Designing effective independent fiscal institutions
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Independent fiscal institutions (IFIs) serve to promote sound fiscal policy and sustainable public finances. Their numbers in the OECD have more than tripled in the past decade and continue to grow. Today IFIs are considered among the most important innovations in the emerging architecture of public financial management. The OECD has identified good practices for designing and operating effective IFIs through the OECD Recommendation on Principles for Independent Fiscal Institutions. The analysis presented in this paper draws on the OECD IFI database compiled from a first set of case studies of 18 OECD IFIs in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Ireland, Italy, Korea, Mexico, Netherlands, Portugal, Slovak Republic, Spain, Sweden, United Kingdom and the United States.

by: Lisa von Trapp and Scherie Nicol
Independent fiscal institutions (IFIs) are independent public institutions with a mandate to critically assess, and in some cases provide non-partisan advice on, fiscal policy and performance. While fiscal decision-making is ultimately the responsibility of democratically elected officials, IFIs serve – often in combination with credible fiscal rules – to promote sound fiscal policy and sustainable public finances. Core IFI functions, such as assessing or preparing macroeconomic and fiscal forecasts and monitoring and evaluating fiscal plans and outcomes, can help to address biases towards spending and deficits. And by making their analysis public, IFIs foster greater transparency and accountability and enrich the public debate. As such, IFIs can raise reputational and electoral costs for governments that choose to pursue imprudent fiscal policies or break key commitments.

Although relatively few and novel worldwide, diverse examples of IFIs have existed for decades within the OECD membership in countries such as Belgium (1936), the Netherlands (1945), Denmark (1962), Austria (1970) and the United States (1974). Based in part on the experience of these older institutions in the mid-1990s a number of economists and academics floated the idea that countries could adapt some of the positive experiences of independent central banking to the fiscal sphere. This idea was given new impetus with the surge of government deficits and debts brought on by the 2008-09 financial crisis. With commitments to sustainable public finances under close scrutiny, policymakers searched for new ways to safeguard fiscal discipline and rebuild public trust in their capacity to manage public budgets prudently and transparently. The number of IFIs in the OECD has more than tripled in the past decade and continues to grow. Today IFIs are considered among the most important innovations in the emerging architecture of public financial management.

Despite their growing popularity, IFIs across the OECD face similar challenges, particularly in their early years. While it may be in countries’ long-term interest to establish an IFI, politicians may be tempted to constrain the actions of an IFI to avoid criticism in the short term.

1. The analysis presented in this paper draws on the OECD IFI database compiled from a first set of case studies of 18 OECD IFIs. The full case studies can be accessed in Lisa von Trapp, Ian Lienert and Joachim Wehner (2016), “Principles for independent fiscal institutions and case studies”, OECD Journal on Budgeting, Vol. 15/2. DOI: http://dx.doi.org/10.1787/budget-15-5jm2795tv625. Where known, information on new institutions is noted in the footnotes.

2. Over two years of extensive consultation took place within the PBO, the Working Party of Senior Budget Officials (SBO) and the Public Governance Committee (PGC).
On a positive note however, the experience of countries with more long-standing institutions demonstrates that – even if they do not always agree – IFIs are viewed in the longer term as important partners for finance ministries and legislative budget committees in promoting credible fiscal policies.

Given how new the majority of these institutions are, it is difficult to formally assess their effectiveness. Moreover, the establishment of an IFI, particularly in those countries with older instructions, may reflect the government’s political commitment, underpinned by the electorate’s preference, for discipline (Kopits, 2011). Nevertheless, several points in the OECD principles have been reaffirmed as key features of effective fiscal councils, for example, strict operational independence and a strong presence in the public debate, as well as a role in fiscal rule monitoring and production or assessment of forecasts (e.g. OECD 2012; IMF, 2013; Debrun, X. and Kinda, T., 2014). The principle of local ownership was also identified as a potentially important factor in explaining the extent to which EU IFIs have sufficient resources to deliver their effective oversight (Horvath, 2017).

LOCAL OWNERSHIP
There is no one size fits all model for IFIs

IFIs within the OECD are a heterogeneous group – there is no one size fits all model. They vary considerably in terms of their governance provisions, breadth of their mandate and functions, leadership and staff arrangements, and budget. This underlines the importance of local needs and the local institutional environment (including, in some cases, capacity constraints) to their design, even for those bodies that were set up to meet the same European requirements (see OECD Principles 1.1 and 1.2).

Figure 1. The growth of IFIs in the OECD

2. Slovenia: A first fiscal council with minimal resources ceased operations in 2012. As of 2017 a new fiscal council is in the process of being established.
3. Chile: A Fiscal Advisory Council was established by a decree of the Ministry of Finance in April 2013. There have been proposals for reform to give the Council independent legal standing.
4. Finland: In addition to the National Audit Office Fiscal Policy Evaluation Unit, a new Economic Policy Council was established in 2014 with a mandate to give ex ante policy advice.
Regardless of the model chosen, it is useful for the IFI to have a legal basis for establishment. This ensures that certain key aspects, such as its mandate, the leadership appointment process and access to information are clearly defined and can protect the institution from political pressures. Indeed, the vast majority (89%) of OECD IFIs are provided for in primary legislation. Where this is not the case, the IFI is provided for in constitutional legislation (the Slovak Republic) or by Ordinance (Sweden).

