

24 October 2018

Establishing an Independent Fiscal Institution  
The Treasury  
PO Box 3724  
Wellington 6140  
NEW ZEALAND

Via email: [submissions.ifi@treasury.govt.nz](mailto:submissions.ifi@treasury.govt.nz)

Dear Sir/Madam

### **New Zealand's Fiscal Policy Framework – Establishing an Independent Fiscal Institution**

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to the Treasury on the Discussion Document: Establishing an Independent Fiscal Institution.

We have focused our feedback on key areas where we consider we can add the most value. Appendix A provides our detailed submission and Appendix B provides more information about Chartered Accountants Australia and New Zealand.

#### **Key Points**

- We broadly support the principles underlying the proposal to establish an Independent Financial Institution (IFI).
- We agree with suggestions put forward in the Discussion Document on how an IFI could 'fill the gaps' in New Zealand's current fiscal policy framework under the Public Finance Act.
- We agree with the proposed purpose of the IFI and consider that another useful feature would be for the IFI to improve/enhance the public's understanding of fiscal policy and its implications for our society.
- We consider that it will be critical that the roles and functions of the IFI are balanced and complement the functions of Treasury and the objectives of the Public Finance Act.

- In terms of assessing whether an IFI is successful, another indicator may be improved levels of understanding by the public regarding New Zealand's fiscal policy and the longer term consequences/effects of those policies.
- The IFI should be independent in both form and function – i.e. operate independently of Ministers and be accountable to Parliament.
- We recommend that the IFI be reviewed two-to-three years after it is established.

Should you have any queries concerning the matters discussed above or wish to discuss our submission, please contact Lindsay Ng via email at [Lindsay.ng@charteredaccountantsanz.com](mailto:Lindsay.ng@charteredaccountantsanz.com) or phone (09) 969 1899.

Yours sincerely



Peter Vial FCA  
Group Executive – Advocacy & Professional  
Standing, New Zealand & the Pacific  
Chartered Accountants Australia and  
New Zealand



Lindsay Ng CA  
Senior Tax Advocate – Advocacy & Professional  
Standing, New Zealand Tax and Financial  
Services

## Appendix A

### General Comments

We broadly support the principles underlying the proposal to establish an Independent Financial Institution (IFI).

We consider it to be in the public interest to:

- strengthen independent oversight of fiscal policy in New Zealand;
- increase transparency of Government's fiscal strategy;
- hold Government to account;
- allow opposition/minor political parties to cost their policies more effectively; and
- better inform and improve the quality of debate on New Zealand fiscal policy issues.

Improving and supporting effective parliamentary scrutiny of public finances and fiscal policy will help New Zealanders to understand more fully the implications of a government's fiscal direction; strengthen democracy; and advance the welfare/wellbeing of New Zealand society.

### Specific consultation questions

#### *Chapter 4: Why establish an IFI in New Zealand?*

What are the key opportunities for improving New Zealand's fiscal policy framework through the establishment of an IFI?

Page 17 of the Discussion Document identifies three ways in which an IFI could fill the gaps in New Zealand's current fiscal policy framework under the Public Finance Act:

- Provide for independent evaluation of fiscal policy performance.
- Improve and support more effective parliamentary scrutiny of public finances and fiscal policy.
- Provide for independent costings of political parties' policies to better inform public debate.

These seem logical and appropriate.

An IFI could also bring coherence and consistency to New Zealand's fiscal policy framework by providing an overarching and non-partisan perspective on fiscal matters.

To ensure the success of an IFI it will be critical that it helps, and not hinders, the fiscal policy process. The organisation would need to be nimble and agile in its work and responses; it should not introduce duplicity and inefficiencies.

Regarding the proposal to allow the IFI to provide independent costings of political parties' policies, it is not clear from the Discussion Document:

- how this service would be funded;
- whether this service would be free; and
- whether the costings and other findings would be/should be confidential.

These factors should be considered and clearly stated in the IFI's framework.

