

# **Public Finance (Fiscal Responsibility) Amendment Bill**

Government Bill

As reported from the Finance and Expenditure Committee

## **Commentary**

### **Recommendation**

The Finance and Expenditure Committee has examined the Public Finance (Fiscal Responsibility) Amendment Bill, and recommends by majority that it be passed with the amendments shown.

### **Introduction**

The bill seeks to amend the fiscal responsibility provisions of the Public Finance Act 1989 by adding new principles of responsible fiscal management and codifying some existing reporting practices as legislative requirements.

The new principles would require the Government to

- formulate fiscal strategy with regard to its interaction with monetary policy
- formulate fiscal strategy with regard to its likely impact on present and future generations

- ensure that the Crown’s resources are managed effectively and efficiently.

One existing principle would be amended to require revenue strategy to have regard to efficiency and fairness, including the predictability and stability of tax rates.

The bill would amend reporting requirements in four main ways:

- Introducing a requirement for fiscal strategy reports to include an assessment of the extent to which the Government’s fiscal performance is consistent with its fiscal strategy.
- Requiring fiscal strategy reports to include details of the Government’s revenue strategy, including the Government’s objectives for the tax system and tax policy; although producing a revenue strategy has been established practice for some time, it is not currently required by legislation.
- Requiring regular investment statements, prepared by the Treasury, to be presented to the House; while an investment statement was prepared in 2010, with a supplement in 2011, neither document was required by legislation.
- Requiring fiscal strategy reports to be clear about what the Government is trying to achieve and how its management of the Crown’s resources contributes to those goals.

This commentary explains the amendments the majority of us recommend to the bill, which aim to clarify one of the principles and refine the reporting requirements to help the legislation operate more effectively.

### **Principles of responsible fiscal management**

One of the new principles of responsible fiscal management to be inserted by clause 4 of the bill is “formulating fiscal strategy with regard to its interaction with monetary policy” (new section 26G(1)(f)). To avoid possible misinterpretation of its intent, we recommend, by majority, amending the provision to refer to “formulating fiscal strategy having regard to the interaction between fiscal policy and monetary policy”. (We are also proposing minor drafting improvements to this and the two preceding principles.)

The Act does not mention monetary policy. The majority of us understand that in doing so, the bill aims to ensure that governments take explicit note of the fact that fiscal policy and monetary policy are in-

terdependent; and that different fiscal strategies can prompt different monetary policy responses.

The majority of us believe our recommended amendment would make clearer this interdependence between fiscal policy and monetary policy, without giving a mistaken impression that the relationship is one-way; that is, that fiscal policy should take monetary policy into account, but not the reverse.

### **Contents of fiscal strategy report**

Clause 5, inserting new section 26KA, would implement the policy goal of requiring fiscal strategy reports to be clear about what the Government is trying to achieve, and how its management of the Crown's resources contributes to doing so. As introduced, the bill would require the fiscal strategy report to state and explain the Government's priorities for allocating the Crown's resources. The majority of us consider that the use of the word "priorities" might encourage a focus on short-term spending plans, whereas the majority of us believe the intention of this reporting requirement is to have governments explain their focus for the medium term. For clarity, we therefore recommend by majority amending clause 5 so that it refers to the Government's strategy for management of the Crown's resources, and specifies that these resources consist of expenditure, assets, and liabilities. We also recommend, by majority, a consequential amendment to clause 7(2), inserting section 26M(3)(c).

### **Publication of notices in the *Gazette***

Clause 10 of the bill as introduced would amend section 26Y of the Public Finance Act to add investment statements to the list of reports which must be "gazetted" upon presentation to the House; that is, a notice must be published in the *Gazette* to publicise the fact that the reports are publicly available. The majority of us consider this requirement largely outdated, and believe public communication and transparency are better served by making such documents available on the Internet.

