



New South Wales

Fiscal Responsibility Bill 2012

Explanatory note

This explanatory note relates to this Bill as introduced into Parliament.

Overview of Bill

The object of this Bill is to maintain the AAA credit rating of the State of New South Wales.

The Bill provides that the fiscal targets for achieving that object are as follows:

- (a) The annual growth in general government expenses of the State is less than the long-term average general government revenue growth of the State.
- (b) The elimination of the State's unfunded superannuation liability by 2030.

The Bill also sets out principles of sound financial management to support that object and provides for budget reporting in relation to performance against that object and the fiscal targets and principles.

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 the date of assent to the proposed Act.

Clause 3 sets out the object of the proposed Act, which is to maintain the State's AAA credit rating.

The purpose of that object is:

- (a) to limit the cost of government borrowing, and
- (b) to enable access to the broadest possible investor base for government borrowing, and
- (c) to maintain business and consumer confidence, thereby sustaining economic activity and employment in the State.

Clause 4 applies the proposed Act to and in respect of the State budget.

Clause 5 defines certain words and expressions used in the proposed Act. In particular, the *long-term average general government revenue growth* is defined as the average annual growth rate of general government revenue over a sufficiently long previous period to smooth out the influence of transient factors such as the business cycle (the regulations may prescribe the relevant rate). The *long-term fiscal gap* is defined as the change in the primary balance (the budget result unaffected by initial debt levels and interest rate assumptions) of the general government sector as a share of gross state product, calculated on the basis of no policy changes, over a 40-year or similar period to assess fiscal pressures associated with the ageing population and other long-term trends.

Part 2 Fiscal targets and principles

Clause 6 provides that the fiscal targets for achieving the object of the proposed Act are as follows:

- (a) The annual growth in general government expenses of the State is less than the long-term average general government revenue growth of the State.
- (b) The elimination of the State's unfunded superannuation liability by 2030.

Clause 7 provides that the policy objectives of the Government should be pursued in accordance with 3 principles of sound financial management in order to support the object of the proposed Act, namely, the principle of responsible and sustainable spending, taxation and infrastructure investment; the principle of effective financial and asset management; and the principle of achieving intergenerational equity.

Clause 8 requires the Treasurer to include the following in the budget papers:

- (a) a statement of the Government's fiscal strategy having regard to the object of the proposed Act and the fiscal targets and principles,
- (b) a report on performance against that object and those targets and principles,
- (c) the reasons for any departure from that object and those targets and principles and action planned to achieve that object and those targets and principles in forward years,

- (d) an assessment of the impact of the measures in the budget on the State's long-term fiscal gap.

In the case of the budget papers for 2016–17 and every 5 years thereafter, the budget papers are to include an updated report on long-term fiscal pressures and a re-assessment of the State's long-term fiscal gap.

Part 3 Miscellaneous

Clause 9 provides that the proposed Act does not place on any person any obligation enforceable in a court of law or administrative review body.

Clause 10 enables the Governor to make regulations for the purposes of the proposed Act.

Clause 11 ensures that the proposed Act does not affect any of the provisions of the *Public Finance and Audit Act 1983* and other State financial legislation.

Clause 12 repeals the *Fiscal Responsibility Act 2005*.

Clause 13 provides for the review of the proposed Act in 5 years. The review is required to include an assessment of the State's long-term average general government revenue growth.

Schedule 1 Amendment of Public Finance and Audit Act 1983 No 152

Schedule 1 makes amendments to the Act consequent on the enactment of the proposed Act, including in relation to the matters that the proposed Act requires to be dealt with in the budget policy statement that is part of the annual budget papers.



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New South Wales

Fiscal Responsibility Bill 2012

No , 2012

A Bill for

An Act relating to fiscal responsibility in the management of government finances; to repeal the *Fiscal Responsibility Act 2005*; and to make consequential amendments to the *Public Finance and Audit Act 1983*.

The Legislature of New South Wales enacts: 1

Part 1 Preliminary 2

1 Name of Act 3

This Act is the *Fiscal Responsibility Act 2012*. 4

2 Commencement 5

This Act commences on the date of assent to this Act. 6

3 Object of Act 7

(1) The object of this Act is to maintain the AAA credit rating of the State of New South Wales. 8
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(2) The purpose of that object is: 10

(a) to limit the cost of government borrowing, and 11

(b) to enable access to the broadest possible investor base for government borrowing, and 12
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(c) to maintain business and consumer confidence, thereby sustaining economic activity and employment in the State. 14
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4 Application of Act 16

This Act applies to and in respect of the State budget. 17

5 Definitions 18

(1) In this Act: 19

budget papers means the budget papers of the Government tabled in Parliament in connection with the annual Appropriation Bills. 20
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long-term average general government revenue growth of the State means the average annual growth rate of general government revenue over a sufficiently long previous period to smooth out the influence of transient factors. The regulations may prescribe the relevant rate. 22
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long-term fiscal gap means the change in the primary balance of the general government sector as a share of gross state product, calculated on the basis of no policy changes: 26
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(a) from 2009–10 to 2050–51, or 29

