Regulatory Impact Statement: Public Finance Amendment Bill – Strengthening Fiscal Responsibility

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing final Cabinet decisions on amendments to the Public Finance Act 1989
Advising agencies:	The Treasury
Proposing Ministers:	Minister of Finance
Date finalised:	30th January 2025

Problem Definition

The latest economic and fiscal forecasts in the 2024 Half-Year Economic and Fiscal Update show the challenges ahead in restoring New Zealand to a strong fiscal position. There continues to be a deterioration in the economic outlook, with larger deficits over a longer period than previously anticipated and a later-than-expected return to surplus (in 2028/29).

The current fiscal context highlights the need to strengthen fiscal discipline across New Zealand's public finance system. While the Public Finance Act 1989 (PFA), a core part of the system, fulfils its role relatively well, there are challenges and opportunities for improvement. It is timely to review the PFA to ensure it facilitates fiscal discipline as effectively as possible to achieve long-term fiscal sustainability for New Zealand.

Executive Summary

In December 2023, the Minister of Finance announced that work was underway to improve transparency on specific fiscal risks for the upcoming Economic and Fiscal Update for Budget 2024, and that these improvements would be embedded in the PFA to strengthen fiscal responsibility and discipline.

This provides a good opportunity to review other fiscal responsibility provisions in the PFA and so the Minister directed Treasury to develop legislation focused on supporting fiscal transparency of government, strengthening fiscal responsibility across the public finance system, and improving the practical operation of the Act.

This Regulatory Impact Statement discusses a number of proposals to amend the PFA based on this direction. The preferred option (bolded below) for each proposal is set out in the Cabinet paper.

Supporting Fiscal Transparency

Improving disclosure requirements for specific fiscal risks (SFRs)

Analysis has found inconsistency in SFR disclosures over the past 25 years and erosion of the quality of information provided (e.g., aggregate risk categories and greater levels of quantification are no longer provided), which has reduced fiscal transparency and hindered comparability of SFRs over time.

Options considered:

1. Status Quo
2. **Prescribe disclosure requirements for SFRs in the Act**
3. Take a principles-based approach to disclosure requirements for SFRs in the Act

Option Two will prescribe disclosure requirements, including those introduced at Budget Economic and Fiscal Update 2024, which will help improve and maintain the quality of disclosures over time. Some agencies considered that prescribing the requirements was not necessary. However, the Treasury recommends Option Two as the other options may risk the erosion of the quality of disclosure due to the flexibility afforded.

Quantifying and publishing new tax expenditure estimates

Currently, publication of the Tax Expenditure Statement (TES), which provides transparency around policy motivated expenditures made through the tax system, is done on a voluntary basis, and its content is flexible. The International Budget Partnership noted that the TES does not meet their view of best practice, including that it does not estimate the cost of all tax expenditures.

Options considered:

1. Status Quo
2. Require the publication in legislation, without any specific content requirements
3. **Require the publication in legislation, with moderate content requirements** (e.g., estimate of the amount of the tax expenditure is required where reasonably feasible)
4. Require the publication in legislation, with significant content requirements (e.g., more fulsome costing requirements and additional analysis)

Mandating the production of TESs in legislation will help make the practice enduring. Setting content requirements will also ensure the level of information provided in TESs do not erode over time. While Option Three does not fully align with international best practice, it is preferred over Option Four as Option Four will be the most difficult to deliver on given the barriers in our current data collection settings.

Strengthening Fiscal Responsibility

Removing the requirement to articulate wellbeing objectives

The Public Finance (Wellbeing) Amendment Act 2020 introduced requirements related to wellbeing objectives into the PFA, including a requirement for the Minister of Finance to state in the Budget Policy Statement the wellbeing objectives that will guide the Government's Budget decisions. The requirement to produce an additional set of priorities through the Budget Policy Statement has added a layer of complexity, and it is difficult to distinguish one set of priorities from another and understand what different purposes they serve. It is also unclear whether the wellbeing-related requirements have achieved what they originally intended.

Options considered:

1. Status Quo
2. **Remove the wellbeing-related requirements**
3. Clarify wellbeing requirements in the Act

Option Two is preferred as it is most likely to improve the clarity and effectiveness of section 26M (Budget Policy Statement). It retains the broad strategic priorities requirements, which set general expectations around the content of the Budget Policy Statement without unduly restricting how the Government articulates their priorities. We note that the majority of submitters to a 2018 discussion document supported legislating the requirement for the government to articulate wellbeing objectives. However, others considered this was not necessary. This option does not constrain future governments from articulating their priorities in relation to wellbeing objectives, should they wish to do so.

Reducing Treasury's stewardship report requirements

Compared to other agencies, the Treasury produces a higher number of stewardship reports. The content and timing specifications set out in legislation reduce the Treasury's flexibility to allocate analytical and stewardship resources to report on other emerging economic and fiscal issues, or meet its stewardship responsibilities in ways other than the production of these reports.

Also, while the Long-term Fiscal Statement and the Investment Statement are most directly related to the Treasury's fiscal stewardship functions, there is some duplication between the Wellbeing Report and reporting from other parts of government.

Options considered:

1. Status Quo
2. **Remove the requirement for the Wellbeing Report**
3. Merge the existing requirements for the three stewardship reports into a requirement for a single stewardship report

Option Two would enable the Treasury to meet its stewardship reporting obligations in a more efficient and effective way. The Wellbeing Report could be removed with the least impact as it is focused on issues beyond the Treasury's fiscal role, and reporting on these broader outcomes can be covered by other non-statutory documents and the work of the broader public service.

Improving the operation of the Act
Adjusting the requirement for a HYEFU in an election year When an election is held in October, producing a Half-Year Economic & Fiscal Statement (HYEFU) that reflects a new government's decisions can be challenging due to the length of time taken to form a government following the election. For example, the HYEFU that followed the 2023 election only reflected the economic and fiscal forecasts of the period before the new Government was formed, due to the insufficient time available. While there is an exemption for producing a HYEFU if the Pre-Election Economic and Fiscal Update (PREFU) is published between 1 October and 31 December, in practice, the exemption is only triggered for elections held in November or later due to the requirement to publish a PREFU no earlier than 30 and no later than 20 working days before an election. Options considered: 1. Status Quo 2. **Introduce an earlier exemption window** 3. Extend the "cut off" date for the HYEFU publication in an election year Widening the exemption window best recognises the change in the time taken to form a new government following the introduction of the Mixed Member Proportional elections and the impact this has on HYEFU production. While Option Three allows for a full HYEFU to be prepared at a later date, this would likely create significant practical challenges due to the timing of the annual Budget process.
Adjusting the publication window for the Pre-Election Economic and Fiscal Update (PREFU) Voters are increasingly making use of advance voting following changes in 2010 which made advance voting more widely available. The PREFU is generally released two to three weeks prior to advance voting starts. However, political parties often use PREFUs as the basis of their fiscal plans, and will wait until PREFU is produced to publish their fiscal plans. This means there is often minimal time for fiscal plans to be communicated and engaged with before advance voting begins. Options considered: 1. Status Quo 2. **Move the window for publication of the PREFU earlier by five working days** 3. Move the window for publication of the PREFU earlier by 10 working days Option Two strikes the right balance between providing sufficient time for the public, commentators and political parties to engage with the PREFU before the election, while ensuring the PREFU includes up-to-date forecast information as close to an election as possible.

The Appendix sets out proposed changes that were exempted from inclusion in this Impact Statement due to having no, or only minor impacts, on business, individuals, or not-for-profit entities.

We are unable to quantify the expected costs and benefits of the suite of proposed changes. The cost of the overall changes on the government is expected to be minimal. Overall, the suite of changes are expected to improve the quality of information provided to the public and the government to support their understanding of fiscal matters.

Limitations and Constraints on Analysis

Constraints on options considered and narrow scope

The proposals in this document represent a targeted suite of changes focused on supporting fiscal responsibility (in particular, through supporting fiscal transparency) and a series of complementary stewardship changes. The options considered have been limited by the direction of the Minister of Finance that a targeted amendment Bill be introduced this Parliamentary term. The nature of the problems which can be addressed in these compressed timeframes is limited.

A limitation on the policy options considered in this document also comes from the anticipated Parliamentary Inquiry into Performance Reporting. The Treasury has not investigated or recommended options which could pre-empt the work of the inquiry. The work of this inquiry, and its timing, will inform our plans for future changes to the Public Finance Act.

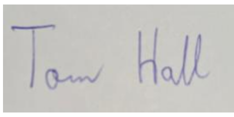
Consultation

Consultation on the proposals in this Regulatory Impact Statement has been limited to the public service, the Office of the Auditor-General, and Parliament's Office of the Clerk. This is due to the time available (to develop and pass the Bill in this parliamentary term), and the tight focus on measures that primarily affect the Executive. Where available, external written commentary (e.g., Open Budget Survey) has been drawn on to both identify and analyse proposals. There will be an opportunity for wider (public) input as part of the Select Committee's scrutiny of the Bill during the passage through Parliament.

