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Proposal for an Independent Fiscal Institution in New Zealand: Selected Issues*

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New Zealand's fiscal policy framework is regarded worldwide as a paragon of probity. Since the early 1990s, building on the State Sector Act, the Public Finance Act, and the Fiscal Responsibility Act, the authorities have consistently applied best practices, notably in budgetary transparency and accountability. These practices yield sound fiscal performance and contribute—along with the monetary policy framework, also pioneered by New Zealand—to macroeconomic stability and growth. As a further step toward consolidating these gains, the current Government has launched a proposal to create an independent fiscal institution (IFI) with the task of overseeing the conduct of fiscal policy.

On the face of it, the backdrop of sound fiscal policymaking seems to obviate establishing an IFI in New Zealand, given the absence of deficiencies that the institution is typically intended to remedy in many other countries. Such deficiencies have been endemic for decades in a number of advanced economies in Europe and North America: optimistic forecast bias, deficit bias, time inconsistency, procyclicality, and fiscal sustainability problems.[1] Thus, in New Zealand, the sound practices have been entrusted by the Public Finance Act to the Government through a system of self-certification—manifest formally in accountability to Parliament—which for the most part has worked fairly well. Over time, however, there is no guarantee that self-certification will always be reliable, given a latent conflict of interest that may surface when the government is exposed to political pressure. Moreover, as the memory of the poor track record in fiscal policy of the 1980s fades, a new generation of policymakers may indulge in complacency, resulting in an eventual erosion of policy credibility. Hence the argument for complementing the existing framework with appropriate independent oversight.

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[1] The case of Japan illustrates the need to adopt an IFI to cope with most of these deficiencies, which undermine the effectiveness of fiscal policy in stimulating economic activity and in containing public sector indebtedness; see Kopits (2016). Chote and Wren-Lewis (2013) and Balassone and others (2013) highlight some of these deficiencies as arguments for establishing an IFI in the United Kingdom and Italy, respectively.

The Government has announced the principal functions of the proposed IFI: assessment of compliance with the official fiscal strategy and targets; commentary on the Treasury's economic and fiscal forecasts; commentary on fiscal sustainability and risks; and provision of financial costings of policy measures proposed by political parties.[2] In line with these functions, the present note seeks to address a number of issues that may need further consideration for implementing these functions in a consistent and efficient manner with a view to ensure the effectiveness of the IFI. Specifically, these issues are discussed under the five headings: preparation and establishment of the IFI, institutional setup, functions, resources, and communication. To this end, relevant lessons are drawn from the international experience, in the light of the well-known OECD Principles for Independent Fiscal Institutions.[3] Country references are illustrative examples; they are not intended as an exhaustive list or group of IFIs. Some of the references are of a tentative nature insofar as the mentioned institutions are young and evolving, to be regarded as work in progress.

Preparation and establishment

Most OECD member countries have established IFIs in response to the recent financial crisis and/or to prevent a looming crisis. In these circumstances, the government agreed quite readily in setting up a rules-based fiscal framework and including an IFI, often under international pressure (Italy, Spain), and in some cases, as part of a foreign-supported adjustment program (Greece, Ireland, Portugal)—without sufficient preparation and domestic political ownership—which may doom the institution from the outset.[4] By now, in the European Union, practically all member countries have created an IFI; within the euro area, this has become an obligation under a directive of the European Parliament. The upshot is that not all IFIs in the Union meet the OECD Principles[5] and many of them are vulnerable to unwarranted criticism from various quarters, including the government. By contrast, a much more promising alternative is to establish a "home-grown" and "home-owned" IFI, as envisaged in New Zealand.

[2] See New Zealand Treasury (2018).

[3] See OECD (2013), elaborated on the basis of good practices identified in Kopits (2011).

[4] The lack of consensus led to the failure of the initial version of the institution in Greece and Peru, established under external pressure.

