

Public Finance (Sustainable Development Indicators) Amendment Bill

Member's Bill

Explanatory note

General policy statement

The purpose of this Bill is to ensure that New Zealand governments, in the context of their macro-economic planning, balance economic opportunity with environmental responsibility.

To that end, this Bill—

- provides a framework for parliamentary scrutiny of sustainable development indicators of New Zealand as a context for guidance for decisions pertaining to the Government's expenditure proposals and the Government's management of its assets and liabilities; and
- specifies the principles of sustainable development for New Zealand as a context for guidance for the conduct of fiscal policy.

Economic indicators in the Public Finance Act 1989

For the past century or so, the orthodox methods of macro-economic management have used traditional indicators of fiscal and monetary policy.

The principal mechanism for governmental management of national economies is the annual Budget, in which the Government obtains parliamentary approval for public funding in line with its desired outcomes and fiscal policy objectives.

The Budget is introduced in the Financial Statement by the Minister of Finance (the **Minister**). Budget documents, providing the information on which such parliamentary scrutiny is based, include the Appropriation (Estimates) Bill; the Budget Economic and Fiscal Update; the Fiscal Strategy Report; the Estimates with Supporting Information; and the Budget Policy Statement. These are now legal requirements, their content being described in the Public Finance Act 1989 (the **principal Act**).

The current and forecast financial statements that support the above documents and parliamentary debate are produced in conformity with a set of Generally-Accepted Accounting Policies (**GAAP**). In 2002 the Accounting Standards Review Board decided that reporting entities in New Zealand should use the New Zealand International Financial Reporting Standards for periods commencing from 1 January 2007.

Such financial statements exclusively use financial and economic concepts. Under the principal Act (section 26P), the forecasts in the Economic and Fiscal Update must include New Zealand's gross domestic product (including its major components) (**GDP**), consumer prices, unemployment and employment, and the current account position of the balance of payments. Beyond this legal requirement, other concepts customarily employed in fiscal management include interest rates, public and national debt, and net international investment positions. Thus, in presenting the Budget and providing the supporting documentation for parliamentary approval and public awareness, the Government is confined to using financial and economic concepts to measure current and projected "production".

For the past 60 years, GDP has become the central concept for measuring economic growth and wellbeing. GDP is the sum, taken together, of (i) the nation's economic output (gross value added); (ii) incomes (wages, dividends, profits); and (iii) expenditure (consumption and investment).

International initiatives towards sustainable development indicators

In recent decades, concerns have developed that GDP in itself is not a sufficient concept to measure and assess the wellbeing of human society. These concerns attracted governmental attention in the 1980s and were first articulated by the international community at summit level in the 1999 UN Conference on Environment and Development (**UNCED**). In the UNCED Declaration and Programme of Action, calls were issued for further research into concepts that would add knowledge and clarify issues pertaining to the carrying capacity of the planet and individual countries. UNCED enshrined the concept of sustainable development, not only for developing countries but for developed countries as well.

Since the early 1990s, researchers and official policy-makers have thus been working to develop a new understanding of the relationship between economic activity and the planet's ecosystem. The challenge, generally recognised, is to ensure that the benefits that traditional economic activity has generated over the past century, at least in some countries, are continued, yet are balanced by environmental responsibility—at both the global and national levels.

International work towards these goals has intensified since the mid-1990s—

- In 2001 the European Council adopted a Sustainable Development Strategy. Pursuant to this, Eurostat has been active in developing a set of indicators.
- The UN's Economic and Social Council and Statistics Division have been working on ways of linking environmental accounting with economic accounting within the traditional System of National Accounts (**SNA**). In 2003, the

Handbook of National Accounting: Integrated Environmental and Economic Accounting Rev. 1 was issued.

- In 2008 a conference on climate change and official statistics, organised jointly by the UN, EU, and World Bank, concluded, among other things, that there is a political consensus on the need to go beyond GDP, and there is a role for composite indicators such as the Ecological Footprint and Human Development Index—indicators that are easily understandable, easy to communicate, and raise awareness in the public.

In Canada, the National Roundtable on the Environment and the Economy (NTREE) produced in 2003 a report on Environment and Sustainable Development Indicators for Canada (ESDI). The ESDI included a set of sustainable development indicators designed to supplement and provide a context for macro-economic indicators (such as GDP) but not to change them. The NTREE recommended that Statistics Canada publish these new indicators annually and that the Minister of Finance incorporate them in the federal budget statement. It also proposed that the Government expand the SNA to include new accounts covering natural, human, and social capital. These indicators comprised (a) natural capital, comprising air quality, fresh water quality, greenhouse gas emissions, forest cover, wetlands, and (b) human capital, comprising educational attainment.

