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Assembly

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Public Finance Scrutiny Unit

Roles and Remits of Independent Fiscal Institutions: United Kingdom and Ireland

This Briefing Paper is provided in the context of the proposed establishment of an Independent Fiscal Council for Northern Ireland. It provides background information about that proposal, before providing briefly some broader information about the international proliferation of Independent Fiscal Institutions (IFIs). Comparative information about the IFIs of the United Kingdom and the Republic of Ireland is then presented, before the Paper concludes with information about international arrangements for peer review and evaluation of IFIs.

Introduction

Over the last decade, there has been considerable growth internationally in the number of Independent Fiscal Institutions (IFIs). Relying on the European Commission's definition, IFIs:

...are defined as non-partisan public bodies, other than the central bank, government or parliament aimed at promoting sustainable public finances through various functions, including monitoring compliance with fiscal rules, production or endorsement of macroeconomic forecasts for the budget, and/or advising the government on fiscal policy matters. These institutions are primarily financed by public funds and are functionally independent vis-à-vis fiscal authorities.¹

Northern Ireland (NI) is now the only part of the United Kingdom (UK) or the Republic of Ireland (RoI) that does not have such a body providing independent fiscal analysis or surveillance. This Paper provides information relating to the proposed Independent Fiscal Council for Northern Ireland (IFCNI), placing the proposal within a broader comparative context.

The Paper is structured as follows:

- The Proposal for an IFICNI;
- Features of IFI Design;
- The IFI's of the UK and RoI: key features;
- Evaluation of IFIs; and,
- Concluding remarks.

Potential points for scrutiny are highlighted throughout.

¹https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/fiscal-governance-eu-member-states/independent-fiscal-institutions_en

1. The Proposal for an IFICNI

There has been some interest in the establishment of an IFI for NI since the *New Decade New Approach* agreement in January 2020. This was not, however, the first time such a body has been proposed.

1.1. Fresh Start Agreement

In November 2015, the *Fresh Start Agreement* stated:

The UK Government welcomes the Executive's plans to establish an Independent Fiscal Council for Northern Ireland. The Council will:

- *prepare an annual assessment of the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget; and*
- *prepare a further annual report on the sustainability of the Executive's public finances, including the implications of spending policy and the effectiveness of long-term efficiency measures.²*

1.2. New Decade New Approach

The 2020 *New Decade New Approach* Agreement paved the way for the restoration of devolved governance in NI. It states:

An independent Fiscal Council will be established in Northern Ireland by July 2020. As per the Fresh Start Agreement, the membership and terms of reference of this Council will be agreed with the UK Government. It would:

- *prepare an annual assessment of the Executive's revenue streams and spending proposals and how these allow the Executive to balance their budget; and*
- *prepare a further annual report on the sustainability of the Executive's public finances, including the implications of spending policy and the effectiveness of long-term efficiency measures; and*
- *have its membership and terms of reference agreed with the UK Government.*

Elsewhere in the document, it states that the IFICNI:

...will provide independent monitoring and reporting on the Executive's performance in delivering the Programme for Government.

²Northern Ireland Executive (2015) '[A Fresh Start Agreement: The Stormont Agreement and Implementation Plan](#)' (page 26)

So, it appears that the IFICNI will be expected to do **more** than advise on money matters, but also **review the Executive's performance** on delivering its stated objectives.

Potential scrutiny point:

- 1. the NI Audit Office's remit is to investigate the economy efficiency and effectiveness of Executive departments and other public bodies.³**
- 2. How will the proposed IFICNI's performance-review function differ?**

1.3. Establishment of the IFICNI

On 6 October 2020, the NI Minister of Finance made a statement to the Assembly. In answer to a question following that statement, the Minister explained that the timeline for establishing the IFICNI has been delayed by COVID-19. Yet he reaffirmed the commitment for it to be established, and stated that proposals would be brought to the Executive "very soon":

...the fiscal council is a New Decade, New Approach commitment, and we will meet it. As with a lot of Departments and the commitments under New Decade, New Approach, things have slipped because of COVID and the necessity for all Departments to focus entirely on meeting the challenges that COVID has presented, but we have already begun again the work on the fiscal council, and I hope to be able to bring a proposition to the Executive on that very soon.⁴

³Under Part III of [The Audit \(Northern Ireland\) Order 1987](#), as amended

⁴ Official Report, [Tuesday 6 October 2020](#)

2. Features of IFI Design

There are many models of IFI across the world. This section provides information about research examining their common features and other design-related factors.