Figure 2. Legal basis for IFI establishment

89% of OECD IFIs are provided for in primary legislation

Source: OECD IFI Database (2017)

Across the OECD, IFIs have often been set up as part of wider package of reforms (61%), the majority of which are budget management reforms. The principal growth in new institutions associated with budget reforms can be seen in the European Union (EU). Portugal and Ireland, which were particularly hard hit by the crisis, were among the first wave of EU countries to establish independent fiscal institutions as part of wider national budgetary reform efforts. New EU requirements (fiscal compact, “six-pack”, “two-pack”) calling for an independent body to monitor compliance with national fiscal policy rules and assess or produce macroeconomic and budgetary forecasts further spurred the growth in new institutions (e.g. Estonia, Finland, France, Germany, Italy, Latvia and Luxembourg), or the amendment of the mandates of older IFIs (Austria, Denmark).

Figure 3. Type of reforms underpinning IFI establishment

Source: OECD IFI Database (2017)
Another driving factor behind the establishment of new IFIs, particularly outside of the EU, has been parliamentary reform. The US Congressional Budget Office (CBO), one of the first IFIs, was set up in 1974 as part of a package of measures adopted by congress to reassert its budgetary powers. The Korean National Assembly Budget Office (NABO), the Office of the Parliamentary Budget Officer (PBO) in Canada (2006) and the Australian Parliamentary Budget Office (PBO) (2011) were established as part of commitments to increase fiscal transparency and enhance the legislature’s budgetary role. The Irish Parliament is also in the process of setting up a PBO, one of the measures recommended in the OECD Review of Parliamentary Budget Oversight – Ireland (2015). A parallel trend in many OECD countries has been for legislatures to increase their budget analysis capacity by strengthening internal research units.

New IFIs are also starting to emerge at the supra and sub-national level. As recommended in the Five Presidents’ Report (June 2015) the European Commission opted in October 2015 to set up the first supranational IFI, the European Fiscal Board (EFB), to evaluate the implementation of EU fiscal rules, advise the Commission on the fiscal stance appropriate for the euro area as a whole, and cooperate with Member States’ national fiscal councils. On 19 October 2016, the first members of the board were formally appointed. New subnational IFIs have in part been driven by the trend towards fiscal decentralisation and the need for credible budgeting at the sub-national level. For example, in the Canadian province of Ontario, the Financial Accountability Office was established in 2013 to provide the Legislative Assembly of Ontario with independent analysis on the state of the province’s finances. In Scotland (United Kingdom), the Scottish Fiscal Commission was established in 2014 and provides independent scrutiny of Scottish Government revenues forecasts.

**The fiscal council model**

Over half of the institutions (56%) can be described as under the statutory authority of the executive or standalone (although they may, like the United Kingdom Office for Budget Responsibility (UK OBR), have dual lines of accountability to the executive and the parliament). These tend to be institutions that follow the fiscal council model, although even within this model, there are subsets, for example, some countries have chosen small, largely academic councils (e.g. Sweden, Ireland). Others have followed more of a corporatist tradition in which a larger set of council members may be proposed by different stakeholders or interest groups (e.g. Austria, Belgium, Denmark, and France).

One area where fiscal councils differ is their institutional independence. Belgium provides an example of a fiscal council with more limited independence as the High Council of Finance is formally chaired by the Minister of Finance and has a secretariat under the authority of the federal government. An example of a fiscal council with stronger independence is the UK OBR which is a legally separate arms-length entity with its own oversight board. The CPB Netherlands Bureau for Economic Policy Analysis (CPB) is technically an agency under the Ministry of Economic Affairs, Agriculture and Innovation. Although the CPB is part of the executive branch of government, it enjoys considerable independence, with autonomy over its annual work programme and offices physically separate from those of the Ministry of Economic Affairs.

**The parliamentary budget office model**

Another third (33%) of the institutions in the case studies follow the independent parliamentary budget office model (Australia, Canada, Italy, Korea, Mexico, United States)

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4. The Scottish Fiscal Commission will become responsible for the production of forecasts from April 2017.
5. Also Estonia.
6. Also Germany, Latvia, Luxembourg.
with a stronger focus on assisting parliamentary oversight of the budget and supporting the work of the main budget committee. PBOs are also more likely to have a costing role.

Other models

France and Finland have established autonomous units connected to the national audit institution, although Finland has since also established an Economic Policy Council, comprised of academics, in spring 2014. In France, it was thought that the High Council for Public Finances (Haut Conseil des Finances Publiques, HCFP) would benefit from being attached to the Court of Auditors due to the court’s well established reputation for independence and its high level of credibility within France’s institutional landscape, in particular the trust placed in it by the legislature.

