Submission

by

THE NEW ZEALAND INITIATIVE

to the Finance & Expenditure Committee

on the

Public Finance Amendment Bill

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1. INTRODUCTION

1.1 This submission on the Public Finance Amendment Bill is made by The New Zealand Initiative (the Initiative), a Wellington-based think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people.

1.2 The Initiative undertakes research that contributes to the development of sound public policies in New Zealand, and we advocate for the creation of a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.

1.3 The Initiative's members span the breadth of the New Zealand economy; a well-functioning and transparent fiscal management framework is essential for economic confidence and sustainable growth. The views expressed in this submission are those of the authors rather than the New Zealand Initiative's members.

1.4 This Bill has been introduced to support fiscal transparency, strengthen fiscal responsibility, and improve the practical operation of the Public Finance Act 1989. The Initiative strongly supports this direction.

1.5 New Zealand's fiscal management framework was once regarded as world-leading, providing clear rules, transparent reporting, and strong accountability mechanisms. However, the framework has been weakened in recent years by the introduction of subjective measures and the dilution of Treasury's core focus on economic and fiscal analysis. Meanwhile, as discussed in paragraph 7.4 below, most developed economies now have independent fiscal institutions, whereas New Zealand does not.

1.6 This Bill represents a necessary course correction, returning New Zealand's fiscal management to evidence-based principles while enhancing transparency in areas where it has been lacking.

2. RECOMMENDATIONS

2.1 The Bill should proceed, with the following key observations:

(a) The removal of mandated wellbeing reporting requirements represents a welcome return to Treasury's core competencies and fiscal orthodoxy.

(b) Enhanced fiscal risk disclosure and tax expenditure reporting requirements will improve fiscal transparency and accountability.

(c) While supporting flexibility in fiscal indicators, strong safeguards are needed to prevent political manipulation of fiscal targets, including

(i) Requiring Treasury to provide analysis of any proposed alternative fiscal measures, including their relationship to traditional indicators and their consistency with fiscal responsibility principles.

(ii) Establishing a presumption that alternative measures should be used consistently across multiple economic cycles, preventing frequent changes for political purposes. Older measures should continue to be reported alongside new measures.

(iii) Requiring significant parliamentary scrutiny for any significant changes to core fiscal indicators.
(iv) Clarifying that while governments may choose which fiscal variables to emphasise, they should be required to report on them to Parliament.
(v) Treasury also publish measures assessed on standards used by the IMF and the OECD for balance sheet ratios.

(d) The Bill takes steps toward addressing the 'temporary policy loophole' through enhanced fiscal risk disclosure, but Treasury should also estimate the likely effect on fiscal outcomes of time-limited policies if they are extended.

(e) Further changes should be considered to fully close the 'loophole', for example:

(i) Scenario-based forecasting;
(ii) Ministerial disclosure assurance;
(iii) Sunset clause disclosure;
(iv) Publication in addition to the no-policy change scenario; and
(v) Historical analysis.

(f) Fiscal transparency and accountability could be further strengthened with additional measures such as an independent fiscal institution and enhanced performance accountability and decision-making processes.

3. REMOVAL OF WELLBEING REPORTING REQUIREMENTS

3.1 We support the removal of mandated wellbeing reporting requirements from the Public Finance Act. This includes the repeal of requirements for governments to articulate wellbeing objectives in Budget Policy Statements and the elimination of Treasury's four-yearly wellbeing report.

3.2 This reform addresses several fundamental problems with the wellbeing budgeting framework:

(a) **Treasury's core competencies**: Treasury's primary role should be providing rigorous economic and fiscal analysis. Diverting resources to subjective wellbeing measurement represents poor resource allocation and mission creep. Wellbeing measures that can be rigorously quantified can be included in comprehensive cost-benefit assessment.

(b) **Challenges in policy development**: Policies advanced on the basis of wellbeing have suffered from poor consideration of costs and benefits and of trade-offs, as well as often poor implementation.

