

The Defining Characteristics of Financial Management in the Public Sector

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Outline

- Strategy & Objectives
- What is PFM?
- Defining Characteristics
- Focus on Four
- Case Studies
- Discussion
- Questions



Personal Background



Experience

- **Scholar-practitioner**
- **Worked and studied in:**
 - Africa
 - Europe
 - N/America
- **Credentials**
 - PhD, Lancaster
 - PMP, PMI

Sectors

- **Banking**
 - Citibank
- **Government**
 - Abuja Municipal Council
 - Government of B.C.
 - Government of SK
- **Academia**
 - UVic Economics
 - UofR Economics
- **Mgt. Consulting**
 - Various
- **NGOs**
 - Various

Strategy & Key Objectives

You're a financial manager; not a financial specialist!

All questions are welcome; participate and be eligible for a prize 😊

Use case studies; draw lessons from SK, Canada and elsewhere

Take an informed approach as a public sector financial manager

Examine PFM as a public policy issue; examine its scope and nature

Gain key insights

What is PFM?

Public Sector

- Larger and more complex than traditional govt.
- Near-govt. agencies, greater public sector entities

Financial Mgt.

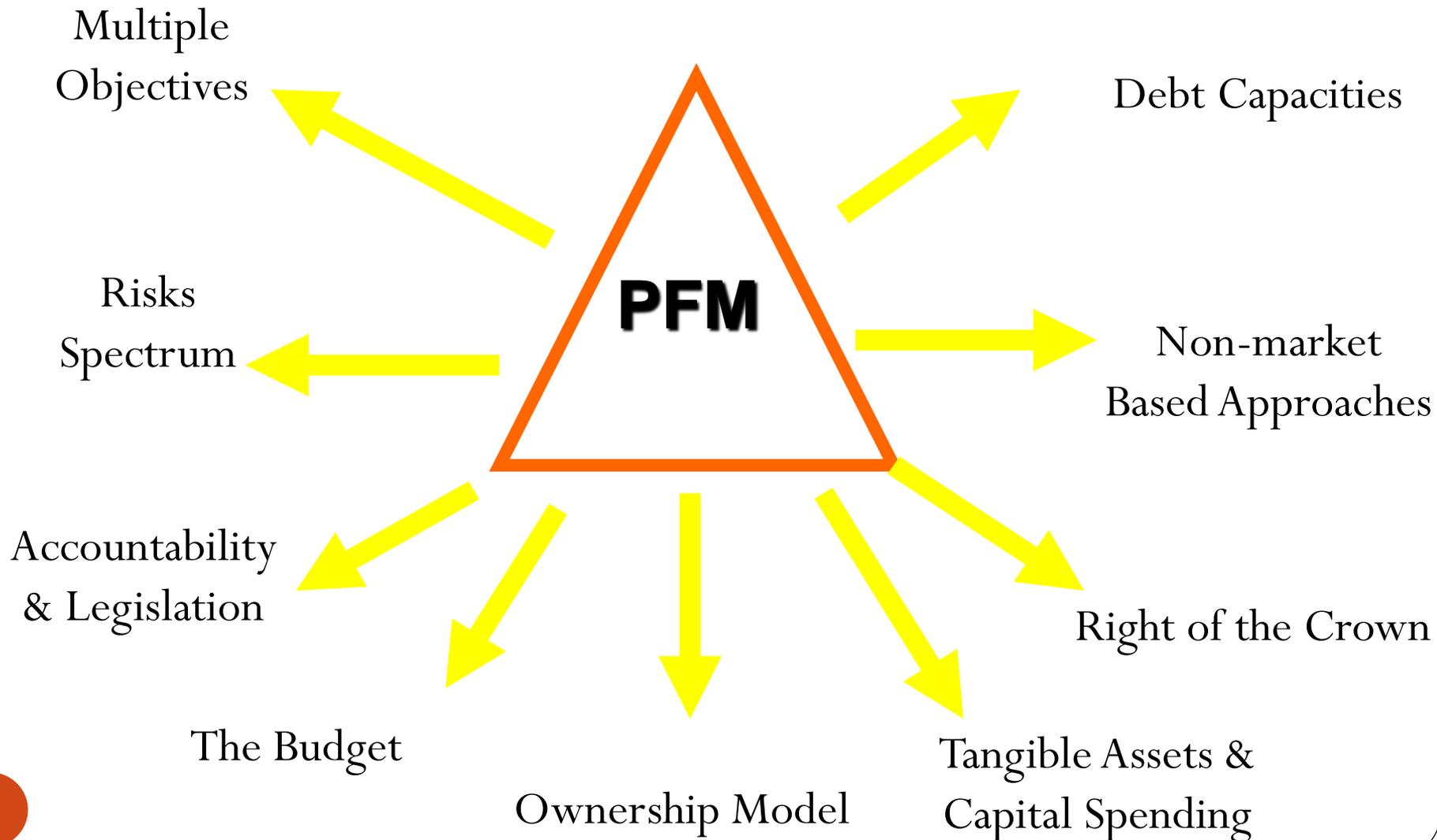
- A subset of management
- Improves decision making through financial info generation

PFM

- What is unique about the public sector?
- What impact will this have on the management of financial resources?

