

A primer on parliamentary budget offices Public agencies established around the world to provide independent and impartial budget analysis

Over the past few decades, some governments have seen their credibility called into question where budget forecasts and cost assessments of the underlying measures are concerned. In many cases, the figures are frequently revised, and means used to achieve the original targets are often poorly defined. Changes in governments often don't help taxpayers to understand what is going on. Moreover, sometimes measures are implemented for which the costs and economic impact are difficult to estimate in the short or long term.

However, there is a way to obtain an objective analysis of government budgets and measures: submit them for review to an independent, impartial body. This is precisely what some countries have been doing, including the United States since 1974, Canada since 2006 and, more recently, the province of Ontario.

THE U.S. EXAMPLE

In the United States, the agency is called the Congressional Budget Office (CBO). The U.S. political system is such that conflicts on how to manage the public purse are common since the executive branch (headed by the President) and the legislative branch (headed by Congress) rarely see eye-to-eye on spending priorities. In some cases, the government has refused to spend the money allocated by Congress and impounded the funds, as permitted by law. This problem came to a head in 1973 when the government under Richard Nixon impounded US\$15B for projects approved by Congress.¹

Nixon's actions led to the enactment of the *Congressional Budget and Impoundment Control Act of 1974*. This law established new procedures for controlling impoundments and instituted a process through which Congress could develop and enforce its own budgetary priorities. In addition, the law created new legislative institutions: the House and Senate Budget Committees to oversee the execution of the budget process, and the CBO to provide

Congress with impartial information about budgetary and economic issues.²

The CBO staff of nearly 250 consists mostly of economists or public policy analysts. Its director is appointed jointly by the President of the Senate and the Speaker of the House of Representatives for a 4-year renewable term. The agency is nonpartisan and conducts objective analyses. The CBO does not make policy recommendations, and each report discloses the agency's assumptions and methodologies. It produces a wide range of products, including estimates of the budgetary impact, allowing Congress to compare the government's budget with CBO's independent estimate. It also provides formal estimates of the cost of virtually every bill and their effect on certain macroeconomic variables.

STATES AND CITIES HAVE AGENCIES SIMILAR TO A BUDGET OFFICE

In America, a number of states have created independent bodies similar to the CBO. Their tasks, responsibilities and roles in the state budget process vary widely. Some were

¹ Guy A. Beaumier, *The Accountability Act and the Parliamentary Budget Officer*, Library of Parliament, June 29, 2006, p. 7, www.bdp.parl.gc.ca/content/lop/researchpublications/prb0603-e.pdf.

² Congressional Budget Office, *An Introduction to the Congressional Budget Office*, November 2012, www.cbo.gov/sites/default/files/cbofiles/attachments/2012-IntroToCBO.pdf, and Philip G. Joyce, *The Congressional Budget Office: Honest Numbers, Power, and Policymaking*, Georgetown University Press, 2011, p. 15-52.

created well before the CBO. The first was California's Legislative Analyst's Office (LAO), established in 1941. Today, there are 44 legislative fiscal agencies³ in the United States, most of which provide professional nonpartisan budget analysis. Thirty-three produce fiscal notes that analyze the budgetary impacts of proposed legislation.⁴ One example of how the responsibilities of these independent agencies differ is California, whose LAO provides analysis of the Governor's budget and makes multi-year economic projections, making this analysis possible. However, like other large states such as New York, Massachusetts and Illinois, the budgetary effect of legislation is not systematically analyzed by the independent agency but rather by the Executive Branch or by Legislative House committees. According to the Center on Budget and Policy Priorities, this practice could result in partisan analysis and should therefore be avoided.⁵

Some cities and counties also have independent budget analysis agencies whose mandate is to inform city councils about the fiscal outlook and the effects of the measures proposed by the mayors in the budgets. In 1989, New York City created the New York City Independent Budget Office, although it only became operational in 1996. This agency provides a forecast of the city's revenues and spending and analyzes the proposals made by the Mayor and City Council. Like the CBO, it examines issues of interest for the Administration and city residents. Chicago also has such an agency. Lastly, San Diego has an operational Office of the Independent Budget Analyst since 2006.

BUDGET OFFICES ELSEWHERE IN THE WORLD

Although the number of budget offices has recently increased, the fact is that independent budget analysis agencies have existed for a long time outside the United States. Predating even the CBO, the CPB Netherlands Bureau for Economic Policy Analysis is the oldest such agency, having been founded in 1945. Although fully independent as far as its work is concerned, it is not a parliamentary agency since it is a part of the Ministry of Economic Affairs. Also among the first to create a budget office are Japan (1950, but with a limited mandate and independence), Denmark (1962) and Germany (1963).

³ Elizabeth C. McNichol et al., *Budgeting for the Future: Fiscal Planning Tools Can Show the Way*, Center on Budget and Policy Priorities, February 2014, 53 p., www.cbpp.org/sites/default/files/atoms/files/2-4-14sfp.pdf.

⁴ Elizabeth C. McNichol et al., *Better Cost Estimates, Better Budgets*, Center on Budget and Policy Priorities, November 24, 2015, 24 p., www.cbpp.org/sites/default/files/atoms/files/10-15-15sfp2.pdf.

