



**Irish Fiscal
Advisory Council**

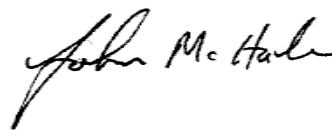
Irish Fiscal Advisory Council
Strategic Plan 2014-2016

INTRODUCTION

Following the establishment of the Irish Fiscal Advisory Council (“the Council”) on a statutory basis, the Council is now publishing its first Strategic Plan.¹ This document sets out a three year plan to 2016 to firmly establish the Council’s role in independent macroeconomic/fiscal surveillance and authoritative fiscal policy advice.

As recognised internationally, an independent fiscal ‘watchdog’ can be a key component of a country’s fiscal architecture. While Ireland has successfully exited the EU/IMF Programme, a strong national fiscal framework is essential to ensure sustainable, broadly based growth in incomes and employment.

The Council’s priority is to support sustainable growth through delivery on each element of our mandate as set out in the *Fiscal Responsibility Acts 2012 and 2013*. This Strategic Plan sets out the vision, mission and goals of our new organisation. It also sets out specific plans to further develop our capacity in relation to each element of our mandate. This will be challenging, but I am confident that the Council and its staff will take the necessary actions to ensure that we fulfil our important role in strengthening Ireland’s fiscal framework.



John McHale
Chair

¹ The Council operated on an interim basis between July 2011 and December 2012. The *Fiscal Responsibility Act 2012* put the Council on a statutory footing.

VISION STATEMENT

The Council's vision is for an economy with broadly based growth in incomes and employment founded on sustainable policies.

MISSION STATEMENT

The Council's mission is to support the effectiveness of fiscal policy in the near- and medium-term through delivery on each element of its mandate as an independent fiscal institution.

BACKGROUND

There is increasing international recognition of the important role that independent fiscal institutions can play in improving the performance of fiscal policy.²

While the establishment of a fiscal council was a requirement of the *EU/IMF Programme of Financial Support for Ireland* (December 2010), it had been proposed domestically in the *National Recovery Plan 2011-2014*, by the Joint Committee on Finance and the Public Service in November 2010 and also in a Department of Finance discussion document.^{3, 4} The Government upon taking office in March 2011, committed to the establishment of a Fiscal Advisory Council. The policy changes in Ireland were also part of more general moves at a European level to strengthen fiscal governance through reforms to the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance.

The Council was established on an administrative basis in July 2011 and comprised of a part-time five-member Council. The Council members were appointed initially with staggered terms ranging from two to four years, with the option of one renewable four-year term (per Council member). A full-time three person Secretariat to the Council was also established headed by a Chief Economist / Head of Secretariat and assisted by an Economist and an Administrator.

² See, for example, Kumar, M. S. and T. Ter-MKinassian (2007), *Promoting Fiscal Discipline*, IMF and OECD Economic Outlook 2010, [Fiscal Consolidation: Requirements, Timing, Instruments and Institutional Arrangements](#).

³ The Joint Oireachtas Committee report is available at: <http://www.oireachtas.ie/documents/committees30thdail/j-financepublicservice/reports/20101111.pdf>

⁴ This Department of Finance proposals were set out in the discussion document *Reforming Ireland's Budgetary Framework*, March 2011 available at: <http://www.finance.gov.ie/sites/default/files/budgetref.pdf>

The *Fiscal Responsibility Act 2012* (enacted December 2012) put the Council on a statutory footing.⁵ The Act provides for a ceiling of €800,000 for the Council indexed to the Harmonised Index of Consumer Prices (as published by the Central Statistics Office).

MANDATE OF THE COUNCIL

The Council has four legally mandated functions. The first three were assigned in the *Fiscal Responsibility Act 2012*. The fourth function (endorsement) was assigned to the Council in July 2013.⁶

1. **To assess the official forecasts** produced by the Department of Finance and published in the Stability Programme and in the Budget.
2. **To assess the fiscal stance** of Government, and specifically whether it is conducive to prudent economic and budgetary management, with reference to the EU Stability and Growth Pact.
3. **To monitor and assess compliance with the Budgetary Rule.**⁷
4. **To endorse the official macroeconomic forecasts** prepared by the Department of Finance in relation to each Budget and Stability Programme. This follows revised European requirements to have national medium-term fiscal plans and draft budgets based on independent macroeconomic forecasts, which means macroeconomic forecasts produced or endorsed by an independent body. A joint Memorandum of Understanding between the Council and the Department of Finance underpins the endorsement process.⁸

The mandate of the Council is summarised in Figure 1.

