

Public Finance (Fiscal Responsibility) Amendment Bill

Government Bill

Explanatory note

General policy statement

This Bill adds a number of new principles of responsible fiscal management and associated reporting requirements to the fiscal responsibility provisions in Part 2 of the Public Finance Act 1989. The objective is to ensure that the fiscal responsibility provisions continue to be a sound guide for fiscal policy.

The fiscal responsibility provisions of the Public Finance Act 1989 guide the formation and disclosure of government fiscal strategy. The provisions require the Government to pursue its objectives in accordance with the principles of responsible fiscal management. Among other things, the principles require public debt to be reduced to and maintained at prudent levels.

The fiscal responsibility provisions have served New Zealand well. It is partly thanks to the provisions that successive governments have focused on maintaining low, or prudent, public debt, putting New Zealand in a relatively strong position going into the financial crisis of 2008. However, the principles are silent on other aspects of good fiscal policy, for example, taking account of the interaction with monetary policy, considering the impacts of current policy on future generations, and managing resources efficiently and effectively. The

additions to the fiscal responsibility provisions in this Bill aim to address these and other gaps.

New principles of responsible fiscal management

This Bill includes 3 new principles of responsible fiscal management:

- that governments should formulate fiscal strategy with regard to its interaction with monetary policy. The Reserve Bank of New Zealand takes changes in fiscal policy into account when setting the official cash rate. This new principle will require the Government to be explicit about the interactions between monetary and fiscal policy at different stages of the economic cycle, including a discussion of cyclical indicators:
- that governments should ensure that resources are managed effectively and efficiently. This principle is accompanied by a reporting requirement for governments to set out their priorities for resource allocation and explain how those priorities have influenced and will influence their decisions. The idea behind this principle and reporting requirement is that it is not just aggregate amounts that matter—total spending, total assets, total debt, total tax revenue—but also the allocation of resources within those aggregate amounts:
- that governments should formulate fiscal policy with regard to its likely impact on present and future generations. The fiscal responsibility provisions currently have a focus of around 15 years. Yet decisions can have longer-term effects. This new principle will require governments to be explicit about any inter-generational trade-offs their fiscal policies have.

Extension of existing principle

The Bill extends the current fiscal responsibility principle relating to tax revenue so that it includes reference to raising revenue efficiently and fairly, as well as to predictability and stability of tax rates.

New reporting requirement to assess past fiscal strategy

The communication of fiscal policy tends to be forward looking. There is considerable focus on future plans, with relatively little focus on past plans and whether they were actually implemented. This

forward focus reduces the disciplines on governments to stick to announced plans, and it also means that there is no requirement to communicate lessons from past successes or failures of fiscal policy. Accordingly, the Bill introduces a requirement for the fiscal strategy report to contain an assessment of the extent to which the fiscal performance of the Government is consistent with its fiscal strategy.

Codification of existing practices

The Bill codifies 2 existing practices that are not currently legislative requirements. The Bill will—

- require the fiscal strategy report to include a revenue strategy that includes the Government's objectives for the tax system and tax policy:
- require the Treasury to produce an investment statement every 4 years, providing information about the assets and liabilities on the Crown's balance sheet.

Regulatory impact statement

The Treasury produced a regulatory impact statement in March 2012 to help inform the main policy decisions taken by the Government relating to the contents of this Bill. A copy of this regulatory impact statement can be found at <http://www.treasury.govt.nz/publications/informationreleases/ris>

Clause by clause analysis

Clause 1 is the Title clause.

Clause 2 is the commencement clause. The Act will come into force on the day after the date on which it receives the Royal assent.

Clause 3 states that the Bill amends the Public Finance Act 1989 (the **Act**).

Part 1

Amendments relating to responsible fiscal management and reporting requirements

Clause 4 amends section 26G, which sets out the principles of responsible fiscal management. The Government must pursue its policy objectives in accordance with the principles of responsible fiscal man-

agement, but may depart from those principles in the circumstances set out in section 26G(2). The amendment extends an existing principle of responsible fiscal management and adds 3 new principles.

The existing principle in section 26G(1)(e), which relates to predictability about the level and stability of tax rates in future years, is amended to require revenue strategy to be formulated with regard to efficiency and fairness, including the predictability and stability of tax rates.

The new principles are—

- formulating fiscal strategy with regard to its interaction with monetary policy;
- formulating fiscal strategy with regard to its likely impact on present and future generations;
- ensuring that the Crown's resources are managed effectively and efficiently.

Clause 5 inserts *new section 26KA*. The new section requires a fiscal strategy report to state the Government's priorities for allocating the Crown's resources and to explain how those priorities have affected and will affect the Government's decisions about allocating the Crown's resources.

Clause 6 amends section 26L, which, in conjunction with sections 26I and 26J and *new section 26KA*, sets out requirements for the fiscal strategy report. The amendment requires the fiscal strategy report to include—

- an assessment of the extent to which the Government's fiscal performance, in the period since the most recent substantial change in the political party composition of the administration, is consistent with the Government's fiscal strategy for that period; and
- details of the Government's revenue strategy, including the Government's objectives for the tax system and tax policy.

Clause 7 amends section 26M, which sets out the requirements for the annual budget policy statement. The amendment requires the statement to indicate priorities for the allocation of the Crown's resources that have changed from those stated in the most recent fiscal strategy report (as required by *new section 26KA* (inserted by *clause 5*)).

Clause 8 inserts *new section 26NA*. The new section requires the Minister to present to the House of Representatives regular investment

statements prepared by the Treasury. The first investment statement must be presented before the end of 2017. Subsequent investment statements must be presented at intervals not exceeding 4 years. An investment statement must describe the Crown's significant assets and liabilities, state their current and future value, and identify any significant changes since the previous investment statement.

