

'OECD Review of the Independent Authority for Fiscal Responsibility (AIReF)'

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Good morning, ladies and gentlemen.

It is a great pleasure to be here today and to have the opportunity to help celebrate the initial success and continuing development of AIReF, in its work to promote the sustainability of Spain's public finances and those of its regions and municipalities.

As we have heard already this morning, in less than four years AIReF has already established an impressive reputation for independence and high quality analysis among a wide variety of stakeholders here in Spain. As Chair of the OECD network, I can tell you that it enjoys just as high a reputation among its sister organisations in other countries. AIReF plays an important and highly valued leadership role in this international community of fiscal watchdogs – notably through Jose Luis's skilful chairmanship of the European Union network, working for the interests of national fiscal institutions across the EU in regular discussions with Brussels.

Independent fiscal institutions do not take concrete policy decisions, as independent central banks like the ECB do. But they can exert a powerful influence on policy through the analysis they publish and the advice they give. So it is vital for their legitimacy and durability that they enjoy widespread support across the political spectrum and civil society, even though someone somewhere will always disagree with any particular judgement that they make.

In that context, it is very encouraging that parliamentarians here in Madrid told the review team that AIReF had "enriched the parliamentary debate on fiscal issues" and that "its products are viewed as independent, accurate and useful". Importantly, AIReF has won support and respect even from parties that were not convinced by its creation and that still have concerns about containing austerity. One important lesson from international experience is that all independent fiscal institutions are deeply committed to transparency and

sustainability, but that does not mean they have an intrinsic bias towards tighter fiscal policy and all circumstances. Sweden offers a good example, where the the fiscal policy council favoured a looser fiscal stance than the government claimed was necessary as the economy there recovered from the crisis.

AIReF's most striking feature – compared to its counterparts in other countries – is the breadth and depth of its work on sub-national issues, on monitoring the finances of Spain's regions and municipalities. Here again it is striking that stakeholders around the country told the review that AIReF was trusted as an “honest broker” in fiscal coordination between the centre and different parts of the country. This is a considerable achievement – in the United Kingdom we have had to work hard to ensure that we are trusted by our sub-national stakeholders (notably in Scotland, which has been granted greater fiscal powers in recent years) rather than being seen as a creature of the ministry of finance in London.

Institutions build trust and a reputation for high quality analysis primarily from the way they go about their business day-to-day. But as the OECD network recognised when drawing up its common principles for independent fiscal institutions, regular external evaluation of their structure and performance can also play an important role. For bodies that jealously guard their independence from political influence and interference, this commitment to regular outside scrutiny helps answer Juvenal's famous question: who guards the guardians?

So it is very much to AIReF's credit that it has submitted itself to such a review, conducted by a distinguished team that combines expertise from peer institutions in the Netherlands and United States with the broader cross-country perspective of the OECD's own in-house experts. We at the OBR submitted ourselves to a similar external review in 2014, so I can tell you from personal experience that it is not always a comfortable process to go through. But it is an important and valuable discipline and a very useful source of inspiration and advice.

The value of the exercise depends of course on effective follow-up, both from the institution being reviewed and from other stakeholders to whom recommendations may be addressed. In both respects, the follow-up here in Spain has already been impressive.

AIReF will be publishing its own “comply or explain” response, detailing how it will follow up each of the key recommendations that are in its power to deal

with. At the same time, the Council of Ministers has approved welcome amendments to AIReF's Organic Statute that deal directly with a number of the key challenges raised by the review.

Let me touch briefly on four of the areas highlighted by the review and the responses to it – and where experience in the United Kingdom and other countries may be relevant: access to information; financial resources; methodology and presentation and; medium-term analysis and forecasting.

- First, access to information. If fiscal institutions are to maintain an accurate picture of complex public finances – and if they are to scrutinise the government's own analysis and forecasts effectively – they need access to official data and information in a form and with the support necessary to make proper use of it.

AIReF is not alone in having had some difficulties achieving this during its early years. In common with the Parliamentary Budget Office in Canada, it has even felt it necessary to go to court to get the information it needs. But regular resort to legal action would certainly not foster an effective working relationship. So the widening of access to information in the amended Organic Statute is very welcome. The review also recommended a Memorandum of Understanding between AIReF and government bodies, a proposal that AIReF is now pursuing. An MoU is an unfamiliar tool in some countries, but we have certainly found it useful in the UK as a framework in which to agree and set down 'rules of the game' for the exchange of information, in a transparent but relatively flexible form that can be reviewed and amended in the light of experience. One important virtue of an MoU is that it helps communicate these rules of the game to new generations of officials, on both sides, avoiding the need to refight old battles as people move on. An MoU can give both sides greater certainty around the scope of information exchange, around timetables and deadlines, and around the amounts of resources it is reasonable for institutions to call upon. Needless to say, sorting all this out will always be more difficult and time-consuming when it is being done for the first time and when everyone is still learning how the process should work in practice.

- Second, financial resources. It goes without saying that any organisation in any field needs a budget sufficient to do the job that it has been asked to do. As the OECD principles make clear, it is also important to independent fiscal institutions that their financing is clear, transparent and ideally set out over a number of years. This can help avoid either the reality or the perception that politicians exert pressure via an institution's budget, as we have seen in the past in both Hungary and Canada.

