



ANALYSIS

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1994, No. 17

An Act to improve the conduct of fiscal policy by specifying principles of responsible fiscal management and by strengthening the reporting requirements of the Crown and, in particular,—

- (a) By requiring the Minister of Finance to report regularly to the House of Representatives on the extent to which the Government's fiscal policy is consistent with the specified principles of responsible fiscal management and to justify in his or her report any departures made by the Government from those principles; and**
- (b) By requiring all the Crown's financial reporting to be in accordance with generally accepted accounting practice; and**
- (c) By requiring the Minister of Finance—**
- (i) To publish, at least 3 months before the start of each financial year, a budget policy statement containing the Government's long-term objectives for fiscal policy, its broad strategic priorities for the Budget for that**

financial year, and its fiscal intentions for that and the next 2 financial years; and

(ii) To lay before the House of Representatives, on the day on which the first Appropriation Bill relating to a financial year is introduced, a fiscal strategy report assessing the consistency of the Budget with the budget policy statement and providing progress outlooks for the next 10 years, and an economic and fiscal update prepared by the Treasury for the next 3 years; and

(iii) To publish, in December of each financial year, an economic and fiscal update prepared by the Treasury for the next 3 years; and

(iv) To publish, before each general election, an economic and fiscal update prepared by the Treasury for the next 3 years; and

(v) To lay before the House of Representatives, towards the end of each financial year, a fiscal update prepared by the Treasury for that year, including forecast estimated actual financial statements for the Crown

[27 June 1994

BE IT ENACTED by the Parliament of New Zealand as follows:

1. Short Title and commencement—(1) This Act may be cited as the Fiscal Responsibility Act 1994.

(2) This Act shall come into force on the 1st day of July 1994.

2. Interpretation—(1) In this Act, unless the context otherwise requires, “Budget”, in relation to a financial year, includes—

(a) The statement delivered by the Minister when moving the second reading of the first Appropriation Bill relating to that financial year; and

(b) The fiscal strategy report laid before the House of Representatives under section 7 (1) of this Act for that financial year; and

(c) The report containing an economic and fiscal update laid before the House of Representatives under section 8 (1) of this Act for that financial year; and

(d) The Estimates laid before the House of Representatives under section 9 (1) of the Public Finance Act 1989 for that financial year.

(2) In this Act, unless the context otherwise requires, the terms “commitment”, “contingent liability”, “Crown”, “department”, “expenses”, “financial year”, “generally accepted accounting practice”, “Government”, “Minister”, “Secretary”, and “Treasury” have the meanings given to them by section 2 (1) of the Public Finance Act 1989.

3. Act to bind the Crown—This Act shall bind the Crown.

4. Principles of responsible fiscal management—

(1) Subject to subsection (3) of this section, the Government shall pursue its policy objectives in accordance with the principles of responsible fiscal management specified in subsection (2) of this section.

(2) The principles of responsible fiscal management are—

- (a) Reducing total Crown debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total Crown debt in the future, by ensuring that, until such levels have been achieved, the total operating expenses of the Crown in each financial year are less than its total operating revenues in the same financial year; and
- (b) Once prudent levels of total Crown debt have been achieved, maintaining these levels by ensuring that, on average, over a reasonable period of time, the total operating expenses of the Crown do not exceed its total operating revenues; and
- (c) Achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown’s net worth in the future; and
- (d) Managing prudently the fiscal risks facing the Crown; and
- (e) Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

(3) The Government may depart from the principles of responsible fiscal management specified in subsection (2) of this section, but when the Government does so—

- (a) Any such departure shall be temporary; and
- (b) The Minister of Finance shall, in accordance with this Act, specify—
 - (i) The reasons for the Government’s departure from those principles; and

- (ii) The approach the Government intends to take to return to those principles; and
- (iii) The period of time that the Government expects to take to return to those principles.

5. Generally accepted accounting practice—All financial statements included in reports required under this Act shall be prepared in accordance with generally accepted accounting practice.

6. Budget policy statement—(1) The Minister shall, not later than the 31st day of March in each year, cause to be published a budget policy statement.

(2) The budget policy statement shall specify the Government's long-term objectives for fiscal policy and, in particular, for the following variables:

- (a) The Crown's total operating expenses; and
- (b) The Crown's total operating revenues; and
- (c) The balance between the Crown's total operating expenses and the Crown's total operating revenues; and
- (d) The level of the Crown's total debt; and
- (e) The level of the Crown's net worth,—

and shall explain how these long-term objectives accord with the principles of responsible fiscal management specified in section 4 (2) of this Act.