The same year the Parliament of Canada adopted the Wellbeing Measurement Act (the **Act**) to “develop and provide for the publication of measures to inform Canadians about the health and wellbeing of people, communities and ecosystems in Canada”. The Act aims to establish a measuring system that distinguishes activities that benefit or harm people and ecosystems. It would reflect quality of life and maintain natural resources accounts. Two standing and management committees are mandated to define and publish an annual set of indicators of the economic, social, and environmental wellbeing of people, communities, and ecosystems in Canada. A Commissioner reports annually to Parliament with an analysis and evaluation of current wellbeing in accordance with the indicators.

Most recently, in France, the President, “unsatisfied with the present state of statistical information about the economy and the society”, established a Commission on the Measurement of Economic Performance and Social Progress (co-chaired by Stiglitz, Sen, and Fitoussi). The “Sarkozy Commission” of 2009 critically reviewed “the classical GDP issues”, considered issues of sustainable development and the environment, and explored new concepts such as the “Quality of Life”. It advanced 12 recommendations for improving the way in which societies measure their human progress, and in which governments should henceforth engage in management planning.

Initiatives by New Zealand

In the past decade New Zealand has undertaken some work towards incorporating the new approach to macro-economic management—

- In 1999 a governmental project was completed under the Sustainable Management Fund to establish a framework for environmental accounts at the regional level.
- In 2000 the Government provided a modest allocation (\$73,000) to pilot work on sustainable national accounts and business accounts. The aim was to develop a social and environmental audit programme in partnership with business and community groups, and supporting work with Statistics New Zealand on alternative national accounts.
- Statistics New Zealand has consistently worked on developing an appropriate set of indicators since then—
 - In 2002 it produced an experimental set of sustainable development indicators in its report *Monitoring Progress towards a Sustainable New Zealand*.
 - In 2006 it participated in an international working group jointly convened by the UN’s Economic Commission for Europe and the OECD to work on statistics for sustainable development. The aim was to ensure greater consistency in measurement and international compatibility, with the “capital approach” as its basis of measurement.
 - In 2009 it produced the first comprehensive set of indicators in its report *Measuring New Zealand’s Progress using a Sustainable Development Approach 2008*. The report identifies indicators in 15 topic areas and advances a set of principles of sustainable development. The report will stand as the defining work in New Zealand towards an integrated set of environmental-economic indicators for future macro-economic management.
 - In 2010 it updated 13 of the 16 key indicators from the 2008 document. These updates either included new data sets or made methodological improvements to the analysis of the greenhouse gas intensity of the economy, the energy intensity of the economy, and net greenhouse gas emissions.
- In 2012 the New Zealand Treasury released a tool to help policy analysts think across the 5 key aspects that are important for improving living standards for New Zealand in today’s environment. These included economic growth, sustainability for the future, increasing equity, social infrastructure, and reducing risks. Natural capital is outlined as an explicit criterion to be considered.

The extent of this work already accomplished is encouraging. What remains to be done, now, is to ensure that such an analytical framework is incorporated into governmental policy-making and parliamentary scrutiny. This Bill is designed as the first step towards that end.

The Bill aims primarily at supplementing traditional economic indicators with sustainable development indicators and, to the extent feasible with the present “state of the art”, to integrate them together for informed macro-economic policy-making. The

principal means to that end is to ensure that the Minister of Finance, and in a supporting role the Treasury, achieve that degree of integration in presenting the annual Budget and related information.

It is appropriate for the Minister of Finance to include, henceforth, a set of indicators of sustainable development with the traditional economic indicators, because the Minister has responsibility to ensure that the economic management of New Zealand is managed along sound principles and practices, and the long-term economic health of the country depends upon protection of its environmental integrity.

In assessing the feasibility of achieving this, regard is had to the judgment of the Sarkozy Commission that “placing a monetary value on the natural environment is often difficult and separate sets of physical indicators will be needed to monitor the state of the environment”. This is the approach adopted by Statistics New Zealand in its 2009 report, making it appropriate for the Government to use the work already done in New Zealand for the present legislative purpose of the Bill.

Clause by clause analysis

Clause 1 is the Title clause.

Clause 2 is the commencement clause. It provides that the Bill comes into force on the day after the date on which it receives the Royal assent.

Clause 3 provides that the Public Finance Act 1989 is the principal Act.

Clause 4 states that the purpose of the Bill is to ensure that in fulfilling its macro-economic obligations under the principal Act, the Government balances the national goals of economic opportunity with environmental responsibility; and to consolidate and amend the law governing the use of public financial resources to ensure that the economic management of New Zealand is undertaken consistently with the interests of the sustainable development of New Zealand over the long term.

