



**Irish Fiscal  
Advisory Council**

**Annual Report and  
Accounts**

for the year ended  
31st December 2018

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## Chairperson's Statement

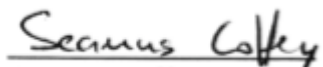
This is the Irish Fiscal Advisory Council's sixth annual report as a statutory body. The Council's role is to independently assess, and comment publicly on, whether the Government is meeting its own stated budgetary targets and objectives. It is required to assess and endorse, as it considers appropriate, the official macroeconomic forecasts underpinning each Budget and Stability Programme Update. The Council also assesses the fiscal forecasts and the fiscal stance, and monitors compliance with legislated fiscal rules.

Since its establishment, the Council has sought to ensure that it fulfils its mandate as effectively as possible. In 2018, the Council continued to develop its analytical capacity so that conclusions and recommendations included in its Fiscal Assessment Reports are well-founded. It has endeavoured to present its analytical work in a way that informs debate and discussion around fiscal policy issues. During the year, the Council has also engaged in public debate through, for example, its three appearances before the Oireachtas Select Committee on Budgetary Oversight, and through presentations by Council and Secretariat members at public conferences and events. The Council also participated in the fourth National Economic Dialogue held in June 2018. In March 2018, the Council's second annual "Path for the Public Finances" conference took place. It focused on the theme of how the economic cycle is measured, with speakers from the Brussels-based think-tank Bruegel, the OECD, the National Institute of Economic and Social Research, the Economic and Social Research Institute, the Central Bank, the Department of Finance and Trinity College Dublin. The Council also participated in the Network of European Union Independent Fiscal Institutions, attended EU Commission meetings, and attended OECD meetings such as the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO).

During 2018, along with its Audit and Risk Committee, the Council continued to adopt, review, and implement policies and procedures in line with the Code of Practice for the Governance of State Bodies, building on the work carried out since the Council's establishment. For example, the Council approved new or revised policies on Gifts &

Hospitality, Media relations, Risk and Social media, as well as an Internal Audit Activity Charter and the Audit and Risk Committee Charter. The Council's internal auditors carried out two audits in 2018: a joint audit of the Statement of Internal Control and a follow-up Statement of Financial Control Review; and a Review of Compliance with GDPR. I can confirm that the appropriate requirements of the Department of Public Expenditure and Reform Public Spending Code are being complied with.

The Council's primary outputs are its bi-annual Fiscal Assessment Reports which were published in June and November 2018, after the annual Budget and Stability Programme. These reports continue to attract considerable attention and that has helped to ensure that the views of the Council feature in debates on fiscal issues. Detailed responses were provided by the Minister for Finance following the publication of each Fiscal Assessment Report in 2018. In September 2018, the Council published its fifth Pre-Budget Statement, for Budget 2019. In May 2018, the Council published its second assessment of compliance with the Domestic Budgetary Rule: an ex-post assessment of compliance with the Domestic Budgetary Rule in 2017. The Council also published several working papers during the year including "Inside the "Upside Down": Estimating Ireland's Output Gap"; "Designing a Rainy Day Fund to Work within the EU Fiscal Rules"; and "Nowcasting to Predict Data Revisions".



Seamus Coffey,  
Chairperson

## Introduction

### Background

The Irish Fiscal Advisory Council (“the Council”) was established on an interim basis in July 2011 and on a statutory basis in December 2012 by the Fiscal Responsibility Act 2012. The Council is comprised of a five-member Council and a seven-member, full-time Secretariat, headed by a Chief Economist/Head of Secretariat. The Council’s mandate is to provide independent assessments of official macroeconomic and budgetary forecasts, assessments of compliance with the statutory Budgetary Rule, assessments of the overall stance of fiscal policy, and endorsements (as appropriate) of the official macroeconomic forecasts prepared by the Department of Finance.<sup>1</sup>

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 and by the Joint Committee on Finance and the Public Service in November 2010.<sup>23</sup> The Programme for Government of the new Government, which took 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 Fiscal Responsibility Act 2012 (December) put the Council on a statutory footing.<sup>4</sup> The Act provides for an annual financial ceiling of

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<sup>1</sup> The endorsement function was assigned to the Council in mid-2013 following an amendment to the Fiscal Responsibility Act 2012. See: <http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf>.

<sup>2</sup> The Joint Oireachtas Committee report is available at: <http://www.oireachtas.ie/documents/committees30thdail/jfinancepublicservice/reports/20101111.pdf>.

<sup>3</sup> The initial Department of Finance proposal was set out in detail in the discussion document Reforming Ireland’s Budgetary Framework: A Discussion Document, March 2011 available at: <http://www.finance.gov.ie/sites/default/files/budgetref.pdf>.

<sup>4</sup> Prior to the publication of the Act, the Council published a report Strengthening Ireland’s Fiscal Institutions (January 2012), outlining our views on the design of a new fiscal framework for Ireland that encompassed both fiscal rules and a permanent independent fiscal council.

€800,000 for the Council.<sup>5</sup> Within this ceiling, the amount incurred by the Council in performing its functions is met from the Central Fund.

## Mandate

The Council has four legally mandated functions. The first three were assigned in the *Fiscal Responsibility Act 2012*<sup>6</sup>. The fourth function (endorsement) was assigned to the Council in July 2013.<sup>7</sup>

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.**<sup>8</sup>
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.<sup>9</sup>

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<sup>5</sup> This is subject to adjustment in line with inflation.

<sup>6</sup> <http://www.irishstatutebook.ie/eli/2012/act/39/enacted/en/print.html>

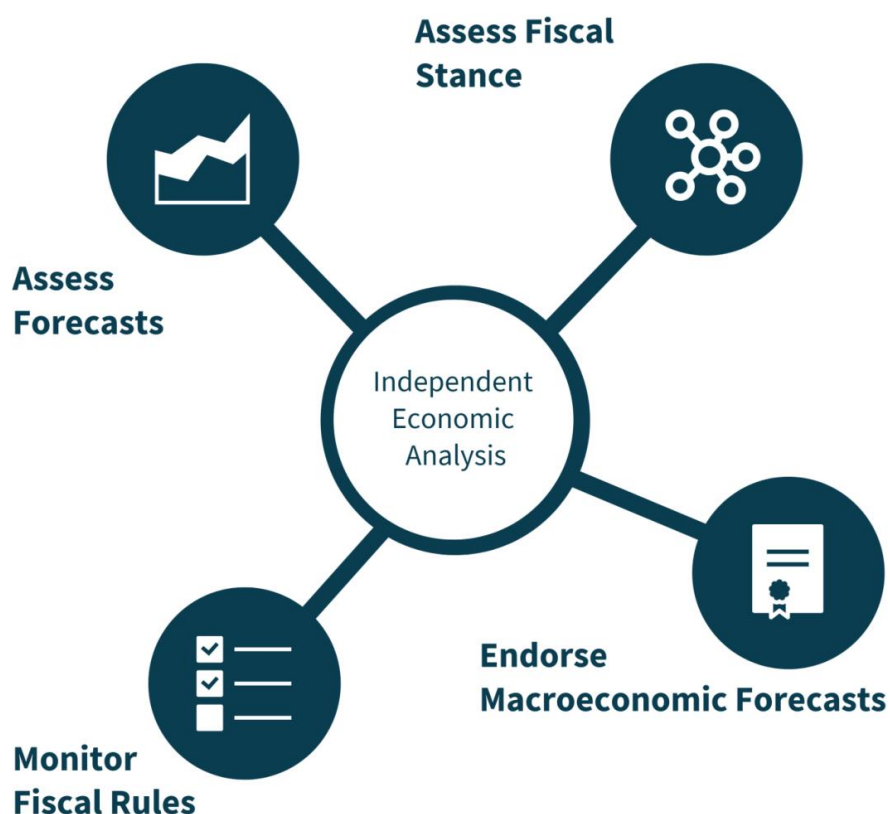
<sup>7</sup> See Ministers and Secretaries (Amendment) Act 2013:

<http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf>

<sup>8</sup> 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.

<sup>9</sup> 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](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 Pre-Budget Statement. Reports are submitted to the Minister for Finance and subsequently published within ten days. The Council lays its Annual 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 at least five working days before the Department publishes the Budget and Stability Programme.<sup>10</sup> If the Council were to conclude that it had significant reservations about the preliminary or “provisional final” macroeconomic forecasts, it would immediately communicate these informally to the Department. If, following further discussions, the Council were still not in a position to endorse the macroeconomic

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<sup>10</sup> The process of this function is outlined in the Memorandum of Understanding between the Fiscal Council and Department of Finance, 2017 and can be accessed here: [http://www.fiscalcouncil.ie/wp-content/uploads/2011/07/IFAC\\_DoF\\_Forecasting\\_MoU\\_2017-FINAL.pdf](http://www.fiscalcouncil.ie/wp-content/uploads/2011/07/IFAC_DoF_Forecasting_MoU_2017-FINAL.pdf)

forecasts underlying the Budget or Stability Programme Update (SPU), the Chair would write to the Secretary General explaining why this was the case, at least five working days before the Department publishes the Budget or SPU.

