

First print



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,

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- (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.