

# **AIR<sup>e</sup>F ACTION PLAN**

# **2015**



Independent Authority  
*for* Fiscal Responsibility





# 1. Introduction

**Every year the Independent Authority for Fiscal Responsibility (AIReF) must prepare and publish an action plan** under article 5 of its Organic Statute. In addition to all the statutory reports it produces, the plan will include any studies it may be requested to prepare. This action plan thus represents a public commitment to society with respect to AIReF's activities during 2015.

**The 2015 Action Plan prioritises the objectives identified in the 2015–2020 Strategic Plan** and so ensures consistency between short and long-term planning.

**The Action Plan is also an internal tool AIReF can use to monitor and assess its own activities**, facilitating the ex post evaluation of compliance with the pre-defined goals. The ex post evaluation will take the form of the publication next year of the 2015 Annual Report where it will be possible to compare and contrast the extent to which AIReF has fulfilled this plan. In this way the institution has the necessary tools to ensure the accountability that is one of its key principles.

**This Action Plan guarantees AIReF's statutory tasks it is required to carry out by law such as publishing reports and opinions and it also drives progress in other areas**, including improving transparency in the use of public accounts and budgetary practices, continual analysis of the applicable EU regulations and the enforcement of the Organic Law on Budgetary Stability & Financial Sustainability (LOEPySF, as it is known in Spanish) at the different levels of the Public Administrations (PAs). In short, AIReF contributes to providing a better medium and long-term orientation to fiscal policy and to ensuring that Spanish society perceives the full benefits of financial sustainability.

**The Action Plan for 2015 was approved by the president of AIReF on 23<sup>rd</sup> March following deliberation by the Management Committee.**

## 2. AIReF ACTIONS FOR 2015

The actions AIReF plans to undertake in 2015 are listed below under headings corresponding to each one of the main guidelines of the 2015–2020 Strategic Plan. A table (in the appendix) associates each of the strategic plan objectives with the related actions, allowing an assessment to be made of how much progress towards meeting the objectives is entailed by this action plan. The table makes a distinction between the actions that have already started (in progress), those scheduled to commence in the course of the year (scheduled) and others that have been deferred to successive years (on standby).

### **1. Contribute to a better orientation of fiscal policy towards budgetary stability**

1. **In 2015, AIReF will establish a simplified accounting framework for its provisional estimates and forecasts.** AIReF requires year-end integrated economic and financial accounts of the government sector entities to be available in order to be able to monitor and analyse public finances. The interdependence of macroeconomic and budgetary variables can be seen in the balancing item of the financial and non-financial accounts. This accounting framework draws on the forecasting and monitoring models that have been developed by AIReF and that will undergo continual revision as detailed below.
2. **AIReF will publish and update the models used to guarantee that its reports are technically robust and objective on a regular basis.** AIReF keeps the following models operational and under constant review:
  - Models for forecasting GDP and its components in the short term (from 1 to 2 quarters): dynamic factor models (DFMs)
  - Medium-term GDP forecasting models (from 3 quarters to 2 years): error correction models (ECMs) and Bayesian vector autoregression models (BVARs)
  - Models of the key macroeconomic variables of the Autonomous Regions (ARs)
  - Forecasting models for tax revenue
  - Forecasting model for Social Security contributions
  - Projection model for pension expenditure
3. **AIReF will develop the following models for estimating and projecting magnitudes that have a special impact on the budget stability target:**
  - Structural model of the Spanish economy for long-term projections and economic policy simulation
  - Unemployment benefit expenditure forecasting model
  - Public sector debt servicing expenditure projection model
  - Health expenditure projection model
  - Real estate tax (*Impuesto sobre Bienes Inmuebles*, IBI, as it is known in Spanish) projection model