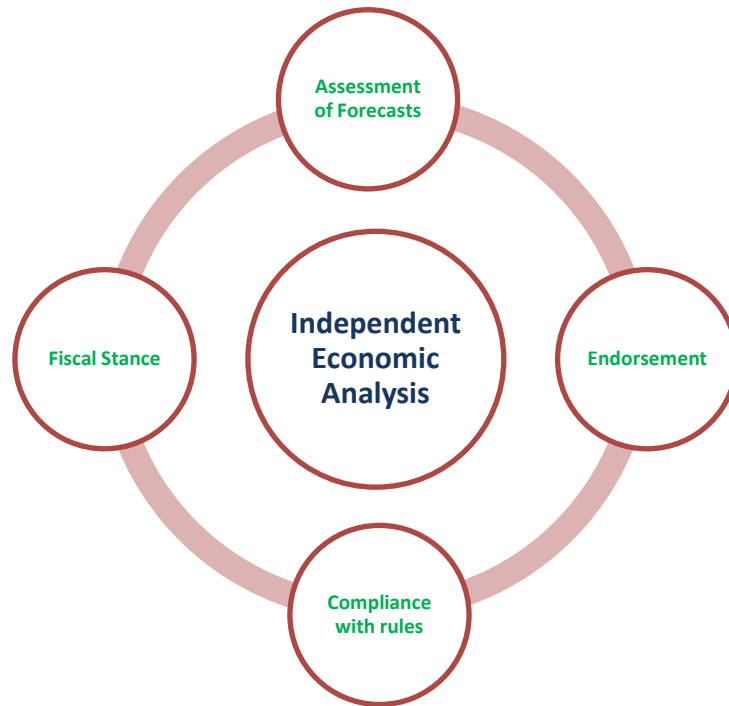
⁵ Prior to the publication of the *Fiscal Responsibility Act 2012*, the Council published a report *Strengthening Ireland's Fiscal Institutions* (January 2012), outlining Council views on the design of a new fiscal framework for Ireland that encompassed both fiscal rules and a permanent independent fiscal council.

⁶ See *Ministers and Secretaries (Amendment) Act 2013* available at: <http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf>.

⁷ The budgetary rule requires that the budgetary position of the general government is in balance or in surplus, or is moving at a satisfactory pace towards that position. The Council must also assess whether any non-compliance is a result of 'exceptional circumstances'. This could mean a severe economic downturn and/or an unusual event outside the control of Government which may have a major impact on the budgetary position.

⁸ The Council's *Fiscal Assessment Report* (November 2013) detailed the process in the run up to *Budget 2014*. The Memorandum of Understanding was subsequently revised in February 2014 and can be accessed here: http://www.fiscalcouncil.ie/wp-content/uploads/2012/08/MoU_Feb2014.pdf

FIGURE 1: MANDATE OF THE COUNCIL



The Council produces biannual fiscal assessment reports as well as an annual report. Reports are submitted to the Minister for Finance and subsequently published within ten days. The Council lays its reports before each House of the Oireachtas. The Council chairperson may also be required to appear before the Oireachtas in relation to its activities.

In relation to the endorsement function, the Council is required to provide a formal letter to the Secretary General of the Department of Finance no later than five working days prior to the publication of the Budget and Stability Programme. In the event that the Council was not in a position to endorse the macroeconomic forecasts, the Council is required to write a letter setting out the reasons for non-endorsement no later than five working days prior to the Budget and Stability Programme.

PROGRESS TO DATE AND CURRENT POSITION OF THE COUNCIL

In its initial years, the Council operated with a full-time Secretariat of three, although In February 2014 two additional staff were hired. The Council has produced five assessment reports and two themed reports. In reviewing the initial years of operation, we have identified a number of strengths, weaknesses, opportunities and threats (Table 1).

TABLE 1: FISCAL COUNCIL: STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

<p>Strengths</p> <ul style="list-style-type: none"> • Analysis: detailed assessment reports drawing on relevant economic theory and evidence. • Forecasting: development of fiscal and economic forecasting tools. • Efficiency: substantive reports have been delivered with a small team. • Adaptability: when tasked with a new endorsement function in 2013, a forecasting capability was quickly developed. • Reputation: a strong reputation for independence has been established. • Relationships: relationships have been built with key stakeholders, including the Oireachtas, the Department of Finance and other parts of Government, data providers, and the media. • Objectivity: the international composition of the Council fosters an objective assessment of macroeconomic and fiscal challenges.
<p>Weaknesses</p> <ul style="list-style-type: none"> • New Body: as a new body, the Council needs to raise awareness of its mandate, operations and assessments. • Small size of Secretariat: small team / secondment arrangements / specialist work / reliant on external agencies for key support services (accounts, information technology, human resources). • Administrative burden: establishing a new statutory body and related requirements with a small administrative team. • Data/informational asymmetries: Government departments may have an informational advantage. • Visibility: international make up of Council can limit day-to-day impact in a crowded field of domestic economic commentators.
<p>Opportunities</p> <ul style="list-style-type: none"> • End of EU/IMF Programme: moving beyond the EU/IMF Programme will give more importance to the national fiscal framework of rules and surveillance. • Endorsement function: significant oversight and role in the production of official forecasts. • Deepen analysis/research: larger Secretariat (fully resourced from 2014Q1) gives scope for richer analysis and more visible output.