To support the delivery of its mandate, the Council also produces reports for specific purposes, including Analytical Notes, Working Papers and other analytical work on the Irish economy, macroeconomic forecasting, and fiscal policy, in addition to an annual *Ex-Post* Assessment of Compliance with the Domestic Budgetary Rule.



## Membership of the Council and the Secretariat

The Minister for Finance appointed the Council's five members based on their experience and competence in domestic and international macroeconomic and fiscal matters. In 2018, the Council had a strong international dimension with three members based outside of Ireland.

### Council members in 2018

- **Mr Seamus Coffey** (Chairperson): Lecturer in Economics in UCC. His term of appointment to the Council is four years, effective 1 January 2016. His appointment as Chairperson is effective from 1 January 2017.
- **Mr Sebastian Barnes**: Economic Counsellor to the Chief Economist of the OECD. His term of appointment to the Irish Fiscal Advisory Council was four years effective 31 December 2012. He has been reappointed for a further four-year term effective from 1 January 2017.
- **Dr Íde Kearney**: Senior Economist in the Research Division of the Dutch Central Bank (De Nederlandsche Bank). Her term of appointment to the Irish Fiscal Advisory Council is four years effective 11 March 2015.
- **Mr Michael G. Tutty**: Retired Commissioner for Energy Regulation. His appointment to the Irish Fiscal Advisory Council was effective 24 September 2015, followed by a second term of 4 years effective from 1 January 2016.
- **Dr Martina Lawless**: Associate Research Professor at the ESRI. Her term of appointment to the Irish Fiscal Advisory Council is four years effective 1 January 2017.

### Secretariat

The Secretariat's full complement of staff is a Chief Economist/Head of Secretariat (Dr Eddie Casey), two Economists, three Research Assistants, and an Administrator. During 2018, the Council recruited three new members of staff, two of which were replacements for existing staff.

## **Strategic Goals**

### **Central Goal: Deliver on all Elements of our Mandate**

#### **Assessment of Fiscal Stance, Official Forecasts, and Compliance with Budgetary Rule**

- The Council published two Fiscal Assessment Reports, as well as a Pre-Budget Statement, in 2018:
  - The “Fiscal Assessment Report, June 2018” published on 6 June 2018 (within eight weeks of the Stability Programme Update) assessed the macroeconomic and budgetary forecasts that the Government set out in the 2018 “Stability Programme Update”. It also assessed compliance with legislated fiscal rules and the appropriateness of the broader fiscal stance.
  - The “Fiscal Assessment Report, November 2018” published on 28 November 2018 (within six weeks of the Budget) assessed the fiscal stance that the Government set out in Budget 2019. It also assessed the macroeconomic and fiscal forecasts, and monitors compliance with legislated fiscal rules.
  - The “Pre-Budget 2019 Statement” published on 7 September 2018 reviewed the fiscal stance in advance of Budget 2019. The Council’s assessment focused on an economic analysis, which assesses the appropriateness of the fiscal stance in terms of the principles of sound economic and budgetary management, and an assessment of whether the Government’s fiscal plans are in line with the requirements of the budgetary framework.
- The Council reported systematically on official forecasts as part of these reports.
- The Council continued to develop its analytical approach to assessing the fiscal stance and compliance with the Domestic Budgetary Rule. In May 2018, the Council published its “Ex-Post Assessment of Compliance with the Domestic Budgetary Rule in 2017”.
- After publishing each of its Fiscal Assessment Reports, the Council reviewed the report and documented changes/improvements for future reports.

## Requests made to other public bodies in relation to this goal

Recommendation	Report	Page
<p>Extend the Department of Finance forecasting horizon to five years</p> <ul style="list-style-type: none"> <li>The shortening of the horizon in the Government's most recent projections from five to three years ahead is not compatible with the aim of achieving medium-term fiscal stability.</li> </ul>	Fiscal Assessment Report June 2018	8
<p>The Government should make an explicit commitment to adhere to what it sees as a sensible medium-term path for spending growth (net of discretionary revenue measures).</p> <ul style="list-style-type: none"> <li>This could be operationalised on the basis of—at minimum—following the spending rule (the Expenditure Benchmark) even after the MTO is met and it should be informed by the Department's own medium-term estimates of potential output growth.</li> </ul>	Fiscal Assessment Report June 2018	29
<p>Strengthen the design of the Rainy Day Fund</p> <ul style="list-style-type: none"> <li>The Rainy Day Fund should be foremost a truly countercyclical fund – one that dampens swings in the cycle and alleviates procyclicality in the rules rather than just allocating fixed contributions regardless of this. A recent Fiscal Council working paper outlines how relatively modest changes in the fiscal rules would help to achieve this (Casey et al., 2018).</li> </ul>	Fiscal Assessment Report June 2018	29
<p>Improve the medium-term debt target</p> <ul style="list-style-type: none"> <li>The Government's medium-term debt target, which aims for a debt level of 55 per cent of GDP over an unspecified timeframe, would be better specified if it were: (1) clearly time-bound (To help guide the debt burden to safer levels, the Government should publish debt ratio targets for individual years so that these can be assessed over time); (2) set against a more appropriate denominator than GDP; (3) set as a ceiling rather than as a target; (4) committed to in a credible manner; and (5) actually set at a low or prudent level.</li> </ul>	Fiscal Assessment Report June 2018 and November 2018	30 (Jun) and 45 (Nov)
<p>Spending Ceilings should be more realistic</p> <ul style="list-style-type: none"> <li>More realistic spending plans should be set out in advance, and subsequent spending controls and monitoring should be strengthened</li> </ul>	Fiscal Assessment Report November 2018	45

## Outcome of previously requests in relation to this goal (from 2017 Annual Report)

Previous Recommendation	Outcome
<p>Develop Alternative Medium Term Forecasts of Potential</p> <ul style="list-style-type: none"> <li>In order to support countercyclical policy, the Department of Finance should more fully develop and communicate its views on the cyclical position of the economy. Signs of overheating may be missed if it continues to overly rely on the EU Commonly Agreed Methodology (CAM) for supply-side estimates as it has limited applicability to a small open economy.</li> <li>The Council welcomes the Department's commitment to develop alternative supply-side estimates for medium-term forecasts in the coming 12 months, alongside continuing to produce the CAM estimates to meet legal requirements.</li> </ul>	<p>The Department of Finance has since developed a suite of alternative models for estimating the supply side (Murphy, Nacheva and Daly, 2018). These were used for assessing the cyclical position in the main tables of <i>Budget 2019</i> and <i>SPU 2019</i>.</p>
<p>Publish Information on Compliance with the Fiscal Rules and One-Offs</p> <ul style="list-style-type: none"> <li>To assess compliance with the fiscal rules, future budget and Stability Programme Update (SPU) documents should publish information on compliance outturns for previous years and information on one-offs removed from expenditure and revenue aggregates when assessing compliance.</li> </ul>	<p>The Department of Finance still does not publish clear information on one-offs included for the purposes of assessing compliance (beyond their aggregate value as % GDP).</p>
<p>Publish more details on the Rainy Day Fund</p> <ul style="list-style-type: none"> <li>Further detail is expected from the Department with regard to the specification of the Rainy Day Fund. Details of how it is to operate should be published.</li> </ul>	<p>Details of the fund were outlined in a bill published in October 2018. The Government intends to establish the "National Surplus (Exceptional Contingencies) Reserve Fund" with the Bill's passage into law this summer.<sup>11</sup></p>
<p>The Government Should Develop its Debt Targets</p> <ul style="list-style-type: none"> <li>The use of specified debt ratios as a tool for budgetary management can be a useful innovation in the Irish context, but a more constructive approach is needed to defining prudent debt ratios.</li> <li>The target should be set relative to GNI* (Gross National Income, less retained earnings of re-domiciled PLCs and less depreciation of foreign-owned domestic capital) to achieve a prudent level of debt.</li> <li>A clearer timeline and milestones for the proposed debt path (that is, years by which certain debt levels are to be attained) should be identified to enable an assessment of performance over time.</li> <li>The specified debt ratios should be stated clearly as either targets (for example, a steady state position to be met on average) or as ceilings/limits.</li> <li>A broader assessment of long-term expenditure pressures should be considered as part of the determination of debt targets.</li> </ul>	<p>The debt target does not appear to have been developed by the Government any further. It is no longer referenced in key documentation like <i>Budget 2019's</i> Economic and Fiscal Outlook nor in the <i>Annual Report on Public Debt 2018</i>.</p>
<p>Return to Publishing Five-Year-Ahead Forecasts</p> <ul style="list-style-type: none"> <li>Although not formally required, the Department had established a practice of publishing five-year-ahead forecasts, which in this case would be out to 2022. As medium-term forecasts are key for setting the public finances on a sustainable path, the Council would welcome a return to forecasting on this horizon.</li> </ul>	<p><i>Budget 2019</i> included five-year-ahead forecasts to 2023 and <i>SPU 2019</i> included four-year-ahead forecasts to 2023.</p>

