

# The Treasury

## Submissions on Establishing an Independent Fiscal Institution Information Release

March 2019

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## SUBMISSION FORM

# New Zealand's Fiscal Policy Framework

## Establishing an Independent Fiscal Institution

September 2018



# Establishing an Independent Fiscal Institution

## Your responses

Please write your responses into the template following this introductory page.

Please note:

- ▶ You do not need to answer all sections – just the ones for which you have information or comments you would like to contribute.
- ▶ Please submit your response to [submissions.ifi@treasury.govt.nz](mailto:submissions.ifi@treasury.govt.nz) by 5pm on **Wednesday 24 October 2018**.

Thank you for your time and effort on making your submission.

## 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

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### For organisations

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<b>Nature of your business:</b>	Health Sector Union
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<b>Contact person name:</b>	Lyndon Keene
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# 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?

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

##### Response:

First and foremost a strong focus on wellbeing embedded in the Public Finance Act should be a prerequisite of such an institution. The comments in this submission are based on an assumption that that is achieved. If it is not achieved in any meaningful way, then the establishment of an institution focused solely on fiscal matters would risk worsening the current policy imbalance where fiscal matters overshadow wellbeing concerns. Wellbeing functions of such an institution should be reflected in its title. Wellbeing policy needs a strong identity; it shouldn't be a subset of 'fiscal policy'.

We see the key opportunities of an independent wellbeing-fiscal institution as listed above but with the inclusion of wellbeing policy alongside fiscal policy.

In addition, an institution which includes a strong focus on wellbeing as well as fiscal policy presents an opportunity for greater quality and stability of policy over the long term. On the one hand it could help to avoid the costly damage of radical changes that are introduced without an evidence base, such as the introduction of market-oriented health policies of the 1990s. On the other hand it could help to avoid the policy inertia that can occur when political party policies remain broadly similar and the evident need for change is not questioned, such as the surplus bias present in the Public Finance Act 1989 (PFA). As the Council of Trade Unions points out in its submission, the PFA requires continuing balanced budgets or surpluses, even when a deficit that raises net public debt no faster than GDP growth would maintain net public debt at a constant proportion of GDP, once a

'prudent' level of debt has been reached.

As we have said in our submission on embedding wellbeing into the PFA, the Government's fiscal priority of reducing government debt (similar to the previous Government) seriously undermines the potential for improving wellbeing. An independent body examining the effects of such policies could promote a better informed public debate about how the Government's vision of wellbeing could be realised through a more balanced 'fiscal-wellbeing' approach.

## 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?

#### 2. What should the overarching purpose of the new Independent Fiscal Institution be?

##### Response:

Transparency and accountability need to be addressed to support public debate and strengthen parliamentary scrutiny, but the Government must hold full responsibility for its policies. We therefore suggest ‘responsibility’ be removed from the purpose (an amendment to our comment on the proposed institution in our submission on embedding wellbeing into the PFA). Consistent with our comments above, the purpose should include ‘wellbeing’ with ‘fiscal’.

This would not preclude the institution from evaluating the effects of ‘responsibility rules’, whether prescribed in legislation or self-imposed, taking into account the broader wellbeing effects as well broader economic and fiscal aspects. In fact we would consider it an important role for the institution.

We suggest the purpose could be achieved by:

*Providing Parliament and the public with independent and non-partisan analysis and assessment on fiscal and wellbeing policy, economic and fiscal forecasts, trends in wellbeing indicators, and the financial and wellbeing implications of government and political party policy proposals.*

We have added “government” in the above as we assume the main role of the institution would relate to the current government’s policy performance, as implied in the proposal overall.

### 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?

##### 3.a What should be the functions (and roles) for the new Independent Fiscal Institution?

###### Response:

For the remainder of the questions raised here (aside from one matter discussed in 3.b) we support all the points made in the Council of Trade Union's submission, but with the insertion of wellbeing aspects alongside all references to fiscal matters, consistent with our comments above.

##### 3.b 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?

###### Response:

The institution (as an office of parliament) should as much as possible have the in-house expertise to carry out its functions, not least for its role relating to wellbeing. Indeed, as commented on in our submission on embedding wellbeing in the PFA, we believe the functions of the institution should be extended to include wellbeing research, evaluation and advice on data development. To ensure sufficient expertise is available, we would support options to second experts from other government agencies and to commission research from universities, where we believe much of the expertise currently sits. As with the CTU submission, would not support contracting out services as it undermines the development of an effective and efficient public service.

### **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?**

**3.1.a Do you agree with the key features for how the new Independent Fiscal Institution should undertake costings of political party policies?**

**Response:**

See response to 3a.

**3.1.b What options are available for the allocation and rationing of access by political parties to the new Independent Fiscal Institution for policy costings?**

**Response:**

See response to 3a.

## 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 Budget Policy Statement (BPS) and Fiscal Strategy Report (FSR). In particular, the IFI would assess whether the Government has appropriately met its obligations under the Public Finance Act (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?

#### **3.2 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?**

**Response:**

See response to 3a

### 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?

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

**Response:**

See response to 3a.

### 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 Long Term Fiscal Statement and Investment Statement, and the risk chapters in the Treasury's Economic and Fiscal Updates.

#### What do you think?

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

**Response:**

See response to 3a.

## **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?**

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

**Response:**

See response to 3a.

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

**What do you think?**

**4.a What factors do you consider make Independent Fiscal Institutions successful?**

**Response:**

**4.b What challenges do you consider will impact the establishment of a successful Independent Fiscal Institution in New Zealand?**

**Response:**

## 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?

**5.a** 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?

Response:

**5.b** 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?

Response:

**5.c** What level of independence from Ministers do you think is required to achieve the new Independent Fiscal Institution’s proposed mandate and functions?

Response:

**5.d** Do you have a preferred institutional model for the new Independent Fiscal Institution?

Response:

## **6 Do you have any other feedback?**

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

**6.a** Are there any issues not discussed in this document that you would like to bring to the Government's attention at this stage?

Response:

**6.b** What submissions would you like to make on those issues?

Response: