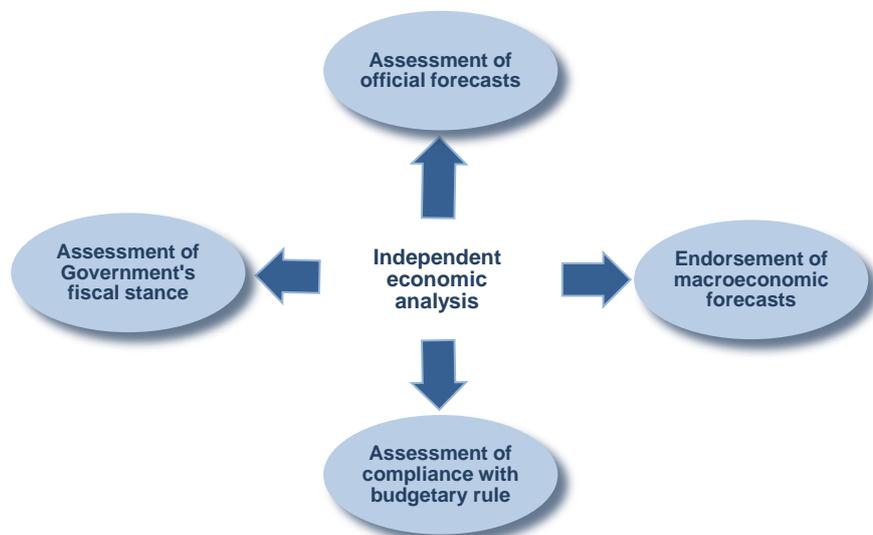


18 Irish Fiscal Advisory Council

- 18.1** The Irish Fiscal Advisory Council was set up on an interim basis in July 2011. In January 2012, the interim Council published a paper that it had commissioned from an independent consultant, providing guidance on the design of fiscal rules for Ireland.¹ In the same month, it published a report which commented on Department of Finance proposals for the design of fiscal rules and the establishment of a permanent independent fiscal advisory council.² That report was prepared in the context of ongoing debate around the provisions of the Fiscal Responsibility Bill.³
- 18.2** The Fiscal Council was formally established as an independent statutory body under the Fiscal Responsibility Act 2012 (the Act) with effect from 31 December 2012. The overall purpose of the Fiscal Council is to provide independent assessments of the Government's budgetary plans and projections and to inform public discussion of economic and fiscal matters.
- 18.3** The functions of the Fiscal Council are summarised in Figure 18.1. It is charged with
- assessing the official forecasts produced by the Department of Finance (the Department) in spring and autumn each year⁴
 - assessing whether the fiscal stance of the Government is conducive to prudent economic and budgetary management with reference to the EU Stability and Growth Pact⁵
 - monitoring and assessing whether the general government budgetary position is either in balance or in surplus, or is moving at a satisfactory pace towards that condition (the 'budgetary rule' as set out in the Act), and assessing whether any non-compliance is as a result of exceptional circumstances
 - endorsing, as it considers appropriate, the macroeconomic forecasts prepared by the Department, on which the budget and stability programme update are based.

Figure 18.1 Functions of the Irish Fiscal Advisory Council



¹ *Fiscal Rules for Ireland*, Robert Hagemann, 2012.

² *Strengthening Ireland's Fiscal Institutions*, 2012.

³ In addition, the interim Council produced three fiscal assessment reports over the period to end-December 2012.

⁴ In accordance with the Act, official forecasts are the macroeconomic and budgetary forecasts published by the Department of Finance for the purposes of fiscal planning.

⁵ The Stability and Growth Pact is a rule based framework for the coordination of national fiscal policies in the European Union.

Staffing

- 18.4** The Fiscal Council consists of five members, including the Chair. Appointments are made by the Minister for Finance with the term of office generally being four years.¹ Council members may not serve for more than two consecutive terms. The Council was supported by three full-time staff during its interim phase. There are currently five staff, comprising the head of the secretariat, three economists and an administrator.