- **Reputation:** opportunity to become firmly established as the independent authoritative statutory watchdog on the fiscal stance of Government.
- **European and domestic agenda:** role of Council in the European and domestic debate on fiscal rules, structures and economic governance.

Threats

- **Capacity:** small size means high reliance on key personnel.
- **Influence:** improving economic fortunes could limit the influence of the Council when its role is most critical.
- **Independence:** although the Council's independence is underpinned by legislation, in the future a government could seek to reduce current protections.
- **Cooperation:** the Council is highly reliant on information from government departments and agencies.
- **Organisational:** disruption to existing service-level agreements could severely impede the functioning of the Council.

MISSION STATEMENT AND GOALS

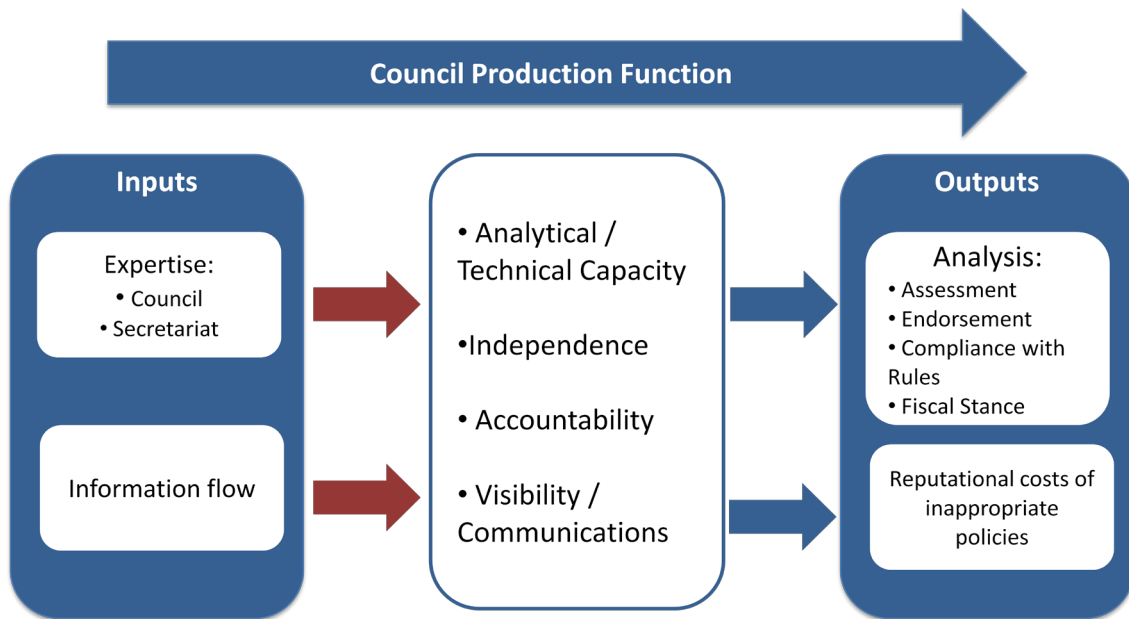
As stated above, the Council's mission is *to support the effectiveness of fiscal policy in the near- and medium-term through delivery on each element of its mandate as an independent fiscal institution.*

To fulfil this mission, we have identified **one central goal and three supporting goals:**

- **Central Goal.** Deliver on all elements of our **mandate:** assessment, endorsement and compliance.
- **Supporting Goal 1.** Ensure **compliance** with all requirements for a statutory body.
- **Supporting Goal 2.** Promote **awareness** of fiscal policy issues.
- **Supporting Goal 3.** Continuously improve **analytical capacity.**

The Council's intentions to deliver on these goals are encapsulated visually in Figure 2.