Some IFIs are long-established and located in or near the legislature, e.g. the Congressional Budget Office in the United States, established in 1974. This kind of IFI is primarily focused on the needs of the **legislature** – similar to various Parliamentary Budget Offices around the world, including Canada and the RoI.

In other countries, IFIs were established by the **executive** branch of government. The UK’s Office for Budget Responsibility (OBR) falls into this category, as does the Irish Fiscal Advisory Council (IFAC).

The following subsection details the Organisation for Economic Cooperation and Development’s (OECD’s) 2014 Principles for IFI design.

Further subsections focus on various key features of IFI design, such as: legislative basis; relationship with the legislature; and resources. Data are drawn from the OECD’s IFI Database.

2.1. OECD Principles for IFI design

In 2014, the OECD’s Public Governance Committee published its Recommendation of the Council on Principles for Independent Fiscal Institutions.

In total, there are 22 detailed Principles (provided in the Appendix) grouped under nine broad categories, as shown in Figure 1.

Figure 1: Nine categories of IFI Principles⁵



Source: OECD, 2014.

⁵ Infographic supplied to PFSU directly by OECD by e-mail, 20 October 2020

2.2. Key features of IFI design

This sub-section presents findings of a survey undertaken of the OECD's Independent Fiscal Institutions Database, including data from members of the OECD's network of PBOs and IFIs; last updated in September 2019. The survey examined the following features:

- Legal basis for the IFI;
- Institutional model;
- Relationship with legislature
- Leadership
- Independence
- Budget and staffing
- Mandate and functions

2.2.1. Legal basis



IFIs are formal institutions that require credibility if they are to work effectively. If they are to rely on their forecasts and analyses, international financial institutions, central banks, other governments, and the public need to be sure that IFI outputs are reliable, robust and honest. Almost all IFI's in the OECD network are established in primary legislation. Some are anchored in the countries' constitution; three have both a constitutional and primary legislative basis.

Potential point for scrutiny:

1. does the Executive propose a primary legislative basis for the IFICI?

2.2.2. Institutional model



As noted above, some IFIs are rooted in the legislature, whereas others are established by the executive for a range of reasons. It appears that the IFICNI will fall within the latter category.

2.2.3 Relationship with legislature



The vast majority of OECD IFIs report to the legislature, and in more than four-fifths of instances, the leadership attends legislative hearings or evidence sessions. In more than half of cases, the legislature has a role in appointments and/or dismissals of the leadership. This may be regarded as a form of protection from executive dominance of the IFI and a safeguard of its independence.

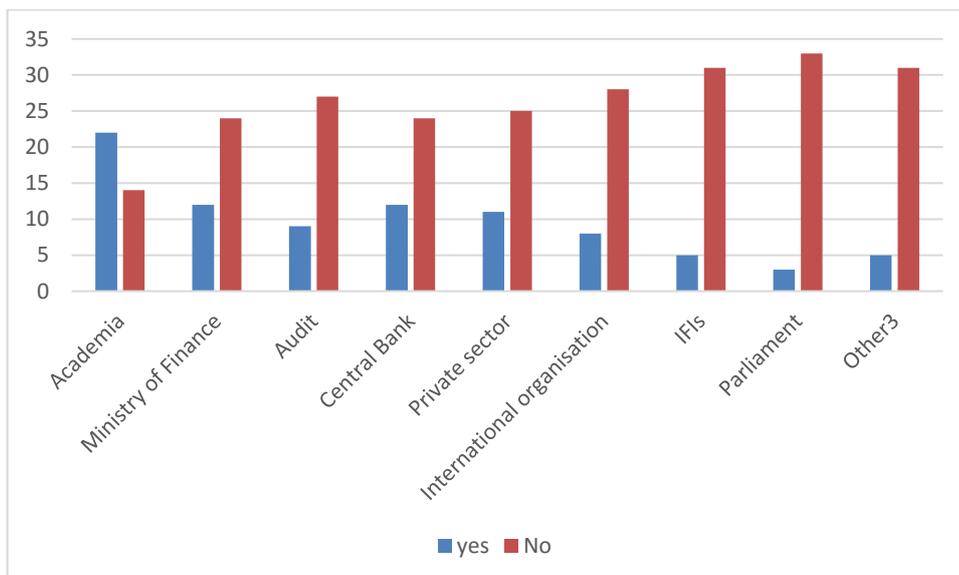
Potential point for scrutiny: what is the proposed relationship between the IFICNI and the NIA, and will that be established in statute?

