Public Service Commission
Te Kawa Mataaho

Crown entity board governance development – understanding 'strategic financial management'

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Contents

Introduction

Strategic financial management sits at the centre of effective Crown entity governance. Boards must do more than oversee budgets and compliance. They must exercise stewardship of public resources in a way that supports longterm sustainability, resilience, and delivery of value for money.

In the public sector, this responsibility carries a distinct accountability. Boards owe duties to their responsible Minister and to the public. Ministers rely on boards to demonstrate sound judgement in how they balance financial sustainability with statutory objectives and wider government priorities. Monitoring departments support this relationship by providing insight, challenge, and early warning of emerging risks. Effective financial governance depends on strong engagement across all three parties.

In a New Zealand public management context, strategic finance refers to the intentional alignment of financial resources with long-term public value, policy priorities, and system-wide outcomes.

Evidence from governance reviews across both the public and private sectors shows that boards often lack collective capability to assess financial health and fiscal outlook. Weaknesses arise when boards treat financial management as a technical or compliance exercise, rather than as a core governance discipline that integrates strategy, risk, performance, and stewardship.

This guide addresses that gap. It provides a plain English resource to help all board members contribute meaningfully to financial discussions and decisions. It reflects the expectation that strategic financial management is a shared responsibility of the full board, grounded in the duty to operate in a financially responsible manner and to support longterm fiscal sustainability.

The guide focuses on the specific responsibilities of Crown entity boards, while recognising the roles of Ministers and monitoring departments in the wider public management system. It supports boards to strengthen financial stewardship, improve decision-making, and align organisational performance with government expectations.

Purpose

A governance-focused understanding of 'strategic financial management' that aligns with Ministers' expectations, Treasury guidance, and the Auditor-General, for adoption by Crown entity boards.

What is strategic financial management?

The board's collective capability and practice of integrating financial stewardship, strategic intent, risk, and performance to ensure the organisation is financially sustainable, resilient, and delivers value for money over the short, medium, and long-term.

It reflects the Crown Entities Act 2004 duty to operate in a "financially responsible manner" (s51) while pursuing statutory objectives, and the Public Finance Act 1989 overall focus on long-term fiscal sustainability and proper use of public resources.

Why does this matter?

Ministers assess boards not on technical compliance, but on whether they can trust the board to steward public money wisely while advancing government objectives.

A board that defines strategic financial management narrowly - as budgeting, audit, or solvency - will fall short of those expectations.

High performing boards treat strategic financial management as a governance discipline integrating strategy, investment, risk, and long-term sustainability.

Strategic financial management as a function of good governance

Strategic financial management:

- is a core governance discipline through which the board exercises stewardship of public resources to achieve statutory purposes, ministerial expectations, and long-term public value
- sits at the intersection of strategy, stewardship, accountability, and performance.

Six core elements for boards

1. Financial stewardship linked to purpose and strategy.
2. A long-term view of financial sustainability and resilience.
3. Active investment and asset stewardship.
4. Financial, business, environmental risk oversight and control environment and the development of mitigation options.
5. Performance assessment, value for money, and public accountability.
6. Independent review of financial advice quality and board capability.

01

Financial stewardship linked to purpose and strategy

Link financial decisions to organisational purpose and strategic priorities, rather than treating them as compliance exercises.

Oversee and ensure:

- clear alignment between strategy documents (e.g. SOIs and investment plans) and financial resources
- explicit trade-offs between affordability, impact, and risk from the long-term financial implications of policy and service delivery choices.

The Auditor-General notes that weak alignment between strategy and finances undermines value for money and long-term performance in Crown entities (Office of the Auditor-General, 2022).

02

Long-term view of financial sustainability and resilience

Focus beyond annual budget cycles and understand intergenerational and long-term impacts

Boards should actively oversee:

- medium and long-term financial forecasts and scenarios
- balance sheet strength, liquidity, and capital structure (for SOEs)
- cost drivers and funding dependencies
- the organisation's capacity to absorb shocks and adapt.

Treasury guidance emphasises - sound public sector financial management involves understanding assets, liabilities, commitments, and future fiscal risks—not just current expenditure control.

03

Investment and asset stewardship

Boards are expected to:

- ensure investments are justified by clear strategic and financial cases
- challenge assumptions about benefits, costs, and delivery risk
- monitor whether assets remain fit-for-purpose and value-adding
- actively steward existing assets, not just approve new spending.

Cabinet and Treasury guidance on investment management makes clear that boards have a responsibility for active stewardship of Crown resources and alignment with long-term government priorities.

04

Financial risk oversight and control environment

Boards are accountable for ensuring that financial risks are understood, monitored, and managed. Management designs and operates financial controls

Strategic financial management therefore incorporates:

- clear articulation of financial risk appetite
- oversight of debt, revenue volatility, cost escalation, and contingent liabilities
- understanding interactions between financial risk, service risk, and reputational risk
- assurance that systems, internal controls, and financial capability are fit for purpose
- 'Three lines of defence' models of risk management (recommended).

The Auditor-General consistently links poor financial outcomes in Crown entities to weak board visibility of risks rather than technical accounting failures.

