



DISCUSSION DOCUMENT

# New Zealand's Fiscal Policy Framework

## Establishing an Independent Fiscal Institution

September 2018

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# Message from the Minister

The Government is committed to creating a sustainable, productive and inclusive economy, environment and society. It will do this while responsibly managing the Government's books. Sound public financial management is essential to improving intergenerational wellbeing of New Zealanders.

This Government's fiscal strategy is based on five Budget Responsibility Rules to:

- 1 Deliver a sustainable operating surplus across an economic cycle.
- 2 Reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office.
- 3 Prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.
- 4 Take a prudent approach to ensure expenditure is phased, controlled and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio.
- 5 Ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy.

The credibility of a government's fiscal strategy requires mechanisms to support transparency and accountability. Independent oversight by an Independent Fiscal Institution will provide the public with confidence that a government is sticking to its fiscal strategy.

Such a body can also provide political parties with independent costings on their policies. This will help strengthen our democracy by ensuring the public has a credible, non-partisan way to compare each party's fiscal plans. That will mean better debate about the ideas being put forward and how they will improve the wellbeing of New Zealanders.

The proposals included in this document have been put together to start a conversation on establishing an Independent Fiscal Institution. We want to hear the public's views about the possible functions the new institution might undertake and how it could be established. I encourage you to submit with your views and ideas.



Hon Grant Robertson  
Minister of Finance

# Foreword by the Secretary to the Treasury

Successful economies need a stable and sustainable macroeconomic framework. This is an essential foundation of intergenerational wellbeing.

Parts of New Zealand's current macroeconomic framework is over a quarter of a century old. The framework itself is built around three institutional pillars:

- ▶ sustainable public finances based on principles of responsible and transparent fiscal management
- ▶ stable prices delivered by a central bank that makes independent monetary policy decisions while supporting maximum sustainable employment within the economy, and
- ▶ a financial system that is well-regulated so it is stable and resilient to shocks.

As part of the Treasury's stewardship responsibility, we are looking to ensure that these pillars will continue to be fit-for-purpose for the next 25 years. Establishing an Independent Fiscal Institution (IFI) is part of this, alongside the review of the Reserve Bank of New Zealand Act to future-proof the monetary policy and financial stability pillars.

The principles of responsible fiscal management embedded in the Public Finance Act 1989 promote sound fiscal policy and the reporting requirements promote fiscal transparency. A self-assessment framework also exists, but no independent mechanism is built into the framework for holding a government to account on whether it is meeting its self-imposed fiscal policy targets.

New Zealand has managed to develop a political economy in which self-discipline has delivered credible and sustainable fiscal policy under successive governments. Even so, the establishment of an IFI would strengthen independent oversight of fiscal policy further and help ensure credible, sustainable and responsible fiscal policy continues into the future.

I encourage anyone with an interest in fiscal policy and public financial management to set out their views in response.



Gabriel Makhlouf  
Secretary to the Treasury

# Executive Summary

This document sets out the Government's proposal for potential changes to New Zealand's fiscal policy framework from the establishment of an Independent Fiscal Institution (IFI).

## Using an IFI to improve fiscal policy transparency and performance

This proposal makes up one part of a wider package of reforms to the State Sector Act 1988 and the Public Finance Act 1989 (PFA). The overarching goal of those reforms is to embed a stronger focus on improving New Zealanders' wellbeing. Establishing an IFI as part of the fiscal policy framework will require amendments to the PFA.

The Government is committed to responsible and sustainable fiscal management to support intergenerational wellbeing. The purpose of an IFI is to help strengthen accountability, transparency and debate over New Zealand's already robust fiscal policy framework, as well as better support the effective development of public policy by political parties by:

- ▶ providing independent evaluation of fiscal policy performance
- ▶ improving and supporting effective parliamentary scrutiny of public finances and fiscal policy, and
- ▶ providing independent costings of political party policies to better inform public debate and strengthen New Zealand's democracy.

## International IFIs for comparison

IFIs have existed across the Organisation for Economic Co-operation and Development (OECD) countries for decades, and 27 of 36 OECD countries now have an IFI of some type. The two broad institutional IFI models are:

- ▶ the "fiscal council" model which focuses on monitoring compliance with fiscal targets and ensuring forecasts are robust and credible, and
- ▶ the "parliamentary budget office" model which focuses on supporting Parliament in its role of scrutinising budget and fiscal issues.

Yet no "one size fits all" IFI model exists, and the functions that IFIs undertake vary considerably depending on domestic needs.

## Identifying the roles and functions of a New Zealand IFI

The Government sees five key functions for an IFI in New Zealand. These are to:

- ▶ provide financial costings of political party policies, including election manifestos, and any costings requested when government is formed
- ▶ comment on and assess compliance with the Government's fiscal strategy and fiscal targets
- ▶ comment on the Treasury's economic and fiscal forecasts
- ▶ comment on long-term fiscal sustainability and fiscal risks, and
- ▶ produce relevant and related research and commentary on fiscal and budgetary issues.

A number of potential institutional models for an IFI could work in the New Zealand context. The Government is yet to form a view, and the proposals included in the discussion document are not final.

## Developing a final New Zealand IFI model

The Government wants to hear your thoughts on the various roles and functions an IFI could play in the New Zealand context. We also welcome your views on what institutional model might be appropriate.

There are still a number of detailed implementation issues that the Government needs to consider and address before establishing an IFI. Your submissions will help inform the final proposal the Government develops over the coming months.

# How to make a submission

We invite interested people and organisations to submit **written submissions** on potential changes to New Zealand's fiscal policy framework from establishing an Independent Fiscal Institution.

## When to have your say

The consultation period runs for six weeks **from 12 September 2018 to 24 October 2018**. After the Treasury receives and considers all submissions, it will release (on its website) a public summary of the submissions document.

The Government intends to develop a Bill for introduction to Parliament **in 2019**. Members of the public will be able to comment on the Bill when the select committee considers it.

## How to have your say during the consultation process

The boxes in this document have questions about each proposal. The proposals and questions are also summarised in the Appendix.

Here is how you can have your say:

- ▶ Open and save a copy of the submission template at:  
<https://treasury.govt.nz/public-finance-system/establishing-independent-fiscal-institution>
- ▶ Make submissions on any of the proposals. The template will provide you with a framework for your views that later helps us with analysis.
- ▶ Clearly indicate which proposal and question number your submission is responding to. This will help you collate your views and help us with our analysis.
- ▶ Email your submission to us at [submissions.ifi@treasury.govt.nz](mailto:submissions.ifi@treasury.govt.nz)
- ▶ If you cannot use the template, you may email or write to us. Our postal address is:

Establishing an Independent Fiscal Institution  
The Treasury  
PO Box 3724  
Wellington 6140  
NEW ZEALAND

**The deadline for submissions is 5.00pm on Wednesday 24 October 2018**

## What happens after you have submitted your views

Treasury officials will analyse all submissions received by the closing date. They will consider the views of submitters when developing final proposals for Cabinet to consider. You will be able to go to the Treasury's website to find a summary of all submissions received (subject to any withholding grounds under the Official Information Act 1982: see further below).

Remember, your views will be welcome again when the select committee considers the Bill in 2019.

## For further information

Website: <https://treasury.govt.nz/public-finance-system/establishing-independent-fiscal-institution>

Email: [submissions.ifi@treasury.govt.nz](mailto:submissions.ifi@treasury.govt.nz)

Phone: +64 4 472 2733

## Submissions and the Official Information Act 1982

Submissions received by the Treasury are subject to the Official Information Act 1982 (OIA). Please set out clearly with your submission if you have any objection to any information in the submission being released under the OIA. In particular, clearly state which part(s) you consider we should withhold, and the reason(s) for doing so.

The OIA sets out reasons for withholding information. Reasons could include that the information is commercially sensitive or that you wish us to withhold personal information, such as names or contact details. An automatic confidentiality disclaimer from your IT system is not a reason to withhold information.

We will consider your objections when responding to requests under the OIA.

We will use any personal information you supply while making a submission **only** for matters covered by this document. Please clearly indicate in your submission if you do not want your name included in any summary of submissions that we may publish.

# 1 Introduction

As part of Budget 2018, the Government announced that it would release a discussion document to seek the public's views on establishing an Independent Fiscal Institution (IFI) as part of New Zealand's fiscal policy framework. This discussion document takes forward commitments made by parties that make up the Government before the 2017 General Election.

This discussion document outlines a proposal to establish an IFI as part of New Zealand's fiscal policy framework. It covers the possible purpose (section 5), functions (section 6) and institutional form (section 8) of the new institution.

Strengthening New Zealand's fiscal policy framework is part of the Government's wider goal to future-proof New Zealand's public finances and the PFA. This work has important links to the wider State Sector Reform process currently under way, which is also considering legislative changes to the State Sector Act 1988. The review of the State Sector Act aims to enable the public service to:

- ▶ deliver better outcomes and services, building citizen-centred services and achieving Government priorities
- ▶ support the Crown and Māori working together and jointly realising opportunities for New Zealand
- ▶ respond flexibly and agilely to new circumstances and the demands of a diverse and fast changing, digitally enabled, society
- ▶ work as an unified institution with a common ethos and culture based on the spirit of service to the community, and
- ▶ fulfil its role and responsibilities, as part of the Executive Branch, to support and enable New Zealand's democratic form of government.

Discussions around establishing an IFI are taking place alongside related initiatives, including:

- ▶ Delivering a Wellbeing Budget in 2019, and embedding a wellbeing approach in the Public Finance Act 1989
- ▶ two phases of reviewing the Reserve Bank of New Zealand Act 1989, and
- ▶ developing an Open Government Strategy and the Third National Action Plan for the Open Government Partnership.

## 2 What is New Zealand’s fiscal policy framework?

**Successful economies need a stable and sustainable macroeconomic framework.** A stable and sustainable macroeconomic framework helps the community plan, invest and make provisions for the future. It is an essential foundation of intergenerational wellbeing.

New Zealand’s fiscal policy framework is one of the key pillars supporting New Zealand’s broader macroeconomic policy framework.

**The Public Finance Act 1989 (PFA) is the legislative core of New Zealand’s fiscal policy framework.** A government must pursue its policy objectives in line with the principles of responsible fiscal management, as set out in Part 2 of the PFA.<sup>1</sup>

The PFA requires the Government to:

- ▶ reduce debt to, and maintain debt at, prudent levels
- ▶ ensure that, on average, total operating expenses do not exceed total operating revenues
- ▶ consider the impact of fiscal policy on future generations and monetary policy
- ▶ consider the fairness and efficiency of the tax system, and
- ▶ manage the risks facing the Government.

**New Zealand’s fiscal policy framework emphasises transparency and accountability as key levers to ensure fiscal responsibility and sustainability.** The fiscal policy framework emphasises regular disclosure of information rather than requiring compliance with detailed rules set out in law. Behind this transparency-based framework is a judgement that a government that has flexibility to deliver a responsible fiscal strategy is more likely to own and deliver on that strategy.

**This approach puts substantial premium on the quality, comprehensiveness, reliability and timeliness of the budget documentation.** People want to know the Government is managing taxpayer money responsibly. So does Parliament. The Government’s budget documentation needs to be high-quality, comprehensive and reliable.

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<sup>1</sup> Section 26G of the Public Finance Act 1989 – *Principles of responsible fiscal management*.

Five examples of fiscal transparency requirements in the PFA are found in the documents noted below.

- ▶ The Government's *Fiscal Strategy Report* (FSR) sets out medium-term (at least ten years) objectives for key fiscal aggregates; and shorter-term (at least three years) policy intentions for the same fiscal aggregates.
- ▶ The Government's pre-budget report, the *Budget Policy Statement* (BPS), sets out the broad strategic priorities for the upcoming budget, and explains any changes from the fiscal objectives and intentions included in the latest FSR.
- ▶ The Treasury's publication of independent economic and fiscal forecasts using its best professional judgement; published alongside the Budget (the *Budget Economic and Fiscal Update* (BEFU)) and half-yearly (the *Half-year Economic and Fiscal Update* (HYEFU)), as well as just before a general election (the *Pre-election Economic and Fiscal Update* (PREFU)).
- ▶ The Treasury's *Long-term Fiscal Statement* (LTFS), published at least every four years, includes fiscal projections for at least 40 years ahead.
- ▶ *Financial Statements of the Government* (FSG) provide annual audited financial statements.

