

INQUIRY INTO PERFORMANCE REPORTING AND PUBLIC ACCOUNTABILITY

Finance and Expenditure Committee

McGuinness Institute Submission **[Final Draft]**

29 October 2025

1.0 Introduction

The McGuinness Institute (the Institute) welcomes the opportunity to submit on the *Inquiry into performance reporting and public accountability* (the inquiry).

Democracy relies on trust. Public accountability is a key part of democracy and it is important we regularly review our public reporting frameworks to ensure they remain fit-for-purpose. Reporting is a key part of public trust in government as it provides for checks on the system and this, hopefully, acts to prevent abuses of power. The Interim Report summarises the importance of this inquiry:

The ability of Parliament to effectively scrutinise the Executive is heavily dependent on the information that it receives. In other words, **performance reporting is critical to public accountability**.¹ [bold added]

The OECD Trust Survey reported that in 2023, only 46% of people in New Zealand reported high or moderately high trust in the central government.² Maintaining public trust in our Parliament and engagement with our democratic system is important. Internationally, we have seen the impacts of distrust dividing society. The results of increased polarisation and distrust in the Parliamentary system were also seen here in 2022, during the COVID-19 pandemic, when protesters occupied Parliament grounds, setting fires and destroying property.³

The Institute supports this inquiry and especially advocates for the reasons behind it:

A range of concerns with the current state of performance reporting and public accountability led to the inquiry. These included that the existing reporting is difficult to read and that it is hard for Parliament and members of the public to understand the outcomes or value that public organisations achieve with public money.⁴

We would like to thank the Finance and Expenditure Committee for inviting feedback on the inquiry.

The Institute would welcome the opportunity to make an oral submission in support of this submission.

2.0 About the Institute

The Institute was founded in 2004 as a non-partisan think tank working towards a sustainable future for Aotearoa New Zealand. Our 13 research projects include: *BiodiversityNZ*, *CivicsNZ*, *ClimateChangeNZ*, *ForesightNZ*, *OneOceanNZ*, *PandemicNZ*, *PublicScienceNZ*, *ReportingNZ*, *SecurityNZ*, *StrategyNZ*, *TacklingPovertyNZ*, *TalentNZ* and *WaterFuturesNZ*.

An explanation of the project *ReportingNZ* and a list of recent Institute publications relevant to this submission can be seen in *Appendix 4* Relevant Institute background.

3.0 Background context

Public accountability is an important part of ensuring the public can ‘trust’ that money from the ‘public purse’ (i.e. from their taxes) is being spent wisely. Seeing where public money has been spent, and understanding whether it has achieved its objectives, builds both public trust and engagement with New Zealand’s democratic system.

The objectives of this inquiry are to support and strengthen performance reporting and public accountability. The Institute strongly encourages these ideals, however, we note that the complexity of New Zealand’s public service system means there is no single solution. A multifaceted approach is required to reach optimal outcomes for New Zealanders.

The current system is unclear for both reporters (Parliament) and users (the public), as explained in the discussion document for this inquiry:

Performance reporting is about showing what has been achieved with public money. Public accountability is about how the public and Parliament hold the Executive accountable for the use of the powers that Parliament has delegated to it, including the use of public money [...]

The current state of performance reporting often does not enable Parliament or the public to understand what outcomes and value are being achieved with public money. This limits the ability of Parliament to hold the Executive to account. Often it can be unclear what outcomes the Executive wants to achieve, how it intends to achieve them, and what progress is being made.

In this context, this inquiry has two primary aims:

- to make findings about limitations of the current system of performance reporting and public accountability
- to make recommendations aimed at ensuring that the performance reporting and public accountability system is fit for purpose and meets the needs and expectations of 21st century New Zealand.⁵ [bold added]

Below are responses to specific questions in the discussion document, followed by general recommendations for improving performance reporting and public accountability in New Zealand.

4.0 Response to specific questions

1. Have we missed or mischaracterised any strengths or weaknesses of the current system?

Below the Institute reflects on both strengths and weaknesses in the current system, as explained in the discussion document.

Strengths of the current system include:

1. Regular financial reporting.

Regularity is critical to ensure that results are comparable across years and between different governments. However, as noted under weaknesses below, the current system does not have clear guidance for reporting on long-term issues that are also very important to for the public sector to report upon (such as climate change for example). The current system is also unclear on how often non-financial reporting should be audited and reported upon, which leads to inconsistent reporting. These weaknesses are further explained in weaknesses below. The discussion document states:

One strength of the current system is that there is regular financial reporting about individual public organisations and the whole of government. This financial reporting is prepared to international standards and is audited and scrutinised by Parliament.⁶

2. Flexibility.

Flexible reporting allows reporters to focus on what they believe is most important, but it also has weaknesses (explained in weakness 2 below):

Reporting requirements give flexibility for departments and Crown entities to report on the things that matter to them and on aspects of their performance that are most relevant to their role.⁷

Weaknesses of the current system include:

1. Information gaps.

Measuring on-time and on-budget delivery is one of the most important parts of public sector reporting and accountability. The current system still does not make it easy for users to understand what has been achieved, and it leaves a lot of essential information unknown:

The lack of good reporting about the performance of the Executive places a lot of strain on Parliament's ability to understand and properly scrutinise:

- the objectives of the Executive
- how public resources are used to achieve those objectives
- how successful those efforts are.⁸

2. Flexibility resulting in inconsistent reporting.

Although allowing reporters to be flexible is a strength in some ways, it is also a weakness of the current system. Flexibility leads to inconsistent reporting which produces information that is less useful for users.

