



**THE TREASURY**

Kaitohutohu Kaupapa Rawa

# **New Zealand's Fiscal Policy Framework: Establishing an Independent Fiscal Institution**

**Summary of submissions on the September 2018  
Discussion Document**

**March 2019**

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## Introduction

In early September 2018, the Government released a discussion document: *New Zealand's Fiscal Policy Framework – Establishing an Independent Fiscal Institution*.

The document outlined a proposal to establish such an institution (an 'IFI'). It was released with a submission form detailing the proposal on which public comment was sought. Views were in particular encouraged on the possible functions an IFI might undertake, and how it could be established.

The submission process closed in late October 2018. Twenty-five submissions were received from a range of public and private sector organisations, unions, individuals, and overseas bodies carrying out the roles of an IFI in their respective countries.

Submissions broadly agreed with the proposal included in the discussion document. Most submitters agreed that establishing an IFI would be an opportunity to improve New Zealand's fiscal policy framework. A minority of submissions questioned how much value an IFI would deliver given New Zealand's record of good fiscal performance.

There was a mix of views as to what functions the IFI should undertake. Three submissions were unsure that the IFI should be responsible for commenting on and assessing compliance with government fiscal strategy and fiscal targets, and for commenting on the Treasury's economic and fiscal forecasts. A number disagreed to some extent that the IFI should be responsible for policy costings, on the basis that policy costing is resource-intensive, would deliver uncertain benefits and could pose conflicts of interest with the fiscal council functions.

Some submitters were of the view that additional functions should be added, including extending consideration to wellbeing and other non-fiscal matters, playing a stronger role in fostering public engagement with fiscal processes, providing costings of central and local government policy proposals, evaluating the quality of government spending, and playing a greater role in monitoring fiscal management processes. It was also suggested that an independent 5-year review of the IFI could be helpful to determine its capability to extend its functions to additional areas.

Most submissions agreed the IFI should be accountable to Parliament and all agreed the IFI should be independent of Ministers. Many submitters' preference was for the proposed IFI to be a new Officer of Parliament.

The three most common factors determining the success of the IFI were suggested as being its independence, strong leadership, and the quality of its staff. The three most common challenges raised by the submissions were establishing a strong legislative framework, finding the quality of staff required for a successful IFI, and securing a sufficient budget.

## The proposals, the questions for submitters, and the responses

### 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.

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

Submissions broadly agreed with the opportunities for improving New Zealand's fiscal policy framework as identified in the discussion document. A number, however, proposed amendments or additions to these.

One submitter suggested that the wording of the key opportunities for improving New Zealand's fiscal policy framework should be amended to refer to evaluation of and commentary on 'fiscal policy *and* performance', to ensure a focus on both fiscal policy and performance against fiscal policy and targets. Another suggested that evaluation of 'fiscal policy performance' should explicitly include evaluating the quality of spending. One submitter identified a key opportunity as building into New Zealand's fiscal management system the capacity to identify and assess its weaknesses, and therefore to help ensure that all its elements are operating at the highest level of effectiveness.'

A number of submissions identified additional opportunities arising from the establishment of an IFI. These included to:

- Actively promote public debate and encourage substantive public engagement in fiscal policy and budgeting processes;
- Consider wellbeing opportunities in addition to fiscal policy opportunities;
- Have easily comparable costings and the benefit of additional alternative opinions on government policies; and
- Address biases in the fiscal policy framework and reduce information asymmetries while bolstering New Zealand's weak ex-ante oversight.

Two submissions questioned whether establishing an IFI would provide new opportunities to improve New Zealand's fiscal policy framework given that New Zealand already has skilled commentators, a low level of political corruption, and high fiscal transparency.

One submitter felt that the IFI should not produce evaluation and commentary on New Zealand's fiscal policy, on the basis that it may intrude too far into political decisions made by elected governments. The same submitter voiced concern that the proposed function to comment on fiscal policy performance is based on the view that current fiscal policy principles and rules as set out in the Public Finance Act 1989 (PFA) are optimal, with which they did not agree.

Two submitters felt that the IFI should not perform policy costings, on the basis that it would act as 'backdoor' funding for political parties, and that it would deliver uncertain 'value-add'.

## 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.”*

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

The majority of submissions agreed with the overarching purpose of the new IFI proposed in the discussion document.

