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OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions

OECD PRINCIPLES FOR INDEPENDENT FISCAL INSTITUTIONS

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OECD PRINCIPLES FOR INDEPENDENT FISCAL INSTITUTIONS[1]

Background

In April 2011, delegates at the 3rd Annual Meeting of OECD Parliamentary Budget Officials and Independent Fiscal Institutions (PBO) tasked the OECD Secretariat with developing a set of principles for independent fiscal institutions. Subsequently, in June 2011, the PBO request was endorsed by the OECD Working Party of Senior Budget Officials (SBO). A first set of draft principles was presented to both bodies for comments and amendments in February and June 2012 respectively.

The *Principles* are informed by: PBO and SBO discussions[2]; prior OECD work on establishing and operating parliamentary budget offices; a survey of PBO network members; and new research on IFIs in OECD member countries. The OECD also formed a high-level Reference Group to guide the work on the *Principles*. Comprised of heads and deputy heads of IFIs in Canada, Korea, the Netherlands, Sweden, the UK and the US, and two former Chairs of IFIs in Hungary and Sweden, the Reference Group brought a critical practitioner's perspective to the text.

As part of the preparation for the *Principles*, the OECD also undertook a study of broadly defined IFIs in 15 OECD countries; in 2013 the study was expanded to include France and Finland. The resulting country notes provide a unique set of comparable descriptive data for:

1. Australia – Parliamentary Budget Office (PBO)
2. Austria – Government Debt Committee
3. Belgium – High Council of Finance
4. Canada – Parliamentary Budget Officer (PBO)
5. Denmark – Economic Council
6. Finland - Fiscal Policy Audit and Executive Office (in the National Audit Office of Finland)
7. France - *Haut Conseil des finances publiques*
8. Ireland – Fiscal Advisory Council
9. Korea – National Assembly Budget Office (NABO)
10. Mexico – Centro de Estudios de las Finanzas Públicas (CEFP)
11. Netherlands – Bureau for Economic Policy Analysis (CPB)
12. Portugal – Council on Public Finances (CFP)
13. Slovak Republic – Council for Budget Responsibility (CBR)

[1] Prepared by Lisa von Trapp of the OECD Budgeting and Public Expenditures Division in collaboration with a high-level Reference Group including: George Kopits, Member, Portuguese Fiscal Policy Council and former Chair of the Hungarian Fiscal Council; Kevin Page, Parliamentary Budget Officer, Canada; Young Jin Joo, Chief, National Assembly Budget Office, Korea; Coen Teulings, Director, Bureau for Economic Policy Analysis, the Netherlands; Lars Jonung, Chair, Swedish Fiscal Policy Council; Lars Calmfors, former Chair, Swedish Fiscal Policy Council; Robert Chote, Chair, Office for Budget Responsibility, United Kingdom; and Bob Sunshine, Deputy Director, Congressional Budget Office, United States. Thanks are also due to Barry Anderson, Mostafa Askari, Jon Blöndal, Frits Bos, Edwin Lau, Ian Lienert, Mario Marcel, and Joachim Wehner for their helpful comments.

[2] See:

G. Kopits, "Independent Fiscal Institutions: Developing Good Practices", *OECD Journal on Budgeting*, 11 (2011/3), pp. 35-52.

Related presentations and papers on independent fiscal institutions discussed during the annual meetings of OECD Parliamentary Budget Officials and Independent Fiscal Institutions are available at: www.oecd.org/gov/budget/pbo

14. Slovenia – Fiscal Council
15. Sweden – Fiscal Policy Council (FPC)
16. United Kingdom – Office for Budget Responsibility (OBR)
17. United States – Congressional Budget Office (CBO)

The country notes cover the economic and political context in which these various institutions were established, as well as their:

- legal basis;
- mandate;
- relationship with the executive and the legislature;
- budget;
- leadership and staffing;
- work programme;
- functions;
- access to information;
- transparency; and
- governance, advisory support, monitoring and evaluation mechanisms.

The country notes also include a brief overview of the role of the legislature in the budget process in each country. In drafting the country notes, the OECD Secretariat consulted extensively with officials in the selected IFIs, as well as with parliamentary officials, government officials, academics, and other stakeholders as appropriate. It is expected that this study will be expanded in future to include new institutions.