2.2.4 Leadership



Key to the credibility of an IFI is the experience or ‘weight’ of its leadership. It is most common for leaders to be drawn from academia, which should help ensure sufficient technical competence. In one-third of instances, the leadership has experience in the Ministry of Finance and/or the central bank, as shown in Figure 2.

Figure 2: experience of leadership – greater detail



Potential point for scrutiny:

what are the Executive's views on the appropriate 'person specification' (i.e. essential qualifications and experience) for the leadership of the IFCNI?

2.2.5 Independence

A further crucial element to the IFI's credibility is its independence. Certain safeguards have therefore been built into the design of OECD-member IFI's to help mitigate against the potential risks of 'policy capture' or the provision of false information. These risks to independence are explained in academic literature as follows:

Independence of a fiscal council could be compromised if it was being fed false information that suited the government's agenda. In terms of the forecast, it could be fooled or persuaded to take an overly optimistic view of tax receipts, for example. The OBR is well aware of these dangers. It is transparent about the dates of meetings it has with government ministers and officials. When decisions are taken too late for it to properly analyse, it has said so publically. However, such transparency cannot in itself dispel suspicion that it is being manipulated by government.⁶

In addition, almost half of the OECD's IFIs have their own budget line. This is not an unusual protection for the independence of scrutiny bodies. There are arrangements for the NI Audit Office, the NI Public Service's Ombudsman and the Assembly

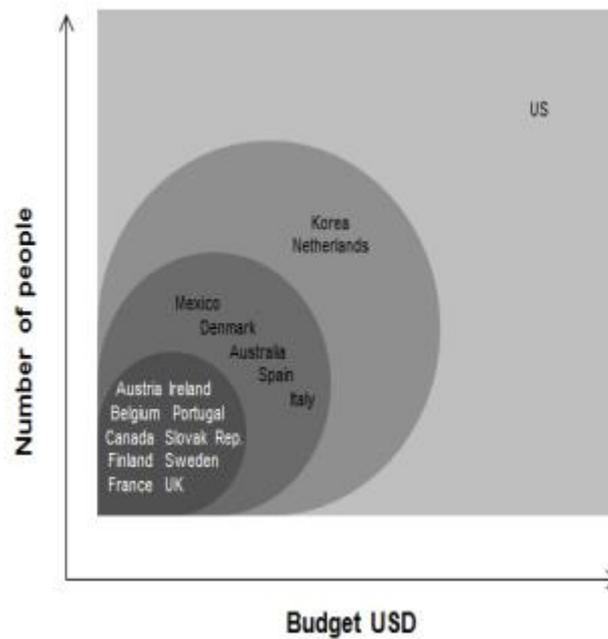
⁶ Wren-Lewis, S (2011) FISCAL COUNCILS: THE UK OFFICE FOR BUDGET RESPONSIBILITY, in The Journal for Institutional Comparisons, [DICE Report Volume 9, No.3](#)

Commission's budgets to be publicly scrutinised by the Assembly's Audit Committee, for example.⁷

2.2.6 Budget and staffing

Figure 3 highlights the relative IFI scale in terms of their budgets and staffing.

