



(Dec. Ing.) A.V. HERCOK
27, Raneland st.
Merewether, 2291
02 4903 1252
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The Committee Manager
Public Accounts Committee
Sydney

Sustainability Reporting in the
New South Wales public sector

Dear Sir,

I would like to present my submissions to the various issues relating to the topic under the committee discussion.

Yours faithfully

A.V.V. Hercok
(A.V.V. HERCOK)

SUBMISSION : SUSTAINABILITY REPORTING IN THE NEWSOUTH WALES PUBLIC SECTOR

The aim of this submission is to explore some of the fundamental issues with respect to public enterprises and/or utilities, in particular

- . their relations with parliament, with ministers responsible for, or with powers over them;
- . their roles, the distribution of powers of decision and control, the techniques and institutions of control and the extent and modes of accountability.

It may be argued that the administrator holds the key whatever the social/political system. The first principle we should keep in mind is that whatever organization we propose, it has to be efficient. The efficiency principle has got to come first, for if organizations are not efficient there will be in the long run no organization to run, administer, nationalise, organise, report on, etc. If this submission is not relevant to the inquiry, please ignore the arguments that follow.

Nature of public enterprises-utilities

There is no authoritative, internationally accepted definition of the term public enterprise. Terms such as public bodies, public enterprise, utility, trading and rating authority, public corporation and others have been used to describe organizations that exist in practice. Broadly one can say that

- . a public enterprise operates on open markets, with or without competition, and follows the goal like any other profit-oriented organization in the private sector; no budgetary support can be justified;
- . a utility, an organization, is similar but the profit motive is mitigated. Covering costs only, consideration of "social welfare, achievement of good quality life" and equally nebulously expressed goals abound. Budgetary support is tolerated in some circumstances whilst "the user pay" criterion is expected. Needless to say that overlaps very often occur in practice.

Whether the public ownership of means of production, in total or in some chosen proportion, will help bring about a better "societal happiness" is a question to which the political philosopher, or historian, must address himself, but the administration of resources entrusted to statutory bodies in various social sys-

tems is fundamental . A relevant reporting system is a necessary requirement.

Specific features of statutory bodies

The relationships of the government with public bodies constitute a fundamental aspect of public bodies as an institution. Eventually this determines the degree of efficiency of enterprises as well as their purpose from the standpoint of the consumer, worker, taxpayer and public at large.

various forms of organizations have been invented and on the whole there has not been a satisfactory solution to the problem of reconciling the need for efficient utilization of resources with the troublesome concept of "social policy", a reconciliation of the enterprise's autonomy with the government's responsibility for wider aspects of public policy.

The outcome has been an unmistakable trend towards more government control-limitations such as ministerial control/approval with respect to policy decisions, curtailing financial independence, restrictions in staffing matters, need for amendments for certain types of organization eg a form of corporation, etc.

The ultimate responsibility of governments has led to the developments of an additional layer of authority, either in the form of new administrations or new administrators, of necessity the line of command has been slowed down, the decision making process made more cumbersome and areas of responsibility and accountability disturbed and less defined.

The growth of new layers of administrators has led to the separation of ownership and management, under capitalism and socialism alike, provides a framework for the domination of managers. This ruling class of technocrats cum managers will, through the position of actual directing responsibility which they occupy, then achieve a certain continuity from generation to generation. A new class, "lords of destiny or business nobility" has appeared. Its distinctive features are a) control over resources, including humans and b) no personal accountability, it is the corporation or a statutory body that is accountable!

Full discussion of the various issues will be found in the text noted below.

The next topic deals with suggestions in respect of reliable reporting systems.

Reporting and measurement of performance

this section develops briefly some basic ideas with respect to noncontroversial and reliable financial information systems, in particular :

- . systems of accounting, and
- . techniques and instruments for performance measurement.

The focus will be on public enterprises and utilities, purely administrative organizations will not be considered except to what bearing is the overall government position influenced. It is not suggested that financial data are the only means for the development of suitable instruments for reporting and performance measurement. It will be convenient to discuss systems of accounts first followed by consideration of the issue of performance.

What kind of accounting system?