(c) **Measurement challenges**: Wellbeing indicators are often qualitative, making them unsuitable for guiding fiscal policy decisions that require objective, measurable outcomes. When there are multiple indicators, reporting on a set of them gives no guidance as to either priorities or policy levels to pull that are likely to provide value for money.

(d) **Accountability concerns**: The wellbeing framework created an additional layer of complexity without improving accountability or transparency. Multiple wellbeing dimensions and no prioritisation or weighting among them leaves ample degrees of freedom for a Minister or Ministry to justify any policy on basis of whichever wellbeing dimension is improved by the policy, ignoring the ones that are worsened. By contrast, cost-benefit analysis puts all measures onto a common metric.

3.3 Unfortunately, the wellbeing emphasis and big increases in government spending and government debt after 2017 did not obviously result in better outcomes. Economic growth has been sluggish and negative in per capita terms. Inflation surged in 2021-22 spurring a 'cost of living crisis' and higher interest rates. Housing affordability worsened. Many indicators for health (e.g., vaccination rates, hospital waiting lists) and education (e.g., school attendance, educational attainment) deteriorated. Despite low unemployment, the numbers on welfare benefits grew and crime rates increased sharply.

3.4 The Initiative has consistently stated that sustainable improvements in living standards come from higher productivity, not from government attempts to promote or engineer wellbeing. Economic growth remains the most reliable path to improved social and other outcomes.

3.5 Removing the requirement to articulate wellbeing objectives will allow governments to set their own priorities through normal political processes while ensuring Treasury focuses on its core mandate of fiscal and economic stewardship.

4. ENHANCED FISCAL TRANSPARENCY

4.1 We strongly support the Bill's intention to enhance fiscal transparency, particularly the improved disclosure of specific fiscal risks and the introduction of mandatory tax expenditure statements.

Enhanced Specific Fiscal Risk (SFR) Disclosure

4.2 Treasury is required to forecast the fiscal implications of government policies as they stand. So, if the announced policy has a termination date, that has to be accepted, unless the Minister advises otherwise. This creates a substantial loophole that allows governments to obscure the long-term fiscal impact of their fiscal intentions.

4.3 There have been a series of documented problems with this loophole. From 2020-23 there were a number of spending measures that were repeatedly extended, such as the Covid-19 wage subsidy and the cost-of-living related fuel tax relief and transport subsidies. More recent 'surprises', include major cost overruns in infrastructure projects (e.g., Dunedin Hospital and iReX Cook Strait ferry replacement) and previously under-estimated liabilities in areas such as pay equity settlements. This pattern systematically understates fiscal commitments and undermines the credibility of fiscal projections.

4.4 The Bill's provisions for enhanced SFR disclosure should help reduce fiscal surprises. These include:

(a) **Strengthening** the transparency and completeness of fiscal risk disclosures;

(b) **Clarifying** when Treasury must include a matter in the SFR statement;

(c) **Encouraging** disclosure of likely but undecided fiscal commitments, especially regarding temporary policies; and

(d) **Aligning** statutory language with actual Treasury and international best practice.

4.5 The ability for Treasury to withhold estimates in certain circumstances (such as commercial sensitivity) is appropriate, provided this discretion is used judiciously and reasons for non-disclosure are clearly explained.

4.6 While supporting these changes we submit that they could be stronger (see discussion under section 6 of this submission).

Tax Expenditure Reporting

4.7 The introduction of mandatory tax expenditure statements represents another improvement in fiscal transparency. Tax expenditures - reductions in tax revenue through exemptions, allowances, and preferential rates - represent foregone revenue that should be subject to the same scrutiny as direct spending.

4.8 Regular publication of tax expenditure estimates will improve parliamentary and public understanding of the true fiscal impact of tax policy decisions and enable better comparison of the cost-effectiveness of different policy interventions.

Conclusion on Enhanced SFR Disclosure

4.9 It would be useful for the Finance and Expenditure Committee to review the effectiveness of the new fiscal risk disclosure regime after two years, to ensure it is achieving the intended outcomes.