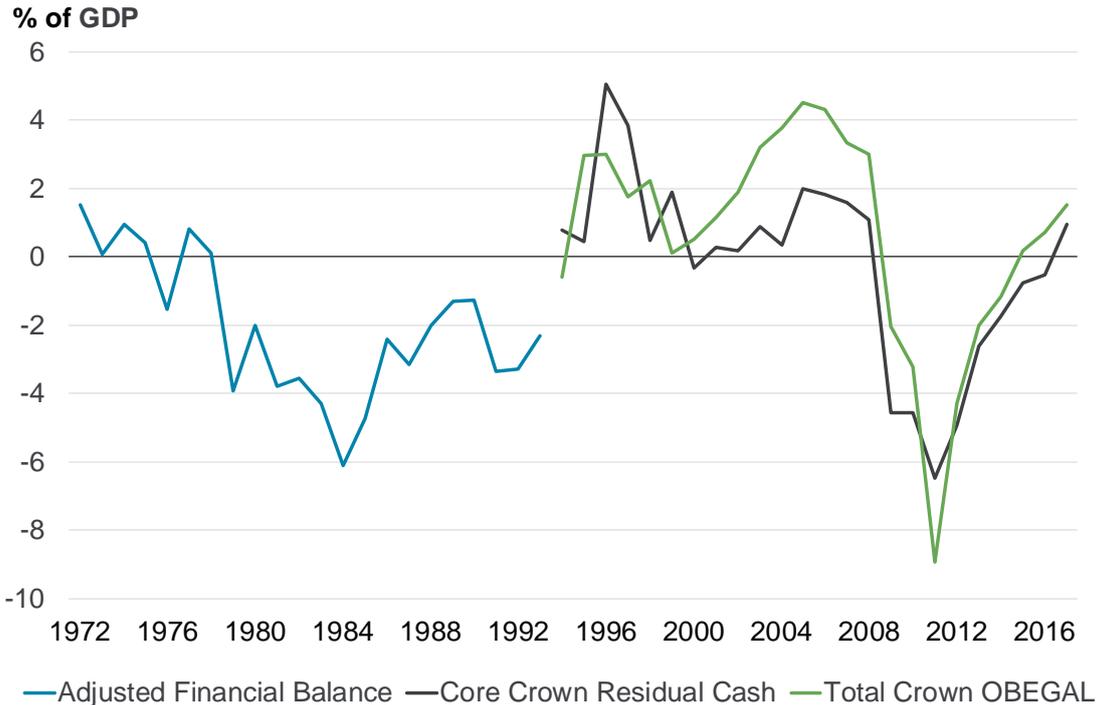
A further key transparency requirement is that all budgeting and reporting are done on an accrual basis, following generally accepted accounting practice (GAAP).

**The Government of the day can choose its own fiscal strategy provided it is consistent with the PFA principles.** Interpreting the PFA principles requires value judgements. For example, the PFA principles do not specify what *prudent* debt levels are in numerical terms or prescribe the criteria by which we would judge *fairness* in the tax system.

The PFA leaves each government to define what the PFA principles mean to it and provides flexibility over time. Each government's fiscal strategies must be consistent with the PFA principles, and can support other policy objectives that matter to the government of the day. A government can depart from the PFA principles, but it must say how it is going to return to them.

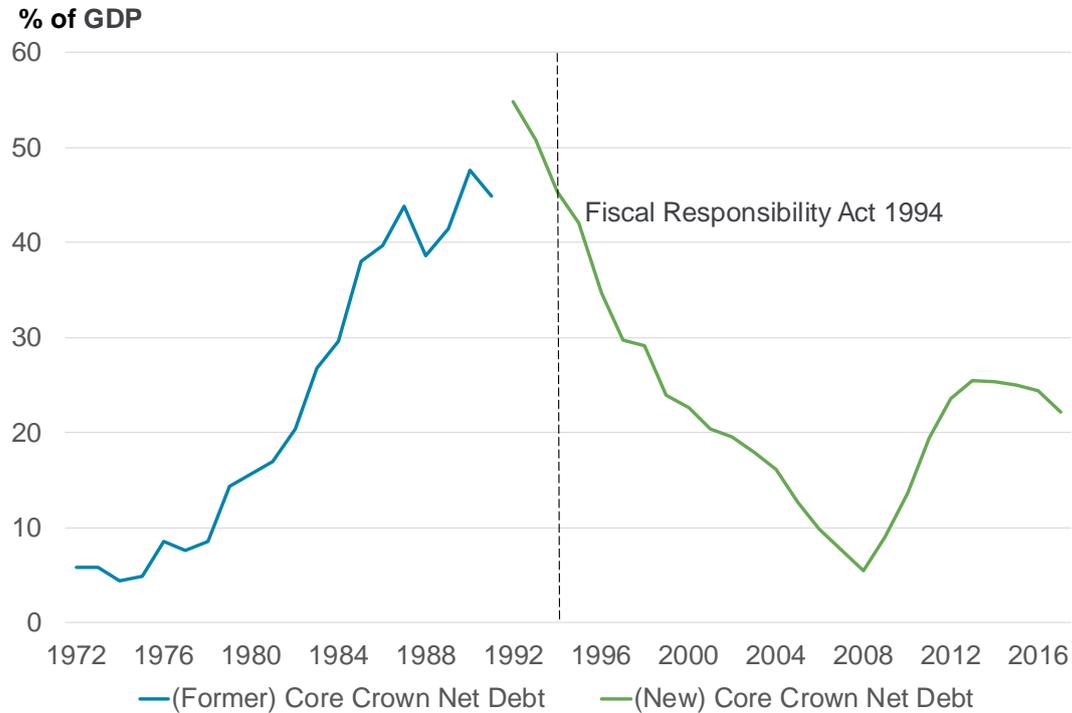
**This framework has served New Zealand well in many respects.** It has promoted responsible fiscal policies under different governments, as seen in Figure 1 and 2.

**Figure 1 – Fiscal surplus/deficit measures, including the operating balance before gains and losses (% of GDP)<sup>2</sup>**



Source: The Treasury

**Figure 2 – core Crown net debt (% of GDP)**



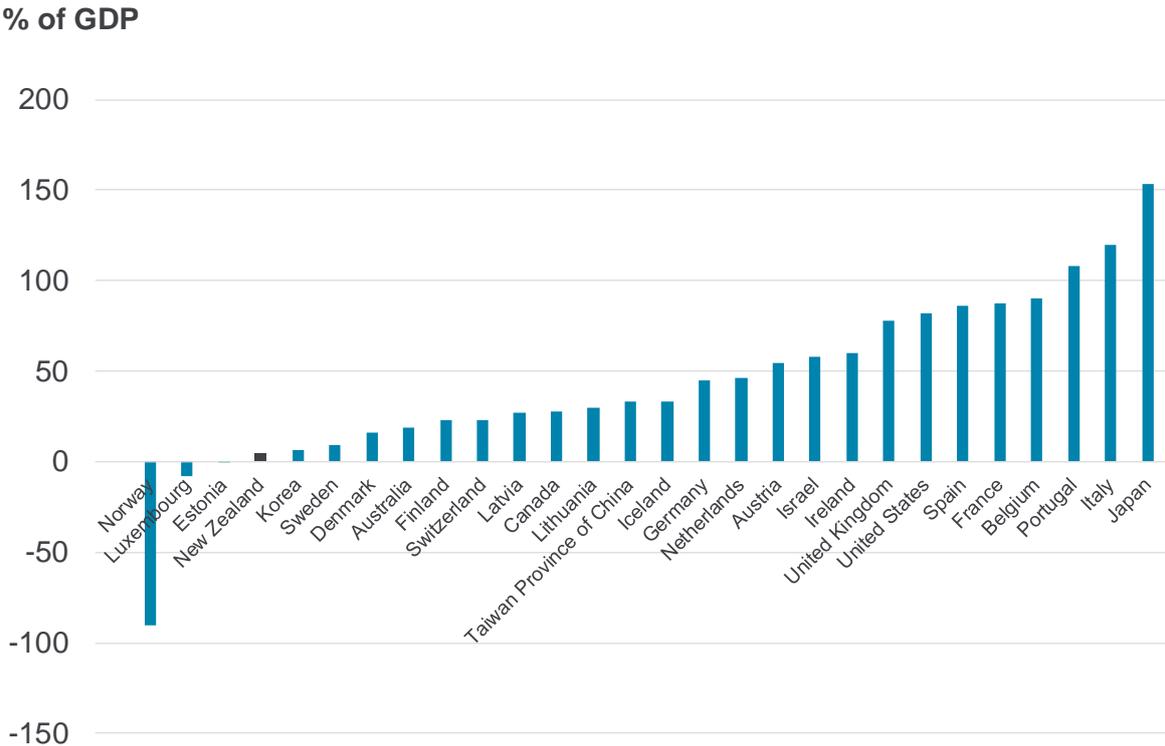
Source: The Treasury

<sup>2</sup> The structural breaks in Figure 1 and Figure 2 reflect changes to accounting measures. For more information on these measures, go to: <https://treasury.govt.nz/publications/information-release/data-fiscal-time-series-historical-fiscal-indicators-1972-2017>

**New Zealand’s balanced track record of budget deficits and surpluses contrasts with many other developed countries.** Over successive decades, many other advanced economies have shown a bias towards running budget deficits.<sup>3</sup> Over time, “deficit bias” leads to increasing levels of government debt. As shown in Figure 1, such a “deficit bias” has not occurred in New Zealand since the Fiscal Responsibility Act was introduced in 1994.<sup>4</sup>

**New Zealand has reduced debt to, and then maintained it at, modest levels since it introduced the Fiscal Responsibility Act in 1994** as shown in Figure 2. This is especially the case by relative standards, as shown in Figure 3 – many other advanced economies have experienced high and increasing levels of debt in recent years.

**Figure 3 – International comparisons of general government net debt**



Source: IMF World Economic Outlook, April 2018

<sup>3</sup> Calmfors, L., & Wren-Lewis, S. (2011). What should fiscal councils do? *Economic Policy*, 26(68), 649-695.  
 Beetsma, R. & Debrun, X. (2018) Independent Fiscal Councils: Watchdogs or lapdogs? Centre for Economic Policy Research (CEPR) Press. Available from <https://voxeu.org/content/independent-fiscal-councils-watchdogs-or-lapdogs>

<sup>4</sup> Since 2004, Part 2 of the Public Finance Act 1989.

## How does New Zealand's fiscal policy framework compare internationally?

**The Open Budget Survey also shows that New Zealand is a world-leader in fiscal transparency.** This international survey provides an independent assessment of New Zealand's performance against a number of factors, and a comparison against other countries:<sup>5</sup>

- ▶ **Fiscal transparency** – 1st out of 115 countries, with a score of 89 (of 100).
- ▶ **Public participation** – 1st out of 115 countries, with a score of 59 (of 100).
- ▶ **Budget oversight** – 14th out of 115 countries, with a score of 79 (of 100).

New Zealand scored relatively weaker on budget oversight compared to the other dimensions, and the Survey recommended New Zealand consider:

- ▶ ensuring the Budget is provided to Parliament at least two months before the start of the new financial year
- ▶ ensuring audit processes are reviewed by an independent agency, and
- ▶ setting up an independent fiscal institution to further strengthen budget oversight.

**Many countries take a rules-based approach to fiscal policy.** Specific fiscal rules act as constraints on fiscal policy by setting numerical limits on budgetary aggregates, such as net debt and the budget balance. Common types of fiscal rules include:

- ▶ **balanced budget rules** that aim to prohibit or limit annual budget deficits, and
- ▶ **debt rules** that limit the total stock of debt a government can accrue.

Rather than legislating specific rules, New Zealand relies on two main mechanisms to ensure governments are fiscally responsible:

- ▶ Government setting its own fiscal targets, and
- ▶ transparent public reporting.