Some suggested small amendments:

- Replacing ‘support public debate’ with ‘to promote better informed public debate’;
- Replacing ‘fiscal responsibility’ with ‘fiscal sustainability’;
- Adding ‘engaging the public more with fiscal policy and enhancing the general understanding of fiscal policy in New Zealand’;
- Specifying that the IFI should review the Government’s compliance with fiscal responsibility requirements and the Government’s fiscal performance over the short, medium, and long term;
- Adding that a purpose of the IFI should be to enhance New Zealand’s fiscal management system by providing independent published assessments of its strengths and weaknesses, both in design and in practice;
- Adding that a purpose of the IFI should be to enhance debate on monetary issues as well as fiscal issues;
- Adding that a purpose of the IFI should be to provide costings of government policy proposals (as well as political party policy proposals); and
- Adding wellbeing analysis to the commentary and costings produced by the IFI.

Two submissions suggested that the proposed functions of the IFI are suited to being held by two separate institutions. They distinguished between the proposed ‘commenting’ functions to enhance fiscal responsibility and the proposed ‘costing’ function of political party policies.

Another suggested that the respective functions may be incompatible because the IFI might find itself carrying out an assessment of whether there has been compliance with the government’s fiscal strategy that includes a policy it has previously costed.

### 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.

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

The majority of submissions agreed with the functions proposed for the IFI in the discussion document. Most submissions also suggested potential clarifications and extensions that could be made to the proposed functions.

Some submissions proposed specific changes to the drafting of the functions, including:

- Re-wording the functions to include 'reporting and providing advice and support to parliament', rather than 'providing commentary';
- Phrasing the second function to include 'comment on how the Annual Budget conforms with the fiscal responsibility principles and the fiscal objectives'.

A number of submissions suggested extensions to the proposed scope of the IFI functions. Some submitters suggested the IFI could consider *non*-fiscal outcomes as well as fiscal outcomes. Four specifically suggested that the functions of the IFI be extended to consider wellbeing outcomes and the Treasury's Living Standards Framework. Another wanted to see the IFI consider environmental, social, and governance measures as well. One wanted to see the IFI consider broader macro-economic policy (such as monetary policy and financial stability policy) in addition to fiscal policy.

Several submitters proposed extensions to the policy costing function. One submitter proposed an extension of this function to include financial costings and estimates for Government and Members' Bills. By contrast, two submitters suggested the IFI should not be responsible for policy costings at all.

Several also addressed the function to comment on the Treasury's forecasts. One submitter suggested that the IFI should also produce independent forecasts, to support its function to evaluate the Treasury's forecasts. Another submitter felt the IFI should not be obliged to comment on the Treasury's forecasts, and suggested this function be removed.

Other proposed extensions to the IFI's functions included:

- Assessing quality of spending (or 'value for money') and the performance of major government spending agencies;
- Considering local government fiscal issues;
- Preparing the Long-term Statements, as well as having a role in the Long-term Insights Briefings proposed in the (September 2018) State Sector Act reforms;
- Producing estimates on key fiscal variables at the time of the *Pre-election Economic and Fiscal Update* (PREFU);
- Monitoring the government's exercise of financial vetoes;
- Assisting select committees with recommending proposed changes to Votes during their examination of the Estimates;
- Evaluating the fiscal impact of Members' Bills and amendments;
- Actively promoting public debate and deliberation, by encouraging the public to engage more with fiscal policy.

### **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?**

There were a range of views on this, with a number of submitters feeling the IFI should be able to consider adding additional functions. Some suggested a design that would help with allowing additional functions to be added in the future. One considered that an IFI designed as an Officer of the Parliament would have the flexibility to, in the future, create additional functions.

Three submissions noted that ensuring as much in-house expertise as possible from the beginning would allow for additional functions to be added more smoothly, and would ensure the credibility of the IFI. Two commented that a 5-year external review of IFI operations could provide a useful mechanism for determining whether it could or should take on additional functions, while also providing an opportunity for evaluating the independence of the institution.

### **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.

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

Of the submissions that commented on this, most broadly agreed with the features proposed in the discussion document.

There were a range of views on whether the proposed costings function should be extended to allow the IFI to cost government policy proposals. Six commented that costings performed by the IFI could be extended to cover government policies, as an opportunity to enhance the credibility of the government and ensure all costings are comparable. One submitter suggested that if government policies remain exempt, it should be made clear that costings of policies by the parties that make up government are *not* exempt. A number of submissions commented on the challenge of determining access to the proposed costings service, given limited resources. One identified the key challenges of IFI costings as managing the number and scope of requests – particularly during the election period; ensuring equal access to resources; and managing the trade-off between workload and quality.

