Spending Cap (People's Veto) Bill

Government Bill

Explanatory note

General policy statement

The objective of this Bill is to limit the annual increase in core Crown expenses by linking it to the rate of inflation and the rate of population change. The Bill also provides for eligible voters to approve, by a majority of valid votes cast in a binding referendum, an increase in the spending cap.

At present, it is easier for governments to spend more, rather than to reprioritise and drive greater efficiency in existing spending. This Bill will provide more certainty in relation to the future growth in government spending, ensure a degree of spending restraint, and improve the transparency of spending decisions. The Bill will lead to government objectives being delivered via a State sector that comprises a smaller share of the economy than would otherwise be the case. This will allow for a lower tax burden on the economy over time, thereby supporting higher economic growth and higher living standards.

The Bill provides for a spending cap for specified expenses, which changes for each financial year in direct proportion to the rate of inflation and the rate of population change. This still allows core Crown expenses to grow, albeit more slowly than gross domestic product, which tends to also include gains from productivity improvements.

The spending cap allows fiscal policy to continue to play a stabilising role in response to the economic cycle and shocks. Unemployment benefit expenses are excluded from the cap so that they can continue to expand and contract through the economic cycle, without placing pressure on other expenses under the cap. The Bill also provides for national emergencies, such as a natural disaster, where it is appropriate to exclude from the spending cap those expenses incurred as a direct result of an emergency. Finance costs (borrowing expenses) are excluded from the cap. The provisions of the Public Finance Act 1989 have been shown to provide an effective limit to growth in finance costs. Impairment losses are excluded from the cap because asset impairments tend to be volatile and difficult to forecast, and are largely outside the immediate control of the Government. Examples where asset impairments can arise include tax receivables and the student loan portfolio.

Capital expenditure is also excluded from the spending cap, because it is limited by the Government debt target and the fact that any operating expenses associated with capital expenditure would need to be met from within the cap.

Spending cap

The Bill sets out the calculation of a spending cap for a financial year, which is based on the spending cap for the previous year, adjusted for the rate of inflation and the rate of population change. The spending cap may be increased if a proposal to increase the cap is supported by a majority of valid votes cast in a referendum.

The Minister of Finance (the **Minister**) must include the spending cap for the coming financial year in the budget policy statement presented to the House of Representatives. The Minister must also, when presenting the annual financial statements of the Government to the House of Representatives, report on whether the spending cap has been breached, and if so, why, and what measures will be taken to ensure compliance with future spending caps.

Spending cap referenda

The Bill also provides for eligible voters to approve, by a majority of valid votes cast in a referendum, an increase in the spending cap.

The Government may initiate a referendum on a proposal to increase the spending cap for a financial year. The referendum is carried out under the provisions of the Referenda (Postal Voting) Act 2000, except that the question to be put to electors in a spending cap referendum is set out in the Bill and the outcome is binding for the purposes of calculating the spending cap.

If a majority of valid votes favour the proposal to increase the spending cap for the financial year, then the proposal is carried. If the referendum proposal is carried, the spending cap for each subsequent financial year is calculated based on that higher level of expenses.

Regulatory impact statement

The Treasury produced a regulatory impact statement on 27 April 2011 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 comes into force on the day after the date on which it receives the Royal assent.

Part 1
Preliminary provisions

Clause 3 sets out the purpose of the Bill.

Clause 4 is an interpretation provision.

Clause 5 sets out the meaning of specified expenses, which are subject to a spending cap. Specified expenses are expenses incurred by the Crown, or by an Office of Parliament, other than the following:

- unemployment benefits paid under the Social Security Act 1964:
- borrowing expenses (which means any interest or other financing expenses in respect of any loan or under any public security):
- capital expenditure (which means the costs of assets acquired or developed (including tangible, intangible, or financial as-

sets and any ownership interest in entities, but excluding inventories)):

- impairment losses (as understood in generally accepted accounting practice):
- emergency-related expenses (which means expenses that are directly related to an emergency or situation described in section 25(1) of the Public Finance Act 1989).