Responsible Manager(s) (completed by relevant manager)

Tom Hall, Manager

Public Finance Policy, The Treasury

Signed: 

30 January 2025

Quality Assurance (completed by QA panel)

Reviewing Agency:	The Treasury
Panel Assessment & Comment:	*The Treasury QA Panel has reviewed the Regulatory Impact Statement (RIS) prepared by the Treasury and associated supporting material on 4 February 2025.*

	The Panel consider that the information and analysis summarised in the RIS partially meets the Quality Assurance criteria. *The RIS presents clear and succinct analysis of the options for a range of technical policy settings to support fiscal responsibility in our public finance system. The analysis is effective in explaining the competing elements of flexibility and prescription.* *The Panel noted that the consultation on the options was limited to the public service, the Office of the Auditor-General and Parliament's Office of the Clerk. While there some mitigating measures (particularly the previous public consultation on wellbeing reporting) the Panel consider, on balance, the quality assurance criterion for consultation has not been met. Ultimately PFA reporting is to provide accountability to the public. Broader public consultation is therefore desirable to support the objectives of this work.* *The limitations and constraints are clearly signalled in the RIS. Within these constraints (including regarding consultation), Ministers can rely on the RIS in their decision-making.*

Contents

Section 1: Diagnosing the policy problem

Introduction

The following document outlines analysis of proposals intended for inclusion in a Public Finance Act Amendment Bill. These proposals are intended to support fiscal responsibility, improve fiscal transparency, and improve the operation of the Act more generally. Each proposal is discussed individually (including a specific problem definition, options identification, and analysis) and grouped by theme.

What is the context behind the policy problem and how is the status quo expected to develop?

The Public Finance Act

New Zealand's public finance system is comprised of various laws, processes, and institutional arrangements. Collectively, these provide the rules for how governments may collect and use public money, and enables Parliamentary accountability over these actions.

The Public Finance Act 1989 (PFA) is a core part of this system. It provides the framework within which the Government can borrow or spend public money; and outlines the rights of Parliament to give informed authority for, and conduct scrutiny of, the use of public funds, balanced with the need for the Executive to be able to manage the affairs of Government efficiently and effectively.

The PFA supports the public finance system in several ways, including by:

- ***Supporting fiscal responsibility*** – The PFA specifies, and requires the Government to comply with, the principles of responsible fiscal management. This includes publicly articulating links between its fiscal strategy and budget intentions.

- ***Establishing Parliamentary authorisation and public accountability*** – The PFA outlines the rules for authorising the Executive to spend public money and undertake other financial activities such as borrowing. It also sets out reporting obligations to support Parliamentary scrutiny and public accountability of what has been achieved.

- ***Public sector management*** – The PFA supports efficient and effective delivery of goods and services by placing financial management responsibilities in the hands of departmental Chief Executives, who are accountable to responsible Ministers; and provides the Minister of Finance and the Treasury with the tools to control the overall fiscal position.

Recent changes to the PFA

Since its introduction, the PFA has been subject to a series of amendments, including to its fiscal responsibility provisions.

The Fiscal Responsibility Act 1994 first introduced (to legislation) the notion of responsible fiscal management. Its provisions were transferred (largely verbatim) to the PFA in 2004.

In 2013, a series of changes focused on fiscal responsibility provisions (e.g., new requirement for the content of the Fiscal Strategy Report, new requirement for the production of an Investment Statement)[1]. These changes were intended to ensure governments take into account and publicly discuss all of the relevant dimensions of fiscal policy.

In 2020, wellbeing objectives were introduced to the PFA with additional related reporting requirements (e.g., requirement for the production of a Wellbeing Report)[2].

What is the policy problem or opportunity?

The PFA generally fulfils its roles within the public finance system well. There are, however, challenges and opportunities for improvement.

The current fiscal context poses particular challenges. As noted in the Treasury's 2024 Half-Year Economic and Fiscal Update, "The economic weakness of the past two years has persisted longer than anticipated… Weakness in economic activity coupled with expenditure growth contributed to past fiscal deficits and increases in government debt… [according to forecasts] The fiscal position begins to recover in 2025/26…but at a slower pace than previously expected."[3] This fiscal context means that the role the PFA has in supporting fiscal responsibility is particularly crucial.

Many of these challenges and opportunities can be addressed with existing legislative settings, but some could be addressed through legislative change.

In December 2023, the Minister of Finance announced that work was underway to improve transparency on specific fiscal risks for the upcoming Economic and Fiscal Update (EFU) for Budget 2024. The Minister also announced that these improvements were to be embedded in the PFA to strengthen fiscal responsibility and discipline.[4]

This provides an opportunity to review fiscal responsibility provisions in the PFA, particularly given the time that has elapsed since the changes noted above, to ensure they facilitate fiscal responsibility as effectively as possible. This also provides an opportunity to make minor amendments to the PFA to improve the operation of the Act more generally.

In 2024, the Minister directed Treasury to develop legislation for enactment within this Parliamentary term, focused on supporting fiscal responsibility, and transparency, and improving the operation of the Act.

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[1] Public Finance (Fiscal Responsibility) Amendment Act 2013 No 67, Public Act Contents – New Zealand Legislation

[2] Public Finance (Wellbeing) Amendment Act 2020 No 29, Public Act Contents – New Zealand Legislation

[3] Half Year Economic and Fiscal Update 2024 - 17 December 2024 p. 3-4

[4] Hon Nicola Willis MP, Minister of Finance: *"I have also directed Treasury to progress work to entrench these improvements into the Public Finance Act and supporting rules to strengthen fiscal responsibility and discipline."* Strengthening Fiscal Responsibility Rules | Beehive.govt.nz

What scope will options be considered within?

A range of proposals were considered as part of development of this Bill. However, this timing, and the thematic focus, has narrowed its scope. The proposals included in this RIS therefore form a package of targeted changes to the Act and are generally limited to changes that affect Part 2 of the Act: *Fiscal Responsibility and Wellbeing*.

These changes operate in a broader context. The targeted measures included in this Bill are complemented by other actions, within existing legislative settings, to support the efficient and effective operation of the public finance system. For example, the Government has undertaken to implement public sector management changes to support how it achieves fiscal responsibility, such as through the introduction of Performance Plans.

Further, more fundamental legislative reform would take significantly longer, and require more significant consultation, than is possible in this timeframe. It is also anticipated that Parliament will conduct an Inquiry into Performance Reporting in this Parliamentary term. This could recommend further PFA amendments, and therefore any wider reform of the PFA should be conducted to a longer timeframe, which takes into account the findings of the Inquiry.

Consultation and External Commentary

The focus of the Bill on the fiscal responsibility provisions of the Act, and the resulting focus on the activity of the Public Service (in particular The Treasury) and the Executive, means that we have targeted consultation on the Public Service. Consultation has also been conducted with the Office of the Auditor-General, and Parliament's Office of the Clerk.

Time constraints have meant that broader consultation, such as a large-scale evidence-gathering exercise outside of the public service, has not been possible.

However, to supplement this work, external written commentary has been considered throughout this process. Proposals and analysis have been drawn from bodies such as the International Monetary Fund, International Budget Partnership, and external commentators and press. Where relevant, this is indicated in the policy analysis section of this paper.

What objectives are sought in relation to the policy problem?

In line with the direction of the Minister, the options considered in this statement are targeted legislative changes to:

1. Support fiscal transparency of government;

2. Strengthen fiscal responsibility across the public finance system; and

3. Improve the practical operation of the Act.

Strengthening Fiscal Transparency and Responsibility

Fiscal transparency underpins fiscal responsibility

The purpose of the Act is made up of several elements, set out in section 1A, which includes the following subsection related to supporting fiscal responsibility:

(2)(c) specifies the principles for responsible fiscal management in the conduct of fiscal policy and requires regular reporting on the extent to which the Government's fiscal policy is consistent with those principles[5]

This requires Governments to be transparent about New Zealand's fiscal position, and their strategy to maintain or improve it.

This transparency means that Governments can be held accountable for achievement of their fiscal strategy. By enabling the public, and parliament, to understand the Government's intended fiscal aims, and their plans for achieving them, they can assess whether they have been successful.

In turn, this accountability should encourage Governments to act in a fiscally responsible way.

This approach is supported by independent assurance of the government's fiscal position through the role of the Treasury and audited Financial Statements of Government, followed by scrutiny from Parliament. This approach is also facilitated by well-established practice, focused on transparency in the production of both financial statements and financial forecasts, including:

- the disclosure of the same sets of information across governments;
- use of accrual accounting concepts and statements;
- financial reporting standards approved by an independent standard setter;
- annual financial statements comply with generally accepted accounting practice (GAAP) and are audited by an independent auditor.

