

**INTRODUCTION SPEECH FOR THE FINANCIAL  
MANAGEMENT BILL 2004 BY THE HON. MINISTER FOR  
FINANCE & NATIONAL PLANNING**

Mr. Speaker, Sir, I beg to move:

That a Bill to regulate the financial management system of the State and for related matters (Bill No. 18 of 2004), be read a second time.

Mr. Speaker, Sir, I rise to present the second reading and introduction of the Financial Management Bill (Bill No. 18 of 2004).

Mr Speaker, Sir, this Bill is an important piece of legislation for the Government and for its ability to influence the quality of life of the people of Fiji. One of the most difficult issues facing any government is to manage its finances well in the face of competing pressures to spend money, while keeping taxes low enough that they do not strangle the country's economic development and growth.

To help with this balancing act, Sir, the Government has agreed to introduce a comprehensive financial management reform programme over the next few years.

***Why do we need to change the current system***

Mr Speaker Sir, this reform stemmed from the fact that, over the last two decades, the current financial management framework within the public sector, including performance management, accounting, budgeting and reporting processes adopted by Government and its agencies, has lagged behind and has not supported Government in its desire to effectively address the social and economic challenges it faces.

Sir, much of the key problems with the current financial framework arises from the following :-

- First, poor linkages between government policy decision and their implementation;
- Second, a focus by Ministries and departments on inputs rather than performance; and
- Third, poor financial management and budget accountability across government.

To overcome these problems, there is a need to strengthen and modernise the framework so that it :

- first, better aligns government policy priorities with budget resources;
- second, provide effective control over government spending with the devolved management arrangement; and
- third, strengthen transparency in financial management.

Sir, this will be done in a way, which harmonizes with other reforms, including the Civil Service and Public Enterprises reforms, as well as related policy initiatives such as productivity improvement within the civil service and at national level. I will dwell on this later.

The new approach to Financial Management Reform (FMR) would involve amending most sections of the 1999 Public Finance Management Act. While the objectives of the proposed reforms and the 1999 ones are the same, the route being taken is different.

Mr Speaker, Sir, the Public Finance Management Act 1999 was designed on a system for public sector management that was based on the “New Zealand” model. I have nothing against New Zealand, I think it’s a great country. Sir, I believe that we should not have an arrangement for managing our public sector that is simply “borrowed” from another country.

Sir, I don’t have a problem with “borrowed” ideas, as long as these ideas are tailored to meet the way in which we do things in Fiji taking into account the capacity and other constraints we face.

I am pleased, Mr Speaker, Sir, to report that the propose Bill is designed to address these constraints.

***The basis for the new approach***

The new approach being proposed is based on standard Westminster concepts of Ministerial accountability, with strengthened processes in each stage of the management cycle - rather than on the “purchaser-provider” model that was the basis for the 1999 Act.

Sir, the new approach to the Financial Management Reform maintains the full accountability of CEOs to their line Ministers, instead of having separate accountability to a “Purchase Minister” and an “Ownership Minister” as in the 1999 Act. It also allows for a flexible and carefully managed devolution of authorities to CEOs, having regard for agency capabilities, rather than a ‘Big Bang’ approach.

Sir, the reform focuses on performance in terms of both outcomes and outputs – rather than wholly on outputs. Overall it has less restrictive principles of

responsible financial management, allowing the Government to set its own targets and report against them – rather than specifying the actual targets.

Sir, the Financial Management Bill will provide the legislative framework to support the financial reform. As I have alluded to earlier, the Bill will also support the Public Enterprise Reform, where Government will seriously examine ways, to improve the performance and accountability of public entities and the Civil Service Reform, which includes employment contracts for Chief Executive Officers, delegation of powers of appointment and promotion; and skill upgrading for executive management.

