

COOL WITH CHANGE

At the heart of New Zealand's shift from being one of the most regulated to one of the most liberalised OECD economies is the Treasury's chief accounting adviser, Ken Warren

New Zealand used to be known as an exporter of raw materials and food – butter, wool, lamb – but in recent years, its government has been trying hard to boost local entrepreneurs by streamlining business regulation.

And the changes appear to be working. The World Bank has ranked it

as the best country to start a business (data benchmarked to June 2011) and it has just been placed 13th out of 141 countries in the 2012 global innovation index of the European Institute of Business Administration.

Ken Warren, the chief accounting adviser to New Zealand's Treasury, has been front-and-centre in these reforms,

providing officials and politicians with the data to make bold decisions.

Warren, 55, embodies this entrepreneurial spirit. Far from the stereotypical caricature of a public service bean counter, he has been throughout his career a driver of innovation rather than a compliance officer guarding the status quo.



Power of the reconstruction dollar: the strength of the government's finances allowed it to rapidly fix the damage caused by a major earthquake in 2011

His first major job was with the Office of the Auditor-General in the capital Wellington, where he was part of the movement to remodel the institution along the lines of a chartered accounting firm. He then sought overseas experience and went to work for Ernst & Young in London. When he returned in the late 1980s, his home country was suffering from a major fiscal crisis and burdened with foreign debts that amounted to around 60% of GDP.

This sorry state of affairs triggered a series of reforms. In the process New Zealand has changed from being one of the most regulated economies in the OECD to one of the most liberalised.

In the middle of this reform process Warren joined the New Zealand Treasury and in 1990 scored 'the most interesting accounting job in the world', as he describes the task to prepare the first audited balance sheet of the government of New Zealand. 'The aim was threefold: to get the country's finances in order, move to an accrued budgeting basis and provide the administration with the necessary data to make well-informed decisions.'

Over the following years, the government's debts have turned into a budget surplus and New Zealand has earned respect internationally for

becoming a well-run economy with an efficient public service.

But the country has still had to deal with the global financial crisis. As in most advanced economies, confidence plummeted as uncertainty dominated. New Zealand's Reserve Bank lowered the official cash rate from 8.25% prior to July 2008 to a low of 2.5%. The government also introduced bank guarantees aimed at restoring confidence in the financial sector and provided banks with improved access to funding.

Well placed for the crisis

'New Zealand was in a good position to deal with the global financial crisis,' recalls Warren, who by that stage had progressed to the role of the government's chief accounting adviser.

Against the background of the current economic crisis in Europe, Warren believes that New Zealand remains 'in better shape than most Western nations'. Thus, when in February 2011 a severe earthquake hit the Canterbury region on South Island, causing damage estimated at around NZ\$20bn (US\$16.27bn), equal to around 10% of GDP, the government was able to react swiftly.

After that catastrophe, insurance

company AMI, with a market share of 30% in the affected region, struggled to deliver on its customers' claims and was acquired by the government. Since then Insurance Australia Group (IAG) has taken over most of AMI, with the exception of AMI's earthquake-related liabilities, which are still owned and backed by the government in Wellington. The government reported on the acquisition and subsequent sale in accordance with international accounting standards, consolidating the entity in its accounts.

This purchase, which involved contingency funding, is an example of the ability of the government 'to make budgetary decisions on the base of true costs rather than just on cashflow', says Warren, who understands his role in ensuring the government's access to accurate financial data. Speaking to *Accounting and Business*, he said: 'We aim at giving decision-makers the necessary confidence. If there are doubts over the financial data, people are less willing to make bold decisions.'

Currently, net public debt accounts for 20% of New Zealand's GDP and is expected to crest to about 30% in the coming years. 'Many European nations would love that figure,' muses



Warren, reflecting that the UK and Germany have government debts above 80% of their respective GDPs. Budget projections suggest that the balance of payments deficit bottomed out at about 2.5% of New Zealand's GDP in 2009 and is now heading back up again – it is predicted to be 7% of GDP by 2015/16.

As a result, Warren sees no need for public austerity measures. The economy is growing – 1.4% in the year ending December 2011, an estimated 1.6% in 2012 and 2.6% in 2013 – and so the government is withdrawing the stimulus measures it started after the big earthquakes.

Constraint, not reduction

'What we are doing is more a fiscal constraint than an actual fiscal reduction,' explains Warren. 'We want to achieve more with the same or less.'

Currently the biggest challenge for the public service sector is to fulfil the government's ambitious goals, reckons Warren, such as returning to budget surplus in 2014 while simultaneously rebuilding Christchurch.

The government also intends to boost the performance of the economy through six policy drivers: a

growth-enhancing tax system; better public services; support for science, innovation and trade; better regulation, including regulation around natural resources; investment in infrastructure; and improved education and skills.

Not everyone, though, is happy with this policy especially as the objective of achieving surplus in 2014 itself attracts criticism. Peter Lyons, economist at Saint Peter's College in Epsom, Auckland, and a regular commentator on economics in the *New Zealand Herald* newspaper says: 'Balancing the government books means little if the rest of the economy is a shambles as a result.'