While the discussion document acknowledges flexibility as a strength, it notes that it has negative impacts on reporting:

However, this flexibility has also resulted in great variability in the content and quality of reporting across the system.⁹

3. Time-consuming and resource-intensive for all involved.

The current system is not an efficient use of time or resources. The resulting information is both difficult for preparers to report upon and for users to understand:

Select committees spend as much time asking for information as they do in scrutinising it.

The result is a system that demands a lot of time and effort across the public sector for relatively little benefit to Parliament or the public in holding the Executive to account.

Careful consideration needs to be given to how these issues should be addressed, and how to strike an appropriate balance between constraining and enabling the Executive to operate, and between the cost of complying with requirements and the need for public accountability.¹⁰ [bold added]

4. Lack of integrated reporting.

This lack of clarity on how performance reporting and public accountability interact with the different elements of the public sector causes confusion across the board. The current system does not reflect the complexity of how the public sector works in practice. The discussion document says:

It is often unclear how the objectives set out in strategic documents from government departments and Crown entities (strategic intentions and statements of intent) relate to annual plans or performance measures. Also, it is often unclear how those strategic documents relate to the Government's overall policy priorities. **The relationship between the objectives of different public organisations is not always apparent, particularly where they are required to work together to solve problems or improve outcomes.**

The architecture of the system (both the legislation and its supporting guidance and processes) has been amended frequently since the late 1980s. Without a consistent set of design principles or objectives, this has resulted in a patchwork of requirements.¹¹ [bold added]

5. Overwhelming scale and size of data.

The current system results in too much information, which is not useful. As mentioned in weakness 3 above, producing this quantity of data is time-consuming and resource-intensive to use and to produce. This is obviously inefficient and a waste of public resources:

Existing accountability documents provide Parliament and the public with large amounts of financial and performance information. This by itself is challenging. **Documents such as the Estimates of Appropriations and annual reports can comprise hundreds (or thousands) of pages of detailed and sometimes complex information that is difficult to understand and scrutinise.**¹² [bold added]

6. Lack of long-term thinking.

Performance reporting often focuses on short-term outcomes, neglecting critical long-term issues like climate change and healthcare. A significant concern with the current system is that the short-term focus of the reporting misses out what is important.

Critical products and services provided by the public sector take a long time to produce –far beyond the three-year election cycle. Examples include healthcare, climate change mitigation, and many others. Under the three-year election cycle, reporting on these long-term factors is not impossible, but it *is* difficult.

Many issues that are increasingly important to the public are long-term or intergenerational in nature, such as climate change, persistent disadvantage, or health costs associated with an ageing population. **However, core reporting and accountability processes focus on the short or medium term and do not support public understanding of how these longer-term challenges are being managed. Various stewardship reports are produced by the Executive, but it is not clear how they inform decision-making.**¹³
[bold added]

7. **Non-financial information is especially unclear.**

As part of public reporting, the Executive produces a lot of non-financial information on its performance. There are a range of issues caused by this information because it is unclear for both reporter and user. This means the public non-financial information is not easily comparable or useful:

It does not provide Parliament with a clear and integrated view of what the Executive is trying to achieve, how it proposes to achieve it, how public money is being used to achieve it, and what progress is being made.¹⁴

8. **Performance measures are inadequate.**

As noted in weakness 4 above, the lack of integrated reporting is just one of the reasons that there is a lack of understanding and measurement of public sector performance.

There are good controls in place to constrain spending once authorised by Parliament, and there is monitoring and reporting of whether public organisations are operating within these constraints. **However, it is not clear at the time Parliament authorises spending that there is a full understanding of what the Executive intends to achieve with public money and what it should be held to account for.**

Performance measures that are reported on by departments and Crown entities are often inadequate. Performance reporting is focused on individual organisations and there is not enough reporting about the effect of organisations' activities or the outcomes they are working towards, or how those effects and outcomes are distributed across society.¹⁵ [bold added]

9. **Inconsistent GAAP compliance, auditing and assurance.**

Improving the quality, consistency and clarity of requirements for auditing and assurance public information will be critical to improve the standard of public reporting. Assurance helps ensure information is correct and will be important to improve public trust. The current system is also unclear on what information should be audited and assured, which causes confusion for both preparers and users:

The Executive also produces a range of stewardship reports which can be used to support how it sets its objectives. In principle, select committees can use these other documents to hold the Executive to account for its performance. **Although many of these documents must be presented to the House, only a handful are automatically scrutinised by select committees, and only two (the health plan and the report on**

performance against the health plan) are legislatively required to be independently assured.¹⁶ [bold added]

Only some information is required to comply with Generally Accepted Accounting Practice (GAAP) and be audited.¹⁷

In our research, the Institute has noticed an increase in non-GAAP data across corporate reporting. Our recent *Working Paper 2025/05 – Reviewing Non-GAAP Financial Information in Annual Reports and Market Announcements of NZSX-listed Companies* (in press) explored this.¹⁸ This paper examines and identifies the extent to which non-GAAP information is currently being presented in annual reports and, in some cases, financial statements and NZX announcements. The relevance of this paper is that reporters are currently preparing a lot of additional information outside of GAAP that is not required by the XRB. They are doing this voluntarily and at considerable cost, without common terms that enable investors and other stakeholders to compare companies.

The Institute considers there needs to be more governance on ensuring departments and other public service organisations do not allow non-GAAP information to creep into financial reporting.

2. What are the biggest barriers, challenges, and opportunities to improving the current system? How could the barriers be overcome?

See below Institute considerations regarding significant barriers, challenges and opportunities in the current system:

1. Complexity of the government’s structural system is a significant barrier to overcome.

A massive difficulty in public reporting is the complexity of the government’s structural system. The actual structural complexities within government make performance reporting very challenging, leading to inconsistent information for both reporters and users.