It should be noted that several OECD IFIs also have links to the Central Bank. For example, Oesterreichische Nationalbank provides staff for Austria’s Fiscal Advisory Council and funding for the Council for Budget Responsibility (CBR) in the Slovak Republic is drawn from the National Bank of Slovakia.

Table 1. OECD IFIs by institutional model

<table>
<thead>
<tr>
<th>OECD Country</th>
<th>Institution name</th>
<th>Legislative budget office</th>
<th>Fiscal council</th>
<th>Audit institution</th>
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<tr>
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<td>High Council of Finance (HCFP)</td>
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<tr>
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<td>Parliamentary Budget Office (PBO)</td>
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<td>Danish Economic Council</td>
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<td>Finland</td>
<td>Independent Monitoring and Evaluation of Fiscal Policy Function - National Audit Office of Finland</td>
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<td>France</td>
<td>High Council of Public Finance (HCFP)</td>
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<td>○</td>
<td>●</td>
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<td>Ireland</td>
<td>Irish Fiscal Advisory Council (IFAC)</td>
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<td>○</td>
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<td>Korea</td>
<td>National Assembly Budget Office (NABO)</td>
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<td>Portuguese Public Finance Council (CPF)</td>
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<td>Spain</td>
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<td>US</td>
<td>Congressional Budget Office (CBO)</td>
<td>●</td>
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</tbody>
</table>

Source: OECD IFI Database (2017)

7. In a number of parliaments across the OECD, the emergence of specialised in-house parliamentary budget research units has also been observed. Examples are provided by the Portuguese Parliamentary Technical Support Unit, the UK House of Commons Scrutiny Unit and Financial Scrutiny Units within the devolved legislatures across the UK (Wales, Northern Ireland and Scotland). While these units may have similar functions to a parliamentary budget office, they often provide targeted support to Committees and individual parliamentarians. They are also likely to have lower levels of operational independence (with their budget and hiring policy determined by parliament) and to lack legal underpinning.
INDEPENDENCE AND NON-PARTISANSHIP

Leadership arrangements reinforce independence. OECD IFIs select their leadership on the basis of merit and technical competence and strictly avoid presenting analysis from a political perspective.

The OECD Principles recommend that the leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation (Principle 2.2). This principle has been strongly adhered to in OECD IFI appointment processes. The leadership of IFIs across the OECD is drawn from a variety of backgrounds including academia, government (particularly the Ministry of Finance), audit institutions, the central bank and the private sector. Almost half of leaders have spent time in academia prior to joining the IFI.

In most OECD countries, leaders are appointed by the executive or parliament although they may be proposed by other stakeholders or interest groups. In Finland the leader of the Fiscal Policy Evaluation Function is appointed by the Auditor General. Several countries (e.g. Ireland, Portugal, and Sweden) allow for non-nationals to serve as council members, thus increasing the pool of qualified candidates (particularly useful in smaller countries) and reducing the risk of “groupthink”. This design choice may serve to bolster independence.

Some OECD countries have additional procedures in place within the appointment process to provide assurance that leadership appointments are non-partisan. For example, appointments to the UK OBR’s Budget Responsibility Committee are made by the Chancellor of the Exchequer subject to the consent of the House of Commons Treasury Select Committee.

Figure 4. Leadership background (where known)

![Figure 4](image-url)

Source: OECD IFI Database (2017)
InSpainthecandidatefortheIndependentAuthorityforFiscalResponsibility(AIRef)PresidencythatisnominatedbytheCouncilofMinistersistomakeupbeforetheCongressofDeputiesFinanceandPublicAdministrationsCommitteewhichassessesthehisorhers experience,trainingandskills.SimilarlyparliamentaryapprovalisneededforgovernmenttodismisstheleadershipoftheIFIsinIreland,SpainandtheUnitedKingdom(seePrinciple5.1).


TheOECDPrinciplesalsorecommendthattermlengthsandthenumberoftermsthatalleadershipmayserve,andalterritialandprocessfordismissalofleadersshouldbeclearlystatedinlegislation(Principle2.3).Thisistostandard practiceformostOECDIFI.S.Allbutonehaveclearlydefinedtermsandterminlimits.The exceptionistheKoreanNABOWherethepracticeisforthechifertoresigneverytwowhenthereisachangeofNationalAssemblySpeaker.

Thereareclearlydefinedcriteriaforthedismissalofleadersinalmostthree-quarters(72%)ofOECDIFI.S.ExceptionsincludeAustria,BelgiumandSweden,wherethelawisnotexplicit.AnotherexceptionisCanada,wheretheParliamentaryBudgetOfficerisappointedforafivet-year termrenewableonce“duringpleasure”,meaningthatheorshecansberemovedwithoutcauseatthediscretionoftheGovernorinCouncil(essentiallyatthediscretionofthePrimeMinister).