**IFIs are an increasingly popular feature of international fiscal policy frameworks.** IFIs have existed, in various forms, across OECD countries for decades (eg, since 1936 in Belgium). Today, 27 of 36 OECD countries have an IFI of some type. Two-thirds of these IFIs were set up in the decade following the financial crisis of 2007-2008, in response to a surge in government deficits and debt brought on by the crisis. IFIs are of two broad types:

- ▶ **Independent Fiscal Councils** are generally more focused on fiscal policy monitoring and assessment.

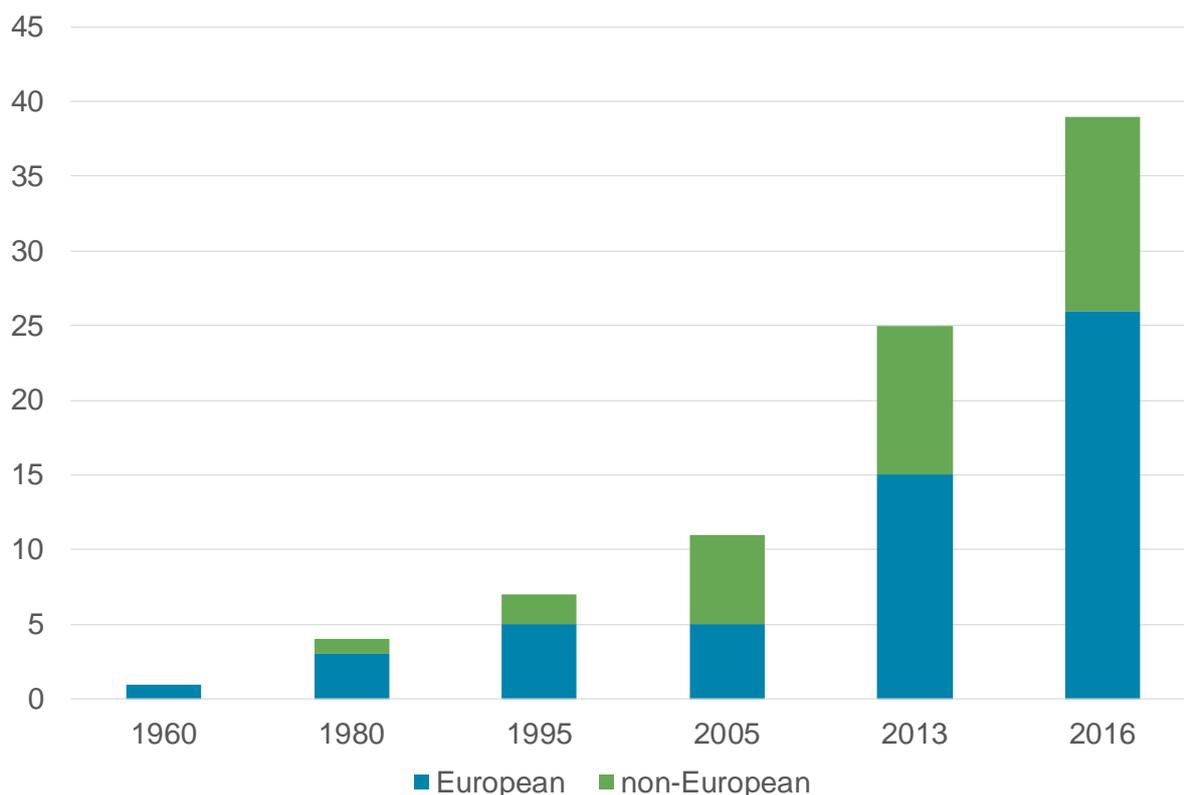
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<sup>5</sup> The Open Budget Survey, produced by the International Budget Partnership, is available from <https://www.internationalbudget.org/open-budget-survey/>

- ▶ **Parliamentary Budget Offices (PBOs)** usually emphasise supporting Parliament (particularly in countries with Westminster-type parliamentary systems), and often include the function of providing independent costings of political party policies.

The European Union has seen a significant increase in IFIs since 2011 as shown in Figure 4. This followed the European Union Council introducing a Directive on budgetary frameworks. That Directive required member states to establish an independent body to monitor compliance with fiscal rules.

**Figure 4 – Growth in the number of Independent Fiscal Institutions**



Source: Beetsma, M. R. M, et al, (2018). IMF Working Paper *IFCs: recent trends and performance*

**IFIs can be a useful complement to fiscal rules.** Fiscal rules are considered more effective when they are enforceable. IFIs can help to increase the effectiveness of fiscal rules in two main ways. First, IFIs can provide assessments of whether the Government is meeting fiscal rules. This increases the political cost of breaching fiscal rules. Second, IFIs can act as independent referees who determine when it is legitimate to break fiscal rules, such as when a natural disaster occurs.

The complementary relationship of IFIs and fiscal rules when considering increasing international debt levels helps to explain the increase in IFIs internationally.

**Some countries have recently established PBOs.** In Westminster-type parliamentary systems, Parliament traditionally has a limited role in the budget and fiscal policy. Most power stays with the Executive. PBOs are seen as a way of improving the effectiveness of Parliament in its oversight role of the budget and fiscal policy. Providing policy costings for parliamentarians and political parties is another function that these institutions often undertake to help level the playing field between the Government of the day and political parties, and improve wider public debate on policies.

# 3 What is an Independent Fiscal Institution (IFI)?

The OECD defines IFIs as: “*publicly funded, independent bodies under the statutory authority of the executive or the legislature which provide non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance.*”<sup>6</sup>

IFIs have a range of different forms and functions. Here are three examples.

- ▶ [The United Kingdom’s Office for Budget Responsibility](#) was established in 2010 to provide independent and authoritative analysis of the United Kingdom’s public finances. That analysis includes producing the official economic and fiscal forecasts used by the UK Government.
- ▶ [The Australian Parliamentary Budget Office](#) was established in 2012 to provide independent policy costings, fiscal analysis and research to all members of Parliament.
- ▶ [The Irish Fiscal Advisory Council](#) was established in 2011 to provide an independent assessment of official budgetary forecasts and proposed fiscal policy objectives.

The OECD highlights that an IFI can: “*help address bias towards spending and deficits and more generally enhance fiscal discipline; promote greater fiscal transparency and accountability; and raise the quality of public debate on fiscal policy.*”<sup>7</sup>

Problems IFIs have addressed internationally include:<sup>8</sup>

- ▶ helping governments establish and commit to realistic and desirable fiscal targets, which can help to prevent excessive fiscal deficits and rising public debt
- ▶ reducing bias in a government’s economic and fiscal forecasts
- ▶ improving fiscal behaviour over the business cycle and encouraging better risk management (such as building fiscal buffers in good times to provide scope for policy responses in bad times), and
- ▶ providing room for governments to address other objectives (such as economic growth or a fairer distribution of income) by strengthening public finances.

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<sup>6</sup> OECD, Recommendation of the Council of Principles for Independent Fiscal Institutions, February 2014, available from <http://www.oecd.org/gov/budgeting/OECD-Recommendation-on-Principles-for-Independent-Fiscal-Institutions.pdf>

<sup>7</sup> Ibid.

<sup>8</sup> Debrun et al (2017). IMF Background Paper, The Fiscal Council Dataset: A Primer to the 2016 Vintage, available from <https://www.imf.org/external/np/fad/council/pdf/note.pdf>

Central banks generally have a direct policy lever for monetary policy through setting interest rates. In contrast, IFIs have a more indirect channel of influence on fiscal policy through their monitoring and advisory functions. Currently only one IFI has any direct or indirect power that can stall the budget process. Instead, they have a “watchdog” focus and influence fiscal policy by:

- ▶ fostering transparency over a political cycle, which helps to improve democratic accountability and discourages opportunistic shifts in fiscal policy (such as pre-election spending increases)
- ▶ providing independent analysis and forecasts, which raises the public’s awareness about the consequences of certain policy paths and increases the reputational and electoral costs of unsound policies or broken commitments
- ▶ providing direct inputs into the budget process (for example, economic and fiscal forecasts) and removing technical loopholes that allow governments to circumvent fiscal targets, and<sup>9</sup>
- ▶ providing direct support and additional capability to parliamentarians and political parties (for example, costings of political party policies).

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<sup>9</sup> Ibid.

# 4 Why establish an IFI in New Zealand?

The Government proposes to establish an Independent Fiscal Institution (IFI) as part of New Zealand's fiscal policy framework to deliver on its commitments to provide independent assessment on whether the Government is meeting its fiscal strategy and to provide independent costings of political party policies.

The establishment of any new institution also provides an opportunity to consider whether other related functions exist that such an entity could undertake.

**A number of external reviews have said that establishing an IFI delivers opportunities to strengthen New Zealand's fiscal policy framework.**

A 2014 External Review of the Treasury's fiscal policy advice recommended that the Government create a limited IFI, which would:<sup>10</sup>

- ▶ offer an independent expert opinion on fiscal policy and comment on the fiscal policy advice provided by the Treasury to the Government, and
- ▶ comment on decisions taken by the Government and Parliament on fiscal policy issues.

**The annual, international Open Budget Survey identifies scope for improving budget oversight.** As mentioned earlier, the 2017 Open Budget Survey ranked New Zealand relatively poorly on oversight undertaken during budget planning stages. The absence of an IFI in New Zealand lowered New Zealand's score in the Survey. The Survey recommended that New Zealand considers establishing an IFI.

**The OECD notes one gap in the framework: opposition parties have no access to independent policy costings.** The 2017 OECD Economic Survey of New Zealand suggested that providing an effective mechanism to independently assess the policy proposals of opposition parties would strengthen the fiscal policy framework. The OECD noted that the Treasury or an IFI might provide these assessments.

**Internationally, the adoption of IFIs is being advocated as one way to improve every country's fiscal policy framework.** The OECD and the International Monetary Fund (IMF) have championed the adoption of IFIs internationally. Applying the IMF's Fiscal Transparency Code to New Zealand highlights some gaps in New Zealand's fiscal policy framework. An IFI could fill these gaps. Specifically it could:

- 1 Provide for independent evaluation of fiscal policy performance.
- 2 Improve and support more effective parliamentary scrutiny of public finances and fiscal policy.
- 3 Provide for independent costings of political parties' policies to better inform public debate.

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<sup>10</sup> Ter-Minassian T. (2014). External Review of the New Zealand Treasury's Fiscal Policy Advice, p.10.

## 1. Provide for independent evaluation of fiscal policy performance

Independent evaluation of the fiscal policy performance of government is about ensuring that the Government's economic and fiscal forecasts (produced independently by the Treasury using its best professional judgement), and the Government's performance against its fiscal strategy, are subject to independent evaluation.

Independent evaluation can help increase the credibility of a government's fiscal management as well as help to improve public debate on fiscal policy.

### How is fiscal policy assessed in New Zealand?

**The Public Finance Act 1989 (PFA) requires regular reporting on a government's fiscal strategy.** Under the PFA the Government must regularly and publicly report on its fiscal strategy. In particular, the Government must report on its *short-term intentions* and *long-term objectives*, and how much these intentions and objectives are consistent with the PFA principles of responsible fiscal management. This reporting generally occurs through the presentation of reports to the House of Representatives.

Since 2013, the PFA has also required the Government to report ex-post assessments of its fiscal strategy.<sup>11</sup> Ex-post assessments are assessment based on actual results rather than forecasts. In this context, the Government is required to assess its past performance against its past fiscal strategy.

**However, there is scope to improve the effectiveness of these reporting requirements.** Over time a government's fiscal strategy will evolve and currently the ex-post self-assessment mechanism does not capture this well.

**These assessments are also not independent, because the Government is reporting on itself.** Currently, independent evaluation of fiscal policy performance is mostly left to Parliament and the public. Neither may have the capability or capacity to effectively evaluate performance.

As mentioned in section 2 (page 10), the Treasury must produce a number of independent reports on the economic and fiscal position. While these Treasury-owned reports are independent, they are limited in scope. For example, the Treasury does not provide an explicit assessment of the Government's fiscal strategy performance.