Some commented on the question of who can request policy costings. One suggested the IFI should be able to cost a policy proposal, on its own initiative, rather than wait for a request to be made. Another noted there is an incentive for parties to deliberately not request a costing in an effort to avoid scrutiny. One suggested clarification on whether it is the party itself that must request costings, or whether costings can be requested by third parties.

Two submissions commented on the type of information the IFI should provide in its costing minutes, and the public communication of these minutes. One suggested the IFI should use wellbeing indicators and outline policies' distributional impacts. Another submitter felt the IFI should ensure its costings can be understood by the public, to effectively improve democratic accountability. The same submitter suggested the IFI employ GDP figures, CPI figures and average wages as measures for communicating results. Three submitters suggested the results and methodologies of IFI costings be made available to the public, potentially within a proactive release no more than 30 working days after delivery to the party, to ensure transparency and credibility.

Two submitters did not agree that the IFI should provide policy costings. One of these submitters considered providing policy costings would be resource-intensive, heavily reliant on assumptions, and result in minimal or uncertain 'value-add'. The other submitter suggested that providing policy costings would constitute 'backdoor' funding of political parties.

One submission noted further risks associated with the costings function. First, the IFI performing policy costings could crowd out private sector institutions and economic agencies that have previously costed political party costings. Second, political parties may ask the IFI to cost policies without the preliminary developmental work that would be required by a private sector institution (because the IFI would not be charging the party for use of the costing service).

### **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?**

A number of submissions preferred a 'rationing' approach to allocate political parties' access to the costing service. This would involve allocating the IFI's resources to political parties based on the size of the respective political parties. Specifically, one submitter proposed that parties receive a fixed budget proportional to its seats, and that the IFI charges for each costing. In the event of constrained resources, one submission suggested that requests could be prioritised by the relevance and magnitude of the costing's potential impact. Another considered that the principles for allocating access to costings should not be defined ex-ante, but instead should be defined by the IFI's leadership once the IFI is operational.

One noted that the allocation and rationing of policy costings would need a mechanism for new parties that are not currently in Parliament, and that, for this reason, allocation cannot be based on existing proportions in Parliament. It was suggested by a different submission that allocations be based on party membership. Another commented that, to ensure fair access, the allocation process would need to be balanced between governing and opposition parties.

One submission recommended considering the Broadcasting Act 1989 or the Members of Parliament (Remuneration and Services) Act 2013 as models to base the rationing of the costings service on.

## 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 a timely release of its commentary, the IFI would require embargoed access to Government documents before they are released. To fulfil its assessment role, the IFI would also need access to the Treasury's economic and fiscal forecasts.

### 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?

The majority of submissions agreed with the key features.

A number commented on how the IFI might manage its access to information. One suggested that, based on international experience, it might be helpful for the IFI to have explicit legislative power for obtaining access to relevant government data and information deemed necessary (by the IFI) for fulfilling its mandate. Similarly, another submission suggested a Memorandum of Understanding between the IFI and the government to set out the information requirements for each task, and to establish indicative timescales for receiving information. By contrast, one submission suggested that the IFI should not become a part of the day-to-day fiscal management process and should not have access to confidential information, as it risks undermining its independence.

There were a range of views on what the nature and extent of the IFI's commentary should be. Suggestions included re-wording the function to specify that the IFI provide 'advice and support', rather than 'commenting' on fiscal strategy and fiscal targets.

One submission suggested the IFI be authorised to assess and comment on the technical merits of the indicators the government has selected to specify its fiscal policy objectives. Another commented that – if the Estimates and Appropriation Act does not reflect the Budget Policy Statement – the IFI should also consider annual budget documents in addition to the government's fiscal strategy and fiscal targets.

A different submission noted that the *ex-post* assessment of the Government's annual Financial Statements by the IFI might require further thought and clarification. This is because, internationally, IFIs are generally involved in the *ex-ante* budget process, and an auditing institution has responsibility for *ex-post* assessments.