WiththeexceptionofItaly,IFI.Withaparliamentarybudgetofficemodeltendtohaveanindividualleadershipstructure(Australia,Canada,Korea,Mexico,UnitedStates),asdothenetherlandsandSpain.Mostwithafiscalcouncilmodellmantainacollegial leadershipstructurewiththeChatertakingamoreorlessstrongrole(e.g.Austria,Belgium,Denmark,Ireland,Portugal,SlovakRepublic,Sweden,andtheUnitedKingdom).9.

Principle2.4furtherrecommendsthatthepositionoftheheadoftheIFIshouldberemuneratedandpreferencefullytimed.Position.All thoseinstitutionssetupalongtheparliamentary budgetofficemodeltodatethatfull-time leadershipthatisremunerated.However,underthe fiscalcouncilmodelarafttheinstitutionshavepart-timeleaders.Thesetend tobeinstitutionsinsmallerEuropeancountries, institutionswhichcandrawonthework ofotherbodies,andsomeoftheolderinstitutionswithamorecorporatisttraditionandalarger numberofcouncilmembers(for example,Austria,BelgiumandDenmarkwhichall haventenormorepart-timecouncilmembers). CouncilmembersinSwedenandIreland,which drawtheirmembersmainlyfromacademia, arealsopart-time.Insomescasesaposition asacouncilmembermightbebestdescribedashonoraryandisnotremunerated(France).

The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws (Principle 2.5). The vast majority of the IFIs (78%) have full control over the hiring process for staff. Some IFIs have staff provided by other bodies such as the National Bank, Ministry of Finance, and Court of Auditors (Austria, Belgium, and France). In some cases hiring may be limited by regulations covering public sector employees, potentially limiting administrative independence (Ireland, Spain). In Korea senior staff (above the level of division chiefs) are appointed and dismissed by the Speaker of the National Assembly, whereas other staff are appointed and dismissed by the NABO Chief.
MANDATE

Certain core functions can be found across IFI models. OECD IFIs have the autonomy to undertake analysis at their own initiative and set their own work programme.

While OECD IFIs have diverse mandates certain core functions are common across IFI models, such as macroeconomic or fiscal forecasting, monitoring compliance with fiscal rules, policy costing, long-term fiscal sustainability analysis, and supporting the legislature in budget analysis. Most OECD IFIs have the autonomy to undertake analysis that they consider important at their own initiative and to set their own work programme (Principle 3.2).

Principle 3.1 states that “the mandate of IFIs should be clearly defined in higher level legislation, including the general types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release”. The vast majority of OECD IFIs have specific reports required in their legislation, ranging from one (Australia, Austria, Finland, Netherlands, Sweden, and the United States) to nine reports (Spain).

Principle 3.2 recommends that IFIs have the scope to produce reports and analysis at their own initiative and the autonomy to determine their own work programme within the bounds of their mandate. OECD IFIs have the autonomy to set their work programmes but the extent to which their work programmes are already guided by legislation varies. In some instances their work programmes must also be approved externally. For example the Korean NABO’s work programme must be approved by the Speaker of the National Assembly and the Mexican Centre for Public Finance Studies (CEFP) must submit its work programme to the Chamber of Deputies’ Committee on the CEFP for review. All can produce reports and analysis at their own initiative with the exception of the French HCFP.

The organic law establishing the HCFP establishes the reports and timings for its reports and prohibits it from undertaking work on its own initiative.

The mandates of OECD IFIs continue to evolve. This is true even for very young institutions. For example in April 2013 the Irish Fiscal Advisory Council was assigned a new role in endorsing the Department of Finance’s macroeconomic forecasts. The Korean NABO’s mandate was revised in 2014 to give it a strengthened role in the costing of legislation – NABO now has sole authority to prepare cost estimates for bills introduced by Members. As noted earlier, some of the older institutions have taken on a new role in monitoring compliance with fiscal rules (e.g. Austria and Denmark). For others, discussions about potential changes are under way, such as proposals for the Australian PBO to prepare annual medium-term (ten-year) budget projections and assess fiscal rules or for the Canadian PBO to cost election platforms.

Macroeconomic and/or fiscal forecasting

The vast majority of OECD IFIs engage in macroeconomic and/or fiscal forecasting (83%). Their role in the forecasts takes several forms. For example, the Netherlands CPB and the UK OBR have been tasked with producing the official economic and fiscal forecasts used by government. Some institutions produce alternative forecasts (e.g. Canada, Denmark, Korea, Mexico, United States), while others provide an opinion on, or endorsement of, the government’s forecasts (e.g. Austria, Finland, France, Ireland, Italy, Portugal, Spain, Sweden) and still others were set up with no forecasting role at all (e.g. Australia, Belgium, Slovak Republic)

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 and in Belgium another independent institution, the Federal Planning Bureau produces the macroeconomic forecasts.

