

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:
 - Korea - National Assembly Budget Office (2003)
 - Sweden - Fiscal Policy Council in Sweden (2007)
 - 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 Netherland'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 sub-committees, 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 sub-committees, 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 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 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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