(3) The budget policy statement shall, for the financial year commencing on the 1st day of July after it is published and the 2 financial years following that financial year,—

- (a) Specify the broad strategic priorities by which the Government will be guided in preparing the Budget for that financial year; and
- (b) Indicate explicitly, by the use of ranges, ratios, or other means, the Government's intentions regarding each of the variables specified in subsection (2) of this section.

(4) The budget policy statement shall—

- (a) Assess the extent to which the intentions indicated under subsection (3) (b) of this section are consistent with the principles of responsible fiscal management specified in section 4 (2) of this Act and with the objectives specified under subsection (2) of this section; and

(b) Where the intentions indicated under subsection (3) (b) of this section are not consistent with the principles of

responsible fiscal management specified in section 4 (2) of this Act or with the objectives specified under subsection (2) of this section or with both, specify—

(i) The reasons for the departure of those intentions from those principles or from those objectives or from both; and

(ii) The approach the Government intends to take to ensure that its intentions regarding each of the variables specified in subsection (2) of this section become consistent with those principles and those objectives; and

(iii) The period of time that is expected to elapse before the Government's intentions regarding each of the variables specified in subsection (2) of this section become consistent with those principles and those objectives.

(5) The budget policy statement shall—

(a) Assess the consistency of the objectives specified under subsection (2) of this section with the objectives specified in—

(i) The immediately preceding budget policy statement; or

(ii) Where the objectives specified in the immediately preceding budget policy statement were amended in the report most recently prepared under section 7 of this Act, the objectives specified in that report; and

(b) Where the objectives specified under subsection (2) of this section are not consistent with those in the immediately preceding budget policy statement or in the report most recently prepared under section 7 of this Act, justify the departure of the objectives specified under subsection (2) of this section from those in that immediately preceding budget policy statement or in that report.

(6) The budget policy statement shall—

(a) Assess the consistency of the intentions indicated under subsection (3) (b) of this section with the intentions indicated in—

(i) The immediately preceding budget policy statement; or

(ii) Where the intentions indicated in the immediately preceding budget policy statement were amended in the report most recently prepared under

section 7 of this Act, the intentions indicated in that report; and

- (b) Where the intentions indicated under subsection (3) (b) of this section are not consistent with those in the immediately preceding budget policy statement or in the report most recently prepared under section 7 of this Act, justify the departure of the intentions indicated under subsection (3) (b) of this section from those in that immediately preceding budget policy statement or in that report.

(7) The Minister shall not later than 3 sitting days after the date of the publication of a budget policy statement under subsection (1) of this section, lay a copy of the statement before the House of Representatives.

7. Fiscal strategy report—(1) The Minister shall, for each financial year, after the introduction of the first Appropriation Bill relating to that financial year, but on the day of the introduction of that Bill, lay before the House of Representatives a report on the Government's fiscal strategy.

(2) The fiscal strategy report shall include—

- (a) An assessment of the extent to which the report containing an economic and fiscal update being laid before the House of Representatives under section 8 (1) of this Act is consistent with the intentions indicated under section 6 (3) (b) of this Act in the budget policy statement most recently published under section 6 (1) of this Act; and
- (b) Where the economic and fiscal update departs from the intentions indicated under section 6 (3) (b) of this Act in that budget policy statement, an explanation of the reasons for the departure; and
- (c) Where the Government's intentions under section 6 (3) (b) of this Act have changed from those indicated in that budget policy statement, an amended version of the intentions required by section 6 (3) (b) of this Act.

(3) The fiscal strategy report shall also include—

(a) Progress outlooks that—

- (i) Include projections of trends in the variables specified in section 6 (2) of this Act, which projections shall illustrate, for stated significant assumptions, likely future progress towards achieving the longer-term fiscal strategy and objectives specified in the budget policy statement most recently published under section 6 (1) of this Act; and

- (ii) Explain the reasons for any significant differences from previous progress outlooks; and
 - (b) An assessment of the consistency of the progress outlooks with the objectives specified under section 6 (2) of this Act in the budget policy statement most recently published under section 6 (1) of this Act; and
 - (c) Where the progress outlooks depart from the objectives specified under section 6 (2) of this Act in that budget policy statement, an explanation of the reasons for the departure; and
 - (d) Where the Government's objectives under section 6 (2) of this Act have changed from those specified in that budget policy statement, an amended version of the objectives required by section 6 (2) of this Act (which version shall accord with the principles of responsible fiscal management specified in section 4 (2) of this Act).
- (4) The projections required by subsection (3) (a) (i) of this section shall relate to a period of 10 or more consecutive financial years commencing with the financial year to which the Appropriation Bill relates.

