

Finance Committee

29th Meeting 2015 (Session 4), Wednesday 18 November 2015

Scottish Fiscal Commission Bill - Fact Finding Trip to Dublin 9 November 2015

Introduction

1. This report summarises the key findings from the fact finding visit to Dublin. During the visit we met with representatives from the Irish Fiscal Advisory Council, Joint Committee on Finance, Public Expenditure and Reform, the Department of Finance and the Economic and Social Research Institute. We would like to express our thanks to everyone who took the time to meet with us.
2. The schedule and briefing note for the trip is attached at Annexe A to this paper. The main themes that arose from our meetings are set out below.

Background

3. The Irish Fiscal Advisory Council (the Council) has an obligation under the Fiscal Responsibility Act 2012 (the 2012 Act) to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance (DoF) on which its Budget and Stability Programme Update (SPU) will be based.
4. The letter of endorsement is published within the Budget / SPU document and a detailed discussion of the endorsement process and assessment of the macroeconomic projections is published by the Council in its Fiscal Assessment Report which is usually published around 6 weeks afterwards.
5. The process to be followed by the Council and the DoF, in relation to the endorsement function, is set out in a [Memorandum of Understanding](#) (MoU) which is published online.

Forecasting

6. We heard that the Council was set up to endorse DoF forecasts and the methodology underlying them rather than produce official forecasts for the DoF. One of the main reasons given for this approach was the importance of the DoF retaining its internal expertise during the period of financial instability. Had the Council been required to provide official forecasts, then due to the small pool of people with the skills required to do the work, the DoF would likely have lost essential staff at a critical time.
7. We heard that it soon became clear to the Council that in order to be able to assess the DoF's forecasts thoroughly it would need to also produce its own to use as a benchmark. The set of benchmark forecasts help inform an 'endorsable range' in which the Council believes the official forecasts should fall within.

8. Professor Alan Barrett, Director of the Economic and Social Research Institute (ESRI), and previous member of the Council, told us that to do the endorsement work you need the skills required to produce forecasts. However, being required to produce the official forecasts would have changed the role of the Council fundamentally.
9. We heard that the Council's Secretariat has significant levels of on-going interaction with officials from the DoF. The Council was clear that in its meetings with officials it does not give opinion on levels of figures or attempt to influence the direction the DoF is taking. The MoU ensures that once the date of the Budget has been announced only discussions around the clarification of technical issues can take place. The Council are clear on the importance of finalising its own forecasts before seeing the DoF's.
10. The Council's benchmark forecasts are not shared with the DoF in advance. The DoF states that this ensures that it doesn't inadvertently tailor its own forecasts to ensure they receive endorsement from the Council. The DoF also highlighted the possibility that sharing forecasts in advance could lead to errors in the forecasts not being picked up.
11. The DoF has its own dedicated forecasting units for macroeconomics and fiscal policy and tax. The macroeconomic unit has 7 staff and a budget of 2 million euros; the fiscal policy and tax unit has 8 staff and a budget of 2 ¾ to 2 million euros.
12. The Council's benchmark forecasts appear in its Fiscal Assessment Report, which as noted earlier is published 6 weeks after the Budget/SPU. We heard this ensures the media focus is on the Budget and not on comparing the two sets of forecasts. This also means the Council can focus on its role and does not need to defend its benchmark forecasts in the media.

Endorsement

13. The Council's Secretariat gets an early view of the DoF's preliminary set of forecasts around two weeks before Budget day. If there are no major differences between the Council's forecasts and the DoF's then a meeting will be held between the two bodies using the preliminary forecasts as the basis for informal discussion.
14. At first there was a concern, raised by the Parliament, around the Council seeing the forecasts before they were officially laid, however we heard this was resolved when reassurance was provided that the Council only see the technical aspects of the forecasts and not the policy detail of the Budget at this stage.
15. The DoF is keen to ensure that its Budget/SPU forecasts receive endorsement from the Council and it provides whatever information it can to the Council.

16. As part of the endorsement process the Council considers the DoF's official forecasts against its benchmark forecasts and determines whether or not they fall within the endorsable range. The Council works on the understanding that if the methodology used is reasonable and the difference between the two forecasts is reasonable and falls within the endorsable range then they will be satisfied.

17. The Council does not endorse the Budget / SPU, only the consistency and methodology of the forecasts used to underpin them.