### What is the international best practice for fiscal policy assessment?

**The OECD and the IMF recommend Independent Fiscal Institutions undertake independent fiscal policy assessment.**

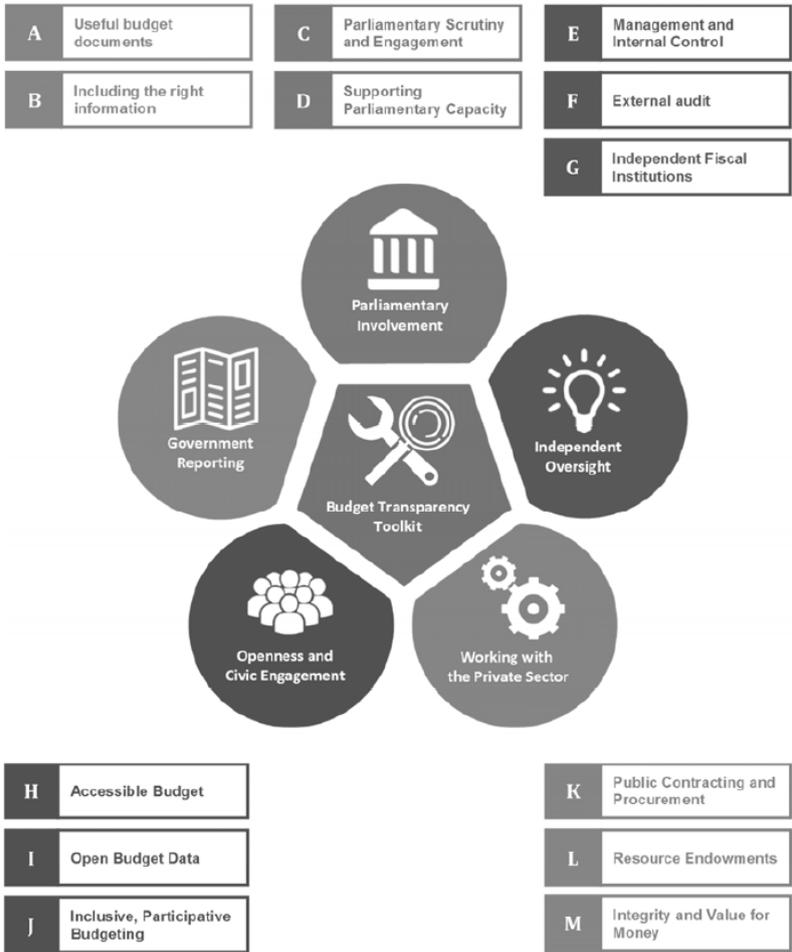
The IMF (through its Fiscal Transparency Code) and the OECD (through its principles on budgetary governance) advocate for strong levels of fiscal transparency and independent oversight.

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<sup>11</sup> Section 26L (1) (c) of the Public Finance Act 1989

In 2017, the OECD produced its *Budget Transparency Toolkit*. The Toolkit brings together the various official standards, guidelines and other resources to highlight best practice in fiscal and budget policy (Figure 5).

**Figure 5 – OECD’s Multi-dimensional map of Budget Transparency**



Source: OECD Budget Transparency Toolkit 2017

The OECD notes that IFIs can:

- ▶ improve the objectivity of macroeconomic and budgetary forecasting
- ▶ enhance fiscal discipline through a “watchdog” role in the national fiscal framework, and
- ▶ promote greater fiscal transparency and accountability by raising the quality of national public debate on fiscal policy.

## 2. Improve and support more effective parliamentary scrutiny of public finances and fiscal policy

**Parliament is the primary forum for scrutiny of the Government.** Accountability to elected members of Parliament, on behalf of the public, is an essential element of New Zealand's representative democracy.

**Effective parliamentary scrutiny of public finances and fiscal policy is about** providing Parliament and the public with sufficient time and information to be able to scrutinise the budgetary information issued by both the Government and the Treasury.

**In New Zealand, the Government has a strong role in determining the Budget.** The Government has broad scope to set its fiscal policy within the PFA principles. This is typical of Westminster styles of government, like those in the United Kingdom, Australia and Canada. Yet, as shown in Figure 6, in some ways the New Zealand Government has a stronger role in setting the Budget than its international counterparts.

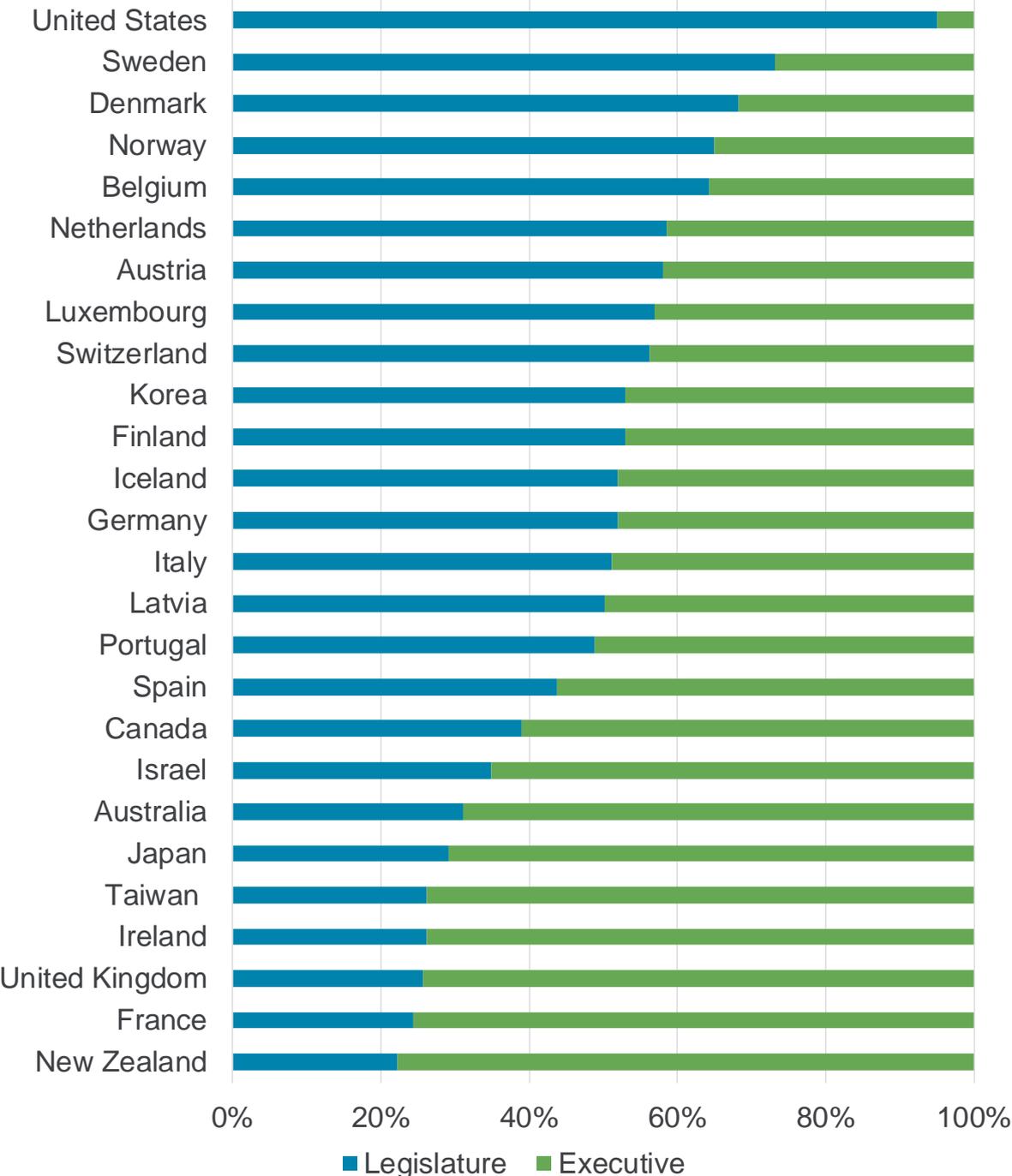
**Parliament currently plays a minor role in setting fiscal policy and has limited capacity to scrutinise the public finances.** Parliament receives the Budget about one month before the start of the financial year, and normally approves it about two months into the financial year. Members of Parliament can suggest changes to the Budget, but the Government has the power to veto any proposed change that impacts the vote composition in more than a minor way.

**The Office of the Controller and Auditor-General (OAG) has a strong role in supporting parliamentary scrutiny.** As one of its functions, the OAG provides analysis and advice on suggested lines of questioning to select committees to support the Budget examination, although this is currently focussed at the individual Vote level. The OAG also provides advice to select committees during the annual review process. Importantly, the OAG has no mandate to consider Government policy, but it does evaluate the performance of agencies in implementing policy objectives.

**Each year, select committees consider the Government's expenditure and budget proposals.** This includes scrutinising the Estimates, Supplementary Estimates, and annual reviews (which include ex-post review of appropriations). In addition, the Finance and Expenditure Committee seeks public submissions on the Government's *Budget Policy Statement (BPS)*. The BPS is released about six months before the Budget and sets out the overarching goals and priorities of the forthcoming budget. Following public consultation, the Finance and Expenditure Committee hears from the Minister of Finance and prepares a report on the BPS, which is then debated in the House.

**An IFI could increase the balance of influence that Parliament has over public finances and fiscal policy.** By providing independent analysis to Parliament and the public on fiscal matters, an IFI could enable Parliament to scrutinise the fiscal decisions of governments more effectively. However, an IFI would not diminish the Government's strong fiscal role. This is because increased scrutiny of public finances would stem from increasing Parliament's capability, without shifting decision-making powers from the Government to Parliament.

**Figure 6 – Distribution of fiscal governance between the legislature and the executive<sup>12</sup>**



Source: Kim C. (2018). Role of the Legislature for Effective Fiscal Governance. National Assembly Budget Office, Republic of Korea.

<sup>12</sup> The Legislative Budget Institution Index (BI index) in Figure 6 aims to measure the fiscal governance authority possessed by the legislature as well as the organisational capacity supporting the legislature. It shows the relative ratio of fiscal power between the legislature and the executive. For example, a high BI index indicates that the authority of the legislature is higher than that of the executive (in terms of the budget).

### 3. Provide for independent costings of political parties' policies to better inform public debate

#### What is the current process for the costing of political party policies?

**In practice, political parties' policies are not costed by the public service.**<sup>13</sup> An existing policy allows political parties to request the public service to cost their policies. However, the Minister of Finance or a Minister responsible for a portfolio must authorise such a request. Over the last eight general elections, the Minister of Finance has stated that the Government will not request the public service to cost political parties' policies.

Currently, no *effective* mechanism exists for independent costings of political parties' policy proposals. This is because of how this provision is set up.<sup>14</sup>

In recent elections political parties have used economic consultancies to increase the robustness of their policy platforms. Using such consultancies requires a significant level of resourcing from the party, and the public may find it hard to assess the reasonableness of these costings.

**Fully costed and robust alternative budgets are becoming more important in election debates.** Successive Oppositions have used the fiscal responsibility framework to develop their election platforms. Recent elections have seen a significant focus on fiscal policy and the cost of election platforms. Providing consistent costings to all parties would enable a higher level of public scrutiny and improve the public debate of election promises.

Providing independent and consistent costings across political party policies might steer election debates away from disagreements over how much policies will cost, towards a debate about the merits of policies and how they will improve the wellbeing of New Zealanders.

Currently, the public service plays a significant role in providing independent analysis, including the costings of policies, during the negotiations to form a government. In these situations, only the Prime Minister may authorise access by a political party (or parties) to State sector agencies. The State Services Commissioner is the contact point and facilitator between political parties and State sector agencies.<sup>15</sup> In the 2017 general election, eight separate information requests covering 33 specific questions came from three negotiating political parties.<sup>16</sup>

**What do you think?**

- ▶ What are the key opportunities for improving New Zealand's fiscal policy framework through the establishment of an Independent Fiscal Institution?

