

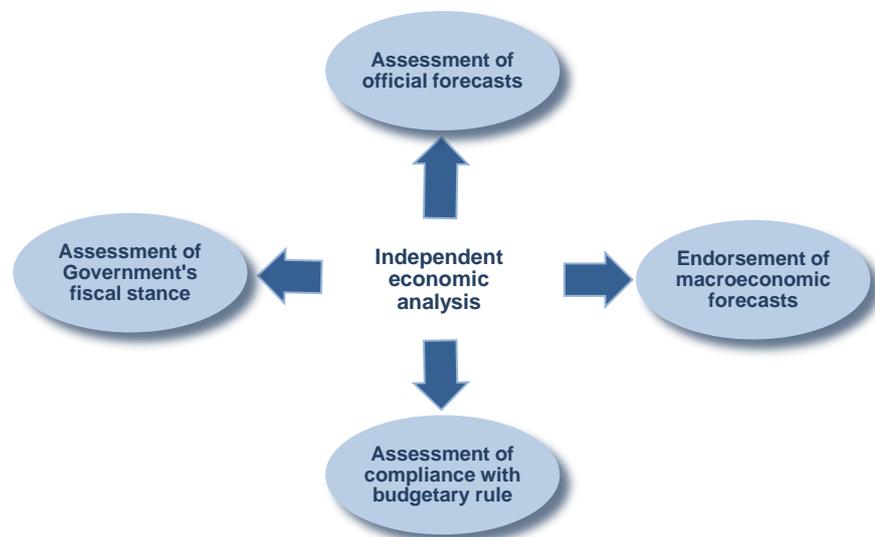
## 25 Irish Fiscal Advisory Council

**25.1** The Irish Fiscal Advisory Council (the Council) was formally established as an independent statutory body under the Fiscal Responsibility Act 2012 (the Act) with effect from 31 December 2012.<sup>1</sup> The overall purpose of the Council is to provide independent assessments of the Government's budgetary plans and projections and to inform public discussion of economic and fiscal matters.

**25.2** The functions of the Council are summarised in Figure 25.1. It is charged with

- assessing the official forecasts produced by the Department of Finance (the Department) in spring and autumn each year<sup>2</sup>
- assessing whether the fiscal stance of the Government is conducive to prudent economic and budgetary management with reference to the EU Stability and Growth Pact<sup>3</sup>
- 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 25.1 Functions of the Irish Fiscal Advisory Council**



<sup>1</sup> The Council was set up on an interim basis in July 2011.

<sup>2</sup> 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.

<sup>3</sup> The Stability and Growth Pact is a rule-based framework for the coordination of national fiscal policies in the EU.

Source: Irish Fiscal Advisory Council

### Accounts of the Fiscal Council

- 25.3** 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 requires the 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. On completion of the audit, a copy of the audited accounts must be given to the Minister, who in turn must lay the accounts before the Houses of the Oireachtas.
- 25.4** 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 Council each year. This is the report for 2014 under that section.
- 25.5** The accounts of the Council for 2014 have been audited. My report on the audit was issued on 24 July 2015. The accounts and report were laid before both Houses of the Oireachtas on 28 July 2015.
- 25.6** I am satisfied that the accounts properly present the transactions of the Council for 2014 and its balances at year end.

### Membership and Staffing

- 25.7** The Act sets out that the Council shall consist of five members, including the Chair. Appointments are made by the Minister for Finance with the term of office generally being four years. Council members may not serve for more than two consecutive terms.
- 25.8** Since the resignation of a Council member in late May 2015, the Council has consisted of four members. The Council member vacancy is currently being advertised on Stateboards.ie. The Department expect the position to be filled within the six-month timeline relating to vacancies on the Council set out in the Act.
- 25.9** The Council is currently supported by five staff, comprising four economists and an administrator.