The financial management reform programme involves four key strategies:

- **Performance budgeting** - with performance measures to help allocate scarce Budget funding as efficiently and effectively as possible;
- **Financial management training** - to upgrade the skills of the people responsible for managing those resources;
- **Moving from cash to accrual accounting** – to provide better information on the billions of dollars of resources controlled by government; and
- **A new financial management information system** – so that Government and its agencies can get more reliable and timely financial information to improve management decisions and accountability.

Mr Speaker, Sir, these strategies, and the Financial Management Bill itself, are based on two key principles:

- a performance focus in government; and
- strengthened accountability.

Mr Speaker, Sir, this involves a significant shift in the approach to financial management from the Finance Act of 1981, which this Bill replaces. The new approach means focussing more on what government agencies are achieving with the money they get from the Budget and from the assets they control on behalf of the State. At the same time, if we are serious about holding agencies and their CEOs accountable for performance, we also have to give them greater authority to make decisions.

This means, Mr Speaker, Sir, untying their hands - but not doing away with those controls that reduce the risk of waste and corruption. Indeed, the increased accountability that the Bill requires from agencies, including annual reports with audited financial statements, will increase the transparency of public finances and should therefore reduce the incidence of unethical and illegal practices.

Sir, the challenge is to devolve authority to CEOs and agencies on a step-by-step basis, and to make allowance for the differing levels of financial management skills and abilities across agencies. This is in contrast to the “big bang,” approach to devolution that was adopted by the suspended *Public Finance Management Act 1999* which this Bill also repeals.

Mr Speaker, Sir, the carefully managed approach to devolution proposed in the Bill, means having a regulatory framework which is not carved in stone, but which is flexible enough to allow for the “performance and accountability” to be lifted in stages and to allow for differences between agencies. The Bill provides this flexibility in three (3) ways:

- first, it phases in the new reporting requirements over several years to allow for systems and skills to be upgraded;
- secondly, there will be a new set of Finance Instructions. These will be broader than the existing ones and can be progressively and tailored for different levels of agency capability; and
- thirdly, each agency will set out its internal delegations and procedures in its own Finance Manual.

### ***Responsibilities***

Mr Speaker, Sir, the Bill recognizes that responsibility for managing public finances is a shared one. The Minister for Finance is responsible for managing the financial affairs of the Government as a whole, while Chief Executive Officers or Boards – known in the Bill as responsible authorities - are responsible for managing the financial affairs of their entity.

In carrying out this responsibility, the Minister for Finance and each responsible authority need to consider the principles of responsible financial management, which are:

- first, to manage finances over the medium-term on a responsible and transparent basis;
- second, to manage revenues and expenditures so as to achieve prudent levels of debt;
- third, to ensure value for money in the use of money and resources;
- fourth, to manage contingent liabilities in a prudent manner; and
- fifth, to report transparently in accordance with relevant accounting and statistical standards.

This Mr Speaker Sir, is set out in section 5 of the Bill.

Sir, Honourable Members who are familiar with the suspended *Public Finance Management Act 1999*, will see that the financial management principles in this Bill are significantly different in that they provide for the Government to set its own budget targets and debt limits, instead of having them based on a set by rules.

Mr Speaker, Sir, for this Bill the principles of financial management are implemented at the whole-of-government level by linking the Government's 3-year financial targets to the annual budget process. This is done by:

- first, a strategic policy statement, to be tabled before 30 June each year, specifying targets for the budget result, government debt, debt servicing and contingent liabilities as a proportion of gross domestic product (GDP);
- second, the Budget containing details of how it is aligned with these targets; and
- third, an annual report comparing the actual results with the targets.

At the agency level, CEOs of Ministries and departments and the boards of statutory authorities and government companies are required to manage the entity efficiently, effectively and economically and to maintain an effective system of internal control. In addition, for Budget Sector agencies, CEOs will be responsible for administering the Budget appropriations to the agency, for the proper accounting for money and property, for collecting State and agency revenue and for authorising expenditure. This is set out as section 28 of the Bill.