05

Performance, value for money, and public accountability

In a public sector context, strategic financial management is inseparable from performance and value for money

Boards must ensure that financial information enables:

- good judgement about whether resources are effectively and efficiently converted into outcomes
- open, timely and transparent reporting to Ministers and Parliament enabling rapid identification of results
- honest assessment of efficiency, effectiveness, and affordability.

Financial information must support decision-making, not simply meet statutory disclosure requirements.

06

Quality of financial advice and board capability

Ministers expect boards themselves to demonstrate financial literacy and challenge, not passive reliance on management or advisers.

Strategic financial management therefore includes:

- board capability to interrogate forecasts, assumptions, and scenarios
- clear distinction between management's role in execution and the board's role in judgement
- access to timely, forward-looking financial insights rather than retrospective reporting
- financial audit assurance and formal board performance evaluation.

High performing boards ask good questions – they probe

Strategic financial management therefore requires boards to ask:

- How does our balance sheet, debt, or deficit affect wider Crown fiscal risk?
- Are we creating future pressure for policy or funding decisions elsewhere in the system?
- What external dependencies (appropriations, levies, fees, Vote funding) constrain our financial strategy?

Failure to ask these questions can be thought of as 'system blind governance'.

How do we recognise failure to undertake strategic financial management?

Six main indicators:

1. Weak linkage between strategy and financial sustainability.
2. Poor oversight of major investment and capital programmes.
3. Ineffective response to emerging financial distress.
4. Treating compliance as a substitute for strategy.
5. Weak engagement with the monitoring department.
6. Failure to meet Government objectives and/or priorities.

01

Weak linkages between strategy and financial sustainability

Failure to integrate long-term affordability into strategic decision-making, despite having the information to do so.

Boards approve strategies or Statements of Intent unsupported by realistic funding assumptions.

Known medium-term financial sustainability risks not actively managed or escalated to Ministers early enough.

Assumptions that policy change or additional Crown funding would "eventually" resolve structural gaps.

02

Poor oversight of major investment and capital programmes

Approved investment programmes without sufficient challenge of cost escalation and delivery risk.

Did not maintain active oversight once projects moved from approval into delivery.

Underestimated the cumulative balance-sheet and operating impacts of multiple concurrent investments.

The failure was not "project management", but boards treating investment approval as a one-off decision rather than an ongoing stewardship responsibility.

03

Ineffective response to emerging financial distress

Reacting too late to known financial stress, particularly where funding, revenue, or demand assumptions changed. Often:

- early warning signals were visible in forecasts and cash-flow analysis
- management raised concerns but boards delayed decisive action
- Ministers were not advised early enough to allow orderly intervention or policy choices
- management had failed to provide adequate performance information in response to a board request
- management sought a rushed decision from the board on an important strategic decision.

In public sector governance terms, this represents a failure of:

- board judgement
- risk appetite setting
- the "no surprises" convention.

Boards must act while options remain available.

04

Compliance is not a substitute for strategy

A board may be:

- fully compliant with annual reporting, audit, and appropriation rules, yet
- unable to articulate a coherent long-term financial strategy.

High-quality financial reporting does not equal high-quality financial governance. Overly backward-looking reporting can mask strategic fragility until it becomes acute.

05

Board fails to operate as part of the wider public management system

A board must understand:

- the extent of its statutory independence
- the accountability relationship to responsible Ministers
- how their financial decisions affect the Crown's overall fiscal position.

Strategic financial management requires boards to ask:

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06

Government financial and investment expectations

Cabinet expects boards to operate consistently with:

- government investment priorities
- asset stewardship principles
- long-term fiscal sustainability objectives.

Boards must:

- understand the whole-of-government context
- engage early when strategic or financial tensions arise.

A board that optimises its own financial position while creating downstream fiscal risk for the Crown is ***not*** acting in line with good governance expectations.

Failure to actively engage with monitoring departments and Ministers

Boards should treat the monitor as:

- a system connector
- an early-warning mechanism, not merely a compliance overseer.

Strategic financial management therefore includes:

- proactive discussion of emerging affordability or sustainability risks
- transparent explanation of trade-offs
- early advice when statutory objectives and funding realities diverge.

Boards that delay engagement until problems become acute are seen as failing both stewardship and relationship management obligations.

Building and testing financial capability at board level

Boards must collectively possess enough financial capability to:

- interrogate advice
- understand system-wide implications
- challenge management assumptions.

Where boards lack this capability, strategic financial management failures are considered predictable rather than accidental.

Recent failures have reinforced a clear message from Ministers:

- boards are not judged on whether financial problems occurred, but on whether they understood the system context early and acted while choices were still available.

Guidance and resources

Treasury and DPMC:

CO (23) 9: Investment Management and Asset Performance in Departments and Other Entities

Preparing the Annual Report and other End-of-Year Performance Reporting: Guidance for Crown Entities

Financial management and advice

Strategic thinking and planning

Guide to the Public Finance Act 1989

Office of the Auditor-General:

Getting the most out of your department's Audit and Risk Committee

Improving value through better Crown entity monitoring

Public Service Commission:

Guidelines-for-Crown-Entity-monitoring.pdf

New Zealand Government
Te Kāwanatanga o Aotearoa