

## Supplementary Paper: Fiscal Transparency

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This paper is a supplement to the TINZ 2013 National Integrity System Assessment. The analysis in this paper was drawn on in the public sector and legislature pillars of that report.

New Zealand has been a pioneer in fiscal transparency, and continues to exhibit international best practice in many respects.<sup>2</sup> It was the first country to publish a full balance sheet of the government, and the approach to mandating transparency in the Fiscal Responsibility Act 1994 influenced the subsequent development of international fiscal transparency standards. There is a high degree of transparency in law and practice, and a clear allocation of roles for fiscal management between the executive and the legislature, between central and local governments, and within the public sector. The central government has also imposed a high degree of budget transparency and public participation on local government (see the separate discussion on local government).

With respect to central government, virtually all fiscal activities are on-budget, on balance sheet, or in supplementary reporting. For instance, New Zealand scored 93 out of 100 on the Open Budget Index (OBI) 2012, and was ranked first out of 100 countries surveyed. The OBI is the only cross-country ranking of budget transparency and is viewed as increasingly authoritative.<sup>3</sup> By comparison, the average score for the 18 OECD countries included in the 2012 OBI was 72.

The OBI measures in detail the information contained in 8 key budget documents, from the Pre-Budget Statement through the Budget and fiscal reporting to the Audit Report. In the 2012 OBI, NZ's scores out of 100 were as follows:<sup>4</sup>

Pre-Budget Statement – 100; Executive's Budget Proposal – 93; Enacted Budget – 100; Citizen's Budget – 67; In-Year Reports – 96; Mid-Year Review – 92; Year-End Report – 97; Audit Report – 95.

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<sup>2</sup> In everyday terms, fiscal transparency refers to transparency of government taxation, borrowing, spending, and the investment and management of public resources – sometimes referred to simply as budget transparency. In technical terms, fiscal policies are public policies implemented through the provision of *non-market services*, and the *redistribution of income and wealth*, financed primarily by *taxes and other compulsory levies* on nongovernment sectors.

<sup>3</sup> The OBI is produced by the International Budget Partnership (IBP), a Washington DC-based NGO, and is derived from data in the Open Budget Survey. The Survey is conducted by an independent researcher in each country. In NZ it is completed by the author. It is based on document review, research, and interviews with officials (in NZ: Treasury, Office of the Auditor General, and the Parliamentary Services). The draft is reviewed by two anonymous in-country peer reviewers, as well as by NZ officials and the IBP. It is available at <http://internationalbudget.org/what-we-do/open-budget-survey/country-info/?country=nz>

<sup>4</sup> The full OBI 2012 survey of NZ, consisting of 125 questions, together with a NZ country summary produced by the International Budget Partnership, is available at <http://internationalbudget.org/what-we-do/open-budget-survey/country-info/?country=nz>. These documents contain details of where NZ does not achieve the top mark on specific questions in the survey. The 2012 OBI is based on data and information released up to 31 December 2011. The survey contains links to all the New Zealand budget documents cited.

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NZ's score in 2012 improved a little from the 2010 OBI, mainly due to the regular publication and wider coverage of an annual tax expenditure statement (as recommended in the 2003 National Integrity System Assessment, when there was no reporting on tax expenditures). In addition, there were some improvements in the quality of service performance reporting by departments and agencies (although the improvement was from a low base, and, as noted below, considerable further improvement is needed).