Clause 5 amends section 2(1) by inserting definitions for ecological footprint, sustainable development, and sustainable development indicators.

Clause 6 introduces a *new Part 2A* containing provisions to—

- introduce a set of sustainable development indicators; and
- introduce a set of principles relating to sustainable development; and
- require the Minister to present information about sustainable development in New Zealand when he or she presents certain fiscal and economic information to the House of Representatives; and
- require the Minister to present the ecological footprint of New Zealand and the Human Development Index to the House of Representatives in relation to each financial year.

Clause 7 inserts a *new Schedule 8* containing the National Sustainable Development Indicators and a *new Schedule 9* containing the National Principles of Sustainable Development.

James Shaw

Public Finance (Sustainable Development Indicators) Amendment Bill

Member's Bill

Contents

		Page
1	Title	2
2	Commencement	2
3	Principal Act	2
4	Purpose	2
5	Section 2 amended (Interpretation)	2
6	New Part 2A inserted	2
Part 2A		
Responsibility for sustainable development		
26ZA	Sustainable development indicators	3
26ZB	National principles of sustainable development	3
26ZC	Minister to present information about sustainable development	3
26ZD	Further sustainability indicators	3
7	New Schedules 8 and 9 inserted	4
Schedule 1		
New Schedule 8 inserted		
Schedule 2		
New Schedule 9 inserted		

The Parliament of New Zealand enacts as follows:

- 1 Title**
This Act is the Public Finance (Sustainable Development Indicators) Amendment Act **2016**.
- 2 Commencement**
This Act comes into force on the day after the date on which it receives the Royal assent. 5
- 3 Principal Act**
This Act amends the Public Finance Act 1989 (the **principal Act**).
- 4 Purpose**
The purpose of this Act is to— 10
- (a) ensure that the Government, in fulfilling its obligations for macro-economic planning under the principal Act, balances the national goals of economic opportunity with environmental responsibility; and
- (b) consolidate and amend the law governing the use of public financial resources in a manner that is designed to ensure that the economic management of New Zealand is undertaken consistently with the interests of the sustainable development of New Zealand over the long term. 15
- 5 Section 2 amended (Interpretation)**
In section 2(1), insert, in their appropriate alphabetical order:
- ecological footprint** means the amount of the biosphere (land and water area measured in global hectares) required to support a given population at its current level of consumption and utilising current levels of technology, including basic materials (food, fibre, timber), energy, and waste disposal 20
- sustainable development** means development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs 25
- sustainable development indicators** means the set of indicators, employed individually, collectively, or compositely, that provide a measure of the extent to which humanity (at the global, national, municipal, corporate, household, or individual level) is consuming the planet's resources at a level and in a manner that enables the current generation to engage in sustainable development 30
- 6 New Part 2A inserted**
After section 26Z, insert:
- Part 2A**
Responsibility for sustainable development 35

26ZA Sustainable development indicators

- (1) There will be a set of sustainable development indicators relating to the sustainable development of New Zealand called the National Sustainable Development Indicators.
- (2) The National Sustainable Development Indicators are those sustainable development indicators set out in **Schedule 8**. 5
- (3) Statistics New Zealand, in conjunction with the Ministry for the Environment, will be responsible for preparing the National Sustainable Development Indicators on an annual basis.

26ZB National principles of sustainable development

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- (1) There will be a set of principles relating to the sustainable development of New Zealand called the National Principles of Sustainable Development.
- (2) The National Principles of Sustainable Development are those principles set out in **Schedule 9**.

26ZC Minister to present information about sustainable development

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- (1) The Minister must present information about sustainable development in New Zealand to the House of Representatives when he or she presents—
 - (a) the first Appropriation Bill that relates to a financial year:
 - (b) the fiscal strategy report under section 26I:
 - (c) the budget policy statement under section 26M: 20
 - (d) the economic and fiscal update under section 26O.
- (2) In order to satisfy the requirement to provide information about sustainable development in New Zealand under **subsection (1)**, the Minister must provide an explanation of how, in relation to the development of each document identified in that subsection, the Government has taken into account— 25
 - (a) the National Sustainable Development Indicators; and
 - (b) the National Principles of Sustainable Development.

26ZD Further sustainability indicators

- (1) In addition to the sustainable development indicators specified in **section 26ZA**, the Minister must present, in relation to the previous financial year,— 30
 - (a) the ecological footprint of New Zealand; and
 - (b) the Human Development Index.
- (2) The ecological footprint of New Zealand referred to in **subsection (1)(a)** will be that calculated by Landcare Research Manaaki Whenua for each financial year. 35

**Public Finance (Sustainable Development Indicators)
Amendment Bill**

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(3) The Human Development Index referred to in **subsection (1)(b)** will be that calculated by the United Nations Development Programme for the most recent year available.