[5] Public Finance Act 1989 No 44 (as at 24 October 2024), Public Act 1A Purpose – New Zealand Legislation

The balance between flexibility and prescription is crucial to fiscal transparency

The PFA is primarily prescriptive in defining its requirements of government, but flexible as to how governments meet the requirements. The PFA then requires the government to be transparent as to how it has met these requirements, to ensure accountability. For example, it requires the government to outline its fiscal policy, but does not prescribe what the fiscal policy should be. This has resulted in an enduring mechanism to promote fiscal transparency (and thereby fiscal responsibility) across successive different governments.

The proposals included in this statement therefore seek the most effective balance between flexibility and prescription. This should mean that requirements afford enough flexibility to adapt to, but sufficient prescription be consistent and endure across, successive governments. Striking this balance is intended to support enduring fiscal transparency, and in turn, encourage and support the fiscal responsibility of government.

Improving the practical operation of the Act

There is also a need to amend the Act to improve its operation more generally and update it to the current context. This will help ensure the Act remains enduring, reflects current practice, and operates as intended.

Proposals being progressed through the PFA Amendment Bill aim to clarify the interpretation of ambiguous provisions, remove redundant references, and reflect improved practice in government processes. These have been identified and developed using the Treasury's experience with the operation of the Act.

These amendments are minor or technical in nature, and (as a result) are largely exempt from this impact statement. A full list of exempt measures is included in the Appendix.

Section 2: Deciding upon options to address the policy problem

What criteria will be used to compare options to the status quo?

As noted in the previous section, the overarching objective of these proposals is to support fiscal responsibility and improve the practical operation of the PFA.

Individual proposals may support this objective in several ways. Proposals have therefore been assessed against the following criteria.

1. Fiscal Transparency: the extent to which the option enhances fiscal transparency, by increasing quality or accessibility of fiscal information provided to the public and parliament.

2. Consistency: the extent to which the option makes practice or legislation consistent:
    a. over time, to improve comparability;
    b. across the Act, to improve its coherence;
    c. with best practice, to reflect improvements in process; or
    d. internationally, to meet recognised best practice.

3. Durability: the extent to which the change:
    a. is likely to become an enduring feature of the Act;
    b. is deliverable and likely to be complied with;
    c. makes good practice enduring; or
    d. enhances the enduring nature of the Act, for example, by codifying established practice, removing contentious elements, or maintaining the coherence and accuracy of the legislation.

4. Flexibility: the extent to which the option provides flexibility to:
    a. enable requirements to evolve and adapt over time; or
    b. allow the government and public service to adapt their approach as conditions change.

Some criteria will be more relevant to some of the proposals than others, so not all are used to assess each option. Where different weighting of the criteria has been applied in our assessment, we have indicated this under the options analysis table.

Section 3: What options are being considered?

Supporting Fiscal Transparency

Improving disclosure requirements for specific fiscal risks

Context

The PFA sets out the requirements for a statement of specific fiscal risks (SFRs) to accompany the fiscal forecast in each EFU (economic and fiscal update). SFRs are important for fiscal transparency – they highlight where there might be government decisions or other circumstances that could have a material effect on the fiscal and economic outlook but are not certain enough in the outcome, timing or quantum to include in the forecasts.

Policy Issue

While the Act clearly outlines the requirement and definition for SFRs, it does not prescribe how the SFRs are to be disclosed. There are benefits to this flexibility as it allows disclosures to adapt as fiscal risks faced by governments change over time.

However, analysis by the Treasury has found inconsistency in the quality of disclosures over the past 25 years. While the economic and fiscal updates have always complied with the standards required under the Act, additional information on SFRs, such as aggregate risk categories and greater levels of quantification, has been removed over this period. This has reduced fiscal transparency and hindered the comparability of SFRs over time.

In the Budget Economic and Fiscal Update (BEFU) 2024[6], there was significant overhaul of the SFR chapter, which included:

a. Classifying each SFR into one of nine risk categories, aligned to the underlying risk driver; and
b. Clearer explanations for the expiry of SFRs since the previous EFU.

These changes have resulted in better quality disclosures, but are not required by the PFA. Without a legislative requirement, these improvements could be stopped or erode over time, lessening fiscal transparency and consistency.

Option Identification

Option One – Continue the existing work programme to improve disclosure of specific fiscal risks within current legislative settings (Status Quo)

The existing flexibility in the Act allows for improvements to the SFR chapter even without legislative change, as was the case for the improvements introduced at BEFU 2024.

[6] Budget Economic and Fiscal Update 2024 - 30 May 2024, p. 59

Option Two – Prescribe disclosure requirements for SFRs in the Act

This option proposes specific disclosure requirements, including the improvements that were introduced at BEFU 2024, are prescribed in the Act. Disclosure requirements to be prescribed under this option would be:

a. Quantification of SFRs - an estimate (single value or range) of the fiscal impact across the forecast period for each SFR if the risk was to materialise. Where it is not possible to quantify the expected impact of an SFR (e.g., due to the nature of the risk, commercial sensitivity) an explanation of why must be disclosed.

b. Meaningful categorisation of risks - examples of categories include grouping the risks by cost pressures, capital cost escalations, and potential impact of reviews. In setting risk categories, or making changes to existing risk categories, the Treasury must give regard to the consistency of risk categorisation over time. The reasons for changes to categories since the previous economic and fiscal update must be disclosed.

c. An explanation provided for SFRs that are being expired or otherwise removed since the previous EFU.

Except for (*a*), these approaches have already been trialled in 2024 through the EFUs.

Some agency feedback also suggested that the rules used to determine which SFRs are included in the EFU should also be set in legislation. However, it is our view that the requirement under section 26Q(3)(b)(ii) of the PFA (that the statement of SFRs must state the rules used[7]), and the approach taken in 2024, ensures sufficient transparency of these rules, while allowing them to adapt as required.

Option Three – Principles-based approach to disclosure requirements for SFRs

This option proposes setting out in the Act certain principles for SFR disclosure that the Treasury must abide by, instead of prescribing specific disclosure requirements.

These principles would be based on achieving a specific outcome, rather than specifying how this is achieved. These outcomes could include:

a. That SFRs are identified and communicated in a way that supports understanding of the nature, impact, and likelihood of each SFR.

b. That disclosure includes sufficient information on the SFR to support public understanding on individual risks and the aggregate impact of these risks.

c. That risks identified are trackable across EFU publications.

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[7] See the criteria used to identify SFRs in *Half Year Economic and Fiscal Update 2024 - 17 December 2024*, p. 56 (table)

How do the options compare to the status quo/counterfactual?

	Option One – *Status Quo*	Option Two – *Prescribe disclosure requirements*	Option Three – *Principles-based approach*
Fiscal Transparency Better information is provided to the public	0	+ + Prescribing specific disclosure requirements (such as quantification, meaningful risk categorisation, and tracking of risks between EFUs) will improve depth of analysis and the quality of information provided to the public, which will support the public to have a better understanding of SFRs.	+ This option provides clarity on general expectations for disclosure, which could improve the quality of the SFR information.
Consistency More consistency in SFR disclosure	0	+ + Prescribed requirements ensure that there is a set standard of information disclosed on SFRs, which will likely improve the consistency of disclosures, including comparability over time.	+ Having clarity on general expectations for disclosure could improve consistency over the status quo, but this is not guaranteed as principles are not prescribed requirements and can be interpreted differently. For example, the improvements to disclosure introduced at BEFU 2024 would still be permitted under this option, but the Treasury would not be bound to this form of SFR statement. There could be change in quality and consistency of disclosures over time due to different interpretations, hindering comparability.
Flexibility Ability to change SFR disclosure when risks and circumstances change	0 Maximum flexibility as specific disclosure requirements are not prescribed.	- - Prescription of disclosure requirements in legislation significantly reduces flexibility.	- General expectations for disclosure provide more flexibility than prescribing specific requirements, but less flexibility than status quo.
Overall assessment	0	+ +	+

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

We recommend Option Two - amending the Act to prescribe requirements for the disclosure of SFRs. Prescribing disclosures sets a minimum standard of disclosure, provides consistency in how fiscal risks are disclosed, and would be beneficial to improving and maintaining quality of disclosures.

As there are sometimes challenges to quantifying SFRs consistently and accurately, this will only be required where possible (while such cases will require an explanation of why it has not been possible).

Some agency feedback suggested that prescribing disclosure requirements in legislation is not necessary, and that the status quo has the benefit of flexibility. However, it is our view that the status quo or principles-based approach may risk the erosion of the quality of disclosures over time, limiting fiscal transparency and comparability of SFRs.