Figure 3: relative IFI scale⁸



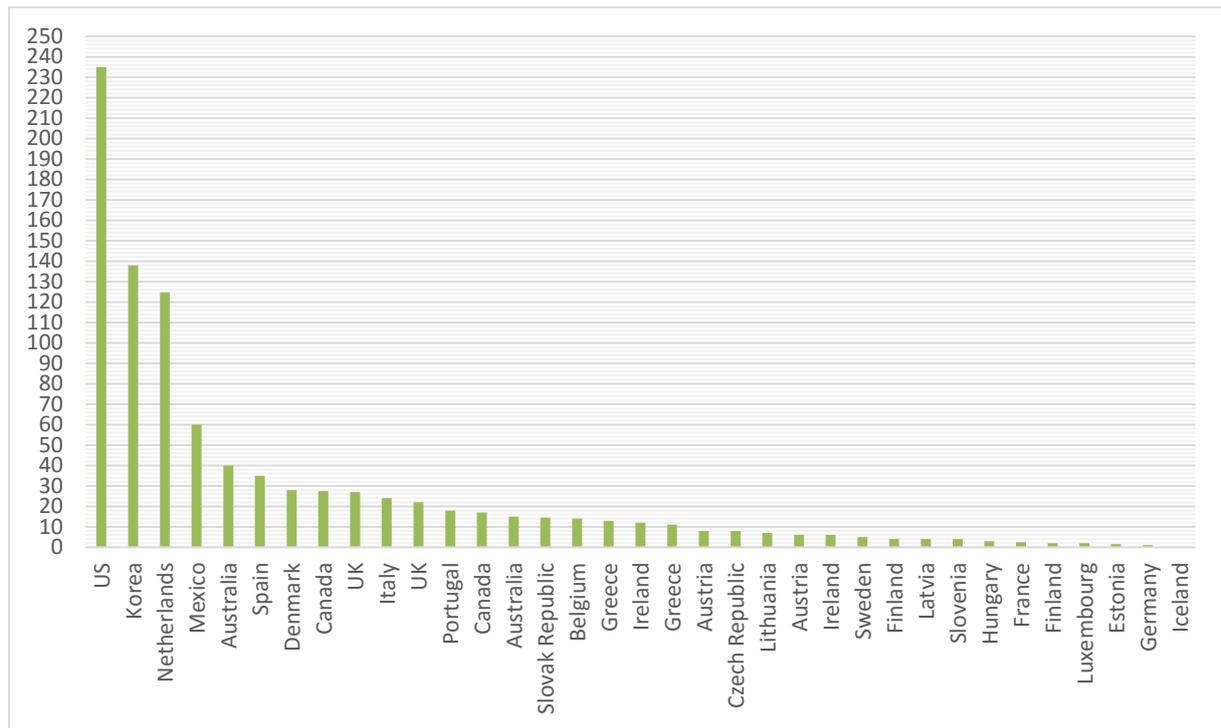
There is considerable range in the size of OECD IFIs. In relation to staffing – from 0 Full Time Equivalent (FTE) (Iceland) to 235 FTE (US). The mean of 26.8 FTE is somewhat distorted by the 3 largest IFIs (see Figure 4 below).

Annual costs range from US\$0.12 million to US\$46.6 million.

⁷ See, for example, <http://www.niassembly.gov.uk/assembly-business/committees/2017-2022/audit-committee/reports/report-on-the-estimates-of-the-northern-ireland-audit-office-and-the-northern-ireland-public-services-ombudsman-2020-21/>

⁸ <https://www.oecd.org/gov/budgeting/designing-effective-independent-fiscal-institutions-report.htm> (page 13)

Figure 4: IFI staff numbers⁹



2.2.7 Mandate and functions



Mandate and function

Analysis of long-term fiscal sustainability: 21 (58%)

Role in fiscal or macro-economic forecasting: * 20 (55%)

Monitor compliance with fiscal rules: 25 (69%)

Leadership controls hiring of staff: 23 (64%)

Directly supports legislature in budget analysis: 11 (31%)

Role in policy costing: 14(39%)

*Most IFI’s assess or comment on forecasts rather than produce their own

⁹ Source: [OECD IFI database](#)

As noted above, there is no single model of IFI, and they are designed to fit the needs of the jurisdiction in which they operate.

Potential points for scrutiny: what is the detailed range of functions that the Executive proposes the IFCNI will be required to deliver, and what is the rationale for its selection?

Having looked at the features of IFIs across OECD countries, the following section looks more closely at the IFIs across the UK and RoI.