Outside the scope of the OBI, there have been other improvements in fiscal transparency recently, including:

- The publication of three statements on NZ's Long Term Fiscal Position, in 2006, 2009, and 2013, the last report produced after a substantial public outreach exercise.
- The publication of an Investment Statement in 2010, providing additional information on the Crown's assets and liabilities.
- The publication of an Annual Portfolio Report, providing information on the performance of the portfolio of government-owned enterprises.
- The Open Data Initiative.<sup>5</sup>

A Bill amending the Public Finance Act (PFA), currently before Parliament, is intended to introduce greater transparency around priorities for resource allocation, inter-generational impacts, and the consistency of past fiscal policy with announced fiscal strategy.<sup>6</sup>

There are nonetheless some remaining areas of concern in terms of disclosure of fiscal information. These include:

- *Non-financial data on performance and outcomes*: there is considerable scope for further improving the information and data in budget and departmental documents and in fiscal reports on the anticipated and actual impacts and outcomes of government spending. The Auditor-General concluded in 2012 that roughly half of government entities' service performance information required improvement.<sup>7</sup> An Institute of Policy Studies project, 'Managing for Performance', found that in practice government agencies focus on compliance around the delivery of outputs, and only selectively report outcomes (often with few indicators and explicit targets).<sup>8</sup> Data on non-financial performance is particularly important with respect to the social and environmental impacts of fiscal policies, which are becoming increasingly stressed in international fiscal transparency standards.<sup>9</sup> The

<sup>5</sup> "New Zealand Declaration on Open and Transparent Government" Government ICT Update December 2012.

<sup>6</sup> The Bill mandates the publication of an Investment Statement, and of the government's tax policy strategy, both of which have been published in the absence of a legal requirement to do so. This Bill was passed into law in July 2013.

<sup>7</sup> Office of the Auditor-General (2012) Statement of Intent 2012-2015. Wellington: 32. See the Supreme Audit Institution pillar for further discussion.

<sup>8</sup> 'The Iron Cage: The Performance Management of State Organisations in New Zealand.' Edited by Derek Gill. Institute of Policy Studies, 2011.

<sup>9</sup> See, for instance, Principle 4 of the High Level Principles on Fiscal Transparency, Participation and Accountability issued in 2012 by the Global Initiative for Fiscal Transparency (GIFT), which were endorsed by the United Nations

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Government's Better Public Services reforms, introduced in 2012, include specific, measurable and time bound outcome targets in 10 high priority cross-cutting policy areas.<sup>10</sup> This is a promising development, but is in its early stages, requires investment in evaluation, and does not apply across the full range of government activities.

- Related to this is the need for *more comprehensive, regular, and technically independent reporting and commentary on 'state of the nation indicators'*. NZ is the only OECD country where reporting on the state of the environment is not required by law.<sup>11</sup> The Government consulted on a proposed environmental reporting Bill in 2011/12, but has taken no further action to develop a comprehensive reporting framework.<sup>12</sup> With respect to social statistics, starting in 2001 the Ministry of Social Development published ten annual editions of The Social Report, but no report has been published since 2010. When Cabinet approved publication of the 2010 Social Report it agreed that from 2010 the Social Report would be published only every three years, and directed the Ministry in the interim to review the Report's outcome domains and indicators. However, a Social Report will now not be produced in 2013, because the 2011 Canterbury earthquake resulted in the 2011 national Census being postponed to 2013, and the Social Report draws on information and data from the Census. As a result, the earliest date for publication of the next Social Report is 2015. This is an undesirable and long hiatus in social reporting. The purpose of The Social Report was to report on social indicators that complement economic and environmental indicators; to compare NZ with other countries on measures of wellbeing; to contribute to better-informed public debate; and to aid planning and decision-making and to help identify key areas for action.<sup>13</sup> These objectives remain valid. High level social indicators can provide a useful starting point for public debate over competing fiscal policy priorities, and are a necessary component of assessments of the success or otherwise of government spending (and regulation) aimed at improving social and environmental indicators. The lack of regular, comprehensive, and technically independent reporting on social and environmental indicators in NZ in recent years stands in stark contrast to the reporting of financial statistics.
- Transparency of tax expenditures: the tax expenditure statement needs further deepening. Priority should be given to indicating the public policy objectives of each provision and the rationale for delivering assistance via tax expenditure, and to grouping the different provisions into policy-relevant

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General Assembly in December 2012. GIFT is a multi-stakeholder initiative lead by the IMF, the World Bank, the International Budget Partnership, the Governments of Brazil and the Philippines, and a number of other official sector and civil society entities. The High Level Principles are available at <http://fiscaltransparency.net/>

<sup>10</sup> Better Public Services Advisory Group, *Better Public Services Advisory Group Report* (Wellington: State Services Commission, 2011).