11. Also Estonia and Luxembourg.
12. Also Germany and Latvia.
**Monitoring compliance with fiscal rules and fiscal sustainability analysis**

With the exception of the Netherlands CPB, all of the OECD IFIs within the EU are tasked with monitoring compliance with fiscal rules. None of the institutions in OECD member countries that are outside of the EU have this task, although it has been proposed for the Australian PBO. Canada currently does not have explicit fiscal rules in place; however, nothing would preclude it from doing so if new fiscal rules were adopted. While the Netherlands CPB\(^\text{13}\) does not formally monitor compliance, it does so indirectly through calculations with respect to public finances and expenditure ceilings. In the United States, since 1974, Congress has adopted fiscal rules for specific time periods and the CBO may analyse them. Also, the CBO analyses fiscal rules if they are part of new legislation.

**Policy costing**

Half of the institutions in OECD member countries (50%) have a costing role, with this function found across all parliamentary budget offices and a number of fiscal councils. However, there is notable diversity in the type of costing work undertaken. The US CBO costs virtually every bill reported by congressional committees (between 500 and 700 annually). The Canadian PBO undertakes policy costings, but is selective when doing so given its limited resources. It prioritises requests based on materiality and contribution potential. A project or request is considered material if it can reasonably be expected to have a substantive impact on the government’s finances, estimates or the Canadian economy. The Slovak CBR may publish opinions, particularly in terms of implications for the general government budget and long-term sustainability, on draft legislation submitted to the National Council at its own initiative or at the instigation of a parliamentary group. A number of institutions also have a role in scrutinising policy costings. For example, the UK OBR scrutinises and endorses as “reasonable”, or not, costings of budget measures produced by government departments. In the event that the UK OBR disagrees with a government costing, it incorporates its own preferred costing in its published forecasts. While the National Audit Office of Finland does not have a role in ex ante costings, related work on performance audits may, however, evaluate cost assessments of government programmes.

**Long-term fiscal sustainability analysis**

Most institutions have a role in the analysis of long-term fiscal sustainability (83%). One exception, the Irish Fiscal Advisory Council, has a mandate to provide a view on whether the fiscal stance is “conducive to prudent economic and budgetary management” which could arguably allow for a certain amount of flexibility to undertake work on longer-term sustainability. This may, for example, involve analysis of the impact of demographic trends, public policy and debt levels on long-term public finances. Fiscal sustainability reports are useful to enhance the understanding of the future costs of current policy decisions, help manage risks, increase support for sound macroeconomic policy. Ideally, they should provide a comprehensive assessment of the state of public finances with the scope of analysis extending beyond long term demographics to examine unsustainable or time-variant revenues or expenditures. There is no firm consensus on the appropriate time horizon for long term fiscal sustainability analysis. However, practice across OECD countries suggests a minimum length of 30 years or more\(^\text{14}\).

**Supporting the legislature in budget analysis**

Over a third of OECD IFIs (39%) directly support the legislature in budget analysis. For the most part, this function is found across parliamentary budget offices (Australia, Canada, Italy, Korea, Mexico and the United States), although the Netherlands CPB also provides this function.

\(^\text{13}\) This task has been given to the Council of State.

\(^\text{14}\) OECD Benchmarks for IFI Long Term Fiscal Sustainability Analysis (forthcoming).
Support may include tasks such as providing comprehensive analysis of the government’s budget proposals (Canada, Korea, Mexico, Netherlands, and United States), supporting parliamentary committee inquiries (Australia, Canada, Italy, Korea, Mexico, United States) or undertaking confidential budget analysis for parliamentary groups and individual parliamentarians (Australia).

**Costing election platforms**

While costing of election platforms has generated considerable interest within OECD member countries, only the Netherlands CPB and Australian PBO currently have this function. The mandate of the Australian PBO has also evolved to include a report after a general election on the budget impact of election commitments of designated parliamentary parties. Additional resources are given to the PBO when carrying out this function. The Netherlands CPB has been costing election platforms since the 1980s and, although voluntary, all major parties now ask for such costings. Typically major political parties also ask the Netherlands CPB to cost major sectoral policy topics, like education, mobility, environment and the housing market. The Netherlands CPB also looks at the long-term effects and the impact of the proposals on the distribution of income and unemployment. Over the years, this higher scrutiny has had the advantage of making party manifestos much more specific. The Netherlands typically has coalition governments and the Netherlands CPB costings are ultimately used to underpin coalition agreements.

**IFIIs typically steer clear from providing normative advice**

The OECD Principles favour that IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship (Principle 2.1). In line with this, over half of OECD IFIs (56%) do not provide normative advice. In those instances where IFIs can provide normative advice (Austria, Belgium, Denmark, Korea and Sweden) it is strictly limited in scope and usually relates to providing recommendations to ensure compliance with fiscal policy objectives. The IFIs do not challenge the objectives of the government, but use them as a standard against which to assess individual policy measures. Any recommendations are grounded in objective and technically competent analysis of relevant issues.