[5] As noted below, there are a number of IFIs, which fail to meet partially or fully the principles of independence (Belgium), nonpartisanship (Austria, Germany), adequate resource endowment (Finland, Ireland), or transparency (Hungary 2.0), owing largely to mere formal compliance with an external requirement and to lack of domestic ownership.

In other words, ideally, an IFI should be proposed and prepared on solid technical grounds, subject to sufficient debate in the legislature and the public at large. This involves a steady dissemination of information, request for submissions from potential stakeholders, open hearings in parliament, as well as interaction of considered opinions in the media. Such a process is likely to achieve a wide consensus across political parties[6] and various interest groups, which is key to a long-lived, effective, and nonpartisan institution. A notable example of preparation and consensus-building is the preparatory phase of the UK Office for Budget Responsibility. Although the Conservative Party took the initiative in proposing an IFI, the cross-party consensus for it was generated in the Treasury Select Committee of the House of Commons in the run-up to the 2010 elections. Following the elections, the coalition government established an interim OBR, chaired by an eminent public servant. Upon passage of enabling legislation, the OBR was granted permanent status and the present chair and members were appointed, following submissions, hearings, and debate within the Committee. The process was accompanied by technical preparation and fact-finding including from abroad.[7]

An alternative path to consensus-building could be observed in Austria, Belgium, France, and Germany, based on a strong corporatist tradition.[8] The fiscal council in each of these countries consists of a large mix of academics and representatives of various interest groups (political parties, organized labor, regional governments) whose views are reflected, roughly as a weighted average, in the comments and opinions of the council. Consensus is achieved relatively easily for a bipartisan IFI, but at a significant cost in terms of foregoing independent expert opinion and of ignoring the OECD Principle of nonpartisanship.

Institutional setup

In the design of an IFI, it is necessary to decide on two related dimensions. One dimension involves the legal status, conferring either institutional autonomy or affiliation to the IFI. The other concerns the choice between collective versus individual leadership. On both counts, a wide variety of arrangements can be found across countries.

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[6] It may never be possible to achieve full consensus, as for example in Portugal, where fringe far-left parties have been opposed to the establishment of the IFI for ideological reasons.

[7] In December 2009, while serving as chair of Hungary's Fiscal Council 1.0 (operating through 2010, until abolished and replaced by an institution 2.0 under total government control), the author was visited and queried by the 14 Committee MPs at the Council's headquarters in Budapest—in what was in fact tantamount to an informal off-site parliamentary hearing—followed by a request for a formal submission to the Committee; see Kopits (2010). A few months later, the future OBR chair and several Treasury staff members participated at an international conference organized by the Council in Budapest. Subsequently, in response to an invitation by the interim OBR chair, the author participated at a brainstorming session in London.

[8] For a critical view, see Kopits (2013).

The legal status of an IFI depends largely on administrative and legal tradition or historical precedent. In some countries, the IFI has an autonomous status (for example, Ireland, Portugal, Spain, Sweden, UK, Hungary 1.0), legally separate from any of the existing branches of government. In others, as a parliamentary budget office, the institution is formally affiliated to the legislative branch (Argentina, Australia, Brazil, Canada, US) or is under the tutelage of the executive branch (Belgium, Chile, Peru, Netherlands). In a rare case, the IFI is embedded in the national audit authority or court of accounts, apparently as part of the judiciary branch (Finland, France).

Actually, however, *de facto* independence of the IFI is not necessarily determined by its *de jure* status.[9] While most autonomous institutions have a record of tested independence, there is one exception that operates in fact under total government control (Hungary 2.0, unlike Hungary 1.0). Several government-affiliated institutions depend closely from the Finance Ministry (Belgium, Chile, Peru). Some parliamentary budget offices (Argentina, Brazil, Canada) have had to overcome challenges to their independence at the outset. Audit-related institutions (Finland, France) have yet to prove their independence from the sponsoring institution. The latter face a potential incompatibility between the backward-looking role of the audit institution and the forward-looking oversight responsibility of the IFI, which can undermine the credibility of both institutions, as the former is supposed to conduct *ex-post* audit of *ex-ante* fiscal policy analysis prepared by the latter.[10]

For the most part, IFIs are fragile institutions, as the government may test and erode their independence especially in the early years.[11] In general, though without guaranteeing operational independence, it is widely recognized that formal autonomy, without any affiliation, an IFI is more likely to achieve actual independence. Over time, any attempt to limit the independence of a well-established IFI may carry a high reputational cost for the government in charge.