Clause 6 provides that the Act binds the Crown.

Part 2
Restrictions on growth in government expenses

Subpart 1—Spending cap

Subpart 1 deals with—

- calculating a spending cap; and
- reporting and accountability mechanisms relating to the spending cap.

Clause 7 provides that nothing in *subpart 1* applies to a financial year that commences earlier than 12 months after the day on which the Act comes into force.

Clause 8 sets out the formula for calculating a spending cap. The spending cap for a financial year is calculated by increasing or decreasing the spending cap for the previous financial year in proportion to the rate of inflation and the rate of population change. The spending cap may be further increased only in accordance with the result of a spending cap referendum (*see subpart 2 of Part 2*).

Clause 8(2) provides that the annual percentage changes in inflation and population used in calculating a spending cap must relate to the year ending on 30 September in the financial year prior to the financial year for which the spending cap is calculated. The information will be sourced from official statistics published by Statistics New Zealand.

The formula will not produce a valid result for the first financial year to which the Act applies because no value will exist for the spending cap for the previous financial year. *Clause 9* provides for the first spending cap to be calculated by replacing the amount of the spending cap for the previous financial year with the total amount of specified expenses that the Treasury forecasts will be incurred in that previous financial year.

Clause 10 sets out the formula for calculating an indicative spending cap. An indicative spending cap is calculated in the same way as a spending cap, except that it is based on rates of inflation and population change that are forecast by the Treasury for the purpose of preparing economic and fiscal updates.

Clause 11 requires the Minister to include the spending cap for a financial year in the annual budget policy statement relating to that year. The Minister must also include in the budget policy statement indicative spending caps for at least the next 2 financial years.

Clause 12 requires the Minister, when presenting the annual financial statements for a financial year to the House of Representatives, to report to the House of Representatives on whether the spending cap for that year has been exceeded. If the spending cap has been exceeded, the report must state why this has happened and what measures will be taken to ensure compliance with future spending caps. The report will also include details of any emergency-related expenses incurred in the financial year and excluded from the operation of the spending cap (*see clause 5(2)(e)*).

Clause 13 makes the consequential amendments set out in the *Schedule*, which align the Public Finance Act 1989 and the Referenda (Postal Voting) Act 2000 with this Bill.

Subpart 2—Spending cap referenda

Subpart 2 enables the spending cap for a specified financial year to be increased by way of a binding referendum (a **spending cap referendum**).

A spending cap referendum—

- may be initiated by the Government at any time (*clause 14*):
- is conducted under the Referenda (Postal Voting) Act 2000 (*clause 15*):
- is based on a proposal to increase the spending cap by a stated amount and percentage for a specified financial year (*clause 16*):
- may be held prior to or during the financial year to which it applies.

A proposal to increase the spending cap for a specified financial year by a specified amount will be carried if the majority of valid votes cast favour the proposal (*clause 17(a)*). If the proposal is carried, the spending cap for the specified financial year is increased by the specified amount (*clause 17(b)*).

Hon Rodney Hide

Spending Cap (People's Veto) Bill

Government Bill

Contents

The Parliament of New Zealand enacts as follows:

1 Title

This Act is the Spending Cap (People's Veto) Act **2011**.

2 Commencement

This Act comes into force on the day after the date on which it receives the Royal assent.

Part 1
Preliminary provisions

3 Purpose

(1) The purpose of this Act is to limit the annual increase in government spending.

(2) To this end, the Act—
- (a) provides a formula for calculating an annual spending cap for specified expenses, under which the amount of the spending cap changes each financial year—
  - (i) in direct proportion to the rate of inflation and the rate of population change; and
  - (ii) in accordance with the results of any spending cap referendum relating to that financial year; and
- (b) requires the Minister to report to the House of Representatives on whether specified expenses incurred in a financial year are within the spending cap for that year.

