



Submission

2025/15 Finance and Expenditure Committee
Public Finance Amendment Bill
7 July 2025

1.0 Introduction and information for the committee

It is relevant to note that I, Wendy McGuinness, worked for the New Zealand Treasury in 1987 and 1988 on a contract. The resulting report, called *Implementation of Accrual Accounting in Government Departments*, formed part of the Public Finance Act 1989. I went on to establish the McGuinness Institute in 2004. Since then, the Institute has produced several reports that are relevant to this submission.

Please note, we had trouble completing the website form and have reverted to this word document. Others may have had the same problem.

2.0 Overall conclusion

The Institute supports Treasury's *Regulatory Impact Statement: Public Finance Amendment Bill – Strengthening Fiscal Responsibility* (30 January 2025), noting a few exceptions.

3.0 Background

In 2024, the Institute prepared a discussion paper, titled *Discussion Paper 2024/01 – Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?* (18 June 2024) and *Addendum* (23 October 2024). This work was co-authored with Lay Wee Ng.

4.0 General comments

- We consider a set of well-considered principles are a better determinant of quality reporting than a set of rules. This is because the world is very volatile and the rules of yesterday do not apply tomorrow. Further, although principles enable flexibility, that flexibility is restricted by a tight process set out in reporting standards. For example, accountants look back at previous reporting decisions, the decisions of others, and make judgements in a transparent manner. We strongly feel that principles invite debate, whereas rules close down debate.
- Although Treasury and the McGuinness Institute disagree over the reporting of contingent liabilities (further discussed in *Discussion Paper 2024/01* mentioned above), we respect the need for accountants to make judgements based on the information at hand and their interpretation of the principles. So, even though we might disagree with the government's decision not to disclose, we can discuss and share our thoughts and observations because the principles exist. If there were no principles, and only rules, there would be no room for discussion and interpretation. The use of principles enables the accounting framework to evolve. This commitment under the Paris Agreement is still being debated in the media, as can be seen in an article by Tom Pullar-Strecker *NZ in talks with more Asian nations to help meet 2030 climate pledge* (published 5 July 2025 in the Post). It is an excellent example of why principles are an important and useful mechanism for ensuring the framework can grow and be 'fit for purpose'. Good financial reporting is about transparently reporting risks and uncertainty. Only by making key information public, can we have an informed debate over public policy.
- Our ability to prepare New Zealand (and New Zealanders) for the future is poor, and that is largely due to our inability to draw a distinction between risk and uncertainty. It is important to identify the difference so we can regulate risks with rules, and uncertainties with principles:

- Risks are what we can identify, measure and therefore minimise. They are suited to being governed by rules.
 - Uncertainties are what we cannot identify, measure or understand. They suited to being governed by principles. In uncertain times, it is the principles accountants seek to adhere to in the XRB accounting framework. See, for example, the latest financial statements on the matter (i.e. whether to report a contingent liability, see the *Discussion Paper 2024/01* above).
- Although many climate risks and uncertainties are discussed and reported upon, the world is entering a time of great uncertainty. We need our financial reporting framework to be flexible, but not breakable.
 - New Zealand needs to adopt an anticipatory governance mindset. For more information on this, refer to the document by *OECD Anticipatory Guidance* (May 2025).

5.0 Five key recommendations

We note that the objectives of this Bill are to support and strengthen fiscal responsibility, and to improve the practical operation of the Public Finance Act.

In undertaking our research, we have made five high-level recommendations. We have summarised these below.

1. **The whole financial reporting system needs to be clearly articulated to members of the public.**

The current financial reporting system in New Zealand is not well articulated, making it difficult for the public to understand how reporting works. We have attached Appendix 1 and 2 to illustrate our understanding of the current system and how different parts of it should work together.

Appendix 1 shows what is audited and what is not. This distinction is very important for building public trust in the financial reporting system. Currently, the forecast financial statements and the Long-Term Fiscal Position are not audited. Given the volatility that is expected going forward, and the need to ensure the long-term and the short-term perspectives are understood and inter-linked, we believe both should be audited. We are of the view that if it can be reported, it can be audited to ensure transparency and public trust in reporting.