[9] Key criteria that determine *de facto* independence include: appointment (and dismissal) of the head and members of the IFI; setting the agenda and work plan of the IFI; recruitment and status of the staff; and arm's-length relationship with the government, legislature, or any other institution.

[10] Moreover, in both countries, the meager resources of the IFI (4 staff members in Finland, 10 part-time council members and 5 part-time staff in France) place it at a disadvantage vis-à-vis the audit office. In an earlier setup in the UK, prior to the establishment of the OBR, the IFI role of fiscal policy oversight was assigned by the government to the National Audit Office. It was the failure of this arrangement—given a very narrow remit and inadequate staffing—that contributed to the creation of the OBR.

[11] In Canada and Sweden, the government threatened to cut the IFI's budgetary appropriation in retaliation for an unfavorable opinion. In Chile, the head of the IFI was removed without cause by an incoming government. In both Hungary and Venezuela, the Orban and Chavez governments, respectively, abolished the original well-functioning IFI.

The choice between collective and individual leadership is also partly determined by tradition and administrative or legal considerations—without a distinctive geographic pattern. Whereas the collective model, in the form of a fiscal council, is dominant in much of Europe and Latin America (Austria, Belgium, Brazil, Chile, France, Germany, Italy, Ireland, Peru, Portugal, Slovakia, Sweden, UK), the monocratic approach can be found elsewhere (Argentina, Australia, Canada, Finland, Korea, Lithuania, Netherlands, Spain, US).[12] The collective model is favored insofar as it may combine a diversity of expert views—much like a monetary policy council or committee—and avoid groupthink, which is achieved particularly if some of its members are non-nationals (Ireland, Portugal, Sweden).[13] On the other hand, the risk of bipartisanship, instead of nonpartisanship, tends to be greater in the collective model than in the monocratic model.[14]

A key feature of the institutional setup is the process of selecting, appointing and dismissing the leadership of the IFI, subject to a wide variety in approach. A common option (UK) is some variant of a government nomination (by the finance minister) of a candidate, subject to legislative approval (by the legislative treasury or budget committee). For IFIs affiliated to the executive branch, the leadership is simply appointed by the government, while for those affiliated to the legislative branch the head of the institution is elected by the legislative committee. It is far less common for the government to appoint the members of the council upon joint recommendation by the central bank governor and the audit office president (Portugal). Overall, a preferred approach to generate initial cross-party support for the institution and the appointment is to require election of council members by a majority of the legislative branch as a whole (Slovakia, Hungary 1.0). By the same token, to protect the independence of the institution, dismissal of the leadership should be solely with cause and subject to a majority decision by the appropriate legislative body.

Functions

The core functions assigned to the IFI under the Government's proposal are clearly specified in broad terms. But implementation, as in most countries, is ultimately left to the discretion of the IFI once established. International experience offers a number of lessons of possible relevance for New Zealand.

[12] It is for this reason that the term "fiscal council" refers to only a subset of the broader term "independent fiscal institution."

[13] In Portugal, the law mandates that two of the IFI's five members be non-Portuguese nationals. (The author is one of these external members.)

[14] This was the argument of the Bank of Italy in advocating the appointment of an individual head, rather than a council, whose members were seen to be selected on the basis of party affiliation—which seems to have happened.