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<sup>13</sup> The Treasury, Costing of Political Party Policies, available from <http://www.treasury.govt.nz/publications/guidance/planning/costingpolicies>

<sup>14</sup> 2017 OECD Economic Survey of New Zealand, Overview, p. 32, available at <http://www.oecd.org/eco/surveys/New%20Zealand-2017-OECD-economic%20survey-overview.pdf>

<sup>15</sup> State Services Commission, Negotiations between political parties to form a government: guidelines on support from the State sector, last updated 9 August 2017, available from <http://www.ssc.govt.nz/negotiations>

<sup>16</sup> State Services Commission, Information for negotiations to form government released, 15 December 2017, available from <http://www.ssc.govt.nz/information-negotiations-form-government-released>

# 5 What is the purpose of an IFI?

**The purpose and mandates of IFIs continue to evolve.** A comparison of purpose statements across a number of IFIs is outlined in Box 1.

## Box 1: Comparison of the purpose statements for IFIs

### United Kingdom – Office for Budget Responsibility:

It is the duty of the Office to examine and report on the sustainability of the public finances.

### Canada – Parliamentary Budget Office:

An independent and non-partisan Parliamentary Budget Officer to support Parliament by providing analysis, including analysis of macro-economic and fiscal policy, for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

### Australia – Parliamentary Budget Office:

The purpose of the Parliamentary Budget Office is to inform Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.

### United States – Congressional Budget Office:

To provide Congress with non-partisan and objective budget analysis.

### Ireland – Irish Fiscal Advisory Council:

The council is required to monitor and assess the Government's compliance with the budgetary rule. It is also required to assess the official forecasts of the Government and to provide a view on the fiscal stance.

### Netherlands – Central Planning Bureau for Economic Policy Analysis

Independent analysis relevant for economic policy making, particularly macroeconomic forecasting and the costing of policy proposals.

Source: OECD IFI Case Studies

## Proposal to consider and comment on

It is proposed that the purpose of the new IFI is to:

*“Enhance fiscal responsibility, accountability and transparency, support public debate, and strengthen Parliamentary scrutiny.”*

It can achieve this by:

*“Providing Parliament and the public with independent and non-partisan analysis and commentary on fiscal policy, economic and fiscal forecasts, and the financial implications of political party policy proposals.”*

### What do you think?

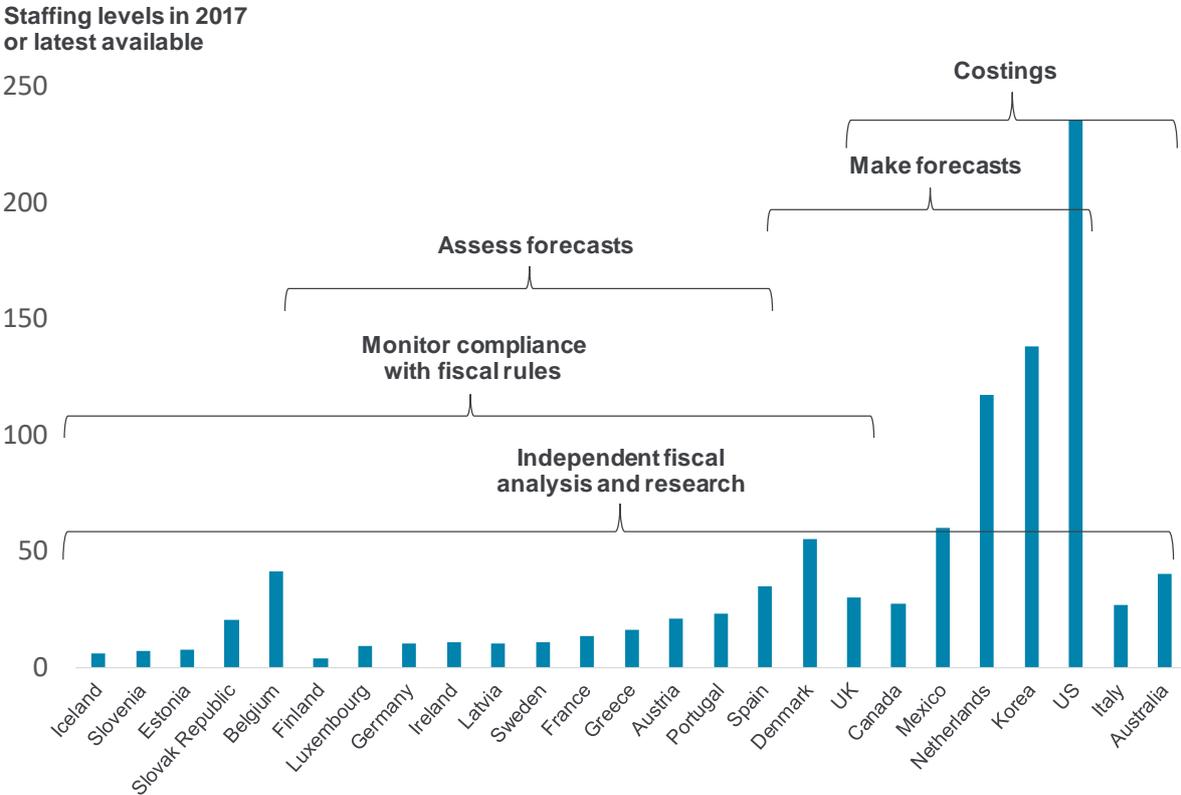
- ▶ What should the overarching purpose of the new Independent Fiscal Institution be?

# 6 What are the proposed roles and functions of an IFI?

Note: Section 6 lines up with the proposals and questions in part 3 of this document's Appendix.

The IFI could undertake a number of different roles and functions. A large range of roles and functions is seen internationally (Figure 7 below illustrates this range and impact on staffing levels). The differences in the institutional frameworks, the parliamentary systems, and the problems that the IFI is trying to address help to explain this. In addition, different IFIs may fulfil the same function in many different ways.

Figure 7 – comparison of Independent Fiscal Institutions roles and functions



Source: OECD Independent Fiscal Institutions Database (2017)

Some roles are complimentary and some are more common in different institutional models (see section 8). For example, fiscal policy compliance monitoring is more common in the traditional “fiscal council” model, while political party policy costings is more common in the “parliamentary budget office” model.

No “one size fits all” model exists internationally. The choice of functions depends mainly on the domestic context. As Table 1 shows, IFIs vary considerably as to governance, mandate and functions, leadership and staff arrangements, and budget.

**Table 1 – Roles and functions performed by independent fiscal institutions internationally**

Country	Form	Establishment	Budget [staff numbers]	Analysis of long-term fiscal sustainability	Role in macroeconomic or fiscal forecasts	Functions				
						Role in monitoring compliance with fiscal targets/rules	Directly support parliament in budget analysis	Role in policy costing	Role in costing election platforms	Can the institution provide normative advice?
Australia	PBO	2012	\$7m AUD [40 FTEs]	X			X	X	X	
Canada	PBO	2008	\$2.8m CAD [17 FTEs]	X	X					X
Ireland	IFC	2011	€0.8m EUR [6 FTEs]		X	X				X
Ireland	PBO	2017	€1m EUR [15 FTEs]				X	TBD	TBD	X
Korea	PBO	2003	\$13.1m USD [138 FTEs]	X			X	X		
Netherlands	IFC	1945	€13m EUR [117 FTEs]	X	X		X	X	X	
Sweden	IFC	2007	\$9m SEK [5 FTEs]	X	X	X				X
UK	IFC	2010	£2.7m GBP [27 FTEs]	X	X	X		X		
US	PBO	1974	\$47m USD [235 FTEs]	X			X	X		

Source: OECD Independent Fiscal Institutions Database (2017)

## Proposal for discussion

**The Government has developed an initial proposal for the roles and functions for the new IFI.** Five functions are noted below.

- 1 Provide financial costings of political party policies, including election manifestos, and any costings requested when a government is formed.
- 2 Comment on and assess compliance with the Government's fiscal strategy and fiscal targets.
- 3 Comment on the Treasury's economic and fiscal forecasts.
- 4 Comment on long-term fiscal sustainability and key fiscal risks.
- 5 Produce relevant and related commentary on fiscal and budgetary matters.

**This proposal has been put together as the basis for discussion.** This section provides more detail on how each of these functions are performed internationally. It considers whether they would be suitable, and in what form, for New Zealand.

**Following the establishment of an IFI, a review could be conducted in the future to consider whether its mandate should be changed or extended.** This could consider whether the IFI could play a role in other areas, including:

- ▶ wellbeing and living standards analysis and assessment
- ▶ broader macroeconomic issues, and
- ▶ local government fiscal issues.

### What do you think?

- ▶ What should be the roles and functions for the new Independent Fiscal Institution?
- ▶ Are there any institutional design factors that should be considered to allow additional functions to be added to the Independent Fiscal Institution in the future?

## 1. Provide financial costings of political party policies, including election manifestos, and any costings requested when a government is formed

An IFI could provide independent estimates of policy costs to improve transparency and support the development of robust policy platforms. Policy costings is one of the issues highlighted in section 4, and is an important driver for establishing an IFI in New Zealand.

### Box 2: What is a policy costing?

The purpose of a policy costing is to determine and present the likely financial implications of a proposal on the fiscal position.

The Australian Parliamentary Budget Office highlight four key elements of a policy costing:

- ▶ The specification of the policy proposal.
- ▶ The data and key assumptions informing the costing.
- ▶ The costing model and methodology.
- ▶ A summary of the factors affecting the reliability of the costing estimate.

Policy costings are designed to capture the impact on the fiscal position of a particular policy proposal being implemented.

Conceptually, the impacts of a policy proposal can be divided into three broad components:

- ▶ The **direct static impact** of the proposal. This is sometimes referred to as the 'day after' impact of the policy proposal. It assumes there is no response to the policy change on the part of those affected by it.
- ▶ The **direct behavioural impacts** of the proposal, which takes account of changes in behaviour by individuals, businesses or organisations directly affected by the proposal.
- ▶ **Broader economic impacts** (or second round effects) which refer to the impacts on the fiscal position that arise from the further economic feedbacks from a policy change, for instance due to changes in prices, wages or employment levels flowing on from the introduction of a new policy. There is generally considerable uncertainty about the magnitude, direction and timing of those effects and their subsequent fiscal impact.

Generally, policy costings include the static and direct behavioural impact of proposals but (with a few exceptions) do not include quantitative estimates of broader economic impacts. Often qualitative statements about broader economic impacts are included if they are likely to be significant.

Sources: Australian Parliamentary Budget Office, *What is a Parliamentary Budget Office Costing?* (2017), and *Including Broader Economic Effects in Policy Costings* (2017)

## International approaches: When are policies costed?

### **37% of OECD IFIs<sup>17</sup> produce policy costings of political parties' policies or election plans.**

Policy costings may be requested over three broad periods: in the lead-up to an election; during negotiations once the election is over; and outside of both those timeframes.

- ▶ Policy costings may be produced in the pre-election period (lead-up) to an election (as in Netherlands and Canada) – see Box 3 below for the Canadian example.
- ▶ Policy costings may be produced during any coalition negotiations to form a government following an election.
- ▶ Policy costings may be produced outside these periods or at any time as in Australia – see Box 4 below. Such policy costings could be voluntary or compulsory. Political parties may have their manifestos costed as a whole or their individual policies.

An IFI needs to develop different arrangements and processes for these timeframes, as appropriate.

#### **Box 3: The Canadian PBO**

In 2017, the Canadian Parliamentary Budget Office's mandate was extended to include the costing of policies in political parties' manifestos. Below is the PBO's approach to undertaking costings.

- ▶ Before the pre-election period, the PBO prepares a baseline forecast and guidance on how it will cost policies.
- ▶ Any member of Parliament can request a policy be costed (at any time).
- ▶ Requests are to be made in writing. The PBO can ask the requesters for more information about the proposal to be costed.
- ▶ The PBO produces estimates of the net fiscal impacts, including behavioural responses. Yet, these estimates do not cover indirect economic or wellbeing impacts.
- ▶ The PBO presents estimates as a one-page report.

Access to relevant information, data and capability is assured in two ways.

- ▶ The PBO enters into memoranda of understanding with key public service departments about any arrangements to assist in preparing cost estimates.
- ▶ The Minister presiding over a department has discretion as to whether to enter into an agreement. The PBO cannot provide a Minister with any details about a request for a cost estimate. The Minister cannot be personally involved in the department's assistance to the PBO.