For instance, the New Zealand government has 77 Ministerial portfolios (and four other Ministerial entities), plus the reporting entity of the Crown comprises 2628 entities, of which:

- 37 are government departments, departmental agencies, or interdepartmental executive boards;
- three are Offices of Parliament;
- 15 are State-owned enterprises or mixed ownership model companies; and
- 2500 are Crown entities (of which 2425 are school boards of trustees).¹⁹

This point was reiterated by a number of interviewees in Dr Ball’s report.²⁰ A whole-of-government restructuring would therefore help simplify reporting. Although a simplified, sector-based structure will enhance clarity and effectiveness in performance reporting, the Institute notes this is a significant change to the current way the public sector operates.

The Institute recommends government structures are simplified to improve reporting and that relationships are clearly identified. This will also make the sector more accountable and easier for the public to understand.

2. Security risks will continue to be a significant challenge.

There is a challenge in protecting New Zealand's reporting information from 'bad actors' or terrorist organizations who may infiltrate New Zealand's financial reporting, budget and other information. There are also risks from cyberattacks, especially with the government storing confidential data and government financial information.

It is important any changes to the current system work to prevent these external parties from accessing publicly held information, as a security breach would decrease public trust in the government and financial systems. As part of this process, the government needs to identify which assets are attractive to criminal parties so we can improve our protection of these assets.

The Institute recommends that improving security and information protection is a critical part of New Zealand's performance reporting and public accountability. Our financial system, including our reporting, must be designed to protect this confidential information both from other nation states and from criminal activity.

3. Developing verified 'AI-ready' public documents is an opportunity to improve security and public trust.

Government documents should be verified independently to protect public trust. With developments in technology, New Zealand needs to 'future-proof' government documents so users can be assured they are looking at verified information. There is a risk of 'deep fakes' causing confusion and mistrust in government information. For instance, in terms of regulation, this may mean that government documents need to be verified through AI processes.

In May 2025, the Institute published *Think Piece 43: Unlocking Government documents with AI*.²¹ This think piece explores what AI could look like when applied to Government documents, and in particular, how AI might provide taxpayers more value in terms of delivering quality products and services. Improvements are possible not just in terms of delivering goods and services to citizens, but also delivering a more interconnected and aligned policy ecosystem. Any new legislation should consider these factors.

The Institute recommends the new system explores the opportunity to develop an independent verification system for government documents.

4. Alignment with documentation across government is an opportunity.

Alignment of key documents across government will help make government information more user-friendly. The current system is fractured, with reporting across different departments inconsistent and difficult to follow. It is very difficult for users to compare what is promised with what is achieved once a new government comes into office.

Alignment of key documents (such as a register of Cabinet papers, for example) will help users to identify the link between policy and financial reporting.

5. Impacts of the global reserve currency changing is a risk that needs to be considered.

It is important that New Zealand's financial reporting system analyses and protects itself from changes which may occur if the global reserve currency moves from the US dollar into gold (or another currency).

Changing global markets will have impacts on New Zealand's financial reporting system and these conversations are already happening internationally. For instance, in October 2025 the *Financial Times* published an article stating '[o]verseas renminbi lending surges as China steps up

campaign to de-dollarise... Beijing's push will speed moves to multi-polar monetary system, analysts say.²²

The impacts from global changes such as this will be significant, and the Institute recommends any developments in performance reporting and public accountability should ensure New Zealand's financial system is robust to these international changes.

3. What are the key lessons we can learn from previous reforms and what is necessary for successful implementation this time around?

N/A

4. Are there any key improvements that are missing from our vision for reform and improvements?

The Institute recommends the below potential improvements should be explored:

1. Values and principles.

A clear set of values and principles will be useful for guiding performance reporting and public accountability in the future. Constant changing of values and principles with each new government results in fractured public sector services, creating confusion for everyone.

In 2011, with a worsening fiscal outlook in the aftermath of the Global Financial Crisis, the New Zealand government looked for ways to improve the performance of the public service [...]

The response was, perhaps unexpectedly, centred on values – ideas like purpose, stewardship, collaboration, inclusion, and openness. **Values were seen as the tool to help public services to work better, and the values approach persisted until at least 2024.**²³
[bold added]

One recent example of confusion and inconsistency caused by changing values and principles was mentioned in the Institute's September 2025 submission on the *Healthy Futures (Pae Ora) Amendment Bill*. In this submission, the Institute recommended that the Bill does not remove 'equity' as a guiding principle (as was proposed in the amendment). The Institute instead noted that equity should be a consistent, long-term principle that sits within the wider health care system (i.e. 'caring for people in need'), whilst recognising those needs are different depending on the recipient (rather than from the perspective of the provider):

It is of a significant concern that the Bill proposes to remove equity as a guiding principle of healthcare in New Zealand. This Bill removes legal obligations to address health inequities and dismantles proven mechanisms for improving Māori health outcomes. It is also concerning that removing equity is likely to have negative impacts on groups that need already face barriers to receiving healthcare, including children, Māori and Pacific peoples, older adults and those with physical and intellectual disabilities. We need to provide healthcare to everyone, and especially to support those who need it most.²⁴

2. Detailed best-practice international case studies.

The Institute would like to see a more detailed academic analysis of what is happening internationally for performance reporting and public accountability. Other countries will provide

examples that New Zealand can learn from (e.g. the instances of technology used in Canada and Estonia mentioned below). Performance reporting and public sector accountability is a shared issue across the world, and it makes sense to learn from what works – and does not work – overseas.