4 Interpretation

(1) In this Act, unless the context otherwise requires,—

budget policy statement means the budget policy statement that the Minister presents to the House of Representatives under section 26M of the Public Finance Act 1989

emergency-related expenses means expenses that are directly related to an emergency or situation described in section 25(1) of the Public Finance Act 1989

financial year means a period of 12 months commencing on 1 July and ending with 30 June

impairment losses has the meaning given to it under generally accepted accounting practice

indicative spending cap means an indicative spending cap calculated in accordance with **section 10**

rate of inflation has the meaning given in **section 8(2)**

rate of population change has the meaning given in **section 8(2)**

specified expenses has the meaning given in **section 5**

spending cap means a spending cap calculated in accordance with **section 8**

spending cap referendum means a binding referendum initiated under **section 14**.

(2) Any term or expression, not defined in this Act, that is used in **subpart 1 of Part 2** of this Act and defined in the Public Finance Act 1989 has the same meaning as in the Public Finance Act 1989.

(3) Any term or expression, not defined in this Act, that is used in **subpart 2 of Part 2** of this Act and defined in the Referenda (Postal Voting) Act 2000 has the same meaning as in the Referenda (Postal Voting) Act 2000.

5 Meaning of specified expenses

(1) **Specified expenses** means expenses incurred by the Crown or an Office of Parliament, other than the expenses specified in **subsection (2)**.

(2) The following expenses are not specified expenses for the purposes of this Act:

(a) unemployment benefits paid under the Social Security Act 1964:

(b) borrowing expenses:

(c) capital expenditure:

(d) impairment losses:

(e) emergency-related expenses.

6 Act binds the Crown

This Act binds the Crown.

Part 2
Restrictions on growth in government expenses

Subpart 1—Spending cap

7 Application of this subpart

Nothing in this subpart applies in respect of a financial year that commences earlier than 12 months after the day on which this Act comes into force.

8 Calculation of spending caps

(1) The spending cap for a financial year is calculated in accordance with the formula—

$$sc = scp \times (1 + i) \times (1 + p) + r$$

where—

sc	is the amount of the spending cap for a financial year
scp	is the amount of the spending cap for the previous financial year
i	is the rate of inflation
p	is the rate of population change
r	is the amount, if any, by which the spending cap is increased in accordance with the result of a spending cap referendum

Example

Background

The spending cap for the previous financial year (scp) is $85 billion.

The rate of inflation (i) is 2%.

The rate of population change (p) is 0.9%.

There has been no spending cap referendum.

Result

The spending cap (sc) for the financial year is $87.48 billion, calculated as follows:

$$\$87.48 \text{ billion} = \$85 \text{ billion} \times 1.02 \times 1.009 + 0$$

(2) For the purposes of calculating the spending cap for a financial year,—

rate of inflation means the annual percentage change in the Consumers Price Index—

(a) for the year ending on 30 September in the previous financial year; and

(b) according to the Consumers Price Index published by Statistics New Zealand

rate of population change means the annual percentage change in the estimated resident population—

(a) for the year ending on 30 September in the previous financial year; and

(b) according to the national population estimates published by Statistics New Zealand.

9 Calculation of first spending cap

The spending cap for the first financial year to which this subpart applies is calculated in accordance with the formula set out in **section 8(1)**, except that the amount of the spending cap for the previous financial year must be replaced with the total amount of specified expenses that the Treasury forecasts will be incurred in that previous financial year.

