adjustment of $3 billion to the previous year's overstated unfunded superannuation liability. The fact that such a major error (representing more than 15% of the disclosed 1990 employee entitlements liability) may go undetected by the consolidation preparers and auditors until the preparation of the 1991 consolidation raises some concerns over the reliability of the figures. In addition, the way in which the error was treated (as an adjustment to accumulated funds) arguably contravenes accounting standards. Until such time as all budget sector organisations adopt accrual accounting and the consolidation can meet audit scrutiny, the State's consolidated financial statements must be interpreted in the light of their potential shortcomings.

CONCLUSION

The financial reform initiatives of the NSW government are significant, even if not adequately appreciated by the general community. The reforms briefly outlined above will result in substantially improved financial information for more efficient and effective decision making. There are problems and issues which will be, and have been, encountered. Despite these, the progress made in New South Wales is commendable and can only contribute to better government and improved accountability.

AN IMPLEMENTER'S VIEW
NSW HEALTH

BY KEN BARKER, EXECUTIVE DIRECTOR
FINANCE AND ADMINISTRATION

I thank the Committee and Treasury for the invitation to speak to you today to detail the financial reforms that have been undertaken with the NSW public health sector.

It is a turn around for the NSW health system to be honoured in this respect as, when I joined the Department some seven years ago, in these early discussions with Percy Allan who is here, he will recall that the NSW health system had a reputation of being one of the worst, if not the worst performer in terms of financial management.

It is now generally accepted that the health system has turned that image around and is not only one of the leading lights within the NSW Government, but as far as health organisations are concerned, is well ahead of its State counterparts.

It is also relevant to understand that not all of the reforms have been driven by the Department but have also been the result of Treasury and Government reforms and it is my understanding that a number of these reforms have also been picked up by other State Treasuries.

SIZE OF NSW HEALTH

So you can better appreciate the process of implementing reforms, you should be aware of some of the following indicators concerning the size of the NSW health system.

1. It is the largest NSW Government Department and for the current year has a recurrent budget of $4.25b, a capital budget of $309m and a revenue budget of just over $2b.

2. The recurrent allocation accounts for 26.2 per cent of the NSW payment budget and is some $1.2m greater than the next largest Department, the Department of School Education.

3. The capital program presently has 22 projects with an estimated total cost of $10m plus each.

4. The total capital program has an estimated total cost of $1.7b.

5. The revenue budget has two mainstreams comprising Commonwealth receipts of $1.5b and user charges and other receipts of some $600m.

6. The system is the third largest employer in Australia with some 75,500 staff expressed in full time equivalents.

7. The system treats over one million inpatients per year.

COMPLEXITY OF SYSTEM

In respect of the complexity of the system, it also needs to be understood that Health is unlike all other inner budget sector organisations in that:

- The Commonwealth determines national policy through Medicare and they then have direct control over medical practitioners' income levels, private health insurance, pharmaceutical benefits, aged nursing home levels of funding and the extent of the Commonwealth contribution to States to fund public hospital services.

- The Commonwealth will also assume full control for Health Education programs at universities in 1994 as a result of the transfer and responsibility for Nurse Education to the Commonwealth.

- The Commonwealth also controls doctor immigration flows and the health system is generally classed as doctor driven due to the need to maintain certain levels of income maintenance.

- Within Australia, we have one of the highest levels of doctor to population ratios and NSW is the highest of all the States. This is also reflected by our ratio of medical admissions to public hospitals which places Australia at one of the highest levels in the OECD sector.

- The Commonwealth specifically fund their own health initiatives which can cause ongoing funding and service delivery problems as such initiatives are integrated with State services.

- Department has two ministers to service: the Minister for Health and Community Services, on policy and the Minister for Health Services Management on operations.

- The head office of the Department operates as a multi-functional central agency comprising policy, finance allocation, budget monitoring, statewide health service planning, human resource and capital responsibilities for the entire NSW health system.

- A dotted line responsibility exists between the Director-General and Area Health Services and Hospital Chief Executive Officers. These Chief Executive Officers are appointed under either Area Health Services or the

Public Hospitals Act and are responsible to Honorary Boards appointed by the minister except in the case of Third Schedule Hospitals such as St. Vincent's, Darlinghurst, where the Boards are mainly appointed by church based organisations.

- The Department has 10 Areas, around 150 hospital boards, including the Third Schedules and one Ambulance Board. Unlike other Department heads who have direct and unequivocal control over such Chief Executive Officers, within the Health system they have responsibility to Boards and the Board's responsibility to the minister. This, therefore, requires a degree of coercion to obtain responsiveness in certain areas as Boards can be divided between local interests whose views they represent and those of the Government and/or the Department.

- The Areas and hospitals also have their own ability to raise revenue from fund raising and around $250 m was held in trust and from local fund raising as at 30 June 1991.

- In addition, the Areas and hospitals of the health system must also deal with central agencies, the medical profession, the nursing profession, other health professionals, universities, media and the Public Accounts Committee.