4. **AIReF will develop monitoring and early warning systems based on budget implementation and national accounting data as well as the level of debt of the different PAs.** Monitoring is key to detecting any possible deviations from fiscal targets and, although it covers the entire general government sector, it is a priority for local corporations (LCs), given the large number of local councils and authorities of different kinds in Spain. Design work on a system of indicators for this subsector that will allow for the individual monitoring required by law will be completed in 2015. The main purpose of the system is to provide early warning of any situations that would call for the measures envisaged in the LOEPySF for preventing and correcting imbalances.
5. **AIReF will analyse the accumulated experience of applying Spanish and EU fiscal rules.** The European Commission methodology for estimating the structural balance is mandatory under the LOEPySF. The main points of discussion arise from the uncertainty surrounding output gaps and the estimation of the income and expenditure elasticities to the cycle. That is why advancing this line of work will include (i) identifying the weaknesses of this methodology; (ii) conducting an analysis of its robustness by comparing it with other measures based on alternative estimates of both output gaps and elasticities, and (iii) the best way to apply it to the different general government subsectors.

## **2. Foster the financial sustainability of the PAs**

1. **AIReF will put a system in place for assessing and monitoring the level, development, composition and structure of territorial administration debt.** As the territorial administrations have increased their levels of debt significantly in recent years it is essential to conduct a preliminary study of the financial situation of the ARs and the LCs with the highest levels of debt.
2. **AIReF will undertake the following research studies on financial sustainability** from different standpoints:
  - **Analysis of the public enterprises sector.** The foundations will be laid for analysing the financial situation of the entities that could have an impact on the deficit or debt of the government sector although they do not actually belong to it.
  - **Study of the full effect of the implementation of the Local administration rationalisation and sustainability law (*Ley de Racionalización y Sostenibilidad de la Administración Local*) on the government,** identifying the administrations affected by the different measures envisaged by the law.
  - **Monitor the data published on average period of payment** and the volume of outstanding liabilities in order to analyse the performance of the trading accounts payable of the public administrations within the overall objective of financial sustainability.
  - **Public employment by subsectors**

### **3. Enhance transparency and budget practices in the management of public-sector accounts**

- 1. AIReF will study and put forward a proposal on ways to coordinate internal procedures from the perspective of the calendar of EU commitments undertaken by Spain.** The objective of this action is to analyse the consistency between the calendar for submitting information on budgetary stability and financial sustainability to the European Union and the calendars and procedures of the different levels of the PAs.
- 2. AIReF will prepare a working paper on the application of the expenditure rule.** The aim of this action is to facilitate understanding of the rule by analysing both the operations included in the calculation and the objective of its application.
- 3. AIReF will participate in important economic forums, working groups and international institutions** to show its commitment to budgetary stability, enhancing transparency and gaining insight into the problems, trends and actions of other countries in fiscal sustainability matters. In Spain, AIReF will continue to contribute to the meetings and working groups of the Fiscal and Financial Policy Council and the National Local Administration Committee. Internationally, AIReF is a member of networks in which other independent fiscal institutions, the European Commission and the OECD participate. Furthermore, it will continue its meetings with representatives of international organisations with an interest in the economic and budgetary situation of the Spanish economy, such as the European Commission, the ECB, IMF and the OECD.

### **4. Help Spanish society to perceive the benefits of financial sustainability**

- 1. AIReF will develop its global communication strategy.** A stable communications team will be consolidated in 2015 to maintain and increase the institution's presence in the media, including a greater presence in social media.
- 2. The president will request to appear before Parliament at least twice a year:** 1) in the first quarter, coinciding with the date of publication of the annual report and the action plan and 2) in the fourth quarter during the Parliamentary discussions on the draft budget for the following year<sup>1</sup>.
- 3. AIReF will reinforce its presence in academic forums to raise awareness of the institution.** The authority will endeavour to reach agreements whereby the president or senior managers of AIReF will speak at universities and research centres, both to raise awareness of the institution in academic circles and to give an impetus for studies on the sustainability of public-sector accounts. The participation of AIReF staff in economic and financial forums organised by national and international public and private organisations directly related to the budgetary stability, financial sustainability and macroeconomic analysis mentioned above will also help to attain this objective.
- 4. AIReF will organise more seminars, both internally and externally, concerning government sector financial stability and sustainability** in order help accumulate know-how in the institution and raise awareness about the work it does.

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<sup>1</sup> This action is supported by a statutory provision in Organic Law 6/13 for the president of AIReF to appear before Parliament at least once a year.



