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DRAFT PRINCIPLES FOR INDEPENDENT FISCAL INSTITUTIONS

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DRAFT PRINCIPLES FOR INDEPENDENT FISCAL INSTITUTIONS¹

Introduction

In 2011, delegates at the 3rd Annual Meeting of the OECD Parliamentary Budget Officials (PBO) network² tasked the OECD Secretariat with developing a set of principles for independent fiscal institutions to be presented at the next PBO annual meeting.

While relatively few and novel worldwide, independent fiscal institutions (IFI), are a growing phenomenon in OECD member countries. Particularly in the wake of the financial crisis, governments (as well as regional and international bodies and academic circles) are looking to IFIs as a way to enhance fiscal discipline and promote greater transparency and accountability. In the past decade alone, a diverse group of IFIs have 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 (2011-2012).

Setting a strict definition for IFIs is complicated by the heterogeneity of the existing institutions. IFIs may be under the statutory authority of the legislature (typically referred to as parliamentary budget offices) or the executive (typically referred to as fiscal councils). They vary considerably in terms of degree and types of independence, leadership arrangements and staff size, budget, and the breadth of their mandate and functions. Nevertheless, certain lessons and elements of good practice have emerged from IFIs' experiences to date.

In developing the *draft principles* and choosing the institutions for an associated study of examples of IFIs in fifteen OECD countries (see below), we have allowed for the following fairly broad definition (even so, it may be argued that some of the institutions studied are on the boundary lines): a publicly funded independent body under the statutory authority of the executive or the legislature which provides non-partisan oversight and analysis of, and/or advice on, fiscal policy and performance. Critical to this definition are two concepts: (1) that the IFI has “watchdog” function and (2) that it has an *ex ante* diagnostic task (in contrast to public audit institutions which perform an equally indispensable *ex-post* task).

Preparing the draft principles and next steps

The genesis of the decision to develop the *draft principles* was a discussion at the 3rd Annual Meeting of the OECD Parliamentary Budget Officials (PBO) network on “Parliamentary Budget Offices and Fiscal Councils – New Institutions and Challenges”. A background paper prepared for the

¹ The *Draft Principles for Independent Fiscal Institutions* were prepared by Lisa von Trapp of the OECD's Budgeting and Public Expenditure Division in collaboration with a Reference Group established following the 2011 3rd Annual Meeting of Parliamentary Budget Officials (PBO): George Kopits, Member, Portuguese Fiscal Policy Council and former Chair of the Hungarian Fiscal Council; Kevin Page, Parliamentary Budget Officer (PBO), Canada; Young Jin Joo, Chief, National Assembly Budget Office (NABO), Korea; Coen Teulings, Director, Bureau for Economic Policy Analysis (CPB), the Netherlands; Lars Jonung, Chair, Swedish Fiscal Policy Council (FPC); Lars Calmfors, former Chair, Swedish Fiscal Policy Council; Robert Chote, Chair, Office for Budget Responsibility (OBR), United Kingdom; Bob Sunshine, Deputy Director, Congressional Budget Office (CBO), United States. Thanks are also due to Barry Anderson, Mostafa Askari, Jon Blöndal, Frits Bos, Ian Lienert, Mario Marcel, and Joachim Wehner for their helpful comments on the first draft.

² Stockholm, Sweden, 28-29 April 2011.

session, *Independent Fiscal Institutions: Developing Good Practices*,³ set out a first set of ‘lessons for good practices’ and a survey of PBO network members gathered additional information on IFIs. To help guide the work on the *draft principles* the OECD formed a high level Reference Group 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.

Subsequently, the results of PBO discussion were presented during a session on the “Role of Independent Fiscal Institutions in Budgeting” at the 32nd Annual Meeting of the OECD’s Senior Budget Officials (SBO) network⁴ and the SBO endorsed taking the work on the principles forward.

The 2011 PBO discussion and background paper, combined with prior OECD work on establishing and operating parliamentary budget offices and new research on IFIs in OECD member countries form the basis for the *draft principles*. The Reference Group has brought a critical specialist perspective based on experience to the draft text.

It should be noted that as part of the preparation for the *draft principles*, the OECD also undertook a new study of institutions in 15 OECD countries:

1. Austria – Government Debt Committee
2. Australia – Parliamentary Budget Officer (PBO)
3. Belgium – High Council of Finance
4. Canada – Parliamentary Budget Officer (PBO)
5. Denmark – Economic Council
6. Ireland – Fiscal Advisory Council
7. Korea – National Assembly Budget Office (NABO)
8. Mexico – Centro de Estudios de las Finanzas Públicas (CEFP)
9. The Netherlands – Bureau for Economic Policy Analysis (CPB)
10. Portugal – Council on Public Finances (CPF)
11. Slovak Republic – Council for Budget Responsibility
12. Slovenia – Fiscal Council
13. Sweden – Fiscal Policy Council (FPC)
14. United Kingdom – Office for Budget Responsibility (OBR)
15. United States – Congressional Budget Office (CBO)

The study covers the economic and political context in which they 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

³ See *Journal on Budgeting*, Volume 11 (2011), Number 3.

⁴ The SBO brings together OECD member countries’ Budget Directors and other senior budget officials.