Lyons sees no need for budget restraint since 'there is no evidence to suggest that the public sector in New Zealand is bloated or inefficient compared with other nations'. In his view the deficits of recent years can be attributed to specific causes, some cyclical and others extraordinary. He reckons that the costs of the earthquake and the finance company bailouts have been extraordinary items: 'The government was running healthy surpluses prior to this.'

In addition New Zealand's public sector workers have a lot on their plate

and not all share Warren's enthusiasm for change. According to the 2012 engagement benchmarking survey from Right Management (a talent and career management firm within Manpower Group), only 31% of the country's public servants were committed to their work, compared with 37% of private sector staff.

Demoralisation

'Morale has suffered in specific agencies,' said Kari Scrimshaw, principal consultant with Right Management. 'Delivering better public services is an ambitious goal.'

The Westpac McDermott Miller consumer confidence index found that 40% of public sector workers anticipate difficult times over the next 12 months, compared with 24% of employees in the private sector.

Warren says: 'It's true, part of the public sector is under stress, but many others see the changes as an encouragement and as an opportunity to create better outcomes for the people.'

Warren feels that New Zealand is a good place for people who want to help organisations to transform themselves. And in his view, that is especially true for accountants in the public service.

Left: Still standing: the 6.3 magnitude 2011 Christchurch quake was 740km distant from Auckland's 328m-tall Sky Tower, built to withstand earthquakes up to 8.0 on the Richter scale and 20km away

'HISTORICALLY THE PEOPLE WHO SAILED AROUND HALF OF THE GLOBE FROM EUROPE TO SETTLE IN NEW ZEALAND HAD AN ENTREPRENEURIAL SPIRIT. NOW, INNOVATION IS PART OF OUR GENE POOL'

He says: 'In so many countries accountants are not involved in policymaking. In New Zealand they can be.' The Kiwis expect more from their accountants than sheer number crunching, he adds, 'but job satisfaction here is also higher'.

The challenge is to get financial managers to become advisers, or as Warren puts it, 'to stiffen up and do more than just fulfil a compliance role and to drive the benefits from good-quality accounting'.

Even without a special national programme to recruit accountants from abroad, Warren sees excellent opportunities in New Zealand's public service for trained accountants from overseas. 'There are always open positions,' he says.

But beware, if you want to succeed in financial management in the country you will have to want to deliver better services and you should also be cool with change, according to Warren. 'Historically the people who sailed around half of the globe from Europe to settle in New Zealand had an entrepreneurial spirit. Now, innovation is part of our gene pool.'

Barbara Bierach, journalist



* KEN WARREN

As chief accounting adviser for the New Zealand Treasury, Ken Warren provides advice on the government's accounting policies and practices.

He also has responsibility for Public Finance Act matters dealing with reporting and appropriations. He is currently a member of the New Zealand External Reporting Board, and has served on the country's Financial Reporting Standards Board, where he was also the chairman of the public benefit entity working group. He holds a Bachelor of Commerce degree from the University of Canterbury on the South Island.

He became a member of the International Public Sector Accounting Standards Board (IPSASB) in January 2009. He previously participated in the International Federation of Accountants (IFAC) public sector committee's steering committee on non-exchange revenue from 2002 to 2004, and was recently appointed to the IPSASB taskforce on long-term fiscal sustainability reporting.

* FACT FILE

*** New Zealand is a market economy with a population of 4.4 million and a year-on-year growth rate of 1.6%; the forecast for 2013 suggests an increase of 2.6%. According to the Economic and Financial Overview 2012 of New Zealand's Treasury, the country has a GDP of NZ\$198bn (US\$161bn). In 2011 inflation averaged 1.8% and unemployment 6.5%.**

*** It is highly dependent on the primary sector. Agricultural products such as meat and dairy and commodities such as petroleum and coal account for around half of New Zealand's exports.**

*** Exports account for around a third of real expenditure GDP. Currently the country's most important trade partners are Australia, China and the US. Sovereign debt is 20% of GDP.**

*** New Zealand's core government spending is expected to reduce over the next few years. The current 33.8% of GDP that it accounts for this financial year is expected to shrink to 30.2% by 2015/16.**

* PROSPECTS FOR ACCOUNTANTS

According to recruitment services firm Hudson, the accounting and finance employment situation in New Zealand at Q3 2012 was:

- * 19.2% of employers intend to increase permanent hires.**
- * 12.7% of employers plan to reduce hires in accounting and finance.**
- * There is demand for employees at the mid-level – management accounting roles, business analysts and finance managers in particular. Sought after are individuals who understand the business, know their numbers and are willing to provide decision-making with meaning.**
- * Hiring plans outside these roles remain unchanged or have softened slightly.**
- * Employers continue to focus strongly on formal skills. 62% focus on technical skills while only 32% spend time on behavioural attributes and just 6% measure motivational fit.**