In the Australian environment there three types of systems of accounts, viz

- . fund system defined as " a special area of interest, a separate area of activity with its own financial resources and own system of accounts." The practice has evolved a separate fund, usually called trading, proprietary enterprise fund for purposes of public undertakings. The operations of such a fund must be that costs of providing goods or services to the public should be financed or recovered through user charges. Thus, an organization can have a number of " funds" such as water, markets, electricity, etc.
- . institutions which covers a range of organizations , such as companies, boards, trusts, corporations and others that are created by legislations, typically at government level, with more or less specific regulations and its own terminology. Some writers have gone so far as to speak of another world of accountancy when discussing the accounts of public sector authorities, including profit making organizations.
- . double -entry system which is by far the most suitable system for recording and reporting commercial types of transactions that are carried out by public enterprises and utilities. Those few transactions specific to the public sector can be encompassed easily by the system and ascribed precisely so as not to cause any confusion or misunderstanding.

Some pronouncements in this context employ expressions "Accrual" which is defined as follows:

"Accrual" basis means that revenue and expense are recognised as they are respectively earned and incurred and not as money is received or paid and are brought to account in the financial statements of the period." To my mind this represents transitory items in traditional terminology and not a different system.

Government involvement in profit-oriented organizations have developed diverse methods of participation and requirements. For example outright grants either in cash or in kind, eg land, loans either free of interest or with a moratorium on interest and or repayment, equity capital, combination of loans and equity, etc.

Comprehensive informative statements encompassing data on funding with break-downs into loans/equity, net revenues with allocations to interest, dividends and retained earnings, division into sectors and enterprises, changes in capitalization, subsidies and monopoly profits and others should be automatically provided.

The integration of accounts of public enterprises poses delicate problems because public enterprises operate in a different environment, the markets are the main consideration, whereas general government activities operate in the environment of public service or "social wellbeing". Probably the best alternative would be a separate statement of profit-oriented organizations attached to government budgets, with profits that are generated by public enterprises appearing of course in budget receipts and shown as returns from state investment.

We can now turn our attention to performance measurement

performance

Generations of economists and accountants have laboured in search of a solution under the heading of "theories of value" and the other under that of "what values in the balance sheet. Satisfactory answers, that would command general acceptance, have not yet appeared. Hence, the practice has developed its own techniques and instruments that, although not perfect, have been found useful for practical purposes.

Commercial profitability which is based on financial statements generated by accounting systems, ie balance sheet, profit and loss a cash flow statements. Whilst there are certain objections to commercial standards, although retaining

letter has yet been proposed, is a suitable instrument for profit-oriented organizations. The issue is somewhat different for utilities. People in charge need spell out precisely what they mean by expressions such as "social consideration, public interest". The pronouncements sound respectable and attractive in politics but mean very little in practical economics.

. Non-financial indicators is a brave attempt to solve the "unsolvable" that is the interdependence of production factors and the allocation problem, both in physical terms. The use of indicators is also known in the private sector. Manning levels, labour hours, quantities of inputs and outputs come to mind here. Experience over several generations of planners and controllers, in centrally planned systems in particular, have not been successful. Using capital/output ratio, or capital utilization in physical terms, slowness in technological improvements, workers prefer to "play the system" or techniques of "window dressing."

On the other hand, input-output indicators, may be used to advantage in conjunction with commercial standards.

The search for performance and improvements goes. We certainly ^{NEED} something other than charging for water consumption in accord with unimproved capital values of properties, or linking transport charges to movements in the CPI or measuring performance by unspent monies on overhaul and required maintenance.

Current-Capital and Economic Accounting

Just a brief note on the economists' presentation of data from business activities

Current-capital system of accounts presents the data in the format of current transactions, leaving saving as a balance, which is shown in the capital formation together with depreciation, resulting surplus or deficiency analyses the financing transactions and finally changes in bank balance.

Economic Accounting follows the economists' path of analysis from production, income distribution, factor and transfer payments to income disposal and capital formation. Both systems use data supplied by enterprises, both private and public practically all round the world and also by UN or World Bank.

Nothing could illustrate more clearly the universality of the double-entry system and the limited usefulness of other system of accounting.

BIBLIOGRAPHY

It would be tedious to list the of works in this field, rather three works have been selected:

- J. BURNHAM : Managerial Revolution, Pelican Books, 1962;
- F. A. HAYEK : The Road to Serfdom (abridged), Routledge and Sons, London 1944
- A.V. HERCOCK : PUBLIC ENTERPRISE FINANCIAL MANAGEMENT, Centre for Pacific Development and Training, 1989; the centre does not exist any more. ISBN 0 642 14631 4.

This work contains detailed discussions with respect to all issues relevant to public enterprises and utilities, comprehensive illustrations from Australia and overseas and a voluminous bibliography for those interested in the subject.