3. The IFI's of the UK and RoI: key features

3.1. The Office for Budget Responsibility

The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances.

The OBR's five main functions are:

- Economic and fiscal forecasting;
- Evaluating performance against targets (i.e. fiscal targets and for welfare spending);
- Sustainability and balance sheet analysis;
- Evaluation of fiscal risks analysis; and,
- Scrutinising tax and welfare policy costing.

The OBR's formal rights to access information and its responsibilities to produce specified outputs at particular times are outlined in four documents:

- [The Budget Responsibility and National Audit Act 2011](#)
- [The Charter for Budget Responsibility](#)
- [The Framework document](#)
- [A Memorandum of Understanding](#)

It was noted above in section 2.2.7 of this Briefing Paper that many IFIs have clearly established mandates.

Potential points for scrutiny:

- 1. Is it the Executive's intention that the IFICNI's mandate and powers to access information will be established in legislation?**
- 2. What is the likely content of the IFICNI's mandate as it will be operating in a devolved administration with limited fiscal powers?**

3.1.1. External review

A key element of the OECD's work with IFI's through its networks of officials is the promotion of self-reflective practice (i.e. that IFIs seek to continually improve what they do and how they do it). The OECD delivers this work through a system of published peer reviews and assessments, and the findings of such reviews are regularly discussed at meetings of the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions.¹⁰

¹⁰see <http://www.oecd.org/gov/budgeting/parliamentary-budget-officials/> for publications and more details.

The OBR's establishing legislation (the 2011 Act listed above) requires that its non-executive committee must appoint a person or body at least once in every 5-year period to review and report on the Office for Budget Responsibility.¹¹

Since its creation, the OBR has been reviewed externally three times:

- In 2014 by the Canadian Parliamentary Budget Officer;
- In 2015 by the UK Treasury; and,
- In 2020 by the OECD.

In keeping with the OECD Principle of Transparency, these reviews are published on the OBR website.¹²

Potential point for scrutiny:

1. Is it the Executive's intention that the establishing legislation for the IFCNI will include a requirement for external review?

3.2. The Irish Fiscal Advisory Council

The Irish Fiscal Advisory Council (IFAC) was established on an interim basis in July 2011 and put on a statutory footing in December 2012 by the Fiscal Responsibility Act.¹³ The Act established the Irish Fiscal Advisory Council as a statutory body and legislated for the implementation of national and European Union fiscal rules.

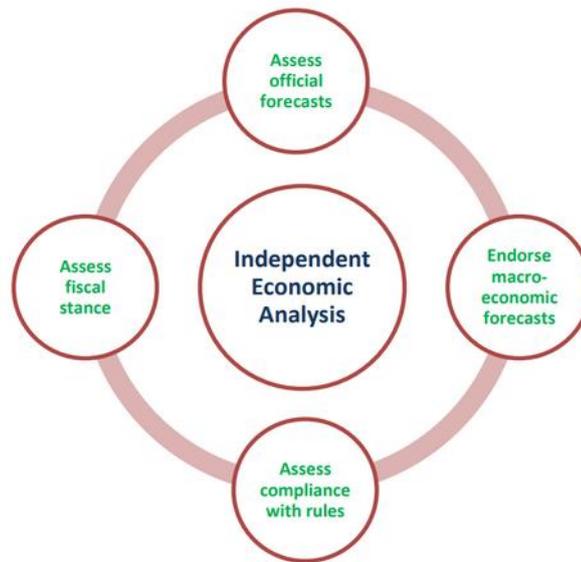
2013 EU regulations led to IFAC getting the role of the independent body that would endorse the macroeconomic forecasts produced by the Department of Finance on which Budgets and Stability Programmes are based (implemented by Ministers and Secretaries Amendment Act 2013). The process of this additional function is outlined in the Memorandum of Understanding¹⁴ between the Council and the Department of Finance. Figure 5 shows a summary of the IFAC Mandate.

¹¹ <https://obr.uk/about-the-obr/external-reviews/>

¹² <https://obr.uk/about-the-obr/external-reviews/>

¹³ <https://www.fiscalcouncil.ie/wp-content/uploads/2013/02/FRA.pdf>

¹⁴ <https://www.fiscalcouncil.ie/wp-content/uploads/2020/03/FC-DoF-Memorandum-of-Understanding-2020.pdf>

Figure 5: the IFAC mandate¹⁵

Source: IFAC website (2020).