Clause 9 amends section 26X, which specifies statements and updates that may be published in advance of presentation to the House of Representatives. The amendment includes in this section the investment statement required by *new section 26NA* (inserted by *clause 8*).

Clause 10 amends section 26Y, which requires certain reports, statements, and updates to be notified in the *Gazette*. The amendment includes in this section the investment statement required by *new section 26NA* (inserted by *clause 8*).

Clause 11 amends section 26Z, which gives the chief executive of the Treasury information-gathering powers for the purpose of preparing certain statements, reports, and updates. The amendment enables those powers to also be used for the purpose of preparing the investment statement required by *new section 26NA* (inserted by *clause 8*).

Part 2 Transitional provision

Clause 12 inserts a new transitional provision, *new section 89*. The new section provides that—

- a budget policy statement need not indicate changes in the Government's priorities for the allocation of the Crown's resources (*see clause 7*) if the previous fiscal strategy report was presented to the House of Representatives before the commencement of the Act;
- the first investment statement presented to the House of Representatives under *new section 26NA* need not comply with *new section 26NA(2)(d)* (which requires the investment statement to identify significant differences from the previous investment statement).

New section 89 is repealed 4 years after the day on which the Act comes into force, by which time it will have no further application.

Hon Bill English

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Responsibility) Amendment
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The Parliament of New Zealand enacts as follows:

- 1 Title**
This Act is the Public Finance (Fiscal Responsibility) Amendment Act **2012**.
- 2 Commencement** 5
This Act comes into force on the day after the date on which it receives the Royal assent.
- 3 Principal Act** 10
This Act amends the Public Finance Act 1989 (the **principal Act**).

- Part 1**
- Amendments relating to responsible fiscal management and reporting requirements**
- 4 Section 26G amended (Principles of responsible fiscal management)** 15
Replace section 26G(1)(e) with:
“(e) formulating revenue strategy with regard to efficiency and fairness, including the predictability and stability of tax rates; and

- “(f) formulating fiscal strategy with regard to its interaction with monetary policy; and
- “(g) formulating fiscal strategy with regard to its likely impact on present and future generations; and
- “(h) ensuring that the Crown’s resources are managed effectively and efficiently.” 5

5 New section 26KA inserted (Contents of fiscal strategy report: Government priorities)

After section 26K, insert:

“26KA Contents of fiscal strategy report: Government priorities 10

The fiscal strategy report must—

- “(a) state the Government’s priorities for allocating the Crown’s resources for the financial year to which the report relates and at least the next 2 financial years; and 15
- “(b) explain how those priorities—
 - “(i) have affected decisions about allocating the Crown’s resources in the financial year to which the fiscal strategy report relates; and
 - “(ii) will affect decisions about allocating the Crown’s resources in at least the next 2 financial years.” 20

6 Section 26L amended (Contents of fiscal strategy report: other matters)

- (1) In section 26L(1)(b), after “the departure”, insert “; and”.
- (2) After section 26L(1)(b), insert: 25
 - “(c) an assessment of the extent to which the fiscal performance of the Government, in the period since the most recent substantial change in the political party composition of the administration, is consistent with the Government’s fiscal strategy report (if any) for that period; and 30
 - “(d) details of the Government’s revenue strategy, including the Government’s objectives for the tax system and tax policy.”
- (3) After section 26L(3), insert: 35

“(4) In **subsection (1)(c)**, **administration** means the Ministers of the Crown for the time being.”

7 Section 26M amended (Budget policy statement)

(1) In section 26M(3)(b), after “paragraph (a)”, insert “; and”.

(2) After section 26M(3)(b), insert: 5

“(c) if the priorities referred to in **section 26KA(a)** have changed from those stated in the most recent fiscal strategy report, indicate those amended priorities.”

8 New section 26NA and cross-heading inserted

After section 26N, insert: 10

“Investment statement

“26NA Investment statement

“(1) The Minister must, before the end of 2017 and then at intervals not exceeding 4 years, present to the House of Representatives an investment statement prepared by the Treasury. 15

“(2) The investment statement must—

“(a) describe and state the value of the Crown’s significant assets and liabilities; and

“(b) state how those assets and liabilities have changed in value over time; and 20

“(c) forecast how those assets and liabilities are expected to change in value over at least the next 2 financial years after the financial year in which the investment statement is presented; and

“(d) identify any significant differences between the information specified in **paragraphs (a) to (c)** and the equivalent information reported in the most recent previous investment statement.” 25

9 Section 26X amended (Certain statements and updates may be published in advance of presentation to House of Representatives) 30

After section 26X(c), insert:

“(d) an investment statement under **section 26NA(1)**.”

10 Section 26Y amended (Notification and availability of reports, statements, or updates)

After section 26Y(1)(f), insert:

“(g) an investment statement presented to the House of Representatives under **section 26NA(1)** or published under section 26X.” 5

11 Section 26Z amended (Power of Secretary to obtain information)

In section 26Z(1), after “26N,”, insert “**26NA**,”.

Part 2

10

Transitional provision

12 New section 89 inserted (Transitional provision relating to Public Finance (Fiscal Responsibility) Amendment Act 2012)

After section 88, insert:

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“89 Transitional provision relating to Public Finance (Fiscal Responsibility) Amendment Act 2012

“(1) In this section, **commencement date** means the day on which the Public Finance (Fiscal Responsibility) Amendment Act **2012** comes into force.

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“(2) **Section 26M(3)(c)** does not apply to a budget policy statement if the fiscal strategy report most recently presented to the House of Representatives was presented before the commencement date.

“(3) **Section 26NA(2)(d)** does not apply to the first investment statement presented to the House of Representatives under **section 26NA**.

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“(4) This section is repealed 4 years after the commencement date.”