### *Authorities*

Overall, Sir, the responsibilities on agency CEOs are greater under the Bill than was the case with chief accounting officers of Ministries and Departments under the *Finance Act 1981*.

Mr Speaker, Sir, in terms of the greater authority for CEOs that I mentioned earlier, the Bill allows for delegations in the areas of:

- approving expenditure;
- budget flexibility through transfers within their budget appropriation; and
- write-off of losses.

The Bill also accommodates Carry-Overs in expenditure. To reduce the incentive for end-of-year spend-ups, unspent appropriations will not automatically lapse on 31 December but can be carried forward to pay unpaid invoices, with the approval of the Minister for Finance.

This is set out in section 21 of the Bill.

Mr Speaker Sir, the Bill also allows agencies to retain revenue. The current system of revolving funds will be expanded to allow for other types of agency revenue to be retained. This means that:

- trading and manufacturing activities will be subject to appropriation limits that vary with the level of revenue they earn; and
- agencies can negotiate with Finance Ministry to retain all or part of other revenue they earn from market transactions, including revenue from the sale of surplus agency assets.

However, revenue retention will not be allowed for taxes or other types of State revenue, including revenue from the sale of State assets such as land, buildings and vehicles. This is set out as section 20 of the Bill.

Mr Speaker, Sir, Government has been criticised by the Members of the Opposition on the delays in the time taken to respond to national disasters. In most cases Sir, the delay has been due to the current requirement and process under the existing Finance Act 1981 and this has limited the ability of the Government to respond immediately. This however, Mr Speaker, Sir, is being addressed under section 24 of the Bill. The details to be provided in the Finance Instructions, which will facilitate the efficient delivery of emergency services to affected areas.

### *Reporting*

Mr Speaker, Sir, again, this is balanced by strengthened accountability through requirements for Annual Corporate Plans and Annual Reports – with performance measures linked to the CEO performance agreements. In addition, agencies Annual Corporate Plans will link to the Government Strategic Development Plan and will include:

- outcome indicator – to assess progress in addressing social and economic issues facing government; and
- output measures – to assess the quantity and quality of service provided and the cost of those services.

Each agency will prepare annual report which will compare planned and actual performance for tabling in Parliament and publication. Sir, it means that each

level of Government expected performance will be documented (and open to public debate).

Mr Speaker, Sir, while much of the Bill focuses on what is known as the Budget Sector of government, it also aims to improve the accountability of off-Budget entities, including statutory authorities and government companies. It sets minimum requirements for annual reports with audited financial statements to be tabled and published. This fills in the accountability gap for off-Budget entities that are not public enterprises and that do not already have these requirements in their legislation.

Sir, combined with improved role definition and giving the appropriate authority, these new reporting arrangements will make the public sector more accountable to Parliament and, therefore, provide incentives for improved performance overall. The new documentation requirements are outlined in Part 7 of the Bill.

Sir, the proposed Financial Management Bill will be complemented by amendments to the *Audit Act of 1969*, which the Government will introduce separately, and by consequential amendments to other legislation, particularly the *Public Service Act 1999*.

Mr Speaker, Sir, the Financial Management Bill is a far-reaching piece of legislation that will help ensure that the public sector plays its part in the Government's vision for Fiji, "Building Lasting Prosperity Together". It draws on "best practice" from other countries with Westminster traditions. At the same time, it makes allowance for the need to move ahead prudently as our agencies improve their financial management skills, systems and abilities generally.

To help honourable Members understand the details of the Bill, Mr Speaker, Sir, I draw their attention to the *Explanatory Notes* provided with the Bill.

Mr Speaker, Sir, in commending the Bill to the House, I first wish to notify honourable Members that, with the agreement of the Business Committee and with your leave, Sir, that the Bill be referred to the relevant Sector Standing Committee for scrutiny, and the Committee returns its report at the September/October sittings of this honourable House.

Sir, I commend this Bill.