- *Canadian Institute of Chartered Accountants (CICA)*
- *International Federation of Accountants (IFA)*
- *PFM = Public Financial Management*

Defining Characteristics



[1]: Multiple Objectives

Public
Good

- Applies to all citizens or those included in the mandate of the organization

Performance
Measurement

- Public-sector entities are measured by the achievements of their goals; not posted profit

Political
Ideology

- Different systems of economic organization. Which goods and services are delivered in the private sector and the public sector?

Wealth
Redistribution

- Different models; for instance, social assistance or fiscal redistribution

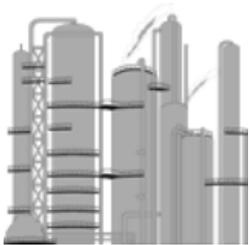
[2]: The Budget



Capital budgeting is one of the most important decisions made by a public financial manager



Capital assets are expensive



Have a long life



Carry significant risks

Elements
Effective capital budgeting looks at a wide variety of issues

Alternative Financing
Governments increasingly look for ways to finance capital projects

Risks
Life cycle cost is an important part of the overall risk assessment

Capital improvement plans

Maintenance

Techniques: Payback period, NPV, IRR and CBA

Traditional : appropriations or borrowings

Commercialization: special agency

Public-Private Partnership

Policy risks, public interest risks, market risks, financing risks e.t.c.

[3]: Risks Spectrum

- ❑ Govts. hold a vast array of risks
- ❑ Including residual risks that cannot be insured against
- ❑ Govts. sometime have a short window to respond to these shocks
- ❑ And, of course, they have to account for the use of resources, ex-post!



Provincial Disaster Assistance Program

PDAP



[4]: Non-market Based Mechanisms



- ❑ Financial managers cannot rely solely on market-pricing mechanisms to determine value for public sector projects

- ❑ Regardless, they rely on some private-sector pricing models that provide incentives for competition between private- and public-sector delivery entities



Discussion



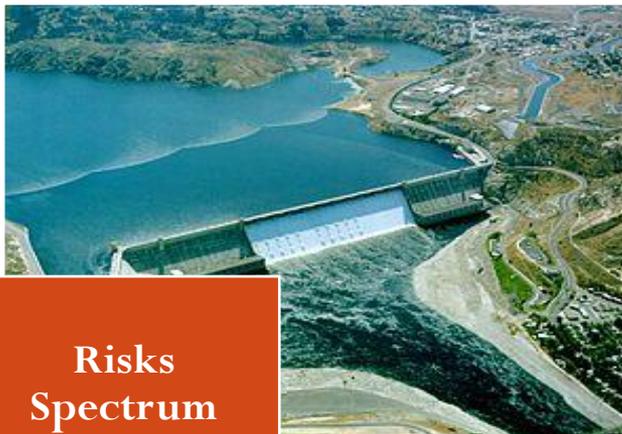
Focus on four key elements



Multiple
Objectives



Capital
Budgeting



Risks
Spectrum



Non-market
Based Incentives

Risks: Terrorism

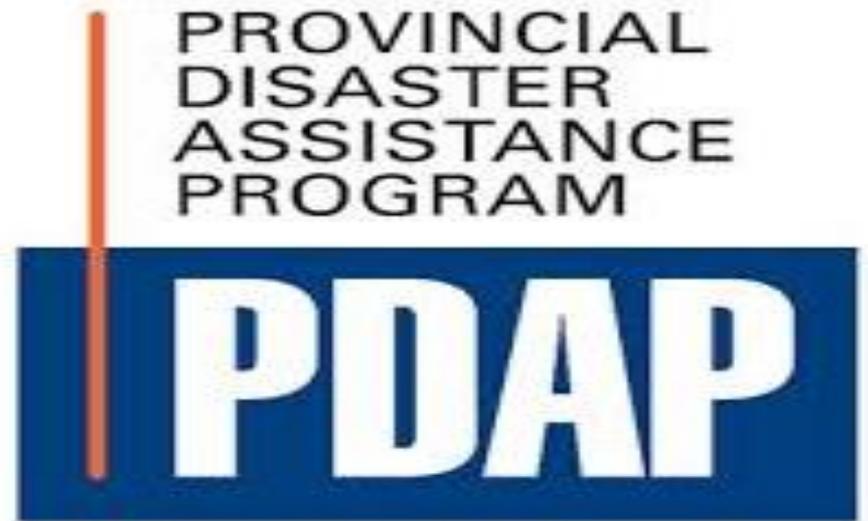


- ❑ Special warrants are instruments that authorize government spending without prior legislative approval
- ❑ Financial Administration Act

- ❑ How do you manage an emergency expenditure with a spending limit in place?
- ❑ How thorough was the disbursement process for emergency funds released after the 9/11 attacks?