- In respect of the Public Accounts Committee , they have produced five reports specifically on the health system starting back in 1982-83 with their second and third reports on the public hospital system, their 21st report in 1986 which followed up the second and third reports, the 1989 Report into Payments to Visiting Medical Officers, and the 1990 Report into the Ambulance Service. They are presently reviewing the Port Macquarie Private Hospital contractual arrangements.

FINANCIAL REFORMS

The third item I would like to address is the financial reforms that have been implemented within the Department.

The most important reform is that we have changed the philosophy of Area and Health Service Management in that the budget is the budget, and the budget which is set is what the health system must operate within.

The main focus of the second, third and 21st PAC Reports was this problem in that health managers had a philosophy that, as an essential service, it was the Government's responsibility to find the necessary money to provide such a service irrespective of budget and other constraints which it is subject to. This resulted in substantial ball outs, however, for the last three years and for the current year the health system in total will operate within the allocation provided by the Government other than for technical adjustments that occur.

The budget philosophy has been complemented by the following associated reforms:

- A special arrangement with Treasury to issue Area Hospital financial allocation letters during the month of July and the adoption of a standard allocation letter which sets down the financial ground rules for the health system.

- The introduction of global budgeting and the ability for managers to move funds between line items and programs.

- The issue of current year and annual allocations so that all health service managers know what their annual allocation is as well as their current year allocation.

- The introduction of forward estimates with health managers being advised at least one year in advance of their next year's allocation.

- The introduction of a loans/savings policy which allows managers to carry forward loans from one year to the next with the savings component having a most significant effect within the health system to avoid "spending fort spending's sake" and the elimination of the previous fear that savings means overfunding and the withdrawal of such funds from the next year's budget, i.e. a perverse incentive.

- The decision by Minister Unsworth which required a number of hospitals in 1985-86 to contribute budget overrun moneys from their Special Purpose and Trust Fund moneys which meant to the system that instead of using monopoly or government money, they had to use real money being their own money to address the budget problems they had created.

- The dismissal of various hospital boards for financial management irregularities such as the Hunter Area Health Service by Minister Phillips and the former St. George Area Health Service by Minister Collins.

- The introduction of program budgeting for the hospital system and for the current year the introduction of sub programs within Program 2.3 for the nine such sub programs. Program 2.3 accounts for 75 per cent of health expenditure and covers services provided by public hospitals. The nine sub programs cover such things as medical, surgical, obstetric and gynaecological services, intensive care, accident and emergency, etc.

- A process of reconciliation of Treasury budget allocations to budgets issued to the health system including retained funds for such items as insurance and awards. Health did not have such a process in place and this resulted in various people issuing financial letters to the system without necessarily having due regard to funds availability. Within health, only the Director-General, the Director, Finance and Budget and myself have authority to issue recurrent financial allocations.

- The Department introduced a new management information reporting system called DOHRS (Department of Health Reporting System). This enables the flow of computerised information both ways between the department, its Areas and Regions and other major cost centres. DOHRS provides instance updates on a current year and annual budgets with references to the reasons for such budget adjustments. It is also used by Areas and Regions to submit monthly, quarterly and annual financial activity reporting data.

- The Department, as part of the Treasury policy, introduced the revenue incentive scheme from 1 July 1991 and this has improved substantially the focus on revenue collection procedures and new ways to raise revenue. The Department allowed 1989-90 to be a year of consolidation and to eliminate old and outstanding debts and the preliminary conclusion is that the revenue incentive scheme has proven successful in revenue practices and will continue to provide new revenue opportunities in future years.

- As part of DOHRS a staff profile system was introduced. The staff profile requires every manager within the health system to determine their estimated number of staff by industrial award classification and the direct costs and salary oncosts related to those numbers with the total costing to equal the financial allocating for salaries and wages.

- The staff profile is maintained on a current year and annual basis and as a part of good financial practices, managers should reconcile their staff profile to actual employment and current practices to determine reasons for variations.

- The introduction of output/efficiencies targets in allocations and forward estimates letters in 1989-90 has seen the health system for the first time align such targets to budgets. All Areas and Regions now set targets as geared to movements in their budget base as admissions, day only admissions, average length of stay, non inpatient occasions of service and bed occupancy.

- Annual reporting requirements have been reviewed to more closely align the provisions to the Public Finance and Audit Act for inner budget departments. It should be noted that, whilst Area Health Services are scheduled under the Public Finance and Audit Act for reporting purposes, hospitals are not. In any case both organisations only need to report to the minister who is not compelled to produce such reports to Parliament.

- The Department has introduced the Resource Allocation Formula which is a 10 year plan to redistribute health recurrent funding between the Areas and Regions on a population base rather than on an historical build up basis.

This initiative, coupled with forward estimates, has eliminated the previous time-consuming and very inefficient bid and review process with the Department now advising Areas and Regions of their variations between one year and the next year's budget.

- The process is lumpy as additional funding is provided as appropriate capital driven enhancements are due to become operational and the reduction in budgets from the overfunded areas which generally comprise Easter Sydney, Central Sydney and Northern Sydney is similarly aligned.