One submission recommended precisely specifying in law the nature of the checks by the IFI, noting that:

- The legal framework should plan for what happens in case the IFI considers the Treasury's forecasts are not realistic, or that the government is not being compliant with the PFA;
- The government should be granted a right to respond to the IFI's opinions; and
- A correction mechanism (forcing the government to react in case the IFI assesses that its policies are not or have not been compliant) could be envisaged in the medium term.

Five submissions raised specific concerns about the IFI commenting on the Government's fiscal strategy and targets. One concern was that the discussion document placed too much emphasis on balanced budgets, and did not recognise that deficits can be healthy for the New Zealand economy if they are spent wisely. Another submitter questioned the problem definition, because they considered the government is already sufficiently motivated to comment on and evaluate itself, while opposition parties are motivated to contest fiscal strategies and targets. Another concern was that commenting on the Government's fiscal strategy and targets would make it difficult for an IFI to avoid being accused of bias towards the elected Government or the Opposition.

Three submissions disagreed that the IFI should comment on a Government's fiscal strategy, on the basis that:

- The IFI may stray too far into judgements on political decisions which governments are elected to make;
- The IFI may not add value; and
- These functions are already sufficiently covered by other parties.

One submitter highlighted that they would reconsider their disagreement with this function once a wellbeing framework had been fully embedded into the fiscal responsibility principles in the PFA.

### 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.

#### 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?

The majority of submissions agreed that the new IFI should comment on the Treasury's economic and fiscal forecasts.

Submissions suggested that commentary on the Treasury's forecasts could include:

- Comparing forecasts across time to actuals;
- Commenting on the proposed fiscal stance;
- Evaluating the econometric models used to generate these forecasts;
- Commenting on the ability of the Treasury to measure and/or forecast wellbeing and alternative capital measures; and
- Giving 'advice and support' to Parliament on the Treasury's forecasts, rather than providing 'comments'.

It was also suggested that the IFI should have its own models and forecasts in order to comment more robustly.

A number of submissions commented on how the IFI might manage its access to information. One noted that commenting on the Treasury's forecasts will require the IFI to have full and direct access to the Treasury's models and data, as well as direct access to Treasury officials at the technical level. Another commented that, given that the information in the Treasury's economic and fiscal forecasts is sensitive, the embargo process will need to be carefully designed. The same submitter further noted that the IFI should not be given any opportunity to indirectly influence the forecasts prior to their being finalised, as this would erode the IFI's role as an independent evaluator.

Two submissions questioned whether IFI commentary on the Treasury's forecasts is necessary. They argued that there are already a number of competent commentators within New Zealand who provide this role and that giving such a role to the IFI could therefore be a poor use of limited resources. One submission also questioned whether the IFI should be compelled to comment, suggesting the IFI should only comment on economic and fiscal forecasts if it feels the need to.

Three disagreed with the IFI commenting on the Treasury's forecasts, on the basis that:

- The IFI should not have access to confidential information such as forecasting models;
- The IFI should not follow the fiscal council model, and commenting functions are normally overseen by a fiscal council; and
- Long-term forecasts have little to no value on account of unexpected events such as the September 2001 terrorist attack and the Christchurch earthquakes.

### **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.

#### **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?**

Submissions broadly agreed with the key features.

One submitter disagreed with this proposal because they believe the IFI should not follow a fiscal council model.

A number of submitters outlined issues the IFI should consider when commenting on long-term fiscal sustainability and fiscal risks, recommending that it should:

- Refer back to fiscal responsibility principles in commenting, to ensure that the long-term objectives are consistent with the principles;
- Be able to adapt its design in commenting on long-term fiscal sustainability across time; and
- Be aware that the information and commentary the IFI releases will likely be used by financial markets and rating agencies to assess New Zealand's risk profile.

Submissions suggested that IFI commentary on long-term fiscal sustainability and fiscal risks could involve commenting:

- On the technical merits of certain indicators, and on long-term government reports with economic or fiscal implications; and
- More on resilience than on whether forecasts have been achieved across time, given that long-term forecasts are generally not very accurate.

Some submissions suggested an extension to the IFI's role, in relation to this, by:

- Giving the IFI the role of preparing the long-term fiscal statements (currently prepared by the Treasury), including both fiscal and wellbeing projections, rather than simply commenting on these;
- Formally feeding the IFI's analysis of the Long-term Fiscal Statement and Investment Statement into parliamentary activities; and
- Having the IFI test a longer time period than the government's 10-year fiscal projection.