Drawing on our past discussions and roundtables at the PBO, it also includes a brief overview of the role of the legislature in the budget process in each country. In drafting the country notes, the OECD Secretariat has consulted extensively with officials in the 15 IFIs, as well as with parliamentary officials, government officials, academics, and other stakeholders as appropriate.⁵

Proposed next steps to take forward the work on the draft principles in the short to medium term include:

- The discussion session on the *draft principles* at the 4th Annual Meeting of OECD Parliamentary Budget Officials and Independent Fiscal Institutions in Paris on 23-24 February 2012. Delegates are asked to present their own ideas on next steps and how the *draft principles* might best be disseminated to other relevant forums.
- Following the PBO discussion a revised version of the *draft principles* will be circulated electronically to PBO network members along with the draft country notes to allow for an additional round of comments on both. A final version taking these comments into account will be circulated to all PBO network members in electronic and print form.
- A member of the Reference Group will present the PBO's work on principles for independent fiscal institutions to the 33rd Meeting of OECD Senior Budget Officials (SBO) in Reykjavik, Iceland on 7-8 June. In addition to the SBO, the OECD Secretariat will explore venues for dissemination of the principles within other relevant networks.

⁵ Please note that due to the size of the combined draft country note document, only a limited number of copies will be made available for consultation during the PBO meeting. Electronic copies of the drafts (and printed copies of the published version) will be sent to all delegates following the meeting. The notes for Australia and the Slovak Republic are still in the drafting phase but will also be included in the version of the document sent electronically.

Proposed “OECD Principles for Independent Fiscal Institutions”

The following set of twenty-three proposed principles for independent fiscal institutions are based on lessons and elements of good practice that have emerged from existing IFIs’ experiences. The proposed principles seek to address challenges countries’ may face in designing an enabling environment conducive to an IFI’s performance and to ensuring and their long-run viability. The proposed principles are grouped under seven 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, communication and 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, but an IFI should not be established pursuant to an external commitment without a strong local commitment already in place.
- 1.2. Local needs and the local institutional environment should determine options for the role and structure of the IFI. Its basic characteristics, including specific protections, should be consistent with 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. Design choices may also have to take into account capacity constraints, particularly in smaller countries.⁶

2. Independence and Non-partisanship

- 2.1. Non-partisanship⁷ and independence are pre-requisites for a successful IFI. A truly non-partisan body does not present its analysis from a political perspective, 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.
- 2.2. The leadership⁸ 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. More specifically, this involves 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 process for dismissal for cause. The leadership’s term should be independent of the electoral cycle. Independence may be enhanced by defining the term span beyond the election cycle.

⁶ Several countries (e.g. Sweden, Ireland, and Portugal) allow for non-nationals to serve as council members thus increasing the pool of qualified candidates and reducing the risk of “groupthink”.

⁷ 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.

⁸ Title may differ: director, president, or chair, and depending on its design, the institution may be under individual or collective (council) leadership.

- 2.4. The position of head of the body should be a remunerated and preferably full-time position.⁹ Strict conflict-of-interest standards, particularly for those 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 responsible members of the IFI should have full freedom to hire and dismiss staff—in accordance with local 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 service.¹⁰
- 2.7. To further enhance independence, the location of an IFI’s 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 legislation, including the types of reports and analysis they are to produce 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 independent fiscal institutions 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.¹¹

4. Resources

- 4.1. The resources allocated to such bodies 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 such bodies should be published and treated in the same manner as the budgets of other independent bodies such as audit offices

⁹ 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.

¹⁰ 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.

¹¹ For example on the budgetary impact in such areas as employment, income distribution, health care. There are other functions carried out by well-established IFIs such as costing of election platforms by the Netherlands Central Planning Bureau, or programme evaluation by the Korean National Assembly Budget Office.

in order to ensure their independence. Multiannual budgets may further enhance IFIs' independence and provide additional protection from political pressure.¹²

5. Relationship with the Legislature¹³

- 5.1. Legislatures perform critical accountability functions in countries' budget processes. Regardless of 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 reports sent to parliament for scrutiny, 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's budget; and (4) a role for parliament's budget committee (or equivalent) in leadership appointments and dismissals.
- 5.2. The IFI's role vis-à-vis parliament's budget committee, other committees, and individual members in terms of requests for analysis should be clearly established in legislation. Preferably, they would consider requests from committees and sub-committees rather than individual members or political parties. This is particularly true 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 resourced. This creates a special duty to guarantee the IFI full access in legislation to all relevant information—including methodology and assumptions underlying the budget and other fiscal proposals—in a timely manner and at no cost. The need to secure access to information is particularly important in countries with a traditionally high degree of opacity in public accounts and official projections.
- 6.2. Any restrictions on access to government information should also be clearly defined in legislation. Appropriate safeguards may be put in place¹⁴ as regards protection of privacy (for example, taxpayer confidentiality) and of sensitive information in the areas of national defence and security.

7. Transparency, Communication, and Evaluation

- 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 IFIs' independence and allows them to build credibility with the public.
- 7.2. Independent fiscal institutions should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders. Given that IFIs' influence in fiscal policy-making is dissuasive (rather than coercive by means of legal sanctions or other punitive measures), media coverage of their work assists in fostering informed constituencies that

¹² Alternatively, the institution may be funded by the central bank.

¹³ Legislature and parliament are used interchangeably.

¹⁴ For example, security clearance for IFI staff.

may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters.

- 7.3. Independent fiscal institutions' 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 reports and analysis should be sent to parliament in time for legislative debate,¹⁵ and the leadership of the IFI should be given the opportunity to testify before committees of parliament.
- 7.4. 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. IFIs should be careful not to pre-empt government reports.¹⁶
- 7.5. IFIs should release their reports and analysis in their own name—including through their own independent website—rather than providing them to other parliamentary or government institutions who in turn would release them.
- 7.6. 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.

¹⁵ 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.

¹⁶ Care must be taken to avoid the perception that the timing of the release of the IFI's reports favours the government or the opposition parties.