4.10 While enhanced transparency is necessary, it is not sufficient. Stronger accountability mechanisms (e.g., independent fiscal oversight) are also needed to ensure governments cannot ignore or circumvent disclosure requirements. The following sections 5-7 discuss this further.

5. FISCAL STRATEGY FLEXIBILITY AND SAFEGUARDS

5.1 Allowing governments to use alternative fiscal indicators beyond those specified in the Act recognises that fiscal management may require adaptation to changing economic circumstances.

5.2 However, we emphasise the critical importance of the transparency and accountability requirements that accompany this flexibility. Governments must clearly explain how alternative variables relate to existing measures and how their choice is consistent with responsible fiscal management principles.

5.3 We are concerned about the potential for this flexibility to be misused for political purposes, as suggested by some commentary around the previous government's change in its preferred net debt measure and the current government's use of the 'OBEGALx' measure.[1] Any changes to fiscal indicators should be driven by analytical merit, not political convenience.

5.4 For example, consider Figure 3 of the online 'Additional Information' appendix to the 2025 Budget Economic and Fiscal Update (BEFU). That document was not distributed to analysts at the Budget lockup, though presumably they could have requested it. That online appendix shows magnitude of the cyclically adjusted deficit and structural deficit, using the traditional OBEGAL measure, rather than the OBEGALx measure preferred in the main document. Figure 3 of the online appendix makes very clear that there will be no return to structural balance even by 2029. Yet the chart in the BEFU main document, derived from OBEGALx measures, shows a return to surplus.

5.5 There are legitimate reasons why governments need flexibility in fiscal indicators:

(a) **Economic structure changes**: New Zealand's economic structure evolves over time, and fiscal measures may need to adapt to remain relevant.

(b) **Technical improvements**: Advances in fiscal accounting and measurement may justify adopting superior indicators.

(c) **Crisis response**: Exceptional circumstances (such as natural disasters or pandemics) may require temporary focus on different fiscal measures.

(d) **International best practice**: Adoption of improved international standards may necessitate changes to fiscal indicators.

5.6 However, there are risks in not being transparent about fiscal indicators, including:

(a) **Political goalpost-shifting**: Governments may change indicators when existing measures show deteriorating performance, undermining consistency and accountability.

(b) **Public confusion**: Frequent changes to fiscal measures can make it difficult for Parliament, media, and the public to track fiscal performance over time.

(c) **International comparability**: Deviation from standard fiscal measures may reduce New Zealand's ability to benchmark against other countries or meet international reporting standards.

(d) **Market confidence**: Financial markets value consistency and predictability in fiscal reporting; frequent changes may undermine credibility.

Generally Accepted Accounting Practice (GAAP)

5.7 Section 26H of the Public Finance Act rightly requires financial statements to be prepared in accordance to GAAP. There are five critical functions of GAAP:

(a) **Consistency and comparability** - enables meaningful comparisons over time and across countries.

[1] 'OBEGALx' refers to the Operating Balance Excluding Gains and Losses, also excluding ACC revenue and expenses.

(b) **Professional independence -** standards set by experts, not politicians.

(c) **Market confidence** - essential for investor and rating agency trust.

(d) **Audit integrity** - enables independent Auditor-General oversight.

(e) **Democratic accountability** - ensures objective measurement for Parliament and public.

5.8 Governments should be free to emphasise their own preferred fiscal measures, but they should not obscure GAAP measures. The financial measures of fiscal deficits and public debt that the Public Finance Act requires governments to set targets for should continue to accord with GAAP. Measures must remain anchored to independent professional standards to protect the integrity of financial reporting. Parliament should ensure that the targets it requires ministers to report to under the Act are specific to targets based in such standards.

5.9 While GAAP must remain paramount, it would also be helpful, however, for Treasury to also publish measures that include measures assessed on standards used by the IMF and the OECD for balance sheet ratios. This would allow easy comparability with other countries.