Risks: Natural Disaster



- ❑ Saskatchewan's Opposition leader calls for an inquiry into the govt's handling of 2015's crisis-level outbreak of forest fires

Risks: Did Obama's Stimulus Plan Work?

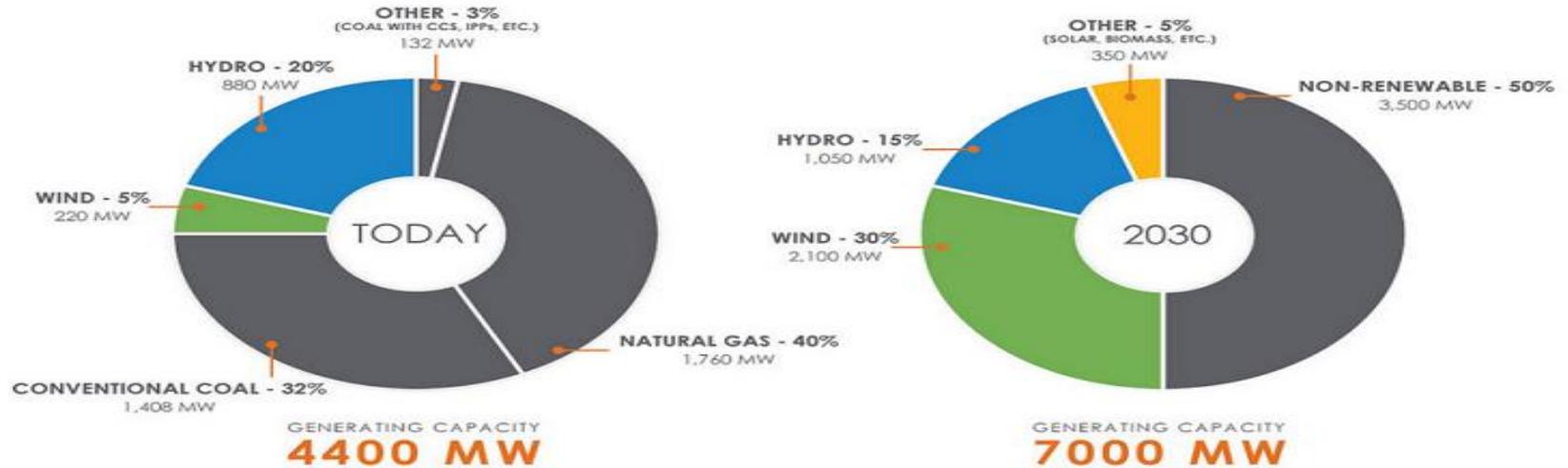
- ❑ Congress approved \$787 billion plan on February 2009
- ❑ Though a ten-year package, \$720 billion (i.e. 91.5%), was budgeted for the first three fiscal years
- ❑ It did better than planned; \$242 billion had been spent by the end of FY 2009



- ❑ Can PFM help reconcile these statements, in any way?

Capital Budgeting: Policy Risk

Saskatchewan's Potential FUTURE POWER MIX



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- ❑ Premier Wall announced recently that by 2030, half of SK's power will come from renewable sources
- ❑ Questions:
 - Do you perceive any risks here?
 - If so, how might these impact the province's capital budgeting process?

Breaking News!



BHP Billiton abandons takeover bid for Canada's Potash

© 15 November 2010 | Business

Mining giant BHP Billiton has abandoned its takeover bid for fertiliser group Potash Corporation after it was blocked by the Canadian government.

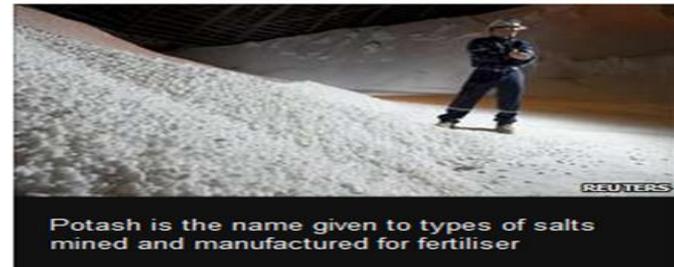
BHP said it had been unable to convince the government of the deal's merits despite "unparalleled" pledges on jobs and investment.