Accordingly, we recommend, by majority, amending clause 10 to replace the requirement under section 26Y to publish a notice in the *Gazette* upon presentation of specified reports to the House with a requirement that the specified documents be published on an Internet

site maintained by or on behalf of the Treasury. The Secretary to the Treasury would be required to ensure that such documents remained accessible on the site for at least 5 years. In practice, they are likely to remain on the website for longer, and after removal would continue to be publicly available under normal archiving practices.

### **New Zealand Labour Party minority view**

This amendment bill has its genesis in the confidence and supply agreement between the National and ACT parties. It expands and amends the list of criteria to be taken into account by the Government when managing the country's finances.

The changes proposed would not make the management of the Crown's finances any better, and in one case (interaction with monetary policy) has the potential to make imbalances in the economy worse.

New section 26G(1)(g) says the Government should be "formulating fiscal strategy with regard to its likely impact on present and future generations, and". Of course prudent governments should already do this.

It is clear from advice from officials that the amendment will have no enforceable effect on National's refusal to address the age of eligibility for superannuation, despite this being the most obvious example of budget settings that have effects between generations. Superannuation costs rose from \$7.3 billion in 2008 to \$10.2 billion in 2013. This is already more than the cost of all welfare benefits combined. Within two years superannuation exceeds the amount spent by Government on all education (preschool, primary, intermediate, secondary, and tertiary combined). The proposed amendment has no effect on this.

A more significant change is proposed to section 26G(1)(f) which proposes "formulating fiscal strategy with regard to its interaction with monetary policy".

Assuming that this phrase is not meaningless, its effect must be to elevate the status of monetary policy in regard to fiscal strategy compared with the status quo. We suggested the wording should require the interaction between fiscal and monetary policy to be considered, but not elevate monetary policy in this way.

The Treasury and Government reading of “monetary policy” in paragraph (f) is too narrow. We believe the wording in (f) should be “formulating fiscal and monetary policy with regard to the interactions between them”. This proposed change was rejected by the Government, who have said fiscal responsibility legislation should not influence monetary policy. If that logic were applied consistently, then fiscal responsibility legislation should not refer to effects on economic efficiency either, which this bill does.

In any event, Labour members do not accept the officials’ advice that all monetary policy is delegated to the Reserve Bank. It is true that that which is delegated to the Reserve Bank through the Reserve Bank Act is delegated, but other monetary policy (including advice functions and other relevant considerations for the Government) remain with the Treasury and the Government.

A comparison with the equivalent legislation in Australia is also relevant. The Australian equivalent makes express reference to achieving adequate national savings. When we asked officials about this, they emphasised Government savings, which is only a subset of national savings. Given the entrenched problem that New Zealand has as a consequence of a current account deficit spanning decades, which is currently the worst in the developed world, we think that the reference to national savings is at least as important as reference to monetary policy. This proposed amendment was also rejected by Government members.

Overall this legislation is poorly drafted and will do nothing to improve fiscal responsibility. It is a waste of Parliament’s time and is accordingly opposed by the Labour Party members.

## **Appendix**

### **Committee process**

The Public Finance (Fiscal Responsibility) Amendment Bill was referred to the committee on 4 December 2012. The closing date for submissions was 14 February 2013. We received and considered four submissions from interested groups and individuals, and heard two submissions. We received advice from the Treasury.

### **Committee membership**

Todd McClay (Chairperson)

Maggie Barry

David Bennett

Hon Clayton Cosgrove

Hon David Cunliffe

Paul Goldsmith

John Hayes

Dr Russel Norman

Hon David Parker

Rt Hon Winston Peters

Hon Kate Wilkinson

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Public Finance (Fiscal Responsibility)  
Amendment Bill

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**Key to symbols used in reprinted bill**

**As reported from a select committee**

text inserted by a majority

~~text deleted by a majority~~

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*Hon Bill English*

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Government Bill

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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**  
This Act amends the Public Finance Act 1989 (the **principal Act**). 10

- 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) when formulating revenue strategy ~~with~~, having regard to efficiency and fairness, including the predictability and stability of tax rates; and
- “(f) when formulating fiscal strategy ~~with~~, having regard to ~~its interaction with~~ the interaction between fiscal policy and monetary policy; and
- “(g) when formulating fiscal strategy ~~with~~, having regard to its likely impact on present and future generations; and
- “(h) ensuring that the Crown’s resources are managed effectively and efficiently.”