5.10 To balance flexibility with accountability, we recommend:

(a) Requiring Treasury to provide analysis of any proposed alternative fiscal measures, including their relationship to traditional indicators and their consistency with fiscal responsibility principles.

(b) Establishing a presumption that alternative measures should be used consistently across multiple economic cycles, preventing frequent changes for political purposes. Older measures should continue to be reported alongside new measures.

(c) Requiring significant parliamentary scrutiny for any significant changes to core fiscal indicators.

(d) Clarifying that while governments may choose which fiscal variables to emphasise, they should be required to report on them to Parliament.

(e) Treasury also publish measures assessed on standards used by the IMF and the OECD for balance sheet ratios.

6. FURTHER ADDRESSING THE 'TEMPORARY POLICY' LOOPHOLE

6.1 This Bill proposes to address the understatement of fiscal costs through 'temporary or 'time-limited' policies that governments expect to extend. Treasury has noted this issue in previous fiscal updates.[2]

6.2 While the Bill's steps to improve transparency are useful and should help, they do not go far enough to eliminate the problem. This is because the Bill does not require policies to be costed on the basis that extensions are likely, nor does it mandate explicit disclosure of government intentions regarding renewals.

6.3 Treasury must (and will continue to have to) base its forecasts on existing policy settings. If the government has not yet formally decided to extend a policy, Treasury cannot assume that it will be. Unless the Minister of Finance explicitly advises Treasury of likely renewals or Treasury includes them in 'specific fiscal risks', there is no formal mechanism compelling disclosure of such contingencies or likelihoods In short, the Public Finance Act requires disclosure, but it does not compel disclosure of undeclared intentions.

6.4 Treasury should include in its economic and fiscal updates and Budget Policy Statements, estimates of the likely effect on fiscal outcomes of time-limited policies if they are extended. These estimates could be published as quantified risks.

6.5 To fully address this loophole, Parliament could also consider further reforms beyond those in the Bill:

(a) **Scenario-based forecasting**: Requiring Treasury to present alternative scenarios that include the fiscal impact of extending time-limited policies through the forecast period.

(b) **Ministerial certification:** Requiring the Minister of Finance to certify that they have informed Treasury of all relevant government policy decisions, including any most-likely future decision to extend time-limited policies, so that these can be appropriately treated in fiscal forecasts or disclosed as specific fiscal risks under section 26U of the Public Finance Act.

(c) **Sunset clause disclosure**: Mandating explicit government statements about their intentions when announcing time-limited policies with material fiscal balance effects, with updates required when those intentions change.

(d) **Publication in addition to the no-policy change scenario**, of a roll-over scenario which assumes time-limited programmes are extended where that could easily be done by a future government

(e) **Historical analysis**: Requiring Treasury to report on the frequency with which "temporary" policies are extended, providing context for assessing current temporary measures.

[2] For example, The Treasury, *Mini-Budget 2023 Information Release*, published May 2024 https://www.treasury.govt.nz/sites/default/files/2024-05/mini-budget-2023-4894403.pdf?utm_source=chatgpt.com

6.6 These reforms would restore integrity to fiscal forecasting by ensuring that long-term fiscal commitments are properly disclosed, regardless of how they are initially presented.

7. OTHER AREAS FOR FURTHER STRENGTHENING

7.1 Additional reforms could further strengthen New Zealand's fiscal management framework:

Independent Fiscal Institution

7.2 The Initiative has long advocated for the establishment of an independent fiscal institution to monitor government compliance with fiscal targets and assess fiscal sustainability across economic cycles.

7.3 Such an institution could provide an independent assessment of a prudent level for public debt, independent verification of fiscal risk estimates and tax expenditure calculations, enhancing the credibility of fiscal reporting, improving fiscal discipline and public trust. It could also test consistency of a proposed budget with the Fiscal Responsibility provisions of the Public Finance Act. It is difficult to see how a decade of structural deficits, on the OBEGAL measure, can possibly be considered compliant with those requirements. Treasury cannot make that assessment where it is responsible to any Minister proposing violation of those provisions.