Canada rejected the offer on 3 November, saying it was not convinced that it was in Canadian interests.

The Anglo-Australian mining giant had been given 30 days to appeal.

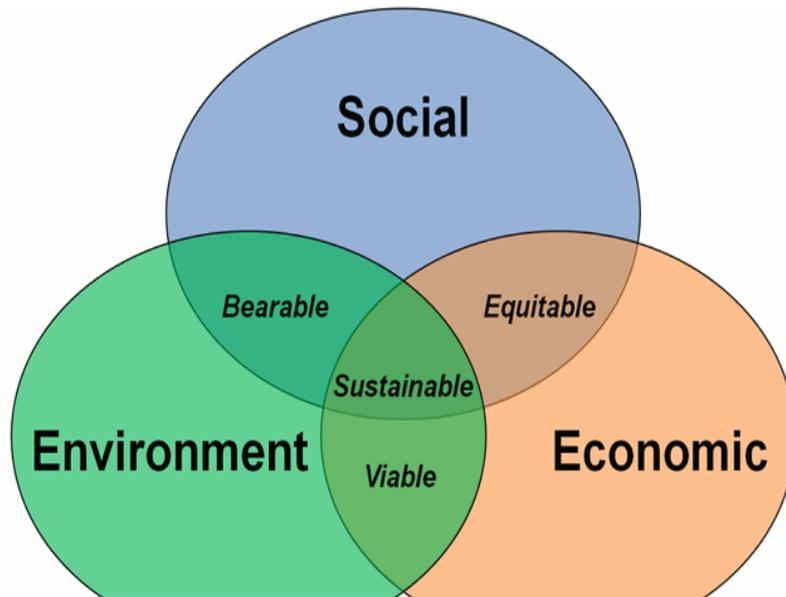
Saskatchewan-based Potash said BHP had "substantially undervalued" the group's potential.

BHP made a \$38.6bn (£23.7bn) bid for the company in August.



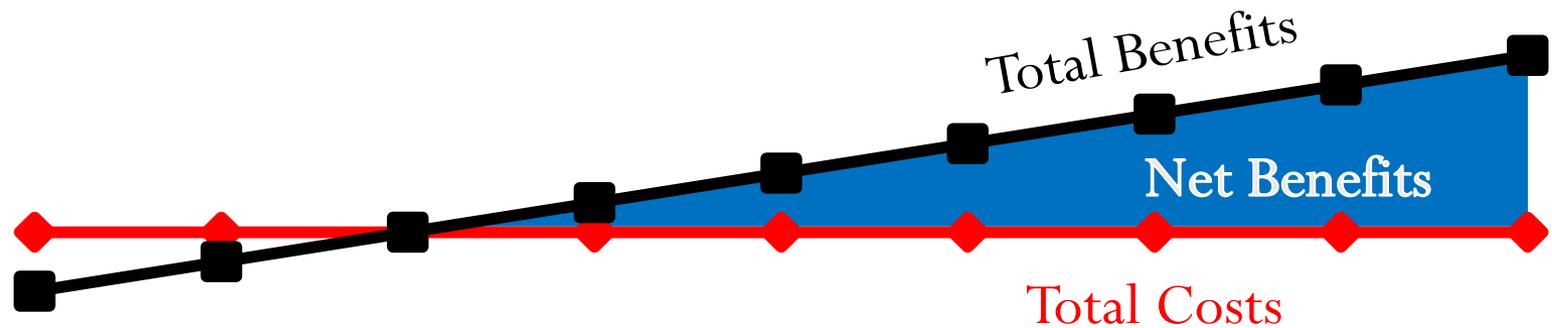
Potash is the name given to types of salts mined and manufactured for fertiliser

Non-market Incentives



- In 2010, BHP Billiton withdrew a \$38.6 billion takeover bid for Potash Corp.
- The Canadian government ruled that a takeover would not offer a “net benefit” to Canada
- A required and key test under the Investment Canada Act

Net Benefits: The Golden Rule



- ❑ The efficient quantity of a public good is the quantity that maximizes “net benefit”
- ❑ BHP Billiton failed this test



Summary & Conclusions

- ❑ Public sector budgets take on a much higher level of significance than in the private sector
- ❑ Capital budgeting decisions are among the most important decisions that a public financial manager makes
- ❑ PFM includes management control systems designed to elicit behaviours that achieve strategic objectives with the least amount of unintended consequences and risks

“It's not your money - it belongs to the people”