<sup>11</sup> Available at: [https://data.oireachtas.ie/ie/oireachtas/bill/2018/116/eng/ver\\_a/b116a18d.pdf](https://data.oireachtas.ie/ie/oireachtas/bill/2018/116/eng/ver_a/b116a18d.pdf)

## Endorsement of Macroeconomic Forecasts

- The Council finalised the benchmark projections that the Secretariat prepared as an input in its endorsement considerations.
- Each Fiscal Assessment Report documented the Council’s approach to the corresponding endorsement exercise, including relevant meetings, data, and decisions.
- On 10 April 2018—more than five working days before the Stability Programme Update—the Council endorsed as within the range of appropriate forecasts the set of medium-term macroeconomic projections prepared by the Department of Finance on which Stability Programme Update 2018 (SPU 2018) would be based. On 2 October 2018—more than five working days before the Budget—the Council endorsed as within the range of appropriate forecasts the set of macroeconomic projections prepared by the Department of Finance for Budget 2019 for the years 2018 and 2019.
- The Council continued to develop and refine its short- and medium-term forecasting models. In January 2018, the Council published a working paper entitled “Inside the “Upside Down”: Estimating Ireland’s Output Gap”. This Working Paper explores a number of ways to estimate supply side estimates that are relevant for Irish fiscal policy. On 6 June 2018, the Council published “A New Stand-Still Scenario for Government Spending in the Medium Term, 2019-2013” paper, which examines medium-term spending projections on the basis of maintaining today’s level of public services and benefits in real terms over the medium term. A Working Paper “Nowcasting to Predict Data Revisions” was also published in October 2018, which develops timely estimates of current economic activity (“Nowcasts”) and explores a way to use Nowcasting as a technique to predict macroeconomic data revisions.
- The Council continued to review the “Memorandum of Understanding between the Irish Fiscal Advisory Council and the Department of Finance relating to the ‘Endorsement Function’ of the Council under the Fiscal Responsibility Acts 2012 and 2013”. On 31 January 2018, the Secretary General of the Department of Finance and the Chairperson of the Council signed the revised version.

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

### **Publication of Annual Report and a set of financial accounts**

- On 27 September 2018, the Council published its Annual Report and Accounts for the year ended 31 December 2017. This was within one month of the Comptroller and Auditor General completing its audit of the Council's financial statements, but not within six months of the end of the financial year.
- In 2018/2019, the Council implemented recommendations from the previous audit by the Comptroller and Auditor General.
- The Council continued to review ongoing requirements for statutory bodies and updated its procedures as required.

### **Independence and transparency**

- The Council published dates of Council meetings.
- The Council published all formal interactions with Government in 2018.
- The Council responded to all queries (including Parliamentary Questions) in relation to Council activities.
- The Council ensured that the website remained up to date and reflective of Council work including minutes of meetings, decisions, reports, and presentations.

### **External review of Council operations**

- In 2018, the Council implemented, as appropriate, the recommendations of the 2015 external peer review group.

## **Supporting Goal 2: Promote Awareness of Fiscal Policy issues**

### **Two Fiscal Assessment Reports and a Pre-Budget Statement every year**

- The Council presented its reports in a clear manner to the highest possible professional standards, in print and on its website.

- To ensure that its reports contained non-technical summaries, the Council highlighted the “Summary Assessment” from both Fiscal Assessment Reports, and highlighted the key messages from its “Pre-Budget 2019 Statement”.
- The Council responded to queries on its reports in a timely manner.

### **Analytical Notes and Working Papers**

- The Council published a Working Paper in June 2018 in relation to its mandate: “Designing a Rainy Day Fund to Work within the Fiscal Rules.”
- The Council presented its work at relevant conferences/seminars:
  - Eddie Casey and Niall Conroy presented on the Council’s work on overheating and alternative estimates of the output gap at the Council’s “Path for the Public Finances, 2018: ‘Too Hot, Too Cold! The Irish Cycle’” conference in Dublin on 5 March 2018.
  - The Chairperson, Seamus Coffey, presented the Macroeconomic and Fiscal Context for Budget 2019 at the ESRI’s Budget Perspectives Conference 2019 in Dublin on 10th July 2018.
  - Eddie Casey presented at the Output Gap Working Group Workshop in Vilnius, Lithuania on 5th September 2018.
  - Eddie Casey presented on “Nowcasting to Predict Data Revisions” at the Network of EU IFIs Meeting in Bratislava on 23rd November 2018.
- The Council raises awareness on fiscal issues and activities of the Council outside of the Fiscal Assessment Report cycle.

### **External communications and awareness of the Council**

- The Council appeared before the Oireachtas Select Committee on Budgetary Oversight when invited (13 June 2018, 19 September 2018, and 5 December 2018).
- The Council hosted media briefings before publishing each Fiscal Assessment Report.
- The Council published a press release and presentation for each Fiscal Assessment Report.

- The Council held the second in the series of its annual “Path for the Public Finances” conferences on 5 March 2018. The conference theme was “Too Hot, Too Cold! The Irish Cycle”, and focused on how the economic cycle is measured; the possibility of overheating in the Irish economy; and potential long-run impacts on Ireland’s trend growth from Brexit and other external developments. The conference included speakers from the Brussels-based think-tank Bruegel, the OECD, the National Institute of Economic and Social Research, the Economic and Social Research Institute, the Central Bank, the Department of Finance and Trinity College Dublin.
- The Council and Secretariat participated in relevant domestic and international conferences and seminars, including:
  - Network of EU Independent Fiscal Institutions (EU IFIs), Rome, (4 May 2018);
  - 32nd Annual Irish Economic Association Conference (10–11 May 2018);
  - International Conference of Councils on Economic Policy, The Hague (22 June 2018);
  - National Economic Dialogue (27–28 June 2018);
  - 10<sup>th</sup> Annual Meeting of the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions, Seoul (2–4 July 2018);
  - EU Network of Independent Fiscal Institutions (EUNIFI) meeting, Seoul (4 July 2018);
  - European Commission DG Economic and Financial Affairs Stakeholders' Workshop on the Suitability Review of the Budgetary Frameworks Directive, Brussels (4 July 2018);
  - CSO National Accounts Briefing (19 July 2018);
  - EUIFI network’s Output Gap Working Group Workshop, Vilnius, Lithuania (5 September 2018);
  - Dublin Economics Workshop’s Annual Economic Policy Conference (15 September 2018);
  - EU Network of Independent Fiscal Institutions (EUNIFI), Brussels, (25 September 2018);



- Inter-Parliamentary Financial Information Network's annual conference, Edinburgh, (4–5 October 2018);
  - DPER Annual Management Conference, Kilkenny, (25 October 2018);
  - EU Network of Independent Fiscal Institutions (EUNIFI), Bratislava, (23 November 2018).
- The Council responded in a timely manner to all queries on its activities.
  - The Council made greater use of the website and social media accounts, to establish the Council as the authoritative source on fiscal policy and fiscal stance in Ireland. The Council redeveloped the website to make it more user friendly. The Council posted on its Twitter account about its publications, endorsements, and infographics, as well as topics such as corporation tax, Exchequer Returns and government debt.

## **Achieving Our Goals**

### **Economic Forecasting: Short-term and medium-term forecasting; Long-term forecasting**

- The Council further developed the Secretariat’s short-term (2 year) and medium-term (3–5-year) forecasting capabilities through training, recruitment, and reviewing Benchmark projections.
- In January 2018, the Council published a working paper entitled “Inside the “Upside Down”: Estimating Ireland’s Output Gap”. This Working Paper explores a number of ways to estimate supply-side estimates that are relevant for Irish fiscal policy.
- A Working Paper “Nowcasting to Predict Data Revisions” was also published in October 2018, which develops timely estimates of current economic activity (“Nowcasts”) and explores a way to use Nowcasting as a technique to predict macroeconomic data revisions.
- The Council agreed a trial license for using COSMO (COre Structural MOdel for Ireland), and began work on using the model.

### **Public Finances and Fiscal Rules**

- The Council continued to ensure that Secretariat staff members are appropriately trained and informed on all issues relating to the public finances and fiscal rules.
- The Council documented clearly the Government’s compliance or non-compliance with the domestic Budgetary Rule, in its “Assessment of Compliance with the Domestic Budgetary Rule in 2017” publication in May 2018.
- The Council further developed its analysis of revisions to public finance projections relative to plans, its analysis of budgetary one-offs, and its understanding of key drivers of public expenditure forecasts.
- The Council continued to develop its work on producing long-term fiscal projections.