Assessment of compliance with the fiscal strategy and targets

A major question that needs to be addressed by the IFI is whether to evaluate the government's compliance with its fiscal policy mandate is to be met in analytical and/or normative terms. Most IFIs (starting in the US) deliberately refrain from formulating proposals on the appropriate fiscal policy stance, on specific tax or expenditure measures, or on structural reforms. In fact, there are few countries (Austria, Belgium, Sweden) where the IFI is authorized to make policy recommendations—presumably whenever warranted by analysis. In some countries, the IFI has been accused (rather unfairly) by the government or by some members of parliament for overstepping the boundary between its analytical role and a political role.[15]

Thus, an IFI expresses a normative opinion at its peril. Typically, the government is sensitive to a critical evaluation and policy advice by the IFI which it ascribes to an apparent alliance with opposition parties. Less frequently, opposition MPs may react unfavorably to what is perceived as friendly policy recommendations by the IFI to the government. For this reason, the IFI exercises caution by limiting its comments and assessment of compliance with the government's strategy, targets and numerical rules, strictly on the basis of analysis of evidence and forecasts—as if "holding a mirror" to the face of the government. Anyway, a well-articulated assessment can still contain a camouflaged normative view, for example, on the need for the government to embark on a structural adjustment to meet budgetary rules or targets, or to improve the outlook for fiscal sustainability, but without creating the perception of having assumed an advisory role.

Comment on official macro-fiscal forecasts

Most IFIs are called upon to evaluate the government's annual macro-fiscal forecasts[16] over the short- to medium-term horizon. Whereas only a couple of IFIs have a mandate to prepare the official forecasts with a view to enhancing their credibility (Netherlands, UK), at the other end of the spectrum, the IFI simply opines in broad terms on the realism of the assumptions (mainly on GDP growth and interest rates) underlying the government's forecasts (Austria, Finland, Ireland), possibly comparing the government's forecasts with those of the central bank and other domestic and foreign institutions (France, Italy).[17] In others, the IFI uses the forecasts of another official independent institution as the basis of its assessment (Belgium, Sweden). But in the majority of countries (Canada, Korea, Peru, Portugal, Slovakia, Spain, US) the IFI prepares its own forecasts, which provide the basis for a numerical assessment of the government's forecasts.

[15] For example, in Sweden, the government accused the IFI for siding with the opposition in prescribing a countercyclical expansionary stance at a time of a looming recession. In Portugal, a MP of a major opposition party accused the IFI for issuing a biased favorable assessment of certain government policy measures.

[16] In EU member countries in the euro area, IFIs are required to evaluate and endorse the macroeconomic forecasts but not the fiscal forecasts—as a result of a compromise in the European Parliament.

[17] Presumably, in France, the absence of IFI forecasts helps avoid the conflict of interest that might arise within the context of the Court of Audit by having to audit its own forecasts.

Arguably, without its own forecasts, a narrative opinion tends to be rather bland and vague, likely to get lost in the public debate about the reliability of the government's forecasts. Yet forecasts prepared by an IFI should not enter a "beauty contest" with those prepared by other public, academic, financial and international institutions. Instead, they should be differentiated from other forecasts on two grounds. First, IFI forecasts must be entirely transparent by documenting fully all assumptions, data sources, and computational methodology, including macro-fiscal modeling. Second, contrary to other forecasts, the IFI should prepare conditional no-policy-change forecasts that serve as baseline rather than a prediction about actual future developments.[18] Accordingly, baseline forecasts do not lend themselves for an *ex post* evaluation of their predictive accuracy.

To complement its forecasting and costing exercises (discussed below), the IFI staff should conduct relevant research with a view to improving analytical tools that underpin the forecasts. Specific areas of interest include methodological issues (macro-fiscal structural models, DSGE models, intergenerational models, microsimulations, etc.) and sectoral issues (healthcare, public pensions, subsidy targeting, tax incidence, etc.). Alternatively, some research, especially on sectoral issues, can be outsourced to reputable academic and research institutions.

Comment on fiscal sustainability and risk

Several IFIs prepare long-term projections of public debt over several decades into the future. Key ingredients are trends driven mainly by productivity and demographics, assuming unchanged fiscal policies. Such projections provide baseline scenarios that can be useful to ascertain, as a first approximation, the long-term sustainability of public indebtedness. Periodic reruns (Slovakia, US, UK) may reflect improvement or deterioration in sustainability under changing circumstances over time. A closer approximation of fiscal sustainability can be obtained by constructing a comprehensive intertemporal balance sheet (including contingent assets and liabilities) to estimate the net worth of the public sector, attempted in very few countries (UK).