### **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.

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

Ten submissions supported the proposal for the IFI to produce other relevant research, on the basis that it would:

- Enhance the profile and credibility of the institution;
- Leverage the country's investment in the new institution; and
- Ensure the IFI has the scope to undertake work on its own initiative.

Some submissions commented on the nature of the IFI's relevant research, suggesting it should:

- Be of high quality and easily understood in order to ensure broad public accessibility; and
- Not provide 'normative' recommendations or take a political point of view in order to ensure that the IFI remains non-partisan and credible.

Three submissions gave examples of specific research they would like to see undertaken, including:

- Into the optimal configuration of fiscal and monetary policy at various points in the economic cycle;
- Into immigration, foreign ownership of the productive sector, and whether government deficits are inherently good or bad for an economy.

In addition to the ten supporting the new IFI in producing other relevant research, some submitters would support the role under certain conditions. Four submitters commented that while they agreed the IFI should produce research, they did not agree the research should support the development of policy advice, on the basis that this is the role of the public service. Two submissions commented that there needs to be stricter boundaries on what constitutes 'other relevant research', to ensure that the IFI does not stray beyond its purpose and possibly into the realm of elected decision-makers.

Three submitters disagreed that the IFI should produce other relevant research, on the basis of the importance of it maintaining a focus on its core functions and of ensuring it can dedicate its limited resources to in-depth investigation of fiscal management.

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

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

The submissions broadly agreed with the success factors of an IFI as outlined in the discussion document. Some noted further factors that would help ensure the success of a newly-established IFI:

- Having competent, high quality staff is essential, with one commenting that having staff with a range of views will support this;
- Having a strong degree of independence from Ministers;
- Strong leadership is necessary to inspire confidence, with one adding that the appointment process is essential to this;
- Having access to information that is unbiased, timely, and of high quality;
- Being able to communicate the outputs of the IFI effectively to the public, and in particular ensuring that the outputs of the IFI get public attention;
- Having a clear mandate will be helpful to the success of the new IFI;
- Having sufficient resources and funding;
- Having a high degree of transparency; and
- Being efficient and avoiding the duplication of existing roles.

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

The submissions broadly agreed with the challenges impacting on the establishment of a successful IFI as outlined in the discussion document. In addition, some submissions noted further challenges to the success of a new IFI:

- Establishing a strong legislative framework that is independent from the government of the day;
- Finding enough staff of a sufficient quality and with sufficient skills.
- Having an appropriately-sized budget, and sufficient resources to perform its proposed functions;
- Finding strong leadership;
- Ensuring that the IFI will have a balanced mandate;
- Having good communication with the public, and in particular having effective and informative output releases for the public;
- Having appropriate access to information;
- Properly assessing capacity, and adjusting capacity to surges in demand;

- Managing conflicts of interest within the IFI;
- Gathering political support for the IFI from across the political spectrum; and
- Effectively measuring the success of the IFI, and being able to communicate this success to the public.

## 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

### 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?

The submissions broadly agreed that the new IFI should be primarily accountable to Parliament. Many were also clear that the IFI should *not* be accountable to Ministers, or to the Treasury. One envisaged the direct ‘customers’ of the IFI as being political parties, party leaders, Members of Parliament (MPs) with proposals, backbench MPs, and authors of election manifestos – while also envisaging the indirect ‘customers’ to be the Treasury, the media, and the public. This submission also suggested that, for the purposes of independence, the IFI should have its own ‘oversight board’.

Two submitters requested that the accountability arrangements of the IFI ensure it is not restricted in the scope or content of its reporting and activity by a majority party’s influence within Parliament.

### 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?

The majority of submissions commenting on this felt that a new institution is required to effectively perform the proposed functions of the new IFI to:

- Avoid hierarchical cultures of existing institutions, which may diminish the visibility of the IFI;
- Provide a counterpoint to the Treasury as an existing agent of the Executive;

- Enhance independence and transparency within New Zealand's fiscal institutions; and
- Give a clear allocation of resources for the specific purposes of the new IFI.

Another consideration for having a new institution was the 'new' nature of the work that would be undertaken.

A number of submissions, however, commented that at least some of the proposed functions of the new IFI could be performed adequately by an existing institution. Two suggested that Parliamentary Services could supply analytical expertise to select committees. By contrast, one commented that the new IFI should *not* sit within Parliamentary Services, because:

- It is funded through Vote Parliamentary Service and baselines are approved by the Minister of Finance;
- The Parliamentary Services are not subject to the Official Information Act 1982; and
- Including the IFI within Parliamentary Services would require changes to be made to the Parliamentary Services Act 2000.