18. It is also possible for the Council to include caveats in its endorsement if it feels they are necessary. If the published figures differ from the forecasts that have been endorsed the Council can ask for a reconciliation table to be provided setting out the reasons why.

Reports

19. The Council begins working on its draft Fiscal Assessment Report in advance of the Budget / SPU being published due to the volume of work involved. The reports are generally published 6 weeks after the Budget / SPU. The Council will share technical aspects of its reports with the DoF officials to ensure accuracy.

20. The Council cannot publish a minority report; all reports must be agreed by the full Council.

21. We heard that the earlier reports published by the Council had been very academic and technical. Following an independent peer review¹ changes have been made to the style of the reports to make them more accessible, this was welcomed by stakeholders including the Joint Committee on Finance, Public Expenditure and Reform (the Committee).

22. The Committee also has good links with the Council's Secretariat and will meet with them to discuss the reports with a view to briefing Members. Clerks to the Committee feel that overall the work of the Council helps inform the Committee in its scrutiny of the Budget / SPU.

Independence

23. Given that the Finance Committee considers the independence of the Scottish Fiscal Commission to be an essential element of the process we asked specific questions on the success of the Council in demonstrating its independence from the DoF.

24. The Council believes that its independence has been built over time through continually challenging and criticising the DoF when it has been necessary to do so. It has built its reputation for independence gradually. It does not see the DoF's

¹ http://www.fiscalcouncil.ie/wp-content/uploads/2012/01/PeerReview_Formatted_23062015.pdf

Budget / SPU in advance and its MoU sets out the limits on how often and for what reason the Council can meet with the DoF during various parts of the process.

25. The Council believes that transparency is vital and publishes all its work; everything it does is open to FOI.

26. The DoF is very conscious of the need to ensure and maintain the reputation of the Council as an independent body. Under the 2012 Act it was established that the Council has a complete guarantee over its budget; Ministers are unable to remove or reduce its funding. Any increase in functions would lead to an increase in funding.

27. The 2012 Act also ensures that the DoF cannot require the Council to carry out any work for it. While there is a high level of contact between officials and the Council's secretariat there is little or no contact between politicians and the Council.

28. The DoF recognises the importance of the Council's credible reputation both to the Council and to itself. On an administrative side the DoF ensures records of all discussions with the Council are retained. A dedicated email address has been established and all email conversations between the DoF and the Council must copy in this email address to ensure they are captured and stored for FOI purposes. It is completely hands off regarding the administration arrangements of the Council.

29. The Committee and the ERSI have no concerns over the independence of the Council.

Appointments

30. Appointments to the Council are made by the Minister for Finance based on experience and competence in domestic and international macroeconomic and fiscal matters. We heard that it is critical to have people who have experience out with Ireland appointed to the Council as their knowledge brings added value. Currently four of the five members (who are all Irish) have experience of living and working abroad.

31. While appointments are made by the Minister individuals are recruited by open competition through the public appointments process. The appointments are for 4 year terms and are renewable once. This is in recognition of the difficulty of getting suitably qualified and experienced people in post. They are staggered over time to ensure they have different end times to avoid a sudden loss of institutional knowledge.

32. As part of ensuring independence Ministers only have power to remove members of the Council under specific circumstances and with the agreement of the Parliament.

Access to information

33. The 2012 Act does not provide the Council with a statutory right to obtain information from other bodies. The Council confirmed that while this has not been a problem for them to date it would be helpful to have an agreement to access information set out in a MoU. The independent peer review recommended the Council is given stronger, preferably statutory, rights to obtain information from public sector authorities and should also enter into MoU's with other public sector authorities.

Governance

34. We were surprised to hear from the Council of the time it takes to meet all the statutory burdens of a public body. It appears that this was a challenge, the full scale of which was not anticipated in advance. It was required to set up policies such as, HR, travel and expenses, insurance, whistle blowing, FOI etc. The Council meets for 1 day per month and spends approximately 1-1.5 hours of each meeting on governance issues. It has also been required to set up an Audit Committee.

35. The Council has adopted a secondment model to recruit staff, 5 of the 6 are on secondment. It believes the benefits of this are that it is able to access expertise and knowledge and the staff are able to get up to speed quickly. It also reduces pension liability for the Council.