5. **AIReF has already signed cooperation agreements with universities and other agencies, whereby final-year undergraduates and PhD students can work as interns at AIReF.** These agreements put stable mechanisms in place to work in cooperation with academia, contribute to student education and enhance the institution's capacity to conduct fiscal policy research.

## 5. **Cross-cutting guideline. Create an efficient and transparent AIReF**

The actions that AIReF considers essential for substantiating its mission, contributing to the other strategic lines of action, are summarised in this cross-cutting guideline: preparing reports and methodological notes, following up on recommendations, creating an Advisory Board and managing resources.

1. **AIReF will publish the reports envisaged by law within the required deadlines and to the highest possible quality standards.** The bulk of the institution's resources are devoted to preparing reports that determine the common thread of AIReF's regular activities. Box 1 lists the statutory reports and opinions that AIReF must issue and the table also includes the status of the reports that have a set deadline<sup>2</sup>.
2. **AIReF will publish the updated methodologies used in the reports before the reports themselves are published.** The methodologies for drawing up the reports that will be published for the first time in 2015 are as follows:
  - Methodology of the report on the draft Stability Programme
  - Methodology of the report on budgetary implementation, public-sector debt and the expenditure rule
  - Methodology of the report on the setting of individual targets for the ARs
  - Methodology of the report on the initial budgets approved by the PAs
3. **AIReF will follow up on its recommendations to foster their practical application by the competent bodies<sup>3</sup> and appraise the results.** This action shall be undertaken by means of 1) continuous monitoring and public information on the status of recommendations on the website, and 2) implementing the resolution on the calendar that clarifies the nature of the recommendations made by the reports and the internal procedures aimed at guaranteeing the application of the principle of comply-or-explain and the duty of collaboration that the government sector has with respect to submission of the relevant information.
4. **AIReF will bring its recently-created Advisory Board into full operation** by drawing up a set of internal rules of procedure that will expedite smooth and productive relations among members of the committee at its regular meetings. The calendar of meetings of the Advisory Board will be as follows:

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<sup>2</sup>Organic Law 6/2013, of 14th November, creating AIReF, establishes a series of mandatory reports and others that must be published depending on the materialisation of certain circumstances envisaged in budgetary legislation which makes it impossible to know in advance whether or not they will have to be issued or when this will happen.

<sup>3</sup> The recommendations contained in the reports are an essential instrument in fulfilling AIReF's mission. In the event the entities to which the recommendations are addressed do not follow them they must justify why not and include the reasons in the administrative documentation.

- a. Plenary: December
  - b. Economic analysis panel: June and October
  - c. Budgetary and institutional analysis panel: May and September
5. **AIReF will consolidate the procedures for transmitting information** that it requires for the preparation of its reports, opinions, studies and other work relating to its functions:
- **Procedure for exchanging information with the Ministry of Finance & Public Administrations Information Centre** in such a manner that it flows as freely as required by the calendars for publishing the different reports and other documents.
  - **Procedure for exchanging information and consultations on methodology with the Technical Committee on National Accounts** created by additional provision one of Organic Law 6/2013, of 14th November, whereby the Independent Authority for Fiscal Responsibility was set up.
6. **AIReF will put in place an internal procedure and a best practices manual for drafting reports, opinions and studies.** This will specify how an efficient allocation of available resources can be ensured and the monitoring controls used in the drafting process.



**Box 1: REPORTS AND OPINIONS THAT MUST BE PREPARED IN 2015<sup>4</sup>****1. Reports on the budget cycle planned for 2015:**