What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Public Service	Increased expectations for disclosure should not require significant additional effort from the public service as the current process for providing risk information to the Treasury already gathers the information required for the prescribed requirements.	Low	High
The Treasury	Increased disclosure requirements should not require significant additional effort to ensure disclosures are accurate, particularly in relation to quantification of risks. Most requirements proposed have been trialled and the Treasury has the systems to collect the required information.	Low	Medium
Total monetised costs	N/A	N/A	N/A
Non-monetised costs		Low	Medium
Additional benefits of the preferred option compared to taking no action			
Public/Parliament	High quality of information, supports public understanding and debate of fiscal matters.	Low	Medium
The Government	Increased understanding of fiscal risks supports informed decision-making and fiscal responsibility.	Medium	Medium
Total monetised benefits	N/A	N/A	N/A
Non-monetised benefits		Medium	Medium

Quantifying and publishing new tax-expenditure estimates

Context

Sections 26O and 26R of the PFA require the EFU published at Budget to include a statement of tax policy changes introduced at that Budget. This must include a qualitative and quantitative assessment of those changes which have resulted in a material change to tax revenue forecasts.

The Treasury also produces a Tax Expenditure Statement (TES) to accompany each Budget, to provide further transparency around policy motivated 'expenditures'[8] made through the tax system. The TES includes costings for new tax expenditures (as per the statement of tax policy changes) and some other ongoing tax expenditures. The current list of tax expenditure information provided in recent TESs includes:

- those drawn from the Income Tax Act 2007 and Goods and Services Tax Act 1985.
- appropriated cash payments (spending) made through the tax system, for example, Working for Families tax credits.
- the fiscal cost of a sub-section of tax expenditures with readily accessible data.
- the classification and policy rationale for individual expenditures.
- cash payments made through the tax system. These do not formally meet a tax expenditure definition but have been included for transparency purposes.

Policy Issue

The TES is a useful document, but has some weaknesses. Publication of the TES is voluntary, and its content is flexible. This means that its production could be stopped in future, and its level of detail, and the extent to which it is comprehensive, could decline over time.

The International Budget Partnership (IBP), as part of their Open Budget Survey, have also raised concerns that the TES does not meet their view of best practice.[9] In particular, the IBP have raised concerns that the methodology for identifying tax expenditures could be improved.

The IBP also noted that the TES does not estimate the cost of all tax expenditures. Instead, it estimates the cost of a small sub-section of total tax expenditures, for which the cost has been estimated, and for which data is readily available. Other countries produce much more significant estimates of their tax expenditures. For example, the Australian Government produces a Tax Expenditures and Insights Statement which provides estimates of the revenue forgone from tax expenditures, along with distributional analysis on large tax expenditures and commonly utilised features of the tax system.[10]

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[8] A tax policy expenditure occurs when a tax policy decision leads to a reduction in the tax due. Tax expenditures may "take the form of an exemption, allowance, preferential tax rate, deferral or offset that reduces a tax obligation to achieve a specific policy objective." 2024 Tax Expenditure Statement - 30 May 2024 (budget.govt.nz) p.1

[9] Country Questionnaire: New Zealand (internationalbudget.org) p. 105-6

[10] https://treasury.gov.au/publication/p2024-489823

Option Identification

Option One – Continued publication on a voluntary basis (Status Quo)

This option makes no changes as the TES can continue to be produced on a voluntary basis, as has been the case since 2010.

Option Two – Require the publication in legislation, without any specific content requirements

This option proposes to amend the PFA to make publication of the TES a statutory requirement to ensure that publication is maintained, but without setting any specific content requirements.

Option Three – Require the publication in legislation, with moderate content requirements

This option proposes to make publication of the TES a statutory requirement (as per Option Two), and also specify what information should be provided for those tax expenditures included in the TES, based on the information currently included in the TES, plus some moderate improvements.

The content requirements to be specified in legislation would include:

a. a <u>description</u> of the tax expenditure;

b. the <u>section</u> of the relevant legislation where the tax expenditure is specified;

c. an <u>estimate of the amount of the tax expenditure</u>, where reasonably feasible;

d. an <u>explanation of the outcome</u>(s) the expenditure is intended to achieve (e.g., to support economic activity, or assist households with the cost-of-living);

e. provision of <u>additional documents</u> – for example, the relevant Regulatory Impact Statements (RIS) or Cabinet Paper.

Option Four – Require the publication in legislation, with significant content requirements

In addition to the requirements set out in Option Three, this option proposes to include a more comprehensive range of information on tax-expenditures. Additional requirements that would be included are:

a. <u>a description of the normative tax base</u> – this would provide a short summary of the structural features of the tax system and how they compare to a comprehensive normative benchmark, to show the scale of tax expenditures in the system.

b. <u>Quantification of additional tax expenditures not currently included in the TES</u> – based on existing costings. This would utilise existing internal data (e.g., START system, IR returns) to refine estimates.

c. Additional assumption-based estimates of a broader range of tax expenditures for those that have poor data availability – this would utilise informed assumptions and develop standardised estimation methodologies (e.g., accelerated depreciation models) to agree and maintain a consistent approach, and so enable comparability over time.

d. Improved analysis of tax expenditures – this could include distributional impact analysis for tax expenditures that have data availability.

How do the options compare to the status quo/counterfactual?

	Option One – ***Status quo***	**Option Two –** ***Statutory requirement, without any content requirements***	**Option Three –** ***Statutory requirement, moderate content requirements***	**Option Four –** ***Statutory requirement, significant content requirements***
Fiscal Transparency Better information on tax expenditures is provided to the public	0	0 This would not increase number of tax expenditures included in the TES or the level of detail provided.	+ This would not broaden the types of tax expenditure information included in the TES, but would improve the level of detail provided to better support public understanding. For example, the requirement to provide an explanation of the outcomes the tax expenditure is intended to achieve could help public understanding of the intended consequences of those expenditures. However, this would not provide any further costing details, such as the estimated cost of all tax expenditures.	+ + This would broaden the types of tax expenditure information provided in the TES and also significantly improve the level of detail provided, such as providing additional assumption-based estimates of costs and distributional impact analysis to better support public understanding of the various expenditure decisions.
Consistency The information provided is in line with international best practice (as defined by the IBP)	0	0 International best practice would not be met, as this option does not necessarily improve the comprehensiveness of the TES.	+ This would enable better alignment with international best practice, however the impact is likely to be minimal as this does not broaden the types of tax expenditure information included in the TES or improve the level of costing information provided.	+ + This option enables close alignment with international best practice.

Durability* The requirements are deliverable and makes good practice enduring	0	+ This option makes the production of TES enduring by making it mandatory instead of voluntary. However, over time, the level of information provided may erode without standards set clearly in legislation. It is deliverable as production of a TES is already a well-established practice and unlikely to require any changes in processes or additional resources. However, without specifying the content of the TES, the statutory requirement will be weak.	+ + This option makes the production of TES enduring, but also sets a clear standard for what the TES should include in legislation to make it more enduring. Given the current voluntary production of TES contains much of the content that will be required under this option, this option is still likely to be deliverable without significant additional resources or change in processes.	- - While this option would legislate requirements that best align with international practice to make it more enduring, it incurs the highest compliance cost for affected agencies (mainly Inland Revenue) and taxpayers, and would be the most difficult to deliver on. This is because significant improvements are needed to comply with the requirements under this option. For example, there would need to be a significant data collection effort (e.g., new surveys or outreach to taxpayers or external bodies) to enable a more fulsome costing of the total tax expenditure as there are substantial gaps in our existing data collection. Data availability may also be hampered by confidentiality requirements (e.g., Defence Force accommodation).
Flexibility The content of the TES can adapt as required	0	0 While this option mandates the production of a TES, there are no requirements for its content, providing sufficient flexibility for the TES to adapt, similar to Option One (Status Quo).	- Setting content requirements in legislation would remove some of the flexibility; however, this option is less prescriptive than Option Four and enables the TES to improve over time, as and when more data becomes readily available in future.	- - This option is the most prescriptive as it mandates the production of a TES with comprehensive content requirements.
Overall assessment	0	+	++	0

**asterix indicates the key criteria, to which double weighting is applied.*

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

We recommend Option Three - require the publication in legislation, with moderate content requirements. While the production of the TES has been well embedded over many years, mandating this in legislation would help make the practice enduring. Setting some content requirements in legislation will also ensure the level of information provided in the TES do not erode over time.

We note that Option Four would be the most effective in improving the content of the TES to improve fiscal transparency and more closely align with international best practice. However, this is the most difficult to deliver on given the significant improvements required in our data collection, and will require additional resources. Option Three enables moderate improvements to be set in legislation that can be deliverable, while leaving room for more significant changes to be progressed non-legislatively over a longer timeframe.