The New Zealand Treasury has been at the forefront in attaching a statement of specific fiscal risks in the annual budget bill, followed by a recent initiative at applying a stochastic approach to identifying and estimating general fiscal risks.[19] IFIs have yet to move beyond deterministic sensitivity tests and match this effort with stochastic methods (following the example of Peru, Slovakia, UK). This is an area where future progress is anticipated at both finance ministries and IFIs.[20] Eventually, this should be the basis for commenting on the country's resilience in attenuating the vulnerability to exogenous and endogenous shocks to the public sector and preventing the onset of a fiscal crisis.

[18] This approach is analogous to central bank conditional forecasts that assume unchanged interest rates over a two-year forecast period.

[19] This approach, applied in the context of the Crown Asset and Liability Management (CALM) framework, as a risk management tool across the comprehensive public sector balance sheet, is described in Appleby (2017).

[20] See the OECD survey of concepts and country practices in evaluating fiscal risks reported in Kopits (2014).

Costing of policy proposals

Real-time estimation of the budgetary cost (or scoring) of tax or expenditure proposals is the most resource-intensive activity of an IFI, whereby it is rarely adopted as a core function. Only a handful of IFIs (Australia, Canada, Korea, Netherlands, US, Hungary 1.0) perform costing of budget bills—either in full or on a selective basis—prior to legislative consideration and debate. In one country (UK), the costing function is performed by the government, subject to oversight by the IFI.[21] Among these countries, only two IFIs (Australia, Netherlands) provide costing of policy proposals of political parties during electoral campaigns, imposing an added, albeit transitory, burden on these IFIs.[22]

Further elements that need to be considered upon embarking on the costing function are the so-called pay-go rule and the debate on dynamic-versus-static scoring. Enforcement of the pay-go rule requires that each permanent tax reduction or expenditure increase proposed by the government or a member of the legislature be accompanied by an equivalent compensatory revenue increase or cost reduction proposal, over the medium term, to be reviewed by the IFI (US, Hungary 1.0). A contentious issue, debated extensively in the US, has been the shift from static scoring (cost estimates of a proposed policy measure under the assumption of no behavioral taxpayer response) to dynamic scoring (allowing for supply-side response by taxpayers) which by now is practiced by most IFIs charged with policy costing (Australia, Canada, Netherlands, US). The arguments in favor of incorporating estimates of the behavioral response are indeed compelling. [23]

Resources

Availability of adequate resources is a critical determinant of the IFI's ability to carry out its functions. These resources are comprised of staffing, access to information, and financial endowment. Obviously, inadequate level and composition of human and material resources can seriously undermine the effectiveness of the IFI.

[21] The OBR can request cost estimates of major policy proposals from the Treasury. The OBR, in turn, scores the estimate with a green, yellow, or red flag, depending on whether it is satisfactory, not available, or unsatisfactory, respectively.

[22] For an extensive discussion of the Dutch policy costing, including illustrative examples, see Bos and Teulings (2013). The Australian approach differs in that it is provided on a confidential basis.

[23] See a succinct analysis by Auerbach (2005).

Human resources must be commensurate with the tasks assigned to the IFI. A well-qualified professional staff, consisting mainly of economists and budget specialists, as well as a support team (possibly including legal and communication expertise) is necessary to tackle the above functions. The head and staff must all be full-time civil servant employees, without any other affiliation or employment in (or secondment from) the public or the private sector in order to avoid any potential conflict of interest and to ensure that the personnel is devoted to serving only the institution.[24] Beyond confidentiality considerations, a limited number of tasks—for example background research—can be outsourced.