Funding

- 18.5** Prior to its establishment on a statutory footing, funding for the Council was by way of a grant from the Department. The Council's administrative and banking services were provided by the Economic and Social Research Institute (ESRI) and its income and expenditure were set out in annual reports of the ESRI.
- 18.6** The Act prescribes that the Fiscal Council is to be funded from the Central Fund, subject to an annual ceiling of €800,000 (inflation-indexed).
- 18.7** Expenditure of the Council totalled about €481,000 in 2013, almost half of which was accounted for by the salary costs of staff seconded from other organisations. The largest element of the Council's non-pay administration expenditure was a payment of about €104,000 to the ESRI in respect of accommodation costs and support services. Fees and expenses paid to Council members during 2013 totalled just over €68,000.²

Accounts of the Fiscal Council

- 18.8** The Chair of the Council is the officer accountable for the preparation and presentation of the financial statements for audit. Sections 10 (1) to 10 (3) of the schedule to the Act require the Fiscal Council to keep accounts of receipts and expenditure in the form approved by the Minister for Finance, and to submit them for audit by the Comptroller and Auditor General. Following completion of the audit, the Fiscal Council must give a copy of the accounts to the Minister, who in turn must lay the accounts before the Houses of the Oireachtas.
- 18.9** Separately, section 10 (4) of the schedule to the Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the Fiscal Council each year. This is the report for 2013 under that section.
- 18.10** The accounts of the Fiscal Council for 2013 have been audited. My report on the audit was issued on 29 July 2014. The accounts have been presented to the Minister who laid copies of them before both Houses of the Oireachtas on 11 August 2014.
- 18.11** I am satisfied that the accounts properly present the transactions of the Fiscal Council for 2013 and its balances at year end.

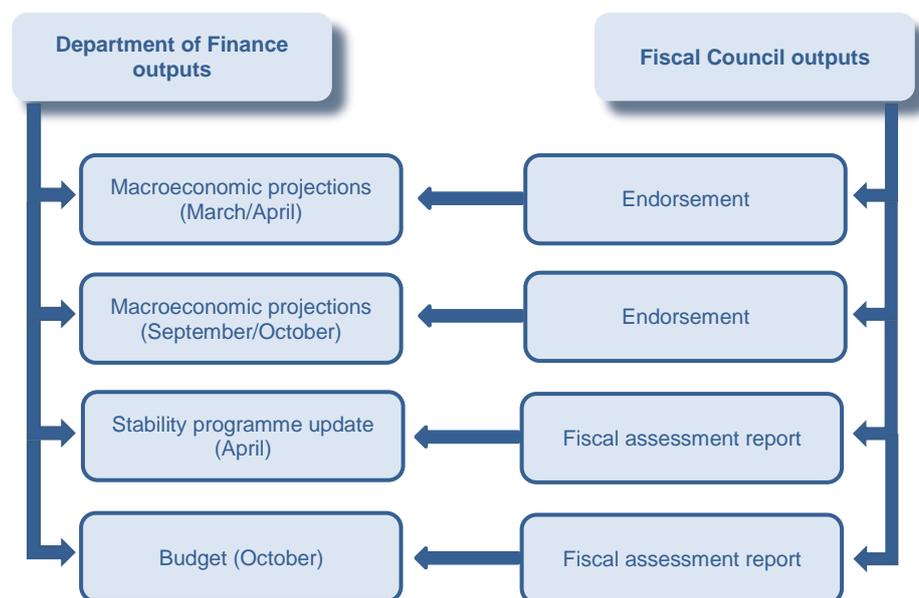
¹ The terms of office for the initial Council members vary between two and four years to ensure that future appointments are staggered.

² This figure includes Employers' PRSI of €3,860.

Activity of the Council

- 18.12** Figure 18.2 shows the typical annual outputs of the Council, which are produced in response to Department of Finance outputs.

Figure 18.2 Irish Fiscal Advisory Council outputs



Source: Analysis by the Office of the Comptroller and Auditor General

- 18.13** The Council can also produce stand-alone reports on themes related to its mandate.