What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Public Service	Additional cost of pursuing Option Three is minimal, as improvements are moderate, and manageable within existing resource.	Low	Medium
Public	Additional cost of production is likely to be minimal, and so has minimal cost to the taxpayer.	Low	Medium
Total monetised costs	N/A	N/A	N/A
Non-monetised costs		Low	Medium
Additional benefits of the preferred option compared to taking no action			
Public	Increased transparency can support improved public understanding of government expenditure, if information made available is made use of.	Medium	Medium
Government	Increased transparency of government expenditure can support informed decision-making, if information made available is made use of	Medium	Medium
Total monetised benefits	N/A	N/A	N/A
Non-monetised benefits		Medium	Medium

Strengthening Fiscal Responsibility

Removing the requirement to articulate wellbeing objectives and explain how they guide Budget decision-making

Context

Section 26M(2) of the PFA requires the Minister of Finance to state in the Budget Policy Statement several broad strategic priorities that will guide the Government in preparing the upcoming Budget. These include:

a. the overarching policy goals that will guide the Government's Budget decisions;
b. the policy areas that the Government will focus on in that year; and
c. how the Budget for that year accords with the short-term intentions referred to in the most recent fiscal strategy report (or, if relevant, the amended intentions the Budget Policy Statement).

In 2020, the Public Finance (Wellbeing) Amendment Act 2020[11] introduced requirements related to wellbeing objectives into the PFA, intended to create transparency and accountability for the effects of Government's fiscal policies on broader wellbeing. The changes introduced in 2020 included:

a. a requirement for the Minister of Finance to state in the Budget Policy Statement the wellbeing objectives that will guide the Government's Budget decisions (section 26M(2)(aa));

b. that the wellbeing objectives, referred to above, must relate to social, economic, environmental and cultural wellbeing, or any other matters that the Government considers supports long-term wellbeing in New Zealand (section 26M(4));

c. that the Budget Policy Statement must explain how the wellbeing objectives are intended to support long-term wellbeing (section 26M(5)); and

d. that the Fiscal Strategy Report (released alongside the Budget) must explain how the wellbeing objectives guided Budget decisions (section 26KB).

The requirement to produce a Wellbeing Report (also introduced in 2020) is discussed separately under the proposal "Reducing the Treasury's stewardship reporting requirements".

Policy Issue

The 2020 changes added an additional set of priorities that needed to be articulated through the Budget Policy Statement, which has added a layer of complexity. It is difficult to distinguish one set of priorities from another, and to understand what different purposes they serve. For example, in the 2024 Budget Policy Statement, the Minister of Finance took the position that the overarching policy goals were also wellbeing objectives. The document stated:

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[11] Public Finance (Wellbeing) Amendment Act 2020 No 29, Public Act Contents – New Zealand Legislation

> "These goals are also the Government's wellbeing objectives, as meeting these objectives is the most important contribution the Government can make to the long-term social, economic, environmental and cultural wellbeing of New Zealanders."[12]

In addition, the more prescriptive nature of the wellbeing objective requirement is at odds with the other broad strategic priorities, which have endured over several decades. It is also unclear whether the wellbeing-related requirements have achieved what it originally intended, with one assessment noting that wellbeing budgeting (which includes the wellbeing objectives requirement) does not appear to have made any appreciable practical difference in the actual major Budget decisions.[13]

Option Identification

Option One – Retain the current requirements, including wellbeing-related requirements (Status Quo)

Under the current settings, the Government will continue to be required to set out how wellbeing objectives have guided their Budget decisions.

Option Two – Remove the wellbeing-related requirements introduced in 2020

This option proposes to remove the wellbeing-related requirements that were introduced in 2020, which are sections 26M(2)(aa), 26M(4), 26M(5) and 26KB.

Option Three – Clarify wellbeing requirements to strengthen transparency and accountability

This option proposes to make the PFA more prescriptive with respect to wellbeing objectives. At a high level, there are two ways in which this could be done:

- Firstly, by tightening requirements for what wellbeing objectives must relate to, such as by removing the catch-all clause in section 26M(4) that wellbeing objectives can relate to *"any other matters that the Government considers support long-term wellbeing in New Zealand*", and/or by defining wellbeing, to specify what it constitutes (e.g., material comfort, etc.).
- Secondly, by requiring that wellbeing objectives be framed as outcomes statements for which Governments can be held accountable in the future.

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[12] Annex 4 - Government goals and wellbeing objectives - Budget 2024 - 30 May 2024

[13] "wellbeing budgeting does not appear to have made any appreciable practical difference in the actual major budget decisions and allocations with a few exceptions at the level of some micro-level programmes supported." Derek Gill, "Is New Zealand a World Leader in Public Budgeting?", Public Sector Journal 47.3 - Spring 2024 : Institute of Public Administration New Zealand p. 27

How do the options compare to the status quo/counterfactual?

	Option One – status quo	Option Two – remove wellbeing-related requirements	Option Three – clarify wellbeing requirements
Fiscal Transparency* The public are better informed	0	+ While reducing the number of policy priorities that must be included may be seen as reducing the level of information provided to the public, this option removes the incongruence that the prescriptive wellbeing-related requirements created, compared to the other deliberately flexible and long-standing priorities, which will likely make articulation of Government's objectives easier and clearer. Removing these requirements also does not preclude future Governments from articulating their priorities in terms of wellbeing objectives, if they wish to do so.	+ Clarifying the wellbeing requirements would improve the quality of information, bringing both transparency and accountability benefits. However, more prescriptive requirements could further increase complexity which could have an opposite effect on the clarity of information provided in some cases.
Consistency The requirements on Government are comparable over time	0	- This option could lead to less consistency and comparability of information contained in the Budget Policy Statement over time.	+ This option would improve consistency and therefore comparability of information provided related to the wellbeing objective.
Flexibility Requirements on Government are not unduly restrictive	0	+ This option removes the prescriptive requirements, while retaining the more flexible priorities. This ensures Government's can set their own priorities in the way they best see fit (including through the wellbeing lens if they wish to do so).	- Clarifying wellbeing requirements would reduce the flexibility of Government to interpret them in the manner that best fits with their own priorities.

Durability Requirements are likely to endure	0	+ A more moderate level of prescription is likely to be more enduring than more prescriptive requirements. This option retains the more flexible priorities in section 26M(2), which have already endured over successive Governments across several decades.	- Increasing the level of prescription would constrain future Government's ability to articulate their fiscal objectives in the manner of their choosing, which raises the likelihood that future Governments will further amend or repeal the requirements.
Overall assessment	0	++	+

**asterix indicates the key criteria, to which double weighting is applied.*

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

On balance, we consider that Option Two is preferable, as it is most likely to improve the clarity and effectiveness of section 26M, without restricting flexibility.

The introduction of the wellbeing requirements in 2020 have added complexity to how the Government can articulate their priorities and objectives, but it is unclear whether they have brought about a clear increase in accountability that the changes initially intended.

This option removes the additional complexity, while retaining the broad strategic priorities that existed prior to the 2020 changes, which have endured through several decades. These existing priorities set general expectations around the content of the Budget Policy Statement without unduly restricting how the Government articulates their priorities for each Budget.

We note that the majority of submitters to a 2018 discussion document[14] supported the proposal to legislate the requirement for the Government to articulate wellbeing objectives. However, others considered that this was not necessary and many submitters noted the need for bipartisan support to ensure change was enduring. While this option removes the legislative requirement that the majority of submitters supported, it does not constrain future governments from articulating their priorities in relation to wellbeing objectives, if they wish.

What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Public	In some cases, less detail may be provided to the public on government priorities. Over time, information may be less consistent and therefore less comparable.	Low-Medium	Low
Total monetised costs	N/A	N/A	N/A
Non-monetised costs		Low/Medium	Low
Additional benefits of the preferred option compared to taking no action			
Public	Communication of government priorities will be made clearer, by removing overlap.	Low-Medium	Low
Government	There will be a small reduction in compliance costs.	Low	High

14 Embedding wellbeing in the Public Finance Act 1989 | The Treasury New Zealand

Total monetised benefits	N/A	N/A	N/A
Non-monetised benefits		Low-Medium	Medium

Reducing the Treasury's stewardship reporting requirements

Context

The PFA requires the Treasury to produce three stewardship reports, each on a four-year cycle:

- Long-term Fiscal Statement (LTFS) – analyses the drivers of long-term fiscal pressures and informs the Treasury's advice on the Government's fiscal strategy.
- Investment Statement (IS) – is explicitly focused on the effective management of the Crown balance sheet.
- Wellbeing Report (WBR) – has a broader focus than the fiscal perspective provided by the LTFS and IS. The WBR supports fiscal transparency by providing information on the wellbeing outcomes that government spending is seeking to progress, including through the Budget process.

Additionally, the Public Service Act (PSA) requires all agencies, including the Treasury, to produce a Long-term Insights Briefing (LTIB) within a three-year period.