### Funding

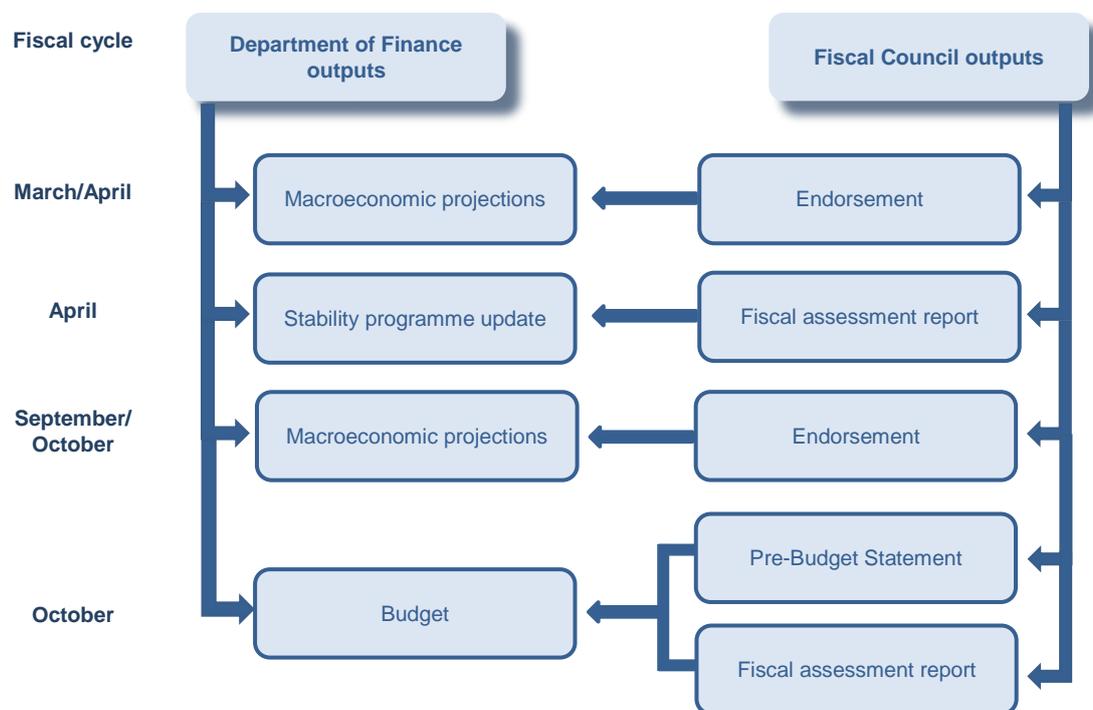
- 25.10** The Council is funded from the Central Fund of the Exchequer, subject to an inflation-indexed annual ceiling amount.<sup>1</sup> The funding ceiling for 2014 was €820,000.
- 25.11** Expenditure of the Council totalled €606,000 in 2014, of which 60% related to salary costs. The largest element of the Council's non-pay administration expenditure related to an Economic and Social Research Institute (ESRI) administration fee in respect of accommodation costs and support services which totalled around €100,000. Fees and expenses incurred in relation to Council members for 2014 totalled just over €64,000. Expenses incurred by Council members mainly reflect travel and subsistence costs incurred by international and non-Dublin based members attending Council meetings in Dublin.

<sup>1</sup> Section 9 of the Schedule to the Act provides for the funding source and limit.

## Activity of the Council

**25.12** The Council produces a number of annual outputs in response to outputs from the Department. Figure 25.2 shows these outputs.

**Figure 25.2 Irish Fiscal Advisory Council outputs**



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

**25.13** The Council also produces stand-alone analytical notes and working papers on themes related to its mandate.

### **Endorsements**

**25.14** The endorsement function was added to the Council's mandate by way of an amendment to the Act in July 2013. This amendment 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.<sup>1</sup>

**25.15** The aim of the endorsement process is to ensure that forecasts are unbiased and as realistic as possible. The Council has developed its own forecasting methods and analytical capacity in order to provide a benchmark set of projections against which to assess the Department's forecasts.

**25.16** A memorandum of understanding was agreed between the Council and the Department in respect of the endorsement function.<sup>2</sup> The agreement includes details on the coverage of the macroeconomic forecasts endorsed, the information requirements and the approach to be followed.

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

<sup>2</sup> The memorandum of understanding is available at [www.fiscal.council.ie](http://www.fiscal.council.ie) and [www.finance.gov.ie](http://www.finance.gov.ie)

- 25.17** Each endorsement is issued by way of a formal letter from the Chair of the Council to the Secretary General of the Department, at least five working days prior to publication of the related stability programme update or budget. Similarly, if the Council concludes that it is not in a position to endorse the macroeconomic forecasts, it is also required to provide a letter setting out the reasons for non-endorsement at least five working days prior to issue of the stability programme update or of the budget.
- 25.18** To date, the Council has endorsed the macroeconomic forecasts underlying Budgets 2014 and 2015. The latter was endorsed by the Council on 6 October 2014.
- 25.19** By 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 31 March 2015, the Council endorsed the macroeconomic forecasts for the years 2016 to 2020 underlying Ireland's stability programme update 2015.<sup>1</sup>