3.2.1 External review

The IFAC was reviewed by an external panel in 2015, and again, in keeping with the Principle of Transparency, the report is available on the website.¹⁶ A review by the OECD is currently in progress.¹⁷

3.3. The Oireachtas Parliamentary Budget Office

The second RoI IFI, the Parliamentary Budget Office (PBO) provides independent and impartial information, analysis and advice to the Houses of the Oireachtas. As such, it has a very different role from that of IFAC.

The PBO was established following the 2016 final report of the Oireachtas Sub-Committee of Dáil Reform.¹⁸ This report itself was a consequential step after an earlier OECD Review of Budget Oversight by Parliament: Ireland, which recommended the Oireachtas should, among other things:

*Establish an Irish Parliamentary Budget Office to support parliamentary engagement and budget scrutiny*¹⁹

¹⁵ <https://www.fiscalcouncil.ie/about-the-council/>

¹⁶ https://www.fiscalcouncil.ie/wp-content/uploads/2012/01/PeerReview_Formatted_23062015.pdf

¹⁷ Source: presentation at the OECD's PBO network by IFAC 10 September 2020

¹⁸ Houses of the Oireachtas (2016) [Final Report](#)

¹⁹ OECD (2015) [Review of Budget Oversight by Parliament: Ireland](#)

The function of the PBO is to provide the Houses of the Oireachtas and its Committees with fiscal and economic information, analysis and advice that is independent and impartial relating to:²⁰

1. The particular macroeconomic conditions in the State;
2. Developments affecting public finances;
3. The management of public finances; and,
4. The financial implications of proposals affecting the public finances.

Again, in keeping with the established IFI process, PBO briefings are published on its website.

3.3.1. External review

The PBO has an advisory group comprising academics from a range of institutions, and chaired by the Chairman of the UK's OBR to provide "*pro-bono technical and methodological assistance*."²¹

The PBO is still a new institution and has not yet been reviewed externally.²²

3.4. The Scottish Fiscal Commission

The Scottish Fiscal Commission (SFC) is the first sub-national IFI to be established in the UK. Internationally, IFI's are much less common at sub-national level than at national level. There are only two others listed on the OECD's IFI Database,²³ namely the Financial Accountability Office of Ontario, Canada; and, Victorian Parliamentary Budget Office, Australia.

The SFC is a Non-Ministerial Office, independent from the Scottish Government. The SFC initially ran as a non-statutory body from 2014. It is directly accountable to the Scottish Parliament for the delivery of its functions, which were set out in the Scottish Fiscal Commission Act 2016.²⁴

The SFC's budget for 2020-21 is £1.9 million.²⁵

The SFC's website describes its functions as follows:

²⁰ PBO (2019) [Role and Functions of the PBO](#)

²¹ <https://www.oireachtas.ie/en/how-parliament-is-run/houses-of-the-oireachtas-service/parliamentary-budget-office/about-the-Thepbo/#EAG>

²² Confirmed by PBO official email 23 October 2020

²³ Source: [OECD IFI database](#)

²⁴ <https://www.legislation.gov.uk/asp/2016/17/contents>

²⁵ Scottish Government (2020) [Budget 2020-21](#) (Table 7.10)

We forecast Scottish Government revenue from fully and partially devolved taxes and devolved social security spending. The Commission is also required to forecast onshore Scottish GDP.

We currently produce five year forecasts of tax revenue for Scottish Non-Savings Non-Dividend Income Tax, Land and Buildings Transaction Tax, Scottish Landfill Tax, Non-Domestic Rates and Air Passenger Duty. We will also forecast Aggregates Levy.

We forecast spending for devolved social security benefits. This covers a wide range of benefits including ill health and disability benefits, carer's benefits, Discretionary Housing Payments, Best Start Grant and Best Start Foods, Funeral Support Payments, Cold Weather Payments, Winter Fuel Payments and Employability Services.²⁶

The SFC publishes its forecast at two points in the year:

- at the same time as the Scottish Government's Budget (usually in December); and,
- coinciding with the Scottish Government's Medium-Term Financial Strategy.