International case studies would be especially useful to understand how technology is used in other parts of the world to improve performance reporting and public accounting. This is one area where key improvements are possible (as per recommendation 3 below), and the countries of Canada and Estonia were both mentioned in Dr Ball's report:

Examples of technology being used in this way is the whole of government performance reporting website of the **Government of Canada**, or the use of XBRL for tagging information to enable easier analysis by users of performance information. **The Government of Estonia** is notable for its use of technology in the selection and provision of services.²⁵ [bold added]

3. Transparency on the use of Artificial Intelligence (AI) and designing a public reporting framework that reflects the impact of changing technology.

Improvements in technology, especially AI, are causing a dramatic shift in how the world operates. It is important that any developments in this space reflect these changes. The Institute recommends that all new legislation should be designed in ways that anticipate and prepare for how AI can be implemented in digital systems. For example, digital implementation assets (such as data structures, reporting templates, or decision trees) can be published alongside legislation to illustrate its intended effect. Any legislative system that requires reporting digital data presents particularly significant opportunities.

We wonder how AI and the pace of its development might impact, and ideally be used to improve, New Zealand's public system. There is a need for transparency on the use of AI, which is outlined as a recommendation under Section 5.0 Other Institute recommendations below.

The importance of improving technology was also mentioned in Dr Ball's report:

One interviewee strongly encouraged the Committee to look at avenues for making better use of technology to enhance the data available to decision-makers and performance monitors, including Parliament and the public. This interviewee referred to international experience in both the public and private sectors where **technology has markedly improved the capacity of all those interested in organisational performance to easily access the information they need.**²⁶ [bold added]

The Institute recently prepared and published *Think Piece 43 – Unlocking Government documents with AI* (May 2025).²⁷ 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.

To improve the system, AI and new technology has the potential to be of benefit of citizens and reporters. Public reporting processes should be carefully designed to consider how this new tool will impact both how information is produced, as well as how it will be used.

5. What do you consider to be the most—and least—important information for:

- **holding the Executive to account?**
- **enabling the Executive to learn and improve?**
- **supporting trust and confidence in the Executive?**

N/A

6. What options for change should we explore in the next phase of our inquiry?

The inquiry leaves both options to explore and questions to be asked.

Possible options for change include:

1. Potential to implement a monthly (or quarterly) dashboard of key metrics.

To clearly communicate with the public the state of the public system, we recommend that a dashboard of key metrics across each sector is published regularly and shared publicly.

For instance, in healthcare, a dashboard would include key metrics that measure how well the system is delivering the most important outputs, such as:

- (i) the state of the workforce (including number of people entering and exiting the workforce),
- (ii) health system resources (financial and non-financial),
- (iii) number of surgeries performed, and
- (iv) patient waiting times.

We can only manage what we measure. Including a policy requirement for a regular dashboard will allow for comparison between governments and will help us learn how to improve our systems. This will improve our ability to observe issues and manage them quickly, and to see long-term trends over longer periods. Presenting information in a concise, visual format will allow users of information to better analyse the past and prepare for the future. It will also help keep current governments accountable to their promises.

The dashboard would provide the public with regular, accessible, and easy to understand information on how the public sector is performing.

An example of how this could look in practice is shown in Figure 1 below.

Figure 1: KPI, Scorecards, Goal Meters and Cards

Source: Kyubit Business Intelligence, *KPI Dashboard and Scorecard Creation*, n.d.²⁸



2. Regular reviews to ensure the whole system is fit-for-purpose and up to international best-practice.

New Zealand needs to implement regular reviews of our reporting systems to ensure they remain fit-for-purpose. The future is unknown, and new, game-changing impacts (for example, from climate change and AI) will quickly alter the purpose and method of performance reporting and public accountability.

3. Mandate enduring outcomes in legislation.

Although the world is changing, the values of New Zealanders remain relatively consistent. One way to ensure consistency for the public is by mandating enduring outcomes in legislation. This will help ensure a long-term response to, and accountability for, long-term problems, with enduring outcomes remaining consistent even as parties change. Public service inefficiency is also caused by constant changing of outcomes.

This was mentioned in Dr Ball's report:

The Committee might look to international experience in mandating outcomes in legislation. **It could focus on identifying countries where this occurs across the board (as opposed to New Zealand, where it occurs in only a few areas) and assessing how effective that legislation has been in avoiding the disruption and cost (which one interviewee referred to as "churn") associated with significant policy reversals when governments change.**²⁹ [bold added]

Enduring outcomes could include implementing consistent principles and values that remain even as political leadership changes. Possible examples could range from significant financial outcomes to smaller, less tangible outcomes. The key criteria is that these outcomes reflect shared values and they will benefit New Zealanders in the future.

Examples of 'enduring outcomes' that could be mandated into legislation may include:

- setting a sustainable level of public debt,
- setting a net worth at a certain \$ amount,
- carbon emissions to remain under a certain level,
- healthcare to be accessible for all,

- literacy rates mean a certain percentage of children at school can read by an agreed age,
- road fatalities are down to a specific level per annum, or
- national superannuation of a certain amount to be paid at a certain age.

The focus of these values should be in areas where long-term consequences are the most important. Enduring outcomes will provide users with a clearer picture of how the government is achieving its purpose. Enduring outcomes will result in positive outcomes for New Zealanders over the long term.

4. **Non-financial information – including climate reporting – needs clarity.**

We consider that the actions of signing up to international climate agreements and declaring climate emergencies have substance and are significant: they are much more than publicity statements.

Reporting our climate commitments will highlight the size and timing of the financial and fiscal risks and costs for the government, entities and the wider public. It is important for the commitments, obligations and/or liabilities to be reported at both the entity level and the country level. At the country level, this will ensure the government is aware and takes its commitments, obligations and/or liabilities seriously, and will set policies and strategies to address the country's financial and fiscal risks.

We recommend that current accounting standards in regard to reporting climate-related financial risks and impacts should be clarified.