These stewardship reports provide a vehicle for introducing a longer-term perspective into the policy dialogue, as well as an opportunity for the Treasury to have an independent voice on some of the critical long-term challenges facing New Zealand, such as fiscal sustainability.

The reports also provide avenues for the Treasury to conduct research and analysis that is necessary to support the quality of policy advice to the Government of the day and future governments. The Office of the Auditor General has reviewed previous Treasury stewardship reports and has commented on the importance of the reports in providing meaningful insights about the future, the government's long-term fiscal position, and the state of wellbeing in New Zealand.

Policy Issue

Compared to other agencies, the Treasury produces a higher number of stewardship reports and there is an opportunity cost associated with producing them. Furthermore, the content and timing specifications set out in legislation reduce the Treasury's flexibility to allocate analytical and stewardship resources to report on other emerging economic and fiscal issues, or meet its stewardship responsibilities in ways other than the production of these reports, for example through Treasury Working Papers or Analytical Notes.

Also, while the LTFS and IS are most directly related to the Treasury's fiscal stewardship functions and there is no other similar work done by other agencies, there is some duplication between the WBR and reporting from other parts of government. For example, the 2022 WBR considered educational outcomes for younger generations, a topic that is also extensively covered in research and analysis by the Ministry of Education.

Option identification

Option One – Retain the current legislative requirements but make use of the flexibility within existing legislation to create efficiencies (Status Quo)

The current legislative provisions already provide the Treasury some discretion in how to meet its stewardship report requirements. Under the current settings, the Treasury could:

- Take a scaled-back approach – the Treasury has typically invested significantly in each stewardship report, far exceeding the legislative requirements. This could be scaled back, such as reducing the size of the reports and producing less underlying research to support them.
- Combine the reports to reduce resource intensity and investment – the Treasury has previously combined reports with He Tirohanga Mokopuna 2021[15] (the Treasury's combined Statement on the Long-term Fiscal Position and Long-term Insights Briefing).

Option Two – Amend the legislation to remove the requirement for the WBR

This option proposes to remove the requirement for the WBR from the PFA, while retaining the requirement for the LTFS and IS.

Option Three – Merge specific reporting requirements into one general requirement for regular independent reporting on fiscal and economic matters

This option proposes to merge the existing requirements for the three stewardship reports in the PFA into a requirement for a single stewardship report.

This would require the report to cover both fiscal and economic matters but allow the Treasury discretion as to how to fulfil this requirement. This would enable the Treasury to adapt its approach dependent on the circumstances, for example, the resource available, external developments, or the priorities of Treasury at the time.

[15] He Tirohanga Mokopuna (2021) | The Treasury New Zealand

How do the options compare to the status quo/counterfactual?

	Option One – status quo	Option Two – remove requirements for the WBR	Option Three – merge requirements
Fiscal Transparency More information is provided to the public, including better quality information (i.e., depth of policy analysis is greater)	0	- Removing the requirement to produce the WBR means there will be one less report for the public to obtain information from; however, other parts of government also undertake various research and analysis in areas that the WBR may cover which will remain available to the public. Removing the WBR requirement does not stop the Treasury from reporting on broader economic and social outcomes through other means (e.g., Working Papers and Analytical Notes, or through the application of the Treasury's Living Standards Framework and Value for Money analysis). + Reducing the number of legislatively required reports would give the Treasury more room to undertake higher quality analysis, particularly for the reports that primarily focus on the Treasury's stewardship functions, thereby providing the public with more quality information.	- While this preserves the statutory requirement for reporting on fiscal and economic matters in a different format, the public may consider that they are provided with less information due to the combined reporting. The merging of reports could improve the discipline and scope for research and analysis, but may only increase the breadth of reporting, and not its depth. This is because the Treasury would have discretion as to how to fulfil this requirement under this option, which could lead to less depth of analysis or narrowing its research focus based on resource and capacity, interests and priorities at the time of the production.
Flexibility	0	+ Reducing reporting requirements allows analytical and stewardship resources to be allocated to emerging issues and in a broader range of formats. As noted above, this option still enables the Treasury to report on broader economic and social outcomes through various means.	++ Merging requirements increases flexibility to the Treasury to exercise its best professional judgement in reporting on fiscal and economic matters over the long-term.

Consistency	0	0 This option retains the two other stewardship reports in the PFA, which will ensure future reporting, particularly those that support Treasury's stewardship functions, continues.	- - Merged reporting requirements could lead to less consistent reporting over time since this approach would introduce greater legislative flexibility in how the Treasury reports on fiscal and economic matters.
Overall assessment	0	+	-

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

Option Two would enable the Treasury to meet our stewardship reporting obligations in a more efficient and effective way, while focusing the Treasury's communications, analysis and public attention on a smaller suite of documents.

We consider that the WBR could be removed with the least impact because it is focused on issues beyond Treasury's fiscal role, and reporting on these broader outcomes can be covered via other non-statutory documents, and the work of the broader public service.

What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
The public	The WBR provides a standalone piece of analysis on broader economic and social outcomes, published at regular intervals. It is produced using the Treasury's professional judgement and is independent of Ministers. This supports public debate on the state of the nation. Ceasing the WBR therefore risks less information being made available for public debate. However, the Treasury has historically published a range of research and commentary to fulfil its stewardship role and will continue to publish analysis on living standards and broader outcomes for New Zealanders.	Low-medium	Medium
The public service	This could risk discontinuation of some data and analysis that informs public service advice to government on cross-cutting and long-standing policy issues. However, significant levels of relevant data and analysis will continue to be made available to agencies.	Low	Medium
Total monetised costs	N/A	N/A	N/A
Non-monetised costs		Low-medium	Medium
Additional benefits of the preferred option compared to taking no action			
The public	Gives greater flexibility to the Treasury to be more adaptable and responsive in its stewardship role, by shifting focus to emerging economic and fiscal issues of relevance to the public. Also allows the Treasury to explore some issues in greater	Low-medium	Medium

	depth, and at intervals as determined appropriate in the circumstances.		
Total monetised benefits	N/A	N/A	N/A
Non-monetised benefits		Low-medium	Medium

Improving the Operation of the Act

Adjusting the requirement for a Half-Year Economic & Fiscal Update (HYEFU) in an election year

Context

In an election year, if a Pre-Election Economic and Fiscal Update (PREFU) has been published between 1 October and 31 December, a Half-Year Economic and Fiscal Update (HYEFU) is not required. This recognises that there may be insufficient time between (a) the date of the election of a Government, and (b) the deadline for publishing a HYEFU (which is no later than 31 December, but in practice generally mid-December) for the Treasury to reflect a new Government's initial decisions in the HYEFU.

A PREFU must be published no earlier than 30 and no later than 20 working days before an election[16], which means in practice only elections held in November or later trigger the HYEFU exemption. Since 1999, there have been three elections in which this exemption was triggered (1999, 2008 and 2011), although in the case of 2008, a partial, non-statutory update was completed.

Policy Issue

The period between the election and publication of HYEFU should allow time for government formation, and initial government decisions and priorities to be established, as well as sufficient time to reflect these decisions in the economic and fiscal outlook in the HYEFU. The existing 1 October "cut-off" date in the PFA was carried over from the Fiscal Responsibility Act 1994, and was drafted at a time when first-past-the-post elections led to quick formation of single-party governments. Since the shift to Mixed Member Proportional elections in 1996, four-to-six weeks of negotiations has been the norm before a government is formed.

Experience has shown that, when an election is held in October, producing a HYEFU that reflects a new government's decisions can be challenging.

Following the 2023 election (held on 14 October), and the six-week coalition negotiation period, there was insufficient time to include the elected Government's decisions (including the impact of Coalition Agreements, 100 Day Action Plan commitments and the Mini Budget decisions) in the HYEFU forecasts. Ordinarily, close-off for forecast decisions in a HYEFU is one month before publication, to give time for over 90 entities to update their five-year forecasts for the latest decisions, for central compilation of this information, and for quality assurance and preparation of the HYEFU chapters.

Due to the insufficient time following the 2023 election, the HYEFU only reflected the economic and fiscal forecasts of the period before the new Government was formed. While the HYEFU provided high level information on the anticipated fiscal impacts on key fiscal indicators from the Mini Budget, the full economic and fiscal implications of these were not

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[16] Thought this may also be amended. See the related proposal on adjusting this window for PREFU to between 35 and 25 working days before an election. This change would not significantly impact the analysis in this proposal.

able to be reflected in the forecasts, reducing the overall value of the HYEFU in providing an updated economic and fiscal outlook since the PREFU. This weakness in the forecasts was highlighted by external reporting on the HYEFU, from PWC[17], Kiwi Bank[18], and Stuff News[19].