Source: Canadian Parliamentary Budget Office, *Guidelines for Cost Estimates of Election Campaign Proposals* (2018)

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<sup>17</sup> OECD Independent Fiscal Institutions Database (2017).

## International approaches: How are policies costed?

Policy costings (political party policies or manifestos) can take different approaches.

- ▶ The IFI can focus on the direct fiscal costs of measures.
- ▶ The IFI can focus on the direct fiscal costs of measures, including behavioural responses. For example, imposing a sugar tax could raise less revenue than the direct impact would suggest, as people may consume less sugar if it is more expensive.
- ▶ The IFI can further consider indirect impacts of measures on the economy. For example, imposing a sugar tax would have automatic flow-on impacts to the consumers price index (CPI) that would then flow-through into any CPI indexed taxes and payments. The impact of a sugar tax could also have flow-on effects on the demand for labour and resources in the general economy. These indirect impacts could have knock-on effects for the net fiscal cost.
- ▶ The IFI can go beyond fiscal and economic impacts and consider the impact on wellbeing, or adopt an approach similar to the Treasury’s Four Capitals approach set out in its Living Standards Framework.<sup>18</sup>

### Box 4: The Australian PBO

The Australian Parliamentary Budget Office (PBO) was established in 2012. Its main functions are to produce policy costings (including of manifestos), support Parliament in Budget analysis, and undertake other research on budget and fiscal policy settings (including long-term fiscal sustainability). Its institutional form is equivalent to an Officer of Parliament and it has around 40 staff.

Outside the “caretaker” period ahead of an election, the PBO will prepare policy costings requested by parliamentarians. The PBO keeps these costings confidential if a parliamentarian requests this.

During the pre-election period, the PBO will prepare policy costings of publicly announced policies if requested by parliamentarians. These costings are made public. Within 30 days of an election, the PBO publishes a report on the cost of each party’s manifesto.

The PBO assigns resources to costings based on published criteria, including:

- ▶ relevance to matters currently, or soon to be, before Parliament the priority given by political parties
- ▶ the level of representation of political parties
- ▶ the extent each party has recently used the PBO, and
- ▶ how long a request has been with the PBO.

The PBO’s approach is based on published guidelines specifying its methodology, which includes examples and case studies. This approach ensures costings done by the public service and the PBO are comparable. Both produce costings of the fiscal impacts over four financial years and include a reliability rating, illustrating the uncertainty around the estimate.

Source: Australian Parliamentary Budget Office (2018)

<sup>18</sup> For more information on the Treasury’s Living Standards Framework, go to <https://treasury.govt.nz/information-and-services/nz-economy/living-standards/our-living-standards-framework>

## New Zealand context

**In New Zealand, the public service already produces costings for Government policies. These costings are often included in the Treasury's independent economic and fiscal forecasts.** This proposal does not affect the role Treasury plays in including the cost of government policies in its economic and fiscal forecasts.

**In New Zealand, no public institution currently exists for costing the policies of political parties.** In the lead-up to an election, some political parties do contract private companies to cost their plans. But the approaches taken may have some inconsistencies. Further, transparency of those costings is not guaranteed.

By providing consistent, robust costings from an independent institution, the public debate can focus on a policy's merits and impact on wellbeing dimensions, rather than debating the detail of its costings. Unlike some other countries, New Zealand has limited depth of think tanks and other bodies with relevant expertise and knowledge to perform this kind of in-depth analysis.

Often, major policies are developed in opposition without support from the public service. As such, decisions may unknowingly be made that have a significant impact on the public finances.

In a mixed-member proportion (MMP) environment, decisions are also often made in negotiations after an election to form a government. While the public service is currently available to cost these policies, using an IFI with significant expertise in policy costings will likely prove beneficial.

### Proposal to consider and comment on

It is proposed that the IFI provide financial costings of political party policies, adopting the key features noted below.

- ▶ The IFI can cost a political party's policy once it receives a request from that political party. So the IFI can action that request, the policy party must deliver to it a policy with a high level of detail.
- ▶ During a pre-election period, a political party will also be able to get the IFI to assess the total fiscal impact of its election manifesto.
- ▶ The IFI would not cost Government policies.
- ▶ A framework, including specific criteria and thresholds, needs to be developed to ration and prioritise costing requests across parties in an equitable way.
- ▶ The IFI will use its best professional judgement to provide a comprehensive costing that is an estimate of the fiscal impact of a policy (expenditure and revenue impacts). Where appropriate, this will include the direct behavioural impacts resulting from the proposal.
- ▶ Broader economic impacts could be included or commented on when those impacts are substantial (for example, impacts on GDP or CPI). The IFI would not assess wider impacts of the policy (such as impacts on wellbeing or on the environment), if these do not give rise to fiscal impacts.

- ▶ The IFI will need to develop a framework for producing policy costings that sets out how it will approach different types of fiscal impacts and the level of confidence that is required to incorporate these impacts into a costing.
- ▶ If a costing has been completed, and the policy publicly announced, then the costing should be made public to support transparency (either by the political party or the IFI).
- ▶ If the political party has not announced the costed policy, then the IFI could not release that costing unless the party agreed.
- ▶ During the negotiations to form a government, political parties can request the IFI to cost specific policies. The State Services Commissioner would continue to have a role in coordinating other requests for information that are not for financial costings.

While the IFI financial costing function outlined above primarily relates to fiscal and economic perspectives rather than broader wellbeing considerations, this can support the Government's broader wellbeing focus. Fiscal analysis makes up one part of wider wellbeing policy analysis. Fiscal analysis is an appropriate initial focus for the IFI given the cost, capability requirements and potential impacts on the credibility and independence of the IFI from undertaking broader wellbeing analysis. Establishing the fiscal costs of policies should provide a solid foundation for wider public debate about the wellbeing impacts of those policies.

As mentioned earlier, the IFI's mandate could be broadened or expanded in the future to include a greater role in wellbeing analysis and assessment, especially once wider wellbeing analysis and the Treasury's Living Standards Frameworks are embedded into the public policy sphere.

#### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should undertake costings of political party policies?
- ▶ What options are available for the allocation and rationing of access by political parties to the new Independent Fiscal Institution for policy costings?

## 2. Comment on and assess compliance with the Government's fiscal strategy and fiscal targets

To ensure responsible fiscal management, the Public Finance Act (PFA) requires governments to outline a fiscal strategy which can include specific fiscal targets. IFIs can play a key role by assessing whether governments have met fiscal targets.

Providing an independent assessment of whether the Government is on track to meet its fiscal strategy is one of the initial drivers for setting up an IFI in New Zealand.

### International experiences

Across the OECD, 74% of IFIs monitor compliance with fiscal rules (or targets). Such monitoring is the most common function across OECD IFIs.

- ▶ This monitoring may help when simple rules exist. Data or forecasts may easily reveal whether fiscal rules are being met. For example, in the Netherlands, the IFI indirectly monitors compliance with fiscal rules through its calculations of the public finances.
- ▶ For more complex rules (eg, structural balance rules), the IFI may have a role in interpreting a rule, making judgements and assumptions about the future, and in communicating them to the public and Parliament.
- ▶ The IFI may provide an assessment of the risk of a deviation from fiscal targets as Spain does.
- ▶ Some fiscal targets have escape clauses. The IFI could have a role in assessing whether these escape clauses have been met.
- ▶ Some IFIs monitor consistency with broader fiscal objectives. For example, Canada has no numerical fiscal targets, yet Canada's PBO monitors the Government's wider strategy.
- ▶ Further, some IFIs also advise on ways to improve fiscal rules.

The Australian Parliamentary Budget Office does not currently monitor rules or wider objectives, but its mandate may be expanded to cover this in the future.

### New Zealand context

In many countries, fiscal targets are set out in legislation. In New Zealand, the PFA sets out principles of responsible fiscal management and the Government is required to set specific short-term intentions and long-term objectives, covering at least 10 years, in its yearly *Budget Policy Statements* (BPS) and *Fiscal Strategy Reports* (FSR). Governments may also come up with rules outside (but complementary to) these requirements.

New Zealand has few independent bodies available to scrutinise the public finances, and no specific body is responsible for interpreting complex rules or principles.

## Proposal to consider and comment on

It is proposed that the IFI comment on and assess compliance with the Government's fiscal strategy and fiscal targets, adopting the key features noted below.

- ▶ The IFI would be required to comment on the Government's yearly BPS and FSR. In particular, the IFI would assess whether the Government has appropriately met its obligations under the PFA.
- ▶ The IFI would achieve this by assessing whether or not the Government is pursuing its policy objectives in accordance with the PFA principles of responsible fiscal management.
- ▶ As part of this assessment, the IFI would also assess whether the Government is on track to meet (or has achieved) its short-term fiscal intentions, long-term fiscal objectives, and/or any other fiscal target the Government has set itself.
- ▶ The IFI would conduct ex-post assessments, including after the release of the annual audited *Financial Statements of the Government*.
- ▶ The IFI can request the Government clarify its interpretation of its fiscal strategy.
- ▶ The IFI should release its commentary on assessing the Government's fiscal strategy twice a year. This should occur at the same time, or shortly after, the Government releases its yearly BPS and FSR.
- ▶ To achieve such a coordinated release, the IFI would require embargoed access to these documents before they are released. To fulfil its assessment role, the IFI would also need access to the Treasury's economic and fiscal forecasts.

### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should comment on and assess compliance with the Government's fiscal strategy and fiscal targets?

### 3. Comment on the Treasury's economic and fiscal forecasts

Making decisions about fiscal policy in budgets relies on forecasts of the future outlook for the economy and the fiscal position. IFIs can have a role in ensuring these forecasts are robust, unbiased and transparent and, as such, support a fair assessment of progress on a government's fiscal strategy. IFIs can also help explain the forecasts to the public and to Parliament.

#### International approaches

The majority of OECD IFIs have some role in macroeconomic or fiscal forecasting.

- ▶ **Only 7% of OECD IFIs** prepare the official forecasts used by a government as part of the budget. It may be compulsory for the Government to use the IFI's forecast (Netherlands), or the Government may either use the IFIs forecast or explain why they are not using it (United Kingdom).
- ▶ **19% of OECD IFIs** prepare alternative forecasts that can be compared against the Government's forecasts (as in Canada, the United States and others). This can support the IFI in monitoring compliance with fiscal targets. For example, if the IFI thought the Treasury forecasts were too optimistic or pessimistic, it could use alternative forecasts to assess whether the Government is likely to meet its fiscal targets (as discussed earlier).
- ▶ **Around half (48%) of OECD IFIs** assess government forecasts. Many European IFIs take this approach.
- ▶ The IFIs in Sweden and Belgium use forecasts produced by alternative independent bodies.

The IFI could be involved in the production of forecasts (for example, as part of a panel discussing key judgements), yet not produce them. Further, an IFI could play a role in evaluating the accuracy and bias of forecasts ex-post.

#### New Zealand context

Since the early 1990s, the New Zealand Treasury has produced independent forecasts based on its best professional judgement without any involvement of government Ministers. Unlike some other countries, New Zealand has not had a problem with over-optimistic fiscal forecasts, as noted in the research undertaken by Jeffrey Frankel.<sup>19</sup>

The Treasury has a role to support Ministers in other aspects of their work. As such, theoretically the Treasury could face pressure to either make favourable judgements in forecasts, or present judgements in a helpful way. An IFI can help guard against this happening.

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<sup>19</sup> Frankel, J. (2011). Over-optimism in forecasts by official budget agencies and its implications. *Oxford Review of Economic Policy*, 27(4), 536-562. . <https://academic.oup.com/oxrep/article-pdf/27/4/536/1157600/grr025.pdf>

## Proposal to consider and comment on

It is proposed that the IFI comment on the Treasury's economic and fiscal forecasts so as to assess the credibility of the Government's fiscal strategy, adopting the key features noted below.