Appendix 2 shows the machinery of government and the distinction between what is government policy and what is not, as well as what is looking forward and what is looking backward. We need to ensure that the links between what we see going forward and what we do now – in terms of strategy – are clear. This is why the Institute produced the *2024 GDS Index*, as strategies need to be transparent and accountable. Strategies are part of the machinery of government that the reporting framework needs to report on (e.g. the costs of the strategies that are being implement and the resulting output).

2. **The Government needs to publish an Annual Report (that would include the financial statements of the Government).**

This should be where a detailed management commentary explains how and why the financial accounts have changed from one year to the next, and what is expected in future years. This would be a similar document to what is required by NZSX-listed companies.

3. **The Government needs to publish a Climate Statement at year end.**

The Government has mandated Climate Statements through the Financial Sector (Climate-related Disclosures and other matters) Amendment Act 2021 for significant entities (known as Climate Reporting Entities (CREs)). In light of this mandate, it is surprising there is no requirement for government to publish a Climate Statement each year. This could be undertaken voluntarily and would help create a web of interconnected documents that ensure climate risks and climate strategy are linked.

4. **The Government needs to provide clarity on how the Budget Economic and Fiscal Update (BEFU) and the financial statements interconnect.**

This is discussed in the Addendum, see Figure 1 below.

Figure 1: Excerpt from the *Addendum* (23 October 2024) (p.11)

3. There is a need for clarity around how the Budget Economic and Fiscal Update (BEFU) and the financial statements interconnect.

Our understanding is that in the 2026 financial year the forecast in the BEFU may recognise a liability in the 2030 forecast. However, if the Government considers it does not meet that test of a liability, the next earliest opportunity would be in 2030, when the purchase price would be reported as an expense in the 2030 Financial Statements.

This is because a contingent liability is not prepared for each forecasted year in the forecast financial statements of the BEFU. Instead it is only prepared once, for the most recent year, in the form of a Statement of Actual Contingent Liabilities and Assets as at 30 June (see, for example, p. 120 of the 2024 BEFU). More information on contingent liabilities (quantified and unquantified) is outlined in the Specific Fiscal Risks chapter of the BEFU.

5. **There is a need for transparency on the use of Artificial Intelligence (AI).**

The Institute recently prepared and published *Think Piece 43 – Unlocking Government documents with AI*. Based on this work, we learned a great deal about the risks and opportunities of applying AI in a government setting. Given these insights, the Institute now has a policy of requesting every organisation to:

- clarify how AI is expected to be used to analyse and report on public submissions when inviting submissions from the public, and
- prepare a public report on how AI was used to collate ideas and present the report to decision-makers when writing up submissions from the public.

Key information in both cases should include: (i) the AI tool (such as Google NotebookLM), (ii) the number of submissions that were read in full or in part by a human versus those that were only read by AI, (iii) how the AI results were verified as correct (i.e. the audit process), and (iv) a summary of the errors found as a result of the review process.

Furthermore, AI should be used for the benefit of citizens, and submission processes should be reconsidered given this new tool.

6.0 Conclusion and thank you

As noted above, we support Treasury's *Regulatory Impact Statement: Public Finance Amendment Bill – Strengthening Fiscal Responsibility* (30 January 2025), noting a few exceptions.

Thank you for the ability to submit on this important Bill. We would welcome the opportunity to speak before the committee.