7.4 According to the OECD, 29 out of its 38 member economies have independent fiscal institutions.[3] Australia, Canada, Denmark, Ireland, the Netherlands, the United Kingdom, and the United States all have them. New Zealand is now an outlier.

7.5 It is disappointing that New Zealand has not introduced such an institution, despite it being consulted upon in 2018.

Enhanced Performance Accountability and Decision-Making

7.6 We welcome the Finance and Expenditure Committee's current Inquiry into Performance Reporting and Public Accountability. The Bill's improvements in fiscal transparency will be more effective if complemented by performance reporting reforms that enable line-by-line outcome evaluation.

7.7 We also welcome work to improve decision-making around infrastructure projects. The Office of the Auditor General's 2023 report *Making Infrastructure Investment Decisions Quickly* made recommendations to improve decision-making in response to problems with the 2020 New Zealand Upgrade Programme and Covid-19 Shovel-Ready Programme.[4]

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[3] OECD, *Parliamentary budget offices and independent fiscal institutions*, https://www.oecd.org/en/topics/sub-issues/parliamentary-budget-offices-and-independent-fiscal-institutions.html?utm_source=chatgpt.com

[4] Office of the Auditor General, *Making Infrastructure Investment Decisions Quickly*, December 2023, https://www.oag.parliament.nz/2023/infrastructure-decisions

7.8 The Infrastructure Commission's recently released *Draft National Infrastructure Plan* also made important findings and recommendations to improve decision-making for new projects and ongoing management of existing infrastructure. These are very necessary when New Zealand is in the top 10% of OECD countries for infrastructure spending yet we occupy the bottom 10% for value-for-money.[5]

8. IMPLEMENTATION AND PRACTICAL CONSIDERATIONS

8.1 The Bill's practical reforms to election-year reporting requirements, including earlier publication of pre-election economic and fiscal updates and realistic exemption periods for half-year updates, are laudable. These changes reflect modern political realities and will improve the quality of fiscal information available to voters.

8.2 We note that successful implementation of enhanced fiscal risk disclosure and tax expenditure reporting will require adequate resources and expertise within Treasury. The Government should ensure Treasury has the capability to meet these new requirements effectively. Effectiveness will also depend on ongoing scrutiny and review.

8.3 The Bill's technical amendments will improve the practical operation of the Public Finance Act, including clarifications around appropriations and departmental responsibilities.

9. CONCLUSION

9.1 The Public Finance Amendment Bill represents a welcome return to fiscal orthodoxy and evidence-based policy making. The Bill's passage is an important step toward restoring the integrity of New Zealand's fiscal management framework.

9.2 The Bill should proceed with the following priorities:

(a) The removal of mandated wellbeing reporting requirements represents a welcome return to Treasury's core competencies and fiscal orthodoxy.

(b) Enhanced fiscal risk disclosure and tax expenditure reporting requirements will improve fiscal transparency and accountability.

(c) While supporting flexibility in fiscal indicators, strong safeguards are needed to prevent political manipulation of fiscal targets, including

(i) Requiring Treasury to provide analysis of any proposed alternative fiscal measures, including their relationship to traditional indicators and their consistency with fiscal responsibility principles.

(ii) Establishing a presumption that alternative measures should be used consistently across multiple economic cycles, preventing frequent changes for political purposes. Older measures should continue to be reported alongside new measures.

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5 Infrastructure Commission. *Draft National Infrastructure Plan*, June 2025, https://tewaihanga.govt.nz/draft-national-infrastructure-plan

(iii) Requiring significant parliamentary scrutiny for any significant changes to core fiscal indicators.

(iv) Clarifying that while governments may choose which fiscal variables to emphasise, they should be required to report on them to Parliament.

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(f) Fiscal transparency and accountability could be further strengthened with additional measures such as an independent fiscal institution and enhanced performance accountability and decision-making processes.

9.3 We appreciate the opportunity to submit on this Bill and hope the Finance and Expenditure Committee finds our submission constructive in strengthening New Zealand’s fiscal management framework.

ENDS