



The New Zealand Experience Reporting on Fiscal Risks

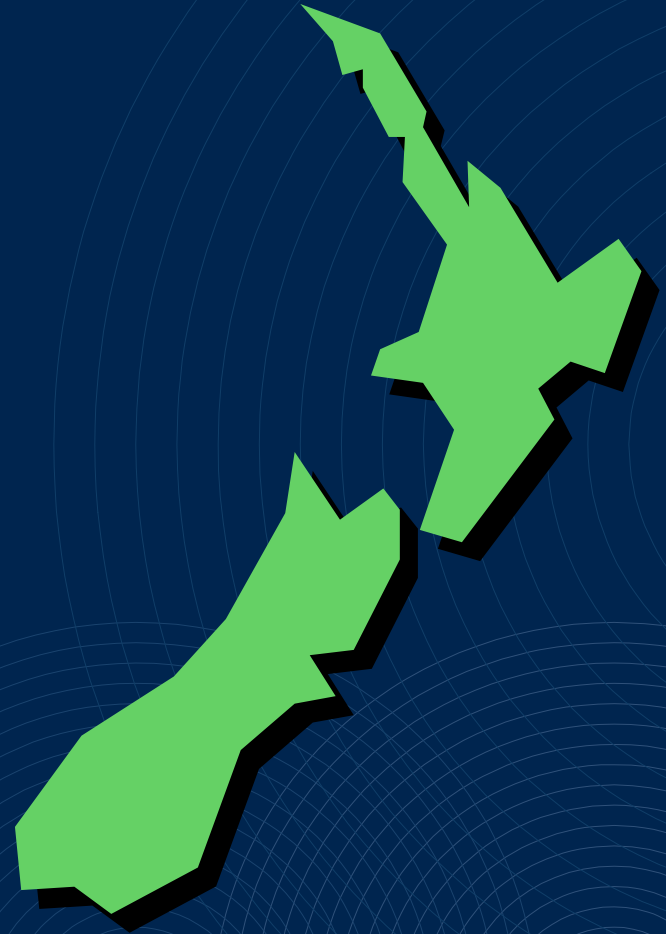
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Presentation Overview

- New Zealand Context
- Historical factors behind fiscal risk reporting
- NZ's Fiscal Responsibility Act

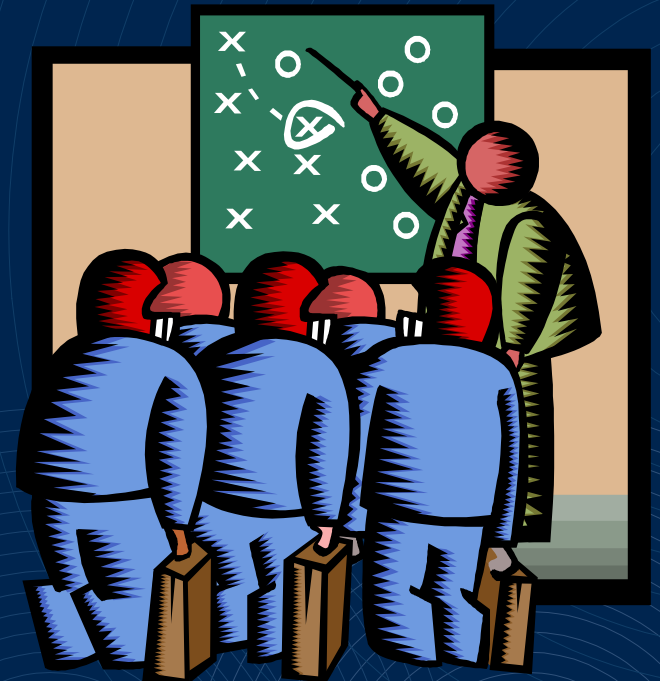
New Zealand

- 4 million people
- Parliamentary democracy
- No state parliaments
- Ministers drawn from Parliament to form a Cabinet
- Select Committees scrutinise Government
- Non-political public service



NZ Public Management

- clarity of objectives;
- freedom to manage;
- accountability;
- effective assessment of performance; and
- adequate information flows.



NZ Risk Management

- Historical Context – risks not managed
- Ministerial aversion to ‘surprises’
- Internal Reporting on Risks
- Development of the fiscal baseline
- Development of accrual based financial statements

- Fiscal Responsibility Act 1994

Fiscal Responsibility Act

- Objectives
 - to increase transparency
 - to provide long-term focus to budgeting
 - to make advanced disclosure of budget impact
 - to ensure independent assessment and reporting of fiscal policy
 - to facilitate parliamentary scrutiny of economic and fiscal plans

FRA: Transparency

- Following legislated principles
- Disclosing intentions and objectives
- Reporting regular fiscal and economic updates
- Referring all reports under the Act for parliamentary scrutiny

FRA: Principles of Responsible Fiscal Management

- Reducing debt to prudent levels
- Maintaining debt at prudent levels
- Achieving positive government net worth
- Managing risks prudently
- Ensuring predictability and stability of tax rates
- Governments to follow these principles, but can depart subject to explanation

FRA: Disclosure Requirements

- Budget Policy Statement
 - Early statement providing outline of broad strategic objectives for the budget, including short term intentions and long term objectives
- Fiscal Strategy Report
 - Provides progress outlooks and consistency with the budget Policy Statement
- Economic and Fiscal Updates
 - Treasury prepared forecasts, using AGAAP < accrual based accounting, must reflect all govt decisions, subject to some exceptions

FRA: Risks

- Principle:
 - Manage prudently the fiscal risks facing the Crown
- Reporting
 - Fiscal Forecasts to include a statement of fiscal risks
 - Reports require disclosure of fiscal risks to “the fullest extent possible”

Risk Definition

- Risk disclosure is defined in the Fiscal Responsibility Act as:
- “all Government decisions and all other circumstances that may have a material effect on the economic and fiscal outlook”
- Initially this was based around “active consideration” test of “Has the policy been considered by a cabinet committee?”

Refined after 1999 election

- Risks now include:
 - Items that have been notified to the Minister in writing and
 - Items which have been deferred
- Advantages of new definition are:
 - Provides a clear trigger point (written notification) and
 - Covers deferred decisions

Risk Identification Process

Four avenues to identify risk

- Consultation with government agency
- Review all risks in Treasury's fiscal risk monitoring system
- Review the risks from Previous update
- Review Budget negotiation Minutes

Managing Reporting of Fiscal Risks

- Written notification of “potential risks” is required to each Minister
 - Eg. Cost pressures facing a department will have to be documented and given to the Minister
- Quantifying Risks – consistent measures sought, and full disclosure
- Minister of Finance sign-off of Fiscal Risks chapter.

Interaction with the Fiscal Baseline

- Baselines show the agreed govt policies.
- To adjust baselines to best estimate forecasts ‘provisions’ are made
 - Operating provisions – to implement likely policy direction (where this changes the operating balance).
 - Capital provisions – to provide a measure of capital decision impacts on debt.
- Crystallising risks initially funded from provisions

Reporting Fiscal Risks – an example

Health – Wage Bargaining (changed, unquantified risk)

Upcoming bargaining rounds in the health sector could result in significant increases in wage costs. If this cost is not met within DHBs' funding paths or the three-year Health Funding Package it would decrease the operating balance or increase gross debt (via DHB deficits). This risk has been updated since the *December Update* to reflect new information.

The Minister of Finance has yet to fully consider the quantum of this risk.

Reporting on Fiscal Risks

- A Qualified Success
 - Greater transparency – high levels of interest
 - A more integrated comprehensive budget
 - Better Risk Management
 - But just one change in Government, and it faced surprises