For a more detailed discussion on this recommendation, refer to the summary on p.83 of the Institute's *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?*³⁰

5. **Assurance of public reporting needs to be clarified and implemented.**

To improve public trust in reporting, assurance is a critical step. The current system is confusing, and the lack of assurance means information is not independently verified and thus not trustworthy to the public:

Most of these documents are not independently assured and not every document is fully scrutinised by Parliament.³¹ [bold added]

Below are further questions to investigate as part of this inquiry:

1. What is the entity [*i.e. the public sector*] expecting to produce for their customers [*i.e. primary users of the information*] in the future?
2. Why does the entity [*i.e. the public sector*] think those outputs of products and services will be of value to their customers [*i.e. primary users of the information*]?
3. Who are the customers [*i.e. primary users of the information*] of the public sector?
4. How do we measure and report on the above?
5. How often is this reporting required to provide information that is relevant for the customers [*i.e. primary users of the information*]?

In the private sector, the focus is on adequate profit. We need to understand the focus of the public sector at a whole-of-government level to develop reporting that is fit for purpose. Is the focus on value for money? Delivering programmes on-time and on-budget? Or something else?

7. Do you have any views on how the way that the Executive's reports on its performance should reflect the obligations that Te Tiriti / the Treaty places on it?

The Institute acknowledges Māori have a critical role as tangata whenua in Aotearoa, and we do not purport to represent or account for those perspectives in our work.

However, the perspectives of Māori communities must be considered in the inquiry's consideration of performance reporting and public accountability. It is recommended any new reporting policies and strategies are formulated in close collaboration and coordination with Māori stakeholders.

5.0 Other Institute recommendations

As well as the specific responses above, please see below for the Institute's general and specific recommendations to improve performance reporting and public accountability in New Zealand.

1. **The public sector is full of complex, non-linear relationships. Reporting needs to consider this.**

This complexity makes reporting very difficult. Some of the information provided does not reflect the complexities of how the public sector operates in the real world. There is not a single outcome for a single service. For instance, if low road fatalities are the 'outcome,' there are a range of public sector 'outputs' that impact this outcome (these public outputs may include factors such as driver education, speed limits, emergency service response, etc.).

2. **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 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 debate.

3. **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. Although Treasury and the McGuinness Institute disagree over the reporting of contingent liabilities (further discussed in *Discussion Paper 2024/01* mentioned above)³², 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. Using 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 from 2025 titled *NZ in talks with more Asian nations to help meet 2030 climate pledge*.³³ 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.

4. **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 that 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 *Discussion Paper 2024/01*).³⁴

Although many climate risks and uncertainties are discussed and reported upon, the world is entering a time of great uncertainty. We need our performance reporting and public accountability framework to be flexible, but not breakable.

5. New Zealand needs to adopt an anticipatory governance mindset.

For more information on this, refer to the OECD document *Towards anticipatory governance guidelines for public sector organisations* (May 2025).³⁵

6. Consider what works in the private sector and how this can be replicated in the public sector.

In the private sector, the structure of a board exists to monitor and govern chief executives. The lack of a board in the public sector means that it is ministers who must undertake a ‘governance’ role. This is not necessarily the best situation in terms of performance reporting and public accountability, and means ministers undertake responsibilities they do not have training in.

We therefore recommend exploring how a public sector ‘board’, or similar, could provide an important independent check on reporting.

7. The whole reporting system needs to be clearly articulated to members of the public.

The current system in New Zealand is not well articulated, making it difficult for the public to understand how reporting works, where to find information, and what it means. The recommendation of a dashboard in response to Q6 above is an exploration of a solution to this issue.

We have attached Appendix 1 and 2 to illustrate our understanding of New Zealand’s financial reporting 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*³⁶, 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 implemented and the resulting output).

8. The government needs to publish an annual report (which includes its financial statements).

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 should be a high-quality, verified document that is similar to what is required by NZSX-listed companies.

9. 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, or CREs). Considering this mandate, it is surprising there is no requirement for government to publish a Climate Statement each year.

This annual Climate Statement could be undertaken voluntarily and would help create a web of interconnected documents that ensure climate risks and climate strategy are linked.

10. 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 Institute's *Addendum to Discussion Paper 2024/01*, see Figure 2 below.

Figure 2: Excerpt from the Addendum to Discussion Paper 2024/01

Source: McGuinness Institute, *Addendum to Discussion Paper 2024/01*, October 2024.³⁷

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.

11. Improve regulation on independent assurance for public sector information.

In terms of accountability and public trust, the lack of clear regulation on independent assurance is a significant issue in the public sector. This is another area where public sector reporting would benefit from following the same guidelines as the private sector. Assurance helps ensure information is correct, and the current system is very unclear on what should be assured.

6.0 Conclusion

A well-designed and well-managed public sector will help ensure high-quality outcomes for New Zealanders even as governments change. This is an important topic for New Zealand, and the Institute, like many others, supports this inquiry. We refer to Dr Ball's report, which notes:

36. One interviewee who considered the topic critically important argued that it **is central to the public's trust in the government, which in turn is a key element in maintaining a strong democracy**. This interviewee noted the erosion of trust and democracy in some overseas jurisdictions and, referring to the disturbances during Covid, considered that New Zealand is not immune to similar tendencies.

37. Another interviewee also **linked the state of performance reporting and public accountability to trust in government and, ultimately, to the health of the democracy**. They described the topic as "super-important".

38. The view was also expressed that **performance reporting and public accountability are integral to a well-managed public sector**, on the basis that a well-designed reporting and accountability system provides an incentive for high quality performance in the public sector.³⁸ [bold added]

The objectives of this inquiry are to support and strengthen performance reporting and public accountability, and we strongly encourage these ideals. The current system is unclear, inconsistent and confusing for both reporters (public sector) and users (the public).