<sup>11</sup> For further discussion see NIS Supplementary Paper 2 prepared by Chapman et al on environmental governance in New Zealand. [www.transparency.org.nz/docs/2013/Supplementary-Paper-2-Environmental-Governance.pdf](http://www.transparency.org.nz/docs/2013/Supplementary-Paper-2-Environmental-Governance.pdf).

<sup>12</sup> On 8<sup>th</sup> August 2013 the government announced its intention to remedy this deficiency.

<sup>13</sup> The report shows us how people are faring in New Zealand, how this has changed over time, and how social outcomes vary for different groups in the population. It helps us to identify adverse trends at an early stage. While the report cannot always show what is driving these trends, it can point us to where there needs to be further analysis to help understand the changes and how to address them.' Excerpt from the 2010 Social Report.

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categories. In addition, progressively more quantitative estimates should be published of the estimated fiscal impacts of individual provisions, focusing initially on the most significant items.<sup>14</sup>

- The desirability of a single, simplified 'Citizens' Guide' to the budget.<sup>15</sup>

There is also concern about the transparency and accountability of the proposed Sky City project, in which a casino operator would finance the construction of a new public national convention centre, in return for relaxation of the number of gambling machines in the centre that would allow the operator to recoup its construction costs. The centre will in effect be financed by gamblers. However, a national convention centre is a public facility and is most transparently paid for by some combination of compulsory taxes or rates or user-charges. The public policy issue of the trade-off between the social costs and benefits of gambling is most transparently decided on its own merits, rather than by an individual operator being provided with a relaxed regulatory framework at one geographic location, in return for providing an unrelated public benefit. This is a disguised fiscal activity that shifts the immediate cost off the Government's budget.<sup>16</sup> While concern has focused on the seriously compromised public procurement process in the Sky City project,<sup>17</sup> the proposal also fails the prior hurdle of transparent fiscal policy, and it lacks legitimacy from a regulatory perspective. There are currently no published principles, objective criteria, or a robust management framework for such 'hybrid procurements' involving government contracts or arrangements with non-government entities in which regulations or other public policy settings to be applied to an individual entity(s) are negotiated as part of the package of terms and conditions.

Finally, global fiscal transparency standards are evolving, and increasingly stress, in addition to disclosure, the importance of legislative oversight of the executive's management of fiscal policy, and the need for direct public engagement in fiscal policy debate to improve the quality and legitimacy of fiscal management. The 2012 OBI had an expanded focus on public participation compared to previous rounds, and the recently adopted *High Level Principles on Fiscal Transparency, Participation and Accountability* promulgated by the Global Initiative for Fiscal Transparency (GIFT) assert both a citizen right to information on fiscal policies, and a citizen right to direct participation in public debate on fiscal policy.<sup>18</sup>

The 2012 OBI found that the strength of legislative oversight of fiscal policy in NZ was only moderate, and the level of public engagement in fiscal policy was similarly

<sup>14</sup> See the NIS Additional Paper on tax expenditure reporting by Jonathan Dunn, for further discussion at [www.TINZ.org](http://www.TINZ.org)

<sup>15</sup> There is currently no single, short, non-technical, user-friendly guide to the annual budget aimed at the average citizen - although much of the information that such a guide might contain is scattered across different budget documents (e.g. the Minister's Executive Summary, the Key Facts for Taxpayers card, and the Tax Ready-reckoner). The 2012 New Zealand Open Budget Survey concludes that these separate documents can be considered to constitute a 'Citizens Budget Guide' but there would be value in pulling this and other information together in a single 'Citizen's Guide to the Budget.'

