

Fiscal Responsibility Bill 2005

This explanatory note relates to this Bill as introduced into Parliament.
This Bill is cognate with the *Appropriation Bill 2005*.

Overview of Bill

The objects of this Bill are:

- (a) to repeal and replace the *General Government Debt Elimination Act 1995*, and
- (b) to set out fiscal targets and fiscal principles for the State, and
- (c) to make it a goal for the Government to pursue its policy objectives in accordance with those fiscal targets and fiscal principles, and
- (d) to provide for reports on departures from those fiscal targets and fiscal principles to be prepared by the Treasurer.

Outline of provisions

Part 1 Preliminary

Clause 1 sets out the name (also called the short title) of the proposed Act.

Clause 2 provides for the commencement of the proposed Act on 1 July 2005 (with a specified exception).

Clause 3 sets out the purpose, objects and application of the proposed Act.

Clause 4 defines certain terms used in the proposed Act. In particular, **general government sector** means those New South Wales agencies or activities listed or described as part of the general government sector by the Australian Bureau of Statistics in accordance with international statistics conventions. The agencies or activities comprising the **public financial enterprise sector** and the **public trading enterprise sector** are determined in a similar way.

Part 2 Fiscal targets

Clause 5 states that, for the purposes of the proposed Act, the fiscal targets are those set out in the proposed Part. The fiscal targets are to be achieved in the context of maintaining prudent, commercially sound debt levels for the agencies or activities comprising the public trading enterprise sector.

Clause 6 sets out the medium term fiscal targets. The first is to reduce the level of general government net financial liabilities as a proportion of gross state product to 7.5 per cent or less by 30 June 2010. The second is to maintain underlying general government net debt as a proportion of gross state product at or below its level as at 30 June 2005, unless an increase is required in net debt to reduce one or more components of general government net financial liabilities.

Clause 7 sets out the long term fiscal targets. The first is to reduce the level of general government net financial liabilities as a proportion of gross state product to 6 per cent or less by 30 June 2015. The second is to maintain underlying general government net debt as a proportion of gross state product at or below its level as at 30 June 2005, unless an increase is required in net debt to reduce one or more components of general government net financial liabilities. The third is to eliminate total state sector unfunded superannuation liabilities by 30 June 2030.

Part 3 Fiscal principles

Clause 8 states that, for the purposes of the proposed Act, the fiscal principles are as set out in the proposed Part.

Clause 9 states that the Government should aim to pursue its policy objectives in accordance with the fiscal principles. Those principles may be departed from in the presentation and implementation of the budget, but the departure is to be temporary and the Treasurer is to report on the departure in the budget papers.

Clause 10 provides that the application of the fiscal principles and targets in determining the tax and other fiscal policies of the Government is subject to Commonwealth/State financial arrangements and the impact of decisions of the Commonwealth Grants Commission.

Clause 11 sets out fiscal principle No 1—that the budget should be framed so as to achieve a net operating result for the general government sector that is a surplus consistent with the fiscal targets.

Clause 12 sets out fiscal principle No 2—that growth in net cost of services and expenses of the general government sector is to be managed in accordance with the objective of prudently managing State finances.

Clause 13 sets out fiscal principle No 3—that government policy with respect to negotiating rates of pay and related conditions of employment of general government sector employees is to be consistent with the fiscal targets of the proposed Act. The clause also requires public trading enterprises, when negotiating rates of pay for employees, to take into account conditions in their industry and the government's policy for negotiating rates of pay and related conditions of employment of general government sector employees.

Clause 14 sets out fiscal principle No 4—that capital expenditure proposals are to be evaluated in accordance with government procurement policy requirements.

Clause 15 sets out fiscal principle No 5—that the budget should be framed taking into account the anticipated future fiscal gap likely to develop as a result of increased spending pressures associated with the ageing of the population and other long-term trends. The budget papers for 2006–2007 are to include an assessment of long-term fiscal gaps and the assessment is to be updated in conjunction with the 5-yearly review of the proposed Act. The annual budget papers are to include an assessment of the impact of budget measures in respect of expenses and revenue on long-term fiscal gaps.

Clause 16 sets out fiscal principle No 6—that general government sector net worth should at least be maintained in real terms from year to year. The annual budget papers are to include progress reports on the measures taken to implement this fiscal principle.

Clause 17 sets out fiscal principle No 7—that employer superannuation liabilities are to be managed and funded so as to eliminate total state sector unfunded superannuation liabilities by 30 June 2030 and that the manner of management and funding of these liabilities is to be subject to periodic review. The annual budget papers are to include progress reports on the measures taken to implement this fiscal principle.

Clause 18 sets out fiscal principle No 8—that government agencies must align their physical asset management practices (on a whole-of-life basis) with their service delivery priorities and strategies. The annual budget papers are to include progress reports on the measures taken to implement this fiscal principle.

Clause 19 sets out fiscal principle No 9—that financial risk is to be managed prudently on the basis of sound risk management principles. The management of financial risk comprises maintaining total state sector net financial liabilities at prudent levels, managing risks associated with contingent liabilities and managing risks associated with the total state sector's debt and financial assets, including commercial risks arising from the ownership of public trading enterprises. The annual budget papers are to include progress reports on the measures taken to implement this fiscal principle.

Clause 20 sets out fiscal principle No 10—that any adjustments to legislated tax rates, thresholds and bases are to be made with the maximum possible restraint having regard to the effect of these adjustments on the overall level of tax revenue, and policies should be pursued that are consistent with a reasonable degree of predictability and stability of tax rates, thresholds and bases for future years. The impact of tax policy changes is to be reported in the budget papers.

Part 4 Miscellaneous

Clause 21 provides that Parts 1, 2 and 3 of the proposed Act do not place on any person any obligation enforceable in a court of law or administrative review body.

Clause 22 states that the proposed Act does not affect any of the provisions of the *Public Finance and Audit Act 1983* and other specified Acts.

Clause 23 repeals the *General Government Debt Elimination Act 1995*.

Clause 24 is a formal provision that gives effect to the amendments to the *Public Finance and Audit Act 1983*.

Clause 25 provides for the review of the proposed Act in 5 years.

Clause 26 requires a further review of the proposed Act to be completed in another 5 years' time.

Schedule 1 Amendment of Public Finance and Audit Act 1983

Schedule 1 contains amendments to the *Public Finance and Audit Act 1983* consequent on the enactment of the proposed Act.