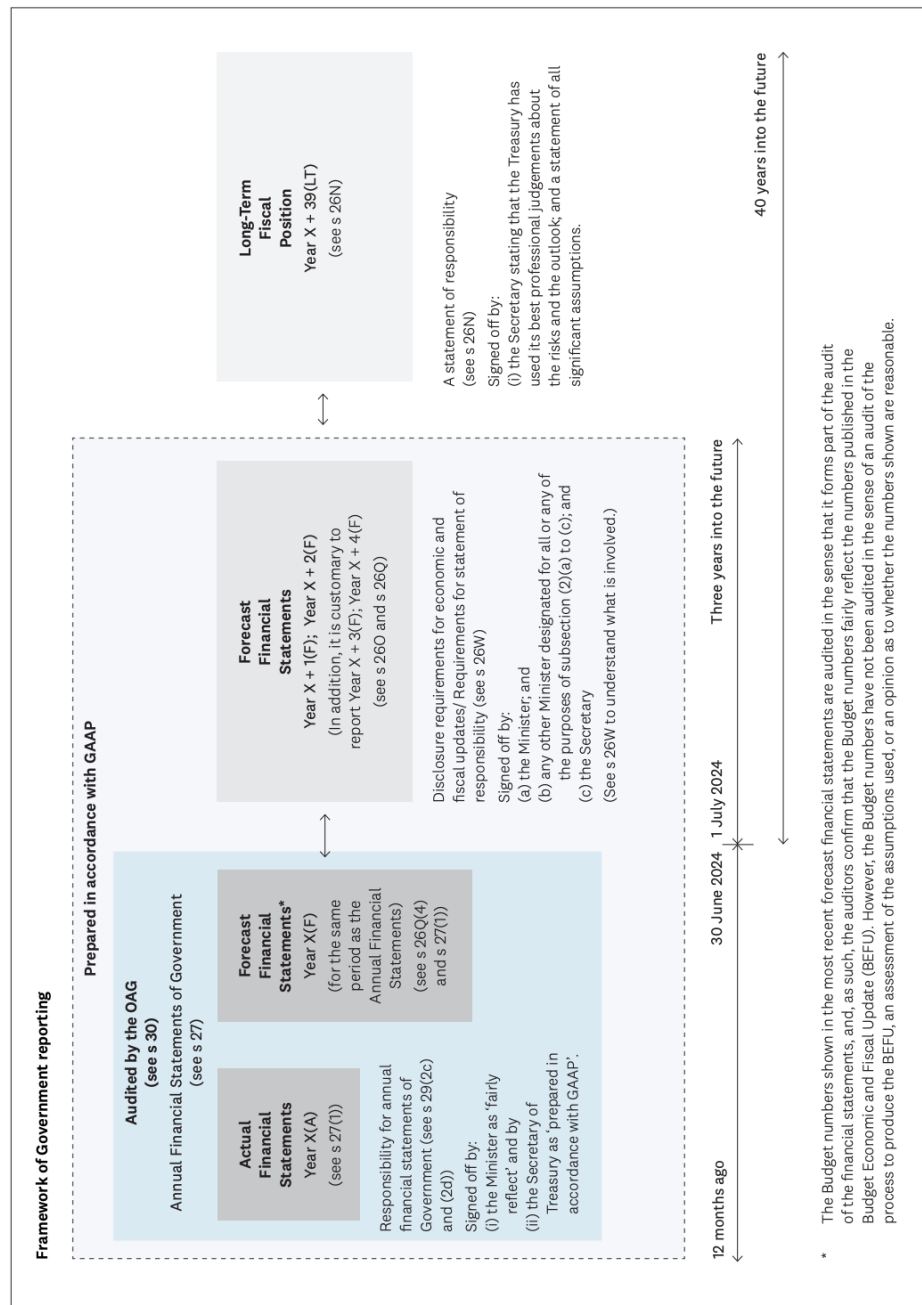
Kind regards,

Wendy McGuinness
Chief Executive

Appendix 1: Excerpt from the Institute's *Addendum* (23 October 2024).

Appendix 5: Addition of explanation to Figure 5.1 – The Government's financial reporting system

We have updated Figure 5.1: The Government's financial reporting system, on p. 35 of the 2024 discussion paper, as well as *Working Paper 2024/11 – Illustration of the Government's financial reporting system*, to provide more clarity over what is audited in regard to the forecast financial statements. As a result, we have added a note to Figure 5.1.



Appendix 2: Excerpt from the Institute’s *Working Paper 2025/03 – List of Climate-related Cabinet Papers Dated Between 2001 and 2024* (June 2025)

Figure 1: How Cabinet papers co-exist in the machinery of Government, using emissions as an example