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- (b) after a re-assessment under section 8—over a similar sufficiently long period to assess fiscal pressures associated with the ageing population and other long-term trends. The regulations may prescribe the relevant period. 1
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- For the purpose of this definition, the *primary balance* is revenue less expenditure, including net capital expenditure but not including interest transactions. 5
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- the State's unfunded superannuation liability* means the total net employer liabilities of the State under defined benefit superannuation schemes for the total state sector. 8
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- (2) Expressions used in this Act (to the extent they are not otherwise defined in this Act) have the same meaning as similar expressions used by the Australian Bureau of Statistics in the preparation of government finance statistics. 11
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- (3) Notes included in this Act do not form part of this Act. 15

Part 2 Fiscal targets and principles	1
6 Fiscal targets	2
The fiscal targets for achieving the object of this Act are as follows:	3
(a) The annual growth in general government expenses of the State is less than the long-term average general government revenue growth of the State.	4 5 6
(b) The elimination of the State's unfunded superannuation liability by 2030.	7 8
7 Principles of sound financial management	9
(1) The policy objectives of the Government should be pursued in accordance with the principles of sound financial management set out in this section in order to support the object of this Act.	10 11 12
(2) Principle No 1 is responsible and sustainable spending, taxation and infrastructure investment, including:	13 14
(a) aligning general government revenue and expense growth, and	15
(b) stable and predictable taxation policies, and	16
(c) investment in infrastructure that has the highest benefit for the community.	17 18
(3) Principle No 2 is effective financial and asset management, including sound policies and processes for:	19 20
(a) performance management and reporting, and	21
(b) asset maintenance and enhancement, and	22
(c) funding decisions, and	23
(d) risk management practices.	24
(4) Principle No 3 is achieving intergenerational equity, including ensuring that:	25 26
(a) policy decisions are made having regard to their financial effects on future generations, and	27 28
(b) the current generation funds the cost of its services.	29
8 Budget reporting in relation to fiscal targets and principles	30
The Treasurer is to include the following in the budget papers:	31
(a) a statement of the Government's fiscal strategy having regard to the object of this Act and the fiscal targets and principles provided by this Act,	32 33 34

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| (b) | a report on the Government's performance against that object and those targets and principles, | 1 |
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| (c) | the reasons for any departure from that object and those targets and principles, together with the action planned to achieve that object and those targets and principles within the forward years of the budget, | 3 |
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| (d) | an assessment of the impact of the measures in the budget on the State's long-term fiscal gap, | 7 |
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| (e) | in the case of the budget papers for 2016–17 and for each 5 years thereafter—an updated report on long-term fiscal pressures and a re-assessment of the State's long-term fiscal gap. | 9 |
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Note. Section 10 of the *General Government Liability Management Fund Act 2002* requires the Management Committee (constituted under that Act to advise the Secretary of the Treasury on the management of the Fund) to review from time to time the long-term fiscal target of eliminating total State sector unfunded superannuation liabilities by 2030.

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Part 3 Miscellaneous

9 Effect of Act	1
(1) Nothing in this Act places on any person any obligation enforceable in a court of law or administrative review body.	2
(2) Without limiting subsection (1), a failure to comply with a provision of this Act:	3
(a) does not prevent the introduction of any Bill in, or the passage of a Bill through, a House of Parliament or prevent assent being given to any Bill, and	4
(b) does not affect the validity of any legislation, and	5
(c) does not affect the validity of any action taken by any public official or agency, and	6
(d) does not expose any person to civil or criminal liability.	7
(3) Accordingly, no court or administrative review body has jurisdiction or power to consider any question involving compliance or non-compliance with this Act.	8
(4) This section does not apply to the other provisions of this Part or to Schedule 1.	9
10 Regulations	10
The Governor may make regulations, not inconsistent with this Act, for or with respect to any matter that by this Act is required or permitted to be prescribed or that is necessary or convenient to be prescribed for carrying out or giving effect to this Act.	11
11 Acts not affected by this Act	12
This Act does not affect the provisions of any of the following Acts:	13
<i>Annual Reports (Departments) Act 1985</i>	14
<i>Annual Reports (Statutory Bodies) Act 1984</i>	15
<i>Public Authorities (Financial Arrangements) Act 1987</i>	16
<i>Public Finance and Audit Act 1983</i>	17
<i>State Owned Corporations Act 1989</i>	18
12 Repeal of Fiscal Responsibility Act 2005 No 41	19
The <i>Fiscal Responsibility Act 2005</i> is repealed.	20

13 Review of Act

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| (1) | The Treasurer is to review this Act to determine whether the policy objectives of the Act remain valid and whether the terms of the Act remain appropriate for securing those objectives. | 1
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| (2) | The review is to include an assessment of the State's long-term average general government revenue growth. | 5
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| (3) | The review is to be undertaken as soon as possible after the period of 5 years from the commencement of this Act. | 7
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| (4) | A report of the outcome of the review is to be tabled in each House of Parliament within 12 months after the end of the period of 5 years. | 9
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**Schedule 1 Amendment of Public Finance and Audit
Act 1983 No 152**

[1] Section 27AA Content of Budget Papers

Omit section 27AA (2) (a). Insert instead:

- (a) a Budget policy statement that includes the following:
 - (i) the matters required to be included in the Budget Papers by section 8 of the *Fiscal Responsibility Act 2012*,
 - (ii) 4-year projections (being for the Budget year and 3 forward years) of all major economic and financial variables,

[2] Section 63F Status of Workers Compensation Insurance Fund

Omit “*Fiscal Responsibility Act 2005*” from section 63F (b).

Insert instead “*Fiscal Responsibility Act 2012*”.