⁵ *Ibid.*, p. 5.

An International Monetary Fund (IMF) database that tracks fiscal councils lists 36 countries with budget analysis agencies.⁶ Their mandates and political independence vary widely (table 1). Of the lot, the CBO is by far the largest in terms of employees and annual publications. Twenty-six are legally independent of government; in other words, the law guarantees them freedom from political interference. The table shows that only about half of the agencies (16) have a mandate to produce economic forecasts but that the majority (27) are required to analyze the forecasts of those

Table 1
Countries with fiscal councils

Country	Year*	Legal independence	Operational independence
Australia	2012	x	x
Austria	2013		x
Belgium	1989	x	x
Canada	2008	x	x
Chile	2014		
Croatia	2013	x	
Cyprus**	2014	x	x
Denmark	1962	x	x
Estonia**	2014		
Finland	2013	x	x
France	2013	x	x
Georgia	2014	x	
Germany	1963	x	x
Greece	2010	x	
Hungary	2009	x	x
Ireland	2011	x	x
Italy	2014	x	x
Japan	1950		
Kenya	2009		
Latvia	2014	x	x
Lithuania**	2015	x	x
Luxembourg**	2014		
Mexico	1999		
Netherlands	1945		x
Portugal	2012	x	x
Romania	2010	x	x
Serbia	2011	x	x
Slovak Republic**	2011	x	x
Slovenia	1991	x	x
South Africa**	2014		
South Korea	2003	x	x
Spain	2014	x	
Sweden	2007	x	x
Uganda	2001		
United Kingdom	2010	x	x
United States	1974	x	x

* Years indicate the start of the organization's activities, which may differ from the year of establishment; ** The office was still in development when the International Monetary Fund updated its database.

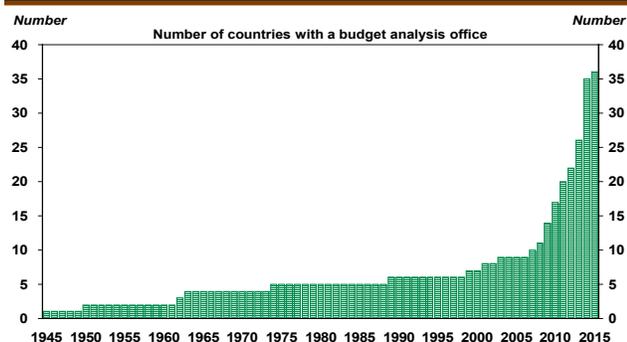
Sources: International Monetary Fund and Desjardins, Economic Studies

⁶ The database is available on the International Monetary Fund's website: www.imf.org/external/np/fad/council/.

submitting the budgets. Only two (Spain and Hungary) have the power to block the budget process.

The number of independent budget analysis agencies surged after the 2008–2009 recession (graph 1), mostly in advanced countries, members of the Organization for Economic Co-operation and Development (OECD). The concept has also found favour in a number of emerging nations, particularly in Eastern Europe (Georgia, Hungary, Romania), but also in Africa (Kenya, South Africa, Uganda) and Latin America (Chile, Mexico). However, the legal or even the operational independence of these agencies in emerging nations is less obvious.

Graph 1 – The number of budget analysis offices has increased since the financial crisis



Sources: International Monetary Fund and Desjardins, Economic Studies

As a result of the budgetary issues that ensued after the 2008–2009 recession and the European debt crisis, most European Union members now have their own independent budget analysis agency and, since 2013, all member States are required to have one in place.⁷ Some existing institutions that resembled this type of agency have been restructured to be able to fulfill a broader and more formal mandate. In 2012, France set up the Haut Conseil des finances publiques. That same year, Italy and Austria established a Parliamentary Budget Office, while Greece did the same in 2010. Spain created the Independent Authority for Fiscal Responsibility in 2013. The United Kingdom, for its part, opened its Office for Budget Responsibility in 2010.

In Asia, South Korea has a National Assembly Budget Office (2003), whose counterpart in Australia is known as the Parliamentary Budget Office (2012). It is interesting to note that in addition to conducting budget analysis and assessing the costs of certain measures, the Australia

⁷ European Central Bank, “Fiscal Councils in EU Countries.” *Monthly Bulletin*, June 2014, 5 p., www.ecb.europa.eu/pub/pdf/other/mb201406_focus08.en.pdf.

Office prepares, during election periods, costing of political parties’ pre-election commitments.⁸

Based on international examples of budget offices, IMF researchers have drawn certain conclusions about their usefulness.⁹ According to their study, in order to be effective, fiscal councils must have solid foundations, more specifically:

- Independence from politics and political interference.
- The provision or public assessments of budget and economic forecasts.
- A strong presence in the public debate.
- The monitoring of compliance with fiscal policy rules.

When these features are present, these agencies are associated with stronger fiscal performance and better economic and budgetary forecasts.