External reviews are a good opportunity to re-assess whether an institution's resources are consistent with its remit, especially when it may have been asked to undertake new tasks. This was certainly one of the most valuable outcomes of the independent review of the OBR in 2014, strengthening our hand in subsequent negotiations with the Treasury. In this context, it is welcome that AIREF has already been able to take on new staff in 2017 and 2018 in relation to its new spending review role. And the revision of the Organic Statute should prevent the Ministry of Finance from unilaterally cutting its budget, should it ever be tempted to do so.

Nonetheless, it was clear from the review that AIREF's resources would have to increase in future if it was to be confident of maintaining its reputation for high-quality, high-impact analysis across what is already an unusually broad mandate. So the announcement of an increase in yesterday's budget is welcome and timely. But looking takes ahead there is always the danger of 'mission creep', when successful and high-performing organisations are asked to do more – either for governments or for parliaments - without adequate financial support to maintain the quality of their outputs.

- Third, methodology and presentation. The review rightly trumpets the technical quality and sophistication of AIREF's analysis. It says that research here "meets – and generally exceeds – standards practiced by other [institutions]" and that "their accomplishments in economic and fiscal policy analysis in Spain – and their contribution to the academic literature more broadly – cannot be overstated".

Building on that firm foundation, the review suggests providing more detail of economic and budgetary projections and making greater use of data and graphics. Every independent institution confronts the presentational dilemma of how to satisfy very different audiences, some of whom are looking for a quick and easy way to grasp unfamiliar material and others who want all the detail and calculations that underpin the analysis. We have certainly struggled with this at the OBR, with the consequence that we have to work very hard to stop our documents getting too long. One solution has been to put supplementary detail in online annexes rather than in the hard-copy document sent to Parliament. Graphics and tables are certainly an important part of our communication strategy – and our staff compete with each other to come up with the so-called “killer chart” that the press and think-tanks will seize upon when they read our documents and post on social media. In addition, we are now trying to come up with short animations of charts and data that we can tweet ourselves.

- Fourth, medium-term analysis and forecasting. The review team have recommended that AReF should place more emphasis on producing medium-term fiscal projections, to supplement its detailed near-term estimates for the coming financial year. This has now been adopted as part of AReF’s strategic plan.

At the OBR we have no choice but to do this, as our legislation requires us to produce projections over a five-year horizon and to use them to assess progress against the government’s medium-term fiscal targets. (Previously the Treasury had published on detailed estimates for the year ahead and a less detail over a three-year horizon.) Meanwhile, the Congressional Budget Office in the United States produces its forecasts over a 10-year horizon and a number of institutions produce more stylised projections over several decades, in order to capture long-term pressures such as the ageing of the population and non-demographic cost pressures in healthcare.

In the UK, I think that this medium-term focus has been helpful in improving policy decisions and public debate. For one thing, it makes it harder for the government to adopt policy measures that artificially

flatter the public finances in one particular year, by moving revenue into it or spending out of it at the expense of other years. It also requires the government to be more clear about what its tax and spending policies are over the medium-term, providing a more stable basis for decision making and promoting a more informed public debate over policy options at election time.

The review also urged AReF to consider producing its own macro-economic forecasts, but here the institution has made a strategic decision not to compete with other forecasters. Again, at the OBR, our legislation gives us no choice but to produce a macroeconomic forecast over the five-year horizon. But it is important to remember that we and the Bank of England are the only providers of official forecasts in the UK the government does not publish economic and fiscal forecasts of its own. We have to produce a medium-term economic forecast to produce a medium-term fiscal forecast, as no alternative outside forecast combines a five-year horizon, measures of the 'output gap' that allow us to estimate the structural deficit and adequate coverage of the nominal income and spending variables that we need to generate a bottom-up forecast of future revenues and spending. In contrast, AReF's role is to evaluate the government's forecasts and to decide whether to endorse them, so the case for in-house forecasting is less clear cut. That said, it is worth noting that the Irish Fiscal Advisory Council has felt it increasingly necessary to produce forecasts in order to carry out its endorsement role as effectively as it would like to. And it will be interesting to see if a greater focus on medium-term fiscal projections at AReF will increase demand for such forecasts.

There are many other interesting recommendations in the review, but I will restrict myself to these four. The overarching message of the review is that AReF has made remarkable progress in a relatively short period of time. Its methods and outputs are rigorous and robust and the institution has earned respect across the political spectrum, both at national level and identified the regions and municipalities. The challenges and areas for improvement in the review are ones shared by many independent fiscal institutions, including my own: ensuring adequate access to information, securing an adequate and transparent budget, and striking the balance between serving expert and non-expert audiences.

To conclude on a personal note, let me say how honoured I am to have been asked to this event and what a pleasure it is to be back in Madrid. Jose Luis is a much valued colleague and a hugely effective leader of Europe's fiscal watchdogs. My congratulations to him and to you on AIREF's progress to date. We have learnt much from this institution already and we will continue to do so as you address the challenges and opportunities of the future.

Thank you.