8. Economic and fiscal update—(1) The Minister shall for each financial year, after the introduction of the first Appropriation Bill relating to that financial year, but on the day of the introduction of that Bill, lay before the House of Representatives a report containing an economic and fiscal update prepared by the Treasury.

(2) The update shall contain economic and fiscal forecasts relating to the financial year to which the Appropriation Bill relates and to each of the following 2 financial years.

(3) The update shall contain a statement specifying the day on which the contents of the update were finalised, or the days on which the contents of different specified aspects of the update were finalised.

9. Economic forecasts—(1) The economic forecasts contained in the update shall, for each of the 3 financial years to which they relate, include forecasts of movements in New Zealand's—

- (a) Gross domestic product, including the major components of gross domestic product;
- (b) Consumer prices;
- (c) Unemployment and employment;
- (d) Current account position of the balance of payments.

(2) The economic forecasts shall also include a statement of all significant assumptions underlying them.

10. Fiscal forecasts—(1) The fiscal forecasts contained in the update shall, for each of the 3 financial years to which they relate, include forecast financial statements for the Crown.

(2) The forecast financial statements for the Crown shall include—

- (a) A statement of the forecast financial position of the Crown at the balance date for each of those financial years:
- (b) An operating statement reflecting the forecast revenue and expenses of the Crown for each of those financial years:
- (c) A statement of cash flows reflecting forecast cash flows of the Crown for each of those financial years:
- (d) A statement of borrowings reflecting the forecast borrowing activities of the Crown for each of those financial years:
- (e) Such other statements as are necessary to fairly reflect the forecast financial operations of the Crown for each of those financial years and its forecast financial position at the end of each of those financial years.

(3) The forecast financial statements for the Crown shall also include—

- (a) A statement of commitments of the Crown as at the day on which the forecast financial statements are finalised (other than the commitments included in the statements prepared under subsection (2) of this section):
- (b) A statement of specific fiscal risks of the Crown as at the day on which the forecast financial statements are finalised, being the fiscal risks in relation to—
 - (i) The Government decisions and other circumstances required by section 11 of this Act to be incorporated in the economic and fiscal update; and
 - (ii) Any other contingent liabilities of the Crown, including any guarantees or indemnities given under any Act:
- (c) A statement of all significant accounting policies, including any changes from the accounting policies contained in the annual financial statements of the Crown most recently laid before the House of Representatives or published under section 31 of the Public Finance Act 1989:

(d) In relation to each statement required by paragraphs (a) to (d) of subsection (2) of this section and, where appropriate, in relation to any statement required by paragraph (e) of that subsection,—

(i) Comparative budgeted and estimated actual figures for the financial year immediately before the first of the financial years to which the fiscal forecasts relate; and

(ii) Comparative actual figures for the financial year 2 years before the first of the financial years to which the fiscal forecasts relate.

(4) The forecast financial statements for the Crown shall be for the same reporting entity as the annual financial statements for the Crown to be prepared under section 27 of the Public Finance Act 1989 for the first of the financial years to which the fiscal forecasts relate.

(5) The fiscal forecasts shall also include a statement of all significant assumptions underlying them.

11. Disclosure of policy decisions and other matters that may influence future fiscal situation—(1) Every economic and fiscal update prepared under section 8 (1) or section 13 (1) or section 14 (1) of this Act shall incorporate to the fullest extent possible consistent with subsection (4) of this section all Government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook.

(2) Where the fiscal implications of Government decisions and other circumstances referred to in subsection (1) of this section can be quantified for particular years with reasonable certainty by the day on which the forecast financial statements for the Crown are finalised, the quantified fiscal implications of those Government decisions and other circumstances shall be included in the forecast financial statements for the Crown.

(3) Where the fiscal implications of Government decisions and other circumstances referred to in subsection (1) of this section cannot be quantified for or assigned to particular years with reasonable certainty by the day on which the forecast financial statements for the Crown are finalised, those Government decisions and other circumstances shall be disclosed in the statement of specific fiscal risks of the Crown required by section 10 (3) (b) of this Act.