**5 New section 26KA inserted (Contents of fiscal strategy report: Government priorities management of the Crown’s resources)**

After section 26K, insert:

**~~“26KA Contents of fiscal strategy report: Government priorities~~**

~~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~~
- ~~“(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.~~

**“26KA Contents of fiscal strategy report: management of the Crown’s resources**

- “(1) The fiscal strategy report must include details of the Government’s strategy for managing expenditure, assets, and liabilities in the period of at least 3 financial years commencing with the financial year to which the report relates.**
- “(2) Details of the Government’s strategy for managing expenditure, assets, and liabilities may include—**
  - “(a) the outcomes sought from new or reallocated expenditure, assets, and liabilities; and**

“(b) any expected change over time in the major components of expenditure, assets, and liabilities.”

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

(1) In section 26L(1)(b), after “the departure”, insert “; and”. 5

(2) After section 26L(1)(b), insert:

“(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 10

“(d) details of the Government’s revenue strategy, including the Government’s objectives for the tax system and tax policy.” 15

(3) After section 26L(3), insert:

“(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”. 20

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

~~“(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.~~

“(c) if the details of the Government’s strategy for managing expenditure, assets, and liabilities (*see section 26KA*) have changed from those stated in the most recent fiscal strategy report, indicate those amended details.” 25

**8 New section 26NA and cross-heading inserted**

After section 26N, insert: 30

*“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. 5

“(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 10

“(c) forecast how those assets and liabilities are expected to change in value ~~over~~ over in each of 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.” 15

**9 Section 26X amended (Certain statements and updates may be published in advance of presentation to House of Representatives) 20**

After section 26X(~~ca~~), insert:

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

**10 Section 26Y amended (Notification and availability of reports, statements, or updates) 25**

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.”

**10 Section 26Y replaced (Notification and availability of reports, statements, or updates) 30**

Replace section 26Y with:

**“26Y Publication and availability of reports, statements, or updates**

- “(1) The Minister must arrange for a specified document to be published on an Internet site maintained by or on behalf of the Treasury as soon as practicable after the specified document is—** 5
- “(a) published in advance of being presented to the House of Representatives (if permitted under section 26X); or**
- “(b) if **paragraph (a)** does not apply, presented to the House of Representatives.** 10
- “(2) The Secretary must ensure that the specified document remains available on the Internet site for inspection by members of the public for at least 5 financial years after the financial year (or, if the document relates to more than 1 financial year, the first financial year) to which the document relates.** 15
- “(3) **Subsection (1)(a)** is deemed to be satisfied if the advance publication referred to in that paragraph includes publication on an Internet site maintained by or on behalf of the Treasury, but **subsection (2)** applies to the specified document.**
- “(4) In this section, **specified document** means—** 20
- “(a) a fiscal strategy report (see section 26I);**
- “(b) a budget policy statement (see section 26M);**
- “(c) a statement on the long-term fiscal position (see section 26N);**
- “(d) an investment statement (see **section 26NA**);** 25
- “(e) an economic and fiscal update (see section 26O);**
- “(f) a half-year economic and fiscal update (see section 26S);**
- “(g) a pre-election economic and fiscal update (see section 26T).”** 30

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

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

**Part 2**  
**Transitional provision**

- 12 New section 89 inserted (Transitional provision relating to Public Finance (Fiscal Responsibility) Amendment Act 2012)** 5
- After section 88, insert:
- “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. 10
- “(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. 15
- “(3) **Section 26NA(2)(d)** does not apply to the first investment statement presented to the House of Representatives under **section 26NA**.
- “(4) This section is repealed 4 years after the commencement date.”

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**Legislative history**

30 August 2012	Introduction (Bill 54–1)
4 December 2012	First reading and referral to Finance and Expenditure Committee

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