John Mason MSP (Deputy Convener)
Jean Urquhart MSP
November 2015

Annexe A

Schedule for Monday 9 November

0930–1100:	Irish Fiscal Advisory Council
1130 - 1230:	Officials to the Joint Committee on Finance, Public Expenditure and Reform; Houses of the Oireachtas
1245- 1400:	Officials from the Department of Finance, Government of Ireland (working lunch)
1500-1630:	The Economic and Social Research Institute.

Briefing Note for Visit

1: Irish Fiscal Advisory Council

<http://www.fiscalcouncil.ie/>

Meeting with: Secretariat (names TBC)

Background to the IFAC

The IFAC was established on an interim basis in July 2011 and put on a statutory footing in December 2012. It has 5 Council Members and a secretariat of 5 with an annual budget of not more than 800,000 euros which is allocated from a Central Fund so it does not have to be voted by Parliament each year. The actual spend in 2013 was 480,941 euros and 604,756 euros in 2014. The budgeted spend for 2015 is 731,749 euros.

The Council's mandate is:

- To endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and Stability Programme Update are based;
- To assess the official forecasts produced by the Department of Finance. These are the macroeconomic and budgetary forecasts published by the Department twice a year – in the Stability Programme Update in the spring and in the Budget in the autumn;
- To assess whether the fiscal stance of the Government is conducive to prudent economic and budgetary management, with reference to the EU Stability and Growth Pact (SGP). The SGP is a rule-based framework that aims to coordinate national fiscal policies in the economic and monetary union;
- To monitor and assess compliance with the budgetary rule as set out in the Fiscal Responsibility Act. The budgetary rule requires that the Government's budget is in surplus or in balance, or is moving at a satisfactory pace towards that position;
- In relation to the budgetary rule, to 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.

The main publication of the Council is the biannual Fiscal Assessment Report following the Budget in the autumn and Stability Programme in the spring. The reports assess the Government's macroeconomic and budgetary forecasts, the appropriateness of the fiscal stance, compliance with the budgetary rule as well as

detailing the Council's endorsement function. The most recent report published in June 2015 is over 80 pages long and includes four main chapters on:

- Assessment of the Fiscal Stance;
- Assessment and Endorsement of Macroeconomic Forecasts;
- Assessment of Budgetary Forecasts;
- Assessment of Compliance with Fiscal Rules.

The Endorsement Function

The Council was established in 2011 to “assess” the Irish Government's macroeconomic projections both on a backward and forward looking basis. There was no obligation for the Government to take the Council's assessments into account and the Council did not comment on the forecasts in advance of the budget. In July 2013 the Council was given a new endorsement function in accordance with the requirements of EU regulations (No. 473/2013). The Council stated in its assessment report in November 2013:

“The obligation for the Department of Finance to submit its forecasts in advance to external scrutiny and endorsement is a significant change in Ireland's budgetary architecture. Until recent years, there was no direct review of official forecasts produced by the Department of Finance and the new function is a significant extension of the Council's role.”

The aim of the endorsement function is to help to ensure that forecasts are both unbiased and as accurate as possible.

The Council's approach to endorsement focuses on whether the macroeconomic forecasts are within a range of appropriate forecasts. This “endorsable range” is informed by benchmark projections prepared by the Council's secretariat. It involves a full-scale forecasting exercise and the development of a range of forecasting tools. The benchmark projections are based around a “suite of models” approach. The models used include some based on the equations used by the Department of Finance and some developed by the Council's Secretariat. The preparation of the benchmark projections also involves discussion and input from other forecasters including the Irish Central bank, the Economic and Social Research Institute, the European Commission and the IMF.

The Council's examination of the official forecasts includes comparing them to the benchmark projections and the endorseable range as well as assessing the consistency of the overall set of projections. The Council states that while its benchmark projections may differ from the official forecasts they could still be endorseable:

“either because (i) the differences are sufficiently small to be within the endorseable range, or (ii) if the Department of Finance provides convincing reasons for forecasts further from the benchmark projections.”

In order “to provide an independent analysis of, and to effectively challenge the Department of Finance forecasts, the benchmark projections are completed before the Council engages in in-depth endorsement meetings with the Department of Finance.” These projections are not shared with the Department of Finance. However, they are included in the fiscal assessment report.