FIGURE 2: COUNCIL PRODUCTION FUNCTION



MEDIUM TERM STRATEGY 2014-2016

Central Goal: Deliver on all Elements of our Mandate

Goal	Outputs
<p>Assessment of:</p> <ul style="list-style-type: none"> • Fiscal Stance. • Official Forecasts. • Compliance with Budgetary Rule. 	<p>The Council will:</p> <ul style="list-style-type: none"> • Publish at least two Fiscal Assessment Reports every year; with reports to be produced within 6 weeks of each Budget and within 8 weeks of the Stability Programme. • Report systematically on official forecasts (<i>ex ante</i> and <i>ex post</i>). • Continue to develop analytical approach to assessing the fiscal stance. • Carry out regular reviews of each Assessment Report and document changes/improvements for future reports.
<p>Endorsement of:</p> <ul style="list-style-type: none"> • Macroeconomic Forecasts. 	<ul style="list-style-type: none"> • Prepare and publish the Council benchmark forecasts prepared by the Secretariat as an input in the Council's endorsement considerations. • Document the Council's approach to each endorsement exercise in each Fiscal Assessment Report including all relevant meetings, data and decisions. • Publish an endorsement letter (or reasons for non endorsement) no later than five working days prior to each Budget and Stability Programme. • Further develop and refine short- and medium- term forecasting models. • Review existing Memorandum of Understanding with the Department of Finance.

Supporting Goal 1: Ensure Compliance with all Requirements for a Statutory Body

Goal	Outputs
Publication of annual report and a set of financial accounts.	<p>The Council will:</p> <ul style="list-style-type: none"> • Publish an annual report in the first half of every year. • Publish its annual financial accounts no later than nine months following the end of the financial year. • Implement any recommendations following audit by the Comptroller and Auditor General. • Review ongoing requirements for statutory bodies and update procedures as may be required.
Independence and transparency.	<ul style="list-style-type: none"> • Publish dates of all Council meetings. • Publish all formal interactions with Government. • Respond to all queries (including parliamentary questions) in relation to Council activities. • Ensure that the website is up to date and reflective of Council work (meetings, decisions, reports, presentations).
External review of Council operations.	<ul style="list-style-type: none"> • Initiate an external review of the Council's operations in 2015 taking into account performance over the period since July 2011. • Implement, as appropriate, the recommendations of the external peer review group. • Publish the findings of the external peer review and also publish the Council's plans in light of those findings.

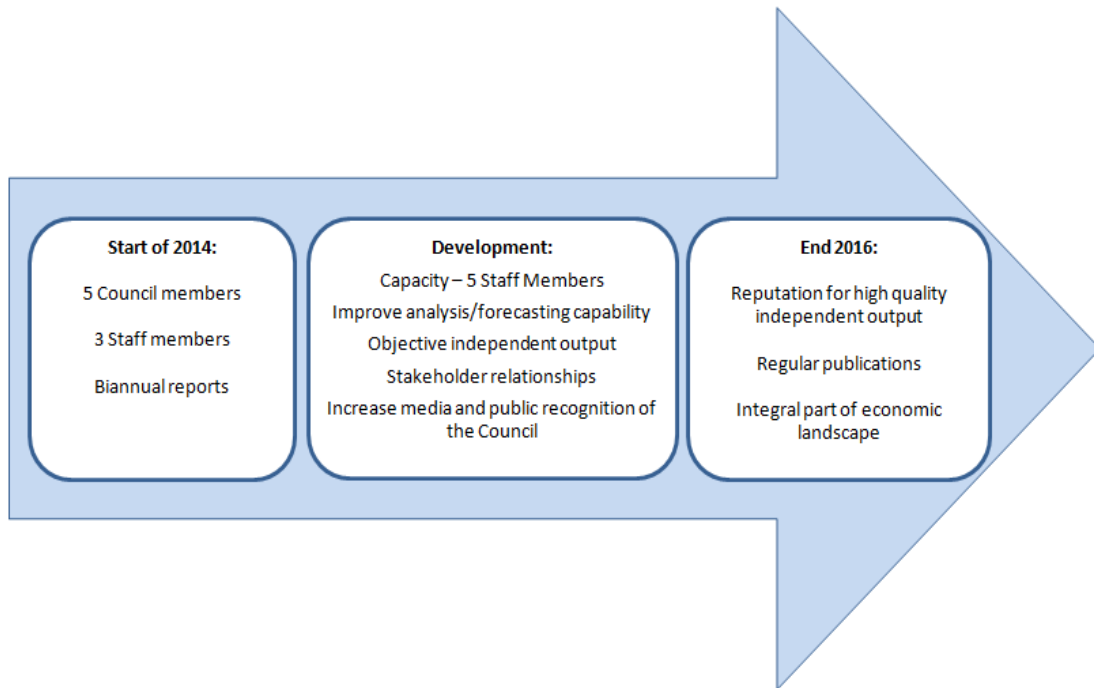
Supporting Goal 2: Promote Awareness of Fiscal Policy issues