- Data quality has always been a concern to the health system and substantial improvements have occurred in recent years as a result of audits of data and a process of peer review of provided information. Data is returned to all Chief Executive Officers and Regional Directors so that they are able to compare their data to that of their peers. This approach has resulted in substantial improvements as they become very critical of their staff when their own data shows them in an unfavourable light compared to their colleagues.

- The Department has been at the forefront in terms of risk management and has worked with the GIO since 1987 to improve monitoring of workers compensation claims. This long term investment in time and effort has paid off in the last two years with the net return in 1990-91 being $8m out of the total Government pool of $13m with a further $20m out of a $26m pool for 1991-92 dividends.

ACCRUAL ACCOUNTING

The last topic I would like to address is accrual accounting and, according to the revised Government time frame, the health system is to be fully implemented by 1992-93.

The approach we adopted in health was that expressions of interest were sought for five pilots in 1990-91 and to then determine appropriate accounting and financial controls and procedures. A committee was established comprising the Department, Treasury, the Auditor-General and the selected five pilot sites.

Under my Chairmanship the Committee has developed an accrual accounting manual which is modelled on Treasury's reporting code. At this point I should emphasise that Areas and hospitals are not subject to the Public Finance and Audit Act.

The pilots which were selected comprised Area Health Services at Southern Sydney, Western Sydney, Northern Sydney, Illawarra and Goulburn Base Hospital. Each pilot was required to develop their own training program and establish asset registers and other documentation to satisfy external auditors for the year end audit certificates.

Head Office made a deliberate decision that it would be involved in determining policy and providing guidelines but not be involved in the day to day functions required to effectively deliver accrual accounting into its health sites.

The four areas involved in the pilots produced accrual accounts from 1990-91 which identified an unfunded cost of some $66.5m was incurred in providing health services to the communities they serve. However, compared to their cash allocation, the pilots recorded a $1.6m favourable result, a total difference of some $68m unfavourable between the accrued and cash position.

For the current year the remaining six Areas and at least three hospitals in each Region will produce annual statements on an accrual basis.

The accrual accounting committee still exists to look at policy changes and new initiatives which come into Treasury.

1991-92 implementers are also part of a separate committee which is again chaired by myself and which is primarily involved in examining individual progress and training of their staff.

As yet, and certainly not for 1991-92, no Area or hospital is required or will do monthly accrual reporting due to lack of relevant systems and the fact that the Department is still funded on a cash basis.

In respect of 1992-93, the remainder of the health system, including the Department, will produce annual reports on an accrual basis. It is also expected that by 30 June 1993, the following area Health Services:

Illawarra
Northern Sydney
Southern Sydney
Western Sydney
South West Sydney
Central Sydney

and the Department will have information systems in place which will enable the production of monthly accrued reports.

To ensure the total health system has such a facility available from 1 July 1993, the Department is soon to seek expressions of interest for appropriate accrual micro systems for small hospitals, will be modifying existing accounting software to enable monthly accrual reporting, and is seeking advice to provide an off the shelf package for mainframe users.

In respect of 1992-93, the question of monthly reporting between the Department and Treasury is still yet to be resolved, however, a decision is expected prior to 30 June 1992. From 1 July 1993, all reports produced by the NSW Health system, whether monthly, quarterly or annually, will be on an accrual basis.

Benefits -

The benefits I see as accrual accounting within the health system are as follows:

- It identifies the real unfunded cost of providing public health services to New South Wales which I will estimate will be in the area of $300m per annum.

- It gives a focus to balance sheet management the value of net assets as at 30 June 1991, being $5.5b.

- The implementation program has mainly been done in-house, therefore, the local expertise has been retained.

- Provided a mechanism to ensure that asset and property registers are completed and they can be subject to evaluation of the ongoing benefit of retaining such assets and properties within the NSW Health system.

- Will eliminate some of the games that occurred with cash accounting at the end of each financial year.

- As the only State that has accrual accounting, is therefore at the forefront of the Commonwealth's funding case mix policy as NSW will be able to identify the full costs of providing health services and not the previous cash only cost.

Downside

- The lack of funding provided by Treasury has been substantial and it is estimated that $19.7m will be incurred by the NSW Health system to implement accrual accounting. This comprises $14.1m for hardware/software costs and a further $5.6m for evaluation and other peripheral costs.

- The Treasury policy to establish the Crown as a separate entity has the potential to understate the true health cost by reducing debt servicing charges where a $1b debt existed as at 30 June 1991, and the employers superannuation contribution.

- This decision may require a further review if under any casemix funding policy some allowance is to be made for such expenses in a reimbursement methodology.

GENERAL CONCLUSION

The Public Accounts Committee and the Treasury is to be commended for this forum, however, it is my view that a public education campaign for the media, public and especially the parliament needs to take place on the unfunded cost issue. The point must be made that this is not due to bad management by the Government or the Departments but rather to demonstrate that either:

- the State is providing too much in the way of services
- the existing revenue base is unable to provide the level of services now being provided
- that a further infrastructure (mainly asset and leave liability) debt is accumulating for future generations to grasp with.

I would hope that today's seminar is the first stage of this public education campaign.