(4) Subsection (1) of this section and section 10 (2) (e) of this Act shall not apply to a decision, circumstance, or statement where the Minister determines that—

- (a) To incorporate that decision, circumstance, or statement in an economic and fiscal update is likely—
 - (i) To prejudice the substantial economic interests of New Zealand; or
 - (ii) To prejudice the security or defence of New Zealand or the international relations of the Government; or
 - (iii) To compromise the Crown in a material way in negotiation, litigation, or commercial activity; or
 - (iv) To result in material loss of value to the Crown; and
- (b) There is no reasonable or prudent way the Government can avoid this prejudice, compromise, or material loss—
 - (i) In the case of a circumstance, by making a decision before the day on which the forecast financial statements for the Crown are finalised; or
 - (ii) In the case of a decision or circumstance, by incorporating in the update the fiscal implications of that decision or circumstance, or the nature of that decision or circumstance but without reference to its fiscal implications; or
 - (iii) In the case of a statement, by incorporating that statement in the update.

12. Statement of responsibility—Every economic and fiscal update prepared under section 8 (1) or section 13 (1) or section 14 (1) of this Act shall be accompanied by a statement of responsibility signed by the Minister and the Secretary and comprising—

- (a) A statement by the Minister that all policy decisions with material economic or fiscal implications that the Government has made before the day on which the contents of the update or of the relevant aspect of the update were finalised, and all other circumstances with material economic or fiscal implications of which the Minister was aware before that day have been communicated to the Secretary; and
- (b) A statement by the Secretary that the Treasury has supplied to the Minister, using its best professional judgment on the basis of economic and fiscal information available to it before the day on which the contents of the update or of the relevant aspect of the update were finalised, an economic and fiscal update incorporating the fiscal and economic

implications of those decisions and circumstances, but not incorporating any decisions, circumstances, or statements that the Minister has determined under section 11 (4) of this Act should not be incorporated in that update; and

(c) A statement of the Minister's responsibility—

(i) For the integrity of the disclosures contained in the update; and

(ii) For the consistency with the requirements of this Act of the information contained in the update; and

(iii) For the omission from the update under section 11 (4) of this Act of any decision, circumstance, or statement.

13. Half-year economic and fiscal update—(1) Subject to subsection (3) of this section, the Minister shall, not earlier than the 1st day of December nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Treasury.

(2) The economic and fiscal update shall—

(a) Include the information required by sections 8 (2), 8 (3), 9, 10, and 11 of this Act to be included in the economic and fiscal update prepared under section 8 (1) of this Act, except that the reference to estimated actual figures in section 10 (3) (d) (i) of this Act shall be read as if it were a reference to actual figures, and the actual figures required by section 10 (3) (d) (ii) of this Act shall not be required; and

(b) Be accompanied by the statement of responsibility required under section 12 of this Act.

(3) The Minister shall not be required to cause a report to be published under subsection (1) of this section in any financial year if, in that part of that financial year beginning on the 1st day of October and ending with the 31st day of December, an economic and fiscal update—

(a) Has been published under section 14 of this Act; or

(b) Is required to be published under section 14 of this Act.

(4) The Minister shall, not later than 3 sitting days after the publication of a report under subsection (1) of this section, lay a copy of the report before the House of Representatives.

14. Pre-election economic and fiscal update—(1) The Minister shall, except as provided in subsection (4) of this

section, cause to be published, not earlier than 42 days, nor later than 28 days, before the day appointed as polling day in relation to any general election of members of Parliament, a report containing an economic and fiscal update prepared by the Treasury.

(2) The economic and fiscal update shall,—

(a) Except as provided in subsection (3) of this section, include the information required by sections 8 (2), 8 (3), 9, 10, and 11 of this Act to be included in the economic and fiscal update prepared under section 8 (1) of this Act; and

(b) Be accompanied by the statement of responsibility required by section 12 of this Act.

(3) Where, before the day on which an economic and fiscal update is required to be published under this section, the annual financial statements of the Crown for the financial year immediately before the first of the financial years to which the fiscal forecasts relate have been laid before the House of Representatives or published under section 31 of the Public Finance Act 1989, the reference to estimated actual figures in section 10 (3) (d) (i) of this Act shall be read as if it were a reference to actual figures, and the actual figures required by section 10 (3) (d) (ii) of this Act shall not be required.

(4) Where the day of the dissolution of Parliament is less than 35 days before the day appointed as polling day in relation to the general election of members of the House of Representatives, the Minister shall cause the economic and fiscal update required to be published under this section to be published not later than 14 days after the day of the dissolution of Parliament.

(5) The Minister shall, not later than 3 sitting days after the first meeting of the new Parliament, lay before the House of Representatives a copy of the report published under this section.

15. Current-year fiscal update—(1) The Minister shall, on the introduction of the first Appropriation Bill after the last day of March in each financial year, not being an Appropriation Bill that deals solely with matters relating to a previous financial year, lay before the House of Representatives a report containing a fiscal update for that financial year prepared by the Treasury.