- ▶ The IFI would comment on the reasonableness of the key judgements and assumptions underpinning the economic and fiscal forecasts produced by the Treasury.
- ▶ The IFI should release its commentary on the Treasury's economic and fiscal forecasts at the same time, or soon after, the forecasts are released publicly.
- ▶ To achieve such a coordinated release, the IFI would require embargoed access to a preliminary forecast, details of the costings of measures, the final forecast, and enough time to scrutinise them.
- ▶ The IFI would be able to have sessions to question Treasury officials about the forecasts.

### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should comment on the Treasury's economic and fiscal forecasts?

## 4. Comment on long-term fiscal sustainability and key fiscal risks

Most economic and fiscal forecasts used in the Budget process cover a short- or medium-term period. Yet fiscal policy decisions to change taxes or spending levels, as well as emerging developments in the economy, can deliver long-term effects. “Fiscal risks” are things that are not in the central forecasts or projections because they have a less than 50% chance of happening; but which, if they did happen, could have a large impact on the public finances.

### International approaches

Of the OECD IFIs, 63% produce an analysis of long-term fiscal sustainability. This analysis covers the effect of various factors on public finances over the long term (often 30 years or more). Such factors include, for example:

- ▶ demographic trends
- ▶ the future costs of public policy and trends for future revenue and expenditure, and
- ▶ the impact of debt levels and debt financing.

Analysis of fiscal risks is not as widely performed internationally. The IMF has stressed the importance of fiscal risk analysis, including conducting “stress tests”.<sup>20</sup>

### New Zealand context

The PFA requires the Government to set long-term fiscal objectives covering at least 10 years. For an IFI to fulfil its role in assessing the Government’s fiscal strategy and targets, it will need to consider the outlook beyond the 5-year forecast period and examine the Government’s longer-term (10-year) fiscal projections (produced by the Government).

In addition, the Treasury produces an independent report on fiscal sustainability at least every four years. This *Long-term Fiscal Statement* (LTFS) considers the effect of demographic trends and current policy settings on key fiscal aggregates over a 40-year period. Currently, following the Treasury’s release of its LTFS the Controller and Auditor-General provide a comprehensive commentary on the LTFS.

The Treasury publishes a summary of specific fiscal risks as part of the twice-yearly *Economic and Fiscal Updates*.

The Treasury’s latest *Investment Statement*, published at least every four years, includes stress tests to illustrate the impact of different shocks on the public finances.

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<sup>20</sup> IMF (2016). Analyzing and Managing Fiscal Risks – Best Practices.  
<https://www.imf.org/external/np/pp/eng/2016/050416.pdf>

## Proposal to consider and comment on

Expanding on the proposed functions to assess and comment on fiscal strategy and the Treasury's forecasts, it is proposed that the IFI should also comment on long-term fiscal sustainability and key fiscal risks, adopting the key features noted below.

- ▶ The IFI would be required to comment on long-term fiscal sustainability as part of its role in assessing the Government's long-term fiscal objectives. This would include testing the reasonableness of the Government's 10-year fiscal projections.
- ▶ Beyond that, the IFI could comment on trends in fiscal sustainability and fiscal risks, building on its role commenting on the Treasury's economic and fiscal forecasts. This could include commenting on the Treasury's LTFS and *Investment Statement*, and the risk chapters in the Treasury's *Economic and Fiscal Updates*.

### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should comment on long-term fiscal sustainability and fiscal risks?

## 5. Produce relevant and related commentary on fiscal and budgetary matters

The expertise within an IFI may enable it to produce other relevant research or commentary that can help support good fiscal policy-making and help raise the quality of parliamentary scrutiny and debate.

### International approaches

Every OECD IFI produces positive analysis, defined as an objective consideration and presentation of facts using the IFI's best professional judgement. Within the OECD, the majority of IFIs do not produce normative analysis that exceeds this positive analysis. Keeping to positive analysis helps an IFI avoid any perception of partisanship.

- ▶ The OECD IFIs that do provide normative analysis (Austria, Belgium, Denmark, and Sweden) often do so within a limited scope. For example, they may make recommendations on how the Government can ensure fiscal policy objectives are met.<sup>21</sup>
- ▶ Some IFIs go beyond this. For example, the IFI in the Republic of Korea recommends ways to improve government programmes.<sup>22</sup>

Many IFIs produce other relevant research.

- ▶ An IFI may do regular deep dives into specific areas of fiscal policy. For example, every two years the UK's IFI produces a report on welfare trends.
- ▶ An IFI may take the initiative to produce analysis. One recent example is the Irish PBO's paper on Gender Budgeting.<sup>23</sup>

### New Zealand context

The other roles performed by IFIs, as well as the expertise of their staff, mean they are likely to be well placed to provide supplementary analysis. New Zealand has relatively few other institutions that can produce such research and analysis. However, these other roles may risk drawing the IFI into partisan discussions.

### Proposal to consider and comment on

It is proposed that the IFI will be able to produce related commentary and research on fiscal and budgetary matters. It is proposed that this research should not go beyond positive analysis. The specific nature of the research and analysis that can be produced will be developed further.

#### What do you think?

- ▶ Do you agree that the new Independent Fiscal Institution should be able to produce other relevant research on fiscal and budgetary matters?

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<sup>21</sup> OECD (2017). Designing effective independent fiscal institutions.

<sup>22</sup> IMF (2013). The Functions and Impact of Fiscal Councils.

<sup>23</sup> Irish Parliamentary Budget Office (2018). The Gender and Equality Budgeting pilot in the Revised Estimates for Public Services.

# 7 What factors make an IFI successful?

Some IFIs were established over 30 years ago. These institutions – and some of the more recently established institutions – offer lessons to draw on when establishing an IFI. After examining the experiences of 18 IFI case studies, in 2014 the OECD endorsed 22 principles for IFIs.<sup>24</sup> These principles underpin a number of key success factors, as outlined below.

## 1 Broad political support and institutional credibility

An IFI should have wide support across political parties when established.

## 2 Clear mandate

The legislation should clearly state the purpose, core mandate and key functions.

## 3 Independence

Independence and non-partisanship are crucial.

## 4 Access to information

The IFI must have ready access to all government and other official documents required to carry out its functions effectively.

## 5 Transparent governance arrangements

The IFI's governance structure should be clearly set out in legislation.

## 6 Adequate resources, guaranteed from the budget

The IFI's resources should match and meet its mandate and tasks.

## 7 Transparency and strong relationship with the media

Every IFI report and analysis should be published in the institution's own name.

## 8 Accountability and oversight

The IFI's analytical outputs should be linked with the annual budget cycle and presented to Parliament within a reasonable time, to allow effective parliamentary scrutiny and debate on the Government's budget and budget updates.

## 9 Legal framework

The IFI's legislation should be one component of a more comprehensive fiscal responsibility law (such as the PFA). This is because the IFI's mandate is intimately linked to the overarching fiscal policy framework.

### What do you think?

- ▶ What factors do you consider make Independent Fiscal Institutions successful?

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<sup>24</sup> OECD, Recommendation of the Council on Principles for Independent Fiscal Institutions, February 2014, available from <http://www.oecd.org/gov/budgeting/OECD-Recommendation-on-Principles-for-Independent-Fiscal-Institutions.pdf>

# New Zealand context

In addition to ensuring these factors necessary for success are met, there are some additional challenges to establishing an IFI in New Zealand.

## 1 Capability and capacity

New Zealand is a small country. Expertise in the skills required to operate an effective IFI is expected to be fairly limited domestically. Careful consideration is needed to ensure the IFI has both the capability and capacity to successfully fulfil its mandate.

The different roles and functions proposed for the IFI in section 6 require different skill sets. For example, providing financial costings for political party policies will require detailed modelling capability, whereas assessing compliance with fiscal targets and fiscal strategy will require expertise in macroeconomics and forecasting.

## 2 Access to information and support

For the IFI to successfully undertake the functions proposed in section 6, it will require access to information, data, modelling and other support from the public service. Providing such support will have resource implications for the public service, particularly for any departments supporting the IFI in producing financial costings for political party policies as this is a significant new function.

## 3 Ensuring value for money

Establishing a new institution has resource implications. The different roles and functions proposed in section 6 also have different levels of resource implications. As is shown in Figure 7 on page 24, it is expected that providing financial costings of political party policies will be more resource intensive than commenting on compliance with the Government's fiscal strategy and targets. The relative benefits and costs of the proposed roles and functions, including how they are delivered, are important considerations.

**What do you think?**

- ▶ What challenges do you consider will impact the establishment of a successful Independent Fiscal Institution in New Zealand?

# 8 What institutional form should the new IFI take?

The choice of specific institutional form for any new IFI depends primarily on its mandate and the functions it will perform (see section 6). Consideration also needs to be given as to whether an existing institution could undertake some, or all, of the proposed functions. This section briefly outlines:

- ▶ some criteria when considering institutional forms
- ▶ international models for IFIs, and
- ▶ potential New Zealand institutional models.

## Criteria for considering the institutional form of a new IFI

Some criteria when considering the design and operation of a new IFI include independence, credibility and transparency, knowledge and specialisation, and efficiency:

- ▶ **Independence** – a level of independence from the Government (Ministers and Cabinet) is a key and desirable feature of IFIs.
- ▶ **Credibility and transparency** – the new institution’s analysis needs to be non-partisan, and perceived as such. Fiscal transparency is an important objective of New Zealand’s fiscal policy framework, and any new IFI should enhance such transparency.
- ▶ **Knowledge and specialisation** – the focus of the new institution should allow it to provide authoritative and relevant analysis and allow for the accumulation of capabilities, knowledge, relationships and systems.
- ▶ **Efficiency**– the new institution’s design and ongoing operations should provide a continued focus on delivering value for money and should avoid duplication with other public sector functions.

A further consideration is whether a new institution is required. A new institution should only be created when the proposed functions cannot effectively be performed by an existing institution.

## International approaches

Internationally, IFIs exist in various institutional forms as outlined below.

### The “fiscal council” model

Over half of the OECD IFIs (56%) can be described as being under the authority of the Executive or are standalone (although they may, like the United Kingdom’s Office for Budget Responsibility, have dual lines of accountability to both the Executive and the Parliament). These institutions tend to follow the “fiscal council model”, although subsets are found even within this model. For example, some countries have chosen small, largely academic councils (eg, Sweden and Ireland).

The institutional independence of fiscal councils can vary between countries. Belgium provides an example of a fiscal council with more limited formal independence as the High Council of Finance is formally chaired by the Minister of Finance and has a secretariat under the authority of the federal government. An example of a fiscal council with stronger independence is the UK's Office for Budget Responsibility which is a legally separate arms-length entity with its own oversight Board.

In general, the focus of these fiscal councils is traditionally around fiscal policy monitoring and assessment, and economic and fiscal forecasting. They generally do focus on supporting Parliament through briefings or providing policy costings of election platforms or party political policies.

### The “parliamentary budget office” model

Another third (33%) of the OECD IFIs, particularly those that use a Westminster parliamentary system, follow the independent “parliamentary budget office model” (Australia, Canada, Italy, Republic of Korea, Mexico, and the United States) which focuses more on both assisting parliamentary oversight of the budget and supporting the work of the main budget select committee. Such PBOs are also more likely to have a costing role, particularly for party-political policies and election platforms. The traditional “fiscal council” functions of monitoring fiscal policy and fiscal rules, and having a role in economic and fiscal forecasting, are a lot less common in these PBOs.

### Other models

France and Finland have established autonomous units connected to their country's national audit institution. In 2014, Finland also established an Economic Policy Council made up of academics.

Several OECD IFIs also have links to the country's Central Bank. In Austria, Oesterreichische Nationalbank provides staff for Austria's Fiscal Advisory Council. In the Slovak Republic, the National Bank of Slovakia provides funding for the Council for Budget Responsibility.

### New Zealand context

In New Zealand, public entities perform a very wide range of functions in different environments, and with varying accountability arrangements. The State Services Commission provide extensive guidance on the different types of public entities.<sup>25</sup> Excluding commercial functions, Departments and Ministries, and Statutory Crown Entities are the two main institutional models.