In the US, while enabling legislation for the CBO does not prevent it from giving policy recommendations, it has rigorously refrained from doing so from the outset. The choice not to give policy recommendations was made by its first Director who drew a distinction between policy recommendations, which the CBO would “assiduously refrain from”, and technical recommendations, which would be acceptable if asked for.
<table>
<thead>
<tr>
<th>Country</th>
<th>Institution name</th>
<th>Analysis of long-term fiscal sustainability</th>
<th>Role in macroeconomic or fiscal forecasts</th>
<th>Role in monitoring compliance with fiscal rules</th>
<th>Directly support legislature in budget analysis</th>
<th>Role in policy costing</th>
<th>Role in costing election platforms</th>
<th>Can the institution provide normative advice?</th>
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<tr>
<td>Australia</td>
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<tr>
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<td>□</td>
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</tr>
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</table>

Source: OECD IFI Database (2017)
RESOURCES

Budgets vary widely. Around half of OECD IFIs have a separate budget line but only a few countries have instituted stronger protections such as multiannual funding commitments.

The resources allocated to IFIs should be commensurate with their mandate in order for them to fulfil it in a credible manner (Principle 4.1).

<table>
<thead>
<tr>
<th>Budget</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 US CBO</td>
<td>46.8 USD</td>
</tr>
<tr>
<td>2 Netherlands CPB</td>
<td>13.0 EUR</td>
</tr>
<tr>
<td>3 Korea NABO</td>
<td>13.6 USD</td>
</tr>
</tbody>
</table>

Source: OECD IFI Database (2017)

The Korean NABO, the Netherlands CPB and the US CBO are the most highly resourced institutions both in terms of budget and staffing. This reflects the breadth and scope of their mandate and activities. All have a role in policy costing, a resource-intensive task that requires staff with specific programme knowledge. The Korean NABO also has a unique program evaluation mandate covering topics ranging from infrastructure projects to government assistance to autonomous public institutions. A small number of institutions have around 30-60 staff and a budget of USD 3-7 million (Australia, Denmark, Italy, Mexico, Spain). The remaining institutions (50% of IFIs) operate with fewer than 30 staff and these institutions tend to have a budget of less than USD 3 million. In general, institutions within this group tend to have a narrower remit. For example, a number of institutions in the lower half of the staff count focus on only on activities such as assessing or endorsing the government’s forecasts and monitoring compliance with fiscal rules. The smallest institutions, France, Ireland and Sweden operate with fewer than one million euros and have five or less secretariat staff.
Certain protections can be put in place regarding IFI budgets, such as appropriations being published and treated in the same manner as other independent bodies such as supreme audit institutions and multi-annual funding commitments (Principle 4.1). Less than half of the IFIs (44%) have their budget outlined as a separate line item and fewer still (17%) have budgets with multi-annual funding commitments, a practice which can enhance independence and help insulate the institution from political pressure (e.g. Australia and United Kingdom). A small number of institutions have their funding levels set out in legislation (e.g. Ireland and Italy). While in Italy the budget can only be amended through the annual budget legislation, in Ireland the funding is not subject to annual authorisation through the budget process and so new legislation would be required to modify or withdraw funding, affording it a very high level of protection. Certain protections are in place in other OECD countries too. For example, the Portuguese Public Finance Council (CFP) does not have its budget set out in legislation, but it is stated in legislation that their funding can only be reduced in duly justified exceptional circumstances.

**RELATIONSHIP WITH THE LEGISLATURE**

*OECD IFIs send key reports to the legislature and provide evidence in parliamentary hearings*

The OECD Principles recognise that legislatures perform critical accountability functions in country budget processes (Principle 5.1). As noted earlier, many legislatures play a role in the appointment and dismissal process for IFI leadership. In addition, almost all institutions (94%) send their key reports to the legislature (and all make their reports public so technically accessible to the legislature) and participate in parliamentary hearings (again, 94%). The Belgian HCF is the only institution that does not do this.

However, while it has no formal relationship with the legislature, theoretically parliamentary committees could invite the chairs of the HCF sections to discuss budgetary issues.

**ACCESS TO INFORMATION**

*Three-quarters of OECD IFIs have access to information guarantees in legislation, through Memorandums of Understanding, or both.*

Accessing government information is crucial to the work of IFIs. In this context, the OECD Principles recommend that access to information is guaranteed in legislation and, if necessary, reaffirmed through protocols or memorandum of understanding (Principle 6.1). A Memoranda of Understanding (MoU) can help to manage expectations by establishing mutually agreeable processes for information requests and responses, including indicative timeframes for responses, what to do when requests are not complied with, and provisions regarding the treatment of confidential data.

