The Role of Independent Fiscal Institutions

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What is an Independent Fiscal Institution?

- “The term Fiscal Council is generally used to describe an institution, funded by but independent of government, which provides public advice on fiscal issues.” (Wren-Lewis, Oxford University)

- “A fiscal council is a publicly funded entity staffed by non-elected professionals mandated to provide non-partisan oversight of fiscal performance and/or advice and guidance on key aspects of fiscal policy.” (OECD 2010).

- “Independent fiscal institutions are defined as non partisan public bodies, other than the central bank, government or parliament that prepare macroeconomic forecasts for the budget, monitor fiscal performance and/or advise the government on fiscal policy matters. These institutions are primarily financed by public funds and are functionally independent vis-à-vis fiscal authorities. Courts of Auditors are included in this definition if their activities go beyond the accounting control and cover any of the tasks mentioned above. “(European Commission)
Why the increased interest in such institutions?

Independent Fiscal Institutions are seen as a way to:

– Address bias toward spending and deficits, and more generally enhance fiscal discipline

– Raise quality of debate and scrutiny

– Promote transparency and accountability
Growing number…

• Appears to be a trend in OECD countries (and globally), often part of a broader package of reforms.

• Push from European Commission, IMF and OECD.

• More recently established institutions include:
  – Canada - Parliamentary Budget Office (2008)
  – Hungary - Fiscal Council (2009) but effectively abolished as of 2011
  – UK - Office for Budget Responsibility (2010)
  – Australia - Parliamentary Budget Office (2011)
  – Institutions planned for Greece, Ireland, and Portugal
...but great diversity

- Diverse institutions, country-specific context extremely important, often difficult to compare across countries
- Degree and type of independence varies. May be under Parliament (ex. US, Korea, Canada, Australia...) or under the Executive (ex. the Netherlands, Sweden, UK)
- Size (250 staff in the US CBO, 170 in the Netherlands’s CPB, 135 in Korean NABO, 15 in the UK OBR, and 13 in Canada’s PBO)
- Different functions (ex. around forecasting)
Examples: Legislative Agencies

US Congressional Budget Office (CBO)
- **Established in 1974** as part of the *Congressional Budget and Impoundment Control Act* by which Congress sought to reassert its constitutional “power over the purse” and create a more coherent congressional budget process.
- 250 staff, 45.2M USD (2010 budget).
- **Mandate**: to provide nonpartisan, objective budgetary and economic information and analysis to the US Congress.
- The CBO offices are physically separate from the US Congress.

Canadian Parliamentary Budget Officer (PBO)
- **Established in 2008** under the *Federal Accountability Act* in response to concerns around the credibility of government economic and fiscal forecasts, cost overruns in government programs, and transparency issues.
- 13 staff, 2.8M CAD (2010 budget)
- **Mandate**: to provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.
- Independent mandate but affiliated with (and located in) the Library of Parliament.
Examples: Legislative Agencies con.

**CBO**
- Director is appointed by the legislature for a renewable term of 4 years. Director appoints all other staff.
- Legislative Committees and subcommittees, and individual members of Congress may request reports and analysis. The CBO may also undertake work at its own initiative.
- The Budget Committees’ requests are given priority, both houses are served equally, and parties in Congress have equal access to its analytic work.
- Regularly testify before committees (35-40 x per year)
- All of the CBO’s work is available to the public.

**PBO**
- The Parliamentary Budget Officer is appointed by the Prime Minister for a renewable term of 5 years. S/he serves at the pleasure of the Prime Minister. Hiring authority for all other staff lies with the Parliamentary Librarian, but can be delegated.
- Legislative Committees and subcommittees, and individual members of Congress may request reports and analysis. The PBO may also undertake work at its own initiative.
- Requests from the Finance Committees in both houses and the Public Accounts Committee are given priority and both houses are served equally.
- Regularly testify before committees (around 12 x per year)
- All of the PBO’s work is available to the public.
Examples: Legislative Agencies con.