- **Report on the government sector initial budgets.** AIReF will issue a report on the degree of compliance with the stability and debt targets and the expenditure rule of the initial budgets of the government sector by 1<sup>st</sup> April. The report will update the analysis made by AIReF in its report of 15th October with budget implementation information and the forecasts available at that time.
- **Report on the analysis of budget implementation, public debt and the expenditure rule.** By 15<sup>th</sup> July 2015, AIReF must publish this report for the first time on the budget implementation of all the public administrations in 2014 and the early part of 2015 in accordance with the available data. This entails an analysis of each government subsector.
- **Report on the setting of the individual targets for the ARs.** This report, which will be issued for the first time in 2015, will have to be prepared within a very short timeframe of 10 days after the government approves the targets for the government sector a whole. That means all 17 autonomous regions will have to be analysed.
- **Report on the macroeconomic forecasts of the draft State General Budget.** As in 2014, the AIReF will report on these forecasts in September.
- **Report on the main budgetary guidelines and draft budgets of the Public Administrations for 2016.** This report must be published by 15th October and entails an analysis of a wide range of different documentation. On the one hand, the draft General Budget of the State and the Social Security system have to be analysed, once they have been duly submitted to Parliament, within a very tight deadline. On the other hand, the information available at that time on the main lines of the budgets of the ARs and LCs also must be analysed. The information on the ARs and LCs available to AIReF will determine the scope of the report issued on 15th October and may make it necessary to issue a supplementary report on the ARs' draft budgets, as occurred in 2014.
- **Reports on the main lines of each autonomous region's budget for 2016.** In the event that enough information is not available by 15th October, as happened in 2014, a supplementary report would have to be issued once all the necessary information became available, and certainly by the end of the year.
- **Report on the macroeconomic forecasts of the budgets of the ARs for 2016.** This report is published in December once the information on all the ARs is available.

<sup>4</sup> The publication date of these reports could be affected by a lack of the information available for their preparation and in some cases this circumstance can give rise to the publication of a subsequent report.

- 2. Report on the draft Stability Programme. This must be published by 15th April and will be written for the first time in 2015.** This report takes a medium-term view and must appraise the commitments that guarantee compliance with the budget stability target, the public-sector debt limit and the expenditure rule. It therefore requires the involvement of all of AIReF's divisions.
- 3. Report on the macroeconomic forecasts of the Stability Programme.** AIReF must decide whether or not to endorse the macroeconomic forecasts and assess the possible existence of biases in the forecasts.
- 4. AIReF is also responsible for drafting reports concerning the application of the preventive, corrective and coercive measures envisaged in the LOEPySF.** These reports are not regular ones; they depend on whether the developments envisaged in the legislation materialise or not. Of these, the **2015 Economic-Financial Plans (EFP) of the ARs** can be expected. Those autonomous regions that fail to meet the stability and debt targets must submit an EFP in compliance of the LOEPySF, after this plan has been the subject of a report by AIReF. Until year-end 2014 data becomes available, the number of regions that will have to submit an EFP in 2015 for failure to comply with the 2014 targets cannot be determined and, therefore, nor can the number of reports that will have to be drafted on them. However, should the risks detected with respect to compliance with the 2014 stability target indicated in the supplementary report on the main budgetary lines for 2015 in the reports of 5<sup>th</sup> and 16<sup>th</sup> December materialise, the number of EFPs submitted in 2015 could be around 7.
- 5. The Opinion on the 2016 pension revaluation rate (PRR)** is mandatory according to Law 23/2013, of 23rd December, on regulating the sustainability factor and the revaluation rate for the Social Security pension system and Royal Decree 215/2014, of 28th March, adopting the AIReF Organic Statute.
- 6. Report on the methodology to calculate revenue and expenditure trends and the reference growth rate** insofar as the Ministry of Economy & Competitiveness has decided to amend Order ECC/2741/2012, of 20th December, on the methodological development of Organic Law 2/2012, of 27<sup>th</sup> April, on Budgetary Stability and Financial Sustainability.

**Depending on all the other work to be done and the needs that are identified in the course of the year, the Management Committee may consider issuing an opinion** on some other important matter during the year. Organic Law 6/2013, 14th November, under which the AIReF was created, empowers the institution to issue opinions on matters relating to the budgetary stability and financial sustainability of the government sector on its own initiative.