### ***Fiscal Assessment Reports***

- 25.20** The Council produces fiscal assessment reports in respect of the Department's macroeconomic and budgetary forecasts twice yearly – in June and November – following publication of the stability programme update and the budget. Under the Act, these reports must be copied to the Minister and subsequently published within ten days.
- 25.21** The Minister for Finance formally responds to the Council's fiscal assessment reports.
- 25.22** As set out in paragraph 25.2, the Council is required to assess the appropriateness of the Government's fiscal stance with reference to the EU Stability and Growth Pact. It is also required to assess compliance with the budgetary rule as set out in the Act.
- 25.23** Eight assessment reports have been produced and published on the Council's website up to June 2015. Each of the assessment reports have found the Government's macroeconomic forecasts to be broadly appropriate and its fiscal stance to be conducive to prudent economic and budgetary management.
- 25.24** The assessment reports prior to 2015 do not refer to any instances of non-compliance with the budgetary rule. The most recent fiscal assessment report published by the Council in June 2015 noted that the stability programme update (SPU) 2015 for 2016 is not in line with the requirements of the budgetary rule or the SGP on a forward-looking basis (see Figure 25.3).

<sup>1</sup> The Council also endorsed the macroeconomic forecasts underlying Ireland's stability programme update 2014.

**Figure 25.3 Fiscal Assessment Report, June 2015 – key findings**

- The recovery in the Irish economy has gathered momentum with stronger growth and lower unemployment benefitting the public finances.
- An important accomplishment of recent years has been the institutionalisation of a new budgetary framework. If respected, this framework provides an important safeguard against a return to the boom-bust cycle.
- The plan in stability programme update 2015 (SPU 2015) for 2016 is not in line with the requirements of the domestic budgetary rule or the preventive arm of the stability and growth pact (SGP) on a forward-looking basis.
- The budgetary projections in SPU 2015 do not present a full picture of the likely costs of demographic ageing and cost pressures in delivering existing programmes, as well as not taking into account explicit Government commitments to reduce taxes.
- Post-2016, the medium-term projections for expenditure and tax revenue in SPU 2015 do not fully meet the requirements of a medium-term fiscal plan as envisaged in the Government's budgetary framework.
- The move to annual revisions to the allowable expenditure growth under the expenditure benchmark has removed the multi-year anchor from the domestic medium-term expenditure ceilings.
- Alternative models for estimating Ireland's medium-term potential growth should be developed.

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Source: Irish Fiscal Advisory Council

**Other Publications**

**25.25** In addition to its primary output (fiscal assessment reports), the Council also publishes analytical notes and working papers. The Council published six analytical notes in 2014.

**Pre-Budget Statement**

**25.26** The Council published its first pre-budget statement in September 2014 in advance of Budget 2015, which was delivered on 14 October 2014. The report set out the macroeconomic and fiscal context in which Budget 2015 would be framed. A Dáil debate on the report was held on 21 October 2014. The Council envisages that a similar statement will be published annually.

**25.27** The Council's key recommendation in the statement was the view that the most appropriate course of action for Budget 2015 was the full implementation of the final instalment of the planned consolidation programme, a €2 billion budget adjustment.

**25.28** A €2 billion budget adjustment was not implemented in Budget 2015. Tax cuts and spending increases outlined in Budget 2015 totalled approximately €1 billion.

### **Peer Review of the Council**

- 25.29** In 2015, the Council commissioned an external evaluation to assess the functioning of the Council with respect to its mandate under the Act and its performance as an independent fiscal institution in support of sustainable growth in Ireland.
- 25.30** The evaluation team comprised three members with expertise in macroeconomics, fiscal policy and public policy.<sup>1</sup> The Council published the review on its website in June 2015. The review concluded that the Council has fulfilled all the tasks that are expected from an independent fiscal institution and that it has been visible in public debate, increasing transparency and public knowledge about fiscal matters. The review also noted that there is scope for enhancing the output and impact of the Council. The main conclusions and recommendations of the review are set out at Annex A.
- 25.31** The Council has stated that it is in the process of preparing an implementation plan on foot of the recommendations made in the evaluation report. The plan will detail the actions required to address the report's findings and will set out a timeframe for the completion of these actions. The implementation plan will be considered by the Council and its audit committee, and progress in implementing the relevant recommendations will be monitored on an ongoing basis.