### *Chapter 5: What is the purpose of an IFI?*

#### *What should the overarching purpose of the new IFI be?*

The proposed purpose of the new IFI is to:

“Enhance fiscal responsibility, accountability and transparency, support public debate, and strengthen Parliamentary scrutiny.”

This can be achieved by:

“Providing Parliament and the public with independent and non-partisan analysis and commentary on fiscal policy, economic and fiscal forecasts, and the financial implications of political party policy proposals.”

We agree with the proposed purpose.

Another useful feature of the purpose of the new IFI would be to improve/enhance the public's understanding of fiscal policy in New Zealand. This could be achieved by the IFI publishing its reports/findings/costings in 'plain English' and explaining what its conclusions might mean to the 'ordinary New Zealand citizen' (i.e. how it may affect them).

### *Chapter 6: What are the proposed roles and functions of an IFI?*

#### *What should be the roles and functions for the new IFI?*

Page 26 of the Discussion Document sets out five initial proposals for the roles and functions for the new IFI:

- Provide financial costings of political party policies, including election manifestos, and any costings requested when a government is formed (further discussed in pp 27 – 31).

- Comment on and assess compliance with the Government’s fiscal strategy and fiscal targets (further discussed in pp 32 – 33).
- Comment on the Treasury’s economic and fiscal forecasts (further discussed in pp 34 – 35).
- Comment on long-term fiscal sustainability and key fiscal risks (further discussed in pp 35 – 37).
- Produce relevant and related commentary on fiscal and budgetary matters (further discussed on p38).

We support the proposed roles and functions.

We agree with the statement on page 24 of the Discussion Document that there is no international “one size fits all” model for an IFI. It is appropriate that each country determines the roles and functions of its IFI according to its particular culture and nuances. For example, the role of the IFI should also take into account the Generic Tax Policy Process applied in the development of tax policy in New Zealand. The IFI could also have a role in ensuring “the New Zealand tax system has a stronger focus on achieving and sustaining coherence, integrity, efficiency and fairness” (as stated in the 2010 report of the Victoria University of Wellington Tax Working Group, “A Tax System for New Zealand’s Future”).

The roles and functions of the IFI should be expressed in such terms as to allow additional functions to be added in the future so that it remains relevant and effective in a changing society. A principles based approach may help to achieve this.

It will be important to ensure that the IFI does not undermine the Public Finance Act and the work of Treasury. Therefore, it will be critical that the roles and functions of the IFI are balanced and complement the functions of Treasury and the objectives of the Public Finance Act.

### *Chapter 7: What factors make an IFI successful?*

A number of key success factors of an IFI are listed on page 39 of the Discussion Document:

- Broad political support and institutional credibility
- Clear purpose, core mandate and key functions
- Independence and non-partisanship
- Access to information
- Transparent governance arrangements
- Adequate resources, guaranteed from the budget
- Transparency and strong relationship with the media
- Accountability and oversight by linking its outputs with the annual budget cycle
- Legal framework.

We support these factors.

Another factor would involve improving levels of understanding by the public of New Zealand's fiscal policy and the longer term consequences/effects of those policies.

### What challenges do you consider will impact the establishment of a successful IFI in New Zealand?

Page 40 of the Discussion Document lists three additional challenges to establishing an IFI in New Zealand:

- Capability and capacity – due to New Zealand's size, there may be difficulty in securing the required expertise and skills.
- Access to information and support – other government departments' resources may come under pressure as they will likely be required to provide access to information, data, modelling and other support.
- Ensuring value for money – the relative benefits and costs of the proposed roles and functions of the IFI must be carefully assessed.

We are not surprised by these observations.

It will also be important to consider how the success of the IFI is measured – what is its key performance indicator and how is that articulated? We recommend a post implementation review is undertaken two-to-three years after the establishment of an IFI.

### *Chapter 8: What institutional form should the new IFI take?*

In our view, the IFI should be independent in both form and function. It should operate independently of Ministers. It would be appropriate for the IFI to be accountable to Parliament, possibly through the Controller and Auditor-General.

The Discussion Document is silent regarding the funding for the new IFI. This should be confirmed.

## Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.