Institutional experience suggests that generally, with a very limited costing function, the size of the staff should reach at least 20-25 employees. An extensive costing function warrants a staff of more than 100 employees (Netherlands, US). If the IFI is charged with surveillance of subnational governments, in addition to the national government, the staff size may well exceed 60 employees (Spain). If, on the other hand, most quantitative analysis is carried out by other independent public institutions, mainly the central bank and various research institutes (Belgium, Sweden), or the IFI is expected to formulate merely narrative opinions without the support of numerical estimates or forecasts (Germany, Hungary 2.0), then a skeleton staff suffices.

In order to fulfill its remit, the IFI must have routine access to comprehensive and timely information from each public sector entity. In a number of countries, the access had to be secured on a case-by-case basis—sometimes even where access was authorized by law—including through bilateral memorandums of understanding between the IFI and the corresponding government agencies (Australia, Canada, Slovakia, UK). In some cases, the IFI resorted to "name and shame" in public the government agency that refused to transfer information that the IFI was entitled to access (Portugal), or it requested a court opinion on its right to access information (Canada), or it filed and won a formal lawsuit to obtain access (Spain).

The operations of the IFI must be supported by adequate material resources, that is, separate physical facilities to confirm its independence, and above all, a budget to finance its activities. On the latter, it is particularly important to ensure that the budget be protected from incursions by the government when dissatisfied with the opinions of the IFI, as attempted in the past in some countries (Canada, Hungary, Sweden). An effective countervailing technique has been to obtain legislative authorization for a multiyear budget (UK), immune from the potential annual fluctuations. Yet another approach is to procure funding from the central bank (Austria, Portugal, Slovakia) that is subsequently reimbursed from the state budget.

[24] This runs counter to the view that IFI is to be limited in scope and composed of part-time personnel, which tends to undermine the effectiveness and possibly the independence of the institution (Germany, Ireland, Romania). Experience suggests that only council members may be permitted to have outside full-time positions in an academic or research institution.

Communication

Needless to say, it is imperative for the IFI to communicate in a transparent and steady manner its opinion and findings to stakeholders in order to gain their confidence, and in particular, to empower them as taxpayers. Communication to the government, the legislature, the financial markets, and most important, to the public at large, can take place through various means.

Although the IFI maintains an arm's-length distance from the government, it endeavors to inform the finance ministry about the analysis and findings shortly in advance of public disclosure and be open to any factual correction. Meanwhile, the IFI staff may have technical contacts with relevant government personnel to discuss data, developments and methodological issues of common interest. The IFI's reports on its costings, forecasts and opinions on the budget bill and any other fiscal proposals, including multiyear budgetary plans, should be transmitted on time for legislative debate and enactment. In addition, the head of the IFI should be available to appear at public hearings held by the relevant legislative budget and finance committee. This is not only a formal obligation for IFIs affiliated to the legislature, as parliamentary budget officials, but also expected for IFIs with no institutional affiliation (Portugal, Slovakia, UK). A less desirable alternative is to keep confidential policy costings between the IFI and the legislature or the political parties (Australia), as this violates the transparency principle and may erode the IFI's credibility. This consideration may well outweigh the potential benefit of confidentiality for the recipient political party. [25]

IFIs tend to prioritize outreach to the public at large. At a minimum, practically all IFIs have a website that provides detailed information about their structure, functions, and reports. But the principal vehicle to communicate with the public is the news media, by publishing all reports in full, holding press conferences, background briefings, and interviews by the IFI chair and members. In addition, the staff may hold technical seminars and issue working papers to disseminate its research on selected issues.

However, the confidence and support of the press and the public cannot be taken for granted.26 Indeed, there are a number of anecdotes that reveal how some IFIs (Portugal, US, UK, Hungary 1.0) had to work hard from the very outset to prove their usefulness, competence and nonpartisanship, before reaching a highly favorable reputation—occasionally following a confrontation with the government.27 Nonetheless, the analysis, estimates, scoring and forecasts of an IFI, can be challenged by a given government. Current examples can be found

[25] At some point, the IFI may be criticized of favoritism toward a particular party or MP by providing him or her policy advice hidden in the cost estimates.