<sup>1</sup> The evaluation team members were Professor Lars Jonung (Chair), Professor Iain Begg and Mr Michael G Tutty.

## **Annex A IFAC Peer Review – Summary of Main Conclusions and Recommendations**

### ***The IFAC Mandate***

The mandate of IFAC is clear and stipulates exactly what IFAC is supposed to produce. No disputes concerning the interpretation of the mandate of IFAC have surfaced as far as we know. IFAC has emerged as a credible independent institution on the basis of its mandate.

- We see no reasons to change the mandate of IFAC at this stage.
- Although the evaluation team heard a number of arguments for a broadening of the mandate of IFAC, this should only be considered after a further period during which the Council is able to grow into its current role.
- IFAC should have a clear say, through its Chairman, in setting the criteria for the selection of new members of the Council.
- The present number of five members of the Council (as specified in the Act) should be maintained.
- The recruitment of Council members from outside Ireland, Irish nationals or non-nationals, should continue to be encouraged to ensure a diverse range of skills on the Council.
- The recruitment of members should reflect the balance of analytic needs and be open to differing specifications of skills as retiring members are replaced.

### ***The Financial and Human Resources***

IFAC has been sufficiently endowed with financial and human resources, although in an international budgetary comparison IFAC is one of the smallest of all independent fiscal institutions. The Council works well as a team and has good relations with the staff of IFAC.

- The staff of IFAC is young, capable and dedicated. As some of them are on secondment and thus likely to turn-over fairly rapidly, as well as being at a stage in their careers where they will be looking to move to more senior jobs, this could lead to problems of retention of the 'institutional memory' and consistency of approach and messages.
- Steps should be taken to make work at IFAC still more attractive, for example by encouraging staff to work on academic publications (as happens in DG ECFIN of the European Commission and many central banks) and boosting participation in professional conferences. IFAC should be able to meet any ensuing costs within its current budget.
- IFAC should have a stronger right, preferably a statutory right, to obtain information covering relevant public sector authorities as recommended for independent fiscal institutions by the OECD.

### ***The Output of IFAC***

The overall output of IFAC has steadily improved. We regard it today as of high quality. Still, the challenge for IFAC is to maintain and improve its analytical capacity. The credibility and impact of IFAC's publications and recommendations hinge upon its analysis. Here we have some recommendations to foster IFAC's performance. IFAC should consider

- putting more stress on long-term fiscal issues, such as long-term debt sustainability
- complementing its recommendations on the deficit with some more discussion of likely developments in the wider economic context and any resulting uncertainties
- deepening its interaction with the academic community, for example by setting up an academic advisory panel
- developing and using models with a focus on government deficits and debt sustainability and purchasing econometric studies of interest from university departments or organisations with advanced modelling capacity
- commissioning background studies
- canvassing external views on the structure and presentation of its reports and offering a simplified and shorter summary
- including a post mortem section in the Fiscal Assessment Report
- making all data used in tables and charts in the Fiscal Assessment Report downloadable in excel format.

### ***The Impact of IFAC and its Communication Strategy***

IFAC is accepted and respected across the political spectrum. Still its communication strategy can be improved in a number of ways. Specifically, IFAC should consider

- producing a 4/5 page summary of FAR reports in simple language for the general public
- employing infographics to a greater extent as a way of presenting its reports
- organising an annual conference on its outputs and on Irish fiscal policy
- producing shorter explanatory notes aimed at members of the Oireachtas and similar interested parties, including journalists, covering emerging themes
- developing shorter, more popular versions of reports which convey the key messages but offer links to the more detailed material
- appointing a part-time member of staff (or sub-contractor) to deal with external communications
- broadening its website to include a section aimed at lay readers including fact-sheets on important fiscal issues, up-to-date charts on key Irish economic data and links to international websites of similar character
- being active in social media.

***The EU Framework and the Irish Fiscal Framework***

The Irish system of fiscal surveillance is well incorporated within the EU framework. IFAC is viewed as a successful domestic institution by the EU representatives that we have talked to. In a European perspective, it is valuable to have domestic ownership of fiscal surveillance. Here, IFAC has an important role to play.

- Within reason, serving as a bridge between Brussels and Dublin, fostering the exchange of views and information between the European Commission, the European Council and the Government of Ireland and other Irish actors.
- Developing its analytical capacity on issues pertaining to the EU framework of fiscal surveillance such as the output gap, taking account of the specific nature of the Irish economy.
- Continuing to take an active part in the newly established network of European independent fiscal institutions as well as in other international networks for fiscal councils.