The Institute notes that complexity of New Zealand's public service system means there is no single solution to improving public reporting, however, there are a number of areas where key improvements may be found.

Please do not hesitate to get in contact if you have any questions on the above.

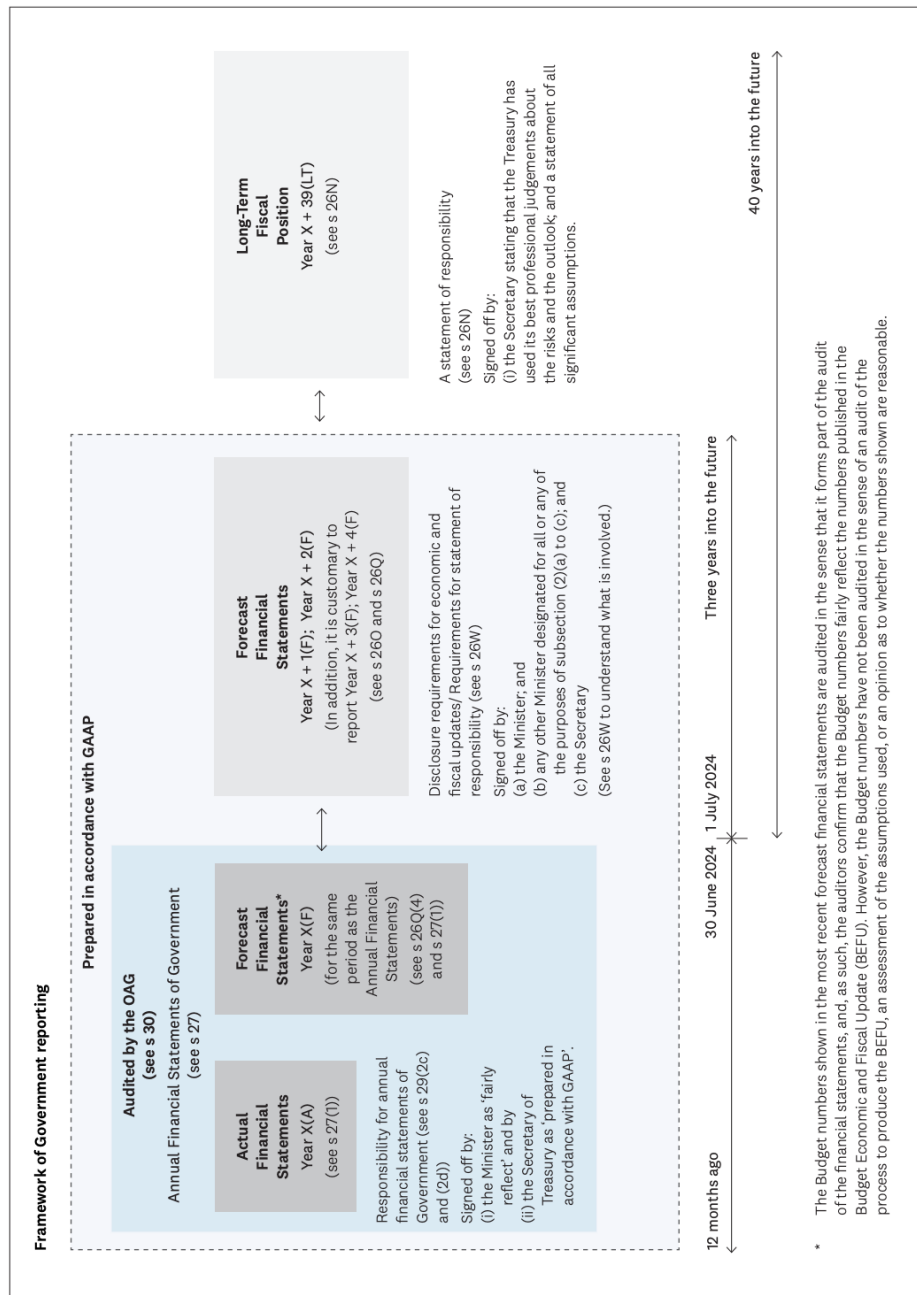
Appendix 1: Excerpt from the Institute’s *Addendum to Discussion Paper 2024/01*

Figure A1.1: Excerpt from *Addendum to Discussion Paper 2024/01*

Source: McGuinness Institute, *Addendum to Discussion Paper 2024/01*, October 2024.³⁹