Endorsements

- 18.14** Under the Act as originally passed, the Fiscal Council carried out assessments of the Department's macroeconomic forecasts but there was no obligation on the Department to take the Council's assessments of those forecasts into account.
- 18.15** The endorsement function was added to the Fiscal Council's mandate by way of an amendment to the Act in July 2013. This reflected an agreement at European level that stability programme updates and budgets should be based on macroeconomic forecasts produced or endorsed by an independent body.¹
- 18.16** The aim of the endorsement process is to ensure that forecasts are unbiased and as accurate as possible. The Fiscal Council has developed its own forecasting methods and analytical capacity in order to provide a benchmark set of projections against which to judge the Department's forecasts.
- 18.17** A memorandum of understanding has been agreed between the Council and the Department in respect of the endorsement function.² The agreement includes details on the coverage of the macroeconomic forecasts endorsed, the information requirements and the approach to be followed.

¹ Regulation (EU) No 473/2013 of the European Parliament and of the Council, of 21 May 2013.

² The memorandum of understanding is available to download at www.fiscalcouncil.ie and www.finance.gov.ie

- 18.18** Each endorsement is issued by way of a formal letter to the Secretary General of the Department, no later than five working days prior to publication of the related stability programme update or budget. In the event that the Council concludes that it is not in a position to endorse the macroeconomic forecasts, it is required to provide a letter setting out the reasons for non-endorsement no later than five working days prior to issue of the stability programme update or of the budget.
- 18.19** The first endorsement exercise carried out by the Fiscal Council, following the extension of its mandate, related to the macroeconomic forecasts underlying Budget 2014. The letter of endorsement was issued by the Chair of the Council to the Secretary General of the Department on 4 October 2013.
- 18.20** In April each year, EU member states are required to submit stability programme updates to the European Commission, including an update on the economic and fiscal outlook covering the short and medium term. On 7 April 2014, the Fiscal Council endorsed the macroeconomic forecasts for the years 2014 to 2018 underlying Ireland's stability programme update.

Fiscal Assessment Reports

- 18.21** The Council produces fiscal assessment reports in respect of the Department's macroeconomic and budgetary forecasts underlying the stability programme update (in April) and the budget (in October). The Act requires that fiscal assessment reports prepared by the Council are copied to the Minister for Finance and subsequently published within ten days.
- 18.22** Six assessment reports have been produced and published on the Council's website up to June 2014. All of the assessment reports have found the Government's macroeconomic forecasts and budgetary projections to be broadly appropriate and its fiscal stance to be conducive to prudent economic and budgetary management. The reports do not refer to any instances of non-compliance with the budgetary rule.
- 18.23** The most recent fiscal assessment report was published by the Council in June 2014 (see Figure 18.3).

Figure 18.3 Fiscal assessment report, June 2014 – key findings

- Significant progress has been achieved in resolving Ireland’s fiscal crisis, though challenges remain.
- The planned €2 billion adjustment for Budget 2015 should be implemented.
- While the Council assesses the Government’s fiscal stance to be prudent and compliant with the fiscal rules, the commitment to target a balanced budget in structural terms by 2018 has costs.
- Ireland’s fiscal framework has been strengthened and the Government has made a strong commitment to respect this new framework.
- Medium-term fiscal adjustment plans imply a sustained fall in non-interest government spending (i.e. excluding national debt interest payments) as a share of GDP.
- The prolonged tight spending plans will be difficult to achieve given demand pressures and rigidities in certain areas of expenditure.
- The Fiscal Council has endorsed the macroeconomic forecasts underlying the stability programme update for 2014.
- Budget projections are assessed to be appropriate.

Other Publications

- 18.24** In September 2013, the Council published a working paper that presented an overview of the Government’s financial position and considered the evolution of the State’s financial assets and liabilities since the start of the financial crisis in 2008.¹

¹ *The Government’s Balance Sheet after the Crisis: A Comprehensive Perspective*, Sebastian Barnes and Diarmaid Smyth, 2013.