7. **AIReF will roll out a transparency portal** that guarantees both access to information and the accountability the institution must provide. It must be a portal that allows fast, responsive and efficient access to both the information required by the Transparency Law and the information that the institution voluntarily makes available to society as a whole.
8. **In 2015, AIReF will consolidate a transparent, efficient management method.** The following actions will be taken to that end:
  - **Training programmes will be run for the staff**, including courses, seminars and lectures
  - **Internal administrative management procedures will be drawn up**
  - **A second list of staff officers will be drawn up**
  - **Building works will be carried out in AIReF's headquarter premises that will enable the institution to optimise the space available to it**, making consequent savings on leases and guaranteeing greater interaction and communication between divisions.

### 3. MONITORING AND REVIEW OF THE ACTION PLAN

**AIReF will set up a system of indicators to assess compliance with this plan, as a supplement to the Strategic Plan and the Action Plan,** and their results will be summarised in the 2015 annual report, which will be published in the first quarter of 2016.

**The 2015 Action Plan will be monitored continuously.** Every six months, the Management Committee will appraise its degree of implementation and will review those aspects that require updating.

2015-2020 STRATEGIC PLAN		STATUS	ACTION PLAN 2015
<b>1</b>			
<b>CONTRIBUTE TO A BETTER ORIENTATION OF FISCAL POLICY TOWARDS BUDGETARY STABILITY</b>			
<b>a</b>	<b>Monitor and analyse the economic and budgetary situation</b>		
i	Develop models to forecast and project macroeconomic and budget variables	In progress	Develop new forecasting and projection models
ii	Establish and maintain budget implementation data monitoring and early warning systems for possible imbalances in each of the PAs	In progress	<ul style="list-style-type: none"> <li>Government sector accounting framework</li> <li>Establish budget implementation data monitoring systems for the different subsectors</li> </ul>
iii	Identify relevant issues for the preparation of reports on budgetary stability. The in-depth analysis will take the form of working papers	On standby	
<b>b</b>	<b>Help to enforce and improve the design of national and EU fiscal rules</b>		
i	Develop internally the necessary capacities to estimate the variables used in determining fiscal rules, especially the structural balance and the output gap	Scheduled	Identify weaknesses in the methodologies to calculate the output gap and structural balance
ii	Analyse the consistency and compatibility between EU and national rules	Scheduled	Analyse their robustness by comparing them with alternative measures based on both the output gap and alternative elasticities
iii	Analyse and propose methodological improvements in the application of national and EU fiscal rules where required	Scheduled	Study the best application to the different PA subsectors
<b>2</b>			
<b>FOSTER THE FINANCIAL SUSTAINABILITY OF THE PUBLIC ADMINISTRATIONS</b>			
<b>a</b>	<b>Analyse the long term sustainability of public finances</b>		
i	Monitor and analyse the sustainability of the debt of each of the PAs	In progress	Roll out a set of tools that allow the financial debt (EDP) of the ARs and LCs to be monitored
ii	Construct and publish synthetic and easy-to-understand indicators	On standby	
iii	Analyse the contingent liabilities and risk associated with the PA consolidation perimeter (global view of the public sector)	Scheduled	Working group on analysing the public business sector

<b>b</b>	<b>Analyse the implications of some public policies on long-term stability</b>				
i	Analyse the Social Security system from the standpoint of long-term stability	Scheduled	Internal working group		
ii	Analyse the effect of ageing on public policies as a whole, especially on pensions, health and social services	On standby			
iii	Identify other factors (technologies, birth, death and morbidity rates, migratory movements, etc.) with an impact on the accounts of the PAs	On standby			
iv	Analyse the long-term trends and dynamics of the main expenditure components: including health, education and social services	Scheduled	Internal thematic working groups: - Monitor data published on average payment terms - Study the full effect of the Local Administration Rationalisation and Sustainability Law on the government sector - Public employment performance by subsectors		
<b>3</b>	<b>ENHANCE TRANSPARENCY AND BUDGETARY PRACTICES IN PUBLIC ACCOUNTS MANAGEMENT</b>				
<b>a</b>	<b>Foster transparency in the public administrations in the management of their resources</b>				
i	Identify gaps in existing economic and budgetary information	On standby			
ii	Help to standardise, simplify and distribute information on budgetary stability and financial sustainability	On standby			
iii	Analyse budget implementation information and the degree of compliance of the budgets approved	On standby			
iv	Analyse the application of the expenditure rule	Scheduled	Working paper		
<b>b</b>	<b>Help to improve budgetary procedures and the harmonisation of budgetary structures of the government sector as a whole</b>				
i	Analyse and identify best budgetary practices nationally and internationally	In progress	Proposal to coordinate internal procedures in accordance with the calendar of EU commitments undertaken by Spain. Foster a presence and participation in major economic forums and international institutions with a presence of other independent fiscal institutions		
ii	Analyse and diagnose improvements in performance-based budgeting and other implementation indicator systems	Scheduled	Internal working group		
<b>c</b>	<b>Promote and analyse the application of the principle of a multiyear framework in budget planning</b>				

