

The Treasury

Submissions on Establishing an Independent Fiscal Institution Information Release

March 2019

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12 October 2018

| John Ryan

The Treasury

By email: submissions.ifi@treasury.govt.nz

SUBMISSION ON ESTABLISHING AN INDEPENDENT FISCAL INSTITUTION

The Treasury has issued a discussion document about establishing an independent fiscal institution (IFI) as part of New Zealand's fiscal policy framework.

The Controller and Auditor-General has a role to play in supporting a high-performing and accountable public sector, which in turn should enable Parliament and New Zealanders to have trust and confidence in the public sector. As such, we are interested in the part any IFI would play in strengthening that performance and accountability. We welcome the opportunity to comment on the proposals, the purposes of the IFI, and what form the IFI might take.

We note that the proposal for an IFI sits alongside other proposed changes to the State Sector Act 1988 and a Treasury proposal to amend the Public Finance Act 1989 to embed a wellbeing perspective into government objective setting and reporting. It is important that these reforms are considered together, as part of a suite of proposals. All three proposals are focused on improving the performance and accountability of the public service, in order to embed improved services and outcomes for New Zealanders. These aims align closely with the functions of my Office and we have prepared submissions on all three proposals. A copy of our submissions on the other proposals can be found at oag.govt.nz/media.

Our general support for the functions of the independent fiscal institution

The IFI, as proposed, is designed to enhance fiscal responsibility, accountability, and transparency, support public debate, and strengthen Parliamentary scrutiny. We support those aims. In our view, all five of the proposed functions¹ would complement the New Zealand's already strong fiscal reporting and public management framework. They would also support greater public trust and confidence through more informed public participation and more effective Parliamentary scrutiny.

The five functions may not be compatible

In our view, thought should be given to whether all of the proposed functions are compatible with each other. For example, the first function (providing financial costings of political party costings) may be inconsistent with the others, particularly with the second function (which is about commenting on compliance with the Government's fiscal strategy and targets). It is possible that the IFI might find itself carrying out an assessment of whether there has been compliance with the Government's fiscal strategy

¹ Those five proposed functions are (i) providing financial costings of political party policies, including election manifestos, and any costings requested when a government is formed; (ii) comment on and assess compliance with the Government's fiscal strategy and fiscal targets; (iii) comment on the Treasury's economic and fiscal forecasts; (iv) comment on long-term fiscal sustainability and key fiscal risks; and (v) produce relevant and related commentary on fiscal and budgetary matters.

which includes a policy it has previously costed and provided an opinion about. We note that the proposal excludes Government policies, and this might be to avoid conflicts between current policies and fiscal compliance. However, there remains the possibility of a conflict of interests for the IFI where policies have been costed in the past.

The international comparisons on pages 24 and 25 appear to show that other IFIs do not cover the full range of functions proposed for New Zealand's IFI. Figure 7 suggests that IFIs that provide costings and make forecasts do not usually also assess existing forecasts or monitor compliance with fiscal rules. In our view, this international evidence suggests that separating the costing and forecasting functions from the assessment functions is important, to ensure independence and avoid conflicts of interest.

The form of the independent fiscal institution

In our view, it would be useful to consider the institutional form the IFI might take and, specifically, whether all of the functions should be carried out by a single new organisation. The second, third, and fourth functions proposed are similar in nature (comment and assessment about compliance with fiscal strategy, economic and fiscal forecasts, and long-term sustainability and risks) and could be carried out separately from costing policies and producing research and commentary on fiscal and budgetary issues.

Independence is key

We support the proposal that the IFI be independent and non-partisan and agree that those elements are crucial to its success. As we experience in our work, the statutory independence that allows for an independent view provides the public with assurance and builds trust and confidence. That trust and confidence will be critical to the IFI being effective.

Success factors

The discussion document lists several factors that are seen as critical to the success of the IFI. We agree it is valuable to consider these factors as well as what functions the IFI will perform. As well as the independence and non-partisanship we have mentioned, we consider any IFI will need to be effective, efficient, and sustainable. That will in our view include the potential costs of establishing and maintaining the IFI functions not being excessive, the right mix of skills and access to specialist advice where appropriate, accountability to Parliament for its performance and protection from political or Executive influence, and functions which do not duplicate or interfere with other agencies' roles or responsibilities.

Similarity with the functions of the Auditor-General

As noted on page 20 of the discussion document, my Office has experience and established methods for providing independent analysis and advice to select committees to support the Budget examination, although this is currently focused at the individual Vote level. We also provide advice to the Finance and Expenditure Committee and other select committees during the annual review process and provide assurance and commentary over local authorities' long-term plans, local authorities' fiscal strategies and forecasts, and the Treasury's Long Term Fiscal Statement.

One means of separately implementing the second, third, and fourth functions² might be for those functions to be carried out as part of my role as Controller and Auditor-General. As well as experienced and established audit and review methodologies, we have under the Public Audit Act 2001 an independence and powers such as those described in part 7 of the submission as being needed for the IFI's success. The

² See footnote 1.

resources required and the details of any legislative framework to implement those functions (such as whether carrying out the functions would be discretionary) are points that could be discussed in the future. We believe establishing these functions within the OAG would allow for the IFI to be quickly established and to be both effective and efficient in its operation.

My Office has no mandate to consider Government policy. Providing costings of political party policies would compromise our ability to provide independent assurance about the cost-effectiveness of those policies in the future. And as noted earlier we believe there is a significant conflict of interest risk if all of the proposed IFI functions are located within the same entity.

Two final observations

At several points in the discussion document, reference is made to “political parties”, suggesting that political organisations outside Parliament could request policy costings. For reasons of practicality, some discretionary powers may be needed. We note the Australian model provides for parliamentarians to request policy costing.

Also, page 30 notes that the IFI “would not cost government policies”. The rationale for this statement is not immediately clear. This could also be taken as meaning an IFI is there to support only those in opposition, particularly given the importance of taking a consistent approach to costing policies.

Thank you again for the opportunity to comment on the discussion document.

Yours sincerely

[1]

John Ryan
Controller and Auditor-General