Just over 60% of institutions in OECD member countries have access to information underpinned by legislation, and at least half of these have access to information underpinned by both legislation and a MoU (Canada, Finland, Italy, Portugal, Slovak Republic, and the United Kingdom). Australia, Belgium and Ireland do not currently have access to information guaranteed in legislation but have negotiated MoUs. Austria, Denmark, the Netherlands and Sweden have neither but the extent to which access to information is underpinned by different agreements is not always a perfect indicator for the ease with which institutions obtain information. For example, in the Netherlands, as a highly trusted government “insider”, the CPB has relatively easy access to non-published information held by the ministries and information is received in a timely manner. On the other hand, the Canadian PBO has access to information underpinned by both legislation and MoUs, but has experienced difficulties obtaining information.
TRANSPARENCY

OECD IFIs strive for full transparency in their work and operations. It is standard to publish all reports and underlying methodologies.

The OECD Principles state that full transparency in the work and operations of IFIs provides the greatest protection of independence and allows them to build credibility with the public (Principle 7.1). All OECD IFIs apart from the Mexican CEFP publish their reports and make them freely available to all. While the Mexican CEFP does publish the majority of its work, it needs the permission of the Congress. In Australia, parliamentary stakeholders can request confidential costings, which they may then disclose later. The US CBO may provide estimates early in the legislative process – kept confidential only until the legislative proposal becomes public – in order to help craft legislative proposals.

OECD IFIs also publish the methodology underpinning their work, where appropriate. However, in France preparatory work remains confidential as, in keeping with French legal tradition, the HCFP is not authorised to publish dissenting opinions.

COMMUNICATIONS

Effective communications are key to an IFIs success.

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, media coverage of their work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently (Principle 8.1). This principle has been reinforced by econometric analysis undertaken by the IMF which suggests that countries where IFIs have a higher media impact tend to exhibit better fiscal outcomes. However, more detailed analysis highlighted that the credibility of the independence of the IFI as an important pre-condition for its views to be reflected in the public debate. In addition, the IMF states that “While fiscal councils should have a steady media presence, it is important to ensure that key messages on fiscal policy are focused and provided when they matter most during the budget process.
If media interventions focus on topics outside of the council's immediate remit and become too numerous, this can reduce the power of their messages when fiscal policy is actually veering away from stated goals.” The Netherlands CPB is cited an example of an IFI with an effective approach to communication. Analysis of media reports shows that this IFI increased its public activity at the specific points of time where fiscal policy was going off course through the 2000s (IMF, 2013).

To facilitate effective communications, the majority of OECD IFIs hold press conferences around the launch of key pieces of work. They may also publish press releases to accompany their publications (for example, Korea, Netherlands, Sweden and the United Kingdom). All maintain web presences to facilitate access to their work. The US CBO Director initiated a well-followed blog to further enhance the visibility of CBO analysis. CBO communications officers have developed good relationships with editors of well-respected newspapers and regularly speak with journalists, answering their questions to ensure that they have a clear understanding of CBO reports and analysis. Another example of an IFI with a comprehensive and modern communications strategy is provided by AIReF in Spain which engages through the web, social networks, and more traditional media. Its reports have received substantial media coverage and it has become a reference for economic journalists dealing with fiscal sustainability issues.

Media monitoring and citation analysis can help an IFI understand the media's appropriation and trust of its work and willingness to engage with its outputs. Just over a quarter of IFIs (28%) formally monitor media coverage (Australia, Korea, Netherlands, Spain and the United States) and a number of others report informal monitoring.

EXTERNAL EVALUATION

OECD IFIs are increasingly using peer review and external evaluation. Around half of OECD IFIs maintain an external advisory panel of independent experts.

The OECD Principles recommend that IFIs develop a mechanism for external evaluation (Principle 9.1). A third (33%) of the IFIs across OECD member countries have an external advisory panel in place, in order to enhance the credibility of their work (Korea, Netherlands, Slovak Republic, Spain, United Kingdom and United States) and others are considering establishing them. Advisory panels can, for example, to make suggestions in relation to an institutions’ programme of work and topics of concern or to provide methodological or technical advice. The Korean NABO has a panel of outside advisors whose main role is to advise its Chief on NABO’s duties or other topics of concern. The Netherlands CPB has an advisory board (the Central Planning Commission) that advises the management on its work programme. The UK OBR has a nine-person panel of experts who help develop and scrutinise the OBR work programme and methods. The Slovak Republic’s CBR has an Advisory Panel that provides advice on methodological issues. In Spain AIReF has an Advisory Board of professionals, divided into two panels focusing on the two key areas covered by AIReF’s remit: economic analysis and budgetary and institutional analysis. The US CBO has a Panel of Economic Advisers and a Panel of Health Advisers who provide advice to further the reliability, profession quality and transparency of the institution’s work.