[26] Except perhaps in the case of France, where the High Council of Finance is embedded in the Court of Accounts, the most reputable public institution in the country.

[27] In the US, at the outset, the CBO director was viewed as simply a partisan of the Democratic party in opposition to the Republican administration. It was only after a critical evaluation of the policies of the successor Democratic administration, that she could prove her nonpartisan credentials and gain widespread respect for the CBO's analysis. In the UK, early on, an important milestone in the OBR's activities was a critical assessment of the budgetary outlook whereby the government had to back down and revise its policy stance.

among young institutions (Italy) or well-established institutions (US).28 Yet in some circumstances an IFI head may find it necessary to "shy from the limelight," by couching a message in diplomatic terms, so as not to be perceived as upstaging, or condescending toward, political leaders.

Financial markets should not have preferential access to the IFI. But admittedly, transparent communication from competent and unbiased oversight helps the markets in forming a more reliable view of the country's fiscal stance and outlook, which in turn confers a collateral benefit to the government's credibility. As a consequence, the markets' typical response lags to ongoing policy developments may be shortened. It is well known that credit rating agencies tend to react slowly to a deterioration in outlook, in part not to be blamed for precipitating a financial crisis; symmetrically, they are likely to acknowledge too cautiously an improvement in policies.

Summing up

While some of the issues discussed provide lessons for formulating recommendations, others by their very nature yield options rather than a clear-cut prescription. It is in this spirit that we can summarize the following takeaways.

- The IFI should preferably be introduced over a phase-in period, involving not only technical preparation and consultations, but also, more important, political consensus to be achieved through legislative hearings and debate.

- Whereas there are arguments in favor on the one hand of individual leadership and the other of collective leadership, every effort should be made to ensure the nonpartisan expert professional character of the IFI, as opposed to a bipartisan approach.

- Among the various alternatives for the institutional setup, regarding affiliation with the executive or legislative branches, or with the state audit office, the unaffiliated model is likely to provide more protection to the IFI's independence; the least advisable alternative is affiliation to the audit authority.

- The IFI should refrain from openly normative opinions about the government's fiscal stance or expressing policy recommendations; its assessments of fiscal policy should be based purely on competent analysis of evidence and of outlook.

- Instead of commenting on the government's macro-fiscal forecasts by expressing subjective narrative opinions, the IFI should comment on the basis of its own short- to medium-term baseline forecasts, assuming no policy change over the forecast horizon.

[28] Recently, in the US, in his capacity as Director of the Office of Management of the Budget (now White House Chief of Staff), Mick Mulvaney stated that the CBO's evaluation of the recent health care bill was "absurd" and that "the days of relying in some nonpartisan CBO to do that work for us has probably come and gone."

- Similarly, IFI comments on fiscal sustainability and risk should be predicated on its own long-term baseline scenario, possibly subject to stochastic risk analysis.

- As financial costings of proposed policy measures tend to be labor-intensive, the most efficient approach is to evaluate selectively the government's own costings and limit actual costing to policy proposals of political parties mandated in the statutes of the IFI, but under criteria or thresholds subject to the discretion of the IFI.

- To support the evaluation of the government's macro-fiscal forecasts and long-term scenarios, as well as policy costings, the IFI could conduct relevant research, or alternatively, it could outsource research projects to reputable academic institutions.

- The IFI should be provided human and material resources, including a professional full-time staff, full access to information, and financing commensurate with the tasks at hand, secured over an extended period and set by an impartial third party, such as the central bank or the national audit authority.

- It is essential for the IFI to utilize multiple means of communicating its comments, assessments, forecasts and costings, along with attendant research findings, to the legislature (in time for debate and enactment) and to the public at large.

While the New Zealand authorities may draw on these takeaways from international experience, the actual design and operation of the IFI ultimately must be tailored to the country's needs, legal precedents, traditions, and aspirations. The IFI can be effective and met with success only if it is home-grown and home-owned.

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