### **Full-time seven-person Secretariat**

The Secretariat recruited three new members of staff in 2018, two of which were replacements for existing staff members.

- The Council provided ongoing training for Secretariat where appropriate. Training for staff members covered topics such as Fiscal Rules, employment law for Irish employers, corporate governance, General Data Protection Legislation and Freedom of Information legislation.
- The Council continued regularly reviewing the Secretariat's output.
- The Council and Secretariat maintained a supportive work environment.
- The Council made sure that clear work plans and goals were in place for staff in 2018.
- The Council liaised with service providers to ease the administrative burden on staff, and continued its annual review of its Shared Service Agreement with the ESRI (Economic and Social Research Institute).

### **Stakeholders**

- During 2018, the Council and Secretariat met with their key stakeholders of the Council to hear their views on economic issues and work related to the Council. This included Committees to Houses of the Oireachtas, the Central Statistics Office, the Department of Finance, the Department of Public Expenditure and Reform, the ESRI, private economic forecasting agencies, and other international fiscal councils.
- During 2018, the Council participated in international fiscal council forums, attending meetings of the Network of EU Independent Fiscal Institutions (EUIFI), EU Network of Independent Fiscal Institutions (EUNIFI), and OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions.

## **Governance**

### **Audit and Risk Committee**

In 2018, the Audit and Risk Committee's members were:

- Michael G Tutty (Chairperson)
- Dr Martina Lawless (appointed in January 2017)
- Michael Kelly (external member appointed in February 2016).

The Audit and Risk Committee met on four dates in 2018:

- 20 March
- 21 June
- 17 September
- 3 December

In 2014, the Fiscal Council appointed Mazars as internal auditors for 2015–2017. In June 2018, following a procurement process, the Fiscal Council re-appointed Mazars as internal auditors. In 2018, Mazars carried out a number of internal audits:

- System of Internal Financial Controls (2017) & follow up review on 2016;
- Review of compliance with GDPR.

In October 2018, the Council approved the updated Charter of the Audit and Risk Committee, and approved the Internal Audit Charter.

### **Disclosure of interests**

In accordance with the Code of Practice for the Governance of State Bodies, the Council has a Code of Business Conduct which includes guidance in relation to the disclosure of interests by Council Members. These procedures were complied with.

Council members are designated directors for the purposes of the Ethics in Public Office Acts 1995 and 2003, and have obligations in relation to disclosure of material interest and an annual statement of interest under the terms of the Acts.

## **Self-Assessment Evaluation**

The Council completed its annual self-assessment evaluations for 2018. Council members returned completed annual self-assessment evaluations to the Chairperson.

## **Appendix: Statement on System of Internal Controls in a State Body (from the Chairperson's Comprehensive Report to the Minister)**

- 1) On behalf of the Irish Fiscal Advisory Council, I acknowledge the Council's responsibility for making sure that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code of Practice for the Governance of State Bodies (2016).
- 2) The system of internal control is designed to manage risk to a tolerable level rather than to eliminate it. The system can therefore only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or detected in a timely way.
- 3) The key control procedures, tailored to reflect the size and complexity of the Council to provide a full understanding of the procedures, put in place by the Council to provide effective internal control include the following:
  - i. The Council concluded its annual review of the effectiveness of internal control systems on 26 April 2019, to ensure that they had considered all aspects of risk management and internal control for 2018.
  - ii. The Council had no instances where breaches in control occurred.
  - iii. The Council had no material losses or frauds.
  - iv. The Audit and Risk Committee and the Council reviewed the Statement on Internal Controls to ensure it accurately reflects the control system in operation during 2018.
  - v. The external auditors reviewed the Statement on Internal Controls to confirm that it reflects the audited body's compliance with the requirements of the Code of Practice and is consistent with the information of which they are aware from their audit work on the financial statements.

- vi. I confirm that a control environment containing the following elements is in place: procedures for all key business processes have been documented; financial responsibilities assigned at management level with corresponding accountability; an appropriate budgeting system with an annual budget which is submitted to the Department of Finance; systems aimed at ensuring the security of the information and communication technology systems; systems in place to safeguard assets.
- vii. A risk register is in place which identifies the key risks facing the Irish Fiscal Advisory Council and these have been identified, evaluated and graded according to their significance. The Council systematically reviews its risk register and updates as necessary.
- viii. There are regular reviews by senior management of periodic and annual performance and financial reports which indicate performance against budgets/forecasts.
- ix. I confirm that the following ongoing monitoring systems are in place: key risks and related controls have been identified and processes have been put in place to monitor the operation of those key controls and report any identified deficiencies; reporting arrangements have been established at all levels where responsibility for financial management has been assigned; and there are regular reviews by senior management of periodic and annual performance and financial reports which indicate performance against budgets/forecasts.
- x. The Irish Fiscal Advisory Council's monitoring and review of the effectiveness of the system of internal control is informed by
  - a letter of assurance from the ESRI, who provide accounting and payroll services to the Fiscal Council as part of a shared service agreement, in respect of the operation of its systems of internal control. In addition, all processes and procedures carried out by the ESRI in relation to services provided to the Fiscal Council are subject to audit by the Fiscal Council's internal auditors during the annual SIC audit;
  - the work of the internal and external auditors;
  - the Audit and Risk Committee which oversees their work; and

- the senior management within the Irish Fiscal Advisory Council responsible for the development and maintenance of the internal financial control framework.
- 4) I confirm that the Council concluded its annual review of the effectiveness of internal control systems on 26 April 2019.
  - 5) No weaknesses in internal control were identified in relation to 2018 that require disclosure in the financial statements.
  - 6) I confirm that the Council is in compliance with current procurement rules and guidelines as set out by the Office of Government Procurement.



## **Financial Statements for the year ended 31 December 2018**

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## **Governance Statement and Council Members' Report**

### **Governance**

The Irish Fiscal Advisory Council (“the Council”) was established on an interim basis in July 2011 and on a statutory basis in December 2012 by the Fiscal Responsibility Act 2012. The Council is comprised of a five-member Council and a seven-member, full-time Secretariat, headed by a Chief Economist/Head of Secretariat. The Council’s mandate is to provide independent assessments of official macroeconomic and budgetary forecasts, assessments of compliance with the statutory Budgetary Rule, assessments of the overall stance of fiscal policy, and endorsements (as appropriate) of the official macroeconomic forecasts prepared by the Department of Finance. The Act guarantees the Council’s independence while making it accountable to the Minister for Finance. The Council is responsible for ensuring good governance of the organisation, and does this by setting strategic objectives and targets and taking strategic decisions on all key business issues. The regular day-to-day management, control and direction of the Irish Fiscal Advisory Council are the responsibility of the Chief Economist/Head of Secretariat, who must follow the broad strategic direction set by the Council, and must make sure that all Council members have a clear understanding of the key activities and decisions related to the Council, and of any significant risks likely to arise. The Chief Economist/Head of Secretariat acts as a direct liaison between the Council and staff.

### **Council Responsibilities**

The work and responsibilities of the Council are set out in the Schedule of Matters, which also contain the matters specifically reserved for Council decision. Standing items considered at the Council’s regular meetings include:

- declaration of interests,
- financial reports/management accounts,
- minutes of the Audit and Risk Committee,
- performance reports,
- reserved matters,
- risk updates,
- IT Security,

- Freedom of Information, and
- Parliamentary Questions.

The Fiscal Responsibility Act 2012 requires the Council to keep, in such form as may be approved by the Minister for Finance with the consent of the Minister for Public Expenditure and Reform, all proper and usual accounts of money received and expended by it. In preparing these financial statements, the Council is required to:

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that it will continue in operation, and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Council is responsible for keeping adequate accounting records which disclose, with reasonable accuracy at any time, its financial position and enables it to make sure that the financial statements comply with the Fiscal Responsibility Act 2012. The maintenance and integrity of the corporate and financial information on the Council's website is the responsibility of the Council. The Council is responsible for approving the annual work plan and budget. An evaluation of the performance of the Council by reference to the annual plan and budget was carried out on 24 January 2019.

The Council is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Council considers that the financial statements give a true and fair view of the financial performance and the financial position of the Council at 31 December 2018.

The Council has approved a procurement policy that delegates authority for spending, under certain limits, to the Secretariat.