A small number of IFIs also engage in peer review both formally and informally. For example, the Australian PBO uses peer review processes as required for its major reports. Peer reviewers are familiar with the data, methodologies and estimation techniques and have in the past been sourced from independent think tanks, academia, international organisations, private sector economists and other IFIs. In each case their identity has been made public. The Canadian PBO has also actively sought to have its work peer reviewed for external validation and to ensure the rigour of the methodology and the results. To do this, it regularly collaborates with other institutions such as universities, think tanks, the Canadian Association for Business Economics, and the US CBO.

A full external evaluation of an IFI can serve to legitimise the institution relevant to its environment, resources, products and perceptions of its legislated and non-legislated stakeholders. At present just two IFIs (11%) have a process for external evaluation incorporated into legislation (Australia and the United Kingdom).
The first evaluation of the Australian PBO was completed by the Australian National Audit Office in June 2014, which had as its objective to “assess the effectiveness of the Parliamentary Budget Office in conducting its role since being established in July 2012”. A second evaluation is underway. The first evaluation of the UK OBR was completed by a team from the University of Ottawa, which included the former Canadian Parliamentary Budget Officer, and was published in September 2014. In June 2015, the UK Treasury also commissioned its own review of the UK OBR. The intention was for this to build on the work of the first external evaluation, focusing on the existing regime and framework of the UK OBR and its role in enhancing UK fiscal credibility. A number of other institutions have been pro-active in the area of external evaluation. The Netherlands CPB has the longest experience with external review: every five years the work of the CPB is evaluated by academic peers (on scientific value) and by clients (on policy relevance). Nearly all of the academics for the scientific review are non-Dutch, which enhances objectivity. The Irish Fiscal Advisory Council published their first external review in 2015 and have proposed that such external evaluation take place on a regular basis, and in Spain the President of AIReF has committed to conduct a first mid-term independent assessment of AIReF activity.

**Figure 9. Advisory support and evaluation**

<table>
<thead>
<tr>
<th>Percentage with external advisory panel</th>
<th>Percentage with external evaluation incorporated in legislation</th>
<th>Percentage having already undergone an external evaluation</th>
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</thead>
<tbody>
<tr>
<td>33%</td>
<td>11%</td>
<td>22%</td>
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Source: OECD IFI Database (2017)
REFERENCES


Recommendation of the Council on Principles for Independent Fiscal Institutions


HAVING REGARD to Article 5b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

NOTING the growth of independent fiscal institutions within Member countries and the diversity of existing institutions;

HAVING AGREED that, for the purpose of the present Recommendation, independent fiscal institutions are publicly funded, independent bodies under the statutory authority of the executive or the legislature which provide non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance, and that these institutions have a forward-looking ex ante diagnostic task;

RECOGNISING that independent fiscal institutions have the potential to enhance fiscal discipline, promote greater budget transparency and accountability and raise the quality of public debate on fiscal policy, while recognising also that alternative institutional arrangements may serve some countries equally well;

RECOGNISING that budget transparency is a key element of good governance and that the OECD has played a leading role in the international community in promoting budget transparency through the OECD Best Practices for Budget Transparency (OECD, 2002);

On the proposal of the Public Governance Committee;

I. RECOMMENDS that Members which have chosen to establish or are considering establishing an independent fiscal institution take into account the Principles for Independent Fiscal Institutions which are set out in the Annex to this Recommendation of which it forms an integral part.

II. INVITES Members and the Secretary-General to disseminate this Recommendation.

III. INVITES non-Members who have chosen to establish or are considering establishing an independent fiscal institution to take account of and to adhere to this Recommendation.

IV. INVITES relevant international organisations to take account of this Recommendation and to collaborate with the OECD to exchange good practices and data on independent fiscal institutions.

V. INSTRUCTS the Public Governance Committee to monitor the implementation of this Recommendation and to report thereon to the Council no later than three years following its adoption and regularly thereafter.
Principles for Independent Fiscal Institutions (IFIs)

The twenty-two Principles for Independent Fiscal Institutions (fiscal councils and independent parliamentary budget offices) proposed 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. 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 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 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.

   2.4. The position of head of the IFI should be a remunerated and preferably full-time position. 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.
3. Mandate
3.1. The mandate of IFIs should be clearly defined in higher-level legislation, including the general 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, provided that these are consistent with their mandate. 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 shorter 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.

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.

5. Relationship with the legislature
5.1. Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. 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) submission of IFI reports to parliament 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 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 and the leadership of the IFI should be given the opportunity to testify before parliamentary committees.

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.

7.4. IFIs should release their reports and analysis, on matters relating to their core ongoing mandate on economic and fiscal issues, in their own name.

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.

Relevant body: Public Governance Committee.

1. 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.
2. 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.
3. The title may differ – director, president, or chair – depending on its design. The institution may be under individual or collective (council) leadership.
4. 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.
5. 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.
6. 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.
7. For example, security clearance for IFI staff.
8. There may be cases where an IFI provides confidential estimates as part of the legislative process. For example, the US Congressional Budget Office provides estimates early in the legislative process – kept confidential only until the legislative proposal becomes public – in order to help craft legislative proposals.
9. 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.