

# The Treasury

## Submissions on Establishing an Independent Fiscal Institution Information Release

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# SUBMISSION

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Submission on: **Establishment of an Independent Fiscal Institution**

From: **Federated Farmers of New Zealand**

Date: 24 October 2018

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## **SUBMISSION TO THE TREASURY ON THE ESTABLISHMENT OF AN INDEPENDENT FISCAL INSTITUTION**

### **1. INTRODUCTION**

- 1.1 Federated Farmers welcomes the opportunity to make this submission to the Treasury on the *Establishment of an Independent Fiscal Institution* discussion document.
- 1.2 Federated Farmers has been a regular commentator on fiscal policy matters, including submitting on Budget Policy Statements and attending Budget Lock-Ups. Fiscal policy is an important issue for farmers. They have told us through our six-monthly Farm Confidence Surveys that governments should place high priorities on reducing the ratio of government spending and government debt as percentages of GDP and on ensuring that all government spending delivers strong value for money.
- 1.3 Federated Farmers strongly supports the current framework for fiscal policy as set out in the Public Finance Act. New Zealand is a world leader in fiscal transparency. The one area where we don't rank in the top echelon of countries is on budget oversight. An independent fiscal institution (IFI) would go some way to address this.
- 1.4 Federated Farmers publicly welcomed the establishment of an IFI when it was announced in Budget 2018. We believe it should be advanced as a high priority so it can be in place and operating well in advance of the next General Election (i.e., when political parties are formulating their election policies and manifestos).

### **2. RECOMMENDATIONS**

- 2.1 Federated Farmers recommends that:
  - (a) The establishment of an independent fiscal institution should proceed as a high priority and it should be in place and operating well in advance of the next General Election;
  - (b) The independent fiscal institution should be truly independent and be adequately resourced to do its job effectively;
  - (c) The independent fiscal institution should, in addition to the five key roles set out in the discussion document, be able to consider and comment on value for money from government spending and local government fiscal issues;
  - (d) The independent fiscal institution should be able to assess not just the costs of individual political parties' policies but also the fiscal sustainability of parties' suites of policies; and
  - (e) The independent fiscal institution should be established as an Officer of Parliament.

### 3. COMMENT ON PROPOSALS

#### Why establish an IFI?

- 3.1 The Government is proposing that an IFI would be set up to provide independent assessment on whether the Government is meeting its fiscal strategy and to provide independent costings of political party policies. Federated Farmers agrees that both are worthy objectives for an IFI.
- 3.2 With regard to fiscal strategy, the IFI should help by providing for an independent evaluation of performance against the strategy and by improving parliamentary scrutiny of public finances and fiscal policy. Although New Zealand's fiscal policy framework is high quality with strong reporting requirements, we think there are weaknesses in assessing value for money from government spending<sup>1</sup>.
- 3.3 Having independent oversight of performance against a government's fiscal strategy through an IFI would help maintain credibility – provided the IFI is truly independent and has sufficient resources to do its job effectively.
- 3.4 Meanwhile, the need for independent costings of political parties was brought into stark relief over the controversy surrounding the 2017 General Election. During the lead-up to the election the costs of many individual party policies were hotly contested as was the overall impact of policies, individually and in combination, on overall fiscal parameters (e.g., expenditure, revenue, surpluses, and debt).
- 3.5 Having independent costings would help provide certainty on the costs and fiscal impacts of party policies and the IFI should also be tasked with commenting on the fiscal sustainability of political parties' suites of policies (i.e., their overall 'manifestos').
- 3.6 To do this job effectively the IFI must be truly independent and have sufficient resources to do its job effectively, especially during the frenetic election campaign period. Another key proviso is the need for all political parties to buy-in to the concept and the process and, importantly, cooperate with the IFI and accept its costings.
- 3.7 Another key role for the IFI, especially important in an MMP environment, will be to make assessments of the costs of policies and their overall fiscal impact that arise during post-election negotiations to form a government. This is very important given how these negotiations can result in a mix of parties' policies being adopted. 2017 was particularly noteworthy in that respect.

#### Purpose of an IFI

- 3.8 Federated Farmers believes the proposed purpose set out in the discussion document is appropriate – that is its purpose should be to *“enhance fiscal responsibility, accountability and transparency, support public debate, and strengthen Parliamentary scrutiny”* and that 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.”*

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<sup>1</sup> For example, refer to the NZ Initiative's September 2018 report *Fit for Purpose? Are Kiwis getting the government they pay for?*

## **Roles and functions of an IFI**

- 3.9 Federated Farmers agrees with the five roles and functions for an IFI as proposed in the discussion document:
- Provide financial costings of political party policies, including election manifestos, and any costings requested when a 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.
- 3.10 In addition we believe it should have a role of considering and providing comment on the value for money of government spending.
- 3.11 At this stage we consider that extending its role further to (1) wellbeing and living standards analysis and assessment and to (2) broader macroeconomic issues should both be lower priorities.
- 3.12 However, Federated Farmers is supportive of an IFI being able to consider local government fiscal issues. Our extensive experience in local government annual and long-term planning leads us to believe that transparency and accountability of local government fiscal issues is considerably weaker than it is for central government. There have been longstanding concerns about the sustainability of local government funding and the rates system and these concerns have culminated in the Productivity Commission being directed to undertake an inquiry on the matter.

## **What factors make an IFI successful?**

- 3.13 Federated Farmers agrees with the nine factors that make IFIs successful listed in the discussion document:
- Broad political support and institutional credibility;
  - Clear mandate;
  - Independence;
  - Access to information;
  - Transparent governance arrangements;
  - Adequate resources, guaranteed from the budget;
  - Transparency and a strong relationship with the media;
  - Accountability and oversight; and
  - Legal framework.
- 3.14 We also agree with the 'New Zealand context' challenges discussed (i.e., capability and capacity; access to information and support; and ensuring value for money) but we think they can be overcome. The same questions were no doubt raised when the Productivity Commission was proposed but in practice the Commission has proven to be a highly credible and authoritative entity which has overcome all of these challenges despite being relatively small compared to its Australian counterpart.

## **What institutional form should the new IFI take?**

- 3.15 Federated Farmers would not favour an IFI being made a department or ministry or be part of a department or ministry – these are too close to the Government and would not be sufficiently independent. Although statutory Crown entities are one-step

removed from direct control and input by ministers, again we do not believe this model to be sufficiently independent.

- 3.16 Federated Farmers would prefer the IFI to be established as a 'watch-dog' Officer of Parliament, like the Controller and Auditor-General, the Office of the Ombudsman, and the Parliamentary Commissioner for the Environment. Establishing it as a legislative branch department, like the Office of the Clerk and the Parliamentary Service, would be more appropriate if the role of the IFI was confined to administrative and support services to Parliament. On balance we believe the IFI has more of the functions of a 'watch-dog' than either of those entities. The need for the IFI to be truly independent is another factor in favour of setting it up as an Officer of Parliament.

#### **4. ABOUT FEDERATED FARMERS**

- 4.1 Federated Farmers is a member based organisation that represents farmers and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farmers.
- 4.2 The Federation aims to add value to its members' business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
- Our members may operate their business in a fair and flexible commercial environment;
  - Our members' families and their staff have access to services essential to the needs of the rural community; and
  - Our members adopt responsible management and environmental practices.

ENDS