## **Council Structure**

The Council consists of a Chairperson, Vice Chairperson, and three ordinary members, all of whom were appointed by the Minister for Finance. The members of the Council were appointed for a period of four

years and meet on roughly a monthly basis. The table below details the appointment period for current members:

<b>Council member</b>	<b>Role</b>	<b>First appointed</b>	<b>Reappointed</b>
<b>Seamus Coffey</b>	Chairperson	1 January 2016 (as member) 1 January 2017 (as Chairperson)	
<b>Sebastian Barnes</b>	Vice Chairperson	31 December 2012	1 January 2017
<b>Dr Íde Kearney</b>	Ordinary Member	11 March 2015	
<b>Michael G. Tutty (i)</b>	Ordinary Member	24 September 2015	1 January 2016
<b>Dr Martina Lawless (i)</b>	Ordinary Member	1 January 2017	

(i) Audit and Risk Committee member

### **Key Personnel Changes**

There were no key personnel changes in 2018.

### **Audit and Risk Committee**

The Council has established an Audit and Risk Committee, which comprises two Council members and one independent member. The role of the Committee is to support the Council in relation to its responsibilities for issues of risk, control and governance and associated assurance. The Committee is independent from the financial management of the organisation. In particular the Committee ensures that the internal control systems including audit activities are monitored actively and independently. The Committee reports to the Council after each meeting, and formally in writing annually.

The members of the Audit and Risk Committee are Michael G. Tutty (Chairperson), Dr Martina Lawless, and Michael Kelly. The Committee met four times in 2018.

## Other information

### Auditor:

The Comptroller and Auditor General  
3A Mayor Street Upper  
Dublin 1

### Bankers:

Bank of Ireland  
Lower Baggot Street  
Dublin 2

## Schedule of Attendance, Fees and Expenses

A schedule of attendance at the Council and Committee meetings for 2018 is set out below, including the fees and expenses incurred by each member:

	See Notes pages 23-24	Council meetings attended (total: 12)	Audit and Risk Committee meetings attended (total: 4)	Fees (2018) €	Travel and subsistence expenses (ii) (2018) €
<b>Seamus Coffey (i)</b>	4, 5	12	N/A	11,970 (i) 8,550	10,981
<b>Sebastian Barnes (i)</b>	4, 5	12	N/A	(i)11,970	5,216
<b>Dr Íde Kearney</b>	4	11	N/A	11,970	2,158
<b>Michael G. Tutty</b>	4	12	4	11,970	-
<b>Dr Martina Lawless (i)</b>	4, 5	10	4	(i)11,970	-
<b>Total Council Members Fees and Expenses</b>				<b>68,400</b>	<b>18,355</b>
<b>Committee only Michael Kelly</b>	6	N/A	4	1,500	-
<b>Total</b>				<b>69,900</b>	<b>18,355</b>

(i) These fees are paid to the employers of the Council members, and not to the Council members themselves.

(ii) Travel and subsistence expenses are incurred with no benefit to the individual.

## Disclosures Required by Code of Practice for the Governance of State Bodies (2016)

The Council is responsible for making sure that it has complied with the requirements of the Code of Practice for the Governance of State Bodies (“the Code”), which the Department of Public Expenditure and Reform published in August 2016. The following disclosures are required by the Code:

### Employee Short-Term Benefits Breakdown

Employees’ short-term benefits in excess of €60,000 are categorised into the following bands:

Range		Number of employees	
From	To	2018	2017
€60,000	€69,999	1	1
€70,000	€79,999	1	–
€80,000	€89,999	1	1
€90,000	€99,999	–	–
€100,000	€109,999	–	–

Note: For the purposes of this disclosure, short-term employee benefits in relation to services rendered during the reporting period include salary, overtime allowances and other payments made on behalf of the employee, but exclude employer’s PRSI.

### Consultancy Costs

The Council had no consultancy costs in 2018.

### Legal Costs and Settlements

The Council had no legal costs or settlements in 2018.

## Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	<b>See Note Page 22-23</b>	<b>2018 €</b>	<b>2017 €</b>
<b>Domestic</b>			
<b>Council</b>	4	1,248	-
<b>Employees</b>		315	975
<b>International</b>			
<b>Council</b>	4	17,107	17,112
<b>Employees</b>		2,688	1,970
<b>Total</b>		21,358	20,057

## Hospitality Expenditure

The Statement of Income and Expenditure includes hospitality expenditure of €315 relating to a dinner for nine speakers participating in the “Path for the Public Finances, 2018: ‘Too Hot, Too Cold! The Irish Cycle’” conference.

## Statement of Compliance

The Council has adopted the Code of Practice for the Governance of State Bodies (2016), adapted in some instances to take account of the Council’s particular governance framework and the statutory requirements of the Fiscal Responsibility Act 2012 and Regulation (EU) N° 473/2013 of the European Parliament and of the Council of 21 May 2013, including the requirement for the Council to be independent. The Council has put procedures in place to ensure the application of relevant provisions of the Code of Practice. In that context, the Council has assessed each provision appropriate to the Council’s statutory requirements and it has agreed with the Department of Finance those provisions not relevant or to which the Council will comply via an alternative principle. It also has an Oversight and Performance Delivery Agreement in place in this regard. Further details are provided in the following table:

<b>What the Code provision requires</b>	<b>The Council’s measures for achieving the objectives of the provision</b>
1.15 (“Strategic Plan”) requires the Council to prepare and adopt a strategic plan and to have a formal process for setting strategy.	The Council published its Strategic Plan 2017–2019 in August 2017 and so had no strategic plan in place for the first seven months of 2017.
1.18 (“Ministerial Views”) requires the Council to send a copy of the draft strategic plan to the Minister for Finance before Council finalise and adopt the plan, and to consider the views of the Minister and the public interest.	The Council must maintain its independence and so does not seek the views of the Minister for Finance on its draft strategic plans. The Council does, however, consider the public interest when drafting its strategic plans.
10.1 (“Customer Charter”), 10.2 (“Customer Charter Cycle”), 10.3 (“Display and Content”), 10.4 (“Customer Action Plan”), and 10.5 (“Customer Charters and Customer Action Plans”)	The Council does not provide services directly to the public, and so the Council has no Customer Charter and no Customer Action Plan.



## **Statement on Internal Control**

### **Scope of Responsibility**

On behalf of the Irish Fiscal Advisory Council, I acknowledge the Council's responsibility for making sure that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code of Practice for the Governance of State Bodies (2016).

### **Purpose of the System of Internal Control**

The system of internal control is designed to manage risk to a tolerable level rather than to eliminate it. The system can therefore only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or detected in a timely way.

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform has been in place in the Irish Fiscal Advisory Council for the year ended 31 December 2018 and up to the date of approval of the financial statements.

### **Capacity to Handle Risk**

The Irish Fiscal Advisory Council has an Audit and Risk Committee comprising two Council members, one of whom chairs the Committee, and one external member with financial and audit expertise. The Committee met four times in 2018. As per the Charter and Terms of Reference for the Audit and Risk Committee, the Committee oversees the internal audit function, with the Secretariat procuring third-party auditors as necessary to conduct a programme of work agreed with the Committee.

The Committee has developed a risk management policy which sets out its risk appetite, risk management processes, and roles and responsibilities of staff members in relation to risk. The Secretariat issued the policy to all staff members, who are expected to work within the Irish Fiscal Advisory Council's risk management policies, to alert management on emerging risks and control weaknesses, and to assume responsibility for risks and controls within their own area of work.

## **Risk and Control Framework**

The Irish Fiscal Advisory Council has implemented a risk management system which identifies and reports key risks and the management actions being taken to address and, to the extent possible, to mitigate those risks.

A risk register is in place which identifies the key risks facing the Irish Fiscal Advisory Council and these have been identified, evaluated and graded according to their significance. The Council systematically reviews and updates its risk register. The outcome of these assessments is used to plan and allocate resources to ensure risks are managed to an acceptable level.

The risk register details the controls and actions needed to mitigate risks and responsibility for operation of controls assigned to specific staff. I confirm that a control environment containing the following elements is in place:

- procedures for all key business processes have been documented;
- financial responsibilities assigned at management level with corresponding accountability;
- an appropriate budgeting system with an annual budget which is submitted to the Department of Finance;
- The Irish Fiscal Advisory Council has sought and received assurances from the ESRI that it has reviewed its systems of internal control in relation to the provision of accounting and payroll services as part of a shared service agreement to the Irish Fiscal Advisory Council.
- systems aimed at ensuring the security of the information and communication technology systems;
- systems in place to safeguard assets.

## **Ongoing Monitoring and Review**

Formal procedures have been established for monitoring control processes and control deficiencies are communicated to those responsible for taking corrective action and to management and the Board, where relevant, in a timely way. I confirm that the following ongoing monitoring systems are in place:

- key risks and related controls have been identified and processes have been put in place to monitor the operation of those key controls and report any identified deficiencies,
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned, and
- there are regular reviews by senior management of periodic and annual performance and financial reports which indicate performance against budgets/forecasts.

## **Procurement**

I confirm that the Irish Fiscal Advisory Council has procedures in place to ensure compliance with the applicable EU Directives and national laws relating to public procurement, and the Office of Government Procurement’s “Public Procurement Guidelines for Goods and Services”. During 2018, the Irish Fiscal Advisory Council complied with these procedures.