<sup>16</sup> In technical terms, the Sky City proposal constitutes a 'quasi-fiscal activity': a fiscal activity conducted and financed by an institution outside the government sector. International fiscal transparency standards require annual disclosure of information on quasi-fiscal activities in the government's budget documents.

<sup>17</sup> See for instance 'Inquiry into the Government's decision to negotiate with Sky City Entertainment Group Limited for an international convention centre.' Controller and Auditor General, February 2013.

<http://www.oag.govt.nz/2013/skycity/docs/inquiry-into-the-government2019s-decision-to-negotiate-with-skycity-entertainment-group-limited-for-an-international-convention-centre/view>

<sup>18</sup> See <http://fiscaltransparency.net/>

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only moderate.<sup>19</sup> In this context the following observations on legislative oversight and public engagement are relevant:

- NZ's Parliament is comprised of a single chamber, with no upper house as an additional check on the executive.
- The 'financial veto' in Parliament's Standing Orders<sup>20</sup> greatly restricts Parliament's authority to amend the budget and, in practice, Parliament does not amend the budget.<sup>21</sup>
- There is no parliamentary budget office, or other source of 'in-house' independent expert advice to Parliament on fiscal policy.
- The Finance and Expenditure Committee (FEC) of Parliament that is responsible for oversight of fiscal management is chaired by a member of the governing party.
- The FEC has not sought independent advice on fiscal policy in recent years, although there is funding available for it to retain external expertise and it has done so with respect to its oversight of monetary policy.
- There have been few public submissions to the FEC on fiscal policy in recent years. In 2011 there were just two public submissions on the Budget Policy Statement (BPS), and there is no provision for public submissions to the FEC on the annual budget, nor to Select Committees on the budgets of individual departments and agencies. There is no written response to the public submissions on the BPS.

An internal Treasury paper on Independent Fiscal Councils in September 2011 concluded that a key weakness in NZ is the shallowness of public debate about fiscal policy. The paper made the following observations: there are no economic think tanks and few academics that regularly comment on fiscal policy; there is a lack of public understanding and support for less pro-cyclical fiscal policy; and the debate is much more open and sophisticated over monetary policy.<sup>22</sup>

The above analysis suggests that there is a need to strengthen the effectiveness of Parliamentary oversight of fiscal policy. Related to this is the need to strengthen direct public engagement in fiscal policy debate in NZ, and to provide Parliament with access to independent sources of fiscal policy analysis and advice in an attempt to improve the quality of public debate and to strengthen the incentives on parliamentarians to hold the executive to account for fiscal policy performance.

<sup>19</sup> Note that the 2012 OBI pre-dated the recent welcome initiatives by the Treasury to solicit wider public input to the development of the 2013 Long Term Fiscal Statement with the aim of increasing public understanding of long-term fiscal issues.

<sup>20</sup> Standing Orders (318-322) provide that an individual Member of Parliament or a Select Committee may propose amendments to the Budget, but that the government may veto any amendments that, in its view, would have more than a minor impact on the fiscal aggregates or on the composition of a Vote. See Parliament's Standing Orders at [www.parliament.nz/en-NZ/HowPWorks/Rules/d/8/5/d852c8b4b1a9447daa04d804c3fc5440.htm](http://www.parliament.nz/en-NZ/HowPWorks/Rules/d/8/5/d852c8b4b1a9447daa04d804c3fc5440.htm)

<sup>21</sup> This is not to imply that Parliament should be able to significantly amend the budget in a Westminster system. What authority a legislature should have to amend the executive's budget proposal is a fundamental issue of constitutional choice, and no position is being taken on that here. However, the weakness of amendment authority perhaps reduces the incentives of Parliamentarians to engage in in-depth analysis and substantive debate on the budget, as opposed to merely attacking or defending the Government.

<sup>22</sup> Independent Fiscal Councils, September 2011, released under the Official Information Act.