CBO

Core work:
- Budget and economic outlook
- Analysis of the President’s Budgetary Proposals
- Cost estimates (spending or revenue effects of specific legislative proposals)
- Budget options
- Long-term budget outlook
- Unauthorized appropriations and expiring authorizations
- Analytic studies
- Review of CBO’s activities under the Unfunded Mandates Reform Act
- Reports under the Troubled Asset Relief Act (2008)

PBO

Core work:
- State of the Nation’s Finances: independent budget projections; estimates of the federal government’s structural budget balances; budget balance risk analysis and a long-run fiscal sustainability report.
- Estimates Review: Expenditure analysis tracking the implementation of fiscal stimulus measures including: impact assessment; reporting standards; flow of funds analysis; lapse forecasting and reports on the risk associated with the government’s spending restraint.
- Economic Trends: analysis on a range of issues including: Canada’s output gap; labour markets; current economic indicators; Canada’s experiences with fiscal rules and consolidations; and the risk of deflation.
- Financial Analysis: costing of a range of issues including: Canada’s military engagement in Afghanistan; Aboriginal education infrastructure; crime legislation; procurement of fighter jets; G8/G20 meeting security; and several Private Member Bills.
Examples: Executive Agencies

UK Office for Budget Responsibility (OBR)

- **Established in 2010** under the *Budget Responsibility and National Audit Act* (remit defined in the *Charter for Budget Responsibility*) in response to deficit bias concerns.
- 15 staff, 1.75M GBP (2010 budget)
- **Mandate**: to examine and report on the sustainability of the public finances.
- OBR is part of the executive but is a legally separate arms-length entity, with its own oversight board. A range of mechanisms built in to ensure appropriate scrutiny by Parliament.

Swedish Fiscal Policy Council (FPC)

- **Established in 2007** as part of the budget bill. Complements reforms to the fiscal policy framework following the fiscal crisis in the 1990s.
- 8 Part time Council members and 4 full time staff, 7.55M SEK (2010 budget)
- **Mandate**: to provide an independent evaluation of the Swedish Government’s fiscal policy.
- Agency under the Government.
**Examples: Executive Agencies con.**

**OBR**

- The Chairman is appointed by the Chancellor of the Exchequer with the consent of the Treasury Select Committee of the House of Commons for a 5 year term, renewable once. Chairman appoints all other staff.
- The Chancellor of the Exchequer and individual Members of Parliament may request additional analysis. The OBR may also undertake work on its own initiative.
- Requests from the Chancellor of the Exchequer are given priority.
- Occasionally testify before the Treasury Committee (currently around 2-3 x per year).
- All of the OBR’s work is available to the public.

**FPC**

- The Chairman and the 7 other members of the FPC are appointed by the government (members will be reduced to 6 in July 2011). The Chairman is appointed for a 6 year term renewable once for 3 years (other members for three-year renewable terms). Council members are mainly drawn from academia and work part time. Chairman appoints other staff.
- The FPC undertakes work on its own initiative. Government can request additional analysis but has not done so in practice.
- Occasionally testify before parliamentary committees (2-3 x per year).
- All of the FPC’s work is available to the public.
Examples: Executive Agencies con.

**OBR**

*Core work:*

- Economic and fiscal forecasts, including scrutinising the costings of policy measures as part of the Budget (2x per year)
- Assessment of the probability of meeting the forward looking fiscal mandate (2x per year)
- Assessment of forecast accuracy
- Analysis of the long-term sustainability of the public finances

**FPC**

*Core work:*

- Assess the extent to which the Government's fiscal-policy objectives are being achieved, including long-run sustainability, the budget surplus target, the ceiling on central government expenditure and that fiscal policy is consistent with the cyclical situation of the economy.
- Evaluate whether the development of the economy is in line with healthy long-run growth and sustainable high employment.
- Examine the clarity of the Government's budget proposals and review its economic forecasts and the economic models used to generate them.
- Stimulate public debate on economic policy (for example, organising conferences and publishing papers on various aspects of fiscal policy).
- Publish an annual report presented to Government by 15 May. The annual report is used by the Swedish Parliament in evaluating the Government's fiscal policy.
Challenges

• Guaranteeing independence and long-run viability *(non-partisanship, technical skill, part of a larger fiscal framework, appointment process for Director, multi-year funding...*)

• Ability to carry out truly independent analysis *(access to information, maintaining cooperative relationships without compromising independence...*)

• Demonstrating impact *(relationship with the media...*)
Upcoming Work

• At 3rd Annual Meeting of Parliamentary Budget Officials (PBO) in Stockholm in April 2011, OECD Secretariat was asked to develop a set of principles for independent fiscal institutions based on lessons of experience and commonly agreed good practices.

• Principles will be supplemented by a short note on each relevant institution which highlights specific country context.

• Formed an informal Reference Group of heads and deputy heads of independent fiscal institutions to help guide this work.
For more information

OECD Parliamentary Budget Officials (PBO) network:
www.oecd.org/gov/budget

OECD Journal on Budgeting

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