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

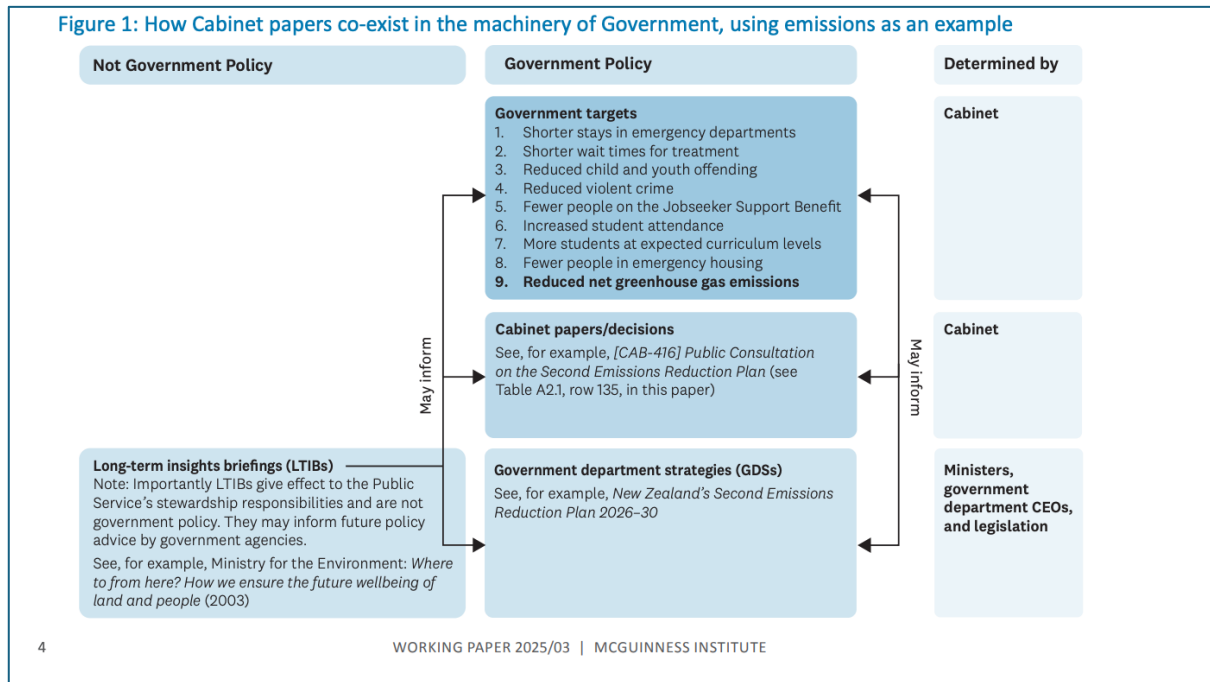
We have updated Figure 5.1: The Government’s financial reporting system, on p. 35 of the 2024 discussion paper, as well as *Working Paper 2024/11 – Illustration of the Government’s financial reporting system*, to provide more clarity over what is audited in regard to the forecast financial statements.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

Figure A2.1: Excerpt from *Working Paper 2025/03 – List of Climate-related Cabinet Papers Dated Between 2001 and 2024*

Source: McGuinness Institute, *Working Paper 2025/03 – List of Climate-related Cabinet Papers Dated Between 2001 and 2024*, June 2025.⁴⁰

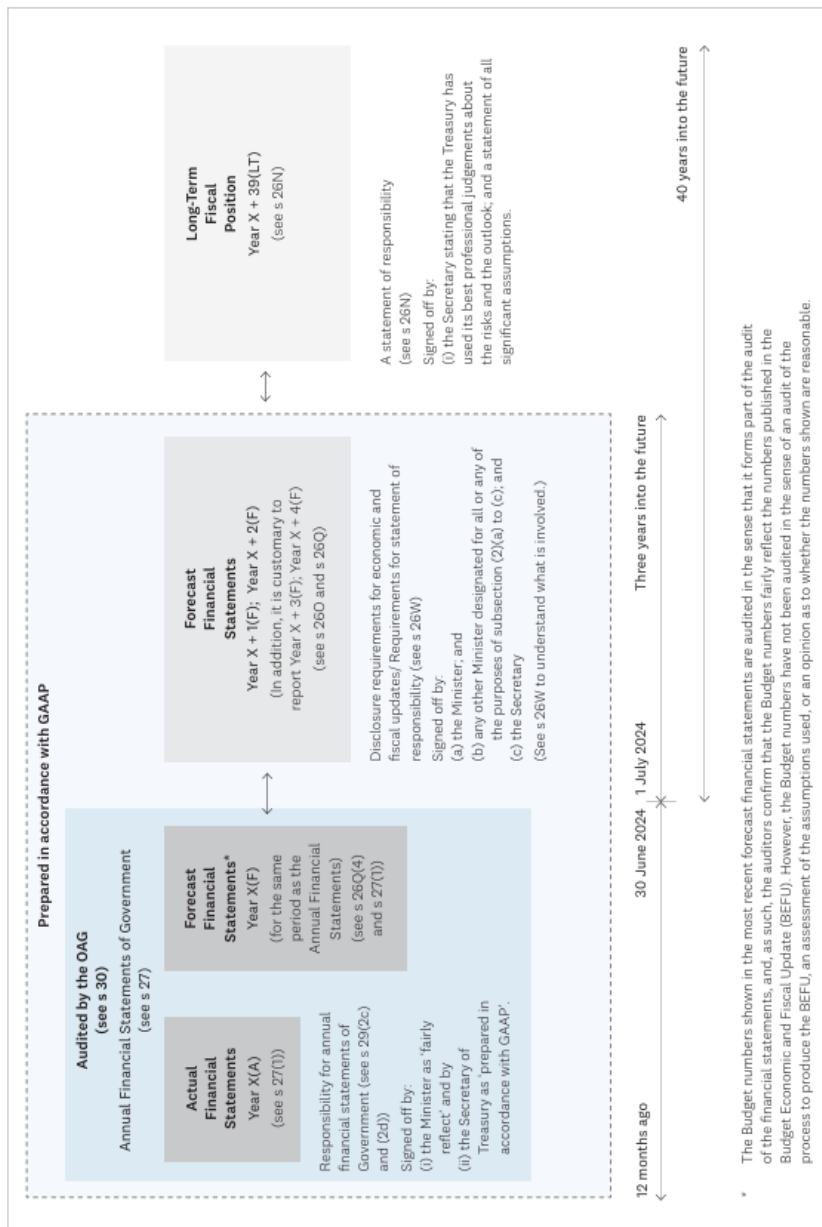


Appendix 3: Excerpt from the Institute’s Working Paper 2024/11 – Illustration of the Government’s Financial Reporting System

Figure A3.1: Excerpt from Working Paper 2024/11 – Illustration of the Government’s Financial Reporting System

Source: McGuinness Institute, Working Paper 2024/11 – Illustration of the Government’s Financial Reporting System, October 2024.⁴¹

Figure 1: Illustration of the Government’s financial reporting system



Notes:

1. X means the same financial year, and X+ means the next financial year, etc.
2. Year X(A) means Actual financial statements.
3. Year X(F) means Forecast financial statements.
4. Year X(F) is actually forecast three times: (i) in May before the year starts; (ii) in December for the HYEFU; and (iii) again in May when the year is almost complete as part of the following Budget. There is also a fourth update in election years with the Pre-election Economic and Fiscal Update 2023 (PREFU).