IN CANADA, THE FEDERAL GOVERNMENT ALSO HAS A BUDGET OFFICE

In Canada, the position of Parliamentary Budget Officer (PBO) was created in 2006 under the *Federal Accountability Act*. The PBO’s mandate is essentially the same as the CBO director’s, i.e. “to provide independent and objective analysis to Parliament on the state of the nation’s finances, the government’s estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.”¹⁰

However, the PBO has less independent authority than the CBO director, who is appointed by the Speaker of the House of Representatives and the President of the Senate and who can only be removed from office by a resolution of either house of Congress. In Canada, the PBO’s mandate can be revoked at any time, whereas parliamentary officers, such as the Auditor General and the Chief Electoral Officer, can only be removed from office for just cause. In 2013,

⁸ International Monetary Fund, “Budget Institutions in G-20 Countries—Country evaluations.” *IMF Policy Paper*, April 7, 2014, 103 p., www.imf.org/external/np/pp/eng/2014/040714d.pdf.

⁹ Xavier Debrun and Tidiane Kinda, *Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise—A New Dataset*, International Monetary Fund, *IMF Working Paper*, April 2014, 35 p., www.imf.org/external/pubs/ft/wp/2014/wp1458.pdf.

¹⁰ www.pbo-dpb.gc.ca/en/. It should be noted that although the PBO position was created in 2006, the first officer was appointed only in 2008 for reasons explained at length in: Gary Levy, “A Parliamentary Budget Officer for Canada.” *Canadian Parliamentary Review*, Vol. 31, No. 2, summer 2008, p. 40–45, www.revparl.ca/31/2/31n2_08e_Levy.pdf.

the official opposition tabled a motion to make the PBO an independent officer of Parliament, but the motion was rejected.

The Stephen Harper government, which created the PBO during the first year of its mandate in 2006, then took a rather contradictory stance in its regard. Speaking about the creation of this position in 2006, Harper's government said: "Improving the transparency and credibility of the Government's fiscal forecasting and budget planning process is a fundamental step in making it more accountable to Parliament and to Canadians. Parliamentary committees should have access to independent, objective analysis and advice on economic and fiscal issues, supported by the timely provision of accurate information from departments and agencies."¹¹ Yet in 2012, many departments refused to give the PBO the information needed to analyze the impact of the 2012 budget, claiming that the request was beyond the officer's mandate. The PBO sought a reference from the federal court to clarify its mandate and confirm the officer's right to access department information. The Court held that if Parliament wished to restrain the PBO, Parliament would have to abolish or redefine the mandate of the PBO by statute.¹²

Since the Liberals were elected on October 19, 2015, the relationship between the new government and the Parliamentary Budget Officer has yet to be tested. However, based on the Liberals' election platform,¹³ we can expect the Trudeau government to "make the Parliamentary Budget Officer truly independent." To this end, the Liberals plan to properly fund the PBO and expand the officer's mandate to include the costing of party platforms in subsequent election campaigns.

ONTARIO LEADS THE WAY

Ontario is the first province to create an agency similar to Canada's Parliamentary Budget Office. In 2013, after negotiating with the opposition, Ontario's minority government tabled a bill creating the position of financial accountability officer. However, the position was not filled until February 2015 with the appointment of Stephen LeClair. The mandate of the Financial Accountability Office is to

provide independent analysis on the state of the province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.¹⁴

In recent years, other provinces have tried to create an independent budget office, but with negative results. In British Columbia, a bill was tabled on this matter in 2009 but withdrawn after the first reading in the province's Legislative Assembly. In Saskatchewan, a bill tabled in 2011 also failed to make it past the first reading. In 2014, a bill in Alberta to create an independent budget analysis office failed to get past the second reading in its Legislative Assembly. New Brunswick also made an attempt in this regard in 2014, but a provincial election and change of government put an end to the bill in 2015.

FOLLOWING THE EXAMPLE WOULD BENEFIT THE OTHER PROVINCES

In keeping with what is happening elsewhere in the world, as well as in Canada and in Ontario, it still seems desirable for Canada's other provinces to introduce a budget officer position featuring guaranteed independence and access to the departmental data required to do his or her job, despite some abortive attempts in recent years. Investing in such a body would bear fruit, as the investment would reap the same benefits as achieved by the jurisdictions that have introduced budget officer positions. The mandates of the new provincial bodies would have to be similar to that of Ontario's financial accountability officer (see previous section). Lastly, provincial governments could benefit by enhancing their credibility with the public, credit rating agencies and investors.

¹¹ Government of Canada, *Canada's New Government – Federal Accountability Plan: Turning a New Leaf*, April 11, 2006, p. 13, www.tbs-sct.gc.ca/faa-lfi/docs/ap-pa/ap-pa-eng.pdf.

¹² *Page v Mulcair* decision. For more information about this event, see: Office of the Parliamentary Budget Officer, *Demystifying the Mandate of the Parliamentary Budget Officer*, May 2014, p. 4, www.pbo-dpb.gc.ca/web/default/files/files/Demystifying%20the%20Mandate%20of%20the%20Parliamentary%20Budget%20Officer_EN.pdf.

¹³ www.liberal.ca/realchange/parliamentary-budget-officer/.

¹⁴ For more information, see the Financial Accountability Office of Ontario website at: www.fao-on.org/en/about.