Option Identification

Option One – Status Quo

Where an election occurs in October, a HYEFU can still be produced in accordance with statutory requirements. The two most recent elections have been held in October and a HYEFU has been published in both instances. Compliance with the Act is therefore possible under the status quo.

Option Two - Introduce an earlier exemption window

This option proposes to amend the PFA to widen the exemption window for a HYEFU when a PREFU has been published before an election, from the current window of 1 October to 31 December, to a window of 1 September to 31 December. In practice, given interaction with the statutory timeframes for publication of PREFU, this would mean a HYEFU is not required when there is an election in either October, November, or December.

Option Three – Extend the "cut-off" date for the HYEFU publication in an election year

This option proposes to extend the publication deadline for a HYEFU in an election year beyond 31 December (e.g., to 31 March the following year). This would allow more time for the production of a HYEFU that reflects the decisions and priorities of a recently elected government.

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17 *"It is important to note that the economic forecasts included in HYEFU were finalised on 6 November 2023, and the fiscal forecasts on 24 November 2023, before the formation of the coalition Government. This means that the impact of Government announcements are not incorporated into the HYEFU forecasts."* PWC: Mini-Budget and Half Year Economic and Fiscal Update 2023

18 *"Today's Half-Year update tells us more about the new Government's starting point, than where it's going. Because the forecasts were finalised before the coalition agreements were made."* Kiwi Bank: The starting point is weak and the destination unknown | Thrive HQ

19 *"The HYEFU, which was released by Treasury on Wednesday, includes forecasts finalised on November 24, so prior to the Government forming and without accounting for the new Government's mini-Budget decisions."* Mini-Budget: Finance Minister Nicola Willis reveals 'economic clean-up' with $7.5b savings Government says necessary amid slow growth | Stuff

How do the options compare to the status quo/counterfactual?

	Option One – Status quo	Option Two – Earlier exemption window	Option Three – Extend "cut-off"
Fiscal Transparency Forecasts reflect the decisions of government; and they are published soon after significant decisions are taken	0 Where there is insufficient time for a HYEFU to reflect the decisions of a new Government, a HYEFU may need to be published without these decisions.	+ This option could ensure the public is provided better information through the economic and fiscal update following an election by reducing the risk of a HYEFU containing limited information. The exemption from preparing a full HYEFU within tight timeframes could allow the Treasury to put effort towards producing a non-statutory, tightly focused economic and fiscal update that reflects a new Government's decisions and shows the changes from the PREFU at a more feasible date than 31 December. - It is worth noting that where the exemption applies, there is no further requirement for producing any economic and fiscal updates, therefore there is a risk that no further forecasts are produced until BEFU.	+ This option also provides the Treasury with more time to produce the HYEFU, so that it can better reflect a new Government's decisions. - - The extended "cut off" date could mean the HYEFU is published months after significant decisions are taken, particularly considering the summer recess period, which is likely to push out the publication to February. This could have significant overlap with the Budget process, and could lead to the HYEFU being published only two-to-three months from a BEFU, potentially limiting the value of both updates.
Consistency Forecasts are published frequently	0	- HYEFUs could be produced less frequently if the exemption applies more frequently in future elections. Note that under a 1 September cut off, the period between EFUs would remain relatively regular – eight months between a September PREFU and May BEFU in an election year, compared to around seven months between a BEFU and a December HYEFU in a non-election year.	0 Same number of EFUs would be published as per the status quo option.

Flexibility	0	++ A HYEFU would be required in fewer circumstances, and a voluntary, non-statutory, update could also be produced when appropriate.	+ This option would increase flexibility of timing, but still require a HYEFU to be published.
Overall assessment	0	+	0

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

Option Two is, on balance, most likely to best address the problem. It best balances the two goals: regular publication of information on the economic and fiscal outlook (supporting fiscal transparency and fiscal responsibility); and allowing adequate time for a HYEFU to reflect the decisions of a newly elected government.

Regardless of requirements within the Act, newly elected governments may wish to provide updated economic and fiscal information to the public, within a reasonable timeframe of an election, to show the difference their decisions have made. This information is also required to provide context for a Budget Policy Statement (which must be published no later than 31 March).

Removing the need for a full HYEFU to be completed within tight timeframes would allow production of a focused document within a reasonable timeframe after an election, as has been successfully done in the past (e.g., following a HYEFU exemption in 2008, a mid-December updated outlook was provided to reflect the impact of key government decisions and significant forecast changes due to a period of significant economic change). This is not possible under the status quo (due to the need to produce a full HYEFU).

Although widening the exemption window, Option Two maintains the longstanding approach to the exemption for HYEFUs in an election year (linking the exemption to the timing of a PREFU). Option Three would be a departure from this approach by extending the publication date for the HYEFU. While this would allow for a full HYEFU to be prepared, reflecting the decisions of a newly elected government regardless of the timing of an election, it would also reduce the timeliness (and therefore the value) of the HYEFU. It would also create significant practical challenges due to the timing of the annual Budget process.

What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Public/Parliament	HYEFU may be produced less frequently (depending on the timing of future elections), impacting fiscal transparency.	Medium	Medium
The Government	A HYEFU may be produced less frequently, although governments receive more regular forecast updates as a matter of course	Low	High
Total monetised costs	N/A	N/A	N/A
Non-monetised costs		Low/Medium	Medium
Additional benefits of the preferred option compared to taking no action			
Public/Parliament	HYEFU is only produced on the basis of government decisions,	Medium	High

	and therefore would be of a higher quality.		
The Government	Could enable the production of a non-legislative and targeted update that reflects the decisions of a newly elected government.	Medium	Medium
The Treasury	Resource is not spent on HYEFUs that are not able to reflect the decisions of a newly elected government.	Medium	High
Total monetised benefits	N/A	N/A	N/A
Non-monetised benefits		Medium	Medium

Adjusting the publication window for the Pre-Election Economic and Fiscal Update (PREFU)

Context

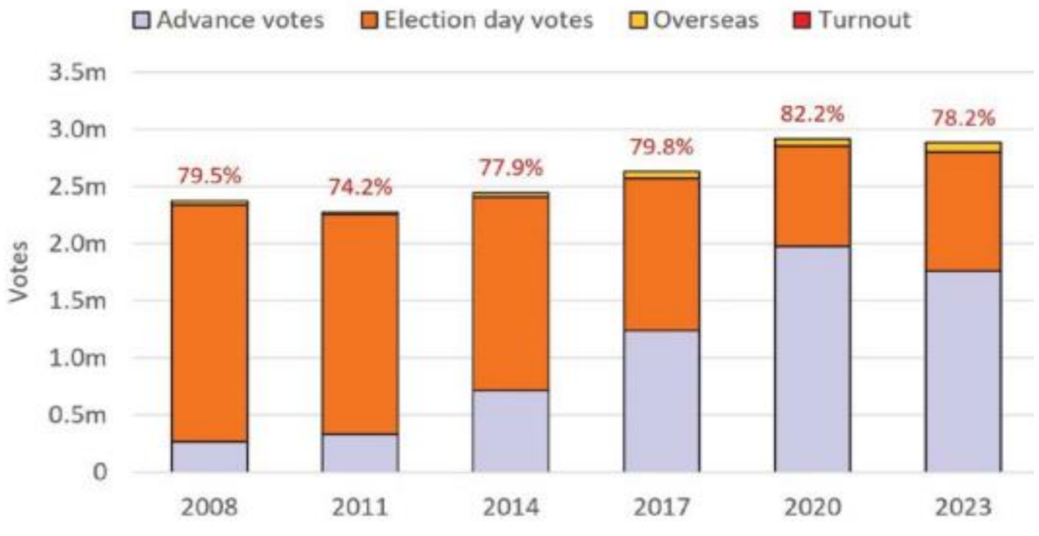
The PREFU provides an updated economic and fiscal outlook in the lead up to an election. Considered an 'opening of the government's books', it is important in both allowing the public to understand the economic and fiscal outlook before they cast their vote, and enabling a common basis for political parties to communicate their fiscal plans to voters.

Under the PFA, the Treasury must publish a PREFU no earlier than 30 and no later than 20 working days before an election. This requirement aims to ensure there is sufficient time for the public, commentators (e.g., media, think tanks) and political parties to respond to the PREFU before the election, while also ensuring the PREFU includes up-to-date forecast information as close to an election as possible. This requirement has been largely consistent since this requirement was first included in the Fiscal Responsibility Act 1994.[20]

Policy Issue

Over the past decade, we have seen a change in voter behaviour. Voters are increasingly making use of advance voting after changes in 2010 to the Electoral Act 1993 and the Electoral Regulations 1996 made advance voting more widely available, and the Electoral Commission provided more advance voting places. Figure 1 below shows the growth (in the number and proportion) of advance voting since 2014. 61.4 per cent of votes cast were in advance in 2023 (compared to 15 per cent in 2011).[21]

Figure 1: Elector turnout and votes by type, 2008-2023 – Report on the 2023 General Election[22]



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[20] The Fiscal Responsibility Act required the PREFU to be published between 42 to 28 days (not working days) before the election. This was changed to the existing working day requirement in 2004. When converted to working days, 42 to 28 days is consistent with the current working day requirement.