(2) The update shall contain fiscal forecasts for that financial year and a statement of all significant assumptions underlying them.

(3) The fiscal forecasts shall include forecast estimated actual financial statements for the Crown for that financial year including—

- (a) A statement of the forecast estimated actual position of the Crown at the balance date:
- (b) An operating statement reflecting the forecast estimated actual revenue and expenses of the Crown for that financial year:
- (c) A statement of cash flows reflecting forecast estimated actual cash flows of the Crown for that financial year:
- (d) A statement of borrowings reflecting the forecast borrowing activities of the Crown for that financial year:
- (e) A statement of all significant accounting policies, including any changes from those contained in the annual financial statements of the Crown most recently laid before the House of Representatives or published under section 31 of the Public Finance Act 1989:
- (f) Such other statements as are necessary to fairly reflect the forecast estimated actual financial operations of the Crown for that year and its forecast estimated actual financial position at the end of that financial year:
- (g) In relation to each statement required by paragraphs (a) to (d) of this subsection and, where appropriate, by paragraph (f) of this subsection, comparative budgeted and actual figures for the previous financial year.

(4) The forecast financial statements for the Crown to be prepared under subsection (3) of this section shall be for the same reporting entity as the annual financial statements for the Crown to be prepared under section 27 of the Public Finance Act 1989 for the financial year to which the fiscal forecasts relate.

16. Referral to select committee—There shall stand referred to any committee of the House of Representatives responsible for the overall review of financial management in government departments and other public bodies—

- (a) Every budget policy statement published under section 6 (1) of this Act:
- (b) Every fiscal strategy report laid before the House of Representatives under section 7 (1) of this Act:
- (c) Every report laid before the House of Representatives under section 8 (1) of this Act:

- (d) Every report published under section 13 (1) or section 14 of this Act:
- (e) Every report laid before the House of Representatives under section 15 (1) of this Act.

17. Publication, inspection, and purchase of statements and reports—(1) The Minister shall, in respect of every statement or report referred to in section 16 of this Act, arrange for publication in the *Gazette* of a notice—

- (a) Indicating, where the statement or report is published in advance of being laid before the House of Representatives, that the statement or report has been published; and
- (b) Showing a place at which copies of the statement or report are available for inspection free of charge; and
- (c) Showing a place at which copies of the statement or report are available for purchase.

(2) The Secretary shall, for at least 6 months after the date of the publication of the notice required by subsection (1) of this section, cause copies of the statement or report referred to in that notice to be available—

- (a) For inspection by members of the public free of charge; and
- (b) For purchase by members of the public.

18. Power of Secretary to obtain information—(1) The Secretary may from time to time request any department or any entity mentioned in section 27 (3) of the Public Finance Act 1989, or any entity that manages an asset or liability of the Crown, to supply to the Secretary such information as is necessary to enable the preparation of any of the fiscal forecasts referred to in sections 8, 10, 11, 13, 14, and 15 of this Act.

(2) Any request under subsection (1) of this section may specify the date by which and the manner in which the information requested is to be provided.

(3) Where a date is specified under subsection (2) of this section, that date shall be reasonable having regard to the time limits prescribed by this Act for the laying before the House of Representatives, or the publishing, of the report for which the information is being requested.

(4) Where any request under subsection (1) of this section is made to a department or entity, that request shall be in writing and that department or entity shall comply with that request.

19. Transitional provision—(1) The fiscal strategy report required to be laid before the House of Representatives under section 7 (1) of this Act for the financial year commencing on the 1st day of July 1994 shall include—

- (a) The long-term objectives required by section 6 (2) of this Act and an explanation of how those long-term objectives accord with the principles of responsible fiscal management specified in section 4 (2) of this Act; and
- (b) The intentions required by section 6 (3) (b) of this Act; and
- (c) Progress outlooks that include projections of trends in the variables specified in section 6 (2) of this Act, which projections shall illustrate, for stated significant assumptions, likely future progress towards achieving the long-term objectives included under paragraph (a) of this subsection.

(2) Subsections (2) and (3) of section 7 of this Act shall not apply to the fiscal strategy report to which subsection (1) of this section applies.

(3) Subsection (4) of section 7 of this Act shall apply to the fiscal strategy report to which subsection (1) of this section applies as if the reference in section 7 (4) of this Act to subsection (3) (a) (i) of section 7 of this Act were a reference to subsection (1) (c) of this section.

This Act is administered in the Treasury.