The relationship between the SFC and the Scottish Government is defined by a statutory Protocol.²⁷ Among other things, the Protocol sets out the principles which both agree to follow (See Appendix 2).

Potential scrutiny point:

1. in the context of the devolution arrangements in NI and challenging relationship between the NI Assembly and Executive in relation to budgeting, does the Executive intend to ensure the working between its departments and the IFCNI are clearly defined in statute?

3.4.1. External review

In keeping with the OECD principles, the SFC is committed to external review. In October 2019, the SFC published two reviews by the OECD:²⁸ an institutional review of the SFC; and, a technical methodological review.

The former of these found, among other things:

The SFC has achieved many positive results in the two years since its creation, building good relationships with stakeholders and a reputation for independent and credible forecasts, and improving the fiscal policy debate in Scotland.²⁹

²⁶ <https://www.fiscalcommission.scot/about-us/what-we-do/>

²⁷ SFC (2020) [Protocol for engagement between the Scottish Fiscal Commission and the Scottish Government](#)

²⁸ <https://www.fiscalcommission.scot/publications/oecd-review-of-the-scottish-fiscal-commission/>

²⁹ OECD (2019) [Scottish Fiscal Commission \(SFC\)](#) (page 2)

3.5. IFI arrangements in Wales

In Wales, there is a different solution to the requirement for independent tax forecasting from that followed elsewhere, as detailed in this subsection.

In December 2016, the UK and Welsh Governments agreed a Fiscal Framework. This provided for the devolution of stamp duty land tax and landfill tax, and the creation of Welsh rates of income tax,³⁰ subject to enactment of Welsh legislation.

Initially, Bangor University provided an independent assessment of the Welsh Government's own forecast. Then in July 2018, the then Welsh Finance Minister made a Written Statement explaining the future arrangements for providing tax forecasts independently from the Welsh Government, essentially a contractual arrangement with the UK's OBR, beginning on 1 April 2019:

After considerable discussions and further detailed work, the OBR provides the most proportionate and best value for money option for the independent production of the Welsh tax forecasts. I have decided to enter into an arrangement with the OBR for the provision of Welsh tax revenue forecasts for the 2020-21 Welsh Government Budget and beyond.³¹

The annual agreed cost to Wales for the OBR's services 2019-20 was £100,000. In evidence to the Senedd Cymru's Finance Committee on 28 September, the outgoing OBR Chairman stated:

...the latest information on the 2019-20 was actual cost, £99,727.³²

In addition to providing tax forecasts to the Senedd Cymru, the Chairman also noted that OBR staff had presented at the Welsh Government's tax conferences, and at a Welsh Governance Centre (based at Cardiff University Business School) conference, thereby increasing their presence in Wales.

As noted, the current OBR Chairman has completed his term office and will soon be replaced. Concluding the evidence session at the Finance Committee, the Chairman stated:

...we're very grateful for the invaluable contributions that you've made when you have appeared before us; it has really enriched the work of this committee and we appreciate it very much.³³

3.5.1 External review

As noted above, the OBR has been external reviewed on more than one occasion.

³⁰UK Government (2016) [The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework](#), see page 5

³¹Welsh Government (16 July 2018) [Provision of Welsh tax forecasts by the Office for Budget Responsibility](#)

³²Official [Report](#), 28/09/20

³³Official [Report](#), 28/09/20

Potential scrutiny point:

1. has the Executive considered seeking to establish a contractual relationship with the OBR, similar to the model in Wales?

4. Evaluation of IFIs

It has been noted above that the OECD Principles stress the importance of evaluation and external review of IFIs. This is encouraged by a process OECD-led peer review whereby expert members of the OECD network undertake reviews of their peers' work, similar to the process used in academia.

There are other tools as well, such as an initiative of the European Commission. From 2015, the European Commission's Directorate General for Economic and Financial Affairs introduced a Scope Index of Fiscal Institutions (SIFI), which aims to measure the breadth of tasks discharged by IFIs. So it does not calculate or present an assessment of their effectiveness: the index offers an image of the mandate (i.e. range of tasks) of various institutions.