IFIs today

Although relatively few and novel world-wide, examples of independent fiscal institutions (IFIs) have existed for several decades. Today, a clear trend towards establishing IFIs is evident in OECD member countries. In the past decade alone, a diverse group of IFIs has sprung up in Korea (2003), Sweden (2007), Canada (2008), Hungary (2009 but effectively abolished as of 2011), Slovenia (2010), the UK (2010), and Australia, Ireland, Portugal, and the Slovak Republic (2011-12). Several countries are in the process of establishing new IFIs, while others are changing or enhancing the mandates of existing institutions. This trend has been spurred by the economic crisis, with governments, regional and international bodies, and academics looking to IFIs (often in concert with new or strengthened fiscal rules) to strengthen fiscal governance and to combat deficits and unsustainable debts. Moreover, these actors recognise the potential of IFIs to reduce informational asymmetries, educate the public, and raise the quality of public debate.

Setting a strict definition (avoided herein) for IFIs is complicated by the heterogeneity of existing institutions. IFIs may be under the statutory authority of the legislature or the executive branch of government. They vary considerably in terms of degree and type of independence, leadership arrangements, staff and budget size, and the breadth of their mandate and functions. Variation in their functions and/or the focus of their work is particularly linked to the individual country context in which they have been established. Despite this diversity, all IFIs share the same goal of acting to enhance fiscal discipline and to promote greater budget transparency and accountability.

In developing the *Principles,* and in choosing the institutions for the first associated study of IFIs in 15 OECD countries, we allow for a fairly broad definition which accommodates the diversity within the OECD area: a publicly funded, independent body under the statutory authority of the executive or the legislature which provides non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance. Critical to this definition is that IFIs have a forward-looking *ex ante* diagnostic task (in contrast to public audit institutions which perform an equally indispensible *ex post* task).

IFIs are not a panacea. Alternative institutional arrangements may serve some countries equally well. As such, the OECD *Principles* do not promote a blanket recommendation to establish IFIs in member countries, nor do they seek to be overly prescriptive in terms of IFIs functions. Rather, for those countries that have chosen to establish or are considering establishing an IFI, the OECD *Principles* seek to promote lessons and good practices that are firmly grounded in IFIs experiences to date. The *Principles* highlight the core values that IFIs seek both to promote and to operate under – independence, non-partisanship, transparency, and accountability – while demonstrating technical competence and producing work of the highest quality that stands up to public scrutiny. The *Principles* further aim to assist countries to address the challenges in designing an enabling environment conducive to the good performance of an IFI and to ensuring its long-run viability. The stakes are high. Despite their current growth in popularity, IFIs face real risks when they produce critical analysis, particularly in their early years. Yet the experience of countries with more long-standing institutions demonstrates that – even if they do not always agree – IFIs are viewed as important partners for finance ministries and legislative budget committees in promoting credible fiscal policies.

OECD Principles for Independent Fiscal Institutions

The proposed 23 principles below are grouped under nine broad headings: (1) local ownership; (2) independence and non-partisanship; (3) mandate; (4) resources; (5) relationship with the legislature; (6) access to information; (7) transparency; (8) communication; and (9) external evaluation.

1. Local ownership

1.1. To be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum. While a country seeking to establish an IFI will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed. Regional or international authorities may provide valuable support and protection.

1.2. Local needs and the local institutional environment should determine options for the role and structure of the IFI. Design choices may also have to take into account capacity constraints, particularly in smaller countries.[3]. The basic characteristics of an IFI, including specific protections, should be informed by the country's legal framework, political system, and culture. Its functions should be determined by the country's fiscal framework and specific issues that need to be addressed.

2. Independence and non-partisanship

2.1. Non-partisanship[4] and independence are pre-requisites for a successful IFI. A truly non-partisan body does not present its analysis from a political perspective; it always strives to demonstrate objectivity and professional excellence, and serves all parties. This favours that IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.

2.2. The leadership[5] of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit – including professional standing and relevant government or academic experience. Qualifications should include proven competence in economics and public finances and familiarity with the budget process.

2.3. Term lengths and the number of terms that the leadership of the IFI may serve should be clearly specified in legislation as should be the criteria and process for dismissal for cause. The leadership's term should optimally be independent of the electoral cycle. Independence may be enhanced by defining the term span beyond the electoral cycle.

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[3] Several countries (e.g. Ireland, Portugal, and Sweden) allow for non-nationals to serve as council members, thus increasing the pool of qualified candidates and reducing the risk of "groupthink". As such, this design choice may also serve to bolster independence.

[4] Non-partisanship should not be confused with bi-partisanship. Whereas bi-partisanship suggests a balance between political parties, non-partisanship necessitates an absence of political influence.

[5] The title may differ – director, president, or chair – depending on its design. The institution may be under individual or collective (council) leadership.