## **Review of Effectiveness**

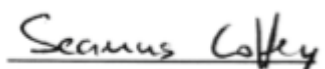
I confirm that the Irish Fiscal Advisory Council has procedures to monitor the effectiveness of its risk management and control procedures. The Irish Fiscal Advisory Council’s monitoring and review of the effectiveness of the system of internal control is informed by:

- a letter of assurance from the ESRI, who provide accounting and payroll services to Irish Fiscal Advisory Council as part of a shared service agreement, in respect of the operation of its systems of internal control. In addition, all processes and procedures carried out by the ESRI in relation to services provided to Irish Fiscal Advisory Council are subject to audit by the Irish Fiscal Advisory Council’s internal auditors during the annual SIC audit;
- the work of the internal and external auditors;
- the Audit and Risk Committee which oversees their work; and
- the senior management within the Irish Fiscal Advisory Council, which are responsible for the development and maintenance of the internal financial control framework.

I confirm that the Council conducted an annual review of the effectiveness of the internal controls for 2018.

## Internal Control Issues

No weaknesses in internal control were identified in relation to 2018 that require disclosure in the financial statements.

A handwritten signature in black ink that reads "Seamus Coffey". The signature is written in a cursive style and is positioned above a horizontal line.

Seamus Coffey,  
Chairperson

Date: 30/07/2019

# Report of the Comptroller and Auditor General



## Ard Reachtaire Cuntas agus Ciste Comptroller and Auditor General

### Report for presentation to the Houses of the Oireachtas

#### Irish Fiscal Advisory Council

##### Opinion on the financial statements

I have audited the financial statements of the Irish Fiscal Advisory Council (the Council) for the year ended 31 December 2018 as required under the Fiscal Responsibility Act 2012. The financial statements comprise

- the statement of income and expenditure
- the statement of comprehensive income
- the statement of financial position
- the statement of cash flows and
- the related notes, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of the Council at 31 December 2018 and of its income and expenditure for 2018 in accordance with Financial Reporting Standard (FRS) 102 — *The Financial Reporting Standard applicable in the UK and the Republic of Ireland*.

##### Basis of opinion

I conducted my audit of the financial statements in accordance with the International Standards on Auditing (ISAs) as promulgated by the International Organisation of Supreme Audit Institutions. My responsibilities under those standards are described in the appendix to this report. I am independent of the Council and have fulfilled my other ethical responsibilities in accordance with the standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### Report on information other than the financial statements, and on other matters

The Council has presented certain other information together with the financial statements. This comprises the annual report, the governance statement and Council members' report and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

I have nothing to report in that regard.

Seamus McCarthy  
Comptroller and Auditor General

7 August 2019

# Report of the Comptroller and Auditor General

## Appendix to the report

### Responsibilities of Council members

The governance statement and Council members' report sets out the Council members' responsibilities. The Council members are responsible for

- the preparation of financial statements in the form prescribed under paragraph 10 of the Schedule to the Fiscal Responsibility Act 2012
- ensuring that the financial statements give a true and fair view in accordance with FRS102
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibilities of the Comptroller and Auditor General

I am required under paragraph 10 of the Schedule to the Fiscal Responsibility Act 2012 to audit the financial statements of the Council and to report thereon to the Houses of the Oireachtas.

My objective in carrying out the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. In doing so,

- I identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists

related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Council to cease to continue as a going concern.

- I evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

### Information other than the financial statements

My opinion on the financial statements does not cover the other information presented with those statements, and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

### Reporting on other matters

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. I report if there are material matters relating to the manner in which public business has been conducted.

I seek to obtain evidence about the regularity of financial transactions in the course of audit. I report if I identify any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

I also report by exception if, in my opinion,

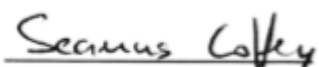
- I have not received all the information and explanations I required for my audit, or
- the accounting records were not sufficient to permit the financial statements to be readily and properly audited, or
- the financial statements are not in agreement with the accounting records.

## Statement of Income and Expenditure

for the year ended 31 December

	Notes	2018 €	2017 €
<b>Income</b>			
State funding receivable	2	664,323	565,263
Deferred retirement benefit funding	17(c)	95,000	42,000
Transfer from/(to) Capital Account	14	(4,256)	(561)
		<u>755,067</u>	<u>606,702</u>
<b>Expenditure</b>			
Salaries	3	403,465	335,077
Council Members' Fees	4	35,910	44,460
Council Members' Expenses	4	18,355	17,112
Payments to international and Irish public bodies	5	32,490	23,940
Administration Expenses	6	187,544	157,341
Retirement Benefit Costs	17(a)	77,303	28,772
		<u>755,067</u>	<u>606,702</u>
Surplus for the Year		-	-

The Statement of Cash Flows and notes numbered 1 to 19 form an integral part of these financial statements and should be read in conjunction therewith.



Seamus Coffey,  
Chairperson

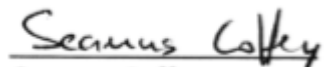
Date: 30/07/2019

## Statement of Comprehensive Income

for the year ended 31 December

	Notes	2018 €	2017 €
<b>Surplus for the year</b>		-	-
<b>Actuarial (loss)/gain on retirement benefit obligations</b>	17 (b)	(32,000)	(74,000)
<b>Movement in deferred retirement benefit funding</b>	17 (c)	32,000	74,000
<b>Total comprehensive income for the year</b>		-	-

The Statement of Cash Flows and notes numbered 1 to 19 form an integral part of these financial statements and should be read in conjunction therewith.



Seamus Coffey,  
Chairperson

Date: 30/07/2019

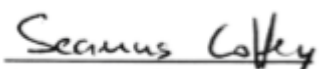


## Statement of Financial Position

as at 31 December

	Notes	2018 €	2017 €
<b>Fixed Assets</b>			
Tangible Assets	7	5,443	1,187
<b>Current Assets</b>			
Cash and Cash Equivalents	8	136,309	123,078
Debtors and prepayments	9	8,701	3,987
		145,010	127,065
<b>Current Liabilities</b>			
Sundry creditors and accrued expenses	10	124,450	99,540
Amount due to Central Fund	2	20,560	27,525
Total Current Liabilities		145,010	127,065
<b>Net Assets before Retirement Benefits</b>		5,443	1,187
<b>Retirement Benefits</b>			
Retirement Benefit Obligations	17 (b)	(300,000)	(173,000)
Deferred Retirement Benefit Asset	17(c)	300,000	173,000
		-	-
<b>Net Assets after Retirement Benefits</b>		5,443	1,187
Represented by			
Capital Account	14	5,443	1,187

The Statement of Cash Flows and notes numbered 1 to 19 form an integral part of these financial statements and should be read in conjunction therewith.



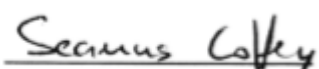
Seamus Coffey,  
Chairperson

Date: 30/07/2019

## Statement of Cash Flows

for the year ended 31 December

	2018	2017
	€	€
<b>Net Cash Flows from Operating Activities</b>		
Excess/(deficit) of income over expenditure	(2,709)	(6,644)
Depreciation of fixed assets	3,019	1,221
(Increase)/Decrease in receivables	(4,714)	(3,351)
Increase/(Decrease) in payables	24,910	(12,980)
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	<b>20,506</b>	<b>(21,754)</b>
<b>Cash Flows from Investing Activities</b>		
Payments to acquire property, plant & equipment	(7,275)	(1,782)
<b>Net Cash Flows from investing activities</b>	<b>(7,275)</b>	<b>(1,782)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>	<b>13,231</b>	<b>(23,536)</b>
Cash and cash equivalents at 1 January	123,078	146,614
<b>Cash and cash equivalents at 31 December</b>	<b>136,309</b>	<b>123,078</b>



Seamus Coffey,  
Chairperson

Date: 30/07/2019

## **Notes to and forming part of the Financial Statements for the year ended 31 December 2018**

### **1. Statement of Accounting Policies**

The principal accounting policies adopted by the Council in determining the amounts included in the statement of financial position and in reporting its transactions for the year are as follows:

#### **a) Basis of accounting**

The Irish Fiscal Advisory Council was established with effect from 31 December 2012 under section 7 of the Fiscal Responsibility Act 2012. Prior to that date it operated on a non-statutory basis.

These financial statements are prepared on an accruals basis under the historical cost convention and in accordance with generally accepted accounting practice. The unit currency is the euro.

#### **b) Statement of Compliance**

The financial statements of the Irish Fiscal Advisory Council for the year ended 31 December 2018 have been prepared in accordance with FRS 102, the financial reporting standard applicable in the UK and Ireland issued by the Financial Reporting Council (FRC), as promulgated by Chartered Accountants Ireland.