[21] Report of the Electoral Commission on the 2023 General Election, p. 87, Table 6

[22] Report of the Electoral Commission on the 2023 General Election, p. 83, Graph 16. The particularly high number of advance votes for the 2020 election reflects that it was held during the COVID-19 pandemic.

This data shows that an increasing number of voters are making their voting decisions in advance of election day. An informed voting public is important to democracy, so it is appropriate to consider whether deadlines for providing important fiscal information to voters in the lead up to an election should adjust to take account of this changing voting behaviour. Some external commentary has also flagged this issue, and supported change.

Further, a strong emphasis (from political parties, media and commentators, and the voting public) is put on the fiscal impact of proposals being made by political parties in the lead up to an election. Often PREFU is used as the basis of political parties' fiscal plans, and political parties will wait until PREFU is produced to publish their fiscal plans.[23]

There needs to be sufficient time for political parties to engage with the PREFU, consider the impact on their own fiscal plans, and communicate these to the voting public before voting starts. History suggests that it takes at least one to two weeks from the publication of PREFU for fiscal plans to be produced. This means there is often minimal time for fiscal plans to be communicated and engaged with before advance voting begins (generally around two weeks before the election date).

While the period of advance voting and the number of advance voting places is not set in legislation and could be changed in the future, there is a clear voter preference and growing uptake of advance voting, therefore there is likely to always be some advance voting even if the current rules are tightened (even before the 2010 changes, there was around five to 10 per cent of votes cast in advance)[24].

Option Identification

Option One – Status Quo

Under the existing legislation, the PREFU is generally released two to three weeks prior to advance voting starting. This means that despite the change in voting behaviour, the PREFU has always been available to the voter before they can vote, including for advance voting.

Option Two – Move the window for publication of the PREFU earlier by five working days

This option proposes moving the window for publication of the PREFU earlier by five working days, that is: no earlier than 35 and no later than 25 working days before an election.

Option Three – Move the window for publication of the PREFU earlier by 10 working days

This option proposes moving the window for publication of the PREFU earlier by 10 working days, that is: no earlier than 40 and no later than 30 working days before an election.

[23] NZ First, October 2023: *"The dire economic circumstances required New Zealand First to await the PREFU (Pre Election Economic Fiscal Update) and the OCR, announced on 4th October 2023, before finalising."* 2023 Election Policies - NZ First

[24] Report of the Electoral Commission on the 2023 General Election, p. 87, Table 6

How do the options compare to the status quo/counterfactual?

	Option One – *Status Quo*	Option Two – *Move the window for publication by five working days*	Option Three – *Move the window for publication by 10 working days*
Fiscal Transparency PREFU is made available in advance of voting to support informed voting decision. PREFU reflects the most up-to-date information.	0	+ This option provides greater time for the voting public and commentators to engage with the PREFU before advance voting starts. This also provides more time for political parties to outline the fiscal impact of their election proposals using PREFU. Earlier publication of the PREFU could mean it contains less up-to-date information.	+ This option also provides greater time for the voting public and commentators to engage with the PREFU before advance voting starts, as well as political parties to outline the fiscal impacts of their election proposals. However, this carries greater risk of the PREFU containing less up-to-date information due to the much earlier publication of the PREFU than the other options.
Durability The publication window is practicable.	0	+ This option recognises previous advance voting behaviour – analysis of advance voting in previous elections shows that an increasing proportion vote in advance. Bringing forward the publication window by five working days is less likely than Option Three to have a significant impact on the ability of the Treasury to produce a PREFU (i.e., less likely to clash with the Treasury's other key reporting obligations).	- This option recognises that while advance voting periods are not necessarily the same each election, they have historically covered a period of at least 10 working days. Bringing forward the publication window by 10 working days is more likely than Option Two to impact the Treasury's other key reporting requirements, particularly if September or October elections remain the norm.
Overall assessment	0	+	0

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

There is a case for changing the timing of publication of the PREFU from the status quo, given the change in voter behaviour towards greater advance voting. Option Two (moving the publication window five working days earlier) strikes the right balance between providing sufficient time for the public, commentators and political parties to respond to the PREFU before the election in this changed context, while ensuring the PREFU includes up-to-date forecast information as close to an election as possible.

What are the marginal costs and benefits of the option?

Affected groups *(identify)*	**Comment**.	**Impact**	**Evidence Certainty**
Additional costs of the preferred option compared to taking no action			
The Treasury	Earlier PREFU publication timeframes may result in the PREFU being prepared at similar times to other key reporting obligations for the Treasury (e.g., the financial statement of the Government), increasing pressure on resources.	Low	Medium
Total monetised costs	N/A	N/A	N/A
Non-monetised costs		Low	Medium
Additional benefits of the preferred option compared to taking no action			
The public	The PREFU timeframes change in line with changing voter behaviour towards advance voting, providing greater time with the PREFU before casting votes.	Medium	High
Political parties	Having earlier publication of the PREFU provides more time for political parties to outline the fiscal impact of their election proposals on a common base.	Medium	Medium
Total monetised benefits	N/A	N/A	N/A
Non-monetised benefits		Medium	Medium

Section 4: Delivering an option

How will the new arrangements be implemented?

Commencement and Delivery

The Public Finance Act Amendment Bill is scheduled for introduction in mid-2025. A full parliamentary process will follow. Enactment is intended for early 2026, and commencement of all provisions by 1 July 2026.

Following commencement, in some cases, Public Service and Government processes will need to adapt in order to comply with the new legislation.

Some changes in practice may be introduced prior to commencement of legislation; for example, improvements related to disclosure of Specific Fiscal Risks were introduced at Budget 2024 and are anticipated to continue.

Changes to Budget processes (such as the removal of the wellbeing-related requirements) would most likely be effective from Budget 2027. These changes would be factored into the full process for that Budget, which would begin in the second half of 2026.

Resourcing

Most amendments are not expected to require substantial changes in Government or Public Service processes. In many cases the amendments would formalise existing practice, or require only small changes to processes.

However, some of the options identified would result in more substantial change, with a commensurate impact on resourcing.

In particular, significantly increasing the quantification and publication of tax expenditures could divert resource from other areas of the tax work programme, with significant downsides. As such, only deliverable improvements have been recommended.

Reducing stewardship reports could reduce the resource required to produce these reports. However, this comes with reputational risk as a reduction in the depth or coherence of reporting may not meet the expectations of Treasury stakeholders.

How will the new arrangements be monitored, evaluated, and reviewed?

The Treasury intends to continue to keep the arrangements in the PFA, that support the operation of the Public Finance system, under regular review.

In particular, the Treasury will consider whether further review of the PFA is required in the longer-term, to tackle long-standing issues that cannot be addressed in the timeframe for this Bill.

In addition, the expected Parliamentary Inquiry into Performance Reporting will be a crucial vehicle for considering whether the PFA is operating as intended in this area, and whether further amendments are required.

Appendix: Topics exempted from this Impact Statement

The following topics were exempted from inclusion in this Impact Statement due to having none, or only minor impacts, on business, individuals, or not-for-profit entities:

Improving the Operation of the Act

1. Aligning the requirements for strategic intentions and statements of intent between the Public Finance Act 1989 and Crown Entities Act 2004
2. Clarifying responsibility for performance reporting when a waiver is granted to a specified agency
3. Removing the exemption for security and intelligence agencies to provide performance information for audit
4. Removing the requirement for the Minister of Finance to approval multi-category appropriations
5. Clarify that an appropriation does not create a right or an obligation to spend
6. Clarifying information needed in the Estimates/Supplementary Estimates for Permanent Legislative Authority Appropriations
7. Clarifying that permanent legislative authorities (PLAs) can be described in cash or accrual accounting terms
8. Removing a redundant reference to the Securities Markets Act 1988 (as the referenced Act has been repealed)
9. Removing the reference to functional chief executives
10. Clarifying the categories of appropriation that ‘administration and use arrangements’ can apply to categories of departmental expenses in a multi-category appropriation
11. Clarifying the ability of the Minister of Finance to issue securities without express statutory provision when they are unrelated to debt
12. Repealing latent provisions of the State-Owned Enterprises Amendment Act 2012, which could amend the Public Finance Act 1989 in relation to the now defunct Solid Energy.
13. Clarify meaning of S. 46H/J

Supporting Fiscal Transparency

14. Improving Reporting on Fiscal Strategy
15. Increasing the minimum forecasting period for the economic and fiscal forecasts