- ▶ **Departments and Ministries** are the agencies closest to Ministers. They perform a wider range of functions and have a high degree of ministerial oversight. Performing these functions requires professional judgements. Ministers have ministerial power to direct a department to give effect to government policy. Statutorily independent functions can be included within Departments. For example, the Treasury is statutorily required to produce economic and fiscal forecasts using its best professional judgement independent of Ministers.

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<sup>25</sup> State Services Commission, Machinery of government - guidance and information, last updated 2 October 2017, available from <http://ssc.govt.nz/mog>

- ▶ **Statutory Crown Entities** (eg, schools and DHBs) are normally entities that perform their functions one step removed from direct control and input by Ministers. Ministers normally appoint Chairs and Boards, who in turn appoint the CEO. Performance standards are set by the Minister and the Board, and Crown Entities are normally monitored by a specific government department. The three different types of Statutory Crown entities are Crown Agents, Autonomous Crown Entities, and Independent Crown Entities.

Other institutional models also support the effective operation of Parliament in holding government to account. Two examples are the Officer of Parliament, and “Legislative” branch departments.

- ▶ **Officer of Parliament** has the primary purpose of checking on the Executive’s use of power or resources, and so plays a “watchdog” role. They are independent of the Executive (Cabinet and Ministers) and report directly to Parliament through the Speaker of the House of Representatives. The Speaker chairs the Officers of Parliament (Select) Committee which manages the budgeting and machinery issues (eg, appointments) for such institutions. New Zealand currently has three Offices of Parliament: the Controller and Auditor-General; the Office of the Ombudsmen; and the Parliamentary Commissioner for the Environment. Establishing an Officer of Parliament has specific requirements and is done rarely.
- ▶ **“Legislative” branch departments**, such as the Office of the Clerk and the Parliamentary Service, support the effective running of Parliament. The Parliamentary Service provides administrative and support services to members of Parliament, administers the funding entitlements of members, and must act in accordance with directions from the Speaker. The Office of the Clerk supports the House of Representatives and its committees by providing specialist legal, professional and administrative services, however, it does not receive directions from the Speaker about provisions of its services to the House or the performance of the Clerk’s constitutional role. These arrangements provide different levels of independence between the two agencies.

# New Zealand IFI's institutional form options?

The Government is yet to form a view on the institutional form for the IFI. The Government is seeking feedback on a number of questions and potential models. Table 2 outlines the different institutional form options that could work in the New Zealand context.

**Table 2 – Institutional form options in New Zealand**

Who is the new IFI accountable to?	Existing institutions	New institutions
<b>EXECUTIVE</b>	Part of the Treasury	New Department New Statutory Crown Entity (from least to most independent: Crown Agent, Autonomous Crown Entity, or Independent Crown Entity)
<b>PARLIAMENT</b>	Part of the Controller and Auditor-General Part of the Office of the Clerk Part of the Parliamentary Service	New "legislative" branch department New Officer of Parliament

**What do you think?**

- ▶ Given the proposed mandate and functions, who do you think the new Independent Fiscal Institution would be doing a job for and, therefore, who should it be accountable to?
- ▶ Do you think a new Independent Fiscal Institution is required, or can some, or all, of the proposed functions be performed effectively by an existing institution?
- ▶ What level of independence from Ministers do you think is required to achieve the new Independent Fiscal Institution's proposed mandate and functions?
- ▶ Do you have a preferred institutional model for the new Independent Fiscal Institution?

# Appendix – Proposals and Questions for Submitters

*When you answer each proposal, please comment on whether you agree or disagree with it. Also provide reasons why you agree or disagree.*

## 1 Why establish an Independent Fiscal Institution (IFI)?

### Proposal to consider and comment on

The key opportunities identified for improving New Zealand's fiscal policy framework through establishing an Independent Fiscal Institution are for it to:

- ▶ provide for independent evaluation and commentary on New Zealand's fiscal policy performance
- ▶ improve and support more effective parliamentary scrutiny of public finances and fiscal policy, and
- ▶ provide for independent costings of political party policies to better inform public debate.

### What do you think?

- ▶ What are the key opportunities for improving New Zealand's fiscal policy framework through the establishment of an Independent Fiscal Institution?

## 2 What is the purpose of the new IFI?

### Proposal to consider and comment on

The suggested overarching purpose of the IFI is to:

- ▶ *“Enhance fiscal responsibility, accountability and transparency, support public debate, and strengthen Parliamentary scrutiny.”*

It can achieve this by:

- ▶ *“Providing Parliament and the public with independent and non-partisan analysis and assessment on fiscal policy, economic and fiscal forecasts, and the financial implications of political party policy proposals.”*

### What do you think?

- ▶ What should the overarching purpose of the new Independent Fiscal Institution be?

### 3 What roles and functions should the IFI undertake?

#### Proposal to consider and comment on

The key functions proposed for the new IFI are to:

- ▶ provide financial costings of political party policies, including election manifestos, and any costings requested when government is formed
- ▶ comment on and assess compliance with the Government's fiscal strategy and fiscal targets
- ▶ comment on the Treasury's economic and fiscal forecasts
- ▶ comment on long-term fiscal sustainability and key fiscal risks, and
- ▶ produce relevant and related commentary on fiscal and budgetary matters.

#### What do you think?

- ▶ What should be the functions (and roles) for the new Independent Fiscal Institution?
- ▶ Are there any institutional design factors that should be considered to allow additional functions to be added to the Independent Fiscal Institution in the future?

### 3.1 Provide financial costings of political party policies, including election manifestos, and any costings requested when a government is formed

#### Proposal to consider and comment on

Key features of the proposed function to cost political parties' policies are that:

- ▶ The IFI can cost a political party's policy once it receives a request from that political party. So the IFI can action that request, the policy party must deliver to it a policy with a high level of detail.
- ▶ During a pre-election period, a political party will also be able to get the IFI to assess the total fiscal impact of its election manifesto.
- ▶ The IFI would not cost Government policies.
- ▶ A framework, including specific criteria and thresholds, needs to be developed to ration and prioritise costing requests across parties in an equitable way.
- ▶ The IFI will use its best professional judgement to provide a comprehensive costing that is an estimate of the fiscal impact of a policy (expenditure and revenue impacts). Where appropriate, this will include the direct behavioural impacts resulting from the proposal.
- ▶ Broader economic impacts could be included or commented on when those impacts are substantial (for example, impacts on GDP or CPI). The IFI would not assess wider impacts of the policy (such as impacts on wellbeing or on the environment), if these do not give rise to fiscal impacts.
- ▶ The IFI will need to develop a framework for producing policy costings that sets out how it will approach different types of fiscal impacts and the level of confidence that is required to incorporate these impacts into a costing.
- ▶ If a costing has been completed, and the policy publicly announced, then the costing should be made public to support transparency (either by the political party or the IFI).
- ▶ If the political party has not announced the costed policy, then the IFI could not release that costing unless the party agreed.
- ▶ During the negotiations to form a government, political parties can request the IFI to cost specific policies. The State Services Commissioner would continue to have a role in coordinating other requests for information that are not for financial costings.

#### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should undertake costings of political party policies?
- ▶ What options are available for the allocation and rationing of access by political parties to the new Independent Fiscal Institution for policy costings?

## 3.2 Comment on and assess compliance with the Government's fiscal strategy and fiscal targets

### Proposal to consider and comment on

Key features of the proposed function to comment on and assess compliance with the Government's fiscal strategy and fiscal targets are that:

- ▶ The IFI would be required to comment on the Government's yearly BPS and FSR. In particular, the IFI would assess whether the Government has appropriately met its obligations under the PFA.
- ▶ The IFI would achieve this by assessing whether or not the Government is pursuing its policy objectives in accordance with the PFA principles of responsible fiscal management.
- ▶ As part of this assessment, the IFI would also assess whether the Government is on track to meet (or has achieved) its short-term fiscal intentions, long-term fiscal objectives, and/or any other fiscal target the Government has set itself.
- ▶ The IFI would conduct ex-post assessments, including after the release of the annual audited Financial Statements of the Government.
- ▶ The IFI can request the Government clarify its interpretation of its fiscal strategy.
- ▶ The IFI should release its commentary on assessing the Government's fiscal strategy twice a year. This should occur at the same time, or shortly after, the Government releases its yearly BPS and FSR.
- ▶ To achieve such a coordinated release, the IFI would require embargoed access to these documents before they are released. To fulfil its assessment role, the IFI would also need access to the Treasury's economic and fiscal forecasts.

### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should comment on and assess compliance with the Government's fiscal strategy and fiscal targets?

### 3.3 Comment on the Treasury's economic and fiscal forecasts

#### Proposal to consider and comment on

Key features of the proposed function to comment on the Treasury's economic and fiscal forecasts are that:

- ▶ The IFI would comment on the reasonableness of the key judgements and assumptions underpinning the economic and fiscal forecasts produced by the Treasury.
- ▶ The IFI should release its commentary on the Treasury's economic and fiscal forecasts at the same time, or soon after, the forecasts are released publicly.
- ▶ To achieve such a coordinated release, the IFI would require embargoed access to a preliminary forecast, details of the costings of measures, the final forecast, and enough time to scrutinise them.
- ▶ The IFI would be able to have sessions to question Treasury officials about the forecasts.

#### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should comment on the Treasury's economic and fiscal forecasts?

### 3.4 Comment on long-term fiscal sustainability and key fiscal risks

#### Proposal to consider and comment on

Expanding on the proposed IFI functions to assess and comment on fiscal strategy (3.2) and the Treasury's forecasts (3.3), key features of the proposed function to comment on long-term fiscal sustainability and fiscal risks are that:

- ▶ The IFI would be required to comment on long-term fiscal sustainability as part of its role in assessing the Government's long-term fiscal objectives. This would include testing the reasonableness of the Government's 10-year fiscal projections.
- ▶ Beyond that, the IFI could comment on trends in fiscal sustainability and fiscal risks, building on its role in commenting on the Treasury's economic and fiscal forecasts. This could include commenting on the Treasury's LTFS and Investment Statement, and the risk chapters in the Treasury's Economic and Fiscal Updates.

#### What do you think?

- ▶ Do you agree with the key features for how the new Independent Fiscal Institution should comment on long-term fiscal sustainability and fiscal risks?

## 3.5 Producing relevant and related commentary on fiscal and budgetary matters

### Proposal to consider and comment on

It is proposed that the IFI will be able to produce related research on fiscal and budgetary matters, but that this research should not go beyond positive analysis. The specific nature of the research and analysis that can be produced will be developed further.

### What do you think?

- ▶ Do you agree that the new Independent Fiscal Institution should be able to produce other relevant research on fiscal and budgetary matters?

## **4 What are some of the key success factors and challenges facing the establishment of the IFI?**

### **What do you think?**

- ▶ What factors do you consider make Independent Fiscal Institutions successful?
- ▶ What challenges do you consider will impact the establishment of a successful Independent Fiscal Institution in New Zealand?

## 5 What institutional form should the IFI take?

### Proposal to consider and comment on

The Government is yet to form a view on the appropriate institutional form for the IFI. A number of potential institutional models could work in the New Zealand context. These models are outlined in the table below.

Who is the new IFI accountable to?	Existing institutions	New institutions
<b>EXECUTIVE</b>	Part of the Treasury	New Department New Statutory Crown Entity (from least to most independent: Crown Agent, Autonomous Crown Entity, or Independent Crown Entity)
<b>PARLIAMENT</b>	Part of the Controller and Auditor-General Part of the Office of the Clerk Part of the Parliamentary Service	New “legislative” branch department New Officer of Parliament

### What do you think?

- ▶ Given the proposed mandate and functions, who do you think the new Independent Fiscal Institution would be doing a job for and, therefore, who should it be accountable to?
- ▶ Do you think a new Independent Fiscal Institution is required, or can some, or all, of the proposed functions be performed effectively by an existing institution?
- ▶ What level of independence from Ministers do you think is required to achieve the new Independent Fiscal Institution’s proposed mandate and functions?
- ▶ Do you have a preferred institutional model for the new Independent Fiscal Institution?

## 6 Do you have any other feedback?

### What do you think?

- ▶ Are there any issues not discussed in this document that you would like to bring to the Government's attention at this stage?
- ▶ What submissions would you like to make on those issues?

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