#### **c) Expenditure**

The expenditure recognised in the Statement of Income and Expenditure represents the costs incurred by the Council in the year in the performance of its functions.

#### **d) Income**

The Income reported in the Statement of Income and Expenditure reflects the amounts receivable from the Central Fund in respect of the expenditure in the year in accordance with section 9 of the schedule to the Fiscal Responsibility Act 2012.

#### **e) Fixed Assets and Depreciation**

The fixed assets held by the Council at year end consisted of computer equipment which was depreciated at an annual rate of 33%. A full year's depreciation is charged in the year of acquisition.

## **f) Capital Account**

The Capital Account represents the unamortised value of state funding used to purchase fixed assets.

## **g) Employee Benefits**

### **Short- term Benefits**

Short term benefits such as holiday pay are recognised as an expense in the year, and benefits that are accrued at year-end are included in the Sundry creditors and accrued expenses figure in the Statement of Financial Position.

### **Retirement Benefits**

There are two superannuation schemes in operation within the Council. The Council operates the Single Public Services Pension Scheme (“Single Scheme”) which is a defined benefit scheme for pensionable public servants appointed on or after 1st January 2013. All directly-paid employees are obliged to join the scheme. Employee contribution rates are 3% of Pensionable Remuneration and 3.5% of Net Pensionable Remuneration. There is no employer contribution. Single Scheme members’ contributions are payable to the Department of Public Expenditure and Reform ([Note 17](#)). The Scheme is unfunded and will be financed on a pay-as-you-go basis from funds available to the Council.

Sanction has been received from the Department of Public Expenditure and Reform to operate the new model pension scheme on an administrative basis for the purpose of providing superannuation arrangements for staff not part of the Single Scheme, pending formal adoption of the model scheme by the Council. The Council is making the relevant deductions and pending formal approval of the scheme, the amounts are included in creditors at year-end.

Retirement benefit costs reflect pension benefits earned by employees and are shown net of staff pension contributions payable to DPER. Deferred funding for retirement benefits is recognised as an asset corresponding to the deferred liability for retirement benefit obligations.

Retirement benefit liabilities are measured on an actuarial basis using the projected unit method. In determining the value of liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2018 liabilities and pension costs are set out in [Note 17](#).

Actuarial gains and losses arising from changes in actuarial assumptions and from experience are recognised in the Statement of Comprehensive Income in the year in which they occur.

## 2. State Funding

The Irish Fiscal Advisory Council is funded from the Central Fund. Under section 9 of the schedule to the Fiscal Responsibility Act 2012 the amount chargeable to the Central Fund is the amount expended by the Council in carrying out its functions.

The Central Fund operates on a receipts and payments basis whereas these financial statements have been prepared on an accruals basis. The table below sets out the reconciling items.

	<b>2018</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
Opening amount due to/(from) Central Fund	27,525	34,730
Received from Central Fund	675,055	571,286
Amount due (to)/from Central Fund at year end	(20,560)	(27,525)
Central Fund Receivable	682,020	578,491
Less: Employee contributions payable to DPER (Note 17(a))	(17,697)	(13,228)
State Funding Receivable for the year	<u>664,323</u>	<u>565,263</u>

## 3. Salaries

The number of persons employed (full-time equivalents) in the financial year was 6.75 (2017:5.33). This includes 1 staff member from another organisation whose secondment ceased on 17 August 2018. (2017:1).

Retirement benefit liabilities for the secondees are the responsibility of their parent employer.

Information on retirement benefits for staff directly employed by Irish Fiscal Advisory Council are set out in [Note 17](#).

## Remuneration

### (a) Aggregate Employee Benefits and Termination Benefits

	2018	2017
	€	€
<b>Staff short-term benefits</b>	365,688	303,830
<b>Termination benefits</b>	-	-
<b>Employer's contribution to social welfare</b>	37,777	31,247
	<b>403,465</b>	<b>335,077</b>
<b>Retirement benefit costs</b>	77,303	28,772
<b>Total</b>	<b>480,768</b>	<b>363,849</b>

The total number of staff employed (WTE) at year end was 7 (2017:6). The Council employed nine individuals at different times over the course of 2018 (2017: 7). No termination benefits were paid in the year (2017: nil).

### (b) Staff Short-Term Benefits

	2018	2017
	€	€
<b>Basic pay</b>	365,688	303,830
<b>Overtime</b>	-	-
<b>Allowances</b>	-	-
<b>Total</b>	365,688	303,830

### (c) Key Management Personnel

Key management personnel in the Irish Fiscal Advisory Council consist of the Chief Economist/Head of Secretariat and the Chairperson and other members of the Council. The total value of employee benefits for key management personnel is set out below:

#### Chief Economist/Head of Secretariat

	2018	2017
	€	€
<b>Salary</b>	88,692	81,175
<b>Allowances</b>	-	-
<b>Termination benefits</b>	-	-
<b>Health insurance</b>	-	-
<b>Total</b>	88,692	81,175

The current Chief Economist/Head of Secretariat is a member of the Single Public Service Pension Scheme and their entitlements in that regard do not extend beyond the terms of that scheme.

## Council Members

Fees and expenses incurred by the Council members amounted to €54,265 (2017: €61,572). For a breakdown of the fees and expenses paid to Council Members, please refer to [note 4](#).

Additionally, fees were paid to the employers of three Council members in 2018; see [note 5](#).

### 4. Council Members' Fees and Expenses

Council members' fees payable are sanctioned by the Minister for Finance and set by the Department of Public Expenditure and Reform: €20,520 for the Chair and €11,970 for other Council members. Fees incurred in 2018 totalled €68,400 (2017: €68,400).

Expenses incurred by Council Members amounted to €18,355 (2017: €17,112) mainly reflecting travel and subsistence costs incurred by international and non-Dublin based members attending Council meetings in Dublin.

#### Council Members' fees and travel expenses

Council Member	Fees 2018 (€)	Travel Expenses 2018 (€)	Total 2018 (€)	Fees 2017 (€)	Travel Expenses 2017 (€)	Total 2017 (€)
Seamus Coffey (Chairperson) <sup>i</sup>	11,970 See <a href="#">Note 5</a>	10,981	22,951	20,520	10,029	30,549
Sebastian Barnes <sup>ii</sup>	See <a href="#">Note 5</a>	5,216	5,216	See <a href="#">Note 5</a>	5,004	5,004
Dr Íde Kearney	11,970	2,158	14,128	11,970	2,079	14,049
Dr Martina Lawless <sup>ii</sup>	See <a href="#">Note 5</a>	–	–	See <a href="#">Note 5</a>	–	–
Michael G Tutty	11,970	–	11,970	11,970	–	11,970
<b>Total</b>	<b>35,910</b>	<b>18,355</b>	<b>54,265</b>	<b>44,460</b>	<b>17,112</b>	<b>61,572</b>

<sup>i</sup>As per [Note 5](#) Mr Coffey was on unpaid leave of absence from University College Cork (UCC) and the fee for the period January–July 2018 (€11,970) was paid to Mr Coffey directly. A fee for the period July- December 2018 (€8,550) was payable to Mr Coffey's employers UCC.

<sup>ii</sup>Fees payable to Mr Barnes are directed to his full-time employers, the OECD, as compensation for time spent on Council business. Fees payable to Dr Lawless are directed to her full-time employers, the ESRI, as compensation for time spent on Council business.

While other members' travel expenses relate to meetings in Dublin, Mr Coffey's travel expenses relate to press conferences, government events such as the National Economic

Dialogue, meetings of the European Commission, meetings of the Network of EU Independent Fiscal Institutions (EU IFIs), and meetings of the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions.

Dr Martina Lawless, and Michael G Tutty reside in Ireland; Sebastian Barnes resides in France and Dr Íde Kearney resides in the Netherlands and Seamus Coffey resided in the Netherlands in the period January-July 2018. The Revenue Commissioners have clarified that tax is not payable on expenses based on civil service rates paid to Council members.

## 5. Payments to International and Irish Public Bodies

Due to the time commitment necessary to fulfil the functions of the Council, Department of Finance-approved fees are paid to the employer where the Chairperson or other Council members are employed by public sector bodies or international bodies of which Ireland is a member.

In 2018, €11,970 was payable to the ESRI in respect of Dr Martina Lawless, €11,970 was payable to the OECD in respect of Mr Sebastian Barnes and €8,550 was payable to UCC in respect of Seamus Coffey.