Memorandum of Understanding

The operational aspects of the endorsement function are set out in a Memorandum of Understanding (MoU) agreed between the Council and the Department of Finance. This includes informational requirements and approach to be followed. The MoU states that the Department “will set out its forecast methodology by way of a periodically-updated staff working paper, and engage in regular technical dialogue to ensure that Council staff and members have a full understanding of the process.” It is expected that this dialogue “will be ongoing, involving both written exchange of information and informal interaction. Interaction will mainly occur between members of the Council secretariat and the relevant Department of Finance staff.” The MoU also includes an agreed timetable and approach to the endorsement function. Table 1 demonstrates how this worked in relation to the Irish Budget 2014.

Table 1: Timeline for the Endorsement of Budget 2014 Forecasts

23-24 September	Benchmark projections finalised in advance of receiving forecasts for Budget 2014 from the Department of Finance.
24 September	The Council received the preliminary set of “provisional final” forecasts from the Department.
25 September	These forecasts were presented by Department of Finance staff to the Council’s Secretariat explaining the underlying reasoning and answering clarifying questions. Two Council members also participated in the meeting
29 September	The Council met to discuss the Department of Finance forecasts
30 September	Department of Finance staff met with the full Council and Secretariat to present and answer substantive questions on the “provisional final” forecasts. These forecasts were unchanged from those provided to the Council the previous week. The Council raised questions on a number of issues. Following the meeting, the Department provided further clarification on their forecast for consumption. The Council

	subsequently decided that a “significant reservation” (as per the MoU, section 5) remained over the consumption forecast.
1 October	As specified in the MoU, the Council Chair communicated its “significant reservation” to Department staff
1-3 October	The Department provided further clarification on its consumption forecast and committed to including information on the potential for upward revisions to Quarterly National Accounts personal consumption data for the first half of 2013 in the Budget documentation.
4 October	The Chair of the Council issued a letter to the Department of Finance endorsing the set of macroeconomic forecasts for 2013 and 2014 in Budget 2014.

2: Joint Committee on Finance, Public Expenditure and Reform

Meeting with: Michelle Grant (Committee Secretariat- EU and Intl Relations)
Eoin Hartnett (Policy Advisor- Finance Committee Secretariat)
Barry Kavanagh (Finance Committee Secretariat)
Barry Comerford (Library and Research Service)

Remit of the Joint Committee

Reform of the public sector and public expenditure is a top priority for this Oireachtas. The Joint Committee on Finance, Public Expenditure & Reform will play a key role in scrutinising the work of the two Departments tasked with responsibility in these areas - the Departments of Finance and Public Expenditure & Reform. The Committee will advise the relevant Ministers as to concrete progressive proposals to promote and coordinate economic and social planning.

3: Department of Finance; Government of Ireland

<http://www.finance.gov.ie/what-we-do/public-finances>

Meeting with: Niall Feerick and John Palmer, Fiscal Policy Division

Remit of the Department of Finance

The Department of Finance has a central role in implementing government policy and in advising and supporting the government on the economic and financial management of the State, and policies to ensure that Ireland's financial system will be able to operate on a stable, sustainable and commercial basis.

The work of the Department is carried out by four divisions and two offices. The Fiscal Policy Division is responsible for—

- Provision of high quality budgetary advice designed to restore / maintain the sustainability of the public finances
- Ensuring delivery against fiscal targets which involves, amongst other things, monitoring of fiscal risks and developing contingencies around these
- In terms of logistics, delivery of all budgetary commitments in line with our domestic and European requirements
- Enhancing the quality and accessibility of fiscal documents, eg. Introduction of Analytical Exchequer Presentation, to facilitate greater transparency

4: The Economic and Social Research Institute

<http://www.esri.ie/>

Meeting with: Professor Alan Barrett, Director

About the ESRI

The ESRI produces research that contributes to understanding economic and social change in the new international context and that informs public policymaking and civil society in Ireland.

Since its establishment, ESRI researchers have leveraged their conceptual and empirical research in economics and sociology to provide analysis that helps inform economic and social policymaking in Ireland. Key features of the research are its strong empirical base, its policy focus and its coverage of many of the major areas of relevance to current policy issues in Ireland and the European Union.

The Institute's principal output is knowledge that is disseminated widely in books, research papers, journal articles, reports, and public presentations. All knowledge output is quality assured through rigorous peer review processes.