2.4. The position of head of the IFI should be a remunerated and preferably full-time position.[6] Strict conflict-of-interest standards, particularly for institutions with council members employed on a part-time basis, should be applied equally vis-à-vis other employment in the public or private sector.

2.5. The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.

2.6. Staff should be selected through open competition based on merit and technical competence and without reference to political affiliation. Conditions of employment should be along the lines of that of the civil (or parliamentary) service.[7]

2.7. To further enhance independence, the location of the IFI offices should be physically separate from both the executive and the legislative offices.

3. Mandate

3.1. The mandate of IFIs should be clearly defined in higher-level legislation, including the types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release.

3.2. IFIs should have the scope to produce reports and analysis at their own initiative. Similarly, they should have the autonomy to determine their own work programme within the bounds of their mandate.

3.3. Clear links to the budget process should be established within the mandate. Typical tasks carried out by IFIs might include (but are not limited to): economic and fiscal projections (with a short- to medium-term horizon, or long-term scenarios); baseline projections (assuming unchanged policies); analysis of the executive's budget proposals; monitoring compliance with fiscal rules or official targets; costing of major legislative proposals; and analytical studies on selected issues.[8]

4. Resources

4.1. The resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner. This includes the resources for remuneration of all staff and, where applicable, council members. The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies, such as audit offices, in order to ensure their independence. Multiannual funding commitments may further enhance IFIs independence and provide additional protection from political pressure.

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[6] There are exceptional cases in which a part-time position may be considered sufficient, for example if the IFI has a strictly defined and limited work programme or if another institution provides complementary functions which impact on the workload of the IFI. In Sweden, the Fiscal Policy Council can use the macro-fiscal forecasts prepared by another well-established independent agency, the National Institute of Economic Research.

[7] Given the small size of the majority of IFIs, staff may be provided with career mobility within the broader civil service. However, care should be taken to avoid conflict of interest.

[8] Other functions are carried out by well-established IFIs, such as costing of election platforms by the Netherlands Bureau for Economic Policy Analysis, or programme evaluation by the Korean National Assembly Budget Office.

5. Relationship with the legislature

5.1. Legislatures perform critical accountability functions in country budget processes. Regardless whether an independent fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature. These may include (but are not limited to): (1) all IFI reports are sent to parliament, preferably through the legislature's budget committee (or equivalent) and in time to contribute to relevant legislative debate; (2) appearance of IFI leadership or senior staff before the budget committee (or equivalent) to provide responses to parliamentary questions; (3) parliamentary scrutiny of the IFI budget; and (4) a role for parliament's budget committee (or equivalent) in IFI leadership appointments and dismissals.

5.2. The role of the IFI vis-à-vis parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. Preferably, the IFI should consider requests from committees and sub-committees rather than individual members or political parties. This is particularly relevant for those IFIs established under the jurisdiction of the legislature.

6. Access to Information

6.1. There is often asymmetry of information between the government and the IFI – no matter how well an IFI is resourced. This creates a special duty to guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals. Information should be provided at no cost or, if appropriate, sufficient resources should be provided in the IFI budget to cover analysis obtained through government actuarial services.

6.2. Any restrictions on access to government information should also be clearly defined in legislation. Appropriate safeguards may be put in place[9] as regards protection of privacy (for example, taxpayer confidentiality) and of sensitive information in the areas of national defence and security.

7. Transparency

7.1. Given that promoting transparency in public finances is a key goal of IFIs, they have a special duty to act as transparently as possible. Full transparency in their work and operations provides the greatest protection of IFI independence and allows them to build credibility with the public.

7.2. IFI reports and analysis (including a full account of the underlying data and methodology) should be published and made freely available to all. As noted in 5.1, all IFI reports and analysis should be sent to parliament in time for legislative debate [10] and the leadership of the IFI should be given the opportunity to testify before parliamentary committees.

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[9] For example, security clearance for IFI staff.

[10] For example, the U.S. Congressional Budget Office provides estimates early in the legislative process—kept confidential until the legislative proposal becomes public—in order to help craft legislative proposals.

7.3. The release dates of major reports and analysis should be formally established, especially in order to co-ordinate them with the release of relevant government reports and analysis.[11]

7.4. IFIs should release their reports and analysis in their own name—including through their own independent website—rather than provide them to other parliamentary or government institutions who in turn would release them.

8. Communications

8.1. IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders. Given that the influence of IFIs in fiscal policy making is persuasive (rather than coercive by means of legal sanctions or other punitive measures), media coverage of their work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters.

9. External Evaluation

9.1. IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.

[11] Care must be taken to avoid the perception that the timing of the release of the IFI reports favours the government or the opposition parties.