	i	Analyse and make proposals for extending the application of the principle of a multiyear framework in budget planning processes	On standby	
	ii	Promote and help to estimate and publish the short and medium-term economic and budgetary effects of the reforms brought in by the PAs	On standby	
<b>4</b>	<b>HELP SPANISH SOCIETY TO PERCEIVE THE BENEFITS OF FINANCIAL SUSTAINABILITY</b>			
	<b>a</b>	<b><i>Define and implement a communication strategy</i></b>		
	i	Define and roll out a global communication strategy including the website, media and social media	In progress	Consolidate the global communication strategy
	ii	Easy access for society to the work done by AIReF (website)	In progress	
	iii	Appearances before Parliament	In progress	At the request of Parliament
	iv	Participate in discussion forums to explain the work of AIReF	In progress	Presence in academic forums to raise awareness about the institution
	<b>b</b>	<b><i>Promote fiscal awareness in society as a whole</i></b>		
	i	Produce educational material with informative content for tax payers	On standby	
	ii	Organise internal and external seminars and conferences on budgetary stability and financial sustainability issues	In progress	Organise both internal and external seminars concerning the financial sustainability of the PAs
	<b>c</b>	<b><i>Promote research in the field of fiscal policy</i></b>		
	i	Publish working papers on fiscal policy	In progress	Publish working papers
	ii	Establish collaboration mechanisms with universities and research centres, international institutions and other independent fiscal institutions in order to carry out research	Scheduled	Collaborate with academic institutions
	iii	Programme of research fellowships and scholarships in AIReF	Scheduled	Cooperation agreements with universities and other agencies for internships in AIReF.

5 CREATE AN EFFICIENT AND TRANSPARENT AIReF				
a	<b>Design and draw up reports, opinions and studies</b>			
	i	Internal assessment of procedures and methodologies	Scheduled	Review and assess the methodologies published in 2014
	ii	Draw up and publish the methodologies used in reports and opinions	In progress	New methodologies for the reports that are published for the first time and review existing methodologies
	iii	Advisory Board on economic, budgetary and institutional matters	In progress	Develop its internal rules of procedure and calendar of meetings
	iv	Draw up an internal procedure and best practices manual for report writing	In progress	Draw up and complete in 2015
b	<b>Substantiate comply-or-explain principle and the duty of collaboration when submitting information</b>			
	i	Apply the principle of comply-or-explain and follow up on recommendations	In progress	Publish and implement the ruling Establish and publish the follow-up of recommendations on the website
	ii	Define and gather the necessary information for drafting reports	In progress	Continuation of work already started
	iii	Give momentum to the Economic-Financial Information Centre and cooperation mechanisms	In progress	Procedure for the exchange of information with the Ministry of Finance & Public Administrations Information Centre
	iv	Cooperate with the Technical Committee on National Accounts	Scheduled	Procedure for exchanging information and consultations on methodology with the Technical Committee on National Accounts
c	<b>Efficient and transparent management of human and financial resources</b>			
	i	Consolidate and maintain a competent team of people	In progress	Draw up a second list of staff officers
	ii	Develop objective elements for appraising the work done	Scheduled	Roll-out in 2015
	iii	Create an independent administrative and management structure	In progress	Transparency portal
	iv	Establish an assessment and monitoring system for AIReF activities, including an external mid-term review	In progress	Draw up and define the system