Appendix 4: Relevant Institute background

About Institute research project *ReportingNZ*

ReportingNZ is a research project that aims to contribute to discussions on ways to provide data, information and knowledge in a timely, useful and accurate manner. The project aims to improve the quality of reporting. Reporting is essential for transparency, accountability and performance. *ReportingNZ* includes research that analyses current methods of reporting, and it works to understand what falls through the gaps and how we can develop robust frameworks for the future.

ReportingNZ covers various kinds of reporting, with a focus on how climate reporting can help guide stronger decision-making and better public policy. The Institute also has a specific focus on improving New Zealand's accounting frameworks to reflect our changing world. Improved reporting results in better information, which we believe will allow New Zealand to learn from the past, monitor the present and prepare for the future.

Relevant Institute research

It may be relevant to note that the Chief Executive of the Institute, Wendy McGuinness, worked for the New Zealand Treasury in 1987 and 1988. The report that resulted from her work there, called *Implementation of Accrual Accounting in Government Departments*, formed part of the Public Finance Act 1989. Wendy then went on to establish the McGuinness Institute in 2004. Since then, the Institute has produced significant research on performance reporting and public accountability, including several reports that are relevant to this submission.

For more detailed research the Institute has undertaken in this area, we recommend you read the below research papers. They analyse current methods of reporting, working to understand what falls through the gaps and how we can develop robust frameworks for the future:

1. ***Working Paper 2025/05 – Reviewing Non-GAAP Financial Information in Annual Reports and Market Announcements of NZSX-listed Companies (in press)***⁴²

This paper examines and identifies the extent to which non-GAAP information is currently being presented in annual reports and, in some cases, financial statements and NZX announcements. The relevance of this paper is that reporters are currently preparing a lot of additional information outside of GAAP that is not required by the XRB. They are doing this voluntarily and at considerable cost, without common terms that enable investors and other stakeholders to compare companies.

2. ***Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies (2025)***⁴³

This paper examines some aspects of recently published climate statements. It aims to contribute to research on how New Zealand might better report and manage climate risks and maximise opportunities in the transition to a low-carbon economy. It provides a quantitative assessment of the state of climate reporting in New Zealand through the lens of NZSX-listed companies that have published annual reports that mention NZ CS. This paper shows that scope 3 information can be prepared, and is significant in terms of scale, and is therefore useful.

3. ***Working Paper 2025/07 – Analysing Carbon Offset Information Disclosed in 2021–2024 Annual Reports of NZSX-listed Companies (in press)***⁴⁴

This paper examines and identifies the extent to which carbon offset information has been disclosed in the 2021–2024 annual reports of NZSX-listed companies. It demonstrates that

the reporting of carbon offset information is a form of Anticipated Financial Impacts (AFIs). It suggests that more detailed reporting is needed to incentivise investment and ensure adoption of the most effective approach to carbon offsetting as well as climate change mitigation as a whole.

4. ***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? (2024) and Addendum (2024)***⁴⁵

This work was co-authored with Lay Wee Ng. It is a technical discussion paper that explores whether a commitment by the New Zealand Government to purchase offshore carbon credits to offset emissions should be reported in the financial statements of the New Zealand Government (the overarching accounting problem). It discusses how such a commitment might be treated as a provision or as a contingent liability and whether the financial value can be determined reliably (and, if so, on what information this conclusion should be based).

The purpose of this paper is to explore what information should be reported, and where and when, on the basis that this information is likely to be useful and relevant as the Government, businesses and the public transition to a net zero economy.

See Appendix 1: *Excerpt from the Institute’s Addendum to Discussion Paper 2024/01.*

5. ***Working Paper 2024/11 – Illustration of the Government’s Financial Reporting System (2024)***⁴⁶

The purpose of this paper is to illustrate the system of financial reporting of the Government of New Zealand. It provides detailed background for *Discussion Paper 2024/01* (above).

See Appendix 3 for *Figure 1: Illustration of the Government’s Financial Reporting System.*

6. ***Working Paper 2021/09 – Analysis of Climate Change Reporting in the Public and Private Sectors (2021)***⁴⁷

The purpose of this working paper is to explore the extent of climate-related reporting in the annual reports of both public and private sector entities. The term ‘climate-related reporting’ refers to discussion of the behaviour of an entity in terms of climate change risks and initiatives and carbon emission metrics, costs, controls and targets in an annual report.

This working paper aims to contribute to a dialogue on how Aotearoa New Zealand might manage risks and maximise opportunities in the transition to a low-carbon economy. It is hoped that this work will be particularly useful given the recent passing (and attained Royal Assent) of the Financial Sector (Climate related Disclosures and Other Matters) Amendment Bill.

7. ***Report 17 – ReportingNZ: Building a Reporting Framework Fit for Purpose (2020)***⁴⁸

This report aims to contribute to a discussion on how to build an informed Aotearoa New Zealand. The report reviews New Zealand’s external reporting framework and assesses whether it is fit for purpose, then suggests a series of recommendations on what actions could be undertaken to ensure the reporting framework provides the necessary information directors, investors, bankers and other stakeholders require to make effective and timely decisions. *Report 17* brings together over three years of the McGuinness Institute’s research and analysis of the New Zealand reporting framework – the country’s information infrastructure.

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