The SIFI therefore:

...should not be taken as a full proxy of their effectiveness.³⁴

Having said that:

The emerging consensus of the economic literature postulates that the existence of 'fiscal watchdogs' is conducive to increased accountability and improved fiscal transparency by providing positive and/or normative analysis, assessments, and recommendations in the area of fiscal policy.³⁵

It should be understood that IFIs, however, are not a panacea to all ills confronting public finance and budgeting. For example, the IFICNI is unlikely to be able to overcome the problems faced by the Executive when the UK Government changes the timings of fiscal announcements and events, or legislation such as the UK Internal Market Bill.³⁶

³⁴ https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/fiscal-governance-eu-member-states/independent-fiscal-institutions_en

³⁵ https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/fiscal-governance-eu-member-states/independent-fiscal-institutions_en

³⁶ <https://www.finance-ni.gov.uk/news/finance-ministers-express-real-concerns-over-uk-internal-market-bill>

5. Concluding remarks

This Briefing Paper has shown the range of functions and designs of IFIs across OECD countries. Those findings show that there are several decisions to be taken when designing the IFCNI.

Several potential points for scrutiny listed in the Paper seek to provide clarity about the proposed purpose of the IFCNI, if answered in full. Given the extremely limited fiscal devolution to NI, it seems likely that the IFCNI's may also be relatively narrow. NI does not have, for example, the significant devolution of income and other taxes like Scotland and Wales.

The one significant tax devolved to NI – corporation tax – is so far devolved in legislation, but to date has not been commenced. In any case, corporation tax is notoriously volatile and hard to forecast.³⁷

The final question that is particularly important in the current context is whether UK central government and or NI devolved government is going to pay for the IFICNI?

Potential point for scrutiny:

- 1. Is it intended that the IFCNI will be funded by the Executive, the UK Government or both?**

³⁷IFAC (2016) [Challenges Forecasting Irish Corporation Tax](#)

Appendix 1: The OECD's 22 Principles for IFI Design³⁸

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 position⁴. Strict conflict-of-interest standards, particularly for institutions with council

³⁸ <https://www.oecd.org/gov/budgeting/OECD-Recommendation-on-Principles-for-Independent-Fiscal-Institutions.pdf> (see Annex)

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 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.

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 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.

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 on-going 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.

Appendix 2: Principles for engagement between the SFC and the Scottish Government³⁹

- In accordance with the OECD principles for independent fiscal institutions, the independence of the Commission, as enshrined in its founding legislation, will be respected at all times.
- The Commission is responsible for the independent production of forecasts and for all the assumptions and judgements informing those forecasts.
- The Commission will remain politically neutral and will avoid making political judgements.
- In publishing its forecasts, assessments and reports, the Commission must have regard to relevant Scottish Government policy and will not consider what the effect of alternative policies would be. The Commission may however consider the effect of alternative forecasting assumptions or methodologies on tax revenue, social security spending or GDP forecasts.
- The Scottish Government must inform the Commission of policy changes, operational information and legislative changes which pertain to the Commission's forecasts. The Scottish Government must do so in a timely manner and will endeavour to do so as soon as reasonably possible.
- The Government and the Commission are bound to handle all privileged budget information in accordance with their respective guidance applying to Commissioners, Special Advisers, Ministers and Civil Servants.
- Both organisations will protect all forecasts, analysis, reports and media releases shared between the two organisations. These, and any information contained within, will only be shared outside the two organisations by prior agreement.
- The Commission will publish alongside its forecasts a detailed explanation of the methodology used and of factors that it has taken into account, in particular assumptions and risks.
- The Commission will carry out its functions with integrity and in such a way as to promote transparency.
- With a view to increasing the transparency of interactions between the Commission and the Scottish Government, particularly during formal fiscal events, both bodies will abide by this jointly agreed Protocol. The Commission has a statutory right of access at reasonable times to any relevant information held by the Scottish Government that the Commission may reasonably require for the purpose of performing its functions. The timescales for requests are set out as part of this Protocol.

³⁹ SFC (2020) [Protocol for engagement between the Scottish Fiscal Commission and the Scottish Government](#) (pages 2-3)