Goal	Outputs
Two Fiscal Assessment Reports every year.	<ul style="list-style-type: none"> • Ensure that Fiscal Assessment Reports are presented in a clear manner to the highest possible professional standards. • Ensure that reports contain non-technical summaries. • Ensure that queries on reports are responded to in a timely manner.
Working papers.	<ul style="list-style-type: none"> • Publish key analytical work undertaken in relation to its mandate outside of the bi-annual assessment reports. • Seek to present such work at relevant conferences/seminars. • Raise awareness on fiscal issues and activities of the Council outside of the Fiscal Assessment Report cycle.
External communications and awareness of the Council.	<ul style="list-style-type: none"> • When invited, the Council will appear before Oireachtas Committees in relation to its work. • Host media briefings prior to the publication of each Fiscal Assessment Report. • Publish press briefings (including presentations). • Review Council media policy on an annual basis. • Participate in domestic and international conferences and seminars of relevance to the Council's mandate. • Respond in a timely manner to all queries in relation to its activities.

Supporting Goal 3: Continuously Improve Analytical Capacity

Goal	Outputs
<p>Economic Forecasting:</p> <ul style="list-style-type: none"> • Short-term and medium-term forecasting. • Long-term forecasting. 	<ul style="list-style-type: none"> • Further develop the Secretariat’s short-term (2 year) and medium-term (3 to 5 years) forecasting capabilities through training, recruitment and reviewing benchmark forecasts. • Document and publish its approaches to forecasting. • Make key databases available on its website. • Liaise with the joint Economic and Social Research Institute (ESRI)/Central Bank of Ireland modelling group.
<p>Public Finances and Fiscal Rules.</p>	<ul style="list-style-type: none"> • Ensure staff are appropriately trained and informed on all issues relating to the public finances and fiscal rules. • Document clearly the Government’s compliance or non-compliance with the budgetary rule. • Further develop analysis of revisions to public finance projections relative to plans. • Further develop analysis of budgetary one-offs. • Develop understanding of key drivers of public expenditure forecasts. • Develop long-term fiscal projections. • Publish key tools used to assess budgetary compliance.
<p>Full-time five-person Secretariat.</p>	<ul style="list-style-type: none"> • Ongoing training for Secretariat and Council Members where appropriate. • Regular reviews of Secretariat output. • Supportive work environment. • Ensure that there are clear work plans and goals in place for staff. • Liaise with service providers to ease administrative burden on staff (to include an annual review of any Service Level Agreements).
<p>Stakeholders.</p>	<ul style="list-style-type: none"> • Periodically meet with key stakeholders of the Council to hear their views on economic issues and work related to the Council. To include: Committees to Houses of the Oireachtas, Central Statistics Office, Department of Finance, Department of Public Expenditure and Reform, ESRI, private economic forecasting agencies, other international fiscal councils. • Participate in international fiscal council forums.

OVERVIEW OF IFAC STRATEGY 2014-2016



The Council will work closely with its Secretariat to ensure the delivery of its mandate and the fulfilment of all statutory requirements. At all times, the Council will ensure that the Secretariat is appropriately resourced given the specialised nature of its work.

IMPLEMENTATION PLAN

An implementation plan covering the period to 2016 will be developed to ensure the delivery of this strategy. The plan will break the key goals of the Council into their constituent parts and identify priorities within each goal and timelines for completion. Each goal will be overseen by a Council member. The Council will monitor the implementation of the plan.

An external review of the Council's operations in 2015 will form an integral part of this process.

The success of the implementation plan will depend on:

- Retaining of, and hiring suitably qualified staff.
- Active participation by Council members.
- Regular review and reporting of progress.

VALUES

To deliver on its mandate, the Council's output depends on the ability and commitment of its staff. The working environment must support professional development and recognise excellence and the importance of collective team effort.

The key values of the Council are:

- High quality analytical output.
- Independence and integrity.
- Openness, objectivity and transparency.
- Highest ethical standards.

COUNCIL MEMBERS (MARCH 2014)

John McHale (Chairman)
National University of Ireland, Galway

Alan Barrett
Economic and Social Research Institute (ESRI)

Sebastian Barnes
Organisation for Economic Co-operation and Development (OECD)

Donal Donovan
Adjunct Professor at the University of Limerick

Roisin O'Sullivan
Smith College, Massachusetts