Four submitters suggested that the IFI could be located within the Office of the Controller and Auditor General (OAG) in order to avoid the costs and resourcing issues involved with setting up a new organisation. Two submissions did not consider the OAG a suitable location for the IFI on the basis that the analytical work and communication style of audit offices are different to those of successful IFIs. One submitter noted that the IFI should be sure not to duplicate the functions currently performed by the OAG (which already comments on each Statement on the Long-Term Fiscal Position).

One submitter suggested the Finance and Expenditure Select Committee (FEC) could be allocated more resources in order to perform policy costings, with the new IFI being left to perform longer-term analysis and commentary. This submission noted that there is no guarantee the FEC would use the additional resourcing for the intended purpose.

One suggested the Office of the Clerk or the Parliamentary Library could be extended to fulfil the roles suggested for the new IFI. Another suggested the IFI could be established within the New Zealand Productivity Commission or a similar agency, in order to benefit from independence, expertise, and existing resourcing. One submission felt that the proposed functions of the new IFI could be performed by a commission of recognised independent specialist advisors.

### **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?**

The majority of submissions agreed the new IFI should have substantial, if not complete, independence from Ministers in order to meet its proposed mandate and to ensure its credibility and objectivity.

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

The majority of submissions commenting on this question preferred a new independent Officer of Parliament. Two submissions, however, suggested this may not be a suitable model. Of these, one suggested that the costing of political party policies is not suitable for an Officer of Parliament, because the costings may not directly entail scrutiny of the Executive on behalf of the House. Another noted that an Officer of Parliament will be suitable only if the IFI is given a mandate to publicly release in full its outputs.

Few submissions suggested alternative institutional models. Two specified that the new IFI should not be established under the Parliamentary Service. Another supported the establishment of the IFI by way of a new legislative branch department. Two submitters noted that an Independent Crown Entity may be functional if the 'right people' are appointed. One submitter commented that the IFI should not be a Parliamentary Budget Office, given that it is not intended to support select committees. This submission's preference was also for the IFI to not be a part of the Executive, suggesting that it should comprise a small, focused council of five to six part-time, highly-skilled people who contract in analysis and advice 'as required'.

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

### **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?**

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

Some submissions raised additional issues or recommendations that are not discussed in the discussion document. These included:

- Considering a different name for the IFI, such as 'The Parliamentary Commissioner for Public Finance';
- Developing the IFI in stages and beginning with only a small staff, in order to circumvent the risk of not performing well at size, before slowly extending the IFI's functions;
- Extending the scrutiny of the IFI to cover other aspects of macroeconomic policy, such as monetary policy and financial regulation, in addition to fiscal policy. For example, the IFI could be developed as a Macroeconomic Advisory Council;
- Requiring that the IFI be subject to an external review of its performance;
- Clarifying the degree of enforceability the IFI will have in the event that it reports that the Government is not complying with its fiscal strategy and/or the PFA;
- Suggesting that the IFI provide estimates of the average per household cost of implementing policies in order to ensure understandability and comparability;
- Recognising that, in the event an IFI is not created, stronger disciplines, based on transparency and accountability, are still needed; and
- Considering that PREFUs should not be the responsibility of the Minister under the PFA.

## List of Submitters

Submission Number	Submitter
1	Canadian Parliamentary Budget Office
2	The New Zealand Initiative
3	Lynne McKenzie
4	SageBush
5	Michal Horvath
6	The International Monetary Fund
7	John Ryan, Controller and Auditor-General
8	Reserve Bank of New Zealand
9	Professor Susan Newberry
10	[Anonymous]
11	Global Initiative for Fiscal Transparency
12	Kay Robertson
13	Michael Reddell
14	David Wilson, Clerk of the House of Representatives
15	Johnathon Dunn
16	Federated Farmers of New Zealand
17	Chartered Accountants Australia and New Zealand
18	New Zealand Council of Trade Unions Te Kauae Kaimahi
19	New Zealand Taxpayers' Union
20	[Withheld]
21	National Assembly Budget Office, Republic of Korea
22	Association of Salaried Medical Specialists
23	Business New Zealand
24	Austrian Parliamentary Budget Office
25	OECD