7 New Schedules 8 and 9 inserted

After Schedule 7, insert the **new Schedules 8 and 9** set out in **Schedules 1 and 2** of this Act. 5

Schedule 1
New Schedule 8 inserted

s 7

Schedule 8
National Sustainable Development Indicators

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s 26ZA(2)

The National Sustainable Development Indicators for New Zealand, for the purposes of this Act, consist of—

1 Population indicators

- (1) Population size and growth. 10
- (2) Fertility rate.
- (3) Dependency ratio.
- (4) Ethnic diversity.
- (5) Regional population change.

2 Biodiversity indicators

- (1) Number of threatened species. 15
- (2) Distribution of native species.
- (3) Area of native land cover.
- (4) Proportion of assessed fish stocks below target level.
- (5) Distribution of pest animal and weed species. 20

3 Air and atmosphere indicators

- (1) Net greenhouse gas emissions (total and by sector).
- (2) Annual surface temperature.
- (3) Greenhouse gas intensity (total and by sector).
- (4) Stratospheric ozone levels. 25
- (5) Air pollution over the main urban centres.

4 Water indicators

- (1) Population with drinking water meeting required standards.
- (2) Nitrogen in rivers and streams.
- (3) Biological health of rivers and streams. 30
- (4) Lake water quality.
- (5) Ground water quality.
- (6) Bacterial pollution at coastal swimming spots, rivers, and lakes.

(7)	Water allocation compared with total water resource.	
5	Land use indicators	
(1)	Area of land used for farming (total and by agricultural sector).	
(2)	Soil health.	
(3)	Nitrogen and phosphorus content in soil.	5
(4)	Contaminated soil sites.	
(5)	Versatile soil extinction.	
6	Energy use indicators	
(1)	Total primary energy supply per capita.	
(2)	Energy intensity of economy.	10
(3)	Renewable energy as proportion of total energy supply.	
(4)	Household energy expenditure on home energy (total and by income group).	
(5)	Dependency on imported energy.	
(6)	Energy-related greenhouse gas emissions.	
7	Waste indicators	15
(1)	Solid waste disposed to landfill.	
(2)	Access to kerbside recycling.	
(3)	Packaging waste recycling.	

Schedule 2
New Schedule 9 inserted

s 7

Schedule 9
National Principles of Sustainable Development

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s 26ZB(2)

The National Principles of Sustainable Development for New Zealand, for the purposes of this Act, consist of—

- 1 Ecosystems and biodiversity**

The preservation of the dynamic diversity of nature, in terms of ecosystems, species, and genetic diversity; and the maintenance or restoration of viable populations of native species.

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- 2 Resource consumption**

The sustainable consumption of renewable resources, not exceeding their long-term rates of natural regeneration; and the efficient use of such resources to avoid unnecessary wastage of resources that may be needed by future generations.

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- 3 Waste assimilation**

The release of hazardous or polluting substances into the environment at a level that does not exceed the assimilative capacity of the environment; the maintenance of such concentrations at levels below established critical levels necessary for the protection of human health and the environment; and the non-release of non-degradable pollutants.

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- 4 Precaution**

Rejection of a lack of full scientific certainty as a reason for postponing measures to prevent the environmental degradation or restoration of ecosystems where there are threats of serious or irreversible damage.

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- 5 Rate of change**

Balance between the rate of human intervention in nature with the time required for natural processes required for the environment to respond and regenerate.

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- 6 Environmental value**

Encouragement of access to the natural environment for recreation and tourism to the extent that use is not inconsistent with the conservation of any natural resource; and recognition of Māori values and use of the environment, including the use of kaitiakitanga, customary use, and mātauranga Māori.

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7	Economic system	5
	Ensuring that economic activity meets the needs of individuals and society effectively; that infrastructure is maintained at an acceptable level; and that debt is confined to a level that does not limit investment options for future generations.	
8	Efficiency and innovation	10
	Promotion of, and investment in, research and development activities, thereby creating options for current and future generations, with a view to ensuring that organisations and individuals have the knowledge and skills required to meet the needs of economic development.	
9	Rate of change	15
	Ensuring that the economic system achieves needed change without jeopardising social cohesion; and encouraging a long-term outlook in the economic system to predict risk and sustainable responses.	
10	International connection	15
	Ensuring that, through world economic activity, one nation's needs are met without compromising the needs of other nations.	