	<b>2018</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
<b>OECD</b>	11,970	11,970
<b>ESRI</b>	11,970	11,970
<b>UCC</b>	8,550	-
<b>Total</b>	<b>32,490</b>	<b>23,940</b>



## 6. Administration Expenses

	2018	2017
	€	€
ESRI Administration fee <sup>i</sup>	113,217	106,165
Travel Costs of Staff	3,003	2,945
Professional Fees <sup>ii</sup>	27,741	11,402
Computer Software	17,068	13,186
Computer Hardware	36	319
Staff Training	4,263	4,948
Meeting Costs	934	1,373
Report Production	1,637	3,006
C&AG Audit Fee	9,000	8,000
Other Costs	7,626	4,776
Depreciation	3,019	1,221
Total	<u>187,544</u>	<u>157,341</u>

<sup>i</sup> The ESRI Administration fee includes a charge, on a pro rata basis, for support services provided by the ESRI which include Office Facilities, Accounts, IT, Reception and other corporate services.

<sup>ii</sup> The increase in “Professional Fees” in 2018 is primarily due to expenditure of €15,375 on using the ESRI’s COSMO (COre Structural MOdel of the Irish economy) on a trial basis. Also included for 2018 and 2017, is an amount of €1,500 payable to the external member of the Audit and Risk Committee for his work on the committee. This fee was approved by the Council in February 2016.

## 7. Tangible Assets

	<b>Computer Equipment 2018 €</b>	<b>Computer Equipment 2017 €</b>
<b>Cost:</b>		
At beginning of year	11,741	9,959
Additions	7,275	1,782
Disposals	(5,025)	-
At end of year	13,991	11,741
<b>Accumulated Depreciation:</b>		
At beginning of year	10,554	9,333
Provided in year	3,019	1,221
Disposals	(5,025)	-
At end of year	8,548	10,554
Net book value at end of year	5,443	1,187
Net book value at beginning of year	1,187	626

## 8. Cash and Cash Equivalents

	<b>2018 €</b>	<b>2017 €</b>
Current Accounts	136,309	123,078

At 31 December 2018, €124,450 was due for payment to creditors of the Council.

## 9. Debtors and prepayments

	<b>2018 €</b>	<b>2017 €</b>
Debtors and pre-paid expenses	8,701	3,987

## 10. Sundry creditors and accrued expenses

	2018	2017
	€	€
Payroll Taxes	11,721	15,093
Creditors	12,187	2,666
Accrued Expenses <sup>i,ii</sup>	100,542	81,781
Total Creditors	124,450	99,540

<sup>i</sup> Includes an amount of €33,593 (2017: €26,541) due to the ESRI in relation to services provided under a shared service agreement.

<sup>ii</sup> Includes an amount of €3,543 (2017: €4,070) in relation to the cost of annual leave untaken at 31 December 2018 as measured under FRS 102.

## 11. Taxation

The Council is exempted from liability to corporation tax under Section 227 Schedule 4 of the Taxes Consolidation Act 1997 (as amended by subsequent Acts up to and including the Finance Act 2017).

## 12. Commitments – Capital and Others

There were no capital commitments at the reporting date.

## 13. Contingent Liabilities

The Council Members were not aware of any material contingent liabilities at the reporting date.

## 14. Capital Account

The Capital Account represents the amount of funding used to purchase fixed assets reduced by the amount amortised in line with depreciation on the related assets.

### Capital Account

	2018	2017
	€	€
Unamortised funding at 1 January	1,187	626
<b>Income and Expenditure Account Transfers</b>		
Funding to acquire fixed assets	7,275	1,782
Amortisation in year	(3,019)	(1,221)
Transfer (from)/to Capital Account	4,256	561
Balance at 31 December	5,443	1,187

## 15. Council Members' Interests

The Council has adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Council Members and these procedures have been adhered to in the year. In cases where a conflict of interest has been declared, Council members do not participate in or attend Board discussions relating to the matters in question.

## 16. Related Party Disclosures

### Key Management Personnel

Key Management personnel in the Irish Fiscal Advisory Council consist of the Chief Economist/Head of Secretariat and the Chairperson and other members of the Council. Total compensation paid to key management personnel, including Council members' fees and expenses amounted to €142,957 (2017: €142,747). For a breakdown of the fees and expenses paid to key management personnel, please refer to [Note 3 \(c\)](#).

### Department of Finance

The Minister for Finance appoints the members of the Council in accordance with section 7 of the Fiscal Responsibility Act 2012.

### ESRI

The ESRI provides office accommodation and building services on a pro rata basis and support services relating primarily to accounts, IT, and other corporate services. Professor Alan Barrett was a member of the Council from 2011 until May 2015 and is currently

Director of the ESRI. Dr Martina Lawless was appointed as a Council member of the Irish Fiscal Advisory Council on 1 January 2017 and is an employee of the ESRI.

## 17. Retirement Benefit Costs

The results set out below are based on an actuarial valuation of the retirement benefit liabilities in respect of Council staff as at 31 December 2018 carried out by a qualified independent actuary for the purpose of FRS 102. There are currently no retired members.

### (a) Analysis of total retirement benefit costs charged to the Statement of Income and Expenditure

The retirement benefit costs for the year are set out below.

	2018	2017
	€	€
Current Service cost	90,000	40,000
Interest cost	5,000	2,000
Less: Employee contributions	(17,697)	(13,228)
	77,303	28,772

Single Scheme members' contributions are paid over to the Department of Public Expenditure and Reform, and totalled €11,763 in 2018 (2017: €8,195). Employee contributions under the model scheme amounted to €5,881 in the year and are retained pending approval of the scheme and are included in creditors at year-end.

The description of the scheme at (e) explains why a deferred retirement benefit liability has arisen in the year.

### (b) Analysis of the movement in retirement benefit obligation during the financial year

	2018	2017
	€	€
<b>Obligation at the beginning of the year</b>	173,000	57,000
Current service cost	90,000	40,000
Interest cost	5,000	2,000
Actuarial loss/(gain)	32,000	74,000
Benefits paid in the year	0	0
<b>Obligation at the end of the year</b>	300,000	173,000

### (c) Deferred retirement benefit funding

The Council recognises these amounts as an asset corresponding to the unfunded deferred liability for retirement benefits on the basis that these amounts will be received from the Central Fund as and when the pension liabilities fall due for payment.

The deferred funding for retirement benefits recognised in the Statement of Income and Expenditure end 2018 is €95,000 (2017: €42,000).

The movement for deferred funding recognised in the Statement of Comprehensive Income for the year ended 31 December 2018 is €32,000 (2017: €74,000).

The deferred funding asset for retirement benefits at 31 December 2018 amounts to €300,000 (2017: €173,000).

### (d) History of defined retirement benefit obligations

	2018	2017
	€	€
Defined retirement benefit obligations	300,000	173,000

### (e) Description of Scheme and Actuarial Assumptions

The Council operates within the Single Public Service Pension Scheme (Single Scheme) which is the defined benefit pension scheme for pensionable public servants appointed on or after 1 January 2013 in accordance with the Public Service Pension (Single Scheme and Other Provisions) Act 2012. The Scheme provides for a pension and retirement lump sum based on career-average pensionable remuneration and spouses' and children's pensions. The minimum retirement age is 66 years (rising in line with State pension age changes). It includes an actuarially-reduced early retirement facility from the age of 55. Pensions in payment increase in line with the consumer price index.

The Single Scheme is an unfunded defined benefit scheme which will be financed on a pay as you go basis. A standard vesting period of two years must be served before public servants become eligible for retirement benefits from the Scheme. Three staff members have reached the two-year eligibility period threshold. Therefore, a retirement benefit liability arising from the Single Scheme exists at 31 December 2018.

One staff member is a member of a public service pension scheme that predates the Single Scheme. This scheme is a defined-benefit superannuation scheme established under section 8 of the National Treasury Management Agency Act, 1990.

The retirement benefit liability at 31 December 2018 amounted to €300,000.

Liabilities shown are computed using the Projected Unit Credit method. The objective under this method is to expense each participant's benefits under the Scheme as they accrue; taking into consideration future salary increases and the Scheme's benefit allocation formula. Thus, the total pension, to which each participant is expected to become entitled, is broken down into units, each associated with a year of past or future credited service.

The main financial assumptions used are set out below:

<b>Year of attaining age 65</b>	<b>2018</b>	<b>2017</b>
Discount rate	2.00% p.a.	2.00% p.a.
Rate of increase in salaries	2.50% p.a.	2.50% p.a.
Rate of increase in pensions	2.50% p.a.	2.50% p.a.
Inflation	1.75% p.a.	1.75% p.a.

The mortality basis adopted allows for improvements in life expectancy over time, so that life expectancy at retirement will depend on the year in which a member attains retirement age (currently age 66, rising in line with State pension age changes). The table below shows the average life expectancy for members attaining age 65 in 2018 and 2038.

<b>Year of attaining age 65</b>	<b>2018</b>	<b>2038</b>
Life expectancy – male	21.4 years	23.8 years
Life expectancy – female	23.8 years	25.9 years

## **18. Events after the Reporting date**

There were no events after the reporting date that would require adjustment to or disclosure in the Financial Statements.

## **19. Approval of Financial Statements**

The Financial Statements were approved by the Council on 16th July 2019.

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