10 Calculation of indicative spending caps

(1) The indicative spending cap for a financial year is calculated by applying the formula set out in **section 8(1)** with the following modifications:

(a) the dollar amount of the spending cap for the previous financial year may be the dollar amount of an indicative spending cap for the previous financial year:

(b) instead of having the meanings given in **section 8(2)**,—

rate of inflation means the annual percentage change in the Consumers Price Index—

(a) for the year ending on 30 September in the previous financial year; and

(b) as forecast most recently by the Treasury for the purpose of preparing an economic and fiscal update

rate of population change means the annual percentage change in the estimated resident population—

(a) for the year ending on 30 September in the previous financial year; and

(b) as forecast most recently by the Treasury for the purpose of preparing an economic and fiscal update.

(2) In **subsection (1)**, **economic and fiscal update** means an economic and fiscal update prepared by the Treasury for the purpose of section 26O, 26S, or 26T of the Public Finance Act 1989.

11 Budget policy statements must include spending cap and indicative spending caps

(1) A budget policy statement—

(a) must include the spending cap for the financial year commencing on 1 July after the statement is presented; and

(b) must include an indicative spending cap for each of the next 2 financial years.

(2) A spending cap or an indicative spending cap for a financial year must be expressed—

(a) as a dollar value of the amount of specified expenses that may be incurred in the financial year; and

(b) as the percentage by which the spending cap or indicative spending cap has increased or decreased in relation to the spending cap or indicative spending cap (as the case may be) for the previous financial year.

(3) **Subsection 2(b)** does not apply in respect of the spending cap for the first financial year to which this subpart applies.

12 Minister must present report to House of Representatives on spending cap

(1) The Minister must, when presenting the annual financial statements for a financial year to the House of Representatives under section 31 of the Public Finance Act 1989, report to the House of Representatives on the spending cap for that financial year.

(2) The report must state—
- (a) whether specified expenses incurred in the financial year were within the spending cap for that year and, if not,—
  - (i) why specified expenses were incurred in excess of the spending cap; and
  - (ii) what measures will be taken to ensure compliance with future spending caps; and
- (b) whether any emergency-related expenses were incurred in the financial year and, if so,—
  - (i) the amount incurred:
  - (ii) a brief description of the emergency-related expenses:
  - (iii) a brief explanation of how the expenses were directly related to an emergency or situation described in section 25(1) of the Public Finance Act 1989.

13 Consequential amendments

The enactments specified in the **Schedule** are consequentially amended in the manner set out in that schedule.

Subpart 2—Spending cap referenda

14 Binding referendum on proposal to increase spending cap

The Government may, at any time, initiate a binding referendum on a proposal to increase the spending cap for a specified financial year.

15 Application of Referenda (Postal Voting) Act 2000

The Referenda (Postal Voting) Act 2000 applies to a spending cap referendum.

16 Question

Despite section 6(1) of the Referenda (Postal Voting) Act 2000, the question to be put to electors in a spending cap referendum is—

"Do you support the proposed increase of the spending cap by $[*amount*] ([*percentage*]%) for the financial year beginning on 1 July [*year*]?"

17 Result of spending cap referendum

If a majority of the valid votes cast in a spending cap referendum favour a proposal to increase the spending cap for a specified financial year by a specified amount,—

(a) the proposal is carried; and

(b) the spending cap for the specified financial year is increased by the specified amount.

Schedule

s 13

Consequential amendments

Public Finance Act 1989 (1989 No 44)

Section 26M: add:

"(4) The budget policy statement must include the spending cap and indicative spending caps referred to in **section 11** of the **Spending Cap (People's Veto) Act 2011**."

Referenda (Postal Voting) Act 2000 (2000 No 48)

Definition of **government initiated referendum** in section 3(1): repeal and substitute:

"**government initiated referendum** means—

"(a) an indicative referendum—

"(i) that the New Zealand Government initiates; and

"(ii) that is specified in an Order in Council made under section 5(a) as an indicative referendum that must be conducted by postal voting; or

"(b) a binding referendum that the New Zealand Government initiates under **section 14** of the **Spending Cap (People's Veto) Act 2011**".

Heading to section 5: omit "**indicative**".

Wellington, New Zealand:
Published under the authority of the New Zealand Government—2011